INFORMATION TO USERS

While the most advanced technology has been used to photograph and reproduce this manuscript, the quality of the reproduction is heavily dependent upon the quality of the material submitted. For example:

- Manuscript pages may have indistinct print. In such cases, the best available copy has been filmed.

- Manuscripts may not always be complete. In such cases, a note will indicate that it is not possible to obtain missing pages.

- Copyrighted material may have been removed from the manuscript. In such cases, a note will indicate the deletion.

Oversize materials (e.g., maps, drawings, and charts) are photographed by sectioning the original, beginning at the upper left-hand corner and continuing from left to right in equal sections with small overlaps. Each oversize page is also filmed as one exposure and is available, for an additional charge, as a standard 35mm slide or as a 17”x 23” black and white photographic print.

Most photographs reproduce acceptably on positive microfilm or microfiche but lack the clarity on xerographic copies made from the microfilm. For an additional charge, 35mm slides of 6”x 9” black and white photographic prints are available for any photographs or illustrations that cannot be reproduced satisfactorily by xerography.
The political economy of the Indonesian textile industry under the new order government

Wibisono, Makarim, Ph.D.
The Ohio State University, 1987

Copyright ©1987 by Wibisono, Makarim. All rights reserved.
PLEASE NOTE:

In all cases this material has been filmed in the best possible way from the available copy. Problems encountered with this document have been identified here with a check mark ✓.

1. Glossy photographs or pages
2. Colored illustrations, paper or print
3. Photographs with dark background
4. Illustrations are poor copy
5. Pages with black marks, not original copy
6. Print shows through as there is text on both sides of page
7. Indistinct, broken or small print on several pages
8. Print exceeds margin requirements
9. Tightly bound copy with print lost in spine
10. Computer printout pages with indistinct print
11. Page(s) lacking when material received, and not available from school or author.
12. Page(s) seem to be missing in numbering only as text follows.
13. Two pages numbered. Text follows.
14. Curling and wrinkled pages
15. Dissertation contains pages with print at a slant, filmed as received
16. Other

University Microfilms International
THE POLITICAL ECONOMY
OF THE INDONESIAN TEXTILE INDUSTRY UNDER
THE NEW ORDER GOVERNMENT

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of the Ohio State University

By

Makarim Wibisono, B.A., Drs., M.A.

* * * * *

The Ohio State University

1987

Reading Committee:
David Pion-Berlin, Ph.D.
Brian Pollins, Ph.D.
Donald G. McCloud, Ph.D.

Approved By

R. William Liddle, Ph.D., Advisor
Department of Political Science
dedicated to my father Soemantri and my mother Muawanah.
ACKNOWLEDGMENT

It is common knowledge that scholarly research is seldom, if ever, successfully conducted alone. Even the most prolific scholars rely heavily on others for advice and comments during the course of a major research endeavor. This was certainly the case for me in producing this manuscript. From the beginning I received a great deal of encouragement, support and advice from various people. The completion of this dissertation can hardly be separated from their efforts in support of this project. It is a great opportunity for me to acknowledge their kindness.

First of all, I would like to express my gratitude to Professor R. William Liddle who gave me insight and support in my study of the politics of economic development at the Ohio State University. He and his wife, Wanda, demonstrated their friendship and support to me and my family on many occasions, easing the burdens of full-time doctoral study.

I am also indebted to Professor Donald G. McCloed for his editorial assistance and constant support throughout my entire doctoral program at the Ohio State University.

I am also greatly indebted to Professors David Pion-Berlin and Brian M. Pollins. Whose guidance as reading committee members was excellent. Their assistance was critical to this work and went beyond the normal function of dissertation committee members, particularly during the absence of Professor Liddle, who was in Indonesia on research. The ideas presented in this study were improved and streamlined by their insights.

My field research in Indonesia was made possible by the support of the Ford Foundation, particularly Dr. Tom G. Kessinger, and the Executive Office of the Midwest Universities Consortium for International Activities, Inc (MUCIA), particularly Dr. William L. Flinn. Their support was essential because my sponsor, the Harvard Institute for International Development (HIID), was not able to support my research outside the United States. In this context, I am also indebted to His Excellency Mr. Adiwo So Abubakar, the Indonesian Ambassador to Canada who made a request on my behalf to the Ford Foundation for support of my travel expenses to Indonesia.

While doing my field work in Indonesia, I received valuable help, information, and assistance from many individuals. I can only mention some of them here. Among others are His Excellency Ambassador T. Umar Ali, Secretary General of the Ministry of Trade whose staff provided information to me; Dr. Dono Iskandar Djojosubroto, Special Assistant to the Minister of Finance; Drs. Suwarno Danusutedjo, Secretary of the Directorate General of Foreign Economic Relations of the Ministry of Foreign Affairs who encouraged
my study and offered valuable assistance; Drs. R.A.R. Soerianata Djoemena, Director of the Textile Industry; Mr. B. Wiwoho, Director of Yayasan Bina Pembangunan (Bina Consultants) who helped me arrange interviews with textile manufacturers; Professor Dorodjatun Kuntjoro Jakti of University of Indonesia, who allowed me to use his private collection of books, articles, student thesis and other information on textiles; and Drs. Alif Martadi, who also allowed me to use his private collection on the Indonesian textile industry.

While writing the dissertation in Columbus, I am indebted to Professor William L. Flinn for allowing me use MUCIA's word processing equipment to produce the manuscript. I wish to thank the staff in the Executive Office, Mark Simpson, Rita Deedrick, Linda Curtin, Don Walker, and Mitch Lear for helping me the technical aspects of the word processing equipment. My additional research in the United States was also supported by Tom Skerry and Donald Lippincott from HIID.

To all of these people, I am very grateful. Their contributions were many and are evident to me throughout this dissertation. Any shortcomings or imperfections in this study remain the sole responsibility of the writer.

Last, but not least, I should acknowledge my wife Enny Sekarwaty and my three children: Aria Teguh Mahendra, Adhy Surya Sidharta, and Aryanti Wulan Savitri, whose patience, support and encouragement made it all possible.
VITA

May 8, 1947 ........ Born - Mataram, Indonesia

1968 .......... B.A., Gadjah Mada University, Indonesia

1970 .......... Doctorandus (Drs.), Gadjah Mada University, Indonesia

1970-1972 .......... Editor, Ekspres News Magazine
Jakarta, Indonesia

1972 .......... Joined the Ministry of Foreign Affairs

1974 .......... Indonesian Foreign Service and Training
Course, Jakarta, Indonesia

1975 .......... Australian Foreign Service and Training
Course, Canberra, Australia

1976 .......... On the Job Training in the Australian
Embassy in Athens, Greece.

1977-1981 .......... Head of the Information and Cultural
Division of the Indonesian Embassy in
Brasilia, Brazil

1984 .......... M.A., the School of Advanced International
Studies, the Johns Hopkins University,
Washington, D.C.

1986 .......... M.A., The Ohio State University,
Columbus, Ohio

FIELDS OF STUDY

Major Field: Comparative Politics

Politics of Economic Development. Professor R. William Liddle
Theories of Comparative Politics. Professor Richard Gunther
Politics of Communist Countries. Professor David M. Lampton

Minor Field: International Political Economy. Professor Brian Pollins
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEDICATION</td>
<td>ii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>iii</td>
</tr>
<tr>
<td>VITA</td>
<td>v</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>vii</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>x</td>
</tr>
<tr>
<td>Chapter</td>
<td></td>
</tr>
<tr>
<td>I. INTRODUCTION</td>
<td></td>
</tr>
<tr>
<td>- Nature of the Problem</td>
<td>1</td>
</tr>
<tr>
<td>- Definitions of Key Concepts</td>
<td>3</td>
</tr>
<tr>
<td>- Contending Theories in the Literature</td>
<td>5</td>
</tr>
<tr>
<td>- The Indonesian Textile Policy Making Process</td>
<td>12</td>
</tr>
<tr>
<td>- The Organization of this Study</td>
<td>19</td>
</tr>
<tr>
<td>II. HISTORICAL BACKGROUND OF THE INDONESIAN TEXTILE INDUSTRY.</td>
<td>25</td>
</tr>
<tr>
<td>- The Colonial Era</td>
<td>26</td>
</tr>
<tr>
<td>- The Ascent of the Indonesian Textile Industry (1945-1959)</td>
<td>33</td>
</tr>
<tr>
<td>- The Permeation of State Control (1959-1965)</td>
<td>41</td>
</tr>
<tr>
<td>III. CONFLICTING ECONOMIC IDEAS AND TEXTILE POLICY MAKING.</td>
<td>55</td>
</tr>
<tr>
<td>- The Carriers of the Economic Doctrines</td>
<td>56</td>
</tr>
<tr>
<td>1. Proponents of Monetarist Economic Doctrine</td>
<td>59</td>
</tr>
<tr>
<td>2. Proponents of Nationalist Economic Doctrine</td>
<td>68</td>
</tr>
<tr>
<td>- The Economic Issues and the Competing Formulae</td>
<td>75</td>
</tr>
<tr>
<td>- Monetarist and Nationalist Influences on Textile Policy</td>
<td>80</td>
</tr>
</tbody>
</table>
1. Stabilization and Rehabilitation (1966-1968) .... 80
3. The Export Promotion Package (1982 to Present) .. 98

IV. DOMESTIC POLITICAL AND RESOURCE CONSTRAINTS ........ 104
   - The Emergence of Political Constraints in the New Order Era .... 105
   - Economic Resources in the Stabilization Rehabilitation Period .... 115
   - The Oil Bonanza and the Import Substitution Period .......... 120
   - The Oil Glut and the Export Promotion Period ............... 134

V. THE EXPORT PHASE AND INTERNATIONAL VARIABLES ......... 150
   - The Government Incentives and the Textile Export Activities .... 151
   - Foreign Reactions to the Indonesian Textile Exports ....... 159
   - The MFAs and its Protectionist Principles .................. 161
   - The U.S. Pressure to Abolish the Incentive Systems ....... 166
   - The Introduction of a New Set of Governmental Policies .... 178

VI. THE DYNAMICS OF THE IMPLEMENTATION OF TEXTILE POLICY:
    SOME CASE STUDIES .................................................. 188
   - A Restructuring Program: API, the Ministry of Industry and the Banks .... 192
   - The Dyestuff Protective Policy: Producers vs Consumers .... 200
   - The Synthetic Yarn Import Policy: Fiber Makers vs Spinners .... 210
   - The Conflict Over CBTI: Sekbertal vs Exporters and Agencies .... 219

VII. CONCLUSION ............................................................ 234

APPENDIX ................................................................. 249
GLOSSARY ................................................................. 252
BIBLIOGRAPHY .......................................................... 254
## List of Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Imports of Sarong, Kain Panjang and Selendang, 1928-1937</td>
<td>31</td>
</tr>
<tr>
<td>2. Number of Looms in the Indonesian Weaving Industry in Selected Years, 1930-1968</td>
<td>39</td>
</tr>
<tr>
<td>3. The Dimension of Policy Patterns in the New Order Government</td>
<td>58</td>
</tr>
<tr>
<td>4. Key Offices in Textile Policy and Their Policy Stances</td>
<td>64</td>
</tr>
<tr>
<td>5. The Monetarist approach and Nationalist formula</td>
<td>82</td>
</tr>
<tr>
<td>6. The Development of Textile Supply in Indonesia, 1966-1981</td>
<td>83</td>
</tr>
<tr>
<td>8. The Composition of the Indonesian Weaving Industry: Numbers of Powerlooms by Companies</td>
<td>88</td>
</tr>
<tr>
<td>9. The Indonesian Spinning Industry</td>
<td>92</td>
</tr>
<tr>
<td>11. Inter-Country Comparison of Costs of Polyester Staple Fiber</td>
<td>97</td>
</tr>
<tr>
<td>12. The Indonesian Balance of Trade, 1960-1965</td>
<td>117</td>
</tr>
<tr>
<td>13. Indonesian Primary Product Exports in Selected Years, 1956-1965</td>
<td>119</td>
</tr>
<tr>
<td>14. Some Important Indicators of the Indonesian Economy, 1966-1979</td>
<td>122</td>
</tr>
</tbody>
</table>
15. Value of Important Traditional Exports, 1965-1975.............. 123
17. Government Revenue, the Oil Company Tax, and the Prices of Crude Oil ..................................................... 127
18. The Increase of Textile Production in Selected Years 1969/70-1977-78 ............................................................ 130
19. Ratio between Domestic and Foreign Investment, 1967-1974 ................................................................. 131
21. The Indonesian Primary Product Exports, 1979-1983........ 139
22. The Indonesian Textile Exports, 1968-1980 ..................... 152
23. The U.S. Balance of Trade with Indonesia, 1979-1984 .... 168
26. The Indonesian Asian Competitors Market Share in the Major Markets in 1980 in percentage of the total textile imports ......................................................... 177
27. The Indonesian Fiber Production, Consumption, and Over Supply, 1984-1986.............................................. 215
# List of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Factors affecting stages of the policy process</td>
<td>4</td>
</tr>
</tbody>
</table>
CHAPTER I
INTRODUCTION

This dissertation is a study of industrial policy in the Indonesian textile sector. Studies of policy making in developing countries, particularly in Indonesia, are few, and this research is motivated by a concern with understanding the political aspects of the kind of industrialization that has prevailed in many developing countries.

This chapter explores the difficulties faced by analysts of economic policy making in the Third world. It also defines the research problem, the variables, and the study's hypotheses.

Nature of the Problem

Existing studies of economic policy making in the Third World do not satisfactorily explain the empirical phenomena of the policy making process in the Third World because these do not cover all related phenomena in the process. This is discussed below. This study will examine textile policy under the "New Order" government in Indonesia since 1966 to present times.

Textile production had expanded greatly in Indonesia under the "New Order" government, but governmental policies toward the industry have shifted, at times, from active support to official neglect. In short, there has been little consistency in the
government's textile policies. This inquiry tries to understand and interpret the inconsistency of textile policies under the New Order government.

It is assumed that the content and process of policy making in the Third World is best understood by grasping factors that shape governmental policy. Accordingly, the problem statement is as follows: What are the factors affecting the government's textile policy in Indonesia?

Other studies have often seen policy making in the Third World as a more or less unidimensional process, and there are three main schools of thought in the analysis of policy making in Third World countries: the dependency group, the state-centric approach, and the policy implementation school. Each of these approaches is presented later in more detail, but the ideas of the dependency group are characterized by the works of Cardoso and Faletto (1979), Evans (1979), Robison (1982), and Arief and Sasono (1980). The state-centric is typified by the works of Stepan (1978), Schmitter (1974), Jackson (1978), Anderson (1983) and Crouch (1979). The policy implementation school can be identified with the works of Grindle (1980), Hirschman (1981), Liddle (1984, 1985) and Emmerson (1983).

This study, however, takes a two-level rather than unidimensional view in analyzing the textile policy making process in Indonesia. It separates the policy process into levels of formulation and implementation, each of which has its own set of
determinants or dominants in the policy making process. The study thus assume that a comprehensive understanding of textile policy in Indonesia is best obtained by this combination of approaches at the formulation and implementation levels.

The central hypothesis of this dissertation is that the inconsistency of governmental textile policies in Indonesia is best understood in terms of the interplay of a combination of three variables at the level of formulating policy — (1) ideas, (2) domestic resources and political constraints, and (3) international variables (the Multi Fiber Arrangement and the protective policies of the textile importing countries) level — plus two more variables at the level of implementing policy — (4) bureaucratic politics, and (5) the personal mediation of the president.

This is clearly discernible in Figure 1.

Definitions of Key Concepts

Policy formulation is defined for the purposes of this study as the set of activities (interactions among individuals, groups, or organizations in or out of Indonesia as well as decisions made by individuals or group consensus) that leads to formal statements of the Indonesian government's intent about program goals and desired results in the domestic textile industry. Policy formulation entails actions (and non-actions) taken (or not taken) by a variety of actors, national as well as international, and encompasses the environment in which decisions for are made. The policy implementation is defined as the set of activities that follow
In the formulation level.

(1) the economic ideas
(2) domestic constraints
(3) international variables

In the implementation level.

(4) bureaucratic politics
(5) the presidential mediation

Figure 1. Factors Affecting Stages of the Policy Process
statements of governmental intent; it encompasses actions (and non-actions) by a variety of actors, especially bureaucrats, designed to put programs into effect, ostensibly in such a way as to achieve goals.¹

Contending Theories in the Literature

There are three chief schools on industrial policy in the Third World: dependency (the class school), bureaucratic-authoritarianism or corporatism (the state-centric school) and the policy implementation school. Each is described below.

1. Dependency.

Following the path of Karl Marx the proponents of dependency theory deny that there are "universal" political or state functions and refuse to conceive the state as an inevitable product of social differentiation and complexity.² The state is instead perceived as a form of representation of class interests. Concomittantly, the state apparatus (the bureaucracy) "cannot be regarded as a politically neutral medium vis-à-vis the (class) interests."³

Unlike the classical Marxists, who did not anticipate the growing gap between "metropolitan" and "satellite" countries, dependency theorists incorporate the notion of capitalism as a world system as advocated by Immanuel Wallerstein⁴ into their theory. For example, Cardoso and Faletto skillfully knit outside pressures with internal mechanisms in a complex linkage and suggest that
we must make explicit how international conflicts between states are linked with internal political struggles as well as with the basic ways whereby, both domestically and internationally, the social organization of economic production takes place.5

Peter Evans in his concept of a "triple alliance"6 in the Brazilian political structure, proposes that dependency relationships encompass multinational corporations, local private entrepreneurs, and the state. The interests of these groups, he says, are opposed to those of the remaining people in a dependent country. In essence, the state becomes an instrument of capital originating outside the country but invited into the country by local interest groups; social class thus forms the major determinant of policy making, and the state has no power of its own.

This theory has been brought into the Indonesian context by Richard Robison, and by Sritua Arief and Adi Sasono, among others. Robison suggests that the interests of the New Order government are antagonistic to the interests of poor farmers and other lower classes. He concludes that the New Order government is one fraction of a complex alliance embracing foreign and Chinese bourgeoisie, the urban technocrats/administrative/managerial class (the so-called middle class); and the politico bureaucrats.7

Sritua Arief and Adi Sasono in the book Indonesia: Dependency and Underdevelopment, also contend that the bureaucrats and power elites in many instances act as approvers and providers of facilities besides indulging themselves in the industries controlled by the domestic industrial bourgeoisie which make the alliance forged between them become a preeminent one.8
In the Indonesian context, however, dependency theory neglects political-cultural variables such as the beliefs and ideas of bureaucrats and policy makers; these factors do help to determine governmental policies. Moreover, it cannot explain short-term change in policies under the New Order government, as with regard to the textile industry.

2. Bureaucratic-Authoritarianism or Corporatism

Unlike the proponents of dependency theory, who see the state as essentially powerless, corporatist and bureaucratic-authoritarianism theories suggest that state action is the primary factor in the process of economic development. Corporatism, as discerned by Stepan, is an elite response to political crises. Schmitter defines corporatism as a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demand and supports. O'Donnel implies that increasing industrialization (in Latin American countries) generated a "popular" sector, and led in turn to uncontrollable conflict. This strain coupled with the impotence of the government and other institutions brought about serious political difficulties that could be overcome only by a "coup coalition" that excluded the popular sector. He calls this
coalition a bureaucratic authoritarian regime. Such governments, according to Charles Anderson, discard political approaches to public policy making and take a "technocratic and bureaucratic" approach that ignores political demands emanating from other sectors of the society; the state is the "sole repository of authority."  

The factors influencing governmental policy in this state-centric framework, say Robert Gilpin and Stephen D. Krasner are those of "national interest," not the interests of other actors in the society such as the business community.

This state-centric theory has been put into the Indonesian context by Ben Anderson, who argues that the policy outcomes of the 'New Order' (ca 1966 to the present) are best understood as "maximal expressions of state interest," meaning that there are no significant distortions between policy demands derived from the "New Order" government itself and the policy outcomes implemented in the development process since 1966.

The theme of an "omnipotent" Indonesian state that dominates policy-making in the country is also drawn by Harold Crouch, who identifies an abundance of rivalries among the Indonesian factions or cliques and suggests that the New Order thus bore a strong resemblance to the patrimonial model. Political competition among the elite did not involve policy, but power and the distribution of spoils. Meanwhile, the masses in the urban slums and rural areas were increasingly isolated from politics. The patrimonial distribution perquisites within the elite and the enforced depolitization of the masses enabled the New Order to attain a level of stability never before achieved since independence.
According to Crouch, President Soeharto was able to maintain authority by the distribution of rewards and patronage to keep a balance between competing elites.

Karl D. Jackson applies to Indonesia the thesis, previously developed by Fred Riggs for Thai politics, that Indonesia remains a bureaucratic polity that is a political system in which power and participation in national decisions are limited almost entirely to the employees of the state, particularly the officer corps and the highest levels of the bureaucracy, including especially the highly trained specialists known as technocrats.

Thus, says Jackson, the Indonesian policy making process neglects the demands as well as the support of social and political forces that do not belong to "the highest elite echelons of the capital city." The Indonesian polity under either Sukarno or Soeharto, as described by Jackson, (1) presides over a structure of politics limited to a few key institutions, (2) is hierarchical in nature, (3) depends on an ultimate authority at the center, and (4) is largely immune to popular pressures or autonomous political interests.

This theme is reinforced by R. William Liddle in his work "Indonesia's New Port Policy" who says that President Soeharto is plainly master of the Indonesian political system, and "hostage to no group or faction." This is evidenced, Liddle writes, by his decision to give Societe Generale de Surveillance (SGS), a private Swiss company, the contract to function as the customs house. Moreover, Liddle constructs a pyramidal framework of the ruling
elite in Indonesia in which President Soeharto sits at the apex and controls the army. The army dominates the Indonesian bureaucracy under the auspices of the presidency and the bureaucracy, in turn, controls the society with its pervasiveness.22

The above arguments see Indonesian policy making as a cohesive system insulated from non-elite social and political forces. State-centric theories neglect the role of interest groups (such as Sekretariat Bersama Pemintalan, a joint secretariat for spinners, in the textile context) in Indonesia's policy making process. These theories also fail to entertain the differences within the government apparatus. It is not unusual, in implementing policy, to confront agencies with different levels of expertise, authority and interest that cannot always be coordinated.23

In a sense, the shortcomings of both the dependency and the state-centric approaches rest on their limited perspective: they concentrate on the formulation of government policy and neglect the implementation of policy.

3. The Policy Implementation School

Merilee Grindle, in a case study of the Mexican policy making process, suggests that state agencies may be unable to impose their will because of the existence of competing authority and power centers.24 In other words, the central government cannot always dominate policy making even though it expects to do so. In consequence, there may be a gap between the expectations and outcomes of policy.
This situation is not unique to Mexican political phenomena, but prevails in many other countries in the Third World as well. Gerald A. Heeger in his book The Politics of Underdevelopment describes similar cases in Africa and argues that the inabilitys of the state derive from "chronically weak (political) institutions which hinge on fragile bargaining relationship between elites in the center and the periphery." He rejects the argument that socio-political elites in the Third World cohere to form government policy in the face of demands from the non-elite forces or the mass. According to Heeger, other analysts have sometimes mistaken the organizational aspirations of the political elites for reality and posited a cohesion that simply was not there. In this circumstance, the state is seen by Hirschman as

coping, as best it can, with a variety of emergencies, as constantly plugging holes, and stopping a wheel from creaking by applying a bit of grease in a hurry."

Only a few studies have tried to apply the viewpoint of policy implementation school to Indonesia. R. William Liddle and Donald K. Emmerson initiated the study in the 1980s.

R. William Liddle in his works "the Politics of Agricultural Policy in New Order Indonesia: Some Preliminary Observations," and "the Politics of Shared Growth: Some Indonesian Cases," suggests that the state apparatus in Indonesia "does not monopolize the policy process," and that other actors (local officials, organized producers, consumers, journalists, etc) also help to determine policies.
Donald K. Emmerson analyzes a case of bureaucratic conflict over an industrial project in Sumatra, and concludes that cohesiveness of the government apparatus was not apparent. In short, Liddle and Emmerson argue that bureaucratic conflicts do influence the policy making process, as do other influential actors outside the government.

There are, nevertheless, several weaknesses of the policy implementation school of thought. First, it overlooks the long-term trend of government policies. Second, it neglects the structural and international variables that shape government policies. And third, it views policy making as purely reactive and cannot explain satisfactorily the sources of government policies. In sum, it focuses too narrowly on the implementation level of policy and slights the factors that may dominate policy at the formulation level.

The present study argues that analysis of economic policy making in the Third World must employ dual levels of observation —both formulation and implementation— to grasp all the relevant factors that actually affect governmental policy. Current theory has been too ready to concentrate on one or the other of these levels, to the neglect of its partner.

The Indonesian Textile Policy Making Process

This section clarifies the variables that influence textile policy making in Indonesia at both formulation and implementation levels.
1. Conflicting Economic Doctrines

President Soeharto is the master of economic policy making in Indonesia in the sense that he is the most decisive individual in shaping economic policy. However, in fact, he seems to have been inclined to pursue one set of policies at some times and another at other times. His inclinations (especially in regard to textile policies) can perhaps be traced in terms of the economic ideas that have influenced the president over time.

In essence, the president has been exposed to two streams of economic thought, the "structuralist" and the "monetarist" economic doctrines. Structuralism believes (1) that free market systems are not inherently stable, (2) that government may legitimately intervene in markets to encourage production and to redistribute goods and income, and (3) that the primary cause of inflation is supply deficiency. Conversely, monetarism believes (1) that free markets are inherently stable, (2) that governments which govern least govern best, and (3) that the principal cause of inflation is excessive expansion of the money supply, an expansion that may be triggered by deficit spending.

Mohtar Mas'ood sees both of these economic philosophies within the New Order government, and in its approaches to economic crises. One group within the government, he says, has favored what was called an "outward-oriented" position because of its liberal economic strategies and openness to foreign investment. Another group has advocated an "inward-oriented" position with a cautious
approach to development and a reliance on domestic capital and initiatives.34

David Pion-Berlin in his work, "Ideas As Predictors: A Comparative Study of Coercion in Peru and Argentina," condenses the two controversial doctrines: the structuralists seek greater state involvement, the monetarists less, the structuralists look at the role of power in the political and economic system, the monetarists leave out power entirely.35 In the standard terminology of political economists, these outward and inward-looking positions are referred to as "liberalism" or "interdependence" versus "economic nationalism" or "neo-mercantilism," respectively.36

For purposes of this study, structuralism is called the "nationalist" economic doctrine, while monetarism remains the same. This allows for contrasting with the notion of political structuralism.

The monetarist economic doctrine originated in the West and was brought to Indonesia by Western educated economists. For example, Minister of Finance Radius Prawiro says publicly that he is a monetarist and asserts an Indonesian commitment to the Western ideal of free enterprise initiative.37

The nationalist economic doctrine in Indonesia's case has its roots in national history. Pervasive government involvement in the Indonesian economy was obvious in colonial times, in the revolutionary struggle for independence, and in the Sukarno era. One of the most important reasons for government intervention was the
lack of an indigenous entrepreneurial class (the middle class) in the society. Today, the doctrine of active government intervention in the economy has been favored by the military men who experienced the struggle for independence, the nationalists and the economic development engineers (a faction in the bureaucracy) who have expertise for strengthening the domestic industry.

President Soeharto himself has his own vision of economic development of the country. He has often elaborated the objective of national development as a balanced economic structure in which the strengths of advanced industry are supported by the strengths of a reliable agriculture. He emphasizes that

"Industrialization has already been adopted as a resolution of the People. We need industrialization if we are to achieve the objectives of our national development." He also has a specific kind of industrialization in mind: a nationalistic industrialization that is controlled and carried out by Indonesians.

It is plausible to say that President Soeharto is committed to developing the Indonesian economy under "nationalist" economic doctrines, but is also willing to adjust industrial policy along monetarist lines whenever there is a major constraint.
2. Domestic Constraints.

A. Resource Constraints.

The Indonesian economy relies primarily on its agricultural sector and on the export of primary products, especially petroleum, gas, and timber, which generate the export earnings for financing economic development.

Accordingly, the government will be free to involve itself more extensively in development projects when exports (particularly oil) provide more capital. The government has to adjust its goals or industrial policies, however, when export income declines. It must then seek foreign aid, foreign investment, or credits from international bodies such as the World Bank to finance economic development.

B. Political Constraints.

The New Order government is politically committed to keep basic needs such as foods and textiles available at affordable price and adequate supply. This commitment is important to its urban constituents and attracting industrial investments by offering cheap labor.

This economic commitment has an important political value because the core of the New Order government legitimacy primarily rests on the ability to stabilize the economy and to sustain economic development.
3. International Variables

International variables have a significant role in shaping the government's policies on textile export sectors. The international Multifibre Arrangement (MFA) has had a major impact on Indonesian policy. Unlike the GATT, which seeks to limit restrictive policies in world trade, the MFA and its 42 participating nations seek to create an "orderly" world trade for textiles. The MFA permits the use of quotas in certain circumstances.

On paper, the MFA intends to increase the income of the textile exporting (i.e. developing) countries while protecting advanced countries against a "market disruption" due to oversupply of goods coming from the Third World. In fact, the arrangement has operated largely as a vehicle for the European countries, Canada, and the United States to restrict textile imports from Indonesia and other developing countries in order to protect their markets and industries.

The MFA at first encouraged textile exports by Indonesia when other countries' exports were restricted by the market disruption clause, then turned to restrict on Indonesian exports, too, when they expanded rapidly to meet the market in the advanced countries. As a result, Indonesian products were not absorbed effectively in the world market, and the government was forced to restructure the domestic industry toward a more diversified textile production. Thus external factors have at times produced constraints as well as inducements to the Indonesian production of textiles, and to policy making for the textile industry.
4. Bureaucratic Politics

Bureaucratic politics, in this study, means the dynamic interactions among government agencies such as ministries, state-owned banks, and state enterprises. The Indonesian bureaucratic system is in part a legacy from the Dutch colonial structure. Its development has also been much influenced by the American bureaucratic model in which position is the basic element of the bureaucratic structure. The position is a cluster of duties and responsibilities, and position determines status or rank in the system.41

Historically, consciousness of position among bureaucrats derives from Indonesian culture of pamong praja or pangreh praja in colonial times,42 when public office was associated with the established privileges of a respected class in the society.43 In this context, consciousness of position may be connected to the power or prestige accorded to public employment, and to the respect with which the public at large views the work of government officials. Consequently, every official who holds an important government position is sensitive of being bypassed in consultations on policy.

In fact, there is no single government agency in charge of the implementation of any one government policy, and conflicts arise among government agencies because of overlapping authority. In such an environment, every official is eager to be identified with the implementation of policies. For the purpose of avoiding such a
bottleneck, the president issued a directive (Keppres no. 44/1974) that emphasizes coordination among government institutions. It states that the duty of the minister is, among other things,

- to build up and conduct co-operation with other Ministries, official bodies and other organizations, so as to solve any problem that may arise, particularly those in the field under their jurisdiction.44

Nevertheless, conflicts among agencies occur from time to time, and these color the policy making process in Indonesia, including textile policies.

5. Presidential Mediation

Presidential mediation is closely associated with bureaucratic politics. It plays a major role when bureaucratic conflict involves high-level officials. The president arbitrates the conflict, usually by imposing a directive based upon his personal view or judgement at that time.

The Organization of this Study

After introducing a conceptual framework for analyzing policy making in the textile industry in Indonesia in this chapter, this study will examine further the historical evolution of the industry and various government policies for the industry in the second chapter. The concentration of the study is on the policies of the New Order government, but it is necessary to know the principles of government policies before 1965 to comprehend the
background of the textile industry in Indonesia. By reviewing this background in the second chapter, the content and context of the New Order's textile policy can be better understood.

The third chapter will examine the role of economic ideas in policy making for the textile industry since the early years of the New Order government. In the late 1960s, the "monetarist" economic doctrine prevailed in the process. It turned out differently in the early 1970s when the "nationalist" economic doctrine was adopted by the Indonesian policy makers.

The fourth chapter will deal with the function of domestic resource constraints and political constraints in policy making for the industry. It will emphasize the ebb and flow of balance of payments that affects the textile policy making in Indonesia.

The fifth chapter will unravel the role of international variables in the textile policy making process. From 1978 to the present time, the industry has been increasingly oriented toward an export promotion strategy. During this period the Multifiber Arrangement and the protective policies of the textile importing countries have been dominant in shaping government policy.

In contrast with the preceding chapters, which are dedicated to examining policy formulation, the sixth chapter will scrutinize policy making at the implementation level. At this level, bureaucratic politics and presidential mediation dominate the industry.
Finally, the seventh chapter presents a summary and conclusion as well as some suggestions for future research and the implementation of government policy.

Notes to Chapter 1


3. Ibid, p. 54


26. Ibid, p. 49


30. Ibid.


33. Ibid.


35. Ibid.


39. Ibid, p. 27.

40. Ibid, p. 27


CHAPTER II
HISTORICAL BACKGROUND OF THE INDONESIAN TEXTILE INDUSTRY

This chapter discusses the history of textile policy making in Indonesia. There have been, of course, changes in textile policies under the New Order government compared to previous governments, but there has also been some continuity in terms of economic structure and political culture.

The economic ideas, domestic constraints, and international variables that shaped textile policies during earlier periods were different, and Indonesia's political structures have differed dramatically at times, yet the two levels of the policy-making process --formulation and implementation-- are evident under all governments. The variables discussed in chapter I can thus be used to examine textile policies in Indonesia over time, no matter what the regime.

This chapter reviews the emergence of the textile industry in Indonesia, discusses the main features of government textile policies since the colonial era, and examines the major problems faced by the industry, especially its vulnerability to textile imports.

Various Indonesian governments have maintained, more or less consistently, three objectives for the textile industry: (1) to
create an industry that offered job opportunities for the Indonesian labor force; (2) to ensure a stable supply of textiles for the domestic market, and (3) to secure an affordable price of textiles for the majority of the Indonesian people. These objectives have required that the weak domestic industry be protected and expanded; hence government policies have essentially been programs of import substitution.

The Colonial Era

Textile production policies were confused under the Dutch colonial system. The fundamental problem arose in the separation of the policy formulation apparatus in the Netherlands from the site of implementation in Indonesia. Policy makers seldom had a clear grasp of the situation in Indonesia because distance and information lags between colony and metropole, but more fundamentally, the situation within Indonesia was often of less concern than the needs of the metropole.

Nevertheless, at the formulation level, colonial textile policies seem to fit the framework used here. The creation of protectionist policies and the strengthening of the Indonesian textile industry can be explained by a combination of three factors: the government's "Ethical policy" (idea), the world depression that caused significant unemployment in Indonesia (international variable), and the political interests of plantation owners and railroad magnates (domestic constraints).
Dutch colonialists in Indonesia encountered a longstanding but highly fragmented "industry" of indigenous textile production. Batik processing and spinning of yarn had been known in Indonesia, particularly in the environs of the royal courts, long before the 17th century, but the industry had never attained the "advanced" stage of production techniques seen in China, India, or England.

This lack of development is attributable to various cultural and structural constraints. Culturally, batik and other traditional textiles were perceived as symbols of power and status in the Indonesian kingdoms, particularly in Java and Bali. Some batik patterns were designed exclusively for the use of the aristocrats in the palaces. Batik was, therefore, not thought of as a commercial commodity, in contrast with the sarongs that were widely used throughout Indonesia by all social classes. However, Indonesia holds several hundred ethnic groups, each maintaining its own cultural taste for textiles. This cultural fragmentation of the textile market was reinforced by the inadequacy of transportation systems. Even popular clothing such as the sarong was difficult to produce and market on a large scale. In combination, these factors ensured that each market remained small in economic size, and limited the development of the textile industry in Indonesia.

