

**THE POLITICAL ECONOMY OF TRADE LIBERALIZATION  
AND APEC GLOBAL AGENDA 2014:  
AN ANALYSIS FROM INDONESIA PERSPECTIVE**

**EKONOMI POLITIK DALAM LIBERALISASI PERDAGANGAN  
DAN AGENDA GLOBAL APEC 2014:  
ANALISIS MELALUI PERSPEKTIF INDONESIA**

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**Abstract** – The 25 years of APEC shows a positive correlation between trade and economic growth. The strong correlation makes APEC seen as a future core of economic power and potential to be a global leadership in the development of international norm, rules, and cooperation. International political economy concerns to how scarce resources are allocated to different uses and distributed among individuals through the process of decentralized market. It also refers to the handling of issues related to cross-national boundaries and relationships between two or more than two countries through a complex political process involving a country, bilateral relations between the countries, international organizations, regional alliances, and global agreements. In globalization era, improving quality of human resource and sustainable growth is required. However, under the pressure of the international competition, Indonesia poses a number of new challenges, economic as well as political. The Indonesian economic challenge is in investment in commercial infrastructure to support greater connectivity. The new vision to be the world maritime axis has been promoted from the President Joko Widodo. It is the momentum for Indonesia to take advantage from the APEC global agenda to strengthen Indonesian role in sustaining national, regional, and international economic growth through infrastructure development in maritime sector.

**Keywords:** APEC, connectivity, regional integration, maritime axis, trade liberalization, globalization

**Abstrak** – Setelah 25 tahun, APEC menunjukkan korelasi positif antara perdagangan dengan pertumbuhan ekonomi. Korelasi yang kuat membuat APEC dilihat sebagai inti kekuatan ekonomi di masa depan dan berpotensi menjadi pemimpin global dalam pengembangan norma, aturan, dan kerjasama internasional. Ekonomi politik internasional berfokus pada bagaimana sumber daya yang langka dapat dialokasikan antar individu melalui sistem pasar yang terdesentralisasi. Ekonomi politik internasional juga mengacu pada isu-isu yang berkaitan dengan lintas batas nasional dan hubungan antar dua atau lebih negara melalui proses politik yang kompleks – melibatkan negara, hubungan bilateral, organisasi internasional, aliansi regional, dan perjanjian global. Presiden Joko Widodo telah memaparkan visi Indonesia agar menjadi poros maritim dunia. Di era globalisasi, diperlukan peningkatan kualitas sumber daya manusia dan pertumbuhan yang berkelanjutan. Namun, di bawah tekanan dari kompetisi internasional, Indonesia memiliki

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sejumlah tantangan, baik ekonomi maupun politik. Tantangan ekonomi Indonesia yaitu dalam investasi di bidang infrastruktur untuk mendukung konektivitas sebagai poros maritim dunia. Saat ini merupakan momentum bagi Indonesia untuk dapat mengambil keuntungan dari agenda global APEC 2014 dalam memperkuat peran Indonesia dalam mewujudkan pertumbuhan ekonomi berkelanjutan pada level nasional, regional, dan internasional melalui pembangunan infrastruktur di bidang maritim.

**Kata kunci:** APEC, konektivitas, integrasi regional, poros maritim, liberalisasi perdagangan, globalisasi

## Introduction

In the last 25 years, Asia has increased significantly in economic sector, such as integration, foreign direct investment (FDI), and its member economic growth. The Asia Pacific Economic Cooperation (APEC) forum has contributed to a rise of economic prosperity to almost 40 percent of the global population, approximately 58 percent of world GDP and 44 percent of world trade that belongs to APEC economies.<sup>2</sup> Since 1989, APEC members have seen a ten percent reduction in applied tariff rate and trade grows to 20 trillion USD. In the future, APEC will be the core of economic power and potential to be a global leadership in the development of international norm, rules, and cooperation. This prediction is based on the significant growth of regional integration, reduced barriers, rising of supply and production chains, FDI, and free trade agreement. Before the establishment of APEC, there were no meetings in regional cooperation. It was specific organization that has no sense of global and fragmented.<sup>3</sup>

The idea of APEC was firstly publicly broached by former Prime Minister of Australia Bob Hawke during a speech in Seoul, Korea on 31 January 1989. Ten months later, 12 Asia-Pacific economies met in Canberra, Australia to establish APEC. The founding members were: Australia, Brunei Darussalam, Canada, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and the United States. China, Hong Kong, China and Chinese Taipei joined in 1991. Mexico and Papua New Guinea followed in 1993. Chile acceded in 1994. And in 1998, Peru, Russia and Vietnam joined, taking the full membership to 21. Between 1989 and 1992, APEC met as an informal senior official and

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<sup>2</sup> "Fact Sheet: 22nd Annual APEC Economic Leaders' Meeting". (n.d.), <http://www.whitehouse.gov/the-press-office/2014/11/11/fact-sheet-22nd-annual-apec-economic-leaders-meeting>, retrieved November 11, 2014.

<sup>3</sup> Charles E. Morrison, "the Asia-Pacific Cooperation Agenda: Moving from Regional Cooperation toward Global Leadership", *Institute of Southeast Asian Studies*, 116, p. 1-5.

Ministerial level dialogue. In 1993, former United States President Bill Clinton established the practice of an annual APEC Economic Leaders' Meeting to provide greater strategic vision and direction to cooperation in the region.

