



TAN KHEE GIAP
DORIS LIEW WAN YIN
CLARICE HANDOKO

ANNUAL COMPETITIVENESS ANALYSIS AND IMPACT ESTIMATION OF WELFARE SPENDING ON FISCAL SUSTAINABILITY OF SUB-NATIONAL ECONOMIES OF INDONESIA



**Annual Competitiveness Analysis and
Impact Estimation of Welfare Spending on
Fiscal Sustainability of Sub-National Economies
of Indonesia**

In 2020, ACI was ranked 11th globally, 2nd in Asia, and 1st in Singapore amongst 94 think tanks worldwide under the “Best University Affiliated Think Tank” category by the Think Tanks and Civil Societies Program at the University of Pennsylvania, USA.

About ACI

The Asia Competitiveness Institute (ACI) was established in August 2006 as a Research Centre at the Lee Kuan Yew School of Public Policy (LKYSPP), National University of Singapore (NUS). It aims to build the intellectual leadership and network for understanding and developing competitiveness in the Asia region. ACI seeks to contribute to the enhancement of inclusive growth, living standards, and institutional governance through competitiveness research on sub-national economies in Asia. It identifies mitigating issues and challenges for potential public policy interventions through close collaboration with regional governments, business corporations, policy think-tanks, and academics. ACI’s three key research pillars include (I) Sub-national economies level competitiveness analysis and city-level liveability analysis; (II) Firm-level competitiveness analysis in 16 Asia economies; and (III) Singapore’s long-term growth strategies and public policy analysis.

ACI’s value propositions may be encapsulated in its acronym:

- Analytical inputs to initiate policies for policy-makers and business leaders in Asia
- Capacity building to enable others through improvement in productivity and efficiency
- Intellectual leadership to create pragmatic models of competitiveness and inclusive growth

The institute’s core research competencies can also be encapsulated in this acronym describing our evidence-based assessments conducted on public policies for **ASEAN** in the context of the rise of **China** and **India**.

Vision and Mission

- ACI’s over-arching vision is to build up its research credibility with policy impact, contributing as a professional, world-class think-tank.
- ACI’s mission is to establish our niche as a leading policy think-tank by identifying competitiveness trends, opportunities, and challenges, as well as promoting competition and synergizing complementarities amongst Asian economies and business corporations.
- ACI endeavours to articulate sound recommendations, entice discourse, and shape agenda in the arena of public policy amongst Asian governments.
- ACI undertakes evidence-based analysis of public policy issues and decisions, in order to provide assessment of their effectiveness as well as economic and societal impact.

Research Initiatives and Collaborations

- I. Identify trends of competitiveness and policy analysis on trade and investment of ASEAN, within the regional context of competition and complementarities with China and India.
- II. Identify competitive strengths and conduct policy analysis on Singapore within the context of regional economies with international benchmarking.
- III. We are regularly releasing three indices on liveability ranking including 64 Global Cities, 100 Greater China Cities, and 17 Shandong Cities.
- IV. We have established an Ease of Doing Business (EDB) Index on Attractiveness to Investors, Business Friendliness, and Competitive Policies for 21 sub-national economies of India and 33 sub-national economies of Indonesia.
- V. We have signed Memoranda of Understanding (MoU) with The World Bank (2015), Enterprise Singapore formally known as SPRING Singapore (2014) and European Central Bank (2014). The MoU between The World Bank and National University of Singapore, coordinated through ACI, was signed in 2016.
- VI. We have signed MoUs with various institutions in Greater China economies, including Institute of Economics at Shanghai Academy of Social Sciences (2019), Institute of World Economics at Shanghai Academy of Social Sciences (2016), Shandong Academy of Social Sciences (2015), Chongqing Municipal

People's Government (2015), China Institute for Reform and Development, Haikou (2015), Counsellors' Office of the People's Government of Guangdong Province (LOI, 2014), and Chung-Hua Institution for Economic Research, Taiwan (2015).

- VII. We have signed MoUs with seven Chief Ministers' Offices in Uttarakhand (2019), Andhra Pradesh (2018, 2017 & 2015), Bihar (2015), Chhattisgarh (2015), Madhya Pradesh (2015), Odisha (2015), and Punjab (2015).
- VIII. We have signed a MoU with Committee for Acceleration of Priority Infrastructure Delivery at Coordinating Ministry for Economic Affairs, Indonesia (2016), Indonesia Investment Coordinating Board (2014), Indonesian Agency for Agricultural Research and Development at Ministry of Agriculture (2014), Indonesian President's Delivery Unit for Developing Monitoring and Oversight (2013), and Employer's Association of Indonesia (2013).
- IX. We have signed MoUs with Asian think-tanks and institutions, including Institute of Economic Growth, India (2018), Vietnam Chamber of Commerce and Industry, Vietnam (2016), Centre for Strategic and International Studies, Indonesia (2015), Institute of Strategic & International Studies, Malaysia (2015), Philippine Institute for Development Studies, the Philippines (2015), Thailand Development Research Institute, Thailand (2015), and Central Institute for Economic Management, Vietnam (2015).

About ACI's Research Pillars

ACI has consciously engaged in economic research that has significant relevance to Singapore and the Asian region. Over the years, ACI has focused on our expertise in quantitative competitiveness analysis and simulation, spinning off volumes of research output in the applications of our methodology and regional insight. At this stage, ACI has identified three core research pillars that will guide and define its research efforts moving forward. The three research pillars are as follows:

Pillar I. Sub-national Economies Competitiveness Analysis

ACI engages in systematic and methodical competitiveness analyses of the sub-national economies by using an evidence-based, empirical approach involving a comprehensive list of relevant indicators, which are categorised under multiple layers called the 'environments'. A number of our projects, including competitiveness analyses of Greater China, ASEAN-10, India, and Indonesia, as well as other thematic research projects, were conducted by adopting this common methodology, with potential variations in the specific environments and indicators. ACI's competitiveness analysis of Asian economies goes beyond the usual ranking to offer constructive policy recommendations on how individual member states can improve their rankings vis-à-vis their sub-national or regional peers through the application of the 'what-if' simulation, which provides the projected improvements of each state's ranking whereby the bottom one-fifth of its indicators are enhanced.

