IMPACT OF FINANCIAL CRISIS IN THE UNITED STATES TOWARDS THE ASIA ECONOMY

Teguh Sihono[1], Rohaila Yusof[2]

[1]Faculty of Economics
Universitas Negeri Yogyakarta, Indonesia
[2]Faculty of Management and Economics
Universiti Pendidikan Sultan Idris

Abstract
The world recession or world financial crisis in 2008 was primarily triggered by housing credit crisis (subprime-mortgage) in the United States of America. Financial crisis in the United States has resulted in the collapse of large financial institutions in the United States, Europe and Japan. Clogged credit as huge as US$ 1.8 quintillion predicted to cause potential loss of more than US$ 300 billion, according to monetary experts it could be more than US$ 1 trillion. Clogged credit led to credit crunch that had great impact on real sector. Financial institutions become illiquid, Federal reserve rate was on a high constantly, weak demand, decrease production, oil price attack on the flank until United States economy suffered stagnation. This financial crisis was a serious condition hit by high world oil price, raised commodity prices and falling consumption, high Fed rate, fall in production, soaring inflation, rising unemployment rising, fall of stock price, negative growth economy, until United States economy experience stagflation. The global recession hit Asia hard on its economy mainly manufacturing, which depended on industrialize economies for their market. The export potential Asia to United States is as big as 63%, until economy stagnation of United States caused significant decline in Asia economy. Fortunately, Asian countries have strong domestic demand (largely populated as China, India and Indonesia) managed to drive the economy towards positive growth in 2008 (China 10.8%, India 8%, Indonesia 6.2%) although the growth percentage of the world economy was below zero.

Keywords *World recession, financial crisis, the Asia economy*

Introduction
The recent recession has raised into the discourse of the international community since the outbreak of news of economic slowdown in the United States. The slowdown in the United States economy at the end 2007 encouraged speculation that the United States was on the verge of recession, particularly the impact of the credit crisis that spread form the housing/properties sector (which is currently in a state of recession) to the manufacturing sector and finally effecting the labour sector. This article describes in moderation the global turmoil which emerges into the public spotlight and gossip as well as economics analysis in the world. This paper describes the world economic turmoil, the economic crisis in the United States, and the Asia economic growth.

United States Economic Crisis

The crisis in a broad sense, as interpreted by Harberler means: “The divergence of economic activity is striking and is the starting point of the economic activity decreased movement/down-turn or the upper turning point” (Estey, 1960, p65). Crisis is “an economic condition that experienced recession rather than recession itself”, according to experts. Integration of the world, a shift that occurred in the internal value of an area appears to be influential to other countries in the world which are involved in international trade. The economic supremacy collapse of United States which in now threatened be recession, most likely, will affect other countries in the world. America is a superpower which has the strongest economic power, and contributes about 20-30% of the world’s economic turnaround. The United States economy has a GDP (Gross Domestic Product) of US$13.1 trillion equivalent to 20% of world GDP in 2007. The United States GDP increase in the third quarter by 4.9%, even the purchasing power of consumers was high (90.6 CCI); unable to sustain its economy from the credit crisis in the mortgage market worth US$1.8 trillion. Despite experiencing an economic downturn and facing new competition from China and India, the United States still has a strong influence in the world economic performance.

Since early March 2008, there has been an increasing amount of loss suffered by the world’s investment banks which was estimated at US$160 billion, and predicted to continue reach US300 billion. According to monetary experts it could be more than US$ 1 trillion. In the report session of the International Monetary Fund (IMF) and the IBRD, which was attended by Finance Ministers and Central Bank Government of 185 countries on 12^{th} and 12^{th} April 2008, the meeting at the G7 in Washington deliberated the financial losses due to U.S subprime mortgage crisis reached almost US$ 1 trillion (Investor Daily, 9 April 2008). The figures are fantastic, when referred to projection that appear during the period’s calculations, they are quite realistic figure. It is natural if there is panic in the world’s financial sector. This crisis originated from the mistakes of the bankers in the United States and bankers in other countries who were overly positive and generous in providing financial services to the property sector. The increase in interest rate to 5.25% caused repayment of home loans to increase and created large amounts of payment arrears, and increased threat of bad credit. According to George Soros, this financial crisis was the worst since the great depression of 1929, and the crisis was moving down to its lowest point. The root of this financial crisis has started since the 1980s, a period that President Ronald Reagan and Prime Minister Margaret Thatcher who desired the laissez faire economy, which upholds the idea of liberal market (Bloomberg News, 3 April 2008). Free-market economic policies encouraged loans accumulation until today. Ben S. Bernanke (Governor of The Federal Reserve) United States at the end of 2007, warned that the economics of United States would slow down before at the end 2008, because the mortgage crisis complicate the financial sector, and according to the IMF, this turbulence reflected the fragility of financial balance and weak capital.

