



Annual Competitiveness Analysis and **Socio-Economic Development of Indonesian Sub-National Economies**

Editors

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Socio-Economic Development of
Indonesian Sub-National Economies**

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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; (II) The development of digital economy and its implications 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:

Analytical inputs to initiate policies for policy-makers and business leaders in Asia

Capacity building to enable others through improvement in productivity and efficiency

Intellectual leadership to create pragmatic models of competitiveness and inclusive growth

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 development trends, opportunities, and challenges among Asian economies and business corporations.
- ACI endeavours to articulate sound recommendations, promote discussion, and shape research 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.

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Preface

With the largest economy and population in Southeast Asia, Indonesia is poised to be the next powerhouse in the broader Asian region. Yet it faces numerous challenges. On one hand, COVID-19 has necessitated pivotal transformations in economic structures worldwide. Economies have had to balance between reviving industrial vitality and assuring the health of their populations. Moreover, as the world exits the pandemic, how will Indonesia respond to the new economic dynamics in the age of digitalisation?

While most studies on the Indonesian economy have been conducted on a national level, the Asia Competitiveness Institute (ACI) at the Lee Kuan Yew School of Public Policy (LKYSPP), National University of Singapore (NUS) is cognisant of the need to focus greater attention on the sub-national level in Indonesia. Hence, the institute has been conducting annual empirical studies to analyse and rank the competitiveness of Indonesia's six regional and 34 provincial economies. The findings from this study aim to assist policymakers in understanding each province's strengths and weaknesses, supporting policy efforts to boost competitiveness at the provincial and regional levels.

Furthermore, this study becomes especially pertinent in the context of the pandemic's heterogenous impact on Indonesia's 34 provinces. As service-oriented provinces were more harshly affected than commodity-exporting provinces, understanding these sub-national conditions will help policymakers to chart their respective recovery direction.

This year's edition features ACI's assessment of three select Indonesian provinces, each representing the top-ranked economy from their respective regions. Broad findings from the assessment reveal a common impetus by each province to diversify their economy. The manufacturing-oriented Riau Islands are looking to the tourism and marine industries, while tourism-focused Bali introduced digital solutions in its agricultural sector. The pandemic has also put pressure on provinces to hasten the development of rural areas in order to distribute economic development and encourage inclusive growth.

The path ahead is never easy, especially in these uncertain times. Our partners are working fervently and optimistically to forge an economic revival, while remaining heedful of the peoples' needs. For international stakeholders interested in Indonesia's socioeconomic landscape, this book serves as a compendium of the local situation, providing a review of the country's prospects in the coming years. I am confident the insights from this book will add to our understanding of competitiveness dynamics in Indonesia.

Professor Paul Cheung
Director, Asia Competitiveness Institute
Lee Kuan Yew School of Public Policy
National University of Singapore

Executive Summary

A year into the COVID-19 pandemic, Indonesia's economy shows signs of recovery in 2021: The country has seen a 3.2 percent annual GDP growth this year, compared to a contraction of 2.1 percent a year earlier. The 2021 growth is mainly driven by the Information and Communication Technology (ICT) and wholesale and retail trade sectors. Indonesia's strong recovery in 2021 is reverberated in its labour market, with unemployment rates dropping from 7.07 percent in August 2020 to 6.49 percent in August 2021. As Indonesia navigates its economy out of the pandemic, this study on the competitiveness of 34 sub-national Indonesian economies by the Asia Competitiveness Institute serves to track the country's socio-economic progress during the recovery phase. This is given the varied impacts and recovery trajectory experienced by its sub-national economics. **Chapter 1** of the book outlines the country's COVID-19 situation in 2021 and the government's post-pandemic growth strategies. The chapter guides readers in understanding key development in the country and identifying the country's high growth sectors and economic priorities.

The annual competitiveness rankings of 34 provinces (**Chapter 2**) reports that DKI Jakarta remained the top-ranked province in the competitiveness chart, in concordant with its status as the country's economic hub. Even though the province excels in Macroeconomic Stability, Government and Institutional Setting, and Financial Businesses and Manpower Conditions environment, its progress in the Quality of Life and Infrastructure Development has been slipping, dropping from the 3rd rank in 2017 to 9th in 2021. The province has struggled with urban woes such as flooding, increased traffic congestion, and worsening income inequality.

Subsequently, **Chapter 3** paints the competitiveness landscape at the regional level. ACI found persisting development gaps between Western and Eastern Indonesia. The Java region continues to outperform the rest. On the flip side, the Sulawesi and Maluku-Papua regions were amongst the least competitive across all the four environments. Even though the Java region continues to outperform its peers, the chapter shows that the gap has narrowed over time. The analysis identifies Sumatra as the emerging region, with improvements in Government and Institutional Setting (6th in 2020 to 4th in 2021), Financial, Businesses and Manpower Conditions (3rd in 2020 to 2nd in 2021) and Quality of Life and Infrastructure Development (5th in 2020 to 3rd in 2021).

This year's iteration delves deeper into the development of the three central Indonesian provinces of Bali, DKI Jakarta and Riau Islands. **Chapter 4** to **Chapter 6** review the socio-economic progress of these three provinces through the lens of economic development, labour market dynamism, infrastructure and social development. Each chapter illustrates their unique provincial characteristics, how the pandemic impacted their socio-economic progress, and how they attempt to navigate out of the pandemic. These chapters also track the province's development indicators against its associating medium-term development plan (RPJMD) targets.

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This year's Annual Competitiveness Analysis and Socio-Economic Development of Indonesian Sub-National Economies is supervised by Dr Zhang Xuyao, led by Doris Liew Wan Yin and supported by Cheah Wen Chong, Hilda Kurniawati, Clarice Handoko, Shanty Citra, Muhammad Pandito Pratama and Risa Andiani.

In this book, we have updated previous sub-national and regional competitiveness studies with the latest available data. Our comprehensive approach to measuring competitiveness takes into account different factors that collectively shape the ability of a nation or region to achieve substantial and inclusive economic development over a sustained period of time. In addition, we apply a novel approach to assigning weights in the form of Shapley values to test the robustness of the findings. Furthermore, we perform a socio-economic review of Bali, DKI Jakarta and Riau Islands provinces in the areas of economic development, labour market dynamism, infrastructure and social development. We would track the progress of key indicators with each province's medium-term development plan.

This book would not have been possible without the support of our research and administrative colleagues. In particular, we would like to extend our sincere thanks to the competent and dedicated administrative team at ACI, including Cai Jiao Tracy, Wesley Chan, Nurliyana Binte Yusoff and Dewi Jelina Ayu Binte Johari. We would also like to note with great appreciation the contributions from ACI Director Professor Paul Cheung and the research staff – Dr Xie Taojun, Dr Dawn Chow, Dr Ammu George, Dr Lucas Shen, Dr Zhang Chi, Kevin Chen, Sky Chua Jun Jie, Ge Yixuan, Sumedha Gupta, Lim Jing Zhi, Ng Wee Yang, Quah Say Jye and Tan Kway Guan.

We place on record our appreciation for the encouragement by Professor Danny Quah (Dean), Professor Khong Yuen Foong (Vice Dean, Research and Development), Kadir Suzaina (Vice Dean, Academic Affairs), Francesco Mancini (Vice Dean, Executive Education) and other colleagues in the Lee Kuan Yew School of Public Policy, NUS, for making this project possible.

We would also like to thank our partners in Indonesia, Coordinating Ministry for Economic Affairs, Indonesian Employers Association (APINDO), Governor of Bali, Governor of Riau Islands, Regional Development Planning Agency (Bappeda) of 34 provinces, and ACI's academic counterparts in the 34 provinces for their ongoing support and collaboration. We also extend our heartfelt appreciation to Governor of Bali, Governor of Riau Islands, Universitas Pendidikan Ganesha, State Polytechnic of Batam, and Nongsa Digital Park for providing their valuable knowledge during ACI-Undiksha's webinar on "Bali's Roadmap to Recovery: Post-Pandemic Recovery Strategies" in October 2021 and ACI-Polibatam's webinar on "Batam, Bintan and Beyond: Post-Pandemic Economic Strategies for Riau Islands" in February 2022.

