









2017 Annual Competitiveness Analysis and Impact of Exchange Rates on Foreign Direct Investment Inflows to Sub-National Economies of Indonesia

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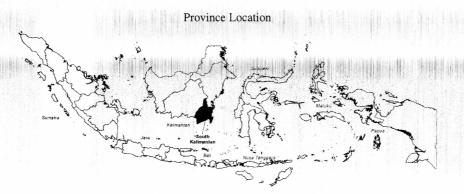
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1. 6

5.26 Commentary on Recent Developments in South Kalimantan, 2015–2017

By: Arief Budiman and Ahmad Alim Bacri Universitas Lambung Mangkurat



Source: ACL

5.26.1 Economic Conditions

South Kalimantan's economy had experienced growth between 2015 and 2017. In 2016, growth rate reached 5.28 percent, driven by improvements in commodity prices of coal and rubber which had previously slumped. The drop in commodity prices was triggered by weakening global demand — primarily from China due to its declining economic growth.

The most significant growth occurred in the communications and transportation sector. Despite the growth, these sectors had not contributed substantially to employment. Based on data in the third quarter of 2016, the agriculture and mining sectors experienced significant growth and contributed substantially to the province's GRDP.

Meanwhile, investments had been affected by a tightening of the province's fiscal policy. As a result, investment growth had declined from 5.43 percent in 2015 to 3.29 percent in 2016. There is a large potential for both FDI and DDI in the energy sector, such as those pertaining to power plants supplied by electricity, gas and water. The economy appears to have good prospects, given the province's stable macroeconomic and sociopolitical conditions, as well as good security.

5.26.2 Social Conditions and Development

Social conditions and development have been affected by the weakening labour conditions in South Kalimantan. Labour data in the fourth quarter of 2016 indicated a decline in the Employment Availability Index from 97.92 in the previous quarter to 90.83. This was caused by major layoffs in the mining sector between 2014 and 2015, which had led to a rise in unemployment figures in the formal sector.

Generally, social conditions in the province had been improving, as observed in the rising HDI between 2011 and 2016. HDI had increased at an average of 0.96 point annually between 2011 and 2014, and 0.98 point from 2015 to 2016. In 2016, HDI reached 69.05 — just below the index of 70.00, which is the benchmark for high human development status.

In addition, life expectancy in South Kalimantan had improved from 2011 to 2016, with an average annual growth of 0.31 percent. In 2016, the province's life expectancy index reached 67.92 years. This indicates that the improvements in the province's life expectancy corresponded with its improvements in HDI.

5.26.3 Provincial Government Policies

Government policies have been significant in driving and accelerating economic development. A particular focus has been given on the development of economic infrastructure, which is regarded as a prerequisite to support long-term investment programmes. Such initiatives include the transformation of the 150 hectare Syamsudin Noor Airport into an international airport and the construction of toll roads which have eased access among cities. Ports in Tanah Laut Regency have also been constructed to support the development of the largest industrial park in Indonesia that is about 6,000 hectares in size, along with the development of the 2,000 hectares industrial zone at the Tanah Bumbu Regency. The government has also encouraged the development of energy infrastructure through the construction of coal-based power plants in the industrial areas that would supplement the limited supply of electricity currently provided by the State Electricity Company (PLN).

Furthermore, various provincial regulations related to the development of ecotourism, among others, have turned the province's capital city Banjarmasin into a world-class river city.

5.26.4 Local Political Scene

The political scene in the province has been conducive and peaceful, thus enabling a promising investment climate. Under the leadership of Governor Sahbirin Noor, who is known for his humble demeanour, the Regional People's Representative Council (DPRD) provides solid support to the development of the province. There is a strong synergy between the executive and legislative councils. Sahbirin Noor's government also commits to developing the economy by leveraging on local

Key Economic Indicators, 2015	
Land Area (km²)	38,74
Population	
Total Population	3,989,800
Urban Population (%)	45.10
Poverty Rate (%)	4.72
Labour Force	1,987,250
Labour Force Participation Rate (%)	49.81
Gross Regional Domestic Products (GRDP) — 2010 prices	Rupiah (million)
GRDP	110,867,880
GRDP (non-minerals)	80,577,000
GRDP per Capita	27.79
GRDP per Capita (non-minerals)	20.20
Economic Composition	% of GRDP
Primary Sector	41.77
Secondary Sector	20.51
Tertiary Sector	37.72
Trade — 2010 prices	Rupiah (million)
Exports	57,204,072
mports	14,049,029
Top-3 exports: mineral fuels; animal and oil; wood and articles of wood	or vegetable fats
Top-3 imports: mineral fuels; mechanical equipment; ships and floating structures	al machinery and
nfrastructure	
aved Roads (km)	7,827
Oomestic Air Traffic (Passengers)	3,715,270
nternational Air Traffic (Passengers)	8,375
Oomestic Cargo at Seaport (Tons)	162,703,444
nternational Cargo at Seaport (Tons)	81,107,605
ource: BPS Indonesia compiled by ACI.	-,-07,003

resource excellence, particularly in the agribusiness and agro-industry sectors. The goal is to add value to the economy through ways such as employment and technology transfer, which will ultimately reduce poverty and unemployment rates as well as improve the welfare of the community.