

Indonesia's competitiveness lies in performance of provinces

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The book *Competitiveness Analysis and Development Strategies for 33 Indonesian Provinces* was launched on Feb. 22 in Singapore. The launch was timely for multiple reasons.

A stable and relatively high growth rate in Indonesia for the past 12 years has placed the country in the investors' spotlight. Indonesia received the most Foreign Direct Investment (FDI) in Southeast Asia last year. The spotlight on Indonesia will continue to grow as the country prepares to, again, host the APEC Summit this October.

Rising investment, however, is hampered by concerns about infrastructure bottlenecks, corruption, land conflicts and labor unrest. These issues are not only of concern to Indonesia, but also Singapore.

As Indonesia's largest source of FDI, Singapore is in a position to mutually benefit from Indonesia's growth. A study by the Asia Competitiveness Institute (ACI) of the Lee Kuan Yew school of public policy, National University of Singapore, found that Indonesia's growth has a positive spillover effect for Singapore's economy.

It was in this context that ACI met with Indonesian Trade Minister Gita Wirjawan in February last year. Gita spoke to us about China's economic development model where provinces engage in healthy competition with one another, and that Indonesian provinces could and should do the same.

ACI was thus inspired to analyze the relative competitiveness of Indonesian provinces as a multi-facet-

ed tool to guide Indonesian national and provincial stakeholders, as well as international investors.

Competitiveness Analysis and Development Strategies for 33 Indonesian Provinces reflects a year's worth of research and collaboration between ACI and the Indonesian government, private sector and research institutions in the country.

The Indonesian Employers Association (APINDO) under the leadership of Sofjan Wanandi was particularly instrumental in facilitating surveys which captured the perception of the private sector in each province.

The simulation highlights that competitiveness is not a static condition and that improvements are indeed possible.

ACI uses a comprehensive approach to competitiveness. We combined different environments that collectively shape the ability of a region to achieve substantial and inclusive economic development into a "provincial competitiveness index". The four environments are: 1) macroeconomic stability, 2) government and institutional setting, 3) financial, business and manpower condition, and 4) quality of life and infrastructure development.

These four environments can be visualized as quadrants, each contributing the same weight (25 percent) to the overall index.

Conclusions from our analysis are as follow: 1) provinces in Java are generally very competitive; 2) provinces in eastern Indonesia

are among the least competitive; 3) provinces in Sumatra and Kalimantan show mixed performance; 4) provinces in Sulawesi are generally average-performing, with none among the top 10 or bottom 10; and 5) competitiveness may be correlated to a phenomenon of clustering.

Jakarta, the capital city, ranks number one in terms of overall competitiveness. The top 10 includes all six provinces of Java, together with Bali, East Kalimantan, Riau and Riau Islands. The bottom 10, on the other hand, is dominated by provinces located in the country's eastern-most region (Papua region, Maluku Islands, Nusa Tenggara), together with Central Kalimantan, Bengkulu, Jambi, and Bangka and Belitung Islands.

The results of the competitiveness ranking may be intuitive for those who know Indonesia, but offer valuable insight into why and in what ways certain provinces are more competitive than others.

Jakarta's first position is not surprising, but it is interesting to note how it is actually an outlier in the national competitiveness spectrum. The capital region has a standardized score of +1.7, while scores of the other 32 provinces fall between the range of +0.6 to -0.6.

Most provinces in the top 10 are characterized by a strong "urban" condition, shown in the large percentage of manufacturing and service sectors in their gross regional domestic product. East Kalimantan and Riau are noted for their rich natural resources and Bali for economic openness.

A phenomenon of "clustering" among competitive provinces is also observed. The Java provinces can be considered a cluster. Riau and Riau Islands can also be considered as

part of an (international) cluster of Malacca Strait economies, together with Singapore and Malaysia.

All provinces in the top 10 managed to get there by relying not only on one type of competitive environment, but multiple.

Therefore, while it is tempting to claim that East Kalimantan and Riau are competitive because of natural resources, in fact they also scored favorably on local business environment and quality of life. On the contrary, not all of the "rich" provinces managed to get in the top 10 because some lack other dimensions of competitiveness, such as good governance.

Having 91 different indicators to work with, ACI went beyond conducting a ranking; we also presented policy simulations to identify how each province could increase their competitiveness.

A simulated improvement in each province's weakest indicators shows that some provinces could jump multiple positions higher. Maluku, for example, could jump 16 positions up in the ranking table!

The simulation highlights that competitiveness is not a static condition and that improvements are indeed possible.

An inclusive economic development, based on vibrant microeconomic condition, good governance, and high quality of life for the population are what each province should strive for. These, in the end, would help to ensure a more sustainable inflow of investment, be it from domestic or foreign sources.

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