List of Abbreviations

ACI	Asia Competitiveness Institute
ASEAN	Association of Southeast Asian Nations
BBK FTZ	Bintan, Batam, Karimun Free Trade Zone
BI	Central Bank of Indonesia (<i>Bank Indonesia</i>)
BI7DRR	BI 7-Day Reverse Repo Rate
BPS	Indonesia's Bureau of Statistics (<i>Badan Pusat Statistik</i>)
BRICS	Brazil, Russia, India, China, and South Africa
CAGR	Compound Annual Growth Rate
CHSE	Cleanliness, Health, Safety and Environmental Sustainability
DDI	Domestic Direct Investments
DI	Special Region (<i>Daerah Istimewa</i>)
DKI	Special Capital Region (<i>Daerah Khusus Ibukota</i>)
DNDF	Domestic Non-Deliverable Forwards
EQI	Environment Quality Index
EV	Electric Vehicle
FBMC	Financial, Businesses and Manpower Conditions
FDI	Foreign Direct Investments
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GIS	Government and Institutional Setting
GMV	Gross Market Value
Gratieks	Three Times Exports Movement (<i>Gerakan Tiga Kali Ekspor</i>)
GRDP	Gross Regional Domestic Product
HDI	Human Development Index
HIPMI	Indonesian Young Entrepreneurs Association (<i>Himpunan Pengusaha Muda Indonesia</i>)
ICT	Information, Communications and Technology
IDX	Indonesia Stock Exchange
IKN	Capital City Region <i>Ibu Kota Negara</i>
IMD	International Institute for Management Development
INDO- DAPOER	Indonesia Database for Policy and Economic Research
JDCN	Jakarta Development Collaboration Network
KJP	Kartu Jakarta Pinter
KPS	Kepri Smart Province
KSBB	Large-Scale Workforce Collaboration Programme (<i>Kolaborasi Sosial Berskala Besar</i>)

KUBE	Joint Business Group Programme (<i>Kelompok Usaha Bersama</i>)
LKYSP	Lee Kuan Yew School of Public Policy
MaaS	Mobility as a Service
MICE	Meeting, Incentive, Convention, Exhibition
MINT	Mexico, Indonesia, Nigeria, and Turkey
MP3EI	Masterplan for Acceleration and Expansion of Indonesia's Economic Development 2011-2015
MRT	Mass Rapid Transit
MS	Macroeconomic Stability
MSMEs	Micro, Small and Medium Enterprises
MUI	Indonesian Ulema Council (<i>Majelis Ulama Indonesia</i>)
NDP	Nongsa Digital Park
NTN	Fishermen's Exchange Rate (<i>Nilai Tukar Nelayan</i>)
NTP	Farmer's Exchange Rate (<i>Nilai Tukar Petani</i>)
OK-OCE	One Centre of Entrepreneurship
PEN	National Economy Recovery (<i>Pemulihan Ekonomi Nasional</i>)
PKH	Family Hope Program (<i>Program Keluarga Harapan</i>)
PPP	Purchasing Power Parity
PSBB	Large-Scale Social Restrictions (<i>Pembatasan Sosial Berskala Besar</i>)
QLID	Quality of Life and Infrastructure Development
RAPBN 2022	Indonesian Budget 2022 (<i>Bajet Indonesia 2022</i>)
RPJMD	Regional Medium-Term Development Plan (<i>Rencana Pembangunan Jangka Menengah Daerah</i>)
RPJMN	Indonesian Medium Term Development Plan (<i>Rencana Pembangunan Jangka Menengah Nasional</i>)
SBN	Tradeable Government Securities (<i>Surat Berharga Negara</i>)
SDG	Sustainable Development Goals
SMEs	Small and Medium Enterprises
VTL	Vaccinated Travel Lane
WCY	World Competitiveness Yearbook
WEF	World Economic Forum
y-o-y	year-on-year

List of Provinces

	Name of Province in English	Name of Province in Bahasa	Region
1	Aceh	Aceh	Sumatra
2	Bali	Bali	Bali-Nusa Tenggara
3	Bangka Belitung Islands	Kepulauan Bangka Belitung	Sumatra
4	Banten	Banten	Java
5	Bengkulu	Bengkulu	Sumatra
6	Central Java	Jawa Tengah	Java
7	Central Kalimantan	Kalimantan Tengah	Kalimantan
8	Central Sulawesi	Sulawesi Tengah	Sulawesi
9	DI Yogyakarta	DI Yogyakarta	Java
10	DKI Jakarta	DKI Jakarta	Java
11	East Java	Jawa Timur	Java
12	East Kalimantan	Kalimantan Timur	Kalimantan
13	East Nusa Tenggara	Nusa Tenggara Timur	Bali-Nusa Tenggara
14	Gorontalo	Gorontalo	Sulawesi
15	Jambi	Jambi	Sumatra
16	Lampung	Lampung	Sumatra
17	Maluku	Maluku	Maluku-Papua
18	North Kalimantan	Kalimantan Utara	Kalimantan
19	North Maluku	Maluku Utara	Maluku-Papua
20	North Sulawesi	Sulawesi Utara	Sulawesi
21	North Sumatra	Sumatera Utara	Sumatra
22	Papua	Papua	Maluku-Papua
23	Riau	Riau	Sumatra
24	Riau Islands	Kepulauan Riau	Sumatra
25	South Kalimantan	Kalimantan Selatan	Kalimantan
26	South Sulawesi	Sulawesi Selatan	Sulawesi
27	South Sumatra	Sumatera Selatan	Sumatra
28	Southeast Sulawesi	Sulawesi Tenggara	Sulawesi
29	West Java	Jawa Barat	Java
30	West Kalimantan	Kalimantan Barat	Kalimantan
31	West Nusa Tenggara	Nusa Tenggara Barat	Bali-Nusa Tenggara
32	West Papua	Papua Barat	Maluku-Papua
33	West Sulawesi	Sulawesi Barat	Sulawesi
34	West Sumatra	Sumatera Barat	Sumatra

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Chapter 1

Year in Review: Indonesia in 2021

Doris Liew Wan Yin and Hilda Kurniawati

1.1 Structure and Content of the Book

This book introduces Indonesia's economic progress and development to the reader and presents the results of Asia Competitiveness Institute (ACI)'s most updated series of studies on Indonesia's sub-national economies. Aside from the annual competitiveness analysis and simulation studies of Indonesia's provinces and regions, this edition will include a review of the provincial development policies of Bali, the special capital region (DKI) Jakarta and East Kalimantan.

The book comprises six chapters, including this introductory chapter that serves as a roadmap for the reader. The content of the following five chapters is summarised below to provide a snippet of the rest of the book.

Chapter 2 presents the annual update of Indonesia's provincial competitiveness analysis, one of ACI's flagship research projects. The index evaluates competitiveness as a composite of four environments, spanning: (i) Macroeconomic Stability, (ii) Government and Institutional Setting, (iii) Financial, Businesses and Manpower Conditions, and (iv) Quality of Life and Infrastructure Development.

As shown in Table 1.1, DKI Jakarta occupies first place in Overall Competitiveness. It has consistently remained at this position since the first annual publication nine years ago in 2013, while East Java remains as the second most competitive province. Overall, Table 1.1 shows that provinces in the Java region tend to occupy the top end of the table: the top four provinces came from this region. Meanwhile, provinces in the Bali-Nusa Tenggara, Sulawesi and Maluku-Papua regions occupy the bottom-end.

Chapter 3 provides a competitiveness analysis of the different regions of Indonesia. It applies the same framework used in Chapter 2 to the six regions of Indonesia, where each region is an aggregation of several provinces based on their major island groupings. Consistent with the findings at the provincial level presented in Chapter 2, we observe that the Java region tops the performance on competitiveness. In contrast, the Maluku-Papua region holds the last place, as has been the case for the past few years. This year, Bali-Nusa Tenggara region has overtaken Sulawesi to emerge fourth. 2021's results yield interesting observations at the environmental level. Sumatra jumps two ranks in the

Table 1.1: Highlights of ACI's 2020 Overall Competitiveness Ranking of Indonesian Provinces, (Top-5 and Bottom-5 Provinces)

2020 Overall Competitiveness		Province	Region
Rank	Std. Scores		
1	3.756	DKI Jakarta	Java
2	2.038	East Java	Java
3	1.451	West Java	Java
4	1.199	Central Java	Java
5	1.090	East Kalimantan	Kalimantan
...
30	-0.805	East Nusa Tenggara	Bali-Nusa Tenggara
31	-0.836	Gorontalo	Sulawesi
32	-0.883	Maluku	Maluku-Papua
33	-0.996	West Papua	Maluku-Papua
34	-1.403	Papua	Maluku-Papua

Quality of Life and Infrastructure Development environment, while Kalimantan retakes its first position from Java in the same environment. Readers interested in delving further into this discovery can find the evidence presented in Chapter 3.

