



# INCLUSIVE AND SUSTAINABLE GROWTH IN INDONESIA

Osservatorio sulle economie emergenti – Torino  
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Petar Vujanovic  
Head of Indonesia Desk  
OECD Economics Department



# Main Findings of 2015 Economic Survey

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- Growth has been strong since the Asian Crisis.
- The pace of reform needs to accelerate to secure inclusive growth.
- The decline in poverty has been impressive due to healthy per capita growth and expanding social security programmes.
- Income inequality has risen, calling for further development of the social safety net.
- Infrastructure bottlenecks are impeding further development.
- Investment has been held back by regulatory uncertainty and protectionist tendencies.
- Natural resources can be better harnessed by raising productivity in agriculture and progressively shifting to renewable energy.



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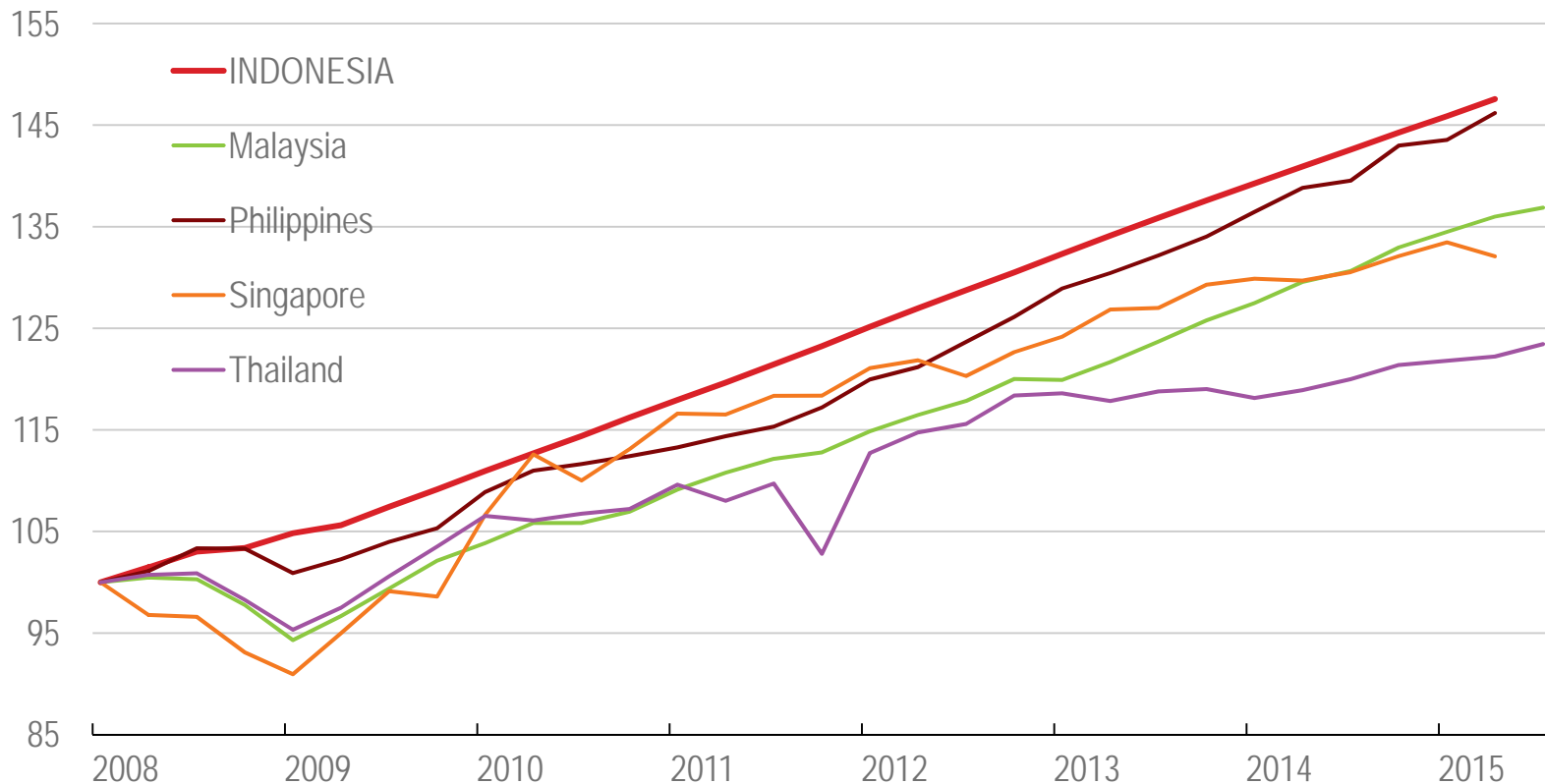
# Sustainable Growth





