



NATIONAL DEVELOPMENT POLICY FOR ACCELERATING STRUCTURAL TRANSFORMATION

**THE MINISTER OF NATIONAL DEVELOPMENT PLANNING/
HEAD OF BAPPENAS**

PROF. BAMBANG P.S. BRODJONEGORO

**Plenary Structural Transformation Session
Jakarta Convention Center - Jakarta, 22 July 2019**



INDONESIA VISION OF 2045

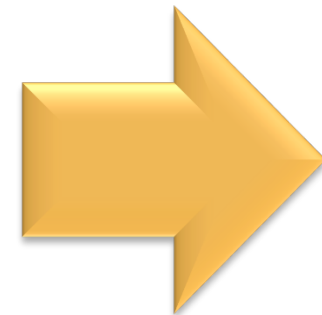
INDONESIA 2045

Sovereign
Progressive
Just and Prosperous

4 Development Pillars of Indonesia 2045

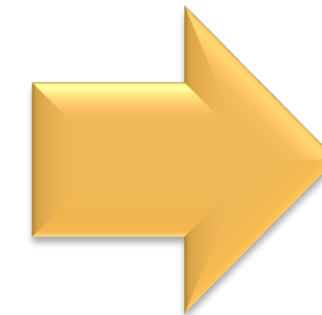
1. Human Development and Mastery of Science and Technology
2. Sustainable Economic Development
3. Equitable Development
4. National Resilience and Governance

2017
GDP per Capita
USD 3,877



2036
GDP per Capita
USD 13,162

Achieving
High-
Income
Country



2045
GDP per Capita
USD 23,199

5.7%
Average

Economic Growth

6.3%
Average

Manufacturing
Growth

3.1%
Average

Agriculture
Growth

73
Million

International Tourist
Arrival

5rd

5th Largest Economy

26%

Manufacturing
Share to GDP

7%

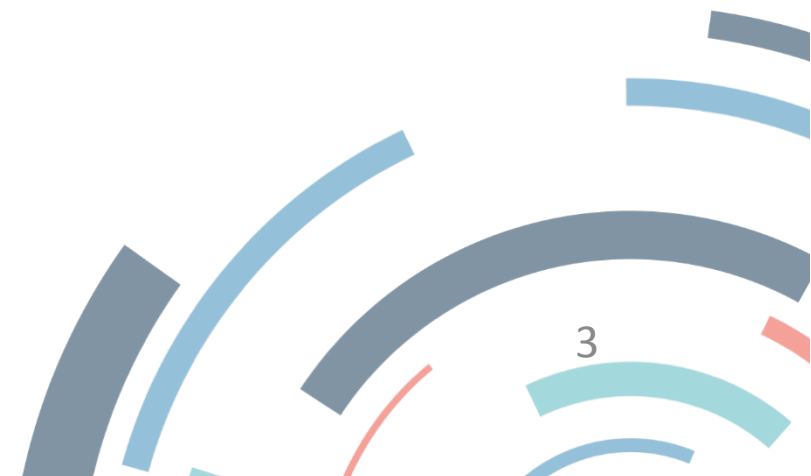
Agriculture
Share to GDP

1st

Tourism as the Largest
Source of Foreign
Exchange

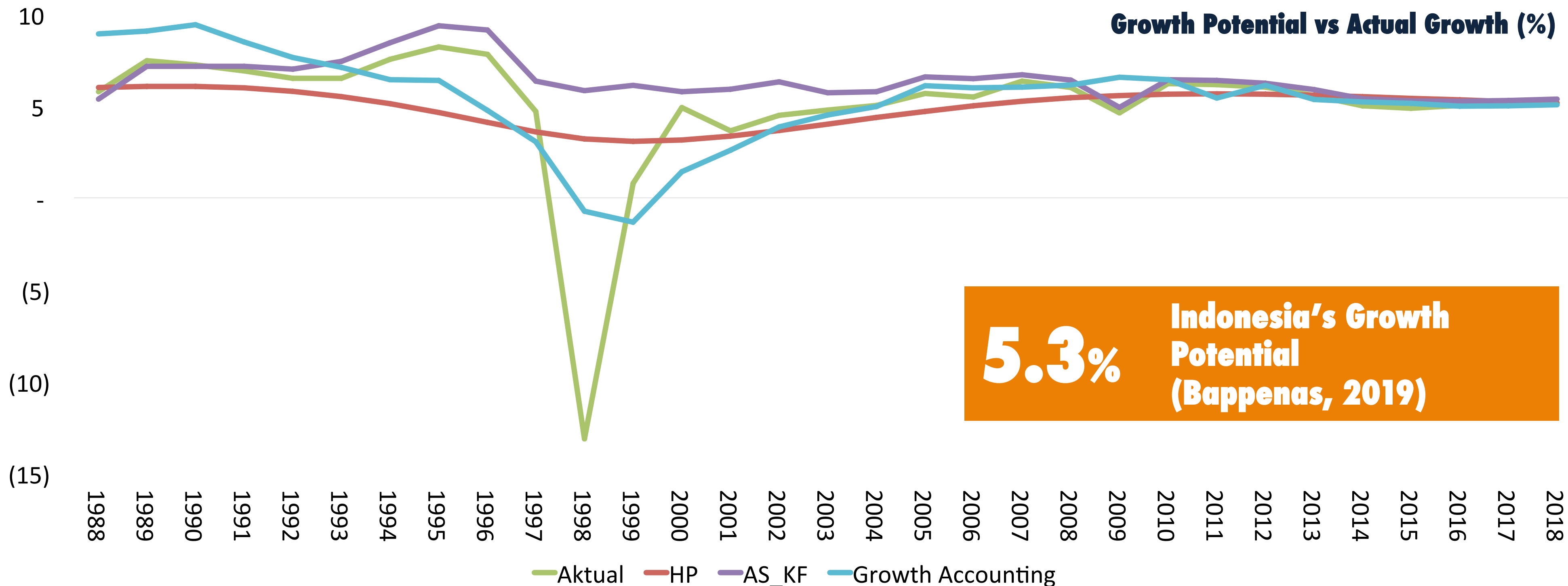


GROWTH POTENTIAL





GROWTH POTENTIAL: DECREASING TREND

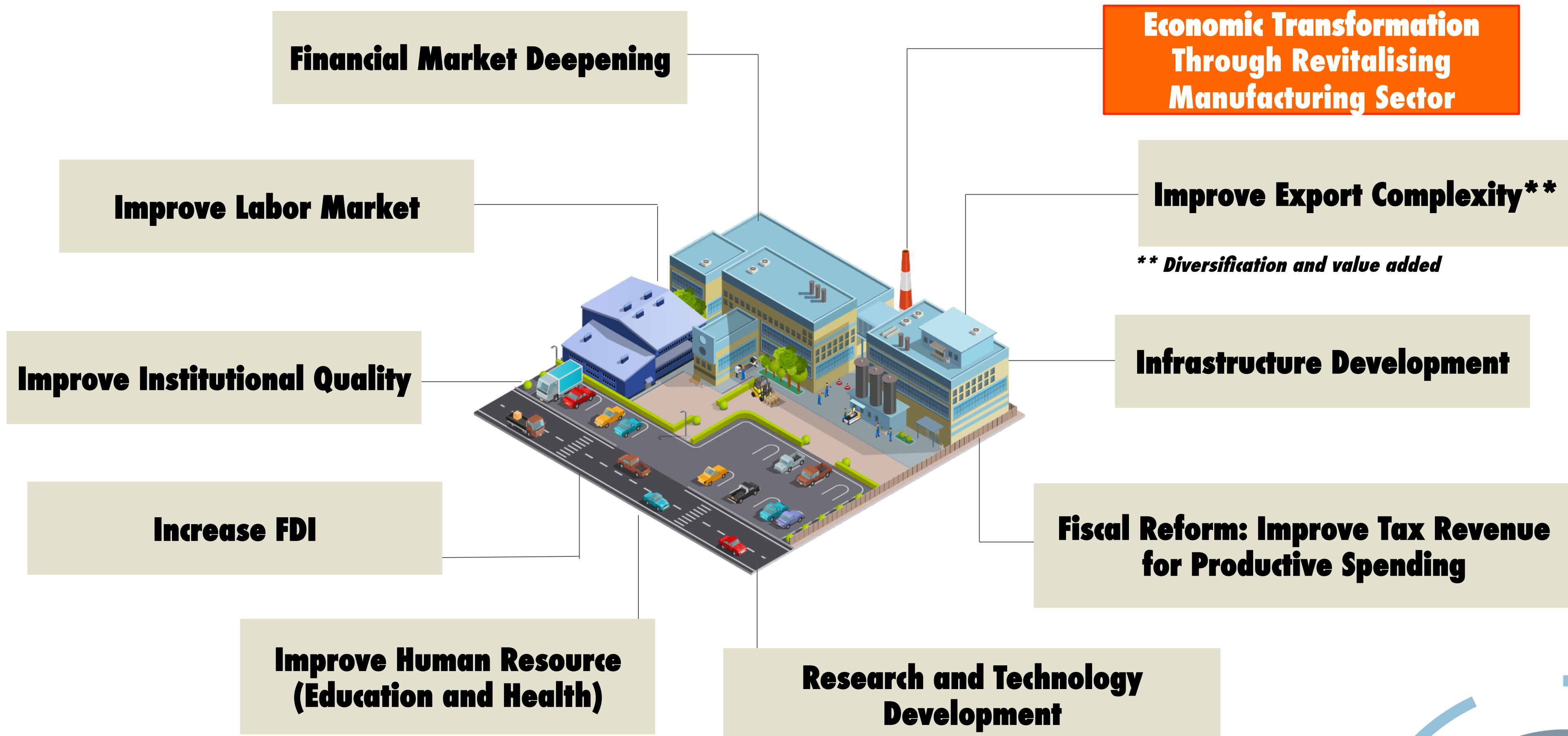


Bappenas estimates potential growth calculations using three methods: (1) Hodrick-Prescott Filter; (2) Aggregate Supply using Multivariate Kalman Filter; and (3) Growth Accounting.

