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Indonesia chairs APEC again but will 2013 be as cogent as 1994?

By Thanut Tritasavit

With 2012 soon coming to an end, another annual APEC cycle draws to a close. The past year's events, led by Russia under the theme 'Integrate to Grow, Innovate to Prosper', marked the following areas as key to future growth and sustainable development for the APEC region:

- i) Trade and investment liberalization, regional economic integration;
- ii) Strengthening food security;
- iii) Establishing reliable supply chains; and
- iv) Fostering innovative growth.

Of these, one key development was the adoption of the APEC List of Environmental Goods, which has been hailed by many as a shift against protectionist sentiments after the global financial turmoil in 2008 (see ISEAS Perspective, 08 October 2012 – ***On the APEC List of Environmental Goods***, by Thanut Tritasavit).

Now, all eyes are turning towards Indonesia as the host of APEC for 2013. Indonesia, during its previous chairmanship in 1994, achieved a major landmark when it produced the Bogor Goals which stipulated that developed nations should achieve free and open investment by 2010, a goal to be gained ten years later, in 2020, by developing nations. The document has since become the guide for enhancing economic cooperation among APEC member nations.

Can Indonesia repeat its success again? Indonesia has already announced the overarching theme for the year 2013. This will be "A Resilient Asia-Pacific: The Engine of Global Growth". As APEC Chair, it has also identified three priorities:

- i) Attaining the Bogor Goals;
- ii) Sustainable development with equity; and
- iii) Connectivity.

These priorities are set in light of a struggling global economic recovery. APEC member economies are realizing that they have to rely more than ever on domestic and regional demand and for this to increase, they should work more diligently towards the Bogor Goals, in order to ensure benefits especially for its smaller and poorer members. Since the association has strong involvement from the business community, it would gain if awareness about regional cooperation among corporations were raised in the shortest possible time.

More importantly, member countries will have to work on trade and investment obstacles, which remain in many forms. These include restrictive non-tariff measures, customs procedures, differences in legal and regulatory regimes between member economies, and poor transport infrastructure.

Connectivity is an option that can be used to deal with many of these issues. Traditionally, economic development has been associated with expanding production and consumption. Currently, given the emergence of production networks, it also includes exchange activities enabled by the growth and development of cities and their long-distance transport, telecommunication, and energy networks.

Connectivity can therefore be defined as the degree to which exchange activities are facilitated, both within and across countries.

Recognizing the importance of connectivity, ASEAN adopted its Master Plan on ASEAN Connectivity (MPAC) in 2010. This framework looks at not only physical connectivity covering transport, ICT, and energy, but also institutional connectivity for trade and investment facilitation measures. People-to-people connectivity also becomes important as this has direct impact on the targeted goals of the services sector and investment liberalization, and as a result, on the ASEAN Economic Community as a whole.

The importance of connectivity is reiterated in UNESCAP's Economic and Social Survey of Asia and the Pacific 2011 report. According to the report, the value of intraregional trade in the Asia Pacific region has been increasing between 1993-2009, with only a dip during the 1997/1998 Asian Financial Crisis. This suggests that the region will become an increasingly important market for its own exports. Hence, the benefits of better regional connectivity can prove very fruitful, especially since APEC member economies are projected to grow by 4.5 per cent in 2013, well ahead of the rest of the world (IMF).

Thus, for Indonesia, a dual-pronged strategy will have to be taken to enhance connectivity. Strong regional institutions for planning, managing, and funding major cross-border initiatives in terms of physical infrastructure, trade, transport, and harmonization of legal frameworks is necessary. At the same time, the region's least developed economies will be required, if they are to be able to make full use of the improved regional connectivity; while the more developed economies will be able to tap emerging markets for higher growth prospects.

INDONESIA AS THE CHAIR

President Susilo Bambang Yudhoyono called on Russia and other members of APEC to invest in Indonesia's planned infrastructure projects at the beginning of the 20th APEC Economic Leaders' Meeting through, among other things, a public-private partnership (PPP) scheme that will function as the key financing method until 2025. During the meeting, he took the opportunity to explain the government's Master Plan for the Acceleration and Expansion of Economic Development (MP3EI) to boost growth across the country through heavy investments in infrastructure projects, particularly in transport and energy. The government highlighted the country's distinctive archipelagic geography and its sea-based industries, essentially putting forward a notion of a "blue economy". Developments in Indonesia's infrastructure are expected to improve connectivity with ASEAN members, which in turn will bolster economic growth in the APEC region and the rest of the world.

Indonesia's attractiveness to investors may come in the forms of a large population half of which comprises people at a productive age; abundant natural resources; and a rapidly growing middle class. At the same time, investors are expected to reap gains in Indonesia through better laws and efficient policy implementation. According to the Russian Ambassador to Indonesia, Alexander Ivanov, Russian interest in Southeast Asia remains strong with investment plans in Indonesia including a railway project in Central Kalimantan involving US\$2.5 billion and opportunities for the building of smelters for processing minerals.