Under the chairmanship of Chinese President Xi Jinping, APEC Leaders committed to a number of concrete actions under China's broad priorities of: 1) advancing regional economic integration; 2) promoting innovative development, economic reform, and growth; and 3) strengthening comprehensive connectivity and infrastructure development. The United States and APEC members support these goals through pursuing free and open trade, establishing regional scholarships, increasing capacity in disaster preparedness, and many other areas of cooperation.<sup>4</sup> APEC will be adopting the APEC Connectivity Blueprint, aimed at strengthening physical, institutional, and people-to-people connectivity by taking agreed actions and meeting agreed targets, with the objective of achieving a seamless and comprehensively connected Asia-Pacific. President of Republic of Indonesia, Joko Widodo has set a vision to make Indonesia as world maritime axis. An analysis of the data shows that the APEC region is indeed one of the most vibrant dynamic in the world. Trade growth has been increasing in importance as a component of GDP. Since, the APEC was established in 1989, such liberalization policies occurs that led to the globalized world of today.

APEC has seen as an important role in promoting Asia-Pacific trade and investment. Economically Asia-Pacific is highly integrated, due to the economic complementarity of the member economies and the utilization of the supply-chain model of production and trade. This had to be the correct business model, as is obvious to everyone in that the APEC economies have all become much larger today compared to two decades ago.<sup>5</sup> The increase in wealth of the APEC member economies—especially in Indonesia — poses a number of new challenges, economic as well as political. The Indonesian economic challenge is in investment in commercial infrastructure to support greater connectivity. This requires cooperation in the development of the capital market in order to properly manage savings for investment, and in the utilization of

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<sup>4</sup> “Fact Sheet: 22nd Annual APEC Economic Leaders' Meeting. (n.d.)”, op.cit.

<sup>5</sup> N. Akrasanee, “APEC after 25 Years: A Look Backward and Thought Forward”, *The Jakarta Post*, November, 24<sup>th</sup> 2014, <http://www.thejakartapost.com/news/2014/11/11/apec-after-25-years-a-look-backward-and-a-thought-forward.html>, retrieved November 29, 2014.

infrastructure development (Akrasanee, 2014). The APEC global agenda, especially on connectivity should be concerned by the government. With the President Joko Widodo's statement who want to make Indonesia as a world maritime axis, this paper will examine:

- The linkage between APEC 2014 agenda and Indonesian vision to be the world maritime axis;
- How Indonesian government should react and take actions that may lead the national, regional, and international economic sustainability?
- How the government should learn from ACFTA implementation related to APEC Blueprint Connectivity?

## **Theoretical Framework**

### **International Political Economy**

The absence of the state, mechanisms and market forces will determine economic activity. This will be a purely economic phenomenon. In contrast, if markets absence, the state itself will allocate economic resources. The relative influences of the state or the market provide changes over time and in different environments. According to Gilpin, the term political economy has ambiguity. Adam Smith and the classical economists use to interpret what is now called economics. More recently, a number of experts as Garu Becker, Anthony Downs and Bruno Frey define political economy as a formal application of economic methodology called rational actor models, for all types of human behavior.<sup>6</sup>

Other experts use the term political economy is the definition of the use of special economic theory to explain social behavior, game, collective action and Marxist theory. While other experts use the term to refer the political economy problems generated by the interaction of economic and political activity. Gilpin termed political economy to indicate a series of problems that were examined with a complete mix of analytical methods and theoretical perspectives. While the focus are between human activities, state, and market. Georg Hegelian Philosophy of Right has examined the relationship between state and market. Charles Lindblom (1977) proposed "exchange" and

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<sup>6</sup> Robert Gilpin, *The Political Economy of International Relations*, (New Jersey: Princeton University Press, 1987), p. 8.

"authority" as the main concept of political economy. Peter Blau (1964) using the "exchange" and "coercion"; Charles Kindleberger (1970) and David Baldwin (1971) refers to the "power" and "money"; Klaus Knorr (1973) utilize the term "power" and "richness". While Oliver Williamson (1975) in contrast to using the term "market" and "hierarchy", Richard Rosecrance (1986) contrasts between "market" and "territoriality".<sup>7</sup>

The political economy of the new emphasis on the view that the market failures were less damaging than state failures. Market failure is not too dangerous when compared with state failure. On the other hand, the intervention is done by "predatory state" with "magic of the market place" will certainly make the situation worse. Indeed, government policy will clearly identify the advantages and disadvantages. Although the relevance of the original purpose of the state is to support the market through public policy, state intervention will only aggravate the situation or circumstances rather than fix it.

The world is a complex place that associated with a variety of elements that influence each other. Started from individual level, the political-economic elite from national to international levels create complex interactions. Cross-border contact with different values and interests lead to various problems. International political economy concerns to how scarce resources are allocated to different uses and distributed among individuals through the process of decentralized market. It also refers to the handling of issues related to cross-national boundaries and relationships between two or more than two countries through a complex political process involving a country, bilateral relations between the countries, international organizations, regional alliances, and global agreements.<sup>8</sup>

### **The Political Economy of Regional Integration and Trade Liberalization**

The movement toward economic regionalism and regional trade was accelerated in the mid 1980s and produced an impact on the shape of world economy. New regionalism had much significance for the world economy. The new regionalism involves economic

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<sup>7</sup> Robert Gilpin, *Ibid*, p. 8.

