

# INDONESIA'S DEMOCRACY & ECONOMIC DEVELOPMENT

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# State of Democracy in the World: Then and Now



- 91 democracies emerged 1974-2012 (Mainwaring and Bizzarro '19).
- **Good news:** 27 have become more democratic!
- **Bad news**
- 34 broke down (Turkey, Russia).
- 2 became DINOs (Poland, Ecuador)
- 28 'stagnated.'

# CRISIS AND REGIME COLLAPSE



- The 1997 Asian Financial Crisis → democratic transition in Indonesia.
- Suharto resigned on May 21, 1998.
- Indonesia has since become a “full-fledged” democracy.



# State of Democracy in Indonesia post 1998: A mixed view

“In 1999, it was a wide open place going through a dramatic set of transitions. Today, it has become a real model of democratic transition.”

- Robert Gelbard, The Milken Institute Global Conference, October 2013

'Dark day for human rights': Subianto named as Indonesia's defence minister

General who has been accused of abuses is named in cabinet of Joko Widodo, against whom he ran for president

Jamie Fullerton, The Guardian, October 2019

# The question

- How do economic conditions affect the changing quality of democracy in Indonesia over the past decade?

Answer this question through a lens of local politics.

# OUTLINE

- Fast facts about Indonesia:
  - Geography, history, politics, the economy.
- Theories linking economic development and democracy.
  - Application of this theory to Indonesia.
- Research methodology
- Findings
- Conclusion