The Dutch altered and weakened the structure of the traditional Indonesian textile industry by introducing two major changes. First, strong competition came from inflowing Indian cotton goods. The Dutch V.O.C. (East India Company) used textiles from India as
foreign exchange to pay for local spices. Indian textiles were recognized throughout Indonesia for their high quality and relatively low price, and these imports easily overwhelmed the local textiles produced by industrially primitive techniques. Second, the forced delivery of cotton yarn to the V.O.C. by local governments, at fixed prices and on a regular basis, hindered traditional textile producers. Initially, yarn had not been included in the V.O.C. list of deliveries because there was enough available from Ceylon and India. Eventually, however, yarn was added to the scheme because of the growing demand for textiles in Indonesia. Imposed prices were often lower than the cost of production. Consequently, the textile industry could not modernize during the colonial era because there was no accumulation of local capital for the industry.

This weak domestic textile industry was further incapacitated by the inflow of textiles from England, as the British textile manufacturers led the world in technological innovation. At that time, Britain actually "clothed the world," including Indonesia. The first British textiles reached Indonesia in 1814 and by 1875, British textile imports claimed about 50 percent of total imports. The huge amount of textile imports, compared with the total local production, further undermined the domestic textile industry, as confirmed by De Bus in 1827, who mentioned:

In the dry season, the Javanese used to grow cotton and Indigo in their paddy fields and by making cloth with these cotton and Indigo they could make the best of their leisure time. However, cheap goods from European factories have now replaced the native
products and people do not know what to do with their prolonged leisure time.\textsuperscript{6}

The weaving sector of the domestic industry did have some limited ability to resist European competition by concentrating on specialized traditional apparel, such as the \textit{songket} and \textit{stagen}, for which markets were small and/or handwork necessary.\textsuperscript{7}

The problems of the domestic textile industry in Indonesia were debated in the early 20th century by two political forces in the Netherlands. One group suggested that the industry should be strengthened as one way to diversify the colony's monocultural economic system of plantation agriculture. This progressive position was stimulated by (1) the rise of the "Ethical Policy" in the Netherlands advocated by among others Van Kol,\textsuperscript{8} which called for increasing the standard of living of the people in colonial territories, (2) the world depression, which reduced traditional Indonesian exports and raised unemployment dramatically, and (3) the domination of Japanese textiles over European textiles in Asia, including Indonesia.

A second group, however, opposed efforts to strengthen the domestic textile industry in Indonesia. Advocating this view were conservatives, especially plantation owners, railroad magnates, and the European-based Dutch textile industrialists. They feared growth of the Indonesian textile industry because it could stimulate increases in the cost of living and, in turn, induce higher labor costs in Indonesia. Meanwhile, the textile makers in the Netherlands
were unconcerned with the living standards of local people in Indonesia but worried by potential competition from local textile producers.\(^9\)

The creation of colonial protective policies and the founding of a textile training and research center in Indonesia took place at this time in the above context. To limit the marketing of Japanese textiles in Indonesia, the Dutch-Indies government enacted the Crisis Import Ordinance of 1933, including an import quota system and an import licensing system, and the Ordinance for Regulation of Enterprises, which required a license to establish a textile factory.\(^10\) These policies successfully limited imports of Japanese as well as British textiles after 1934 (see Table 1).

Domestic textile producers in Indonesia did increase their production of traditional garments such as sarongs to fill the vacuum in the market. However, their role in the domestic market remained small, because their productivity was low and they had limited capital. The greatest beneficiaries were the Dutch textile producers, who succeeded in taking 91 percent of the Indonesian market for sarongs, until then supplied by the Japanese.\(^11\)

To strengthen the domestic textile industry in Indonesia, the Dutch-Indies Government established in its Agricultural Department a division of cotton handicrafts.\(^12\) This division proposed the establishment of the Bandung Institute of Textiles in 1922 to promote the native weaving industry. One of its famous inventions
Table 1. Imports of Sarong, Kain Panjang and Selendang, 1928-1937

<table>
<thead>
<tr>
<th>Year</th>
<th>Netherlands</th>
<th>England</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1928</td>
<td>201,523</td>
<td>87,893</td>
<td>1,090</td>
</tr>
<tr>
<td>1929</td>
<td>240,410</td>
<td>92,382</td>
<td>1,844</td>
</tr>
<tr>
<td>1930</td>
<td>190,103</td>
<td>69,655</td>
<td>7,716</td>
</tr>
<tr>
<td>1931</td>
<td>151,617</td>
<td>15,503</td>
<td>33,134</td>
</tr>
<tr>
<td>1932</td>
<td>65,169</td>
<td>12,357</td>
<td>351,950</td>
</tr>
<tr>
<td>1933</td>
<td>19,698</td>
<td>984</td>
<td>713,034</td>
</tr>
<tr>
<td>1934</td>
<td>5,953</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1935</td>
<td>28,090</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1936</td>
<td>103,784</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1937</td>
<td>150,621</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

was a handloom that became standard throughout the archipelago as the Alat Tenun Bukan Mesin (ATBM).

The Bandung Textile Institute also had an important role in aiding native Indonesian textile entrepreneurs through its several management and training courses. Some managers and skilled workers in the Preanger Bond Wevery (a Dutch enterprise) in Garut, Phaff (a native enterprise) in Bandung, Kancil Mas (a native enterprise) in Bangil, Kasri (a native enterprise), Java Textile Maatschappij (a Dutch enterprise) in Tegal, and Nebritex (a Dutch and British joint-venture) in Pasuruan were partly supplied by the Institute. Many indigenous entrepreneurs in small-scale handloom factories which mostly used ATBM in Madjalaya, Western Java, graduated from the Institute.

It can be said that the foundation of the textile industry in Indonesia was laid by the colonial government. As a matter of fact, there were 70,600 spindles, 12,000 hand looms, and 2,000 power looms in Indonesia at the beginning of World War II. However, most weaving and spinning mills were destroyed or abandoned during the Japanese occupation and the struggle for independence. This period was the time of lowest textile consumption per capita in the contemporary history of Indonesia. The drop in domestic production was not balanced by an increase in textile imports because of the negligence of Japanese authorities during occupation and the vacuum of power in Indonesia during the revolutionary years.
The Ascent of the Indonesian Textile Industry (1945-1959)

At independence, the new Indonesian government was hard-pressed to meet the needs of its people. Clothing and other textile products were top priorities for government policies, and the policy formulation process can again be explained by three factors: (1) the prevalence of the "nationalist" economic doctrine, (2) domestic constraints, and (3) international variables. The first factor is reflected in the rehabilitation plan, the economic urgency plan, and the benteng or fortress policy. These efforts were directed toward strengthening domestic industry and encouraging the native entrepreneurial class in the society.

Domestic constraints, the second factor, involved the unhealthy Indonesian economy prior to and after the "Korean Boom" because of the declining of its primary product exports. Exceptionally, the Korean boom prompted the biggest textile supply in Indonesia in the period before the Third Five Year Plan. The growing of export earnings empowered the government to support the textile industry. International variables, the third factor, were manifested in the willingness of the United Nations and foreign countries to support the strengthening of Indonesia's domestic industry.

In the early years after independence, bureaucratic politics and presidential mediation played small roles in shaping the policy implementation process. Political parties were the major actors in a parliamentary system where the presidency was largely symbolic. Moreover, the weak bureaucracy reflected political instability in
the system, in which some cabinets survived for only three months. In this situation, the government apparatus was unable to implement effective policies for the textile industry.

Idealism prevailed among Indonesian policy makers in the new government in the early years of independence. The people and their leaders had high expectations of a "golden era" in Indonesia after independence in 1945. In reality, the new government, faced disarray throughout the domestic industrial sector, including its textile industry. Accordingly, Minister of Welfare I. J. Kasimo, promulgated a departmental plan in 1946 to rehabilitate domestic industry and to resume pre-war production levels. However, this plan remained unimplemented because the country was still in the midst of revolution, and the Dutch forces remained in Indonesia.

As noted earlier, the basic needs of food and clothing were given first priority. Self sufficiency in foods and textiles became the main economic objective of the national government in the "Welfare Plan" of 1952. This plan sought technology transfers and capital inflows to develop the Indonesian economy.

For domestic industry, the Economic Urgency Program developed in 1951-53 had the objectives of "stimulating the greater utilization of existing equipment ... to improve and standardize the quality of production." One means was to organize "industrial centers" that had two major functions: (1) to buy materials needed to produce finished products and channel them to domestic producers, and (2) to market domestic products. These "centers" were comparable to the
Japanese trading houses and functioned in much the same way. The new local industrialists were expected to concentrate on increasing their expertise and improving their factories, without being distracted by the problems of procuring raw materials or marketing products. They were also expected to begin to mechanize to become more efficient and competitive.

A textile industrial center was established in Madjalaja to help small-scale weavers there. A Finishing Center in Ceper was created to modernize the finishing process of small-scale weavers. A Dyeing Center was also established in Madjalaja.

Various government efforts tried to channel resources to weak, small-scale textile makers. For example, government spending on military uniforms was oriented toward small-scale weavers instead of large suppliers. The government believed that the accumulation of capital in the handloom sector encouraged mechanization. The emphasis on the weak sector of the industry in the Economic Urgency Program by no means meant that large-scale textile producers were neglected. The National Bank for Industry, Bank Industri Negara, was instructed to provide financing for spinning mills and large-scale weavers with high capital needs. All of the industrial projects within the framework of the program required capital investment in the amount of 8 billion rupiah.

Under another aspect of the program, the government began to build the Tjilatjap National Spinning Mill. Construction was completed under the Five Year Plan of 1956-1960. Some mills owned by
Dutch enterprises such as Java Textile Maatschappij, Djantra, and Nebritex were nationalized. The Bandung Textile Institute was reformed and renamed the Textile Research Center, Balai Penyeledikan Tekstil (BaPT), under the auspices of the Ministry of Welfare. This institute had facilities for 45 skilled labor trainees and 45 foreman trainees, plus a laboratory.

The Five Year Plan, 1956-1960, and the Eight Year Plan, 1961-1968, emphasized the establishment of spinning mills, regarded by the government as a strategic industry because the weaving sector —both power looms and traditional looms— was dependent on an adequate supply of yarn in the market. By the end of 1968, self-sufficiency in clothing production was expected. Textile production was projected to reach 1,699 million meters of cloth a year, or 15 meters per capita.

The Economic Urgency Program, the Five Year Plan, and the Eight Year Plan were not considered successful for a number of reasons. Among others, there was the shortage of foreign reserves. Lack of experience among government officials was another problem. There was a shortage of working capital in the private sector, and a lack of native entrepreneurship was compounded by miscalculation and mismanagement.

The government faced a dilemma: should limited funds be channelled to develop the spinning sector (with a multiplier effect in the economy) at the expense of the small-scale weavers who were mostly indigenous entrepreneurs? This dilemma also carried the
choice between importing raw cotton or importing yarn to supply the industry.

In general, government policies were most influenced by the commitment to develop the indigenous entrepreneurial class. This influence is seen in the benteng, or fortress policy, intended to assure the strengthening of local entrepreneurs by giving them privileges. For example, the Dutch and Chinese were not granted licenses to import certain items such as yarn; these were made available exclusively for native entrepreneurs. Such policies were clearly meant to encourage the growth of an indigenous entrepreneurial class, an understandable objective at the time of independence. Paauw and Fei called this decolonization, the displacement of foreign agents from positions of political and economic power in which they had been entrenched through the long colonial epoch.

In the implementation of the policy, nevertheless, Ali-Baba corporations (a slang term used to refer to companies where registered ownership is Indonesian but actual corporate control remains in the hands of a Chinese or other foreigner) or "briefcase entrepreneurs" soon appeared as a byproduct. Raw materials received from the government were sold to non-indigenous industrialists on the black market. Local entrepreneurs never mechanized their looms as expected by the government, partly because the distribution of credits and licenses involved preferential treatments on the basis of political relationship.
The government eventually realized that industrialization in Indonesia was only possible with the help of foreign capital. As a result, the Foreign Investment Law was promulgated to attract investment to Indonesia, but it was not an effective instrument for that purpose. Its failure was attributable mostly to the nationalization policy of the government against Dutch and British property after 1957.

One of the serious problems faced by domestic spinning mills was the paucity of local cotton. This shortage had been created partly by a nineteenth century Dutch agrarian policy called the Cultivation System that had oriented the economy toward the export of primary products, such as coffee and rubber. The government created numerous policies to support the mills: (1) raw cotton imports were treated as a duty-free item, (2) mills received subsidies to offset the price differential between their products and imported goods, and (3) the import duty on cotton yarn was raised.

In this encouraging climate, Indonesia's spinning capacity rose substantially from 15,000 spindles in 1940 to 59,000 in 1957 and 178,000 in November 1964. Growth of the spinning sector had a positive impact on the weaving sector, and the hand and power looms increased continuously (see table 2).

As Table 2 suggests, government policies emphasized small-scale entrepreneurs who used handlooms. The numbers of weavers using power looms increased at a slower rate. It is noteworthy that the better equipped and better financed factories at that time were
<table>
<thead>
<tr>
<th>Year</th>
<th>Handlooms</th>
<th>Powerlooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>257</td>
<td>44</td>
</tr>
<tr>
<td>1940</td>
<td>14,000</td>
<td>8,000</td>
</tr>
<tr>
<td>1950</td>
<td>71,947</td>
<td>11,390</td>
</tr>
<tr>
<td>1960</td>
<td>150,000</td>
<td>16,896</td>
</tr>
<tr>
<td>1965</td>
<td>324,000</td>
<td>27,000</td>
</tr>
<tr>
<td>1968</td>
<td>166,000</td>
<td>35,335</td>
</tr>
</tbody>
</table>

**Source:** Departemen Perindustrian (Ministry of Industry), *Keadaan dan Perkembangan Industri Tekstil di Indonesia sampai tahun 1980*, Jakarta, September, 1982, p. 12.
owned by ethnic Chinese, although there were some exceptions. Despite the significant growth of the industry in the 1950s and '60s, the results of government policies did not meet initial expectations. The self-sufficiency expected by 1956 was not attained until much later because of a number of factors. First, Indonesian foreign reserves were augmented extraordinarily by the Korean boom in 1953, but this boom did not last long. At that time, the annual consumption of textiles per capita was 15 meters, the highest rate in more than two decades. Second, the textile industry was only one of the industries in the country that needed capital and foreign exchange. Therefore, available funds had to be distributed among numerous industries. There was competition among the industrialists for government funds. And third, the political system was not stable. For example, there were 40 political parties competing for control of the parliament in the first general election of 1955 in Indonesia. No single party emerged with a majority to form a strong cabinet, and 16 cabinets came and went within ten years. Consequently, the government was unable to enact or implement effective development policies or other long-term programs, including textile programs. The multiple political parties fragmented both the policy formulation and implementation processes. Because each party frequently viewed these processes from a zero-sum perspective the system ultimately broke down: cabinets were constantly formed and reformed in an effort to find consensus for policy formulation and implementation.
The Permeation of State Control (1959–1965)

The political fragmentation of the early years of independence led to a major change in the system when Sukarno assumed control of the government, and sought to enhance its decision-making and action capacities through a strengthened presidency. During this period, Indonesia experienced two major external military campaigns: (1) against the Dutch in the West Irian dispute, and (2) against Malaysia, an expanded Malaya that encompassed Singapore, Sabah and Brunei in North Kalimantan as well as Malaya itself. Moreover, the new Indonesian government was confronted with a series of internal rebellions or separatist movements. These military concerns exhausted the government's financial resources, contributing to a major domestic constraint for formulating textile policies. In addition, government funds were frequently used to finance presidential politics in the international arena. President Sukarno established himself as the advocate of the "New Emerging Forces" - Third World countries plus the communist bloc - against the "Old Established Forces" of the West. In this framework, such strategies as the Games of the New Emerging Forces, which were organized in Jakarta in the 1960s, gave Sukarno a highly visible international forum while draining badly needed development resources.

Textile policy making was strongly influenced by the "nationalist" economic doctrines that went along with the increasingly polemical political system. Sukarno's "guided economy" gave the government a major role in shaping textile policies.
Self-sufficiency and economic independence became key rhetorical criteria but little was done to provide the industry with needed resources and capital. In addition, the increasing emphasis on the socialist path meant that private enterprises had limited leverage in the economy.

Because the Indonesian economy at this time was a closed system, international variables—except Sukarno's posturing on the international stage—played an insignificant role in shaping textile policy. Textile policy involved largely domestic actors, and formulation of textile policy in this period was influenced by two major factors, the "economic idea" and domestic constraints.

At the implementation level, the presidential role became critical in shaping industrial policy. The bureaucracy emerged as a more important actor, an administrative tool, although political parties, to some extent, still influenced the implementation processes.

Policy formulation, although more systematic and unified than under the parliamentary system, was still disjointed because of continuing competition among political factions and because Sukarno himself was rarely consistent, often leaping from one policy position to another to reinforce his international image or to counter some new domestic challenge.

The political fragmentation mentioned above, coupled with regional rebellions of the 1950s such as the Sumatra-based Revolutionary Government of the Republic of Indonesia, the Permesta
of North Sulawesi, and the Darul Islam led by Kahar Muzakar in South
Sulawesi, led to the dissolution of the Indonesian parliament by
presidential decree in 1959.

Authoritarianism was considered a necessary remedy to the
problems of fragmentation and rebellion. The fragility of Indonesian
political institutions was balanced by the rise of a personality
cult around President Sukarno as the binding element in a more
stable government. Instead of establishing a single party
system, Sukarno promulgated a new ideology binding together the
nationalists, the devout Muslims, and the communists under his
leadership. Added coherence in the political system was expected to
ensure political and economic development because the system was
perceived as capable of promoting mobilization and change while
control was maintained.

In fact, control was far from complete and the system's ability
to promote economic mobilization and change was limited because
Sukarno's power rested on a balance between ideologically disparate
groups—the army and the communists. Sukarno sought to manage the
conflict among political parties by turning to the army and the
Indonesian communist party as the most effective bureaucratic
organizations then functioning in Indonesia. He tried to use the
unity of the army to supplant the fragmentation of the bureaucracy,
and the mass base of the communist party to supplant the
fragmentation among political parties. While this strategy brought
some measure of unity and coherence to policy making processes, it
ultimately proved unviable because of the ideological chasm between the two unifying elements.

Despite these weaknesses, it is nonetheless true that in the Sukarno system the dominant role of the state in the economy became clear. Government policy sought to affect the distribution of ownership and control of corporate wealth among its citizens. The argument was that, in the absence of an independent entrepreneurial or middle class, economic development would largely depend on central planning and direction. The liberal model of the West, with its emphasis on market adjustments and bargaining between relatively autonomous groups, seemed irrelevant for policy makers in Indonesia. Those who advocated the liberal economic doctrine left the capital city to join the dissident PRRI.\(^{34}\)

The government brought the importation of cotton and the distribution of textiles and yarn under direct control. Government control over the economy was based upon article 33 of the Indonesian 1945 Constitution that states:

1. Economic affairs are to be organized as a joint effort based on the family principle.
2. Branches of production which are important for the state and which control (the supply of) the basic needs of the masses are to be controlled by the state.  
3. The land and water and natural wealth contained within are to be controlled by the state and used as much as possible for the prosperity of the populace.\(^{35}\)

This article has been interpreted differently by different Indonesian leaders. The word "controlled" (dikuasai) has been defined as regulation by some politicians, but it does not
necessarily mean ownership. By contrast, Soekarno's government after 1959 made the interpretation that these branches of production should actually be owned by state enterprises and not just supervised and regulated by the state.36

To manage the marketing and the distribution of the raw materials of the textile industry, Jajasan Bahan Perindustrian (JBP), the Industrial Materials Foundation, and USINDO, a state-owned trading company, were established. JBP was created to handle the needs of small-scale weavers and textile cooperatives, while USINDO focused on the problems of large-scale weavers.

The volume of production of yarn, knitting fabrics, and woven fabrics were set to meet targets decided upon by the government's Ministry of Small Industries. To ensure that production targets were met, the government tried to mobilize private industrialists through various "associations" that would eliminate competition among private individuals in order to protect small-scale indigenous entrepreneurs as well as the general population.37

The government became directly involved in producing yarn and fabrics when it created 10 spinning mill projects and two weaving projects.38 (These are now under the management of PN Industri Sandang I and II as state enterprises). In addition to economic objectives, these governmental projects also met political goals of distributing the factories to local governments to satisfy provincial demands for industries in their territories. Cooperatives were encouraged to participate in supplying the
domestic market as part of the government's self-sufficiency program.39

Ideologically, there were three principal actors in the economy of Indonesia under Sukarno: (1) state enterprises, (2) cooperatives, and (3) private enterprises (Indonesian). The Sukarno government emphasized the role of state enterprises and cooperatives, at the expense of the private sector. This strategy was seen in the ideological principles of the "Guided Economy," initially manifested in the 1961-1968 National Development Plan. In essence, the policies of the Guided Economy provided a blueprint for state-led capitalist development involving the use of foreign exchange earnings from oil, minerals, and agricultural exports as a basis for investment in industry. It also called for protective measures and government credit.40

In the Guided Economy, the government determined what was to be produced, how it was to be produced, and for whom. Accordingly, there was little room for foreign investors except in the mining sector where sophisticated technology required continued foreign participation. This period was characterized by minimal foreign investment in Indonesia. Most foreign aid emanated from the Soviet Union and the People's Republic of China.

Under Sukarno, factories received raw materials from the government, and sold their finished products to the government to be distributed to society. A yarn allocation system was implemented. Registered mills with government licenses received yarn from the
government based upon their listed capacity in the Ministry of Small Industries. Market forces were replaced by administrative decisions in balancing demands and supplies for critical goods. At the implementation level, in fact, private industrialists often registered greater than actual capacity of machinery in order to qualify for more yarn. This practice created serious problems for the government, which had limited foreign reserves to use for cotton imports. The policy also failed to increase domestic cotton production.

To control and to manage the complicated problems of a centralized economy, President Sukarno established a Komando Tertinggi Operasi Ekonomi (KOTOE), the Supreme Command of Economic Operations. For the textile industry, Team Sandang KOTOE, the Clothing Team of KOTOE, and Komando Operasi Proyek Sandang (KOPROSAN), the Operation Command for Textile Projects, were created in May 1965. One of the main objectives of KOPROSAN was to complete the government owned spinning and weaving projects, begun earlier, within the shortest possible time. Team Sandang KOTOE was to manage and control the distribution of raw materials to spinners and the weavers. In the same month, the Ministry of Textile Industry was established under the supervision of the previous Minister of People's Industry, now elevated in rank to a Coordinating Minister. It was perceived that industrialization, particularly in the textile sector, would provide a "dynamic force" for economic development.
To mobilize all the elements of the textile industry including consumers, a *Musyawarah Besar Sandang*, National Clothing Conference was sponsored by the government in May 1965. This conference approved a Three Year Development Plan for Clothing (1965-1968) that formalized the popular objective of attaining self-sufficiency in textiles by 1968. Other important decisions were the establishment of *Dewan Sandang Nasional*, a National Clothing Council, and *Badan Pelaksana Sandang Nasional*, an executive body to monitor the development of the textile industry and to help the government formulate policy for the industry.

All of these Guided Economy policies and institutions affected the domestic textile industry. Between 1959 and 1962 spinning mills with more than 100,000 spindles were built.\(^{42}\) There was a remarkable increase in textile production, although far less than targeted. For example, the inflow of resources to the textile sector in 1960 raised the production of the domestic industry, but it reached less than 50 percent of the projected target of 540 million meters.\(^{43}\)

Ingrid Palmer and Lance Castles have pointed out that the number of handlooms (ATBM) increased 116 percent between 1960 and 1965, while the number of power looms increased only 60 percent.\(^{44}\) It is also reflected in Table 2.

This differential occurred partly because small-scale entrepreneurs were encouraged to expand their activities as part of a policy of absorbing labor to reach full employment. Also, the
government had problems in strengthening large-scale, state-owned mills because of the lack of foreign reserves. The expansion of Indonesia's spinning or weaving capacity required huge amounts of foreign exchange, because imports of modern machineries were needed. Most of Indonesia's foreign exchange, however, was used to buy war materiels for military campaigns listed earlier. The slow development of large-scale mills was also attributable to poor governmental management of a complex business. In 1960, there were 19 thousand metric tons of imported cotton left unprocessed, while some mills were fighting to get more materials.*^ Quality control also declined because (1) managers were more interested in meeting output targets than in combining resources in the most efficient manner or taking risks; (2) an absence of competition created a sense of safety among managers who did not need to cut production costs, expand their market, or create new designs; (3) the research and development sector within the industry was neglected and managers had no feedback monitored about the quality of their products or efficiencies; and (4) distribution networks were not well organized by the government.*^ The expansion of government control in the textile industry in particular (and in all economic aspects nationally) resulted in large budget deficits. The government had no option but to use its monetary policies to overcome these problems; new tax revenues could not be expected and the export sector was in decline.*^ A bigger money supply, coupled with the reduced supply of goods and services,
brought about by protectionist policies and weak domestic production brought on a stifling inflation that reached 600 percent by 1965. This economic crisis led to the collapse of Sukarno's government after the abortive coup of September 30, 1965.

The origin of Sukarno's economic crisis was laid by Suhadi Mangkusuwondo to "economic considerations ... grossly neglected in all major policies of the government in favour of political motives." His analysis provides a solid basis for understanding much of the early program of the succeeding New Order government and its desire to remove economic policy planning and implementation from the political sector as much as possible.

An understanding of past and present textile policies needs dual levels of observation because there have, in the past, been some distortions between the formulation and implementation stages of the policy-making process. Accordingly, both approaches—formulation and implementation—are useful in providing a more solid perspective for our understanding of government policies prior to the formation of the New Order government. The usefulness of this framework is clearly discernible in the discussion of the textile policy-making under the New Order government in the following chapters.

Notes for Chapter II

1. Departemen Perindustrian (Ministry of Industry), Keadaan dan Perkembangan Industri Tekstil di Indonesia sampai tahun 1980, Jakarta, September 1982, p.1


4. The Dutch system became known as the Cultuur Stelsel or the Cultivation System, and was introduced by Daendels, Governor General of the V.O.C. in Indonesia.

5. PN Industri Sandang, Buku Petunjuk PN Industri Sandang, Jakarta, 1972, p. 188

6. Matsuo Hiroshi, Op cit, p. 11

7. For example, the stagen, which was a waist band or girdle worn by Javanese women, was very long (four to five meters) but narrow (approximately 20 cm). Its use was primarily among Javanese, so there was not a sufficient market to attract European interest.

   The songket, on the other hand, presented technical difficulties for European manufacturers that made its limited market even less attractive. Since the songket required weaving a heavy gold or silver thread through the fabric, special equipment or much hand work was required in the manufacturing process. Consequently, while the songket was used on Bali, Lombok, parts of Sumatra, and other islands, the technical difficulties in manufacturing for this limited market insured that European manufacturers would not challenge the traditional weavers.


9. Matsuo Hiroshi, Op cit

10. Ibid, p. 21-22

11. Ibid, p. 23

12. Hubungan Masyarakat Departemen Perindustrian, Perkembangan Industri Tekstil di Indonesia, Jakarta, 1976, p. 8

13. Interview with Ir. H. Sjafioen, former Director General of Textile Industry.


15. Ibid.
16. Higgins and Higgins, Op cit, p. 74


19. Lembaga Penyelidikan Ekonomi dan Masyarakat, Perkembangan Pelaksanaan Rencana Mekanisasi Industri Tekstil, Universitas Indonesia, Djakarta, 1956, p. 10

20. Matsuo Hiroshi, Op cit, p. 50

21. Higgins and Higgins, Op cit, p. 74

22. Matsuo Hiroshi, Op cit, p. 50


24. Ingrid Palmer, Op cit, p. 93

25. Benjamin Higgins, Op cit, p. 91


27. Matsuo Hiroshi, Op cit, p. 50.


29. Ibid.

30. For example, Pardedetex owned by T.D. Pardede and Ratatex owned by H. Rahman Tamin. Both are indigenous entrepreneurs who owned large-scale mills.


33. This also happened in other developing countries such as Nyerere in Tanzania, Nkrumah in Ghana, and so forth. See Aristide R.

34. The striking debate between the policy makers who believe in the monetarist economic doctrine and the policy makers who relied on the nationalist economic doctrine was discussed by Higgins and Higgins, Op cit.

35. This is translated by Robert C. Rice in his article, "The Origins of Basic Economic Ideas and their Impact on New Order policies, BIES, p. 61.

36. Ibid.

37. The associations were in the form of the Organisasi Perusahaan Seienls (OPS), Organizations of Homogenous Enterprise, such as OPS Pemintalan, the Spinners Association, and OPS Pertenunan, the Weavers Association. Those associations were under the Gabungan Perusahaan Seienls (GPS) Tekstil, The Federation of Homogenous Enterprises for Textiles.

38. The new government spinning mills included Pabrik Pemintalan (PATAL) Banjaran, PATAL Cipadung, PATAL Secang, PATAL Grati, PATAL Tohpati, and PATAL Senayan.

39. Perusahaan Pengusaha Batik Pekajangan (PPBP), the Union of Batik Cooperatives in Pekajangan, established an unbleached cotton weaving and a tricot factory in Pekajangan near Pekalongan, in Central Java. And the Gabungan Koperasi Batik Indonesia (GKBI) built a spinning mill, a cambric factory, and a bleaching factory in Medari near Jogyakarta, and see Directory of Indonesian Textile Industries, Jakarta: Media Teskstit, 1975, p. 34.


42. These spinning mills were built such as in Cilacap (30,000 spindles), Pardedetex in Medan (30,000 spindles), GKBI in Medari (36,000 spindles) and the ITT Cotton Spinning Pilot Project in Bandung (8,000 spindles).

43. Departemen Perindustrian, Keadaan, Op cit.,p. 10

44. Ingrid Palmer, Op cit.
45. Ibid.

46. These were similar to the problems faced by the communist countries, see Joan Adelman Spero, *The Politics of International Economic Relations*, 3rd edition, New York: St. Martin's Press, 1985, p. 353.

47. Donges et. al, *Op cit.*

CHAPTER III
CONFLICTING ECONOMIC IDEAS AND TEXTILE POLICY MAKING

This chapter will explore the role of ideas in the formulation of Indonesian industrial policy. The argument in this study is that the governmental industrial policy is generated by a particular economic idea or doctrine. Any economic doctrine favors a series of economic policies while rejecting others. When governments are largely influenced by one economic doctrine at the one time and by another doctrine at another time, inconsistency in governmental policies is the result.

President Soeharto, as the single most decisive actor in present Indonesian policy making, is committed to developing the country's economy following nationalist economic doctrine. He expects that Indonesia will in the future combine strong industrial and agricultural sectors. However, he is willing to adjust industrial policy to monetarist economic doctrine when resource or political constraints arise. This proposition will be evidenced by a review of the facts that demonstrate several different policy options faced by President Soeharto in various situations.

In the early years of his power, President Soeharto was confronted by two critical economic issues -- the shortages of basic needs among the populace and the lack of financial resources to control an unstable economy. In such a situation, he chose a
monetarist economic policy that favored free trade and efficiency at the expense of his own ultimate vision of economic development. This choice was reflected in the economy's stabilization and rehabilitation period, 1966-1968. At that time, the Indonesian textile industry was moribund.

However, his inclination toward nationalist economic doctrine was resumed when Indonesia enjoyed an oil bonanza in 1973. With a surplus in Indonesia's balance of payments, President Soeharto chose policies to encourage industrialization. Under this scheme, the textile industry in Indonesia fared well.

The constraints that confront Indonesian policy makers will be described in more detail in the next chapter, while this chapter is dedicated to the importance of ideas in the formulation of textile policies. It describes the carriers of specific economic doctrines, competing formulae for the solution of economic problems, and their effects on governmental textile policies.

The Carriers of the Monetarist and Nationalist Economic Doctrines

Schools of thought on specific economic doctrines are embodied in key institutions or persons in Indonesia (referred to as "carriers" in this chapter). The alignments or constellations of these carriers become important in assessing of the relative political potency of any strategy for policy formulation.

Policies of the New Order government over the past 20 years (Table 3), and more especially textile policies, rest in part on
the economic views of key institutions or specific persons in the
policy making system (table 4). The individuals who hold key offices
in textile policy making may be Western educated economists who are
usually carriers of monetarist doctrine, or others in the Ministry
of Industry or the Investment Coordinating Board who usually
carriers of nationalist economic doctrine (table 4).

New Order industrial policies can be classified into three
phases: (1) a stabilization and rehabilitation phase, 1966 to 1968,
(2) an import substitution phase, 1969 to 1981, and (3) an export
promotion phase, 1982 to present. The first set of policies
deregulated the monetary system, simplified foreign trade
regulations, reduced the money supply, abolished preferential
treatment, and permitted the import of finished textiles. Policies
of the second phase limited foreign investment, reduced the number
of foreign workers, promoted export, and restricted textile imports.
Policies of the current phase have liberalized the banking system,
"de-bureaucratized" custom house, abandoned domestic food and energy
subsidies, and permitted import of finished fabrics for re-export as
garments (see Table 3).

Shifts in industrial policies in Indonesia since 1966 have been
highly connected with the prevalence of specific proponents of
economic doctrine in the governmental policy process. For instance,
when a package of stabilization and rehabilitation policies was
formulated, proponents of monetarist doctrine were pervasive in
economic policy making. When an import substitution package was
Table 3. The Dimension of Policy Patterns in the New Order Government

<table>
<thead>
<tr>
<th>Year</th>
<th>General Economic Policy</th>
<th>Textile Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966-1968</td>
<td>1. Monetary and trade system was deregulated.</td>
<td>1. Allocation of cotton and yarn was abandoned.</td>
</tr>
<tr>
<td></td>
<td>2. Foreign investment law was promulgated.</td>
<td>2. Imports of finished fabrics and yarn were allowed.</td>
</tr>
<tr>
<td></td>
<td>3. Money supply was reduced.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Preferential treatment was abandoned.</td>
<td></td>
</tr>
<tr>
<td>1969-1981</td>
<td>1. Investment priority plan (DSP) was designed to control foreign investment.</td>
<td>1. Textile imports were restricted.</td>
</tr>
<tr>
<td></td>
<td>2. Protective policies were formulated to limit imports.</td>
<td>2. Textile investment in Java was limited.</td>
</tr>
<tr>
<td></td>
<td>3. Duration and the number of foreign workers are limited</td>
<td>3. Textile credits were provided</td>
</tr>
<tr>
<td></td>
<td>4. Foreign investment should be in the form of joint-ventures with Indonesian partner.</td>
<td>4. Cotton imports were encouraged with special treatment.</td>
</tr>
<tr>
<td>1982 to present times</td>
<td>1. Banking system was liberalized.</td>
<td>1. Imports of raw and intermediate material including finished fabrics for garments were permitted.</td>
</tr>
<tr>
<td></td>
<td>2. Custom house was debureaucraticized.</td>
<td>2. Export certificate and export credits were discarded.</td>
</tr>
<tr>
<td></td>
<td>3. Domestic food and energy subsidies were abandoned.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Trade and payments system were liberalized.</td>
<td>3. Cotton imports were liberalized.</td>
</tr>
</tbody>
</table>
formulated in a series of protective policies and credit policies, proponents of nationalist doctrine were eminent in Indonesian policy making. It is useful to scrutinize the proponents of economic doctrines in Indonesia and their views on several major economic issues.

