

Indonesia: the path from "third world" to "first"

Volodymyr Golovchenko

Summary

The article spotlights peculiarities of the Indonesian modernization, its relevance for independent Ukraine, especially in circumstances of the Russian hybrid aggression. Special attention was paid to perspective vectors of Indonesia's economical and social development, democratization of the political system of state.

Keywords: democratization, infrastructure, modernization, region, state.

Following the 2016 Indonesia's economy, the most powerful in Southeast Asia, ranked 8th in the world in GDP calculated at purchasing power parity – US \$ 3.028, overtaking the UK and France [1]. Moreover, the year the increase was 4.9%, indicating a striking increase in consumer demand middle class, which is part of the most numerous Muslim countries of the world with a population of 258.3 million people., Consisting of nearly 300 ethnic groups (the fourth figure is the number of planet). The Indonesian archipelago – the world's largest – has, according to the National Coordinating Agency for topography and cartography 13 466 islands (of which only 922 are inhabited) with a total area of 1904.6 thousand sq. M. km [2].

Indonesia path from "third world" to "first", lessons of its modernization are instructive significance for an independent Ukraine. Unveiling the country's recent history should begin with elimination attempt radical left coup on the night of 30 September to 1 October 1965 by the army strategic reserve command led by General Suharto. The gradual removal from power "father of the nation" and life president – socialist and populist Sukarno was accompanied by a massive anticommunist terror that killed half a million people (even as many got to prisons and concentration camps) [3]. These tragic events have created conditions for rapid ("catch-up") for the modernization Japanese model. At the same time, elected March 12, 1967 Acting President Suharto said: "If we are not achieve economic success in ten years, families of dead communists can take up arms and take revenge." By a strange coincidence, less than six months, Indonesia plays a leading role in creating one of the most successful regional integration projects – Association of Southeast Asian Nations (ASEAN), which now marks the half-century anniversary.

Having inherited completely bankrupt economy, the new head of Indonesia invited governance supporters of market economy, so named "Berklists" – Indonesian economics graduate of the University of California, located in the suburb of San Francisco – Berkeley (named after the influential Irish philosopher and Anglican Bishop first half of the eighteenth century George Berkeley). They occupied key posts of ministers of economy, finance, industry, commerce and planning quickly and successfully liberalized the economy, introduced market mechanisms have begun to create a mixed sector revived cooperation.

Directly curator of "berklists" was the father of the current Sultan of Yogyakarta – active member of Indonesian National Revolution Hamenhkubuvono IX, who was appointed by Coordinating Minister for Economic Affairs, and in the 1973-1978 was the Vice-president of Indonesia. Merit for the national liberation revolution Hamenhkubuvono IX retained the

post of governor and descendants Yogyakarta Special District, and in 1990 was awarded posthumously the honorary title of National Hero of Indonesia. Hamengkubuwono IX successfully achieved the treaty of revision debt of the country and polite return of US aid, which was once Sukarno sent "to hell." Anti-Western Positioning changed inviting foreign investors to develop oil fields in Eastern Sumatra, farmers and rice growers in Central Java and Bali have new cereal varieties, pesticides, chemicals and technical assistance from the arsenal of the "green revolution".

Already in 1969 the inflation rate reached a definitive number, despite the fact that several years earlier, that is, "Indonesian socialism" inflation led to a 20-fold rise in prices of essential commodities. Over the next decade, income began to steadily increase, Indonesia has become the largest getter of oil in the Asia-Pacific region (APR), and soon for annual economic growth (8%) left behind a lot of the "third world" and close the second ten most developed countries of the planet. The slogan "new order" was "Development" [4].

Suharto's fundamental principles of "new order" was the weakening of party influence on politics and law the Armed Forces 'dual function' (army not only protects the country from external threats, but also shapes its internal policies). The new policy on foreign capital was built on the principle of "open economy", which meant that capital free access to most of the sectors of the national economy. Opening the green light to foreign capital, Indonesia hoped to solve their short- and long-term task to rebuild populist "managed democracy" Sukarno economy in a short time and ensure its intensive development by attracting foreign investment and advanced technologies and know-how.

A new model of socio-economic development of Indonesia was formed gradually, and it was characterized by almost simultaneous focus on import substitution and export. The possibility of such an impressive combination of predetermined scale state and diversity of its economy. In agriculture, large-scale diversification began only at the turn of 1980-90, to provide for most applications a combination of intensive and extensive methods of crop and livestock production. Over time, with the assistance of the US Agency for International Development (United States Agency for International Development, USAID) program implemented efficiency of farms, to diversify their production and agricultural trade liberalization. In accordance with it and conducted training farmers new methods of farming, infrastructure was created specific to direct products to the world market.

Despite the objective difficulties of implementing reforms, they brought visible positive results: three decades of Suharto's reign GDP per capita of Indonesia has increased four times, in some years, industrial growth reached 25% – an unprecedented achievement by today's times!

