

Issues in Indonesian Manufacturing

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RPJMN

THE NATIONAL PLANNING

The Vision: Nawacita

- Its overall vision is '*sovereignty, self-reliance, and strength through mutual cooperation.*'
- The path
 - a strengthened national security that protects the sovereignty of the nation, sustains its economic independence by securing its maritime resources, and is reflective of Indonesia as an archipelago state;
 - achieving a country that is more equitable, democratic and law-abiding;
 - improving the quality of life for all Indonesian people within a more advanced and prosperous economy;
 - making the nation more economically competitive;
 - preserving Indonesian culture and identity.

Development strategy

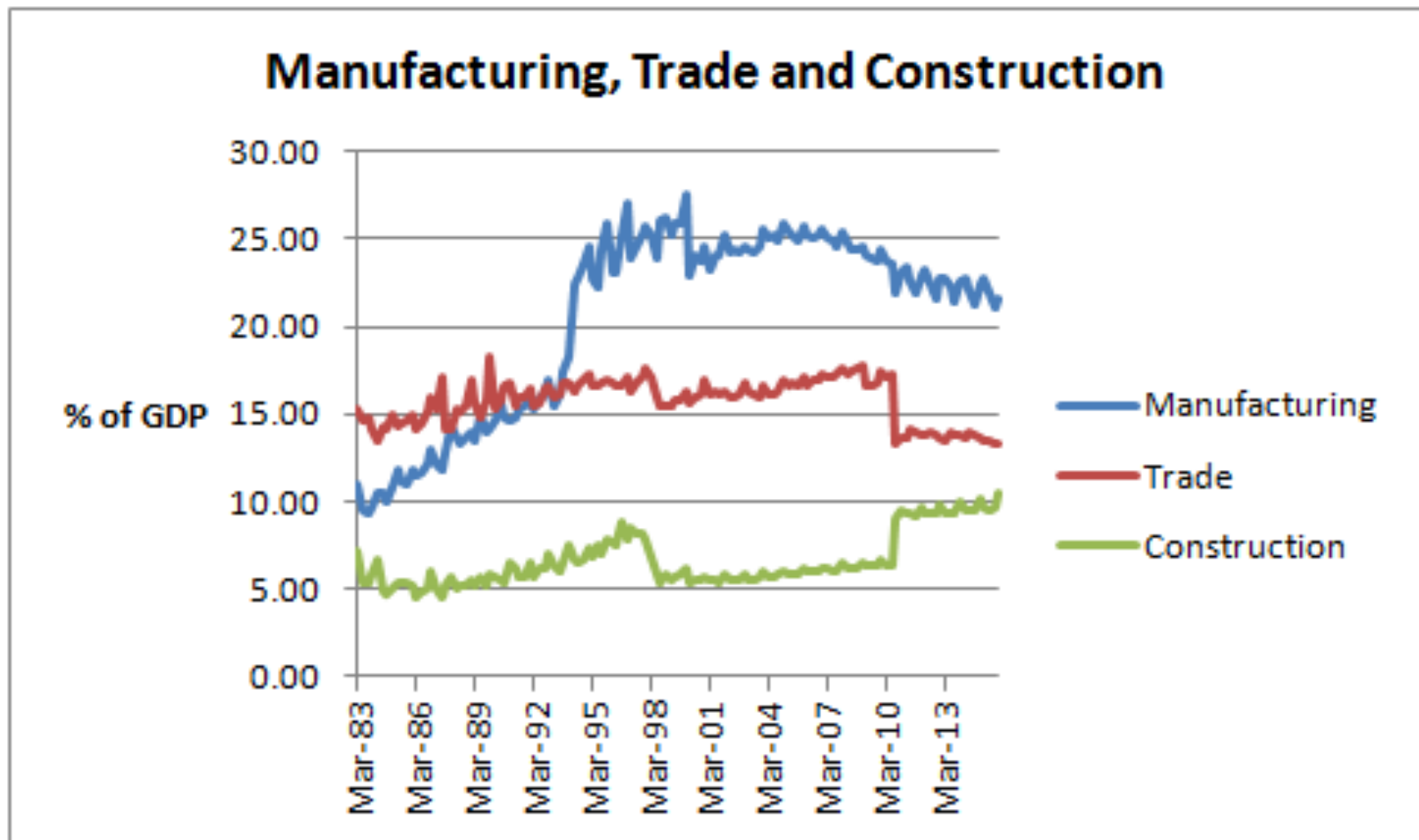
- sector development dimensions—security in food, energy, and power, maritime and marine development, and tourism and **industry development**;
- a human development dimension—education, health, housing, and national character development;
- a regional equity dimension encompassing actions to foster greater equity in opportunity and incomes between villages, border areas, and the country's western and eastern regions

