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THE HABIBIE CENTER DISCUSSION REPORT



SPECIAL TALKING ASEAN

**The New Government's Readiness
for ASEAN Economic Community 2015:
Building Infrastructure to Increase Competitiveness**

**Hotel JS Luwansa - Jakarta
Wednesday, November 12, 2014**

INTRODUCTION

JAKARTA – On Wednesday, 12 November 2014, The Habibie Center held a special Talking ASEAN dialogue entitled “The New Government’s Readiness Towards ASEAN Economic Community 2015: Building Infrastructure to Increase Competitiveness” at JS Luwansa Hotel in Jakarta. This edition of Talking ASEAN, which was part of The Habibie Center’s 15th Anniversary Celebrations, featured Sjamsu Rahardja (Senior Economist, The World Bank Indonesia), Darwin Trisna Djajawinata (Director of Project Development and Advisory, PT Sarana Multi Infrastruktur), Agustinus Prasetyantoko (Economist, Atma Jaya Catholic University), and Ilham A Habibie (Vice Chairman of Research and Technology, KADIN) with Ms. Rahimah Abdulrahim (Executive Director, The Habibie Center) as the moderator. Also speaking was Ulrich Klingshirn, Director, Hanns Seidel Foundation, who gave the Opening Remarks.

The objectives of this Talking ASEAN were to elaborate the perspective from various experts : (a) to review Indonesia’s current state of readiness ahead of the ASEAN Economic Community 2015 in terms of infrastructure and competitiveness; (b) to highlight the preparations taken by Indonesia ahead of the ASEAN Economic Community 2015 in terms of infrastructure and competitiveness and analyse the strengths and limitations thus far; (c) to explore the key challenges and obstacles that the new government will need to address with regards to the ASEAN Economic Community 2015 in terms of infrastructure and competitiveness; and (d) to give possible recommendations to the new government in order to increase Indonesia’s infrastructure and competitiveness ahead of the ASEAN Economic Community 2015.

This discussion report summarizes the key points of each speaker as well as the question and answer session that followed.

OPENING REMARKS

— Ulrich Klingshirn



Ulrich Klingshirn, Director, Hanns Seidel Foundation

In his Opening Remarks, Ulrich Klingshirn extended his warm welcome to the audience and noted that The Habibie Center's 15th Anniversary also marked 15 years of cooperation between The Habibie Center and his organization, Hanns Seidel Foundation. Explaining a little about the Hanns Seidel Foundation which promoted the values of humanism and democracy through various activities, Ulrich Klingshirn highlighted three major pillars of its activities in Indonesia. These were civic education and democratization, supporting the environment, and improving the legal structure and constitutionalism. On the topic of the ASEAN Economic Community, Ulrich Klingshirn stated that the goal was to integrate the regional market and to be competitive on the world stage. In this sense, infrastructure was important and he observed that the aim of ASEAN in improving connectivity would facilitate the realization of regional integration and community building. Developing infrastructure would help attract investment, promote deeper ties among the peoples in the region, and spur domestic connectivity.

Ulrich Klingshirn expressed his best wishes to the new Indonesian Government and ended by stating his interest in hearing all the different opinions towards the ASEAN Economic Community.

“Developing infrastructure will help attract investment, promote deeper ties among the peoples of ASEAN as well as spur domestic connectivity”

-Ulrich Klingshirn-

REMARKS

— Rahimah Abdulrahim —



Rahimah Abdulrahim, Executive Director, The Habibie Center

Following on from the Opening Remarks, Rahimah Abdulrahim thanked Hanns Seidel Foundation for its continued support of The Habibie Center, stating that the special edition of Talking ASEAN was a great way to celebrate the 15 years of cooperation between The Habibie Center and Hanns Seidel Foundation. She went on to explain that The Habibie Center's ASEAN Studies Program - and its Talking ASEAN activity - was aimed at bringing the discourse on ASEAN to as many stakeholders as possible, especially those not usually interested in the regional organization.

Rahimah Abdulrahim remarked that during the other discussions that were held as part of The Habibie Center's 15th Anniversary Celebrations, the topic of infrastructure had often come up, especially during the Minister for National Development Planning/BAPPENAS, Andrinof A Chaniago who outlined the new government's concrete plans for the coming years. As such this special edition of Talking ASEAN was seen as very timely.

