

# Indonesian Attractiveness for Investment

Ari Kuncoro

Faculty of Economics and Business

University of Indonesia

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RPJMN

**THE NATIONAL PLANNING**

# The Vision: Nawacita

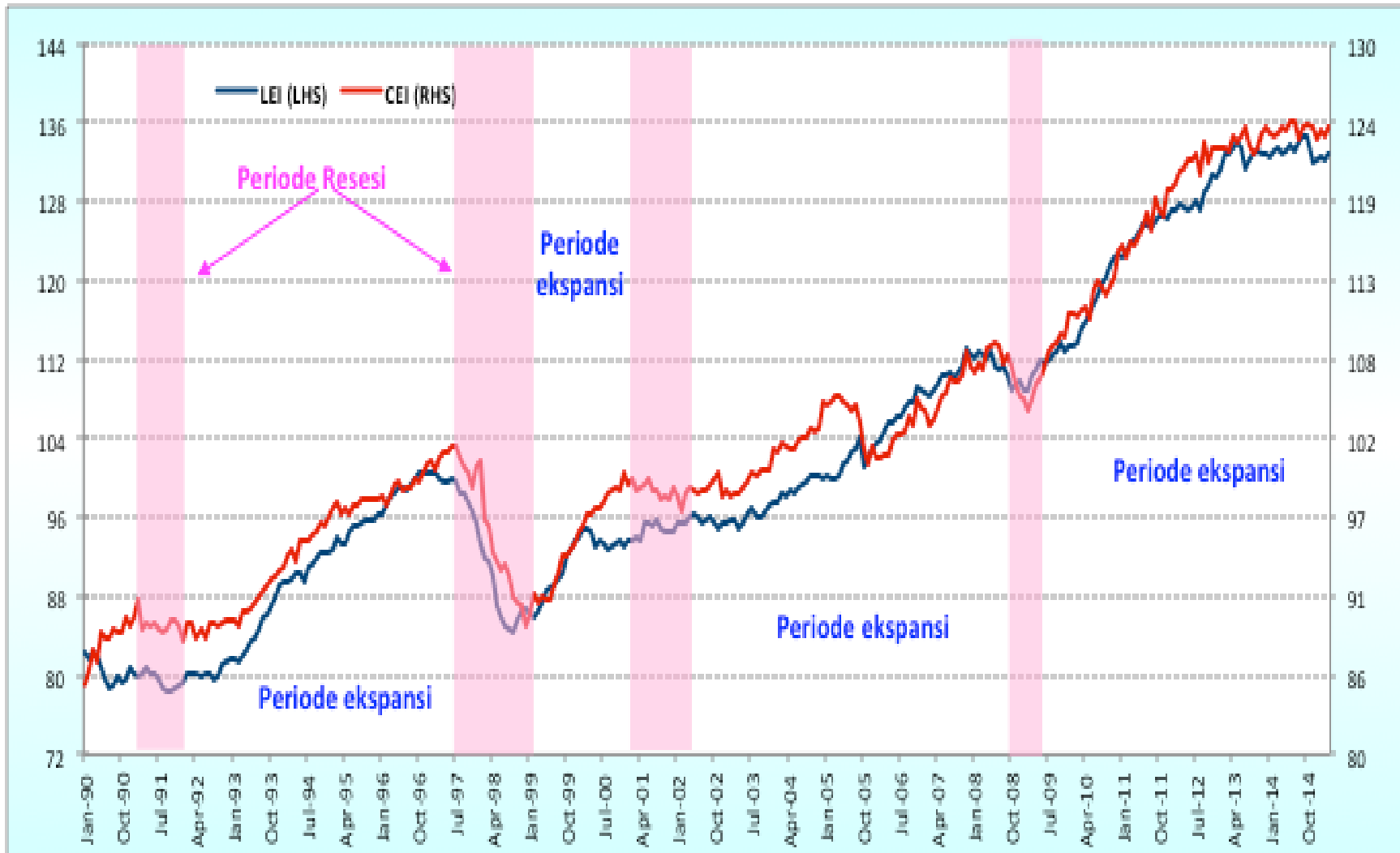
- Its overall vision is '*sovereignty, self-reliance, and strength through mutual cooperation.*'
- The path
  - a strengthened national security that protects the sovereignty of the nation, sustains its economic independence by securing its maritime resources, and is reflective of Indonesia as an archipelago state;
  - achieving a country that is more equitable, democratic and law-abiding;
  - improving the quality of life for all Indonesian people within a more advanced and prosperous economy;
  - making the nation more economically competitive;
  - preserving Indonesian culture and identity.

# Development strategy

- sector development dimensions—security in food, energy, and power, maritime and marine development, and tourism and **industry development**;
- a human development dimension—education, health, housing, and national character development;
- a regional equity dimension encompassing actions to foster greater equity in opportunity and incomes between villages, border areas, and the country's western and eastern regions

# **RECENT DEVELOPMENT**

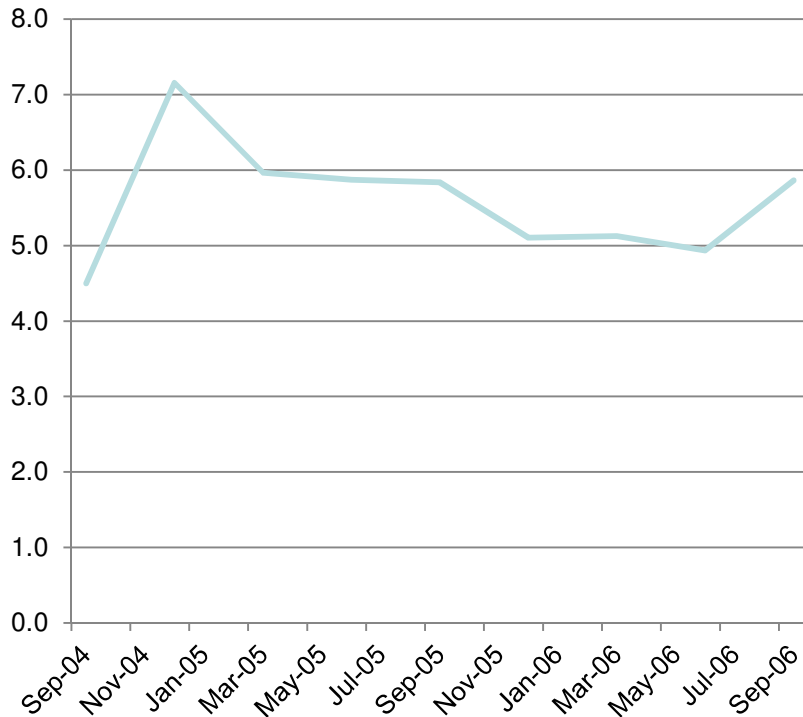
# Navigating through business cycle: short-term management versus maintaining foundation for long-term competitiveness growth