# Indonesia has enjoyed strong and stable growth

Real GDP in selected ASEAN countries  
Index, 2008 Q1 = 100

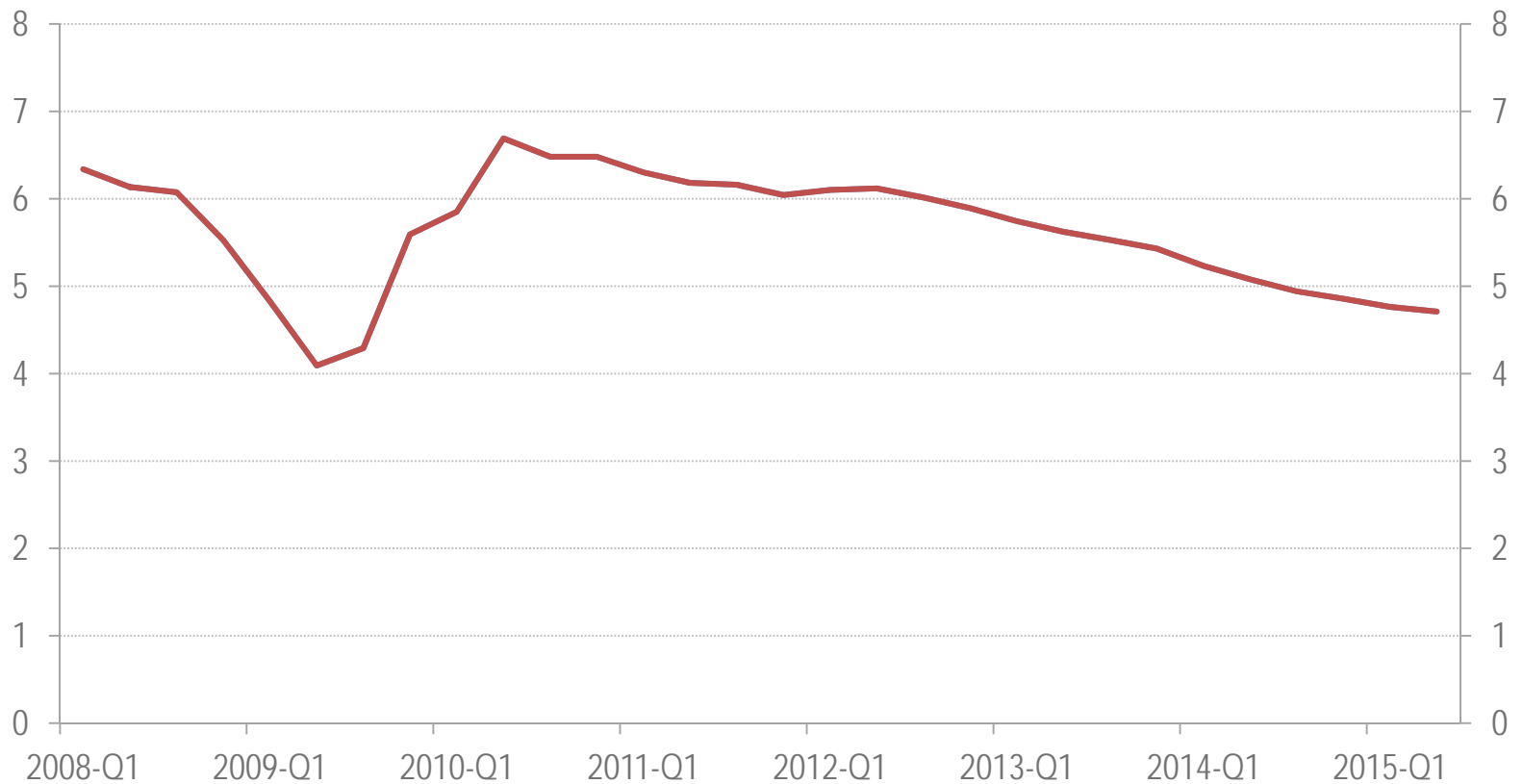


Source: National statistics offices.



