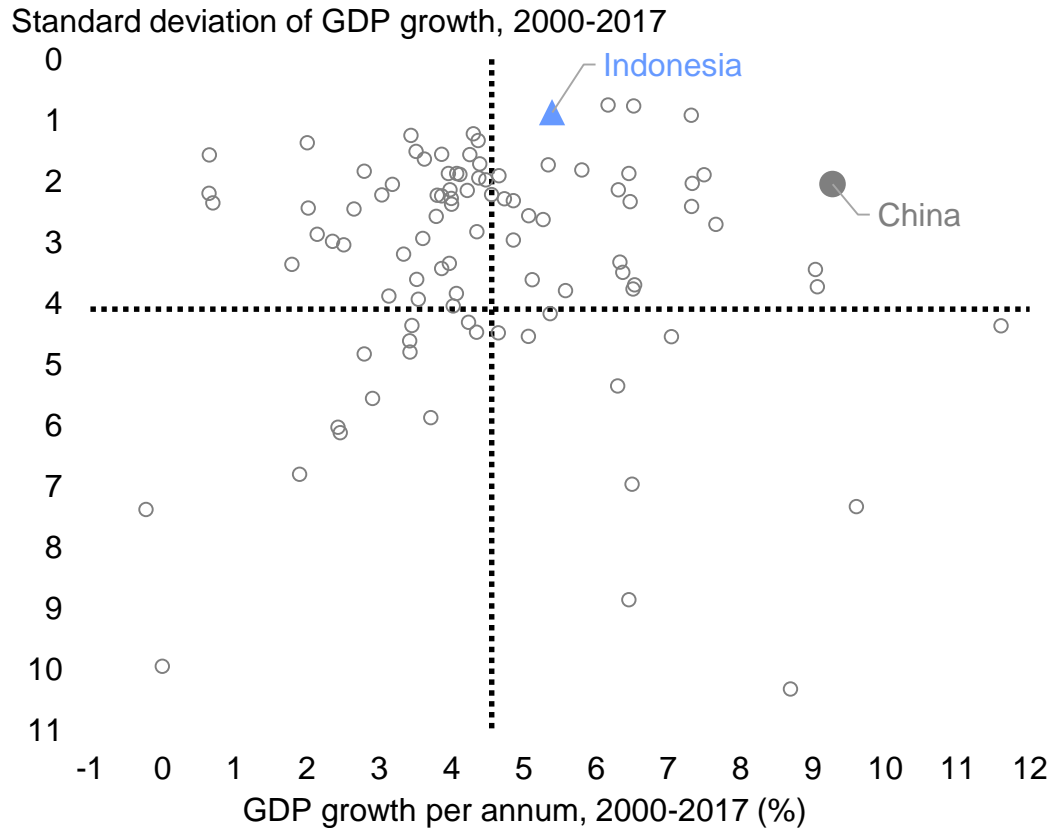




INDONESIA

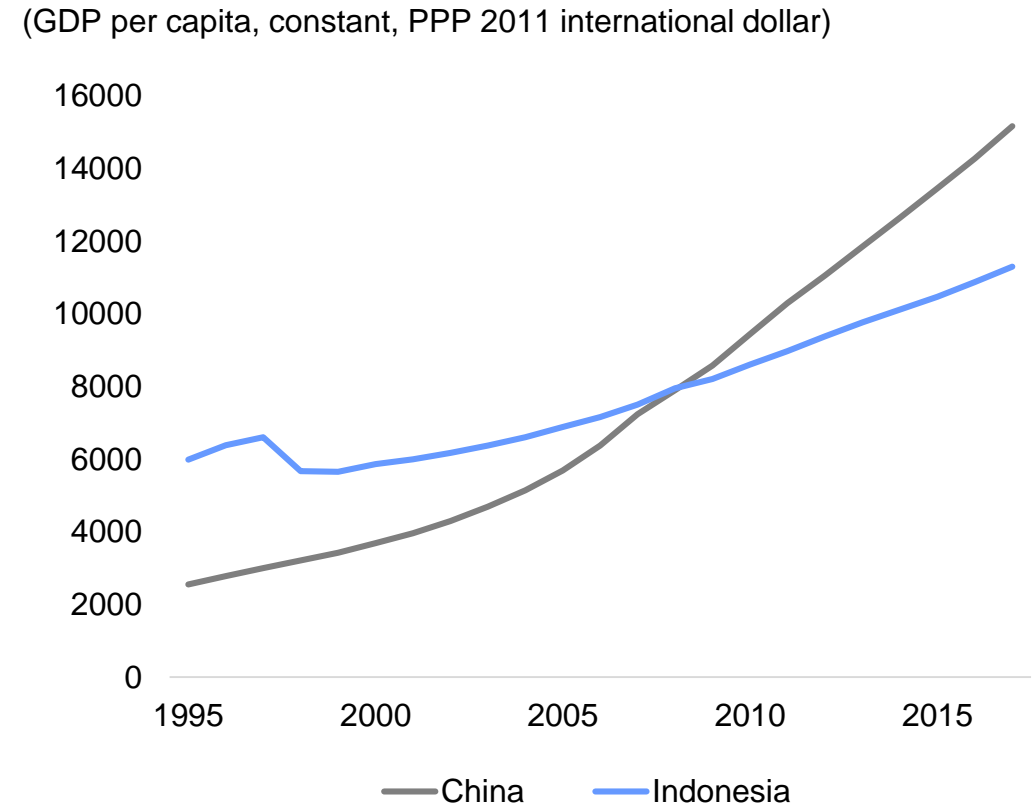
Kyunghoon Kim
Arriya Mungsunti
Andy Sumner
Arief Yusuf

BACKGROUND: STEADY BUT SLOW



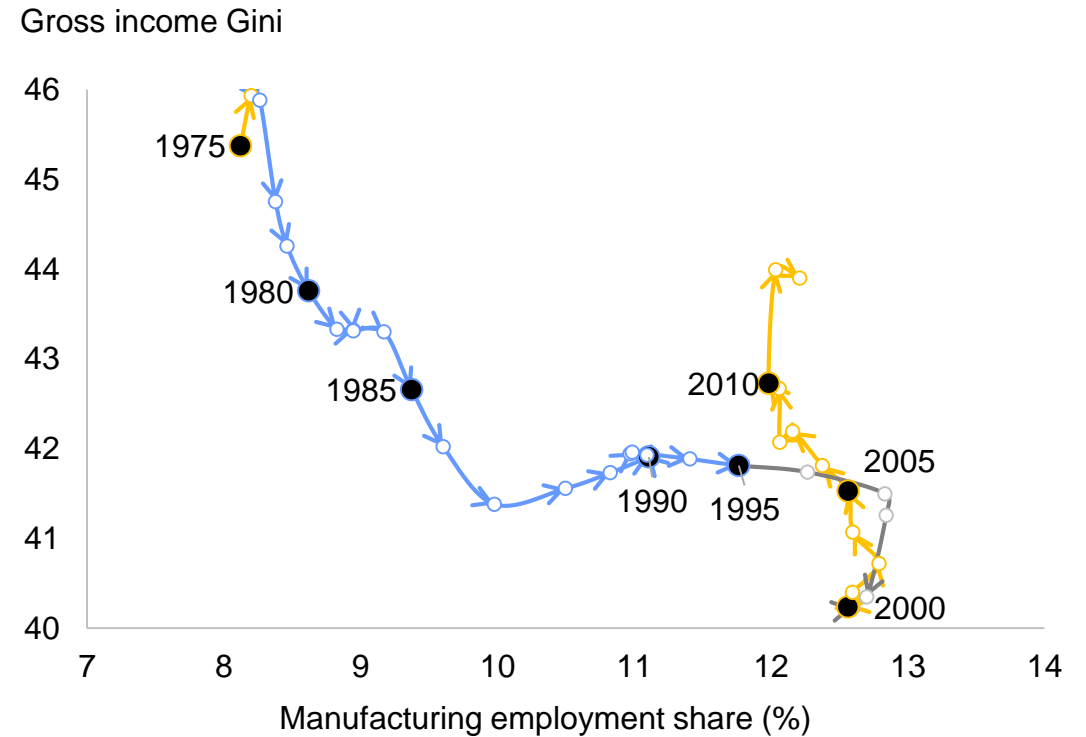
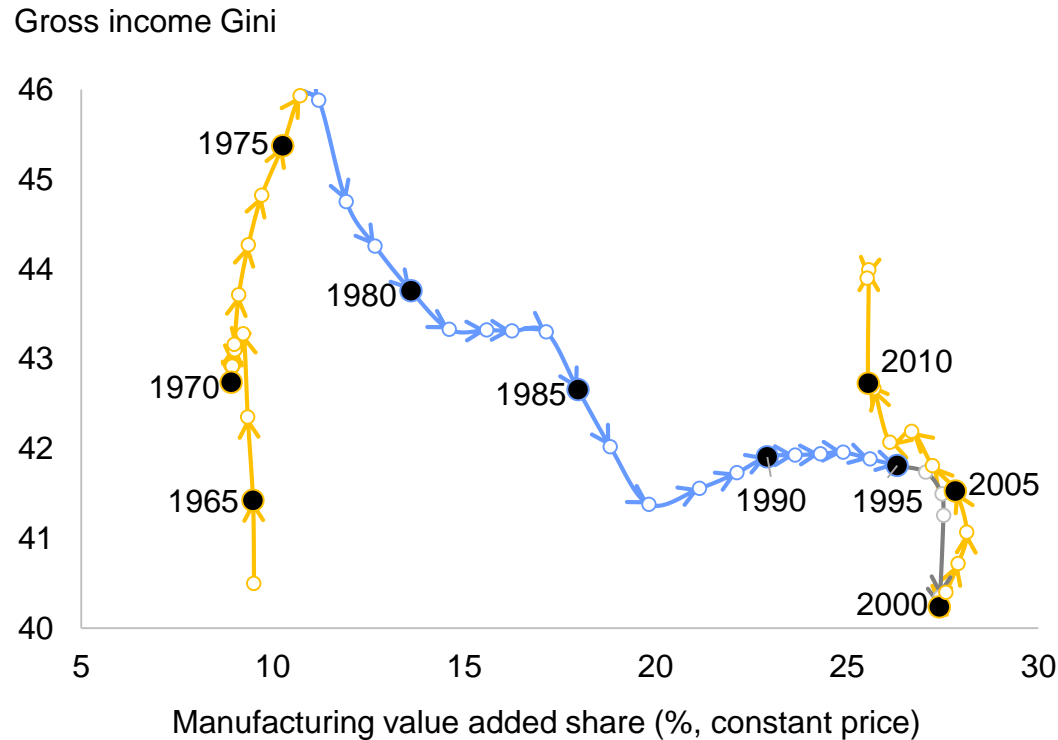
Notes: (i) 100 largest emerging and developing countries in terms of GDP in 2017. No data for Afghanistan and Venezuela. Equatorial Guinea, Iraq, and Libya are not shown in the graph. (ii) Dotted lines show the averages of each variable.

