



# **Path of Development: A Reflection from Indonesia's Experience of Industrialization**

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# Path of Development: A Reflection from Indonesia's Experience of Industrialization

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# Industrialization

- to increase productivity
- to solve unemployment problem
- to stabilize exports' earnings
- to alter socio economic structure
- to have a better value added
- to achieve self-sufficiency
- National pride
- to follow advance economies that are usually more industrialized

Plus ça change.....



# UGANDA VISION 2040

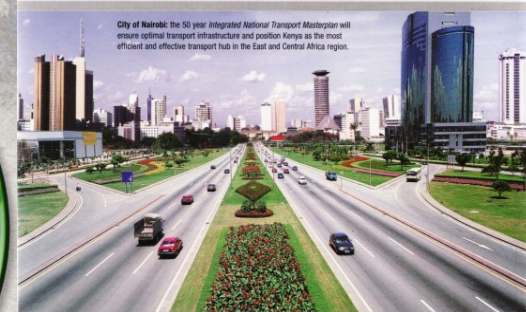


APRIL 2013

# KENYA VISION 2030



A GLOBALLY COMPETITIVE AND PROSPEROUS KENYA



City of Nairobi: the 50 year Integrated National Transport Masterplan will ensure optimal transport infrastructure and position Kenya as the most efficient and effective transport hub in the East and Central Africa region.

### Contact Information

All enquiries relating to Kenya Vision 2030 should be directed to:

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The Permanent Secretary  
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City of Nairobi in the future: the 2030 Vision aspires to a capital firmly interconnected through a network of roads, railways, ports, airports, waterways and telecommunications.



# African Center for Economic Transformation

## 2014 African Transformation Report

### Growth with DEPTH

D = Diversification

E = Export competitiveness

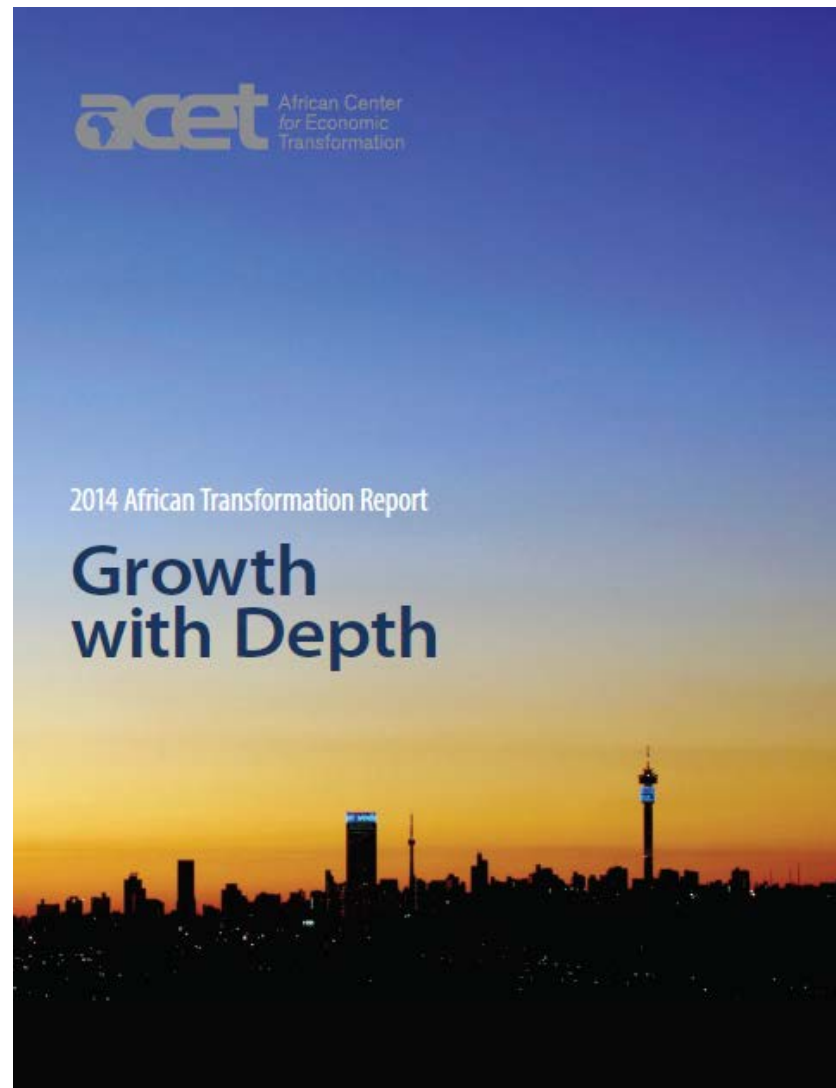
P = Productivity increases

T = Technological upgrading

H = Human well-being

The report contains chapters on:

- Promoting exports
- Building technical knowledge and skills
- Leveraging abundant labour for manufacturing
- Managing oil, gas, and minerals
- Boosting tourism
- Kickstarting agroprocessing value chains





## **Nigeria in the 1970s: priority for diversification and industrialization**

'An economy that is not **diversified** is especially vulnerable to changing economic situations. This is so whether the economy is dominated by agriculture or by oil production. It is, therefore, intended under the next Plan **to achieve greater diversification by a rapid expansion and broadening of industrial activities** in the economy. It is expected that [...] value added in industry will be more than doubled during the plan period.'

