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THE ASEAN ECONOMIC COMMUNITY: PROSPECTS FOR ACCELERATING INDONESIAN ECONOMIC GROWTH

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List of Abbreviations:

<i>AEC</i>	ASEAN Economic Community
<i>ADB</i>	Asian Development Bank
<i>ASEAN</i>	Association of Southeast Asian Nations
<i>BPS</i>	Indonesian Central Bureau of Statistics
<i>FDI</i>	Foreign Direct Investment
<i>FTA</i>	Free Trade Area
<i>GDP</i>	Gross Domestic Product
<i>SMEs</i>	Small and Medium Enterprises

BOLTS: FINANCIAL, COMPLIANCE, OPERATIONAL.

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Introduction

The region-based integration initiative of the Association of Southeast Asian Nations (ASEAN) called the ASEAN Economic Community (AEC) offers a bright future for the region. The AEC blueprint has promised to bring prosperity through a single market and production base, highly competitive and equitable development in the economic region, and a region fully integrated into the global economy.¹ The core mission of the AEC is to diminish barriers to trade and to facilitate the flow of goods, thus providing better opportunities for international trade and investment from non-ASEAN countries. Even though there are still many challenges to economic integration, the benefits from the free flow of goods, services, investments, and professional labor make ASEAN members optimistic that this integration will generate economic growth. One concern might be that the AEC will create an unequal dispersion of benefits among ASEAN members because of the dramatic variation in their individual economic situations. This report will outline how, since its establishment, the AEC has delivered a positive outcome for Indonesia.

The ASEAN annual report evaluates the key successes of the AEC through several metrics that assess the development of ASEAN member states. Progress is assessed according to Gross Domestic Product (GDP), foreign direct investment (FDI), and the increase in global competitiveness of member states. The differing economic structures and stages of development of ASEAN member states means that the results attained in each country will be different. Nevertheless, the 2016 ASEAN Economic Integration Report from the Asian Development Bank (ADB) has provided evidence for remarkable economic progress since these economic integration

¹ Nikomborirak, D. (2015) *The ASEAN Economic Community (AEC): Myths and Realities*, ASEAN Economic Papers 14:2, Thailand Development Research Institute, Page 74.

efforts were launched.² The report shows that, despite many challenges, the AEC has proven effective in building regional partnerships that strengthen the economies of member states. Specifically, the AEC has helped Indonesia to become more competitive in expanding into global markets.

This report will briefly characterize the challenges of ASEAN member states and argue that we should be optimistic that these challenges can be overcome, and that Indonesia will prosper in the AEC. First, this report will argue how the AEC has led the Indonesian government to improve both its infrastructure related to international trade and its human resources. Second, this report will examine why the AEC's single market policy has ensured progress for Indonesia in export production and market expansion as well as improved the quality of the country's products. Third, this report will argue that advances in human resource development and natural resource management are the key aspects that have led to Indonesia's success within the AEC. Finally, this report will conclude that the AEC will continue to benefit Indonesia if the country continues to improve its economic status while maintaining regional cooperation among ASEAN member states.

AEC Incentives for the Indonesian Government

ASEAN intra-regional economic cooperation started in 1976.³ In 1992, the ASEAN member states established a Free Trade Area (FTA) with a 15 to 18-year plan for its completion.⁴ In 2003 Bali

² *Asian Economic Integration Report: What Drives Foreign Direct Investment in Asia and the Pacific*. Page 127, Asian Development Bank (2016).

³ Shimizu, K. (2010) *ASEAN Economic Integration in the World Economy*, Vol. 39, Economic Journal of Hokkaido University, Page 77.

