

THE GLOBAL ECONOMIC CRISIS AND ITS IMPACT ON INDONESIA'S EDUCATION¹

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ABSTRACT

This paper will examine to what extent the unprecedented global financial crisis has affected the Indonesia's economy. The differences between Indonesia's experience of the global financial crisis (GFC) and Asian Financial Crisis (AFC) in 1997–98 will be illuminated. The government's priority on the development of education— together with achieving quality growth, reducing poverty, creating jobs, improving infrastructure— have accelerated the economic recovery and improved key indicators in education. Despite budgetary adjustments, the Indonesian government continues to prioritize investment in education. As a result, the GFC has not affected number of students in Indonesia significantly. The GFC has not affected the interest of students to get higher education at the Indonesia's universities.

Keywords: *global financial crisis, Asian financial crisis investment, economic recovery*

INTRODUCTION

The analysis begins with an overview of Indonesian economic development preceding the current crisis and examines how the crisis has affected the Indonesian economy. It will compare to what extent the Asian Financial Crisis (AFC) in 1997-1998 and the recent Global Financial Crisis (GFC) has brought some tremendous effects on the Indonesian economy. The patterns of Indonesia's growth will be explored. Next section will examine to what extent the GFC has affected Indonesia's

education. The paper concludes with some considerations for Indonesia's future.

REBOUND FROM THE GLOBAL FINANCIAL CRISIS

It was not difficult to imagine Indonesia in 2008 returning to conditions of economic upheaval similar to the Asian Financial Crisis (AFC) in the late 1990s. The result could have included devastating contraction in output, a dramatic surge in inflation, and an even more dramatic reduction in the external value of the rupiah. The AFC created so much turmoil as to result in the downfall of the governing regime, just like the one before it in the mid-1960s.

The differences between Indonesia's experience of the Global Financial Crisis (GFC) and AFC in 1997–98 are remarkable. Table 1 compares a number of the key economic variables during the two crises. The indicator of most fundamental importance is

¹ Earlier version of this paper has been presented at: (1) The 1st Asia-Europe Education Workshop on 'The Impact of the Financial Crisis to Higher Education', Makati City, Philippines, 25-26 March 2010; (2) The 6th International Conference 'Toward Enhancement of Economic, Social, Technological and Environmental Development for Welfare Implications in the Greater Mekong Sub-region and Asia-Pacific', Yogyakarta, Indonesia, 2-3 August 2010, held by Chiangrai Rajabhat University and Faculty of Economics & Business Gadjah Mada University.

the GDP growth rate, which plummeted below -18% in the earlier crisis, but has remained positive (4.4%) so far during the GFC. On most of the other measures the differences are equally striking. The depreciation of the currency from its strongest point just before each crisis to its weakest point was more than three times higher in the case of the AFC; the peak rate of year-on-year consumer price inflation was almost seven times higher; the peak interest rate on BI's open market operations instrument, the 30 day SBI (*Sertifikat Bank Indonesia*, Bank Indonesia Certificate), was more than six times higher; and the peak inter-bank seven-day borrowing rate was more than eight times higher. The loss of international reserves was only a little higher in absolute terms during the AFC, but well over twice as high in percentage terms. Only in relation to the rupiah market value of

shares listed on the stock exchange have the two crises been comparable in their impact, with declines of a little over 50% in both cases. If we focus on the percentage decline in the dollar value of shares, however, the impact of the AFC was again considerably more severe. As we shall argue below, these much more favourable outcomes reflect, to a considerable extent, the far greater skill with which the shocks to Indonesia's economy have been handled by policy makers the second time around.

The 2008 Global Financial Crisis (GFC) however was different for Indonesia. The Indonesian government quite effectively steered the national economy through financial 'storm'. In the first quarter of 2008, Indonesia's real Gross Domestic Product (GDP) was comparable with other Southeast Asian countries. From then on, Indonesia's

Table 1. Crisis Comparisons

Indonesia's economic indicators	Asian Financial Crisis	Global Financial Crisis
Lowest GDP growth rate (year-on-year % p.a.) (quarter)	-18.3 <i>Dec-98</i>	4.4 <i>Mar-09</i>
Peak Rupiah depreciation (%) (period)	83.6 <i>Jun-97–Jun-98</i>	25.5 <i>Feb-08–Nov-08</i>
Peak CPI inflation (year-on-year % p.a.) (month)	82.6 <i>Sep-98</i>	12.1 <i>Sep-08</i>
Peak SBI 30 day rate (% p.a.) (month)	70.4 <i>Aug-98</i>	11.2 <i>Nov-08</i>
Peak interbank borrowing 7 day rate (% p.a.) (month)	95.0 <i>Jul-98</i>	10.8 <i>Dec-08</i>
Decline in foreign reserves (\$ billion)	12.3	10.4
(%) (period)	42.7 <i>Jun-97–Feb-98</i>	17.1 <i>Jul-08–Nov-08</i>
Decline in stock market capitalisation (%) (rupiah value) (period)	52.2 <i>Mar-98–Sep-98</i>	55.1 <i>Jul-08–Nov-08</i>
(\$ value) (period)	88.1 <i>Jun-97–Jun-98</i>	56.3 <i>Jul-08–Feb-09</i>

Note: The table is based on end of month data, except for GDP growth, which is based on quarterly data.

Source: Kuncoro, *et al.* (2009)

economic performance fared much better than economic contractions in the other economies in Asia. Less exposure to external shocks from the international trade and expansionary fiscal and monetary policies in particular allowed the economy weather the worst of the crisis and rebound during the first half of 2009 (IMF, 2009: 71-74). Table 2 shows that the ASEAN-5 economies² are projected to grow by 5.4% in 2010 and 5.6% in 2011. Private domestic demand is expected to be the main driver of growth, with net exports playing a lesser role than in the past, reflecting stronger imports relative to historical standards. Among the ASEAN-5, the Indonesian economy has proved to be remarkably resilient, with output growing at 4.5% in 2009 compared with 1.75% for the ASEAN-5 as a whole, thanks to strong domestic demand. Indonesia's growth is expected to accelerate to 6% in 2010 and to 6.25% in 2011, reflecting a pickup in private investment.