Indonesia's growth potential tends to decline until 2018. The same pattern is also shown from the estimation by international institutions (ADB, OECD, IMF, ADB-Bappenas).



STRATEGY TO INCREASE INDONESIA'S GROWTH POTENTIAL *



*various resources: Bappenas (2017), ADB-Bappenas (2019), dan IMF (2015).

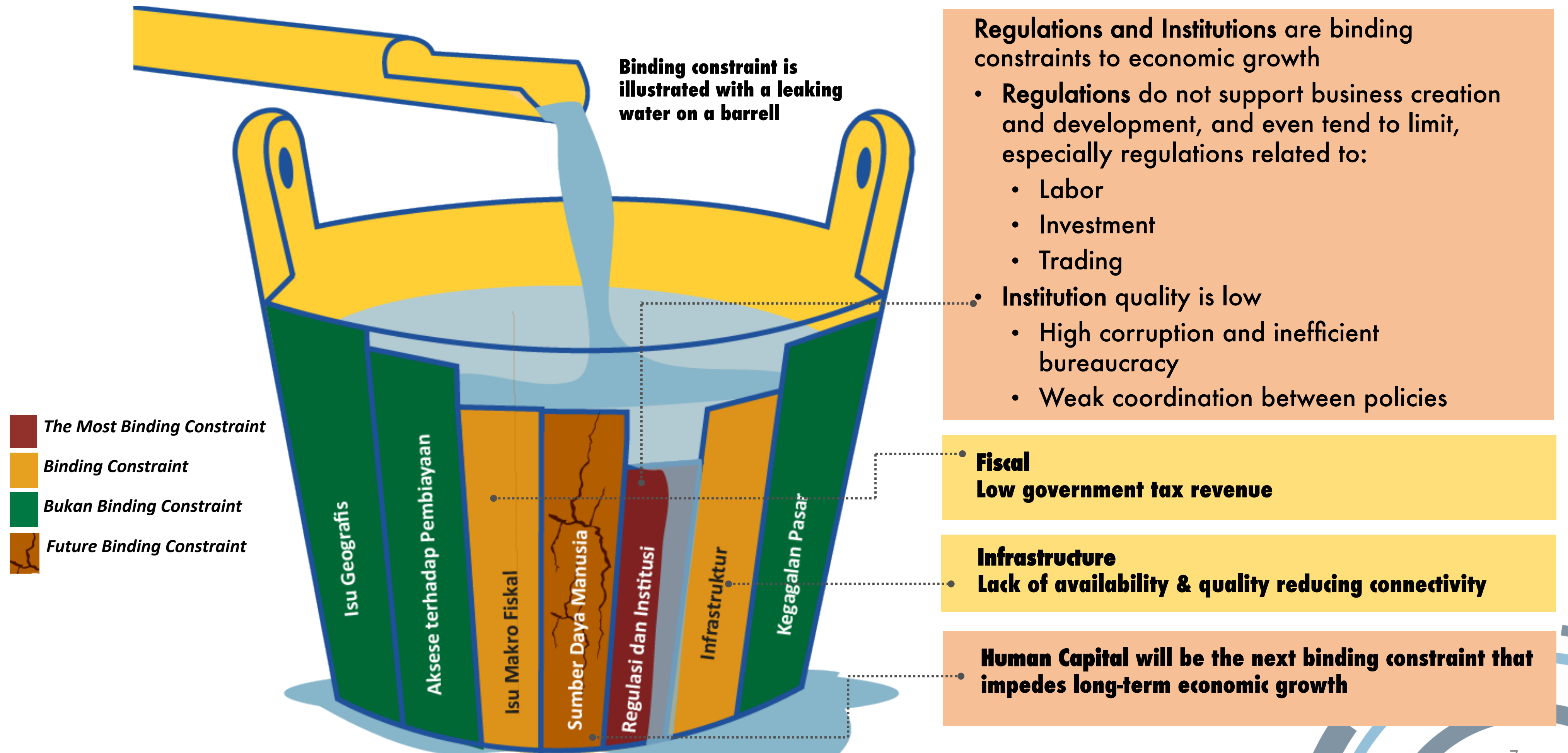




GROWTH DIAGNOSTICS



INDONESIA'S BINDING CONSTRAINT TO GROW



*Growth Diagnostics Study, Bappenas 2018



REGULATIONS ON LABOUR, INVESTMENT AND TRADE



High severance payment in Indonesia has caused companies to outsource contract workers and not invest in developing their workers through training.

Less than **10%** Indonesian firms that conducts formal internal training, as opposed to ...



Source: World Bank Enterprise Surveys

Exporters and importers face high administrative costs caused by licensing and regulation.

International trade is worth less than 40% of GDP.

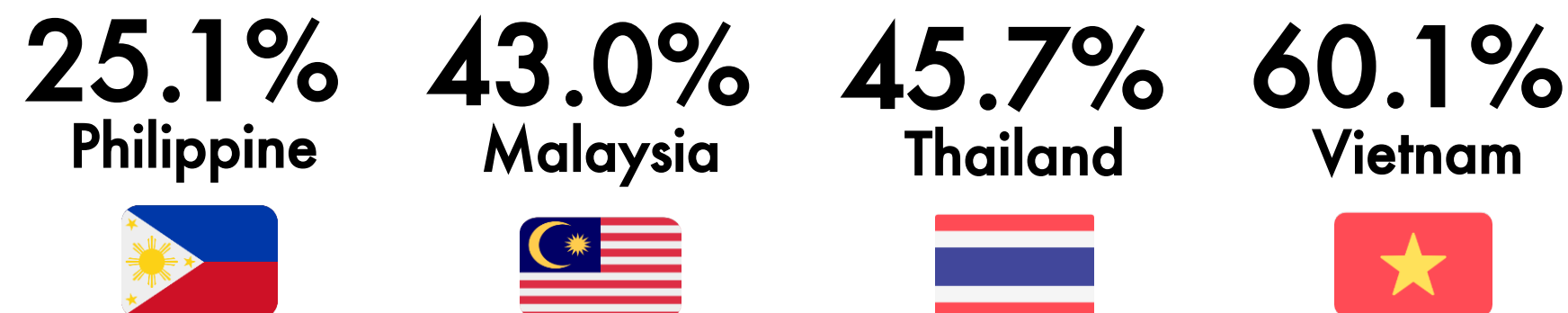
Indonesian companies need **4.5 days** to complete customs checks and documents and pay higher cost in exporting goods compared to:



Source: Trading across Borders - Ease of Doing Business (EoDB) 2019, diolah

Restrictions on FDI prevent the formation of businesses that can attract technology transfer and promote exports.

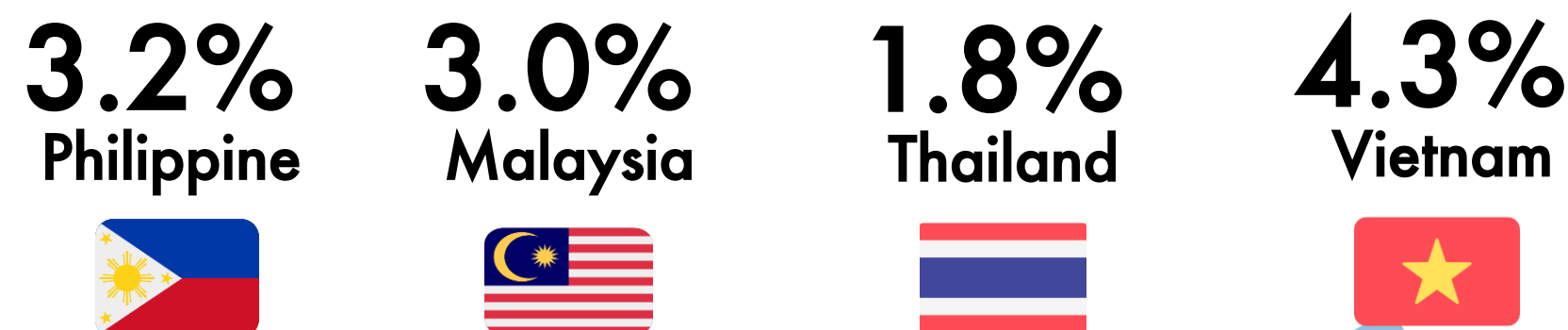
Indonesia FDI Stock is only **22.1%** of GDP pada on 2018, as opposed to ...



