Edited Volume

Civil Society Perspectives on Indonesia's Accession to the Organization for Economic Cooperation and Development (OECD)

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Preface and Reflection

The Organization for Economic Cooperation and Development (OECD) is one of the world's most influential multilateral economic and development research organizations. Founded in 1960, the OECD has since held a strategic position in the key pillars of the global governance architecture. As a transnational forum and platform, the OECD contributes to shaping the global economic development policy agenda through the formulation, standardization, and dissemination of methodologies, analyses, and best practices; in key sectors such as taxation, trade, education, the environment, public governance, and international development (Runde, Askey and McKeown, 2020). The outputs that the OECD has produced are being widely used for policy guidance and comparative analysis by both member and non-member countries, international financial institutions such as the World Bank and the International Monetary Fund (IMF), regional multilateral bodies such as the European Union (EU) and ASEAN, economic forums such as the G7 and G20, as well as governments, businesses, philanthropists, think tanks, and many more.

As a membership-based organization, the OECD now comprises 38 participating countries representing 41.1% of global GDP and controlling 80% of global trade. At least 87% of its members or 33 of them are advanced nations, while the remaining 13%, or 5 of them are developing countries. European member states of the OECD include Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland and the United Kingdom.

OECD member countries from the Americas are Canada, Chile, Colombia, Mexico, Costa Rica, and the United States. In the Asia Pacific region, it is represented by Australia, Japan, South Korea, and New Zealand, and in the Middle East, by Israel and Turkey. Chile, Colombia, Mexico, Costa Rica, and Turkey are the OECD's developing country members. In the last 50 years, the OECD has expanded its partnerships and membership with emerging economies, specifically developing nations that engage with global markets as they grow.

Indonesia, as one of the largest emerging economies in the world, has been engaging with the OECD since 2007. Such collaborative ties have been fostered since Indonesia's designation as an OECD Key Partner through the Enhanced Engagement Program. The partnership was further strengthened by Indonesia entering into the Framework of Cooperation Agreement in 2012, and the Privileges and Immunity Agreement the following year. In 2014, Indonesia was elected Co-Chair of the OECD Southeast Asia Regional Program (OECD SEARP). This was followed by the establishment of an OECD representative office in Jakarta in 2015.

The Framework of Cooperation Agreement renewed every 5 years, provides the basis for cooperation between Indonesia and the OECD. This is manifested through the Joint Work Program (JWP) for intervention in priority policy areas where improvements are required in alignment with OECD standards and recommendations. For example, in 2017-2018, the key priority areas were business climate reform, social policy, green and inclusive economic growth, and good governance. In 2019-2021, the priority areas broadened to macroeconomic management, infrastructure development, and resilient and sustainable development.

Indonesia seeks to consolidate its ties with the OECD by applying for membership on July 14, 2023 (BKF, Ministry of Finance, 2023). Seven months later, on February 20, 2024, Indonesia became the first Southeast Asian country with which the OECD has officially decided to open accession discussions. Indonesia joins the rank of accession candidate countries along with Argentina, Brazil, Croatia, Peru, Bulgaria, and Romania (Indonesian Cabinet Secretariat, 2024). The OECD does not set a deadline for a country's admission into membership. This means that the decision to accept or reject an application is contingent upon the country's ability to align its policies to OECD standards. Based on the experiences of several OECD developing country members, it took Chile 3 years to join the organization, while for Costa Rica and Mexico, it was 6 and 7 years respectively. Indonesia's accession process will likewise depend on its ability to see through structural policy reforms and practices at the national level under OECD recommendations.

The Indonesian government sees itself joining the OECD fold within 3 years or in 2027. By the time this preface was written, the OECD had presented the Accession Roadmap for Indonesia at the Ministerial Council Meeting on May 2-3, 2024 at the OECD headquarters in Paris (OECD Newsroom, 2024). The roadmap sets out

Indonesia's path to structural policy reforms in line with OECD standards and best practices. It outlines priority areas for improvement or adaptation, which will be rigorously assessed throughout the accession process by 26 OECD Technical Committees. These in-depth technical reviews cover key policy areas, including open trade and investment, public governance, integrity, and anti-corruption, as well as environmental protection and effective climate action.

In response to this, the Indonesian government formed an OECD National Team under Presidential Decree No. 17/2024 (Coordinating Ministry for Economic Affairs, 2024). The OECD National Team, chaired by the Coordinating Minister for Economic Affairs, is responsible for the following 4 key areas:

1. Organize and coordinate the preparation and expedition of Indonesia's OECD membership, in convergence with national interests yet maintaining the principle of free and active foreign policy;
2. Coordinate, negotiate, and galvanize support for the preparation and expedition of Indonesia becoming a party to the OECD Convention, and other relevant OECD legal instruments, to fulfill the requirements for OECD membership;
3. Identify and set the order of priorities, and formulate recommendations for the necessary adaptations to standards, policies, and legislation as part of the preparation and expedition of Indonesia's OECD membership;
4. Develop and implement strategies for public communication and information dissemination relating to the preparation and expedition of Indonesia's OECD membership.

Indonesia's accession to the OECD also reflects the country's commitment to achieving the Golden Indonesia Vision by 2045. Its quest to join the "rich-country club" is impelled by several considerations. First, the accession process can promote economic governance reform and a more desirable form of development. The national development agenda of the succeeding administration, following the presidential transition, will be kept in alignment with the Accession Roadmap (Shofa, 2024). We can therefore expect public policies to be fairly influenced by the Roadmap. Second, it can widen access to global markets and financial resources. Indonesia has actively forged economic cooperation with its European counterparts. For example, through the Indonesia-European Union Comprehensive Economic Partnership Agreement (IEU-CEPA), economic fora such as the G20, international financial institutions such as the IMF and World Bank, and numerous bilateral partnerships.

Third, it will allow Indonesia to escape the middle-income trap by bolstering economic growth through foreign investment, technology transfer, and competitive human capital. Joining the OECD is part of efforts to steer Indonesia towards becoming a developed nation, with a per capita income target of USD 30,300 as prescribed in the National Long-Term Development Plan (RPJPN) for 2025-2045 (Bappenas.go.id, 2024).

Given the aforementioned considerations, which are more economic growth-oriented, Indonesia's accession to the OECD calls for a discourse with critical responses from the public, civil society organizations, and other non-governmental groups. This is indeed crucial as policies that solely prioritize economic growth often do not correlate positively with increased welfare and reduced inequality or structural poverty.

Going forward, the OECD Accession Roadmap should be embedded into the policymaking process. As such, it is foreseeable that the accession process will significantly influence the leadership of Indonesia's next administration following the general elections. In response to this, the International NGO Forum on Indonesian Development (INFID) in collaboration with the PRAKARSA, Transparency International Indonesia, Publish What You Pay (PWYP), Migrant CARE, and CELIOS present an alternative analysis that can enrich the accession discourse.

In this edited volume of "Civil Society Perspectives on Indonesia's Accession to the OECD", we analyze the potentials and challenges of economic development that the government needs to take into account. Our collective response arose from a concern over Indonesia's policy governance, which currently falls far short of the OECD's high standards. Indonesia still has plenty of work to do adapting to OECD policy recommendations. We found it necessary to revisit OECD measures; how far adrift are Indonesia's current policies from the OECD standards, the extent to which the implementation of the OECD policies has had the desired impacts, and what measures are recommended to ensure that accession genuinely brings benefit to the people of Indonesia.

Based on the OECD's logic for promoting investment and free markets, the starting point for our analysis is geopolitics and economic liberalization. We acknowledge the need for the government to act prudently in safeguarding our economic sovereignty. In the geopolitical-economic context, the government should invest more in human capital and research and development to be able to break away from the commodity dependence trap by producing and diversifying into high-value-added goods and services. In addition, economic liberalization should directly benefit the advancement of a pro-people economy. The current economy is largely buoyed by SMEs and the informal sector. If markets are to become freer, the government should build an economic strategy that enhances the comparative advantage of businesses to increase their manufacturing competitiveness and strengthen their ability to access and/or expand markets in OECD member countries within the framework of a free market economy.

The ability to compete with OECD member countries will undoubtedly hinge heavily on the quality of human capital. Our analysis then extends to the issue of decent work and migrant workers. This point of departure draws from the current state of the job market with limited employment opportunities, both in terms of quantity and quality. Indonesia's demographic dividend does not necessarily mean more decent job openings and better work conditions, or improved living standards for vulnerable laborers and migrant workers. Workers' living standard is increasingly compromised by the passage of the Omnibus Law on Job Creation, which does not converge with the OECD's worker welfare standards. Workers are similarly caught in the so-called "comparative advantage trap".

Indonesia's low-cost labor, an attractive proposition often touted to attract investment, in fact, harms workers. The situation is exacerbated by the slow upskilling of Indonesian workers. Poor worker welfare and skills could backfire on the government if it wants to compete with OECD member countries. Under its set of standards, the OECD actively encourages investing in human capital to maintain a comparative advantage among its member countries in international trade.

The next point of interest is social welfare. We analyze social spending and social protection as a share of tax revenue. We see this as a key instrument that deserves more serious attention to scale up human capital investment for reducing poverty, inequality, and other adverse effects of economic development. This is closely correlated with the quality of healthcare, education, social assistance, and care work, which should be responsive to societal needs; especially for women, people with disabilities, the marginalized, and other vulnerable groups.

Learning from the COVID-19 pandemic, the government should take into account shock factors that may magnify vulnerability, especially in times of climate crisis and disasters. As Indonesia's social spending is grossly inadequate compared to OECD member countries, it would be expected of the government to increase social expenditure by what the OECD has recommended to Indonesia. Raising the level of social spending should also be accompanied by an increase in the ratio, with proportional and accountable taxation as practiced by OECD member countries.

Government revenues, either from taxes or other revenue sources, should be managed responsibly with integrity and transparency. We also put the spotlight on corrupt practices and Responsible Business Conduct (RBC) as the next two areas of analysis. First, we observed the emasculation of Indonesia's anti-corruption agency (KPK, *Komisi Pemberantasan Korupsi*) and a significant decline in its Corruption Perceptions Index (CPI) score as an indicator of the country's recent track record in corruption busting. This is surely not an ideal situation when compared with OECD member countries in general. It is however worth noting that OECD members are likewise not entirely corruption-free. A high CPI score in these countries simply indicates sporadic corruption and high-level public trust in government institutions to eradicate corruption. We see shifting patterns of corruption through foreign bribery across countries.

Foreign bribery refers to any act of bribery that takes place outside the jurisdiction of a country to sidestep regulations. This practice is fairly widespread in several OECD member nations and many do not see the OECD being forceful enough in combating foreign bribery. Indonesia should not only improve domestic anti-corruption policies but also pay attention to transnational corruption and manage conflicts of interest at the regulatory and institutional levels. Foreign bribery is detrimental to developing countries due to much lower capital and power relations in the international banking sector.

Second, we noted how government revenue receipts are inextricably linked to the role of corporations and investors. Businesses should operate in a socially and environmentally responsible manner as a moral obligation. In this regard, we consider RBC as a useful framework for analysis. The significant contribution of extractive industries, such as mining, to the Gross Domestic Product (GDP), comes with negative consequences for local communities, indigenous peoples in particular, and the environment. The OECD endorses the RBC framework as a business process that regulates the mitigation and management of the undesirable side effects of the production of goods and services by business enterprises, especially multinational corporations.

Multinationalism needs to be a keyword in the context of economic liberalization. Multinational corporations that do business in Indonesia or vice versa should give attention to economic interdependence and its implications for business operations in the host country. As Indonesia actively exports agricultural products to OECD member countries such as those in Europe, the government needs to ensure that the domestic production of goods and services causes no harm to local communities and the environment. This could help boost Indonesia's image and competitive advantage in the international market.

An equally important point is the need to empower and strengthen Civil Society Organizations (CSOs) as a crucial element of development. Indonesia's accession to the OECD will directly impact civil society groups. Becoming part of the OECD means international recognition as a developed nation all set to compete with other advanced countries, especially given Indonesia's status as an upper-middle-income economy. As the majority of donor countries are OECD members, there may be a significant drop in international funding to Indonesian CSOs when Indonesia gains membership. Indonesia will be left in a quandary arising from the following two challenges. First, most Indonesian CSOs continue to rely on foreign funding. They are in dire need of alternative funding sources outside international donors, to ensure the continuity of development programs.

Second, through IndonesianAID, Indonesia is taking on a new role as an emerging donor. However, IndonesianAID focuses primarily on granting aid to foreign countries and has yet to extend assistance to empowering domestic CSOs. The OECD's Development Assistance Committee (DAC) actively monitors and evaluates foreign development cooperation funding policies, including with regard to identifying countries deemed worthy of funding. It is now time for the government to think about the fate of Indonesian CSOs to ensure public participation and inclusive democracy.

In Indonesia, governance as a state practice in general still trails behind OECD member countries. This statement is substantiated by the fact that as many as 26 policy areas still need to align with OECD recommendations, which include finance, economics, anti-corruption, healthy competition, digital economy, and consumer policy (CNN Indonesia, 2024). With a level of alignment at a low 14% between national policies and OECD instruments, the Indonesian government's plan for structural reform within 3 years is an ambitious target that should not only focus on the attainment of goals but also the policy reform process itself, which should be fair to all Indonesian people.

We need to point out that Indonesia's accession to the OECD should place national interests at the forefront of development, oriented to improving the well-being of all. This is consistent with the OECD tagline, "Better Policies for Better Lives". The people should be at the heart of every decision, particularly when they are the ones to bear the brunt of asymmetric economic development policies. OECD standards held to high and rigorous levels should be adopted to improve welfare, in terms of the economy, healthcare, education, decent work, and the environment, and reinforced with transparent and accountable governance. Indonesia's Welfare Index remains far behind OECD member countries. Structural policy reform for the accession process, a target set for the next 3 years, requires welfare improvements in areas where needs are unmet. In addition, the process of structural reform should be democratic, accountable, and transparent.

On a final note, this edited volume was curated not to spark a discourse for or against Indonesia's accession to the OECD—bearing in mind that the accession process is already underway albeit without dialogue, outreach, or public consultation with non-governmental groups. On the contrary, this book hopes to stimulate meaningful discourse on OECD accession among stakeholders, including the public, who may not already know the contextual circumstances of Indonesia's accession. This publication also serves as a source of reference that enriches perspectives and considerations for more transformative, sensible development policies in Indonesia.

We also hope that the papers in this publication adequately represent a collective viewpoint on how Indonesia's accession to the OECD should benefit us all. We look forward to your reading, reflection, and critical thinking.

Team of authors
Angelika Fortuna

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Acronyms and Abbreviations

ADB	:	Asian Development Bank
AEs	:	Advanced Economies
APBN	:	*Anggaran Pendapatan dan Belanja Negara* / National Budget
APEC	:	Asia-Pacific Economic Cooperation
ASEAN	:	Association of Southeast Asian Nations
BLU	:	*Badan Layanan Umum* / Public Service Body
BKPM	:	*Badan Koordinasi Penanaman Modal* / Indonesian Investment Coordination Board
BPS	:	*Badan Pusat Statistik* / National Statistics Office
BRICS	:	Brazil, Russia, India, China, and South Africa
CCS	:	Carbon Capture Storage
CELIOS	:	Center of Economic and Law Studies
CGI	:	Consultative Group on Indonesia
COVID-19	:	Coronavirus Disease 2019
CPI	:	Corruption Perceptions Index
CSO	:	Civil Society Organization
EIA	:	Environmental Impact Assessment
EIU	:	Economic Intelligence Unit
EMEs	:	Emerging Economies
EITI	:	Extractive Industries Transparency Initiative
EU	:	European Union
FATF	:	Financial Action Task Force on Money Laundering and Terrorism Financing
G7	:	Group of Seven
G20	:	Group of Twenty
GDP	:	Gross Domestic Product
HLC	:	High-Level Conference
ICT	:	Information and Communication Technology
IEU-CEPA	:	Indonesia-European Union Comprehensive Economic Partnership Agreement
ILO	:	International Labor Organization
IMF	:	International Monetary Fund
INFID	:	International NGO Forum on Indonesian Development
IndonesianAID	:	Indonesian Agency for International Development
IPR	:	Intellectual Property Rights

JETP	:	Just Energy Transition Partnership
JICA	:	Japan International Cooperation Agency
JWP	:	Joint Work Program
KPA	:	*Konsorsium Pembaruan Agraria* / Consortium for Agrarian Reform
KPK	:	*Komisi Pemberantasan Korupsi* / Corruption Eradication Commission
LDKPI	:	*Lembaga Dana Kerjasama Pembangunan Indonesia* / Indonesian Agency for International Development Cooperation Fund
LIDCs	:	Low-Income Developing Countries
MDGs	:	Millenium Development Goals 2000
MSME	:	Micro-, Small and Medium-Sized Enterprise
NGO	:	Non-Governmental Organization
NCP	:	National Contact Point
NRC	:	Natural Resource Curse
ODA	:	Official Development Assistance
ODF	:	Official Development Finance
OECD	:	Organization for Economic Cooperation and Development
OECD-SEARP	:	OECD Southeast Asia Regional Program
OSS RBA	:	Online Single Submission Risk Based Approach
OXFAM	:	Oxford Committee for Famine Relief
PKBI	:	*Perkumpulan Keluarga Berencana Indonesia* / Indonesian Planned Parenthood Association
PMDN	:	*Penanaman Modal Dalam Negeri* / Domestic Investment
PWYP	:	Publish What You Pay
RBC	:	Responsible Business Conduct
R&D	:	Research and Development
RPJPN	:	*Rencana Pembangunan Jangka Panjang Nasional* / National Long-Term Development Plan
SDGs	:	Sustainable Development Goals
SMEs	:	Small and Medium-Sized Enterprises
SMK	:	*Sekolah Menengah Kejuruan* / Vocational High School
SOE	:	State-Owned Enterprise
TI	:	Transparency International
UMIC	:	Upper Middle-Income Country
UN	:	United Nations
UNCAC	:	United Nations Convention Against Corruption
UNFCCC	:	United Nations Framework Convention on Climate Change

Understanding the Political Positioning of Indonesia's Economic Liberalization and Geopolitics towards the OECD

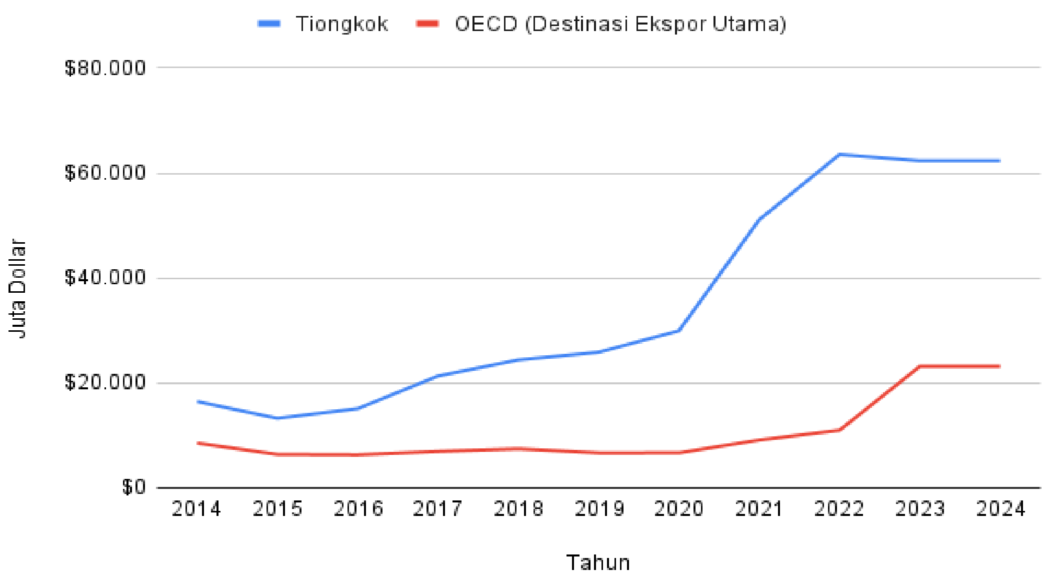
Center of Economic and Law Studies (CELIOS)

Indonesia's Economic Cooperation and Geopolitical Position in Context

Under the Jokowi administration, Jakarta's ties with Beijing reached an all-time high in the history of their bilateral relations. The President's ambitious plans for infrastructure development entailed a heavy reliance on China for large-scale investments.