Chapters 4 to 6 present ACI's provincial development policy review of three economic hubs of Indonesia: Bali, DKI Jakarta and the Riau Islands. These provinces are the economic hubs of their respective regions. In each chapter, the authors first provide the competitiveness outlook and an overview of the recent economic development of the province. Subsequently, the chapter analyses its socio-economic development through four dimensions: economic development, labour market dynamism, infrastructure, and social development. The chapter also tracks the performance of these indicators through each province's medium-term development plan (RPJMD).

As Indonesia crafts its post-pandemic recovery strategies, it is essential not to lose sight of its progress and the comparative advantage of each regional economy. ACI's contribution lies in the empirical and policy guidance it provides for Indonesia's policymakers, academics and business owners as they navigate the recovery phase. This compilation of situational analysis, competitiveness outlook, and provincial socio-economic review serves as a useful toolkit for readers seeking to understand Indonesia's state of affairs and policy direction moving forward.

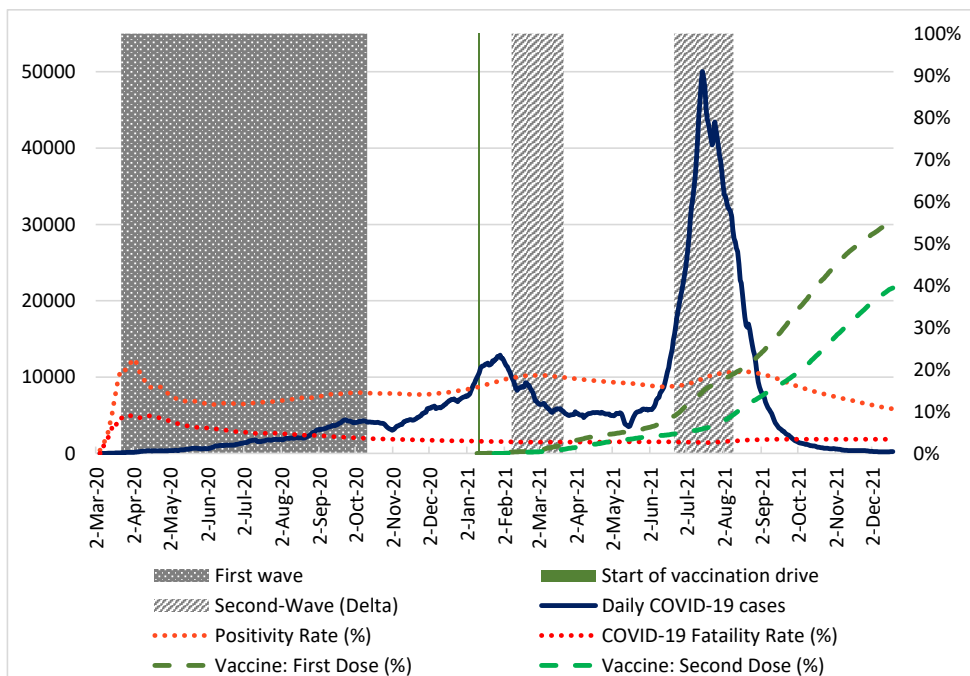
1.2 Indonesia in 2021

Indonesia's economy was badly affected by the pandemic. The country's resilience was weakening in the middle of 2021. The Bloomberg Resilience Index in July 2021 placed

Indonesia as the worst of 53 countries to be in for Coronavirus disease 2019 (COVID-19) (Bloomberg, 2022). As COVID-19 conditions improved at the end of 2021, the resilience ranking improved by two placings, putting it above South Africa and Vietnam.

Indonesia in 2021 has seen multiple pandemic waves. Along with it came a slew of social restrictions together with economic assistance for businesses and individuals to tide them through the pandemic. As seen in Figure 1.1, COVID-19 first emerged in Indonesia on March 2 2020, and the country has seen an increase in cases since. The government imposed a series of large-scale social restrictions (PSBB) to prevent community spread. Most of these restrictions applied to the Jakarta province, as it has the highest case count amongst all the Indonesian provinces. As cases started to plateau in September 2020, several restrictions were relaxed, and domestic travel eased.

Figure 1.1: COVID-19 statistics and development



Source: Kawalcovid.go.id

Note: COVID-19 data is based on 7-days average

Indonesia began its vaccination programme on January 12, 2021. The inoculation effort in the early stage prioritised frontline healthcare workers and younger individuals (Blavatnik School of Government and University of Oxford, 2022). Around the same time, the new strain of COVID-19 virus, named the Delta variant, began worldwide. This second pandemic wave triggered another series of mobility restriction policies. To prevent the Delta variant from entering the country, all international travel to Indonesia was halted from January 1, to February 23, 2021. Nevertheless, the Delta cases began to surge in early 2021, sparking another round of social restriction policies. As the vaccination rate is still low, the population has not achieved the herd immunity needed

to curb the spread of the Delta variant. The longest and strictest PSBB were imposed in Java and Bali, the pandemic's epicentres. Micro-PSBB were in place in these provinces from February 8 to March 22, 2021. As cases started to wane, most social restrictions were lifted in mid-March 2021, except in the COVID-19 hot spots.

However, in mid-2021, Indonesia experienced a tremendous surge in cases. In response to rising daily cases in early June, nationwide social restrictions were imposed from June 5, 2021. The restrictions lasted for over two months, ending on August 9, after daily cases showed a decreasing trend. The relaxation of the restrictions was accompanied by an uptake in vaccination. By mid-August, close to one-fifth of the population had received the first dose of the vaccine (see Figure 1.1). By December 2021, this number had increased to 55%. At the same time, two-fifths of the population have received the second jab. Figure 1.1 also shows that the COVID-19 fatality rate has remained below 10% throughout the pandemic, and the positivity rate has gone down from 20% during the second wave to around 10.6% by December 2021.

As the vaccination rate ramps up and COVID-19 is poised to become endemic, there is a pressing need to study the border reopening and, subsequently, the post-pandemic economic recovery, of Indonesia. Indonesia has gradually reopened its borders to foreign visitors since September 18, 2021. Under Minister of Law and Human Rights Regulations No. 34/2021 on Granting of Immigration Visas and Stay Permits during COVID-19 Spread Handling and National Economic Recovery, vaccinated foreign visitors are allowed to enter the republic. Regulations for visitors entering the tourism cities of Bali, Batam and Bintan have also been relaxed (COVID-19 Taskforce, 2022).

The government highlighted ten developmental areas in its post-pandemic growth strategies. As laid out in the Presidential Regulations 85/2021 on Government Work Plan 2022, the 10 areas include 1) industrial; 2) tourism; 3) food security; 4) Micro, Small and Medium Enterprises (MSMEs); 5) infrastructure development; 6) digital transformation; 7) carbon emission; 8) social protection; 9) educational reform; 10) healthcare reform. These aspects are reflected in the Indonesian Budget 2022 (RAPBN 2022)