INDUSTRY DEVELOPMENT

The rise and the decline of manufacturing

the large share of manufacturing determine the dynamic of GDP

broad based economic policies - deregulation packages since mid 1980s

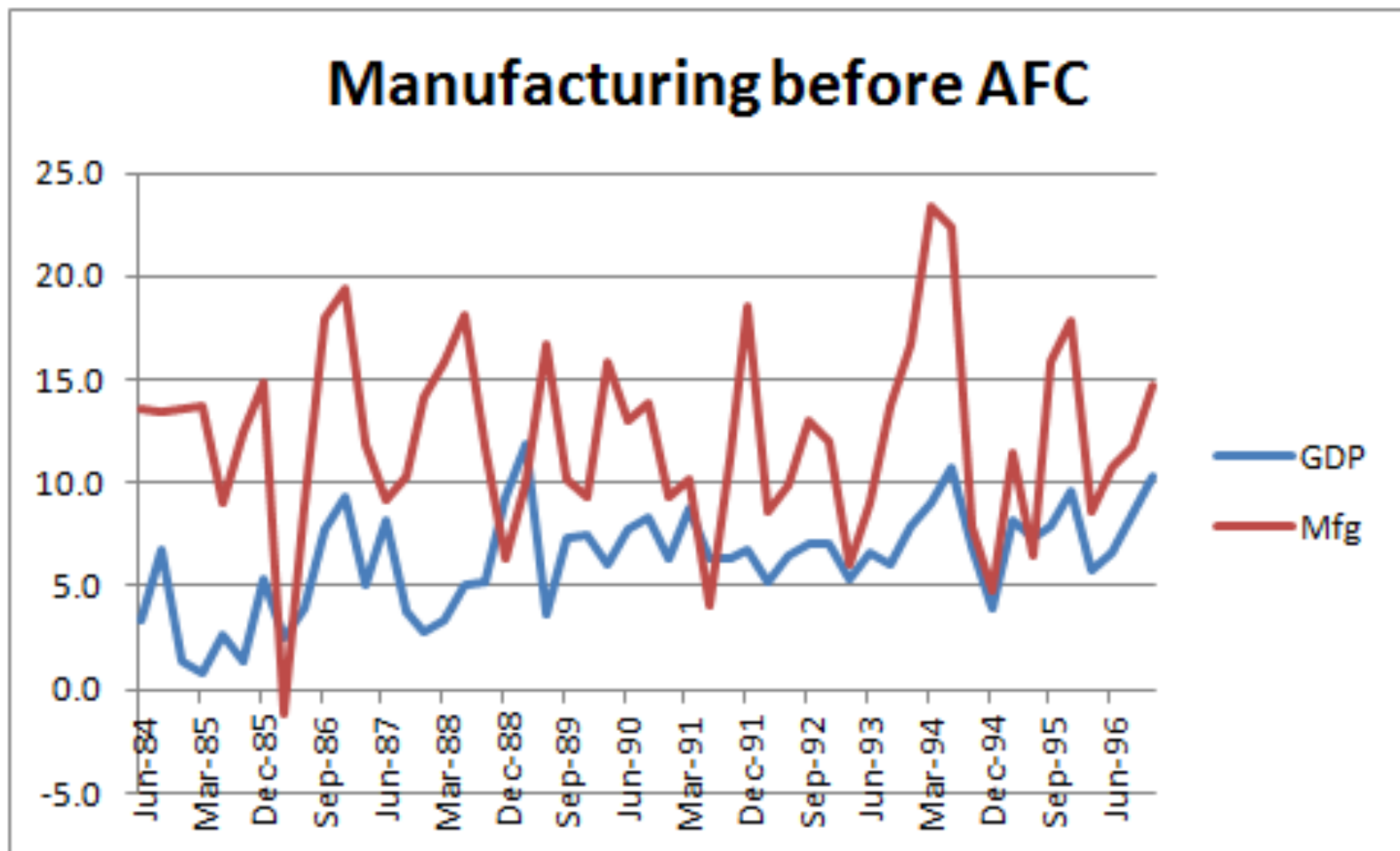


Growth Dynamic before AFC

Manufacturing moved ahead of GDP

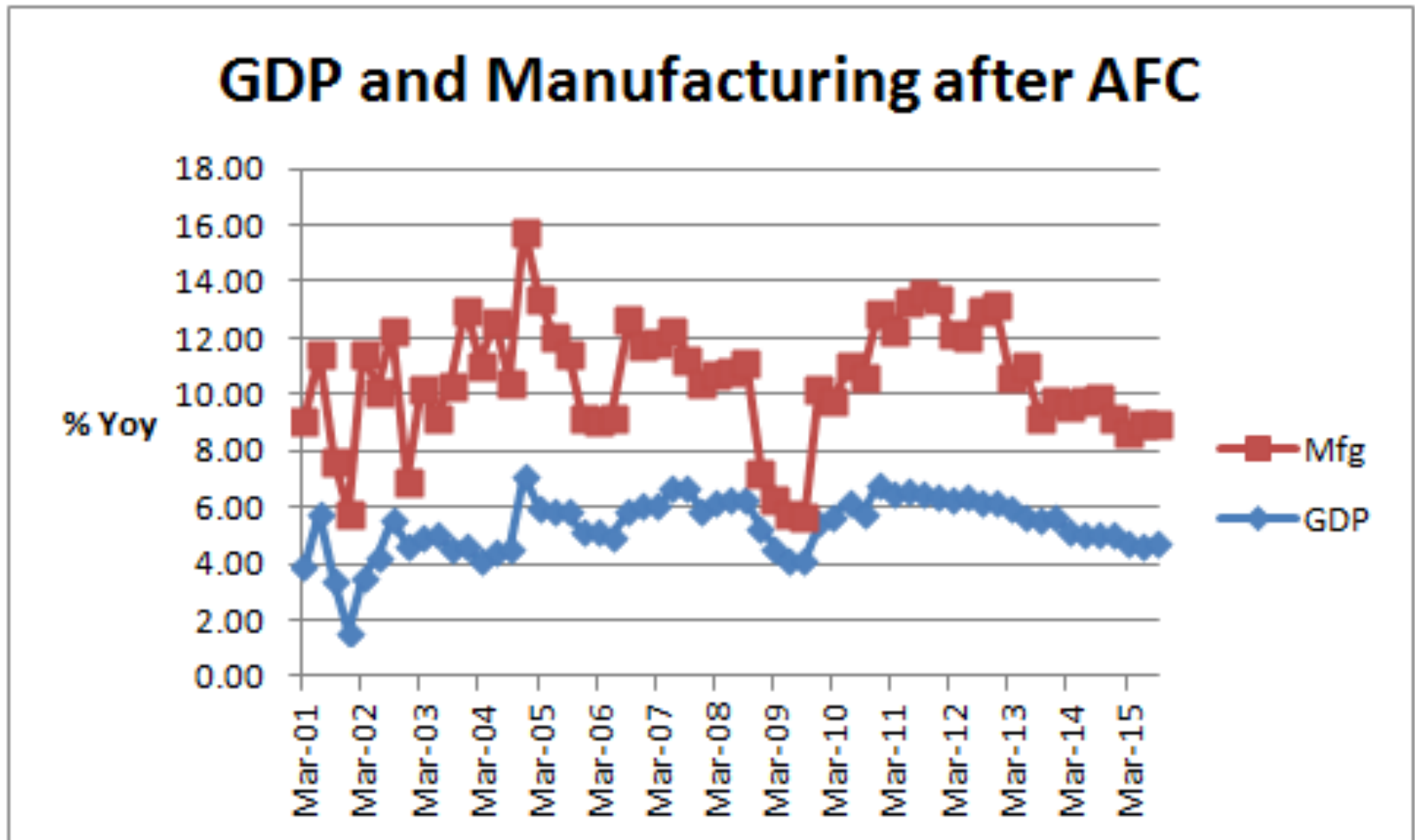
Growth accelerated after the announcement of deregulation packages

Broad based economic policies



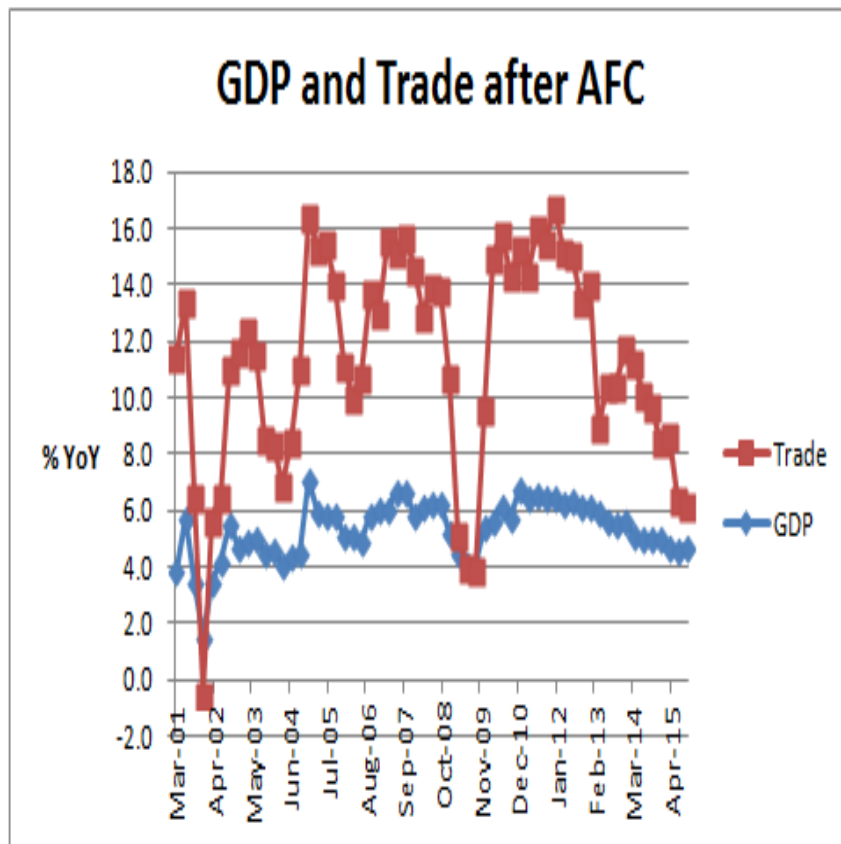
Growth Dynamic after AFC

Manufacturing still moves ahead of GDP but especially after 2008 becomes the source of drag, after 2012 the dynamic impact to GDP is intermingled with trade and construction (shown by flat GDP)

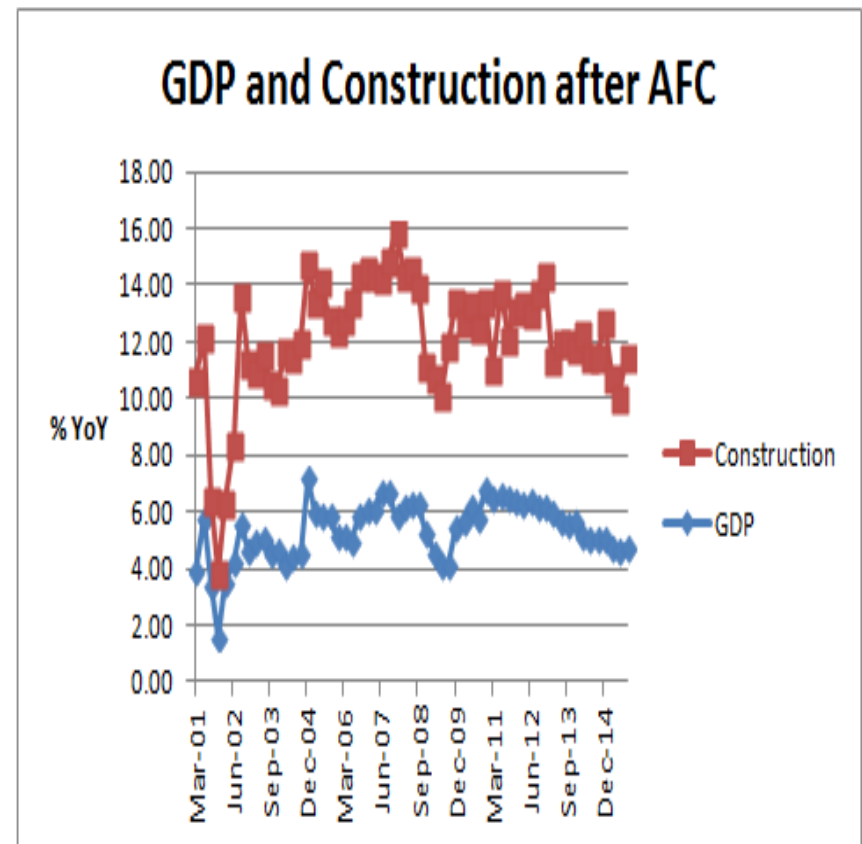


Trade and Construction started to impact dynamic of GDP due to the declining share of manufacturing in GDP

