Changes in Indonesian Export Commodities from Oil and Gas to Non-Oil and Gas, 1979-1987

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Abstract

.Through four stages in the historical methods, this article examines the problem regarding the relationship between the oil and gas crisis in 1981 and government's effort in developing non-oil and gas export using an economics approach method. Indonesia's economic condition in 1979-1980 was marked by the triumph of oil revenues due to the increase in international oil prices, which reached US$32/barrel. Indonesia, as an exporter country, takes advantage of this condition by doubling its oil export volume. Two years of running, high oil prices have indirectly caused Western industrial countries to feel burdened and unabled to buy oil supplies; therefore, there was an overflow of oil supply in the international market. The government carried out a non-migration export campaign marked by the issuance of PP No. 1 of 1982, concerning the 1982 Export Policy Package. After the campaign, the value of non-oil and gas exports did not increase, as evidenced by a decrease of 0,87% in 1983, from US$3.928 million to US$3.894 million. Therefore, the government formulated regulations for non-oil and gas exports with the Policy Package of May 6, 1986, accompanied by devaluation in the same year. Through these efforts, the value of non-oil and gas exports increased significantly, reaching US$9.502 million in 1987, or an increase of 41% from 1986. Remarkably, in 1987, the value of non-oil and gas exports for the first time exceeded oil and gas exports, with US$661 million deviations.

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Introduction

Petroleum plays a crucial role in both the economy and human lives. Since its initial exploration in North Sumatra in 1883, Indonesian petroleum has held a significant role in international trade, particularly during the colonial period. During this era, oil extraction activities were governed by the Mining Law of the Dutch East Indian government, known as the Indische Mijnwet, established in 1899. This legal framework facilitates foreign investment in the petroleum-mining sector. Among the various petroleum companies, the so-called "Big Three"—Shell, Stanvac, and Caltex—dominated oil and gas extraction in the Dutch East Indies region (Maarif 2014, 48).

Following Japan's defeat in the Allies, a power vacuum emerged, prompting the Allies to encourage local fighters to assume control of various oil and gas fields and installations, framing this as a matter of people's rights. This encouragement was met with a governmental response leading to the establishment of a national oil and gas industry. The government, through the Minister of Industry and Trade, assumed control of the North Sumatra Oil Mine (TMSU), subsequently transforming it into the PT Exploration of North Sumatra Oil Mine (PT ETMSU). On December 10, 1957, the entity was renamed PT Perusahaan Minyak Nasional (PT PERMINA). On May 24, 1958, the company successfully loaded its inaugural crude oil production onto Shozui Maru (3000 dwt), amounting to

13,400 barrels or 1,700 tons valued at US$30,000. This event marked the commencement of North Sumatra's first post-independence oil export history (Ma'arif 2014, 49).

A few years later, replacement government regulation (Prp) Law No.44 of 1960 on Oil and Gas Mining was issued, which stipulated that foreign companies were no longer granted concession rights, but could only act as contractors. The government also issued Law No.19/19/1960 on State Companies and subsequently gave rise to three state companies: PN Permina, PN Permigan, and PN Pertamin. The last company became PN Pertamina, a state company with a high concentration of oil and gas. This major decision was able to increase national oil and gas production and boost oil and gas export revenues in 1960 to 26% or an increase of 3% compared to 1955. Oil prices are influenced by the availability or supply of oil by producing countries, both members of the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC producing countries. The oil supply is closely related to production capacity, investment capacity, and refinery infrastructure. The world oil price is largely determined by producing countries.

Fluctuations in global oil prices are influenced by the actions of petroleum-producing countries. This situation led to an oil boom following the Arab-Israeli crisis of the mid-1970s. The crisis had a significant impact on Indonesia's economy, benefiting from the surge in global oil prices during that time. However, this favorable condition was short-lived, as oil prices escalated to US$32 per barrel, overwhelming Western industrialized nations and eventually leading to a decrease in their ability to purchase oil. This shift again affected Indonesia's economy, which initially gained from rising oil prices but then faced a loss in revenue due to a sharp drop in demand. Given that oil accounts for more than half of Indonesia's total income, the crisis has led to economic stagnation (Halimatussadiah 2004, 16). Without prompt action, a nation's foreign exchange earnings are at risk. Consequently, to address the decline in world crude oil prices and the resulting decrease in foreign exchange, it is necessary to identify new sources of foreign exchange beyond oil. In response, the government-initiated measures to promote non-oil and gas exports leveraging Indonesia's abundant non-oil and gas natural resources. This context sets the stages for the five main focuses discussed in this study. First, what was the condition of the Indonesian economy before the 1981 economic crisis? Second, what was the process of the non-oil export campaign and what policies supported non-oil exports? Third, how did Indonesian exports develop after the 1982 non-oil export campaign? Fourth, how did the increase in non-oil exports affect Indonesia's macroeconomics and microeconomics in 1987? Fifth, why was there a change in commodities from oil and gas to non-oil and gas commodities?

