



# IR-UI COMMENTARIES

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## **(re)Defining Responsibilities in Time of Fear: The Interlocking Role of State and International Financial Institutions in Economic Security**

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### **Summary<sup>4</sup>**

Human security agenda often provokes a debate on “whose security to be protected, and by whom?”. The personal and national level of security are seen as mutually exclusive. The current global Covid-19 outbreak has taught us that resolving insecurities, most particularly the economic insecurities, cannot be detached from the government’s *responsibility* to boost the national economic recovery, for the sake of securing the (economic) life of the people. The bolstered state’s role here should not be regarded as the promotion of protectionism, but instead reinforce the need to advance an intensive collaboration between multiple stakeholders, particularly between the state and international financial institutions.

**Keywords:** *Covid-19, economic security, economic recovery, financial institutions, international cooperation*

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## The Pandemic and Economic Insecurity

Historically, global disease outbreaks have emerged as one of the most existential threat for both health and economic security. During the pandemic of Black Death, mass deaths of indigenous Americans, and Influenza, global populations had to suffer severe [economic catastrophes](#), due to extreme inflation, shrinking global labour force and wage, and drastic income deficits. These large scale crises ultimately required states to take extraordinary measures to restore the global economy. It demonstrates that while critical views tend to consider the national and personal (economic) security as a two-sided coin, the pandemic forces us to perceive them as moving along a spectrum. Investigating the current case of Covid-19 pandemic, the state and international financial institutions play a significant role as the protector for the country's—and therefore, personal—economic security.

## International and National Economic Recovery Efforts as a Centre of Hope

Since the beginning of the Covid-19 outbreak, many countries have adopted strict measures to contain the contagious virus. The lockdown, quarantines, restricted mobilities and physical contacts policies have drastically altered the social and economic dimensions of human lives. This is a world-changing calamity in this contemporary era, which does not only comprise a public health crisis, but also social and economic crises impacting poor and vulnerable groups most severely. Shortly after the disease was declared as [pandemic](#) by World Health Organization (WHO) on early March, the global economy experienced a huge [slowdown](#), characterized by significant drops in stock markets, significant rise of unemployment, crash of oil price, giant collapse of industries, and the decline of global growth—estimated to shrink by 3% according to [International Monetary Fund \(IMF\)](#). In Indonesia, more specifically, the precarious position of the country's economy because of the pandemic render it as one of emerging markets with the largest [current account deficits](#)—forcing enormous declines in many economic sectors and subsequently put more than 1 million people into [poverty](#).

As a response, national government and international financial institutions have actively performed various strategies. Asian Development Bank (ADB), for instance, has allocated [USD 1,5 billion](#) for Indonesia as a stimulus package to expand social assistance programs and speed up economic recovery, beside other grants and loan funding for urgent medical equipment. Another financing source, '[pandemic bond](#)'—as an adaptation to 'war bonds' used to finance conventional wars—which is a distinct sovereign debt paper is also frequently discussed by governments and financial institutions. ADB has released a report examining the potentials of [pandemic and social bonds](#) to support inclusive growth and pandemic resilience, while Indonesia also declared its plan to issue the bond—but was cancelled later on—potentially raising over [USD 4,3 billion](#).

The bond was intended to cover the widening deficits due to the Covid-19 relief and recovery efforts, yet it also raises other concerns relating to the market's trust and Indonesia's public debt management. The issuance of a special bond might not be an effective strategy since almost all countries across the globe also experience the economic slowdown, thus prompting a global competition for funding. Beside the unlikelihood of the market to positively respond to this bond, there is a growing concern over the risk that emerging economies like Indonesia could not repay its debts—exacerbating the crisis in the future. Considering that the issuance of bonds demonstrates a mismatch between the country's expenditures and revenues, the government is challenged to instead seek a balance between the two. To prevent its debt from soaring, the government should optimize its existing budget before raising the budget deficit further —reallocating irrelevant and/or ineffective budget spending to finance Covid-19 relief and recovery programs—and improve its tax ratio.

