

Inclusive Growth in Indonesia: Myth or Reality?

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I. Impressive Macroeconomic Data

Indonesian government often claims that the ability of Indonesian economy to grow positively during the recent crises in the US and European Union is a success indicator of the country's economic development. Amidst the global financial crisis, Indonesia, along with China dan India, maintained positive economic performance while developed countries brought to near collapse. In 2009, China accounted as country with the highest economic growth, 8.7 percent, followed by India with 7.2 percent and Indonesia 4.5 percent. Indonesian economic growth was 6.1 percent in 2010 and 6.5 percent in 2011. Asian Development Bank (ADB) predicted that Indonesian economic growth would be in the level of 6.4 percent in 2012.

According to the government data, the relatively impressive economic growth performance also has been accompanied by the decreasing of poverty rate in Indonesian society. According to the government data, in March 2011 the quantity of the poor (those with a monthly percapita expense in amount of below poverty line) amounted to 30.02 million (12.49 percent), declining around 1 million (0.84 percent) from 31.2 million (13.3 percent) in March 2010¹. In September 2011, the government estimated that the quantity of people which live below poverty line amounted to 29.89 million (12.36 percent)². Table I shows that in the last five year the poverty rate has been continually declining, from 39.30 million (16.66 percent) in 2006 into 37.17 million (16.58 percent) in 2007, 34.96 million (15.42 percent) in 2008, 32.5 million (14.15 percent) in 2009, 31.02 million (13.35 percent) in 2010 and 30.02 million (12.49 percent) in 2011.

¹ *Berita Resmi Statistik*, No. 45/07/Th. XIV, 1 July 2011..

² *Kompas*, 7 May 2012

Table I
Poverty in Indonesia 2004-2011

Year	Amount (Million)	Percentage
2004	36.10	16.66
2006	39.30	17.35
2007	37.17	16.58
2008	34.96	15.42
2009	32.5	14.15
2010	31.02	13.35
2011	30.02	12.49

Source: Biro Pusat Statistik.

While the level of unemployment has been continually high in European Union countries (around 20 percent in Greece and Spain) and the United States (around 10 percent), the rate of unemployment in Indonesia –according to government’s official data-- is also can be maintained in a moderate level. The level of open unemployment in Februari 2012 reached at 6.32 percent, decreasing from the 6.56 percent in August 2011³. However, the labour force with a lowest level education (graduated from primary school and below) continue to dominate the figure, which amounted to 55.5 million people (49.21 percent). Labour force with diploma and university education is respectively 3.1 million (2.77 percent) and 7.2 percent (6.43 percent).

³ *Berita Resmi Statistik* No. 33/05/Th XV, 7 May 2012.

II. Development, Inclusive Growth and Pro Poor Programs

After Soeharto resigned in 1998, Indonesian economy had been effectively under control of International Monetary Funds (IMF). IMF gave assistance package, with a strict condition that Indonesian government had to implement the Structural Adjustment Programs (SAP), as written in the agreement of “Letter of Intent” (LoI) between Indonesian government and IMF. The main of content of Structural Adjustment Programs (SAP) is of course the neoliberal policies that usually named *Washington Consensus*, which mainly consists of various forms of liberalization, deregulation and privatization. The consequence of such policy package is that Indonesian economy becomes more market oriented, especially if compared to the nature of Indonesian economy during Soeharto and Soekarno era.

One of negative side of Indonesian economy in the post-Soeharto era has been the development of financial sector that does not work hand in hand with the real sectors (bubble economy). In the middle of 2011, Indonesian mass media repoted that for the first time in history, the Index of Combined Stock Exchange Price (Indeks Harga Saham Gabungan/IHSG) in Indonesian Stock Market exceeded the level of 4000. The uncertainty situation in European as well as United States’ financial market were of important factors behind the massive flow of international capital (mostly portfolio investment) in the Indonesian economy. Analysts even said that Indonesian Stock Market today performs as one of the best financial market in the world. During around six months (January-June 2011), the international funds that enter Indonesian market amounted to Rp 103.6 trillion, with the composition of: (1) foreign direct investment amounted to Rp 29.6 trillion and (2) potfolio investment Rp 64.1 in the forms of government bonds and obligation⁴. However, such massive flow of (mostly potfolio) capital does not correlate significantly with the creation of job opportunity and the betterment of majority of Indonesian people’s live. According to *Kompas* daily, only

⁴ Syamsul Hadi, “Membaca Ironi Dua Dunia”, in *Kompas*, 20 Juli 2012.

310.000 Indonesian people (amongst 240 million people) that involve in transactions in financial market⁵.

The job opportunity and poor infrastructure are of the main problems in Indonesian economic today. Addressing the countries multidimensional poverty, will require not only accelerated economic growth, but also more inclusive growth that provides rural areas and disadvantaged regions with improved economic opportunity and access to social service⁶. Improving connectivity is one of strategic focuses on the government's long term Master Plan for Acceleration and Expansion of Economic Development, 2011-2025 (MP3EI), issued in May 2011⁷. Two other focuses are: (1) acceleration of national capacity in science and technology; (2) developing six economic corridors based on potential and actual advantages of each region and surrounding areas. The six corridors are: (1) Sumatera; (2) Java; (3) Kalimantan; (4) Sulawesi; (5) Bali and East Nusa Tenggara; and (6) Papua-Maluku.

