

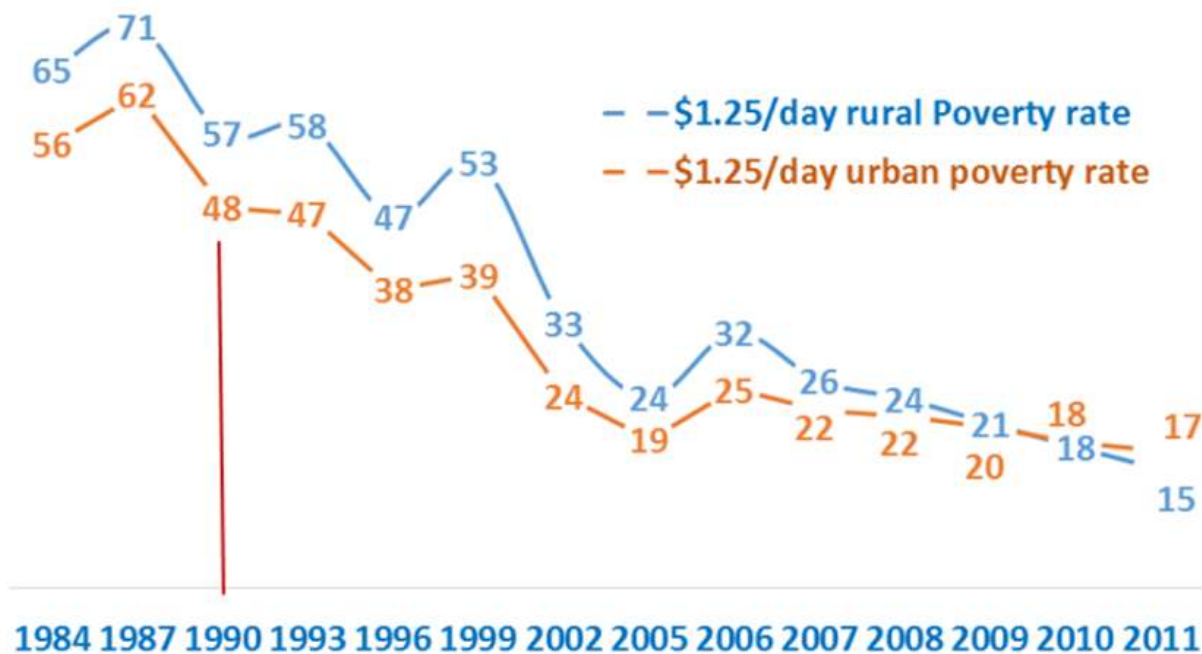
Indonesia Globalization and Poverty Case Study Part I

Readings and Lecture & discussion question set 3

The story of poverty reduction for Indonesia, an East Asian nation with nearly 200 million people including the largest Muslim population outside of India-- is one of tremendous progress despite some setbacks. Both Indonesia's progress and its recent setbacks are linked to globalization. NIKE began making shoes in Indonesia in 1988 (the year after Sterba left) and now has about a fifth of its overseas workforce located there (over 100,000 workers, 2nd only to China with 175,000). Part II of this case study focuses on these "sweatshop" labor intensive export industries. Between 1970 and 1987 Indonesia's poverty rate fell from 58% to 28%. The 1998 East Asian financial crisis, however hit Indonesia hard, and led to a collapse of the General Suharto's authoritarian government and a new democratic government. President Megawati Suharnoputri is the daughter of Indonesia's first President Suharno, overthrown by Suharto in 1966 (see Peter Weir's film [The Year of Living Dangerously](#)).