Source: Country Fact Sheets 2019 – UNCTAD

Meanwhile, Net FDI Inflows to Indonesia in 2017 is

approximately 2.1% of GDP, as opposed to ...



Source: World Development Indicators (2017)



INSTITUTION QUALITY

Problems and issues on labour, investment, trade stems from a weak governance and institutional capacity



Corruptions and bureaucratic inefficiency are considered to be the most burdensome issue on doing business in Indonesia

Source: World Economic Forum (WEF) *Executive Opinion Survey* 2017



"In the past year, I received 3 training programs on Product Packaging from 3 different institutions and government offices"
- SME Business Representatives

No visible coordination between government institutions—on national level agencies or between national and regional agencies.

Unsynchronized planning and budgeting and weak implementation and execution

Lack of coherence implementation: improvement on port quality does not include policy on improving road access and road quality to the said port

Regional decentralization does not translate into equal service level—i.e. different road quality because of separation of mandate between national and regional government

Intervention on same topic is executed through multiple and replicative programs

Source: *Focus Group Discussion (FGD)* Bappenas and with business owners



HUMAN CAPITAL: EDUCATION & HEALTH



School participation rate is high, but education quality is low. Based on PISA Score 2015, the ability of Indonesian student on math, reading and science is far behind peers and OECD countries.

PISA Historical records show that quality improvement on Indonesian education is a long-term goals and cannot be done in a short time frame.

It is estimated that **Indonesia's PISA Score will be equal of OECD average by the year of 2065.**



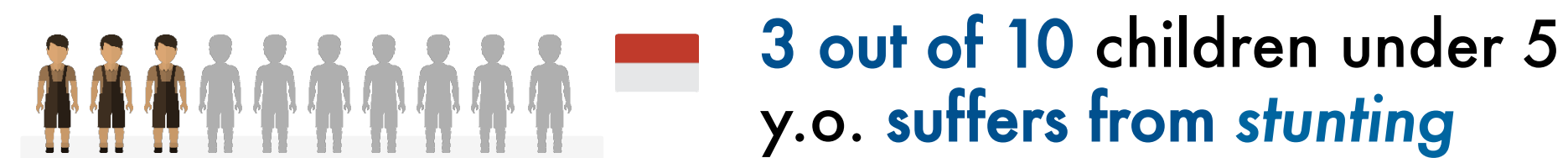
Source: *LEARNING to Realize Education's Promise* – World Development Report (WDR) 2018, World Bank

Hence, the fundamental ability and skills of Indonesian workers are of standards.

In comparison, the skills level of **Higher Education Graduates of Indonesia** is only equal with the skills level of **High School Level Graduates in Denmark**

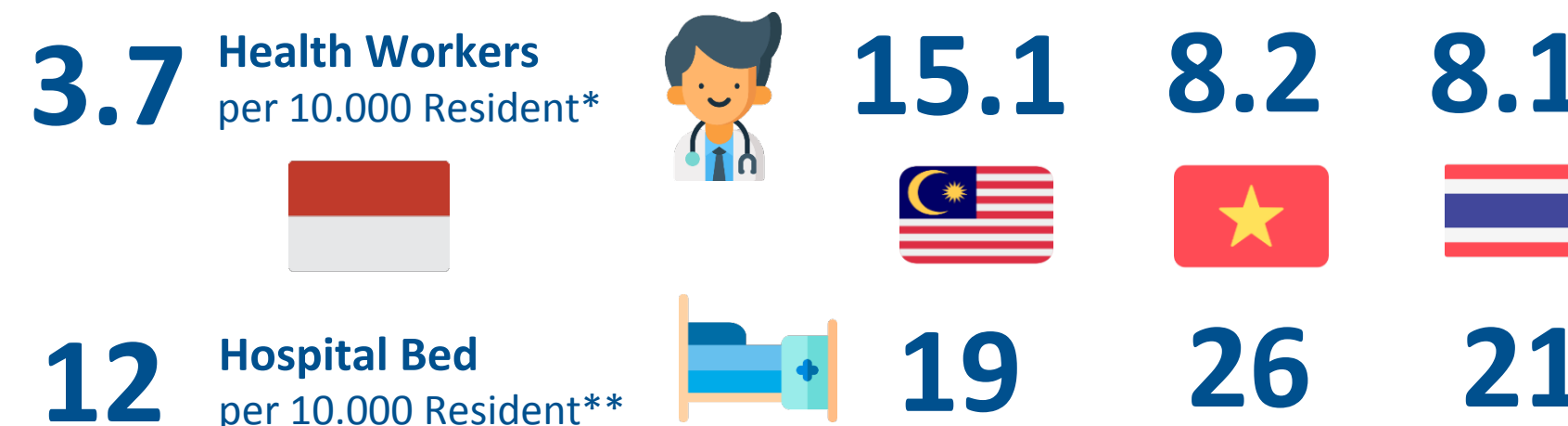
Source: *The Need for a Pivot to Learning: New Data on Adult Skills from Indonesia* - Pritchett (2016)

Despite the significant improvement on life expectancy, a significant numbers of health indicators of Indonesia are lagging behind other countries. This in turn will impact Indonesian labor productivity in the long term.



Source: UNICEF, WHO (2016)

Health facility is underdeveloped and underinvested with only :

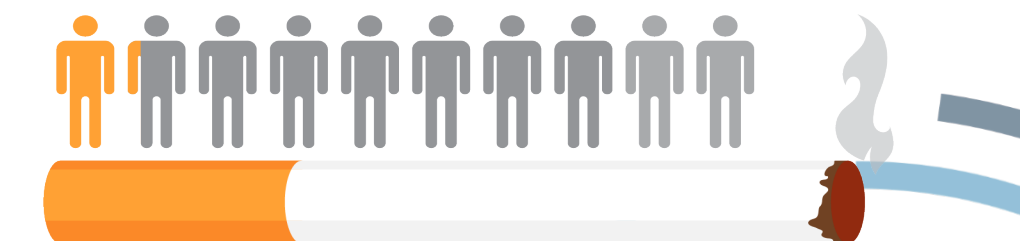


Source: WHO
*Indonesia & Thailand (2017), Vietnam (2016), Malaysia (2015), WDI 2010-2015



8 out of 10 Indonesian adult male are smokers with increasing prevalency

Source: World Development Indicators (2016),



23 out of 100 male teenagers between 13-15 y.o. are smokers, higher than peer countries

Source: WHO (2018),



RECOMMENDATIONS FOR INCREASING ECONOMIC GROWTH BASED ON ISSUES *

ISSUES

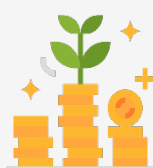
POLICY RECOMMENDATION



Labor Regulation



- Revision of Law 13/2003 on Labor: layoff / severance, outsourcing practices, and wage.
- Permits to employ foreign workers based on expertise.
- Simplification of immigration policies for skilled foreign workers: e.g. granting special visas to investors, entrepreneurs, or start ups.



Investment Regulation



- *Online Single Submission (OSS).*
- Review and revision of negative list of investment.
- Well targeted tax incentives.
- Simplification of tax reporting.



Trade Regulation



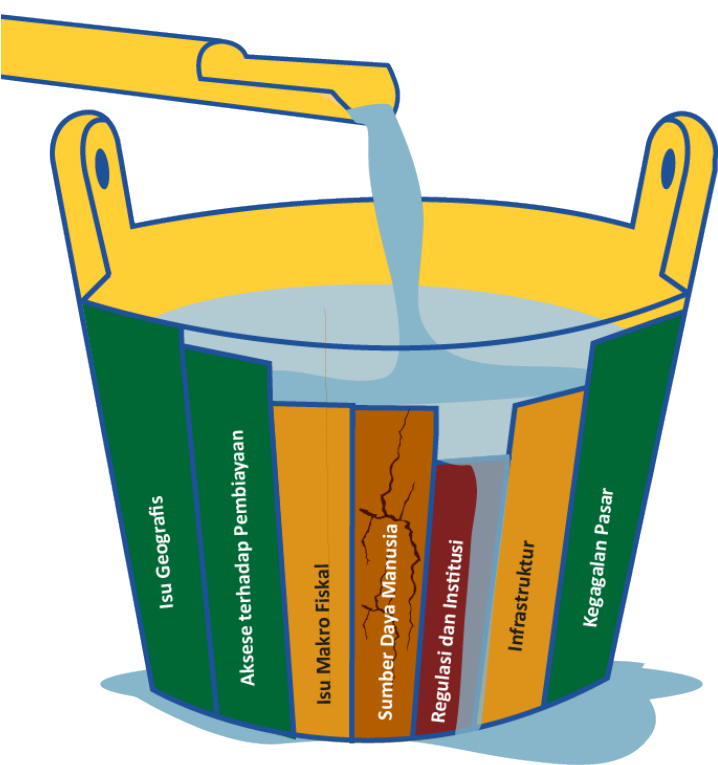
- Reducing administration barriers of exports and imports; especially imports of capital goods and raw and auxiliary materials if not produced domestically.
- Improvements to the governance of the import-export process.
- Reducing logistical cost inefficiencies.



Institution



- Synergy between line ministries, between central government and regional government.
- Simplification of licensing regulations both at the central and regional levels.
- Implementation of integrity zones in the licensing sector.



Best Practices:

Implement South Korea's export promotion meeting with a focus on investment and exports.

