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Karim Naama*

STABILIZING REFORMS AS A FACTOR FOR THE DEVELOPMENT OF THE REPUBLIC OF INDONESIA

"No one wants to make as many reforms as the children."
Franz Kafka

Abstract: As a member of the G20, the Republic of Indonesia has huge economic power. It occupies the first place in the Southeast Asia region and the fifth place in the world in terms of economic growth rate, which reached 10.5% in 2019. From this point of view, Indonesia is an industrial country enjoying steady economic growth.
Under the leadership of President Joko Widodo, the Indonesian government has implemented a number of economic reforms, the most important of which is the establishment of 19 programmes as priorities for the development agenda, which includes human resources development, building infrastructure, including new capital, increasing interconnectedness via the Maritime Highway Programme, village development, and enabling ending and sector improvement taxes through the tax amnesty programme.
Despite some decline due to the COVID-19 pandemic, the performance of the Indonesian economy was better in 2020 than that of some other countries in the ASEAN region, and member countries of the G20 experienced a deeper contraction. In that period, Indonesia's economy achieved a growth rate of 2.07%, and the World Bank boosted Indonesia's rating within the upper middle-income countries for its success in achieving an overall increase in national income per capita from $3,840 to $4,050.
Keywords: Indonesia; reform; growth; programme; ASEAN; COVID-19; economic crisis.

Introduction

In the social space, particularly in the social communities, two main and heterogeneous forces dominate and carry out confrontation: political on the part of the state, and economic, represented by commodity-money relations, i.e. by the market.

In parallel with the development of commodity-money relations or the market, the state-political government is democratized, and the market gradually begins to share a square with the political authorities, i.e. with the state in the economic sphere. In the words of Adam Smith, the "father" of liberalism, the economy is run by the "invisible hand", i.e. by the laws of the market.

Thus, since the early 1990s, the state-market dilemma has been resolved by placing a strong emphasis on the market and market regulation of the economy. Therefore, the thesis of the neoliberal or free market economy has been revived.

The globalization of information and communication in the world, together with the transformations it has caused in production and labour, have been linked to growing forms of cultural and social

* **Karim Naama** – Professor Dr. Habil at the St. Cyril and St. Methodius University of Veliko Tarnovo, e-mail: k.naama@ts.uni-vt.bg

diversity, and thus to greater political pluralism in the light of global integration and increased pressure for influence. This is something that prompts many researchers to question the new goals of political development.

Although the trend of political development raises the issue of political reform of traditional systems that are still far from democratization in the developing world and have not achieved real political development, other goals of the new conceptual framework for human political development were four: security, regional expansion, reduction of conflicts and external friction, as well as reduction of internal differences or problems. These goals are linked to three other subgoals: justice, order, and freedom. In this regard, trends in research development and policy reform over the last decade tend to return to the study of the situation in the light of factors and variables, the most important of which is that the state is not complete in many developing societies.

We often hear that reform is needed in one area of society or another. This word has become familiar and therefore non-specific. When we hear about reform again, we are not particularly meaningful. The goal of a reform must be in the name of the citizens: to live better and to develop the state. This will take place if the systems of healthcare, science, education and social policy work better. Effective reforms are not made with applications but with competence, responsibility and management consistency.

In order for all changes in a situation to be considered correct, the following conditions must be met:

1. There must be an abnormal situation that needs to change. In the absence of an anomalous situation, there is no justification for the reform, because it becomes closer to luxury. The situation can include a lack of justice or freedom, the spread of poverty or a disease, or instability.

2. Change is for the better.

3. Change is a feature of continuity. Irreversible, temporary changes can be reversed, but cannot be considered a reform in the true sense of the word. The transformation from an authoritarian system to a fragile democratic system can be quickly abolished as it is not considered a reform. For example, some political regimes begin with democratic steps, such as press freedom, which allow the formation of civil society organizations by parties and trade unions, and then the holding of democratic elections for municipal councils or parliaments. However, these regimes soon find out that these institutions disturb rulers and limit their tyranny, as a result of which they back down from these steps. Changes in society and politics are achieved in different ways and this is known to all.