Source: Author's illustration based on IMF World Economic Outlook Database



Source: IMF World Economic Outlook Database

THREE MAIN PERIODS: 1960s-MID 1970s; MID-1970s-MID 1990s; 2000s-



Notes: (i) The missing Gini coefficients were calculated using linear interpolation. (ii) Manufacturing value added and employment shares are five-year moving averages. For example, the data for 1975 is an average of data for 1971–1975.

Source: Author's illustration based on GGDC 10-Sector Database and UNU-WIDER WIID

KUZNETSIAN TENSION IN THREE PERIODS

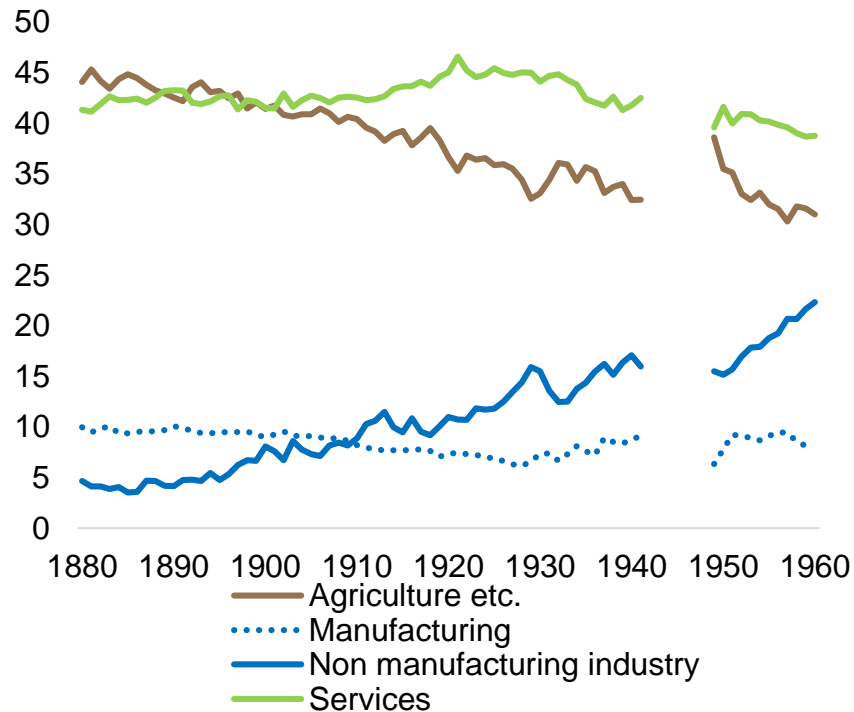
Inequality	Increasing	Kuznetsian tension: Weak ('adverse') Period I (1960s-mid 1970s) Period III (2000s-)	Kuznetsian tension: Strong
	Stable or declining	Kuznetsian tension: Ambiguous	Kuznetsian tension: Weak ('benign') Period II (mid-1970s-mid1990s)
		Weak	Strong
Growth-enhancing structural transformation			

KEY FINDINGS ON THE LATEST PERIOD

- **Structural transformation losing dynamism**
 - Weak growth in manufacturing & high value-added services
 - Recent increase in investment to strengthen 'fundamentals' (e.g. infra.): Positive but far from enough
 - Selective industrial policies & SOE-led high-tech. manufacturing development: Require more attention
- **Questionable record on inclusive growth**
 - Will be close to eradicating extreme poverty by 2030, but poverty rates at higher thresholds are still very high & inequality is close to the post-independence period's peak
 - Recent increase in investment on targeted social policies: Positive but far from enough
- **Challenges**
 - Strengthening fiscal revenue and expenditure / sourcing domestic financial resources for development
 - Legitimising state's long-term investment and industrial policies
 - Making social policies progressive

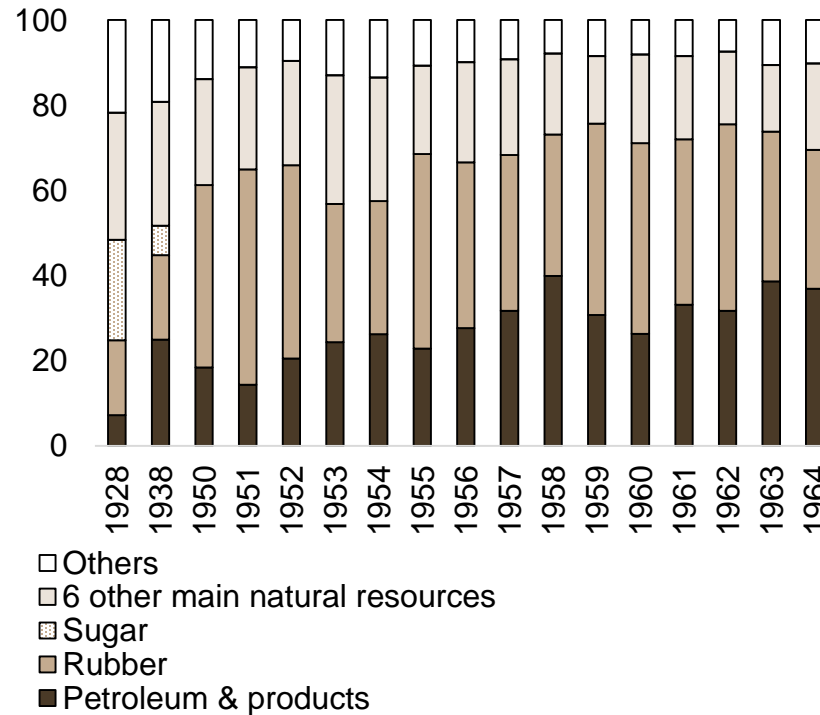
ECONOMIC HISTORY (1/2): STRUCTURAL TRANSFORMATION

(% of value added)



Source: Van der Eng, P. (2010). 'The Sources of Long-Term Economic Growth in Indonesia, 1880–2008'. *Explorations in Economic History*, 47(2010): 294–309.

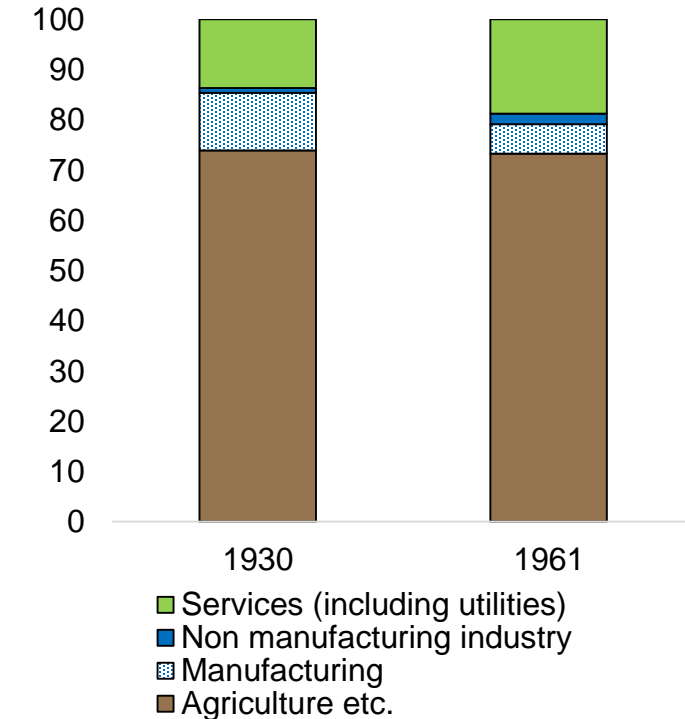
(% of exports)



Note: 6 other main natural resources = copra, tea, tobacco, tin, coffee, palm oil

Source: Thomas, T., and J. Panglaykim (1966). 'Indonesian Exports: Performance and Prospects 1950–1970, Part I'. *Bulletin of Indonesian Economic Studies*, 2(5): 71–102.