# But growth has been slowing

Real GDP growth  
Year on Year percent

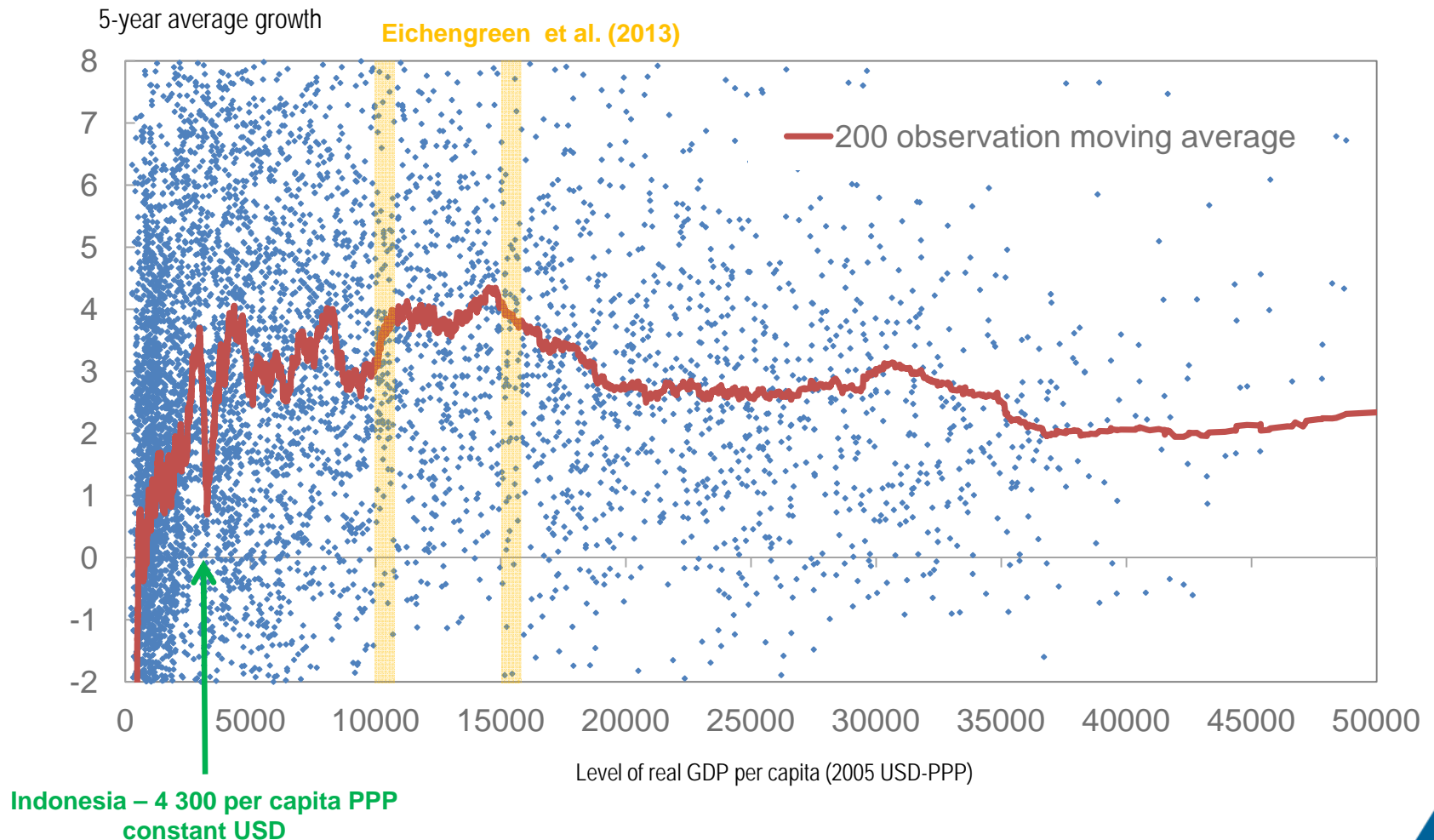


Source: OECD Quarterly National Accounts database



