

Democracy and Economic Development: Lessons from Indonesia's Success Story

Prof. Aleksius Jemadu, Ph.D.

The Old Model Of Development

- During Soeharto's rule the mindset was that authoritarianism and centralization of power were imperatives for political stability to ensure economic growth.
- In 1998 Indonesia was hit by an economic crisis which eventually led to the collapse of Soeharto's regime.
- As a matter of fact, economic growth under conditions of authoritarian rule and centralization of power is neither genuine nor sustainable.
- Without a democratic system of checks and balances, the cozy relationship between government, big businesses and banks resulted in an inefficient financial sector which eventually will lead to the collapse of the whole system.
- The economic inequality between regions, economic sectors, and classes may go beyond control and become endemic.

The new model of development

- In the post-Soeharto era, the wisdom is: it should be possible to build stability through a democratic political framework. Democracy should become the only reasonable way to manage Indonesia's multiethnic society.
- On top of that Indonesia believes democratic reform and economic growth can go hand in hand to make a better future for the nation.
- A combination of democracy and market economy constitutes Indonesia's strategy in dealing with globalization challenges.

Indonesia's Model In Comparative Perspective

- There are at least four prominent models of relationship between types of political regime and economic development in Asia.
- They are:
 - **China's model** (The Beijing Consensus) where centralization of power and authoritarianism are pre-conditions for political stability and economic growth
 - **Japan's model** which is called “developmental state” where the state plays a dominant role in industrial development.

- **India's model**: a combination of a multi-party democracy and economic reform with cutting edge information technology to ensure economic success.
- **Indonesia's model** or **The Jakarta Consensus**: presidential system based on multiparty democracy to secure political stability and market-oriented economic reform. In favour of political pluralism and robust civil society participation. Regional autonomy and local democracy are necessary for promoting economic growth at local level.

Indonesia's democratic credentials

- Three consecutive peaceful legislative elections (1999, 2004 and 2009) and two direct presidential elections (2004 and 2009), real evidence of the capacity (**political capital**) of the Indonesian multi-ethnic society in practicing modern democracy.
- Indonesia has managed to free its economy from the negative impact of a global crisis in 2008 and maintained high economic growth in the midst of worsening debt crisis in Europe and sluggish economy in US. (*Indonesia has succeeded in choosing a democratic pathway towards one-trillion dollar economy*).
- Democratic consolidation under President SBY has opened the way for peaceful conflict resolution in Aceh where two consecutive peaceful gubernatorial elections have been conducted without significant hindrance.

Critical notes on the future prospect of Indonesian democracy

- There must be a real shift from promoting formal or procedural democracy towards the strengthening of political and economic institutions that directly affect economic growth.
- According to scientific research, the level of economic growth determines the life expectancy or survivability of democracy.
- Independence and the empowerment of the Corruption Eradication Commission (KPK) is a must as corruption remains a critical issue in Indonesia.
- The state should have an effective control over the radical religious groups in order to strengthen law enforcement.

Democracy: does it promote or impede economic development?

Theories	Democracy impedes economic development	Democracy can promote economic development
Economic reasons	Democracy is unable to reduce consumption in favor of investment. Thus, economic growth suffers.	Democratic investment in basic human needs is good for economic growth
Political reasons	Democracy increases the pressure on weak institutions Concerted state action is more difficult. The state is weak	Democracy provides a stable political environment and the basis for economic pluralism. Democracy means legitimacy: a strong state is often also a democratic state

