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# ANNUAL COMPETITIVENESS ANALYSIS AND IMPACT ESTIMATION OF WELFARE SPENDING ON FISCAL SUSTAINABILITY OF SUB-NATIONAL ECONOMIES OF INDONESIA





**Annual Competitiveness Analysis and  
Impact Estimation of Welfare Spending on  
Fiscal Sustainability of Sub-National Economies  
of Indonesia**



*In 2020, ACI was ranked 11<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

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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:

- 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

The institute’s core research competencies can also be encapsulated in this acronym describing our evidence-based assessments conducted on public policies for **ASEAN** in the context of the rise of **China** and **India**.

---

## 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.

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## 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**            **Mr George Yeo**  
Visiting Scholar, Lee Kuan Yew School of Public Policy, National University of Singapore & Former Minister of Foreign Affairs, Singapore

### **International Advisory Panel**

**Co-Chairs:**                **Professor Michael Porter (2006-2010)**  
Bishop William Lawrence University Professor

**Ms Marjorie Yang (2006-2012)**  
Chairman, Esquel Group

**Members:**                **Professor Kishore Mahbubani**  
Former Dean, Lee Kuan Yew School of Public Policy, National University of Singapore

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Former Head, President's Delivery Unit for Developing Monitoring and Oversight (UKP4), Indonesia

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Former Chairman, Infosys Technologies Limited

**Mr Philip Yeo**  
Former Chairman, Enterprise Singapore

**Mr Gabriel Lim**  
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**Ms Yong Ying-I**  
Former Permanent Secretary, Public Service Division

**Professor Chan Kam Leung Alan**  
Former Dean, College of Humanities, Arts and Social Sciences, Nanyang Technological University

---

## **Asia Competitiveness Institute**

**Co-Directors:**            **Associate Professor Tan Khee Giap (2011 till now)**  
**Professor Tan Kong Yam (2011 till now)**





# *Annual Competitiveness Analysis and Impact Estimation of Welfare Spending on Fiscal Sustainability of Sub-National Economies of Indonesia*

Tan Khee Giap  
Doris Liew Wan Yin  
Clarice Handoko

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Minister for National Development Planning Agency, Republic of Indonesia

**Isran Noor**

Governor of East Kalimantan, Republic of Indonesia

**Irianto Lambrie**

Governor of North Kalimantan, Republic of Indonesia

**Isdianto**

Acting Governor of Riau Islands, Republic of Indonesia

**Bambang Wijanarko**

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# *Annual Competitiveness Analysis and Impact Estimation of Welfare Spending on Fiscal Sustainability of Sub-National Economies of Indonesia*

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\*\*Based on the speech "*Potential Development to North Kalimantan given the Relocation of the Indonesian New Capital*" by Dr H Irianto Lambrie, Governor of the Province of North Kalimantan of the Republic of Indonesia, during the Conference Keynote Address at the 2019 The World Bank Group-Asia Competitiveness Institute Annual Conference on 19 November 2019 in Singapore.

\*\*\*Based on the speech "*Special Economic Zones to Promote Economic Growth, Employment Creation dan Balanced Regional Development in Indonesia*" by Dr Bambang Brodjonegoro, Minister for National Development Planning Agency of Republic of Indonesia, during the Conference Opening Remarks at the 2019 The World Bank Group-Asia Competitiveness Institute Annual Conference on 18 November 2018 in Singapore.

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- (i) Economic Conditions*
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- (iv) Local Political Scene*

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	*** Based on the speech “ <i>The Investment Window of Opportunity During US-China Trade Frictions for Batam, Bintan and Karimun</i> ” by Dr H. Isdianto, Acting Governor of Riau Islands, Republic of Indonesia, during the Conference Keynote Address at the 2019 The World Bank Group-Asia Competitiveness Institute Annual Conference on 19 November 2019 in Singapore. Dr H. Idianto is represented by Dr. Syamsul Bahrum, Assistant II, Economic Development on Provincial Government of Riau Islands Republic of Indonesia	
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## Foreword

2019 marks the seventh year of collaboration between the Employers' Association of Indonesia (APINDO) and the Asia Competitiveness Institute (ACI). Since 2012, APINDO has supported one of ACI's flagship research projects on the annual study of Indonesia's sub-national competitiveness. Such localised study requires empirical data from the ground, which is gathered through field trips and interaction with the local stakeholders. With provincial chapters across all provinces, APINDO is proud to have once again collaborated with ACI by providing coordination support, thus enabling the research team to interact with local business owners and operators who are APINDO members, in all 34 provinces of Indonesia.

