"The EUrASEANs: journal on global socio-economic dynamics"
Volume 6 (13); November-December, Year 2018;
ISSN 2539 – 5645 (Print)

on-line access: https://www.euraseans.com/6(13)

GLOBAL FINANCIAL CRISIS: THE BUBBLE EFFECT IN INDONESIA

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US and Indonesia stock markets are entering record heights without being offset by economic growth and profitability growth of their traded companies. There are several indicators for the stock market bubble: (1) Price Ratio (Ear Ratio); (2) Price Ratio / Book (PB Ratio), the latter comparing the nominal price of one share at a market with the book value (the value of company's assets). The current PB ratio of the composite stock price index being 3.3 means that for each shares the asset value of which is 1 IDR, the stock would be worth 3.3 IDR. This is one of the most expensive price in the world today. Based on the above, for Indonesian stock market sharp decline is just a matter of time and waiting. This decline will be much sharper if triggered by the US financial crisis. We can also also see a bubble emerging from increasingly irrational investment attitudes. Currently, in addition to high prices for stocks and bonds, investors have started looking at investment opportunities in digital currencies. This research tries to know the potential of financial crisis and its effect for the financial market in Indonesia. The research uses descriptive and verification methods as applied to time series data analysis.

Keywords: global financial crisis, bubble economy, stock market, Indonesia

Introduction

According to Joseph E. Stiglitz, the economic crisis that occurred in Indonesia and other ASEAN countries was the result of bubble economic effect due to the influence of globalization in the early 90s. As it turned out, with globalization of the economies worldwide, the world does not become more prosperous. This happens because capitalism is transforming into neoliberalism. The agenda of globalization continues to be based on the

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idea of political and economic dominance of the US and Britain. It is a luxurious new model of imperialism with a machine called corporatocracy - corporations, banks and governments are jointly using financial and political strengths in order to get global power.

The global financial crisis affected Indonesia's trade with its partners. In 2009 Indonesia's exports decreased by 18%, this was the biggest decline in 10 years. The biggest decline for fuel was observed for fuel products - worth USD 13 billion. And if using the percentage terms, the largest decrease occurred in the category of transportation products - about 37% of the total decline in Indonesian exports.

Economic globalization and capitalism together have led to the creation of an economic bubble that bursts easily, and its bursting results in economic havoc for many countries including the United States as well as the economies of small and developing countries.

Indonesia's exports to other ASEAN countries declined by 13% for non-oil and gas exports during this period of the global financial crisis. This crisis also affected Indonesia's export destination countries, in Europe in particular.

In 2008 and 2009 there was again a decrease observed for Indonesia's non-oil and gas exports to European countries, especially to Germany, France and the UK which became the main export destinations of Indonesia in Europe. The decrease of 5.34% in case of Germany costed Indonesia USD 2.3 billion, 10.42% in case of France amounted to USD 840.7 million, and 7.34% in case of the UK means USD 1.4 billion lost (BPS, 2009).

Indonesia's exports to the United States also declined due to the impact of the global financial crisis. Exports of non-oil products to this superpower fell by 16.51% to the level of USD 10.4 billion. Indonesia's non-oil exports to Australia also decreased - by 18.57%, or USD 1.7 billion. The decline also involved exports to Taiwan which fell by 1%, or USD 2.8 billion during the same crisis period.

Meanwhile, Indonesia's exports to China continue to rise throughout the whole period of the global financial crisis. Indonesia's exports remained growing by 14.35%, or USD 8.9 billion, for non-oil and gas exports. This increase was driven by continued positive growth in China's economy during the global crisis. Indonesia's total exports to Japan decreased by 13% during the global financial crisis which means the loss of USD 11.9 billion. Indonesia's exports to South Korea increased during the period of the global financial crisis, namely, non-oil exports increased by 10.9%, or USD 5 billion.

The continued growth of China's economy and other developing countries after the global financial crisis helped boosting Indonesia's exports. Indonesia's export performance in 2009-2010 increased in almost all export sectors. For Indonesian agriculture, industrial production and the mining sector, respectively, these increases were 14.92%, 33.49% and 35.36%, or in many terms - almost USD 5 billion, USD 98 billion and USD 26.6 billion as of 2010. In terms of contribution to total exports back in 2010, the export of industrial products was 62.14%, while the contribution of agricultural products' export was only 3.17%; the contribution of mining and other extracting products was 16.91%, while oil & gas exports amounted to 17.78%.

