

Political economy of resources and its development: The case of Indonesia

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Abstract

In principle, it is difficult to prove the causal between the more democratic political system and the more efficient government. It is, however, the linkage between the efficient government and the proper economic growth can be accepted. Political economy of resources and its various aspects is required such as one instrument to accelerate achievement of the community welfare and the nation life sustainability. Actually, it is understood that there is a firm linkage between economy and political decision in particular in the era of globalization. The aim of this study is to clarify the real meaning of political economy of resources and its development and progress in general and in the special case of Indonesia, where historically, there was a transformation process from industrial revolution towards capitalist revolution and managerial one. Resources may include economic resources as well as politics, market, management, information and environmental ones. Economic resources may cover such as capital, labor or human and natural resources, information, and technology and the other certain kinds. The transformation process in the production function into output in terms of goods and services needs national management system, so that the output could be able to meet the sustainable national interest as well as the welfare of the people optimally. In the framework of the Indonesia political economy mindset, there are several dynamics towards future development and progress of the significant involvement of Indonesia in the present era of globalization, and it is expected stronger in the future. The example results of political economy development of Japan, China, India, Korea and Indonesia could be seen that based on the Asia culture.

Keywords

Economy, Politics, Resources, Nation Life Sustainability, People Welfare

1. Introduction

Economics is a social science that analyzes the utilization and allocation of available resources among competing uses (Encyclopedia Americana, 1978). Economics is the science treating of the production, distribution, and consumption of wealth or the material welfare of mankind; political economy; economic questions, affairs or aspects (the World Dictionary, 1978). Politics is the process of making government policy.

Political economy is the social science of the interrelations of economic processes and political and social organization. Resources are various economic input

factors in the production function to result products in terms of goods and services to meet the humankind living needs. In this case, resources may include natural resources, both renewable as well non-renewable, and other resources such as capital, human, environment, information, technology and the other certain kinds.

In principle, political economy of resources constitutes interaction between processes of economy, social institution, and political one to aim a sustainability of nation life and community wealth (Figure 1). Economic process constitutes transformation process of various resources or economic input factors to produce goods and services to meet the demand of human live (Soelistijo, 2011). Social

institution constitutes various social-economic institutions as the player of socio-economic process. Political institution constitutes various political institutions or matters pertaining to the state that play as a regulator. Community welfare and sustainability of nation live is a fact of people resilience to face their future based on the identity and high competent and competitive self-reliance (Nopirin, 1990; Ellsworth, 1997).

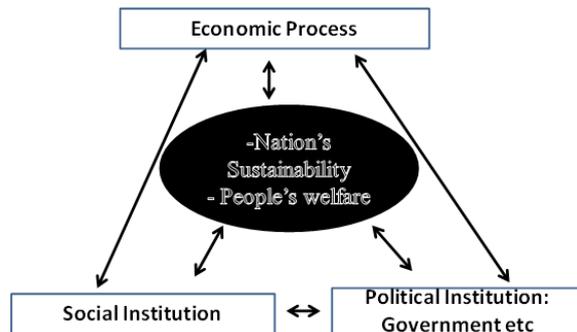


Figure 1. General Mindset of Political Economy

2. Theory and Methodology

2.1. Theory of Formulation of Political Economy of Resources

In the formulation of macroeconomic input-output relationship in the expenditure side, output (goods and services) is the function of investment, consumption (government and community), exports and imports, as shown on Figure 2 (Branson, 1979, Soelistijo, 2012). The products of goods and services are directed to meet supply and demand in market, locally, nationally, regionally as well as globally. Then the every economic input constitutes as the function of political resources. The economic input-output relationship in the income side, the output is resulted from the economic process based on the environmental outlook constitutes function of every economic input factors such as capital, labor, natural resources, information, market, management and technology, including political resource input factors (Damanduri, 2010; Kuntjoro, 2013). Political resource is the very important factor in the hierarchical strata position consisted of political-super-structure (the state institutions), political-infrastructure (political partys) and political-substructure (the people) in the national management system to achieve the national goal appropriately. (Soelistijo, 2013).