In addition, intensified Indonesia-China trade relations are evidenced by a bilateral trade balance that has shown an upward trend, reaching USD 75.34 billion in December 2023 (BPS, 2024). Over the last nine years, China has consistently been Indonesia's leading trading partner, replacing Singapore and Japan (BPS, 2024). Indonesia's export value to China has also been on a steady rise, at a much higher rate than to OECD countries in the last ten years. Meanwhile, Indonesia's cooperation with Western countries saw a downward trajectory ever since a closer alliance with China was forged. The figure below shows a fairly large gap between China and OECD countries as Indonesia's largest export destinations.

Figure 1. Indonesia's Exports to Top Destinations, China and OECD Countries (2014-2024)



Source: Compiled from the National Statistics Office, BPS Indonesia (2024)

Given the situation above, a crippling dependence on China poses a risk to Indonesia's economic stability, especially when China's economy is forecast to lose steam over the next 5 years. CELIOS sees the imperative for Indonesia to break free from the middle-income trap and to de-risk from China. This can be done, among others, by joining the OECD to diversify its partnership portfolio, while exploring wider market and investment opportunities in larger and more advanced economies. Indonesia intends to make the most of the opportunities afforded by joining the OECD to get closer to Western countries, and at the same time counterbalance China's dominance in Indonesia's economic cooperation landscape.

In the geopolitical context, its emergence as a middle power (Lowy Institute, n.d.; Triwibowo & Martha, 2021) seemed to have also stirred Indonesia's interest in preferring to press forward with its accession to OECD rather than with the BRICS alliance.[1] Several considerations make the OECD appear to be more appealing to Indonesia than BRICS. *First*, in terms of opportunities and challenges, the OECD provides more stability as regards economic cooperation compared to BRICS, where conflicting interests between its member states such as China and India can lead to an unstable alliance. *Second*, China's dominance within BRICS can put Indonesia at greater risk of overdependence on China if it joins the group.

Indonesia needs to foresee the negative impacts that may arise from OECD membership. One of which is the risk of increased trade liberalization, and cementing Indonesia's position as a raw material market and producer.[2] This is an important risk to anticipate, especially considering Indonesia's competitiveness in the global market, which remains on the low side. On the other hand, opportunities abound on which Indonesia can seize to achieve its long-term development goals.

Examining the OECD in the Context of Economic Interdependence

Indonesia has been an OECD Key Partner since 2007. Today, as it undergoes the accession process, Indonesia is expected to adopt the accession roadmap that the OECD has prepared to guide reforms in alignment with OECD standards (Agency for Foreign Policy Strategy, Indonesian Ministry of Foreign Affairs, 2023). Indonesia needs to evaluate its trade performance and anticipate the impact of increased trade relations with OECD countries, most of which are high-income economies.

Several components make up Indonesia's current account deficit[3]. However, the deficit is probably a logical consequence of a developing country and the characteristics attached to it, where the economy is largely driven by domestic consumption (consequently, imports outpace exports in terms of growth). We also need to pay close attention to Indonesia's export performance, which tends to be highly dependent on oil and gas.

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1 BRICS is an organization for cooperation among a group of developing countries. The members are Brazil, Russia, India, China, South Africa, Iran, Ethiopia and the United Arab Emirates. BRICS' areas of cooperation include political and economic relations.

2 Trade liberalization refers to the removal of international trade barriers, both tariff and non-tariff. It is the antithesis of protectionism. Trade liberalization applies the free market principle, where goods and services (and at a certain point, the flow of capital and labor) from other countries can enter and leave a given country without any significant restrictions. Meanwhile, the politics of liberalization referred to in this article focuses on Indonesia's background and process in its decision to get closer to the OECD.

3 The current account balance consists of the trade balance and current transfers (e.g., remittances from Indonesian migrant workers abroad).

Table 1. Trend in Current Account Balance ofGermany, Japan, Korea, and Indonesia, 2013 – 2023

Year	Current Account (USD billion)				Current Account (% of GDP)			
	Germany	Japan	Korea	Indonesia	Germany	Japan	Korea	Indonesia
2013	246.5	46.2	77.26	-29.27	6.59	0.89	5.64	-3.17
2014	283.5	36.5	83.02	-27.75	7.29	0.78	5.6	-3.11
2015	293.5	136.7	105.12	-17.58	8.75	3.08	7.17	-2.04
2016	300.8	192.6	97.9	-16.93	8.7	3.84	6.56	-1.83
2017	290.7	205.5	75.23	-16.1	7.88	4.17	4.64	-1.58
2018	318.4	177.2	77.46	-30.52	8.01	3.51	4.49	-2.94
2019	321	172.7	59.67	-29.8	8.24	3.38	3.62	-2.66
2020	253	148.6	75.9	-4.73	6.51	2.91	4.52	-0.45
2021	314.2	195.4	85.23	3.35	7.38	3.87	4.68	0.26
2022	172.9	79.1	25.83	13.2	4.25	1.79	1.45	0.99
2023	263.5	148.1	35.47	-1.6	5.91	3.54	2.07	-0.11

Source: Compiled from the OECD (2024)

Further to the situation above, the OECD highlights Indonesia's export specialization in natural resources, labor-intensive industries, and low-tech sectors (OECD, 2021). Consistent with the OECD, BPS similarly noted the continued dominance of primary and semi-finished commodities, such as coffee, coal, iron/steel, and palm oil, in export trends in 2023 (BPS, 2023b). Government revenues are still mainly derived from natural resource extraction, the availability of which is exhaustible, the prices volatile, and the demand strongly influenced by the economic situation of advanced countries. As a developing nation, greater dependence on industrial countries with economic advantages (Baran, 1957) exposes Indonesia to the risk of being trapped in the periphery.[4]

4 This is a terminology in the world-systems theory that labels underdeveloped or developing countries, whose primary role in international trade is the supplier of low-skilled labor (thus low wages) and raw materials to core (developed nations) or semi-periphery countries. There is no convention on measuring and identifying whether a country falls into the peripheral category. The classification may also change as a country develops. A group of scholars discussing this topic several years ago categorized Indonesia as a peripheral country (see Dunn et al., 2000; Wallerstein, 1976). Others consider Indonesia to be a semi-periphery country or a transition between the core and periphery (see Babones, 2005).

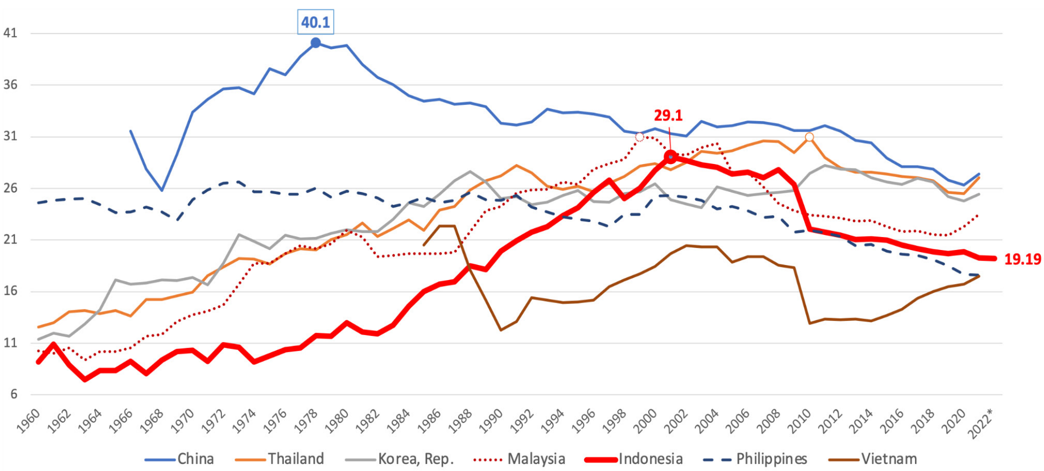
Table 2. Indonesia's Export of Primary and Semi-Finished Goods to the United States, Japan, and South Korea, 2023 (in US$)

Primary and semi-finished commodities	Japan	South Korea	United States
Coal	6.6 billion	4.09 billion	16.4 million
Nickel ore	1.03 billion	11.3 million	5.9 million
Wood	731 million	386.1 million	475.1 million
Rubber	738.1 million	114 million	1.6 billion
Paper	373.3 million	212 million	264.4 million
CPO	115.4 million	224 million	1.9 billion
Tobacco	103.7 million	32.1 million	195.5 million
Coffee	63.6 million	13.4 million	319.5 million
Cocoa beans	20.3 million	4 million	121.8 million
Iron and steel	16.7 million	309.1 million	126.2 million

Source: Compiled from Trade Map (2024)

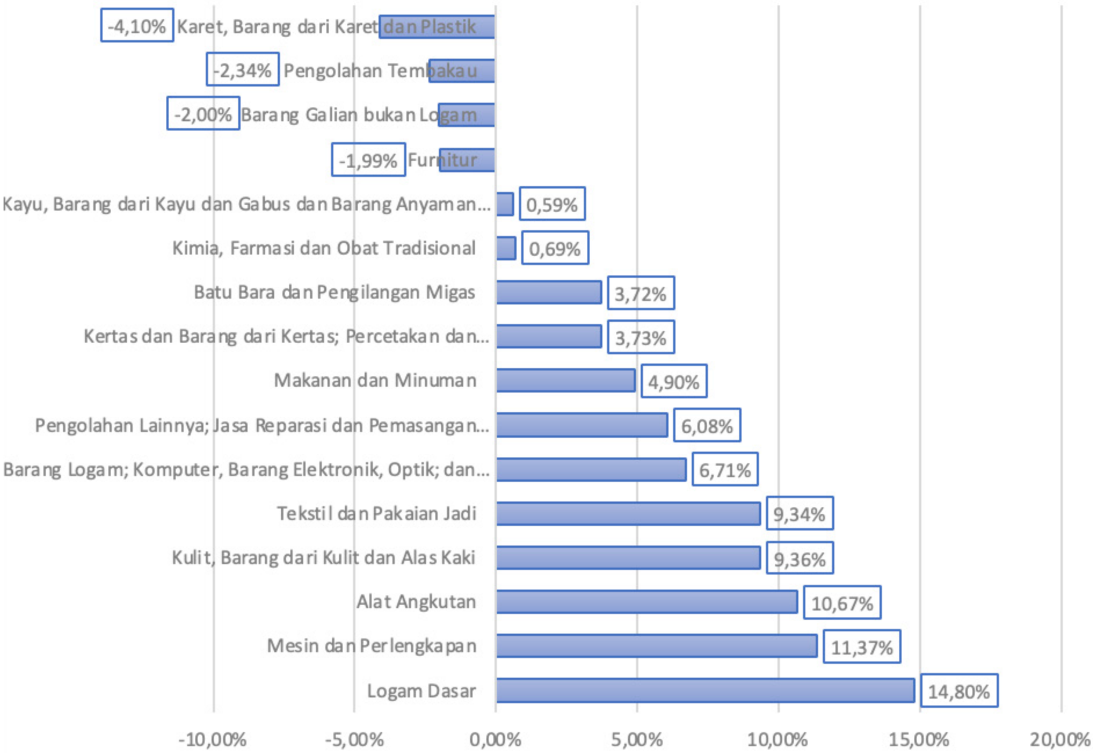
Furthermore, the natural resource curse (NRC) is a prevalent phenomenon in Indonesia due to the country's dependence on natural wealth (Rahma, et al., 2021). Some economists contend that such reliance is a key driver of premature deindustrialization in Indonesia. As an illustration, the downstream sector has failed to reduce poverty and inequality in several nickel-producing regions (CELIOS, 2024). North Maluku and Central Sulawesi for example, were casualties of the nickel export boom in the short run. Meanwhile, Indonesia's share of manufacturing in GDP continues to shrink to below 20% as downstream operations are dominated by the semi-finished goods subsector.

Figure 2. Share of Manufacturing in GDP (%) in Asian Countries



Source: BPS (2024), World Bank (2024)

Figure 3. Growth of the Manufacturing Industry by Subsector, 2022



Source: BPS (2023)

Dependence on extractive industries such as coal is a source of vulnerability for the Indonesian economy. The global trend toward energy transition away from fossil fuels also poses a risk to the demand for these commodities that would further decline in the long run. In the next few decades, this sector may no longer be able to support the national economy, despite coal currently in high demand.

In response to these challenges, Indonesia should invest more in human capital, accompanied by technology transfer to add more value to domestic production and accelerate diversification into more sustainable economic sectors. This will be discussed further in the next section.

OECD and its Implications for Technological Cooperation with Advanced Countries

Technology transfer is a key enabling factor for promoting value addition in domestic production and diversifying into sustainable economic sectors. Allying with the OECD will afford Indonesia wider opportunities to partner with developed countries in research and development in technology to support the Golden Indonesia Vision 2045. In view of this, closer attention should be given to key elements to ensure that technological cooperation contributes to inclusive and sustainable development.

The government should concentrate on two policy directions set out in the roadmap for technology cooperation with the OECD. First, boosting the competitiveness and productivity of human capital through improved technology literacy and equity with a view to restructuring the labor market. Second, accelerating technological development as part of the national re-industrialization strategy.

Both policy directions seek to reverse premature deindustrialization and a performance decline in the agricultural sector due to a reliance on processed primary commodities. Indonesia's commodity dependence is thought to be the reason behind the neglect of the manufacturing sector (Naya & Takayama, 1990; Rodrik, 2016; Sasmita, 2024), and will undermine agricultural development policies.[5] Manufacturing contributes significantly to the absorption of unskilled labor (Rodrik, 2016) or low-skilled workers (Steenbergen & Wihardja, 2021), who still disproportionately represent the Indonesian workforce (BPS, 2023a). Agriculture is also a vital sector to support national food security.

The former recommended policy direction specifically refers to improving the skills and competencies of human capital to meet the demand for skilled workers, which will be increasingly sought after as Indonesia becomes more adept at producing goods of higher value.

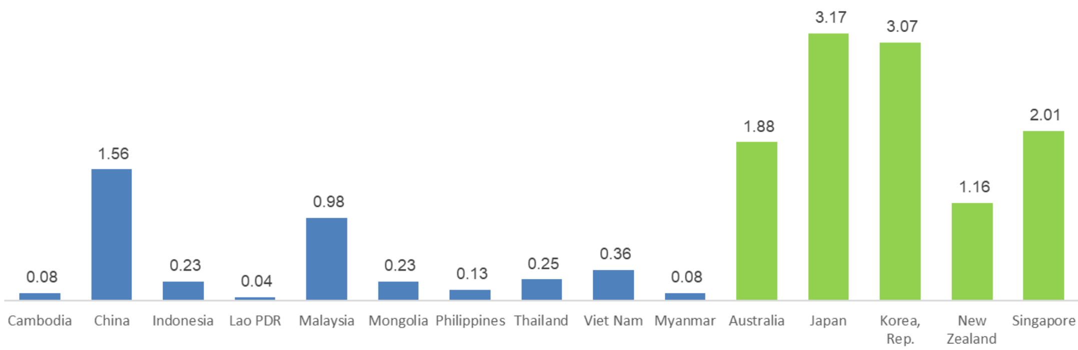
The latter policy recommendation focuses on accelerating the development of specific industries that can harness Indonesia's potential as an agricultural country (which has not been fully tapped), according to the human capital available. Industries that tend to be very capital intensive, such as the high-tech sector, are ill-suited for

5 The conversion of agricultural land into mining sites is an example supporting this claim.

Indonesia given its current state of technology adoption and workforce profile. Nevertheless, Indonesia can overcome this by focusing on the agricultural sector, light industries, basic chemicals, and green economy sectors. The purpose of which is to structurally transform the national economy by increasing the contribution of non-commodity tradable sectors (manufacturing and agriculture).

Unfortunately, up to 2020, Indonesia's investment in research and development was one of the lowest in the Asia-Pacific. During this period, Indonesia's R&D expenditure-to-GDP ratio remains far below the average of low- and middle-income countries, even though the amount is three times higher than in 2000. Indonesia has a lot of catch-up to do as it lags far behind OECD countries in terms of R&D investment.

Figure 4. Median Value (GERD) (R&D Expenditure as a Percentage of GDP) of Developing and Developed Countries, East Asia and the Pacific, 1996-2021



Source: World Development Indicators | DataBank (n.d.)

Table 3. Indonesia's Gross Domestic Expenditure on Research and Development (GERD) Compared to Low- and Middle-Income Countries, 2016-2020

Country Name	2000	2014	2015	2016	2017	2018	2019	2020	2021
Indonesia	0.1	N/A	N/A	0.2	0.2	0.2	0.3	0.3	N/A
Low & middle income	0.6	1.3	1.4	1.4	1.3	1.4	1.5	1.6	N/A
OECD members	2.2	2.4	2.5	2.5	2.6	2.7	2.7	2.9	3.0

Source: World Development Indicators | DataBank (n.d.)

Having said that, technological cooperation with the OECD could provide Indonesia with ample opportunities to increase investment, both in basic and applied research, in value-added sectors. In South Korea, the government and private sector have played their part in investing in research since 1998. However, it is important to note that the investment patterns of developed countries do not always lead to technology transfer. US-based tech company Apple is only interested in opening an Apple Academy in Indonesia with no intention of setting up a manufacturing plant to fulfill domestic sourcing requirements for components. In contrast, Apple made a much larger investment in Vietnam to the tune of IDR 256 trillion with technology transfer opportunities.

