

SURVEY OF RECENT DEVELOPMENTS

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SUMMARY

The 10th anniversary of Soeharto's resignation was coloured by disappointment with the slowness of reform, and with the government's reluctance to confront blatant religious intolerance. Nevertheless, economic growth is strong and investment spending buoyant. Inflation has risen well above target, suggesting that a more effective approach to monetary policy is needed. The recent surge in global rice prices coincided with bountiful domestic harvests, putting the government under pressure to restrict rice *exports* rather than *imports* as it has in recent years. However, restricting exports has been recognised as a 'starve thy neighbour policy', and the ASEAN trade ministers have jointly agreed 'to continue fair trade practices and to achieve an orderly regional rice trade'.

The government has at last increased domestic fuel prices significantly, mindful of the waste of valuable resources and the inequity involved in keeping such prices constant in the face of world price increases. It will implement a cash transfer program to compensate the poor for the resulting increase in living costs.

The Ministry of Finance is leading reform of the central government bureaucracy. Its most fundamental initiatives are in human resource management, where it is attempting to match remuneration to skill requirements and responsibilities, and to align the pay structure more closely with that in the private sector – with pay rates rising much more rapidly than hitherto as levels of responsibility increase. It is also encouraging competition to fill vacancies by advertising them internally, rather than continuing to rely on promotion by seniority. At local government level, a small number of heads of government have gained a reputation as pioneers of reform. Two interviewed for this survey are exemplars of precisely what it was hoped would result from bringing government closer to the people through decentralisation, and from the switch to direct election of heads of local government. Both have considerable experience in the private sector, and their success seems related to their more entrepreneurial (as distinct from bureaucratic) way of thinking.

'Good corporate governance' has now become the mantra for state-owned enterprises (SOEs). It is recognised that this depends heavily on choosing the right people to manage each firm and to oversee it on behalf of its owner. Accordingly, almost all directors and commissioners of the 11 SOEs indirectly studied here have been replaced in recent months, and there is now a willingness to appoint professionals from private companies and from academia in order to gain access to needed skills. In addition, the initial selection of candidates has been shifted outside the bureaucracy to professional recruitment agencies.