

## RSIS DISTINGUISHED PUBLIC LECTURE NOTES

### RSIS Distinguished Public Lecture on “Indonesia Beyond the 2009 Elections: Prospects and Challenges”

Speaker: HE Professor Dr. Boediono  
Vice President designate, Republic of Indonesia

Date: Tuesday, 28 July 2009  
Venue: Shangri-La Hotel, Singapore

#### **Introduction**

In this lecture, made during his first overseas trip following the results of the 2009 Indonesian Presidential election, Dr. Boediono described the measures taken by the central government in Jakarta to mitigate the impact of the global financial crisis, the lessons learned, and provided an overview of the incoming administration’s policy priorities. These consisted of the strengthening of Indonesia’s physical, institutional, and social infrastructure base. He described Singapore as a friend that shared both joy and pain with Indonesia. Ambassador Barry Desker described Boediono’s performance in the Q&A session as careful but insightful.

#### **Speech**

**Tribute to David Hartanto Widjaja.** Boediono preceded his lecture by paying tribute to David Hartanto Widjaja, an Indonesian student at NTU whose death in March 2009 has since received much publicity in Indonesia.

**Recent events in Indonesia.** One of the most complex electoral processes in the world had been concluded in a relatively peaceful and orderly fashion, signifying a step towards consolidating democratic rule for a country that would seek to achieve equitable prosperity for all citizens and establish its role as a member of the international community. In the aftermath of the recent hotel bombings, Boediono reiterated that Indonesia was founded on the concept of pluralism. The government would seek to combat terrorism through the provision of prosperity and welfare to the population.

**The Financial Crisis.** Key message: crisis is not over, but light is beginning to appear at the end of the tunnel. Crises are defining moments for governments and citizens. The mechanics of crises and crisis responses, lessons learned, including current turbulence in the financial markets and accompanying re-pricing of risk, have implications for both developed and developing economies. The current crisis was caused by over-consumption and under-saving in the US and other developed economies. The global trade imbalance of the past decade led to massive reserve accumulation among manufacturing exporters and commodity producers, and massive debt accumulation in the US and other developed countries. Everyone in the global economy was part of the bubble, and then the bubble burst. The emerging economies were hit hard in particular by an indiscriminate re-pricing of risk.

**Indonesia's economy.** Indonesia's economic growth in 2008 was affected by decelerating exports and a shortage of liquidity, despite demonstrating at 6.1% the third highest growth rate in Asia. The key factor in maintaining economic activity has been domestic demand. The lesson of 1998 was that even moderate instability and disruption in the financial sector could come at a high cost, and that the cost of response to such a situation was far higher than the cost of prevention- the maintenance of market confidence.

**Indonesia's immediate response to the current crisis: mitigation.** An interdepartmental crisis response task force, the maintenance of liquidity, and a deposit guarantee scheme formed the basis of Indonesia's response to the current world crisis. The strengthening of bank capital, countercyclical policy (consisting of tax cuts, government spending, and ensuring availability of funds), mitigating the impact on the poor formed the basis of the government's domestic response. Internationally, swap lines had been established between Bank Indonesia and other central banks in the region.

**Economic priorities of the incoming administration.** The government in Jakarta expected Indonesia to achieve a GDP growth rate of 4% in 2009. Year-on-year inflation stood at 3.65% in June, the lowest ever recorded for Indonesia, while the Rupiah remained stable. Boediono stated that crises are the best source of lessons in economics, and that this was especially so in the case of Indonesia. These lessons were:

- a) Financial sector development could act as a catalyst for economic growth, but caution was required. This process had to be accompanied by adequate supervision which kept pace with market developments. A balance between the financial and real sectors had to be maintained. Boediono referred to the case of Iceland as an example of how a collapse of the financial sector could lead to a total economic meltdown.
- b) Economic development in general had to take place within some sort of national framework. While integration into global supply chains had to be part of the national development strategy, there had to be some structure present to maintain a balance between the domestic and international forms of economic integration. The internal aspects of a robust structure consisted of:
  1. Physical infrastructure to integrate the national economy. These were a high priority in order to ensure that Indonesia possessed the physical basis for domestic integration.
  2. Soft infrastructure to enable growth, forming the institutional basis for domestic trade.
  3. Strengthening of social infrastructure, to maintain social cohesion.