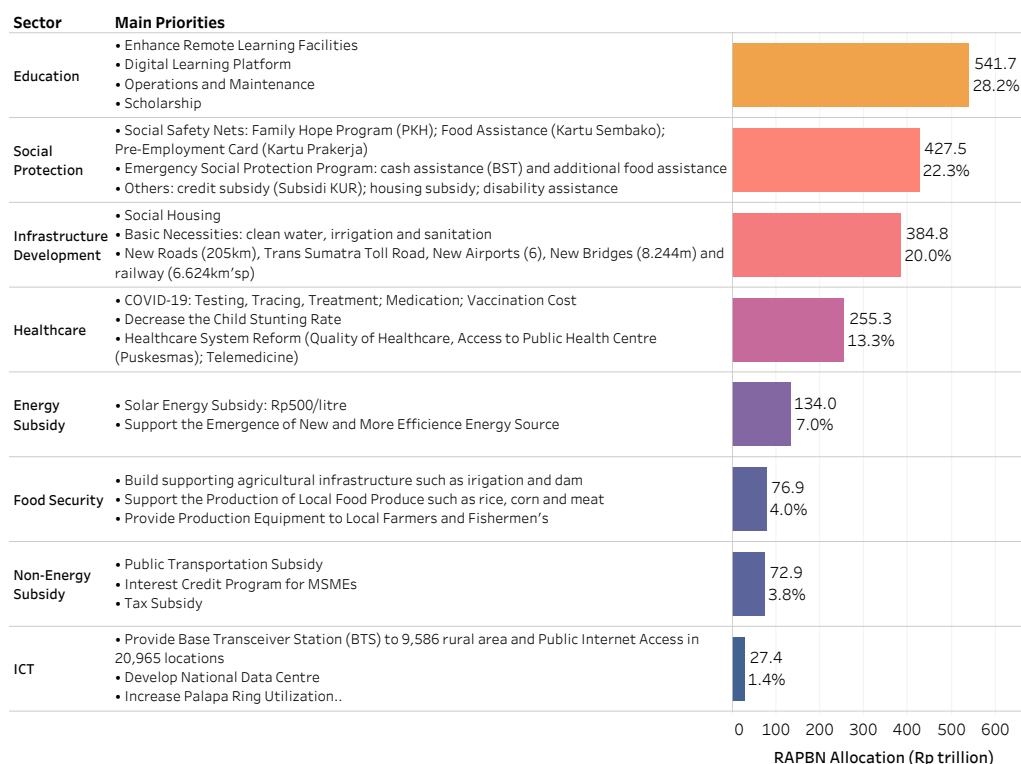
RAPBN 2022 sets the stage for economic recovery (Ministry of Finance, 2021b). Indonesia's economy is expected to grow by 5.0%-5.5% in 2022 (up from the projected 2021 growth of 3.7%-4.5%), and its inflation is expected to increase to 3% (from 2021 estimates of 1.8%-2.5%) as consumer demand recovers. The optimistic projection is also in line with the World Bank's (World Bank, 2021) expectation that the country's economic development will accelerate in 2022. As government revenue began recovering in 2021, the government also has more fiscal room to implement growth-oriented development policies in the years ahead. RAPBN 2022 underscores four economic priorities:

1. **Focusing on economic recovery** while enhancing the resilience of the healthcare sector.
2. **Improving Social Protection** via strengthening the social safety nets, alleviating poverty, and fostering vibrant MSMEs.

3. **Enhancing Labour Productivity and Competitiveness** via labour market reforms (e.g. Omnibus Law or the Job Creation Law).
4. **Ensuring fair and sustainable fiscal consolidation** in both central and local government financing.

In line with the Presidential Regulations 85/2021, the [Ministry of Finance \(2021b\)](#) allocated Rp 2708.7 trillion for government spending in 2022. As shown in [Figure 1.2](#), the budget allocation for education was the biggest component of the national budget at 28.2% , followed by social protection (22.3%), infrastructure development (20.0%), healthcare (13.3%), energy subsidy (7.0%), food security (4.0%), non-energy subsidy (3.8%) and ICT (1.4%). The vast education budget is mainly for school operations and facility maintenance.

Figure 1.2: RAPBN 2022: Budget Breakdown by Sectors



Source: [Ministry of Finance \(2021b\)](#)

Although social protection comprises the second biggest component of RAPBN 2022, it has decreased from 2020 and 2021, in which the total allocation into the social protection comprises of Rp 498 trillion and Rp 487.8 trillion, respectively. The reason is that the economic recovery in 2022 is expected to reduce the need for social transfers and unemployment benefits, prevalent in the past two years because of the COVID-19 pandemic.

While the COVID-19 pandemic has upended the global economy, the digital economy has blossomed as mobility restrictions moved consumers and businesses online. The digital sector grew by a large margin during the pandemic. The gross market value (GMV) of e-commerce grew by 52% between 2020 and 2021 (Google, Temasek and Bain & Company, 2021). In the same period, online media and online travel expanded by 48% and 29%, respectively. The country's emerging digital sector has drawn the interest of global tech unicorns. Tech giants have also been active. Microsoft made a strategic investment in Bukalapak, an Indonesian e-commerce company in 2020, while Google and Temasek have collectively invested US\$ 350 million into Tokopedia, another successful e-commerce firm in the country (Shotaro Tani, 2020).

The digital sector presents tremendous growth potential as Indonesia plans its recovery route. In the RAPBN 2022, the government injected capital into digital infrastructure across multiple sectors. As seen in Figure 1.2, the government directs its investments towards implementing digital learning platforms, enabling telemedicine and teleconsultation, developing a national data centre and enhancing technological infrastructure such as building base transceiver stations and improving internet connectivity.

Another highlight of RAPBN 2022 is the investments in the green sector. The country aspires to transition to greener and cleaner fuels by subsidising solar energy and supporting projects on new and more efficient energy sources. President Joko Widodo has announced a plan to build a green industrial zone in North Kalimantan (Ministry of Investment, 2022). The site will be the world's largest area to utilise green energy in industrial production. Furthermore, Indonesia has also fostered collaboration with Hyundai Motor Group and LG Energy Solutions to set up an electric vehicle battery cell production facility in the country in 2023 (Ministry of Investment, 2022).

1.3 Overview of Indonesia's Recent Economic Developments

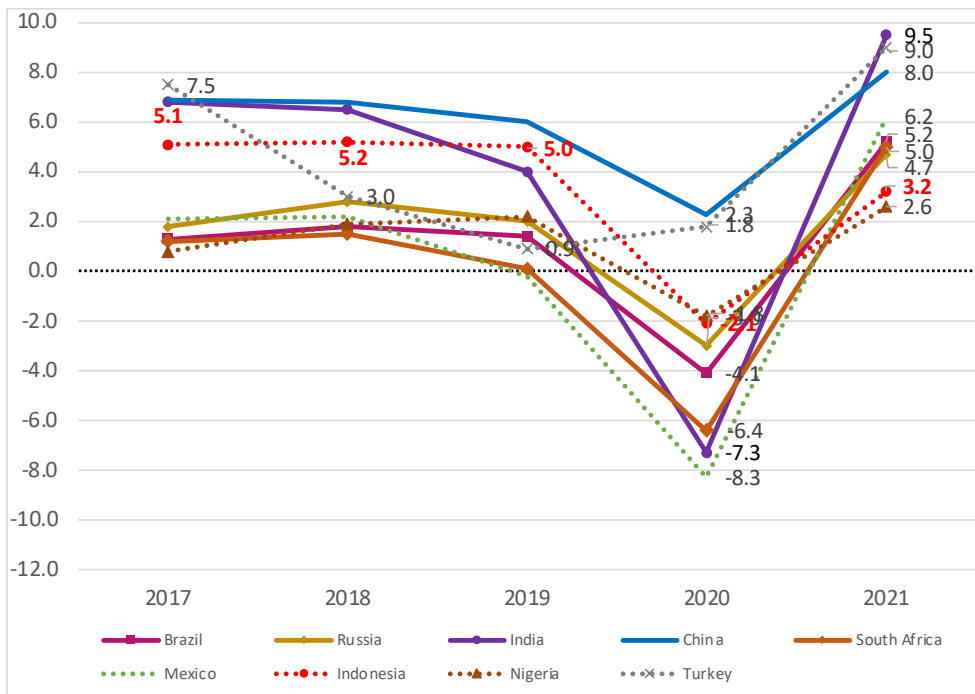
This section will describe Indonesia's growth trends and prospects, fiscal and monetary trends, trade performance and investment outlook, and labour market and social development. The analysis will contrast the trends before and during the COVID-19 pandemic.

1.3.1 Growth Trends and Prospects

In the next few charts, we will compare Indonesia's gross domestic product (GDP) growth with other fast-emerging economies before and during the COVID-19 pandemic. As we can see from Figure 1.3, the onset of the COVID-19 pandemic in 2020 has led to the contraction of Indonesia's economy, along with those of the BRICS and MINT

countries¹, with the exception of China and Turkey. Nevertheless, the growth rate in these two countries has also decreased compared to the periods before the pandemic. Indonesia underwent a negative growth (-2.1%) in 2020, but its economic contraction was minuscule compared to Mexico (-8.3%), India (-7.3%), and South Africa (-6.4%).

