

CHAPTER III

Indonesia Opportunities and Challenges Facing the AEC

In this chapter, it explains all the contents of the discussion on the opportunities that Indonesia can exploit for national interests in terms of increasing the growth of trade and the state economy. Opportunities need to be considered to be achieved or realized so that the benefits and benefits for Indonesia. In addition, this chapter will look at the challenges facing Indonesia in implementing the AEC 2015. Indonesia's challenges in dealing with the AEC 2015 need to be seen as part of preparing to stay behind in business and economic competition with other AEC 2015 members.

A. Indonesia Opportunities Facing AEC

Opportunities are an opportunity to achieve the desired thing to become a hedged benefit. In the context of AEC, opportunities are defined as expectations or opportunities to gain profit with the enactment of AEC 2015. These benefits can be interpreted economically, socially, politically and culturally. Indonesia as one of the ASEAN countries has a great opportunity to be realized into reality so that it will provide benefits to Indonesia both individually (state), as well as the benefits together as an ASEAN regional organization.

Benefits obtained when able to take advantage of opportunities for excellence is the opening of opportunities to increase the volume of exports of

goods from Indonesia to other ASEAN Member Countries; The creation of a more conducive business climate with the implementation of the elimination of high cost economy and simplification of licensing; Increased productivity internally to strengthen competitiveness; Increased ability of business actors in ASEAN through the utilization of various agreed economic cooperation; The creation of more predictable, fair, transparent, and standardized trade in goods; The creation of new job opportunities and reduced social inequality as a result of increased investment in Indonesia; Opening of technology utilization opportunities among Member States.

These opportunities can be described as follows:

1. Large Population means Big Market Share

Large populations such as Indonesia are both opportunities and challenges. Indonesia with a total population of about 255 million people is the fourth most densely populated country in the world. Ethnic composition in Indonesia is very varied because this country has hundreds of different tribes and cultures. Nevertheless, more than half of Indonesia's population is dominated by the two largest tribes of Java and Sundanese tribes.

A large population in the context of AEC 2015 is a great opportunity because of its potential as a large domestic market. The position of the total population of Indonesia in ASEAN is the highest, ie in 2015 reached 255,462,000 people, with a growth rate of 1.3% and the density of 137 peoples / Km². The country with the smallest population is Brunei Darussalam which is only 417,000 people, the country with the smallest

growth rate in Thailand which is 0.5%, while the country with the highest population density is in Singapore which is 7,729 inhabitants / Km².

Table 3.1.
State of ASEAN Population

No	ASEAN Nations	Population (thousand)	Growth Rate (%)	Population Density (person/km ²)
1	Brunei Darussalam	417	1,3	72
2	Cambodia	15.405	1,5	85
3	Indonesia	255.462	1,3	137
4	Laos	6.902	1,4	29
5	Malaysia	30.485	0,7	92
6	Myanmar	52.476	1,9	78
7	Philippine	101.562	1,7	339
8	Singapore	5.535	1,2	7.729
9	Thailand	68.979	0,5	134
10	Vietnam	91.713	1,1	277
Total ASEAN		628.937	1,3	142

Source: ASEAN Statistical Year Book 2015.

Large population, means the necessities of life such as goods and services are also large. It means there is a large domestic consumption. Domestic consumption is a great source for Indonesia's continuing strong GDP performance. Moreover, household consumption contributes more than 55 percent of overall economic growth. This strong domestic consumption is one of the important reasons why Indonesia is able to pass the global financial crisis of 2008-2009 with an average growth rate of 5.6 percent in 2008-2010.¹

This opportunity should be utilized by Indonesia in the AEC 2015. The strength of the large domestic market should be the target of meeting the needs of products and services in their own country. This opportunity should

¹ <http://www.indonesia-investments.com/id/budaya/penduduk/item67?>

not be taken by another country. Therefore, the quality of goods and services must be increased so that the people of Indonesia do not switch to products from other countries, whether incorporated in the AEC or Chinese products are usually cheaper. By improving the quality of goods and services, the competitive value of goods and services will rise and will win in the country itself and there is the possibility of marketing to other countries. The population is big enough to face AEC 2015.

2. The Increasing of the middle class

Asian Development Bank (ADB) divide the middle class as follows: those who have expenses per day above \$ 2 are the lower middle class, \$ 2- \$ 4 is middle class and \$ 10- \$ 20 is upper middle class. The middle class (consumer class) has an expenditure range per day between \$ 2- \$ 4. As a note, the dollar value used is the dollar value that has been converted by considering the balance of spending factor or known as the term purchasing power parity (PPP). PPP can be said exchange rate between two countries currency (usually using Dollar). If converted to the value of Dollar against the current Rupiah is about Rp13.300, - then the expenditure per day is approximately between Rp. 26,600, - to Rp 53,200, - to be classified as middle class.

The growth of Indonesia's middle class can also be marked by an increase in Gross Domestic Product (GDP) from year to year. GDP is the value of goods or services produced by a country. If the middle-class increases, it will increase household expenditure. An increase in household

expenditure will increase the value of GDP. Boston Consulting Group (BCG) released a projection of the number of middle class in Indonesia. The following figure shows the projection of the number of middle class in Indonesia from 2012 to 2020.²



Sumber: *Boston Consulting Group* (published by the ministry of finance of Indonesia)

Picture 3.1. Number of the middle class in Indonesia

explanations:

- Elite* monthly expenses more than Rp 7,500,000
- Affluent* monthly expenses between Rp 5,000,000 to Rp 7,500,000
- Upper middle* monthly expenses ranging from Rp 3,000,000 to Rp 5,000,000
- Middle* monthly expenses between Rp 2,000,000 up to Rp 3,000,000

² <http://www.bppk.kemenkeu.go.id/publikasi/artikel/167-artikel-pajak/21014-penghasilan-kelas-menengah-naik-potensi-pajak>

- e. *Emerging Middle* monthly expenses between Rp 1,500,000 to Rp 2,000,000
- f. *Aspirant middle* monthly expenses ranging from Rp 1,000,000 to Rp 1,500,000
- g. *Poor middle* monthly expenses less than Rp 1,000,000

The data above shows the growth of the middle class by 64% (in 2012 amounted to 41.6 million and 2020 totaling 68.2 million people). With a high class of the middle class, Indonesia has great potential to provide goods and services needs because in general the higher the middle class, the purchase of goods and services will increase and consequently the GDP will also increase.

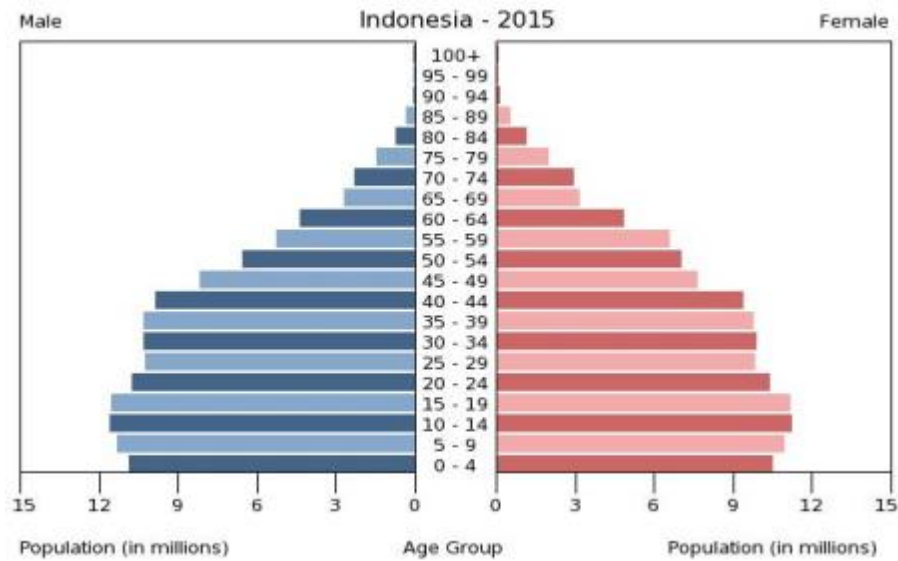
The Indonesian middle class will target marketing of goods and services as well as the financial industry, capital market investments (stocks, mutual funds) and property. The trend in some countries is the rise of the middle class which tends to increase the financial industry and property prices. The Indonesian middle class will certainly have a desire to live safely and comfortably, able to meet short, medium and long-term needs.

