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## **Indonesia's APEC Chairmanship of 2013: Key Priorities and Future Agenda**

### **Executive Summary**

Indonesia will host the 2013 Asia – Pacific Economic Cooperation (APEC) Meeting in 2013 with the theme “Resilient Asia-Pacific, Engine of Global Growth”. This paper attempts to provide an overview of Indonesia’s key priorities during her chairmanship in 2013, highlighting the issues that should be addressed. This paper also seeks to tease out five pertinent strategic issues that form the basis for the discussions. They are: 1) to provide several strong regional resilience measures to address the possibility of any future economic crisis; 2) to forge cooperation and curtail protectionist policies in order to sustain a climate of open trade; 3) to ensure improvements within the domestic economy through increased capacity building projects; 4) to improve the investment climate while redirecting excess savings prudently, and 5) to reduce burgeoning economic polarization within Asia. The paper concludes that Indonesia as APEC Chair will aim to tread cautiously between the need for pragmatism and the promotion of an idealistic regional vision.

## Indonesia and APEC

Indonesia will not be satisfied with merely hosting the 2013 Asia – Pacific Economic Cooperation (APEC) meeting. It wants to reassert its ambitions to lead by trying to replicate the success of the Bogor Goals in 1994. Before analyzing Indonesia's APEC strategy and how it will be achieved, a brief discussion of APEC as an inter-governmental body is required.

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APEC is a regional forum within the Asia Pacific region focusing on promoting free trade and investment. This institution has been operating on the basis of “concerted unilateralism”, whereby states band together to overcome common challenges and identify specific common goals. This is followed by implementing a common objective done either on a unilateral and voluntary basis. Nevertheless, talk of transforming APEC into a legally binding institution remains an ongoing debate. Yet, APEC has made enormous strides in its expansion since its establishment as an informal forum for dialogue into a more structured institution with tangible outcomes. Currently, APEC consists of 21 member-states namely Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Chinese Taipei, Thailand, United States, and Vietnam. APEC as an organization encompasses a wide range of economic entities which include both developed and developing countries as well as the seven member-states of ASEAN (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam).

According to economic forecasts and trends, APEC is slated to be a significant player in shaping and promoting trade liberalization in the region by 2013. According to APEC's 2012 Policy Report, APEC had achieved several milestones relating to trade liberalization. One is the continuous reduction of tariff levels where APEC's MFN average tariff had declined from 6.6 percent to 5.8 percent during the period of 2008-2010. This trend has been replicated in all associated sectors such as textiles, footwear and many other industrial products, leading to a unprecedented fall from 5.7 percent to 4.9 percent in tariffs (with the exception of the average tariff for agricultural products which remained high and only declined from 13.1 percent to 11.9 percent). Other forms of observable progress are the various engagements derived from

Regional Trade Agreements (RTAs) and Free Trade Agreements (FTAs) that has significantly increased among APEC members. The surge of RTA/FTAs is consistent with the overall APEC vision. This phenomenon is due to the impact of further tariff liberalization and the reduction in effective tariffs that are based on schedules agreed between stakeholders and their RTA/FTAs counterparts.

With the spotlight of the world economy increasingly shifting to Asia (the region currently has 55 per cent of the world's GDP, 40 percent of total trade, and 45 per cent of the world's Foreign Direct Investment or FDI), Indonesia sees in APEC a new-found relevance. For Indonesia, APEC remains one of the eminent regional institutions in Asia due to its strategic composition of Developed and Developing economies, and with it the possibility that the regional economic growth may be sustained if economic liberalization continues unhindered. The East and Southeast Asian economies have also experienced promising growth related to their own modernization and urbanization projects. Despite common criticisms of APEC being an institution that directs its own affairs perhaps too autonomously, concomitant with the rise of Asia, APEC would inevitably be required to play a greater complementary role in ensuring Asia's economic stability and liberalization. This paper will next proceed to discuss the key priorities of the October 2013 Meeting.

