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## Opening Address by H. E. Radius Prawiro, Coordinating Minister for Economy, Finance, Industry and Development Supervision, Indonesia, for Sixteenth ASCOPE Meeting Jakarta, 6–8 September 1990

Esteemed Colleagues, Distinguished Guests, Ladies and Gentlemen,

It is a pleasure to be here today in the midst of such an august group of people representing all the nations of ASCOPE. I would like to welcome all the individual delegations of ASCOPE to Jakarta for what promises to be a productive and mutually beneficial meeting. Although ASCOPE was conceived in October of 1975, it was given further recognition in Bali in September of 1980. At that time, the First Meeting of the ASEAN Economic Ministers on Energy Co-operation (AEM-EC) designated ASCOPE as the official ASEAN vehicle for co-operation in the field of oil and gas.

Meetings such as this are great opportunities for all of us in ASCOPE to come together and voice our concerns, needs and goals in the face of a global economy which seems to change faster and more often than ever before. While the nations of ASCOPE share a common commitment toward solidarity on a range of economic issues, these global changes affect the way in which our nations live out this commitment. These changes challenge us to arrive at new ways to strengthen our ties and find creative solutions to the dilemmas of our time.

Who would have thought, for instance, that in just the first ten days of August, the oil industry would be altered dramatically, edging some nations toward recession and jeopardizing the stability of the global economy?

It is difficult for us [as] a group to prepare ourselves for such drastic changes. In times like this, we must come together, act quickly and adroitly, adjusting our goals and strategies appropriately. Unfortunately, we are limited to actions which are often nothing other than reactions, ones which help us to cope in the short term.

Clearly, such short term goals are very much on the minds of the parties gathered today. Even if the crisis in the gulf is diffused soon, the repercussions are likely to stay around for a time until the laws of supply and demand bring us back to a new — and hopefully stable — equilibrium. What is apparent in the short term — and probably reach equilibrium at prices no lower than \$20 a barrel. [*sic*]

At times like these, it is especially relevant for the nations of ASCOPE to consider what we — as a group — can do to limit the impact of these crises on our economies. For in these moments of political crisis, diplomatic uncertainty and economic disequilibrium, there may be initial benefits to a few, but these are short lived. Only dialogue, co-operation and mutual assistance will bring about long run benefits for all.

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This point is especially true — and especially appropriate — in the case of the Asia Pacific region, [since] 67 per cent of the oil consumed in this region was imported from the Middle East in 1985. It is estimated that by 1995 that number will rise to 83 per cent, and by 2000 to 90 per cent.

Ladies and gentlemen,

Our coming together today perhaps has more to do with long term goals than short term solutions. There is no denying that our economies are linked. Although some of us are islands, none of us are islands unto ourselves. Clearly, the long term success of Southeast Asia in general — and ASCOPE in particular — will depend on strong co-operation, constant communication and mutual respect for each other's needs and goals.

One does not need to look far to see that this linkage, while relatively new, is growing at a rapid pace. I would like to spend a few moments this morning drawing a sketch of the development of this trend, with particular emphasis on Indonesia. I would then like to give some brief comments on the issue of energy, the cornerstone and linchpin to continued regional growth in the 1990s.

From 1976 to 1986, world trade increased from \$1.8 trillion to \$4.1 trillion or an annual increase of under 12 per cent.

In the same period, intra-ASEAN trade increased at an annual rate of 14.1 per cent. In Indonesia's case imports from ASEAN countries have grown 35 per cent in just three years up to 1989, and its exports experienced similar growth during that period.

When one considers the entire west Pacific, total exports totaled more than \$650 billion in 1989. Of this, more than \$250 billion was intra-regional trade — more than 40 per cent. This share is expected to rise to more than 50 per cent by 2000. Accompanying this explosion in exports has been an explosion in growth — growth which is as reliant on regional co-operation as it is on access to markets in the west. While Japan's economy has created much of the momentum of this growth, other economies have come up from the ranks and are quickly creating a diversified region. Hong Kong, Taiwan, South Korea and — in our region — Singapore have all experienced economic growth which has earned the admiration — if not the envy — of nations throughout the world.

