
KEY TAKEAWAYS

FPCI-GRIPS Virtual Public Forum

Indonesia and the Organisation for Economic Co-operation and Development (OECD) Membership: Weighing the Political-Economic Implications

On Tuesday, 30 January 2024, FPCI-GRIPS hosted a virtual public forum with the topic “**Indonesia and OECD Membership: Weighing the Political-Economic Implications**”, organized by Foreign Policy Community of Indonesia and the National Graduate Institute for Policy Studies (GRIPS) of Japan, and this is the fourth forum of this year’s FPCI-GRIPS Virtual Public Forum series. The distinguished speakers included **Dr. Muhammad Hadianto**, Deputy Director/Lead Coordinator for Multilateral Cooperation on Economy, Finance, and International Financial Institution Coordinating Ministry for Economic Affairs, Republic of Indonesia, **Amb. Yoshifumi Okamura**, Vice President of Ritsumeikan Asia Pacific University and Former Ambassador and Permanent Representative of Japan to the OECD, and **Shinta Kamdani**, Chairman of Indonesian Employers Association (APINDO) and moderated by **Lusia Novita Sari**, FPCI Women in Foreign Policy Fellow.

In July 2023, Indonesia officially announced its interest to join the Organisation for Economic Co-operation and Development (OECD). Approaching the end of 2023, a letter of intention from Indonesia has been submitted to the OECD Secretary General and is currently waiting for formal proceedings on the steps forward. This forum discussed about Japan's experience as an OECD member; Japan's views on Indonesia's intention to joining; what would be the benefit of Indonesia's decision to pursue OECD membership, the political and economic costs that Indonesia has to anticipate, and what OECD membership means for Indonesia’s foreign policy and posture towards certain countries and any other multilateral economic groupings.

1. Japan’s OECD membership contributes to domestic development and foreign policy.

"Everybody knows how the government, how the policy should be changed into a better one, but it is not quite easy, especially sometimes we need a really good understanding from the public opinion, the press, and political sectors to see. But OECD provides us quite good evidence and quite good guidelines. So in Japan, the domestic ministries ask the OECD for good advice on which direction Japan should go to tackle those emerging issues, and they really set up a policy, and then we provide this information to all stakeholders in the government, the political decision. So it makes things very smooth. And also, for example, the economic policies. The OECD is

providing economic outlooks, and it sometimes criticizes domestic policies or the management of the economy, and then we have to listen to that good advice.

Another very important sector is the business community's strong expectations of the OECD. And the OECD, of course, is a strong body for standard setting and rule making, but it's also a strong place to tackle emerging issues such as sustainability, Environmental, Social, and Governance (ESG), and corporate governance, IT, AI, data management, and data flow. There's no other international organization dealing with those issues. So if we are an OECD member, then we can join, and we can do the standard setting and rulemaking in this quite emerging field. So, OECD, being an OECD member, Japan really took profit from those policy decisions.” -

Amb. Yoshifumi Okamura, Vice President of Ritsumeikan Asia Pacific University and Former Ambassador and Permanent Representative of Japan to the OECD

2. How Indonesia Joining OECD Might Impact ASEAN and OECD - Often Associated as the Western rich country club

“Indonesia has chosen a very good moment on this issue (showing interest in joining the OECD). Today, the Minister of Finance just announced that he is going to Paris to chair the Ministerial meeting in May. So it is quite an important year for Japan and together with all ASEAN, Southeast Asian countries to achieve this accession issue of the OECD impact, we have Japan and Indonesia as two joint chair countries for this sell-off. And now followed by Korea and Thailand, and now Vietnam and Australia are really working very hard to push this membership of Southeast Asian countries to the OECD. So it's a really big, big trend that comes from our joint effort.

