
De-industrialization, Re-industrialization and the Resurgence of State Capitalism: The Case of Indonesia

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Abstract

This paper argues that the slowdown in productivity-enhancing structural transformation is an important contributor to the recent spread of state capitalism in the developing world. Literature on state capitalism has largely focused on rapid economic growth and the commodities boom, both of which have provided financial resources to expanding state entities. There has also been significant interest in governments' goals behind deploying state entities from a viewpoint of international political economy. In contrast, insufficient attention has been afforded to the link between recent state capitalism and emerging economies' national development political economy. This paper demonstrates that issues related to premature de-industrialization have led middle-income countries to expand the role of and financing for state entities in national development strategies. The paper discusses (i) the problem of contemporary structural transformation in the developing world for late development; (ii) the rationale for state capitalism in terms of dealing with coordination problems in the industrialization process; (iii) the empirical pattern of state capitalism since the global economic crash using a range of sources; and (iv) takes the case of Indonesia to argue that state entities in various forms such as fully/partially state-owned enterprises, sectoral holding companies, and development banks, have become major tools for governments aiming to directly and indirectly stimulate structural transformation and achieve 're-industrialization'.

Keywords: industrialization, premature deindustrialization, state capitalism, structural transformation

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