CHAPTER I

INTRODUCTION

1.1. BACKGROUND

International Relations is an interdisciplinary study focusing on how entities in international system, pivoting on states as sovereign actors, and their interests has been shifting, interact to adapt but at the same time influencing this endless changing world system. Emerged gradually since WWI, this particular discipline explains how, why and when war and peace happen (Waltz, 1964, 1979), and also which states align with whom and the reasoning behind it (Walt, 1987, Christensen and Snyder, 1990).[1] Later during the early Cold War era, the curiosity of scholars has gone *crescendo*, and by such base minds, it marks the beginning of IR theories born to answer questions of this interstate world.

Although every theory has different perspectives in perceiving how the world and states survives itself, however, at the time society perceived realism as the most rational. Realism believes that each state prioritizes its own survival and avoid war by struggle of power (Waltz, 1964) and balancing threats (Walt, 1987).[2] Hans J. Morgenthau, in his study of war and peace, believes that the struggle for power inevitably universal in time

[1] Department of Political Science Aviv and Haifa University. June, 2013. *The Evolution of International Politics, 1800-2000: A Network Analysis:2.* | http://soc.haifa.ac.il/~talmud/evolution.pdf

[2] Ibid:3.

and space,[3] and thus will never end as the interest of every country would always differ amongst them. He further notes that realism as the drives to live, to propagate and to dominate are common to all men. The desire to dominate, in particular, is a constitutive element of all human associations, including the political organization in sovereigns.[4] Thus, they simply categorized that war outbreak was because of power conversion in the focus, and cannot be prevented by any cooperation or diplomacy. During WWI in 1871, although balance of power in Europe has considered safe by the form of Triple Alliance and Triple Entente, German whose did relying within the power of Great Britain, as the previous hegemon, see that their power is declining relative to the United States, thus, decided to do unification.[5] This power conversion of Germany is indeed, according to realist, triggers itself reasons to go to war.[6]

During WWI also existed another theory called **liberalism**. Contrary with realism, liberalism affirms that states to rely on cooperation-based survival mindset as the most optimal choice for survival. It basically suggests every one to do alliance networking[7], rather than competing with each other by power, by instead complementing each other mutually. By such actions, it suggested the idea of **war-prevention**. However, this

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[3] Hans J Morgenthau. 1948. *Politics among Nations: The Struggle of Power and Peace*. New York: Alfred A. Knoff: 228-229.
[4] Ibid:229.

[5] Schmitt Bernadotte E. 2011. Triple Alliance and Triple Entente, 1902-1914. Accessed by JSTOR: The American Historical Review, Vol. 29, No. 3 (Apr., 1924), pp. 449-473. In this article, this specific part is in:450.

[6] Ibid:472.
[7] To know more about the term of alliance-network, refer to Ibid,:7, sub 3.1. "*An alliance network describes the alliance ties between members of the system. Two states are said to be related or tied to the extent that they have a formal alliance of any kind. (Singer and Small, 1996).*"

theory does not stand out much during WWI. In 1914, the diplomatic relations between Germany-British was a very war-prevented one, until Kaiser, a Germany diplomatic destroyer, start congratulate South African President over his victory upon British, which also gives a warm slap in British face.[8] Liberalism was proven failed when Germany-Britain diplomacy that was expected to be neutral, broken with the flaws of *Schlieffen Plan,* which Germany was supposedly attack Paris and control their army to be used to backfired Britain, however, in reality, British troops found out and invaded Paris early—causing German's plan to blow out.[9] War was not prevented at the time; instead, it was breaking more havoc. By such evidence, liberalism was still seen as a weak baseline to oversee war-wise issues.

However, the end of WWII has turned the context upside down. The expectation of realism idea-consistency were betrayed since there are more sub-state spring their independent status and inter- and non-governmental organization emerged, including the United Nations, which enhance the relevancy of liberalism. Countries are looped into economic liberalization era and enhanced cooperation with others, especially economically to lessen government regulations or at least make it mutual. One of the examples was single-undertaking policy in World Trade Organization (WTO) that every member must apply the same negotiated

[8] The University of Michigan Press. Case Summaries and Sources:2. http://www.press.umich.edu/pdf/0472112872-appa.pdf
[9] Mitter, Richard. 1958. *The Schlieffen Plan: Critique of a Myth.* Britain: Oshwald Wolff Publisher.

level of tariffs to each other[10]. Simply saying, the end of WWII has gave birth to what we familiar with now—globalization, changing realm of the world, from only about international politics, to **international political economy**.

