



# ‘ASIAN DRAMA’: THE PURSUIT OF MODERNIZATION IN INDIA AND INDONESIA

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## **Gunnar Myrdal’s *Asian Drama***

The title of this article is based on that of the monumental three-volume study by the Swedish social scientist, Gunnar Myrdal, *Asian Drama – An Inquiry into the Poverty of Nations*. Published in 1968, it is now largely forgotten – except for its inordinate length; but, for a number of years, it was required reading for development specialists.

Myrdal’s book was about the countries of South and South East Asia. He was pessimistic about their development prospects. His analysis – and his pessimism – was mainly focused on India, but he extended this to Indonesia and other countries as well. He believed that traditional power structures were likely to persist, but that unless there was change, the chances of economic take-off were slim. He believed that governments in the region were too “soft” – he invented the term the ‘soft state’ – unable to enforce the discipline that was needed to implement their development plans. He concluded reluctantly that democracy might not be the best system for achieving this and – overriding his concern for individual liberty – that authoritarian regimes might do it better.

He doubted whether faster agricultural development, crucial for raising living standards in the rural areas and to provide the savings and markets to support industrialization, would take place without either radical land distribution or consolidation into communes. Yet, he went on to argue that neither was feasible politically.

He believed that industrialization would be held back by shortages of foreign exchange due to poor prospects for exports, inward investment and foreign aid. He was in favour of economic planning, but appalled by the inefficiencies, corruption and waste caused by excessive reliance on administrative controls – an all too prevalent feature of economic planning in Asia. He argued that education, health and population control needed far greater priority.

*Asian Drama* received mixed reviews. It was praised for its emphasis on

agriculture, on the human element in economic growth and on institutions and historical context; for its critique of the “license Raj” and for questioning the relevance of Western economic models in Asian conditions.

But Myrdal was not without his critics. One chided him for failing to draw from his pessimism the obvious conclusion for India – that development would only take off if there was a political revolution and concentration of power in a “development oriented, fairly ruthless” political party that could mobilize the Indian masses (Byres, 1969).

Other reviewers argued that he was unduly pessimistic about the possibilities for exports and inward investment; not sufficiently aware of the great potential of the new high-yielding seeds for rice and other food-grains then being developed in the Philippines and in Mexico; and that he took too static a view of traditional society and, in particular, in the case of India, of caste. On all three points, these reviewers were, in due course, proved right (Nair 1968, Rosen 1969, Seertz 1969).<sup>1</sup>

It is also evident that he fudged on the crucial question of economic strategy and – notwithstanding his critique of administrative controls and his call for greater use of market mechanisms – on whether and how far Asian countries should liberalize and open up their economies.

Myrdal called his book *Asian Drama* because of the tensions he saw being played out in Asia between modern ideals and the traditional. But there was another drama too – the tension being played out, within the ‘modern project’, between the different economic strategies that were on offer. This article focuses on this particular drama in the context of India and Indonesia.

## Questions

Two questions must be addressed: First, why did Indonesia’s economy and Indonesian living standards grow so much more rapidly than India’s in the three decades from 1966 to 1996? And, secondly, if it was mainly due to the different economic strategies they adopted, why did they choose these different strategies?

The year of 1966 is suitable as a starting date, because that was when Indonesia first took off on a different economic trajectory from India’s. It also happened to be the year when Indira Gandhi and General Suharto became the leaders of their countries. As an end date, 1996 is also convenient because it was the last year of the reforming Narasimha Rao Government in India, and because it shortly precedes the Asian economic crisis – of which Indonesia became the worst victim – and the fall of General Suharto.

## Similarities

Some countries are so different that making comparisons between them is unproductive. That is not the case with these two countries, which had enough

in common in 1966 to make them worth looking at together. Both achieved political independence in the late 1940s. At that time, and for the subsequent two decades, their average living standards were very approximately at the same level – with well over half of their populations suffering from extreme poverty.

Their post-independence leaders, Nehru and Sukarno, were both nationalist and socialist in ideology. Against the odds, they were successful in establishing and integrating their respective nations. They were less successful in achieving economic growth. Although an improvement on the years of colonial rule, economic growth in both countries averaged only about 3–3.5 percent per annum in the period from independence to the mid-1960s – just enough for incomes to keep ahead of population growth.

