



The Readiness of North Sumatera To Be One of the Most Favoured Business Destination of the ASEAN Economic Community

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Indonesia's Outlook



INDONESIA

- Indonesia is the hotspot for economic growth in Southeast Asia.
- It features a strong growth of middle class and workforce.
- Indonesia offers a great potential with a potential market of 250 million.
- ASEAN Economic Community potentially opens further markets.
- Indonesia has all ingredients it needs to create a strong ecosystem for entrepreneurs.
- Worldbank: GDP growth of 5.3% expected in 2017.

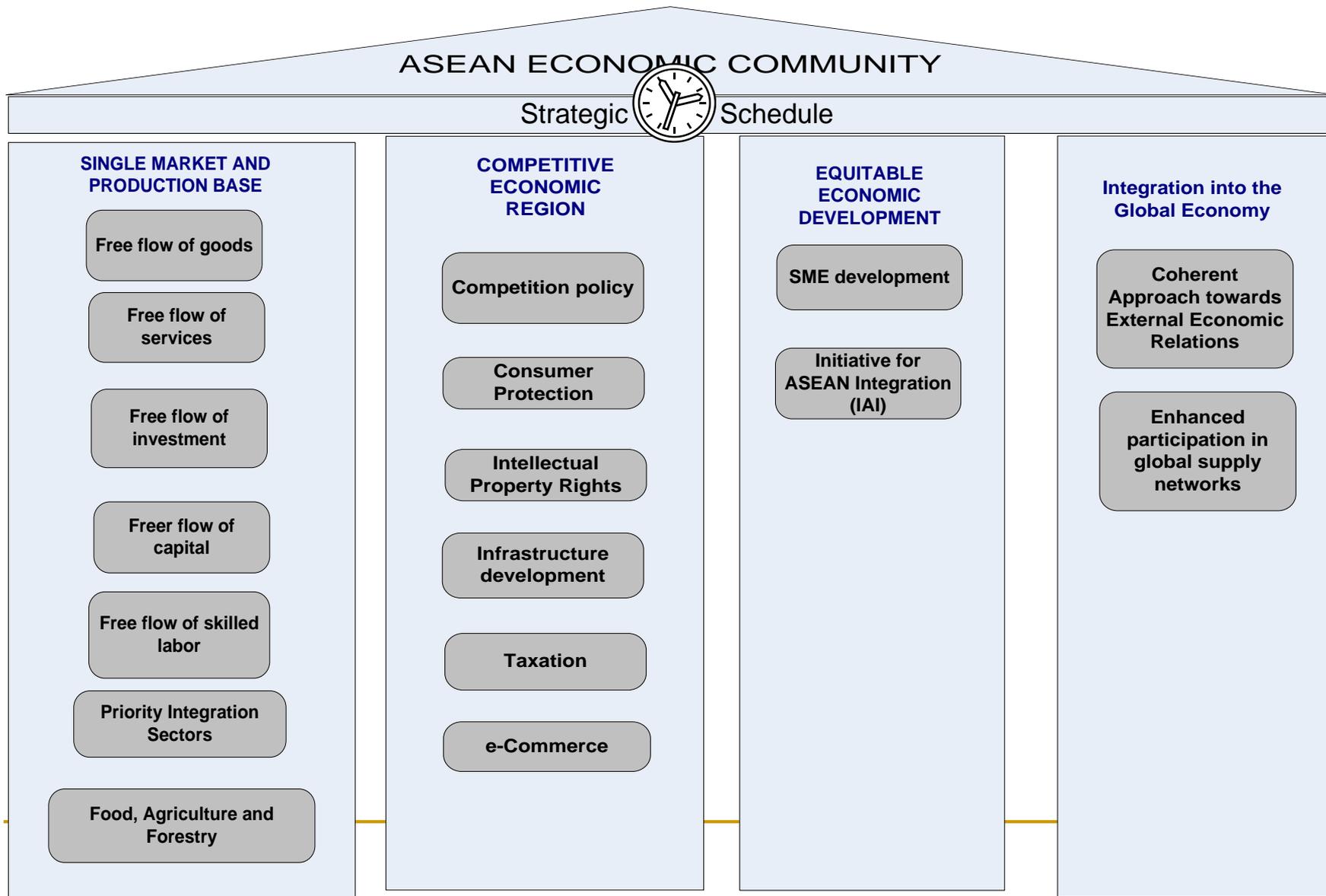
Indonesia's Outlook

Economic reform:

- Revision of DNI on the way (+)
- Corruption and Rule of Law (-)
- Ease of starting a business (-)
- Infrastructure development (-)
- Inequality of regional development in some areas;
- Intra-ASEAN trade constantly (low)
- Other ASEAN countries attracting larger share of FDI's
- Low exports of Indonesian manufactured goods to ASEAN

- **Competitiveness?**
- Indonesia lagging behind in high-tech manufacturing, services, logistics, R&D, etc.
- Backlog in infrastructure and HR development
- ~~Lack of legal certainty/business-friendly environment~~

AEC 2015 Blue Print





- ASEAN Economy Community perspective.
- Regional Organization: Association of Southeast Asian Nations (ASEAN) founded in August 8, 1967.
- The ASEAN Charter 2007: ASEAN has a legal personality: enacting law to implement Charter and comply with obligations, immunities & privileges, decision making and resolution of disputes;
- ASEAN Economic Community (AEC) is the main objective: aim at regional economic integration by 2020.
- AEC Objectives: Increase competitiveness; Narrow development gaps; Sustainable economic development; Closer integration with the world economy.
- Key characteristics: single market and production base, highly competitive economic region, equitable economic development, fully integrated into global economy and have five core elements: free flow of goods, services, investment, capital and skilled labor;



- Regionalism and Domestic economy have two 2 different angles. The regional economy is interested in free flow of goods, market competition and market liberalization while the domestic economy is interested in entering and to win the market competition.
 - Economic integration and competition are 2 factors which intertwined and influence each other since national and regional policy are not always have the same view.
 - ASEAN Under Competitive Economic Region cover the following: Competition policy; Consumer Protection; IPR; Infrastructure Development; Taxation; E'Commerce;
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- In the domestic perspective what does it mean?
Each ASEAN members have different economic system, different economic power/ability and different priorities in economic development.
- For a country such as Indonesia, the perspective of economic integration in encountering AEC 2015 means:
 - **A. Harmonization in regulation:** Indonesia with 33 provinces, 250 M population and still dealing with regional autonomy is facing problems with overlapping and conflicting regulations.
 - Harmonization in regulation means from the central government to the regional government in the provinces have to work on the communication among the industries especially with the Minister of Industry and Trade office.
 - **B. Integration in standardization for products quality.**
 - For example Indonesia is working on enforcing the SNI or Indonesian National Standard for product. This is needed since the standard will apply the Regional standard. Instead, many small medium scale business still are not able to adopt the SNI.
 - Another point of integration required is that upstream to downstream coordination of production among the Provinces/regions.
 - It is believed that if the State able to pass these requirements and integrate its economy (provinces and central government), then in encountering Regional competition, the next focal points would be focused on: empowering domestic market, investment, and export.

Let See North Sumatera Outlook:

GRP per capita	US\$ 3,204
GRP rank	<u>13th</u>
<u>HDI</u>	0.700 (High)
HDI rank	<u>11th</u>
Largest city by area	<u>Gunungsitoli</u> - 280.78 square kilometres (108.41 sq mi)
Largest city by population	<u>Medan</u> - (2,210,624 - 2016) 4 th largest population in Indonesia
Largest regency by area	<u>Langkat Regency</u> - 6,262.00 square kilometres (2,417.77 sq mi)
Largest regency by population	<u>Deli Serdang Regency</u> - (2,029,308 - 2016)



- The province of North Sumatra stretches across the island of Sumatra between the Indian Ocean and the Strait Malacca with an area of 72,981 km².
- The province contains a broad, low plain along the Strait of Malacca on which the provincial capital, Medan, is located. In the south and west, the land rises to the mountain range that runs the length of Sumatra; North Sumatra is currently subdivided into 25 regencies and 8 autonomous cities. North Sumatra is a multi-ethnic province.

North Sumatera Outlook



- North Sumatra is rich in natural resources such as natural gas in the area of Tandam, Binjai and petroleum in Pangkalan Brandan, Langkat which has been explored since the days of the Dutch East Indies. In Kuala Tanjung, Asahan, PT.Inalum engaged in ore mining and smelting of aluminum which is the only one in Southeast Asia.
- The rivers that disgorge in the mountains around Lake Toba is a natural resource that is potential to be an exploited to resource of hydropower plants. *Asahan hydropower* which is the largest hydropower plant in Sumatra Island is located on Porsea in Toba Samosir Regency. There are many geothermal hot spots were very likely to be developed as a source of thermal energy or steam that can then be transformed into electrical energy.
- The province is famous for its plantation area managed by private companies and the state. The plantation economy of the province remains to be excellent. SOE Plantation area is located in North Sumatra, among others PT Perkebunan Nusantara II, PTPN IV and PTPN III and others are now in SOE holding companies (part of Minister of SOE/government strategy to empower Indonesian SOEs).
- Besides North Sumatra is also famous for its plantation area and remains to be excellent. The plantations are managed by private companies also the state. North Sumatra produces rubber, cocoa, tea, palm oil, coffee, cloves, coconut, cinnamon, and tobacco. The plantation is spread in East coast area such as Deli Serdang, Serdang Bedagai Langkat, Simalungun, Asahan, Labuhan Batu, and also around west coast: Central and South Tapanuli.