President SBY announced formally this masterplan by launching 17 infrastructure projects. The projects will be financed by state enterprises, private sectors, government budget and international fundings. According to Coordinator Minister of Economy, Hatta Rajasa, total investment needed for this ambitious plan would be Rp 4 trillion. Amongst this, the state enterprises would contribute Rp 836 trillion until 2014, which is expected to open 5.6 million job opportunities⁸.

After more than one year implementation, there is a wide assessment that the master plan is slowly implemented. Private sectors are mostly reluctant to participate in the masterplan implementation, as there are no concrete guidelines as well as specific incentives. Secondly, coordination between central government and regional/local government is notably weak, as there are also many political and administrative problems as the consequence of decentralization and local autonomy. Third, there is no guarantee that the next Indonesian leader (after SBY) would continue to follow the masterplan. One thing is clear, democratization and decentralization in Indonesia have added the

⁵ Ibid.

⁶ Asian Development Bank, "Republic of Indonesia: Inclusive Growth through Improved Connectivity Program", ADB Concept Paper, May 2012.

⁷ Ibid.

⁸ <http://www.indopos.co.id/index.php/index-catatan-hatta-rajasa.html>

complexity of decision making processes as well as policy implementations, which actually reduce the level of effectiveness as well as administrative capacity of the government.

Despite of some critical voices aired in public spheres, the SBY government has been notably serious in formulating and implementing some pro-poor policies that directly touch the life of grass-root society, such as:

1. The *RASKIN* (Rice for Poor Households/ *Beras untuk Rumah Tangga Miskin*)

The *RASKIN* program is a policy designed during the monetary crisis in 1998, in which it aims to strengthen the people's food security, especially the poor households. Initially, it was the OPK (Special Market Operation/ *Operasi Pasar Khusus*) program, yet it became *RASKIN* in 2002 since its function was widened from a mere emergency (social safety net) to a social protection program. The status of *RASKIN* as a program is expected by many that it would be more targeted to achieve its goal.

However, the program is largely considered as inappropriately targeted since it is not able to equally reach all poor household families. Until 2006, the data of *RASKIN* beneficiaries still used those from the BKKBN (the National Population and Family Planning Board), namely the pre-prosperous family data. Since 2007, it uses the RTM (Poor Household/ *Rumah Tangga Miskin*) data from the BPS (Central Statistical Bureau) as its baseline. The distributed rice has prices of Rp 1,000/ kg (until 2007) and Rp 1,600/ kg (since 2008).

2. The *Jamkesmas* (Public Health Insurance/ *Jaminan Kesehatan Masyarakat*)

The *Jamkesmas* is basically a social assistance program to provide health care services to poor Indonesians. The program has national scale, in which it uses cross-subsidy system to provide comprehensive health care services to the poor. It upholds the following principles: (1) a trusteeship and non-profit fund aimed only to improve health condition of the poor; (2) comprehensive and suitable to cost-effective and rational medical service standard; (3) structured services, in stage with portability and equity; and (4) transparent and accountable. In practice, responsibility to provide health care to the poor belongs to and is implemented by the Central and Regional Government. Also,

Government in the Province/ Regency/ City must provide contribution to gain optimal services.

The target of the program is the poor all across Indonesia, excluding those already covered by health insurance. Belong to this category are the poor set by regent/ mayor based on quota, vagrant, beggar, abandoned children, participants of the PKH (Family Hope Program/ *Program Keluarga Harapan*), prisoner, house institution resident, detention block resident, and post-disaster victim. Its target is 76.4 million people.

The *Jamkesmas* is criticized due to its unequal distribution, whereby not all poor Indonesians could access it. Evidence shows that the poor are still hard to get financing relief in the hospital. Moreover, it is also considered indecisive in determining beneficiaries, so that, again, it is inappropriately targeted.

3. The BLT (Cash Transfer/ *Bantuan Langsung Tunai*)

The BLT is a program aimed to provide compensation of the increasing oil prices, in the hope that it will mitigate the latter's negative impact. Yet, it has so many controversies due to its cash nature, in which it is feared it will cause idleness and poverty. In 2004, it gave Rp 100,000 per family. In 2008, it gave the same amount on each 3 months. In 2012, it is planned to give Rp 150,000/ month for 9 months. Initially, the program was called the BLT, yet it became the BLT Plus in 2008 and the BLSM (Temporary Cash Transfer or *Bantuan Langsung Sementara Masyarakat*) in 2012.

Critics say that the program is more of transactional politics to gain public support. It is also inappropriately targeted, since there is no controlling mechanism if the money is used for consumptive purpose. Indonesia is not alone to have transactional politics through social assistance program. Some countries like Mexico, Peru, Guatemala, Colombia, Brazil, and the Philippines also undergo the same program, only with different format and mechanism. Yet, it is commonly distributed not as a grant, but as education and health program. People cannot access it without the both purposes. The system is called the cash conditional transfer.

