

# PROCESS OF DEVELOPMENT AND INDUSTRIALIZATION IN INDONESIA AND ITS COMPARISON TO CHINA AND INDIA<sup>1</sup>

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## OVERVIEW

This thesis is about development economics with its main objective to analyze the process of industrialization in Indonesia and its comparison to China and India from the Period of 1995 to the one of 2005. The intuition behind this research is that even though the process of industrialization in Indonesia has been influenced by the long process of political economy regime changes, the industrial-structural changes and development in Indonesia have not changed significantly, especially compared to China and India that have experienced similar development strategy.

## METHODS

This paper wants to explain the process of industrialization in Indonesia by using input-output approach extended by J.B. Albala and Atkins for the analysis of connectivity. The reason is that up until present, even though it is very useful and powerful, the explanation of neo-classical approach has some limitations and failed to bring Indonesia to become an industrialized country as it was predicted before therefore economic literature provided other explanations that is rarely adopted.

## RESULTS

Structural decomposition analysis consists two periods those are the period of 2005 – 2000 named after crises period, the one of 2000 – 1995 named crises period, and the one of 2005 – 1995 named long period. In the first period, China's economic growth was at 69.57% contributed mainly by secondary industry, while India's was the highest amongst the three countries at 144.66% contributed mainly by secondary industry, and Indonesia's was the lowest at 1.50% contributed mainly by secondary industry, but two other industries were still negative. The growths were mainly contributed by Domestic Demand Expansion at 73.15%, 87.25%, and 10.30%. In the period of 2000-1995, China's and India's economy were less affected by the crises than Indonesia indicated by China's economic growth that was the highest at 185.05%, followed first by India's at 154.87%; then Indonesia's at -87.16%. It is recognizable that secondary industry was the main cause of China's and India's growth, while all three industries were negative for Indonesia. Furthermore, Domestic Demand was the main cause of growth of China and India at 136.53% and 64.19%, respectively. As it can be observed, the direction of growth in China and India were dominated by secondary industry, while in Indonesia was dominated by tertiary industry for all periods.

Connectivity analysis demonstrates that the strongest sector for forward and backward linkage in China were secondary and tertiary industry such as Chemical and Its Products; Research and Development; and Basic Metals Sector. The situation was different for India where secondary industry dominated forward and backward linkage, especially Basic Metal Sector. The situation was also different for Indonesia where primary industry still dominated forward and backward linkage for example, Mining and Quarrying Sector. As it can be observed, the structure of China's connectivity in the period of 2005 changed moderately from the one of 2000 and 1995, In the last period, the structure was not all connected, but the connectivity was achieved in the next two periods consisted primary,

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secondary and tertiary industry. As for India and Indonesia, the connectivity was relatively very small and not achieved.

## **CONCLUSIONS**

In order to experience structural changes, development and industrialization plan and strategy should be prepared contains long-term perspective. Globalization is difficult to be refused and escaped but national orientation must be a priority of development plan such as developed by China, India, and others developed countries. Besides, Indonesia's experience proved that industrialization impact of mainstream policy was weak compared to China and India.

## **REFERENCES**

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