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Item Type	Thesis
Authors	Umar, Syahreza Ihsan
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الجامعة الإسلامية العالمية ماليزيا
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA
يُؤْتِيهِمُ اللَّهُ مِنْ فَضْلِهِ يُشْرِكُ

ECONOMIC DEVELOPMENT MANAGEMENT
IN INDONESIA DURING NEW ORDER : AN
ISLAMIC PERSPECTIVE

SYAHREZA IHSAN UMAR

A PROJECT PAPER SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE
DEGREE OF MASTER OF MANAGEMENT

MANAGEMENT CENTER
INTERNATIONAL ISLAMIC UNIVERSITY
MALAYSIA

APRIL 2000

ABSTRACT

Muslims today are striving to rediscover the true meaning of Islam and to find the ways of translating Islamic principles into socio-economic realities. From the Islamic perspective, economic development is the core by itself. This is evident from the dual emphases of both the qualitative and quantitative aspects of development. In the case of Indonesia the New Order government designed and strategize the development on the basis of the state ideology-*Pancasila*. Indeed, *Pancasila* contains prominent values which not only accommodate moral but also divine aspects. In this paper we examined the *Pancasila*-based economic development strategy from an Islamic perspective. Such a study is a necessity for academicians, especially economists to write and discuss. In this study , it is found that, even though *Pancasila* said to accommodate both material and spiritual as Islamic perspective claims, but there is a significant differences in the conceptual as well as its applications.

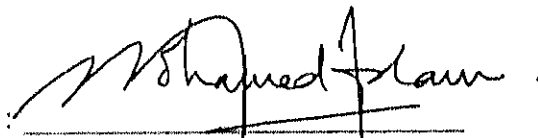
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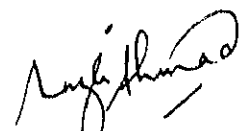
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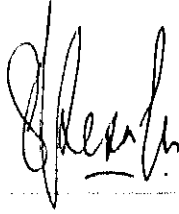
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DECLARATION

I hereby declare that this project paper is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by reference notes.



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Name : SYAHREZA HISAN UMAR

Dedicated to
All Those Who Strive for Establishing Islam
At All Levels of Life for Human Welfare

ACKNOWLEDGEMENTS

First of all I would like to thank God. Secondly, my greatest appreciation to my parents who always give me an endless support in searching of useful knowledge and for their understanding in making my graduation possible. I am a most indebted to my supervisor Dr. Mohamed Aslam Mohamed Haneef for his invaluable guidance and advice in the preparation and completion of this paper.

Last but not least, to all my colleagues, especially to Khairul Fuad, who provided me with a lot of assistance, encouragement, and moral support during completion of this program.

Syukur Al-hamdulillah

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Contemporary Islamic resurgence is not a transient political articulation of militant Islam, on the contrary, it heralds the Muslim's positive and creative response to the ideological challenge of Western domination of the economic development of thought, which is based on man's total independence of any framework of divine guidance.

Muslims today are striving to rediscover the true meaning of Islam and to find the ways and means of translating Islamic principles into socio-economic realities. Development economics from the Islamic perspective is more than just a branch of the Islamic economics discipline. It is the core itself. This is evident from the dual emphases of both the qualitative and quantitative aspects of development. Indeed, any neglect of the qualitative aspects is an invitation to an unbalanced study of what is a crucial element in a society's pursuit of a more dignified and meaningful life.

Throughout the development of this work, the writer has attempted to address the issue and, in the spirit of constructive academic development, presents what could enlighten an Islamic perspective study. Such a study is a necessity and as there has

been a growing interest among academicians, especially economists to write and discuss economics from an Islamic perspective. In this study, the writer attempts to focus on Indonesia, as the subject of analysis, the most populous Muslim country in the world.

