

INDONESIA DEVELOPMENT FORUM BOOSTING JOB-CREATING INVESTMENTS

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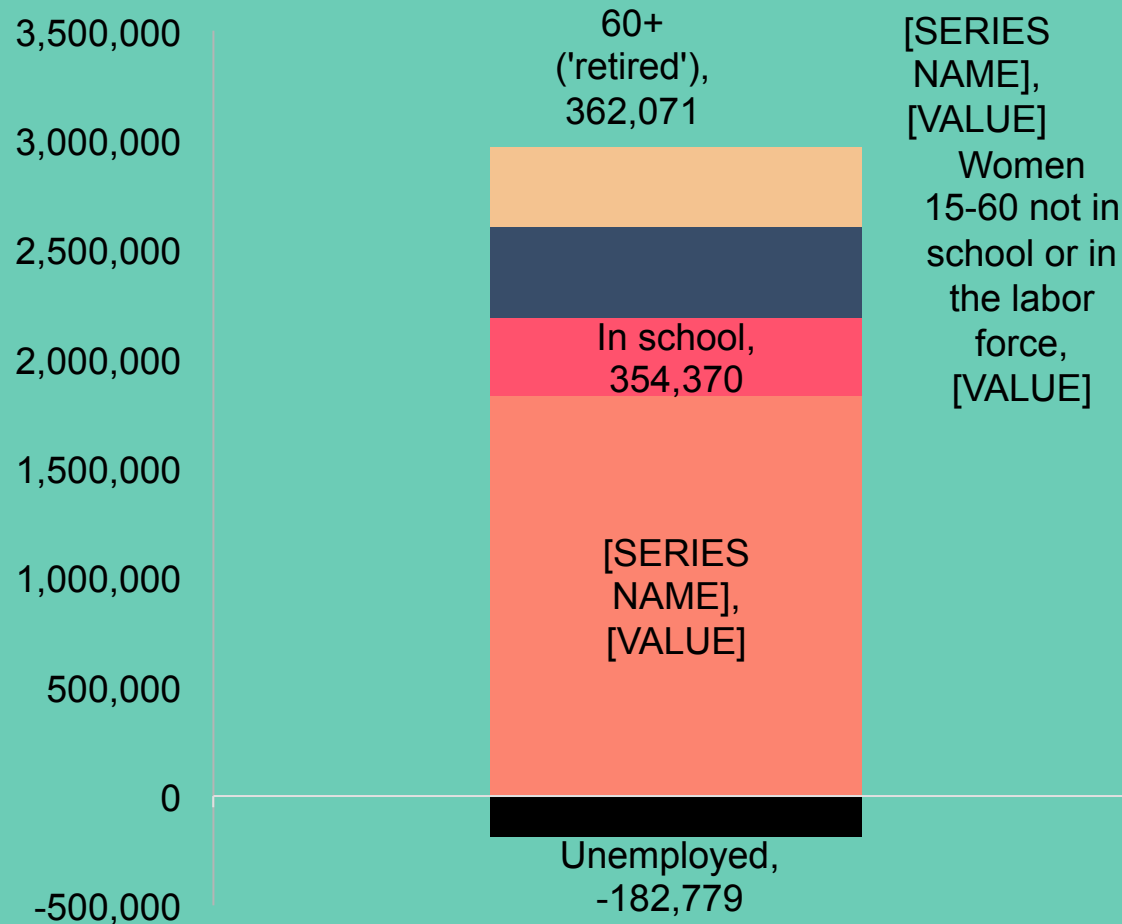


1.8 MILLION NEW JOBS...

...BUT MOSTLY LOW-WAGE

Average annual changes, number of people (2010-2017)

Source: Sakernas and World Bank staff analysis



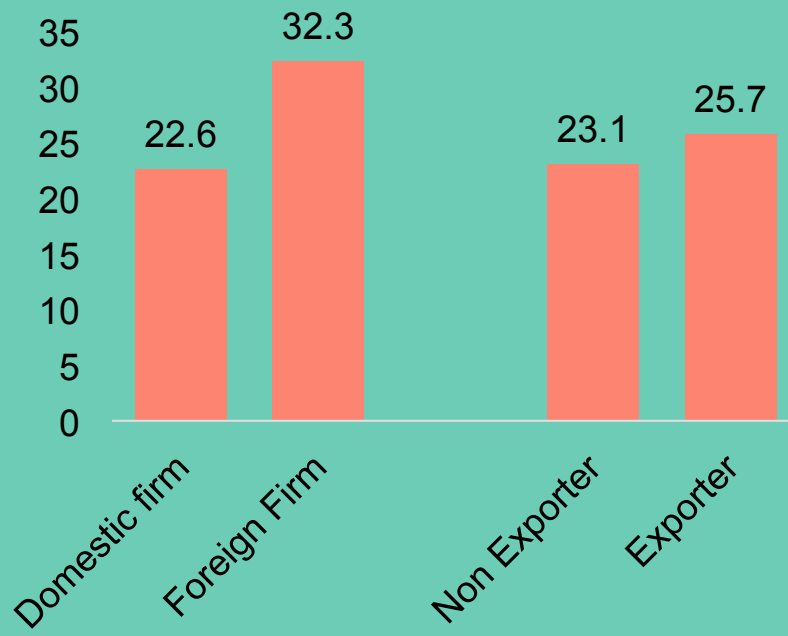
- Growth has translated into jobs for Indonesians...
- ...but not good, middle-class jobs
 - 56 percent of these new jobs are in low-value-added sectors...
 - ...paying low wages that are insufficient to bring families to the middle-class