# Political Business Cycle as a new administration comes to office

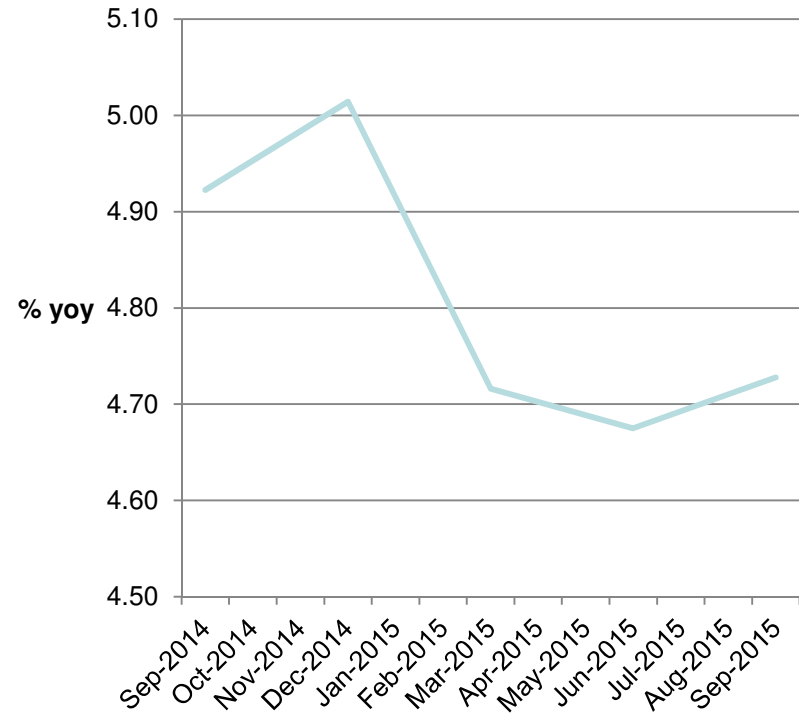
## SBY: 2004-2006

### GDP Growth



## JKW 2014-2015

### GDP Growth



The graph for JKW is steeper due to head wind

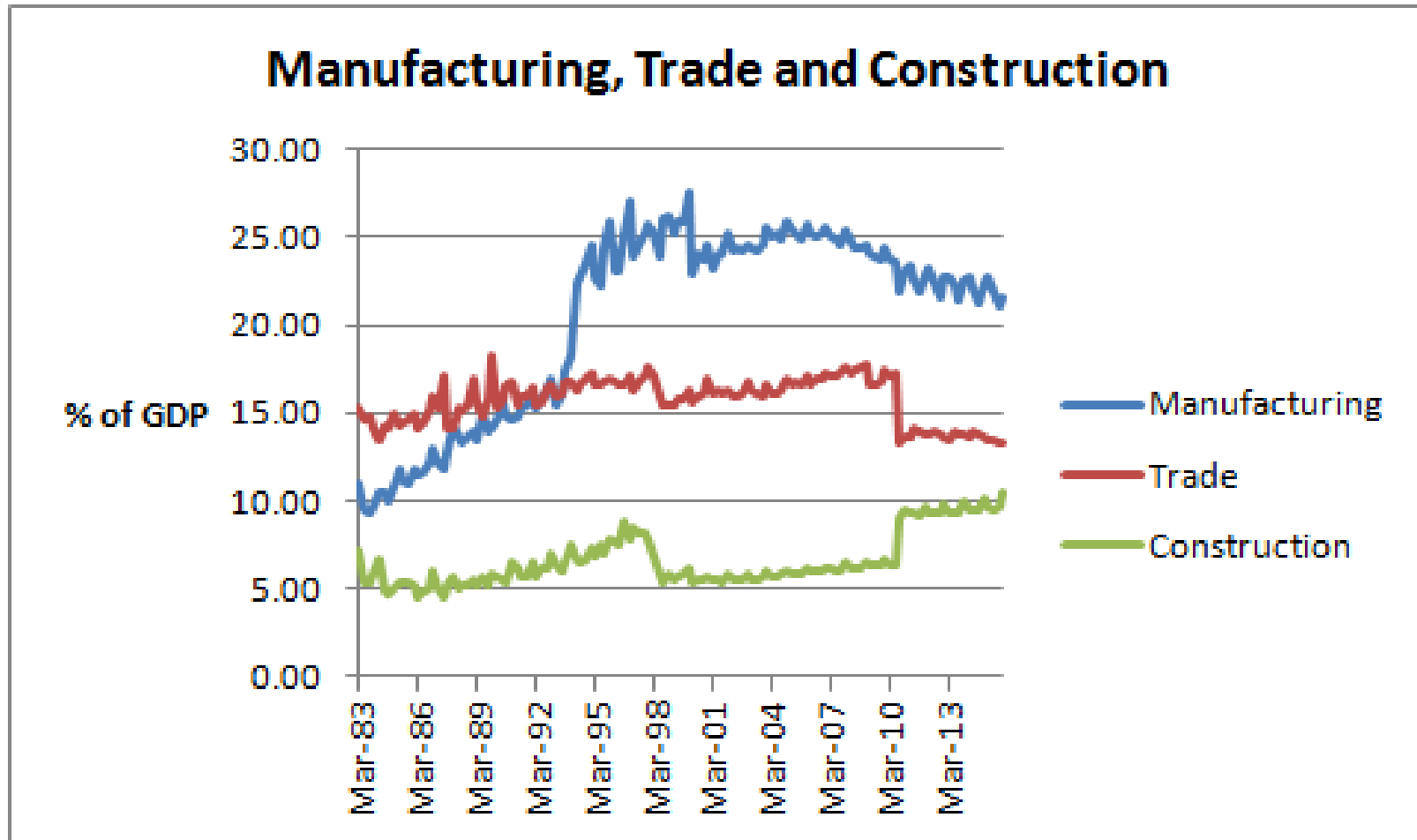
- The end of commodity boom driven by the Growth in PRC
- The prospect of FED quantitative easing which resulted in capital outflow – IDR depreciation
- Slow government expenditures absorption among them due to the implementation of the State Civil Apparatus (ASN) Law



# The rise and the decline of manufacturing

the large share of manufacturing determine the dynamic of GDP

broad based economic policies - deregulation packages since mid 1980s



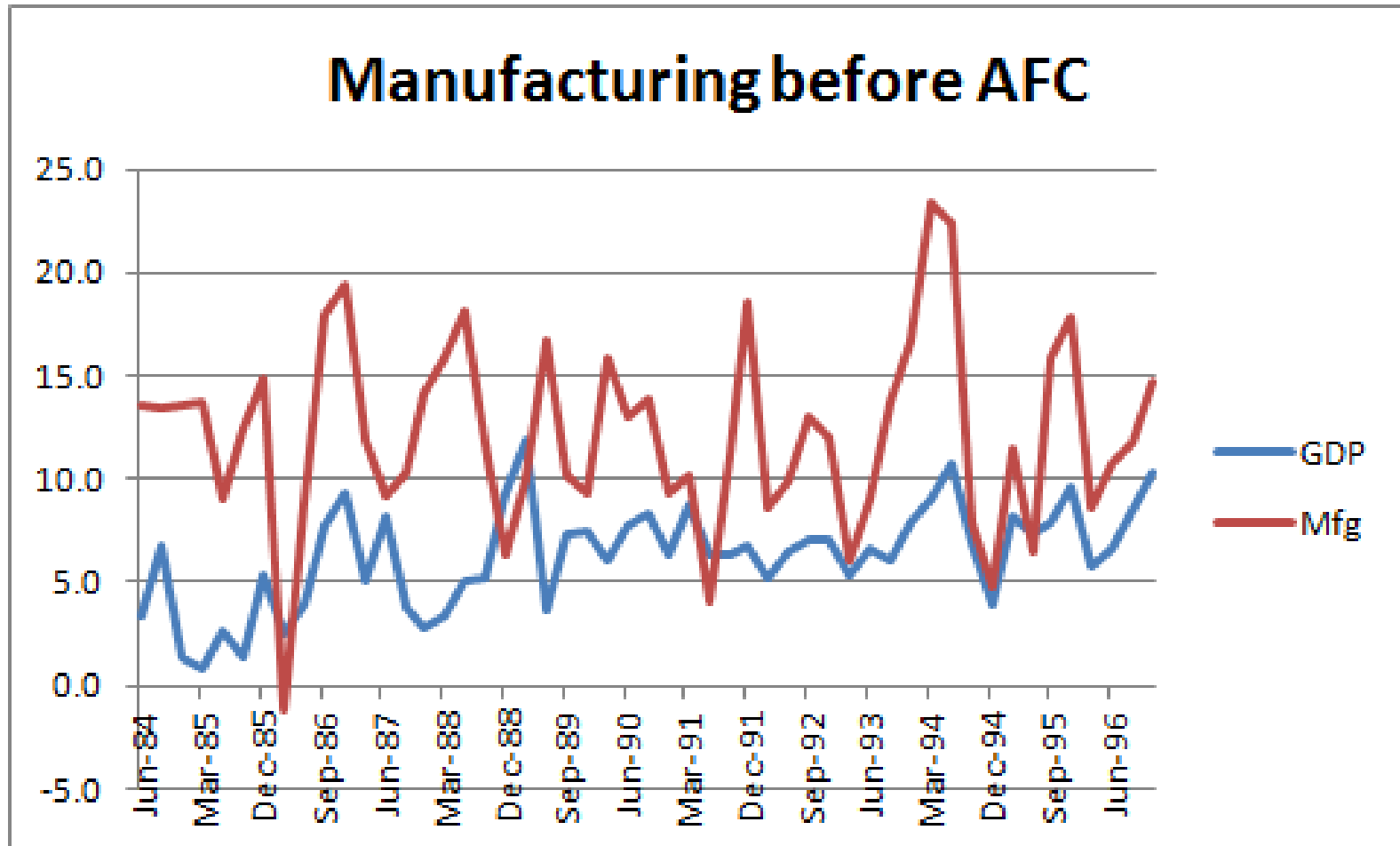
# **DRIVERS OF THE ECONOMY**

# Growth Dynamic before Asian Financial Crisis 1997-1998 (AFC)

Manufacturing moved ahead of GDP

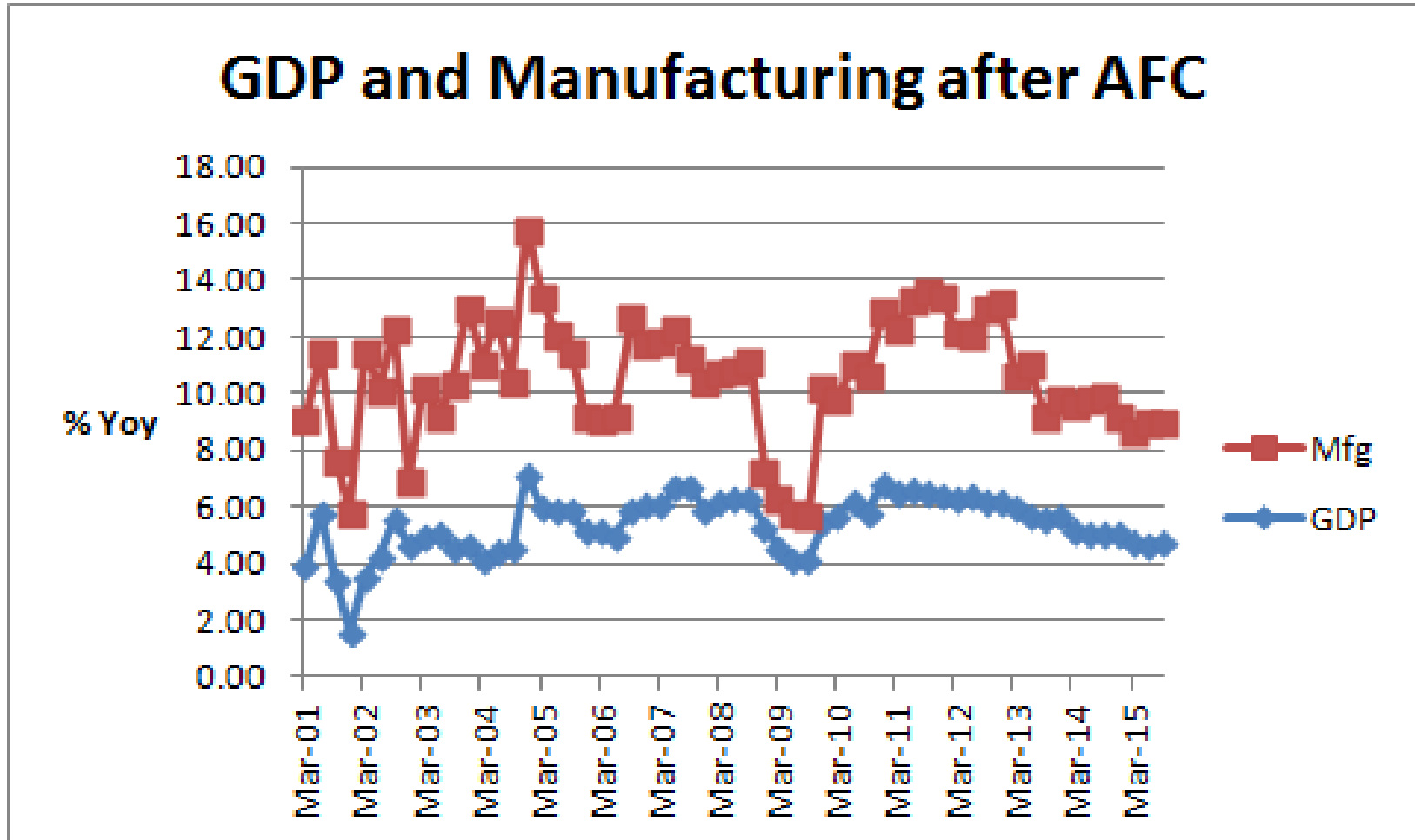
Growth accelerated after the announcement of deregulation packages

