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**NAVAL  
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SCHOOL**

**MONTEREY, CALIFORNIA**

**THESIS**

**POLITICAL AUTHORITARIANISM AND ECONOMIC  
SUCCESS IN INDONESIA AND SOUTH KOREA**

by

Marcus A. Johnson

June 2017

Thesis Advisor:  
Second Reader:

Naazneen Barma  
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**POLITICAL AUTHORITARIANISM AND ECONOMIC SUCCESS IN  
INDONESIA AND SOUTH KOREA**

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Lieutenant, United States Navy  
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Submitted in partial fulfillment of the  
requirements for the degree of

**MASTER OF ARTS IN SECURITY STUDIES  
(FAR EAST, SOUTHEAST ASIA, THE PACIFIC)**

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## **ABSTRACT**

This thesis researches the features of political authoritarianism that might contribute to economic success. It seeks to define authoritarianism and disaggregate its characteristics to better understand the ways in which it affects development. This thesis is based on comparative case studies of South Korea's and Indonesia's contemporary political-economic trajectories. These two countries shared a similar political make-up, yet their economic paths and outcomes are quite different. South Korea, under Park Chung-hee, produced a proficient economic framework that fostered competent long-term institutions to build a developmental state. The bifurcated economic strategy pursued by Suharto was neo-liberal in philosophy, yet it contained nepotism, corruption, and cronyist behaviors in practice that produced inefficiency and growth-inhibiting outcomes. The prevalence of these factors provides an explanation as to why Indonesia, under Suharto, did not achieve the same level of success that Park's South Korea attained. The thesis concludes by reflecting on key findings and implications, offering a way forward on how underdeveloped countries seeking political and economic reforms can learn from the mistakes and successes of the two case studies.



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## LIST OF ACRONYMS AND ABBREVIATIONS

BAL	Basic Agrarian Law
BIMAS	Mass Guidance
BPN	National Land Agency
BPS	National Statistic Agency of Indonesia
DRB	Democratic Republican Party
EPB	Economic Planning Board
GDP	Gross Domestic Product
INMAS	Mass Intensification
KOSTRAD	Army Strategic Command
KPA	Consortium for Agrarian Reform
MAF	Ministry of Agriculture and Forestry
MHA	Ministry of Home Affairs
MoF	Ministry of Finance
MPR	People's Consultative Assembly
NACF	National Agricultural Cooperative Federation
NIC	Newly Industrialized Countries
OPEC	Organization of Petroleum Exporting Countries
PDI	Indonesian Democratic Party
PKI	Communist Party of Indonesia
PKI	Federation of Korean Industries
PPP	Development Unity Party
PPP	Purchasing Power Parity
SOE	State Owned Enterprises

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Lastly, I hope this thesis one day provides policymakers with an avenue for a better way forward. I hope my research proves to be relevant to the ongoing commitment to bring about social and economic development for the millions of people in the world who are mired in destitution. There has been great progress in eradicating poverty and expanding human rights, but there is still much work to be done.



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# **I. INTRODUCTION**

## **A. MAJOR RESEARCH QUESTION AND FINDINGS**

This thesis researches the features of political authoritarianism that might contribute to economic success. Specifically, this thesis examines the characteristics of authoritarianism and their impact on relative economic success and failure in two countries in Asia: the Republic of Korea and Indonesia in the Post WWII era. What are the major similarities and differences in the economic, political, and social development trajectories of these two countries? The core findings of this thesis disaggregate the features of authoritarianism that vary across the two countries so as to explain their different paths. South Korea, under Park Chung-hee, produced a proficient economic framework that fostered market-oriented policies and competent long-term institutions to build a developmental state. The bifurcated economic strategy pursued by Suharto, conversely, mixed a neo-liberal philosophy with nepotism, corruption, and cronyist behaviors in practice that produced inefficiency and growth-inhibiting outcomes. The incidence of these factors provides an explanation as to why Indonesia, under Suharto, did not achieve the same level of success that Park's South Korea attained.

## **B. SIGNIFICANCE OF THE RESEARCH**

The economic and social dynamics that make up a developmental state have been debated in academic circles. The phenomenon that defines the post-WWII development of East Asian states centers upon sound macro and micro economic planning. Finding the balance between competent and strong state intervention and market instruments was central to the historic growth that several Asian countries experienced. Authoritarianism, a form of government based on strong central power and limited freedoms, is a repressive method that can often be found in a developmental state. If productive political institutions are allowed to prosper through competent regime types, prosperity and stability can emerge.

The research question posed seeks to define authoritarianism and disaggregate its characteristics to better understand the ways in which it affects development.

Authoritarianism can impede economic development by implementing an incompetent bureaucracy as Zimbabwe's President Robert Mugabe demonstrates. Yet to argue that anything that impedes the state's ability to intervene is a good thing is a biased way to analyze development, when it is clear from the East Asian experience that state intervention was associated with economic success. Organizational theories that study the impact the state has on development cannot present a cohesive argument if the starting point is "the only good bureaucracy is a dead bureaucracy."<sup>1</sup> Politics is often the competition between partial truths; you have to find a balance. The copious references of preferred state activities that produce economic development does not provide a correlation to the type of governmental framework that is present when these activities are implemented.

Deciphering the levels of effectiveness of different methods and facets of authoritarian rule allows government officials, economic advisors, and academics to analytically parse out the political and economic costs and benefits of different elements of authoritarianism. Why was Suharto's authoritarian regime not as effective at producing prosperity in Indonesia at the levels seen in South Korea under Park Chung-hee's military regime? This thesis, by briefly outlining the structural features and actors in these two case studies, explores the above questions. By doing so, I hope to offer a competent synopsis of the factors that impede or facilitate economic success.

### **C. LITERATURE REVIEW**

Historically, both South Korea and Indonesia experienced growth that lifted millions of people out of poverty. Both penetrated the global market with cheap exports. As it grew, Korea soon began to invest in heavy industries: shipbuilding, steel, and automotive manufacturing. Business groups and businesses worked together to reform the social and financial framework of the country. Industrialization turned into economic liberalization and the creation of the service sector. Indonesia, on the other hand, which has grown consistently for over 30 years, has never truly gotten past the labor-intensive

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<sup>1</sup>Peter Evans, "Predatory, Developmental, and Other Apparatuses: A Comparative Political Economy Perspective on the Third World State," *Sociological Forum* 4, no. 4 (1989): 566.

stage of industrialization. For sustained growth, a country needs capital accumulation (human and physical capital) as well as innovation. Although Indonesia has a large population (250 million people), compared to South Korea’s 50 million, Indonesia has not fared that well in creating the human and physical capital skills needed for developing infrastructure. Comparative GDP per capita growth rates, as shown in Table 1, illustrate the disparity between the Republic of Korea and Indonesia from 1960-2011.

Table 1. East Asian GDP per Capita Growth Rates.<sup>2</sup>

	1955-1960	1961-1970	1971-1980	1981-1990	1991-2000
Republic of Korea	1.6	5.7	5.4	7.5	5.1
Indonesia	N/A	1.8	5.4	4.4	2.7

Why was authoritarian rule in the Republic of Korea politically and economically more successful than in Indonesia? This literature review examines the different elements of authoritarian rule and outlines their proposed casual effects on political and economic outcomes. Does political suppression in the form of authoritarianism help lead to the rise of a developmental state? Peter Evans argues clearly that the fact of authoritarianism itself is not enough to understand outcomes. States that use their finances to enhance the interest of the elites and provide little improvements in “public goods” may be deemed as predatory.<sup>3</sup> States that plunder resources without any regard for the well-being of their populace will continuously fail to meet the criteria of a developmental state. By contrast, states that manage to provide an incentivized environment with low risk where the elites can invest in longer term development helps lead to developmental activities.<sup>4</sup> This is not to say that developmental states do not engage in rent-seeking or other nefarious activities. However, “the consequences of their actions promote rather than impede

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<sup>2</sup>Source: Dwight H. Perkins, *East Asian Development: Foundations and Strategies*. (Cambridge: Harvard University Press, 2013), 6.

<sup>3</sup>Evans, “Predatory, Developmental, and Other Apparatuses,” 562.

<sup>4</sup>Evans, “Predatory, Developmental, and Other Apparatuses,” 563.

transformation.”<sup>5</sup> How do some authoritarian regimes meet this criterion for being developmentally oriented?

The different features of authoritarianism that are most geared toward economic success have continuously been debated. According to Minxin Pei, “the rise of autocracies with a relatively high level of institutionalization in East Asia coincided with the most rapid phase of economic growth in the region.”<sup>6</sup> This high level of institutionalization can be broken down into two parts: key individual leaders and the consolidation of the ruling political elite. The political elite in both Indonesia and the Republic of Korea believed long-term interest could not be achieved if democracy were allowed to flourish. Democracy, after all, emphasized immediate consumption, which hinders long-term investment, which has a negative impact on growth.<sup>7</sup> Strong measures are thus inevitable to offset short sighted thinking of the public. Authoritarians, on the other hand, are better at forcing savings and producing long-term investment. Political parties would be hard pressed to have a motto based on “current sacrifices for a bright future.”<sup>8</sup> The institutions that are necessary to produce growth must be insulated from such pressures.<sup>9</sup>

By insulating themselves from the pressures of the people, rulers are able to not only consolidate power but increase stability as well. The demands of the surrounding society can also hinder corporate coherence.<sup>10</sup> By ignoring popular support for social revolution, the private sector knows that their investments will be put in a stable economic and social system. With business stability in place, authoritarian regimes can

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<sup>5</sup>Ibid.

<sup>6</sup>Minxin Pei, “Constructing the Political Foundations of an Economic Miracle,” in *Behind East Asian Growth: The Political and Social Foundations of Prosperity*, ed. Henry S. Rowen. (London: Routledge, 1998), 43.

<sup>7</sup>Fernando Limongi and Adam Przeworski, “Political Regimes and Economic Growth,” *The Journal of Economic Perspectives* 7, no. 3 (1993): 54.

<sup>8</sup>Ibid., 55.

<sup>9</sup>Evans, “Predatory, Developmental, and Other Apparatuses,” 568.

<sup>10</sup>Ibid., 567.

alter how they feel about implementing long-term goals.<sup>11</sup> The literature put forth the following reasoning behind this: poor people generally want to consume instantly; labor unions would cause corporations to drive up salaries, which would reduce profits and hurt investments. The more people vote, the more the state will have to heed their personal desires. Thus, authoritarian rule is considered as a necessary pre-cursor to development. Another justification for this type of approach is called the “instabilities of the market.”<sup>12</sup> Any economic system will have a difficult time developing if “the attempt to match present supply decisions with future demand decisions” is not fully understood. This is why authoritarianism matters for economic growth.

Why do authoritarians pursue growth in the first place? Can an autocrat credibly commit himself to economic success for all? “If he runs the society, there is no one who can force him to keep his commitments.”<sup>13</sup> Authoritarianism can lack transparency which makes doing business difficult. If the right leadership is in place, these negative trends can be reversed. Key individual leaders can initiate the critical institutional reforms that are necessary for authoritarianism to conducive for political and economic success.<sup>14</sup> Nationalist revolutions have a tendency to produce dictators that rely on individual personality cults more than shared growth. They have anti-western ideologies that generate policies with disastrous economic consequences.<sup>15</sup> The East Asian experience, (Sukarno preceding Suharto, and Rhee Syngman preceding Park Chung-hee) demonstrates this analytical critique. As political centrists took control in both countries, market friendly policies were soon put in place. Extreme nationalism was now inferior to a top-level political commitment to the developmental state under Suharto and Park Chung-hee, although both of these regimes relied on narratives of nationalism to support their political legitimacy and economic plans.

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<sup>11</sup>Hilton Root, “Distinctive Institutions in the Rise of Industrial Asia,” in *Behind East Asian Growth: The Political and Social Foundations of Prosperity*, ed. Henry S. Rowen. (London: Routledge, 1998), 66.

<sup>12</sup>Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asia Industrialization*. (Princeton: Princeton University Press, 1990), 354.

<sup>13</sup>Limongi and Przeworski, “Political Regimes and Economic Growth,” 54.

<sup>14</sup>Pei, “Constructing the Political Foundations of an Economic Miracle,” 41.

<sup>15</sup>*Ibid.*, 53.

Regime survival, in turn, is another variable that helps us determine why authoritarians implement different features geared toward economic and social success. Indonesia had to ensure international donors that the country could produce sound macro-economic policies.<sup>16</sup> The imminent danger of communism was a persistent threat. General Park of South Korea had to demonstrate that his country could implement a non-communist path to development.<sup>17</sup> These external motivations strengthened the need for autocrats to build coalitional support to ensure that impartial economic policy making was adhered to.<sup>18</sup> Impartial economic policy enhances shared growth, which mitigates social upheaval that could overthrow the elites and the autocrat in power. By focusing on long-term broad benefits, the authoritarian regime is effectively bolstering its legitimacy. As income inequality declines between urban and rural sectors, the government can use these benefits to garner support for their methods.<sup>19</sup> Technocrats that are allowed to operate without political opposition can commit to growth easily and the independence that authoritarians give to their bureaucrats expands sound management and reduces corruption.<sup>20</sup> This only enhances competent economic decision making which should be preserved and protected at all cost.<sup>21</sup> None of these criteria is guaranteed, but the threat of a coup, as the authoritarian regimes in question faced, helps in ensuring that these policies are implemented.

Another line of thinking about development in Asia under authoritarian rule focuses more deeply on structural features, distinguishing between countries characterized by “elite polarization and mass suppression” (such as South Korea under Park and Indonesia under Suharto) and those characterized by “elite compromise and mass incorporation” (such as South Korea under Rhee and Indonesia under Sukarno).<sup>22</sup>

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<sup>16</sup>Root, “Distinctive Institutions in the Rise of Industrial Asia,” 67.

<sup>17</sup>Root, “Distinctive Institutions in the Rise of Industrial Asia,” 67.

<sup>18</sup>Ibid.

<sup>19</sup>Root, “Distinctive Institutions in the Rise of Industrial Asia,” 61.

<sup>20</sup>Ibid., 68.

<sup>21</sup>Pei, “Constructing the Political Foundations of an Economic Miracle,” 53.

<sup>22</sup>Tuong Vu, *Paths to Development in Asia: South Korea, Vietnam, China, and Indonesia*. (Cambridge: Cambridge University Press, 2010), 19.

Suppression is crucial for the state to maintain autonomy while simultaneously suppressing local control.<sup>23</sup> This allows the state to implement policies as they see fit without any regard to opposing viewpoints. Democratic frameworks can move too fast for newly developed countries. New leadership needs to be tested in an antagonistic environment to ensure their allies that they can properly handle discontent while maintaining focus. As the market moves to a “periphery” to the “center of their existence” the people will experience displacement.<sup>24</sup> This discontent can disrupt the very policies that authoritarians want to implement. If oppositional labor forces are allowed to organize, they may force political and economic concessions from the governmental authorities.<sup>25</sup> By successfully securing a larger political framework this could damage investments and entrepreneurs. The threat of a restricted investment surplus is a cause for concern for any authoritarian trying to enhance human capital. The rate of economic growth would be curtailed, thus directly challenging the notion that an autocrat can produce wide-spread benefits. As long as radicalized discontent and protest is seen as threat to economic success, authoritarians will always revert to mass suppression.