The middle class is often called the consumer class because the middle class is considered able to spend more finances. The middle class, especially the upper middle class, can afford to buy branded goods and fulfill their desires such as advanced gadgets, electronic appliances, fashion, food and modern lifestyles. This great opportunity can be used by Indonesian entrepreneurs to market their products, selling products needed by the Indonesian middle class. In 2015 there is a big chance that Indonesia has

entered the era of AEC (ASEAN economic community). This large market has been captured by Indonesian entrepreneurs not to be used by neighboring countries in ASEAN to take advantage of Indonesia's middle class. Utilizing the potential of this consumer class encourages entrepreneurs to increase their business potential. This opportunity is more profitable if Indonesia can be used optimally.

3. Indonesia Demographic Bonus

According to the calculations of experts, in 2020 to 2030 Indonesia will get a blessing in the form of a large population of productive age, about 2/3 of the total population. The number of productive people aged 15-64 years is abundant. The group far dominates the number of unproductive populations in the range 0-14 years and 65 years and over. By using the Dependency Ratio parameter or dependency ratio, at that time the number of unproductive population dependence on the productive population is getting smaller. Referring to the Central Bureau of Statistics (BPS) data, it is predicted to reach 44%. This means that in every 100 productive age population only bear the burden of about 44 people are not productive. The dependency rate is known to be smaller from year to year as the population of Indonesia increases. In 2010, the dependency ratio was 50.5 percent, then decreased to 48.6 percent in 2015 and peaked in a decade between 2020 and 2030 when it reached its lowest point. The full blessing period is called a demographic or demographic advantage or “*the golden period*”.



Source: BPS Indonesia, 2015

Picture 3.2. Population Structure Based on Age Group in Indonesia

Opportunities gained from a high number of productive ages are linked to the availability of abundant labor. However, although Indonesia is predicted to get a demographic bonus will not be achieved if not accompanied by increased education, health services, and nutritional improvement. Indonesia's current population of about 255 million will cause many problems. The increase is mainly the maximization of long-term development and prevents the increase of unemployment rate in order to avoid burdening the state.

Demographic opportunities are very interesting considered to improve the economy of a developing country due to population shifts. Indonesia should be able to read opportunities, whether as an opportunity or a threat or vice versa threats into opportunities. When nonproductive and elderly figures

decline, the growth of income per capita to meet the needs of the aged children and elderly population can be transferred to education and health improvement programs.

One of the important strengths in Indonesia's demographic composition that has a relationship with the economy is the young population in Indonesia. They are the power of work (provided they can get an adequate education and there is enough job opportunities). The average age of the Indonesian population is 28.6 years (estimated by 2016). This is a median age, which means half of Indonesia's population is 28.6 years old and half is under 28.6 years old. Regarding sex, the median age of Indonesian women is 29.1 years, while the median age of men is younger a year (28.1 years). So in the context of AEC 2015, this condition needs to be utilized by improving human resources with education, health, skills and other quality improvements of human resources.

4. Great Natural and Cultural Resources

Indonesia with all its natural and cultural riches has large capital in international trade, including in regional trade in ASEAN itself. Therefore, in the context of AEC 2015 that has been applicable, the richness of nature and culture of Indonesia is an abundance of added value. Natural wealth in question is in the field of mining, maritime, biodiversity, forests, mountains and so forth. Indonesia's cultural wealth is also not lost, where the variety of ethnic groups, languages, cultures, customs, and religions as potential domestic and foreign tourism.

Indonesia based on Indonesia Mining Association's data is ranked the 6th largest country in mining resources. Indonesia's coal potential can be seen from Indonesia's coal reserves of only 0.5% of the world's reserves, but Indonesia's 6th production as a producer with total production reached 246 million tons. Indonesia is ranked 2nd largest in the world as an exporter of some (203 million tons). Indonesia's oil and gas potential can be seen from 25th place as the country with the largest oil potential of 4.3 billion barrels; ranked 21th largest crude producer of the world by 1 million barrels / day; ranked 13 countries with the largest natural gas reserves of 92.9 trillion cubic feet; ranked the 8th largest natural gas producer of the world by 7.2 tcf; ranked the 2nd largest LNG exporting country by 29.6 bcf. Indonesia's gold potential is seen from Indonesia's gold reserves of around 2.3% of the world's gold reserves; ranked 7th in the world with the largest gold potential and ranked 6th in world gold production of 6.7%. Indonesia's tin potential is ranked 5th for the world's largest tin reserves of 8.1% of the world's tin reserves and ranked 2nd in terms of production by 26% of the world's production. Indonesia Copper Potential is ranked 7th for world copper reserves of about 4.1% and the 2nd rank from the production side of 10.4% of world production. Indonesia's nickel potential is ranked 8th of the world's nickel reserves (Indonesia's nickel reserves are about 2.9% of the world's nickel reserves) and the world's 4th rank of 8.6% production.³

³ <http://www.hpli.org/tambang.php>

Other great wealth is at sea; the maritime world has enormous potential. From the world fisheries statistics data released by the Food and Agriculture Organization of the United Nations (FAO) and the Ministry of Marine Affairs and Fisheries (KPP) seen that in 2012, Indonesia ranked 2nd as the country that has the largest volume of fish production in the world's fisheries, below China. This shows that the potential of Indonesian marine is very large.⁴

Table 3.2. Fish Production Ranking in the World

Produksi Ikan Negara Dunia						
(dalam satuan ton)						
	Negara	Tahun				
		2008	2009	2010	2011	2012
1	China	14.791.163,00	14.919.596,00	15.414.830,00	15.768.630,00	16.167.443,00
2	Indonesia	4.995.477,00	5.099.708,00	5.374.621,00	5.701.440,00	5.813.800,00
3	USA	4.349.853,00	4.222.052,00	4.425.961,00	5.153.452,00	5.128.381,00
4	India	4.099.227,00	4.066.756,00	4.689.316,00	4.311.132,00	4.862.861,00
5	Peru	7.394.538,00	6.914.452,00	4.261.091,00	8.248.482,00	4.841.524,00
6	Russian Fed	3.383.724,00	3.826.129,00	4.069.879,00	4.254.877,00	4.331.398,00
7	Japan	4.311.188,00	4.104.878,00	4.065.850,00	3.775.545,00	3.644.328,00
8	Myanmar	2.493.750,00	2.766.940,00	3.063.210,00	3.332.979,00	3.579.250,00
9	Vietnam	2.136.400,00	2.280.500,00	2.414.400,00	2.514.300,00	2.622.200,00
10	Chile	3.554.816,00	3.453.786,00	2.679.742,00	3.063.467,00	2.572.881,00
11	Philippines	2.561.337,00	2.602.589,00	2.611.768,00	2.363.228,00	2.322.850,00
12	Norway	2.431.371,00	2.532.754,00	2.680.186,00	2.282.608,00	2.150.555,00
13	Thailand	1.873.432,00	1.870.702,00	1.810.620,00	1.835.126,00	1.834.573,00
14	Korea Rep	1.956.566,00	1.858.572,00	1.733.311,00	1.748.153,00	1.670.385,00
15	Mexico	1.581.750,00	1.613.809,00	1.526.504,00	1.566.063,00	1.575.409,00

Sumber : FAO dan KKP

The potential of Indonesian culture can be seen from cultural diversity or "*cultural diversity*" namely the inevitability of the Earth Indonesia. In the

⁴ <http://beritadaerah.co.id/2015/01/13/indonesia-menuju-ekonomi-kelautan/>

context of the understanding of plural society, in addition to the culture of ethnic groups, Indonesian society also comprises regional cultures of territorial character which is a meeting of various cultures of ethnic groups in the area. In areas with varying geographical conditions, some Indonesians live in the islands of the archipelago. They inhabit mountains, forest, coastal, lowland, rural, and urban areas. It also deals with the different levels of the civilization of different ethnic groups and communities in Indonesia. Cultural diversity of Indonesia socio-cultural and political society of Indonesia has interwoven history of interaction dynamics between cultures that have been assembled since the first. The interaction between cultures is woven not only among the different ethnic groups but also covering the existing civilizations in the world in the international sphere of intercourse in the past until today.