Figure 1.3: GDP Growth Rate for Indonesia, BRICS Countries and MINT Countries (in Percentage), 2017–2021



Note: Figures for 2021 are based on preliminary data. Figures at the end of the line indicate growth rates in 2021. Dashed lines represent MINT countries.

Source: International Monetary Fund, compiled by ACI

Moreover, all countries followed the same economic recovery trajectory in 2021. India experienced the most rapid economic recovery, with a GDP growth rate of 9.5 % in 2021. Indonesia also had a positive GDP growth rate in 2021 but its recovery was modest compared to other BRICS and MINT countries: its 2021 GDP growth was lower than China’s (8.0 %), Mexico’s (6.2 %), Brazil’s (5.2 %), and higher than that of only one country - Nigeria (2.6 %).

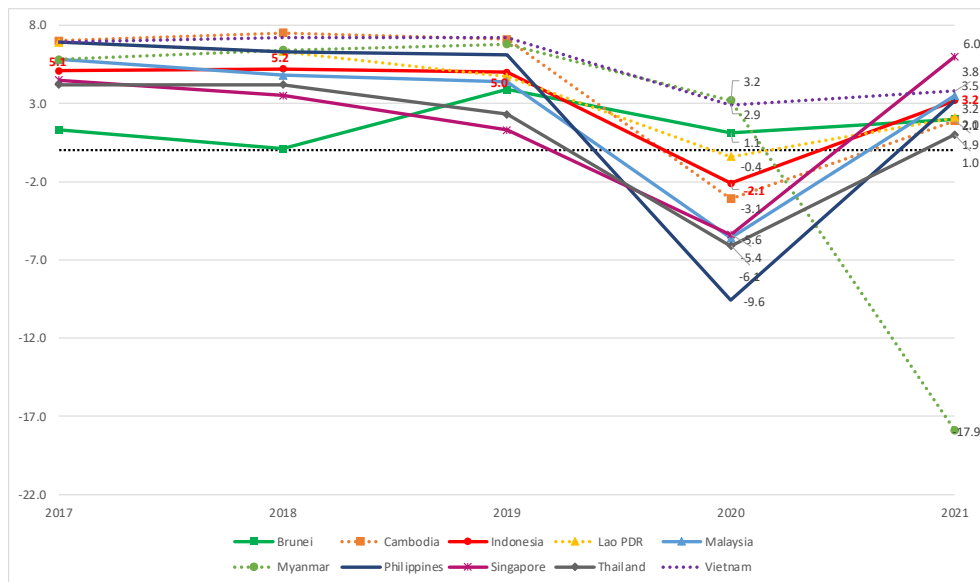
Similarly, the vast majority of the ASEAN-10 countries also had negative growth in 2020, except for Brunei, Myanmar, and Vietnam (Figure 1.4). The Philippines was most heavily impacted, with a 9.6 % economic contraction in 2020. In 2021, all ASEAN-10 countries, except for Myanmar, experienced an economic recovery. Specifically, Singapore (6.0 %) and Vietnam (3.8 %) had the highest GDP growth compared to the other ASEAN countries. Myanmar’s economy plummeted by 17.9% in 2021 due to its

¹BRICS countries are Brazil, Russia, India, China, and South Africa. MINT countries are Mexico, Indonesia, Nigeria, and Turkey

worsening political instability caused by a military coup and subsequent mass protests against military rule.

As we can see from Figure 1.5, Indonesia succeeded in sustaining its economic growth level at around 5% throughout 2019. However, the first COVID-19 cases in March 2020 lowered the economic growth rate by almost half, to 2.97% in Q1 of 2020 before plummeting quickly to -5.32% in the subsequent quarter. After experiencing its deepest fall, Indonesia's economic growth began to recover slowly, although it remained negative at -0.7% in Q1 of 2021.

Figure 1.4: GDP Growth Rate for Indonesia and ASEAN-10 Countries (in Percentage), 2017–2021



Note: Figures for 2020 are based on preliminary data. Figures at the end of the line indicate GDP growth rate in 2020. Dotted lines represent CLMV countries.

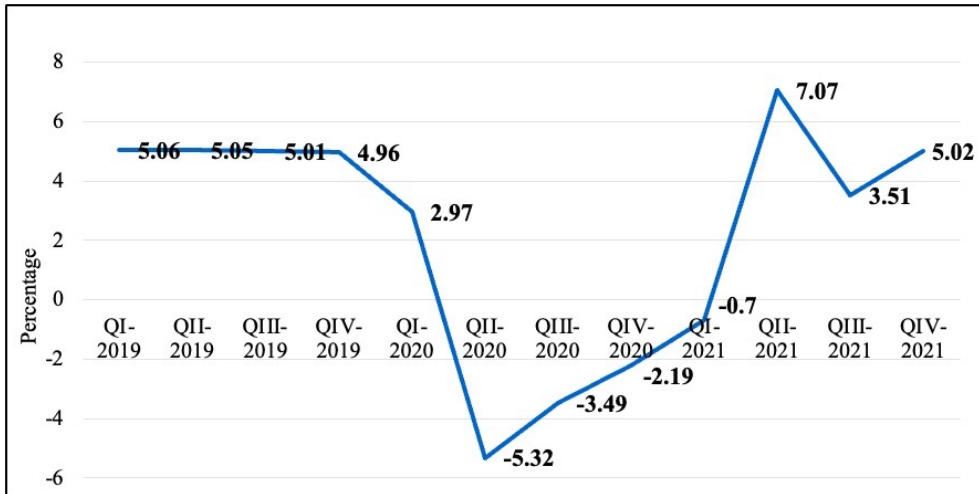
Source: International Monetary Fund, compiled by ACI

Its economic recovery continued in the following quarter, with a rise in its economic growth rate to 7.07%. This impressive growth was contributed mainly by the growth of the transportation and storage sector (25.10%) as well as the accommodation and food & beverage sector (21.58%) ([Indonesia's Statistical Agency \(BPS\), 2021](#)).

Nonetheless, Indonesia's economic growth continued to fluctuate throughout 2021. After a rapid recovery in Q2-2021, its recovery slowed in the subsequent quarters. The decline in economic growth was due to the re-introduction of mobility restrictions and the uncertainty of its recovery trajectory caused by the second pandemic wave. The second pandemic wave was a result of the Delta variant, which caused daily active cases in Indonesia to reach a record 50,000 new cases a day in July 2021 (see 1.1). However, economic growth was able to return to its pre-pandemic levels at 5.02% in Q4 of 2021.

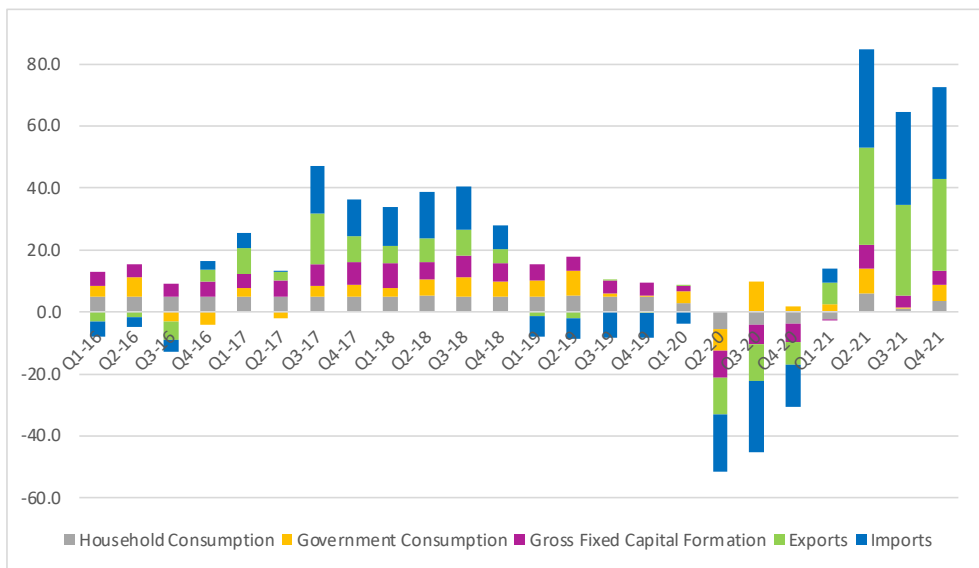
In late 2020 and early 2021, the COVID-19 vaccines were invented. The subsequent immunisation programmes raised hopes that the pandemic could be reaching its end. We observed that all sectors began recovering by the first quarter of 2021, particularly

