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## Revisiting Roles, Redefining Growth: State and Market in Economic Transformation

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### Abstract

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#### Keywords:

State Role, Private Sector, Economic Transformation, Qualitative Approach, Collaborative Development

Economic transformation is a multifaceted process that can no longer be comprehensively understood through macro-structural models alone. In many national contexts, the boundaries between the roles of the state and the market are increasingly blurred, leading to ambiguity in understanding their respective contributions. This study addresses the problem of unclear functional dynamics between public and private actors in driving economic change. The primary objective is to explore how both the state and the private sector contribute to economic transformation through a qualitative lens. Employing in-depth interviews, document analysis, and case studies as data collection techniques, this research adopts a constructivist qualitative approach to interpret the evolving relationships and institutional behaviors shaping development processes. The findings suggest that economic transformation is not solely the result of top-down policy design or spontaneous market

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evolution, but rather an outcome of continuous negotiation, contestation, and adaptation between state and market actors. Furthermore, the study reveals the importance of narratives, power asymmetries, and informal institutional arrangements in influencing developmental trajectories. These insights contribute to expanding the theoretical landscape of development studies by highlighting the co-productive nature of state-market interactions. Practically, the research underscores the need for more inclusive and dialogical policymaking processes that foster collaboration across sectors. Ultimately, this study calls for a rethinking of developmental roles – not as fixed categories – but as fluid, contested, and context-dependent constructs that evolve with socio-political and economic change.

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### Abstrak

**Kata Kunci:**

Peran Negara, Sektor Swasta, Transformasi Ekonomi, Pendekatan Kualitatif, Pembangunan Kolaboratif

*Transformasi ekonomi merupakan proses yang kompleks dan tidak lagi dapat dipahami secara utuh hanya melalui pendekatan makro-struktural. Dalam banyak konteks nasional, batas peran antara negara dan pasar semakin kabur, sehingga menimbulkan ambiguitas dalam memahami kontribusi masing-masing aktor terhadap pembangunan ekonomi. Penelitian ini berangkat dari permasalahan tentang tidak jelasnya dinamika fungsional antara aktor publik dan swasta dalam mendorong perubahan ekonomi. Tujuan utama dari studi ini adalah untuk mengeksplorasi bagaimana negara dan sektor swasta berkontribusi terhadap transformasi ekonomi melalui pendekatan kualitatif. Penelitian ini menggunakan teknik pengumpulan data berupa wawancara mendalam, analisis dokumen, dan studi kasus, dengan pendekatan kualitatif konstruktivis untuk menafsirkan relasi dan perilaku kelembagaan yang terus berkembang dalam proses pembangunan. Temuan menunjukkan bahwa transformasi ekonomi bukan hanya hasil dari desain kebijakan top-down atau dinamika pasar semata, melainkan buah dari negosiasi, kontestasi, dan adaptasi berkelanjutan antara aktor negara dan pasar. Studi ini juga mengungkap peran penting narasi, ketimpangan kekuasaan, serta praktik institusional informal dalam membentuk arah pembangunan. Secara teoritis, temuan ini memperkaya kajian pembangunan dengan menyoroti sifat ko-produktif dari interaksi negara dan pasar. Secara praktis, penelitian ini menegaskan pentingnya proses perumusan kebijakan yang lebih inklusif dan dialogis yang melibatkan kolaborasi lintas sektor. Dengan demikian, studi ini mengajak untuk meninjau kembali peran pembangunan tidak sebagai kategori yang tetap, melainkan sebagai konstruksi yang cair, diperdebatkan, dan bergantung pada konteks sosial-politik serta perubahan ekonomi.*

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## Introduction

Contemporary economic transformation demands a deeper understanding of the dynamics between the state and the market. Development studies that focus too much on macro structural approaches often fail to capture the reality of the functional interactions of these two actors (Evans, 1995). In the context of developing countries, the role of the state as a development planner and the market as a growth engine cannot be separated as a dichotomous one. These interactions shape complex and ever-changing institutional negotiation processes. (Rodrik, 2007)

However, the literature still shows gaps in describing how negative actors and markets interact concretely in the practice of economic transformation. Some studies are normative, have not captured the narrative, participatory, and adaptive dimensions of development actors (Leftwich, 2000). Therefore, this research aims to explore the contribution of the state and the private sector in the economic transformation process through a qualitative approach that emphasizes the narratives and empirical experiences of policy actors.