⁴ *Ibid.*

Summit, ASEAN leaders continued the dialogue of intra-ASEAN economic cooperation and declared that the AEC shall be an objective of economic integration. Established in 2015, the AEC envisions itself to be a key generator of intra-regional trade through its facilitation of the free flow of capital, goods, skilled labor and services within the regional group's ten member states: the Philippines, Thailand, Malaysia, Indonesia, Myanmar, Brunei, Singapore, Vietnam, Cambodia, and Laos. Despite this, there are dueling perceptions that the AEC is either a threat or an opportunity for some ASEAN member states. One might argue that the AEC could become a threat to countries that are not entirely prepared to face economic integration. For instance, some developing countries in ASEAN such as Cambodia, Vietnam, Laos, and Myanmar are considered to be not fully equipped for such integration in terms of infrastructure, human resource capabilities, and production quality since those countries have the lowest global economic competitiveness.⁵ On the other hand, the AEC is believed to be an opportunity for such countries to advance their economic growth through market expansion and the enhancement of FDI.

The AEC might bring enormous benefits for Indonesia, or it might be a dangerous threat to the national economy. The actual result will depend on how well Indonesia maintains its economic performance. Indonesia could greatly benefit from the AEC if it proves competitive in ASEAN. If Indonesia is unable to resist the flow of foreign products, however, Indonesia could only become a victim of economic integration as native industries become challenged by cheaper foreign products. To prevent these outcomes, the Indonesian government has shown a commitment to avoiding the more threatening aspects of economic integration and has followed this up by

⁵ Schwab, K. (2015) *The Global Competitiveness Report 2015-2016*. Page 7. World Economic Forum.

supporting economic sectors such as infrastructure, communications, and industrial production to facilitate the needs of international export and import of goods.

The Indonesian government committed to supporting international trade by increasing its budget allocation for infrastructural development in 2017 by 9.3%. These funds were used to pursue the development of roads, airports, seaports, railways, and electric facilities. These developments are scheduled to be completed in 2019.⁶ More importantly, the Indonesian government has a strategy for improving Indonesia's economic competitiveness in human resources through entrepreneurship education in various sectors such as creative industries, agriculture, and information technology. From 2015 to 2016, Indonesia enacted a regulation package that incentivized entrepreneurship in the creative economy sector. It addressed issues such as international funding, business regulations, tax incentives, infrastructure, and market access.⁷ The creative sector is expected to increase its contribution to Indonesia's GDP from 8.5% in 2016 to a projected value of 12% in 2019.⁸ Through the Ministry of Industry, incentives for the development of small and medium enterprises (SMEs) have been put in place with the goal of facilitating access to capital through the variety of programs such as business credit, community development partnerships, and venture capital.⁹ Thus, the AEC has already had a positive effect on

⁶ Januarius, F. (2016) *Infrastructure established within 2 years by Jokowi-JK*, Kompas News. Available at: <http://nasional.kompas.com/read/2016/08/16/14453101/ini.infrastruktur.yang.dibangun.selama.dua.tahun.jokowi-jk> (Accessed: April 9, 2019).

⁷ *Policy and Strategy in Developing Creative Economy*. Available at: <https://www.ekon.go.id/ekliping/download/2252/1665/bahan-paparan-umm.pptx>. (Accessed: April 9, 2019).

⁸ *Creative Economy Potential for the Promotion of Economic Diplomacy*, Creative Economy Agency. Available at: <https://diplomasiekonomi.kemlu.go.id/images/capbuilddiplomat/Paparan%20BEKRAF.pdf> (Accessed: April 9, 2019).

⁹ Shilul, T. (2016) *Entrepreneurship Education as a Strategy for Improving the Economic Independence and Competitive Ability of Society in AEC Era*, International Journal of Organizational Innovation, Vol. 9 No. 2, Pages 287, 290.

Indonesia because it has led the government to invest in both infrastructure and human resources to develop its economic capacity.

AEC Single Market Policy and its Effects on Global Trade

Trade liberalization among ASEAN member states is challenging given the range of socio-economic disparities, especially GDP per capita. The rich diversity of the organization makes it challenging to devise comprehensive policies that are acceptable for all members. For developed countries such as Singapore and Brunei, economic integration will not lead to the sorts of problems faced by less-developed countries in ASEAN, since the developed countries already have adequate logistics, good infrastructure, and competent human resources. Additionally, some countries are facing complex issues such as low economic growth, unstable political conditions, and insufficient human resource capabilities. These challenges are likely to make the integration process more difficult. In terms of global competitiveness, Cambodia, Myanmar, and Laos are ranked as the lowest developed countries in ASEAN.¹⁰ To address these issues, AEC provisions and regulations will attempt to create equitable conditions that benefit all members.

