

Economic Diplomacy

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What is economic diplomacy?

- Economic diplomacy is **the process through which countries tackle the outside world**, to maximize their **national gain in all the fields of activity**, including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage; it has bilateral, regional and multilateral dimensions, each of which is important (Kishan S. Rana)
- Economic diplomacy is: the use of negotiations in foreign arenas by the state or other economic actors in defending and promoting national economic interests such as trade and investment, and tourism.
- Thus, economic diplomacy can be conducted by state agencies as well as non-state actors like individual businessmen and private companies (MNCs).

1. State - state diplomacy: bilateral (Indonesia vs USA) or multilateral trade and investment negotiations (WTO, RCEP, TPP, ACFTA).
2. State - foreign firms or investors (MNC) diplomacy (Indonesian government vs Freeport or Newmont in the renegotiation of the contract).
3. Indonesian companies - foreign companies or investors diplomacy (Lippo Group and Mitsubishi from Japan).
4. Indonesian companies and International NGOs.

What are the objectives of RI's economic diplomacy?

- To develop of a blueprint of globalization and regionalization strategies on the basis of national capabilities in order to maximize gains in the international trade and investment.
- To find the rights mix or combination of **structure**, **policies** and **methods** in order to take proactive advantage of the external environment.
- To secure and increase our access to foreign markets (trading partners).
- To remove tariff and non-tariff barriers in international trade.
- To convince foreign investors so that they want to invest their money in our country.

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- To defend and promote our economic interests at various international institutions like the UN, WTO, World Bank, IMF, and ADB, etc.
- To facilitate the business activities of the Indonesian private sector in foreign countries.
- To get foreign loans by the state or private sector.

Who are our partners in economic diplomacy?

- Foreign governments (trading partners)
- MNCs, foreign investors, individual businessmen.
- International institutions (IMF, World Bank, ADB, WTO, etc.) - multilateral or global
- Regional cooperation (ASEAN, AFTA, APEC, ASEAN + 3, etc.) - regional.
- Special int. organizations like OPEC, OIC, D - 8.

SBY's Policy Priorities

- Economic growth - economic recovery and performance legitimacy for SBY.
- Politics and security - conflict resolution in various areas
- Good governance - eradicating corruption - to restore international credibility
- Foreign policy initiatives to rebuild RI's international leadership in the Muslim world- compatibility between Islam and democracy - a moderate voice of Islam - soft power.
- The restoration of Indonesia's regional leadership in Southeast Asia.
- Independence of judgement in foreign policy: the case of Iran's nuclear weapons in UN Security Council.

Prioritas di bawah Jokowi

- Pembangunan daerah perbatasan untuk memperkuat prinsip "berdaulat secara politik" dan keutuhan NKRI
- Perlindungan TKI di luar negeri
- Diplomasi ekonomi - membangun akses ke pasar-pasar non-tradisional
- Peningkatan investasi untuk biaya pembangunan infrastruktur - RI join Asia Infrastructure Investment Bank (AIIB) dan Belt and Road Initiative oleh China
- Penekanan kemandirian ekonomi: renegotiasi dgn Freeport (divestasi 51% saham Freeport).
- Indonesia sebagai kekuatan moderat dalam politik global : Islam Nusantara
- Indonesia sebagai *maritime fulcrum* atau poros maritim dunia.

Who conduct economic diplomacy?

- The president through state visits and summits.
- Minister of Foreign Affairs
- Economic ministers (trade, finance, industry, Governor of BI, etc.).
- Diplomats
- Indonesian private companies.
- Individual businessmen.

What are the characteristics of economic diplomacy?

- During the New Order government our economic diplomacy was mainly about foreign debt (how to get new loans and how to negotiate the payment of the loans with the IMF and World Bank and the Paris Club).
- Compared to its neighbours in SE Asia, Indonesia's int. trade expansion reflects a less aggressive economic diplomacy.
- Less synergy between the government and the private sector. (Comparing Indonesia with China, India and Singapore). Indonesia needs more total diplomacy.
- The private sector is lacking in **high technology**.
- Weak positions within the IMF and the World Bank.