The existence of relationship between economy and the decision of political action can be seen on Table 1. Briefly, the related examples could be explained respectively as follows. For examples, in term of investment, it is required certain level of adjustment in relation with the political decision in terms of deregulation, debureaucratization, accomodation of adedd value tax, land ownership etc. Capital resource could be gained from the investors both domestic and foreign direct investment by using several kinds of incentives. Political action is made towards

formulating incentives and disincentives to accelerate investment growth. Furthermore, investment growth is required for the development of economic growth, because investment is the important key of economic growth. In the field of natural resource in particular energy source, political decision action should be taken in the fields of oil fuel price adjustment, electricity tariff and royalty etc. It is necessary to prepare coal as bridge of the future energy from era of oil and gas energy towards new and renewable energy source such as wind, solar, geothermal etc. In this case Indonesia is very resourceful of coal that could be utilized within the next 100 years while Indonesia would be the oil net consumer in 2016. In the case of regional trade, Indonesia should realize the ASEAN free trade in 2005 as well as APEC free trade in 2020. Exports should be enlarged based on natural resource base development at one side, and should create import substitution at the other side. In term of regional ASEAN free trade should be based on CEPT (common effective preference tariff).

Moreover, in the field of natural resource development, Indonesia should be working very hard of how to overcome fon instance illegal logging, illegal mining and illegal fishing. The depleting oil reserves, the program activity of coal liquefaction should be encouraged and accelerated. It is necessary the strong effort of creating job and employment to overcoming high unemployment and poverty in the country. The key is how to improve the skilled and trsined labor so that they could be able to be working domesticly and internationally. In the case of information resource is functioned as suppoting agent in the management decision making. Improvement of information system is necessary to support the information of market intelligent, then creation and development of business data center is required. In fact that there is a dynamics of what so called managerial revolution in the Indonesia political economy so that the mindset of "decoupling between the owner of capital and the managerial of capital should be separated". It means that separation between the government and the capitalist is also required due to the government as the regulator and the capitalist as the economic player. In the case of technology improvement, the way of developing such as appropriate technology should be selected based on the related incentives and disincentives to create mass employment at one side, and at once at the other side the country should develop the advanced technology to developing like mineral at the remote uphill areas or oil and gas on the aff-shore regions. Last but not least about environment, that environmental resource could be assumed in terms of business benefit rather than such as just a burden in the cases of physycal (rehabilitation, reclamation, revegetation, and waste neutralization and recycling management) and non-physical one (socio-economical and cultural aspects in terms of social corporate responsibility and community development) towards creating job and income. In principle, in the every economic event that would be solved there would be a firm linkage between economy and political decision. And it is

valid for every kind of economic input variables in the expenditure side as well as in the industrial origin or income side. In the industrial origin or income side may include such as in terms of capital, labor, natural or material resources including energy, environment, infrastructure, information, market, technology. While in the expenditure side may include investment, consumption (government as well as private), and trade (export and import). In fact, that every decision making at the level of national economic budget should be jointly taken at the political level by the government and parliament.

In fact, Indonesia economic growth rate is currently depending on the consumption side rather than on the

investment one. This condition should be changed through the level of political decision making if it is necessary by changing through law and regulation reinventing. It needs changing and reinventing through general election in the coming year. The coming new government should create new political economy sphere that could be able to push domestic production of commodities and services containing massive added value that compete with the imported ones in the era of free trade and investment as well. Import should be mainly directed to the capital and raw material goods to support the domestic firm economic growth.

