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Indonesia Country Report

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INDONESIA

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Problems and action

Indonesia is now lagging behind other Asian economies in industrialization and in participating in growing regional production networks; thus, widening the development gap between Indonesia and the rest of the ASEAN 6.

The main factors behind the country's weak industrialization performance are increases and uncertainty of production costs, lack of infrastructure, and the inability of the government to make large-bond policy reform efforts.

The dramatic change in labor policy after the 1997 crisis was one of the important policy decisions that held back foreign direct investment. Two regulations that significantly increased the cost to firms as well as created uncertainty in the level of wages pertained to the determination of the minimum wage, and the severance pay and compensation.

Other key factors that caused Indonesia's weak industrialization are its deteriorating infrastructure due to the reduced financial capacity of the country to maintain and make new infrastructure investment, poor institutions such as those involved in regulatory functions, corruption, and incapable local government.

Developing a comprehensive roadmap toward economic integration

Aside from being a laggard and latecomer in the FTA game, Indonesia is also not pursuing this initiative proactively. There is not much talk in Indonesia about EAFTA. If other members of the ASEAN +3 are eager to develop EAFTA, Indonesia will go along. However, Indonesia will not proactively promote EAFTA.

Its business community is more sympathetic to an EAFTA and other FTAs, largely because of a concern that if Indonesia is not taking part in them, Indonesian exporters will be placed at a disadvantageous position vis-à-vis those in neighboring countries.

Only in the academic circles in Indonesia is there talk about ASEAN's important role in setting the agenda in the wider East Asian region to ensure that the separate agreements have some consistency and coherence, and could eventually be

amalgamated into a single East Asian FTA.

Not much thought has been given so far on whether India, Australia, and New Zealand, who are participants in the East Asia Summit (EAS) and with whom ASEAN also is negotiating FTAs, will also be included in an EAFTA. However, it is desirable that the agreements with these countries follow the same template.

Vision for an East Asian Community

In East Asia, the desire to form a Community (with a capital C) may have its origin in the concept of “regional community building” (community with a small c). East Asia now wants to craft a regional multilateral order that promotes peace and prosperity through mutual trust and respect and in the spirit of cooperation. The new regional order, including the regional economic order, will be built on voluntary decisions and not as imposition by any power.

It needs to be admitted that regional cooperation and community building in East Asia is a broad and open-ended concept. The many overlapping proposals and studies could lead to greater confusion in the region. More importantly, they divert attention away from the real efforts to implement various initiatives toward deeper integration. Greater efforts should be made to undertake serious and systematic deliberations on how to translate the concept of community building in East Asia into concrete actions.

Japan’s proposal to establish an ERIA has been welcomed. The premise for establishing this institute is that ASEAN (being in the driver’s seat) has a critical role to play in community building in East Asia and in strengthening ASEAN’s capacity and supporting its efforts to make the ASEAN Economic Community contribute to East Asian community building. The ERIA will be established as a regional institution. This will help create a strong foundation for the East Asian community building and be a concrete manifestation of East Asia’s efforts to develop its institutional identity.