1. Proponents of the Monetarist Economic Doctrine

In discussing the political economy of industrial policies in the New Order era, it is impossible to exclude the role of the technocrats in the process. Those Western educated economists who have played a particularly prominent role in economic policy making that affected the textile policy. Some scholars of Indonesian politics reject this view. They argue instead that the technocrats, who are called "the Berkeley Mafia", are only the local hand of foreign capital and such international bodies as the IMF and the IBRD, which are interested solely in opening the Indonesian economy for foreign investment. The technocrats were considered as a group to be implementing a comprador policy as described by the dependency theorists. Consequently, the technocrats were seen as acting exclusively as receivers and the IMF and the IBRD or other representatives of foreign capital functioned as broadcasters. This is reflected in the works of Ransom, Mortimer, Payer, and Arief and Sasono. Robison takes a similar position and suggests that

In the years 1965 to 1968 there is little doubt that the Bappenas technocrats were convinced by the
IMF/IBRD ideology of 'free market' economies, which limited the state to providing the fiscal and monetary conditions for capital accumulation, and trusted in the mechanisms of the market to generate maximum growth and efficiency.⁵

Glassburner⁶ suggests, however, that there is still a cleavage between the technocrats in the Bappenas and the IMF/IBRD. He points out that the technocrats have insisted at all times on controlling the use of foreign aid. He also notes that they have directed foreign investment according to a list of scale of priorities (Daftar Skala Prioritas) and that they are free to refuse as well as accept the advice of foreign advisors from the IMF, the IBRD, and the Harvard Advisory Group. (Most of these advisors are in Indonesia under the framework of a grant by foreign countries).

Some Indonesian scholars believe that the technocrats are conspicuously dominant in economic policy making process.⁷ The Five Year Plan budget formulation process, it is argued, gives exclusive room for the technocrats to dominate the policy process. It is true that Bappenas prepare a budget bill for parliament every year. However, its power is not absolute in non-macroeconomic policy or industrial policies. Bappenas is not similar to the state planning agency in Peking or GOSPLAN in Moscow. Glassburner points out correctly that

Although Bappenas is the center of activity of writing of the Five Year Plans, the agency itself is not set up for highly sophisticated central management of the economic system. Its primary function is to consider petitions from government agencies at various level for investment funds channeled through the budget.⁸
Each government agency still has a role in shaping its own budget, but it is obvious that the technocrats are a major actor in the system.

This study sees the technocrats as political actors imbued with the monetarist economic doctrine. They are the carriers of that doctrine, especially in macro-economic aspects policy making. The degree of the monetarist economic doctrine influencing on economic policy depends upon the strength of the power held by the technocrats in the policy making process. The relationship between the technocrats, the IMF, the IBRD and the IGGI is not seen as a vertical line meaning that the IMF determined a policy and the technocrats executed it. This is more in a horizontal line by which all of the economists either from Bappenas, the IMF or others are inspired by a similar economic principle. The similarity on ideas of economic issues between the technocrats and the foreign counterparts is based upon their comparable perspective because they are all believers of the monetarist economic doctrine.

It is useful to look at the educational background of the technocrats. The core of technocrats in the government -- Dr. Widjojo Nitisastro, Dr. Ali Wardhana, Dr. Ir Mohammad Sadli, Dr. Subroto and Dr. Emil Salim -- are lecturers at the Faculty of Economics of the University of Indonesia. Drs. Nitisastro and Wardhana received the Ph.D. degrees in the Department of Economics of the University of California in Berkeley in the early 1960s. Dr. Nitisastro was the chairman of Bappenas for about 15 years. Dr.
Wardhana was Minister for Finance and became Coordinating Minister for Economic, Finance and Industry; he is the new patron of the group in the government since Dr. Nitisastro left the cabinet. Dr. Emil Salim was deputy chairman of Bappenas, was later appointed Minister of Communication, and is now Minister of State for Population and the Environment.

Dr. Mohammad Sadli took a degree in Engineering and Economics in Indonesia, and a Ph.D in economics from the Massachusetts Institute of Technology (MIT) in Cambridge. He was chairman of the Foreign Investment Coordinating Board for about 5 years, and was later appointed Minister of Mines and Energy. He is now out of government and in private business.

Dr. Subroto took his master's degree in economics at McGill University in Montreal, Canada in 1956, and his Ph.D. in economics from the University of Indonesia in Jakarta.

The backgrounds of these men make it hard to accept the label of "Berkeley Mafia." It is true that it was a cohesive group, but the cohesion was not based upon a special link to the University of California, or to Michael Harris, a former Ford representative in Jakarta who supposedly facilitated their study abroad. Their cohesion instead rested on a similar commitment to monetarist economic doctrine.

President Soeharto has enlarged the number of economists in the cabinet by picking such European educated economists such as Dr. Sumitro Djojohadikusumo, who was minister in two cabinets in the
1950s, Drs. Radius Prawiro, and Drs. Frans Seda. Dr. Djojohadikusumo was Minister of Trade and also Minister for Research and Technology; he is now a personal economic advisor to President Soeharto. These three economists were educated in various schools of economics in the Netherlands (table 4).

In the late 1970s, new economists assigned to governmental posts included Dr. J.B. Sumarlin and Dr. Saleh Affif. Dr. Sumarlin took his MA from the University of California at Berkeley and his Ph.D from the University of Pittsburgh. He is now chairman of Bappenas, the state planning agency. Dr. Saleh Affif, Minister of State for Administrative Reform, received his MBA from Berkeley and his Ph.D from Oregon State University. All of the above individuals also adhere to monetarist economic doctrine. As shown in Table 4, the leadership elements of the Ministries of Trade and Finance, the State Planning Agency, and the Central Bank are all Western educated monetarists. By contrast, the Ministry of Industry and the Investment Coordinating Board are led by persons trained within Indonesia, adherents to the nationalist perspective (as discussed in the next section).

This identification is reflected in their writings, their press statements and their speeches. The monetarists support the market mechanism, less government control, and foreign investment. This was acknowledged by Mohammad Sadli who explained that

When the New Order Government began in 1966/67, the Government, under the recommendation of Emil Salim, got rid of all those controls that were hampering economic development in the earlier period under
### Table 4. Key Offices in Textile Policy and Their Policy Stances

<table>
<thead>
<tr>
<th>Office</th>
<th>Held by</th>
<th>Where Educated</th>
<th>Policy Stance</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Ministry of Industry</td>
<td>Hartarto Sastrosoenarto</td>
<td>Bandung Technology Institute (ITB)</td>
<td>Nationalist</td>
</tr>
<tr>
<td></td>
<td>(1983 – present)</td>
<td>in Indonesia</td>
<td>Nationalist</td>
</tr>
<tr>
<td></td>
<td>Abdool Raof Soeħoed</td>
<td></td>
<td>Nationalist</td>
</tr>
<tr>
<td></td>
<td>(1978 – 1983)</td>
<td></td>
<td>Nationalist</td>
</tr>
<tr>
<td></td>
<td>General Mohammad Jusuf</td>
<td>Army Staff and Command School</td>
<td>Nationalist</td>
</tr>
<tr>
<td></td>
<td>(1967 – 1978)</td>
<td></td>
<td>Nationalist</td>
</tr>
<tr>
<td>The Ministry of Trade</td>
<td>Rachmat Saleh</td>
<td>University of Indonesia</td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>(1983 – present)</td>
<td></td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>Radius Prawiro</td>
<td>Rotterdam</td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>Sommitro Djohadikusumo</td>
<td>Rotterdam</td>
<td>Nationalist</td>
</tr>
<tr>
<td></td>
<td>(1967 – 1973)</td>
<td></td>
<td>Nationalist</td>
</tr>
<tr>
<td>The Ministry of Finance</td>
<td>Radius Prawiro</td>
<td>Rotterdam</td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>(1983 to present)</td>
<td></td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>Ali Wardhana</td>
<td>Berkeley</td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>(1967 to 1983)</td>
<td></td>
<td>Monetarist</td>
</tr>
<tr>
<td>The State Planning Agency</td>
<td>J. B. Soemarlin</td>
<td>Berkeley/Pittsburgh</td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>(1983 to present)</td>
<td></td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>Widjojo Mitiasasto</td>
<td>Berkeley</td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>(1967 to 1983)</td>
<td></td>
<td>Monetarist</td>
</tr>
<tr>
<td>The Investment Coordinating</td>
<td>Ginanjar Kartasasmita</td>
<td>ITB and Japan</td>
<td>Nationalist</td>
</tr>
<tr>
<td>Board</td>
<td>(1983 to present)</td>
<td></td>
<td>Nationalist</td>
</tr>
<tr>
<td></td>
<td>Suhartojo</td>
<td>ITB</td>
<td>Nationalist</td>
</tr>
<tr>
<td></td>
<td>(1970 to 1983)</td>
<td></td>
<td>Nationalist</td>
</tr>
<tr>
<td></td>
<td>Abdool Raof Soeħoed</td>
<td>ITB</td>
<td>Nationalist</td>
</tr>
<tr>
<td></td>
<td>(1973 to 1978)</td>
<td></td>
<td>Nationalist</td>
</tr>
<tr>
<td></td>
<td>Mohammad Salī</td>
<td>MIT</td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>(1967 to 1973)</td>
<td></td>
<td>Monetarist</td>
</tr>
<tr>
<td>The Central Bank</td>
<td>Ariefin Siregar</td>
<td>Muenchen (West Germany)</td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>(1983 to present)</td>
<td></td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>Rachmat Saleh</td>
<td>University of Indonesia</td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>(1973 to 1983)</td>
<td></td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>Radius Prawiro</td>
<td>Rotterdam</td>
<td>Monetarist</td>
</tr>
<tr>
<td></td>
<td>(1967 to 1973)</td>
<td></td>
<td>Monetarist</td>
</tr>
</tbody>
</table>

**Note:** Dr. Sumitro Djohadikusumo's idea is close to the monetarism on macro economic issues and is close to the nationalist economic doctrine in terms of domestic industrial policy.
President Sukarno. A lack of such controls is something alien to an Indonesian government. But out of desperation, probably, the Government took the advice. This advice was later reinforced by our international friends.9

This statement clarifies the origin of deregulation, de-bureaucratization, and the embrace of the market mechanism. These steps were not begun upon the suggestion of foreign advisors, but rather originated among the technocrats themselves. Some time later, the IMF through its "standby arrangement"10 formally included such steps as pre-requisites for financial support from the IMF or from its members.

In regard to the role of the government in the economy, Emil Salim made his position plain

Perhaps you have noticed that we are possibly the only country with a completely free exchange system, and the exchange system has worked well in spite of all the recession. This success proves that things can be done through the market, not through government intervention in the market.11

A rationale for avoiding government interference in the economy was further described comprehensively by Dr. Widjojo Nitisastro, a patron of the group, who suggests that

in a system of etatism (statism), the state and the state's economic apparatuses are very dominant and will drive out and dampen the creative power of the economic units outside the state sector.12

With regard to a balanced budget, Minister of Finance Radius Prawiro confesses to Nusantara Magazine published in England that he is a monetarist. Prawiro observes and controls cautiously the
expansion in the domestic money supply. In this respect, he suggests that

We must follow good housekeeping practices that is why we have introduced the new tax reforms, including the introduction of a 10 per cent Value Added Tax in 1984, which became operational on April 1, 1985.13

In other words, Prawiro favors a kind of budget that spends a year no more than it can earn or reasonably borrow against future earnings. These reflect a solid idea of the monetarist economic doctrine which relies on the balanced budget, the private sector and self mechanism of the market.

The technocrats knew that their ideas could not be transferred to real economic policies unless they had vigorous political support. This is explained by Mohammad Sadli in 1961, several years before he joined the government. Sadli described that there is close relationship between politics and economics and he suggested that

both the economic theory of inflation and the economic policies needed to control it are easy to understand, but in practice it is difficult to control because it is less an economic problem than a socio-political problem wearing economic clothes.14

This political economic relationship was further explicated by Professor Sajogyo, an agroeconomist who was outside the Bappenas technocrats. Sajogyo suggests plainly that

(i)f you want to understand the economy of my country, study our culture and our political system; if you want to understand our culture and our political system, study our economy."15

The political strength of the technocrats in Indonesian policy making has rested on their association with the army and
particularly with President Soeharto. Their influence was higher when their advice was sought and accepted by President Soeharto and was at its peak during the stabilization and rehabilitation period from 1965 to 1968. Robison suggests that

their power derived not from their monopoly of knowledge but from their role as managers of the sorts of economic policies acceptable to the New Order, specifically as managers of the process of debt renegotiation, and as authors of policies designed to allow international capital access to Indonesia.\textsuperscript{16}

The influence of the Bappenas technocrats in Indonesian economic policy making, says Robison, rises and ebbs with "the Indonesian need for international capital investment, loans, and aid."\textsuperscript{17} It is obvious that Indonesia reduced its dependence on foreign investment, loans and aid when oil income increased in 1973 and 1979.

The association between the technocrats and President Soeharto and the army began long before the fall of President Sukarno. General Suwarto, the Commander of the Army Staff and Command School (Seskoad) in Bandung reformed the curriculum of the school in the late 1950s by adding more non-military courses. Referring to its "dual function" (dwi fungsi) and its civic mission,\textsuperscript{18} the army placed its officers in several state enterprises and ministries; to equip such officers with economic theories, General Suwarto invited professors from the Faculty of Economics of the University of Indonesia to teach regularly at the Army Staff and Command School. Dr. Nitisastro and his group established a close relationship with the army officers.\textsuperscript{19} One of their students at the Army Staff and
Command School was Colonel Soeharto, former Commander of the Central Java Military Command. As soon as he came to power, President Soeharto asked Dr. Nitisastro and his group to be his economic advisors and, later, members of the Cabinet.

2. Proponents of Nationalist Economic Doctrine

Unlike monetarist doctrine, which originated in the Western countries and was alien to traditional Indonesian society, nationalist economic doctrine emanated from domestic experiences. Hla Myint from the London School of Economics contends that two major factors have influenced the ideas of Indonesian policy makers. The first "is the unbroken tradition of detailed bureaucratic controls over economic life stretching back to the colonial era." A distrust of market forces was strengthened by a nationalist reaction to Chinese middlemen and entrepreneurs. Second, Indonesian policy makers are overwhelmingly concerned with basic needs such as rice and clothing. These needs pave the way to government intervention in the economy such as the mounting role of BULOG, the government rice procurement agency.

Dr. Ir. Mohammad Sadli also notes that Indonesia's independence movement had its root in socialist ideas and a preference for economic planning. The independence of Indonesia was a result of political as well as social revolution. Every revolution is imbued by the belief that once it controls the state, reforms will take place. According to Sadli, "the idea of using power to correct
things or steer a country on a different course becomes institutionalized. Myint and Sady thus agree about the domestic origins of Indonesia's nationalist economic doctrine.

Proponents of nationalist economic doctrine in Indonesia have not been a circumscribed group of individuals, as are the monetarists. Rather the most prominent supporters of nationalist economic doctrine have changed from time to time, largely in connection to the amount of resources available to the government as discussed in the next chapter.

In the early years of the New Order government, nationalist economic doctrine was characterized by the opinions of Professor Sarbini Somawinata and Dr. Soedjatmoko, former members of Partai Sosialis Indonesia (PSI), the Indonesian Socialist Party.

Somawinata is a professor in the Faculty of Economics of the University of Indonesia. He received his masters degree in public administration in the United States. He was a member of an advisory team to the president on political affairs. He pointed out that monetarist policies had high "non-economic" cost, and tend to "make the strong industrialists become stronger while the weak industrialists become weaker." The unemployment problem, he said, had not been touched by the monetarist policies.

Monetarist doctrine was accused by its critics of relying too much on the market mechanism at the expense of indigenous entrepreneurs, the advancement of national industry, and opportunity for domestic jobs. In this respect, Dr. Soedjatmoko (now Rector of
the University of the United Nations in Tokyo) offered a competing economic idea. His alternative strategy, called "development nationalism"

... and aims at the kind of growth that will at the same time increase national capabilities and autonomy, decrease dependency from external powers and enhance self reliance.24

This strategy is parallel with the nationalist economic doctrine defined in the first chapter. Political motives were imbedded skillfully in the framework of economic development scheme.

Nationalist economic doctrine has also been put forward by two powerful generals of the army closely associated with President Soeharto — Generals Ali Moertopo and Soedjono Hoemardhani. Their association to President Soeharto began several decades ago. General Hoemardhani was an administrative officer in the Central Java Military Command when Soeharto was its commander. Ali Moertopo was an intelligence officer in the military campaign against the Netherlands during the Irian Barat dispute in the early's 1960s, when General Soeharto was the commander. Moertopo was also a commanding officer in charge of special intelligence operations under General Soeharto. Both were assistants to General Soeharto when he commanded the Kostrad, the Strategic Reserve Command in Jakarta in 1965.

Moertopo and Hoemardhani became eminent in Indonesian policy making soon as General Soeharto came to power in 1966. Both were among the 12 army officers on Soeharto's personal staffs, a sort of
"kitchen cabinet." In fact, according to Mas'oed General Soeharto relied on his staff and "a few other generals for making policies at the expense of the ministerial cabinet." In reaction, New Order supporters demanded the dissolution of the kitchen cabinet.

In response, President Soeharto formed a smaller team called Asisten Pribadi (ASPRI), a group of personal assistants. Moertopo and Hoemardhani were among them. ASPRI was abolished by President Soeharto in 1974 following student demonstrations.

Moertopo and Hoemardhani were backed by an intellectual community associated with the Center of Strategic and International Studies (CSIS). This center is mostly composed of Catholic economists, Indonesian-Chinese scholars, and politicians who were usually former activists of the Catholic student organization. Members of the center, among others, are Yusuf Panglaykim, Daoed Joesoef, Hari Tjan Silalahi, Hadi Soesastro, Jusuf Manandi and Sofyan Manandi. They normally do not rely on the market mechanism and expect the government interference in the economy. This can be identified from their speeches, books, articles or other writings.

CSIS is deeply impressed by the success of Japanese products in the world trade. Panglaykim has argued that industry in its development creates a managerial hierarchy that controls prices and products. Accordingly, the market mechanism does not work successfully and will be replaced by a marketing hierarchy within the managerial hierarchy. He referred to Sogo Sosha, Japanese
trading houses that control Japanese products including their prices and markets. It is diametrically opposed to the Adam Smith’s invisible hand. In other words, he suggests that Indonesia should develop Indonesian multinational companies in the form of integrated units that have abilities to control the managerial hierarchy.

Dr. Daoed Joesoef suggests a restructuring of the Indonesian economy in accord with non-economic measures of development such as “freedom” in policy making and “strategical transformations” as well as traditional economic criteria such as GNP or employment rate. He proposes an economic development plan generated by “national interests” that do “not depend merely on the advice emanating from foreign sources or international bodies.” His argument takes the premise that national capital is unable to develop effectively within the framework of an open door policy. He suggests that foreign credit and foreign investment are welcome but should take place within the framework of nationally integrated economic units, with the state providing coordination, protection and finance while capital ownership remains largely private.

This kind of restructuring of the economy can be done, according to Panglaykim by introducing an “Indonesian incorporation,” a framework of energetic cooperation among the government, the bureaucrats, the technocrats and businessmen in order to build a countervailing power against multi-national corporations that seek to exploit Indonesia.
Moreover, Panglaykim suggests that a "national financial consortium" should be established to finance nationally integrated units in industry, commerce, and the financial market, and allow Indonesia to increase its "national participation in the economic progress of the country." Panglaykim states that "the role of the government in the economy of Indonesia should not be seen as a problem but rather as a frame of reference.

Proponents of nationalist economic doctrine in the 1970s also included three other intellectual and economic groups: (1) the oil group under Ibnu Sutowo, the former president-director of the state-owned petroleum company, Pertamina, (2) the bureaucratic engineers who work in the Ministry of Industry, and (3) the bureaucratic engineers led by Dr. B.J. Habibie, the current Minister of Research and Technology.

The "oil group" favored use of the oil revenues to establish national industry to strengthen national resilience. The second group proposes to establish an "invulnerable industrial production capacity," - an integrated industrial pattern for processed goods supported by strong and efficient basic industries. In other words, they favor a linkage between upstream and downstream industry. The third group advocates that Indonesia establish high technology industry - aircraft, shipping, rail - to support its economic development.

In essence, these three groups favor the restructuring of the
The oil group disappeared from the political arena when Ibnu Sutowo was dismissed as president-director of Pertamina in 1975 following a critical financial problem in the company. The two other groups have continued to influence the formulation of governmental industrial policy.

Dr. B.J. Habibie, Minister of Research and Technology, took his Ph.D. on Aeronautic Engineering from Technische Hochschule Aachen, West Germany. He has had a close relationship with President Soeharto since Soeharto led a military campaign against a rebellion in the 1950s in Sulawesi, when he met Habibie's family. In 1974 Habibie was called home by President Soeharto from West Germany, where he was a vice president of Messerschmitt Bolkow-Blohm (MBB), a well known aircraft firm, and assigned to develop the Indonesian aircraft industry while sounding out the possibilities for other high-technology industries in Indonesia. For this purpose, he has been granted power, financial support and direct access by President Soeharto. Habibie has said that we cannot expect to feed the whole population of Indonesia if everyone works in the agricultural sector. We need industry. ... Ultimately we want to have a society in which agriculture supports industry and industry supports agriculture.34

Minister of Industry, Ir. Hartarto, also endorse nationalist economic doctrine. He stresses that "all industrial development that is undertaken in Indonesia has to result in the development of
the national economic structure," including a greater role of Indonesian nationals in industrial development and an emphasis on Indonesia's abundant human and natural resources.

The Economic Issues and the Competing Formulae

In the early years of the New Order government, Indonesia experienced an economic crisis. Its domestic production was at an impasse because of lack of foreign exchange and external creditworthiness. It was unable to import raw materials and spare parts.

Moreover, the rate of inflation reached 600 percent in 1966. Indonesian producers lacked working capital to keep up normal production, and the resulting shortage of supply in the market amplified the existing inflation.

The new government under Soeharto was offered two alternative economic solutions to the crisis by its advisors. On the one hand, the technocrats and IMF advisors offered a stabilization package along the lines of monetarist doctrine. Dr. Nitisastro and others proposed a tight money policy, an interest rate liberalization policy, and a no-subsidy policy to stabilize the economy.

On the other hand, Sarbini Sumawinata advised a more gradual, less drastic rehabilitation of the domestic economy, with emphasis on attacking unemployment, a crucial political phenomenon. This debate is systematized by Mas'oe and summarized in Table 5. President Soeharto chose the monetarist formula to treat the new
Table 5. The Monetarist approach and Nationalist formula

<table>
<thead>
<tr>
<th>monetarist approach</th>
<th>nationalist formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 &quot;Shock-treatment&quot; approach to stabilization to reduce</td>
<td>1 &quot;Gradual approach&quot; to stabilization while encouraging</td>
</tr>
<tr>
<td>inflation as fast as possible</td>
<td>employment</td>
</tr>
<tr>
<td>2. Pro &quot;efficient&quot; business</td>
<td>2. Pro national, indigenous business</td>
</tr>
<tr>
<td>3. Private enterprise as the dominant economic unit in</td>
<td>3. Dominant role of the state in a mixed economy.</td>
</tr>
<tr>
<td>a free market</td>
<td></td>
</tr>
<tr>
<td>4. Heavy reliance on foreign capital during stabilization</td>
<td>4. Cautious use of foreign capital technology and</td>
</tr>
<tr>
<td>and early stage of development</td>
<td>management skills</td>
</tr>
<tr>
<td>5. Emphasis on primary product exports as the</td>
<td>in sectors where Indonesians have no capability, with the</td>
</tr>
<tr>
<td>quickest way to accumulate capital during the early</td>
<td>objective of building their own.</td>
</tr>
<tr>
<td>stage of development.41</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
government's problems probably because he was eager to see the national economy stabilized as soon as possible. The choice was also made because Soeharto was limited by domestic constraints discussed in more detail in the next chapter.

Inclinations to pursue nationalist economic doctrine were stronger in the period of the First through Third Five Year Plan (1969-1983) when debate over the protection of domestic industry versus integration in the world market tended to be resolved in favor of domestic interests. The Five Year Plans — formulated under the control of the technocrats — did not dictate the strategies of development. On paper, for example, the First Plan was to develop the agricultural sector, but the government allowed resources to be spent to develop the industrial sector.

The nationalist approach of 1969-83 was made possible by the greater freedom President Soeharto enjoyed in allocating resources during a time of lessened domestic constraints, as detailed in the next chapter. Moreover, the proponents of nationalist doctrine still held key governmental positions. For example, Moertopo and Hoemardhani were the personal assistants of the president, with the latter in charge of economic and developmental affairs. Accordingly, Hoemardhani influenced the economic and industrial policy making in that period. Furthermore, General Ibnu Sutowo was still the president director of the state-owned petroleum company. He was a powerful general because he gave historical financial supports to General Soeharto when he was struggling against the communists and
the Old Order supporters in 1965-1966. In 1973 Sutowo and his group fortunately enjoyed the first oil boom, and it enabled them financially to support President Soeharto nationalist programs. This led President Soeharto to the calling of Dr. B.J. Habibie from West Germany in order to establish high-technology industries in Indonesia.

The monetarists were meanwhile worried about the negative impacts of extensive government support for domestic industry. They questioned "whether Indonesia should orient its industrial policy toward the foreign market or primarily toward the domestic market."

Once outward-looking industry was chosen by the government, they argued, it should have been internationally competitive, but this result was unlikely to be realized under a set of protective policies. In this spirit, Suhadi Mangkusuwondo, a the technocrat who was Director General for Foreign Trade Relations in the Ministry of Trade and Cooperatives, warned that

once we have set up high cost industries behind protective walls, it will be extremely difficult to change the orientation of those industries from the domestic market toward markets abroad.

Nevertheless, it seems that the monetarist approach was not attractive for Indonesian policy makers in the period of the healthy economy. Indonesian policy makers favored protective policies coupled with intensive credit policy in order to strengthen domestic industry because they felt that they were not limited by
constraints. President Soeharto later praised his own decisions in the period:

we are also thankful that when the oil price was very good on the international market, we have utilized the proceeds we obtained in the best possible manner for development, so that we achieved all kinds of progress of development which enabled us to reduce our dependence on imported goods and to raise our national economic resilience.44

Since the early 1980s and the fall of oil prices in the world market, however, Indonesia (and President Soeharto) have been confronted with a domestic resource constraint and the need to adjust his policy. As a result, export promotion policies have signaled the revival of monetarist doctrine in industrial policy.

Although the influence of nationalist doctrine has waned in recent years, it has not disappeared Minister Hartarto and Minister Habibie still occupy key positions in government. It is obvious that their influence are lessening in the policy making process due to the resource constraint. The Ministry of Industry proposed successfully an industrial bill that offers bright prospect of the economy in the future.45 Actually, it was generated by a firm belief of the Minister of Industry on the importance of industry in economic development. For example, Minister Hartarto pointed out that he personally feels that "it is the industrial sector that will be the key to unlocking Indonesia's vast potential."46 Eventually, the bill was approved by the parliament, and the new industrial law (number 5/1984) was promulgated on June 29, 1984. However, prevailing opinion around the presidency suggests that
industrialization needs and is, accordingly, possible only in an era of healthy revenues.

In the era of the worsening of oil price in the world market, the Ministry of Industry suggests that Indonesia should diversify its domestic industry into the many branches of an industrial tree, or pohon industri, in order to relax Indonesian dependency on foreign products, strengthen national self-resilience in a time of declining oil prices.

In terms of the textile industry, proponents of nationalist policies contend that Indonesia should develop a strong fibre-making industry in polyester, nylon, acrylic, and rayon staples, in polypropylene, acrylonitrile and caprolactam, and in other production branches such as tire cord, hosiery, upholstery, velvet, interlining, geotextile, safety fabric, parachute, rope, belt, and drawstring. This recommendation encourages industrialization of the non-traditional textile so that Indonesia will not focus too heavily on garment or weaves. The policy is intended to provide more jobs and to enlarge the scope of Indonesia's textile market.

On the contrary, the monetarists say industrialization must be subordinate to the objective of attaining a balance of payments; global recession coupled with the drop in crude oil prices have enlarged Indonesia's current account deficit, and domestic adjustments should be made by the government.
The next chapter will discuss the outcome of the recent debates over policy and the role of domestic constraints in shaping the process.

**Monetarist and Nationalist Influences on the Textile Policy.**

In this section, the shifts of policy packages at times will be discussed, and their impacts on the textile policy will be highlighted. This will be combined with the conditions of the industry from time to time in order to be able to understand the connection of the governmental textile policy with the problems prevailed in the industry. Textile policies and the doctrinal influences that produced them are best categorized in three periods: stabilization and rehabilitation (1966-1968), import substitution (1969-1981), and export promotion (1982 to present).

1. **Stabilization and Rehabilitation (1966–1968)**

The effect of monetarist doctrine during the stabilization and rehabilitation period was limited to the macro-economic sector. However, it profoundly affected the textile industry. Deregulation of banking practices, the foreign exchange system, and international trade influenced the industry in terms of liquidity and textile demand in the market. In short, a seller's market was transformed by the government into a buyer's market.50
In 1966-68 output of the domestic industry was less than imports (Table 6) because of underutilization of domestic plant and equipment.

Shortages of raw materials such as cotton and yarn were the major problem, and several advanced countries were approached by the Indonesian diplomatic mission to help the industry. In April 1966 the United States agreed to provide loans for basic needs under U.S. Public Law (PL) 480. It supplied 90,000 bales of raw cotton and 50,000 bales of yarn, equivalent to approximately 190 million metres of textiles. However, the vulnerable domestic industry of the time could not be revitalized by raw materials alone. A series of other problems such as liquidity, protection, quality and domestic demand were untreated. In short, the textile industry was incapacitated by the new economic policies.

This was attributable to a number of factors. First, the textile industrialists lacked working capital because they no longer enjoyed the low-interest credit previously provided by the government; they had no ability to buy cotton or yarn. Second, the industry was accustomed to a sellers' market because of scarcity of goods in the domestic market; they had previously had only to wait for buyers to come to the factory. In the new system, however, the price of textiles was not regulated by the government but determined by the balance between supply and demand in the market, and the industrialists had not established marketing channels.
Table 6. The Development of Textile Supply in Indonesia, 1966-1981

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Production</th>
<th>Imports</th>
<th>Total Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target</td>
<td>Realization</td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>n.a.</td>
<td>250.0</td>
<td>497.0</td>
</tr>
<tr>
<td>1967</td>
<td>n.a.</td>
<td>225.0</td>
<td>543.7</td>
</tr>
<tr>
<td>1968</td>
<td>n.a.</td>
<td>316.5</td>
<td>471.1</td>
</tr>
<tr>
<td>1969-1970</td>
<td>450.0</td>
<td>449.8</td>
<td>317.3</td>
</tr>
<tr>
<td>1970-1971</td>
<td>575.0</td>
<td>598.3</td>
<td>258.8</td>
</tr>
<tr>
<td>1971-1972</td>
<td>675.0</td>
<td>732.0</td>
<td>363.0</td>
</tr>
<tr>
<td>1972-1973</td>
<td>775.0</td>
<td>852.0</td>
<td>344.5</td>
</tr>
<tr>
<td>1973-1974</td>
<td>900.0</td>
<td>926.7</td>
<td>409.0</td>
</tr>
<tr>
<td>1974-1975</td>
<td>930.0</td>
<td>974.0</td>
<td>765.1</td>
</tr>
<tr>
<td>1975-1976</td>
<td>990.0</td>
<td>1,017.1</td>
<td>412.9</td>
</tr>
<tr>
<td>1976-1977</td>
<td>1,060.0</td>
<td>1,247.0</td>
<td>316.6</td>
</tr>
<tr>
<td>1977-1978</td>
<td>1,150.0</td>
<td>1,332.5</td>
<td>199.3</td>
</tr>
<tr>
<td>1978-1979</td>
<td>1,250.0</td>
<td>1,576.3</td>
<td>45.2</td>
</tr>
<tr>
<td>1979-1980</td>
<td>1,700.0</td>
<td>1,910.0</td>
<td>107.8</td>
</tr>
<tr>
<td>1980-1981</td>
<td>1,850.0</td>
<td>2,027.3</td>
<td>214.5</td>
</tr>
</tbody>
</table>

Third, the industry could not get even the simplest spare parts for its machinery because of the paucity of foreign exchange. Panglaykim and Arndt in 1966 state that

"...much of the necessary replacement investment is of the 'spark-plug' type scores of diesel, generator,...looms ... and other machines needing only small but essential parts to be made serviceable again -much of such import expenditure, if efficiently applied, could have spectacular effects on output."53

Finally, the prices of textiles in the domestic market strikingly declined in a consistent pattern, even at Lebaran (the principal Moslem holiday) and Christmas. In 1966 and 1967, prices were about 25 percent lower than in 196554 because of heavy imports of finished textile products. Most of the foreign currency employed to import these goods emanated from "tied foreign aid" in which credits to Indonesia by one country could be used to buy goods only from that country. Therefore, Indonesia had to buy goods from Japan when it utilized Japanese aid.

There are interesting facts in relation to the abnormal composition of imports. For example, out of a total of US $ 15.9 million of credit spent on all kind of textile materials purchased from the United States and Japan, US $ 12.7 million were spent on finished textiles. Most of these came from Japan. Moreover, total textile imports in 1967 amounted to US $ 152.5 million, but only US $ 8.3 million of yarns were imported,55 and the Indonesian weaving industry was at an impasse for the lack of sufficient yarn. Palmer questioned the wisdom of allowing the high level of imports of
finished textiles, and came to the conclusion that "there was no
planning of textile production worth mentioning in 1967."  


The blurred prospects of the textile industry improved when
President Soeharto stated before the parliament in August 1968 that
enlargement of the textile industry would be included in the First
Five Year Plan (Pelita) which started on April 1, 1969. The
industry had received special attention for two reasons: (1) it is
an import substitution industry able to save foreign exchange by
producing goods domestically, and (2) it is considered a vehicle for
industrializing the economy to help to solve the unemployment
problem. A presidential decision (318 of 1968) emphasized a strategy
that would "combat imports, increase employment and place the
industry in a competitive position such that it could compete ...in
world market."  

These objectives were a remarkable short-term considering the
serious technical problems faced by the industry. There were several
crucial problems. First, there was a 2 to 1 imbalance between the
demand for yarn and the amount of yarn that was domestically
produced. Second, as shown in Table 7, the industry strongly
depended on foreign supplies for its raw materials and spare parts.
Third, the textile industry would find it difficult to achieve
economies of scale or to expand its capacity; 76 percent of the
weaving sector, for example, was composed of small mills. Lembaga
Table 7. The Percentage of the Dependence of Raw and Intermediate Materials on Imports in 1977

<table>
<thead>
<tr>
<th>Item</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton</td>
<td>99%</td>
</tr>
<tr>
<td>Synthetic fiber</td>
<td>100%</td>
</tr>
<tr>
<td>Yarn</td>
<td>50%</td>
</tr>
<tr>
<td>Spare parts</td>
<td>90%</td>
</tr>
<tr>
<td>Dyestuff and other chemical stuffs</td>
<td>95%</td>
</tr>
<tr>
<td>Machinery</td>
<td>99%</td>
</tr>
</tbody>
</table>

Penyeledikan Ekonomi dan Masyarakat of the University of Indonesia, surveyed 866 weavers with the results shown in Table 8.

To boost the domestic industry, the government formulated a number of policies that stimulated local spinners, weavers, knitters and the garment sector. A series of protective policies were promulgated to protect domestic industry from foreign competition. In essence, Indonesia had adopted a combination of tariff policy, import quotas, and subsidies. Ad valorem import duties for cotton and fabric were 0 percent and 100 percent, respectively, while imported garments were restricted by a specific tariff. These were regulated by a decision of the Minister of Finance (1186/MK/3/10/1975) dated October 17, 1975.