The crisis in the United States extended to Europe, eroding the global stock prices and weakening the US dollar to a record high of US$1.4967 against the Euro, at the time set in 1999 to US$1.17. The banks that had networking in properties investment and property businesses experienced the impact, thus negatively effected the performance of the banking sector. The global stock markets hat to deal with the impact of power of the mortgage, thus hitting the stock market at the lowest level, finding it more difficult to get the trust of the capital market participants, both in the United States and other parts of the world. The issuers were not able to adopt to the to the drastic changes. The decline in share prices destroyed the portfolio of several of the world's leading corporations. The credit crisis in the United States resulted an increase in the cost of credits which were more difficult to obtain. Many banks were reluctant to lend to customers. Bankers are preferred to seek safety with a pattern of tight credit. It was a logical action as preventive measure a minimize the risk from the effects of mortgage. According a Merrill Lynch and Goldman Sachs, the United States has entered a recession danger, on the basis of fragility of finance, weakness of market, obscurity of large banks affected by the credit crisis, the high oil price, and weak consumer purchasing power. The Fed was careful in their policy to rescue the economy.

Accumulation of funds in the property sector caused stagnation in slowing of U.S economic growth in 2007, which grew at 2.3%, whereas in 2006 it grew at 3.3%. This situation was also followed by a deterioration in the social field with an unemployment rate of 4.9%, while in 2006 it was at 3%. Inflation in 2006 was 2.1% and in 2007 it rose to 4.3%. Subprime mortgage also interfered with the stocks since mid-2007. It caused large companies to fall, one after another: Bear Stern, Morgan Stanley, Citigroup, even the big inter-bank money market crisis, spread the turmoil to Europe and Japan. The banks and security companies removed book assets. Credit losses as of 1st April 2008 were US$ 232 billion. Many companies used subprime mortgages as collateral or the underlying asset to debt securities.

To overcome the crisis, the Fed in mid-August 2007, together with the European and Japanese central banks, injected liquidity into the money market with more than $400 billion and lowered interest rates 50bsp., in order to overcome the global investors panic. But the timing seemed too late, because the property crisis has penetrated into the real sector. For the economy to bounce back, the Fed funds rate was lowered from 5.25% to 4.25%, it was down again to 3.5% in January 2008 and 3% in late January 2008, and even leading to 2.5%. But Japan's BOJ and the Zona Euro ECB still held the interest rate amid high inflation due to rising energy prices. In the beginning, the decline in interest rates succeeded in pushing the global stock exchange rate (Composite Share Price Index), but on December 11, 2007, the global stock market hits its lowest point. The United States announced a policy if fiscal stimulus amounting to US$ 150 billion in form of tax rebates of US$800 per home, in mid-February 2009 the fiscal stimulus was to be set at US$ 787 billion (Economy News April-May 2009). The Fed lowered the interest rates and provided fiscal stimulus, aimed at increasing the people's purchasing power to increase consumption.

According to the World Bank, the expansion in developing countries world help limit the impact of the economic slowdown in the United States. Estimates of global economic growth in 2008 was 3.3 %, while in 2007 was 3.6 %. The IMF predicted that the U.S economic growth figures in 008 will not exceed 1.5%, considering 2.2% growth in

2007. The Fed predicted 1.3% to 2.0%, and the United States Department of Commerce prediction fell sharply from 4.9% to 0.6% from 3rd quarter of 2007 to the 4th quarter of the same year. The worsening economic conditions of the United States reflected the weakness of United States financial condition, and money market turmoil which included a few sectors namely, insurance, securities, banking system, credit card, individual and corporate credits.

World Economic Turmoil

In the economic dynamics of all countries in the world in the increasingly globalizes era, a turmoil in region of a country, will have an impact on economic situation of other countries in the world, as what had happened in the United States. The shift of world economic values threatening the world economy towards recession is expected to affect the economy of other countries. This recent recession becomes the discourse of the international community, since the outbreak the economic slowdown in the United States issues (Budi Sudjijono, 2008). The macro economic recession implies a period in which the gross domestic product (GDP) declines when the real economic growth is negative. Some symptoms that can be observed involve an increase in world oil prices to U.S. $ 110 per barrel in early 2008. This shook the macroeconomic stability in many countries, the state of high inflation and country spending for subsidies.