Pillar II. Micro-based Firm Level Competitiveness Analysis

Micro-based firm level competitiveness analysis is ACI's second research pillar that has been developed in view of the intrinsic importance of firm-level competitiveness in terms of productivity, efficiency, and governance. In the context of globalisation, mobility of economic activities, and blurring of borders, an understanding of the determinants and dynamics of firm-level competitiveness is paramount, in order for policy makers to adjust and prepare their industries for an increasingly competitive economic landscape. To this end, ACI has partnered with the European Central Bank to carry out research in this area, possessing a solid foundation in firm-level productivity research in the form of European Competitiveness Network database and methodology. ACI envisaged the expansion of Competitiveness Research Network (CompNet) into Asia, thereby pioneering the Asia's CompNet in encompassing 16 economies in Asia.

Pillar III. Singapore's Long-term Economic Growth Strategies and Public Policies Analysis

The third and imminent research pillar focuses on Singapore's long-term economic growth strategies in the context of changing circumstances, future trends, and emerging opportunities for Singapore in the decades ahead. In particular, ACI will take on the task of critically examining Singapore's public policy strengths and areas of improvement by assessing policy successes of the past, identifying new issues to address and the current policy gaps, through a systematic and evidence-based research inquiry using quantitative methodology and empirical data, leveraging on our network of policy experts.

Founding Patron and International Advisory Panel ---

Founding Patron **Mr George Yeo**
Visiting Scholar, Lee Kuan Yew School of Public Policy, National University of Singapore & Former Minister of Foreign Affairs, Singapore

International Advisory Panel

Co-Chairs: **Professor Michael Porter (2006-2010)**
Bishop William Lawrence University Professor

Ms Marjorie Yang (2006-2012)
Chairman, Esquel Group

Members: **Professor Kishore Mahbubani**
Former Dean, Lee Kuan Yew School of Public Policy, National University of Singapore

Dr Kuntoro Mangkusubroto
Former Head, President's Delivery Unit for Developing Monitoring and Oversight (UKP4), Indonesia

Mr Narayana Murthy
Former Chairman, Infosys Technologies Limited

Mr Philip Yeo
Former Chairman, Enterprise Singapore

Mr Gabriel Lim
Permanent Secretary, Ministry of Trade and Industry

Ms Yong Ying-I
Former Permanent Secretary, Public Service Division

Professor Chan Kam Leung Alan
Former Dean, College of Humanities, Arts and Social Sciences, Nanyang Technological University

Asia Competitiveness Institute

Co-Directors: **Associate Professor Tan Khee Giap (2011 till now)**
Professor Tan Kong Yam (2011 till now)

Annual Competitiveness Analysis and Impact Estimation of Welfare Spending on Fiscal Sustainability of Sub-National Economies of Indonesia

Tan Khee Giap
Doris Liew Wan Yin
Clarice Handoko

~ Special Remarks ~

Bambang Brodjonegoro

Minister for National Development Planning Agency, Republic of Indonesia

Isran Noor

Governor of East Kalimantan, Republic of Indonesia

Irianto Lambrie

Governor of North Kalimantan, Republic of Indonesia

Isdianto

Acting Governor of Riau Islands, Republic of Indonesia

Bambang Wijanarko

Deputy Director for Development and Management Controlling, Secretariat of the National Council for
Special Economic Zone, Coordinating Ministry for Economic Affairs,
Republic of Indonesia

~ Reviewers ~

Lili Soleh Wartadipradja

Director of Investment Agency and Integrated
License Services, East Java Province,
Republic of Indonesia

Wahyu Utomo

Deputy Minister for Infrastructure and Regional
Development, Coordinating Ministry for
Economic Affairs, Republic of Indonesia

Prasetyo Aribowo

Head of the Provincial Government of Central
Java Regional Planning and Development
Agency, Republic of Indonesia

Siwage Dharma Negara

Senior Fellow, Co-Coordinator of Indonesia
Studies Programme, APEC Study Center,
ISEAS Yusof Ishak Institute, Republic of
Singapore

Annual Competitiveness Analysis and Impact Estimation of Welfare Spending on Fiscal Sustainability of Sub-National Economies of Indonesia

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**Based on the speech "*Potential Development to North Kalimantan given the Relocation of the Indonesian New Capital*" by Dr H Irianto Lambrie, Governor of the Province of North Kalimantan of the Republic of Indonesia, during the Conference Keynote Address at the 2019 The World Bank Group-Asia Competitiveness Institute Annual Conference on 19 November 2019 in Singapore.

***Based on the speech "*Special Economic Zones to Promote Economic Growth, Employment Creation dan Balanced Regional Development in Indonesia*" by Dr Bambang Brodjonegoro, Minister for National Development Planning Agency of Republic of Indonesia, during the Conference Opening Remarks at the 2019 The World Bank Group-Asia Competitiveness Institute Annual Conference on 18 November 2018 in Singapore.