The mentioned national and international extraordinary responses to the economic insecurity caused by a health crisis reflect the prominent role of the state to restore the national economy. Given that economic threats in personal level (unemployment, poverty, inequality) are influenced by the changing global and national situation (declining growth and budget deficits), the state-led measures are undertaken in hope that the stabilized and growing economy could further assist government in providing employment opportunities and alleviate poverty. The state, however, cannot rely solely on its own capacity as the global economy structure has pushed a fostered interconnection between multiple international stakeholders (states, financial institutions and global markets) in order for the government to secure financial resources. Into this issue of interlocking role of multiple actors this discussion will proceed.

### **In International Cooperation We Trust?**

Despite the important role of international actors, a global scepticism has grown over the future of international cooperation for realizing economic security in a post-pandemic era, particularly given that major powers like the United States has steered towards an inward-looking approach and spiked conflicts with other great powers, such as China. On the other hand, the credibility of international institutions, especially [WHO](#) as a leading actor in the global health regime, is being questioned for their responses to the current outbreak. To add to the list, the international community are also left overwhelmed by the problem of overlapping regimes (health, financial, economic, labour) and their promises to address future global economic challenges.

The past pandemics and the current Covid-19 outbreak have taught us that restoring and stabilizing global economic and social structures require intensive coordination and cooperation between various international institutions, as the crisis comprises of multifaceted challenges. We cannot merely depend on WHO to prevent mass deaths while at the same time cover budget deficits globally. In the same vein, the economic recovery efforts assumed by

national governments and financial institutions will only incite more pressing problems if growth-focused development policies overlook the issue of labour welfare. While it is believed that a post-pandemic era will see a strengthened cooperation between national governments and international health and financial institutions for global economic recovery, it remains to be seen whether states would allow the labour regime to step up the game.

These problems, furthermore, speak to the issue of paradigmatic debates in the International Relations scholarship: pro-globalization versus anti-globalization and isolationism/protectionism versus liberalization. The future of international cooperation and the role of international institutions will increasingly depend on international actors' positions amongst these debates. Trump's decision to halt funding to WHO and attack China for its pandemic mitigation approaches demonstrate a declining spirit for international cooperation, yet the strong global criticism from other governments and institutions also display a continuous support towards collaboration across borders. Many international financial institutions, including ADB, has reinstated their commitment for promoting [globalization and connectivity](#) as they are believed to positively contribute to improving global welfare. The forthcoming challenge would be to prove that international institutions could join the global unified fight by effectively working multisectoral.

## **Looking Forward to the Future**

Covid-19 has shown us that business and economic activities do not exist in human security vacuum. It has become a stronger consensus that protecting life itself is seen equally important as protecting livelihood. Both should be in balance and for this reason cooperation between trade, finance, and health regimes at international level seems to be stronger in the years to come. Without doubt, the pandemic has significantly affected the way the world operates from the smallest scale of human lives to the larger global economic structure. For us, as human beings, our insecurity at the time of pandemic is manifested in the fear over health and economic wellbeing. Thus, they leave us pondering upon what remedies are available to overcome those fears.

It is indeed the time to comprehensively revisit the way we perceive the economic security agenda. The pandemic has pushed the need to reinforce the role of, not only the state, but also other international and national actors—such as financial institutions—to help recovering the economy. The economic intervention to stimulate national income and economic growth is often perceived as against the agenda of protecting economic security of people since it often ignores the social implications, yet it is also a required strategy to restore and maintain the livelihood of the affected society. The agenda to protect one's economic security cannot be achieved without creating a conducive and facilitating environment. After all, how does one expect to secure employment if the state and markets hardly acquire sufficient financial resources to provide jobs? Hence, instead of perceiving national and personal economic security as mutually contradicting referent objects, finding a balance is more necessary. This

means that the economic recovery efforts must take into account concerns over macro-scale economic growth, investment rate, industries rebuild, as well as the micro-scale poverty and inequality eradication.

Taking this issue into consideration, the main task ahead is to ensure that all relevant actors would work hand in hand to fight against the pandemic (and other future global challenges) as our common enemy. In an increasingly interconnected world, states as the responsible provider of economic security for their citizens require assistance from international financial institutions. Enhancing international collaboration, however, should not be viewed as decreasing the state's sovereignty—and vice versa—but instead to emphasize the mutual interlocking relations between multiple actors in order to more effectively address common global challenges—built with spirits of 'openness' and 'connectivity'. \*\*\*

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