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Key Summary and Problems

Indonesia is composed of over 220 million people spread out over some 17,000 islands. It is also the world's most populous Muslim nation, and more than 500 languages are spoken in the country. Indonesia was once under the control of an oppressive dictator, President Suharto, who largely held the country together. Under his command, he repressed internal dissent and used the political system to favor the business enterprises of his supporters and family members. His rule ultimately crippled Indonesia's economy, as the country accumulated massive debt during the 1990s.

In 1997, Indonesia faced grave economic problems, and had to be "rescued" by the International Monetary Fund. Although Indonesia replaced Suharto's regime with a democratic government, the country's economic growth lagged behind that of China, Malaysia, and Thailand. As such, Indonesia is still plagued with various economic, social, and political problems. First, unemployment rates are high, and growth in labor productivity has been sluggish. Second, significant foreign investment, for the most part, has left the country. For example, Sony and several major apparel companies shut down their respective plants in favor of China and Vietnam. Third, Indonesia is saddled by the problem of a poor infrastructure, as many people are without access to safe roads, clean water, and reliable electricity. Fourth, business activity is stifled in the country due to enormous amounts of red tape, or unnecessarily complicated bureaucratic procedures. This makes it immensely difficult for startup businesses to get their feet off the ground and encourage entrepreneurship in the country.

Most significantly, Indonesia faces a grave problem of corruption throughout all levels of government. Politicians and business executives frequently give and take bribes to further their personal interests. Additionally, the legal system faces further corruption, as jail time is often reduced based on the bribing of enforcement officers and associated officials.

Applications of Key Themes

Collectivism v. Individualism

During the 1990s, Indonesia faced enormous debt due to the collectivist ideology of President Suharto. This case serves as an example of how Collectivism represses the needs of individuals in pursuit of collective societal goals. However, it also demonstrates the risks associated with the ideology. For example, by oppressing members of the public who did not support Suharto's regime, much of Indonesian society was ultimately hurt economically.

Political Ideology and Economic Systems Are Connected

The regime change of Susilo Bambang Yudhoyono introduced democracy into the region. This new democratic ideology went hand-in-hand with the Indonesian economy's period of growth from 2001 to 2010. This serves as a great example of the reading, which states that politics and economic systems are interdependent of one another, and not separate or distinct.

Legal Systems and Corruption

This case also serves to illustrate the need for a legal system that effectively regulates behavior and the processes by which laws are enforced. Here, Indonesia is plagued by severe corruption that has gone so far as to infect the nation's legal system. As such, both judicial and executive officials' behavior is largely dictated by bribery and other crimes. Perhaps the most imminent problem that Indonesia faces, the corruption must cease in order for the country to regain similar economic growth as seen in the early 2000s.

Answers to Questions

1) What political factors explain Indonesia's poor economic performance? What economic factors? Are these two related?

Political and economic factors are certainly interrelated. Indonesia was initially governed by President Suharto, who implemented either a communist-like or generally oppressive political regime. He favored his family members and supporters over the general welfare of individual citizens. As such, the economy stifled and the country accumulated massive debt.

When Indonesia experienced a regime change that shifted the country's ideology to a more democratic one, the economic front began to see some progress. This is likely due to granting more freedom to individuals such that they could more easily develop businesses and participate in the market without reprimand.

For example, public debt fell to 27 percent in 2010. Inflation also declined in 2010. Generally, following the regime change, the economy grew almost 6 percent and hit its peak of 6.9 percent in 2010.

2) Why do you think foreign firms exited Indonesia in the early 2000s? What are the implications for the country? What is required to reverse this trend?

I believe firms began to leave the country due to the political and economic unrest that plagued the country in the early 2000s. The early 2000s involved a governmental change from an oppressive regime toward a newly formed democracy. This shift must have inevitably involved a period of uncertainty concerning the stability of the country, and many big firms could have plausibly viewed this as unattractive for business and profit.

The implications for the country include less foreign investment, sharp declines in foreign direct investment, and an overall slowing of the economy. Further, unemployment and inflation rates could also rise.

In order to reverse this trend, Indonesia will first likely have to resolve many of the issues that are plaguing the country's growth internally. For example, the infrastructure will have to be improved for businesses to find the nation attractive, and the corruption problem must be addressed in an effective and swift manner.

3) Why is corruption so endemic in Indonesia? What are its consequences?

Corruption may be a big problem due to the lack of enforcement mechanisms in the country. Perhaps because it is so difficult to start a business in the country (due to enormous amounts of red tape), individuals find it hard to make a living or maintain stable investments for their families and future. As such, many people may turn to bribery or corruption as an alternative. The issue of corruption is undoubtedly connected to the other problems associated with the country's economic, political, and social structure.

4) What are the risks facing foreign firms that do business in Indonesia? What is required to reduce those risks?

The issue of corruption threatens the stability of firms that do business in Indonesia. It likely creates risks ranging from the improper protection of Intellectual Property, to the encouraging of criminal behavior within and associated with firms and organizations.

In order to reduce these risks, international organizations should consider stepping in as ad-hoc enforcers to get the country back on the right track. This should be done if it is determined that the country cannot address these problems internally.



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