And going to that question, we have to take note that now that Asia is more and more important in the international world economy, the Asian countries—not only the Southeast Asian countries, but China and India—are going to be quite a big motor for the development of international trade and the economy. So Asia is more and more responsible for the management of the world's economies. And I think that we (Asia) really need to be keen, not just on the follower but also on the leader of the international world. And in that sense, traditional leaders of the world economic order—I mean Europeans and Americans—are asking themselves whether the basic rules are really workable or not. And I really look forward to working together with other Asian countries to provide a new way of thinking to approach those world issues.” - **Amb. Yoshifumi Okamura**, Vice President of Ritsumeikan Asia Pacific University and Former Ambassador and Permanent Representative of Japan to the OECD

3. Adjustments made by Japan to join OECD

“The accession of Japan to the OECD was 63 years ago. So I don't have any background information about the difficulty that Japan was having at the moment. The other important conflict inside the OECD is that EU countries are the majority of the OECD countries, and the EU's policy-making process is quite strong and they are quite dominant. And 22 out of 38 countries are European, and they just do everything in Brussels and present their decision-making to Paris. We need an alliance of non-European countries to deal with such issues. For example, the climate change issue and the decarbonization issue. Those are really tough questions, and we just want to provide a different point of view, but European countries are so strong that they have already done this and that in Brussels. So in Paris, Japan has quite a difficulty joining this EU-led policymaking process.” - **Amb. Yoshifumi Okamura**, Vice President of Ritsumeikan Asia Pacific University and Former Ambassador and Permanent Representative of Japan to the OECD

4. On BRICS

“Well, you see that we are now really talking about this issue (BRICS). But Brazil is now a strong candidate for the OECD members, as well as for Indonesia. And many of the BRICS agenda items are not quite going well, but we really see that the OECD should be there. We want to have a quite good outcome in global policymaking. If BRICS (countries) just come to join the OECD, that is quite a good thing. I think that there's quite a good way to solve global issues such as climate change, digitalization, how to handle the data flow, etc. Well, I believe that we can work together.” **Amb. Yoshifumi Okamura**, Vice President of Ritsumeikan Asia Pacific University and Former Ambassador and Permanent Representative of Japan to the OECD

5. OECD membership's political benefits and risks.

“Indonesia will be the only country in the G20 that is a member of four prominent multilateral or global economic forums at the same time (i.e. ASEAN, APEF, G20, and OECD).

The OECD will support the 'Indonesia Emas 2045' vision by providing a roadmap to escape the middle-income trap and achieve high-income status. This includes assisting Indonesia's Middle-Small-Medium enterprises (MSMEs) in integrating into the global supply chain and enhancing the quality of Indonesia's human resources through the implementation of policies and standards in the fields of education, public service, and health.

Becoming an OECD member would assist Indonesia in aligning with globally and internationally agreed-upon standards for policy and regulatory reform. This alignment encompasses various sectors, including taxation, the digital economy, small and medium enterprises, as well as food security and agriculture.

“Anti-corruption environment, gender and climate is one of the most challenging policy adjustments to the OECD standards that Indonesia needs to make. I think the rules of the game at the OECD is that if you want to become an OECD member, you have to have a unanimous decision out of the 38 countries. But I personally don't think, and this is echoing what my minister, Erlang Lartarto, mentioned in various opportunities, that bilateral issues are not criteria for joining and should not impact opening accession discussion for Indonesia. OECD is basically a policy discussion forum to set better standards for countries joining and I don't see this should be a tit-for-tat with our bilateral issues with countries that we don't have a diplomatic relationship with (Israel).” - **Dr. Muhammad Hadianto**, Deputy Director/Lead Coordinator for Multilateral Cooperation on Economy, Finance, and International Financial Institution Coordinating Ministry for Economic Affairs, Republic of Indonesia

“Even in the topic of anti-corruption, this is something that we really have a long way to address to provide a policy that can be more effective. With our trade policy of wanting to expand our downstream industry and so forth, a lot of the trade policies that are coming out now from Indonesia may seem to also be a bit more protectionist, and I think this is something that we really need to pay attention to while we are addressing our accession to OECD.” - **Shinta Kamdani**, Chairman of Indonesian Employers Association (APINDO)

6. Indonesia's readiness to become OECD member

“I believe it's not solely about Indonesia's level of preparedness, but rather, once a political decision is made, Indonesia must commit to it. The international community assesses a country not merely by the words it utters but by the actions it takes and the level of commitment demonstrated. Joining the OECD provides Indonesia with the opportunity to understand the desires of developed countries and how they have reached their current stage of development. Additionally, we can learn from their mistakes, errors, and policy missteps.

