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2 August 2024

Online at <https://mpra.ub.uni-muenchen.de/122669/>
MPRA Paper No. 122669, posted 30 Mar 2025 12:06 UTC

**The Road Not Taken? Industrial Policy and Political Settlements in China
and Indonesia 1990–2022**

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The Road Not Taken? Industrial Policy and Political Settlements in China and Indonesia 1990–2022

This research investigates the role of political settlements in industrial policy, either facilitating or hindering capability development and structural transformation. The Global South's power relations and institutions within policy processes, however, are not properly grasped. With the political settlements framework, the comparative research dissects the continuity and change of power and rent distribution in China and Indonesia under selective neoliberalism from 1990 to 2022, followed by case studies of First Automotive Works and Astra in auto manufacturing. The results illustrate that China has transitioned from a developmental settlement to vulnerable authoritarianism and back, while Indonesia has moved to competitive clientelism and elite ruling. The findings indicate that effective rent distribution of industrial policy counts on vertical legitimacy, whereas horizontal opposition exacerbates policy coherence. The interplay between industrial policy rents and the settlements concludes that consolidated power enables efficient resource allocation and policy efficacy; by contrast, power dispersal erodes development capacity due to political instability and interest divergences. For capability development and structural transformation, industrial policy design ought to align with specific power dynamics within varied institutions.

Keywords: political settlements framework; industrial policy; selective neoliberalism; automotive manufacturing; China; Indonesia

List of Abbreviations

Abbreviation	Meaning
CCP	Chinese Communist Party
FAW	First Automotive Works
FDI	Foreign Direct Investment
GVC	Global Value Chain
LCGC	Low Cost Green Car
PKI	Partai Komunis Indonesia
SOE	State-Owned Enterprise
TPN	Timor Putra Nasional

1. Introduction

I shall be telling this with a sigh
 Somewhere ages and ages hence:
 Two roads diverged in a wood, and I—
 I took the one less traveled by,
 And that has made all the difference.

—Robert Frost, *The Road Not Taken*

Robert Frost’s evocative words summarise the processes and their far-reaching outcomes of choice-making. This poetic summary is a metaphor for the divergent roads taken by state policymakers. Since the choice-making of the past determines the present, varied institutions have formed differential roads to policy outcomes. Hence, theorists often speculate about what outcomes the states might have turned out if along alternative roads of institutions. However, the counterfactual speculations cannot be divorced from the power relations within institutional arrangements that have historically diversified the policy processes.

Industrial policy is where the road diverges. This choice-making marks the juncture at which states take the roads that diversify their development processes. For instance, China has taken the state-facilitated, centralised industrialisation road through continuously robust policy for infrastructure investment and technology innovation (Song et al., 2011; Zilibotti, 2017). In comparison, Indonesia exhibits tradeoffs between nationalist modernisation and neoliberalism (Warburton, 2016; Kim & Sumner, 2021), periodically rendering its policy

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processes varying and divergent. Even so, as both states have obtained certain economic and socio-political achievements with different processes, the roads are by no means to be judged superior or inferior. In contrast to judgement, grasping the power relations that configure industrial policy processes enables our dissection of the roads to trace the institutional logic of industrial dynamics within the Global North and South.

Industrial policy grasps the focal point for the North and South. According to the industrialisation processes of the North, fuelling a key infant sector could stimulate both demand and supply across value chains for upstream and downstream actors (Hirschman, 1958, 1981; Chang, 2002). However, since the industrialised North ‘kicked away the ladder’ to maintain resilience and prosperity, the South states, without policy intervention, have been vulnerable to exploitative competition. Be that as it may, integrating developing economies into the global value chain (GVC) production and competition networks is beneficial for technology learning and diffusion towards structural transformation (Kuznets, 1971; Gereffi, 2018). This competitive transformation requires industrial policy with effective institutional arrangements to accumulate productivity (North, 1990; Hickey et al., 2014) and avert probable capital flight, unemployment, and inequality in structural change (Lewis, 1954). Specifically, the required institutions include legal, financial, educational, and other aspects (Khan, 2010, pp. 15–18; Zilibotti, 2017). Furthermore, industrial policy has updated itself, not only offering opportunities for technology diffusion to narrow productivity disparities; as to longstanding poverty and inequality that plague the South (Knight, 2014), the new version of industrial policy also, for example, empowers vulnerable groups. Concretely, the policies for human capital enable people to obtain decent work after knowledge-learning rather than leaving unemployment exacerbated by structural transformation (Fleisher et al., 2011; Porzio et al., 2022). Employing multi-aspect industrial policies heralds multi-sectoral capability development by knowledge diffusion (Lee, 2020); otherwise, without proactive responses to global industrial restructuring, vulnerable economies would become a stepping stone to the developed world’s resilience and prosperity (Milanovic, 2016).

The South states, however, encounter more challenges. Unemployment and capital flight are merely the tip of the iceberg. Compared to the North, developing economies suffer from complex political economy constraints, requiring a revisit to industrial policy processes

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(Juhász & Lane, 2024). Andreoni and Chang (2019) indicate the importance of managing interest divergences and grasping power relations in the political economy, which configure policy processes. Despite that, there exists a notable gap in available knowledge for the South to settle the tricky divergences among power actors. It seems lucid that public and social resources could be distributed to industrial development and transformation (Zilibotti, 2017); nevertheless, the literature has not yet systematically answered how the South states reconcile divergent power groups and allocate resources to development. Aiming for resilience and prosperity, would industrial policy assist in mitigating institutional constraints and interest divergences? Regrettably, existing evidence does not exhaustively unfold the relevance of industrial policy to the South's complex political economy.

Still and all, this research maintains optimism, acknowledging the prospects of the renewed industrial policy in the South. As the economic growth engines vary at different development stages, our review argues for the South's industrial policy praxes when the market potential and cost advantage emerge (Acemoglu et al., 2006; Lin, 2011). Given the promising new industrial policy, it is the pattern of use that matters. The entrenched interest divergences constitute ineffective institutions, precipitating resource misallocation and development failure. When solutions to the failure are vague, fortunately, the framework of political settlements offers a methodology to investigate the power relations that inherently mould the institutions and policy processes. Political settlements, as articulated by Khan (2010, 2018), dissect the power distribution that determines how interest groups maintain and transfer rents within a political order (Behuria et al., 2017). In the context of industrial policy, rent distribution is the (re)allocation of administrative and economic resources among sectors and actors (Gray, 2018, 2019). According to Khan, the policy works effectively—only if the institutions settle the rent distribution well. In other words, interpreting the settlements could clarify our understanding of political economy constraints. Thus, our examination contributes to the literature by dissecting how formal and informal institutions interplay in industrial policy processes.

This examination dissects the rent distribution within automotive manufacturing in China and Indonesia, portraying the structural transformation between 1990 and 2022. Our marginal contribution aims to offer academic and policy insights from emerging industrial

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economies and unitary states, marked by policy intervention, market liberalisation, and global integration. First, China's surge in productivity and technology diffusion is attributed to its industrial policy on infrastructure, finance, and education (Fleisher et al., 2011; Song et al., 2011; Wei et al., 2017). Transitioning from a highly-planned economy to a market-oriented one interestingly reveals diverse industrial policy processes. However, various challenges like resource misallocation, social inequality, and rising costs might hinder China's development capacity (Knight, 2014; Zilibotti, 2017). Second, with Southeast Asia's largest economy and youthful workforce, Indonesia is also transforming its manufacturing in GVCs (Hill et al., 2008; Warburton, 2016). Despite progress in technology learning, it encounters diverse gaps due to the shortage of infrastructures and decentralised institutions with intermittent policy coherence exacerbating the transformation (ADB, 2020, pp. 272–275). Concisely, China's industrialisation is relatively coherent, and Indonesia displays intermittency in industrial policy (Hill et al., 2008). Through political settlements, our comparative research of First Automotive Works (FAW) and Astra would interpret how divergent roads of rent distribution facilitate or hinder industrial development.

This interpretation is the first exploration detailing political settlements in China's industrial policy. Research gaps around its power relations within institutions manifest as significant evidence deficits, limited understanding, and uncharted implications. Besides a few preliminary insights mentioning its geopolitical role, scarcely any studies elaborate on China's evidence regarding the methodology of political settlements (Di John & Putzel, 2009; Khan, 2010; Hickey & Izama, 2017; Rocha Menocal, 2017). Existing literature either overly simplifies China into a protagonist within the autocracy-or-democracy debate or vaguely summarises its impact on other countries' settlements—the insightful discussions constitute useful ideas on China, but due to insufficient evidence, the ideas fail to convey a persuasive interpretation. Only Hu (2017) attempts to examine the Chinese civil service with political settlements in a competitive-or-dominant binary. Although Hu's investigation of China's public administration commendably fills certain evidence gaps, the attempt seems confined to the autocracy-or-democracy debate—yet political settlement studies ought to go beyond autocracy-or-democracy itself (Khan, 2018, p. 637). Homogeneous attempts fail to unpack further concepts in political settlements, nor do they engage with the debate over action

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versus process (Gray, 2019). To be concise, the literature on China's political settlements lacks a critical interpretation, making it onerous to translate into policy praxes. Therefore, our exploration aims at gaps in knowledge, evidence, and policy praxis.

Our research compares Indonesia with China to clarify where the divergent industrial policy processes commence. Kim and Sumner (2021) scrutinise the historical events around state capitalism, wherein Indonesia deploys state-owned entities as the actor of industrial policy in structural transformation. Their scrutiny concurs with the exemplary contribution that meticulously exemplifies how manufacturing policies reverse deindustrialisation, calling for comparative studies. Winanti and Diprose (2020) deem Indonesia as such resource-rich state where regulatory reforms are likely to integrate with the international capital system. It is pragmatic and beneficial for subsequent investigations on how the power relations within political settlements configure policy choice-making. Additionally, existing settlement studies on Indonesia cover public finance (MacIntyre, 2000), trade (Pangestu et al., 2015), education (Rosser, 2016), and citizenship (Rosser & Qiao-Franco, 2023). Remarkably, Rosser and Qiao-Franco (2023) conduct a comparison with Australia, whereas the broader literature either centres solely on Indonesia or vaguely outlines it. Though some attempts explicitly scrutinise elite-centred agreements, they ignore the rent distribution and never differentiate the settlements as a process or action. Consequently, returning to the point of industrial policy, the integration of rent and power distribution is scant into policy processes and institutions.

The remainder is structured as follows. Section 2 reviews relevant literature and constructs our theoretical framework on political settlements in industrial policy studies. Section 3 designs the analytical procedure through a historical perspective, comparing China and Indonesia from 1980 to 2022. Section 4 uncovers the settlements in both states as the exogenous impact on, as examined in Section 5, the rise and fall of selected microeconomic actors in auto manufacturing influenced by industrial policy. After interpreting the continuity and change, Section 6 overviews our dialogue with the available literature, followed by conclusions and implications.

