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The Role of Global Actors in the Liberalization of Indonesian Economy through its Financial Institutions

Shabbir MS

Lecturer, International Islamic University Islamabad, Pakistan, Tel: 00966536469744

Email: **Mshahzad786.pk11@gmail.com**

Rehman AK

International Islamic University Islamabad, Pakistan

Akhtar T

University of Punjab, Pakistan

Abstract

In contrast, the political ideology governing on Indonesia seemed to be isolated from any required economic reform. This paper investigates the dynamic role of global actors after liberalization of Indonesian Economy. However, these global actors such as World Bank, International Monetary Fund (IMF), World Trade Organization (WTO), a group of twenty largest economies called as G 20 and Association of Southeast Asian Nations (ASEAN) play an important role in developed and under developed countries of the world. The international market exercises its rules to regulate any new and existing business including the international business market that is free to enter in this globalization era, with a campaign that aims to benefit all people as the effect trickles down. However, it has been questioned why Indonesia extended this commitment, despite the country still suffering from its own foreign loans that floated up to USD 251.2

billion at the end of 2012.

Keywords: **Liberalization; Indonesian economy; Global actors; Governing; Financial troubles**

INTRODUCTION

For more than three decades, the country had been ruled by Soeharto and his cronies, consisting of a small group of people (family and friends), who had mixed their public and private affairs for personal gains. By the time the financial crisis eventually occurred, they had dragged the country to more widespread socio-political crisis. In March 1998, Soeharto formed a new cabinet dictated by the IMF to gradually reduced government subsidies until October of the same year. However, the economic situation deteriorated, and demonstrations in the streets of Jakarta called for the president to step down and for his cronies to be held accountable for their political abuse and rampant corruption[1]. Due to the increasing pressures, after 33 years in power, Soeharto finally stepped down and handed over the Presidency to Vice President Burhanuddin Jusuf Habibie. During Mr Habibie's time, the fourth agreement for new funding with IMF was signed, despite the wider budget deficit. The rupiah became stronger and the crisis started to ease up, including the inflation rates, stock exchange, and non-oil exports.

Basri et al. [1] reckon that economic liberalization and privatization of public companies were introduced during the 1998 crisis as part of reforming the old corrupted economic structure. The reform also included getting rid of private monopolies and the elites from Soeharto's cronies, who were profiting from the widespread corruption. In terms of the monetary and fiscal policies, the plan was to float the exchange rate of the local currency and open the country for global trading regime. However, economic liberalization had significantly contributed to the increase of corruption in the country by facilitating new opportunities for opportunists [2].

Unfortunately, the economic liberalization and free trade were operating in the country, but without adequate safeguards of accountability and transparency to restrict corruption and power abuse. Nevertheless, in 2008 the government introduced the financial stress test and other stabilizing mechanisms, such as reliable accounting information aimed at supervising the global liberalization trade with Indonesia [3]. Some years later, during G20 meeting in 2012, Indonesia made a commitment to loan the IMF through USD 1 billion, to support countries in financial trouble, as the IMF required USD 430 billion. While on other side high percentage of unemployment in Indonesia reached

[1] The biggest riot occurred in an area called "Glodok" the business centre owned by elite Chinese close to Soeharto's family and who were responsible in distorting the economy in order to create rents that they can siphon off funds marked for country's massive infrastructure and social and economic development.

nearly 40% in 2007 and it was accompanied by the low quality and productivity of the labor force due to Indonesia's incapability to compete in the free labor market.

However, several researchers criticized IMF's attempt that it has failed to stabilize these crisis, instead inflaming the situation due to inappropriate remedy [4]. In addition, Basri [3] commented that "the IMF 'over-managed' the crisis by demanding extreme fiscal austerity and excessive policy conditionality while also displaying a lack of political sensitivity at key periods." Instead for these conditions to stabilize Indonesian economy, IMF policies had caused the economy to be worse off and experience a downturn trend [5].