The monthly meeting is chaired directly by the President, involving line ministries, local government, employers discussing:

- Realization and achievement of monthly investment and export targets and improvement policy strategies.
- Regulations that hinder the center and the region and the progress of the resolution.

*require further studies



 Most binding constraints

*require further studies



Education

Policy Recommendation:

- Improving the quality of teaching and learning with emphasis on science, technology, engineering, and mathematics (STEM) and literacy skills.
- Increasing teacher competency through strengthening pre-service education for teacher candidates and in-service training for teachers in positions.
- Strengthening vocational education and training.
- Opening of foreign investment for higher education in the fields needed by Indonesia.
- Promoting innovation research and innovation ecosystems.
- Developing an incentive system for the diaspora to return to Indonesia.



Health

Policy Recommendation:

- Acceleration of improving nutrition, especially in groups of children in the first thousand days of life.
- Improving the performance of the health system through the provision of facilities, infrastructure and health personnel.
- Encouraging healthy living practices supported by environmental improvements and infrastructure.

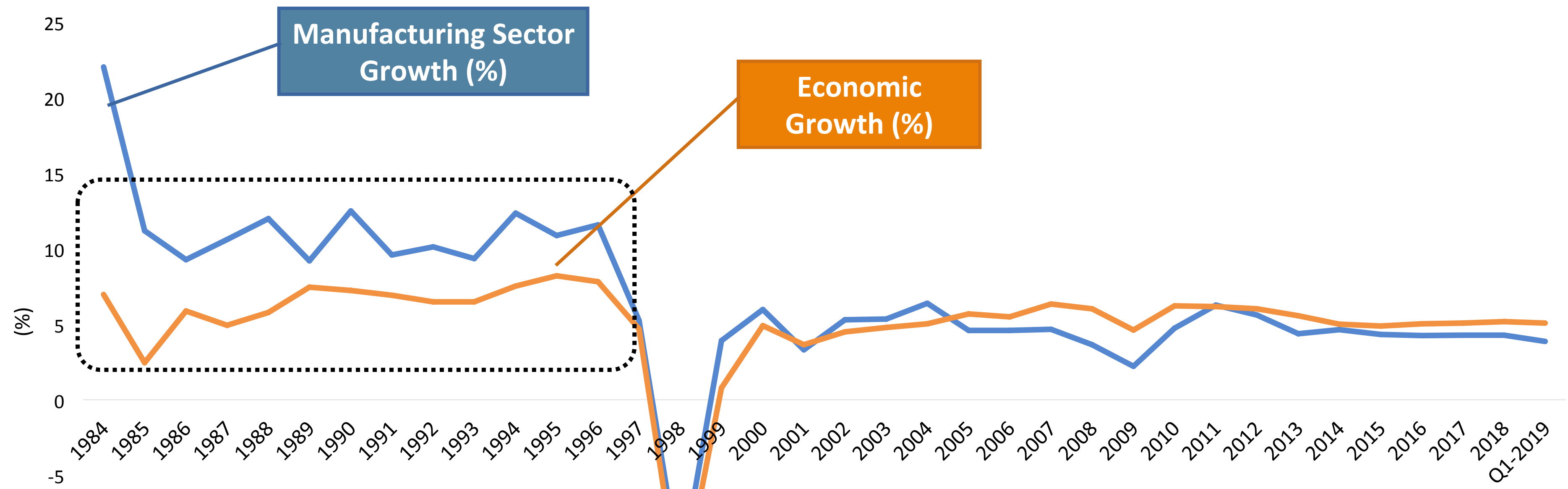


ECONOMIC TRANSFORMATION AND MANUFACTURING AND SERVICE REVITALIZATION

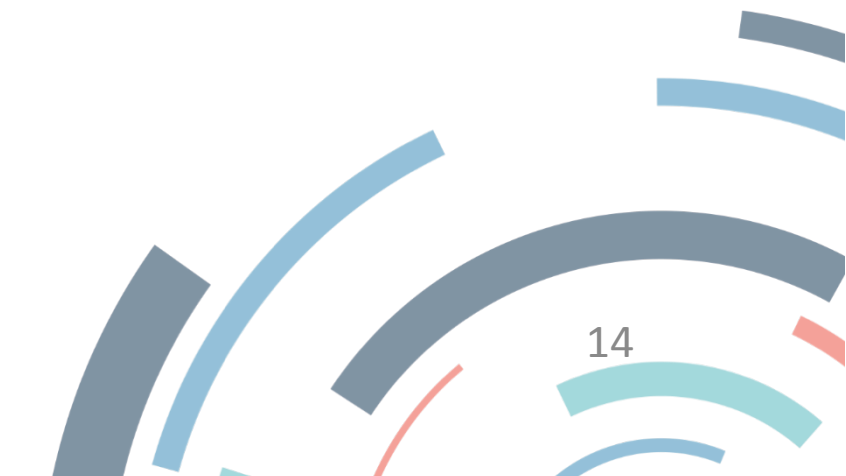


ECONOMIC TRANSFORMATION FOR HIGHER GROWTH

After the economic crisis, the growth of the manufacturing sector is always below economic growth