In addition, both are large countries. In population terms, India has the second largest in the world; Indonesia, though less than a quarter of India's size, has the fourth largest. Their peoples are highly heterogeneous in terms of language, ethnicity, religion and regional loyalties. Size and heterogeneity make them difficult to govern.

## Differences

Yet, there are obviously differences that influenced the way in which the two countries have developed. Three of these are worth mentioning.

The first is that India adopted a federal system of government, whilst Indonesia adopted a unitary system. A unitary system enabled Indonesia to implement national programmes in sectors such as education, health and agriculture, which in India were largely the responsibility of the states. On the other hand, it probably made the problems of separatism for Indonesia worse, and it meant fewer potential checks on an over-weening national government.

A second difference was that, whilst initially both countries adopted a system of parliamentary democracy, in Indonesia, by the late 1950s, democracy had effectively collapsed. The 'Guided Democracy' that Sukarno then introduced was much stronger on the guidance than it was on the democracy. It spelt the beginning of autocratic rule. It also produced increasing economic and political chaos, which culminated in late 1965 in the slaughter of hundreds of thousands of Communists and alleged Communists, the fall of Sukarno and the *coup d'état* by General Suharto. Suharto's autocratic regime had a number of consequences for the process of development. On the positive side, he was able to harness the potential of the resource-rich outer provinces for the benefit of Java, where most of Indonesia's poor lived; and he was able to drive forward the various development programmes in a co-ordinated and energetic manner. On the negative side, autocratic rule provided a hot-bed for cronyism and corruption that eventually undermined the country's economic success.

In India, by contrast, parliamentary democracy became firmly entrenched

under Nehru's guidance – made easier by the fact that at national level the Congress Party ruled unchallenged, the Communist Party never became the force it did in Indonesia, and the military kept well out of politics. Apart from the two-year hiatus of Indira Gandhi's National Emergency in the mid-1970s, it stuck with democracy. Democracy in some respects made the process of development in India more difficult. But it made for stronger institutions and a vibrant civil society, which were more conducive to enterprise and initiative. Both have proved very important now that the Indian economy has finally been opened up.

A third difference is that Indonesia had large oil and natural gas reserves and became a significant oil and gas exporter. This was an important bonus. The extra income that the country obtained from oil and gas represented around one tenth of the overall growth in national income that it achieved over the three decades, and it provided a very helpful boost to the balance of payments and to tax revenues. It helped all the more because, unlike many oil producers, Indonesia managed the influx of oil revenues and its foreign exchange rate relatively well.

These three differences – system of government, type of political regime and natural resources – certainly made it easier for Indonesia to achieve rapid economic growth. But they were not the main reasons why it grew so much faster.

## **Different outcomes**

From 1966 to 1996, Indonesia achieved an average annual GDP growth rate of approximately seven percent. National income – how much Indonesians had to spend – grew even faster because of the rise in oil prices in the 1970s. Per capita incomes more than trebled.

Indonesia moved from being the largest rice importer in the world in the 1960s to self-sufficiency by the mid-1980s. Exports grew by leaps and bounds – not only primary products such as oil and gas, timber and rubber but also, starting in the late 1980s, manufactured goods too. The manufacturing sector's contribution to GDP rose from a miniscule nine percent in 1966 to over a quarter in 1996 – an extraordinary transformation by any standards – and, by 1996, manufactured exports in absolute terms had outstripped India's.

The proportion of Indonesia's population suffering from extreme poverty reduced spectacularly – from 60 percent in 1966 to 11 percent in 1996. The fertility rate fell and population growth slowed. Educational attainment improved dramatically. Life expectancy increased by about 20 years. The benefits of economic growth were quite evenly spread amongst different income groups, except in the later years when the better off in the cities benefited disproportionately (Booth 2000).

By contrast, in India, GDP growth remained stuck at about 3–3.5 percent until the early 1980s. The growth rate then began to accelerate, rising to

around six percent in the 1990s. However, over the 30-year period, per capita incomes no more than doubled.