The polarization of elites allows a more “cohesive political organization” to be formed.<sup>26</sup> This polarization often is done by violent means when the majority eliminates the minority, as did Park’s forces in South Korea in the early 1960s and pro-Suharto forces in Indonesia in the late 1960s transition to the New Order regime. This puts added pressure on the elites to perform well, given the political and social promises that are typically made by the people in power. Economically speaking, this can be a precursor to an organizational structure that allows the autocrat to focus on their conceptual positions of growth. The elites can focus on a “postponement of gratification” that accelerated growth during the early stages of the developmental state may bring about.<sup>27</sup> Investment

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<sup>23</sup>Vu, *Paths to Development in Asia*: 19.

<sup>24</sup>Karl de Schweinitz Jr., “Economic Development and Cultural Change,” *The University of Chicago Press* 7, no. 4 (1959): 387.

<sup>25</sup>Ibid., 388.

<sup>26</sup>Vu, *Paths to Development in Asia*: 17.

<sup>27</sup>Schweinitz Jr., “Economic Development and Cultural Change,” 387.



is invisible, and the people at large may not quite see its benefits come to fruition in the short term. Infrastructure, educational facilities, and other capital investment require a short term reduction in consumption until significant output is produced.<sup>28</sup> The economic capability of emerging countries cannot meet the desires of social order. Elites polarization creates a unity of purpose, which during the early stages of development, is required.

Indonesia did not achieve the same level of economic and social growth under Sukarno. Literature on President Sukarno offers several perspectives as to why, during his reign, a developmental state was not achieved. “Indonesia has taken power away from the Dutch, but she doesn’t know how to use it.”<sup>29</sup> As stated earlier, elite compromise and mass incorporation represented the Sukarno years. The formation of the state was inadequate to truly implement a developmental state during this time period in Indonesia.<sup>30</sup> Elite compromise under Sukarno distributed power among many political factions causing unstable and under-prepared parties to represent different ethnic groups along a vast archipelago.<sup>31</sup> The social base of Indonesia cherished inclusiveness over growth.<sup>32</sup> Elite compromise and mass incorporation focuses on “broad appeals to different ideologies.”<sup>33</sup> A cohesive and unified organization cannot emerge as local groups are given autonomy without the pre-requisite of sharing the elite’s views on concentrated long-term growth. Compromise, during the early stages of development and political movement produces inclusiveness with factions that are disorganized. Fragile governments (Rhee and Sukarno) begin to take on development without a developmental structure in place.<sup>34</sup>

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<sup>28</sup>Ibid.

<sup>29</sup>Pankaj Mishra, “The Places in Between: The Struggle to Define Indonesia,” *The New Yorker*, (August 2014): 66.

<sup>30</sup>Vu, *Paths to Development in Asia*: 51.

<sup>31</sup>Ibid.

<sup>32</sup>Ibid., 69.

<sup>33</sup>Ibid., 16.

<sup>34</sup>Vu, *Paths to Development in Asia*: 62.

From an even broader structural perspective, the successes of the East Asian developmental state can be characterized by a “systemic vulnerability” where states face extraordinary political environments.<sup>35</sup> Emphatic leadership was necessary during times of economic and social strife to rescue the nation. Political power needed to be maintained through a monopoly. This political “stability” allowed investors to believe that their capital would be well spent. These measures not only produced political solidarity but allowed South Korea to enjoy sustained economic performance. By focusing on elite polarization during the years of Rhee Syngman, Korean leaders, such as Park Chung-hee, faced little opposition in implementing their economic policies.<sup>36</sup>

Policy implementation is based on elites “building and sustaining bases of support.”<sup>37</sup> Developing continuity in policy not only allowed for domestic stability, but attracted foreign investment as well. Export-led growth, educational policies, and land reforms were just a few of the policies that were implemented that transformed South Korea into a success. The literature continues to stress the point that it is not just the policies that lead to the successes of the newly industrialized countries (NICs), but the institutional historical frameworks that allowed these policies to develop in the first place.<sup>38</sup> The historical framework that is mentioned relates to impact of colonialism on the developmental state, although the extent to which colonialism is a major explanatory factor is still controversial. It is clear that colonial Japan helped modernize Korea.<sup>39</sup> Japan implemented numerous developmental projects in Korea: infrastructure, education, and the establishment of an elite class system. The post-colonial bureaucracy, civil service and police force would be retained when Korea gained independence.<sup>40</sup> In Indonesia, the Dutch left behind a legacy that was not conducive to “postcolonial

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<sup>35</sup>Richard F. Doner, Bryan K. Ritchie, and Dan Slater, “Systemic Vulnerability and the Origins of Developmental States: Northeast and Southeast Asia in Comparative Perspective,” *International Organization* 59, (2005): 328.

<sup>36</sup>Vu, *Paths to Development in Asia*: 47.

<sup>37</sup>Stephen Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*. (London: Cornell University Press, 1990), 4.

<sup>38</sup>Haggard, *Pathways from the Periphery*: 21.

<sup>39</sup>Vu, *Paths to Development in Asia*: 7.

<sup>40</sup>Pei, “Constructing the Political Foundations of an Economic Miracle,” 46.

developmentalism.”<sup>41</sup> There was no formal education system and the Dutch did not change local customs like the Japanese did in Korea. In the 1930s the “Netherlands net drain of income from Indonesia was twice the size of British income from India.”<sup>42</sup> This is not to say that colonial history is a primary variable when trying to prove the hypothesis behind what leads to growth in an authoritarian regime. Clearly Korean businesses and the Economic Planning Board (EPB) had nothing to do with the Japanese; neither did Suharto’s implementation of the Berkeley Mafia. However, colonial impact on newly independent states is a casual statement that the literature discusses.

In addition to the historical framework, the role of the developmental state must be discussed when discussing paths to economic development in South Korea and Indonesia. Where states took on the developmental function, “the state itself led the industrialization drive.”<sup>43</sup> Industrialization and the path to development relied on markets, not central planning. Throughout this economic model “the principles of free enterprise will be observed but in which government will either directly participate or indirectly render guidance to the basic industries and other important fields.”<sup>44</sup> This guidance was rendered by the EPB in South Korea. They were granted autonomy and rewarded clever behavior, while penalizing incompetency.<sup>45</sup> This policy measure, implemented by Park, gave the state an independent entity to initiate economic growth by efficiently executing industrial policy. Indonesia focused on industrial policy through a developmental state model as well. Aware of the success of South Korea in the 70s, Suharto tried to implement the same level of success. Indonesia, unlike South Korea, “hag very few well-trained people capable of running more complex industries.<sup>46</sup> It thus became unrealistic for Indonesia to experience the same levels of industrial output as

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<sup>41</sup>Vu, *Paths to Development in Asia*: 53.

<sup>42</sup>Ibid., 52.

<sup>43</sup>Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1971*. (Stanford: Stanford University Press, 1982), 19.

<sup>44</sup>Haggard, *Pathways from the Periphery*: 68.

<sup>45</sup>Chalmers Johnson, “Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan,” in *The Political Economy of the New Asian Industrialism*, ed. Frederic C. Deyo. (London: Cornell University Press, 1987), 154.

<sup>46</sup>Perkins, *East Asian Development*: 103.

South Korea. There was no one in the government that could competently manage a broad based industrial output at the levels of South Korea.<sup>47</sup>

As the developmental state emerges, authoritarian governments deliberately repressed labor and working class leftist movements, allowing the private sector and the state to focus on profits and productivity above all else. Concerns about labor activism mitigating political and economic strategy can be directly linked to the case of South Korea.<sup>48</sup> Low wages and few worker benefits was the key to early success in Korea. In Korea, government not only set the rules, but was an active participant in determining the direction of most business decisions.<sup>49</sup> President Park Chung-hee wanted a financial system that developed by the “establishment of a planned economy.”<sup>50</sup> Additionally, the establishment of an elite class in South Korea further enhanced the government-business partnership. Soft authoritarianism is centered on stable rule by bureaucratic-political elite. Developmental criteria are clear through elite fixed term goals so that businesses and household can adjust accordingly.<sup>51</sup> Money was directly lent to businesses by the government. To oversee this plan, the EPB was established under the Park Chung-hee administration.<sup>52</sup> Due to the lack of an opposition, improvements were made in public health and education.<sup>53</sup> These improvements had their faults: South Korea eventually adopted a democracy after massive student protest and international pressure.

Sukarno treated economic and political liberalization with suspicion after independence. When it came to foreign investments, Sukarno turned his back on help from the international community while Suharto embraced it.<sup>54</sup> Was this because Sukarno had to deal with leftist parties, while Suharto did not? The relationship between

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<sup>47</sup>Ibid.

<sup>48</sup>Haggard, *Pathways from the Periphery*: 39.

<sup>49</sup>Johnson, “Political Institutions and Economic Performance,” 138.

<sup>50</sup>Ibid., 139.

<sup>51</sup>Ibid., 142.

<sup>52</sup>Conrad Schirokauer and Donald N. Clark, *Modern East Asia: A Brief History 2<sup>nd</sup> edition* (Boston: Houghton Mifflin Company, 2008), 434.

<sup>53</sup>Ibid.

<sup>54</sup>Anne Booth, “Development: Achievement and Weakness,” in *Indonesia Beyond Suharto: Polity, Economy, Society, Transition*, ed. Donald K. Emmerson. (London: An East Gate Book, 1999), 112.

compromising and suppression during the developmental stages of a country are important tools to answering this question. Unlike his predecessor, Suharto began to implement elite polarization and mass suppression. All legacies of compromise and accommodation were erased all together.<sup>55</sup> Political parties were banned to establish a monopoly of political implementation. Parties were no longer allowed to campaign at the national level, with the exception of Golkar, which allowed Suharto to consolidate his political and military supports.<sup>56</sup> This consolidation ensured the longevity of his rule and allowed for political stability. Soft-authoritarianism is an integral piece to achieving prosperity as a developmental state. Suharto's early reforms were crucial in centralizing power to achieve this prosperity.

The different roles that conglomerates played in economic development in South Korea versus Indonesia must be discussed when discussing how authoritarians differed in managing the state. Conglomerates in the case of South Korea were called *Chaebols*. These were created by Park Chung-hee to implement direct government support of businesses to produce economic growth, similar to the Japanese zaibatsu. The government guaranteed financing, loans, tax favors, and subsidies to produce domestic powerhouses. The government maintained a cartel on institutional credit.<sup>57</sup> Firms that failed to perform based on the government desires would lose access to loans or quickly see their interest rates increase. The conglomerates in South Korea had an incentive to be efficient. A key element in this government-business relationship was an emphasis on "critical industries."<sup>58</sup> They specialized in hiring skilled and educated workers. They paid them well, which attracted talent. Samsung and Hyundai emerged, producing shipbuilding, computers, and automobiles. A liberal export economy helped South Korea flourish, but without competent bureaucrats, this would not have been possible.

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<sup>55</sup>Vu, *Paths to Development in Asia*: 65.

<sup>56</sup>Ibid.

<sup>57</sup>David I. Steinberg, *The Republic of Korea: Economic Transformation and Social Change*. (London: Westview Press, 1989), 134.

<sup>58</sup>Steinberg, *The Republic of Korea*, 135.

Indonesia, though somewhat successful, still faced problems and missed opportunities in the later part of Suharto's rule. The Berkeley Mafia, led by Widjojo Nitisastro, achieved macroeconomic stabilization and reigned in inflation.<sup>59</sup> However, there were Chinese business networks that led to cronyism. Later in Suharto's term, Tunky Aruwibowo, the Minister of Industry, gave special attention to Suharto's children. Tariff and tax advantages went to companies that were owned by the Suharto family.<sup>60</sup> Indonesian businesses largely became dependent on a patronage network. Public transaction began to benefit people with close ties to the President instead of the Treasury. In the 1990s, Prajogo Pangestu brought out the second biggest business group in Indonesia, Astra International.<sup>61</sup> Prajogo had close personal ties with the Suharto family, with hardly any experience in the banking industry. This blatant nepotism led to preferential treatment. State owned enterprises (SOE's) were corrupt and rent-seeking firms. The New Order under Suharto did produce an impressive record but his unwillingness to lead industries away from clientelism and failure to spread growth more abundantly added to his downfall.

The literature provides a fundamental assessment of how authoritarian regimes choose to implement economic growth. The flow of information between firms, consumers, and the state is an argument why conglomerates produce growth. Transparency and direct goals cultivate business leaders who act in the best interest of the state. When unqualified individuals are chosen to lead conglomerates, skilled individuals are not allowed to flourish, thus dampening human capital. The thesis's investigation of how the different characteristics of authoritarianism are related to economic success and failure will aim to illustrate the similarities and differences in these patterns clearly in South Korea and Indonesia.

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<sup>59</sup>Perkins, *East Asian Development*: 103.

<sup>60</sup>Richard Borsuk, "Markets: The Limits of Reform," in *Indonesia Beyond Suharto: Polity, Economy, Society, Transition*, ed. Donald K. Emmerson. (London: An East Gate Book, 1999), 141.

<sup>61</sup>Ahmad D. Habir, "Conglomerates: All in the Family?" in *Indonesia Beyond Suharto: Polity, Economy, Society, Transition*, ed. Donald K. Emmerson. (London: An East Gate Book, 1999), 169.

#### D. POTENTIAL EXPLANATIONS AND HYPOTHESES

The research question asked raises important inquiries into how and why countries develop politically and economically? The dynamics of state formation are crucial for understanding some elements of this puzzle.<sup>62</sup> We know that by violent means a state can consolidate the institutional structures that lead to progress. Is it possible for a newly formed state to have shared elements of prosperity without some form of authoritarian rule? This thesis is not making an argument that authoritarian rule is a utopian undertaking. The successful case study being researched (South Korea) went through many hardships in its developmental period. The “failed” case study (relative to South Korea) being researched (Indonesia), also had tremendous economic success, but has not made the shift to fully developed country. Data from the World Bank in 1995, as shown in Table 2, illustrates the economic and social disparity between the two case studies. Both have made progress since 1960, but as Perkins shows in Table 3, Korea did much better over time.

Table 2. World Bank Key Indicators for Indonesia and South Korea<sup>63</sup>

	Korea	Indonesia
GDP (US\$)	\$559 Billion	\$202 Billion
Life Expectancy	73	65
GNI Per Capita	\$11,700	\$990
GDP Per Capita	\$16,798.39	\$6,022.61
Industry Employment	33.3%	18.4%
Agricultural Employment	12.4%	44%
Service Employment	54.3%	37.6%

<sup>62</sup>Vu, *Paths to Development in Asia*: 15.

<sup>63</sup>Source: World Bank Table, <http://data.worldbank.org/indicator>. Key indicators for Indonesia and South Korea.

Table 3. Per Capita GDP in 1961 and 2010. (2005 prices) (PPP \$).<sup>64</sup>

	1961	2010	GDP per capita 2010/1961 ratio
Korea	1703	26,614	15.6
Indonesia	696	3,966	5.7

Therefore, this thesis attempts to explain two casual questions: Why did authoritarianism in South Korea and Indonesia (characterized as mass suppression and polarization of elites) lead to economic success on the basis of the developmental state, and why did earlier democratic openings in both countries (mass compromise and elite incorporation) not appear to be able to ignite the same levels of economic success? The basic casual expectation developing from the literature review above is that giving up political freedoms allowed opulence to be amassed and shared by developmentally oriented authoritarian regimes. Public-private economic partnerships, in turn, are crucial to the story, demonstrating the centrality of a unified vision. In addition, the populace believes that their quality of life will improve, thus creating a civic responsibility. The expectation is that this virtuous cycle is clearly on display in Park Chung-hee’s Korea; while some elements of the casual chain are less robust in Suharto’s Indonesia.