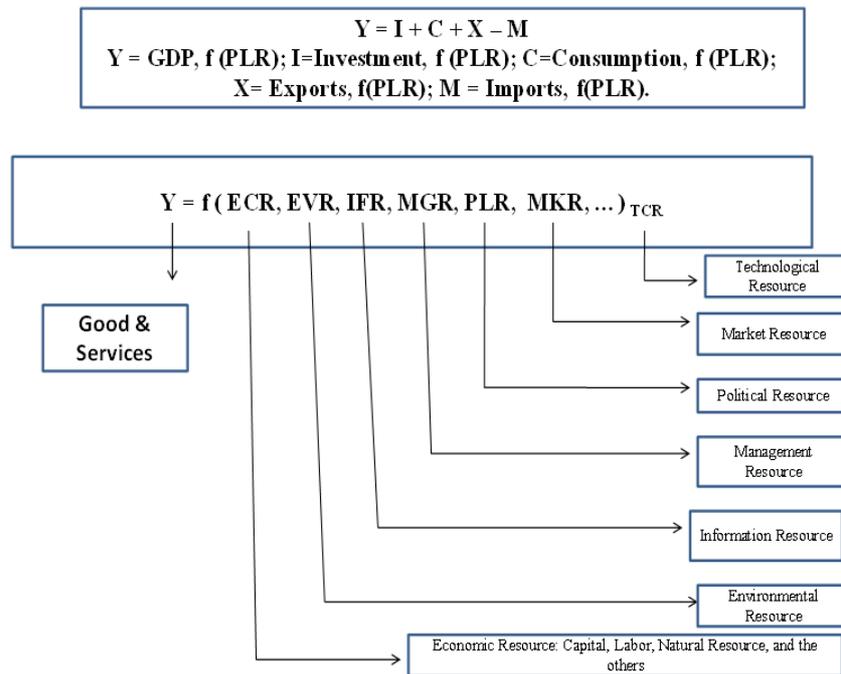


Figure 2. Formulation of Political Economy Relationship

Table 1. Matrix of Linkage Between Economy and Political Decision

Fields of Economy	Examples of Political decision/Action	Clarification
1. Investment (I)	1. Deregulation, de-bureaucratization, tax adjustment (Added value, land ownership, etc).	1. Action towards formulating incentives and disincentives to accelerate investment growth.
2. Consumption (C)	2. Adjustment of oil fuel price, electricity tariff, royalty etc.	2. Preparing coal as bridge of the future energy from era of oil&gas towards new and renewable energy sources.
3. Exports (X)	3. Free trade (0-5% tax).	3. AFTA, APEC, NAFTA, EC.
4. Imports (M)	4. Import substitution.	4. Consumption of domestic commodities.
5. Natural Resource (NTR)	5. Elimination of illegal logging., creating alternative energy, landreform, spatial order.	5. Intensification of coal liquefaction.
6. Capital (CPR)	6. Foreign direct investment (FDI), Loan, Domestic capital mobilization.	6. Key of economic growth.
7. Labor (HMR)	7. Foreign labor, domestic labor, salary, regulation.	7. Overcoming unemployment, creating employment.
8. Information (IFR)	8. Input-output factors, its mobility.	8. Center of business data.
9. Management (MGR)	9. Managerial revolution.	9. Decoupling between government and the capitalist.
10. Technology (TCR)	10. Appropriate technology selection and the related incentives and disincentives.	10. Creating productivity jump.
11. Environment (EVR)	11. Not as a burden as always, but as a business activity.	11. Reclamation/revegetation, waste neutralization.

2.2. Methodology and Mindset for Indonesia

Referred to the mindset of political economy for Indonesia where instrumental input and considering the strategic environmental condition, toward achieving the goal of political economy of people welfare and nation life sustainability, so that process and method of political economy especially its development in Indonesia (Figure 3), in principle paying attention on the aspects of the existing science of economics such as liberal economics, the developing Indonesian knowledge of economy of “Pancasila” (the Indonesian ideology) (Redaksi Ekonomi Harian Kompas, 1982; Departemen Koperasi, 1992), centrally planned economy, law in order and enforcement including several fundamental factors in the science of economy such as economic entrophy (Kuntjoro, 2013; Miernyk, 1978; Freres, 1995; Kuntjoro-Jakti, 1995; Mas’oed, 2003; Miernyk, 1982). Briefly, in particular the basic concept of Pancasila economy is that based on the system of cooperatives and familial relationship economy.

