



# INDONESIA PROJECT NEWS

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## Highlights

### Second Annual Sadli Lecture



HE Dr Mari Pangestu  
(Minister of Trade, Indonesia)

The second annual Sadli lecture was held in cooperation with the Institute of Economic and Social Research at the University of Indonesia on April 22, 2008 and was attended by approximately 120 people. The address was delivered by Bert Hofman, World Bank Representative in the Philippines (former Chief Economist in Jakarta and Beijing), on the topic of 'Asian Development Strategies: China and Indonesia Compared'. While focusing on the carefully planned strategy that has contributed to the Chinese miracle, Hofman paid tribute to the vision and boldness of the Indonesian technocrats, amongst them Sadli, in engineering reform. The Minister of Trade, HE Dr Mari Pangestu, former Minister Professor Subroto and Professor Jamie Mackie paid tribute to Pak Sadli who passed away in January 2008. Dr Thee Kian Wie provided some spirited comments and there was robust discussion of the paper which was also published in the Bulletin of Indonesian Economic Studies in August 2007.



*Bert Hofman (World Bank Philippines Country Director), Dr M Chatib Basri (LPEM, University of Indonesia), and Dr Thee Kian Wie (LIPI, Jakarta)*

## Launch of the Special Issue of BIES on Rice Policy

The Indonesia Project launched a Special Issue of the Bulletin of Indonesian Economic Studies, focusing on Rice Policy in Indonesia, on Thursday 24 April, 2008 (Dr Neil McCulloch and Professor Peter Timmer guest editors). The event was held in collaboration with the Center for Strategic and International Studies in Jakarta. The main addresses were by Neil McCulloch (Asia Foundation), Pantjar Simatupang (Agricultural Expert), Bayu Krisnamurthi (Coordinating Ministry) and Arianto Patunru (LPEM-FEUI). There was lively debate among the speakers and the audience of some 100 people on rice policy at a time when, unexpectedly, domestic rice prices were much lower than world prices.

## Defence Minister Juwono Sudarsono visits ANU

The Indonesian Defence Minister, Professor Juwono Sudarsono, visited the ANU on March 27, and made an informal public presentation, which also attracted considerable press attention. Professor Juwono discussed the challenges for Indonesian defence and strategic policy in the new era of democracy and decentralisation. He stressed the importance of 'regularising' the military budget, as an essential component of TNI accountability, and of increasing the professionalism and training of the armed forces. He also commented on broader regional security issues, including the rise of China and India, ASEAN, and Australia's role.

The presentation was followed by an active round of Q&A, and then refreshments, including the opportunity for the Indonesian graduate student population on campus to meet him.



Professor Juwono Sudarsono  
(Minister of Defence, Indonesia)

## Indonesia Project Blog

The ANU Indonesia Project News and Commentary blog is now up and running and is moderated by Ross McLeod. The objective is to encourage discussion of the Indonesian economy and the economic policies and events that influence its performance. It does so by publishing short essays relating to recent developments or inviting comments on new ideas on Indonesian economics. Most essays will be contributed by Indonesia Project staff and their colleagues in Indonesia and around the world. However any reader is invited to propose an essay for publication or comment on published essays. The blog will also be used as a means of providing brief information about the Indonesia Project and its activities. For more information, please refer to the site: <http://rspas.anu.edu.au/blogs/indonesiaproject/>. If you have any suggestions or queries, please contact [Ross.Mcleod@anu.edu.au](mailto:Ross.Mcleod@anu.edu.au)

## Core Activities

### Bulletin of Indonesian Economic Studies

April 2008

#### *Survey of Recent Developments*

In their new 'Survey of Recent Developments', **Tao Kong and Arief Ramayandi** report continued solid economic progress through 2007. Consumer spending was buoyant and investment spending accelerated noticeably in the second half of 2007, especially on machinery and equipment. The 2008 budget was based on a very low world oil price assumption. The authors noted that energy subsidies will be enormous in the light of rapidly rising oil prices, and expenditure will be diverted from high priority areas, unless the government raises domestic fuel prices. Macroeconomic conditions were affected by a less stable international environment. While stock market performance was strong in 2007, the stability of the rupiah contrasted with appreciation of other currencies against the dollar in the second half of 2007. This was attributed to the central bank's large-scale accumulation of foreign exchange reserves. Higher than expected inflation reflected rapid increases in world food and energy prices and signaled the imminent possibility of a tightening of monetary policy. Predictions of a global economic slow-down also increased the possibility of slower than predicted growth in 2008.

