

# **Policy outcomes in Indonesia before and after democratization**

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## **I. Executive Summary:**

Different types of regimes face different political situations and have different incentives to pursue different policies. In this paper, I am examining whether there are any differences in economic and social policy outcomes under democracy and dictatorship in Indonesia. The study is divided into two periods. The first period covers the authoritarian rule of President Suharto(1966 to 1998) and the second period covers the new democratic government(1999 to 2010). I set out by analyzing the rules used in distinguishing democracy from dictatorship and discussing the process by which Suharto's regime was categorized as a dictatorship and the Indonesian government after 1999 as democratic. Then I compare and contrast the economic and social policies pursued under each of the two regime types and the policy outcomes achieved. Some authors suggest that democracy is more conducive to economic and human development than authoritarian leadership whereas others suggest that there is no significant difference. Some even suggest the authoritarian regime to be better at developing a country. In the case of Indonesia, I found that there is no significant change in the trend both in economic and human development and in some cases, the development rate is slower under democracy. I discuss the findings in light of literatures on democracy and development. Indonesia's democracy is still young and the democratic period covered by the study is relatively short compared to the authoritarian period. Better comparison of policy outcomes could be made in the future if further research can be done after Indonesia's democracy becomes stronger.

## II. Introduction

We live in a world where there are different forms of government and political systems. These different types of government face different incentives and pursue different policies. There are many studies and literatures on how the democratic and authoritarian governments affect economic development and human development. There are arguments on each side claiming one is better than the other at developing the country. Some said that democracy has a negative effect on investment and undermines growth whereas dictatorship has an advantage in making tough choices to foster economic growth. On the contrary, some argue that democracy better guaranteed the individual property rights and free flow of information which are required for the development of economy. Some even said that there is no causal relationship between regime type and development. With respect to policies on human development, some argue that democratic governments spend more than dictatorships on the provision of public goods due to popular pressure and as a result, human development is higher under democratic governments. Some on the other side claimed that dictatorships overtake democratic regimes in social spending when the economic development reaches a high level because they lack legitimacy and use social spending as a crucial mean of building political support. Therefore, I find it interesting to compare and contrast the policy outcomes under different regime types and try to understand why certain policy outcomes are resulted in a certain context. Concerning the regime types and the policy outcomes, among the many countries that have been studied by many scholars, Indonesia became particularly interesting for me.

Indonesia is a country located off the coast of mainland Southeast Asia in the Pacific and Indian Oceans. It is an archipelago consisting of approximately 17,508 islands. According to the

World Bank, it has a population of 239.9 million in 2010. It has more than 300 distinct ethnic groups and is the world's fourth most populous nation. Indonesia is a resource-rich nation and it has been a member of OPEC<sup>1</sup> until 2008 when it formally suspended its membership. Indonesia is an interesting country to study the policy outcomes under different regimes because it has been through different political systems and different economic conditions throughout history.

According to Prezworski et al. (2000), Indonesia has been under civilian dictatorship from 1946 to 1965, military dictatorship from 1966 to 1998 and democratic government from 1999 onwards. The Indonesia's economy has also been through many ups and downs. Under the civilian dictatorship of President Sukarno, Indonesia has had poor economy but under President Suharto's military dictatorship, Indonesia has achieved strong economic growth till the economy collapsed after the Asian financial crisis of 1997. After the transition to democracy and subsequent economic reforms, Indonesia's economy began to develop again. Indonesia has achieved a strong economic growth rate under the authoritarian regime although the economy finally collapsed. I find it interesting to see if the new government after the democratic transition performs better at developing the country under changing political conditions and how the policy outcomes are different under different regimes.

The study period in my paper covers Indonesia from 1966 to 2010. During that period Indonesia has been under President Suharto's New Order regime from 1966<sup>2</sup> to 1998 and the new democratic government from 1999 to 2010<sup>3</sup>. Suharto became president of Indonesia in 1967 after

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<sup>1</sup> Organization of Petroleum Exporting Countries

<sup>2</sup> Although Suharto was named Acting President on March 12 1967 by the Indonesia's provisional Parliament and formally appointed as President on March 27 1968, the Supersemar decree of 11 March 1966 transferred much of the authority from the president to Suharto to take any measure he deemed necessary to restore order in Indonesia in 1966 . Therefore, Suharto's New Order regime was regarded to begin in 1966.

<sup>3</sup> When Suharto stepped down, B.J . Habibie who had served as vice-president under Suharto, took the presidency. B. J. Habibie's term in office was from 1998 to 1999.. He made some reforms but he came from Suharto's party and his government was only viewed as a transitional government and not as a new democratic government.

Sukarno<sup>4</sup> had been stripped of presidential title by the People's Consultative Assembly of the Republic of Indonesia. Suharto declared his government as the New Order government and his ideology as Pancasila<sup>5</sup> Democracy although it was regarded by scholars as authoritarian regime. There were elections<sup>6</sup> throughout his rule in which he always won and he remained in presidency for 32 years till he was forced to resign in 1998. During Suharto's period, Indonesia developed economically and was regarded as one of the economic miracles of Asia (World Bank, 1993). However there was public dissent towards Suharto's regime especially due to the widespread corruption and political oppression.<sup>7</sup> The Asian financial crisis in 1997<sup>8</sup> strongly hit Indonesia's economy and it led to protests nationwide. Finally Suharto agreed to step down from presidency and transferred the presidency to his vice-president B.J. Habibie in 1998. After the short rule of B.J. Habibie, democratic elections were held in 1999 and new democratic government came to power. Since, the two periods that I discuss in my paper have two different forms of government, the political transition in 1998-1999 provided me with the opportunity to study the different

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Therefore, the democratic period in Indonesia began after the election in 1999 and in my paper I will refer to President's Habibie's era which is from May 1998 to October 1999 as the democratic transition period.

<sup>4</sup> Sukarno was a revolutionary leader who struggled for Indonesia's independence from the Netherlands and became the first president of Indonesia after Independence. Sukarno remained in presidency from 1946 till 1966 when he was replaced by General Suharto.

<sup>5</sup> Pancasila is the official philosophical foundation of Indonesia. It was first officially introduced in Indonesia by the first president Sukarno. Pancasila is composed of two words, "panca" meaning five and "sila" meaning principles. Therefore, Pancasila Democracy is based on five principles; (1) belief in the one and only God (2) just and civilized humanity (3) the unity of Indonesia (4) democracy guided by the inner wisdom in the unanimity arising out of deliberations amongst representatives and (5) social justice for the whole of the people of Indonesia.

<sup>6</sup> Elections were held during Suharto's presidency but he allowed the existence of only three parties including his own Golkar party. Suharto's New Order government asked nationalist and Christian parties to merge as the Indonesian Democratic Party (PDI), and Muslim parties as the People's Development Party (PPP). The opposition parties were subject to government interference even in the choice of the parties' leadership and were prevented from operating at the local level other than during the three-week official campaign period prior to election.

<sup>7</sup> Please see (Henderson and Kuncoro, 2004) and (Niles, 2001)

<sup>8</sup> Asian financial crisis started in Thailand in 1997 with the collapse of Thai baht. Thai government decided to no longer peg the local currency to the U.S. dollar after defending the value of its currency using foreign reserves. Currency decline spread rapidly throughout South Asia, causing stock market declines, reduced import revenues and government upheaval.

policies pursued by two different forms of government in Indonesia and whether these policies have affected economic and human development in Indonesia differently.

This paper is organized as follows. In section III, drawing on different literature sources, I will discuss how to classify different regimes in Indonesia as authoritarian or democratic. Then I will review academic literature on how different types of governments affect economic and human development. In section IV, I examine the different policy approaches taken by different governments in Indonesia in pursuit of economic and human development. I assess whether there is any difference in the trend of development in both areas. In discussing economic development policies, I cover policies and outcomes related to inflation, foreign trade and foreign direct investment . Then, I compare the economic growth under two different periods. In discussing human development, I cover policies and outcomes related to income inequality, education and health. Then I compare the human development trend under two different periods. In section V, I draw conclusion.

### **III. Literature Review**

#### **Democracy and measurement of democracy**

Democracy comes from two Greek words; *demos* (people) and *kratos* (rule). The simple definition of democracy is a form of government in which the people rule. In reality, however, this definition is too simple to use as a measurement to decide whether a particular regime is democratic or not. There are many other definitions and concepts of democracy, some narrow, some very comprehensive and some in the middle. Joseph Schumpeter(1976) suggested that

democracy is a system in which political leaders are chosen by people. People choose the leaders among the candidates who compete for their votes in the elections but between the elections, the political decisions are made by the politicians. This is rather a narrow concept of democracy. It focuses mainly on election as the basis of democracy and does not discuss people's participation in the broad political process. According to David Held (2006), democracy goes beyond the right to vote. It includes social and economic rights for people, equal opportunities for participation and for citizens' final control of the political agenda. David Held's concept is comprehensive and covers all the major aspects of social life, and popular rights in terms of political, civil, economic and social rights. However, these very narrow and very broad definitions of democracy are of little use in determining if a country is democratic or not (Sorenson, 2010).

For practical purposes, it is necessary to have some criteria that can be used to measure the degree of democracy in a particular country. In reality, countries lie on an authority spectrum with dictatorship and democracy on each end. The crude measure of telling whether a country is democracy or not will help little in studying the effect of regime type on the policy outcomes. The measure of the degree of democracy plays an important role in comparing two different regimes. For example, in comparing countries, the Freedom House uses one dimension for political rights and one dimension for civil liberties to measure the degree of democracy in a list of countries and ranked them according to the scores they achieved. Therefore, when comparing regimes, it is necessary to determine not only their regime type but also where they stand on the authority spectrum and the degree of democracy.



