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The Second Five Year Plan

by Stephen Grenville, Canberra *

After a short survey of Repelita I, Indonesia's First Five Year Plan, the author reviews Repelita II, Although this Second Plan's broad strategy remains much the same as of Repelita I, its emphasis is on problems recognised but not yet overcome, e.g. those of income policy, job creation, regional development, education, etc.

The Second Five Year Plan, known by its Indonesian acronym as REPELITA II, began on April 1, 1974¹. It is another element in the economic policies which began in 1966, following the change of government. In the following two years, the economic neglect of the previous Government was reversed. Inflation, which had reached 1,000 p.c. per year in 1965/6, was reduced to insignificant levels. A market-based foreign exchange system replaced the previous rationing and licensing system. It was recognised that the previous government's attempts to control and guide the economy with regulations had been frustrated by corruption and inefficiency in the bureaucracy, so efforts were made to reduce controls and rely on market forces for allocation. Foreign aid and investment began to flow again.

Achievement of the First Plan

By 1969 a macro-economic framework had been created which would, it was hoped, encourage economic development. With this basis set, the First Five Year Plan began in April 1969². It was not a detailed indicative plan along Indian lines, but was more a statement of intent — a formalisation of the economic strategy. It set some production targets, provided projections of the principal macro variables in the economy, and gave an outline of the Government's own development (investment) budget for the following five years. The strategy emphasised rice production (aiming at self-sufficiency by 1973). Government investment expenditure was to be concentrated on infrastructure rehabilitation, leaving the private sector to provide the main "engine of growth".

By the last year of the First Plan, the achievements had been considerable. National Income statistics show an overall increase of about 7 p.c. per year. While the principal target, rice self-sufficiency, had not been reached (Indonesia still imports about 10 p.c. of its requirements), increases of 3–4 p.c. per year had been achieved, and impressive increases had occurred in industrial output, especially textiles and simple consumer goods. Infrastructure rehabilitation was

under way; exports, boosted by oil and timber, had more than trebled and some progress had been made in the longer term task of improving the government administrative apparatus.

It was not, of course, an unblemished success story. The strategy had been to get the economy growing again, without too much concern for the distribution of the benefits of growth, the emphasis given to rice production meant that land-owning peasants did benefit. But the landless peasants, those workers displaced from small-scale industry by the new higher-technology factories, and above all the inexorable population increase of more than 2 mn people each year, meant that a significant part of the population were no better off, or worse off, than they had been five years before.

These problems were recognised in the final years of the First Plan and there was a new concern, in official statements at least, about the problems of employment creation and provision of better basic social services (education and health). Policy was modified in other areas as well, especially after the disturbances of early 1974, in order to obtain for Indonesia more of the benefits of foreign investment, to encourage indigenous entrepreneurship and reduce the role of the ethnic Chinese Indonesians, who had been in the best position to accept the business opportunities presented by the new policies.

Another development which coincided with the last year of the First Plan (and the preparation of the Second) was the three-fold increase in oil price in 1973. As the tables below indicate, this windfall gain has radically altered Indonesian economic prospects (annual gross oil exports are now about \$ 40.00 per head). It is an indication of the extremely flexible nature of the Indonesian planning process that this change could be in-

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¹ Rencana Pembangunan Lima Tahun Kedua — in four volumes, published by Department Penerangan, Jakarta.

² For a more detailed account of the First Plan, see Bulletin of Indonesian Economic Studies, July 1969.

corporated, without wholesale revision, by the commencement day, April 1, 1974.

This background is necessary to place the Second Plan in its context, because it represents another step — and a largely formal one — in a continuing policy. The tactics have been, and will be, modified to meet changing circumstances, but the broad strategy of the Second Plan remains much the same as the First — emphasis is still on growth as the *sine qua non* for any meaningful economic improvement in a country as poor as Indonesia; emphasis is still on agriculture; foreign aid and investment are still welcome; there is still a heavy reliance on market forces for allocation.