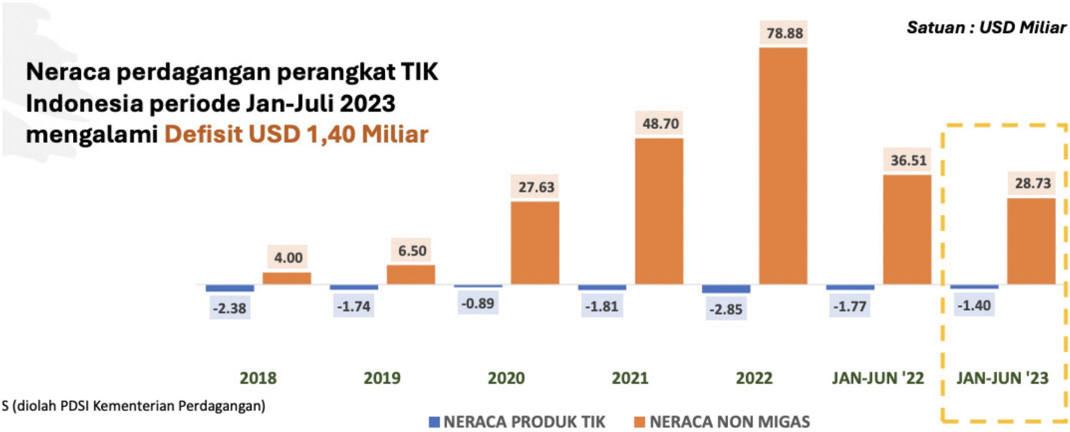
Another risk of Indonesia joining the OECD is an increase in market penetration of high-priced, unproven technology imports. For example, the developed countries behind JETP (Just Energy Transition Partnership) are pushing CCS (Carbon Capture Storage) technology, claiming that it can reduce carbon emissions, which has not even shown one proof of success (IEEFA, 2022). The US is also aggressively promoting small-modular nuclear reactors, which is a high-cost technology that carries environmental and health risks. If we are not careful enough, OECD countries may take advantage of trade and technology cooperation, turning Indonesia into a laboratory for their experiments, which will only benefit corporations in developed countries.

OECD and its Impact on the Liberalization of the Digital Infrastructure Sector

Another fundamental aspect of technology transfer is the development of digital infrastructure for equal access to information, knowledge, and skills to boost economic productivity. Hence, the importance of taking into account the liberalization of the digital infrastructure sector as a result of closer cooperation with the OECD.

Indonesia's entry into the OECD membership will have implications for the liberalization of the infrastructure sector and the digital platform economy. For example, the growth of imports of digital goods and services has opened the door to an influx of foreign digital goods into the Indonesian market. This has the potential to hinder the growth of local businesses that are not ready to compete and will even increase dependence on imported products. According to available data, in January-July 2023, the ICT (Information and Communication Technology) sector recorded a deficit of USD 1.4 billion. Conversely, the non-oil and gas trade balance posted a USD 28.7 billion surplus.

Figure 5: Indonesia's ICT Goods Trade Balance, 2018-June 2023



Source: BPS (2023)

The market dominance of Meta, X-Twitter, and Netflix in Indonesia has sparked debate over the benefit of investment cooperation and more liberal cross-border digital platform regulations, which have led to monopolistic tendencies in the digital ecosystem. Meanwhile, regulatory uncertainty on tax fairness has prevented Indonesia from fully enjoying the benefits.

Increased reliance on tech companies from OECD countries also heightens the risk to user data security (OECD, 2020). With greater deregulation, it will be easier for foreign companies to access user data in Indonesia, increasing the risk to data privacy and security, especially if data protection regulations inadequately address these challenges. User personal data is in danger of misuse, which in turn can damage public trust in the digital ecosystem as a whole. Threats to data security include cyberattacks, which can disrupt digital infrastructure and cause financial losses for individuals and businesses.

Big tech companies that control key technologies related to the digital sector, such as data centers, are also a source of national security risk (Bestari, 2024). There is a plethora of concerns, as regards the control of data among others, which have created a significant distribution of power over to corporations. Not to mention the risk of data misuse by the government, or by foreign powers to influence Indonesia's democratic process. Take for example Cambridge Analytica, which several years ago misused the personal data of Facebook users to influence US elections, and was said to have been instrumental in aiding Trump emerged victorious in 2016. It is therefore crucial for Indonesia to anticipate these risks and tighten national digital security.

On the other hand, collaboration with the OECD will also open up new avenues for Indonesia to boost investment in the digital infrastructure sector. The government acknowledges the country's geographical challenges and uneven population distribution, which are key issues in infrastructure development (KOMINFO, n.d.). Indonesia could consider a cooperation scheme for developing digital infrastructure in different regions, through public-private partnerships between local entities and the OECD (e.g., between SOEs and local companies with corporations or investors from OECD countries).

Moreover, equitable digital infrastructure should not be dissociated from cooperation in the development of micro-, small, and medium-sized enterprises (MSMEs). Digital infrastructure should be able to boost MSMEs' productivity, producing value-added goods and services (non-raw materials) that cater to the needs of OECD countries. The following section focuses on cooperation with the OECD in the MSME sector.

How will Cooperation with OECD Impact MSMEs?

MSMEs are key entities in the national economy. Their contribution to the national economy in terms of employment is 97% (116 million people). They also contribute IDR 9,580 trillion or 61% to the GDP as of August 2023 (Coordinating Ministry for Economic Affairs, 2023). According to the Ministry of Cooperatives and MSMEs, in 2019, there are 65.5 million MSMEs in Indonesia, and in 2022, as many as 8.71 million MSMEs are registered on the Online Single Submission Risk-Based Approach platform, or OSS-RBA in short (Anastasya, 2023).

Nevertheless, MSMEs' significant contribution and impressive growth should not simply be seen as an achievement. It can also be an indicator of failure to create jobs in the formal and industrial sectors as the majority of MSMEs operate informally (Fiscal Policy Agency, 2021). High-income countries tend to have a smaller proportion of self-employed persons or a small number of micro-enterprises as labor absorption in the formal sector is high (La Porta & Shleifer, 2014). In the context of public policy, it is therefore important for the Indonesian government to think of measures that upgrade MSMEs into becoming larger, more established, productive businesses, especially in creating decent work.

The OECD's commitment to improving the economic performance of member countries and globally can pave the way for Indonesia to further develop MSMEs. For example, the OECD has an entity devoted to this particular sector, known as the SMEs and Entrepreneurship Committee. In addition, ministerial-level meetings are regularly convened to discuss SMEs and entrepreneurship (SMEs and Entrepreneurship Committee Business at OECD, 2024). Such commitment to good policy standards based on empirical evidence through forums like these will be advantageous to Indonesia. However, all will be in vain if Indonesia fails to consistently and progressively implement OECD's set of policy solutions, considering that certain membership requirements are non-legally binding.

All things considered, Indonesia joining the OECD can open access to expert assistance, data, international forums, and good economic policy standards, including as regards anti-corruption, financial transparency, taxation, and other forms of support under the OECD programs.

Meanwhile, the potential negative impacts of OECD membership should also be weighed, especially in terms of the liberalization of trade and investment, which may have a bearing on domestic interests, such as land acquisition and preferential treatment of foreign investors from member countries (OECD, 2017). The OECD's cooperation model, which places more emphasis on creating opportunities for large-scale companies, may not always be of much benefit to MSMEs.

The share of MSME exports currently stands at a mere 15.7%, which signifies the absence of a correlation between trade cooperation with OECD member countries and the opening up of export opportunities. This is attributable to the low competitiveness of MSME products, lack of entrepreneur education, fragmented policies on MSME assistance across government ministries, and prohibitive logistics costs. Consumer preferences in developed countries also pose a challenge. With a high per capita income, consumers in more affluent countries look for high-quality goods, such as high-tech electronic components[6], medical devices and pharmaceuticals, and motor vehicle components. In its quest to join the OECD, Indonesia should not be hasty. Especially if the OECD imposes conditions for liberalizing regulations that are detrimental to local MSMEs.

Membership in the OECD can expand a country's international trade network, which can lead to a boost in imports for the other member countries. Local businesses that are struggling to compete will face intensified competitive pressure. For example, when South Korea joined the OECD in 1996, it saw a rise in imports of industrial products from OECD member countries, especially the US and Europe. As a consequence, local companies find it hard to compete with cheaper, or higher-quality, imported goods. Increases in imports after joining the OECD do not necessarily augur well for weaker local businesses and can pose formidable challenges.

Indonesia needs more strategic measures to address emerging challenges in the OECD market. This may include identifying priority MSME sectors in line with national potential, and policy interventions specific to these sectors with financing facilities, local MSME product aggregators, and integrating MSME human resource training programs that would otherwise remain disconnected across government ministries/ institutions and local governments.

6 Semiconductors are one example of this type of product.

Case Study: The Role of Civil Society Advocacy in Brazil and Chile's Accession to the OECD

Despite criticisms leveled against the OECD for its inclination to defend the interests of prosperous countries, the Organization has recently been vigorously expanding membership, targeting developing countries, one of which is Brazil. The OECD enlargement stirred up interest as it offered developing countries benefits that they would otherwise not have had, such as the opportunity to transform competition laws through the adoption of OECD legal instruments and access to the OECD network, which facilitates international cooperation and joint learning for policymakers across countries.

Brazil was the first BRICS member state to apply for OECD membership. Its serious entry bid was prompted by shifts and developments in internal factors, such as sluggish economic growth since 2010, which caused public frustration. Brazil formally requested full OECD membership in May 2017. Several years on, Brazil has adhered to more OECD legal instruments than any other BRICS member (Ministério das Relações Exteriores 2020 in Mello 2020).

However, according to civil society, that quantified level of compliance does not reflect reality. Many civil society organizations and indigenous communities in Brazil who are part of OECD Watch believe that the country has not taken specific measures to preserve the environment, reduce carbon emissions, ensure businesses respect human rights, and eradicate corruption (OECD Watch, n.d., 2022, 2023). Civil society's presence is crucial so the OECD Committee does not easily approve membership accession without considering the factual situation that does not align with the OECD pillars.

Civil society's prominent role in ensuring transparency of information and adherence to OECD pillars is also apparent in the case of Chile. Civil society provided support and assistance to communities affected by Chile's cooperation with the OECD, demanding compliance with environmental, business, and legal standards as a consequence of signing the OECD convention (thus, demonstrating a firm commitment to achieving the OECD's fundamental goals) in 2010 (see OECD, n.d.). As an example, in 2021, Chile's indigenous people lodged a complaint to the OECD National Contact Point, with help from OECD Watch (OECD Watch, 2021). The complaint was leveled against a foreign mining company alleged to have breached OECD principles in securing its social license required for its extractive project.

The cases of Brazil and Chile demonstrate how civil society can help people achieve transparency in the accession process and their respective countries' cooperative ties with the OECD. Civil society also empowers people to assert their rights in the event of business practices that violate OECD principles or standards.

Recommendations

Based on the analysis above, we put forward the following recommendations:

1. Boost investment in human capital and technology transfer to increase the added value of domestic goods, and diversify into more sustainable economic sectors.
2. Increase the competitiveness and productivity of human capital by improving technological literacy and equity, in order to restructure the labor market.
3. Accelerate technological development as part of the re-industrialization strategy.
4. Devise sound national cyber security and data protection strategies.
5. Strengthen cooperation in digital infrastructure development in different regions through public-private partnerships between local entities and OECD entities (e.g., between SOEs and local businesses with companies or investors from OECD countries).
6. Integrate equitable digital infrastructure into MSME development through cooperation.
7. Formulate more strategic measures in facing emerging challenges in the OECD market, such as identifying priority MSME sectors in line with national potential and policy interventions specific for these sectors through financing facilities, local MSME product aggregators, and integrating MSME human resource training programs that would otherwise remain disconnected across government ministries/institutions and local governments.
8. Promote civil society engagement in the accession process and track adherence to OECD instruments.

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The Decent Work and Safe Migration Agenda in Indonesia's Accession to the OECD

Migrant CARE

The Dynamics of Demographic Dividend and Decent Work

Amidst all the fuss and high hopes for the demographic dividend, where Indonesia's young, productive workforce is considered more than capable of delivering on the Golden Indonesia Vision by 2045, the fact remains that around 9.9 million Gen Zers are unemployed[1] and thousands among them are trapped in various forms of trafficking/modern slavery.[2]

1 https://www.kompas.com/edu/read/2024/05/18/080308771/data-bps-99-juta-gen-z-di-indonesia-tidak-bekerja-atau-sekolah

2 https://metro.tempo.co/read/1848363/ribuan-mahasiswa-jadi-korban-perdagangan-orang-di-jerman-ini-jerat-hukuman-bagi-pelakunya

KOMPAS' investigative report on Gen Z and employment draws on the latest employment data released by the National Statistics Office (BPS, Badan Pusat Statistik) in May 2024.[3] It was found that the majority of the unemployed are vocational school (SMK, Sekolah Menengah Kejuruan) graduates.

Figure 1. Open Unemployment Rate (OUR) by Highest Educational Attainment (in percent), 2022-2024

Source: Kompas 2024 from BPS data

This ironic truth comes at a time when the Indonesian government is seeking membership in the OECD, currently undergoing the accession process. At this stage, Indonesia will be assessed on the extent to which it is ready to implement OECD mechanisms, standards, and policies on key areas of concern, including employment.

In terms of employment, in addition to the promotion of decent work, inclusive and gender-just labor markets, workers' social protection, and inclusive and sustainable migration governance, the OECD also pays considerable attention to the young workforce, workers with disabilities, and older workers who are vulnerable and

3 Berita Resmi Statistik, No. 36/05/Tahun ke XXVII, 6 May 2024, retrieved from https://www.bps.go.id/id/pressrelease/2024/05/06/2372/tingkat-pengangguran-terbuka--tpt--sebesar-4-82-persen-dan-rata-rata-upah-buruh-sebesar-3-04-juta-rupiah-per-bulan.html

underrepresented. As the OECD campaigns to eliminate child labor and forced labor, it also wants to make sure that the end-to-end supply chain for goods and services is free from human trafficking and modern slavery.[4]

This paper highlights the major challenges that Indonesia will continue to face throughout the OECD accession process, especially as regards employment and labor migration. The OECD places employment, labor migration, and social protection policies under a single assessment cluster overseen by the Employment, Labor, and Social Affairs Committee.

Employment Opportunities in Indonesia's Post-Pandemic Recovery

The COVID-19 pandemic perpetuated uncertainties about decent work, further contributing to an escalation in global unemployment rates. In the context of the international labor market, the pandemic has restricted cross-border labor mobility for health and safety reasons. Meanwhile, the rise and triumph of far-right populist regimes feed on anti-foreign worker sentiment.

In Indonesia, the labor situation (workers employed inside and outside the country) has its face share of challenges for recovery from the pandemic. Millions of workers (both in local and overseas employment) have lost their jobs. The pandemic may have receded, but jobs were not automatically regained. Some types of employment have even disappeared. This has given rise to the "job-hungry" phenomenon.

Job hungry refers to the scarcity of employment opportunities owing to massive job layoffs and the cessation of overseas worker placements, thereby driving desperate job seekers to look for work by all means possible, dismissing the risks involved, even under uncertain and unsafe circumstances.[5]

Since the pandemic and up to now, there has been a spike in human trafficking under the guise of overseas job openings. Most of these cases use the migrant worker recruitment mechanism as a false front. In the past, trafficking victims were typically domestic workers, those working in plantations and on fishing vessels, and for

4 https://www.oecd.org/fr/corruption/ending-child-labour-forced-labour-and-human-trafficking-in-global-supply-chains.htm

5 We use this terminology in an article featured in Kompas dated 13 November 2022 on "Decent Work for Indonesian Youth" see https://www.kompas.id/baca/opini/2022/11/13/kerja-layak-untuk-kaum-muda-indonesia

sexual exploitation. Nowadays, human trafficking has permeated jobs that use digital technology, such as online gambling operators, where many have been coerced to commit cybercrimes or engage in online scam operations.

Those ensnared in such illicit online activities are the new face of trafficking victims. Trafficking victims are often equated with the poor and vulnerable, lower-class women, the uneducated, and rural dwellers. Now, they include the middle class, college graduates, tech-literate individuals, and urbanites.

Temporary (short-term), low-wage overseas job opportunities in East Asia, Europe, and Australia through internships (as is the case in Japan and Taiwan), seasonal work, working holiday visas, and the *ferienjob* student internship scheme are often exploited by recruitment agencies to their advantage through illegal means.

Their job postings provide misleading information, which is nothing near reality, charging exorbitant recruitment fees that are not commensurate with the wages earned. This all happens as a result of the job-hungry phenomenon. Any job openings even the risky ones will appeal to many who are desperate for work.

This situation above shows how labor migration from Indonesia to foreign countries is far from ideal, largely involving some form of coercion. Indonesians continue to seek work abroad at the risk of being trapped in deplorable working conditions or even being trafficked.

The OECD promotes an ideal migration model based on the principles embedded in the Global Compact for Safe, Orderly, and Regular Migration. Indonesia has adopted this global agreement, yet its migration governance leaves much to be desired.

Indonesia and OECD

Upon tracing the history of Indonesia's relationship with the OECD, it was found that the Organization has long considered Indonesia a strategic partner in Southeast Asia, given Indonesia's position as the most influential country and the only country in the region that is a G20 member.

Indonesia has been an OECD Key Partner since 2007. In 2009, Indonesia became the 34th member of the OECD Development Center and agreed to a declaration of cooperation with the OECD Investment Committee. In 2014, when the OECD launched the Southeast Asia Regional Program, Indonesia was appointed co-chair of the initiative. Indonesia-OECD ties grew closer when in 2015 the Organization set up a representative office in Jakarta.

From the moment Indonesia became a key or strategic partner of the OECD, the Organization has regularly conducted surveys on investment, the economy, energy, employment, and other development issues. These surveys provide valuable insights into the performance and quality of Indonesia's economic development.[6]

Based on OECD documents, Indonesia is a non-OECD member that the Organization has made assessments of regarding investment feasibility and labor migration policies. This is certainly a stepping stone for Indonesia to proceed further in the accession process. However, as the OECD has strict and measurable requirements, it will undoubtedly be a challenge for Indonesia to satisfy membership terms and conditions.

One of the requirements that prospective members must fulfill is the availability of policies on employment, migration, and social protection; which to a large extent refers to ILO labor standards, universal social protection floors, and international human rights instruments.

