



ASEAN Economic Community: JUST THE BEGINNING

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Introduction

- Association of Southeast Asian Nations (ASEAN) was established in Bangkok, Thailand, on 8 August 1967
- Today, ASEAN has become one of the world's center of economic growth.
- ASEAN has agreed to the establishment of the ASEAN Community in 2015
- Establishment of ASEAN Community comprising three pillars, namely:
 1. ASEAN Security Community/ASC,
 2. ASEAN Economic Community/AEC, &
 3. ASEAN Socio-Cultural Community/ASCC

Opportunities & Threats

- The AEC will “establish ASEAN as a single market and production base with the goal of making ASEAN more dynamic and competitive.”
- Four Pillar to the AEC

ASEAN Economic Community			
Single Market & Production Base	Competitive Economic Region	Equitable Economic Development	ASEAN's Integration into the Global Economy

- For the first step to be realized is the AEC in December 2015, there are at least 5 things that will be implemented, namely:
 1. the free flow of goods,
 2. the free flow of services,
 3. the free flow of investment,
 4. the free flow of capital, and
 5. the free flow of skilled labor.

- The formation of the AEC will provide an opportunity for ASEAN member countries to:
 1. expand the scope of economies of scale,
 2. reduce poverty and socio-economic disparities,
 3. increasing attractiveness as a destination for investors and tourists,
 4. reducing the transaction costs of trade, and
 5. improve trade and business facilities.

- In addition, the establishment of the AEC will also provide:
 1. convenience and increased intra-ASEAN market access, and
 2. to improve the transparency and speed up the adjustment of domestic regulations and standardization.

- Some of the advantages of the presence of AEC:
 1. tremendous market potential, with a population of 612 million.
 2. a significant growth of the middle class will create a high purchasing power.
 3. ASEAN goods trade liberalization will ensure the smooth flow of goods for the supply of raw materials and finished materials in the ASEAN region because of tariffs and non-tariff is not there anymore.

- Market conditions in the region has its own free will encourage the manufacturers and other businesses to produce and distribute high quality goods efficiently so as to compete with products from other countries.
- On the other hand, consumers also have a variety of alternative options that can be selected according to the needs and abilities, from the cheapest to the most expensive.

- But on the other hand, the economic gap among ASEAN countries also provides challenges

Countries	HDI		GDP Growth	Population
	2012	2013	2013	2013
Brunei Darussalam	0.852	0.852	-1.8	0.4 M
Cambodia	0.579	0.584	7.4	15.1 M
Indonesia	0.681	0.684	5.7	248 M
Lao PDR	0.565	0.569	8.2	6.8 M
Malaysia	0.770	0.773	4.7	29.9 M
Myanmar	0.520	0.524	8.3	51.0 M
Philippines	0.656	0.660	7.2	97.5 M
Singapore	0.899	0.901	3.9	5.4 M
Thailand	0.720	0.722	2.9	68.2 M
Viet Nam	0.635	0.638	5.4	89.7 M

- Differences in economic power will make the countries that are not ready, will have difficulties when implementing the AEC.
- the process of liberalization of capital flows can cause instability through its direct impact on the possibility of reversal of capital flows suddenly.
- the similarity of comparative advantage ASEAN region, particularly in the agricultural sector, fisheries, rubber products, wood-based products, and electronics.

Towards a Single Currency?

- The main reason the need for ASEAN single currency is:
 1. Facilitate transactions between the AEC.
 2. Reduce dependence on other currencies, especially the USD.
 3. Encourage mobilization among the ASEAN community.
 4. Adoption of the single currency system can have a positive impact on lowering the cost of managing monetary policy in the single currency area

- Is not easy to perform the single currency unification with reason:
 1. Economic conditions differ between countries AEC, making ASEAN single currency unification will be difficult.
 2. Monetary union will result in member states lose discretionary policy as an automatic adjustment mechanism for the country's economic condition.

Learn from the European Union

- Monetary union is based on the theory of optimum currency area (OCA) by Mundell (1961), McKinnon (1963), and Kennen (1969) in Arifin (2012).
- According to OCA theory, if the welfare of a region increases through monetary union, the unified currency should replace the currency of each country.
- Some preconditions must be met in order to achieve economic convergence, such as inflation, fiscal deficit, government debt, and long-term interest rates.
- In Europe, this agreement is expressed in the Maastricht Treaty in 1992.

- Since the beginning of its formation, the euro has a deficiency in the design implementation of laws and policies.
- Design deficiencies reflected in the monetary union without fiscal unification.

- Based on the above explanation, the use of a single currency among the ASEAN countries is still very long.
- To be able to apply it, there is a necessary condition such as similarity unity in policy and regulation.
- Adoption of the single currency policy should prioritize the precautionary principle.

- For now, it is better for ASEAN to focus on cooperation in the region.
- This is because the current value of trade between ASEAN countries reached US \$ 2 trillion.
- In the tourism industry, the role of cooperation among ASEAN countries is also great.
- It's should be improved.

How About Indonesia ???



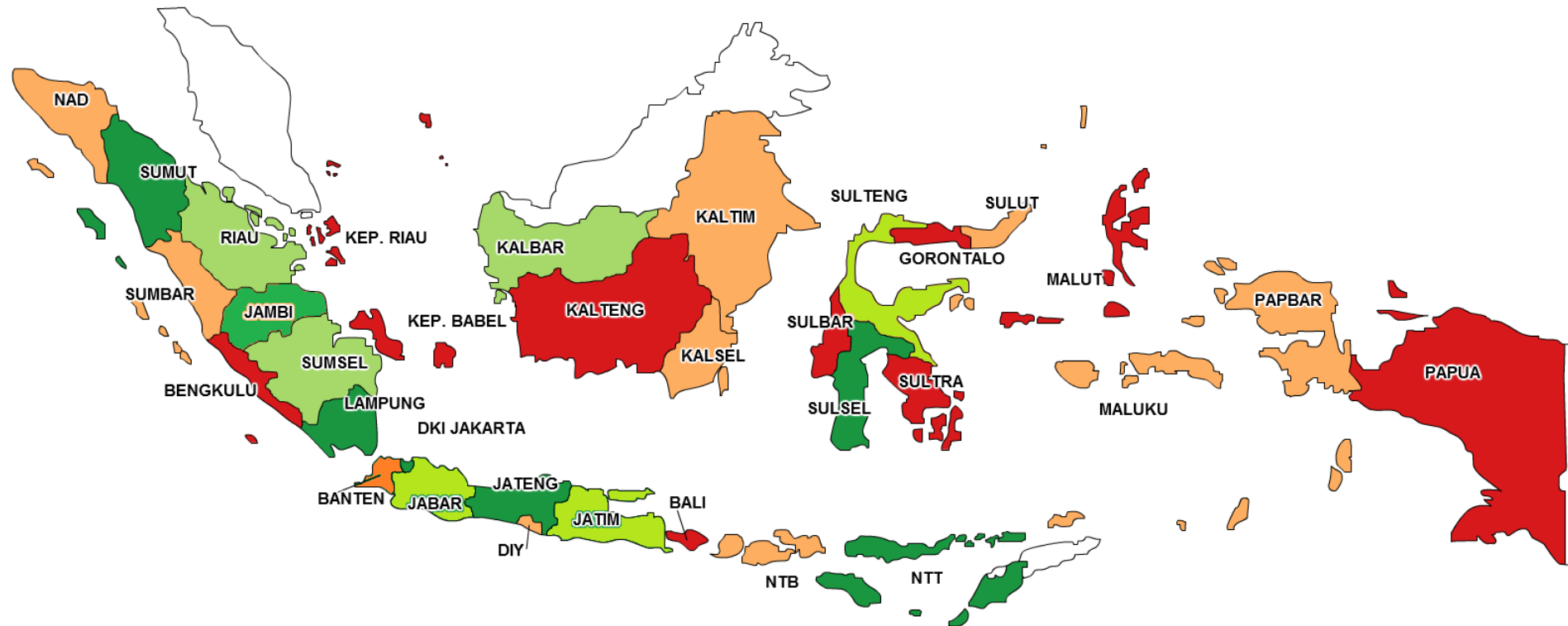
Wonderful Indonesia

Unity in Diversity



- After popularizing the term **BRICs**, Goldman Sachs in 2013, introduced the term **MINT**.
- MINT is an abbreviation of the few countries that are expected to be large in a period of 20 years to come.
- MINT is a country composed of **Mexico**, **Indonesia**, **Nigeria** and **Turkey** which was first introduced by an asset management Fidelity in Boston, which was later popularized by Jim O'Neill of Goldman Sachs.

Maps of Indonesia



Indonesia is an [archipelago](#) comprising [thousands of islands](#).