Given Indonesia's diversity, economic conditions for every province greatly differ. The ACI competitiveness study has thus helped to identify the key strengths and weaknesses of each province. More importantly, the ACI study provides a comparative benchmark for the provinces relative to the national progress, in order to promote desirable and healthy competition essential to both provincial and national competitiveness.

Against this backdrop, APINDO once again extends its support for the release of the Annual *Competitiveness Analysis and Impact Estimation of Welfare Spending on Fiscal Sustainability of Sub-National Economies of Indonesia*. Various important value additions can be drawn from this current iteration. In particular, this year's thematic chapter explores the development of five Special Economic Zones and Exclusive Economic Zone in Indonesia, which have different areas of focus and levels of development. This edition also continues to provide rich insights on individual provinces through the commentaries on recent developments in the 34 Indonesian provinces as well as snapshots of the competitiveness profile for each province. The findings of the study have been rightfully placed in context, particularly considering the regional and provincial impact of the upcoming capital relocation.

To sum up, ACI's continued efforts to enrich its research with useful analysis and information is a testament to the institute's dedication in producing rigorous and meaningful research. I commend ACI for its insightful analysis and hope to continue the collaboration with the institute in future projects.

Hariyadi Sukamdani

Chairman

The Employers' Association of Indonesia (APINDO)

## Preface

As the largest economy and most populous nation in Southeast Asia, Indonesia has the potential to be an economic powerhouse in the broader Asian region alongside China and India. During President Joko Widodo's first term, his administration implemented various economic reforms and has undertaken a major infrastructure push in the hopes of accelerating the country's development.

Moving into his second term, President Joko Widodo's administration continues to face obstacles in realising broad-based and sustainable growth as economic activities remain largely concentrated on the Java island. The growth potential of the existing 13 Special Economic Zones spread across the country has yet to be fully realised, as local governments strive to coordinate with national level directives.

While most studies on the Indonesia economy have been conducted on a national level, the Asia Competitiveness Institute (ACI) at Lee Kuan Yew School of Public Policy (LKYSPP), National University of Singapore (NUS) has understood the need to focus greater attention at the subnational levels in Indonesia. Thus, the institute has been conducting an annual empirical study to analyse and rank the competitiveness of Indonesia's six regional and 34 provincial economies. The information and findings from this study ought to assist policymakers to better understand each province's strengths and weaknesses, enabling them to enhance competitiveness at the provincial and regional levels. Increasing competitiveness at these sub-national levels ought to help foster more growth engines beyond the region of Java and aid the country in developing more balanced growth across the country.

Currently in its seventh iteration, ACI has also taken into account the widely-anticipated capital relocation from Jakarta to East Kalimantan, considering its impacts for the provinces in question and their peripheral stakeholders. This edition also includes a chapter on Indonesia's Welfare Spending and Budget Sustainability, a pertinent issue ahead of the expenditure and financing issues for the purpose-built capital city. There is also a useful stock-take of the existing and upcoming SEZs as part of a study commissioned by Singapore's Economic Development Board (EDB) and Indonesia's Coordinating Ministry for Economic Affairs (CMEA).

Overall, this book attempts to address important policy concerns pertaining to the competitiveness of the sub-national economies in Indonesia. I am confident the insights from this book will add to our understanding of dynamics of competitiveness in the country.

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Yong Pung How Professor  
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## Acknowledgements

The *Annual Competitiveness Analysis and Impact Estimation of Welfare Spending on Fiscal Sustainability of Sub-National Economies of Indonesia* provides an update to the Institute's ongoing yearly study on provincial and regional competitiveness in Indonesia. Our holistic approach to measuring competitiveness considers the many facets of an economy and what would empower it to develop further sustainably and in an inclusive manner. This year we have also continued our collaborative efforts with Indonesian academics, who have contributed to this book in the form of commentaries on recent developments in the 34 Indonesian provinces.

