

# **The Rising of Indonesia**

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## **INTRODUCTION**

The economy of Indonesia has expanded very rapidly in the past decade. In 1998, impacted by the **Asian Financial Crisis**, the real GDP of Indonesia fell 13%, inflation ascended more than 70%, and Indonesia Rupiah (IDR), the local currency, depreciated 35%<sup>[1]</sup>. Indonesia's government overcame several macroeconomic challenges by fundamentally reforming the policy framework, resulting in a strong position in the global economy today.

## **ECONOMIC CHALLENGES EIGHT YEARS AGO**

In December 2005, during the beginning of Indonesia's economic boom, the International Monetary Fund (IMF) observed the following challenges faced by Bank Indonesia<sup>[1]</sup>: inflation, high unemployment rate, high poverty rate, and increase of interest rate.

The Indonesian government addressed these difficulties by reforming their policy framework<sup>[2]</sup>. Such a reform left Indonesia in a strong position when the global economy turned sour after the **Global Financial Crisis**:

- **Inflation:** As predicted by the IMF, the Inflation rate did rise from around 8% to 18% in late 2005, but it soon decreased to 5% within several months [Figure 1]. The inflation rose again in late 2008, but quickly lowered and has been maintained between 3% to 5% since. Between 2002-2011, inflation has declined sharply over the medium term<sup>[2]</sup>. In April 2013, the inflation slowed to 5.57% and the core inflation was only 4.12%<sup>[3]</sup>. For

2013, The Bank Indonesia targets inflation between 3.5 to 5.5 %<sup>[4]</sup>.

- **Unemployment Rate:** The rapid economic growth improved the unemployment rate significantly [Figure 2]; as it steadily declined from 11% to around 6%. Bloomberg forecasts the unemployment rate will be 5.9% for 2013<sup>[5]</sup>.
- **Poverty Rate:** The Poverty rate decreased from more than 25% during the **Asian Financial Crisis**, to 12.5% in 2010<sup>[6]</sup> [Figure 3].
- **Increase of Interest Rate:** As shown in [Figure 4], the interest rate in Indonesia once rose to more than 12% in 2006, lowered to about 8% in 2008, and has been below 6.5% since 2009. The most recent Indonesian interest rate is at 6%<sup>[7]</sup>.

### POLICY REFORM

These challenges were successfully addressed by the Indonesian government and now its fruit have been clearly shown in strong growth of GDP. Public debt has fallen to under 25 percent of GDP in 2012 from around 76 percent in 2001<sup>[1]</sup>. According to the IMF, Indonesia came out of the **Global Financial Crisis** and the initial stages of the **Euro-area problems** by a strong policy framework reform that took the following major macroeconomic policy initiatives: legally consecrated fiscal discipline, employed flexible exchange policy, and adopted inflation targeting.

With this policy reform, the Indonesian economy has outperformed many countries, and their GDP growth rate has been consistently greater than 6% for several quarters [Figure 5]. Although Indonesia's economic growth was slightly impacted by the **Global Financial Crisis**, the contraction effect was much less severe compared to other countries. The last crisis only briefly lowered the GDP growth rate from a 6% range down to a 4% range [Figure 6].

Meanwhile, other neighboring countries in the south Asia region suffered in great GDP contraction. The domestic demand of Indonesia currently accounts for more than half of its GDP. In 2010, **domestic consumption** accounted for 56.7% of its GDP. **Investment expenditure** accounted for 32.2%. **Government spending** accounted for 9.1%, and **net export** was 1.6%<sup>[6]</sup>. The International Labour Organization (ILO) considered **reinforcing domestic demand** as the major strategy the Indonesian government employed in order to reduce a significant amount of negative impact during the **Global Financial Crisis**<sup>[8]</sup>. This strategy has allowed Indonesia to outgrow its neighboring countries during the crisis. The **domestic consumption** grew by 14.5% in the first three months of 2009 and 9.7% in the second quarter of 2009. In the recent year, both **Exports** [Figure 7] and **Imports** [Figure 8] have grown rapidly at a similar rate, therefore resulting in a fast growth of both with a flat **trade balance** [Figure 9]. In 2010, **Exports** rose 35% from 116.5 billion USD in 2009 to 158 billion USD; **Import** rose 40% from 96.83 billion USD in 2009 to 136 billion USD.