Figure 1.5: Quarterly GDP Growth (Y-o-Y), 2019–2021



Source: Indonesia’s Statistical Agency (BPS), compiled by ACI

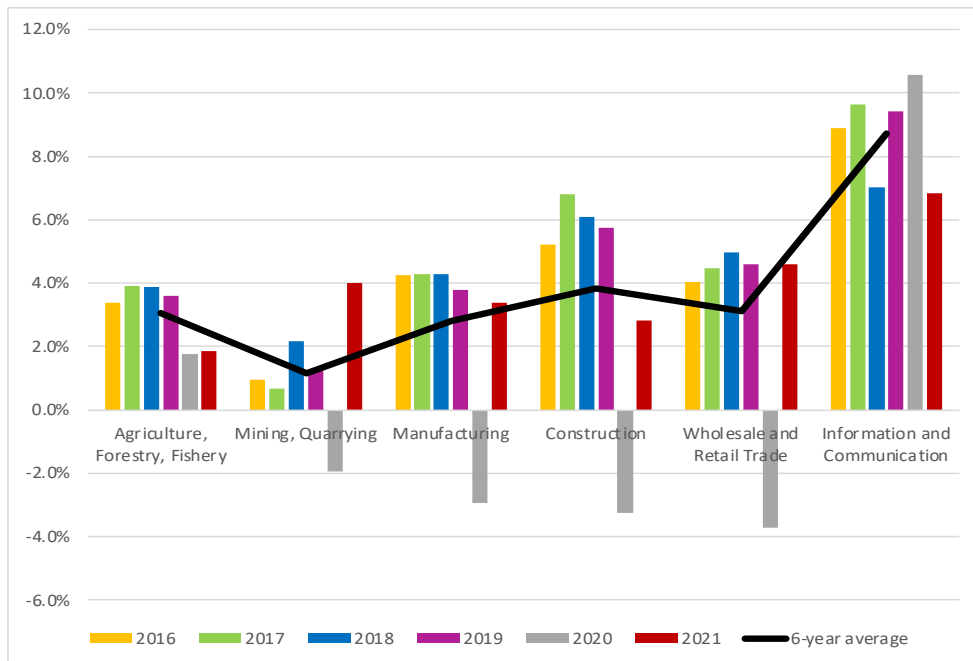
Figure 1.6: GDP Growth Rate by Expenditure (Year on Year Percentage), Q1 of 2016–Q4 of 2021



Note: Figures for 2021 are based on preliminary data.
 Source: Indonesia’s Statistical Agency (BPS), compiled by ACI

in foreign trade activities. However, the growth of household consumption, government consumption and Gross Fixed Capital Formation remained negative in this quarter.

Even with the emergence of the second pandemic wave in mid-2021, all GDP components continued their growth in the last three quarters of 2021. For instance, household consumption experienced a positive growth of 6 % in Q2 of 2021, which was partially a result of the rice packages distribution social assistance for the basic food

Figure 1.7: GDP Growth Rate for Top-6 Largest Industries (Year on Year Percentage), 2016–2021

Note: Figures for 2021 are based on preliminary data.
 Source: Indonesia's Statistical Agency (BPS), compiled by ACI

cardholders (Kartu Sembako) at the end of Ramadhan month in May 2021 ([Coordinating Ministry for Economic Affairs of the Republic of Indonesia, 2021](#)).

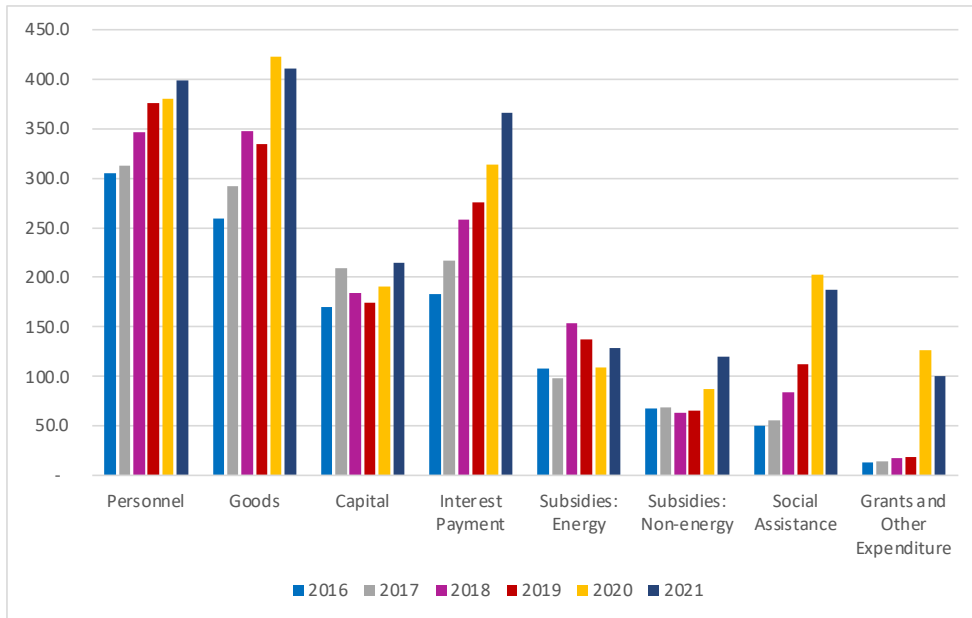
Meanwhile, Figure 1.7 illustrates the trend of GDP growth rate for the top-6 largest industries in Indonesia. The COVID-19 pandemic caused almost all sectors to experience negative growth in 2020, except for the information and communication (10.6%) and the agriculture, forestry, and fishery (1.8%) sectors. Wholesale and retail trade was the most affected sector, with a negative growth rate of -3.7% in 2020.

Even though Indonesia was hit by the second wave of the pandemic in mid-2021, the year's economic recovery remained strong. The information and communication sector remained the highest growing sector, growing by 6.8% in 2021. This was followed by the wholesale and retail trade (4.6%) and the mining and quarrying sector (4%).

1.3.2 Fiscal and Monetary Trends

In the previous sub-chapter, we have seen the growth trends and prospects of several macroeconomic indicators in Indonesia during the COVID-19 pandemic. Now, this sub-chapter aims to look at how the pandemic has affected both fiscal and monetary policies in Indonesia and the growth trends compared to the pre-pandemic period.

Figure 1.8 shows that all components of government expenditure, except for energy subsidy, increased in 2020 as the majority of the spending was reallocated for COVID-

Figure 1.8: Components of Actual Government Expenditure by Type (Rupiah Trillion), 2016–2021

Note: Figures for 2021 are based on preliminary data.

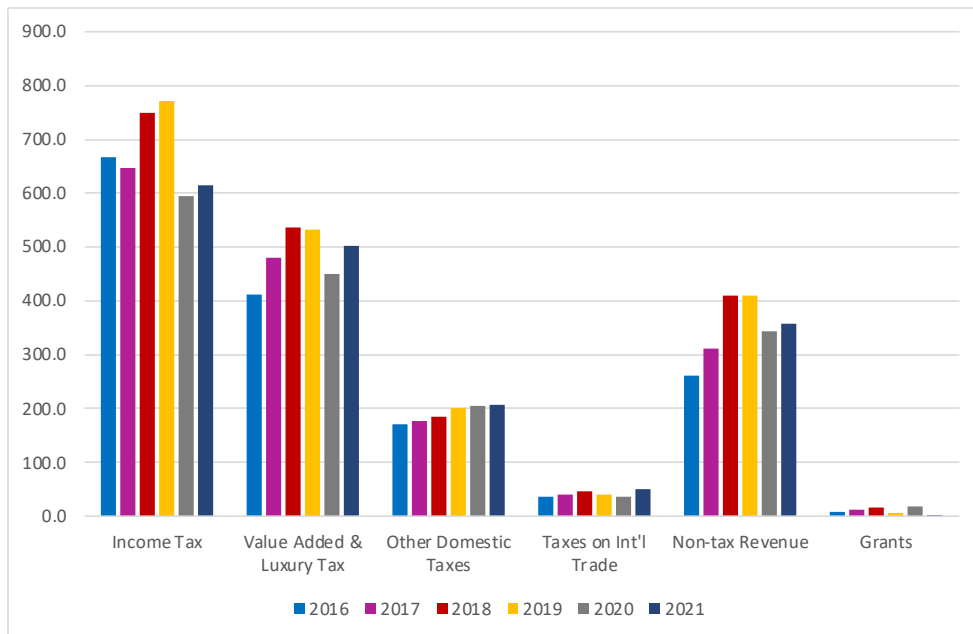
Source: 2022 Financial Notebook of the Indonesian State Budget (APBN)