“We need to bring the discourse on ASEAN to as many stakeholders as possible, especially to those who are not usually interested in the topic”

-Rahimah Abdulrahim-

SPEAKERS' PRESENTATION

— Darwin Trisna Djajawinata



Darwin Trisna Djajawinata, Director of Project Development and Advisory, PT Sarana Multi Infrastruktur

Introducing his presentation, Darwin Trisna Djajawinata explained that he would cover the issues faced by Indonesia when it came to financing infrastructure projects. Before that, he took a few minutes to explain PT Sarana Multi Infrastruktur which was 100% owned by the Government and aimed at being a catalyst for infrastructure development in the country. This was through giving consultancy advice as well as being assigned by the Government to facilitate public-private partnership (PPP) projects in Indonesia or prepare documentation for major projects.

Moving on with his presentation, Darwin Trisna Djajawinata cited a number of graphics from the World Economic Forum which showed Indonesia's competitiveness had in fact improved over the last ten years. Darwin Trisna Djajawinata expressed his surprise and questioned what factors led Indonesia's competitive rank to improve. Three were highlighted: the stability of the country's GDP growth; improvements in Indonesia's infrastructure and connectivity; and better governance.

It was this second factor, infrastructure and connectivity that Darwin Trisna Djajawinata wished to explore in more details. Comparing Indonesia's infrastructure situation with that of other countries

in the region, Darwin Trisna Djajawinata argued that Indonesia's competitiveness needed to improve. While Indonesia's overall infrastructure ranking was third in the region, if specific areas were looked into, it could be seen that Indonesia was lagging behind. One example cited was port ranking, and Darwin Trisna Djajawinata expressed his interest in how the new Government would address this given its stated intention to focus on maritime issues.

Darwin Trisna Djajawinata then looked at the life cycle of infrastructure projects which he said showed the inherent risks involved. These included at the construction stage where the risks involved delays and costs of runs as well as poor contractors that may end up defaulting. At the operation phase, Darwin Trisna Djajawinata highlighted the risks of demand or tariff, while business and regulatory risks were identified as external risks. As such, it was clear that infrastructure projects were long and complex and so Darwin Trisna Djajawinata argued for the need to make these projects better prepared and attractive for investors.

From the lessons learned from the above, there were a number of issues that needed to be resolved within the next five years according to Darwin Trisna Djajawinata. Firstly there was the need to resolve funding issues. The availability of the source of funding had to fit with the requirements of the project. Moreover a lot of funding would be required. In the case of Indonesia, domestic financing had not yet entered into infrastructure projects. Secondly there was the issue of land acquisition and the financing for it. Darwin Trisna Djajawinata explained that with the introduction of Law No 2/2002 on Land Acquisition, there had been some success in addressing this issue. Third was the need for risk management. Darwin Trisna Djajawinata called on the Government to provide support, either directly or through providing guarantees. While policies were in place for this, Darwin Trisna Djajawinata suggested improvements were needed in terms of the mechanisms. Lastly was the readiness of the projects themselves to be financed. Darwin Trisna Djajawinata argued that many were not that well-structured, did not have good feasibility studies that

SPEAKERS' PRESENTATION

— Darwin Trisna Djajawinata

matched international standards and so it was not surprising if investors did not wish to get involved.

Turning his focus on the availability of source of funding, Darwin Trisna Djajawinata cited data from BAPPENAS (National Development Planning Board) which showed that from 2015-2019 Indonesia would need Rp 6,780 trillion for infrastructure development. From available sources of funding, Indonesia would still face a gap of Rp 4,000 trillion. Here Darwin Trisna Djajawinata suggested that Rp 1,100 trillion could be tapped into from the banking sector. However he pointed out that at present there were a number of issues which mean this potential was not being utilized. Currently there were limited financing modalities. In the case of banks, the majority of third party deposits were for six months and so not suitable for financing long term projects. In the case of bonds, very few had access to this market and the tenors were relatively short at 5-7 years. The equity market was also described as quite small and not very available for infrastructure development whilst other sources such as pension funds and insurance funds were limited at the moment. As such the key question was how to make these institutions contribute to the country's infrastructure development.

Looking at the challenges for non-bank financial institutions in financing infrastructure projects, Darwin Trisna Djajawinata stated that their source of funding still relied heavily on the Government. The capital paid up was small compared to infrastructure needs and the availability of low cost funds for Indonesian institutions became more difficult to secure in the market. Here he suggested that the Government help in securing low cost funds. Another challenge for non-bank financial institutions was the fact that the projects themselves were not ready for investment. In many cases, the way projects were selected were poor and not ready for commercialization without government contribution. There was also no single standard on how these projects should be presented to the market and what risks should be absorbed by the private and public sector.

