

Chapter 5

Indonesia's Inclusive Economic Development Strategy

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ABSTRACT

Two developments are currently taking place in Indonesia, namely the process towards an inclusive economy and economic digitalisation. The main objective of this chapter is to review the extent to which Indonesia has achieved these two processes. To this end, this descriptive study analyzes secondary data from multiple sources, and the results show that Indonesia has made some progress in achieving both developments. But the results also give an important impression that in the short term, digitalisation of the economy can increase inequality because access to ICT or the internet is not evenly distributed. Therefore, this chapter emphasizes that extra efforts from the government are urgently needed so that the poor can get full access to ICT, including micro and small businesses, of which only a small number of them are implementing e-commerce, and the majority of them are located on the island of Java including Jakarta, which is the most developed region in Indonesia.

INTRODUCTION

From 1997 to 1998, Indonesia was badly affected by the Asian financial crisis. It was the most severe economic crisis to occur in Indonesia since the country's independence in 1945. It led to an economic recession in 1998, with a growth rate of -13%. The crisis was followed by social and political disturbances and conflicts which led to the fall of Soeharto's New Order regime in May 1998. Following Indonesia's recovery from the recession, the country has undergone a profound transformation. It has embarked upon far-reaching institutional changes and has become one of the region's most vibrant democracies. The political system has been fundamentally transformed by the implementation of democracy and decentralization, and by the amendment of the 1945 Constitution. Society has drastically changed and some of the previous public institutions are no longer functional. Although the government during the New Order era seriously tried to address poverty issues and initiated many pro-poor programs, poverty was still a serious problem and the gap between the rich and poor did not decline significantly. In fact, during

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Indonesia's Inclusive Economic Development Strategy

this era, the adopted development strategy was more exclusive rather than inclusive, as many regulations, policies, and facilities favoured certain business groups, mainly big companies (or conglomerates), at the cost of micro, small and medium enterprises (MSMEs).

In 1999, Indonesian economy began to recover and continued to improve gradually. In its efforts to improve social welfare, especially to reduce the number of poor people and improve income distribution, Indonesia has made quite a lot of progress since then. Wide reforms were carried out in all areas of governance, including in the financial, education, and social sectors. Other than that, a new development strategy was introduced by President Susilo Bambang Yudhoyono (SBY) for “inclusive” economic development.

The emergence of digital technology has created a drastic change in business practices. It presents a serious challenge for the success of the implementation of the inclusive development strategy in Indonesia. Because digital technology has given birth to new business models encouraging higher economic growth and increase in per capita income more rapidly, it is then believed that the digital economy or more concretely the existence of information and communication technology (ICT) will provide wider opportunities for all levels of society to actively participate in economic development, which is the goal of inclusive development. But the question now is, do all levels of society, especially the poor have full access to ICT?

By analysing secondary data, the main objective of this chapter is to examine the Indonesia's achievements towards inclusive development and a digital economy. More specifically, the aim of this chapter is to answer the following three questions:

1. How is Indonesia's achievement in inclusive economic development?
2. How is Indonesia's achievements in the digital economy?
3. Is the Digital Economy Important to achieve an inclusive economy?

To answer those three questions, this chapter has three main related subchapters which starts with inclusive economic development showing Indonesia's achievements so far. The second subchapter discusses Indonesia's achievements in the digital economy, and the third then tries to answer question no 3.

INCLUSIVE ECONOMIC DEVELOPMENT: CONCEPTUAL DISCUSSION

Inclusive economic development ‘was used in the academic literature for the first time in 1998 but became an integral part of the literature only starting in 2008. According to Ali and Zhuang (2007), Ali and Son (2007), and Rauniyar and Kanbur (2009, 2010a, b), the term “inclusive economic development” has no widely accepted definition. The concept clearly encompasses inclusion and economic development and views inclusion as a process as well as a goal. As Sen (1999), Sachs (2004), Ali and Son (2007), Rauniyar and Kanbur (2009, 2010a, b), and McKinley (2010) stress that inclusive economic development is economic growth coupled with equal economic opportunities. It focuses on creating economic opportunities and making them accessible to everyone in society at all levels, not just the poor (Tambunan, 2012, 2015).

In the literature, there are two understandings often used in the discussions of inclusive economic development, namely ‘inclusive economic growth ‘and’ inclusive economic development ‘. Significantly, more articles use ‘inclusive economic growth’ rather than ‘inclusive economic development’. However,

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