Commodity Prices Increase

Decision makers learned from the wisdom of the world recession that brought disorder to economic resources, and disaster to human life. Therefore, any potential symptom of world recession, is anticipated seriously by experts. Commodity price increase is one characteristic of the existence of a world recession which is difficult to control. Increases in the prices of food, mining and plantation crops which have been going on for the past two years reflect the situation of market failure and fecklessness country/government failure. The combination of market failure and government failure is what is called the twin failure which is now being faced by the United States, which has lead to world recession (Harry, 2002).

The recession resulted in a simultaneous decrease of all economic activities such as employment, investment and corporate profits. Recessions are often associated with decrease in prices or otherwise increase in prices is noticeable (stagflation). Fluctuations in prices and foreign stock exchange shift value in the stock market and world commodity stock exchanges such as: mining materials, corn, wheat, peanuts, soybeans, palm oil; this subsequently leads to a high surge in the international market. This show the linkages between the increases in commodity prices with prices with price fluctuation caused by high world oil prices.

Development and Growth

Economic development is the process of increase in real national income in an economy, followed by changes in economic structure in the period (Gerald & Baldwin, 1957). Economic growth is the process of increasing production capacity of an economy, realized in the increase in national income. A country is said to have economic growth if there is an increase of real income. Economic development encourages growth, and economic growth will accelerate the process of economic development.

The difference between them, is that economic growth is more quantitative (increase in the standard income and level of output produced), while economic development is more qualitative (increase in output, accompanied by changes in production structure and the allocation of inputs on various economic sectors), such as production techniques, economic resources, knowledge and so forth. The growth of the world economy is predicted by the IMF at minus 1.3% in the year 2009, mainly in North America and Europe, while Asia is still at a positive growth.

Gross Domestic Product (GDP) and Depression

Gross Domestic Product (GDP) is the value of all goods and services produces by a country at a certain period which is usually calculated in a period of one year. GDP is the total output of goods and services produced in a country without regard to companies that provide goods and services in domestic companies or foreign companies which invest in the country. If a country's GDP growth is positive, such as 1-5 percent, then the country has a healthy economy, but if negative, the country is experiencing economic shrinkage.

In 1929 the great depression occurred, commonly called Age of Depression, in which the world economy declined drastically. Depression starts with "dark Tuesday" i.e. the stock market collapsed in New York on October 24, 1929, the worst on October 29, 1929. Depression affected the economy in all the countries in the world, both industrialized and developing countries. During the Great Depression period, a drastic decline in international trade, personal incomes, tax revenues, prices if manufactured goods, and margins and prices of products of the primary sector (agriculture, mining, forestry) fell to 40-60 percent.

Based on the symptoms of the world economy during this period, it is proper to examine whether they have signs that would lead to economic depression as happened eighty years ago. For example, oil prices rise sharply, the price of gold hit a record high, soaring commodity prices, and inflation in developed countries. Though it did not reach the world depression point, the economic slowdown in the United States had wide impact on other and will indirectly hit the economy of other countries in the world.

Asia Economic Growth

The phenomenon of stunning economic revival of Asia was spearheaded by the two countries, namely China and India. It is expected to encourage a shift in the economic dominance of Western countries and the United States. China, India and Indonesia have the largest human resources and the greatest market potential. China and India have grown to developed countries that are well respected by the international community, but Indonesia is still lagging behind in its economy. China and India with a population of billions of people have been able to release hundreds of millions of people from the poverty line in recent decades. What have been achieved by the two countries are success stories. Although exports of Asia, including Indonesia are diversified and not dependent on the developed G-3 (America, Europe, Japan), the largest share of Asia exports (63%) is still drawn to the United States.

Asian countries became the choice of the investors, because of the low risk and high yield (high interest), Warren Buffett recommends that Asia as a favourite location for investment. In 2007, investors borrowed funds from emerging countries that had low interest rates (Japan 0.55%) and placed them in the states with higher interest rates. So it was natural for the Philippines, Thailand, and Indonesia to record a number of surplus funds from the customer in pursuit of high interests. A multiplier effect of declining economic growth in developed countries potentially as an impact on the circulation of the Asian economy.