<sup>8</sup> David N Balaam and Michael Veseth, *Introduction to International Political Economy*, (New Jersey: Prentice Hall, 1997), p. 4.

integration and FDI. The initiatives in develop regional free trade area had been followed by multilateral trade negotiations. The European Single Market Act (1986) triggered the “new regionalism” and stimulated development of other similar efforts. In Pacific Asia, Japan intensified its own efforts to create and lead a regional economy. The expanding movement toward regional integration can be characterized as a “security dilemma”.<sup>9</sup>

In Europe, market-driven regionalism has increase Europe’s international standing and strengthening its bargaining position. In Pacific Asia, political consideration played significant roles in integrating the economy. Pacific Asia and North American regionalism do not have common market and only have few formal institutions. In contrast, Western Europe has created an integrated political/ economy entity that established an external tariff and highly institutionalized.

Unilateral liberalization is the preferred policy in economic theory. Several factors can explain governments’ failure to practice free trade. Governments are lacking in knowledge, unaware of the purported benefits of trade liberalization. Governments keen to reject of the accompanying policy. These objections based on economic theory on government that give higher priority to non-economic objectives than to the purported gains to be made from trade liberalization. Neoclassical economic theory allows several other exceptions to the prescription of free trade.<sup>10</sup>

## **Neo-Liberalism**

Neo-liberal appeared in the late 1970s, this understanding upholds the free market and private enterprise and state crime in intervenes the market. This understanding then heard by the two leaders, the British Prime Minister-Margaret Thatcher and US President-Ronald Reagan. The paradigm of this understanding are government intervention in the economy is the main cause of the disorder, and the best way to control the level of economic activity is through monetary policy. Inflation is basically regarded as a monetary

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<sup>9</sup> Robert Gilpin, *Global Political Economy: Understanding the International Economic Order*, (New Jersey: Princeton University Press), p. 342.

<sup>10</sup> John Ravenhill, “APEC and the WTO: Which Way Forward for Trade Liberalization?”, *Contemporary Southeast Asia*, Volume 21, Number 2, August 1999, p. 220.

phenomenon, and can be controlled through tight monetary policy (restrictive monetary policy).

The essence of this new thinking is the objective of poverty reduction and economic growth will be better if the restriction of the role of the state is applied and replaced by the dependence of the economy and market forces and private companies. Structural Adjustment Policies will be very important for many countries and is an important element for their liberal economic policies. Structural Adjustment policies should be applied if the purpose is to reduce poverty and create a better integration in the era of globalization.

Liberalization and globalization transformed into a new civilization that inspired the world community to make a fundamental change in the pattern of relationships between individuals, companies, and governments. Through the development of existing technologies, communication between individuals and nations become more efficient. In the context of economic activity, liberalization and globalization today has changed the world economy to becoming more open. Flow of goods, services, and capital becomes more easily penetrate the territorial boundaries of a country. The concept of borderless strengthened in the context of the world economy in line with the openness of the domestic economy to the penetration from abroad.

### **Globalization, Washington Consensus, and Structural Adjustment Policy**

In 1980s developing countries were significantly declined in economic growth which is measured from the increasing trade deficit countries as well as the level of inflation and debt as a proportion of goods export and services to developing countries increased from 9 percent in 1975 to around 11-12 per cent after 1980. The differences are very strong in Latin American countries where the ratio rose sharply from 20 percent in 1975 to nearly 40 percent in 1982 but fell to 22 percent in position 1995; Africa's debt ratio has increased from position 7 percent in 1975 to 19 percent figure in 1990.<sup>11</sup> After the debt crisis, developing countries began to be forced to switch to multilateral lending agencies. More

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<sup>11</sup> Lester B. Pearson, *Partner in Development: Report of the Commission on International Development*, (New York: Praeger), p. 87.

agencies and bilateral donors from private banks insist on applying the stabilization and liberalization policies as a condition for borrowing new debt.<sup>12</sup> Then states that are not ready to be emphasized to make basic adjustments, here then Structural Adjustment policies should be applied.

In February 2002, the ILO (International Labor Organization) establish an independent commission called the World Commission on the Social Dimension of Globalization, chaired by President Tarja Halonen of Finland and President Benjamin Mkapa of Tanzania and consists of 26 leading commissioners from around the world. The purpose for the establishment of this commission is to identify policies for globalization which is designed to reduce poverty, promote economic growth and development in developing countries, as well as increasing the chances and opportunities for creating decent jobs.<sup>13</sup> The Commission also aims to make globalization more inclusive, so that the process can be more equitable policies, both between and within countries in discussing international dialogue, which is the social dimension of globalization itself; building consensus among the main actors and stakeholders to obtain the appropriate policy response; and to help the community in the international scope to be able to create policies that are more coherent and precise in building and promoting socio-economic objectives within the scope of the global economy.

A broad consensus has emerged regarding globalization characterized by the compression of time and space generated through technological innovation refers to the global world to share in the process of hybridization and interconnection. All sorts of activities increasingly influenced by events and reinforced by the decisions of local groups, who have a significant influence.<sup>14</sup> Globalization today is a fact, so it becomes important to reopen the debate on a sustainable path of integration. Structural Adjustment programs should reflect the diversity of the socio-economic context and specific conditions. Structural Adjustment is needed when the integration of the countries in the world applied and the program must help the poor and should uphold social justice, especially for the poorest in the global economy. This program should be

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<sup>12</sup> John Baker III, "Debt and Structural Change", *Travail et Société*, No. 3, 1986.