- Weak and fragmented domestic institutions. No special agency for trade diplomacy like the USTR or EU Trade Commission.
- Agencies with the task of economic diplomacy at Deplu are in the lower echelon (eselon 2).
- Weak coordination among govt agencies.
- Diplomats need to improve their knowledge about the substance of negotiations for international trade.
- Less involvement of the epistemic community in economic diplomacy. Diplomats are not accompanied by experts in international trade and international business law.

Future directions of Indonesia's economic diplomacy

- Indonesia perlu mencermati trend yang dimotori oleh AS di bawah Donald Trump dengan motto America First dan cenderung mengutamakan proteksionisme dan prioritas pada mekanisme bilateral daripada multilateral. Bagaimana mengantisipasi kepemimpinan Tiongkok dalam perdagangan multilateral?
- Indonesia menjadi salah satu dari 16 negara yang dikenai tarif tinggi oleh AS karena defisit neraca perdagangan AS.

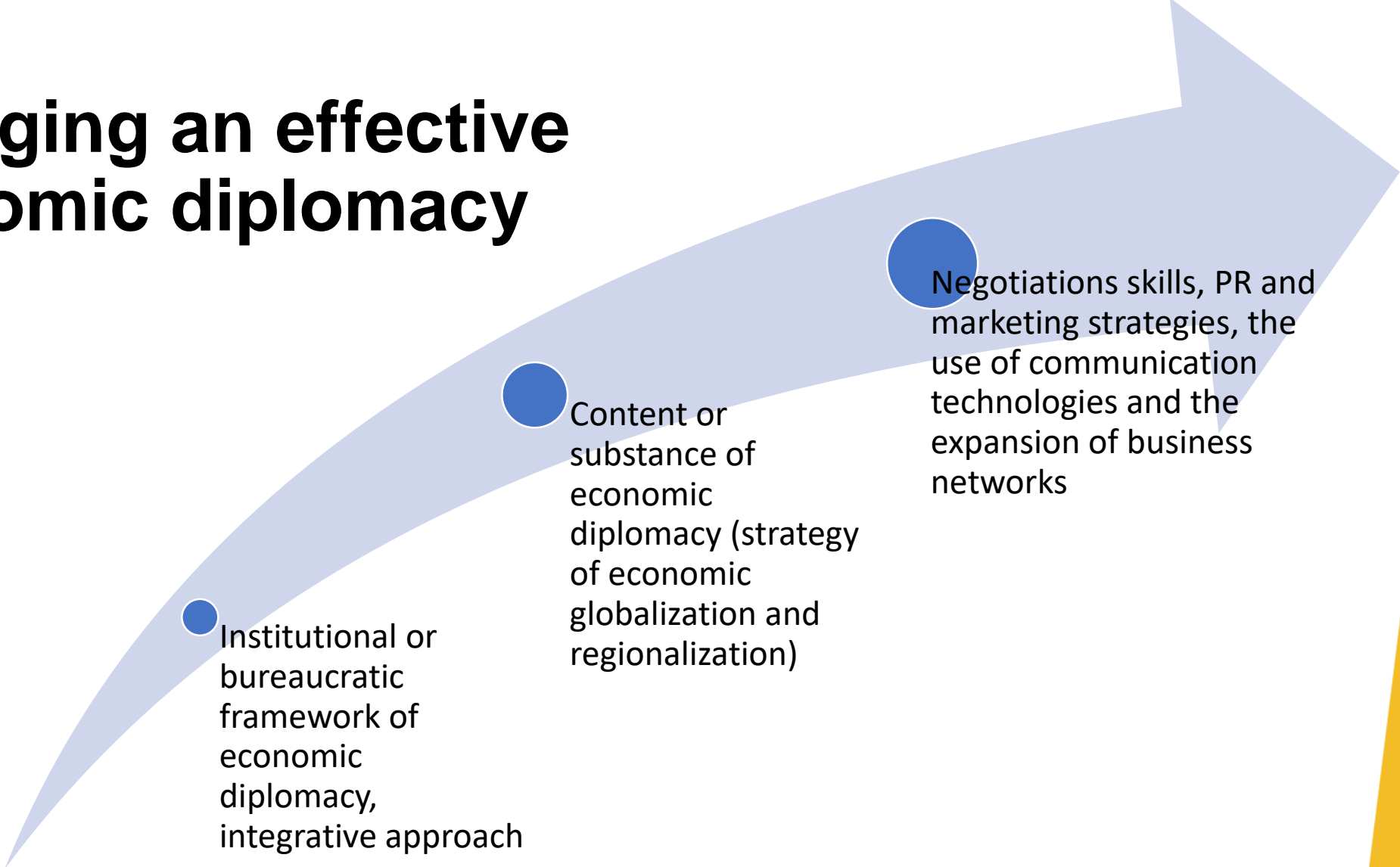
- Dalam kasus Indonesia: di satu pihak ada rationale politik (centrality of ASEAN dan prinsip “dynamic equilibrium”) untuk join RCEP, tapi di pihak lain biaya ekonomi dari pilihan untuk berada di luar TPP juga perlu diperhitungkan.
- Apakah Indonesia memilih RCEP atau TPP, agenda reformasi ekonomi (dan birokrasi) tetap merupakan keniscayaan (a must) agar Indonesia tidak ketinggalan oleh negara lain atau competitor di ASEAN.
- Ketika negara-negara ASEAN lainnya (Vietnam, Singapore, Malaysia dan Brunei) join TPP yang notabene merupakan “a high standard trade pact”, maka reformasi ekonomi yang dihasilkan membuat daya saing mereka lebih tinggi daripada Indonesia dalam konteks AEC.