In the last 3 years, the OECD's investment feasibility study on Indonesia has paid particular attention to Indonesia's capacity to handle the COVID-19 pandemic, which has had a devastating impact on the national economy. The Omnibus Law on Job Creation, Indonesia's flagship policy to attract foreign investment, has elicited a strong reaction from the OECD. On one hand, the OECD acknowledges the Omnibus Law as proof of Indonesia's seriousness in having investment-friendly regulations in place, yet on the other hand, it also questions why the backlash from workers and other civil society groups toward the all-encompassing law.[7]

Instead of improving worker welfare and job security, the Job Creation Law leaves workers in even more precarious circumstances. The Law further undermines worker protections that are covered at a bare minimum in Law No. 18/2017 on the Protection of Indonesian Migrant Workers. This sweeping legislation promotes more flexible

6 The surveys are accessible on the OECD website, specifically on Indonesia, at https://www.oecd.org/indonesia/

7 The critical review is available at OECD (2021), Kajian Kebijakan Investasi OECD Indonesia 2020, OECD Publishing, Paris, https://doi.org/10.1787/4f7e8fad-id.

work arrangements, which means that workers can lose their jobs at any time. The Law, whose drafting process was nothing short of political acrobatics, also reduces the fundamental rights of workers for the sake of facilitating investment.

On February 20, 2024, the OECD decided to open accession talks as the first step to Indonesia's membership bid, in conformity with the Evidence-Based Framework for the Consideration of Prospective Members. On May 2-4, 2024, at the OECD Ministerial Council Meeting, Indonesia was presented with a Roadmap for the OECD Accession Process. This 28-page document outlines the terms and conditions that Indonesia must meet to formally gain membership in the OECD.

In a statement released by the OECD Ministerial Council, no time limit was set for Indonesia to fulfill the terms and conditions. In addition to the Accession Roadmap, a technical review process on OECD priority areas was also established. The priority areas, which primarily concern public policies, cover open trade and investment, public governance, integrity and anti-corruption, environmental protection, and effective climate action.

The Decent Work, Migration, and Social Protection Agenda within the OECD Framework

Upon a closer look at the Roadmap, several aspects pertaining to employment, migration, and social protection should be taken into careful consideration; whether they are reflected in the corresponding policies. For the accession process, the OECD has 26 committees tasked to conduct assessments. One of which is the Employment, Labor, and Social Affairs Committee.

The scope of the employment, migration, and social protection issues of particular concern to the OECD covers the following:

1. Ensuring that labor market, training, social protection, and migration policies and institutions are in place to facilitate economic adjustments and promote inclusive and sustainable economic prosperity for all;
2. Appropriate inclusive labor market and training policies and institutions, as well as an industrial relations system that is in line with the 2018 OECD Jobs Strategy;

3. Policies to widen labor market opportunities for underrepresented and vulnerable populations (e.g., the unskilled, people with disabilities, young people, and the elderly), as well as policies that foster social dialogue, labor market inclusion, and transition from informal to formal employment;
4. Policies to promote gender equality in employment and wages, as well as in training and access to social protection;
5. Policies to promote economic, employment, and social opportunities for all youth groups;
6. Policies to promote social and labor market inclusion for people with disabilities and address mental health issues;
7. Financially and socially sustainable policies to promote social integration and cohesion, including policies on retirement income, support for families with children, and measures designed to assist the unemployed and other vulnerable groups to fight poverty and find productive and rewarding work;
8. Effective governance of the labor market and social protection system, including the capacity to monitor policy implementation as well as analyze and evaluate the outcomes;
9. Policies to ensure full respect for labor rights and the full exercise of individual and collective labor rights, including through effective labor inspection, with particular emphasis on fundamental labor rights, including ILO's Fundamental Principles and Rights at Work;
10. Policy to combat all forms of discrimination in all areas of the country's economic and social life;
11. Policies to better manage migration flows, and to promote the labor market and social integration of immigrants and their children, as well as policies that harness the skills of emigrants to support economic growth.

In addition, the OECD brings special attention to the post-pandemic labor migration situation and the importance of building and improving skills. The latest report on this matter, Labor Migration in Asia, Impact of the COVID-19 Crisis and the Post-Pandemic Future, co-authored with ILO and ADB, also covers Indonesian migrant workers.

Conclusions and Recommendations

By comparing Indonesia's actual employment situation against the OECD standards outlined in 11 areas of concern regarding employment, migration, and social protection listed in Indonesia's accession roadmap, it is very clear that Indonesia's labor situation falls short of realizing decent work and safe migration.

This is a reminder for the Indonesian government that with or without the intention to become an OECD member, actualizing decent work and safe migration is an unpostponable constitutional obligation as well as a form of appreciation for workers' contribution as the key driver of growth and the vital role of migrant worker remittances in local economic growth.

The roadmap for realizing decent work and safe migration has the necessary modality, in the form of a set of worker protection instruments, including ILO labor standards, human rights instruments for the protection of women, persons with disabilities, and migrant workers as well as other international commitments such as the Sustainable Development Goals and Global Compact for Safe, Orderly and Regular Migration. Instead of using the modality to strengthen the legal framework for the protection of workers and migrant workers in a comprehensive manner, the government—by introducing the Omnibus Law on Job Creation—has strayed from the protection goals that the modality seeks to attain.

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The Urgency of Improving the Foundational Elements of a Welfare State for Indonesia's Accession to the OECD

The PRAKARSA

OECD and Social Welfare in Context

In the pursuit of bringing the Golden Indonesia 2045 vision to fruition, Indonesia aspires to transform itself into a developed country. Indonesia's quest to join the elite OECD club is a step closer to that direction. This ambitious undertaking made headway when in February 2024 the 38-member organization decided to start accession discussions for Indonesia's membership. This is an important milestone in Indonesia's bid to become an OECD member, which first took shape over a decade ago.

Indonesia's involvement began in 2007, during the administration of President Susilo Bambang

Yudhoyono, when Indonesia was designated one of the OECD's five Key Partners through the Enhanced Engagement Program.

There were several other defining moments. Among them were the launching of the Southeast Asia Regional Program with Indonesia acting as co-chair, and the establishment of the OECD representative office in Jakarta in 2015. During Joko Widodo's administration, in July 2023, the President submitted a formal request for membership in the OECD (Ministry of Foreign Affairs, 2023).

Indonesia's entry into the OECD fold will create both opportunities and challenges. OECD membership will incentivize Indonesia to undertake much-needed domestic reforms, especially concerning governance towards high-quality democracy. Indonesia will be compelled to raise the bar in terms of transparency and accountability. Through anti-corruption and anti-bribery policies and standards, law enforcement and human rights, a better tax system, and compliance with other governance instruments and standards. Indonesia will also benefit from wider access to expertise and investment, as well as global cooperation to address social issues such as reducing inequality and improving the quality of education, health, and the environment.

This external push provides an impetus for the Indonesian government, 'like it or not', to initiate reforms within the accession framework. Status as an OECD member will strengthen relations with member and non-member countries. In the medium run, membership may foreshadow positive impacts on economic growth. Moreover, Indonesia's image in the eyes of the world will also improve. In short, accession can be a catalyst for Indonesia's further progress.

On the other hand, there will be challenges when Indonesia joins the OECD as the Organization advocates global trade and open economies. Indonesia will be urged to further open up its economy to the world, conforming to established standards and regulations. Liberalization will also be pushed forward in compliance with economic, trade, and investment standards that are geared toward the creation of a free market. This corresponds to the OECD's role as a key actor in the liberalization of capital flows, which took form in the post-Bretton Woods era (Eccleston, 2011; Howarth & Sadeh, 2011).

Efforts to protect domestic small businesses and ownership of intellectual property rights could be rendered futile for a country like Indonesia. Small businesses represent an overwhelming majority of business enterprises, reaching 99%. Many of them produce goods with no heed to copyright for economic considerations that include production cost and purchasing power. In addition, industrialization in Indonesia has not entirely led to the fostering of innovation but is still mostly about technology transfer. Accession to the OECD will involve respect for intellectual property rights (IPR). The strict enforcement of IPR will land many small businesses and industries into legal and financial hot water.

On top of that, Indonesia will be bound to certain pecuniary obligations. For example, membership dues and substantial engagement in discussions and committees (Ministry of Foreign Affairs, 2023). However, the biggest challenge lies in a gaping chasm in multiple welfare indicators between Indonesia and the majority of OECD member countries—even among peer countries. Indonesia's accession will be reviewed by committees relevant to welfare issues, such as the Committee of Senior Budget Officials, Employment, Labor and Social Affairs Committee, Health Committee, Education Committee, and Economic Development Review Committee (OECD, 2024b). These committees will assess the extent to which Indonesia has the necessary policies and regulations in place and has implemented them effectively.

Socio-economic welfare is one of OECD's primary goals, to be actualized through collective policy formulation and shared learning. Under the motto 'better policies for better lives', the OECD, over its more than 60-year history, is characterized by a distinct similarity among developed nations—especially from Northern Europe—which founded the Organization, that of being welfare states. In advanced countries where fiscal instruments are the primary redistribution tool, the pursuit of welfare is particularly focused on revenue and expenditure policies, along with the implementing regulations.

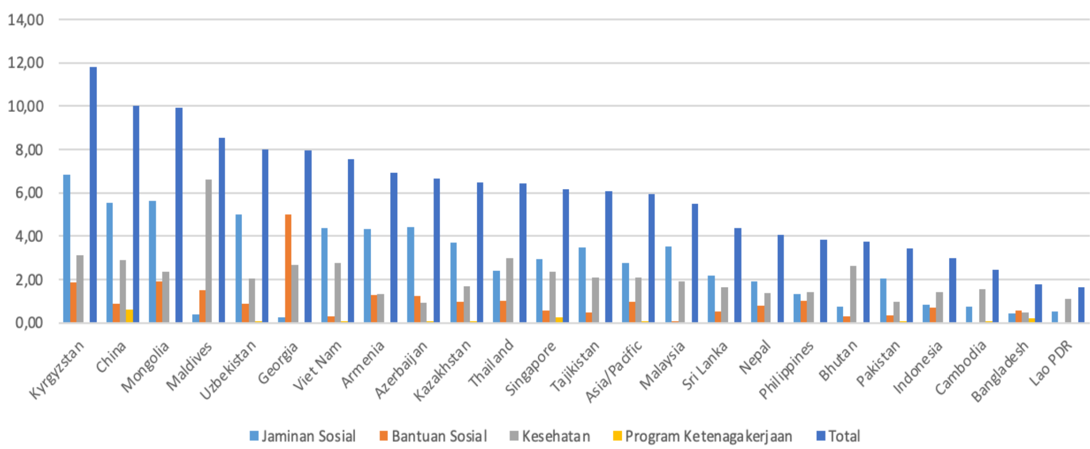
This chapter will briefly describe the most crucial gaps between the two issues and between Indonesia and other OECD member countries. This chapter asserts that in the context of Indonesia's accession to the OECD, the country needs to put in more serious efforts to close the gaps. The two key concerns are social spending and the closely associated issue of tax revenue.

Stingy in Social Spending and Social Protection

The OECD (2023) defines social spending as "a measure of the extent to which a country assumes responsibility for supporting the living standards of the disadvantaged or vulnerable". Social expenditure consists of cash benefits, direct provision of goods and services, and tax breaks for social purposes. These benefits are targeted at low-income households, the elderly, disabled, sick, unemployed, or young persons. To be considered "social", programs must involve the redistribution of resources across households or compulsory participation. Social spending is generally measured as a proportion of GDP (Gross Domestic Product).

Indonesia's social spending is still considered parsimonious, relative to OECD member countries in general, even in comparison to peer countries. Countries where the social spending-to-GDP ratio is above 5% include China at 10%, Chile 11.45%, Mexico 7.10%, Turkey 11.76%, and Colombia 13.68% (OECD, 2022). Among Asia Pacific countries, Indonesia's spending on social programs is disappointingly low, especially if you consider its steady economic growth, which hovered at over 5%. According to 2018 data (OECD, 2022), Indonesia spends considerably less on social welfare compared to countries such as Pakistan and Bhutan, whose economic growth trails far behind Indonesia.

Figure 1. Social Spending as a Percentage of GDP in Asia Pacific Countries, 2018

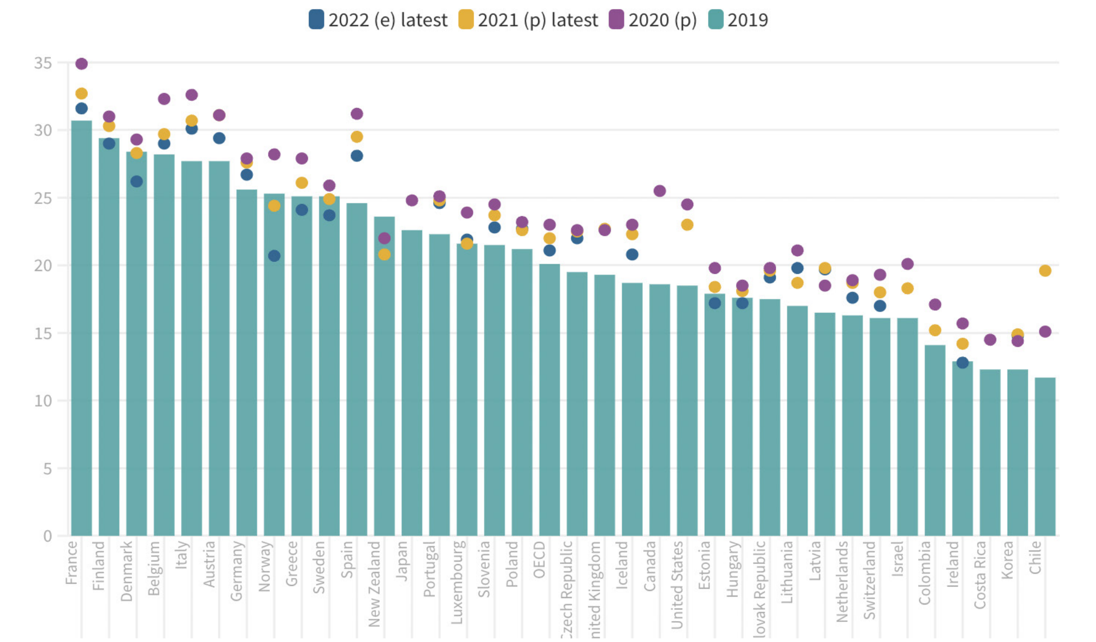


Source: OECD, 2022

In its many publications and public statements, the OECD has signaled the importance of increasing social investment through greater public funding. One of which is an OECD study (2019a), which emphasizes investment in social spending, especially for social protection, as a manifestation of a rights-based approach to development, and how it can help alleviate poverty, create more decent jobs of better quality, and foster inclusive economic growth. Cammeraat's study (2020) confirms the positive relationship between social spending and reducing poverty and inequality, which does not necessarily inhibit economic growth.

In some countries, social spending has become an investment instrument for long-term human development, which has in turn spurred economic growth. In South Korea, for example, more robust social policies on long-term care and childcare programs have led to more women returning to work after childbirth (Peng, 2011). Several studies reveal that social spending has a positive effect on the realization of a welfare state (Ko, 2014; Santos et al., 2024). Social spending is therefore not just consumption expenditure, but also an instrument for long-term human capital investment that can help create sustainable economic growth.

Figure 2. Social Spending of OECD Member Countries, 2019-2022



Source: OECD (2023) OECD Social Expenditure database • Note: (p) refers to projections while (e) refers to estimates.

Source: OECD, 2023a

Figure 2 shows the dynamics of social spending in OECD countries from 2019 to 2022. Despite an overall decline in economic performance in most countries in 2020, their social spending has increased significantly. Even with health expenditure, especially related to the COVID-19 pandemic, skyrocketing, social spending in OECD countries remains within the 20%-25% range (Figure 2).

Since 2019, not a single OECD country—based on available data—has had social spending below 12.5%. This means that at least one-eighth of government spending is allocated to social causes. In contrast, Indonesia's social expenditure in the same year was 5.9% (World Bank, 2023), or less than half of Ireland's that spent the least on social welfare.

Learning from peer countries that have joined the OECD, there are multiple ways to increase social spending, in order to reap the dual benefits of reducing poverty and improving welfare. Indonesia can draw inspiration from Costa Rica's success in reducing informal sector employment. In this Central American country, employment taxes imposed on employers are low, which translates into greater labor absorption. Not only does this promote a transition to formality, but also helps workers stay in formal employment.

Indonesia can also learn from Brazil, which provides social security for job displacement for a specified duration. Even though both countries have similar schemes in place, the one in Brazil factors in the benefit amount adjusted to a worker's average salary before job loss, whereas Indonesia applies a percentage system with an income cap of IDR 5 million, which means that benefit levels are barely enough to cover the cost of living. The measures introduced by Brazil have managed to lower informality, especially in rural areas (Liepmann & Pignatti, 2024).

OECD studies specifically of Indonesia's social protection system (OECD, 2019b) and post-pandemic socio-economic situation (OECD, 2023b) provide recommendations for improvement. One of which calls for Indonesia to prioritize gender mainstreaming in social protection, by establishing gender-specific criteria, widening access to healthcare, education, and vocational training, as well as public infrastructure such as clean water and sanitation. Given the multitude of shocks that affect low-income and vulnerable households, Indonesia should ensure the inclusion of risk factor covariates such as disasters and climate change into its social protection systems (Gasior et al., 2024), which have left these households increasingly impoverished as they are forced to move or change livelihoods. This can be done by designing adaptive social protection (ASP) programs in response to social, disaster, and climate risks.

It is important to reiterate the pressing need for Indonesia to ramp up social spending. This is because OECD member countries are subject to periodic peer reviews to compare domestic policies against international best practices and recommend improvements. This process not only helps ensure that more effective social policies that meet the needs of citizens are in place, but also promotes transparency and accountability in social programs. This way, Indonesia can enhance the quality of life of its citizens and build competitiveness on the global stage.

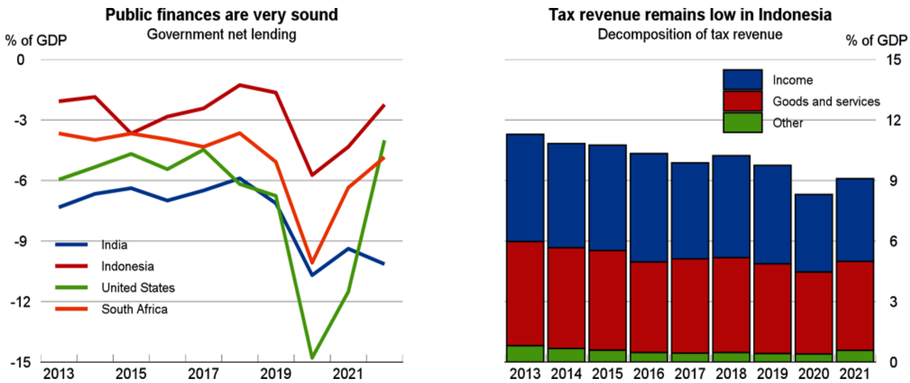
Tax Ratio on Par with Poor Countries

Taxes are the backbone of government funding. The reason is that taxes facilitate the delivery of public services, stimulate economic growth, and help overcome socio-economic disparities. They reflect the social contract between citizens and the state. Taxes are closely associated with the provision, financing, and delivery of social protection. As these are all tax expenditures, they must be fully incorporated into the analysis of the welfare state (Greve, 1994). In addition, taxation is an area of interest of the OECD, as one of the world's leading actors for international tax issues (Eccleston, 2011), in the absence of key global actors such as the United Nations. The OECD is also deeply invested in raising members' tax revenues for development financing.

