Malleable institutions, social capabilities and resilience to shrinking

- The case of Indonesian catch-up growth 1960-2016[1]

Martin Andersson & Tobias Axelsson[2]

Very preliminary draft

Introduction

In the second half of the 20th century we saw the rise of Asia. Rather than the gloomy outlook predicted by leading economists of the time (most notably Myrdal 1968), we saw a country after country displaying strong economic growth. Most notably catching up of Japan and the four tigers, Taiwan, South Korea, Hong Kong and Singapore. But it did not stop there and a second generation of Southeast Asian countries spearheaded by Malaysia experienced a similar catching up starting in the 1980s.

All these countries have recorded impressive, often double digit growth figures but that is not the whole story. Asian countries seem to also have been able to generate sustained growth. In simple terms, economic growth over time is simple arithmetic consisting of years of growth and years of shrinking. In a comparative perspective what we have seen in Pacific Asia is not merely a result of strong growth but that it has also been a result of avoiding shrinking. In other words, Asia has shown a great sustained growth record with very few years of negative growth. In fact, if we are to compare Asia with African or Latin American countries, it does not seem to be that Asia has grown at a significantly greater magnitude in the years of growth but rather that it has avoided shrinking. While the dynamics of growth is a well researched field, the process of and the resilience to shrinking are largely unknown. In order to understand the catching-up process in Asia we must also understand how these economies have been able to develop institutions that promote growth and build resilience to shrinking.

One country that very much can serve as a case in point is Indonesia (Van Zanden and Mark 2013). In 1965 the country was, in many respects a lost cause. The GDP per capita was at a level below many African countries and one of the lowest in Asia (Booth 2016). The level of Industrialisation was very low and accounting for only about 10 per cent of GDP (Hill 2000). In addition, after years of calamity, and food production growing slower than the population, the Malthusian trap was about to slam

---

[1] To be presented at WINIR conference Utrecht 14-17 September 2017.

[2] Both at Department of Economic History, Lund University, Sweden

shut (Bresnan 1993). Sukarno had dubbed 1965 'the year of living dangerously' as starvation was looming. Yet, the fortunes were to change. Few would, in 1965, have predicted that Indonesia fifty years later had gained the status of a middle income country and would be a member of the G20. Famine is no longer a threat and it is one of the rapidly industrial giants in the region. We have thus seen a formidable transformation of the Indonesian economy and it serves as a good case study when looking at the dynamics of growth and shrinking in Asia in the second half of the 20th century. The aim of our paper is to look at what the underlying dynamics of this change has been in Indonesia. And we argue that part of the reason behind this relative success is the ability for institutions to change and adapt in the face of external pressure. Such malleable institutions are part of capabilities that in itself put pressure to institutional progress. These virtuous loops can be seen as cumulative causation that Myrdal once proposed but in the case of Asian growth dynamics misjudged.

This paper is divided as follows. First a short introduction to social capabilities and economic shrinking. This is followed by an overview of the Indonesian growth record, the role of inclusion and structural transformation. The paper concludes with some general observations and the road forward.

Social capability and economic shrinking

In the literature on the nature and causes of economic growth in the developing world in the post-war era, the role of economic shrinking has received limited attention. Exceptions are Easterly et al (1993) and Rodrik (1999) where growth "collapse" or "reversals" are highlighted and explained by the occurrence of economic shocks or social conflict. Pritchett (2000) also notes that negative growth is a frequent phenomenon in developing countries and that the growth literature is not well equipped to understand it, a point also made by Broadberry and Wallis (2016). In addition, the literature does not provide an answer to how some countries have been able to change their social arrangements in ways that limited shrinking and, despite falling average growth rates, managed to increase their long run rates of growth. The current paper aims to understand the institutional arrangements that promote sustained economic growth by limiting economic shrinking in the development experience of Indonesia over the last half a century.

We take as a point of departure the concept of 'social capability' (Ohkawa and Rosovsky 1973; Abramovitz 1986;1995) and develop it into an analytical framework allowing empirical scrutiny. We decompose the concept of 'social capability' into five conceptual aspects. These are: *inclusion (i)* capturing fall in poverty, widespread access to productive resources and that the economy is open to entry, implying that the growth process has the potential to be pro-poor and participatory. *Transformation (ii)* captures the completion of the agricultural transformation. *Social stability* (iii)

means arrangements for conflict resolution (cf. Rodrik 1999, Collier et al 2003; North, Wallis and Weingast 2009); *autonomy* (iv) which we understand to be the ability of the state to keep vested interests at bay (e.g. through a state´s ability to impose direct and progressive taxation on the non-poor), and lastly *accountability* (v) understood to capture the quality of governance and provision of public goods (cf. Besley and Persson 2013). Analytically these elements of social capabilities are interconnected. Our working hypothesis suggests that resilience to economic shrinking is enhanced by the broad-basedness of people's inclusion in the marketplace. The resilience to shrinking is then reflected in the degree of: transformation of the economy; the social stability; and the state's autonomy and accountability.

In the Indonesian case, the concept of social capabilities is not new. In previous studies, however, focus has been more abstract or focusing on the role of education (See for example Frankema and Lindblad 2006 or Booth 1999; 2016). Our framework decomposes the concept of social capability into five empirically operational and interconnected parts.

Indonesian overview

To understand the Indonesian case a stylised overview of the Indonesian economy is needed. In the following section we will go through the growth record of the country dating back to independence.