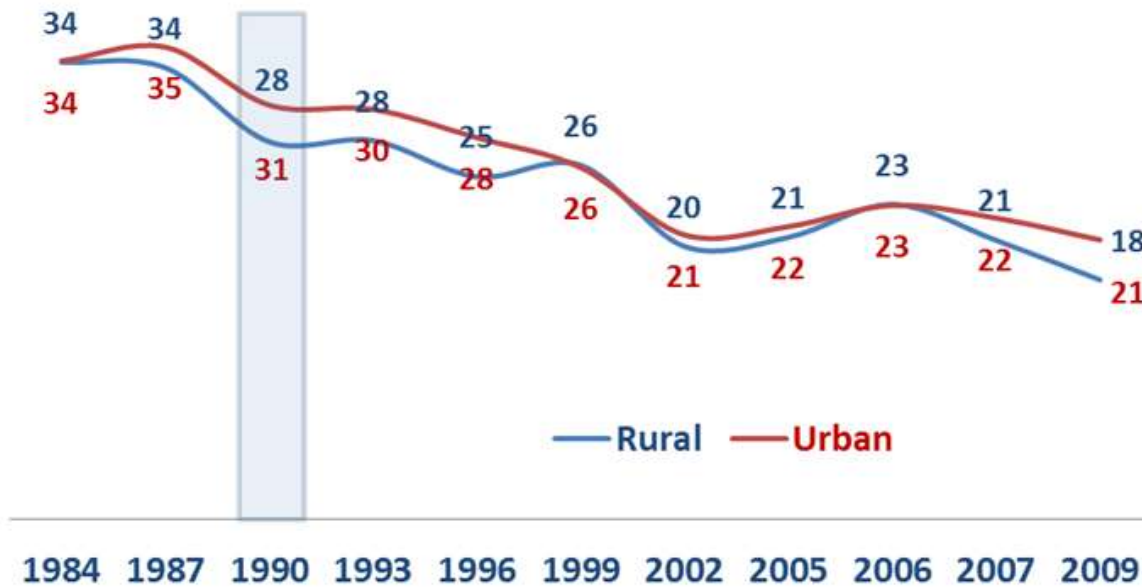
One dollar per day poverty rose as high as 24% during the crisis, but fell fairly quickly back to about 7.2% in 2000 according to the most recent World Bank estimates (see Table 2.6 of the 2003 WDR). During the 1997-98 Asian financial crisis a sharp spike in rice prices caused by devaluation drove up poverty. Unlike Malaysia, Korea and Thailand the economic crisis lingers in Indonesia, mainly due to political divisions within the country (East Timor) and now a struggle with terrorism (the Bali bombing last summer). Indonesia is a new democracy and the government is struggling to deal with a sharp drop in tourism and a decline in the shoe industry (see part II) This makes it all the more important Indonesia continue to grow and gain access to OECD markets for rice and manufactured export products. This part of the case study focuses on rural villages and agriculture, a key issue in the ongoing Doha-Cancun trade negotiations. Use Lecture and Discussion questions below to review the key themes of these articles. Part II of this case study continues with a discussion of labor intensive export industries.

FIGURE P-1: INDONESIA MDG-1 POVERTY



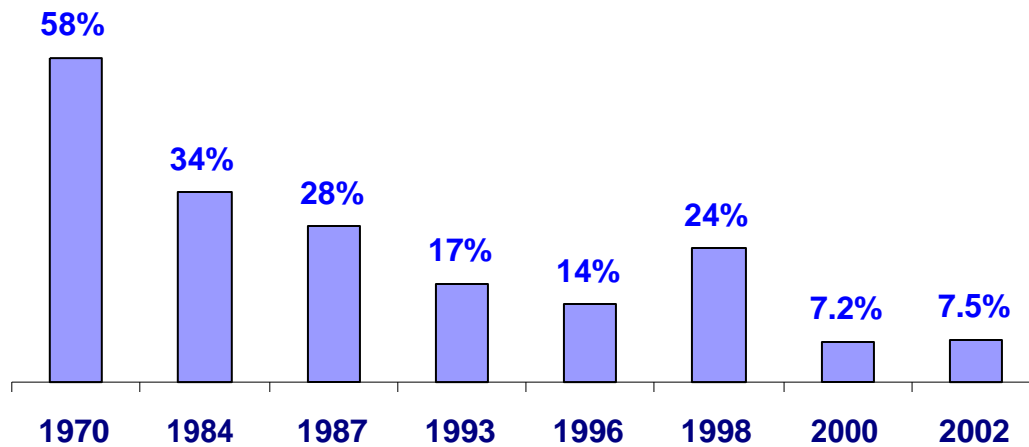
Source 'PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank (<http://iresearch.worldbank.org/PovcalNet/index.htm>)

Figure 4: Indonesia \$1.25/day Income Gap



Source: World bank Povcalnet (January 2012)
<http://iresearch.worldbank.org/PovcalNet/povcalSvy.html>

Indonesia \$1/day Poverty Rate



Source: World Bank povcalnet and WDR 1990

Lecture and Discussion Questions WSJ Sterba and WB Indonesia Articles

LDQ 3.1 In both Indonesian villages (see below) people stopped doing everything for themselves and began to hire

carpenters, visit the beauty parlor, eat meatball soup, go to the bank etc. a) Why did the villagers start wearing shoes? How did this lead to major changes in health and morbidity? B) Why did higher incomes create more jobs and garbage and noise? What was misleading about the tranquility and pastoral beauty of the village Sterba saw on his first visit in 1971?