EXPORT-ORIENTED FDI CAN HELP CREATE GOOD JOBS

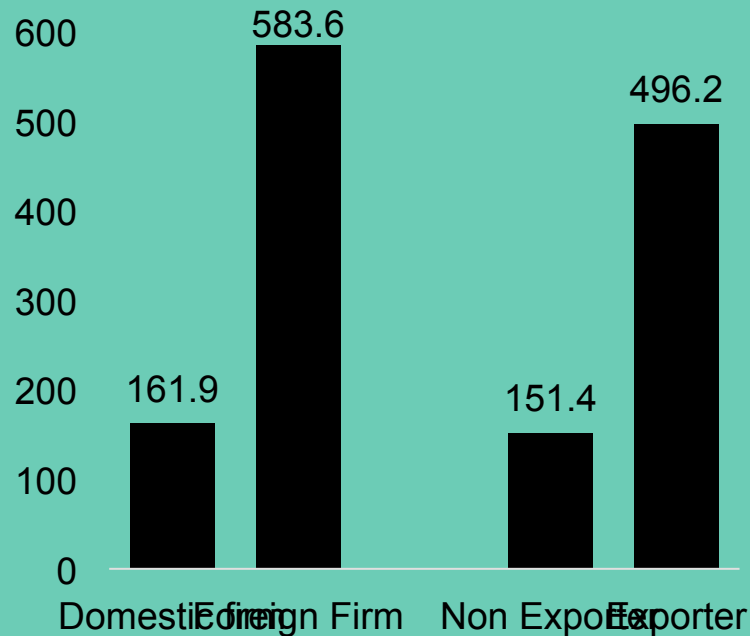
Average annual **wages** by firm type in manufacturing (2015), Million IDR

Source: World Bank staff based on Statistik Industri data



Average **employment** by firm type in manufacturing (2015)