<sup>13</sup> Frederic Lapeyre, *Globalization and Structural Adjustment as a Development Tool*, (Geneva: International Labor Office Publication, 2004), p. 3.

<sup>14</sup> David Held, *Democracy and the Global Order*, (Cambridge: Polity Press, 1995), p. 20.

the answer to reducing social and economic inequality in the world in the current era of globalization.<sup>15</sup>

Cooperating with financial institution, developing countries failed to give significant benefit to encourage economic growth. When economic stagnation and extreme distortion becomes familiar in developing countries, they have no other choice to pursue financial imbalances and payments under IMF supervision. Originally, IMF only requires macroeconomic stabilization policy and public expenditure. After that, IMF increases revenue, devaluation, and the abolition of price controls. Later, their package grew broader, involving trade liberalization and elimination of tariff barriers, reduction of barriers to the goods and services exchange from abroad, economic deregulation, privatization, and other elements that referred as the “Washington Consensus”. The meaning of the “Washington Consensus” itself is for stabilization, and Structural Adjustment policies advocated by the Bretton Woods institutions and some other major industrialized countries. Various components of the policy package is well summarized by John Williamson, who coined the term “Washington Consensus”—when trying to determine a set of policies that are considered by almost all Washington officials will bring benefits to the countries in Latin America.<sup>16</sup>

In globalization era, improving quality of human resource and sustainable growth is required. However, under the pressure of the international competition, many countries actually cut their benefit, trying to reduce the amount of salary and apply strict labor recruitment. This is harmful to the welfare of the people, especially for the poor and will lead to negative social effect, such as crime and others. Appropriate policies should be applied both in national and international level in order to optimize a sustainable development. On the other hand, the effective global governance will encourage the improvement of the quality of human resources and provide opportunities for developing countries to improve the quality of life and their work climate. Structural adjustment indicates an important role in the political aspects of economic policy and structural transformation.

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<sup>15</sup> Frederic Lapeyre, op. cit. p. 3.

<sup>16</sup> J. Williamson, “What should the World Bank think about the Washington Consensus?”, *World Bank Research Observer Journal*, Vol. 15 No. 2. 2000.

## Economic Integration

Economic integration is a part of the comparative advantage concept in international trade. Through the international trade, David Ricardo saw that a country will be benefited through commercial activities conducted between countries. Economic benefits generated aggregately and can be seen from the achievement of Gross Domestic Product (GDP) of the country. In the development of world economy, economic integration becomes important in creating international public welfare.<sup>17</sup>

There are series of agreements and willingness of each country in defining multilateral economic cooperation. Economic integration is a part of the state's effort to improve welfare of its society. Mechanisms of international trade in the realization face some distortions either from domestic situation or international environment. It caused inefficiency and can reduce the global economic welfare. From that situation, the idea of free trade appears to exempt all forms of restrictions and protections.<sup>18</sup> Integration of formerly self-contained economic areas into larger economic entities has been important in modern history. The modern era has been characterized by integration of small and relatively distinct territories into larger nation-states and into national economies surrounded by trade barriers. The principal approaches that economists have taken in their efforts to explain regional integration or free trade areas arise from neoinstitutionalism and the new political economy. The *new institutionalism* approach assumes that international, including regional, institutions, such as those of Western Europe, are established to overcome market failures, solve coordination problems, and/or eliminate other obstacles to economic cooperation.<sup>19</sup>

These institutions create incentives for states to cooperate and, through a variety of mechanisms, to facilitate such cooperation. Although the new institutionalism provides valuable insights, it does not consider the political reasons for regional arrangements. The *new political economy* explanation emphasizes interest group politics and the distributive consequences of economic regionalism; it assumes that such regional trade

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<sup>17</sup> David N Balaam and Michael Veseth, op. cit. p. 2.

<sup>18</sup> Miroslav N. Jovanovic, *International Economic Integration: Limit and Prospect*, (London: Routledge, 1998), p. 27.

<sup>19</sup> Robert Gilpin, op. cit., p. 345.

arrangements as customs unions and free trade agreements have significant redistributive consequences that are usually harmful to nonmembers and create both winners and losers among the members themselves. Indeed, economists frequently explain economic integration as resulting from efforts of domestic interests to redistribute national income in their own favor. This approach provides important insights into the domestic politics of economic integration but fails to explain the costly efforts by Europeans to achieve regional integration.<sup>20</sup> Economic integration also shows a combination of a group of countries which have geographical proximity that build a trade union with the aim of achieving economic benefits among the members and to restrict other countries penetration in a free trade zone. In addition, the purpose of establishing an integrated economic region is also to facilitate the transfer of products, goods, and labor. After all, the economic integration can be directed to the formation of regional economic community. Economic integration can form a total integration include the political aspects.<sup>21</sup> At the end of this economic integration includes three main points, namely trade in goods and services, investment, and economic integration of financial aspect.<sup>22</sup>

## **Analysis: Taking Advantage from the APEC Global Agenda**

### **The Global Agenda of APEC**

APEC has been part of the positive changes in the region and provided positive atmosphere for international interaction and integration. APEC's achievements are much more visible to foreign and trade ministry bureaucracies than they are to the public, or even to more politically and policy aware stakeholders. APEC has proved to be an efficient venue for the leaders of the region to meet. It has helped build some common sense of international economic norms and values and strengthened adherence to the international trade system. It has provided a vehicle for economies with once limited

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<sup>20</sup> Robert Gilpin, *ibid.*, p. 348.

