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Domestic Capital in the Evolution of Nationalist Auto development Policy in Indonesia: From Instrumental to Structural Power

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For almost two decades Indonesia has had the largest automotive industry in Southeast Asia and one of the largest amongst developing countries. The assembly of vehicles in significant volume began in 1969, the production of simple components in the early 1970s, and the incorporation of locally-produced major components such as engines in the early 1980s. The policy environment created by state promotion of the industry was an important prerequisite for this industrial transformation, with heavy tariffs levied on built-up imports, the progressive incorporation of locally-produced components in final assembly made compulsory and, until recently, sedan imports banned outright. The industry is thus a concrete symbol of the government's development strategy of promoting sophisticated industries through selective controls on foreign investment and trade.

In recent years these policies have been surrounded by mounting controversy. The industry has a well-earned reputation for inefficiency, with a large number of firms producing for a small and protected market. Domestically, much criticism has been levelled at the government for failing to rationalise the industry and create conditions that may lead to a reduction in the exorbitant prices of motor vehicles. Over the last decade criticism has focused increasingly on the industry's pattern of ownership, for the assembly and manufacture of vehicles in Indonesia has come to be dominated by some of the largest corporations in Southeast Asia.

The shape of auto development policy first became less certain when the inflow of oil revenues slowed in the mid-1980s, and various political and business forces sought to whittle away this protective wall. Pressures from downstream assemblers seeking a relaxation of local content requirements combined with the proposals of liberal-minded technocrats to produce a partial erosion of the automotive industrialisation strategy that had permitted the growth of these corporate groups. As moves to liberalise trade in other sectors of the economy gathered pace after 1988, the protection afforded to local auto producers attracted mounting criticism. Since 1991 in particular, the spectre of liberalisation has haunted the industry, with repeated ministerial statements warning that deregulation was imminent. However, despite such pressures for the repeal of protectionist decrees, the Government has been unable to agree on a deregulatory package that would threaten these corporate interests. Indeed, when the deregulation of the industry was finally announced in June 1993 the new trade regime, far from representing the liberalisation of trade in auto imports, simply substituted absolute prohibitions on certain vehicle imports with prohibitive tariffs on all. The major elements of the existing policy framework remain intact; the industry is still one of the most highly regulated
in the modern sector; the major corporations are still moving into upstream component manufacture; and the security of sunk investments has not been seriously threatened.

The first objective of this article is to trace the historical roots of nationalist policies in this industry and the forces which sustained these policies in the following decades. Initially, it was the political desire to build an integrated industrial sector that legitimised protectionist policies for the industry. This commitment is still strong, and the delay in deregulating the industry may be attributed partly to opposition from B.J. Habibie, the powerful Minister for Science and Technology who favours state co-ordinated industrialisation policies. Behind this reluctance to force through effective deregulation lies the power of the conglomerates. To state my conclusion at the outset, it is argued that the investments of these major national corporate groups now maintain the policy status quo.

The protection extended to sectors of national business in the form of state policy raises issues that go beyond questions of policy choice, involving the relationship between state and capital under President Soeharto's 'New Order' regime. What was the nature of that relationship when the auto industrialisation policy was being formulated, and how did this effect the choice of development strategy? What variables effected policy-making in subsequent periods, and what does this tell us about the changing relationship between state and capital in the industry after twenty-five years of relatively steady expansion? In particular, in what sense has 'capital' come to dominate 'state' in this industry, and what is the mechanism by which business influences policy-making today? The second purpose of this article is to compare automotive industrialisation in a number of Third World countries to suggest an appropriate political economy framework for analysis of a major industry in Indonesia's rapidly expanding modern sector.

Before examining the development of the industry itself, it will be instructive to review some recent analyses of the politics of economic policy-making in Indonesia in order to highlight the issues to be discussed and elaborate on the framework which will be developed below.

**Some Analytical Perspectives on Indonesia's Industrialisation**

One of the best known observers of contemporary politics in Indonesia is William Liddle, who in recent years has written widely on processes of economic policy-making. His main concern in these writings has been to encourage observers of the Indonesian political economy to pay more attention to the specific manner in which state and non-state interest groups interact to shape
economic policy. He finds, for example, that groups ranging from farmers, producers and urban consumers to parliamentarians, intellectuals and journalists have been able to influence policy processes on many occasions, often in decisive ways. They have chiefly done so, however, because of support from within the apparatus.

'Much of the influence exerted by groups outside government is indirect and dependent on individuals and groups inside government, where most resources that give weight to political demands are concentrated.'

It is therefore vital to focus on the particular perceptions and interests of power-holders in order to ascertain the extent to which they have adapted to, or pre-empted, outside pressures.

A related theoretical concern in Liddle's analysis has been to correct what he considers a tendency towards over-abstraction, and he specifically warns against this tendency in traditional economic structuralism and more recent state-centred approaches. The search for general trends is an important part of the academic exercise, 'but the desire to generalise can get in the way of the more basic objective of development policy analysis, which is to solve problems facing the economy and society.' In particular, an over-deterministic approach can lead analysts to ignore possible development alternatives, including the very real capacity of leaders to make unexpected decisions.

'What is sacrificed is the sensibility necessary to appreciate the range of possible actions a decision-maker might in fact take, and with it the range of variables or combinations of variables that might influence his or her decision.'

Liddle proposes instead an instrumentalist approach that focuses on the specific personalities and aspirations of political leaders to find why one policy option is chosen over another. Clearly, processes of broad economic and social change influence policy-making, but they do not predetermine development strategies and are important chiefly to the extent that they impact on decision-makers. Leaders have greater autonomy from social influences than is often realised, argues Liddle, and to accurately describe those factors that influence policy-making we should therefore 'adopt the perspective of the Third World politician who wants to get in power and stay there, and who needs some kind of economic policy.'

For Indonesia specifically, Liddle considers the years immediately following the 1965-66 collapse of the fragile regime led by President Sukarno as the formative period in economic policy-making, establishing the basic policy orientation of the New Order. Powerful cultural
factors favoured a continuation of the statist and nationalist policies of the *ancien regime*, but were counterbalanced by political forces urging that these policies be repudiated and the economy opened up to new investment. In this situation, one in which there was no clear policy consensus on solutions to the economic crisis Indonesia then faced, Soeharto's own preferences became critical. He may have personally favoured a nationalist policy orientation, but his flexibility led him to rely on the advice of the technocrats. Once this commitment had been made, a policy coalition was built around policies encouraging foreign investment.

The subsequent success of this formula lent itself to repetition, and the pattern of policy-making has largely remained the same. Soeharto thus may not personally believe in the superiority of market forces, and has at various times supported economic nationalists within the cabinet and bureaucracy. However, his political dexterity has generally led him to calculate that his political interests will be best served by maintaining the outward-oriented and pro-market policies of the technocrats. For example, when the state oil corporation, Pertamina, defaulted on massive loan repayments in the mid-1970s, Soeharto played the crucial policy-making role, reining in its activities and disciplining its chairman, General Ibnu Sutowo. Economic policy-making today is still essentially the outcome of negotiations between technocrats and economic nationalists within the apparatus, with Soeharto as the *primus inter pares* determining broad policy directions and forging supportive political coalitions. In this instrumentalist perspective, the most important variable determining whether state protection for particular industries is maintained is whether Soeharto will continue to support the technocrats against nationalists entrenched within the state apparatus.

Liddle's observations on the importance of political choice are apposite and remind us that there is no direct link between economic trends and the policies decision-makers eventually adopt. We can also accept that the involvement of political leaders may be decisive at certain junctures, and that once a choice is made between difficult policy options it can set a precedent that will be repeated, at least initially. But it is also the case that leaders filter a range of pressures when weighing up policy alternatives and possible outcomes, judgements which may be shaped by other, perhaps more fundamental, variables. In 1966, for example, it was the structural economic crisis itself which critically weakened the political influence of the advocates of economic *dirigisme*, as Liddle acknowledges. Moreover, the need to build a coalition to support a particular policy orientation severely qualifies the autonomy the political leadership is said to have in determining development strategy. As illustrated below in the case of the auto industry, the mood of burgeoning economic nationalism which permeated both the business sector and the apparatus in the late 1970s made it unlikely that even a politician as skilful as Soeharto could
forge a viable coalition other than one that favoured a nationalist industrial strategy. Much of Liddle's empirical research has focused on commodity trade and production, sectors that are more subject to political control and where the political struggles Liddle describes are more likely to have a bearing on policy outcomes. For the modern manufacturing sector, however, we need an approach which can also account for business influence in shaping the policy concerns of decision-makers.

Another scholar has made an interesting attempt to explain the Southeast Asian political economy in terms of state-business interaction. Richard Doner starts from the position that political decisions are crucial to the development process, and remarks that analysts have often underestimated the importance of state intervention. He also believes, though, that state-centred accounts are, by themselves, incomplete. In the first place, a strong state may actually be anti-developmental if its leaders are not committed to economic expansion. Moreover, the nature and extent of state autonomy from social forces varies over time, and we need to take account of the range of factors that affect state capacities. Most importantly, on closer examination he finds that recent developmental 'success stories' have actually been driven by powerful state-business coalitions, and recommends we pay closer attention to the precise way in which business shapes policy; as the concluding chapter of a recent work suggests, we should 'Take Third World Capital Seriously'.

Doner has proposed a form of 'inclusionary institutionalism' to examine how the business community interacts with state planners in solving particular development problems. Outlining in greater detail this 'post-statist developmental framework', Doner draws, eclectically, on a range of variables to explain state-business interaction. In certain situations the policy preferences of political leaders will be crucial in determining development outcomes, while structural economic factors limit the range of options available to planners. The distinctive feature of this framework, however, is the emphasis on the relationship between state and national capital. 'The core of the development framework proposed here is a more explicit exploration of, and openness to, the developmental roles of private-public sector linkages.'

The relevant variables in this essentially pluralist framework are the degree to which business is formally organised into representative interest associations, the extent to which the state apparatus is able to develop its own policy priorities independent of particularist business pressures, and the intensity of collaboration between private and public interests. State economic intervention is most effective when policy-makers are supported by business
associations or major sectors of national capital, for such 'ruling coalitions' can greatly improve the state's capacity to bargain effectively with international capital.