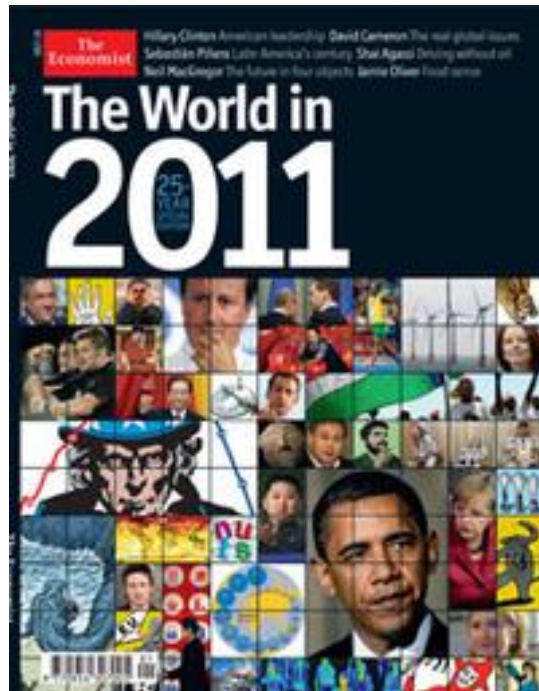
A blueprint for Indonesia's long-term economic development: opportunities for Eastern Indonesia

- MP3EI (Master Plan for the Acceleration and Expansion of Indonesia's Economic Growth): is a development initiative by the Indonesian government which divides the country into six economic corridors, namely, Java, Sumatera, Kalimantan, Sulawesi, Papua-Kepulauan Maluku, and Bali-Nusa Tenggara.
- The main objective is to attract greater foreign investment for each of the economic corridors in accordance with their unique economic potentialities.

Strategic economic policies and some achievements

- In May 2011 the government of President Susilo Bambang Yudhoyono (SBY) launched an ambitious 437 billion USD of national development roadmap covering 2011 to 2025.
- As the largest economy in Southeast Asia with the largest middle class, Indonesia has achieved the third highest growth after China and India.
- In December 2011 Fitch Ratings returned the country to investment grade reflecting a great optimism for the country's future.
- In July 2012 Indonesia confirmed a pledge of 1 billion USD to IMF which marked a turning point for the nation from a recipient to a lending party.

Posisi Indonesia sekarang dimana?



The Economist

The Economist published its annual series called The World in 2011.

the Economist was bullish on Indonesia. It predicted that, with 245 million people in 2011, Indonesia's GDP will reach around **US\$ 806 billion**,

resulting in a GDP per capita of \$ 3,280.

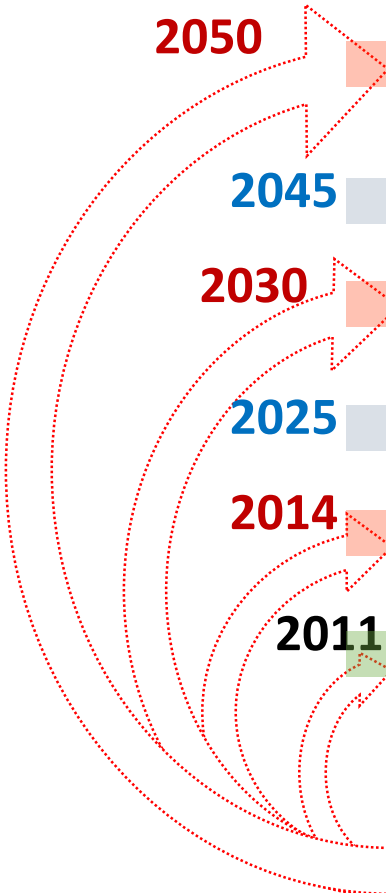
By this figure, Indonesia's GDP is predicted to exceed those of Turkey and the Netherlands, **making Indonesia the 16th largest economic power in the world.**

Indonesia is forecast to have 6% per year GDP growth in 2011 and 2012.

Position in 2008

PDB Negara 1-20, PDB per Kapita dan Populasi

No	Negara	PDB \$bn	Population million	PDB per kapita \$		
1	USA	14.093	308,8	45.638		
2	Japan	4.911	127,9	38.397		
3	China	4.327	1.336,20	3.238		
4	Germany	3.649	82,5	44.230		
5	France	\$bn 26.679	2.857	61,9	46.155	\$ 78.478
6	United Kingdom	2.674	61	43.836		
7	Italy	\$bn 15 - 17.5	2.303	58,9	39.100	\$ 44.500 - 49.000
8	Rusia	1.679	141,8	11.841		
9	Spain	\$bn 6.460	1.604	44,6	35.964	\$ 20.600
10	Brazil	1.575	194,2	8.110		
11	Canada	\$bn 4 - 4.5	1.501	33,2	45.211	\$ 14.250 - 15.500
12	India	1.159	1.186,20	977		
13	Mexico	\$bn 1.206	1.088	107,8	10.093	\$ 4.803
14	Australia	1.015	21	48.333		
15	South Korea	\$bn 806	929	48,4	19.194	\$ 3.280
16	Netherlands	871	16,5	52.788		
17	Turkey	735	75,8	9.697		
18	Poland	528	38	13.895		
19	Indonesia	511	234,3	2.181		
20	Belgium	504	10,5	48.000		