PATTERNS OF GROWTH

Economic indicators have started to improve since September 2009. The year-on-year GDP growth rate declined from 6.4% to 4.2% over the six quarters but rebound to 6.2% by second quarter (Q2) 2010 (Table 3). A slight fall in household consumption to 4.7% in September 2009 has increased to 5% in Q2 2010. The deceleration was almost entirely attributable to a much more severe decline in investment spending, reflecting the sudden emergence of heightened caution on the part of the business community. Reflecting the world-wide contraction in international trade, there has been a dramatic decline in the growth of exports over the last four quarters, particularly in Q2 and Q3 2009, which saw a reduction of over -5% and -14 respectively. However, export grew 14.6% in Q2 2010. The impact of this on Indonesia's output has been

offset by even larger reductions in imports – of particular significance given the high import content of many of Indonesia's manufactured exports.

The mobility of savings, both domestic and foreign, is an important prerequisite for capital accumulation and national development. In developing economies, a vicious cycle of poverty (low income, low savings, low investment and in turn, low income) will repeats itself endlessly unless it is broken by the accessibility to foreign capital. The savings and investment behaviors of the five ASEAN economies over the sample periods of 1968-1997 (Boon, 2000). Figure 1 presents savings and investment in Indonesia exhibit a general upward trend during the period of 2002–2008 due to foreign investments.

The year-on-year growth rate of investment fell dramatically from 12.2% in September 2008 to only 2.7% in June 2009. Within the investment category, the declines in spending on machinery and equipment (-1.4%) and on transport (8.3%) have been especially severe (Kuncoro, *et al.* 2009). Since 2004, the trend of foreign direct investment (FDI) and domestic investment (DI) have tended to increase (Table 4). According to Law Number 25 of 2007 on Investments, FDI refers to an investing activity to do business in the territory of the state of the Republic of Indonesia that is carried out by a foreign investor both by use of all of foreign capital and by engagement in a joint venture with a domestic investor; while DI means an investing activity to do business in the territory of the state of the Republic of Indonesia that is carried out by a domestic investor by the use of domestic capital. Both FDI and DI dropped drastically after the GFC emerged in 2008. In 2009, DI has started to recover and to lesser extent that of FDI in terms of number of projects and value of investments.

² Association of South East Asian Nations comprising Indonesia, Malaysia, Philippines, Thailand, and Vietnam less dependence on trade.

Table 2. Selected Asian Economies: Real GDP, Consumer Prices, and Current Account Balance (Annual percent change unless noted otherwise), 2008-2011

	Real GDP						Consumer Prices ¹						Current Account Balance ²											
	2008			2009			2010			2011			2008			2009			2010			2011		
	Projections			Projections			Projections			Projections			Projections			Projections			Projections			Projections		
Asia	5.2	3.5	6.9	7.0	7.0	7.0	5.8	2.0	4.1	2.8	2.8	2.8	4.0	3.6	4.0	3.4	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Advanced Asia	0.2	-3.0	3.1	3.2	3.2	3.2	2.8	-0.1	0.3	0.8	0.8	0.8	2.4	3.1	2.4	2.6	2.6	2.6	2.4	2.4	2.4	2.4	2.4	2.4
Japan	-1.2	-5.2	1.9	2.0	2.0	2.0	1.4	-1.4	-1.4	-0.5	-0.5	-0.5	3.2	2.8	3.2	2.8	2.8	2.8	2.4	2.4	2.4	2.4	2.4	2.4
Australia	2.4	1.3	3.0	3.5	3.5	3.5	4.4	1.8	2.4	2.4	2.4	2.4	4.4	4.1	4.4	3.5	3.5	3.5	3.7	3.7	3.7	3.7	3.7	3.7
New Zealand	-0.1	-1.6	2.9	3.2	3.2	3.2	4.0	2.1	2.1	2.5	2.5	2.5	-8.6	-3.0	-8.6	-4.6	-4.6	-4.6	-5.7	-5.7	-5.7	-5.7	-5.7	-5.7
Newly Industrialized Asian Economies	1.8	-0.9	5.2	4.9	4.9	4.9	4.5	1.3	2.3	2.3	2.3	2.3	4.9	8.9	4.9	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.6
Korea	2.3	0.2	4.5	5.0	5.0	5.0	4.7	2.8	2.9	3.0	3.0	3.0	-0.6	5.1	-0.6	1.6	1.6	1.6	2.2	2.2	2.2	2.2	2.2	2.2
Taiwan Province of China	0.7	-1.9	6.5	4.8	4.8	4.8	3.5	-0.9	1.5	1.5	1.5	1.5	6.2	11.2	6.2	8.5	8.5	8.5	7.7	7.7	7.7	7.7	7.7	7.7
Hong Kong SAR	2.1	-2.7	5.0	4.4	4.4	4.4	4.3	0.5	2.0	1.7	1.7	1.7	13.6	11.1	13.6	12.1	12.1	12.1	10.1	10.1	10.1	10.1	10.1	10.1
Singapore	1.4	-2.0	5.7	5.3	5.3	5.3	6.5	0.2	2.1	1.9	1.9	1.9	19.2	19.1	19.2	22.0	22.0	22.0	22.4	22.4	22.4	22.4	22.4	22.4
Developing Asia	7.9	6.6	8.7	8.7	8.7	8.7	7.4	3.1	5.9	3.7	3.7	3.7	5.7	4.1	5.7	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
China	9.6	8.7	10.0	9.9	9.9	9.9	5.9	-0.7	3.1	2.4	2.4	2.4	9.4	5.8	9.4	6.2	6.2	6.2	6.5	6.5	6.5	6.5	6.5	6.5
India	7.3	5.7	8.8	8.4	8.4	8.4	8.3	10.9	13.2	5.5	5.5	5.5	-2.2	-2.1	-2.2	-2.2	-2.2	-2.2	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
ASEAN-5	4.7	1.7	5.4	5.6	5.6	5.6	9.3	2.9	4.8	4.6	4.6	4.6	2.7	5.1	2.7	3.3	3.3	3.3	2.2	2.2	2.2	2.2	2.2	2.2
Indonesia	6.0	4.5	6.0	6.2	6.2	6.2	9.8	4.8	4.7	5.8	5.8	5.8	0.0	2.0	0.0	1.4	1.4	1.4	0.4	0.4	0.4	0.4	0.4	0.4
Thailand	2.5	-2.3	5.5	5.5	5.5	5.5	5.5	-0.8	3.2	1.9	1.9	1.9	0.6	7.7	0.6	2.5	2.5	2.5	0.3	0.3	0.3	0.3	0.3	0.3
Philippines	3.8	0.9	3.6	4.0	4.0	4.0	9.3	3.2	5.0	4.0	4.0	4.0	2.2	5.3	2.2	3.5	3.5	3.5	2.3	2.3	2.3	2.3	2.3	2.3
Malaysia	4.6	-1.7	4.7	5.0	5.0	5.0	5.4	0.6	2.0	2.1	2.1	2.1	17.5	16.7	17.5	15.4	15.4	15.4	14.7	14.7	14.7	14.7	14.7	14.7
Vietnam	6.2	5.3	6.0	6.5	6.5	6.5	23.1	6.7	12.0	10.3	10.3	10.3	-11.9	-7.8	-11.9	-6.9	-6.9	-6.9	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0
Other Developing Asia³	3.9	3.7	4.3	5.0	5.0	5.0	12.9	11.5	9.1	7.4	7.4	7.4	-2.3	-0.8	-2.3	-1.0	-1.0	-1.0	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
<i>Memorandum</i>																								
Emerging Asia ⁴	7.0	5.6	8.2	8.2	8.2	8.2	7.0	2.9	5.4	3.5	3.5	3.5	5.6	4.9	5.6	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5