On the essence that realism and liberalism were opposing each other ideas, international political economy emphasizes that our world needs the combination of both two theories. François Quesnay, a French economist[11], in his book of *Tableau économique* (1758) reflects that one state's condition is like biological conditions of a human body, which every part within it were interconnected in harmony, therefore, every law in each country should get along with economy as well, or else it would collapse.[12] By such reasoning, a theory putting up the middle ground of this since XVI century—**mercantilism**, supporting Quesnay's being proponent of economic enhancement with limiting *invisible hand*[13] in laissez-faire market,[14] as "the liberal plan of equity, liberty and justice"[15]

The government should not interfere with the natural course of things by regulations to restrict free trade and protect special interest. It is more beneficial to leave well alone—laissez-passer.[16]

[10] Van den Bossche, Peter. 2010. *Pengantar Hukum WTO (World Trade Organization).* Jakarta: Yayasan Obor Indonesia:26.
[11] Albertani David. 2002, January 15th. *Histoire de la pensée: Biography of François Quesnay.* Presented by MATTI 401. http://www.sismondi.ch/cours/2015-2016/4ec-os01/documents-divers/histoire-de-la-pensee-economique/Francois%20QUESNAY.pdf
[12] Deliarnov. 2015. *Perkembangan Pemikiran Ekonomi* (Edisi Ketiga). Jakarta: PT. Raja Grafindo Persada.
[13] Invisible hand is a term by Adam Smith (The Wealth of Nations) that government intervention used in describing their actions in economic markets.
[14] Smith, Adam. 1991. *The Wealth of Nations: Introduction*:xviii
[15] Ibid. Smith,:180.
[16] Ibid.

Mercantilism encourages free exports and limited imports with limited government intervention on capital movement, believing that mutual balance of trade is the best way to prosperity as it enriches the flavor of globalization and fulfilling the needs of other country in each **comparative-advantage**. The Navigation Acts, guidelines in which promote exports between England and its colonies regarding trade[17], was one of the examples.

However, only relying the market laissez-fairly is considered dangerous. It makes ourselves like a fish goes with the flow—similarly implies surrender act to risks for a country to collapse within market uncertainty. Furthermore, Adam Smith in *the Wealth of Nations* has criticized that mercantilism only beneficial to elite classes and only increase world-class system disparities.[18]

Therefore, years after, more states chose to be a **neo-mercantilism** instead of mercantilism, including Japan, the PRC, ROC and South Korea. Neo-mercantilist, in contrary, is an inward-looking principle that all trade activities are best controlled strategically by a central government for national benefit. Financial flows, currency development, and trade regulations should be managed strategically to both help the world system but protecting valuable assets to enhanced domestic more—basically, not wanting a *laissez-faire* competition.[19] In its product-based trade

[17] C. W. 2013. The Economist Article: What was Mercantilism? http://www.economist.com/blogs/freeexchange/2013/08/economic-history
[18] Adam Smith. (1991). *The Wealth of Nations.* Chapter 2.
[19] Tame Chris R. 1987. Against the New Mercantilism: The Relevance of Adam Smith.

implementation, it involves several important protectionism on capital flows, including for domestic producers or nullifies foreign companies to take over domestics' industry and market demands.

However more specifically, neo-mercantilism implementation can be found more significantly in the evolution of **international monetary era.** It basically starts with how money are perceived and evolved. This era came after non-monetary era, which started with barter of goods. However, it is exactly like Aristotle was saying, "When the inhabitants of one country became more dependent on those of another, and they imported what they needed, and exported what they had too much of, money necessarily came into use."[20] Money is an universally accepted and identified value used for transaction purposes. In early establishment of money, its regulation was governed in many ways, including using, the Code of Hammurabi (1760 BCE)[21], animal as commodity money (1500 BCE)[22], and using silver, copper or bronze-pegged system (800-850 BCE)[23], until it become coin-standardized (500 BCE) and becoming gold-standardized.[24] However, since gold is heavy, money was simplified in the form of paper afterwards.

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[20] Pack Spencer J. 2010. *Aristotle, Adam Smith and Karl Marx: On Some Fundamental Issues in 21st Century Political Economy*:5. Edward Elgar Publishing.

