Developing Country Studies
ISSN 2224-607X (Paper) ISSN 2225-0565 (Online)
Vol.8, No.12, 2018

A Tale of Two Countries: Indonesia and Kazakhstan; So Different, But So the Same

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Abstract
This paper sheds light on two development success stories that because autocratic leaders orchestrated them seldom get the attention they deserve. Indonesia and Kazakhstan on the surface could not be more different, yet as an international development person who has worked extensively in both countries, they bear similarities that carry important lessons for the international development community and other developing countries. The starting point is the observation that both countries represent development successes absolutely and relative to their natural comparators. Among the key messages from these experiences is that there may be times in a countries development when a strong, benevolent autocratic ruler is a better governance model than democracy, contrary to the messages and beliefs of many western countries, most especially the United States. Both Suharto in Indonesia and Nazarbayev in Kazakhstan were not afraid to surround themselves with and listen to world-class technocrats who for the most part supported highly conventional (Washington-consensus) development policies. The weakness in this development model is the end game. Strong autocrats who have created a country find it difficult to manage the "end game," that is to orchestrate smooth transitions from their regime to what follows. When one adds to this that they also often keep institutions weak to avoid challenges to their power, the result is an often difficult and costly leadership transition. Moreover, the international community has not been helpful in providing advice on how to manage this transition.
Keywords: Autocratic, development policy, Indonesia, Kazakhstan

Introduction

Charles Dickens starts A Tale of two cities with what has become one of the world's most iconic, ageless quote: "It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way – in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only;" a quote that is as appropriate today as it was in 1859. Mine is a tale of two countries, not cities, but "it was the best of times, it was the worst of times it was the age of wisdom, it was the age of foolishness" still has the ring of truth to it. Here ends any parallel with Dickens.

On the face of it, Indonesia and Kazakhstan could hardly be more different: Indonesia is a tropical island nation (nearly 18,000 islands more than 900 of which are inhabited) with a large population (close to 300 million). In contrast, Kazakhstan is the world's largest landlocked country, huge in area (the world's 9th largest country by area; equal in size to Western Europe), a fierce continental climate (temperature range from -40 to +40 Centigrade in the capital of Astana), small in population (18 million). Regarding overall development, Kazakhstan is more than twice as rich per capita as Indonesia in PPP terms.

These attributes aside, as a development person who has worked extensively in both countries, I see similarities that hold lessons for other developing countries and the international development community.

Both countries have been led by autocratic rulers who transformed their countries in ways that most developing countries can only dream of: Indonesia by Suharto from 1966 to 1998 and Kazakhstan by Nazarbayev since its independence in 1991. Below a brief history of these countries' development during these leaders' tenures; followed by a comparison and extraction of lessons.

Indonesia

Before the East Asian financial crisis struck in July 1997, Indonesia was one of the great development success stories of the 20th Century. The country had averaged growth of more than 7 percent for the previous three decades, more than 8 percent over the previous ten years[1]. Even with this impressive economic history, just seven months into the East Asian crisis, on January 8, 1998, Indonesians acted as if all this progress was a mirage. They abandon their domestic currency even though inflation was low and the exchange rate had held more-or-less steady for decades.

[1] For a good overview of Indonesia's economic success and challenges, see: (Hoffman, 2004)

ISSN 2224-607X (Paper) ISSN 2225-0565 (Online)
Vol.8, No.12, 2018

On that day Indonesia's growing financial and political crises spun out of control. In the four previous days confidence, already fragile, had evaporated, pushing the weakened rupiah down by more than 50 percent against the US dollar (see figs. 1 and 2).

Jakartans, rich and poor, took to the streets not to riot and plunder as some were to do later but to rush to shops to buy, to stockpile whatever they could get their hands on. By midday in Jakarta, consumers in Jakarta could not find rice Indonesia's most essential staple

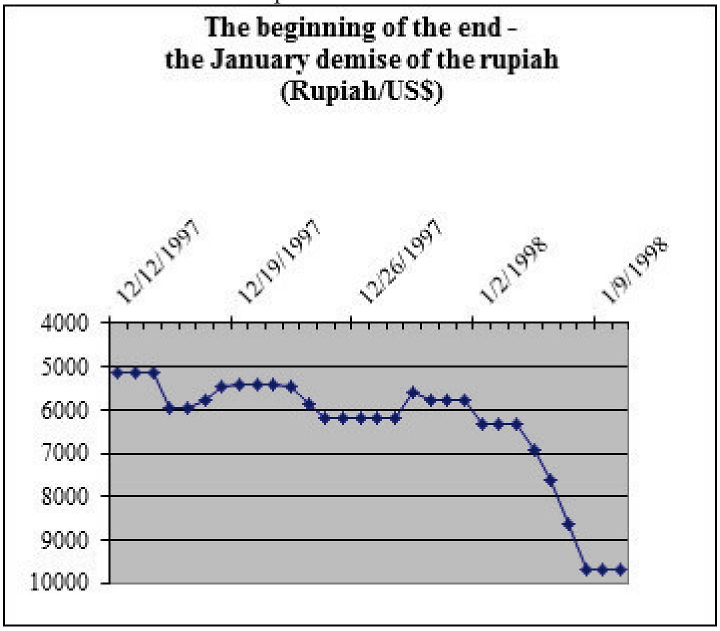

Figure 1 Collapse of the Indonesian Rupiah: 1997/98

Figure 2: Indonesian Rupiah 1995-2015

That day, January 8, marks for me the beginning of the final chapter for President Suharto's New Order Government.

Before the end of January, the rupiah would touch 14,000 to the dollar an unprecedented fall from around 2000 to the USD only a few months before; and this only days after the government and the IMF had agreed to an extensive new stabilization program on Jan. 15th.

Four months later, on May 14, Indonesia's urban centers, especially Jakarta, would be consumed by fire and death in the worst riots in decades. Six days after that the unthinkable would happen: Suharto would step down as president. Indonesia struggled for years to regain its footing, but to its credit, it did so.