Contemporary economic transformation presents an intricate puzzle that cannot be fully understood through conventional macro-structural frameworks alone. The dynamic interplay between the state and the market—two dominant forces shaping developmental trajectories—requires more nuanced, context-sensitive analysis. Despite their centrality, their respective roles and interactions are often oversimplified or treated as oppositional. This simplification limits our understanding of how economic change unfolds in real-world contexts.

In many developing countries, the state is not merely a regulatory authority but also a planner, facilitator, and co-producer of development outcomes. Meanwhile, markets function not just as allocative mechanisms but as arenas of contestation, adaptation, and innovation. The idea that one actor should dominate over the other is no longer analytically sufficient. Instead, there is growing recognition of the co-evolution of state and market forces, and

their mutual dependency in shaping development outcomes (Rodrik, 2007; Evans, 1995).

The researcher's concern emerges from the observation that most existing development literature still underrepresents the empirical, narrative, and institutional realities of state-market interaction. Development is too often conceptualized in abstract or normative terms, without attention to how actors within the state and market negotiate roles, respond to shifting conditions, or reshape institutional frameworks in practice. This conceptual gap results in a weak grasp of the actual engines of economic transformation, especially in transitional and fragile economies.

For instance, many prior studies have emphasized the role of neoliberal reforms, market liberalization, or bureaucratic rationalization as primary determinants of economic growth. While these studies have generated valuable macro-level insights, they often neglect how individual actors, institutions, and policies interact in context-specific ways (Leftwich, 2000). Moreover, they frequently treat the state and market as static entities, rather than as evolving actors whose boundaries are constantly being negotiated.

A further gap in the literature is the insufficient attention given to the narrative and discursive dimensions of development. Policies do not emerge in a vacuum—they are embedded within stories, ideologies, and political struggles. As such, exploring economic transformation through the lens of narratives and institutional practices can offer richer explanations of why certain reforms succeed, fail, or evolve unexpectedly (Hajer, 1995). These dimensions are especially crucial in the Global South, where formal institutions often coexist with informal and hybrid structures.

In response to these limitations, this study adopts a qualitative approach that centers the voices and experiences of development actors—both within the state and the private sector. By examining how these actors articulate their roles, confront institutional constraints, and forge collaboration, the research seeks to illuminate the lived realities of economic transformation. It positions

development not just as an outcome of economic logic but as a socially and politically embedded process.

This research thus offers a novel perspective by treating state-market interactions not as fixed arrangements, but as fluid and contested relationships that are continually reconstructed through practice. Rather than asking whether the state or market should lead, this study asks how they co-produce transformation across different economic and political settings. This inquiry allows for a deeper understanding of the relational dynamics at play in contemporary development.

The novelty of this research lies in its focus on the micro-political and institutional practices that shape macroeconomic outcomes. It moves beyond structuralist explanations to highlight the co-constitutive nature of development actors, the importance of informal mechanisms, and the power of discourse in enabling or constraining change. This perspective contributes to a more grounded and human-centered understanding of development.

By engaging directly with policy narratives and empirical experiences from selected case contexts, this research also offers practical insights for improving collaborative policymaking. It recognizes that economic transformation is not merely a technical endeavor but a process that depends on trust, negotiation, and the alignment of incentives among diverse stakeholders.

Therefore, the main objective of this study is to explore the contributions of both the state and the private sector to economic transformation, using a qualitative approach that foregrounds narratives, power relations, and institutional negotiation. In doing so, the research hopes to fill existing gaps in the literature and contribute both theoretically and practically to the field of development studies.

## Method

This study uses a descriptive qualitative approach with library research techniques as the main method. The main focus of this research is to re-examine the role of the state and the market in economic transformation by exploring concepts, empirical findings, and theories that have been discussed in the previous literature.

