



As long as you love me: Indonesia and the ASEAN Economic Community

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This was presented in the policy forum “National Interest and the ASEAN Economic Community: Convergence or Competition?” organized by the University of the Philippines (UP) Asian Center’s Bugkos Institutional Research Program and funded by the UP Emerging Interdisciplinary Research (EIDR) Grant.

Questions

- How Indonesia sees AEC?
- How is the government preparing for the AEC integration?
- Changing global economic architecture?



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How Indonesia sees AEC?

- “[Indonesia’s] leadership has so far also been limited to the political and security spheres, leaving other sectors, like the economy, to others.” (Emmers, 2014)
- As long as consistent with national priorities.
- ASEAN as one of many venues.
- “Boomerang effect” reform.



President Jokowi's Speech in 25th ASEAN Summit in Myanmar

Myanmar, 12/11/2014



*Saudara ketua, Indonesia tetap berkoitmen untuk mewujudkan masyarakat ASEAN 2015, dengan tiga pilarnya. **Untuk mewujudkan masyarakat ekonomi ASEAN, diperlukan peningkatan pertumbuhan ekonomi di negara-negara ASEAN. Indonesia ingin mencapai target pertumbuhan ekonomi 7% di tahun-tahun mendatang.***

Indonesia tidak akan membiarkan dirinya menjadi pasar semata. Indonesia harus juga menjadi bagian penting dari rantai produksi regional dan global (regional and global production chain). Untuk itu, ASEAN harus bekerjasama mengatasi tiga hal utama.

*Pertama, **mempercepat pembangunan infrastruktur dan konektivitas** di negara-negara ASEAN, antar negara ASEAN, antara ASEAN dengan negara-negara mitra, melalui percepatan implementasi Masterplan on ASEAN Connectivity.*

*Kedua, meningkatkan **kerjasama investasi, industri dan manufaktur yang lebih erat diantara negara-negara ASEAN**. Indonesia dibawah pemerintahan saya terbuka untuk bisnis., terbuka untuk bisnis. Namun, Indonesia, seperti negara berdaulat manapun, harus memastikan kepentingan nasionalnya tidak dirugikan. Kita harus menjunjung tinggi prinsip resiprokal, saling menghormati, saling menguntungkan, dan persaingan secara adil, dalam bekerjasama.*

*Ketiga, **meningkatkan perdagangan** intra-ASEAN yang saat ini masih cukup rendah, yakni 24,2 persen. Dalam lima tahun kedepan, saya berharap nilai perdagangan intra-ASEAN setidaknya bisa mencapai 35-40 persen. Kita juga harus meningkatkan PDB ASEAN dua kali lipat, dari US\$ 2,2 triliun menjadi US\$ 4,4 triliun pada tahun 2030, dan mengurangi separuh angka kemiskinan di kawasan pada tahun 2030 dari 18,6 % menjadi 9,3%.*