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	<i>Dr Siwage Dharma Negara</i> <i>Senior Fellow, Co-Coordinator of Indonesia Studies Programme,</i> <i>APEC Study Center, ISEAS Yusof Ishak Institute, Republic of Singapore</i>	

Discussant Note 3.2 100
Dr Prasetyo Aribowo
Head of the Provincial Government of Central Java Regional Planning and Development Agency,
Republic of Indonesia

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Discussant Note 4.1 126

Mr Lili Soleh Wartadipradja
Director of Investment Agency and Integrated License Services, East Java
Province, Republic of Indonesia

Discussant Note 4.2 127

Dr Wahyu Utomo
Deputy Minister for Infrastructure and Regional Development, Coordinating
Ministry of Economic Affairs, Republic of Indonesia

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- (ii) Social Conditions and Development*
- (iii) Provincial Government Policies*
- (iv) Local Political Scene*

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	**Based on the speech “ <i>Planning and Execution of Successful SEZs Development Strategies for Indonesia</i> ” by Dr Bambang Wijanarko, Deputy Director for Development and Management Controlling, Secretariat of the National Council for Special Economic Zone, Coordinating Ministry for Economic Affairs, Republic of Indonesia, during the Conference Keynote Address at the 2019 The World Bank Group-Asia Competitiveness Institute Annual Conference on 19 November 2019 in Singapore.	
	*** Based on the speech “ <i>The Investment Window of Opportunity During US-China Trade Frictions for Batam, Bintan and Karimun</i> ” by Dr H. Isdianto, Acting Governor of Riau Islands, Republic of Indonesia, during the Conference Keynote Address at the 2019 The World Bank Group-Asia Competitiveness Institute Annual Conference on 19 November 2019 in Singapore. Dr H. Idianto is represented by Dr. Syamsul Bahrum, Assistant II, Economic Development on Provincial Government of Riau Islands Republic of Indonesia	
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Foreword

2019 marks the seventh year of collaboration between the Employers' Association of Indonesia (APINDO) and the Asia Competitiveness Institute (ACI). Since 2012, APINDO has supported one of ACI's flagship research projects on the annual study of Indonesia's sub-national competitiveness. Such localised study requires empirical data from the ground, which is gathered through field trips and interaction with the local stakeholders. With provincial chapters across all provinces, APINDO is proud to have once again collaborated with ACI by providing coordination support, thus enabling the research team to interact with local business owners and operators who are APINDO members, in all 34 provinces of Indonesia.

Given Indonesia's diversity, economic conditions for every province greatly differ. The ACI competitiveness study has thus helped to identify the key strengths and weaknesses of each province. More importantly, the ACI study provides a comparative benchmark for the provinces relative to the national progress, in order to promote desirable and healthy competition essential to both provincial and national competitiveness.

Against this backdrop, APINDO once again extends its support for the release of the Annual *Competitiveness Analysis and Impact Estimation of Welfare Spending on Fiscal Sustainability of Sub-National Economies of Indonesia*. Various important value additions can be drawn from this current iteration. In particular, this year's thematic chapter explores the development of five Special Economic Zones and Exclusive Economic Zone in Indonesia, which have different areas of focus and levels of development. This edition also continues to provide rich insights on individual provinces through the commentaries on recent developments in the 34 Indonesian provinces as well as snapshots of the competitiveness profile for each province. The findings of the study have been rightfully placed in context, particularly considering the regional and provincial impact of the upcoming capital relocation.

To sum up, ACI's continued efforts to enrich its research with useful analysis and information is a testament to the institute's dedication in producing rigorous and meaningful research. I commend ACI for its insightful analysis and hope to continue the collaboration with the institute in future projects.

Hariyadi Sukamdani

Chairman

The Employers' Association of Indonesia (APINDO)

Preface

As the largest economy and most populous nation in Southeast Asia, Indonesia has the potential to be an economic powerhouse in the broader Asian region alongside China and India. During President Joko Widodo's first term, his administration implemented various economic reforms and has undertaken a major infrastructure push in the hopes of accelerating the country's development.

Moving into his second term, President Joko Widodo's administration continues to face obstacles in realising broad-based and sustainable growth as economic activities remain largely concentrated on the Java island. The growth potential of the existing 13 Special Economic Zones spread across the country has yet to be fully realised, as local governments strive to coordinate with national level directives.

While most studies on the Indonesia economy have been conducted on a national level, the Asia Competitiveness Institute (ACI) at Lee Kuan Yew School of Public Policy (LKYSPP), National University of Singapore (NUS) has understood the need to focus greater attention at the subnational levels in Indonesia. Thus, the institute has been conducting an annual empirical study to analyse and rank the competitiveness of Indonesia's six regional and 34 provincial economies. The information and findings from this study ought to assist policymakers to better understand each province's strengths and weaknesses, enabling them to enhance competitiveness at the provincial and regional levels. Increasing competitiveness at these sub-national levels ought to help foster more growth engines beyond the region of Java and aid the country in developing more balanced growth across the country.

Currently in its seventh iteration, ACI has also taken into account the widely-anticipated capital relocation from Jakarta to East Kalimantan, considering its impacts for the provinces in question and their peripheral stakeholders. This edition also includes a chapter on Indonesia's Welfare Spending and Budget Sustainability, a pertinent issue ahead of the expenditure and financing issues for the purpose-built capital city. There is also a useful stock-take of the existing and upcoming SEZs as part of a study commissioned by Singapore's Economic Development Board (EDB) and Indonesia's Coordinating Ministry for Economic Affairs (CMEA).

Overall, this book attempts to address important policy concerns pertaining to the competitiveness of the sub-national economies in Indonesia. I am confident the insights from this book will add to our understanding of dynamics of competitiveness in the country.

Ramkishan S. Rajan
Yong Pung How Professor
Lee Kuan Yew School of Public Policy
National University of Singapore

Acknowledgements

The *Annual Competitiveness Analysis and Impact Estimation of Welfare Spending on Fiscal Sustainability of Sub-National Economies of Indonesia* provides an update to the Institute's ongoing yearly study on provincial and regional competitiveness in Indonesia. Our holistic approach to measuring competitiveness considers the many facets of an economy and what would empower it to develop further sustainably and in an inclusive manner. This year we have also continued our collaborative efforts with Indonesian academics, who have contributed to this book in the form of commentaries on recent developments in the 34 Indonesian provinces.

