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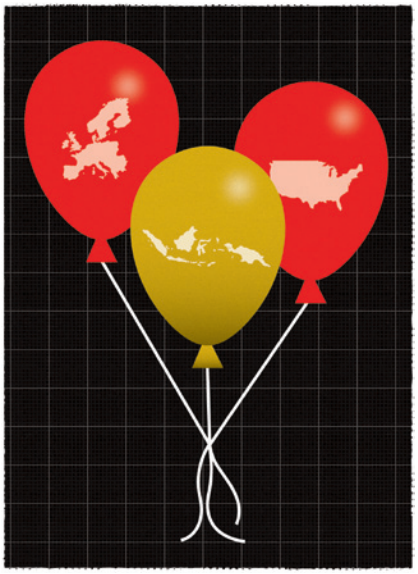
Whither Indonesia Amidst Global Uncertainty?

The U.S. economic recovery is underway—albeit with a mixed picture. Some sectors are showing impressive improvement, while others are still in the doldrums. Meanwhile Europe is in crisis and China is slowing down, so the U.S. recovery is experiencing a lukewarm reaction from the corporate sector marked by limited hiring activities and a reluctance to make investments.

The weak job growth is due to tight corporate spending and cautiousness over another wave of recession brought on by the European crisis. Lower state spending on education, welfare and transportation is expected later this year, despite the fact that 31 states have enjoyed increased revenues.

Furthermore, budget balancing has been dragging on the economic recovery despite an improvement in fiscal conditions. With tax cuts of $600 billion slated to expire at the end of this year, a new spending cut of $100 billion shall start on the first day of January 2013. The Congressional Budget Office warns that these factors could trigger another bout of recession.

Business and household confidence remains low due to fiscal issues and the possibility of another recession. And since U.S. policymakers haven't taken any significant steps to stop the negative impact of the European crisis, U.S. President Barack Obama has urged them to move swiftly in anticipation. If Europe goes into a recession, he said: "That means we're selling fewer goods, fewer services, and that is going to have some impact on the pace of our recovery."



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While European banks are now less linked to U.S. banks, the global financial system remains interconnected. Thus, the current European crisis impacts the U.S. recovery as well.

Since the U.S. is in a shaky recovery mode and the large parts of the rest of the world is in crisis or a slowdown, Indonesia should be on the alert. Or should it? Economist Nouriel Roubini, who had anticipated the collapse of the 2008 U.S. housing market and the 2009 worldwide recession, predicts that 2013 will be the year of the so-called "perfect storm." How badly could Indonesia be impacted?

Coordinating Minister for the Economy Hatta Rajasa predicts Indonesia's growth in 2013 to increase from 6.8% to 7.2%, household consumption to rise from 2.6% to 2.9% and investment to go from 3.0% to 3.1%. Meanwhile, Bank Indonesia's interest rate would stay at 5.8% to further boost the economy. These predictions are, of course, quite rosy to entice more investments.

According to Trade Minister Gita Wirjawan, foreign investment increased 30% to $5.6 billion so far this year after Indonesia's credit rating was upgraded by Moody's in January. The target of foreign investment is $22.4 billion, which is possible provided that Indonesia's improved competitive standing and comparative advantages. This goal, however, may need to be revised if Roubini's prediction of the "perfect storm" in the global economy does come true in 2013. Indeed, the ripple effect of the global crisis can already be felt in many investments.

Whether the predictions disseminated by ministers Rajasa and Wirjawan come true or not, Indonesia's unique self-sustaining and low export economy coupled with its massive domestic market would provide a cushion of relatively healthy growth. Another strength is Indonesia's underground economy that is not included in official GDP figures which provides added bulwark against the sluggish U.S. recovery and ongoing crisis in Europe. How much Indonesia will be affected by these factors, however, remains to be seen.

ATHLETICS

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