Competitiveness Connectivity

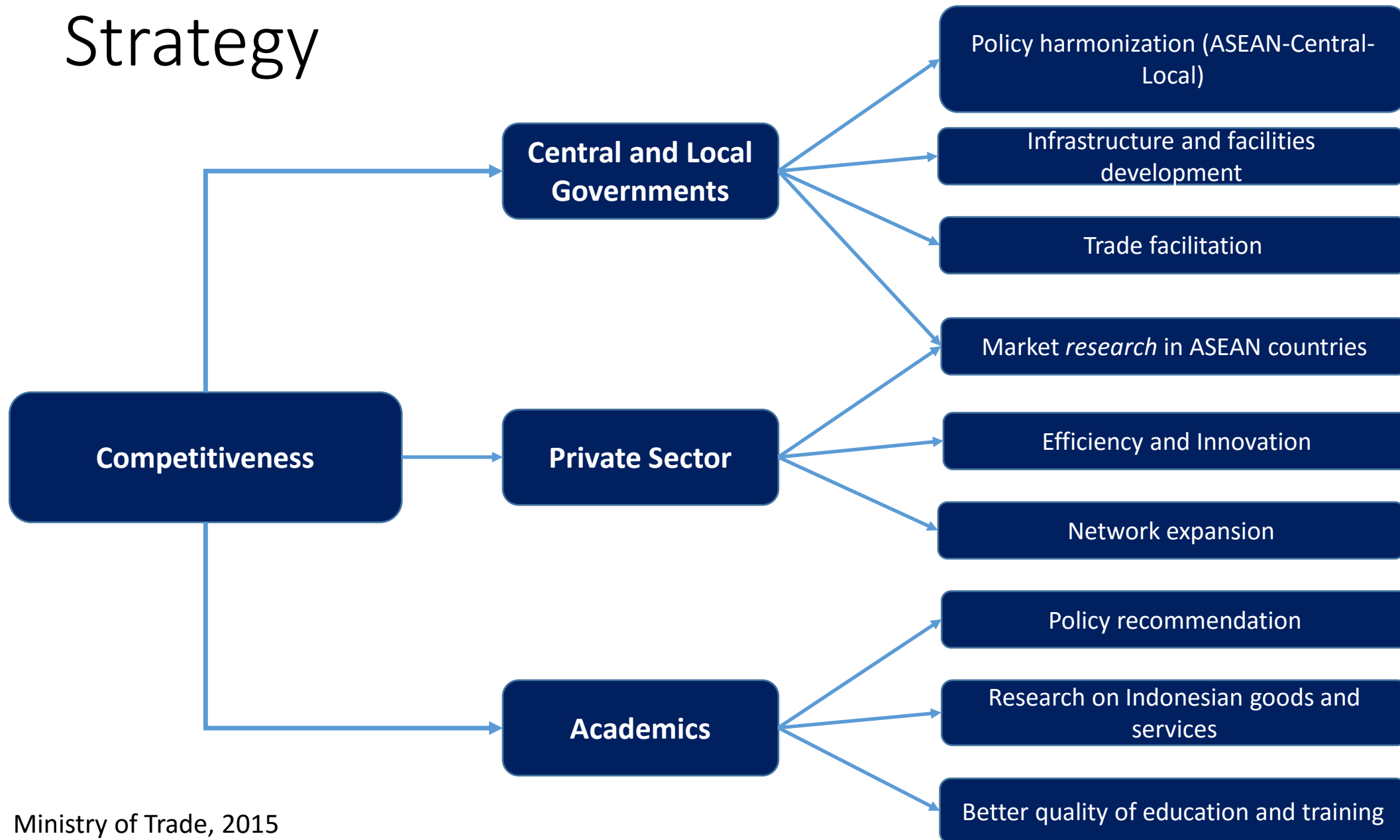
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Problem of Competitiveness

Global Talent Competitiveness Index 2017: Rankings for Asia Pacific			
2	Singapore	82	Sri Lanka
6	Australia	86	Vietnam
14	New Zealand	87	Kyrgyzstan
22	Japan	90	Indonesia
28	Malaysia	92	India
29	South Korea	98	Bhutan
52	Philippines	103	Iran
53	Kazakhstan	108	Cambodia
54	China	111	Pakistan
72	Mongolia	113	Bangladesh
73	Thailand		

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Strategy



Developing competitiveness

1. Optimizing strength, developing potentials

- From commodities to manufacturing

2. Focus and Expansion

- Focus on main exports and potential exports
- **Main exports (Ekspor Unggulan):** textile and textile products, electronic, rubber, palm oil, forest products, footwear, automobile, shrimp, cacao, coffee
- Expansion to **ASEAN Market**

3. Make use of the regional value chain



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Economic Policy Packages

Policy Package	Content
1	Industry competitiveness (deregulation, debureaucratization, law enforcement, and business certainty) Acceleration of national strategic projects. Increasing investment in property sector.
2	Deregulation and debureaucratization to ease investment (including 3 hours investment service, tax allowance and tax holiday processing, etc)
3	Complementing Policy Package I. Including reduction of electric, gas, and oil cost for industry. Expansion of Kredit Usaha Rakyat Simplification for land certification process
4	Formulation for minimum wage
5	Asset revaluation for State Owned Companies and individuals
6	Incentives for Special Economic Zones Simplification for import permit process
7	Easing Investment permit process Tax reduction Simplification of the process to acquire land certificate