#### **E. RESEARCH DESIGN**

The research design of this thesis is based on comparative case studies of South Korea’s and Indonesia’s contemporary political-economic trajectories. The overarching design is based on Mill’s method of difference: the two countries share a similar political make-up, yet their economic paths and outcomes are quite different. The analytical goal is to disaggregate the features of authoritarianism that vary across the two countries so as to explain their different paths. This thesis uses a multitude of scholarly works. Journal articles and published books will account for the majority of sources. This thesis incorporates various historical, economic, and social studies that help provide an

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<sup>64</sup>Source: Perkins, *East Asian Development*, 2.



analytical perspective on the variations in political-economic trajectories between South Korea and Indonesia.

## **F. THESIS OVERVIEW AND CHAPTER OUTLINE**

This thesis comprises four chapters. This introduction has described the question and analytical framework orienting the thesis. The second and third chapters are paired comparative case studies of contemporary political-economic development in South Korea and Indonesia. The case studies will begin, respectively, by establishing the framework behind why Sukarno and Rhee Syngman failed, leading to Suharto and Park Chung-hee coming to power. The case studies will emphasize the manner in which mass compromise and elite incorporation policies and practices under Rhee Syngman and Sukarno were turned to different degrees into practices of mass suppression and polarization of elites under Park Chung-hee and Suharto. They will examine land reform as well as agricultural and rural investments in both countries, along with a focus on how human capital was built through the educational systems of the two countries. The heart of each case study will be an examination of the ways in which different characteristics of authoritarian rule contributed to or detracted from sound adoption and implementation of core economic policies that facilitated growth, especially focusing on the extent to which the developmental state was adopted in each country. The concluding chapter will reflect on key findings and implications, offering a way forward on how underdeveloped countries seeking political and economic reforms can learn from the mistakes and successes of the two case studies.

## II. PARK CHUNG-HEE'S DEVELOPMENTAL STATE

Chapter I introduced authoritarianism, usually considered repressive, and showed that it can possibly benefit a developing state. The presence of competent and strong state intervention and market instruments were crucial to the “Asian Miracle.” However, if cronyism and patronage are pervasive, authoritarianism can impede economic development by implementing an incompetent bureaucracy. Chapter II looks specifically at South Korea during the Park Chung-hee era, from 1963-1979, and demonstrates how Chung-hee’s authoritarian rule helped South Korea emerge from WWII and develop economically. First, this chapter provides a brief context on Park’s predecessor, Rhee Syngman, who did not achieve economic development and political loyalty, a failure that ultimately led to his downfall and the rise of Park. Second, this chapter discusses the Saemaul Undong movement, initiated by Park to modernize the rural South Korean economy. Park’s use of sticks (punishments) and carrots (rewards) to induce productive behavior based on self-governance and cooperation transformed the countryside and led to an increase in industrial productivity. Third, this chapter discusses the government-business relationship and Park’s methods to incentivize cooperation and reduce corruption that facilitated growth. Lastly, this chapter concludes by examining Park’s authoritarian leadership characteristics that helped put South Korea on a developmental path.

As far as developing states are concerned, South Korea, post WWII, is a fundamentally great success story. It was the first country from what has been considered the “developing world” to make it to the ranks of the developed world. After expanding only modestly in 1962, the economy grew by nine percent the following year, and “economic growth averaged 8.9 percent” over the next decade.<sup>65</sup> Exports grew roughly thirty percent a year, while manufacturing averaged fifteen percent.<sup>66</sup> No simple or singular explanation captures South Korea’s profound economic and social growth during

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<sup>65</sup>Michael J. Seth, *A Concise History of Modern Korea: From the Late Nineteenth Century to the Present*. (Lanham, MD: Rowman & Littlefield, 2010), 161.

<sup>66</sup>Seth, *A Concise History of Modern Korea*, 161.

the Park Chung-hee era. Deliberate policy actions and a confluence of circumstances all played a key role in the formation of a developmental state. Therefore, any political economic study on the Republic of Korea must “identify and analyze the building blocks of South Korea’s impressive economic performance” in order to understand the development.”<sup>67</sup> At the same time, when analyzing these varying building blocks, we need to keep in mind that economic success came at the expense of grave political cost and authoritarianism. How can we measure, in cost-benefit terms, the tradeoff between GDP growth and lack of human rights and political representation? This thesis recognizes the human rights costs, nonetheless, and considers the human aspect while focusing on how South Korea achieved rapid industrialization.

#### **A. RHEE SYNGMAN FALLS, PARK CHUNG-HEE RISES**

By the end of the World War II, South Korea faced brutal consequences of Japanese colonialism. The Japanese had, however, left behind institutions, including railroads, and a functioning security apparatus. The country depended on foreign aid from the United States when the U.S. government placed Rhee Syngman into power in 1945. He fought hard for an increase in U.S. aid, necessary for Korea immediately following the devastation of the Korean War.<sup>68</sup> Rhee attempted to amend the constitution to allow for the direct election of the presidency, due to his unpopularity within the National Assembly. He began to order the mass arrest of opposition politicians after the assembly rejected his proposal. In the May 1954 elections, due to intimidation and manipulation, he won a modest majority.<sup>69</sup> Rhee was an oppressive leader, but, in many ways, he was not focused on the most important things, and, as a result, his regime gradually lost its grip on power. Rhee, therefore, needed to create a stable political system in order to lift South Korea out of poverty.<sup>70</sup> To achieve this stability, Rhee carried out systemic targeting of the opposition. The Yeosu Rebellion, National Security Laws, and the weakening of

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<sup>67</sup>Atul Kohli, *State Directed Development: Political Power and Industrialization in the Global Periphery*. (Cambridge: Cambridge University Press, 2004), 102.

<sup>68</sup>Seth, *A Concise History of Modern Korea*, 52.

<sup>69</sup>Ibid., 150.

<sup>70</sup>Seth, *A Concise History of Modern Korea*, 150.

political discourse further concentrated power in Rhee's hands. Through centralized power and effective draconian policies, Rhee established the political and social climate necessary to achieve the developmental state.<sup>71</sup> Park Chung-hee adopted the concentration of power in the executive that Rhee had developed, and Park utilized this concentration as a catalyst for a strong central figure that became necessary as an instrument of authoritarianism.

Rhee began to eliminate his leftist rivals and elements of discontent throughout the political system. "Without Rhee's draconian but effective policies, communist networks would have persisted, creating political instability and contesting *any* developmental policies."<sup>72</sup> Due to the lack of credible alternatives to his authority, the developmental policies pursued by Park Chung-hee under authoritarianism were largely effective. Thus, the Park government could not amass the power and influence that it did without the structure originally created by Rhee. Rhee Syngman priority was not the continuous pursuit of economic growth.<sup>73</sup> He took power in a turbulent time and the outbreak of the Korean War made survival against the northern communist his top priority, centering his presidency around the Cold War and the Korean peninsula. Atul Kohli thus observes, "if there was any 'logic' to the period, it was more cold war in nature than developmental."<sup>74</sup> During the entire duration of Rhee rule, no meaningful domestic economic reforms were put into place.<sup>75</sup> The idea of self-preservation was not as big to Rhee as it later was to Park because Rhee was primarily dependent on U.S. aid. The U.S. primarily focused its aid on consumption and alleviating poverty rather than rebuilding the economy through industry.<sup>76</sup> Haggard notes that Rhee resisted U.S. economic advice, since developing a coherent strategy that primarily focused on economic growth would have significantly reduced Rhee's control over aid resources and

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<sup>71</sup>Vu, *Paths to Development in Asia*, 43.

<sup>72</sup>Vu, *Paths to Development in Asia*, 43.

<sup>73</sup>Kohli, *State Directed Development*: 62.

<sup>74</sup>*Ibid.*, 63.

<sup>75</sup>*Ibid.*, 69.

<sup>76</sup>*Ibid.*, 74.

policy instruments used to maintain his legitimacy.<sup>77</sup> Keeping himself in power through “tumultuous times” far exceeded Rhee’s capability or desire to form economic policies, which eventually led to his downfall. Rhee’s personal desire to control every aspect of the economy therefore hindered the government capability to create an economic strategy.

Under the Rhee regime, the nature of the government-business relationship was extremely personal while Park Chung-hee would maintain a more formalized relationship.<sup>78</sup> This distinction is important to understand the economic and social reasons behind why Park Chung-hee came to power. The lack of political leadership under Rhee demonstrated collusion between government and business that put them on equal terms. Believing the omnipotence of the state to be crucial to development, “Park demonstrated the supremacy of the state over the private sector and redefined the nature of relations between them.”<sup>79</sup> The discipline that Park Chung-hee maintained over the private sector resulted in production rather than decline. Businessmen during the Rhee regime felt little incentive to undertake productive investment.<sup>80</sup> Rhee’s dependence on businessmen could not induce him into construct more productive policies or activities, as during the Park era. Rhee also gave little priority to the civil service.

At one point, more than half of all bureaucratic directors in the Rhee regime were “specially appointed.”<sup>81</sup> These non-career personnel only enhanced the corruption that would lead to Rhee losing power. “Economic destruction and recovery” was the central tenet of the Rhee period; the recovery period from a war that divided the country was his first priority.<sup>82</sup> The period of Rhee’s time in power was so disruptive and tumultuous that

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<sup>77</sup>Haggard, *Pathways from the Periphery*, 51.

<sup>78</sup>Eun Mee Kim, *Big Business, Strong State: Collusion and Conflict in South Korea Development, 1960-1990*. (Albany, NY: State University of New York Press, 1997), 112.

<sup>79</sup>*Ibid.*, 114.

<sup>80</sup>Kohli, *State Directed Development*, 81.

<sup>81</sup>Byung-Kook Kim, “The Leviathan: Economic Bureaucracy under Park,” in *The Park Chung Hee Era: The Transformation of South Korea*, ed. Byung-Kook Kim and Ezra F. Vogel. (Cambridge: Harvard University Press, 2011), 205.

<sup>82</sup>Kohli, *State Directed Development*, 73.

“no orderly movement toward development was discernible.”<sup>83</sup> Rhee’s second most important economic measure outlawed most trade with Japan.<sup>84</sup> The populace of South Korea had a negative view of their eastern neighbor due to the atrocities committed during colonialism. Viewed from a populist perspective, this seemed like the correct decision. From an economic standpoint, this decision cut South Korea off from a growing market. At the end of Rhee’s term, Korea had virtually no exports.<sup>85</sup> At one point, 70 percent of all imports were financed by the United States.<sup>86</sup> Slow recovery and massive aid from the United States defined Rhee’s period of rule. The decisions by Rhee did not mitigate these problems significantly enough to allow him to stay in power. A more charismatic and pragmatic leader emerged who focused primarily on wide-spread economic growth.

## **B. PARK CHUNG-HEE ERA**

The Student Revolution of 1960 changed the trajectory of South Korea. The stuffing of ballots during the election by Rhee’s campaign in 1960 caused hundreds of thousands to protest against his administration. This movement demonstrated the prospects for future development of democracy in the country.<sup>87</sup> Rhee, afraid of losing power, responded with force, killing hundreds of demonstrators on one day alone.<sup>88</sup> The mounting domestic and American pressure forced Rhee to step down, which led to the democratically elected government of Chang Myon. The civilian regime, to many in South Korea, was too incompetent to produce an effective government. Large numbers of the South Korean people believed “civilian government could not handle the political, social, and economic crises then gripping the country.”<sup>89</sup> Park did not value democracy,

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<sup>83</sup>Ibid., 74.

<sup>84</sup>Perkins, *East Asian Development*, 69.

<sup>85</sup>Ibid.

<sup>86</sup>Haggard, *Pathways from the Periphery*, 55.

<sup>87</sup>John Lie, *Han Unbound: The Political Economy of South Korea*. (Stanford: Stanford University Press, 1998), 39.

<sup>88</sup>Yong-Sup Han, “The May Sixteenth Military Coup,” in *The Park Chung Hee Era: The Transformation of South Korea*, ed. Byung-Kook Kim and Ezra F. Vogel. (Cambridge: Harvard University Press, 2011), 40.

<sup>89</sup>Han, “The May Sixteenth Military Coup,” 41.

given his belief that democracy would bring about social instability. With democracy comes a social pressure such as free and fair elections, which must be prevented. States that isolate themselves from such institutional pressures can resist immediate consumption.<sup>90</sup> Immediate consumption would directly undermine investment. Park believed that the populace at large was short-sighted. Elites had to be insulated from the demands of their surrounding society.<sup>91</sup> A new democratic society would not recognize the value of central authority figure.

Park and his fellow officers were in charge of thousands of men who had experience in combat, logistics, and interacted with the local population on a day-to-day basis. The military overthrow of Myon was thus brief and without much dispute. The managerial skills of the military were “ten years ahead of the private sector.”<sup>92</sup> Park claimed that the military was the most trusted and democratic institution in South Korea. The military offered thousands of young men employment and pride in a nation where poverty was still prevalent.<sup>93</sup> Park did not believe democracy to be a priority. Park, a keen tactician, knew how to attain and enlarge his status.

Park Chung-hee, to this day, is remembered as South Korea’s most important political figure. His rise to power determined the trajectory of South Korea’s future. The term “authoritarianism” can be applied to both the Rhee Syngman and Park Chung-hee regimes, but the authoritarianism under Rhee led to an inept and corrupt bureaucracy, unable to implement shared prosperity. Businesses under the Rhee regime were able to use their personal ties to avoid legal and economic persecution.<sup>94</sup> The developmental state implemented under Park changed the way in which businesses and governments interacted with one another.<sup>95</sup> Before 1961, South Korea did not have a government committed to galvanizing internal and external resources towards economic and social

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<sup>90</sup>Limongi and Przeworski, “Political Regimes and Economic Growth,” 51.

<sup>91</sup>Evans, “Predatory, Developmental, and Other Apparatuses,” 567.

<sup>92</sup>Han, “The May Sixteenth Military Coup,” 41.

<sup>93</sup>Han, “The May Sixteenth Military Coup,” 41.

<sup>94</sup>Kim, *Big Business, Strong State*, 104.

<sup>95</sup>Kim, *Big Business, Strong State*, 105.

growth. The role of the state under Park went through significant changes. Park demonstrated an ability to be free his country of entangling personal and economic connections with business and civil society.<sup>96</sup> This freedom led to a transformation that many call “the miracle on the Han.” A potential problem with the term miracle, as Carter Eckert points out in *Authoritarianism and Protest 1948-1990*, is the term “fails to do justice to the complexity of the story by implying that South Korea’s growth was somehow contrary to reason or extraneous to history.”<sup>97</sup> Growth in South Korea during the Park era was simulated and structured around specific conditions that fostered decades of prosperity. Park’s goal to increase exports through labor and become a manufacturing powerhouse was centered on alleviating poverty by focusing on the lower classes. To achieve this, rural villages (which were a significant portion of the South Korean population) needed to go through an economic and infrastructural transformation.