Our research findings have benefitted greatly from the constructive feedback and criticism of our preliminary findings during our annual flagship events in Singapore: (i) the 2019 Asian Economic Forum on "Economic Competitiveness and Quality-Adjusted Labour on 29-30 August 2019 and (ii) the the 2019 The World Bank Group – Asia Competitiveness Institute Annual Conference on "Urbanization Drive and Quality Adjusted Labour to GDP Contributions" on 18-19 November 2019. We would like to thank the following experts and reviewers, whose discussant notes or remarks have been include in this book:

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- Mr Lili Soleh Wartadipradja  
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- Dr. Bambang Brodjonegoro, Minister for National Development Planning Agency, Republic of Indonesia – for delivering a speech on the role of Special Economic Zones and its impact on the country's outlook. Dr. Bambang's speech has contributed to Chapter 1 of this book.
- Dr. Isran Noor, Governor of East Kalimantan Province – for delivering a speech on the potential development in East Kalimantan as the appointed province for the new capital. Governor Isran's speech has also contributed to Chapter 1 of this book.
- Dr. Irianto Lambrie, Governor of North Kalimantan province – for delivering a speech on the spill-over effects from the capital relocation. Dr. Irianto's speech has also contributed to Chapter 1 of this book.
- Dr. H. Isdianto, Acting Governor of Riau Islands, Republic of Indonesia – for his speech on the Investment Window of Opportunity During US-China Trade Frictions for Batam, Bintan and Karimun. Dr Isdianto's speech has contributed to Chapter 6 of this book.
- Dr Bambang Wijanarko, Deputy Director for Development and Management Controlling, Secretariat of the National Council for Special Economic Zone, Coordinating Ministry for Economic Affairs, Republic of Indonesia – for his speech on Indonesia's Strategies for its Special Economic Zones. Dr Bambang's speech has contributed to Chapter 6 of this book.

The richness of this report is a product of the strong partnership between ACI and Indonesia's the Indonesian Employers' Association (APINDO), government and academics across 34 provinces. We would also like to extend our gratitude to each of the participants from all three stakeholder groups who took the time to contribute their input for our perception-based data.

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## List of Abbreviations

ACI	Asia Competitiveness Institute
AFC	Asian Financial Crisis
APBD	Provincial Budget ( <i>Anggaran Pendapatan dan Belanja Daerah</i> )
APBN	State Budget ( <i>Anggaran Pendapatan dan Belanja Negara</i> )
APINDO	Indonesian Employers' Association (Asosiasi Pengusaha Indonesia)
APTB	Integrated Bus Network ( <i>Angkutan Perbatasan Terintegrasi Bus TransJakarta</i> )
ASEAN	Association of Southeast Asian Nations
BAPPENAS	National Development Planning Agency ( <i>Badan Perencanaan Pembangunan Nasional</i> )
BBK	Batam, Bintan and Karimun
BI	Bank of Indonesia
BIG	Geospatial Information Agency ( <i>Badan Informasi Geospasial</i> )
BKPM	Indonesian Investment Coordinating Board ( <i>Badan Koordinasi Penanaman Modal</i> )
BPS	Central Bureau of Statistics ( <i>Badan Pusat Statistik</i> )
BRICS	Brazil, Russia, India, China and South Africa
CEIC	Census and Economic Information Center
CIVETS	Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa
CMEA	Coordinating Ministry for Economic Affairs
COVID-19	Novel Coronavirus Disease
CPO	Crude Palm Oil
CV	Coefficient Variation
DAD	Dayak Customary Council ( <i>Dewan Adat Dayak</i> )
DDI	Domestic Direct Investments
DI	Special Region ( <i>Daerah Istimewa</i> )
DKI	Special Capital Region ( <i>Daerah Khusus Ibukota</i> )
DPD	Regional Representative Council ( <i>Dewan Perwakilan Daerah</i> )
DPR	People's Representative Council ( <i>Dewan Perwakilan Rakyat</i> )
DPRD	Regional People's Representative Council ( <i>Dewan Perwakilan Rakyat Daerah</i> )
E7	China, India, Brazil, Russia, Mexico, Indonesia and Turkey
EAGLEs	Initial grouping comprised of Brazil, China, Egypt, India, Indonesia, South Korea, Mexico, Russia, Taiwan, and Turkey. Members are updated frequently.
EoDB	Ease-of-Doing Business
EDB	Economic Development Board
EEZ	Exclusive Economic Zone
EU	European Union
FBMC	Financial, Businesses and Manpower Conditions
FDI	Foreign Direct Investments
Forkopimda	Regional Leaders Coordination Forum ( <i>Forum Koordinasi Pimpinan Daerah</i> )
FTA	Free Trade Agreement
FTZ	Free Trade Zone
FRAND	Fair, Reasonable and Non-Discriminatory
G7	Group of Seven
Gerindra	Great Indonesia Movement Party ( <i>Partai Gerakan Indonesia Raya</i> )
Golkar	Party of the Functional Group ( <i>Partai Golongan Karya</i> )
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GERD	Gross Expenditure on Research and Development
GFC	Global Financial Crisis
GFCF	Gross Fixed Capital Formation
GIS	Government and Institutional Setting



