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Development strategies in a globalized world: Growing domestic and regional demand for balanced and sustainable growth

Speaker: Indonesia

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DRAFT STATEMENTS BY
DEPUTY PERMANENT REPRESENTATIVE OF INDONESIA
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FOR ITEM 8: DEVELOPMENT STRATEGIES IN A GLOBALIZED WORLD: GROWING DOMESTIC AND REGIONAL DEMAND FOR BALANCED AND SUSTAINABLE GROWTH
TUESDAY, 17 SEPTEMBER 2013

Mr. President,
Excellencies,
Distinguished delegates,
Ladies and gentlemen,

At the outset, my delegation wishes to associate itself with the statements made by the H.E. Ambassador Miguel Carbo Benites of Ecuador on behalf of the G-77 and China and H.E. Ambassador Mohammed Sabir Ismail of Iraq on behalf of Asian group.

Mr. President,

The feeble signs of economic recovery may merit our welcome, but we also need to retain our guard, since signs of fragility are still looming on the horizon. According to the WTO, the global trade is expected to grow by 2.5 percent this year and 4.5 percent in 2014, against the previous estimates of 3.3 percent and 5 percent in 2013 and 2014 respectively. Trade and Development Report 2013 highlighted that the rate of the world output in 2013 will remain the same, at 2.2 percent, as in 2012. It commands our attention, since the crisis has significantly reduced various countries' capability to withstand further shocks.

Mr. President,

Trade is one of the strategic modalities to winch ourselves out of the crisis. In doing so, we need to equally focus on its 2 (two) main variables, which are goods and finance. This year's Trade and Development Report suggests, *inter alia*, that Governments need to control financial markets more resolutely than in the past and limit its power over national, regional and global economies.

It is therefore important to continue pursuing analytical work on the role of the state *vis a vis* financial market, as an integral part of our studies to search for new models and approaches toward development. We need to devise systems that provide sufficient flexibility for countries to adopt policies that work for them, given their unique priorities, challenges, and circumstances. In other words, we need to give countries a sufficient policy space to steer clear of trouble, both current and potential.

Mr. President,

Preventing the recurrence of a crisis is also of our most crucial priorities. For Indonesia, the multiple financial shockwaves in the third quarter of the previous decade once again rings a bell of distress, bringing the grim recollection of 1997/1998 Asian Financial Crisis. It reminded us once again on the urgent need to reform the international financial regime and architecture, to enhance the governance and surveillance over the financial market, as well as ensuring its proper functioning as facilitator of trade and development. Not the contrary. This is of the most critical importance, if we are to achieve the post 2015-Development Agenda, which is very near and dear to developing countries.

Mr. President,

Please allow me now to briefly explain on the current state of Indonesian economy. We are now experiencing a rather difficult situation, where an outflow of fund is significantly altering our economic equilibrium, particularly in terms of currency rate and stock market index. This in turn leads to more psychologically driven outflow of fund, due to anticipation of further depreciation in equity prices and in the domestic currency itself.

In order to reverse the economic slowdown, on 23 August 2013, Indonesian government launched **development strategies** which is called "a package of economic stimulus", including tax holiday and easing of investment licenses. Our government has also revised its GDP growth estimate from 6.3 to 5.9 percent this year. The new policy package is aimed at maintaining sustainable economic growth, managing the current-account deficit, and recovering the weakening IDR, as well as stimulating the domestic demands.

We are thankful that despite the current slowdown, the Indonesian economy is still expected to deliver its promising growth, thanks to the following factors. **First,** the outflow of fund is consisted more of income repatriation, instead of capital outflows. The ratio of foreign direct investment (FDI) to gross domestic product (GDP) in 2013 is 3.2 percent, which is on par with the ratio before the Asian crisis. **Second,** unlike at the beginning of the crisis period when the Indonesian economy heavily relied on external funding, Indonesia is currently less dependent on debt. The ratio of debt to GDP has steadily decreased from 61 percent in 2004 to 25 percent in 2012, and is expected to further decrease to 23 percent by the end of 2013.

Mr. President,

Regardless of whether the slowdown will persist for a prolonged duration or not, the recent crisis gave us two lessons. **First**, that there is no economy is external shock-free. **Second**, decisions taken by countries based solely on their own national interest may inflict serious implications for other countries.

On the other hand, while it is true that the market will always be looking to invest in countries with higher real yields, but in the long run, market sentiments are nevertheless still based on the solid fundamentals. Therefore, building strong macroeconomic fundamental, adaptive structural reforms, and prudent regulatory regimes, will never cease to be a priority.

Last but not least, all those measures should also be coupled with global and regional monetary policy coordination, as they are important for the sustainability of this process.

I thank you.