Timor-Leste and Indonesia Regional Cooperation & Integration

Session 4: Developing CBEZ and Economic Corridors
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Outline

I. Background: Rationale, Model
II. Scope and Components: Map, Key Components
III. Way Forward: Milestones, Challenges
Background
Rationale

• **Objective:** Feasibility of CBEZ + corridor (Timor-Leste, Indonesia, ASEAN) for border area development

• **Request from Government of Indonesia and Timor-Leste - February 2017**

• **RCI Operational Plan (2016-2020)**
  – Promote connectivity, competitiveness and regional public goods.
  – Intersubregional project: Timor-Leste specifically identified
Rationale (2)

Indonesia
- Tackle poverty in border areas
- Economic diversification
- Counter urban agglomeration
- Human capital development
- Greater connectivity with world markets
- Inter-island connectivity

Timor Leste
- ASEAN integration
- WTO Accession
Model of CBEZs in economic corridors

• SEZ’s:
  – Anchor for private investment to develop economic corridors

• CBEZ’s:
  – link lagging border areas to economic corridors to mitigate rising inequalities
  – promote cross-border cooperation, contribute to peace and stability
Sequencing of Model

- Stages of CBEZ

- Stages of Economic Corridor

- Transport
  - Transport and trade facilitation
  - Logistics
  - Urban development
  - Economic
CBEZ Model for Timor-Leste and Indonesia Corridor

• **Improve business environment:**
  – Attract foreign and domestic investment
  – Increase existing economic activity
  – Enable new product and services—employment and skills development

• **Connectivity:**
  – Act as growth node for ASEAN corridor: Timor-Leste—Indonesia—Malaysia

• **Partnership:**
  – Platform for stronger cross border relationships
  – Mechanism for coordination on security concerns
Scope and key components
Land routes & borders
Sea routes

Surabaya, Singapore, Darwin, China

Surabaya & NTT
Air routes
Key Components

- Trade & Investment
- Infrastructure & Transport
- Business services
- CBEZ & Institutions

Opportunities
- Short term impact
- Long term diversification
Trade and Investment

• **Baseline:**
  – Bilateral border trade
  – Trade between Indonesia (NTT) and Timor-Leste with ASEAN and ROW
  – Investment flows into and between Timor-Leste & NTT

• **Identify:**
  – Competitive and comparative advantages
  – Trade barriers
  – Investment opportunities

• **Recommend:**
  – Key value chains
  – Industries with potential for growth
Transport & Infrastructure

• Baseline:
  – Existing & planned transport infrastructure
  – Regulatory & legislative environment for corridor

• Identify:
  – Major bottlenecks (soft & hard)
  – Most viable routes

• Recommend:
  – Priority physical investments
  – Regulatory & legislative reform for trade facilitation
Business Development and Financial Services

• **Baseline:**
  – Existing and planned provision of SME services

• **Identify:**
  – Major barriers to SME growth
  – Needs of SMEs for cross-border opportunities

• **Recommend:**
  – New or improved services to improve business enabling environment
CBEZ and Corridor Management

• Analysis:
  – Existing SEZ functioning & national legislation
  – Existing institutions for cross-border cooperation

• Identify:
  – Value of CBEZ to support cross border value chains
  – Areas for institutional strengthening

• Recommend
  – Characteristics of required CBEZ
  – Options for stronger joint border & corridor institutions
Way Forward
Milestones

Consultations

1. October

Interim Report

2. November

Conference

3. December

Joint Consultations

4. January

Final Report

5. February
Challenges

• Data gaps, demanding on time & capacity
• Justification of policy harmonization costs of CBEZ vis-à-vis benefits requires:
  (1) cost-benefit analysis/growth model,
  (2) pilot studies on sector potential/complementarity
• Translating integrated designs of CBEZ studies into potential investment requires:
  (1) soft and hard infrastructure package,
  (2) policy and regulatory reforms
• Replication in post-conflict border areas
Thank you!