A prohibition or a zero quota was imposed on imported sarongs, unbleached cotton, and several other items that were sufficiently produced domestically. This and other parts of a quota system were selected by the government to protect domestic products from foreign competition. Although, a high tariff policy could also have been applied, it was not chosen by the government because it did not distinguish between smuggled textiles and legal ones. At that time, contraband goods were abundantly available in the domestic market, and the government vigorously suppress them.

In a similar spirit, the government did not allow the use of a merchant letter of credit for importing textiles. Such letters of credit require only 40 percent of total import value to be paid in
Table 8. The Composition of the Indonesian Weaving Industry: Numbers of Powerlooms by Companies

<table>
<thead>
<tr>
<th>Range</th>
<th>Companies</th>
<th>Looms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 50 powerlooms</td>
<td>659</td>
<td>13,862</td>
</tr>
<tr>
<td>51 – 100 powerlooms</td>
<td>127</td>
<td>7,502</td>
</tr>
<tr>
<td>101 – 400 powerlooms</td>
<td>73</td>
<td>12,114</td>
</tr>
<tr>
<td>401 or more powerlooms</td>
<td>7</td>
<td>5,018</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>866</strong></td>
<td><strong>40,496</strong></td>
</tr>
</tbody>
</table>

advance. According to a decision of the Minister of Trade (406/Kp/XI/1974) dated November 11, 1974, importers should use a regular letter of credit instead of a merchant letter for importing textiles. It means that the importers should pay 100 percent of the price in advance by themselves.

This policy was reinforced by a decision of the Minister of Trade 940/Kp/II/75) dated February 14, 1975 which regulated that the imported textiles should be financed by *devisa umum*, market rate foreign exchange. Beforehand, *devisa kredit*, a non-market rate foreign exchange, could be used to finance imported textiles. A policy of multiple rates of foreign exchange was adopted frequently in the early years of the New Order, but it was terminated in 1973.61

In the First Five Year Plan, the government had given special treatment to imported cotton to increase supply and elevate domestic production of yarns and fabrics. The government provided a special export bonus rate. For example, a normal export bonus (*bonus ekspor* or BE) rate was Rp. 250.00 per US $ 1.00 at that time, and a special BE rate for imported cotton was Rp. 210.00 per US $ 1.00.62 The difference meant that the government gave a Rp. 40.00 subsidy per US$ 1.00 to the textile industry. This was a very sensitive issue for the international textile community and the subsidy was eliminated by a decision of the Minister of Finance (45/MK/IV/6/73) dated June 20, 1973.
To increase domestic investment, the Directorate General of the Textile Industry regulated the import of used machines on November 15, 1971. The government imposed cautious limitations for the importers. The conditions, among other things, were that machines must be 10 years old or less, that used machines were limited to spinning and weaving mills (excluding finishing, knitting and printing operations) and that dealers should guarantee the availability of spare parts. This regulation invited manipulations: most imported machines, for example, were overpriced to get more credits from the banks, and the true values of used machines were difficult to measure correctly. In 1974 the government prohibited the import of second hand textile machinery.

Foreign ownership restrictions were stiffened and investment promotion became more selective. The Foreign Investment Coordinating Board introduced an annually-reviewed investment priority plan (Daftar Skala Prioritas or DSP) that distinguishes four categories with different degrees of facilities given by the government.

Indonesian entrepreneurs were aided by presidential guidelines issued on January 22, 1974 and September 21, 1974 for the manufacturing sector. Under this new scheme, foreign investments could be undertaken only through joint venture with an Indonesian partner. Furthermore, the Directorate General of the Textile Industry issued a regulation (188/Dir.J./V/74) on May 7, 1974 that selectively limited textile investment in Java; investments were to
be directed elsewhere in the nation to boost the domestic investment outside Java in order to equate distribution of industrial projects among provinces throughout the country.

In 1974, the Minister for Manpower, Transmigration and Cooperatives issued a regulation (KEP-1503/Men/1974) on October 16, 1974 limited the duration of stay and the number of foreign workers in foreign investment projects. This regulation was intended to provide more chances for Indonesian workers to replace foreigners in the investment projects, and so to upgrade Indonesian skills and ameliorate the unemployment problem.

The government did not provide direct financial support to the textile industry. This decision was made by the Bappenas technocrats, who favored lesser government involvement in the industry. Government financial supports were channeled through state-owned banks, such as Bank Pembangunan Indonesia (BAPINDO), the state industrial development bank, Bank Dagang Negara, the state commercial bank, etc. Even in this way, government investment in the production of textiles such as yarn (which had dominated the industry under the previous government) has been limited. Textile capacity under state ownership is outweighed by the capacity of private mills (Table 9).

In the late 1960s the spinning subsector of the textile industry was emphasized in four measures: (1) increasing the number of operating spindles to a level near the mills' designed capacity, (2) making spare parts and other equipment available, (3) opening two
Table 9. The Indonesian Spinning Industry

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Number of spindles (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1969</td>
</tr>
<tr>
<td>P.N. Sandang Group</td>
<td>Government</td>
</tr>
<tr>
<td>Pinda Sandang Group</td>
<td>Regional Government</td>
</tr>
<tr>
<td>GKBI</td>
<td>Cooperatives</td>
</tr>
<tr>
<td>Private</td>
<td>Private</td>
</tr>
<tr>
<td>Other</td>
<td>Government</td>
</tr>
<tr>
<td>Total</td>
<td>482</td>
</tr>
<tr>
<td>Total output (000 ton)</td>
<td>33</td>
</tr>
<tr>
<td>Capacity (000 ton)</td>
<td>48</td>
</tr>
</tbody>
</table>

new mills at Palembang and Bekasi, and (4) improving average productivity per spindle as well as labor efficiency. Foreign credits amounting to US $ 3.43 million were to be channeled to local spinners through BAPINDO, and the government encouraged foreign investors to participate in upstream parts of the spinning subsector such as fibre-making.

As a result of government incentives, textile production increased markedly under the First Plan (see Table 6). There was growth in the number of machines in spinning, weaving, knitting, finishing and printing sectors. Growth was reinforced by the availability of adequate raw materials such as yarn and raw cotton.

Domestic demand contributed significantly to the expansion of textile outputs. The Indonesian population grew by 2.3 percent per year, with some effect on demand. More important, national income expanded extraordinarily because of the boom on oil revenue in the 1970s. The textile consumption per capita increased substantially in each year between 1977 and 1985 (Table 10).

Export promotion during the 1969-1981 period was not an attempt to enter the Indonesian textile industry into the world market. (Such attempts came after 1981, as discussed later). Rather the promotion of textile exports was in part a reaction to financial problems in the nation's oil sector after 1974. A need to finance accelerating economic development while meeting the burden of repaying the short-term debts incurred by the national oil company, Pertamina, led the government to seek more foreign exchange from the
Table 10. Textile Consumption, Indonesia, 1977-1985

<table>
<thead>
<tr>
<th>Year</th>
<th>Textile consumption per capita (meters)</th>
<th>Total population (millions)</th>
<th>Total textile consumption (millions of mtrs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>11.4</td>
<td>138</td>
<td>1,578.2</td>
</tr>
<tr>
<td>1978</td>
<td>12.2</td>
<td>141</td>
<td>1,725.8</td>
</tr>
<tr>
<td>1979</td>
<td>12.7</td>
<td>145</td>
<td>1,844.4</td>
</tr>
<tr>
<td>1980</td>
<td>13.2</td>
<td>148</td>
<td>1,956.5</td>
</tr>
<tr>
<td>1981</td>
<td>13.7</td>
<td>151</td>
<td>2,075.0</td>
</tr>
<tr>
<td>1982</td>
<td>14.3</td>
<td>155</td>
<td>2,212.2</td>
</tr>
<tr>
<td>1983</td>
<td>14.8</td>
<td>159</td>
<td>2,357.3</td>
</tr>
<tr>
<td>1984</td>
<td>15.4</td>
<td>163</td>
<td>2,505.6</td>
</tr>
<tr>
<td>1985</td>
<td>16.0</td>
<td>167</td>
<td>2,677.0</td>
</tr>
</tbody>
</table>

Source: 1. LPEM, Prospek Pengembangan Industri Tekstil di Indonesia, 1979-1985, Faculty of Economics, University of Indonesia, Jakarta, 1979.
2. Data from the Directorate General of Diverse Industries.
3. The combination of 1 and 2 made in A. Siswanto, Peranan Industri Tekstil Dalam Memenuhi Kebutuhan Konsumsi Tekstil dan Kemungkinannya untuk Ekspor, a paper for Seminar of the Indonesian Economy led by Dr. Dorodjatun K. Jakti, The Extension of Faculty of Economics, University of Indonesia, Jakarta, n.d.
non-oil sector, including textile exports. The Minister of Trade and Cooperatives created the Badan Pengembangan Ekspor Nasional, the Export Promotion Board, which was to encourage export of non-oil products. Moreover, Team Koordinasi Kegiatan Ekspor Timur Tengah, the Coordinating Team for Exports to the Middle East, was established by Presidential Decision (36 of 1977) to examine the possibility of boosting Indonesian exports to the Middle East. A joint decision among the Ministers of Trade, Finance and Industry promulgated on April 1, 1976 was also designed to support and to protect exporters by simplifying export levies and taxes, streamlining administration of the export process, lowering the interest rate on export credits, and eliminating levies imposed by provincial governments.

In addition, a devaluation policy announced on November 15, 1978 which was popularly called KENOP 15. Usually, devaluation has occurred when the government had difficulties in raising oil export earnings, as in 1983 and 1986, but the 1978 devaluation was taken while oil exports were performing well. Therefore, the policy should be read mostly as an effort to promote non-oil exports.

In the meantime, the Minister of Finance issued a regulation (434/KMK.01/1978) on November 15, 1978 that exempted export industries, including textiles, from all import duties and taxes for spare parts, intermediate goods, and raw materials. Duties and taxes that had been paid by exporters would be reimbursed by the government in the form of export certificates.
These policies were partly influenced by the price disparity between Indonesia's textiles and those of Hongkong, Taiwan and Korea, as discovered by a fact finding mission of officials of the Ministries of Trade, Finance and Industry, and executives from the textile association (see Table 11).

The main problem was not the difference in production cost but in pricing policy. As a result, efforts had been oriented to eliminate the price disparities that existed between Indonesia and those countries. The only way to overcome the price disparity was to create financial incentives for exporters so that Indonesia's exports could compete in the international market.

These new policies stimulated Indonesian textile exports to the United States, the members of the EEC and others, but also prompted the importing countries to restrict the inflow of Indonesian textiles because the government subsidized the industry. These restrictions will be discussed in detail in Chapter V.

The import substitution strategy implemented in the First and Second Five Year Plans brought good results in terms of higher textile production as well as greater operating capacity. These results influenced the Minister of Industry, Ir. Soehoed, to abolish the Directorate General of the Textile Industry in 1978 on the grounds that textiles should not longer be given special treatment but should be handled like other commodities. The textile industry was to be partly handled by a Sub-Directorate (the Directorate of the Textile Industry was formed later) in the Directorate General of
<table>
<thead>
<tr>
<th></th>
<th>Taiwan</th>
<th>Thailand</th>
<th>South Korea</th>
<th>Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production Cost</td>
<td>1.60</td>
<td>1.80</td>
<td>1.75</td>
<td>1.90</td>
</tr>
<tr>
<td>(US$/Kg.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling Price</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(US$/Kg.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-In country</td>
<td>1.24</td>
<td>1.70</td>
<td>1.55</td>
<td>1.32</td>
</tr>
<tr>
<td>-Export (f.o.b.)</td>
<td>.88</td>
<td>.95</td>
<td>.93</td>
<td>-</td>
</tr>
</tbody>
</table>

Diverse Industries, while the fibre-making industry was to be handled by a Sub-Directorate in the Directorate General of Basic Chemical Industry. 68

In sum the development of the textile industry in the import substitution period was significantly influenced by the government's intervention through a series of protective and credit policies.

3. The Export Promotion Package, 1982 to Present

This most recent period has seen a market glut in the Indonesian textile sector, beginning in 1982 when there were about 600 to 800 million metres in the factories inventories. 69 The congestion was also attributable to the growth of domestic textile capacity, which exceeded the increase of domestic consumption. The various government incentives had pushed the expansion of the industry to the point it surpassed formal targets from 1970 to 1981 (see Table 6).

Eighty textile companies were closed in Bandung, Western Java because of the supply glut. 70 This will be further discussed in the next chapter. Textile exports faced new problems because the export certificate was abolished and the credit export gradually eliminated in response to external pressure discussed in more detail in Chapter V.

In short, the Indonesian textile industry has recently been confronted by a combination of domestic constraints and external market difficulties. The government is ready to help the industry
but in fact cannot do much because the crucial constraints are beyond the control of Indonesian policy makers. The importance of the economic idea on the one side and the constraints on the other side (discussed in the next chapter) in the formulation of textile policy is implicitly revealed in the presidential state of adress in August 1986 who suggests that

in the voyage to that destination, sometimes we face storms, sometimes we have fair winds. And there are also times when we are held up by head-winds, winds that blow against the direction in which we sail, that obstruct the speed of our ship; there are even times when our ship is pushed backward by current or wind.71

This chapter has shown that there are two powerful views of Indonesian economic policy — monetarist and nationalist. At times, one doctrine or the other has been relatively stronger and more able to influence policy formulation. In general, the government most often opts for a policy designed to meet nationalist goals. In the event of domestic crisis, however, the monetarist view may prevail. The constraints to policy formulation that can force issues to the crisis level will be discussed in the next chapter.

Notes for Chapter III


7. Mas'ood, *Op cit.*, p. 239


11. Suryadinata and Siddique (eds.), *Op cit.*, p. 150


23. Interview with Professor Sarbini Somawinata, August 22, 1986.


43. Ibid, p. 101

44. It is part of his state address delivered before the parliament on August 15, 1986, in Business News, Jakarta, August 20, 1986.


50. Laporan Khusus, Prisma, Jakarta, August 8, 1982, p. 80


52. PN Industri Sandang, Paper Marketing dari PN Industri Sandang, Jakarta, 1979, p. 2


56. Ibid.

57. Department of Information of Republic of Indonesia, Adress of State delivered by H.E. President Soeharto to Dewan Perwakilan Rakyat Gotong Royong on the eve of Independence Day, August 16, 1968, p. 81


63. Hubungan Masyarakat Departemen Perindustrian (1976), *Op cit.*, p. 29


CHAPTER IV
DOMESTIC POLITICAL AND RESOURCE CONSTRAINTS

This chapter examines the domestic constraints that restrain Indonesian policy makers in pursuing industrial goals. If the degree of domestic constraint lessen in the form of a more healthy economic performance, the policy makers will have more freedom to formulate industrial policy along the lines of the nationalist economic doctrine. Conversely, the leverage of the policy makers in shaping industrial policy will be limited, if the domestic constraints aggravate. These constraints are of two general types: political and economic. For example, the government's commitment to maintain a stable affordable price for basic needs, while economic in nature, is nevertheless a political strategy designed to demonstrate that the New Order government can act firmly to deal with problems that had appeared endemic and perpetual under Sukarno. On the other hand, market circumstances for primary products such as oil, timber, tin, and rubber have indirectly determined government policy toward the textile industry because those export commodities have had a direct impact on government revenue. Indonesian economic development is still significantly sustained by earnings from export of primary products. Consequently, when exports of oil, gas and timber perform well, the government has more freedom to formulate industrial policies because the funds are available to support domestic
industry. By contrast, the government must adjust its industrial policies when export income is scarcer.

In this context, the government under President Soeharto faces policy options "under the discipline and penalties of the scarcity of resources."1 Dealing with this kind of dilemma, Ilchman and Uphoff suggest that the statesman must decide wisely within the range of viable alternatives. They further say that

to further his policy objectives, he (the statesman) needs to know how much of what resources can best be used when. Each course of action involves political, social, and/or economic costs. He must determine the relative benefits of each."2

Policy outlooks (and policy shifts) are closely related to the changing financial base of the government, as elaborated in the previous chapter. This chapter tries to unravel the role of domestic constraints and influences on textile policies. As in Chapter 3, discussion is organized in three time periods (1966-1968, 1969-1981, and 1982 to present).

The Emergence of Political Constraints in the New Order Era

The New Order government developed its strategy for popular political legitimacy on issues of basic economic development. Trying to distance itself from the "high" political style of the Sukarno government, the New Order sought to "depoliticize" the entire environment of Indonesia after the excesses of the communists and Sukarno. A major component of this strategy was stabilization of
prices and provision of a reliable supply of basic needs including textiles. This commitment continues.

The New Order government under General Soeharto initially encountered a number of interrelated political, social and economic problems. Uncontrolled inflation, shortages of basic needs due to stagnant domestic production, deterioration of infrastructure such as rail transport, intensification of student demonstrations, remnants of support for Sukarno and popular reaction toward the Indonesian Communist Party and its alleged involvement in the abortive coup were general phenomena in 1966. The "Three Popular Demands", Tri Tuntutan Rakyat (TRITURA), advocated by student and youth movements called for abolishing the Indonesian Communist Party and immediately eliminating communist elements from the cabinet, stabilizing prices, and rehabilitating the economy. These demands highlighted the choices that faced General Soeharto in 1967 as the New Order government began to shape its policies.

In facing these social and economic demands, the New Order government responded in two ways. Sometimes its approach was straightforward and tactical. For example, Soeharto abolished the communist party throughout the country immediately. However, he took a different approach in responding to the political demand to oust President Sukarno from his formal position. He also took a more indirect approach to reform of the economy.

The Temporary People's Consultative Body (MPRS) promulgated three important decrees: (1) decree number TAP IX/MPRS/66 which
legalized the Presidential Instruction of March 11, 1966, empowering Soeharto to act in restoring order in the country, (2) decree number XXV/MPRS/66 abolished the Indonesian Communist Party, and (3) decree number XXIII/MPRS/66 reformed the nation's basic economic, financial and developmental policies.

The last decree was drafted by a group of Western educated economists under the leadership of Dr. Widjojo Nitisastro, a graduate of the University of California. This group subsequently was labeled 'The Berkeley Mafia' by David Ransome. While this economic decree included a package of economic programs that reflected the conspicuous change of attitude among Indonesian economic policy makers and demonstrated the economic rationality of the New Order government it also had political goals. In short, the ultimate objective was political and economic development that would follow a stage of economic resuscitation and stabilization. Provision of adequate clothing—i.e., textiles—was defined as one priority in article 15 of the economic decree.

This important document reflected the new orientation of the New Order economic policy, but it was not the first or the only indicator that contained new characteristics of the New Order economic policies. J. Panglaykim and H.W. Arndt mentioned the importance of the economic statement made by Sri Sultan Hamengku Buwono IX, the Vice-First Minister for Economic and Financial Affairs on April 12, 1966. It demonstrated new perceptions of the
new government on a number of economic problems and the position taken by the government on various crucial economic issues. Another objective of these statements was to build confidence on the part of foreign counterparts as well as domestic leaders for the willingness and the seriousness of the New Order government in tackling a series of economic difficulties. Numerous important issues were described in this statement, including, among others, the positive acceptance of foreign aid, the intention to have a moratorium and a rescheduling of debt, the reduction of the role of state enterprises in the economy, and a larger role given to private sector.

This was a milestone in Indonesian economic policy. However, it was only partially understood by diplomatic circles in Jakarta and foreign analysts of Indonesian politics at that time, because President Sukarno was still the Head of State. It is noteworthy that President Sukarno was known as a promotor of a global political realignment that would pit "the New Emerging Forces" of the Third World and the communist bloc against "the Old Established Forces" in the west, and he vigorously pursued "socialism a la Indonesia" domestically against "free fight liberalism," that was considered as a heaven for strong capitalists. Therefore, it is understandable that the new government received reluctant support from the advanced Western countries in the early years of its power.

The main task of the new government was to provide political assurances to the public, domestic and international, that the
country's previous economic difficulties would be overcome through sound new economic policies. This was evidenced by the formation of the Ampera Cabinet in which the Economic Stabilization Council was set up in July 1966 to monitor daily economic activities and formulate new economic policies. Several Western educated economists, who had been lecturers at the University of Indonesia in Jakarta, were formally assigned as personal staff advisors to the President on economic affairs.

The government publicly announced a set of new economic policies in October 1966, including among other things an effort to control inflation, steps to supply sufficient food and clothing, ventures to rehabilitate economic infrastructure, attempts to improve export activities, and deregulation of the monetary system and foreign trade as well as rationalization of the state budget.

These economic policies changed the political image of Indonesia as much as they changed the economy inherited from President Sukarno. The so called "guided economy" was replaced by the "democratic economy" or the "Pancasila economy" as a public adage to identify the economic system of the New Order. It was stressed publicly by the government officials that politics is no longer in command, but, in fact, the objective of political stabilization was very important, even when officials frequently emphasized that economics was now in command.

In practical terms, these new policies meant that foreign trade was liberalized and simplified, preferential treatment previously
given to state enterprises was reduced, and the role of the private sector in the economy was enlarged. The money supply was reduced by a tight money policy in the form of decreasing credits and increasing interest rates of certificate deposits. Capital inflow was increased by foreign investment induced through a new Foreign Investment Law promulgated in 1967.

Why did policy makers choose monetarist economic measures in the early years of the New Order government? In the textile industry, for example, an allocation system that had channeled imported yarn and cotton to selected producers was eliminated in 1967 in favor of market allocation. Policy makers were aware that the existing textile industry had the capacity to meet domestic demand. What the industry needed was raw materials and spare parts. Yet the ability to supply raw materials and spare parts was limited by a major political constraint: political forces insisted that the unstable domestic market be controlled immediately. The New Order government, still vulnerable to accusations of ineptitude and poor management, tried to limit the possibility that political opponents would use the lability of the domestic economy to mobilize their constituents. The followers of President Sukarno and the Indonesian Communist Party were still present in the country; consequently, restoring the economy to an equilibrium state was politically as well as economically imperative. The primary concern of General Soeharto was to create a "legitimate public order," including a stable domestic market essential to the economic development of the country.
Economic development was and remains a source of the political legitimacy for the New Order government. This was embedded in the "stabilization and consolidation" strategy of the New Order government to restore political and economic stability in Indonesia.9

Relations between political factors and economic variable were described by the government officials in two significant points. First, both economic development and political stability were fundamental national objectives. And second, these objectives remain interdependent, so that long-term political stability can only be guaranteed through successful economic development, while that development can only be successful in a climate of political stability. In other words, economic development and political stability were considered by the Indonesian government as two faces of the same coin. How have these major concerns been overcome by the New Order government?

The government first focused its attention on controlling inflation, which reached 600% in 1966, and such related problems as capital outflow, speculation in foreign currencies, loss of confidence in the rupiah, the local currency, and pervasive black markets.

This fear that inflation could spark a destabilizing chain of events haunted the New Order government, so it attacked inflation primarily by controlling the supply and price of basic commodities such as rice and clothing. The cost-push theory of inflation
suggests that price stability for basic goods such as rice might prevent a tide of general price increases.\textsuperscript{10}

For this purpose, the National Logistic Agency, \textit{Badan Urusan Logistik} (Bulog) was established to stabilize food prices. The state-owned Petroleum Company, Pertamina, was granted monopoly rights to distribute and to stabilize the prices of refined petroleum products.\textsuperscript{11} Basic needs such as rice, wheat flour, corn, sugar, cotton and yarn were subsidized by the government to keep prices relatively low and stable. Control of inflation was also important as an aid attracting foreign investment.

Foreign investment, while again ostensibly an economic strategy, also had political effect. As with price stabilization and other domestic economic reforms, it was assumed that the inflow of foreign capital would provide jobs, especially in the major urban centers, and so contribute to the dual objectives of strengthening the economy and promoting political tranquility. In addition, however, the new more favorable foreign investment policies were designed to reestablish Indonesia as a competent member of the global non-communist economic system. The New Order government sought not only to satisfy its constituents in the cities but also to attract foreign investors interested in low-cost labor.

These considerations become a constraint for policy makers because they could not afford to choose policy options that might increase of the prices of basic needs.
In the short term perspective, decisions to import finished textiles, abolish the raw material allocation system, and abandon preferential treatment of the textile industry could be partly explained by the above constraints. The government could not delay in supplying sufficient food and clothing in the market. The political system required that the market be stabilized as soon as possible.

In the long term perspective, political constraints also explained why the government was so interested in improving rice crops and strengthening the textile industry. Self sufficiency in food and clothing, *swa sembada sandang dan pangan*, were essential to relieve the political constraints.

This situation had a major impact on the Indonesian textile industry in the early years of the New Order government. There was a scarcity of yarn in the market. Many number of weaving mills went out of business, particularly small-scale mills that used handlooms and lacked working capital to buy the expensive yarn. As a result, a remarkable number of indigenous weavers went bankrupt. The popular Madjalaya textiles, once dominant in the market, totally disappeared, although Madjalaya in West Java had previously had more than 7000 small-scale weaving mills besides its many handlooms producing textiles distributed throughout the country. 12

What happened in Madjalaya was not unique to Western Java. Such difficulties had a much more dire impact on small-scale weavers, who were mostly indigenous businessmen, rather than on large-scale
Chinese-ethnic weavers who normally had stronger capital reserves. The big Chinese weavers had a greater ability to resist market flooding (see Table 2).

The effects of textile imports are also evident in other data. Total domestic textile output amounted to 456 million meters in 1965, while textile imports in the same year were 313.4 million meters. In the next two years, domestic output decreased to 225 million meters (mostly produced by power looms owned by large-scale weavers) while imports of finished textiles increased to 523 million meters.13

Although the import of finished textiles pushed the domestic industry to transform its structure, two other domestic factors were also significant. First was a change of fashion among Indonesian youth, who enthusiastically adopted western-style clothing. Handlooms are suitable for producing traditional apparel, but do not yield a high quality fabric. Second, synthetic—rarely used before 1966—became popular dress. For technical reasons, small mills had difficulty producing synthetic cloth. It is difficult to judge which factors, domestic or external, most influenced the structural transformation of the Indonesian textile industry. But, it is obvious that changing tastes in textiles was made possible by the presence of options in the market, and that these options emanated from foreign countries.

Government officials publicly acknowledged that some textile businesses went bankrupt. However, they argued that these failed
businesses were inefficient operators accustomed to preferential treatment; according to these officials, these inefficient producers had misinterpreted the real market. In this respect, it was said that the new government sought to reduce the distortions of supply and demand produced in part by its own past interventions in the market.

The commitment to keep stable the prices of basic commodities, including textiles, was not only prominent during the rehabilitation and consolidation period, but has also continued to play a major role in formulating textile policy over time. A continuing commitment is evidenced by imports of synthetic fibers, yarn and other textile products in the 1980s, particularly at the coming of Lebaran (the Holy Moslem holiday) and Christmas. When the government has suspected or predicted a shortage of textiles at these times, the import gate has been opened, regardless of the reactions of domestic producers. Again, economic plans and policies may be regularly subordinate to political goals in textile policy. Domestic political constraints are perpetual in shaping textile policy.

**Economic Resources in the Stabilization and Rehabilitation Period**

The New Order government inherited an unhealthy economy from the previous government: high foreign debt, uncontrolled inflation, depletion of foreign exchange reserves, and large balance of payments deficits. The previous government's "prestige" projects and unsound economic projects based primarily on political
objectives caused serious budget deficits. These were not offset by public savings or by surpluses in the balance of trade, but by credits from the state-owned banks. The central bank, in turn, printed money to provide the credits because demand deposits were very low during this period of high inflation. People resisted putting their money in banks because real interest rates were negative.

In addition, the Sukarno government had committed the military to a campaign against Malaysia in the early 1960s. The cost of the confrontation was high. For example, about 39 percent of debts outstanding in June 1966 were for purchases of war materials for the campaign. Remaining foreign exchange was not sufficient to import adequate raw materials and spare parts for domestic industry. Consequently, production stagnated. Industrial output fell to less than 20 percent of capacity. Domestic demand exceeded the supply of goods by a wide margin, which, in turn, caused price acceleration.

Rising domestic prices took a toll in the export sector because increasing costs of production, coupled with rising prices of raw materials, made Indonesian products less competitive in the world market. Export earnings, which influenced the current account of the Indonesian balance of payments, were further and further squeezed.

In short, the new government of 1966 faced critical economic problems resulting primarily from shortage of foreign exchange (see Table 12) and public savings.
Table 12. The Indonesian Balance of Trade, 1960-1965

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>52</td>
<td>49</td>
<td>+ 3</td>
</tr>
<tr>
<td>1961</td>
<td>45</td>
<td>64</td>
<td>- 19</td>
</tr>
<tr>
<td>1962</td>
<td>69</td>
<td>72</td>
<td>- 3</td>
</tr>
<tr>
<td>1963</td>
<td>291</td>
<td>300</td>
<td>- 9</td>
</tr>
<tr>
<td>1964</td>
<td>874</td>
<td>932</td>
<td>- 58</td>
</tr>
<tr>
<td>1965</td>
<td>1,251</td>
<td>1,360</td>
<td>- 109</td>
</tr>
</tbody>
</table>

Most economists were predicted that foreign exchange earnings, including oil earnings, would be US $430 million and minimum import requirements US $560 million in 1966.\(^\text{16}\) In addition, foreign debt service reached about US $530 million in 1966 and US $270 million in 1967.\(^\text{17}\)

Exports of rubber and oil, the mainstay of Indonesia's balance of payments under the previous government, held bleak prospects because of a weak world market. The rubber estates, nationalized from the Dutch or British in the 1950s, saw continuously declining production partly because of mismanagement and partly because of poor demand in the world markets (see Table 13).

Nationalist economic doctrine did not provide quick answers to these problems. The only possible option was to solicit foreign aid, declare a moratorium of foreign debts, and ask financial help from international bodies such as the IMF.

Such monetarist economic policies led to the reorientation of Indonesia's foreign policy. Former Foreign Minister Adam Malik stated:

> Without leaving out idealism, we will give first priority to businesslike rational and objective national interests for the sake of economic development... Economic cooperation with other countries is first priority in the order of priorities in our international relations.\(^\text{18}\)

Indonesia resumed its work with the United Nations as well as the United Nation's agencies in 1967. The "confrontation" with Malaysia was ended.
Table 13. Indonesian Primary Product Exports in Selected Years, 1956-1965

<table>
<thead>
<tr>
<th>Year</th>
<th>Rubber Estates</th>
<th>Small Holders</th>
<th>Oil &amp; Its products</th>
<th>Other</th>
<th>Total Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>154.4</td>
<td>206.2</td>
<td>255.2</td>
<td>308.6</td>
<td>924.4</td>
</tr>
<tr>
<td>1957</td>
<td>108.7</td>
<td>153.2</td>
<td>315.1</td>
<td>213.7</td>
<td>790.7</td>
</tr>
<tr>
<td>1960</td>
<td>133.9</td>
<td>243.2</td>
<td>220.7</td>
<td>242.2</td>
<td>840.7</td>
</tr>
<tr>
<td>1962</td>
<td>101.6</td>
<td>196.9</td>
<td>215.8</td>
<td>167.3</td>
<td>681.6</td>
</tr>
<tr>
<td>1964</td>
<td>98.6</td>
<td>137.2</td>
<td>267.3</td>
<td>221.1</td>
<td>724.2</td>
</tr>
<tr>
<td>1965</td>
<td>87.6</td>
<td>135.3</td>
<td>270.6</td>
<td>212.4</td>
<td>705.9</td>
</tr>
</tbody>
</table>

The technocrats were instrumental in building ties with foreign partners; their monetarist economic doctrine were suitable to the critical condition of the Indonesian economy at that time. Resource constraints thus led Indonesian policy makers to adopt monetarist policies.

The Oil Bonanza and the Import Substitution Period

Exports of crude oil as well as other traditional commodities performed relatively well in the 1969-81 period, especially after the oil booms in 1973 and 1979. Indonesia's economic development programs and its state budget became less dependent on foreign support. This eased resource constraints for the policy makers, who had more leverage to pursue their preferred industrial policies.

The Indonesian economy is based principally on agriculture, and on exploitation of oil, gas and other mineral and estate crops for exports. Manufacturing has begun to contribute significantly to the economy although it is still in the early stages of the development. Nevertheless, improvements in agriculture, mining and the manufacturing sector influenced the Indonesian economy as a whole.

The monetarist approach of the stabilization and rehabilitation period had had a positive effect on the Indonesian economy under the New Order government. Deregulation of the banking and credit systems led to a slower growth of the money supply and further restrained inflation. The reduction of export tax rates coupled with the improved economic infrastructure and the simplification of foreign
exchange system encouraged more Indonesian exports. Popular respect for the rupiah grew as people gained confidence in the management of the national economy. The results were the elimination of budget deficits and the continued decline in inflation rates, see Table 14.

The positive effects of the monetarist policies were reinforced by the control of the IMF over the growing of money supply, the utilization of foreign exchange, and the maximum amount of state budget. Under the standby arrangement, the permanent representative of the IMF and the IBRD in Jakarta set the ceiling rates of those factors. For example, the IMF set the maximum limit of the government's expenditures at 10 percent of the national income.

The stabilization of the Indonesian economy, as illustrated by the fact that the inflation remained under control, persuaded the advanced countries within the framework of the Inter Governmental Group on Indonesia (IGGI) to channel foreign aid to Indonesia. The government thus able to balance its budget and to finance the import of essential capital goods and raw materials for domestic industry. In short, the economy grew stronger and stronger and the export sector expanded as well. Improvement in the export sector was led by oil earnings but also involved other traditional exports such as coffee, timber, tea, and palm oil (see Table 15).

One consequence of a stronger export sector was the amelioration of government revenue shortages. In 1968, most government revenues were received through the foreign trade tax (38.2%), consumption tax
Table 14. Some Important Indicators of the Indonesian Economy, 1966-1979

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth of money supply (% per year)</th>
<th>Rate of inflation (% per year)</th>
<th>State budget (+/-) (% per year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>764</td>
<td>650</td>
<td>-124</td>
</tr>
<tr>
<td>1967</td>
<td>132</td>
<td>112</td>
<td>-3</td>
</tr>
<tr>
<td>1968</td>
<td>121</td>
<td>85</td>
<td>0</td>
</tr>
<tr>
<td>1969</td>
<td>61</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>1970</td>
<td>37</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>1971</td>
<td>28</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>1972</td>
<td>48</td>
<td>26</td>
<td>2</td>
</tr>
<tr>
<td>1973</td>
<td>41</td>
<td>27</td>
<td>1</td>
</tr>
<tr>
<td>1974</td>
<td>40</td>
<td>33</td>
<td>0.4</td>
</tr>
<tr>
<td>1975</td>
<td>33</td>
<td>20</td>
<td>0.1</td>
</tr>
<tr>
<td>1976</td>
<td>28</td>
<td>14</td>
<td>0.2</td>
</tr>
<tr>
<td>1977</td>
<td>25</td>
<td>12</td>
<td>0.1</td>
</tr>
<tr>
<td>1978</td>
<td>24</td>
<td>10</td>
<td>0.04</td>
</tr>
<tr>
<td>1979</td>
<td>33</td>
<td>24</td>
<td>0.02</td>
</tr>
</tbody>
</table>

a as percentage of CPI, and b a state budget surplus (+) or deficit (-) as percentage of total revenue.

