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Asia Competitiveness Institute - World Scientific Series

# **Annual Competitiveness Analysis and Impact Estimation of Exchange Rates on Exports from Sub-National Economies of Indonesia**



 Lee Kuan Yew  
School of Public Policy  
ASIA COMPETITIVENESS INSTITUTE



 World Scientific

**Annual Competitiveness Analysis  
and Impact Estimation of Exchange  
Rates on Exports from Sub-National  
Economies of Indonesia**



In 2019, ACI was ranked 12<sup>th</sup> globally, 2<sup>nd</sup> in Asia, and 1<sup>st</sup> 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:

**A**nalytical inputs to initiate policies for policy-makers and business leaders in Asia

**C**apacity building to enable others through improvement in productivity and efficiency

**I**ntellectual 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 **A**SEAN in the context of the rise of **C**hina and **I**ndia.

## 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).

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## 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**

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## **Asia Competitiveness Institute**

### **Co-Directors:**

**Associate Professor Tan Khoo Giap (2011 till now)**

**Professor Tan Kong Yam (2011 till now)**

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In the tradition of the Asia Competitiveness Institute (ACI) at the Lee Kuan Yew School of Public Policy, National University of Singapore (NUS), our research publications make a distinctive contribution to the understanding of economic development in Asia. These books, first published in 2013, in the Asia Competitiveness Institute - World Scientific Series evaluate and track competitiveness for the sub-national economies of China, India, Indonesia and ASEAN annually through combining leading-edge methodologies with an extensive dataset. The study covers four environments of competitiveness: (1) Macroeconomic Stability, (2) Government and Institutional Setting, (3) Financial, Businesses and Manpower Conditions, and (4) Quality of Life and Infrastructure Development. It also conducts “what-if” policy simulations to propose policy suggestions.

### 2018

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**ANNUAL COMPETITIVENESS ANALYSIS AND IMPACT ESTIMATION OF EXCHANGE  
RATES ON EXPORTS FROM SUB-NATIONAL ECONOMIES OF INDONESIA**

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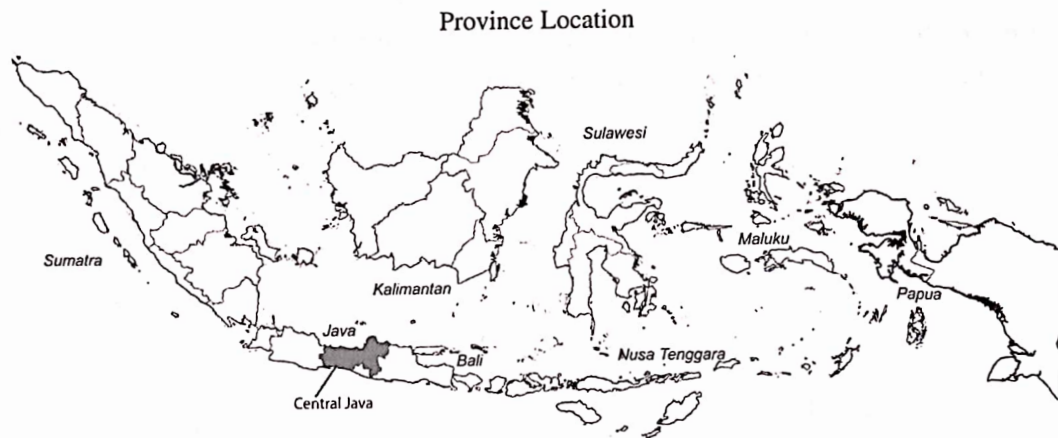
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## 5.7 Commentary on Recent Developments in Central Java, 2016–2018

By: Firmansyah

Universitas Diponegoro



Source: ACI.

### 5.7.1 Economic Conditions

Central Java's economy in 2017 was growing at 5.27 percent growth rate, above the national average at 5.07 percent. The slowdown in early 2016 was caused by external factors, such as global economy and national budget tightening.

