ABSTRACT

Prior to 1986, oil was the major export of Indonesia. In large measure, it supported the economic development of the country. During the oil price booms of 1974 and 1979, oil exports increased considerably from U.S. $1.6 billion in 1973 to almost U.S. $20.7 billion in 1981. This favourable trend, however, was halted after the oil price dropped in 1982. Following this, oil exports gradually decrease to U.S. $8.3 billion in 1986. The Indonesian government responded this situation rapidly by introducing a series of policy measures including, devaluation, privatization, and deregulation to promote non-oil exports especially manufactured exports.

Due to these new government policy initiatives substantial progress has been made in many sectors of the economy. Indeed, since 1987, non-oil exports have become major export names for Indonesia. In 1991, the ratio of non-oil exports to gross domestic product was 15.6%, compared to only 5.3% in 1981.

In view of the above, the objective of this thesis is to analyze the impact of non-oil exports on the Indonesian economy within the context of a medium sized macroeconometric model. Based on the simulation results, this study also draws some conclusions which will be useful for the policy makers and researchers in Indonesia.