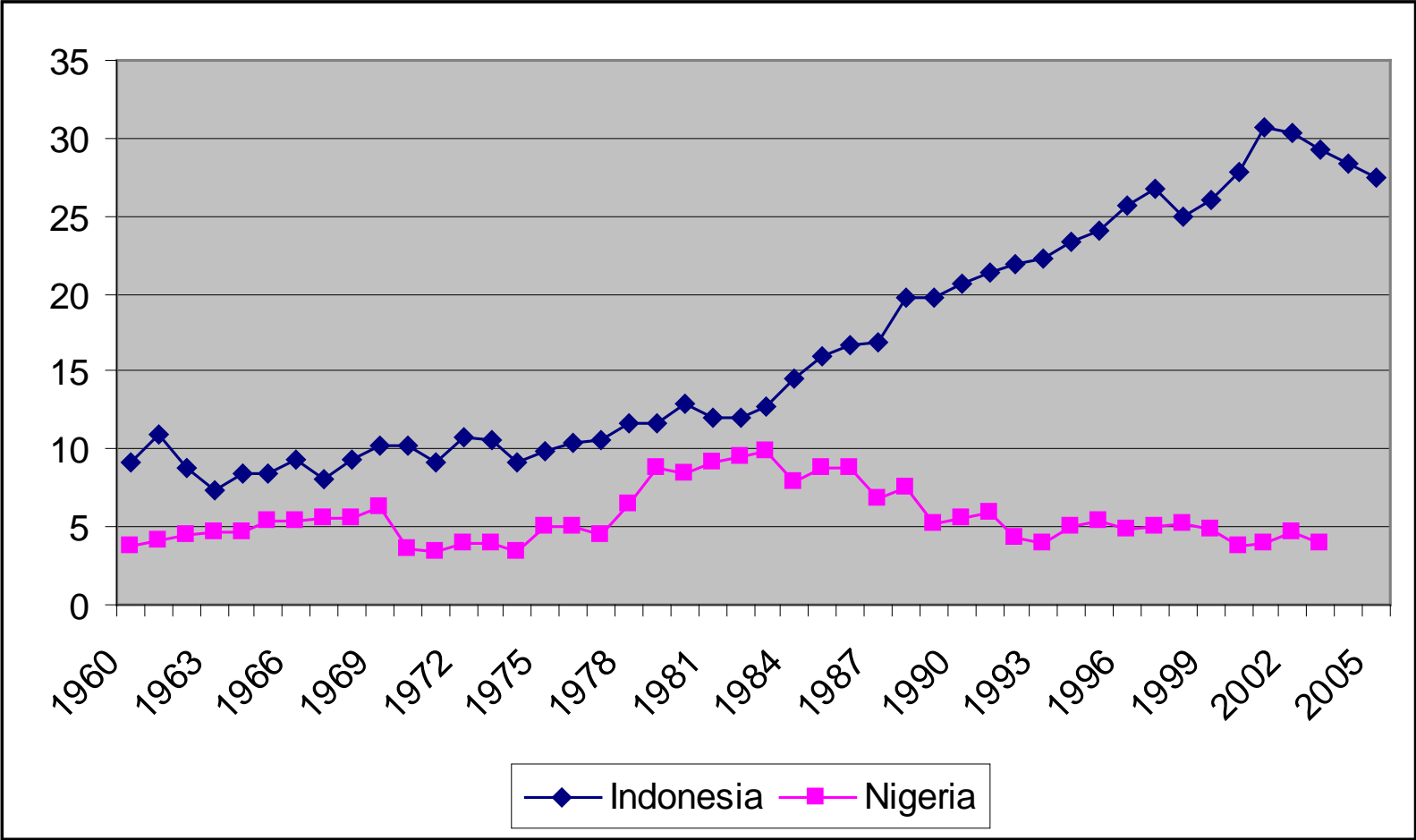
### **Third National Development Plan, 1975-80**

## **Indonesia in the 1970s: absolute priority for agriculture and rural development**

'**The agricultural sector [...] is the central arena in which all efforts are concentrated and results expected.** [...] Agricultural development increases the earnings of the majority of the Indonesian people and thus increases national income. [...] The development of the agricultural sector is expected to open up growth possibilities in other sectors so that an opportunity will be created to combat the backwardness of the Indonesian economy on many fronts. [...] **Any effort to overcome the problems of the urban areas will always be defeated if the rural areas themselves are unable to solve the unemployment problem.'**

