

Transformation and Shift from the World Economic Power on Indonesian Economic Policy Direction

Navik Istikomah¹ and Indra Suhendra²

¹Universitas Pendidikan Indonesia, Setiabudhi 229 street, Bandung, Indonesia

²Universitas Sultan Ageng Tirtayasa, Raya Jak KM.4, Panancangan street, Serang, Indonesia
navik.istikomah@upi.edu

Keywords: World economic power, Transformation.

Abstract: The global economic crisis has accelerated the shift of world economic power. The transformation of the changing world economic power, requiring Indonesia to become a global player. Indonesia becomes the initiator in building the integration and economic cooperation in the ASEAN region through AFTA (ASEAN Free Trade Area) as well as strategic decisions in the economic field in the formation of ASEAN Economic Community (AEC). Strategies used to accelerate development to benefit from the transformation of changes in world economic power, namely: (i) Strategies to increase the potential of the region through the development of growth centers within the economic corridor; (ii) Strategies to strengthen national connectivity, and (iii) Strategies to improve the capacity of Human Resources and Science and Technology.

1 INTRODUCTION

The global economic crisis triggered by sub prime mortgage cases in the United States at the end of 2007 is much worse than previous crises. The global economic crisis has accelerated the shift from the world economic power Sheldon (2010), Reinhart (2008), Akyuz (2009). In the next few years, China's contribution to world GDP based on current exchange rate will be in second position after the United States, replacing Japan's position down to third (Table 1.1).

Based on Table 1, the shift in world economic power is increasingly striking by using the value of GDP based on purchasing power parity. In addition to China which has overtaken Japan, India also emerged fourth after Germany, Russia in the seventh, and Brazil in the order of nine. Coupled with Korea, Mexico and Turkey, renewed the power dubbed Emerging Market-7 (EM-7). This new power is a major support for world economic growth to replace the G7 countries. At the global macro level, the financial crisis is one of the triggers of accelerating the shift of global economic power from developed countries toward progressive or better known as New Emerging Markets. The same thing happened to the trade sector, where in 2009, China has become the largest exporter in the world, shifting Germany which has been years in the top position. At number 9 is Russia and at 12th place is Korea. The rest is still occupied by the United States and European countries. Meanwhile, countries classified as Emerging Market dominate in the middle board. Indonesia has also entered in this middle-class group (Shu-Sen Chang, 2013, Papatheodorou, 2010) Based on the above description, we can make the following problem formulation: What is the direction of Indonesia's

Table 1: World GDP Share Year 2007 (%)

No	Country	Exchange Rate by PPP*	Exchange Rate Applies
1.	USA	21,36	25,51
2.	China	10,83	5,99
3.	Jepang	6,61	8,08
4.	India	4,58	2,02
5.	Inggris	3,30	5,11
6.	Prancis	3,17	4,72
7.	Brazilia	2,81	2,42
8.	Italia	2,76	3,88

Source: IMF, World Economic Outlook, 2008.

Information: *PPP = purchasing power parity

foreign policy, especially the economic field in responding to the transformation or shifting of world economy, so that it gets positive benefits. 2. What strategies can Indonesia undertake to accelerate development in order to achieve the positive benefits of the world economic transformation or shift.

2 LITERATURE REVIEW

Economic transformation is a process of changing economic structure characterized by a shift from the industrial and service sectors, where it can affect the Gross Regional Domestic Product (GRDP) in a region or State. In general economic structural change, it is often referred to as structural transformation, which can be defined as a sequence of changes interconnected with one another in the composition of demand, trade, production and use of the factors of production necessary to support the development process and economic growth. Sustainable (Chenery, 1979). In analyzing the economic structure there are two main theories, namely:

Arthur Lewis Theory. In his theory, Lewis assumes that a single-country economy is essentially divided into two, namely; the traditional economy in rural areas dominated by the agricultural sector and the modern urban economy with industry as the main sector. In rural areas, population growth is high resulting in excess supply of labor. Due to oversupply of labor. This, the wage rate becomes very low. It attracts a lot of manpower, moving from the first sector to the second sector resulting in a process of migration and urbanization. In addition, the level of income in the country concerned increases so that people tend to consume a variety of industrial products and services. This is the main engine of output growth in non-agricultural sectors.

