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Progress towards Economic Consolidation

by Karl Fasbender, Hamburg *

Indonesia has dropped out of the news lately. The country which during the Sukarno era constantly made the headlines of the world press because of the spectacular foreign political actions of its headstrong president is now bending its energies on economic consolidation.

Even Indonesia's foreign policy is now subordinated to the pursuit of this aim. General Soeharto who by and large favours a pro-Western policy is seeking to improve his country's relations with the socialist states. These relations have been upset since 1965 by the bloody conflict with the Indonesian communists which preceded General Soeharto's assumption of power. Indonesia's trade exchanges with the communist world have lately been increasing steadily — a fact which is a measure of the effectiveness of the General's efforts to achieve better relations with the socialist states.

Internal Political Situation

Domestically the political situation has become more stable — a development which is not only due to pressure of the military. By depriving Sukarno of his power by stages and by making use of the former President's charismatic influence on the Indonesian people, General Soeharto has succeeded in gaining their confidence. The Generals in power miss no opportunity to improve their image, using every public festival, every anniversary, even those of minor importance, for the purpose. Indicative of the success of this policy are the 1971 elections — the first to be held in fifteen years. At these elections 62 p.c. of the votes were cast for the newly founded Sekber-Golkar Party which supports the present regime. This result, even if allowance is made for possible irregularities in the conduct of the elections, is regarded by observers as a surprisingly large vote of confidence in the Government. Political prisoners are being released in increasing numbers which indicates how firmly the regime feels to be in control.

The tactical skill of the Government and the backing it enjoys from the armed forces notwithstanding, the present relatively stable political conditions will however endure in the long run only, if it is possible to bring about a decisive improvement in the economic situation. The chances of this happening have been and still are in many respect extremely slight. Sukarno left behind him a stagnating and shrinking economy, beset by raging inflation. This added to the fact that Indonesia suffers from wellnigh all the disadvantages a developing country can suffer from: unemployment and a rapidly growing population, an inadequate infrastructure coupled with an undue dependence on a limited range of exports, the need for massive imports, shortage of capital, a large national debt and a corrupt administration. Another obstacle is Indonesia's geographical position — the fact that its territory extends over no less than 3000 islands.

In an attempt to solve the economic problems, a Development Cabinet was formed in 1968 to which such important experts as Professors Djohadikusumo and Wardkana were appointed. It was this cabinet which in conjunction with the Indonesian Planning Board, Bappenas, drew up the first five-year plan (Repelita I) and which has been in force since April 1, 1969. The main objectives of this plan are price stability and economic growth. The plan provides for investments totalling—at 1968 prices—1 420 bn Rp. The major part of this (35 p.c.) is intended for agriculture; 22 p.c. is to go to transport and communications; industry and mining are to receive 9 p.c., while 4 p.c. is to be spent on health and family planning.¹

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¹ These and subsequent figures are based on statistics published by the World Bank and the Ostasiatischer Verein e.V. (East Asian Association), Hamburg.

Thus Indonesia has avoided a mistake many developing countries are making: to promote in the first instance the development of a heavy industry. The priority given to the agricultural sector corresponds to the importance of this sector of Indonesia's economy in as much as it contributes some 50 p.c. of the country's GDP, provides 60 p.c. of its exports and 70 p.c. of the available jobs. The effects of the various measures undertaken under the first five-year plan such as the construction of irrigation plants and the provision of larger quantities of fertilizers are making themselves increasingly felt. The plantations growing all the important products like rubber, palmoil, cane sugar, tea and coffee are all showing greater yields and the rate of tree felling has also increased considerably. Still more important than these encouraging figures for the above-mentioned commodities which are primarily for export is the unexpectedly steep rise in the production of rice. The five-year plan had aimed at an output of 15.4 mn tons for this year, but it now looks as if the 1973 production will actually exceed this figure. Nevertheless this encouraging trend should not obscure the fact that raising the output of rice still further will remain one of the main problems, for the population is still far from being adequately supplied with this most essential of basic foodstuffs.

Oil and Tourism — The Great Hopes

The industrialisation of the country is still in its early stages, contributing no more than 10 p.c. to the GDP. Small-scale businesses and firms producing consumer goods predominate. Most important is the textile industry which employs about 800,000 workers. In spite of the high level of interest rates and the many bottlenecks due to infrastructural deficiencies, particularly in the fields of transport and electricity supply, industry as a whole has been able to increase its output to an appreciable extent. Textile production for example rose in 1971 by 33 p.c. to 598 mn metres over and above the preceding year and the output of fertilizers by 21 p.c. to 103,000 tons.