¹ Movements in consumer prices are shown as annual averages. December–December changes can be found in Tables A6 and A7 in the Statistical Appendix.

² Percent of GDP.

³ Other Developing Asia comprises Islamic Republic of Afghanistan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, Fiji, Kiribati, Lao People's Democratic Republic, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Samoa, Solomon Islands, Sri Lanka, Timor-Leste, Tonga, and Vanuatu.

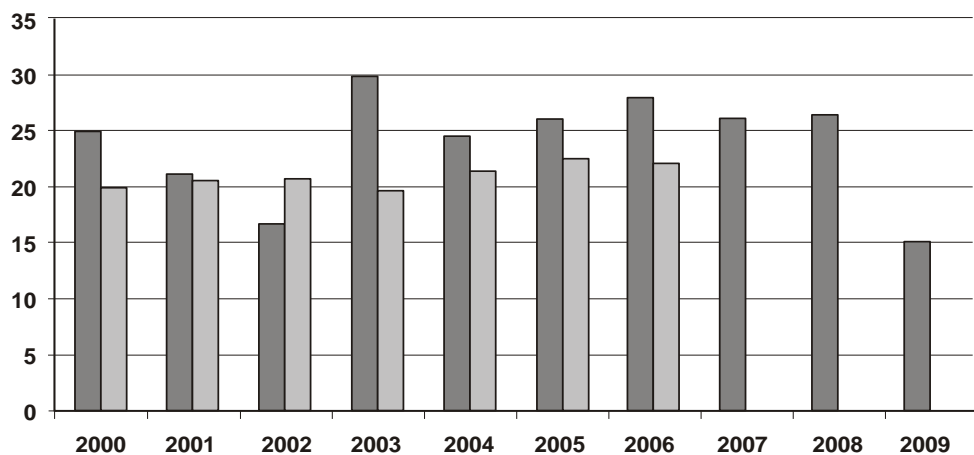
⁴ Emerging Asia comprises all economies in Developing Asia and the Newly Industrialized Asian Economies.

Source: IMF (2010)

Table 3. Components of GDP Growth: Indonesia June 2008-June 2010 (2000 prices; % year on year)

	Jun-08	Sep-08	Des-08	Mar-09	Jun-09	Sep-09	Jun-10
Gross Domestic Product	6.4	6.4	5.2	4.4	4.0	4.2	6.2
GDP Excl. Petroleum & Gas	6.9	6.9	5.6	4.8	4.4	4.6	6.6
By expenditure							
Private consumption	5.5	5.3	4.8	5.8	4.8	4.7	5.0
Government consumption	5.3	14.1	16.4	19.2	17.0	10.2	-9.0
Investment	12	12.2	9.1	3.5	2.7	4.0	8.0
Exports	12.4	10.6	1.8	-19.1	-15.7	-14.1	14.6
Imports	16.1	11	-3.5	-24.1	-23.9	-22.7	17.7
By sector							
<i>Tradables</i>	3.6	3.7	2.6	2.7	1.9	2.5	3.7
Agriculture, Livestock, Forestry & Fisheries	4.8	3.4	4.7	4.8	2.4	2.7	3.1
Mining & Quarrying	-0.5	2.1	2.1	2.2	2.4	6.5	3.8
Manufacturing Industries	4.2	4.3	1.9	1.6	1.5	1.3	4.3
<i>Non-tradables</i>	9.3	9.2	7.6	6.1	6.0	5.9	7.6
Electricity, Gas & Water Supply	11.8	10.4	9.3	11.4	15.4	14.6	4.8
Construction	8.1	7.6	5.7	6.3	6.4	8.8	7.2
Trade, Hotels & Restaurants	8.1	8.4	5.6	0.5	-0.1	-0.6	9.6
Transport & Communication	17.3	17.1	15.8	16.7	17.5	18.2	12.9
Financial, Rental & Business Services	8.7	8.5	7.4	6.3	5.4	4.9	6.1
Services	6.7	6.7	6	6.8	7.4	5.8	5.3

Source: BPS (2009, 2010a, 2010b)

Savings and Investment to GDP Ratio (%)

Source: World Bank, IMF Country Selected Issues 2008

Figure 1. Saving and Investment to GDP Ratio: Indonesia, 2000-2009

It may also be noted that the fiscal stimulus package reported by Gunawan and Siregar (2009: 31–2) has been slightly strengthened. Proposed additional expenditure on infrastructure increased from Rp 10.2 trillion to Rp 12.2 trillion. This is expected to result in a budget deficit of Rp 139.5 trillion, or 2.5% of GDP (Ministry of Finance 2009). By implementing this package, the government managed to keep GDP growth of 4.5% in 2009. The increase of deficit resulting from this package is to be financed by unspent funds from the 2008 budget and additional loans, including stand-by loans, from bilateral and multilateral sources.