### **Key Priorities**

At APEC's CEO Summit of 2012, the theme **"Resilient Asia-Pacific, Engine of Global Growth"** was suggested. This slogan is an important statement of intent reflecting solidarity among member-states pledging their solidarity for a quick economic recovery for Asia and its own inherent resilience as a powerhouse against any residual impact derived from the global economic crisis. In the coming decades, there is a growing confidence that the Asia Pacific region will be the main driver and contributor to the world's economic (or GDP) growth. With this perspective in mind, Indonesia as host and leader of APEC 2013 seeks to address three key priorities namely: 1) Revisiting the Bogor Goals of 1994 by focusing on the need to redress and revalidate of the basic vision of open trade, investment, standardization, and structural

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reform; 2) Achieving Sustainable Growth with Equity by focusing on increasing the competitiveness of small medium enterprises (KUKM, *Kredit Usaha Kecil Menengah*), financial inclusion strategies, promoting the creative economy, and food resilience as an effort to shape sustainable and inclusive growth; and 3) Promoting Connectivity by focusing on the enhancement of physical interconnectedness through investment in infrastructure, the blue water economy, institutions, and people. The following sections assess how Indonesia perceives these three agendas and how they serve Indonesia's vision and interests in APEC.

### **Priority No. 1: Attaining the Bogor Goals**

The act of revisiting the Bogor Goals of 1994 when Indonesia was previously the Chair of APEC is an important step because this represents not only an aspiration but a historical legacy in line with its attendant goal of sustaining the rise of Indonesia's economy. Indonesia's admittance to APEC was an eventful journey. After the Cold War, Indonesia became a member of APEC in order to prepare for a new world system of economic competition and liberalization. The Bogor Goals during that time was directed to foster economic cooperation not only at the official level, but also in the more practical matters of technical cooperation. The Bogor Goals of 1994 consists of three pillars. They include: 1) the promotion of an open and free trade investment climate; 2) the facilitation of trade and business development and 3) the encouragement of economic-technical cooperation whilst bridging inequalities among different nations through the enhancement of institutions, individual capacities, and sustainability processes. Indonesia will have to develop the old vision while harmonizing new ones that accord with her own interests within the broader region. This priority will foster an environment conducive to investment and job creation.

The Bogor Goals in the Bogor Declaration were arguably the biggest breakthrough Indonesia gave to APEC, because it provided guidance to long-term economic cooperation within APEC. Within the Bogor Goals, APEC Leaders agreed on a common objective of free and open trade and investment by 2010 for industrialised economies and 2020 for developing economies. This commitment was evident in the Leaders' Declaration in Bogor below:

*“We, the economic leaders of APEC, came together at Bogor, Indonesia today to chart the future course of our economic cooperation which will enhance the prospects of an accelerated, balanced and equitable economic growth not only in the Asia-Pacific region, but throughout the world as well.”* (Leaders' Declaration – Bogor, 1994)

The agreement became the foundation for future actions such as the Osaka Action Agenda which was the continuation of the Bogor Goals of 1994 that specifically laid down several individual action plans (i.e. The Manila Action Plan of 1996 and the Hanoi Action Plan of 2006). In 2010, the Yokohama Vision became the standard measure of progress alongside the Bogor Goals. Within policy circles, the hope is that the legacy created and endorsed by the Bogor Goals of 1994 will be the catalyst driving Indonesia to do better in 2013. In the new agenda for 2013, Indonesia will push actively for commitments aimed at development and promotion of investment in the region over and above the usual talk on trade liberalization. These ideas aim to give greater substance to the Yokohama Vision of 2010. The Vision is one that recognized the potentials and pitfalls of diversity among ASEAN member states. Its main aim is to strengthen cooperation and boost the economic competitiveness of the region's developing nations via the facilitation of trade, investment and a sound implementation of a viable growth strategy.

### **Priority No.2: Sustainable Growth with Equity**

The second priority emphasizes the need to achieve growth so as to narrow the degree of inequality among member nations. For Indonesia, developing society through trade financing and capacity building is vital in order to foster competitiveness. Other agendas include promoting the role of women and minority groups in the economy.