## **Classifying the regimes in two different period (1967-1998) and (1999-2010)**

The first thing I tried to do in my research is to classify the two governments in the two different periods in Indonesia either as a democracy or as an authoritarian. According to Przeworski et al. (2000), democracy is a regime in which government offices are filled by contested elections, or democracy is a system in which parties lose elections. To classify the regimes in Indonesia, my paper adopted the method used by Przeworski et al.(2000) in their book, Democracy and Development. The rules that are used to classify whether a regime is democratic are

(1) the chief executive must be elected.

For a regime to be democratic, the chief executive must be elected by popular elections and must be responsible only directly to voters or to a legislature elected by them. Indirect elections qualify as popular only if the electors are themselves elected.

(2) the legislature must be elected

Here "the legislature" can be a congress, an assembly or a parliament. Only the lower house is considered and a constituent assembly that does not have ordinary legislative powers is not considered a legislature.

(3) there must be more than one party

Here "party" means an independent list of candidates represented to voters in elections. In order for a regime to be qualified as democratic, there must be an opposition party. If there is no party or only one party, the regime is considered authoritarian.

Elections and the existence of opposition parties alone cannot prove that the regime is democratic. In some cases, elections are held because the incumbents know that the opposition cannot win. In other cases, the incumbents would not allow the opposition to assume office if it won in the election, or the ruling dictator himself forms another party as an opposition party to justify his regime as democratic but would never let that opposition party win the election. Therefore, holding elections and existence of opposition parties are necessary but not sufficient to classify a regime as democratic.

That is why a fourth rule is necessary and that is-

(4) there must be an alternation of power.

According to Przeworski et al. (2000), if all the first three conditions are satisfied and if the incumbent subsequently held but never lost elections, such regime is considered authoritarian.

When we apply the four rules presented, Suharto's New Order regime doesn't pass the test of democratic government. Under the New Order regime, the President and the legislature were elected. Two opposition parties were allowed to exist but there were strict limitations to the movement of opposition parties<sup>9</sup>. Suharto's New Order regime satisfied the first three rules but throughout the period from 1966 to 1998, there was no alternation of power. Suharto ruled Indonesia for 32 years until he was forced out of presidency in 1998 after the Asian Financial Crisis. Therefore according to Przeworski et al. (2000), Suharto's New Order regime is classified as authoritarian although Suharto himself proclaimed his regime as democracy. B. J. Habibie who served as vice-president under Suharto and became president when Suharto resigned is

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<sup>9</sup> Opposition parties were prevented from operating at the local level other than during the three-week official campaign period prior to election.

regarded as transitional government because he held democratic elections and transferred power to the new government in 1999. The subsequent governments after 1999 election are classified as democracy because they satisfied all the four conditions presented.

After determining the type of government in each of the two periods, I continue to look at the regime authority characteristics of each periods by using Polity score. According to Polity IV project, it is better to treat democracy as a variable rather than characterizing a political system as democratic. Polity IV project uses a 21 point scale from -10 to +10. The higher Polity score reflects the institutional procedures that represent the higher degree of democracy. The Polity score is achieved by combining two other scores, DEMOC and AUTOOC in the Polity data. The operational indicators of democracy and autocracy are derived from codings of other variables<sup>10</sup> in the polity data. DEMOC uses a scale of 0 to 10 and higher score of DEMOC represents the higher degree of institutionalized democracy. AUTOOC also uses a scale of 0 to 10 and higher score of AUTOOC represents the higher degree of institutionalized autocracy. DEMOC and AUTOOC scales do not share any categories in common but many polities have mixed authority traits and they can have middling scores on both Autocracy and Democracy scales. Polity score is obtained by subtracting AUTOOC score from DEMOC score.

According to data from Polity IV, Indonesia scored -6 in 1966 and -7 from 1967 to 1997 showing Suharto's New Order regime as autocratic. When Suharto resigned and transferred power to B.J. Habibie's transitional government in 1998, the Polity score rose to -5. After democratic elections were held in 1999 and the new government took power, Indonesia's Polity score became 6 classifying Indonesia's political system as democratic. Although Indonesian

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<sup>10</sup> For the detailed explanation of the derivation of scores in Polity data, please refer to Polity IV user's manual which can be retrieved at <http://www.systemicpeace.org/inscr/p4manualv2010.pdf>

government became democratic after 1999 election, the 1945 constitution of Indonesia was still in place and it required the President to be elected indirectly by the People's Consultative Assembly(MPR). Under this system, the power brokers inside the MPR had high influence in the selection of president and this weakened the degree of democracy in Indonesia. In November 2001, changes to the 1945 constitution were made including the provision for direct presidential elections. These changes in executive recruitment processes have strengthened the democratic process in Indonesia. Indonesia's first direct presidential election was held in 2004 and Susilo Bambang Yudhoyono was elected as the President. The Polity score of Indonesia rose to 8 since 2004. Therefore, even after the democratic transition in 1999, I found that the degrees of democracy in Indonesia are different before 2004 and after 2004.<sup>11</sup>

## **Policy outcomes under different types of government**

The academic literature contains arguments both for and against effects of regime type on economic growth. Some said that democracy induces more growth while some said democracy retards growth. Galenson (1959) argued that democratic governments divert resources from investment to consumption more than the authoritarian governments. Huntington and Dominguez (1975) said that democracy undermines investment. The reasoning behind these arguments is that democratic governments are under pressure from the public for immediate consumption especially in the poor countries. Since the democratic governments must appeal to the public in order to gain political support, they yield to the public demand by expanding consumption at the cost of investment and future growth. Another argument is that democratic

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<sup>11</sup> Please refer to appendix 2 for Indonesia's Polity Scores

regimes are generally less capable of making tough choices to make economic development than the authoritarian regimes. The central premise of this reasoning is that development requires change, and change affects some voters adversely. Therefore, democratic government which is dependent on electoral support in the next election will typically tend to avoid choices that impose hardship on significant number of voters. The authoritarian governments, however, do not need to worry about voters approval as much as the democratic regimes for the political survival at least in the short term (Brown and Hunter, 1999).

The selectorate model also tries to explain why democratic and authoritarian governments differ in the political behavior and the provision of public goods. According to the selectorate model, democratic governments and authoritarian governments have different winning coalitions, the number of supporters a leader needs to maintain power, and the selectorates, the size of the pool from which these supporters are drawn. Democratic systems tend to have large selectorate and large coalitions whereas the authoritarian governments typically have much smaller selectorate and winning coalitions (Bueno de Mesquita and Smith, 2010). Generally, leaders provide both public and private goods but they limit the access to private goods to their winning coalitions. For the authoritarian regimes, it is relatively easier to make the choice of providing private goods to its small winning coalition than providing public goods to all the people. In the democratic system, the winning coalition size is large and so, it is very costly to provide private goods to all its members. As a result, the democracies tend increase the provision of public goods to all the people instead of the provision of private goods to the winning coalition.

With respect to the economic development, there are theories on both sides as to whether democracy is inimical or conducive to development. Two of them are

### (1) Conflict Theory

- Development requires decisive policy choice and effective policy implementation; authoritarian regimes are more decisive and more effective in implementing policy.
- Ethnic and sub-national conflicts interfere with economic development, and are most effectively suppressed by strong authoritarian government.
- Authoritarian governments are more able to effectively defer consumption in favor of savings. Democratic regimes are under a political imperative to increase social welfare spending, which reduces the rate of accumulation.
- Democracy undermines investment (Huntington and Dominguez 1975).

### (2) Compatibility theory

- Progressive development requires policy choices that lead to a development pathway that produces a wide distribution of the benefits of growth; democratic regimes are more effective at producing wide distribution of benefits (because of the strong tendency of authoritarian regimes to structure economic activity towards “rent-seeking” activities, enrichment of the ruling circle, and widespread corruption).
- democratic regimes are less prone to corruption and rent-seeking; they are less “predatory”.

Just as the abovementioned theories oppose each other, there are a number of counter-examples in both directions. There are also arguments that regime type doesn't matter for development and what is important is the "stability". In a study done by Przeworski and Limongi, 18 cross-country studies were examined and the conclusion is that those studies do not provide a clear basis for conclusion about the causal properties of democratic institutions with regard to development (Przeworski and Limongi 1993: p.60).

#### **IV. Indonesia under two different periods; (1966-1998) and (1998-2010)**

##### **(a) Economic development policies and policy outcomes**

Indonesia is an interesting case in the study of regime type and economic development. It has been under authoritarian rule of Suharto for more than three decades and has had a very strong economic development record till the economy collapsed during the Asian economic crisis of 1997. After the political transition to democracy, a series of new democratic governments has made policy reforms to stabilize the economy again. In my paper, I will look at the policies adopted by each type of regime and the outcomes from those policies.

##### **1. Control of inflation**

When Suharto took power from Sukarno in 1966, Indonesia was isolated from the world economy. Indonesia's economy was crumbling and annual inflation reached a peak of 1,195 percent in 1966. To rebuild the deteriorating economy, Suharto's New Order regime first tried to restore the trust of international investors by controlling inflation. He introduced the stabilization program with the help of IMF and held down the inflation rates. Suharto appointed a group of U.S.-educated Indonesian economists as his economic advisors and that group helped to bring

back Indonesia from dire economic conditions. The inflation rate dropped to 14 percent in 1970 and 3 percent in 1971 (World Bank). However, in 1972, the failure of rice crop, high world rice price and rising commodity prices caused the inflation rate to go up again. In 1974, the inflation rate reached 46 percent but the economic management team successfully brought the inflation down to 11 percent in 1975. By 1978, the decrease in foreign reserves made the local currency devalue by 33 percent and the inflation rate rose to 34 percent in 1979 and 31 percent in 1980. After 1980, the inflation rate has been kept at or below 15 percent till there was the Asian Financial Crisis in 1997 when the government injected liquidity into the banking system . These injections were on a massive scale, at the time equivalent to more than half of GDP, and they explain the sudden increase in both domestic public debt and inflation in 1998 (Hill and Shiraishi, 2007).<sup>12</sup>

The problem with economic policymaking in Indonesia under Suharto's New Order regime was that there was tension between influential groups<sup>13</sup> whose ideologies were different.. The technocrats, the group that was formally in charge of the economy, favored market reforms and a limited role for the government in the economy but the other group, called economic nationalists argued that trade protection and direct government investment and regulation were necessary to contain foreign influence while mobilizing sufficient resources to modernize the country. Suharto who was the final decision maker in policymaking turned to technocrats when the economy was weak and chaotic but stood on the side of nationalists when the economy

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<sup>12</sup> The historical trend of the inflation rate can be seen in figure 1 and appendix 1.