On the issue of PPP, Darwin Trisna Djajawinata noted that this usually involved a lengthy process that made



Darwin Trisna Djajawinata (left), Director of Project Development and Advisory, PT Sarana Multi Infrastruktur

them not the priority focus for the Government and reduced the appetite for potential investors.

Towards the end of his presentation, Darwin Trisna Djajawinata offered a number of recommendations. Firstly was the need for coordination and a single government-assigned champion for decision making. At present many permits were needed and in many cases there was an overlapping and uncoordinated process. Darwin Trisna Djajawinata expressed his expectation that the new Government would be able to implement a single window for licensing. Another recommendation was for capital strengthening of financial institutions to provide long term financing with low costs as well as for the new Government to focus on quick win programs.

“Inviting investment requires governmental support. The government has established a number of institutions but more things need to be done”

-Darwin Trisna Djajawinata-

SPEAKERS' PRESENTATION

— Sjamsu Rahardja



Sjamsu Rahardja, Senior Economist, The World Bank Indonesia

In his presentation, Sjamsu Rahardja shared his thoughts on the topic of the ASEAN Economic Community and its linkage with infrastructure. He explained that The World Bank Indonesia functioned as a development cooperative that provided support in terms of financing, technical assistance and publication. Sjamsu Rahardja also stated that The World Bank Indonesia was looking to explore increasing infrastructure project exposure in the country.

Turning to the topic at hand, Sjamsu Rahardja observed that there was conflicting messages in the media about the ASEAN Economic Community. He suggested that local media tended to emphasize the threats that emanated from the ASEAN Economic Community whereas international media tended to highlight the opportunities it presented. For Sjamsu Rahardja, this reflected and summed up the nature of the public discourse on the ASEAN Economic Community. A key question was: could Indonesia withstand increasing competition from fellow neighbors in ASEAN. Citing data from the Financial Times, Sjamsu Rahardja explained that for trade

of goods, the level of ASEAN intra-trade remained stable over the last ten years. He also emphasized that when we talked about regional integration this did not just mean the 10 ASEAN member-states but also with major markets such as China, Japan, Korea, the US and the EU. In this sense, the ASEAN Economic Community did not just mean trade for consumers in the ASEAN region but also becoming a production base for other markets in the world.

Sjamsu Rahardja highlighted how the ASEAN Economic Community provided an opportunity for Indonesia to become part of a production supplier to other economies in ASEAN as well as developing economies. Here he pointed to Indonesia's wealth of natural resources, to Myanmar's energy resources, and so forth which made the region attractive for investors that would be interested in an ASEAN production platform.

Sjamsu Rahardja also pointed to the growing middle class in countries such as Indonesia, Malaysia and Thailand. He estimated that over the last year, 2.5 million Indonesians entered the middle class and that a similar phenomenon could be seen in other ASEAN countries. Given these statistics, Sjamsu Rahardja asked where Indonesia was currently situated in the growing trends of ASEAN. Here he pointed out that while the region was becoming more pragmatic, inviting Foreign Direct Investment (FDI) and linking with local suppliers, Indonesia was unfortunately not yet fully part of this global value chain.

He offered the explanation that Indonesia may not feel the need to be part of the global value chain as it already had a large domestic market. However he also highlighted the constraints of poor infrastructure in the country. He called on Indonesia to improve the reliability of its supply chain and to look seriously at this issue as Indonesia was seen as too weak. To illustrate, Sjamsu Rahardja pointed out the fact it was cheaper to import products from a foreign country than to domestically transport it from an outer island of Indonesia. This was very much related to port connectivity which needed improvements.

SPEAKERS' PRESENTATION

Sjamsu Rahardja



Sjamsu Rahardja (center), Senior Economist, The World Bank Indonesia

Towards the end of his presentation, Sjamsu Rahardja called on Indonesia to spend more on infrastructure which he described as no longer questionable. Whilst Indonesia used to spend 8% of its GDP on infrastructure during the 1990s, that value had dropped to 3%. Sjamsu Rahardja suggested that if Indonesia wished to see GDP growth of 7% it would need at least 10% GDP spending on infrastructure. Concurring with the previous speaker, Sjamsu Rahardja decried the fact that funding opportunities for infrastructure were not being utilized. To illustrate, Sjamsu Rahardja cited a fund for geothermal project which has been available for the last three years. However, for a government body to apply for that fund, it needed to apply for 58 different permits from different government agencies. In this sense, Sjamsu Rahardja questioned the difficulties a private sector company would have to face given the difficulties a government body faced.