Broad based economic policies



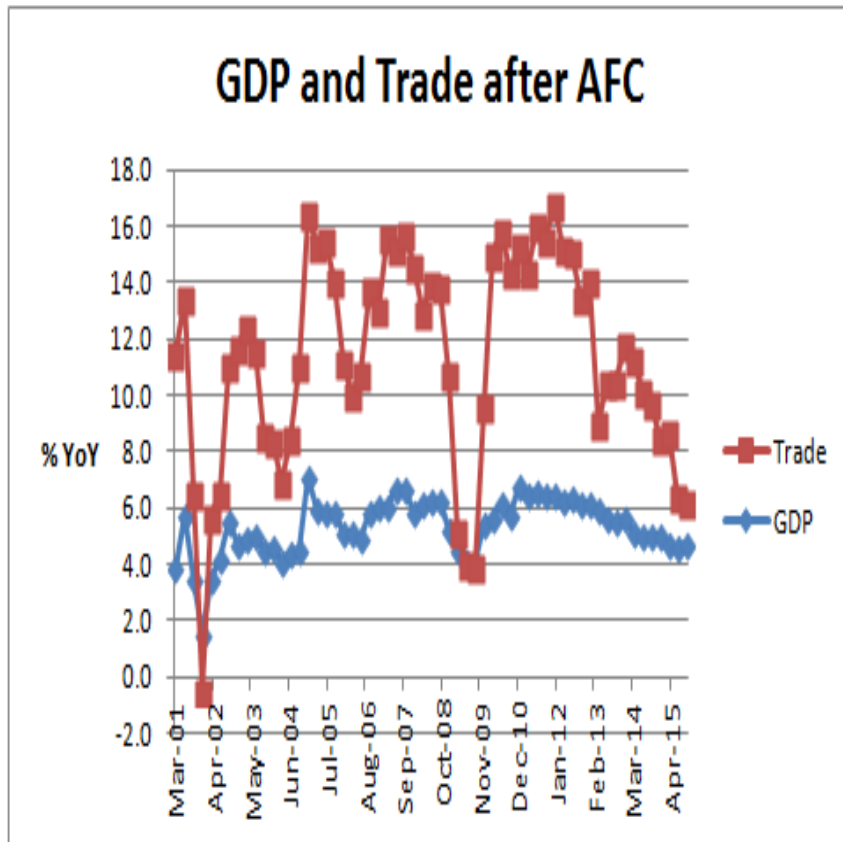
# Growth Dynamic after AFC

Manufacturing still moves ahead of GDP but especially after 2008 becomes the source of drag, after 2012 the dynamic impact to GDP is intermingled with trade and construction (shown by flat GDP)

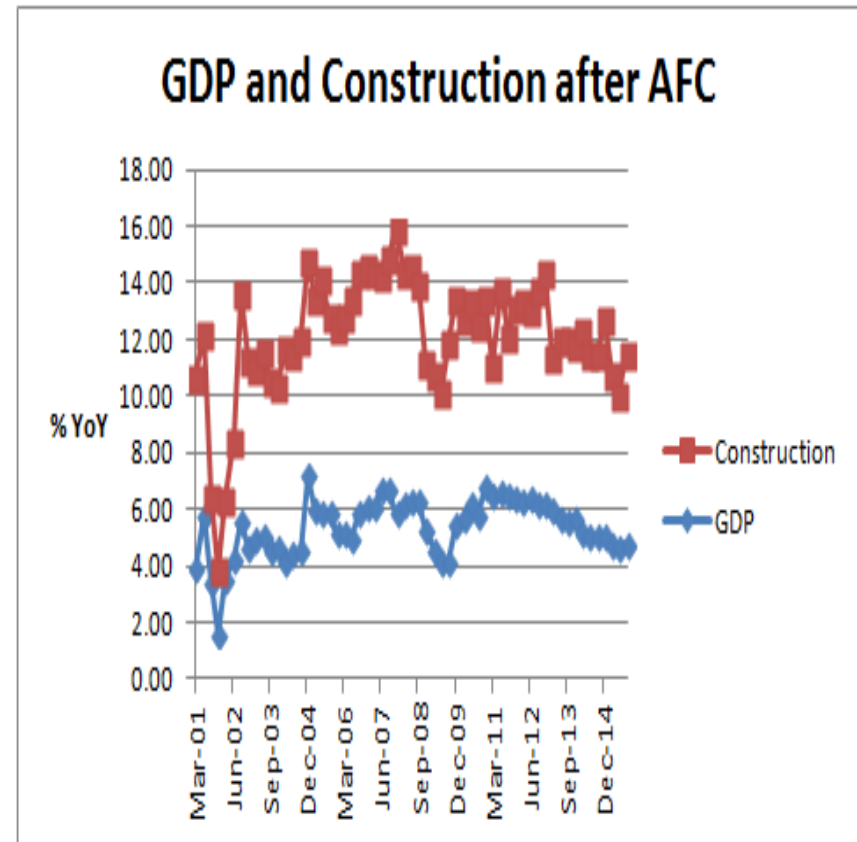


Trade and Construction started to impact dynamic of GDP due to the declining share of manufacturing in GDP