Terminology of entrophy in thermodynamics it is recognized and formulated as:

$$\Delta F = \Delta H - T \Delta S$$

Then

$$\Delta S = (\Delta H - \Delta F) / T$$

where S=entrophy, H=enthalpy, F=free energy, T= absolute temperature (degree of Kelvin), Δ = change. In a chemical reaction there is change of energy. ΔF is as the indicator of either fast or slow of a chemical reaction process performed. The greater the $-\Delta F$, the faster the chemical reaction will be; and the less the $-\Delta F$, the slower the related chemical reaction will be. If ΔF is positive then the chemical reaction will not happened. While ΔS (change of entrophy) constitutes indicator of the lost sum of energy that happened in a chemical reaction.

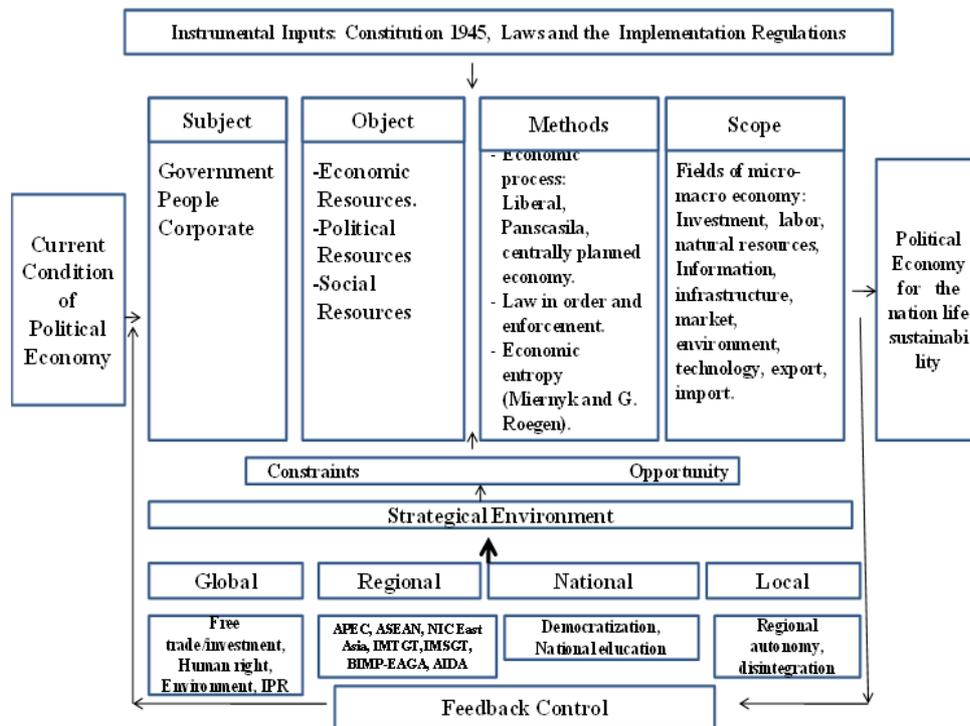


Figure 3. Mindset of Political Economy for Indonesia

In management, entrophy could be translated as a theory of limitation. Entrophy is an alert method of calculation used as indicator of unability of a system to carry out a certain kind of work. Entrophy of an organization means that a very comprehensive computation should be conducted about matter that is it possible or impossible to carry out based on the various determinant factors that may exist or possibly exist. So that, an organization faces constraints about things that may be performed or not allowed to be performed because of not able to achieve. The limitation is necessarily recognized in lieu with the related activities to carry out.