Overview of Indonesia

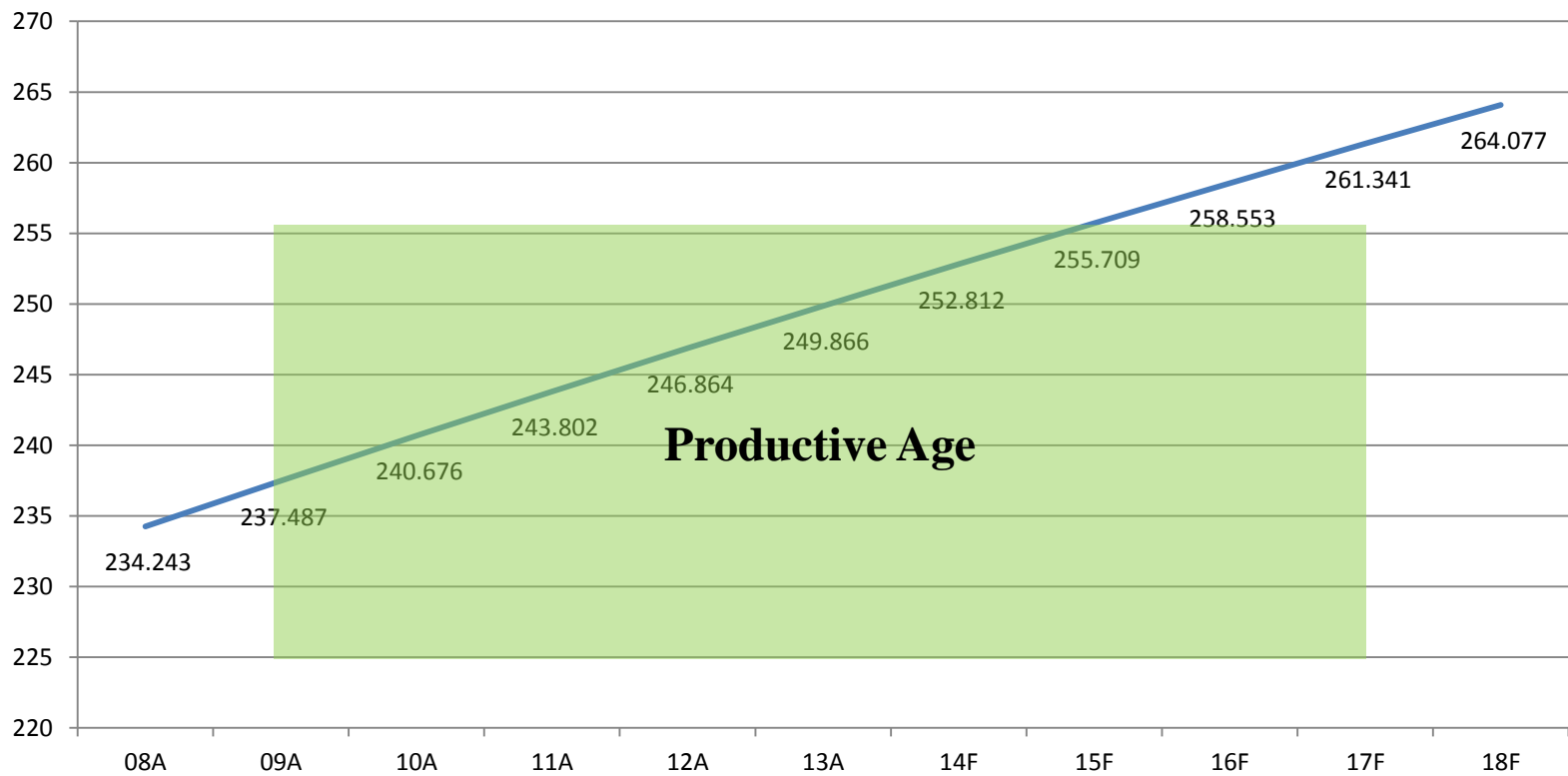
- Administratively, Indonesia consists of 34 provinces.
- There are around 300 distinct native ethnic groups in Indonesia, and 742 different languages and dialects.
- The government officially recognizes only six religions: Islam, Protestantism, Roman Catholicism, Hinduism, Buddhism, and Confucianism.



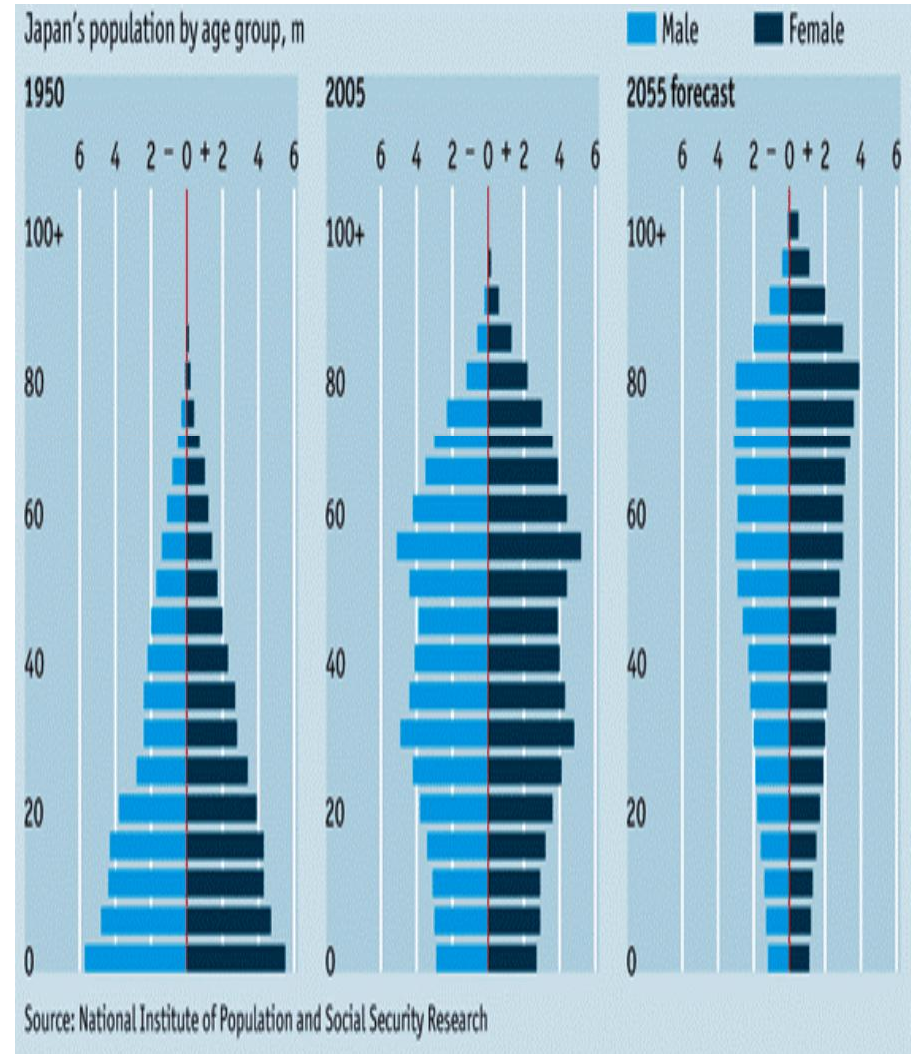
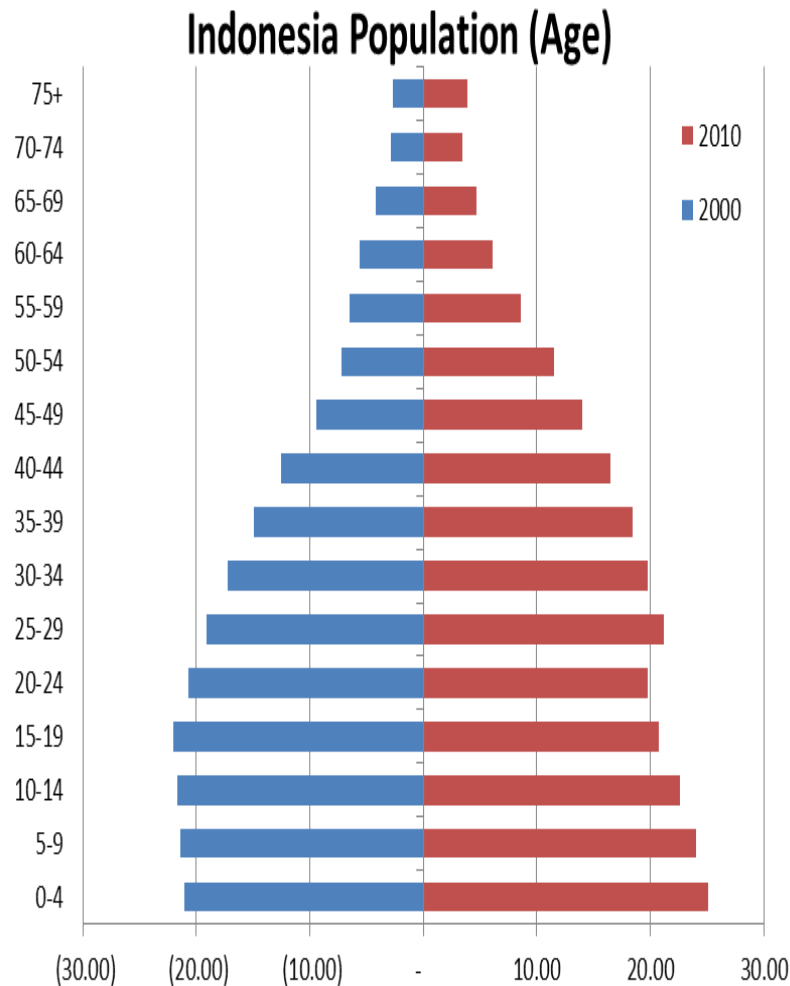
- Estimated total population of over 252 million people, Indonesia is the world's fourth-[most-populous](#) country.
- Indonesia is a founding member of [ASEAN](#) and a member of the [G-20 major economies](#) (20 *countries with the largest GDP in the world*).
- The [Indonesian economy](#) is the world's [16th](#) largest by nominal GDP.