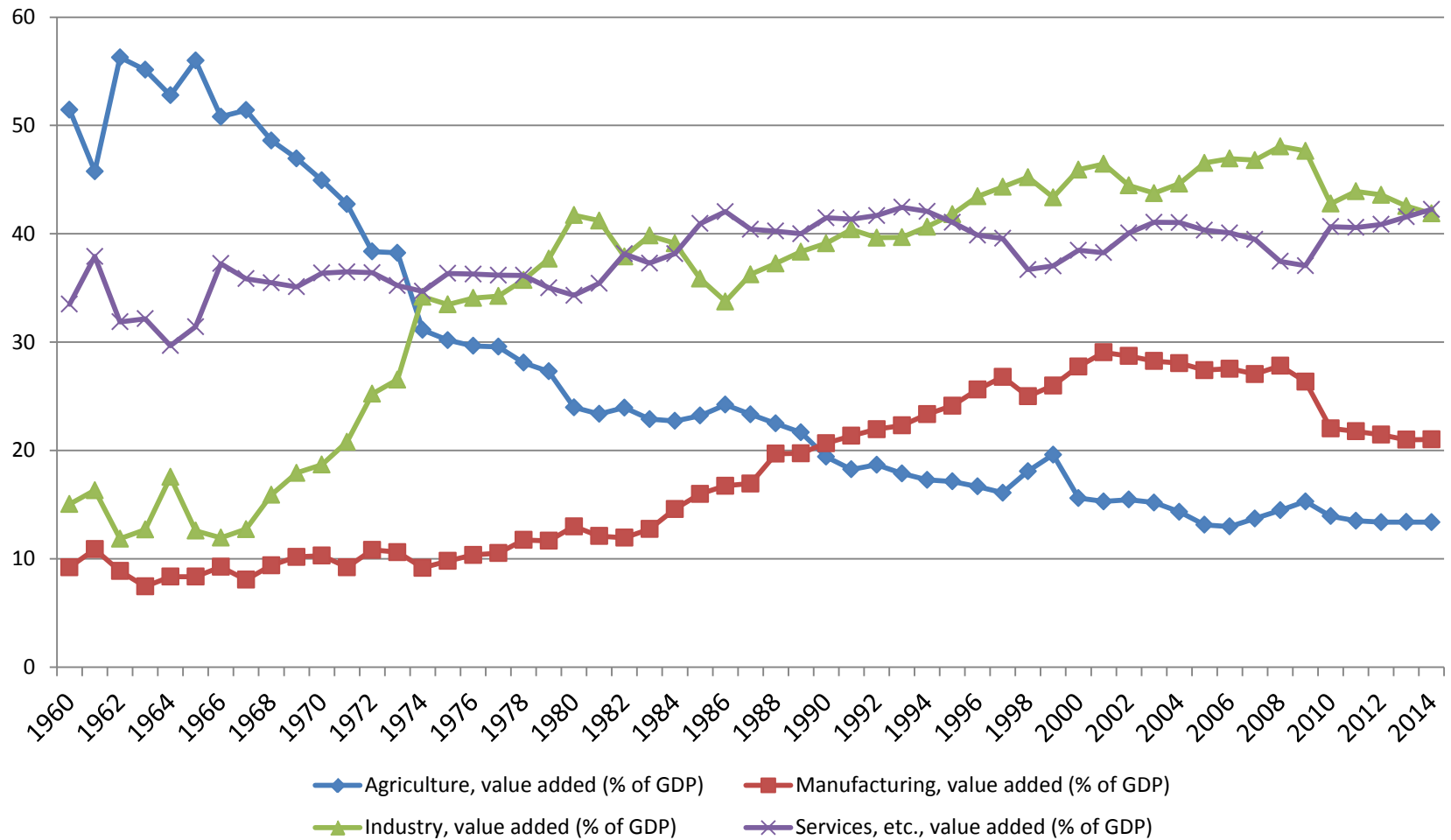
### **First Five-Year Development Plan, 1969-74**

# Manufacturing, value added (% of GDP)



Source: World Development Indicators

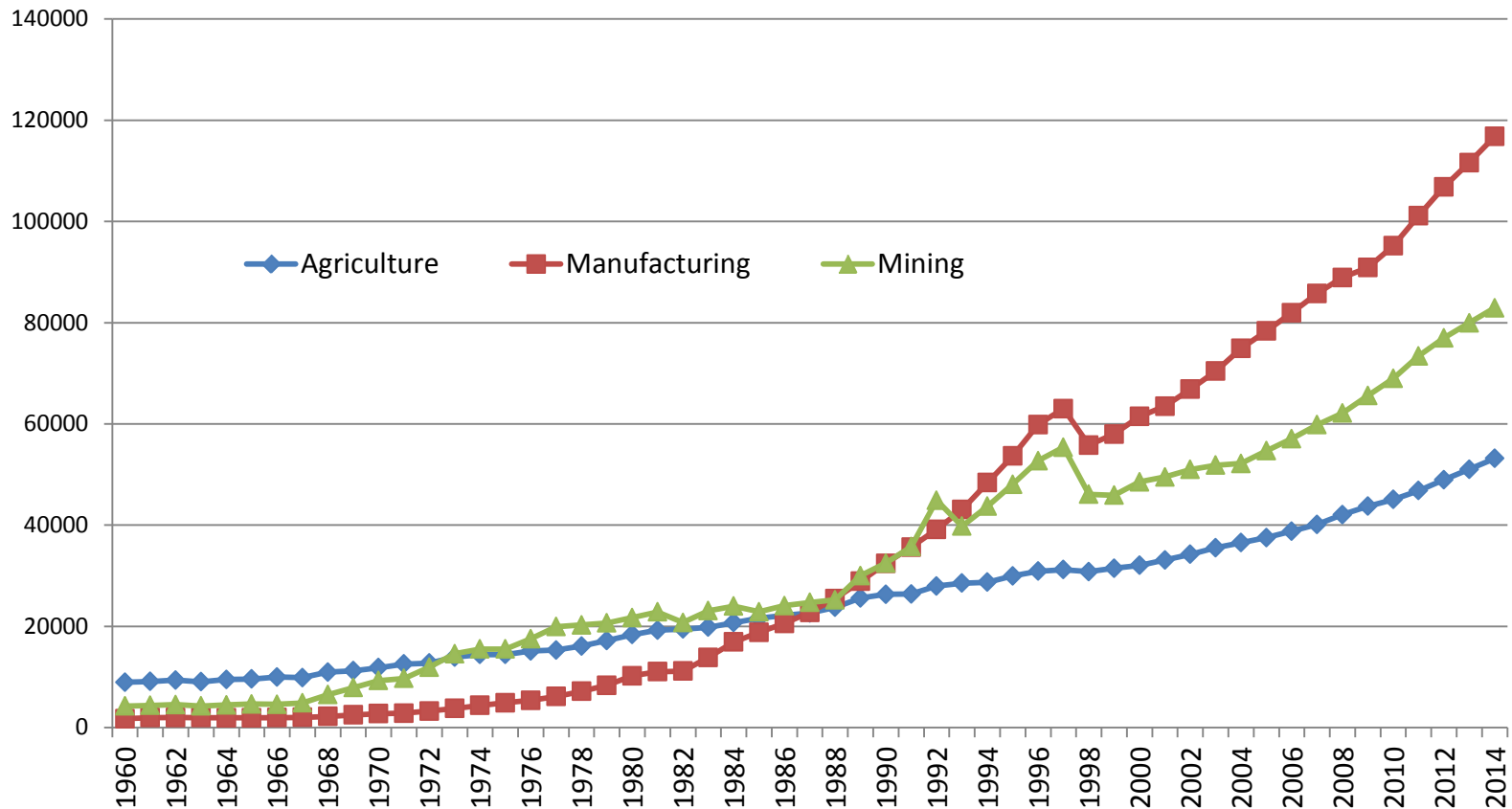
# Economic Transformation?