Table 15. Value of Important Traditional Exports, 1965-1975.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>rubber</td>
<td>200</td>
<td>235</td>
<td>189</td>
<td>176</td>
<td>221</td>
<td>261</td>
<td>222</td>
<td>196</td>
<td>395</td>
<td>479</td>
<td>358</td>
</tr>
<tr>
<td>copra</td>
<td>18</td>
<td>24</td>
<td>15</td>
<td>41</td>
<td>19</td>
<td>29</td>
<td>15</td>
<td>4</td>
<td>6</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>coffee</td>
<td>31</td>
<td>39</td>
<td>45</td>
<td>45</td>
<td>51</td>
<td>66</td>
<td>55</td>
<td>73</td>
<td>77</td>
<td>98</td>
<td>100</td>
</tr>
<tr>
<td>palm oil</td>
<td>15</td>
<td>22</td>
<td>29</td>
<td>22</td>
<td>22</td>
<td>37</td>
<td>46</td>
<td>42</td>
<td>73</td>
<td>157</td>
<td>152</td>
</tr>
<tr>
<td>pepper</td>
<td>9</td>
<td>14</td>
<td>18</td>
<td>15</td>
<td>10</td>
<td>3</td>
<td>25</td>
<td>21</td>
<td>28</td>
<td>24</td>
<td>23</td>
</tr>
<tr>
<td>tin</td>
<td>37</td>
<td>22</td>
<td>32</td>
<td>50</td>
<td>53</td>
<td>62</td>
<td>64</td>
<td>65</td>
<td>86</td>
<td>175</td>
<td>140</td>
</tr>
<tr>
<td>timber</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>13</td>
<td>26</td>
<td>101</td>
<td>169</td>
<td>231</td>
<td>583</td>
<td>725</td>
<td>500</td>
</tr>
<tr>
<td>tea</td>
<td>14</td>
<td>18</td>
<td>10</td>
<td>17</td>
<td>10</td>
<td>17</td>
<td>29</td>
<td>31</td>
<td>30</td>
<td>19</td>
<td>-</td>
</tr>
<tr>
<td>copra cakes</td>
<td>6</td>
<td>7</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>11</td>
<td>13</td>
<td>18</td>
<td>26</td>
<td>25</td>
</tr>
</tbody>
</table>

(24%), and oil revenues (17%). Higher revenues eased both on foreign aid and the constraints on Indonesian policy makers.

The climate for the Indonesian policy makers continued to improve in the oil booms of 1973 and 1979. In November 1973, the Arab members of the Organization of Petroleum Exporting Countries (OPEC) following the Middle Eastern crises agreed to control and reduce the supply of oil in the world market and pushed the prices of oil products four times higher. For example, the f.o.b. price of Indonesian crude (Minas) rose from US $ 2.93 per barrel in April 1972 to US $ 3.70 in April 1973 and US $ 12.60 in July 1974.

As a result, the Indonesia's foreign exchange earnings doubled in 1973 and again in 1974. The immediate effect of the oil boom was a sizable surplus in the balance of trade (see Table 16). The position of crude oil has become more dominant since 1973 as a result of higher world oil prices and the decreasing demand of traditional products because of the weakening of the world economy caused by the energy crises. In other words, the Indonesian economy has been dominated by the exports of the crude oil. This led proponents of the nationalist economic doctrine within the petroleum industry, to try to influence the formulation of industrial policy.

The immediate effect of the growing of the oil earnings affected the flows of government revenues. The swollen government purse also allowed for expanded support of the textile industry. Government revenues from oil jumped from Rp. 69 billion in 1970 to Rp. 973 billion in 1974. Oil's share of total revenues increased from 20
Table 16. Balance of Trade and Balance of Payment in Current Account in Selected Years, 1972/3-1980/81

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports f.o.b.</td>
<td>1,939</td>
<td>3,613</td>
<td>7,186</td>
<td>7,146</td>
<td>9,213</td>
<td>10,860</td>
<td>11,353</td>
<td>18,511</td>
<td>22,885</td>
</tr>
<tr>
<td>Imports f.o.b.</td>
<td>-1,651</td>
<td>-3,074</td>
<td>-5,097</td>
<td>-5,409</td>
<td>-7,173</td>
<td>-7,866</td>
<td>-8,443</td>
<td>-10,722</td>
<td>-14,242</td>
</tr>
<tr>
<td>Balance of Trade</td>
<td>+ 288</td>
<td>+ 539</td>
<td>+ 2,089</td>
<td>+1,737</td>
<td>+2,040</td>
<td>+2,994</td>
<td>+2,910</td>
<td>+7,789</td>
<td>+8,643</td>
</tr>
<tr>
<td>Services</td>
<td>- 845</td>
<td>-1,295</td>
<td>-2,227</td>
<td>-2,591</td>
<td>-2,842</td>
<td>-3,684</td>
<td>-4,065</td>
<td>-5,591</td>
<td>-6,512</td>
</tr>
<tr>
<td>Balance of Payment on Current Account</td>
<td>- 557</td>
<td>- 756</td>
<td>- 138</td>
<td>- 854</td>
<td>- 802</td>
<td>- 690</td>
<td>- 1,155</td>
<td>+2,198</td>
<td>+2,131</td>
</tr>
</tbody>
</table>

Source: Financial Note and Budget Draft for 1986/87, a supplement for the presidential report to the parliament on August 15, 1986.
percent in 1969/70 to more than 50 percent in years after 1974.\textsuperscript{22} This significantly reduced the resource constraint on Indonesian policy makers, enabling them to formulate the nationalist industrial policies (see Table 17).

The freedom of Indonesian policy makers to pursue import substitution policies became even greater as the technocrats who controlled the budget faced difficulties in managing the oil money. The technocrats, who had dominated the State Planning Agency (BAPPENAS), experienced a number of critical difficulties in dealing with the greatly increased revenues resulting from the oversupply of oil money. Emil Salim, deputy chairman of Bappenas, stated:

\begin{quote}
we see that the budget increases, but the absorptive capacity of the government machinery seems to be lagging behind. So there is a piling up of unspent budget items, which is a point of concern for the Government.\textsuperscript{23}
\end{quote}

The problem indirectly induced the private sector to consume the unspent budget in terms of expanded credits, and subsidies provided by the government. At that same time, foreign aid funds, both loans and grants that had dominated the budget in the stabilization and rehabilitation period, were reduced in the era of the oil bonanza.

The dominant role of crude oil in the economy and crude oil revenues in government planning and spending was reinforced by the continuous expansion of crude oil exports in volume as well as price. For example, the Indonesian crude oil exports were 228,097,000 barrels in 1970 and increased to 369,543,000 barrels in 1973. During
Table 17. Government Revenue, the Oil Company Tax, and the Prices of Crude Oil

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Domestic revenue a. (Rp. billion)</th>
<th>Oil Company Tax (Rp. billion)</th>
<th>Percentage (%)</th>
<th>Crude Oil Prices US dollars per b.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.33</td>
</tr>
<tr>
<td>1967</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.33</td>
</tr>
<tr>
<td>1968</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.30</td>
</tr>
<tr>
<td>1969</td>
<td>243</td>
<td>48</td>
<td>20</td>
<td>1.33</td>
</tr>
<tr>
<td>1970</td>
<td>345</td>
<td>69</td>
<td>20</td>
<td>1.28</td>
</tr>
<tr>
<td>1971</td>
<td>428</td>
<td>113</td>
<td>26</td>
<td>1.67</td>
</tr>
<tr>
<td>1972</td>
<td>591</td>
<td>199</td>
<td>34</td>
<td>2.93</td>
</tr>
<tr>
<td>1973</td>
<td>968</td>
<td>345</td>
<td>36</td>
<td>3.73-6.00</td>
</tr>
<tr>
<td>1974</td>
<td>1,754</td>
<td>973</td>
<td>56</td>
<td>12.60</td>
</tr>
<tr>
<td>1975</td>
<td>2,242</td>
<td>1,249</td>
<td>56</td>
<td>12.80</td>
</tr>
<tr>
<td>1976</td>
<td>2,906</td>
<td>1,620</td>
<td>56</td>
<td>13.55</td>
</tr>
<tr>
<td>1977</td>
<td>3,536</td>
<td>1,949</td>
<td>55</td>
<td>13.55</td>
</tr>
<tr>
<td>1978</td>
<td>4,266</td>
<td>2,309</td>
<td>54</td>
<td>13.55</td>
</tr>
<tr>
<td>1979</td>
<td>6,697</td>
<td>4,260</td>
<td>64</td>
<td>18.66</td>
</tr>
<tr>
<td>1980</td>
<td>10,277</td>
<td>7,020</td>
<td>69</td>
<td>27.00-34.75</td>
</tr>
<tr>
<td>1981</td>
<td>12,274</td>
<td>8,575</td>
<td>70</td>
<td>32.95-38.00</td>
</tr>
<tr>
<td>1982</td>
<td>13,756</td>
<td>9,122</td>
<td>66</td>
<td>32.00-36.25</td>
</tr>
</tbody>
</table>

a Domestic Revenue and Tax in 1981 and 1982 are budget estimates.
b Crude oil prices before 1970 are of Saudi Arabian crude and the price differential between Saudi Crude and the higher quality Indonesian crude was about US $ 0.30 per barrel (Petroleum Economist). Crude oil prices in 1980, 1981, and 1982 are official prices of Indonesian crude oil determined by the Indonesian Ministry of Mines and Energy.

the oil boom in 1974, the Indonesian crude oil exports reached 378,905,000 barrels. Oil revenues increased, Arndt suggests not only because the price per barrel increased but also because Indonesia received a better share in oil profits enjoyed through a new arrangement called a "production sharing contract".

As budget constraints shrank, economic policy makers were able to implement popular policies such as improving civil servant salaries (particularly teachers' salaries) in 1974, raising subsidies to provincial governments, and expanding social welfare programs of school construction and public health clinics in rural areas in the framework of "presidential instruction", INPRES.

The oil bonanza also created a fresh opportunity for domestic entrepreneurs to join in the import substitution strategies. Domestic investors, through joint ventures with foreign investors, were encouraged by the expansion of oil earnings. For example, the higher oil revenue increased government resources, generating an increase in national income. Concomitantly, textile consumption per capita rose with national income. The textile industry was dramatically invigorated by the increase in domestic demand. The tight money policy of the 1960s was relaxed and the government, unable to absorb all of its mounting revenues, provided relatively cheap credit to private industrial ventures.

The nationalist economic approach to the textile industry brought remarkable results in terms of the increasing textile
production as well as expansion of operating capacity. Production quality was also upgraded by introducing new designs and new products such as primissima (a high quality cotton fabric) and synthetic cloth. Total output increased from 450 million meters per year in 1969/70 to 1,332 million meters per year in 1977/78, exceeding the target of the Second Five Year Plan. This expansion occurred throughout the industry in fibre making, spinning, weaving, knitting, finishing and garment sectors (see Table 18).

Robison has discussed in detail the growing role of national entrepreneurs in the 1970s. General Ibnu Sutowo of Pertamina was an important contributor because he encouraged domestic industrialization. He distributed contracts and business opportunities to indigenous entrepreneurs as a proponent of nationalist economic doctrine who "relied upon maximum but selective use of the power of the state to intervene in the economy." Foreign investment did partly contribute to the expansion of the textile industry. However, its share of total textile investment was much smaller than the domestic share (see Table 19).

Expansion of the domestic investment in textiles, as in other industry, was made possible by abundant cheap credit provided to domestic businessmen by the state-owned banks. These credits were available for importing raw materials and spare parts, and for importing capital goods for new investment. By overpricing capital good imports, businessmen could make their equity capital in the new
Table 18. The Increase of Textile Production in Selected Years 1969/70-1977-78

<table>
<thead>
<tr>
<th></th>
<th>1969/70</th>
<th>1973/74</th>
<th>%</th>
<th>1974/75</th>
<th>1977/78</th>
<th>%</th>
<th>Capacity 77/78</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synthetic fiber</td>
<td>-</td>
<td>6,000</td>
<td>-</td>
<td>-</td>
<td>62,800</td>
<td>76</td>
<td>n.a.</td>
</tr>
<tr>
<td>Yarn</td>
<td>182,000</td>
<td>316,000</td>
<td>14.8</td>
<td>364,000</td>
<td>678,000</td>
<td>23</td>
<td>77.69%</td>
</tr>
<tr>
<td>Weaving fabrics</td>
<td>322</td>
<td>733</td>
<td>22.8</td>
<td>777</td>
<td>1,073</td>
<td>11.4</td>
<td>78.00%</td>
</tr>
<tr>
<td>Knitting fabrics</td>
<td>127.5</td>
<td>193.6</td>
<td>11</td>
<td>196.8</td>
<td>316.8</td>
<td>17.2</td>
<td>69.30%</td>
</tr>
<tr>
<td>Finishing</td>
<td>260</td>
<td>720</td>
<td>29</td>
<td>884</td>
<td>1,128</td>
<td>8.5</td>
<td>n.a.</td>
</tr>
<tr>
<td>Garments</td>
<td>6.8</td>
<td>12.3</td>
<td>16</td>
<td>12.58</td>
<td>14.10</td>
<td>3.87</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

* Yarn is measured in bales, synthetic fiber in metric tons and fabrics, finishing and garments in million of meters.

Table 19. Ratio between Domestic and Foreign Investment, 1967-1974

<table>
<thead>
<tr>
<th></th>
<th>Number projects</th>
<th>Percentage Capital</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic Investment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Total Investment</td>
<td>1,325</td>
<td>100.0%</td>
<td>603,865</td>
</tr>
<tr>
<td>2. Textile Investment</td>
<td>324</td>
<td>24.4%</td>
<td>328,667</td>
</tr>
<tr>
<td><strong>Foreign Investment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Total Investment</td>
<td>434</td>
<td>100.0%</td>
<td>1,004.9</td>
</tr>
<tr>
<td>2. Textile Investment</td>
<td>63</td>
<td>14.5%</td>
<td>634.2</td>
</tr>
</tbody>
</table>

investment relatively small, and the state-owned banks, in fact, financed most of the investment.\textsuperscript{28}

The inclination of President Soeharto to favor nationalist economic doctrine in the First Five Year Plan was reinforced by the emergence of a political concept of a strategic and defence policy which is known as "national resilience" (ketahanan nasional). The idea was initiated and further developed in the LEMHANAS, the Supreme National Defence College. As a retired army general, President Soeharto, of course, was sensitive to the issue of national security, but the integrative concept of national resilience, which wed economic and political development to defense policy, was immediately recognized as a valuable tool not only in Indonesia but throughout Southeast Asia.

The army was concerned about the development of the Southeast Asian region because of several perceived challenges to regional security. In 1968, the British government announced plans to withdraw all military forces from the Far East by 1971.\textsuperscript{29} For Indonesia, this meant that neighboring countries such as Malaysia and Singapore had to defend themselves against communist insurgents. The U.S. withdrawal from Vietnam also left Indonesia unsure of long-term regional stability. Japan continued to strengthen its position as a world economic power. China, accepted as a member of the United Nations in 1971, had emerged as a conspicuous a regional power.
These changes forced Indonesia to reorient policies toward regional security. Some suggest that there were no major external threats, but rather that threats came from within national borders (although these may have been supported from outside).\textsuperscript{30} This was clarified by General Sayidiman, former governor of the Supreme National Defence College, who suggested that

The fact is that all the Southeast Asian nations still have to cope with disturbances which are more less related to subversion from outside. This fact convinces us that the state of security in Southeast Asia not only depends on international relations between super powers and the People's Republic of China, but that in the first place it will be the result of the national strength of each nation.\textsuperscript{31}

In this context, the Defence College developed a concept of "national resilience" implied a principle of self sufficiency under which the state is oriented to preserve its independence. It is clearly discernible in a formal definition of the concept that is the dynamic condition of a nation, including tenacity and sturdiness, which enables it to develop national strength to cope with all challenges, threats, obstructions and disturbances coming from outside --as well as from within the country-- directly endangering the national existence and the struggle for national goals.\textsuperscript{32}

This concept provided a theoretical foundation for policy makers to stress industrialization as a part of enhanced national strength. The concept had a strong influence on economic policy making in Indonesia. For example, the First Five Year Plan, originally oriented by BAPENAS technocrats to raise agricultural production, improve irrigation, and repair the transportation system,\textsuperscript{33} was,
in fact, altered to emphasize rehabilitation of industrial infrastructure in the context of state encouragement of industrialization. In terms of industrial growth, the First Five Year Plan was to have developed industries that support the agricultural sector. In fact, the textile industry, the automotive industries, and other lucrative manufacturing industries such as television developed remarkably.

The textile industry fared well in the import substitution period because the resource constraints were eased by the strengthening of the export sector, specifically by the amelioration of the oil earnings. At this time, policy makers were free to follow the nationalist economic strategies and policies that supporting the expansion of domestic industry.

The Oil Glut and the Export Promotion Period

After 1981 Indonesian policy makers were again confronted by a series of critical economic problems of world recession and declining oil prices, with quick effects on the Indonesian balance of payments and the state budget. This situation reintroduced the crucial resource constraints for policy makers so that they were compelled to re-adjust industrial goals along the lines of the monetarist economic doctrines.

Indonesia's balance of payments had peaked in 1979/80 and 1980/81 as a result of the second "oil shock" in 1979. The oil prices increased in the world market because of the outbreak of the
Iranian revolution which was followed by the Iran-Iraq war. Consequently, a substantial surplus was achieved for Indonesia's current account and over-all balance of payments. For example, the Indonesian current account for 1978/79 was \(-\) (negative) US $1,109 billion, while for 1979/80 and 1980/81, it was \(+\) (positive) US $2,198 billion and US $2,131 billion respectively (see table 4.3). In the next few years, however, a falling international demand for oil and other primary products began to take a toll on Indonesia's export revenues. Foreign exchange earnings from oil and LNG (liquified natural gas) exports, which had almost tripled in 1979/80 and 1980/81, declined dramatically in 1981/82.

The impact of this declining oil revenues was exacerbated by the deteriorating income from non-oil exports, particularly the decline in volume as a result of protectionist devices imposed by advanced countries.\(^{35}\)

The after-effects of the prolonged recession triggered by the second oil crisis of 1979 were more serious for countries exporting primary products than for other nations. There was only slow recovery of prices and demand for primary products, in importer countries such as Japan. There was also sharp increases in external debt of the exporter countries, including Indonesia.\(^ {36}\)

The deterioration of Indonesian non-oil and gas exports is also explained by Thee Kian Wee as caused by the "Dutch disease."\(^ {37}\) The boom in the Indonesian oil sector in 1979 generated two economic effects; a spending and a resource movement effect. The real value
of the rupiah had actually appreciated at the end of the 1970s, but its rise in value had the effect of lowering the competitiveness of Indonesian non-oil and gas products such as plywood, rubber, coffee, and tin in the world market because Indonesian prices were relatively high compared to those of goods coming from other producing countries.

The recovery in demand for crude oil was particularly slow. Crude oil prices declined 15 percent in 1983; the blow to Indonesia as an oil producing country was reflected in the balance of payments (see Table 20). Government efforts to correct the deficit in its balance of payments were not easy because the economy of the advanced countries have not fully recovered from the aftereffects of the world recession in the early 1980s. The markets for Indonesia's traditional products only improve when the economy of the importing countries is expanding so that they consume more.

Another effect of the recessionary export slump was seen in Indonesia's external debt. In pursuing a course of rapid economic expansion in the past, Indonesia had borrowed extensively from foreign countries. During the recession, these accumulated external liabilities suddenly became a heavy burden as the plunge in export revenue combined with worldwide high interest rates. The debt-service ratio in 1982 reached 22 percent of total export value. 38

Rate of growth in Indonesian's Gross Domestic Product (GDP) was 7.6 percent in 1981 but only 4.3 percent in 1982, 39 partly
Table 20. Balance of Trade and Balance of Payments on Current Account, 1981/82-1985/86

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports f.o.b.</td>
<td>22,994</td>
<td>18,672</td>
<td>19,816</td>
<td>19,901</td>
<td>19,221</td>
</tr>
<tr>
<td>Imports f.o.b.</td>
<td>-17,911</td>
<td>-18,496</td>
<td>-16,304</td>
<td>-14,427</td>
<td>-13,573</td>
</tr>
<tr>
<td>Balance of Trade</td>
<td>+ 5,083</td>
<td>+ 176</td>
<td>+ 3,512</td>
<td>+ 5,474</td>
<td>+ 5,648</td>
</tr>
<tr>
<td>Services</td>
<td>- 7,873</td>
<td>- 7,215</td>
<td>- 7,663</td>
<td>- 7,442</td>
<td>- 7,752</td>
</tr>
<tr>
<td>B. of Payment</td>
<td>- 2,790</td>
<td>- 7,039</td>
<td>- 4,151</td>
<td>- 1,968</td>
<td>- 2,104</td>
</tr>
</tbody>
</table>

Source: "Financial Note and Budget Draft for 1986/87", a supplement to the presidential report to the Indonesian parliament, August 15, 1986.
because the worsening of the exports of crude oil coupled with the reduction of prices and demand for Indonesia's major trading commodities. The last point meant the drop of 20 percent (see Table 21) in Indonesia's export earnings from non-oil exports such as timber and rubber.40

The unhealthy performance of Indonesia's export sector and the general sluggishness of the economy as a whole also affected the import sector, where 90 percent of Indonesia's imports were capital goods (not consumer goods) essential to Indonesian industrial development.41

The government was forced to respond to these pressing problems by issuing a set of stringent economic policies. Salaries for all civil servants and the military were frozen for two years. Subsidies for basic commodities such as domestic fuel and food were abolished in January 1983.42 Major government projects were rescheduled to slow implementation and new tax regulations were formulated to raise additional government income. In order to raise revenue from non-traditional sources, the government allowed tourists from 26 countries in Asia, Europe, America and Pacific from April 1, 1983 to enter Indonesia without visa and to stay in the country for up to 2 months.

The government recognized that past reliance on crude oil exports had been shortsighted policy. It encouraged exports by the non-oil sectors, promulgating a package of export promotion policies in 1982. Some of the important provisions were concessionary export
Table 21. The Indonesian Primary Product Exports, 1979-1983.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>rubber</td>
<td>936.8</td>
<td>1,165.3</td>
<td>828.2</td>
<td>602.1</td>
<td>573.8</td>
</tr>
<tr>
<td>tea</td>
<td>83.4</td>
<td>112.7</td>
<td>100.8</td>
<td>89.5</td>
<td>84.6</td>
</tr>
<tr>
<td>tobacco</td>
<td>56.5</td>
<td>58.8</td>
<td>50.6</td>
<td>37.7</td>
<td>34.8</td>
</tr>
<tr>
<td>coffee</td>
<td>614.5</td>
<td>658.3</td>
<td>347.8</td>
<td>343.6</td>
<td>310.9</td>
</tr>
<tr>
<td>palm oil</td>
<td>204.4</td>
<td>254.7</td>
<td>106.9</td>
<td>96.2</td>
<td>81.8</td>
</tr>
<tr>
<td>white pepper</td>
<td>26.1</td>
<td>25.3</td>
<td>25.7</td>
<td>24.7</td>
<td>13.9</td>
</tr>
<tr>
<td>teakwood</td>
<td>15.0</td>
<td>10.6</td>
<td>10.5</td>
<td>11.9</td>
<td>2.6</td>
</tr>
<tr>
<td>wood</td>
<td>1,796.7</td>
<td>1,852.5</td>
<td>873.9</td>
<td>548.2</td>
<td>257.8</td>
</tr>
<tr>
<td>tin</td>
<td>388.9</td>
<td>443.6</td>
<td>460.8</td>
<td>379.2</td>
<td>254.8</td>
</tr>
<tr>
<td>copper</td>
<td>74.5</td>
<td>127.6</td>
<td>128.8</td>
<td>119.6</td>
<td>82.5</td>
</tr>
</tbody>
</table>

a January to September.

credit facilities, export insurance and guarantee facilities, and improved documentation and handling procedures. The export credit facilities were included in the decision of Governor of Central Bank, Bank Indonesia, No. 14 - 65 of 1982. Several measures have also been introduced to liberalize trade and payments systems, including the elimination of certain requirement for opening letters of credit for imports, requirements for advance payments for imports, and the obligation to surrender the proceeds of non-oil exports.43

Another critical policy, widely known as the "counter purchasing" policy, was announced in January 1982. Under this regulation, foreign suppliers winning certain Indonesian government contracts —other than oil and gas— were required to agree to purchase Indonesian non-oil and gas products equivalent in value to the equipment and materials they brought to Indonesia.44 This policy drew harsh criticism from foreign observers who criticized it as impeding the international flow of goods.45

All of these policy changes, however, did not fully resist the external shocks of a US $ 5 per barrel cut in official OPEC prices. Indonesia was forced to devalue the Rupiah by 27.6 percent against the US dollar in March 1983, while at the same time continuing a managed float foreign exchange policy.46

In the domestic textile industry, the market became saturated because of the decline in textile consumption; purchasing power had decreased in a weakened economy. The better of the state of the
economy, the stronger will be the purchasing power and the level of income of the public.

Hendro Martowardjo has also pointed out that contraband textiles were widely available in the domestic market by 1980. Several textile producers such as Hongkong carried out dumping policies to eliminate congestion in their own industries, and Indonesian custom house procedures were weak. About 600 million meters of illegal textiles were available in the market, three times the amount of legally imported textiles. Imports constituted about 20 to 30% of total domestic textile consumption in early 1980, and 90% of the imported textiles entered Indonesia from Singapore through small ports such as Cirebon, Jambi, and Pakan Baru, where importers often colluded with custom house officials to avoid part of the import duty. For example, a high quality fabrics with a check price of US $1.00 per meter was registered only as US $0.40 per meter. These high quality imported textiles entering Indonesia at artificially low rates attacked successfully domestic products.

Congestion in the textile market was also attributable to the over-capacity, at least in a recessionary period. Domestic textile production had increased 13.6% per year from 1975 to 1980, while domestic consumption had risen only 4.5% per year.

Officials of the Ministry of Industry argued that the slowdown in the Indonesian textile industry in the early of 1980s brought about by a number of factors, among others, the aftereffects of the
world recession, the shifting of the popular taste, the fact that new textiles lasted longer because of new technology, and the lagging behind in the parts of the industrialists to modernize its equipment.51

Textile industrialists—among others Frans Seda, former Minister of Finance—asked government help in modernizing plant and equipment to increase efficiency and competitive ability.52 They integrated their demand in a "restructuring" program, which would, according to Frans Seda

to enable the textile industry to keep up its momentum with more balance between sub-sectors, between the large and the small; and with more efficiency, effectiveness and high competitive ability in both the domestic and foreign markets.53

This issue will be discussed in more detail in Chapter VI. They sought cheap credits in the amount of US $ 400 million to enable them to modernize their factories, but government rejected the request because of budget difficulties. Many of the larger mills were already burdened by debts incurred to expand their factories during earlier years when domestic demand was high. In fact, such liabilities became burdensome in the slowdown of situation textile market.54

The Ministry of Industry tried to give some help to the textile industry by pursuing an "adopted father system," sistim bapak-angkat. Under this system, large-scale companies were asked to assist smaller companies by distributing raw materials to them and buying their products. PT Industri Sandang I and II, state
enterprises under the control of the Ministry of Industry, were instructed to implement that policy, which was imitated by a number of private enterprises such as PT Unitex and PT Elsa Maju. Nevertheless, the government still faced a dilemma in 1983 due to the continued worsening of its balance of payments. It did not want to see the collapse of the textile industry because of market glut, but its chief concern was improvement in Indonesia's balance of payments, which—if uncorrected—might have done even more long-term harm to the textile industry. The Indonesian textile industry had already been hurt by the devaluation policy of March 1983: prices for imported cotton and other intermediate goods from abroad had suddenly increased. The devaluation pushed cost of textile production higher, but the price of finished textiles could not be increased because of the weakening of the public's purchasing power.

This problem generated conflict within the textile industry itself. Drs. Frans Seda, the new chairman of the Indonesian Textile Association (API), acknowledged that "a sense of solidarity among the members of API is difficult to preserve." The problem was created by the spinners who increased the price of cotton yarn. According to the chairman of the Indonesian Spinners Association, Musa, this was generated by a policy of restructuring of costs of production. Moreover, Musa further explained that the Indonesian spinners did sell their yarns with prices that were below the break even point before the devaluation took place. After devaluation, the
prices of yarns were adjusted by the spinners. For example, the price of polyester cotton yarn number 45 was Rp. 475,000.00 per bale in May 1983, but it rose to Rp. 600,000.00 per bale by September 1983.57

The new yarn prices was harshly criticized by the weavers. Drs. Kusnaeni, the chairman of Indonesian Weavers Association, suggested that the price increase for yarn should be delayed because it "would incapacitate the Indonesian weaving industry."58 The spinners responses was "why did the weavers not buy yarns from the Indonesian spinners when they were facing a difficulty selling yarn some time ago?"59.

Despite its concern, the government had limited capacity to intervene in the economy due to the shortage of funds. The monetarists at Bappenas enjoyed new influence, and they believed that industrialization must be subordinated to the attainment of external payments balance.60 Global recession coupled with the worsening of the crude oil exports had enlarged Indonesian's current account deficit, therefore, according to the monetarists, domestic adjustments must be made by the government.

In the wake of a minimum domestic savings and the slowdown of the oil sector, President Soeharto has listened to the proponents of the monetarist economic doctrine who favored efficiency and free trade, because he does not have any source of funds that would enable him to take alternative actions. The need for huge amounts of money to finance the development influenced him to emphasize the
export of the non-oil goods. This trend has been evidenced by a series of Presidential policies such as a Presidential Instruction No. 4 of 1985 to hire SGS in replacing a part of custom house duties, the enunciation of a package of economic policies dated May 6, 1986 (PAKEM), the promulgation of a package of economic policies on October 25, 1986, the announcement of a Presidential Guidelines on efficiency in December 1986 and a package of 15 January 1987's policies.

It is plausible to say that the changing of the state of the economy from time to time influenced the shifting of the Indonesian textile policy. The problems on balance of payments as well as the state budget constituted the constraints to the policy makers. These constraints were eased when Indonesia experienced a healthy economy caused by the amelioration of the price of crude oil in the world market or the improvement of the markets of its other traditional exports. At this time, the policy makers enjoyed their freedom to formulate their favoring industrial policy.

Policies of economic development in Indonesia always carry strong overtones of political development, in recognition of the real-life intermingling of the two. President Soeharto's stabilization and consolidation strategy in the 1960s and the "national resilience" scheme of later years are concrete examples. Moreover, economic policy making in Indonesia remains heavily constrained by world prices and demand for several basic export commodities, most conspicuously oil, in the last two decades. The
next chapter will focus specifically on how international variables have influenced textile policies in Indonesia.

Notes for Chapter IV


2. Ibid.


11. Ibid, p. 10


16. Ibid, p. 7


23. Suryadinata and Siddique (Eds.), *Op cit*, p. 148


32. Ibid.


37. See Thee Kian Wie, Menanggulangi 'Penyakit Belanda': Ekonomi Indonesia Setelah Berakhirnya Boom Minyak Bumi, a LEKNAS-LIPI paper, Jakarta, p. 3-9.

38. See Awanohara, Op cit.


40. Ibid.


42. Ibid.

43. Mangkusuwondo, Op cit, p. 6

44. Ibid, p. 6


46. See Awanohara and Habir, Op cit.


52. Seda(1985), *Op cit.*, p. 5B


54. Interview with Drs. Ian Daskian, on July 31, 1986.


CHAPTER V
THE EXPORT PHASE AND INTERNATIONAL VARIABLES

This chapter examines the international context of Indonesian textile production, particularly the effect of the Multifibre Arrangement (MFA) on world textile trade and the protectionist policies of the textile importing countries. It argues that international variables influence the formulation of Indonesian governmental policy on textile exports. In the absence of foreign import restrictions or other international pressures, Indonesian policy makers try to bolster non-oil and gas exports, including textiles due to the unreliability of the exports of primary products, particularly oil. That policy, however, is discarded when there is forceful reaction or inevitable pressure from the importing countries, usually in the form of invocation of the MFA.

At some times, international variables may have a positive impact on Indonesian textile exports, if other countries' exports (e.g., Japan's or Hongkong's) are restricted by the importing countries. Indonesian policy makers are then encouraged to formulate export promotion policies that try to take advantage of available international markets.

This proposition will be validated by prominent facts of which the systems of the export certificates and the export credits were eventually abandoned by the Indonesian government after lengthy
pressures from the importing countries, particularly the United States. These incentive systems were, actually, instrumental in boosting the Indonesian textile exports since 1978 because they bridged the domestic price disparity so that Indonesian textiles became competitive in the world market. The birth of the incentive systems was induced by the growing market for Indonesian products when textiles from Hongkong, Japan, and Taiwan were restricted by the major textile importing countries.

Discussion of international variables includes the incentives provided by the Indonesian government to promote exports, the MFA and its regulations, protectionist pressures from the importing countries (especially the United States), and adjustments by the Indonesian government to the MFA and other countries' protectionism.

**Government Incentives and Textile Export.**

Two important incentives, offered by the Indonesian government—export certificates and export credits—have encouraged the domestic textile industry to export its products. Indonesia began to export textiles long before the incentives were formulated, but volume was limited. For example, Indonesia's textile export reached US $ 568,200.00 (382,850 kgs) in 1968 (see Table 22). The expansion of the Indonesian textile exports was closely connected to the improvement of the textile industry in the form increasing the operating capacity of the industry. The exports included grey fabrics, yarn, batiks, and recently garments or apparels.
Table 22. The Indonesian Textile Exports, 1968-1980

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume in kilogram</th>
<th>Value in US $ (f.o.b. price)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>382,850</td>
<td>568,200</td>
</tr>
<tr>
<td>1969</td>
<td>542,300</td>
<td>774,320</td>
</tr>
<tr>
<td>1970</td>
<td>588,600</td>
<td>1,334,100</td>
</tr>
<tr>
<td>1971</td>
<td>561,170</td>
<td>1,226,200</td>
</tr>
<tr>
<td>1972</td>
<td>604,350</td>
<td>1,796,068</td>
</tr>
<tr>
<td>1973</td>
<td>975,260</td>
<td>3,916,910</td>
</tr>
<tr>
<td>1974</td>
<td>1,079,889</td>
<td>4,994,000</td>
</tr>
<tr>
<td>1975</td>
<td>1,481,854</td>
<td>4,389,003</td>
</tr>
<tr>
<td>1976</td>
<td>1,992,447</td>
<td>7,487,724</td>
</tr>
<tr>
<td>1977</td>
<td>1,827,154</td>
<td>7,866,097</td>
</tr>
<tr>
<td>1978</td>
<td>4,651,439</td>
<td>20,951,579</td>
</tr>
<tr>
<td>1979</td>
<td>13,700,803</td>
<td>117,872,711</td>
</tr>
<tr>
<td>1980</td>
<td>17,656,852</td>
<td>135,933,945</td>
</tr>
</tbody>
</table>

Exports also expanded significantly in mid 1970s, when importers had restricted the inflow of textiles from Hong Kong, South Korea, and Taiwan but not yet Indonesia. Asyik Ali, Special Assistant to the Minister of Trade, pointed out that the Multifibre Arrangement (to be explained in detail below) was a major factor in facilitating Indonesian exports when these initially penetrated the textile world market.

When the United States and the member countries of the European Common Market (EEC) imposed quantitative restrictions on traditional textile exporters, representatives were sent to Indonesia to motivate local businessmen to supply their market. Indonesia, according to Asyik Ali, was categorized as a "new entrant" and a "small supplier," specially treated by the MFA. Concomitantly, Indonesia was able to sell its textile products to the United States, members of the EEC, Japan, Canada, Austria, Sweden, Switzerland, Middle Eastern countries, and Hong Kong, where cumulative shipments represented only 0.5 percents of these nations' total textile imports.

The Indonesian government began to provide incentives to exporters in 1975, in order to encourage export oriented industries and to enable Indonesian products to compete in the world market. At that time, a "customs duty draw-back system" was implemented under which all import duties paid for raw materials or intermediate goods used to produce export goods were returned to the exporters.
Such reimbursement of duties help to boost Indonesian textile exports by more than 100 percent (table 22).