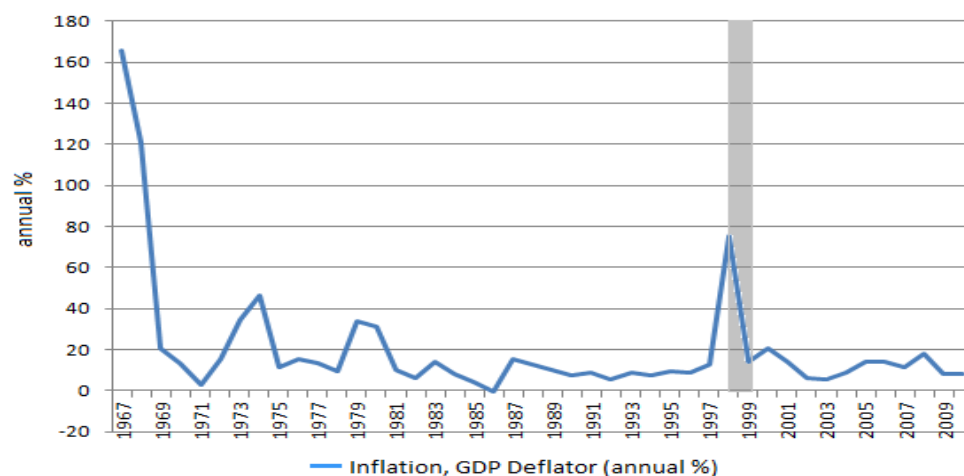
<sup>13</sup> Although both technocrats and economic nationalists were influential in shaping the economic policies of Indonesia, the latter had a stronger political base. Suharto himself was more ideologically inclined towards the economic nationalists and the Indonesian military which also had some influence in policy-making tended to ally with economic nationalists.



became strong again. Therefore, the economic policies were not consistent and the period of liberalization and the period of regulation alternated during Suharto's New Order regime.

In Indonesia, there is a strong Inflation aversion, which is the result of the nation's past experience. Economic stagnation at the end of Sukarno's Old Order regime was coupled with hyperinflation, and the Asian financial crisis which brought Indonesia's economy to its knees also created high inflation rate and brought hardships to Indonesians. Therefore, Indonesia government's first priority in stabilizing economy is to keep inflation under control. After the Asian financial crisis, Indonesia worked with IMF to restabilize the economy. It was not a problem for Indonesia to comply with IMF's Letter of Intent(LOI) to control inflation. In May 1999, the new democratic government enacted a new central bank law that made the Bank of Indonesia(BI) independent. Under the new law, BI has full authority to decide upon the inflation target and freedom to choose instruments to achieve this target (Chowdhury, Siregar, 2004). BI has shifted towards a regime of inflation targeting and a managed float. Indonesia after the crisis resembles that of the Suharto era: prices rarely get out of control, but it is a relatively high inflation economy (Hill and Shiraishi, 2007).

**figure 1. Inflation Rate, GDP Deflator ( Annual %), Indonesia**



\*The shaded area shows the democratic transition period in Indonesia (May 1998 to October 1999)

Source: World Bank

## 2. Foreign Trade

Soon after Suharto came to power, he rebuilt Indonesia's economy with the help of the well-known Berkeley Mafia,<sup>14</sup> a group of U.S.-educated Indonesian economists, and the period of liberalization began. Indonesian government first tried to reduce the control on foreign trade and remove the multiple exchange rate. In 1970, Indonesia has achieved complete unification of exchange rates by removing the remaining exchange controls on both capital accounts and current account transactions. In 1973, tariff schedule was revised and the tariff dispersion rate<sup>15</sup>

<sup>14</sup> Berkeley Mafia is a team of economists from the Faculty of Economics of the University of Indonesia, whom Suharto appointed as his economic advisors. Three of the five academics were Berkeley PhDs and therefore, they were known as "Berkeley Mafia" or "technocrats". They were broadly in favor of markets and foreign capital. (Temple, 2001)

<sup>15</sup> Tariff dispersion rate measures how widely spread out are the tariffs in a schedule. A high tariff dispersion indicates that there are a lot of variation in the tariff schedule. Economists generally believe that a uniform tariff (with low dispersion) is more economically efficient.

was reduced (Fane, 1999). Both exports and imports increased in a short time. The liberalization period, however, was short-lived. Shortly after the liberalization period, there was a nationalist resurgence. Being a net exporter of oil, Indonesia benefited greatly from the two oil shocks of 1970s. These huge gains from oil shocks allowed the Indonesian government to reduce dependence on foreign investment in many sectors of the economy. The strong economy also enabled economic nationalists to persuade President Suharto to practice protectionism.

Suharto's government liberalized the economy in the beginning but in response to concerns over foreign economic dominance, in the late 1970s, the government set up trade barriers to protect the new state-owned enterprises and also those owned by private domestic and foreign joint venture investors. It employed both tariffs and non-tariff barriers. The government also started the heavy industrialization and protected it by using non-tariff barriers. In 1976, the government began the "deletion program for commercial vehicles" which is essentially to substitute some components of vehicles with locally made components. In 1983, the deletion list was extended and in 1985, import of new and second-hand ships were banned to protect the government-owned shipbuilding industry (Nasution, 1985, p. 13). Licenses were used to restrict imports and for some imports such as petroleum products, explosives and steel products were allowed only to state-owned firms. Some private companies owned by cronies were also granted monopolies. In the late 1970s and the early 1980s, Indonesia mostly practiced protectionist policies. These protectionist policies benefited the state-owned firms and cronies who were holding monopolies but they raised the input cost for down-stream producers who used the imported materials in their production process. These high costs were then passed to domestic consumers and also contributed to the low competitiveness of export-oriented industries(Kuncoro et al., 2006).

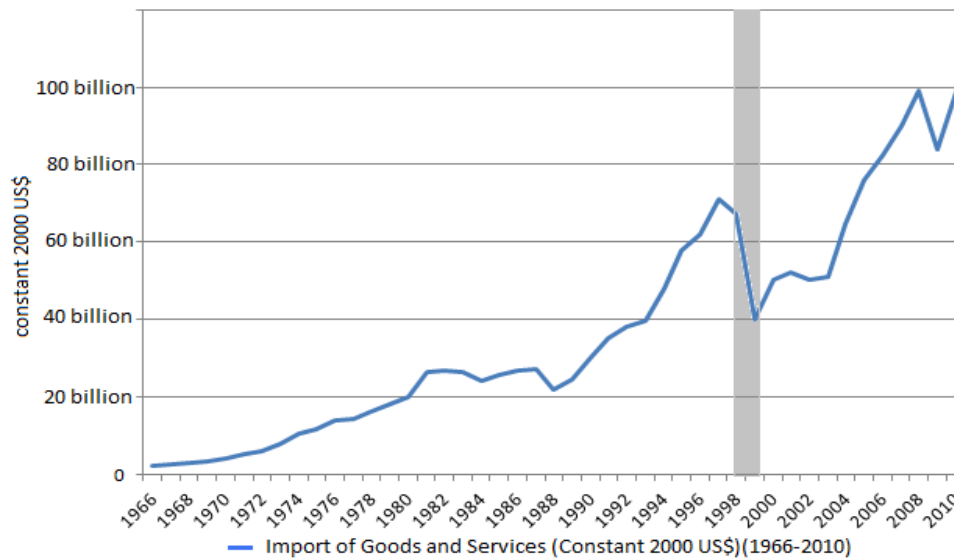
In the early 1980s, the economic growth rate declined<sup>16</sup> and it indicated the limits in the industrialization strategy under protectionist policies. In 1986, oil price collapsed and the revenue from oil export declined. The technocrats took this opportunity to persuade President Suharto to make a series of major trade reforms. They developed a strategic reform program and, partly with the assistance of low-profile foreign advisors, persuaded the president that, in view of the falling international oil prices, the country would face a scenario of debt crisis and IMF intervention if the liberalizations were not affected (Bird et al. 2008). Suharto was convinced and once again a period of liberalization began. Both tariffs and non-tariff barriers were reduced. As a result, the real effective rate of protection for manufacturing(excluding the special case of oil and gas processing)<sup>17</sup> declined from 59 percent to 16 percent over the period of 1987-1995(Fane and Condon, 1996). The period of liberalization policies and the period of protectionist policies under Suharto's regime is reflected in the historical trend of imports and exports illustrated in figure 2 and 3. Economic policymaking in Suharto era displayed the power struggle between the liberal-minded technocrats and the nationalist officers, and the policy trend had been inconsistent throughout the period.

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<sup>16</sup> GDP growth rate declined from 8 percent in 1981 to 1 percent in 1982. Growth rate increased to 8 percent in 1983 and 7 percent in 1984 but in 1985, the growth rate again declined to 3 percent (World Bank). For annual GDP per capita and GDP per capita growth rate, please refer to figure 6 and 7.

<sup>17</sup> The real effective rate of protection(RERP) of a sector is defined as the proportionate increase in its real value added per unit due to the complete system of trade policies, where real value added is obtained by deflating nominal value by the nominal wages. In calculating the change in RERP for Indonesia between 1987 and 1995, Fane and Condon(1996) considered 3 sources of reductions in measured RERP which are (1) new forestry nominal rate of protections (2) new production weights & export sector reclassification, and (3) trade reforms. The RERP for 1995 was obtained by subtracting the sum of the contributions of these three sources from RERP for 1987.