In the first quarter of 2013, Indonesia's GDP increased 6.02% from the first quarter of 2012. Consumption rose 5.17% and investment increased 5.9% from the first quarter 2012. Meanwhile, government spending only grew 0.42%. The GDP rose 1.41% from the fourth quarter of 2012<sup>[9]</sup>. Currently, the Indonesian government has targeted the 2013 growth rate at the range of 6.2%<sup>[10]</sup>. The World Bank projects the growth in 2014 will be 6.5%<sup>[11]</sup>.

### THE GROWTH COMPARED TO OTHER COUNTRIES

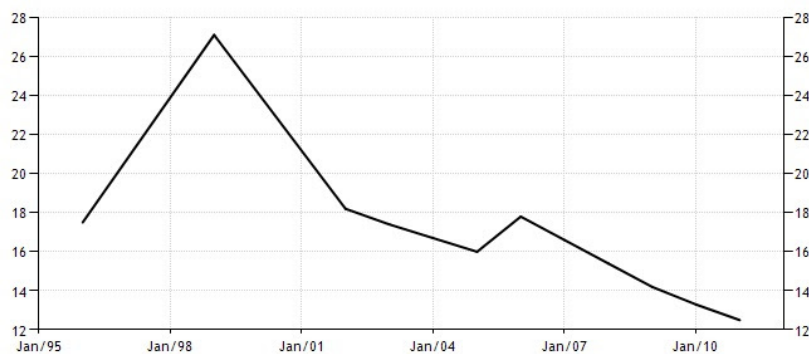
With great economic growth, Indonesia's nominal GDP surpassed **Sweden**, **Belgium**, and **Switzerland** in 2009. In 2011, it flew past **Turkey** and **The Netherlands** as well [Figure 10]! Indonesia, with 847 billion USD GDP in 2012, ranked as the the sixteenth strongest economic

region in the world [Table 1]. Indonesia's annual GDP growth rate has been consistently more than 6% in the last several quarters and is now the second fastest growing economy among those that have more than 250 billions USD in GDP. The only exception is **China**, which has an annual GDP growth rate of 7.7%. Although **Nigeria, the Philippine, Kuwait, Qatar, and Iraq** all have a slightly higher growth rate than Indonesia, their economy sizes are insignificant compared to that of Indonesia [Table 2]. Indonesia now has much larger GDP and a faster, more consistent GDP growth rate than any other country in the **ASEAN Six Majors**<sup>[12]</sup> (Indonesia, Thailand, Malaysia, Singapore, the Philippines, and Vietnam) [Figure 11]. The steady growth in the last eight years has made Indonesia's economy now only about 17% below **South Korea**. If both countries maintain their current GDP growth rate, Indonesia will exceed South Korea and become the fifteenth strongest economic entity (based on nominal GDP) by 2015. A Goldman Sachs research report suggested that Indonesia will become the fourteenth largest economy in 2025 and the seventh largest economy by 2050<sup>[13]</sup>.

## CONCLUSION

The future economy of Indonesia is bright. Their rapid growth in the past decade has shown us that a government, with careful policy reform, can overcome the murky darkness and raise their economy to new heights. Although lowering the high poverty rate and fighting inflation will continue to be a constant battle for Indonesia's economy, the success during the **Global Financial Crisis** has already prescribed medicine to heal the economy. Indonesia will play a much more important role in the global economy in the near future.