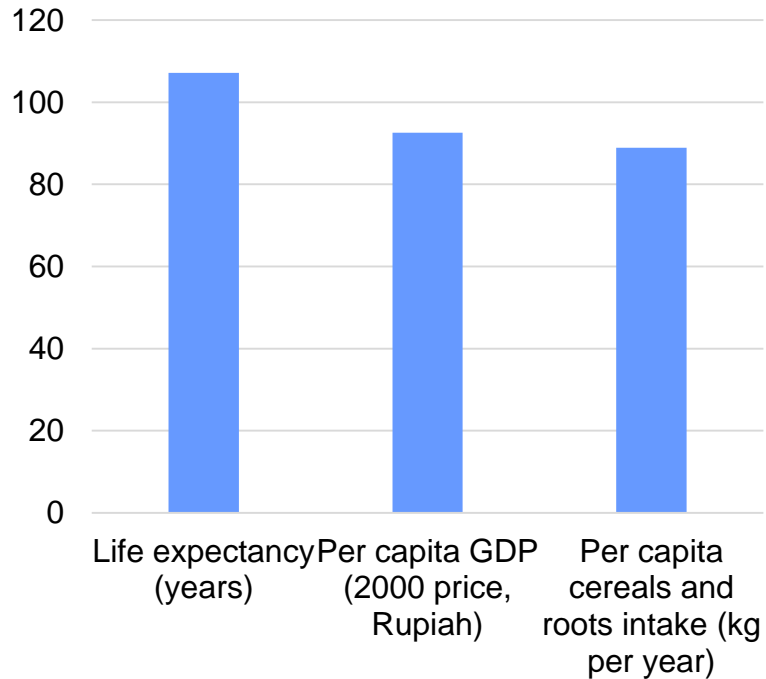
(% of employment)



Source: Jones, G. (1966). 'The Growth and Changing Structure of the Indonesian Labour Force, 1930–81'. *Bulletin of Indonesian Economic Studies*, 2(4): 50–74.

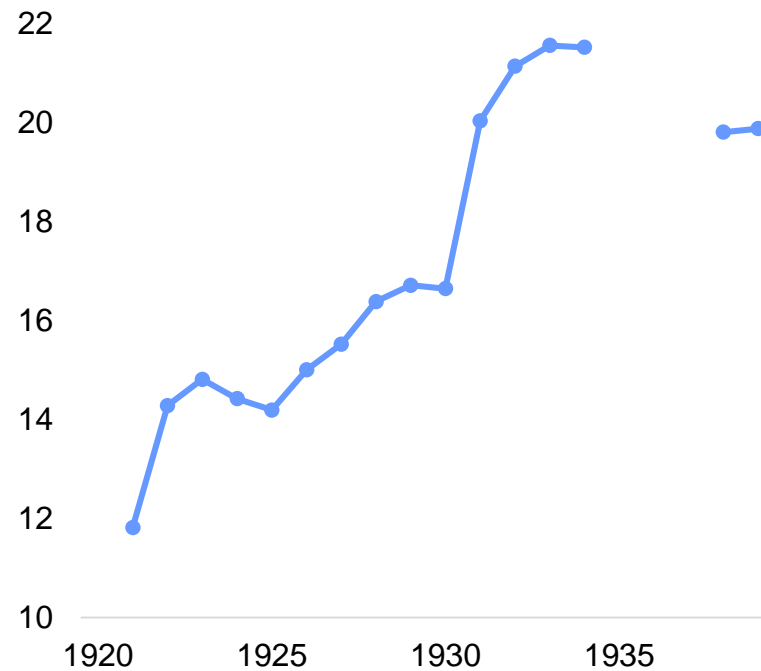
ECONOMIC HISTORY (2/2): QUALITY OF LIFE & INEQUALITY

(1955/59, 1936/40 = 100)



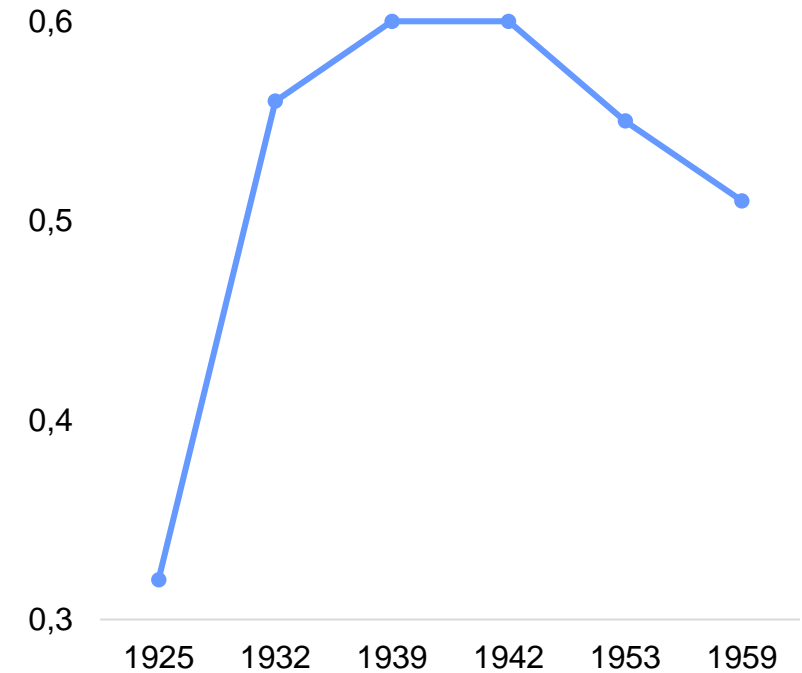
Source: Booth, A. (2016). *Economic Change in Modern Indonesia: Colonial and Post-Colonial Comparisons*. Cambridge: Cambridge University Press.

(Top 1% income share)