Sjamsu Rahardja also highlighted the need to bridge Western and Eastern Indonesia through broadband. ICT was seen as very important by providing a modern electronic platform for government agencies to issue permits and exchange information quickly and relevantly. He noted that unlike commercial

airlines where every information such as flight time, departures, arrivals, etc. was known, when it came to domestic shipping such information was often unclear.

Beyond infrastructure, Sjamsu Rahardja stressed the importance of institutions in ASEAN. Institutions were needed that could facilitate better supply chain and simplify procedures across ASEAN and just as importantly within Indonesia. Here he highlighted a study which showed that 40% of the costs of transporting cattle from Sumbawa to Jakarta was spent on the first few kilometers from the farm to the port. This was seen as something that needed to be addressed.

“There is a growing trend in ASEAN where local suppliers are linking up with the global value chains network. However Indonesia is not yet fully a part of this and the constrains of infrastructure is one of the reasons.”

-Sjamsu Rahardja-

SPEAKERS' PRESENTATION

Ilham A Habibie



Ilham A Habibie (center), Vice Chairman of Research and Technology, KADIN

The third speaker to present was Ilham A Habibie who began by looking at the big picture on ASEAN. He noted that ASEAN was home to 600 million people and had a combined GDP of US\$ 2.4 trillion. Indonesia contributed 41% (or 244.47 million people) of this total population and 33% of the combined GDP. However, noting that Singapore which has a much smaller population of 5.41 million people but a 9% contribution to the combined GDP, Ilham A Habibie argued that something was not quite parallel in terms of Indonesia's contribution. He further pointed out that Indonesia was not doing very well in its global competitiveness vis-a-vis other ASEAN countries, except in the area of "available airline seats km/weeks, million." In terms of logistics costs, 27% of Indonesia's GDP was associated with logistical issues. However he cautioned that this was not solely due to infrastructure insufficiencies since as a maritime nation, the country would naturally face some difficulties compared to continent-based countries. Nevertheless Ilham A Habibie argued that the logistical costs of a maritime nation of Indonesia should not be that much different to continent-based countries in ASEAN.

Ilham A Habibie pointed to a study by McKinsey which predicted that Indonesia would emerge as a top 7 economy and had become the basis for what many policy makers believed Indonesia should and could be like. However a more recent report by McKinsey Global Institute on 'Southeast Asia at the crossroads: 3 paths to prosperity' showed that Southeast Asia was in general left out of the global supply chain and needed to do more to capture a greater share. This, in Ilham A Habibie's view, was why infrastructure and interconnectivity was important, not only within ASEAN but also beyond. Another phenomenon that needed close attention was the urbanization wave. In order to address this phenomenon, Indonesia needed optimal urban infrastructure and to deploy "disruptive technologies" that underlined and connected infrastructure. This was seen as key as infrastructures should not be seen as separate. Ilham A Habibie highlighted the work of Bandung Mayor, Ridwan Kamil who had been successful in developing strong urban infrastructure. The growing trend for "smart" was also highlighted. Ilham A Habibie argued that digital infrastructure could be a common denominator for disruptive technology

SPEAKERS' PRESENTATION

Ilham A Habibie

and for this a well-functioning ICT infrastructure was needed. Key elements of a well-functioning ICT infrastructure included ICT for government, ICT for health, ICT for education and ICT for economics. It was stressed that the goal of building an ICT infrastructure was to transform Indonesia into an economy based on innovation and knowledge.

Here, Ilham A Habibie told the audience of his role as Chairman of Detiknas (National Technology Council). He explained that there was a big impact if broadband connectivity was implemented. For every 10% of broadband penetration, there would be a corresponding 1.39% in economic growth. As such there was a big difference for any economy that utilized broadband with those that did not. Ilham A Habibie also highlighted his role as Chairman of The Habibie Center's Institute for Democratization through Science and Technology (IDST) which had a project for 'meaningful broadband Indonesia' (MBI). Ilham A Habibie argued that the right mastering of technology would be positive for any democratic development. It was important for everything to be usable, affordable and empowering, and Ilham A Habibie believed that technology was key.