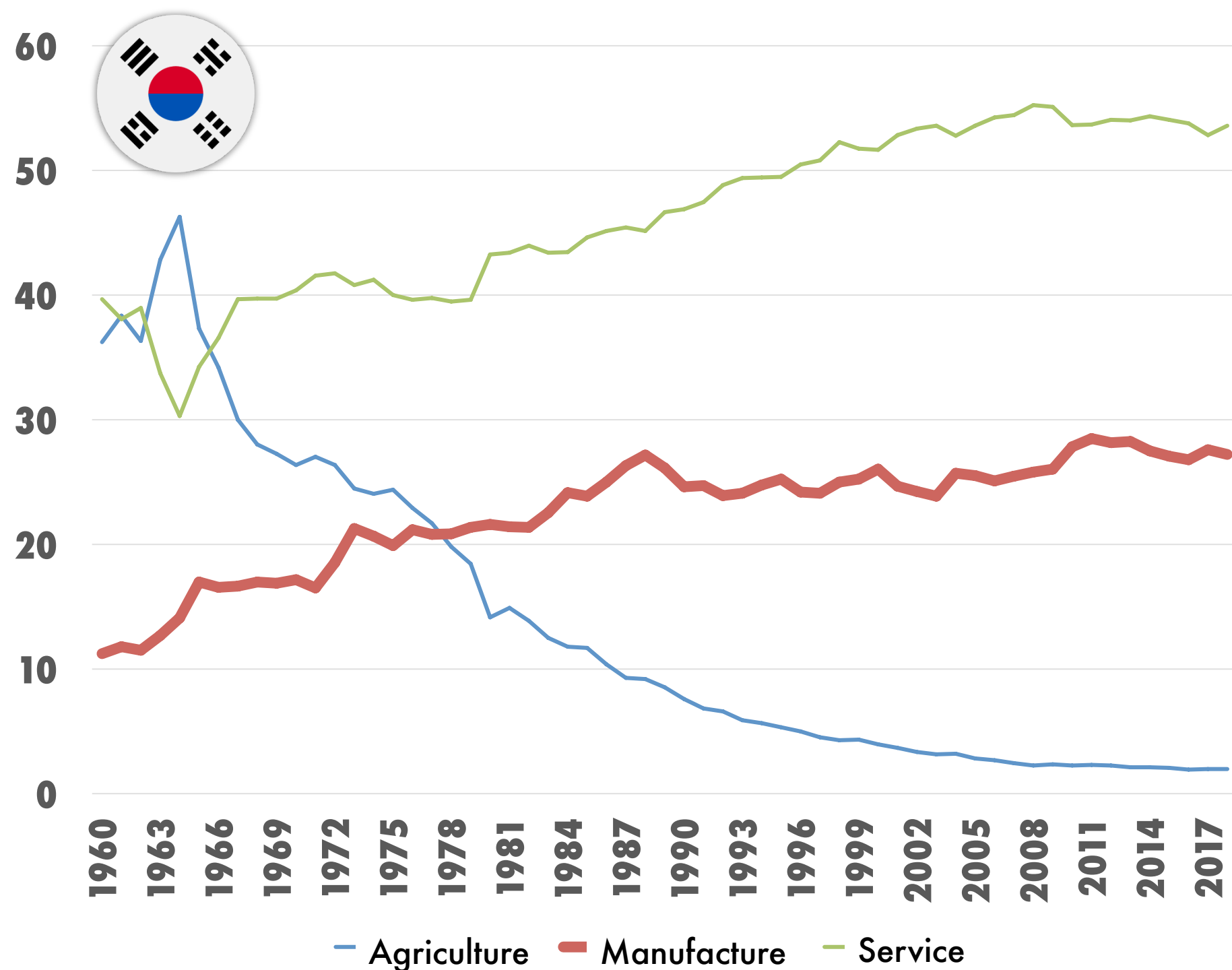
Source: CEIC



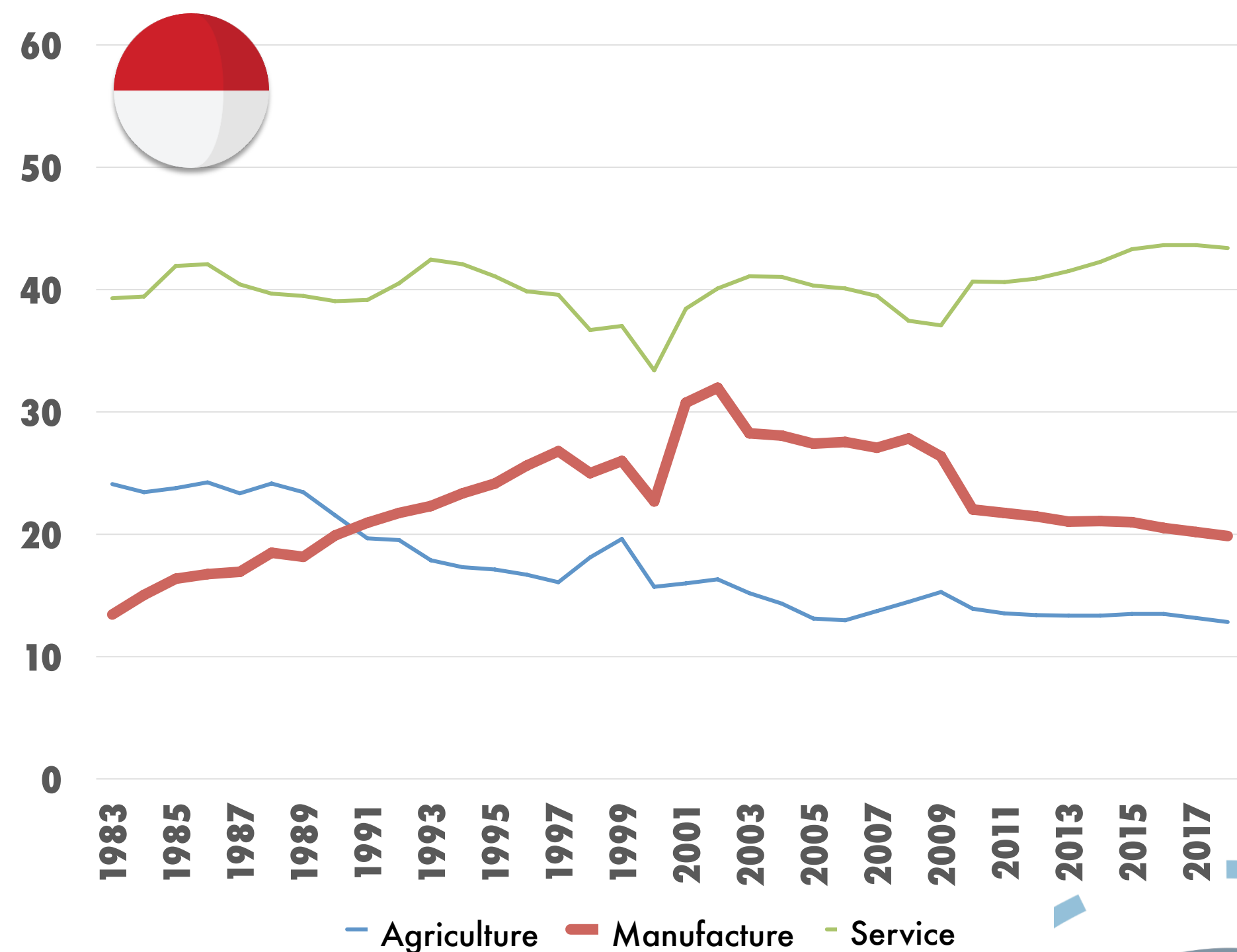


ADVANCING INDUSTRIALIZATION

Share of agriculture decreased to below 10 percent, manufacturing share reached 30 percent for a long time (industrialization), followed by the development of the service sector.



After the Asian crisis, the decline in agricultural shares went stagnant, while manufacturing shares continued to decline. This indicates an early deindustrialization.