In 2010 to 2011, Indonesia's exports rose across all sectors. Increases in agriculture, industry, mining and other sectors amounted to 3.27%, 24.64%, 30% and 30.3% respectively, reaching accordingly almost USD 5.1 billion, USD 112.1 billion, USD 34.6 billion and USD 12.9 million in 2011. In terms of contribution to total exports as of 2011, the exports of industrial products amounted to 60.01%, while agricultural exports amounted to 2.54%, the contribution of mining and other extracting products was 17.02%, and finally oil & gas contribution to total exports was 20.43%.

This research attempts to determine the potential effects of the financial crisis on the financial market of Indonesia.

Literature Review

Globalization as a phenomenon goes back to the United States and the American continent in general, it began with the establishment of free trade areas such as North America Free Trade Area (NAFTA), Asia-Pacific Economic Cooperation (APEC), ASEAN Free Trade Area (AFTA) and others.

Free market and globalization are the two things that cannot be separated from the United States policies, sometimes imposed on other countries, especially developing ones. With free market, the economy of one country is no longer unaffected by the economy of another country. As a result, the economy of a country, especially a developing one, is highly dependent on the economy of other countries, especially on the economies of such powerful countries as the United States. Thus, the question arises whether under the globalization the world economy will be better or vice versa?

Economic globalization, according to Joseph E. Stiglitz, became the locomotive of the beginning of catastrophic destruction of the world economy in the decade of the 1990s. The destruction of the world economy in the early 1990s was marked by the euphoria of new economic emergences in the United States with high productivity spikes. Dot-com companies in the US were revolutionizing the way the Americans were doing business. This emergence of a new economy was often paralleled to the industrial revolution two centuries ago that has changed the entire structure of the economy. But in fact, this new economic phenomenon was quickly followed by a decline in the late 1990s already.

The economic bubble, or the speculative bubble, or the financial bubble means "trading in large volumes at prices very different from their intrinsic value".

Although some economists deny the bubble economy phenomenon as such, the cause of bubbles remains a challenge to be examined for those who believe that asset prices very often deviate from their intrinsic value.

Although there are many potential explanations for the causes of this economic effect, it is now known that bubbles can emerge even without precedence of uncertainty, speculation, or limited rationality. Another explanation is that bubble economy may ultimately be caused by a price coordination process or by newly emerging social norms.

Observation of intrinsic value is often difficult in real-life situations at the market, so bubbles are often only recognizable with some retrospective certainty, when a sudden price drop occurs. The falling state of a price is called a collapse (crash) or a "bubble burst". The economic and recessionary phases in a bubble economy are the examples of positive feedback mechanisms that distinguish them from negative feedback mechanisms that determine the equilibrium price under normal market circumstances. Prices in case of an economic bubble can fluctuate erratically, and it becomes impossible to predict them on the basis of supply and demand only.

This research uses descriptive and verification methods for time series data analysis.

Discussions

The financial crisis that hit Europe in 2011 has resulted in the tightening of the Euro zone countries budget which is one of the triggers for the decline of Indonesian exports between 2011 and 2012. The slowdown in China's economy also affected the decline of Indonesian exports, with economic growth of only 7.7% in 2012, down from 9.3% in 2011. Based on the BPS data, back 2012 there was also a decline of exports in the industrial and mining sectors, which decreased by 4.95% and 9.59%, respectively, each thus reaching the levels of USD 116.1 billion and USD 31.1 billion accordingly. However, the exports of Indonesia agriculture and other sectors still recorded a positive increase respectively of 7.84% and 44.96%, each worth USD 5.5 billion and USD 18.7 million accordingly. In terms of contribution to total exports back in 2012, the contribution of industrial products' export was 61.11%, while the contribution of agricultural export was 2.94%, while the contribution of mining and other exports was 16.50%; the contribution of oil and gas exports was then at the level of 19.45%.

