

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

Tan Khee Giap
Mulya Amri
Nursyahida Ahmad
Diamanta Vania Lavi



LY Lee Kuan Yew
School of Public Policy
ASIA COMPETITIVENESS INSTITUTE



W World Scientific

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Tan Khee Giap

*Co-Director, Asia Competitiveness Institute
Lee Kuan Yew School of Public Policy, National University of Singapore*

Mulya Amri

*Research Fellow & Deputy Director (Research), Asia Competitiveness Institute
Lee Kuan Yew School of Public Policy, National University of Singapore*

Nursyahida Ahmad

*Research Assistant, Asia Competitiveness Institute
Lee Kuan Yew School of Public Policy, National University of Singapore*

Diamanta Vania Lavi

*Research Assistant, Asia Competitiveness Institute
Lee Kuan Yew School of Public Policy, National University of Singapore*

Special Remarks

Bambang Brodjonegoro

Minister for National Development Planning Agency, Republic of Indonesia

Reviewers

Balthasar Kambuaya

*Chairman, University Senate, Cenderawasih
University and Former Minister for Environment
(2011–2014), Republic of Indonesia*

Darius Tirtosuharto

*Economist, Economic and Monetary Policy
Department, Macroeconomic Division, Bank of
Indonesia, Republic of Indonesia*

Sin Chor-Yiu

*Professor, Department of Economics, College of
Technology Management, National Tsing Hua
University, Taiwan, Republic of China*



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*Based on the speech "Indonesia's Development Strategies and Priorities in 2017" by Dr Bambang Brodjonegoro, Minister for National Development Planning Agency of Republic of Indonesia, during the Ministerial Forum at the 2017 The World Bank Group-Asia Competitiveness Institute Annual Conference on 23 November 2017 in Singapore.

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Discussant Note 3.1

Professor Balthasar Kambuaya

Chairman, University Senate, Cenderawasih University and

Former Minister for Environment (2011–2014)

Republic of Indonesia

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Discussant Note 4.1

Dr Darius Tirtosuharto

Economist, Economic and Monetary Policy Department

Macroeconomic Division, Bank of Indonesia

150

Discussant Note 4.2

Professor Sin Chor-Yiu

Department of Economics, College of Technology Management,

National Tsing Hua University, Taiwan, Republic of China

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	Economist, Economic and Monetary Policy Department	
	Macroeconomic Division, Bank of Indonesia	150
	Discussant Note 4.2	
	Professor Sin Chor-Yiu	
	Department of Economics, College of Technology Management,	
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5.26 Commentary on Recent Developments in South Kalimantan, 2015–2017

By: Arief Budiman and Ahmad Alim Bacri
Universitas Lambung Mangkurat

Province Location



Source: ACI.

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 socio-political 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)	38,744
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	
GRDP	Rupiah (million) 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
Imports	14,049,029
Top-3 exports: mineral fuels; animal or vegetable fats and oil; wood and articles of wood	
Top-3 imports: mineral fuels; mechanical machinery and equipment; ships and floating structures	
Infrastructure	
Paved Roads (km)	7,827
Domestic Air Traffic (Passengers)	3,715,270
International Air Traffic (Passengers)	8,375
Domestic Cargo at Seaport (Tons)	162,703,444
International Cargo at Seaport (Tons)	81,107,605

Source: BPS Indonesia compiled by ACI.

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.