

**ANALYSIS OF JEFFREY SACHS'S BIG PUSH THEORY:
INDONESIAN CASE**



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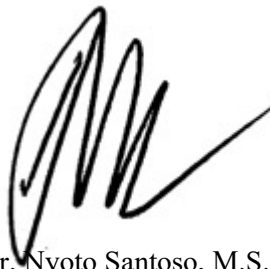
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I. Introduction

The first thing mentioned in Sustainable Development Goals (SDGs) is to end poverty in all its forms everywhere. Every year, many institutions release their global poverty reports to emphasize that eradicating poverty is a never-ending battle. United Nations (2021) on their SDGs report stated that before the COVID-19 pandemic, the share of the world's population living in extreme poverty fell from 10.1 per cent in 2015 to 9.3 per cent in 2017. This means that the number of people living on less than \$1.90 per day dropped from 741 million to 689 million. However, the rate of reduction had slowed to less than half a percentage point annually between 2015 and 2017, compared with one percentage point annually between 1990 and 2015. The pandemic has compounded the threats to progress raised by conflict and climate change. Estimates suggest that 2020 saw an increase of between 119 million and 124 million global poor, of whom 60 per cent are in Southern Asia. Nowcasts point to the first rise in the extreme poverty rate since 1998, from 8.4 per cent in 2019 to 9.5 per cent in 2020, undoing the progress made since 2016. The impacts of the pandemic will not be short-lived. Based on current projections, the global poverty rate is expected to be 7 per cent (around 600 million people) in 2030, missing the target of eradicating poverty. From this fact we can learn that many countries are still trying to regain their stability due to global pandemic. Some sectors could perform new strategies adapting to new normal but the others collapsed.

One of the well-known economists with decades of experience in reducing global poverty is Jeffrey Sachs. He came with an interesting theory called the Big Push. If low-income equilibrium traps are important in economic development—so that a big push is necessary for development—then natural resource booms can be potentially important catalysts for growth and development. After all, the big push literature, exemplified by Rosenstein-Rodan (1943, 1961) and Murphy et al. (1989), stresses that poor economies need some sort of large demand expansion, to expand the size of the market, so that entrepreneurs will find it profitable to incur the fixed costs of industrialization. In the big-push logic, anything that stimulates demand will do, whether a large public spending program, foreign aid, discovery of

minerals, or a rise in the world price of a natural resource (Sachs and Warner 1999, p.43).

II. Discussion

The World Bank (2021) mentioned that Indonesia has made enormous gains in poverty reduction, cutting the poverty rate by more than half since 1999, to just under 10 percent in 2020. With its economy impacted by the pandemic, Indonesia went from upper-middle income to lower-middle income status as of July 2021. The pandemic also curtailed Indonesia's achievement in reducing its poverty rate, from the record-low of 9.2 percent in September 2019 to 10.4 percent as of March 2021. The World Bank is supporting Indonesia's COVID-19 emergency response, including strengthening elements of emergency response to the pandemic, enhancements to social assistance and health care systems, and actions to strengthen the resilience of the financial sector. Besides, other issue supported by The World Bank in Indonesia is climate change. One of the programs is the preparation of a Mangrove for Coastal Resilience in line with the Government's National Mangrove Program and the design and implementation of carbon pricing instruments as they play critical roles in increasing financing for climate actions.

Another ODA given to Indonesia is Australia's aid program. As a neighboring country, Australia has been maintaining strategic relationship with Indonesia for a long time. Australian Embassy Indonesia announced that The Australian Government provided an estimated \$375.7 million in total ODA to Indonesia in 2015-2016, including an estimated \$323 million in bilateral funding managed by DFAT. Australia and Indonesia's broad partnership encompasses political, security, trade, economic and development cooperation. It is underpinned by substantial people-to-people and institutional links. Around 13,700 Indonesian students were enrolled in Australian educational institutions in 2014, the eighth-largest international student group. Indonesia is currently our 12th-largest trading partner. Its location, geography and demography give Indonesia an important geopolitical and strategic role in the region. Sustainable and inclusive economic growth in Indonesia benefits Australia and contributes to regional growth and stability. Furthermore, this aid has resulted greatly. In 2015, 866 Australia Awards scholarships were provided to Indonesian citizens. In terms of healthcare, in 2014-

2015, 25,078 additional births in Eastern Indonesia were attended by a skilled birth attendant. There has been a 31 per cent increase in the number of births delivered in a facility from 2009 to 2014, and over the same period the number of maternal deaths decreased by 40 per cent. 21,943 poor women and men accessed new agricultural technologies and resources in 2014. Moreover, in 2014, 464,034 people had improved access to clean water or sanitation. In addition, Australia's women's empowerment program supported the development of 950 local women's groups across Indonesia, which will help their 17,409 female members to participate in policy-influencing activities in areas such as increasing women's access to jobs and strengthening women's leadership to reduce violence against women.

