The Republic of Indonesia

Positions for the Group of Twenty

I. Assessing the Progress of Major Commitments Implemented in the Pursuit of a Sustainable Global Economy

In the words of Indonesian President Susilo Bambang Yudhoyono, “The G20’s legitimacy will be questioned if it is silent on the interest of the majority of the world’s countries.”[1] If the G20 wishes to retain its relevance as the lead provider of international economic security, we must work together to assess the successes and shortcomings of our prior commitments in regard to policies surrounding food, fuel, energy security, economic recovery, and job growth. Since the G20 was founded in 1999, it has brought forth numerous declarations and action plans to address issues such as food, fuel, energy security, and job growth. While the Member States that comprise the G20 represent 80% of the global trade market, two-thirds of the global population and 90% of the global Gross Domestic Product (GDP), the majority of the world’s countries who are not represented in this committee are impacted by the decisions set forth by the committee. As a committee dedicated to preserving international financial stability as a means of obtaining sustainable growth on a global level, we must now, more than ever before, look for ways to assess the progress of our past major commitments in order to best serve the countries that rely on us most as we face a population that is predicted to double and a workforce that is predicted to stagnate in the years ahead.

Indonesia is no stranger to economic crisis, having suffered great losses during the 1997 Asian Financial Crisis. At that time, Indonesia was forced to strip its budget to fund bare necessities in order to regain economic stability and achieve economic recovery. Indonesia remains devoted to regional and international cooperation in the realm of promoting global financial stability, sustainable agricultural development, responsible food policies, and manageable job growth in the face of economic recovery. According to Indonesian President Yudyhono, “global economic recovery cannot be separated from regional dynamics,” and Indonesia is playing a vital role in regard to increasing the connectivity of its own geographic region. In an effort to increase responsible food security policies in particular, Indonesia has established the ASEAN+3 Emergency Rice Reserve to ensure access to quality food for all even in times of rough economic turmoil. Indonesia has also been at the forefront of developing a sustainable method of agriculture through its recognition that investing heavily in simple staple crops, such as potatoes, can yield high returns on investment. Indonesia recognizes that “global growth remains sluggish and downside risks are even greater.” If we wish to see an increase in global growth we must work to ensure that we carefully manage all future global growth and the associated risks through ensuring the presence of growth and sustainability initiatives and preserving the economic independence and success of all Member States.

In order to so this, Indonesia suggests that we assess our progress in all areas of our previous major commitments, but particularly those in the areas of global economic challenges, the problem of a sluggishly growing global economy, and those that pertain to increasing global demand in order to increase global growth through trade. In the words of President Yudyhono, “complacency would never serve our [the G20’s] purpose.” If we as a committee are unable to assess the success and shortcomings of our prior commitments, we will indeed lose our relevancy as the global economy continues to change.

In order to best determine how to manage growth and manage associated risks, we must conduct a large-scale review of all prior commitments and initiatives passed by the G20 since its transition following the end of the global financial crisis in 2009. Once we have conducted a review of our previous commitments and initiatives, we must decide which commitments we have successfully completed, which are no longer relevant, and which we must still attain. Additionally, we need to develop an action plan to meet the commitments that we retain as we move forward and set forth a reasonable timeframe to do so. Now is the time for a plan to accomplish our previous plans, it is not the time for another document proposing yet another new plan. The plans that we have set forth previously were well-intended, and as such deserve our utmost attention moving forward.

II. Competitive Devaluation of Domestic Currencies

Competitive devaluation, also known as currency war, occurs when a country or region modifies its currency to become more competitive in the foreign market, which causes friction between other economies and markets. By devaluating its currency, a Member State’s goods look cheaper in relation to competing goods in both foreign and domestic markets. Currency devaluation can have harmful effects on not only the Member State that devaluates its currency, but also on surrounding Member States’ economies as well. Increases in inflation, decline in economic standing (their own and others’),

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[1] Newsdesk Media Group. "G20 Information Centre." *The G20 Cannes Summit*. G20 Research Group, 1 NOVE 2011. Web. <http://www.g8.utoronto.ca/newsdesk/cannes/index.html>.

and a potential for the ripple effect – as the decrease in the price of commodities domestically and abroad can result in shortages in supply against increasing levels of demand and lead to long-term economic turmoil – are all risks which face Member States that choose to devaluate their own currencies.