How could this come to be? How could the world's fourth-most-populous nation, a country routinely lauded by the World Bank, the United Nations, and development scholars for its record of good macroeconomic management, high growth, and rapid poverty reduction, so suddenly and so dramatically fall from grace? One consequence of Indonesia's collapse was that many in the west who disliked Suharto because of his non-democratic rule forgot about Indonesia's development history and chose to conclude that Indonesia was, in fact, a development failure.

Many, including most Indonesians, will say there is no mystery in Indonesia's collapse. One need look no further than Indonesia's well-known reputation for corruption, collusion, nepotism, KKN in the local vernacular ("Korrupsi, kollusi. Nepotisme" in Bahasa Indonesian) to understand why Indonesia collapsed. While those glaring weaknesses in the system were surely a part of the explanation, there is more.

What follows is the parable of Indonesia as I saw it as a development economist and as the World Bank's representative in Jakarta from 1994 to April 1999, the last two years as country director. Indonesia's is a remarkable story; it has many lessons for developing countries and the development community.

This parable starts with a short, often-forgotten history of Indonesia before the East Asian crisis, a history which underscores the complexity of its story and the subtlety of the lessons to be learned: Why did Indonesia do so well in the three decades before the crisis? What were the antecedents of its collapse? Why was the collapse so hard to predict, then so virulent? If we can identify where Indonesia went wrong and, also, where it went right; maybe some good can come out of its costly and painful experience.

Indonesia before the crisis

There was more than a little danger in the days following the crisis in saying anything good about Suharto's Indonesia. But, we would be doing development policy and the poor in countries striving to develop a great disservice if we did not separate fact from fiction in trying to understand the lessons of Indonesia. Let's look at some common misperceptions about Indonesia's development:

Indonesia's development story is overblown. This notion was at the center of the revisionist history at risk of being written about Indonesia in the days immediately following Suharto's resignation. But, looking at the facts, it is hard not to see Indonesia under Suharto as one of the great development success stories of all times[1].

In the mid-1960s, before the fall of President Sukarno, Indonesia was a development basket case, *par excellence*. An international pariah, it was not a member of the UN or the Bretton Woods institutions. With a government that had virtually ceased to function, it was wasting whatever remaining resources it had waging a needless war with its neighbor, Malaysia.

At roughly $60 per capita, it was poorer by far than many other many comparator developing countries, half the income levels of India and Pakistan, a third less than China, Nigeria (see fig. 3).

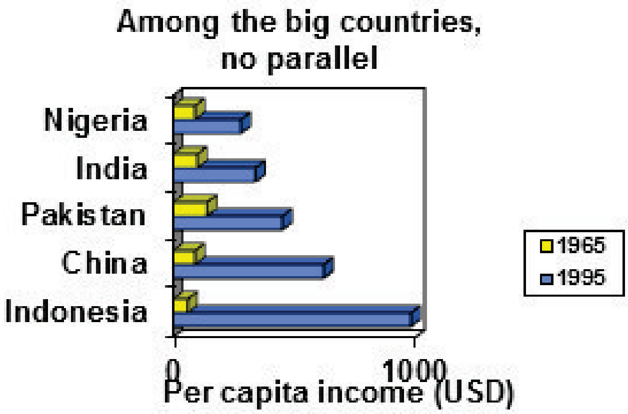

Figure 3 Indonesia vs othe large developing countries

With over 300 ethnic groups and nearly 900 inhabited islands, the Indonesia Suharto "inherited" hardly qualified as a country[2].

Thirty years later, Indonesia's economic performance had left the competition in the dust. Incomes had increased annually by an average of more than 7 percent to $980 one and a half times China, twice Pakistan, three times India, four times Nigeria and Bangladesh (again, see fig. 3).

If you think all this money was going to the elite, think again. Income distribution did not change during this period, and average food intake went from 1,650 calories to 2,750. Given its starting point, the success of Suharto's Indonesia was, indeed, an Asian miracle.

The development community has overstated Indonesia's poverty reduction story. Even after the tremendous hit, Indonesia's economy took in 1997-1999, it is hard to argue that Suharto's New Order Government did not dramatically reduce the country's poverty.

Indonesia's official poverty line is very low, but it has been consistent over time. In the late 60s and early 70s, 7 of every 10 Indonesians lived in absolute poverty. According to the most recent Indonesian statistics (see table 1), poverty is now down to 1 in 10, about where it was in the mid-1990s at the end of the Suharto era but before the increase in poverty that the crisis brought.

[1] For a supportive view see (Hill, 2015).
[2] See, for example, (Lindbad, 2010)

Table 3Inodnesian poverty: 2007-16

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Relative Poverty (% of population)	16.6	15.4	14.2	13.3	12.5	11.7	11.5	11.0	11.2	10.9[1]
Absolute Poverty (in millions)	37	35	33	31	30	29	29	28	29	28[1]
Gini Coefficient/ Gini Ratio	0.35	0.35	0.37	0.38	0.41	0.41	0.41	0.41	0.40	

[1] In March 2016

Source: Statistics Indonesia (BPS) (Statistical Bureau, 2017)

In reflection of this remarkable achievement, in 1997 then President Suharto received a special award from the United Nations Development Program for his success in reducing Indonesia's poverty, an award that, by the numbers, he deserved.

Indonesia got lucky – it discovered oil. Indonesia's oil helped, but it was not the main force behind its success. One need look no further than other oil-exporting developing countries to understand this point.

Nigeria, Venezuela, Algeria all received oil windfalls at least as great as and often greater than Indonesia's on a per capita basis, yet none matched Indonesia's growth and poverty reduction record. Indonesia was the only major oil exporting country that managed to avoid the so-called "Dutch Disease" problem whereby oil exports so distort exchange rates and domestic markets that non-oil sectors, especially agriculture, wither (Fig. 4).