- Beban diplomasi Indonesia sebagai *lead negotiator* untuk pembentukan RCEP tidaklah ringan ketika anggota-anggota yang lain memiliki *double commitments* (RCEP and TPP).
- Apalagi Indonesia harus mempertemukan kepentingan ekonomi dan politik China, Jepang dan Korea Selatan yang saat ini terlibat dalam konflik teritorial dan historis yang cenderung semakin panas terutama setelah deklarasi *Air Defense Identification Zone* (ADIZ) oleh China.
- Jika TPP resmi terbentuk, maka sebagai “high standard trade pact” akan menjadi *trend setter* abad 21 di tengah tersendatnya Doha Round di mana negara-negara maju (AS dan EU) tidak lagi tertarik untuk memberikan konsesi kepada negara-negara berkembang dalam kerangka multilateral WTO.

Kerangka kelembagaan (institutional framework) diplomasi ekonomi/perdagangan: best practices

1. Mengsinergikan Perdagangan Internasional dan Industri (Ministry of International Trade and Industry atau MITI di Jepang).
 2. Menggabungkan Kementerian Perdagangan dan Luar Negeri (Australia dan Korea Selatan)
 3. Membentuk unit khusus untuk negosiasi perdagangan internasional (US Trade Representative dan EU Trade Representative)
 4. Fragmentasi Birokrasi melalui pemisahan Kementerian Luar Negeri dari Kementerian Perdagangan (Indonesia).
- Dengan tantangan negosiasi perdagangan internasional yang semakin kompleks, apakah kerangka kelembagaan diplomasi ekonomi RI masih efektif?

Managing an effective economic diplomacy



Institutional or bureaucratic framework of economic diplomacy, integrative approach

Content or substance of economic diplomacy (strategy of economic globalization and regionalization)

Negotiations skills, PR and marketing strategies, the use of communication technologies and the expansion of business networks

Questions

- Why is our bilateral relations with major powers important? Give concrete examples.
- Do we need the presence of the US in Southeast Asia? Why?
- How can we maintain the balance among major powers in Southeast Asia?
- What kind of global leadership does Indonesia need in global politics today?
- How does Indonesia anticipate the rise of China as a global leader due to the withdrawal of the US?

