Government – Private Business Relationship in a Globalized Economy: Indonesian Case

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does cooperation between the state and its private businesses that has become an increasingly crucial factor in determining the success of that state in maximizing its opportunities in the global market. National competitiveness is not only determined by the high level of efficiency of the part of the private sector but also by a synergy between the government and the business sector. The main objective of this writing is to analyze the importance of constructive relationship between the government and the private business in responding to the challenges of economic globalization. It can be argued that those countries which are successful in achieving higher economic growth today, like China and India, have continued to strengthen the synergy between their governments and the business sector. Thus, it is important for Indonesia to reevaluate how the state bureaucracies have facilitated the Indonesian business sector in maximizing its market opportunities so that its success in competing with foreign companies might bring positive effects for national economic growth. It should be noted that economic globalization has forced each government to reorganize and restructure their government – business relations in order to boost their respective national competitiveness. Even the communist countries like China and Vietnam where the state traditionally controls the private business sector has liberalized their business sector so that it might enjoy more freedom in responding to the global market forces. As far as Indonesia is concerned, there is a need to review the current pattern of government –business relations so that the old pattern inherited from the New Order regime is no longer relevant for the changing global environment. For instance, the old pattern of state capitalism widely practiced by Soeharto’s regime is detrimental to the structure of Indonesia’s national competitiveness as it will strengthen the operation of a high cost economy which ultimately becomes a strong disincentive for foreign investors to open business in Indonesia.

It is often argued that today the marketized global governance is dominating the world economy and individual states have to respond to such domination. The international financial institutions like the World Bank and the International Monetary Fund (IMF) continue to promote liberal market principles both at the international and national level. On top of that, the organization of free trade within the framework of World Trade Organization (WTO) has affected the economic policies of governments worldwide. The keyword for global market governance is efficiency. The liberals argue that whoever participates in the global free trade on the basis of the calculation of its comparative advantages and disadvantages will benefit from it. Free trade is not a zero sum game. All participants can become beneficiaries of free trade. It is interesting to observe that more and more governments embrace the
principles of free trade at the global, regional and even bilateral levels and benefit from.

The primary efficiency of the international economic relations requires the states to apply that principle in the organization of economic activities at the domestic and international levels.

This article will be organized as follows.

The concept of globalization is analyzed and how it affects national economy. In general, we can say that globalization brings opportunities as well as challenges for all nation-states. Each individual state will seek to maximize its global market opportunities and minimize its negative consequences for the national economy. Special attention will be given to the analysis of how globalization affects the economies of developing nations like Indonesia and how these nations respond to it. Finally, the analysis will focus on the identification of three models of political economy (North American, European Union and East Asia) and how these models compete in the global economy.

Despite the fact that multinational corporations become increasingly autonomous and powerful actors in the global economy, the support of their state of origin remains crucial weapon in their global operations.

Then in the third section we analyze the political economy of the economic crisis in Asia and how different perspectives offer their explanation about the crisis and its solutions. Special emphasis is given to the relationship between the government and business sector which was instrumental in the making of the crisis. The existence of democracy and market efficiency were brought into the equation of political economy.

In this section, the relationship between the two will be discussed here and how we have to deal with the fact that globalization is rampant in many new economies like Indonesia. Here we need to analyze corruption as inherently embedded in government bureaucracy and how the Indonesian government tries to deal with it. Finally, some reflections about the current relationship between the government and the business sector in Indonesia will be made on which we base some policy recommendations in order to strengthen Indonesia's national competitiveness in the global market.

Globalization: A Political Economy Perspective

In the literature of international political economy the concept of globalization is defined in many different ways depending on the emphasis given by each author.

Thomas D. Gartlein and David Skidmore argue that globalization refers to a process of deepening and tightening of the interdependencies among actors in the world economy such that the level and character of interdependence in international economic relations have increased in significant ways. The keyword in this definition is interdependence which has been qualitatively and quantitatively deepened and tightened, thus, all national economies today do their best to increase their economic interactions with one another by building global, regional and even bilateral agreements or agreements.

There is a broad and the more a national economic integration into the global economy the higher chances it has in achieving economic progress. Conversely, the more it is isolated from the global economy the quicker chances it has in improving the economic welfare of its people. This means it is isolated from the global economy the higher chances it has in


5 This is a concept developed by David Skidmore and is referred to as the "trading pattern," which refers to the extent to which a country's international trade is concentrated in a few countries. Second, lack of information about Indonesia's position in the international trade makes it difficult for the Indonesian government to identify the cost and benefit of establishing a free trade agreement with other countries.