These 3 infrastructure pillars were to ensure economic resilience. Indonesia required government intervention in the economy. A clean government was needed. Bureaucratic reform was also a priority.

**Indonesia-Singapore Relations: the sharing of both joy and pain.** These were said to be stable and solid. The leaders of the 2 countries knew each other well, and met bilaterally several times a year. There was also strong contact on a people-to-people level. Singapore had stood alongside Indonesia during natural disasters. Indonesia shared Singapore's pain (the financial crisis) and her hopes (for recovery). Like with all neighbours, these relations were not free of differences. A defence agreement and extradition treaty were still not concluded, and had been set aside. However the spirit for cooperation remained. Indonesia's national interest dictated the need for good relations with Singapore.

## Q&A Session

1. Question: Looking forward 5 years, give us a glimpse of the Indonesia you hope to see.

Boediono: In campaign themes, we project better economic conditions. 7% annual GDP growth to absorb the unemployed and new jobseekers. From the current 8.1%, a drop to unemployment in the region of 5-6% by 2014. Inflation at close to the regional norm of 3-4%. A strengthened financial sector and the eradication of poverty from an incidence rate of 15% down to 8%. A more integrated system of social security. In politics, a more established democratic society, for which the experience of elections to date has been hopeful. This can be achieved with hard work. Democracy must deliver goods to the people, or legitimacy will be weakened. In international relations, Indonesia will return to its old role in ASEAN and globally, taking the lead as an anchor of political stability and demonstrating more initiative to ensure peace and security.

2. Question: Indonesia is dependent on natural resource revenue. Will Indonesia seek to establish a sustainable economy, based on self sustaining sources of revenue, as Norway has done and some Middle Eastern countries are attempting?

Boediono: Policy on natural resources will not differ from that of other resource-abundant countries. Resources will be managed to maximise the benefit of the people. Exports of sea sand will be stopped for environmental reasons.

3. Question: What are the priorities for the administration's first 100 days?

Boediono: Emphasis on the 3 forms of infrastructure, physical, soft and social. Some subsidies, such as cheap rice and credit for SMEs will be provided.

4. Question: Will privatisation of SOEs continue? On Aceh: will the amendment of Law No. 11/2006 be supported?

Boediono: The option of privatisation is still open. The goal is to achieve efficiency and not just asset sales for support to the budget in the short term. Aceh: no specific comments, the peace process will continue.

5. Question: Will Indonesian foreign policy be focused on ASEAN? What about an Asian G8?

Boediono: ASEAN is always the first priority. This is for the Foreign Ministry's sphere, not me.

6. Question: What concrete steps will the government take to combat the crisis?

Boediono: Monetary and fiscal measures, central bank swaps. Key goal is the preservation of confidence. Liquidity squeeze was critical, but worst is now over.

7. Question: How will Indonesia/SE Asia face the rise of India and China?

Boediono: ASEAN should stick together. Indonesia must be more active.

8. Describe your personal impressions and experience of the elections. How much of it was halus politics, versus real/tough politics?

Boediono: I was struck by the honesty and sincerity of people in their expressions, their hopes and aspirations. I don't know the difference between soft and hard politics. You can always resolve things through an honest, human approach.

9. What are the low-lying fruits in Singapore-Indonesia relations?

Boediono: Infrastructure development.

10. Question: Will Islam come into the forefront of Indonesian politics?

Boediono: Islam is important for the majority of Indonesians and it will play a role.

Recorded by: William Kucera, Research Analyst, Indonesia Programme, RSIS

Vetted by:

### **About the Speaker**

H.E. Professor Dr. Boediono is a Professor of Economics at Gadjah Mada University. He was one of the principal architects of Indonesia's post-Suharto era economy and was a Bank Indonesia deputy governor in charge of fiscal monetary policy (1997-1998) and served as State Minister of National Planning and Development from 1998 to October 1999. He is currently Indonesia's Vice President designate having successfully contested Indonesia's recent presidential election with incumbent President Susilo Bambang Yudhoyono.