Source: World Bank staff based on Statistik Industri data

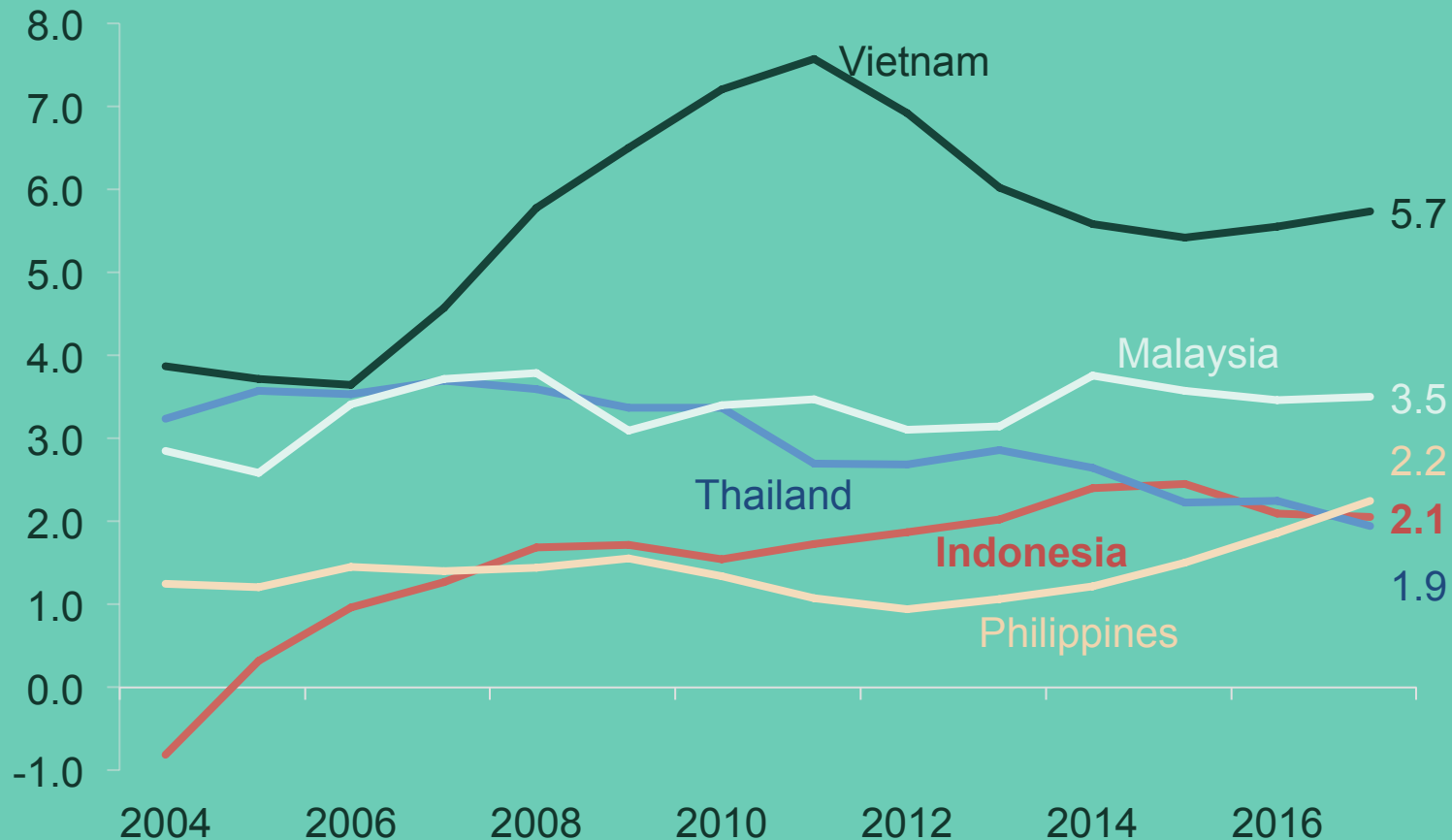


- **Foreign firms and those that export create more jobs and pay higher wages**
 - Removing foreign equity limits and sectoral reservations for SMEs could increase wages by 15 percent
- **More and better jobs will expand Indonesia's middle class beyond the current 20%**



BUT FDI HAS BEEN WEAK

Foreign Direct Investment, net inflows (percent of GDP, 5-year moving average)



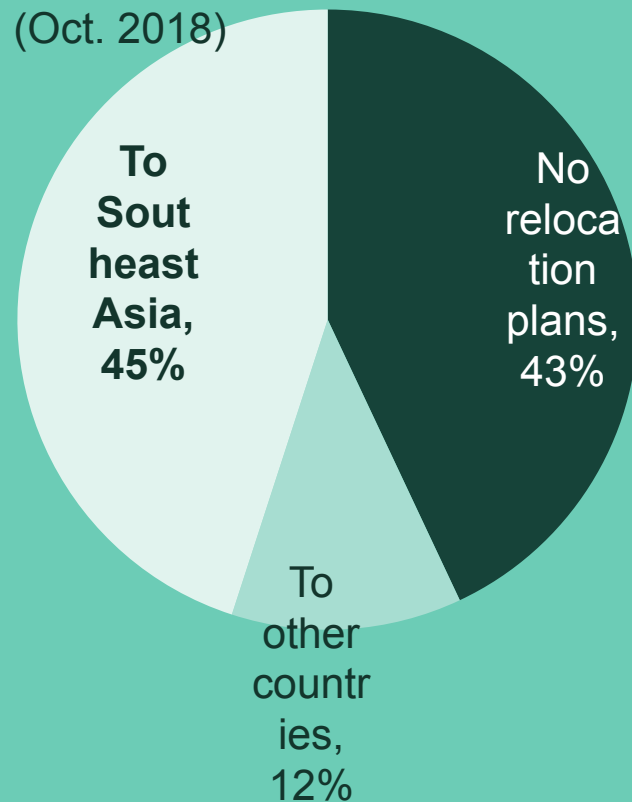
Source: World Development Indicators

- **Indonesia punches below its weight** in FDI
- Trends show a **continued decline** year to year
 - From **2.8** percent of GDP in 2014 to **1.8** percent of GDP in 2018 (H1)

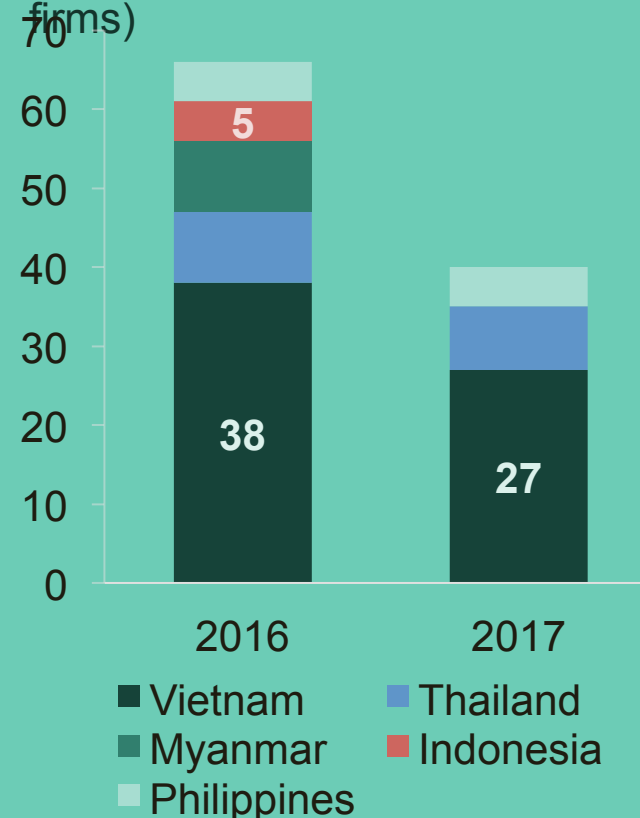


INDONESIA IS MISSING OUT ON OPPORTUNITIES

Are you planning to relocate all of your manufacturing out of China in the next 12 months? (Oct. 2018)



Destination of Japanese FDI relocating from China (number of firms)