Abundant natural and cultural capital becomes an opportunity for Indonesia to compete in AEC 2015. The natural wealth of various kinds allows Indonesia to produce many goods with local raw materials, so as to increase the value of competitive and comparative advantage in global trade. The availability of abundant raw materials and abundant fuels is a great opportunity for production at a cheaper cost, so in addition to meeting large local needs, it is also likely to sell out. Not to mention the richness of biodiversity that is able to become Indonesia's flagship product. Cultural and natural landscape can certainly be utilized for tourism destinations that are able to attract more foreign tourists in the AEC 2015 era.

5. Bureaucratic Reform (Institutional and Governance)

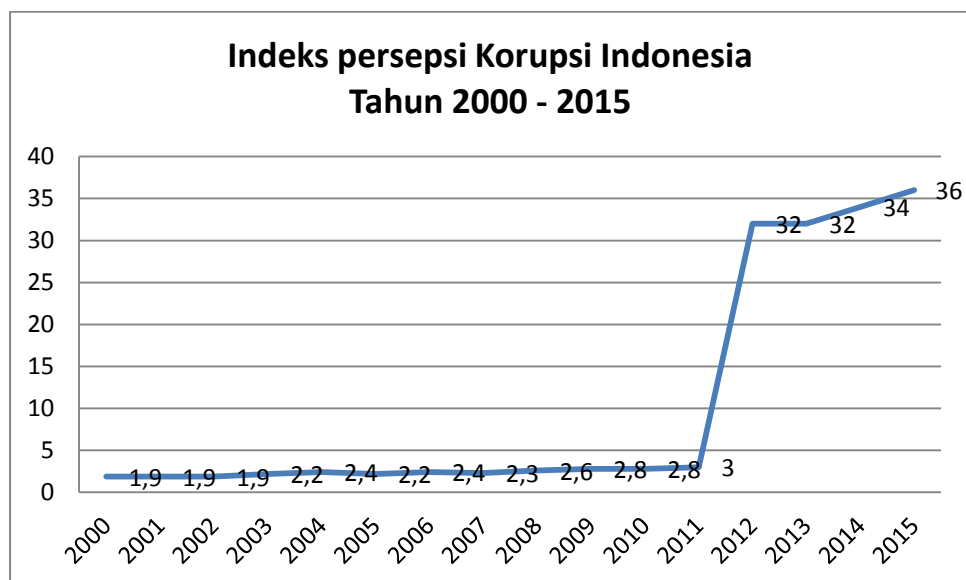
The performance of government institutions is needed to accelerate the economic growth of a nation. The role of government in the economy is vital because the government forms a system, regulates, has broad authority, and has the power in determining state policy. Therefore, with good governance performance, it usually encourages good economic growth in the private sector (private sector) and in the public sector.

Based on State of Indonesia documents, bureaucratic reform in Indonesia was initiated by the National Long-Term Development Plan (RPJPN) 2005-2025, National Medium-Term Development Plan (RPJMN) 2005-2009, RPJMN 2009-2014, until Presidential Regulation No. 81/2010 on Grand Design Bureaucracy Reform 2010-2025. As one of the mandates of reformation, bureaucratic reform is one of the important agenda paths that can change the face of Indonesia in the future. Despite the fact that the bureaucratic reforms are running very slowly. If not accelerated, the nation of Indonesia will be a nation that lags behind, both lagging behind and its competitiveness in the era of globalization.

The vision of bureaucratic reforms listed in the Grand Design of Bureaucracy Reform Indonesia is "the realization of world-class government". The vision is a reference in realizing a world-class government, a professional and high-integrity government capable of providing excellent service to the community and democratic governance management in order to

be able to face the challenges of the 21st century through good governance in 2025.

Observing the journey of bureaucratic reform in Indonesia so far, one of the major indicators of bureaucratic reform is about the agenda of eradicating corruption in the country. Based on Corruption Perceptions Index (GPA) data published by Transparency International, Indonesia's IPK journey from 2000 to 2015 can be seen in the following figure⁵:



Source: Transparency International Report, processed.

Picture 3.3. Indonesia Corruption Perceptions Index 2000-2015

Based on the graph above, Indonesia's IPK trip over the last 16 years seems to be running slowly, although the last 5 years have increased. The increase in the last 5 years is an indication of the bureaucratic reform that began to materialize. With the new government, all steps and policies related

⁵ <https://www.transparency.org/> . **Catatan** : The processed Data from the report of Transparency International. Untuk tahun 2000-2011 skala yang digunakan Transparansi Internasional 0-10, sedangkan untuk tahun 2012 – 2015 skala yang digunakan adalah 0 – 100.

to the improvement of organizations and government agencies are also increasing.

Bureaucratic reforms conducted in Indonesia and have shown positive results, in the context of the implementation of AEC 2015 is an opportunity that must be realized. Bureaucratic reforms encourage effective and efficient government work. Bureaucratic reforms can also reduce corruption in government and increase accountability. As a result, business and investment licensing become easy and fast, increasing the conducive business climate, cooperation with the private sector is well established and the resulting regulations are able to provide legal certainty, security, and protection of business and investment. Such conditions will increase the productivity of goods and services, thus affecting the country's GDP. In the context of AEC 2015, bureaucratic reform can improve the competitiveness of domestic products and services, can attract investors to invest and can maintain a good economic climate.

6. The Resilience of Indonesian Economy

Indonesia has a relatively strong economy because the real sector is strong, so the economic resilience of Indonesia is good. This has been proven in the economic crisis in 1999 and the crisis in 2009, Indonesia still survive and experience the negative effects are lighter than other countries. Many indicators show the resilience of the Indonesian economy. Among them is the level of economic growth, the rate of inflation and the value of exports - imports.

Associated with entering the AEC 2015, the condition of the Indonesian economy, in general, is not too bad when compared with other ASEAN countries. For example, in economic growth, Indonesia in 2014 has an economic growth rate of 5.0%, in 2015 fell to 4.8% and the average from 2010 to 2015 was 4.9%. These figures are still below countries such as Cambodia, Laos, Philippine, and Vietnam as the country is keen to build, while it is still above developed countries such as Singapore and Thailand as well as above the ASEAN average.

Table 3.3. Level of Economic Growth in ASEAN Countries

No	ASEAN Nations	2014 (%)	2015 (%)	2010-2015 (%)
1	Brunei Darussalam	-2,3	-0,6	-1,5
2	Cambodia	7,0	7,1	7,2
3	Indonesia	5,0	4,8	4,9
4	Laos	7,6	7,6	7,8
5	Malaysia	6,0	5,0	5,3
6	Myanmar	8,7	7,1	7,4
7	Philippine	6,1	5,8	5,9
8	Singapore	3,3	2,0	4,0
9	Thailand	0,8	2,8	2,9
10	Vietnam	6,0	6,7	5,9
	Total ASEAN	4,7	4,7	4,8

Source: *ASEAN Statistical Year Book 2015*.

