

5. Read the Country Focus on Chavez's Venezuela, then answer the following questions:
  - a. Under Chavez's leadership, what kind of economic system is being put in place in Venezuela? How would you characterize the political system?
  - b. How do you think that Chavez's unilateral changes to contracts with foreign oil companies will impact future investment by foreigners in Venezuela?
  - c. How will the high level of public corruption in Venezuela impact future growth rates?
  - d. Currently Venezuela is benefiting from a boom in oil prices. What do you think might happen if oil prices retreat from their current high level?
  - e. In your estimation, what is the long-run prognosis for the Venezuelan economy? Is this a country that is attractive to international businesses?

## Research Task [globaledge.msu.edu](http://globaledge.msu.edu)

### National Differences in Political Economy

Use the globalEDGE™ site to complete the following exercises:

#### Exercise 1

The definition of words and political ideas can have different meanings in different contexts worldwide. In fact, the *Freedom in the World* survey evaluates the state of political rights and civil liberties around the world. Provide a description of this survey and a ranking (in terms of "freedom") of the world's leaders and laggards. What factors are taken into consideration in this survey?

#### Exercise 2

One way that experts analyze conditions in emerging markets is through the use of economic indicators. *The*

*Market Potential Index* (MPI) is a yearly study conducted by the Michigan State University Center for International Business Education and Research (MSU-CIBER) to compare emerging markets on a variety of dimensions. Provide a description of the indicators used in the index. Which of the indicators would have greater importance for a company that markets laptop computers? Considering the MPI rankings, which developing countries would you advise such a company to enter first?

## CLOSING CASE

### Indonesia—Asia's Stumbling Giant

Indonesia is a vast country. Its 220 million people are spread out over some 17,000 islands that span an arc 3,200 miles long from Sumatra in the west to Irian Jaya in the east. It is the world's most populous Muslim nation—some 85 percent of the population count themselves as Muslims—but also one of the most ethnically diverse. More than 500 languages are spoken in the country, and separatists are active in a number of provinces. For 30 years the strong arm of President Suharto held this sprawling nation together. Suharto was a virtual dictator who was backed by the military establishment. Under his rule, the Indonesian economy grew steadily, but there was a cost. Suharto brutally repressed internal dissent. He was also famous for

"crony capitalism," using his command of the political system to favor the business enterprises of his supporters and family.

In the end, Suharto was overtaken by massive debts that Indonesia had accumulated during the 1990s. In 1997, the Indonesian economy went into a tailspin. The International Monetary Fund stepped in with a \$43 billion rescue package. When it was revealed that much of this money found its way into the personal coffers of Suharto and his cronies, people took to the streets in protest and he was forced to resign.

After Suharto, Indonesia moved rapidly toward a vigorous democracy, culminating in October 2004 with the inauguration of Susilo Bambang Yudhoyono, the country's

first directly elected president (he was elected to a second term in 2009). The economic front has also seen progress. Public debt as a percentage of GDP fell from close to 100 percent in 2000 to around 27 percent by 2010. Inflation declined from 12 percent annually in 2001 to 5 percent in 2010. The economy grew by between 4 and 6 percent per annum during 2001–10, and hit a high of 6.9 percent growth in 2010.

But Indonesia lags behind its Southeast Asian neighbors. Its economic growth trails that of China, Malaysia, and Thailand. Unemployment is still high at about 7 percent of the working population. Growth in labor productivity has been sluggish at best. Worse still, significant foreign capital has left the country. Sony made headlines by shutting down an audio equipment factory in 2003, and a number of apparel enterprises have left Indonesia for China and Vietnam. Between 2001 and 2004 the stock of foreign direct investment in Indonesia fell from \$24.8 billion to \$11.4 billion. It has since increased to more than \$80 billion, largely as a result of investment in Indonesia's natural resources, including mining, oil and gas production, and forestry, but outside of extractive industries, foreign investment has remained low.

Some observers feel that Indonesian is hobbled by its poor infrastructure. Public infrastructure investment has been low for years. The road system is a mess, half of the country's population has no access to electricity, the number of brownouts is on the rise as the electricity grid ages, and over 90 percent of the population lacks access to modern sewerage facilities. The tsunami that ravaged the coast of Sumatra in late 2004 only made matters worse. Mirroring the decline in public investment has been a slump in private investment. Investment in the country's all-important oil industry fell from \$3.8 billion in 1996 to just \$187 million in 2002, although it has picked up since. Oil production, which peaked at 1.7 million barrels a day in the mid-1990s, declined to less than 1 million barrels a day by 2010, even though oil prices were close

to record highs. Once a net exporter of oil, Indonesia is now an importer.

According to a World Bank study, business activity in Indonesia is hurt by excessive red tape. It takes 151 days on average to complete the paperwork necessary to start a business, compared to 30 days in Malaysia and just 8 days in Singapore. Another problem is the endemically high level of corruption. Transparency International, which studies corruption around the world, ranks Indonesia among the most corrupt, listing it 110 out of the 178 countries it tracked in 2010. Government bureaucrats, whose salaries are very low, inevitably demand bribes from any company that crosses their path—and Indonesia's penchant for bureaucratic red tape means a long line of officials might require bribes. Abdul Rahman Saleh, the former attorney general in Indonesia, has stated that the entire legal system, including the police and the prosecutors, is mired in corruption. The police have been known to throw the executives of foreign enterprises into jail on the flimsiest of pretexts, although some well-placed bribes can secure their release. Even though Indonesia has launched an anti-corruption drive, critics claim it lacks teeth. The political elite are reportedly so corrupt that it is not in their interests to do anything meaningful to fix the system.<sup>34</sup>

### Case Discussion Questions

1. What political factors explain Indonesia's poor economic performance? What economic factors? Are these two related?
2. Why do you think foreign firms exited Indonesia in the early 2000s? What are the implications for the country? What is required to reverse this trend?
3. Why is corruption so endemic in Indonesia? What are its consequences?
4. What are the risks facing foreign firms that do business in Indonesia? What is required to reduce these risks?

### Notes

1. J. Rostowski, "The Secret of Poland's Success," *The Wall Street Journal*, February 1, 2010, p. 15; "Not Like the Neighbors," *The Economist*, April 25, 2009, p. 55; "Horse Power to Horsepower," *The Economist*, January 30, 2010, pp. 60–61; and "Get a Move On," *The Economist*, January 8, 2011, p. 52.
2. Although as we shall see, there is not a strict one-to-one correspondence between political systems and economic systems. A. O. Hirschman, "The On-and-Off

Again Connection between Political and Economic Progress," *American Economic Review* 84, no. 2 (1994), pp. 343–48.

3. For a discussion of the roots of collectivism and individualism, see H. W. Spiegel, *The Growth of Economic Thought* (Durham, NC: Duke University Press, 1991). A discussion of collectivism and individualism can be found in M. Friedman and R. Friedman, *Free to Choose* (London: Penguin Books, 1980).