During Indonesia's accession process to the OECD, the standards that the country must adhere to can be discussed in parallel. The OECD Secretariat will not impose the requirement for Indonesia to comply with specific standards as a precondition for full membership; instead, these discussions can proceed simultaneously. To align national policies with OECD standards, we aim

to examine another form of omnibus law designed to streamline various policies at the national level.” - **Dr. Muhammad Hadianto**, Deputy Director/Lead Coordinator for Multilateral Cooperation on Economy, Finance, and International Financial Institution Coordinating Ministry for Economic Affairs, Republic of Indonesia

“We all know OECD has numerous standards and guidance on economic and business practices, goods, and services that are globally acceptable, so the more Indonesia adheres to such standards, even beyond the requirements, the higher the investment rating, export competitiveness, product standard, and greater market access of Indonesia’s good and services that can be tapped into. I think we also know that OECD is a club of rich countries, which are major sources of global FDI and big buyers or importers of global goods and services. So the more competitive Indonesia may seem in the eyes of big buyers and global investors in OECD, the easier it would be for Indonesia to attract quality investment and to tap into the global value chain.” - **Shinta Kamdani**, Chairman of Indonesian Employers Association (APINDO)

7. Trade fairness

“The fundamental aspect of the trade relationship between Indonesia and both the EU and the US revolves around mutual respect. It is crucial for both parties to acknowledge and respect each other's positions, avoiding any form of rating or derogatory comments about one another.

Through the European Union Deforestation Regulations it suggests implementing a rating mechanism, particularly targeting countries with perceived high deforestation rates, does not align with the principles of mutual respect in international trade. Such measures, whether multilaterally or unilaterally enacted, fall below the expected standards.

The key point here is how Indonesia and its trading partners can establish mutual respect for each other's national regulations. It's essential to view this from different perspectives, recognizing Indonesia's aspiration to become a developed country.

Becoming an OECD member could potentially enhance our trade relationship with Western partners. However, the paramount factor should be the establishment and maintenance of a sense of mutual respect between all parties involved.” - **Dr. Muhammad Hadianto**, Deputy Director/Lead Coordinator for Multilateral Cooperation on Economy, Finance, and International Financial Institution Coordinating Ministry for Economic Affairs, Republic of Indonesia

8. Protecting MSME in an open market

“One of the challenges of the Indonesian MSMEs, apart from getting financial support, is, of course, facing barriers to internationalization and accessing new markets globally. So, strengthening this part of the economy could support workers and businesses throughout Indonesia for them to make a better living, better revenue, higher income, and higher wages.” - **Dr. Muhammad Hadianto**, Deputy Director/Lead Coordinator for Multilateral Cooperation on Economy, Finance, and International Financial Institution Coordinating Ministry for Economic Affairs, Republic of Indonesia

“First of all, we know that small-medium enterprises are 97% of our economy. When we talk about Indonesia, we have to look at who are the stakeholders, and from the business side definitely small-medium enterprises have to be put into consideration. So I have to say that the cost-benefit analysis needs to be done properly, and this should include the business sector. Many are still not clear on this. We need to do more socialization, and this is part of our work as well in Indonesian Employers Association (APINDO) as well as Indonesian Chamber of Commerce and Industry (KADIN), on how we can socialize more and bring all the necessary actors.