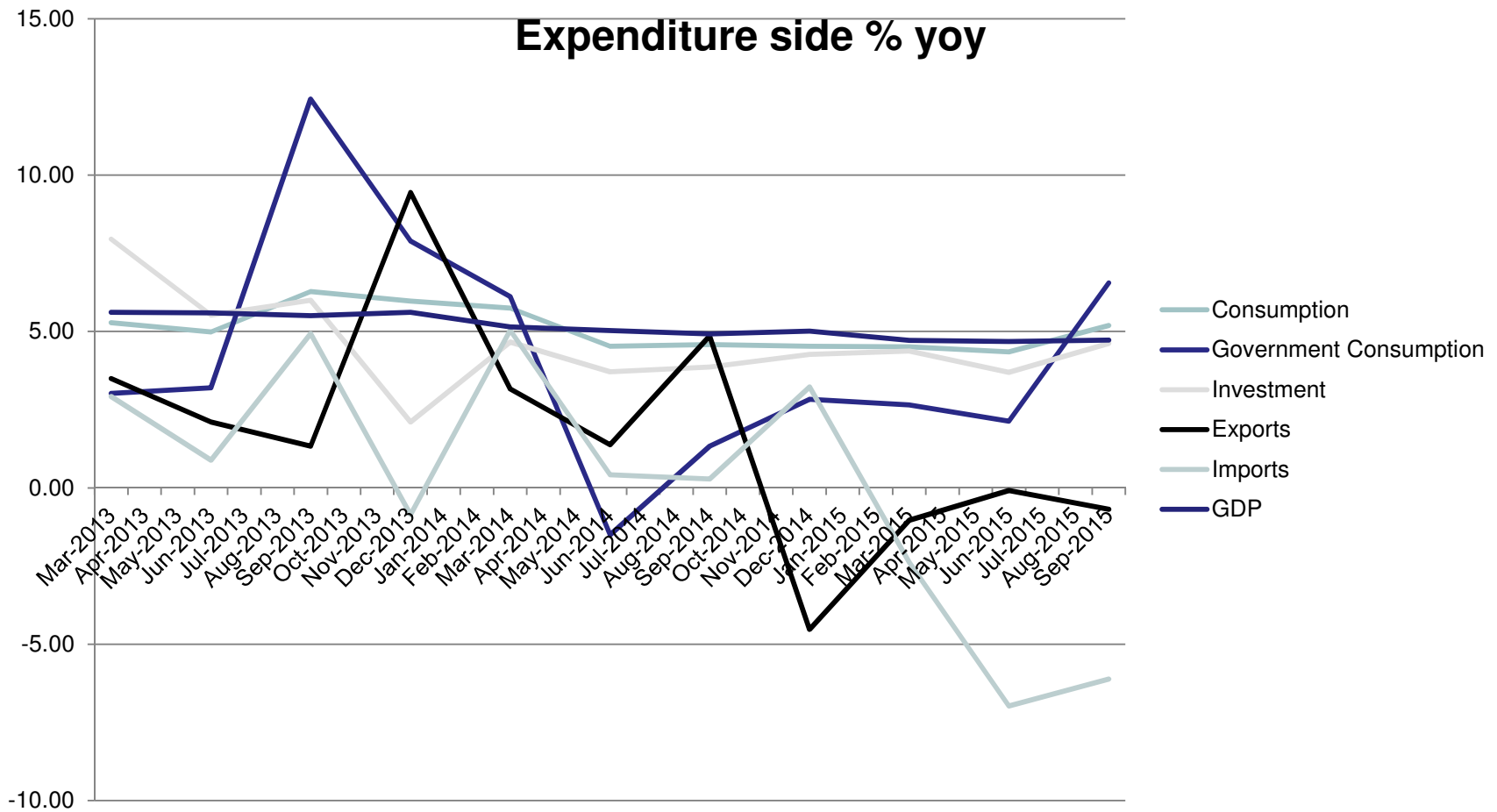
## Trade



## Construction



# Government consumption is important to turn around the economy



# **IMPEDIMENTS TO INVESTMENT**

# Ease of doing business 2016

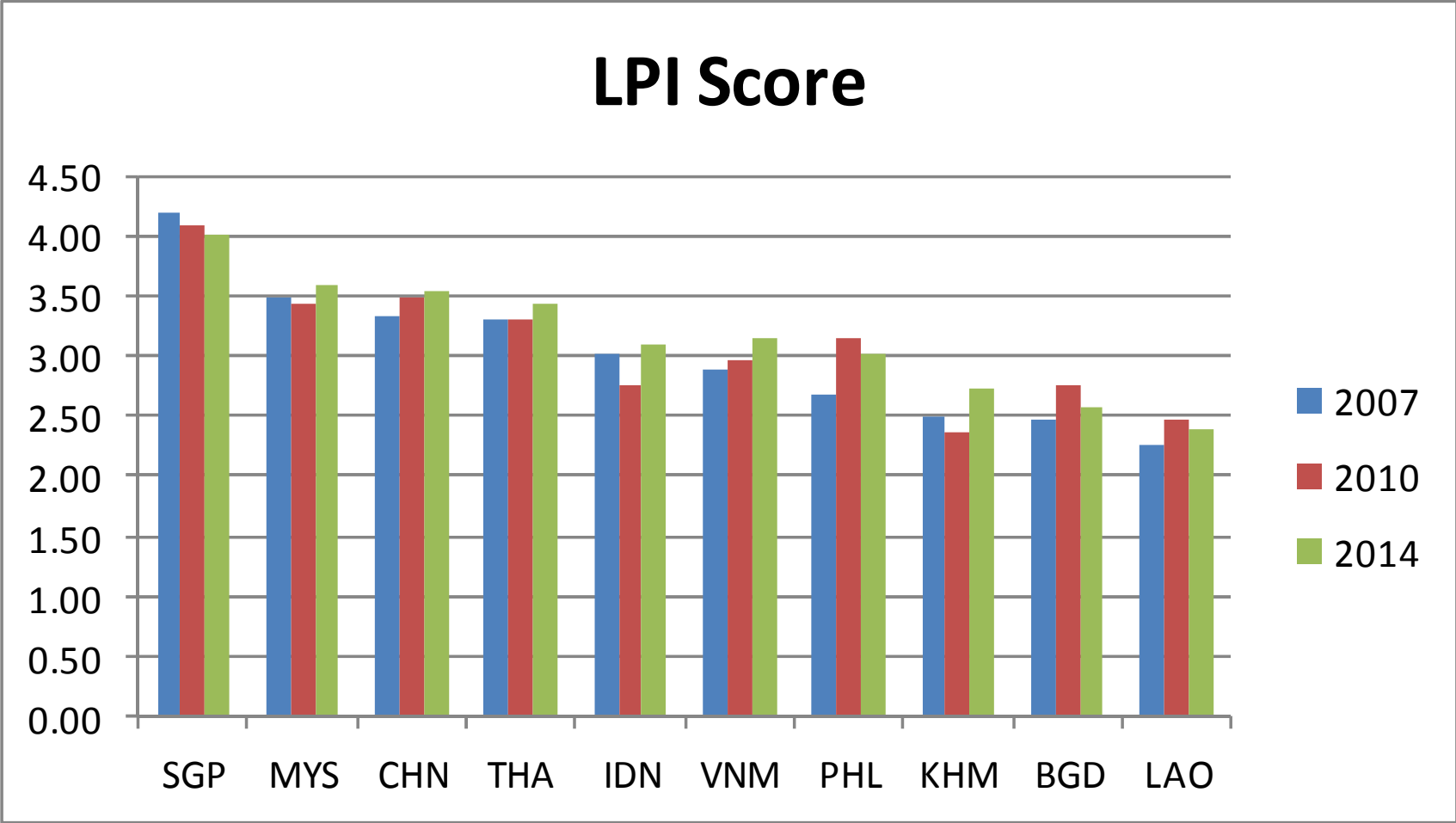
1. Singapore
2. New Zealand
3. Denmark
4. South Korea
5. Hong Kong
6. United Kingdom
7. United States
8. Sweden
9. Finland
10. Sweden
11. Taiwan
18. Malaysia
34. Japan
49. Thailand
84. China
90. Vietnam
103. Philippines
- 109. Indonesia**
127. Cambodia



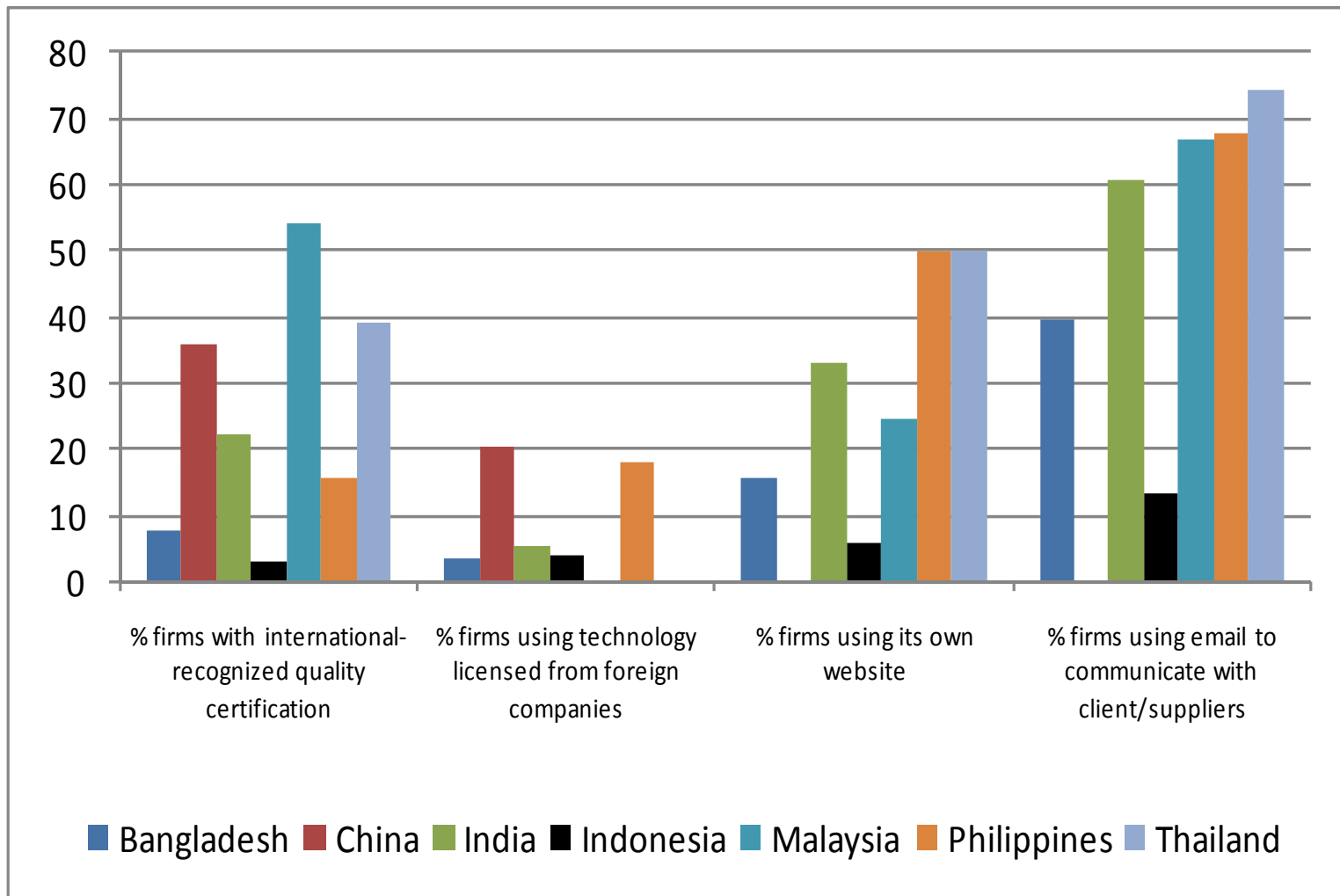
# Ease of doing business

Subject	2014 Rank	2015 Rank	2016 Rank
<u>Starting a Business</u>	158	163	173
<u>Dealing with Construction Permits</u>	150	110	107
<u>Getting Electricity</u>	101	45	46
<u>Registering Property</u>	112	131	131
<u>Getting Credit</u>	67	71	70
<u>Protecting Minority Investors</u>	43	87	88
<u>Paying Taxes</u>	158	160	148
<u>Trading Across Borders</u>	61	104	105
<u>Enforcing Contracts</u>	171	170	170
<u>Resolving Insolvency</u>	71	73	77