Turning to sectoral performance, we note that growth of the tradables sectors in aggregate has slowed only slightly in year-on-year terms by comparison with that of non-tradables, although the latter continued to

grow more than twice as fast. The picture is quite different, however, if we focus on the quarter-on-quarter growth rates of (seasonally adjusted) output: by Q1 2009, non-tradables growth had fallen back to be equal to that of tradables. Two main explanations suggest themselves. First, despite the dramatic reduction in exports, manufacturing output growth remained positive except in Q4 2008, suggesting that there has been a switch in domestic demand toward import substitutes and away from imports. Second, there has been a noticeable decline in the output of the trade, hotels and restaurants sector – especially severe in Q1 2009. Moreover, although the communications sub-sector continues to grow very rapidly, there has been a significant decline in its quarterly growth rate, from 9% to 5.4%, over the three most recent quarters.

Table 4. Realization of DI and FDI in Indonesia, 1990-2009

Year	Domestic Investment		Foreign Direct Investment	
	Project	Value (Rp billion)	Project	Value (US\$ million)
1990	253	2,398.6	100	706
1991	265	3,666.1	149	1,059.7
1992	225	5,067.4	155	1,940.9
1993	304	8,286.0	183	5,653.1
1994	582	12,786.9	392	3,771.2
1995	375	11,312.5	287	6,698.4
1996	450	18,609.7	357	4,628.2
1997	345	18,628.8	331	3,473.4
1998	296	16,512.5	412	4,865.7
1999	248	16,286.7	504	8,229.9
2000	300	22,038.0	638	9,877.4
2001	160	9,890.8	454	3,509.4
2002	108	12,500.0	442	3,082.6
2003	120	12,247.0	569	5,445.3
2004	130	15,409.4	548	4,572.7
2005	215	30,724.2	907	8,911
2006	162	20,649.0	869	5,991.7
2007	159	34,878.7	982	10,341.4
2008	239	20,363.4	1,138	14,871.4
2009	248	37,799.8	1,221	10,815.2

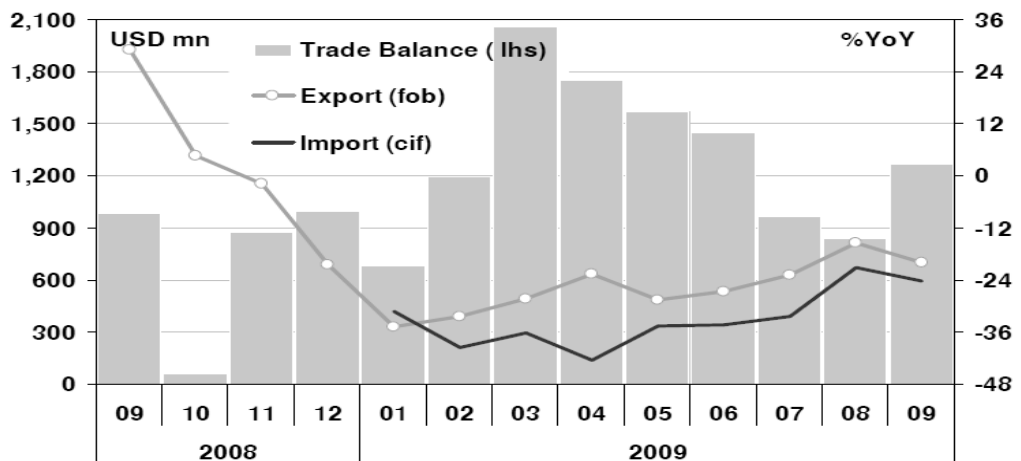
Source: BKPM (2010a)

Foreign trade data show a narrower trade surplus from March to August 2009, albeit start to recover in September (Figure 2). September showed a decent trade surplus of US\$ 1.27billions or over a 50% m-o-m rise, supported by a stronger decline in the value of imports compared to exports. This surplus stems from (Gunawan & Arman, 2009a; 2009b): first, the decline of Indonesia Minas crude oil prices, by 8.7% m-o-m, may have also contributed to the decline in crude oil exports. Second, most of the decline in non-oil & gas exports was due to the slide in commodity prices during the month. Third, exports values of mineral fuel/coal, vegetable oil (CPO), and rubber were down by 8.32%, 29.2%, and 9.4% m-o-m, respectively. The exports of copper, however, were up by 12.1% m-o-m. Japan, the United States and China were still the largest non-oil & gas exports destination for Indonesia, covering slightly more than 30% of total non-oil & gas exports. Fourth, non-oil & gas exports to Japan and Singapore continued to increase in September. Lastly, China data shows a month on month decline in imports of raw commodities such as coal for October; this might have somewhat impacted Indonesia's exports for the month.

On the other hand, we expect that imports may have stayed robust following the appreciating trend of the IDR.

IMPACTS OF THE GFC ON EDUCATION SECTOR

A fiscal stimulus package Rp 73.3 trillions or about US\$7.3 billions (1.4% of GDP Indonesia) proposed by the Government of Indonesia (GoI) was approved by the parliament. In terms of US dollar and percentage to GDP, the Indonesian fiscal stimulus package is much lower than those of developed countries but comparable to those of other Asian countries. Table 5 shows the fiscal stimulus packages announced for 2009–2010. The US, Germany, Japan, Malaysia, Republic of Korea, Thailand have the fiscal stimulus package US\$ 787 billions, US\$ 70 millions, US\$ 990.9 billions, US\$ 2 billions, US\$ 4.1 billions and US\$ 8.6 billions, respectively. During the two years, the United States has by far the largest package of fiscal actions, followed by Asia excluding Japan. Japan, the euro area, and the rest of the G-20 have so far announced considerably smaller fiscal packages (Freedman, *et al.* 2009).



