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THE NEO-MERCANTILIST MODEL OF DEVELOPMENT FOR INDONESIA

Jasmanto
Stenden University Bali
joseph.jasmanto@stenden.com

ABSTRACT
Sudah 72 tahun Indonesia merdeka dari Belanda namun perekonomian Indonesia masih digolongkan sebagai negara berkembang. Indonesia mencapai pertumbuhan ekonomi luar biasa di bawah Orde Baru, sayangnya pertumbuhan itu tidak berlangsung lama. Sebaliknya, tetangga Indonesia seperti Singapura, Hong Kong, Korea Selatan dan Taiwan telah mencapai pertumbuhan ekonomi yang sensasional dan telah berpindah dari negara berkembang ke negara maju dalam waktu singkat. Bagaimana mereka melakukan ini? Model ekonomi manakah yang mereka terapkan pada ekonomi mereka? Apakah ada faktor pemicu lain diluar fokus ekonomi Investasi Asing Langsung (Foreign Direct Investmen/FDI) dan berorientasi kepada ekspor dalam pertumbuhan ekonomi? Artikel ini menemukan bahwa praktek ekonomi Neo-Mercantilist berhasil mendorong pembangunan pesat perekonomian Tiongkok. Macan-macan Asia juga menunjukkan perkembangan mengejar ekonomi maju seperti Dunia Barat dan Jepang dengan model yang sama. Haruskah Indonesia sebagai negara berkembang menggunakan model pembangunan ekonomi yang sama? Dengan melihat pengalaman dan keberhasilan ekonomi negara-negara tersebut, artikel ini merekomendasikan agar Indonesia juga menggunakan model pembangunan ekonomi Neo-Mercantilist untuk menjadi negara maju.

Keywords: neo-mercantilism, neo-mercantilist, mercantilism, mercantilist, Indonesia

1. Introduction

During World War II, Germanyunder Adolf Hitler, wanted to dominate Europe by attacking other countries in Europe. While in Asia, Japan wanted to dominate Asia, by attacking countries in Asia. The Allies consisting of the British, the United States, the Soviet Union, France, China and other countries in the world won the war and defeated Germany in Europe and Japan in Asia. The Allies, the five major powers, created the Security Council in the United Nations. Making themselves the five permanent members of the Security Council with veto rights, preventing the world from another world war taking place. The US who was already the largest economy in the world before the war took the lead in global leadership. Europe was divided between the West and the East. Western European countries formed an alliance with the US, and the North Atlantic Treaty Organisation (NATO) was established. Meanwhile the Eastern European countries joined the Soviet Union forming the Warsaw Pact. In Asia, the US occupied Japan and had the task of rebuilding Japan.

After World War II, the global economy was in ruins. Many countries because of war had to rebuilt its economy. Thus, under the United Nations umbrella, International Organisations such as the World Bank and the International Monetary Fund (IMF) was established to help countries devastated by war to recover its economy from war. The model for economic development at the time was Liberalism or capitalism as a way to open the economy for Foreign Direct Investment (FDI) by foreign companies. This was the model suggested by the World Bank and the IMF under the Bretton Woods system. Asia then was divided between the communist model of development and the capitalistic model of development. Indonesia was one of those developing countries struggling to find an economic model that suits the mentalpsyche of its people. After a bloodied political event to eradicate communist ideology called the G30S that also toppled the first president of the country, Soeharto took charge of the economy and opted for the capitalistic-liberalism-free market model of development. The model was recommended by the 'Berkeley Mafia', a group of U.S.-educated economist who served as Soeharto's economic advisors. Was this the right model of economic development? First, let us look at some different models of economic development:

2. Development Theories

2.1. Realism

The oldest theory in the International Relations field is Realism. Realism is not an economic model of development; rather it is just a political theory. A political perspective on how the world should be viewed. It was written by Thucydides between 471 – 400 BC in his book "The History of the Peloponnesian War". He wrote this book in observation of wars around the Greek island states. The main essence of Realism is 'power'. To the Realist, the world is in chaos: it is in 'anarchy'. Furthermore, the government is the most powerful actor in the global economy. The government is runned by people; and it assumes people are logical thinkers in making policies.

