

Introduction

権利	Copyrights 日本貿易振興機構（ジェトロ）アジア 経済研究所 / Institute of Developing Economies, Japan External Trade Organization (IDE-JETRO) http://www.ide.go.jp
シリーズタイトル(英)	ASEDP
シリーズ番号	5
journal or publication title	Indonesia:Two Decades of Economic Development
page range	1-6
year	1989
URL	http://hdl.handle.net/2344/00016566

The New Order Government had changed the development strategy drastically from that of the previous period by deciding, within less than two years after coming into power, (1) to get reaffiliated to IMF and IBRD, (2) to receive development assistances through IGGI, (3) to observe balanced budget in its public finance, (4) to open the door to foreign investments.

These four decisions have turned to form the framework of the New Order's economic development efforts together with another major decision of (5) free transaction system of foreign exchange which became in effect after the devaluation of Rupiah in August 1971.

While this framework has been basically guiding the course of Indonesian economic development, the wide fluctuation of petroleum export price has also had strong influence on development strategies as well as trends and performances of the economic growth through balance of payments and public finance.

The contribution of the oil sector (including gas) to the balance of payments and the public finance differed depending on the period. (1) In the period between calendar year 1966 and fiscal year 1973/74, its shares in both total exports and government revenues alike stayed below 50%, though they had been on the rise throughout the period. (2) Between 1974/75 and 1985/86, both shares surpassed 50%. (3) In 1986/87 and thereafter, they alike turned downward, staying below 50%. [Oil sector exports in this context are in terms of oil sector net exports.]

The influence of this oil sector's share fluctuation on the macroeconomic performances each time appeared earlier than the share reached to 50% level, then followed by the changes of development strategy. Based on the changing performances of the macroeconomic development and the policy trend, the terms from 1966 to date could be divided into three periods, i.e. the first period 1966-1972/73, the second period 1973/74-1981/82, the third period 1982/83 and thereafter.

The first period is the years of rehabilitation and early stage of economic development. After a dramatic success in bringing the hyperinflation under control, performances of the balance of payments and public finance were improving, though still limited, backed by official and private foreign capital inflow and gradual increase of oil revenues. The course of economic policies adhered to the free and internationally open market system.

Under such circumstances, a foreign and domestic private investment boom was stirred after the long lasted inactivity. On the other hand, since it became easier to procure parts and components owing to commodity aids, an increasing number of idle facilities resumed operation, which ensured a high investment efficiency in macro terms. The Rupiah's exchange rate against the US Dollar was adjusted from time to time.

The second period is a period of oil bonanza featuring the high economic growth, import substitution industrialization, and high appreciation of Rupiah against US Dollar.

The average growth rate of GDP in the period marked 7.9% per annum. Although the economy faced difficulties in 1975 and 1978 and private investments slowed down after 1974/75, the GDP could still maintain high growth rates after 1975. The sectors of oil & gas, industry, construction, and utility contributed most to the high rate of growth.

The rapid increase of the oil and gas export value offered various business chances through the expansion of the public finance. Private investments increased explosively in 1973. But due to the successive incidents of Malari affairs in 1974 and Pertamina crisis in 1975, private investments somewhat slowed down thereafter. And also new Government regulations, which were issued in and after 1974 to restraint foreign investment in response to then mounting nationalism and industrial development achievements so far, had made investments in Indonesia less attractive for foreign investors.

Most of these investments in this period were of import substitution type since there were still large domestic demands which were met by imported ones while most of the domestically manufactured goods weren't competitive qualitywise yet in the international market.

Improved balance of payments during the oil bonanza period allowed Indonesia to keep higher appreciation of Rupiah although the inflation rate in Indonesia was much higher than in United States. Even after the 33.3% devaluation of November 1978, the Rupiah appreciation in real term still remained higher than that right after the 1971 Rupiah devaluation.

In the meantime, the Government issued various trade regulations for the purpose of protecting domestic infant industries in the process of import substitution or consolidating the bargaining position of domestic importers in importing a certain commodities. These regulations were later argued to be an important part of the causes of the high cost economy.

In the third period, the mechanism of the economy underwent fundamental changes. The following items will represent the feature of this period : (1) the worldwide oil glut followed by the collaps of oil price, (2) enhancement of the Government efforts to alleviate dependence of the economy on the oil sector, (3) a series of structural adjustment policies, (4) Rupiah devaluations and low appreciation of Rupiah against US\$, (5) rapid increase of non-oil exports, (6) coming up of export oriented industries and increasing investments in tourism, (7) reversal of the composition of oil revenue and non-oil revenue both in the public finance and the balance of payments by 1987, (8) increasing burden of the official debt service payments, and (9) realization of self sufficiency in rice.

The collapse of oil prices from 1982 to 1986 crippled the existing financing system where both the balance of payments and the public finance were principally dependent on the oil sector. Earnings from the oil sector continuously decreased in terms of US Dollar since 1982/83 and nearly matched by the growing official debt service payments in 1986/87. In consequence, the Government saving to finance public

development activities lessened year by year, while the balance of payments deteriorated rapidly.

Then the Government launched into a long series of structural adjustment policies, which aimed at (a) increasing revenues from non-oil sectors, (b) activating the banking sector, (c) promoting non-oil exports, (d) encouraging foreign private investment, (e) reducing import and domestic distribution costs, (f) protecting domestic industries, (g) promoting tourism, (h) increasing efficiency in water transportation, and (i) fostering capital market.