Unfortunately, despite the steady growth in Indonesia's nominal tax revenues, the country is still far from fully unlocking its tax revenue potential. Ever since civil society, over a decade ago, turned the spotlight on the disappointing tax revenue performance, as indicated, inter alia, by a low tax-to-GDP ratio (PRAKARSA., 2012), Indonesia's tax ratio has instead seen a declining trend. According to the latest data, the tax ratio stood at a paltry 10% for the last 10 years and has since stayed under 11%. OECD (2024a) took note of how Indonesia's public finances appear to be in good shape with relatively safe debt levels, yet its tax ratio is just slightly above 10% (Figure 3).

The Indonesian government and the OECD use different formulas for calculating tax ratios, and OECD figures are higher (Setiawan, n.d). If we were to apply the same calculation method, Indonesia's tax ratio would be below double digits. Compared with other ASEAN countries, Indonesia trails far behind Thailand (17.18%), Vietnam (16.21%), and Singapore (12.96%), but fares better than Laos (9.46%), Myanmar (5.78%), and Brunei (1.30%) (Siswanto, 2024).

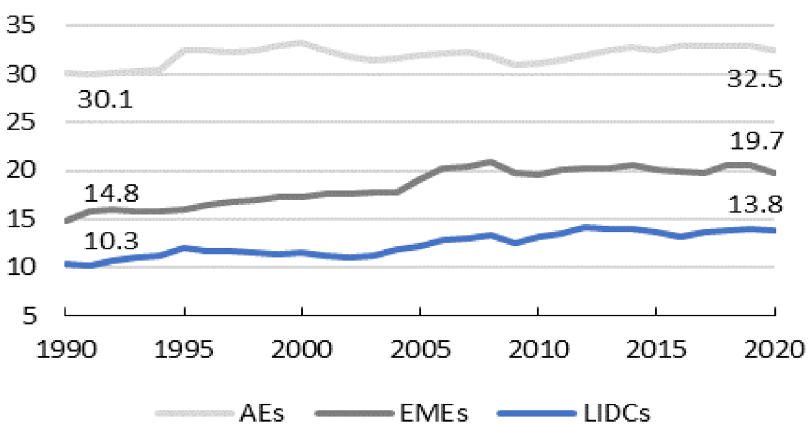
Figure 3. Public Finance and Tax Revenue in Indonesia, 2013-2021



Source: OECD, 2024a

International institutions maintain that in order to ascend to developed-country status, Indonesia and other developing nations need to increase their tax ratio. Based on empirical studies in China, Spain, Colombia, and Nigeria under one of IMF's seminal working papers authored by Gaspar, et al. (2016), a country like Indonesia requires a tax ratio of at least 12.8% or 13% to get out of the middle-income trap. Figure 4 below shows how Indonesia's tax ratio still lags far behind more advanced economies (AEs) and other emerging economies (EMEs) whose tax ratios are close to 20%. Indonesia's current tax ratio is woefully below even that of low-income developing countries (LIDCs) and near-failed states three decades ago. These low-income economies now have tax ratios that are higher than Indonesia.

Figure 4. Tax Revenue, 1990-2020 (% of GDP)



Source: Benitez et al., 2023

Raising more tax revenue is crucial in the context of Indonesia's accession to the OECD. Not only because Indonesia needs more financial resources to fund social spending for better welfare, but also given the financial consequences that the country must bear, as shown in a study by the Ministry of Foreign Affairs (2023). First, by joining the OECD, Indonesia should brace itself when it ceases to be a recipient and start to become a provider of development aid.

Second, membership entails mandatory and voluntary contributions, which are calculated according to a share scheme based on the size of the economy (GDP) and population. There is therefore the likelihood of Indonesia paying more than some European Union countries. With fiscal space already shrinking, the Indonesian government needs to increase tax revenue for accession purposes and raise its status in the same league with nations in rich-country clubs such as the OECD.

Indonesia could well join an elite club like the OECD. However, as the country's tax ratio is similar to that of poor economies, it needs to try much harder to improve the situation. Indonesia can for example broaden its tax base, improve tax administration, and tighten law enforcement to increase tax compliance (PRAKARSA, 2015). Indonesia needs to consider other potential tax alternatives such as inheritance tax and wealth tax, and more stringent tax rules for commodity trading (PRAKARSA, 2023). If the Indonesian government undertakes strict reforms, the tax ratio will increase by 1.5% from administrative reform, and an additional 3.5% from policy reform. This can help drive the tax ratio up by 5% (Ortax, 2023).

Recommendations

From the discussion above, it is clear that Indonesia still has plenty of unfinished business. More effort should be made to reduce the gap with OECD countries, in terms of crucial indicators needed to become a developed country. The Indonesian government can start by taking the following steps:

1. **Increase social expenditure in spending items with the highest leverage to reduce poverty and inequality.** For example, more budget allocation for clean water and sanitation infrastructure, healthcare, and education, as well as for closing the gender gap and outcome gap for other vulnerable groups through social protection programs. Indonesia's current poverty and inequality rates do not reflect 'worthiness' to be called a developed country, especially as a welfare state, when compared with the average OECD member country.

2. **Strengthen institutional governance**. A multitude of institutional governance reforms on social protection and tax revenue is urgently needed. Improvements in tax administration, including the institutional arrangements, as well as tax compliance and enforcement are crucial to optimize tax-revenue collection. As tax revenue increases, Indonesia can make confident strides in financing development without falling into debt. It will also mean a wider fiscal space that will allow Indonesia to follow in the footsteps of developed OECD countries from being an aid recipient to a donor.

3. **Enhance coherence between social and economic/fiscal, revenue, and expenditure policies.** Given the pressures to boost social spending that remains disappointingly low, the discourse on increasing social protection expenditure cannot be done without discussions on the importance of increasing tax revenue. To become an independent and democratic welfare state, the two elements cannot be treated in isolation. This is because taxes also function as a social contract, which in turn will foster a more effective accountability mechanism between the government and its citizens.

Closing Remarks

The pre-accession process is now underway, involving a rigorous review process on the convergence of Indonesia to OECD policies and standards. Indonesia needs to set the wheels in motion, fully recognizing that the notion of becoming a developed country comes with all its attributes: the size of the economy, state revenue, development financing, and social spending, all of which should be at an adequate level. Only then can Indonesia take pride in becoming a member on equal standing with other developed countries, instead of just earning a 'stamp of approval' with little meaning.

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Countering Corruption in Indonesia and OECD Accession

Transparency International (TI) Indonesia

Opportunities and Challenges in Governance for OECD Accession

Indonesia is ushering in a new chapter in the global economic arena. This is marked by its accession to the Organization for Economic Cooperation and Development (OECD). The OECD is an international organization of developed nations in the field of investment and business. The start of accession talks signals a historic milestone for Indonesia and the OECD, as Indonesia is the first country in Southeast Asia to seek OECD membership. The Indonesian government has set ambitious sights on the accession process, claiming it to be a significant step toward gaining wider access to international investment and financial resources.

Aside from setting the stage for new global investment avenues, the OECD accession process will also create an impetus for Indonesia to improve its accountability procedures and governance standards. This will be an uphill struggle for Indonesia, considering the many governance shortcomings in public institutions.

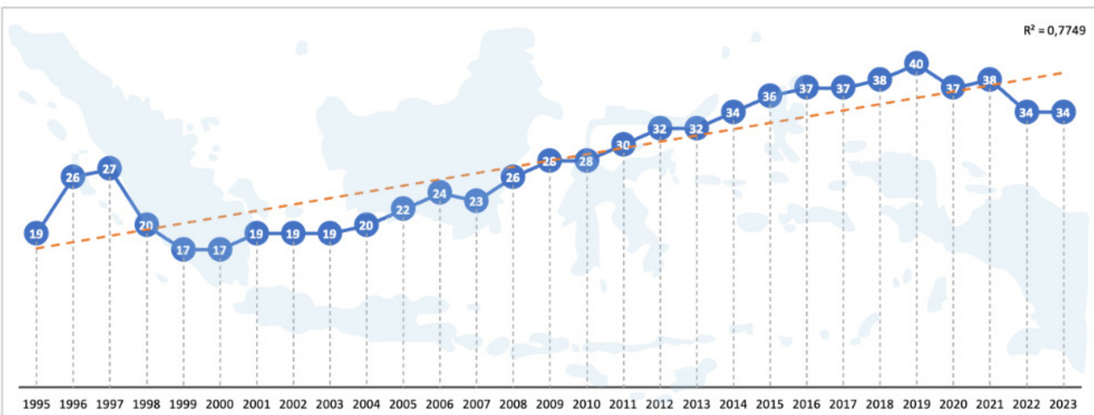
As such, government accountability will be facing the most severe challenges (Wicaksono & Bakri, 2024).

On a positive note, the accession process will guide Indonesia on how best to improve governance, which is currently not in a good state. The World Bank has released the Worldwide Governance Indicators, which measure, inter alia, government performance and effectiveness in combating corruption. Based on the indicators, Indonesia scored 37.74 in terms of controlling corruption in 2022, which fell from 45.24 in 2017. Scores range from 0 (lowest) to 100 (highest) (World Bank, 2023). A major challenge to good governance concerns how effective a government is in controlling corruption (Klitgaard, 1988).

Tackling Corruption in Indonesia

Transparency International, a global non-governmental organization, releases annual survey findings on corruption, known as the Corruption Perceptions Index (CPI). The Index provides a snapshot of the state of corruption in countries or territories worldwide (Transparency International, 2023).

Figure 1. CPI Scores for Indonesia, 1995-2023



Source: Corruption Perceptions Index, Transparency.org

Over the last two decades, Indonesia's CPI scores showed no significant changes. In 2019, the score was 40/100, the highest that Indonesia has achieved in the last 25 years. At the launch of the CPI in 2019, Transparency International "cautioned"

Indonesia to be more vigilant and to stay committed to fighting corruption. With a score of 40 in 2019, Indonesia's economy and investment were on a promising trajectory (Transparency International Indonesia, 2020).

However, civil liberties and watchdog organizations are being systematically weakened (Suyatmiko & Nicola, 2020). The independence and effectiveness of Indonesia's anti-corruption agency—*Komisi Pemberantasan Korupsi* (KPK)—have been compromised. The KPK is looked upon as the embodiment of progress and modernity in the fight against corruption. However, it has since lost its independence following the passage of Law No. 19/2019 on the Second Amendment to Law No. 30/2002 concerning the Corruption Eradication Commission (Transparency International Indonesia, 2023).

From 2020 to 2023, Indonesia's CPI scores saw a sharp decline. Scoring 37/100 in 2020, Indonesia was ranked 102nd out of the 180 countries surveyed. It fell three points compared to 2019, at a score of 40/100. Worse still, the scores plunged to 34/100 in 2022 and 2023. This indicates a setback in anti-corruption efforts. Paradoxically, President Joko Widodo's development agenda, which prioritizes investment and economic growth, brushes aside the issue of corruption that should be at the center of attention. Indonesia is at risk of making investors worry, which will consequently decelerate economic growth.

The economic, investment, and democracy indicator scores saw the largest drops. This is an indication that the relationship between political decisions, the ease of doing business, and the government's attitude towards anti-corruption institutions is a key factor influencing public perception. This calls for renewed efforts to eradicate corruption (Suyatmiko, 2021). A body of anti-corruption studies in the Asia Pacific region has confirmed that the effectiveness of a country's corruption-busting initiatives is not determined solely by administrative and technocratic reforms. Rather, it is shaped more by political dynamics, relationship patterns, and the elite's choice of perspective in applying political traditions and power (Quah, 2012).

The decline in CPI scores was also attributable to the many corruption scandals that were brought to the attention of KPK and the Attorney General's Office (AGO). KPK published case management data for 2023, where a total of 161 corruption cases were investigated. Most of the complaints were on bribery and gratuity offenses (85 cases), followed by corruption in public procurement (62 cases) (KPK, 2024). Meanwhile, the AGO exposed the Jiwasraya and Asabri insurance fraud fiascos, and more recently, corruption in the tin industry (AGO, 2024).

In terms of the offenders, many cases of grand corruption implicate high-ranking public officials, legislators, and even judges and justices. From this, it can be inferred that Indonesia's anti-corruption fight is stalling. Aside from the public sector, according to KPK data, corruption is more prevalent in the private sector (KPK, 2024).

Tackling Corruption in OECD Member Countries

The OECD is an international organization with a membership of 38 countries, anchored on the principles of representative democracy and free market economy. Its members span the globe, across Europe, America, Asia, Africa, and Australia. In Asia, OECD member countries are Japan and South Korea.

As an indicator of economic cooperation, every OECD member state is required to establish the appropriate guidelines or regulatory framework for countering corruption. How these countries fare in tackling corruption varies widely. The CPI score for Denmark is 90, Finland 87, New Zealand 85, Norway 84, and Sweden and Switzerland each 82. These countries have the highest CPI scores compared to the rest of the world.

Meanwhile, Mexico, Turkey, and Colombia scored 31, 34, and 40 respectively, placing them in the low category. The average score for OECD member countries is 66 points, and as many as 17 countries have below-average scores.

Table 1. CPI Scores and Rankings of OECD Member Countries

Country	CPI Score 2023	Rank	Country	CPI Score 2023	Rank
Denmark	90	1	United States of America	69	24
Finland	87	2	Chile	66	29
New Zealand	85	3	South Korea	63	32
Norway	84	4	Israel	62	33
Sweden	82	6	Lithuania	61	34
Switzerland	82	6	Portugal	61	34
Netherlands	79	8	Latvia	60	36
Germany	78	9	Spain	60	36
Luxembourg	78	9	Czechia	57	41
Ireland	77	11	Italia	56	42
Canada	76	12	Slovenia	56	42
Estonia	76	12	Costa Rica	55	45
Australia	75	14	Poland	54	47
Belgium	73	16	Slovakia	54	47
Japan	73	16	Greece	49	59
Iceland	72	19	Hungary	42	76
Austria	71	20	Colombia	40	87
France	71	20	Turkey	34	115
United Kingdom	71	20	Mexico	31	126

Source: Corruption Perceptions Index, transparency.org

It would be interesting to delve deeper into the variability of scores, especially as regards compliance with OECD's anti-corruption guidelines. In 2022, Transparency International published a global study report, Exporting Corruption 2022: Assessing Enforcement of The OECD Anti-Bribery Convention, which tracks compliance with anti-bribery or anti-corruption guidelines among OECD member countries. The research project measures the performance of 44 leading global exporters, including 40 countries that are signatories to the OECD Anti-Bribery Convention. The study indicates how well or poorly these countries are adhering to the rules that they have agreed to.

The study departs from the hypothesis that foreign bribery is not an abstract phenomenon. Foreign bribery is a corruption offense that involves the bribery of a foreign public official, or committed outside the jurisdiction of a country, to avoid the regulations applicable in the said country that make bribery an illegal act (OECD, 2014). This phenomenon brings severe consequences for both the payer and recipient of a bribe, or in legal jargon, active bribery and passive bribery (U4, 2024). The financial losses resulting from foreign bribery and transnational corruption can have profound economic impacts, creating unfair competitive advantages and hindering access to public services for those who need them most.

The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was introduced to promote bribe-free market competition and level the playing field for international business (OECD, 1997). The Convention came into force in 1999. More than 20 years on, a corruption-free and fair global trade competition is near impossible and remains a pipe dream. Over 50% of world exports come from countries that fail to punish foreign bribery.

It is interesting to note that Switzerland and the US are the only countries rated as active enforcers of foreign bribery laws. Australia, France, Germany, and the UK fall under the moderate category. Meanwhile, Belgium, Hungary, Japan, Mexico, and Turkey have little enforcement or none altogether. This shows that despite the OECD having strict policies on foreign bribery, most countries that have adopted the guidelines are still weak in enforcing foreign bribery laws.

Furthermore, major non-OECD countries that are signatories to the Anti-Bribery Convention, such as China and India, belong to the 'little or no enforcement' category, when both countries are the world's largest exporters. Equally surprising, India has no laws at all that criminalize foreign bribery.

Twenty-five years after the adoption of the Anti-Bribery Convention, most countries have still a long way to go before they can honor their obligations. In almost every country, deficiencies in the legal framework and enforcement system of foreign bribery laws remain unaddressed. They cover a wide range of issues, from inadequate whistleblower protection to under-resourced law enforcement and judicial institutions. The majority of countries lack transparency in data and case outcomes. In addition, there are still very few examples of compensation for victims of foreign bribery.

One of the massive corruption schemes involves investment bank and financial services company Goldman Sachs. The bank was investigated by at least 14 regulators for its role in Malaysia's 1MDB embezzlement scandal. Goldman Sachs reached a global settlement agreement with criminal and civil authorities in the US, UK, and Singapore. It admitted to participating in the scheme, agreeing to pay USD 2.3 billion in fines. In Malaysia, Goldman Sachs agreed to a settlement consisting of USD 2.5 billion in fines and penalties, along with the bank's guarantee that the government would receive at least USD 1.4 billion from the money recovered from the scheme (Transparency International, 2022), (Office of Department of Justice, USA, 2020).

Another case involves Credit Suisse and intervention by Swiss, U.S., and U.K. authorities over the notorious "tuna bond" or "hidden debt" scandal. Under a settlement, the Swiss bank agreed to forgive USD 200 million of debt owed by Mozambique. However, the losses to the people of Mozambique are estimated at a staggering USD 11 billion.

Case Study: Garuda Indonesia-Rolls Royce Corruption Scandal

In the context of the OECD accession process, Indonesia has its own experience of foreign bribery or transnational corruption in a case linked to the national flag carrier Garuda Indonesia, a fiasco no less shocking. The British anti-corruption agency, the Serious Fraud Office (SFO), has been investigating the case for several years, following reports of alleged bribery by the world's leading aircraft engine manufacturer, Rolls-Royce. The engineering giant was found to have paid USD 2.25 million in bribes and given a Rolls-Royce Silver Spirit car to Emirsyah Satar, the President Director of Garuda Indonesia, through the beneficial owner of Connaught International Pte. Ltd, Soetikno Soedarjo. The deal was to change and influence the contract with Rolls-Royce for the sale of Trent 700 jet engines for Garuda Indonesia's Airbus A330 aircraft (Tirto, 2022).

The investigation found that Rolls-Royce bribed a rival bidder to rig the bidding process to secure contracts with several national airlines, including Garuda Indonesia. After it was exposed to have paid bribes, including a luxury car and millions of pounds worth of cash to intermediaries in six countries, including China, Russia, and Indonesia, the firm offered a formal apology. Meanwhile, through cross-border collaboration with other anti-corruption agencies, KPK obtained sufficient preliminary evidence to name the former President Director of Garuda Indonesia, Emirsyah Satar, as one of the suspects in the case (KPK, 2019).