Competitive devaluation may seem like a simple short-term solution, but in the end it can lead to the long-term demise of a functioning system. Indonesia is no stranger to the role that regional and international economic decision making play in maintaining the integrity of all currencies and serves as a prime example of just how long the effects of competitive devaluation can remain in play. Indonesia had to wait 13 years for the value of the Rupiah, its domestic currency, to be restored after the 1997 and 1998 Asian Financial Crisis, which was brought on by regional competitive devaluation. To this day Indonesia continues to deal with the consequences of the Asian Financial Crisis, having only gained political independence in 1999 after suffering the greatest damage of all Asian countries during the Asian Financial Crisis.

As recently as September 2013, Indonesia was facing concerns over the value of the Rupiah, having been one of the primary emerging markets most affected by the international economic decisions of the United States over the past few years. Following the U.S. Federal Reserve's decision to maintain its pace of monetary stimulus to Indonesia and other countries by not adjusting its $85 billion dollar monthly bond purchases upon finding that the financial environment for emerging markets would be less harsh in the coming months, the Jakarta Stock Exchange rose nearly 5 percent and the Rupiah gained 4 percent against the US Dollar. Bank of Indonesia Chief Spokesman, Difi A. Johansyah said that the Federal Reserve's decision "Reduce[d] some of the pressures for capital outflows and reduce[s] the pressure on the Rupiah for the time being, but we have to work to stabilize the Rupiah. The root of the problem is domestic, the current account deficit and inflation."[2] Indonesia was found to have the greatest affected interest rates of the 19 affected emerging markets when the US Federal Reserve decided to maintain its stimulus. Due to the large amount of control that the United States has over Indonesia's currency, Indonesia has allowed its citizens to hold deposits in USD at Indonesian Banks. Until recently, many citizens have been unwilling to convert their deposits in USD to Rupiah as they worried that their local currency was overvalued.

In addition to facing variability at the hands of international economic partners, Indonesia and other emerging-market Member States who are net oil producers also face variability in the value of their currency when the price of oil – which is measured in US Dollars – is driven up. According to Johansyah, "If the weakness of the Rupiah lasts a longer time, it will create imported inflation." While growth is vital to enhancing the quality of life and the economic stance of developing Member States, it is also important that we take into account their need for stability, especially in regard to currency and financial sustainability. Indonesia is currently focusing all of its policies towards stabilization of currency and inflation. If Member States do not work to ensure their stability, it is unlikely that they will be able to survive a currency war.

Currency devaluation, while not a commonplace problem yet, has the potential to become more prevalent as countries stand to gain from decreasing their currency's competitiveness. Developing countries adopt soft currencies and developed countries benefit from relocating their industries to developing countries to assuage costs. Competitive devaluation can therefore be seen as "one last tool to unravel the manufacturing jobs and uncompetitive export problems," and therefore may increase in popularity. Indonesia experienced a period of rapid high-liquid capital flow in 2009 and 2010 when the Rupiah appreciated against a massive influx of foreign funds. As a result, Indonesian exports became less competitive and imports climbed, yet many benefits also ensued: energy subsidy costs were reduced, imported inflation slowed down, and the Rupiah's value was restored for the first time since the 1997 Asian Financial Crisis.

As set forth in the 2013 G20 Summit Declaration, Clause 17, "We reiterate our commitments to move more rapidly toward more market-determined exchange rate systems and exchange rate flexibility to reflect underlying fundamentals, and avoid persistent exchange rate misalignments. We will refrain from competitive devaluation and will not target our exchange rates for competitive purposes. We will resist all forms of protectionism and keep our markets open."[3] It has been reiterated in every Declaration issued from a G20 Summit since 2010 that intentional competitive devaluation has no place in maintaining global economic sustainability.

It is paramount moving forward that the G20 set forth a more comprehensive stance on the issue of competitive devaluation of currencies in order to educate and warn our fellow Member States, especially those still developing who may be more tempted to utilize devaluation as a technique to at least temporarily bolster their economy, so that Member States do not utilize devaluation techniques at the intentional or accidental expense of other economies. Indonesia calls the G20 to work alongside the World Bank to conduct a project that promotes economic stability in all Member States, but particularly those with developing economies, in order to prevent any future independent, interregional, or international misuse of competitive devaluation of currency. Regional educational summits which include information on numerous economic issues, to include competitive devaluation and its effects, could be beneficial to all Member States as competitive devaluation rarely only effects the Member State that initiated the devaluation. It is best for us, the G20, as the body that is looked upon to promote and maintain international financial responsibility, to be proactive in preventing future occurrences of competitive currency devaluation on all levels.

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[2] Bradsher, K. "Emerging Markets Optimistic as Fed Tapering is Pushed Back." *Business BVI*. 9 SEPT 2013. Web. <http://www.oysterbvi.com/business-bvi-mobile-articles/622-emerging-markets-optimistic-as-fed-tapering-is-pushed-back>.