Pacific Economy

According to Haruhiko Kuroda, President of Asian Development Bank (ADB), the global economic crisis that occurred during this time would trap more than 60 million people in Asia in absolute poverty. This situation was expected to increase to 100 million by the year 2010. Looking at the data obtained from ILO (International Labour Organization) the number of poor people due to the global crisis of this period would reach 140 million people, while 20 million people would lose their jobs. The ADB also predicts an economic growth in the Pacific in 2009 to slowdown to only 3% in 2010predicted to decline to a lower level of 2.7%. This condition contributed to the economic slowdown in tourism and money shipping or remittances into all the countries. A number of countries are expected to “contract” because of the slowdown in the tourism sector and remittances. To be able to recover from the global crisis, the economy of the Pacific would need time until the year 2011 according to Director General of ADB, S. Hafeez Rahman.

China Economy

China now has transformed into a world economic giant and is part of a global economic power. Chinese products flooded into various countries, dominating most products throughout the world. Japan, being strategist, choose China as a major trading partner which is very strategic and profitable. China’s economy grew bigger and stronger since charismatic leadership of Deng Xiaoping in 1978 that started the wisdom of one country two systems (*Yi Guo Liangce*), i.e. the capitalist system is run side by side with China’s socialist political system. As we all know China is communist country that embraces the capitalist economic system. For modernization and progress Deng Xioping launched four programmes namely: agriculture, industry, science and technology, and defence. World-class companies are all investing in China, most of world-class products are made in China, and hence China has export control in all parts of the globe. Therefore, China earns a profit of not less than $600 billion a year from its export activities. The secret success of China is efficiency focusing in productivity in human resources, facilities, legal guarantees to investors, and finally reducing the bureaucracy. During this time China experienced serious economic shock. The presence of symptoms of overheating (heating economy) lead to spur inflation, because of global food prices increased up to 23.3% in February 2008, and inflation reached 8.7%. The country changed the deceleration of its growth by raising interest rates. It fell from 11.4% to 9.6% in 2008. Undoubtedly this affected the demand of products from Indonesia.

Taimur Baig, the Director of Global Research Deutche Bank said that. “Indonesia and some Asian countries would be affected by the U.S. crisis, though not too badly”. Strong economic fundamentals of China and India became the retaining wall, absorbing partly the effect of the economic slowdown in the United States against other Asian countries. In the 1997 Asian crisis, China was badly effected, when its export earnings fell sharply from 11%-20% to 1% - 3% per year, because of China's trade exposure to Asia was very big. Now, China's largest export market is the United States, logically if the United States experiences a crisis, China's economy would also badly affected. It seems natural that this time China experienced overheating, because of rising food and energy prices, let alone 70% of China's foreign stock exchange is dominated in the United States dollar.

China's economic prospect is considered to be the motor of the world economy since the year 2008, but many analysts remain optimistic that China's economy will remain strong and dominant. The success of the 2008 Olympic Games continued with the World Expo in 2010, as an incentive to response to overheating by restricting economic growth in the range 9%. China now has the world's largest foreign stock exchange reserves which amounted to US$ 1.43 trillion, a trade surplus of US $ 262 billion, economic growth in 2008 amounted to 10.8%. While in 2009, growth was predicted to be around 10.5%.

India Economy

India is a source of ancient civilizations such as the Indus Valley culture and being the birthplace of four major world religions: Hinduism, Buddhism, Jainism and Sikhism. This country is part of the United Kingdom – British colony which became independent in 1947. India's majority Hindu population, inherit the noble value of Mahatma Gandhi's teaching of "swadeshi" (meet the necessities of life itself). India is not dependent on imported products. On the other hand, India's products are in the global market, India's foreign debt is very small.

India's economy ranks fourth largest in the world in GDP, if measured from the aspect of purchasing power parity (PPP), India is a country with the fastest economic growth in the world with a growth 8% since 2003. India is this period of economic power in the 10th in the currency conversion and ranked fourth place in PPP (Purchasing Power Parity). India has foreign stock exchange reserves of about US$ 143 billion and per capita income of US$ 3,262.

The Republic of India adopts a liberal democracy in the world, has the greatest military power with nuclear weapons. India lies in South Asia with a coastline of 7000km, and is an important and historic trade routes. India's main trading partners are the United States, Japan, China and the United Arab Emirates. Although one fourth of the Indian population lives below the poverty line, a large number of middle class emerged because of the rapid growth of information technology industry (Budi Sudjijono, 2008)

At first the Indian economy was dependent on agriculture, but now agriculture contributes only less than 25% of GDP. Industrial strategy includes: mining, petroleum, industrial diamond, film, textiles, information technology, and handicrafts. Small-scale industries can stabilize employment opportunities, India emerged as one of the greatest players of software and "business process outsourcing" with revenues of about US$ 27.2 billion, while the tourism industry receives 3 million visitors each year who contribute to GDP by 5.3%.