India did become self-sufficient in food but at lower levels of food consumption than in Indonesia. Manufacturing industry at the start of the period was considerably more developed, but its contribution to GDP grew by only four percentage points and, by the end of the period, was eight percentage points below that of Indonesia. In other words, the transformation of India's economy was much less impressive.

The incidence of extreme poverty in India fell significantly but by only around half as much as it did in Indonesia. There was progress in education and health, life expectancy rose markedly and the population growth rate fell; but again, on each of these counts, India's performance lagged behind. Perhaps the most extreme difference was in female literacy: four-fifths of women in Indonesia were literate by the mid-1990s, compared with just two-fifths in India.

However, Indonesia's superior performance was marred by two important factors. First, it was associated with corrupt relationships which benefited Suharto, his army chiefs, his family and a select group of businessmen – principally Chinese. The country paid a price for this in terms of misuse of budget resources and higher costs. And the Government's credibility was fatally undermined when the Asian crisis hit in the late 1990s. Corruption became a serious problem in India too, but not on the same scale.

Secondly, in the area of human rights and the rule of law the Indonesian record was far inferior to that of India. Not that the Indian record was, by any means, perfect – especially during Indira Gandhi's National Emergency. But the Indonesian record was infinitely worse. After the 1965 pogrom, orchestrated by the military against the Communists, hundreds of thousands were imprisoned without trial and remained in gaol for many years. At least 50,000 civilians were killed when Indonesia invaded East Timor in 1975. And throughout the Suharto presidency there were extra-judicial killings by the police; there was repeated press censorship; and the courts failed to dispense justice in anything approaching a fair and transparent manner.

### **Divergent strategies**

The basic fact, though, remains: on most indicators of economic and social development over the three decades Indonesia far outstripped India. This can be explained principally by the different economic strategies the two countries pursued.

There were two broad economic strategies that developing countries outside the Communist bloc followed in the late twentieth century. One can be characterized as liberal economic, the other as statist-nationalist.

A liberal economic strategy means one where the state relies primarily, but not exclusively, on markets and on the private sector to generate growth; where exports and inward investment are encouraged; where the state intervenes selectively to correct market failures but sees its main role as providing public goods such as health, education, training and infrastructure, and a supportive macro-economic policy.

A statist-nationalist strategy means one where the state plays a much more interventionist role in allocating resources and organizing production; relies on markets and the private sector to a far lesser extent; stresses import substitution and self-reliance rather than export growth; and discourages inward investment.

These two descriptions, admittedly stylized, represent the two ends of a spectrum of policy approaches. In practice, countries were at various positions on the spectrum. Saying that India or Indonesia adopted a particular approach means that they were more at one end of the policy spectrum than the other. Indonesia pursued a liberal economic strategy for much of the 30-year period, whereas India mostly followed a statist-nationalist strategy. It was this difference in strategy that was the basic cause of Indonesia's greater economic success over the three decades.

Indonesia also had better policies and programmes in certain key sectors – in agriculture and in basic health and education. But neither these differences, nor its more favourable natural resources, were as important as its basic economic strategy in explaining the more impressive growth performance. There was not a great deal to choose between the two countries in terms of macro-economic management, which – by the standards of most countries – was rather good.

## **India**

From the 1960s to the mid-1980s, India had one of the most controlled economies in the world outside the Communist bloc. There were administrative controls on prices, on industrial investment, on bank lending and the capital markets, on imports and even on some exports. The state reserved for itself the ownership of many key industries; other industries were reserved for small-scale enterprises; domestic industry was heavily protected; competing imports were mostly banned; exports and inward investment were discriminated against. Large private businesses were prevented from expanding. The public sector provided plenty of jobs but placed a heavy burden on the rest of the economy.

In 1966, India was in the midst of two appalling harvests, the rest of the economy was in recession, foreign exchange reserves were down to a few weeks of imports, and the main supplier of food aid – the USA – was keeping

the country on a short tether. The Government was persuaded by the World Bank and other donors to devalue the rupee and introduce a number of other reforms that were designed to open up the economy and help industry and agriculture. Despite much political controversy, the economy responded quite well.