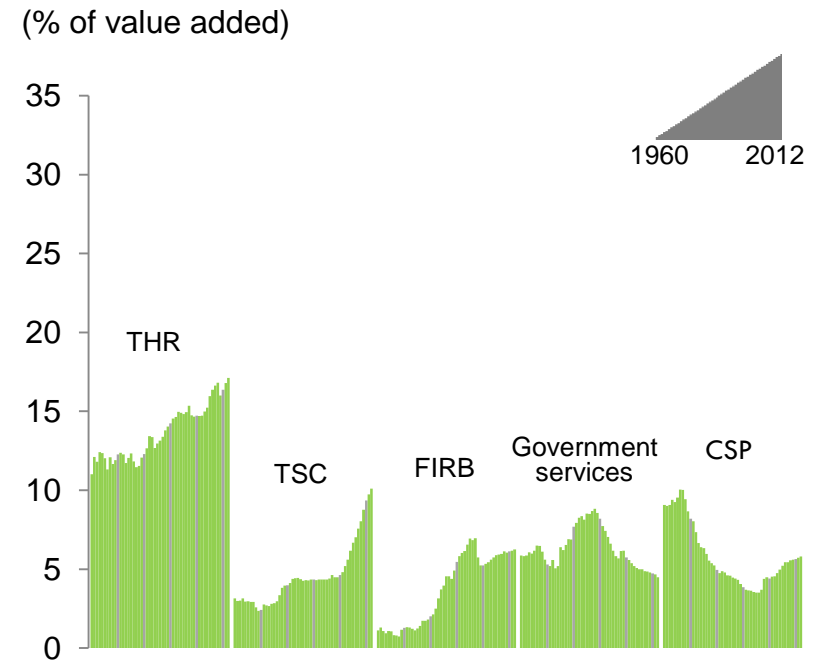
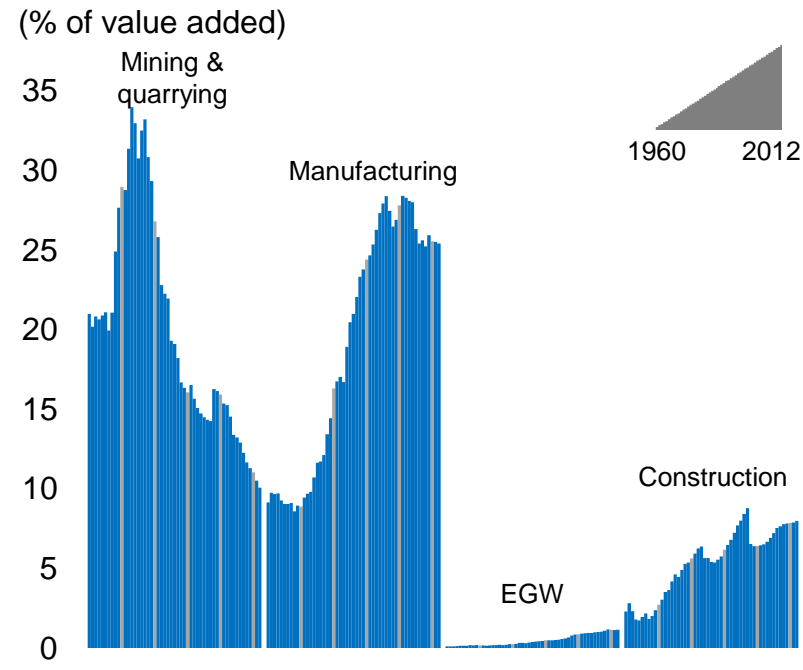
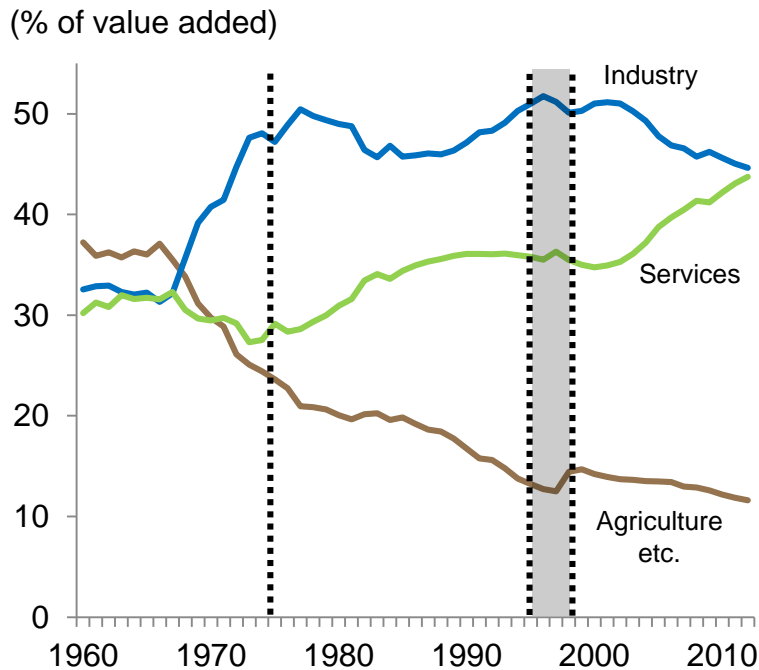
Source: Leigh, A., and P. Van der Eng (2009). 'Inequality in Indonesia: What Can We Learn from Top Incomes?'. *Journal of Public Economics*, 93(2009): 209–212.

(Expenditure Gini coefficients)



Source: Van Leeuwen, B., and P. Földvári (2016). 'The Development of Inequality and Poverty in Indonesia, 1932–2008'. *Bulletin of Indonesian Economic Studies*, 52(3): 379–402.

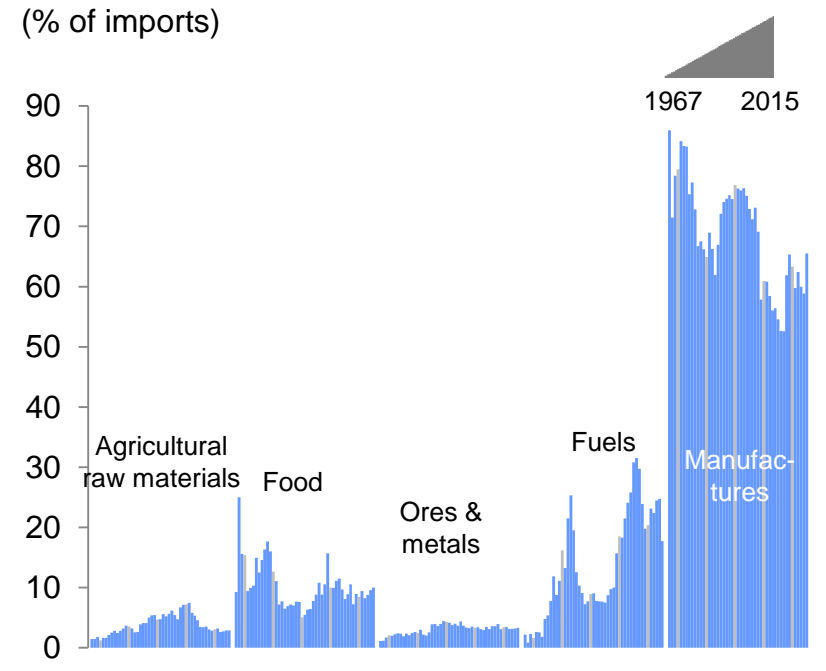
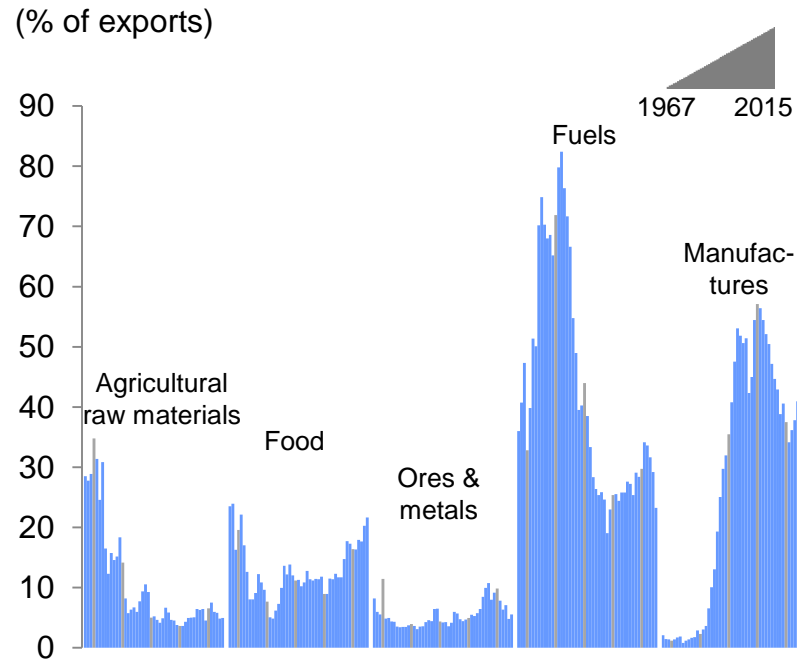
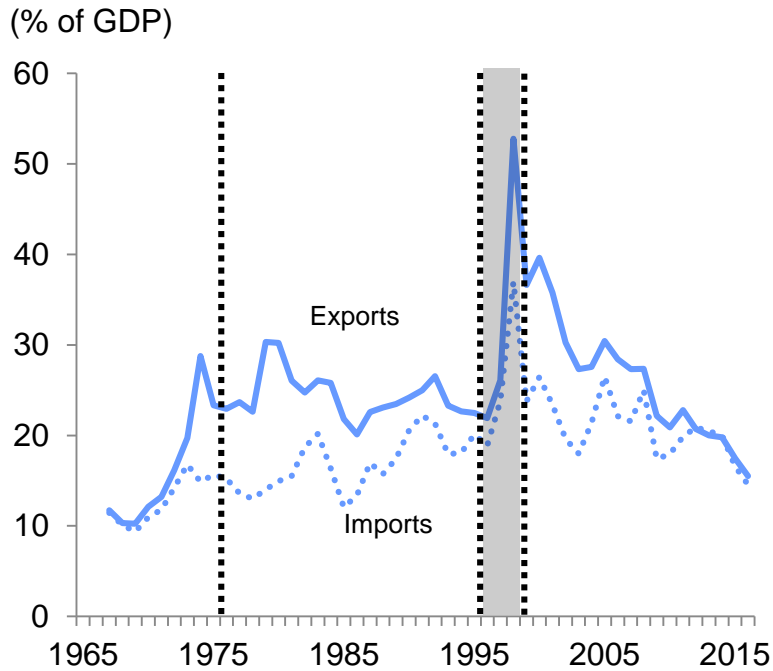
TRENDS IN ST (1/4): VALUE ADDED



Notes: (i) EGW = electricity, gas, water supply; THR = wholesale and retail trade, hotels, restaurants; TSC = transport, storage, communication; FIRB = finance, insurance, real estate, business services; CSP = community, social, personal services.

Source: Author's illustration based on GGDC 10-Sector Database.