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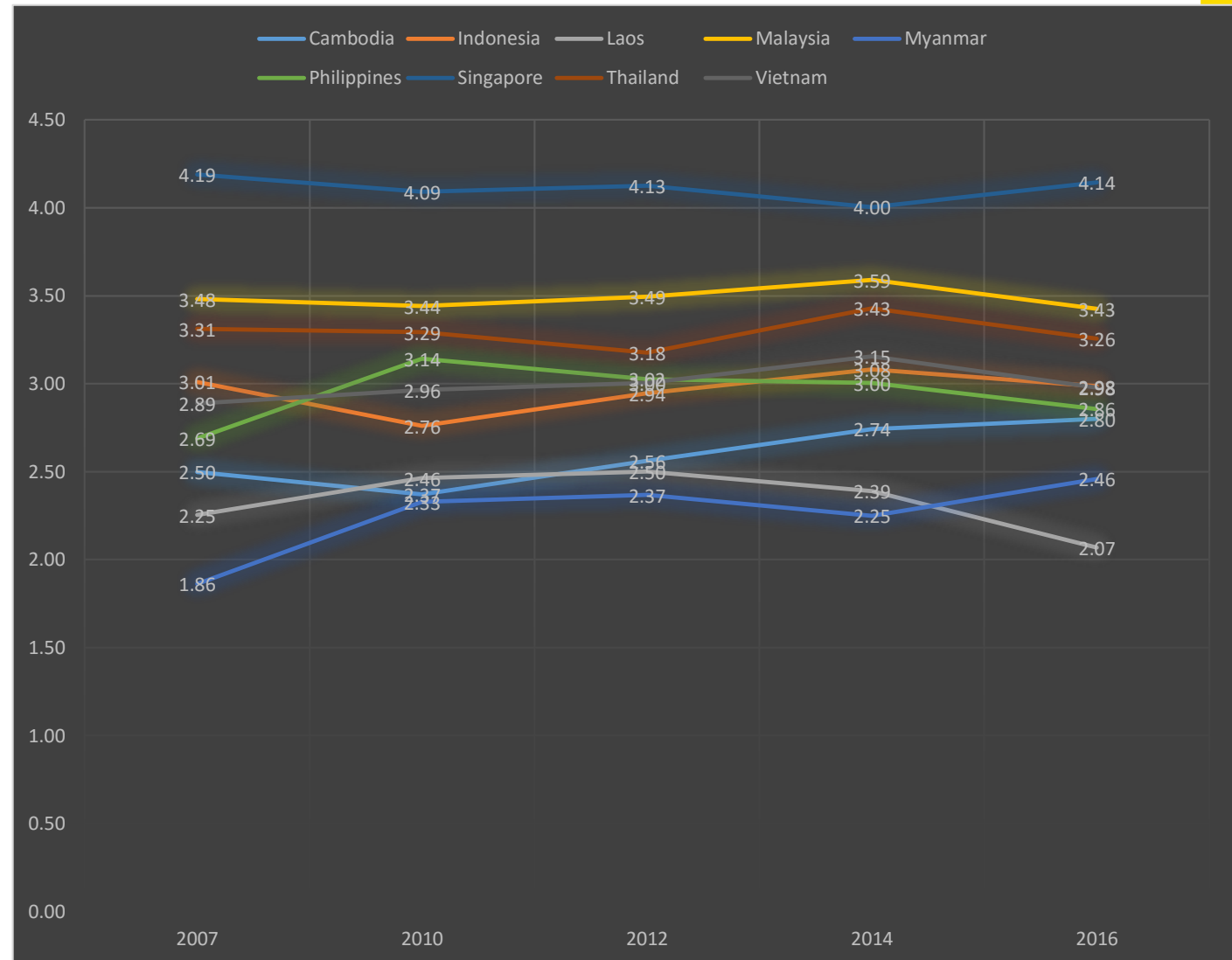
Economic Policy Packages

8	One Map Policy Acceleration of the construction of oil refineries to increase production Incentives for airplane maintenance service
9	Acceleration of the development of infrastructure for electricity Develop better village-city logistics
10	10 points to step up Indonesia's rank in Ease of Doing Business Index
11	Kredit Usaha Rakyat for export Dwelling time efficiency Development of pharmaceutical and medical goods industry
12	Support for SMEs permit process
13	Acceleration of the construction of housing for the low income people → deregulation and reduction of administrative cost
14	Roadmap for e-commerce → Largest Digital Economy Nation in Southeast Asia in 2020
15	Increasing opportunities for industry/business scale up Deregulation and reduction of cost for logistics services Strengthening the Indonesia National Single Window (competent authority in ASEAN Single Window) Deregulation in export and import

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Logistics Performance Index

- Indonesia's score in the Logistics Performance Index is not so heartwarming.
- Lagged behind Singapore, Malaysia, Thailand, Vietnam.



Connectivity

Infrastructure is clearly President's Priority.