India’s main exports are: agriculture products, textiles, gemstones, jewellery, software technology, engineering, chemistry, while its imports of commodities: crude, oil, machinery, precious stones, chemicals and fertilizers, the total value of Indian exports in 2004 amounted to US$ 69.18 billion, and total value of imports amounted to US$ 89.33 billion. Indian Economic Growth in 2008: 8% and predicted in 2009 above 5%.

Malaysia Economy

Malaysia, one of the vibrant economies in Asia, is a multiracial country which was once colonizes by the British. She claimed her independence in August 1957. The ethnic composition in Malaysia is significant because it does have an impact on some public policies. There are Malays(majority), Chinese, Indian and other races. Despite the diversity, Islam is the official religion of the country. Malaysia population is around 28 million. Malaysia has transformed from an agriculture based economy to an industrial base and moving towards knowledge based economy. Skilled labour, stable political climate together with excellent infrastructure and technology manage to put Malaysia in the eyes of foreign investors.

Today, Malaysia has taken dynamic moves in developing and promoting Islamic Banking and Finance. Malaysia has pioneered may Islamic Banking and finance initiatives. These initiatives are supported by robust regulatory framework, shariah framework, liberal foreign exchange regulations, and backed with necessary resources through establishment of Islamic finance education Institutions.

Today, Malaysia controls 80% of the Malaysian Islamic finance instruments circulating in the global market today. Malaysia is a place that is conducive to global investors, because it has adequate Islamic infrastructure, Islamic institutions that are reliable, diverse Islamic finance products, and marketable regulatory pro-shariah finance. A surge in world oil prices, make investors from Middle East enjoy big gains. They diverted the allocation of investment from the United States and Europe which were considered no longer safe because subprime mortgage crisis to Asia. Malaysia is considered able to provide conducive financial services with complete infrastructure.

An abundance of large funds from Middle East to Malaysia was too overwhelming to be distributed, because the Islamic financial system was the same as the conventional financial system to allow trading of hot money. In the Islamic financial system, the fund should flow to the real sector, which had a base of assets. Malaysia was experiencing surplus liquidity because of its success in collecting the funds in the financial sector through the development of the Islamic financial model. Malaysia controlled the capital flows. It lowered the interest rates to 3%. It was 8% in Indonesia and in Thailand and Korea the rates were respectively 5% and 6%. Since the crisis in 1997/1998 the Malaysia Ringgit was pegged at the stock exchange rate U.S. $ 1 = RM 3.80. Until today, we could not find the black market to trade ringgit at different rates, as the country made ringgit currency trading rules. The financial regulations in Malaysia monitored capital in flows and capital out flows, but focusing more on capital out flows.

Malaysia’s experience is overcoming the crisis of 1998 showed if they country could escape from the IMF, the country was safe from the trap (straightjacket) of IMF policies which was the same for all conditions (one-size-fits-all-policies). In early 1998, in the early stages of the crisis, Malaysia took the IMF monetary and financial policies, but when the policy was destroying the real sector, the country took another policy. The reserve funds (foreign stock exchange) of Malaysia since 1998 until now continues to increase significantly, which in 1997 amounted to U.S. $ 21.2 billion and in 2008 to U.S. $ 39.6 (Martin Khor, 2008 : 62) , this time Malaysia had a per capita income of about U.S. $ 6.975. Malaysia did not have a problem in the payment of external debt as experienced by Thailad, Korea an Indonesia. It had the option to determine whether or not to seek IMF assistance. Malaysia succeeses in the implementation of the currency (fixed exchange rate) and monitoring system of capital. Based on macroeconomics policy, Malaysia;s strategy was actually to refer the Keynesian policy prescription that while in a state of recession, lower interest rates, monetary policy and fiscal expansion would help revive the economy. Malaysia’ main trading partners were the U.S. Japan and Singapore. The industries and services sector, which constributed around 51.6% and 40.1% of the coutry’s GDP in 2006, remained the driving forces of the economy.

Singapore Economy

Singapore is a developed country. It experienced the highest economic growtj in the ASEAN region. It had a growth of 7.5% in 2007 and 6.5% in 2008. The economic growth in the middle of the economic by dynasism of Asia, Singapore benefited from the investment through the edevelpoment of casinors, underground railroads, and urban planning projects. Robust economic growth of coutries in Asia, save the region from the threat of global recession , said Lee Kuan Yew, former Singapore Prime Minister in a dinner (New straits Times). Regardless of the amount owned, Singapore’s per capita income reached more than US $ 18,000, Singapore is developed country which has a strong macro-economic structure, which cushioned them from the economic turmoil caused by the recession in the United States.