# INDONESIA: FAST FACTS

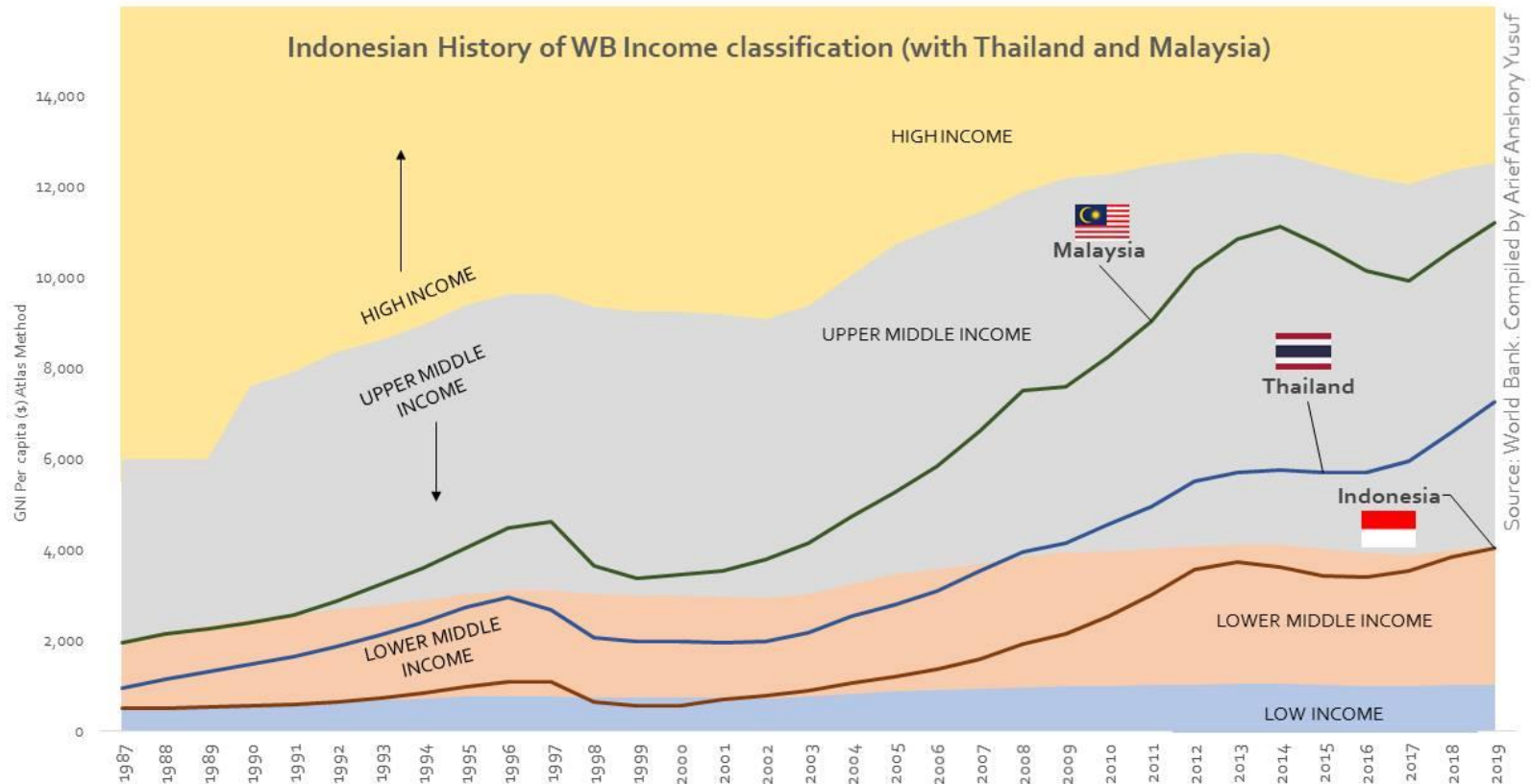
# Indonesia: Geography and Demographics



- A favorable geographic position in high-growth region.
- 8th largest economy by purchasing power.
- 4<sup>th</sup> most populous nation (265 million); average age is 28.
- Predicted to be the 7<sup>th</sup> world's largest economy by 2030