Source: World Development Indicators

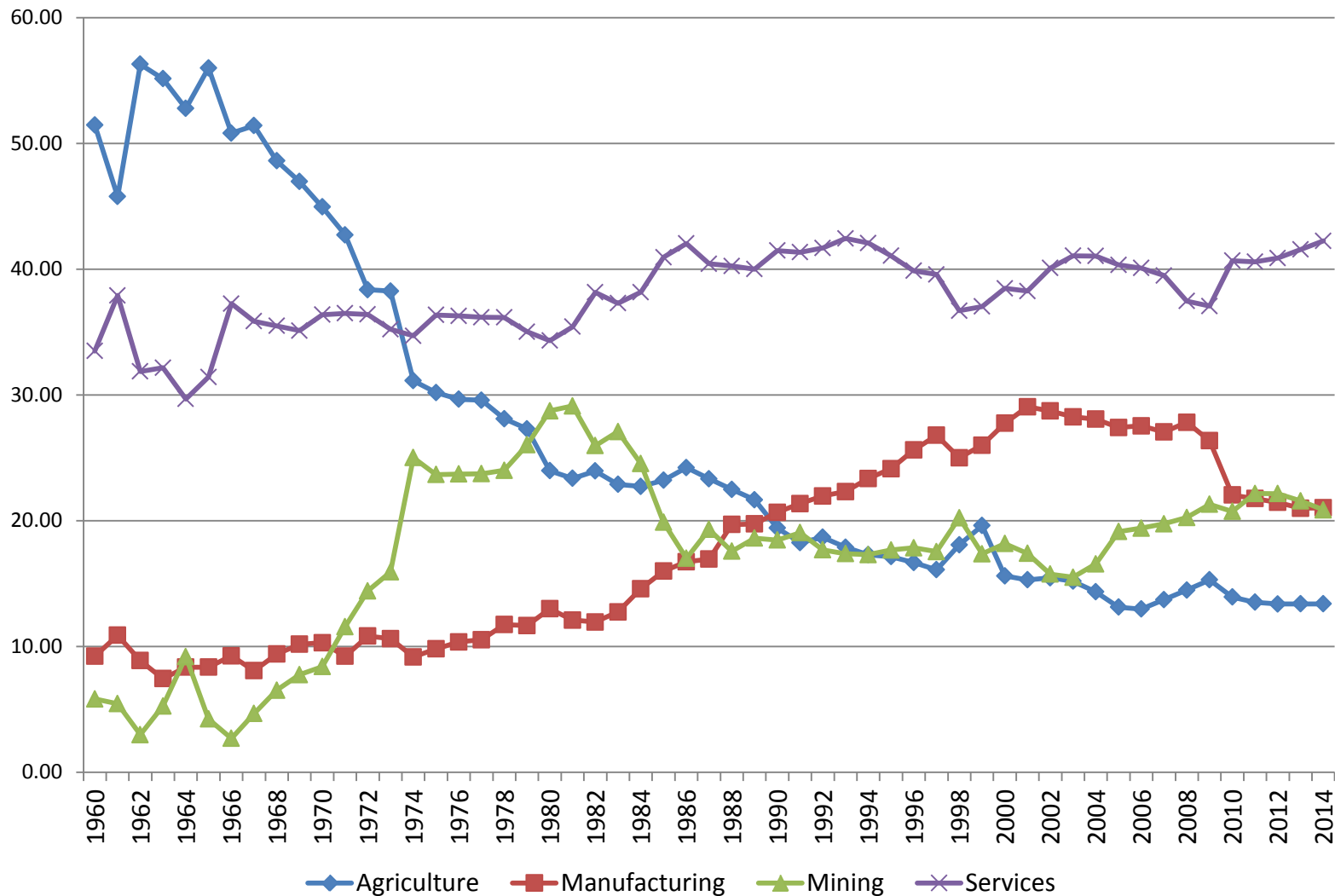


# Value Added (Constant 2005, million USD)



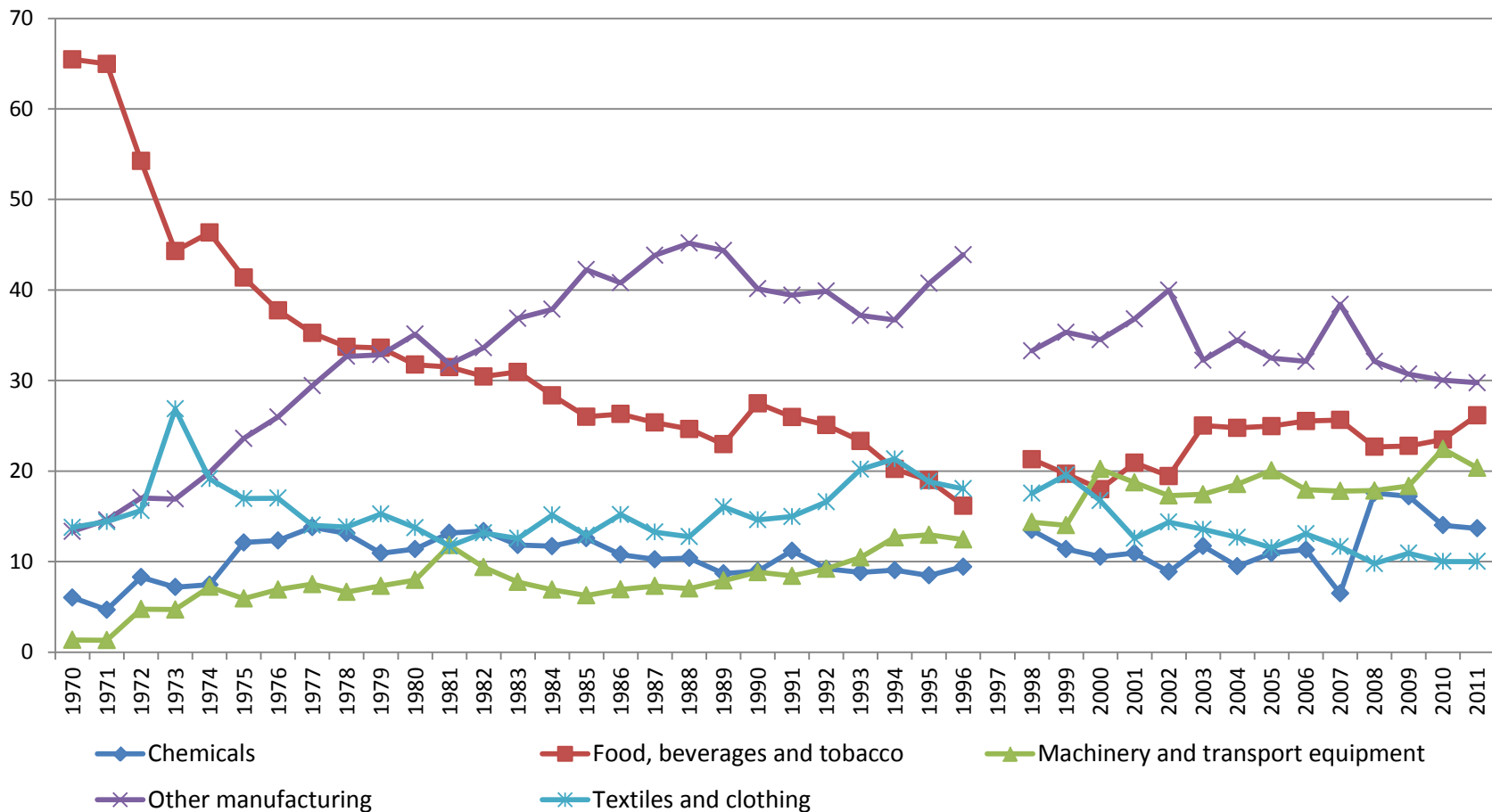
Source: World Development Indicators

# Value Added (%GDP)



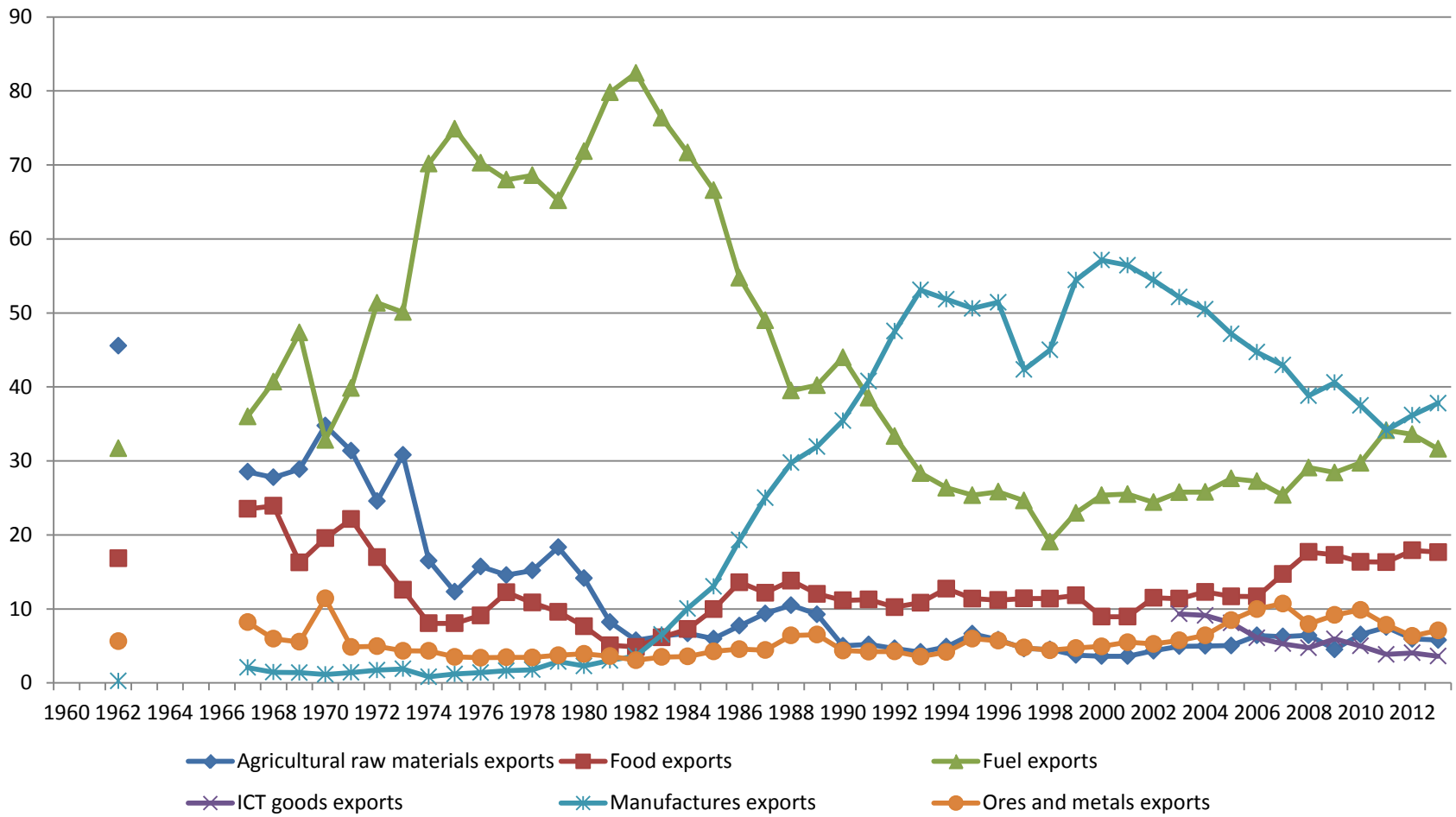
Source: World Development Indicators

# % of manufacturing value added



Source: World Development Indicators

# % of Merchandise Exports



Source: World Development Indicators

# Changes Industrialization Policies (1)

- 1950s
  - Government control and ownership
  - Increasing role of indigenous (*pribumi*)
  - Nationalization
- 1967-1972 (Stabilization Period)
  - Liberal Foreign Investment Act in 1967
  - Returning nationalized firms to previous owner
  - tax holidays
  - exemption of import duties
  - exemption of sales taxes on capital goods

# Changes Industrialization Policies (2)

- 1973-82 (oil boom – import substitution)
  - Restrictive investment policies
    - foreign investment had to be in the form of a joint venture with a *pribumi* (domestic indigenous) partner