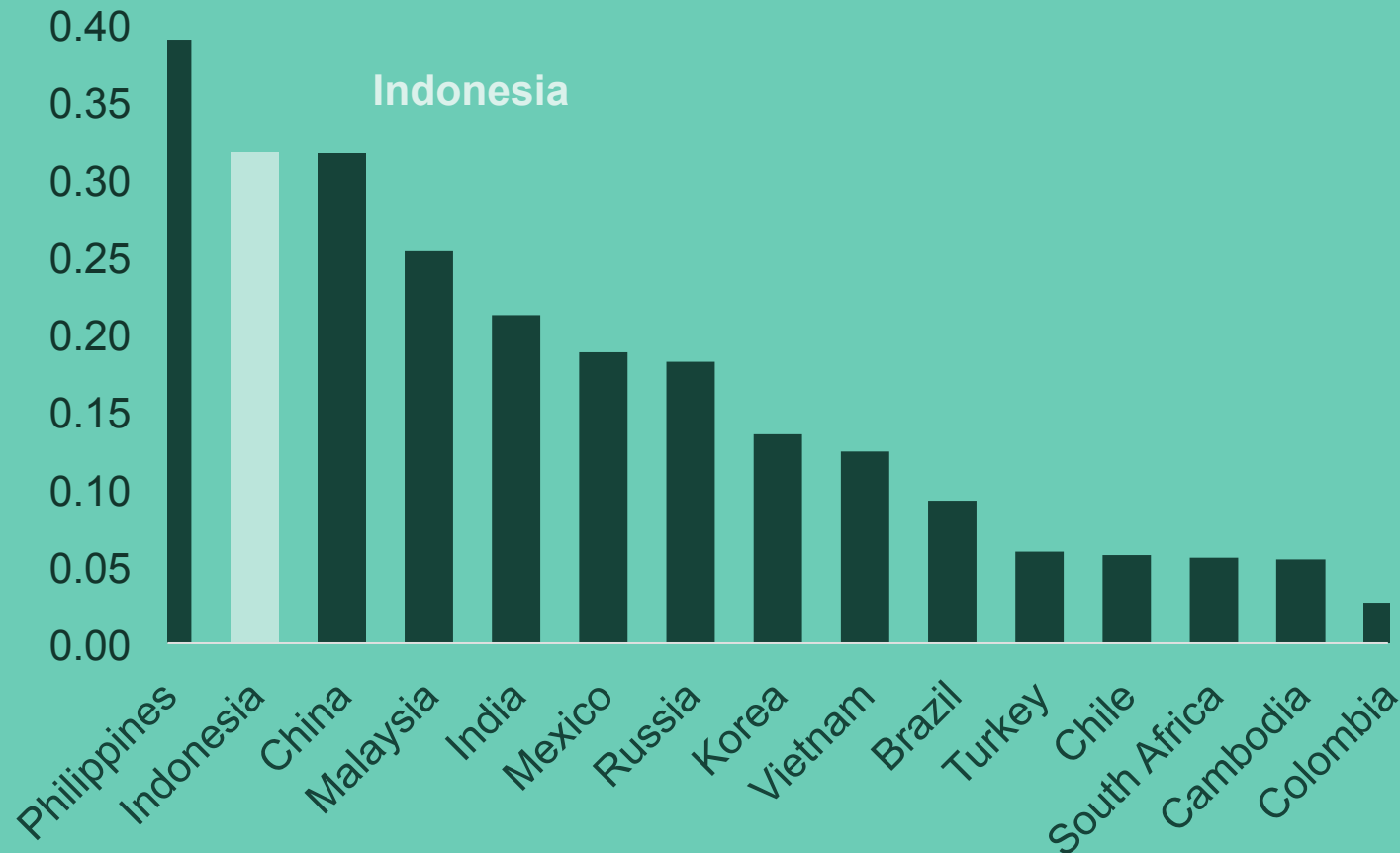
- The **impact of higher US tariffs** on Chinese products is already visible as Malaysia, Thailand and Vietnam take market share from China in US markets
- This shift may intensify: **45 percent of US firms in Southern China plan to relocate** to SE Asia because of the trade frictions
- Will all these investments and jobs **go to Vietnam and Thailand?**

Sources: "Special report on the impact of US and Chinese tariffs" - American Chamber of Commerce in South China and JETRO 2016 and 2017 Survey of the International Operations of Japanese Firms