In an extensive empirical study of the auto industry in Southeast Asia, Doner finds that such successful state-business coalitions largely account for the emergence of large capitalist groups in the region. The success of nationalist restrictions on foreign capital 'resulted from coalitional arrangements involving regular exchanges of authority and resources between organized business interests and the government officials responsible for the sector in question'. In the Indonesian case, Doner describes how the success of corporate groups based on auto production was largely due to alliances with nationalist elements in the bureaucracy. The tendency for Japanese industry to relocate to Southeast Asia certainly encouraged their growth, which was also protected by state officials who had long harboured industrial aspirations. However, it is the nature of the relationship between state and business that critically affected the ability of national firms to extract benefits from international capital. Organised partnerships between state and capital in Indonesia remained weak, and the benefits thus gained were less than in Malaysia, for example. Intimate and particularistic ties between business and state did emerge though, and it was these alliances that constituted the force behind Indonesia's auto industrialisation drive.

Although this dominant political-economic alliance was threatened when the economic downturn of the mid-1980s strengthened state and business forces opposed to industrialisation, its political resources and internal unity have generally been maintained.

This pluralist approach to the politics of development in Southeast Asia thus provides us with a broader analytical framework which can account for the crucial role of business in the formulation and implementation of policies. It is a useful reminder of the interdependence between economic and political factors, and provides us with a more nuanced understanding of how this relationship can change over time. At the same time we also need to account for the structural factors that make certain state-business alliances successful in shaping policy decisions, while devaluing others. As Doner notes, technical considerations become more important as industrialisation proceeds, which implies that investment decisions are limited increasingly by structural economic factors. This indicates a need to take account of the international economic forces that encourage particular capitalist fractions to seek alliances with sectors of the state. In our case, we need to examine the shifts in international investment that created opportunities for prominent national capitalists to invest in the state's auto component programme, and the process by which their foreign partners became involved.
A third scholar who has also written widely on economic policy-making in Indonesia is Richard Robison, who uses a marriage of statist and economic structuralist approaches to analyse the political economies of Southeast Asia. He notes that statist ideologies are strong throughout the region, and finds that this largely accounts for the readiness of political leaders to intervene in the economy. Yet capital-owning classes have also become more powerful in these countries, and the domination of their economies by politicians and bureaucrats is no longer assured. The crux of Robison's argument is that the manner in which these rising social forces interact with state structures involves variables that go beyond the direct influence of particular business or government figures; it 'depends largely upon the conjuncture of state action and the configuration of social and economic power, thus bringing us back to the ultimate conditioning role of structural factors.'

According to Robison, the relationship between state and capital in Southeast Asia has been one in which capitalist expansion was based on patrimonial ties to political elites, leading to the emergence of 'bureaucratic capitalist' classes throughout the region. In the Newly Industrialising Countries (NICs) of East Asia, by contrast, such patrimonial links were secondary. The relationship between state and capital did have patrimonial aspects, but these countries were better placed to overcome economic crises because of the nature of the political influence of business over state planning.

'The influence of capital over the state was largely structural in nature, deriving from its critical position as the emerging engine of economic growth and industrialisation. While the state possessed the autonomy to override the short-term interests of fractions and individual firms, ...planners and politicians had always to be wary of the risk of provoking capital flight from long-term domestic industrial investment.'

For Robison, the central issue for the political economies of the countries of Southeast Asia today is whether bureaucratic capitalists, whose economic power is based on state power, can resist the pull towards a structural relationship between state and capital, a relationship in which political power is rooted in the processes of capital accumulation. Robison explains the nationalist economic policies of the recent past in Indonesia as a combination of ideological concerns, evolving social structures and changing economic circumstances. The ideological roots of these policies go back at least to the 1950s, but it was the improved economic conditions of the New Order period that allowed state planners to begin implementing these ideals. In the early years of the New Order a 'pact of domination' was formed between government leaders and certain social forces, in this case a weak domestic bourgeoisie. In the following decades a combination of state protection and market-oriented
macro-economic policies conducive to growth led to the phenomenal expansion of these corporate groups, reinforcing the state's nationalist orientation. Using their access to political authority, state managers could now direct the allocation of productive assets. Providing protection to an expanding domestic bourgeoisie in the 1970s and early 1980s, policies of industrial deepening became an integral part of the state's development agenda.

"With the blurring of the boundary between political power and bureaucratic authority, an increasing fusion of political-bureaucratic power and corporate capital ownership had developed, which constituted one of the driving forces behind the growth of private domestic capital in this period."xxvi

In this perspective, the state's difficulties in deregulating the auto industry exemplifies the struggle between state-corporate alliances and structural pressures to subject political power to the logic of capital accumulation.

This review has thus outlined three different approaches to the process of economic policy-making in Indonesia. Notwithstanding obvious differences in terminology, these approaches have much in common. All three scholars note that structural factors condition but do not determine policy decisions, and recognise the importance of political choice. They would agree that leaders can make unpredictable policy decisions which may subsequently gather support, and emphasise the need for specificity in describing how social and political forces interact. They also note that the state commitment to nationalist policies in Indonesia is coming under strain, and that there are mounting pressures for the regularisation of state-business relations. Nor are these three approaches mutually exclusive. Structural shifts in the global economy, such as the tendency for manufacturing to relocate to developing countries, will create new opportunities for state policy-makers, perhaps increasing the importance of the ideological commitment of state personnel. It will also affect the viability of different state-business coalitions. Both Doner and Liddle recognise this. However, these approaches carry different methodological assumptions about the factors sustaining nationalist development policies, differences with an important bearing on whether such policies are likely to persist.

According to the instrumentalist approach, protectionist industrialisation policies emerged from a process of bargaining between officials, a process overseen by a powerful President. Nationalist state officials won the authority to realise their aspirations essentially because Soeharto considered that economic and social pressures warranted it. The pluralist approach recognises the importance of economic trends and the role of political leaders, but considers that these policies were implemented effectively after nationalistic planners formed alliances with major
business groups. In Robison's structuralist approach, the nationalist economic policies of the recent past are accounted for by the conjuncture of interests between nationalist-minded officials upholding a statist tradition and business groups willing to take advantage of investment opportunities.

The trick is to try to establish causal links and to ask to what extent such structural shifts limit the range of policy options. To describe the evolution of policy in a highly internationalised industry such as automotive production we therefore need a focused examination, but also a framework which goes beyond instrumental influences on decision-makers or the strength of state-business alliances, one that can encompass the persistence of ideological concerns, the class pressures on policy-makers, and the structural economic factors which limit the range of policy options.

In the following discussion I employ a combination of state-centred and structuralist perspectives to analyse the industry's development. This article demonstrates that different variables have greater explanatory power at different times. Political leaders - including the President - have on various occasions critically affected auto industry policy. Particular government-business alliances have also been instrumental in promulgating nationalist development policies. It is argued here that the persistence of auto industrialisation policy today can best be understood as a combination of the state's ideological interest in industrialisation and the growth of national capitalist groups able to attract international investors.

Indonesia's manufacturing sector has expanded rapidly in the last two decades, and now accounts for some 16 per cent of GDP and is expected to grow to 23 per cent by the year 2000. Although still considerably smaller than Indonesia's booming wood-reprocessing, cigarette, textile and basic metal industries, by the mid-1980s automobile assembly and manufacture had expanded to become Indonesia's tenth largest-industry. From being a very minor producer in 1967, when less than 1,000 vehicles were assembled, production peaked at 271,000 in 1990. According to the Central Bureau of Statistics, auto assembly and component manufacture account for 2.6 per cent of the total national value-added of large and medium-sized firms. Most of this activity is in Jakarta, where it has been calculated that production of motor vehicles accounts for almost 9 per cent of total value-added for the region.

More relevant here than the industry's relative size has been the prominent role of the state in this process of industrialisation. The image often attached to automobile manufacture in Indonesia is of technically-sophisticated goods produced by independent capitalists; business figures in the industry strive to project an image of rugged entrepreneurship. For most of its history, however,
it has been state bureaucrats and ministers that have given impetus to auto industrialisation policy. Interaction between state and capital has been particularly intense in this industry, and the growth of large capitalist groupings based on automobile manufacture can therefore provide an indication of how emerging capitalist groups in Indonesia have effected policy processes. In particular, the growth of the industry can give us a measure of the extent to which structural factors associated with the international division of labour shape policy-making.

The Political Economy of Automotive Industrialisation in the Third World

Automobile production is a complex activity requiring heavy investment, considerable research and development, and, increasingly, the consolidation of sophisticated organisational structures across national borders. Since World War Two production has become steadily more capital- and technology-intensive, economic barriers to new entrants have grown steeper, and the opportunity for autonomous development has correspondingly receded. These structural characteristics favour larger firms, and in both developing and advanced economies the industry has become increasingly dependent on the geographically dispersed operations of a few dozen transnational automotive firms (hereafter ‘auto-TNCs’). The success of national auto industrialisation programmes has therefore come to rest on integration into the global production networks of these automotive giants.xxxiii

In a certain sense, however, these firms are also helpless giants, vulnerable to political pressure to conform to national development goals. The very features that increase a national industry's dependence on auto-TNC investment also make automobile production more susceptible to state regulation than is the case for most industries. Once an international firm has established a market presence and invested in production facilities, it is less able to make use of its ultimate sanction, the threat of withdrawal.

Infant industry policies were, of course, crucial in inducing the spread of auto production to both industrialised and developing economies. ‘Throughout its entire history, almost all foreign direct investment decisions have been prompted by tariff barriers to exports.xxxiv In developing countries, however, the investment behaviour of auto-TNCs after they enter the market is also subject to the industrial aspirations of state planners to a greater extent than in their home markets. As Henry Ford II once remarked, the threat of eventual exclusion required auto-TNCs to adjust their operations to accommodate such aspirations.xxxv
'Whether we like it or not Africa, Asia, Latin America are going all-out into the industrial age... It does no
good to tell them this is all very unsound, that they ought not to try to do so much so fast, that they
should relax and buy from us a lot cheaper than they can make it. They just won't go along; they are
deeply committed to fast industrialisation. If we want to share in those markets, rich and vast as they will some day surely be... we are going to have to go in with our capital and tools
and know-how and help them get the things they want.'

It is therefore appropriate to conceptualise the internationalisation of automotive production as an outcome of the interaction between structural factors and the specific policy climate created by national policies. In the case of developing countries, where the industry has often been subject to intervention by state planners, it is especially important to take this climate into account.