The growth record

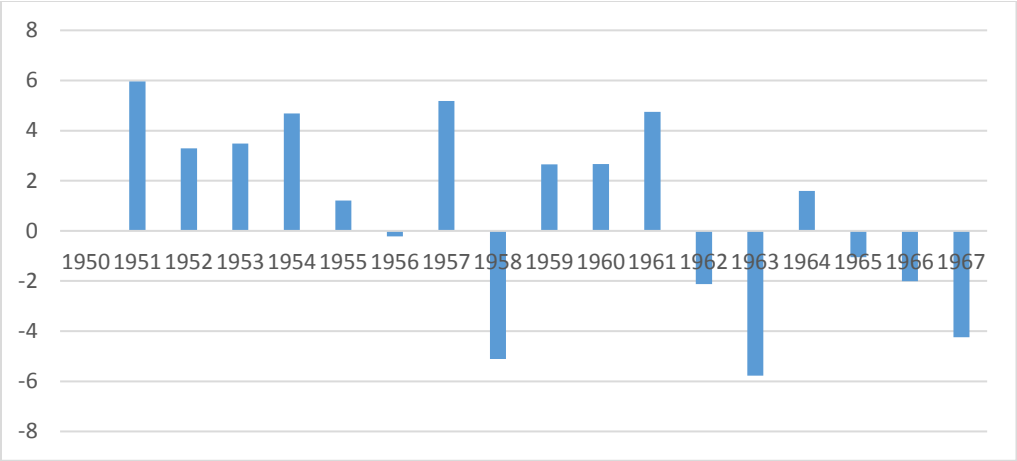
The traditional periodisation of Independent Indonesia follows very much the political history of Indonesia. The first period often called the Old Order, 1950-1967, was dominated by the building of a new nation under the leadership of President Sukarno. The second period called the New Order to contrast it with the old regime, 1968-1998, was dominated by the military and President Suharto. The final period 1998 until present, has seen the ousting of Suharto and the emergence of a strong democracy with regional autonomy.

1950-1967 The Old Order

This era was defined by the political leadership under Sukarno. While Indonesia gained announced its independence already in 1945 the Dutch did not leave formally until 1949. The period came to an abrupt end in 1965 with the de facto ousting of Sukarno and Suharto taking his place.

As is evident in figure 1. this was a very volatile era in the Indonesian economic history. The strong growth of early independence was by the end of the 1950s replaced with volatility and shrinking. Over this period of time Indonesia was shrinking seven out of seventeen years. Consequently, despite some strong years, the average growth only reached 0.88 per year.

Figure 1. Annual GDP/cap growth 1950-1967



Source: Authors own calculations from The Conference Board Total Economy Database™, (TED) January 2014, http://www.conference-board.org/data/economydatabase/

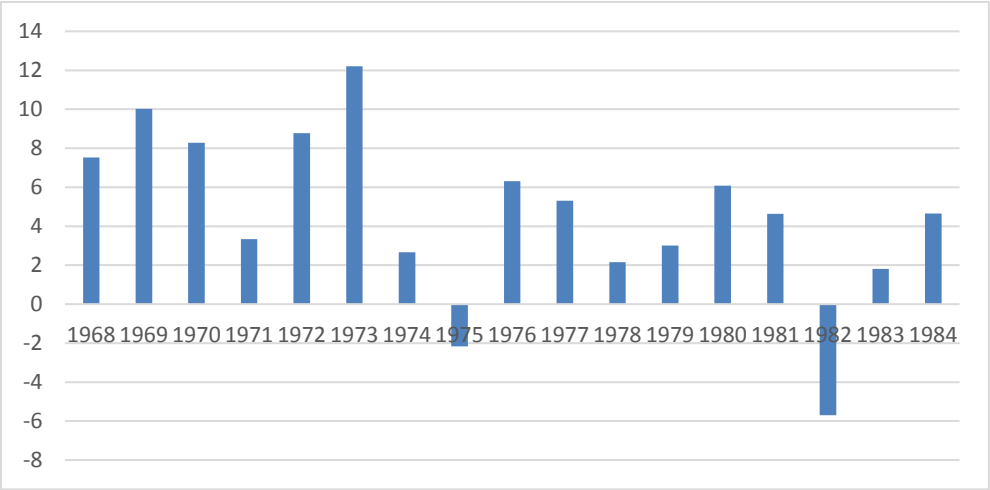
1968-1998 The New order

Like the previous period this is also very much defined by the political leadership. Suharto had defac to been in charge since 1965 but was not formally elected until 1968. Suharto was to stay in power until 1998 in the aftermath of the financial crisis. Suharto's reign spread over three decades and it is therefore useful to divide it into two sub periods. 1968-1984 and 1985-1998.

1968-1984 out of the ashes

The first period is characterised by oil fed expansion of both agriculture and industry. As is notable in figure 2. this is a very strong growth phase with a couple of years hitting double digits. After the initial spurt, first connected to recovery and then later on the oil boom, growth slows down. Yet in the seventeen year period Indonesia sees shrinking in only two years and the average growth is 4.69 per year. This indicates that already in the first years of the Suharto regime Indonesia develops a resilience to shrinking. Resulting in not just impressive growth figures but also average growth. Still, it is worth noting that growth is rather volatile.