Indonesia is one of the founding members of the Association of Southeast Asian Nations (ASEAN) and one of the 20 largest economies in the world (G20). It ranks 7th in the world in terms of nominal gross domestic product, and 15th in terms of purchasing power parity. Only about 10% of its land is used for agricultural activities. There are many palm trees and rubber trees in the country. It produces a large number of palm oil products and is a major supplier of natural rubber. In addition, Indonesia has a variety of minerals and mineral resources. It is one of the richest countries in the world in terms of natural resources. Total methane reserves amount to 81.5 barrels of oil equivalent. According to this indicator, Indonesia ranks second in the world after China. The financial crisis in Southeast Asia in 1997 and 1998 brought about a severe depreciation of the Indonesian rupiah, insolvency to service the external debt, a crisis in the banking system, and an outflow of foreign capital from the country, which severely affected the Indonesian economy. Indonesia is one of the leading countries in Asia in terms of external debt ($130.4 billion in 2006). Due to the disaster after the earthquake and the tsunami in December 2004, Paris Club creditors postponed debt payments for 2005 by five years, and some countries discharged Indonesia's debts. Indonesia is a member of the International Bank for Reconstruction and Development, as well as of the International Monetary Fund. It is one of the major recipients of aid from these international financial institutions. The main donor is Japan. The country's economy is divided as follows:

- Agriculture – 21%;
- Industry – 35%;
- Services – 44%.

Indonesia has reached a high level of development by joining the Tiger Cub Economies. The country's average annual growth rate over the last ten years is 6.5–7%. Its economic development plans rely on interest in various sectors of industry and metallurgy, as well as on increasing the efficiency of work through the use of 52 million people, with a total population of 195 million. These development plans also aim to improve the living standards of the population and the trend towards the development of exports in the field of economy.

For all Asian Tigers, foreign investment plays an important role in achieving a sustained high level of development. In Indonesia, foreign investment is welcomed by the modern technology industry. Interest in education policy plays a key role in the development of its economy. The role of the private sector has also increased, as has the contribution of factors to support export activity.

Authorities in Indonesia are beginning to reform their financial sector and to monitor the abolition of interest rates and credit cuts in order to change the functions of the central financial bank and the entry of new securities in the financial market. All these measures are accompanied by a sharp depreciation of the exchange rate, a change in tax reform, and the facilitation of public sector investment and government support programmes.

The implementation of the financial reform is related to the expansion of the limits of the financial control mechanisms, and to a significant increase in the ability of the financial authorities to coordinate the exchange rate policy with the financial policy. This coordination is of great importance in Indonesia's agenda, as the open financial market means to a large extent that any alleged discrepancy between local and international interest rates generates a large movement of capital, as a result of which it is not possible to guarantee the external balance without accurate coordination of financial policy and exchange rate.

Indonesia and Its Experience in Increasing Export Goods

Indonesia is one of the member countries of the Southeast Asian Tigers, which has achieved great success in stimulating and increasing export goods. The real aggregate domestic product increased by an average of 6.7% from 1987 to 1992, and the total volume of export goods by an average of 13.6% per year, given the sustainability of gas and oil exports[1].

Foreign investment has played an important role in the development of exports. They amount to about $2 billion a year, up from $385 million in 1987 alone, with an annual increase of 37%.

The value of the rupiah decreased by 26% from 1987 to 1992, and hence the support of the competition of Indonesian goods on the World Market. Another problem was inflation, which amounted to about 10% in that period. Therefore, the average level of interest rates on loans has remained at the global level from the 1920s until now; then it rose slightly while remaining at 4 points of the interest rate on deposits. As a result, the living standards of the poor have increased.

Factors for the Success of the Export Strategy in Indonesia

The first factor for Indonesia's success in its export strategy is its success in attracting foreign investment, its income, joint projects, equipment, technology and market relations, as well as the training of workers, as a result of which it participates in the distribution of products and goods for export.

The second factor is the policy that is expressed in support of the probable sources of exit from the situation where companies seek export on special requests. In the financial sphere, for example, this includes greater awareness of the market – the characteristics and claims of buyers. Through the Export Support Council, Indonesia has resorted to providing services to agencies instead of letting them discuss the requested information; they must pay approximately 25% of the cost of the technical support they receive. Research has repeatedly shown that free services do not determine the value of services and do not use the skills of intermediaries.