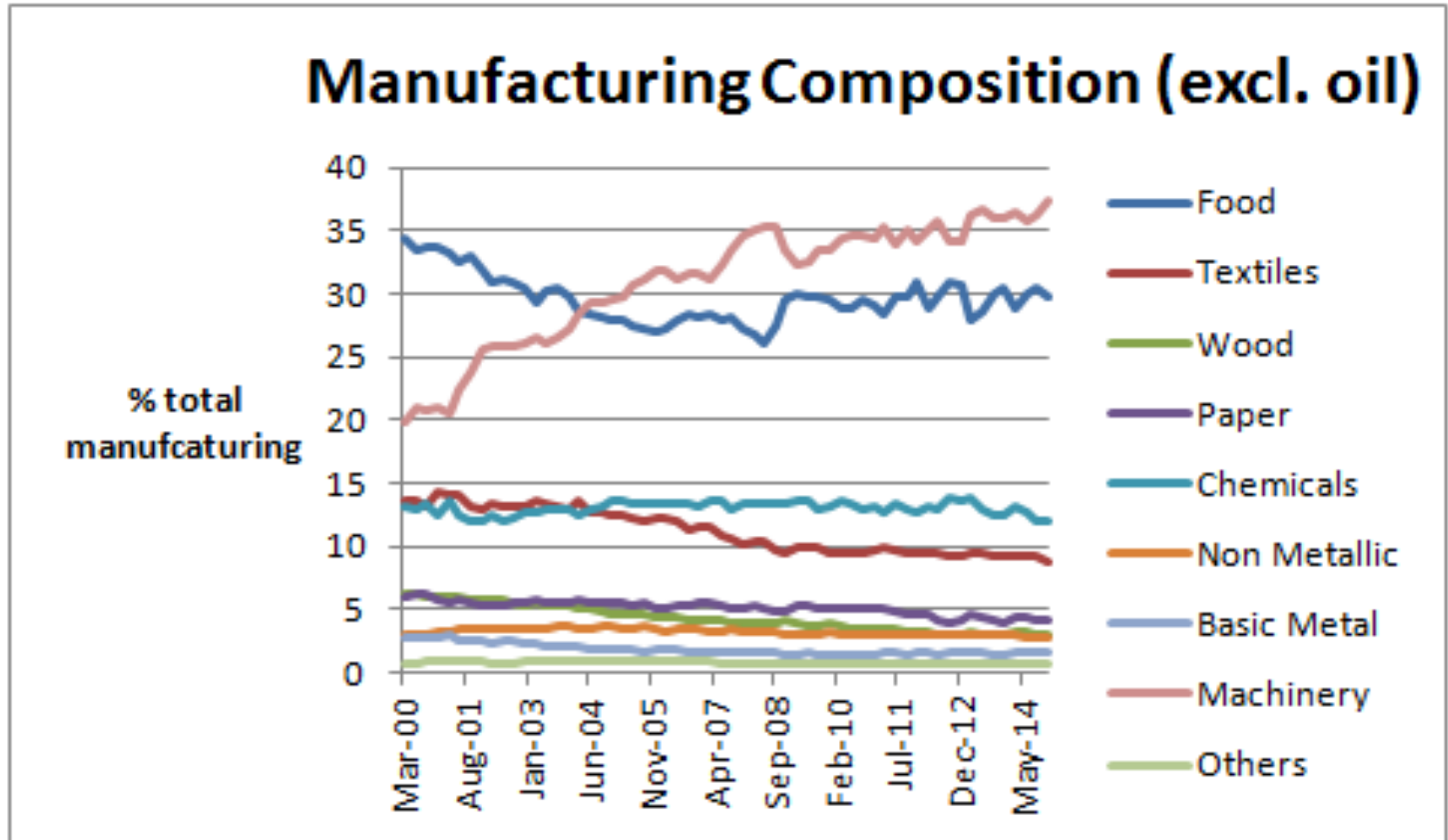
Trade



Construction

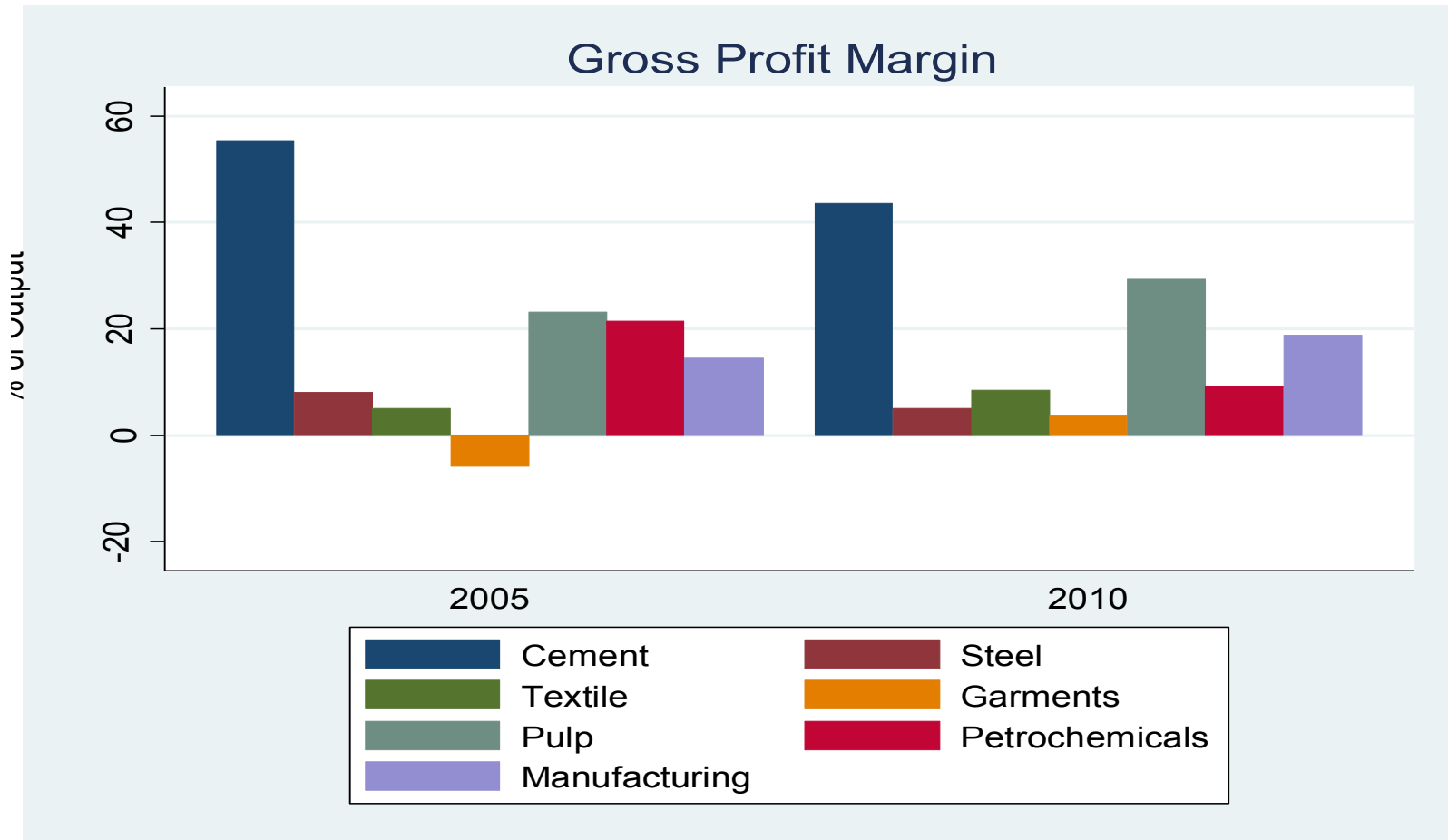


Machinery is dynamically increasing while Food and textiles are decreasing



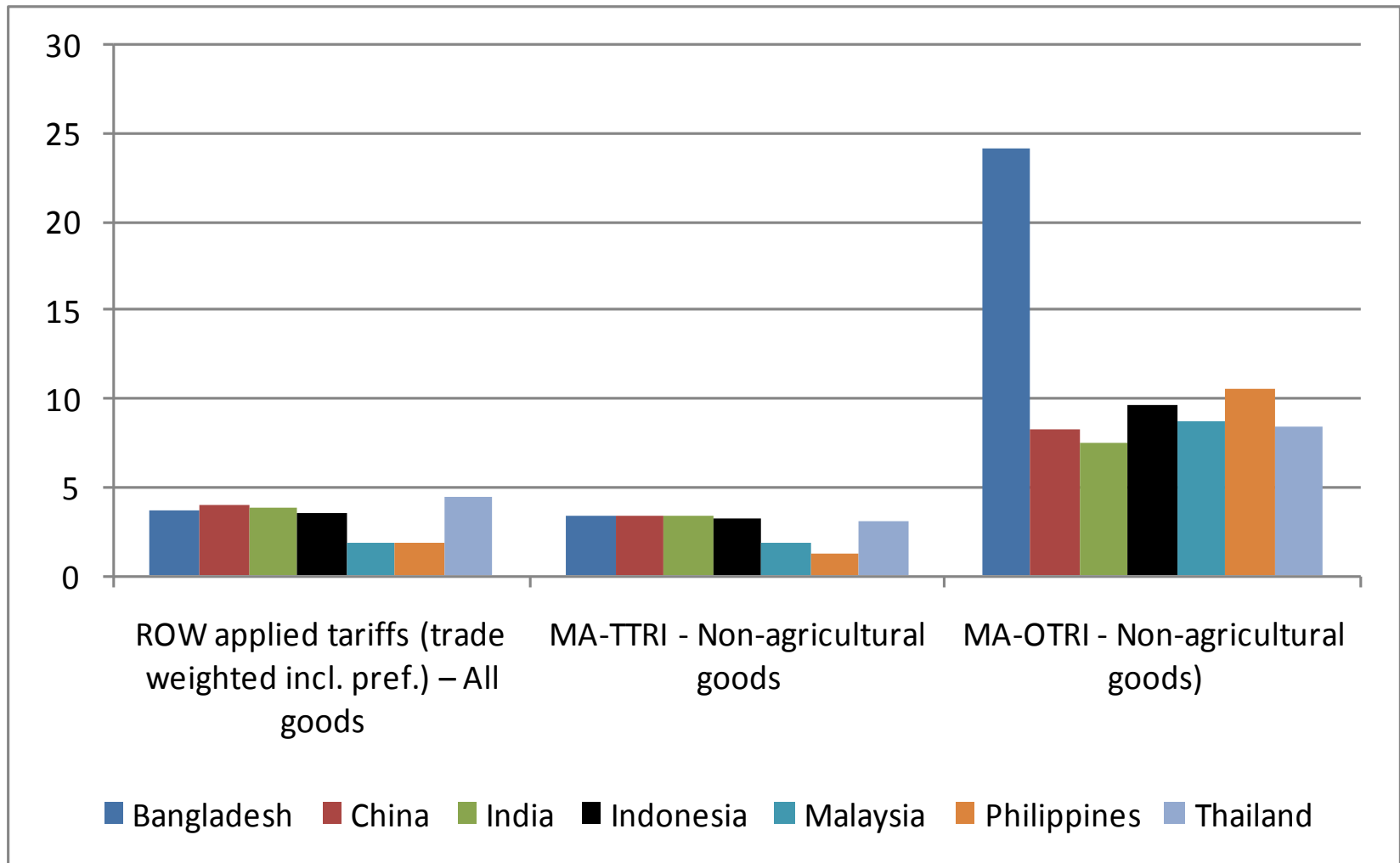
Why does the growth slow:

Thin profit margin especially for labor intensive industry:
Competitiveness problems

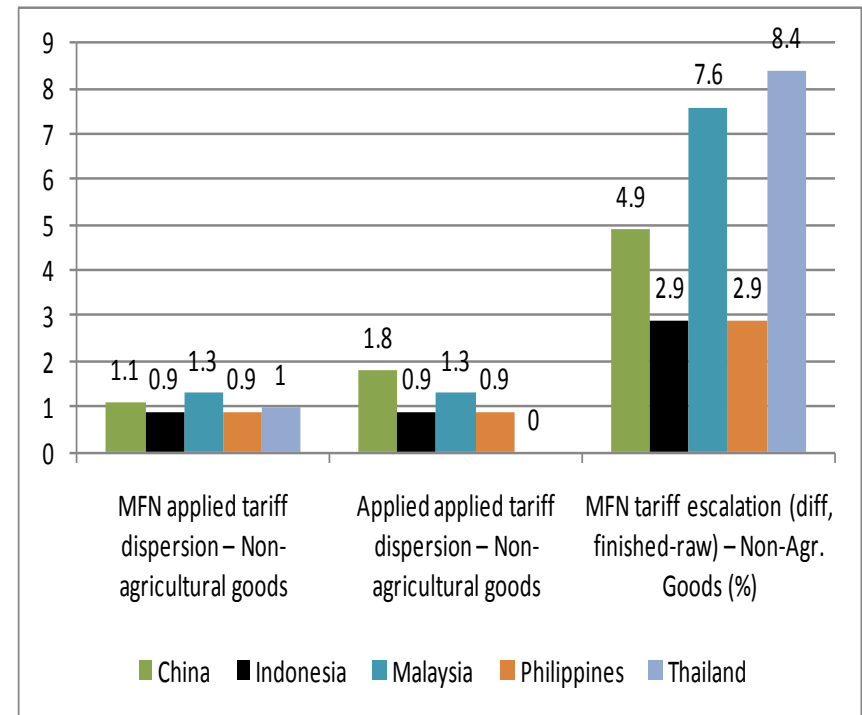
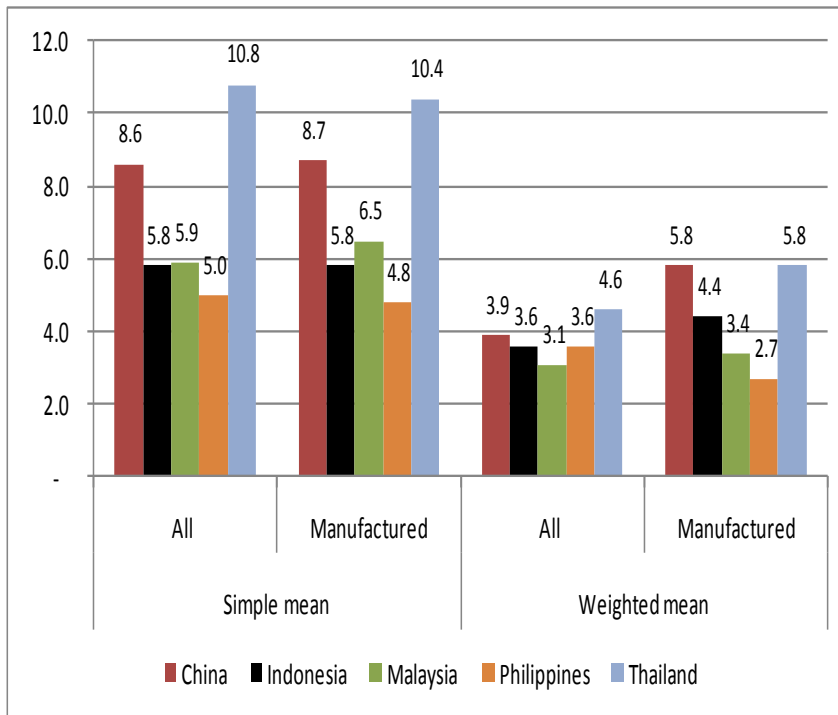