Our research findings have benefitted greatly from the constructive feedback and criticism of our preliminary findings during our annual flagship events in Singapore: (i) the 2019 Asian Economic Forum on "Economic Competitiveness and Quality-Adjusted Labour on 29-30 August 2019 and (ii) the the 2019 The World Bank Group – Asia Competitiveness Institute Annual Conference on "Urbanization Drive and Quality Adjusted Labour to GDP Contributions" on 18-19 November 2019. We would like to thank the following experts and reviewers, whose discussant notes or remarks have been include in this book:

- Dr Siwage Dharma Negara
Senior Fellow, Co-Coordinator of Indonesia Studies Programme, APEC Study Center, ISEAS Yusof Ishak Institute, Republic of Singapore
- Dr Prasetyo Aribowo
Head of the Provincial Government of Central Java Regional Planning and Development Agency, Republic of Indonesia
- Mr Lili Soleh Wartadipradja
Director of Investment Agency and Integrated License Services, East Java Province, Republic of Indonesia
- Dr Wahyu Utomo
Deputy Minister for Infrastructure and Regional Development, Coordinating Ministry of Economic Affairs, Republic of Indonesia

We would also like to express our deepest appreciation for the support we have received from the following Indonesian leaders who took the time to share their experience and expertise during the 2019 Annual Conference:

- Dr. Bambang Brodjonegoro, Minister for National Development Planning Agency, Republic of Indonesia – for delivering a speech on the role of Special Economic Zones and its impact on the country's outlook. Dr. Bambang's speech has contributed to Chapter 1 of this book.
- Dr. Isran Noor, Governor of East Kalimantan Province – for delivering a speech on the potential development in East Kalimantan as the appointed province for the new capital. Governor Isran's speech has also contributed to Chapter 1 of this book.
- Dr. Irianto Lambrie, Governor of North Kalimantan province – for delivering a speech on the spill-over effects from the capital relocation. Dr. Irianto's speech has also contributed to Chapter 1 of this book.
- Dr. H. Isdianto, Acting Governor of Riau Islands, Republic of Indonesia – for his speech on the Investment Window of Opportunity During US-China Trade Frictions for Batam, Bintan and Karimun. Dr Isdianto's speech has contributed to Chapter 6 of this book.
- Dr Bambang Wijanarko, Deputy Director for Development and Management Controlling, Secretariat of the National Council for Special Economic Zone, Coordinating Ministry for Economic Affairs, Republic of Indonesia – for his speech on Indonesia's Strategies for its Special Economic Zones. Dr Bambang's speech has contributed to Chapter 6 of this book.

The richness of this report is a product of the strong partnership between ACI and Indonesia's the Indonesian Employers' Association (APINDO), government and academics across 34 provinces. We would also like to extend our gratitude to each of the participants from all three stakeholder groups who took the time to contribute their input for our perception-based data.

The coordination and execution of field trips would not have been possible without the research and administrative team at ACI, including Yap Xin Yi, Cai Jiao Tracy, Nurliyana Binte Yusoff, Dewi Jelina Ayu Binte Johari and Shanty Citra Eka Vebriani Yusup (ACI Survey Coordinator in Jakarta) for ensuring the smooth running of the fieldwork phase. We would also like to give recognition to National University of Singapore (NUS) students and research assistants: Andika

Eka Satria, Hilda Kurniawati, Tommy Des Mulianta, Arief Rizky Bahtiar, Hylda Damayanti Puspida, Dimas Fauzi and Tanya Edwina Belatur, who have all contributed to the research content of this book.

We would also like to note with great appreciation, the support from ACI research staff, including Professor Tan Kong Yam, Dr. Zhang Xuyao, Tan Kway Guan, Kang Woojin, Sky Chua Jun Jie, Sumedha Gupta and Mao Ke during the research process.

Last but not least, we are immensely grateful for the continued guidance and support from Dean Danny Quah, Vice Dean of Research of Research Professor Ramkishan S. Rajan and other colleagues from the Lee Kuan Yew School of Public Policy for making this effort possible. Ultimately, we are indebted to the generous research funding from the Singapore Ministry of Trade and Industry, without which we would not have been able to produce such an extensive research.

Tan Khee Giap, Doris Liew Wan Yin and Clarice Handoko
Asia Competitiveness Institute
Lee Kuan Yew School of Public Policy
National University of Singapore

About the Authors

Tan Khee Giap is a Co-Director of the Asia Competitiveness Institute (ACI) and Associate Professor at the Lee Kuan Yew School of Public Policy, National University of Singapore. He is also the Chairman of the Singapore National Committee for Pacific Economic Cooperation. Upon graduating with a PhD from University of East Anglia, England, in 1987 under the Overseas Research Scheme awarded by the Committee of Vice-Chancellors and Principals of the Universities of the United Kingdom, he joined the banking sector as a treasury manager and served as secretary to the Assets and Liabilities Committee for three years, there after he taught at the Department of Economics and Statistics, National University of Singapore, 1990-1993. Dr Tan joined Nanyang Technological University in 1993 and was Associate Dean, Graduate Studies Office, 2007-2009.