Still on the tail of these "Tigers," though developing more rapidly, are the other nations of ASEAN. Thailand currently has the distinction of leading this pack with quite remarkable GDP growth rates of 12 per cent in 1988, and near 11 per cent last year. Malaysia has also enjoyed strong growth of 8 to 9 per cent, and — favorable conditions applying — may have a growth rate in excess of 10 per cent this year. The Philippines, despite some unforeseen circumstances, has recorded a growth rate of around 6 per cent over the past three years. In Indonesia's case, 1989 saw a growth rate of 7.4 per cent, much of this being fueled by our export drive.

This growth is — in part — due to the diversification of economies throughout ASEAN and increased demand for an array of products from different countries — high quality, internationally competitive products. Over the last decade, all of our economies have developed far beyond our expectations. In addition, ASEAN has generally been lauded for its political stability, especially in the face of rapid growth. Because of this, foreign investors are increasingly finding the region a very attractive one.

In the area of foreign investment, this growing diversity in the economies of ASEAN has allowed record levels to be achieved in several countries. In Indonesia, investment commitments in the non-oil sector alone in 1988 were \$4.4 billion, in 1989 they were \$4.7 billion and — in just the first six months of 1990 — they were \$4.56 billion. And the story is similar in countries throughout the region.

We in Indonesia are committed to ensuring that this trend not only continues, but also intensifies. While we have implemented comprehensive and widespread reform measures throughout our economy, we will continue to initiate further measures, reduce bureaucratic red tape and deregulate certain sectors of the economy in order to make it easier for Indonesians to do business abroad — *and*

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*to make it easier for foreigners to do business in Indonesia.* And we will continue to strengthen our infrastructure to cope with the sharp growth in our industrial sector. This is of paramount importance, as this growth will put increased pressures on our ports, roads and airports.

Ladies and gentlemen,

What has driven this activity of the last five years was another crisis — not dissimilar to this one — in which tremendous volatility in the oil market gave us no choice except to reduce our dependence on oil. In 1986, the price of oil dropped from more than \$25 a barrel to less than \$10. This crisis reduced our revenues by 40 per cent, and had the effect of lopping 10 per cent off of our GDP.

This severe blow to our economy, in retrospect, now is looked upon by us as a “blessing in disguise.” It forced us 1) to reevaluate our position in the world economy; 2) to re-define our economies priorities and 3) to implement sweeping reforms to make our economy more competitive, more attractive and more capable of addressing the problems of a high cost economy.

In particular, we had to eliminate burdensome protectionist policies and stimulate the non-oil sector through a series of deregulatory measures designed to allow for the proper functioning of a market economy.

Throughout the mid-1980s, many new policies were carefully implemented — tax reform, banking reform, trade reform, port reform, just to name a few. While the effects of these policies would not be fully realized for some time, the severity of the economic state of affairs was such that reform measures had to be implemented nearly simultaneous to these major stabilization policies.

What had to be done was simple in theory but difficult in practice: to permit more decisions to be made by the market while requiring fewer decisions to be made by government bureaucracies.

The economic history of the last decade shows us that those nations that face foreign competition “head on” — and those that give free reign to businesses from within — often enjoy gains in productivity and more rapid economic growth. It is the profit motive of companies and co-operatives operating in an open, unencumbered economy — offering competitive prices and high quality goods while keeping sales up and costs down — which has made many nations great. We are learning that this may be the instrument by which productivity can increase, bringing with it greater wealth and higher welfare.

The fruits of these reform efforts began to show up in 1987, and continue today. Non-oil exports have been growing about 15–20 per cent annually over the last three years, reaching \$13.8 billion last year. Many of the industries in this sector are, of course, labor intensive, and have created millions of jobs. We still have a long way to go, however, as we have nearly two and a half million entrants into the job market every year. The issue of employment is one of the greatest challenges Indonesia faces today, and will continue to be into the 21st century.

Of course, while we continue to diversify our economy — and while non-oil exports continue to account for a larger share of total exports (in 1989 more than 60 per cent) — oil and gas will still make up a large proportion of our export revenues. In 1989, for instance, they contributed nearly 40 per cent, with a growing proportion coming from the export of liquefied natural gas.