The expansion of textile exports was further stimulated by an "export certificate" system and the lowering of interest rates for export credits (Kredit Ekspor) enunciated by the Ministry of Trade following the devaluation of the rupiah in November 1978. Export certificates were actually a further refinement of the customs duty reimbursement applied in 1976. Because this certificate could be either used for tax payments or converted to cash, it became an attractive incentive for exporters.

The new system was regulated in the form of the decision of Minister of Finance (434/KMK.01/78) dated 15 November 1978. A number of imported items were granted export certificates based upon a percentage of check prices determined by the Tim Harga Patokan Sertifikat Ekspor, an inter-ministerial team for determining check prices for imported items that are used in the production of exported goods. This team was composed of officials from the Ministry of Trade, the Ministry of Industry, and the Ministry of Finance.

The value of Indonesian textile exports grew very rapidly in 1979-1980. For example, textile exports reached US $ 7,700,000.00 in 1977, and came to US $ 18,300,000.00 in 1978, US $ 99,300,000.00 in 1979, and US $ 134,800,000.00 in 1980 (see Table 22), partly as a result of these incentives. The government provided more than 65 billion rupiahs in the forms of export certificates between 1979 and
1982, and textile exports represented 90 percent of the total value of export certificates.\(^3\)

The export certificate system, however, was criticized by the United Nations Development Programme (UNDP) and the United Nations Industrial Development Organization (UNIDO), who made a study of it in Indonesia. Their experts did not see it as a good long-term policy because it would harm the industry in the future. They stated that

Basically it must be recognised that the system of Export Certificates, which is in principle a measure to compensate the local textile manufacturer for higher costs of raw materials and accessories which have to be imported, should not be deemed to be a cure and that it is only a palliative. Otherwise it runs the risk of placing a premium on inefficiency and becoming a bar to managements making the necessary efforts to reduce their production costs.\(^4\)

The certificate system was in fact manipulated by some exporters who contrived to open new companies in Singapore, Malaysia, Hongkong, and Taiwan to import textiles from Indonesia, and then over-valued invoices or falsified the type of exported goods.\(^5\)

The Minister of Trade and Cooperatives, in a letter (105/M/II/83) dated 28 February 1983, issued new regulations of export certificates to minimize manipulation. These, among other things, required that a surveyor report made by PT. SUCOFINDO, an authorized surveyor, and that the export payment should be arranged through an Irrevocable Letter of Credit or a sight draft L/C in the amount of the actual value of the exported items.
The export certificate did affect the structure of Indonesian textile exports. For example, men's jeans were given a certificate of 41% on a check price of US $100.00 per dozen. There was a rush to produce this item among many ready-made garment manufacturers, with a consequent limit on diversification into other product lines in garments, contributing to the creation of critical situations that have arisen with the United Kingdom and the United States.6

To some textile industrialists, the export certificate was extremely important, particularly in the framework of the promotion of non-oil and gas exports. One prominent industrialist stated that he "views textile export activity as a part of the attainment of national objectives. Accordingly, it is not only a matter for textile industrialists, but it is a major concern for all of us."7 Government spending in support of the export certificates, according to another prominent industrialist, was balanced by the advantages of foreign exchange derived from those exports.8 With regard to the congestion of textile markets (fabrics and yarns) in the early 1980s, he further mentioned that increasing the percentage of the export certificates would provide a suitable solution to the problem. In essence, the success of the promotion of non-oil and gas exports, they said, depended on the continuity or the improvement of the export certificate system. Accordingly, the government tried to use the system to preserve export momentum.

In this spirit, Asyik Ali, who was also the chairman of the check price team, projected publicly an export target of US $ 500
million for the first year of the Fourth Five Year Plan, reaching 8.26% of the projection of the total value of non-migas exports in 1984/85 or 20.39% of the estimation of the total value of manufactured exports for the same year. This enthusiastic target exceeded the formal projection of the Team Teknis Produk Ekspor Hasil Industri Panitia Kerja Tetap Peningkatan Eskpor Non-Migas, an inter-ministerial team for the promotion of non-oil and gas exports, led by Drs. R.A.R. Soerianata Djoemena, the Director of The Textile Industry in the Ministry of Industry. The team was composed of officials from the Ministry of Industry, the Ministry of Trade and Cooperatives, and the Ministry of Finance.

The team has targeted the textile exports in the form of yarn, knitting fabric, weaving fabric and garments for 1984/85, 1985/86, 1986/87, 1987/88 and 1988/89 will be 38,240 metric tons of textiles in the amount of US$ 373,650,000.00; 39,700 metric tons in the amount of US$ 316,750,000.00; 40,300 metric tons with a value of US$ 331,800,000.00; 46,450 metric tons worth US$ 412,000,000.00; and 52,500 metric tons in the amount of US$ 447,250,000.00 respectively.

This reflected the optimism or a high expectations on the part of government officials with respect to the prospect for textile exports. The decision of President Soeharto to stimulate the non-oil and gas exports seemingly had imbued officials to seek ways to enhance Indonesian exports. This was shared by textile industrialists and textile exporters who enjoyed the fruits of the
export certificate system. Thus, they were reluctant to respond to criticism of the export certificate system as expressed by experts from UNDP and UNIDO.

The scope of export certificates was enlarged. There were 34 categories of textiles and 23 categories of non-textiles included in the system in 1979. These categories were expanded to 227 for textiles and 174 for non-textiles in 1980, and then to 527 and 262 in 1981. It is clear that textiles dominated non-oil and gas exports.


The dramatic expansion of Indonesian textile exports to the United States, according to a report by the US Embassy in Jakarta, was attributable to three major factors. First was the excess number of plants producing low quality raw textiles, much in demand by American textile finishers because of their low cost. Second was the effects of restrictive systems established under the MFA, which places quotas on established, more efficient producers, thus reserving import expansion to newer producers not yet limited by quotas. (See the discussion below of the MFA). Third was the
overvalued US dollar, which created sharply increasing domestic demand for relatively cheap imported textiles.

**Foreign Reactions to Indonesian Textile Exports**

The flow of Indonesian textile exports has not been received unquestioningly by the importing countries. Textile manufacturers within these countries have fought the competition from Third World nations. This reaction was seen first in Australia in April 1975, with heavy losses for Indonesian exporters.

To protect its domestic industry the Australian government imposed a ceiling on garments entering from elsewhere in the world. This import restriction policy was called the "globalization" policy. Imported garments below the ceiling were processed with normal import duties, but, those exceeding the ceiling were assigned a surcharge of US$ 20.00 per kilogram.14

The volume of garments below the ceiling was also regulated by a quota allocation system, that distributed volume among Australian importers based upon past performance. The problem for Indonesia was that none of the Australian importers bringing garments from Indonesia had "a past performance" record because imports from Indonesia were just beginning. As a result, large quantities of Indonesian textiles could not be unloaded because importers had not received a quota from the Australian government.

The Indonesian Embassy in Canberra as well as the Indonesian Consulate General in Sydney could do little to relieve the situation
of because Indonesia had not yet acceded to the MFA which settles most textile disputes between importers and exporters. This disadvantage did not become a public issue in Indonesia at the time because vigorous promotion of non-oil and gas exports had not yet been undertaken by the government. The government learned a significant lesson from this bitter experience by considering the MFA as a tool for the expansion of Indonesian textile exports.

Eventually, in 1978, Indonesia became a member of the MFA to facilitate its growing textile exports. It was influenced to join the MFA in order to enjoy more orderly relations in world textile trade and to avoid a repeat of the bitter experience in Australia. Also, it sought to expand opportunities for Indonesian textile exports through its status as a "small supplier" and a "new entrant." The MFA has as its basic objectives to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products, while at the same time ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of productions in both importing and exporting countries.

By 1980, however, only two years after Indonesia joined the MFA, the United Kingdom invoked "disruption" provisions to restrict imports of Indonesian textiles. Three categories of Indonesian goods including blouses were brought under the quota. Indonesian exporters were surprised, as were government officials. They knew that the total value of the world textile trade was about US$ 100 billion in
1980, and that the Indonesian market share was the lowest among MFA members, approximately 0.37 percent.\textsuperscript{17}

Indonesia retaliated by rejecting imports of all British goods, including aircraft. In this case, the United Kingdom appeared equally surprised by the Indonesian reaction. Indonesia was in a strong bargaining position because it was a valuable outlet for British goods.\textsuperscript{18} The crisis was resolved by formulating a quota acceptable to both parties. To avoid such dispute in the future, an Indonesia-England Joint Working Party was created among private businessmen from both countries.

The settlement between Indonesia and the United Kingdom was formalized in a bilateral agreement was signed in 1981. Similar bilateral agreements were made between Indonesia and Sweden, Canada, and the United States, but the Indonesia-U.S. agreement was complicated by growing protectionistic sentiment in the United States, as discussed later.

\textbf{The MFA and Its Protectionist Principles.}

To understand the principles and standards of the world textile trade under the MFA—standards partly different from those of GATT—it is useful to review the emergence of the international regime in textile trade which "illustrates the competing forces of liberalism and protectionism at work."\textsuperscript{19}

In 1950, the textile and apparel industries in the United States, Canada, and Western European countries were worried by the quick recovering of the Japanese textile industry after the war and
by growing Japanese textile exports. The GATT principles that ruled world trade after World War II were perceived as insufficient to protect the interests of the United States' and other Western countries' textile industries. By 1954, the United States industry began to demand protective devices.20

Vinod K. Aggarwal in his book, Liberal Protectionism, described the domestic political structure in the United States as a determinant of the international regime of textile trade under which the U.S. government is relatively weaker than the private sector. While the US government disperses its power over the legislative, judicial, and executive branches. The textile and apparel industry has developed powerful political organizations since 1950 in the American Textile Manufacturers Institute (ATMI) and the American Apparel Manufacturers Association.21

A voluntary export restraint (VER) on cotton textiles by the Japanese for during 1957-1961 was the first result of industry pressures and negotiations between the United States and Japan. The United States textile industry then demanded that this agreement be extended to other textile producers such as Hongkong, which hoped to take up Japan's lost share of the U.S. market.

Under President John F. Kennedy, who vowed to help the American textile and apparel industry, the United States next sought a multilateral framework. A multilateral strategy was supported by the Japanese, who feared that Hongkong, Taiwan, India, and other countries would invade its export market. A Short-Term Agreement
(STA) on cotton textiles 1961 was followed by the Long-Term
Arrangement Regarding International Trade in Cotton Textiles (LTA)
in late 1962. The LTA was renewed in 1967 and 1970. It lasted until
1974, when the Multifibre Arrangement (MFA) became effective.

Initially, the MFA was intended to foster "orderly" adjustments
by the developed countries to the changing market and to relieve the
pressures of protectionism."²² On the contrary, it has encouraged
a pervasive protectionism among importing countries by providing a
channel for restrictive bilateral agreements.

The MFA, although negotiated under the auspices of the General
Agreement on Tariffs and Trade (GATT), deviates from GATT rules in
two important respects. First, it allows selective protectionist
practices against products from countries causing "market
disruption". Second, it allows the imposition of quotas on textile
and apparel products subject to its coverage without compensation.
These have distorted the international textile trade even though the
principles advocated by the MFA are designed to be beneficial to
both the exporting countries and the importing countries."²³
"Adjustment objectives" in the MFA are supposed to encourage
businesses that are less competitive internationally to move
progressively into more viable lines of production.²⁴

Problems with the MFA's definition of market disruption are
discernible in Annex A of the agreement.

The determination of a situation of "market
disruption" ... shall be based on the existence of a
serious damage to domestic procedures or actual threat
thereof. Such damage must demonstrably be caused by
the factors set out in paragraph II below (a sharp and substantial rise in volume from particular sources and prices which are substantially below prevailing market prices, these appearing generally in combination)...

The existence of damage shall be determined on the basis of an examination of the appropriate factors having a bearing on the evolution of the stage of the industry in question such as: turnover, market share, profits, export performance, employment, volume of disruptive and other imports, production, utilization of capacity, productivity and investments. No one or several of these factors can necessarily give decisive guidance.

Disputes between exporters and importers normally originate from the bilateral agreements that deviate from the principles of the MFA. The protocol of MFA II provides a "reasonable departure" clause that allows such deviation. The textile exporting countries that have repeatedly voiced their objections to this clause in the consultative meetings in Seoul, Mexico, Karachi, Jakarta, and Geneva. The issue became more complicated when the United States announced in December 1983 that it was establishing criteria outside the existing measures of market disruption. The new approach rested on the framework of the "basket exit mechanism" also included in the protocol of MFA II. The importing countries insisted firmly that the mechanism should be included in their bilateral agreements, and members of the EEC threatened in 1977 that they would not commit themselves to MFA II unless the mechanism was approved by all members.

Under this new criterion created by the United States, a presumption of market disruption would be indicated if the growth of imports in category of product from that
country exceeded 30% in a year, or if the ratio of imports to domestic production in the category or product was 20% or more, and if imports from the individual supplier country in the category or product was equal to or greater than one percent of U.S. production of the product.27

This criterion affects Indonesia and other countries classified as "small suppliers" and "new entrants." The presumption of market disruption is becoming more and more widely used by United State's policy makers to restrain imported textiles. The MFA was extended in 1981 and again in 1986, but representatives of exporting countries have called for a return to the GATT rules under which fundamental principles such as most favored nation status, comparative advantage, prohibition of quantitative restrictions, and differential treatment in favor of developing countries would be given priority.28

Even though the existing arrangement restricts their products significantly, Indonesia and the other developing countries are still able to penetrate the markets of the advanced nations under the MFA. The developing countries see a danger that elimination of the MFA might let advanced countries individually close their markets or at least force a new series of negotiations with the exporters. This would be costly, and during any unregulated period the developing countries could suffer new disadvantages. Thus Indonesia and the other developing countries agreed to renew the MFA last year.
U.S. Pressure to Abolish Indonesia's Incentive System

Indonesia has been one of the United States' most important bilateral connections in Southeast Asia since President Soeharto came to power. The United States has been one of the leading nations in assisting Indonesian development and a major source of capital, technology, and training, as well as an important trading partner. In the words of former US ambassador to Indonesia John Holdridge, the United States is "a major purchaser of Indonesian products and US investment assists Indonesia's development, not only through infusion of capital but also in enhancing employment opportunities and transfer of technology." 29

The external policies of any country, however, are highly related to its domestic situation. The US administration has recently been confronted with a series of domestic economic problems, particularly deficits in its trade and federal budget, that have resulted in political pressure for protectionist policies. Trade deficits have become a sensitive political issue within the U.S. A nationwide poll in mid-1986 demonstrated that 69 percent of the U.S. people blamed foreign trade for losses of jobs, while 70 percent favored imposition of trade restrictions. 30

The developing countries, including Indonesia, would be direct victims of protectionist policies in the U.S. Ambassador William Eberle, former U.S. Trade Representative, points out that the United States takes 64 percent of the exports of developing countries, whereas the European community takes only 25 per cent and Japan an
insignificant 8 percent. U.S. trade deficits with Indonesia, however, were relatively small compared with its deficits with Japan, South Korea, Brazil, and Taiwan. In recent years, deficits with Indonesia were less than US $ 5 billion including oil imports (Table 23).

The United States persuaded most developing countries that produce textiles and apparel to accede to the latest renewal of the MFA, by stressing the benefits of the arrangement. U.S. diplomatic missions were instructed to induce countries to sign the MFA. In addition, U.S. trade representatives visited many developing countries, including Indonesia, to obtain similar agreements. This strategy was aggressively pursued after President Reagan was elected in 1980.

The U.S. diplomatic initiative was not at first strongly opposed by the developing countries because they were impressed by the political statements of President Reagan, who favored conservative themes in support of free trade.

Indeed, the MFA does contain explicit objectives that favor the developing countries in industrialization and in enhancing their balance of payments:

A principal aim in the implementation of this Arrangement shall be to further the economic and social development of developing countries and secure a substantial increase in their export earnings from textile products and to provide scope for a greater share for them in world trade in these products. 32

In fact, however, the United States conducted negotiations with Hongkong, Korea, and Taiwan as soon as the MFA was extended. Highly
Table 23. The U.S. Balance of Trade with Indonesia, 1979-1984

<table>
<thead>
<tr>
<th>Year</th>
<th>US imports</th>
<th>US exports</th>
<th>Deficits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>3,620,616.00</td>
<td>981,500.00</td>
<td>2,639,115.00</td>
</tr>
<tr>
<td>1980</td>
<td>5,182,474.00</td>
<td>1,545,100.00</td>
<td>3,637,374.00</td>
</tr>
<tr>
<td>1981</td>
<td>6,022,361.00</td>
<td>1,297,028.00</td>
<td>4,725,333.00</td>
</tr>
<tr>
<td>1982</td>
<td>4,224,156.00</td>
<td>2,016,545.00</td>
<td>2,207,611.00</td>
</tr>
<tr>
<td>1983</td>
<td>5,284,500.00</td>
<td>1,460,433.00</td>
<td>3,824,067.00</td>
</tr>
<tr>
<td>1984 (up)</td>
<td>2,551,031.00</td>
<td>674,884.00</td>
<td>1,876,147.00</td>
</tr>
<tr>
<td>to June</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: The Indonesian Embassy, Washington, DC.
Protective bilateral agreements were concluded with these three countries, whose economies depend heavily on textile exports. Import restrictions were made possible by the provision of allowing import practices to deviate from "normal openness" and to hold growth of imports below the six percent level under "reasonable departure" clause of MFA II.

The above agreements also included a consultation call mechanism permitting the United States to establish quotas on uncontrolled categories of textile or apparel. As a result, 75 percent of the imported textiles and apparel from Taiwan, 95 percent of these from Hongkong, and 92 percent of those from Korea are under quota. These agreements were soon followed by a bilateral agreement between the United States and the People's Republic of China. There was a clearly discernible conflict between President Reagan's inclination to free trade and the protectionism advocated by members of the Congress.

Since 1981, the United States has become more aggressive, frequently taking unilateral actions without advance consultation. In 1981, the United States imposed quotas on 18 categories of textiles from 5 countries. These increased to 38 categories from 8 exporting countries in 1982, and to 113 categories of textiles from 20 supplying countries in 1983.

In addition, the United States has installed non-tariff barriers beyond those specified by the MFA. The promulgation of new country of origin regulations is a significant example: regulations changed
the definition of "substantial transformation" of products in multi-country processing to shift the origin of these products from countries where an adequate quota was available to countries where an adequate quota was not available. Furthermore, regulations require "country of origin declarations" to provide detailed cost information with all textile entries, which means disclosure of the most secret part of private business, i.e. cost structure. Moreover, the United States in December 1986 declared a limit on the textiles that were previously embargoed. This has restrained the imports of certain popular categories of textiles. The U.S.—which had taken 64 percent of Indonesia's apparel exports in 1984 applied the same formula to the Indonesian goods, which seriously affected the Indonesian textile exports to the United States. The critical nature of this situation was elaborated by former US Ambassador to Indonesia Edward E. Masters who stated that:

"Certain trade items are particularly sensitive in the U.S., while at the same time being economically important in Indonesia."  

Indonesia had signed its first bilateral textile agreement with the United States in 1982. Later, the United States requested consultations with respect to 23 different categories such as 340 (cotton shirts, not knit), and category 347/s (cotton trousers, slacks, and shorts) within three years. In response to those requests, there were six consultative meetings in 1982 through 1985. United States import restrictions had resulted in embargos on textile imports from Indonesia in 13 categories on the
assumption by the United States that "market disruption" had occurred and that Indonesia could no longer be considered as a new entrant in the market. In fact, Indonesian textile exports to the United States were still less than 1 per cent of total U.S. textile imports (Table 24).

The inability to establish further textiles exports defeated the high expectations on the part of Indonesia for promoting its non-oil and gas exports. For example, Musa, an executive of the Indonesian Textile Association, stated in Tempo that the textile export value of 1984 was about US $ 274 million. He explained that

if we did not have the problem of protection from the United States, we would have accomplished the target of US $ 350 million for 1984.*37

This situation confused Indonesian policy makers. On the one hand, Indonesia was suggested to direct its industry toward the export oriented production. On the other hand, Indonesian export markets were closed. Minister of Trade Rachmat Saleh articulated Indonesian frustration

When developing countries borrow capital for their development, they will without doubt be advised to orient themselves for exports. Banks, international institutions, and notably foreign governments will advise them to do so. But what is happening now? They close their markets, they impose tariff barriers as well as quotas...what balance of payment problems will be faced by the newly developing countries in years to come?38

The new Trade and Tariff Act of 1984 had influenced the US Trade Representatives to become more demanding of the textile exporting countries, including Indonesia. The situation became more

<table>
<thead>
<tr>
<th>Country</th>
<th>Textiles (including yarn) total</th>
<th>Garments total</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>imports</td>
<td>Indonesia</td>
<td></td>
<td>imports</td>
</tr>
<tr>
<td>E.E.C.</td>
<td>8,401,130</td>
<td>6,260</td>
<td>0.07</td>
<td>9,609,620</td>
</tr>
<tr>
<td>The U.S.</td>
<td>2,140,600</td>
<td>1,070</td>
<td>0.04</td>
<td>6,267,660</td>
</tr>
<tr>
<td>Japan</td>
<td>1,235,720</td>
<td>1,340</td>
<td>0.11</td>
<td>1,322,590</td>
</tr>
<tr>
<td>Canada</td>
<td>1,252,800</td>
<td>100</td>
<td>0.01</td>
<td>653,400</td>
</tr>
<tr>
<td>Austria</td>
<td>1,124,590</td>
<td>60</td>
<td>0.01</td>
<td>852,670</td>
</tr>
<tr>
<td>Sweden</td>
<td>924,680</td>
<td>20</td>
<td>-</td>
<td>1,229,290</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1,102,720</td>
<td>20</td>
<td>-</td>
<td>1,235,410</td>
</tr>
</tbody>
</table>

complicated for Indonesia after the U.S. Textile Association issued a petition in mid-1984. Indonesia was accused of disrupting the textile market in the United States, because its textile industry has been subsidized by several means, such as cotton being supplied through state enterprises, the low interest rates provided for export credits, and the export certificate system. Among the eleven points, export credits and export certificates were considered the most important ones. The United States made a series of surveys to find evidence. Some officials were sent to Indonesia on fact finding missions. However, they just could only identify two wrongdoings among the eleven points, i.e. the export certificate system and the export credit facility. These points were used by the United States to threaten to impose a countervailing duty of between 20 to 40% on the import value of Indonesian textiles. At the time, Indonesia needed foreign exchange badly because its oil revenue was declining. Moreover, the U.S. had become Indonesia's primary export market for textiles (Table 25), and the U.S. (unlike the U.K. in 1980) could afford to be unbending in its demands.

Under a bilateral agreement with the United States, Indonesia chose to accept GATT codes on subsidies in March 1985 so as to avoid countervailing duties imposed by the U.S.; its export certificate would be eliminated in April 1986 in favor of a direct tax rebate scheme, and export credit facilities were to be eradicated step by step before April 1990. In June 1985, Indonesia signed another bilateral agreement limiting its textile and apparel exports to the
Table 25. Indonesian Textile Exports to Major Markets, 1979-1984

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Exports</th>
<th>USA</th>
<th>EEC</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In million US$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>117.8</td>
<td>6.6</td>
<td>25.6</td>
<td>10.2</td>
</tr>
<tr>
<td>1980</td>
<td>114.1</td>
<td>8.7</td>
<td>47.1</td>
<td>8.7</td>
</tr>
<tr>
<td>1981</td>
<td>131.5</td>
<td>41.1</td>
<td>33.2</td>
<td>7.3</td>
</tr>
<tr>
<td>1982</td>
<td>160.9</td>
<td>62.5</td>
<td>39.9</td>
<td>10.1</td>
</tr>
<tr>
<td>1983</td>
<td>271.2</td>
<td>85.1</td>
<td>54.1</td>
<td>23.1</td>
</tr>
<tr>
<td>1984</td>
<td>484.1</td>
<td>234.4</td>
<td>68.1</td>
<td>15.1</td>
</tr>
<tr>
<td></td>
<td>In percent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>100</td>
<td>5.6</td>
<td>21.7</td>
<td>8.7</td>
</tr>
<tr>
<td>1980</td>
<td>100</td>
<td>7.6</td>
<td>41.3</td>
<td>7.6</td>
</tr>
<tr>
<td>1981</td>
<td>100</td>
<td>31.3</td>
<td>25.2</td>
<td>5.6</td>
</tr>
<tr>
<td>1982</td>
<td>100</td>
<td>38.8</td>
<td>24.8</td>
<td>6.3</td>
</tr>
<tr>
<td>1983</td>
<td>100</td>
<td>31.4</td>
<td>19.9</td>
<td>8.5</td>
</tr>
<tr>
<td>1984</td>
<td>100</td>
<td>48.4</td>
<td>14.1</td>
<td>3.1</td>
</tr>
</tbody>
</table>

United States to a maximum of 285 million square yards. A number of categories of textiles were put under quota.

Domestic textile industrialists reacted harshly to American pressure, as was reflected in strong comments made by some prominent members of API in a press conference held on June 7, 1985. The chairman of API publicly pointed out that "it is difficult for Indonesia to rely on promises made by the United States. It has frequently taken unilateral actions regardless of commitments that have been made in advance." Implicitly, they were dissatisfied with Indonesian diplomacy on textiles, and demanded that the Indonesian government continue to negotiate for a better market share in the United States, using political pressure if necessary. Private industry tried the tactic of refusing to receive a U.S. cotton-selling mission scheduled to visit Indonesia in July 1985 for three days. Although Indonesia had imported circa 60 percent of its annual cotton imports from the United States in 1982-84, the absolute amount was only a small percentage of total cotton production in the United States, so the tactic put little if any effective pressure on Washington.

The U.S. Textile and Apparel Enforcement Act of 1985, known as the "Jenkins Bill", brought new apprehension among Indonesian textile exporters. Congressman Jenkins, on behalf of 127 members of Congress, proposed to provide protection to the United States textile industry by defining a "major exporting country" as any country, other than a Caribbean Basin country or Mexico, whose
exports account for 1.25 percent or more of all textile products imported into the United States. Such countries would be limited to one percent annual increases in textile exports to the U.S. with 1980 as a base year. If this bill had been accepted, textile imports from Indonesia would have been cut 72 percent from 1984 levels.\textsuperscript{42}

In reaction to the bill, a demonstration, organized by laborers who work in the textile industry and supported by API, took place in front of the embassy of the United States in Jakarta.

The threat of the Jenkins Bill was apparently used by U.S. negotiators in June 1985 to press Indonesia to accept an agreed annual limit on exports to the U.S. and to include ramie (the fiber of an Asian perennial plant) in the agreement. The Reagan administration opposed the Jenkins Bill, and would eventually veto it, but it is said, in minutes of the negotiation, that the US delegation tried to include the principles of the bill in bilateral agreements to convince Congress that there was no need for the legislation.\textsuperscript{43}

At the same time, U.S. negotiators rejected Indonesian requests to be treated as "new entrant" or "new supplier," even though Indonesian textile exports were relatively small compared to those of South Korea, the People's Republic of China, Hongkong, and Taiwan (Tables 25 and 26).

Indonesia placed great importance on these negotiations because textile exports to the United States are very important among non-oil export earnings, and much needed to finance economic
Table 26. The Indonesian Asian Competitors Market Share in the Major Markets in 1980 in percentage of the total textile imports

<table>
<thead>
<tr>
<th>Country</th>
<th>EEC</th>
<th>Textiles US</th>
<th>Textiles Canada</th>
<th>Apparels US</th>
<th>Apparels Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hongkong</td>
<td>2.05</td>
<td>5.31</td>
<td>1.14</td>
<td>19.95</td>
<td>27.24</td>
</tr>
<tr>
<td>South Korea</td>
<td>2.14</td>
<td>5.07</td>
<td>2.67</td>
<td>7.86</td>
<td>14.78</td>
</tr>
<tr>
<td>Taiwan</td>
<td>2.80</td>
<td>3.85</td>
<td>1.31</td>
<td>3.80</td>
<td>19.54</td>
</tr>
<tr>
<td>the P.R.C.</td>
<td>3.42</td>
<td>3.17</td>
<td>3.13</td>
<td>1.57</td>
<td>4.25</td>
</tr>
</tbody>
</table>

Source: Textile Statistical Committee of GATT in Mirza Siregar.
development. Negotiators for the U.S. noted that its imports of Indonesian textiles had increased from 7 million square yards (sye) in 1982 to 84 million and 268 million sye in 1983 and 1984, respectively. Indonesia, they said, was no longer a "new entrant" or a "small supplier." The US delegation also pointed out that the American unemployment rate was 7.3 percent in 1985. 44

Ir. Chamroel Djafrie, the Industrial Attache of the Indonesian Embassy in Washington and one of the Indonesian textile negotiators explained that Indonesia always rejected the notion of the market disruption presented by the U.S. trade representatives, which is only related to a single indicator because the MFA refers it to a combination of major factors. He further pointed out that the issue does not rest on the objectivity of the argument but on bargaining power. The Greek delegation could successfully negotiate a better market share in the United States because it had strong bargaining position based on the existence of the US military base in the country. 45 The US position effectively hampered the activities of the Indonesian non-oil exports. This is discussed below.

The Introduction of a New Set of Governmental Policies.

The acquiescence of the Indonesian government to U.S. demands on the elimination of export incentives to the textile industry was explained to textile exporters by the Ministry of Trade as a measure designed to ward off foreign embargoes, quotas or surcharges. Minister of Trade Rachmat Saleh points out that
The government will no longer provide export incentives in the form of subsidies...because it will hurt the Indonesian exports in the future.*4

The effects of the government position toward subsidies on Indonesian exporters were harmful. One of the major textile exporters confessed that they were not able to compete in the world market without the export certificates.46 The situation was aggravated further when the Governor of the Central Bank, Dr. Arifin Siregar, announced in March 1987 that interest rates for export credits would be increased from 9 per cent to 11.5 percent, while the rates for other credits remain the same, i.e. between 18 to 22 percent. This was in line with the agreement between Indonesia and the United States on the eradication of export subsidies. The full elimination of export credits will be completed by 1990.

The private sector has suggested some alternatives to the export certificates and credits. For example, it's been proposed that the duration of the existing export credits be extended from three months to six months. This, according to textile exporters, will compensate them for losses due to increasing interest rates on the credits. They also have asked for about US $ 400 million government help for finance their restructuring program. Their argument is that quotas have mostly applied to certain popular items. As long as they can diversify their products, they say, markets are still available.47 In short, they want more financial help to replace the lost incentives.
Indonesian policy makers most certainly do not want to see any erosion in the level of textile exports at this time. This concern was probably foremost in the minds of government officials when they agreed to U.S. demands. Non-oil exports are needed because the slowdown of the oil market has not been fully reversed, and the Indonesian debt service ratio (DSR) in 1986 ran over 30 percent. The Minister of Finance Radius Prawiro has warned publicly that it is possible that the DSR will increase further in the future, perhaps reaching 40 to 45 percent of the value of total exports. Indonesia is at a difficult stage and export earnings must be improved.

Indonesia's economic policy makers have tried their best to find alternative ways to boost non-oil and gas exports other than the export certificate and credit system, but the government frequently points out that future incentives will not be in the form of subsidies.

In this eagerness, a package of economic policies known as PAKEM, was announced on May 6, 1986 by various government agencies. The "Customs Duty Drawback" system, implemented in 1976 but abandoned when the export certificate system became effective, was resumed. Industrial enterprises that export at least 85 percent of their output are allowed to import basic and intermediate materials without any restriction, if local producers cannot offer competitive prices or those maximally similar to import prices. A special agency in charge of administering the drawback scheme was established.
within the Finance Ministry, and a state company has been established in charge of managing bonded zones.49

The essence of the new policies rests on the philosophy that direct government involvement in the economy should be lessened. Soerianata Djoemena, Director of the Textile Industry in the Ministry of Industry, explained that "all of those regulations are established to avoid further imposition of a countervailing duty from importing countries."50 Hence the new incentives are in the form of streamlining of bureaucratic procedures, bettering government services, restoring a the bonded warehouse zone in Jakarta, and improving of investment facilities (such as extension of the duration of the investment license to 30 years).

All of the above policies are included in 19 different government decrees in the form of four Government Regulations, three Presidential Decrees, seven Joint Decrees of the Finance Minister, the Trade Minister and the Bank Indonesia governor, one joint decree of the Ministers of Finance, of Trade and of Finance, three decrees of the Finance Minister, and two decrees of the Trade Minister. These government decrees clearly aimed at "bolstering non-oil exports and foreign investments in the country."51

This policy package was not received with warm welcome by industrialists who had enjoyed the export certificate system. For example, Drs. Ian Daskian, Director of PT Primatexco, made an analogy that when all of the industrialists are getting together in a boat in a deep sea, the government suddenly tip the
boat over. The result is some who can swim are survived and the others went down in the world.52

Some textile manufacturers were not well prepared to make use of the facilities now offered by the government. What they really expected was a substitute for export certificates, rather than encouragement to compete in the world market. The concept of granting a sole cotton import licence to PT CBTI (Cerat Bina Tekstil Indonesia) was hastily accepted by officials of the Trade Ministry. This will be discussed in detail in the next chapter.

PAKEM was followed by three important government actions within less than a year. First, the enunciation of a package of economic policies on October 25, 1986, deregulated imports of 135 categories of basic and intermediate materials, and investment procedures.53 Some of the import duties were lowered and even removed so that manufacturers could compete on the world market.54

Second, President Soeharto distributed a Presidential Guidance to all Cabinet Ministers who attended a meeting of the Dewan Stabilisasi Ekonomi (economic stabilization council) at the end of December 1986, which directed all of the ministers in charge of economic affairs to work efficiently, to support the promotion of the non-oil and gas exports, and to abolish all of the ministerial regulations that contributed to the creation of high-cost economy.55

And third, the promulgation of a package of economic policies on January 15, 1987, deregulated imports in 300 categories of basic and
intermediate materials for four sectors: textile, steel, electrical machines, and a part of the automotive industry. This package gave special consideration to the textile industry, as 227 categories of the total of 300 categories are textile products. Minister Radius Prawiro explained that "the textile industry has involved a large number of small-scale businessmen, so that this industry should be emphasized."57

In essence, the new form of export promotion policies parallels with the monetarist economic doctrine of free-trade and reliance on the market mechanism. Such government policies will continue to be formulated and implemented in Indonesia in the future unless external pressures are relieved. Governmental policy for the textile industry has been influenced by pressures emanating from importing countries. These international pressures function as constraints to policy makers. Policies of the Indonesian government, often against its own best interpretation of national interests, will hamper the growth of Indonesian exports. Nevertheless, Indonesia's policy makers must accept the rules and regulations of the MFA in order to maintain a high level of textile exports, which are necessary in financing economic growth and development during a time of declining oil income. Economic growth and development are the original foundations of the New Order government's political legitimacy, and policy success in these areas is fundamental to the future of the government and the country.
Notes for Chapter V


2. Direktorat Ekspor Hasil Industri dan Pertambangan, Departemen Perdagangan, Kebijaksanaan Ekspor Produksi Tekstil, Bahan Raker Teknis Departemen Perdagangan tanggal 1 s/d 6 Agustus 1983, Jakarta, p. 4


7. Musa, "Terpadu, lobby, dobrak, bunga bank, data dll." in Yayasan Bina Pembangunan, Op cit, p. 70


10. Ibid, p. 74

11. Direktorat Ekspor Hasil Industri dan Pertambangan, Op cit, p. 4


13. Ibid, p. 3


16. Article 1 (2) of the MFA.


22. Michael Daniels, Martin J. Lewin, Teresa M. Polino, Position Paper and Background on the Multilateral Arrangement, Mudge Rose Guthrie Alexander & Ferdon counsel for American Association of Exporters and Importers, Textile and Apparel Group, June 17, 1985, p. 2


24. Article 1 (4) of the MFA.


31. Ibid.

32. Article 1, Paragraph 2 of the MFA.


34. Masters, Op cit.


36. Ibid.


40. Seda, Pertekstilan, Op cit, p. 56


42. Daniels et al., Op cit, p. 28

43. Departemen Perdagangan, Op cit, p. 2

44. Ibid, p. 9


47. These were discussed in the well publicisized textile seminar organized by the API in the early March 1987.


51. It was stated by the Minister of Finance, Radius Prawiro on May 11, 1986, see "No basic changes in import policy," The Jakarta Post, 12 May 1986.
52. Drs. Ian Daskian, Op cit.