Dr Tan has consulted extensively with the various government ministries, statutory boards and government linked companies of Singapore government including Ministry of Finance, Ministry of Trade & Industry, Ministry of Manpower, Housing & Development Board, Civil Aviation Authority of Singapore, Singapore Tourism Board, Trade Development Board, Maritime Port Authority, Ministry of Information, Culture & Arts, Economic Development Board, Ministry of National Development, Media Development Authority, Ministry of Environment and Water Resources, Singapore Design Council, Ministry of Community Development, Youth & Sports, Singapore Press Holdings, Yayasan Mendaki, StarHub, CapitaLand and Great Eastern Life. He has also served as a consultant to international agencies such as the Asian Development Bank, Asian Development Bank Institute, United Nations Industrial Development Group, World Bank Group, World Gold Council, ASEAN Secretariat, Central Policy Unit of Hong Kong, Kerzner International, Las Vegas Sands and Marina Bay Sands.

Dr Tan is the lead author for more than 20 books, serving as journal editors and published widely in international refereed journals. He is the associate editor of the journal *Review of Pacific Basin Financial Markets and Policies* (US) and is on the editorial advisory board of the journal *Competitiveness Review* (UK). His current research interests include Cost of Living and Purchasing Power Index for World's 105 Cities, Global Liveable Cities Index, Ease of Doing Business Index and competitiveness analysis on sub-national economies of China, India, Indonesia and Association of South East Asian Nations.

Dr Tan was Deputy President of the Singapore Economic Society, 2004. He served in the 2002 Economic Review Committee (ERC), served as Chairman of the Task Force on Portable Medical Benefits (PMB), served as the Deputy Chairman of the IPS Forum for Economic Restructuring (IFER) in 2003 and served as a member of the Resource Panel of the Government Parliamentary Committee for Transport and Government Parliamentary Committee for Finance and Trade & Industry and Government Parliamentary Committee for Defense and Foreign Affairs since 2007. Dr Tan is currently an Independent Director of the publicly listed BreadTalk Group, Boustead Singapore, Lian Beng Group Ltd, TEE Land Limited, Chengdu Rural Commercial Bank and Senior Business Advisor to United Overseas Bank Limited, Singapore.

Doris Liew Wan Yin is a Research Assistant at the Asia Competitiveness Institute, Lee Kuan Yew School of Public Policy, National University of Singapore. Doris graduated from Nanyang Technological University with a Bachelor of Arts (Honours) in Economics with Distinction and a minor in Public Policy and Global Affairs. She is currently the project coordinator for Annual Competitiveness Rankings and Simulation Studies for Indonesia, Quality-Adjusted Labour Productivity for Indonesia Sub-national Economies and the Indonesia Special Economic Zone Project. She is also involved in the Annual Competitiveness Analysis and Development for ASEAN-10 Economies as well as Quality-Adjusted Labour Productivity for ASEAN Economies. Her research interests include ASEAN economics, environmental economics, international trade and development economics.

Clarice Handoko is a Research Assistant at Asia Competitiveness Institute at the Lee Kuan Yew School of Public Policy, National University of Singapore (NUS). She graduated from NUS with a Bachelor of Social Sciences (Honours) in Sociology and a minor in Cultural Studies. She is currently involved in the Institute's Competitiveness Rankings and Simulation Studies for Indonesia. Her research interests include Political Demography, Urban Migrations along with Arts and Cultural Management.

List of Abbreviations

ACI	Asia Competitiveness Institute
AFC	Asian Financial Crisis
APBD	Provincial Budget (<i>Anggaran Pendapatan dan Belanja Daerah</i>)
APBN	State Budget (<i>Anggaran Pendapatan dan Belanja Negara</i>)
APINDO	Indonesian Employers' Association (Asosiasi Pengusaha Indonesia)
APTJ	Integrated Bus Network (<i>Angkutan Perbatasan Terintegrasi Bus TransJakarta</i>)
ASEAN	Association of Southeast Asian Nations
BAPPENAS	National Development Planning Agency (<i>Badan Perencanaan Pembangunan Nasional</i>)
BBK	Batam, Bintan and Karimun
BI	Bank of Indonesia
BIG	Geospatial Information Agency (<i>Badan Informasi Geospasial</i>)
BKPM	Indonesian Investment Coordinating Board (<i>Badan Koordinasi Penanaman Modal</i>)
BPS	Central Bureau of Statistics (<i>Badan Pusat Statistik</i>)
BRICS	Brazil, Russia, India, China and South Africa
CEIC	Census and Economic Information Center
CIVETS	Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa
CMEA	Coordinating Ministry for Economic Affairs
COVID-19	Novel Coronavirus Disease
CPO	Crude Palm Oil
CV	Coefficient Variation
DAD	Dayak Customary Council (<i>Dewan Adat Dayak</i>)
DDI	Domestic Direct Investments
DI	Special Region (<i>Daerah Istimewa</i>)
DKI	Special Capital Region (<i>Daerah Khusus Ibukota</i>)
DPD	Regional Representative Council (<i>Dewan Perwakilan Daerah</i>)
DPR	People's Representative Council (<i>Dewan Perwakilan Rakyat</i>)
DPRD	Regional People's Representative Council (<i>Dewan Perwakilan Rakyat Daerah</i>)
E7	China, India, Brazil, Russia, Mexico, Indonesia and Turkey
EAGLEs	Initial grouping comprised of Brazil, China, Egypt, India, Indonesia, South Korea, Mexico, Russia, Taiwan, and Turkey. Members are updated frequently.
EoDB	Ease-of-Doing Business
EDB	Economic Development Board
EEZ	Exclusive Economic Zone
EU	European Union
FBMC	Financial, Businesses and Manpower Conditions
FDI	Foreign Direct Investments
Forkopimda	Regional Leaders Coordination Forum (<i>Forum Koordinasi Pimpinan Daerah</i>)
FTA	Free Trade Agreement
FTZ	Free Trade Zone
FRAND	Fair, Reasonable and Non-Discriminatory
G7	Group of Seven
Gerindra	Great Indonesia Movement Party (<i>Partai Gerakan Indonesia Raya</i>)
Golkar	Party of the Functional Group (<i>Partai Golongan Karya</i>)
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GERD	Gross Expenditure on Research and Development
GFC	Global Financial Crisis
GFCF	Gross Fixed Capital Formation
GIS	Government and Institutional Setting

