Reshaping globalisation – before it is too late  
*Strengthening participation of Indonesia in the governance of IFIs*  

A synthesis of PraKarsa research ‘Audit on Globalisation’  
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**SUMMARY**

1. We attempt to look at the *roles Indonesia could possibly play in the global governance today*, in our project *Audit on Globalisation*. We pose five *main questions* that need addressing. *First*, within the macro context of globalisation today, how would Indonesia benefit from its processes? *Second*, in a micro context, what can Indonesia do to strengthen its economic diplomacy in global governance? *Third*, what vision is needed and how will the national strategy look to support Indonesian economic diplomacy? *Fourth*, what kind of institutional governance is needed? Finally, how and in what ways can effective coordination across diplomatic institutions and actors be facilitated? These questions were addressed in a series of research and discussion in 2007. In this synthesis, we collate inputs and responses to find the answers. We revisit the core of the globalisation issue from an Indonesian perspective and try to clarify the changes in an international political economy setting and what these imply for Indonesia. We then explore some proposals for how Indonesia can take part in the reform of the governance of IFIs, particularly the IMF, as a challenge to current global governance. Here we see the importance of economic diplomacy as a key success factor in achieving the objective. This requires, through the Indonesian government, a strong support mechanism to establish instrumental institutional governance through effective policy design.

2. Globalisation is very much a current issue. It is however ambivalent: on the one hand it brings ‘good things’ such as economic growth, technological advancement, more open and democratic governance, and so forth. On the other, there are drawbacks: gaps between rich and poor are widening, decision making power is concentrated in fewer hands, local cultures are wiped out, and the environment is put at risk. Wealth creation has indeed been claimed to become the *sine qua non* of globalisation. Yet, in retrospect, by nature, and by definition, globalisation is no more than a heightened level of indirectness. Societal goals, community wisdom and values and environmental sustainability, are largely being ignored in the headlong rush to break down the barriers to global economic transactions which only benefits the few. Wealth for the majority of the earth’s inhabitants is only an unintended consequence of greed profit pursuits. Therefore if we are not careful, the dignified, righteous purpose of true development is being lost in the morass of indirectness, in the name of globalisation. Therefore, despite claims of its success and achievement as an integrating factor of the world economy, there is a pressure to address the ‘dark side’ of globalisation and an urgent need to redesign its basic principles so we can be on a more democratic path to make it more direct in delivering wealth to the people.

3. We should not become entrapped in the debate between whether to ‘globalise’ or not, for it is at an impasse. What matters more is the establishment, or further improvement, of operational and institutional instruments, not because globalisation is a ‘force majeure’ of which we are at the mercy, but because it needs to be controlled in more democratic and humane global governance. If Indonesia would like to be involved in such endeavours but it first needs to formulate its vision and strategy towards globalisation, in order to find an orientation from which to defend its own national
interest. The vision of Indonesia taking part in globalisation is to ensure that the purpose of our own national development is not being lost in such a global indirectness. We have to secure the achievement of our national development purposes and not merely satisfy global business and investment.

4. One of the significant changes brought about by globalisation is the huge impact on governance. This has forced changes on the regulations of sovereign statehood and transformed it into supra-states and supra-states private bodies. The establishment of international financial institutions (IFIs) like the International Monetary Fund (IMF), the World Bank (WB) and the World Trade Organisation (WTO) was intended to prevent conflicts and wars. But they are now seen as pillars of the status quo of current practice of globalisation and blamed for the socially and environmentally destructive economic model they have imposed on the world by favouring corporate-led globalisation. Particularly in the aftermath of financial crisis 1997, these IFIs imposed prescription for financial liberalisation, open markets and privatisation to most of the suffering countries. But this prescription has been proved to be fatal and this has sparked the idea that IFIs now do need reform. Therefore, Indonesia’s participation in the governance of these global institutions has to be oriented towards influencing these institutions so that their existence helps achieve world development goals in more direct ways – and not to strengthen the institutionalisation of global indirectness as such.

5. The idea to reform IFIs, particularly the International Monetary Fund (IMF), has indeed become urgent and cannot be ignored. One chronic problem is the lack of representation of developing countries in the Fund. It has a particular governance mechanism through constituencies, with the decision making unequal among the IMF member countries. In order to have a better representation of developing countries, some ideas to improve the vote share and quota have been proposed. After some endeavours, the IMF finally agreed with the Singapore Resolution 2006 (where the quotas of some countries were adjusted and doubled the basic vote), but this resolution did not solve the problem of under-representation of poor countries. Proposals that aspired to increase the voting rights of developing countries were rejected based on some disputable grounds: inadequate data, incoherence methods and formulae, and the use of population as an economic variable. This dispute in itself cannot but reflect the urgent need to reform the Fund.

6. What about Indonesia’s position? In the debate on the increase of voting rights in the Fund, Indonesia, as a matter of fact, has a difficult position. Indonesia’s quota has actually already been bigger than it should be based on the tight calculation. The proposal to change the formula will only increase Indonesia’s voting rights if it takes into account the population variable. Based on the experience of being under IMF’s policy, this situation is not so beneficial for Indonesia. If the country still wants to have bigger voting rights, it has to work hard to improve the performance of other variables like GDP, export and its role in the global market exchange. But this should not necessarily mean a surrender to the market law without reserve; rather, it should focus on the role it could play in managing the transaction in the market. Moreover, this situation should not silence Indonesia in the debate on quota in the IMF. Indonesia should be more active in the diplomacy to promote a better distribution of the voting rights for developing countries, without having to fear the loss of its own voting rights, as it has never really affected the decision making regime in the IMF. Indonesia has nothing to lose by promoting the reform of IFIs, particularly the IMF, to fight for more just and fair decision-making process in global governance.