Hollins Chenery Theory Chenery's theory focuses on structural change in the stages of economic processes in a country undergoing transformation from traditional agriculture to industrial sector as the main engine of economic growth. There are several factors causing economic transition, namely; (3) The pattern of income distribution (4) Characteristics of industrialization (5) Existence of natural resources, (6) Foreign trade policy. A country that implements a closed-door policy (inward & looking policy), the pattern of its industrialization results will grow inefficiently compared to countries with outward looking policy.

Policy Approach There is a simple way to approach trade policy for development that is

outward-looking or inward-looking policy. Outward-looking development policy is a policy that can encourage export value. Meanwhile, the policy of inward-looking development is a policy that encourages or favors domestic goods, including the development of domestic technology, limits imports, and weakens foreign investment. In essence, this simple development strategy relation is concerned with import substitution or export promotion.

3 METHODS

This study is descriptive from various literary perspectives with case study approach on international economic policy. Stages include internal and external strength analysis, formulation and selection of strategies, implementation and evaluation. The steps taken to achieve the goal are 1) List all the variables that need to be researched, 2) Search for each variable on "subject encyclopedia", 3) Select descriptions of necessary materials from available sources, 4) Check the index that contains the variables and topics of the problem studied, 5) Furthermore, the more specific is to look for articles, books, and biographies that are very helpful to obtain materials that are relevant to the problem under study. 6) Once relevant information is found, the researcher then "reviews" and organizes the literature in order of importance and relevance to the problem under study, 7) Information materials obtained are read, recorded, organized and rewritten. 8) In the last step, the process of research writing of the materials that have been collected together in a concept research.

4 RESULTS AND DISCUSSION

4.1 Indonesia's Foreign Economic Policy in Responding to the Transformation of Changes in World Economic Power

Indonesia's economic progress has increased Indonesia's role in the global economy. Indonesia currently ranks 17th largest economy into the world, surpassing some developed countries such as Switzerland, Norway, Sweden, and South Africa. In 2010 our income is already above US \$ 3,000. The role of Indonesia in the context of bilateral, regional

and international looks very strong, seen from events held in Indonesia, such as; ASEAN Summit, East Asian Summit (EAS), and Bali Democracy Forum. The Indonesia Initiative in establishing regional economic integration and cooperation in ASEAN through AFTA (ASEAN Free Trade Area) as well as economic strategic decisions on the formation of an ASEAN Economic Community (AEC), which has been agreed to be implemented by the end of 2015. Asean advanced and strong is part of Indonesia's national interests. Therefore, ASEAN needs to be directed into a stable and leading area, especially with the collapse of some areas. Asean as an economic unity has been great potential to take part in global economic competition.

Single market and single production base which become a pillar of ASEAN Economic Community (AEC), until now have been realized 82%, in which includes facility to flow of goods, service, investment, worker and capital. Indonesia's foreign economic policy is important to be focused on strengthening investment mechanisms, infrastructure toughness and connectivity availability, as it is a key factor supporting the potential for market and production movements, such as; Movement of capital, human turnover for travel, use of communication access, transportation, and so forth. Indonesia has an interest in the European crisis, considering Indonesia's non-oil and gas exports to Europe account for 13.4% of Indonesia's total exports, reaching US \$ 14,388 billion. The European crisis became a challenge for Indonesia when the Indonesian export destination countries were affected and could lead to multiplier effects of Indonesia's export decline. It should be noted that Europe is an important market for China and Japan, whereas according to BPS 2010-2013 data show that Indonesia's largest export destination countries are China and Japan, which means both countries are the most important trading and investment partners for Indonesia. Therefore, if both countries are affected by the European crisis, it will affect Indonesia's exports in the long run.

4.2 Strategy for Increasing Regional Economic Potential Through Economic Corridor

The Acceleration and Expansion of Indonesia's Economic Development is organized on the basis of the development approach of existing and new economic growth centers. This approach is essentially an integration of sectoral and regional approaches. Each region develops its superior

product. The purpose of developing these centers of economic growth is to maximize agglomeration benefits, explore regional potentials and advantages and improve spatial inequality of Indonesia's economic development. Development of economic growth centers is done by developing industrial clusters and Special Economic Zones (KEK). The development of these growth centers is accompanied by the strengthening of connectivity between centers of economic growth and between economic growth centers and the location of economic activities and their supporting infrastructure. Overall, these centers of economic growth and connectivity created the Indonesian Economic Corridor.