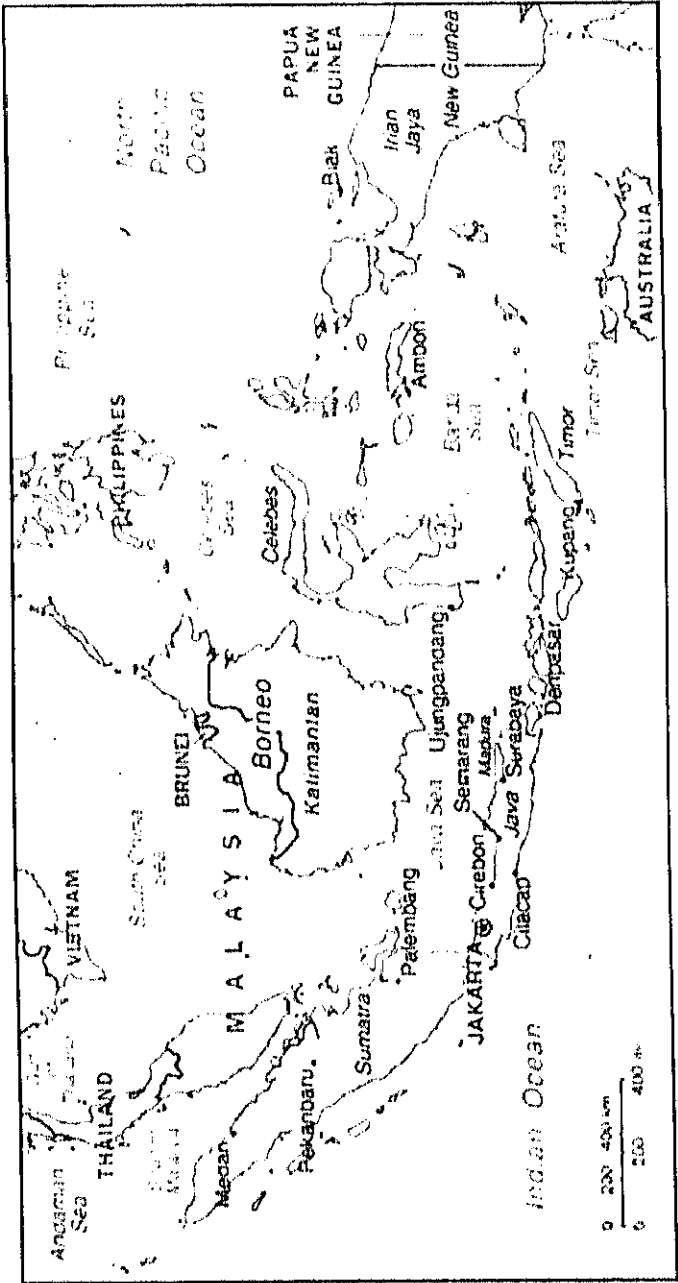
Indonesia is the world's fourth most populous country after China, India and the USA. It lies between the Indian ocean in the west and the Pacific ocean in the east (see the map on page 3). It is also known as the largest archipelago country in the world, consisting of almost all the islands between Asia and Australia - between 13,500 and 17,500 of them. The total land area is about three times the size of Texas, but the total area (about 5 million sq. km) is more than one half of the total area of the United States. From west to east, Indonesia stretches to one eighth of the earth's circumference, more than the distance from Seattle to Miami. Indonesia is rich in natural resources such as oil, natural gas, coal, tin, nickel, copper and gold.

The average annual rate of growth was over 7 per cent per annum from 1968 to 1981. This growth rate was quite stable and only dropped below 6 per cent in one year out of the fourteen. Indonesia's economic performance in the decade of the 1980s, in contrast was considerably less robust. Between 1981 and 1988, the average annual rate of growth of GDP slowed to 4.3 per cent per annum.¹ The annual growth average between 1989 and 1993 was 8.3% with its Gross Domestic Product (GDP) average US\$ 190.3 billion in 1995.

¹ Data sourced from BPS (Biro Pusat Statistic- Central Bureau of Statistics), 1989

During Soeharto's leadership which began in 1967, the so-called New Order government succeeded in transforming Indonesia into a well respected and recognized country in ASIA with one of the highest GDP growths in the world, together with other Asian countries.

Map of Indonesia



The Soeharto government took immediate corrective steps to accelerate economic growth. To realize its objectives, i.e. a return to the 1945 Constitution and *Pancasila*² with pure and consistent implementation, the new government took *Pancasila* as the sole ideology of the state. *Pancasila* was considered as a legal source and this was considered sufficient to ensure the national stability for the smooth running of economic development. In regard to economic policy, New Order administration propounded the economic system of *Pancasila* or economic system of Indonesia as a blueprint for national economic development.

The New Order guaranteed religious life by the law and constitution of the state, and Islamic matters were managed by the government through the Department of Religion.³ Hence, the development effort was a challenge to the sense of responsibility of the Indonesian Muslim community as the majority religious group.⁴ Therefore, Indonesian Muslims was urged to work towards “a just and prosperous society based on *Pancasila* and blessed by Allah.”⁵

Nasution who was the Chairman of the People’s Consultative Assembly argued that the autonomous development of Islamic society within the framework of the government’s program was appropriate and conducive to national success since both aimed at “mental development, democratic development, and social welfare

² The word *Pancasila* is taken from Sanskrit and literally means five principles.