    - foreign investors had to shift 51 percent of their ownership to their Indonesian partner within ten years
    - to protect existing investments, many sectors were closed to new investment
    - state-owned banks were instructed to limit the granting of credit to *pribumi* only.
  - New credit schemes to provide credit to indigenous small-scale enterprises (KIK, Kredit Investasi Kecil and KMKP, Kredit Modal Kerja Permanen)
  - SOEs Expansion (Pertamina Scandal)
  - Large scales industries
  - licensing, contracting, credit, and procurement were nominally intended to favour small and medium firms and to foster *pribumi* enterprise
  - High-tariff and nontariff barriers were intended to insulate import-substitution activities

# Changes Industrialization Policies (3)

- 1983-1993
  - Exchange rate devaluation
  - simplified export/import approval procedures, provided subsidized export credit, and reduced import tariffs significantly
  - New investment policies were introduced:
    - foreign ownership was allowed up to 95 percent
    - wider financial access for joint-venture investment
    - investment licenses could be granted for up to 30 years
    - no VAT on imported capital
    - Negative Investment List (DNI) replaced the Investment Priority List (DSP), which meant that investors could be involved in more economic sector
  - Financial sector liberalization (credit ceiling was eliminated, interest rates were liberalized, and taxes on interest, dividends, and royalties for deposits in foreign currency in state-owned banks were eliminated)
  - Banking reforms: Foreign banks were allowed to open branches in six major cities outside Jakarta; the reserve requirement to establish a domestic bank was reduced from 15 percent to 2 percent; the monopoly on deposits of state-owned enterprises by state-owned banks was reduced; and a longer term for monetary instruments was allowed.
  - In addition, the stock market was liberalized by easing requirements for listing equities and allowing a wider range of brokerage activities; and regulations on venture capital, insurance and nonbank financial activities were eased
  - Tariff barriers is decreas



