

# Indonesia and its past economic crisis economics essay



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Indonesia is one of the most promising and fast developing countries in the world. After the financial crisis in 1997, this country has managed to demonstrate the great pace of development and to become one of the world's leading economies. It has become possible because of the combination of internal and external factors and reasonable macroeconomic policy of the government. The economic and geopolitical potential of Indonesia is tremendous. It has a lot of natural and human resources, large potential market and appropriate corporate and organizational culture of doing business. It also rely lowly on exports, hence Indonesia performed better riding through slump. Exports are equivalent to only about 25% of GDP, compared with over 100% in Malaysia in 2008. Moreover, Indonesia's core exports are dominated by gas, oil and coal, so the country was less exposed to the sudden and drastic destocking that caused trade in manufactured goods in Asia to dry up in late 2008 (Indrawati 2009).

The country's \$514 billion economy, which is the biggest in South Asia, has 240 million citizens. It means that the country is a great potential market in terms of domestic consumption. An emerging middle class (35 million) is driving the economic growth in the country. It means that the country is able to create demand for the goods and services provided not only by national manufacturers, but also by multinational companies. The middle class creates not only an attractive market for multinational companies, but also a basis for the development of small business. Under modern circumstances, small business is a foundation for an effective economy. It creates new working places, contributes to the national GDP and makes the national economy more flexible and resistant to crisis and fluctuations.

Indonesia is also rich in different natural resources. The country is the world's leader in the export of coal. It has the largest gold mine and the single largest reserve of recoverable copper. As we can see, export is an integral part of the country's success. On the one hand, it creates a lot of benefits for Indonesia. However, on the other hand, it makes the country's national economy dependent on the situation on global markets.

Fluctuations in these markets may hinder the development of the country.

This situation however may be improved by having a higher share of value-added goods. These goods are produced by using educated labor force, knowledge and IT technologies. Thus, Indonesia will be able to occupy another niche in the global market and make its economy more competitive.

It will also make the development of the country more intensive. One should mention that the current development has an extensive character. The development that has an extensive character is based on the use of resources, labor force, etc. At the same time, intensive development is based on innovations, investments, production of high value-added goods.

The country also has some geopolitical advantages. It is close to China and Japan - its biggest export markets. It means that transaction costs are insignificant. As a result, the efficiency of business is increasing. Moreover, these countries are not only Indonesia's biggest partners, but also some of the biggest markets of the world.

The combination of all the above-mentioned factors leads the country to the status of one of the best-performing economies in the world. According to the experts, the national economy of the country is going to grow 6 percent <https://assignbuster.com/indonesia-and-its-past-economic-crisis-economics-essay/>

this year. It will make it the best-performing economy after China and India.

“ The current GDP per capita is about \$4. 000 in Indonesia. Respectively GDP of Indonesia was about \$960 billion in 2009” (Indonesia GDP - Per Capita (PPP)).

According to the experts, Indonesia should be included in BRIC club in the nearest future.

Probably, we should explain what the so-called BRIC club is. “ The BRIC thesis posits that China and India will become the world’s dominant suppliers of manufactured goods and services, respectively, while Brazil and Russia will become similarly dominant as suppliers of raw materials” (Brazil, Russia, India And China - BRIC).

It only proves our assumption that one of the strong sides of the country’s economy is its export of raw materials, including coal, metals, etc. However, as we have already mentioned, the share of these raw materials should reduce in the nearest future.

Being a powerful country in the world’s economy also means being a leader in the world’s politics. Thus, the political influence of Indonesia in the world is also going to grow. At least in the Asian region, it is expected to happen very soon.

We have said a lot about the country’s competitive advantages. Now it is time to analyze the potential risk factors that may scare the foreign investors and hinder the sustainable development of Indonesia.

First of all, one should mention terrorism among the disadvantages that create risks for investors. Terrorist attacks in Jakarta and other similar countries scare foreign investors and thus hinder the economic development of such countries. Islamist terrorist actions have always been usual for the country. Foreign companies do not have any desire to invest in a country, where their facilities may be destroyed or their managers and workers may be killed.