19 handling. As expected, Indonesia had a budget expansion of 22.83% in 2020. Grants and other expenditure and social assistance components experienced the most considerable increase as the government rolled out multiple business and social relief programmes amidst the pandemic. In 2021, almost all government expenditure components remained elevated, except for goods, social assistance, and grants and other expenditure. Government expenditure in 2021 grew for non-energy and energy subsidies (37.4% and 18%) and interest payments (12.7%). This clearly shows the shift in budget priorities over the two years. As the country eased restrictions and global trade recovered, Indonesia directed its resources towards energy and non-energy subsidies to encourage economic activities.

At the same time, the COVID-19 pandemic has also caused government revenue to plummet in 2020 (Figure 1.9). This includes the primary source of government revenue, such as income tax (-23.1%) and value-added tax (-15.3%). As expected, the grants component escalated significantly from Rp5.5 trillion in 2019 to Rp18.8 trillion in 2020.

In 2021, the government's revenue increased across all the components. The most significant improvement in government revenue was seen in the taxes on international trade and value-added tax components, which grew by 39.4% and 11.4%, respectively. This was caused by the relaxation of border restrictions and increased consumer purchasing power in 2021.

Moreover, the COVID-19 pandemic has also affected the country's inflation rate. The demand for goods and services and consumers' purchasing power decreased during

Figure 1.9: Sources of Actual Government Revenue (Rupiah Trillion), 2016–2021

Note: Figures for 2021 are based on preliminary data.

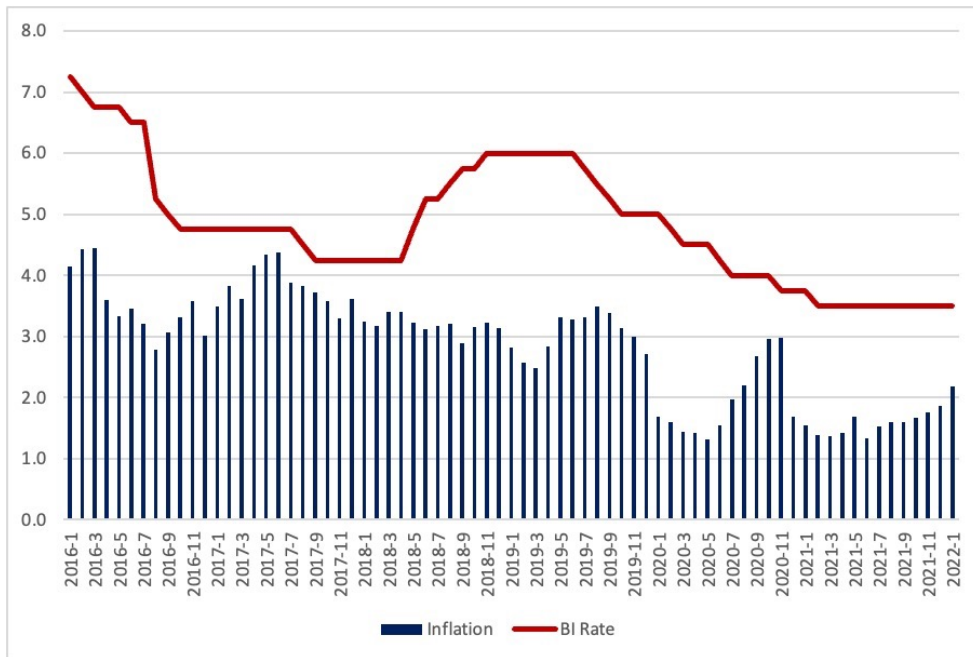
Source: 2022 Financial Notebook of the Indonesian State Budget (APBN)

this period. As seen in Figure 1.10, the inflation rate began to subside in early 2020, reached its lowest point in May 2020 at 1.32%, then increased to close to 3% in November 2020. However, the inflation rate dropped again to 1.7% in December 2021 before rising throughout 2021. The inflation rate hovered between 1.55% to 1.9% for most of 2021. In January 2022, the inflation rate increased further to 2.18% as consumer demand rebounded.

In response to the depressed demand during the pandemic, the Central Bank of Indonesia (BI) adopted an expansionary monetary policy in 2020 and 2021 by reducing its BI 7-Day Reverse Repo Rate (BI7DRR). As reflected in Figure 1.10, BI lowered its BI7DRR five times throughout 2020, from 5% in January 2020 to 3.75% in December 2020. This reduction sought to help businesses tide through the pandemic by reducing the cost of borrowing and lending. BI further decreased the BI7DRR rate to 3.5% in February 2021 and maintained this rate until January 2022.

On the other hand, the pandemic has caused Indonesia's exchange rate against the USD (IDR/USD) to fluctuate significantly. Figure 1.11 shows that the outbreak of the first cases of COVID-19 in March 2020 led to a strong depreciation of the rupiah against the dollar, from IDR13,612/USD in February 2020 to IDR16,741/USD in April 2020. The Central Bank of Indonesia responded by implementing a 'triple intervention strategy' to maintain exchange rate stability and rupiah liquidity (Bank Indonesia, 2020)². As

²Triple Intervention Strategy is an exchange rate policy implemented by Bank Indonesia to reduce shocks that emerge from a demand and supply mismatch in the foreign exchange market. The central bank intervenes

Figure 1.10: Inflation and Central Bank Policy Rate (Percent), 2016–2022

Source: Bank Indonesia (BI), compiled by ACI

a result, the rupiah recovered shortly in June 2020 to IDR13,973/USD. The currency remained in the band of IDR13,900/USD and IDR14,900/USD until the beginning of 2022.

Likewise, the first pandemic wave in March 2020 also caused the Indonesia Stock Exchange (IDX) composite to deteriorate drastically from 5,882 on February 21 2020, to 3,937 on March 24 2020 (Figure 1.12). However, unlike the exchange rate, the IDX composite rebounded at a faster rate and reached 6,435 in January 2021. Similar to the exchange rate, the fluctuation of the IDX composite caused by the COVID-19 pandemic in 2021 was not as significant as in 2020. Though there was a downward trend from 6,400 in January 2021 to 5,985 in June 2021, the IDX composite rose towards the end of the year, reaching its peak at 6,726 in December 2021.

Apart from that, we will also provide an analysis of Indonesia's GDP growth rate by expenditure category as shown by Figure 1.6. As we can see from the graph, the pandemic caused most GDP components to decline in 2020, except for government consumption in Q3 and Q4 of 2020. The fall in household consumption, gross fixed capital formation, exports and imports result from the PSBB policy during the COVID-19 pandemic that affected investments, trade, and wages.

either by selling the Indonesian rupiah in the spot market, Domestic Non-Deliverable Forwards (DNDF) market and FX futures market or by purchasing tradeable government securities (SBN) in the secondary market

