

Steering Through Turbulent Waters: Indonesia's Leadership in Shaping ASEAN's Economic Resilience

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As this is being written, the Middle East is ablaze with conflict, threatening to spiral into a full-scale regional war. This crisis, layered atop the ongoing devastation of the Russia-Ukraine war and the escalating strategic competition between the U.S. and China, is sending shockwaves through global supply chains, destabilizing energy markets, and intensifying protectionist tendencies. In this fraught landscape, the world also faces the compounded challenges of slowing economic growth, financial turbulence, as well as climate disasters and health crises. These converging forces have raised urgent concerns about long-term economic resilience for the global economy. In such precarious times, the need for collaborative action to safeguard stability and strengthen the ability to withstand and rebound from economic disruptions has never been more critical.

With its strategic location, abundant natural resources, and a dynamic, youthful workforce, Indonesia is uniquely poised to drive ASEAN's future growth and enhance the region's economic resilience. Boasting a GDP of approximately USD1.3 trillion and a population exceeding 270 million, Indonesia significantly contributes to ASEAN's overall economic output, accounting for nearly 40% of the bloc's GDP. Its expanding middle class, vibrant consumer market, and thriving digital economy position the country as an attractive destination for investment and trade, serving as a key driver of regional growth and innovation.

Epicentrum of Growth: Indonesia's Vision for ASEAN's Economic Future

As the largest economy in the region, Indonesia has been playing a pivotal role in shaping ASEAN's economic agenda with a consistent track record. It has led major regional initiatives that have shaped the trajectory of economic cooperation in Southeast Asia. For example, Indonesia was instrumental in developing the 2003 Bali Concord II, which laid the groundwork for the eventual establishment of the ASEAN Economic Community.

When Indonesia assumed the ASEAN Chairmanship in 2023, the theme "Epicentrum of Growth" powerfully underscores its commitment to driving economic development and intertwining national resilience with regional resilience. Throughout its chairmanship last year, Indonesia championed priorities that echoed its own national agenda—spearheading post-pandemic recovery through digital transformation and sustainable development. These efforts, including a strong focus on digitization and emerging industries like electric vehicles, reflect Indonesia's commitment to forging a resilient, future-ready economy for the country and the broader ASEAN Community. Important milestones during Indonesia's 2023 chairmanship include, among others, the convening of the ASEAN Indo-Pacific Forum and the launch of negotiations on the Digital Economy Framework Agreement (DEFA). Once finalized, DEFA will become the world's first regional digital economy agreement.

Also, Indonesia is actively seeking to reduce barriers to prosperity within its society, understanding that resilience must be cultivated from the ground up. Through targeted

social programs, support for micro, small, and medium enterprises (MSMEs), digital inclusion, and infrastructure development that connects remote areas to economic hubs, Indonesia is strengthening local economies and addressing internal disparities. This focus on inclusive growth has also shaped Indonesia's economic leadership within ASEAN. Through the ASEAN Comprehensive Recovery Framework, Indonesia emphasized the critical role of supporting MSMEs to drive economic vitality and reduce inequalities, creating a foundation for equitable growth and shared prosperity, which is the prerequisite for long-term resilience.

Given the profound integration of our economies within global supply chains and the critical role of international trade in driving our economic growth, advancing an open trade agenda through a robust network of ASEAN free trade agreements with key partners is essential. Indonesia has played a pivotal role in these initiatives, notably the Regional Comprehensive Economic Partnership (RCEP)—the world's largest free trade agreement—which started with negotiations in 2012 and came into effect in 2022. This landmark agreement significantly enhances ASEAN's global economic presence.

Going forward, Indonesia's active role will be crucial in ensuring that ASEAN remains a key player in the global supply chains. As the region's largest economy, Indonesia is well-positioned to help ASEAN navigate trade fragmentation by leveraging its strategic location, growing consumer base, carbon sink, and dynamic workforce. This will bolster Indonesia's economy whilst boosting regional trade and enabling more efficient and sustainable cross-border economic growth of circular trade and movement of goods and services.

This proactive approach aligns seamlessly with Lao PDR's ASEAN Chairmanship this year, which features the theme "Enhancing Connectivity and Resilience." The recent ASEAN Summit in Vientiane reaffirmed ASEAN's resolve to strengthen its collective resilience and regional integration to withstand and address emerging global challenges, from geoeconomic geopolitical tensions to the increasing fragmentation of the global economy.