### **1. Land Reform (The Saemaul Undong: New Community Movement)**

Land reform changes the way agricultural land must be held and owned. When done properly, land reform can distribute land more equitably and extract resources in a manner that alleviates hunger and poverty. In the years immediately following the Korean War (1953-1960), South Korea experienced immense poverty and depended on foreign aid. In 1961, this poverty still persisted. A rise in the hierarchy of economics can be achieved within the developmental state. The developmental path of states moves from an agrarian society to manufacturing and services. In order to successfully make these transitions, a country needs an investment in human capital, thereby, raising living standards that directly contribute to a higher share in the labor force. With a larger labor force, an export-oriented economy through low wages and cheap goods can be achieved. South Korea achieved economic growth on the backs of its workers.

Park Chung-hee created the Saemaul Undong movement with the intention to modernize the rural areas of South Korea. Rural communities would be taught self-

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<sup>96</sup>Carter J. Eckert, “Economic Development in Historical Perspective,” in *Korea Old and New: A History*, ed. Carter J. Eckert, Ki-baik Lee, Young Ick Lew, Michael Robinson, and Edward W. Wagner. (Cambridge: Harvard University Press, 1990), 404.

<sup>97</sup>*Ibid.*, 388.



governance and collective cooperation. With a little organization and hard work, their lives would be improved dramatically. In *The Countryside*, Young Lee quotes Park Chung-hee, referring to his reasoning behind the Saemaul Undong: “Well-to-do farmers generate a great deal of purchasing power, providing one of the basic conditions for industrial growth.”<sup>98</sup> To Park, industry and agriculture were inseparable. The land reform movement helped farmers gain access to credit, clean drinking water, proper roads for travel, fertilizers and pesticides for their produce, and many other things that improved their lives. In one generation, the population the population went from “80 percent rural to 80 percent urban.”<sup>99</sup> This was significant to Park’s promise that under his leadership, the benefits would be widely received. All socio-economic levels throughout South Korea were prosperous, thereby increasing Park Chung-hee’s political autonomy.

**a. *Sticks (Punishments)***

The New Community Movement drastically changed Korean rural society. Many rural farmers benefited from this program, but the role political allegiance played cannot be ignored. Park realized that the agrarian class had the potential to mobilize on behalf of the state, given that they were “economically vulnerable, socially deprived, and politically unorganized.”<sup>100</sup> Farmers were poor and uneducated. When rural communities are deprived of the basic living necessities, anything Park offered them would conjure loyalty and political order. This tactical maneuver, due to the reduction of Park’s political support among rural voters and U.S. food aid to South Korea, demonstrated Park’s desire to be needed.<sup>101</sup> As a result, by the end of the Park, era South Korea became “one of the most protected agricultural sectors in the world.”<sup>102</sup> Park achieved a political victory by implementing these measures. The Ministry of Home Affairs (MHA) oversaw and

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<sup>98</sup>Young Jo Lee, “The Countryside,” in *The Park Chung Hee Era: The Transformation of South Korea*, ed. Byung-Kook Kim and Ezra F. Vogel. (Cambridge: Harvard University Press, 2011), 365.

<sup>99</sup>Schirokauer and Clark, *Modern East Asia*, 435.

<sup>100</sup>Lee, “The Countryside,” 347.

<sup>101</sup>Lie, *Han Unbound*, 109.

<sup>102</sup>Lie, *Han Unbound*, 109.

managed the political mobilization of the rural population. Thousands of local offices were set up in South Korea to administer authority over villagers.<sup>103</sup>

Park granted the MHA control over all facets of daily life, from “issuing birth certificates and death reports.”<sup>104</sup> According to one report, over “90 percent of South Korean farmers belonged to local branches of the NACF.”<sup>105</sup> The Park government also set up the Ministry of Finance (MoF) and the Ministry of Agriculture and Forestry (MAF). These two organizations controlled the direct allocation of credit and fertilizer.<sup>106</sup> With the state being the only source of credit, these governmental bodies could influence farmers’ economic and political decisions. The clout that Park set up ensured the mobilization of votes for both himself and his party. The suppression of rights continued in the realm of what farming communities could listen to. Park created the People’s Movement for National Reconstruction with the goal of taking charge of propaganda at the local level to turn farmers into outstanding citizens.<sup>107</sup> Loud speakers were set up throughout villages with the clear intent to showcase the virtuous qualities of Park Chung-hee. Policy guidelines and public speeches were announced every day in village after village.<sup>108</sup> The villagers had no choice but to listen.

Park continued to use mass suppression during the election. Village leaders were on the public payroll, and campaigned extensively for Park. This elite polarization allowed Park to implement policies without regard for opposing viewpoints. Villagers were even forced to join the Democratic Republican Party (DRP) or potentially face a loss of grain support.<sup>109</sup> In addition, police and local bureaucrats were all actively supporting Park and the DRP, thus strengthening Park’s control of the local governments. Millions of supporters were registered for the DRP. In the end, “rural voters accounted

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<sup>103</sup>Lee, “The Countryside,” 348.

<sup>104</sup>Ibid.

<sup>105</sup>Ibid., 349.

<sup>106</sup>Ibid.

<sup>107</sup>Ibid.

<sup>108</sup>Ibid.

<sup>109</sup>Lee, “The Countryside,” 353.

for 74.2 percent of the total votes cast for Park and only 59.2 percent of Yun Po-son's."<sup>110</sup> This Green uprising had an effect on provinces where the race was close. Park won the election by the narrowest margins: 42.6 percent to 41.2 percent. In a close election, control over political participation ensured a victory. Park showed that he cared in the beginning, meaning any deviation from pro-rural policies did not take hold in the public eye. Park Chung-hee later diverted money from the agricultural sector to the manufacturing sector. These policies turned Korea into an extensive collection of isolated rural communities into an integrated domestic and international hub. The long-term effects of investing in infrastructure were apparent. In 1958, there were only 503 miles of paved roads; by 1985, there were over 12,000.<sup>111</sup> Sixty-eight percent of individuals had clean piped water and nearly half had access to telephones thanks to communication lines.<sup>112</sup> By 1980, 80 percent of individuals had access to electricity, compared with 12 percent in 1964.<sup>113</sup> At the behest of Park, these initial, small projects taken on by villagers impacted the Republic of Korea in tremendous ways.

***b. Carrots (Rewards)***

Along with economic and political punishments and promotion of fears, Park also used carrots to maintain popular support among rural voters. Cement was distributed, latrines were improved, and villages were for the first time given access to roads.<sup>114</sup> The government set goals for these villages: road construction, sewage development, and housing construction. Over 30,000 villages were provided with 300 bags of cement each to begin reconstruction efforts.<sup>115</sup> The implementation of the Saemaul movement had authoritarian elements. Elites made decisions without the knowledge or input of the locals. Autocratic decision-making became crucial to the rapid and targeted dispersal of

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<sup>110</sup>Lee, "The Countryside," 354.

<sup>111</sup>Steinberg, *The Republic of Korea*, 151.

<sup>112</sup>Ibid.

<sup>113</sup>Mike Billington, "How to Transform an Impoverished Nation into a Modern Economy," *Executive Intelligence Review* 40, no. 7 (2013): 36.

<sup>114</sup>Steinberg, *The Republic of Korea*, 149.

<sup>115</sup>Billington, "How to Transform an Impoverished Nation into a Modern Economy," 35.

rice and grain yields. The Saemaul Undong movement demonstrated the collective aspect that an effective authoritarian government can bring about. Villagers were encouraged to assemble together and choose leaders who would be responsible for various developmental projects.<sup>116</sup> Collective activities soon emerged that specialized in farming, housing development, and even the production of factories. Villagers began to feel a sense of loyalty and dedication to the new Park Government. This spirit of cooperation at the local level provided a needed pre-requisite to establish a sense of pride when dealing with chaebols at a national level. This obedience to authority, however, had a coercive effect. Personal economic incentives were now directly tied into the governments infrastructural development. Farm incomes directly depended on rice. The government increased the price of the rice paddy through various subsidies wherever it was politically desirable.<sup>117</sup>

Park enlarged the role of the state over the financial lives of rural workers. In August of 1961, Park ordered the military junta to merge the Agricultural Bank with the National Agricultural Cooperative Federation (NACF). In rural households, expenditures were larger than incomes, so debt accumulation became a problem. Between 1958 and 1960, rural debt accumulated to nearly 20 percent.<sup>118</sup> Grain purchases were essential to the day-to-day survival of many rural communities. Park understood this, and in December 1961 Park ordered the junta to provide loans of grain to 300,000 households.<sup>119</sup> The NACF provided loans with the clear intent to eliminate grain shortages in villages throughout the country. If ‘all politics are local’, there is an indication that by focusing on issues that matter at the lowest domestic level, political advantages such as party identification, can foster. Park, wanting to maintain a populist image, maintained “favoring agriculture” as his core economic strategy.<sup>120</sup> In many rural communities, Park Chung-hee was emerging as an anti-elite politician who had concerns

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<sup>116</sup>*This is Korea*, Seoul, Korea: (Seoul International Publishing House, 1986), 56.

<sup>117</sup>Steinberg, *The Republic of Korea*, 150.

<sup>118</sup>Lee, “The Countryside,” 350.

<sup>119</sup>*Ibid.*, 351.

<sup>120</sup>Lee, “The Countryside,” 352.

for ordinary people. Park's political and social goals for South Korea would be best achieved by the direct action of the masses. After all, the military junta (a subordinate of Park) during the presidential election of 1961 campaigned on the promise to "return power to the people."<sup>121</sup>

When assessing the costs of the varying forms of authoritarian rule, scholars must look at outcomes of various policies. Without a thriving agricultural sector and investments in infrastructure, Park declared, any discussion concerning national development would be based on an "empty promise."<sup>122</sup> Farmers began leaving the countryside and heading towards cities as their economic and social lives improved. Before Park came into power, farmers constituted 70 percent of the total population, the percentage declined to 45 percent in 1970, and 28 percent in 1980.<sup>123</sup> As people moved to Seoul for economic opportunity, they began leaving the countryside and looking for work in manufacturing factories. The rapid exodus of physical capital from the fields generated an excessive amount of cheap labor in the cities. Park was referring to labor when discussing how industrial growth cannot be achieved without higher living conditions for rural communities. Low wages achieved on the back of Korean workers directly contributed to the rise of export-oriented policies, chaebols, and industrialization. Schirokauer and Clark believe that "it is not an exaggeration to say that an entire generation of South Koreans sacrificed themselves to create the relative prosperity that their children now enjoy."<sup>124</sup> Park's ability to harness the potential of his people helped South Korea move up the economic hierarchal chain.

As Koreans moved into the cities, they began to desire better education. The role of education plays an important factor in the pursuit of industrialization and growth because an educated populace is the starting point for everything else that follows. An investment in education increases human capital and shared prosperity. Park Chung-hee

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<sup>121</sup>Ibid., 353.

<sup>122</sup>Ibid., 351.

<sup>123</sup>Lie, *Han Unbound*, 111.

<sup>124</sup>Schirokauer and Clark, *Modern East Asia*, 435.

implemented universal primary education while focusing on raising literacy rates.<sup>125</sup> As higher education levels spread across the entire population, the people developed skills that companies, particularly the chaebols, desired. Income inequality began to decline as the number of educated workers increased, with workers now possessing not just the physical skills of farmers, but the technical skills that would later turn South Korea into a service economy. Educated women played a more economically pertinent role, causing fertility rates to decline, as old chauvinistic habits faded away. Fewer children needed budgeted intellectual resources, thus, the education levels of youth began to rise.<sup>126</sup> The reciprocal effect on starting from the bottom and watching it develop into a wide-spread shared prosperity was amazing. Park's empty promise would not be empty after all. This promise of prosperity was also conditioned on a competent and productive relationship between government and business.

## 2. Government and Business

“Park needed a strong state bureaucracy to be a strong president,” because his political legitimacy was directly tied into proving that, once in power, the populace at large would begin to benefit.<sup>127</sup> Park's path to remaining in power and crushing his opponents could not be achieved without national wealth through economic development. Some of these political and economic changes were external. Korea has a geographical position in the heart of northeast Asia that created a sustained relationship between the two most dynamic economies during the immediate post WWII era: Japan and the United States.<sup>128</sup> When discussing the policies that Park implemented domestically, it is important to understand the varying causes that may have driven his policy outlooks. Japanese colonialism made a significant mark on Korea, and approximately four million Koreans were living in Japan and Manchuria between 1910 and 1945.<sup>129</sup> During colonial

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<sup>125</sup>World Bank, “The East Asian Miracle: Economic Growth and Public Policy,” *Oxford University Press* (1993): 349.

<sup>126</sup>World Bank, “The East Asian Miracle: Economic Growth and Public Policy,” 349.

<sup>127</sup>Kim, “The Leviathan: Economic Bureaucracy under Park,” 206.

<sup>128</sup>Eckert, “Economic Development in Historical Perspective,” 389.

<sup>129</sup>Eckert, “Economic Development in Historical Perspective,” 391.

rule, Japan had begun to develop an urban white-collar return to South Korea, providing an educated bureaucracy that Park needed. Park, having been educated in Japan, had priorities to South Korea's former colonial ruler. The normalization treaty of 1965 significantly increased Japanese activity in Korea. In the 1960s and 1970s, Japan surpassed the United States as South Korea's number one trading partner.<sup>130</sup> Park's desire to open up Korea to international markets and foreign direct investment directly relied on Japanese private capital and technology. This helped South Korea achieve economic growth, and supplement Park's legitimacy.

The contribution that contributed to sound adoption and implementation of economic policies that facilitated growth can be seen in how the Park government forged a relationship with business. As mentioned earlier, Park needed a strong bureaucracy to survive. A fundamental question to ask is why Park got his way? In *The Leviathan: Economic Bureaucracy under Park*, Byung-Kook Kim states that South Korean society had "neither an organizationally unified labor movement nor a strong political party system firmly rooted in social cleavages."<sup>131</sup> The task of implementing policies becomes significantly easier without an organized opposition. Through the chaebols, Park could force the populace of South Korea to undergo long hours at low wages without fear of reprisal.

**a. Role of the Chaebols**

The chaebols were large, family owned business conglomerates. Stephen Haggard defines the state-chaebol relationship as being "remade under the pressure of socioeconomic and political change."<sup>132</sup> The chaebols offered consistency in economic policy. The public and private were "rolled into one" to give the impression of unity throughout the government.<sup>133</sup> Business and labor groups formed a cohesive network

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<sup>130</sup>Ibid., 393.

<sup>131</sup>Kim, "The Leviathan: Economic Bureaucracy under Park," 231.

<sup>132</sup>Eun Mee Kim and Gil-Sung Park, "The Cheabol," in *The Park Chung Hee Era: The Transformation of South Korea*, ed. Byung-Kook Kim and Ezra F. Vogel. (Cambridge: Harvard University Press, 2011), 266.

<sup>133</sup>Kohli, *State Directed Development*, 96.

under Park's administration. Park used authoritarian methods to ensure that public and private enterprises were united under his government. Park began to imprison businessmen on corruption charges.<sup>134</sup> Park needed these businessmen, so their imprisonment was only temporary. However, this action "established a direction of influence from the state to business."<sup>135</sup> The threat of imprisonment and the need for growth led public and private enterprises to be entwined together. Business leaders were keenly aware that results mattered. Most of the business leaders were later released, proving that Park needed these business leaders to produce growth. This proved to have long-term benefits. By the end of the Park regime, the top ten chaebols were producing approximately two-thirds of South Korea's GDP.<sup>136</sup> This growth demonstrated to Park that the leaders of the chaebols were competent enough to be integrated into government-led industrial policy. By implementing a top-down business approach, where business leaders were connected to different ministries, Park enhanced "government's capacity to regulate and monitor."<sup>137</sup> The relationship between government and business was intertwined. There was an incentive to grow and reduce corruption among businessmen if they knew their success would be rewarded with influence and financial favoritism through subsidies and tax credits.