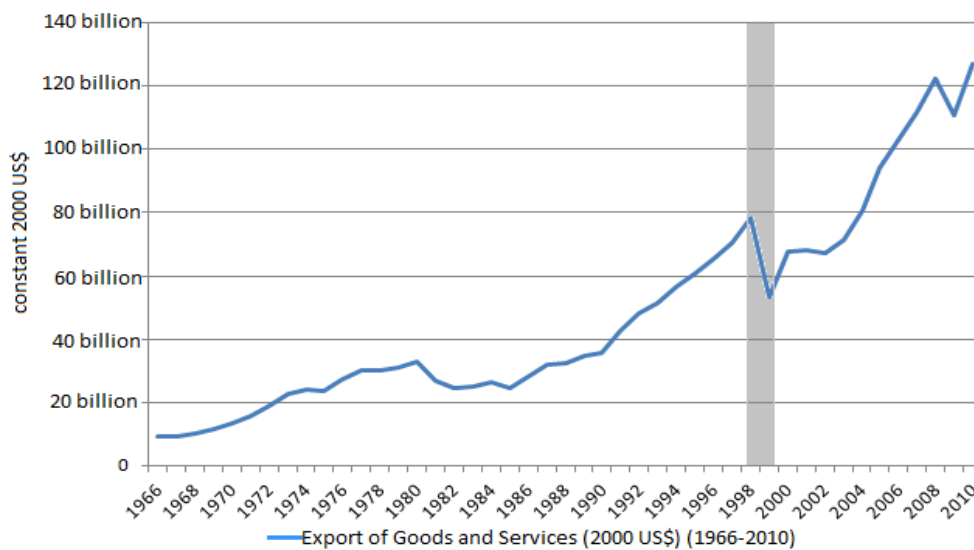
**figure 2. Import of Goods and Services, (2000 US\$) (1966-2010), Indonesia**



\*The shaded area shows the democratic transition period in Indonesia (May 1998 to October 1999)

Source: World Bank

**figure 3. Export of Goods and Services (2000 US\$) (1966-2010), Indonesia**



\*The shaded area shows the democratic transition period in Indonesia (May 1998 to October 1999)

Source: World Bank

Since the fall of Suharto in 1998, the framework for making economic policy has changed significantly. Previously the reformers needed only to wait for the window of opportunity and convince Suharto to make reforms. Under the new democratic government, they have to win over a constituency, in the parliament, the press and civil society, in generally unfavorable ideological circumstances<sup>18</sup> (Bird et al. 2008). After the economic crisis of 1997, Indonesian government signed a number of Letters of Intent(LOIs) with the IMF and there were trade related provisions in them. The provisions include the removal of special privileges and monopolies granted to family members and close circles of Suharto.

Indonesia graduated from IMF structural adjustment program in 2004 but the government proceeded with trade liberalization and made a commitment to reduce the tariffs to around 5% by 2010. Although tariffs were reduced, the number of non-tariff barriers increased in the form of import license requirements. Basri and Soesastro (2005) called this behavior Indonesia's "creeping protectionism". These import licenses were controlled by the ministry regulating a particular industry and authorized by the Ministry of Trade (MOT). The Ministry of Finance (MOF) controlled tariffs but the other ministries introduced specific non-tariff barriers and the trade policy became inconsistent after 2001.

In 2001, P T Bogasri, the dominant local flour producer, requested MOT to impose 20% tariff on imports, on the ground that the imports were damaging the industry and could potentially cause job losses. MOT decided in favor of P T Bogasari and signed an approval letter to raise the tariff to 20% but MOF disagreed with MOT's decision and refused to implement it.

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<sup>18</sup> Regarding the unfavorable ideological circumstances for reformers, Bird et al.(2008) explained that after the fall of Suharto, the parliament has been transformed into a powerful but unpredictable political force. They also said that proliferation of political parties, weak party discipline, the absence of coherent ideologies and policy platforms, and low level of economic literacy have resulted into a strong inclination towards populist politics, reflecting a general community reluctance to embrace liberal economic policies of reformers.

Finally, an agreement was reached at 6% tariff but MOT was not satisfied with the result and set up NTBs on import of flour on its own. Therefore, with the decentralization power under the democratic government and with different ideologies between different ministries, the trade policy became inconsistent. There is a strong nationalist sentiment but in general, there has been no significant retreat into protectionism and Indonesia has remained relatively open to international trade.

### **3. Foreign Direct Investment**

Foreign direct investment (FDI) is a key pillar of sustainable economic growth and offers non-financial benefits, most notably positive spillovers such as productivity gains and knowledge transfers. Aware of this, Indonesia seeks not only more but also better FDI, the kind that reduces unemployment, social inequality and poverty (BKPM, 2010). After implementing plans to regain the trust of international investors by introducing stabilization programs with the help of IMF in the late 1960s, Suharto's government tried to promote foreign direct investment. In the beginning of Suharto's rule, the government, according to the strategies of technocrats, liberalized the economy and made a number of reforms to provide favorable conditions to foreign investors.

The very first step they took is to pass investment laws. The Indonesian government introduced the Foreign Direct Investment Law, No. 1 in 1967. This law allows foreign investors the right to repatriate both profits and the proceeds raised by selling their initial investments and accumulated retained earnings. The foreign investment regulations also provided for accelerated depreciation allowances, and income tax holidays of two years or longer for approved projects. Similar tax incentives were applied to domestic investments under the Domestic Investment Law, No. 6. These reforms attracted a huge inflow of foreign investments. After reaping huge

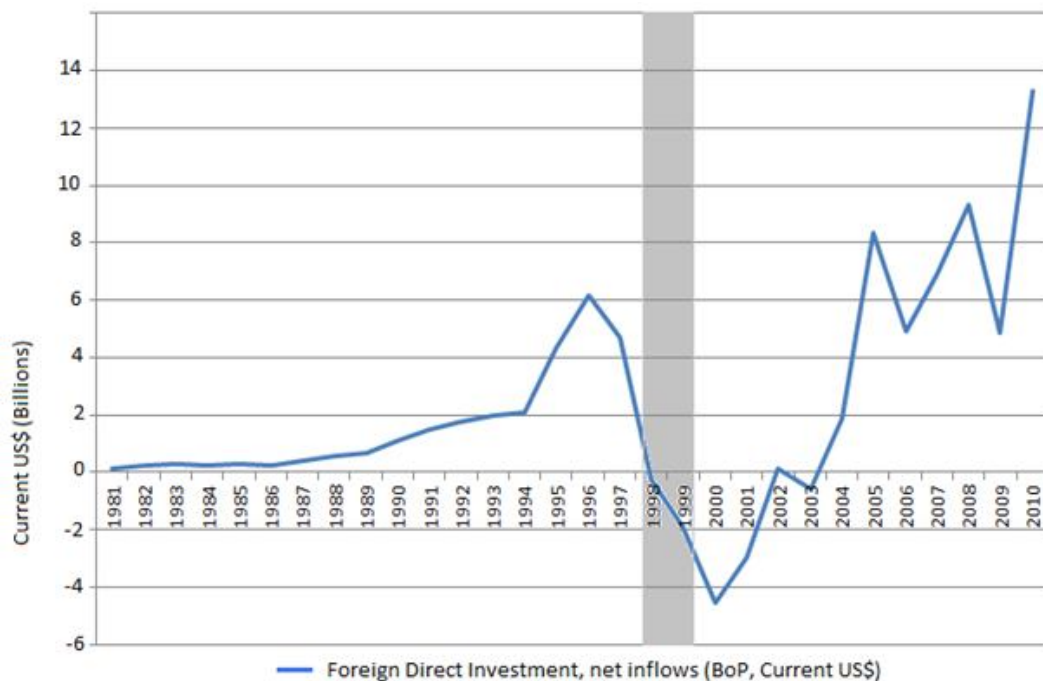
windfall gains from two oil shocks of 1970s, the Indonesian government had an increased ability to finance investment without borrowing abroad. Also, in response to the popular sentiment, the Indonesian government reduced the tax incentives for new investments, prohibited foreign investment in some sectors in which it had formerly been allowed, and required all new foreign investment to be channeled through joint ventures involving local partners (Hill, 1988, pp 29-31). As a result of these strengthened regulations, FDI became stagnant until the mid-1980s.

In 1986, there was a sharp fall in oil prices and it affected the Indonesian economy which is a net oil exporter. In response to declining economic conditions, Indonesian government made structural adjustment since mid-1980s. To maintain the high rate of investment, the Indonesian government responded by relaxing restrictions it had imposed on foreign investment in the past. A succession of reform packages were passed during 1986-94 and Indonesia opened up sectors which were previously closed to foreign investors and relaxed the equity constraints on the maximum share of foreign partners in joint ventures. Most of the incentives the packages provided were in the form of reduced regulations rather than tax exemption.

During the same period, international investment conditions were changing in favor of Indonesia. There were huge waves of FDI from Japan, Republic of Korea and Taiwan mainly to Thailand and Malaysia. These floods of FDI raised the labor cost and there were shortage of infrastructure especially in Thailand. These conditions improved the relative attractiveness of Indonesia to foreign investors. The deregulations policies and emergence of favorable international conditions increased the flow of FDI into Indonesia (Osada, 1994). A period of FDI growth was seen in Indonesia until the Asian financial crisis of 1997.