Despite some positive factors

Tariff barriers should not be a significant problem for Indonesia's exporters

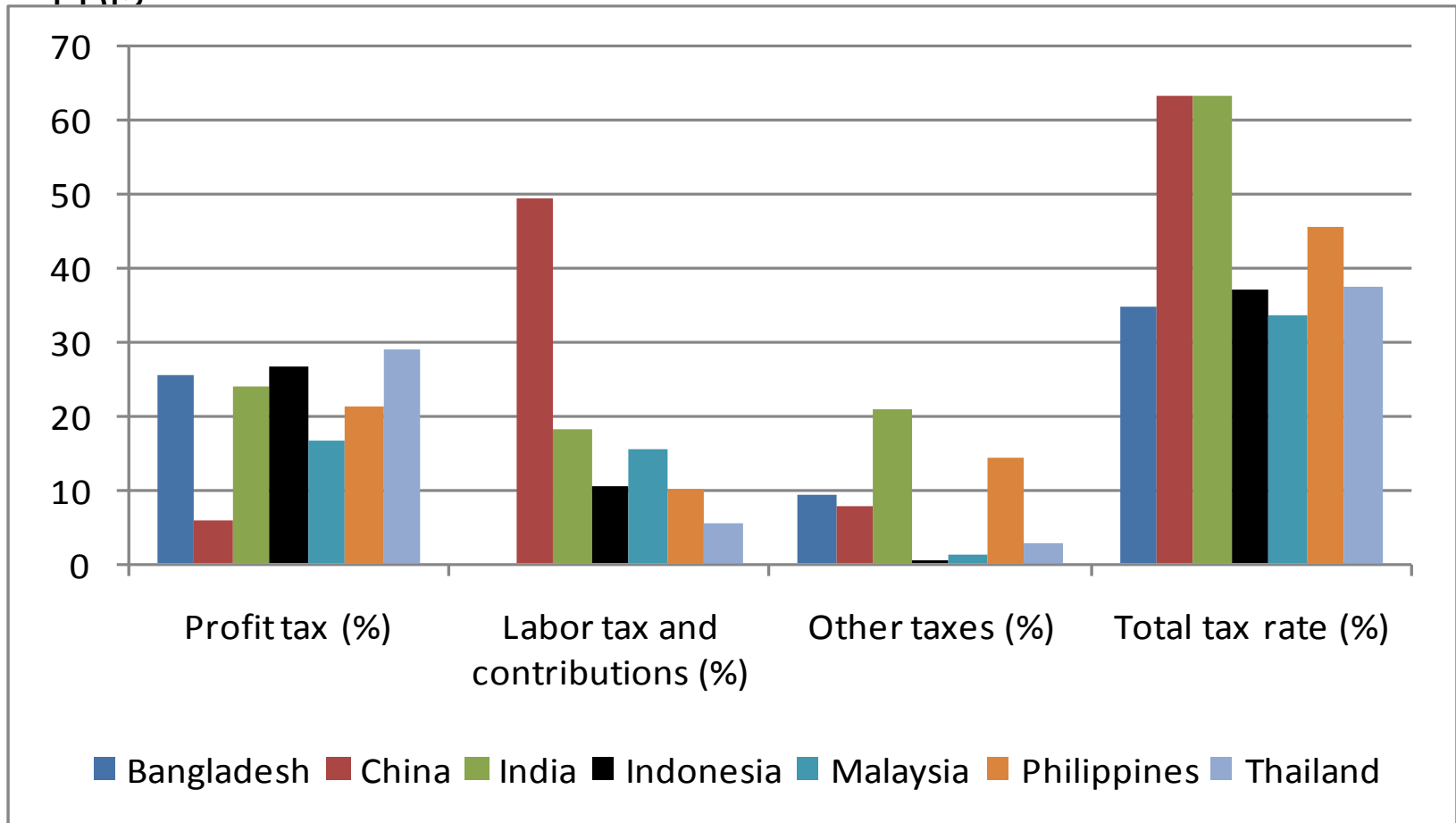


Similarly, headline tariffs suggest Indonesia's own market is relatively open

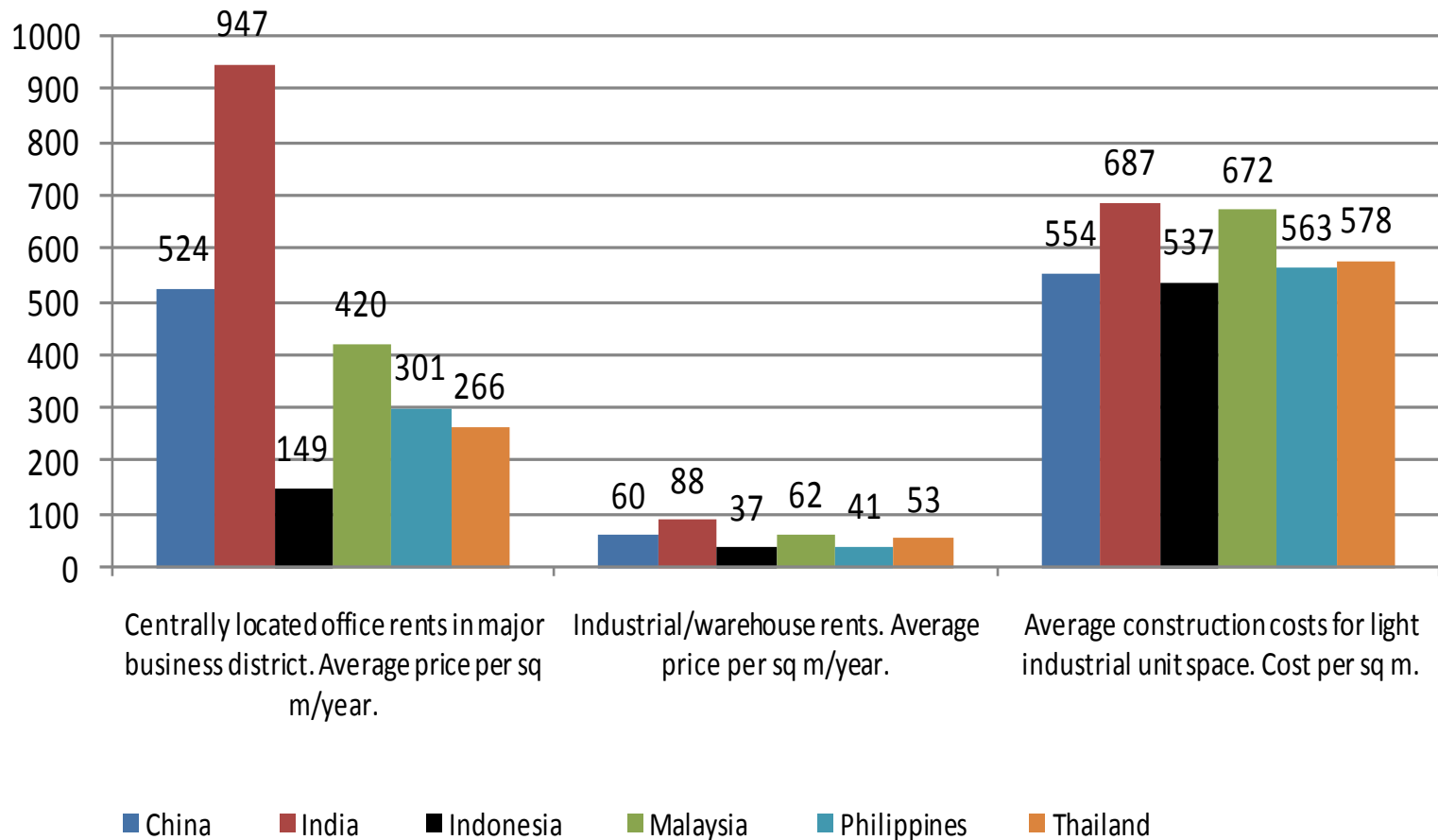


Indonesia is relatively competitive on tax rates

- However, the number of taxes and time to process ranks poorly
- Is the corporate tax viewed as a significant disincentive for export-oriented FDI?