Indonesia is considered a mid-level economy in the ASEAN region. It is ranked below Singapore, Brunei, Malaysia and Thailand.¹¹ With vast human resources and a trove of natural resources, Indonesia is well-placed to increase the market for its products, to attract foreign investment, and to win greater access to resources in other ASEAN countries.¹² The biggest

¹⁰ Jones, M. (2015) *Which ASEAN country is the most competitive?*, World Economic Forum, Available at: <https://www.weforum.org/agenda/2015/04/which-asean-country-is-the-most-competitive/> (Accessed: April 9, 2019).

¹¹ Ibid.

¹² Andadari, R.K. and Pieter van Dijk, M. (2017) *Can Indonesia SMEs Compete with their Partners in the ASEAN Economic Community?*, Actual Problems in Economics; Kiev 187 , 109-118.

challenge could be a highly competitive market atmosphere among ASEAN member states. Nevertheless, Indonesia has shown a notable improvement on the importing and exporting of goods, services, and FDI in 2019.

The AEC has inspired many start-up tech companies across Southeast Asia to expand their services. Indonesian tech companies in particular will expand the geographical range of their services and technology. For example, Go-Jek, an Indonesian start-up tech company that provides an online bike-riding service, has expanded into new markets in Southeast Asia such as Vietnam and Singapore. Go-Jek is also targeting countries such as Thailand, Malaysia and the Philippines with hopes to broach these markets in coming years. This expansion aims to raise \$2 billion from investors.

In March 2019, Indonesia achieved a trade balance surplus of \$540 million, according to the Indonesian Central Bureau of Statistics (BPS).¹³ Indonesia has increased its exports in oil, gas, and other sectors, but especially raw materials such as palm oil. Even though Indonesia must still compete with clothing, furniture, and electronics from Thailand and Vietnam, Indonesian products are still able to compete and possibly lead the market in various commodities, goods, and services. Therefore, further integration will also increase investment for overseas expansion within the ASEAN region.

Aside from the positive aspects in international trade, the AEC has also increased FDI in Indonesia. FDI has been the key factor in Indonesia's economic growth and a strong aspect of

¹³ Gorbiano, M. (2019) *Indonesia records US\$540 million trade surplus in March*, The Jakarta Post, Available at: <https://www.thejakartapost.com/news/2019/04/15/indonesia-records-us540-million-trade-surplus-in-march.html> (Accessed April 15, 2019).

support for Indonesia as a developing country.¹⁴ The attractiveness of Indonesia has encouraged more foreign investment from the USA, Japan, and China as shown by the 2016 annual report. In 2016, Indonesia received the largest share of intra-ASEAN investment, followed by Singapore, Malaysia, and Myanmar.¹⁵ In the fourth quarter of 2018, FDI in Indonesia increased by 99 trillion Indonesian Rupiah.¹⁶ This means that Indonesia averaged 75.21 trillion in investment from 2010 until 2018. As long as Indonesia maintains its solid economic performance, investment ecosystem, and partnerships, it should continue to reap the benefits of AEC in the future.

Maximizing Human and Natural Resources

The AEC blueprint provides a unique opportunity for professional workers in ASEAN member states to work in any ASEAN country. It facilitates the free movement of workers in the engineering, architectural, accountancy, surveying qualification, medical, and dental sectors. The fact that the number of job seekers is far greater than the number of jobs available has created unemployment numbers of up to 7 million in Indonesia in 2017.¹⁷ This condition has resulted in serious competition in the job market among Indonesian workers. The free flow of skilled labor allows for skilled Indonesian workers to work in other countries. Ultimately, this will encourage

¹⁴ Lipsey, R. and Sjöholm, F. (2010) *FDI and Growth in East Asia: Lessons for Indonesia*, Research Institute of Industrial Economics, INF Working Paper no. 852, Page 2.