GRDP	Gross Regional Domestic Product
GNI	Gross National Income
Hanura	People's Conscience Party (<i>Partai Hati Nurani Rakyat</i>)
HDI	Human Development Index
IAP	International Advisory Panel
ICOR	Incremental Capital Output Ratio
IDI	Indonesian Democracy Index
IIPG	Indonesian Institute for Public Governance
ILO	International Labour Organisation
INDO-DAPOER	Indonesia Database for Policy and Economic Research
IMD	International Institute for Management Development
IMF	International Monetary Fund
JORR	Jakarta Outer Ring Road
KBM	New Independent City (<i>Kota Baru Mandiri</i>)
KEEZ	Kendal Exclusive Economic Zone
KIPI	International Port Industrial Area (<i>Kawasan Industry Pelabuhan Internasional</i>)
KPK	Corruption Eradication Commission (<i>Komisi Pemberantasan Korupsi</i>)
KPPOD	Regional Autonomy Watch (<i>Komite Pemantauan Pelaksanaan Otonomi Daerah</i>)
LKPD	Provincial Government Financial Report (<i>Laporan Keuangan Pemerintah Daerah</i>)
LKPP	Central Government Financial Report (<i>Laporan Keuangan Pemerintah Pusat</i>)
LKYSPP	Lee Kuan Yew School of Public Policy
LRT	Light Rail Transit
MBTK	Maloy Batuta Trans Kalimantan
MINT	Mexico, Indonesia, Nigeria and Turkey
MNC	Multi-National Corporation
MOU	Memorandum of Understanding
MP3EI	Masterplan for Acceleration and Expansion of Indonesia's Economic Development (<i>Master Plan Percepatan dan Perluasan Pembangunan Indonesia</i>)
MRT	Mass Rapid Transit
MS	Macroeconomic Stability
MSME	Micro, Small and Medium Enterprise
N-11	Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea, Vietnam
NasDem	National Democrat Party (<i>Partai Nasional Demokrat</i>)
NCICD	National Capital Integrated Coast Development
NTFPs	Non-Timber Forest Products
NPL	Non-Performing Loans
NSDC	National SEZ Development Council
NU	Revival of the Ulama (<i>Nahdlatul Ulama</i>)
NUS	National University of Singapore
NWC	National Wage Council
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
ORTD	Online Real Time Digital
p.a.	Per Annum
PAN	National Mandate Party (<i>Partai Amanat Nasional</i>)
PBB	Crescent Star Party (<i>Partai Bulan Bintang</i>)
PDIP	Indonesian Democratic Party of Struggle (<i>Partai Demokrasi Indonesia-Perjuangan</i>)
PDR	People's Democratic Republic
PKB	National Awakening Party (<i>Partai Kebangkitan Bangsa</i>)
PKPI	Indonesian Justice and Unity Party (<i>Partai Keadilan dan Persatuan Indonesia</i>)
PKS	Prosperous Justice Party (<i>Partai Keadilan Sejahtera</i>)

PLTA	Hydroelectric Power Plant (<i>Pembangkit Listrik Tenaga Air</i>)
PP	Government Regulation (<i>Peraturan Pemerintah</i>)
PPP	The United Development Party (<i>Partai Persatuan Pembangunan</i>)
PSDC	Provincial SEZ Development Council
PSI	Indonesian Solidarity Party (<i>Partai Solidaritas Indonesia</i>)
PTEM	Productivity Tracking and Efficiency Monitoring
PTFI	PT Freeport Indonesia
PTSP	National Single Window for Investment (<i>Pelayanan Terpadu Satu Pintu</i>)
PVC	Present Value Constraint
PwC	PricewaterhouseCoopers
q-o-q	quarter-on-quarter
QALI	Quality Adjusted Labour Index
QLID	Quality of Life and Infrastructure Development
RPJMD	Regional Medium Term Development Planning (<i>Rencana Pembangunan Jangka Menengah Daerah</i>)
RPJMN	National Medium Term Development Plan (<i>Rencana Pembangunan Jangka Menengah Nasional</i>)
RUPM	General Investment Plan (<i>Rencana Umum Penanaman Modal</i>)
RZWP3K	Coastal and Small Islands Zonation Planning (<i>Rencana Zonasi Wilayah Pesisir dan Pulau-Pulau Kecil</i>)
SAKIP	Government Performance. Accountability System (<i>Sistem Akuntabilitas Kinerja Instansi Pemerintah</i>)
SDG	Sustainable Development Goals
SEDA	Special Economic Development Areas
SEZ	Special Economic Zone
SIPD	Regional Development Information System (<i>Sistem Informasi Pembangunan Daerah</i>)
SM	Sei Mangkei
SME	Small and Medium Enterprise
SVI	Standard Value of Indicators
TK	Tanjung Kelayang
TL	Tanjung Lesung
UNDP	United Nations Development Programme
US	United States
VAT	Value-Added Tax
VECM	Vector Error Correction Model
VISTA	Vietnam, Indonesia, South Africa, Turkey and Argentina
WCY	World Competitiveness Yearbook
WEF	World Economic Forum
y-o-y	year-on-year