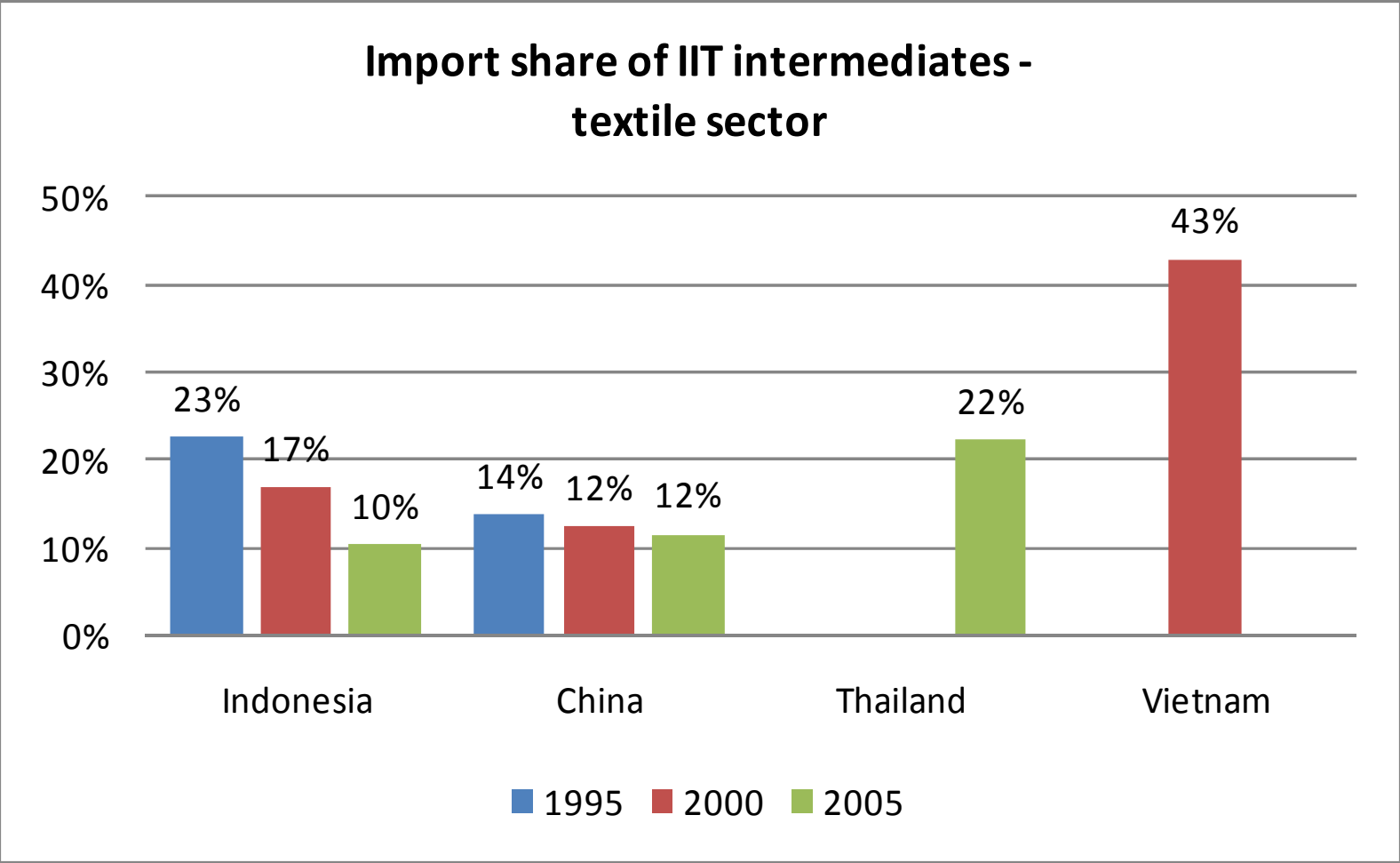
# Logistic Performance Index is still weak



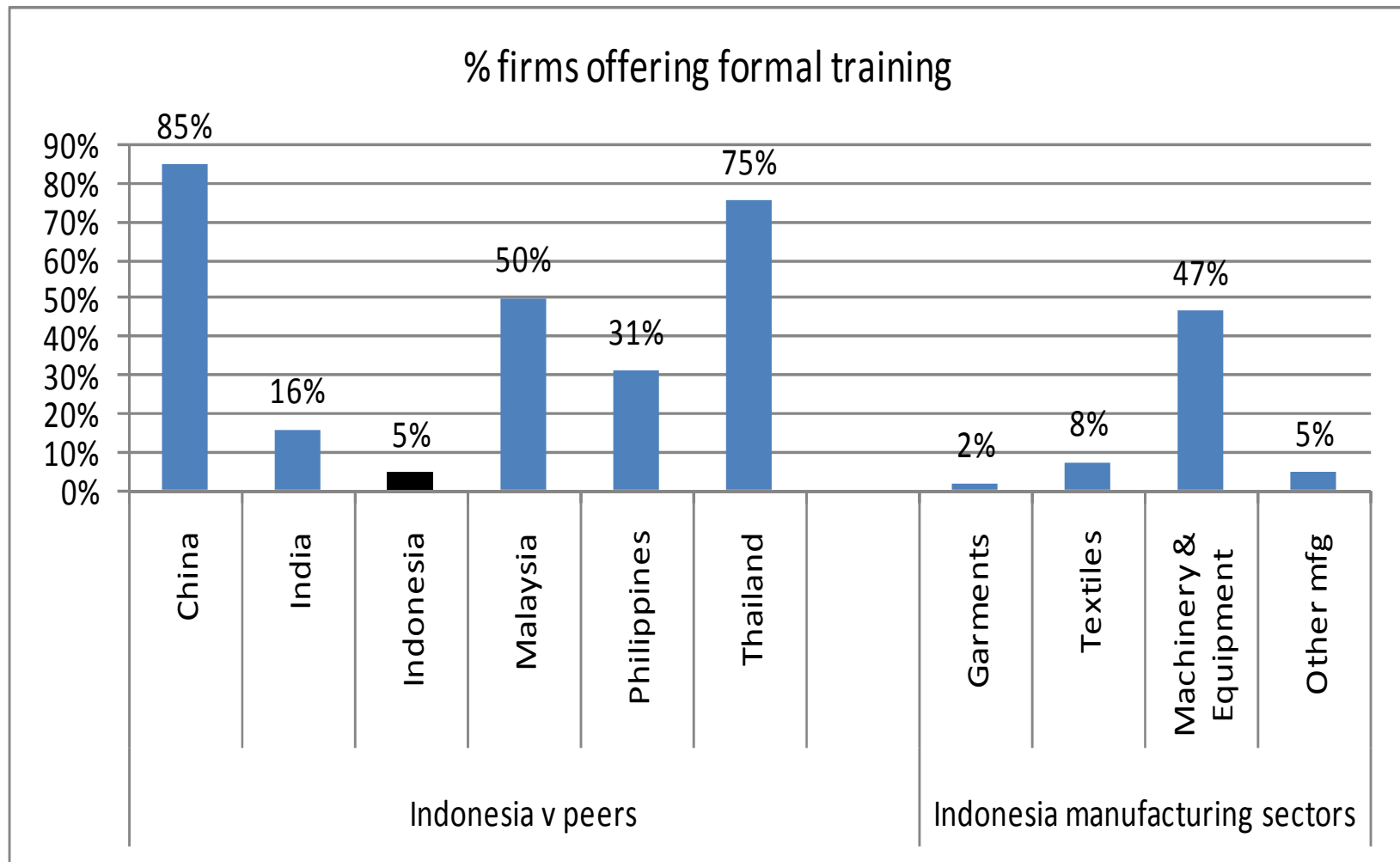
# More worryingly on basic levels of firm sophistication



