

CHAPTER IV

Indonesia's Strategy

In facing the AEC

This chapter discusses the strategic steps taken by Indonesia in facing the AEC. The discussion will be preceded by the strategic steps taken by Indonesia in AEC based on the 4 AEC pillars. In the AEC Blueprint, there is four main purposes of AEC want to achieve and have a close relationship with each other.

First, the establishment of a single market and production base. This objective will create a free flow of goods, services, investment, labor, and a free flow of capital between countries in the region. As an initial stage, twelve priority work sectors representing more than 50% of intra-ASEAN trade, namely (1) agro-processing, (2) rubber-based industries, (3) wood-based industries, (4) aviation, (5) automotive (6) electronic, (7) information communication technology, (8) fishery, (9) health, (10) logistics, (11) textiles, and (12) tourism. Indonesia became the coordinating country for the automotive and wood-based industries. Achieving these goals will transform the diversity of characteristics in the region into business opportunities that can make ASEAN more dynamic and strong in the global supply chain. The establishment of a single market will facilitate the establishment of a production network within the region and increase the capacity of ASEAN as a global production center or part of the global supply chain. To achieve these objectives, each ASEAN member country is required to liberalize or open its domestic market.

Second, a competitive economic region. It is a precondition needed to support the achievement of a single market and international production base. The achievement of the second objective is done through cooperation in various fields including (i) infrastructure development, such as transportation, information, energy, mining, and finance; (ii) competition policy; (iii) consumer protection; (iv) intellectual property rights; (v) taxation; and (vi) e-commerce.

Third, equitable economic development. The ASEAN region has different stages of economic development that impact on the readiness and speed of each member country to liberalize. ASEAN should be able to ensure the benefits of regional economic integration that all ASEAN members and communities can feel. This is done through the development of MSMEs and cooperation and technical assistance in order to reduce development gap among member countries, especially between ASEAN-5 countries and Brunei, Cambodia, Myanmar, Laos, and Vietnam.

Fourth, the integration of the global economy. With the achievement of the above three objectives is expected ASEAN market more attractive for foreign investment and ASEAN industry can be more competitive in the global supply chain. In the pursuit of this objective, a coherent approach is made in ASEAN's external economic relations with trade partners such as ASEAN + 1 (ASEAN + China, ASEAN + India, ASEAN + Japan) or ASEAN + + (ASEAN + 3, EAS) to ensure the centrality of ASEAN and expanding ASEAN's participation in global supply chain.

The implementation of the 2015 MEA blueprint has been substantially achieved. The achievement of the MEA scorecard as of 30 June 2015 reached 91.1% and is targeted to reach 95% by the end of 2015. For the MEA scorecard Indonesia alone has reached 92.7%. The high achievement of the MEA scorecard both ASEAN and Indonesia reflects that ASEAN and Indonesia have consistently fulfilled their commitments. One of Indonesia's commitments is realized with the emergence of Presidential Instruction of the Republic of Indonesia Number 6th in the year of 2014 on Improving National Competitiveness in Order to Face Economic Community Association of Southeast Asian Nations. Implementation of national competitiveness improvement and preparation for AEC 2015 is focused on development and development in 14 fields:

1. National Industrial Development, which focuses on:
 - a. Priority Industry Development in Order to Comply with ASEAN Markets;
 - b. Industrial Development In Order To Secure The Domestic Market;
 - c. Development of Small and Medium Industry;
 - d. Human Resource Development and Research;
 - e. Implementation of Indonesian National Standard (INS);
2. Agricultural Development, which focuses on:
 - a. Increased Direct Investment in Agricultural Sector;
 - b. Increased Market Access;
3. Development of Marine and Fisheries, which focus on:
 - a. Institutional Strengthening and Position of Marine and Fisheries;
 - b. Increasing the Competitiveness of Marine and Fisheries;