The average growth of Indonesia's economy is still slightly above the average growth of ASEAN's economy, still gives hope and opportunity to compete with other countries in ASEAN. So in the era of AEC 2015, Indonesia should be able to increase the existing economic growth. The trend in 2016 tends to rise by 5.04 in the third quarter and 5.18 in the second quarter. In the midst of the global economic slowdown, Indonesia's economic growth this year is among the highest in the world. Indonesia's economic

growth is claimed to be only lost to India and China. Indonesia still has the ability to keep the economy from its domestic factor. So it can balance global weakness. With the growth of this economy, Indonesia has a high chance to win the competition in the AEC 2015 era. Of course, must be accompanied by strategic steps from all parties.

7. Massive Infrastructure Development

The cuts in fuel subsidies have allowed the government to allocate more funds to build infrastructure to remote areas. So far, infrastructure development cannot be maximized due to limited funds due to the large allocation of fuel subsidies. Infrastructure, both to support transportation, communication, and energy and food security is a weak point that makes productive activities in the country hampered. Production costs become expensive so that the goods produced are not powerful in the foreign market. The poor infrastructure also makes foreign investors reluctant to expand their business in Indonesia.

Infrastructure development has also received great attention from the government in the past two years. There are 4 priority infrastructure set to support national maritime policy. The four priorities are energy infrastructure, transportation, food sovereignty, and tourism. In detail below is the current government development plan.



Source: Kompasiana.com http://www.kompasiana.com/adi_sastrawidjaja/jokowi-vs-sby-di-bidang-infrastruktur_55efd82da623bd5505410ffe

Picture 3. 4. Infrastructure Development in Indonesia 2015 - 2019

The government needs Rp 4800 trillion for infrastructure development for the next 5 years. To be efficient, the allocation of funds is adjusted to the development priorities categorized into three development areas. The three categories are built areas (Java, Sumatra, and Bali), developing regions (Kalimantan and Sulawesi), and minimal development areas (Papua, Maluku and surrounding areas). Projects located in the wake area will be financed by the private sector, except for the Sumatera transit (funding through a consortium of SOEs). The government funds will be prioritized for

infrastructure development in the area of minimal development. As for the category of developing areas, it will use public and private partnership financing schemes.⁶



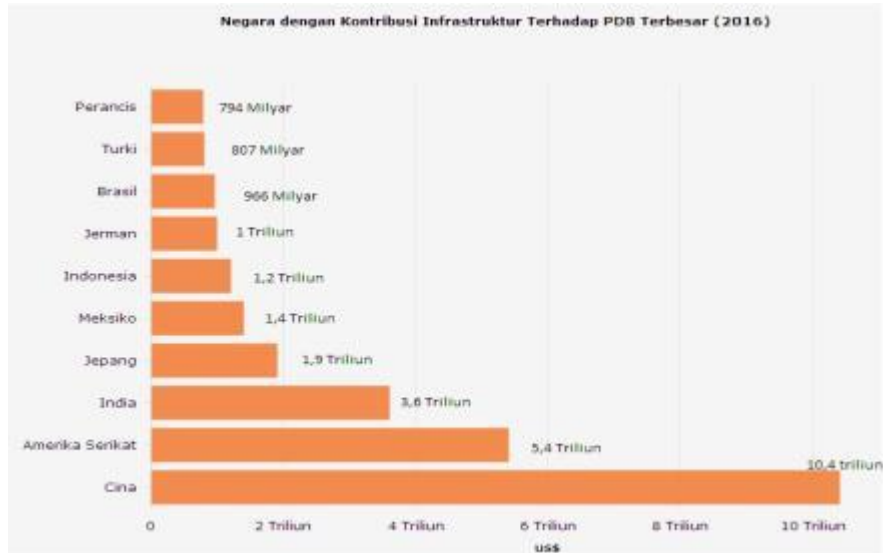
Source: Katadata.co.id

Picture 3.5. Category of Indonesia Infrastructure Development Area

Indonesia entered the ranks of the country with the contribution of infrastructure development to the world's largest GDP. The survey conducted by Arcadis, a consultant working in the field of assets and development from the Netherlands said the contribution of asset development on GDP in Indonesia reached US \$ 1.2 trillion. That number put Indonesia in the sixth position, ahead of Germany which recorded a contribution of US\$ 1 trillion. China became the country with the greatest revenue from development. The country's GDP, led by President Xi Jinping, contributed US\$ 10.4 trillion,

⁶ <http://katadata.co.id/infografik/2015/04/07/bangun-infrastruktur-jokowi-butuh-4800-triliun>

beating the United States on an economic slowdown. Uncle Sam's country recorded revenues of US\$ 5.4 trillion. India is third with US\$ 3.6 trillion.⁷



Source: katadata.co.id.

Picture 3.6. Countries with Infrastructure Contribution to GDP 2016

Massive infrastructure development, especially for untouched areas of infrastructure, will stimulate local and national economic growth. This is because with the infrastructure will make the economic activity emerging and developing because the flow of goods and services can reach it. Investors will come and make investments because of the existence of infrastructure in the region. This massive and gradual accumulation of infrastructure development nationally will have a positive effect. So that the existence of a complete infrastructure becomes a good opportunity for the implementation of AEC 2015. The Industry will grow and investors will come and the economy will

⁷ <http://databoks.katadata.co.id/datapublish/2016/12/23/kontribusi-infrastruktur-pdb-indonesia-termasuk-tertinggi-dunia>

grow. Trade in goods and services will increase both for domestic and international markets.

8. Indonesia Economic Policy Package Volume 1 - 13

The new government is well aware of the need for revolutionary economic policies so that Indonesia can catch up with its economic development. In an attempt to stabilize Indonesia's economic conditions, the Jokowi-JK government launched programs to stimulate slow economic growth at the start of their administration. The most popular policy is the Bid Economy Package because it consists of several volumes that have a different focus to target multiple targets that are thought to stimulate the economic movement. This policy is intended in addition to general economic development, also prepared to deal with AEC 2015 and AEC 2030.

Until August 2016, there are at least 13 policy packages that have been issued with different targets. Here are the packages:

Table 3.4. Economic Policy Package Volume 1-13

Volume	Launch Schedule	Package Contents	Package Focus
1	September 9, 2015	<ol style="list-style-type: none"> 1. Encouraging national industry competitiveness through deregulation, bureaucratization, and law enforcement and business certainty; 2. Accelerate national strategic projects by removing obstacles, blockages in project implementation and completion national 	deregulation to move the real sector in anticipation of the impact of the global crisis

		<p>strategies</p> <p>3. Increase investment in the property sector.</p>	
2	September 29, 2015	<ol style="list-style-type: none"> 1. Ease of 3 Hour Investment Service 2. Handling Tax Allowance and Tax Holiday Faster 3. Government Takes VAT for Transportation Equipment 4. Facilities incentives in Bonded Logistics Central Area 5. Incentive tax-deductible interest on deposits 6. A downsizing of Forestry Permits 	steps to resolve investment and licensing constraints
3	October 7, 2015	<ol style="list-style-type: none"> 1. A decrease in electricity tariffs and prices of fuel and gas. 2. Expansion of people's business credit (KUR) receivers. 3. Simplification of land permitted for investment activities. 	Discount rates and ease of investment permit
4	October 15, 2015	<ol style="list-style-type: none"> 1. Wage policy is fair, simple and projected 2. People's Business Credit Policy (KUR) is cheaper and widespread. 	Encourage the workforce to keep increasing. Thus, Termination of Employment Relations (PHK) is no longer the case.
5	October 22, 2015	<ol style="list-style-type: none"> 1. Asset Revaluation 2. Eliminate Double Tax Real Estate Investment Funds, Property and Infrastructure. 3. Deregulation in the field of sharia banking 	Tax incentives and deregulation of sharia banking
6	November 6, 2015	<ol style="list-style-type: none"> 1. Efforts to move the economy in the periphery with the development of 	special economic zones, water resources and