Towards the end of his presentation Ilham A Habibie turned to the big question of how to finance such infrastructure goals. Noting that there were three classical approaches – public, private or mixed (PPP) - Ilham A Habibie argued against the idea that the majority of infrastructure projects should be funded via PPP schemes. He pointed out that there was not a single case in the world where a country's infrastructure development was dominated by PPP. Instead they were usually almost always financed by the Government. In this sense Ilham A Habibie stated that the Government should not run away from its responsibilities. At the same time Ilham A Habibie suggested that the Government needed to address the monopolies of BUMN/BUMD (state-



Ilham A Habibie, Vice Chairman of Research and Technology, KADIN

owned enterprises). Ilham A Habibie called on the Government to loosen up these monopolies, especially for projects that were commercially feasible and could be financed by the private sector. Finally Ilham A Habibie expressed his view that in order for PPP schemes to work it were paramount to have a revenue base first. Indonesia needed to be innovative to find this revenue base and he acknowledged this was not easy given Indonesia's poor track record with PPP in the past.

“A good national ICT structure will lead to Indonesia becoming an economy based on innovation and knowledge”

-Ilham A Habibie-

SPEAKERS' PRESENTATION

— Agustinus Prasetyantoko



Agustinus Prasetyantoko (Economist, Atma Jaya Catholic University)

The last speaker was A. Prasetyantoko whose presentation focused on three topics: short term challenges for the new Government; several structural reforms; and how infrastructure plays a role in this dynamics.

On the short term challenges facing the Government, A. Prasetyantoko noted that there was some feeling that the markets were unhappy with President Joko Widodo's cabinet. However A. Prasetyantoko questioned whether this was because of sentiments or more to do with structural issues. A. Prasetyantoko went on to identify some of the main structural issues that the new Government had to deal with immediately. Among them was currency volatility. Since the middle of last year to present, the Indonesian Rupiah had shown volatility due to the normalization of the US economy. However A. Prasetyantoko also suggested that structural issues were also a cause.

A. Prasetyantoko pointed out that if we examined current account charts, it was obvious that Indonesia current account deficit had come about because of the country's overreliance on trade balance. As such an immediate challenge for the new Government was to settle the trade balance by producing more exports and reducing its imports. Here the role of infrastructure was seen as crucial in order to make

Indonesia more competitive and for a more healthier trade balance.

Another challenge for the new Government was the ASEAN Economic Community 2015. A. Prasetyantoko warned that if we compare our infrastructure situation with other ASEAN countries, the situation was quite alarming. He also predicted that Indonesia's market volatility and trade balance would only worsen once Indonesian entered the ASEAN Economic Community at the end of 2014. Whilst acknowledging some improvements in Indonesia's infrastructure, A. Prasetyantoko nevertheless felt it was poor compared to other countries. To demonstrate, A. Prasetyantoko pointed out that Indonesia's infrastructure quality ranked at 61st place in the world. Meanwhile Malaysia could be found in 29th and Thailand in 47th.

He also warned that Indonesia's monetary policy would be trapped by the current account deficit, which would make the market more unstable when the ASEAN Economic Community came into force. As such, A. Prasetyantoko called on for more development of infrastructure which would in turn help improve productivity, which was lagging other countries in the region.

In concluding his presentation, A. Prasetyantoko stated that the new government would have to deal with both short-term and long term issues, of which the fiscal and current account deficits were pivotal. He also stated that the new Government would have to shift fuel subsidies to productive spending so that it could be used for infrastructure projects. Lastly A. Prasetyantoko concluded that the ASEAN Economic Community would be an important challenge if the Government was unable to address the aforementioned pivotal challenges.

“If we look at our current account deficit we can see that it relies too much on trade balance. But if in the next five years we can focus on infrastructure, we can improve the trade balance”

-Agustinus Prasetyantoko-

Q&A SESSION



One of the audience raising questions and giving comments during Q&A session.

Rahimah Abdulrahim

Indonesia seems like a university student cramming in revision the night before final exams. It feels like it is only now that Indonesians are becoming aware of the ASEAN Economic Community. How much are we too late in our preparation? How much confidence do you all have in the new Government?

reexamine this in light of the fact we often hear news about the Government missing its tax revenue targets and so forth. Also we used to hear a lot about capital flight. There is a feeling that this flight is very high. Can we somehow repatriate these funds back to Indonesia?

