

Contractive, yet prudent

Assuming politicians tend to focus too much on the short run, especially in view of the legislative and presidential election next year, we expected the 2014 draft budget would include larger appropriations for the distribution of “political goodies” or fiscally unsustainable populist programs.

Encouraging though, the budget plan next year is consistent with the 2010-2014 medium-term budget framework. Though nominally the spending plan will increase by more than 5 percent to Rp 1,816 trillion (US\$175 billion), in real terms — adjusted for the estimated 8 percent inflation throughout this year — the budget will instead be contractive.

However, with such a conservative posture, the budget plan for 2014 — the last year of the medium-term development plan — will make the market comfortable, being assured that no major changes would likely be needed midway through the next fiscal year.

We don't see the 6 percent proposed for personnel pay raise as having anything to do with the upcoming elections. Likewise, the social assistance component in the budget is consistently part of the on going poverty-alleviation programs.

Indeed, under the circumstances of slowing growth due to the weakening global economy, high inflationary pressures and declining appetite of foreign direct and portfolio investors in Indonesia, the government does not have a broad fiscal space for pump-priming.

An expansive budget will raise greater concern over our external balances, increasing downward pressures on the rupiah and consequently raising the costs of imports and strengthening inflationary pressures.

In fact, sovereign risks will likely decline as the budget plans to reduce the ratio of government debts to gross domestic product (GDP) to only about 22-23 percent and fiscal deficit to only 1.49 percent of GDP from an estimated 2.4 percent.

Understandably several analysts may still attack the budget plan as a boring document, short of bold and creative programs, as the President's budget speech came out largely as an annual fiscal ritual, reiterating the vital importance of spending priorities in infrastructure, education, energy and agricultural sectors.

But boring is different from bad. Investing in education will make workers more productive. Investing in infrastructure will make transportation and communication more efficient, improving connectivity within the country and with the outside world.

If we want to talk about medium and long-term growth, we have to talk about policies that are familiar.

If we are really serious about economic performance in the long-run, we need to abandon the quest for short-term fixes and radical solutions. The mass media may hunger for novelty and drama. But when it comes to the economy amid the global uncertainty and the mounting political noise next year, stability and security seem to be the safest route for the time being.

The unfavorable external factors make it most imperative and urgent for the government to gear up its budget plan for coping with a worsening economy even in Asia as well.

As a state budget serves as a communication system, conveying signals about government behavior, prices, priorities and commitments, the 2014 spending plan may look unimaginative. Yet it is prudent, assuring the market there unlikely be any painful surprises in the fiscal management next year.

Independent, poverty-less nation

When we commemorate the 68th anniversary of Indonesian independence, let us be honest in assessing as to what extent we have accomplished the goals set forth by the founders of this republic.

Indeed, we are blessed with abundant natural resources. Our ancestors expressed this as “*gemah ripah loh jinawi tata tenram kerta maharaja*” — a just, wealthy and peaceful community. However, when greedy and extractive institutions gained control over the resources of this nation, things turned to disarray. Consequently, the people of the archipelago have lived under the yoke of injustice, poverty, inequality, fragmentation and dependency.

This exploitation gave rise to resistance, as clearly expressed by the Sukarno: “We struggle because of our suffering, we struggle because we want to live a decent life. We struggle not only because of ‘idealism’, we struggle because we want to have adequate food, adequate clothing, adequate land, adequate housing, adequate education and adequate art and culture. In short, we struggle because we want to improve our fate across all walks of life.”

It is thus clear that the growing consciousness regarding the suffering and poverty inflicted by imperialism was what ignited the flames of the national independence movement.

Sukarno affirmed that “Independence is a ‘Golden Bridge’, at the other end of which we shall perfect the lives of our people [...] The principle is, no poverty in Independent Indonesia.” In essence, with independence we want to realize a just and prosperous Indonesian community. For this reason, the preamble of the 1945 Constitution clearly states that the purpose of the establishment of the Republic of Indonesia is, among other things, “to promote general welfare and educate the nation.”