Achieving sustainable growth with equity is considered one of the most pressing issues for Indonesia, in particular the need to strengthen the basis of '*ekonomi kerakyatan*' or the societal economic model that Indonesia currently pursues. This is due to: 1) Lessons learned from Indonesia's resilience against the global financial crisis which emphasized the importance of strengthening SMEs and boosting domestic consumption; 2) the government's vested interests to narrow the socio-economic gap thereby preventing further social marginalization; and 3) stressing the need for increased involvement within the Economy and the promotion of Technical Cooperation (ECOTECH). Since 1993, APEC had provided approximately US\$23 million to fund over 1600 capacity building projects. Indonesia wants to see such efforts being continued while at the same time highlighting such plans in its national and regional development strategies.

### **Priority No.3: Promoting Connectivity**

The last pillar seeks to promote connectivity among member nations within APEC. Connectivity is an important prerequisite aimed at leveraging economic integration and growth within the region - highlighting both internal and external interconnectedness. For Indonesia, considering the size of its archipelago and the corresponding challenges for economic development, connectivity is a prerequisite to foster effective and sustainable regional integration. The overall objective of this connectivity agenda is to create a better climate for investment by encouraging intra-regional investment. This in turn further deepens regional integration. Since 2009, APEC has placed significant attention to supply-chain connectivity in Asia. This change in focus on connectivity is not only limited to connectedness derived from investments in infrastructure and Public-Private Partnership (PPP), but it also includes people-to-people connections.

For Indonesia, connectivity commands a broad definition that includes both domestic and regional dimensions in addition to physical connectivity, institution connectivity, and people-to-people connectivity. Physical connectivity is related to the development of more infrastructure projects. Being a country that is diverse in its population and economic mix, Indonesia has a keen interest to promote this form of connectivity as its fragmented geographical landscape has always been a challenge for the implementation of logistics efficiency within the archipelago. Furthermore, such connectivity is the key factor in bridging the inequality gap between the two major islands of Java and Sumatra (as well as between Java and the other outer provinces where inequality gaps are even more acute) that constitute its vast expanse. Institutional connectivity is related to rule of law, in particular the need to foster a seamless environment for doing business and investment. This means there must be a common understanding of the application of law between the provinces and among regional states and within the bureaucracies in the region. People-to-people connectivity relates to providing human resources and mutual understanding between people through the medium of higher education.

## Future Agendas

Indonesia believes it cannot be complacent and understands that its economic rise cannot be assured primarily because of favourable domestic economic conditions and buoyed with the knowledge that it will be the beneficiary of the emergence of new economic growth poles in the region. The need to build up APEC as an institution in line with broader strategic trends in the region that can serve Indonesia's own national needs correspond with its desire to reposition APEC as the de facto regional body for the promotion of economic growth. Understanding these considerations, Indonesia believes its initiative can advanced in the following ways:

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First, Indonesia wants to see the calibrating of regional measures to increase resilience against future economic crises. Asia enjoys relatively stable economic conditions due to the steady domestic demand and alternative market sources within (China) and outside the region (Africa and Latin America). Nevertheless, unmitigated threats can still be envisaged originating from two major sectors: 1) the retail sector - due to collapse of the market economy in US and Europe that could adversely affect the trade patterns of export-oriented manufacturing states like China, Singapore, Malaysia, Japan, South Korea and suppliers of raw materials - Indonesia, Australia and Canada; 2) the financial sector - following the liberalization of emerging bond markets in the West becoming more ubiquitous (for instance, one third of the Indonesian and 20% of the Malaysian market derive its sources of revenue from the foreign bond market). Indonesia is concerned that further deteriorating economic conditions in the West will trigger a massive withdrawal of bonds, affecting the confidence of the bond markets in general while leading to a domino effect on the broader market. Therefore, Indonesia wants to see regional measures introduced to ensure resilience and sustain economic growth.