6 It is a fact that serious studies about this topic are rare and both the government and the private sector are complicated with the current achievement in international trade. Third, Indonesia has not developed a constructive political environment for business relations with the effect that each party tends to address its own problems at the expense of the common interest. It is true that Indonesia has joined ASEAN Free Trade Area (AFTA) but the problem is that intra-regional trade under AFTA member states is still compared to the volume of trade they have with Japan, the United States and the European Union. In other words, ASEAN tend to compete with others in building access to the markets of industrial countries.

From the above analysis it is clear that the state requires an important role behind the success of any national economy in integrating itself into the global economy. It is true that the national competition consists of two kinds of competition: First, it is a competition among states or governments in facilitating the performance of their private sector in the global economy. In some cases, the government and the private sector of a certain country work together in order to implement business projects because of their strategic importance. For instance, while the United States supports Boeing in the selling of aircrafts to China, the European Union also offers the same thing to facilitate the selling of Airbus. Indeed, Robert Gajus argues that the national state mediates the dominant role in both domestic and international economic affairs. According to Mervyn Pit, it is the responsibility of the state to establish and coordinate the institutions that have the most direct and important impact on macroeconomic stability, security of property rights and free trade. The difference between Indonesia as a new
democracy and more successful economies in East Asia is that Indonesia has not developed those institutions that have a goal-oriented promotion of economic growth. No wonder after the economic crisis in 1997 Indonesia has always been left behind in its economic recovery.

What are the causes of economic globalization? Again, different scholars explain it in different ways. Lazonick and Skillmore maintain five major developments which define globalization. First, there has been an extremely rapid growth of financial transactions. Thus, the emergence of global financial markets has forced the state to respond to it in order to stabilize the price of its national currency. Second, globalization occurs due to rapid growth in trade. The volume of global trade has increased dramatically over the last two or three decades. Third, the growth of foreign direct investment has had a tremendous effect on the growth and expansion of global trade. Fourth, globalization is also related to the emergence of global markets against the decline of market segmentation. As a result, there has been a convergence of prices on a global scale. Fifth, globalization is driven by the diffusion of technology and ideas through the widespread use of transportation and telecommunication systems. The manifestations of globalization take different forms. In the economic field, people focus particularly on the growth of world trade, growth of Foreign Direct Investment (FDI), and growth in capital flows.5

Before we analyze how the Indonesian government and the business sector have responded to globalization challenges, let us see the essential elements of three different models of political economy which explain the success of the United States, Western Europe, and Japan in maximizing their economic gains in the global economic competition. The triangle competition in the global economy is determined by the existence of the three economic actors to promote their respective model of political economy. For this purpose of this writing we are particularly interested in the issue of how each model of political economy organizes the government-business relationship so that it might be able to compete with one another. In the American system of market-oriented capitalism the state is supposed to play a minimum role in the economic sector. The state plays such role like providing public goods, antitrust policies and the safeguarding of public health. The second model of political economy is the developmental capitalism of Japan and the newly industrializing countries in East Asia. In this model the state plays an active and dominating role in formulating industrial policy. It is also characterized by a close link between the government and the business sector, in some Asian countries the close relationship between the government and the business sector is in some Asian countries.

In Indonesia, the state is seen to play a more active role in formulating industrial policy. It is also characterized by a close link between the government and the business sector, which has been the main driving force in the economic development of the country. The close relationship between the government and the business sector is considered to be an important factor in the country's economic growth. This close relationship is seen as a way to promote economic development and to ensure that the benefits of economic growth are widely shared. However, this close relationship can also lead to corruption and cronyism, which can stifle economic growth and development. Therefore, it is important for the government to strike a balance between promoting economic growth and ensuring that the benefits of growth are widely shared.