LDQ 3.2 When James Sterba first visited Java in 1971 he noticed rising rice yields, but like the Reverend Thomas Malthus in 1820 Sterba assumed population growth would soon overtake higher rice yields. A) What actually happened? How much in percentage terms population and rice yields increase? (some young residents were “flushed out” of the village, but still counted as residents, why?) B) What are the two main reasons poverty fell so quickly in these villages? Higher rice yields are part of the story, but what proportion of village’s population own land? How did the majority of the population escape poverty? (hint: [Engle’s Law](#)).

LDQ 3.3 Do things seem a bit cheap in Java? A cup of coffee for 2 cents? Since 1987 U.S. consumer prices have risen by about 60%, so 43 cents for trip to the beauty parlor or \$2.14 for permanent would be about 75 cents and \$3.25 in current U.S prices. How much would that cost in the U.S.? Or how about a bowl of meatball soup for 15 cents (25 cents in today’s prices) or an electric bill of \$3 per month (less than \$5 in our prices). Or how about 30 cents in 1971 (\$1.50 in today’s prices) to feed a family of six? Why is food and local services so cheap in rural Indonesia? (Hint: a day’s wages in Java “rose” to about four kilos of rice in 1985 – that is about 9 pounds of rice, how would that cost in the U.S.—price the cheapest 10 pound bag of rice?).

LDQ 3.4 Begajah had 110 TVs in 1987 vs. none in 1970 -- when did electricity come to the village? Who took credit for bringing electricity to the village? What else did the farmers spend their new income on? How does this illustrate Engle’s Law (that expenditures on food fall as a share of purchases as incomes increase)? Consider that this same spending boom was going on throughout Indonesia, how would effect job growth? What role did education, factories and education play in slowing down the birth rate? (hint: where were the young people?).

LDQ 3.5 a) Who paid for the research at the IRRI that led to the 1st Green Revolution for Asian Rice? Who is paying for research expected to lead to the [2nd green revolution](#)? (hint: [see part II of the Gates Letter](#)) How do the new rice seeds differ from the old seeds. b) Why are the new rice varieties important for coping with climate change in Asia and Africa? What doe Toyota and Honda mean (in Japanese)?

In the first article WSJ reporter James Sterba writes about the transformation he witnessed the one small villiage of Begajah on Java. The World Bank relates a similar, albeit drier, story of another village in Java that also experienced a “green revolution” jump in rice yields and dramatic reductions in poverty.

Coming of Age: In a Village in Java, Modern Ways Change A Coconut Economy

Begajah's People Now Wear Sandals and Watch TV

By James P. Sterba, Staff Reporter 09/29/87 WALL STREET JOURNAL (J)

BEGAJAH, Indonesia -- The women of Begajah still comb their hair each morning after bathing, but no longer for profit. Strands uprooted by the comb used to be saved for a man who came from Solo to buy them. They were waist-long and straight, and made wonderful raw material for wig factories in Hong Kong. For a month's combings, the man from Solo paid around 30 cents, enough to buy a day's food for a family of six.

That was in 1971. Women here now are embarrassed to talk about it. Today their hair is shorter and often curled. Instead of an income source, it is something they pay to have removed. Yeti Soeharno charges 750 rupiahs (43 cents) for a beauty-shop haircut and 3,500 rupiahs (\$2.14) for a permanent. Experts have standard measures of progress in the developing world. But people in this tiny village in central Java don't talk about per-capita income, yields per hectare or infant-mortality rates, which are, in order, up, up, and down. To a visitor, returning after 16 years, villagers point out progress measured in things like noise, dust, cold, speed, garbage.