<sup>21</sup> Chu Chin Peng and Sang Chun Park, *Regional Integration in Central and Eastern Europe and the Prospect of the Fifth Enlargement of the Europe*, (Beijing: Beijing National Science Council Republic of China, 2010), p. 3.

<sup>22</sup> Imam Muchlis, *Integrasi Ekonomi ASEAN*, (Tulung Agung: Cahaya Abadi, 2010), p. 13-14.

awareness of the WTO system to better understand the rules, obligations, and benefits of the system.<sup>23</sup>

The first group of people who saw the benefits of economic cooperation in Asia-Pacific was businesspeople. They saw the opportunity for trade and investment, or the opportunity to make money. This is not unlike the Arab or Indian merchants who sought trade cooperation with Southeast Asia more than 1,000 years ago or the merchants along the famous Asian Silk Road. Another route of development that eventually reached to APEC was through academia, through the development of public-policy thought.

While APEC, as a venue for voluntary, nonbinding cooperation, has not itself been a formal vehicle for negotiating free trade areas, much of the inspiration for such agreements has been associated with the APEC process. Free Trade and investment liberalization have been APEC goals for two decades. All economies in the region are engaged in one or another of the major free trade negotiation, such as the Trans-Pacific Partnership, the Regional Comprehensive Economic Partnership, and the Pacific Alliance. APEC has deepened adherence to global norms and rule and inspired more liberal trade rule-making at the sub regional or global. APEC no longer remain the trans-Pacific organization, it has been joined by the East Asia Summit (EAS), includes United States.<sup>24</sup> However, APEC will lose its significance as a trade liberalization forum and United States must be reach agreement with Western European economies that has much more in common than its East Asian partner in APEC.<sup>25</sup>

Under the chairmanship of Chinese President Xi Jinping, APEC Leaders committed to a number of concrete actions under China's broad priorities of: 1) advancing regional economic integration; 2) promoting innovative development, economic reform, and growth; and 3) strengthening comprehensive connectivity and infrastructure development. The United States and APEC members support these goals through

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<sup>23</sup> Charles E. Morisson, "Four Adjectives Become a Noun: APEC and the Future Asia-Pacific Cooperation", *Institute of Southeast Asian Studies*, p. 30.

<sup>24</sup> Charles E. Morisson, "the Asia-Pacific Cooperation Agenda: Moving from Regional Cooperation toward Global Leadership", *East-West Center Journal*, p. 1-5.

<sup>25</sup> John Ravenhill, loc. cit., p. 224.

pursuing free and open trade, establishing regional scholarships, increasing capacity in disaster preparedness, and many other areas of cooperation.<sup>26</sup>

### **Advancing Regional Economic Integration**

APEC Leaders advanced trade and investment liberalization by:

- Accelerating and bolstering economy-level capacity building and technical assistance to achieve the APEC-wide goal of a 10 percent improvement in supply chain performance by 2015 and assist economies with the implementation of their WTO Trade Facilitation Agreement commitments.
- Affirming that APEC members will meet the ground-breaking APEC commitment to reduce tariffs to five percent or less by 2015 on the basis of the 54 products in the APEC List of Environmental Goods; submitting plans for how economies should implement that commitment by the time of the 2015 Ministers Responsible for Trade meeting in early spring; and launching new work to address non-tariff measures that impact trade in environmental goods and services.
- Raising awareness about the negative economic consequences of localization barriers to trade, especially regarding their impact on global value chains (GVCs).
- Fostering greater regulatory transparency by endorsing a set of actions and a capacity building program on conducting public consultations on proposed regulations through information technology and the Internet.
- Promoting widespread use of environmentally-friendly electric vehicles (EVs) in the region through greater alignment of regulations concerning vehicle charging, using international standards as the basis for new regulations, establishing a EVs Interoperability and Research Center by the end of 2015.
- Ensuring APEC remains a contributor to the realization of APEC's long-term objective of realizing a Free Trade Area of the Asia-Pacific, and that APEC supports the participation of member economies in ongoing regional undertakings.

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<sup>26</sup> "Fact Sheet: 22nd Annual APEC Economic Leaders' Meeting. (n.d.)", op.cit.

- Raising awareness about the importance of trade secrets protection and enforcement to innovation, foreign direct investment, and commercialization of research and development. Building on this work in 2015.
- Eliminating unnecessary export certification for wine by 2018 based on the recognition that wine is a low risk food product;
- Reiterating, in recognition of the threat terrorism continues to pose in the Asia-Pacific region, their commitment to make regional commerce more secure, efficient, and resilient through capacity building initiatives that support secure supply chains, travel, finance and infrastructure.

