



# 60<sup>th</sup> Anniversary of UN Trade and Development (UNCTAD)

Global Leaders Forum

## **Spotlight intervention**

by

Mahendra Siregar

Chief of Financial Services Authority of Indonesia

13 June 2024

## GLOBAL LEADERS FORUM FOR CELEBRATING UNCTAD'S 60 ANNIVERSARY

### èCHARTING A NEW DEVELOPMENT COURSE IN A CHANGING WORLD: REFLECTION BY A HIGH-LEVEL PERSONALITYè

Geneva | 13 June 2024

Excellencies, Ladies and Gentlemen

Good afternoon to all of you

From the outset, I wish to thank UNCTAD for the opportunity to present at this forum. Over the years, Indonesia has appreciated the support of UNCTAD that has provided guidance to developing countries on trade within the multilateral framework. It is also pleasing to note that UNCTAD is aware of the need to plot a new course in an ever-changing world.

In my capacity as Chairman of the Indonesian Financial Services Authority (FSA), I will present the main elements of sustainable financing from the perspective of Indonesia. However, before doing so, I would like to take this opportunity to offer a number of observations on recent developments of concern towards adjusting to a new development course.

#### General Observations

1. The paradigm of developed and developing countries in the emerging South and the related transfer of knowledge is receding into the past. There is as much to learn from developing economies as developed; - and indeed there are also policies in both that we should encourage, and in some instances or perhaps many instances, steer well clear off.
2. While the narrowing of the gap is largely economic in nature, it also reflects a relative decline in the most advanced nations, as well as the emergence of very capable human resources in the global South. In summary, there are very few countries that wish to be dictated to and

in contrast are able to provide their own suggestions and guidance on the future of a global economy.

3. As a result, models of trade and development that were largely promoted from the most advanced economies are increasingly under close scrutiny; in particular, whether the global models being offered can underpin meaningful economic growth that can lead to the global eradication of poverty. During the Uruguay Round, there was a general consensus that this Round would help developing economies, a form of 'win-win' formula. In this context, I have two observations to make:
  - a. I believe that the reduction of tariffs towards seamless trade was intended to encourage the international division of labor but developing countries have faced increased barriers to trade as soon as a level of competitiveness has been achieved. As an illustration, the crucial importance of moving to value added, in particular downstream development of commodities in developing countries almost inevitably faces challenges by a number of our major trading partners.
  - b. The multilateral framework was largely developed by those economies that had already reached a level of prosperity and to an extent, it has been developed to protect that prosperity. If we are to support the multilateral rules-based order, it should reflect the needs of developed and developing countries based on genuine mutual interest. And, while this would require recalibration, it should be undertaken by task forces that have equal representation from the developed and global south. Otherwise, new structures will be developed in the multipolar world and trade will - and is - becoming more fragmented as a consequence.
4. In charting a new course, we should be mindful to avoid basing policy on narratives. As an illustration, while I believe we all share the common goals of greening our economies, we should ensure that our industrial base and consumers are able to absorb the additional costs that this entails; and ensure that subsidization avoids developing technologies that are not supported in the marketplace.

5. The optimum allocation of resources should be channeled on a global, regional and national basis is essential if we are to eradicate poverty and meet the aspirations of our respective populations. Resources should be channeled towards meeting the UN SDG 2030 goals in that economic and social progress is the key to ensuring that the challenges we face can be met, to include the environment.

## General Indonesian Policy

These general observations increasingly underpin Indonesian policy; and if I may, I would like to refer to a number of these guidelines:

1. While we support the multilateral trading system, it needs recalibration and rebalancing to provide a framework that emerging economies can continue to progress and meet the aspirations of our peoples. We face the middle-income-trap challenge.
2. As we move into a multipolar world, Indonesia along with many other countries seeks to become increasingly more self-reliant. This self-reliance finds expression in terms of securing our energy and food security; processing value added from our natural resources; and setting priority on national and local economic growth engines.
3. Within this policy framework, Indonesian economic growth is targeted above which is essential to meeting social goals that include:
  - a. The eradication of poverty
  - b. Providing health and education to encourage human capital development; and
  - c. Addressing inequalities in our society by improving the allocation of resources towards those individuals, ideas, projects and programs that are practical and contribute to an efficient and expanding marketplace in Indonesia.
4. At the global policy level, Indonesia respects commitments made, and we are, for example, on target to meet the Paris Climate Accord by 2030 largely as a result of the forest management program, Forestry and

Land Used (FOLU). As mentioned, we attach considerable importance to UN SDG goals which in our view is the vehicle to ensure a well-balanced progressive society that delivers economic and social progress while safeguarding the environment. In this respect, it is important to understand that environmental concerns are considered as a luxury for those that live from day to day.