**Figure 1: Indonesia Inflation Rate****Figure 2: Indonesia Unemployment Rate****Figure 3: Indonesia Poverty Rate**



**Figure 4: Indonesia Interest Rate**



**Figure 5: Indonesia normal GDP**



**Figure 6: Indonesia GDP Annual Growth Rate**



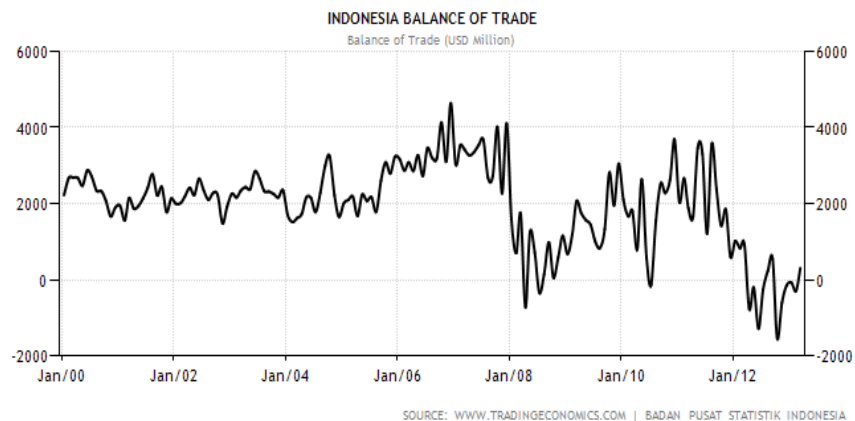
**Figure 7: Indonesia Exports**



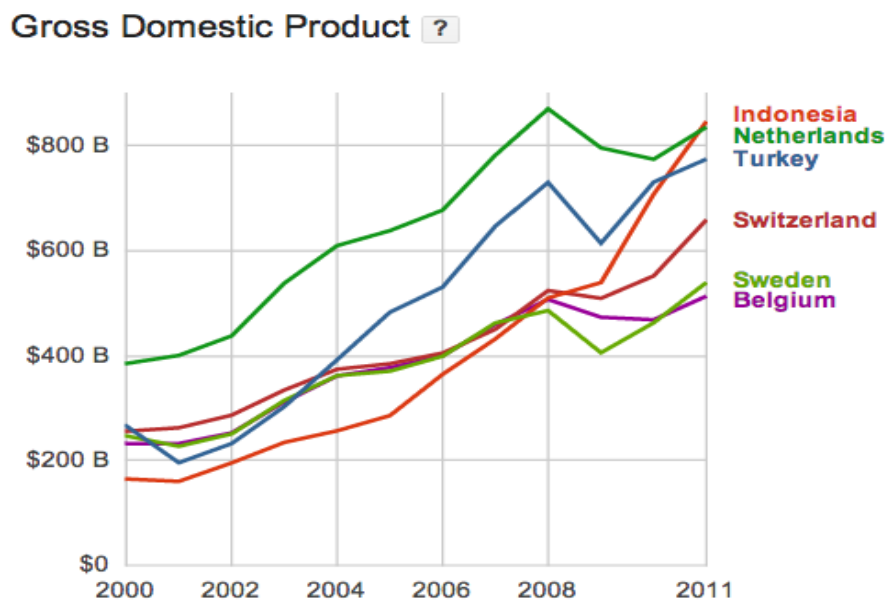
**Figure 8: Indonesia Imports**



**Figure 9: Indonesia Balance of Trade**



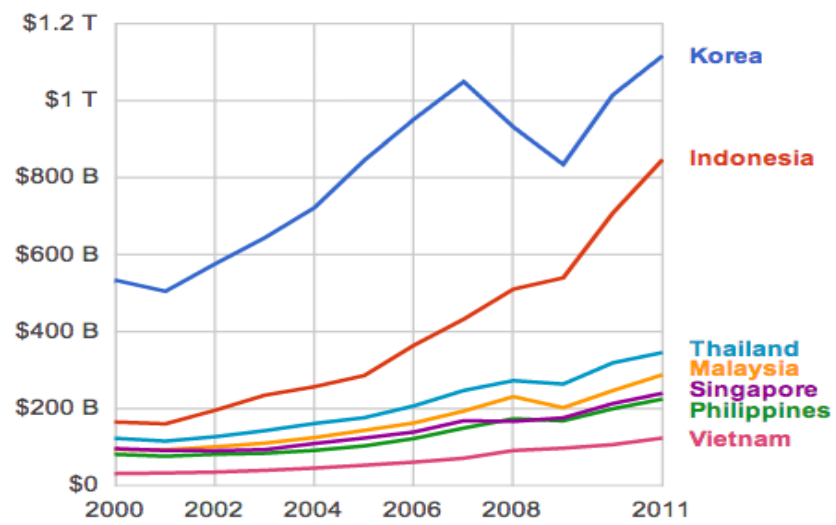
**Figure 10: Indonesia GDP surpassed several countries between 2009 and 2011.**