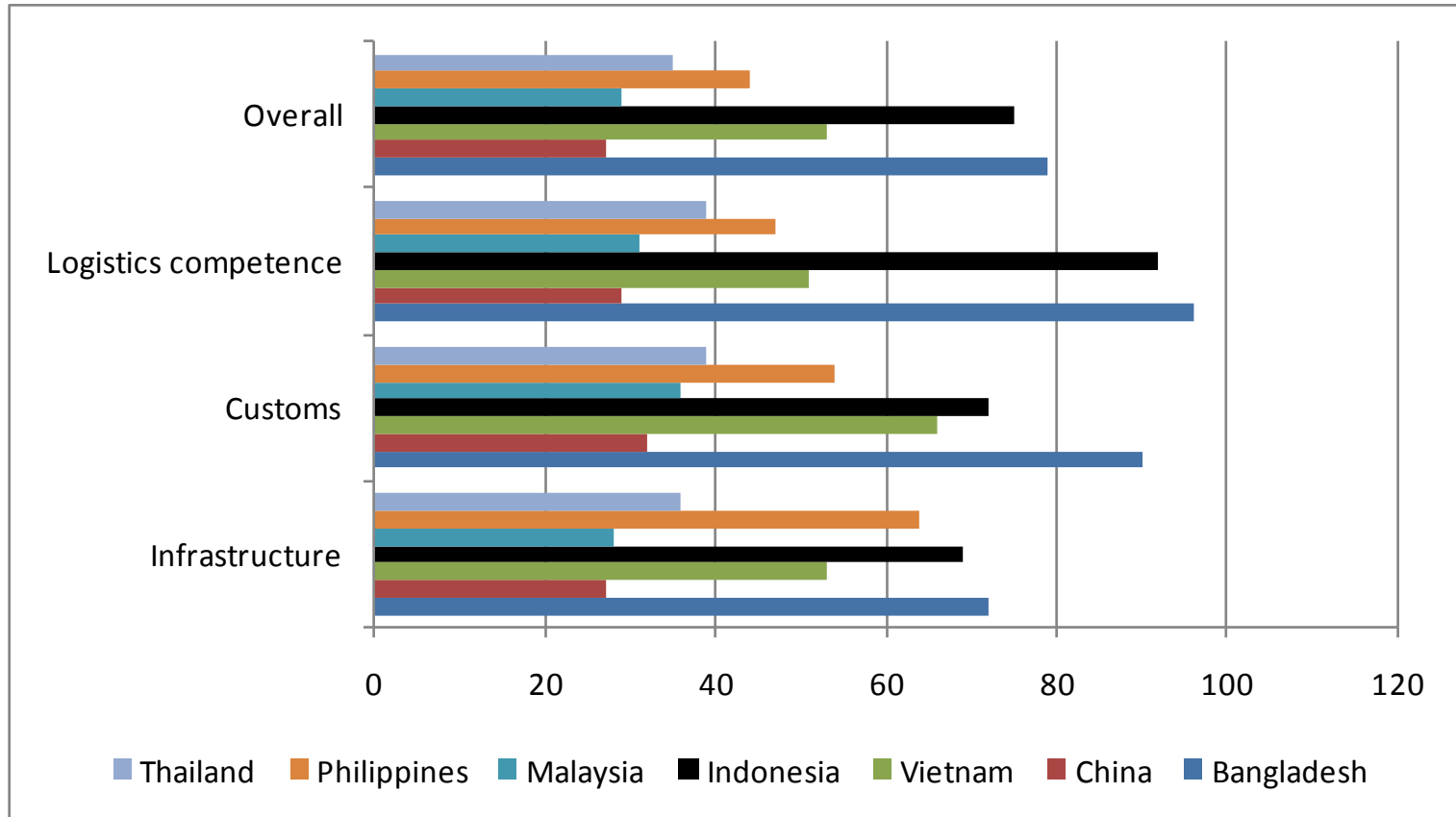


The most competitively priced facilities in the region

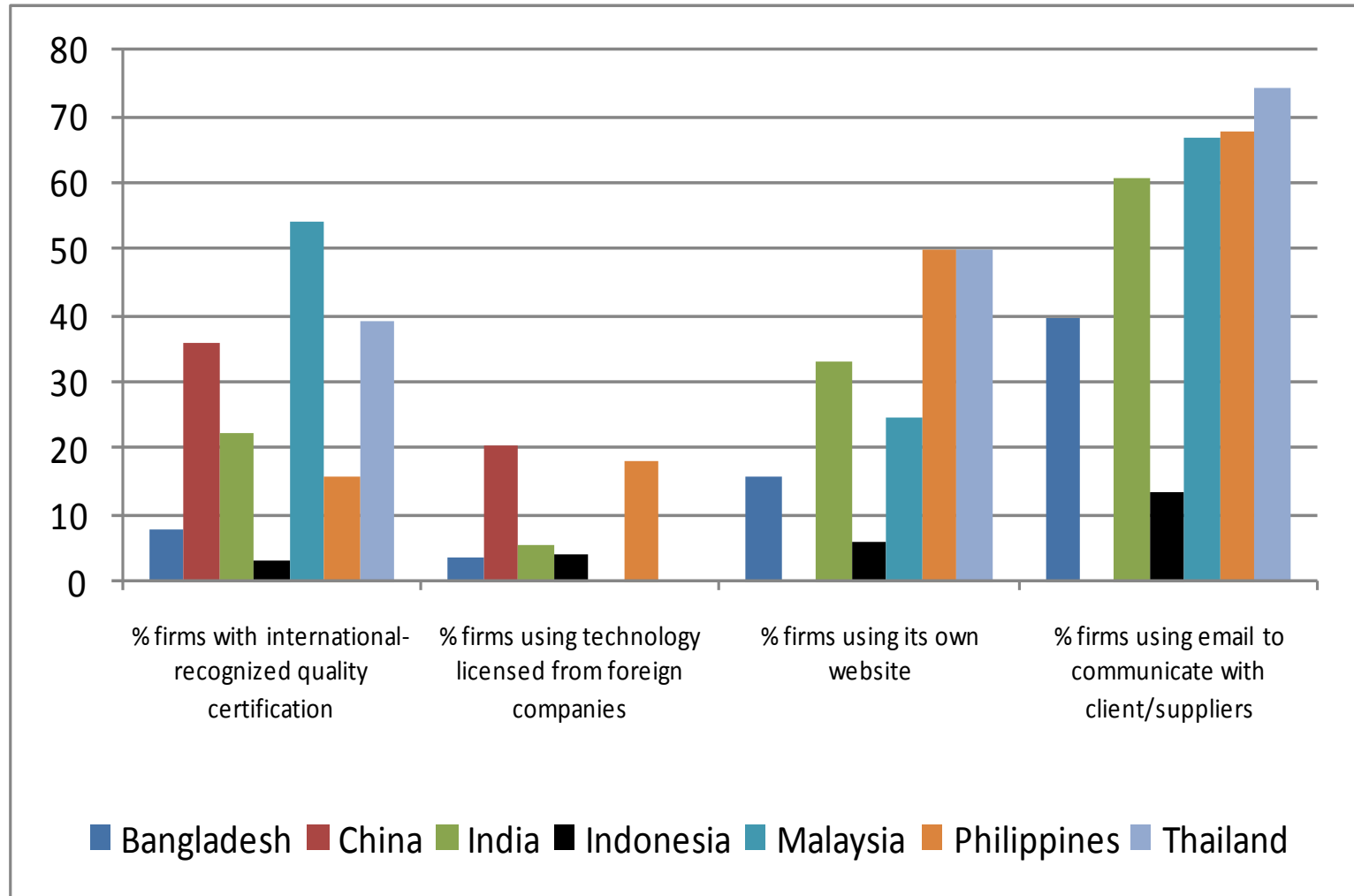


IMPEDIMENTS TO COMPETITIVENESS

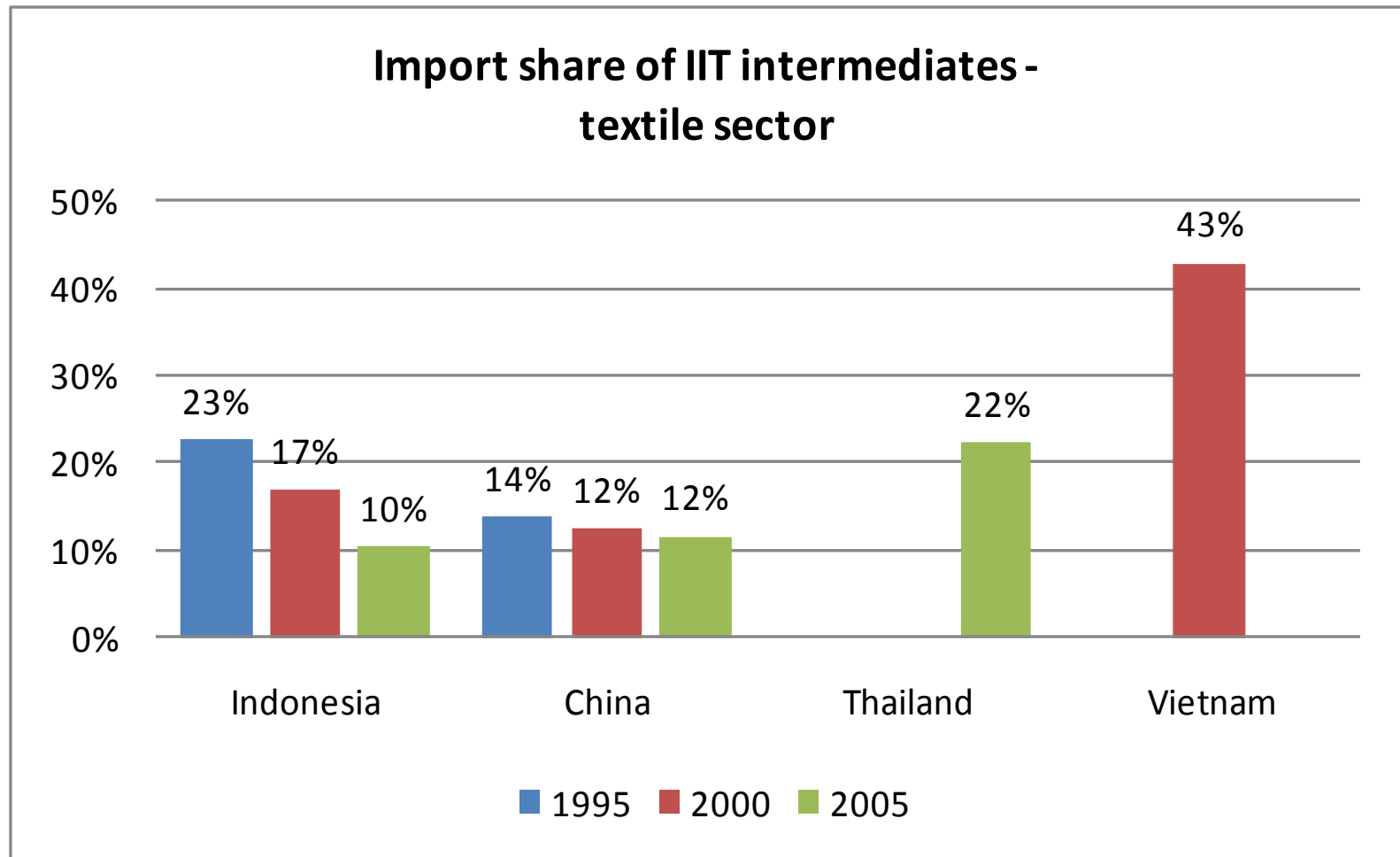
Transport and logistics remains a major weakness