The authors noted that political developments were not entirely favourable for better economic performance. Findings of the Business Competition Supervisory Commission on the rapidly growing mobile telephone industry are likely to be harmful to consumers, and cast further doubts on the investment climate. Other cases involved the process of selection by parliament of new members of the Anti-Corruption Commission, which aroused considerable concern, and a bribery case brought by the Anti-Corruption Commission against the Governor of Bank Indonesia.

### *A Special Issue on Rice*

The bulk of the April issue is devoted to a set of papers focusing on rice policy in Indonesia, brought together by guest editors **Neil McCulloch and Peter Timmer**, and could hardly have been more timely. Rice policy is in a state of considerable uncertainty because of the government's policy of banning imports of rice in 2005–2006. Neil McCulloch demonstrates that banning imports would benefit relatively better-off farmers by raising rice prices domestically while hurting many poor rice consumers.

**Pantjar Simatupang and Peter Timmer** look at the record of rice production in Indonesia over the last half-century drawing attention to the rapid growth in the late 1970s and early 1980s that led briefly to self-sufficiency, but emphasising that this was made possible only by heavy subsidisation during a period when the government was flush with oil revenue. **Peter Rosner and Neil McCulloch** focus on the official sources of data on rice production and consumption in Indonesia, pointing out that these are inconsistent, and therefore cannot provide a reliable basis for decisions about the appropriate level of imports.

Turning to international experience, **Paul Dorosh** discusses food price stabilisation and food security in four other countries, providing useful lessons for Indonesia. **David Dawe** looks into the global market for rice, asking whether Indonesia can rely on this market to supply the modest, but probably increasing, gap between domestic consumption and production in the future.

Finally, **George Fane and Peter Warr** address the issue of the political economy in agricultural protection policy in Indonesia to help explain high rice prices in the past.

This issue of the BIES also includes an obituary to the late Professor Mohammad Sadli contributed by Hal Hill and Thee Kian Wie. Sadli was one of Indonesia's leading intellectuals, who spent periods as an

academic, a cabinet minister and a business adviser. He is also remembered as an extraordinarily prolific commentator on economics and politics, and a much loved teacher. His achievements are honoured through the annual series of Sadli lectures promoted by the Indonesia Project in cooperation with the Institute of Economic and Social Research (LPEM) at the University of Indonesia (see Highlights above).

The book review section deals with studies of Indonesia's experience with foreign investment in satellite communications and electricity generation; how economic policies could be modified so as to help the poor more effectively; Indonesia's experience with the way environmental law influences the development process; the ongoing democratisation of the Indonesian polity; energy issues in the Southeast Asian region; and finally, recent experience with the regulation and deregulation of labour markets in Asia.

### **Indonesia Study Group**

Indonesia Study Group meetings in the first half of 2008 focused on politics and related terrorism and human rights issues, economics and governance and Islam. (Several are available to a wider audience through the audio pod cast recordings saved on the Project website at <http://rspas.anu.edu.au/economics/ip/seminars.php>). Ingo Wandelt talked on military reform and Ken Ward on terrorism, the latter with regard to the Bali II bombings in 2005. Nicholas Herriman (Anthropology, ANU) gave an interesting account of the mysterious killings of alleged sorcerers in East Java in 1998.

There were two presentations on recent developments in the economy, the first for the April issue of the BIES by Tao Kong and Arief Ramayandi and the second for the August issue by Ross McLeod (see summaries in the section on the BIES above). Both focused on the macro implications of rising world food and fuel prices, and the cost of the subsidised fuel price to the government, even after prices were increased in May 2008. Both surveys also dealt with issues of governance, Kong and Ramayandi on the politics of corruption and McLeod on reforms to the civil service.