# Indonesia's path to higher income.

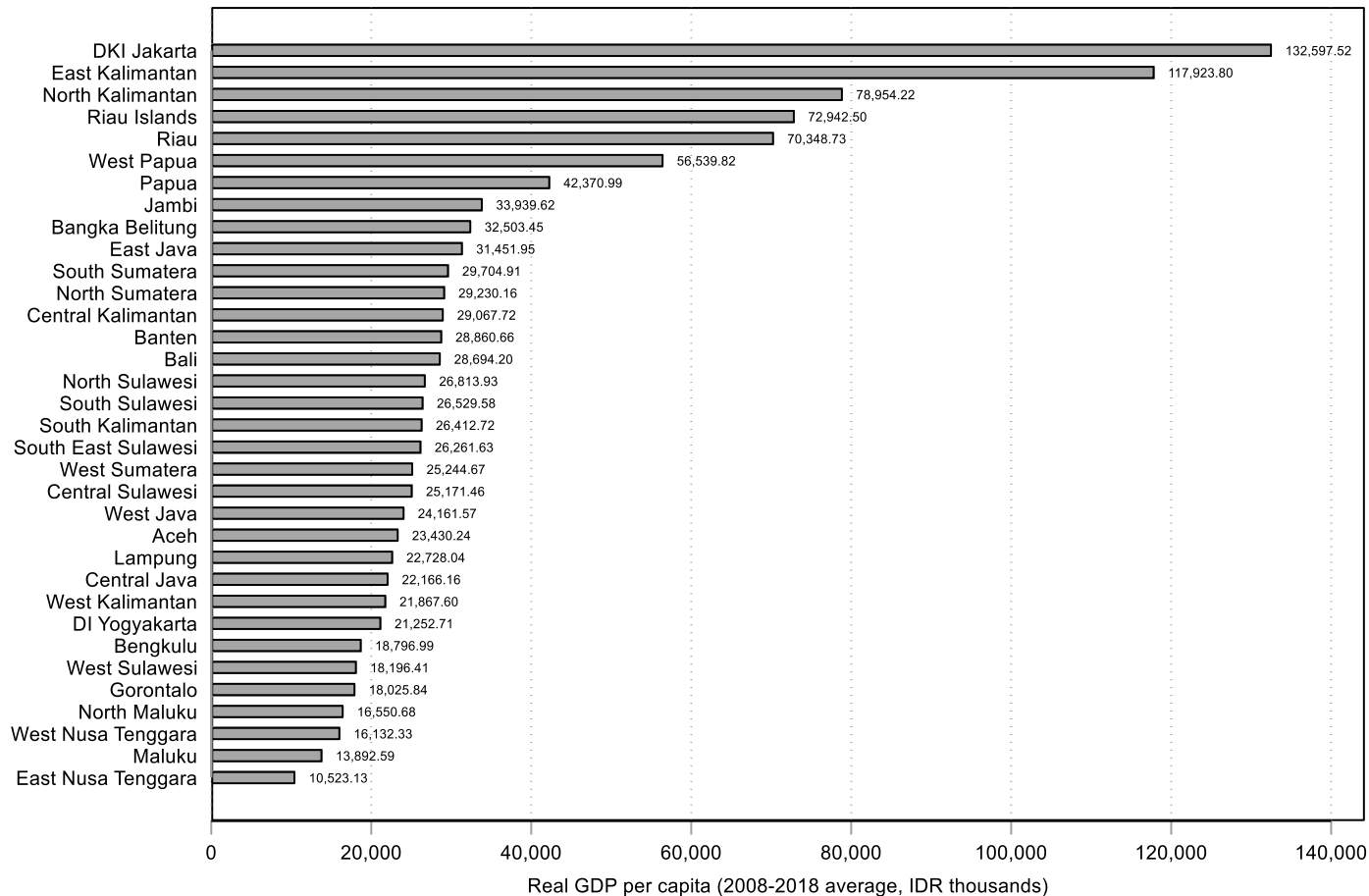


Source: Yusuf (2019)

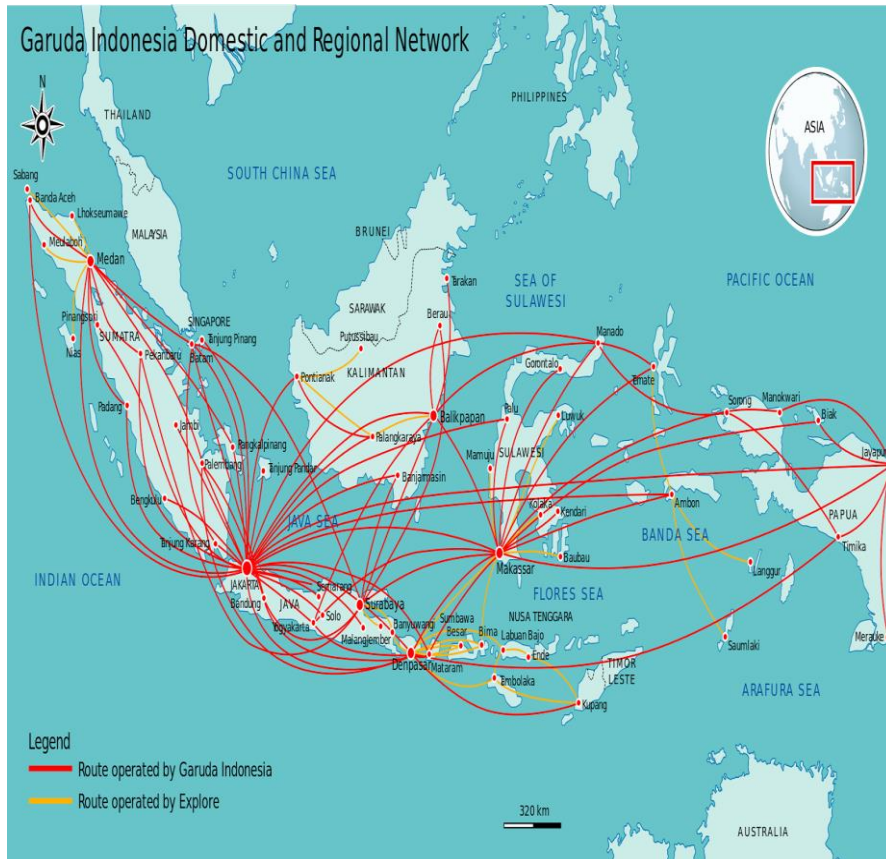
# Indonesia: Disparate distribution of opportunities

- 10.3 million people live in the capital city Jakarta (25 million in greater Jakarta Metropolitan area).
- The biggest industries (natural resource based) adds few jobs relative to its expansion.
- Growing income inequality (2004-2011).
  - Top 20% of the population: grew by 40%
  - Bottom 40%: only grew by 11%
- Poverty headcount (below the national poverty line) :
  - 9.8%, or 26.2 million people in 2018.