However, by 1969, the impetus for reform had stalled. India felt let down by the donors – which indeed it was – and the donors, in turn, were in a weaker position to press for continued reform. Indira Gandhi, who from the beginning of her premiership had been a reluctant reformer, effectively put the whole reform programme into reverse when she announced the nationalization of India's 14 largest banks and new restrictions on large firms and on foreign investors.<sup>2</sup>

In the 1970s, what in earlier decades had been described by one scholar as India's "quiet crisis" (Lewis 1962), was becoming rather less quiet. Apart from the problems caused by the whole apparatus of economic controls, there were the costs of the 1971 war with Pakistan, the accompanying refugee crisis, the cutting off of American aid, and then countrywide political and industrial unrest. Though the Government's powers were greatly enhanced during the 'Emergency', it failed to introduce further reforms of any significance. Slow growth and limited foreign aid through the 1970s meant that public spending on agriculture, education and health had to be held back. Economic planning, by which Indians had always set great store and which, in earlier decades, had been influential in the mobilization and direction of resources, seemed increasingly irrelevant because it was rooted in what was essentially a failed economic framework.

There were modest moves towards a more liberal economic regime in the early 1980s, more so after Rajiv Gandhi became Prime Minister. Growth did accelerate in the late 1980s and this was partly due to these liberalization measures but also to an over-expansive fiscal policy. This, along with large-scale overseas borrowing, reduced worker remittances and higher oil prices at the time of the first Gulf War, led, in 1991, to India's most serious balance of payments crisis since the mid-1960s (Joshi and Little 1994, Lewis 1995).

The newly elected Narasimha Rao Government, with Manmohan Singh as Finance Minister, responded to this crisis by embarking on an extensive programme of liberalization. Within a matter of months there was a decisive shift from statist-nationalism to a liberal economic strategy. By the time the Government had lost office in 1996 quantitative controls on imports had been scrapped; controls on inward investment had been eased greatly; controls on investment by the large industrial companies had been effectively abolished; and the previous reservation of industries for the public sector was reduced from 18 to three. The financial sector was liberalized and banking supervision was strengthened.

After 1996, reform slowed and so did the economy, but enough had been done in the 1991–1996 period to keep the economy on a higher growth trajectory. India at last had an economy in which markets and incentives were allowed to function properly, in which it was able to capitalize on its huge

reservoir of talent and entrepreneurship, and in which it was able to reap the benefits of international trade, technology and investment.

There remain important issues in 2004 that the new Congress-led Government will have to address if growth of five percent or more is to be sustained. These include power shortages, ending the reservation policy for small-scale enterprises (a policy that has hampered growth and done nothing for social justice), reforming the bankruptcy and labour laws, increasing infrastructure investment in rural areas and preventing private investment from being crowded out by excessive fiscal deficits. It is debatable how much progress the new Government will be able to make, depending as it does on support from the Left. On the other hand, it augurs well for continuing reform that the country has Manmohan Singh as its Prime Minister the man who, more than any other individual, was responsible for the reforms of the early 1990s (World Bank 2003).

## Indonesia

In 1966 the Indonesian economy was also in a terrible state, even worse than India's. There was no foreign exchange to buy desperately needed rice imports or to service the country's foreign debts. Inflation was running at 600 percent. The proximate causes were the *dirigiste* and xenophobic policies and unfunded budget deficits of the late Sukarno years, and the political chaos of the previous year that culminated in the anti-Communist massacres.

Within months of taking power, Suharto ushered in a sweeping programme of economic reforms. They were aimed at stabilizing prices, turning around the balance of payments, supporting agriculture and freeing and opening up the economy, and encouraging private businesses – unlike India, with no concerns about their size or origin. There was also a major programme to rehabilitate the country's crumbling infrastructure.

The reforms went deeper and further than India's in that same late 1960s period, and there was no early turning back. The turn-around in the economy was spectacular. Inflation was down to ten percent by 1969 and, between 1967 and 1973, the economy grew at an average eight percent per annum. The aid donors were generous with their support – more so in relative terms than in the case of India – and this certainly helped. But the main factor was the fiscal and monetary stabilization combined with all the measures to liberalize and open up the economy. It is hard to think of any stabilization and recovery programme in modern times that was so successful.