Indonesia Population (Persons, mn)

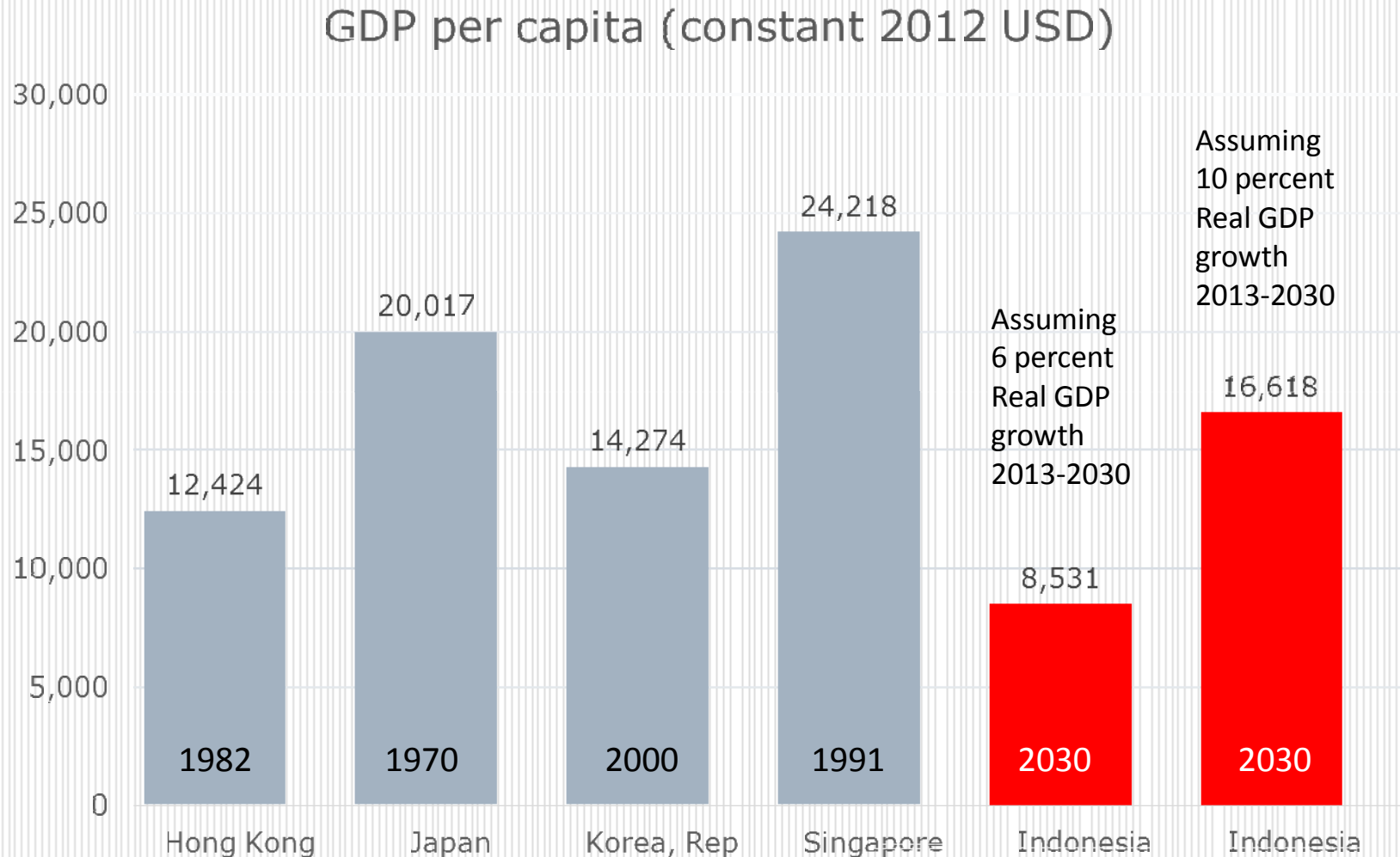


Bonus of Demographic



- Demographic bonus occurs when a portion of the population aged productive (15-64) will continue to rise, while the portion of the population non-productive age (0-14 and 65+) decreased.
- Consequently, the dependency ratio (the population of reproductive age divided non-productive age population) fell steadily, so that the financial burden of the working population getting lighter.
- At that time, the level of private savings will rise rapidly, also the level of consumption.
- In terms of production, economy the opportunity to increase productivity, thus potentially accelerate growth.

Income per capita reached by countries when their demographic dividend ended, vs. Indonesia (2030)



Source: World Bank, "Indonesia: Avoiding The Trap," Jakarta, May 2014, p.19.

Indonesia Income/capita

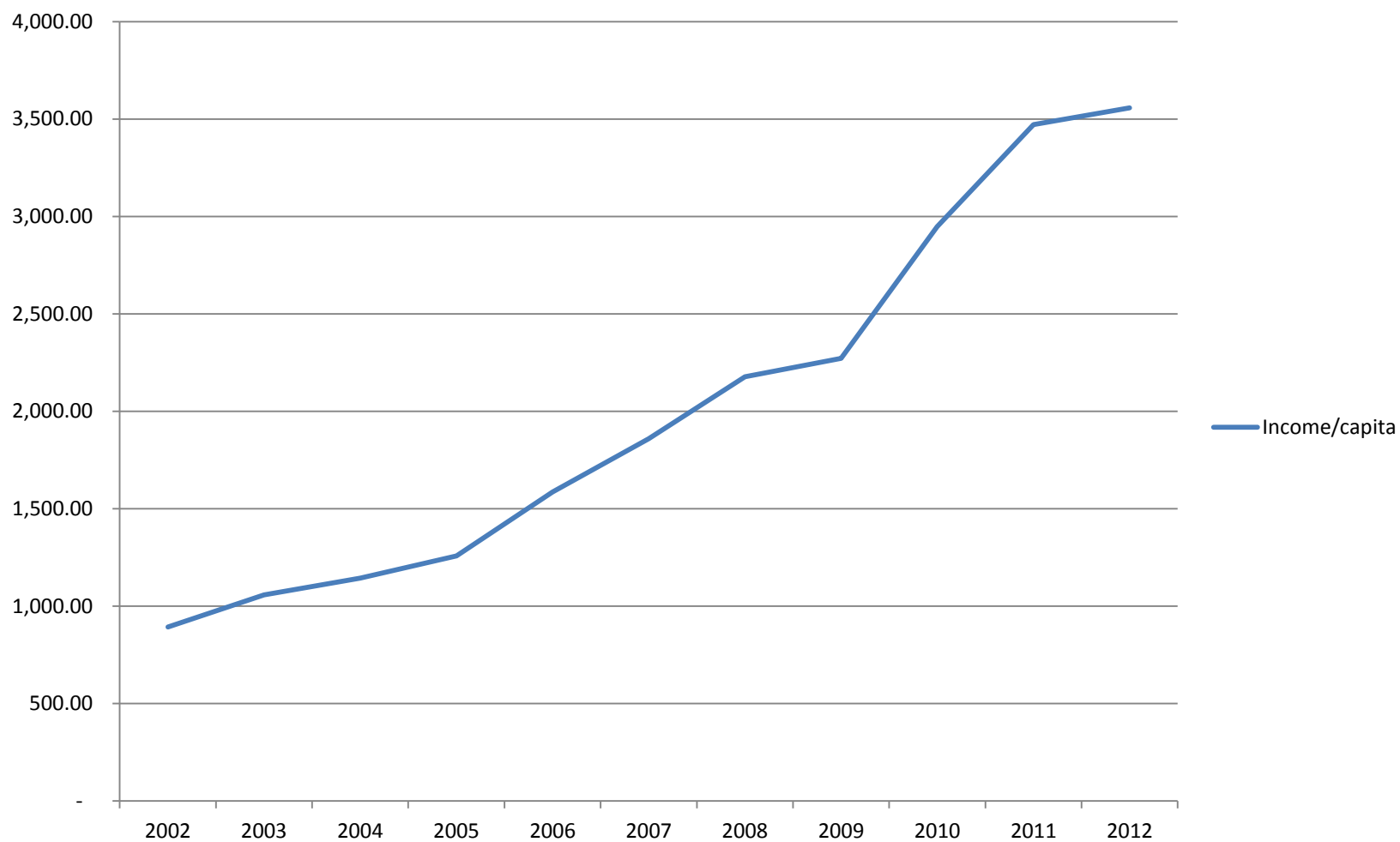
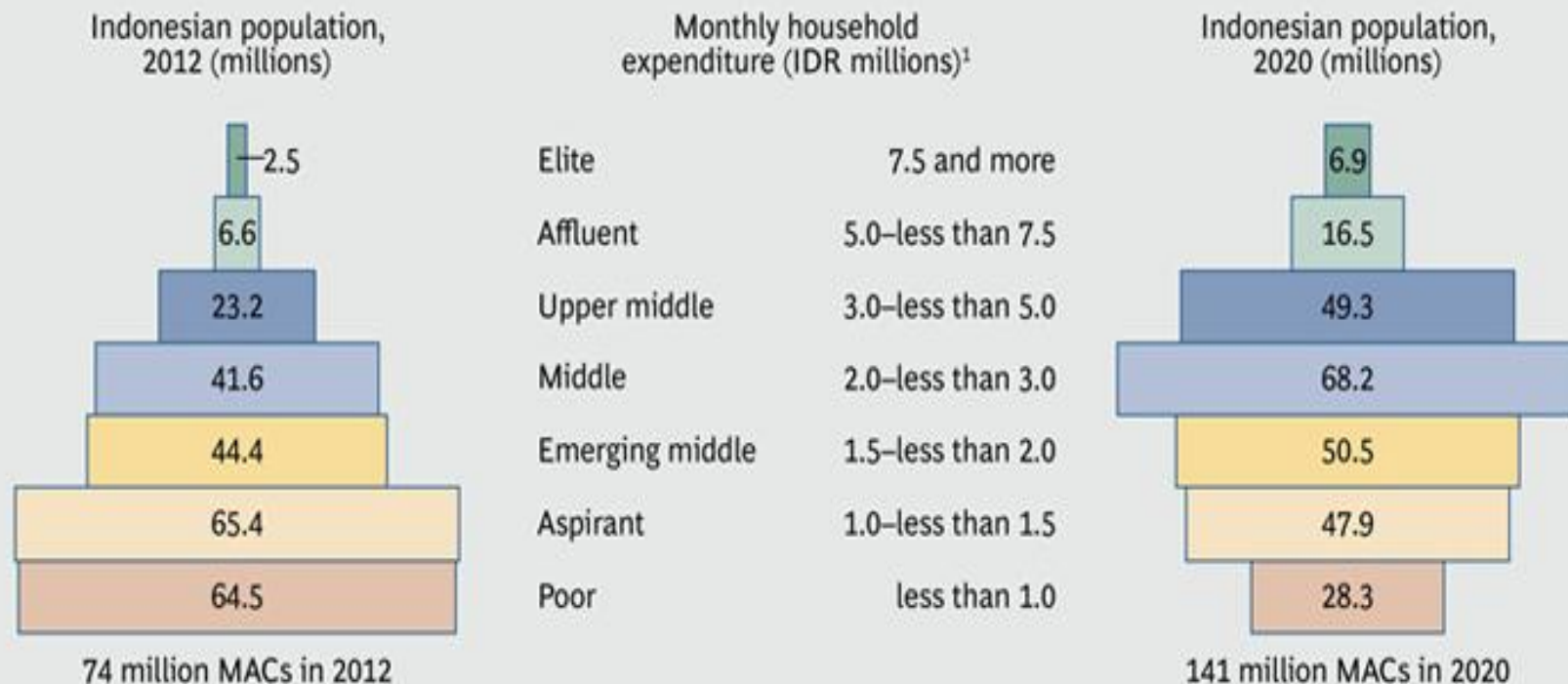