7. In order to be able to do so, Indonesia needs not only a clear national vision and strategy towards globalisation, but a strong economic diplomacy, which has been significantly shaped by globalisation itself. Globalisation has created an impetus for economic diplomacy to play a more important role than political diplomacy. It has fostered the proliferation of national economic interests, and inherent to that, the proliferation of diplomatic actors and systems which influence the system and economic relation and international trade. Diplomatic actors in an era of globalisation are no longer ‘traditional’ political diplomats assigned by the state, but they also
include non-state actors like business representatives, academia, researchers and NGOs. Through their networks, using diplomacy, they influence the process and the policy orientation within the economic systems and international trade. Many economies realise that these non-state actor roles have become more important and cannot be separated from the national decision making process in order to engage in, and benefit from, international relations in the era of globalisation. It is clear that for Indonesia, in the context of foreign politics and international cooperation today, the role of Indonesian diplomacy should be extended not only as a means to engage in foreign politics but also as a tool to achieve economic development.

8. How can Indonesian economic diplomacy be strengthened? Firstly Indonesia has to stop treating economic diplomacy as secondary to political diplomacy: it cannot be seen as merely a technical or less substantial act of diplomacy which does not require special skills and attention. Instead, economic diplomacy should receive more priority and, as it is complex, it requires support from different government and non-government bodies in the country. An ‘Indonesian driven’ agenda should be the aim for future international relations, particularly in the context of the economy. Secondly, the bilateral relationship and economic diplomacy between Indonesia and the IFIs (the WB and the IMF) needs to receive more attention as Indonesia needs to address more specific agendas with regard to its economic development. But, thirdly, the objective of economic diplomacy for Indonesia is not to foster the integration of the country’s economy to the global economy without reserve. As the current practice and orientation of globalisation is aimed at creating global economic integration through a liberalised economy, Indonesia needs to be careful as any form of economic liberalisation would directly impact upon national economic development and may fundamentally affect the governance of the economy, the politics and also the law in the country. This is why a clear roadmap towards Indonesian economic diplomacy is needed.

9. This all needs good institutional governance for effective economic diplomacy. Since GATT, some governments started expanding and extending the role of their foreign ministry, either by combining it with other related bodies or by establishing new offices/departments with ministry-level authorities for economic diplomacy. For Indonesia, there is an obvious need to establish a coordination process for economic diplomacy given the various actors interested in the endeavour. Such coordination is needed so that the national goal of diplomacy can be achieved – and in many cases this can be quite challenging. To respond to the proliferation of the international trade forum, Indonesia applies the-so-called multi-track economic diplomacy. The government itself has finally and formally established a national team for economic diplomacy and international trade negotiation (Timnas PPI) in 2005, by means of Presidential Decree No.28/2005. This team, involving multi-stakeholders, aspires to activate the role of Indonesian diplomacy in international trade negotiations; defends Indonesian position and strategy and disseminates the outcome of the negotiation to the public. It is imperative here that the framework for economic diplomacy needs to be strengthened to underline the importance and urgency of Indonesia’s own institutional governance so that the economic diplomacy can be conducted more effectively. It should be noted, that the enforcement of institutional governance for economic diplomacy assumes the continuous capacity building of the negotiators and diplomats as globalisation issues are vast, complex and sometimes difficult to understand. Repositioning Indonesia in the global governance through economic diplomacy has become more urgent than ever. Indonesia needs to voice its national concern and to take into account its national development objective when negotiating the way for global economic progresses.

10. In summary; in order to reorient Indonesia’s involvement in global governance through economic diplomacy we propose a possible approach. Indonesia should join hands with other developing countries to promote and foster the idea to reform global governance, particularly through reforming the IMF and the WB. Indonesia could take the lead and with other developing countries suggest that the IMF revive the initial idea of basic votes, to guarantee the equal position of all state members of the Fund. Then, in order for the country’s economic power to be reflected in
the quota distribution/sharing, the estimation for the GDP should be calculated based on PPP. This also prevents an overestimation of GDP of developed countries reflected by their quotas. Here, economic diplomacy matters. But this needs commitment from the country’s leaders to agree on the importance of economic diplomacy and to formulate its substance which should not be about submitting to the dominance of donor countries and IFIs but to clearly demand the reform of the governance of the IFIs, especially the IMF, to guarantee fairness, transparency, and accountability. In practice, it is imperative to establish an institutional governance to coordinate Indonesian economic diplomacy to end fragmentation and improve the clarity of the country’s economic diplomacy objectives.

11. Finally, improving the rules of the game of globalisation is an ambitious vision. But we must work to realise it if we are to go forward together into a new century where the long pent-up aspirations of the poor can have the chance for fulfilment that they deserve. Globalisation is linking us together in one world, but this "one world" cannot remain split along a fault line that separates the lives and aspirations of the rich and the poor, the developed and the developing. Technological progress alone will not bridge the divide and neither can economic progress. Rather, our sense of common humanity must be the shared bond and the driving force that makes us increasingly of one mind, and part of one united endeavour, in the development enterprise that we all serve. We should not allow the market mechanism to solely direct the fate of humanity and the environment as it would result in the demolition of society. And we need to act now – before it is too late.

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