GRDP	Gross Regional Domestic Product
GNI	Gross National Income
Hanura	People's Conscience Party ( <i>Partai Hati Nurani Rakyat</i> )
HDI	Human Development Index
IAP	International Advisory Panel
ICOR	Incremental Capital Output Ratio
IDI	Indonesian Democracy Index
IIPG	Indonesian Institute for Public Governance
ILO	International Labour Organisation
INDO-DAPOER	Indonesia Database for Policy and Economic Research
IMD	International Institute for Management Development
IMF	International Monetary Fund
JORR	Jakarta Outer Ring Road
KBM	New Independent City ( <i>Kota Baru Mandiri</i> )
KEEZ	Kendal Exclusive Economic Zone
KIPI	International Port Industrial Area ( <i>Kawasan Industry Pelabuhan Internasional</i> )
KPK	Corruption Eradication Commission ( <i>Komisi Pemberantasan Korupsi</i> )
KPPOD	Regional Autonomy Watch ( <i>Komite Pemantauan Pelaksanaan Otonomi Daerah</i> )
LKPD	Provincial Government Financial Report ( <i>Laporan Keuangan Pemerintah Daerah</i> )
LKPP	Central Government Financial Report ( <i>Laporan Keuangan Pemerintah Pusat</i> )
LKYSPP	Lee Kuan Yew School of Public Policy
LRT	Light Rail Transit
MBTK	Maloy Batuta Trans Kalimantan
MINT	Mexico, Indonesia, Nigeria and Turkey
MNC	Multi-National Corporation
MOU	Memorandum of Understanding
MP3EI	Masterplan for Acceleration and Expansion of Indonesia's Economic Development ( <i>Master Plan Percepatan dan Perluasan Pembangunan Indonesia</i> )
MRT	Mass Rapid Transit
MS	Macroeconomic Stability
MSME	Micro, Small and Medium Enterprise
N-11	Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea, Vietnam
NasDem	National Democrat Party ( <i>Partai Nasional Demokrat</i> )
NCICD	National Capital Integrated Coast Development
NTFPs	Non-Timber Forest Products
NPL	Non-Performing Loans
NSDC	National SEZ Development Council
NU	Revival of the Ulama ( <i>Nahdlatul Ulama</i> )
NUS	National University of Singapore
NWC	National Wage Council
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
ORTD	Online Real Time Digital
p.a.	Per Annum
PAN	National Mandate Party ( <i>Partai Amanat Nasional</i> )
PBB	Crescent Star Party ( <i>Partai Bulan Bintang</i> )
PDIP	Indonesian Democratic Party of Struggle ( <i>Partai Demokrasi Indonesia-Perjuangan</i> )
PDR	People's Democratic Republic
PKB	National Awakening Party ( <i>Partai Kebangkitan Bangsa</i> )
PKPI	Indonesian Justice and Unity Party ( <i>Partai Keadilan dan Persatuan Indonesia</i> )
PKS	Prosperous Justice Party ( <i>Partai Keadilan Sejahtera</i> )