On the other hand, Indonesia is the biggest recipient of Japanese ODA. The history of the cooperation dates back even before the establishment of diplomatic relations. In 1954, right after its participation in the Colombo Plan, Japan accepted 15 trainees from Indonesia for the first time. Since the establishment of diplomatic relations in 1958, Japan has consistently provided support to Indonesia until today. Japan is the largest donor country in Indonesia, accounting for 45% of the cumulative total of ODA to Indonesia since 1960. Meanwhile, among 190 countries and regions where Japan has provided ODA, Indonesia is the largest recipient country (1960-2015, 11.3%). The priority areas designated by JICA are assistance for further economic growth, assistance for correction of inequality and establishment of a safe society, and assistance for the enhancement of capacity to address issues of Asian region and international society (JICA).

As an emerging natural-resource-abundant economy, Indonesia is heavily dependent on commodity exports. Asialink Business Australia stated that Indonesian industrial sector accounted for 40 per cent of GDP in 2015. Significant foreign direct investment and government incentives have positioned the industry for future growth. Major industrial sectors include petroleum and natural gas, textiles and apparel, mining, footwear, plywood, rubber and chemical fertilizers. The services sector is equally as important to Indonesia's economy, accounting for 43 per cent of GDP in 2015. Agriculture on the other hand only accounted for 14 per cent. In terms of foreign aid involved, it can be traced back to post-independency. A study conducted by Chowdhury & Sugema (2005) explained that

with the improvement of relationship with the Western countries after the demise of the Old Order regime of President Soekarno, Indonesia received a large volume of foreign aid that played a crucial role in the recovery of the economy. Indonesia remained a significant recipient of foreign aid throughout the 1970s and 1980s. The certainty of aid flows helped the government to follow the balanced budget principle, but made the government lazy in terms of domestic resource mobilization. As a result, despite significant progress, Indonesia's external debt burden remains high, and it has little ability to handle crisis without substantial foreign aid. Because of weak revenue base, the uncertainty regarding fiscal sustainability remains unresolved. As for foreign aid and official development assistance received by Indonesia from 1960 until 2019, the average value was 789.28 million USD with a minimum of -629.95 million USD in 2019 and a maximum of 2,489 million USD in 2005. Meanwhile, the latest value from 2019 is -629.95 million USD. For comparison, the world average in 2019 based on 131 countries is 840.02 million U.S. dollars (World Bank in The Global Economy).

Regarding aid effectiveness, current Minister of Finance of the Republic of Indonesia Sri Mulyani Indrawati wrote that implementation issues are as important as overall strategy for accessing and utilizing foreign financing. These issues are improving quality of project preparation, a need for a more open and honest debate on the policy issues that are part of foreign assistance programs, attempts to learn from stakeholders in a participatory fashion sometimes provide confusing signals to NGOs on how important their input is, coordination problems, maintaining common standards such as 'zero tolerance towards corruption in projects' or a strong commitment to poverty reduction in government policy, a need for a more aggressive resolution to the problems for providing foreign assistance to the local level, recent reforms of government procurement procedures must be followed-up to continue institutional development especially for the National Public Procurement Office (NPPO), and the last is sustainability of projects is often a weak point in development programs.

III. Conclusion

The Big Push has great impact on Indonesia's development, especially in trade and business sectors. Foreign aids created better environment where enterprises thrives—no matter small or big they are. This condition is in line with Sachs (2005) saying, poor countries with large populations seem to have done better than poor countries with smaller populations. The larger population probably increased the size of domestic market, making it more appealing to foreign and domestic investors. Perhaps it was easier to introduce key infrastructure such as roads and power supplies in countries with larger populations, since these infrastructure networks are characterized by larger and more densely populated economies. Along with the economic boost, in the near future, Indonesia will turn from recipient to donor country just like Korea.

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