EXHIBIT 2 | Indonesia's Population Is Growing and Becoming More Affluent



MAC population includes middle, upper-middle, affluent, and elite consumers

Sources: BCG Population and Household Expenditure Database 2012; BCG analysis; Indonesian Government Statistics Office (BPS).

¹Monthly household-expenditure numbers are stated in real 2011 terms (adjusted for inflation) and include regular household expenditures such as food, utilities, transportation, communication, and regular household supplies, and exclude discretionary spending such as entertainment, restaurant dining, and similar categories. Note that the expenditure level is based on data from BPS, which uses regression analysis to remove irregular expenditures. The spending levels used to define wealth classes in this model may differ from those used by market research agencies to define socioeconomic status levels because of different data-collection methodologies and models.

Economy

- The gross domestic product (GDP) is more than \$1 trillion
- After the crisis of 1998, Indonesia's economic growth has always been above 4% since 2001.
- The debt ratio to the GDP is only 26%.
- The country has extensive natural resources, including crude oil, natural gas, tin, copper, and gold.

The world economic outlook, 2014-15 (%)

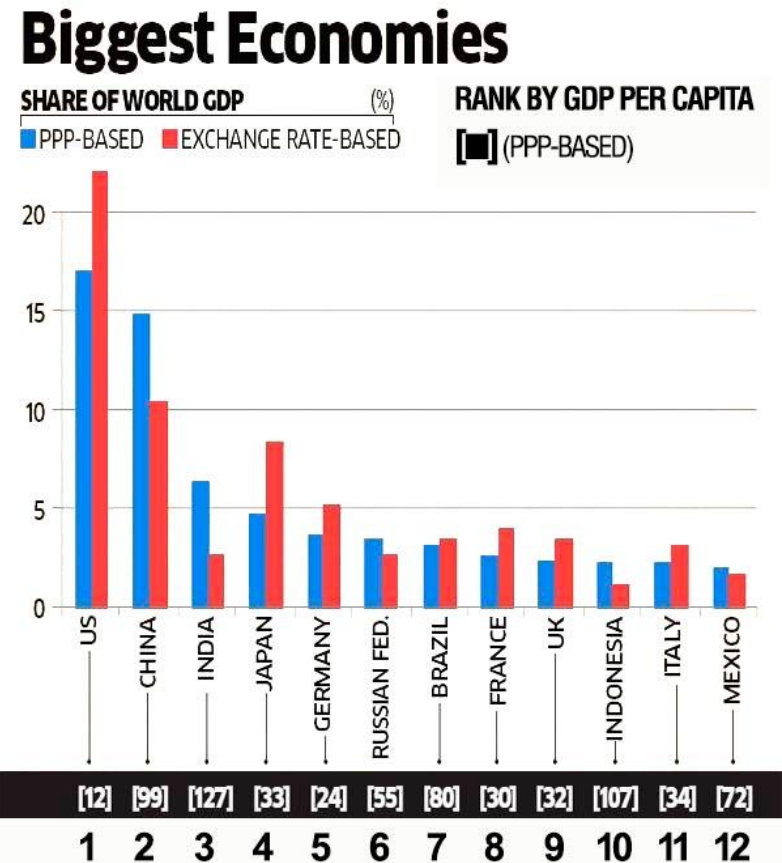
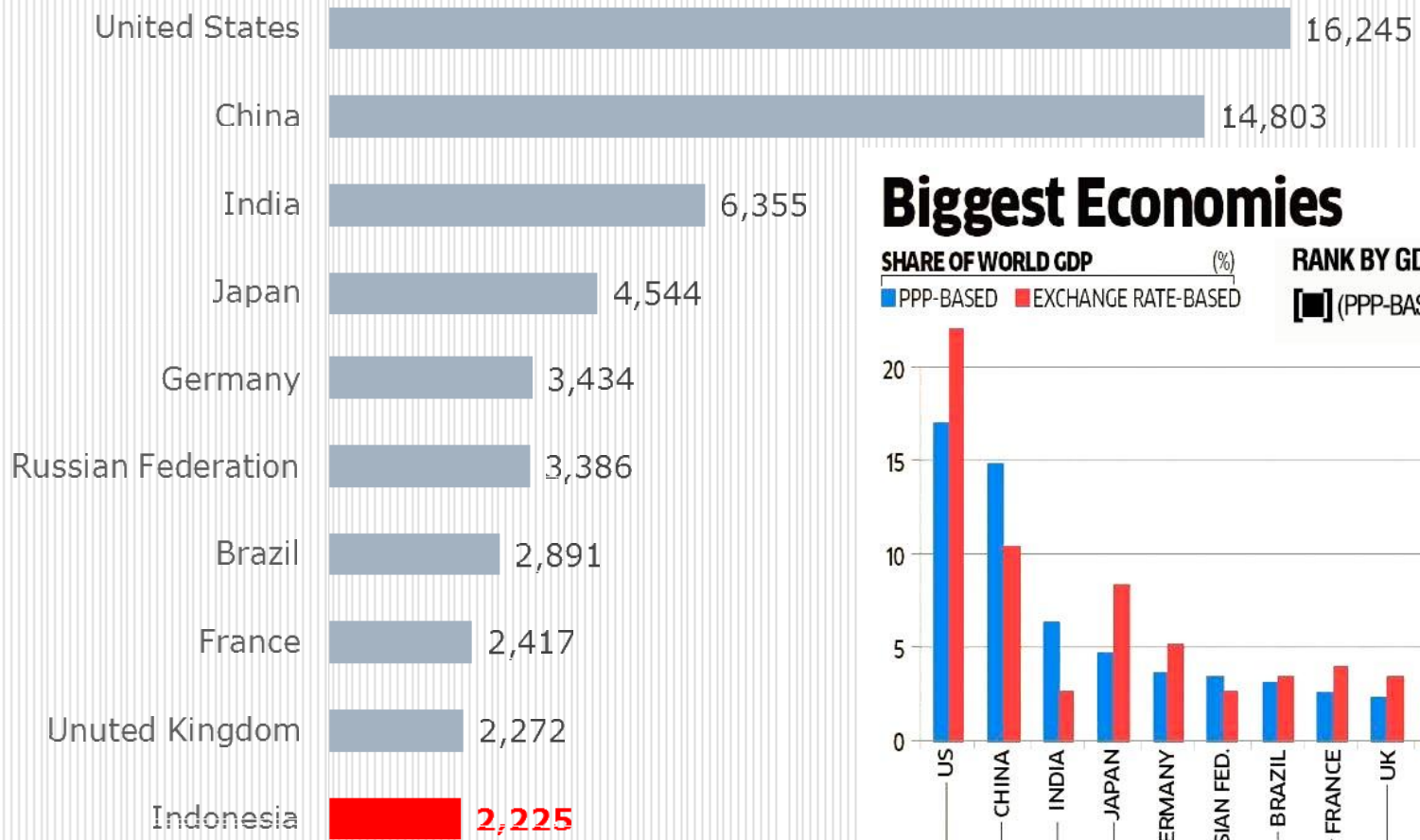
	2014*						2015*		
	2011	2012	2013	Jan-14	Apr-14	Jul-14	Jan-14	Apr-14	Jul-14
World GDP growth	3.9	3.5	3.2	3.7	3.6	3.4	3.9	3.9	4.0
Advanced economies	1.7	1.4	1.3	2.2	2.2	1.8	2.3	2.3	2.4
-United States	1.8	2.8	1.9	2.8	2.8	1.7	3.0	3.0	3.0
-Euro Area	1.5	-0.7	-0.4	1.0	1.2	0.0	1.4	1.5	0.1
-Japan	-0.6	1.4	1.5	1.7	1.4	1.6	1.0	1.0	1.1
Developing economies	6.2	5.1	4.7	5.1	4.9	4.6	5.4	5.3	5.2
-China	9.3	7.7	7.7	7.5	7.5	7.4	7.3	7.3	7.1
-India	6.3	4.7	5.0	5.4	5.4	5.4	6.4	6.4	6.4
-Asean-5	4.5	6.2	5.2	5.1	4.9	4.6	5.6	5.4	5.6
Indonesia	6.5	6.2	5.8	5.3	5.4	5.4	5.8	5.8	5.8
World trade growth	6.0	2.8	3.1	4.4	4.3	4.0	5.2	5.3	5.3