### **Promoting Innovative Development, Economic Reform, and Growth**

Recognizing that prosperity in the region depends on an environment that supports trade and investment, APEC Leaders agreed to:

- Establish the APEC Women and the Economy Dashboard to monitor progress in APEC economies on key issues related to women's economic empowerment, and to serve as a reference for future capacity building and evidence-based policy discussions.
- Develop a region-wide ecosystem to empower women entrepreneurs to 1) start and grow businesses; 2) increase their access to global supply chains; and 3) link them to existing support services and associations ultimately creating a Women's Entrepreneurship in APEC (WE-APEC) network.
- Reducing wasteful consumption of fossil fuels by expanding the number of APEC economies volunteering to undergo fossil fuel subsidy peer reviews. Peru completed and New Zealand initiated reviews this year and the Philippines will undertake a review in 2015.
- Establish an ambitious goal of doubling the share of renewable energy in the region's energy mix by 2030 with collaborative projects to support this goal.
- Continue work on reducing energy intensity by 45 percent by 2035 with the next tranche of collaborative projects to support progress toward this goal.

- Address the pervasive problem of corruption in the region by adopting APEC Principles on the Prevention of Bribery and Enforcement of Anti-bribery Laws and the General Elements of Effective Voluntary Corporate Compliance Programs; enhancing cooperation across borders with the establishment of an APEC anti-corruption law enforcement network; and sharing best practices and case studies.
- Improve food security by undertaking research and capacity building to reduce post-harvest loss.
- Liberalize and facilitate agricultural trade and investment by recognizing the role of public-private partnerships in investment and reaffirm commitments against protectionism and export restrictions.
- Improve food safety in the APEC region, through work on risk-based inspections, allergen management, laboratory capacity building, and regulatory cooperation the Food Safety Cooperation Forum (FSCF) and its Partnership Training Institute Network (PTIN).
- Promote people's health and well-being through the "Healthy APEC 2020" initiative by means of a comprehensive whole-of-society approach to health security, growth and development of the Asia-Pacific region.
- Jointly tackle pandemic disease, including the ongoing Ebola outbreak.
- Expand efforts to combat wildlife trafficking by reducing demand for illegally traded wildlife and wildlife products, strengthen law enforcement cooperation, and reaffirmed their commitment to treat wildlife-related crimes seriously.
- Reduce mercury pollution by encouraging APEC economies to take the necessary domestic measures to meet the requirements of the Minamata Convention on Mercury.
- Support effective public donations practices, efficient supply chain and relief operations, and speedier economic recovery in disaster-affected areas by adopting the APEC Guidelines for Appropriate Donations in Times of Disasters.
- Operationalize a regional trade recovery communications mechanism for customs officials to utilize during large transportation disruptions.

## **Strengthening Comprehensive Connectivity and Infrastructure Development**

The APEC Business Travel Card has long been touted as one of APEC's major successes in connecting the region by facilitating business travel. This year, the United States began issuing APEC Business Travel Cards to eligible U.S. citizens, enabling them to access the priority immigration processing APEC lanes in airports of foreign participating APEC economies. In Beijing, Leaders took steps to increase connectivity across borders and to lay the groundwork for increased infrastructure development by:

- Adopting the APEC Connectivity Blueprint, aimed at strengthening physical, institutional, and people-to-people connectivity by taking agreed actions and meeting agreed targets, with the objective of achieving a seamless and comprehensively connected Asia-Pacific.
- Launching an APEC scholarship and internship initiative, to strengthen regional ties, build people-to-people ties, and promote economic development.
- Promoting regional science and technology collaboration through the APEC Science Prize for Innovation, Research, and Education (ASPIRE) by recognizing talented, accomplished young scientists who cooperate with scientists from other APEC member economies.
- Announcing the goal of doubling the number of tourists to 800 million among APEC members by 2025.
- Developing greater capability among APEC economies to advance public-private partnerships in infrastructure investment, including through adoption of an Implementation Roadmap, in order to attract private sector capital and promote market-based investment.

## **Taking Benefit from the APEC Agenda through Realization of the World Maritime Axis**

### **The Operational of World Maritime Axis' Vision**

President of the Republic of Indonesia, Joko Widodo convey his vision to make Indonesia as the world maritime axis. Jokowi expressed in his speech that "Indonesia will be the axis of the maritime world, forces that waded two oceans, as a maritime nation that is

prosperous and dignified". As the world maritime axis, Indonesia interested to determine the future of the Pacific region and the Indian Ocean Region. Indonesia wants the Indian Ocean and the Pacific remained peaceful and safe for world trade, not the seizure of natural resources, conflict regions, and maritime supremacy. Jokowi saw that the utilization of maritime potential is not maximal. In this case, Jokowi proposed to strengthen the priority of maritime in the East Asia Summit (EAS). Jokowi encouraged partner countries of ASEAN in the EAS to support the realization of the Master Plan on Connectivity, regarding connectivity and maritime infrastructure.<sup>27</sup>