Other presentations on economics and governance issues dealt with a fascinating insider's account of the Manulife scandal that rocked the business community over several years by Piers Gillespie (Crawford School, ANU), and Indonesia's considerable challenge in attempting to promote skilled labour 'exports' as a source of foreign exchange (presenters Chris Manning and Mat Cronin, PDP Australia).

On Islam, **Greg Fealy** brought us up to date on developments with the Prosperous Justice party (PKS) which has consolidated and become more mainstream since its sudden rise as a political force in the 2004 elections. **Moh. Nawab** (ANU and Rajaratnan School of International Studies, Singapore) gave a very informative talk on the international and Indonesian activities, and development, of Hizbut Tahir. Finally, we were treated to an excellent presentation on the scope and implications of bird flu by **Pat Boland** (the Australian Quarantine and Inspection Service) and to an update on the activities of the Ford Foundation in Indonesia by **Meiwita Budiharsana** (Representative, the Ford Foundation, Jakarta).

## Other Activities

Staff of the Project continued to be involved in a variety of research and related activities over the period January to June 2008. Budy Resosudarmo has been engaged in research on environmental issues and CGE modeling, in cooperation with Bappenas and other researchers in Indonesia. Frank Jotzo has been working on the Garnaut report on climate change and is also undertaking a study on local government policies for climate change with a grant awarded by Australia Indonesia Governance Research Partnership in December 2007 (co-researchers are Kurnya Roesad and Efa Yonnedi). Peter McCawley is cooperating with the Crawford School in designing a program of high level training for senior officials from the Coordinating Ministry of Economic Affairs. Hal Hill has participated in a mission to Indonesia and the Philippines organised by AusAID's Office of Development Effectiveness. Sherry Tao Kong, Chris Manning and Budy Resosudarmo have all been busy with fieldwork for the China-Indonesia Rural Urban Migration Study (in Makassar, Medan, Samarinda

and Tangerang), and Chris Manning has done some work for the Ministry of Trade on the export of labour services.

We were delighted that two of our former students, Haryo Aswicahyono and Donny Narjoko returned to Canberra to present papers at the Fourth Australasian Development Economics Workshop (ADEW IV) 5–6 June 2008, organised by The Arndt-Corden Division of Economics. Other papers on Indonesia included: a presentation on TFP growth by Pierre van der Eng; by Daniel Suryadarma on corruption, public spending and education outcomes; on fiscal decentralization and violence by Syed Mansoob Murshed and Zulfan Tadjoeiddin; and on migration and risk by Elisabetta Magnani and Anu Rammohan.

## Upcoming Events

*Islamic Life and Politics*, the 2007 Indonesia Update book edited by Greg Fealy and Sally White will be launched at the Center for Strategic and International Studies (CSIS) in August.

The 26th annual Indonesia Update conference will be held at ANU on Friday and Saturday, 19–20 September 2008. This year's topic is *Indonesia Beyond the Water's Edge: Managing an Archipelagic State*. Speakers include Hasjim Djalal, Djoko Sumaryono, Rili Djohani, Gerry van Klinken, Howard Dick, John Butcher, James Fox, Michele Ford, Lenore Lyons, Vincent Ashcroft and David Ray.

The conference is free of charge and registration will be available on the following website around the end of June: <http://rspas.anu.edu.au/economics/ip/IU08/>. If you are not on the Indonesia Project mailing list and you would like to receive an email when registration is available, please email [trish.vanderhoek@anu.edu.au](mailto:trish.vanderhoek@anu.edu.au)



Budy, Sherry and the field survey team in Samarinda

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If you are not already on the *Indonesia Project News* mailing list and would like to receive notice of future issues, please send an email with 'Newsletter' in the subject line to [trish.vanderhoek@anu.edu.au](mailto:trish.vanderhoek@anu.edu.au).

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