		<p>Special Economic Zones (KEK)</p> <ol style="list-style-type: none"> 2. Water supply to the community in a sustainable and fair manner 3. Licensing simplification at the Agency for Drug and Food Control (BPOM). 	simplification of drug import licenses.
7	December 4, 2015	<ol style="list-style-type: none"> 1. Tax incentives for labor-intensive industries 2. Convenient to certain industries that employ large numbers of employees 3. Acceleration of issuance of the land certificate. 	Ease of investment permit
8	December 21, 2015	<ol style="list-style-type: none"> 1. The existence of a "one map policy" or one map at the national level with a scale of 1: 50,000 2. Build energy resilience through the construction of refineries 3. Flight sector incentive policies 	Strengthen economic competitiveness and resilience
9	January 27, 2016	<ol style="list-style-type: none"> 1. Acceleration of power infrastructure development 2. Stabilization of supply and price of beef 3. The increased rural-urban logistics sector 	It focuses on accelerating the electricity sector and the stability of supply and beef prices.
10	February 11, 2016	<ol style="list-style-type: none"> 1. Increase Investment 2. Protecting UMKMK 	Revised negative list of investments (DNI) previously set out in Presidential Regulation No. 34/2014

11	March 29, 2016	<ol style="list-style-type: none"> 1. Stimulus improves the competitiveness of UMKMK exports with Export-Oriented People's Business Credit. 2. Real Estate Investment Fund (DIRE). In this case, the Government will issue DIRE at a relatively low cost. 3. risk control to smooth the flow of goods at ports through Indonesia Single Risk Management (ISRM). 4. development of the pharmaceutical industry and medical devices. 	The focus is on deregulation and infrastructure
12	April 28, 2016	<ol style="list-style-type: none"> 1. Ease of starting a business. 2. Ease of establishment. 3. Ease of registration of property. 4. About tax payment. 5. Credit access. 6. Enforcement of the contract by arranging a simple settlement of the lawsuit 7. Related to the electrical connection. 8. On cross-border trade. 9. Set the settlement of bankruptcy issues. 10. Protection of minority investors. 	Ease of investment and effort.
13	23 August 2016	<ol style="list-style-type: none"> 1. The government simplifies regulations while reducing taxes for housing developers. 2. Reduced, merged, and accelerated licensing process for house construction. 	accelerate the provision of homes for low-income people at affordable prices

Source: www.bappenas.go.id/ , Processed.

This package of economic policies will largely have a direct impact on Indonesia's economic development and growth. Lots of priorities on ease and acceleration in terms of trying and investing. When the ease and acceleration are able to be applied well by private parties and investors, then economic growth will accelerate. Thus, this condition strongly supports the implementation of AEC 2015. Indonesia will have the opportunity to stimulate economic growth from the private sector and attract investors both from domestic and abroad. This opportunity should be able to be implemented by various parties, especially business people and investors. The package of the economic policy of the current government should be capable of becoming a high-powered driving force. Government support is increasingly visible to the private sector, so it is possible that industrial development and investment in Indonesia will increase rapidly.

9. The potential of MSMEs sector is very big

Micro and Small Business Sector (UMKM) has been proven as a real business actor who saved Indonesia from an economic crisis in 1999 and 2009. The population of UMKM in Indonesia is 57.9 million. Potential that can go international a lot. But the problem is, not all IT has touched. Access to the internet is still limited, so it has not utilized e-commerce to market its products. If the potential of MSMEs is well managed by the state, facilitated and developed and enhanced capacity and quality, then the opportunity to compete in the ASEAN market will be even greater. To face the AEC 2015,

the potential of MSMEs in Indonesia should be involved and supported by the government, so the opportunity to master the ASEAN economy is wide open.

10. Potential as an Investment Destination Country

Indonesia is still the target of investors, especially those from Asia. High investment interest came from China, Japan, South Korea, and Taiwan; according to data from the Investment Coordinating Board (BKPM). Even the data The Economist mentions for 2015 Indonesia is the second ranked destination of Asia Pacific investment, after China. As for foreign direct investment (FDI), the amount shown is United Nations Conference On Trade and Development (UNCTAD) data. Throughout 2014, FDI to Indonesia reached \$ 22 billion-where Indonesia is the fifth largest in Asia.

The large population and most of the productive age are the two main factors that make Indonesia a potential market in the eyes of investors. Data Population Reference Bureau 2014 shows Indonesia is ranked fourth largest population of the universe with an average population growth of 21 percent in 10 years. The World Population Prospects report of the United Nations has projected that Indonesia will enjoy "demographic bonus" in the 2015-2030 period.⁸

⁸ <http://www.bareksa.com/id/text/2015/08/03/the-economist-indonesia-masuk-top-5-tujuan-investasi-asia-pasifik/11085/analysis>

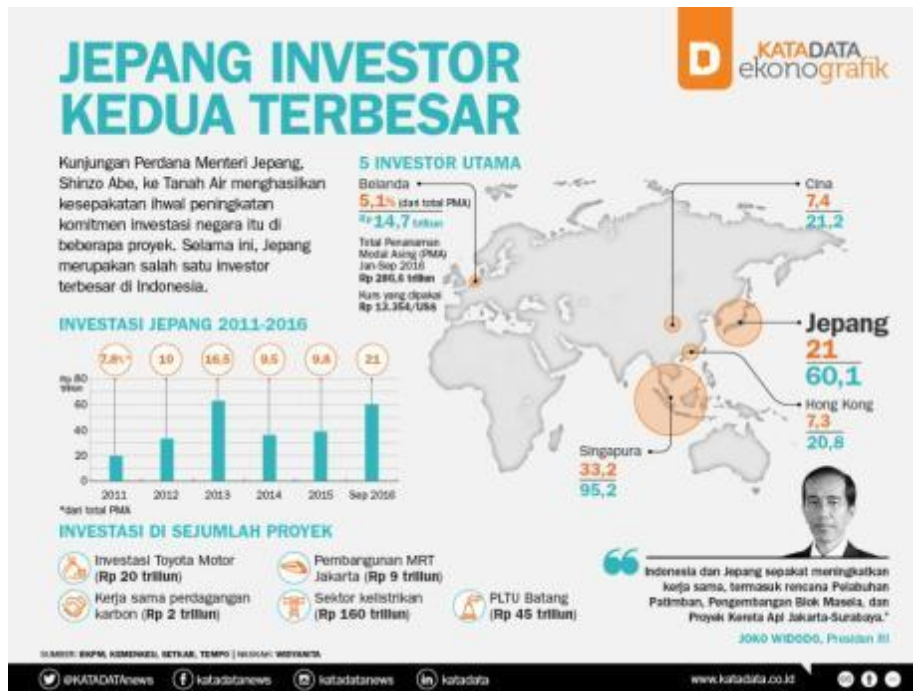
Table 3. 5. Asia Pacific Investment Destination Ranking Table

		2014	2015
1	China	68.7	71.0
2	Indonesia	52.6	59.9
3	India	45.8	57.9
4	Malaysia	34.2	42.1
5	Singapura	30.7	41.2
6	Thailand	35.9	36.2
7	Australia	25.5	32.2
8	Hongkong	25.5	31.3
9	Korea Selatan	24.2	30.3
10	Jepang	26.3	24.3

Source: <http://www.bareksa.com>

Japan is one of Indonesia's major trading and investment partners. The realization of Japan's investment in January to September 2016 reached US\$ 4.5 billion or around Rp 60 trillion. This amount places Japan as the second largest foreign investor in the country, below Singapore. However, the investment relationship was cool after Indonesia decided China as a tackle project fast train Jakarta-Bandung. In addition, the government also canceled the development plan of Cilamaya Port, which was originally built with Japanese investment. Later, a number of cooperation projects were offered to Japan. During the Abe-Jokowi meeting, a number of projects discussed included Patimban ports, Masela Block development, semi-fast railway construction of Jakarta-Surabaya, to the development plan of integrated fisheries center in outer islands⁹.