OECD Guidelines on Anti-Corruption

The OECD has comprehensive frameworks that deal with economics and finance, social issues and governance, development and environmental sustainability, as well as technological and scientific advancements. The Organization even has a set of guidelines for preventing and combating corruption.

The OECD Convention for example prohibits any sort of payment with the intent of gaining an improper advantage in any form. The Convention includes officials from international institutions in its definition of a foreign public official. The OECD anti-bribery convention stipulates that every country is obligated to comply with and ratify several anti-bribery and enforcement policies.

Regarding the integrity of public bodies, the OECD Convention has guidelines for promoting public integrity with the necessary benchmarks in the public procurement and infrastructure sectors. Specific guidelines are also in place to help member countries increase transparency and enhance integrity in lobbying activities.

Under the OECD anti-corruption convention, no less important is managing conflicts of interest to prevent corruption. The OECD defines a conflict of interest as a situation in which a public official faces a dilemma between public duty and personal interests. Such competing interests can improperly influence the performance of their official duties and responsibilities. On that account, a key point in a conflict-of-interest situation is having the power or authority over the decisions made. Based on the definition, conflicts of interest become the root cause of corruption, if mismanaged.

The most valuable lesson for countering corruption and the institutionalization of regulatory frameworks and enforcement mechanisms for OECD member countries is the importance of due diligence and anti-corruption compliance as set out in several anti-bribery instruments, which go beyond the adoption of guidelines. However, it is also necessary to see how effective OECD member states are in adhering to these guidelines in preventing corruption. Adopting the OECD anti-bribery convention would therefore mean exposure to learnings and good practices in international cooperation to tackle corruption in cross-border investment destinations (Rothstein, 2011). This is of particular importance as Transparency International's report reveals that most OECD member countries are still not doing enough to address the demand side of foreign bribes; increase international cooperation; principles for using non-judicial resolutions in foreign bribery cases; anti-corruption compliance by businesses; and comprehensive protection for whistleblowers (Transparency International, 2022).

Indonesia's Unfinished Business

The Indonesian government appears ambitious in its pursuit of OECD accession, when it has had the opportunity to serve as the president and host of a major event, the Summit of G20 member countries. Indonesia stands firm in its commitment to a development agenda that fosters prosperity, equality, opportunities, and well-being in the social, economic, and environmental dimensions. Joining the OECD will unlock new opportunities for Indonesia to reform in alignment with international standards in the said areas.

However, Indonesia's OECD membership bid seems to be oriented toward stimulating investment and engaging in a free market economy. This is reflected in the country's roadmap on long- and medium-term development planning that endeavors to achieve an average annual economic growth of 6%-7% and avoid the middle-income trap. Indonesia's ambitious move to successfully complete the accession process within 3 years is indeed a daunting challenge with respect to regulatory and institutional readiness, which must align with existing OECD conventions.

Indonesia needs to surmount governance hurdles as part of the accession process. As head of state and of government, the President plays a pivotal role. Incumbent

President Joko Widodo and President-elect Prabowo Subianto wield outsized political power, enabling them to influence government policies. All government sectors must work in concert to address accountability and governance issues in conformity with OECD standards.

Given the existing regulatory frameworks, implementation experience, and anti-corruption institutions, a lot still needs to be done for Indonesia to be able to meet anti-corruption standards. For example, Indonesia has ratified the United Nations Convention against Corruption (UNCAC) under positive Law No. 7/2006. The Convention specifies strict anti-corruption requirements, under the oversight of State Parties. In this regard, Indonesia still has a backlog of follow-up actions to the recommendations put forward by the UNCAC reviewing countries. Indonesia should immediately establish laws on asset forfeiture, public procurement, anti-corruption law reform, and strengthening anti-corruption agencies to be able to work independently, and effectively, without coercive pressure.

In doing business, legal certainty is paramount. Hence, the reason why the OECD Convention places great emphasis on regulatory and institutional arrangements that guarantee legal certainty and ease of doing business and investment. This is where the principles of due diligence and adherence to the values of integrity and anti-corruption become of utmost importance.

Another advantage of OECD accession is having higher standard anti-corruption legislation. Intra-group cooperation is not limited to investment but extends to knowledge and technology transfer in curbing corruption. Investors thinking of investing in Indonesia will not have second thoughts when the principles of integrity in the environmental, social, and governance sectors are upheld.

Doing business responsibly and with integrity engenders compliance, which should not merely be for certification purposes. Pursuing compliance with the corporate registry and beneficial ownership should also lead to higher standards.

As an illustration, Indonesia became a full member of the Financial Action Task Force on Money Laundering and Terrorism Financing (FATF) in 2023. Full membership in the FATF has significant meaning, considering that the task force is an international forum dedicated to setting global standards for combating money laundering and the financing of terrorism, in addition to other concerns that threaten the integrity and stability of the international financial system. As one of the world's largest economies dealing with a multitude of cases, Indonesia can contribute significantly to the FATF.

Membership in the FATF and the G20, and now accession to the OECD brings opportunities, hope, and also challenges for Indonesia. Becoming an OECD member can help ensure continuous structural reforms to create a more resilient, sustainable, and inclusive economy as the country moves toward achieving the Golden Indonesia Vision 2045.

This calls for urgent measures, including the formulation of a more robust anti-corruption regulatory framework bolstered by more formidable, independent, and credible anti-corruption outfits that are free of executive and legislative interference. Compliance with foreign bribery standards and international cooperation also warrants more serious attention, both by the government and private sector, in this case, businesses that wish to participate in a free market (Wicaksono & Bakri, 2024).

Furthermore, anti-corruption efforts need to be scaled up by improving internal controls and audits and complementing KPK's work, especially in high-risk sectors such as infrastructure, natural resources, and public procurement through human development and the digitalization of existing public service delivery mechanisms. To complement government efforts, the public should be encouraged to participate in anti-corruption initiatives to add a layer of transparency and social oversight (Panut, Kevin, Huang, 2024).

Recommendations

The Indonesian government should take breakthrough steps if it envisions completing the accession process in just three years. The government should consider the following recommended actions to bring it closer to making the accession ambition real:

1. **Strengthening anti-corruption laws and institutions**. The Indonesian government must ensure the independence of public agencies enforcing accountability and good governance. These entities include the Supreme Audit Agency, KPK, the Indonesian Center for Financial Transaction Reporting and Analysis, and Bank Indonesia. Indonesia also needs to have better laws in place to effectively fight corruption in all sectors. The drafting of key pieces of legislation on asset forfeiture, cash transaction threshold limit, public procurement, and anti-corruption law reform should be the first course of action. This means providing law enforcement with the resources, training, and independence to conduct investigations and uphold legal ethics.

2. **Guaranteeing civil liberties**. Political integrity in the context of meaningful civic engagement is one of the prerequisites for countering corruption. Civil liberties and expanding democratic space must not be overlooked. Political participation and education are not only impliedly reflected in election activities but must be interpreted in greater depth. Deliberative democracy is a befitting option in times of rising populism, and a leaning towards illiberal democracy.

3. **Applying business integrity in economic governance.** Under the good governance triangle, private entities assume a significant role. Instead of being a habitual corruption offender, businesses need to understand that corruption erodes profits and harms business reputation. Business integrity is not only about celebrating or glorifying the certification of good corporate governance and anti-bribery initiatives. It should also be accompanied by different types of reporting compliance of beneficial ownership of a company, and the management of conflicts of interest.

4. **Accelerating digitization, digitalization, and digital transformation processes.** The Indonesian government must speed up digitalization to enhance transparency. This can be achieved through the newly introduced national digital platform, INA Digital, which covers nine essential services including civil registration, healthcare, education, financial transactions, immigration, and social assistance. President Jokowi has instructed all government ministries to complete the digital integration process by no later than May 2024. Electronic-based government systems across public institutions will increase transparency. The public will be better able to assess appropriateness and integrity in public administration. This is where citizens can assume a watchdog role to keep an eye on the actions of the government.

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Indonesia's Accession to the OECD and Enabling Responsible Business Conduct (RBC) in the Extractive Sector

Publish What You Pay (PWYP) Indonesia

Getting to Know RBC in the Accession Context

Indonesia has embarked on a journey towards OECD membership. This path to accession converges with Indonesia's pursuit of joining the ranks of developed nations as part of its Golden Indonesia 2045 agenda. The accession process involves rigorous and in-depth assessments by 26 technical committees. The committees will evaluate the extent to which Indonesia has achieved alignment with OECD policies and practices. This of course calls for adaptations and adjustments to policies and institutional governance, and Indonesia's readiness to implement OECD standards.

One of the key areas of focus in OECD accession is the adoption and implementation of the Responsible Business Conduct (RBC) instrument that OECD member countries adhere to as guidelines for multinational enterprises. Nevertheless, the RBC guidelines are also open for adherence by interested non-OECD member states. To date, some 50 countries have adopted or are in the process of adopting the guidelines. The guidelines were first adopted in 1976, and have been reviewed several times to ensure that they remain a leading tool in promoting responsible business, amidst a changing global economic landscape.[1] The implementation of the RBC framework by multinational companies means business respect for and contribution to human rights; environmental conservation and restoration; consumer protection; anti-corruption; and fair competition between enterprises and economies by promoting an international rules-based investment climate.[2]

To ensure compliance with RBC guidelines, the OECD has developed sectoral guidance to help businesses identify and address risks for people, the environment, and society that arise from business operations, products, or services in a given sector. The guidance was established for specific sectors, including financial, extractive, mineral, agricultural, garment and footwear. It helps build a common understanding between the government, business, civil society, and workers on due diligence for responsible business conduct.[3]

Significance of the Extractive Sector in Indonesia

Extractive sector companies play a significant role in causing or addressing the adverse impacts of their operations on society and the environment. They should have the sense to contribute to positive social and economic development by engaging stakeholders and local communities in their planning and decision-making processes. This is crucial given the extractive sector's significant social, economic, and environmental impacts.

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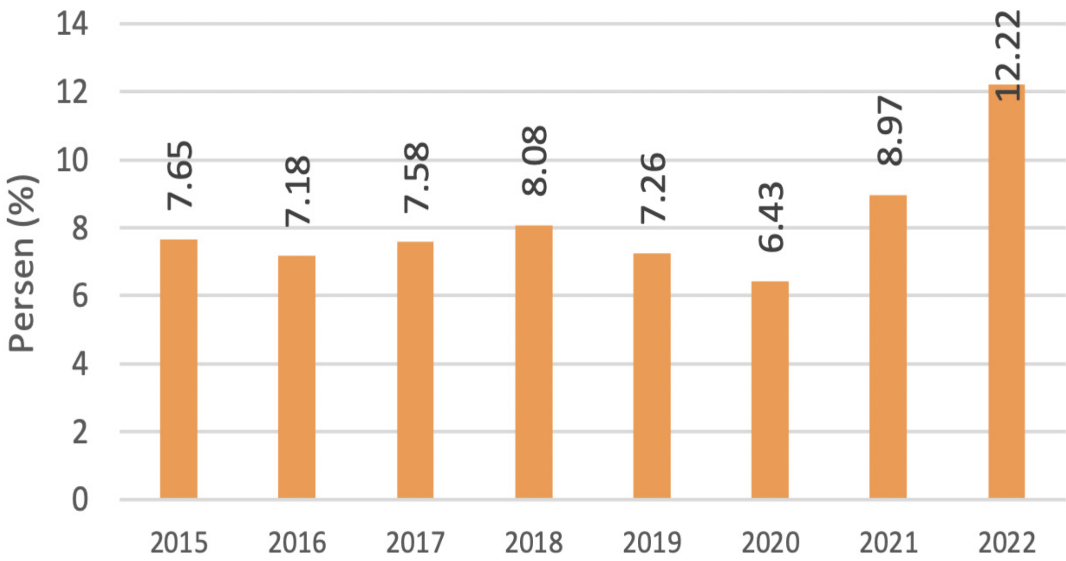
1 OECD. About Responsible Business Conduct. https://mneguidelines.oecd.org/about.htm. Retrieved 8 July 2024.

2 OECD. 2022. Responsible Business Conduct in the Extractive and Minerals Sector in Latin America and the Caribbean. https://mneguidelines.oecd.org/responsible-business-conduct-in-the-extractive-and-minerals-sector-in-latin-america-and-the-caribbean.pdf. Retrieved 8 July 2024.

3 OECD. 2018. OECD Due Diligence Guidance for Responsible Business Conduct. https://mneguidelines.oecd.org/duediligence/. Retrieved 8 July 2024.

Indonesia is endowed with vast reserves of mineral resources, such as nickel, coal, oil and gas, tin ore, copper, and gold. As such, the natural resource sector plays a major role in Indonesia. The country's huge mining potential can contribute substantially to state revenues, with a considerable impact on the economy, environment, and society. The mining sector's contribution to GDP continues to grow, despite a decline during the early COVID-19 pandemic. In 2020, the percentage share was 6.43%, before rising to 8.97% in 2021 and climbing further to 12.22% in 2022.

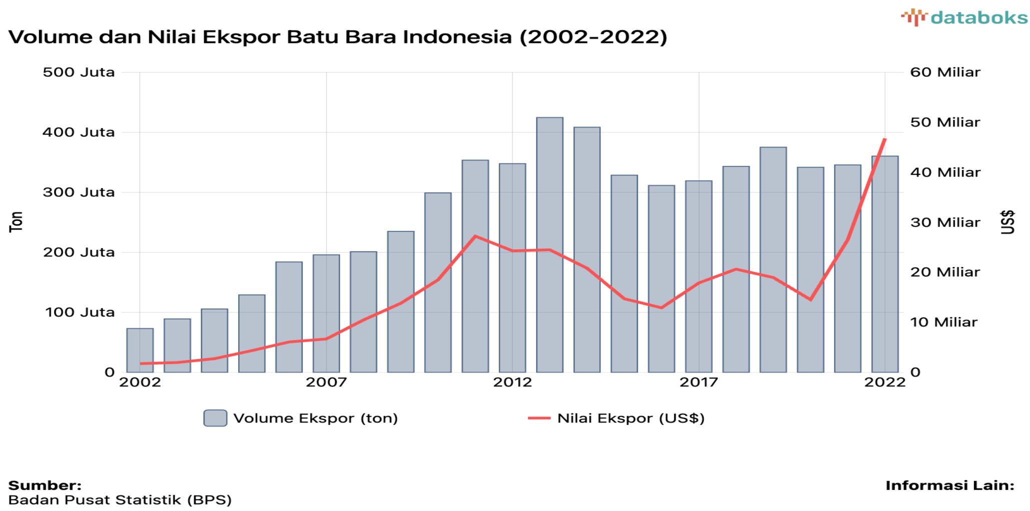
Figure 1. Trends in Share of Mining Sector in GDP, 2015 - 2022



Source: BPS, 2023

The mining sector also contributes significantly to national export volume and value. The last two decades saw an overall upward trend in share, although the figures dropped from 2012 to 2016 due to the government prioritizing domestic demand. BPS noted a leap in Indonesia's coal export value in 2022 to the tune of USD 46.74 billion, up 76.16% compared to 2021, and a record high in the last two decades. This was attributable to the strengthening of coal reference prices driven by rising global demand in the wake of the Russia-Ukraine war, and the political tensions between Russia and the European Union. Countries such as Germany, the Netherlands, and Belgium are left with no other choice but to reactivate their coal-fired power plants to meet electricity needs.

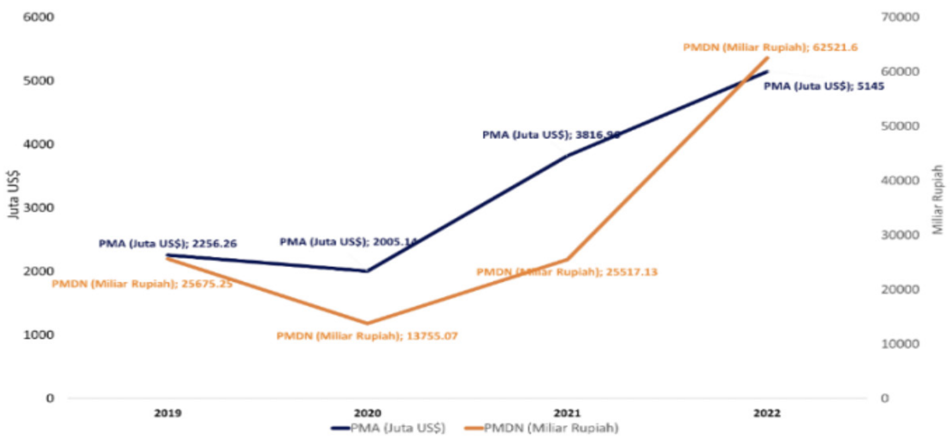
Figure 2. Volume and Value of Indonesia's Coal Exports, 2002 – 2022



Source: BPS, 2023

The growth in the mining sector's contribution to GDP has led to a proportional increase in the value of mining investment from domestic sources in particular, after 2020. This is an indication of the mining sector's attractiveness to domestic investors for export-oriented extraction and downstream processing, as well as for supplying the domestic industry. In 2022, mining exports were valued at USD 46.2 billion, accounting for 23% of total national exports.

Figure 3. Investment Value in the Mining Sector (2019-2022)



Source: BPS, 2023

Aside from its sizeable economic contribution, the extractive sector also poses a host of environmental and social challenges. The moment the Indonesian government declares its readiness to accede to the OECD, stakeholders in the mining sector need to observe RBC standards and guidelines.

Indonesia's adoption of RBC standards promises more investment, better business practices in the extractive sector, less negative impacts on the environment, higher levels of well-being of local communities, stronger corporate governance, and enhanced transparency and accountability. Is that all true?

Ever-Widening Policy-to-Implementation Gap

RBC guidelines for the extractive sector are specifically directed at practitioners in the mining, oil, and gas industries to address challenges that arise from interactions with stakeholders. RBC's key areas of focus include human rights, labor rights, the environment, bribery, consumer interests, information disclosure and transparency, science and technology, competition, and taxation. It also sets out an assessment framework for the industry to evaluate the engagement performance of key stakeholders such as indigenous communities, women, workers, and small-scale miners.[4]

The government and businesses both play decisive roles. The government oversees the implementation of RBC standards, making sure that domestic and foreign mining companies adhere to sector-specific guidelines. The appropriate government policies should also be in place to support the implementation of RBC standards with the designation of a National Contact Point (NCP). The NCP will help resolve practical problems on the ground facing stakeholders and prepare a report on the observance of RBC guidance. Meanwhile, mining companies are expected to conduct business responsibly by maximizing the positive impacts of mining operations and following all guidelines and practical steps to mitigate potential negative consequences, across the entire supply chain and business relationships.