[21] Charles Horne. 1915.*"The Code of Hammurabi : Introduction".* Yale University. *Retrieved 14 September 2007.*

[22] Rollin, C. 1836. *The Ancient History of the Egyptians, Carthaginians, Assyrians, Babylonians, Medes and Persians, Grecians, and Macedonians: Including a History of the Arts and Sciences of the Ancients, Volume 2.*

[23] Demand N.H. 2012. *The Mediterranean Context of Early Greek History. (*Washington: John Wiley & Sons, 2012). 300.

[24] Shaw W.A. 1967. *The History of Currency, 1252–1896*. Library of Alexandria. 831.

Following the evolvement of money regulations in international monetary era, many government officials and individuals practice **foreign investment** as the means to survive such era as it gives big impact to the economy of a country, according to neo-mercantilist. Investment is to save and use today's opportunity to buy future increased-predicted value, while foreign investment further means as acquiring assets owned by foreign companies. Highly compared in 1993 where there are 37.000 multi-national companies—today 80.000 of them operating investment.[25] Warren Buffet, ranked high in the top rich people in the world, is one example of world's successful value investors[26]. Investment's importance further highlighted by its results in enhancing development of home and host country where it increases financial capital and increases work flows and job opportunities.[27] Thus, seeing from macro economic point of view, all of these are very beneficial for economic growth.

Narrower classification from foreign investment, private capital foreign investment—**foreign direct investment** and **portfolio investment**, has always been two significant incomes for a country, not only for highly developed country, but also both developing and low-income countries. The International Monetary Fund (IMF) and OECD define them as the obtainment of one entity, from one resident country, of foreign enterprises,

[25] Hormats, Robert D. 2010. Under Secretary of Economic, Energy and Agricultural Affairs. September 6th. *Importance of Investment in Global Economy.* Retrieved from US Government website: http://www.state.gov/e/rls/rmk/20092013/2010/146894.htm
[26] Prasetyo, Dismas. Analysis on Leader Film: Warren Buffet. Catholic University of America.
[27] Ibid.

which located in another resident country.[28] Different from FDI, portfolio focuses on debt and equity securities that able to be managed *par individual*[29], like what men adults did on stock market. Contrary to that, FDI could only be accessed and bought through central enterprises by long-term purchases.[30]

One country most highlighted when WWII ended is indeed the United States. The collapse of Soviet Union and Japanese economy has not been predicted by the US before, therefore when this actually happen, they took enthusiastic approach to this, which is to create two major so-called "American Order."[31][32] This approach was implemented due to its flexibility and new recognition from winning the war.

The first American Order could be traced to the establishment of Bretton Wood system post-WWII. Drawing red line from the money evolvement and foreign investment, the United States as the only one with the highest military and economy stance has become the most possible target for foreign investors, and thereby uses this particular status to embed liberal order on which encouraging all states to expand their national economy to international scale.

However, the practice is not as easy as it seem. There is a dangerous line meet up in the middle of 1900s era when the regulations of

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[28] Maitena, Duce. 2003, January. *Definitions of Foreign Direct Investment (FDI): a methodological note.* Bank of International Settlement:2. https://www.bis.org/publ/cgfs22bde3.pdf
[29] IMF Website. Portfolio Investment. https://www.imf.org/tlm/pdf
[30] Op. Cit:3.
[31] Kirshner, Jonathan. 2014. *American Power after the Financial Crisis:*37-39.
[32] Kirshner, Jonathan. *The Global Financial Crisis: How It Changed the World.* TedTalkxHunterCSS. http://tedxtalks.ted.com/video/The-Global-Financial-Crisis-How;search%3Ajonathan%20kirshner

money met up with national customs and culture, which differed from one country to another, creates a question on what and how the law governing money in that particular international scope. In response to the question, in 1941 Bretton Woods came up with monetary management that give the idea of gold-pegged system because gold value was always static compared to currency-pegged. However, the problem arises in the following 1971 when the United States apparently acquire two-third of the world's gold[33], which make indirectly every countries to pegged their currency to the currency of the United States—dollar. Not only that, domestically also, during Clinton administration, they started to dismantle firewall and financial regulations to balance instability.[34]

Since then, United States has fancied the status of currency hegemon. By its Gross Domestic Product that statistically increased until current year[35] (also shown in graph below), the US has being regarded as a country uninterruptedly stable growth with low inflation, low unemployment among nations—or so-to-speak, thus immune to financial crisis. This changes the mind of foreign investors that universally tend to invest on countries with stable economic growth because it saves great result in the future.