In 1974 the Government turned from what had been a basically liberal economic approach to a more statist-nationalist strategy. The opening-up of the economy had led to tensions which came to a head with serious anti-Chinese and anti-Japanese rioting in late 1973 and early 1974. The huge increase in oil revenues following the OPEC price hike gave the Government the resources to expand the public sector. The result was a clamp-down on inward investment; heavy investment in public sector enterprises; a reversion to



licensing of many imports; and increased protection for domestic industries generally. Despite this return to an inward-looking strategy, it was by no means a complete reversal of the earlier pro-market policies. Helped by the oil revenues, the economy still managed to expand rapidly through the 1970s, with GDP growing by over seven percent per year on average.

Many billions of oil revenue dollars were wasted on loss-making projects in the public, industrial sector. Yet the Government – unlike many developing country oil producers – also spent large amounts on productive development. There was massive spending on new primary schools and health clinics and on rural infrastructure. There was a highly successful family-planning programme, without the coercion that marred India's programme in the mid-1970s.

In 1982 economic expansion came to a halt and the balance of payments deteriorated sharply following the drop in oil prices. The Government responded with a new stabilization programme, which included putting a stop on many public sector projects and a return to a liberal economic strategy. Over the next few years there was further substantial deregulation, which included liberalization of the hitherto repressed financial system; and inward investment was once again sought and strongly encouraged. By the late 1980s the economy was expanding again fast, and this continued right up to 1996 (Hill 1996, Booth 1992).

During these late Suharto years the liberal economic approach continued. However, there were major problems building up, which seemed less obvious to observers at the time than they do in retrospect. Indeed, in 1993 the World Bank included Indonesia in its list of 'high performing Asian economies'. Some, however, were starting to seriously question the sustainability of its rapid growth. The deregulation of the financial sector was not accompanied by adequate supervisory arrangements and prudential rules. The number of banks mushroomed, as did the volume of bad loans. Crony dealing between Government, banks and businesses led to growing inefficiencies, and Indonesia acquired one of the worst reputations in the world for corruption. The nation's natural resources, forests as well as oil, were being depleted at an unsustainable rate. Businesses were unable to rely on the courts to protect property and enforce contracts. There was no plan for Suharto's succession, and corruption by the Suharto family became a rising source of political discontent.

When the Asian economic crisis started in Thailand in 1997, Indonesia was in an especially vulnerable position. This was partly because of the large stock of short-term external private debt that banks and businesses had built up and the absence of capital controls – a policy that had done very well in bolstering the confidence of investors in earlier years, but which now made it all too easy for them to take their money out of the country. Indonesia was also vulnerable because of the loss of confidence in Government and its ability to take ameliorative action – a loss of confidence which, in the event, proved fully justified.<sup>3</sup> The result was the collapse of the rupiah (by 80 percent) and of the economy (by 20 percent), a sharp rise in poverty and the fall of Suharto. It took five years for the economy to recover to its pre-crisis level.

Indonesia had grown spectacularly over three decades thanks mostly to

good policies – a liberal economic approach for much of the period, supported by rather good macroeconomic management, and heavy investment in infrastructure and in human capital. But the success story came to a sorry halt – albeit triggered by the currency crisis that spread from Thailand – and the crisis for Indonesia was made much worse by the failure to address the country's deeply entrenched problems of governance (Schwarz 1999, Thee 2003b).

Five years of democratic rule since 1999 and many of these governance problems still have not been properly dealt with. Economic growth appears to have recovered to a steady five or six percent, but getting back to a higher growth path than this is unlikely until the judiciary, corruption and other governance issues are addressed. This ought to be the highest priority for Indonesia's new president, Susilo Bambang Yudhoyono.

### **Choice of strategy**

Why did the two countries choose different strategies and why did the choice of strategy shift over time?

#### *Political regime*

It would seem hard to argue from international experience that authoritarian rule made Indonesia more likely to adopt a liberal economic strategy. There are plenty of authoritarian regimes in the developing world that adopted statist-nationalist strategies – Indonesia itself was statist-nationalist in the late 1970s. Equally, there seems no inherent reason why India, with its parliamentary democracy, should have been more likely to adopt a statist-nationalist approach.