How democracy affects Indonesia's foreign policy

- The third largest democracy in the world
- The largest democracy in Southeast Asia with real political leverage
- Internationally recognized as an exemplary model for “*a compatibility between Islam and democracy*”
- Indonesia has projected itself as *a moderate voice and peaceful force in regional and global politics.*
- Indonesia has taken initiative for a regular conduct of The Bali Democracy Forum (BDF) which has been widely supported in Asia.
- Indonesia has played a role as *a constructive power that actively promotes peaceful conflict resolution* Southeast Asia(Thai - Cambodia and South China Sea conflicts).
- THUS, under SBY,INDONESIA has shown a strong *passion* for contributing to the growth of democracy and human rights in Southeast Asia.

Important achievements in foreign policy

- Indonesia's membership in G20.
- Indonesia's successful chairmanship of ASEAN in 2011 helps to accelerate the establishment of ASEAN community within a global community of nations.
- Constructive engagement by ASEAN led by Indonesia has resulted in real democratic reform in Myanmar. Things could have been different had Myanmar chosen to adopt China's authoritarian model. Now Indonesian military reform can serve as a good model for Myanmar in endorsing the principles of constitutional democracy and civilian supremacy.
- Indonesia has been active in diplomatic efforts to establish legally binding code of conduct in South China Sea to avoid the use of military force in resolving the territorial conflict.

Regional Autonomy And Economic Development

- Thus, within a democratic framework of regional autonomy regions are exposed to global and regional market in order to achieve economic growth.
- There are three economic corridors in Eastern Indonesia: Sulawesi, Bali-Nusa Tenggara, Papua-Maluku.