2. Literature Review

2.1 Political Settlements Framework and Rent-Seeking

2.1.1 Political Settlements as Process

Political settlements function as a sustainable integration of power relations and institutions, where interest groups bargain for viable power and rent distribution (Khan, 1995; Di John & Putzel, 2009; Gray, 2019). This bargaining distributes vertical and horizontal power in formal and informal groups, typifying the processes of ‘state fragility and resilience’ (Di John & Putzel, 2009, p. 18). Hence, those Global South states with variants of clientelist settlements illustrate diverse processes (Khan, 2010, 2011). Articulating this clientelism, there exists a patron-client system for the reciprocal exchange of political favour and loyalty. The authority offers rent privileges in exchange for the return of support and allegiance from vertical and horizontal power actors. For the ruling authority, vertical power indicates legitimacy—the lower level’s allegiance against political ruptures; the horizontal competition, reflected by the relative strength of opposition factions, spotlights the social groups that support or contest with the ruling one (Whitfield et al., 2015; Gray, 2019). Accordingly, this reciprocity within and beyond the ruling coalition structures viable rent and power distribution. Furthermore, varied patron-client systems in the South come to notice. For instance, the states are inclined to favour specific sectors when their stakeholders are more important to the commitment of the ruling authority. There is plenty of evidence from African states that exemplifies this deductive reasoning (Kelsall et al., 2013; Whitfield & Buur, 2014; Hickey & Izama, 2017; Tyce, 2020). While clientelism is defined in special and general terms and not all South states feature that special clientelism, the general clientelist reciprocity probably exists—even in developmental states such as South Korea and China. Succinctly, the South’s settlements demonstrate various reciprocal systems among formal and informal actors that determine rent and power distribution in different institutions, vertically and horizontally.

Despite the significance of political settlements being highlighted in varied forms of patron-client systems, this framework transcends clientelism. The authority’s commitment to ideology also appreciably determines the political order of power distribution (Gray, 2018). For example, industrial policy is never absolutely attributable to clientelism (p. 189); instead,

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it echoes the experience of power organisation (pp. 100–102, 193). Regarding post-socialist regions, this (re)organisation hinges upon institutional legacies as the planned economy rather than merely a patron-client system (p. 2). Nonetheless, although heterogeneous contexts of emerging economies appear interventionist similar to the planned economy (Rodrik, 2013), their rent and power distribution deviate from centralised management but involve clientelist rent-seeking (Kang, 2002; Gray, 2013). The industrial policy rents favour the industrialists in exchange for their commitment to both ideology and pragmatic development (Stiglitz, 2017; Gray, 2018, pp. 164, 184; Tyce, 2020), where general clientelist reciprocity is visible. The relevance of political settlements extends to diverse commitments and institutional legacies, positioning more complex power and rent distribution.

It is worth noting that, even though the political settlements framework shares many similarities in industrial policy studies, theorists elaborate different understandings: ‘as action’ versus ‘as process’. The political settlements as action grasp elite agreements for inclusion. This agreement-focused, action-oriented approach concerns identifying influential elite groups in peace and conflict studies (Putzel & Di John, 2009; Kelsall et al., 2013; Lavers & Hickey, 2015; Whitfield et al., 2015; Hickey & Izama, 2017; Lewis & Sagnayeva, 2019). The elite identification answers the role of paradigmatic thoughts in why powerful actors adopt different measures, while the ‘as process’ approach elucidates more contexts and conditions (Gray, 2019). From a pragmatic perspective, our review does not disagree with Rocha Menocal (2017) who argues for a complementary approach. However, such complementarity must be articulated on a clear delineation of distinctions between process and action. This research never intends to judge the superiority of either arbitrarily but adopts a pragmatic stance. This stance arises from our aim to analyse industrial dynamics and historically explore the power relations from which the order and institutions originate, uncovering their causes and manifestations in rent distribution.

2.1.2 Pragmatism within Rent-Seeking

Rent is the entry point into scrutinising industrial policy within (inter)national development. Rent-seeking is a useful concept to grasp the impact of political settlements on policy change.

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Generally, the rent creation, maintenance, and transference constitute the rent-seeking ‘as process’ (Khan, 2000, p. 70). This rent-seeking enables power actors to maintain and transfer industrial policy rents, reflecting the processes through which industrial development is configured. Specifically, rents are the manifestation of power to control policy resources. The resources involve economic, political, and other dimensions, including but not limited to natural, financial, human, and social capital that are distributed in a political settlement. Unfolding this resource distribution is the legitimate capacity, ‘holding power’, of the actors within and outside the ruling authority to hold out these multidimensional resources in competition (Khan, 2010). Legitimacy means the probability that other factions recognise and support the rent distribution by the authority (Tilly, 1985; Kelsall, 2018). This capacity could impose political and economic costs on formal and informal actors while maintaining one’s benefits (Behuria et al., 2017; Gray, 2019). Therefore, the holding power allows an authority to legitimately distribute resources by imposing enforcement on other factions. If the ruling authority maintains legitimacy and holding power, it could prevent political ruptures; conversely, the ruptures would occur that other actors contest and reject the existing political order of rent and power distribution (ibid.). Essentially, understanding the rent and holding power in a neutral way is beneficial for analysing resource distribution processes in political settlements.

New institutional economics, however, considered rent-seeking a non-productive, probably detrimental variable (Posner, 1975). When power actors hold policy rents in special interests, the processes might incur social costs due to the higher transaction costs involved. If powerful stakeholders prioritise short-term profits extracted from corruption and power abuse, they would maximise political instability, extort in vague regulations, and capture rent profits with abusive power, increasing the costs of completing a transaction (Coase, 1960; Krueger, 1974; Buchanan et al., 1980). Unprivileged actors are extorted to pay benefits to power rentiers, incurring negative externalities of resource misallocation and social inequality. Consequently, the resources are diverted from productive activities beneficial to society. The special interests imply the surface manifestations of rent-seeking as government subsidies, exclusive rights, or trade protection (Krueger, 1974; Weiss, 2020, p. 128). These protectionist policies echoed that rent-seeking escalates transaction costs and hinders resource allocation

efficiency. In other words, rent-seeking seemed to murder the social benefits of economic development. Nevertheless, North (1986, p. 235) considers the limitations of such one-sided narratives attributing special interests to an absolute extortionist institution. It is valuable that earlier studies capture the manifestations of rent-seeking inputs, but the discussion might narrowly centre on immediate effects. Some claims, almost entirely negative, underestimate the profound implications of rent-seeking as a neutral process.

Khan (2000) critiques the narrow focus on surface, immediate costs, steering research away from the superficial ‘for-or-against’ debate towards a pragmatic dissection of processes. This transcends the limitations previously confined to rent-seeking inputs, as rent distribution not only involves the resources held in special interests but also relates to institutions (pp. 70–73). The institutional arrangements interplay with power actors in economic and political aspects. In this interplay, formal regulations and informal customs (North, 1990) co-configure the rent and power distribution between the ruling authority and other interest groups. Thence, the country-specific differences in formal and informal patron-client systems underscore the significance of comparative case studies. The effects of rent-seeking are dynamic, varying contextually according to economic and political settings; in different countries, rent-seeking has diverse processes—sometimes with positive development change. Based on these differentiated institutions, pragmatism guides our research to move beyond reflections on inputs. By comparing the institutional arrangements of states, it unpacks why and which interest groups are more likely to access rents and whether they could foster positive change (Khan, 2000, pp. 71–73; Tyce, 2020). Khan’s critique and subsequent progress resolve the shortcomings of new institutional economics, whose useful political settlements framework answers Coase’s (1998) call that economics should approach closer to reality by aligning with history, politics, and institutions. To recap, since rent distribution sometimes facilitates positive social and economic change, pragmatic research ought to probe pro-development rents within those ‘sometimes’ contexts and conditions.

2.2 Industrial Policy and Capability Development

2.2.1 Industrial Policy Great Again

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Facilitating positive socio-economic change urges cultivating economic resilience and sustainability, which has brought industrial policy back to the forefront of development debates (Rodrik, 2007; Lin, 2011; Stiglitz, 2017; Juhász et al., 2024). Industrial policy, as a broad concept, contains selective, visionary, and participatory measures to develop industrial capabilities of production, trade, management, and innovation (Aghion et al., 2015; Andreoni & Chang, 2019; Best, 2020; Oqubay, 2020; Lee, 2020; Acemoglu, 2023). Distributing rents through industrial policy could embed the industrial economy of given states into GVCs (Gray, 2018, pp. 11, 173; Behuria, 2019). In other words, contemporary industrial policy has no longer narrowly signified inward-looking protectionist subsidies, but targeted outward exports and coordinated resource inputs for positive change (Juhász et al., 2024). Regrettably, previous debates in economics centred on whether governments should deploy policy intervention rather than how to select and implement. Throughout the Washington Consensus era, mainstream economists rejected to acknowledge industrial policy, and policymakers dogmatised neoliberal reform (Krueger, 1974; Chang & Andreoni, 2020). The dominative rejections demonised rent-seeking, corruption, and government failure (Weiss, 2020, p. 130). However, Best (2020, pp. 578–580) unmaskes that liberal states never absolutely abandoned industrial policy, as evidenced by the covert yet substantial intervention carried out by the US in strategic industrial development. If industrial policy rents play a strategic role in industrial development, the failure of socio-economic resilience and sustainability in the South remains relevant to the absence of cohesive industrial policy.

A turning point after the Washington Consensus is 2008. Chang and Andreoni (2020) review the literature after the 2008 financial crisis, highlighting the contemporary relevance of industrial policy to capability development. Specifically, industrial policy designs the long-term development blueprint to mitigate uncertainty and reassure investment confidence (Rodrik, 2014; Lee, 2020; Acemoglu, 2023). After consolidating confidence, the next is to cultivate industrial capabilities through learning in production (Lee, 2019). Chang argues that ‘learning in production’ is where development happens; deindustrialisation and offshoring are alarming as neoliberal economists mistook production as ‘nowhere for learning’. Based on industrial organisation studies, learning is a ‘collective and cumulative process embedded in production structures’, and this embeddedness of collection and cumulation is necessary for

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capability development (Andreoni, 2014; Tassey, 2014). Learning in production spotlights the production structures and (inter-)sectoral complementary processes, enriching Arrow's (1962) learning by doing. Such structures and processes demand a cohesive industrial development policy of capabilities, skill formation, and business organisation (Best, 2020; Lee, 2020). The government, as the policy rent distributor, is among the supportive forces (Weiss, 2020, pp. 131–132) related to endogenous growth (Romer, 1990) and systemic effects (Andreoni & Chang, 2019). For instance, developing economies with imperfect markets often precipitate input distortions from upstream sectors. When production sectors form input-output networks, the upstream-supporting industrial policy would break through information asymmetries and augment overall social benefits (Liu, 2019). To sum up, post-2008 literature underscores the necessity of industrial policy for learning in production networks in the South.

The socio-economic change builds upon 'government intervention in creating new worlds of production as well as managing industrial and social restructuring' (Chang & Andreoni, 2020). Industrial policy has historically driven structural transformation through manufacturing (Oqubay, 2020). In the restructuring, export-oriented manufacturing has played a role in employment creation and economic growth (Chang, 2002; Lin, 2011; Rodrik, 2013, 2016). Nonetheless, regardless of deindustrialisation, the number of workers employed in manufacturing is decreasing (Juhász et al., 2024). Meanwhile, in those emerging worlds of production, the boundaries between manufacturing and services are increasingly blurred. At this juncture, network-oriented cross-sectoral policies become vital to industrial capabilities in the resilience and sustainability of structural transformation (Rodrik, 2007).

2.2.2 Political Logic of Industrial Capability Development

Embedded in certain political settlements, those beneficiary industrial actors typically acquire enhanced capabilities and political influence (Roberts, 2020). In turn, the actors return agency effects within the settlements, exhibiting visible impacts on rent and power distribution. In light of Chang and Andreoni (2020) on confidence and uncertainty, there is a tension in the agent pursuit between short-term rent acquirement and far-reaching investment in industrial capabilities. Industrial policy enables selected stakeholders to develop industrial capabilities

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and influence policymaking, transforming from beneficiary recipients to participants in policy processes. The policy participants with holding power intervene in rent distribution, exerting underlying impacts on economic and political structures. If the capable participants pursue maintaining short-term rent privileges, they would extract more benefits from policy rents rather than patiently developing industrial capabilities (Fan et al., 2023; Juhász et al., 2024). Hereto, thought-provoking considerations of political influence and agency bring the critique of rent-seeking back into focus (Krueger, 1974). Briefly, a more nuanced, contextual understanding of industrial policy is highly relevant to power dynamics. The rent distribution processes of industrial policy uncover broader power relations, necessitating further probe through the lens of political settlements.