³ This statement is quoted from the Secretary of State’s speech i.e. Major General Alamsyah in the opening ceremony of *Seminar Pembangunan Masyarakat Islam Dalam Rangka Milad* The Foundation for the Collection Funds to Aid Candidates for Pilgrimage in Malang in July 1968.

⁴ *Ibid.*, p.25

⁵ *Ibid.*, p.25

development.”⁶ The aim of Indonesian Muslims to practice the tenets of their religion was, in his view, in conformity with *Pancasila*.

1.2 Statement of the Problem

The strategy of Indonesia’s economic development was designed on the basis of the state ideology of *Pancasila*. *Pancasila* itself is a state ideology, which had been adopted since Indonesia’s independence in 1945. Indeed, *Pancasila* contains prominent values, which not only accommodate moral but also divine aspects. Those values are *The Oneness of God, Just and Civilized Humanity, Nationalism, Democracy, and Social Justice*. By and large, the economic policy of development, particularly that of economic growth which was the ideal of the New Order, was expected to incorporate *Pancasila* values. Nevertheless, the New Order guaranteed the significant values derived from religion in the process of its development.

In the light of the preceding discussion, the objectives of this study are specifically formulated to answer the following questions:

- What is the Islamic perspective in assessing *Pancasila* on the matter of Economic development?
- What are the similarities and differences between the strategy of economic development of Indonesia under the New Order administration and that of economic development from an Islamic perspective?

⁶ *Ibid*, p.30

- What is the Islamic perspective on the bases of economic policy i.e. vicegerency and ownership found in Indonesia's economic development during the New Order era?

1.3 The Importance of the Study

The importance of this study is threefold:

First, an assessment of Indonesian development strategy will reveal the differences, problems and shortcomings of the work and will further enlighten subsequent attempts as to which future directions to take.

Second, this kind of study will rejuvenate the discourse which seems to be stagnant at present in Indonesia and seems to be going nowhere. The result of this study will hopefully provide a better understanding of the problems and offer prospects for the development of the Islamic study.

Thirdly, this comparative study could provide a new paradigm for managing economic development 'Islamically' which is a viable alternative development strategy, fulfilling the Islamic criteria. Hopefully, this work will enlighten the reader both in terms of the theoretical and practical issues of development strategy.

1.4 Methodology: Sources and Limitations

The methodology followed in this study is, by and large, analytical, critical and comparative. It attempts to identify the differences of the approaches, and strategies of economic development. This study is essentially expository and exploratory, it bring out facts and ideas embodied in *Pancasila* and the perspective of Islam. Furthermore, a discourse is attempted in response to the *Pancasila* economic system, the study will reveal the comparative perceptions of the study.

Since our study involves the analysis of concepts and issues from an Islamic perspective, the methodology adopted must necessarily be representative of Islamic scholarship. The sources of Islamic economic thought and policy are *Qur'an* and *Sunnah*, and the works of Islamic economists and scholars such as Umer Chapra, Mannan, Akram Khan, Abul Hasan, Aslam Haneef, and Siddiqi.

The sources for economic development policy in Indonesia are the 1945 Constitution, and the GBHN (*Garis-garis Besar Haluan Negara* - Broad Outline of National Policy) of 1983 - 1993. The writer also seeks to explore the views of Indonesian economists like Dawam Rahardjo, Mubyarto, Boediono, Marie Pangestu, Kwik Kian Gie, Perwataatmadja, Sjahrir and Radius Prawiro. In doing so, this study mainly relies on Indonesian language sources on the Indonesian economic experience during *Soeharto's* era. In addition, this will include the articles printed in this language to date. However, the writer is also aware that the works of Hall Hill and Anne Booth in English have also contributed to the study of Indonesian economic development.

Furthermore, the writer also refers to some Indonesian published journals i.e. *Bisnis & Ekonomi Politik Quarterly Review of the Indonesian Economy* published by the Institute for Development of Economics and Finance (INDEF) and *The Indonesian Quarterly* published by the Centre for Strategic and International Studies (CSIS).

This study is limited in scope. It is a comparative study of Islamic doctrines and ideology based on the Indonesian approach. The issues discussed here include the comparison of the Islamic worldview and national ideology, the strategy of economic development, and economic policy and thought. Undoubtedly, there is still much to be done, both on in terms of the theoretical aspects and practical implementations. This necessity becomes more acute in the face of rising challenges and queries from both Muslims and non-Muslims, who are now becoming increasingly more aware of the true nature of Islam

1.5 Plan of the Study

This work is divided into four parts and consists of five chapters. The first part of the study deals with the general framework and methodology adopted for this work. Chapter one introduces the problem and addresses its importance from a contemporary standpoint.