Method

This article adheres to the framework delineated by Gottschalk (1986, 95-117) and is organized around four stages of the historical method. These stages include heuristics, collection of sources, criticism, validation of historical sources, interpretation, historiography, and the writing of history. The primary sources employed in this study are Government Regulations obtained from the National Legal Documentation and Information Network (JDIH) page of the Financial Management Agency (BPK); annual reports from Bank Indonesia, Financial Memorandum, and RAPBN accessed via the Ministry of Finance website; and annual statistical reports from the Central Statistics Agency (BPS). Additional primary sources include contemporary newspapers, specifically Berita Nasional newspapers acquired from the Jogja Library Center. Secondary sources were gathered through literature reviews encompassing books and articles on similar topics, works by relevant scholars and historians, and related journals. The subsequent stage involved verification, which was accomplished by comparing the collected sources to evaluate their credibility and authenticity. The next stage is interpretation, which entails synthesizing facts from historical sources. The final stage is historiography, which involves the writing of history.

Indonesia's Economy Before the Crisis

At the conclusion of the PELITA II period from to 1978-1979, Indonesia's economic growth rate demonstrated resilience among both developing and developed nations despite the global economy experiencing stagnation due to elevated inflation rates. The government is primarily responsible for the issue of high inflation. The general population perceives inflation as a significant burden, and anticipates that the government will manage and reduce it to a reasonable level. However, controlling inflation effectively poses a considerable challenge, particularly for the Indonesian government. Following the devaluation enacted through the November 15, 1978, Policy, known as Knop 15, there was a noticeable lack of commitment to rationalizing the flow of goods and services to counterbalance the demand pressures arising from the devaluation and other external factors. The evolution of Knop 15 was indirectly affected by fluctuations in exchange rates, notably the depreciation of the rupiah against the US dollar and other foreign currencies, commonly referred to as devaluation. The devaluation from Rp 415/US$1 to Rp 625/US$1 aimed to provide a price advantage to domestic industries, particularly labor-intensive sectors, such as agriculture and handicrafts (EKI Vol. XXVII No. 3 1979, 287-288).

Indonesia's Export Condition Post Knop 15

Knop 15 is designed to enhance the competitiveness of export goods in the global market, including wood and its processed products, rubber, and textiles. Additionally, Knop 15 aims to bolster the competitiveness of domestic production against imports by offering a 50% exemption from import duties and import VAT on several types of raw and auxiliary materials used in domestic production. The export performance during 1979-1980, particularly following the implementation of Knop 15, demonstrated a significant increase, with a 54% rise in exports of petroleum and liquefied natural gas, and a 55% increase in exports excluding petroleum and liquefied natural gas. Knop 15 successfully elevated exports excluding petroleum and liquefied natural gas from US$3,649 million to US$5,585.6 million (Sagir 1985, 94).