The stakeholder as the subject in the political economy process is the government, the people of Indonesia and the corporate. The government is the regulator or political actor, the corporate as the economic player and the people as the owner of the state. The object is economic, political and social resources. And the scope of the transformation process is field of macro-and micro-economy such as investment, labor, natural resources, information, infrastructure, market, environment, technology and export-import or trade. In the process of political economy, several strategical environments should be considered at the level of local, national, regional and global. At the level of local

may include regional autonomy as the realization of democratization in the government and the potential of desintegration. Level of national is democratization and national education. Level of regional is regional cooperation such as ASEAN, Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT), Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), AIDA (Australia-Indonesia Development Area) (Figure 4), APEC, NICs (New Industrialized Countries) East Asia. And level of global is such as free trade and investment, democratization, global environment, intellectual property right (IPR), and human right. And the important thing is that this strategical environment could create constraints

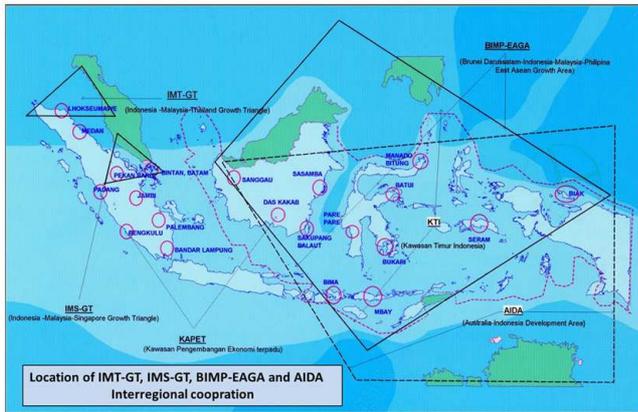


Figure 4. Location of IMT-GT, IMS-GT, BIMP-EAGA and AIDA interregional cooperation

and opportunity of the country toward facing the goal that is political economy for the nation life and people welfare sustainability.

3. Discussion

3.1. Chronology and Examples of Cases

Spotlight of chronology and several examples of cases could be clarified as follows: (1) Economic deregulation: In 1960s – emerged a basic thought that economic growth is required for political democracy, while to achieve economic growth requires the role of government involvement. In 1970s – because of the success of the economy in the East Asia such as Japan and Korea, emerging the support for the authoritarian rezime to achieve economic growth. In 1980s, in particular in the several developed countries there was presumption that whatever policy carried out by the government is inefficient. In 1990s – the popular neoclassical approach carried out in 1960s is started to begin in more flexible application. In the condition wherre market is not in complete function, the government intervension is required to achieve equity and community protection (Glahn, 2008; McCarty and Lindberg, 1966). World Development Report 1991 reported that the experince of the developing countries perform to do so. (2) Political economy of capital accumulation in Indonesia. (Figure 5).