Elaborated in the **Medium Term National Development Plan**
(*RPJMN 2015-2019*)

30 Priority Infrastructure Projects for the Period 2016-2019

No	Projects
1	Balikpapan-Samarinda Toll Road
2	Manado-Bitung Toll Road
3	Serang-Panimbang Toll Road
4	Trans-Sumatera Toll Road
5	Soekarno Hatta International Airport (SHIA) Express Railway
6	Jakarta Mass Rapid Transit (MRT), the South-North Line
7	Makassar-Parepare Railway
8	Kuala Tanjung International Hub Port
9	Bitung International Hub Port
10	Karangates Hydroelectric Power Plant
11	Kesamben Hydroelectric Power Plant
12	Lodoyo Hydroelectric Power Plant
13	Inland Waterways Cikarang-Bekasi-Laut (CBL)
14	Light Rail Transit (LRT) in the Province of South Sumatera
15	Light Rail Transit (LRT) Jakarta
16	National Capital Integrated Coastal Development (NCICD), Phase A
17	Waste Water Treatment System Jakarta
18	Water Supply System (SPAM) in the region of West Semarang
19	High Voltage Direct Current (HVDC)
20	Sumatera Electricity Transmission Line
21	Central-West Java Electricity Transmission Line
22	Batang Steam Power Plant (PLTU)
23	Indramayu Steam Power Plant (PLTU)
24	South Sumatera Steam Power Plant (PLTU)
25	Bontang Oil Refinery
26	Refinery Development Master Plan (RDMP) / Revitalisation of Existing Refineries
27	Ports in the Northern Coast of West Java
28	Tuban Oil Refinery
29	Palapa Ring Broadband
30	East Kalimantan Railway

Source: Committee for Acceleration of Priority Infrastructure Provision (KPPIP)

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Ports to be Developed under the Sea Toll Road Programme



Source: BKPM, Ministry of National Development Planning (BAPPENAS)

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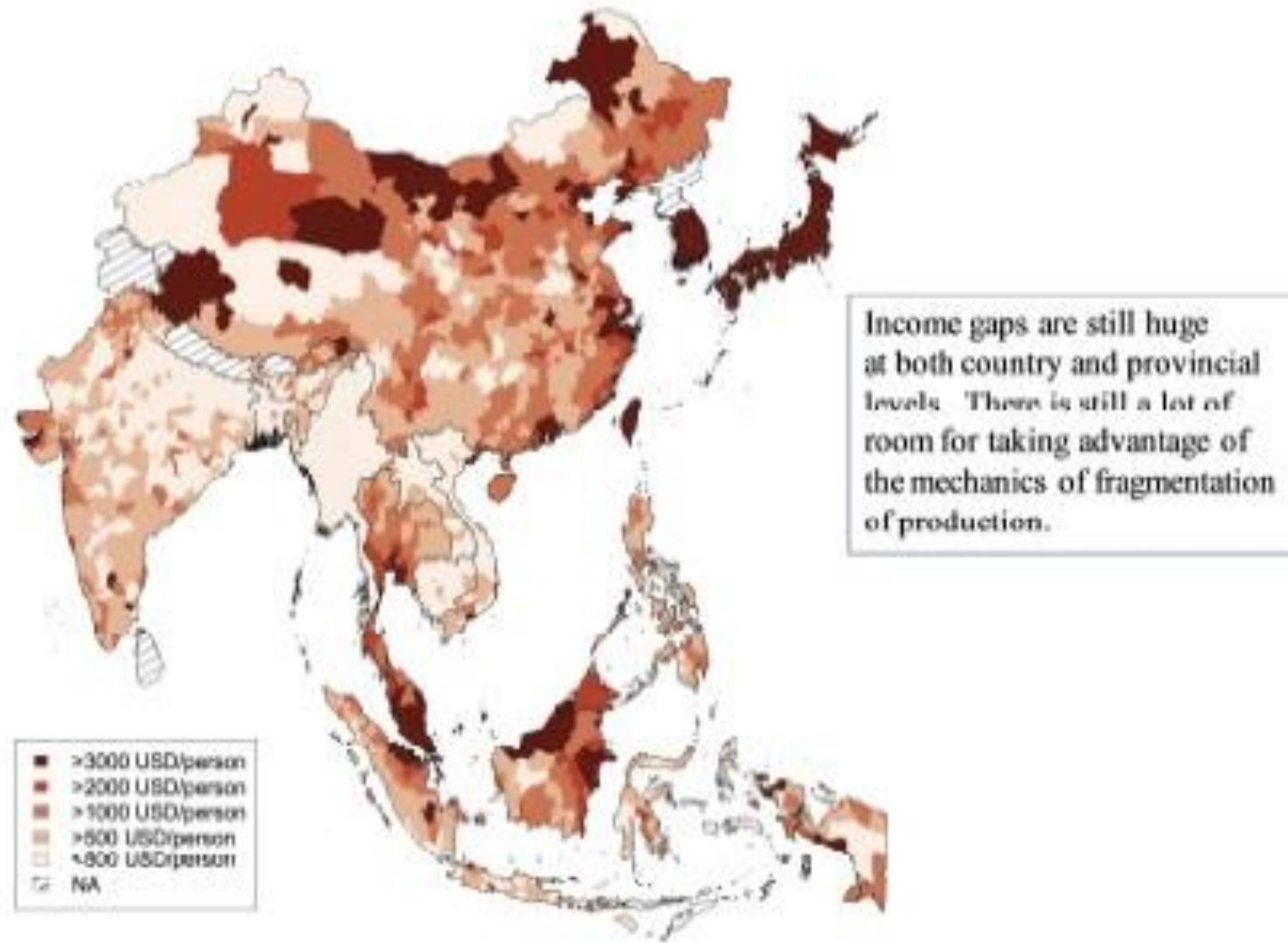