But after a long period of sole authoritarian of Suharto, the country was on the verge of financial bankruptcy, inflation exceeded 500% external debt was \$ 140 billion (4th place in the world after Brazil, Mexico and Argentina), from 6% to 40% increase in the number of people in poverty. Almost all profitable sectors of the economy in the hands of Suharto clan, whose assets totaled \$ 40 billion, i.e. half of the state budget. So news of the election of the General President for the seventh time in March 1998 caused widespread student and youth performances in almost all major cities. In addition, the Javanese were terribly unhappy preferences those who received individual businessmen from national diasporas. For

example, developers Jakarta Chinese origin (huaqiaos) for pennies bought housing in poor citizens and built luxurious shopping malls and luxury properties.

At the request of Parliament Suharto had evening May 21, 1998 to announce his resignation as president and transfer the power to Vice President Yusuf Habibie – Indonesian creator of the “economic miracle.” Indonesia has become the third largest democracy in population (after the Republic of India and the United States). The former president and his family were the targets of a number of lawsuits and deprivation of property, but we should recognize that the people of the late (Suharto died in early 2008) kept a good memory. Indonesians say they had two presidents, Sukarno, which created the nation, and Suharto, who held power through reforms to modernize and possible future prosperity.

“Third Wave” of democratization spread to Indonesia as one of the consequences of the financial crisis of 1997-1998. Drama and acquired forms. In October 1998 the People’s Consultative Congress president elected leader of the Islamist Party of Abdurrahman Wahid national awakening, and Vice-President Megawati Sukarnoputri – daughter of Sukarno and the head of the Democratic Party fight Indonesia (DPBI), which is the first free parliamentary elections won a relative majority. Radical center-left opposition eventually succeeded in electing the head of state of 23 July 2001 (Wahid at that time almost blind due to two heart attacks). Sukarnoputri has improved the international image of Indonesia when it agreed to recognize the independence of East Timor (was occupied by Indonesia in 1975-1999) and successfully became a mediator in the inter-Korean dialogue. However, growing economic difficulties (late 2003 Indonesia withdrew from the IMF program), and activation of fundamentalist terrorists DPBI led to the defeat in the parliamentary elections April 5, 2004. In the first-ever direct general and presidential election victory that year (60.9% votes) took the former Minister of state security Susilo Bambang Yudhoyono (re-elected for a second term July 8, 2009).

Political liberalization has occurred in terms of stabilizing the Indonesian economy: by tight financial policy of the government managed to reduce inflation from 70% in 1998 to 3.8% in 2016, but then there has been steady growth in annual GDP per capita (11.7 ths. dollars. USA in 2016), i.e. Indonesia this macroeconomic indicator overcame finally deemed “red line” of the IMF, which separates developing countries (“third world”), from developed countries (“first world”) and foreign reserves reached 106.4 billion dollars. United States (21 in the world).

Logically, an analyst at one of the largest investment companies “Goldman Sachs” – British financier George. O’Neill in 2005 Indonesia introduced as the newest industrial state with income above the average of the national economy, the list of 11 countries (The Next Eleven), whose national economies have the best chance to become the greatest in the near future locomotives international system of economic relations of the XXI century. [5]. Indonesia then there was a “Big Twenty” (G-20) – a group of finance ministers and heads of central banks of the largest economies in the world and the EU (from 2008 – Heads of State).

From the beginning of the “reform era” was revived a few private banks began to recover public banking sector, but the financial sector of the country long shunned new debt. Atrocities and cruelty in the Sector struggle and dissatisfaction unsuccessful attempts to pay

off debts and develop the banking system were serious obstacles to the implementation of government plans for economic growth. Basic industries were oil and gas, textile industry, sewing clothes and footwear, mining and cement industries, chemical fertilizers, rubber production, food processing and tourism. The main agro-industrial products were rice, cassava (manioc), peanuts, rubber, cocoa, coffee, palm oil, copra (dried coconut kernel), poultry, beef, pork and eggs.

Thus, the current model of economic modernization Indonesia is one of the options "mixed economy" in which the emphasis is on the use of market methods, but also the role of the state in national economic mechanism of the country is quite high. Mostly state participation in the economy through the formation of five-year plans long-term strategy of national development that specified on the five-year to five-year and from year to year. State promotes the implementation of this strategy and the specific provisions of five-year plans through an extensive system of indirect regulation, including budgetary, tax, licensing, customs and monetary and financial leverage. As for his own involvement in the economy, the state assumes mainly the development of water supply, transport, communications, power and other types of industrial infrastructure.