In Third World countries the selection of development objectives is strongly informed by ideological considerations. An influential study of the automotive industry in Mexico suggests that the choices made during the birth of automotive development programmes may become 'embedded orientations', state interests that are 'acquired and institutionalised in the course of its history as the state has responded to problems and opportunities facing it'. Perhaps the most important of such orientations shaping the development of the industry in developing countries has been the importance attached to the development of a strong national bourgeoisie. Although nationalist rhetoric tends to blur the distinction, it is possible to differentiate the industrialisation objective from the desire for economic sovereignty, the drive to construct a resilient industrial sector from the commitment to protect national capital. In other words, during the genesis of automotive development policies the subjective beliefs of key political actors largely determines whether priority is given, on the one hand, to increasing local content (localisation of production) or promoting a national bourgeoisie on the other (indigenisation of ownership).

Three examples illustrate the importance of such choices in shaping the future trajectory of the industry's growth. Brazil was the first Latin American country to target the automotive industry as a leading industrial sector, and the prominent role of the state in promoting the industry has earned it a reputation as 'the epitome of successful import substitution industrialisation'. Both President Vargas and his successor, Kubitshek, took a personal interest in promotion of the automotive industry, and in 1956 a high-powered bureaucratic agency was assigned the task of formulating a basic development plan for the industry. Business was effectively excluded
from the initial policy processes, and this lack of business influence during the genesis of the programme meant that policy focused almost solely on increasing local content. Economic nationalism was thus widely understood within relevant state sectors as the attempt to win auto-TNC compliance with predetermined industrialisation targets.

In the second half of the 1950s state pressure on auto-TNCs to localise production and train a capable managerial class laid the foundations for a period of spectacular growth. A number of auto-TNCs were drawn into the programme, investing heavily in major component production facilities. By 1962 the government's local content goals had been achieved, effectively compressing the development of a full automotive industry into a period of five years. For our purposes, the significant feature of this policy orientation was that the state became involved more deeply in negotiations with auto-TNCs active in the market and on which it relied for realisation of its development targets. In the absence of policies to indigenise ownership and control, the superior access of the international firms to technology and capital meant that it was auto-TNC subsidiaries that were best placed to take advantage of the state-sponsored 'Brazilian miracle' of the 1960s and 1970s. In short, the 'embedded orientation' of the state was to promote rapid localisation, and policy implementation led to a convergence of the state's political interest with the economic interests of the internationalised sector of national capital.

Providing an instructive contrast with the Brazilian case, the move to localise production in India was pioneered by national capital. Significant automotive import substitution first began when supplies to foreign assemblers were disrupted during World War Two. However, the major step towards automobile production came when two national firms drew up plans for complete manufacture in 1944. An important historical theme of the Indian nationalist movement was the belief that the national bourgeoisie should be the proper agent of modernisation, a theme evoked by the pioneering role of national capital in the auto industry. Whereas the development of metal and other heavy industries in the 1950s and 1960s was characterised by extensive state intervention, automotive development policy reserved the industry for national capital, at least partly as a result of these initiatives. In short, the 'embedded orientation' of the Indian state was for automobile production to be carried out under the aegis of national capital.

Restrictions on foreign ownership grew more stringent during implementation of this programme and auto-TNCs were progressively excluded from the industry. By contrast, local firms were provided with a range of inducements to move into manufacture, and by 1968 the local content of three national assemblers exceeded 95 per cent. The element of economic nationalism excluding international capital from the industry has given way somewhat in the last decade, and
a number of Japanese auto-TNCs have established plants to manufacture commercial vehicles. An important consequence of the state's policy orientation, though, was that, even as late as 1980, the industry's structure of ownership was virtually unchanged from that of the 1960s. Protectionist policies had fostered a class of powerful domestic industrialists who now dominate the industry. In other words, the expansion of domestic capital behind a protective wall has served to reinforce the original nationalist policy orientation, and the state commitment to national capital has largely endured.

In our third example, that of the auto industrialisation programme in Mexico, the original policy orientation was towards both the localisation of production and the indigenisation of ownership, placing it somewhere between the Indian and Brazilian examples. The state commitment to localisation first became evident in the mid-1950s when the regime of Lopez Mateos placed the industry at the centre of a strategy to promote the capital goods sector. A government committee toured Latin America to examine other auto development schemes and, following its recommendations, a 1962 decree established a local content target of 65 per cent. A number of auto-TNCs were induced to expand their operations. At the same time, however, measures were also taken to protect domestic business from the tendency towards denationalisation that it was feared would result from an unalloyed commitment to rapid localisation. The 1962 decree thus also gave financial assistance to national assemblers, and reserved the manufacture of most components for national capital.

Policy implementation had an impact that varied in accordance with this dual orientation. In the assembly industry, which remained open to foreign capital, the competitive advantages of the auto-TNC subsidiaries soon overwhelmed the assistance offered to national firms. By 1971 private national capital had disappeared from this sector of the industry, leading one authority on the industry to conclude that state declarations on Mexicanisation `seem to have remained largely a dead letter'. In the component industry, on the other hand, protectionist state policies created a space which was subsequently filled by national capital. Absolute protection for local producers ensured that, here, benefits of the industry's expansion flowed to national firms.

The development of auto policy within these countries was undoubtedly far more complex than portrayed in these three thumbnail sketches. They provide little idea of the policy debates which occurred, or a sense of how policies changed. These descriptions nevertheless do suggest a number of preliminary conclusions useful for designing a framework for investigation of the Indonesian case.
Firstly, they support the view that state policies were the critical factor in stimulating auto-TNC investment in developing countries, suggesting that in the post-war period the increasingly 'global reach' of these firms has not been the only, or even the most important, factor behind the industry's expansion into the Third World. Notwithstanding other important differences in development strategy, it was a common trait of these countries that the essentially ideological goal of achieving full automobile manufacture was the driving force behind state policy. Whether launched by technocrats intent on promoting a new industry or under pressure from a nascent industrial class, nationalist considerations were the guiding principles in the formulation of automotive development policy.

Secondly, the 'embedded orientation' of the state at the outset of these development schemes established a dialectical relationship with capital that tended to preserve the original policy orientation. In all three cases the national industry was initially weak, and the choice of development strategy made by state officials was of major consequence for the evolution of national capital in the industry. Seen in this light, the initial policy goals of the Brazilian state required auto-TNC investment for their success; close integration into international networks followed naturally. In India, policy was initially premised on the promotion of national capital and auto-TNCs were allowed in only under strict controls. Powerful state-business alliances were formed, institutionalising the influence of national capitalists in state policy. The intermediate position of the Mexican state - caught between the industrialisation objective and the desire to promote the domestic bourgeoisie- had divergent effects. In the component industry, restrictions on auto-TNC operations created an environment conducive to the growth of a strong national bourgeoisie; nationalist policies protected the interests of these producers. The assembly industry, by contrast, was left relatively unregulated and came to be dominated by international capital; nationalist policies focused on changing auto-TNC investment behaviour. These three examples strongly suggest that business interests tend to expand in such a way as to reinforce the original policy orientation.

The third conclusion to be drawn from these cases is that changing international production structures also shape policy processes. Often running at cross purposes to state ideological goals, the tendency towards the internationalisation of automotive production has increasingly impinged on state planning, changing the options that are open to state planners. This was most obviously the case in Brazil, where policy was largely the outcome of direct negotiations between government officials and auto-TNCs. Even in India there were tensions between the nationalist orientation of state officials, supported by major national capitalists, and the
possibilities for industrial expansion that emerged. As the entry of Japanese auto-TNCs in the 1980s indicates, planners could not ignore the economic power which international capital could bring to the industrialisation process. In other words, we also need to describe how the changing international context effects policy considerations.

A number of such changes relevant to the Indonesian case may be mentioned. Firstly, the emergence of Japan as a third global centre for the industry in the 1970s and the spread of Japanese auto-TNC manufacturing operations injected a new degree of competition into the industry internationally, opening up new possibilities for developing countries, especially in the Asia-Pacific region. Secondly, technical developments reduced the incentive for auto-TNCs to relocate complete production of vehicles to developing countries. Components were a different matter, however, and in recent decades we have witnessed the tendency towards a New International Division of Labour in the auto industry, a disaggregation of operations carried out in separate locations according to local comparative advantages.

The question for specific analysis, then, is to determine the extent to which auto development strategies are driven by domestic factors, as alliances between state and capital maintain the original policy orientation, or are shaped by changes in international production structures. The approach used below seeks, firstly, to identify the initial state policy orientation; secondly, to establish the extent to which state-business interaction has modified that orientation; and finally, to establish the effects of internationalisation on this state-class configuration.

Indonesian Economic Nationalism and Early Industrial Aspirations

The basic policy orientation of the Indonesian government for development of the auto industry was established in the early years of independence. A major objective of political leaders and senior policy-makers at that time was to build an independent economy, the ekonomi nasional, an objective later taken up by their successors and which gradually diffused the institutions of state. Development policies were influenced by the two characteristics of this ideology, namely the importance attached to developing a strong indigenous (pribumi) business class and the desire for economic expansion, particularly industrialisation. Both characteristics affected the auto industry immediately after full independence was achieved in 1949.

One of the largest factories in Indonesia before independence, and one of the first manifestations of industrial modernity in the colony, had been an automobile assembly plant built by General Motors in what was then Batavia in the 1930s. The existence of this factory set a powerful
example for republicans with industrial ambitions, and the first major enterprise established after independence was a second auto assembly plant owned by a state corporation, NV Indonesia Service Company (ISC). In the following decades, this pioneering state role would make ISC a popular symbol of economic nationalism. Hasjim Ning, its second President-Director and still a prominent business leader in the 1980s, later recalled that ISC had been an important ingredient in the struggle for economic sovereignty.

"The state corporation ISC was established based on the nationalist aspirations of the Indonesian people, on our desire to become masters of our homeland ... so that the Indonesian people wouldn't always be simple shopkeepers who accepted goods from foreign traders and sellers, parasites who have for centuries sucked the blood of the Indonesian nation."

Ning became President-Director of ISC in 1951, an appointment that made him the dominant figure in the automotive industry. He soon earned the undisputed title of the Indonesian 'car king', and his success typifies the importance of patronage in at least the first two decades of independence. Ning had built up valuable political contacts before and during the revolution, amongst them Sukarno and the future Socialist Party (PSI) Prime Minister, Sjahrir. His proximity to political leaders made him a logical point of entry for international automotive firms, and a group of pribumi, indigenous, importers coalesced around Ning as he took up licences himself and parcelled out others to business associates.