In addition to petroleum and liquefied natural gas (LNG), the primary exported commodities include timber, rubber, coffee, tin, palm oil, and shrimp, with timber being the foremost among them. During the period of 1979-1980, the value of timber exports reached US$1,969 million, attributed to a significant increase in unit prices, which rose by 90%, alongside a rise in global timber prices. This development is closely linked to the government's role in implementing export support policies across various sectors. The first sector pertains to taxation, where the government expanded the range of goods eligible for Export Certificate facilities from 29 to 55 types, including the wood industry. To bolster timber production exports, holders of Forest Concession Rights (HPH) and timber exporters with mandatory savings funds were permitted to utilize these funds for investment in new or existing business ventures. The second sector involves trade administration, where efforts were made to enhance and streamline export procedures. These efforts included extending the validity of the Trade Business License (SIUP) from three to five years and revising the classification of trade businesses from four to two classes. Additionally, a single form E-3 was introduced, provided that the exported goods incurred the same tax amount in a single shipment. In the textile export sector, the government implemented policies altering exporter access, restricting it to registered textile exporters. The third sector focuses on export competitiveness, where the government expanded the range of export goods requiring promotional efforts with term payment requirements or a Letter of Credit (L/C). To foster the growth of the finished goods export industry, the government introduced new credit facilities and ceased the extension of credit terms for financing these exports. To explore new markets, Indonesian trade centers were established in New York, Hamburg, London, and Jeddah. As part of ASEAN trade cooperation, a system of preferences known as the ASEAN Preferential Trading Arrangements was approved (NK RAPBN 1980/1981, 52-65).

Despite the increase in the value of non-oil and gas exports for most commodities, petroleum and liquefied natural gas exports continued to dominate Indonesia's export profile. In the fiscal year 1979/1980, petroleum and liquefied natural gas exports constituted 64.75% of the total export value, with crude oil and oil products accounting for 57% and liquefied natural gas for 7.75%. The value of petroleum exports rose by 46% to US$9,979 million compared to the previous year, even though the export volume declined from 503 million barrels to 442 million barrels. This significant increase in the value of petroleum exports was closely linked to the repeated adjustments in petroleum export prices during 1979-1980, in response to rising international oil prices. The escalation in international oil prices also resulted in increased tax revenues from oil companies. Oil company tax revenue, a form of direct tax on domestic revenue alongside indirect taxes and non-tax revenue, contributed to domestic revenue reaching Rp 6,697 billion in 1979-1980, marking a 57% increase from the previous year. Correspondingly, expenditures on oil were substantial, primarily due to routine expenditures such as fuel oil subsidy payments, which were necessitated by the rise in international oil prices. To alleviate the subsidy burden and augment development funds, the government implemented a domestic fuel price increase of 36% and 56%. The fuel prices were set at Rp 140 for super 98, Rp 100 for avigas, avtur, and premium, Rp 35 for diesel oil, Rp 30 for diesel oil and fuel oil, and Rp 25/litre for kerosene (EKI Vol. XXX 1982, 216).

Unregulated fluctuations in oil prices can adversely impact a nation's economy. Such fluctuations may result in a decline in production output, as increasing prices indicate a reduction in the availability of essential production inputs. This phenomenon is exemplified by the value and volume of petroleum exports in 1980/1981. During this period, the value of petroleum exports increased by 41% to US$14,088 million, while the volume decreased by 1.8% to 434 million barrels. Specifically, crude oil exports declined by 2.8%, whereas exports of oil products rose by 5%. The reduction in oil export volume is closely associated with the increased use of oil for refining purposes, driven by a rise in domestic fuel oil (BBM) consumption. Domestic petrol consumption continued to rise, reaching 145 million barrels, a 12% increase in 1980. Given that domestic oil refining outputs were suboptimal and insufficient to meet demand, 13 million barrels of fuel were imported. In 1980/1981, to mitigate reliance on fuel imports, the government expanded oil refineries in Cilacap and Balikpapan and initiated the establishment of a Hydrocracker project in Dumai, aimed at processing residual wax into various products, including kerosene and diesel. These conditions ultimately led to an increase in petrol production costs. On 1 May 1980, the government raised the selling price of fuel by an average of 50%, resulting in prices of Rp 220 per liter for super, Rp 150 for premium, avgas, and avtur, Rp 52.50 for diesel oil, Rp 45 for diesel and fuel oil, and Rp 37.50 for kerosene (Bank Indonesia Annual Report 1982, 80-131).

Implementation of a Series of Non-Oil and Gas Export Campaign Policies in 1982

The increase in oil prices resulting from the political crisis in the Middle East proved to be a fortuitous development for Indonesia, as the nation benefited from substantial oil revenues during that period. However, this rise in oil prices concurrently escalated the government's subsidy burden, necessitating the allocation of increased state budget funds to mitigate the actual cost of oil. Additionally, the government recognized the depletion of petroleum reserves amidst rising domestic oil consumption demand. Consequently, the Indonesian government devised a strategy to promote exports beyond petroleum and liquefied natural gas to safeguard the economy from potential adverse conditions. This strategy was implemented through the 'Export Policy of 1982,' which encompassed two components: a comprehensive policy outlined in Government Regulation (PP) No. 1 of 1982, and a more targeted policy linking government imports funded by the state budget and export credits from abroad with non-oil and gas exports.