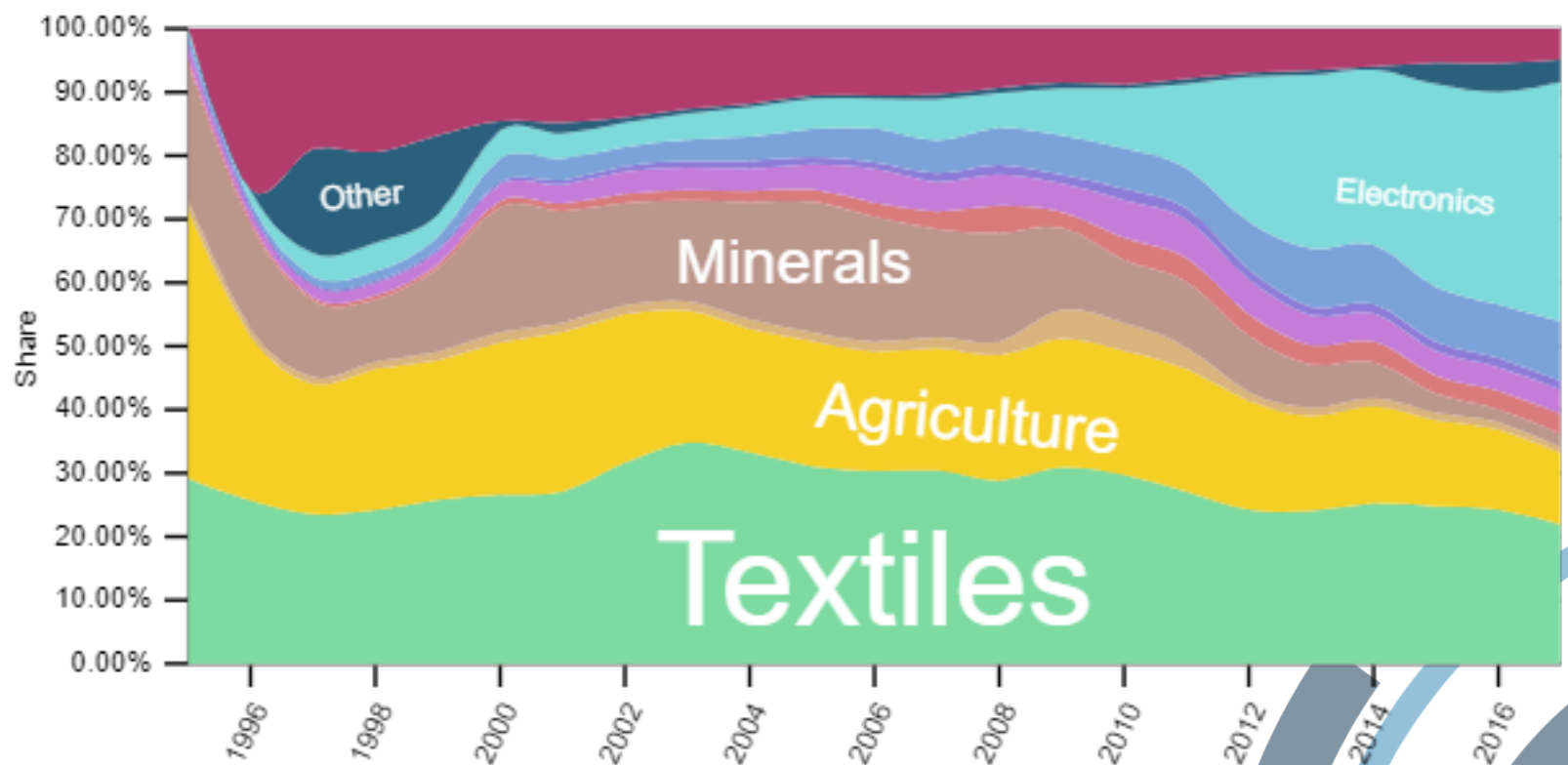
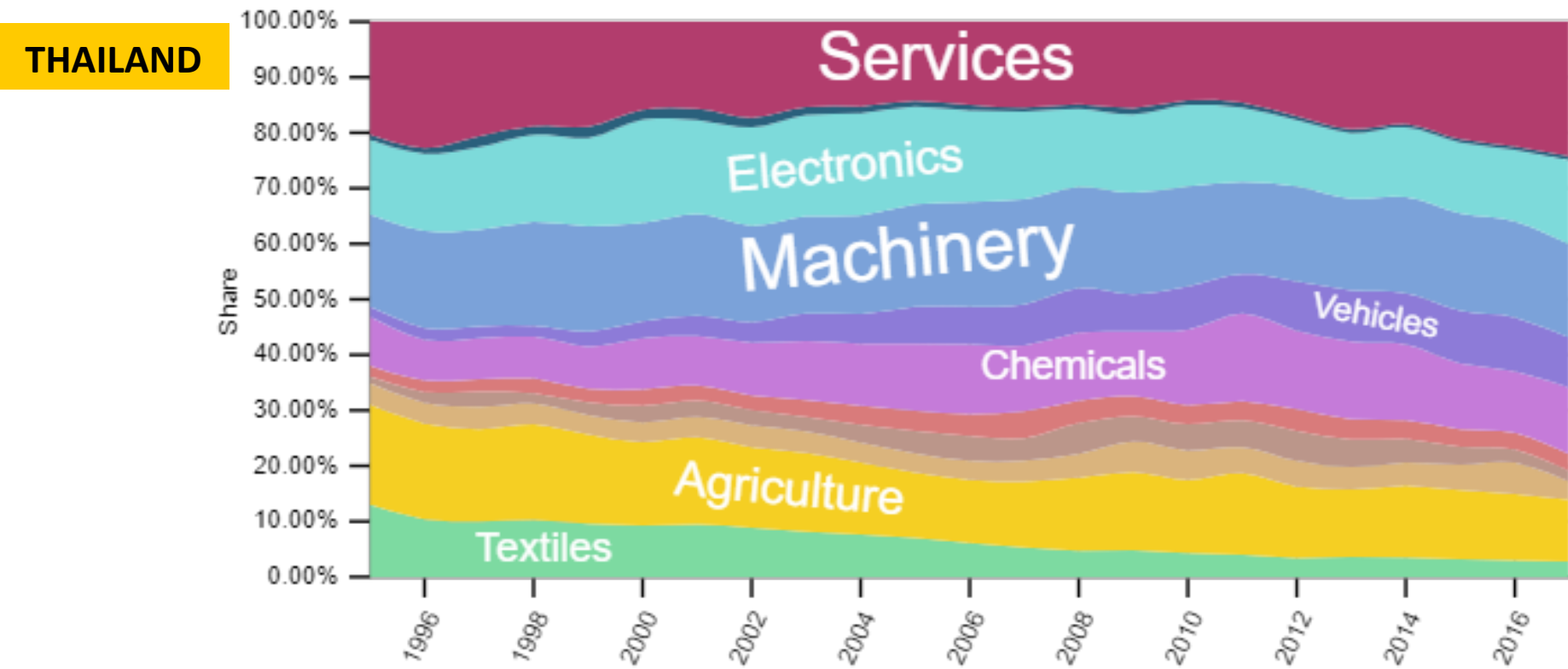
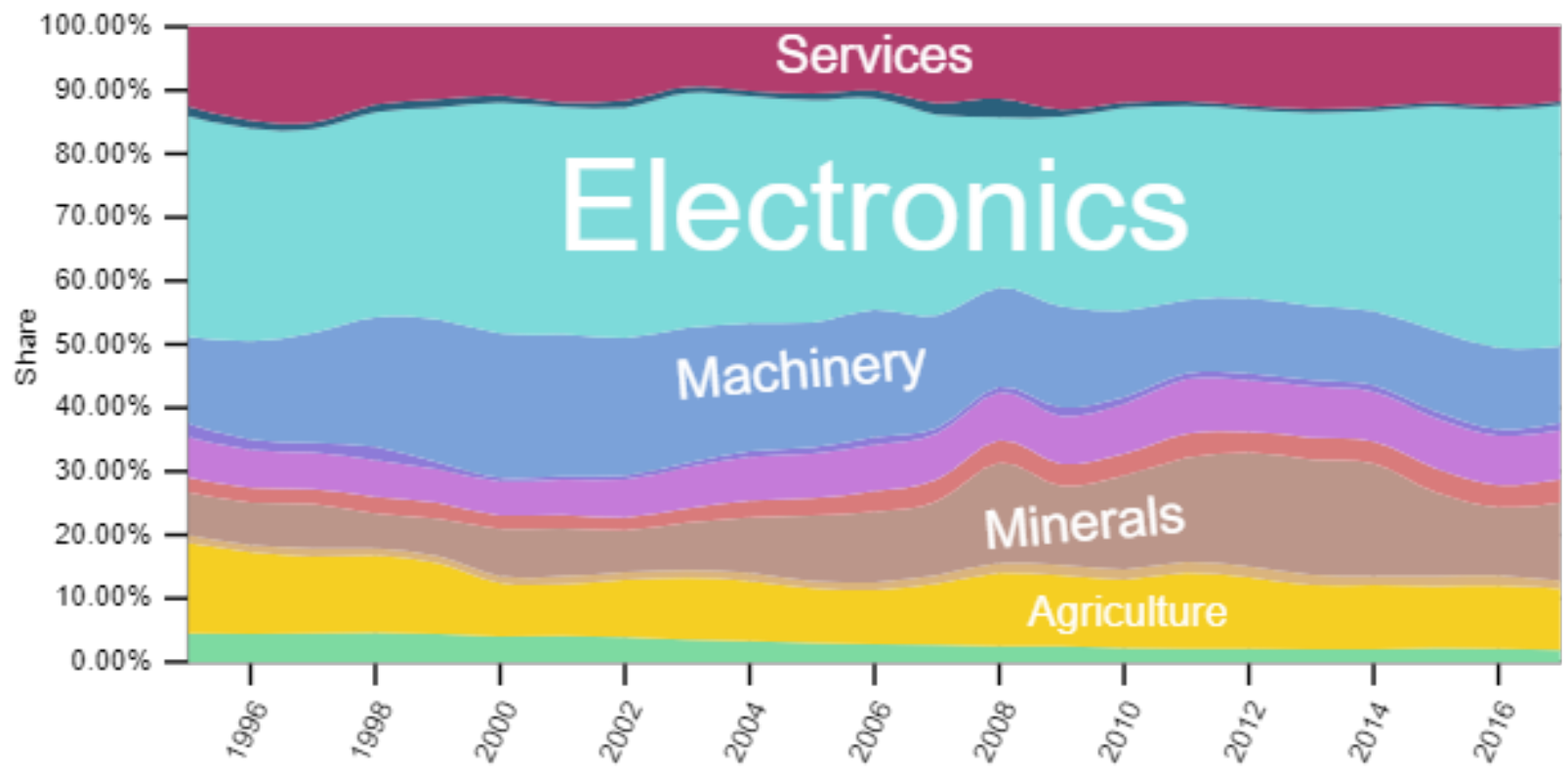
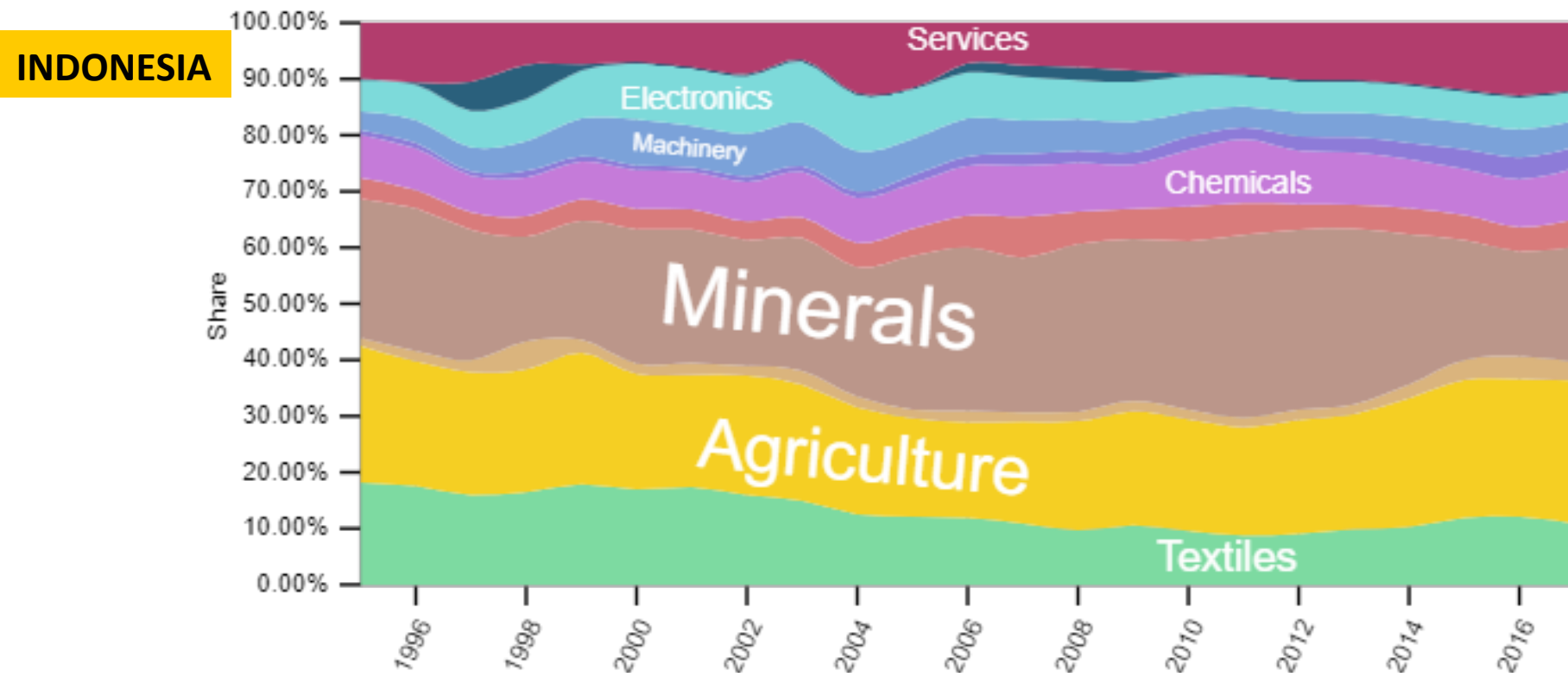


Source: World Development Indicators dan BPS



INCREASING EXPORT COMPLEXITY (PRODUCT DIVERSIFICATION AND VALUE ADDED)

Indonesian export that prioritizes commodities are vulnerable to international market volatility. On the other hand, Malaysia, Thailand and Vietnam are able to develop high value-added manufacturing products.