Sulawesi Economic Corridor

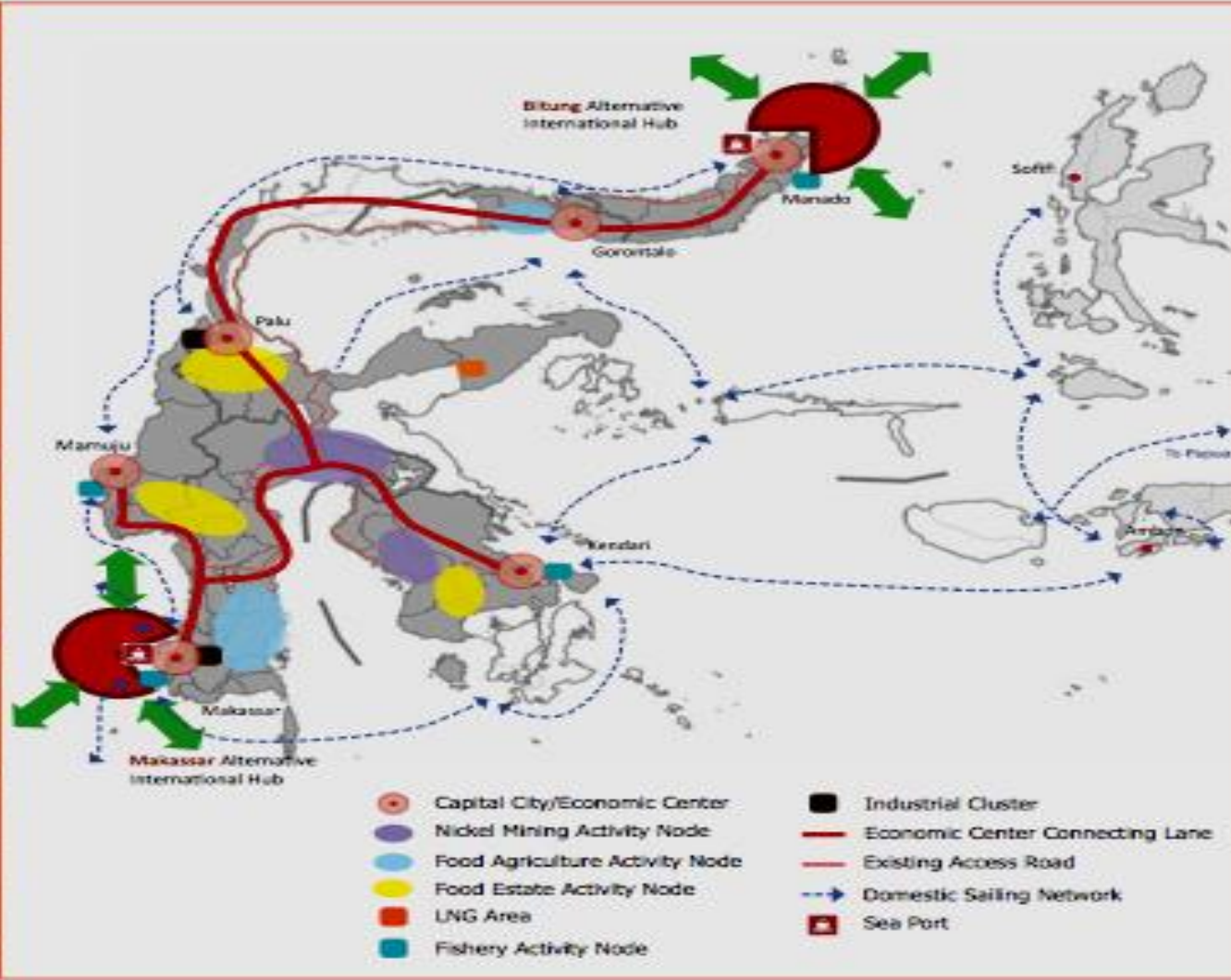
Development Theme:
Center of Production and Processing of National Agricultural, Plantation, Fishery, Oil & Gas, and Mining

Consists of 6 Economic Centers :

- Makassar
- Palu
- Kendari
- Gorontalo
- Mamuju
- Manado

Main Economic Activity:

- Agricultural (Rice, Corn, Soybean, and Cassava)
- Cocoa
- Fishery
- Nickel
- Oil and Gas