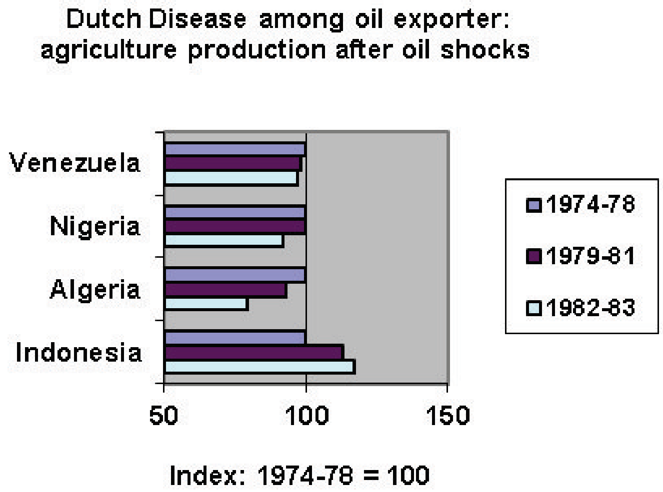

Figure 4 Indonesia and Dutch disease

Indonesia's economy was a house of cards, held up by a corrupt regime and an aging dictator. Indonesia's high growth lasted for over three decades because the country based its growth on an export-led strategy that meant its industries had to be competitive. Moreover, its domestic economy could not have been too far out of line; or its export sector would not have been competitive.

Yes, corruption existed – and certainly grew over time – but the cost of infrastructure and other services did not deter foreign investment or push production costs to uncompetitive levels. A World Bank study that I commissioned in 1998 found that infrastructure costs compared favorably with costs in other developing countries, suggesting that Indonesia's reputation for corruption may have been overblown. The author of the World Bank report, a season WB project person, told me on completing it that one of two things had to be true. Either Indonesia's corruption was less than the World thought, or Indonesia was one of the World's most efficient producers of infrastructure.

Corruption killed Indonesia. If it did, it took its sweet time. Indonesia did not become corrupt overnight. It did not suddenly discover cronyism and nepotism as the 1990s dawned. These were features of the economy for decades before Suharto took over, at the time he formed the New Order Government, and for the entire 30 years after that during which Indonesia prospered.

The big question is not how corruption killed Indonesia, but how Indonesia succeeded so well in the face of its purported rampant corruption. Yes, Indonesia might have done better with less corruption, but setting the curve (being the best at least among large developing countries) for growth and poverty alleviation over three decades is an admirable record. Wishful thinking aside, corruption will be with us for some time, so, understanding how Indonesia succeeded despite corruption is a worthy task.

No question that corruption got worse in the 1990s, but the issue was one of degree, not direction. Simple –

ISSN 2224-607X (Paper) ISSN 2225-0565 (Online)
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simplistic – explanations of Indonesia's fall based on corruption and bad governance cannot be the whole story. The extraordinary increase in external financing from the early 1990s to 1997 most definitely fueled the corruption fires but it did not ignite those fires.

Dispelling these myths, getting the facts straight, is critical if we are to take the right lessons from the Indonesia experience. Before I turn to Kazakhstan and then to lessons, I want to look at the Indonesian crisis.

The crash

Indonesia came apart in 1998 with a speed and ferocity of historic proportions. Among all the East Asian crisis economies, Indonesia's was among the least likely to collapse from a purely macroeconomic perspective. The usual suspects – current account or fiscal deficits, distorted exchange rates, public debt – looked better in Indonesia than in other crisis countries, better even than most non-crisis countries.

Something other than macroeconomic imbalances was at work. When Stan Fischer, the Fund's First Deputy Managing Director, arrived in Jakarta on January 11, 1998, to take over management of the IMF's recovery program, I asked if there was another instance in which the citizens of a country had abandoned their domestic currency in a historically low-inflation environment. Neither of us could think of one.

Foreign debt overhang certainly contributed to the rupiah's collapse, but it can't be the whole explanation. It can't explain why my housekeeper was trying desperately to convert rupiahs into dollars in early January 1998, even though everything she bought was locally produced and priced not a lot differently than a year earlier. Nor can "rational expectations" about impending inflation be the answer. Even the IMF was unaware then about the vast liquidity support Bank Indonesia was pumping into the banking system that would eventually lead to an inflationary spike later that year.

What could, and for me does, explain her behavior was expectations of a different nature, expectations based on a deeply ingrained, almost mystical premonition among Indonesians in general and Javanese in particular that Suharto's era was over. And, that based on the 1960s Sukarno/Suharto power transition, the transition from Suharto to whatever was to follow would be difficult, possibly deadly. This deep-seated fear of the coming transition was the explanation I gave to Dr. Fischer in January 1998. He was kind enough to acknowledge later that I had been correct.

Three crises in one

If it wasn't corruption or macroeconomic factors, what did make Indonesia's crisis so severe? The answer lies in the fact that Indonesia's was three crises rolled into one: more accurately, two crises and a collision. It was, indeed, in part an economic crisis caused by remarkably imprudent off-shore lending to Indonesian enterprises, lending that was not, in many instances, intermediated through the Indonesian banking system. The East Asia Miracle had blinded eternal lenders to the underlying risk in Indonesia as it had in the rest of East Asia.

But Indonesia's was also a political crisis, a crisis of confidence in government. Driven by deep concerns about the ability of public institutions, banking supervision and the legal system, to support political change, about the relationship between business and government and the role of the international community, both official and private in the lead-up to the crisis and the post-crisis period.

Suharto was a great development leader, but like many autocratic rulers, he had one near-fatal flaw: he saw strong institutions; the civil service; the legal system; a free press, etc. as inherently a threat to his power. The one clear exception to this rule was Lee Kuan Yew of Singapore, who created what is still today one of the world's best civil services and a strong and effective legal system. These institutions played a key role in Singapore's extraordinary development success story during and especially following Yew's tenure.

Finally, a collision of cultures also fueled the crisis, the predominantly Western rules of globalization colliding with an Eastern business culture in which relations - who you know - carried far more weight than legal contracts because the rule of law didn't work well in many of these countries.

Indonesia's financial woes had all the trappings of a classic banking crisis as a collapse in confidence led to foreign exchange "withdrawals" the size of which no country or region could have withstood. Let's look at the causes of this loss of confidence one at a time.

Box 1: Corruption: who is to blame?