More worryingly on basic levels of firm sophistication



Limited and declining integration in regional and global production networks outside of automotive

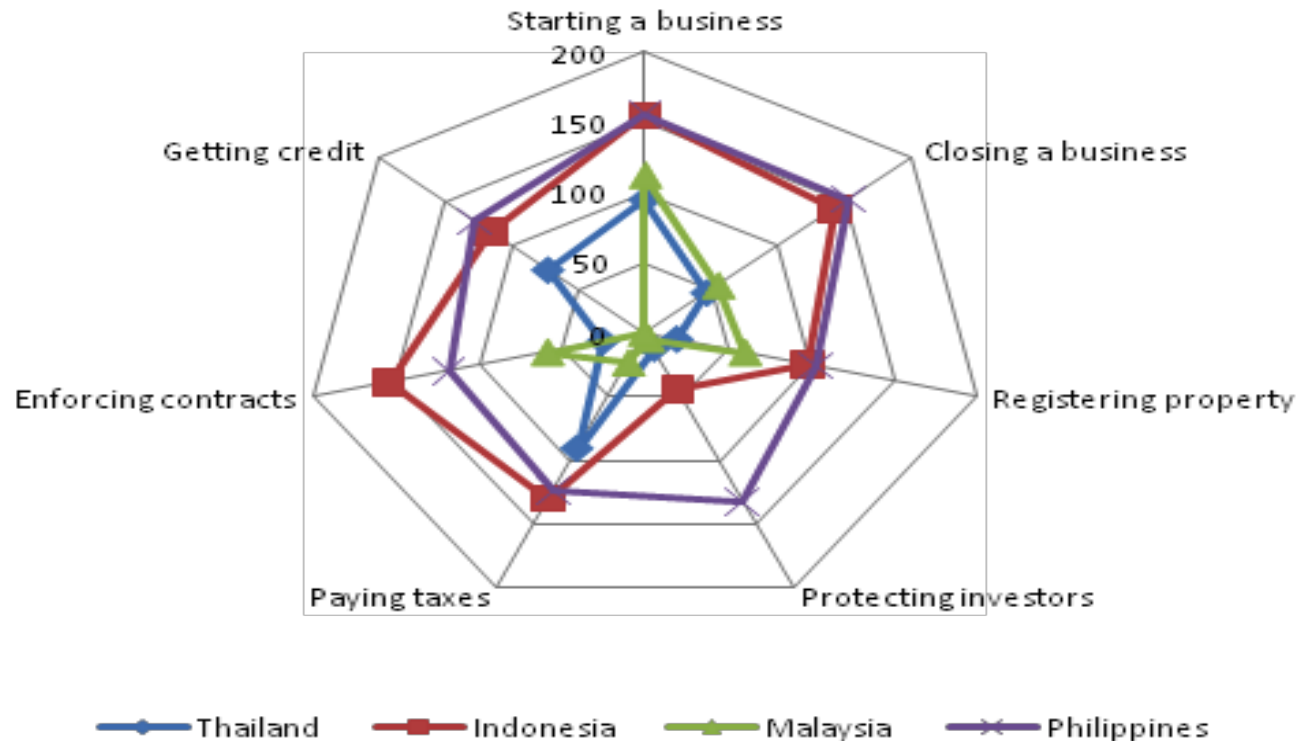


Very low levels of formal training



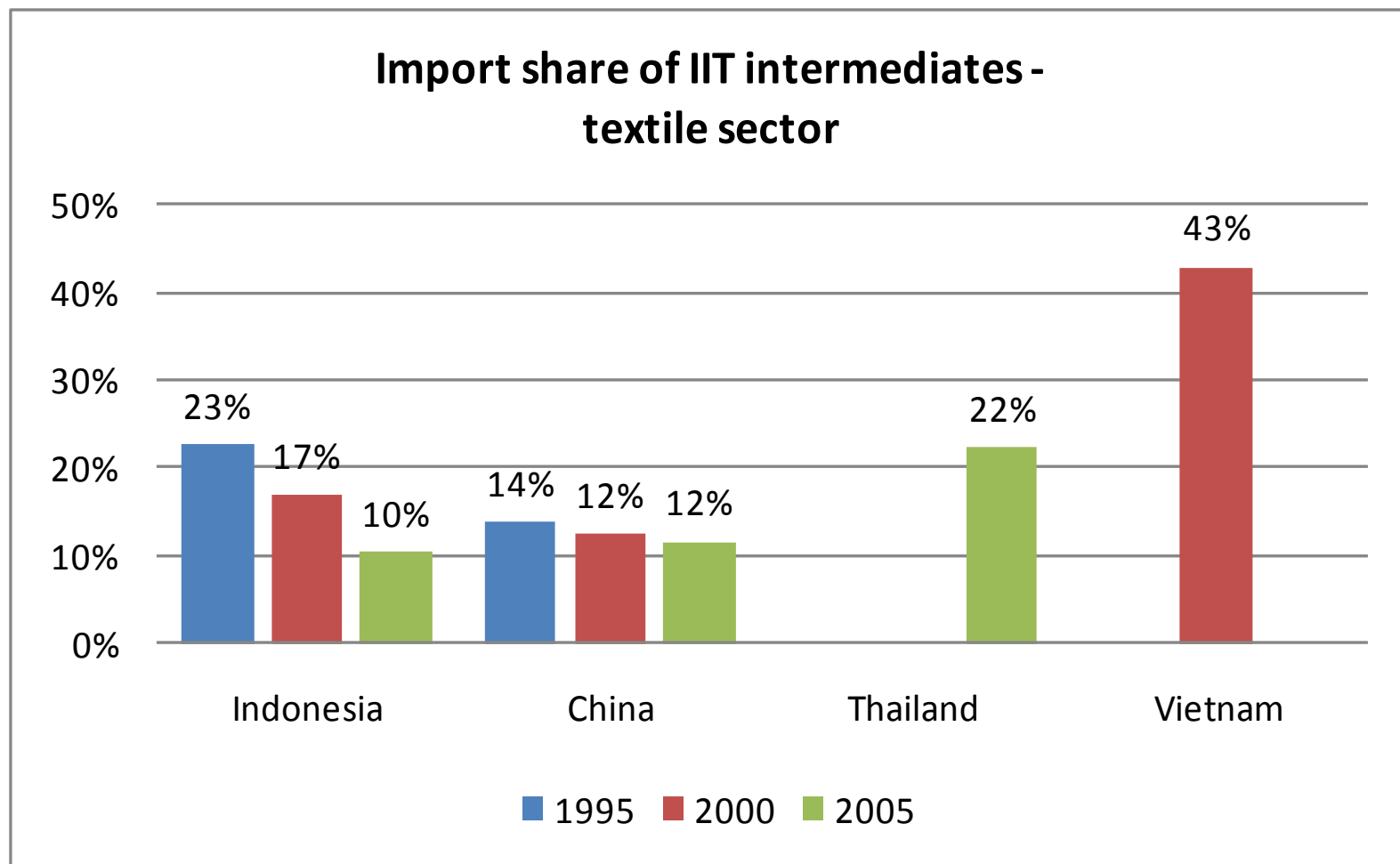
Business climate trails the region

- Note that both Thailand and Malaysia are attractive location for doing business and rank in the top fifth of economies in the world on that indicator, while Indonesia ranks in the bottom third