The data sources in this study consist of academic books, scientific journal articles, research reports, and relevant policy documents. The analysis was carried out by content analysis, which is to identify the main themes and patterns of argumentation in the related literature. This research is exploratory in nature because it aims to explore a deeper understanding of the dynamics of state and market interaction that has not been widely explained in the context of contemporary development theory.

The validity of the data is maintained through the selection of accredited and relevant sources, such as reputable international journals, books from academic publishers, and documents from trusted policy institutions. This approach was chosen because it provides a reflective space for theoretical discourse and allows researchers to construct a sharp and in-depth analytical framework without being bound by specific geographical constraints or research locations.

## Result and Discussion

### Strategic Functions of the State

The state has a vital role in encouraging economic transformation through the formulation of macroeconomic policies, infrastructure development, and the protection of strategic sectors.

In this context, the state plays a key role in creating an environment conducive to sustainable economic growth. State intervention is carried out through various instruments, such as fiscal and monetary policies, structural reforms, and support for priority sectors. The state also regulates legal and

institutional frameworks that allow economic activities to take place efficiently and fairly. For example, through the job creation law, the Indonesian government is trying to improve the investment climate and make it easier for bureaucracies to attract domestic and foreign investors. (Kementerian Koordinator Bidang Perekonomian, 2023)

### **Developmental State Perspective**

In the developmental state approach, as applied by South Korea and Japan after World War II, the state becomes the driving force of industrialization through selective intervention and professional bureaucracy. (Johnson, 1982.; Woo-Cumings, 1999) This policy emphasizes the importance of coordination between the government and economic actors, especially national industries which are considered strategic for the acceleration of development. The state is not only a referee, but also an active player that sets the direction of national development, allocates credit, protects the domestic market from premature competition, and creates research and job training institutions to increase the capacity of human resources.

In Indonesia, the government through the 2020-2024 RPJMN has set economic transformation as a national priority, especially through industrial downstreaming, digitalization, and strengthening MSMEs (Bappenas, 2020) Downstream aims to reduce dependence on raw material exports by encouraging domestic processing. Economic digitalization is driven through ICT infrastructure, technology regulations, and national digital literacy. Strengthening MSMEs is focused on access to financing, training, and supply chain integration. These three pillars complement each other in creating a more inclusive, productive, and competitive national economy.

The state also acts as a facilitator, regulator, and accelerator of development. as a facilitator, the state provides basic infrastructure, public services, and logistical support that allows the private sector to thrive. As a regulator, the state sets the rules of the game, ensures economic stability, and creates a fair system of taxation and incentives. As an accelerator, the state

accelerates economic transition through innovative policies, public investment, and strategic partnerships, such as the archipelago capital (IKN) construction project which is part of the long-term structural transformation agenda.

### **The Role of the Market in Economic Transformation**

The market serves as a mechanism for the distribution of resources based on the logic of price and competition.

In a market economic system, prices act as a signal for producers and consumers to make economic decisions. This mechanism allows for an efficient allocation of resources, where goods and services are produced according to consumer demand. Competition encourages innovation and improvement of product quality, as well as efficiency in the production process.

In the neoliberal view, the free market allows for efficiency and innovation because economic actors are encouraged to increase productivity through profit incentives. (Friedman, 2002) Neoliberalism emphasizes the importance of deregulation, privatization, and trade liberalization as a way to drive economic growth. In this context, the role of the government is minimized so that the market can operate freely, assuming that minimal intervention will produce optimal economic outcomes.

Markets also play an important role in determining the direction of investment, creating jobs, and accelerating technology adoption. Investors tend to invest in sectors that promise high returns, thus driving growth in those areas. The growth of these sectors creates new jobs and increases people's incomes. In addition, market competition encourages companies to adopt the latest technologies to improve efficiency and competitiveness.