Analysing the political settlements in industrial policy not only facilitates a deeper understanding of the logic behind the rent allocated to some production sectors over others but also clarifies the processes of policy successes or failures. This framework indicates the inherent power distribution that forms institutional arrangements and structures, explaining why certain measures are politically viable and pragmatic (Khan, 2010; Hickey et al., 2014; Whitfield et al., 2015). Those politically viable measures could succeed as a common ground for interest competition and coordination, pragmatically minimising the opposition. For instance, Uganda's political settlement investigated by Kjær (2015) elucidates the differing policy outcomes in dairy, fishery, and extension advisory sectors, given similar initial rent and power distribution. The success of Uganda's dairy industrial policy results from the patron-client exchange and political reciprocity between the ruling coalition and dairy actors, unlike the other sectors—or scrupulously, the others are at least not to the extent of the dairy one that is able and willing to maximise both industrial capabilities and supportive allegiance to the ruling authority.

Assuming a fixed amount of distributable rents, given sectors without substantive collusion or collective action, the authority's optimal choice is to cultivate sectors wherein influential, loyal actors are able and willing to maximise industrial capabilities with minimal, low-cost rent allocation. This choice means to economise resource input while extracting more economic and socio-political output. For example, if stakeholders of the dairy industry drive economic development and political stability in a way others are unable to, the ruling

authority would naturally prefer to support this industry in a reciprocal patron-client manner. It might be true that neo-patrimonialism or -extractivism escalates unproductive rent-seeking (Kelsall et al., 2013, pp. 8–17), echoing long-standing neoliberal criticism on industrial policy. However, Whitfield et al. (2015) suggest that these represent variants of clientelism—with neutral rent-seeking analysed by our review. The rise of emerging economies implies that under certain forms of clientelism, the authority could utilise rent creation and distribution to enhance productivity and social benefits (Chang, 2002; Khan, 2011; Kelsall et al., 2013). Accordingly, political settlements offer the theoretical framework for analysing industrial dynamics, notwithstanding ongoing debates indicating room for critical thinking.

3. Materials & Methods

Khan (2018) notes that the continuity and change of political settlements manifest in concrete, tangible, and observable political and economic outcomes. The outcome variables contain not only the growth rates but also more underlying indicators such as industrial capabilities. The settlements imply certain power distribution, facilitating or hindering the industrial policy rent allocation influencing capability development. A robust settlement with effective rent management often facilitates cohesive industrial policy, whereas fragmented or predatory ones are closer to inefficient allocation. Therefore, our examination selects an object sensitive to power dynamics within industrial policy.

Automotive manufacturing is the object evolving in industrial policy processes amidst dynamic political settlements. This sector is relevant to capital investment and technology diffusion (Wells, 2013); the capital intensity and technical complexity necessitate the holding power of the authority in rent creation and distribution of industrial policy. Articulating this concept, rents initially refer to the price paid to landowners for land use, representing the surplus of factor incomes over opportunity costs (Ricardo, 1817/2015). This surplus means the control over rents and direct profits generated, extending from land to capital, technology, and policy intervention. The industrial policy is the means an authority holds and distributes surplus to selected sectors—auto manufacturing is one of the most representative sectors in strategic need of industrial policy rents; in turn, the varied processes in cultivating auto

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manufacturing reveal comparable settlements by varying surplus-holding. Succinctly, this research object elevates our understanding of the rent distribution of industrial policy.

Dissecting this sector in China and Indonesia is essential to grasp the settlements behind industrial policy. Indonesia has shifted to decentralised governance, while China maintains a strong institution. Both states, embedded in selective neoliberalism, foster viable industrial development with distinct inter-multi-sectoral auto-relevant actors from 1990 to 2022. China's SOEs, reforming towards mixed ownership, have driven the structural transformation; Indonesia's sectoral capability development has relied on state-supported joint ventures with private and foreign capital. Selective neoliberalism combines elements of neoliberal market-oriented change with targeted continuous intervention to cultivate selected sectors to ameliorate national development. Analysing these processes reveals how the continuity and change of political settlements configure varying industrial policies, through which the institutions exert an influence. The comparison specifies the diverse effects of the interplay between power and rent distribution on policy processes.

With the materials selected, the comparison builds on the historical lens of continuity and change (Tyce, 2020; Brugger et al., 2024). Our interpretation regards the industrial policy processes as the response variable, with political settlements as the exogenous explanatory variable. According to Behuria et al. (2017) and Brugger et al. (2024), our first investigation unfolds the power distribution in China and Indonesia. The settlements identify vertical and horizontal factional power; they especially clarify the important timing of reforms, rendering the settlements dynamic and systematic. Considering exogenous power continuity and change, the second examination explores the sector's interplay with the settlements. This exploration is the microeconomic case studies of auto conglomerates under certain historical events and industrial policies, illustrating how evolving rent distribution works in each stage.

This research articulates the dynamic settlements by distinguishing the continuity and change in rent and power distribution. For instance, the informal state-market relationships established clientelism during socialist history, which left a continuity in Tanzania (Gray, 2013). Although the ruling coalition seemingly centralised power, the informal distribution of power was dispersed. This settlement featured vulnerable to opposition (Khan, 2010; see Fig. 1). With Kelsall's (2018; see Fig. 2) typology, Tanzania's influential factions were motivated

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into socio-economic development, but lacked the capacity to set effective state institutions to manage rent distribution. This incapacity, consequently, manifests as political economy constraints, culminating in a continuity of power dispersal that exacerbated policy coherence.

		Horizontal Power Distribution: Ruling Authority over Opposition Factions	
		< Concentrated	Dispersed >
Vertical Power Distribution: Ruling Authority over Lower-Level Factions	Concentrated >	<p>Potential Developmental Settlement</p> <ul style="list-style-type: none"> Dispersed opposition from excluded factions with political stability of ruling authority. Concentrated legitimacy of central control with constrained autonomy of lower-level factions. Prospective farsighted developmental state with effective horizontal and vertical power. 	<p>Vulnerable Authoritarian Settlement</p> <ul style="list-style-type: none"> Stronger opposition from excluded factions with surged vulnerability of ruling authority. Diminished legitimacy with bearable autonomy of lower-level factions. Decentralised authoritarian state with imbalanced horizontal power.
	< Dispersed	<p>Susceptible Ruling Elite Settlement</p> <ul style="list-style-type: none"> Raised opposition from excluded factions with tolerable stability. Susceptible legitimacy of enforcement with stronger autonomy of lower-level factions. Fragmented ruling elite state with reduced vertical power 	<p>Competitive Clientelist Settlement</p> <ul style="list-style-type: none"> Fierce competition among multiple strong factions with high-risk instability. Constrained legitimacy of enforcement with excessive autonomy of lower-level factions. Competitive shortsighted clientelist state with limited horizontal and vertical power.

Figure 1. *Khan's Political Settlements Typology*

Notes: This typology is interpreted based on Khan (2010, p. 65).

For another, Brugger et al. (2024) uncover Burkina Faso's settlements from Thomas Sankara to Blaise Compaoré. The latter's susceptible ruling elite settlement was opposite to Sankara's developmental power. Instead of continuity, this is a change. According to Figs. 1 and 2, Sankara weakened horizontal factions and enforced strict discipline towards vertically efficient state institutions (Fig. 1). Horizontal factions are interest groups in power contests with power relations at same-level institutions; the 'vertical' is the control and enforcement relations between upper and lower levels, reflecting dominant-subordinate and central-local distribution. While Sankara concentrated his vertical power and legitimacy, the excluded interest factions colluded. Sankara's power foundation became imperceptibly narrower due to the collusion of horizontal power actors (Fig. 2). Moreover, Compaoré enforced a centralised ruling that excluded opposition factions, but power was vertically factionalised. In this scenario, the state institutions lacked policy efficacy in development (Brugger et al., 2024; Fig. 2). Burkina Faso's transition from Sankara to Compaoré embodies the change from an

efficient disciplined state with effective power to a centralised but factionalised regime.

		Social Foundation	
		< Broad	Narrow >
Power Concentration	Concentrated >	<p>Broad-Concentrated</p> <ul style="list-style-type: none"> • Broad-based social development with developmental capacity of institutions. • Inclusive development with power concentration and effective big-picture initiatives. 	<p>Narrow-Concentrated</p> <ul style="list-style-type: none"> • Limited social benefit-sharing with strong capacity. • Predatory ruling with high-risk policy mistakes and developmental disasters.
	< Dispersed	<p>Broad-Dispersed</p> <ul style="list-style-type: none"> • Broad-based development benefit-sharing with limited capacity of state institutions. • Clientelism with power dispersion and often ineffective measures. 	<p>Narrow-Dispersed</p> <ul style="list-style-type: none"> • Fewer broad-based benefit-sharing with tolerable capacity. • Elite ruling with necessary power organisation of populous groups.

Figure 2. *Kelsall’s Political Settlements Typology*

Notes: This typology is interpreted based on Kelsall (2018, pp. 16–20).

The evidence from Tanzania and Burkina Faso illustrates the significance of political settlements to identify power distribution. Considering industrial policy design, the state allocates rents to specific interest groups to garner political reciprocity from explicit or imperceptible patron-client networks. By grasping the reciprocity, the ruling authority could offer generous favour to the influential interest groups in exchange for effective policy enforcement. The exchange-based patron-client networks could therefore maximise policy coherence by weakening opposition factions and mediating a stronger social foundation that configures a political settlement that determines the rent distribution of industrial policy. The industrial policy might encounter opposition from interest factions. However, when the opposition is outweighed by existing or emerging beneficiary groups, such policy aligns with the political logic of maximising patron-client reciprocity. The next section situates the political settlements in China and Indonesia from 1990 to 2022, appropriating the reciprocal exchange to dissect the power distribution under selective neoliberalism.

4. Political Settlements in China and Indonesia

Industrial policy and development came up under the dynamic political settlements in China and Indonesia. Clarifying their power continuity and change from 1990 to 2022, this section investigates three stages to position the settlements in their unitary-state emerging economies.

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But before that, this investigation starts with their initial contexts to uncover the changing power relations in political settlements with our historical lens.

4.1 From Independence to Neoliberalism

To historically uncover the essence and manifestations of power continuity and change after 1990, pinpointing the pre-1990s initial conditions and contexts is necessary to specify what was continuous or changed. Mao Zedong structured the continuous developmental settlement within China's power distribution—concentrated vertical and horizontal power. Mao, as the legitimate symbol of localised socialism, constructed an ideology that resonated with ever-exploited workers and peasants, mobilising such majority's allegiance to the legitimacy of the Chinese Communist Party (CCP) (King, 1975; Khan, 2010, pp. 1–7; He & Warren, 2011). The CCP-directed worker-peasant alliance hereto excluded other horizontal interest groups such as landlords and capitalists in class struggle. Successively, Mao settled strong party-state legitimacy and social foundation through revolutionary ideology, independent state-building, and heavy industrialisation (Tsou, 1995; Chien, 2008), which formed the comparable historical baseline for China's power continuity and change.