# Limited and declining integration in regional and global production networks outside of automotive

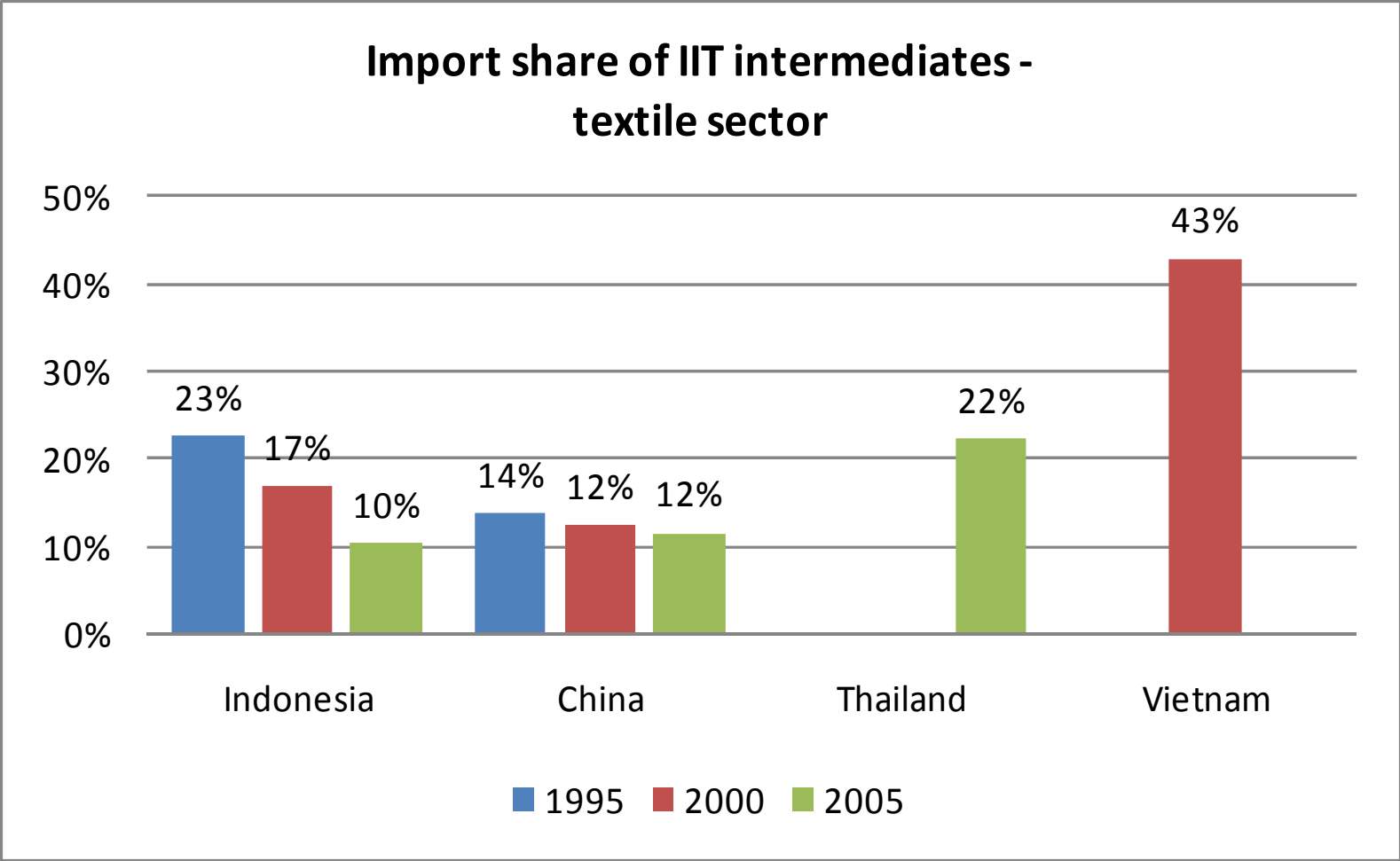


# Very low levels of formal training

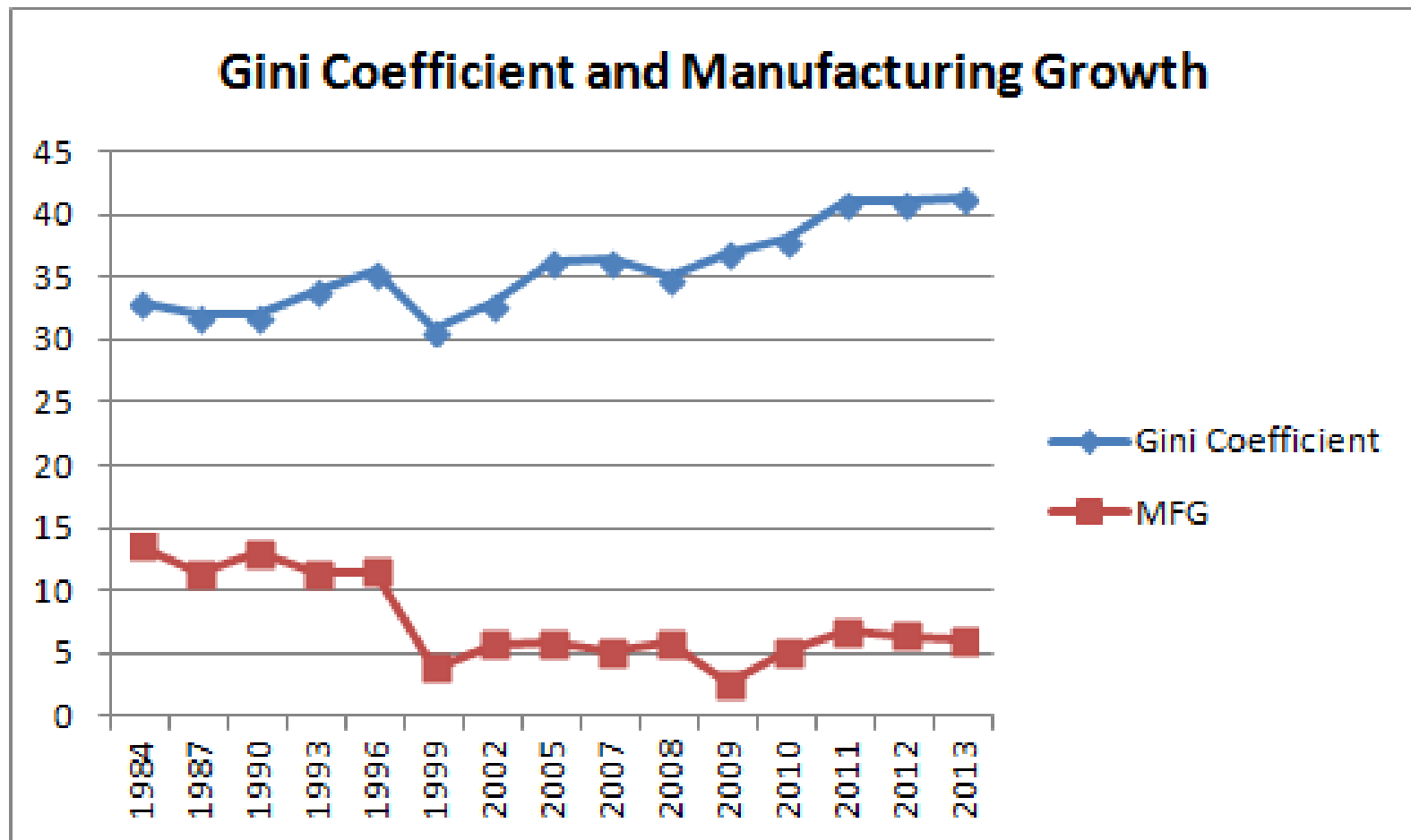


**CONSEQUENCES**

# Limited and declining integration in regional and global production networks outside of automotive

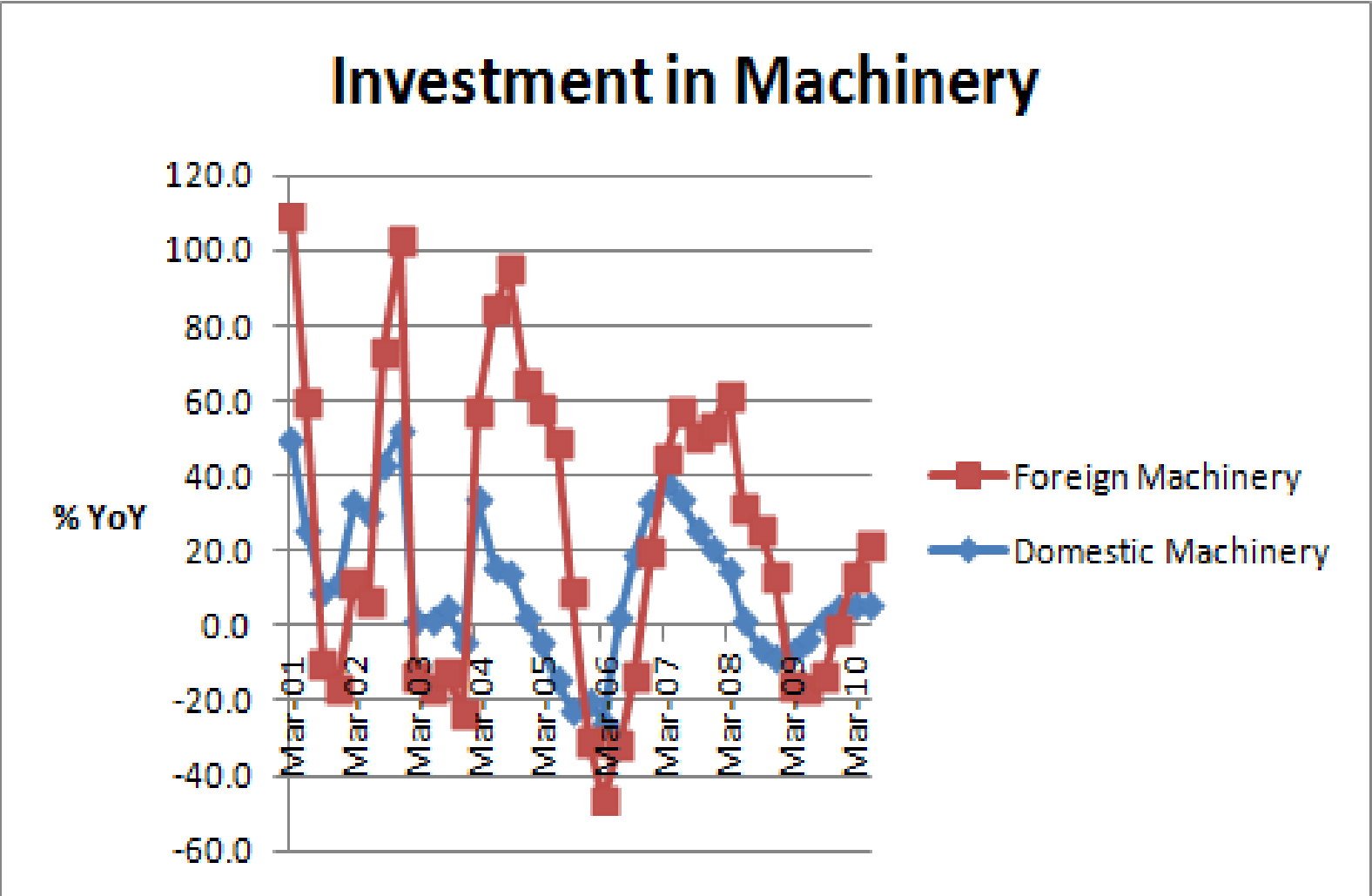


Increasing income disparity may be attributable to declining labor intensive manufacturing while the service sector is less inclusive