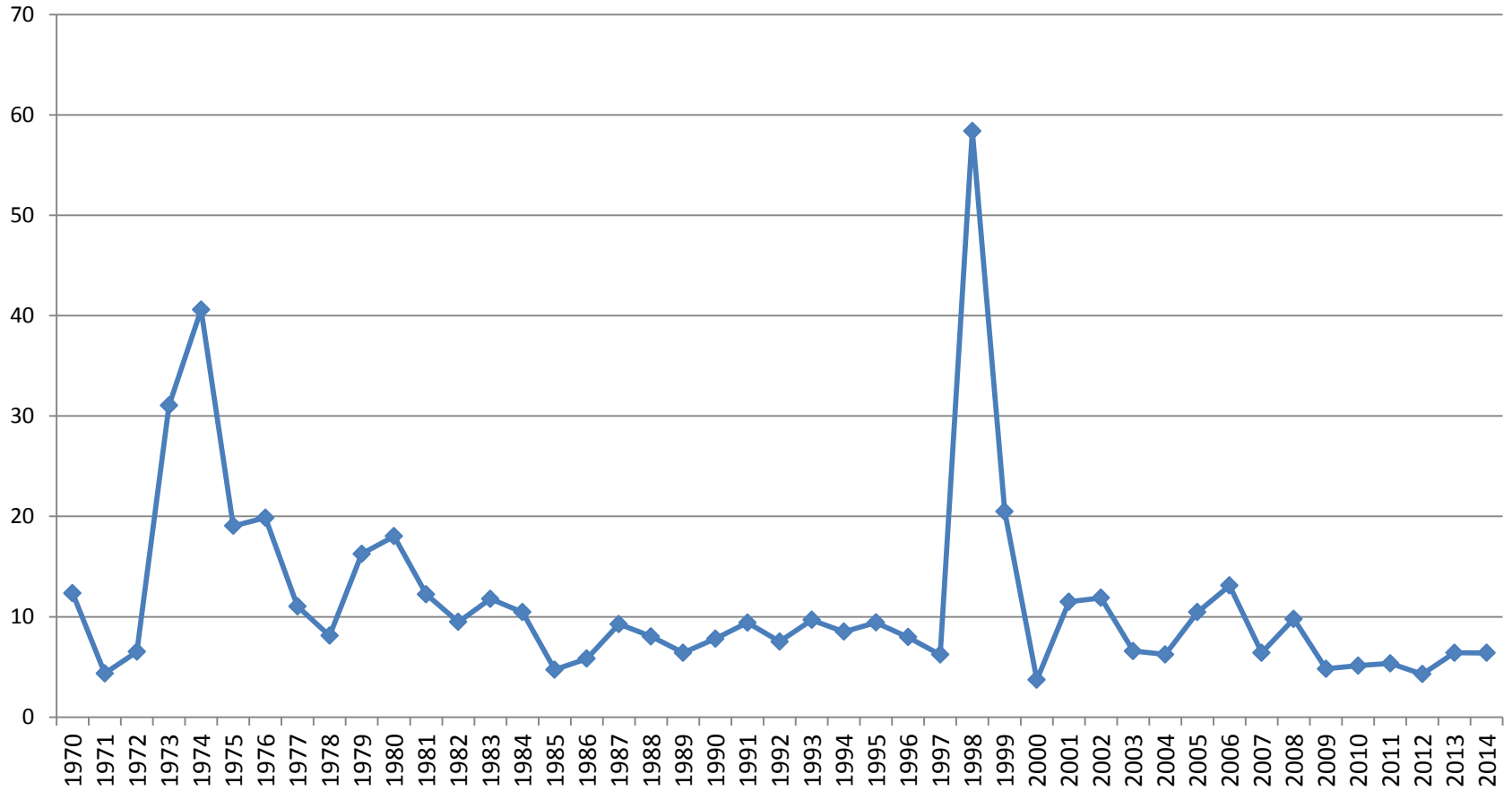
## Credits to Industry in Indonesia (in billion Rupiah and %)

	Government Banks		Private Banks		Foreign Banks		Total	
	Credit	Share	Credit	Share	Credit	Share	Credit	Share
1988/89	12259	78,17	2602	16,59	822	5,24	15683	100
1989/90	16198	72,15	4385	19,53	1866	8,31	22449	100
1990/91	21544	68,80	6706	21,42	3063	9,78	31313	100
1991/92	22420	63,31	8473	23,93	4518	12,76	35411	100
1992/93	27615	63,52	10325	23,75	5533	12,73	43473	100
1993/94	28452	53,20	15696	29,35	9335	17,45	53483	100
1994/95	30059	47,74	20954	33,28	11954	18,98	62967	100
1995/96	32846	44,98	24930	34,14	15247	20,88	73023	100
1996/97	34807	42,85	30212	37,19	16215	19,96	81234	100
1997/98	41983	38,86	40816	37,78	25224	23,35	108023	100

Source: Calculated from Nota Keuangan dan RAPBN 1998/1999 (p.286).