Figure 2 Annual GDP/cap growth 1968-1984

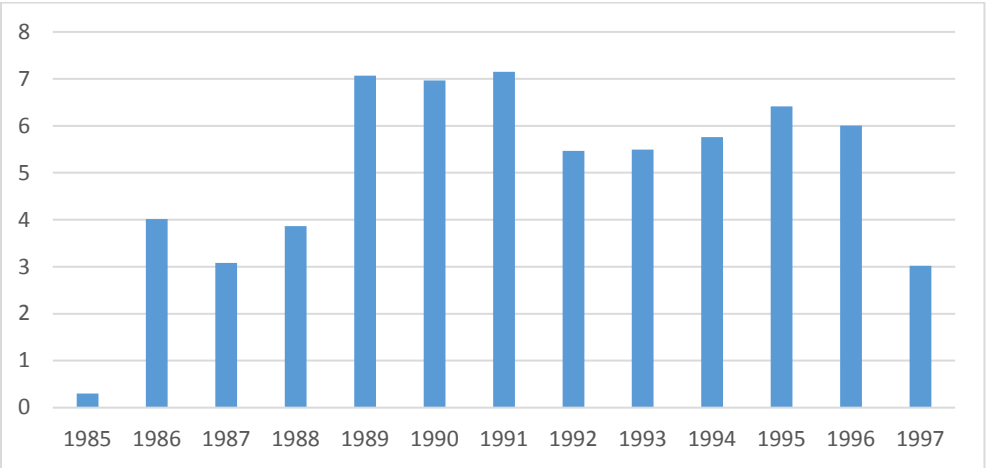


Source: Authors own calculations from The Conference Board Total Economy Database™, (TED) January 2014, http://www.conference-board.org/data/economydatabase/

1985-1997 Manufacturing Indonesia

Turning to the last period of the Suharto era, as seen in figure 3. The strong growth trend continues with average growth increases to 4.96. While the growth figures are not as high as in the previous period it is worth noting that there are no years of shrinking. Furthermore the volatility of seen in the previous period is replaced by a much more stable level of growth. With this stability in growth it is not surprising that although the extremely high growth figures of the 1970s do not return, the average growth is still stronger.

Figure 3 Annual GDP/cap growth 1985-1997

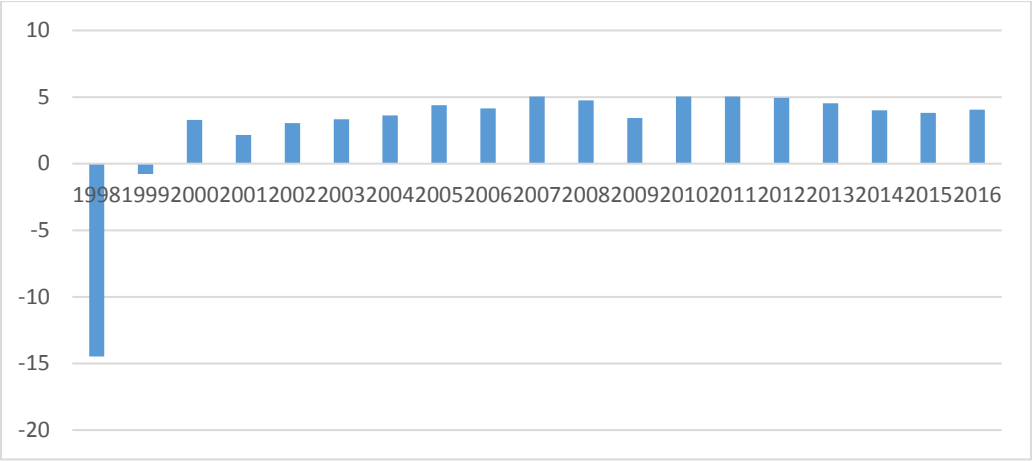


Source: Authors own calculations from The Conference Board Total Economy Database™, (TED) January 2014, http://www.conference-board.org/data/economydatabase/

1998-2016 out of the Ashes, again.

The final period of our study takes its starting point in the economic crisis which hit Indonesia in mid-1997. Although Indonesia had been heralded as the miracle giant of Southeast Asia and well equipped to deal with the crisis spreading across Asia (World Bank 1993; World Bank 1997) the Indonesian economy collapsed in 1998. While the crisis had far reaching political consequences with the ousting of Suharto and the ensuing democratisation growth soon recovered. As seen in figure 4. shrinking only occurred in the first two years. This is then followed by 17 years of growth. The average annual growth drops to only 2.8 for this period, much a result of the dramatic two first years. If we exclude the 1998 the average growth is a whole percentage point higher. It is evident that the stability from the second half of the Suharto era continued.

Figure 4. Annual GDP/cap growth 1998-2016



Source: Authors own calculations from The Conference Board Total Economy Database™, (TED) January 2014, http://www.conference-board.org/data/economydatabase/

Beyond Sukarno and Suharto

From this overview of the growth record above some general observations can be made. First, it is evident that over all Indonesia has shown great resilience to shrinking. From 1950 until 2016 shrinking has only occurred in eleven years. A second observation that can be made is that the years of shrinking are mostly found in the very first period, the Sukarno years 1950-1967. Seven of the eleven years of shrinking can be found during in this period. The consequence being that average annual growth for that period is also the lowest. If we include also the first period of the Suharto era another two years of shrinking may be added. It is thus clear that the years of shrinking occur seem to be a recurring event before 1985. A third and final observation, which is connected to the years of shrinking is the volatility of growth. Again, 1985 seems to be the dividing point. Before 1985 we see years of very high growth replaced with more moderate figures. After 1985, Indonesia does not reach the double digits of the past but on the other hand the levels are consistently high. A

conclusion that one may draw from this is that the Indonesia economy has become increasingly resilient to shrinking and volatility of growth. Another interesting point is that political leadership seem to be part of the explanation. Yet if we see 1985 as a dividing point rather than 1965 and 1998 it is clear that there must be underlying factors in Indonesian society that have increased the level of resilience to shrinking and volatile. Let us briefly turn to Inclusion and structural transformation.

Inclusion

In overview of inclusion we will focus income inequality, poverty and calorie intake.