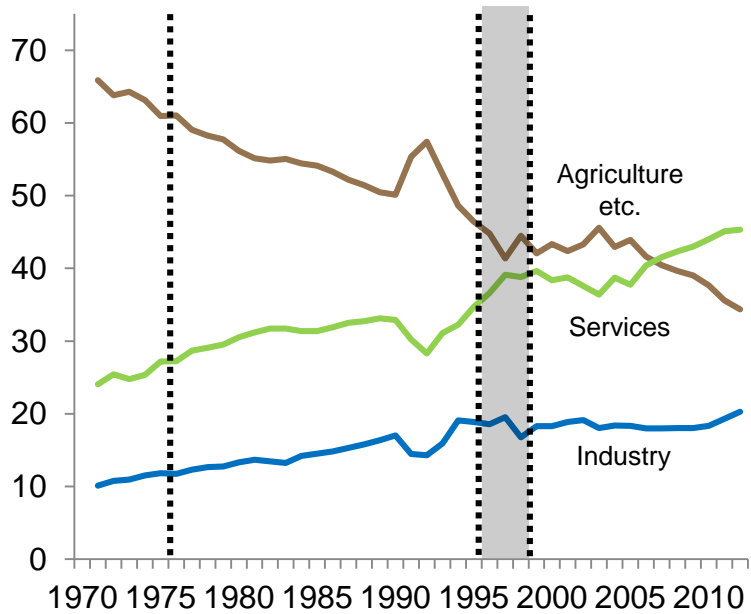
TRENDS IN ST (2/4): TRADE



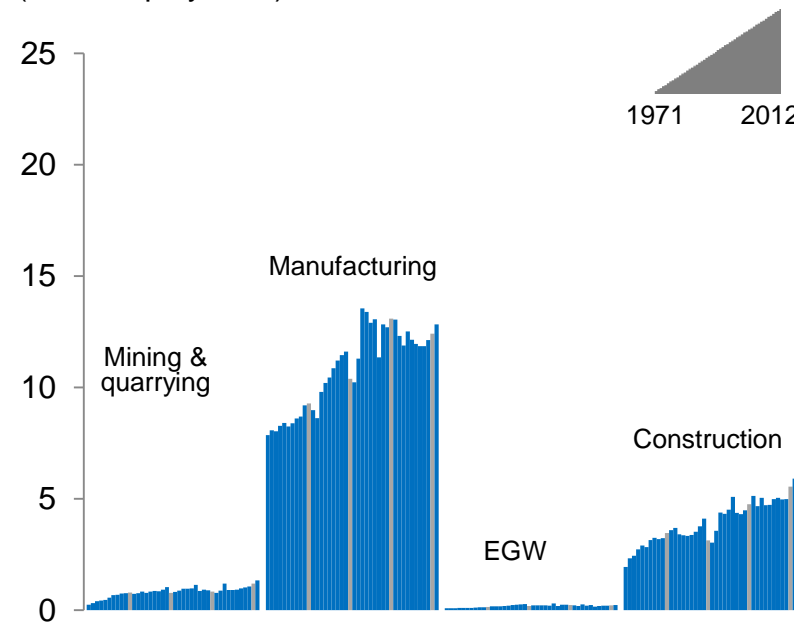
Source: Author's illustration based on World Bank World Development Indicators.

TRENDS IN ST (3/4): EMPLOYMENT

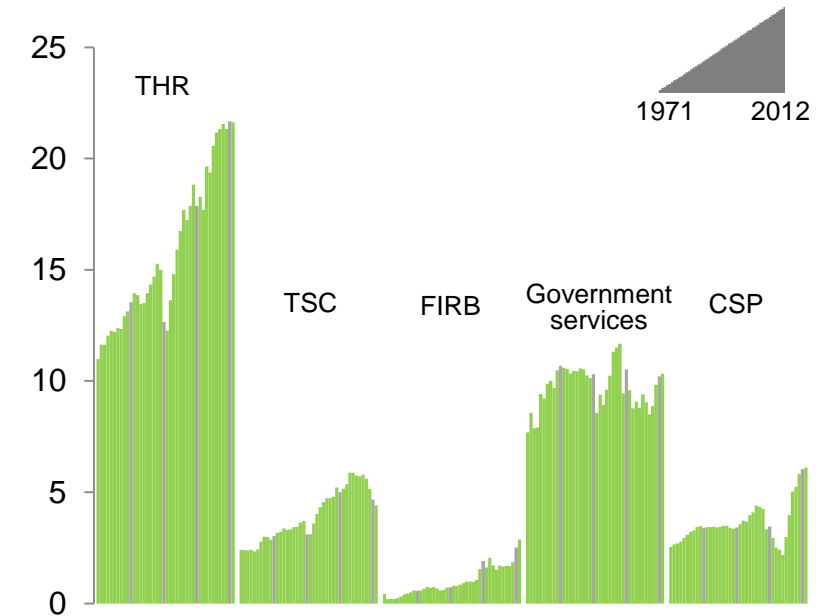
(% of employment)



(% of employment)



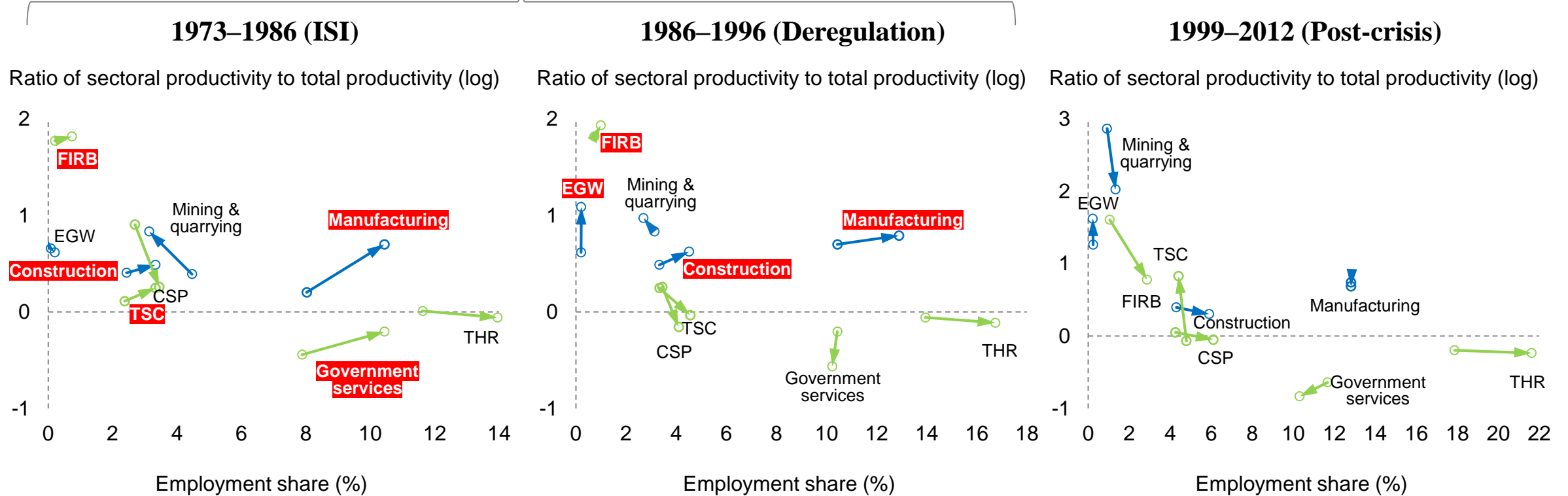
(% of employment)



Notes: (i) EGW = electricity, gas, water supply; THR = wholesale and retail trade, hotels, restaurants; TSC = transport, storage, communication; FIRB = finance, insurance, real estate, business services; CSP = community, social, personal services.

Source: Author's illustration based on GGDC 10-Sector Database.