List of Provinces

	Name of Province in English	Name of Province in Bahasa	Region
1	Aceh	Aceh	Sumatra
2	Bali	Bali	Bali-Nusa Tenggara
3	Bangka Belitung Islands	Kepulauan Bangka Belitung	Sumatra
4	Banten	Banten	Java
5	Bengkulu	Bengkulu	Sumatra
6	Central Java	Jawa Tengah	Java
7	Central Kalimantan	Kalimantan Tengah	Kalimantan
8	Central Sulawesi	Sulawesi Tengah	Sulawesi
9	DI Yogyakarta	DI Yogyakarta	Java
10	DKI Jakarta	DKI Jakarta	Java
11	East Java	Jawa Timur	Java
12	East Kalimantan	Kalimantan Timur	Kalimantan
13	East Nusa Tenggara	Nusa Tenggara Timur	Bali-Nusa Tenggara
14	Gorontalo	Gorontalo	Sulawesi
15	Jambi	Jambi	Sumatra
16	Lampung	Lampung	Sumatra
17	Maluku	Maluku	Maluku-Papua
18	North Kalimantan	Kalimantan Utara	Kalimantan
19	North Maluku	Maluku Utara	Maluku-Papua
20	North Sulawesi	Sulawesi Utara	Sulawesi
21	North Sumatra	Sumatera Utara	Sumatra
22	Papua	Papua	Maluku-Papua
23	Riau	Riau	Sumatra
24	Riau Islands	Kepulauan Riau	Sumatra
25	South Kalimantan	Kalimantan Selatan	Kalimantan
26	South Sulawesi	Sulawesi Selatan	Sulawesi
27	South Sumatra	Sumatera Selatan	Sumatra
28	Southeast Sulawesi	Sulawesi Tenggara	Sulawesi
29	West Java	Jawa Barat	Java
30	West Kalimantan	Kalimantan Barat	Kalimantan
31	West Nusa Tenggara	Nusa Tenggara Barat	Bali-Nusa Tenggara
32	West Papua	Papua Barat	Maluku-Papua
33	West Sulawesi	Sulawesi Barat	Sulawesi
34	West Sumatra	Sumatera Barat	Sumatra

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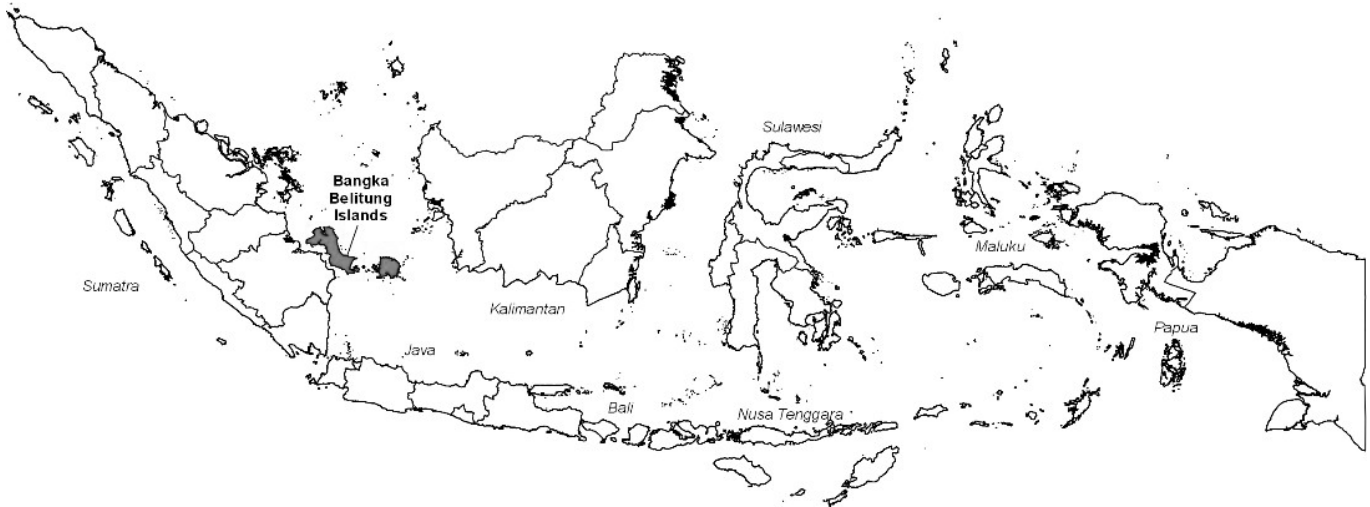
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5.4 Commentary on Recent Developments in Bangka Belitung Island, 2017-2019

By: Eddy Jajang Jaya Atmaja
Universitas Bangka Belitung

Province Location



Source: ACI.

5.4.1 Economic Conditions

Bangka Belitung Islands' economy grew by 4.45 percent in 2018, slower than the 4.47 percent growth recorded in 2017. Almost all sectors experienced growth, except the fields of Mining and Excavation, and Waste Management and Recycling, which contracted by 1.08 percent and 5.60 percent respectively.

Significant growth was recorded in Information and Communications (10.72 percent), Government Administration, Defense, and Mandatory Social Security (9.18 percent) and Education Services (9.00 percent). In terms of production, Agriculture, Forestry and Fishery were the main sources of growth. As for expenditure, Household Consumption Expenditure recorded the highest growth.

The province's GRDP at current price in 2018 peaked at Rp73.07 trillion, and GRDP per capita reached Rp50.05 million. In the last five years, Belitung Island's economic growth is relatively faster than Bangka Island's due to the former's increase in tourism activities. In 2018, the province's export realization was not as favourable as 2017, declining from Rp25.6 trillion to Rp25 trillion in value. However, imports have increased from Rp1.4 trillion in 2017 to Rp2 trillion in 2018.