57. "Disana..., Op cit, p. 68.
CHAPTER VI

THE DYNAMICS OF THE IMPLEMENTATION OF TEXTILE POLICY: SOME CASE STUDIES

Previous chapters have discussed policy making for the textile industry in Indonesia at the level of formulating policies, and have analyzed major actors' behavior to find relationships that shape the formulation of governmental policies. Differences among government agencies—differences that can be very influential in the Indonesian policy implementation process—were not examined in earlier chapters because attention was devoted primarily to the bargaining between Indonesia and external influences (such as the Multifiber Arrangement) and to the roles of ideas as well as resource and political constraints in the policy making process. Bureaucratic politics was not a particularly evident factor at the formulation level because policy formulation appears to be primarily an elite process linked to key leaders of government agencies, as described in chapter III above, but the actual involvement of the agency as a bureaucratic unit in the policy formulation process was not evident from my research. This has not been the case in the policy implementation.
This chapter will explicate how textile policies have been implemented. The government is clearly committed to promoting textile exports, particularly since the worsening of its balance of payments several years ago, but how are such policies be implemented?

An analysis of implementation strategy faces several difficulties. Aside from the paucity of similar works in the field, the policy implementation process is very sensitive politically and not easy to trace. In a developing country, conflicts between and among officials are not commonly covered in detail in public, as might normally happen in the United States, Europe or Australia. These issues are frequently discussed in private, but interviewed sources usually want to remain anonymous. People in the private sector are more open, but they often try to justify or defend their own interests.

This study is based upon information collected through interviews with a number of officials from government agencies, some Indonesian intellectuals, and several prominent businessmen (Appendix A gives a list of persons interviewed), plus information gathered from documents and secondary sources.

This chapter will analyze four case studies that illustrate the dynamics of Indonesian policy at the implementation level. At this level, the government is not homogeneous, but rather *majemuk* or heterogenous. Moreover, it is necessary to recognize the roles of the non-bureaucratic side of the government, especially particular
members of the House of Representatives, as well as those of the bureaucratic agencies. These case studies suggest five generalizations. The first (I) is that there is no single government agency in control of the implementation of textile policy. The government as a whole does not monopolize the policy implementation process in the textile industry. Several government agencies, such as the Ministries of Industry, Trade, or Finance, as well as the state owned banks have been involved in the policy making process for textiles. The non-bureaucratic side of the government, predominantly individual members of the House of Representatives, by virtue of personal and governmental position, can also intervene in the policy implementation process. Other actors outside the government agencies—journalists, businessmen, and some retired government officials—are also involved in the process. Textile policies evolve under pressure from several directions, rather than from pressure applied unilaterally.

The second generalization (II) is that the successful implementation of any textile policy is determined by harmonious relationships among government agencies and their accord on a particular problem. This was revealed from a series of conflicts in the industry pertaining to the modernization of textile machinery, the need for a particular protection, the opening of imports, and the establishment of a distributive policy.

The third generalization (III) is that the role of private businessmen and other non-governmental or non-bureaucratic actors is
greater when there is conflict among government agencies. Coalitions of national journalists, members of the House of Representatives, or other powerful segments of Indonesian society may be asked by textile industrialists to influence the policy implementation process. There are, nevertheless, conflicting interests among businesses. There is strife among firms, among industries, sectors, etc., all of which is reflected in the pattern of influence.

The fourth generalization (IV) relates to regulatory policy: government agencies seek a consensual formula between the beneficiaries and the affected party, or between the regulated interests and consumer groups. This consensus is essential to textile policy in Indonesia. This is discernible in the cases of the dyestuff import policy and the creation of P.T. Cerat Bina Tekstil Indonesia (CBTI), a private company owned by the executives of API, which is expected to function as a textile trading house in the future.

In the wake of critical disagreement among high level officials, the final generalization (V) is that President Soeharto may involve himself in the policy implementation process as an arbiter soliciting an acceptable formula to end the conflict. This can be discerned in the case of granting a cotton import license to P.T. CBTI.
A Restructuring Program: API, the Ministry of Industry and the Banks

A production slowdown in the Indonesian textile industry in the early 1980s (caused by market glut, world recession, and the reduction of domestic textile consumption) invited fresh and interesting ideas from private businessmen, who suffered badly in this situation. Private interests, among others, called for the creation of Bulog Tekstil, a stockpiling system of textiles controlled by the government agency Bulog i.e. the national logistic bureau (Badan Urusan Logistik). Small-scale weavers in Pekajangan, Central Java, also requested the establishment of a cagar alam, a conservation plan for small-scale textile products, similar to the wildlife conservation reserves sponsored by the government. In essence, these proposals required government intervention to overcome difficulties in the sense that the industrialists might be able to continue their production without being burdened by marketing problems. There was no favorable response from the government, and these proposals were short-lived, except for the concept of a "restructuring program" pursued by the important members of API, the Indonesian Textile Association.

The campaign for a "restructuring program" was launched by some prominent leaders of the textile industry shortly before the opening of API's national congress in October 1982 in Jakarta. The main objective was financial support from the government in terms of special credits, attractively packaged as an "adjustment of the structure of the industry" to include such specific goals as the
reformation of capital composition, the correction of trade regulations, improvement of textile productivity, and replacement of textile machinery.

Minister of Industry Ir. Abdoel Raoef Soehoed, in his opening remarks to the 1982 Congress, said that "a restructuring program should not be delayed because it is a correct step particularly in the wake of the bad textile market," and also acknowledged that "the program, of course, will require a lot of money particularly in this transition period." It seems that he was attracted by the technical aspects of the program. This response invited numerous supportive articles in newspapers, particularly in Merdeka and Jurnal Ekuin, which are owned by Burhanuddin Mohammad Diah, a former minister of information in the Sukarno era, known for his nationalist stance on major issues. In short, the nationalist media perceived the textile industry as a national asset that should be protected.

The government response, in the form of the support from the Minister of Industry, was warmly received by textile industrialists. Frans Seda, the chairman of API who had been Minister of Communication in the early years of the New Order Government, stated publicly that "the government right now is supporting the restructuring program of the textile industry, consequently it should support the program financially because it requires a huge amount of capital." Furthermore, he stressed that "the success of the program really depends on government support."
After he met with President Soeharto on November 4, 1982, in Bina Graha, the presidential office, Minister Soehoed corrected his previous position vis-à-vis the program, apparently the result of consultations with President Soeharto. Soehoed discussed the issue directly with President Soeharto, and he received first hand red-light signal from the president, who was seriously concerned with the worsening of the balance of payments at that time.9

In his new statement, Soehoed pointed out that "I have actually never used the word 'restructure', restrukturisasi, and I don't know where the term was picked up."10 He preferred to call the program, he said, "the rationalization of the machinery,"11 meaning that out-dated machinery, able only to produce items that were no longer marketable, should be replaced by updated equipment. Soehoed gave some examples in the spinning sector and weaving sector, in which there were spinning mills which produced yarn number 60, while the market required yarn number 80, or weaving mills which produced only fabrics of 42 inch widths, while the market required 80 inch fabric width. Therefore, according to Soehoed, the program was not a matter of capital formation but "a technical issue"12 that needed funds to replace outmoded equipment. Foreign capital, according to Soehoed, could be used for the replacement.13

Ir. Abdoel Raoef Soehoed had a long association with the Center of Strategic and International Studies (CSIS), sponsored by Generals Ali Murtopo and Soedjono Hoemardhani, who are known as proponents of nationalist economic doctrines. His appointment as Minister of
Industry in the Third Development cabinet in 1978 was strongly supported by these two powerful patrons. There is little doubt about his commitment to enhancing national industry. Why, then, was he restrained in supporting domestic industry?

One answer is that the state banks did not support the program. The bankers perceived the core of the problem as declining public purchasing power rather than technology. Somala Wiria, the president-director of the Bank Negara Indonesia 1946, a prominent state-owned bank, pointed out that there was only a small segment of society interested in buying expensive imported textiles. As a person who had experience in financing the textile industry, Somala Wiria was concerned with the ability of the industrialists to repay credits while the market was flooded with textiles and demand low. This was reinforced by Mu'min Ali Gunawan, the president director of the Panin Bank, a well known private bank in Indonesia, who preferred to emphasize a macro-economic solution. The solution, the bankers said, was to improve the purchasing power of the people.

The bankers' position, particularly the state-owned banks, was criticized by the Director General of Diverse Industries, Ir. Kusudiarso Hadinoto, who stated that "bankers should help the textile industrialists financially by relaxing the technical procedures for the industry." A number of textile industrialists were called to his office to discuss the diversification of textile production. Their problems centered on financial issues because the bankers refused to give them credits for the replacement of
machinery. The reason presented by the bankers was that textile industrialists were bad debtors. In this context, Kusudiarso Hadinoto questioned whether the textile industry "could repay the debts (owed to the banks) when they are not able to increase exports?" Accordingly, the difference between the Ministry of Industry and the state-owned banks centered on the purchasing power argument versus the shifting of the public taste.

This controversial issue became a favorite topic during a workshop on textile diversification and export destinations which was organized by the Ministry of Industry in September 1982. In his opening remarks, Minister Soehoed suggested that the principal problem was not the machinery in the mills but rather the need to anticipate market demand and to know what textiles would be marketable. He was concerned with the fact that all Indonesian garment exporters had focused on categories 6, 7, and 8 of the international textile classification, while the industry as a whole had more than a hundred categories, including baby clothes, sheets, and curtains.

Ir. Kusudiarso Hadinoto, Director General of Diverse Industries, also pointed out that existing machinery was capable of handling diversified production. A number of businessmen close to the Ministry of Industry noted, too, that 70 percent of the total number of machines in operation had been produced in 1975 or more recently. Even Daya Manunggal Textile (Damatex), Texmaco, Nertex, Trisulatex, Canesatex, Dan Liris, Naintex and KTSM Banjaran were using machines
that were more up to date than the machinery in use in Japan. The world recession had limited funds for research and development in textile technology, and there had been few innovations in textile machinery industry over 20 years. As a result, it was argued, any new machines bought with the government's financial support would be similar to those already in use.

The real issue was not the technological improvement of the big private mills but rather the quality of the machinery owned by small-scale industrialists and state-owned mills in Majalaya, Pekajangan, Pekalongan, Solo, and Klaten, which held 30 percent of the total machinery. These were very old machines. For example, P.T. Sandang II, a state-owned mill, still used machines made in 1932. This fact was frequently mentioned by API executives to exert pressure on the government at the 1982 workshop. Frans Seda stressed the fact that the replacement of this machinery was essential to diversify textile production, a view that was reinforced by T. Akip who stressed the correlation between the two factors. For example, new machinery was absolutely necessary to produce baby clothes or striped fabric for men's shirts. Small-scale industrialists, according to Akip, were at a critical stage. On the one hand, they mostly owned old or out-dated machinery producing textiles were not marketable. On the other hand, the bank required successful performance for the previous three years as a condition for the creditworthiness of a company. Akip further suggested that the dilemma could be resolved if the government provided financial
support in the amount of US$ 500 million for the restructuring of
the industry.\textsuperscript{22}

Did the worsening of the balance of payments act as an obstacle
to government support? Frans Seda explained the problem differently,
referring to the support of the Thai government as an example. He
pointed out bluntly, "using its power, the government can issue a
regulation that provides funds. For example, the government may ask
the banks to support the textile industry without emphasizing the
creditworthiness of the industrialist."\textsuperscript{23} He further mentioned his
experience as Minister in the Sukarno and the Soeharto governments
that "with only Rp. 1 trillion available, I did a lot of things. It
would be a lot more things nowadays."\textsuperscript{24}

The prospects for government aid were blurred, however, by
fragmentation among private businessmen within the industry. Arnold
Baramuli SH., chairman of the Indonesian Garment Industries
Association (\textit{Persatuan Industri Barang-Jadi Tesktil Indonesia,
PIBTI}), who is an eminent member of parliament representing the
government party, criticized the proposed program. He mentioned that
the proposed credits would burden industrialists and would increase
the costs of production. He further pointed out that "this is not
the appropriate time to require a huge amount of funds from the
government."\textsuperscript{25} He suggested instead that

today is a time for the industrialist to specialize. Consequently, the company which is not competitive
should be allowed to go out of business. This natural
selection will bring about a new Indonesian textile
industry which is strong and healthy.\textsuperscript{26}
Obviously, there was a protracted conflict between Frans Seda and A. Baramuli. Both of them are well respected businessmen who had been in the government in the past. Frans Seda was a Minister of Finance and Minister of Communication, and A. Baramuli was governor in Northern Sulawesi. Currently, Baramuli is a member of the House of Representatives representing Golkar, the government party, and the vice chairman of the Indonesian chamber of commerce under Soekamdani Gitosardjono, who is a close friend of President Soeharto.

During 1985 API held a congress to restructure the organization, and Baramuli opposed the new API led by Frans Seda. PIBTI (under his chairmanship), the Indonesian Textile Industries Association (Perserikatan Perusahaan Tekstil Seluruh Indonesia, Perteksi), and the Indonesian Dyestuff Producers Association (Assosiasi Produsen Dyestuff Indonesia, Apdyesi), are the three major textile associations outside of API.

Aside from their ambition to be the leaders of the textile community, the difference between the two persons is found in the divergence of their interests and their pattern of relationships. Frans Seda is interested in textile export activities, while Baramuli is interested in the domestic market. Baramuli has a number of synthetic fibre factories (see the discussion below of the polyester import policy). Frans Seda has a good relationship and similar educational background with the Minister of Trade, Rachmat Saleh, as well as with other economic ministers, while Baramuli who
is a friend of the Minister of Industry and the Minister of Home Affairs.

The new restructuring policy, which had been expected by the executives of API, has not materialized yet after 5 years. The only concrete result is the government approach to the World Bank for assistance for a survey of the textile industry. The government has requested that the World Bank study the possibility of a complete restructuring of Indonesia's textile industry.

The restructuring policy recommended by the executives of API, and initially supported by the Minister of Industry, did not materialize, partly because of the opposition of the state-owned banks. From this case study, it can be said that the Ministry of Industry is not the only government agency in control of implementation of textile policies. The success of policy depends also on the support of President Soeharto and other government agencies. In this case, fragmentation among the textile industrialists provided a basis for the government to avoid acting on API demands without having to worry about negative political consequences.

The Dyestuff Protective Policy: Producers vs Consumers

This case study demonstrates how a protectionist policy was implemented even though there was conflict of opinion or interest among the sectors of the textile industry. Fragmentation among
private businessmen, however, was over-ridden by united support of a
policy among government agencies.

Dyestuffs are important elements in the finishing process for
textiles, giving color to "grey" (undyed) fabrics. The sector that
produces dyestuffs is considered an "up-stream" capital intensive
stage of the textiles industry. Dyers have been encouraged by the
Ministry of Industry to locate in Indonesia in the framework of
diversification of the Indonesian industry and the establishment of
a pohon industri, an industrial tree. In this context in November
1985, President Soeharto inaugurated the new dyestuff factory owned
by P.T. Hoechst Cilegon Kimia in Cilegon, West Java, with American
investment of US$ 27.2 million. There are three chemical industries
in Indonesia that produce dyestuff: P.T. Hoechst Cilegon Kimia with
a production capacity of 1,150 tons, P.T. Polkrik Chemicals Co. with
a 600-ton capacity, and P.T. Chandra Sari, partly owned by Ciba
Geigy, with a 200-ton capacity. Domestic industry takes about
90% of the domestic dyestuff production.

Policy debate about the dyeing sector began with a demand from
the industry for dyestuff protection policies. The industrialists
argued that the "infant" dyestuff industry should be protected to
enhance domestic industry and also to attract more foreign
investment to the sector. At the same time, the Foreign Investment
Coordinating Board under Minister Ginanjar Kartasasmita had launched
a vigorous campaign to attract more foreign investment. In this
context, some officials from the Ministry of Industry, particularly
from the Directorate General of Basic Chemical Industries, accepted the argument that protective measures were needed to assure a domestic market for investors. This protective policy was further justified by Minister of Industry Ir. Hartarto who explained that

Monopoly is difficult to abandon when we are serious in deepening industrial structures particularly in the upstream sector which requires a large amount of capital. In this sector, the capacity of the industry should be optimized first. After the existing industry is strong, then we open it to new investors for similar projects. It means that a monopoly is a further step of protection for the domestic industry when it is still an infant industry.28

In this regard, two approaches were being discussed by officials in the Ministry of Industry: (1) raising duties on imported dyestuff from 5% to about 30%, and (2) imposing an import quota of 200 tons annually.29 These plans were leaked to the press.

There were two major reasons why the industrialists, represented by Drs. Ir. E. Sorohadmodjo, chairman of the Indonesian Dyestuff Producers Association, APDESYI, expected support for their demand. First, projected domestic annual consumption of dyestuff was 900 tons, and the domestic production reached 700 tons per year,30 meaning that domestic production, in terms of its quantity, almost satisfies the domestic market, and it should be protected from the dumping of products from abroad. And second, the other developing countries, such as India and Pakistan, did impose protective measures so as to protect their domestic industries. For example, India imposed 100% import duty on imported dyestuff and Pakistan
imposed 85% import duty for the similar purpose. The feeling was that Indonesia should protect its domestic dyestuff industry.

The question of protection was answered in public by several statements and articles in outstanding newspapers, such as Kompas, Business News, Bisnis Indonesia, and Suara Karya at the end of 1985 and early 1986. Frans Seda stated publicly that the policy would affect the textile industry negatively, when the industry was suffering from a market glut and the protectionist policies imposed by importing countries. He was worried that protective policy in Indonesia would increase the price of dyestuff in the domestic market, and in turn, would raise the price of textiles. Suara Karya projected that the average price of the textile products would increase by 2% if the new policy was implemented. This was clarified by Frans Seda who stated that

imported dyestuff is cheaper than the domestic products because of the price disparity of raw materials. Accordingly, the domestic products, for the time being, are not competitive compared to the foreign products.

In short, the consumers of the dyestuff feared that the textile industry would experience the unhappy fate of the steel and plastic sectors.

In 1985, textile producers had imported most of their dyestuffs from Europe and Japan. The total volume of imported dyestuff was 900 tons in that year, and prices were low in the world market because of over-supply, about 50% above world demand according to American Dyes Reporter and API figures. Dyestuff consumers--
Indonesians textile producers—vigorously opposed the suggestion that imported be limited to 200 tons annually.  

Critics of the proposed protection policy also focused on the type of dyestuff produced by the domestic industry. For example, P.T. Hoechst Cilegon Kimia planned an annual production of 700 tons of vinyl sulphone, one among many available types of dyestuff. But vinyl sulphone was only required in the amount of about 300 tons per year in the domestic market. Other popular dyestuffs are monochloro triazine (MCT), dichloro triazine (DCT), and pyrimidine.  

Dra. Mariam S., deputy chairman of the batik sector of API, pointed out that the policy would protect a large, capital-intensive industry at the expense of small-scale labor-intensive industries; the requirement to use vinyl sulphone would be an extra burden for businesses familiar with other dyestuffs.

In addition, Dra. Mariam S. disclosed the unhappy experiences of several textile industrialists in Central Java who dealt with the sales representatives of P.T. Hoechst Cilegon Kimia in Surakarta, Central Java. Those representatives tried to delay the delivery of dyestuff needed by the finishing mills. Moreover, they also refused to accept the new purchase order. It seems that they acted as a "seller" in a seller's market where there is a scarcity of goods.

Behind the technical issues raised by API in opposition to the proposed policy was a crucial political topic. This is clarified in a statement made by the chairman of API, Frans Seda, who pointed out that if the government wanted to continue the protective policy by
installing a tariff wall or a quota, it was advisable that the textile industrialists—consumers of dyestuff—should be consulted in advance. He was disappointed, he said, by the policy making process and stressed that

in the position of chairman of API, I have not been consulted in advance by the government pertaining to increasing the dyestuff's import duty.41

It seems that the textile industrialists could not accept a unilateral protective policy without their prior consent, preferring that a decision result from a process of musyawarah, or deliberation, between producers and consumers.42

In the wake of the promotion of foreign investment by the government, it is unlikely that private businessmen would refuse the government program for the diversification of domestic industries. Accordingly, Frans Seda explained carefully the position of API vis-a-vis protective policy. He stated diplomatically that API could accept a protection plan as an ad-hoc step to enhance domestic industry, subject to four conditions. First, a time frame—the duration of protection—should be specified. Second, the categories to be protected should be clarified plainly in the policy. Third, there should be a guarantee that the policy would not increase domestic prices. And four, there should be a "built-in mechanism" to supervise implementation of the policy, including among other things a continued dialog among the parties concerned.43 In that press statement, Frans Seda vowed that the members of API were committed
to buy all of the domestic dyestuff production if price, quality, and regularity of supply were acceptable.

It seems that the position of API was supported by the Ministry of Trade, which chaired the inter-ministerial team for the promotion of non-oil and gas exports. One source in the Ministry of Trade queried,

> how can our products be competitive in the world market when some basic or intermediate raw materials are more expensive than foreign products?\(^4^4\)

By implication, a protective policy for dyestuffs would impede the efforts to promote non-oil and gas exports.

Critics of the protective policy, who were given broad coverage in the press, were answered openly by the Minister of Industry, Ir. Hartarto Sastrosoenarto,

> the feasibility of imposing the policy was being studied by the Ministry of Industry. But, the protection of an up-stream industry would not be allowed to undermine down-stream industries.\(^4^5\)

This statement confirmed that such a policy was under consideration by the Ministry of Industry. The possible value of protectionist policy attracting new investment is understandable because most foreign investors are more interested in the Indonesian domestic market than in the world market. At the time, the government needed such investment because oil export earnings were declining. To minimize the negative consequences of such a policy, one high official of the Ministry of Industry guaranteed that the price of domestic dyestuff would be similar to the price of imported dye. If the price of domestic dyestuff increases, he said, import
restrictions would be relaxed. Eventually, a dyestuff protective policy was implemented in March 1986 made by a decision of an inter-ministerial committee on protection and trade regulation (S-019/Pan. KPTNI/III/1986). Implementation of this policy was the result of a major agreement among the government agencies involved in the industry: The Foreign Investment Coordinating Board strongly supported the policy, but the Ministry of Trade objected unless there was assurance from dye producers not to increase prices, because higher prices would undermine the promotion of the non-oil and gas exports. In this case, API executives and executives of dyestuff association (APDYESI) provided the assurances, as discussed below.

Dialog between API and APDYESI was initiated in January 1986 during a luncheon meeting at Jakarta's Sahid Jaya Hotel. Three points were highlighted in the discussion. First, API would try to prevent price increases for basic or intermediate materials in order to enlarge the volume and value of textile exports. Second, the Indonesian Dyestuff Producers Association (APDYESI) would try to reduce their prices by the expansion of production to meet the problems of textile producers. And third, financial support from Bank Indonesia, the central bank, would be sought by both parties to facilitate trade transactions between the two sectors of the industry.

A follow-up meeting was held in February 1986 in the API secretariat office at the request of APDYESI in its letter
(106/I/ES/Its), dated January 30, 1986, to consult on the determination of dyestuff prices. One day before that meeting, the finishing-sector group of API, led by G. Munusamy, caucused to develop a common position for the meeting. Their decision had 4 major points.

First, all members of the textile finishing industry assent to and support the use of domestic basic and intermediate materials, particularly dyestuff.

Second, they expect solid support from all parties to avoid actions that might induce domestic price increases in the wake of the difficulties in the promotion of the textile exports.

Third, they delegate to API executives authority to seek a better industrial climate as well as a better marketing situation through continuous solicitation of a policy-dialog with the government.

Fourth, they delegate to the API executive authority to preserve competitive relationships among the dyestuff suppliers so that technology transfer and the improvement of quality will be attained. In this regard, it was necessary to create a joint committee between API and APDYESI as a mechanism to attain the objectives.49

The meeting was also attended by Syahfiri Alim, a representative from the Chamber of Commerce (Kamar Dagang dan Industri, Kadin). In the opening remarks, S. Alim suggested that all problems arising between the two sectors of the textile industry should be handled in the spirit of musyawarah, a deliberation, and mufakat, a consensus.50 At that time, the President of APDYESI, E. Sorohadmodjo, emphasized that no members of his organization would increase the price of their products, and in the meantime suggested that consumers to maximize the utilization of the operating capacity of the domestic dyestuff industry. A major agreement was reached: the establishment of a joint standing committee between the two
sectors of the textile industry as recommended by Munusamy's group.51

Another meeting was held on March 20, 1986, as a response to a letter dated March 19, 1986 from an inter-ministerial committee on protection and trade regulation, led the finishing sector of API to promise that its members would buy only domestic dyes when price, quality, and supply were dependable. This was followed by another meeting on March 26, 1986, in the API secretariat office where E. Sorohadmodjo from APDYESI assured consumers of a stable price for dyestuff. The price fluctuations before December 1985 had been generated by dyestuff importers who determined prices in US dollars and in a shorter credit payment term, i.e. a month, in contrast to the term offered by the members of APDYESI, i.e. between 3 to 6 months and calculated in local money (rupiah).

This meeting concluded with a final agreement, which has eased the conflict between dyestuff producers and domestic consumers, six major points:

First, both parties welcome and assent to the letter of an inter-ministerial committee on protection and trade regulation dated March 19, 1986.
Second, APDYESI agrees to the proposal of API concerning the membership of a joint standing committee.
Third, all problems that may arise between the parties should be settled in the spirit of "kekeluargaan," or family relationships.
Fourth, APDYESI agrees to meet all market demands including its quality and its application.
Fifth, APDYESI agrees to hold the price stable and to sell at a price which is comparable to the price of imported goods from Western Europe and Japan.
And sixth, in order to secure domestic supply and in a situation in which imports are necessary, a joint
standing committee will prepare a joint proposal addressed to the government.52

Most important, this agreement normalized the strained relationship between the members of API, as dyestuff consumers, and the members of APDYESI, as producers.

From this case study, two generalizations can be made. First, a textile policy can be successfully implemented when there is a common understanding on the issues among the government agencies involved in the process. Second, the formula for settling conflict between producers and consumers can be created from dialog between parties. In other words, a consensual accord between the affected parties and the beneficiaries of policy is necessary for textile policy making.

The Synthetic Yarn Import Policy: Fibre Makers Versus Spinners

This case study will demonstrate that a government agency may change its position, if the context of its original decision changes, and that the private sector affected by the new policy can build a coalition with journalists and members of parliament against the government agency concerned. The minister in charge of such a policy, confronted by a broad reaction from other agencies, the private sector, and other actors, is likely to defend his position by seeking support directly from the president.

As in the case of dyestuff policy, the Ministry of Industry initially favored a protective policy for polyester staple to defend
and enhance the domestic fibre-making industry. This position was made clear on several occasions. In 1980, the Ministry of Industry, led by Ir. Abdoel Raoef Soehoed, opposed the decision of the Ministry of Trade to allow imports of five thousand tons of polyester fibre and filament, one million lbs of polyester yarn, and one million square yards of polyester georgette grey. These imports were intended to increase the supply of textiles in securing the textile market for Lebaran in 1980. The Ministry of Industry argued that such items had been produced sufficiently by domestic fibre makers; therefore, such a policy would undermine domestic industry.

This policy was also pursued by the new Minister of Industry, Ir. Hartarto, appointed in 1983. In a letter (No. 838/M/8/1985) to the Minister of Trade, Drs. Rachmat Saleh, in August 1985, Minister Hartarto recommended that imports of polyester fibre be restricted by imposing a zero quota for that item (identified as CCCN 56.01/120) for the remaining months of 1985 and for the first semester of 1986. Under rules established by the inter-ministerial meeting on protection and trade regulation, the recommendation of the Ministry of Industry is required to issue an import permit. Accordingly, the Ministry of Trade issued several permits to implement the policy.

This temporary quota was effected, but exceptions were later recommended to allow various spinners to import polyester fibre. Among the letters issued by the Directorate General of Diverse
Industries, two were allocated to foreign investors from India who owned P.T. Elegant Textile Industry (no. 1110/DJAI/VII/86 dated July 19, 1986) and P.T. Sunrise Bumi Textile (no. 1109/DJAI/VII/86 dated July 19, 1986). In mid-1986, permits to import 3750 tons of polyester staple were issued.

Such exceptions to policy were rejected publicly by fibre-makers and the Indonesian Synthetic Fiber Makers Association (APSYFI), who had enjoyed the previously protected market. Their reactions were manifested in various ways. Some producers, who are executives of API and concurrently directors of P.T. Centra Bina Tesktil Indonesia (CBTI) used their power to slow the release of the endorsement stamp for the import documents (The politics of PT. CBTI will be discussed in detail in the next section). PT CBTI had been previously granted a sole polyester fiber import licence by the Ministry of Trade (SK No. 82/III/1986) in the spirit of restricting imports; under this arrangement, the Ministry of Trade required that any importer open a letter of credit for importing polyester staple only after getting an endorsement stamp from PT. CBTI. This power was used by P.T. CBTI to control the policy of the Ministry of Industry.

In the meantime, the fiber makers individually and as members of APSYFI tried to build a coalition that favored the protection policy. They organized a series of press conferences to discuss the policy and its effects on domestic industry, pointing out that because of the declining price of cotton, the demand for polyester fibre had decreased significantly. A large quantity of polyester
fiber was in their inventories unsold. The imports, they said, would incapacitate the industry because it would weaken the demand for domestic products, while the fiber-makers were paying interest on the unsold staple in inventory.

Moreover, they linked the problem to the Aromatic Center in Plaju, which was to be inaugurated by President Soeharto in August 1986. The aromatic center, an up-stream industry built with much government aid, was to produce purified therephtalic acid (PTA), an important component for producing synthetic fibre. The fiber-makers pointed out that "if the imports of synthetic fiber are not regulated, the fiber-making industry will be moribund, and, in turn, it will cripple the new aromatic center." The political strategy of the fiber-makers threatened the spinners, who were enjoying a policy package of May 6, 1986, that allowed textile makers producing goods for export (85% or more) to import basic or intermediate material. (This policy was discussed in the previous chapter.) The price of domestic polyester fiber was Rp. 1,600 per kilogram, while the price in the world market was Rp. 1,250 per kilogram, or Rp. 1,500 per kilogram including an import duty and transport costs. Thus, domestic polyester fibre was Rp. 100.00 per kilogram above the world market price. Accordingly, if the fibre makers attained their objective, the spinners would pay the extra cost, which prompted P.T. Sunrise Bumi Textile and P.T. Elegant Textile Industry to issue press statements indicating that
they would cancel new investment plans for US $23 million to expand their production capacities because their imports had stopped.

K.K. Agarwal, the director of P.T. Sunrise Bumi Textiles pointed out to the press on August 24, 1986, that he had not been able to import polyester fibre, needed to keep production going, because neither the Hongkong and Shanghai Bank nor American Express Bank would open letters of credit for imports, for lack of endorsement from P.T. CBTI. Who, asked Agarwal, "has the authority to grant an import licence, the government or P.T. CBTI?"59

The fibre-makers, represented by Handoko Tjokroseputro, an Indonesian Chinese, used the cancellation to exploit nationalistic sentiment. He stated in the press on August 25, 1986, that "the cancellation is an insult to Indonesia as an independent and free nation."60 Moreover, he pointed out that "if they (the two foreign investors from India) need the polyester fiber today, we will immediately provide them with an adequate supply and a competitive price."61 He elaborated that the domestic fiber production had exceeded domestic demand. According to Tjokroseputro, there are six fibre-makers in Indonesia: P.T. Indonesian Toray Synthetic (ITS), P.T. TIFICO, P.T. Kumafiber, P.T. Texmaco Utama, P.T. Tri Rempoa Solo Synthetic Process, and P.T. Polysindo Eka Perkasa, which began production on June 1, 1986. These six produced more fibre than the domestic market could consume (see Table 27).

On the same day, the Minister for the Promotion of The Utilization of Domestic Products, and concurrently the chairman of
Table 27. The Indonesian Fiber Production, Consumption, and Over Supply, 1984-1986

<table>
<thead>
<tr>
<th></th>
<th>1984</th>
<th>1985</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>73,648</td>
<td>76,896</td>
<td>82,498</td>
</tr>
<tr>
<td>Consumption</td>
<td>67,387</td>
<td>76,898</td>
<td>82,498</td>
</tr>
<tr>
<td>Oversupply</td>
<td>6,261</td>
<td>6,607</td>
<td>4,910</td>
</tr>
</tbody>
</table>

Source: Jawa Pos, Surabaya, September 3, 1986
the Foreign Investment Coordinating Body, Ginandjar Kartasasmita, spoke in favor of the fiber makers. He pointed out publicly on August 25, 1986, that

the national textile industry, particularly the fiber-making industry, will be incapacitated, if the imports of polyester fiber were permitted, because the demand can be supplied sufficiently from domestic producers.62

He further stated that there is absolutely no conflict of interest between the need to promote the non-oil exports and the need to strengthen domestic industry.63 This is clarified by the example of the government asking in advance whether the domestic industry was able to supply sufficient fibre at competitive price and in an adequate supply. Of course, according to him, imports are necessary when the domestic industry cannot meet the demand.

His position was in clear contrast with the policy of the Minister of Industry. After consulting with President Soeharto, Minister Hartarto said that "the polyester fiber import policy was intended to maintain a balance between domestic supply and demand."64 He explained that domestic demand in 1986 would be 88,000 tons, while domestic production would be 75,550 tons. Therefore, "the recommended import is only about 3% of the total domestic polyester fiber product."65

Minister Hartarto's statement was supported by the Head of the Public Relations Bureau of the Industry Ministry, Iman Sucipto, who repudiated the view that there was stock left in inventory of the factories. He confirmed that there was a reserve stock of 4,213
tons, but this would be sufficient for only 18 days of production. According to Sucipto, a reserve stock supply for 2 months should be maintained as security for production. His data showed, he said, that domestic demand for polyester fiber was 94,000 tons in 1985, and would be 101,000 tons in 1986, while the domestic product in 1986 would be 76,425 tons.66

There was, then, a disparity between the data of the Ministry of Industry and those of APSYFI, even though the latter had provided information to the Ministry on three occasions in June-August 1986. In essence, the Ministry did not accept the data. They believed that the fibre-makers had established a collusive pricing agreement to try to dominate the price making process for the polyester fiber market in Indonesia. The Ministry of Industry was committed to eliminating the price-fixing,67 using two strategies. First, two big government polyester fiber factories would be established under the auspices of P.T. Sandang I (capacity 100 tons) and P.T. Sandang II (70 tons). Second, import restrictions on polyester fiber would be relaxed when domestic price rose higher than the world market price.