Begajah (pronounced ba-GOD-ja) in 1971 was quiet, clean, green and easily mistaken by outsiders for paradise. Its 768 families owned only 174 bicycles, five motorbikes and one ox-cart. Most people walked. The dirt paths were narrow. Few things went fast enough to kick up dust. Few people went very far.

Today, Begajah's tranquillity is punctured by noise and powdered with dust. The village has 1,074 families now, which own 603 bicycles, 174 motorbikes, 16 minibuses, four trucks and two cars. The footpaths have been widened and hardened with round stones, carried from the river in burlap bags. They now are called roads. Two years ago, they were given names.

Residents don't mind motorbikes sputtering through the village day and night. To them, quiet means backwardness. Noise is progress. More people can go places. It's easy now to go to Sukoharjo, two miles away, where there are movies and telephones.

Begajah's former pristine beauty masked its poverty. Its trees sagged with papayas, its gardens grew vegetables and its children tended ducks and goats, but most of the time people couldn't afford to eat these things. They had to be sold to buy staples licorice, cheap greens and onions, dried fish and dried soybean cakes.

Begajah had no garbage then. Everything, from coconut shells to the butts of hand-rolled cigarettes, had a second use, then a third. Banana leaves became packaging material. Men fed their families by walking all day to gather other forest leaves to sell as packaging. Two bundles the size of bushel baskets netted 10 cents. You could eat well for 10 cents then.

Today, Begajah can afford to produce garbage. Dead batteries that once powered radios dot roadsides. People buy tinfoil shampoo packets good for one bath and throw away the empty packets. Bathers, instead of pouring water over their heads with coconut shells, now pour with plastic pails, which eventually crack and get discarded. Only bottles, cans and broken glass don't become garbage, because there is still a market for them.

Begajah now has a bank because people now can afford to save. It has a bakery because they can afford bread. The bicycle repair shop has expanded into motorbikes. Women now go to health clinics to have their babies. Villagers once so poor that they wouldn't think of buying a two-cent cup of coffee or tea at a roadside food stall (travelers used to be the customers) now nonchalantly patronize them.

All this isn't quite as predicted. In 1971, I wrote in *The New York Times Magazine* that Begajah, just being lifted by the "green revolution" beyond hunger and malnutrition, "is producing enough miracle rice to feed itself today, and it is producing enough babies to make itself hungry again a few years or a few decades from tomorrow."

Sixteen years later, the hunger still hasn't returned. Begajah's population has grown to 5,123 from 3,838, but the village doesn't look more crowded. In fact, it looks emptier. It is emptier, explains Tedjosuwarno, the 36-year-old chief of one of the village's eight hamlets, because about 40% of the people are gone at any one time. Begajah, like Third World villages elsewhere, flushes out people to survive.

This was happening in 1971 despite new irrigation systems and fast-growing rice that had doubled production on the village's 450 acres of crop land. That still wasn't enough, because only half the families owned land and the rest couldn't live on seasonal harvesting work. A few carpenters, brick-makers and shopkeepers could make a go of it, but others drifted off to cities in search of a living.

What sustained this flow was stories of big-city adventure that the young exiles told when they came

back for holidays -- like young American army recruits returning to high school to preen in their new uniforms. They rarely mentioned sleeping dozens to a boarding-shed floor in a Jakarta slum and pounding the streets as peddlers: Buy a balloon for a third of a rupiah, sell it for half a rupiah. Thus, the myth of city adventure was created in the minds of other young men and women, and thus the village was purged of mouths it couldn't feed.

Begajah is on Java, an island that is the size of New York state (population 17 million) but has 100 million people. About 60% of Indonesia's population lives in Java, the rest are scattered through the 13,666 other islands. Dutch colonialists tried to disperse Javanese 80 years ago. Since 1950, the Indonesian government has moved nearly three million of them in an incentive program called transmigration. But more people always wanted to come to town than go to the boondocks... more opportunity in the urban jungle than in the real jungle.

Now that's changing. A government program couldn't get Begajahans to Sumatra, Borneo, Sulawesi and West Irian, but stories of money to be made peddling to miners and woodcutters did. Begajahans started going to the frontier and found they could survive and even save. Now, frontier money flows back home to build new houses and buy motorbikes.