On the other hand, the assessment received by the Export Protection Council, and the point of view of the national development authority on the various types of exports, consider these services to be inefficient and subject to bureaucracy. The majority of government organizations face some difficulties in selecting sufficiently qualified employees. However, in private relations there is a decrease in wages and a lack of incentives, as a result of which there is a decline in the level of wages. From the perspective

[1] Center for Political and Strategic Studies of Al-Ahram newspaper. Cairo, 1994, 1995.

of the difficulties in forecasting government funding, there are also difficulties in the organization to plan its activities so as to provide full participation for work.

Indonesia's export level rose by an average of 13.6% from 1987 to 1993, reaching $40 billion. This growth is widely observed in the field of various goods on the new market. Indonesia occupies an important place among the countries in the world exporting lead, palm oil, coffee, natural gas, oil, rubber, spices, as well as industrial products including electronic and textile products, sportswear, cement, food, furniture and footwear.

Table 1. Commodity exchange

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Exports	22.41	19.1	17.5	23.8	34.6	37.6	55.7	29.2	31.4	22.9
Imports	22.72	23.3	26.3	33.0	37.7	44.1	40.8	40.2	53.4	199.3
Total	45.13	42.4	43.8	56.8	72.3	81.7	96.5	69.4	84.8	222.2
Balance	-0.31	-4.2	-8.8	-9.2	-3.1	6.5	14.9	-11	-22	-176.4

For 2012, bilateral trade amounted to $56.8 million (a growth of nearly 32% compared to 2011). Bulgarian exports amounted to $23.8 million (a growth of 36%), and imports from Indonesia were worth $33.0 million (a growth of approximately 30%). The foreign trade balance for Bulgaria was negative ($-9.2 million).

In 2013, the total trade with Indonesia amounted to $72.3 million (a growth of nearly 27%), incl. $34.6 million from exports (a growth of approximately 45%) and $37.7 million from imports (a growth of approximately 14%). The negative balance for Bulgaria amounted to $-3.1 million.

In 2014, the total trade with Indonesia amounted to $81.7 million (an increase by 12.8% compared to 2013), incl. $37.6 million from exports (8.4% increase) and $44.1 million from imports (16.8% increase). The negative balance for Bulgaria amounted to $-6.5 million.

Indonesia is a promising trading partner of many countries among those in Southeast Asia. It is one of the founding members of ASEAN and seeks a leading position within it. The country is also an active member of the Asia-Pacific Economic Cooperation (APEC), but it is no longer a member of OPEC, as in recent years there has been a downward trend in oil production, and the country has become a net importer. Indonesia also plays an active role in the economic partnership between ASEAN and EU countries within the Asia–Europe Meeting (ASEM). In November 2009, a new Partnership and Cooperation Agreement was signed between the EU and Indonesia. At the end of 2009, the President of the European Commission and the President of the Republic of Indonesia instructed the Vision Group of Eminent Persons from the EU and Indonesia to make recommendations for the development of relations. The group's recommendations were presented in May 2011. They included a proposal for bilateral negotiations on a Free Trade Agreement. Subsequently, intensive contacts were established between the EU and Indonesia to prepare the ground for negotiations on such an agreement.

Indonesian exports to the world consist mainly of gas and oil, electrical appliances, wood, textiles and rubber. Indonesian imports mainly include machinery and equipment, chemicals, fuels and food.

The main agricultural products produced in Indonesia include rubber and similar products, palm oil, chicken and beef, wood, shrimp, coconut, coffee, medicinal herbs, essential oils, fish and fish products, as well as spices. The main industries developed in Indonesia are oil and natural gas, textiles, automotive, electrical appliances, clothing, footwear, mining, cement, medical instruments and apparatus, crafts, chemical fertilizers, plywood, rubber, processed foods, jewelry and tourism. Indonesia exports goods to various countries, but mainly to Japan, the United States, Singapore, Korea, Taiwan, China, Germany, the Netherlands and the United Kingdom[2].

It is believed that Indonesia's success in building these relations lies in the credibility of its resources. This situation calls for a deeper look at them as an example of export success. The rich resources of timber are of great importance. In the 1960s and 1970s, Indonesia was a major source of timber.

