

INDONESIA

GLOBAL CRISIS, REGIONAL INTEGRATION,
AND THE DOMESTIC POLITICAL ECONOMY

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The Global Crisis and Indonesia

- Indonesia: weathered global crisis relatively well, though previous growth rates of over 6 per cent now significantly reduced
- 1997/98 Asian economic crisis experienced as more of a calamity
- 1998 – Soeharto fell; 2009 – SBY re-elected overwhelmingly
- But underlying problems remain; and Indonesia not unscathed
- How would regional integration help solve such problems?

Poverty, Unemployment, Underemployment

- Percentage living below poverty line – still sizeable 14-18 per cent of population – in spite of urban middle class presence
- Unemployment and underemployment – approximately 9 per cent and 1/3 respectively of labour force
- Lack of social security – people can be hypothetically thrust out of the middle class quickly
- Inequalities, poverty – accounts for many social tensions – from authoritarian period to today's democracy

Social Welfare and the Global Crisis:

- ILO: Stagnant growth of the formal sector due to global crisis; dismissed workers and job seekers crowd the informal sector
- Overseas: termination of hundreds of thousands of jobs of Indonesian migrant workers, including in the region
- Effects partially mitigated by government's stimulus package, labour-intensive development projects, soft loans for SMEs, and poverty alleviation programme
- The politics of an election year

Political Economy of Corruption and Debt: Against Social Welfare

- Decentralised and pervasive corruption at all levels
- In the past, estimated to eat up 20 per cent or more of national budget -- no reason to expect it has been reduced
- Improved debt to GDP ratio but government foreign debt is close to US\$80 billion according to Bank Indonesia.
- Soeharto-era debt and corruption, a politically sensitive issue.
- About 10 per cent of expenditure in national budget is for debt repayment
- Significance: together with corruption, a burden on scarce resources – subsidies, education, social insurance, etc.

Regional Integration: Questions for Indonesia

- How would regional integration not only spur growth, but enhance its 'quality'? Help improve social welfare? Offer overseas regional job markets?
- NGO question: How would a regional political economy not dominated by Washington agenda be any different for the Indonesian people?
- How would regional integration agenda interface with the apparent need to reassess Indonesian development trajectory?

Minority of Indonesian Economists Seek Fundamental Reassessment

- Export-led model – questioned after being the mantra for decades
- Call for emphasis on domestic market; integration of large domestic economy
- Stimulating local demand; not just replace existing export markets – significant urban middle class
- More poverty alleviation-oriented than growth-oriented; SMEs (e.g. Ananta 2009)
- Persisting problems of poverty, social injustice – provide impetus
- Taking advantage of anti-neoliberal ‘turn’ after global crisis?
- Does not mean abandoning export/growth but entails re-evaluation of priorities
- Plausibility?: economic policy is a matter of politics