* Projection.

Sources: IMF, *World Economic Outlook* October 2013 and April 2014, and *World Economic Outlook Update*, January 2014 and July 2014.

Indonesia is the world's 10 largest producer of goods and services

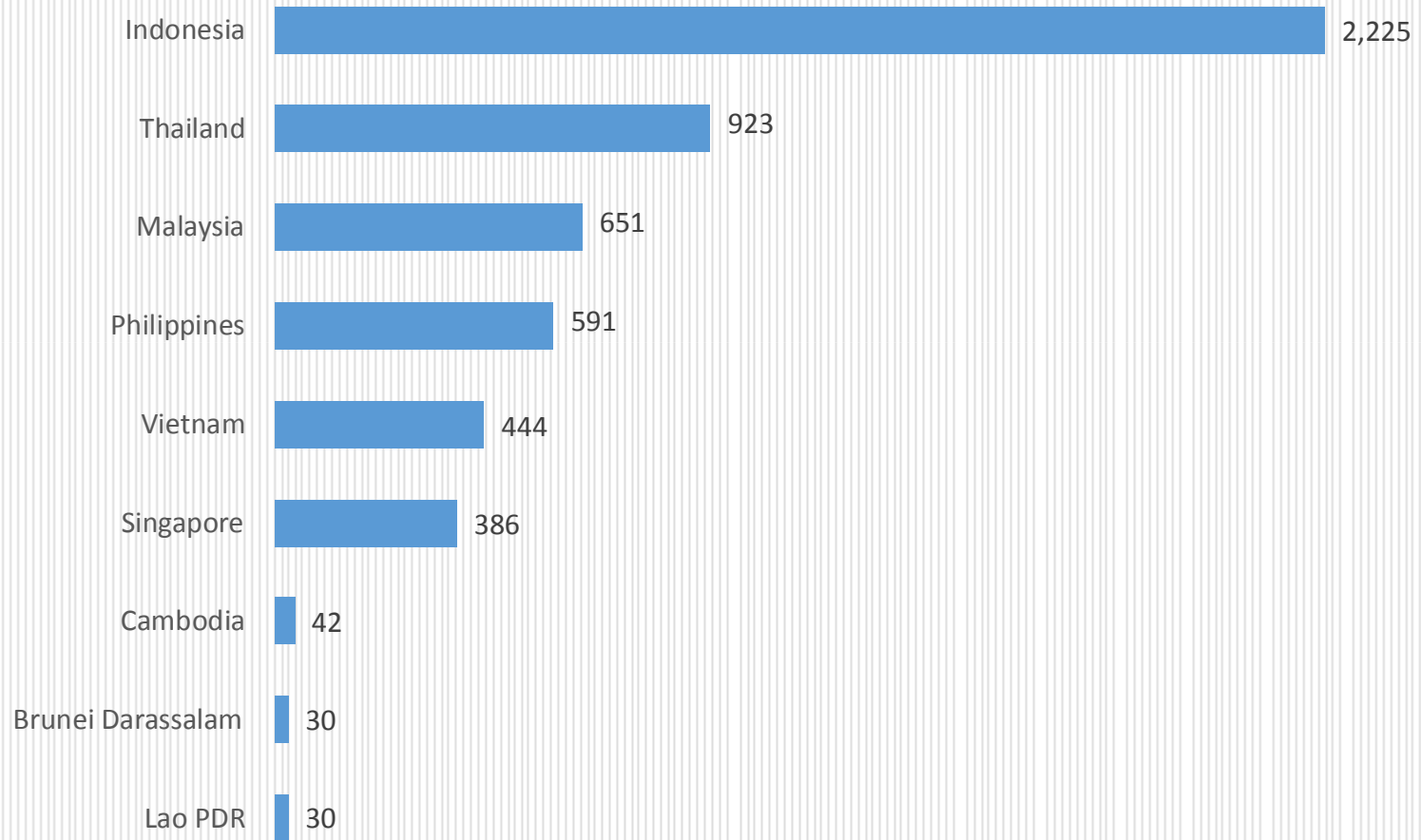
(Purchasing power parity (PPP),
billions of international dollars, 2012)



Source: World Bank, World Development Indicators

Asean GDP, PPP

Billions of international dollars, 2012



Source: World Bank, World Development Indicators

First time climbing to the top: Indonesia beats China in Japanese FDI: upward evaluation of Indonesia

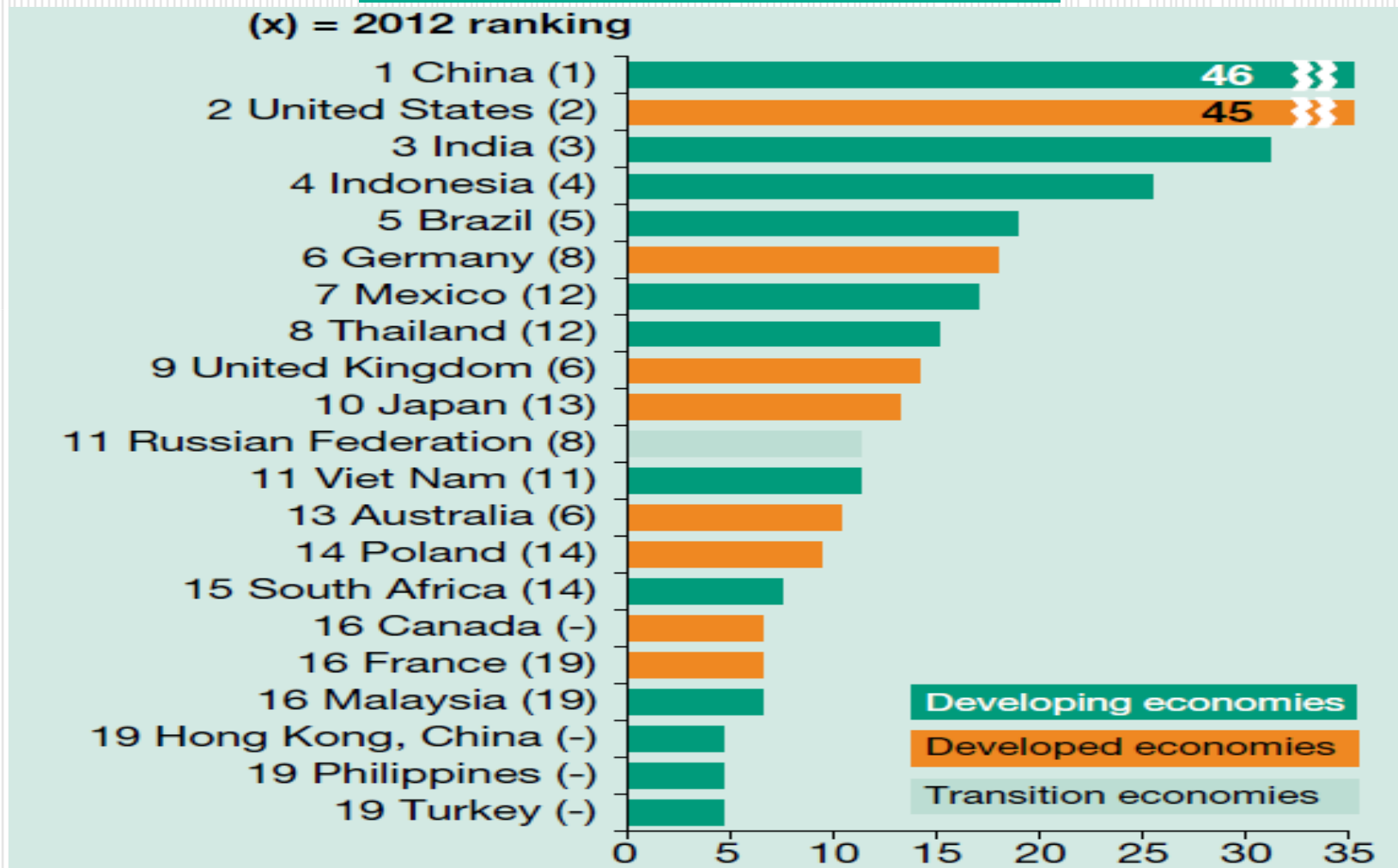
Promising countries for overseas business operation by Japanese Manufacturing Companies over the medium term (next 3 years or so)