The growth was followed by improvement in all sectors with the exception for farming sector in 2017. Export rose by 12.55 percent, which also followed by rising import at almost 10 percent due to strong US dollar value. This has caused a slowdown in Central Java's economic growth.

Aggregate investment during this period was rising by 7.5 percent, however foreign investment was slowing down in 2017. Domestic investment, on the other hand, was showing a significant improvement during this period. Most attractive sectors were electricity, gas and drinking water, textile industry, and chemical industry.

### 5.7.2 Social Conditions and Development

Life expectancy rate in Central Java was improving and was ranked the second best in Indonesia. Central Java's HDI has also increased to a higher figure. This increase was backed by several government programmes on education, life expectancy, and purchasing power.

School participation rate in Central Java has been improving during this period. However, dropout cases were still high in numbers. One of the factors was low household income. Nevertheless, the growing economy has lowered the unemployment rate.

There was no major incident during the last three years in Central Java. Some minor cases include farmer's rejection towards the operations of a cement factory in Rembang regency and several religious intolerance cases.

In general, the condition in Central Java was conducive to investments and economic development. Government was working together with the community and religious organisation to overcome misunderstanding and religious intolerance.



### 5.7.3 Provincial Government Policies

As a stimulus for the economy and to increase people's welfare, the provincial government has increased the minimum wage in Central Java, adjusted against inflation and economic growth. Other policy which has a direct effect on the economy was the expansion and development of financial access in Central Java through special credit scheme for MSME.

The government also launched *kartu tani* (farmers' card) to maximise the distribution of subsidised fertilizers. In addition, there were also efforts towards eradication of middlemen so as to accelerate movement of goods and people.

The prospects beyond 2017 remain promising with several infrastructure projects ongoing, such as new airports in Semarang and Purbalingga, seaports development, toll road development, and the development of a special industrial zone in Kendal. These projects are expected to bring more opportunities and economic growth to the province.

### 5.7.4 Local Political Scene

The gubernatorial election was successfully held in Central Java. Ganjar Pranowo and Taj Yasin were elected as governor and vice governor for the period 2018–2023, with 58.78 percent of votes ahead of other candidates. They were backed by several political parties, such as PDI-P, Demokrat, Nasdem, PPP, and Golkar. Ganja-Taj's vision is *Menuju Jawa Tengah Sejahtera and Berdikari: Mboten Korupsi, Mboten Ngapusi* (Towards a prosperous and independent Central Java: No Corruption, No Deception).

Legislative election will be held in 2019 with 558 female candidates (40.6 percent), 16 political parties, and 13 areas for voting.

Key Economic Indicators, 2016	
Land Area (km <sup>2</sup> )	32,801
<b>Population</b>	
Total Population	34,019,100
Urban Population (%)	48.98
Poverty Rate (%)	13.19
Labour Force	17,312,466
Labour Force Participation Rate (%)	50.89
<b>Gross Regional Domestic Products (GRDP) — 2010 prices</b>	Rupiah (million)
GRDP	849,313,200
GRDP (Non-minerals)	829,945,000
GRDP per Capita	24.97
GRDP per Capita (Non-minerals)	24.40
<b>Economic Composition</b>	% of GRDP
Primary Sector	15.99
Secondary Sector	45.22
Tertiary Sector	38.79
<b>Trade — 2010 prices</b>	Rupiah (million)
Exports	54,275,983
Imports	88,738,261
Top-3 exports: yarn and textile; wood, cork, screw	
Top-3 imports: fuel oil; yarn and textile; machinery, electrical and electronics	
<b>Infrastructure</b>	
Paved Roads (km)	27,128
Domestic Air Traffic (passengers)	6,184,497
International Air Traffic (passengers)	238,499
Domestic Cargo at Seaport (tons)	27,535,428
International Cargo at Seaport (tons)	6,129,712

Source: BPS Indonesia compiled by ACI.

Ganjar Pranowo held the office during the previous period with Vice Governor Heru Sudjatmoko. The pair has successfully developed Central Java. Ganjar was member of the legislatives for the period 2004–2013. During his tenure he has implemented bureaucratic reform and credit scheme for MSME, and received awards from the KPK.

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