Investment growth in machinery is on the downward trend due to low profitability





To stimulate discussion

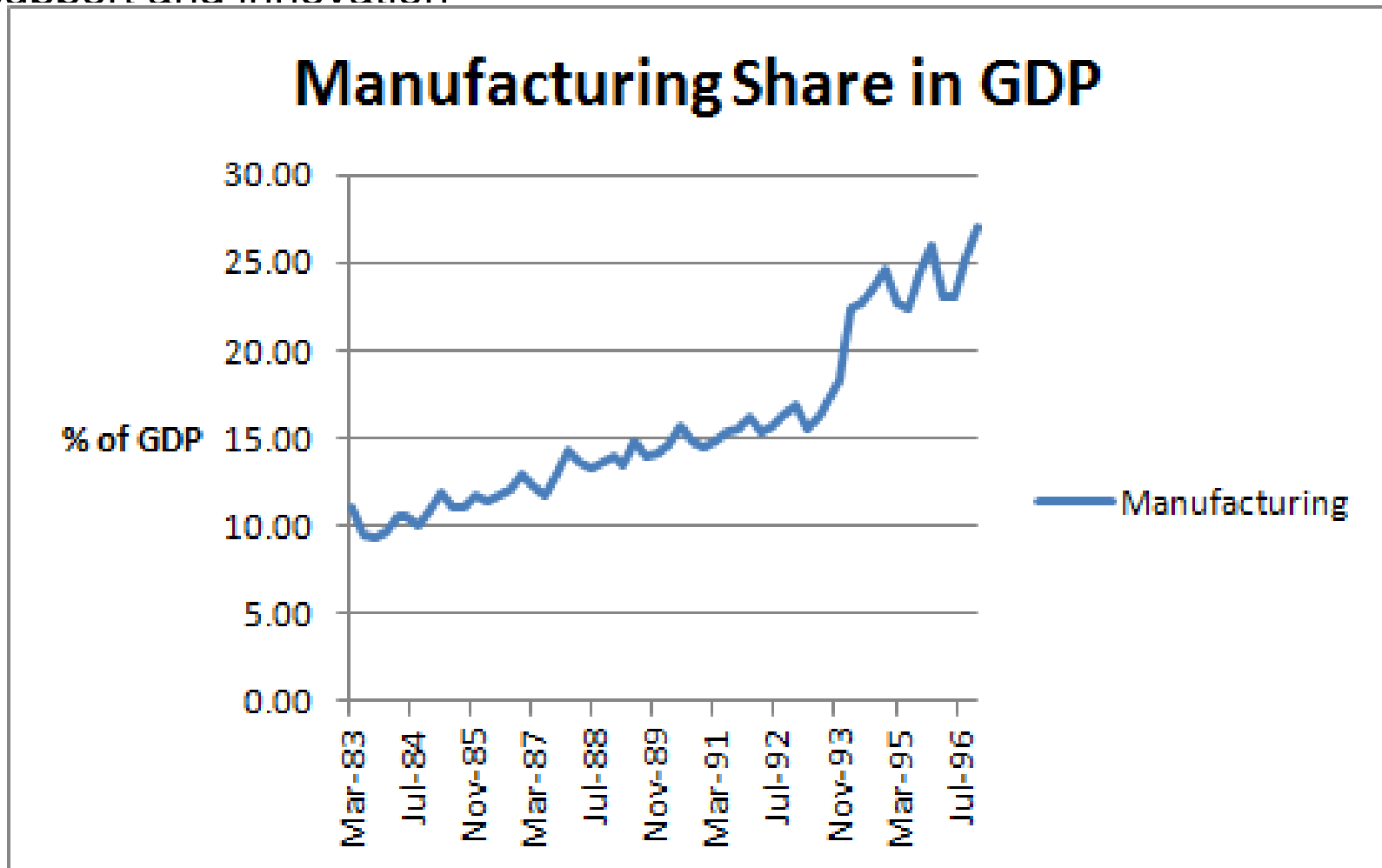
**POLICIES**

To revive labor intensive manufacturing and manufacturing

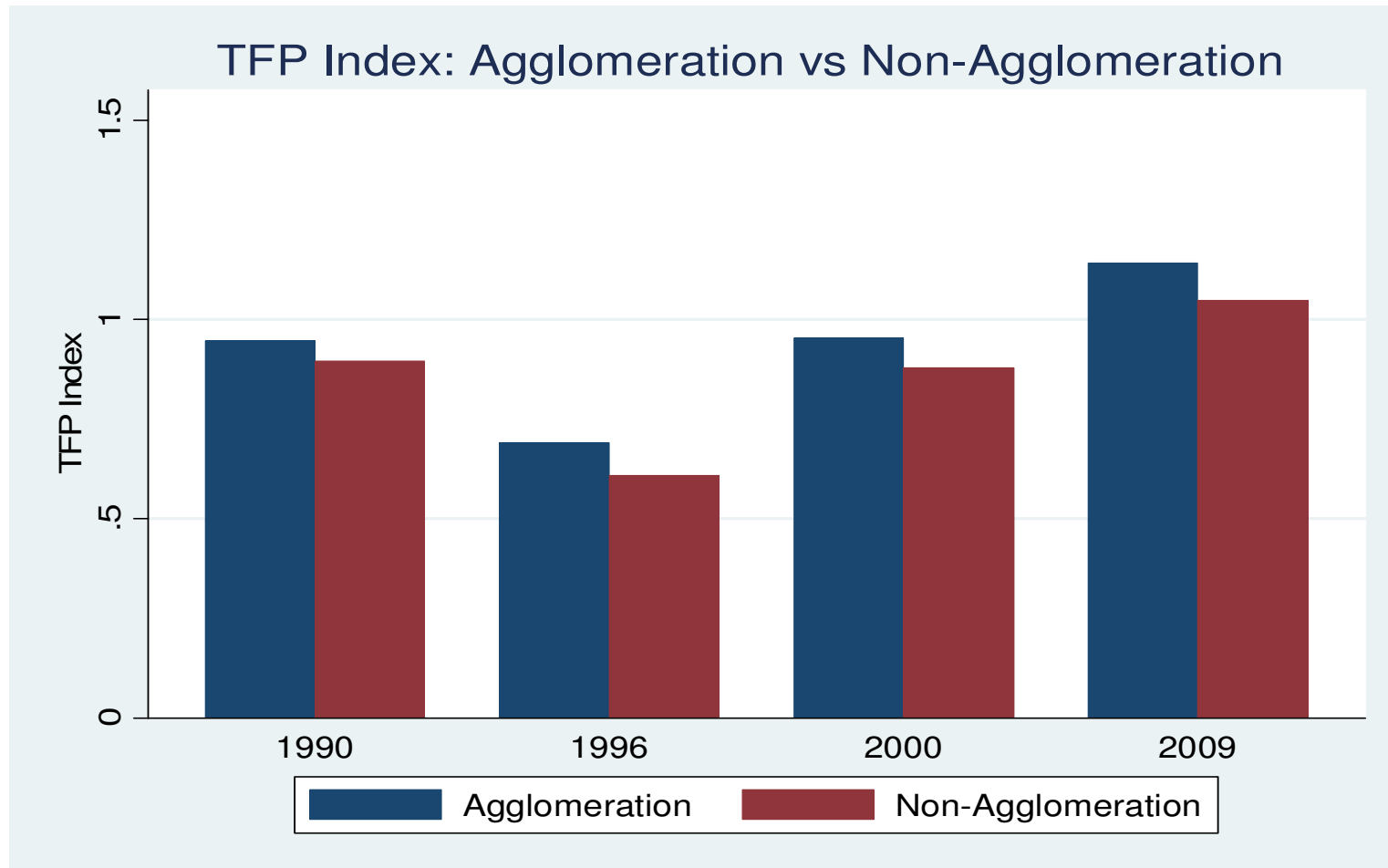
- Tax incentives?
- To produce cheaper products
  - Competition from Bangladesh, Sri Lanka etc.
  - High logistic costs
- To produce higher quality products
  - Need higher productivity
- To produce new products
  - Need to be more innovative and higher productivity
  - R&D

# Facts

Relative openness and less regulations may matter more rather than “picking up the winner” but in the longer run need infrastructure support and innovation



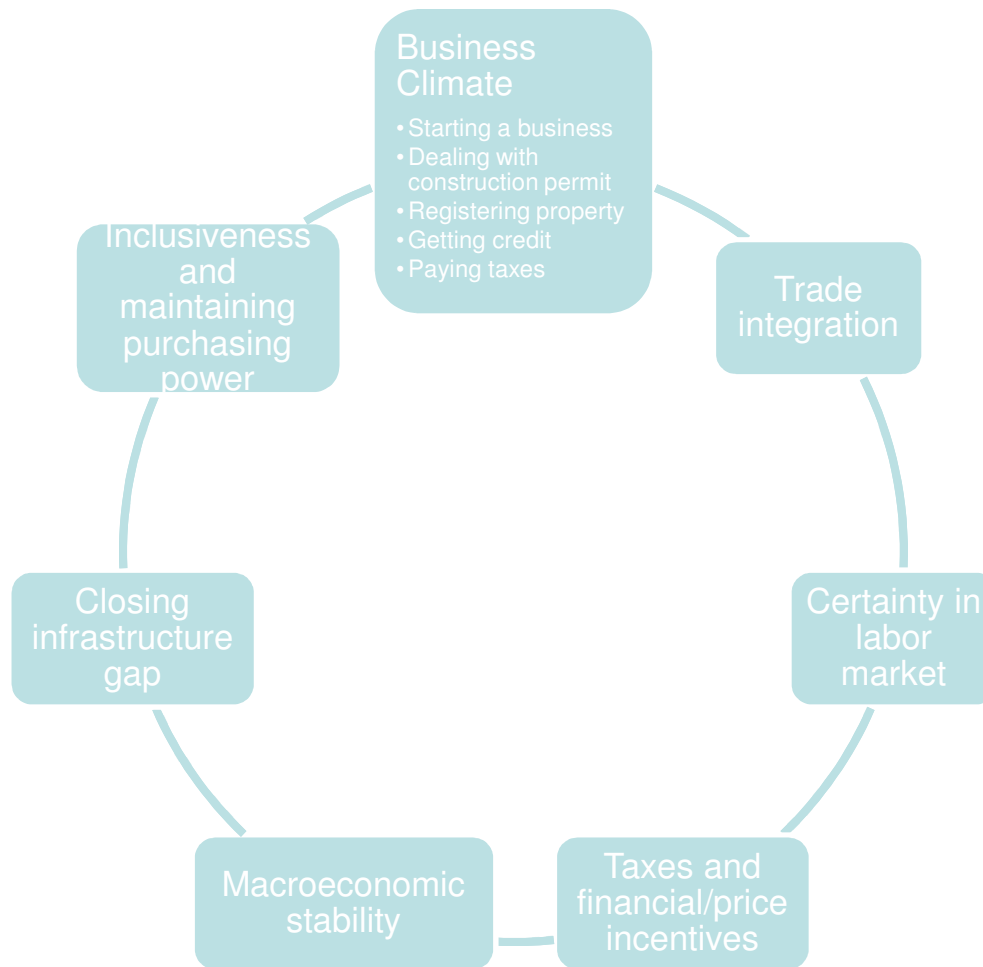
Fact:  
connectivity does matter



# Policies: broad base or sector specific

- Trade and investment
  - Trade policy is favorable
  - Investment is less favorable
- Logistic and infrastructure - agglomeration
  - From government budget
  - Private investment?
- Innovation and creativity
  - University – research grant system and linkage with industry
  - Private sector – scale problem? Patent and free rider problem
  - Government institution: LIPI, BPTN