Ning's pre-eminence in the industry in these years can thus be considered a symbol of policy indigenism, the attempt to create a pribumi bourgeoisie in the modern sector via the allocation of import agencies. There was, it is true, a strong desire in both state and business circles to create a full auto industry, and capitalists sought foreign technical assistance to improve local manufacturing capacities. Ning, for example, entered negotiations with the Chrysler Corporation, culminating in a $2.6 million loan from the US Development Loan Fund in 1954 for the importation of automotive manufacturing equipment. But in the early 1950s the aspiration for automotive industrialisation was secondary to indigenism; manufacturing was promoted by supporting individual pribumi entrepreneurs.

The precondition for a policy shift towards a more industrial form of nationalism was established when political changes injected a greater degree of competition into the industry. A characteristic of this 'Ning Group' of entrepreneurs was their close association with the Socialist Party, the PSI, but their dominance came under challenge as the fortunes of the PSI declined.
Specifically, business figures associated with the Nationalist Party (PNI) won import licences as its political position improved in the second half of the 1950s.\textsuperscript{lvii}

During the period of Guided Democracy (1959-1965), introduced by Sukarno to curtail the power of the political parties, power gravitated towards the state apparatus. The ownership structure of the auto industry became still more fluid, as import agencies were won by businessmen close to new centres of political influence.\textsuperscript{lviii} The uncertain political situation during these years exposed the economic vulnerability of these importers, none of whom had significant capital resources. State-business relations became more patrimonial in nature, and they faced the danger that their licences could be revoked should their political patron fall from grace. It was consequently important for both established and aspiring capitalists to secure political support and shore up their business interests.

One method used to secure favour was to diversify political connections.\textsuperscript{lix} Ning, for example, switched his allegiance to the more economically nationalist PNI.\textsuperscript{lx} Of more consequence for future industry policy were appeals to nationalist elements within the state. During the rising tide of economic nationalism associated with Sukarno's *Socialisme-a-la-Indonesia*, the capacity to advance automotive industrialisation was used increasingly by business to maintain political support. Capitalists such as Ning, Koerwet, Eman and Aziz redoubled their efforts to establish full auto manufacturing facilities. It is uncertain whether these *pribumi* capitalists had the managerial capacity or financial resources to bring their manufacturing aspirations to fruition,\textsuperscript{lxii} while the political vagaries of the following years removed the possibility of consistent state support for their efforts. The significance of these efforts, however, is that they indicate how business competition came to be expressed in terms of a capacity to promote local production. In short, it was in the interaction between state and national capital that the full manufacturing objective was born.

In the last years of the `Guided Economy' bureaucrats took up the industrialisation aspirations of these *pribumi* entrepreneurs, and a plan to manufacture Indonesian vehicles under state auspices was developed. In the Sukarnoist terminology current at the time, it was decided to `retool' the industry towards the industrialisation goal; a special committee to promote full auto manufacturing was established within the Department of Basic Industry and Mining. In 1964, seventeen private companies became shareholders with the Department of Industry in a state-business joint venture to produce Fiats under licence, a venture that was to begin, ambitiously, with the manufacture of engines.\textsuperscript{lxii}
A number of conclusions can be drawn from this account of the origins of industrial nationalism in the industry prior to 1965, demonstrating a policy process that was subject to factors many of which would be repeated in future years. Firstly and most importantly, economic policy-making in general came to be dominated by non-economic considerations and, in the case of the auto industry, by the ideological aspiration to build an integrated national industry.

Secondly, there were capitalists primarily interested in maintaining import and distribution monopolies, who maintained their interests by relying on patronage alone, and whose influence militated against nationalistic industrial policies. The backgrounds of a number of businessmen, however, meant that they were personally committed to the concept of the ekonomi nasional; they took advantage of the aspirations of nationalistic state planners to make productive investments.

Thirdly, realisation of this policy goal was hampered by the weakness of the state and its inability to consistently implement policy objectives. Both the parliamentary regime prior to 1959 and the Guided Democracy regime thereafter lacked a firm social base, and governments rose and fell with sometimes alarming regularity. In this situation, the dominant pattern of state-business relations was patrimonial in nature, and those local capitalists who invested in manufacturing depended on political support for their success.

Fourthly, international events either facilitated or obstructed the realisation of this policy goal. Thus credit was harder to obtain following the Korean war, and conditions of tighter liquidity partly account for the failure of many indigenous capitalists in the early 1950s. On the other hand, the willingness of the USA to support development efforts in Southeast Asia in the 1950s and 1960s was an important factor aiding Ning's industrialisation efforts.

Finally, we have seen that policy was increasingly influenced by bureaucrats with a vision of creating an integrated industrial economy. Initially, the selection of this prestige industry for protection was based on the twin ideological goals of Indonesian economic nationalism, namely to diversify the economy and to promote an indigenous bourgeoisie. Thereafter, interaction between state and business gave primacy to local production. The national state-business joint venture of the early 1960s illustrates that the state 'orientation' towards development of the industry had been established; the objective of producing an all-Indonesian vehicle had become a component of economic nationalism within a part of the bureaucracy which would soon grow in importance.
The State-Led Revival of Industrial Nationalism, 1968-1974

The financial difficulties and half-hearted development efforts that characterised the last years of Guided Democracy were pushed into the background by the failed coup d'etat attempted by junior military officers on 1 October 1965. As Major-General Suharto, commander of the Army's Strategic Reserve (KOSTRAD), gradually took over the reins of power in 1966 and 1967 the ideological emphasis on statism, so evident in Sukarno's version of Indonesian socialism, gave way to a focus on stabilisation and reconstruction, on rehabilitation through integration with international capital. The dominant strand in economic policy was now represented by the economists of the National Development Planning Board (Bappenas). These technocrats shared a general faith in market mechanisms and a strong distrust of state intervention. The constraints imposed by the chaotic, debt-ridden economy they had inherited became more important as policy considerations, these conditions critically reinforcing the arguments of those urging that state controls be relaxed and efforts made to attract new investment.

This `open door' policy did not last long, however. As economic conditions improved there was a gradual revival of economic nationalism, a reactivation of themes of indigenism and industrialism in which the auto industry featured prominently. The manufacturing sector as a whole expanded rapidly in the early 1970s, largely a result of a dramatic increase in oil revenues and foreign investment. The rapid growth of the automotive industry after 1969 can be partly ascribed to the willingness of auto-TNCs to relocate production and tap into the new prosperity created by increased national revenues. It was state protection, though, which underpinned this growth, for the government held the belief, shared by most other ASEAN states, that auto production was an important industry able to stimulate growth in all basic industries and which could be promoted through constraints on foreign investment. Economic nationalism had once more placed its stamp on the industry's development.

The effective arena for policy-formulation in the process that led to this renewed commitment to automotive industrialisation lay within the state apparatus. National capital played a lesser role, for the political changes that ushered in the New Order dramatically reduced the political influence of national capital. As Sukarno's hold on the Presidency had weakened, business groups associated with political centres under the Old Order lost the protection these connections had afforded. A number of businessmen involved in automobile importation lost their licences, the first to fall from grace being those who had relied chiefly on their proximity to the Palace.
Certain survivors of the Old Order period initially retained some influence within government circles. Members of this 'Old Guard' of automotive industrialists, notably Ning and Eman, complained that the national industry was suffering from the open-door policy. Decrees promulgated in 1969 channelled more loading to these assemblers, and auto-TNCs were for the first time now required to deal with only one local agent. However, the political and economic weakness of national capital at this time gave the domestic bourgeoisie little say in policy-making, and this mild protection was soon replaced by a strategy premised on auto-TNC participation.

This reorientation took place within the state itself, stemming from the victory of the same part of the apparatus which had adopted the goal of auto industrialisation a decade earlier. While the first Five Year Development Plan (Repelita I) was being formulated in 1968-1969, a sharp bureaucratic struggle for authority over the industry had developed between the Department of Trade, which at this stage advocated policies to protect indigenous business, and the Department of Industry, then strongly advocating import substitution industrialisation policies. In 1970-1971 the locus of political authority over the industry shifted decisively from Trade to Industry, in this case represented by its influential Director-General for Basic Industries, Ir. Suhartoyo. By late 1971 Suhartoyo felt sufficiently confident to begin expounding a comprehensive three-stage programme for the construction of a full steel industry, a programme in which the automotive industry would play an important part.

A scheme was designed by this Directorate-General for the progressive expansion of local production. According to this 'deletion scheme' national firms would initially import vehicles Completely Knocked-Down (CKD) and assemble them locally at one of a number of designated assemblers. The principals would produce a CKD album containing photographs and dimensions of each component from which components would be progressively 'deleted' as local products could be incorporated in final assembly.

The nature of this industrialisation scheme had important implications for national business. The state co-ordinated production initiatives of the early 1960s had been based on tight controls on foreign capital; the 1969 legislation had been intended to protect national business; the new scheme was premised on immediate integration with auto-TNCs. Although the bureaucratic forces promoting auto industrialisation generally remained the same, under the changed economic circumstances of the New Order the productionist objective was now to be achieved within auto-TNC networks. The scheme was thus founded on an outward-looking form of
economic nationalism, on the faith that Indonesia's market potential was sufficient to cajole auto-TNCs into achieving her own development goals.

Organised business subsequently played a crucial role in disseminating the industrialisation objective, and the Directorate-General soon formed an alliance with the Automobile Assemblers and Agencies Association, GAAKINDO.\textsuperscript{xix} The association was dominated by its \textit{pribumi} majority and generally functioned as an organised pressure group pushing for state protection. The public face of the association had now altered, however; its \textit{raison d'etre} of protecting \textit{pribumi} business had receded in the face of the new hegemony of industrialism. A consensus was reached on the industrialisation objective, and during 1974 GAAKINDO and the Directorate-General began to co-operate in drafting a local production schedule.