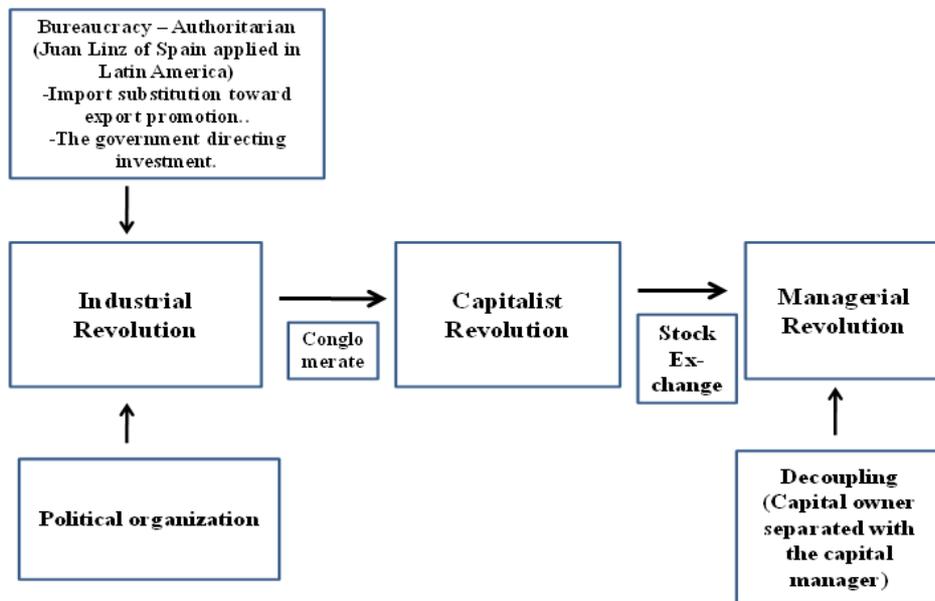


Figure 5. Transformation Process from Industrial Revolution towards Capitalist Revolution and Managerial Revolution

The existence of the previous capitalist revolution toward present capitalist revolution then toward managerial revolution realizing ICOR 3.5 and in 1990s there was a capital stock amounted to IDR 500 trillion. Even that

capital accumulation is closely followed or shaded by the foreign debt that twisted around this nation shouldered by the several future generations. (3) Understanding of political economy on institution reform. The existence of

debeurocratization in any governmental change, in principle, is aim to support growth and equity in the purpose of people welfare. (4) AFTA (ASEAN Free Trade Area) constitutes the form of regionalization format as the initial stage toward supporting the effort of realizing world or global free trade, through decreasing various trade tax based on competition. (Scalapino, et al 1990; Asmara, 1998; Panglaykim, 1977). (5) APEC as another example of larger area of regionalization where ASEAN in it together with another regional cooperation such as NAFTA (Indonesia Centre for Strategic and International Studies, 1991). In book "Mapping Change in the Asia Pacific Region: Geopolitics, Economics, and Diplomacy" (Morisson, 2008), Senior Policy Seminar, East West Center, 2007, several matters could be known that on the retrospection of "tectonic shift" that being performed in various dimension of power in a region. Three sub-regions constitutes strategic power in terms of geopolitics, economy and the third is the latest terminology what so called "soft power". At the initial and conclusion stage we could have a look at a broader regional issue and topic including implications and challenges of the America's policy. (6) In principle, Iraq war is new era of imperialism backed up by economic interest that is authorization of Iraq oil. (7) Condition of unbalanced world energy. The developed countries are extravagant with their energy consumption while the developing countries are very frugal consumption of energy, while the oil production is mostly resulted by the developing countries.

Eventually, the supply-demand for energy is un-balanced. Era of oil and gas energy will be moving toward new and renewable energy era due to the very limited availability of fossil fuels compared with the present growth of world population and world manufacturing industry. (Soelistijo, 2011). (8) Century of information and telecommunication. Modern age is characterized by whom authorize the information will manage the world or in another appropriate word would control or dominate the world economy. Era of information and telecommunication constitutes age of chip technology that mostly utilize rare metals as its core which is used as super- and semi-conductor (Naisbitt and Aburdene, 1990; Tofler, 1990). (9) Zero world population growth. Since "The limit to growth" was well launched in 1970s, so that the world population growth should be controlled due to the very limited resources required to meet the human's life needs. (10) Relationship between USA and China (Post Nixon-Mao Tse Tung). The principle of China political economy is that the USA is allowed to invest in China based on two pre-requisites that the developed American industry in China should employ China manpower and the industrial products should be exported to the States. And this political economy well performs up to the present with modification and dynamics, then the China economy develops with economic growth above 10% per year. The state of China has principles that she should have the strong government and firm economy then followed by performing toward