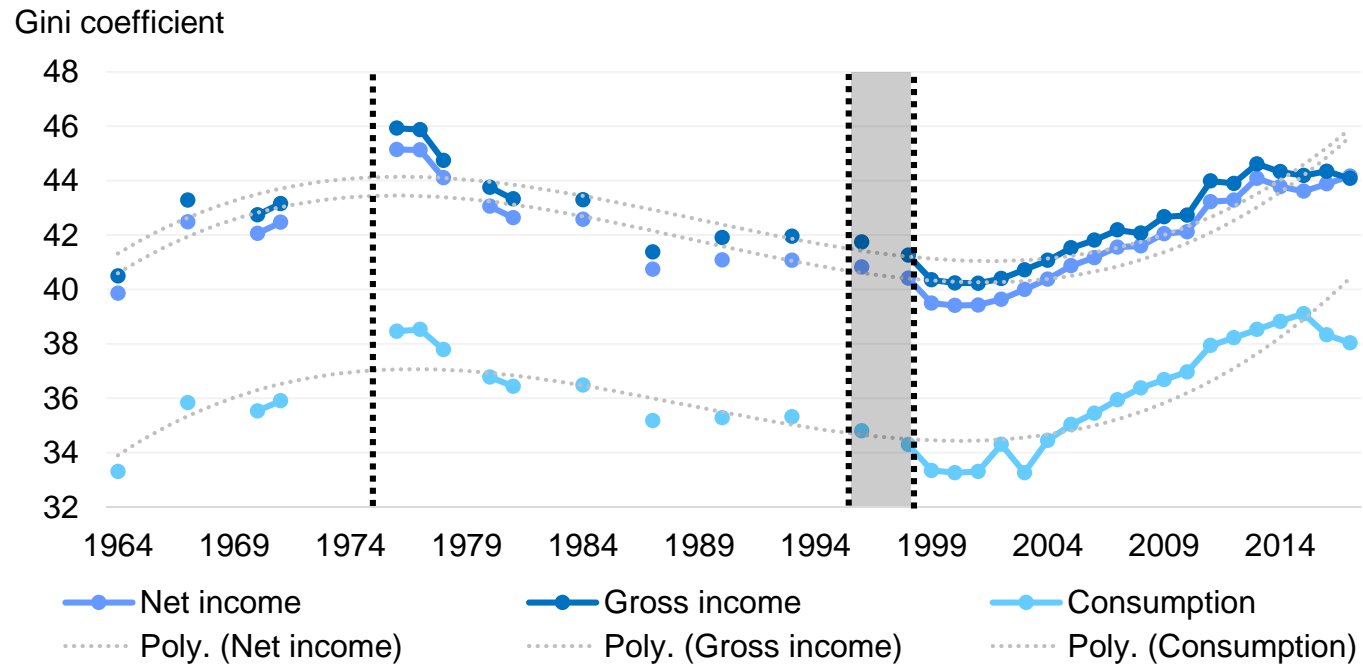
TRENDS IN ST (4/4): LABOUR PRODUCTIVITY



Notes: (i) EGW = electricity, gas, water supply; THR = wholesale and retail trade, hotels, restaurants; TSC = transport, storage, communication; FIRB = finance, insurance, real estate, business services; CSP = community, social, personal services. (ii) Sectors that experienced a simultaneous rise in employment share *and* relative productivity are **coloured red**.

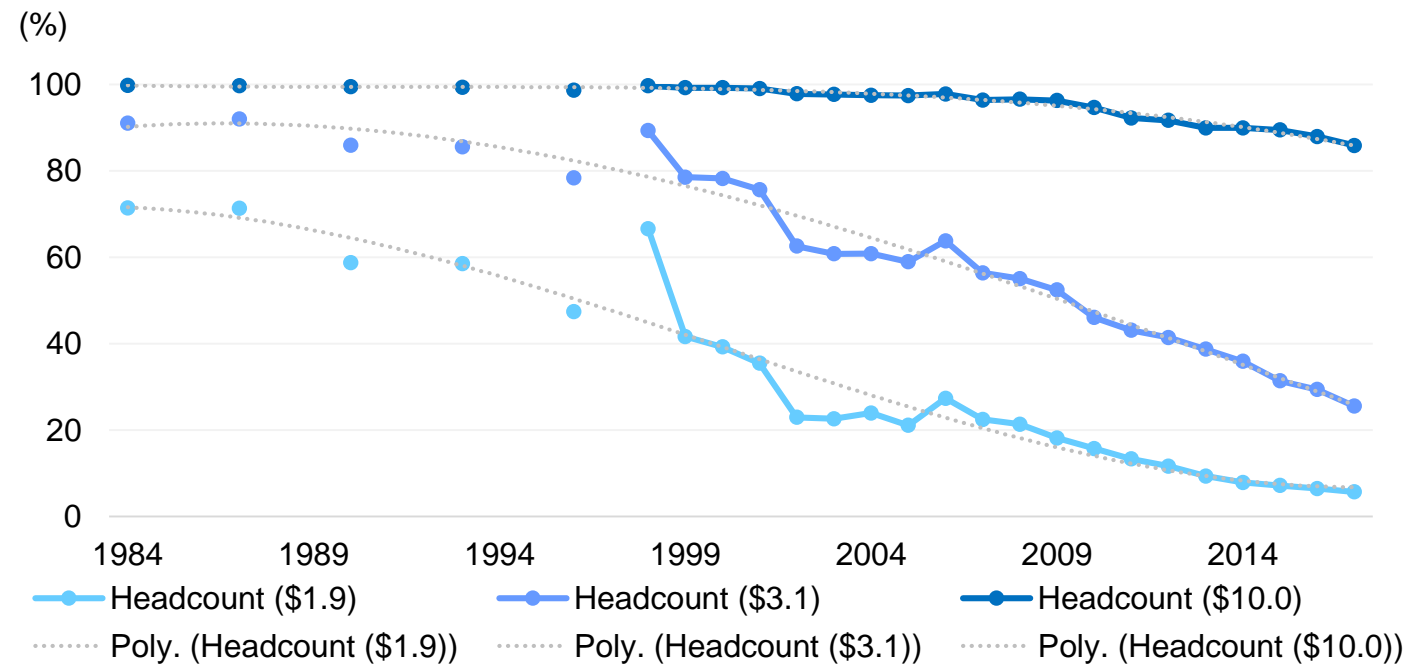
Source: Author's illustration based on GGDC 10-Sector Database.

TRENDS IN IG (1/4): INEQUALITY



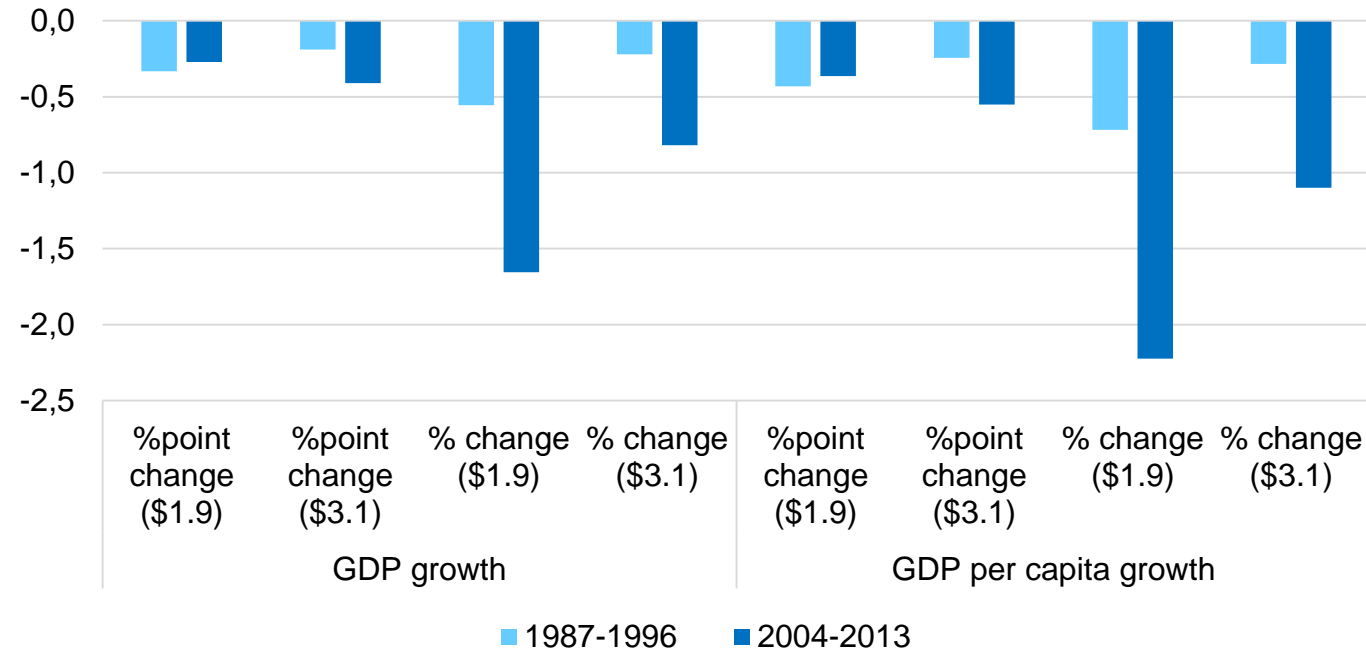
Source: Author's illustration based on UNU-WIDER WIID