The second part deals with the concepts, issues and approaches of the *Pancasila* economic system and development. In chapter two we are going to discuss the efforts made and steps taken in Indonesia's development under the New Order

government in the spirit of implementing development based on *Pancasila* and the 1945 Constitution, as the New Order regime promoted *Pancasila* as the state ideology from which Indonesia's economic system, known as the Economic System of *Pancasila*/Indonesia, was derived. Chapter three describes the policies adopted by New Order regime to spark economic growth. We will see how the approach was adopted by the government with due consideration of economic realities focused on the available strengths and opportunities. Apart from that, this chapter discusses the conception of economic development, which was formulated in the GBHN in which the planned steps and programs of development were outlined.

We will develop a framework for economic development from the Islamic perspective in the third part. In chapter four we will see the basic conceptual aspects of development from the Islamic perspective and we also will elaborate on the closely related goals of development with this study. In this part also, we will discuss the Islamic perspective on economic policies i.e. vicegerency and ownership.

Finally, in the last part i.e. chapter 5, we attempt to consider the process of development during the New Order period theoretically and in terms of its implementation viewed from the Islamic perspective. Undoubtedly, this attempt is not an easy one since it seeks to compare the concepts derived from an ideology with theological norms on the one hand and a state ideology on the other.

CHAPTER TWO

THE PANCASILA ECONOMIC SYSTEM, ISLAM, AND DEVELOPMENT

2.1 Introduction

Indonesia, the most populous Muslim country in the world, experienced very rapid economic development under Soeharto's government. The country registered among the highest economic growth rates in the world along with certain other developing countries. Economic development is an important and interesting issue to discuss, especially with respect to a developing country like Indonesia, one of the Asian Economic Dragons of the eighties and nineties. Indonesia's New Order government built its own development strategy on the foundation of its ideology-*Pancasila*. Meanwhile, it is also important to consider the role played by Muslims, who form the majority of the population in Indonesia, in the process of development.

We divided this chapter into two parts. In the first part, we would like to arrive at a definition of *Pancasila*, its economic system, and also the objectives of development based on *Pancasila*. Secondly, our aim is to discover the influence political power has had on policy making in the process of development based on *Pancasila*. We would also like to elaborate on the relationship between Muslims and the government during the 32 years of rule.

2.2 Economic Growth and Pancasila Economic System

2.2.1 Definition of Economic Growth

Kenneth Boulding suggests that economic growth means the rate of economic progress in an economic system¹. While Gerald M. Meier and R.E. Baldwin define it as "a process where a country's GNP growth increases in a relatively long period"⁸. Kindleberger refers to growth as the increase of the national product or the increase in efficiency of production measured with the input and development as change that occurs and the institution of production, distribution in the composition of the result of national production as well as allocation of input factors in every sector and changes in the functional capability of a society⁹.

Economic growth can be defined as:

1. All efforts and activities which are geared to manage, influence or directly determine the course of economic activities in a particular country (Herbert Giersch, 1968).
2. Principles that serve as foundation for the activities directed toward the achievement of particular goals (K.E. Boulding, 1958).

¹ Kenneth E. Boulding, *Principles of Economic Policy*, (Stencil, Published by Gajah Mada Publisher Foundation Body, 1962) page 15.

⁸ Read Robert E. Baldwin, *Economic Development and Growth* (Wiley Eastern Private Limited, Publishers, New Delhi, 1971), page 1-2. Also Gerald M. Meier and Robert E. Baldwin, *Economic Development*, as translated into Indonesian language by Drs. Paul Sihotang, *Pembangunan Ekonomi*, first edition (Bhratara, Jakarta, 1972), page 6-16.

⁹ Read the difference of understanding given by Charles Kindleberger in His book *Economic Development*, first edition (The Mc Graw-Hill Book Company Inc., 1958) and the 3rd edition written with Bruce Heric (Third Edition, Mc Graw-Hill, Koga Kusha Ltd., Tokyo, 1976).

3. Government planned actions which are designated for achievement of particular goals in a prescribed time (M.M. Snodgrass and L.T. Wallace, 1977).

From the definitions above, we can conclude that, in essence, economic policy consists of a decision maker, an object, objectives, time, and a territory (country). The government is an actor or subject in economic policy as well as being the maker in other governmental functions¹⁰. Besides, government also makes the policies of economic development and planning¹¹.