# Middle income trap?

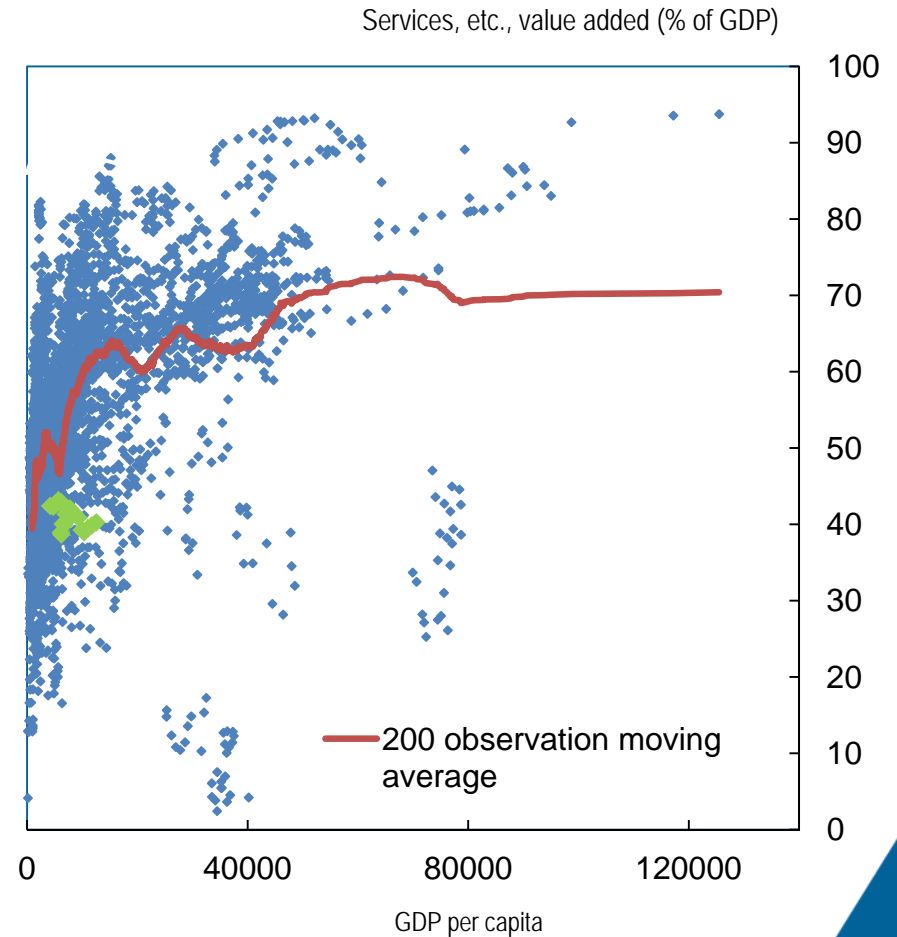
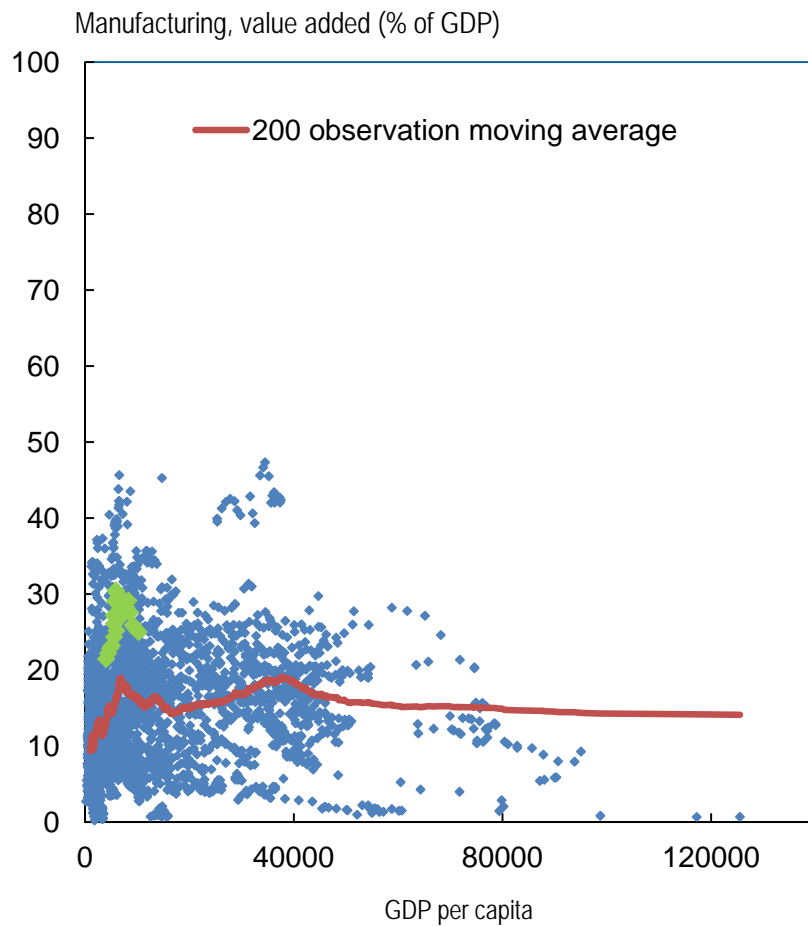
## GDP per capita growth verse GDP per capita levels





