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ASEAN Economic Community: Has Indonesia Done Its Homework?

By Santi H. Paramitha

Synopsis

ASEAN has entered a new era with the commencement of the ASEAN Economic Community (AEC). While Indonesian officials regard the AEC with optimism, there are concerns whether Indonesia can meet its obligations under the AEC.

Commentary

FOLLOWING THE launch of the ASEAN Economic Community (AEC), now in full swing, the debate whether it will benefit Indonesia, since the concept was promoted by the 2003 Bali Concord II, has not been conclusive. While some champion the AEC as a groundbreaking avenue for economic expansion, others are sceptical about Indonesia's ability to compete in the new milieu.

Opening the AEC Centre in Jakarta, the Minister of Trade, Thomas Lembong, described AEC as an innovation in which its risks should be taken in good faith for Indonesia's greater good. The minister's statement indicates the government's desire to present an optimistic picture of the AEC. However doubts still linger over Indonesia's ability to get its house in order to fully benefit from the AEC.

A Problem-Free Infrastructure Development?

Noting that protectionist measures are clearly off the table, Indonesia seems to view infrastructure development as the only avenue for increasing its competitiveness. This was no different from the era of former President Susilo Bambang Yudhoyono. President Joko Widodo (Jokowi) supports a similar vision of development under the Global Maritime Fulcrum (GMF) doctrine.

In accordance with the GMF doctrine, a big portion of Indonesia's state budget (APBN) has been apportioned for infrastructure development. Major development projects have been set in motion to upgrade and develop new roads, airports, harbours, as well as building the critical supporting infrastructure such as power plants within a slated period of 5 years (2014 – 2019).

If the implementation goes as planned, the projects are expected to decrease distribution and logistical costs, which currently hinder the competitiveness of Indonesian products in domestic and international markets. In conjunction with President Jokowi's agenda of transforming Indonesia into a manufacturing-based economy, improving the quality of infrastructure thus contributes to industrial growth. However, delays and budgetary constraints hinders the government's effort at making progress.

In the first year of President Jokowi's presidency, the Minister of Transportation, Ignasius Jonan, adopted a stringent approach by applying sanctions on developmental assignments that exceeded reasonable deadlines. However, as evident in numerous development projects still plagued with delays caused by logistic distribution, contract-related issues and failures to meet safety standards, such punitive measures seemed insufficient.

The poor realisation of governmental targets took a toll on Yudhoyono's Master Plan in 2011. Hence other viable solutions in speeding up delays should be the primary consideration of the current government.

Other Challenges

Budgetary constraints are another challenge that impedes rapid development rate. The necessary expenditure for the current development programme is IDR 5.52 trillion (USD \$442 billion) in which half of it will be covered by the draft national budget (APBN), draft regional budgets (APBD), and state-owned enterprises (BUMN). As for the other half, the government has resolved to attract foreign investors.

Without tangible actions, President Jokowi's investment approach merely through the use of exhortations in international forums is not sufficient. The "One Door Investment Policy" and the recent "Three Hours Investment Programme" by the Investment Coordination Board (BKPM) therefore play an important role in attracting investors whilst preventing the infrastructure development initiative from being handicapped.

Indeed, opportunities enabled by the AEC whereby one can benefit from investments within the ASEAN region should help to alleviate shortfalls in government spending on infrastructure development.

Unaddressed Domestic Issues

While the current government has been paying more attention to infrastructure development, several fundamental domestic issues have not been well addressed.

The first issue is the lack of information. Despite having the luxury of eight years to socialise the benefits of the AEC, the lack of understanding within Indonesian society about what constitutes the AEC remains large. Veritably, only the upper-middle class has some awareness of what the AEC portends, while the less privileged segments of society more vulnerable to the negative implications of an open market, languish in ignorance. Closing this gap by providing sufficient information supported by a clear economic strategy is required to protect the latter segments from losing out.

Secondly, Indonesia has the lowest borrowing rates in the region due to high interest rates. A 10% interest rate levied by the government-sponsored Micro Credit Programme (KUR) deters Indonesian small and medium enterprises (SMEs) from borrowing capital for business expansion. This interest rate surpasses the rates of its major competitors in ASEAN, like Thailand (6.5%), Philippines (5.5%), and Malaysia (4.5%). SMEs contribute at least 59% of Indonesia's GDP; thus failure to adjust banking policies to curtail the spiralling interest rates will pose difficulties for domestic producers in the AEC's more competitive environment. Although Vice President Jusuf Kalla has recently pointed to the need for a lower interest rate to support the national economy, this will take time to realise.

Thirdly, accreditation problems amongst Indonesian workers are increasingly becoming an issue. According to the Mutual Recognition Arrangement (MRA), there are eight sectors that will be opened as the AEC commences. While the nursing sector had been one of Indonesia's strengths in terms of proper accreditation, other sectors remained very much unaccredited and unsupervised. The absence of proper mechanisms for accreditation in sectors such as architecture, medical, and engineering may obstruct the progress of skilled Indonesian labour outflow. A proper accreditation mechanism is paramount in facilitating the Indonesian workers benefiting from the AEC.

Way Forward

The AEC will only mature with greater integration and development in the region. There are other challenges worth noting that will add to Indonesia's predicament, significantly adding to an already long laundry list.

Although there is greater emphasis on the current infrastructure development in Indonesia, relying solely on it will not guarantee sustainable development outcomes that Indonesia will require so as to ensure its competitiveness.

Safeguarding the progress of the current infrastructure development projects and resolving some unaddressed domestic issues are critical. In addition, maintaining political stability, sustaining the political will to undertake reforms, and formulating effective collaborations among policymakers will be crucial for Indonesia in the near future if it aspires to enjoy the full benefits of the AEC.

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