In the financial crisis periods, accounting regulations in Indonesia had been changed to follow the International Accounting Standards due to the loan commitment and this was further strengthened during the bailout process. The crisis seriously attacked many companies that obtained un-hedged and short-term offshore loans in in foreign currencies, mainly US Dollars, and the condition worsened when the companies rushed to buy dollars [6,7]. The economy had shrunk from a positive GDP growth of 8.2% in 1996 to -14.2% in 1998, in addition to a massive increase of the inflation rate to 64.7% per year. The financial institutions suffered huge losses and pleaded for bailouts, and the government decided to seek financial assistance from the IMF, World Bank, ADB and other bilateral institutions. With a bailout package commitment of USD 49.7 billion[2] to restore the market, Indonesia had to agree to a list of conditions from the creditors, including cutting down government subsidies, raising more taxes, and increasing interest rates that turned the currency crisis into a banking crisis. IMF claims that the bailout contributed to the Indonesian economic recovery signed by the increase in output growth, decline in interest rate, stronger exchange rate and higher reserves from 1999 onwards [8].

LITERATURE REVIEW

Liberalization of Indonesian economy

According to Martinez et al. [9] there are five characteristics of neoliberalism, namely the rule of the market, cutting public expenditure for social services, deregulation, privatization, and eliminating the concept of "the public good" or "community". The market exercises its rules to regulate any business including the international business that is free to enter in this globalization era, with a campaign that aims to benefit all people as the effect trickles down. Cutting public expenditure for social services such as education and health care are one of the highest expenditures that the government should bear, and this is one government function that neo-liberals believe should be demolished. As the government should lessen its power to regulate the market and rule the people, the neo-liberals must safeguard their interests to ensure that they gain the highest benefits possible by disallowing the government to issue any regulations against

[2] Only USD 21.9 billion was disbursed as per 30 May 2000 (44%)

them [10,11]. Therefore, they are very conscious on any government initiative or any new regulation.

They are also making an attempt to influence the government into altering the existing regulations, if they find them unfavorable. However, State-owned enterprises and provision of essential goods and services are considered inefficient in the hands of public entities; hence they should be managed in more professional way, for example through privatization. Common targets for this argument are banks, key industries, railroads, toll highways, electricity, schools, hospitals and water. Public goods or public community should be rephrased to individual responsibility, as everyone has an equal right to compete and accept the fact that he may be a winner or a loser. Lastly, poverty is not caused by the environment, but caused by the individuals themselves who are not efficient in managing their life. It is concluded that neoliberalism is instrumental discourse that mystifies, justifies, naturalizes and universalizes inequality and elite economic status [12].

However, the emerging of such a liberal economic regime was not unparalleled. Ten years after its independence, Indonesia and other developing countries from Asian and African continents initiated a commitment in the Asia and Africa Congress in Bandung, Indonesia, to be independent in the economy. They also agreed to form a Non Align Movement (NAM) at the dawn of the US and USSR (Soviet Union) Cold War, to ensure their freedom in developing their respective economies. Therefore, Indonesia and the rest of member countries were unable to refuse development aids controlled by the World Bank and International Monetary Fund, which opened the path to globalization and economic liberalization. Furthermore, the impact of export expansion from the US to Indonesia (1950s and 1960s), and the Ford Foundation scholarship for Indonesia in the 1950s have sharpened the existence of neoliberalism model in the Indonesian economy. However, it still creates the question as posted by David Harvey below:

How and why neoliberalism emerged victorious as the single answer to this question is the crux of the problem we have to solve. In retrospect it may seem as if the answer was both inevitable and obvious, but at the time, I think it is fair to say, no one really knew or understood with any certainty what kind of answer would work and how.