**figure 4. Foreign direct investment, net inflows (BoP, current US\$)**



\*The shaded area shows the democratic transition period in Indonesia (May 1998 to October 1999)

\* FDI data for Indonesia before 1981 is not available

Source: World Development Indicators

After the Asian financial crisis of 1997, there was a period of capital flight from Indonesia. Foreign investors lost their confidence in the Indonesia's economy. The amount of capital in approved FDI projects decreased by 64 percent between 1997 and 1998 (BPS 1999, p. 459). There was negative figure of FDI from 1998 to 2001 and in 2003. A lack of confidence of international investors and declining investments contributed to the fall of oil production<sup>19</sup>, the country's once strong pillar of economy, while the domestic oil consumption had been rising. As

<sup>19</sup> The aging of oil fields in Indonesia slowed down the production. In response, Indonesia tried to increase exploration and modernization of existing oil fields but the political instability, rising nationalism that brought hostility toward foreign companies, and an unsupportive legal framework made it difficult to convince foreign investors to invest in Indonesia's oil resources (Pallone, 2009).

a result, Indonesia became net oil importer in 2004 and it formally suspended OPEC membership in 2008.<sup>20</sup>

**figure 5. Total Oil Production, Indonesia (1980-2009)**



Source: U.S. Energy Information Administration

Indonesia's experience of both the economic crisis and the collapse of political system made it difficult for its economy to recover in a short time. While other Asian countries were solving their economic problems after the crisis of 1997, Indonesia had to overcome challenges both in the economic and political arenas. The transition period from Suharto's authoritarian rule to democratic rule has not been easy and there were many uncertainties as to whether the new democratic government would be able to attain stability. Within six-year period after Suharto's resignation in 1998, Indonesia has seen four presidents. The short time span each president

<sup>20</sup> Indonesia requested the suspension of its OPEC membership in 2008 at the 149th meeting of the OPEC conference and it was accepted. The membership suspension was effective in January 2009.

stayed in office made it difficult for them to enact significant reforms except going along with IMF programs from 1998 to 2004.

The high level of corruption in Indonesia has also been a serious problem in the development context. Cross-national statistical analyses largely confirm that corruption lowers investment and therefore economic growth (Mauro, 1995). Corruption has been a chronic problem in Indonesia and the corruption perception index(CPI)<sup>21</sup> for Indonesia has been low showing high level of corruption.<sup>22</sup> Since the beginning of his New Order regime, Suharto declared to fight corruption. However, during his 32-year presidency, the corruption has been rampant and his family and associates accumulated billions of dollars in assets from public sector. In 1998, Transparency International ranked Indonesia as number eighty out of eighty-five countries in their survey. Suharto's era has had strong economic growth rate although there was also high level of corruption.

After the transition to democracy, each successive president has vowed to fight corruption but the problem remains grave. Anti-corruption programs were launched but without significant success. The data in the table.1 from Transparency International shows that there has been very slow improvement if there is at all. It can be seen that in 1997 during Suharto's presidency, the corruption perception index(CPI) for Indonesia was 2.72 and in 2010, more than a decade after transition to democracy, CPI was still at 2.8 ranking Indonesia at 110 out of 178 countries surveyed.

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<sup>21</sup> Transparency International used corruption perception index (CPI) to rank countries according to their level of corruption on a scale of 0 (highly corrupt) to 10 (very clean).

<sup>22</sup> Please refer to table 1. for Indonesia's corruption perception index from 1995 to 2010.

**Table 1. Corruption Perception Index  
(Indonesia,1995-2010)**

Year	CPI	Year	CPI
1995	1.94	2003	1.9
1996	2.65	2004	2
1997	2.72	2005	2.2
1998	2	2006	2.4
1999	1.7	2007	2.3
2000	1.7	2008	2.6
2001	1.9	2009	2.8
2002	1.9	2010	2.8

Source: Transparency International

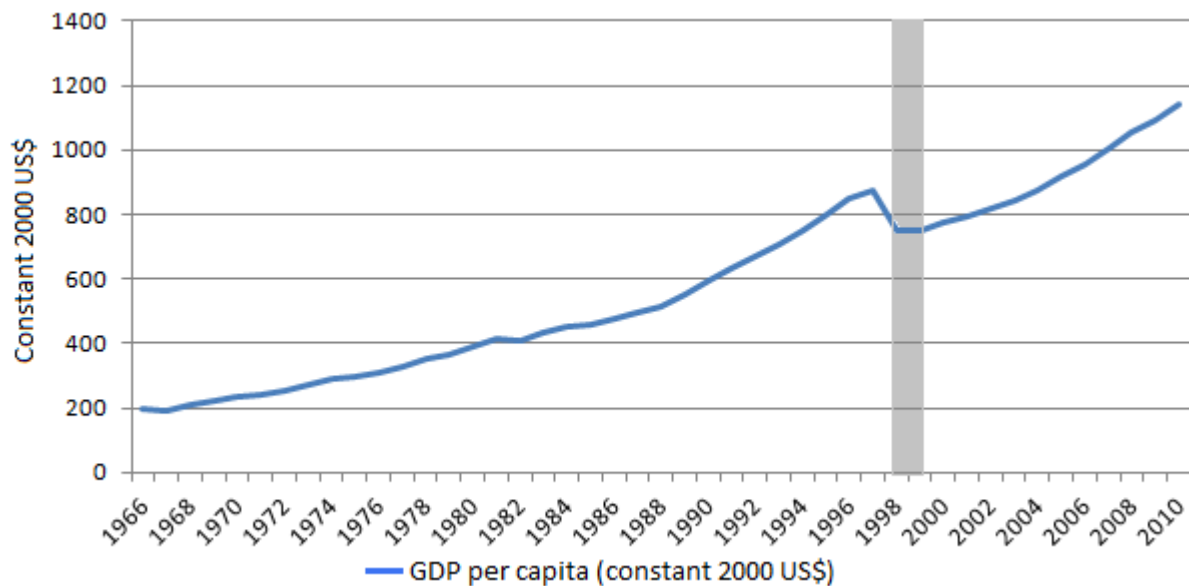
In fact, to achieve economic development, the corruption is more of a problem for the new democratic government than for the New Order regime of Suharto because the political base of governments is different. The apparent better economic performance of Indonesia in the past, despite the problem of corruption, might be attributed to the fact that Indonesian corruption or rent-seeking activities were centralized, and thus were more predictable. With the departure of Suharto, this system has been replaced by a more fragmented system, with at least five dominant parties competing for power and financial resources. The transaction costs caused by corruption, or even in generally conducting business, are now much less predictable (Kuncoro.A et al, 2006).

In Indonesia, the political instability, slow economic reforms and high level of corruption slowed the economic recovery. This climate of uncertainty greatly reduced the incentive for investors to do business in Indonesia. Only after 2004, Indonesia began to see the positive net inflow of FDI again and in 2010 it has reached to the highest level of more than US\$ 13 billion.

## 4. GDP Growth

In comparing economic growth of the two period under different types of government, it can be seen that the general trend is not much different. GDP has been growing throughout the period of study and has had a positive growth rate except in 1998 just after the Asian Financial crisis. The average annual growth rate of GDP per capita from 1968-1997 is 5.18 percent and from 1999-2010 is 3.58 percent. Therefore, during the period of study, the average growth rate is lower under the democratic government.

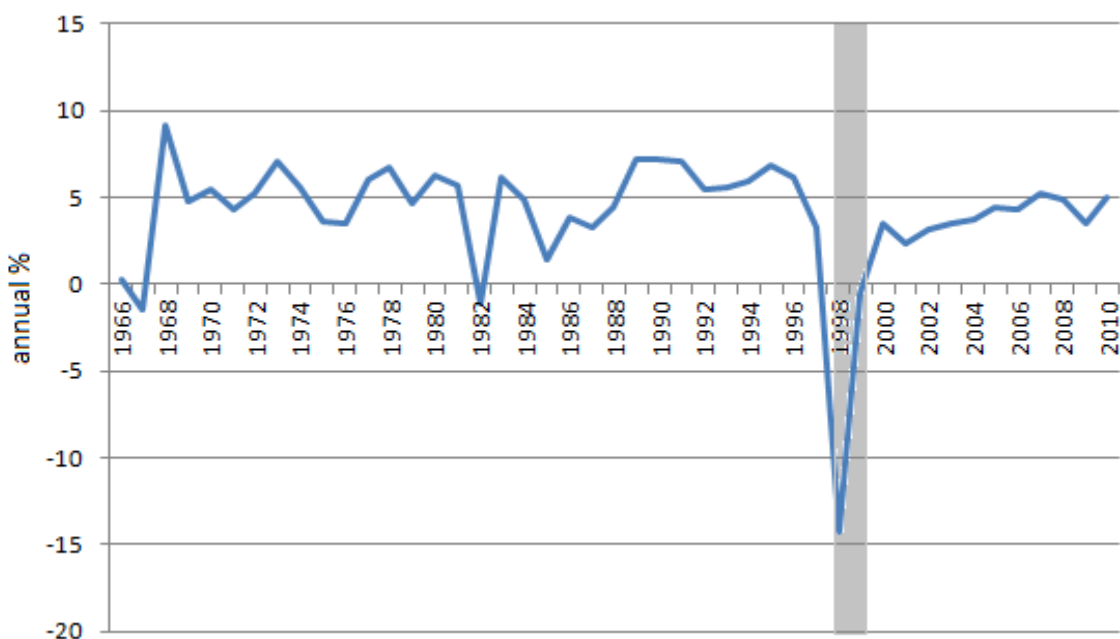
**figure 6. GDP per capita, Indonesia (constant 2000 US\$), 1966-2010**



\*The shaded area represents the democratic transition period in Indonesia (May 1998 to October 1999)

Source: World Bank

**figure 7. GDP per capita growth , Indonesia (annual %), 1966-2010**



\*The shaded area represents the democratic transition period in Indonesia (May 1998 to October 1999)