The point is when we talk about the details. For example, we have done the reform, the policies have been created, but we know that implementation still has a lot of challenges, so there’s definitely a gap. So this is all interrelated on the readiness, both from the government side in creating the policies as well as actually being able to execute it, and from our side. Definitely we’ve seen a clear benefit, but I think this has to be translated into a much clearer picture on a more cost-benefit analysis of what accession to OECD means. And this, especially for businesses, we are ready to do because we definitely want to know how this is going to impact all the different levels, the big businesses and including the small-medium enterprises.” - **Shinta Kamdani**, Chairman of Indonesian Employers Association (APINDO)

9. Another Omnibus law expedites adjustment process to OECD standard.

“About the omnibus law, I’m going to need some help from Ibu Shinta on this. But, you know, we are just envisioning that in order to become an OECD member, a similar practice to omnibus law might be needed. But this time around, I think what we need to handle carefully or handle rightly is how we engage multiple actors in the process. Apart from the substance itself, I think the process can also be substantial. So, you know, we are not rushing. Yeah, OECD membership needs patience. We need to carefully identify the sectors and the policy issues that need to be reformed and that can help, that are considered as key issues by the OECD members that can help expedite Indonesia’s recognition to become an OECD member.” - **Dr. Muhammad**

Hadianto, Deputy Director/Lead Coordinator for Multilateral Cooperation on Economy, Finance, and International Financial Institution Coordinating Ministry for Economic Affairs, Republic of Indonesia

10. The OECD membership's impact on Indonesia's economic diplomacy and international trade

“I think when we talk about the middle income trap specifically, it's a phenomenon that we also have to be vigilant about, and joining the OECD can be instrumental in steering clear of its pitfalls. It also provides a roadmap for sustainable economic growth, innovation, and development of human capital.

OECD membership accession will require and assist Indonesia to align our domestic law, policy, and regulation in a wide range of governance areas with OECD policy and standards. And should Indonesia enter a disagreement, there would be a roadmap for a rigorous domestic reform in various aspects of domestic legislation, policies, and practices including trade and investment. It will still be up to Indonesia, though, whether or not to keep a certain restrictive measure in trade and investment. However, with the OECD accession process itself in place, whether restrictive measures by Indonesia may need to be kept, the OECD will assist Indonesia to ensure that such measures (restrictive policy on exporting raw material) is decided in such a way that are considerably more acceptable to OECD policy guidelines and consequently become more acceptable to OECD member countries than they are now. So I would say OECD accession can give Indonesia better positioning in its economic diplomacy on primary commodities than it is now.” - **Shinta Kamdani**, Chairman of Indonesian Employers Association (APINDO)

11. Indonesia's key issues that need to be tackled when becoming an OECD member

“We businesses really believe that what we need to prioritize are fundamental issues for improving the investment climate. This is related to anti-corruption, transparency, and governance, which are universally required by businesses domestically and international partners from OECD countries that will invest in Indonesia. The interplay between anti-corruption and governance is pivotal to improving credibility or trustworthiness. I think the predictability and certainty of Indonesia's investment climate and effective governance rely also on policies, accountability, and ethical conduct, and corruption undermines these principles.

I think the Paris Agreement became a signal to all actors for their serious actions, strong commitment, and collective efforts to achieve Greenhouse Gas (GHG) emission reductions. I think consequently, it is crucial for nations to intensify their efforts to realign with appropriate trajectories. So climate action has become one of the five fundamental aspects of APINDO

economic road map. And I think recommendation of adoption of SDG and ESG by businesses and the development of green industries is very important.

The third issue that I would like to also prioritize is of course the future of work. This also needs to be prioritized due to the fundamental transition towards technology. I think this is related to the current low level of human resource conditions. We have low-skilled workers, and given this situation, there is a need for acceleration in the transition. So understanding the changes that Industry 4.0 and Society 5.0 will bring to Indonesian businesses is very, very crucial. So we talked about digital transformations and so forth; this includes the digital technologies and automation that companies will adopt, the jobs that will grow in the future, the skills needed for the job, and how to develop these skills. So businesses see there is definitely a shift in terms of the types of jobs that are needed in the future, and we would also like to demand and prioritize different sets of skills from the employees.

As we know, right now, the absorption of jobs has also reduced significantly in Indonesia. we have shifted in the last 7 years from the labor-intensive to the capital-intensive, so investments. So this kind of thing, I think, has become very, very crucial for Indonesia.” - **Shinta Kamdani**, Chairman of Indonesian Employers Association (APINDO)