# Agriculture and Price Stabilization

## Inflation, consumer prices (annual %)



# Agriculture and *Dutch Disease*

- Indonesian policy-makers still perceived that they had to prioritize agriculture, even though the oil money was very 'intoxicating' (Prawiro, 1998a: 145).
- Instead of neglecting, Indonesian policy-makers used a considerable part of the oil money to finance the agricultural sector.
  - expansion of rural infrastructure and rehabilitation, such as irrigation and roads
  - extending agricultural credit to small farmers
  - subsidize fertilizers

## The **real** secret of rapid poverty reduction

according to Widjojo Nitisastro, chairman  
of Indonesia's National Planning Agency  
(Bappenas), 1967-1983

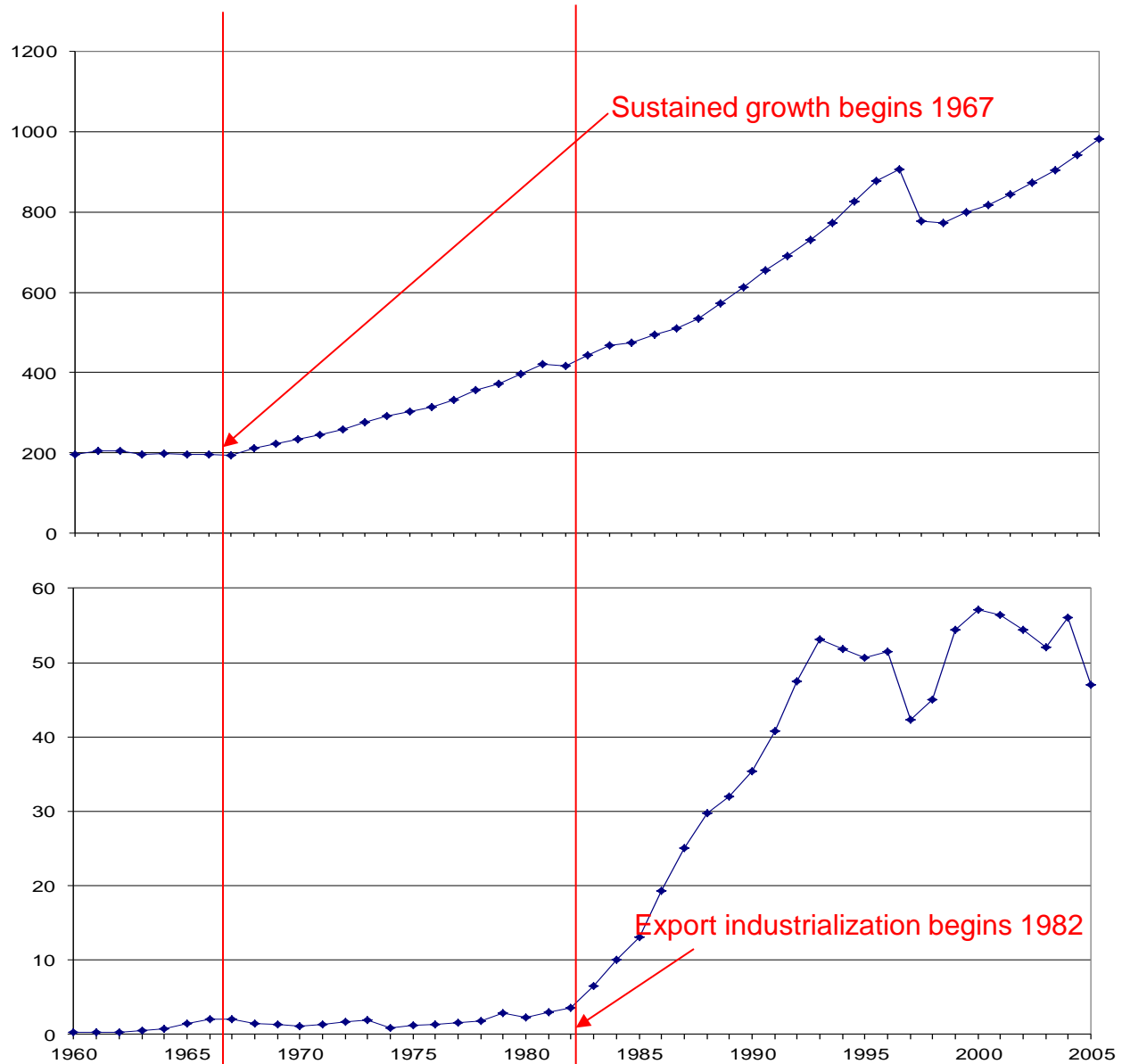


Of key importance to poverty reduction in the 1970s and early 1980s was **the high rate of growth in the agricultural sector, on which most of the population and the poor depended**. [...] The sources of rapid growth in rice production have been a combination of the rapid spread of **irrigation**, the provision of key **inputs**, and the spread of **high-yielding varieties**. At the same time, investment in **rural infrastructure**, as well as price policy, public procurement, and price stabilization, increased the level and stability of the prices received by the farmer.

from Widjojo Nitisastro, 1995, 'Reduction of poverty: the Indonesian experience', in James M. Boughton and K. Sarwar Lateef (eds), *Fifty years after Bretton Woods: the future of the IMF and the World Bank; Proceedings of a conference held in Madrid, Spain, September 29-30, 1994*, pp. 176-82. Washington: International Monetary Fund.

# Rethinking Priority

Indonesia:  
GDP per capita  
(constant 2000 US\$)  
1960-2005



Indonesia:  
manufactures exports  
(% of merchandise exports)  
1960-2005