Subsequent policy measures focused on commodity diversification, particularly in timber, coffee, and tobacco. To foster the growth of the domestic timber industry, the government implemented measures concerning the allocation of log exports and the plywood export trade system. Plywood exports were restricted to registered plywood exporters recognized by the Ministry of Trade and cooperatives, specifically plywood industry companies or exporters with marketing contracts with such companies. Furthermore, a surge in global coffee production prompted the International Coffee Organization (ICO) to reduce the coffee export quota for its member countries, including Indonesia, from 138,000 tonnes to 130,893 tonnes. In response, the government provided a stimulus in the form of additional export rations to ICO countries not subject to export quotas, including nations in the Middle East, Eastern Europe, Africa, and Asia (Bank Indonesia Annual Report 1985, 66).

The implementation of policies aimed at enhancing non-oil and gas exports in 1982 did not yield the anticipated outcomes. This is evidenced by a 6.6% decline in the value of non-oil exports, from US$4,170 million to US$3,894 million in 1983, a decrease more pronounced than that of the preceding year. Specific commodities that experienced a reduction in export value included timber, which fell by 7.4%, rubber by 20.3%, and tin by 20.1%. The downturn in the international primary commodity market was attributed to reduced economic activity and demand in industrialized nations, alongside a decline in the international petroleum market. In response to challenges in the oil market, OPEC reduced the benchmark oil price from US$34 per barrel to US$29 per barrel in March 1983. These circumstances led to a deficit in Indonesia's balance of payments for the fiscal year 1982-1983, amounting to US$6,609 million, representing a 191.1% increase compared to the previous year's deficit (NK RAPBN 1984/1985, 5). A notable indication of the ineffectiveness of the 1982 export policy was the reduction in foreign exchange reserves, a consequence of allowing exporters the freedom to sell their foreign exchange without the obligation to sell it to the Central Bank. This measure, initially intended to promote non-oil export commodities, resulted in the Central Bank's foreign exchange reserves being lower than those held by both public and private commercial banks by September 1982. In response to the balance of payments deficit, declining export competitiveness, and the appreciation of the rupiah against foreign currencies, the Indonesian government devalued the rupiah by 27.6% to Rp 970/US$1 on March 30, 1983 (Bank Indonesia Annual Report 1984, 61).

In 1984, a policy concerning the regulation of foreign export credit was promulgated through Presidential Instruction (Inpres) No. 8 of 1984. Subsequently, in April of the following year, Presidential Instruction No. 4 of 1985 was enacted with the objective of enhancing production efficiency and facilitating the seamless flow of goods for exports and imports, inter-island maritime transport, and port operations. To support this policy, the Government implemented measures to refine trade procedures, taxation, credit, and expand marketing territories. Additional initiatives included the simplification of licenses that obstructed exports and the elimination of levies that impeded foreign trade. To bolster the capacity of exporters and export-supporting institutions, the government established the Export Support Council (DPE) in March 1986. This council was tasked with providing technical assistance in foreign marketing and production management, as well as advising the Minister of Trade on non-oil and gas export matters. The government further introduced a series of policies known as the 6 May 1986 Policy Package, aimed at streamlining domestic production and enhancing the competitiveness of non-oil export goods through trade facilitation, exemption and refund of import duties, and the establishment of bonded zones

(Anwar 1987, 197). In the same year, the government undertook a 31% devaluation of the rupiah against the US dollar. This devaluation was intended to bolster the competitiveness of non-oil and gas export goods in the international market and to render domestically produced goods competitive with imported goods. In support of the devaluation policy, and as a continuation of the 6 May 1986 Policy Package, the government issued further policies. The policy packages of 25 October 1986 and 15 January 1987 were specifically aimed at the development of non-oil and gas exports and capital investment (NK RAPBN 1987-1988, 10).