Indonesia Economy

The integration of Indonesia into the global financial system, had a logical consequences, where the rupiahwas increasingly to any global financial turmoil. The slowing of the U.S. economy had economic and financial impact in Indonesia, even reducing the global investors’ interest towars Indonesia. This situation leas to instability of the rupiah bevause of the decline in foreign capital flows into Indonesia. The Governor of Bank Indonesia, Burhanudin Abdullah, considered 2007 a year of achievement, because for the first time since the 1997 crisis, the Indonesian economy gre 6.32%. The year 2007 marked the start of movement and synergization two engines of economic growth and stability.

Recently, the increase in the world commodity prices have drove up the prices of domestics commodities (oil) as well as increased in world food prices which hit Indonesia, due to dependency on imported food commodities such as soybeans, wheat, rice and livestock food. Many farmers had to declare bankrupt due to then weak purchasing power. However, for banks in developing countries they had enough liquidity.The tight money policy was able to maintain high interest rates to dampen inflation.

Indonesians were experiencing difficult financial conditions due to global economics influences. The purchasing power fell sharply, as the real income decreased due to rising food prices and basic material needs. Icreasing poverty and stag nation of economics dynamics continue with short-term problems in meeting the primary needs rose greatly as opposed to the per capita income. This country was forced to repeatedly revise the state budget for 2009. It was reduced from 6.7 to 7.2%, 6.4 and to 6.9%,. These figures were reduced futher by 2%, considerin to the possibility pf a deficit. The existence of the global economic turmoil pressured the state budget to be revised futher due to uncertainly.

Bappenas (National Development Planning Agency) estimated the poverty rate in Indonesia in 2009 at 14%, the figure which was almost equal to the number targeted for populous countries which was between 12% □ 14%. The figure wa still lowe that the Indonesian poverty rate in 2008 which reached 15.4% (Deputy for Poverty, Employment ans Small and Medium Business Bappeanas Prasetijono in Bali May 3, 2009). If inflation could be reduced below the rate of 7%, the poverty reduction would be faster. Meanwhile, unemployment in 2009 was above 8 percent (range 8.3 □ 8.4%) of the total labour force. This figure was slightly higher than the previous year by 7 □ 8%. The increase in the number resulted from the global crisis trigerred by the slow realization stimulus of the planned infrastructure of the country.

Contributing Factors

The background of each country, infrastructure, human capacity, technological capability, the policies and many ither aspects are considered the determinants of the economic well being of a country. Unfortunately, there are many other factors which are beyond control such as the world oil price and few other drivers of economic well-beings.

Oil Prices and Inflation increase in the world oil prices in a way gave a positive value on the balance of payments of Indonesia, but on other hand was not conducive to the health of the state budget, consumption, the overall industry. Rising oil prices was a disaster fot the country that had no oil resources. The increase in world oil prices had huge impacts on overall inflation, as rising oil prices had multiplier effects on prices of others. Oil is significant input for the manufacturing, distribution, industry and household sectors. Rising oil prices would boost the production cost increase of goods produced by the fuel, and even in raising the prices of goods in general (cost inflation).

World Food Crisis

Food crisis is the greatest global crisis of the 21_{st} century, which is expected to hit 36 countries in the world., including Indonesia (Kompas, 15 March 2008). World rise stocks would reach the lowest pount that would push the price reaching its highest level for 20 years. Grain stocks reached the lowest level for 50 years, corn prices reached record highs over the last 11 yrars, and soybeans for 35 years. The price of food rose 75% compared tp the year 2000 and some commodities even increased over 200% (Kompas, 15 March 2008). Developing countries presented many challenges in meeting the food needs of the population. Rising oil prices trigerred food-fuel cycle or food conversion of agricultural land to alternative fuel commodities . As an example due to rising oil prices , soybean farms were converted to corn fields to produce ethanol.

The readiness of the Indonesians in the face of the difficult time of food shortages was great, a sign of agricultural revival in Indonesia. In 2007, rice production increased by 4.76% which was a record in the last 15 years, maize production increased by 14.5% and other commodities rose 5%, except for soybeans. In 2007, agricultural GDP increased by 4.3%. It isusually increased by 3% and this was an achievement for the economy. Ivestments in agriculture was increased by 56.15% (domestic investment) and foreign investment increased by 48.67% per year. In the same year 2007 the larget agricultural sector in the national economic growth from 1.3% was in the agricultural sector. The data has answered many negative issues that highlighted the faces of agricultural development in Indonesia and optimistic era of open agricultural revival in Indonesia.