Global financing by individuals who do not and cannot be expected to know the details of countries or companies in which they are investing is the way of the future. But investors need to get better at pushing for, insisting on, credible information – transparency – before they invest. In Jakarta I met with dozens of visiting investors a month in the years leading up to the crisis. The conversation was always more or less the same:
Investor: "I have lot of money. I want to invest in Indonesia. What looks good?"
Me: "The World Bank is not an investment advisory service, but I am happy to tell you what we know about the economy (which I would then do)."
Investor (on leaving): "By the way, Indonesia has a big corruption problem. When are you guys going to fix it?"
Me (showing him or her to the door): "Probably not until the money stops pouring in. Right now it is impossible to get anyone to listen to arguments that corruption has costs. The power players in and out of the government are too busy going to their banks."
In virtually every meeting I participated in with Suharto during my five years in Indonesia the corruption issue would come up. And every time he would make the same defense: "Yes we have a corruption problem, but can it really be as bad as you say? Let's look at the record." I got to know this speech pretty well and I never heard anyone on the other side of the table counteract it especially effectively.

The tip of the iceberg: the financial crisis

One can see the seeds of the East Asian crisis in the foreign financing flows that overwhelmed financial systems in many East Asian countries. One can lay much of the blame for Indonesia's – and the region's – bad debt problems at the feet of poor accounting, auditing and disclosure systems, generally, the ubiquitous "lack of transparency."

But, the warning signs were there. The problem was that those making their fortunes in East Asia chose to ignore them – or were happy to accept the risk/return setting in which they found themselves.

All the talk of information asymmetries, moral hazard, and herd instincts can't hide the fundamental fact that investors flocked to Indonesia to the day the country collapsed.

Everyone knew that domestic banks were weak, riddled with indeterminate but high levels of bad debt, that corporations kept multiple sets of books and often didn't know their exposure to external debt or to exchange rate risk, that private debt was sky-rocketing.

The world knew all of this in 1994 when I arrived in Indonesia, most of it long before that. We knew it in 1995, 1996, at the beginning of 1997. But the money just kept on rolling in.

The growing enthusiasm of international investors in East Asia right up to the very last month, week, even day before the crisis hit leads one to ask, what, if anything, would it have taken to get investors and lenders to stop for a moment and think (see Fig. 5)? Why didn't investment flows at least taper off as obvious and publicized risks increased? I am unaware of a good answer to this puzzle.

The *real* crisis: an unplanned political transition on the back of weak institutions and a regional economic crisis

Politics, not economics, brought Indonesia from a difficult financial crisis to near disintegration. The story is long and complex and likely the basis for many a future Ph.D. dissertation, but here's my version. Suharto ran Indonesia. He *was* Indonesia. To have such complete power and control over such a huge and unwieldy archipelago as was, and is Indonesia, required an extraordinary ability to play potential competing power centers off against each other.

It also requires a delicate balance of strong and weak institutions. On both these fronts, Suharto operated brilliantly. Unfortunately, one of the consequences of this brilliant balancing act was the so-called banyan tree effect. Nothing grows under a banyan tree, and no strong institutions or any worthy successors developed in Suharto's shadow.

The culture angle

Cultural explanations of successes, failures, differences are often seen as not politically correct. But to ignore culture is to doom development policy to continued failure. People are different; cultures are different. Globalization may change this, but it has not done so yet.

In East Asia, foreign investors were operating in an environment where who you knew mattered far more than the institutions in which those foreign investors were accustomed to trusting: courts and governments. As many investors were to learn, the basic notion of creditor rights was an alien concept for many East Asians.

You lent me money. The bottom fell out. No way will you get my company just because I can't service my debt payments. Especially, no way if you happen to be a foreigner. The frustration of creditors over the early rulings of the Bankruptcy Court in Jakarta is a case in point. Being right just wasn't relevant.

The Bankruptcy Court was a construct of the World Bank and IMF to try to get Indonesia's real economy working again in recognition that the near total collapse of the Rupiah had left many companies no way forward without the resolution that only a functioning bankruptcy system could give them. In principal Indonesia's bankruptcy court was "ring-fenced" separate from its regular and deeply corrupt legal system; in practice the ring-fencing proved unworkable. Indonesia's constitution required that even an independent Bankruptcy court decisions were appealable to the Supreme Court, a part of the judicial system that was by no means free from corruption.

These observations are Indonesia's story as I saw it, but what of Kazakhstan? I have left the Kazakhstan story to last because it is still unfolding.

Kazakhstan[1]

As Fig. 6 (World Bank Data) shows, it took Kazakhstan several years to shake off the vestiges of its Soviet heritage; but in 2000 the economy took off.

Yes, oil drove this boom, but many other countries had oil but nothing like

Kazakhstan's growth record. However, as well as Kazakhstan did regarding growth, it did not stand out relative to other former Soviet states, but it did with its immediate neighbors: see Figs. 7&8. It did shine in one important area: a steadily improving income distribution (Fig. 9).

Regarding growth, Kazakhstan and Indonesia also look similar. (Fig. 10)

For example, both were victims of the 2008 global financial crisis, although Kazakhstan's growth history reflects the importance of oil in its economy. Their public debt profiles (Fig. 11) also bear remarkable similarities. Reflecting, I believe, an underlying commitment to sound fiscal policies.

Where the countries differed economically is in the importance of oil: see Fig. 12 which reflects the dominance of oil in Kazakhstan's development story, but, as mentioned, an oil bonanza has led often to economic disaster rather than to sustainable growth, so the Republic of Kazakhstan (RK) is also a development model worthy of attention.

The World Bank recognized Kazakhstan's remarkable growth record be saying, "Kazakhstan has transitioned from lower-middle-income to upper-middle-income status in less than two decades. The country moved to the upper-middle-income group in 2006. Since 2002, GDP per capita has risen six-fold, and poverty incidence has fallen sharply."

Regarding starting points, at the time of the breakup of the Soviet Union, Kazakhstan was the most "Russified" of the Central Asia states. At one point, more than 40% of the Kazakhstan population was ethnic Russian; today it is about half that (see Table 2); as the Fig. 13 shows; today Kazakhstan's ethnic Russians are heavily concentrated in Kazakhstan's north near its border with Russia.