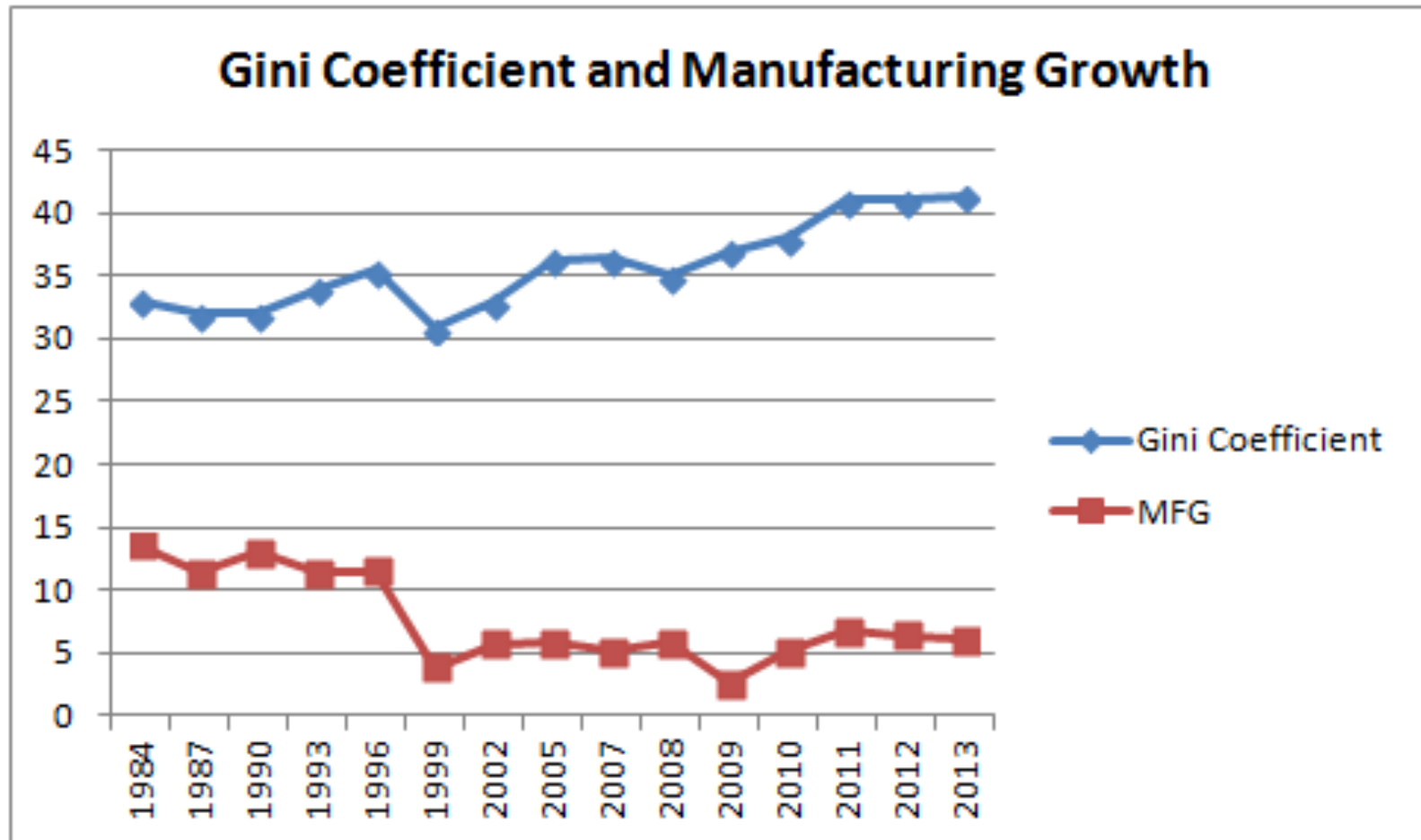


CONSEQUENCES

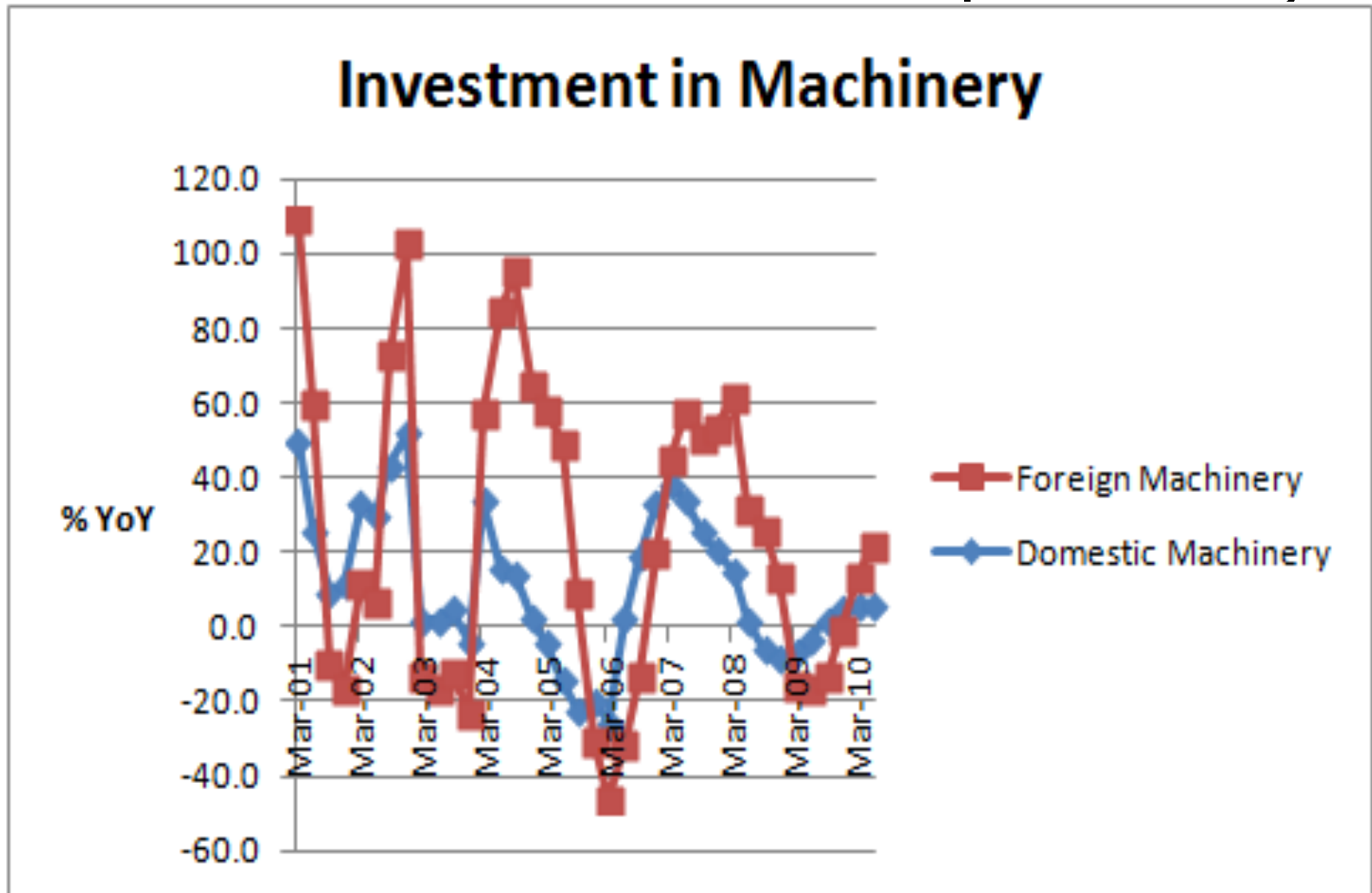
Limited and declining integration in regional and global production networks outside of automotive



Increasing income disparity may be attributable to declining labor intensive manufacturing while the service sector is less inclusive