Jokowi translate the vision of Indonesia as a world maritime axis as a strategy that will be used not only to build Indonesia but also the gravitational vortex of the world economy. Maritime axis which initiated by Joko Widodo-delivered at the East Asia Summit (East Asia Summit) in Myanmar, consists in five main pillars. First rebuild Indonesian maritime culture. Jokowi states that "as a country consisting of 17 thousand islands, Indonesia should be aware that identity, prosperity, and its future is determined by the management of the ocean". Secondly, Indonesia will maintain and manage marine resources, with a focus on building food sovereignty through the development of fishing industry. This vision is realized by placing the fishing as the main pillar. Third, the prior development on infrastructure and maritime connectivity, by building a sea toll, deep seaport, logistics, shipping industry and maritime tourism. Fourth, implementing maritime diplomacy, by emphasizes the promotion in all countries to eliminate the source of conflict at sea, such as illegal fishing, a violation of sovereignty, territorial disputes, piracy, and marine pollution. Fifth, the development of maritime defense forces for realizing the sovereignty and maritime security.<sup>28</sup>

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<sup>27</sup> Gangsar Parikesit, "Cara Jokowi Jadikan Indonesia Poros Maritim Dunia", *Tempo*, <http://www.tempo.co/read/news/2014/11/13/118621707/Cara-Jokowi-Jadikan-Indonesia-Poros-Maritim>, retrieved November 18, 2014.

<sup>28</sup> Gangsar Parikesit, "Jokowi Yakin Indonesia Jadi Poros Maritim Dunia", *Tempo*, <http://www.tempo.co/read/news/2014/11/13/118621693/Jokowi-Yakin-Indonesia-Jadi-Poros-Maritim-Dunia>, retrieved November 18 2014.

## **Role of Connectivity in Supporting National, Regional, and International Economic Growth**

In terms of connectivity, Indonesia confirms the importance of connectivity in support of national economic growth, regional, and international. Minister of Foreign Affairs, Retno LP Marsudi stated in the 26th APEC meeting in Beijing that "the connectivity relate in many aspects, such as infrastructure to support economic growth, as efforts to reduce logistics costs and boost domestic and international trade". At APEC 2013, Indonesia has agreed to follow up the importance of connectivity in creating optimal economic growth nationally, regionally, and internationally. Retno LP Marsudi also stressed that the development of connectivity should be prioritized in the country. Later, Indonesia should connect with abroad, such as the maritime silk route initiated by China in the 21st century, that create connectivity in land, sea, and air. Indonesia's vision in connectivity followed up with APEC blueprint formulation on connectivity.<sup>29</sup>

At APEC 2013, Indonesia has introduced the concept of the APEC Framework on Connectivity which includes three pillars, such as physical connectivity, institutional connectivity and people to people connectivity. Follow up conducted between Indonesia and China is drafting 'APEC Blueprint on Connectivity Suggested General Outline and Workplan to Develop the 2014 APEC Blueprint on Connectivity'. The cooperation involves the APEC Policy Support Unit (PSU), which served as a constituent of APEC Blueprint on Connectivity. In terms of improving connectivity in the Asia-Pacific region, APEC economies needed to deliver proposed key initiatives. Proposed initiative from Indonesia in the development of connectivity in Asia Pacific was passed at a meeting of the APEC First Senior Officials Meeting (SOM1) in Ningbo, China. In addition, Indonesia submits a 'Multi-Year Plan on Infrastructure Development and Investment' through the Guidebook on Public-Private Partnership Framework in the APEC Region preparation.<sup>30</sup>

APEC itself is an important cooperation forum for Indonesia. The value of Indonesian trade with APEC member countries reached more than 75 percent of the total

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<sup>29</sup> "Indonesia Tegaskan Isu Konektivitas di APEC 2014", *Antara*, <https://id.berita.yahoo.com/indonesia-tegaskan-isu-konektivitas-di-apec-2014-140321582.html>, retrieved November 18, 2014.

<sup>30</sup> K. Aspasaf, "Pengembangan Konektivitas dan Peningkatan Investasi Infrastruktur Fokus Utama APEC di 2014", Kementerian Luar Negeri Republik Indonesia, <http://www.kemlu.go.id/Pages/NewsKemlu.aspx?IDP=415&l=id>, retrieved November 18, 2014.

value of trade in Indonesia. Since 2007, Indonesia's trade with APEC growth reached 18 percent. This achievement is higher than the growth of Indonesia's trade with other countries, in 16 percent. Indonesia is a country that is attractive to global investors among other APEC countries, such as Thailand, Peru, Malaysia, Chile, Russia, China, and South Korea. In addition, six members of APEC, such as the United States, China, Russia, Australia, South Korea, and Japan is the largest investor Indonesia in the last decade<sup>31</sup>

At the other hand, Africa has evolved into a region that has a vast economic potential, and attractive for investors to invest and sell their products. Based on the report of Ernst &Young in 2012, Africa is the continent of the future because of its natural wealth that has not been touched. Indonesia can harness the potential of Africa's national interests. Potential trade between Indonesia and South Africa alone is worth 10 billion USD. In addition, Kenya is also a key part of the East African sub-region that has had advances in the field of economics, availability of infrastructure, and the level of intensity of bilateral relations with Indonesia. However, many obstacles faced by Indonesia, among others, in the absence of a direct route or direct shipping route to Africa, resulting in a low return on investment. On the other hand, Indonesia is considered to have forgotten an important pillar in terms of relations with Africa, the New Asia Africa Strategic Partnership and the Indian Ocean Rim Association (IORA). Indonesia is considered a more forward relationship with APEC compared with the development of relations with IORA.<sup>32</sup> By this situation, the development of maritime infrastructure can be a double advantage for the connection of the two associations.