THE BUSINESS ENVIRONMENT IS RESTRICTIVE

OECD FDI Restrictiveness Index; higher is more restrictive



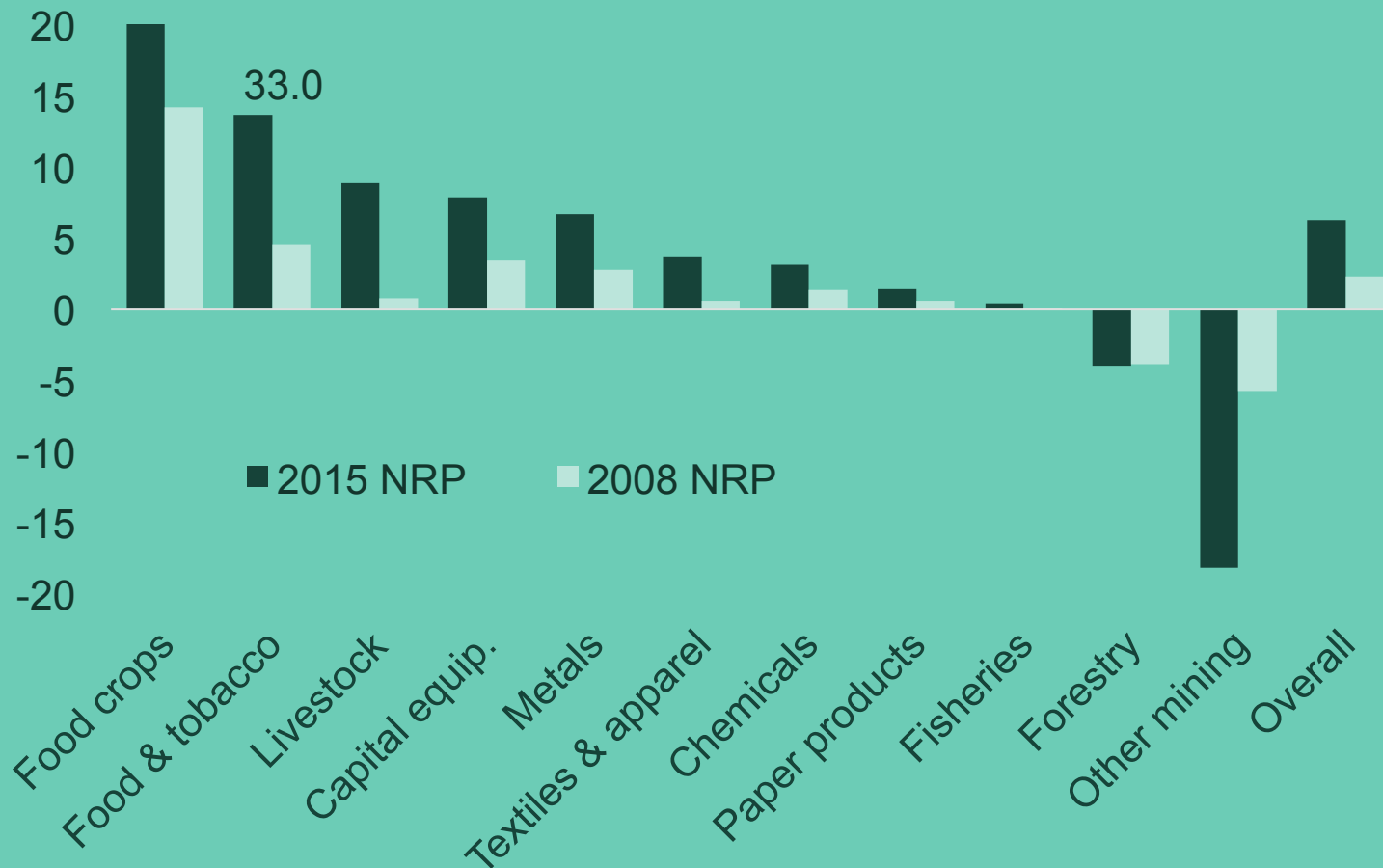
Source: OECD, World Bank staff calculations

- Indonesia is one of the **most restrictive** destinations for FDI
- Exporters need to import inputs efficiently – but importing is difficult in Indonesia
- Key skills are scarce, and bringing foreign talent difficult



TRADE BARRIERS MAKE INPUTS EXPENSIVE

Increase in prices because of trade barriers (percent)