TRENDS IN IG (2/4): POVERTY RATE



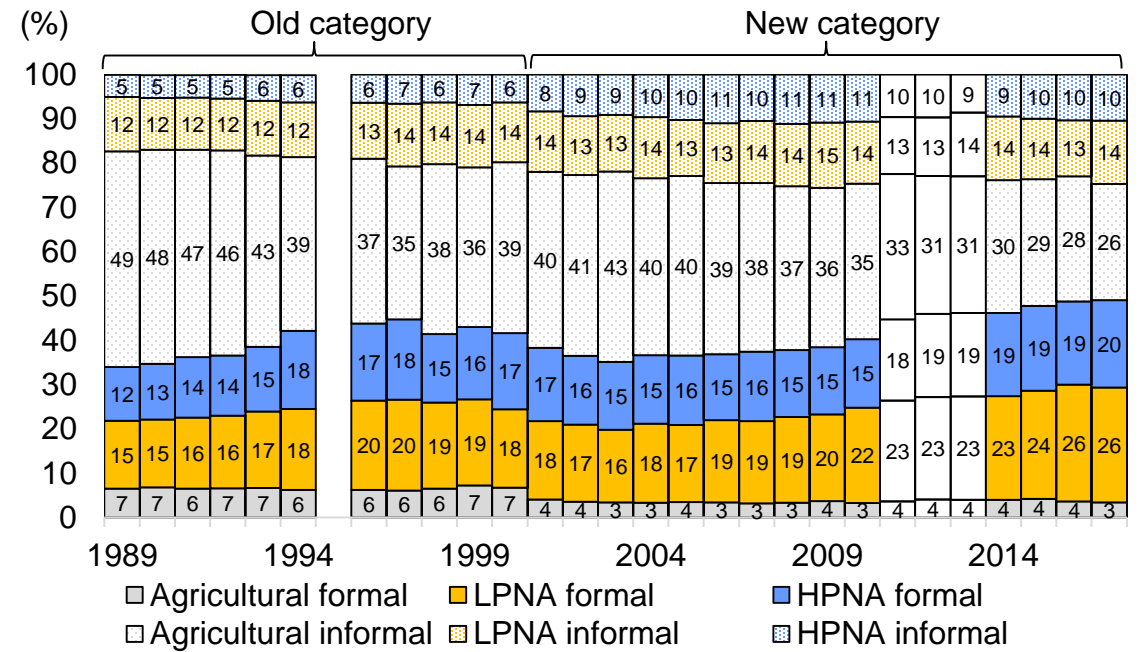
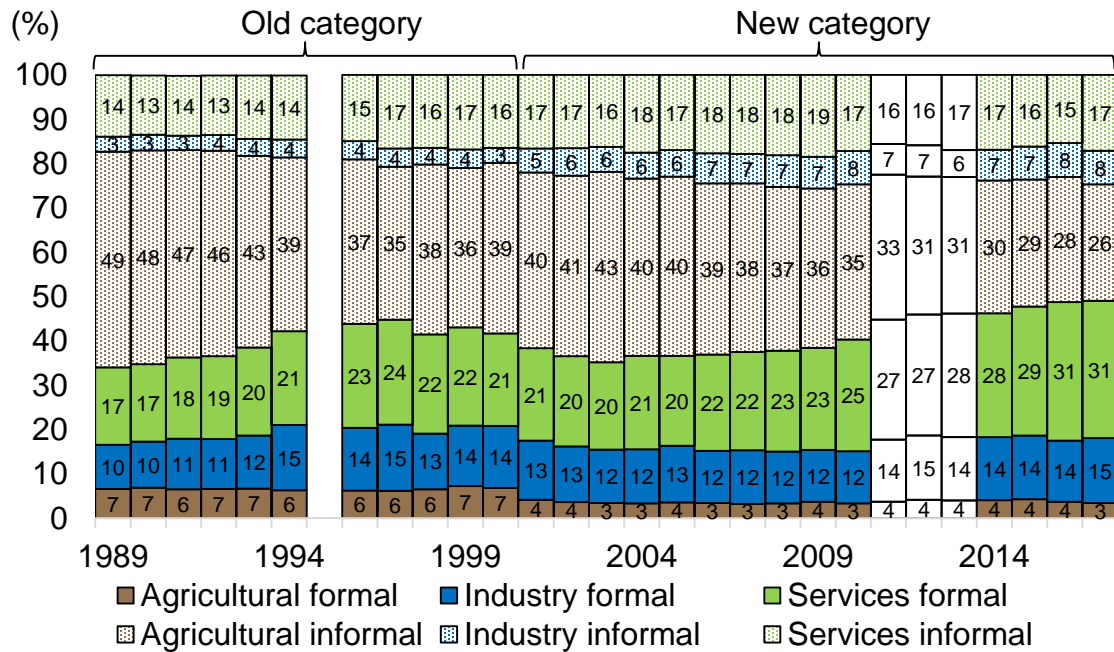
Source: Author's illustration based on World Bank, PovcalNet.

TRENDS IN IG ^(3/4): GROWTH ELASTICITIES OF POVERTY



Source: Author's illustration based on World Bank PovcalNet and World Bank World Development Indicators

TRENDS IN IG (4/4): FORMAL/INFORMAL EMPLOYMENT



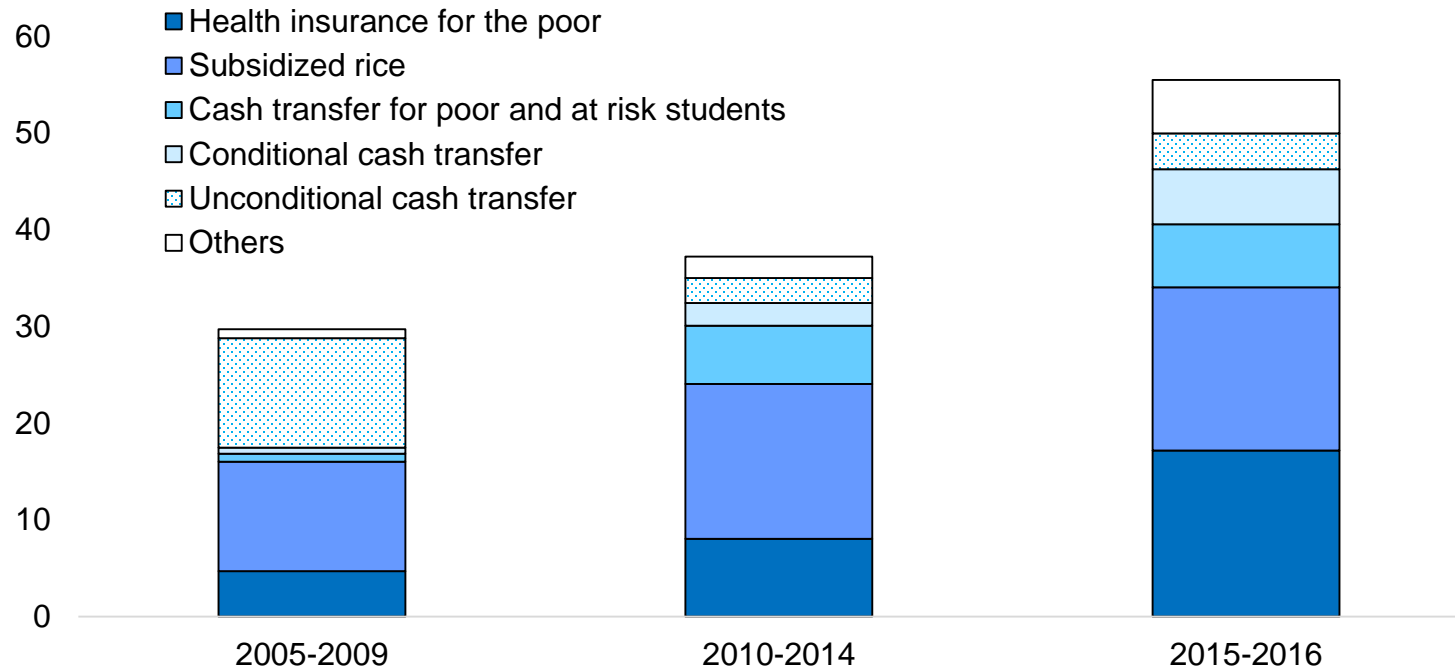
Notes: (i) Simplified definition of formal employment is used. Formal workers are defined as employers and employees in the agricultural sector and employers, employees, and self-employed with temporary workers in the non-agricultural sector. Informal workers are defined as family workers, self-employed, and self-employed with temporary workers in the agricultural sector and family workers and self-employed in the non-agricultural sector. From 2001, a new category of ‘casual workers’ was added in the survey and these workers in both agricultural and non-agricultural sectors are classified as informal workers. (ii) Data before and after 2001 are not directly comparable because surveys in these two periods use different categories. (iii) Data for 2011–2013 are backtracked data and data before and after this period are not directly comparable because of the changes in the survey methodology. (iv) There is no data for 1995. (v) Surveys were conducted bi-annually from 2005. August survey data are used for the period 2005–2017.

POLICIES ^(1/2): ST (2010s)

- Selective trade and investment protectionism
 - 2009 Mining law
 - 2014 Industry law
- Selective liberalisation
 - 16 sets of stimulus packages between September 2015 and November 2018
- State enterprise-led development projects
 - Infrastructure development
 - Nationalisation in mining
 - High-technology manufacturing

POLICIES (2/2): IG (2010s)