Efforts to enhance non-oil and gas exports were inversely related to the performance of oil and gas exports. Foreign exchange earnings from oil and gas exports did not exhibit annual growth, and there was a continued decline until 1986. This decline was attributed to a reduction in petroleum production quotas and falling prices. In 1984, OPEC reduced the production quota for its member countries from 17.5 million barrels per day to 16 million barrels per day. Subsequently, OPEC further reduced the quota to 15.8 million barrels per day, with Indonesia's quota set at 1.13 million barrels per day. In 1986, the price of Minas crude oil was established at US$17.56 per barrel, a decision that took effect in February 1987. The overall export value in 1986/1987 decreased by 26.4%, primarily due to a significant decline in the value of oil and gas exports, as the average export price of oil fell by 52.5% to US$12.50 per barrel, resulting in a 45.6% decrease in the value of petroleum exports. In light of these conditions, Indonesia's exports in 1987 presented a different scenario compared to previous years. Since 1975, the value of oil and gas exports had consistently held the primary position in the export balance, with non-oil and gas exports significantly lower. However, in 1987, this position was reversed, with non-oil and gas exports surpassing oil and gas exports by US$661 million. This development was reflected in the reduction of the current account deficit from US$4,051 million to US$1,707 million and the achievement of an overall balance of payments surplus of US$1,585 million. The shift in position did not occur abruptly. The value of oil and gas exports had been declining since 1982, with the most substantial decrease occurring in 1986, amounting to 43.9% compared to the previous year. The overall export value in 1987 increased by 33.9% to US$18,343 million, comprising oil and gas exports of US$8,841 million and non-oil and gas exports of US$9,502 million (Djiwandono 2006, 176).

The Gait of Non-Oil and Gas Exports in 1986-1987

The precipitous decline in the value of oil and gas exports, attributable to the downturn in oil prices, has underscored the increasing significance of non-oil and gas exports. In the fiscal year 1986-1987, the value of Indonesia's exports, excluding oil and gas, rose by 10.1%, following a previous increase of merely 2.1%. This notable growth in non-oil and gas exports was bolstered by the success and expansion of related sectors. Non-oil and gas exports are categorized into three primary sectors: agriculture, mining, and processed industry. In 1986/1987, exports from the agricultural sector were predominantly comprised of plantation or forestry products, including coffee, tea, tobacco, cocoa, wood, spices, and rattan. However, the export value of agricultural products in 1986/1987 exhibited a general decline compared to the previous year, with the most significant decrease observed in the tea commodity, which fell by 20.9% from US$134 million to US$106 million. Conversely, the value of coffee exports in 1986/1987 increased by 22.4%, driven by a rise in both the price and volume of exports, which increased by 14.9% and 6.5%, respectively. The escalation in coffee prices was linked to Brazil's unsuccessful coffee harvest, a consequence of the prolonged dry season two years prior.

The increase in coffee volume can be attributed to heightened production levels and the absence of export quotas imposed by the International Coffee Organisation (ICO) on its member countries. Conversely, while the value of rubber exports rose, the volume experienced a decline. Specifically, rubber exports increased by 3% to US$730 million, despite a 1.2% decrease in volume. This rise in the value of rubber exports was driven by a 4.2% increase in the unit price of Indonesian rubber exports. The reduction in rubber export volume was due to diminished global demand for rubber. Other commodities, such as shrimp and other animal products, also saw significant increases, with a notable 34% rise. Shrimp exports experienced growth in both value and volume, at 35% and 9.6%, respectively. This increase was facilitated by a 23% rise in the selling price to US$5,350 per tonne, supported by the development of shrimp farming under the People's Nucleus Farming (TIR) program and the issuance of business licenses to large-scale companies within the framework of foreign direct investment (FDI). The augmented supply of tea by major producer India disrupted the international market's supply and demand equilibrium, leading to a decline in tea prices in 1986/1987. Consequently, the value of tea exports fell by 20.89%, from US$134 million to US$106 million (NK RAPBN 1987-1988, 207).