Starting in the Sukarno era there is very little data. It has however been argued (Dick 1985) that, at least for the last years of the regime inequality was on the rise. This was predominantly a result of the macroeconomic policy at the time. The Sukarno regime nationalised foreign companies with the intention that they belonged to all Indonesians. In this spirit goods produced by these companies were heavily subsidised by a state that could ill afford it with ensuing deficits and hyperinflation. This led to speculation and corruption benefitting the rich while poor income earners and farmers suffered (Dick 1985). Ironically, the strategy that was intended to help the poor punished them. Resulting in increased inequalities. Not only did we see increasing inequalities but the Sukarno era meant little in terms of improved standard of living. While we do not have any estimates of the number of poor living below the poverty line a quick look at per capita food consumption was below pre-war levels by the time of the coup attempt in 1965 (Booth 2016). Food production had increased but population had risen faster (Bresnan 1993). From figure 5 we can see that calorie supply was well below 2000 calories per day until the end of the Sukarno era.

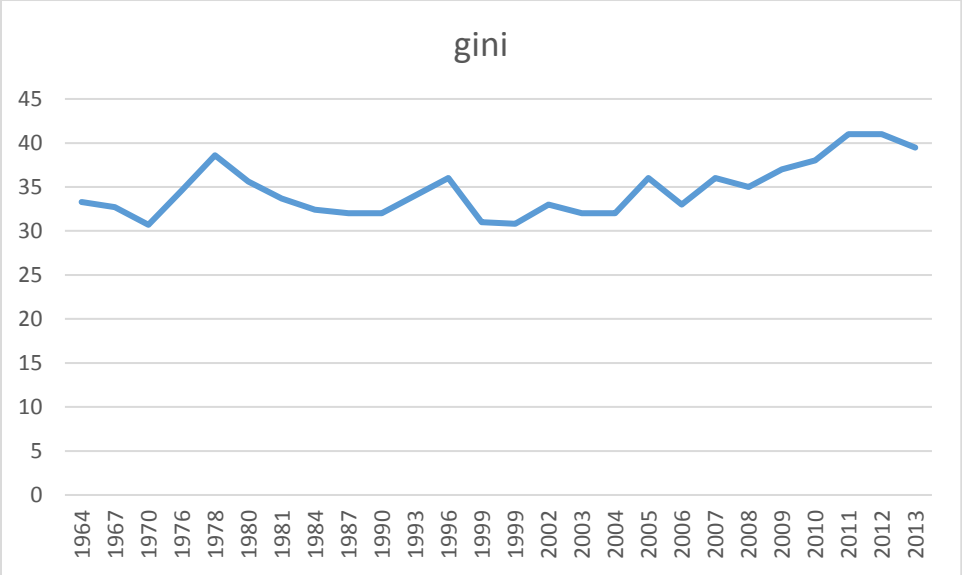
Turning to the new order data is much more readily available. At a first glance it is clear that the inequality is relatively moderate and stable. This indicates that the Suharto era growth also befitted the poorest Indonesians. Timmer shows that between 1967 and 1996 the average annual increase in per capita income was on par with the average annual increase with the bottom quantile (Timmer 2004). A closer look at the different sub periods, however, show that in line with Timmer (2004) there was a clear trend of increasing inequalities until the last years of the 1970s. The first years after the Suharto take over, the economy was in a shambles and there was little to distribute (Timmer 2004). In addition, this was a time of rapidly increasing oil revenues which were disproportionally benefitting the urban areas of Indonesia (Dick 1985). Yet, Indonesia did not become Nigeria nor Venezuela. After the peak in 1978 inequality declines once again. This decline is arguably a consequence of that throughout the 1980s there is a strong pro poor growth (see Dick 1985). Despite a hike in the early 1990s inequality remains stable until 2004 when we see a clear upward trend. Turning to poverty is difficult to obtain reliable data prior to the 1980s. The data that we do have has often been heavily criticised for painting too positive an image of Indonesia (see the discussion by

Asra 2000 or Booth 2016). Notwithstanding, a clear trend is visible in the data. From figure 6 below it is evident that poverty was on a decline already in the late 1970s which continues throughout the remainder of the Suharto era. It is interesting to note that, despite the disastrous shrinking of 1998 and 1999 the steep trend continues into the new millennia and that despite the slower growth rate after the crisis poverty reduction continues. The continued strong poverty reduction after the fall of Suharto indictes that pro poor growth is stronger than in previous periods.

Going beyond inequality as just distribution of consumption and poverty we also see food supply that had remained flat under the Old Order starts to increase. This is arguably an effect of the agricultural modernisation project discussed below. It is interesting that this development continues into the second half of the Suharto regime and peeks in the late 1980s. It levels out and while 1965 was the year of living dangerously to the Indonesian leadership and population alike. The crisis of 1997 never really threatened the food security of the Indonesians. Showing a resilience to famine.

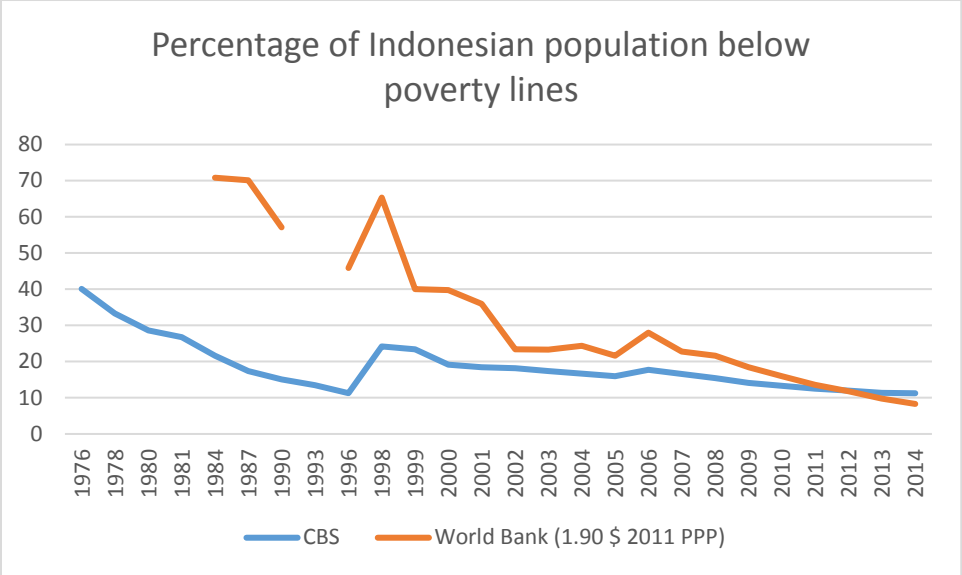
To conclude it is evident that Indonesian growth has been accompanied with considerable improvements in both poverty reduction and nutritional intake. This has particularly been the case since the early 1980s. Despite the crisis of 1998 this trend seems to continue.