Source: Gunawan & Arman (2009)

Figure 2. Indonesia's Foreign Trade

Many observers questioned why the package is predominantly on tax saving (tax cut) rather than direct spending. Table 6 represents the allocation of the package. Unlike the US government that allocated 40% for taxation and 60% the direct spending, about Rp56.3 trillions (80% of the total fiscal stimulus package) is allocated for taxation and duties. On the other hand, only Rp17 trillions (23.2%) is for the direct spending (infrastructure, direct subsidy, and energy).

It might be argued that the allocation of package into waivers of tax and duties is less effective to raise the competitiveness of the Indonesian industries. Theoretically, the stimulus package on tax saving will have a smaller multiplier effect than that of the government spending. Tax saving will be effective if there are still a lot of Indonesian companies operating and surviving. In fact, data from the Association of Indonesian Textile (API) shows that there have been more than 460 companies in textile and textile product industries bankrupt during the last three years. Therefore, if there are a lot of companies bankrupt, the fiscal stimulus package on tax saving becomes ineffective. The fiscal stimulus on import duties on raw materials & capital goods will also be ineffective if the smuggled goods still exist. Businessmen in electronic and TPT industries complain about the smuggled products from China and India. Their products are unable to compete with the smuggled product.

The GoI stated that the fiscal stimulus package Rp 73.3 trillions can stabilize the Indonesian economy as a counter-cyclical measure. The issue is which sectors will receive the most stimulus? The package will be distributed by the Ministry of Public Works (Rp6.6 trillions), the Ministry of Transportation (Rp2.2 trillions), Ministry of Agriculture (650 billions), Ministry of Energy and Mining (Rp500 billions), State Ministry of State Owned Enterprises (Rp500 billions), State Ministry of People Housing (Rp400 billions)

and other departments (less than Rp400 billions for each department).

The package have allowed the economy weather to the worst of the crisis in 2008, but rebound since the first half of 2009 and reduced unemployment. The open unemployment rate declined steadily from 11.24% in 2005 to 7.14% in August 2010 (Figure 3). Employment creation about 3.34 millions during August 2009 to August 2010 has accomodated 2.7 millions job seekers. The last has caused the number of unemployed decline from 8.93 millions to 8.32 millions, or dropped about 600 thousands.

Table 5. Fiscal Stimulus Packages 2009-2010 in G20 and Asia (as % of GDP)

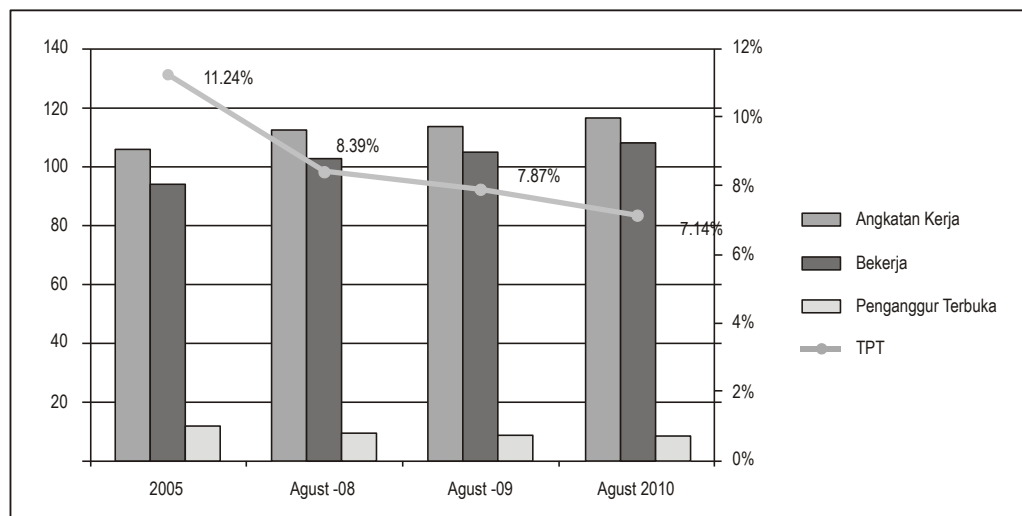
	2009	2010
United States	1.9	2.9
Tax cuts	0.9	1.2
Infrastructure	0.3	0.8
Other	0.6	1.0
Euro area	0.9	0.8
Tax cuts	0.3	0.3
Infrastructure	0.4	0.0
Other	0.2	0.4
Japan	1.4	0.4
Tax cuts	0.1	0.1
Infrastructure	0.3	0.1
Other	1.0	0.2
Asia excluding Japan	1.5	1.3
Tax cuts	0.1	0.1
Infrastructure	1.1	0.0
Other	0.3	1.2
Rest of G-20	1.1	0.3
Tax cuts	0.5	0.1
Infrastructure	0.2	0.1
Other	0.4	-0.1
Total (PPP-weighted)	1.4	1.3
Tax cuts	0.4	0.4
Infrastructure	0.5	0.3
Other	0.5	0.7

Source: IMF in Freedman, *et al.* (2009)

Table 6. Fiscal Stimulus Package, Indonesia 2009

No	Policy Measures	Rp Trillions	Share (%)	% of GDP
1	Income tax cuts for individuals and business	43	58.7	0.80
2	Waivers of taxes & import duties (mainly for business)			
	VAT on oil & gas exploration	3.5	4.8	0.07
	Import duties on raw materials & capital goods	2.5	3.4	0.05
	Income taxes of employees	6.5	8.9	0.12
	Income taxes of geo-thermal energy producers	0.8	1.1	0.02
3	Energy subsidy, government spending for business and additional government spending			
	Price reduction of Rp 300/litre for diesel fuel	2.8	3.8	0.05
	Discounted peak load electricity tariff for manufacturers	1.4	1.9	0.03
	Infrastructure	12.2	16.6	0.20
	Expansion of National Program for Empowerment of Society	0.6	0.8	0.01
TOTAL		73.3	100.0	1.40

Source: Ministry of Finance (2009) and Kuncoro (2009b)



Note: Angkatan Kerja= Labour Force, Bekerja=Working, Penganggur Terbuka=Open Unemployed, TPT= Open Unemployment Rate

Source: Alisjahbana (2011)

Figure 3. Labour Force, Workers, Unemployed, and Open Unemployment Rate, Indonesia 2005-August 2010

1. Government Commitment on Education

Despite budgetary adjustments, the Indonesian government continues to prioritize investment in education. This is reflected by the President Susilo Bambang Yudhoyono

(SBY)'s speech in front of the parliament. He highlighted that there are five major national programmes in 2010 (SBY, 2009). First, GoI will maintain people welfare, in particular the poor, and implement the social safety net. Second, GoI will improve the quality of

human investment. Third, GoI will improve bureaucratic reforms and laws, democracy, and national security. Fourth, GoI will recover the economy from GFC by supporting agriculture, infrastructure, and energy. Fifth, GoI will improve the quality natural resource and climate change management.