# Government policy packages to improve competitiveness: implementation will be the key



## Assessment:

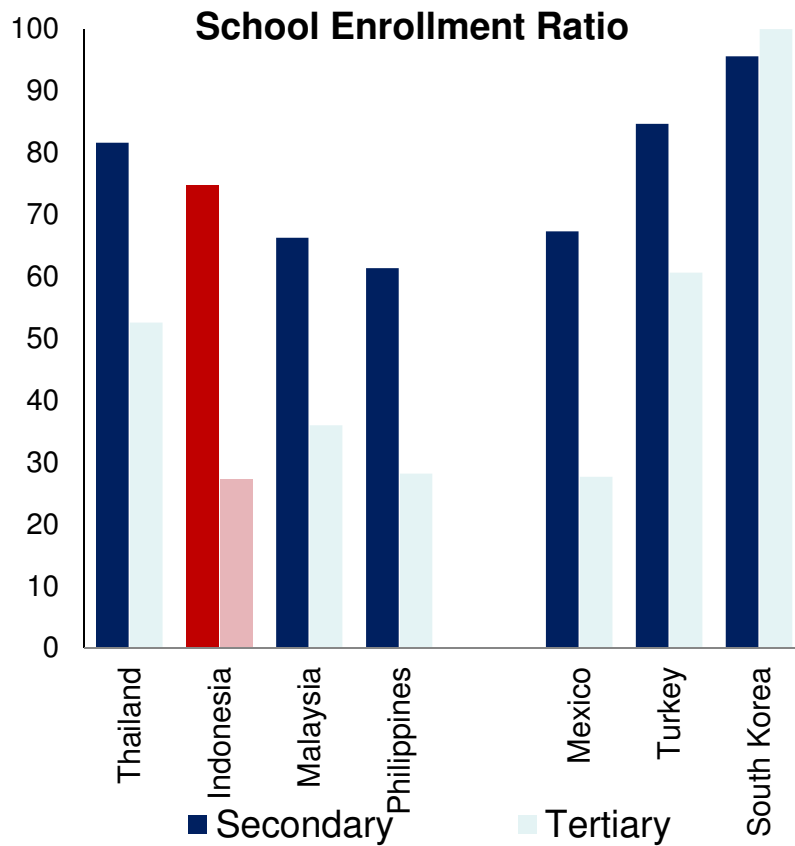
- Mix of supply side reforms and shorter term stimulus measures.
- Packages, cumulatively, have potential to shift competitiveness.
- Nothing yet on improving human resource competitiveness



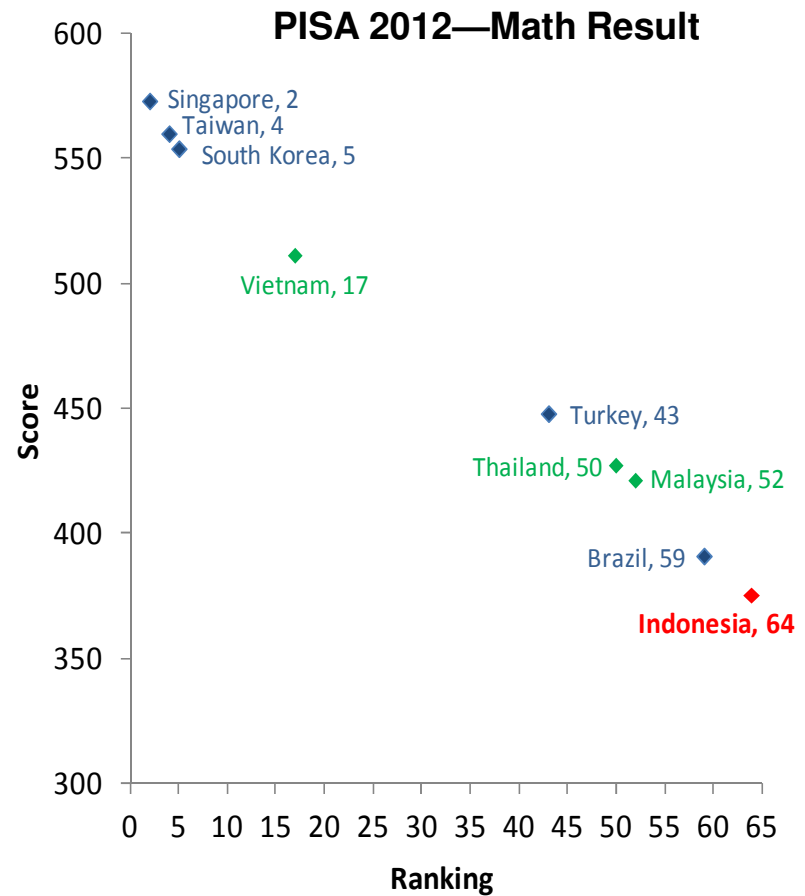
# **PEOPLE BASED ECONOMIC DEVELOPMENT**

# We should not forget education

## Access



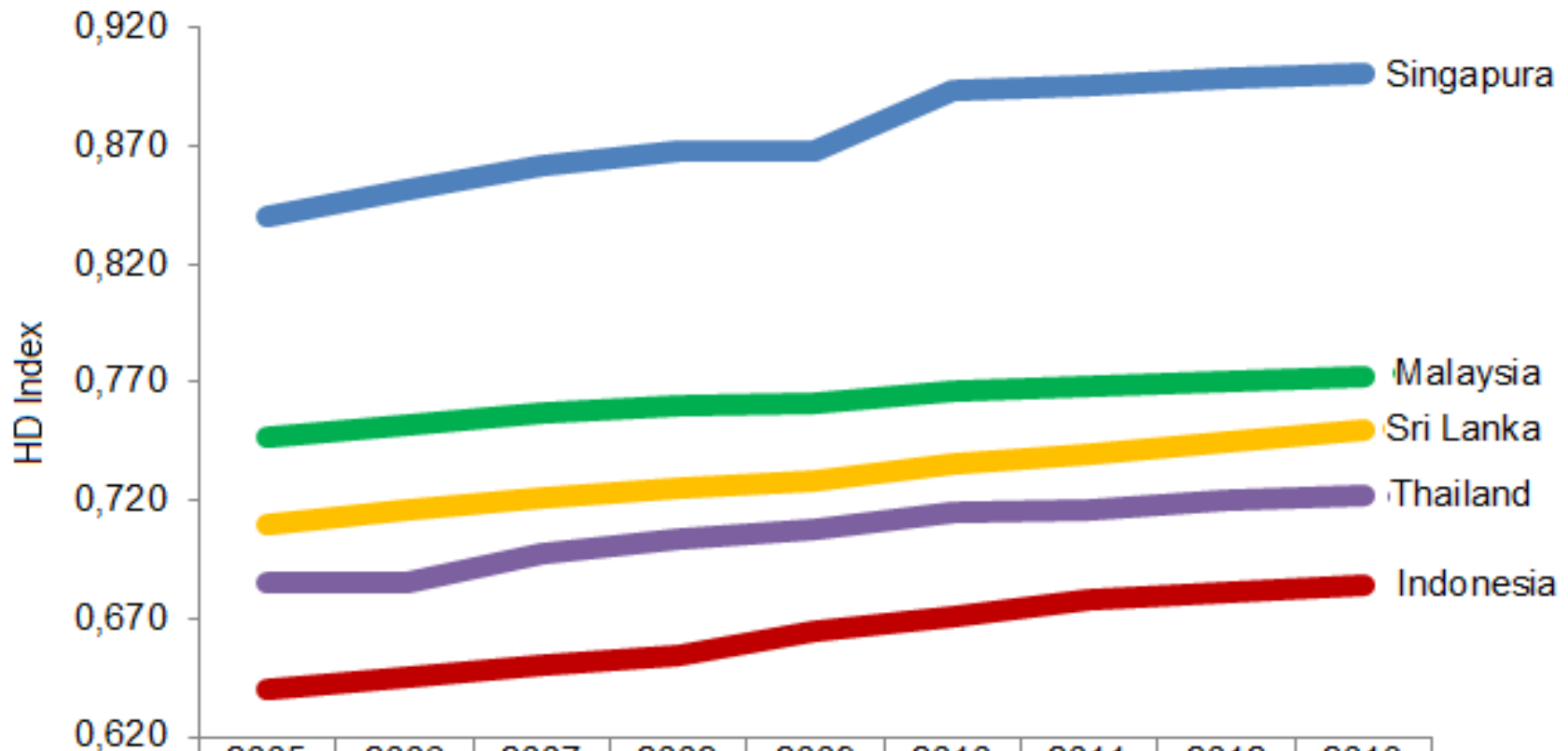
## Quality



Source: OECD

# Human Development Index

Secondary education is at par with some ASEAN countries but tertiary education is behind



	2005	2006	2007	2008	2009	2010	2011	2012	2013
Singapura	0,840	0,852	0,862	0,868	0,868	0,894	0,896	0,899	0,901
Malaysia	0,747	0,752	0,757	0,760	0,761	0,766	0,768	0,770	0,773
Sri Lanka	0,710	0,716	0,721	0,725	0,728	0,736	0,740	0,745	0,750
Thailand	0,685	0,685	0,698	0,704	0,708	0,715	0,716	0,720	0,722
Indonesia	0,640	0,645	0,650	0,654	0,665	0,671	0,678	0,681	0,684

**THANK YOU**