The term “neo-liberalization” has been debatable, as some argue that it does not exist and it is likely associated with political tension. Therefore in this paper, the term that refers to open or borderless economy, as well as globalization or liberalization is used interchangeably. Many researchers highlight the impact of economic liberalization as somehow unfair to the majority of the people, particularly in developing countries. They seem to argue against economic development that puts priority on liberalization and demand for justice towards the common people, who are severely affected by this regime. For instance, at an intercontinental gathering in 1996 in Chiapas, Southern Mexico, about 3,000 people attended, crying out against economic liberalization. They were mostly activists, representing countries in Western Europe, America, Asia, Oceania, Africa, Japan, Iran, Zaire, and South Africa. On the other hand, the invisible hand theory is seen as a myth, as the market is not always self-regulated, but rather dominantly under the control of certain groups of people.

These groups are mostly economic powerhouses, multi-national companies and others that benefit most from the neoliberal pressures, as it promotes borderless trade. In the economy, the term ‘one size fits all’ refers to the nature of the liberalization, and this has been considered unacceptable. “Whether it is scholarly, ideological, or policy forms, economic liberalism is narrow because it tends to treat economic issues as historically and detached from their political and social contexts” [13]. Indonesia has been facing liberalization in economy at the global (through WTO), regional (through ASEAN), as well as the bilateral level (such as with individual countries, for instance Australia).

The protest towards these multi-national companies is emerging. Tesco, a British multinational grocery chain is even criticized by small British grocery operators, who are pasting the slogan in their shops “Say No to Tesco, Support Local Stores!” The labor union of Carrefour, a giant retailer imported from France, craves for better treatment towards the workers, including converting their status from contract based to permanent employees. Keeping employees on contract base is one method practiced by the neoliberal to maximize the profit, by eliminating social and economic burdens.

It is very likely that this free market competition only benefits a handful of people. Cooper et al. [14] examined that the economic liberalization creates the phenomenon where the rich are becoming richer and the poor are becoming poorer. In addition, Damanhuri [15] asserted that this is due to the control over international infrastructures, such as modern technology that is not owned by all people, for example those living in the peripheral regions. As such, it will only benefit those who have access to the technology. It has been emphasized earlier that “the neoliberal development model has brought about a massive deterioration of living standards, growing income disparities, environmental destruction, an erosion of national sovereignty and the undermining of equity-producing policies [16].

Actors in the economic liberalization

The global economic regime that controls financial and political elites in the economic liberalization is in the hands of the International Monetary Fund (IMF), the World Bank (WB), and the World Trade Organization (WTO) [13]. The policy themes of these organizations, particularly IMF and WB are derived from a well-known consensus referred as the “Washington Consensus”, which was initiated by John Williamson in 1989. The consensus includes ten broad sets of policy recommendations:

1. Fiscal policy discipline, with avoidance of large fiscal deficits relative to GDP;
2. Redirection of public spending toward fields offering high economic returns and pro-poor services like primary education, primary health care and infrastructure investment;
3. Tax reform, adopting moderate marginal tax rates and broadening the tax base;
4. Interest rates liberalization;

5. Competitive exchange rates;
6. Trade liberalization;
7. Liberalization of inflows foreign direct investment;
8. Privatization of state enterprises;
9. Deregulation, abolition of regulations that impede market entry or restrict competition; and
10. Security for property rights.

These ten policies have been severely criticized by Joseph Stieglitz, through his slogan “one size fits all”, and by Dani Rodrik who referred to it as a mantra of “stabilize, privatize, and liberalize”. The Washington consensus has waned in countries around the world, where it was used in Africa and Latin America, and the economies in transition have shown its failures [5]. On the other hand, Williamson counter argues that his recommendations have been misinterpreted by referring them as neoliberal policies applied by Washington-based international financial institutions (WB and IMF), which led the countries to crisis and misery [17].

World Bank

The World Bank was developed after the 1944 Breton Woods Conference that was dominated by representatives from the United States and the United Kingdom. The Bank has evolved from facilitating post-war reconstruction in Europe, and later on development to alleviate worldwide poverty in more than 100 member countries. Indonesia started receiving the World Bank loan in 1968. It supported Indonesian infrastructure programs, such as irrigation, road building, agriculture, education, and water supply after the country’s independence. As per 31 May 2012, the total principal loan has reached USD 18.9 trillion with total disbursement close to USD 13 trillion, which includes more varieties of loans designed for poverty alleviation, community empowerment, as well as loans for the financial sector and investment climate to reform tax and accounting systems [18].