4. Free Education

Free education is the mandate of the 1945 Constitution, as stated on the Article 31(2): "Every citizen has the obligation to undertake basic education, and the government

has the obligation to fund this”. Moreover, it is emphasized in the Article 34(2) of Law No. 20/ 2003 on National Education System: “The Government and local governments guarantee the implementation of compulsory education at least for basic education free of cost”. So, what else to debate on? It is clear that according to the amended 1945 Constitution and the Law No. 20/ 2003 on National Education System the government has the very obligation to provide free basic education for all citizens regardless they are rich or poor. This issue is very sound in the regional level, in which each candidate in local election always use it as political campaign. Generally, they offer free education for elementary and middle school, yet in some region it even reaches high school level. Nationally, government’s policy to deal with the issue is the BOS (School Operational Assistance). The BOS Fund received by each school must be used to fund all activities in terms of student admission, tuition fee (the SPP or *Sumbangan Pembiayaan Pendidikan*), text-book procurement, daily or final exam, and school’s operational maintenance cost.

Critics say that free education means abandonment of quality. If the government wishes to provide free education, it is feared that its quality will not meet a standardized ones. Issues of education cannot be detached from quality, be it its teacher, facilities, curriculum, etc.

III. Between Official Data and Real Conditions

An important factor behind the ability of Indonesian economy to perform positively during the global financial crisis is the “inward oriented” nature of Indonesian economy. Domestic consumption contributes to 65 percent of Indonesian GDP, while export only contributes to 24 percent. Hence the decline of export due to the recession in the US and Europe does not hit Indonesian economic seriously, if compared with the export oriented country like Japan, Malaysia, Singapore and South Korea. Sofyan Wanandi, the chairman of Indonesian Association of Entrepreneurs (APINDO), often says that even if government does nothing, Indonesian economy would still grow at the level of at least 5 percent.

The government under Susilo Bambang Yudhoyono (SBY) also often claims its success to eradicate poverty in Indonesia. However, by knowing how government defines

and counts the poverty rate in the country, we might think twice to believe the claims. According to the World Bank, with measurement of expensing US\$ 2 per day, the quantity of Indonesian people who live below poverty line would be around 120 million or 50 percent of population⁹. Indonesian government's measure for poverty is by categorizing those who expense less than Rp 233.70 per capita per month, or Rp 7000 (US\$ 0.85) per capita per day¹⁰. This measure is quite low, even if we use the UN definition of extreme poverty in the context of Millennium Development Goals (MDGs), i.e expensing below US\$ 1 per capita per day. This measurement is also too low if compared with the poverty line measurement in some other ASEAN counties. In the Philippines the poor categorization is based on expensing below US\$ 1.5 per day, while Malaysia and Thailand US\$ 2.5 per day¹¹.

Secondly, the government claim that the unemployment only reach at the level of only 6.4 percent. This is an impressive data, as the unemployment has been becoming the serious and difficult problems in many developed countries (especially EU and the US). Let us find out how Indonesian government defines 'unemployment'. The Indonesian Bureau of Statistics (BPS) calculates the level of unemployment by counting those who works *at least one hour in a week* as employed people. In addition to this, the census is usually conducted in harvest time, where most people in the countryside have a chance to work in the farms.

The employment situation in Indonesia would seem more serious if we consider that: (1) 70 percent of labour force works in informal sectors, and only 30 percent works in formal sectors; (2) around 6.5 – 7 million people work abroad, mostly as unskilled labour. Almost every year Indonesian mass media reports various kinds of mistreatments against Indonesian labour migrants, which cause to negative sentiments toward the migrants' resident countries such as Malaysia and Saudi Arabia.

⁹ *Liputan6.com*, 29 June 2011.

¹⁰ *Pikiran Rakyat*, 25 October 2011.

¹¹ *Ibid.*

IV. Some Notes for the Future

One positive thing about Indonesia in the era of SBY is the relatively more peaceful and stable political situation, if compared to the situation under BJ Habibie, Abdurrahman Wahid and Megawati Soekarno. It seems that finally Indonesian political dynamics reached an equilibrium situation, after a long political instability after the fall of Soeharto.

However, classical problems such as corruption and bureaucratic inefficiencies are still overshadowing the Indonesian political and economic system. More seriously, during these six months almost every day mass media highlight the corruption scandals involving the top leadership of President SBY's party, Democratic Party. There are very strong indications that the top elites of Democratic Party, such as its general chairman as well as treasurer (Anas Urbaningrum dan Muhammad Nazaruddin), are the main actors in the corruptions in many government projects such as Hambalang Sport Center and Palembang Athlete House. This notably has a negative effects toward SBY's credibility, as his main campaign theme was to 'say no' and fight against corruption.

In general, the government fails to draw a positive correlation between growth and job creation as well as growth with actual poverty reduction. Certainly inclusive growth is not only about right or wrong policies for the betterment of people's life. The government's administrative, developmental and transformative capacities are irreplaceable factors to bring inclusive growth into the reality.

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