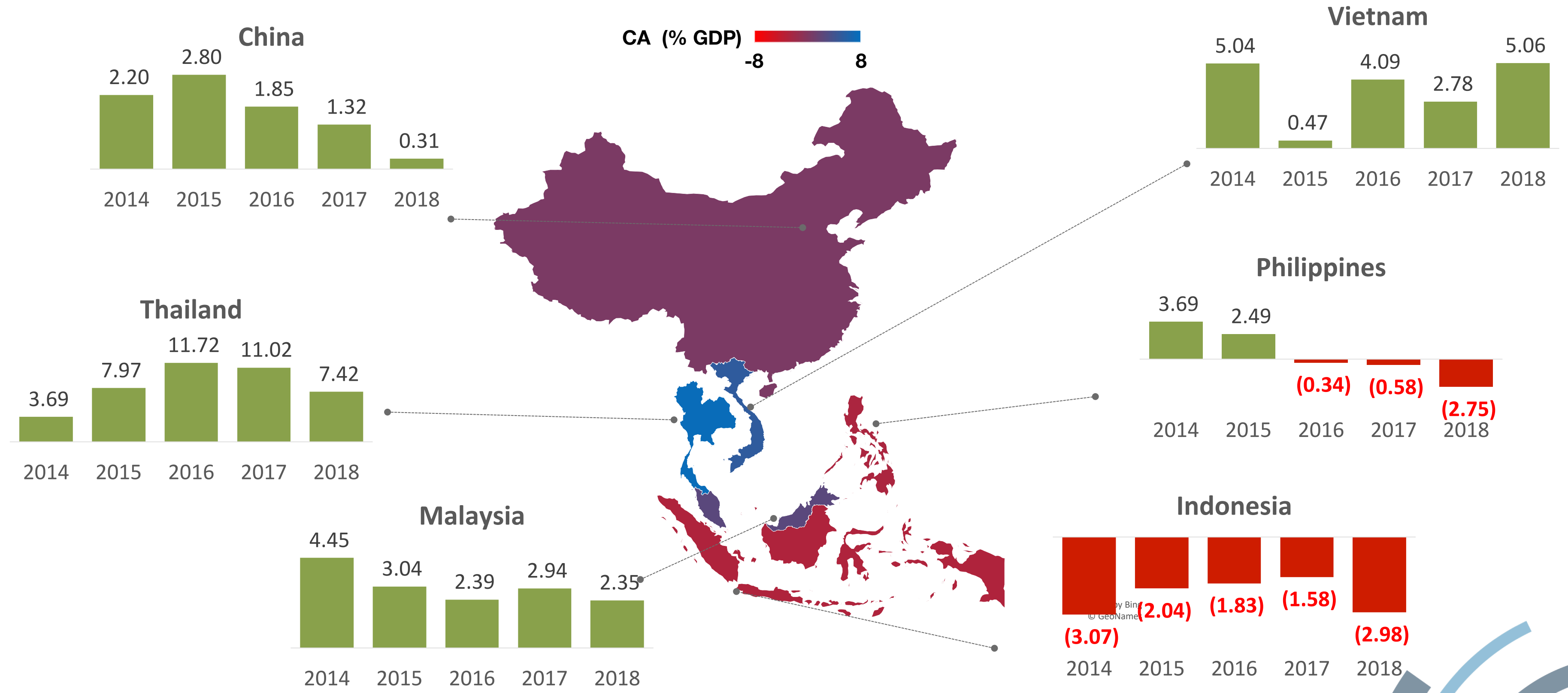


Source: Atlas CID Harvard (2019)



REDUCING CURRENT ACCOUNT DEFICIT

Limited manufacturing exports has caused the current account deficit to be relatively high compared to peer countries



Source: CEIC & Bank Indonesia



STRATEGIES TO REVITALIZE MANUFACTURING AND SERVICE SECTORS



Increasing the fulfilment of domestic demand for quality domestic products



Improve export-oriented industries



Encourage more high value-added manufacturing production and become part of the global manufacturing production value chain



Increase investment for industrial innovation



Improve the performance of the service sector supporting manufacturing, infrastructure, and affordable energy access



ECONOMIC TRANSFORMATION 2020-2024 (TECHNOCRATIC DRAFT OF MEDIUM TERM DEVELOPMENT PLAN/RPJMN)



DEVELOPMENT TARGET 2020-2024



**Economic Growth Rate
(Percent)**

5.4 – 6.0



**Poverty Rate
(Percent)**

6.5 – 7.0



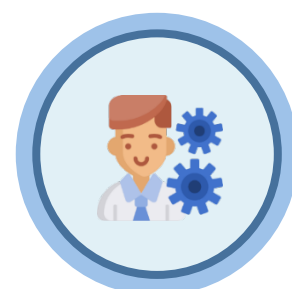
**Gini Ratio
(Index)**

0.370 – 0.374



**Open Unemployment Rate (TPT)
(Percent)**

4.0-4.6



**Human Development Index (HDI)
(Index)**

75.54





GROWTH SCENARIO 2020-2024

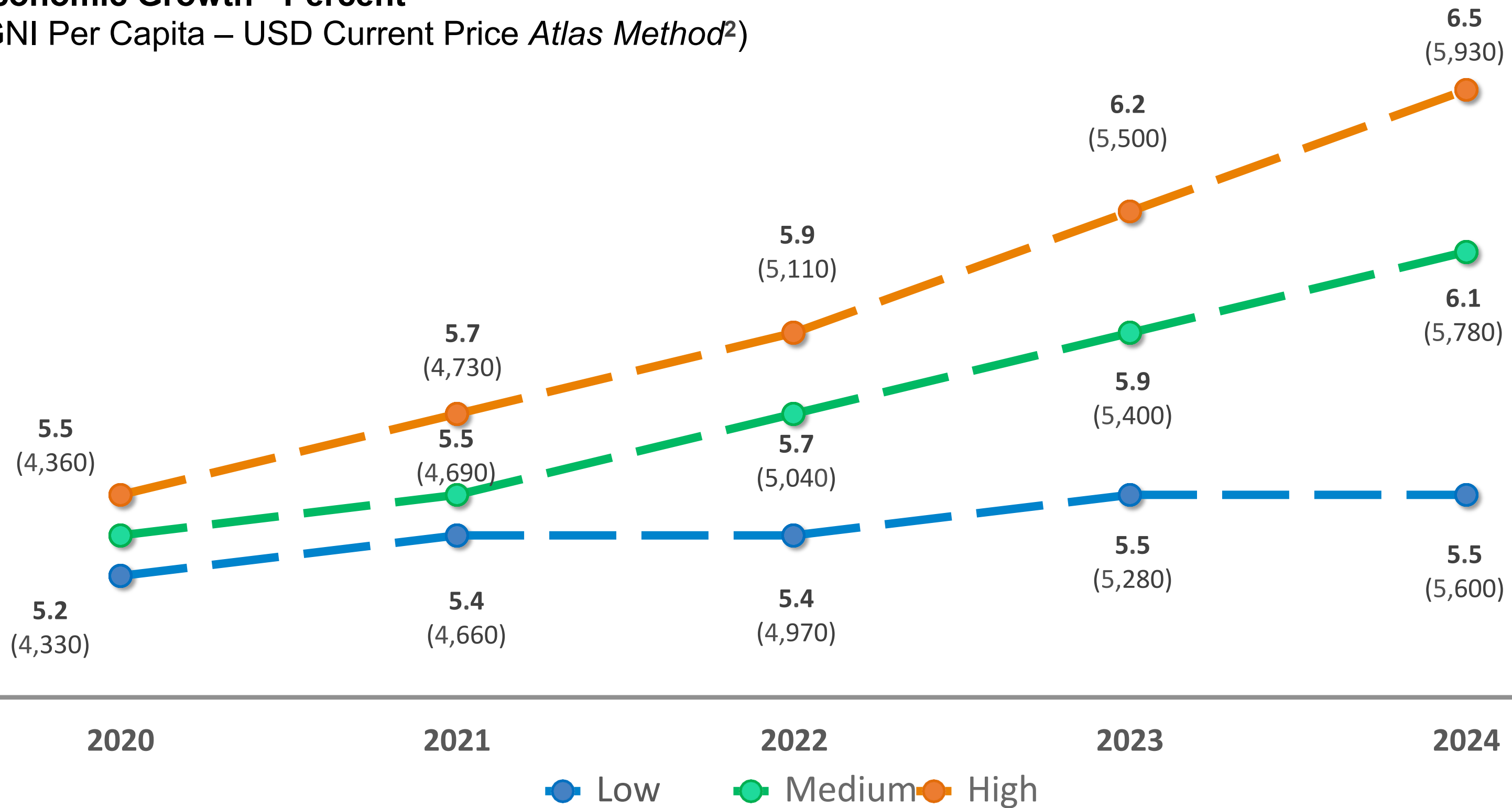


Growth Keys

1. Productivity Improvement
2. Increase Investment
3. Improve Human Capital
4. Improve Labor Market

Economic Growth - Percent

(GNI Per Capita – USD Current Price *Atlas Method*²)