IMF

IMF was also set up together with the World Bank, with the mission to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. While the World Bank focuses on countries’ infrastructure development, IMF concentrates on monetary stability issues. Indonesia has been a member since 21 February 1967, and started its major loan in 1997 (during the financial crisis). In 2006, the governor of Bank Indonesia announced that Indonesia has settled the IMF loan by making the statement “As of today we no longer have any more debts to the IMF, and we expect this will provide more room for Indonesia's economy to grow with more confidence and in a healthier fashion without being burdened by the IMF debt [19]. Some years later, during G20 meeting in 2012, Indonesia made a commitment to loan the IMF a sum amounting to USD 1 billion, to support countries in financial trouble, as the IMF required USD 430 billion in total [20]. However, it has been questioned why Indonesia extended this commitment, despite the country still suffering from its own foreign loan that floated up to USD 251.2 billion at the end of 2012.

WTO

Initially, WTO was instigated by several developing countries for the purpose to improve their economic conditions through relying on raw materials. After the Asia-Africa Conference in 1955 in Bandung, participants such as India and Algeria proposed to form such a body, called WTO. After the North-South meeting, the developed countries tabled a commitment to open a market for the developing countries, which led to the growth of several countries in Asia. Meanwhile, the United States experienced a deep recession under Reagan’s administration, and pursued a solution from the other countries. Then, during the meeting in Morocco, it was agreed to form a borderless trade to achieve universal welfare under the control of WTO. Prior to this commitment, IMF had been assigned to cater the monetary side and the World Bank had been authorized to ensure developmental aid for the developing countries. This would later become known as the trio “Global Super Body” (WTO-IMF-WB), allegedly employed by the developed countries to sustain their economic hegemony through accelerated globalization process. Damanhuri [15] argues that the globalization way of WTO worsened the problem of unemployment through globalization of the labor force. High percentage of unemployment in Indonesia, reaching nearly 40% in 2007, was accompanied by the low quality and productivity of the labor force, due to Indonesia’s incapability to compete in the free labor market.

Globalization, accounting and the persistence of corruption

It has been argued that the accounting reform through the adoption of IAS at that time occurred due to the Indonesian financial crisis of 1997-1998, when IMF and the World Bank promised to attract foreign aids and investments to the country [21]. In this context, the power of regulating accounting shifted from the politico-bureaucrats and their corporate and technocrats clients to the IMF and the World Bank. However, the politico-bureaucrats remained reluctant to relinquish their influence on accounting and pushed for accounting reforms. Therefore, adopting IAS was due to Indonesian’s needs for international financial aid, and not a response from the local business environment. This was inevitable, because as a developing country that requires massive development, Indonesia very much relied on the financial donors such the World Bank and later on the IMF. Through approving loans for Indonesia, the World Bank became the major source of influence for introducing the international financial reporting standards to Indonesia since 1977, reaching its full initiative in 1984. This IAS imposing effort was continued by the IMF during the financial crisis in 1997-1998 and later on by G20 and ASEAN.

G20

The G20 Group, a group of the 20 largest economies, was established in September 1999. It consists of 19 countries, plus the EU, and Indonesia is an active member . The group brings together finance ministers and central bank governors in regular meetings to agree on several economic commitments for the betterment of the member countries. Being a member of the G20, Indonesia has followed the majority of the other countries in announcing public commitment for IFRS adoption in the 2008 summit. The seven notes about this commitment stated by IFRS foundation [22] are as follows:

(i) Unanimous commitment towards supporting a single set of high quality global accounting standards
(ii) Common commitment to regard IFRSs as the single set of global accounting standards
(iii) There are 14 members that have declared that their public listed companies have adopted the IFRSs with remaining six that made reservations (India, Japan, USA permit IFRSs on voluntary basis, Saudi Arabia requires IFRS only for banks and insurance companies only, China has substantially converged its national standards to IFRSs, Indonesia has adopted some IASs/IFRSs but has not announced a timetable for full adoption)
(iv) Fourteen G20 jurisdictions that have adopted IFRS; 11 require IFRSs for all, while Mexico and Argentina require IFRSs for all other than financial institutions, and Canada allows US GAAP for some and has deferred IFRSs for some others
(v) The G20 jurisdictions made very few modifications to IFRS and are said to steps in planning for full adoption. The five EU countries that join G20 made an optional "carve-out" from IAS 39
(vi) There are 18 jurisdictions that state conformity with IFRS in their auditors' reports, while China and Indonesia still record it as conformity with national standards
(vii) G20 jurisdictions have either adopted the IFRS for SMEs or are considering it

ASEAN

The Association of Southeast Asian Nations (ASEAN) was established on the 8th of August 1967 in Bangkok, Thailand, and currently has 10 member countries i.e., Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. According to Accountancy ASIA [8], ASEAN Federation of Accountants (AFA) has encouraged its member bodies to implement IFRS for SMEs as this would render more benefits to the ASEAN member countries where small, medium and non-public interest entities are the backbone of the economies.

The Indonesian economy has followed the stream of the globalization of economy through multilateral and bilateral relationships. A country with rich natural resources but which still suffers from inadequate infrastructure, corruption and a complex regulatory environment should be a guide Indonesia in ensuring its future direction. Adopting full

IFRS raises the question, whether or not Indonesia will be able to promote better transparency and reliability, and henceforth combat corruption and shape a more disciplined regulatory environment. Another question is whether or not IFRS will produce a uniform picture of a real Indonesian economy including the IFIs, which will be of advantage only to the well-informed capitalists who extract the full potential of the Indonesian economy (asymmetric information). Another thing to ponder is if adopting IFRS makes it hard for the Corruption Eradication Commission to create local monitoring mechanisms for companies' activities, since these companies can claim that by adopting IFRS and by being audited by an internationally recognized audit firm their financial statements are free from material misstatements.

Following are the issue of globalization in the economy, globalization from an outsider's (foreigner's) perspective refers to the dire and fierce global competition for products and employees of multinational enterprises [14]. However, from the local Indonesian perspective globalization has a number of other meanings, such as the following:

(i) It means that multinational companies with numerous marketing and financial transactions buy concessions, preferences, and offer kickbacks to local entrepreneurs that network with the decision makers of the country
(ii) It means accessing Indonesia would not happen without taking the economy towards a liberal market economy
(iii) Liberalised economy relies on a handful of individuals in society who have privileged access to business opportunities and financial resources. It creates a localised social class and supplies it with massive wealth in order to create more businesses and thus contributes to the economic growth
(iv) Under liberalised economy, businesses are managed by a few local entrepreneurs, not by public organisations and institutions. Therefore, economic growth and modernisation under the liberal economic model is considered as more important than democracy and transparency. Consequently, implicit corruption is largely seen as something that could "grease the wheels" of modernisation

CONCLUSION

It is observed through researchers that Indonesian economy faced several financial crises in last two decades and still this economy is imbalance and unable to meet their liabilities through assets. Liberalizing the economy took Indonesia to be dependent on subservient and exploited by multinational corporations through the local (political) elites. Corruption and underdevelopment would only persist. However, liberalization agenda has become a nation of self-generation, with endogenous growth and industrialization policies. There are 18 jurisdictions that state conformity with IFRS in their auditors' reports, while China and Indonesia still record it as conformity with national standards. Indonesia is a developing country that requires massive development and relied on the financial donors such the World Bank and later on the IMF. However, Indonesia has high percentage of unemployment nearly to 40% in 2007; it was accompanied by the low quality and productivity of the labor force, due to

Indonesia's incapability to compete in the free labor market. It has been questioned why Indonesia extended this commitment, despite the country still suffering from its own foreign loan that floated up to USD 251.2 billion at the end of 2012.

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