⁹ <http://katadata.co.id/infografik/2017/01/17/jepang-investor-kedua-terbesar>



Source: katadata.co.id.

Picture 3.7. Five Main Investors in Indonesia

Each development requires investment, either from within the country, or from abroad, both from private and with foreign governments. With the investment, industrial development and working capital can be met so that the wheels of the economy can move. Opportunities Indonesia as an investment destination country is very profitable in the face of AEC 2015. The existence of investment is able to provide development funds because government funds are very limited. Therefore, this opportunity should be utilized as well as possible.

B. Indonesia's Challenges Facing AEC

Challenges are things or objects that arouse the desire to improve the ability to overcome problems or stimuli to work harder and so forth. In this

context, the challenge of facing AEC 2015 is a desire or stimulus to improve problem-solving ability so as not to lose competition in the implementation of AEC 2015. Indonesia as the biggest country in ASEAN, has the opportunity as well as the challenges that must be passed or challenges that must be answered in face of AEC 2015. The challenges that exist are the manifestations of the problem that must be solved or overcome so that becomes an achievable opportunity. The challenges that Indonesia must face in facing the AEC 2015 are as follows:

1. Improving the Quality of Human Resources

This challenge is related to the number of Indonesian manpower or human resources that are so large, but the quality is not good, so that required quality improvement. Low quality is not only less competitive with other countries in the implementation of the AEC 2015 but lost also compete in their own country. As a result, there emerged a large unemployment rate. The number of unemployed in ASEAN countries in 2014 can be seen in the following table:

Table 3.6.
Unemployment Rate and ASEAN Unemployment Rate Year 2014

No	ASEAN Nations	Unemployment rate (thousand)	Unemployment rate(%)
1	Brunei Darussalam	14,1	6,9
2	Cambodia	-	0,2
3	Indonesia	7.244,9	5,9
4	Laos	-	-
5	Malaysia	399,5	2,9
6	Myanmar	-	4,0
7	Philippine	2.723,4	6,8

8	Singapore	61,2	2,7
9	Thailand	220	0,6
10	Vietnam	1.003,5	2,1

Source: *ASEAN Statistical Year Book 2015*.

Based on the above table, the position of the unemployment rate in Indonesia is the largest reaching 7,244,900 people with 5.9% unemployment rate. Indonesia's unemployment rate is still relatively large and entered at the 3rd rank after Brunei Darussalam and the Philippines. Such large unemployment conditions must be addressed to keep unemployment unabated along with the implementation of the AEC 2015. Unemployment can be reduced by creating jobs as large as possible. Then change the existing skill education system, so that educated workers can be absorbed by the job field.

In addition to high unemployment, Indonesia's human resource quality can be seen from the existing human development index and how it stands with other ASEAN countries. The following is the Human Development Index (HDI) of ASEAN member countries.

Table. 3.7. Human Development Index of ASEAN Countries

No	ASEAN Nations	index of human development in the year 2014
1	Brunei Darussalam	0,856
2	Cambodia	0,555
3	Indonesia	0,684
4	Laos	0,575
5	Malaysia	0,779
6	Myanmar	0,536
7	Philippine	0,668
8	Singapore	0,912
9	Thailand	0,726
10	Vietnam	0,666

Source: *ASEAN Statistical Year Book 2015*.

Based on the above table, it can be seen that the highest Human Development Index is Singapore that is 0.912 and the smallest is Myanmar is 0.536. The position of Indonesia is below Singapore, Brunei Darussalam, Malaysia, and Thailand index 0.684. With this position can actually be described that the quality of human resources in Indonesia is still below Singapore, Malaysia, Brunei, and Thailand. Therefore, this situation needs to be improved by improving the HDI indicators of improving education, health, and economy. This is part of the improvement of human resources in Indonesia which is Indonesia's challenge in facing AEC 2015 and AEC 2030.

2. Increasing competitiveness

One of the factors influencing Indonesia's readiness in implementing AEC 2015 is still not very strong Indonesian competitiveness, especially in human resource sector, SME sector, and business climate sector. The movement and flow of the HR sector have become one of the main issues of the AEC. According to The Global Competitiveness Report 2015-2016 issued by the World Economic Forum (WEF), as reported by Bloomberg, Indonesia's competitiveness in 2015 is still in position 37 world with a value of 4.52 or down 3 ranks compared to 2014 ago. Compare with the competitiveness of other ASEAN countries.¹⁰

¹⁰ <http://www.indeksberita.com/daya-saing-indonesia-masih-rendah/>

Table 3.8. ASEAN Competitiveness Table

Peringkat	Negara	Nilai
2	Singapura	5,68
18	Malaysia	5,23
32	Thailand	4,64
37	INDONESIA	4,52
47	Filipina	4,39
56	Vietnam	4,30

Source: <http://www.indeksberita.com>

Furthermore, in relation to Indonesia's competitiveness, the Asian Competitiveness Institute (ACI-Lee Kuan Yew School of Public Policy-National University of Singapore conducts an annual review of the competitiveness of 33 Provinces and 6 Regions in Indonesia Overall, the results of a competitiveness analysis conducted in 2015 highlights the high competitiveness in six provinces in Java Island. The six provinces are ranked in the top 10. In the context of the region, the Java Region also leads in all four areas. The region of Sumatra is often positioned as the main partner of Java related to its dominance in the western part of the archipelago is ranked fourth, under the Territory of Kalimantan and Sulawesi There is a wide range of performance and performance among the provinces endowed with a wealth of natural resources East Kalimantan is an ideal example of a provincial profile that can well transform regional high income into competitiveness. ranked fourth top scores in all scopes assessed to even excel in the scope of quality of life and infrastructure development.

Other provinces with substantial natural resource wealth, particularly in Sumatra such as Aceh, South Sumatra, and North Sumatra, are relatively left behind. To address this phenomenon, appropriate resource management is the

key to ensuring that the sustainability aspect is well calculated and distributed for the welfare of the people. Opportunities are wide open for provinces in Indonesia to learn from provinces with high-performance performance and competitiveness to identify areas that can be adopted. Disparities between the eastern provinces in Indonesia and other provinces continue. Papua, East Nusa Tenggara, and North Maluku are the 3 lowest ranked provinces in all competitiveness scopes. Judging from its very low position in standardized scores, the lagging performance of Papuans in quality of life and infrastructure development is very worrying. As a lagging province, Papua will greatly benefit from improvements in education and health. Indonesia's national agenda to improve maritime infrastructure provides a promising prospect for the Maluku-Papua Territory to be more involved in inter-regional trade with the potential to enhance the complementary role of inter-regional Indonesia. A committed government, both at the central and regional levels, is an important aspect of strengthening competitiveness for Indonesia in a comprehensive way.

Overall, ACI's competitiveness analysis provides a broad understanding of the competitiveness profile of each province. Mapping such as potential, strengths, and weaknesses can be a roadmap for central and local government officials in order to review existing policies, improve and refine policies on an ongoing basis, and plan for future policy. Competitiveness analysis should not be viewed as an inter-provincial competition alone. more than that, competitiveness analysis should be viewed as a platform to monitor the

performance of each province and offer a new perspective for mutual learning from the success of other provinces.¹¹

Here are the results of measuring the competitiveness of the provinces in Indonesia with various indicators:

Table 3.9. 5 big rank of Provincial Competitiveness

No	Province	Score	Ranking
1	Macroeconomic Stability		
	DKI Jakarta	4,31	1
	East Java	2,00	2
	West Java	1,40	3
	East Borneo	0,95	4
	Riau Island	0,85	5
2	Financial Condition, Business and Labor		
	DKI Jakarta	3,34	1
	East Java	2,10	2
	Central Java	1,60	3
	East Borneo	1,30	4
	West Java	1,24	5
3	Governance Planning and Institutions		
	DKI Jakarta	2,07	1
	East Borneo	1,92	2
	DI Yogyakarta	1,63	3
	Central Java	1,38	4
	East java	1,31	5
4	Quality of Life and Infrastructure Development		
	East Borneo	1,88	1
	DI Yogyakarta	1,53	2
	DKI Jakarta	1,44	3
	Riau Island	1,38	4
	East Java	1,28	5
5	Overall Competitiveness 33 Provinces		
	DKI Jakarta	3,26	1

¹¹ Tashya Pauline, Analisis Daya Saing Provinsi dan Wilayah di Indonesia: Kajian *Asian Competitiveness Institute (ACI)*, Lee Kuan Yew School of Public Policy, National University of Singapore Tahun 2015. Majalah Tinjauan Ekonomi dan Keuangan, Kementerian Koordinator Bidang Perekonomian, Volume V, Number. 11, Edisi November 2015. page 6 -8.