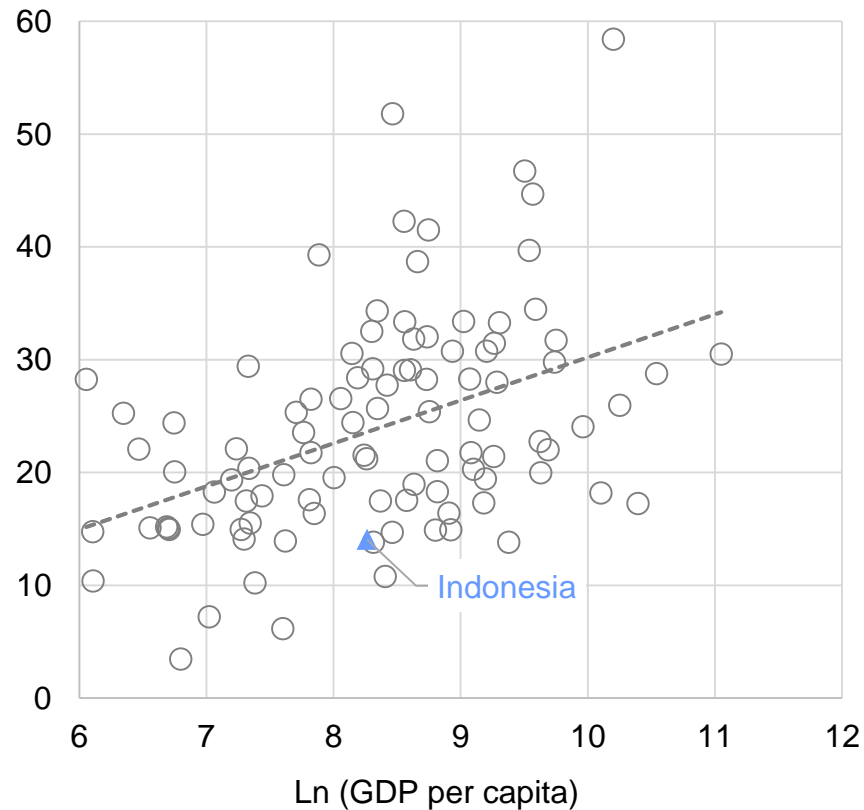
(Trillion rupiah, real, 2010 prices, annual average)



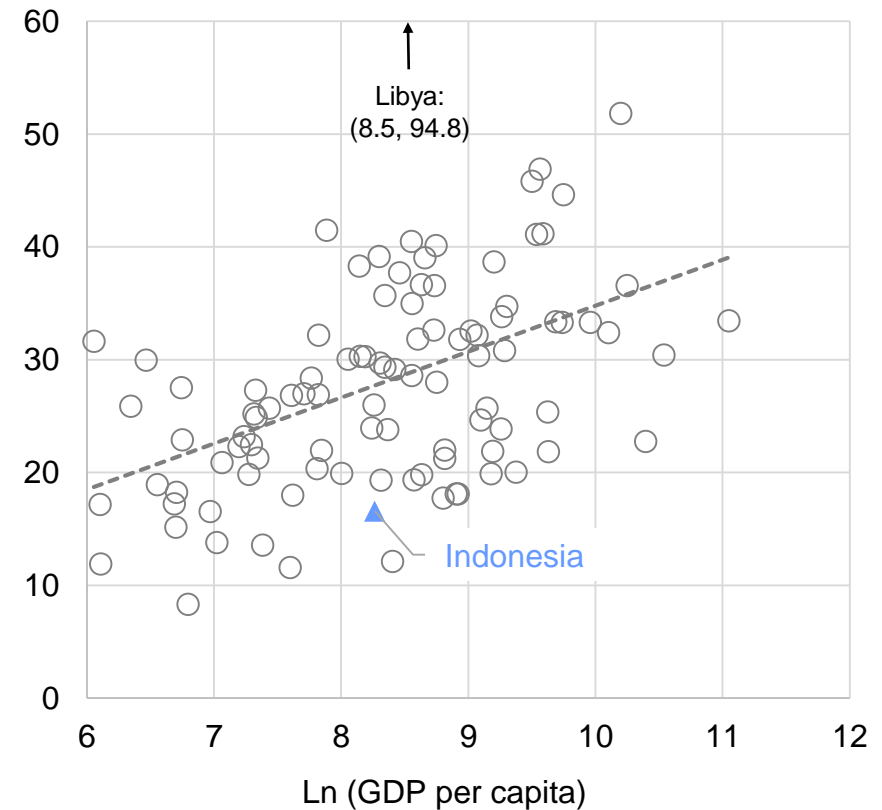
Source: World Bank (2017). *Indonesia Social Assistance Public Expenditure Review Update: Towards a Comprehensive, Integrated, and Effective Social Assistance System in Indonesia*. Washington DC: World Bank.

POLITICAL ECONOMY

Government revenue (% of GDP)



Government expenditure (% of GDP)

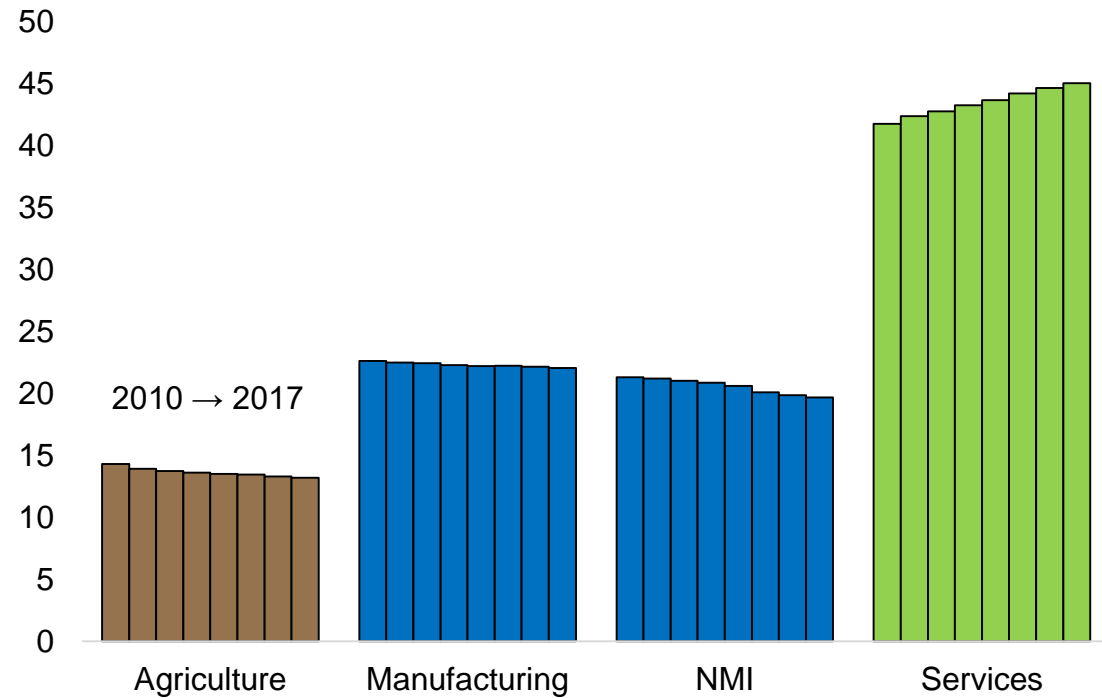


Note: 100 largest emerging and developing countries in terms of GDP in 2017

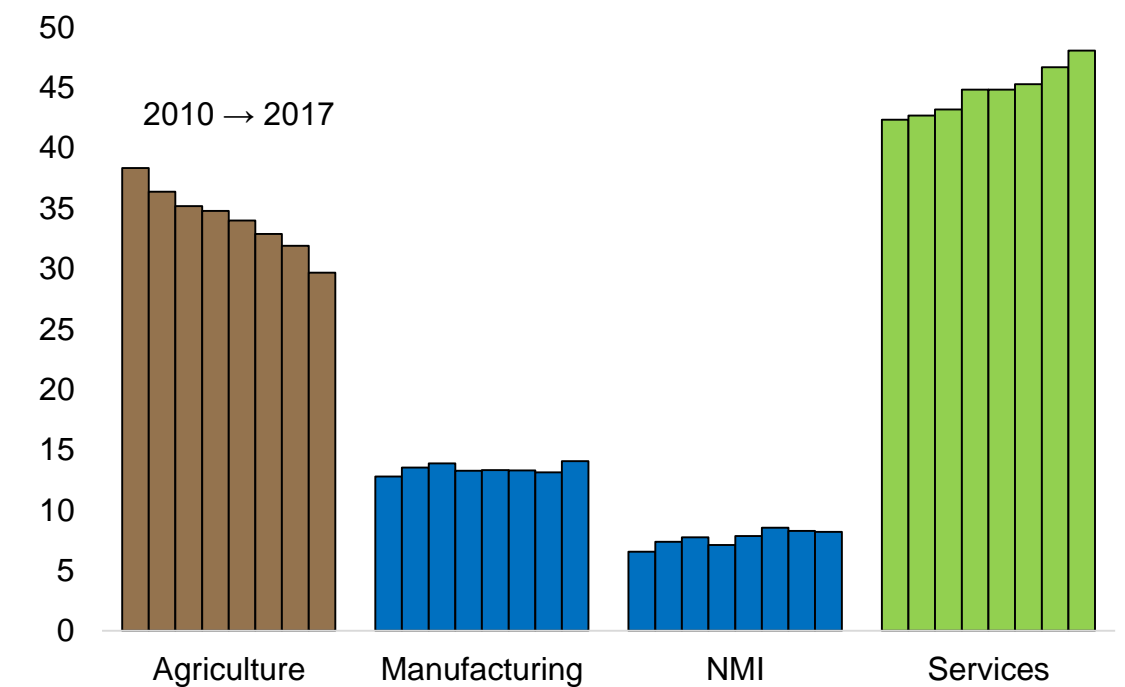
Source: Author's illustration based on IMF World Economic Outlook Database

RECENT ST TREND AND CONCLUSION

(% of value added)



(% of employment)



Source: Statistics Indonesia