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**A Research Guide
on the Indonesian Economy**

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Introduction

Indonesia's remarkable macroeconomic and trade performance in the 1970s and 1980s has motivated comparison with the high performance Asian tigers and has provided strong evidence for economic reform contributions to export led growth. In the 1970s, the Indonesian government took several largely unprecedented steps among developing countries, such as permitting free capital convertibility and implementing a major exchange rate devaluation to prevent Dutch Disease. During the 1980s, this OPEC member and major international debtor faced severe world oil price, exchange rate, and interest rate shocks. Sensible policy changes and the promotion of non-oil exports prevented Indonesia from defaulting on its foreign debt obligations and from slipping into macroeconomic instability.

Indonesia's non-oil export success in the 1980s has helped the country to lessen its dependence on a non-renewable natural resource as the main source of foreign exchange. The country ranks among the world's highest debtors and requires stable foreign exchange inflows from non-oil exports to maintain its perfect debt repayment record. Non-oil export earnings also allow Indonesia to import more capital goods for investment, intermediate inputs for manufacturing and agriculture, and a greater variety of consumer goods. With the world's fourth largest population and almost 60 percent of the population under the age of 25, a prospering labor-intensive

manufacturing sector offers new employment opportunities. Rapid expansion of Indonesia's non-oil exports contributed to an average real GDP growth rate of 5.5 percent annually during the 1980s, compared to 0.5 percent for the Middle East and North African countries and 1.7 percent for severely indebted countries.

However, particularly rapid import growth after 1986, combined with Indonesia's rising debt indicators, may form a less enviable aspect of Indonesia's macroeconomic and trade experience. Indonesia's accelerated debt accumulation after 1986 reflects higher dollar debt values following world exchange rate realignments, the need to offset oil revenue shortfalls, and a jump in short-term borrowing as domestic investment opportunities proliferated following deregulation. A surge in private savings after 1986 contributed to strong investment growth and improvements in the current account. Direct foreign investment also responded favorably to deregulation in the financial and industrial sectors.

This cursory account cannot do justice to the tremendous changes which have taken place in Indonesia's policy environment and economic performance. However, the development and international economics literature provides ample description of Indonesia's economic policies and trends. The following research guide organizes much of that literature into sections on policy and performance across sectors. The guide includes citations for 119 journal articles, 58 books, 24 book chapters, 21 working paper series, 9 data sources, and 7 mimeographs.

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