In comparison to the other two sectors, the export value of mining sector products exhibited a relatively modest increase. This trend can be attributed to a general decline in the prices of mining sector exports. Specifically, aluminium exports in 1986-1987 decreased by 4%, amounting to US$214 million, primarily due to a 13.2% reduction in production. Notably, the export price of aluminium increased by 10.5%. Another mining commodity that experienced a decline was tin, with exports decreasing significantly by 37.1%, from US$248 million to US$156 million. This decline was precipitated by a downturn in prices, resulting from the International Tin Council's (ITC) inability to regulate tin buffer reserves. Consequently, the international market witnessed a surplus of 82 thousand tonnes of tin (Bank Indonesia Annual Report 1988, 86).

The processed industry sector significantly contributed to the development of non-oil and gas exports in 1986/1987, accounting for 81.2% of the total. During the period from 1983-1984 to 1986-1987, exports from this sector exhibited an average annual growth rate of 9.5%. In 1987, exports from the processed industry sector increased from 4.9% to 7.1%. This growth was observed across various goods, including textiles, palm oil, plywood, electrical equipment, and handicrafts. Urea fertilizer exports in 1986/1987 rose by 11.1%, driven by an increase in export volume from 1,047 thousand tonnes to 1,446 thousand tonnes. Despite the rise in volume, the value of urea fertilizer exports declined by 19.4%, attributed to low supply from producing countries such as Saudi Arabia, Kuwait, and Qatar. Textile exports experienced a 31.3% increase in value, largely due to higher unit prices and expanded export quotas to the United States. The most substantial growth in processed timber exports was observed in plywood and sawn timber. In 1986-1987, these two categories represented the largest increase in non-oil and gas exports. Plywood exports rose by 31.7%, driven by a 14.1% increase in price and a 15.4% increase in volume. Sawn timber exports increased by 19.9%, from US$346 million to US$415 million (Bank Indonesia Annual Report 1988, 82-88).

Non-oil exports by destination country encompass a wide range of nations, extending to nearly all continents. Among these, the United States held a predominant position in 1987, accounting for 32% of the total export value. Japan followed with a share of 24.9%. The United States imported various goods, including rubber, tea, coffee, tobacco, teak, plywood, black pepper, palm oil, shrimp, textiles, and apparel. Notably, in 1987, the United States imported the largest quantities of rubber and plywood, valued at US$441 million and US$384.35 million, respectively. The value of non-oil exports to the United States increased by 22% compared to 1986, attributed to a 13.99% rise in volume. In the same year, Japan's primary import was shrimp, constituting 25.07% of its imports. Several export commodities to Japan, such as rubber, plywood, textiles, apparel, and shrimp, experienced growth in both value and volume. Singapore ranked as the third-largest destination for non-oil exports, with an export value of US$539.99 million in 1987. Although Singapore's export value increased by 18.91%, its volume decreased by 16.7%. The largest import commodity for Singapore in 1987 was rubber, with a volume of 226.7 thousand tonnes, followed by processed wood in the form of plywood at 226.39 thousand tonnes. Other Asian countries, including China, Pakistan, Iraq, South Korea, Saudi Arabia, and Kuwait, saw an increase in the value of non-oil and gas imports in 1987, despite a decline in volume. The value of non-oil and gas exports to these Asian countries rose by 14.67%, while the volume decreased by 14.08%. In 1987, non-oil exports to African countries played a minimal role, with coffee exports accounting for only 1.65% in value and 0.66% in volume. The value of non-oil and gas exports to the European Economic Community (EEC) in 1987 reached US$866.59 million, marking a 1.35% increase compared to 1986. The value of non-oil exports to Continental Europe, which includes EEC countries and several others, surpassed that of Singapore, positioning Continental Europe as the third-largest destination for non-oil and gas exports, surpassing Singapore by US$422.29 million. In 1987, leading export goods to Continental Europe included rubber, plywood, and apparel, with percentage values of 15.79%, 15.26%, and 14.99%, respectively. The Netherlands emerged as the largest importer within Continental Europe, with a non-oil and gas export value of US$268.126 million (Statistics Indonesia 1988, 362-379).