Bung Karno had encapsulated the goals of the nation in guidelines he named Trisakti (The Three Powers): “political sovereignty, economic independence and national character”. His revolutionary vision had revealed that those noble goals could not be realized without con-

HS Dillon
JAKARTA

sistently applying the process of *menjebol-membangun* (constructive destruction) to abolish extractive institutions in various forms inherited from the colonial and feudal systems.

The most fundamental push to implement this entailed the issuance of Law No. 2/1960 on sharecropping agreements, Law No. 5/1960 on basic regulation on agrarian principles (UUPA) and Law No. 56/1960 on the size of agricultural landholdings.

These breakthroughs attempted to confront the structural injustice of the feudalistic colonial systems head-on, both in terms of production relationships and natural resource control in order to realize social justice for all Indonesians.

Now, we have officially been at the other end of the “Golden Bridge” for 68 years; high time for some soul searching. To borrow from one of Indonesia's greatest poets, Chairil Anwar, we should ask ourselves, “Have we been faithfully keeping watch on the border between proclamations and dreams? Have we tried to attach meaning to the thousands of bones lying scattered between Karawang and Bekasi?”

Does this mean that we have been deliberately letting our brothers and sisters remain poor, dominated and colonized? No, a host of initiatives and policies have been put in place since the early days of independence. Recently, four clusters of poverty alleviation programs were simultaneously carried out by the government in an attempt to address all facets of poverty: social protection, community empowerment, the empowerment of small- and medium-scale enterprises (SME) and cheap infrastructure programs for the people.

These programs have begun to show some results. In 2007, the number of poor declined to 37.17 million (16.58 percent). Further-

more, the number living in poverty continued to decline to 34.97 million people in 2008, 32.53 million people in 2009 and 31.02 million people (13.33 percent) in 2010.

This means that overall, from 2005 to 2010 about 4 million people managed to escape from poverty. This is a magnificent feat, but one should keep in mind the inordinate amount of funds dedicated to this endeavor.

Had the design and implementation of our poverty alleviation programs been more consistent, we could have garnered much better results, akin to Fome Zero of Brazil. It is also unfortunate that at the implementation level, the coordination among various government institutions both at the central and regional levels proved to be inadequate. As a consequence, complementarity among these programs has been at a minimum. Quite often we encounter cases where beneficiaries did not receive the planned amount.

Thus, despite all our hard work, the number of poor, near-poor and vulnerable remains around 96.4 million — about 40 percent of our population. Furthermore, a significant portion of our young are stunted, denoting chronic malnutrition.

These people are materially poor, but the rest of us, those who are not materially poor yet seemingly oblivious of the dire plight of our fellow countrymen, must certainly be spiritually poor!

These people are poor in mind, poor in solidarity, poor in imagination, poor in innovation and poor in a sense of togetherness. In short, lacking the very Indonesian essence! It is definitely heartbreaking that this 60 percent includes policymakers, policy executors, conglomerates, law enforcers, religious leaders and educated people. Yes, all of us claim to be Indonesians.

“What went wrong?” President Susilo Bambang Yudhoyono asked in mid-2012. Going back more than half a century ago, the spirit of solidarity, le desir d'être ensemble (the willingness to become one), disappeared when efforts to abolish extractive institutions by Sukarno through UUPA were blocked by the plantation overlords and feudal landlords. This is a heartrending

revelation that the local elites elected to assume the roles of the imperialists rather than restore the rights of the people.

Because we have been in denial about Sukarno's nation- and character-building ideals, we have yet to be able to truly establish a solid Indonesian character. It comes as no surprise that the nation is fragmented and the colonial dualistic economy has been resurrected — the extractive greedy evils have re-established their stranglehold on institutions and policies in this country. Lamborghinis glide along majestically while beggars forage for scraps in the garbage cans on the roadside.

Confronted by the widest inequality since independence, driven by untrammelled markets, it is time to go back to basics. Let us empower the capacity and ability of the people so that they will be able to take full advantage of the economic opportunities we expressly create for them. We need to direct funds and forces to small farmers, farm laborers and SMEs while also supporting education and training in every corner of the country.