Source: World Bank

## **(b) Human development policies and the policy outcomes**

Many studies said that democracies do a better job than non-democracies of improving the welfare of the poor (Przeworski et al. 2000). Some political economy models also suggest that democracies produce more public goods, and more income redistribution, than non-democracies (Bueno de Mesquita and Smith, 2010). However, the question is whether democracies always spend more on social welfare than dictatorships and when they spend more, whether the higher social spending benefits the poor. There are competing arguments from both sides. Brown and Hunter(1999) said that authoritarian regimes display greater sensitivity than their democratic counterparts to economic constraints in social spending. They explained, using

their results from the investigation of the effect of regime type on social spending in 17 Latin American countries, that when facing low levels of per-capita income and negative rates of growth, authoritarian governments reduce social spending at a faster rate than democracies. When the economy becomes strong again, the authoritarian governments increase social spending at a faster rate. By contrast, democracies show greater sensitivity to political constraints. There are reasonable explanations for such behaviors. The authoritarian rulers do not need to be concerned with reelection prospect and short-term popularity. Therefore, when facing with economic constraints, they are ready to cut back on social spending. On the other side, the politicians in democratic regimes worry more about reelection and hope to garner votes and approval from the public by providing public goods. However, it doesn't imply that democracies always have higher social spending than authoritarian regimes. Brown and Hunter (1999) said that as economic development reaches higher and higher levels, authoritarian regimes begin to overtake democracies in social spending. They presented the Brazilian military regime (1964-85) as an example in which the government directed massive funds towards university education in an effort to buy the students' political quiescence instead of using repressive strategy. The reasoning behind is that the authoritarian leaders try to make up for their lack of legitimacy with the support they hope to gain from higher social spending when they can afford it. Stallings and Kaufman (1982, 220) claimed that " regime type weighs more heavily in condition of crisis." Brown and Hunter (1999) said that "our investigation of 17 Latin American countries from 1980 to 1992 suggests that democratic regimes are associated with higher rates of social expenditures when faced with important economic constraints." Therefore, under the condition of stable economy, it is not at all clear which type of government will have higher social spending. When there is higher social spending in one type of government, what is also interesting to see is how

the increased social spending is distributed. Some findings suggest that democracies spend more money on education and health than non-democracies, but these benefits seem to accrue to middle-and upper-income groups (Ross, 2006).

## 1. Income Inequality

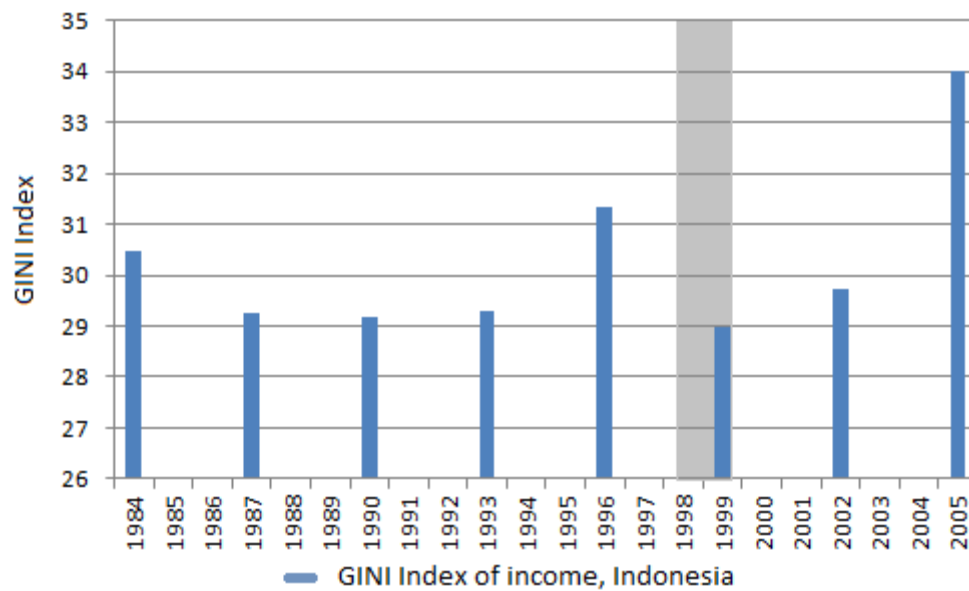
To see if there is different inequality of income distribution under authoritarian government and democracy government in Indonesia, I looked at the GINI Index<sup>23</sup> of income for Indonesia. In figure 8 and appendix 3, we can see the GINI Index of income for Indonesia. Due to the limitations on the availability of data, GINI Index for Indonesia is available only for the 1984-2005 interval, estimated every three years. Of these, it covers 13 years in Suharto's regime with 5 indices and 7 years in democratic regime with 3 indices. Therefore, although it is not complete for the entire period of my study, we can get a glimpse of the trend of income inequality in Indonesia from these data. From these data, we can see that the income inequality remained stable from 1984 to 2002 with fluctuations of only one or two index points but GINI Index reached the highest in 2005 at 34 under the democratic government. It is premature to conclude from these very small data that there is more income inequality under democratic government but we can tell that the income inequality is not declining seven years after the introduction of democracy.

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<sup>23</sup> GINI index measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. The GINI index of 0 represents perfect equality while an index of 100 implies perfect inequality. (World Bank)



**Figure. 8 GINI Index of Income, Indonesia (1984-2005)**



\*The shaded area represents the democratic transition period in Indonesia (May 1998 to October 1999)

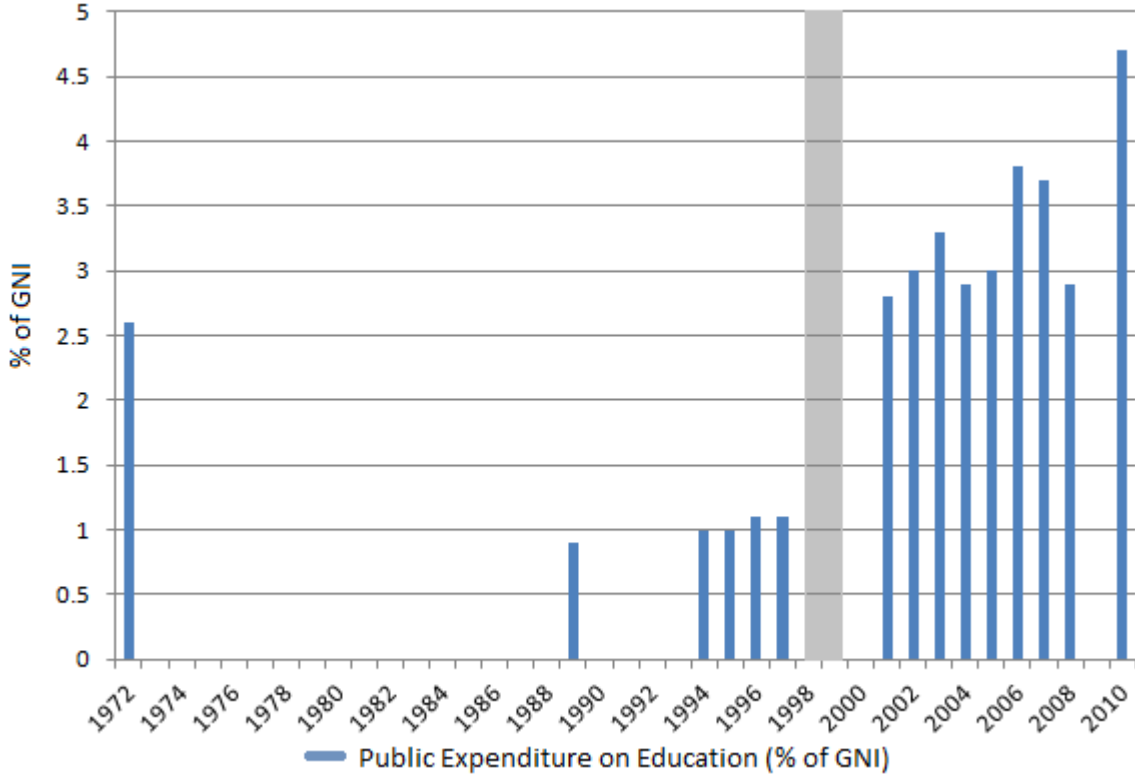
Source: World Bank

## 2. Educational Attainment

The Indonesian constitution of 1945 states that every citizen has the right to an education. Education has been given high priority by Indonesian governments. Education has been used as an instrument of cultural and linguistic integration, political socialization, and economic development (Liddle, 1985). During Suharto's New Order regime, there were big changes in the education sector especially in the 1970s. After receiving windfall gains from rising oil prices in 1970s, Suharto's government greatly expanded public education. In 1973, a major school reconstruction program was launched and between 1973-74 and 1978-79, more than 61,000 school buildings were built (Duflo, 2000). School enrollments also rose during the period. Indonesia's educational reform during that period has been cited as "one of the most successful

cases of large-scale school expansion on record" (World Bank (1990a)). Although there was dramatic increase in the amount of spending especially on the building of schools and increased enrollment, those reforms did not translate well into improvement in quality of educational outcome. There were high dropout rates. In 1970, 68.9 percent of age group 15-19 enrolled in primary education and 33.9 percent finished it. In 1975, 69.9 percent of age group 15-19 enrolled in primary education and 36.6 percent finished it (Barro-Lee, 2010). According to UNESCO, the public expenditure on education as a percentage of gross national income (GNI) declined after 1972 and remained below 2 percent till the end of Suharto's regime.