Comment no. 1 :

If we are talking about infrastructure, what are the success stories that we can replicate? Perhaps we can take inspiration from telecommunications development. Not too long ago the market penetration was only 3% but now there are more cell phones in Indonesia than the entire population. Why can't we replicate this in ICT?

On the subject of financing and participation, what are the efforts being made? In the New Order era we used to have tabungan nasional (national savings) for development but we do not have this anymore. Perhaps we need to

Ilham A Habibie

When we say that the telecommunications development has been a success we need to remember a number of things. Originally there was only Telkom and then Indosat which is now no longer government owned. Since de-regularization we have 11-12 telecommunications companies. However three companies have 85% share of this market, Telkom, Indosat and XL. What does this mean? It means there are nine companies that are not strong enough to live and not weak enough to die. If we talk about the average revenue per user, Indonesia is actually in an unhealthy state. There is unreasonable price war by providers. Another thing is that although we now have 3G technology, its usage and service quality is poor outside of

Q&A SESSION

Jakarta. In many case people that have 3G capable smartphones simply do not use it when they are outside Jakarta. So, technological empowerment is not being used. This is to do with the quality of infrastructure.

Overall the telecommunications sector is still a mixed bag but it is perhaps still better than the electricity sector. We need to be more detailed about what is good and not so good in each sector.

Darwin Trisna Djajawinata

The potential from financing is huge but the question is how this can be tapped into. 50% is provided from the banking side but there are difficulties. We want to finance long term projects but third party deposits are only six months. So we still require other sources of financing to provide the remaining funds. Bonds can provide approximately Rp 1,200 trillion but this can only be accessed by a limited number of entities. Also the current tender for bonds is limited. We need structural reforms and this is the role of the Government.

We also need to understand how these projects are being prepared. If we can lower the risks we can attract investment to the projects. What is needed is some form of Government guarantee or willingness to absorb some of the risks involved.

Agustinus Prasetyantoko

One solution to make projects financed by investors is to invite external financing. The question then becomes how to make foreign investors willing to invest in Indonesia. The issue of infrastructure projects is how the Government can make every project settled. Investors just need clear timetable, deliverables, etc. If the Government can provide this I am sure external finance will come into Indonesia and foreign investors will participate in infrastructure development.

Government must raise the price of subsidized fuel but there are fears this will lead to political turmoil. What are your suggestions? Is there any alternative to raising the price of subsidized fuel? Also a question to Pak Ilham, could you please elaborate more on the ICT national structure for education.

Comment No. 3:

There is wide awareness in the Government that infrastructure is important and a major constraint for Indonesia's future. At the same time, the Indonesian Government does not want to participate in the Asia Infrastructure Development Bank that has been proposed by China. What do you think about this?

Comment No. 4:

We have eard a lot about what we need to do but how do we actually go about doing it. Also since today is all about The Habibie Center's 15th Anniversary Celebration, and remembering its main goal of pushing democratization, how can we push the Government to encourage greater public participation and to address issues such as regulatory reforms, transparency and tackling corruption?

Agustinus Prasetyantoko

The question is do we change how we finance these subsidies or actually try to shift our mindset. If we stick to only trying to find alternative ways of financing subsidies, we only need to reduce the budget for other areas. However the issue is not to do with rising fuel prices, instead it is how we can move away from subsidy spending towards productive spending. How can we persuade the people to leave fuel subsidies and to convince them that the Government needs to spend this money on other more productive things? This will need advocacy campaigns so that the public discourses focuses on moving subsidy spending to productive spending.

Comment No. 2:

One of the biggest problems Indonesia faces before entering the ASEAN Economic Community is the issue of fuel subsidies. The

Q&A SESSION

Ilham A Habibie

I did not go into too much details of each pillar of the ICT national structure simply because of time constraints but I am more than happy to elaborate more. We currently now have an Open University which works mainly online. There is a lot of information that Indonesians can gain from this. Perhaps a major challenge for Indonesians at the moment is that while the material is available, there are many who simply lack mastery of the English language. In addition to this there are of course infrastructure challenges such as access to internet, etc.

Sjamsu Rahardja

There are a number of different perceptions on how people see the ASEAN Economic Community. However, one thing people forget is that this process began five years ago. ASEAN countries have already implemented many of the agreements contained in the ASEAN Economic Community. For example we have zero tariffs on many products except for sensitive ones. When people talk about their fears of the free movement of professionals and their worries that they will lose jobs, etc. they should remember that these will be implemented gradually. Indeed, the ASEAN Economic Community is approximately 90% implemented so I do not think 2015 will bring a major surprise to people as many fear.

