INDONESIA

What is MP3EI?

By Darrell R. Johnson

There has been almost as much press coverage as there have been questions about the Indonesian Government's announcement of MP3EI in May. So what is MP3EI?

MP3EI is the Indonesian acronym for Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia, or, in English, the Master Plan for Acceleration and Expansion on Indonesia's Economic Development, a 207 page document which lays out Indonesia's ambitious plans to accelerate and expand economic growth. The Government has adopted MP3EI because economic growth has not reached an advanced and sustainable level and the Master Plan is needed for it to do so.

The intention of the Master Plan is to enable Indonesia to become one of the 10 major world economies by 2025. It contemplates a high degree of cooperation between the central government, local governments, state owned enterprises, and the private sector and a major change in mind set of all of them. The Government will act as a regulator, a facilitator and a catalyst to support economic growth. To do this, it will both amend and repeal regulations to remove bottlenecks and prevent roadblocks to investment. To act as a catalyst to investment, the Indonesian Government will provide fiscal and non-fiscal incentives and the private sector will be given a major role in economic development, particularly in the area of infrastructure.

MP3EI has two-prongs: acceleration and expansion. The acceleration prong is designed to achieve early completion of a number of existing key development programs. The expansion prong is intended to spread the positive effects of economic development to every region and among all components of the Indonesian community.

The Master Plan identifies six growth centres, or economic corridors, to boost economic development: Sumatra, Java, Kalimantan, Sulawesi, Bali – Nusa Tenggara and Papua – Maluku Islands. The main strategy of the Master Plan is to achieve economic development by focusing on these six economic corridors, by strengthening national connectivity throughout the archipelago, and by strengthening human resource capabilities, science and technology. The Master Plan identifies eight primary programs and 22 primary activities as the focus of development. The eight primary programs are: agriculture, mining, energy, industrial, marine, tourism, telecommunications and the development of strategic areas. The strategic initiative of the Master Plan is to encourage large-scale investment in 22 primary activities: shipping, textiles, food and beverages, steel, defense equipment, palm oil, rubber, cocoa, animal husbandry, timber, oil and gas, nickel, copper, bauxite, fisheries, tourism, food and agriculture, the Jabodetabek area, the Sunda Straits strategic area, transportation equipment, and information and communication technology.

The implementation of the Master Plan is coordinated by the National Economic Committee (or KEN) and the National Innovation Committee (or KIN).

The Master Plan recognises Indonesia must overcome a number of challenges: a failure to achieve value-added input in the agricultural and extractive industries; a developmental gap between western and eastern Indonesia; the lack of infrastructure support generally; a lack of connectivity between regions; inadequate quality of human resources; and rapid urbanisation.

Among the steps that will be taken to realise the Master Plan, are bureaucratic reform, including the legislature and judiciary, tax reform and incentives, the creation of special economic zones in each of the corridors, improved shipping and airline capability (ports and airports) to promote connectivity, and increased high-school and vocational training to improve human resources.

Many elements in the plan are unique points of departure for Indonesia. For example, the Master Plan states that the Government bureaucracy will support the needs of business and provide equal treatment and fair opportunities for all businesses, Government loans will be used to finance investment instead of routine expenditures, such as subsidies, subsidies will be for the poor directly rather than for goods, taxes will be on Indonesian sourced income and not worldwide income, taxes will be based on consumption rather than value added taxes, and employment regulations will be supportive of employers as well as employees.

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