Great hopes are being placed by the economic and planning authorities in the country's mineral resources, and results so far seem to justify such hopes. The output of nickel for instance rose in 1970 by 136 p.c. to 600,000 tons, that of Bauxite by 61 p.c. to 1.2 mn tons and that of Zinc by 12 p.c. to 19,999 tons. Only the mining of coal decreased by nearly 8 p.c. to 176,000 tons — as a result of the Indonesian Railway's change-over from coal-fired to Diesel engines.

The country's most important raw material is oil. Oil production in 1970 increased by 15 p.c. to

311 mn barrels. This is mainly due to the intensified exploitation of the Caltex oilfields in Southern Sumatra. Encouraged by new oil finds in Java, Borneo and Southern Sumatra, the state-owned oil company, Pertamina, expects to be able to double its oil output by 1974. This would provide the country with a fresh and vitally needed source of foreign exchange. Already in 1970, oil accounted for 36 p.c. of Indonesia's total exports, and in view of the new finds there is every reason to expect a further rise.

Bali and Java are year by year attracting more tourists. Whereas in 1967 no more than about 26,000 tourists came to Indonesia, their number had already risen by 1970 to 129,000. In the same period the annual foreign exchange revenue from this source rose from 3.2 mn US-Dollars to 16.2 mn US-Dollars. It is estimated that in 1973—the final year of the first five-year plan—the number of foreign visitors will be in the neighbourhood of 355,000. They are expected to leave some 44 mn US-Dollars worth of foreign currency in the country.

The upward trend of exports is a further item on the credit side of the Indonesian Government. During the period from 1967 to 1971, the value of exports increased by 68 p.c. to 1,300 mn US-Dollars of which about half was earned by oil and timber exports. If one leaves these two commodities out of account, the rise in exports is of rather modest proportions, however, and in view of the competition to be expected from the commodities of other developing countries and from substitute products of industrial countries, the chances of these exports increasing in the future are very slight indeed. In addition, the schemes designed to promote exports have so far hardly got off the ground, although it is planned to set up an export promotion centre in Djakarta for tackling these problems.

Measures Against Inflation

Among the most difficult problems confronting Indonesia is inflation; unless this problem is solved there is little hope of achieving well balanced permanent growth. In 1966, the Djakarta price index still rocketed by 639 p.c. This happened before the Government had begun to take an active hand in regulating the economy and when the need for government direction became apparent. Through these measures which led to an unprecedented switching of resources from consumption to productive purposes, the Government managed to reduce the rate of inflation to 85 p.c. in 1968, to 10 p.c. in 1969 and to a mere 2.4 p.c. in 1971. The bad harvests in 1972 caused however

a reversal of this downward trend with price levels rising once more by about 18 p.c. During the same period the GNP which had been as good as stationary began to grow in real terms at the rate of 6-7 p.c. a year.

These successes were achieved by way of an economic policy which is unorthodox not only for developing countries. The plantations and industrial firms which during the Sukarno era had been taken over by the state have either been restored to private ownership or they are now being run on the lines of profit-earning enterprises. They have thus been freed to a large extent from intervention by the still overstaffed and little flexible administration. To raise output in the agricultural sector, each village was given 100,000 Rps. These subsidies were used to meet the specific and most pressing needs of each village, to purchase better quality seeds, for instance, or fertilizers or machines or to improve the local infrastructure. Nor did the Government shrink from introducing unpopular measures. For instance, wage restrictions, necessary if stability was to be achieved, were imposed also on civil servants, and, in fact, their salaries were particularly rigidly held down. As a result, even the highest grades of civil servants earn no more than the equivalent of 300 DM a month. It must be admitted, however, that such restrictive measures on wages and salaries are not conducive to minimising corruptive practices.

Infrastructural Bottlenecks

It is hardly likely that the future will bring similarly impressive results. For one thing, the starting points are by now considerably higher and, for another, the bottlenecks in the infrastructure are making themselves increasingly felt. For instance electricity consumption is still no more than 7 kilowatt per head of population a year. Conditions in the communications system are also catastrophic. Here the great efforts that are being made to improve the situation are unlikely to bear full fruit before 1979.