However we cannot ignore that in terms of our infrastructure, Indonesia is still relying on outdated ones compared to fellow ASEAN countries. The question is how Indonesia can scale up its infrastructure so that it will not be left behind.

There was once a study conducted by the Government of Thailand in collaboration with Japanese researchers. They did modelling exercise to look at the impact of the ASEAN Economic Community on Thailand. Interestingly, the study found that Indonesia could benefit the most from the ASEAN Economic Community. This was what pushed Thailand to take more seriously its preparation for the ASEAN Economic Community and they had a discourse on what they needed to do so that they, and not Indonesia, would benefit the most.

Moreover, the study not only showed which country would benefit the most but which provinces/regions. It was found that in Indonesia, the islands of Sumatra and Kalimantan stood to gain the most from the ASEAN Economic Community. This is the thing we need to remember when we talk about the ASEAN Economic Community.

Darwin Trisna Djawinata

The proposal by China for a Asia Infrastructure Development Bank can be quite strategic for Indonesia given that the domestic source of funding is limited. Indonesia will have opportunities to tap into this funding as well as gain good practices and knowledge. These are what Indonesia lacks. However there are two factors I feel that will affect Indonesia's decision to join or not. One is the Government's foreign policy. The other is the need to clearly define what opportunities Indonesia will have to take a portion of these funds. The country would be willing to contribute a certain amount of fund for this proposal but it needs to know how much it can expect to get for infrastructure development.

Sjamsu Rahardja

What we observe from successful public service implementations is the close participation of the public and communities. When people are given good channels to give feedback, the Government can give quick and appropriate responses. One example will be the Tanjung Priok port. People have been discussing for years about the long delays for processing cargo with different stakeholders – customs, port operators, etc. - blaming each other. Finally there was an agreement to actually study, measure and map where the bottlenecks were and who was responsible for them. As a result of this the Government was better placed to manage the problem as it could see clearly where the delays came from. This is one example of how stakeholder feedback and participation can be beneficial.

Q&A SESSION

Darwin Trisna Djajawinata

I just want to add that it is important to have KPI (Key Performance Indicators) that can be measured and monitored by the public and community.

Ilham A Habibie

At the end of next year we will have the beginning of the ASEAN Economic Community. However this is just a process. There are 12 products and services that need to be more open between ASEAN countries according to the ASEAN Economic Community Blueprint. My recommendation to the new Government would be to focus on these 12 products and services first. What do we need in place to come up with the most optimal position for Indonesia? That is the question the Government needs to ask and come up with answers for.

Comment No. 5:

How optimistic are you regarding the ASEAN Economic Community at the end of 2015?

Comment No. 6:

How do we address the problem of overlapping regulations at the national and the provincial/regency (kabupaten) level?

Comment No. 7:

On ICT for education I agree that one of the problem is English language. However now we have communities that help with translations. For young people I feel the problem is no longer language barriers but perhaps the simple fact that people are not even aware that ICT for education exists. Pak Ilham mentioned The Habibie Center's Institute for Democratization through Science and Technology. What can it offer to socialize these quality education media to our society?

Comment No. 8:

Technology is being used for Indonesia to catch up in terms of its infrastructure. However the biggest issue is simply the "last mile". We also need to consider rural areas. We must avoid the mistakes of other countries. Perhaps Indonesia should consider using social entrepreneurs and creating socio-infrastructure spaces. Also I feel the ICT divide is closely related to the energy divide. Can we see innovation in the 'last mile' for these areas?

Ilham A Habibie

Vast majority of Indonesians cannot speak an adequate level of English needed to use the higher education courses that are available online. So there needs to be more effort for translations services as well as utilizing available technology. This is still in development. The problem that Indonesia faces is that much of the existing infrastructure is not being utilized, such as the phenomenon of "dark fibre". On the question of technology and rural areas, one point I would like to make is that technology does not need to clash with the culture of rural areas if it comes from the people themselves. So it is important to ensure user participation when we do these projects in rural areas.