One official from the Ministry of Industry described three purposes for relaxing import restrictions. The first purpose was psychological. The government would use policy changes as a psychological tool when the price of a line of goods in the domestic market rose inordinately, particularly at Lebaran, Christmas, or other important holidays. The second purpose was to provide an early
warning to domestic producers who enjoyed government protection, reminding them to reduce any abnormal profits. The third purpose was to provide an incentive for businessmen to establish new small-scale industries because basic or intermediate materials were available at a low price.68

Ir. Soenarjo Haddade, a member of the House of Representatives representing the government party Golkar, diagnosed the debate as an old issue. He pointed out in the press, that

the flow of polyester fiber imports was an old issue, meaning that the price of imported goods are cheaper than the price of domestic products because of the dumping policy conducted by foreign countries. But the two facts should be considered appropriately by the government in the framework of strengthening domestic industry.69

He believed that the differences between the Ministry of Industry and the Ministry of Trade were the prime cause of the whole problem, and suggested that the two agencies really ought to be housed under one roof.70

In fact, it seems that the difference was not between the Ministries of Industry and Trade but was rather a disagreement between the Minister of Promotion of Domestic Production, Ginanjar Kartasasmita, who favors a protective policy, and the Ministry of Industry, which favors deregulation of polyester imports. It is true that there was also disagreement between the Ministries of Industry and Trade, but this concerned the role of P.T. CBTI in import activities, discussed below. Eventually, the policy of the Ministry of Industry on the polyester fiber imports prevailed.
This case study leads to two generalizations. First, there are basic conflicts of interests between sectors of the textile industry spinners versus fiber-makers, spinners versus weavers, weavers versus knitters, or weavers versus garment producers. Second, there will nearly always be parallel disagreements among government agencies because one favors a particular sector while another supports a different sector. The Ministry of Industry was aligned with the spinning sector in this case because the ministry favored policies that would strengthen domestic industry. The Ministry of Trade or the Foreign Investment Coordinating Board favored the fiber making sector because they sought to promote investment and exports.

The Conflict Over CBTI: Sekbertal versus Exporters and Agencies

This case study demonstrates an issue of linkages in which the problems of one sector of the economy impinge on another sector. Consequently, various government agencies become simultaneously involved in the issue, and in turn, protracted conflicts among businessmen from different sectors and also among the agencies themselves may arise. In this case, a policy formally made by the Ministry of Trade was successfully rejected by an interest group known as Sekretariat Bersama Pemintalan (Sekbertal), a joint secretariat of the spinners. Eventually, the objectives of this interest group, composed of a number of domestic and foreign
spinners from Hongkong and India, were accommodated in government policies.

The demand for the establishment of P.T. Cerat Bina Tekstil Indonesia (P.T. CBTI) originated from two different interests. First, there was a consistent effort by the Junior Minister for the Promotion of Estate Products, Ir. Hasrul Harahap, to create a climate conducive to promoting domestic cotton production by providing market security and insuring a favorable price for cotton producers. Second, there was major concern within the Ministry of Trade for the future of textile exports after the termination of the export certificate system in June 1986. Officials in the Ministry of Trade were looking for an alternative way to sustain the momentum of non-oil exports. Their concern was similar to that of the textile industrialists, particularly the spinners. On the one hand, the textile makers were expected to help cotton producers by buying all of the domestic production at a pre-determined price higher than the world market price. On the other hand, they said, they too should be supported in producing competitive products for the world market.

The Minister of Trade issued two decisions on the supply pattern for domestic cotton consumption, at the request of Minister Hasrul Harahap in December 1985 (SK no. 1066/Kp/XII/85 and SK No. 1067/Kp/XII/85). In essence, all domestic cotton was to be purchased by the spinners. This was linked to cotton import licences. It might be expected that Indonesia would import 90% of its raw cotton because domestic production equals only 5 to 10 percent of the total
demand. The decision also established a consumption ratio of 10 to 1 between imported and domestic cotton, respectively. If a spinner bought 1 ton of domestic cotton, he would be granted an import licence for 10 tons of foreign cotton.

In response to the regulations, spinners under API met in December 1985 to discuss the new policy. They were disappointed because they were forced to carry the burden of domestic purchases while they were facing difficulties in both domestic and export markets. They were invited by Junior Minister Hasril Harahap for further discussions on cotton policy on January 3, 1986. At that meeting, an agreement was reached between the Junior Minister and the API spinners over a guarantee from the spinners to buy all domestic cotton production, but API asked to control the purchase and distribution of the cotton. This agreement confirmed when API sent telexes, on January 6, 1986, to the Ministers of Trade, Industry, Agriculture, and the Promotion of Export Commodities, to emphasize that they were willing to guarantee the market for domestic cotton.

The distribution system designed for cotton invited criticism from many spinners. API created a formula for cotton distribution, i.e. $J = \frac{K}{S} \times Sp$, meaning that the allocation ($J$) for every spinner using cotton was the amount of total domestic cotton production ($K$) divided by total spindles in the country ($S$) times the number of spindles the particular mill owned ($Sp$). The last part of the formula was adjusted to account for differences in the type of
spinning mills. For example, if the machines used 100 percent cotton, all of the spindles were counted, but only 50% were counted, if the mill used mixed fiber. This was called a "prorata" system. In this case, API played an important role as an intermediary between domestic cotton producers and spinners, and between foreign cotton exporters and spinners. The burden of buying domestic cotton was imposed only on the cotton users who oriented themselves entirely to the domestic market, not on textile exporters who mostly produced fabrics of synthetic yarn.

The President of P.T. Textra Amspin, Ir. H. Aminuddin, opposed this plan and suggested an alternative scheme. At first glance, Aminuddin's equation for the allocation of domestic cotton was similar to API's scheme, using the total spindles in the country, divided by the spindles owned by a spinner, times all domestic cotton. Aminuddin called it "beban tanggung renteng," an even distribution among all of the existing spinners. While the first idea was to distribute cotton among cotton users, Aminuddin's concept was to distribute domestic cotton among all of the spinners—including the synthetic spinners—so that each spinner shared equally a relatively small burden. Moreover, he said that API should play a role only as an arbiter, and the transactions should be triangular: cotton supplier, bank, and cotton consumers (spinners). This counter scheme was rejected by API executives and the original idea was implemented.
Hence, the issue boiled down to a conflict between non-exporting spinners and exporting spinners, the latter mostly large and integrated industries. This allocation scheme developed into the establishment of P.T. CBTI on January 13, 1986. CBTI was intended to function as a trading house, a private company controlled by the prominent executives of API: Musa (Damatex Group), Ian Daskian (Primatexco), H. Tjokroseputro (Batik Keris/Dan Liris/Tri Rempoa), Fahmy Chatib (Mulia Knitting Factory), Setiono (Maligi, Panin Group), Mintardjo Halim (Sandratex), Govindasamy Munusamy (Texmaco), Eddy Supardy (Primatexco), Willy Brata (Damatex Group) and Chan Wing Wah (Damatex Group). These individuals are large-scale industrialists who are also major exporters of garments, fabrics, and yarns. Officials from the Ministry of Trade responsible for the promotion of non-oil exports are supportive of API and its executives because they play a major role in earning foreign exchange.

The Ministry of Industry was cautious in responding to the establishment of PT. CBTI. One of the Ministry's basic policies was to develop an "industrial tree" based upon diversification. Under this policy, the relationship between up-stream and down-stream industries should be balanced; the domination of large companies over small companies was to be avoided. 75

P.T. CBTI was granted sole import licences for cotton by the Ministry of Trade (SK no. 70/Kp/II/86) and synthetic fiber (SK no. 82/Kp/II/86). The purpose was to strengthen the bargaining position
of Indonesian importers vis-a-vis foreign exporters, to save
Indonesian foreign reserves, and to protect domestic producers. With
this new authority, P.T. CBTI devised "Sertifikat Potongan Harga," a
discount certificate (no. 02/SK/CBTI/IV/86) intended to substitute
for export certificates as an incentive for textile exporters. It is
not against the Code for Countervailing Duties of the GATT (signed
by Indonesia in 1985) according to the API executives, because it is
not a government subsidy. P.T. CBTI also imposed a surcharge on
imports of polyester fiber and an administrative fee of 0.125% of
the value of the invoice for the endorsement of the import
document. These were considered unfair trade policies by some
other industrialists. Sukar Samsudi, a small-scale industrialist in
West Java asked, "how can we, the small textile businessmen who own
small-scale mills, subsidize the exporters and large-scale
businessmen, who are mostly foreign investors?"

Thirty spinners led by Ir. H. Aminuddin organized a lobby known
as Sekretariat Bersama Pemintalan (Sekbertal), a joint secretariat
of the spinners, on May 14, 1986. Sekbertal contended that P.T. CBTI
should be owned by the spinning companies instead of the 10
individual persons mentioned above. Also, it said, the surcharge of
Rp. 450.00 per kilogram imposed by PT. CBTI on spinners who do not
buy domestic cotton caused spinners to pay about Rp. 270 million
monthly; this surcharge and CBTI's endorsement fee raised cost and
hurt the promotion of non-oil exports. Sekbertal recommended for
PT.CBTI a "dewan komisaris" or commissioners' council, a supervisory
body common in Indonesia since colonial times, to supervise the executives. As it was, said Sekbertal, CBTI's directors had too much freedom of action with no supervision. According to Aminuddin, it could be expected that CBTI's directors would favor their own business interests.\textsuperscript{78}

The tactic of this anti-CBTI interest group was to launch a public relations campaign in the press while lobbying government officials. This tactic, apparently, was focused on a strategic concern—to avoid letting the textile industry become dominated by a small number of large companies. In principle, this group agreed with the establishment of P.T. CBTI but opposed its role in the industry and the composition of its management. In other words, they did not want "their inventory management controlled and directed by another private company, which actually was their competitor in the business."\textsuperscript{79} This was, therefore, a political issue rather than an economic one.

It seems that the Ministry of Industry favored the position of Sekbertal. It took a number of steps to limit P.T. CBTI. The Director General of the Diverse Industries warned P.T. CBTI by telex in May 1986 that he wanted to emphasize the statement made by the Minister of Industry at the briefing on April 28, 1986 that the government will issue a new policy package to boost the non-oil exports in the near future. Accordingly, the implementation of CBTI policy should be avoided before the issuance of the government policy.\textsuperscript{80}

Later that same month the Director General also stressed that P.T. CBTI should abandon the surcharge, the endorsement fee, and the
administrative fee to correct the market structure; reverse its decision to use discount certificates; and delay import documentation to avoid the production bottlenecks.81

Controversy about P.T. CBTI moved the Minister of Cooperatives, Bustanil Arifin, who was also Minister of Trade ad interim when Minister Rachmat Saleh was in Mecca for religious purposes, to invite P.T. CBTI and Sekbertal to meet with him in June 24, 1986. At this time among other things, the endorsement fee was reduced from 0.125% to 0.0625% and P.T. CBTI was restructured in a more democratic way. The endorsement fee was thereafter to finance the office as well as to textile promotion meetings abroad. The new structure of P.T. CBTI was intended to accommodate the position of Sekbertal, and it was the most difficult task for P.T. CBTI.

The Minister of Trade, Rachmat Saleh, was disappointed with the public controversy over CBTI's efforts. He characterized the key problem as the public disclosure of "unfinished concept". He pointed out to executives of P.T. CBTI that

I do appreciate and fully support your initiative to find ways to promote non-oil exports. However, it is sad to say that it was an abortive measure. We have to recognize that a concept that should be discussed and finalized in private has been made public.82

In private, this was argued by Musa, one of the executives of P.T. CBTI and API, in his interview. According to him, the concept of the API executives was accepted and supported by the Ministry of Trade, and it was considered as a good alternative to the export certificate in the framework of the promotion of non-oil exports.
However, the Minister of Trade asked P.T. CBTI to consult with the affected parties in the spirit of deliberation and consensus. In this context, the P.T. CBTI concept was made public in order to build wider support in the textile community. According to Musa, the mechanism should not be like that. He stressed,

> once the government considers that a policy is good, and it is suitable to the attainment of the national interest, it should create a relevant regulatory policy. I believe that the private sector will follow because it is based upon the national interest.

It has not been the case with the policy of discount certificates and others such as the surcharge and endorsement fees. Even the Ministry of Trade agreed with the concept, but for implementation it recommended consulting with the affected parties in advance.

Conflict over CBTI attracted the attention of President Soeharto. On August 11, 1986, he invited the Minister of Industry, the Minister of Trade ad interim, the Junior Minister for the Promotion of Domestic Products and the Minister of the State Secretariat to discuss the issue. President Soeharto directed their attention to two points: (1) because the security of the domestic cotton market is important, the spinners should buy domestic cotton; (2) the CBTI trading house should in the future be in charge of raw material supply as well as marketing of products. In this context, a reorganized CBTI should represent the interests of all sectors of the textile industry.

However, the reorganization of P.T. CBTI was difficult to implement because points of realignment were precisely those at
issue between the parties. This problem eased when the government set forth two policy packages in October 1986 and January 1987. In short, the monopoly of cotton and synthetic fibre import licences granted to P.T. CBTI was cancelled. Licences were instead given to several state enterprises such as P.T. Cipta Niaga and Sarinah and also to spinners who needed to import cotton or synthetic fiber.

This case study reveals that one policy target of a particular government agency may impinge on another sector of the economy, and so generate conflict between government agencies and between private companies. An interest group or groups may be formed to "win" the process.

The four case studies of this chapter suggest that factors determining textile policy at the implementation level are different from those that influence policy at the formulation level. Economic ideas, the state of the economy, and international variables are important determinants in the formulation process, while bureaucratic politics (especially bureaucratic conflict), private commercial interests, and the personal mediation of President Soeharto are important factors shaping policy implementation.

Notes for Chapter VI


6. Ibid.


8. Ibid.


11. Ibid.

12. Ibid.

13. Ibid.


15. Ibid.


17. Ibid.


19. Ibid.


22. Ibid.

24. Ibid.

25. SH is an abbreviation of Sarjana Hukum, an academic title for a lawyer, and Ibid.

26. Ibid.


34. "Tunda..., Op cit.

35. P.T. Mega Eltra, P.T. Panca Niaga, and P.T. Cipta Niaga have been granted the monopoly of plastic basic materials by the Minister of Trade since October 24, 1984. And P.T. Giwang Selogam has been granted the monopoly of steel basic and intermediate materials. In fact, the prices of the above items are higher than the world market prices.


37. Ibid.


42. Musyawarah is a part of Indonesian culture in which voting is as much as possible avoided (the very last resort) in the decision making process in order to prevent conflict among the society. Indonesian people realize that they are heterogenous and having gigantic conflictual elements. As an alternative, the social and political issues are decided as a result of deliberation.


44. A confidential communication.


46. See,"Kuota Impor Zat ..., Op cit.

47. A confidential communication.


51. Ibid.

52. "Harga Zat Warna ..., Op cit.


61. Ibid.


63. Ibid.


65. Ibid.

66. Ibid.

67. A confidential communication.


70. Ibid.

72. Letter of API no. 171/API/XII/85 dated December 30, 1985, addressed to all spinners under API.


75. Interview with Drs. R.A.R. Soerianata Djoemena.


78. Interview with Ir. H. Aminuddin.


83. Interview with Musa.

CHAPTER VII
CONCLUSION

This study has focused on industrial policy making in a Third World. It has analyzed the factors shaping policy making — factors that frequently contrast with similar variables influencing the policy making process in advanced Western countries. The policy making process for the textile industry in Indonesia under the New Order government (1966 to present) were studied to clarify and define these factors.

The purpose of this inquiry was, first, to examine the political and economic factors surrounding the textile policy making processes in Indonesia. The second purpose was to look at responses of the Indonesian government to problems of the textile industry.

The answers to the main inquiries elaborated in the first chapter should now be clear. This study began by rejecting the findings of previous studies of economic policy making in the Third World (the class school, the state-centric school, and the policy implementation school) because these do not cover and interpret adequately all of the empirical phenomena of the policy making process in Third World countries.
Each of these schools has left some phenomena untouched. The class and the state-centric schools overemphasize the state as a single cohesive unit in the policy making system, so that short-term changes in policies brought about by differences and conflicts among government agencies are not explained. The policy implementation school places too much emphasis on bureaucratic politics so that the long-term sources of government policies or structural and international factors are not integrated for analytical purposes. The shortcomings of these three schools, in essence, lie in their view of governmental policy making as unidimensional.

This study then proposed an alternative conceptual framework to deal with all related factors that influence the Indonesian textile policy making process. The key to this new conceptual framework is perceiving the policy process in two stages or levels of observation: formulation and implementation.

One of the main aims of the present study has been to fill a gap in existing theories of industrial policy making in the Third World by bridging the two controversial mainstreams of research on Third World public policy making. The extent to which this effort has been successful will be determined by further research on other sectors of industry in Third World countries.

This study has focused on textile policy making and has examined the general economic development of the New Order government only in this context. However, it is not sufficient to claim that Indonesian industrial policy making processes are in general determined by the
five factors identified for the textile industry. The Indonesian industrial sector has many other components—automotive, aircraft, steel, plastics, etc. It is true that some points of discussion are linked to issues that also influence other sectors of Indonesian industry. For example, the abandonment of export certificates, eradication of export credits, adherence to economic doctrine(s), bureaucratic conflicts, domestic resource constraints, and contingent effects of world oil price may have impact in other sectors of industry. However, there is a vacuum of data on those sectors. Further research on these other sectors of Indonesian industry would broaden the empirical basis of this analysis of industrial policy in Indonesia, as one example from the Third World.

This study has also dealt with the practical application of its results. The chief concern here is bureaucratic politics that reveal conflicts among government agencies and that may impede economic development as a whole. For example, the promotion of non-oil and gas exports is essential for financing Indonesia's economic development, particularly in the wake of the world oil glut. But at the implementation level, this message can be interpreted differently by government agencies—particularly the Ministry of Industry versus the Ministry of Trade—with major effects on export activities.

This phenomenon is not unique to Indonesia. The People's Republic of China (PRC), for example, has experienced similar problems pertaining to water issues. Moves to overcome the issue of
water or flood control invite conflict between the Ministry of Water Conservancy, interested in the conservation of water for agricultural purposes or flood control, and the Ministry of Electrical Power, interested in water power for electrical generation, to supply adequate energy to the country for the development as a whole. As a result, many technical issues must be brought to the highest level of the policy making system because they cannot be decided at ministerial levels. In order to reduce the burden of policy making in the highest level, Zhao Ziyang, the prime minister of the PRC, merged two ministries in 1982 into one ministry called the Ministry of Water Conservancy and Electric Power.\(^1\)

In other major Third World countries, such as South Korea and Brazil, the Ministry of Industry and the Ministry of Trade are combined. For example, it is *Secretario de Industria e Commercio* in Brazil and the "Ministry of Trade and Industry" in South Korea. Advanced countries such as Japan have followed a similar pattern, creating of the "Ministry of International Trade and Industry" (MITI) because industrial policy and commercial policy are interlocking. Dr. Soemitro Ojojohadikusumo, in his new book *Perdagangan dan Industri dalam Pembangunan*\(^2\) skillfully articulated the interrelation between industrial and commercial issues in Indonesia.

However, the merger and splitting apart of the Ministry of Water Conservancy and the Ministry of Electrical Power in China on several previous occasions suggests that merger has not always been an
effective remedy to bureaucratic conflicts of interest, which may persist within government organs.  

Bureaucratic infighting in Indonesia over textile policy has produced situations where President Soeharto must intervene. Relative to textiles, no conflict has appeared as severe as the situation in the PRC. The merger of the Ministry of Industry and the Ministry of Trade in Indonesia is one option for the overcoming the bureaucratic conflict concerning the promotion of exports. The merger itself might provoke internal conflict within the ministries, and it would reduce the administrative positions despite the fact that the operational positions would be the same to accommodate the operational posts of the two ministries.

In the Indonesian context, bureaucratic conflicts have impeded, for example, the promotion of non-oil and gas exports. Consolidation of ministries does not appear to be a sound approach, not because it is politically infeasible, but because it would raise serious questions of over-concentration of power in one bureaucratic unit.

Communication among ministries is a notorious problem in many Third World countries, often requiring that messages travel vertically to the top of one ministry, horizontally at the ministerial level, and then vertically back down through the second ministry. In the Indonesian case, this problem could perhaps be overcome by establishing an office of Junior Minister for Export Promotion. The function of the new office would primarily be
inter-agency coordination so that the dynamic problems of Indonesian exports and international trade could be overcome by the coordination of the all relevant government agencies to facilitate the exports. Interlocking problems and hesitation to cross administrative boundaries could be mitigated by the new framework. This formula has already been implemented in relation to housing, the promotion of estate crops, and the promotion of the utilization of domestic products.

Variables Affecting Indonesian Textile Policy.

One main purpose of this study has been to identify the variables affecting governmental textile policy in Indonesia.

Before answering this inquiry, I tried to review, in chapter II, the history of the textile industry in Indonesia encompassing the main features of government textile policies since the colonial era and the major problems faced by the industry in previous post-independence governments.

Four important historical factors appear to influenced the Indonesian textile industry and government policies toward it. First, Indonesia is an archipelagic country of different ethnic groups and different cultural tastes in textiles, so that the market for textiles is fragmented along these lines. Second, heavy international competition from such countries as India and England has impeded, to some extent, the development of the domestic textile
industry. Indonesia has lagged behind the other major textile producing countries in Asia. Third, government involvement in the industry has changed significantly from time to time. Government intervention was relatively less in the colonial era but became more pronounced after independence. The development of the industry has been strongly influenced by the degree of government support. Fourth, the capacity of the government for involvement in the textile industry has been determined by the condition of the global market for primary products. For example, the booming world market for rubber during the Korean war allowed the Indonesian government to give more support to the textile industry.

One of the aims of the historical review of Chapter II was to introduce the context of Indonesian textile policies prior to the New Order government, while demonstrating that there were gaps between the formulation of policy and what might be implemented in Indonesia. The gap between formulation and implementation, for example, was wider in the early years of independence because of the presence of Dutch soldiers and the general political instability in the country. Accordingly, observing the dual levels, formulation and implementation, in the Indonesia's policy making processes is essential for studying the Indonesian policy making because it insures inclusion of all relevant factors in the analysis, particularly the discussion of the unimplemented policies.
The study has tried to display the variables influencing policy formulation in chapters III, IV, and V and to delineate the factors shaping policy implementation in chapter VI.

Chapter III argued that governmental industrial policy in Indonesia is generated by economic doctrines that prevail in the minds of policy makers. President Soeharto is committed to developing the country's economy following nationalist economic doctrine. However, he will adjust his industrial policy along the lines of monetarist economic doctrine when there is a critical resource or political constraint. In other words, President Soeharto selects policy options based upon "the discipline and penalties" of the scarcity of resources.

At critical times in an economic or sometimes political sense (domestic crises), the government technocrats, as the carriers of the monetarist economic doctrine, have been instrumental in paving the way to the international financial institutions as well as to foreign aid. This was revealed clearly in the early years of the New Order government, when it was confronted by two critical economic issues: shortages of basic commodities and a lack of financial resources. The economic crisis was reinforced by questions of political legitimacy at a time when communist elements and the followers of President Sukarno were still vocal and active in the system. Economic stability and economic development were logical points for providing political legitimacy for the New Order government. These were knitted skillfully into an economic
"stabilization and consolidation" strategy as the means of attaining political stability throughout the country.

However, the influence of the monetarist technocrats diminished when domestic constraints were relieved, particularly in 1973 and 1979. At these times, the inclination of Indonesian policy makers toward nationalist economic doctrine was given full play and policies were formulated to support domestic industry. In this context, the textile industry in Indonesia developed conspicuously in production capacity as well as quality during the 1973 through 1981 period. Indonesia began significant exporting of textile products during this period.

The pendulum swung back in 1982, when domestic resource constraints again were aggravated. The monetarist approach to policy was renewed and the government became again restrained in its support for the textile industry. The textile industry has had to face a domestic market glut and protectionist policies imposed by textile importing countries, while the government has implemented monetarist policies of abandoning export certificates, eradicating export credits, promoting industrial efficiency, customs de-bureaucratization, and deregulating monetary and banking systems. In essence, these policies rested on the principle of reducing direct government involvement in the economy.

Chapter IV clarified the meaning of domestic constraints—the changing state of the Indonesian economy and the shifting of governmental policies for the textile industry. Balance of payments
problems have constrained policy makers except at times of heavy demand and high prices for oil or other traditional Indonesian exports. At these times, policy makers enjoyed greater freedom in formulating industrial policies with less concern for the budgetary and revenue implications of their policies.

Chapter IV also focused on domestic political constraints. Stable prices of basic commodities and sustained economic development have been essential for political as well as economic reasons. These issues, whether chosen by the New Order or imposed on it by circumstances, remain fundamental for the political legitimacy of the New Order government. The principal elements of this legitimacy are economic, it contrasts dramatically with the previous government which emphasized political motives, especially utilizing mass political activities, while neglecting the economy of the country. In this context, communist elements and the followers of President Sukarno who were still prevalent in Indonesia at the outset of the New Order made it unrealistic for President Soeharto to allow prices of textiles and foods to go up in the early years of the New Order government. This constraint led to policies of importing finished textiles. While this policy had adverse consequences for the Indonesian textile industry, particularly the small-scale textile producers, it was a political imperative. The policy of importing finished textiles has been resumed from time to time when the domestic market has faced shortages of supply or problems of inflation.
Chapter V argued that international variables, particularly the Multifibre Arrangement and the protectionist policies of the textile importing countries, have significantly influenced the formulation of governmental policy for textile exports.

The Indonesian government is interested in expanding its textile exports and has formulated policies that encourage exports. This was evidenced in the policy of using export certificates and credit exports to boost non-oil and gas exports because of the unreliability of oil income. Export earnings are highly rated by policy makers for financing economic development, particularly in critical times of the world oil glut.

However, these incentive policies were abandoned under pressure from importing countries. It is true that a general liberalization of the Indonesian economy has taken place since 1982, when the effects of the oil glut began to take their toll in the Indonesian economy. However, abandoning the export certificates and the eradication of the export credits were policy changes that resulted directly from external pressures. All of Indonesia's key policy makers would have preferred to keep these incentives because they energized textile exports, but the external consequences (restrictions from importing countries) would have done more damage to the Indonesian textile industry than these policies could possibly have countered, so the policies were dropped.

External pressures have been manifested in the insistence by importing countries, particularly the United States, that textile
producing countries limit exports and abandon government subsidies. The Indonesian government, even in the face of considerable domestic sentiment not to "give in" to international pressure, could not afford to risk the loss of its export market at a critical stage in the development of the textile industry.

The international variables may also affect the textile industry and governmental policy in positive terms. The explosion of Indonesian textile exports in the 1970s was partly attributable to the quantitative restrictions imposed by importing countries on traditional textile exporters such as Hongkong, South Korea, and Taiwan. The reduction of textile supplies in the advanced countries caused by these quotas induced the Indonesian government to formulate policies that encouraged textile exports.

In sum, it can be inferred that the formulation of Indonesian textile policy has been primarily influenced by the combination of three factors: economic doctrines (ideas), domestic political and resource constraints, and international variables. The mix and balance of these variables may differ for specific circumstances and policies but all must be given careful analysis.

Chapter VI defines the factors that shape the policy implementation process by examining four case studies: a restructuring program, the dyestuff protective policy, the synthetic yarn import policy, and the conflict over CBTI.

Five generalizations for the policy implementation process in Indonesia were drawn from these case studies. First, no single
government agency is unilaterally in charge of the implementation of any government textile policy. Policy implementation evolved under pressure from all sides. Second, the successful implementation of textile policy is determined by harmonious relationships among government agencies over a specific policy issue. Consequently, if there are conflicting opinions among government officials, implementation is likely to fail. Third, private businessmen do participate in the Indonesian policy making process, especially in the role of pressure group when there is conflict among government agencies. This was clearly demonstrated in the role of private businessmen in rejecting the cotton import monopoly rights given by the government to P.T. CBTI. It should be noted, however, that businessmen have more difficulty than bureaucrats in finding a common position and, consequently, business interests are less effective in articulating a strong united position vis-a-vis government policy. Fourth, government agencies seek a consensual formula between beneficiaries and affected parties in order to avoid major conflicts among the elements of domestic industry. And fifth, President Soeharto involves himself in the process primarily as an arbiter in soliciting an acceptable formula based upon his judgment in an effort to end the conflict.

These generalizations demonstrate that bureaucratic politics and presidential mediation are two important variables that influence textile policy implementation. Presidential mediation is closely tied to bureaucratic politics when the conflict involves high level
Officials. As bureaucratic conflicts deepen, that is, as more high-level officials become involved, or, as time drags on without consensus, or as the conflict becomes more public—indeed, the more the burden of policy making moves to the hands of President Soeharto because he retains the image of spokesman for the national interest—using his position as Bapak, a patron, can resolve bureaucratic or private conflicts based on selfish interests or narrow doctrine. Moreover, his political position in the system is such that mortal enemies can come together at his direction, saving great "face" and finding a workable compromise, in an otherwise deadlocked situation.

Accordingly, textile policy making in Indonesia has been determined by a combination of five factors: (1) ideas, (2) domestic political and resource constraints, (3) international variables, (4) bureaucratic politics, and (5) presidential mediation. The first three factors influenced primarily policy formulation, while the last two factors shape primarily the implementation processes of textile policy. In light of this framework, the textile policy shiftings in 1966, 1969, and 1982 can be explained adequately by the changing of these inter-related factors.

Notes for Chapter VII


3. The merger between the Ministry of Water Conservancy and the Ministry of Electrical Power occurred several times prior to 1982. The government did separate the Ministry of Water Conservancy and Electrical Power again and again because the merger did not effectively mitigate the conflict between the two government agencies.
APPENDIX
Names of persons interviewed

Akip, T., Text. Ing., President Director of Pt. UNICO Consultants.
Ali, T. Asyik, Drs., Special Assistant to the Minister of Trade
Ali, T. Umar, Drs., Secretary General of the Ministry of Trade.
Aminuddin, H., Ir., President Director of P.T. Textra Amspin.
Brown, Karen, the economic officer of the US Embassy in Jakarta.
Chatib, Fachmi, Drs., Secretary General of the Indonesian Textile Association.
Daskian, Ian, Drs., Director of P.T. Primatexco.
Djafrin, Chamroel, Ir., an Industrial Attache of the Indonesian Embassy in Washington, D.C.
Djasman, K., Drs., a staff of the Chamber of Commerce and Industry.
Djoemena, R.A.R. Soerianata, Drs., Director of the Textile Industry, the Ministry of Industry.
Ishikawa, K., JETRO, Jakarta Office.
Ismartono, Yul, JETRO, Jakarta Office.
Jaktl, Dorodiatun K., Dr., Professor of Economics of the University of Indonesia.
Martadi, Alif, Drs., a Lecturer of the Academy of Industry.
Murdoko, Wibowo, Ir., Director of P.N. Sandang I, Jakarta.
Musa, Director of P.T. Damatex, and an executive of A.P.I.:
Nawi, Ismail, Ir. a staff of Badan Pengkajian dan Penerapan Teknologi, a Technological Evaluation and Implementation Board.
Pamengkas, Sri Bintang, Dr., an expert of Yayasan Bina Consultant
Sjaifoen, H., Ir., former Director General of the Textile Industry, the Ministry of Industry.
Sjahri, Dr., an expert of P.T. Indoconsult, Jakarta.
Soedjamoko, Dr., Rector of the University of the United Nations in Tokyo, Japan.
Soemawinata, Sarbini, Professor of University of Indonesia.
Soetjipto, Darmawan, S.H., Secretary of Badan Koordinasi Penanaman Modal (BKPM), the Investment Coordinating Board.
Soesastro, Hadi, Dr., Head of the Economic Bureau of the Center of Strategic and International Studies, Jakarta.
Sridati, Ir., Head of the Research and Data Center of BKPM.
Suheadi, Edy, Director of Export of the Ministry of Trade
Thamrin, an Official of the Ministry of Trade.
Wie, Thee Kian, Dr., an expert of Lembaga Ilmu Pengetahuan Indonesia, an Indonesian Science Academy, Jakarta.
Mono, Sasmita, President Director of Dasatex.
Yasa, I Nengah Artawa, Drs., an official of the Ministry of Trade
GLOSSARY

API

Asosiasi Pertekstilan Indonesia, the Indonesian Textile Association.

Apdyesi

Asosiasi Produsen Dyestuff Indonesia, the Indonesian Dyestuff Producers Association.

Bulog

Badan Urusan Logistik, the national logistic bureau.

CBTI

P.T. Cerat Bina Tekstil Indonesia, a private company owned by the executives of API.

CSIS

The Centre for Strategic and International Studies.

Dra.

Doctoranda, a feminine of Drs.

Drs.

title denoting that its holder has completed all requirements for the doctorate except the dissertation. This title is normally used by the economists or other social scientist, such as sociologists.

Ir.

Insinyur, an engineering degree

Kadin

Kamar Dagang dan Industri, the Chamber of Commerce and Industry.

MFA

The Multifiber Arrangement

Perteksi

Perserikatan Perusahaan Tekstil Seluruh Indonesia, the Indonesian Textile Industries Association.

PIBTI

Persatuan Industri Barang-Jadi Tekstil Indonesia, the Indonesian Garment Industries Association.
Sekbertal  Sekretariat Bersama Pemintalan, a joint secretariat of the spinners.

S.H.  Sarjana Hukum, a law degree
BIBLIOGRAPHY

Books, Articles, Pamphlets, Theses and Unpublished Papers.


Artha, I Made, Masalah Ekspor dan Restrukturisasi Industri Tesktil Indonesia, a paper for Seminar on the Indonesian economy, FE-UI, Jakarta.


254


Holdridge, H. in Focus, the Indonesian Embassy, Washington-DC, Winter, 1983.


Jackson, Karl D. and Lucian W. Pye (Eds), Political Power and Communications in Indonesia, Berkeley, Calif.: Univ. of California Press, 1978.


Joesoef, Daoed, "Masalah Pola Industri, Sekuriti dan Independensi Ekonomi Nasional," in Hadisoesastro and Sutopo.


Oei, Hong Lan, "Indonesia's Economic Stabilization and Rehabilitation Program: An Evaluation," Indonesia, 5, April 1968.


Documents and Government Publications.

Government of Indonesia, Central Bureau of Statistic, Statistical Pocketbook of Indonesia.

- Departemen Penerangan (the Ministry of Information), The Third Five-Year Development Plan, 1979-1984, Jakarta.


- Direktorat Ekspor Hasil Industri dan Pertambangan, Departemen Perdagangan (the Ministry of Trade), Kebijaksanaan Ekspor Produk Industri, Bahan Raker Teknis Departemen Perdagangan tanggal 1 s/d 6 Agustus 1983, Jakarta.


- Biro Hubungan Masyarakat Departemen Perindustrian (the Ministry of Industry), Perkembangan Industri Tekstil di Indonesia, Jakarta, 1976.


- Department of Information of Republic of Indonesia, Address of State delivered by H.E. President Soeharto to Dewan Perwakilan Rakyat Gotong Royong on the eve of Independence Day, August 16, 1968.

- Direktorat Jenderal Industri Tekstil, Buku Petunjuk Industri Tekstil, Jakarta, 1976, Lampiran.


*Newspapers and Magazines*

*API gram*, API, Jakarta, No. 1, 15 March 1986.

*..., No. 2*, API, Jakarta, 15 April 1986.


*Berita Buana*, Jakarta, 26 August 1986.

..., Jakarta, 27 August 1986.


..., August 19, 1986.

..., Jakarta, August, 20, 1986.


______, 3 September 1986.


Jurnal Ekuin, 26 October 1982.

Kompas, Jakarta, 3 May 1982.

Kompas, Jakarta, November 1, 1980.


______, 8 June 1985.


______, 1 September 1987.

______, 3 September 1987

Merdeka, Jakarta, 12 July 1980.


______, 3 November 1982.

______, 8 February 1983.

Prisma, Jakarta, August 8, 1982.

Sinar Harapan, Jakarta, June 20, 1986.


Tempo, Jakarta, October 1, 1982


The Jakarta Post, Jakarta, 10 May 1986.