Increase in oil and gas imports happened mainly due to an increase in crude oil imports in the amount of USD 1.12 billion (15.16%) and oil imports in the amount of USD 6.89 billion (61.93%). Similarly, gas imports increased by USD 374.1 million, or by 76.49%. Increased imports also occurred in 10 other key categories of goods, their overall increase was from USD 49.595 billion to USD 69.2683 billion. The share of these ten main categories thus reached 63.99% of the total non-oil and gas imports, or 51.08% of the total imports overall.

Among Indonesia's total non-oil and gas imports back in 2010, the imports of machinery and mechanical equipment had the largest share - 14.44%; iron and steel got 5.89%; motor vehicles and its parts had 5.30%; organic chemicals - 4,92%; plastic and plastic goods - 4.45%; aircraft and parts - 3.26%, and finally, goods made of iron and steel reached the level of 3.19 percent. Meanwhile, imports of the remaining two categories of goods had the volumes below 3%, these were cotton with 2.06% and cereals with 1.99%.

Between 2008 and 2009 there was a decline in Indonesian imports of consumer goods, supporting raw materials and capital goods. These three categories decreased respectively by 18.68%, 30.01%, and 4.50%, thus, their values were USD 8.3 billion, USD 99.49 billion and USD 21.4 billion respectively.

The drop in imports was triggered by the global financial crisis that caused the exchange rate of Indonesian rupiah to the US dollar to fall.

The increase in imports occurred in 2010, it was quite noticeable as compared to the previous year. Increases in the categories of consumer goods, supporting raw materials and capital goods were 47.97%, 41.77% and 31.69% respectively, and their values were USD 9.9 billion, USD 98.72 billion and USD 26.9 billion accordingly. The increase in imports was triggered by the onset of improving global economic conditions and supported by the strengthening of the rupiah against the US dollar.

The economic growth of major trading partners also had its impact on Indonesian economy. The empirical tests show, however, that only India's GDP growth had a notably positive impact on Indonesia's GDP. The growth of GDP of the United States and Singapore had a negative impact, and noteworthy, the negative impact of Singapore was quite large.

Concerning the growth of non-oil exports, India's GDP growth had a positive and significant impact while Japan's had a minor negative impact, and Singapore's growth had a very large negative impact.

The best way to reduce non-oil imports is to increase Indonesia's GDP growth. GDP growth in the United States increased Indonesia's non-oil and gas imports considerably while GDP growth in Japan reduced it. On the FDI side, Indonesia's GDP growth led to a huge increase followed by China's GDP growth. The growth of Japan and Singapore GDPs significantly reduced FDI inflows to Indonesia.

Only non-oil export growth to Singapore has a positive impact on Indonesia's GDP growth. The growth of exports to the United States, India, Japan and China all have a negative impact. On the non-oil export growth side, only export growth to Singapore and Japan had a positive impact, while the same to the United States, India and China had a negative impact. Based on the impact on non-oil and gas import growth in Indonesia, the growth of export to the United States, India and China has a positive impact, and in the case of Japan - negative. The growth of exports to all major trading partners has a positive impact on FDI flows.

On the non-oil and gas import side, only imports from India and China have a positive impact on Indonesia's GDP growth, imports from the United States, Singapore and Japan have negative impacts. All imports from major trading partner countries had positive impacts on Indonesia export growth, except China. This indicates that Indonesia's imports concern mostly various raw materials and basic machinery. Imports from major trading partner countries have a positive impact on FDI, except, again, for China.

When it comes to the financial sector alone, only Singapore FDI has a large and positive impact on Indonesia's GDP growth. China's FDI triggered exports and encouraged FDI to Indonesia, while FDI of other major partner countries had a negative impact. However, China's FDI is also the biggest trigger of imports while the US FDI mostly reduce imports in Indonesia.

When we consider the commodity prices' influences, the greatest role in increasing GDP belongs to arabica coffee followed by liquid gas while the price of beef has the greatest negative impact. However, increases in beef prices also play the second highest negative role in the decline of exports, straight after the prices for robusta coffee. Also positive impacts have the prices of arabica coffee, liquefied gas and metals. The increasing prices for cattle have their very big impact on the reduction of imports followed by the price of rubber. At the same time, arabica, robusta and gas prices are increasing the imports. The increasing beef prices greatly impacted the decrease in FDI flows, going second, straight after coffee prices. What else tend to trigger the rise in FDI is the rising prices for metal and liquid gas.