PLTA	Hydroelectric Power Plant ( <i>Pembangkit Listrik Tenaga Air</i> )
PP	Government Regulation ( <i>Peraturan Pemerintah</i> )
PPP	The United Development Party ( <i>Partai Persatuan Pembangunan</i> )
PSDC	Provincial SEZ Development Council
PSI	Indonesian Solidarity Party ( <i>Partai Solidaritas Indonesia</i> )
PTEM	Productivity Tracking and Efficiency Monitoring
PTFI	PT Freeport Indonesia
PTSP	National Single Window for Investment ( <i>Pelayanan Terpadu Satu Pintu</i> )
PVC	Present Value Constraint
PwC	PricewaterhouseCoopers
q-o-q	quarter-on-quarter
QALI	Quality Adjusted Labour Index
QLID	Quality of Life and Infrastructure Development
RPJMD	Regional Medium Term Development Planning ( <i>Rencana Pembangunan Jangka Menengah Daerah</i> )
RPJMN	National Medium Term Development Plan ( <i>Rencana Pembangunan Jangka Menengah Nasional</i> )
RUPM	General Investment Plan ( <i>Rencana Umum Penanaman Modal</i> )
RZWP3K	Coastal and Small Islands Zonation Planning ( <i>Rencana Zonasi Wilayah Pesisir dan Pulau-Pulau Kecil</i> )
SAKIP	Government Performance. Accountability System ( <i>Sistem Akuntabilitas Kinerja Instansi Pemerintah</i> )
SDG	Sustainable Development Goals
SEDA	Special Economic Development Areas
SEZ	Special Economic Zone
SIPD	Regional Development Information System ( <i>Sistem Informasi Pembangunan Daerah</i> )
SM	Sei Mangkei
SME	Small and Medium Enterprise
SVI	Standard Value of Indicators
TK	Tanjung Kelayang
TL	Tanjung Lesung
UNDP	United Nations Development Programme
US	United States
VAT	Value-Added Tax
VECM	Vector Error Correction Model
VISTA	Vietnam, Indonesia, South Africa, Turkey and Argentina
WCY	World Competitiveness Yearbook
WEF	World Economic Forum
y-o-y	year-on-year

## List of Provinces

	<b>Name of Province in English</b>	<b>Name of Province in Bahasa</b>	<b>Region</b>
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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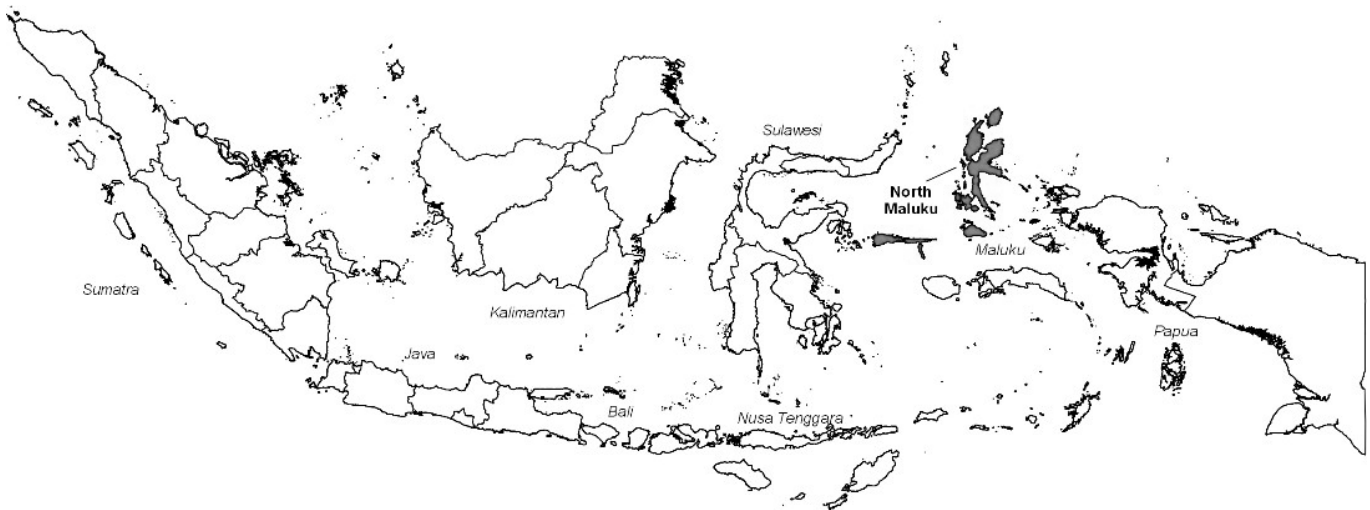
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## 5.20 Commentary on Recent Developments in North Maluku, 2017-2019