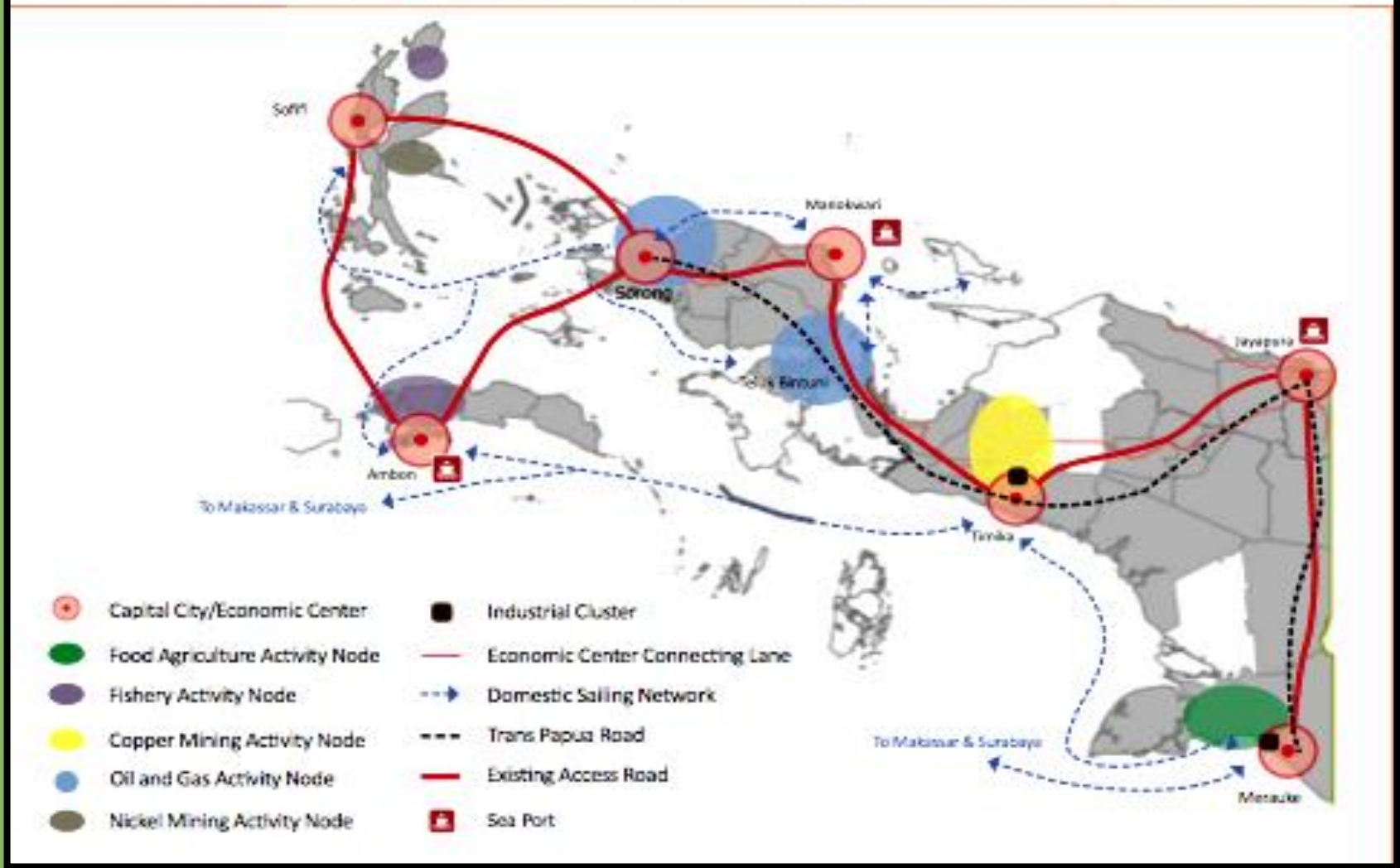


Papua – Kepulauan Maluku Economic Corridor

Development Theme:
Center for Development of Food, Fisheries, Energy, and National Mining

- Consists of 7 Economic Centers:**
- Sothi
 - Ambon
 - Sorong
 - Manokwari
 - Timika
 - Jayapura
 - Merauke

- Main Economic Activity:**
- Food Agriculture - MIFEE
 - Copper
 - Nickel
 - Oil and Gas
 - Fishery