Figure 5 Income inequality in Indonesia (consumption)



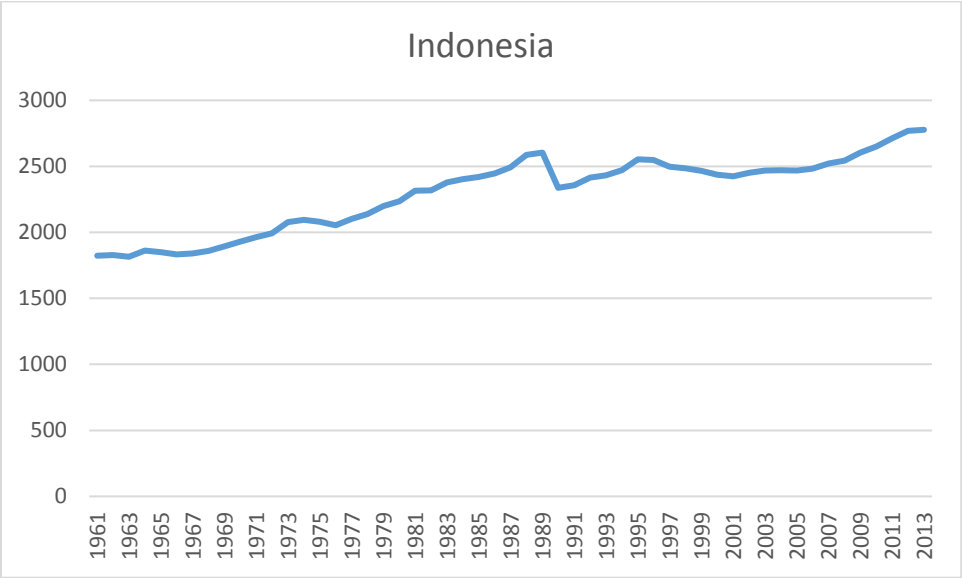
Source: WIID 3.4 (2017)

Figure 6 Poverty reduction in Indonesia



Source: 1976-1996 Asra 2000, 1998-2014 CBS, WDI 2017 for World Bank data

Figure 7 Calorie supply in Indonesia1961-2013



Source: FAOSTAT 2017

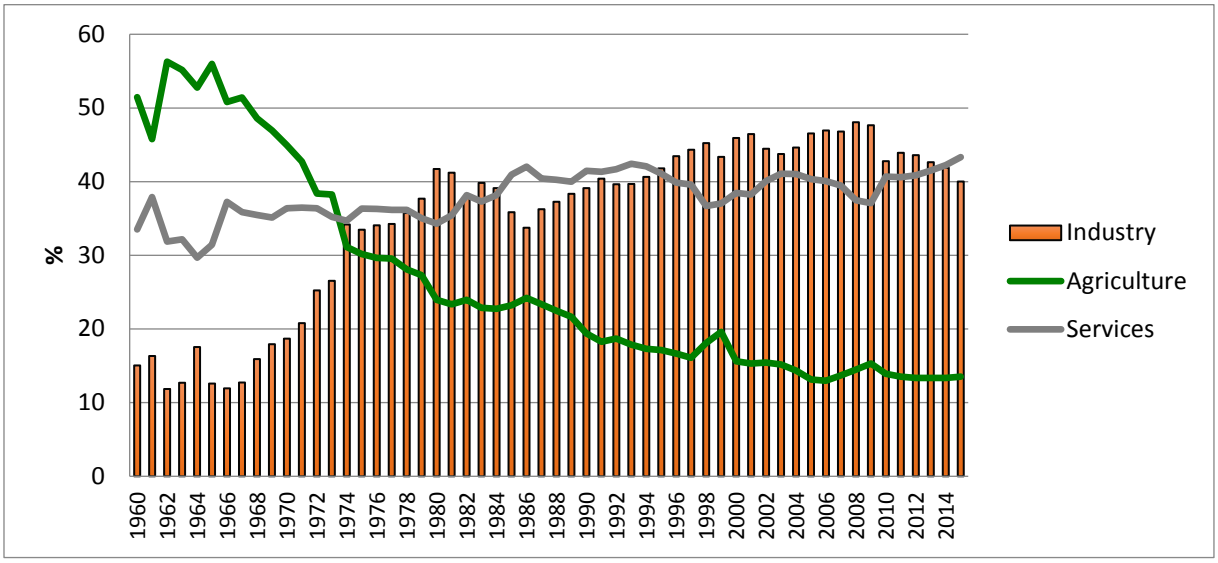
The structural transformation of Indonesia[3]

To understand the dynamics behind the pro poor growth in Indonesia we now turn to the process of structural transformation since independence. While we only have data from 1960 it is evident that Indonesia has seen a structural change. If we follow the traditional periodisation as seen above

[3] This section draws on Axelsson and Palacio Transforming Indonesia: Structural change in a regional perspective 1968-2010 in Long-term agricultural development in the periphery from a global perspective Pinilla V. and H. Willebald (eds.) Palgrave, forthcoming

differences immediately become clear. In the Old Order agriculture accounted for more than half of and employed more than 60 per cent of the labour force. Notwithstanding, rural Indonesia was in dire straits. The cash crop sector once dominated by the Dutch was failing as a result of too few rejuvenation programmes and a prohibitive currency regime (Hill 2000:125). Already in the 1950s it was clear that food security was a pressing issue. The regime did respond to this by promoting the use of new technology such as chemical fertilisers and new seeds. In addition there were early efforts of creating an extension service in collaboration with Indonesian Universities. The efforts were however on a minimal level and where chronically underfunded (See for example J. 1965 and Kolf 1971, Penny 1965). In the end rather than reform the system Sukarno resorted to campaigns promoting consumption of other food crops than rice (Bresnan 1993).