But the Second Plan does formalise the concern which was expressed in 1973, for "the problems which were recognised but could not be overcome in the First Plan: widening opportunities for employment, more equitable distribution of income, improvement of the market structure, increased development in the regions, transmigration, greater participation of the people in development, more attention to education and other non-economic aspects"³.

The Second Plan can be most conveniently summarised in terms of its broad aims, its predictions of macro-variables, the Government's five year investment budget, and an overview of the economy in five years time.

The principal aims are given as⁴:

- ☐ adequate supply of food and clothing of better quality and within the people's purchasing power;
- ☐ adequate household supplies and facilities;
- ☐ better and more extensive infrastructure;
- ☐ higher and more evenly distributed social welfare;
- ☐ greater employment opportunities.

The Macro Predictions

The macro predictions envisage a growth rate of real GDP of about 7.5 p.c. per year. While agricul-

Table 1
Percentage Composition of GDP and Expected Growth

Sector	Composition 1973/4	Expected Growth Rate 1974/5-78/9	Composition 1978/9
Agriculture	40.1	4.6	35.0
Mining	9.6	10.1	10.8
Industry	9.8	13.0	12.6
Construction	3.8	9.2	4.1
Communications	4.1	10.0	4.6
Other	32.6	7.7	32.9
Total	100.0	7.5	100.0

Source: Repelita II, Table 6-1.

ture still has high priority, the potential for rapid increase in this area is less than in industry or in mining. So it is anticipated that there will be some change in the composition of GDP.

To achieve this growth rate, it is estimated that investment must rise by 13 p.c. per year, and to finance this, domestic savings will rise from 11.7 p.c. of GDP in 1973/4 to 17.8 p.c. by the end of the Second Plan. Government "savings" (excess of routine expenditure over domestic receipts), negligible at the start of the First Plan, will rise to nearly 9 p.c. of GDP by the end of the Second.

Table 2
Investment

Item	1974/5	1978/9
Investment as a p.c. of GDP	19.1	22.9
p.c. Composition of investment finance		
Government	27.8	37.6
Foreign aid	14.8	7.1
Domestic private sector	33.1	40.0
Foreign investment	24.2	15.3
Total	100.0	100.0

Source: Repelita II, Table 6-3 and 6-4.

By the end of the Second Plan, the Government's investment budget, comprising these savings plus foreign aid, will make up 45 p.c. of all investment — perhaps the most graphic illustration that, despite the important role given to the private sector, the Government's own role in development will be dominant. As Table 2 shows, the importance of both foreign aid and investment will decline.

Table 3
Balance of Payments

(US \$ mn)

	1969/70	1974/5	1978/9
Exports	1,044	7,035	10,490
of which, gross oil	(384)	(4,989)	(7,340)
Imports	— 1,139	— 4,451	— 7,120
Imports and service payments related to oil	— 292	— 2,553	— 3,740
Other services	— 101	— 475	— 1,090
	— 488	— 444	— 1,460
Government borrowings	371	672	690
aid	(371)	(525)	(540)
other	(—)	(147)	(150)
Government debt servicing	— 44	— 148	— 255
Other capital inflow (net)	27	773	1,125
Other	91		
Increase in reserves	— 43	853	100

Source: Repelita II, Table 9-1, 9-2 and 9-6.

Table 3 summarises the balance of payments at the start of the First Plan and projections for the Second. Oil dominates the export picture, accounting for 70 p.c. of export by 1978 (it was 37 p.c. at the start of the First Plan). Servicing of

³ Repelita Vol. I, p. 19.

⁴ Repelita Vol. I, p. 45.

Government debt, which had seemed such a serious longer-term problem before the oil price increase, will now absorb less than 4 p.c. of export earnings.

Of the substantial increase in imports by the end of the Second Plan, food makes up over 20 p.c. (including an estimated \$ 438 mn to be spent on rice — the self-sufficiency aim of the First Plan has been allowed to lapse). Reflecting the emphasis on agriculture, the value of fertiliser imports is expected to increase fivefold (supplementing the ninefold increase in domestic production anticipated in the Second Plan).