**Figure 11: Indonesia GDP compared to South Korea and ASEAN Six Majors.**



## Gross Domestic Product ?



**Table 1: Economy of top countries of the world- ranked by 2012 GDP**

COUNTRY	GDP BILLION USD	GDP YOY	GDP QOQ	INTEREST RATE	INFLATION RATE	JOBLESS RATE	GOV. BUDGET	DEBT TO GDP	CURRENT ACCOUNT	EXCHANGE RATE	POPULATION
UNITED STATES	15094	1.80%	2.40%	0.25%	1.10%	7.60%	-8.50%	101.60%	-3.00	119.89	315.09
EURO AREA	13076	-1.10%	-0.20%	0.50%	1.40%	12.20%	-3.70%	90.60%	1.50	1.33	332.99
CHINA	7298	7.70%	1.60%	6.00%	2.10%	4.10%	-1.50%	23.00%	2.30	6.14	1354.04
JAPAN	5867	0.40%	1.00%	0.00%	-0.70%	4.10%	-9.70%	211.70%	2.00	94.17	127.52
GERMANY	3571	-1.40%	0.10%	0.50%	1.54%	5.40%	0.20%	81.90%	6.30	1.33	81.73
FRANCE	2773	-0.40%	-0.20%	0.50%	0.80%	10.80%	-4.80%	90.20%	-1.90	1.33	65.44
BRAZIL	2477	1.90%	0.60%	8.00%	6.50%	5.80%	2.38%	65.10%	-2.40	2.14	193.94
UNITED KINGDOM	2432	0.60%	0.30%	0.50%	2.40%	7.80%	-6.30%	90.70%	-3.70	1.57	62.64
ITALY	2194	-2.40%	-0.60%	0.50%	1.13%	12.00%	-3.00%	127.00%	-0.70	1.33	60.77
RUSSIA	1858	1.60%	1.80%	8.25%	7.40%	5.60%	-0.02%	8.40%	4.80	31.81	143.35
INDIA	1848	4.80%	1.30%	7.25%	4.70%	3.80%	-4.90%	67.57%	-5.10	57.54	1241.49
CANADA	1736	1.40%	0.60%	1.00%	0.40%	7.10%	-1.50%	84.60%	-3.70	1.02	35.06
SPAIN	1491	-2.00%	-0.50%	0.50%	1.72%	27.20%	-10.60%	84.20%	-1.90	1.33	46.23
AUSTRALIA	1372	2.50%	0.60%	2.75%	2.50%	5.50%	-3.00%	20.70%	-4.60	0.96	22.79
MEXICO	1155	0.80%	0.45%	4.00%	4.63%	5.04%	-0.60%	42.85%	-0.82	12.71	116.90
SOUTH KOREA	1014	1.50%	0.80%	2.50%	1.00%	3.20%	-1.10%	34.80%	3.80	1127.50	50.00
INDONESIA	847	6.02%	1.41%	6.00%	5.47%	5.92%	-1.77%	23.10%	-2.70	9875.00	245.90
NETHERLANDS	836	-1.70%	-0.10%	0.50%	2.77%	8.20%	-4.10%	71.20%	8.30	1.33	16.69
TURKEY	773	3.00%	1.60%	4.50%	6.51%	9.20%	-2.80%	36.00%	-6.10	1.85	75.62
SWITZERLAND	636	1.10%	0.60%	0.00%	-0.50%	3.00%	0.30%	35.30%	11.00	0.92	7.91
SAUDI ARABIA	577	4.37%	4.37%	2.00%	3.80%	5.80%	14.20%	3.60%	24.50	3.75	29.55
