

**The Future Prospects for EU-Indonesian relations:
From Overcoming Crisis to Share Social Responsibility**
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Introduction

The economic crisis in Asia is not only make many Asian suffering, but also it has given impact to other parts of the world. In Indonesia, economic crisis has brought down 80 million people live below poverty line. The collapsing of companies in various sectors create massive unemployment reaching 18 million. The number of people live in poverty and unemployment will increase if economic crisis is perpetuated.

The wave of economic crisis in Asia (and Rusia) has given impact to Latin America and starting influence the US. The European economy certainly can not immune from the crisis. Moreover, social dimension of the crisis negatively influences stability of the region. The large number of people who are loosing jobs in Asia, especially in Indonesia, and problem of poverty is very potential to create disturbance of social and political stability. This certainly calls for action beyond national level and into international level.

Currently, Indonesia is facing several crucial challenges at the same time. The most pressure one is to overcome economic crisis. The challenge in the short run is how to stabilize the macro economy and to provide the main basic needs, such as staple foods, to lower income groups. At the same time, political system has to be transformed into a democratic one. Facing these challenges at the same time is having the risk of loosing both of them.

The perpetuation of Asian crisis may also jeopardize the effort of EU to create a single currency to facilitate higher growth. As the economy is becoming interrelated, a crisis in one area directly or indirectly will affect to other areas. Previously, Asia had the highest economic growth. This invited foreign direct investment from Europe and the US to come to get higher rate of return. If Asian economy is for a long time in recession, the economy Europe and US sooner or later may be dragged down too. Economic recovery in Asia is not only for the interest of Asia, there is a need for common effort to overcome economic crisis in Asia.

In the short run, the focus of EU-Indonesia relation should be on overcoming the crisis. However, we should not loose the long horizon of the

relation. In the future, EU-Indonesia relation should focus on social responsibility. The Asian experience with high economic growth does not guarantee for welfare of the people. At the time of crisis, a large number of people falls into poverty at the time family network as the main social safety net is starting to breakdown. The crisis also tells us that economic development without democracy and strong support of laws may end up in corruption, and nepotism that only giving gain to they who close to power.

EU Concern to Overcome Crisis

The second Asia-Europe Meeting in April 1997 in London, delivered on promises to deal with the Asian crisis. However, there is no comprehensive European Plan to help Asia, except for the British-proposed trust fund, a worthy but not terribly significant project to pay for technical expertise to help Asian financial institutions restructure their operations. Even the Independent wrote: "When the history of the great Asian financial crisis of the late 1990s is written, it is unlikely much space will be devoted to Asem2". In the end, as far as the Asian crisis is concerned, Asem2 delivered what realist would have expected: strong political endorsement, a flurry of initiatives, but no panacea. The Strite Times concluded: "Asem2 may be better remembered for the way it has brought forward the Asia-Europe dialogue, than for its brave attempt to deal with that crisis".

An EU-Indonesian dialogue is important, but this does not contribute significantly in overcoming crisis in Indonesia. The fact is that out of \$ 60 billion Indonesian private foreign debt, as one of the main cause of crisis, around \$ 6 billion come from European financial institutions. The Frankfurt agreement has given a chance for Indonesian debtor to reschedule their debt, three years for grace period, and four years for the payment. However, this agreement can not be implemented in practice well. The implementation of the agreement called INDRA (Indonesian Debt Restructuring Agency) is not successful to attract participation from Indonesian debtor. The bureaucratic approach and the high value of dollar discourage participation of debtors.

It is clear that any effort of EU-Indonesian cooperation to overcome the crisis should involve financial community, especially in solving the foreign private debt. Any bold measures to solve the debt are welcome in the part of Indonesia. Initiatives from European creditors to give debt forgiveness, in term of rescheduling, hair cut, and write off, is very helpful to solve the burden of private foreign debt. These measures will significantly boost rupiah value that currently is in the process of strengthening mainly

because of reduction of US rates by the Federal Reserve. Certainly, from the part of Indonesia, not all of debtors would get debt forgiveness facilities. For bad debtors that have problem even before crisis started in July 1997, there is no alternative than bankruptcy. In the end, market mechanism should reward a good debtor and a good lender, and punish a bad debtor and a bad lender.

The other dimension of economic crisis in Indonesia is the weakness of banking system. Banking restructuring is important element in effort to overcome the crisis. Most of private Indonesian banking expose with a large amount of bad debt. Moreover, most of Indonesian banking is under-capitalized. In the draft of new banking law, foreigner is allowed to have 100% of Indonesian banking. This means recapitalization of Indonesian banking is expecting coming from foreign investors. The question is how far that main European banking, such as ABN-AMRO, Deutsche Bank, are interested to participate in re-capitalization of Indonesian banking.

Of course, in the part of Indonesia, the effort to restructure and consolidate banks should be supported by a strong supervision from the central bank. This is essential to attract foreign investors to Indonesian banking. The success of banking restructuring is very important in bring Indonesian economy out of crisis.

Economic crisis has led serious social problems in Indonesia. Around 18% workers are unemployed, and 40% of Indonesian live below poverty line. This problem is going along with political crisis led to the dawn fall of Suharto. The social problem as a result of economic crisis tends to create social and political instability that may further lead into social chaos. If this worst scenario is materialized, not only catastrophic for Indonesia but also for the region. Fortunately, the IMF and bilateral supports, including from EU members, are allowing for a massive social safety nets program to provide affordable food and jobs. The price of staple food is starting to decline as a result of subsidy policy. The strengthening of rupiah gives breathing space for government because expenses for rice import is declining. The government plans to import around 3 million this year. However, the job creation program, such as labor intensive projects, has not shown the results yet. Employment creation program is very important to provide the unemployed, especially from low income households, a certain level of income to purchase staple foods.

