

Balancing Views of 2014

BY JENNIE S. BEV



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As 2014 is a presidential election year, it will be abound with politics. With the global economy yet to recover fully and BRIC countries slowing down, local businesses have started to become anxious. Will this be the year when things go awry? Will 2014 be a reprise of the 1997 Asian Financial Crisis?

In general, there are two views on why the 1997 Asian Financial Crisis occurred. The first view believes that its roots lie in sudden shifts in regional market expectations and confidence, which later unfolded beyond control. Exacerbated by investors' panic and inappropriate responses by the International Monetary Fund, the crisis worsened. This version is, perhaps, a bit oversimplified.

The second view states that the crisis was a reflection of structural and policy distortions in the countries affected. In short, it was the result of failed economic policies, particularly in the banking and

financial sectors, such as lack of supervision, weak regulation, corrupt lending practices without sufficient legal ramifications, and monopolistic practices among financial players. Trade deficits, currency depreciation and huge foreign debts were the final straws.

It is implausible but not impossible that 2014 will become another 1997 as economic forecasts have been a bit disheartening.



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The the political climate in Indonesia, however, is encouraging. First, the Corruption Eradication Commission (KPK) has been relatively effective in handling high-profile mega corruption cases involving the likes of Banten Governor Ratu Atut, House member Angelina Sondakh and former Democratic Party chairman Anas Urbaningrum. Second, Islamic parties have not been able to make significant headway, which is great news for secular parties with promising candidates.

Third, Indonesians have new promising transformational leaders like Jakarta Governor Joko "Jokowi" Widodo and his deputy, Basuki "Ahok" Purnama. Other politicians are learning the hard way that people ultimately prefer transformational leaders rather than inefficient politicians. Fourth, the Indonesian diaspora movement may be small but it has started to flourish: global thinking has become more mainstream, marked by cultural origins taking precedence over nationality.

Despite some good news, Indonesia is facing a dilemma of rising interest rates and reduced foreign investment. Since June 2013, BI has raised rates by 1.75 percentage points in order to slow down imports and inflation. A byproduct of this policy is slowing growth, with many analysts predicting Indonesia's growth rate to fall below 6% this year. The rupiah has also fallen, down by about 20% year on year.

Thus the outlook remains benign. While it is an election year, Indonesia's democratic structures are relatively strong, in which power should pass peacefully to the new leadership, whomever it is. Despite a slowing economy, the chances of any widespread instability seem slight, although the risk of the occasional extremist bomb can never be ruled out. Overall, optimism remains in the air. 