Figure 8 Sectoral decomposition of GDP 1960-2014.



Source: WDI 2017

The New order – out of the Ashes

By the time Suharto took over the reigns Indonesia was consequently dominated by a stagnating agricultural sector and industry only accounted for only 12.7 percent of GDP. By 1984 the picture had changed significantly. The value added from agriculture had halved to 20% of GDP. Industry and services accounted for just below 40 % of GDP each. Also the agricultural labour force fell, but the gap between shares remained as wide as before (Andersson and Palacio 2016).

Given that centralisation under Suharto was strong, the main reason behind this transformation in Indonesia is to be found in state policy (See Booth 1988 and Axelsson 2008). Some even argue that failing to put food, particularly rice, on the table would have risked Suharto to lose power (Bresnan 1993). The production of food crops was not driven by the expansion of land under cultivation but rather a result of state led land intensification programmes (Simatupang and Timmer 2008).

At first change was slow and the food sector was riddled with mismanagement and corruption. With the rice crisis of 1972 the importance of food security became apparent to the new regime. These programmes, known as Bimas, and later Insus, gained momentum in 1973 when funding through the windfall oil revenue meant that the agricultural extension system could be expanded (Bresnan 1993). The programmes gave access to new modern agricultural inputs, cheap credit and instructions in modern cultivation practises. While the programmes had coercive elements (Axelsson 2008), the adoption rate of new technology was impressive and by 1984 the high yielding varieties dominated. Initially, the programmes focused on Java but expanded further afield as they gained momentum (Booth 1988). By 1985, 77 % of rice cultivation was under these intensification programmes (Sawit and Manwan 1991). The dramatic increase in yields came with a rise in labour productivity.

Regarding cash crops, the Suharto regime inherited a crippled sector (Bresnan 1993, Hill 2000). Over the period there was a fast growth in the production of cash crops such as sugar in Java, rubber and palm oil in Sumatra (Hill, 2000). A true success story of Indonesia during this time is the palm oil sector, which had seen a five folded production increase. Yet, the extension programmes were to a large degree absent until the end of the 1970s and even after that most smallholders did not participate. Instead prices were the driving force with farmers increasing their production through working longer hours (Booth 1988).

The period 1968-1984 saw the expansion of industry[4]. Given that the industrial base very low at the time of Suharto's takeover, a top priority was to kick start the industrialisation process. As with agriculture, the opportunity for change came with the oil boom in 1973. The nature of the industrial policy and thereby the outcome was to have great impact on prospects for the structural transformation. Like in many other developing countries of the time, industrialisation was led through state initiatives and import substitution. The focus was on capital rather than labour - intensive industries (Hill 2000, 1990). This being said, the import substitution policies also benefitted the expanding manufacturing industries making the Indonesian industrial sector much more diversified in the middle of the 1980s. Yet industries, which did expand in output such as textiles, did so through technological upgrading (Hill 1990).

To conclude, the Indonesian strategy for development was at this time very broad. While oil fed into the industrialisation project, agriculture was not neglected. On the contrary industrialisation was coupled with a modernisation of the agricultural economy. This was the result of a strategy to ensure food security with the side effect of creating a more diverse economy.

[4] By industry we mean mining, manufacturing, construction and public utilities.

Manufacturing Indonesia 1985-1996

After the slowdown in the structural transformation in the early 1980s, the pace of growth picked up once again in the second half of the decade; yet a much slower rate than in the previous period. By the end of the Suharto era only 18% of GDP came from agriculture and remained a major source of employment and the share of household declaring agriculture as the principal source of income only declined from 81 to 78% between 1983 and 1993 (Booth, 2002).

True, the effects from the intensification programmes in agriculture had slowed down, partly because the political role of agriculture had changed with the achievement of self-sufficiency in 1984 (Bresnan 1993), but also the decreasing public investments as oil revenues declined making it difficult to support agriculture (Simatupang and Timmer 2008). It was also a consequence of that the vast majority of farmers at this point were using modern technologies (Sawit and Manwan 1991). At the same time cultivated land was being increasingly used for non-agricultural purposes. The response, the Supra Insus programme built on previous ones but with improved support for technological adaptation. By 1992, the area under intensification programmes had increased to over 80% (Hill 2000). Again, these programmes focused on yields and production while mechanisation took secondary priority (Axelsson 2013). In fact, with the new cultivation practises there is evidence of increased labour intensity thus even hindering the shedding of labour (Sawit and Mawan, 1991). Yet in the early 1990s there is a dramatic decline in the agriculture labour force. This indicates that labour saving technologies were used and therefore driving the transformation forward. In the cash crop sector there was little state support until the early 1990s, but we see a steady increase in production (Booth, 2012; Hill, 2000). This is accompanied by the increasing importance of smallholders in the cash crop sector.