Making sure that the government has the necessary legislation to support the implementation of RBC standards is of particular importance. The laws and regulations should be in alignment with the recommendations put forward in the

4 Ibid.,

RBC guidelines, especially for the mining sector. Indonesia has Law No. 32/2009 on Environmental Protection and Management and Law No. 3/2020 concerning Mineral and Coal Mining to govern corporate responsibility as regards environmental protection, environmental impact assessment, and environmental permits. However, in practice, instances of environmental pollution caused by mining activities remain commonplace. For example, PT Pertamina's oil spill in the Java Sea[5] has caused serious damage to the environment and imperiled the health of coastal communities.

Indonesia has also introduced Law No. 41/1999 on Forestry. According to a Forest Watch Institute study, between 2013 and 2017, large swathes of Indonesia's natural forest spanning 5.7 million hectares were cleared, of which 2.8 million hectares were concession areas. Mining concessions caused at least 700 thousand hectares of deforestation.[6]

All the above-mentioned laws contain clauses that guarantee the rights of the people. In reality, local communities are typically excluded from the decision-making processes of extractive projects, which have a direct impact on their lives. This is one of the causal factors of company-community land conflicts.

The Agrarian Reform Consortium (KPA) documented more than 450 agrarian conflicts involving extractive companies in 2022, over land stretching across 2.3 million hectares. The dispute between mining company PT Freeport Indonesia and the Amungme and Kamoro indigenous communities[7] illustrates how extractive operations can violate customary land rights. On top of that, local communities are being forced out of their lands without adequate compensation, not to mention the sheer devastation to the environment. The outright rejection of the local community against the construction of a cement factory by PT Semen Indonesia in Rembang[8] is another example of how affected communities have to fight hard for land rights and a healthy environment. The local people have staged protests and pursued legal action to defend their rights.

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5 Wijaya, Callistasia.2019. Tumpahan minyak dan gas proyek Pertamina di Laut Jawa: Ribuan karung limbah dan sebabkan warga yang perlu biaya hidup 'nganggur'. https://www.bbc.com/indonesia/indonesia-49123606. Retrieved 8 July 2024.

6 FWI. 2020. 75 Tahun Merdeka, Hutan Indonesia hilang lebih dari 75 kali luas Provinsi Yogyakarta. https://fwi.or.id/75-tahun-merdeka-hutan-indonesia-hilang-lebih-dari-75-kali-luas-provinsi-yogyakarta/. Retrieved 8 July 2024.

7 Kuum, Adolfina. 2022. 54 Tahun Tambang Freeport dan Kehancuran "Ibu" Suku Amungme, Komoro dan Sempan. https://www.jatam.org/54-tahun-tambang-freeport-dan-kehancuran-ibu-suku-amungme-komoro-dan-sempan/. Retrieved 8 July 2024.

8 Wibowo, Kukuh S. 2017. Penyebab Petani Rembang Blokir Pabrik PT Semen Indonesia. https://nasional.tempo.co/read/845199/penyebab-petani-rembang-blokir-pabrik-pt-semen-indonesia. Retrieved 8 July 2024.

If we refer to RBC standards and guidelines, active multistakeholder engagement, in this case, the local community, becomes a non-negotiable element to prevent the negative impacts arising from mining operations. Indonesia's extractive industries have to face realities and address challenges. The persistently wide policy implementation gaps require the government to plan and implement concrete steps to not only ensure that international standards are met but also that businesses operate responsibly to achieve sustainable, inclusive, and just development.

An equally important area of focus as regards RBC in the extractive sector is information disclosure as a form of corporate accountability and business integrity of multinational enterprises. Demands for data transparency in the extractive industries, both globally and nationally, are nothing new. Open data in the extractive sector has been widely promoted by the Extractive Industries Transparency Initiative (EITI), to which Indonesia is a signatory. The latest EITI report covers data disclosure related to production, royalty payments, taxes, contracts, beneficial ownership, and social spending.[9]

Promoting openness in Indonesia's extractive sector through EITI is indeed a time-consuming process. In 2013, at the early stage of implementing the EITI standards, corporate compliance was an issue that warranted attention. Of the 282 oil and gas and mineral and coal companies required to disclose information as part of the EITI reporting requirement, 38 of them failed to comply.[10] The government should take serious note of this, considering that under the RBC guidelines, disclosure is a requirement that enterprises must meet, and corporate compliance should be monitored and reviewed. There should also be a policy on reward and punishment for compliant and non-compliant enterprises.

Indonesia's interest in becoming an OECD member is partly driven by the possibility of attracting more investment into the country. This would mean the possibility of clearing even more land to make way for mining activities. The potential adverse effects on communities and the environment would be even more damaging. Safeguards should be in place to make sure that surges in capital inflows do not backfire on the domestic business climate. Once OECD membership is secured, Indonesia should be poised for free market competition and industrial liberalization. It also unlocks new

9 EITI. Apa itu EITI ?. https://eiti.esdm.go.id/apa-itu-eiti/. Retrieved 8 July 2024.

10 Nuraeni, Asri. PWYP. 2015. 38 Perusahaan Tambang Indonesia Belum Lapor EITI. https://pwypindonesia.org/id/38-perusahaan-tambang-indonesia-belum-lapor-eiti/. Retrieved 8 July 2024.

market opportunities. Nonetheless, Indonesia must avoid becoming a mere market destination for other OECD countries. This calls for an unwavering commitment from all stakeholders, with Indonesia making the most of the accession process to strengthen responsible governance of the extractive sector.

The NCP will assist in finding solutions to implementation gaps to ensure alignment with the OECD's RBC standards. The NCP will prepare a biennial report on the implementation of the RBC guidelines. Each adhering country has the flexibility to decide on the composition of the NCP. Seeing the important role that the NCP plays, the government should form an NCP team by engaging all stakeholders, not just the government.

Recommendations

Indonesia should consider the following to ensure smooth accession:

1. **Updating and aligning national laws and regulations with OECD RBC standards, including the environmental, social, and corporate governance aspects.** This involves a more in-depth review of the implementation of existing regulations such as the Mineral and Coal Mining Law, Oil and Gas Law, Environment Law, and the corresponding implementing regulations. This is to ensure alignment with RBC guidelines. The process will also involve dialogues between the government, private sector, the public, and international organizations to ensure that the best interests of all stakeholders are served.

2. **Building the capacity of the supervisory body (NCP) in monitoring and enforcing adherence to RBC regulations.** This involves strengthening the capacity of existing supervisory institutions, whether relevant ministries or independent oversight agencies, to ensure that they have adequate resources and skills to monitor and enforce compliance with RBC regulations. This also includes training for supervisory personnel, improving information technology infrastructure to support effective supervision, and fostering inter-agency cooperation in investigating and prosecuting violations.

3. **Incentivizing enterprises that comply with RBC standards, and sanctioning non-compliant business entities.** Incentives and sanctions are key instruments for encouraging compliance with RBC standards. Tax incentives or financial facilities can be made available to compliant companies. Meanwhile, tough and proportionate sanctions must be imposed against offenders. This will send a strong message to enterprises that responsible business practices will be rewarded, while violations will carry serious consequences,

4. **Making transparent public reporting of social and environmental impacts of business operations an obligation for enterprises.** The reporting obligation will require companies to openly and explicitly disclose the social and environmental impacts of their operations. This includes providing detailed information on waste management, land rehabilitation, contribution to community development, and other steps taken to mitigate negative impacts. Reporting should be done regularly, and publicly accessible on various platforms.

5. **Applying business integrity in economic governance.** Under the good governance triangle, private entities have a significant role to play. Instead of being a habitual corruption offender, businesses need to understand that corruption erodes profits and harms business reputation. Business integrity is not only about celebrating or glorifying the certification of good corporate governance and anti-bribery initiatives. It should also be accompanied by different types of reporting compliance of beneficial ownership of a company, and the management of conflicts of interest

6. **Engaging local communities in the decision-making process through effective public consultation.** Meaningful public consultation will ensure the active participation of local communities in the decision-making process on business operations. This includes public meetings, discussion forums, and other mechanisms that will allow the public to communicate their feedback, concerns, and aspirations to companies and the government. Through inclusive consultation, businesses can better understand the needs and expectations of local communities, and build a better relationship with them.

7. **Providing an easily accessible complaint mechanism for the public to report RBC violations.** An accessible complaint procedure is a key tool for the public to report RBC violations they may have experienced or witnessed. It should be a simple, accessible, and credible mechanism that provides the public with a safe and convenient channel to report violations, without fear of reprisals. The government and companies should respond to every incoming complaint in a fast and effective manner.

8. **Fostering cooperation between local government, the private sector, civil society, and international organizations to support the implementation of RBC guidelines.** Cross-sector cooperation between government, private sector, civil society, and international organizations is key to the effective implementation of RBC standards. This will involve the exchange of information, collaboration on relevant projects, and coordination in the development of policies and best practices. Cooperation should be guided by the principles of openness, mutual respect, and common interests.

9. **Conducting periodic assessments of the implementation of RBC standards in the extractive sector and making the necessary policy adjustments.** Regular evaluations will allow the government and other stakeholders to assess the effectiveness and relevance of existing RBC policies. They will inform the necessary adjustments and adaptations, including regulatory revisions, capacity building, and the development of new initiatives. Through a continuous evaluation cycle, Indonesia can ensure that RBC standards remain relevant and well-implemented in the extractive sector.

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Exploring Development Funding Opportunities for the CSO Sector for Indonesia's OECD Accession

International NGO Forum on Indonesian Development (INFID)

The Civil Society Landscape in Indonesia

Indonesia has now risen as an emerging economic power with socio-political and democratic influence at the regional and global levels. Indonesia's GDP is the largest in ASEAN and is expected to grow even further. Indonesia is the only G20 member state in ASEAN and is in the process of accession to OECD membership. It is home to 270 million people, the world's fourth most populous country, and the third largest democracy.

As non-state actors, Indonesian civil society organizations (CSOs) contribute significantly to economic and socio-political development outcomes, through civic engagement and democratization efforts. The fall of the New Order regime in 1998, which paved the way for democracy, was the greatest legacy of Indonesia's civil society thanks to the pivotal role that it undertook. Indonesian CSOs also played a part in the transition from authoritarian rule to a more democratic regime (Pratikno, 1998).

Indonesian CSOs continue to flourish, evolving into three distinct groups. First, CSOs adapting to development policies through a participatory approach. Second, reformists striving to strengthen civil society, regardless of the development ideology. Third, CSOs challenging hegemonic development ideologies through multiple participation methods (Fakih, 1999).

The roles played by the three CSO groups intersect with the increased global recognition of CSOs as key development actors. Such recognition was expressed in OECD's Third High-Level Meeting on aid effectiveness, held in Accra, Ghana, in 2008. CSOs are also recognized as an all-important group in the Sustainable Development Agenda. In this regard, CSOs play a role similar to that of other non-state actors such as the private sector, universities, and philanthropists.

The journey that Indonesian CSOs traversed runs parallel to Indonesia's historical path, which started as a response to the post-independence human condition and evolved into a reaction to the country's development situation. The Indonesian Planned Parenthood Association (PKBI, Perkumpulan Keluarga Berencana Indonesia), for example, was founded in 1957 out of civil society's concern over population issues, including worrying maternal mortality rates. In the 1950s, the Planned Parenthood initiative faced serious challenges. The majority of people saw birth control as an attempt at limiting human reproduction, which at the time was perceived as a form of deprivation of the freedom that Indonesians only briefly had a taste of.

CSOs gained popularity in the first decade of independence, staying current with rural development progress and the accompanying poverty issues well into the following decades. It was only then that they were accepted as the third sector, an alternative to the social sector, which had long gone unnoticed by the state and market mechanisms (Kastorius, 1993). By March 2024, the Ministry of Home Affairs and the Ministry of Law and Human Rights recorded 1,530 registered societal organizations, and 553,162 incorporated societal organizations in Indonesia.

The dynamics of Indonesian CSOs and the challenges that they face help shape how they evolve as organizations while balancing the needs of society and government. In terms of program capacity, they are expected to grow and develop to provide community-level support and assistance while monitoring the government. CSOs on the other hand, are still grappling with the issue of organizational capacity development, specifically with regard to sustainability and funding. CSOs worldwide, including in Indonesia, have persistently been heavily reliant on external funding in the form of grants or donations.

These funding challenges are exacerbated by the COVID-19 pandemic. Based on an INFID survey (2020), the pandemic caused more than half of Indonesian CSOs (72%) to be hard hit financially, with almost a quarter entering a critical phase and ceasing operations (23%). In another survey conducted by the CSO Coalition (2021), as many as 41% of CSOs saw a drop in funding during the pandemic.

Another predicament that Indonesian CSOs find themselves in concerns misguided policies that affect democracy, civic space, and public participation, where attempts are being made to lump CSOs together into a single category. Such generalization was the result of the government wresting control of the issue and how it should be interpreted, and eventually institutionalizing it. Law No.17/2013 on Societal Organizations, followed by Government Regulation in Lieu of Law (Perppu) No. 2/2017 on Amendments to Law No. 17/2013 concerning Societal Organizations conflates unincorporated and incorporated CSOs (Foundations and Associations), which requires at least three or more Indonesian citizens to found an organization (except foundations). Under the law, CSOs are bound by all provisions therein, including the prohibitions and sanctions. For example, the dissolution of an incorporated organization can be done without a court order (Nugroho, 2019).

Trends in CSO Funding

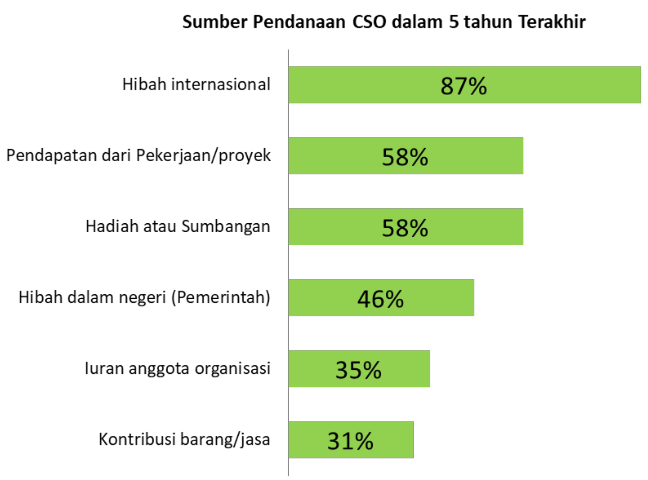
As the third sector in development, Indonesian CSOs assume a broader role that transcends national borders, which, whether they realize it or not, positions them as an instrument of globalization. Indonesian CSOs have forged connections with prominent international networks, not confined to international and bilateral institutions, but also include multilateral initiatives.

The Millennium Development Goals (MDGs) and Sustainable Development Goals (SDGs), adopted in 2000 and 2015 respectively, recognize the importance of civil society engagement, including Indonesian CSOs, where international and multilateral donor agencies vowed to make the two global development agendas a success by involving CSOs. Indonesian CSOs thrived with the help of official development assistance funding and their partners, which in part have influenced their positions, roles, image, and effectiveness.

Indonesian CSOs receive the lion's share of their funding from international development grants, which may create problems in the long run, such as the inability to cover operational costs and dependence on donor priorities.

According to available data for the last five years, CSOs obtained funding from six main sources, the largest of which came from international grants (87%) (CSO Coalition, 2021). International grants account for the bulk of funding due to the greater likelihood of securing aid compared to other sources, at a success rate of 22% (Hoelman, 2021).

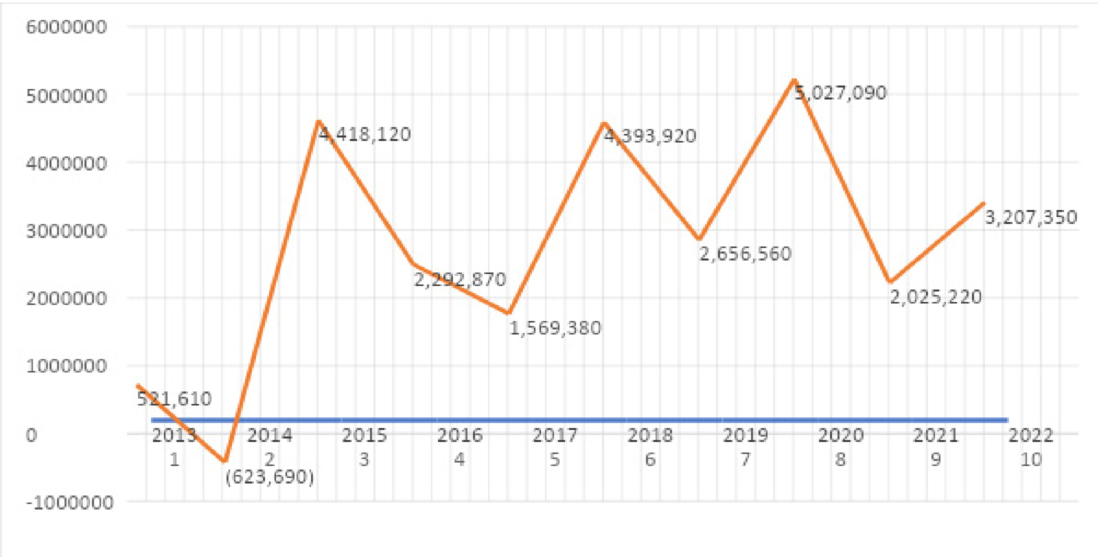
Figure 1. Main Sources and Composition of CSO Funding in the Past Five Years



Source: CSO Coalition, 2021

Indonesian CSOs saw a decline in international funding (ODA/ODF) a decade since the reform movement in 1998. The funding crunch was a consequence of Indonesia being upgraded to upper middle-income country (UMIC) status and its inclusion in the G20. A more consolidated democracy following the 1998 reforms has also brought about a relatively stable political environment conducive to economic endeavors. An increase in ODA funding to Indonesia in 2020 was due to the flow of assistance from developed countries and international institutions for COVID-19 pandemic responses.

Figure 2. Trends in the Flow of International Aid to Indonesia *in millions



Source: www.data-explorer.oecd.org

Another challenge to the awarding of international grants for Indonesian CSOs is a complicated process built on a donor-recipient model where payments are made after a strenuous audit process, resulting in possible delays when red flags are detected in the financial statements. In addition, Indonesian CSOs have no temporary grants to rely on, nor anticipatory funding mechanisms for specific situations. Donor agencies do not make concessions, often assuming that CSOs are capable of maintaining a healthy cash flow, even amid crisis situations where no one is spared (CSO Coalition, 2021).