- c. Strengthening the Domestic Market;
 - d. Strengthening and Improving the Export Market;
4. Energy Development, which focuses on:
- a. Development of power sub-sector and reduction of fossil energy use (Fuel Petroleum);
 - b. Development of new energy subsector, renewable, and energy conservation;
 - c. Increased energy and electricity supply to compete with countries with better infrastructure;
5. Infrastructure Development, which focuses on:
- a. Development of Connectivity Infrastructure;
 - b. Increased Competitiveness of Infrastructure;
 - c. Development of Payment System Infrastructure;
6. Development of National Logistics System;
7. Development of Banking;
8. Investment Development, which focuses on:
- a. Increased investment through increased legal certainty;
 - b. Convenience;
 - c. Investment Expansion;
 - d. Investment Database;
 - e. Increased Investment Competitiveness;
 - f. National Investment Company Expansion in the ASEAN Region;
9. Development of Micro, Small and Medium Enterprises, which focuses on:

- a. Increased Competitiveness of Micro, Small and Medium Enterprises from the Financing Side;
 - b. Development of Micro, Small and Medium Business Competitiveness in Order of Improvement
 - c. Eligibility and Capability of Micro, Small and Medium Business Competitiveness;
 - d. Encouraging the Empowerment of the Real Sector and Competitiveness of Micro, Small and Medium Enterprises;
10. Labor development, that focuses on:
- a. Improvement of Labor Competitiveness;
 - b. Increased competence and labor productivity;
11. Health Development, which focuses on:
- a. Increased resilience of domestic herbal medicine market;
 - b. Increased Market Access;
12. Trade Development, which focuses on:
- a. Stabilization and Strengthening of Domestic Market;
 - b. Increased Export and International Cooperation;
 - c. Review of Trade Policy in Supporting the Implementation of ASEAN Economic Community;
 - d. Development of Export Financing Facility;
 - e. Public Education on the ASEAN Economic Community;
13. Tourism Development, which focuses on:
- a. Tourism Destination Development;

- b. Event Development (event) Tourism;

14. Entrepreneurship Development, which focuses on:

- a. The development of beginner entrepreneurship;
- b. Expansion of the role of young entrepreneurs;
- c. The development of new invention-based enterprises (Invention / Resources and Development).

Based on the Presidential Instructions above, in general, the strategic steps to be undertaken include the revamping of potential strategic sectors and related to the mechanisms established by ASEAN in order to create a free market and international production base. These strategic steps include:

1. Increased Economic Competitiveness

Competitiveness is one of the important aspects in making ASEAN a single market and production base, competitiveness is one of the pillars of AEC 2015 which aims to make ASEAN a region with high competitiveness in the region and internationally. It is also a requirement for Indonesia and other ASEAN countries to enhance economic competitiveness in order to face the economic integration of AEC 2015. Economic competitiveness can be divided into several key areas that need to be improved, among others:

a. Human Resources Competitiveness or labors

Capacity building, quality, and skills are needed to be improved through education and research and training. The education system, curriculum and supporting infrastructure to improve the quality of human resources need to be improved towards increasing the competitiveness of

human resources and skilled Indonesian workers. Therefore, the government allocates budget to APBN 2016 education sector biggest in history. The education budget in APBN 2016 reached Rp 419.2 trillion or 20 percent of the total state expenditure of Rp 2095.7 trillion. Such a budget should be used with care and intelligence, especially to improve the quality of human resources. One of them through vocational education in the middle, diploma, and high level so that students can directly plunge into the world of work.¹

Employment policies that can be implemented include (1) incentives for industries that allocate budgets for the improvement of workforce skills; (2) the establishment of trade unions must obtain formal permission from the central and regional governments; and (3) special regulations that facilitate the procurement of foreign workers (TKA) in the field of industry with a certain period.

b. Infrastructure Competitiveness

Through a massive and measurable infrastructure development package, the government has a big target for the next 5 years. Where the construction of connectivity-related transport links, airport ports, roads, railways becomes a priority to stimulate growth and connectivity between regions. In addition, it will stimulate the growth of industries in areas previously unavailable due to infrastructure problems.

¹ <http://presidenri.go.id/infrastruktur/kebangkitan-daya-saing-indonesia.html>

Connectivity improvements can be pursued, among others, by (1) the transfer of logistics from road to rail and sea transport (short sea shipping) by increasing the number of stations and ports; (2) increasing road access from industrial estates to ports to speed travel time and lower transportation costs; (3) infrastructure development (e.g. trans Java highway, road repair, aero city, logistics center, air cargo facility, port area development, and broadband); as well as (4) integrated information systems among logistics providers².

c. Competitiveness of Products and Services

Increasing the competitiveness of products and services in order to increase the export of goods and services abroad. This increase is done by establishing bodies tasked with quality checks and standardization of goods and certification of expertise. The main challenge to improve the competitiveness of Indonesia's export product quality is to provide international standards (even certification to prove it).