Considering the extensive of social problem in Indonesia, such as unemployment, under-nutrition, and poverty, there is a need for a bigger effort from Indonesian themselves as well as support from external sources, to overcome social program to avoid social chaos. This is especially important as Indonesia is also undergoing political transformation.

The Importance of Democracy and Law System

The success to overcome crisis does not guarantee the creation of better economic and social system. This means that bigger contribution of EU to overcome crisis in Indonesia should also be directly connected with the creation of civil society in Indonesia in which people have sovereign to their own destiny. Political democracy and respect of human rights are important element in civil society. Fair competition and social welfare are other important elements. We can not take for granted that these will flourish in the post-crisis time. A strong effort from internal as well as external parties is necessary to implement the creation of civil society.

Development of law system in general and economic laws in particular is very important to win back foreign investors to come to Indonesia. By developing system of laws with universal characteristics is allowing EU and Indonesia to work together in similar framework. Previously, Asian in general is too proud of their Asian values. Nothing wrong with this pride except we neglect the importance of law system and substitute it with personal ties that we wrongly called the importance Asian values in business. What happened is the growing of cronyism that plays important role to bring Asian economy into its deepest crisis.

For Indonesia, political democracy can not wait until certain economic prosperity can be achieved. Political democracy is necessary condition to create political stability that is very important for economic development. Certainly, the experiment of democracy is not an easy task. The old power that tries to retain its influence is not allowing democracy to develop in Indonesia. In addition, in general Indonesian is not familiar with political democracy. What worrying most, people can do whatever they want to under the name of democracy. This why the development of legal system is very important to frame political and economic competition lead to constructive ways.

For EU, the effort of Indonesian to develop democracy and legal system come natural as European has been experiencing these for so long.

European contribution in this effort should not be limited on technical assistance and dialogue forum, but also in participating as counterpart to create the world competitive economy and democratic politic. Another important issue is decentralization and regional autonomy. The experience of a centralist government has suppressed the local initiatives that end up in a strong imbalance between center and regions. Currently, there is a strong demand for decentralization and regional economy as a respond for political democratization. The challenge is how to decentralize economic and political power and to give certain regional autonomy, while maintaining unity of the nation.

From Overcoming Crisis to Social Responsibility

The economic crisis tells us that social welfare can not just rely on family network and the flourish of capitalism. The experience shows that a deep economic crisis in Asia left a large number of people unable to sustain even their basic level of living. At the good time, employment is provided by investment as the main source of economic growth. The family structure was also to some extent able to absorb difficult situations that could rise from time to time. A formal security program is considered costly and discouraged the work of competitive business. This is not an issue when there was no immediate social problems that could trigger political instability. Thus, there was no sense of urgency to develop social agenda as a special area of concern.

However, economic crisis has had a severe impact on this arrangement. The massive unemployment and poverty show the dept of the problem. Coupled with this, the rise in ethnic violence and social unrest all serve to show that the thin and informal safety net has began to unravel and there is an urgent need to address this issue. Governments, international organizations, NGOs, and others are currently putting together measures to react and giving solutions to the problem.

Giving this situation, in the context of EU-Indonesian relation it shows that the prospects for social responsibility in the medium to long term stand a better chance of development compared than before. Therefore those interested in pursuing a social agenda should use the momentum created by the economic crisis to build on it.

In Indonesia, social protection systems are scarce. Most who have enjoyed the benefits of social security coverage while working in the formal

sector now lose it as they become unemployed or transfer into informal sector. Most workers are not covered by a pension scheme to provide protection for old age, invalidity and survivors. The compulsory savings or provident fund scheme provide only modest benefits in the form of a lump sum upon retirement. The health insurance scheme tends to exclude certain types of treatment and to leave a significant percentage of costs to be borne by the patient. The health care benefits are provided only for the insured workers, not for spouse or children. The minimum that Indonesia has in terms of a social insurance fund has recently taken center stage in a scandal of the miss-appropriation of workers' social insurance monies, famous as the Jamsostek scandal.

Given the severity of the social impact of the problem, it seems the issue of social responsibility is likely to occupy an important place in EU-Indonesian dialogues and any cooperation. It is the first time Indonesia is facing massive unemployment and the weakness of the social security system being so exposed. The government and other institutions with external supports, try to have something in place after the informal mechanism, which are interim measures, eventually expire. Thus, there should be a push on the part of Indonesian government to deal with this problem. The government is also interested to have measures in place so as to manage similar problems in the future. However, one important consideration is how to develop a formal system of social protection without falling into some of the difficulties of a welfare state.

In sum, based on the measures taken so far, Indonesian government and other institutions in the country agree that social reforms are needed to address the weakness of the social security. The issue is whether inflation and social unrest can be kept manageable long enough for the authority to deal with the financial crisis, and thereby restore a confidence in the economy while attempting to address the social impact of the crisis. Furthermore, it must be noted these are new areas of policy for Indonesian government and the government is working with no established guidelines or previous experiences. Nonetheless the present conditions present one the best opportunities to assist Indonesia in adopting elements of social responsibility in a long term perspective. Social responsibility is no longer a question whose concern, Indonesian or European, given the magnitude of the problem it has becomes everyone's concern.