Realists believes in the concept of 'zero-sum game': one wins, the other loses. It focuses on self-interest or national-interest first above other's interest. This approach is more interested in political and military matters than economic matters. Realists believes that military strength is above economic strength. And that a nation's economy is created by the state. The current economic-globalisation process happening in the world is a process created by powerful states. And thus, powerful states dominate the global economic arena.

Realists argues that International Organisations such as the United Nations, World Bank and International Monetary Fund, are just an extension of powerful states. The winners of World War 2, powerful countries, such as China, the Soviet Union (at that time), the United States, France and the British gets to create the Security Council in the United Nations ensuring global peace and security for the world. The powerful countries have the authority to make the laws and policies on how the world should be runned. And other countries may have to conform to these rules for it to be a 'good citizen of the world'. Power belongs to the powerful states and the powerful states rules the world. Moreover, in International Organisations, the Realists argues it is where the balance of power between powerful states are played out. The dominant countries overpowers the smaller countries in International Organisations.

Realists tends to put too much emphasis on political matters and military matters. Realists tends to put not much focus on other important matters such as economic power. The theory is weak in explaining global economic events. It puts too much emphasis on the role of the state, the government, it forgets the role of the market. The theory may only be solid in explaining wars between states. Even soft power such as socio-cultural power Realists tends to not have taken into consideration.

Putting this theory into practice, the current international crisis in Syria can be interpreted by Realists as a situation where a region, in this case, the Middle East, is in chaos or in 'anarchy'. Even though there are many terrorist groups, which are 'non-governmental groups', they may not be the main actors of this war. States or governments of the participant countries such as the Syrian Government, the Russian

Government, the US Government, the Turkish Government, the Iranian Government and the Saudi Arabian Government, are the main players of this war. The war in Syria is just an extension of powerful states flexing their military and political muscle.

When the war is done, the major powers who interfered with Syria's political-economic development, be it the US government, the Russian government, the Turkish government, the Iranian government or the Saudi Arabian government will be in charge of developing the Syrian nation-state.

2.2 Liberalism

By far the most popular model of economic development is Liberalism. The end of the cold war saw the Capitalist system triumphed. Most states in the world adopts Liberal policies for their economy. The thrust of Liberal's argument is minimal government intervention in an economy. Just let the market do the work. Liberals tend to dichotomize the government from the economy. The role of the government is to just provide infrastructure to an economy. Individuals and companies will somehow operate to make an existence.

Unlike the Realist's emphasis on the state as the main actor in the international system, the Liberals argue that the government cannot do much in the globalisation process. Governments have little power in stopping individuals and companies to stop innovating as technology continues to interconnect economies in the international system. For example, how do a government stop a company like Alibaba who provides a platform for global trade to flourish?

Liberals view International Organisations such as the United Nations, International Monetary Fund and World Bank as a platform for countries to work together as they are 'interdependent' on issues and matters involving their countries. Quite the opposite of Realists who sees the international system as in 'anarchy', the Liberals argue states can and do help out each other to achieve a 'win-win' outcome. This was the model for Western civilization. Opening up your economy for Foreign Direct Investments (FDI). Letting the free market do the work. Capitalism is the best model for economic development according to the World Bank and IMF.

A weakness of the Liberals approach is that it focuses too much on economics. It does not focus much on politics. It explains economic activities in the international system well, however, it is weak in analysing military activities or warfare. Another weakness of the Liberals is that it assumes everybody competes on an even par. For example, a larger economy like the US straight away is at an advantage when negotiating a free trade agreement with a smaller economy like Bolivia.

2.3. Marxism

A less popular model of development nowadays is Marxism. Karl Marx was a German philosopher. His ideas on how a country should be organised was practised by states such as the former Soviet Union and China. To Marx, 'class' was his main concern: the capitalist or business owners exploit their employees in the name of profit. The term 'bourgeoisie' he used to label the capitalist, exploits the 'proletariat', the term he used for workers, in the name of globalisation. There are many variants of Marxism such as Dependency Theory, World Systems Theory and Neo-Gramscian Analysis.

The collapse of the Soviet Union and the opening up of China's economy to the world has made Marxism less popular these days. It looks good on paper as a theory, especially their concern over global income inequality. However in the real world the theory doesnt work in practice. The end of the Cold War meant Capitalism (or Liberalism) triumped. In saying this, Marxism cannot be discounted. The theory is useful in finding weaknesses in the global capitalist economic system we think is natural and have accepted. The global capitalist economic system is the accepted economic model and it has benefited many people in the world, however, it is far from perfect. There are people and states in the world that have not benefited from global capitalism. In addition, in a capitalist economy, we have also seen, the gap between the 'have's' and the 'have's not' getting wider and wider.