To develop Indonesia's education, in particular for higher education, Ministry of National Education set two key policy measures. Figure 4 highlights two key policy measures involve: (1) equality and access extension for education; (2) increase quality, relevance, and competitiveness.

As far as the government budget is concerned, Table 7 shows that Indonesia's Educational Budget increased sharply from Rp 33.4 trillions in 2005 to Rp 209.2 trillions (about US\$ 22.5 billions if the exchange rate is US\$1=Rp9,300) in 2010. The percentage of

education budget to total government expenditure increased from 6.5% in 2005 to about 20% during 2009-2010. Central government expenditure was higher allocated to Ministry of National Education than Specific Allocative Grants (DAK). From 2004 to 2008, the Indonesia's government spending on education was compared to other ASEAN countries (Table 8).

2. Key Indicators in Educational Sector

GoI target for access extension for education is to increase the number of higher education students from 14.3% in 2004 to 18% in 2009. Investments to develop new universities will rely on the role of private institutions while the role of GoI will focus on vocational and professional education in the existing universities.

Figure 4 Key Policy in National Education Development

Equality and Access Extension for Education :

- Increase access to universities.
- Utilize information technology and communication for distance learning.
- Recruit teaching staffs.

Increasing Quality, Relevance, and Competitiveness:

- Improve and implement national standard for education.
- Enhance quality assurance and benchmarking.
- Increase student's creativity, entrepreneurship, and leadership.
- Increase quality of academic publication and intellectual property rights.
- Accelerate number of study programmes, vocations, and professions.
- Encourage number of universities in 100 Top Asia and 500 Top World Universities.

Source: Summarized from Ministry of National Education (2010)

Table 7. Education Budget and Other Government Expenditure, Indonesia 2005-2010 (in Trillion Rp)

Description	2005	2006	2007	2008	2009	2010
Central Government Expenditure	361.2	440.0	504.6	693.3	696.1	699.7
Ministry of National Education	23.1	37.1	40.5	45.3	61.5	54.7
Ministry of Religion	6.5	10.0	13.3	16.0	23.3	23.7
Ministry of Defence	20.8	23.9	30.6	32.9	33.7	40.6
Ministry of Public Works	13.3	192.2	22.8	32.8	35.0	34.2
Other Ministries/Institutions	297.5	176.8	397.4	566.3	542.6	546.5
Subsidy to Regions						
Revenue Sharing Grant (DBH)	50.5	64.9	62.9	78.4	74.1	76.6
General Allocative Grant (DAU)	88.8	45.6	64.7	79.5	186.4	195.8
Specific Allocative Grant (DAK)	3.9	11.5	16.2	20.7	24.8	20.5
Additional Fund for DAU/Professional Allowance	7.2	4.1	9.3	13.7	24.2	16.8
Total of Education Budget	33.4	44.1	53.1	158.5	208.3	209.2
Government Expenditure	509.6	667.1	757.60	985.7	1,000.8	1,047.0
% of Government Expenditure	6.5	6.6	7.0	16.1	20.8	20.0

Source: Ministry of Finance, various years

Table 8. Percentage of Public Expenditure on Education in ASEAN, 2004-2008

Country	Public Expenditure on Education as % of Total Government Expenditure				
	2004	2005	2006	2007	2008
Indonesia	9	14.9	17.2	18.7	17.9
Laos	11	11.7	14.0	15.8	12.2
Malaysia	20.3	N/A	N/A	18.2	17.2
Philippines	17.8	15.2	16.7	15.9	16.9
Singapore	N/A	N/A	N/A	N/A	15.3
Thailand	27.5	25	25	20.9	25.7
Vietnam	17.1	N/A	N/A	N/A	19.8

N/A means data not available.

Source: UNESCO Institute for Statistics database

The GFC has not affected Crude Participation Rate (CPR) and number of students in Indonesia. CPR for general and theology universities has increased steadily from 15.2% in 2005 to 17.75% in 2007. Table 9 shows that total number of students in various universities increased from 3.86 millions in 2005 to 4.5 millions in 2008. The increasing trend are enjoyed in particular by state universities,

open university, and theology universities. The GFC has not affected the interest of students to get higher education at Indonesia's universities. CPR in 2008 was 17.75%, higher than 2008 target of 17.19%. It increased slightly than the CPR in 2007 (17.25%).

Although the increase on CPR is not high, the number of university students persisted to increased in particular in Java Island. The role