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Universitas Khairun

Province Location



Source: ACI.

### 5.20.1 Economic Conditions

North Maluku recorded an economic growth of 7.92 percent in 2018, the highest in the Maluku-Papua region. GRDP at constant price has been increasing each year, but growth has been fluctuating with an overall slowdown from 2010-2017. During the period of 2017-2019, average regional production increased by Rp18 trillion per year, derived from the three top sectors: agriculture, forestry and fishery (Rp4,55 trillion per year), automotive (Rp3.18 trillion per year) and public service (Rp2.97 trillion per year)

Demand has slowed during this period due to declining government expenditure and the lack of investments. In terms of supply, the decline in the number of productive sectors is attributed to three factors, namely: government expenditure, weather conditions, and inter-islands accessibility. Meanwhile, export contributions were relatively low, at 6.37 percent per year average.

While economic resources have not been fully optimized, most provincial economic sectors except that of corporate services, have been adequately competitive relative to other provinces. Moreover, apart from the well-performing agriculture, forestry and fishery sector, the remaining 15 sectors in the province have shown progress in relation to national benchmarks.

### 5.20.2 Social Conditions and Development

North Maluku's score 67.76 on the HDI in 2018, placing it in sixth place in the Sulampua region. To reduce infant mortalities, the government has optimized healthcare centers and early childhood education providers through an integration program. Additionally, the government has also established a program to improve basic immunization services, optimize the distribution of medical personnel, monitor doctors and midwives' certification, and enhance dietary intakes by supplying the locals with fish-based food.

Expected years of schooling improved from 13.56 in 2017 to 13.62 in 2018. The mean years of schooling saw a low 8.72 in 2018 due to rising education costs across all level. School dropout rates, especially at the junior high school level, are increasing. This directly reflects the quality of human resources in the province. Average school participation rates within the 2012-2018 period are 94.06 percent for elementary school, 67.47 percent for junior high school, and 58.02 percent for senior high school.

Labour force increased from 512,200 people in 2017 to 541,446 people in 2018, bringing local participation rate to 65.21 percent. Unemployment rate decreased from 5.33 percent in 2017 to 4.77 percent in 2018.



### 5.20.3 Provincial Government Policies

The government needs to pay attention to three areas in its policymaking process: the proportion of the processing industry's output to regional output; population density in main cities/regencies; and to level the pace of development of sub-districts. In terms of production capacities, both qualitatively and quantitatively, of the main commodities (agriculture, fishery and mining), the region needs supportive policies to increase added value in production processes. Considering the region's archipelagic nature, this would involve opening road accesses and improving the quality and quantity of transportation between the regions.

The government has made efforts to ensure smooth traffic and reduce logistic freight costs in the region through the Ministry of Public Works and Housing, by taking on a Rp263.53 billion project in the Central Halmahera Regency for infrastructure (Rp173.72 billion), housing (Rp72.36 billion) and drinking-water facilities (Rp17.45 billion). Additionally, the government has been building the Weda-Sagea road since 2016, with a contract value of Rp51.51 billion. 18.14 kilometers out of the targeted 60.80 kilometers has been completed. The road is expected to be completed in 2018.