Since the Mao era rang down the curtain, the party-state shifted its commitment from ideology to pragmatic development. Within Deng Xiaoping's pragmatism, neoliberalism and Maoism intertwined in selective neoliberal development. The marketisation-induced interest groups undermined the worker-peasant social foundation; therefore, Deng handled factional politics of horizontal power competition and balance to keep power actors from suspecting the authority and resorting to political ruptures (Lee, 2023). Deng initiated economic growth as the shared goal for reformists, conservatives, technocrats, and generalists. Given the shared goal and Deng's control over the military, vertical discretionary power was moderately decentralised with political meritocracy promoting capable cadres of economic reforms, leaving over developmental and balanced power distribution in the 1990s (Qian et al., 2006; Cai & Treisman, 2006; Acemoglu & Robinson, 2013).

When Mao was constructing CCP's ruling legitimacy with effective power, Indonesia gained independence from the Dutch East Indies and Imperial Japan after the Second World

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War. Sukarno proposed Pancasila to bridge influential power actors—Islamists, communists, and nationalists (Bourchier, 2019). For the legitimacy and social foundation of the ruling authority, Sukarno's Pancasila absorbed the ideals of communist equality, Islamic faith, and nationalist development. Regrettably, even with Pancasila, parliamentary democracy incurred political ruptures among divergent nationalists, Marxists, and Islamists, as shown by armed resistance (Pham, 2019). The curtailed social foundation made Sukarno bestow political favour on the military and pin his faith on nationalisation to restore effective power through violence and rent distribution.

Sukarno handled a vulnerable authoritarian settlement known as 'guided democracy' where the military played an increasingly powerful role in maintaining political stability (Lev, 2009; Robinson, 2018). However, his over-reliance on military faction marginalised other power actors and triggered the military's uncontrollable power. Similar to Deng's factional politics, Sukarno promoted the Indonesian Communist Party (PKI) to facilitate power competition at lower levels (Bourchier, 2019; Pham, 2019). Nevertheless, the imbalance in factional power distribution occurred as PKI became the most powerful actor. Meanwhile, Sukarno's commitment to the International Communist Bloc and economic decline during the Cold War offered the opposition factions—the military, nationalists, and Islamists—a pretext for a coup against Sukarno and PKI (Robinson, 2018). In contrast to China's stable and viable settlement change wherein Deng controlled the military and mediated factional interest divergences, Sukarno's imbalanced reciprocity with PKI fuelled dissatisfaction among nationalist and religious groups. This imbalanced power distribution caused political ruptures. Ultimately, Sukarno's fall left lessons from the vulnerable authoritarian power, introducing Suharto's developmental 'new order' dominated until the late-1990s.

4.2 Convergent Developmental Entrances to Selective Neoliberal Reform

Compared to the historical baseline, the 1990s commenced with ushering in neoliberal reform, when the political settlements in China and Indonesia displayed similar 'developmental'. In China, Jiang Zemin rose to power, inheriting the growing economy and relatively endurable society. Jiang and his Shanghai faction continued the developmental settlement with factional

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checks and balances among political dynasties (Princelings) and technocrats (Youth League). Concerning market-oriented reforms, technocrats dominated policymaking, ensuring stability with attention to social welfare and fair distribution when the Princelings exerted influence in the state-owned financial sector, to make the reforms inclusive of their interests. The factional coordination and compromise allowed China to move forward in reforms without drastic conflicts, thus facilitating continuous development. This balance endowed the developmental party-state with continuity in power distribution.

In addition to factional balance, political meritocracy also kept China developmental. The CCP authority controlled central and local promotions and dismissals, engaging in mutual initiation, negotiation, and implementation of selected reforms with cadres at all levels (Xu, 2011; Zeng, 2016). Specifically, Jiang granted political favour to technocrats who succeeded in economic reforms in exchange for merit and allegiance (Cai & Treisman, 2006; Qian et al., 2006; Wang & Yang, 2021). Based on meritocratic promotions, their transferable economic initiatives at a higher level gave substantial benefits to the privileged Princelings elites in administration and finance. The selective reforms embedded more win-win benefits into the factional competition to mitigate divergences, which endowed the authority with effective power to hold out rent distribution. In other words, shared benefits mediated their collective action in economic reforms rather than factional struggle (Williamson, 2012; Acemoglu & Robinson, 2013). Given the allegiance of political dynasties and technocrats, indiscernible opposition could not constitute political ruptures (Xu, 2011; Malesky & London, 2014). Consequently, Jiang's resilient settlement secured developmental power to mobilise different factions in advancing neoliberal reform.

Unpacking the power distribution within Deng-Jiang resilient settlement, solidified horizontal balance and decentralised vertical power capably facilitated reform initiatives. China's neoliberal reform was embedded in such developmental settlement, rather than being overexploited by nepotism or cronyism. Nepotism and cronyism involve favouring relatives and allies in the patron-client system, whilst the exchange of political allegiance means collusive clientelism. With gradualist reforms, this settlement featured a nuanced form of clientelism to facilitate collective action, but still developmental. Hereto, decentralisation motivated subordinate or local cadres to ease trade and investment in economic development

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zones (Chien, 2008; Song et al., 2011). For political favour and promotions to higher levels, these cadres pledged allegiance to the CCP authority by upholding reforms (Haveman et al., 2017). With their allegiance and merit, central and local governments learned from selective reforms and transferred them (Mukand & Rodrik, 2005; Zeng, 2012). The Youth League actors gained promotions while win-win factional politics ensured continuous rent benefits to the Princelings. This developmental settlement in essence was to reconcile interest groups in collective action for shared development benefits (Woo, 1994; Dewatripont & Roland, 1995). In short, it integrated meritocracy into factional balance, which solidified the legitimacy and social foundation, thereby maximising policy efficacy and political stability.

Indonesia's power distribution revealed similarities in political settlement with China. Indonesia believed that a developmental institution was necessary to overcome post-colonial conflicts (Rock, 1999; Juhász & Lane, 2024). Hence, Suharto's new order generally served as centralised nationalist development with predatory elites as active actors (Boediono, 2005; Rosser & Qiao-Franco, 2023). After the coup and purge of the left, as a military leader and president, Suharto reinterpreted Pancasila to remould the horizontal balance of nationalists and Islamists (Robinson, 2018; Bouchier, 2019). He undermined the parliament and party system by appointing military commanders as bureaucrats to control the judiciary and elections (Rosser & Qiao-Franco, 2023). With effective power, his ruling coalition allocated rents by government contracts, concessions, and subsidised loans to conglomerates controlled by their relatives and allies. Suharto mobilised the cronies as business elites in reciprocal development (Rock, 1999; Sato, 2017), where political dynasties and cronies pledged support to nationalist development in exchange for rent privileges (Pangestu et al., 2015; Kim & Sumner, 2021). Objectively, rent-seeking coordinated elites in this developmental settlement.

From a social foundation perspective, this settlement cultivated and integrated crony capitalists through personal networks. Suharto proactively handled cronyism and clientelism in power distribution to emerging actors for a coalition. Regarding economic affairs, cronies with political favouritism established conglomerates while Suharto's military controlled key sectors (Rock, 1999; Kim & Sumner, 2021). The expanded social foundation based on factional power distribution formed a basically developmental, but increasingly vulnerable clientelist settlement that constituted the continuity of decentralisation.

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At the end of the 1990s, the economic crisis eroded Suharto's power. The crisis directly undermined the ruling legitimacy of new order and forced Indonesia to rely more on international financial institutions. These development donors became new power actors, and their increased political influence imposed neoliberal reform and democratisation on the (post-)Suharto settlement (Rosser & Qiao-Franco, 2023). Accordingly, power shifted from predatory elites to progressive technocrats; following Suharto's power distribution, the post-Suharto settlement still sought collective action with emerging factions. At this time, Indonesia earned economic aid and political support by committing to neoliberal reform, consolidating the social foundation of the authority in a more clientelist manner.

Indonesia's political settlement in the 1990s, similar to China during the same stage, balanced horizontal power through factional politics and fortified its legitimate power concentration through nationalist development. The similarities between CCP and new order in the 1990s include centralised control over the military as well as checks and balances on factional power. On the other hand, compared to China, Indonesia's power was centralised with a broader social foundation (Schulz & Kelsall, 2021). Indonesia embraced the capital of development donors and followed their reform agenda, a process that engaged more social groups in economic and political affairs. However, a broad social foundation might generate divergences and uncertainty in policymaking.

Indonesia remarkably transitioned to decentralisation, whereas China's change was limited—it was not replicated in China for Indonesia's drastic change in the late-1990s. Our preliminary interpretation is that, in China, the impact of the Mao-Deng developmental settlement ensured a stable social foundation without discernible strong opposition. Maoism excluded other horizontal opposition factions, and Deng-Jiang liberalisation reform actively recruited new actors—China experienced less complex, intra-party factional politics than Indonesia. China's ruling legitimacy and social foundation enabled meritocracy to mitigate the drawbacks of clientelism; those of Indonesia were more passive, increasingly immersing themselves with pressure from factional divergences. Indonesia underwent a significant decentralisation, while China's gradualist transition within a cohesive developmental settlement relieved the pressure from clientelism.

4.3 Divergent Clientelist Passages through Global Value Chain Transformation

China's accession to the WTO in 2001 marked a crucial moment for integrating into the GVC networks (Duckett, 2019). The neoliberal trade-driven development ought to have solidified Hu's legitimacy; structural transformation, however, exhibited uncertainty and exploitation. Hu rose with the Youth League faction through meritocracy but was powerless to intervene in intra-factional affairs connected with the Shanghai faction and the Princelings. Inheriting decreasing central-local constraints, those unconstrained factions might maximise personal gains in economic change to exploit their established rent benefits (Dinc & Gupta, 2011; Haveman et al., 2017). This exploitation depended on vague institutional regulations of property rights and competition that were set to maintain a developmental settlement with factional politics (Clarke et al., 2008). Be that as it may, when expanded factional power undermined Hu's policymaking, here emerged a vulnerable authoritarian settlement.

The risk of exploitation undermined Hu's social foundation, prompting Hu to sustain international and private capital. From a state perspective, ownership diversification signified the emerging interest groups that could be included or excluded from political favour. Since new capital was increasingly decisive for checks and balances on factional power, Hu and his technocrats allocated policy favour to emerging actors, capitalists and entrepreneurs (North, 1990; Duckett, 2019; Wang & Yang, 2021). Hence, the way to solidify social foundation was knowledge-sharing (Haveman et al., 2017). Knowledge-sharing was a unique rent allocation that facilitated policy efficacy through information exchange. For instance, by recruiting entrepreneurs into the party, CCP created knowledge-sharing (Dickson, 2007; Yang & Tang, 2020) which made entrepreneurs hold similar socio-political stances to Youth League cadres (Guo et al., 2014). In turn, appointing bureaucrats as advisors enriched certainty-enhancing knowledge against vague regulations, furnishing entrepreneurs with confidence in industrial policies (Alami et al., 2021). However, endeavours to recruit emerging actors failed to maximise Hu's social foundation, as a significant portion of them formed patron-client relationships with other factions instead of the specific Youth League one. Meanwhile, knowledge-sharing was often accompanied by visible rent-seeking; taking a particular case, those bureaucrats of other factions sold land at a predatory discount to firms in exchange for

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lucrative board positions (Chen et al., 2023). Those willing to furnish predatory discounts were more likely to capture generous returns from ‘patron firms’. This informal collective action was taken to facilitate shared benefits in ownership diversification (Dickson, 2007; He & Warren, 2011; Alami et al., 2021), but it was regrettable that this rent-seeking equated with conniving at negative externalities. Compared to Suharto, Hu’s attempts to enhance effective power were hampered by both entrenched and growing patron-client relationships within the party that were loyal to other factions. Many of the new interest groups in China chose to follow other factions, whereas, in Indonesia’s 1990s, Suharto succeeded in manipulating patron-client networks in rent and power distribution to align the emerging crony elites with his social foundation. For all this, Hu’s endeavours for that foundation were compromised by exploitation risk and factional patron-client relationships, despite integrating entrepreneurs and diversifying ownership.