Technological and institutional innovations and incentives created by affirmative fiscal and monetary policies will definitely shatter the colonial-feudal social structure and give rise to a social structure built on solidarity, in which every citizen will be secure that we are truly on the same boat.

Under the prevailing circumstances, the main challenge the republic has to face is how to drive out the “desire to subjugate” from the minds of those in power, in government and in businesses, both in the capital and in the regions.

So please step forward, the true sons and daughters of the nation who want to honor the bones scattered between Karawang and Bekasi. Provide meaning to all those who sacrificed themselves in securing our independence.

The prevalence of poverty at tests that this is yet to become an independent Indonesia.

The writer headed the Coordinating Agency for National Poverty Alleviation in 2001.

The death of development in Asia

Toby Carroll and Darryl Jarvis
HONG KONG

Over the last three decades the global political economy has undergone a massive shift that has fundamentally changed the ways in which nation states work, companies operate, and how wealth is distributed and people live.

This shift stands in marked contrast to the wave of economic development of the post-Second World War era. In Asia, for example, states like Japan, South Korea and Taiwan developed sophisticated state bureaucracies to help engineer economic development, champion industrial production and exports, and deploy mass capacity in infrastructure and education.

This was an era in which East Asia's developing states retained and/or fostered the commanding heights of the economy, with the benefits of economic growth shared relatively equitably. These achievements gained the attention and admiration the world over and led to their being labelled Asia's “miracle economies”.

This developmentalism of course emerged in the context of the Cold War and fears of communist expansion, with large injections of capital and technology from the United States and Japan.

In this respect economic development in Asia shared similarities with post-war developments in the United Kingdom, Europe, Canada and Australia. These states too retained the commanding heights of the economy and embarked upon redistributive measures through progressive taxation, universal education and healthcare.

In the West these outcomes were the product of a new class compromise between economic interests and labour movements that fought for collective bargaining and workers' rights and political accommodation for better wages and conditions.

But this wave of development — in both the East and West — is now over.

In its place, Asia is left with a form of development characterized by high growth amid increasing inequality; rising affluence coupled with persistent poverty.

Whether in Hong Kong, Indonesia, Singapore, Malaysia, Vietnam or China, the story of Asia's current development is not so much about mass economic transformation as it is about how rapid economic gains are being captured by an elite super rich, while the majority face declining social mobility, increasing housing, health and education costs, and soaring household debt and a crisis of affordability.

Asia is left with a form of development characterized by high growth amid increasing inequality

As the Asian Development Bank (ADB) noted in its 2012 outlook report, “the bulk of developing Asia's population lives in countries with rising inequality”. This is in contrast to the “growth with equity” story that marked the transformation of the newly industrialized economies in the 1960s and 1970s, and recent trends in other parts of the developing world [...] where income inequality has been narrowing since the 1990s particularly in Latin America and Africa.

How did Asia go from a story about development that was relatively inclusive, to one which has alarmed even the most orthodox of international organizations like the ADB?

The answer lies in several closely interrelated trends. The first is an ongoing revolution in capitalist production. The advent of advanced global production chains — the result of more efficient transportation logistics and advancements in information technology which Asia benefited from over the last

several decades in terms of its “miracle economies”, is now reverberating back on Asia, creating competitive forces from other regions such as Africa and Eastern Europe.

The value derived predominantly by multinational enterprises accessing pools of cheap labour (making possible flexible and efficient design, production and distribution like never before) has been significant. However, capital never stops assessing its costs, a reality with repercussions for employment, investment and growth in Northeast Asia. Likely increases in levels of automation in production only exacerbate pressures on the capacity for domestic economic accumulation in Asia, impacting the future demand for labour.

Moreover, countries such as Korea and Japan that produced top tier globally competitive companies — such as Samsung, Hyundai, Toyota and Sony — have also been heavily incentivized to lower their costs of production and compete with their peers by sending considerable amounts of production offshore, challenging the equitable growth of those two countries.

Much like in the West, the question now is what will people who once worked in manufacturing do? The frequent answer is of course often “services”, as if this were something new for Asia. However, the supply of decent paying service positions — in both the West and Asia, simply won't yield what industrial jobs in industrialized countries yielded in the past.