This Post-Soviet overhang and the nomadic tribal nature of ethnic Kazakhs (the dominant ethnic group at about two-thirds of the population) has made creating a sense of nation one of Nazarbayev's big challenges. Ethnic Russians in what is now Kazakhstan is not a new phenomenon; even before the rise of the Soviet system, Kazakhstan hosted large numbers of ethnic Russians, although the numbers expanded rapidly with the foundation of the Soviet Union in 1922 (see Table 2).

Nationality	1926 - %	1939 - %	1959 - %	1970 - %	1979 - %	1989 - %	1999 - %	2009 - %	2014 - %
Kazakh	59.5	38.0	30.0	32.6	36.0	39.7	53.4	63.1	65.5
Russian	18.0	40.2	42.7	42.4	40.8	37.4	29.9	23.7	21.5
Uzbek	3.2	1.7	1.1	1.7	1.8	2.0	2.5	2.8	3.0
Ukrainian	12.4	10.8	8.2	7.2	6.1	5.4	3.7	2.1	1.8
Uyghur	-	-	0.6	0.9	1.0	1.1	1.4	1.4	1.4
Tatar	0.7	1.6	1.5	2.2	2.1	2.0	1.7	1.3	1.2
German	0.7	1.5	7.1	6.6	6.1	5.8	2.4	1.1	1.1
Korean	-	-	0.8	0.6	0.6	0.6	0.7	0.6	0.6

Table 4 Ethnic composition of Kazakhstan

The figure also gives a clear picture of Nazarbayev's motives for moving RK's capital from Almaty in the far south to Astana much further north. He understood much earlier than the rest of us that Mr. Putin would eventually want to recreate at least the land mass of the former Soviet Union; and that Kazakhstan's north with its heavily ethnic Russian population would be too tempting a target.

Much as Suharto had to balance off the demands of Indonesia's "*Bumiputra*" (literally son of the soil: Indonesia's ethnic natives) against the economically more successful ethnic Chinese immigrants. Nazarbayev has had to work to preserve the multi-ethnicity of his new nation in the face of strong nationalist pressure from the ethnic Kazakhs to transform Kazakhstan into a Kazakh homeland. Kazakhstan means (literally, "land of the wanderer" in reference to the Turkic origin (qaz: to wonder) of the term Kazakh).

Although I am not sure my anthropology colleagues would agree, I also see surprisingly strong cultural

[1] For a more in-depth review of both Nazarbayev and Kazakhstan's economic history since independence see: (Aitken, 2009)

similarities between the two countries: both are Asian. Saving face and a tendency toward top-down management and power structures are two cases in point. Both peoples are accustomed to strong leadership. In Indonesia, from Javanese kings, of which many Javanese thought Suharto was the most recent incarnation, were semi-divine beings who derived their absolute power from the gods, gods who could just as easily take that power away as they gave it, something many Indonesians felt the gods had done to Suharto in 1998. I recall both taxi drivers and my Ph.D. trained staff alluding in 1997 that the gods were signaling the sunset of Suharto's rule through the Asian financial crisis, and a series of natural disasters including historically large forest fires that lasted into 1998.

Box 2: Kazakhstan's three hordes:

- The Senior Horde (also called Elder or Great) (Ulı Juz)
- The Middle or (also called Central) Horde (Orta juz)
- The Junior (also called Younger or Lesser) Horde (Kişi juz)

Kazakhstanis in contrast between 55 years of Soviet rule, and the nomadic nature of ethnic Kazakhs with their background of tribalism and the three hordes (see box).

Both these cultural traits made Kazakhstanis inherently comfortable with strong leaders. Plus, both countries have long histories of occupation: Indonesia by the Dutch; Kazakhstan by the Russians. And both countries struggled to develop a national identity: Indonesia with its dominant Javanese population but had nearly 300 other ethnic groups; Kazakhstan with its dominant ethnic Kazakhs but one-third of the population non-Kazakh.

But, most importantly both countries were blessed with enlightened leaders. Neither Suharto nor Nazarbayev came from what we might call obvious development leadership backgrounds. Suharto had a high school education. Nazarbayev was an engineer, who had risen to the upper echelons of the former SU power structure – making his embrace of markets and globalization remarkable. Both shared a willingness to surround themselves with smart technocrats and to listen to them. Suharto had the justly famous "Berkeley Mafia" led by Widjojo Nitisastro and including Mohammad Sadli, Emil Salim, Subroto, and Ali Wardhana, all of whom I was privileged to know during my time in Jakarta[1].

Probably Nazarbayev's best known economic policy person was Grigory Marchenko, the Central Bank Governor from October 1999 when he had just turned 40 until January 2004. As Reuters said in a 2012 profile of Marchenko: "Sarcastic and even vitriolic at times, Marchenko is feared by some local media representatives as a sharp-tongued critic of shallow reporting on banking and macroeconomic news." Even his critics, of whom there were many, did not deny either his intelligence or his mastery of the issues. He was appointed to a second term as governor in 2009. Given Gregory's well-known penchant for speaking his mind, his continued role in Nazarbayev's government reflects the president's desire to both hear the truth and to take advice even if taking it was politically difficult.

Mr. Oraz Zhandosov was another early Kazakhstan economic stalwart. He served as an Adviser and head of the department of the staff of the Supreme Economic Council under the President of the Republic of Kazakhstan from 1991 to 1992; he later went on to serve as the First Deputy Chairman of the National Agency for Foreign Investments and later still as first Deputy Minister of Economy of the Republic of Kazakhstan. These short biographies illustrate that neither Suharto nor Nazarbayev was afraid to surround himself with independent thinkers.

This confidence in technocrats goes far in explaining the excellent economic performance of both Indonesia and Kazakhstan.