North Sumatera Outlook



Mining:

Three leading mining company in North Sumatra:

- *Sorikemas Mining* (SMM), main base around South Tapanauli with gold as main commodity, *Newmont Horas Nauli* (PTNHN) and *Dairi Prima Mineral*.

Industry: North Sumatra has several Industrial sit, mainly based around Deli Serdang. Medan Industrial Area is the main industrial complex in Medan.

Sei Mangkei Industrial Area: known as Sei Mangkei - Integrated Sustainable Palm Oil Cluster (SM-ISPOIC), is located in Simalungun Regency and was formally opened on 12 June 2010. Four companies have joined in this area, with investment costs totalling up to Rp1.5 trillion (\$176 million). In April 2011, three other companies also joined: [Procter & Gamble](#) Co for making [CPO](#) derivatives of cosmetic raw materials, [Ferrostaal](#) AG and [Fratelli Gianazza SpA](#).

Export and Import: North Sumatra export performance is likely to increase from year to year. Coffee exports from North Sumatra reached a record high of 46.290 tonnes with Japan's main export destination countries during the last five years. Sumatra coffee exports also listed as the top 10 highest export products with a value of US \$3.25 million or 47200.8 tons. Export performance of agricultural imports also included: seafood/ shrimp, coconut oil and robusta coffee cocoa, horticulture, arabica coffee, palm oil, natural rubber, seafood (non shrimp).

Tourism: North Sumatra is included on top 10 visited province in Indonesia. There are various kind of tourism place that could be found throughout the province, Berastagi is the best known as hilly place. Lake Toba also the hilly area included a largest [volcanic lake](#) with an island in the center. Nias Island and other several islands nearby named [Batu Islands](#) is the best place for surfing cause a good sea waves. Medan itself, has many places of interest, mainly on historical tourism and also known for its great cuisine.

Transportation: railways including modern airport and Railink (airport train from Medan to Kuala Namu airport)

- Looking at all potentials listed above, how would North Sumatera respond to the entire regional change in market competition? Is North Sumatera resistant or ready to face the challenges or embraced the opportunity?
- The fact shown that resistance to competition, within ASEAN countries seem to appear from both business actors and local politicians. Opening up borders to competition is seen as dangerous for the survival of national firms. It is understandable that change is uncomfortable or even threatening;
- Therefore, what are the Challenges?
- ASEAN members are very diverse in their political background, economic systems, economic developments, legal environments, priorities etc.
- National vs. Regional interests are very different:
for example Indonesia is facing issues of autonomy versus facing regional competition.
- Not all ASEAN members agree to put competition as the priority, some are still dealing with domestic issues such as politics, economic development, natural disasters, employment etc.
- The above issues are also relevant to the member's economy system and economic ability.

North Sumatera Response:

- The questions also encountered by North Sumatera. In response to the challenges, North Sumatera has made few efforts to boost more friendly business environment;
- Positive response could be seen in various ways:
- Improvement of infrastructures (airport, toll roads, ports, etc);
- Establishing Special Economic Zone (SEZ) known as *Kawasan Ekonomi Khusus* (KEK)
- Support for Indonesian SMEs ‘going regional’;
- Working on a transparent and predictable business environment across the whole region;
- Eliminate Non-Tariff Barriers of trade across the region;
- Human Resources (productivity and specialization);
- Infrastructures; Logistic; Research & Development;
- Certainty of Law (legal environment);



North Sumatera Response:

- Providing potential information for investment etc (one stop service)
- Know how and mastering ASEAN members rules and regulations
- Promotions as “upfront investment,” not “costs” perform by Investment Coordination Board or *Badan Kordinasi Penanaman Modal Daerah* (BKPMMD)
- Financing
- Providing know how knowledge through coordinatioan and support from the universities both state and private.
- Etc....

- Despite all challenges, the answer is “North Sumatera is **READY**”



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