2.4. Neo-Mercantilism

Global capitalism has triumphed. Most economies in the world has adopted free-market-liberal- economic policies. The free-flow of capital, commerce, human resources and culture have integrated our world. The global economic integration is an ongoing ever-changing fluidable process. Terms such as 'globalisation', 'interdependence', 'borderless world' and the extreme 'the end of the nation-state' as argued by Ohmae permeates in the International Political Economy academic field (Ohmae, 2005).

Globalisation has brought much positive impacts. In the case of China, it has embraced capitalism, free market policies and globalization. This process has brought a lot of people out of poverty. However, some countries are worried about and the negative impacts of competition under globalisation. Some countries suspect that multinational corporations are exploiting their natural resources and their markets. Governments, as a way to promote national interest, tend to protect their economy and put their country first. The most recent example is the U.S. known asthe greatest and most prosperous nation in the world has complained explicitly about globalisation. President Trump won the presidential election based on 'economic nationalism': keeping capital and jobs at home, protecting their own economy first and putting up high tariffs for imported goods. All this political rhetoric sounds like America is moving away from its liberal economic policy heritage to a development model called 'Neo-Mercantilism'.

According to Cohn, mercantilism is the theory and practice of national power (Cohn, 2010). It is an old theory from Europe in the 1500 – 1750. Just like realists, mercantilists believes in 'zero-sum game': one wins and another loses in political-economy dealings. Mercantilists operate under the belief thateconomic power is the basis of political and military might.

Following the success of the Tiger Economies, Singapore, Taiwan, South Korea and Hong Kong, and now the rise of China, Neo-Mercantilists argue that there is still a role for a government in an economy. The free market economic model has to be guided by the government. That government needs to be active in setting the right economic policies to attract foreign direct investments and that it needs to stabilize a developing economy's national currency. It needs to work hard to promote exports and set up policies to lower its imports. In addition, heavy government role needs to guide which industry/ies an economy needs to develop; and which sector/s of the domestic economy the government needs to protect.

3. Indonesia's development model

So which type of political-economic model should Indonesia develop to move forward from a developing country to a developed country? Should Indonesia follow the economic model of the tiger economies and China? Yes definitely. Indonesia should follow similar economic model with the tiger economies and China. A blend of two economic models: neo-mercantilist approach and liberal economic model. Theories aside, the tiger economies developed really fast because of foreign-direct investments and an export-oriented mindset. Opening up an economy for foreign direct investments is the only way to collect capital. Using other people's capital to develop the domestic economy is intelligent. Foreign capital creates jobs.

3.1. Foreign Direct Investment

The tiger economies, the economy of China and India, do not complain of rhetorics such as "we will be dominated by foreigners!" or "foreigners will buy out Indonesia!". It embraces globalisation and welcomes foreigners with their foreign direct investments. A country as large as China, India and Indonesia should not worry about being dominated by foreign companies as the economy is large enough for everybody. Even a small economy like Singapore is for globalisation and uses globalisation to its advantage. This is where the government comes into play with appropriate economic and investment policies. For instance, by directing FDI to the right sectors in Indonesia where Indonesian companies can compete directly with foreign companies whileprotecting the smaller companies in certain sectors that may not be able to compete yet with multi-national companies in those sectors. For example, Indonesian banks can compete locally with multi-national banks, hence, FDI on this sector should be allowed to invest in Indonesia. The E-Commerce sector in Indonesia is in its infancy and this sector should be guarded to allow it to mature first then open this sector up for FDI on this particular sector.

Capital injection in an economy is a must for an economy to grow. Capital will not be found in domestic consumption as the people's income is limited. Government consumption is also limited as it has little capital to actualize government projects. The government then relies on the private sector: local private sector or foreign private sector. Local private sector or lndonesian companies have limited capital. Foreign companies investing in Indonesia as FDI and it knows no nationality but mainly focuses on financial returns. Unless the government provide the right incentive-policies to attract FDI, Indonesia will struggle to compete in attracting FDI with China, India, and the other Association of South East Asian Nations (ASEAN) countries.