[1] For a similar view, see (Lex, 2008)

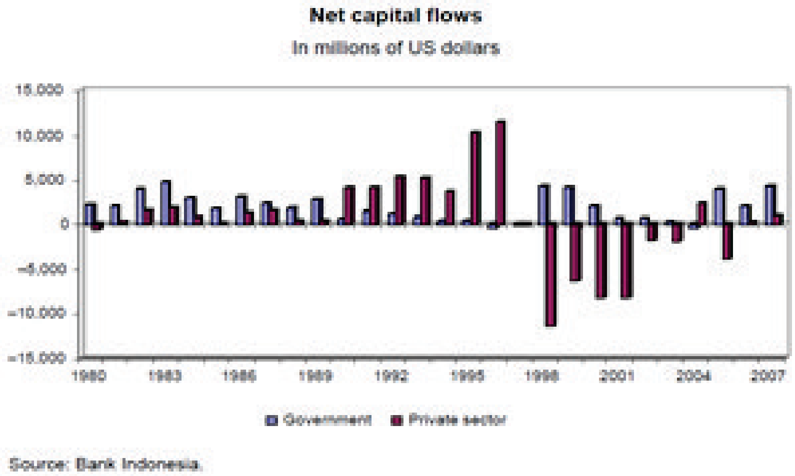

Figure 5 Net capital flows

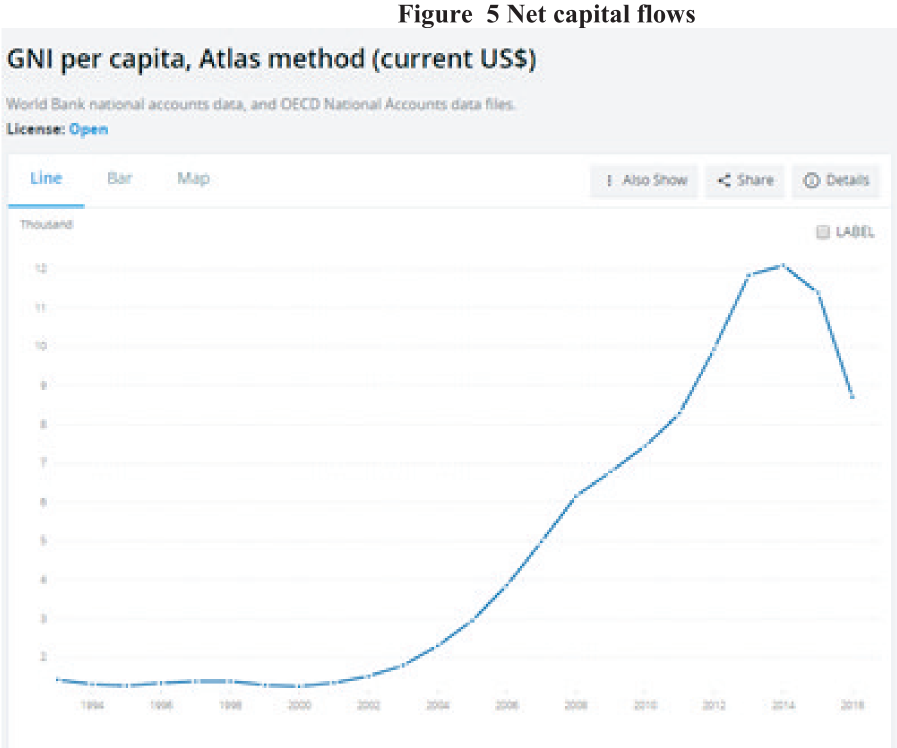

Figure 6 Kazakhstan GNI per capita growth

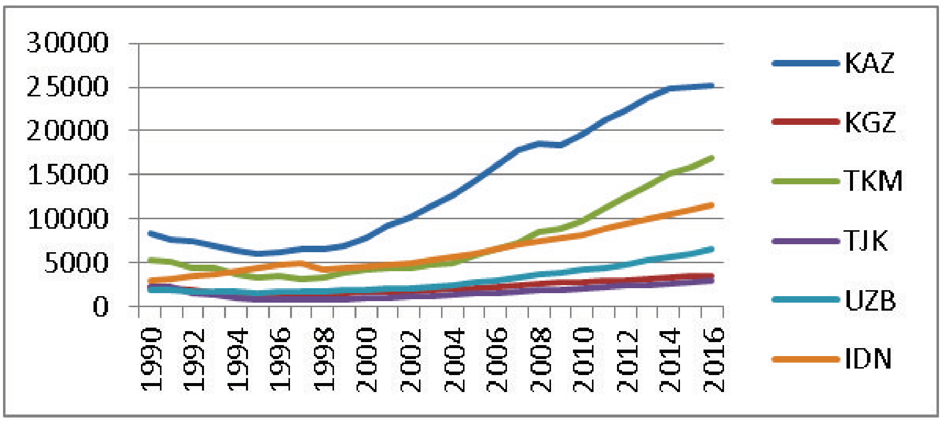

Figure 7 GDP per capita, PPP (current international $) Kazakhstan Central Europe and the Baltic States

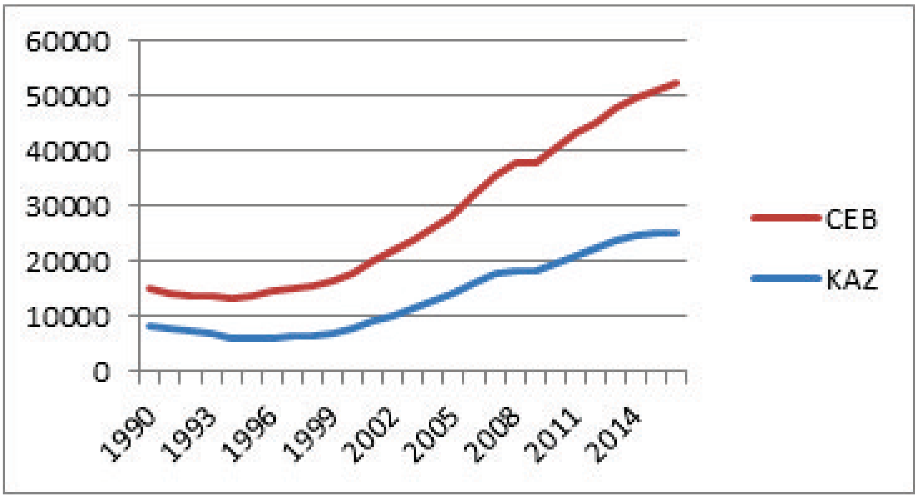

Figure 8 GDP per capita, PPP (current international $) Kazakhstan/Indonesia and Central Asia,