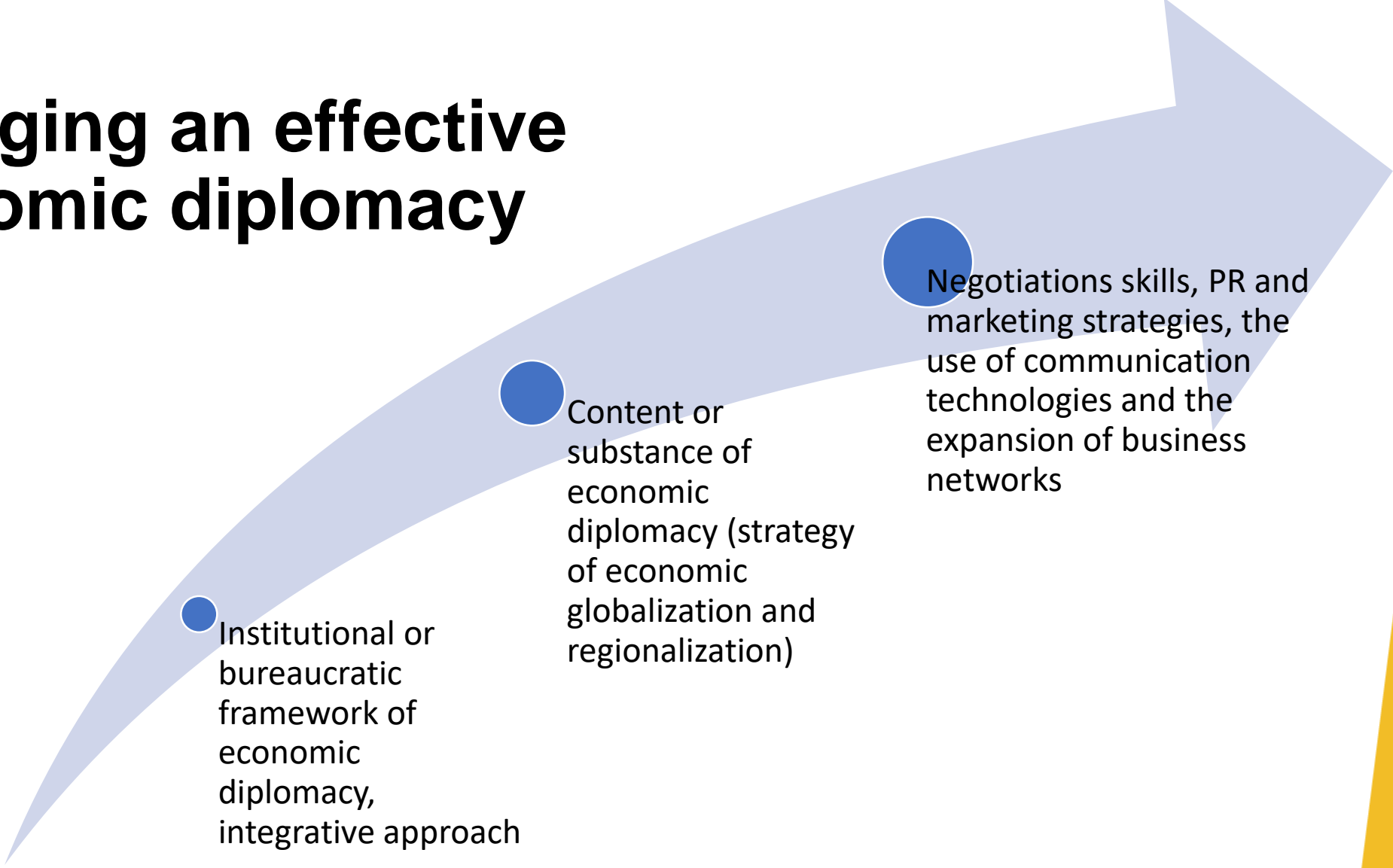
Logika yang mendasari pentingnya hubungan ekonomi luar negeri (diplomasi ekonomi)

1. **Economy follows politics**: politik lebih diutamakan daripada ekonomi. Contoh: kebijakan luar negeri RI di ASEAN.
2. **Politics follows economy**: politik mengabdikan untuk kepentingan ekonomi. Contoh: Jerman mendukung EU karena secara ekonomi menguntungkan.
3. **Synergizing political rationale and economic calculations**: sinergi antara kepentingan politik dan ekonomi (perdagangan dan investasi). Contoh: AS dengan pembentukan TPP.

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