Based on existing data, only 3% of Indonesian companies have international quality certification, far behind with other regional countries. Most important technical standards are enforced by international buyers or trading partners in order for exporters to meet these standards to continue with contract awarding. Most Indonesian industrial companies already meet national standards but have not been able to meet international standards.

² <http://www.bi.go.id/id/publikasi/wp/Documents/Analisis%20Daya%20Saing%20dan%20Strategi%20Industri%20Nasionak%20di%20Era%20Masyarakat%20Ekonomi%20ASEAN%20dan%20Perdagangan%20Bebas.pdf>

The main constraint is the problem of the cost of certification of international standards and their implications for competitiveness. Certification turns out to increase production costs, while the cost is difficult to transmit to consumers. In addition, the still weak Indonesian standardization infrastructure is also the cause of the lack of competitive export products of Indonesia. Many testing laboratories in Indonesia are not recognized internationally, affecting the certification process and compliance standards required by international buyers. The competitiveness of Indonesian exporters is also determined by the national standard regime. The weak national standard regime coupled with the lack of monitoring and enforcement of regulations contributes to low-quality competition in the domestic market.

d. Competitiveness of Micro, Small and Medium Enterprises (MSMEs)

MSMEs sector has tremendous potential both in number and by type. If MSME is able to improve its competitiveness through various efforts such as the current government, the results must be extraordinary. Efforts made by the current government through the Ministry of Cooperatives and SMEs legalization policy of cooperatives and SMEs facilitated and free, efforts to increase access to capital and efforts to increase access to information technology and other technologies.

SMEs are not only a source of employment but also an important source of innovation and competition. SMEs in Korea is connected to the manufacturing industry in subcontracting systems that signify close

industrial relations. Meanwhile, in Indonesia, the subcontracting system between MSME and the large industry has not developed yet. SMEs generally only provide the final consumer demand and not provide input for large companies. As a result, inter-industry relations are so weak that it inhibits the growth of cost-effective supply industries. In the future, UMKM relationship with big industry should be improved so that UMKM sector can grow and compete to produce quality goods.

e. Marine Competitiveness and Fisheries

Through the Ministry of Maritime Affairs and Fisheries has made various policies ranging from fighting illegal fishing and increasing marine products through SMEs and various policies to increase the export of marine products and fisheries. Indonesia has the potential to become the largest fishery producer in Asia. Moreover, after the policy of moratorium on ship permits and transshipment ban, fisheries sectors of neighboring countries such as Thailand and China fell drastically. Thailand's fishery gross domestic product, for example, dropped by 31 percent, as did China. Whereas before, these two countries are big players in the fishery sector.

Directorate General of PDSPKP KKP always prioritizes national fishery products of good quality and safe to consume. Meanwhile, to achieve competitive fishery products required a precise and targeted program. Directorate General of Strengthening Competitiveness of Marine and Fishery Products (PDSPKP), Ministry of Marine Affairs and Fisheries (KKP), has 9 (nine) priority programs to answer the tight competition both

at regional and global level. The nine priority programs are: Development of 32 Single Cold Storage Units, 29 Unit Integrated Cold Storage of Large / Small Scale, 354 Unit Ice Flake Machine, 1 Unit of Integrated Fish Market, 2 Unit Fishing Ship, 4 Unit of Culinary Center, 3 Unit of Flour Plant Fish, 7 Seaweed Warehouse Units, and 10 Units of Seaweed Plant.³

f. Investment Competitiveness

Increased investment competitiveness is the improvement of Indonesia's ability to stimulate interest and investment objectives in the country. In addition to strengthening the coordination of institutions (BKPM and BKPMMD), improved investment facilitation can also be done with the integration of centralized and regional one-stop service (PTSP) so that there is a common standard in licensing services.