Given the data, mercantilism follows up with the theory of rational expectation that the good market exponentially serves good values. The

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[33] Christian Weller. 2002. *Learning Lessons From the 1990s: Long-Term Growth Prospects for the U.S.* Appeared in *The New Economy*, Vo. 9, No. 1. Taken from http://www.epi.org/publication/webfeatures_viewpoints_l-t_growth_lessons/#

[34] Kirshner, Jonathan. *The Global Financial Crisis: How It Changed the World.* TedTalkxHunterCSS. http://tedxtalks.ted.com/video/The-Global-Financial-Crisis-How;search%3Ajonathan%20kirshner

[35] Op Cit. Christian Weller.

theory further implies that countries should let market liberalized by themselves because the market knows best. Between 1990s and 2000s, this theory echoed in many parts of the world, which resulted in the spring of countries' starting to open up their economy.

Nevertheless, according to the principle of risk and results, greater results are within one line of greater risk as well.[36] And accordingly too, the theory was not explaining the reality as a whole, and as we know, market cannot liberalized themselves. There should be invisible hand controlling, and apparently, the United States' interest was one of them all along. From the very first beginning, their campaign for the world to open up their economy is not to merely encourage free trade, however instead to insist all the countries to loosen up their capital control. Asian countries were one of the examples of losing their control of domestic production and also their currency stability, including Thailand, which further in 2000 causes the Asian financial crisis by the depreciation of Thai Baht.[37] Its depreciation creates domino effect, resulting other Asian countries pegged to Thai and dollar to collapse. Due to the overly hyped the United States to increase their economy, dollar risen up relative to other countries and consequently started Asian banking crisis, on which every bank cannot pay the debt to the issuer.

This crisis, indeed, affected both two variable countries, which first of all, Indonesia. Over all, Indonesia economy has fall down by 120.3

[36] https://www.mlc.com.au/understandingseries/understanding_investment_concepts.pdf
[37] Institute for International Economics. *Asian Financial Crisis: Origins of the Causes:*11. https://piie.com/publications/chapters_preview/22/2iie261x.pdf

billion US Dollars.[38] It also causes our Rupiah to decrease, which is very dangerous as it resulted in several after-effects. Firstly, at the time when New Order still in order, manufacturing industries are more reliant to import goods, components, spare parts and processed materials.[39] Therefore, depreciation of rupiah will lessen price competitiveness for export-oriented domestic firm, which lead to their inability to survive. Secondly, Soeharto as the head of regime is an economic-oriented leader, so before the crisis he has borrowed a lot of short-term loans from foreign capital[40], which lead them (our country and domestic company foreign-related) to bankruptcy. This has proven by the collapse of national banking sector that makes credit-access become more difficult along with the increase of interest rate which make it worse for bank borrowers to pay back their loan. Indonesia has fall into a deep serious debt until we have to beg upon International Monetary Fund to help.

Interestingly, although it was too, affected by 2000 Asian crisis, however comparatively, second of all, the United States economy was still stable at the time compared to Indonesia. In the eyes of foreign investors, therefore, again, the United States was sees proven to be prone or immune to financial crisis. That is because at the moment the US was the only one standing when every body kneeled down. Its status of currency hegemon was combined with further implementation of hegemonic economy, where

[38] Trading Economics Statistics. World Bank Group. 2005. http://www.tradingeconomics.com/indonesia/gdp
[39] Wie, Thee Kian. 2006. *Policies for Private Sector Development in Indonesia.* ADB Institute Discussion Paper no. 46:3. www.adb.org/sites/default/files/publication/156683/adbi-dp46.pdf
[40] Wie, Thee Kian. 2006. *Policies for Private Sector Development in Indonesia.* ADB Institute Discussion Paper no. 46:9. www.adb.org/sites/default/files/publication/156683/adbi-dp46.pdf

dollar was seen as one of the most stable currency—similar pace with gold, while others' was not. Simply saying, the United States dollar was the least vulnerable, so-to-speak.

However, it was only until the early 2008 that everything was risk-controlled, marked by the bankruptcy of large banks, majorly Lehman Brothers[41]. It was all start peaking by 2005 where the US government realizes that the housing prices that have been stable for decades could be used to boost the economy[42]. Those houses are backed with mortgages, so by using mortgage-backed securities and collateralized debt obligations, the government raises up the interest rate of mortgages that results in the increase demand of house buyer. An increase in loan incentives such as easy initial terms and a long-term trend of rising housing prices had encouraged borrowers to assume risky mortgages in the anticipation that they would be able to quickly refinance at easier terms.