Figure 1.11: Indonesia Exchange Rate against USD (IDR/USD), 2020–2022



Source: Bank Indonesia (BI), compiled by ACI

Figure 1.12: IDX Composite, 2020–2022



Source: Bank Indonesia, compiled by ACI

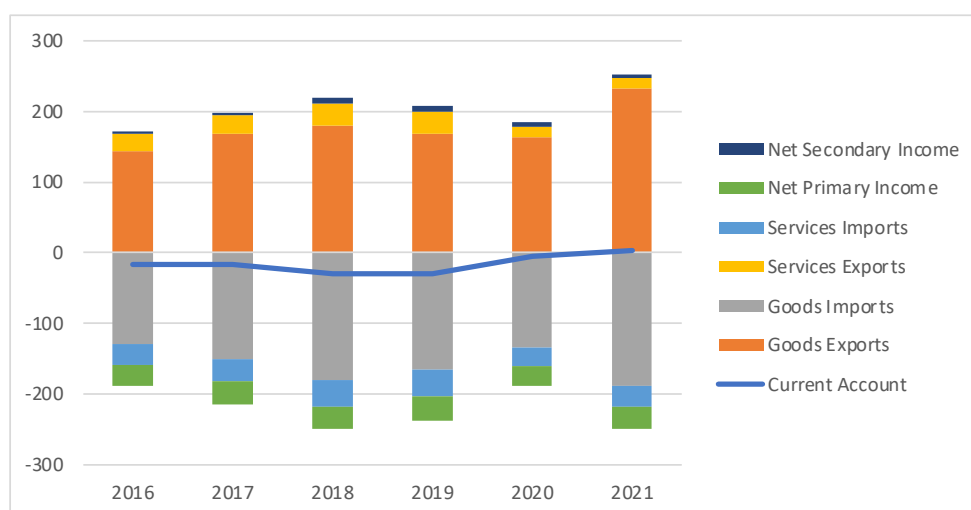
1.3.3 Trade Performance and Investment Outlook

Border restrictions that were imposed to minimise the spread of the COVID-19 also impacted trade performance and disrupted the global supply chain. This was especially true for Indonesia, where the onset of the pandemic had reduced its foreign trade activities in 2020.

As we can see from Figure 1.13, goods exports and services exports shrunk by 3% and 52.5%, respectively, in 2020, compared to the previous year. This deterioration occurred in the components of goods imports (-18%) and services imports (-37%). As imports decreased more significantly compared to the fall in exports, the current account deficit decreased from US\$30.28 billion in 2019 to US\$4.43 billion in 2020.

Indonesia's current account balance in 2021 continued to improve as its economy recovered. The current account reached a surplus for the first time since 2016, amounting to US\$3.33 billion. This improvement was mainly contributed by a surge in the goods exports by 42.5%, followed by an increase in the net secondary income by 5.6%.

Figure 1.13: Current Account Components of Indonesia (US\$ Billion), 2016–2022

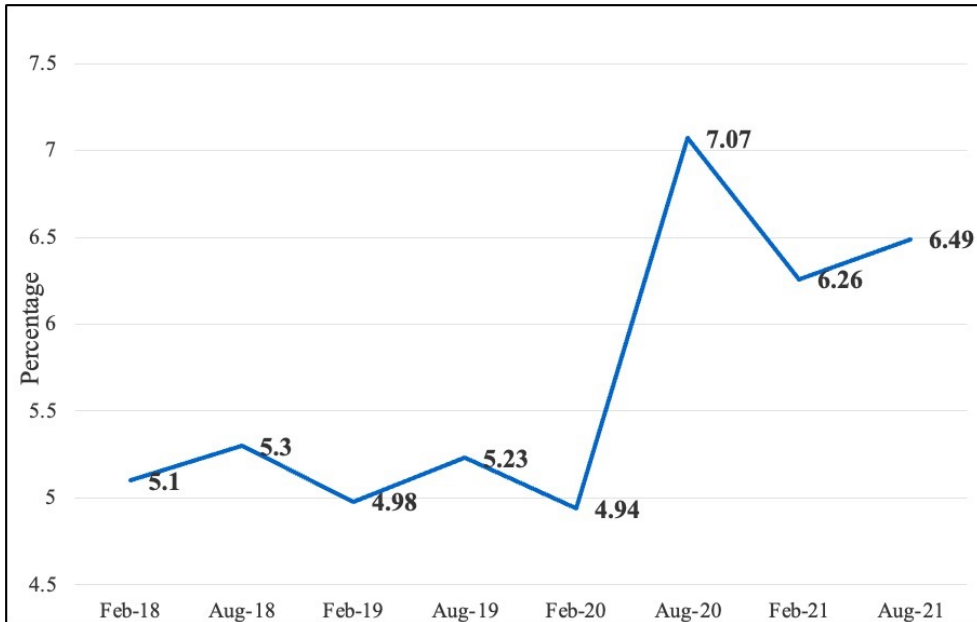


Source: Bank Indonesia (BI), compiled by ACI

1.4 Labour Market and Social Development

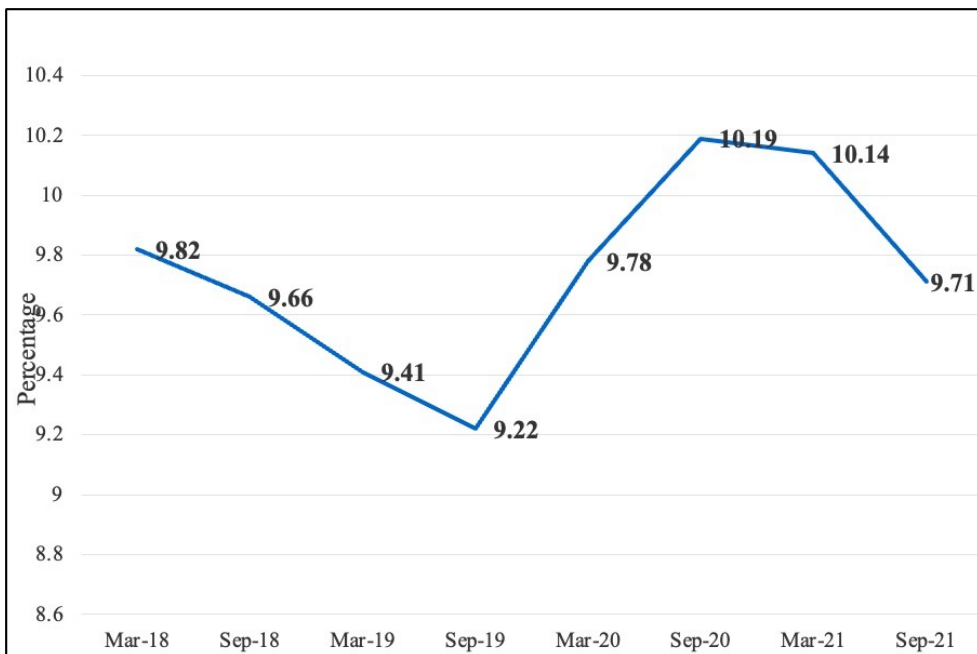
As mentioned previously, the economic condition of Indonesia was relatively stable prior to the pandemic, not only in terms of economic growth but also in terms of its unemployment and poverty rate. Before the pandemic, Indonesia had succeeded in maintaining its unemployment rate at 5% up until February 2020 (Figure 1.14). Similarly, the country had also been successful in reducing the poverty rate from 9.82% in 2018 to 9.22% at the end of 2019 (Figure 1.15).

Figure 1.14: Unemployment rate (Percentage), 2018–2021



Source: Indonesia's Statistical Agency (BPS), compiled by ACI

Figure 1.15: Poverty Rate (Percentage), 2018–2021



Source: Indonesia's Statistical Agency (BPS), compiled by ACI

Nevertheless, the enforcement of PSBB to halt the spread of the virus resulted in massive retrenchments in mid-2020, as a large number of firms in Indonesia faced financial difficulties. This caused the unemployment rate to surge to 7.07% in August 2020, a record high since 2011. Additionally, this also led to a significant rise in the poverty rate, from 9.22% in September 2019 to 10.19% in September 2020. These figures imply that 2.7 million Indonesians fell into poverty within a year.

As a response, the Indonesian government expanded the Pre-Employment Card programme (Pra-Kerja Card)³ to lessen the pandemic impacts on the labour market ([Ministry of Finance, 2021a](#)).

The implementation of this programme may have contributed to reducing the unemployment rate to 6.26% in February 2021 and 6.49% in August 2021. Moreover, the slew of policies targeted at cushioning the pandemic's economic blow resulted in the poverty rate falling to 9.71% in September 2021, around the level of 2018.

³Pra-kerja Card is a training fee assistance programme and incentives for laid-off workers, labourers, job seekers, micro and small business owners who have lost their jobs and/or experienced a decrease in purchasing power due to the Covid-19 pandemic, and workers who seek competency enhancement.

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