The significant outcome of this alliance with organised business and these efforts to formulate a localisation scheme was that indigenism lost its ideological bite within the bureaucracy. Previously, the statements of government officials and the policies they formulated suggest that the dual state orientation to both industrialism and indigenism had largely persisted, and that policy-makers felt that both goals could be pursued simultaneously. By the end of this period, though, it was evident that industrialisation was the more important concern. Many \textit{pribumi} entrepreneurs active in the industry were influential members of Kadin and continued to push for state protection. Economic nationalism was now closely associated with manufacturing initiatives, however. With the state-led revival of economic nationalism, it was no longer sufficient to be \textit{pribumi} to gain state protection; entrepreneurs had to be Industrial Pioneers.

\textbf{National Capital and Policy Formation in the Mid-1970s: Drawing in the Auto-TNCs}

With the influx of oil wealth in 1973-74 and the expansion of government revenues, the drive to promote local auto production gathered pace. The regime had largely consolidated its authority, and the confidence of state officials in their ability to control the development process had grown. At the same time, the number of auto-TNCs seeking to enter the market increased, seemingly bringing the industrialisation objective within reach. Reflecting a widespread mood favouring automotive industrialisation, a decree was issued in August 1976 which expressed official confidence in the state's capacity to achieve production targets by restricting auto-TNC imports. Proclaimed with the support of the President and evidently little bureaucratic opposition, Minister of Industry Decree No. 307 detailed a remarkably ambitious timetable for the production of major components, slating 1984 as the date for local production of engines, transmissions, clutchlinings and axles.\textsuperscript{xxx}
Although the government claimed at the time that this legislation was issued on its own volition, a closer examination of the industry reveals that it was the initiatives made by a number of national capitalists in the preceding years that first drew auto-TNCs into manufacturing ventures. It was thus instrumental business alliances with particular parts of the apparatus which account for the optimism of state officials at this time.

The precondition for these initiatives, once again, was a rising level of competition between national capitalists. As we have seen, the industry was no longer dominated by the survivors of the 1950s (Eman, Panggabean, Koerwet, Lubis and Ning). With external contacts largely controlled by new military centres, several business figures new to the industry but with access to government patronage secured import licences.

The most important entrant into the industry in the early 1970s was General Ibnu Sutowo, head of the state oil corporation, Pertamina. In 1970 he secured the Mercedes import agency on a private basis. In 1972 the Mitsubishi agency passed to PT Krama Yudha, a company jointly owned by Sutowo and a personal adviser in Pertamina, Sjarnubi Said. Sutowo soon became the dominant force in the industry, overshadowing the former 'car king', Hasjim Ning.

Another important entrant during this period was the ethnic Chinese Indonesian, William Soeryadjaya, whose PT Astra International had previously been involved mostly in minor retail trade. Astra soon formed a valuable alliance with the Department of Industry, that sector of the state promoting automotive industrialisation. In 1969 Astra took a majority share in a new joint venture with the Indonesian government, PT Gaya Motors. Toyota was keen to expand its holdings in Indonesia, and by 1969 Astra had a supply of scarce working capital and a promising alliance with an important part of the new political order. Astra formally secured the Toyota agency in 1969, with the Director-General of Basic Industries, Suhartoyo, appointed Chairman of the Board of both the partly government-owned assembly plant and the fully private Toyota import agency.

Other members of this 'New Guard' of business entrants include the Sumatran trader, Affan, who won the Nissan import agency in 1969, reportedly on the personal intervention of an important military powerbroker. In 1972 the President's half-brother, Probosutedjo, became a major shareholder in Astra's Peugeot and Renault agency, PT Multi France. Volkswagen also sought a better-connected local agent, and after direct negotiations with the President the agency passed to PT Garuda Mataram, a company owned by Suharto's former command, Kostrad.
Finally, in 1973 Liem Sioe Liong (Sudomo Salim) secured the Volvo import agency and established an assembly plant, ownership of which he shared with the municipal government of Jakarta.\textsuperscript{xxx}

In policy terms, the significance of the entry into the industry of these well-connected capitalists was that business competition came to be expressed in attempts to promote local industrial initiatives. Significantly, Chinese business groups played little part in this 'heroic period' of the industry's development. The driving force behind moves to localise the production programme at this stage of the industry's development were particular \textit{pribumi} capitalists who had forged alliances with particular state sectors, and who had won protection on the basis of realising that old ideological goal of creating an industry able to manufacture the all-Indonesian automobile.

One pioneer of local manufacture was the Mitsubishi agent, PT Krama Yudha. Mitsubishi was widely acknowledged to have gained lucrative contracts via its link to Pertamina, then the most important fiefdom in the Indonesian economy.\textsuperscript{\textemdash xxix} In turn, Sutowo successfully urged Mitsubishi to support the expansion of assembly operations into low-scale manufacturing. The access of Krama Yudha to the oil wealth of Pertamina was thus a key element strengthening the union between the Japanese auto-TNC and its Indonesian partner.\textsuperscript{\textemdash xxxii}

A second well-known pioneer of local component manufacture was the Surabaya-based businessman, Frits Eman. An economic nationalist in the PNI mould, ever since the 1950s it had been Eman's proclaimed mission to realise full automobile manufacture. Although relations were restored with General-Motors Holden in the late 1960s, having been severed during the period of rising economic nationalism under the Guided Economy, Eman was unable to convince Australian representatives to invest in manufacturing equipment. He nevertheless remained convinced that local auto production was possible, and launched an ambitious scheme for component manufacture, without auto-TNC support. Eman was personally close to the then Minister of Industry, Mohammad Yusuf, who was a keen supporter of his self-reliant strategy. Based on this potent alliance, his manufacturing subsidiaries expanded rapidly in the early 1970s.\textsuperscript{\textemdash xxxiii}

Finally, another company that pioneered local manufacturing was the local partner of Volkswagen. About this time many prominent intellectuals with close links to the government were advocating that the state forge links with local firms to create an 'Indonesia Incorporated' able to bargain effectively with international capital.\textsuperscript{\textemdash xxxiv} The VW importer and assembler
became more closely associated with such groups, and in 1974 embarked on an ambitious project to produce commercial vehicles making generous use of various military facilities. With its position in the market under pressure from Japanese competition, VW initially supported the manufacturing scheme, presumably with one eye on the new locus of bureaucratic power in the Department of Industry. Having gained the President's approval and the enthusiastic support of Minister of Industry Yusuf, in June 1974 Suharto officially launched the vehicle at a press conference at the Jakarta Fair, a presentation which attracted a great deal of press attention heralding 'the first automobile totally made in Indonesia'.

A common element in these three manufacturing initiatives was their appeal to economic nationalism. The lobbying for protection of these *pribumi* manufacturers took on heavy ideological overtones when the struggle for structural economic change was popularly linked to criticism of Chinese-owned agencies like Astra. Making use of instrumental alliances with sections of the state, all three were able to win a significant degree of state support, chiefly in the form of government orders. In turn, the success of these alliances in drawing auto-TNCs into manufacturing initiatives added weight to the industrialisation proposals of nationalist-minded bureaucrats. The ambitious industrialisation goals gazetted in Decree 307 of 1976, therefore, can be considered the expression of highly personalised links between key sectors of the state and certain national capitalists.

**Burgeoning Economic Nationalism and New State-Business Alliances**

Official economic nationalism became notably more muscular in the late 1970s. These new ventures injected a new vigour into industrialisation policy, and state officials became more confident when dealing with auto-TNCs. Suharto launched a campaign to promote automobile manufacture and throughout 1977 and 1978 constantly advertised the goal of full automobile manufacture at seminars, conferences and public exhibitions, reminding the industry of its national duty. The overriding impression conveyed by official pronouncements at the time was a determination to push the industry into upstream manufacturing.

If this growing self-confidence gave expression to the personal ambitions of senior state bureaucrats, it also served to conceal a growing dependence on national capitalists. Suharto's efforts at this essentially ideological level would have been left lifeless were it not for the support of capitalists able to attract auto-TNC support. In the late 1970s the framework of state protection that had been built to promote national manufacturing began to be filled out by a rejuvenated private sector, and major firms were now able to bargain more effectively with
international capital. The Directorate-General of Basic Industries began to deal more directly with the larger firms involved in metal-based industries. Specifically, its campaign for the auto industry gathered steam after a number of Japanese auto-TNC subsidiaries were able to convince their principals to invest, suggesting that the relationship between state and capital behind industrialisation policy had entered a new stage.

As the industry develops and its technology becomes more complex, the need for foreign technical assistance grows correspondingly. Local assemblers had begun to lobby their principals to invest in component manufacture when the deletion schedule first appeared on the political horizon in 1975. By 1978 the assemblers of Volvo (Liem Sioe Liong), Mercedes (Sutowo/Joesoef), Toyota (Astra), Mitsubishi (Sutowo/Said), Suzuki (Atang Latief) and Daihatsu (Astra) had all established on-site plants to produce body components. New manufacturing ventures began to cluster around the internationalised firms, and opportunities for independent producers shrank correspondingly.

The expansion of the Astra group provides the most unambiguous example of how the internationalised sector of the industry both benefited from, and made possible, the implementation of industrialisation policy. Prior to 1976 Astra had shown little evidence of an interest in component production, and generally resisted plans to make localisation compulsory. Its conversion to the cause of localisation began with its reorganisation in late 1975-1976. Ideological factors were relevant here, for Astra made concerted efforts to remodel a public image badly dented by the ’Malari’ riots of 1974, when anti-Japanese and anti-Chinese feeling culminated in the razing of its central offices. Astra sought to establish its nationalist credentials by promoting the official, industrial definition of economic nationalism originally developed by its pribumi rivals.