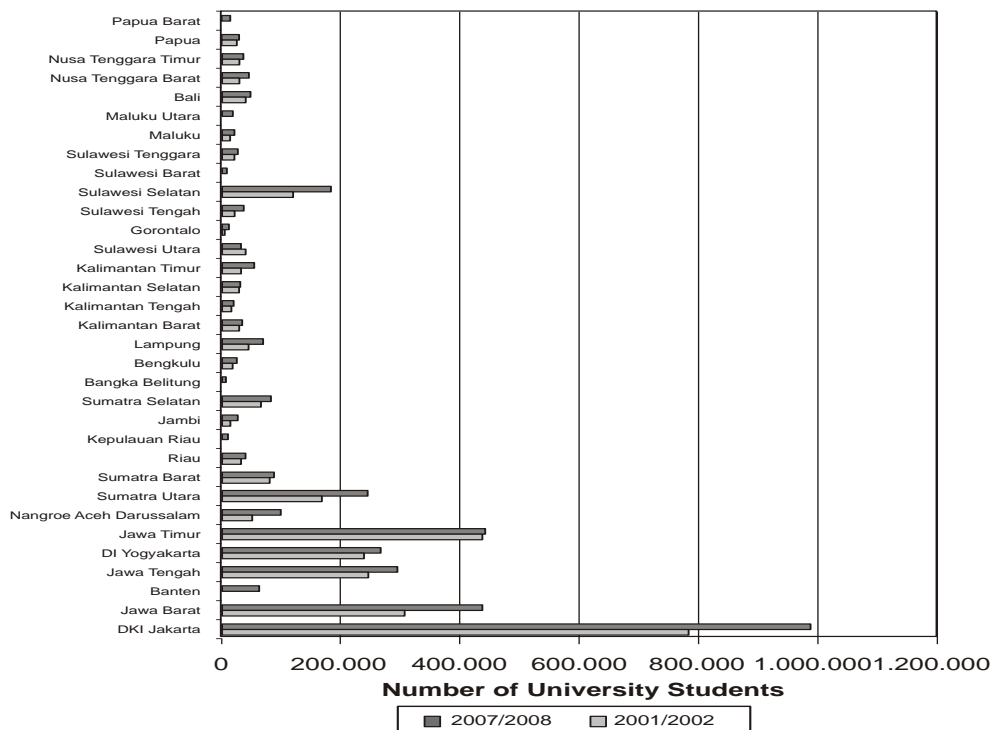
of Jawa in terms of number of students has been about 57% to 69% during 2001-2008. Universities in Jawa are distributed unequally across provinces. Most students prefer to choose universities in Jakarta Capital City, West Jawa, and East Jawa province, followed by Central Jawa, Yogyakarta (DIY), and

Banten (Figure 5). Outside Jawa, university students prefer their studies in Sumatra Island (predominantly in North Sumatra, South Sumatra, West Sumatra province) and to much lesser extent Sulawesi island (especially South Sulawesi province) (Figure 6).

Table 9. University Crude Participation Rate (CPR), Indonesia 2005-2008

No	Component	Year			
		2005	2006	2007	2008
1	19-24 Years Old Population	25,306,600	25,349,300	25,350,900	25,359,000
2	Total Students	3,855,596	4,285,645	4,375,506	4,502,100
3	State Universities	805,479	824,693	836,662	953,224
4	Open University	251,318	332,854	400,746	521,281
5	Private Universities	2,243,761	2,567,879	2,567,879	2,410,276
6	Special Universities	48,493	51,318	51,318	47,252
7	Theology Universities	508,545	518,901	518,901	570,067
8	Crude Participation Rate (%)	15.24	16.69	17.25	17.75

Source: Ministry of National Education (2010)



Source: Calculated from Ministry of National Education (2010)

Figure 5. Number of University Students in Indonesia, 2001/2002 and 2007/2008

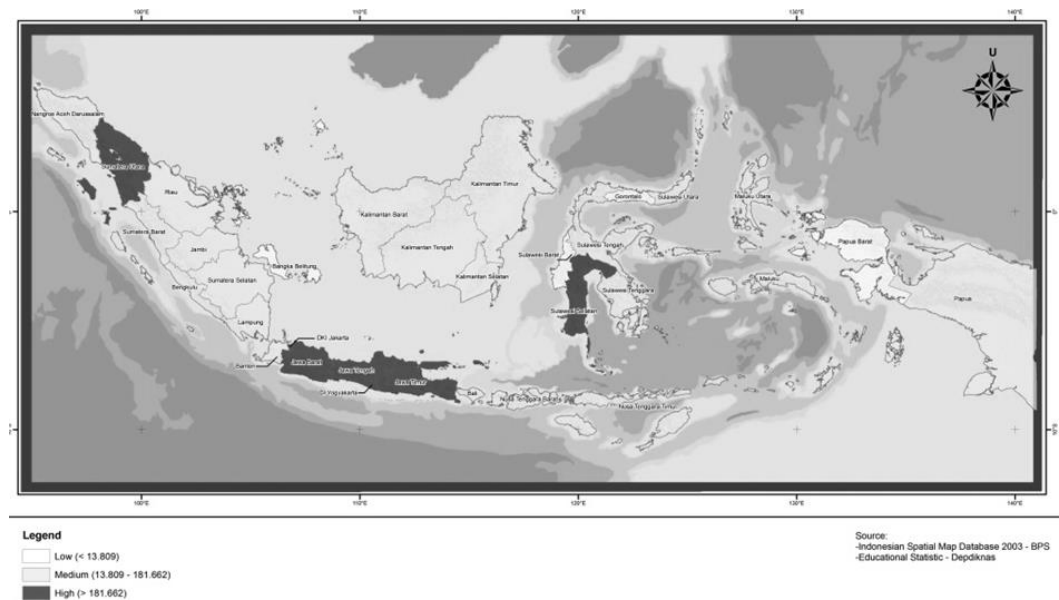


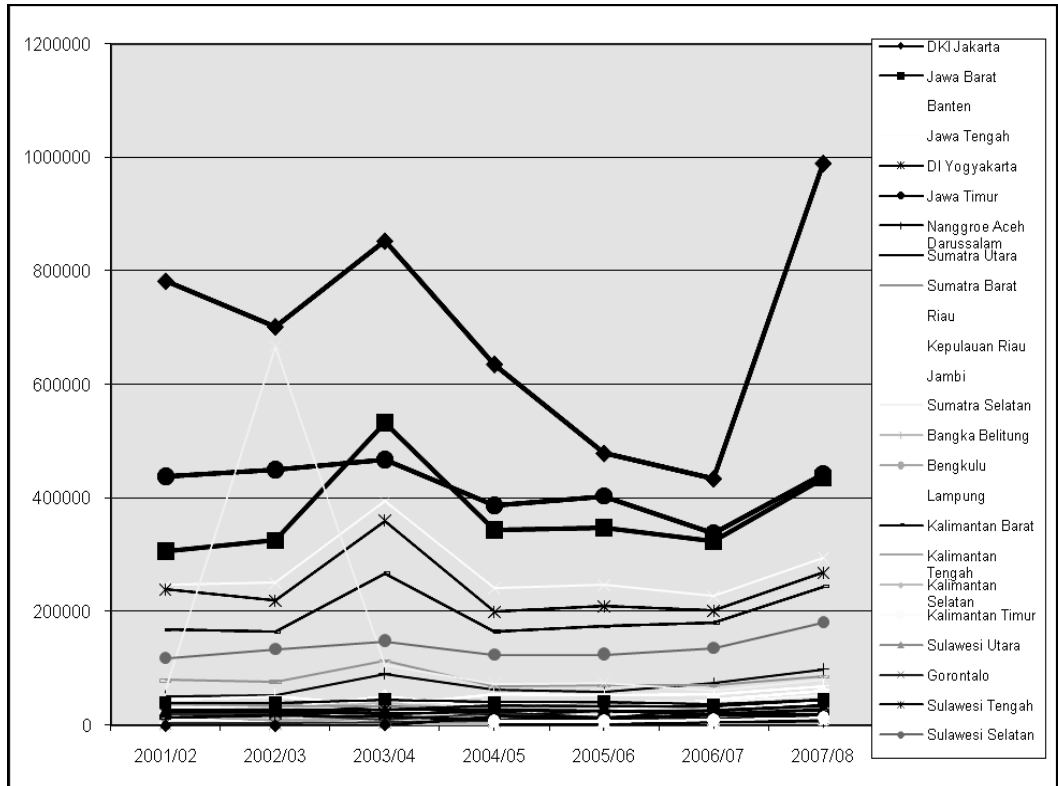
Figure 6. Spatial Pattern of Universities Students By Provinces/Island: Indonesia 2007/2008