Rank	1997	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1st	China	China	China	China	China	China	China	China	China	China	China	Indonesia
2nd	USA	Thailand	Thailand	India	India	India	India	India	India	India	India	India
3rd	Indonesia	USA	India	Thailand	Vietnam	Vietnam	Vietnam	Vietnam	Vietnam	Thailand	Indonesia	Thailand
4th	Thailand	Vietnam	Vietnam	Viet nam	Thailand	Thailand	Russia	Thailand	Thailand	Vietnam	Thailand	China
5th	India	India	USA	USA	USA	Russia	Thailand	Russia	Brazil	Indonesia	Vietnam	Vietnam
6th	Vetnam	Indonesia	Russia	Russia	Russia	USA	Brazil	Brazil	Indonesia	Brazil	Brazi;	Brazil
7th	Philippines	Korea	Indonesia	Korea	Brazil	Brazil	USA	USA	Russia	Russia	Mexico	Mexico
8th	Malaysia	Taiwan	Korea	Indonesia	Korea	Indonesia	Indonesia	Indonesia	USA	USA	Russia	Myanmar
9th	Brazil	Malaysia	Taiwan	Brazil	Indonesia	Korea	Korea	Korea	Korea	Malaysia	Myanmar	Russia
10th	Taiwan	Russia	Malaysia	Taiwan	Taiwan	Taiwan	Taiwan	Malaysia	Malaysia	Taiwan	USA	USA

Source: Japan Bank for International Cooperation (JBIC), "Survey Report on Overseas Business Operations by Japanese Manufacturing Companies," various issues.

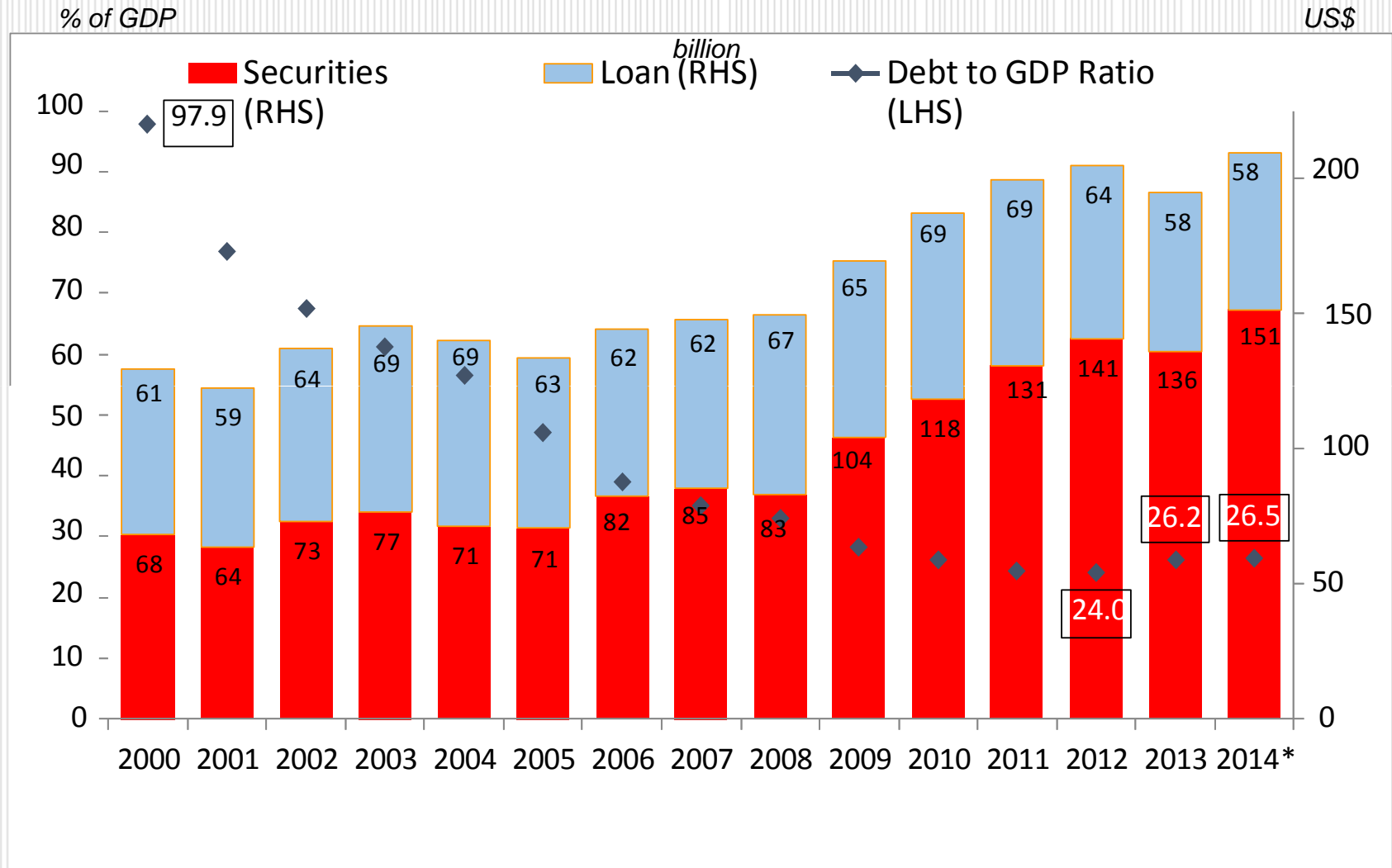
Top prospective host economies for 2013-15

(Percentage of respondents selecting economy as a top destination)



Source: UNCTAD, *World Investment Report 2013*, p. 22.

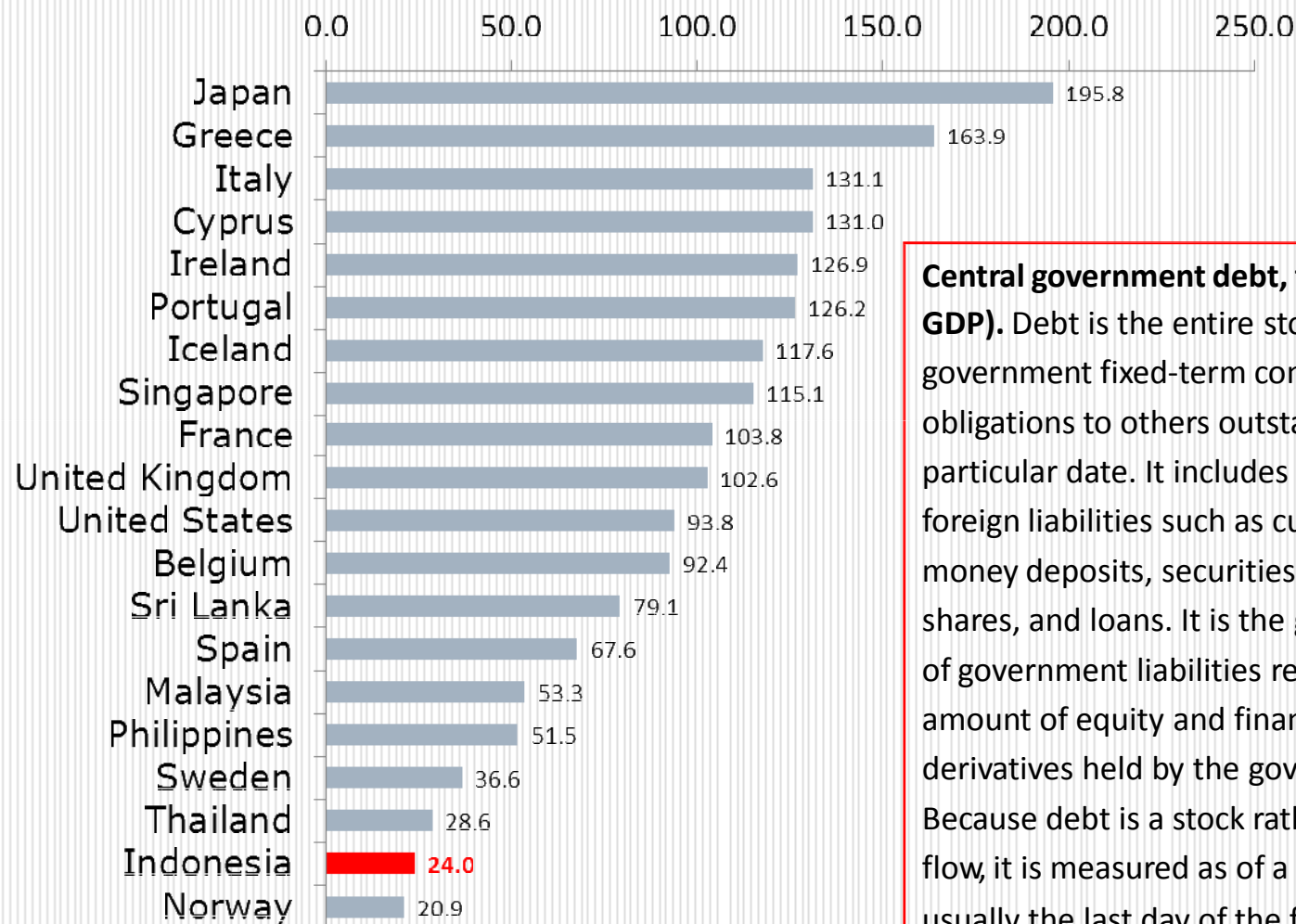
Percentage of government debt to GDP: Stable & Controllable



* June 30.