5.4.2 Social Conditions and Development

The province's unemployment rate declined from 3.78 percent in 2017 to 3.65 percent in 2018. Similarly, poverty rate has also decreased from 6.06 percent in 2017 to 5.25 percent in 2018. Life expectancy also increased from 69.95 years in 2017 to 70.18 years in 2018. The province's average years of schooling has also been raised from 7.78 years in 2017 to 7.84 years in 2018. The progress across the numerous elements of social aspects mentioned above have all contributed to the increase in HDI from 69.99 in 2017 to 70.67 in 2018.

Bangka Belitung Islands is known widely in Indonesia as a province grounded by strong social connection. The bond between local citizens have been the province's most valuable inherited asset over the years. Most of the residents are Muslim Malays; they are friendly to immigrants and welcoming towards other races or ethnicities.

Good relationships can also be observed among industry players. Unlike in other regions, there has not been any significant frictions between employers and their employees. The sense of security, comfort, and order was reflected in the province's high Consumer Perception Index of 133, the highest in Sumatra.

5.4.3 Provincial Government Policies

Major changes across local, national, and international levels in recent years have affected the governance in Indonesia, including in Bangka Belitung Islands, and its constituent city and six districts. The changes have pushed all regional governments to pay closer attention to the particular needs of the public under their care, which includes incorporating greater accountability into public services for all stakeholders. The changes are evident in several laws and regulations.

To improve the province's appeal to investors, the government has eased the process of attaining permits with its one-stop integrated service platform. Along with this, it is providing local tax reduction for businesses. Their initiatives cohere in the plans for the SEZ in Tanjung Kelayang, Belitung. The provincial government has delegated its authority to the Belitung regency so that investors in the SEZ can process their permits without having to make an additional trip to Pangkal Pinang, the official capital of the province

5.4.4 Local Political Scene

The pro-growth focus of Bangka Belitung Islands is apparent in the executive leadership. The government is led by Erzaldi Rosman, who is currently serving the 2017-2022 term. Bangka Belitung has been changing for the better every year thanks to him, despite the ambivalently tense yet harmonious relationship between him and the legislative government. An opposition does not exist in the DPRD even though Erzaldi comes from the Great Indonesia Movement Party (Gerindra) – an opposition party in the 2019 presidential election.

The 45-seats DPRD is dominated by the PDIP with 10 seats, followed by the Party of the Functional Group (Golkar) and Gerindra with six seats each, and National Democrat (NasDem) the Democratic Party with five seats each.

Key Economic Indicators, 2017	
Land Area (km²)	16,424
Population	
Total Population	1,430,900
Urban Population (%)	53.90
Poverty Rate (%)	5.30
Labour Force	699,017
Labour Force Participation Rate (%)	48.85
Gross Regional Domestic Products (GRDP)–2010 prices	Rupiah (million)
GRDP	50,007,750
GRDP (non-minerals)	43,352,000
GRDP per capita	34.93
GRDP per capita (non-minerals)	30.29
Economic Composition	% of GRDP
Primary Sector	31.45
Secondary Sector	31.30
Tertiary Sector	37.23
Trade –2010 prices	Rupiah (million)
Exports	17,814,799
Imports	712,230
Top-3 exports: Goods made of tin; Mineral fuels, mineral oil products; and Animal and vegetable fats and oils	
Top-3 imports: Mineral fuels and mineral oil products; Ships, boats, and floating structure; and Nuclear reactor, boilers, and mechanical appliances	
Infrastructure	
Paved Roads (km)	4,440
Domestic Air Traffic (Passengers)	3,029,327
International Air Traffic (Passengers)	2,038
Domestic Cargo at Seaport (Tons)	8,263,871
International Cargo at Seaport (Tons)	509,723

Source: BPS Indonesia compiled by ACI.

2019 Annual Competitiveness Analysis and Impact Estimation of Welfare Spending on Fiscal Sustainability of Sub-National Economies of Indonesia

Indonesia's growing importance in the global economy stems from its large economic size and strong economic development over the years. The socio-economic diversity found across Indonesia's constituent provinces and regions calls for an in-depth study of the nuanced sub-national economic structure. This book titled *The Annual Competitiveness Analysis and Impact Estimation of Welfare Spending on Fiscal Sustainability of Sub-National Economies of Indonesia* provides a comprehensive overview of the Indonesia's economy at the national and sub-national level.

This book is the seventh edition of Asia Competitiveness Institute (ACI)'s annual flagship study on the competitiveness of 34 Indonesian provinces. Using a total of 105 indicators, the study covers four environments and 12 sub-environments and provides a deeper evaluation of each province's comparative strengths and weaknesses. The empirical data has been complemented and grounded by commentaries by local academics who have first-hand knowledge of sub-national economic developments. On top of that, this edition also employs empirical analysis to study the effect of welfare spending on fiscal sustainability of the sub-national economies.

This latest edition also offers in-depth analyses on two most pivotal issues faced by Indonesia's economy: the capital relocation and the ongoing development and execution of Special Economic Zones across the country. Coupled with evidence-based research and policy recommendations, this book is a recommended read for policymakers, academics and the general public who are interested in the latest developments and economic trends of the Indonesia's sub-national economies.



"This research can be used as a reference for the provinces in Indonesia to improve their relative competitiveness rank including by paying close attention to their individual weaknesses as well as strengthening their potencies."

Dr Prasetyo Aribowo

*Head of the Provincial Government of Central Java Regional Planning and Development Agency,
the Republic of Indonesia*

"Reflecting on Indonesia's economic crisis in 1998, and with the recent dynamics of the Rupiah exchange rates which have the potential to affect debt to GDP ratio, the Government of Indonesia may need to put more attention to budget sustainability topics."

Dr Wahyu Utomo

*Deputy Minister for Infrastructure and Regional Development,
Coordinating Ministry of Economic Affairs, the Republic of Indonesia*

ISBN 978-981-1476-46-4



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