3.2. Export-Oriented

The tiger economies and the rise of China, as export-oriented countries, focus their economic development around exports. Indonesia is famous for its natural resources such as oil and gas, coal and palm oil. However these natural resources are commodities. Other countries produce them as well and prices on the Chicago Mercantile Exchange or London Metals Exchange dictate their prices. The Indonesian producers of these commodities cannot set the price; it has to follow the international commodity market prices. So when the prices of these commodities are high, Indonesian producers of these commodities will do well. Vice versa, when the prices are low then the producers will struggle and the Rupiah will also stumble. This will consequently drag down Indonesian economy along with it.

Turning commodities to value-added products is a must for Indonesian companies. Hence Indonesian companies can set prices for their products. A good example is PT Indofood Sukses Makmur who is in the 'total food solution' business.[1] It turns a commodity like palm oil to cooking oil and sells the cooking oil under a branded product. It turns a commodity like flour to branded noodle products. Keeping the business-value-product-chains in Indonesia. Henceforth, creating more jobs in Indonesia; and promoting export of value-added products or branded products internationally.

3.3. Stabiling the Currency

To attract FDI, the currency, Rupiah, have to be stable. FDI comes from companies that base their investment decision on calculations of profit and risk in doing business in a particular country. Without stable currency, the risk is high and investment returns are hard to calculate. Unstable currency would deter investors from investing in Indonesia with fear of the declining value of the Rupiah.

Similarly, exporting companies from Indonesia needs a stable currency to predict returns. Otherwise they may not be able to calculate how profitable the goods they are exporting. A not too stable Rupiah may assort them to use another currency like the US or Singapore dollar for trade.

3.4. Clean Government

Corruption, Collusion and Nepotism (or KKN: Korupsi, Kolusi dan Nepotisme) is a big problem in Indonesia. The problem with KKN in Indonesia: it is systematic. It has become the norm in Indonesia. As long as the system remains corrupt, Indonesia remains a developing country. A developed country is runned by institutions. Power is everywhere including in the Institutions. Government departments run the country. Indonesian Corruption Watchdog Agency (or KPK: Komisi Pemberantasan Korupsi) was established in 2002 and it has helped corruption eradication in the country. However the problem may be too wide-spread and the effort has not clear the problem from its root. One of the root problem of KKN may be low wages of government bureaucrats. In addition, KKN has become a cultural norm or 'the way of doing things in Indonesia'. It may need a solution such as education from a young age for this disease of an economy to be eradicated.

3.5. Education

While basic education is mandatory and provided free by the government, e quality is mediocre. Report by UNESCO in 2012 ranked Indonesia at 64th out of 120 countries.[2] The Right to Education Index (RTEI) research commissioned by the Network for Education Watch Indonesia finds that Indonesian education quality is at par with Honduras and Nigeria, lower than the Philippines and Ethiopia.[3] Teachers are not giving their best as their wages are quite low. Education is key for a developing country to increase quality of life and prosperity in each country. Managing Indonesia's natural resources and islands will rely on competent human resources. Furthermore, Indonesia needs charismatic educated leaders to govern the country to prosperity.

[1] Overview, PT Indofood Sukses Makmur, 2015, http://www.indofood.com/company/indofood-at-a-glance

[2] Reflections on Education in Indonesia. USAID Program to Extend Scholarships and Training to Achieve Sustainable Impacts. 2013. http://www.prestasi-iief.org/index.php/english/feature/68-reflections-on-education-in-indonesia

[3] "*Indonesian Education Index Lower than Philippines*, Ethiopia." The Jakarta Post. 2017

4. Conclusion

In conclusion, Indonesia is a developing country. It should follow the footsteps of other developing countries who have become developed countries in quite a short period of time. Countries such as Singapore, Hong Kong, Taiwan and South Korea have adopted neo-mercantilist economic policies. Focusing on FDI and having an export-oriented economic policies seems to be best and fastest way for a developing economy to move to a developed economy. However, there is a big difference between a development theory and practical development policies. Other factors more than just FDI and export-oriented strategy are determinant factors in why some developing countries can become developed countries in a short manner of time. The collective will of the people, a strong leader, geography, timing and cultural values amongst many other reasons.

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