That is why decisive steps should be taken to solve this problem. Such steps are currently being made. The current government of the country is fighting against Islamist terrorist factions. However, its efforts should be combined with the assistance of the international community. We believe that this risk factor is going to be eliminated in the nearest future.

Another risk factor is potentially dangerous natural factors. We mean, for example, tsunami in 2004 that killed a lot of people and shocked the world. In fact, there is a risk that such a cataclysm may occur again.

The scope of that cataclysm can be described by the following words. “ Massive sea surges triggered by an earthquake under the Indian Ocean have killed over 10, 000 people in southern Asia, with many more feared dead. Indonesia is thought to be the worst-hit country in the region, with 94, 000 dead, 132, 000 missing and 132, 000 (Government of Indonesia 2005).

Possible consequences of natural disasters may be the following: death of thousands of people (labor force and intellectual potential); destruction of infrastructure; destruction of material objects, including factories, offices, etc.; expenditure of billions of dollars on reconstruction of the country, etc. In <https://assignbuster.com/indonesia-and-its-past-economic-crisis-economics-essay/>

general, it, of course, hinders the sustainable development of the country's economy. This factor should be taken into account by the investors in Indonesia's economy.

Not only does the country have to fight against possible natural disasters, but it also has to handle other problems related to the natural environment, including climate change and depletion of natural resources. It can be proven by the following quote. " The government in 2010 faces the ongoing challenge of improving Indonesia's insufficient infrastructure to remove impediments to economic growth, while addressing climate change mitigation and adaptation needs, particularly with regard to conserving Indonesia's forests and peatlands" (Indonesia Economy 2010).

After comparing the advantages and disadvantages of Indonesia's economy, we have to talk about the main problems of its current state and prospects for the near future.

Nowadays the main problem of Indonesia's economy and financial system is a danger that its financial market may be overheated. It is essential to take this factor into account because a few years ago it caused a lot of problems.

Ten years of growth resulted in the financial crisis in 1997. One of the reasons was the overheated regional financial market, including that of Indonesia.

The influence of that financial crisis on the national economy was enormous.

" After an average annual rate of between 5% and 7% during a long-term growth in the last two decades, Indonesia has been hard hit during the

recent wave of the Asian monetary crisis. With an economic growth of 4.7% in 1997, the 1998/99 State Budget envisages a minus 12% economic growth with an inflation of 66%, which gradually developed into an economic crisis" (Indonesia's Economy. Economic Growth and State Finance).

That is why it is very important to evaluate whether the market is overheated now or not in order to avoid a similar crisis.

We believe that we have to explain the term "overheated market". It means that market prices of different assets, including stocks, raw materials, etc., do not correspond to their fundamental prices. Thus, the assets are overestimated and the so-called bubbles are formed because of some speculative tendencies. When investors realize that the assets are overestimated, the whole system ruins, creating terrible consequences. As a result, the whole national economy is harmed.

The most recent and vivid example of such a cataclysm is the global financial crisis 2008-2010 that was caused by the bubbles in the markets of leading assets. Despite that fact, the tendencies for such bubbles to form are still observed in the global economy.

Thus, to conclude, we would like to say the following. Despite the crisis in 1997-1998, Indonesia has managed to demonstrate the rapid pace of economic development in the past decade. As a result, nowadays a lot of people tend to treat Indonesia's economy as one of the most promising economies in the world. We also support this opinion and believe that its economy is going to become one of the leading ones.

It is possible because of the combination of the country's advantages and effective government's policy. The country's advantages are the following: beneficial geopolitical location; rich natural resources; cheap labor force; large internal market.

The government economic policy is based on the use of liberal principles that are traditional in the developed countries. The most important thing is that the country's leaders desire to see their country as an innovative and prosperous state.

The country's economy may also be characterized by some risks, among which some of the most important are a danger of terrorism and possibility of natural disasters. These risks should be taken into account by investors and internal policy makers because they are able to hinder the sustainable development of the country. If they cannot be avoided, they should be forecasted and minimized.