Based on an asymmetric political exchange, this partnership needed businesses to take risk and feel that they were free to do so without fear of reprisal should they fail. Park was a defender of the chaebols from the threats of failure.<sup>138</sup> A pertinent question is how did Park strike the balance between the predatory and developmental tendencies of the state?"<sup>139</sup> By having businesses leaders involved in government, the chaebols could receive tax credits and subsidies to help their businesses flourish. However, Park also set export targets for the chaebols. When a business met or exceeded these targets, they were rewarded with tax benefits and social prestige. If a business could not meet market

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<sup>134</sup>Ibid.

<sup>135</sup>Ibid.

<sup>136</sup>Ibid., 97.

<sup>137</sup>Ibid.

<sup>138</sup>Eun Mee Kim and Gil-Sung Park, "The Cheabol," 267.

<sup>139</sup>Ibid.



demand, they were punished with credit squeezes and tax audits. This strong arm tactic represented an essential aspect of the relationship between government and business. To further ensure that predatory behavior would not be tolerated, Park only allotted business leaders to emerge in his government if they had a proven record of managerial skills and an entrepreneurial spirit.<sup>140</sup> Park later set up a system of “second or third-tier chaebol groups.”<sup>141</sup> Park’s demonstrated his brilliance by recognizing that competition reduces complacency. By creating a horizontal network of chaebols, Park ensured there were entities competing with the elite chaebols (Samsung, Hyundai, Lucky Goldstar). This ensured that no chaebol would ever grow too powerful to form a monopoly while maintaining the drive to be efficient.

Park’s bureaucratic skill and political autonomy ensured that no state owned enterprise had control over the commanding heights of the economy. Although Park needed a successful private sector, he wanted to make sure that they realized they needed him as well. In *Big Business, Strong State*, Eun Kim states: “Park demonstrated the supremacy of the state over the private sector and redefined the nature of the relations between them.”<sup>142</sup> The private sector showed discipline, which resulted in economic performance. Park allowed certain chaebols to go under if he believed they could not keep up. Once again, a balance had to be found between rewards and moral hazards, a balance that Park honed well. By demonstrating loyalty to businesses through subsidies, Park created an image as a reliable patron who could be trusted to support businesses when they were in trouble.<sup>143</sup> Trust and reliability are central to ensure domestic and international investors to invest in a country. Through the eyes of Korean conglomerates, when Park let a business fail, it demonstrated a necessary trajectory of capitalism, not a sign of betrayal. The business community came to view Park, after restructuring the weakest chaebols for bankruptcy only after keeping them afloat through state support, as a caring leader who showed loyalty to his followers.

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<sup>140</sup>Eun Mee Kim and Gil-Sung Park, “The Cheabol,” 267.

<sup>141</sup>Ibid., 268.

<sup>142</sup>Kim, *Big Business, Strong State*, 114.

<sup>143</sup>Eun Mee Kim and Gil-Sung Park, “The Cheabol,” 268.

A primary example of this took place in January 1962. Once private business leaders were chosen by Park, they were provided with generous business loans. These loans were to be invested in the state. The day after Park Chung-hee took power, several business leaders were arrested on charges of illicit wealth accumulation.<sup>144</sup> The leaders were charged with tax fraud, and illegally transferring property to foreign countries. Park met with Yi Pyong-ch'ol of Samsung because he knew that he had to work with the business leaders to put South Korea on path towards development. The chaebols after all, were not in a strong enough position to challenge Park's political legitimacy. Park decided to focus on exports and knew that chaebols, with their entrepreneurial spirit, would excel. In 1968, Park created the Federation of Korean Industries (PKI), with the task of channeling business and state interest.<sup>145</sup> On January 12, 1962, the leaders of the chaebols were not charged and the Supreme Council for National Reconstruction announced that those charged could use those funds to "build factories necessary for national reconstruction and donate them to the state instead of paying fines."<sup>146</sup> Park, knowing that "he needed the *chaebol* as much as the *chaebol* needed him for the generation of industrial growth," did not want to be viewed as anti-business.<sup>147</sup> Park demonstrated a keen ability to manage a potential political crisis and turn it into a long-term program with vested interest in the country. These two identities served the relationship between government and business well.

Park's ability to negotiate with the chaebols established the developmental state. The outcome of his policies would bear fruition through the success of the chaebols. The most successful chaebols in South Korea were all family-managed business groups, including Hyundai, Samsung, and Lucky-Gold Star. These chaebols grew at an average rate of 27 percent during the 1970s.<sup>148</sup> The chaebols began to dominate many different aspects of Korean life. The largest chaebols were directly responsible for approximately

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<sup>144</sup>Eun Mee Kim and Gil-Sung Park, "The Cheabol," 273.

<sup>145</sup>Ibid., 275.

<sup>146</sup>Kim, *Big Business, Strong State*, 120.

<sup>147</sup>Eun Mee Kim and Gil-Sung Park, "The Cheabol," 278

<sup>148</sup>Kim, *Big Business, Strong State*, 51.

30 percent of total shipment in manufacturing.<sup>149</sup> One of Park's central implementations while in power was South Korea's drive towards manufacturing through an export oriented route. Toothpaste from Lucky Gold Star, a Hyundai Car, and a computer made by Daewoo, were all making their mark as a South Korean conglomerate. The achievement of international recognition was quite remarkable considering that South Korea's GNP was less than one-third that of the United States.<sup>150</sup> A decade into the Park regime, "thousands of travelers from the United States and from all over the world were beckoned to buy South Korean electronic products."<sup>151</sup>

Businesses in South Korea would have to adapt to the change from domestic consumption to exports. By nationalizing the banks, Park put credit under the control of the state, thus increasing the dependence of the chaebols on his government. By rewarding businesses that confirmed to state policies, Park steered the chaebols in the direction he thought would best produce growth. In the early 1970s, Park used his power by providing loans to firms who invested in "state-targeted heavy manufacturing industries."<sup>152</sup> In the 1960s and the decades to follow, automobiles, steel, shipbuilding, chemicals and electronic appliances were all industries that the chaebols began to dominate. This was possible because "forty-eight percent of all public loans in 1959-79 were invested in state-owned enterprises."<sup>153</sup> The chaebols, due to their size and political advantage, were the only companies that Park trusted to turn South Korea into an economic powerhouse. The chaebols did so well because they were the only ones who could invest in these capital and technological intensive areas. By putting all his eggs in one basket, Park may have helped other companies as well. Realizing that loans were predominantly provided to the chaebols, smaller companies knew who best to emulate their practices after.<sup>154</sup> Thus, the proficiency of the chaebols played a central role in

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<sup>149</sup>Ibid., 52.

<sup>150</sup>Kim, *Big Business, Strong State*, 53.

<sup>151</sup>Ibid.

<sup>152</sup>Ibid., 83.

<sup>153</sup>Ibid.

<sup>154</sup>Kim, *Big Business, Strong State*, 84.

providing a model for other smaller businesses. This model of growth, success, and efficiency would be the hallmark of South Korea's development.

### 3. Park's Characteristics

Park Chung-hee was a unique and rare leader. He inherited a country in great turmoil and transformed it into a country that could provide a sustainable economic and social way of life for its inhabitants. Through an authoritarian framework, Park used economic nationalism to "exhort the entire society into the service of economic advancement."<sup>155</sup> Inheriting a country on the verge of economic and social collapse, many international experts believed Park's long-term optimism to be misguided, but Park's fervent nationalism and steadfast dedication to modernity did not waver. Park invested so much in ensuring the success of heavy industry while being told that his country lacked the economic capability. Park kept order while defending and enriching his people during troubling domestic and international situations. In *National Rebuilders*, Ezra Vogel stated, "Park Chung-hee took a poorly functioning chaotic democracy in a divided country, under acute threat from the North, and held it together."<sup>156</sup> His direct leadership led to an adequate banking system, roads, and a competent government-business relationship that did not produce corruption on a large scale. Mass suppression played a role by eliminating "open challenges to the new state's ideological hegemony."<sup>157</sup> The authoritarian aspects of the developmental state can best be viewed in the field of politics. Business leaders of the chaebols who went into government had amassed a certain amount of power that could have potentially challenged the hegemony of Park Chung-hee. Park made it clear that the states support of business would rest upon their promise not to enter the political world.<sup>158</sup> Park wanted entrepreneurs, not challengers. Park would support big businesses on the condition that there would no alternative to his rule.

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<sup>155</sup>Kohli, *State Directed Development*, 123.

<sup>156</sup>Ezra F. Vogel, "Nation Rebuilders: Mustafa Kemal Ataturk, Lee Kuan Yew, Deng Xiaoping, and Park Chung Hee," in *The Park Chung Hee Era: The Transformation of South Korea*, ed. Byung-Kook Kim and Ezra F. Vogel. (Cambridge: Harvard University Press, 2011), 514.

<sup>157</sup>Vu, *Paths to Development in Asia*: 17.

<sup>158</sup>Eun Mee Kim and Gil-Sung Park, "The Cheabol," 269.

Park's authoritarianism, which consisted of "illiberal politics, a state-directed economy, and rapid economic growth" used authoritarian methods not for oppressive reasons, but to incentivize productivity to turn South Korea into a developmental state.<sup>159</sup> Utilizing enticements such as credit and access to loans paved the way for businesses to cooperate with government policies. Reconstruction efforts and the efficient use of rice and grain quotas made land reform a widespread success rather than more wealth concentrated in the landlord class. Park's use of repressive measures optimized his political legitimacy. Propaganda and party allegiance throughout villages were used to ensure that Park maintained authority throughout the country.

The developmental state can be achieved given the right conditions and policies, and under a leader who minimizes corruption. Park Chung-hee currently has the highest approval rating of any past or current leader in Korea among the Korean people. In 1998, President Park was voted the best President ever by over 75 percent.<sup>160</sup> His regional counterpart, Suharto, also oversaw economic growth in Indonesia but amassed higher levels of corruption and inequality that South Korea managed to avoid. Chapter II specifically looked at South Korea during the Park Chung-hee era by showing how Chung-hee's authoritarian rule helped South Korea emerge from WWII and develop economically. Chapter III explores why Suharto's authoritarian regime was less effective at producing economic growth and shared prosperity than Park Chung-hee's. The question that the next chapter seeks to answer is why Suharto's authoritarian regime was not as effective at producing economic growth and reducing corruption as Park Chung-hee?

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<sup>159</sup>Kohli, *State Directed Development*, 123.

<sup>160</sup>Billington, "How to Transform an Impoverished Nation into a Modern Economy," 32.

### **III. SUHARTO'S INDONESIA: PROGRESS IMPEDED**

Chapter I introduced authoritarianism, usually considered a repressive form of government, and argued that, under the right circumstances, it is possible for authoritarianism to benefit a developing state. For example, the presence of competent and strong state intervention and market instruments crucially aided the “Asian Miracle” that Indonesia experienced. However, if cronyism and patronage corrupt a developmental state, authoritarianism can impede economic development through incompetent bureaucracy. Chapter II argued that Park Chung-hee’s authoritarian rule in South Korea, from 1961-1979, helped South Korea emerge and develop economically.

This chapter looks specifically at the New Order Regime of Indonesia under Suharto, from 1967-1998, and analyzes the degree of economic success resulting from its authoritarian nature. First, this chapter provides a brief context on Suharto’s predecessor, Sukarno, whose focus on nationalist rhetoric and isolationism instead of economic development led to his downfall and the rise of Suharto. Second, this chapter discusses how Suharto’s agricultural reforms provided people with their basic needs, set up long-term infrastructure and gave people a sense of security, while examining how his propensity for corruption prevented these achievements from being wide-spread. Third, this chapter discusses how, by contrast to Sukarno, Suharto’s New Order Regime simultaneously maintained political order by limiting participation in the political process and achieving economic development. Lastly, this chapter examines how Suharto’s corruption and patronage left his potential legacy of full economic reform unfinished.

#### **A. FROM SUKARNO TO SUHARTO**

In 1965, Indonesia experienced a political and humanitarian crisis on a scale unknown in its history, yet by 1998, the archipelago was thriving. After violent anti-communist purges killed over one million people, Indonesia emerged with authoritarian rule, widespread poverty, and social unrest throughout the archipelago. Yet by century’s end the authoritarian government of Suharto lifted approximately 40 million people out

of poverty as Indonesia experienced three decades of substantial economic growth.<sup>161</sup> How did authoritarianism produce prosperity and stability? What were the underlying successes and failures of authoritarianism in Indonesia between Sukarno's Guided Democracy (1945-1965) and Suharto's New Order (1965-1998)?

Sukarno, a populist figure who enjoyed wide spread support, became the founding father of a great and proud nation but his lack of focus on the economy proved his downfall. Indonesian independence, gained after generations of Dutch colonialism, came with an expectation that prosperity would soon follow. However, Sukarno focused on "grand rhetoric while neglecting the economy."<sup>162</sup> Sukarno's Indonesia, under the danger of breakup, relied instead on extreme nationalist rhetoric to foster social stability. *Pancasila*, a national philosophy based on five principles, was a hypnotic nationalist slogan without economic potential. Sukarno, overseeing a relatively weak central government in Java, did not seem to grasp the relationship between economic development and political survival. He ended economic ties with the West, which led to a drastic reduction in investment in foreign aid and, in 1963, pulled out of the United Nations, thus ending Indonesia's membership in the World Bank. Sukarno simply did not understand the economic deterioration that his isolationist policies had on the welfare of his people and his government's credibility.<sup>163</sup>

Sukarno's grand revolutionary rhetoric turned out to be only rhetoric rather than real revolution. In his Independence Day address on August 17, 1963, Sukarno stated, "I am not an economist. I am a revolutionary, and I am just a revolutionary in economic matters."<sup>164</sup> Relying solely on oratory skills and personality cults worked when aimed at colonial oppressors such as the Dutch. Rhetoric did not, however, work on the everyday level when the Indonesian people really needed social stability and food. The government

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<sup>161</sup>Dipak Dasgupta, "Poverty Reduction in Indonesia," in *Behind East Asian Growth: The Political and Social Foundations of Prosperity*, ed. Henry S. Rowen. (London: Routledge, 1998), 210.

<sup>162</sup>Norman G. Owen, *The Emergence of Modern Southeast Asia*. (Honolulu: University of Hawaii Press, 2005), 310.

<sup>163</sup>John Bresnan, *Managing Indonesia: The Modern Political Economy*. (New York: Columbia University Press, 1993), 54.

<sup>164</sup>*Ibid.*, 53.

largely ignored basic human needs during Sukarno's reign. Anne Booth, in *Development: Achievement and Weakness*, states that, in 1967, "the archipelago's per capita gross domestic product was lower, in real terms, than in 1940, before the Japanese invasion."<sup>165</sup> The government's fiscal recklessness, due to increased government spending with little revenue, led to high inflation rates. When Sukarno lost power, Indonesia was bankrupt and starving, fertile conditions for a coup empowering a leader who put economics and growth above politics and nationalism. Economic growth can mitigate social grievances by improving livelihoods. With his grand rhetoric, Sukarno raised expectations while turning a blind eye to the incompetency of his own policies and the economic liabilities of his country; by the end of his rule, the equilibrium and culture of poverty still pervaded the archipelago.