For vertical power, during fiscal and administrative decentralisation, local-level cadres autonomously managed economic affairs (Xu, 2011; Zeng, 2016). This reinforced inter-regional factional competition and rendered a more vulnerable settlement. Although the authority endeavoured to manage policy processes through dismissals and promotions (Cai, 2008; Wang & Yang, 2021), some localist bureaucrats favoured protective rents to local cronies (Bulman & Jaros, 2021). Personnel management was not always viable; that was why Hu granted favour to new entrants, particularly private entrepreneurs. Simultaneously, pragmatic Youth League-backed technocrats absorbed pro-market ideas (Dickson, 2007; Duckett, 2019). Substantial pro-market promise of more holding power furnished new business actors with confidence. When Hu signalled a promise that certain groups would be valued (Haveman et al., 2017), positive signalling coupled with gradualist reforms constituted the authority’s commitment to private sector prosperity in policy change (Dewatripont & Roland, 1995). Without the promise, interest groups might oppose reforms due to uncertainty, even if reforms ensured long-term returns (Fernandez & Rodrik, 1991). While gradualist reforms might objectively ignore corruption, this minor vulnerable authoritarian settlement benefited Hu’s ruling legitimacy and policy change.

In comparison, Indonesia’s post-Suharto settlement appeared overly balanced by 2004, as even the presidential power in mediation was dispersed. During the broadest factional

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settlement from Abdurrahman Wahid to Megawati Sukarnoputri, the horizontal oligarchic groups mediated the president and cabinet (Boediono, 2005), whereas all opposition factions to the authoritarian oligarchy were indiscernible (Slater, 2018, p. 35). China's party-state supervised local autonomy; rather, in Indonesia's oligarchic mediation, lower-level elites brought more instability in the absence of effective control by a ruling authority, generating uncontrolled clientelist cartels.

Yudhoyono won the direct election reforms in 2004 as the beginning of settlement change. Yudhoyono relied on a broad-based coalition with competitive clientelism, offering political favour in exchange for compromise and support (Warburton, 2016). He promised cabinet positions to various factions to mediate interest divergences for a stable government (Boediono, 2005; Aspinall et al., 2015). After influential development donors exchanged economic aid with the ruling authority for Indonesia's reform and democratisation, previously marginalised groups such as trade unions and NGOs commenced changing the distribution of power (Sato, 2017; Rosser & Qiao-Franco, 2023). Regrettably, this change meant uncertainty to political dynasties and cronies who sought cartel politics as a way to resist uncertainty (Slater, 2018, p. 37). Concerning cartel politics, critics argue that Yudhoyono's coalition was superficial, as powerful factions still excluded discernible opposition. Indonesia's cartel politics differed from factional politics in Deng-Jiang China because, for Yudhoyono, the competitive clientelism in the coalition obstructed his capacity from retracting oligarchic power expansion.

Indonesia's cartel politics was a competitive clientelist settlement, dispersing the authority's effective power (Sato, 2017). Although Yudhoyono sought to solidify legitimacy by granting political favour to exchange allegiance from lower-level factions (Warburton, 2016), he failed to consolidate vertical power without a solid capacity to manage rents. When presidential power in rent distribution and mediation was constrained, it was cartelised factions that held out power (Slater, 2018). As a result, subordinate and local elites saw his decentralisation as the authorisation of localism to create 'power kingdoms' rather than responsibility-sharing (Lee, 2021). Unlike China's central control over personnel affairs, the captured holding power by predatory elites and their cronies escalated political ruptures in Indonesia. For instance, localist urbanisation witnessed political oligarchs and cronies

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controlling most urban real estate (Boediono, 2005; Lee, 2021). Notwithstanding beneficial urbanisation for economic growth, localist clientelism hindered Yudhoyono from mitigating inequality with effective policy change. The cronies solidified cartelised power through clientelist favour distribution, whereas China's knowledge-sharing favoured efficiency in policymaking and enforcement. While both are profit-seeking, the vertical control capacity rendered development efficient in responsibility-sharing.

Although Slater (2018) deems Indonesian political cartelisation as rare and onerous to compare across cases, the political settlements framework offers a wedge to separate nuanced power relations from policy praxes. In China, the CCP could use effective power to facilitate structural transformation through political reciprocity with entrepreneurs and factional elites. While decentralising power and encouraging inter-trans-regional competition, the authority maintained its legitimacy by mediating power entrants. By contrast, Indonesia's cartelised power distribution well expanded the social foundation, but excessive competitive clientelism culminated in overly powerful factions that held out the power (p. 27). Cartelised coalition implying their willingness to share power with others notwithstanding (p. 25), voters were incapable of bargaining with the coalition by virtue of discernible opposition. Without meritocratic discretion and vertical legitimacy, the authority might fail in checks and balances (pp. 23–26).

4.4 From Neoliberalism to Exit at Techno-Economic Revolution

Although liberalisation transformed China into the world's second-largest economy, it also incurred a shift from a highly egalitarian society to one marked by distinguishable inequality (Piketty et al., 2019). The growing inequality threatened the CCP's legitimacy. Over the last two decades, China's politics was characterised by factional checks and balances, particularly among the Shanghai faction, the Youth League, and the Princelings (Lee, 2023). However, the urgency to mitigate inequality (Zilibotti, 2017) and sustain industrial development (Mao et al., 2021) prompted the CCP authority to concentrate power on coordinating policy efficacy as inequality and exclusive growth were attributed to the relative vulnerability caused by factional power expansion.

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Since Xi Jinping came to power in 2012, China changed from a relatively vulnerable, decentralised settlement to a developmental one. First, the Xi administration marginalised previously powerful factions. Heretofore, CCP mediated factional interests in collective action, bridging divergences with shared development goals. But when the party's legitimacy became vulnerable to mediation, Xi neutralised the opposition within the Princelings and dismissed those backed by the Shanghai and Youth League factions through anti-corruption campaigns (Lee, 2023). Besides centralised control over factions, Xi moderated pro-market ideology since 2015 (Duckett, 2019). The centralisation and moderation occurred at the expense of certain entrepreneurship, narrowing the social foundation.

Second, in terms of vertical legitimacy, the central authority retracted certain local discretionary power. Since Deng's neoliberal reform, decentralisation enabled local cadres to engage in development at their discretion driven by rents and promotions (Zeng, 2016). While this engagement enhanced policy efficacy, such discretion made lower-level cadres prioritise local and personal interests over national policy, shown as central-local conflicts and localism (Bulman & Jaros, 2021). Consequently, Xi catalysed personnel changes and exerted rotations in meritocratic competition (Zeng, 2016). Since years of governance in a specific region attracted local elites as factional cronies, the rotations could weaken localism by dismantling cadre collusion with local elites—Xi frequently appointed cadres to govern unfamiliar regions, depriving them of opportunities to attract local cronies. Overall, Xi exerted the personnel rotations to fortify his ruling legitimacy in facilitating administrative efficiency.

However, efficiency is only one side of the coin. On the other side, the retraction of factional power indicated the heightening risk of policy mistakes (Tsou, 1995; Chen, 2023). This efficiency might court abuse of monopolistic power in political and economic affairs, impairing the sustainability of settlement. Fortunately, centralising towards a developmental settlement was not an exhaustive retraction of discretion. The central authority set standards, authorising flexible policy praxes by lower-level cadres (Maung et al., 2015); the party-state became a stronger regulator but still highlighted the flexibility of lower-level power rather than control or suppression. Nonetheless, it should be properly taken into account that policy mistakes might escalate considerable economic distortions within the developmental power

distribution.

Simultaneously, Indonesia's political settlement entered a stage of uncertainty again. Joko Widodo (Jokowi) gained power in 2014, whose commitment to democratic governance won the votes of civil society (Muhtadi, 2015; Warburton, 2016). However, his coalition lacked a parliamentary majority (*ibid.*) with the settlement remaining competitive clientelist. This clientelism was filled with powerful factions. The literature has analysed Jokowi's identities—Javanese, businessman, and technocrat—to explain how this outsider rose to the presidency without the factional allegiance from political dynasties (Lee, 2021, p. 294). Confronting this clientelist settlement, Jokowi prioritised pragmatic development (Slater, 2018; Setijadi, 2021) but laying democracy commitment aside.

To realise pragmatic development, Jokowi dismantled the cartel politics left by Yudhoyono (Slater, 2018). Jokowi criticised Yudhoyono for overly relying on political compromise in the clientelist settlement, which made the presidency 'held hostage' by horizontal factions. Even though powerful factions could manipulate policymaking, each oligarch stood on differing policies against the interests of other factions (Muhtadi, 2015). Thence, Jokowi traded political favour in exchange for mediation. After mediating the oligarchic power, Jokowi intervened in the internal affairs of opposition factions. He bolstered pro-government groups within the opposition, consolidating effective power through cabinet reshuffle and targeted coalition with supporter oligarchs (Mietzner, 2016; Warburton, 2016). Essentially, Jokowi changed clientelist settlement to disperse horizontal factional power, solidify the oligarch-backed social foundation, and centralise vertical power to resist party cartelisation. Thus, while Slater (2018) deemed Jokowi a new version of Indonesian political cartelisation, this section considers post-2016 factional politics more closely resemble susceptible ruling elite settlement—Jokowi achieved greater policy efficacy in the patron-client system than Yudhoyono. Concisely, the policy mediation among power actors facilitated the legitimacy of Jokowi's ruling elite settlement.

For example, according to Mietzner (2016), in the 2014 ballots within Golkar, both pro-government and pro-opposition factions claimed victory. Jokowi especially recognised the pro-government one as the legitimate representative, intervening in intra-party power struggles to consolidate his vertical power. His intervention in Golkar was notable (pp.

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219–220): Jokowi and his ally Luhut Panjaitan leveraged their personal networks within Golkar to marginalise the then-chair of Golkar, Aburizal Bakrie. Bakrie, a business and political oligarch of the post-Suharto era, operated influential conglomerates with clientelism. The conglomerates thrived on exclusive government contracts and loans, but without holding power to retain the rents, they grappled with financial stress (p. 219). Jokowi and Luhut threatened to reduce contracts and loans to Bakrie's conglomerates, forcing his cronies to compromise. By 2016, Jokowi secured a majority and seats in parliament and government (p. 301), solidifying the effective power of his coalition.

In summary, Indonesia's power distribution transitioned to concentration with an ameliorated social foundation (Schulz & Kelsall, 2021), whereas China ameliorated its developmental power against vulnerability. China's central authority enhanced control over local elites, curtailing localism and factional collusion; in contrast, Indonesia aggregated the support from allegiant factions to counter cartelisation more than localism. Both spotlighted effective power and policy efficacy on which their divergent processes converge, which was rational for their development stages and goals. On the other hand, China's centralisation increased the risk of mistakes due to a lack of checks and balances; Indonesia's checks and balances acted on the social foundation, but factional interest mediation might precipitate poor policy coherence.

To sum up this investigation, the continuity and change of political settlements in China and Indonesia at different development stages reveal the dynamic power distribution within the horizontal social foundation and vertical legitimacy. Under selective neoliberalism since 1990, China transitioned from a strong developmental settlement to an increasingly vulnerable authoritarian one, then reconsolidated to an alternative developmental pattern; the social foundation changed along an inverted U-shaped curve being broader then narrower, while the party-state authority continued its vertical control as legitimate effective power. Meanwhile, Indonesia changed from the developmental 'new order' to a more uncertain competitive clientelism and then the susceptible elite ruling by coordinating the factional foundation. Indonesia's social foundation with further democratisation and decentralisation was broader than China's. The lessons suggest the importance of understanding power distribution for political stability and structural transformation, by which the next is to

process our case studies of FAW and Astra.