# Indonesia: Uneven economic development



# Infrastructure in the Archipelago



Economics

## Indonesia Has a Grand \$412 Billion Plan to Rebuild the Country

By Harry Suhartono and Karlis Salna

May 15, 2019, 7:01 PM PDT Updated on May 16, 2019, 2:29 AM PDT

- ▶ More airports to be built to link remote areas, minister says
- ▶ Nation to develop support for seaplanes, aircraft maintenance



# Brief History of Pre Democracy Era

- President Suharto's New Order Era (1967-1998)
- Came to power under “peculiar circumstances.”



- Over 30+ years: rapid economic growth, but also one for the highest level of corruption in the developing world.

# Politics under Suharto

- Substantial repression of political activity in order to “control and stabilize the economy.”
  - Only three political parties were allowed.
  - Civil servants voted for Suharto’s party.
  - Public expressions of discontent could have severe consequences.
  - Governors and mayors appointed by Jakarta.
  - Heavy role of military in civilian affairs.
    - Military dominant in businesses and government.



# 1997-98 CRISIS AND REGIME COLLAPSE



- Exchange rate depreciated by 526% from January 1996 to June 1998.
  - Inflation was 56.67% in June 1998.
  - Economic growth: - 13% in 1998
  - Large-scale pro-democracy protests and loss of support from his key allies left President Suharto with little choice than to resign in May 1998.
- 
- *Post 1998?* Economic and political reforms put the country on the path to stability.

# THEORIES ON DEMOCRACY AND ECONOMIC DEVELOPMENT

# Democracy and the economy: what is known?

- “Economic development → transition to democracy.”
  - Higher income/capita per capita (Lipset 1959, Przeworski et al. 2000).
  - Distribution of income:
    - The more equal, the higher the likelihood of democratic transition (Boix 2003), but...
    - Ansell and Samuels (2010) find the opposite.
  - Socio-cultural values of the public that supports democracy (Inglehart and Welzel 2005).
- *The “Modernization” Hypothesis.*

# Democracy and the economy: what is less known?

- While economic development helps explain transition to democracy, whether progress helps explain democratic deepening is still an open question.
- The “economist” critique: **reverse causality**.
  - $\neq$  Higher economic growth  $\rightarrow$  democratization.
  - Instead: Democratization  $\rightarrow$  higher economic growth.
  - $\neq$  Higher income inequality  $\rightarrow$  democratization.
  - Instead: Democracy  $\rightarrow$  income inequality.
- Is income per capita picking up other causal mechanisms, such as, education?

# Democracy and the economy: what is even lesser known?

- Democracies can develop unevenly within a particular country (McMann and Petrov 2000, Gervasoni 2018).
  - “Reservoirs of democracy” exist in autocratic countries.
  - “Authoritarian enclaves” persist in a nationally democratic political system.
- Examples
  - Jim Crow era laws in the Southern States (contemporary examples exist too, such as Utah, N. & S. Dakota).
  - Mexico: Chiapas, Oaxaca, Puebla.
  - Argentina: Formosa, Santa Cruz.
- We adopt this regional/local approach to study our question.

# Why study this question at the regional level?

1. Regional governments have power, resources, and authority to affect the practice of democracy in important and meaningful ways.

In Indonesia: The issuance of regional regulations which curtail freedom of religion (Salim 2007).

2. Regional governments make key decisions regarding delivery of public goods.
3. To increase the number of observations → important for economists!
  - One observation is an anecdote,
  - 3-5 becomes a case study,
  - >30 gets closer to be a testable theory.