Darwin Trisna Djajawinata

It is true that Indonesia suffers from overlapping regulation. This is one of the main barriers for infrastructure development. The source of the problem is a lack of coordination with other sectors. One important message that we need to do in order to address this creating a strong champion tasked with deciding what priorities should come first. At the national level there should be clear priorities that everyone follows and carries through. Indonesia also needs some kind of clearing house. This is very important and starts with structural reforms.

Q&A SESSION

Comment No. 9:

How does The Habibie Center help Indonesians understand more about the ASEAN Economic Community? I am from Ambon, and we know very little about it. Also from the previous presentations it can be seen that land acquisition is one of the main problems for infrastructure. Why don't companies come with the approach of building up maritime areas such as in investing in sea ports?

In addition, Indonesia, Malaysia and Singapore all have Special Economic Zones (SEZ). How come Indonesia's SEZ (in Batam) does not give much impact to the economy whereas Malaysia's Johor SEZ AND Singapore contributes a lot?

Regarding The Habibie Center, we are divided into a number of institutes including IDST. As I mentioned earlier IDST is helping to bridge the technological gap between west and east Indonesia. As Minister for National Development Planning/BAPPENAS, Andrinof A Chaniago mentioned yesterday, the new Government will address this technological gap by developing east Indonesia. It's clear that there is an energy divide when you move from West to East Indonesia. The existing power grids do not provide enough for east Indonesia. One thing we should look into is decentralized sub grids that can be powered by renewable energy

For the SEZ in Batam, there is a tendency for Indonesians to treat it as a separate island. This is why there has not been much beneficial spillover to the rest of Indonesia.

Darwin Trisna Djajwinata

The use of sea ports is now becoming a serious consideration of the new Government. I am also optimistic about the concept of "sea tolls" which will be easier to implement compared to road tolls.

Ilham A Habibie

Indonesia is a big country and sometimes there is a feeling that the country's economic growth can be driven by its domestic market alone. However it is wrong to believe that we should just do away with exports as this has a major impact on Indonesia's competitiveness. I believe Indonesia's economic situation next year will be very much related to the situation of the global economy. I feel the EU will still be stagnant, the US economy will be in its recovery stage, and China will still grow at below double-digit growth. So it will not be much different from now and the Indonesian economy should do ok. We are fortunate because our domestic market serves as a good buffer to global shocks but other countries are now looking at our economy for their buffer. We need to be able to respond to this well.

Agustinus Prasetyantoko

The ASEAN Economic Community is no longer a choice for us. We must start seeing it as an opportunity and we must define our value chains contribution to it.

Darwin Trisna Djajwinata

The ASEAN Economic Community is a great moment for Indonesia to reform itself. Our competition can be much broader, not just with the ASEAN region. We are in the process of becoming part of the larger community, to adopt the best from this community and the discipline from it.

Sjamsu Rahardja

The Government needs to be at the forefront. The big issue is monetary reform and this begins with addressing the fuel subsidy issue.

Q&A SESSION

Ilham A Habibie

Is ASEAN a threat or opportunity? I will always say it is an opportunity. If we look at Germany, it is the “per capita “ world champion. However, where does Germany export? It exports to the EU, in other words to its own neighbourhood. If we strengthen ASEAN, this will be beneficial for all of ASEAN including Indonesia. How can people in this region participate? It is not the question of opening up the market or not anymore. The question is how can we push the peoples of ASEAN to participate and benefit from the ASEAN Economic Community.

Rahimah Abdulrahim

Obviously there is still a lot of work to do ahead of the ASEAN Economic Community. This is not the responsibility of the Government alone but also of companies, think tanks, and so forth. On a final note, it is important to remember that the ASEAN Community is not limited to the ASEAN Economic Community but also covers the pillars of politics-security and socio-cultural. That is why The Habibie Center’s ASEAN Studies Program addresses all three pillars of the ASEAN Community.

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PROJECT SUPERVISOR:

Rahimah Abdulrahim
(Executive Director)

Hadi Kuntjara
(Deputy Director for Operations)

COORDINATOR:

A. Ibrahim Almuttaqi

RESEARCHERS:

Steven Yohanes P.

Fina Astriana

Wirya Adiwena

FINANCE AND ADMINISTRATION:

Rizka Azizah

Layout and Design by M. I. Qeis

ASEAN Studies Program - The Habibie Center
The Habibie Center Building
Jl. Kemang Selatan No.98, Jakarta 12560
Tel: 62 21 781 7211
Fax: 62 21 781 7212
Email: thc@habibiecenter.or.id
www.habibiecenter.or.id