Figure 9 RK GINI index (World Bank estimate): 2001 – 2015

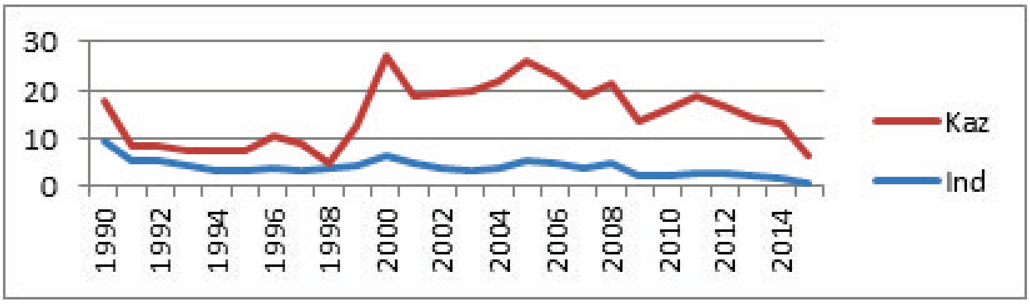

Figure 10 RK and Ind. Per Capita GDP (current international dollars)

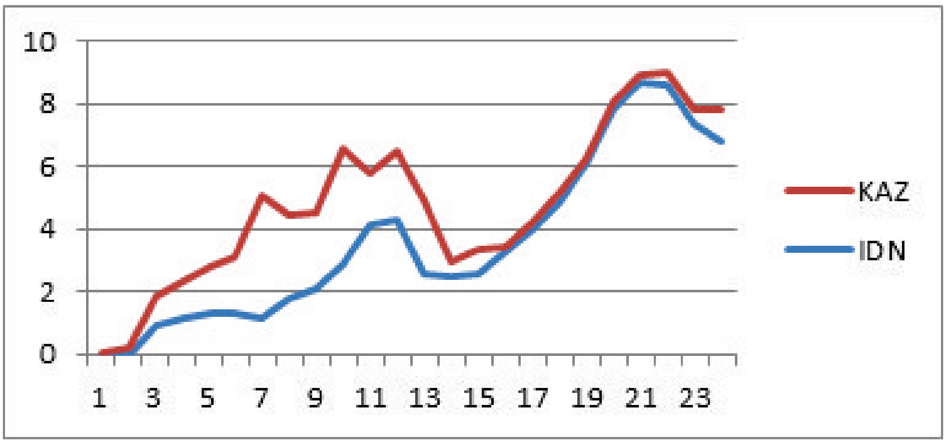

Figure 11 Public and publicly guaranteed debt service (% of GNI). Time period 1 = the first year of each