	East Java	1,95	2
	East Borneo	1,77	3
	West Java	1,13	4
	Central Java	1,06	5

Source: *Asian Competitiveness Institute (ACI), Lee Kuan Yew School of Public Policy, National University of Singapore year 2015*

There are important things that can be presented related to the table above. First is the competitiveness of provinces in Indonesia is relatively low, only a few large and rich provinces have high competitiveness. This can be seen from the difference in the value of rank 1 with rank 5, the distance is so great. Thus in a provincial area, many provinces are not ready to conduct ASEAN free trade or AEC 2015 due to low competitiveness. The second major inequality of inter-provincial competitiveness is due to striking regional wealth factors such as East Kalimantan, Jakarta and Riau Islands when compared to provinces in Papua and Maluku. National competitiveness is established with the competitiveness of the existing provinces. Therefore, the improvement of national competitiveness begins in each region.

3. Improving the Quality and Competitiveness of MSMEs

The number of SMEs in Indonesia is already over 57 million and the number of cooperatives is around 200 thousand units, so the government should map the potential of SMEs and cooperatives. Referring to this, it is necessary to have total reforms on Cooperatives and SMEs first. There will be 23 Ministries / Institutions (M / I) involved in the SME business. Each M / I will act in accordance with its domain.

Government tasks for cooperatives and SMEs, in addition to institutional strengthening in total reform, as well as institutional strengthening in management. This is to see how the administration works. As for the task of the government in terms of access to financing is the decrease KUR. If KUR goes down it will help productivity, so if the productivity increases, then the turnover will increase as well. SMEs became the driving force of Indonesia's national economy that proved resilient to the storm of the financial crisis in the past few years. SMEs will be a strong and strong backbone because it involves the massively active participation of Indonesians. From the research results of United States Agency for International Development (USAID) with the growth of UMKM as much as 2.01% per year, KUR has the opportunity as well as a challenge to accommodate the interest to its capital requirement.¹²

The challenge of the huge potential of MSMEs is to improve the quality and competitiveness. Efforts of the Ministry of Cooperatives and SMEs in improving the quality of competitiveness of SMEs in Indonesia:

a. Facilitation of Institutional Sector

- 1) Exemption of notarial deed fees for micro business actors and cooperative members who will establish cooperatives
- 2) Technical guidance of good cooperative management for management, supervisor and management of cooperative effort, and micro business

¹² Anak Agung Gede Ngurah Puspayoga, Era MEA, Kontribusi UKM Jadi Pilihan, *Majalah Sekretariat Wakil Presiden (MARSELA)*, Volume 1 / Tahun XI / 2016. Hal. 10-13. http://www.wapresri.go.id/wp-content/uploads/2015/08/Majalah-MERSELA-Final-Edit_11-Juli-2016.compressed.pdf

- 3) Group of micro / pre-cooperative business enterprises to be assisted in forming cooperatives

b. Facilitating Access to Financing

- 1) Provision of initial capital for beginner entrepreneur maximum of Rp. 25 million for micro business actors and cooperative members
- 2) Socialization and Assistance for Micro Business Actors and members of cooperatives to access People's Business Credit (KUR)
- 3) Micro Small Business Credit (KUR) and members of cooperatives included in the category of poor with a maximum loan ceiling of Rp. 25 million and interest at 9% per annum and without collateral through KUR channeling bank
- 4) Provision of Revolving Fund Loans by Revolving Fund Management Agency (LPDB) -KUMKM with 4.5% per year interest decreased or equal to 0.18% per month for Micro Business Actors and Real Sector Cooperative Members and Members of KSP and Micro Business Actors interest 8% per year decreased or equal to 0.3% per month for Cooperatives and SMEs.
- 5) Assistance for cooperatives and SMEs to get the Certificate of Land Rights (SHAT)

c. Facilitation of a Conducive Business Climate

- 1) Investment Negative List (INL):
Currently, through the Coordinating Ministry of Economic Affairs is processed Revision presidential decree no. 39 of 2014 which is the

Package of Economic Policy X. This policy contains a list of Open Enterprises with Requirements: (i) reserved for MSMEs of 95 sectors and (ii) partnership with MSMEs of 50 sectors and open to specific requirements of 48 sectors and (iii) requirements reserved for UMKMK increased 1 business field in the field of Public Works business/construction consulting services whose value is below Rp. 10 billion, which is a reclassification of 19 lines of business in Presidential Decree No.39 / 2014.

2) Micro and Small Business License (MSBL):

As a follow up to Presidential Decree 98 of 2014 on Micro and Small Business Licenses, Ministry of Cooperatives and SMEs in cooperation with the Ministry of Home Affairs and the Ministry of Trade, facilitate the Ease of Micro and Small Business License (IUMK) in the form of free 1 sheet certificate by head of the sub-district in cooperation with the Ministry of Interior Affairs and the Ministry of Trade in the form of: a). Data marking for Micro Business with the naming of Micro Business Data and; b). Registration mark for Small Business, with the naming of Small Business Registry.

Productivity is closely related to competitiveness and welfare. Low productivity levels have the low competitiveness and lead to the wellbeing of workers. Thus, 84% of the workforce in the business world has lower productivity which in turn is difficult for workers to improve their welfare, and most of them are poor. Meanwhile, 1% of UMB that absorbs 16% of all

workers in the business world easier to increase productivity that encourages workers can increase revenue more quickly. This condition is the main cause of inequality. Empowering small micro-enterprises to improve employee welfare while increasing competitiveness is essential. It is important because it has huge potential to reduce poverty and reduce inequality.

There are still factors that hamper the development of MSEs, of which the majority are informal enterprises, so they do not have legal entities and are not permanently located. In addition, access to capital, marketing, technology and information resources is limited. However, the government is currently making various efforts to overcome the obstacles of Small Micro Enterprises (SME). These efforts include:

First, the formalization of SMEs, which simplifies the regulation to facilitate the licensing of SMEs by cutting costs and simplification of licensing procedures for SMEs through the issuance of Presidential Regulation No. 98/2014 About Licensing For Small Micro Enterprises and Issuance of Regulation of the Minister of Home Affairs No. 83/2014 About Guidelines on Licensing Micro and Small Business. Previously, the formalization of business was conducted through the issuance of Deed of Establishment of Company, Decision Letter of Establishment of Deed of Establishment, Certificate of Domicile of Company, Taxpayer Identification Number, Trade Permit and Company Registration Certificate. In addition, with the issuance of Presidential Decree and Regulation of the Minister of

Home Affairs, the formalization of MSE only requires a permit of SME in the form of a 1 sheet manuscript and Taxpayer Identification Number.