Economic Foundation

From the economic crisis that hit Indonesia in the 1997 – 1998 era, Indonesia now seems to be more ready. The new stage in the fundamental foundation is addressing the banking sector, balance of payments, fiscal and monetary measures, as well as macro conditions. Reduction in interest rate has been the action taken in the past two years in to induce the economic activities. This action provides conducive conditions that have brought along many positive results in the aggregate demand in the credit structure that rise by 22 % abd move the real sector, and increased tax revenue. In the foreign stock exchange earnings from exports, dependence on exports to developed countries such as USA, Japan, Europe and ithers, were not too significant , it was only 7% of the GDP. Foreign stock exchange reserves rose to $ 55 billion, rising the commodity orices , oil, coal, nickel, rubber , tin, go,d, and CPO., showing improvement in the sector. The existence of the domestic market needs to be a maintained if it would not be distorted from a flood of product dumping from countries that do crash program to divert export allocation.

Positive Values

With the increase in world commodity prices lately, economic observers were able to assess the positive impact of economic growth in Indonesia, as encouraged by the overall increase in non oil and gas exports. Indonesia had the opportunity to promote exports to China and India, especially mining commodities. A decrease in the Fed funds rate to 3% level, lead Bank Indonesian to maintain its BI rate at 8%, which resulted in rapid capital flows to Indonesia in the third quarter reaching U.S $ 1.3 billion. This policy was positive when viewed from an effort to reduce pressures of imported inflation. But there are risks must be considered such as the sudden short term capital flow universal. Foreign investment in the real sector, and the foreign direct investment (FDI) increased significantly from early 2007 amounted Rp53.79 trillion to Rp81.91 trilllion at the end of 2007.

BI Challenges is monetary policy was inflationary push, but it had a direct impact on public welfare and the real sector. The monetary policy was a strategic step to support the effectiveness monetary policy transmission through the overnight interest rate (the interbank market interest rates). This step is followed by the optimization of foreign stock exchange intervention, an accelerated program of deepening and expanding market financial instruments , SOEs (State Owned) banks were encouraged to be more active in lending to be productive and insfrastucture sectors.

Credit Expansion

In situations that are difficult, moving the real sector and consumer spending was to ease the productive credit disbursement. The high price of commodities, mining and plantations had the potential to create economic bubbles. Mining and plantations required long-term credit and were more risky. The production time prices plummeted because of his bubble burst, lead to overinvestment and bad credit crisi and continuous financial crisi. Soaring commodity prices, mining and energy in international markets caused the margin in this sector to increase sharply. It was not impossible if plantation and mining sectors because the choice of the banks. Economic analysis were optimistic, despite the U.S. recession impact on Asia, including Indonesia. The crisis would not be as that of ten years ago. Indonesia has two opposite risks conditions of high inflation making it difficult to lower interest rates, while credit growth is very high at 22%. **SimaBaca secara foneti**

Optimism the Stock exhanges

Masquarie Securities predicted that the stock in the four ASEAN countris, Singapore, Malaysia, Thailad and Indonesia plus Hong Kong was bullish in 2008. The domestic conditions in Singapore, Hong Kong and Malaysia were good but Indonesia had to compete with stock exchanges of Thailad, Philippines and India. The price to earning rastio (PER) in 2008 was 15.3 times , while Thailand 14.7 times and India 16.8 times. Until the first qyarter 2009, the Composite Stock Price Index was still down by 80 points. In 2008, there were 40 companies requesting permission to go public (Bapepam-LK). It was possible fot he interest rates to go down even if it was small, especially when the Government of Bank Indonesia (Boediono) at that time seemed more growth oriented. This policy strengthened the performance of the banking and financial sectors issues.

The Policy of Subsidy and the a State Budget

Subsidy policies undertaken by the government produced a state of antagonism, and invited pro-contra community. If the subsidy was not reduced, the value would be too burdensome and budget allocation (Stage and Budget)would have to be revised. The state budget has only two options; to maintain or remove subsidies in the market. It depended on the condition of the country's financial and political aspects. On the macro side, subsidies on oil commodities created an ineffective economy, and market distortions. Those who agreed on the removal of subsidies, justified that the subsidies were actually enjoyed by those who could afford the oil and consumed more oil compared to the needy. Fuel subsidies could be replaced with 'cash on hand tranfe'''' directly in the form of scholl fees, health costs, benefits, side-dishes, improving nutritions, and others that could improve the quality of life. Electricity subsidies could be given to those who really needed it. The impact was inflation, but soon people got used to following the market price.