5. While we acknowledge the need to transition to a greener economy, it has to be a gradual process as it is unrealistic to abandon fossil fuels. And established distribution and transmission systems that deliver competitive energy to industries that generates jobs, and provides government with essential tax revenues to improve the livelihood of our peoples.
6. To the extent possible, self-sufficiency in energy is essential to all economies. The recent deindustrialization noted within Europe is partly attributable to the erstwhile dependency on cheap sources of fossil fuel. The livelihood of our respective populations also depends on securing energy supplies at affordable prices. For example, we have seen in many societies the pressure that grows, especially in the agricultural sector, related to the rise in diesel fuel prices.
7. In this respect, in order to move our industrial base downstream to value added, we need to exploit all our natural energy resources to ensure that we are able to match demand and supply within our existing energy infrastructure. And this by necessity requires a broad-based approach to include the exploitation of both fossil fuels and renewable energy though we are mindful of the balance between the two and the related need to meet our commitments. It is also important to note that measuring effective CO<sub>2</sub> emissions also depends on developing own resources as imports of energy generates emissions elsewhere.
8. Self-sufficiency for agricultural products is a major driver for Indonesia. During the late 1990s, Indonesia's model of development was largely based on a leap towards advanced industrialization while relying on imports of foodstuffs from countries considered to have a comparative advantage.

9. However, as our population has grown and bearing in mind the international vagaries of supply and demand, Indonesia increasingly strives for self-sufficiency in key staple commodities.

## Sustainable Financing

In my capacity as Chairman of FSA, I will now turn to the issue of sustainable financing, upon which I would comment as follows:

1. We define sustainable financing as the ability to generate economic growth within a balanced government budget, which requires a gradual transition towards a greening economy within the framework of SDGs. The two are intertwined in that strict fiscal policies provide the discipline to be careful in the choice and the pace of developments.
2. While this is our target, we are of course susceptible to the vagaries of the international financial system. In this context, the loose fiscal policy of a number of our trading partners, that tends to export inflation, along with the trade problems that arise from the multilateral trading system, encourage the drive towards self-reliance which in our case is to generate economic growth based on industrialization. We seek a broad-based economy optimizing vertical integration balanced with increasingly domestic supply and demand chains. We can harness abundant raw materials and add value by developing downstream covering products such as palm oil, petrochemicals, nickel to battery, steel, etc.
3. In particular, the importance of bio fuels from palm oil that would save up to 12 billion USD a year in foreign exchange by reducing the need for oil imports; and while palm oil has often been vilified, we consider this commodity and related downstream value added, as essential to meeting the goals of SDG 2030. Amongst others it generates jobs often in areas that have no other employment; support small holders, helps develop health and education facilities; and furthermore, shows responsibility to the environment by developing sustainable palm oil;

4. A vibrant industrial economy which is based on the comparative advantage of our own raw materials is attracting considerable investments; and we are in many respects diametrically opposed to economies of a number of our trading partners that are in the process of deindustrialization to meet the greening economy.
5. This does not mean that we ignore environmental targets, but we need a healthy economy to provide the tax revenues that allows for investments to a greening economy. As a result, OJK has developed an Indonesian taxonomy on Sustainable Finance that takes account of the need for a gradual transition. While we adopt benchmarks from the ASEAN taxonomy, we avoid reference to the system of green, amber, and red (the latter would include coal), but instead we focus on green industries and the rest are in transition.
6. The taxonomy has been generally well received by the Indonesian Industry and it provides a guideline for the banking sector. As far as the banking sector is concerned, we emphasize the need to ensure that green investments are bankable, and we mean generating profit.
7. The concept of bankable projects is key in that Indonesia does not have the privilege of loose fiscal policies to subsidize sectors in the hope that they will become profitable in the distant future. At the international level, we are aware of the growing challenges that are being faced in the case of wind power. In order to meet our environmental goals, we should ensure RE technologies are viable and profitable and deliver competitive energy to our Industries.

#### Concluding remarks

While Indonesia supports the concept of a multilateral ruled based order, its credibility is already being undermined. It needs to be reviewed with a very prominent role to be played by the global South. To the extent that this trading system can contribute to the eradication of poverty at the global level, it should be modeled to ensure that the international division of labor and optimum allocation of resources as drivers are allowed to develop.

Sustainable finance should be based on fiscal discipline and the unfettered subsidization of new technologies that are not viable in terms of the marketplace, not only distort the global economy, contributes to the generation of inflation, but it also serves to undermines the long-term drive to a greener economy.

The UN SDG 2030 should underpin any new courses undertaken and to the extent possible be promoted in a future review of the multilateral ruled based order. Thank you

(Mahendra Siregar, 13 June 2024)