The capacity to involve its Japanese principals was critical to the success of this strategy. When it became evident that local sourcing would be made compulsory, Astra began to press Toyota and Daihatsu to invest. Astra managers had evidently found it difficult to interest either Toyota or Daihatsu in manufacturing ventures prior to 1976. But once the deletion schedule was promulgated and it was clear that other companies were investing, the possibility that their market share could be affected made the Japanese auto-TNCs more receptive. Only two months after Decree 307 was issued a joint venture was established to manufacture Toyota bodies, cabin frames, chassis and fuel tanks. Over the next few years Astra established joint ventures with other firms in the Toyota group for the manufacture of shock absorbers, Daihatsu bodies and components, and electrical parts. A latecomer to localisation, Astra had thus developed an
essentially symbiotic relationship with the Department of Industry, promoting the manufacturing scheme while enhancing its nationalist political image.⁹³

The nature of the state-business alliances underpinning the campaign of the late 1970s can also be illustrated by the varied fates of the prihumi manufacturers, the groups that had originally set the manufacturing scheme in motion. Demonstrating the fragility of a manufacturing scheme not vertically integrated with an auto-TNC, Eman's projects came close to collapsing. Although Eman had been one of the prime movers behind nationalist development policies, adroitly using state contacts to redirect merchant capital into manufacturing, the lack of a strong international link condemned the self-reliant manufacturing strategy he had adopted. Japanese firms initially refused to use a number of components produced by his Udatin group, and it was only after Eman agreed to accept advice from a Japanese quality-control company that they went ahead. From 1980 Eman began to merge with Astra to guarantee the survival of his manufacturing projects.⁹⁴

The fate of VW's Indonesian partner also illustrates the importance of auto-TNC support. After the formalisation of the deletion schedule in late 1976, PT Garuda Mataram's directors sought further state sponsorship by promoting localisation. The principal resisted, however, and effectively withdrew from the market in 1979. Despite state support and a strong link to a military power centre, the Directorate-General's campaign of the late 1970s thus effectively severed the link between principal and local partner.

In contrast to the independent manufacturing strategy pursued by Garuda Mataram and Eman, Krama Yudha's manufacturing activities were closely monitored by its auto-TNC principal. The Japanese firm was generally keen to maintain its leading position in the market, and Mitsubishi carried out a feasibility study on local engine assembly in 1978. This involvement earned the joint venture considerable state support, and Suharto praised Krama Yudha for its success in increasing local content.⁹⁵ Somewhat ironically, this firm international backing made it possible for the company to take up the banner of nationalism on behalf of the industry, styling itself as the champion of auto industrialisation. Its President became a prominent business advocate of the Directorate-General's programme, boisterously linking it with the struggle to create the ekonomi nasional.

'No other country wants us to make progress. They're all worried about this. Note: there are no exceptions! They all want us to stay mute, dumb, and remain a target, swallowing whatever they produce. Because of our natural resources, our high working spirit, our security, and our stable domestic and foreign policy, they're all scared that Indonesia will rise up!'⁹⁶
What, then, do these cases tell us about the changing nature of business influence in policy processes during this stage of the industry's development? The important consequence of the capacity of Astra and Krama Yudha to involve their Japanese principals in manufacturing was that their economic interests converged with the political interests of the Directorate-General. Local manufacture was no longer the province of the *prabumi* nationalists, for their very success in promoting industrialisation ultimately diluted their presence in the industry. In the words of an Astra director,

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

In sum, the more determined implementation of auto industrialisation policy in the late 1970s expressed the growing interdependence between a powerful bureaucratic centre and the internationalised section of the industry.


In a certain sense, the sway of politico-bureaucrats over processes of policy-making reached its height following the second oil boom, when swelling state revenues in the first years of the 1980s enhanced state leverage over the business community. In the auto industry, a new production schedule promulgated in late 1983 stipulated that commercial vehicles would incorporate locally-produced axles in 1984, engines in 1985, and transmissions in 1986. This decree was promulgated in the face of general business recalcitrance, and state officials interviewed in 1984 believed that the decree showed that, after 15 years promoting automotive industrialisation, the government had finally freed itself of business pressure. With this view, Minister of Industry Decree 371 of September 1983 would mark the apogee of state authority over the industry.

Such a conclusion would be misleading, for this common image of state authority provides us with the less important half of the story. Even at the height of state power policy options were circumscribed by the lobbying of the major corporations. Furthermore, the capacity of major sectors of national capital to mobilise the resources of their foreign partners lent them a structural power in policy-making processes. Investments in major component production were most likely to be forthcoming if incorporation of these products was made compulsory, and the scale of these investments strongly inclined state planners to offer such protection.
The critical period determining the nature of state protection for the industry occurred in the early years of the 1980s. At this time there were effectively two auto business lobbies, most easily distinguished by reference to their foreign partners. On the one hand, national capitalists linked to Japanese auto-TNCs were generally keen for the deletion programme to proceed. These joint ventures had invested heavily in component production, and thus supported the compulsory use of locally made components. Ranged against the partners of Japanese firms were the importers of American and European makes, auto-TNCs that had been less willing to invest in manufacturing ventures and consequently sought to delay policy implementation. The geographic divide between importers of Western and Japanese makes was sharpened by an ethnic distinction, since the firms in this second category were mostly small importing agencies owned by priyumi importers. These capitalists tended to adopt the traditional, defensive attitude of priyumi business towards foreign investment, seeking state protection by appealing to broad, pro-priyumi political sentiment.

Initially, a complex range of factors increased the potency of the appeals made by the latter, priyumi, lobby. A new Minister of Industry with a strong personal commitment to building an integrated industrial sector had come to office in 1978. This man, R.A. Soehoed, took a personal interest in the auto industry, which he considered a test case for his state-led industrialisation scheme. Secondly, a burgeoning mood of economic nationalism and Third Worldism had taken hold within the bureaucracy. Finally, it had become evident that a process of horizontal integration was occurring in many economic sectors, with smaller firms being absorbed by large foreign-linked conglomerates. Taken together, these factors encouraged planners to adopt a more critical attitude to the Japanese-linked conglomerates in the auto industry, and there was widespread state support for the appeals made by the priyumi lobby for a re-evaluation of the auto development strategy.

It was in this climate that the Minister tried to reduce the power of the Japanese-linked conglomerates. He appealed to the President for political backing and, after reportedly winning endorsement of his broad industrialisation goals, warned business leaders that they would shortly 'be summoned to the Department to discuss those makes which will be eliminated and those which will not'. When Astra and Krama Yudha protested against the restrictions on their principals' investment prerogatives, the Minister responded that his purpose in reorganising the industry was less to direct its future than to prevent certain makes from dominating the market. The battle lines with the Japanese auto-TNC subsidiaries had become more sharply drawn.
Within a few years it had become clear that the subsidiaries of the Japanese auto-TNCs had won, and that the investments these internationalised firms could realise had been critical in deciding the outcome of this policy struggle. Rather than through direct access to policy-makers, their political influence seems to have stemmed chiefly from the potential investments which they could realise, investments which were vital if the Department of Industry was to achieve its development goals. In other words, it was the large private sector commitments to invest in major component production that allowed the advocates of industrialisation within the apparatus to outmanoeuvre the patrons of the pribumi lobby.

The structural influence of the Japanese-linked conglomerates in policy formation is most clearly demonstrated by reference to engine manufacture which had remained a priority industry ever since the abortive state-led attempt at engine manufacture in the early 1960s. Government attempts to draw auto-TNC investment into upstream engine manufacture in the 1970s were considered rather amateurish, and failed to produce a meaningful response. However, they did indicate that the ideological commitment to full engine production had survived within state circles, assuring auto-TNCs that long-term investments were likely to be protected. In a climate of growing auto-TNC rivalry for access to a growing market, in 1981 nine auto-TNCs submitted concrete engine manufacturing proposals. By 1982 seven had been issued with definite licences, and a few years later six plants were planned or under construction, five of them by subsidiaries of Japanese auto-TNCs.

This surge of interest in engine manufacture in the early and mid-1980s had a number of consequences with long-term implications. Firstly, it affected the balance of authority within state circles, reinforcing the position of advocates of the original industrialisation scheme and its integrationist form of economic nationalism. Policy-related disputes over auto development policy had recently deepened, with the Directorate-General of Basic Metal Industries and the Investment Coordination Board favouring negotiations with auto-TNCs over localisation, while Habibie's BPPT favoured heavier state involvement. Engine production had become a matter of national pride for state officials, and up to this point it had been an axiom of policy that direct state involvement was necessary because of the strategic nature of engine production. But after 1981 those officials pressing for tight state controls of auto industrialisation were effectively bypassed. The flood of investment applications buttressed the political authority of officials in the Department of Industry and the Investment Board, who began drafting the revised deletion schedule eventually released in 1983. As later conceded by the man responsible for negotiations with auto-TNCs over engine manufacture, a senior official of Habibie's 'Agency for Research
and Application of Technology' (BPPT), it no longer seemed necessary to commit state financial or administrative resources to promoting engine production.\(^ \text{cvii} \)

'Sure, the government should generally take the lead in bringing about transport self-sufficiency, by producing trains and ships. But the private sector wanted to invest in engine production, so the government pulled right out. Why should we worry?'

This policy orientation has largely persisted and important sectors of the state remain committed to this form of economic nationalism, of slowly tightening restrictions on auto-TNCs. The industry entered a period of stagnation in the mid-1980s. The government was forced to suspend implementation of the schedule in 1984/85 but this did not weaken the resolve of Department of Industry officials. In 1987 the Minister of Industry, Hartarto, released Decree no. 34, stipulating a revised and more detailed deletion schedule for major components.\(^ \text{cvii} \) Despite periods of sluggish growth in the domestic market, the programme has continued to be implemented, and by 1990 almost 90 per cent of the components stipulated in this decree could be produced locally.\(^ \text{cix} \) By 1991 local average content of small commercial vehicles was estimated at 70 per cent.\(^ \text{cx} \)

Another consequence of continued localisation has been the further concentration of ownership. Importers and assemblers became increasingly dependent on component producers and, as the time scheduled for incorporation of locally-produced major components drew nearer, smaller firms either dropped out or merged with the large business conglomerates. The most unambiguous example of expansion via industrialisation policy was the rapid growth of the Salim group's automotive interests, as Liem Sioe Liong absorbed import agencies as the need for investment grew. By the mid-1980s he had taken over the Suzuki, Hino and Mazda agencies, and more recently he took up the Datsun agency. Similarly, the Astra group absorbed a number of business groups that ran into financial difficulties, and by 1984 controlled eight import agencies (Toyota, Daihatsu, Renault, Peugeot, Holden, Nissan UD, BMW and Fiat). By 1992 the Astra, Krama Yudha and Salim groups together accounted for over 95 per cent of the 175,000 units assembled.\(^ \text{cxi} \)

Component manufacture has itself concentrated around the largest of these conglomerates, specifically the Salim and Astra groups. The clearest instance of this process has been the phenomenal growth of the latter group, the so-called 'General Motors of Indonesia'. In 1989 and 1990 Astra invested heavily in both the modernisation of its existing assembly facilities and in new engine casting and foundry facilities, actually going further than stipulated in Decree 34 of 1987.\(^ \text{cxi} \) Astra has also recently expanded in-house manufacture of other major components,
established new subsidiaries for production of other components, and forged new sub-contracting links with a range of small firms. By 1990 about half of Astra's 71 subsidiary companies and a similar proportion of its 20,000 employees were involved in auto component production.