4.3 National Connectivity Strengthening Strategy

The successful implementation of the Acceleration and Expansion of Indonesia's Economic Development is highly dependent on the strength of the degree of national economic connectivity (intra and inter region) as well as the international economic connectivity of Indonesia with the world market.

4.4 Strategies for Strengthening Human Resource and National Science Capabilities

Improving the ability of human resources and National Science and Technology become one of the main strategies of the acceleration of economic development of Indonesia. This is due to the era of knowledge-based economy, the engine of economic growth is heavily dependent on the capitalization of the invention to the product of innovation. To realize productivity improvement, it needs to be propagated innovation proposal as the main driver of transformation process of innovation-based economic system through strengthening of education system (human capital) and technological readiness and strengthening of collaboration from three main actors of product innovation development in national innovation system, Which consists of; (A) the government as a regulator, facilitator and catalyst; (B) business actors / industries as users of the invention; and (c) research institutions and universities as producers of invention products.

5 CONCLUSIONS

The transformation of changes in world economic power, requires Indonesia to become a global player, should not be just geographically-static, that is; Han ya waiting for economic benefits due to geographic-static position. Several economic initiatives have been undertaken both in the form of declarations of intent and institutional building. Indonesia becomes a pinnakarsa in building integration and economic cooperation in the ASEAN region through AFTA (ASEAN Free Trade Area) as well as strategic decisions in the economic field in the formation of an ASEAN Economic Community (AEC), which has been agreed to be implemented by the end of 2015. In the context of the global level, the State of Indonesia participates in overcoming the economic crisis in Europe and America, conducted through the G20 group. This is done with the understanding that the global economy is increasingly globalized and integrated makes the Indonesian economy is inseparable from the global situation Strategies that can be used to accelerate development to benefit from the transformation of the changing world economic power, as follows; Strategies to increase the potential of the region through the development of growth centers within the economic corridor; Strategies strengthen national connectivity, as well as; Strategy to improve the capacity of Human Resources and Science and Technology.

REFERENCES

- Akyüz Y 2009. Policy Response to the Global Financial Crisis: Key Issues for Developing Countries. Geneva, South Centre, Geneva, May.
- BAPPENAS, 2010. *Ringkasan Peta Jalan Percepatan Pencapaian Tujuan Pembangunan Milenium di Indonesia*. KPPN/ BAPPENAS. Jakarta.
- Barro, R. J., 1991. Economic growth in a cross section of countries. *Quarterly Journal of Economics* 106 (2).
- Bergsten C (2007). Toward a free trade area of the Asia Pacific.
- Chenery, H. B., 1979. *Structural Change and Development Policy*. New York: Oxford.
- Dokumen Masterplan Percepatan dan Perluasan Pembangunan Ekonomi di Indonesia yang dirilis Departemen Keuangan Republik Indonesia.
- Hadi Soesastro & M. Chatib Basri, 2005. "The political economy of trade policy in Indonesia," CSIS Economics Working Paper Series WPE092.
- Masterplan on ASEAN Connectivity 2011.
- Peraturan Presiden Republik Indonesia No.4 Tahun 2011 tentang Masterplan Percepatan dan perluasan Pembangunan Ekonomi Indonesia (MP3EI).

- Siswo Pramono et al (ed). 2011. "ASEAN Connectivity in Indonesian Context, Centre of Policy Analysis and Development Agency Ministry of Foreign Affairs of The Republik of Indonesia, Jakarta.
- Siswo Pramono et al (ed). 2011. "Expanding Opportunities : Integrating Indonesia Economics Corridors into ASEAN Market 2011, Centre of Policy Analisis and Development Agency Ministry of Foreign Affairs of The Republik of Indonesia, Jakarta.
- Reinhart C and Rogoff K. 2008. Is the 2007 US financial crisis so different? An international historical comparison. *American Economic Review*, 98 (2).
- Rodrik D and Subramanian A. 2008. Why we need to curb global flows of capital. *Financial Times*, 26 February.
- Shu-Sen Chang, 2013. Impact of 2008 global economic crisis on suicide: time trend study in 54 countries.
- Papatheodorou Andreas, Jaume Rosselló, and Honggen Xiao, *Journal of Travel Research* 49(1) 39–45, 2010 SAGE Publications.
- Sheldon, P., and L. Dwyer. 2010. "The Global Financial Crisis and Tourism: Perspectives of the Academy" *Journal of Travel Research*, 49 (1).