In 1965, General Suharto's legitimate military credentials during the September 30<sup>th</sup> student movement helped him plot a successful coup and overthrow Sukarno. As a member of the colonial army, Suharto had fought against the Japanese in the 1940s, rising in the ranks from sergeant to company commander. His division provided the territorial defense for Java and squashed rebellions in Sulawesi and Aceh in the 1950s.<sup>166</sup> Sukarno later appointed Suharto as the head of the elite army unit reserve command (KOSTRAD), which destroyed the attempted student coup against Sukarno.<sup>167</sup> At the outbreak of civil war in 1965, the army had the power and means to quell the rebellion and implement martial law. Suharto knew that his rise to power was "only made possible by that state's fragility" and the military was the structure most likely to provide political order and economic sufficiency.<sup>168</sup> Suharto did not take the inherent instability of a coup-born government for granted: he strengthened the role of the state and focused his New Order regime around two tasks: economic growth and survival.

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<sup>165</sup>Booth, "Development: Achievement and Weakness," 110.

<sup>166</sup>Bresnan, "Managing Indonesia," 46.

<sup>167</sup>Benedict R. O'G. Anderson, "Old State, New Society: Indonesia's New Order in Comparative Historical Perspective," *The Journal of Asian Studies* 42, no. 3 (1983): 488.

<sup>168</sup>Ibid.



## B. SUHARTO'S NEW ORDER

Imagine someone who more than sixty years ago was a child bathing in the mud, leading a peasant's life in Kemusuk village, stepping up to the podium and delivering a speech in front of assembled world experts, as a leader who has just solved the most important issue for 160 million mouths

—Ceres Award presented to Suharto  
(Food and Agricultural Organization  
of the United Nations) 1965.<sup>169</sup>

### 1. Agriculture

In September of 1960, the Basic Agrarian Law (BAL) was implemented throughout Indonesia, placing agrarian development as a top priority for the government. The law banned foreign ownership of land while guaranteeing peasants ownership of several acres of land. This demonstrated to the people that the government cared about the financial plight of Indonesian citizens, rather than the interest of rich land owners. Sukarno wanted to “fuse nationalist, socialist, and populist political commitments,” to demonstrate his concern for the interest of the people.<sup>170</sup> Left-wing political organizations took up the cause for the laborer by supporting land reform. The PKI had many followers within the labor movement due to their support for land reform. When Suharto came into power in 1965, he focused on industrialization and crushing any potential communist movement that could pose a challenge to his authoritarian rule. Land reform, synonymous with communism and the PKI, ended upon the 1965 revolution because it represented a direct threat to Suharto. BIMAS (mass guidance) and INMAS (mass intensification) were government programs designed to help farmers with pesticides, planting techniques, and credit access.<sup>171</sup> These were intended to improve Indonesian rice production. When Suharto came to power there was a severe shortage of

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<sup>169</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 9.

<sup>170</sup>Anton E. Lucas and Carol Warren, “The Land, The Law, and The People,” in *Land for the People: The State and Agrarian Conflict in Indonesia*, ed. Anton E. Lucas and Carol Warren. (Athens: Ohio University Press, 2013), 2.

<sup>171</sup>Ernst Utrecht, “Land reform and Bimas in Indonesia,” *Journal of Contemporary Asia* 3, no. 2 (1973): 156.

rice due to flooding's, so the "problem of how to increase agrarian production" became a top government priority.<sup>172</sup>

Suharto opened up the country to foreign investors to help train local businesses in the skills of fertilization. Unlike his predecessor, Suharto's embrace of FDI helped bring about significant changes in the lives of rural communities across Indonesia. High-yielding and disease-resistant varieties were heavily subsidized in Java. The achievement of food security laid the foundation for future industrialization, as workers became better nourished to perform the day-to-day functions required in a factory. From a macro-level perspective, Suharto's land reform policies worked, as Indonesia claimed self-sufficiency in rice by 1985.<sup>173</sup> On a micro-level, when viewing land-reform through the eyes of local farmers and rural areas, the story is quite different. The *Gini-coefficient* is a statistical tool used to measure economic inequality, ranging from 0 (most equal) to 1 (most unequal). Land distribution during the New Order was highly unequal: Bachriadi and Wiradi show that during the New Order the Gini ratio of land was 0.55, demonstrating a "moderately high" degree of land concentration.<sup>174</sup>

The New Order began to focus on large private businesses that could use the land for large projects. Large enterprises controlled large areas of land and contributed to high economic growth rates but not necessarily for the landowners themselves. Land ownership would be allocated on business extractions, not for rural based agricultural activities.<sup>175</sup> Suharto focused on large-scale production as the basis for credit. Small land-holders lost access to credit and fertilizers for their land because their production levels could not keep pace with large businesses. Under Suharto, the "transformation from landless tenants to absolute landless tenants" directly contributed to the inequality of land distribution throughout Indonesia.<sup>176</sup> The emphasis on production during the

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<sup>172</sup>Utrecht, "Land reform and Bimas in Indonesia," 157.

<sup>173</sup>Booth, "Development: Achievement and Weakness," 114.

<sup>174</sup>Dianto Bachriadi and Gunawan Wiradi, "Land Concentration and Land Reform in Indonesia," in *Land for the People: The State and Agrarian Conflict in Indonesia*, ed. Anton E. Lucas and Carol Warren. (Athens: Ohio University Press, 2013), 42.

<sup>175</sup>Ibid., 46.

<sup>176</sup>Ibid., 63.

Green Revolution led to the transfer of land from small land-holders to large land holders (more than five hectares). From 1973-2003, the amount of landlords with small landholdings increased from 3.4% to 10.9%, while absolute landless increased from seven million to thirteen million.<sup>177</sup> An ever increasing amount of land in Indonesia was no longer accessible for agricultural purposes.

The increase of these “development” projects means that agricultural lands were now being used for non-agricultural purposes. New businesses needed large amounts of land for housing, mining, tourism, etc. In 1967, Suharto passed the *Basic Forestry Law*, which excluded roughly seventy percent of Indonesia’s land for state purposes while taking away the legal rights of the local disenfranchised communities.<sup>178</sup> The land reform policies under Suharto faced a problematic consequence: the confiscation of land from citizens without due process. In 2001, the Consortium for Agrarian Reform (KPA), an NGO focused on agricultural issues, documented “1,753 cases covering 10.8 million hectares of land and affecting more than a million people.”<sup>179</sup> In a country where numerous amounts of people depend on their land as their primary source of income, the social and economic repercussions were widespread. The impact of the *Basic Forestry Law* left most farmers without a legal title to challenge territorial disputes in the courts. Thus, most farmers did not receive adequate compensation for their lost land. The Basic Agrarian Law gave legal protection to landholding tenants, but the New Order rarely enforced this law.

Economic and social opportunity became synonymous with corporations and Suharto’s political supporters. Contracts and businesses opportunities belonged to individuals who did not pose an ideological challenge to the ruling regime. By consolidating opportunity and support, Suharto ensured an elite unity to his governing ideology. By the end of the Suharto regime, over 60 percent of permits were issued to big businesses.<sup>180</sup> Land was taken away from villagers and being left empty. According to

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<sup>177</sup>Bachriadi and Wiradi, “Land Concentration and Land Reform in Indonesia,” 50.

<sup>178</sup>Lucas and Warren, “The Land, The Law, and The People,” 8.

<sup>179</sup>Ibid., 10.

<sup>180</sup>Lucas and Warren, “The Land, The Law, and The People,” 13.

the National Land Agency (BPN), by the end of Suharto's New Order only one-fourth of the permits issued to the well-connected were actually used in accordance with the permit.<sup>181</sup> Real estate developers with connections to Suharto began to build golf courses, resorts, and other industrial estate projects that remained under developed or underutilized. Patronage and incompetency within the Suharto regime hindered shared prosperity throughout the archipelago. The policies of land reform emphasized large-scale investments by the private sector. Thus, as shown in Table 4, the poverty reducing effects of land reform were not wide-spread.

Table 4. Incidence of Poverty (1996), Estimated by Region.<sup>182</sup>

Region	Incidence of poverty Poor people as a share of all people in a region (%)
Eastern Indonesia	20.2
Kalimantan	17.1
Java and Bali	11.5
Sumatra	10.3
Jakarta	2.5

Finally, Suharto favored centralization of power, which favored the western, more populated and urbanized, region of Indonesia, investing especially in Java and Sumatra because he believed those areas would yield the highest economic and political return. He did not give political autonomy to the outer islands, with the effect that "regional governments were meant to be responsible not to their own constituents but to the center in Jakarta."<sup>183</sup> Favoring cities over rural areas had an economic and social cost. Only ten percent of the funding for agricultural reforms was spent on the eastern islands.<sup>184</sup> Intra transportation networks and inter-island ferry were used to connect Java, Bali, and

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<sup>181</sup>Bachriadi and Wiradi, "Land Concentration and Land Reform in Indonesia," 66

<sup>182</sup>Source: Booth, "Development: Achievement and Weakness,"120.

<sup>183</sup>Michael Malley, "Regions: Centralization and Resistance," in *Indonesia Beyond Suharto: Polity, Economy, Society, Transition*, ed. Donald K. Emmerson. (London: An East Gate Book, 1999), 77.

<sup>184</sup>Booth, "Development: Achievement and Weakness,"121.

Sumatra. This enabled people to move around and afforded access to employment more easily than their counterparts on the outer islands. Suharto's main focus seemed to be the populated areas of Indonesia. By the end of the Suharto era Java and Sumatra had "93, 83, and 68 percent of all the electricity, vehicles, and sealed-surface roads" in all of Indonesia.<sup>185</sup> Had the outer islands had more political influence to foster more financial and social rural programs the alleviation of poverty may have been more widespread.

## 2. Political Control

Indonesia prospered due to Suharto's pragmatism and flexibility. To view Suharto as merely a tyrannical dictator is too simplistic.<sup>186</sup> Suharto served the state, and many Indonesians often considered him the "father of development." The social and economic changes that he presided over are remarkable by the standards of the developing world. At the same time, the destruction of political rights that he implemented allowed him to maintain autonomy while suppressing the rights of opposing viewpoints and curbing challenges to the New Order's "ideological hegemony".<sup>187</sup> The elites demanded rigid conformity and total commitment to the government's policies. When Suharto came into power he purged the National Assembly and the PKI (Communist Party of Indonesia). They suffered grave setbacks during the Sukarno years and early into the New Order. The armed forces had an affiliate called *Kopkamtib* (Command for the Restoration of Security and Order).<sup>188</sup> Set up in 1965 by Suharto, this organization had one purpose: to destroy the PKI. At the same time, Suharto allowed both the PPP (Development Unity Party) and the PDI (Indonesian Democratic Party) to participate in nationwide elections, as long as the leadership of these two main rival parties was directly approved by the ruling regime.<sup>189</sup> Political parties thus became subordinate—their platforms providing only minor differences to Suharto's New Order—and voting thus became a symbolic expression, rather than a choice between varying ideas.

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<sup>185</sup>Booth, "Development: Achievement and Weakness," 119.

<sup>186</sup>Michael R.J. Vatikiotis, *Indonesian Politics Under Suharto*. (New York: Routledge, 1993), 25.

<sup>187</sup>Vu, *Paths to Development in Asia*: 17.

<sup>188</sup>Anderson, "Old State, New Society," 493.

<sup>189</sup>Owen, *The Emergence of Modern Southeast Asia*, 436.

Beginning in 1971, the regime required all state employees to mobilize on behalf of GOLKAR (Golongan Karya), the official state party. In subsequent elections, the regime directly tied promotions and salaries into loyalty to Golkar. It was the only party allowed to open offices in towns and villages throughout the archipelago.<sup>190</sup> Elections, officially held every five years, were under tight control. Appointed military officials with direct ties to Golkar had twenty percent of the seats in Indonesia's Parliament, the MPR (People's Consultative Assembly).<sup>191</sup> Suharto directly chose an additional ten percent of the legislative body.<sup>192</sup> Overall, half of the MPR was composed of members with direct ties to the military or the bureaucracy and other MPR members were screened before their selection to the legislature.<sup>193</sup>

The appearance of a popular vote was thus, in reality, a farce—and the democratic relationship between the people and their government was non-existent. The fact that a majority of the legislature was composed of individuals with direct ties to Golkar demonstrates a complete inability for it to be independent of the executive's desires. The only permissible political activity is that which is in-line with the state's ideology. Any viewpoints contrary to Suharto's dogma were viewed as a threat to the stability of the state. Suharto is quoted as saying "elections create political stability."<sup>194</sup> The implication is clear: the main purpose of elections is not to implement the will of the populace but to create a democratic illusion to preserve the stability and power of the ruling elites.<sup>195</sup> It is ironic that the same students and anti-communist organization that help put Suharto into power, found their dreams for a democratic revival fall on death ears. Suharto's new slogan became "economics first, politics later."<sup>196</sup>

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<sup>190</sup>Owen, *The Emergence of Modern Southeast Asia*, 436.

<sup>191</sup>William R. Liddle, "Regime: The New Order," in *Indonesia Beyond Suharto: Polity, Economy, Society, Transition*, ed. Donald K. Emmerson. (London: An East Gate Book, 1999), 41.

<sup>192</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 4.

<sup>193</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 4.

<sup>194</sup>Ibid., 26.

<sup>195</sup>Ibid.

<sup>196</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 93.

In order to maintain the state's role over the political and economic aspects of a country, democracy must not impede the authoritarian's autonomy. Economic rationality cannot be achieved without political order. In Indonesia, the term used to further describe the dynamic between democracy and growth is the doctrine *floating mass*. In *Old State, New Society*, Benedict Anderson, describes Suharto's official doctrine as believing that "Indonesia's unsophisticated rural masses are not to be distracted from the tasks of development by political parties."<sup>197</sup> The Indonesian Armed Forces have taken up the responsibility to be deeply engaged in all fields of Indonesian society.<sup>198</sup> Suharto believed that economic development would create a subservient society; the Indonesian people would willingly give up political rights to see Indonesia emerge as a developed nation.

Having contempt for democracy was a necessity for Suharto due to his "need to preserve stability."<sup>199</sup> Suharto imposed his will on society, believing that the vast majority of Indonesia's population was unsophisticated and only concerned with politics at the village level. The non-participatory system of Indonesia provided the New Order bureaucrats with the latitude to implement economic and social policies by decree of Suharto. Few of these instructions were given any basis in democratic law.<sup>200</sup> Freed of the accountability restraints that come with democracy, the New Order regime was able to engage in longer-term thinking to invest in the private sector and support national goals that may not have come to fruition in the short-term.<sup>201</sup> Under the New Order, Suharto used economic growth as a method to ensure a better life for current and future generations.

### **3. Economic Development**

Economic development is a central tenet in significantly mitigating the varied ills of poverty. How exactly did Suharto's New Order enlarge opportunity for millions of

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<sup>197</sup>Anderson, "Old State, New Society," 490.

<sup>198</sup>Ibid.

<sup>199</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 26

<sup>200</sup>Ibid., 48.

<sup>201</sup>Root, "Distinctive Institutions in the Rise of Industrial Asia," 66.

people during the last three decades of the 20<sup>th</sup> century? According to the national statistics agency of Indonesia (Biro Pusat Statistik – BPS), the official number of people below the official poverty line fell from 60 percent to about 14 percent while the number of poor individuals decreased from 67 million to about 24 million.<sup>202</sup> Under authoritarian rule, Indonesia’s government directly shaped economic policies and helped lift millions of people out of poverty.