¹⁵ *ASEAN Economic Chart book 2016*. Available at <http://asean.org/storage/2012/05/13Content-AEC-Chartbook-2016.pdf>. (Accessed April 15, 2019).

¹⁶ *Indonesia Foreign Direct Investment*, Trading Economics. Available at: <https://tradingeconomics.com/indonesia/foreign-direct-investment>. (Accessed April 15, 2019).

¹⁷ *Unemployment in Indonesia*, Indonesia Investments. Available at: <http://www.indonesia-investments.com/finance/macroeconomic-indicators/unemployment/item255> (Accessed: April 12, 2019).

jobseekers to be more competent as professional international workers. Thus, the AEC's policy will benefit Indonesian workers in the global job market and reduce unemployment in Indonesia.

The free flow of professional workers will encourage the Indonesian workforce to be more creative and to develop their professional careers at the international level. Indonesian workers not only need to equip themselves with expertise in their field, but also to acquire other important skills such as proficiency in languages other than English. Even though English is the working language of ASEAN¹⁸, Indonesian workers need to master other ASEAN languages as well. For example, in Thailand, the Indonesian language has been taught in some educational institutions as preparation for Thai workers to enter the Indonesian job market, since the Indonesian language is one official language of ASEAN¹⁹. The Indonesian Government has also provided opportunities for Indonesian workers facing the global job market in the form of digital training.

Aside from its potential in human capital, Indonesia is replete with natural resources. According to the Indonesian Trade Ministry, there are at least ten leading commodities from Indonesia: textiles, electronics, rubber, palm oil, wood, footwear, automobiles, shrimp, cocoas, and coffee.²⁰ Having abundant natural resources, however, does not necessarily guarantee national prosperity and progress.²¹ Some of the world's wealthiest countries, such as Hong Kong, Japan, Singapore, and Switzerland rely very little on natural resources to support their national incomes.²²

¹⁸ *The working language of ASEAN shall be English*, Association of Southeast Asian Nations. p. 29. Article 34.

¹⁹ Nafi, A. (2016) *Indonesian language has become ASEAN official language*, *Tribun News*, Available at: <http://www.tribunnews.com/tribunners/2016/05/23/bahasa-indonesia-bahasa-resmi-asean> (Accessed: April 15, 2019).

²⁰ *The most Indonesian prominent products*, Directorate General for National Export Development. Available at: <http://ppei.kemendag.go.id/ppei.php?x=abtus&y=468eefefca090ca67d7fec65e537b126> (Accessed: April 11, 2019).

²¹ Gylfason, T. and Zoega, G. (2006) *Natural Resources and Economic Growth: The role of Investment*, *The World Economy Volume 29*, Issue 8, 1091, 989–1155.

²² *Ibid.*

It is believed that the combination of human resources and natural resources indicates tremendous potential for any economy. Thus, Indonesia demonstrates considerable potential by this metric. Therefore, there is no reason for Indonesia to succumb to market competition because Indonesia has everything that it needs to be a pre-eminent force in the ASEAN market.

Conclusion

The AEC is meant to be ASEAN's flagship initiative in bringing economic improvement and prosperity to each member state. Despite the challenges of managing a wide array of economic, political, and cultural conditions, the AEC remains the best hope for the ASEAN countries to turn the region into a global economic powerhouse. Even though the AEC could possibly be a serious threat to some member states, in Indonesia, the AEC seems to represent a remarkable opportunity that has encouraged the Indonesian Government to increase investment in human resources and infrastructural capacity.

The report shows improvement in various sectors for Indonesia in the years since the AEC was formed. Additionally, the AEC's free trade policy has created significant market expansion for Indonesian products and services and has provided an opportunity for Indonesian workers to access the global job market. As a result, the AEC has had a positive impact on Indonesian economic growth and will continue to increase Indonesia's national prosperity.



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