WOULD INDONESIAN ECONOMY BE SERIOUSLY AFFECTED BY THE EURO ZONE DEBT CRISIS?

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In the past 13 years Indonesian economy has been hit by two subsequent big economic crises. The first one was the Asian financial crisis started in the second half of 1997 and reached its climax during the mid. 1998. The crisis was triggered by a sudden capital flight out from Thailand which led to a significant depreciation of its currency, bath, against the U.S dollar, and it spread to some other countries in the region including Indonesia. Indonesia was the most impacted one by the crisis, resulted in a negative economic growth rate at 13 per cent, which led poverty rate to increase significantly. The second one was occurred during 2008-2009, regarded as global economic crisis since its impact was much wider than that of the 1997/98 crisis. This crisis has been called by many economists as the most serious economic or financial crisis that the U.S. ever experienced since the great depression in the 1930s. Its global effects include the failure of key businesses, declines in consumer wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activities in many countries. The crisis then rapidly developed and spread into a global economic shock, resulting in a number of bank failures, declines in various stock indexes, and large reductions in the market value of equities and commodities. In Asia, if not all, most countries, including China, India and Indonesia were also affected. While many Asian countries only saw moderate deceleration in their economic growth in 2008, as the crisis intensified and export demand began to slow sharply in 2009 from the U.S, the European Union (EU) and Japan, a substantial decline in domestic economic activities took place in many of these countries in 2009. However, this time, Indonesia was much better compared to its 1997/98 experience. The country has managed to keep positive economic growth rates and poverty rate did not increase. There were two main factors that may explain why Indonesian economy performed much better during this second crisis, namely the relatively healthy state of its banking sector/financial system, which is a very important precondition to face this kind of economic crisis, and its fiscal and monetary stimuli that had been quickly provided by the government and the Indonesian central bank (Bank of Indonesia).

Currently, the world economy is facing another crisis, i.e. the euro zone debt crisis. The question now is would the Indonesian economy be affected by the crisis, and if yes, how would be the outcome? Would Indonesia have the same experience as in 1997/98 or as in 2008/09? Theoretically, Indonesia would be affected directly as well as indirectly through one main channel, namely export of goods and services. However, direct effect would be small since the euro countries are not the main important market destination for Indonesian export. Instead, for export of merchandise, China, the US, Japan and India are the most important destinations; while for export of services such as tourism, Australia, Japan and some other Southeast Asian countries are the most important ones. So, to answer that question, the focus should be on the indirect effects: would China, the U.S, Japan and other mentioned countries be adversely affected by the euro-zone debt crisis. If yes, no doubt, the Indonesian economy would not be saved from the crisis.