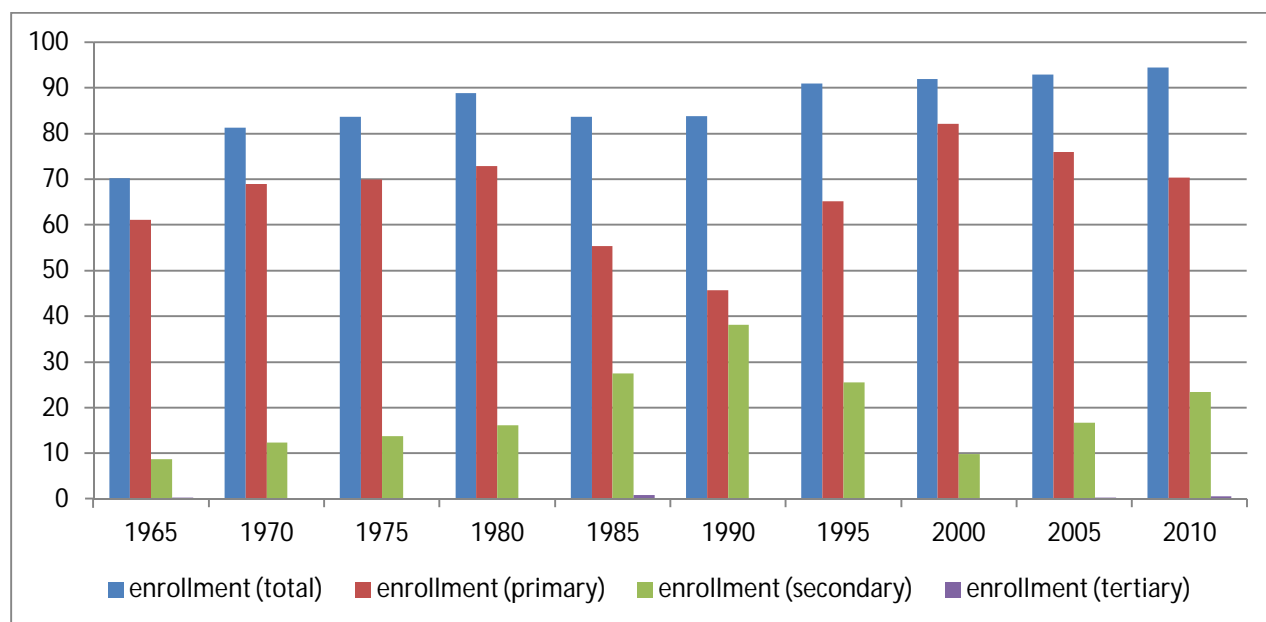
**Figure 9. Public Expenditure on Education as % of GNI**



\*The shaded area represents the democratic transition period in Indonesia (May 1998 to October 1999)

Source: UNESCO

**Figure 10. School enrollment as a percentage of population (age 15-19)**



Data Source: barrolee.com

After the transition to democracy in Indonesia, public spending on education greatly increased and in 2010, it reached 4.7 percent of GNI. Although educational spending rose, there were problems to attain high quality educational achievement due to changes in political structure. After the fall of Suharto, there were strong demands for more regional independence and as a consequence, in 2001, two laws of regional independence were implemented. Districts obtained more discretion over public revenues and expenditures in their respective regions. Under Suharto's government, Indonesia was highly centralized and more than 90 percent of public revenue and expenditure going through the central authorities in Jakarta. With the decentralization law enacted by the new democratic government, the central government transferred more than 30 percent of domestic revenues back to the provinces in 2001 but the district were fully responsible for the provision of public services to the citizens including the educational services. This was not a big problem for rich districts with high level of domestic

revenue but it posed a great challenge for poor districts to maintain the educational standards. The enrollment rate for the group of age 15 to 19 has been rising but we can see in figure.10 that the majority of that age group enrolled in primary education. Therefore, the average year of schooling for that age group is also low.

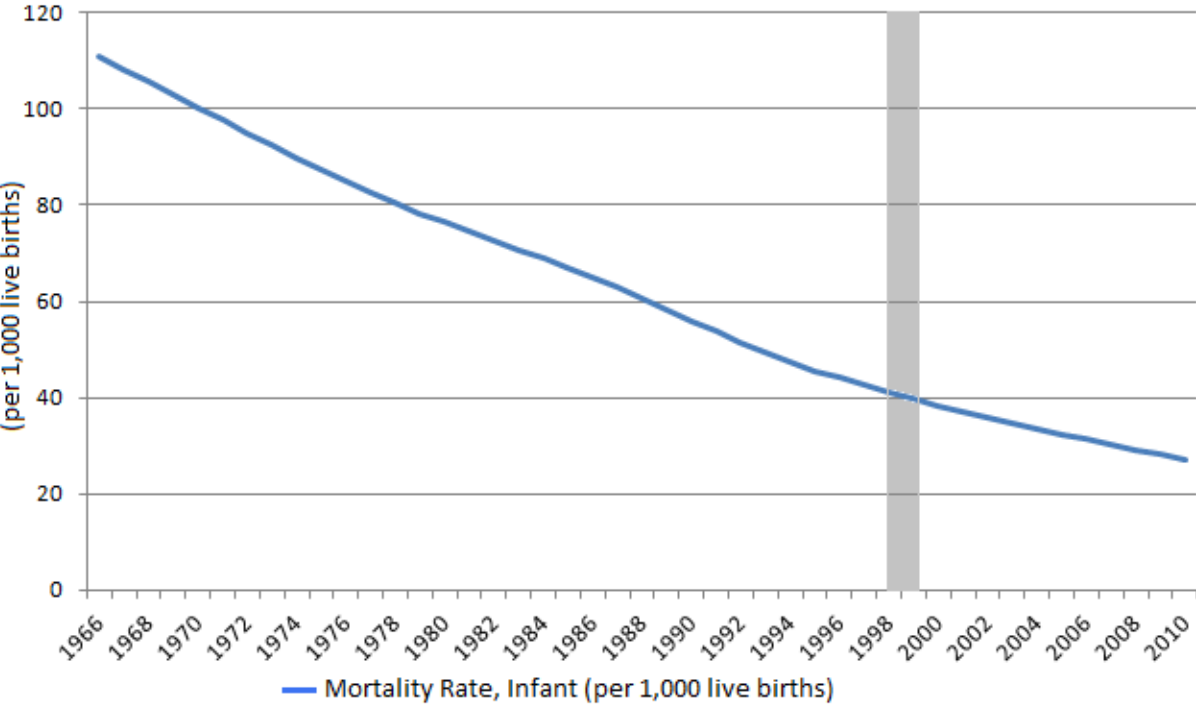
The existing educational institutions were also not enough to meet the rising demand for higher education in Indonesia. Therefore, many private institutes have been established to meet the demand, but the monitoring on their activities is minimal and it resulted in widespread quality problems(Sjöholm, 2002). According to the data from Barro and Lee(2010), Indonesia's educational attainment has been improving over the period from Suharto's New Order regime to the current democratic government but when we look at the average years of schooling for the group of age 15 to 19, the achievement was low compared to the other lower-middle-income countries such as India, Sri Lanka, Philippines and Viet Nam.

### **3. Health (Infant mortality rate)**

The measure commonly used in seeing if the social spending brings better outcome for the poor is the infant mortality rate. If the benefits of the social programs reach the poor, they should produce better social results such as longer, healthier, or more productive lives. The Indonesia's transition to democracy in 1998 provides me with an opportunity to see if there is difference in infant mortality rate between Suharto's authoritarian regime and the new democratic regime. Data show that in Indonesia, the infant mortality has been declining consistently since the beginning of Suharto's New Order regime. There is no significant change in the rate of decline of infant mortality until the end of the period I observed which is 2010. There are

possible explanations for the observed pattern. One is that Suharto's authoritarian regime implemented programs that effectively improve the well-being of the poor. The other is that there is no significant changes in social policies and social spending that will have significant improvement for the poor so that there will be observable significant changes in the rate of decline of infant mortality.

**figure 11. Mortality Rate, Infant ( per 1,000 live births)**



\*The shaded area represents the democratic transition period in Indonesia (May 1998 to October 1999)

Source: World Bank

Indonesia has been making progress in human development along the way from Suharto's era to the current democratic government albeit very slowly. The improvements can be seen in the following table of human development index (HDI) from UNDP.

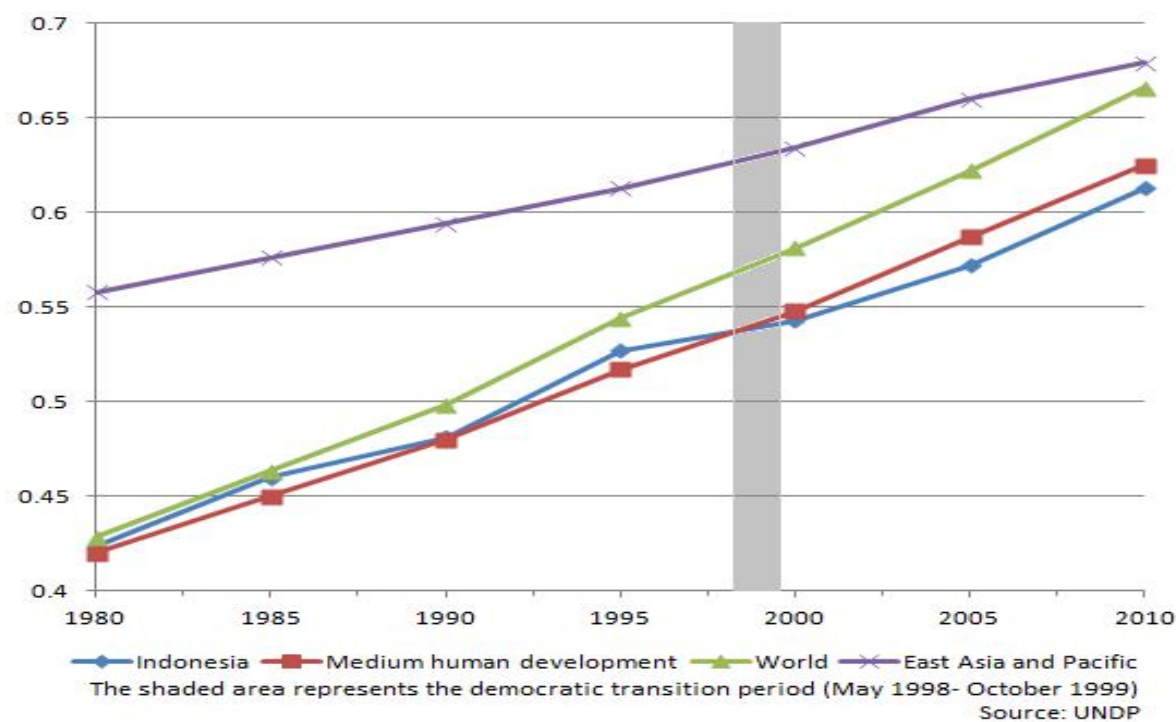
Human development index a composite index attained by combining indicators of life expectancy, educational attainment and income. The creation of the HDI was a breakthrough because it was the first single statistic which was to serve as a frame of reference for both social and economic development. HDI is presented as a value between 0 and 1 (UNDP). According to the trend in HDI, it can be said that economic and social conditions are improving in Indonesia since 1980. The problem, however, is that it is improving at a rate slower than the average rate of the medium human development group it is in. Indonesia is ranked 124 out of 187 countries in the list. Since 1980, Indonesia has been in the medium human development group and it can be seen from the table that from 1980 to 1995, Indonesia's HDI score is higher than the average score of the group it was in but starting from 2000, Indonesia has been falling behind in the group. Also in the East Asia and the Pacific group, Indonesia has been falling behind. In figure 3, it can be seen that the HDI trend of Indonesia and HDI trend of East Asia and the Pacific group is diverging.