Indeed, the tens of millions of Americans who once worked in high paying manufacturing jobs and who now work in the service sector often find they have been migrated to minimum wage positions, earning US\$7.25 an hour in positions that do not attract any benefits such as healthcare or retirement contributions.

The notorious “zero hour” contracts in the UK are particularly instructive here also. Of course Asia

has already had a long experience with cheap service positions — from cleaning, food and beverage and, in a very limited way, financial services and software production — yielding weak capacity for accumulation.

Secondly, with increased capital mobility and the physical constraints of geography removed by cheap containerized shipping, the ability of states and labor to capture economic gains, preserve wages and benefits, or to tax capital and redistribute this through welfare and social protection arrangements, has been systematically eroded. Labor demands are now predictably met with threats of “job flight”.

Third, recent policy responses by Asian governments to the competitive scramble for capital have often exacerbated inequalities. Reducing taxes on capital, providing “start-up” or “location subsidies”, divesting state-owned assets, insisting on “user pay” models in the delivery of healthcare, education, pensions and infrastructure, downloads costs and economic risks to individuals and reduces fiscal capacity of governments.

As the ADB notes, these forces favour owners of capital over labor, high-skilled over low-skilled workers, and urban and coastal areas over rural and inland regions — they tend to drive up inequality.

Asia, unfortunately, has started to catch up to the West in terms of replicating those policies that, as the ADB puts it “could undermine the momentum for economic growth and for a better quality of life for all Asians”. What's worse is that this is happening in countries where average income remains a mere fraction of that in the West.

Toby Carroll is associate professor at the City University of Hong Kong and Darryl Jarvis is professor at the Hong Kong Institute of Education. Their book *The Politics of Marketising Asia* will be published by Palgrave Macmillan (UK) in November.

Other opinions

Military madness in Cairo

With yet another blood bath in the streets of Cairo on Wednesday, Egypt's ruling generals have demonstrated beyond any lingering doubt that they have no aptitude for, and apparently little interest in, guiding their country back to democracy. On the contrary, the political obtuseness of Gen. Abdel-Fattah el-Sissi, Egypt's de facto leader, and the brutal repression he has unleashed now threatens to produce the worst of all possible outcomes to an already inflamed situation: A murderous civil war.

That would be a tragedy for Egypt, which until recently believed it was on a path to ending decades of repression and dictatorship. And it would be a foreign policy disaster for the US. Egypt is the most populous and influential country in the Arab world. President Obama must make clear his unequivocal opposition to the Egyptian military's conduct. He can do so by immediately suspending military aid and canceling joint military exercises scheduled for September. These steps can be reversed if the generals change their ways, but, until then, the US should slam the door on an aid program that has provided the Egyptian military with a munificent US\$1.3 billion a year for decades.

It is past time for Obama to start correcting that imbalance. Suspending assistance to Egypt's anti-democratic military would be a good place to start.

— THE WASHINGTON POST, WASHINGTON

An eye on al-Qaeda

It is worrying that Iraq is experiencing the worst eruption of violence in recent years, with the number of people killed and wounded rising on a daily basis.

The UN Assistance Mission for Iraq said July was the deadliest month in the country for more than five years, as more than 1,000 Iraqis were killed in acts of terrorism, and the death toll continues to rise. It is clear that the resurgence of the al-Qaeda affiliated force is a result of the security vacuum from the US' withdrawal in December 2011, as well as the lasting social unrest in parts of the region.

The turbulence in the Arabian Peninsula has provided fertile soil for al-Qaida to reorganize its ranks and extend its influence in the region, especially in countries such as Syria, Yemen and Iraq.

The decision by the US to close 19 diplomatic missions in the Middle East and Africa earlier this month because of a potential terrorist attack shows the country, which has been leading global anti-terror crusade since Sept 11, 2001, is aware that the war against terrorism has not been won.

Until the violent acts instigated by terrorist groups in countries such as Iraq and Syria come to an end, the US should not try to bask in its successes against terrorism.

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