The New Order represented a political victory over Sukarno’s economic nationalism that focused on divisions rather than growth. At the Bandung Conference of 1955 and in his policy-making, Sukarno embraced the idea of national and economic independence. In practice, nationalist policies of removing foreign capital without introducing coherent economic policies produced economic stagnation. Suharto, upon securing power in 1965, would not make this mistake; instead, looking upon foreign nations not as a threat but as an asset, he began to liberalize and open up Indonesia’s economy and embraced foreign capital as a means to attract investment.

Suharto relied on a core group of technocrats to manage the overall macroeconomic environment. These technocrats, known as the *Berkeley Mafia*, were led by Widjojo Nitisastro and included Mohammad Sadi and Emil Salim, who all attained doctorate degrees from the University of California Berkeley. These technocrats began to develop a state system within the framework of reintegrating “the Indonesian economy into the global capitalist structures.”<sup>203</sup> The New Order Regime developed a bifurcated economic strategy of macroeconomic liberalism. The central tenants of this strategy were exchange rate policy, interest rate policy, and inflation.<sup>204</sup> The neoliberal interventionist policies opened up the macro economy to attract FDI. Lowering inflation rates creates a demand in the marketplace, which increases prospects for sustained growth. A healthy demand increases the attractiveness of foreign investors. Bringing back foreign investment would spur the economy to make the changes the military regime promised.

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<sup>202</sup>Dasgupta, “Poverty Reduction in Indonesia,” 209.

<sup>203</sup>Richard Robison, “Politics, and Economy in the Political History of the New Order,” *Southeast Asia Program Publications at Cornell University*, no. 31 (1981): 24.

<sup>204</sup>Perkins, *East Asian Development*, 103.



To restore credibility with western governments and companies, and thereby attract investment, the Berkeley Mafia embraced the ideas of markets and capitalism.<sup>205</sup> They would remain Suharto's personal advisers and members of his cabinet for several decades, providing the long-term stability of policy making that foreign businesses look for.<sup>206</sup> Although Suharto refused to completely embrace economic liberalism, these "technocrats cautiously pressed for reform."<sup>207</sup>

The economic reforms implemented by the Berkeley Mafia transformed the Indonesian economy and society. Their first achievement was bringing high inflation under control, thereby giving the government and the people a sense of financial relief and the domestic confidence needed for growth. In parallel, they successfully urged Suharto to pass the 1967 foreign investment law to attract capital in varying sectors throughout Indonesia.<sup>208</sup> In addition, removing the regulatory barriers that determined the flow of capital through legislation significantly altered the business climate in Indonesia. In a two-year span from when Suharto took power, Japan went from having two investment projects in Indonesia totaling roughly \$6 million dollars to seventeen, totaling \$132 million.<sup>209</sup> By the end of the Suharto's regime, Indonesia was Japan's second largest beneficiary of direct investment.<sup>210</sup> Aid from the IMF and the United States flowed in, providing the needed capital to invest in infrastructure and social services. In response to the international community contributing capital to the Indonesian state, the MPR ordered the government to begin an economic rescue program.

The investments and government economic policies resulted in substantial progress. Per capita income nearly doubled in two decades. During the duration of the Suharto regime average economic growth was 6.8 percent and average per capita growth

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<sup>205</sup>Booth, "Development: Achievement and Weakness," 111.

<sup>206</sup>Bresnan, "Managing Indonesia," 73.

<sup>207</sup>Booth, "Development: Achievement and Weakness," 111.

<sup>208</sup>Ibid., 112.

<sup>209</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 35.

<sup>210</sup>Ibid., 35.

was 4.8 percent.<sup>211</sup> As shown in Table 5, every sector grew significantly over a two-decade period, although high growth was clearly driven at the outset by the manufacturing sector. People in villages and cities had greater financial means to make better decisions about their health and general welfare. Population growth started to curb since the 1970s thanks to family planning and the affordability of birth control; infant mortality rates fell by two-thirds (145 per thousand live births to 51); and life expectancy expand from 45 years to 64 years.<sup>212</sup> As the average number of children born to each female declined, Indonesia experienced an increase in the role of women in the workforce. Such changes demonstrate the impact that economic development has on the aspirations and choices for better living standards and upward economic and social mobility.

Table 5. Indonesia GDP Growth by Sector, 1975-95 (Percent per Annum).<sup>213</sup>

	Agriculture	Manufacturing	Services	Total
1975-85	4.6	11.0	8.4	6.1
1985-95	3.2	12.5	10.0	8.0

Along with FDI, Indonesia greatly benefited from a plentiful commodity: oil. Without this natural resource, “Indonesia might not have seen any growth.”<sup>214</sup> With oil, Indonesia benefited from the luck of the international situation. Two events in the 1970s (The Yom Kippur War & The Iranian Revolution) caused an increase in the price of crude oil. By the end of the Yom Kippur War, the price of oil more than tripled from \$3 to \$10 a barrel. By 1980, the price of crude oil approached \$40. OPEC (Organization of the Petroleum Exporting Countries) imposed an embargo, which caused short-term and long-term effects on the global economy. Indonesia, a country whose “oil sector

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<sup>211</sup>Booth, “Development: Achievement and Weakness,”113.

<sup>212</sup>Booth, “Development: Achievement and Weakness,”123.

<sup>213</sup>Source: Dasgupta, “Poverty Reduction in Indonesia,” 213.

<sup>214</sup>Vu, *Paths to Development in Asia*: 68.

dominated the state” benefited greatly from this international situation.<sup>215</sup> Over the coming decades oil became the principal source for industrial development. From 1970-1981, “GDP averaged 7-8 percent per year.”<sup>216</sup> The state invested in food and social programs for the poor. Within ten years Indonesia could claim to be self-sufficient in food. This consistent net growth under the direction and management of the state, with little social unrest, demonstrates the basic tenets of a developmental state: growth and stability.

Oil revenues also facilitated cronyist practices from SOE’s (State Owned Enterprises). Efficient economic policies were hindered by an abundance of a natural resource that required no physical or intellectual labor to produce. Developmental states can only fully emerge when faced with “constrained political environments.”<sup>217</sup> Political leaders will bring about efficient economic institutions that can foster sound macroeconomic policies when a condition of *systemic vulnerability* emerges.<sup>218</sup> Suharto’s New Order produced inefficiencies because it lacked “the hard budget constraints imposed by a scarcity of easy revenue sources.”<sup>219</sup> The abundance of a capital intensive resource gave elites in Indonesia easy profits, which propelled rent seeking, instead of structural economic reforms to promote shared growth.

The decline in the price of crude oil impeded Indonesian development. Yet Suharto’s willingness to follow the advice of his western trained economist such as Nitisastro, proved to be the right decision.<sup>220</sup> The decline in the price of oil imposed fiscal constraints, which led Nitisastro to pursue better macroeconomic policies. Devaluing the rupiah in 1983 led to an abrupt decline in currency valuation compared to the dollar.<sup>221</sup> This allowed Indonesian products to be priced cheaply on the world market

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<sup>215</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 35.

<sup>216</sup>Ibid.

<sup>217</sup>Doner, Ritchie, and Slater, “Systemic Vulnerability and the Origins of Developmental States,” 328.

<sup>218</sup>Ibid.

<sup>219</sup>Doner, Ritchie, and Slater, “Systemic Vulnerability and the Origins of Developmental States,” 328.

<sup>220</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 40.

<sup>221</sup>Booth, “Development: Achievement and Weakness,” 116.

and “compete successfully with labor-intensive manufactures” from all over the world.<sup>222</sup> Oil may be an abundant source, but it’s also a financially unreliable source. By the middle of the 1980s the price of crude oil had fallen to under \$10 a barrel. This forced the government to diversify and rely more on market forces than on a commodity ran by a state agency. Indonesia would have to rely on non-oil exports, which meant a shift to an export-oriented economy. The government began to implement thrift measures, such as the reduction of fuel and food subsidies.<sup>223</sup> Suharto managed to devalue the Rupiah twice, which helped Indonesian exports on the world market. Indonesia received \$4 billion in foreign aid annually.<sup>224</sup> Due to this capital influx, significant investments in Indonesian businesses developed. By giving businesses more autonomy to devote capital to non-oil products; Suharto’s New Order diversified Indonesia’s domestic market.

As shown in Table 6, Suharto initiated economic deregulation in 1985 with profound results. Non-oil exports grew to roughly \$30 billion a year. Labor intensive industries (textiles, furniture, electric products) all experienced tremendous growth. By the end of 1995 domestic sources other than oil accounted for “68 percent of all budgetary income – and 12 percent of GDP.”<sup>225</sup> Before Suharto and his technocrats liberalized the economy in 1985 non-oil sources accounted for “27 percent of the government’s budget – and a mere 7 percent of GDP.”<sup>226</sup> As manufacturing grew in Indonesia, the service sector began to grow as financial institutions began to provide individuals with credit. Trade and transportation, directly impacted by a rise in manufacturing, needed access to capital to fund new projects required during this growth period. As per-capita income grew, individuals have a demand for more services. Retail, housing, and construction each saw significant growth rates. Construction alone “grew at an average rate of over 15 percent per annum after 1988,” creating one of the largest

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<sup>222</sup>Ibid.

<sup>223</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 39.

<sup>224</sup>Ibid.

<sup>225</sup>Booth, “Development: Achievement and Weakness,”117.

<sup>226</sup>Ibid.

growth rates in the world.<sup>227</sup> The economic adage “bad times make good policies” was an Indonesian favorite.<sup>228</sup> Suharto may not have supported economic liberalization policies had the oil crisis not occurred. Prosperity reached every aspect of Indonesian society. Political credibility, a pre-cursor to achieving a developmental state, helped foment the sustainable and shared growth under the New Order Regime.

Table 6. Indonesia: The Shift to Outward-Oriented Industrialization.<sup>229</sup>

	Share of non-oil exports in GDP (%)	Non-oil GDP growth (%)
1983	7.5	6.5
1993	20	8.7

Although Suharto’s New Order achieved substantial economic growth, his authoritarian rule showed signs of patronage and cronyism. The government-run state oil company Pertamina faced a crisis that showed the negative aspects of authoritarian rule in Indonesia. Ibnu Sutowo, the head of the firm, was a military man with a close friendship with Suharto. The company had begun to spend money on trivial items that it did not need—for example, pictures emerged with Ibnu driving luxury cars. More problematically for economic growth, Pertamina began to diversify its investment into industries, such as steel, that an oil company had no experience in. In sum, Pertamina took on large financial obligations without the government’s approval or knowledge. By March of 1975, the enterprise’s debt totaled well over \$10 billion and it failed to repay a loan to the United States that year.<sup>230</sup> Nitisastro warned Suharto that the company needed new leadership for fear that Pertamina collapse would hurt Indonesia’s reputation with investors, but inefficient practices (investing in non-traditional sectors and incompetent borrowing practices) were inferior to political loyalty and Suharto’s personal relationship

<sup>227</sup>Dasgupta, “Poverty Reduction in Indonesia,” 218.

<sup>228</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 40.

<sup>229</sup>Source: Dasgupta, “Poverty Reduction in Indonesia,” 217.

<sup>230</sup>Bresnan, “Managing Indonesia,” 166.

with business elites. The Pertamina crisis illustrates the prevalence of cronyism in the New Order.

Suharto's protection of his family interest, at the expense of his own reputation, was his "principal weakness in later life."<sup>231</sup> Promotions and status were not given based on merit, but on loyalty and blood ties. Cronyism can impede economic reforms by failing to recognize the talents of competent businesses and by acting as an inefficiency drag on economic growth. In 1985, the Indonesian government began to attack inefficient monopolies except those that directly benefited Suharto. Suharto, aware of the importance and opportunities that natural resources offered, ensured that his family members were given the only licenses to participate in those industries. The steel and plastic industries were under orders to liberalize. The government was successful but Suharto's two sons (Bambang Trihadmodjo and Hutomo Putri) created another monopoly by "licensing petrochemicals complexes."<sup>232</sup> These firms were able to "tap state banks for low-interest funds," which reduced the availability of credit for local communities and entrepreneurs.<sup>233</sup> As monopolies, these family-run firms had an abundant access to capital without any need for improvement. They were ill-suited to truly turn Indonesia into a competitive business atmosphere. Habir notes that in the annual listing of the top conglomerates, "elite families were common."<sup>234</sup> The middle class began to feel that economic power directly correlated to politics. This, in their eyes, was "at the expense of ordinary firms and people."<sup>235</sup> A wide-spread belief emerged that individual and business success was based on patronage, not merit. This cronyism at the expense of further development sums up development in Indonesia: a great success with lots of missed opportunities. Suharto's dedication to family and conglomerates too often came at the expense of Indonesian development. The developmental policies under the New Order

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<sup>231</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 8.

<sup>232</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 43.

<sup>233</sup>Ibid., 45.

<sup>234</sup>Habir, "Conglomerates: All in the Family?", 187.

<sup>235</sup>Ibid.

were implemented based on “which of these groups had the greatest influence at particular times.”<sup>236</sup>

### C. SUHARTO’S LEGACY

The legacy of Suharto’s three-decade long rule in Indonesia is still debated today by academics and policy-makers. The authoritarian nature of the New Order Regime focused on heavy centralization and dominance by the military. Maintaining political and social stability over a large archipelago, while simultaneously initiating an anti-communist ideology, Suharto attracted economic and political support from western governments. The isolationist policies of Sukarno, his predecessor, were phased out to attract foreign direct investment. Over the next thirty years Indonesia experienced growth in living standards, per-capita GDP, health, and infrastructural integrity. During his reign, Indonesia averaged between 6-7 percent GDP growth and, under the New Order, Indonesia industrialized and joined the ranks of Asia’s newly industrializing countries. Yet economic development, which was necessary for his political legitimacy, became a “cornucopia out of which patronage and personal gain can be pulled at will.”<sup>237</sup> Parts of the private sector could not flourish without the heavy-hand of the government. From 1968 to 1983, the rise of GDP directly tied to the government rose from “13 percent to 41 per cent.”<sup>238</sup> The New Order regime ensured that its cronies would have a monopoly on profitable sectors of the economy. When private sector and domestic entrepreneurs began to grow the state descended on it and began to demand a share.

Political progress did not follow economic progress. Nepotism may help the sovereign but it does not help the people or the country; it serves the personal and financial interest of the leader and his cronies but not the populace at large. During the Suharto administration basic economic figures were all that mattered: GDP up, inflation down, etc. However, the centralization of the New Order Regime focused on cities, thus, the more rural areas of the archipelago did not experience the same rates of growth under

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<sup>236</sup>Perkins, *East Asian Development*, 102.

<sup>237</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 55.

<sup>238</sup>*Ibid.*, 57.