The Impact of the Global Financial Crisis on the Global Economy

The wave of defaults in the US and Europe that occurred in securities related to the US subprime mortgage, gave rise to a severe crisis of confidence in global financial markets as such. Amid losses borne by financial institutions due to placement into the US subprime mortgage, the risk aversion arising from this crisis of confidence among financial market participants has created very tight conditions at nearly all financial markets.

The crisis that started in the financial sector then quickly became a snowball rolling quickly through all other economic sectors. Falling housing prices in the US, rising home foreclosures due to the debtor's inability to make payments, as well as huge losses at financial markets left most of consumers both in the US and in Europe with much weaker purchasing power. This quickly hit all related business activities. In addition to the drop in consumer purchases, the crisis at financial markets has caused many businesses lose access to financing through banking, capital markets and other forms of financing. Sluggishness of business activities has led to a massive wave of layoffs, which decreased people's purchasing power even further. In line with weakening demand in developed countries, the world commodity prices continued to decline in absolutely all product categories.

The Impact of the Global Financial Crisis on Indonesia's Economy

The impact of the crisis going through financial channels can be direct or indirect. Direct impacts will arise if banks or other financial institutions have direct exposure to “toxic” assets, or if they do not have problem assets themselves but are linked to financial institutions with such a large exposure to problem assets. In addition, transmission of the crisis impact through direct financial channels may also arise due to deleveraging activities, when foreign investors are experiencing liquidity difficulties and thus are forced to withdraw funds previously invested in Indonesia. In addition to this linking to troubled assets and deleveraging, the direct impact of financial path also arose through qualitative changes, the portfolio adjustment of assets considered risky as compared to safer assets. This condition is triggered by excessive risk aversion behavior of investors following the shocks that occur at financial markets. Meanwhile, the indirect impact will arise due to lower availability of financing.

The eruptions of dissatisfaction with the conventional economy have led to the growing popularity of the alternative economic concepts, such as the Institutional Economy (Kenneth Building), Structural Economics (Raul Prebisch), and Islamic Economics by various Muslim economists. In Indonesia since the early 1980s dissatisfaction with the conventional economic theory has been widely expressed by Prof. Mubyarto and also via his PUSTEP Center based in UGM. The increasingly "sophisticated" Western economic science is often questioned for its ability to solve the real economic problems, and not only by the Indonesians. According to the study carried out in six world-class universities (Chicago, Harvard, MIT, Stanford, Columbia, and Yale) back in 1977, only 34% of graduate students stated that they "strongly agree" that economics taught at the US universities is able to solve contemporary economic problems

Conclusion

America, being a global super power (both political and economic) has triggered the process of globalization. The latter is the concept of capitalism, transformed into neoliberalism through the corporatocracy engine.

The subprime mortgage crisis that became the start for the latest global financial crisis had also affected national economies through several channels, including: (a) direct trade routes between Indonesia and the United States; (b) trade routes between Indonesia and Asia / Europe; (c) increase of borrowing costs; (d) appreciation of the Rupiah exchange rate; and (e) the US Central Bank's monetary policy (including its aspects on interest rates).

Reducing speculative economic transactions, especially those at secondary markets, would be possible through eliminating derivative product sales from the stock market, especially when it comes to index trading.

Making money only a means of exchange and a measuring value as well as the re-use of money guaranteed by gold does not make money a commodity.

The global economic crisis was the result of the large-scale failure of the capitalist system, when this system itself became biased against the owners of capital. So now there are only a few people in the world who control the global money supply.

The economic crisis that occurred in Indonesia and other ASEAN countries is the result of the economic bubble which emerged under influence of globalization in the early 1990s.

Due to ongoing globalization of the economy, the world does not become more prosperous, moreover, it is becoming only less just. This happens solely because capitalism is transformed into neoliberalism. Economic globalization and capitalism combined create an economic bubble that breaks easily, and if it breaks - it will lead to the economic havoc in many countries including the United States themselves as well as the economies of small and developing countries.

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Paper submitted 16 April 2018
Paper accepted for publishing 21 May 2018
Paper published online 30 November 2018