Economic growth, according to the current literature on development, consists of a series of economic activities causing an increase in the productivity of the economy as a whole and of the average worker, and also an increase in the ratio of earners to the total population. It is seen as a dynamic process involving structural changes which produce a significant and sustained improvement in the performance of the economy, actual as well as potential, measured usually in real per capita terms and which is spread over a fairly long period of time. Its substance lies in enabling people to meaningfully control their economic environment so as to improve their quality of life.

¹⁰ See Drs. Soetrisno P.H., *Dasar-dasar Ilmu Keuangan Negara*, BPFE, Gadjah Mada University, 1981, specifically chapter XI and XII.

¹¹ Economic planing sometimes is also seen as an instrument of economic policy.

2.2.2 Economic Development In Indonesia

The term development began to gain currency in Indonesia in the 1970s¹². In the 1960s Bung Karno, Indonesia's founding father, asserted that Indonesia should not only focus only on economic development but also on development in political and cultural spheres. Since 1966, and more importantly in the early 1970s, up to now, Indonesia has been moving towards "the socio-economic building" phase, where community as well as government activities have been oriented towards socio-economic development¹³. This brief note is chiefly meant to show that the term development was widely discussed after the government launched a long-term development program in 1966 as formulated in TAP (People's Consultative Assembly's decision) No.XXII 1966 and Policy on 3 October 1966¹⁴.

Economists such as Dudley Seers (1968), Gerald M. Meier (1970), Bjørn Hettne (1978) and Robert A. Flammang (1979) have addressed and questioned the prevailing conception of development in consideration of the emerging new social realities where Indonesia among others is the case in point¹⁵. The term development or economic development in particular abounds in the literature of the very broad based

¹² It does not mean that the word development was not known for prior to that decade, but the connotation might have been different. During 1960's people were more familiar with the term 'revolution' than the term development.

¹³ The idea of developing Indonesia gradually since 1945 is put forward by Dr. Ruslan Abdulgani on *The Principles of Thought on National Development Symposium* on 5, 12, 19, and 26 August 1977 organized by the National Defense and Security Council in cooperation with the Center of Studies for Sociology.

¹⁴ TAP MPRS No. XXIII/MPRS/1966 is the initial concept and principle from "development ideology" since 1966. Policy on 3 October 1966 is an economic policy to start a planned development. Liberalization of economic policy since then has the characteristics of development ideology.

¹⁵ See Dudley Seers. "The Meaning of Development" (*International Development Review* Vol. XI No4. 1969); Gerald M. Meier, *Leading Issues in Economic Development* (Oxford University Press, 1975), specifically The Meaning of Economic Development, pages 5-9; also read Robert A. Flammang "Economic Growth and Economic Development Counterparts or Competitors?" (*Economic Development and Cultural Change*, Chicago University Press, 1979).

economics discipline. Both terms have often been employed interchangeably with no clear-cut distinction made with the terms growth or economic growth¹⁶.

2.2.3 Pancasila Is A Choice of The New Order Government

Pancasila is the national ideology of Indonesia that was developed during the days of independence in 1945. It is embodied in the preamble of the 1945 Constitution, the highest rank in Indonesia's constitution. *Pancasila*, which literally means five principles comprises the following;

1. The Oneness of God
2. Just and civilized humanity
3. The unity of Indonesia
4. Democracy and nationalism, and
5. Social justice for all Indonesians.

These principles are interrelated and shall be seen as one entity that cannot be separated.

Soeharto's government (1965-1997) was the result of national leadership being transferred from Indonesia's first President Ir. Soekarno to Let. Gen Soeharto and was conceptualized as an era of total and comprehensive reform and 'correction' of the Old Order system (Home Affairs Department, 1973). Gradually, the New Order generated planned changes in socio-economic and political spheres based only on *Pancasila* ideology, the 1945 Constitution and the GBHN 1983.

¹⁶ Robert A. Flammang, op.cit. page. 48

Furthermore, as a strategy and blue print for development planned, formulated and implemented with *Pancasila* ideology as guide, the New Order set such priorities as national stability, political stability, national responsibility and national security (Moertopo, 1981). By and large, the thrust of political will to achieve and implement the fundamental concept of social and economic development was focused on the elimination of ideological differences and the enhancement of loyalty towards *Pancasila* (Moertopo, 1981). *Pancasila*, was identified by the New Order as the sole source of all laws.

2.2.4 Economic Development Based on The Indonesian Economic System

Indonesia has its own economic system used to achieve economic goals. The terms Indonesian Economic System and *Pancasila* Economic System are interchangeably employed as they refer to the same phenomenon. The *Pancasila* economic system refers to all existing resources used to achieve a prescribed goal. Ideally, the stated objective is to develop the full potential of Indonesians and to create a just and prosperous society both spiritually and materially under the guidance of *Pancasila*.