Reviews

Jürgen B. Donges, Bernd Stecher, Frank Wolter: Industrial Development Policies für Indonesia, Kieler Studien, Institut für Weltwirtschaft an der Universität Kiel, No. 126, Tübingen: J. C. B. Mohr, 1974, 178 pages, DM 38. -

Without doubt, Indonesia is an important economy and is generally considered to have a high growth potential. Indonesia is certainly also a country with a high potential for self-reliant, independent development. There can be no doubt that a study on Indonesia should discuss the question that has come to occupy an important, but as yet underestimated position in the whole development issue, namely, as to whether the developing countries should concentrate their resources on maximizing the rate of economic growth (the rate of income per head) or whether they should pursue wider objectives summarized in the phrase ' economic independence' (i. e. reducing the degree of dependence and domination).

The usual assumption in the developing countries and in the specialist literature on them is that the object of economic policy is to maximize growth. This assumption, however, is at best half true: at least as high a priority is given to the achievement of economic independence. Thus the possibility of conflict about the goals of economic policy arises. Is the object of policy to be growth (defined as increase of average income), or is it to be development (defined as transformation of economic and social structures), or is it to be independence (defined as reducing domination and dependence), or could it be that some kinds of economic independence in fact increase the possibility of growth and development because they make possible a more rational distribution of resources?

The study in hand is intended to enhance the understanding of industrialization problems in Indonesia and to help stimulate discussion of industrialization strategies not only in Indonesia but elsewhere. It has emerged from a research project commissioned from the Institut für Weltwirtschaft by the German Ministry of Economic Cooperation as part of an international policy-oriented research programme which had been launched jointly by Indonesia' s National Development Planning Board and the Harvard University Development Advisory Group in Jakarta. It is research work on industrial development policies for Indonesia by Germans - not by Indonesians! Although the investigation is based on fieldwork undertaken in Indonesia in 1973, and industrial development policy has undergone certain changes since then, it is still worthwhile reading. And this for various reasons: firstly, the study was prepared when the second five year development plan for Indonesia (1974/75 - 1978/79) was being formulated; secondly, it gives quite comprehensive statistical information on Indonesia (cf. Statistical Annex, pp. 131-171); thirdly, this book is a prototype of numerous studies on the development issue undertaken by the Kiel Institut für Weltwirtschaft by the same authors.

Of paramount interest in the book are three fields of decision
- the selection of which industries to choose and to promote;
- the choice of industrial location;
- the instruments of economic policy required to guide industrialization into desired patterns.

Basically, these fields are investigated in economic terms and with a neoclassical approach: allocation of resources according to the principle of comparative advantage, and the responsibility of the state (or a central planning agency) for deciding the development strategies. In the actual case at hand, these principles are salted with a personal prejudice (which, admittedly, is stated on page 4 of the Introduction: "We shall argue that... Indonesia can more effectively promote industrialization... by encouraging industries which can develop an export potential..., instead of fostering domestic market industries only").

Integration into or association with the international economic system, not selective integration or (temporary) dissociation, these are the anticipated conclusions of the authors (and the Institute as well). The authors suggest that the prime object of policy ought to be economic growth. No reasons are given or conditions suggested under which a higher priority might be given to economic independence, and a choice made in favour of reducing domination and dependence at the cost of growth - although this might probably achieve popular support in the developing country itself...

The policy suggestions of this study (pp. 100-125) and the conclusions (pp. 126-130) are as would be expected. Despite the fact that the authors deplore the insufficient and unreliable information basis: "The results obtained... are promising enough to justify subsequent efforts towards industrialization... The case for industrialization rests on sceptical views about the contribution that agriculture and mining can make" (p. 126). Agriculture and mining, however, were not the subject of this study! Furthermore: "Industrialization...promises substantial social returns in terms of making the society more dynamic" (p. 126); "the Government is correct in stimulating industrial growth by means of specific incentives" ... it should "reduce import tariffs and restructure them substantially, and, most important, switch from a policy of effectively discriminating against manufacture exports to one of actively promoting them" (p. 127). It is striking that in contrast to this nothing is said about the social costs of industrialization or of the returns through stimulating agriculture and handicraft, or of the benefits in switching to a policy of effectively promoting national integration and the domestic market. More or less ignoring the major opportunities of Indonesia as a national and regional economy, the authors point to the "experiences in many other less developed countries" (p. 114) to discredit import substitution and to promote export expansion. In this was they strongly advocate export-promoting policies: "More consideration should be given to export incentives than has been the case hitherto" (p. 118). Singapore - an example for Indonesia? Furthermore, they launch the idea of isolated free-trade areas and claim this as "perhaps the most promising means of promoting manufactured exports" (p. 120). Fortunately, the authors have second thoughts about this proposal: "Government... should not lead it to such an extreme that the country would be deprived of the (net) gains to be reaped from these activities. The social costs of giving incentives to foreign manufacturing for exports have to be evaluated..." (p. 121). Fortunately also, they think it worthwhile to seek to improve regional economic integration among the ASEAN countries: "The Indonesian Government should not renounce the integration but encourage ...; such a focus on the ASEAN countries marked could serve as a means of learning the exporting.." (p. 124-125). These final remarks do not essentially alter the overall impression gained from this book and the impact it has on the general philosophy of the Institute, which is based on high expectations of the net gains from the integration of developing countries into the international economic system. However, they also give some hints in the direction that decentralization, regional and local trade may be important for the overall development issue - or to put it in a different way: Small is beautiful, small is possible!

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