Thosw who did not agree with abolition of fuel subsidies argued that subsidies were not limited to fuel, but also non- fuel such as food, fertilizer, seeds, PS and electric program loan interest. The purpose subsidies were to maintain price stability , to help people who could not afford, and small and medium entrerprises in meeting their needs.

National Energy

Energy transformation strategy was planned on a large-scale and energy conversion extended all directions. A third power plant using fuel oil would be converted to coal. It would accelerate the development of packet generator using coal. The national policy of converting kerosene to LPG (LiqiudmPetroleum Gas), was aimed at reducing subsidies. If demand for oil in the state decreased. Indonesia could be a net importer oil and net importer. Indonesia is currently in a position of net importer of oil and net exporter gas. The country must immediately realize the acceleration of the conversion for effiency.

The main issue facing the oil production was the non-renewable factor of the commodity, and the time would come when oil reserves was exhausted. Now, new oil sources were considered hard to find. To deal with the scarcity of energy, the state had to explore alternative energy sources, such as biothermal and biodiesel which are clean and pollution free. Indonesian is ranked as the largest potential natural resources in the world. The problem requires large investments and high development costs. Coal can be an alternative but the cost of ecploitation is expensive, not environmently friendly and highly polluting.

Economic growth

Indonesia's economic growth will remain above 6% due to significant support from China and India, although it is slowing due to turbulence in the global economy. According to Henry Ho (President Director of BII Tbk). These countries are actively developing the insfrastructure to attract foreign investors to put ther money in the domestic market to stimulate economic growth, and open up new employment oppurtunities. In anticipation of a slowing market, the country targets a lower economic growth to reduce ingflation. Moreover, the global eonomy under pressure from high oil prices, which will put pressure on world production. To achieve the growth rate 7% is very tough, but the economy of Indonesia is relatively safe despite the high global oil price. The per capita income is $ 2.349 in Indonesia and in Thailand it is $ 3.894. Indonesia is no longer in the list of eligible countries to hold he soft interest loans by donor countries. Thus shows that Indonesia is no longer lagging behind compared to other developing countries.

Conclusion

The credit crisis as a result of the property crisis (subprime mirtgate) in the United States finally extended to the manufacturing sector and labour. The increase in world oil prices are through the US $ 110 per barrel level, causing macroeconomic instability in many countries, because of rising inflation. Market failure and government failure as a result og cumulatve increases in commodity prices, and the failure of the twin problems lead to global recession. Recession will cause simultanenous decline in economic activities. Although the slowing of the United States economy does not lead to world depression, it will hit economy of often countries in the world, because the United States constitutes 20 □ - 30 % turnover of the world economic activity.

The Asian economic growth is spearheaded by China and India , but this time China became the world's economic giant, because its products dominate the market across the world. Economic growth is very high (10.5%), China's largest foreign research in the world is US $1.43 trillion, and it has a trade surplus of U. $ 262 billion. India's economy ranked fourth in the world (GDP), India has an economic growth of 8% in 2008 and ,ore than 5% in 2009, it has foreign reserves of U. $ 143 billion, and per capital income of U. $ 3,262. Both countries have strong domestic markets, so they are not much affected by the crisis in the United States.

Singapore, Malaysia and Indonesia have had experience in economic crisis a decade ago, so they could anticipate and prepare themselves by building insfrastructure and markets in their own country and outside the United States. Financial liqiuidity in the three countries is surplus, being the favourite if foreign investment. The economic growth in Indonesia is around 6%. It has foreign stock exchange reserves of U. $ 60 billion. The foreign direct investment of real sector rose from U.S. $ 5.3 billion to U. $ 9.1 billion, the loans increased by 22%, and per capita income of U. $ 2,349. Singapore, with a per capita income U. $ 36.357 and the economy declines 1% from 7.5% in 2007 to 6.5% in 2008. Malaysia controls 80% of the Islamic finance in the global market. It has a per capita income of U. $ 6.957 and foof U. $ 39.6 billion. The foreign reserve U. $ 39.6 billion . The economy of Asian countries is in a sustainable , with strong domestic markets and surplus of financial liquidity, making the Asian Countires independent. The financial crisis and recession in the United States, did not affect the economies of Asian countries.

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