### 5.20.4 Local Political Scene

Governor Abdul Ghani Kasuba and Vice Governor M Natsir Thaib are leading North Maluku province for the 2014-2019 term. Their vision is to create a "healthy, developed, safe, harmonious, smart, righteous, and fair" North Maluku. The Governor is a cleric and senior member of PKS. He previously served as a member of the DPR and was the first Deputy Governor of the definitive government. He won the 2018 provincial elections with 176,669 votes, with the support from the PDIP and the PKPI.

The DPRD is dominated by PDIP with seven seats; Golkar and Gerindra with six seats each; PKS and Hanura take the remainder with five seats each. Other parties in the DPRD include Democratic Party (4), PKB (3), PPP (2), Perindo (2), PAN (1) and Berkarya (1).

Key Economic Indicators, 2017	
<b>Land Area (km<sup>2</sup>)</b>	31,983
<b>Population</b>	
Total Population	1,209,300
Urban Population (%)	28.08
Poverty Rate (%)	6.35
Labour Force	516,231
Labour Force Participation Rate (%)	42.69
<b>Gross Regional Domestic Products (GRDP)–2010 prices</b>	
	Rupiah (million)
GRDP	23,210,860
GRDP (non-minerals)	20,960,000
GRDP per capita	19.19
GRDP per capita (non-minerals)	17.33
<b>Economic Composition</b>	
	% of GRDP
Primary Sector	31.67
Secondary Sector	14.07
Tertiary Sector	54.26
<b>Trade –2010 prices</b>	
	Rupiah (million)
Exports	2,622,073
Imports	1,441,977
Top-3 exports: Iron and steel; Ore, crust and metal ash; and Fish and shrimp	
Top-3 imports: Mineral fuels; Boilers, machinery and mechanical equipment; and Vehicles along with spare parts	
<b>Infrastructure</b>	
Paved Roads (km)	3,685
Domestic Air Traffic (Passengers)	1,011,161
International Air Traffic (Passengers)	0
Domestic Cargo at Seaport (Tons)	5,306,634
International Cargo at Seaport (Tons)	2,156,296

Source: BPS Indonesia compiled by ACI.

# 2019 Annual Competitiveness Analysis and Impact Estimation of Welfare Spending on Fiscal Sustainability of Sub-National Economies of Indonesia

Indonesia's growing importance in the global economy stems from its large economic size and strong economic development over the years. The socio-economic diversity found across Indonesia's constituent provinces and regions calls for an in-depth study of the nuanced sub-national economic structure. This book titled *The Annual Competitiveness Analysis and Impact Estimation of Welfare Spending on Fiscal Sustainability of Sub-National Economies of Indonesia* provides a comprehensive overview of the Indonesia's economy at the national and sub-national level.

This book is the seventh edition of Asia Competitiveness Institute (ACI)'s annual flagship study on the competitiveness of 34 Indonesian provinces. Using a total of 105 indicators, the study covers four environments and 12 sub-environments and provides a deeper evaluation of each province's comparative strengths and weaknesses. The empirical data has been complemented and grounded by commentaries by local academics who have first-hand knowledge of sub-national economic developments. On top of that, this edition also employs empirical analysis to study the effect of welfare spending on fiscal sustainability of the sub-national economies.

This latest edition also offers in-depth analyses on two most pivotal issues faced by Indonesia's economy: the capital relocation and the ongoing development and execution of Special Economic Zones across the country. Coupled with evidence-based research and policy recommendations, this book is a recommended read for policymakers, academics and the general public who are interested in the latest developments and economic trends of the Indonesia's sub-national economies.



*"This research can be used as a reference for the provinces in Indonesia to improve their relative competitiveness rank including by paying close attention to their individual weaknesses as well as strengthening their potencies."*

**Dr Prasetyo Aribowo**

*Head of the Provincial Government of Central Java Regional Planning and Development Agency,  
the Republic of Indonesia*

*"Reflecting on Indonesia's economic crisis in 1998, and with the recent dynamics of the Rupiah exchange rates which have the potential to affect debt to GDP ratio, the Government of Indonesia may need to put more attention to budget sustainability topics."*

**Dr Wahyu Utomo**

*Deputy Minister for Infrastructure and Regional Development,  
Coordinating Ministry of Economic Affairs, the Republic of Indonesia*

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