The Government Capital Budget

Much of the Plan document is taken up in detailed projections of departmental budgets and regional programs. Table 4 shows the sort of priorities in the Government investment budget roughly compared, where possible, with planned expenditure in the First Plan. The table illustrates that the change in emphasis towards social areas may not be as great as one would expect from the text of the Plan.

Table 4
First and Second Five Year Plans,
Expenditure by Sectors
(percentage distribution)

Sector	Repelita I	Repelita II
Economic	78.3¹	65.8
Agriculture and Irrigation	30.1	19.1
Industry and mining	12.3	3.5
Electricity	9.4	7.4
Communications	21.7	15.8
Trade and cooperatives	..	0.7
Manpower and transmigration	..	1.3
Regional development	..	7.7
Social	16.2	16.0
Education	8.9	10.0
Health	3.9	3.7
Religion	3.3 ²	0.3
Housing and water supply	..	1.9
General	5.5³	18.4
Legal Affairs	..	0.6
Defence and Security	2.8	2.4
Information	..	0.5
Research and Statistics	..	1.9
Government apparatus	..	2.3
Government investment	..	10.7

.. Categories not listed in Repelita I.

¹ Includes 4.7 p.c. for rural development in Repelita I.

² Includes "other social".

³ Includes 2.8 p.c. for "all other general" in 1969/70 in Repelita I.

Source: The First Five Year Development Plan (1969/70 to 1973/4), Vol. I, Table II. 5; Repelita II, Table 6-6.

One prediction of special interest is labour absorption. Work opportunities are anticipated to increase by 5.5 mn, slightly less than the expected increase in the work force. Agriculture is expected to absorb 1.2 mn, industry about the same, 0.3 mn in construction and 1.3 mn in „services

and other". The Plan undertakes to examine foreign exchange policies, monetary policies, and labour regulations to encourage the efficient use of as much labour as possible. The family planning program, which has shown only limited progress to date, continues to receive high priority, and further attempts will be made at relocating some of Java's overpopulation on other islands.

An Overview

This note has emphasised that Indonesian planning is of a very flexible nature, and specific figures and targets should not be taken as anything more than rough magnitudes. The oil price increase bonanza opens up a number of policy options and opportunities, and detailed decisions on how to use this revenue are yet to be taken. These detailed decisions and the effectiveness of implementation, rather than the Plan document, will determine economic progress over the next five years. But what we can get from the Plan is a picture of how the economic policy-makers see the future. They see an economy in which per capita income is growing at around 5 p.c. per year from its present low base: an economy in which, in spite of rapid industrial growth, the great majority of the population will be in rural areas, employed largely in agriculture: most of these will be crowded into Java and Bali, where population densities are already great, where average farm size is already well below one hectare and where many have no land at all. The policy-makers have made some commitments to soften the sharp edges of the workings of the economy with more social expenditure and more jobs, but as yet there are few concrete programs to achieve these social objectives⁵. The economy will be one in which the balance of payments and government revenue will be dominated by oil receipts and in which the government and its instrumentalities (especially the enormous and multi-faceted State Oil Company) must inevitably play a major role. Foreign investment will still be welcome, but contract conditions will be tightened. The Second Plan is neither a panacea for Indonesia's economic problems, nor does it promise an "economic miracle" which would transform Indonesia from a poor country to a rich one. Instead, it shows that a continuation of the quite respectable rate of GDP growth achieved in the First Plan is feasible in the Second. This, combined with programs to improve distribution of the benefits of this growth, would leave Indonesia, at the end of five years, a little better off than it was at the start.

⁵ For an account of one program which is employing rural labour in labour-intensive infrastructure projects, see "The Kabupaten Program", in: Bulletin of Indonesian Economic Studies, March 1973. For recent developments in the Indonesian economy, see: Bulletin of Indonesian Economic Studies, November 1974.