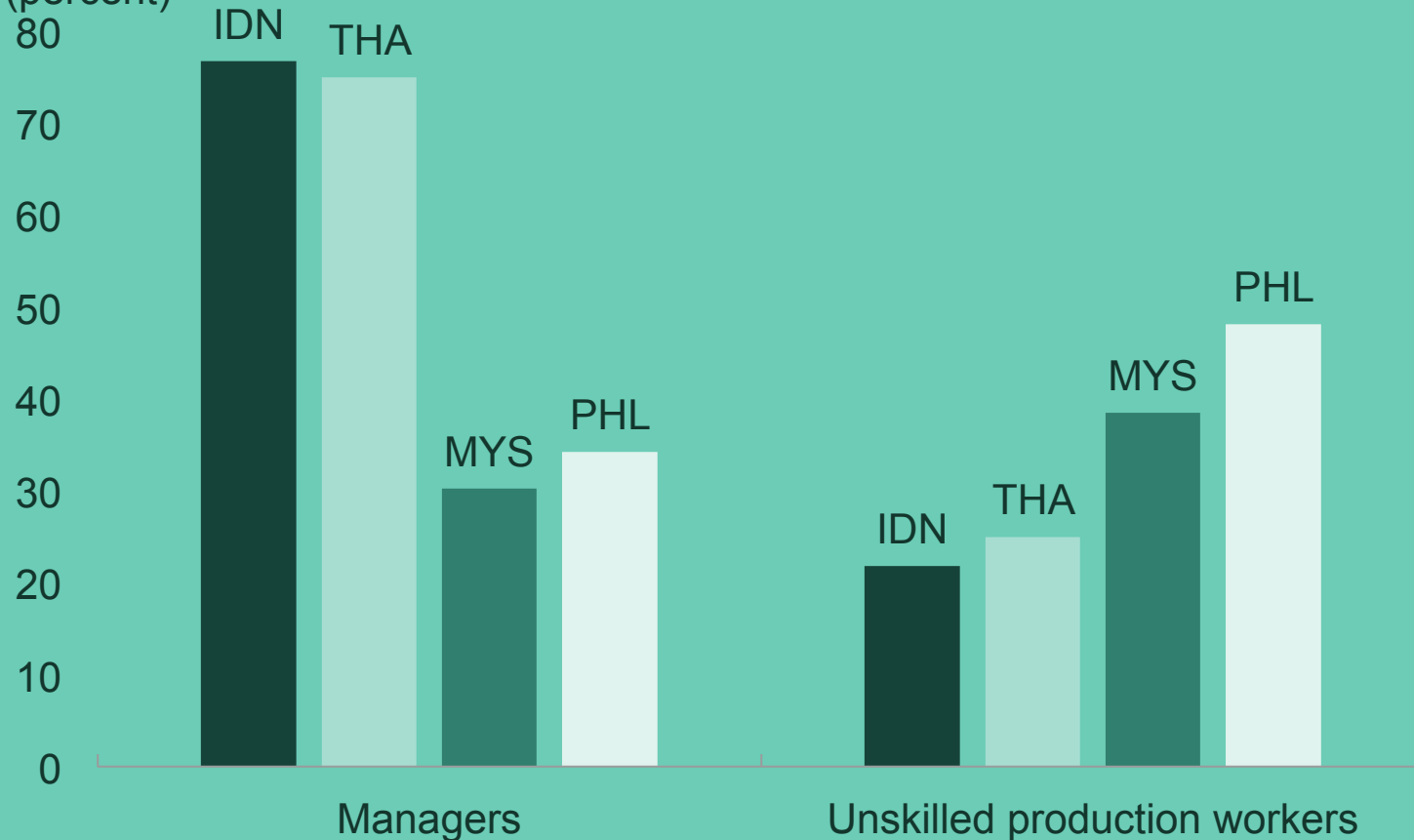


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SIGNIFICANT SKILL GAPS IN THE LABOR FORCE

Share of firms that cited inadequate skills in trying to hire each type of worker (percent)



Source: World Bank staff calculations based on Enterprise Survey data (2015)

- **Lack of skills** – especially of managers and technical professionals – **is a key constraint** to foreign and domestic investment



CUKUP RESTRIKSI

*Oh... Masih ada
Belenggu permasalahan struktural
Meresap di dinding perekonomian
Mencoba-coba kikis pertumbuhan ekonomi
Permasalahan lama yang ada lagi
Mohon tak acuhkan, lakukan reformasi*