Most students prefer to choose universities in Jawa (Jakarta Capital City, West Jawa, and East Jawa province, followed by Central Jawa, Yogyakarta), Sumatra (in particular North Sumatra), and South Sulawesi. Those provinces are highlighted by dark colour. Nevertheless, Figure 7 shows the trend of university students vary and fluctuate considerably across provinces.

Total number of Indonesia's universities comprise of 83 state universities and 2,884 private universities, with 15,170 study programs in diploma, undergraduate, professions, master, and doctorate level. In 2006, from 8.250 study programs, number of lecturers with Master and PhD degree were 116.489 from 215.640 lecturers or about 54% (Table 10). In 2008, from 11.277 study programs, number of lecturers with Master and PhD degree were 130.133 from 245.750 lecturers or about 52%. In state universities, 64,64% of 72,473 lecturers have held Master and PhD

degree, relatively higher than other type universities.

Based on *Times Higher Education Supplement* (THES), 3 study programs in Gadjah Mada University (UGM) has been included in 100 top world universities in 2006. Those are social, culture, and bio-medicine sciences, with rank of 47, 70, and 74 respectively. In the same year, THES put 4 Indonesia's universities in the list of 500 Top World Universities, i.e. UI (rank 250), ITB (rank 258), UGM (rank 270), and Undip (rank 495). Moreover, open university has received accreditation from ICDE. Those five world class universities served about 13% of total Indonesia's students. Table 7 indicates that these indicators have not changed a lot in 2008. In Asia, based on Webometric, only two universities are listed in the 100 top best universities in Asia in 2008, i.e. UGM (rank 64) and ITB (rank 71).



Source: Calculated from Ministry of National Education (2010)

Figure 7. Number of University Students in Indonesia, 2001-2008

CONCLUSION

This paper has examined to what extent the unprecedented global financial crisis has affected the Indonesia's economy. The differences between Indonesia's experience of the Global Financial Crisis (GFC) and AFC in 1997-98 have been illuminated. The scope of response requires provisions and policy space that allow Indonesia to adopt stimulus and recovery plans that provide stimulus and sustained recovery, but also builds in safety nets for the poor, vulnerable and disempowered households. The needed response clearly points to counter-cyclical policies as have been adopted in fiscal stimulus package and easy money policy. In terms of US dollar and percentage to GDP, the Indonesia's fiscal stimulus package is much lower than those of

developed countries but comparable to those of other Asian countries. Less exposure to external shocks from the international trade and expansionary fiscal policies in particular allowed the economy weather the worst of the crisis in 2008 and rebound since the first half of 2009.

The government's priority on the development of education— together with achieving quality growth, reducing poverty, creating jobs, improving infrastructure— have accelerated the economic recovery and improved key indicators in education. Despite budgetary adjustments, the Indonesian government continues to prioritize investment in education. Indonesia's Educational Budget increased from Rp208.3 trillions to Rp 209.2 trillions and the percentage of education budget to total

Table 10. Key Performance Indicators, Indonesia 2005-2008

No	Key Performance Indicators	2005	2006	2007	2008
1	Qualified lecturers (Master/PhD)	50%	54,02%	50,64%	52,05%
2	Total study program included in 100 top Asia, 500 top world, or accredited by OECD/international (cumulative)	One study program in UGM got 58 world ranking and Open University got accreditation from ICDE	UI (rank 250), ITB (rank 258), UGM (rank 270), Undip (rank 495) that have 476 study programs included in 500 world ranking. Three study programs in UGM included in 100 world ranking. Open University with 47 study programs got accreditation by ICDE. Total of international level study programs = 682 study programs that serve more less 13% of Indonesian students.	UGM (rank 360), ITB (rank 369), UI (rank 395), Undip (rank 401-500) dan IPB (rank 401-500) that have 858 study programs included in 500 world ranking. Open University with 47 study programs got accreditation from ICDE. Total of international level study programs = 858 study programs that serve more less 14% of Indonesian students.	UI (rank 287), ITB (rank 315), UGM (rank 316), that have 520 study programs included in 500 world ranking. Open University with 47 study programs got accreditation from ICDE. Total of international level study programs = 567 study programs that serve more less 12% of Indonesian students.
3	Total copyright achieved	4	11	32	43
4	Increase in international publication	7,50%	25%	43%	43%

ICDE= International Council for Open and Distance Education

Source: Ministry of National Education (2010)

government expenditure persisted about 20% during 2009-2010. As a result, the GFC has not affected CPR and number of students in Indonesia significantly. The GFC has not affected the interest of students to get higher education at Indonesia's universities. The total number of students in various universities increased from 3.86 millions in 2005 to 4.5 millions in 2008, in particular in state universities, open university, and theology universities. Number of students declined in several years for some provinces is very likely due to natural disasters.

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