These measures were implemented from 1983 through 1988 and appear to continue in the coming years as well. They are designed to abolish or ease large numbers of regulations having accumulated since the period of the Old Order. Consequently, the environment for economic activities became unprecedentedly free and open.

During the period, Indonesia had to devalue the Rupiah against the US Dollar twice in March 1983 and September 1986 due to overall sluggish exports coupled with the collapse of oil export prices. After the first devaluation, the exchange rate of Rupiah against US Dollar in real term was lowered to the level immediately before the devaluation in August 1971. With the 1986 devaluation, contrary to the oil bonanza period, the Rupiah was valued almost at the lowest ever.

Thus, non-oil exports increased explosively in 1987 and continued a rapid increase in 1988 and, probably in 1989, among which non agro-based manufactured goods played the chief part. The non-oil were export pushed not only by devaluation and successful structural adjustment policies. After more than a decade of import substitution process, not a few manufactured goods has considerably improved their qualities as well as increased in their production up to the saturation point in the domestic market corresponding to the per capita income level. Then there came a serious recession, at the same time with the Government deregulation policies and devaluations, consequently export market appeared much more attractive for a certain industrial firms.

According to the "Nota keuangan, 1989/90", non-oil exports increased by 43% from \$6.58 billion in 1986/87 to \$9.41 billion in 1987/88 and increased by about 40 % in the first five months in 1988/89 over the same period in the previous year. Out of the total exports above, manufactured goods increased by 61% from \$4.62 billion in 1986/87 to \$7.44 billion in 1987/88 whereas agricultural, animal husbandary and fishery goods even decreased slightly from \$1.70 billion in 1986/87 to \$1.69 billion in 1987/88. In the first five months in 1988/89, each of manufactured goods, agricultural, animal husbandary and fishery goods, mining goods except oil and gas, and the others were on the rise as well. As for the manufactured goods, the exports were boosted not merely in volume and value but also in the number of items, ranging from plywood, textiles, garments, steel, paper, cement, fertilizer, aluminium ingot and products, furniture, electric appliances, shoes, tyre, sheet glass and glass wares, camera, various parts of machines, and others.

So, as far as the balance of payments are concerned, the dependence of exports on the oil sector has been successfully alleviated. In the same way, the dependence ratio of the Government revenue on the oil sector has been also decreasing. After the highest point of 69% was marked in 1980/81, the ration has been coming down to 48% in 1987/88 and 41% in 1988/89 as a result of various means by the Government to increase revenues from non-oil items.

Thus, it can be interpreted that either from the aspect of balance of payments or from the aspect of public finance, the Indonesian economy successfully got rid of their heavy dependence on the oil sector with 1987 as the turning point. The recent development of private investments suggests that the decrease of the oil and gas share will continue and even be accelerated in the years to come.

The grounds are as follows. Since 1987, a lot of domestic and foreign investment projects were approved by the Government, majority of which would export all or most of the products from the initial atage, and another group of which would offer tourism and recreational facilities. The former is to export garment, chopsticks, cultured shrimp, cultured pearl, frozen tuna, leather shoes, sports shoes, furniture, rubber glove, glasses frame, electric motor, electronic and machinery parts, and so on. It is quite an important trend that South Korea, Taiwan, and Hongkong seem to begin shifting their production facilities of labor intensive industries from their own country to Indonesia due to the increasing domestic labor costs. The latter group is to build many hotels and sports and recreation facilities in Bali, Jakarta, and other cities and offer various tourism services. In the mean time, prospects of the agro-based industry's exports are getting better mainly as a result of domestic capital's efforts. All these indicate further diversification of industrial commodities exports and increase in foreign exchange earnings from tourism.

In the mean time, one of the most important achievements in the third period is the realization of self-sufficiency in rice since 1984. The rice production has been steadily increasing since the end of 1960's owing to the BIMAS and its modified programs coupled with expansion of the irrigation system. This development must be good for the stability in the economy as well as in social life.

Most of the other agricultural crops also increased their production satisfyingly. And what is more important might be that the crops of high priority in the national economy such as soy bean, peanut, corn, oil palm, sugar, coffee, and rubber alike marked rather high rate of increase, because it means that the agriculture sector has flexibility in adjusting itself to the situation.

Now that self sufficiency in rice, which was the target of the highest priority in the agricultural sector so far, has attained, next primary target instead will be to increase agricultural income through crops diversification.

In the course of the economic development described above, four REPELITAs have been carried out producing such results in each sector of the economy as examined in the following chapters. The major objectives and planned GDP growth rate of each REPELITA might be summarized as the following table.

**Major Objectives and Planned Economic Growth
of each REPELITA**

	Major Objectives	Annual growth rate of GDP
REPELITA I (1969.4 - 1974.3)	Food production increases, promotion of agriculture-supporting industries, rehabilitation of infrastructure, textile production increases.	8.4% (planned : 5%)
REPELITA II (1974.4 - 1979.3)	Food & textile production increases employment opportunity creation housing supply increases.	7.2% (planned : 7.5%)
REPELITA III (1979.4 - 1984.3)	Self-sufficiency in rice, promotion of labor-intensive and final goods producing industry.	6.1% (planned : 6.5%)
REPELITA IV (1984.4 - 1989.3)	Alleviation of oil dependence, employment opportunity creation, promotion of capital and intermediary goods industry.	5.1% (planned : 5%)
REPELITA V (1989.4 - 1994.3)	Employment opportunity creation, equalization of income distribution, promotion of regional development and export oriented industry, balanced development between agriculture and industry.	(planned : 5%)