The industrial sector grew in importance and hovered around 40% of GDP. At first glance this was just a continuation of the oil fed industrialisation strategy of the 1970s. However, the collapse in the oil price also had implications for industry. Indonesia could no longer sustain an oil fed and inefficient industrial policy. For Indonesia to maintain the industrial share of GDP, a shift away from the industrial policy of the 1970s was needed (Hill 2000; Bresnan 1993). This shift was not done overnight and was often met with resistance from the industrial elites that had benefited from their close ties with Suharto (Vatikiotis 1993). While there was an internal pressure for change the regional dynamics in Asia had also changed with the Plaza Accord in 1985, which opened up for increased capital flows to feed manufacturing. The result was a shift in the drivers of the industrialisation process away from the oil driven state-led industrialisation project towards an export oriented manufacturing sector fuelled by foreign direct investment. It is this process that took off in the early 1990s with labour intensive industries (Hill 2000). This shift meant that more people could be

absorbed in the industrial sector thus shifting from low productive and low income activities to ones which lifted them, and Indonesia out of poverty.

To conclude, the second half of the Suharto era saw continued albeit slower transformation. But significant change occurred within particularly the industrial sector. As a consequence Indonesia continued on the path towards further diversification. This was a result very much of increasing oil prices and the change in division of labour within Asia.

Out of the Ashes, again 1998-2016

The financial crisis in 1997 stopped the Indonesian economy dead in its tracks. Arguably the following decade was little more than a recovery with GDP per capita not returning to pre-crisis levels until 2005 (WDI 2017). Perhaps surprisingly, with the exception of the crisis years, agricultural GDP continues to decrease at the same pace until 2005. After that, the process seems to reverse and by 2010 it is back at levels seen a decade earlier. At the same time, agriculture labour share remains stagnant between 1995 and 2005. From then onwards, the steep decrease indicates labour productivity increases in agriculture and strengthening linkages to other sectors. Here we also see the increase of diversification with the share of households deriving their income primarily from agriculture decreasing from 78% to 69% between 1993 and 2003 (Booth, 2002).

The 1997 crisis had far-reaching consequences beyond the economic scope. After three decades Suharto was forced to step down. Indonesia had under Suharto become increasingly centralised (Booth 2014). Revenues from the regions, bar a few minor ones, were transferred to the national budget. The funds were then returned to the regions through subsidies or presidential decrees. Although the regime directed an increasing amount of funds towards the provinces, there was a growing dissent in the provinces in the last years of the Suharto regime, not least from the resource rich provinces that felt cheated on their wealth (World Bank 2003).

When Suharto stepped down in 1998, Indonesia embarked on a road towards democratisation. With democratisation demands from regional governments for more power and the discussion on regional autonomy was reignited as the regions pressed for greater autonomy (Usman 2001, World Bank 2003). In 1999, law 22 and law 25 were passed. Two years later decentralisation and regional autonomy was effectuated (World Bank 2003). The ‘big bang’ of decentralisation meant that the old top down approach to development no longer applies. In concrete terms, for the agricultural sector this has meant an end to the broad and encompassing agricultural modernisation schemes of the past. Instead it is a decentralised system where each region is responsible for its own funding which of course also means that poor agricultural regions will be struggling to maintain its services especially in expensive project like irrigation (Simatupang and Timmer 2008, Firman 2009).

Consequently the organised efforts of the past are no longer in place. Instead we see the old extension system struggling while NGOs and private interests have gained ground promoting new cultivation practises, mechanisation of agriculture and more importantly focus has shifted towards agri-business and marketing of agricultural products (World Bank, 2007).

The new era stemming out of the crisis has led to a changing role of the central State. The process is now in the hands of the provinces, although decentralisation has brought increasing conflicts between local stakeholders. For instance, local governments today exploit their resources to a much larger extent than what they did before. The greater freedom has led to greater local possibilities but there are also signs of the development policies of the past have been replaced with more fragmented and short-sighted ones (Firman 2009).

In addition, the decentralisation process has, at least partially coincided with the commodity boom. The resource rich regions have thus seen their income from natural resources soar. This resurgence of agriculture was partly fuelled by the growing demand for "flexible crops". Such as palm oil, soybeans, sugarcane, oil palm and corn. Flexible crops have multiple uses like food, feed, fuel or industrial material, which makes the agricultural sector less vulnerable to price fluctuations (Da Silva et al, 2010) and allows the sector to diversify risks within a single crop sector (Borras et al, 2012). Among flexible crops, Indonesia is the world´s largest producer of palm oil and among the top 20 producers of sugarcane, soybeans and maize (FAO, 2016). Indonesia is also among the top 20 producers of rice, rubber and coffee. In this context, most of these agricultural crops are labour intense and therefore likely to have increased labour demand, especially in areas with palm oil and rubber[5].

Concluding remarks

A number of conclusions can be drawn from at this early stage.

First, Indonesia has successfully increased its resilience to shrinking and growth has become less volatile over time. Second, from the start of the New Order in 1968 Indonesia has seen a great structural transformation. Shifting away from agriculture towards industry. The industrialisation process seem to have occurred in tandem with the modernisation of agriculture. From the early 1970s, oil revenue enabled the industrialisation but the regime also invested heavily in agriculture. This allowed for a broad based development process, resulting in rapidly falling poverty and only moderate inequality. A third observation is that the development process has been coupled with institutional change. In the beginning of the 1970s the New Order continued very much in the same

[5] Palm oil is to provide on average 350 jobs per 1000 ha and rubber 420 (Rising Global Interest in Farmland: can it yield sustainable and equitable benefits ? World Bank, 2010).

tracks as the previous regime. In 1972 rice shortages put the pressure on the regime. Which, through the fortunate global events with rising oil prices pushed for change. Likewise, the rapid, oil fed development of the 1970 was coming to an abrupt end in the early 1980s. The response in Indonesia, although reluctantly, was a shift towards more labour intensive manufacturing industries making the country less dependent on oil. Arguably it is this ability to respond to both external and internal pressure for change which has propelled the ability for Indonesia to build resilience to shrinking. In other words the malleability of the Indonesian institutions is part of the explanation. We believe that the root to this malleability is found in people's inclusion in the marketplace through the transformation of the economy; the social stability; and the state's autonomy and accountability.