This increasing sophistication and diversification of our overall economy meant that our businesses had to have access to capital and broad array of financial services necessary for expansion. While financial sector reform began in 1983, the most ambitious reforms were undertaken in late 1988. Since then, public savings have increased from \$20.5 billion to more than \$30 billion. In addition, the capitalization of our market has increased from \$200 million in 1988 to more than \$7 billion this year, with total capitalization at nearly \$20 billion. In 1989 alone, we had 40 new companies listing shares on the exchange. And there are now at least ten Indonesian mutual funds worth more than \$500 million.

Ladies and gentlemen,

Critical to the continuation of this growth — in Indonesia, in ASEAN and in Asia — is, of course,

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the one central element which lies at the heart of our collective survival — and which is the topic at hand today: ENERGY.

While global growth rates are expected to hover around 2–3 per cent, growth in the Asia-Pacific region is expected to remain at about 4–5 per cent. Accompanying this growth has been an alarming increase in energy demand of 8 per cent, representing a doubling of demand every decade.

To keep up the pace of the last five years, countries in the region will be forced to seek out new sources of energy. For without new discoveries, and without a reduction in energy consumption, it is estimated that exports from the major Asia-Pacific oil producers will drop sharply from 1.8 million in 1990 to 1.2 million in 1995 to less than 500,000 by 2000. As the price of oil increases, so will exploration, especially in the many areas of Indonesia which have smaller amounts of crude. In any event, reduction in the consumption of oil in the energy mix of the region should be given high priority by ASCOPE.

Another area which is worthy of serious consideration is the ways in which ASCOPE can work together to bring about economies of scale necessary to create and sustain alternative energy supplies. Whether it be LNG or LPG — coal, geothermal or hydro-electric energy — the dramatically increasing demand for energy to fuel regional growth will require new sources of energy. If not, by the turn of the century, it is clear that growth will slow — if not completely, then dramatically.

Whatever action is taken, it should — to some extent — take into consideration concerns about the environment. Whether in exploration, in shipping and in actual use, the damage done to the environment should be a factor in the costs/benefit analysis of particular projects. Indonesia is intensifying its efforts at using resources more productively, extracting them more efficiently and widening the array of these resources available for domestic and regional use.

Nearly 60 per cent of Indonesia's oil was exported in 1989, with nearly three-quarters of this going to the Asia-Pacific region. With 48 billion barrels of proven reserves, we estimate that the supply can be extended well into the 21st century. With new types of technology for extraction coming on line — the most provocative of which is steam flooding — these supplies could be extended past 2020.

In the meantime, exploration for new sources of oil and gas continues at a feverish pace. The five new contractor for exploration signed in April of this year brings the total to 84. To date, however, only 36 of the 60 known basins have been explored. The majority of these are in deep water, requiring advanced and expensive technology to guarantee success.

Another energy sources which Indonesia has in great abundance is coal. With 8.8 million tons mined in 1989, 2.5 million tons were exported, much of it throughout this region. It, too, will continue to play a significant role in the region well into the twenty-first century.

One energy source which perhaps has the most potential for regional co-operation in energy is liquefied natural gas — clean burning, plentiful and relatively inexpensive. Indonesia liquefies 18.7 million tons of its gas, making it the largest LNG producer in the world. Plans for a 1,400 mile gas pipeline have been drawn up by the Mines and Energy Ministry to connect the enormous gas reserves in the Natuna Sea with the Arun LNG plant in Aceh. If it is developed, it could also provide additional gas to industrial cities in and around Batam.

With regard to Indonesia's own energy concerns, our population is increasing, our relative level of affluence is increasing and our national development is increasing. This growth is putting harsh demands on our resources — renewable and non-renewable. We ourselves are mobilizing in order to increase our energy output so as to avoid energy shortages in our rapidly developing industrial sector — which has been growing more than 10 per cent for the last three years.

And we are looking for creative solutions to the pressures on land, food, water supplies — and energy — created by the more than 100 million on Java alone.

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Ladies and gentlemen,

In conclusion, I have tried to sketch for you some of the important trends developing in our region. They clearly show that we are linked, that this linkage is growing — and that this linkage is creating a web of economic and commercial ties that make co-operation not just a luxury but a necessity.

This is why we are here today: to seek ways to move forward as a group, to solve the problems which affect us all and to strengthen the ties that bind us together.

At this time, ladies and gentlemen, let this gathering, now officially opened, bear the fruit of stronger co-operation, useful dialogue and concerted action.

Thank you.

SOURCE: ASEAN Council on Petroleum.