Questions about international competitiveness have become a regular part of public discourse in Indonesian economic and foreign economic policies. How much protection should the government give to local private companies so that they may not lose their competitiveness with their foreign competitors? What incentives to encourage local and economic structures suitable for global competitiveness? A nation is said to have a high degree of competitiveness if it can, under fair and free market conditions, produce goods and services that meet the tests of international markets while simultaneously expanding the real income of its citizens. 6 This definition consists of three variables: conditions in a country's export markets, the ability to produce and sell goods and services in those markets, and the real incomes, or standards of living, of its citizens. In this context we have to analyze the suitability of our political and economic structures, for a free trade area and economic globalization. It should be noted that economic liberalization at a global level

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5 Thomas D. Lazonick and David Skillmore, op. cit., p. 90.
7 Some of the ideas presented in this section are inspired by some problems with Indonesia's government bureaucracy have appeared in my opinion articles published by The Jakarta Post, Sin. For instance, "Creating Markets and Institutions," Jakarta Post, Jun 23, 1997.
9 See David P. Papell and Jonathan I. Straszheim (eds.) (1996), ibid., p. 111.
requires progressive transformation from a traditional organization of economic life into a modern one. This transformation involves the creation of a progressive sector in the economy which is characterized by a high level of productive efficiency and economic integration."

There are several forces at work in the process of making the Indonesian economy more competitive in the international market. First, Indonesia has to develop good economic policies which can ensure macroeconomic stability. For instance, the independence of the central bank and consistent fiscal and monetary policies may have a tremendous impact on the credibility of Indonesian economy in the eyes of international economic agents. Second, at the domestic level, the government should develop legal frameworks or institutional structures that emphasize bureaucratic efficiency and eliminate all forms of corruption within government bureaucracy at all level.

Third, both the government and the business sector should make long-term planning on technological development by allocating more funds for research and development so that Indonesia might be able to catch up with the technological progress of its international competitors. So far, the government's priority has been to create a conducive atmosphere for the expansion of manufacturing, urban and make them highly competitive at a regional as well as global level. The government has spent a considerable amount of investment to advance communications and transportation in order to reduce transactional costs. Compared to its neighbors in Southeast Asia like Singapore, Malaysia and Thailand, Indonesia has spent only a small percentage of its GNP for research and development with the effect that the structure of Indonesian economy is still dominated by low value-added goods with less technological content. There is also a concern about the fact that the Indonesian economy has increasingly become high-cost. We have to get rid of a rent-seeking economy if we want to increase the efficiency of our economy. It is often said that our national entrepreneurs are over-indebted with illegal payments to government officials to the extent that they are compelled to increase their profit margin by raising the price of products. This in turn creates an extra burden for domestic consumers because they have to cope with the ever-increasing price of consumer goods. At an international level, Indonesian producers could have been more competitive with high-quality merchandise in dealing with government bureaucracy. With a low level of efficiency and a high level of corruption, Indonesian economy has to deal with the flood of Chinese merchandise with lower price.

Another element in the process of price formation is the history of political witchcraft. There is an increasing amount of industries that have industrial standards and big share from the government of Indonesia economy. This government is now under constant pressure to increase the minimum wage so that workers can cope with an urban standard of living. There is also growing pressure from Western leaders and international organizations that Indonesia should improve its record in taking part of the global and economic stability of its inhabitants. Indeed, the role of the social security system in government, business, and labor, influence a country's potential to compete with its neighbors.

The role of businesspeople in expanding our international market share is obviously important. Entrepreneurship continues to play a significant role in the global market (especially English which inevitably has become the language of the global market) should be promoted. In regard to the role of business associations and in some cases the government can also intervene by creating a supporting atmosphere for national enterprises to grow in. One of the distortions in the government - business relationships in Indonesia is that the Indonesian government itself still maintains the unnecessary dichotomy between indigenous and non-indigenous entrepreneurs. This policy has resulted in the scarcity of trust or social capital in Indonesian society. In his book titled "The Social Values and the Creation of Prosperity" Francis Fukuyama develops a thesis which regards social capital as an essential precondition for economic progress. Fukuyama argues that the economy governance of industrial nations such as the United States, Germany, and Japan is closely related to the extensive presence of social capital in their respective societies. There is much evidence of mutual trust between the government and the governed, between the government and business people, and between business people themselves. Indeed, the fact that a rental system is not determinant in the general evolution of industrial entrepreneurship in Japan made us worry about the presence of some of our conglomerates in coping with highly competitive international takers. Until the economic crisis hit Indonesia in late 1997, our conglomerates had survived and grown bigger because they had an annual demand of source appropriation. Various forms of monopoly and incentive were given to business groups that were close to Soeharto including the missing share among his children. Sustained economic growth over the 1980s and early 1990s helped create a major market for consumer goods. To some extent Indonesian conglomerates were tremendously benefited by this achievement. The experience of South Korea in nurturing the growth of its conglomerates KRN express a good lesson. When South Korea started its process of industrialization in the 1960s under President Park Chunghee, South Korean labor industries were highly protected. However, in the 1980s, South Korean business groups began to grow and expand on its own. And now they are highly regarded by their counterparts in industrialized countries, South Korea's experience indicates that there is indeed a possibility for a developing country to achieve a higher status in the global economy as long as there is a synergy between government macroeconomic policies and the determination of the business sectors to build its own access to global market through the acquisition of high technology and the production of high value added goods. It is often said that Indonesia's main problem in strengthening its national competitiveness is a high level of corruption.
in government bureaucracies. With the current trend of regional autonomy corruption has found its new arena at the regional or local level. Local authorities have introduced various forms levies that discourage the domestic and international investments to open business. The role of political parties in orchestrating the distribution of government projects and manipulating public procurement of goods and services has made the concept of good governance not more than an empty slogan. It can be argued that combating corruption within government bureaucracies has become a desperate need in our society. If we really want to eradicate corruption, we have to critically reassess some practices which are common in government bureaucracies. Such an argument is based on, an assumption that corruption has much to do with our bureaucratic culture. The concept of bureaucratic culture reflects the values, ideological orientations, and habits held by government bureaucrats in dealing with their job, superiors, subordinates, and the public.