References (incomplete)

Abramovitz, M. (1986). Catching up, forging ahead, and falling behind. *The Journal of Economic History*, *46*(2), 385-406.

Abramovitz, M. (1995). The elements of social capability. In *Social capability and long-term economic growth* (pp. 19-47). Palgrave Macmillan UK.

Andersson, M. and Palacio, A (2016). Structural Change and Income Inequality–Agricultural Development and Inter-sectoral Dualism in the Developing World, 1960-2010. Revista OASIS, 23, jan-jun 2016, p.99-122

Asra, A. (2000). Poverty and inequality in Indonesia: estimates, decomposition and key issues. *Journal of the Asia Pacific Economy*, *5*(1-2), 91-111.

Axelsson, T. (2008) Peasants and Policymakers, Agricultural transformation in Java under Suharto Lund: Holmbergs

Axelsson, T. (2013). State led agricultural development and change in Yogyakarta 1973-1996. In E. Hillbom, & P. Svensson (Eds.), Agricultural transformation in a global history perspective, (pp. 86-107). Abingdon: Routledge

Besley, T. J., & Persson, T. (2013). Taxation and development.

Booth, A (2016) Economic Change in Modern Indonesia, Colonial and Post-Colonial Comparisons, Cambridge: Cambridge University Press.

Booth, A(2014). Before the 'Big Bang' decentralisation debates and practise in Indonesia 1949-1999. In H. Hill (Eds), Regional Dynamics in Decentralized Indonesia,(pp. 25-44) Singapore: Institute of Southeast Asian Studies.

Booth, A. (2002). The changing role of non-farm activities in agricultural households in Indonesia: some insights from the agricultural censuses. Bulletin of Indonesian Economic Studies, 38(2), 179-200.

Booth, A. (1999). Initial conditions and miraculous growth: why is South East Asia different from Taiwan and South Korea?. World Development, 27(2), 301-321.

Bresnan, J. (1993) Managing Indonesia, The modern Political Economy, New York: Columbia University

Broadberry, S., & Wallis, J. (2016). SHRINK THEORY: THE NATURE OF LONG RUN AND SHORT RUN ECONOMIC PERFORMANCE.

Borras Jr, S. M., Franco, J. C., Gómez, S., Kay, C., & Spoor, M. (2012). Land grabbing in Latin America and the Caribbean. Journal of Peasant Studies, 39(3-4), 845-872.

CBS (Central Bureau of Statistics). BPS (Badan Pusat Statistik). Published volumes. Jakarta: BPS.

Da Silva, J. G., Gómez, S., & Castañeda, R. (2010). Boom agrícola y persistencia de la pobreza rural en América Latina. Algunas reflexiones. Revista Austral de Ciencias Sociales, 18, 5-20.

Dick, H. W. (1985). The rise of a middle class and the changing concept of equity in Indonesia: An interpretation. *Indonesia*, (39), 71-92.

FAO, (2016). The State of Food and Agriculture. Rome: United Nations

Firman, T. (2009). Decentralization Reform and Local-Government Proliferation in Indonesia: Towards A Fragmentation of Regional Development, Review of Urban and Regional Studies, 21 (2/3).

Frankema, E., & Lindblad, J. T. (2006). Technological development and economic growth in Indonesia and Thailand since 1950. *ASEAN Economic Bulletin*, 303-324.

Hill, H. (2000) The Indonesian Economy 2:nd edition, Cambridge: Cambridge University Press

Hill H. (1990) Indonesia's Industrial Transformation Part I, Bulletin of Indonesian Economic Studies, 26: 2

Myrdal, G. (1968). Asian drama, an inquiry into the poverty of nations. *Asian drama, an inquiry into the poverty of nations.*

North, D. C., Wallis, J. J., & Weingast, B. R. (2009). *Violence and social orders: A conceptual framework for interpreting recorded human history*. Cambridge University Press.

Vatikiotis MRJ. (1993). Indonesian Politics under Suharto, order Development and Pressure of Change

Sawit, M. H., & Manwan, I. (1991). The Beginnings of the New Supra Insus Rice Intensification Program: The Case of the North Coast of West Java and South Sulawesi 1. Bulletin of Indonesian Economic Studies, 27(1), 81-103.

Simatupang P. & Timmer, C.P. (2008), Indonesian Rice production: Policies and Realities, Bulletin of Indonesian Economic Studies, 44 (1)

Sumner A. (2010). Global Poverty and the New Bottom Billion: What if Three-quarters of the World's Poor Live in Middle-income Countries? IDS Working Paper, vol 2010 (349).

The Conference Board Total Economy Database™, (TED) January 2014, http://www.conference-board.org/data/economydatabase/

Timmer, C. P. (2004). The road to pro-poor growth: the Indonesian experience in regional perspective. Bulletin of Indonesian Economic Studies, 40(2), 177-207.

Usman, Syaikhu (2001), Indonesia's Decentralization Policy: Initial Experiences and Emerging Problems. SMERU Working Paper, the SMERU Research Institute, Jakarta

Van Zanden, J. L., & Marks, D. (2013). *An Economic History of Indonesia: 1800-2010*. Routledge.

World Development Indicators (2017). Washington, US: World Bank.

World Bank (2007). Agricultural Extension Services In Indonesia: New Approaches and Emerging Issues

World Bank (2003) Decentralizing Indonesia: A Regional Public Expenditure Review Overview Report.

World Bank (1993). The East Asian Miracle, Oxford: Oxford University Press