What is indisputable is that authoritarian regimes, once they have chosen their policies, are more able to enforce them and are less likely to be blown off course. Suharto, on the whole, chose better policies than did Indira Gandhi. Having done so, although he was not immune to domestic pressures, he was able to implement them relatively easily. In that sense, it may be that the Indonesian economy performed better than it could have done under democratic rule. Conversely, the reforming Narasimha Rao Government in democratic India of the early 1990s had its work cut out getting some of its reform ideas accepted, and some had to be postponed.

Taking a longer view, the absence of democracy in Indonesia was not so helpful. Without a freely functioning electoral system and other checks and balances, Suharto was able to carry on in the 1990s with policies and actions that were jeopardizing the country's future.

#### *Leadership*

Suharto saw his legitimacy as leader closely linked to development success. He was shrewd enough to realize that, whilst his powers were, in theory, very

great indeed, his ability to stay in power required a measure of popular approval. Rapidly rising living standards provided this. He was a pragmatist who took a considerable interest in development issues and he made some good policy choices. He certainly feathered his own nest and that of his family and close associates. However, until his later years when the family became much more influential, high level corruption and cronyism were kept in bounds – at least sufficiently so as not to seriously undermine the development effort.

Indira Gandhi was also a pragmatist, but her approach to economic policy making had more to do with what would play well with her supporters in the Congress Party rather than with what would actually work in Indian conditions. As the head of her secretariat later wrote, “the sad fact is that she did not have an outline of a socio-economic framework for the realization of which her power could be used” (Dhar 2000). Unlike Suharto, she did not appear to see her political legitimacy as dependent on successful economic development. If she did, she was not able or willing to consider the defects in the statist-nationalist approach that were holding India back. Prime Minister Narasimha Rao, in the early 1990s, was different. He understood there was a need for change, was prepared to take the political risks and accepted the advice of his economic team as to what needed to be done.

#### *Internal and external pressures*

As for internal pressures, in India they help to explain why it took so long for the strategy to change. There were elements in the Congress Party that remained deeply attached to state-planning, self-reliance and a dominant public sector. The high levels of protection meant that many employers and employees had a powerful interest in the *status quo*. The politicians and the bureaucracy had an interest in maintaining the control system – insofar as it gave them power and created opportunities for corruption. By the late 1980s the balance had shifted. There was a growing awareness in the business community and amongst some politicians and bureaucrats that the inward-looking strategy had failed and that India would be left further behind if it continued. This shift undoubtedly made it easier for the reforms of the 1990s to be introduced.

In Indonesia, Suharto was more or less able to embark on whatever strategy he chose as long as he could carry his army colleagues with him. The Communists, the main supporters of Sukarno’s *dirigiste* and protectionist policies, had been destroyed; and the main political Party, Golkar, was created by Suharto to act as a front for Government. The trade unions had their power emasculated. The business community was glad to see Sukarno go and was not in a position to challenge the new regime – even though it might be hurt by the opening up of the economy. In addition, in any case, Suharto co-opted many of the more powerful amongst them by offering them preferential deals. There were pressures that favoured a more statist-nationalist approach. He was

certainly influenced by the anti-Chinese and anti-Japanese riots of 1973 and 1974. There was a group known as the 'technologists', of whom B. J. Habibie (Suharto's short-term successor as President) was the most prominent member, who pressed for high technology and often very wasteful investments in the public sector. There were army colleagues and family members who preferred greater state intervention because it increased the opportunities for corruption. These pressures were important but they never became wholly dominant.

As for external pressures, these certainly existed for both India and Indonesia at times when either country experienced serious balance of payments difficulties. Donors and creditors put a great deal of pressure on India in 1966 and in 1991 to bring in reform measures; the same was true of Indonesia in 1966 and in 1982. At these points of crisis when they really needed donor support, the two countries adopted policies of which the donors generally approved. However, these policies were only sustained when and if there was a genuine internal commitment to them. This was not the situation in India when it sought help in 1966, but it was in Indonesia in 1966 and in 1982. There was internal commitment to reform in India, however, when it sought help in 1991.