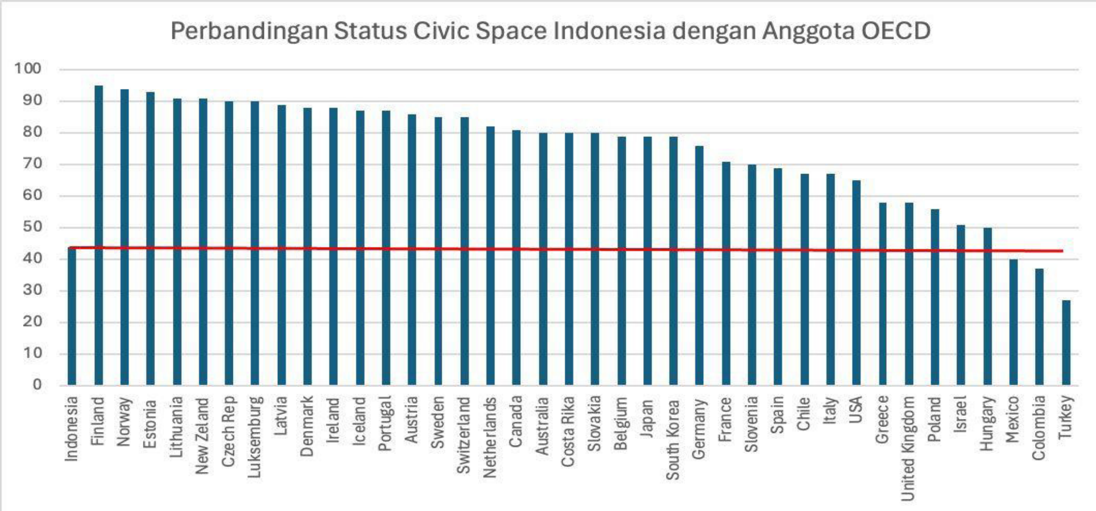
The whole situation with international donors also seems to put Indonesian CSOs in a dilemma, especially considering that Indonesia has moved up from the low-income country category, which no longer makes Indonesia a priority for assistance from international development partners. Indonesian CSOs are in dire need of alternative funding sources to sustain programs and activities and contribute meaningfully to community development.

In an ironic twist, Indonesia has been funding democracy development in other countries through the Indonesian Development Cooperation Fund (LDKPI/ IndonesianAID), at a time when local CSOs are losing out on international aid opportunities that have become scarcer. IndonesianAID's currently manages funds worth IDR 6 trillion, primarily derived from the 2019, 2020, 2021, and 2022 national budget (APBN) (CSO Coalition, 2021). In the 2022 APBN, IndonesianAID received an additional investment of IDR 1,000.0 billion, bringing the total managed funds to IDR 6,000.0 billion (**Ed:** Law No. 6/2021 on the 2022 APBN, Book II).

These funding challenges exert an added burden on Indonesian CSOs amidst a shrinking civic space, leaving Indonesia in 37th place among 38 OECD member countries in the Democracy Index (Economic Intelligence Unit/EIU report, 2023, 2024). The EIU classifies Indonesia as a flawed democracy. In the global ranking on the quality of democracy, Indonesia slid from 54th to 56th position.

Similar to the 2023 EIU Democracy Index, CIVICUS Monitoring 2023 compares civic space conditions across OECD member countries. Developing countries, such as Mexico, Turkey, and Colombia, are OECD members, but their civic space scores are below Indonesia. This does raise concern that OECD membership may not contribute significantly to the civic space situation of member countries. It only goes to show that the OECD framework is predominantly oriented toward economic goals rather than gains in democracy and civic space. Based on the figure below, the three countries rated as repressed whose scores are lower than Indonesia (44) are Turkey (27), Colombia (37), and Mexico (40).

Figure 3. Comparison of Civic Space Scores between Indonesia and OECD Members



Source: CIVICUS, 2023

Good Practices in CSO Funding in OECD Member Countries

Three of the OECD member countries are from Asia, namely Japan, South Korea, and Indonesia (in the process of OECD accession), with distinct types of democracy and CSO funding situations. Japan and South Korea have proven track records in good practices in CSO funding in Asia that Indonesia can draw on as it seeks accession to the OECD.

Table 1. Democracy Rankings of OECD Member Countries from Asia

EIU Democracy Ranking	EIU Democracy Index	Country	Date of joining OECD
14	8.4	Japan	28 April 1964
19	8.09	South Korea	12 December 1996
37	6.53	Indonesia*	In the process of accession

Source: Economist Intelligence Unit reports, 2023, 2024

In South Korea, the commitment to support CSOs is inseparably connected to the Korean reconciliation and democratic transition in 1987, as well as the translation of the philanthropic principle into policies. The Law to Promote Non-Profit Civil

Organizations in 1999 empowers the government at the national and local levels to support the development of South Korean CSOs, which calls upon the Ministry of Home Affairs to assist with CSO activities and programs, specifically funding support. The Law also grants tax exemptions for CSOs.

There are two types of development assistance funding for CSOs through the South Korean ODA scheme. First, Aid to NGOs that primarily supports CSO programs and managed by CSOs. Second, Aid Channeled through NGOs for CSOs or other private organizations to implement projects that can generate donor initiatives/funds (earmarked funding).

South Korea also has an Official Development Assistance (ODA) program for aid recipient countries. Through the ODA mechanism, the South Korean government has been involved in a multitude of international cooperation schemes. The lead agency responsible for the ODA program is the South Korean Ministry of Foreign Affairs, while concessional lending falls under the remit of the Ministry of Finance in partnership with Korea Eximbank. According to the latest 2019 data, South Korean CSOs amassed USD 45.2 million in gross income from the ODA scheme. This is an increase from USD 39.62 million in 2018 (Marata, 2022).

Meanwhile, in Japan, the commitment to support CSOs was a follow-up to a survey conducted by the Environment Agency following the Earth Summit in Rio de Janeiro in 1992. Over 60% of respondents representing CSOs working on environmental issues reported experiencing a shortage of human resources. These organizations face difficulty in hiring qualified staff and paying stable salaries, which hampers organizational development. Without a guaranteed wage plan at competitive rates, good employees are more likely to leave their jobs. Meanwhile, many Japanese are willing to work as volunteers but lack the skills that CSOs seek (Marata, 2022).

An Assistance Division for CSOs under the Japanese Ministry of Foreign Affairs was established in June 1994 in response to an environmental survey. The division superseded a special center that was established in 1989 for the specific purpose of supporting CSO activities, with a startup funding of USD 1 million. Budget allocation for the Assistance Division increased dramatically. In fiscal year 1993, the division contributed USD 3.7 million to CSO activities and earmarked USD 5.4 million for fiscal year 1994. It also channeled USD 7.7 million to CSOs for operations in fiscal year 1993, and USD 8.7 million in fiscal year 1994.

Local partnerships and funding mechanisms for domestic CSOs help shape the role that CSOs play in international development cooperation under the Japanese Ministry of Foreign Affairs, specifically the CSO Assistance Division. In general, the three types of partnerships are 1) financial assistance, where funding is provided to Japanese CSO activities abroad; 2) creation of an enabling environment for CSOs, which refers to cooperation aimed at CSO capacity building; 3) dialogue, where CSO perspectives regarding ODA policies and government-CSO partnerships are heard and inform policies. These policies will provide JICA (Japan International Cooperation Agency) with a basis for channeling ODA funding to recipient countries.

International Sustainability Support Opportunities for Indonesian CSOs for OECD Accession

Korea and Japan showcase the equally important roles of the government and CSOs in improving democracy and development outcomes. In the economic dimension, such roles have ultimately impacted the economy through social and political stability, including in generating new sources of CSO funding in both countries.

A declining trend in international funding support for Indonesian CSOs is inevitable as Indonesia moves toward OECD accession. This is evidenced by ODA aid cuts due to the change in Indonesia's status to middle-income country, compounded by the threat to CSO sustainability in the aftermath of the COVID-19 pandemic. The deterioration of CSO capacity will eventually weaken democracy, civic space, and public engagement.

Ideally, Indonesian CSOs deserve the same amount of attention as the government pays to foreign CSOs and foreign countries, who have been receiving assistance through IndonesianAID. In this regard, Indonesian CSOs need funding institutions that can manage sufficient funding sources with multi-year or continuous commitments to ensure sustainability.

This parallels the funding practices of South Korea and Japan, where the state is committed to supporting domestic CSOs through the mobilization of special public funds for CSOs, in anticipation of dwindling international funding for domestic CSOs. Strengthening domestic CSOs is a prerequisite for optimizing diplomacy and supporting overseas development as an obligation expected of OECD countries. South Korea and Japan have been doing this since the 1990s or for over three decades.

The creation of a CSO endowment fund is a pressing need that can help Indonesia get out of the middle-income trap while improving the country's democracy index. South Korea and Japan have their very own ambitious initiatives for supporting domestic CSOs, including in areas related to Korean reconciliation and environmental issues in Japan. Indonesian CSOs on the other hand have worked diligently to promote inclusive and sustainable economic growth (Responsible Business Conduct, RBC).[1]

CSOs play an even more critical role in post-pandemic recovery and the OECD accession. Their involvement can help reduce uncertainties for vulnerable communities who persistently endure social exclusion, specifically the elderly, children, people with disabilities, and women who are disproportionately affected by social inequality. In addition, CSOs act as a formidable countervailing power. In the context of democratic consolidation, the role played by CSOs is as important as that of political parties.

1 https://mediaindonesia.com/ekonomi/605420/peran-oms-dalam-meningkatkan-pertumbuhan-ekonomi-asean

Recommendations

1. **Revision and assessment of regulations on the sustainability and governance of Indonesian CSOs.** In South Korea and Japan, the relevant government ministries help manage public funds intended for CSOs, including ODA funding for foreign countries. This can be applied in Indonesia, where the Coordinating Ministry for Economic Affairs can be the lead agency, working in concert with the Ministry of Foreign Affairs, Ministry of Finance, and Ministry of Development Planning within the framework of economic diplomacy and aid effectiveness that engages Indonesian CSOs. Unconsolidated and non-aspirational regulations can cause democracy index scores to drop, including concerns about the governance practices of CSOs that are neither transparent nor accountable.

2. **As Indonesia's ODA, IndonesianAID should engage CSOs to promote accountability, including additional income for CSOs and the government.** IndonesianAID is a non-echelon organizational unit that adopts the financial management model of a Public Service Body (BLU, *Badan Layanan Umum*). Through this institution, Indonesia has been channeling development aid to foreign countries and foreign NGOs.

3. **The CSO endowment fund scheme and the mobilization of public funds for CSOs are the main options** in the furtherance of Indonesia's pursuit of OECD accession and becoming a developed country like South Korea and Japan. To optimize the scheme, the Indonesian CSO funding agency should ideally have the following characteristics: a) a public body; b) flexibility; c) the ability to build CSO capacity; d) the ability to distribute and raise funds; and e) has professional staff. The CSO Endowment Fund is a competitive grant that supports the sustainability and strengthening of Indonesian CSOs.

4. **The CSO Endowment Fund can also strengthen democratic consolidation, thereby fostering social and political stability.** This is in line with the vision and mission of Golden Indonesia 2045, specifically the democratic ideals, and improving Indonesia's democracy index score on par with developed countries. Social and political stability will lead to accelerated, inclusive and responsible economic growth. In this case, a CSO Endowment Fund can be one of the key drivers of Indonesia's escape from the middle-income trap.

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OECD is neither a panacea nor a silver bullet

The course that Indonesia is charting towards transforming into an advanced nation by 2045 is paved with both optimism and pessimism. Such optimism is not grounded in a far-fetched dream but from hard facts and calculated risks. Likewise, the pessimistic outlook is not unfounded as it anticipates a path strewn with challenges. To avoid dwelling on the optimism-pessimism divide, we need to consider both sides in an equally balanced manner.

Let's first look at the optimistic side to whet interest. Indonesia is on the verge of reaching a demographic dividend in 2030-2040, where the working-age population is projected to account for 65% of the total population. Several international institutions have predicted Indonesia's rise to become the world's 4th or 5th largest economy by 2045. According to Goldman Sachs Global Investment Research (2022), Indonesia will emerge as the 4th largest economic powerhouse in the world by 2050 with a real GDP of US$6.3 trillion. The Indonesian government made a far more optimistic projection at US$9.1 trillion in GDP with a per capita income of US$29,000 by 2045. In addition, Indonesia's bounteous natural wealth will be managed through a downstream approach to increase added value.

It is equally important to consider the pessimistic end of the spectrum so that we are not left in a soporific delusion. The myriad problems that Indonesia currently faces are by no means trivial. Environmental degradation due to the reckless exploitation of natural resources has caused devastating social, economic, and environmental losses. The manufacturing industry's contribution to the national economy is steadily declining, from 27.41% in 2005 to 18.35% in 2022. Similarly, the agricultural sector saw a sharp drop in productivity, with per capita farmer income at IDR 41.5 million in 2010 to IDR 22.9 million in 2022.

The challenges to making Indonesia an advanced nation also abound in many other fields. Innovation in science and technology remains underdeveloped, with no added economic value, low levels of productivity, deindustrialization, high rates of informality, unemployment, and poverty, meager wages, a vulnerable middle class, a high-cost economy, rampant corruption, inconsistencies in law enforcement, fluctuating quality of democracy, high-cost politics, bureaucratic red tape, poor literacy skills, geographic disparities within and outside Java and so on.

To transform into a developed country, Indonesia needs to harness its full potential appropriately, expeditiously, and sustainably. It must be able to find solutions to existing problems and at the same time address current and emerging challenges. By doing so, optimism will prevail, as pessimism turns into optimism.

One of the steps towards gaining advanced country status, which the incumbent Joko Widodo-Ma'ruf Amin administration seeks to bring to fruition, is the country's bid for membership in the Organization for Economic Cooperation and Development (OECD). On February 20, 2024, the OECD officially opened accession talks with Indonesia. Later on May 2-3, 2024 in Paris, during the OECD Ministerial Council Meeting (MCM) presided by the Prime Minister of Japan, Fumio Kishida, Indonesia was accepted as an OECD accession country. This means that Indonesia has been given the green light to ready itself for the prospect of being bound definitively to the OECD as a full member. Accession is a process that Indonesia must go through as it is not a signatory to OECD's founding convention.

The Indonesian government seems highly confident that it will be able to meet all OECD membership requirements by 2027. Most government elites are expectant and convinced that membership will smooth the pathway towards becoming an advanced nation by 2045. Other circles however have raised doubts, asserting that Indonesia will need more time to gain membership into the OECD, dubbed as a rich-country club. Sebastian Strangio, editor at The Diplomat, describes it as a long and winding road.

A whole gamut of regulatory instruments must be in place and institutional reforms undertaken in alignment with OECD standards; not an easy feat indeed. Not to mention changing mindsets and how Indonesia works as a country to converge with OECD standards and practices. For example, we can no longer use an offensive approach to protecting national natural resources or industries. These are not all plain sailing.

Making Indonesia a sovereign, advanced, just, and prosperous country in a sustainable manner cannot solely pivot on the accumulation of wealth, trade surplus, access to natural resources, and safeguarding national interests. According to Canuto and Santos (2021), institutional arrangements are the key driver to creating long-term prosperity. They include institutions, policies and their implementation in society, the rules of the game in a society, or more formally, the humanly devised constraints that shape human interaction (North, 1990).

Indonesia should focus on creating an enabling environment conducive to socio-political-economic activities from which the people can prosper and advance their communities. Acemoglu et al. (2019) found that democracy spurs higher growth, which dispels an unfounded fear that democracy hinders growth. A good democracy will lead to good institutions and policies, where better policies and better institutions go hand-in-hand. Joining the OECD is essentially an avenue for institutional reform and generating the desired impact (Canuto and Santos, 2021).

To sustain a democratic process for Indonesia's accession to the OECD, civil society organizations, businesses, MSMEs, labor unions, marginalized groups, and the wider public need to be engaged in institutional and policy development across sectors. The three reasons for this: fast-tracking institutional reform, policy reform, and improving the quality of implementation to create a real impact on citizens and meet OECD standards.

This edited volume "Indonesia's Accession to OECD Membership: Civil Society Perspectives on Key Issues" tangibly demonstrates the active engagement of civil society organizations in Indonesia's accession process to the OECD. It is a step towards a more participatory process to maintain the quality of democracy and to give voice to the voiceless. The issues raised in this edited volume are of great concern to each contributing organization: (i) economic liberalization and Indonesia's geopolitical position towards the OECD, (ii) decent work and safe migration, (iii) welfare and fiscal policy, (iv) corruption eradication, (v) responsible business, (vi) opportunities and the positions of civil society organizations. These concerns however do not cover the entire spectrum of development issues or sectors that matter to people's lives.

In the economic and geopolitical context, Indonesia should consistently defend its economic sovereignty, maintain an active-free foreign policy, and assert its position as a solidarity-maker or bridge-builder. South-South cooperation, for example, is an agenda that Indonesia should continue to pursue in the context of the global economy, including strengthening MSMEs. On the issue of decent work and safe migration, Indonesia needs to negotiate job market opportunities in OECD countries for Indonesian workers, create a skilled workforce with an emphasis on equity and quality on a massive scale, as well as improve work skills certification, and push for cross-border certification recognition. Regarding welfare, Indonesia should increase social spending to reduce poverty and inequality, increase the tax ratio by broadening the tax base to target the super-rich and reform tax administration bodies.

Other critical development issues or sectors that need attention and further study by civil society organizations, labor unions, academics, businesses, the marginalized, and the wider public include the financial market, insurance and pensions, fiscal policy, inequality, poverty, inclusive growth, development financing, the environment, biodiversity, climate crisis, energy, natural resources, agriculture and fisheries, biotechnology and chemicals, public governance, regional development, infrastructure, science and technology, statistics and data, health, education and job training, labor market, social policy, trade and export-import, digital, human rights, consumers, women, children, indigenous peoples, and people with disabilities.

Studies on key development issues or sectors by different elements of society in the context of Indonesia's accession to the OECD are crucial to ensure that Indonesia meets OECD standards without adversely affecting those who have not benefited from socio-economic development. In the accession process, Indonesia should not merely be at the receiving end of policy transfers with the OECD, but should also be able to propose domestic policies kept in alignment with OECD standards. Furthermore, with strong evidence and a solid proposal, we would have better prospects of contributing to the development of OECD standards and instruments.

We also need to mitigate potential risks that may arise from Indonesia's accession process or when it becomes an OECD member. Referring to Canuto and Santos

(2021), a potential risk is getting caught in the trap of mimicry, where developing countries that have joined the OECD tend to only change their external surface or skin to resemble developed countries, rather than make serious improvements to their institutions, policies and governance. Another risk is poor identification of issues that affect people at the grassroots level. Macro statistical indicators do not always uncover hidden problems at the household or community level. These risks need to be internalized and anticipated earlier.

Returning to the issue of optimism and pessimism with the explanation above, we, the authors, see the need for a half-and-half-measure attitude in looking at Indonesia's accession to the OECD. Let's be optimistic but not excessively, and let's be pessimistic but not antipathetic. The OECD is not a panacea, but a vitamin. The OECD is not a silver bullet, but a complexity. Quality institutional and policy reforms, and their implementation in a fast, precise, and sustainable fashion will drive Indonesia's progress in terms of welfare, justice, and sustainability. ***

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