The Impact of Enhancing Non-Oil and Gas Exports on the Stabilization of the Indonesian Economy in 1987

The increase in non-oil and gas exports after a campaign through a series of policies since 1982 was one of the most influential circumstances in the overall development of the Indonesian economy in 1986-1987. Indonesia's economic growth in 1987 as measured by GDP at constant 1983 prices is known to have reached 3.6%. If GDP is calculated individually, then GDP for oil and gas experienced a very sharp decline in growth from 4.5% to -1.3%, while GDP for non-oil and gas showed an increase in growth from 3.9% to 4.9%. The GDP growth of the Indonesian economy in 1987 was due to the recovery of the foreign sector which was reflected in the increase in exports of goods and services by 6.1%. The increase in exports was due to the increased competitiveness and improved prices of several export commodities, such as plywood, rubber, textiles, shrimp, and rattan (Bank Indonesia Annual Report 1989, 112-122).

The inflation rate, as indicated by the Consumer Price Index (CPI) for the period 1986-1987, was recorded at 8.83%. This was attributed to price increases across several categories, including a 3.82% rise in food, a 2.27% increase in miscellaneous goods and services, a 1.71% rise in housing, and a 1.03% increase in clothing. These price escalations impacted the money supply. In 1987, the narrow money supply (M1) reached Rp 12,685 billion, marking an 8.63% increase from the previous year, comprising Rp 5,782 billion in currency and Rp 6,903 billion in demand deposits. Concurrently, the broad money supply (M2) amounted to Rp 33,885 billion, reflecting a 22.5% increase from the prior year. Non-oil and gas exports played a significant role in enhancing the current account position. This was demonstrated by a 57.86% reduction in the current account deficit in 1987, from US$4,051 million to US$1,707 million, driven by a substantial increase in export value, which reached US$4,646 million. In terms of foreign investment policy related to the development of non-oil and gas exports, the government extended the period for the transfer of share ownership from 10 years to 15 years from the commencement of commercial production, with a further extension of 5 years (Bank Indonesia Annual Report 1988, 115).

The increase in the value of non-oil and gas exports is fundamentally associated with the rise in production volume and the variability of goods prices. The expansion of production volume necessitates the engagement of a substantial labor force. Indonesia, with its significant population, possesses a sufficiently large labor force that can be mobilized for various production activities. The quality and quantity of the population significantly influence the enhancement of non-oil and gas exports, thereby conferring a comparative advantage on the goods produced. In 1987, several types of commodities within Indonesia's non-oil and gas export sector experienced notable growth and competitiveness in the international market, particularly industries requiring a large workforce, such as the wood (rattan) industry. In 1986-1987, the largest workforce in the rattan industry was located in East Java, comprising 10,231 workers across 939 industrial units, followed by West Java with 5,571 workers across 877 industrial units. Conversely, the smallest rattan industry workforce was found in Riau and NTT, each with a total of 20 workers for 10 and 5 industrial units, respectively (Industrial and Mining Export Enhancement Project, Export Marketing Efficiency Enhancement Project, 1987, 27-40).

The reduction in unemployment attributable to increased employment can be linked to the expansion of small industries, particularly those that are labor-intensive and involved in handicraft exports. The growth of the industrial sector plays a significant role in the advancement of non-oil and gas exports. In the context of deregulation and debureaucratization within the industrial sector, the government implemented policy packages on 15 January 1987 and 10 June 1987. These measures included the simplification of the trade system, a reduction in the number and types of industrial business licenses, and tariff reductions for the textile, steel, electrical machinery, and motor vehicle industries. Policies concerning industrial business licenses encompassed regulations for granting permanent and expansion licenses for all industrial enterprises outside the small industry category. In June 1987, the government streamlined the process for granting industrial business licenses for specific industries to enhance the interest and activities of industrial enterprises through rehabilitation, modernization (restructuring), and diversification initiatives, as well as the establishment of new businesses. The industrial sector in Indonesia in 1987 experienced significant growth. This is exemplified by the wood industry, which demonstrated remarkable progress in 1987, surpassing other sectors in terms of its contribution to the national economy and international trade development.