Strategic Priorities for ASEAN

As the world's fifth largest economy and third largest global trading power, ASEAN must enhance its ability to navigate an increasingly fragmented global order, especially given its reliance on open economic regionalism. Deepening intra-ASEAN economic integration while strengthening external economic relations will be essential for ensuring resilience in the face of global challenges. Furthermore, ASEAN must prioritize several strategic initiatives and priorities that reinforce resilience while promoting sustainable and inclusive growth throughout the region.

First, strengthening intra-ASEAN trade and investment is essential. While trade with major economies like the U.S., China, and the European Union remains vital, ASEAN's resilience hinges on boosting intra-regional trade, capitalizing on the region's promising growth prospects. In 2023, intra-ASEAN trade reached USD758.9 billion, accounting for 21% of total trade—a significant contribution given that ASEAN's total trade of USD3.5 trillion is nearly on par with its GDP of USD3.8 trillion.

To accelerate growth, ASEAN must focus on reducing non-tariff barriers, harmonizing standards, and enhancing digital trade and customs processes. The on-going upgrade of the ASEAN Trade in Goods Agreement (ATIGA) addresses both traditional trade issues and emerging challenges such as supply chain connectivity and food security. This initiative also explores innovative dispute resolution mechanisms and integrates circular economy principles, reinforcing ASEAN's role in sustainable global supply chains.

Intra-ASEAN investment, valued at USD21.8 billion (9.5% of ASEAN's total in 2023), also presents significant growth potential. The signing of the Fifth Protocol of the ASEAN Comprehensive Investment Agreement (ACIA) this year marks a critical step in modernizing ASEAN's investment framework. Moving forward, it is essential to enhance the business environment by promoting regulatory transparency, advancing infrastructure development, and ensuring seamless mobility of goods, services, and people across the region. These initiatives will not only foster a more attractive investment climate but also strengthen the overall economic integration within ASEAN, paving the way for sustainable growth and resilience.

Second, ASEAN must maintain open regionalism and diversify its supply chains. As multinational corporations increasingly seek to reduce dependency on single countries or regions, ASEAN is strategically positioned to seize this opportunity, thanks to its extensive network of free trade agreements with major global economies. With Indonesia's leadership, ASEAN is implementing the Regional Comprehensive Economic Partnership (RCEP), upgrading free trade agreements with major economies like China and India, and negotiating new agreement with Canada, while continuously exploring new markets with vast growth potential.

Third, embracing the digital and sustainable economy is crucial. Driven by rapid technological adoption, e-commerce, and digital finance, ASEAN's digital economy is projected to be worth USD1 trillion by 2030, with the potential to double to USD2 trillion through ambitious negotiations on the Digital Economy Framework Agreement (DEFA). Beyond digitalization, sustainability and environmental resilience have become central to global economic discussions, especially in the face of climate change. Under Indonesia's chairmanship last year, ASEAN adopted the ASEAN Strategy for Carbon Neutrality and the ASEAN Blue Economy Framework, reinforcing commitments to decarbonization and sustainable growth at both the regional and national levels.

Lastly, ASEAN must preserve its centrality and engage constructively with all major powers. Amid rising geo-political tensions, maintaining ASEAN's centrality by strengthening regional institutions and promoting multilateralism is essential. Constructive engagement with major powers, while avoiding entanglement in rivalries, will be crucial for ASEAN's future.

Looking ahead, under the leadership of President Prabowo, we look forward to Indonesia's continued proactive role in navigating ASEAN through the complexities of a fragmented global economy. By leveraging Indonesia's economic strengths and strategic position, ASEAN will be well positioned to secure its prosperity in the post-2025 landscape and chart a bold path toward the ASEAN Vision 2045, aligning seamlessly with Indonesia's Vision 2045, or "Indonesia Emas 2045". Decades ago,

Indonesia championed the concept of linking national resilience to regional resilience—a strategic vision that remains profoundly relevant amid today's economic uncertainties and geopolitical tensions.

Forging a more integrated and resilient ASEAN, where national and regional strength reinforce each other in a virtuous circle, is the best way forward in our collective pursuit of resilience, innovation, and shared prosperity.