Tedjosuwarno's sister sells "jamu," or herbal medicines, on the frontier island of Ambon. She grosses 25,000 rupiahs, or \$15.27, in a good day. Narmin (many Indonesians have only one name) and his wife have been selling "bakso," or meatball soup, in the Sulawesi city of Ujung Pandang for 10 years. From a pushcart, they sell 75 to 150 bowls a day for 250 rupiahs (15 cents) each, grossing \$11 to \$23 a day. She sells dresses on the side. After operating expenses and living costs, they can save \$1.50 a day.

Significantly, they still call Begajah home. Their children stay here with his grandparents and go to school. The parents come home twice a year, bringing money. The Narmin family has a new house that "bakso" helped build. Of Begajah's houses, 978 now are brick and 96 have walls of woven palm fronds. The proportion was almost the reverse in 1971.

In the dry season of 1968, an itinerant salesman, not unlike the snake-oil purveyors of the American West, brought a novelty item to Begajah: ice. A few worldly villagers knew of it. But nothing in the experience of most people here had allowed them to feel and taste anything that was far below room temperature. Even well water never gets below the feel of predawn cool.

Hot was old hat. Fire made water hot, and chili peppers made food taste hot. And there was one form of modern hot: the main road. Running between two cities, Solo and Jogjakarta, it had been hardened in the mid-60s with tar and gravel. After that, to cross the road in midday, villagers had to cover their bare feet. Shoes and sandals became popular. The footwear, in turn, deterred hookworms, which migrate to the intestines. Village kids got healthier. Twelve-year-olds stopped looking like eight-year-olds.

The Solo salesman's ice was flavored and sold on sticks for one-third of a penny. It was a big hit at first. Then children got sick. Some died. The ice turned out to be made from contaminated water. Begajahans stayed away from ice for years. Ice is back now, and it is pure, thanks to government health standards. But it's still something of a novelty item. At the market's outdoor restaurant, you can buy a bottle of warm Sprite for 15 cents. For three cents extra, the waitress will put ice in it. Few customers take the ice.

Jojosumarto is Begajah's iceman. He pays \$1.83 for the big slab dropped off each morning by a truck from Solo, 12 miles up the road. He drags it into the market, covers it with sawdust and cuts off smaller slabs. A chunk the size of a cigar box costs nine cents. Shopkeepers buy it and resell it,

usually as snow cones.

Few people could afford meat in 1971. The market had only one meat seller. To find her, you looked for dogs and flies. Today there is still only one, but the market itself has changed. It now is surrounded by permanent, roofed stalls and has entrances and exits. Insecticide fights the flies. Dogs aren't welcome.

The newest food stall seems out of place to a visitor. It sells "bakmee bakso," a soup of noodles and meatballs, and the stall is called Bakso Tennis. To understand the name, which refers to the size of the meatballs, you have to have heard of tennis balls. In 1971, nobody had. Now, many villagers have seen tennis on TV. And Begajah now has college students who have actually seen tennis being played. According to the village blackboard, where permanent records are kept, it has 56 college graduates. Almost all live elsewhere because there are no jobs for them here except teaching. But like the people who went to the city or the frontier, the students come home and tell stories -- and children dream of going to college.

Only about half of Begajah's children went to any kind of school in 1971. Today, elementary school is mandatory, and nearly half go on to junior high. Begajah didn't have any TV sets in 1971. Now villagers own 116, mostly secondhand black-and-white ones. They are powered by 12-volt car batteries, which have to be recharged about once a week. It costs 18 cents. The man who provides this service has become wealthy.

But electricity is cutting into his business. Electricity arrived at Begajah only last March, a month before Indonesia's national election. Fewer than 100 families have had it wired into their homes so far. But its promise helped President Suharto's government party, Golkar, collect 81% of the village vote.

Dharmo Sumitro's family (11 in all, counting children and grandchildren) was among the first to get an electricity meter installed, and they were proud enough to have it mounted on their front porch. Keeping up with the Sumitros isn't cheap. Running a wire from the utility pole and hooking it up cost 130,000 rupiahs, or \$79.41. Internal wiring was extra. The Sumitros now have eight outlets, seven electric light bulbs, a plug-in radio and a 17-inch black-and-white TV set. They have an electric bill now: \$3.05 a month.