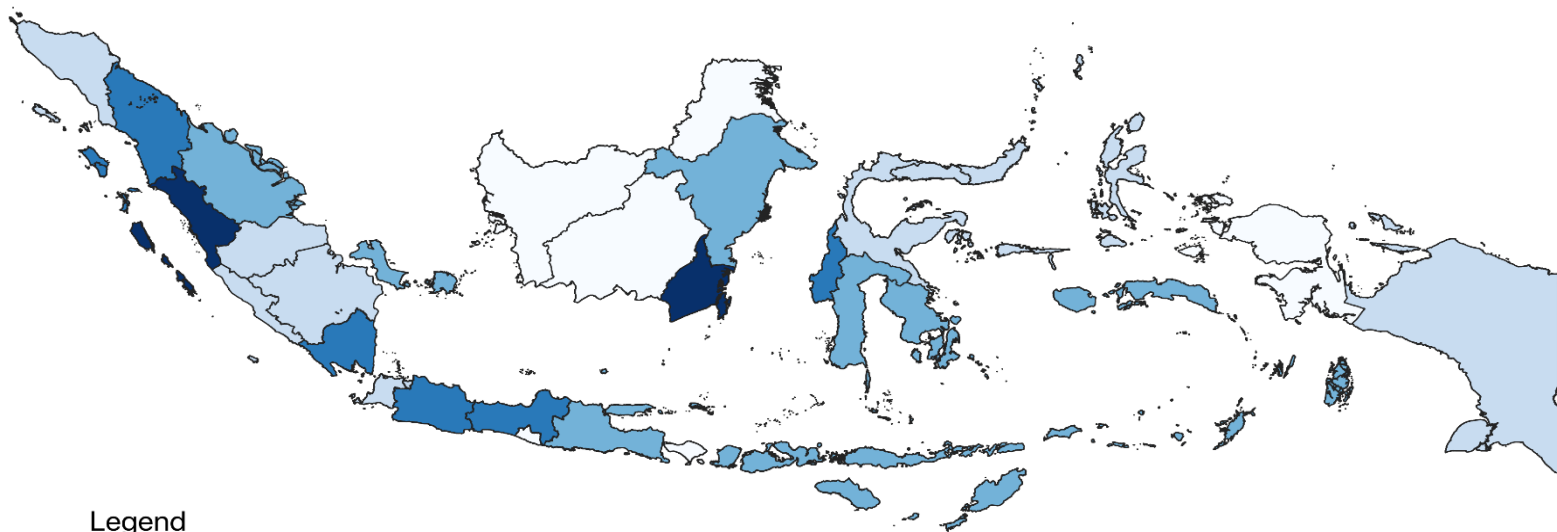
# RESEARCH METHODOLOGY

# DATA

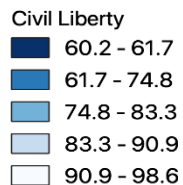
- We use the *Indonesian Democracy Index* (IDI),
  - Produced by *Statistics Indonesia* (BPS).
- IDI is an index “*designed to be sensitive to changes in democratic aspects at the provincial level.*” (BPS 2018)
- IDI consists of three sub-indicators:
  - civil liberty, political rights, and institutions of democracy.
- Is IDI a reliable indicator? Yes and No.
  - Researchers should therefore exercise caution and make necessary modifications before using it.

# (1) Regional variations in civil liberty

Indonesia Democracy Index: Civil Liberty (2017)