Investment growth in machinery is on the downward trend due to low profitability



To stimulate discussion

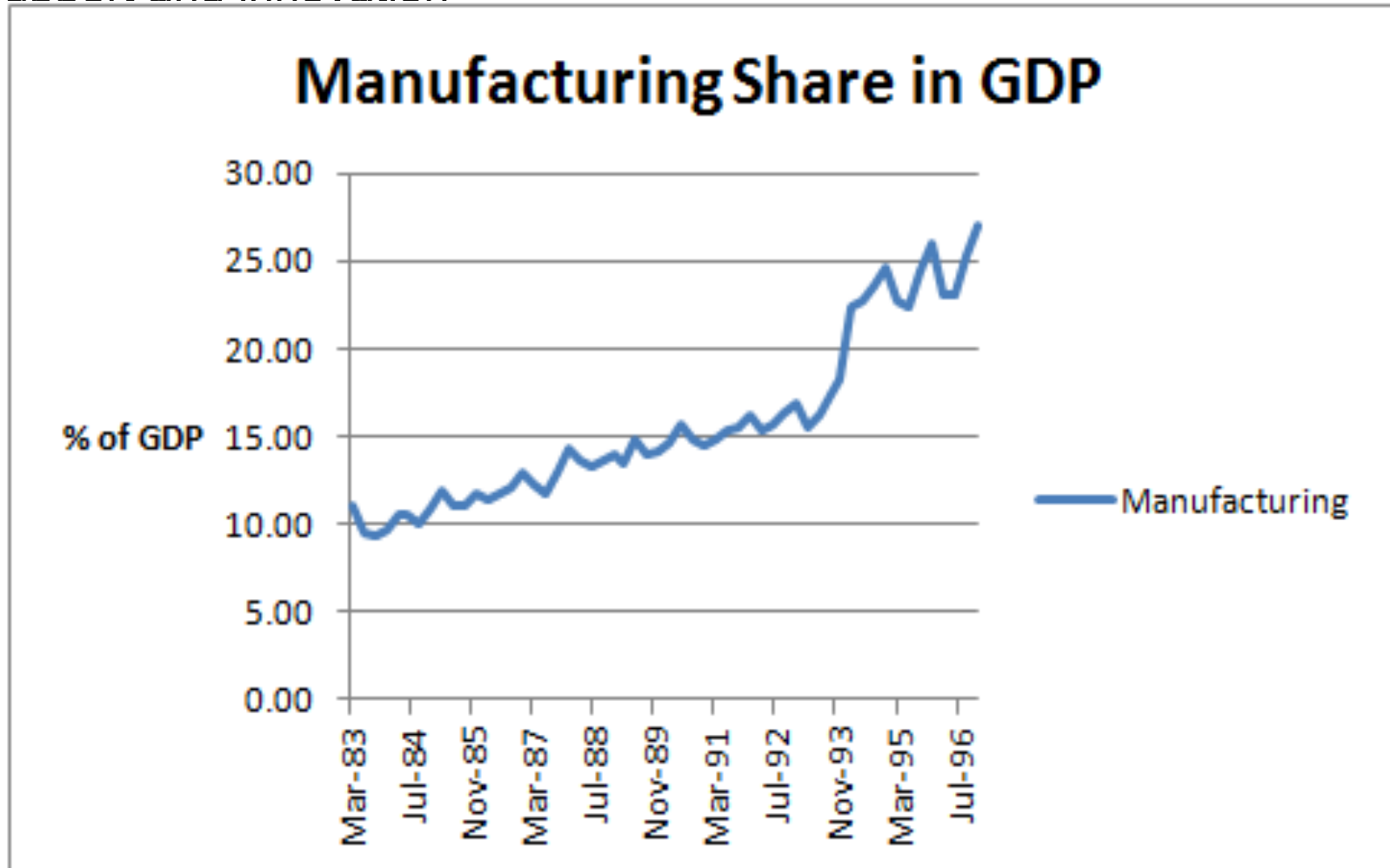
POLICIES

To revive manufacturing

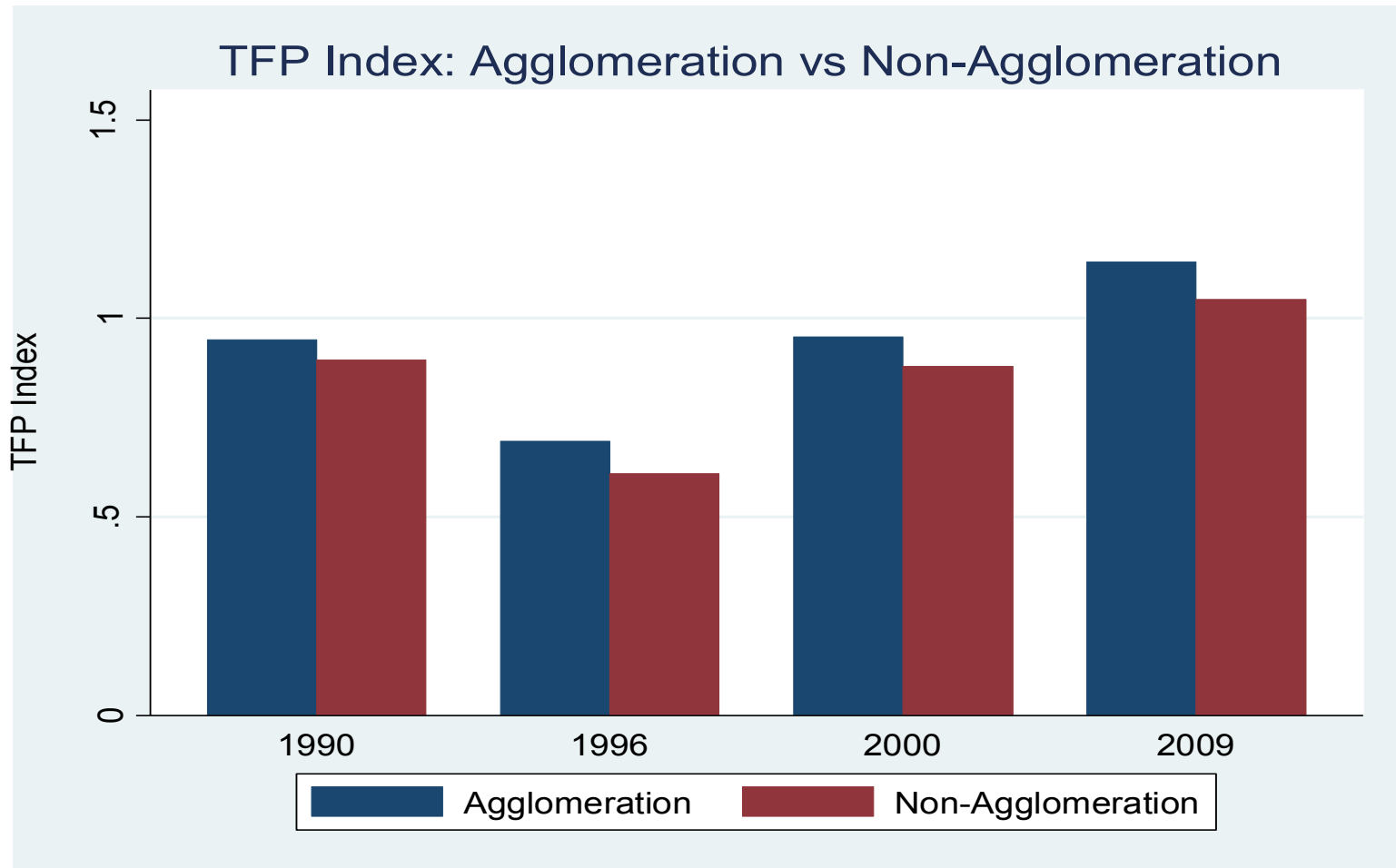
- To produce cheaper products
 - Competition from Bangladesh, Sri Lanka etc.
 - High logistic costs
- To produce higher quality products
 - Need higher productivity
- To produce new products
 - Need to be more innovative and higher productivity
 - R&D

Facts

Relative openness and less regulations may matter more rather than “picking up the winner” but in the longer run need infrastructure support and innovation



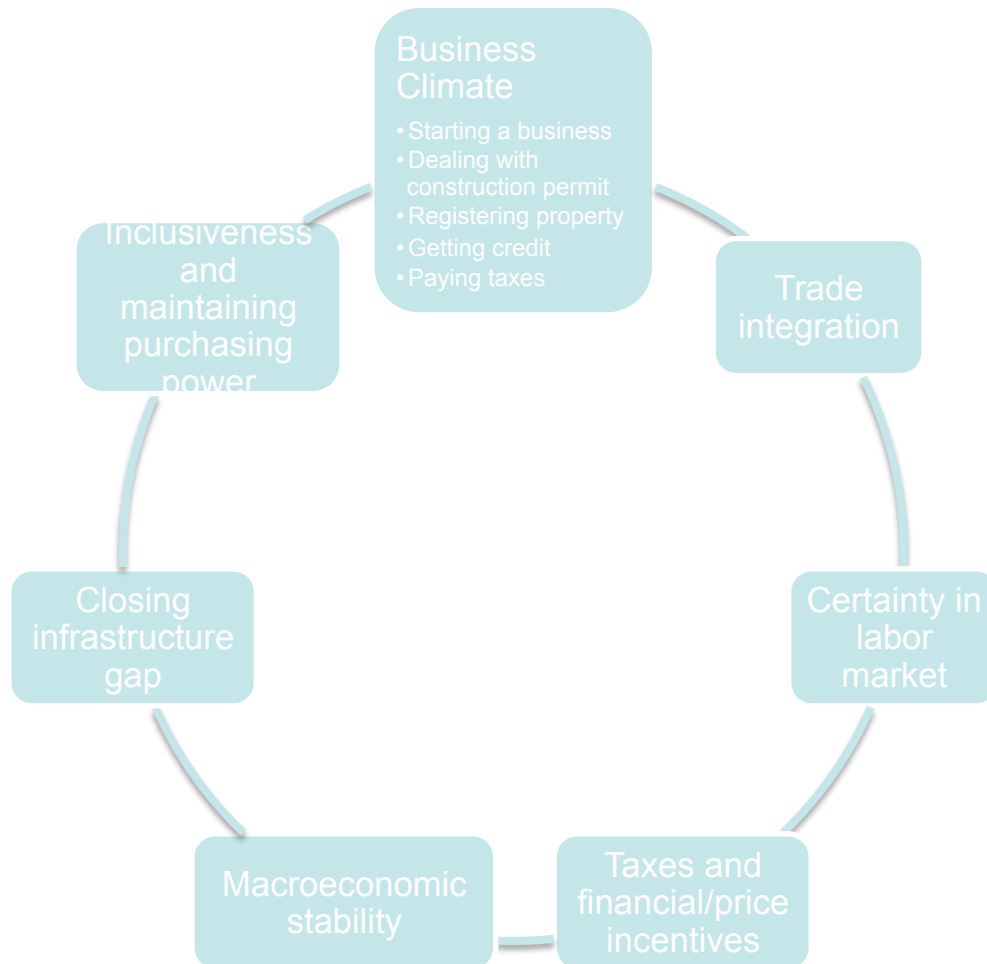
Fact:
connectivity does matter



Policies: broad base or sector specific

- Trade and investment
 - Trade policy is favorable
 - Investment is less favorable
- Logistic and infrastructure - agglomeration
 - From government budget
 - Private investment?
- Innovation and creativity
 - University – research grant system and linkage with industry
 - Private sector – scale problem? Patent and free rider problem
 - Government institution: LIPI, BPTN

Government policy packages to improve competitiveness: implementation will be the key

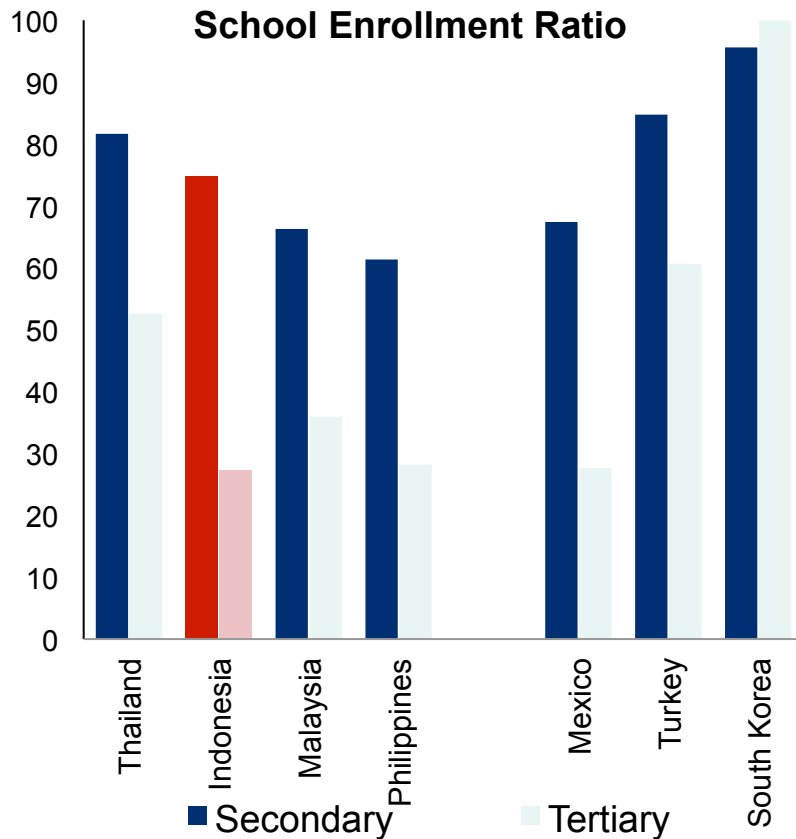


Assessment:

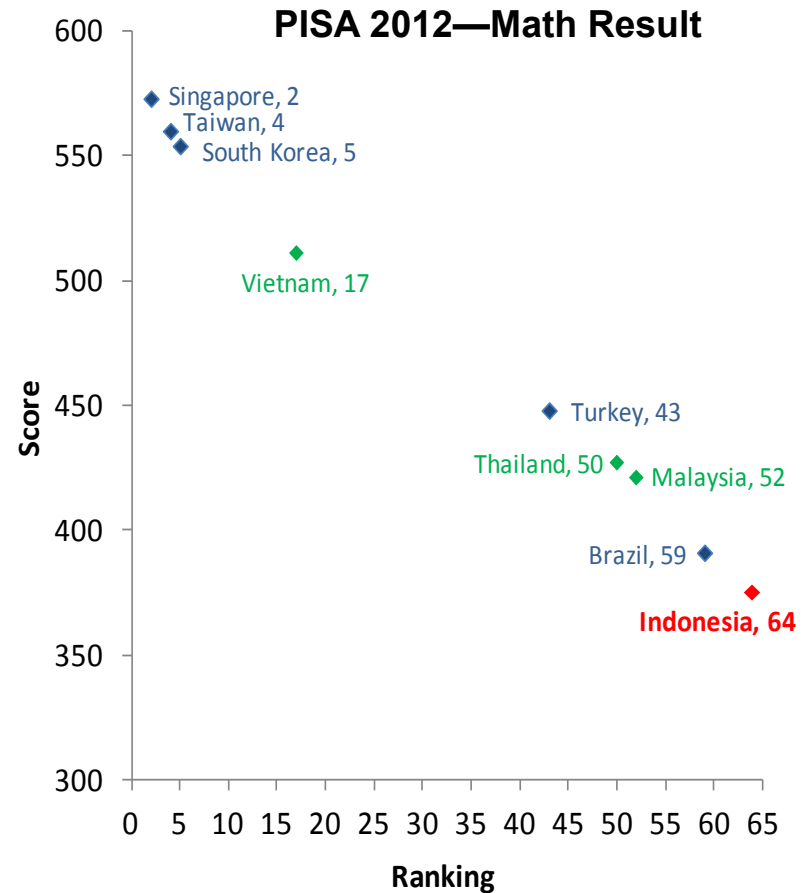
- Mix of supply side reforms and shorter term stimulus measures.
- Packages, cumulatively, have potential to shift competitiveness.
- Nothing yet on improving human resource competitiveness

We should not forget education

Access



Quality



THANK YOU