5. Industrial Policy as Process under Selective Neoliberalism

With political settlements (Section 4) as the exogenous explanatory variable, our examination of FAW and Astra aims to dissect the processes of industrial policy in China and Indonesia. This section illustrates how rent distribution in divergent settlements moulds the continuity and change in separate stages. The case studies here focus within selective neoliberalism from the 1990s to the beginning of the 2020s.

To better distinguish the continuity and change as Section 4, this examination portrays the initial contexts at first. China's FAW, the earliest auto manufacturing entity established in the 1950s, was completely managed by the CCP generalists and technical experts before neoliberal reform (Feng, 2018, pp. 51–54). Among those cadres, Guo Li, the organiser and factory director, previously studied at the Harbin Institute of Technology and served as a senior industrial technocrat in the Shanxi-Chahar-Hebei Borders and North China (FAW, 1991, 2022). During Mao's socialist industrialisation, the authority allocated policy rents and Guo's directorship to FAW. The rents, extending beyond regulatory privileges, included infrastructures from Changchun, technical assistance from the Soviet Union, experienced workers from Shanghai, and engineer battalions from the military (FAW, 1991, pp. 99–106). This rent distribution continued as the CCP directed FAW with diverse industrial policies in a developmental manner.

Astra evolved from a general trading company to an industrial conglomerate with diversified networks. Chinese Indonesian businessman Tjia Kian Liong (William Soeryadjaya) and his family founded Astra in 1957 (Pambudi, 2013), which then acquired a stable profit and rent source from government procurement. To expand vehicle assembly and trade under liberalisation, Astra became an exclusive distributor of international business giants and established joint ventures, capturing a considerable share of the auto market (Astra, 2024). Astra's transformation was rooted in selective neoliberalism, albeit intermittently.

5.1 Insiders of Rent Distribution and Developmental Policy

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5.1.1 Public Sectors in China

The 1990s observed a decade of selective neoliberalism in East and Southeast Asia, characterised by liberalisation and curtailed industrial policy (Cameron, 1999; Song et al., 2011). Within the liberalisation in China and Indonesia was the selective industrial policy enabling industrial actors to catch up with technology leverage through trade-driven resource reallocations (Melitz, 2003; Helpman et al., 2004) and transnational production networks (Whitfield, 2023). For the social benefits of learning-based innovation, the policy toolkit facilitated industrial capabilities, rewriting the story of rent-seeking.

To cultivate development capacity within neoliberal trade, China prioritised public sectors in industrial policy. Although private sectors drove visible economic transformation (Malesky & London, 2014), for a turbulent China with limited industrial capability, the SOEs in strategic production created social benefits. The SOEs capitalised on land and capital as unconstrained insiders (Song et al., 2011) backed by the authority that distributed rents by taxes, subsidies, interest rates, and property rights (Stiglitz et al., 2006; Rodrik, 2007). China distributed diverse rents to SOEs, generating public wealth reinvested in industrial capability (Piketty et al., 2019) and power coordination among central, local bureaucrats and private capitalists (Li, 1996; Che & Qian, 1998). Analysing social benefits from the value chain perspective, China's rents in productive industries earned positive externalities, coordinating intra-sectoral actors to enhance productivity by learning-by-doing, and signaling high-return opportunities to mobilise business elites into downstream and upstream sectors (Rodrik, 2013; Andreoni & Chang, 2019; Liu, 2019; Juhász et al., 2024). The increasing industrial policies for the insider SOEs enabled positive externalities, reflected in mergers and joint ventures.

5.1.2 Developmental Settlement and Rent Allocation

Following Deng's neoliberal reform, China enriched industrial policy with more economic measures (Laffont & Qian, 1999). Guided by the National Outline of Industrial Policy in the 1990s, Jiang granted FAW decision-making autonomy in management (Feng, 2018, p. 58). To assist in market-oriented mergers, state-owned banks allocated timely, generous loans to the insiders. Hence, FAW merged with 11 works and other entities such as the Changchun

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Institute for Automotive Research, transforming into a conglomerate by vertical integration (FAW, 1991, pp. 9–12). Moreover, the party-state licensed FAW an exclusive franchise for auto production attractive to FDI, giving birth to the joint venture FAW-Volkswagen (Feng, 2018, p. 73). In 1994, Jiang detailed rent supports to FAW with ‘automotive industrial policy’ (Huang, 2002). Financing FAW mergers and joint ventures increased its industrial capabilities in positive externalities of systematic integration and technology learning—the economic measures raised the curtain of FAW transformation under selective neoliberalism.

Nevertheless, selective neoliberalism caused economic distortions due to intermittent policy modifications. Jiang frequently modified the franchise allocation, incorporating three specialised manufacturers of compact cars and two of microcars (Huang, 2002; Feng, 2018). Intervened by modification, FAW supplied 204,743 units in 1996 whereas Toyota produced 1.47 million units in 1969 (Huang, 2002, p. 542). FAW grappled with more dispersed rent competition as China designated over seven manufacturers as insiders—advanced economies typically supported only one or two leading entities like Toyota in Japan (*ibid.*). Modifying the rent insiders was to balance factional power rather than economic considerations, as evidenced by the military faction’s interests behind the five manufacturers. The tradeoff on factional interests catalysed tensions with economic efficiency—Jiang’s pursuit of factional balance hindered economies of scale.

Although economic efficiency was important, political stability could be paramount. The party-state distributed rents to interest insiders in exchange for the authority’s legitimacy and vertical control, albeit with the cost of economic deceleration. Yet, this cost, returning political stability, might not absolutely yield economic efficiency but sustain developmental power distribution. Thus, encouraging marketisation never completely implied dismantling the established interests, and vice versa. If a political settlement featured coordinated rent distribution in industrial policy, political stability and administrative efficiency could foster capability development with more social benefits of positive externalities than costs.

5.1.3 Public-Private Networks in Indonesia

Similarly, to cultivate industrial capabilities, the selective intervention was indispensable in

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Suharto's neoliberal reform (Rock, 1999), which also portrayed a case where contextualised neoliberalism coexisted with continuing industrial policy. Suharto's reform was 'neoliberal' because the primary thrust aligned with neoliberal principles—the visible neoliberalism happened in liberalisation and deregulation, dismantling trade barriers and encouraging FDI. Despite that, Suharto continued selective subsidies for strategic industries with public-private networks like auto manufacturing. Public-private networks refer to partnerships between public sectors and private conglomerates, which occur through national policy, resource allocation, and benefit exchanges. Such networks were designed to boost economic growth, but might also involve interest groupings and favouritism to particular conglomerates. The continuity was by the 'cost' to ensure stability and loyalty from insider interest factions. Suharto's approach represents 'selective neoliberalism' like China with rent allocation for industrial development, which illustrates the complexity of structural transformation in the South states. Indonesia also distributed rents to labour- and capital-intensive manufacturing sectors with public-private networks, designing an import-substitution strategy including the ban on complete car imports (Hill et al., 2008; Sato, 2017). The networked conglomerates in these sectors, controlled by political dynasties and cronies, were protected and cultivated akin to China's SOEs by CCP cadres, contributing beneficial reciprocity for policy coherence and efficacy.

Earlier than China, state-capitalist Indonesia stimulated joint ventures (Doner, 1991) and sought integration into the neoliberal trade system. In the 1990s, Suharto endeavoured for the ASEAN Free Trade Area to attract FDI through full foreign ownership, lower tariffs, and tax incentives (Marks & Rahardja, 2012; Pangestu et al., 2015; Thoburn & Natsuda, 2018). In this context, Astra invested in diverse joint ventures to integrate along the GVCs of auto manufacturing, which enhanced Astra's capabilities by diffusive production technology and management expertise. This rent distribution attained industrial expansion by the mid-1990s (Lindblad, 2015; Kim & Sumner, 2021); nonetheless, rent competition was susceptible to insiders, coupled with trade disputes and diseconomies. The susceptibility of Suharto's selective intervention occurred as more selected his patron-client system than developmental considerations.

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5.1.4 Developmental Settlement and Rent Competition

Under Suharto's selective neoliberalism, the insider oligopoly induced diseconomies of scale with overproduction (Thoburn & Natsuda, 2018). This entailed involvement in neoliberal trade to handle the oversupply, but orthodox neoliberalism contradicted with the patron-client system. For example, the Suharto family dominated industrial programs through nepotist and clientelist administrative means. Suharto's son, Tommy, established the conglomerate Timor Putra Nasional (TPN) in partnership with Kia, monopolising the 'national car' program initiated by Suharto (Pangestu et al., 2015). TPN formed a monopoly due to tax exemptions and constituted a direct threat to Astra in no time (Hale, 2001). Suharto bestowed TPN special treatment, including exemptions from duties, luxury taxes, and tariffs on imported parts (Pangestu et al., 2015). Furthermore, Suharto instructed state institutions to ensure rent distribution, with banks offering Tommy privileged loans of 650 million dollars. Naturally, such privileged treatment ignited severe dissatisfaction among Astra and Japanese capitalists (Hale, 2001). Later, the national car program failed thanks to trade disputes and Suharto's downfall. In this case, unchecked nepotism incurred imbalanced rent-seeking as social costs. This imbalance forced Astra and Japanese capitalists to struggle and reassert competition over policy rents.

Within the developmental settlement, Suharto controlled state institutions including the Ministry of Industry (MacIntyre, 1993). Given that, policy rents were distributed through investment approvals, land use concessions, and trade permissions (Rock, 1999). Although selective industrial policy appeared market-oriented, rents were skewed towards competitive patron-client public-private networks (Kim & Sumner, 2021). Critiques argue against a swing between neoliberalism and nationalist state capitalism, but they ignored Suharto's priority on power continuity rather than liberalisation (Hill, 2008; Warburton, 2016, p. 309). In 1999, the post-Suharto government renegotiated with Kia to restart an auto manufacturing joint venture without the tax privileges and Tommy's patron-client networks. Interestingly, ex-Army Commander Hendropriyono held the presidency of this joint venture (Hale, 2001). The players of privilege-seeking changed from Tommy to Hendropriyono, yet the play continued as Hendropriyono's personal networks became a new insider of competition. The continuity

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of rent-seeking in political settlement highlights policy rents as a contentious yet useful double-edged sword.

5.2 New Entrants to Rent-Seeking and Clientelist Policy

5.2.1 Market Competition in China

The double-edged sword is useful in the hands of skillful players, provided that the social benefits of rent-seeking outweigh the costs. In China, the technocrats Hu and Wen Jiabao, from the Youth League faction, as Chairman and Premier, were skillful at wielding this sword (Lee, 2023). Heading liberal reformers, Hu and Wen carefully selected a group of economic insiders to compete with international and private entrants. Since the 2000s, foreign assets increased in China's national wealth (Piketty et al., 2019), indicating an influx of business entrants for competition. However, the reforms never treated marketisation as dogma but to augment a robust economic structure. For instance, backed by public sectors like finance and energy, industrial policy robustly offered rent supports for learning in competition. With balanced factional politics and consolidated ruling legitimacy, policy rents facilitated China's industrial capability by stimulating technology diffusion (Acemoglu et al., 2006; Mao et al., 2021). Overall, Hu and Wen were committed to technoscience-focused industrialisation to handle the distortions and further technology diffusion in competition with new entrants, particularly for auto manufacturing.