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Figure 2: Income Levels at the Provincial Level (2005)



Source: ERIA=IDE-JETRO GSM Team.

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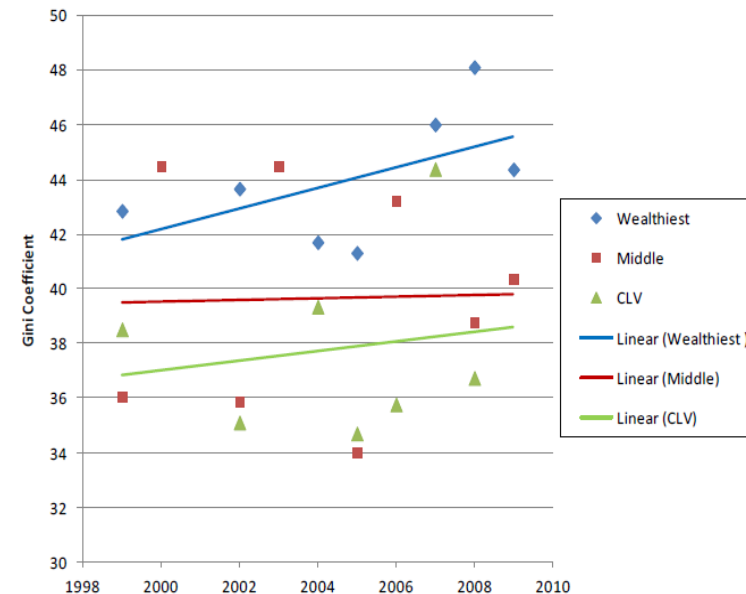
Inequality...

Why Inequality Matters?

There are profound fears that unified production base and market will mean relocation of production, investments, and jobs.

“EU-effect” – Losing confidence because they are worse off.

- **Inter-state**
 - Chia (2013): AEC will mostly benefit Singapore, Brunei, and Thailand.
- **Intra-state**
 - Both in wealthiest ASEAN countries and CLV, inequality is rising



Rate of growing inequality (Bock, 2014), in Amurwanti (2014)

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Problems with policies...

- Ambition vs Capacity
 - State and regional budgets = 40% of the total infrastructure funding requirement
 - IDR 1.98 quadrillion (US\$142 billion) out of IDR 4.8 quadrillion (US\$345 billion).
 - Budget cuts
- Implementation ineffective = bureaucratic inertia
- Miscoordination and overlaps = governance problems
- Status quo players
- Politics



China or No China

Top 10 foreign direct investors in Indonesia (January-September 2016)

No.	Country of origin	Investment	Project
1.	 Singapore	7,125.08	3,794
2.	 Japan	4,498.18	2,122
3.	 China	1,589.79	1,205
4.	 Hong Kong	1,556.60	758
5.	 Netherlands	1,096.65	603
6.	 British Virgin Islands	1,033.82	1,224
7.	 Malaysia	843.63	1,051
8.	 South Korea	743.81	1,944
9.	 Mauritius	560.67	172
10.	 United States	430.40	343
Total		21,461.30	16,752

* in million US dollars

Source: BKPM

China's realization of foreign direct investment (FDI) in Indonesia grew by 291 percent to US\$1.5 billion from January to September 2016 compared to the same period in 2015.

However, Japan and Singapore remains at the top.

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Post 2014, 2017 Political Fragmentation



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Amidst a Changing World...

- Domestic concerns as priority
 - E.g. TPP (SBY: no participation, Jokowi: study – related to textile industry lobby) → Trump cancelled it.
 - Infrastructure, infrastructure, infrastrucure!
- Remember the two-level game
 - Actions in the global arena is influenced by competition of actors at domestic levels.
- Strategic proximity with all major powers.