Currently, the government in carrying out the development always refers to a strategy called "Triple Track Strategy Plus" which includes the increase of job creation (pro-job), quality growth (pro-growth), poverty alleviation (pro-poor), and environmental sustainability (pro-green). The government also encourages development through the establishment and development of 6 economic corridors. Each corridor has its own superior product that is processed in earnest so as to improve the economy.⁴

The Indonesian Economic Report released by Bank Indonesia in 2015 shows an improved business climate trend characterized by improving Indonesia's ranking in ease of doing business, thus sustaining

³ <http://www.neraca.co.id/article/65998/9-program-unggulan-perkuat-daya-saing-kelautan-dan-perikanan-strategi-memenangi-persaingan-mea>

⁴ http://www.pu.go.id/main/view_pdf/6474

the outlook for future investment. The rating of ease of investing in Indonesia climbed to 109th place in 2016 from the previous 120th ranking. The government opens investment taps and improves the quality of workers who have good competitiveness in the framework of competition. The ease of investing needs to be supported by the preparation of everything including financial modeling. Currently, we are the new campaign of regulatory convenience, but then investors should find the land, and take care of land acquisition.⁵

2. Improved Bureaucratic Reform and Regulation

Regulation is often a barrier to the business sector, both licensing and trading and governance rules. Efforts to realize harmonization efforts between business aspects, investment and other economic activities with regulation both central and regional should be reorganized and improved bureaucratic reform and regulation. It is necessary to agree on two fundamental aspects: (i) the problem of barriers to the flow of goods and services between regions can be caused by the rules, business structure, commodity type, trade chain and market structure, so that the harmonization of trade regulations is only one alternative problem solving, and (ii) harmonization does not mean generalization of inter-regional trade regulations. Thus, harmonization efforts need to be focused on the consideration of the diversity of conditions and needs of the people in each region.

⁵ <http://ksp.go.id/daya-saing-dan-kemudahan-investasi/>

Steps to improve bureaucratic reform have been made by Jokowi - Jusuf Kalla government which issued various economic policy packages that come to volume 13. The entire package from volumes 1 to 13 generally encourages economic growth of Indonesia to compete with other nations. Ease, acceleration and removal of barriers have been reformed. Licensing is trimmed, simplified and simplified and streamlined.

Harmonization of ASEAN legislation is one of the need to support efforts to create a conducive business climate for businesses, including small, medium and micro enterprises (MSMEs). Referring to the Long Term and Medium-Term Plan of MSME development, this harmonization is more related to the purpose of preparing the preconditions for the growing business climate. These harmonization efforts can have an enormous impact, especially for increased opportunities and equity in establishing an efficient (not just high-cost) and democratic economic system, as reflected by stakeholder participation and the development of a social control system.

The strengthening of legal institutions should be increased especially in terms of independence and accountability of legal institutions, as well as the strengthening of the ethics and professionalism of the apparatus in the field of law, in order to encourage the application of a transparent judicial system. Efforts to improve the welfare of law enforcement officers continue to be done in stages and adapted to the financial capacity of the state. It is hoped that with sufficient welfare improvements for law enforcement officials, actions that lead to and potentially corrupt will be minimized. A law-abiding culture, both

within the enforcement and state-run environments as well as the general public through awareness raising of legal rights and obligations to law enforcement and community apparatus, is also enhanced.

3. Improvement of MSMEs Empowerment

SMEs as a very strategic national economic sector in the development of a populist economy has always been a central issue contested by politicians in attracting mass sympathy. Real efforts made by the government lately through various policies both general and sectorial. To improve the empowerment of MSMEs, many problems must be addressed. Increasing the empowerment of MSMEs is not the least government effort with the following steps:

a. MSMEs Legalization (Institutional Strengthening)

Presidential Regulation 98 of 2014 on Micro and Small Business Licenses, Ministry of Cooperatives and SMEs in cooperation with the Ministry of Home Affairs and Ministry of Trade, facilitate the Ease of Micro and Small Business License (IUMK) in the form of free 1 sheet certificate by the Sub-District Head in cooperation with the Ministry of Home Affairs and Ministry of Trade in the form of: a). Data marking for Micro Business with the naming of Micro Business Data (TDUM) and; b). Registration mark for Small Business, with the naming of Small Business Registry.