5.2.2 Vulnerable Authoritarian Settlement and State Technocracy

Hu halted privatisation and set FAW transformation as the political performance within cadre promotions. In China, the industrial capabilities of an insider SOE never merely represented profit but the career development of technocrats (Cai & Treisman, 2006). Therefore, granted autonomy and market competition prompted FAW to fortify industrial capabilities and develop competitive products. For instance, Zhu Yanfeng, a senior engineer graduating from Zhejiang University and the Harbin Institute of Technology, was a rising star technocrat who cultivated a capable FAW (FAW, 2022) and then rose to Vice Governor of Jilin Province.

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During his directorship, Zhu sold off underperforming parts works and halted high-cost vertical integration to streamline FAW. When China restricted full foreign ownership, Zhu attracted international giants Volkswagen and Toyota through joint venture partnerships (Feng, 2018, pp. 73–75). Through technology learning in production, FAW introduced its flagship brand Besturn in 2006, filling the gap for Chinese brands in the premium sedan market (FAW, 2022). The achievements in and social benefits from technology diffusion and trade were never divorced from restructurings and joint ventures backed by rent investments by Hu and Wen under the combination of industrial policy and neoliberal reform.

Regarding the vulnerable authoritarian settlement, the social benefits of rents stem from the exchange of political favour and policy efficacy. Vertically, meritocracy is legitimate, allowing technocrats opportunities to obtain political favour (Qian et al., 2006). This rent distribution and cadre meritocracy consolidate the holding power of authority to leverage industrial policy. In short, a state with robust holding power is better equipped to wield policy measures in market competition, generating social benefits of technology diffusion. Until 2011, FAW underwent business restructurings and established FAW Company Limited as China's most capable auto manufacturer in competition (FAW, 2022). FAW's capability, in turn, returned economic and political benefits for political dynasties and technocrats—the cooperation between cadres and techno-business elites is evident in the career development of SOE directors like Zhu (Mukand & Rodrik, 2005; Xu, 2011; Zeng, 2012). Thence, the state technocracy, from highest-level Hu and Wen to lower-level Zhu and others, distributed policy rents strategically to industrial capabilities, leveraging industrial policy in market competition to foster techno-economic development. In summary, balancing marketisation with selected rents succeeded in managing new entrants, with whom insiders effectively competed while maintaining political stability and legitimacy.

5.2.3 Acquisitions and Restructurings in Indonesia

Although state-capitalist Indonesia was embedded into the neoliberal trade system (Doner, 1991), the post-Suharto era wavered between nationalist development and liberalisation (Hill, 2008). This waver came from the hesitation whether to prevent outsiders from entering the

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rent competition among the ruling coalition, bureaucrats, and techno-business elites (Rock, 1999; Helpman et al., 2004; Pangestu et al., 2015). Suharto previously exchanged franchise licenses and trade permits with crony and bureaucratic capitalists for political reciprocity (Temple, 2003; Sato, 2017). However, with decentralisation and marketisation, the rent competition among horizontal factions made industrial policy sticky with increased social costs—the more influential conglomerates acquired by opposition factions, the less effective power the ruling coalition held. Therefore, the ruling coalition reallocated rents to recruit new entrants in patron-client networks, lowering tariffs and opening strategic industries to FDI (Pangestu et al., 2015, p. 252).

From the late-1990s to the mid-2000s, Astra witnessed the intertwining public-private networks. Under marketisation during the economic crisis, Astra's business heir, Edward Soerjadjaja, encountered with government liquidation due to bad credit in financial business. William, to salvage his credit, sold Astra's shares to the government and conglomerates. Following the liquidation, the authority and shareholders rejected the acquisition by Putera Sampoerna, behind whom was the faction of tobacco dynasties. Astra was the largest non-state-owned conglomerate by market value and profit (Forbes, 2012)—that was too influential to be acquired by other factions. Eventually, Jardine Matheson indirectly acquired Astra, transitioning it to foreign ownership (Sato, 2017). Behind Jardine Matheson was the Scottish Keswick family that won the Indonesian tobacco dynasties in the rent competition. Meanwhile, the technocrat Rini Soemarno rose to Astra president director, developing Astra through debt and business restructurings (Astra, 2024). Leveraging capital and industrial capacity, Astra diversified into heavy equipment, logistics, and infrastructure. Concerning a factional perspective, the authority rejected handing Astra to specific dynasties, instead adopting the structure of foreign ownership plus technocratic management (ibid.). This structure of business and political elites stabilised the social foundation and legitimised rent distribution power.

5.2.4 Competitive Clientelist Settlement and State-Market Interplay

As the state changed vertical control over business to horizontal interplay during the 2000s,

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private actors gained political influence as new entrants. During democratisation, capable actors like Astra could influence policymaking through lobbying and negotiations (Sato, 2017; Thoburn & Natsuda, 2018). First, this influence rendered industrial policy more favourable to business interests, bringing about cumulative negative externalities on social welfare and political stability. Undermining the authority's legitimate power, the externalities manifest in regulatory capture, labour market distortions, and economic shifts towards less productive sectors. Second, private capital expansion enabled trade unions and other civil society organisations in social movements, which raised Jakarta's minimum wage, for instance, by approximately 50% in manufacturing—far exceeding productivity augment (Pangestu et al., 2015, p. 251). Besides, decreasing central control, decentralisation made local authorities impose more taxes and regulations, increasing employment costs again (ibid.). Accordingly, Indonesia took a hit on industrial capabilities.

The Dutch disease occurred with a decline in manufactured exports and a surge in raw material trade (pp. 252–255). Indonesia's participation in GVC-based production networks shrank, while natural resource rents contributed up to 11.92% of GDP (Winanti & Diprose, 2020, p. 1535). Yudhoyono attempted at reforms but turned out contradictory measures due to political considerations analysed before. The failure of reforms further weakened Indonesia's production system, as nearly half of its exports at the time were resource-based (Pangestu et al., 2015, pp. 254–255). In general, the power imbalance in competitive clientelism eroded Indonesia's industrial capability by distorting power and policy distribution.

This erosion of policy coherence resulted from political ruptures and power dispersal. To settle the ruptured rent distribution, from 2004 to 2009, Yudhoyono concentrated the vertical power of the Ministry of Trade and issued the Masterplan for the Acceleration and Expansion of Indonesian Economic Development 2011–25, trying to aggregate investments in capital-intensive, export-oriented sectors such as low-cost green cars (LCGC) (Pangestu et al., 2015; Sato, 2017). It seemed that the authority shared policy rents with economic actors, exchanging for social benefits of grown trade to consolidate legitimacy; within the exchange was centralised rent distribution for the benefits of rent-seeking outweighed the social costs (Warburton, 2016). However, it was a challenge if a competitive clientelist settlement could sustain the social benefits of development without being eroded, as policy efficacy counted

on whether vertical legitimacy and horizontal social foundation were well-settled.

5.3 Diversified Players in Rent Reallocation and Pragmatic Policy

5.3.1 Uncertainty and Innovation in China

The legitimacy and social foundation determine an authority's holding power to wield the sword of policy rents, and different development stages necessitate differential concentrations of vertical and horizontal power. When technology and productivity in one country approach the global frontier, innovation-driven development is wieldy (Acemoglu et al., 2006; Mao et al., 2021). However, industrial innovation policy differs from previous investments because innovation approaching the frontier lacks certain goals, when the uncertainty renders the social benefits of rent-seeking vulnerable (Rodrik, 2014; Chang & Andreoni, 2020; Lee, 2020). In this context, policy continuity of robust rent supports could handle the uncertainty, which is preferable to susceptible or competitive settlement.

Since 2012, Xi fortified his effective power from enhanced control over strategic sectors. SOEs in strategic sectors such as finance and energy acted as patrons of innovation, (re)distributing substantial rent supports to innovative actors. Specifically, Xi centralised vertical and horizontal power over the party, government, and SOEs through anti-corruption efforts and personnel changes (Lee, 2023). This centralised holding power supported the authority to reallocate industrial policy rents within 'Internet Plus' and 'Made in China 2025' since 2015, pursuing the technology catching-up in sectors like AI and new energy vehicles (Wei et al., 2017). Additionally, industrial policy extended to improving market competition towards digital structural transformation and innovation (Aghion et al., 2015; Juhász et al., 2024). However, this certainty-oriented policy patronising digitalisation might misallocate excessive rents to SOEs, despite the more innovative private actors (Maung et al., 2015; Wei et al., 2017). In response, the state endeavoured to elevate cooperative rent-sharing between the state-owned and private entities, enhancing the industrial capabilities of innovation.

5.3.2 Developmental Settlement and Rent-Sharing

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Through competition and cooperation in Chinese and global markets, FAW underwent ownership reforms and accumulated substantial industrial capabilities since 2010 (Wang et al., 2018). It furthered business restructurings and transformed into FAW Company Limited from 2010 to 2011, crowned as the most capable auto manufacturer in China (FAW, 2022). After 2011, FAW restructured into mixed ownership, sharing benefits with new private entrants. Motivated by the profit-seeking of private entrants and selective industrial policy, FAW achieved numerous innovations in production and management. By 2017, FAW self-driving truck smoothly completed trials at the Changchun R&D base; in 2019, FAW Jilin Automobile Corporation Limited sold shares of 1.5 billion RMB (approximately 16.5 million GBP at the time), over half of its equity, to Shandong Baoya (Chijet), a private electric car company later listed in the United States (ibid.). The innovations in FAW transformation stemmed from not only market competition but also patient, robust finance and energy. Backed by various rents of industrial policy shared from state-owned sectors, the state-market interplay assisted in industrial capability advancement within a developmental settlement.

However, if rent-sharing hinders the developmental vision of innovation development, the party-state would not tolerate it. From 2012 to 2015, the Xi administration conducted anti-corruption investigations and penalties against FAW (Lim, 2015). The national audit agency revealed extensive financial fraud within FAW, including but not limited to kickback bribery, embezzlement, and tax evasion (Sun, 2015). The amount involved exceeded 4.45 billion RMB (over 45 million GBP), which should have been invested in industrial capability. In 2015, the judiciary sentenced the embezzlers to over ten years in prison. This intolerance was due to both the severity of corruption and the will to ameliorate legitimacy. When rents obstruct ruling legitimacy and development, anti-corruption would reshape the rent-sharing structure, disrupting the harmful process with overmuch social costs.

5.3.3 Infrastructure Investment in Indonesia

From Yudhoyono to Jokowi, investment in Indonesia continued to drive certainty-oriented development. The policy rents redistributed by Jokowi aimed at pro-infrastructure industrial capabilities, which was proven a certain viable strategy (Warburton, 2016, p. 299; Kim &

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Sumner, 2021). To signal certainty in structural transformation, Jokowi sought robust holding power amid changing the power distribution; since 2016, he leveraged financial and political networks of political-business elites and ex-generals. Jokowi equipped his coalition with more effective power, solidifying the social foundation and legitimacy (Warburton, 2016).

For instance, the technocrat Rini, who saved Astra from the economic crisis, worked as his close ally. As an experienced bureaucrat in industrial and financial administration and ex-president director of Astra, she was appointed as the Minister for State-Owned Enterprises, organising Jokowi's investment blueprint in infrastructure. Specifically, Jokowi and Rini offered rents to SOEs in granting contracts while also formulating systematic integration for Indonesia's investment-driven transformation (Ray & Ing, 2016; Kim & Sumner, 2021). Despite opposition from horizontal interest factions against Rini's position, her role in developmental-like agendas assisted the president in balancing power and rent distribution. This balance might facilitate long-term development capacity; however, the risks of resource misallocation and economic inefficiency caused by the elite settlement indicated underlying social costs.