democracy particularly in the field of economy that liberalism in the very strong of communism ideology. (Hug, (2001). (11) USA is lagged behind Japan in term of automotive industry. If the States wants to import new automotive products for instance motor car from Japan, then Westinghouse, an institution of import affair, earlier buying one sample of motor car from Japan to examine this motor car on its excellence in term of energy safe and conservation. While at that time beyond three months the US expert in motor car is just able to find out the key technology in the case of energy saving. In this matter indicates that the US is lagged behind than Japan automotive technology industry. (12) The miracle of Japan beyond World War II. Based on her doubling system of economy, where the solid and integrated advanced industry and small industry, then the existing progress of her politics and economy is currently successfully achieved. In the Great Britain, there is an integrated Japan-British company called Toyo-Leyland, where the company is lead by the Japanese people. Every where in the sides of the developed Japan world industry and the Japanese company as a leading maestro supported by their peaceful politics od "soft power". (13) The principle of Chinese government in her political economy. As above-mentioend that China sould have a strong government and all at once firm economy, it means that the China political economy should on line with the China willingness in allowing all the foreign capital that would be performing in China. In the book "China's Emergent Political Economy: Capitalism in the Dragon's Lair" (Mc Nally, 2009) could be found out that monumental transition of China in terms of social, economy and plolitics is figured out that could launch Great Britain, USA, Germany and Japan into the leading position – the emergency condition of a political economy of capitalist. It is discussed on the China industrial capitalist and her new transnational companies, and also clarify or study on China change of policy, relation between state, media and international policy. China is just developing a new unique form of capitalism. What the kind of capitalism is in the dragon's lair implied in this 21st century? In the conclusion is noted about China's rising or resurgence is likely to challenge the present world-order in the dimension of politics and economy. (McNally, 2009; Glahn, 2008). (14) Innovation from the outside and internal sides is required to synergize, while local innovation should become as core of reinventing, in order to gain indication that motivation should be rooted on the national culture. (15) *Toward a new world community*. In 1997, a transnational congress in London proclaimed a new motto is that "the transnational is just the servant of the community," or whatever as strong as an international corporate they have been aware that without community (as the consumers) they are nothing. And this is as new development of a new world sphere.

In the Indonesian case of economy. It is a miracle that during the year of 2008 world economy uncertainty, but the Indonesian economy was still growing with 6% per annum

up to now even within the last 10 years. It means that Indonesia could be able to manage the country based on strong government, firm economy besides under the process of democracy development as well. Actually, Indonesia has launched the master plan of acceleration and enlargement of Indonesian economic development 2011-2025. The projection of GDP is figured out from around US\$ 500 billion in the year of 2011 up to US\$ 2,000-3,000 billion in 2025 or increasing 4 to 5 times greater.. Indonesia as an archipelagic state should develop connectivity where the state becomes one unified country supported by strong infrastructural land, sea and air or becoming one solid and massive political economy unit. Even though in the above-mentioned master plan Indonesia is consist of six corridors those are the corridors of Sumatera, Kalimantan, Sulawesi, Papua-Maluku, Nusa Tenggara, and Java in line with the concept of regional development and location theory and with the different seeded sectors respectively. It is important to be aware that the political economic transformation process in Indonesia would perform from the stage of natural resource based development through knowledge based development into social-cultural based one. The process should be rooted in the national cultural base.