Providing with products and services of these sectors to the private sector at fixed prices, the government has the ability to effectively influence the level of production costs, and therefore also on the level of activity of private entrepreneurship. In fact, the same function in the business of the state and performs production of commodities such as fertilizers and cement (country among the ten leading producers in the world). Recently, Indonesia has established and successfully operate modern industries such as aerospace, electronics and chemical industries. The fact that the country has achieved this status through trade and major export quotas of finished products to Western countries, especially the US, rightly considered far more important than any foreign aid and investment.

Progress in the economic field, along with the democratization of the political system, have allowed Indonesia to move to the process of development. In place of the "Mafia of Berkeley," as the people were called reformers, the government began to come proponents of technological development. In 2004 the system was implemented "services under one roof", i.e. the execution of the contract to invest only in the department of coordination of investment in Jakarta. In the provinces and districts documentation for opening small businesses happen in just one day. These and other examples show that although Indonesia and could not pursue a policy of modernization in the national scale, but the progress of new forms of industrial enterprises (centers of rapid economic growth, export processing zones, industrial zones, industrial parks, etc.) contributed the development of capitalism and qualitatively changed the structure of the national economy.

Creation of export processing zones started in the first phase of the replacement of exports, and the second phase, according to a government plan envisaged establishment of 52 large state enterprises steel, aluminum, car assembling and other industries. But development in Indonesia v. BC. "Screwdriver technology" that is in the automotive assembly, held back due to lack of qualified personnel and the slow implementation of new technologies. Therefore, despite the high production costs, product quality did not meet the requirements of foreign automobile giants. And given the growing corruption, nepotism and uncontrolled spread of the use of public funds, Indonesia's economy grew high-cost and inefficient. In the 1991

plan that called for a gradual increase in local production of components for the automotive industry, was canceled. But in future infrastructure created zones and clusters continued to improve.

The new socio-economic strategy has three objectives:

- 1) to achieve high and sustainable growth based on intensive investment and expand exports;
- 2) encourage the development of the real sector to create new jobs;
- 3) support the modernization of rural areas.

However, taken into account the need to prepare the country to move to a new phase of economic organization, i.e. the knowledge economy, and this required a significant expansion and modernization of infrastructure. Focusing on its priority, Indonesia followed the example of Singapore, Malaysia, Thailand and China and has prepared a program improvement and modernization of the transport system of the future. The first part of the plan concerned the modernization of energy, telecommunications, transport (sea, air, land, pipeline), water supply and construction of expressways. But the formation of new strategies and models of socio-economic development is still at an early stage. Government paradigm focuses on the revitalization of the market mechanisms for strengthening planning and moderate state intervention to be tested soon. Indisputable is only that the Indonesian government's economic policy, aimed at simplifying the business rules for foreign investors and entrepreneurs and increase investment in infrastructure (primarily for the construction of 29-km bridge between Sumatra and old as [6]) and of convincing the money credit policy perspective.

In July 2014 the Indonesians came again to the polls to elect a successor Susilo Bambang Yudhoyono, known in the country under the acronym SBY. For the first time in history has the power to move from one nationwide and democratically elected president to another, so the choice was dramatic. Competed former carpenter's son from Surakarta in Central Java, which was first governor of his native city and the capital then represented DPBI not belong to the traditional political elite – Joko Widodo (commonly known by the nickname Jock), and one of the creators of the "new order" – in-law Suharto, a retired lieutenant general and former commander of special forces and strategic reserve of ground troops Prabowo Subianto. But although he also tried to reach the latent nostalgia electorate by dressing and acting like Suharto and resorting to promote his idea of a strong leader with steel fists won new wave of politicians – self-made Jock, and with him and representative democracy. Indonesia came close to the "first world."

## References

1. The World Factbook : Country Comparison : GDP [Электронный ресурс]. – Режим доступа : <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html#id>.
2. The World Factbook : East & Southeast Asia : Indonesia [Электронный ресурс]. – Режим доступа : <https://www.cia.gov/library/publications/the-world-factbook/geos/id.html>.

3. Hughes, John. The End of Sukarno: A Coup that Misfired: A Purge that Ran Wild / John Hughes. – Singapore: Editions Didier Millet, 2014. – P. 204.
4. Hannigan, Tim. A Brief History of Indonesia: Sultans, Spices, and Tsunamis: The Incredible Story of Southeast Asia's Largest Nation / Tim Hannigan. – Tokyo, Rutland, Vermont, Singapore, 2015. – P. 239-240.
5. Jim O'Neill, Dominic Wilson, Roopa Purushothaman and Anna Stupnytska. How Solid are the BRICs?. 01.12.2005 / Global Economic Paper No: 134 [Электронный ресурс]. – Режим доступа :[www.goldmansachs.com/our-thinking/archive/archive-pdfs/how-solid.pdf](http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/how-solid.pdf).
6. Pakhomova L.F. Indonesia: Choice of the Model of Social and Economic Development / Lyudmila Pakhomova // Southeast Asia: Topical Problems of Development. – 2010. – Т. 14. – P. 142.