Finally and most importantly, the expansion of the internationalised groups made them more than simply passive beneficiaries of these policies. The subsidiaries of Japanese auto-TNCs had invested heavily in component manufacture, and the size of these investments gave them a strong interest in supporting the industrialisation scheme originally developed by the Directorate-General. To take an early example, when delivering a guest lecture to a high-powered agency for the inculcation of socio-economic policy to bureaucrats in 1984, the President of PT Mitsubishi-Krama Yuddha defended the industrialisation objective against its business critics, adding that the policy would weed out the `economically weak' firms.

If the deletion programme is implemented consistently and thoroughly, then others will naturally fall victim. So, logically, we will be able to count on one hand those makes that survive.

By the early 1990s the locus of power in processes of auto policy formation more clearly had come to lie with larger national capitalists. Certain downstream producers continue to oppose compulsory localisation, and have urged the government for a comprehensive liberalisation. The large conglomerates, on the other hand, have lobbied for a continuation of the programme to protect their industrial assets. The most effective bargaining chip of these corporations in their negotiations with the government is their capacity to expand local production. In a very real sense the continuation of the localisation campaign into the 1990s can thus be considered an expression of the influence of these corporate groups.

The limits to this power, however, are set by international economic determinants. Astra has displayed a strong capacity to absorb industries that relocate from Japan, and its auto-TNC partners have displayed a preparedness to support Astra and maintain their strong presence in the Indonesian market. However, the extent of localisation - and therefore the progress of the deletion campaign - depends on the readiness of Japanese manufacturing to relocate, and ultimately the capacity of firms such as Astra to improve their position within the New International Division of Labour.
Concluding Comments

This study has indicated that ideological factors have had a major influence on policy formation in the automotive industry. The goal of full manufacture was linked to the nationalist struggle in the 1950s, taken up by state bureaucrats in the early 1960s, re-emerged in the early years of the New Order, and has been a recurring *leitmotiv* in auto policy debates ever since. Different political figures and social forces have been involved in policy-making processes at different times during the industry's expansion, but this ideological goal has dominated the discourse on auto development, with policy initiatives almost invariably justified in terms of advancing the goal of producing a vehicle '100 per cent made in Indonesia'. This strongly suggests that this objective can be understood to constitute a distinct state interest, an embedded ideological orientation reinforced through the interaction with social forces.

Yet this examination has also shown that important changes have occurred in the political and social forces driving auto industrialisation forward, and thereby sustaining this state interest. The development of the industry in the 1970s owes much to the political influence of the astute Javanese politico-bureaucrat, Suhartoyo. However, realisation of the development strategy he designed required the involvement of national capitalists in component manufacture, and various business groups won support from particular parts of the state for their industrial efforts, thereby gaining access to state patronage. The manufacturing initiatives of the 1970s were thus based on particular state-business alliances, reinforced by the authority of the representative business association, GAAKINDO. By the late 1980s the large corporate groups within the industry had become the programme's most vocal advocates, and the deletion scheme represented the common political interests of nationalist-minded bureaucrats and the economic interests of these corporations. The dynamic behind industrialisation was thus in a certain sense cybernetic, for the programme was now driven by those firms that had originally benefited from state policies.

This suggests that a mixture of statist and structuralist approaches is most appropriate for analysis of Indonesia's modern manufacturing sector. In the past, when social forces were weak, the choice of a particular development strategy reflected the personal ambitions of state planners and was largely dependent on the support of important state personnel, and ultimately the President. This indicates the utility of an instrumentalist framework when seeking the origins of particular policies. The subsequent expansion of industries reflected the strength of particular state-business alliances. However, for the last decade industrialisation policies have come to express the mutual dependence of those sectors of the state promoting industrialisation and large
national capitalist centres. In the auto industry, in a situation where there are mounting pressures for a relaxation of the local production schedule, the ability of the scheme's advocates to maintain the programme depends on their ability to realise their industrial targets, and for that they rely on the willingness of Japanese auto-TNCs to relocate their manufacturing operations. Whether this nationalist industrialisation strategy persists, therefore, depends on Indonesia's position within broad international economic structures.
Endnotes

i. By 1976 the assembly industry in Indonesia had become the largest of the five ASEAN states, accounting for over 30 per cent of the region's production. Since the early 1980s this figure has been maintained at about 40 per cent, see Economist Intelligence Unit 1985, pp. 9-10; and Doner 1991b, Table 3.1.


iii. The industry has become the bugbear of economists. Bruce Glassburner (1978 p.39) describes it as his 'personal pet peeve' for wasteful industrialisation; see also Dapice 1980, pp. 47-49.

iv. On the effect of the economic downturn see Robison 1987. In 1987 the Department of Industry divided the industry into an 'industrial stream' (jalur industri), producing small commercial vehicles which would continue to be protected, and a 'trade sector' open to imports; see Chalmers 1990.

v. The 'on-off' process of automotive deregulation since mid-1991 is described in Tempo 26 Sep 1992. On the so-called 'Forty-day Deregulation', which allowed vehicle imports but was soon annulled by the Department of Industry, see Suara Karya, 25 July 1991.

vi. Absolute prohibitions were replaced with tariffs, but protection remains high; a 200 per cent tariff will be levied on imported knocked-down vehicles, with built-up vehicles subject to an additional 100 per cent luxury tax. See Kompas 11 June 1993; see also Kompas, 14 June 1993; and Tempo, 19 Jun 1993.

vii. A draft decree drawn up by the Department of Industry in early 1992 was opposed by Habibie. See Kompas 15 Sep 1992. For greater detail on why he opposed this plan, see the interview with Rahardi Ramelan, until recently a senior official in Habibie's 'Agency for the Investigation and Application of Technology' (BPPT) in Tempo, 2 Jan 1993.


ix. Liddle 1987 p. 129.

x.Ibid., p. 143.


xii.Ibid., p. 794.

xiv. Ibid., pp. 419-420.

xv. The new policy orientation 'chosen in 1966, in a situation of economic crisis, probably would not have been adopted without the crisis-induced pressure for change', ibid. p. 423. In the subsequent Pertamina scandal Soeharto's options were also severely limited, 'It became clear that Pertamina's activities threatened to bring down the whole edifice of New Order economics', ibid. p. 420.


xix. These specific criteria are described in Doner 1991b, pp. 228-232.

xx. Ibid., p. 272

xxi. Ibid., pp. 246-252.

xxii. Doner 1992, pp. 426-427. Doner finds against the 'structuralist approach to bargaining', but has in mind the argument that the increased technology- and capital-intensity of production techniques reduces the bargaining leverage of Third World countries, Doner 1991b, pp. 9-13, ibid. pp. 220-223. As described below, economic structuralism in this article refers to the relocation of manufacturing to less developed countries, also known as the tendency towards a New International Division of Labour.


xxvii. This article summarises the central theoretical argument of my PhD dissertation, Chalmers 1988.

xxviii. World Bank, 1993. The recent rapid growth of Indonesia's manufacturing sector is described in greater detail in Hill 1990a, pp. 79-120; and Hill 1990b, pp. 75-109.
xxix. Hill 1990a, p. 89.

xxx. Department of Industry figures.

xxxi. Calculated from Biro Pusat Statistik 1988, Table 21.


xxxiii. The postwar automobile 'boom' was accompanied by a high degree of vertical integration internationally. By 1980 over 97 per cent of production was carried out by 22 firms, 65 per cent by only six firms; UNCTC 1983, Table 15.


xxxvi. Bennett & Sharpe 1985, p. 11.


xxxviii. The Automotive Industry Executive Group (GEIA) was one of a number of agencies given the task of spurring development in targeted industrial sectors. See Bergsman 1970, p. 127. On the state's long involvement in the auto industry see Baer, Kerstenetzky & Villela 1973, pp. 24-25.

xxxix. Hindustan Motors was owned by the large Birla group and began assembling Morris cars in 1946. Premier Motors was part of the smaller Walchand group, and in 1947 it established a factory near Bombay for the manufacture of Fiat cars and Dodge trucks, see Bloomfield 1978, pp. 271-272.

x. Chandra 1966, pp. 736-759, describes how India's nationalist intellectuals in the early decades of this century were 'obsessed' with goals of industrial development, but also frustrated with the inability of the national bourgeoisie to realise those goals.


xliv. The domestic commercial vehicle market is dominated by Kirloskar and Tata, both of which are using their domestic operations to move overseas. On Kirloskar, see Bagchi 1982, pp. 192-193. On Tata, see Lall 1982, pp. 127-146.
xlv. The following description is primarily drawn from Bennett & Sharpe 1985.


xlviii. On Brazil's dependence on international investments for the success of its attempt to move into exports in the 1970s, see Alschuler et al. 1984, pp. 38-41.

xlix. For a summary of critiques of India's almost obsessively inward-looking import substitution policy, see Maxcy 1981, pp. 264-268.

l. On the rapid internationalisation of the Japanese industry in the 1970s, see Hood & Young 1985, p. 97.


lii. On the importance of these twin objectives in shaping auto development policy, see Chalmers 1989, pp.97-112.

liii. During the manufacturing boom of the late 1930s the GM plant assembled vehicles on a line employing 600 workers, Harahap 1952, pp. 7-10. On the early years of ISC, see also Sutter 1952, pp. 982-983.


lv. Licenses secured by the Ning group during these years include Chrysler and AMC (Ning and Bachrie), Ford-UK (Ning, Bachrie and Hopsedio), Renault, Mazda and Hino (B. Lubis), Leyland and Landrover (Lubis), and Fiat (Ning and Dasaad). Useful sources on Ning's career include Sutter 1952, and Roeder 1971. His own autobiography, Ning 1986, emphasises his lifelong concern to erode the dominant business position of ethnic Chinese, and contains some frank admissions of how his success was built on political support.


lvii. On the entry into the auto industry of the importers Eman (Holden) and Koerwet (Trekka) via PNI channels, see Sutter 1952, p. 786.

lviii. The best source on the political developments of these years is Feith 1962. Entrants into the auto industry under the 'Guided Economy' period included Aziz (International Harvester), Suwarma (Mercedes, Mitsubishi), Yasrin (Toyota) and Panggabean (VW), Chalmers 1988, Chapter 3.