3.2. Dynamics towards Future Step Development and Outlook

Several dynamics towards future development and outlook could be carried out through several steps such as: (1) The effort of technology development. Technology constitutes key of creating productivity jump. Technological change as one of economic input factors in the production function is necessarily conducted dynamically, either advanced technology or appropriate one for economic development synergistically. (2) Creating system of market price in the form of free market to leave protection. Even free market is still as a world dreaming, but free market is necessarily realized into reality, in order to drive an efficient economy. An efficient economy is necessarily supported by the efficient governmental system as well. An efficient governmental system is resulted by a clean politics in the form of clean government and good governance. (Timothy, B., 2007). (3). Government regulation is expected not to disturb price mechanism of free market. In principle, it is necessary to develop a certainty that government is as regulator, and economic player is company or entrepreneur. Both components should synergistically cooperate as the effort of creating people welfare and nation's live sustainability. (4) Social change where social value and behaviour could become as the most effective long term mechanism to overcome various problems caused by growth. Cultural revolution would change life style and all of the social reference that would influence economy and pattern of resource consumption. (5) Progress out of the prediction. The Middle East war in 1990s and oil embargo, Iraq war in 1990s and the increase price of oil and various commodity in the first decade of

21st century create many problems of every nation's live in the world. (6) An offensive "soft war" and "soft diplomacy" has been carried out by the big countries by using culture as instrument in the effort of supervising the world or market. In the future this methodology would be likely the most efficient, effective and economic in terms of its successfulness to achieve the goal. For example, when Barack Obama in his early authority as the US President, he assigned the State Minister Hillary Clinton to carry out approaches to several important countries in Asia like China, Korea, Japan and Indonesia in lieu with the above purpose or aim. The US has been aware willing to learn on approaching with Asia through culture. (7) India has her own nationalism political economy "Swadeshi" of how to encourage national self resilience to love her national products. This kind of specific color of political economy could be enlarged as of how "to protect" the national economy to be standing on their politics of "own strength and feet".

Since Indonesia has been as the member of G-20 on behalf as the member of developing countries in the first decade in the 21st century, so that the Indonesia's outlook on the international political economy looks forward. From climate change that climate change is as part of the national economic development of every country up to the emerged idea of composing development program of how to alleviate the world poverty, when on 30 of May 2013 was reported by the President Indonesia Susilo Bambang Yudhoyono (as the Member of collective chairmanship of Formulation Panel, besides President Liberia and the Great Britain Prime Minister) to the UN Secretary General, so that progress and synergism of between politics and economy is going more integrated and comprehensive. (Anonymous (b), 2013, Google Search, Agenda of World Development, Post 2015). Besides the poverty alleviation paradigm (pro poor), the future world also facing the development of political economy in the dimension of pro growth and pro environment or all in all it is what so called green growth of how to overcome the scarcity problem of food, energy, water and environment as a whole (Anonymous (a), 2011; Soelistijo, 2011).

In principle, the firm political economy interaction between the South where Indonesia in it and the North, new concept of cooperation should be launched from the condition that the South cannot wait with the stomach and the North cannot wait the environment into the condition of balanced growth, equity, and global environment through resource and technology sharing. The South owns the natural resources and the North owns the technology and capital resources. It is appreciated if the North would relocate downstream industries that create added value to the South, so that the South could be able to gain net social and political economical gain, and not just sells the natural resources as raw materials with very low added value. Finally, the South and the North would be able to create green and just political economy as a whole over one only system of earth together forever within a very efficient of

social and political economy. A modern regional and global leadership of cooperation and partnership is required to do so.

4. Conclusion

In principle, it is not easy to prove that there is a causality between the more democratic political system and the more efficient government. However, that there is a strong linkage between the efficient government and the comfortable economic growth could be accepted. It is understood that there is a firm linkage between economy and politics in particular in the era of globalization. It is tried to clarify the real meaning of political economy of resources and its development and progress in general and in the special case of Indonesia. In the framework of the Indonesia political economy mindset, there are several dynamics towards future development and progress of the significant involvement of Indonesia in the present era of globalization, and it is expected stronger in the future. The example results of political economy development of Japan, China, India, Korea and Indonesia could be seen that based on the Asia culture.

Resources may include economic resources as well as politics, market, management, information and environmental ones. Economic resources may cover such as capital, labor or human and natural resources, information, and technology and the other certain kinds. Finally, political economy of resources including with its various aspects is required as the instrument to accelerate achievement of community welfare and nation live sustainability.

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