**Table 2. ( Human Development Index)**

Human Development Index				
Year	Indonesia	Medium human development	East Asia and the Pacific	World
1980	0.423	0.420	0.428	0.558
1985	0.460	0.450	0.463	0.576
1990	0.481	0.480	0.498	0.594
1995	0.527	0.517	0.544	0.613
2000	0.543	0.548	0.581	0.634
2005	0.572	0.587	0.622	0.660
2006	0.579	0.595	0.631	0.664
2007	0.591	0.605	0.642	0.670
2008	0.598	0.612	0.651	0.674
2009	0.607	0.618	0.658	0.676
2010	0.613	0.625	0.666	0.679

Source: UNDP, Human Development Indicators, Indonesia

**Figure 12. Human Development Index: Trends 1980-present**



Source: UNDP, Human Development Indicators for Indonesia, 2011

## V. Conclusion

In general, the economic development and human development trend in Indonesia before and after democratization are not very different. Both periods have relatively high inflation economy. International trade is growing and trade remains open although there has been strong nationalist sentiment. Positive GDP growth rate has been maintained throughout the period of study except in 1998 when the economy collapsed due to Asian financial crisis. GDP growth rate is found to be relatively lower after democratization than before democratization. Corruption level is high both before and after the democratization. In human development, the income inequality indicated by GINI index is almost the same from 1984 to 2002 and in 2005 the income inequality has increased. The educational attainment has been improving albeit at a relatively slower rate than the other lower-middle income countries. The most consistent improvement throughout the period of study from 1966 to 2010 is the decline in the infant mortality rate and there is no obvious change in the declining rate before and after democratization in Indonesia. According to the trend in HDI, Indonesia is making consistent improvement.

The fact that policy outcomes in Indonesia before and after the democratization are mostly unchanged comes as no surprise because the policies adopted by the regimes before and after the democratization were also not very different. Suharto's regime was authoritarian but he was pragmatic in making economic policies. Suharto tried to make up for his lack of legitimacy as a dictator by building strong state with strong economy. Although Suharto leaned more on the side of economic nationalist since they represented his winning coalition, he was also open to ideas from the technocrats and adopted liberal reforms. Therefore, strong growth was achieved under the authoritarian government in Indonesia. Even after the democratic transition, economic policies in Indonesia remains mostly unchanged except for the removal of monopolies in some



areas and structural reforms that took place under IMF program. The nationalist sentiment is still strong in Indonesia and the government practiced protectionist policies in some areas although the market remains open.

Another chronic problem in Indonesia that still persist after democratization is the widespread corruption. Suharto's New Order regime was notorious for its corruption and political patronage but successfully built a strong economy with high growth rate. The new democratic government has faced with same corruption problems but has slower growth rate. There is a possibility that the corruption problem has been made worse by the decentralization. Kuncoro.A et al, (2006) argued that the transaction cost generated by corruption is more unpredictable under decentralized system than under a single bribe-setting monopolist and thereby reduces the incentive for investment which will lead to growth. The compatibility theory also argues that democracy brings better economic growth because democratic regimes are less prone to corruption and rent-seeking. In the case of Indonesia, however, the democratic governments have not yet been successful in fighting corruption that it has inherited from the previous regime and it might be one of the reasons why the economic growth trend is not much different after democratization. The GDP per capita has been growing in Indonesia but the faster growth rate under the dictatorship and relatively slower growth under the democratic government might also be attributed to the catch-up effect which explains that it is easier for an economy to grow from very low level than to maintain the same growth rate after it has achieved a middle-income base.

Although the political system has changed, the democracy in Indonesia is still very young and there was political instability which greatly hampered the economic growth. Indonesian case seems to supports the claim that "regime type doesn't matter for development... what is important is stability". After democratization, the political structure has changed and the president has

relatively weaker authority in setting policies. The parliament becomes politically stronger but there is no single party holding the majority of seats in the parliament. This situation brings difficulty in adopting consistent development policies.

In human development context, the decentralization law after democratization seems to have brought hardships to some poor districts in providing public services. The decentralization has also been promoted by the World Bank based on the idea that this would make public services more responsive to citizen preference. In the case of Indonesia, however, I found that decentralization brought serious problems to areas with low capacity to implement development policies.

I am hopeful that with the emergence of strong civil society institutions which were previously suppressed, better conditions for more media freedom and more vocal citizens, there will be better policy outcomes to the extent the voters can hold the officials more and more accountable. It would be unreasonable to expect that transition to democracy would bring better policy outcomes overnight. Gerring et al. (2012) argues that a country's contemporary level of democracy has only a weak association with improved human development while a country's historical experience with democracy has a strong and robust influence on human development. Although the democratic transition occurred in 1998, it will take time for Indonesia's democracy to mature and bear fruit. Therefore, it seems things are improving in Indonesia but to see the significantly better policy outcomes than the previous regime, Indonesia needs to speed up the democracy consolidation process and strengthen its democracy.

## VII. Appendixes

### Appendix. 1. Historical Inflation Rate in Indonesia

Country	Indonesia		
Year	Inflation , GDP deflator (annual %)	Year	Inflation , GDP deflator (annual %)
1967	165	1989	10
1968	121	1990	8
1969	21	1991	9
1970	14	1992	5
1971	3	1993	9
1972	15	1994	8
1973	35	1995	10
1974	46	1996	9
1975	11	1997	13
1976	15	1998	75
1977	13	1999	14
1978	9	2000	20
1979	34	2001	14
1980	31	2002	6
1981	10	2003	5
1982	6	2004	9
1983	14	2005	14
1984	8	2006	14
1985	4	2007	11
1986	0	2008	18
1987	15	2009	8
1988	13	2010	8

Source: World Bank

## Appendix 2. Polity Score (Indonesia)

country	year	flag	fragment	democ	autoc	polity
Indonesia	1966	0		0	6	-6
Indonesia	1967	0		0	7	-7
Indonesia	1968	0		0	7	-7
Indonesia	1969	0		0	7	-7
Indonesia	1970	0		0	7	-7
Indonesia	1971	0		0	7	-7
Indonesia	1972	0		0	7	-7
Indonesia	1973	0		0	7	-7
Indonesia	1974	0		0	7	-7
Indonesia	1975	0		0	7	-7
Indonesia	1976	0		0	7	-7
Indonesia	1977	0		0	7	-7
Indonesia	1978	0		0	7	-7
Indonesia	1979	0		0	7	-7
Indonesia	1980	0		0	7	-7
Indonesia	1981	0		0	7	-7
Indonesia	1982	0		0	7	-7
Indonesia	1983	0		0	7	-7
Indonesia	1984	0		0	7	-7
Indonesia	1985	0		0	7	-7
Indonesia	1986	0		0	7	-7
Indonesia	1987	0		0	7	-7
Indonesia	1988	0		0	7	-7
Indonesia	1989	0		0	7	-7
Indonesia	1990	0		0	7	-7
Indonesia	1991	0		0	7	-7
Indonesia	1992	0		0	7	-7
Indonesia	1993	0		0	7	-7
Indonesia	1994	0		0	7	-7
Indonesia	1995	0		0	7	-7
Indonesia	1996	0		0	7	-7
Indonesia	1997	0		0	7	-7
Indonesia	1998	0		0	5	-5
Indonesia	1999	0		7	1	6
Indonesia	2000	0	0	7	1	6
Indonesia	2001	0	0	7	1	6
Indonesia	2002	0	0	7	1	6
Indonesia	2003	0	0	7	1	6
Indonesia	2004	0	0	8	0	8
Indonesia	2005	0	0	8	0	8
Indonesia	2006	0	0	8	0	8
Indonesia	2007	0	0	8	0	8
Indonesia	2008	0	0	8	0	8
Indonesia	2009	0	0	8	0	8
Indonesia	2010	0	0	8	0	8

Source: Polity IV Project

### Appendix.3 GINI Index ( Indonesia)

Year	Index
1984	30.5
1985	-
1986	-
1987	29.3
1988	-
1989	-
1990	29.2
1991	-
1992	-
1993	29.3
1994	-
1995	-
1996	31.3
1997	-
1998	-
1999	29
2000	-
2001	-
2002	29.7
2003	-
2004	-
2005	34

Source: World Bank

#### Appendix. 4 Public Expenditure on Education as % of GNI

Year	Public Expenditure on Education as % of GNI
1972	2.6
-	-
1989	0.9
-	-
1994	1
1995	1
1996	1.1
1997	1.1
-	-
2001	2.8*
2002	3.0*
2003	3.3*
2004	2.9*
2005	3.0*
2006	3.8*
2007	3.7
2008	2.9
2009	-
2010	4.7

\* represents UNESCO Institute of Statistics (UIS) estimation

Source: UNESCO

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