A POLICY SAMBAL TO SPICE UP GROWTH AND CREATE GOOD JOBS



1. Welcome more investment, trade and talent

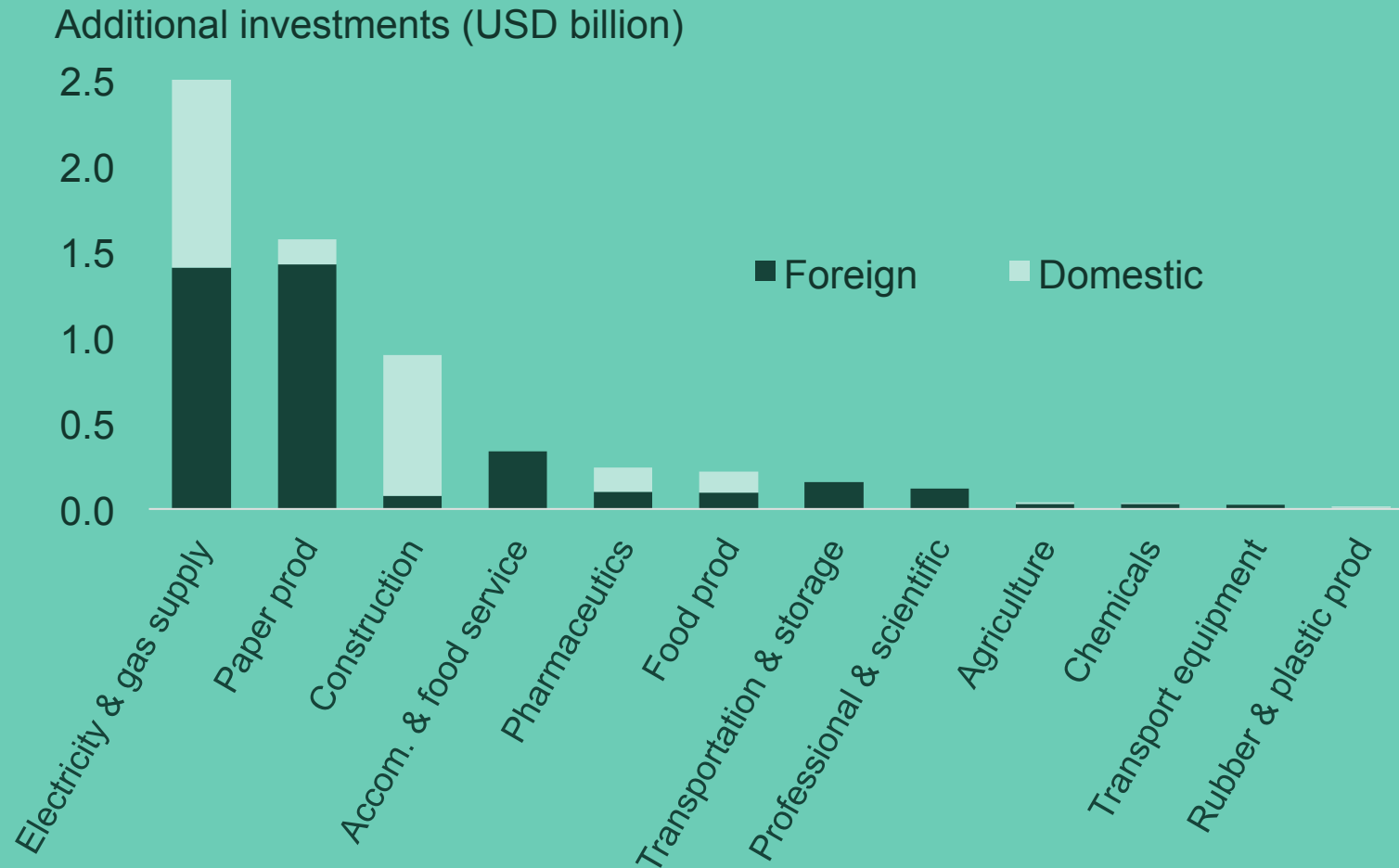


2. Protect businesses and consumers from anti-competitive practices



3. Create legal certainty to build confidence of entrepreneurs

EASE RESTRICTIONS TO WELCOME INVESTMENTS

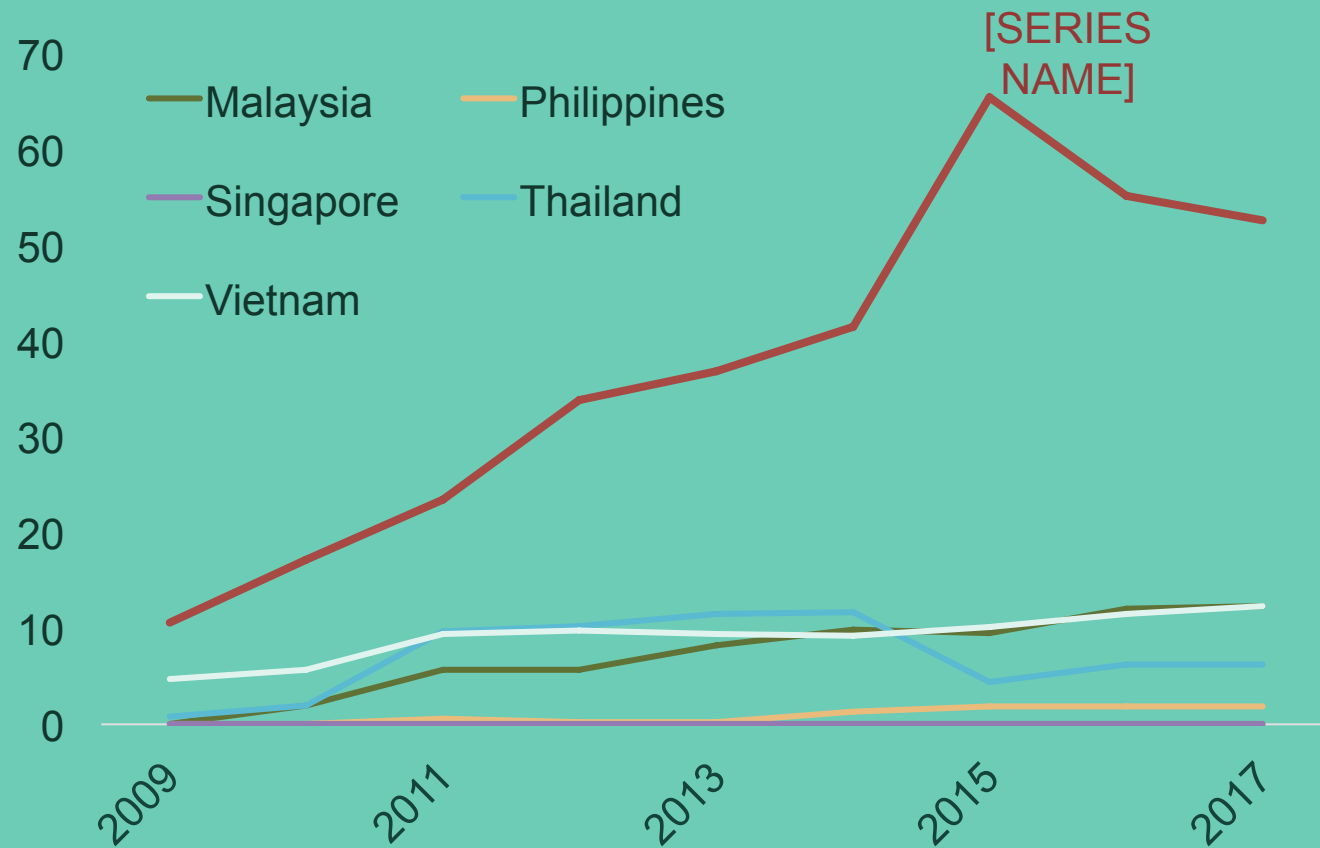


- Research shows reducing restrictions **increases domestic and foreign investments**
- Reducing restrictions implies:
 - Raising **foreign equity limits** across all sectors
 - Curbing **reservations to MSMEs** and focusing instead on integrating them into GVCs
 - Relaxing **minimum local content** requirements



REDUCE TRADE BARRIERS TO LOWER INPUT PRICES

Share of import value covered by new import restrictions (percent)