Source: Bank Indonesia.

Debt to GDP ratio, 2012

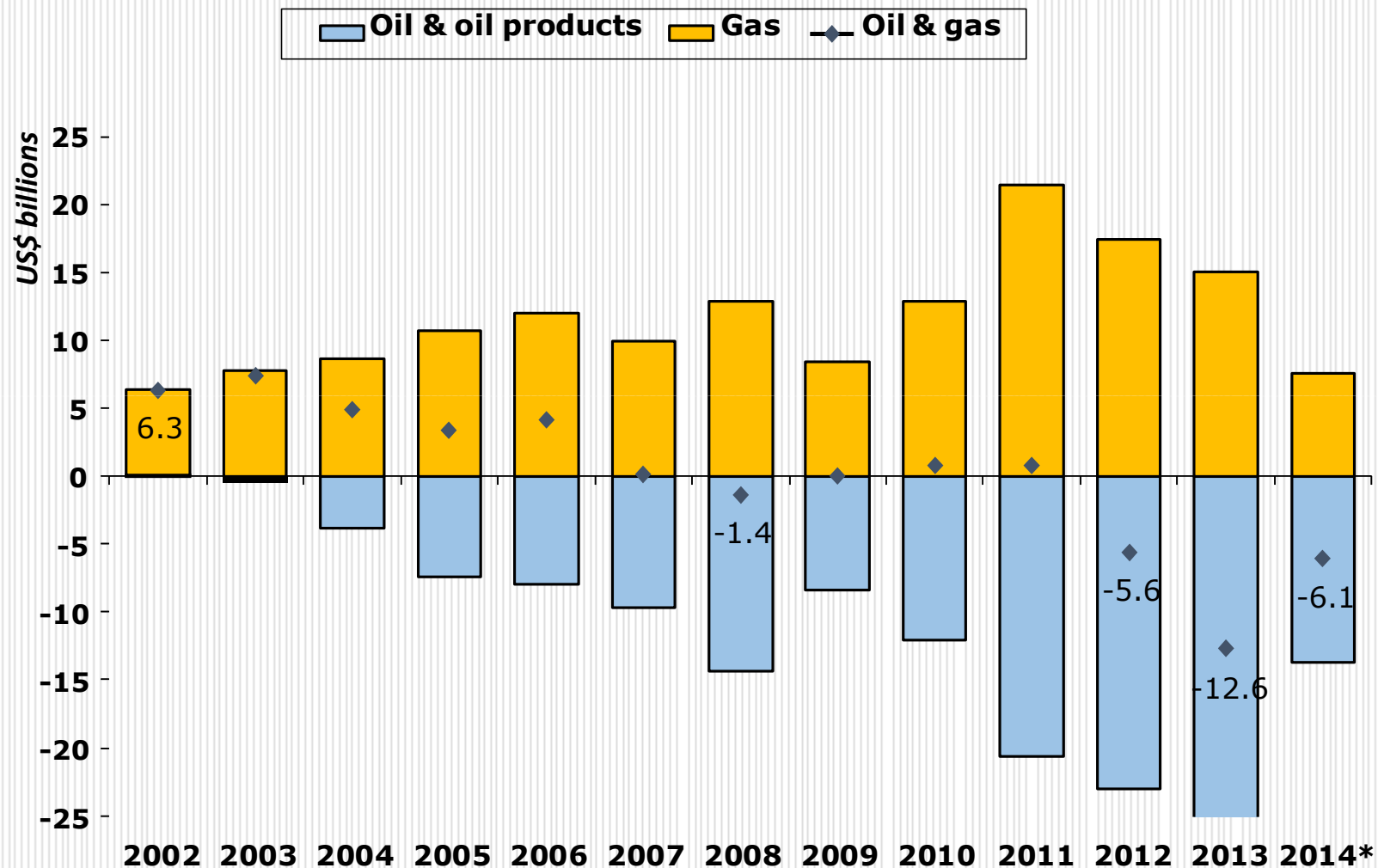


Central government debt, total (% of GDP). Debt is the entire stock of direct government fixed-term contractual obligations to others outstanding on a particular date. It includes domestic and foreign liabilities such as currency and money deposits, securities other than shares, and loans. It is the gross amount of government liabilities reduced by the amount of equity and financial derivatives held by the government. Because debt is a stock rather than a flow, it is measured as of a given date, usually the last day of the fiscal year.

Indonesia Problems

- Trade Deficit: Oil & Gas
- Budget Deficit
- Infrastructure (electricity, roads, ports, irrigation, etc)

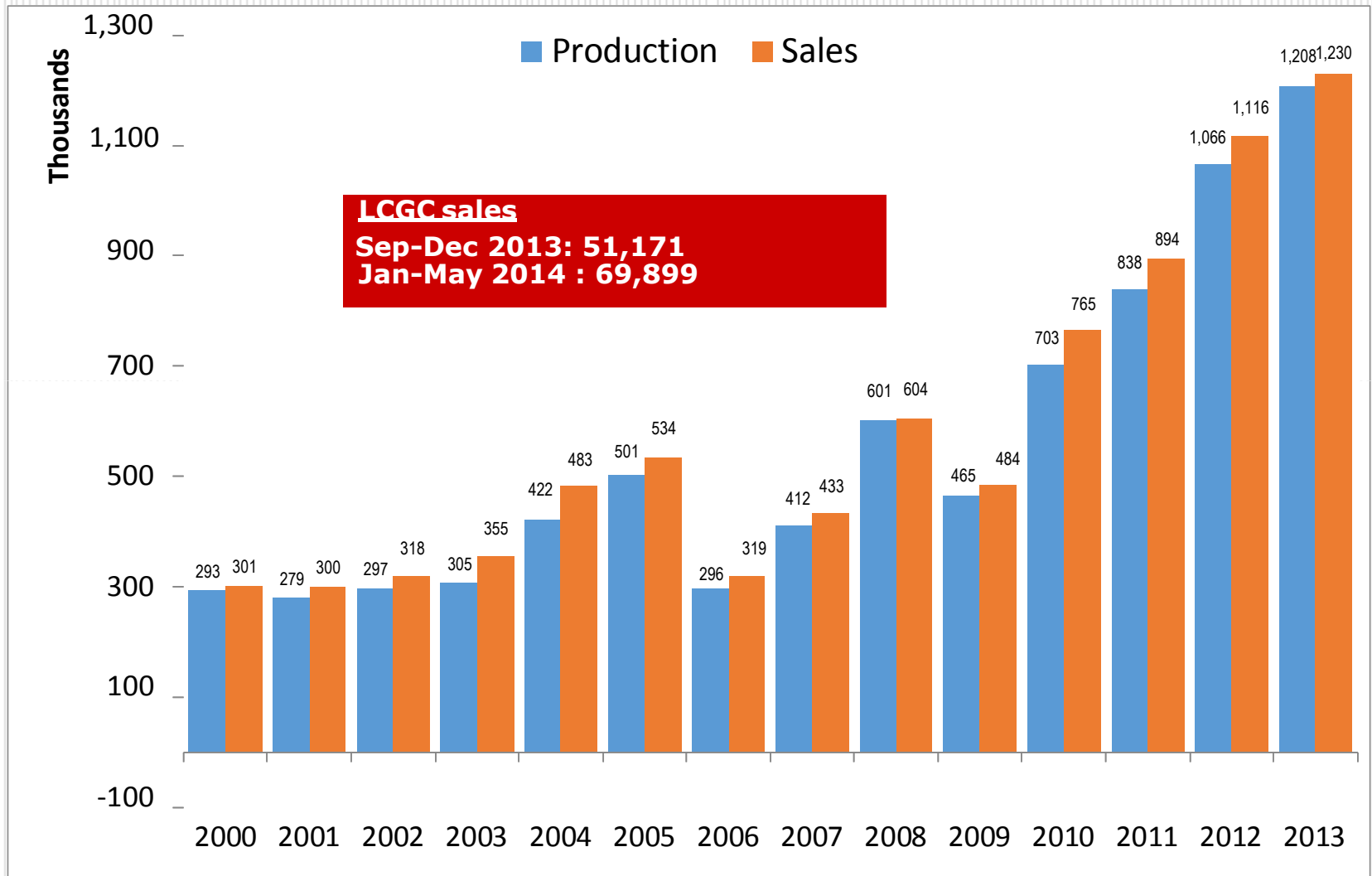
Trade deficit: oil and gas



* January-June

Source: BPS-Statistic Indonesia.