lix. The interpretation made in the following two paragraphs is based chiefly on interviews conducted in 1984 with a dozen bureaucrats and automotive businessmen active in the late Old Order period.
lx. On Ning’s use of political connections, see Robison 1986, pp. 54-55. The prominent leftist PNI politician, Yusuf Muda Dalam, was appointed Chairman of the Board of Ning’s ISC, *1950-1960 Indonesia Service Company* 1961, a company report prepared by Panglaykim and Tan Goan-tiang, p. 8.

lx. The ‘lavish equipment’ installed at Ning’s ISC plant, for example, was never used in its first decade, Hansen 1971, pp. 57-58. Nor has it been used since.

lxii. On the reorganisation of the industry, see *Far Eastern Economic Review* 1960. In 1961 an agreement was signed with the ‘Zastava’ company of Yugoslavia to produce Fiats locally; Chalmers 1988, Chapter 3.

lxiii. The desperate state of the economy in 1965-1967 has been well documented, amongst others, by Thomas & Panglaykim 1973 and by Mackie 1967.

lxiv. For figures on these increases in 1970-1974, see Robison 1986, p. 171 and p. 206, fn. 43.

lxv. Those arrested included Markam, Suwarma and Dasaad. Yasrin later lost the Toyota agency, according to interviewees, because he was considered too close to Chairul Saleh, the Minister for Industry who lost office in 1965.


lxvii. Business and government figures interviewed in 1984 were virtually unanimous on this point. See Chalmers 1988, Chapter 6.

lxviii. On the deletion scheme, see Witoelar 1983. The Department of Industry also envisaged that the Krakatau Steel mill, originally planned in the early 1960s but abandoned in 1967, would be associated with this scheme, *Kompas* 10 Aug 1971.

lxix. Seen to ‘have the ear’ of an increasingly influential part of the bureaucracy, by 1974 GAAKINDO was acknowledged to be the most influential member of Indonesia’s Chamber of Commerce and Industry (KADIN). It was, for example, the first business association to oversee the major share of government-business contacts, *Kompas* 15 Jan 1975.

lxx. The decree also stipulated that the import of simple components (paint, batteries, tyres) would be banned in 1977, and universal components (shock absorbers, windows, mufflers, radiators, chassis) over the following three years; *Business News* (Jakarta) 15 Oct 1976, p. 10B.

lxxi. The ‘financial generals’ with power bases in the financial and economic sections (FINEK) of the military commands played a direct role in the economy; Robison 1986, pp. 251-252. The most important of these generals - Hoemardani, Sofjar, Soeryo, Alamsjah, Suhardiman - also became personal advisers to the President; see Crouch 1978, p. 243. All would play a critical role in shaping ownership of the automotive industry.
lxxii. Ownership was shared with his subordinate in Pertamina, H.M. Joesoef. See *Tambahan Berita Negara* 1971, no. 275 and *Tambahan Berita Negara* 1978, no. 7. These 'Annexes to the State Gazette' (hereafter *TBN*) contain the official registry of private companies.

lxxiii. *TBN* 1972, no. 408.

lxxiv. Sutowo in fact took shares in a number of Ning's companies and soon became involved in the management of ISC, *TBN* 1976, no. 595.


lxxviii. *TBN* 1973 no. 591; and *TBN* 1976 no. 385.

lxxix. Chalmers 1988, chapter 5. The company director was Brig-Gen Sofjar, chairman of the Indonesian Chamber of Commerce and Industry. The automobile agency was named after the Garuda Mataram brigade active in Sulawesi after the revolution, reputed to have been led by one Lt-Col Soeharto. On the expansion of the economic interests of Kostrad and other military divisions in the early years of the New Order, see *Tempo* 3 Feb 1973, pp. 44-50.; and *Tempo* 13 Oct 1979, pp. 8-13.

lxxx. *TBN* 1974, no. 516; and *TBN* 1977, no. 673.

lxxxi. There are no figures available on the share of sales to state agencies and departments, but a common estimate of interviewees for this period was 60 per cent. By 1990 this figure had fallen to below 15 per cent.


lxxxiii. *30 Tahun PT Udatin* 1982, Jakarta, an internal history of the Udatin group since 1951.

lxxxiv. A number of intellectuals from the Jakarta think-tank, Center for Strategic and International Studies (CSIS), proposed state-supported initiatives to transform the national economic structure. The CSIS industrialisation strategy is described by Dorodjatun Kuntjoro-Jakti 1981. See also Robison 1986, pp. 147-152.
lxxxv. After the death of its first director, Brig-Gen. Sofjar, in 1973 PT Garuda Mataram was directed by Sofyan Wanandi, brother of CSIS founding director, Yusuf Wanandi.

lxxxvi. The production process is described in Indonesian Commercial Newsletter 12 Aug 1975, p. 4; and Kompas 31 Jul 1975.

lxxxvii. Using a populist term that invokes Indonesia's nationalist past, prihumi business people interviewed in 1984 and 1989 fondly described their efforts to attract international investment as a perjuangan, a 'struggle'. Astra reportedly preferred cheaper and higher quality imports (Tempo 19 May 1973), and it was not until local production was made compulsory that Astra commenced significant component manufacture. Ang Kang-Ho (Honda) and Tan Kiem-Seng (Citroen) did not move into manufacturing until the late 1970s.

lxxxviii. Thus, he proposed that the government invest in a massive $535 million joint venture to produce engines in the Krakatau Steel complex; Directorate-General of Metal and Engineering Industries 1977, p.5.


xci. On the policy implications of these events see Robison 1986, pp. 164-169.

xcii. 'Japan protested about Decree 307', stated a director of PT Toyota-Astra Motor, 'but Mitsubishi was already deleting components. So we persuaded them that they would benefit by participating' (Interview, 11 Jul 1984). According to another Astra director, 'after Decree 307 we made them see that it was inevitable. We convinced them that they might lose their market' (Interview, 29 August 1984).

xciii. According to an Astra director, 'Suhartoyo consulted more closely with us after Decree 307. Both Suhartoyo and Astra benefit: he achieves his goal of industrialisation; we improve our image' (Interview, 3 Sep 1984).

xciv. In 1984 Astra had taken over the operation of a number of Eman's component manufacturing projects, including his PT Inkoasku.

xcv. Directorate-General of Metal and Engineering Industries, 'Seminar Pengembangan Industri Kendaraan Bermotor', a one-day seminar in April 1978 organised by the Directorate-General.


xcviii. These groups included Krama Yudha (Mitsubishi), Astra (Toyota, Daihatsu), and the companies within the Salim group backed by the considerable financial resources of Liem Sioe Liong (initially Volvo, but later also Suzuki, Mazda and Hino).

xcix. A vocal champion of small-scale enterprise and economic indigenism is the GM licensee, Probosutedjo; see his speech to the Indonesian Chamber of Commerce and Industry, KADIN, in *Dengan Keppres 14A/1980 Menjadi Tuan di Negeri Sendiri* 1980. One would also include the former Nissan licensee, Affān, in this category because of his reliance on indigenism for political support. See the articles in *Tempo* 27 Sep 1980 on Affān's industrial nationalism, and *Tempo* 2 May 1981 on Probosutedjo's support for Affān in his dispute with Nissan.

c. On his attempt to revamp the industrial sector during his ministry, see the revealing interview in *Bulletin of Indonesian Economic Studies* August 1988, pp. 43-57. His attempted reorganisation of the auto industry specifically is described in detail in Chalmers 1989, pp. 104-106.


ciii. This interpretation is based on interviews with foreign auto-TNC representatives, and is supported by an examination of the very unsophisticated Terms of Reference for a deletion scheme leading to full engine production issued by the Department of Industry in 1978; see Chalmers 1988, Chapter 9.

civ. On the competition between Japanese auto-TNCs, see Doner 1991b, pp. 73-79.

cv. Toyota ($39.4 million), Daihatsu ($121 million), Mitsubishi ($141 million), Daimler-Benz ($29.5 million), Hino ($33.3 million) and Suzuki ($20 million); *Indonesian Commercial Newsletter* 263 Feb 1985.

cvi. This paragraph is based on interviews conducted in 1984 with several first- and second-echelon officials from the Department of Industry, BPPT and Investment Co-ordination Board. See Chalmers 1988, Chapter 9.


cviii. As with previous decrees, the schedule applied only to small commercial vehicles (Category 1) which account for some 70 per cent of the market. Undoubtedly released with the approval of the President, the decree was said to be keenly promoted by the then Junior Minister for Industry, Tunky Ariwibowo. On the increasingly detailed auto industrialisation decrees of 1976, 1983 and 1987, see *Indonesia Commercial Newsletter* 51, 7 May 1990, pp. 9-10.

cx. The local content of other categories ranges between 14 and 40 per cent. *Indocommercial* 77, 19 Mar 1993, Table 15, a report prepared by a Jakarta-based consultant, PT Capricorn Indonesia Consult Inc. These estimates were confirmed in interviews with Astra and Department of Industry officials.

cxi. Specifically, Astra, 53 per cent; Salim, 22 per cent; Krama Yudha, 20 per cent. By comparison, when the first deletion schedule was issued in 1976 these three groups accounted for 64 per cent of total production (Department of Industry data).


cxiii. PT Astra International, 1990. The Salim group was, in the past, more reluctant to invest in manufacturing, but its Indomobil group has recently moved heavily into component manufacturing, investing, for example, US$60 million in a Suzuki engine and manufacturing plant. See *Warta Ekonomi*, 20 May 1991.


cxv. This interpretation is chiefly based on interviews conducted in 1990/91 with directors of two of the major auto conglomerates and the directorship of the auto industry association, GAIKINDO.


cxvii. See, for example, the statements by Sjarnubi Said of Krama Yudha, in *Suara Pembaruan*, 12 Apr 1993; and by the President-Director of Salim's Indomobil group, in *Media Indonesia*, 8 May 1992.


cxix. Ownership of Astra has recently passed from the Soeryadjaja family to a consortium of ethnic Chinese Indonesians; see the interview with Kwik Kian-Gie, in *Inside Indonesia* 34 March 1993, pp. 18-20. However, Toyota has affirmed its continued support for Astra; see *Tempo*, 26 Sep 1992; and *Tempo*, 30 Jan 1993.
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