It must further be pointed out that progress is not evenly spread over all the regions and social groups. With an annual per capita income of roughly 100 US-Dollars, Indonesia is still one of the poorest countries in the world. The number of people in gainful employment is relatively low — 35 p.c. This figure comprises a considerable amount of "hidden" unemployment as well as some 14 mn part-time workers. The number of workers at present without any job whatever is estimated at between 4 and 6 mn — a figure which is expected to go on rising as a result of technical progress and because of the fast rate at which

the population is still growing, i.e. by 2.6 p.c. per annum. To avoid the most pressing of social hardships, the Government will have to make strenuous efforts to provide more jobs and to foster regional development.

One of the main tasks the forthcoming second five-year plan will have to tackle is family planning, especially on Java, because there the population density is extremely high — some 600 inhabitants per km² as compared with 65 people for the whole of Indonesia. The present birthrate makes it wellnigh impossible to raise the per capita income or to find a permanent solution to the unemployment problem. Nearly every second Javanese is under 15 years of age. The 1971 birth-control campaign which was conducted under the slogan "three children is enough" met with a positive response from about 500,000 families. This was twice as much as had been expected, but was nevertheless little more than the proverbial drop in the ocean.

Future Prospects

All these and other difficulties notwithstanding, Indonesia's chances of making further progress in the future are on the whole good, provided, of course, that foreign capital continues to flow into the country. It is true that the budget for the fiscal year of 1972/73 provides sufficient funds from domestic sources to finance 50 p.c. of the planned development schemes, and the Government is trying to increase that figure still further. Yet the country's capital resources are bound to remain insufficient for a long time to come to meet all requirements, particularly in view of the fact that despite the funding of the national debt, the country will still have to find until 1999 between 125 and 155 mn US-Dollars a year to pay interest on outstanding loans and redeem them. This is why the Government is so keenly interested in obtaining foreign investments from private sources. So far, however, these efforts to attract private investors have not had the expected results. The results have been disappointing, although private investors have been offered relatively large tax concessions, have been allowed to import essential goods dutyfree and guaranteed the unhindered transfer of capital and profits. Up to 1971, only 428 investment projects to the total value of 1,600 mn US-Dollars had been approved. The influx of development aid, on the other hand, has so far been satisfactory. Since 1966 aid given or promised—almost exclusively from Western states and international organisations—amounted to about 1,500 mn US-Dollars, and for 1972 a further amount of 670 mn US-Dollars is envisaged. In addition, there is the technical aid which amounts to roughly 30 mn US-Dollars a year. There are at

present some 600 foreign experts in Indonesia, working on 180 projects.

The Federal Republic of Germany is making an important contribution to Indonesia's economic development. The value of German exports to the country in 1971 amounted to 370 mn DM, while imports totalled 443 mn DM. German capital aid promised until September 1972 amounts to approximately 845.7 mn DM and approved direct investments to 70 mn DM. In the field of technical aid, Germany is also very active, contributing 51.5 mn DM towards the realisation of a number of important projects. Teams of German advisers are engaged on the railway, traffic problems in Djakarta, television and radio as well as on agricultural schemes.

Development aid is expected to go on flowing into Indonesia in large quantities². Thanks to its successful efforts to establish a mixed economy with the main emphasis on market forces, the country is on the way towards becoming a model

² In 1973 Indonesia is expected to receive a development aid of 760 mn US-Dollars.

among developing countries, thereby inducing Western countries to lend it further aid.

Moreover, the fact that the World Bank is exercising a clearly noticeable influence in all decision-making bodies and is itself taking a strong financial and personal interest in the country's progress is the best possible guarantee for the continued flow of adequate development aid. For it would not be altogether wrong to equate a failure of Indonesia's economic policy with a failure of the policy of the World Bank. If this were to happen, this international organisation would also lose credibility in other developing countries. In a certain sense the Third World is quite justified in identifying the World Bank with the United States. This, together with the political and economic importance of Indonesia's 125 mn inhabitants, is taken as an added assurance that the USA will remain one of Indonesia's most important providers of aid. The mutual dependence that exists between the providers of aid and the Indonesian Government obliges both sides to carry the present policy to a successful conclusion.

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