It's concerned with the question of how the government actually works. For instance, it's often argued that Indonesian bureaucratic decision-making is influenced by the use of informal relationships to the extent that in many cases there is a big gap between what is written on the paper and what is practiced in reality. Of particular importance in determining bureaucratic decisions are family connections and loyalties to friends. The historical background of Indonesian bureaucracy is an important aspect in understanding its function. Its history dates back to the Dutch colonial period. Under Dutch rule, civil servants were conditioned to be loyal to their colonial masters. As such, they became instruments to be used at the disposal of colonial masters. But being a civil servant could improve their social standing, characterized by a social and cultural distance in the sense that the former did not think that they had to serve the people. It was the people who were supposed to serve the government officials. When Indonesia gained its independence in 1945, the basic government bureaucracy structures did not change significantly.

The second aspect of Indonesian governmental bureaucracy which is believed to be a colonial legacy is a typical bureaucratic attitude of making no separation between government, administrative and political matters. In the past this tradition led to a political arrangement by which civil servants are obliged to give their political support to the dominating party (Golkar). This aspect of government bureaucracy was closely related to bureaucratic centralization. Dutch colonial rule wanted to make sure that it could control the function of its bureaucrats throughout the country so that its political and economic objectives might be achieved. Therefore, Dutch colonial rule created a bureaucratic system which was highly centralized.

The influence of paternalistic culture in Indonesian bureaucracy is also paramount. In this type of culture, people are supposed to keep harmony above anything else in human relationships. The best way to deal with social conflict is to deny its existence. Open debate and direct criticism are considered impolite behavior and indicate low social status. It is culturally more preferable to hide any disagreement with superiors so that the continuity of social harmony can be ensured. In such a cultural atmosphere, government bureaucrats tend to remain silent when confronted with frustrations and injustices. Indeed, they follow the same principle for their own benefit. This is probably the reason why internal control is seldom effective within government bureaucracies. This cultural explanation may not necessarily mean that overcoming bad practices in government bureaucracies is impossible. There are several suggestions for improvement. First, corruption can never be eradicated if top government officials fail to give good examples to their subordinates. In other words, high level government officials should take the initiative to improve the quality of bureaucratic performance. On top of this, lower level servants would respect superiors who practice what they preach. Intuitions are often exhibited because a bureaucratic leader has no moral force to supervise his or her subordinates. Second, meritocracy should be enacted more consistently in recruiting new civil servants. This would reduce the number of people in building bureaucratic professionalism. There should be a political will to give more promotion opportunities to those who can demonstrate real achievement in accomplishing their tasks. There are two responsible aspects of professionalism. These include intellectual or technical capability and ethical responsibility. The integration of these two aspects in the personality of a bureaucrat is essential in building a clean and responsible bureaucracy. Professionalism has to become a new element of the bureaucratic culture.

The need is for a more consistent implementation of the rules and regulations regarding the eradication of corruption in the public sector. Equality before the law may not become just an empty slogan. Thus, whoever violates the rules and commits corruption should be punished according to the existing laws in line with the principle of justice and fairness. Unfortunately, we tend to be strict only when dealing with corruption committed by lower level government officials. Consequently, the public has little respect to the authority of our judicial system. There is a common perception that the judicial power can easily be manipulated by the ruling elite for their own interests. It is in connection with this phenomenon that there is an increasing demand for a more independent judicial system.
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