Second, Indonesia wants to see a stronger commitment to prevent protectionism while simultaneously promoting a climate of open and free trade so as to foster greater intra-Asia trade relations. This is important, especially in the case of Indonesia – a country that had benefitted tremendously from the economic resurgence of Asia. The region's significant economic transition and the potential evident in China and India had led to increases in

energy and commodity demands from Indonesia. By 2010, China became the largest export destination for Indonesian coal, generating approximately \$3.6 billion in revenue from trade with Indonesia. India was a close second, with purchase of \$2.0 billion in coal exports.

Third, Indonesia is also keen to ensure multi-sector improvements within the domain of domestic consumption. The importance of attaining the Bogor Goals is tied symbiotically with the rise of the Indonesian economy. Growth in Indonesia is primarily driven by domestic consumption and services rather than the export of natural resources and commodities. Growing urbanization around large and middle-sized cities such as Medan, Bandung, and Surabaya and improvements within the sectors of education, employment, and the increase in technical expertise are all important contributors to the domestic economy.

Fourth, Indonesia wants to see increases in levels of intra regional investment. This is achieved through the redirection of excess savings back into the economy. Indonesia is concerned that the levels of expenditure on infrastructure spending within Asia remains lamentable. Such a situation if left unchecked would affect the stable cycle of physical infrastructure and social services. In a 2009 report, IMF observed that the Asian region had a total excess savings amounting to about \$100 billion in 2000. This excess savings began to increase exponentially in 2003. The significant increment of excess savings was primarily derived from China. By the year 2007-2008, savings had crossed into the region of \$500 billion, driven by massive current account surpluses from China. This trend, although not as dramatically evident as seen in China, was to some extent apparent in other ASEAN countries as well. There was a reluctance to invest in the region due to the adverse investment climate. This negative trend meant that funds that could be invested to improve physical infrastructure and human capacity were not used efficiently.

The final agenda Indonesia aims to pursue is to reduce the inequality gap among APEC member-states in order to mitigate growing economic polarity in Asia between the haves and have-nots. The problem of accessibility to resources within the region will also be dealt in this aspect. Indonesia is currently concerned over a plausible situation arising where funds that circulate only within the region will not be effectively distributed within society. These funds will eventually wind up in the financial markets with limited benefits for the wider public sector. For instance in the case of Laos and Cambodia, only 3% of the population has access to such monetary sources.

Overall, as uncertain global economic conditions continue to cloud the rosy picture of regional economic liberalization and growth, Indonesia as the current chairman of APEC sees the need to carefully move the region towards a deeper form of integration. Following promising economic trends within the region, Indonesia wants to introduce initiatives that will allow for the transfer of wealth across the region to enhance the business and investment climate and accelerate regional economic development. As a developing country, such initiatives will benefit not only the region but Indonesia itself while sustaining rising economic trends within and across the Asia-Pacific region.

## **About RSIS and Indonesia Programme**

The *S. Rajaratnam School of International Studies (RSIS)* was officially inaugurated on 1 January 2007. Before that, it was known as the Institute of Defence and Strategic Studies (IDSS), which was established ten years earlier on 30 July 1996. Like its predecessor, RSIS was established as an autonomous entity within Nanyang Technological University (NTU). RSIS' aim is to be a leading research institution and professional graduate school in the Asia-Pacific. To accomplish this mission, RSIS provides a rigorous professional graduate education in international affairs with a strong practical and area emphasis; conducts policy relevant research in national security, defence and strategic studies, international political economy, diplomacy and international relations; and collaborates with like-minded schools of international affairs to form a global network of excellence.

The *Indonesia Programme* is one of nine active research programmes under the umbrella of IDSS. The Programme studies current developments and a wide range of key issues in the archipelago, including political Islam, military and security affairs, foreign policy and regional relations, as well as national and local politics – especially in the Riau region. Through various research, networking, and teaching activities, the Programme has not only provided a platform for networking between the Singapore policy community and the emerging political elites in Indonesia, but it has also tried to further deepen mutual understanding and closer friendship between the two neighbours.