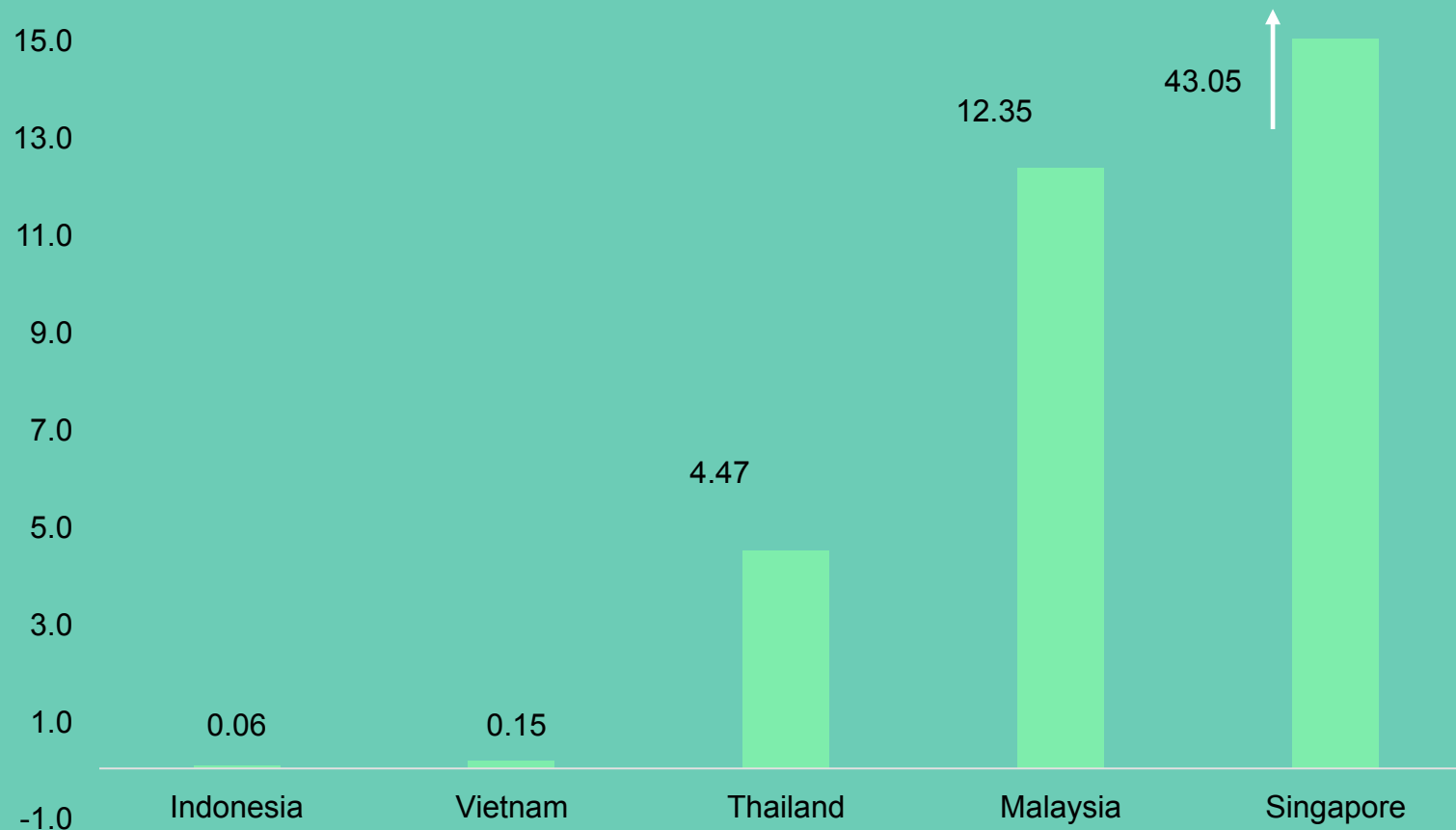
Source: World Bank (2017)

- Between 2000 and 2017 Indonesia **increased import tariffs** and the **application of Non-Tariff Measures (NTMs)**
- **Reduce trade barriers...**
 - Reverse recent tariff increases
 - Reduce barriers to entry in services markets
 - Rationalize NTMs
- ...to lower prices of intermediate goods and boost import competition, which **increase firm productivity**



MAKE IT EASIER FOR FIRMS TO FILL SKILL GAPS

Share of foreign workers in the labor force, 2016, percent



Source: : Immigration statistics in each country (for number of foreign visa) and World Development Indicators (for labor force). Note: 2016 data for all countries except Vietnam (2015)

- In the short-run, allow more professionals from abroad in critically scarce skilled occupations to work in Indonesia...
- ...while investing in developing home-grown talent, including through on-the-job learning and training



ADDITIONAL KEY INGREDIENTS OF THE POLICY **SAMBAL**



Protect firms and consumers from anti-competitive practices



Create legal certainty to build confidence of entrepreneurs

- Eliminate anti-competitive regulations not justified by a clear policy objective
- Rationalize local-level regulations, and truly empower coordinating ministries to veto ministerial regulations if line Ministries do not follow proper procedures



MACRO HAS BEEN MAKING UP FOR THE MICRO



- Sound **macro policies** have **been bearing the weight** of external stability...
- ...as interest rates have to be higher and deficits lower when exports and FDI are weak
- **'Micro' policy reforms** to raise FDI and exports will create space for fiscal and monetary policies to ease...
- ...boosting public and private investments while maintaining external sustainability



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