APEC'S POLICY CHALLENGES

Criticisms of APEC have become abundant in recent years. One issue that persists is that commitments in APEC are not legally binding. Thus, member economies are able to, and tend to, disobey the Bogor Goals because no sanctions exist for incompliant countries. Consequently, the uncertainty of this commitment drives countries towards legally binding bilateral FTAs. Speaking at the Economic Leaders' Meeting this year, trade expert Lepi T. Tarmidi noted that APEC's trade has been growing, albeit very slowly. On the other hand, non-APEC trade has been growing fast, implying that FTAs and the WTO play a more important role than APEC does in promoting trade liberalization. Furthermore, he says that "Trade between APEC countries is growing because of bilateral agreement between its members. [The success of] the ASEAN-China FTA is not the success of APEC".

However, there are also academic studies, such as one presented by Peter Drysdale at the APEC Symposium in Chiba, Japan in 2006, which confirmed that APEC initiatives have resulted in improvements in average export and import trade efficiency, thereby showing progress towards achieving its goal of a liberalized region. This could be due to member economies understanding the importance of increasing connectivity through reducing both traditional and modern trade barriers, therefore providing enough motivation to comply with APEC initiatives regardless of the pace of completion.

The progress of the TPP and the recent announcement of RCEP will inject even more competition into an already-crowded FTA bandwagon. Although this will eventually help the region achieve its free-trade area goal, countries involved more than one agreement will no doubt have their hands full trying to determine the best route to take. These new agreements have also overshadowed APEC's own initiatives which are not only not legally-binding but also constructed on a much grander scale. However, this may actually have a positive effect on the region.

While APEC Leaders state that the FTA in the Asia Pacific (FTAAP) is as a long-term goal beyond the Bogor Goals, they also acknowledge that the TPP and RCEP are parallel routes towards achieving this same goal. Fundamentally, the TPP and RCEP will stimulate developments the region from above, while APEC initiatives will help push things along from behind. Additionally, APEC's experiences in liberalization, facilitation, and capacity-building assistance in the entire Asia Pacific are extremely valuable at a time when the region faces new challenges and risks.

Another criticism aimed at APEC is that its goals are too broad and that the members' leaders may have lost their way. Indonesia, the APEC Chair in 1994 when the Bogor Goals were formulated, once again has the chance to lead by example and set forth an ambitious long-term growth strategy which goes beyond the Bogor Goals. This ascension is timely as this chairmanship comes midway between the 2010 assessment of the Bogor Goals and the next assessment in 2015. The government must prove that APEC remains relevant despite the lack of legally binding agreements. They can do that by setting concrete goals, and redefining or reinforcing the APEC vision and objective of inter-region cooperation. This will not only refocus APEC's goals for the future but it will also enhance Indonesia's prominence both domestically and internationally. While the country has already accomplished enough to become a star emergent market, it can do more to prove that it is ready to chart the way for APEC, much like the last time it was the chair. Four strategies applied domestically can be particularly useful examples:

- 1) Promoting small and medium enterprises (SMEs) and developing entrepreneurship. SMEs and entrepreneurs are vital to economies as a source of employment and innovation. Regional cooperation should be emphasized by the government to break down trade barriers while also improving education so that the flow of innovation is not hampered.
- 2) Infrastructure development as part of the APEC Public-Private Dialogue. Indonesia already has a promising PPP scheme for the region along with major plans for infrastructure development, and it can be expanded further in the areas of strong political leadership, a functioning regulatory framework, and strong long-term advisors to support PPP implementation. Setting an example for the rest of the world will give Indonesia the clout to put forth bold initiatives during its chairmanship.

- 3) Encouraging private investment in green technologies. Indonesia's efforts to deal with climate change and sustainable energy sources should prove more fruitful with the ongoing reduction of tariffs made possible by the APEC List of Environmental Goods. Utilizing one of the key deliverables from the most recent Economic Leaders' Meeting in a successful manner can go a long way towards proving that APEC's lofty goals are not overly idealistic.
- 4) Encouraging tourism. While connectivity has often been used to denote physical infrastructure, it must not be forgotten that there are other aspects, such as people-to-people connectivity in this case. Indonesia has consistently been underperforming in this sector, ranking 4th according to the official ASEAN website as of 30 June 2012, behind Malaysia, Thailand, and Singapore. There remains a large untapped potential though, and Indonesia has much to gain from reinforcing the 2010 Nara Declaration on strengthening APEC tourism cooperation. The recent modification of the slogan from its 2010 conception may prove to be the right starting point.

Since 1994, the Bogor Goals have been synonymous with APEC's trade and investment agenda. However, present conditions call for more inclusive and sustainable growth along with human resource development and innovation. The Asian Financial Crisis should serve as a grim reminder that complacency cannot be allowed to sink in and vested interests should not be allowed to overshadow the country's bright future.

The following year will put the spotlight once again on Indonesia as it attempts to create yet another milestone in APEC's history.

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