[2] **M. Kasem.** Economic Reform in the Autonomous Republic of Egypt and World Experiences. Cairo.

However, its export of ablakash wood was not enough. In the 1980s, technological progress, the market mechanism and the cooperation of foreign companies made Indonesia an importing country of ablakash wood, its largest source in the world. Its share of the world market is 70%.

Ablakash wood has become an important source of foreign currency for Indonesia following oil and gas exports. The country now produces high-quality hardwood products which increase added value, job opportunities and the level of qualification of the workforce.

As for export incentives, the Indonesian government relies heavily on market power to determine opportunities to increase and encourage investors and exports. Indonesia stimulates the exports of such companies, which export not less than 65% of their production, and imposes the following reliefs:

✓ release of import restrictions;
✓ exemption from income tax and VAT on machines and raw materials;
✓ allowing the share of foreign property to be no more than 95%.

Indonesia has provided the financial system for exports with the credits contained in the goods at the desired prices, which depend on the guarantee and insurance measures. In 1986, the system for preferred loans – long-term and medium, was introduced.

The services provided by the Government of Indonesia for export development have reached their integrity. Indonesia is paying attention to strengthening the networks of the core structure, which aims to support and increase exports. The country has begun to build its core structure in the service of the labour sector. Indonesia is also one of the many islands for which maritime transport is the main means of communication between its individual islands, greatly facilitated by the numerous ports. There are 14 airports in Indonesia that serve many international airlines. The network of asphalt roads, which serve as a link between the main cities, is increasing.

Connections are being formed, which is considered an advantage for the government holding the system that includes local and international satellite dishes.

With regard to foreign investment, this includes Indonesia's obligations to encourage foreign investment in the current policy, which includes:

- facilitating investment formalities;
- reduction of restrictions on foreign property;
- opening a wider field to foreign investments;
- reduction of restrictions on monopolies concerning imported goods;
- abolition of re-export taxes;
- increasing incentives, especially for export-related investments;
- reduction of VAT on some cargoes;
- facilitating the movement of goods.

This does not eliminate some restrictions on foreign investment. For example, the country necessitates the participation of at least 20% of the representatives of Indonesia with foreign companies, except for the areas that are under government control, as well as the individual areas of trade. Retail and many industrial productions are closed to foreign investment, and Indonesia does not provide tax relief to foreign investors.

As part of its export development and promotion policy, Indonesia has focused on the development of free zones. The Indonesian government has identified two of them – Batam and Tan Gong-gun Buryuk. Some companies located in free zones enjoy the following benefits:

– developed infrastructure for loading and unloading activities and communications;
– lighter measures for obtaining the right of ownership and construction, and for obtaining information about the sites;
– possibility for appointment of foreign specialists;
– authorization of foreign property to 100%, but in five years to be reduced to 95%;
– imported goods are exempt from taxes on re-export.

It is possible for investors to focus not only on free zones, but also on industrial ones (79 in number), which enjoy an excellent road network, water and electricity, necessary for their activity. Indonesia also enjoys excellent advantages among the developing countries enshrined in the agreement concluded between the countries of Southeast Asia. The contract does not specify any restrictions on foreign exchange. Companies can freely transfer funds in the preferred currency from and to Indonesia, just as the rupiah has the full transfer option.

As a result of reforms, Indonesia's economy has grown faster than expected in the fourth quarter of 2018, showing resilience in a series of rising interest rates and weak global demand.

The country's statistics office announced that its GDP has grown by 5.18% in the fourth quarter of 2018, compared to expectations of 5.1%, while the economy has grown by 5.17% throughout the year, which is the fastest growth rate since 2013.

The government expects a growth of 5.3% this year, while the Bank of Indonesia expects the economy to grow by 5–5.4%, which is still far below the target 7% set by President Joko Widodo when he took office in 2014.

Household consumption increased by 5.08% in the fourth quarter of 2018, taking advantage of the government's restraint on energy prices, which helped offset the impact of the sixfold increase in interest rates since May.