ISSN 2224-607X (Paper) ISSN 2225-0565 (Online)
Vol.8, No.12, 2018

ruler's term

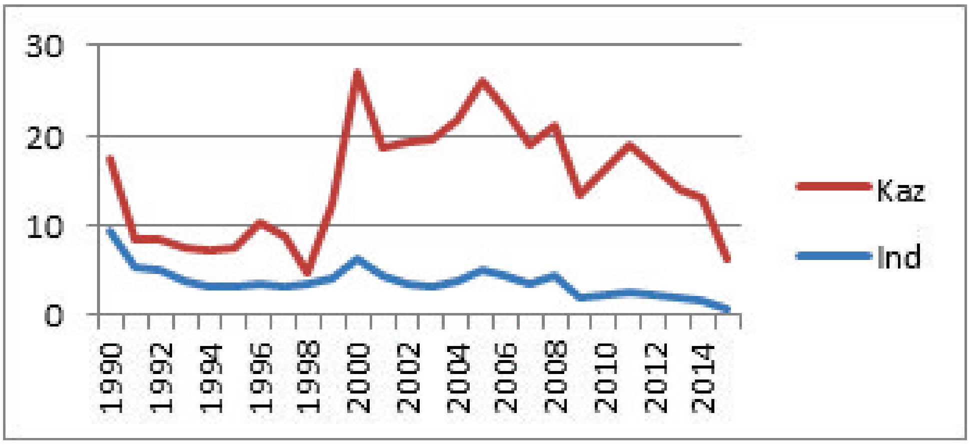

Figure 12 Oil Rents % of GDP for Indonesia and Kazakhstan

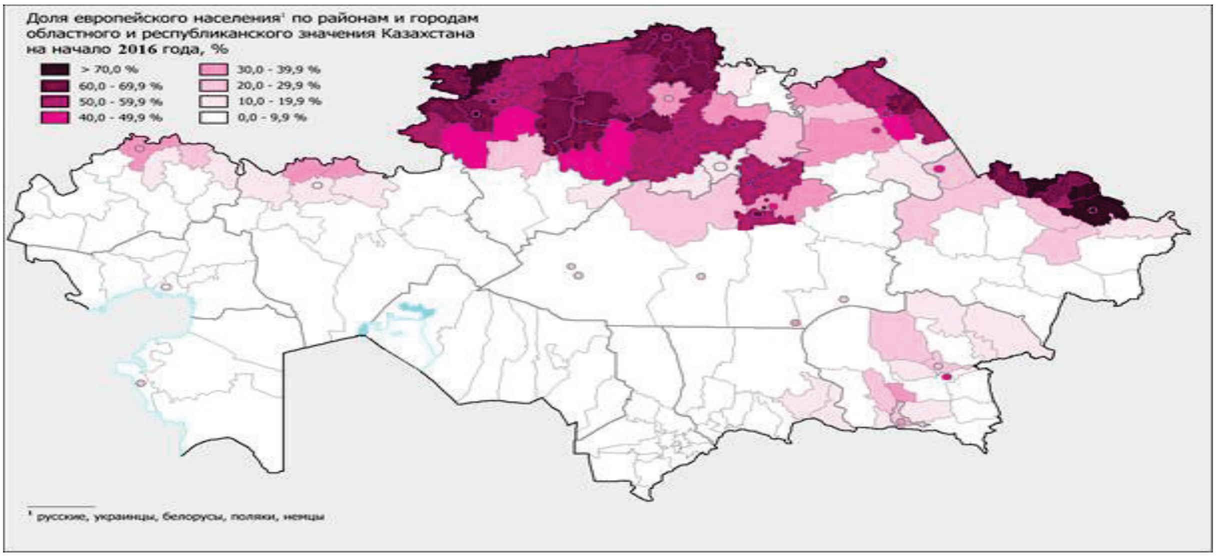

Figure 13 Percent of RK population ethnic Russian by "county."

Lessons for development

If I were to identify a short list of the lessons I took from Indonesia's and Kazakhstan's experiences, it would look something like the following.

Stick to the basics

Both countries based their development successes on a lot of the right stuff. That is conventional neoclassical development policy prescriptions. These policies involved good macroeconomic management, protected for a long time in Indonesia's case by the discipline of an open capital market. Indonesia opened its capital market in the early 1970s and never looked back. That is, until the East Asian crisis). Also, reasonably open markets, a balanced growth agenda that did not leave agriculture behind, and heavy investment in human resources, especially basic education. The last part of this statement is much truer for Indonesia than it is for Kazakhstan which is one reason why Kazakhstan currently faces an enormous diversification challenge.

Neither countries' policies were perfect by any stretch of the imagination, but the payoff is in both cases is evident: over 100 million people moved out of absolute poverty in Indonesia, a massive decline in Kazakhstan's poverty rate from nearly 50% when the country was founded to less than 3% in 2016.

What these countries' experiences tell us is that the conventional development recipe works in the real world, not just in a textbook. It is the resilience of the standard prescriptions in countries that was anything but perfect that is the most important message for developing countries and development practitioners. Some sub-messages:

- Stable macroeconomic management is essential to rapid, sustainable growth but it alone does not guarantee it. Indonesia's was, as I have said, not a macroeconomic crisis in the traditional sense of the term.

- Rapid, sustainable growth comes from a vibrant private sector built on competition, openness and a country's comparative advantage. However,
- Private investment is not always good for development, especially if a country bases its private sector on protection, sweetheart deals and notions of technological leapfrogging.
- Governments must establish clear, and simple, rules of the game and stick to them if they want to encourage private sector development. The framework does not have to be perfect, but it does have to be stable, predictable and understandable.
- Rural and agricultural developments are important elements of equitable growth. Skipping rungs on the development ladder is difficult, dangerous, and generally does not work.
- Finally, and maybe most critically, human resource development is the government's single most important investment challenge, far more important than petroleum refineries, power plants or cement factories. The need for this commitment goes well beyond basic education. On this front Kazakhstan stands out with its Bolashak program, which has sent more than 12,500 students from Kazakhstan to the world's top universities since its inception in 1993 and its establishment of a new English language western-style university in Astana, in 2010.
-

Ownership matters

That reforms must be "owned" by a country's leadership is now an accepted mantra of development gurus, but it is still more often ignored than followed. In both countries, the leadership had sufficient authority that if they did not own a reform, it did not happen.

As experience has demonstrated, clear and credible commitment to good government, good banking, and a well-functioning legal system by a country's leadership is *the* essential foundation for reforms in these areas. All the technical assistance, training and money in the world cannot substitute for this commitment.

Transparency: necessary but not sufficient

More transparency in and of itself might not have prevented Indonesia's economic problems, but it would have given many of the players less excuse for inaction before the crisis. Better numbers were needed from both governments and private companies. Most importantly, the official community should not even inadvertently be a party to government efforts to hoodwink citizens. Whether donors have the right to information about government activities is not the issue. A country's citizens do, and there is no excuse for putting money into places that don't abide by this edict.

When institutions matter

The real cost of weak institutions is not evident until there is a crisis, especially a crisis of leadership. Indonesia shows us that rapid growth and poverty reduction can take place in an environment of weak institutions, but transitions cannot. Institutions are the bridges that can take countries over choppy waters as they move from one political state of nature to the next. Even in many successful East Asian developing countries, institutions remained too weak to be helpful during transitions. Kazakhstan's transition story is unfolding as I write this.

Unresolved challenges

The positive and negative experiences of Indonesia and Kazakhstan present lessons not just for governments of developing countries, but for all of us in the development community. Among the more critical of these challenges:

- Good times often make for bad policies and the price eventually paid can be very high. I see improving our effectiveness in selling needed policy change in countries not or not yet, in crisis as the single greatest challenge to the development community.
- As a corollary to the first point, strong leaders too often make for weak institutions. Autocratic leaders who keep institutions weak to avoid threats to their power base but who don't deliver the development goods are, or should be, easy to deal with. But what do we do when such leadership grows a country and dramatically reduce poverty?
- How can we better tailor policy advice to local conditions? This tailoring is especially difficult in reforming financial markets and in private sector development. How, for example, can we reap the considerable benefits associated with the private provision of infrastructure where regulatory frameworks and agencies are weak or non-existent?
- How can we reconcile a world globalizing at the speed of light over fiber optic cables with an institutional development process that takes years, maybe decades – and may not always be welcomed?

These are difficult questions that bring out the trade-offs those of us in the development business struggle with each day. I don't have all the answers, but I do believe the questions need to be asked and to be constantly in the minds of those striving to make development policy and programs more effective.

Future Research

This overview opens the door to a host of political economy research questions. Aside from pushing democratic principles, how can the international community work with effective autocratic rulers, especially, how can it help smooth the transition? Which institutions are central to a smooth transition of power? What are the downsides of supporting an autocratic ruler who is doing well for his country? More generally, how strong is the case made in this paper for the superiority of autocratic ruler to democracy at certain stages of a countries development?

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