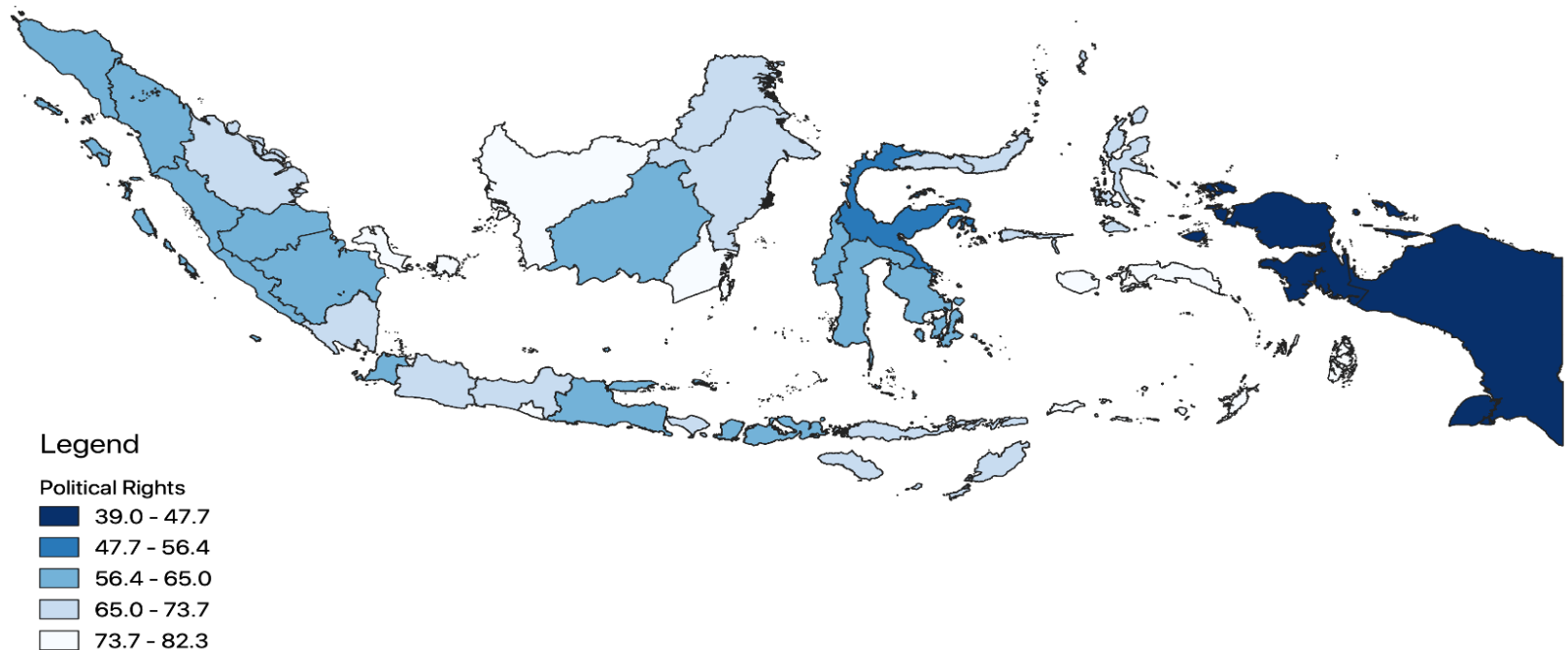


Legend



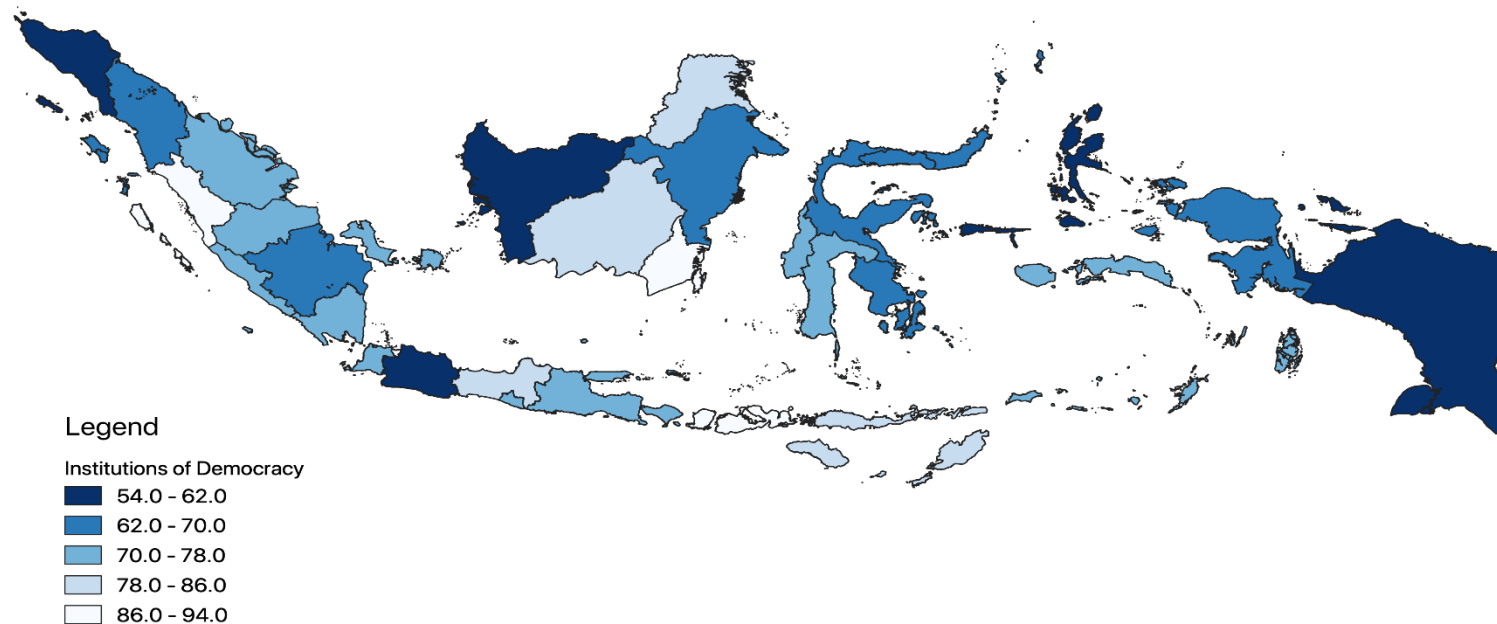
## (2) Regional variations in political rights

Indonesia Democracy Index:  
Political Rights (2017)



# (3) Regional variations in institutions of democracy

Indonesia Democracy Index:  
Institutions of Democracy (2017)



# Calculating the Effects of the Economy on Democratic Quality

- We use a statistical method called **regressions**.
- $Democracy_{i,t} = economic\ variables_{i,t-1} + other\ variables_{i,t-1}$ 
  - **Read**: Democracy in a particular province-year, is explained by economic and other variables observed in that province *one year prior*.
- Economic factors: Income/capita, unemployment rate, income inequality (Gini index).
- Other development factors: urbanization, literacy rates, size of the manufacturing sector.



# Findings

|               | Civil Liberty | Political Rights | Institutions | Overall Democracy |
|---------------|---------------|------------------|--------------|-------------------|
| Income/capita | 4.33          | -6.84            | 22.00**      | 4.26              |
| Unemployment  | 0.38          | -1.31**          | 1.28         | -0.09             |
| Inequality    | 6.35          | -4.47            | -31.56       | -8.67             |
| Literacy rate | 0.91          | 1.77**           | 1.39         | 1.38***           |
| Urbanization  | 8.64*         | 10.88**          | 3.04         | 8.56***           |
| Manufacturing | -9.54         | -2.              | 0.25         | -4.41*            |
| Observations  | 290           | 290              | 290          | 290               |
| R-squared     | 0.28          | 0.75             | 0.31         | 0.45              |

# Findings

- Economic variables affect democracy scores in a rather inconsistent way.
  - Higher Income/capita --> higher “institutions of democracy” but not “political rights” or “civil liberties.”
  - Same with “Unemployment Rate”
  - Income inequality has no significant effect on democracy scores.
- Surprisingly, a more consistent finding:
  - Democracy in Indonesia is likely working better in regions with greater levels of urbanization and higher literacy rates.

# Implications

- Democracy may be more sustainable when there is a well-informed and open society.
- Equality of economic opportunity must go hand-in-glove with equality of political rights.
- However, these correlations do not imply that democracy can *only* function in more developed regions.

**THANK YOU!**

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