Legalization or formalization of MSMEs by simplifying the regulation to facilitate the licensing of SMEs by cutting the cost and

simplification of licensing procedures for Micro, Small and Micro Small Medium Enterprises and In addition to the issuance of Presidential Decree and Regulation of the Minister of Home Affairs, the formalization of MSEs only require a permit UMK in the form of 1 sheet and Mandatory Tax.

b. Capital Access

The government through the ministry of Cooperatives and SMEs has arranged easy access to capital, such as the provision of initial capital for beginner entrepreneurs a maximum of Rp. 25 million for micro business actors and cooperative members; socialization and assistance for Micro Business Actors and members of cooperatives to access People's Business Credit (KUR); 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 9% interest per annum and without collateral through KUR channeling banks; 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.

If KUR channeled 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 MSME as much as 2.01% per year, KUR has the opportunity as well as a challenge to accommodate the interest to its capital requirement.

To improve access to capital. In this case, Vice President Jusuf Kalla initiated the effort to decrease the interest of People's Business Credit (KUR) from 22% to 9% and next year (2017) will fall again to 7%. This effort is a breakthrough 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%. "This is a major obstacle to the development of small micro businesses and is an injustice to small micro business actors. To improve access to capital. In this case, Vice President Jusuf Kalla initiated the effort to decrease the interest of People's Business Credit (KUR) from 22% to 9% and next year (2017) will fall again to 7%. This effort is a breakthrough 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%. "This is a major obstacle to the development of small micro businesses and is an injustice to small micro business actors.

c. Standardization of MSMEs products

Indonesia should strengthen the micro small and medium enterprises (MSMEs) sector through the application of Indonesian National Standard (INS) to the products of the sector. This is important in order to deal with AEC 2015. If the standardization of product quality can be implemented, then the presence of ASEAN single market will open up very wide opportunities for MSME products, not only for the regional region but also to enter the global market. If MSME is able to produce products with certain standards, then it is expected to become a supplier of the need for large industries. The Government ensures that all industrial products circulating in the country must use or fulfill SNI. In this way is expected to improve product competitiveness and circulation of goods with poor quality can be minimized. The government will also take legal action for goods circulating in Indonesia that do not comply with these standards⁶.

d. Capacity building and management of MSMEs

In order to improve the capacity and management of MSME and cooperative business, it is necessary to develop a business development service provider institution. The objective is to provide information services, consultation, training, guidance, business contact assistance, facilitation in expanding markets, access to capital, development of production techniques through appropriate technology, and organizational

⁶ <http://www.kemenperin.go.id/artikel/8843/Hadapi-MEA,-Produk-UMKM-Harus-Ber-SNI>

development and management, including helping to prepare MSMEs business development proposals.

Currently, Bank Indonesia has also conducted a series of activities and activities for the empowerment of MSMEs in the form of Bank Partner Financial Consultant (KKMB). This program is intended for others as a managerial assistance in the field of finance, marketing, management capacity and administration of SMEs. The same thing is also done by several local governments in the form of local people's economic programs and regional comparative advantages. One of the most important things is the program of socialization of various programs so that the MSMEs empowerment programs can be easily accessed.

e. Increased access to Information and marketing of MSME Based Information Technology

In the face of an increasingly open and competitive market mechanism, market control is a prerequisite for improving the competitiveness of SMEs. In order to dominate the market, MSMEs need to get information easily and quickly, both information about the production market and the production factor market. Information on the production market is necessary to expand the marketing network of products produced by MSMEs. Market information of production or commodity market required. Thus, MSMEs can anticipate various market conditions so that in running their business will be more innovative. Complete and accurate market information can be utilized by MSMEs to

make their business planning appropriately. Therefore, the role of government is needed in encouraging the success of MSMEs in gaining access to expand their marketing network and the opportunity to communicate or promote their products and business to consumers widely both at home and abroad.

Information technology is a form of technology used to create, store, modify, and use information in all its forms, through the utilization of this information technology. Macro, small and medium companies can enter the global market. Utilization of information technology in running a business or often known as e-commerce for small companies can provide flexibility in production, enabling faster delivery to customers for software products, sending and receiving payments quickly and sparingly, and supporting paperless fast transactions. Utilization of the internet allows SMEs to do marketing with the aim of global markets, so export opportunities are very possible. This means that MSMEs have a wider opportunity to sell their products exported.