### **Learning from ASEAN-China Free Trade Agreement Implementation**

Since 1<sup>st</sup> January 2010, the ACFTA has been introduced to the 6682 tariff-free tariff lines covering 17 sectors-including 12 in the manufacturing sector and five in agriculture, mining and maritime. It has led to many serious public debates in Indonesia; some opinions confirming it as an opportunity, while others regard it as a threat to Indonesia's economy.

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<sup>31</sup> K. Aspasaf, *ibid.*

<sup>32</sup> S. Folda, "Nilai Perdagangan Capai 75 Persen, Indonesia Harus Manfaatkan KTT APEC", September 16, 2013. Retrieved November 18, 2014, from RRI World Service: <http://www.id.voi.co.id/voi-berita/4336-nilai-perdagangan-capai-75-persen-indonesia-harus-manfaatkan-ktt-apec>

Ministry of Commerce statistics show the total amount of trade between Indonesia and China growth from 8.7 trillion US dollars in 2004 to 26.8 trillion US dollars in 2007 with a record surplus, but Indonesia has 3.6 trillion dollar deficit in 2008. This is the problem of lack of policy direction from the government blueprint which is specially prepared to face the ACFTA.<sup>33</sup>

The government is already doing renegotiation in some industrial sectors which negatively affected or not ready. But in the process of concessions prior to ratification-governments tend to be careless and too confident in the ability of Indonesia. Results concession is then converted to the Presidential Decree No.48/ 2004. The problems keep popping up after the ratification of the agreement by Presidential Decree. The government is too naive to ratify the ACFTA without adequate preparation. Objections that submitted by the interest groups did not get a proper response from the relevant parties, including the warning sign of Fahmi Idris, Minister of Industry at that time. APEC members will reduce tariffs to five percent or less by 2015 on the basis of the 54 products in the APEC List of Environmental Goods.

Indonesia can be learned from past case in ACFTA to convert its negative effect to the benefit. The Global Competitive Index rose significantly every year to position 38 in 2013 and it could be momentum of Indonesia sustainable development. APEC will be adopting the APEC Connectivity Blueprint, aimed at strengthening physical, institutional, and people-to-people connectivity by taking agreed actions and meeting agreed targets, with the objective of achieving a seamless and comprehensively connected Asia-Pacific. It is linear to Indonesian vision to be a world maritime axis. With the infrastructure development especially in maritime sector, Indonesia is not only can take benefit from the global sea trade and services as a transit area but it can be more beneficial to the regional and international economic growth and maximize global value chain to reduce price in goods, energy, and services.

APEC economies have been very active in finding ways to open their markets, through unilateral trade liberalization efforts, or negotiated efforts at the regional,

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<sup>33</sup> Ministry of Trade RI, Directorate General of International Trade Cooperation, [http://ditjenkpi.depdag.go.id/website\\_kpi/index.php?module=news\\_detail&news\\_content\\_id=960&detail=true](http://ditjenkpi.depdag.go.id/website_kpi/index.php?module=news_detail&news_content_id=960&detail=true), retrieved November 29, 2014.

bilateral or multilateral levels. A study released by the APEC Policy Support Unit in 2009 found that intra-regional trade was proportionally larger in APEC than in other well consolidated regional groupings such as the European Union, and suggested that APEC was enjoying the benefits of a de facto (i.e., market-driven rather than treaty-based) integration, part of which could be related to initiatives in trade liberalization and facilitation. Also, it indicated a positive APEC membership effect on trade, which was stronger in exports than imports. This is a possible reflection of APEC's open regionalism approach which minimizes discrimination against non-APEC economies. However, a better competitive index is needed by Indonesia in order to have a specialization in some sector to promote national economic growth through rapid trade in Asia-Pacific region.

## **Conclusion**

Economic integration also shows a combination of a group of countries which have geographical proximity that build a trade union with the aim of achieving economic benefits among the members and to restrict other countries penetration in a free trade zone. APEC has integrated new citizens into urban communities, providing robust and equitable services, and retaining vitality in rural areas are significant issues not only in themselves, but also to the overall well-being of societies and the quality of their international relationships. With its dense populations and rapidly changing diets and lifestyles, Asia is also at the forefront of many health and environmental challenges.

Strengthened cooperation in APEC and global leadership from the Asia-Pacific region will, in the end, be driven primarily by the quality, imagination, and attentiveness of political leadership, especially in the larger economies. APEC and the broader regional integration process with fresh eyes. Perhaps this new team of regional leaders can help to formulate a new and workable Asia-Pacific dream.

Under the chairmanship of Chinese President Xi Jinping, APEC Leaders committed to a number of concrete actions under China's broad priorities of: 1) advancing regional economic integration; 2) promoting innovative development, economic reform, and growth; and 3) strengthening comprehensive connectivity and infrastructure development. APEC itself is an important cooperation forum for Indonesia. The value of

Indonesian trade with APEC member countries reached more than 75 percent of the total value of trade in Indonesia. Indonesia is a country that is attractive to global investors among other APEC countries, such as Thailand, Peru, Malaysia, Chile, Russia, China, and South Korea. In addition, six members of APEC, such as the United States, China, Russia, Australia, South Korea, and Japan is the largest investor Indonesia in the last decade. According to the global agenda of APEC, through new maritime doctrine, Indonesia will be benefited if the development of infrastructures focused to the nation vision to be the maritime axis.

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