Bali – Nusa Tenggara Economic Corridor

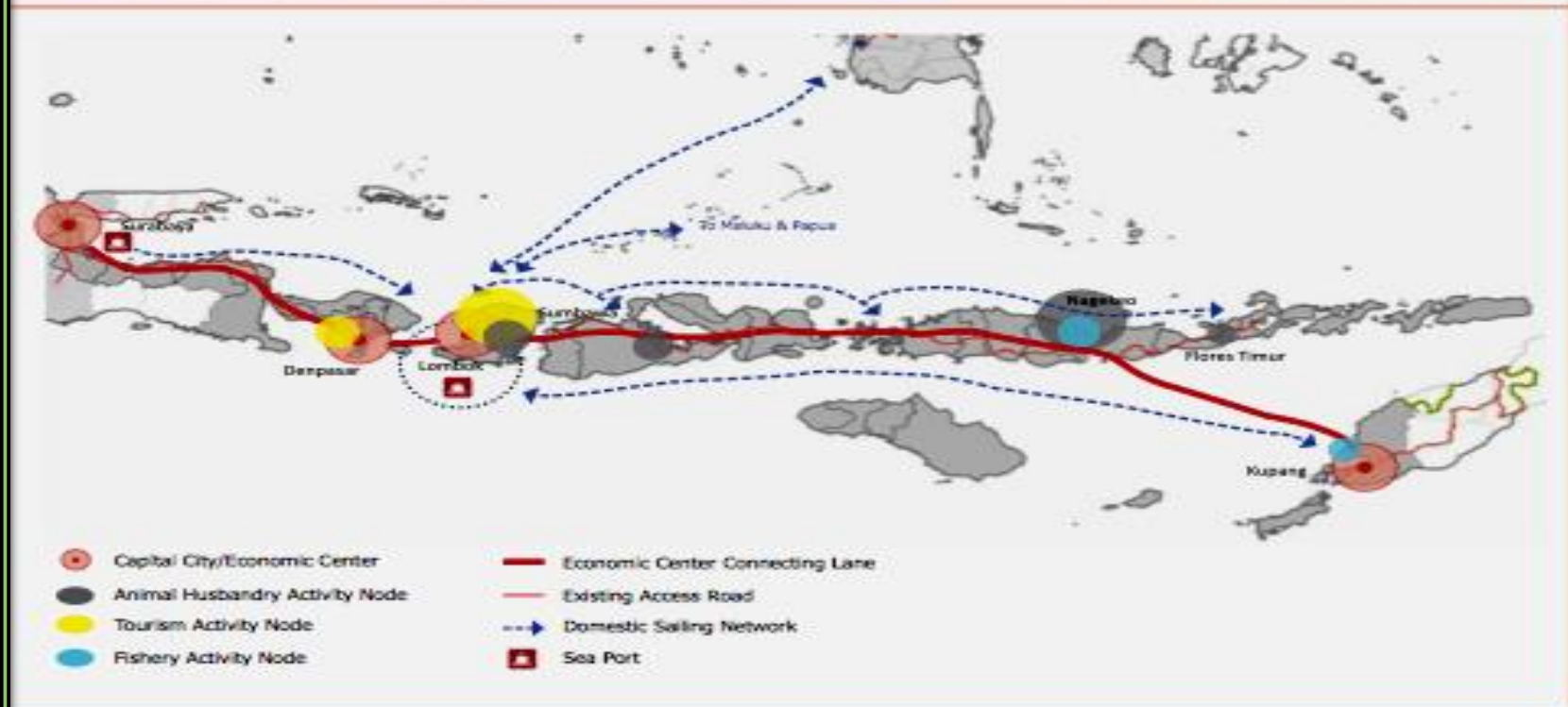
Development Theme:
Gateway for Tourism and National Food Support

Consists of 4 Economic Centers:

- Denpasar
- Lombok
- Kupang
- Mataram

Main Economic Activity:

- Tourism
- Fishery
- Animal Husbandry



Some Important Precautions For The Government

- Economic liberalization at the local level may aggravate the problem of economic inequality and the creation of new poverty enclaves.
- Therefore, fulfilment of basic needs of the local people ought to be part of development strategy. It is one thing to increase the flow of foreign investment into eastern provinces, but is quite another thing to address critical issues like food security and water security.
- The government should facilitate effective cooperation between eastern provinces and neighboring countries like Australia.
- Good governance at all levels is a must and supervision by the central government should be made effective.
- The central government may not abandon its task of redistributing economic resources in order to reflect the essence of the Indonesian unitary state (NKRI).

A special look at Papua problem

- We have to admit that armed violence is on the rise recently in Papua.
- The issue of human rights violations has to be addressed seriously by prosecuting the perpetrators.
- The government has to evaluate the implementation of Bill of Law No. 21/2001 on Special Autonomy for the Papua Province as the political framework for resolving the conflict.
- The excessive use of military force may not solve the problem but only makes it worse.
- Socio-economic development approach with full participation of the Papuan people to create positive peace should lead to a win-win solution of the Papua issue.

Concluding Remarks

- Entering its 73rd anniversary, Indonesia does have something to celebrate in terms of a vibrant democracy and a good prospect of economic growth.
- By combining a democracy and economic growth Indonesia is already on the right path to its bright future.
- The journey is still on its early stage, there is no reason for self-complacency. Problems like corruption, poverty eradication, energy security, food security, economic inequality, radicalism need to be addressed seriously.
- A good reputation abroad is determined by our ability to resolve political and economic problems at home.

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