However, following the situation from 2000, the interest rate in banks is still low, which means that there are less investors investing in banks. Consequently, the government uses this opportunity to combine mortgages with insurance to attract investors. Having this fact, the housing prices keep raising and there was a big increase gap in the number of mortgage loan of 2008.

However, the housing price can't always go up due to mortgages' interest rate constraint. As housing prices fell by the last 2008, global investor demand for mortgage-related securities evaporated, and started

[41] Warwick, McKibbin J. Stoekel, Andrew. 2009. *Working Paper of The Global Financial Crisis: Causes and Consequences.* Published by Lowy Institute of International Policy.
[42] Ibid.

the house bubble burst by 15 percent lower from peak.[43] US overall housing prices started to fall 50 percent from its GDP.[44] As of early 2013, the U.S. stock market had recovered to its pre-crisis peak but housing prices remained near their low point and unemployment remained elevated. Not only the United States, Indonesian economy also highly impacted by this crisis.

Indeed, this loss is categorized as one phenomenal recession after WWII, for both the United States and Indonesia.

This paper concerned with the impact of the crisis, hence, aims to examine three main points: the **causes channel**, the **impacts** by the crisis and each **government policies** reacted to them. We examine the real transmission channel to this crisis to find the main factor to prevent similar crisis to happen in the future. The examination of government policy effectiveness is to find ways lessening the risk and burden to every victim country, by finding loopholes on which policies should be kept and or to be adjusted.

The first question arises is **why**: why this aims should be completed. This is simply based on two main reasons. Firstly, benchmarking between the United States and Indonesia, both of the country practices democracy in its bureau system and both of them practices portfolio-investing system, this paper urges the examination by considering such future syllogism: even the United States whose portfolio

[43] This is based on the Case-Shiller U.S. National Home Price Index, at http://www2.standardandpoors.com/portal/site/sp/en/us/:.article/0,0,0,0,1148433018483.html
[44] Baker, Dean. 2008. *The Housing Bubble and the Financial Crisis:*75. http://paecon.net/PAEReview/issue46/Baker46.pdf

practices' percentage was actually less than the number of its practices in Indonesia itself could hardly handle the impact of recession. This definitely alarmed Indonesia, that it could possibly experience worse impact if another similar crisis happen due to its tremendous number of portfolio practices. If so, Indonesia could be undoubtedly said prone to be "the second United States in 2008," which is why this examination, this paper adheres, is important.

Secondly, this paper exploits the case study of financial crisis of 2008 because this was the end of US economy status of "super-stable," and the beginning of all consequences that everyone is not yet aware of, especially those countries whose pegging their currency to dollars or practicing its model, which impacted globally in a very interdisciplinary way that in my opinion, do serve as a good variable to observe for International Relations.

Next and the last question would be **how**. After knowing all the information aforementioned, this paper would relate all of those with portfolio dynamics pre-, during and post-crisis—to find red lines among them. Furthermore, this paper would going more detail, seeing the condition of portfolio investment number in both the United States and Indonesia, this paper's **main argument** is that one of the keys to the crisis is the **overloaded unmanaged portfolio investment,** derived from the data comparison further discussed in Chapter IV—compiled from table comparison of portfolio outflows from both countries. This would mainly because of its short-loan characteristics. Indeed, investing portfolio more than foreign direct investments, as its short coming process of investment will bring higher results, and most of all, investors will profit. However, portfolio investment got more investment market risk[45] than FDI. Short-term purchases indicates higher volatility as it pegged to other currency and its difficulty on short-selling if possibly crisis happens. If it does, it will results in the national balance to collapse, and certainly, it would not benefit the country at all.

Supporting the argument, this paper further relates the issue with **neo-mercantilism theory**. Based on these facts, this paper will use neo-mercantilist point of view questioning the effectiveness government responding to the impact of the crisis by analyzing free flow portfolio investment pre-, during, and post-crisis. Neo-mercantilism suggested the country more on the controlled management of national currency value against others to limit possibility of national economy collapse, and to limit foreign acquirement of domestic company ownership. This paper, using such approach, further would like to know whether the government actions is already in order, or perhaps, part of them needs to be adjusted—also not to mention, whether FDI would serve as one of the option to be encouraged by the governments.