Despite the risks, Jokowi and his ruling coalition believed that excessive reliance on the GVC system undermined Indonesia's industrial capability, as the expanding foreign entrants in Indonesia's strategic industries precipitated the loss of national wealth (Warburton, 2016). Jokowi's coalition deemed this loss as more harmful than resource misallocation, thus wielding industrial policy towards economic independence and pro-infrastructure investment (Rodrik, 2013, 2016). That was why Jokowi propelled nationalist industrialisation by import substitution to curtail the export of finance and energy for rent reallocation to Indonesia's local (and joint) economic actors like Astra (Winanti & Diprose, 2020; Kim & Sumner, 2021; Setijadi, 2021). For these goals, it was necessary to consolidate vertical and horizontal power.

5.3.4 Susceptible Ruling Elite Settlement and Rent Coordination

Consolidating power, similar to China's settlements, was to balance factional interests. For example, in Indonesia, Jokowi maximised Luhut Panjaitan's political networks to appease other factions, thus bestowing Luhut's conglomerate rent favours in profitable sectors

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(Warburton, 2016, p. 305). Meanwhile, Jokowi appointed Luhut successively from the Coordinating Minister for Political, Legal, and Security Affairs to that for Maritime Affairs and Natural Resources. Accordingly, Luhut and his patron-client networks were mobilised into national development towards social benefits (Rosser & Qiao-Franco, 2023), but the mobilisation, scrupulously, might sometimes deviate towards mistakes.

Jokowi's nationalist development entailed transnational production networks of Astra-like actors in his pro-infrastructure investment blueprint. During this stage, joint ventures managed by techno-business elites increased. From 2010 to 2020, Prijono Sugiarto (Pri) served as Astra president director. Pri, a techno-business expert, held extensive professional experience in Astra subsidiaries (The Jakarta Post, 2010). This expert, networked by politicians and financiers, secured significant rents to expand Astra's business portfolio to coal, electric power, construction, and highways (HCLI, 2016). After 2012, Astra established more joint ventures and built new factories where novel LCGC products, Astra-Toyota Calya and Astra-Daihatsu Sigra, achieved high local content and successful export (Thoburn & Natsuda, 2018). After 2016, Astra built up its competitive sales and distribution networks; by 2020, through strategic integration, Astra invested in more transportation, real estate, and finance (Astra, 2024)—a significant expansion in infrastructure. Astra's transformation demonstrated how reconciling business and public goals could leverage industrial policy to augment techno-economic development under selective neoliberalism.

The political settlements in China and Indonesia from the 1990s to the early-2020s illustrate the interplay between political dynamics and industrial policy. Economic actors like FAW and Astra relied on not only technical or managerial expertise but also maintaining rents through reciprocity with the ruling authority. This patron-client system secures ongoing benefits from rent distribution, yet it also exposes actors to the risks of clientelism, as shifts in power distribution probably overturn the carefully-constructed settlements. Our examination uncovers how divergent institutions and power relations configure the continuity and change of rent distribution in industrial policy, underscoring the necessity of understanding nuanced political settlements.

6. Discussion & Conclusions

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Robert Frost's words guide our research through the contexts of choice-making to avert unfounded speculation and misunderstanding of alternative roads. The contexts inspire our reflection on why and how the choice-making happens. If the industrial policy is a 'ladder' of resilience and prosperity, offering a solution to vulnerability to exploitative competition, why and how the South states climb up and/or down? According to our examination of China and Indonesia under selective neoliberalism, it is observed that the rent distribution of industrial policy could benefit infrastructure investment and technology diffusion; interest divergences, however, lead states to divergent roads—whether select or dismantle—policymakers cannot achieve expected outcomes that 'made all the difference' without considering the political settlements. The political settlements framework offers a lens to meticulously investigate the power relations and institutions in policymaking. Interpreting the neutral role of rents in the South's political stability and structural transformation deepens our understanding of the contexts behind the ladder.

This examination of the continuity and change of political settlements in China and Indonesia reveals the varying power distribution within the horizontal social foundation and vertical legitimacy. China experienced developmental, relatively vulnerable authoritarian, and again developmental settlements, with continuous vertical capacity in legitimate meritocracy and inverted U-shaped horizontal factional power. Indonesia, with developmental, clientelist, and then susceptible ruling elite settlements in sequence, held out broader factional politics and vertical democracy. Given the developmental baseline, our preliminary interpretation of the divergent change since the late-1990s is that pro-market rent allocation to SOEs under China's meritocracy maintained vertical legitimacy. Factional competition in both distributed power to horizontal actors; China chose gradualist reforms whereas Indonesia aligned its drastic decentralisation with development donors post-Suharto.

Therefore, this comparison argues for the importance of more policy studies based on political settlements, considering specific power relations and institutions. Contrary to fundamentalist neoliberal principles that industrial policy must be dismantled, both Indonesia and China adapted neoliberal reform to fit their political and economic settings. Moreover, our findings suggest implications for effective policy processes (Khan, 2010; Whitfield et al., 2015). The political settlements may facilitate or hinder industrial development, depending

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on how rents are managed. Hence, the key is to align selective industrial policy with political settlements to ensure its economic and socio-political sustainability. China's centralised institutional legacies allowed for cohesive rent allocation; the party-state's development capacity to mobilise and direct rent supports towards strategic sectors displays how rent management could drive structural transformation. Conversely, challenges of implementing policies occur in more dispersed settlements as rent benefits were subject to the divergent interests of power actors. The dispersal might exacerbate policy coherence and ignore the forward-looking industrial capabilities. Until this point, our results align with the insights by Kelsall et al. (2013) and Whitfield et al. (2015) for the effects of institutional arrangements. Unpacking the political economy of development, there is no one-size-fits-all understanding of industrial policy. Policymakers need to tailor policies to specific institutional arrangements, recognising not only formal institutions but also the informal networks behind policymaking. For economists and political scientists, this examination opens fresh avenues for research on the interplay between rent-seeking and industrial policy, calling future studies to explore how varied power and rent distribution affect transformation across sectors and regions, offering lessons for both academic inquiry and policy praxis.

Examining auto manufacturing in China and Indonesia, our research heeds the call from Juhász and Lane (2024) to dissect political economy constraints. While alternative interpretations might apply, it is instructive to discern the CCP's commitment to ideology and historical power organisation amidst socialism, akin to Gray's (2018) work on Tanzania and Vietnam. Ideology is the cultural aspect of state-building, bridging China's gap of objective clientelist actions, albeit with meritocracy; yet, state-building also involves material terms. Our optimism in Indonesia's pro-infrastructure development mirrors China's narratives where infrastructure means materially state-building. Effective state-building would bestow vertical legitimacy, enhance policy efficacy, and benefit horizontal consolidation. Hereto next is for FAW and Astra case studies.

The evolution of FAW and Astra delivers insights into industrial policy rents, which adds a useful complement to the evidence base (Gray, 2013; Kelsall et al., 2013; Whitfield et al., 2015). Under selective neoliberalism, FAW realised significant milestones and confronted hindrances, when enhancing industrial capabilities through mergers, joint ventures, and

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restructurings. However, intermittent modifications and dispersed rents triggered economic distortions and hindered economies of scale. FAW was influenced by Deng's liberalisation, followed by Jiang's autonomy in management. The condition in which the autonomy worked was, interestingly, the continuity of Mao's socialist industrialisation—an autonomy under control, as evidenced by authority-selected rents from public sectors. FAW benefited from the mixed neoliberalism built by the Mao-Deng-Jiang settlements, with Hu's growing care on ownership diversification. Last, Xi's industrial policy focused on innovation in technology. FAW was again at the forefront, with 'Made in China 2025' delivering cohesive policy rents to high-tech sectors, not only boosting productivity but reconciling divergent interests. FAW generally advanced technology diffusion and innovation; despite this, threats were also continuous due to the divergent nature between neoliberal reform and industrial policy.

Suharto's selective neoliberalism saw Astra expand with tax incentives and regulatory advantages. However, it also witnessed tensions between short-term privileges and long-term benefits. Astra diversified under (post-)Suharto liberalisation, with the post-Suharto authority as a concessive role in offering policy rents. The fragmented settlements resulted in periodic instability and partiality for privileges. Until Yudhoyono, dispersed cartel politics hindered its transformation degree as effective as China's factional balance; yet, it was commendable that decentralisation ensured political stability in democracy. Indonesia under Jokowi implied a continuity of selective neoliberalism, but selected to intervene with developmental policy. Notwithstanding challenges in achieving comprehensive transformation, Indonesia continued its selective neoliberalism with Astra's role in development policy.

It is of constructive contribution that emerging literature uses quantitative methods to prove the causality among transformation, (de/re)industrialisation, poverty, and inequality in industrial dynamics (Porzio et al., 2022; Fan et al., 2023). Yet, this research also calls for qualitative social and political theorisation in addition to the econometrics of causal inference. No discipline is more adept at data-based causal inference than econometrics, but few evolve as rapidly. Numerous once-popular instrumental variables are critiqued and discarded, and debate over mediation in mechanism studies intensifies—multi-inter-transdisciplinary studies grow in this contentious evolution. This discussion contends that using statistically imperfect variables or potentially biased mechanisms does not render it totally insignificant. The crucial

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contribution is to enrich the understanding of causality and evidence by unfolding phenomena and the essence.

Recognising our limitations, it should be noted that, first, this primarily centres on comparing the effects of political settlements on general policy shifts. Our research does not consider all constraints on industrial policy for national economies and microeconomic agents from, for example, global trade frictions and pandemics. Further studies could reflect deeper into micro-level investigations to add granular insights into the rent mechanisms in policymaking susceptible to more macro-level factors. Second, here is embraced a long time frame, despite our endeavours to set a historical baseline and three (post-)neoliberal stages, each up to a decade long. It could be speculated that in each decade, although it is safe to generalise the types of political settlements as summarised by Khan and Kelsall, this does not mean it is static within the frame. Since settlements are inherently dynamic, the continuity and change in a particular space-time are case-by-case visible. This examination recaps the representative and far-reaching shifts within one stage, but also calls for more case studies of detailed alterations. Future contributions may inevitably discover different conclusions from the details; however, reconsidering different spatio-temporal contexts would be with our endeavours to forge an in-depth rather than eloquent understanding.

Third, discussing political settlements, our identification of factional power actors does not perfectly capture the reality of space-time. For instance, during the last decades in China, apart from the selected three, there were also other informal groups including the Guangdong faction, Fujian faction, Zhejiang faction, and military-industrial complex. It is challenging to categorically see individuals within specific ones since informal factional affiliations shift within dynamic settlements. Although this research mentions reformists, conservatives, technocrats, and generalists, it does not ambitiously match them in Sections 4 and 5 due to not only the difficulty of accurate matching but also that such matching is not our focus. Nevertheless, clearer matching affiliations would be commendable. Concerning Indonesia, it may also overlook certain local elite and religious factors, focusing instead on visible central political-business appointments. Besides, many South states have experienced drastic change such as genocide and armed suppression. Our research is not all-embracing into these highly sensitive aspects requiring cautious investigations. Additionally, further case

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studies of other East and Southeast Asian states would be instructive, with samples from Japan, Singapore, Laos, Cambodia, and Malaysia being particularly recommended. Last, a revisit to the foundation of the evolving nature of the political settlements framework is needed. This research relies on comparative and historical review; however, diverse methods such as ethnographic or longitudinal/panel data studies could yield richer insights.

In conclusion, our examination contributes to improving the evidence base with the story of China and Indonesia on the South's political economy of industrial policy. This attempt bridges the knowledge gap by offering a nuanced understanding of how political settlements (re)shape policy processes; regarding methodology and policy praxis, it illustrates how theoretical framework could be applied to real-world contexts. The research advocates for integrated and context-sensitive approaches to holistic development.

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