Average: 6.0

Average: 5.7

Average: 5.4

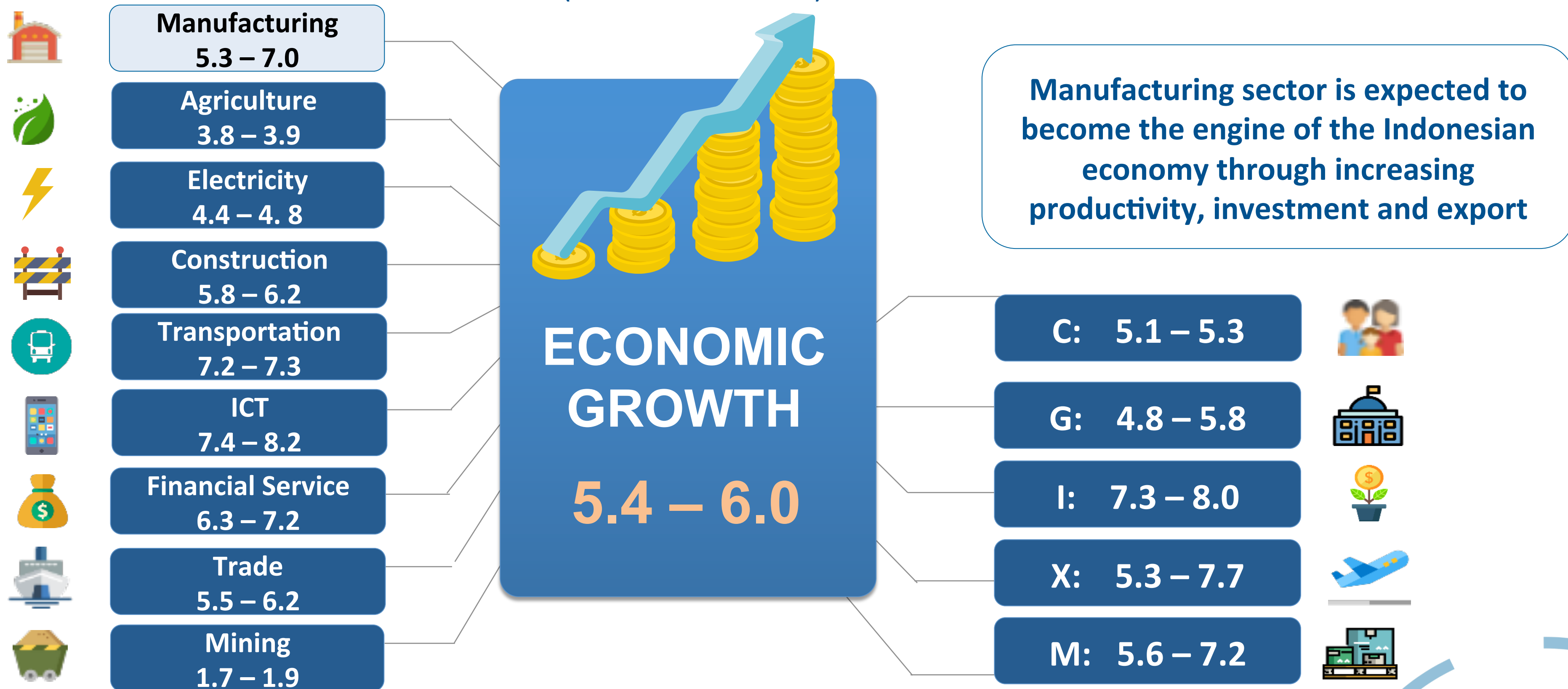
Preliminary Projections

¹Based on internal simulation on Bappenas with Growth Accounting Method



ECONOMIC GROWTH 2020-2024

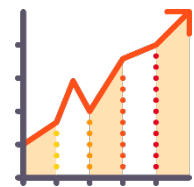
GROWTH PROJECTION 2020-2024 (LOW AND HIGH SCENARIO)



1. All denominated in Percent per Annum
 2. Preliminary result of Bappenas Projection



7 DEVELOPMENT AGENDA OF INDONESIA MEDIUM TERM DEVELOPMENT PLAN (RPJMN) 2020-2024



Strengthening Economic Resiliency for High-Quality Growth



Regional Development to Reduce Disparity



Improving Human Capital Quality and Competitiveness



Mental Revolution and Culture Development



Strengthening Infrastructure to Support Economic Development and the Provision of Basic Service



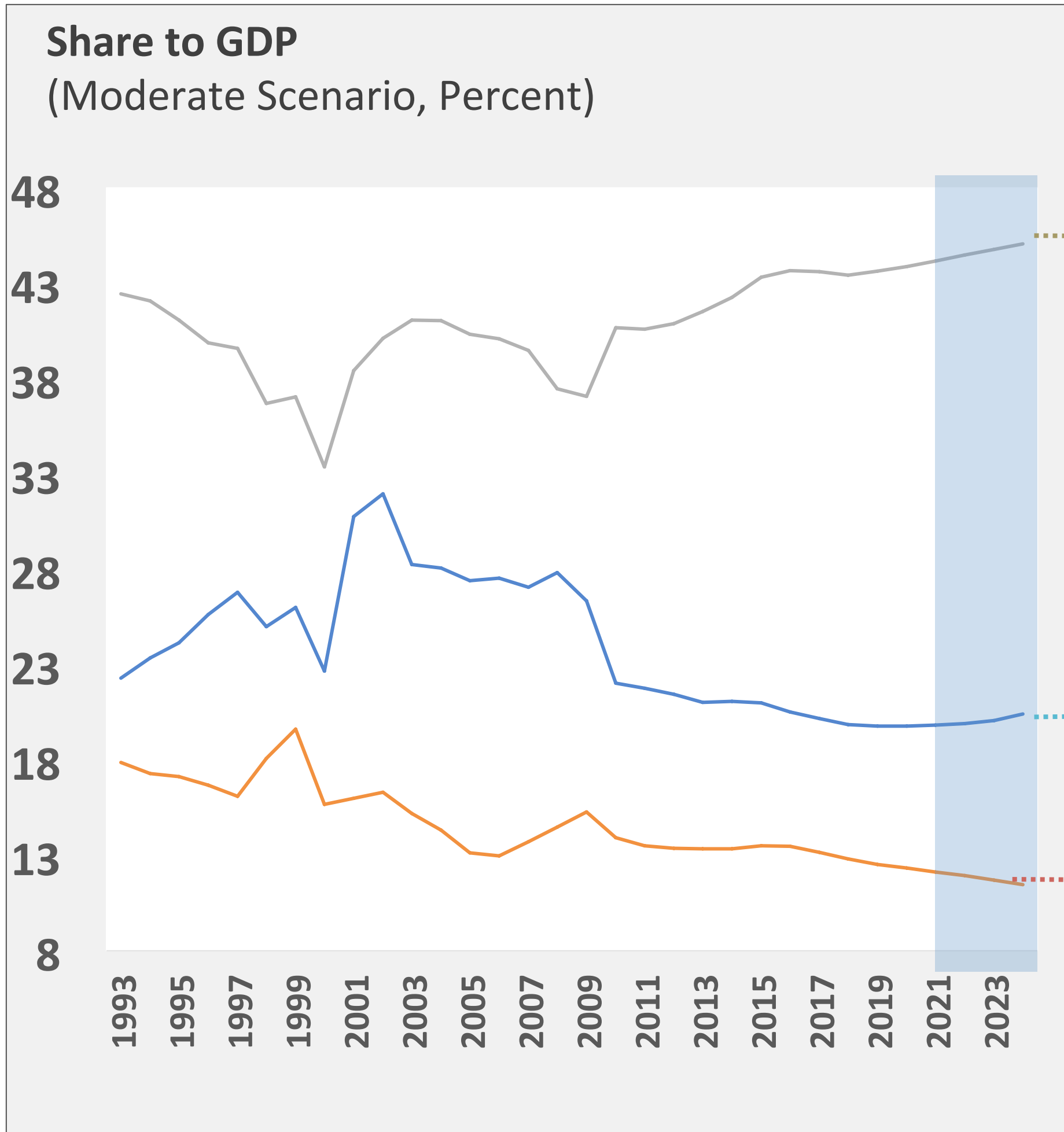
Developing Environment, Increasing Disaster Resiliency and Climate Change



Strengthening the Stability of Politics, Law and National Defence and Public Service Transformation



MANUFACTURING REVITALISATION, QUALITY SERVICE SECTOR & PRODUCTIVITY IMPROVEMENT OF FARMERS AND FISHERMEN



SERVICE SECTOR TRANSFORMATION

SERVICE SECTOR

5.7 (2015-2018) → 6.5 – 6.9 (2020-2024)

Developing the creation of high-value service sectors through innovation and technology

MANUFACTURING REVITALISATION

MANUFACTURING

4.3 (2015-2018) → 5.3 – 7.0 (2020-2024)

Improvement on business and investment climate to support the implementation of Industry 4.0

AGRICULTURE MODERNISATION

AGRICULTURE

3.7 (2015-2018) → 3.8 – 3.9 (2020-2024)

Increasing the productivity of farmers and fishermen



**INDONESIA
DEVELOPMENT
FORUM 2019**
INSPIRE · IMAGINE · INNOVATE · INITIATE



KNOWLEDGE
SECTOR INITIATIVE



Australian Government



THANK YOU