SWEDEN	538	1.70%	0.60%	1.00%	-0.20%	8.70%	-0.50%	38.20%	7.20	6.44	9.45
POLAND	515	0.50%	0.10%	2.75%	0.50%	13.50%	-3.90%	55.60%	-3.60	3.18	38.53
BELGIUM	512	-0.60%	0.00%	0.50%	1.18%	8.40%	-3.90%	99.60%	1.50	1.33	11.08
NORWAY	486	-2.70%	-0.20%	1.50%	2.00%	3.70%	13.60%	28.30%	13.40	5.71	4.95
TAIWAN	467	1.67%	-0.69%	1.88%	0.74%	4.19%	-1.60%	42.40%	8.40	29.89	23.31
ARGENTINA	446	2.10%	1.30%	11.38%	10.30%	7.90%	-3.20%	43.20%	0.27	5.33	41.28
AUSTRIA	418	-0.70%	0.00%	0.50%	2.30%	6.70%	-2.50%	73.40%	1.80	1.33	8.42
SOUTH AFRICA	408	1.90%	0.90%	5.00%	5.90%	25.20%	-5.10%	39.90%	-6.30	9.97	52.20
UNITED ARAB EMIRATES	360	4.40%	4.40%	1.00%	0.90%	4.20%	2.90%	14.60%	8.20	3.67	4.57
THAILAND	346	5.30%	-2.20%	2.50%	2.27%	0.69%	-4.10%	44.30%	0.70	30.57	69.51
DENMARK	333	-0.80%	0.20%	0.20%	0.60%	4.50%	-4.00%	45.80%	4.80	5.59	5.57
COLOMBIA	332	3.10%	1.80%	3.25%	2.00%	10.17%	0.20%	32.30%	-3.10	1894.00	47.10
IRAN	331	0.36%		15.00%	40.84%	11.20%	-0.17%	10.30%	4.90	12278.50	74.80
VENEZUELA	316	0.70%	1.19%	15.63%	35.24%	7.90%	-8.50%	49.00%	7.10	6.29	29.72
GREECE	299	-5.60%	0.20%	0.50%	-0.40%	26.80%	-10.00%	156.90%	-7.70	1.33	11.31
MALAYSIA	279	4.10%	-4.90%	3.00%	1.70%	3.30%	-4.50%	53.10%	7.90	3.12	28.86

**Table 2: GDP Growth Rate and 2012 nominal GDP for countries have more than 110 billion USD and GDP growth rate higher than Indonesia**

<b>Country</b>	<b>GDP Growth Rate (2012)</b>	<b>nominal GDP (2012)</b>
China	7.70%	7298 billion USD
Indonesia	6.02%	847 billion USD
Nigeria	6.60%	244 billion USD
the Philippines	7.80%	255 billion USD
Kuwait	6.10%	177 billion USD
Qatar	6.60%	177 billion USD
Iraq	10.20%	115 billion USD

#### **Sources of Figures and Tables**

- Figure 1-9 & Table 1, 2: Trading Economics <http://www.tradingeconomics.com/>
- Figure 10, 11: Google Public Data Explorer <http://www.google.com/publicdata/>

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