Second, a breakthrough to improve access to capital. In this case, Vice President Jusuf Kalla initiated the effort to decrease the interest of People's Business Credit (PBC) from 22% to 9% and next year (2017) will fall again to 7%. This effort is a breakthrough for Vice President Jusuf Kalla because the interest expense for micro, small and medium enterprises is much higher (about 22%) compared to the large business interest rate which is only about 11%. "Vice President Jusuf Kalla sees this as a major obstacle to the development of small micro-enterprises and is an injustice to small micro business actors. This kind of injustice creates seeds of inequality that are getting wider. Implementation of PBC with low interest starts in 2015 and the result of low interest rate PBC is much more expansive than before. PBC with low-interest even though it has only been running for one year has been proven to increase the average loan and the number of customers very rapidly. It is expected to drive the economy, especially for those engaged in micro, small and medium enterprises. With the increasing productivity of small and medium-sized micro-enterprises, it is expected to improve the welfare of its workers and in turn, reduce poverty and inequality.

Third, access to marketing, technology, and information. In support of this effort, the Government has launched the Integrated Business Service Center (IBSC) as a forum for assistance to Micro Small Medium Enterprises (MSMEs). The purpose of the PLUT is not only to facilitate MSME to access

the capital resources, but also to assist in the development of human resources (HR) business management, utilization of information technology, marketing, networking development, and others. In addition, to improve access to marketing, information sources, technological sources, the Government together with the private sector take various initiatives for MSMEs to utilize IT maximally. "To optimize marketing, for example, is not only done through exhibition only but also encourages the growth and development of e-commerce providers that support the development of SMEs.

The use of IT also directed to disseminate Government programs and facilitate access to information such as formalization process and others. Access to this all cannot be separated from improving the entire infrastructure in order to reduce logistics costs to improve supply chain efficiency. The high cost of logistics due to national connectivity, both domestically (inter-island and inter-regional) and with the international world is still very weak. Therefore, the government has a high commitment to improving the connectivity through the development and structuring of ports.

4. Increasing Stability of Business Climate and Investment in Indonesia

The stability of the business climate and investment in Indonesia still needs to be improved in order to deal with the AEC 2015 that has been implemented. The stability of the business climate and investment itself can be caused by many factors, including political, social and economic factors. Political factors include a large number of elections and the existence of legislative and presidential elections that affect the political situation. Social

factors such as many demos such as labor demos, religious group demos, and other demos. Economic factors that could be the cause of business and investment situations do not support such a large inflation rate. Inflation in Indonesia is increasing in 2014 to 2015 due to the international economic situation.

Table 3.9. Inflation Level of ASEAN Countries

No	ASEAN Nations	2014 (%)	2015 (%)
1	Brunei Darussalam	-0,2	-1,0
2	Cambodia	2,4	2,8
3	Indonesia	2,7	3,4
4	Laos	2,4	0,9
5	Malaysia	2,7	2,7
6	Myanmar	-0,1	10,3
7	Philippine	2,7	1,5
8	Singapore	-0,1	-0,6
9	Thailand	0,6	-0,9
10	Vietnam	1,8	0,6

Source: *ASEAN Statistical Year Book 2015*.

Based on the above table, it can be seen that inflation in Indonesia in 2015 is the second largest inflation after Myanmar. This means that Indonesia has a large inflation rate and this is not good for business and investment and dangerous for a country's economy if it keeps rising. Therefore, it is a challenge for the government to reduce the inflation rate. Government policy is needed to curb inflation, such as by the efforts of monetary policy, fiscal policy, and real policy.

Monetary Policy includes: Discount policy of raising interest rates; Open market policy of selling securities; Credit ceiling policy that limits lending; The tight money policy of reducing the money supply (JUB) and

Cash reserves policy (GWM) is to raise cash reserves. Fiscal policies include: Reducing state expenditures; Government expenditure savings; Reduction of foreign debt; Increase/streamline tax. Real policies include: Increasing production and goods on the market; Raise real wages and Control and monitor prices.

If the business climate and investment are unstable, then it may be difficult to do business, business and investors are reluctant to invest, often investors move to other countries. This then becomes a government challenge to support the implementation of AEC.

5. Improved Effectiveness of Central and Regional Government Institutions

The effectiveness of government institutions both central and local to date has not been optimal. This can be seen from The World Bank's World Governance Index, as well as the number of accountable government agencies based on the results of the LAKIP (Performance Report of Government Agencies) assessed by the Ministry of Administrative Reform and Bureaucracy Reform. The Indonesia Government Effectiveness Index in Asia and the world is still low. This situation can be seen in the following figure:



Efektivitas kinerja Pemerintah Indonesia belum memuaskan, Indonesia masih tertinggal di Kawasan ASEAN.

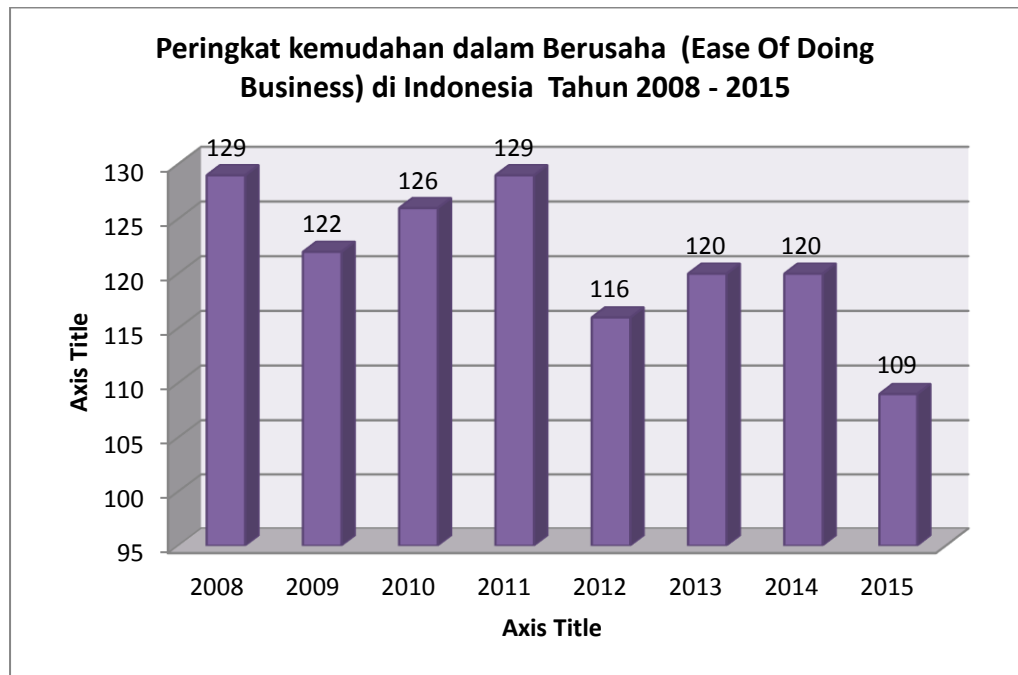
Sources: World Bank, World Governance Indicators 2010

5

Picture 3.8. Performance Effectiveness Rating Government of Indonesia

The Country Government Effectiveness Index of Indonesia in 2010 is ranked 80th out of 141 countries measured. It is in ASEAN Indonesia under Thailand and the Philippines. This means that in ASEAN Indonesia's effectiveness position is still inferior to Thailand and the Philippines, so feared in the business competition will also lose from both countries.

Effectiveness can also be seen from the perception of Ease of Business or Doing Business Index. Based on World Bank data, Indonesia follows its ranking in terms of ease of doing business:



Source: *The World Bank Report*, processed.

Picture 3.9. Convenience Rankings in Entrepreneurship in Indonesia

Based on the description of ease of ranking in the effort, Indonesia proved not yet stable in the rankings. This means that ease of effort Indonesia has not entered the category of State that provides ease to try or invest. The ranking from 2008 to 2015 is still above 100. This is important in the framework of bureaucratic reform because so far the difficulties in trying are mostly from bureaucracy or business licensing.

Until now the effectiveness of both central and local government is still a challenge that needs to be improved. With a variety of new government policies (Jokowi-JK), the actual package of economic policy has overhauled ineffective systems. But the effort has not been transmitted to the regions, so it has not felt the change. To deal with the AEC 2015, the effectiveness of

government is needed to support various economic policies that benefit the country.