The production of plywood in 1987 experienced a 19% increase, reaching 6,160 thousand m^3, while sawn timber production rose by 2.9% to 10,183 thousand m^3. By the end of 1987, there were 97 plywood factories, comprising 75 domestic and 21 joint ventures, with a combined capacity of 7.8 million m^3 per year. In alignment with governmental initiatives to boost exports in the wood processing sector, the paper industry, which benefits from processed wood, also saw advancements. This was achieved through the construction and expansion of several paper mills utilizing pulp as a raw material, including the establishment of a short fiber pulp mill in North Sumatra with a capacity of 165 thousand tons per year and the expansion of a mill in Riau from 100 thousand tons per year to 200 thousand tons per year. Paper production in 1987 amounted to 905.7 thousand tons, driven by increased domestic consumption and high export demand for specific paper types. The textile industry, emerging as a leading sector following the wood industry, also showed promising growth. A series of government policies aimed at enhancing non-oil and gas exports significantly influenced the textile industry's progress, resulting in a production increase to 2,925.6 million m^3 per year by the end of 1987 and a 33.6% rise in export value. During 1986/1987, the textile industry produced 120 thousand tons of man-made fibers, 2,133.5 thousand tons of spun yarn bales, 2,479.9 million meters of woven fabrics, 437.6 million meters of knitted fabrics, and 29.5 million dozen apparel. The handicraft industry also demonstrated substantial progress. In 1987, the contribution of the handicraft industry to non-oil and gas exports, particularly in wood and fabric handicrafts, reached 30%, with a total export value of US$281 million, marking a 97.9% increase from the previous year. This growth was attributed to a 70% rise in export volume, driven by enhanced competitiveness in the global market and the impact of increased non-oil and gas exports through the development of the handicraft industry (Bank Indonesia Annual Report 1989, 135-136).

In the production of export commodities with comparative advantages, companies or business entities require essential supporting facilities and infrastructure, including business capital, technology, natural resources, labor, and, most importantly, a conducive business climate. Over recent years, a series of policies aimed at supporting non-oil and gas exports, through the simplification and reduction of various licenses or restrictions, have positively impacted the business climate in Indonesia. Notably, in 1987, the business climate in Indonesia experienced significant development, marked by a reduction in direct government intervention in the economic sector and the liberalization of the private sector. During Repelita III, the national economy was predominantly driven by government projects; however, following the implementation of these policies, the government's role in project-based economic activities was diminished. Consequently, the private sector was granted increased authority to stimulate business activities, albeit under government supervision. Additionally, provisions were established for each bank to allocate 20% of its total credit to the development of small businesses, Farm Business Credit (KUT) to farmers, and the transfer of share ownership to cooperatives (Hadiawan 1992, 145).

Conclusion

The campaign to promote non-oil and gas exports commenced in 1982, initiated by the issuance of the 1982 Export Policy, which encompassed two primary components: a comprehensive policy and a policy linking government imports, funded by the state budget and export credits from abroad, with non-oil and gas exports. Despite these efforts, the anticipated outcomes were not realized, as evidenced by a 6.6% decline in the value of non-oil exports, from US$4,170 million to US$3,894 million in 1983. This decline was attributed to the policy allowing exporters the freedom to sell their foreign exchange without the obligation to sell it to the Central Bank, resulting in a significant reduction in foreign exchange reserves. The Indonesian government persisted with its non-oil and gas export campaign by implementing a series of supportive policies, including the issuance of Presidential Instructions in 1984 and 1985, the May 6, 1986 policy, and a 31% devaluation of the rupiah against the US dollar in September 1986. These policies had a notable impact on Indonesia's macroeconomic and microeconomic landscapes. The value and volume of non-oil and gas exports increased in 1986/1987, particularly in the processed industry sector, which grew by an average of 9.5% annually during the period 1983/1984 to 1986/1987. This increase contributed to a 57.86% reduction in the current account deficit in 1987, from US$4,051 million to US$1,707 million. Consequently, for the first time in 1987, the value of non-oil exports surpassed that of oil and gas exports, with a difference of US$661 million. Compared to 1986, there was a 41.17% increase in non-oil exports, from US$6,731 million to US$9,502 million, and a 26.92% increase in oil and gas exports, from US$6,966 million to US$8,841 million. The shift in Indonesia's export position was not solely due to non-oil export policies but also resulted from the declining value of oil and gas exports, which reached a nadir in 1986, decreasing by 43.9% from US$12,437 million to US$6,966 million. This decline was attributed to both a reduction in oil export volumes by OPEC and the non-renewable nature of oil as an energy source, leading to a depletion of supply for export and domestic needs. In conclusion, the non-oil and gas export campaign over the past five years can be deemed successful, as the outcomes aligned with the anticipated achievements.

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