Over all, this paper would hence address the interesting gap between the theory and its implementation in the United States and comparatively to Indonesia, on how actually comparatively foreign direct

[45] Defined in MLC Bank website:
https://www.mlc.com.au/understandingseries/understanding_investment_concepts.pdf
The possibility all investments in a market sector, (such as shares), will be affected by an event"

investment that more stable than portfolio investment, are not equivalent to the fact that questionably why Indonesia using portfolio significantly more than FDI. This paper would argues based on neo-mercantilist approach that the overloaded unmanaged portfolio investment is dangerous for our country Indonesia, and cannot sustain a country's economic growth, because of its high volatility, and not so to FDI. This paper serves itself benchmark process about portfolio dynamics along with both the response and policies done in both the US, as developed nations, and Indonesia, as developing nations, and by their characteristic analyzing their effectiveness in regards to this crisis on which part could be learnt by the latter to the prior.

1.2. RESEARCH QUESTIONS

Having such background, this paper hence to address the problem by answering these research questions:

1. How are the comparisons of portfolio flows in both the United States and Indonesia pre-, during, and post- financial crisis (2008-2013)?

2. How does portfolio investment flows by the crisis impacted both Indonesia and the United States comparatively (2008-2013)?

3. How effective the policies of the government of Indonesia and the United States in managing bad impacts of the overloaded portfolio outflows (2008-2013)?

1.3. RESEARCH OBJECTIVES

This thesis aims to understand how private capital flows being utilized in international trade, especially in the United States and Indonesia, according to the eyes of neo-mercantilist. Seeing the impact to both countries, this paper questions whether both of the government already utilizes effective policies to prevent and handled the crisis. Noting upon those research questions, following are the objective of this thesis:

1. To compare portfolio flows in both the United States and Indonesia pre-, during, and post- financial crisis (2008-2013),

2. To determine and understand the impact of portfolio investment flows by the crisis to both Indonesia and the United States comparatively (2008-2013),

3. To understand and apprehend the effectiveness of the policies of the government of Indonesia and the United States in managing bad impacts of the overloaded portfolio outflows (2008-2013).

1.4.STRUCTURE OF WRITING

This paper of is solely organized into five main chapters, as follows:

a. Chapter One (I): Introduction

Chapter One of this paper will mark the start by the introduction and background of international relations, start by the birth of theories, especially liberalism, that eventually lead to neo-mercantilism application in international monetary era. Within a brief short monetary history, it leads to the history of Pre- and Post- Mortgage crisis, followed by a brief sneak-out of the US pre- and post- situation responding the crisis. Furthermore, it follows by the impact of this crisis to both the US and Indonesia and closes by stating the purposes and urgency of having this study—including the goals, whys and the hows.

b. Chapter Two (II): Theoretical Framework

Chapter Two of this paper will listed down of the sources for the research of the case study, and applicable theories to support the research's arguments, which in this case mainly neo-mercantilism, along with several economic terms to support the explanation of other chapters, namely: foreign direct investment, portfolio investment, mortgage (sub-prime mortgages, house bubble, mortgage backed-securities), leverage, interest rate, and financial crisis (especially 2008/2009).

c. Chapter Three (III): Research Methodology

Chapter Three of this paper will further explain the research and data collection, including the classification of the data, and also framing the flow of research analysis so that every one could see the big picture of this paper before moving on to details.

d. Chapter Four (IV): Analysis

Chapter Four of this paper will further expand the basis mentioned in the introduction—but going deeper into the problem history of the mortgage crisis of 2008, including the causes, phases, narratively, followed by mentioning the respective actors, in this case, focusing on the United States and Indonesia, along with descriptively explain the situation within the country, including population, political stability and economic status. This will give incentives of whether or not both countries are worth comparing. From this point, there are two comparison will be conducted: firstly, comparing portfolio outflows both in the US and Indonesia, pre-, during, and post-crisis. The second comparison would be comparing the impact on both the US and the world along with the government policies on this issue. This comparison would be compiled within the following over-all analysis of the effectiveness of government policies at the time in relation to portfolio management. This chapter would be closed by small conclusion and suggestions by the authors.

e. Chapter Five (V): Conclusion and Recommendations

Last but not least, Chapter Five of this paper will close the arguments of the previous chapters. This chapter further concludes in big of the findings of the research objectives and question by analyses how the unmanaged portfolio investment bring the downside of one country's economy. This would also present further future research prediction of another mortgage crisis, which could be useful in International Relations field and/or other study fields.