Indonesia: car production and sales



Source: Gaikindo (www.gaikindo.or.id)

Budget deficit and primary balance

Year	Total Revenues (IDR trillion)	Total Expenditures (IDR trillion)	Deficit (% of GDP)	Primary balance (IDR trillion)
2005	495	510	15 (0.5)	51
2006	638	667	29 (0.9)	50
2007	708	758	50 (1.3)	30
2008	982	986	4 (0.1)	84
2009	849	937	88 (1.6)	5
2010	995	1,042	47 (0.7)	42
2011	1,211	1,295	84 (1.1)	9
2012	1,336	1,482	146 (1.8)	-46
2013	1,430	1,639	209 (2.3)	-97
2014*	1,540	1,821	281 (2.8)	-145
2015**	1,762	2,020	258 (2.3)	-104

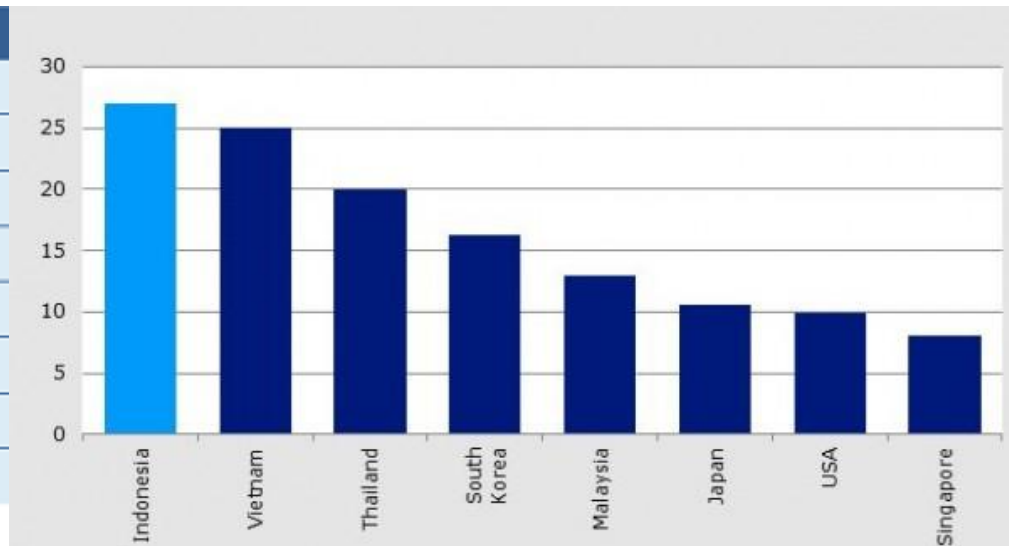
* Prediction ** RAPBN
Source: Ministry of Finance.

Primary balance:
central
government
revenues minus
central
government
expenditure
except for
interest
payments on the
central
government
debt.

Indonesia's Logistic Cost (% of GDP)

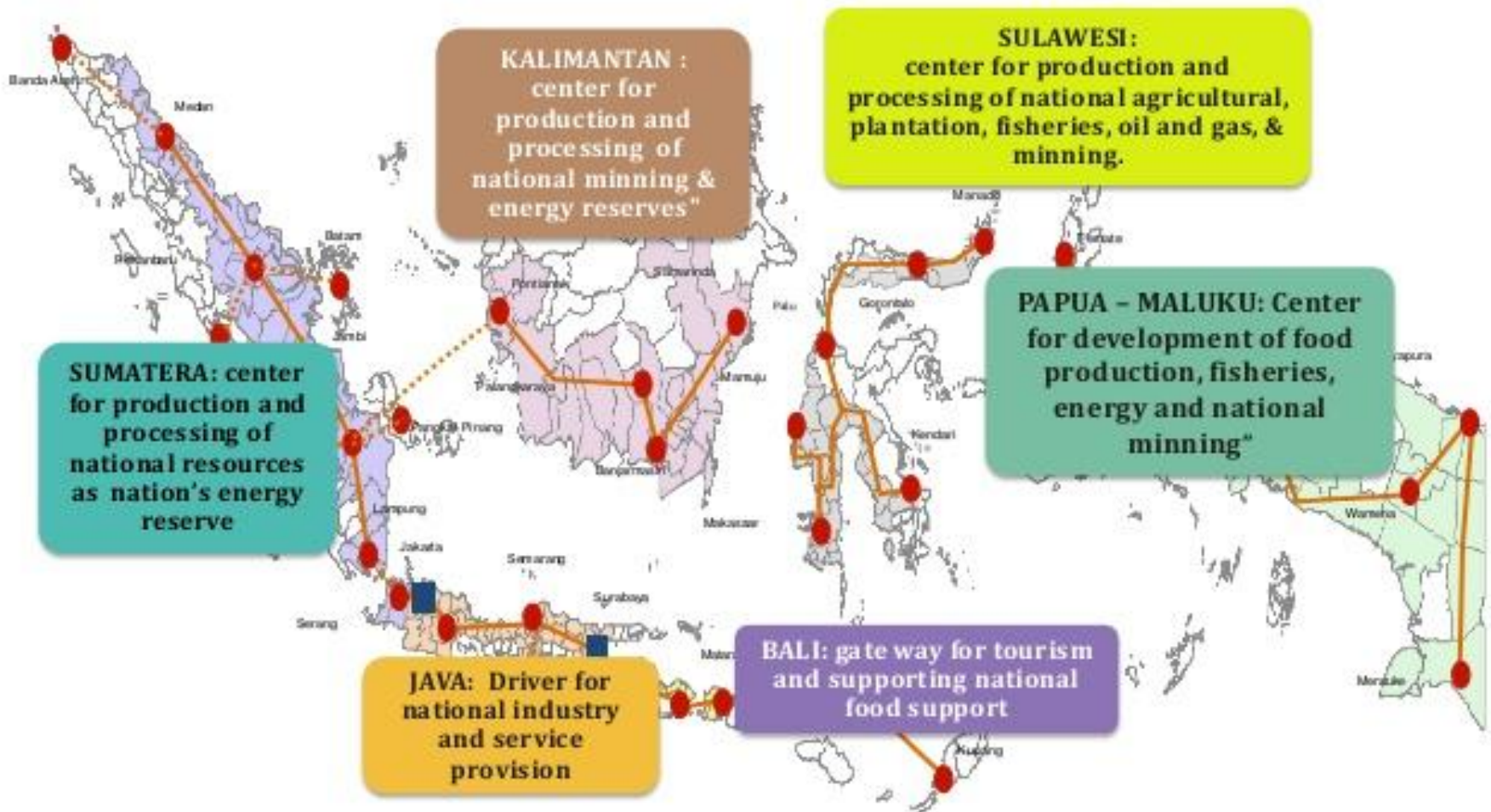
Country	Logistics Cost (% of GDP)
United State of America	9,9
Japan	10,6
South Korea	16,3
Singapore	8,0
Malaysia	13
Thailand	20
Vietnam	25
Indonesia	27

Source: Various Sources



- Indonesia's improvement efforts to boost the economy and fix the infrastructure problems
- Indonesian territory is divided into 6 centers of economic growth, we called Six Economic Corridor.

THEME OF EVERY ECONOMIC CORRIDOR



Pendulum Nusantara: Reducing domestic transportation cost by building national container backbone

"Pendulum Nusantara", proposed plan to boost national domestic trade



These don't mean exclusive port development in these locations

- The [tourism sector](#) contributes to around US\$9 billion of foreign exchange in 2012, and ranked as the 4th largest among goods and services export sectors.

Some of Tourist Destination

Bedugul, Bali



Pandawa Beach, Bali



Uluwatu, Bali



Tanah Lot, Bali



**Borobudur Temple
Magelang**



**Prambanan Temple
Yogyakarta**



BATIK, Indonesia



Bromo Mountain, East Java



White Crater, East Java



Carstensz Pyramid (with Snow), Papua



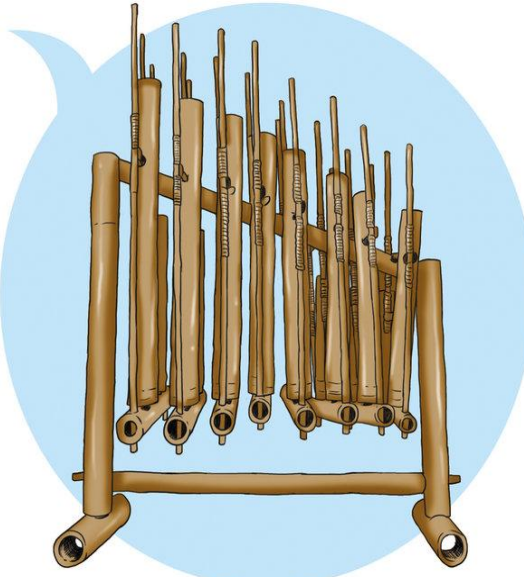
Tangkuban Perahu Mountain, West Java



Indonesian traditional musical instruments

ANGKLUNG

The Angklung is a musical instrument made of two bamboo tubes attached to a bamboo frame. The tubes are carved to have a resonant pitch when struck and are tuned to octaves. The base of the frame is held in one hand, whilst the other hand strikes the instrument. This causes a repeating note to sound. Each of three or more performers in an angklung ensemble play just one note or more, but altogether complete melodies are produced. The Angklung is popular throughout Southeast Asia, but it originated in today's Indonesia and has been played by the Sundanese for many centuries.





Raja Ampat, Papua



Raja Ampat, Papua



Wakatobi, Southeast Sulawesi



Indonesian traditional dance



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