In the fourth quarter of 2018, Indonesia's GDP also benefited from a 6.01% investment growth compared to 2017, and from exports that grew by 4.33%. According to the data, the rupiah rose by 0.4% to 13,898 against the US dollar, which is the highest level since June 2018.

The COVID-19 Pandemic and the National Strategy for Economic Cooperation

Despite some decline due to the COVID-19 pandemic, the performance of the Indonesian economy was better in 2020 than that of some other countries in the ASEAN region, and member countries of the Group of Twenty experienced a deeper contraction. In that period, Indonesia's economy grew by 2.07%, and the World Bank boosted Indonesia's rating within the upper middle-income countries for its success in achieving an overall increase in national income per capita from $3,840 to $4,050.

In addition, many sectors of the Indonesian economy have managed to continue to function during the spread of the pandemic. Some of them were even able to achieve growth during that period, such as the information and communications sector (10.9%), the health sector (16.5%), and the agriculture sector (2.6%). Exports are mainly high-value products, such as palm oil and coal. What is the exchange rate of the rupiah against the US dollar? It recorded an increase by 0.2% in December 2020.

To cope with the crisis of the COVID-19 pandemic, the Indonesian government has put in place fiscal policies and comprehensive monetary guarantees in order to increase the purchasing power of the community, and to improve the health sector.

The provision and development of vaccines is also included. To revitalize the investment sector and to expand job opportunities, the government has tried to simplify laws and regulations by adopting the comprehensive law to create opportunities for clients, as well as a sovereign wealth fund – the Indonesia Investment Authority.

On the first day of March 2021, Indonesia recorded a total number of 1,341,314 coronavirus cases, 36,325 deaths and 1,151,915 recoveries. To deal with the impact of the pandemic on economic growth, the Indonesian government developed a national strategy for economic recovery, and formed a committee for managing the pandemic and reviving the national economy based on Presidential Regulation No. 82 of 2020.

This strategy has succeeded in reviving the Indonesian economy in 2020. This is reflected in the achievement of an economic growth of 2.07% for 2020 after a decline of 5.3% in the second quarter of the same year[3].

Indonesia's economic growth rate has been better than that of other ASEAN and G20 countries. One of the most important motives for reviving the Indonesian economy is the increase in the prices of a number of commodities, such as palm oil by 29% and coal by 22%, along with the increasing demand for energy related to these two products.

The year 2021 is expected to be a turning point in the growth of the Indonesian economy, as the national strategy for economic recovery during that period will be based on the following four activities:

[3] Indonesian Embassy in the Arab Republic of Egypt, Asian Issues, No. 7, 2021.

1. improving the health sector, which includes the purchase of tests, medicines and medical devices, incentives for health workers and hospitals, and ensuring the availability of vaccines;

2. continuing financial stimulus, especially for ministries and agencies in sectors that have a significant impact on job creation and economic growth;

3. directing government spending towards purchasing locally produced goods;

4. expenditure on social assistance, cash-for-work programmes, and food programmes; basic work subsidies in both formal and informal sectors to increase the purchasing power of low-income groups, which in turn can encourage general consumption.

In the monetary sector, Indonesia’s central bank emphasizes five policies to strengthen the national economic recovery, including the opening of productive sectors, accelerating the achievement of financial incentives, increasing credit and financing for the business world, continued monetary and precautionary stimulus at the macro level, and digitization of economy and finance, especially for small and medium-sized companies. Besides, the Indonesian Financial Services Authority has prepared six strategic initiatives in 2021 to meet the various developments and challenges in the financial services sector. These initiatives include developing this sector and sharpening integrated supervision based on information technology, accelerating digitization, improving the digital ecosystem, erasing the digital evening, and expanding access to finance, enhancing the flexibility and competitiveness of the sector and sustainable financial development.

In conclusion, the reform process does not take place in a vacuum and does not stem only from the desire for a change. An appropriate environment or objective conditions are needed to lead to reforms in order to avoid the negative consequences of the situation, the conditions and the way in which they are carried out.

Achieving Indonesia’s economic recovery, whether before or after the pandemic, depends on the digitization of economic activities. The Indonesian government has indicated that the activities of participatory economics, especially e-commerce, markets and finance technology, have become a driving force and a showcase for the Indonesian digital economy.

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