Suharto. In a World Bank Study in 1990 concerning poverty in Indonesia, in five eastern provinces there was “zero or negative growth rates” in per capita income.<sup>239</sup> The most populated areas of Indonesia (Bali, Jakarta, Java, and Sumatra) experienced the greatest economic development. Yet, the utter neglect of the outer islands due to inadequate agricultural policies and blatant patronage hurt the legacy of Suharto.<sup>240</sup> By monopolizing power, Suharto effectively abolished any political representation that the countryside could depend on. Thus, the social and economic interest of millions of people came to a halt throughout the process of land reform.<sup>241</sup>

The core economic story of the New Order is associated with the ups and downs of a bifurcated economic strategy of neoliberalism and cronyism. The neo-liberal policies (productive, growth-enhancing) under Suharto and the Berkeley Mafia tamed inflation and restructured the value of the Rupiah. This macroeconomic approach attracted FDI and enabled more market-oriented success in the lower value-added manufacturing sector. Millions of people were lifted out of poverty as jobs and capital became more wide-spread. The New Order also produced significant disadvantages on a social and economic level. The cronyism and rent seeking (inefficient, growth-inhibiting) approach hindered Indonesian development. Sumitro Djojohadikusumo, an Indonesian economist, stated, that the archipelago had become rich “without really trying.”<sup>242</sup> The abundance and easy access to oil produced a *resource curse*: where middle income countries use their new found wealth to empower the ruling regime and their loyal supporters, rather than finance economic and social institutions to foster shared prosperity over the long-term. Rent seeking during the Suharto years produced a patron-client administration where the interest of business friends and family members came before rural Indonesia. Suharto’s legacy comes down to one question: what could have been? Had corruption and patronage not been as prevalent, destitution under the New Order Regime may have been eradicated, rather than confined.

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<sup>239</sup>Vatikiotis, *Indonesian Politics Under Suharto*, 57.

<sup>240</sup>Ibid.

<sup>241</sup>Robison, “Politics, and Economy in the Political History of the New Order,” 23.

<sup>242</sup>Bresnan, “Managing Indonesia,” 193.



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## IV. CONCLUSION

This thesis explored the features of political authoritarianism that might contribute to economic success. Finding the balance between competent state intervention and incompetent bureaucracy was central not only to the development of Indonesia and South Korea. The extent and use of state activity offer lessons that may be applicable to today's developing countries. The governmental model where the state has control over its economic and political institutions has often been referred to as *the developmental state*. According to western standards, a “developmental orientation predominates” in states that were late to develop.<sup>243</sup> An authoritarian state paves the way for industrialization by implementing competent policies without the burdensome processes that democratic governments can sometimes produce.

This thesis demonstrated how Indonesia and South Korea both industrialized and created a large middle class while simultaneously suppressing political rights through authoritarian methods. This thesis explained constraints and elements of authoritarianism and how they can lead to economic successes and failures. What lessons can the developmental model from Indonesia and South Korea provide third world countries aspiring to achieve economic and social development? Differences and similarities in the domestic and international context that existed in the 60s and 70s may not apply today. However, the fact that two nations, immediately following internal conflict, decolonization, and war, produced economic success should be an example to countries that find themselves mired in destitution.

### A. SUCCESSES

South Korea, under Park Chung-hee, produced a proficient economic framework that fostered competent long-term institutions to build a developmental state. Industrial nations produce more affluent societies than agrarian societies, and large land owners were seen as an impediment to the shared prosperity that Park promoted. The *Saemaul Undong* movement remained free of nepotism under Parks leadership. The South Korean

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<sup>243</sup>Johnson, *MITI and the Japanese Miracle*, 271.

state promoted industrialization by improving underclass living conditions to cultivate a society that could foster the tools required to integrate into the global economy. Infrastructural development had set targets for grain and cement distribution. Contracts were given out to local leaders based on performance, not patrimonial ties as seen in Indonesia. Park achieved widespread basic living conditions throughout South Korea by avoiding patronage and corruption.

In order for a developmental state to emerge, certain external political and strategic environments need to exist. South Korea faced “the heightened need for foreign exchange and war material induced by national insecurity.”<sup>244</sup> The threat of the DPRK (Democratic People’s Republic of Korea) and the physical survival of South Korea played a role in Park’s modernization strategy. The adjacent proximity of an opaque and tyrannical state created a sense of urgency within the Park government. Economic growth facilitates not only the defense apparatus but also the social unity required to fuel domestic nationalism. Thus, compromising with various elites and ensuring an equitable distribution of prosperity ensured not only Park’s political survival but also ensured the existence of the South Korean state.

The security dilemma was “compounded by resource constraints” that made the formation of strong institution vital to the pursuit of the developmental state.<sup>245</sup> Unlike Indonesia, South Korea was not “fortunate” to have access to an easily exploitable natural resource: oil. An abundance of a commodity can produce a rent: capital being used to expand profits for the well-connected few versus society at large. The prevalence of rents can hinder the emergence of strong economic and social institutions because the elites no longer have the “systemic vulnerability” required to guide them in the direction of shared growth; their survival is not at stake because wealth is easily accessible.<sup>246</sup> Thus, Park’s government saw lower levels of corruption and blatant cronyism than was apparent within the New Order; Park showed this style of governing in his approach to businesses.

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<sup>244</sup>Doner, Ritchie, and Slater, “Systemic Vulnerability and the Origins of Developmental States,” 328.

<sup>245</sup>Doner, Ritchie, and Slater, “Systemic Vulnerability and the Origins of Developmental States,” 332.

<sup>246</sup>Ibid., 339.

The government-business relationship produced objective benchmarks that were market-oriented in nature. Subsidies, tax credits, and financial rewards were directly tied to growth and production. By setting targets, Park produced a culture of economic competition that reduced complacency and incompetency throughout the business community. Unlike Suharto, Park ensured that SOE would not undermine growth by becoming too powerful or attain influence within his political system. Park jailed business leaders who showed signs of corruption. Cronyism was not a characteristic found in the economic models driven by Park. He personally ensured that businesses followed the path from heavy manufacturing to the service sector. The EPB provided a competent institution for the Chaebols to get specific directions on where to invest. Small businesses began to look to the Chaebols as an entity to emulate, thus enlarging the culture of independent competition. Park never directed the day-to-day operations of businesses because he knew that their independence was a key factor in producing the growth that maintained his political autonomy. This balancing act ensured the legitimacy of his authoritarian rule while simultaneously ensuring that his country would become a developmental state.

## **B. FAILURES**

The casual explanations that define the authoritarian elements that lead to success do not, in the same manner, apply to Suharto's New Order. This thesis recognizes the prosperity and creation of a large middle class in Indonesia. The Berkeley Mafia, led by Nitisastro, managed the macro economy successfully to attract FDI. However, this thesis has attempted to explain why some developing countries attain higher levels of economic success compared to others. The bifurcated economic strategy pursued by Suharto mixed a neo-liberal philosophy with nepotism, corruption, and cronyist behaviors in practice that produced inefficiency and growth-inhibiting outcomes. The prevalence of these factors provides an explanation as to why Indonesia, under Suharto, did not achieve the same level of success that Park's South Korea attained.

Land reform was implemented in a concentrated manner, without regard for the millions of people that resided in the outer islands. *Systemic vulnerability* never emerged

in Suharto's Indonesia. Elites in Indonesia could ignore the economic and social conditions of a large segment of society because an external threat never existed to supplant the desire for strong national cohesion. Large conglomerates had a monopoly on land rights. Farmers in the countryside saw their property taken away from them without just compensation. These developments illustrate the incompetency of the Suharto regime. In order to transition from an agrarian society to an industrial society, a state must provide the institutional and social settings necessary for this transition to bloom. Competent investments in physical capital have the potential to change the widespread economic trajectory of a nation. Unfortunately, Suharto's neglect of land rights and close relationships with business elites may have prevented Indonesia from fully transitioning to an industrial society. Indonesia lacked the human capital that was present in South Korea, but the inept policies of the New Order did not facilitate a social climate where one could emerge.

The emergence of a developmental state depends on an efficient relationship between business and government. The public-private collaboration in Indonesia was based on clientelism with no obligation of production. Suharto's family members gave licenses to monopolize industries. Specialization, a key factor in developing a prominent manufacturing sector, became inferior to nepotism. Park and Suharto advocated political loyalty, but Park created a system where loyalty and efficiency could coalesce. Competitiveness fomented a culture of innovation, which, in turn, provided the conditions for widespread growth. Suharto's loyalty to family came at the expense of locals trying to gain access to credit to move up the economic ladder and create an emerging developmental state.

### **C. LESSONS LEARNED**

Two casual explanations provide an explanation into how a developmental state emerges. In *National Rebuilders*, Vogel states, "no country where fundamental changes were introduced from within and that achieved sustained rapid growth did so without having a strong authoritarian leader who guided those changes."<sup>247</sup> Leadership styles are

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<sup>247</sup> Vogel, "Nation Rebuilders, 513.

a factor in determining the economic outcomes of developing countries. Park and Suharto were skilled at maintaining power and stifling dissent to monopolize ideas, and both understood the benefits of integrating with western economies. Where individual characteristics varied, the outcomes were significant. Suharto's embrace of nepotism and patronage was not seen in the leadership style of Park. Institutions are not *ex nihilo*; they must be created and utilized by a nation's leadership to provide economic and social benefits. What can today's developing and impoverished nations learn from the developmental state model? Why do some leaders choose corruption and incompetency (Ferdinand Marcos of the Philippines), while others chose growth and efficiency (Lee Kuan Yew of Singapore)? Businesses and foreign investors are less likely to invest in a country if the leadership of that country is opaque and corrupt. Individual leaders, by themselves, cannot create a developmental state. However, some individuals become towering figures whose legacies, constructive or harmful, impacts not only themselves but entire societies.

Distinctive institutions should be acknowledged by all scholars seeking to formulate an analytical theory on how development can emerge in developing countries. The notion that "institutions are given and are not subject to change" should be challenged.<sup>248</sup> As new information is presented, being able to adapt to that information "reflects the existence of effective institutions. It suggests that being able to craft and adopt new institutions is as important as the ability to formulate new policies."<sup>249</sup> There are different pieces of micro-institutional frameworks that other developed countries could try to replicate. The presence of a constructive geo-strategic environment and global economy is not a guarantor of a developmental state. Micro-institutions can change the relationship between the government and society. A free press, an impartial media, and an independent judicial system foster a culture of accountability. This increase in transparency decreases the rapacious behavior of the state, which has the potential to enable political and economic development. In order for globalization and markets to flourish, information on transactions and state behavior must be prevalent. The

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<sup>248</sup>Root, "Distinctive Institutions in the Rise of Industrial Asia," 73.

<sup>249</sup>Root, "Distinctive Institutions in the Rise of Industrial Asia," 72.

political economies of East Asia utilized “consultative bodies” and “deliberative councils” to give businesses a voice in policy making.<sup>250</sup> This limits the government’s ability to deceive or hide information from the public and their financial partners. Thus, “imposing cost on government officials are necessary” in order to create an advantageous environment.<sup>251</sup>

The geo-strategic environment can foster a developmental state. The end of the Cold War hindered that attainment of huge flows of capital to authoritarian governments. South Korea’s geopolitical significance to the United States was an integral factor in the foreign aid and loans being provided to South Korea. As Michael Seth stated in *A Concise History of Modern Korea*, “Without the U.S. market and Japan’s investments and technology transfers, it’s difficult to imagine how South Korea’s economic transformation could have been accomplished.”<sup>252</sup> Both Indonesia under Suharto and South Korea under Park prospered by showing the west their fierce aversion to communism. Since the end of the Cold War, “becoming a recipient of military assistance has become an increasingly difficult precondition.”<sup>253</sup> With the Soviet Union and the United States no longer vying to prop up regimes, less aid has been given to countries. Economic aid alone is not the sole indicator of achieving development, but foreign aid and FDI were both crucial in reducing poverty in South Korea and Indonesia.

Although aid and loans were important, the role of institutions must not be overlooked. Several countries have been recipients of aid, both economic and militarily. These countries have not produced similar levels of economic or social prosperity. Egypt, Pakistan, Nigeria, Ethiopia, and Bangladesh have been recipients of international foreign aid for years while not attaining industrial level status. An influx of aid received and substantial economic development does not correlate. These countries have not been able and/or willing to implement the necessary institutional reforms for prolonged growth. Property rights, land reform, and the competent allocation of capital were all, to an

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<sup>250</sup>Root, “Distinctive Institutions in the Rise of industrial Asia,” 69.

<sup>251</sup>Ibid.

<sup>252</sup>Seth, *A Concise History of Modern Korea*, 52.

<sup>253</sup>Kim, *Big Business, Strong State*, 222.

extent, present in both Indonesia and South Korea. Many countries around the world simply do not have a strong and effective state apparatus to effectively implement economic reforms.

Countries seeking to develop should bear in mind the high social cost that both Indonesia and South Korea experienced. Mass killing took place under Suharto's tenure to purge out enemies. Suharto systemically killed communist groups and any entity that did not agree wholeheartedly with his dogma. In South Korea, the Gwangju Uprising, also known as the May 18<sup>th</sup> Movement, saw the authoritarian nature of the South Korean government quell a democratic movement, with estimates of hundreds being killed. Authoritarianism is bad for democracy and civil liberties but beneficial when monopolizing influence at both the political and economic level. There are many lessons that the developmental state model can teach nations today hoping to develop. However, the developmental model that South Korea and Indonesia embarked on violated human rights, which should not be repeated by any country seeking to develop. Suspending political transparency and free elections in the name of sustainable growth "is a critical and consequential question that requires a serious debate and deliberation by *all* citizens of a nation embarking upon South Korean-type economic development."<sup>254</sup>

Human rights need not be inferior to economic development. The labors of millions of workers in both countries were exploited for a generation. Individuals were not allowed to protest, work hours were excessively long, and wages were kept extremely low for the sake of profits. *Post hoc ergo propter hoc* (after this, therefore because of this) is a logical fallacy stating that because one thing follows the other, therefore it was caused by the other. Economic growth was followed by authoritarian leadership; therefore, authoritarian leadership causes economic growth. However, would Indonesia and South Korea have developed without authoritarianism? Is authoritarianism necessary for under-developed nations to provide the stability necessary for growth? Africa and Latin America have experienced authoritarian rule for generations, yet prosperity has largely been absent. That development took place after political and social rights were

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<sup>254</sup>Kim, *Big Business, Strong State*, 224.



stripped away from millions of people is not, in my view, the way forward for countries seeking to lift themselves out of poverty. What aspects were successful that developing countries could replicate without violating human rights? There are several constructive factors within the two case studies that developing countries should promote: agricultural and infrastructural development, foreign direct investment, trade, competent institutions independent of the executive, sound macro-economic policies, and investments in human capital (education and health services). Treating human beings with decency is not counterintuitive to these ideas. The value that a nation places on individual rights should be made by the citizens of a country, not an elite few. Too often, western nations ignore inhumaneness if a leader embraces market reforms or if the country represents a strategic asset. The international community and the domestic leaders themselves should simultaneously embrace economic reforms and liberal western values.

The developmental state is more than a set of political and economic frameworks. It offers ideas, both virtuous and iniquitous, for developing countries to study. The study of political economies offers donor countries (particularly the west) an opportunity to promote social and economic welfare. Analyzing Indonesia and South Korea during the developmental stage provides offers academic and policy makers an approach to alleviate poverty. There are numerous estimations on how a developmental state can be achieved: institutions, individual leadership, micro-institutional frameworks, foreign aid, systemic vulnerability, etc. The failure of one does not necessitate its abrupt culmination; the success of one does not inevitably call for its recurrence. These ideas, which should be studied, are nevertheless contextual; every country needs its own development strategy. Each situation is different and requires a custom-fit methodology to the prevailing circumstances. The policy success or failure in one country doesn't necessarily mean the same will occur if tried elsewhere. World leaders, economic organizations, and citizens across the globe should remain flexible in their approach to creating a system that provides profound opportunity for the world's poor.

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