Mr. Sumitro, a 50-year-old clerk in a Moslem court in Sukoharjo, justifies the cost by saying that with electric lamps he can work at night, preparing court papers (mostly divorces). Tiny oil lamps are too dim. He works on a typewriter (a manual), the only one here besides the village chief's. The Sumitros are captivated by electricity's convenience. They have an electric iron. Everyone else's iron has to be filled with hot wood coals from the kitchen fireplace.

The next marvel on the Sumitro wish list is a Sanyo electric water pump for their well. It will eliminate the pail on a rope, and it will move the Sumitros closer to running water. The Sumitros have seen refrigerators in Sukoharjo. But they are expensive. The idea of storing fresh food, saving the time required to go to the market and buy it every day, doesn't make much sense. Now that they have a motorbike, the main market is only minutes away. And tiny family shops, primitive equivalents of 7-Elevens, have sprouted around Begajah, so a last-minute onion or scoop of rice is right around the corner.

In 1971, I called Begajah "a slow-motion world of oil lamps and small change, bare feet and leathered hands," a village not much richer or poorer than uncounted others where the vast majority of the world's population lived. No one in Begajah had heard of Richard Nixon's then-forthcoming

visit to China, but then, no one had heard of Richard Nixon, either.

Now, the slow-motion world is getting faster. Oil lamps gave way to Coleman lanterns and now are giving way to lightbulbs. Rupiah notes have replaced coins. Shoes or sandals cover most feet. But hands are still leathered, and nobody I talked to had yet heard of Richard Nixon. One other change was unsettling, for me: In 1971, young villagers I befriended called me "Mas," which means brother. This time, disturbingly, they all referred to me as "Pak." That's short for "Bapak," or "father." It is the polite way to address an old man.

Another Indonesian village similar to that visited by Sterba, Balarjo, was the subject of a short article or "box" in the 1990 World Development Report. It is certainly a less colorful account, but it does focus on what lifted these villagers out of poverty and may be helpful in answering the discussion questions.

Development in a Javanese Village

Source: World Bank, 1990 *World Development Report*, page 41 Box 3.1

The story of Balarjo, an East Javanese village of almost 4,000 people, shows what declining poverty means. The village is about eight kilometers from the town of Gondanglegi and is connected to the outside world by bumpy but passable dirt roads. Although Balarjo is still somewhat poorer than its neighbors, research conducted in 1953 and 1985 shows that the lives of its inhabitants improved greatly in the intervening years. Rice yields increased dramatically, from 2 tons to 6 tons of paddy per hectare for the wet season crop, and the wage for a day's work increased from 2 kilograms of rice in 1953 to nearly 4 kilograms in 1985.

In 1953 the village would have been considered poor by most definitions. Rice was available for only four months; the diet for the rest of the year consisted of corn and, when that ran out, cassava. Clothes were worn until they were in tatters, and few people had shoes. A typical house was made of thatch and bamboo, with an earthen floor. Furnishings were sparse and uncomfortable. Few villagers could read, and few had traveled any distance from the village. A daily paper brought from a nearby town supplied the only outside news.

By 1985 things had changed. Rice was available throughout the year. Clothing was much better, and shoes were commonplace. Most villagers had radios, and some even had television sets. More than 90 percent of the houses were made of colorfully painted brick and stucco, with partial cement floors. Furnishings were more extensive and included chairs and tables bought from stores. Literacy had improved dramatically thanks to two primary schools, one financed by the village and the other by the central government.

Travel outside the village was common, and knowledge of national events, provided through hourly radio broadcasts, was widespread. In 1953 villagers relied on homemade kerosene lamps that provided little illumination, but by 1982 electric power lines had reached Balarjo, and by 1985 many households had electric light. Such burdensome activities as rice pounding and shoulder transport had disappeared, relieving women of some of their most exhausting tasks. Higher incomes had led to demands for new products and services and hence to more productive work, such as construction, trade, and small manufacturing. Growing specialization was also evident: in 1953 owners constructed

houses with the help of neighbors, but by 1985 most of the work was done (and done better) by full-time carpenters.

Further Reading: *For an update on current situation in East Asia see the World Bank's ["Indonesia and Poverty"](#) pages.*

The new green revolution A bigger rice bowl Another green revolution is stirring in the world's paddy fields

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