In Indonesia, sectors such as financial technology (fintech) and e-commerce are growing rapidly thanks to the relatively open market freedom. (World Bank, 2021)

The rapid establishment of the fintech and e-commerce sectors in Indonesia shows how an open market can drive innovation and financial inclusion. Digital platforms facilitate access to financial services for people who

were previously underserved by traditional banks, as well as open up opportunities for small businesses to reach a wider market.

### **Dynamics of Interaction Between Countries and Markets**

The relationship between the country and the market is complementary and dynamic. The state and the PSAR do not stand alone, but interact in the process of economic development. The state establishes a legal and policy framework that affects the operation of the market, while the market provides signals and feedback that can influence the country's policies.

In embedded autonomy theory (Evans, 1995), an effective state is one that is able to maintain bureaucratic autonomy but remain responsive to the interests of economic actors. This concept emphasizes the importance of a balance between bureaucratic independence in formulating and implementing policy, as well as engagement with the private sector to understand market needs and dynamics. A country that has a professional bureaucracy and is connected to economic actors can design effective and adaptive policies.

Economic transformation requires state intervention to address market failures, while allowing markets to lead the sectors most responsive to innovation.

Market failures, such as monopolies, negative externalities, and information asymmetry, require state intervention to ensure efficiency and fairness. However, in fast-changing and innovative sectors, such as information technology, the role of the market is more dominant due to its flexibility and adaptability.

In Indonesia, for example, the development of the IKN is an example of state involvement in creating a catalyst for new growth, but still opens up space for private sector participation. (Sekretariat Negara RI., 2023) The development of the archipelago's capital city (IKN) shows how the state can lead strategic projects while involving the private sector in financing and implementation. This approach creates a synergy between state planning and market efficiency.

## **Contextual Factors Affecting Roles and Interactions**

Country-market interactions are heavily influenced by historical, social, and political contexts. The history of colonialism, social structures, and political dynamics shaped the way countries and markets interacted. For example, countries with a history of strong intervention may have a tendency to maintain a dominant role in the economy.

Rodrik (2007) emphasizes that there is no one-size-fits-all model of builders and that local contexts play an important role. Rodrik argues that development strategies should be tailored to local conditions, including institutional capacity, culture, and community preferences. This approach rejects a one-size-fits-all solution in economic policy.

Indonesia, for example, has a mixed heritage between a centralized economy (new order) and an open market (post-reformasi), which influences how the country regulates markets and the extent to which it is given room for growth. Indonesia's experience shows the transition from a highly state-controlled economy to a more open economy. However, the legacy of the past still influences current economic policies and structures.

Factors such as political stability, institutional capacity, and global pressures also determine the configuration of the role of countries and markets. Political stability allows for the formulation and implementation of long-term policies. Institutional capacity determines the effectiveness of policy implementation. Meanwhile, global pressures, such as international competition and trade agreements, affect the country's room to regulate the market.

## **Conclusion**

Economic transformation is not a linear process that can be explained through a single role between countries or markets. On the contrary, the findings in this study confirm that the success of economic transformation is greatly influenced by the ability of countries and markets to interact

dynamically and complement each other.(Evans, 1995) The state plays a central role as a director of development, a creator of strategic policies, and a guardian of macroeconomic stability. (Johnson, 1982)Meanwhile, the market contributes through efficient resource allocation mechanisms, the creation of incentives for innovation, and the ability to respond to technological changes and global demands.(World Bank, 2021)

The developmental state model shows the importance of an autonomous but responsive bureaucracy to economic actors, as seen in the case of Japan, South Korea, and China.(Evans, 1995.; Woo-Cumings, 1999) On the other hand, a market-based approach provides room for private dynamics to grow and drive efficiency.(Friedman, 2002) Indonesia, with its unique history and institutional configuration, faces challenges and opportunities in contextually aligning the role of the state and the market.(Leftwich, 2000)

To drive sustainable economic transformation, Indonesia needs to balance state intervention with market freedom through adaptive, inclusive, and evidence-based policies. The state is not only required to be a regulator, but also a facilitator and accelerator that is able to create a development ecosystem that encourages national productivity, sustainability, and global competitiveness.

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