#### *Influence of ideas and ideology*

In India, to a large extent, the statist-nationalist philosophy reflected mainstream thinking amongst Indian economists in the 1960s, as it did amongst development economists in many countries – especially in Latin America. It also coincided with India's early post-independence interest in Soviet planning models and with socialist thinking in the Congress Party. By the late-1960s a minority of Indian economists – such as Jagdish Bhagwati and T. N. Srinivasan – were seriously questioning the control-based, protectionist strategy. But theirs did not become a mainstream view until much later, when more evidence became available that India was 'missing out' and that similar strategies were failing in other developing countries. Outside India, disillusionment with India's strategy started earlier. By the mid-1960s, economists such as Ian Little and J. P. Lewis and those that made up the famous World Bank Mission led by Bernard Bell in 1964 were arguing strongly for a more liberal economic approach. Over time their views were to have an effect, but they were not taken up with any alacrity.

In Indonesia, Suharto promoted five guiding principles (*Pancasila*) as a unifying national ideology. But these principles – belief in God, national unity, humanitarianism, people's sovereignty and social justice – did not point to any particular approach to economic policy.<sup>4</sup> From a political and philosophical viewpoint, he was much more open to a liberal economic strategy than was Indira Gandhi. The liberal economic approach was championed by the 'technocrats', a remarkable group of economists whom Suharto chose to use as his principal advisers for much of his Presidency.<sup>5</sup> The key members of the

group were known as the 'Berkeley mafia', because they had been trained at Berkeley in the 1950s. They included most notably Widjojo Nitisastro and Ali Whardhana, the latter for many years Suharto's Finance Minister. It was this group who advised on the crucial reform measures of the late 1960s and who were again very influential in the 1980s. Their influence faded in the 1990s as the Suharto family and his other crony associates, and Habibie and the 'technologs', became more powerful (Thee 2003a).

### *Influence of Asian Drama*

How much influence did Myrdal's *Asian Drama* have in the two countries? In Indonesia, probably rather little – partly because the book was so heavily focused on India and partly because his despair at the "softness" of the Asian state must have seemed immediately and rather shockingly outdated in the light of the authoritarian regime initiated by Suharto.

In India, *Asian Drama* was probably read more widely. Its critique of India's slow progress must have struck many a chord. Yet, its influence was not all that significant – for two reasons. First, for all its length it was short on practical policy suggestions; and, secondly, it was published at a time when Indian policy-makers were not in a frame of mind to listen much to outsiders.

## **Conclusions**

Both India and Indonesia experienced plenty of drama over the three decades from the mid-1960s, and not a little tragedy. For India the tragedy was that, if better policies had been pursued earlier, it could have had faster growth and faster reduction in poverty. Yet, India appears now to have cracked the nut of how to combine rapid growth while maintaining its basic democratic system. This is a truly extraordinary achievement.

For Indonesia, the tragedy is that it did so well for so long in terms of economic development, but then – having paid a considerable price over the years in terms of political freedom and human rights – threw away the opportunity for continued rapid growth through the political failures of the late Suharto presidency. In 2004, it still remains to be seen whether the institutional reforms necessary to reinvigorate the economy and restore faith in its hard won democracy can be put in place. This particular drama still has to be played out.

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## NOTES

1. The critique of Myrdal's views on India's traditional structures by the anthropologist, Clifford Geertz (1969) was especially perceptive. By the end of the century in urban India, and in many rural areas too, caste had to a considerable extent lost its baneful influence on an individual's employment and life chances. Moreover, caste affiliation was increasingly being used by lower caste groups as a vehicle for political mobilization – often in ways that secured an increased share in public resources and employment opportunities.
2. Nationalization of the banks was not all negative. As intended, the number of bank branches soared over the following two decades, as did deposits and bank lending as a percent of GDP, and lending to various hitherto neglected sectors expanded. The bad side was that the efficiency and profitability of the banking system sank, bad debts rose dramatically, and genuine entrepreneurs had a hard time securing loans.
3. India largely escaped the effects of the Asian economic crisis because it had maintained capital controls and had kept its short-term debt at a relatively low level, not because its 'economic fundamentals' were in significantly better shape than in the South East Asian countries. See Joshi (2003) for an excellent analysis of this question.
4. The *Pancasila* were resurrected by Suharto from independent Indonesia's first constitution.
5. They were supported by World Bank and other outside economists – among them, the same Bernard Bell of the Bell Mission to India who, in the late 1960s, became the influential head of the World Bank resident mission to Indonesia.

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