# Structural change

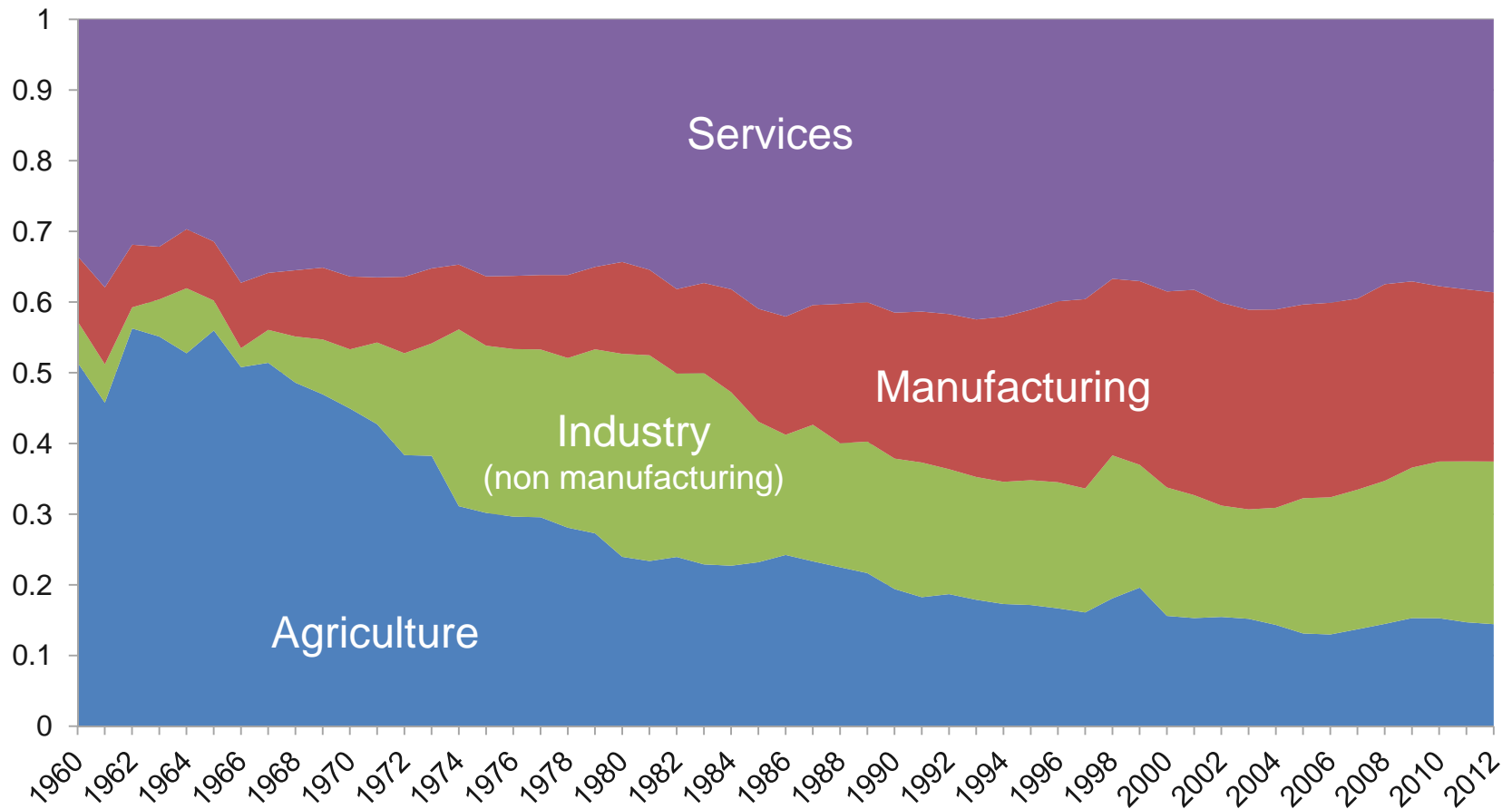
## Sectoral shares and GDP per capita





# Sectoral transformation

Indonesian sectoral shares of total value added

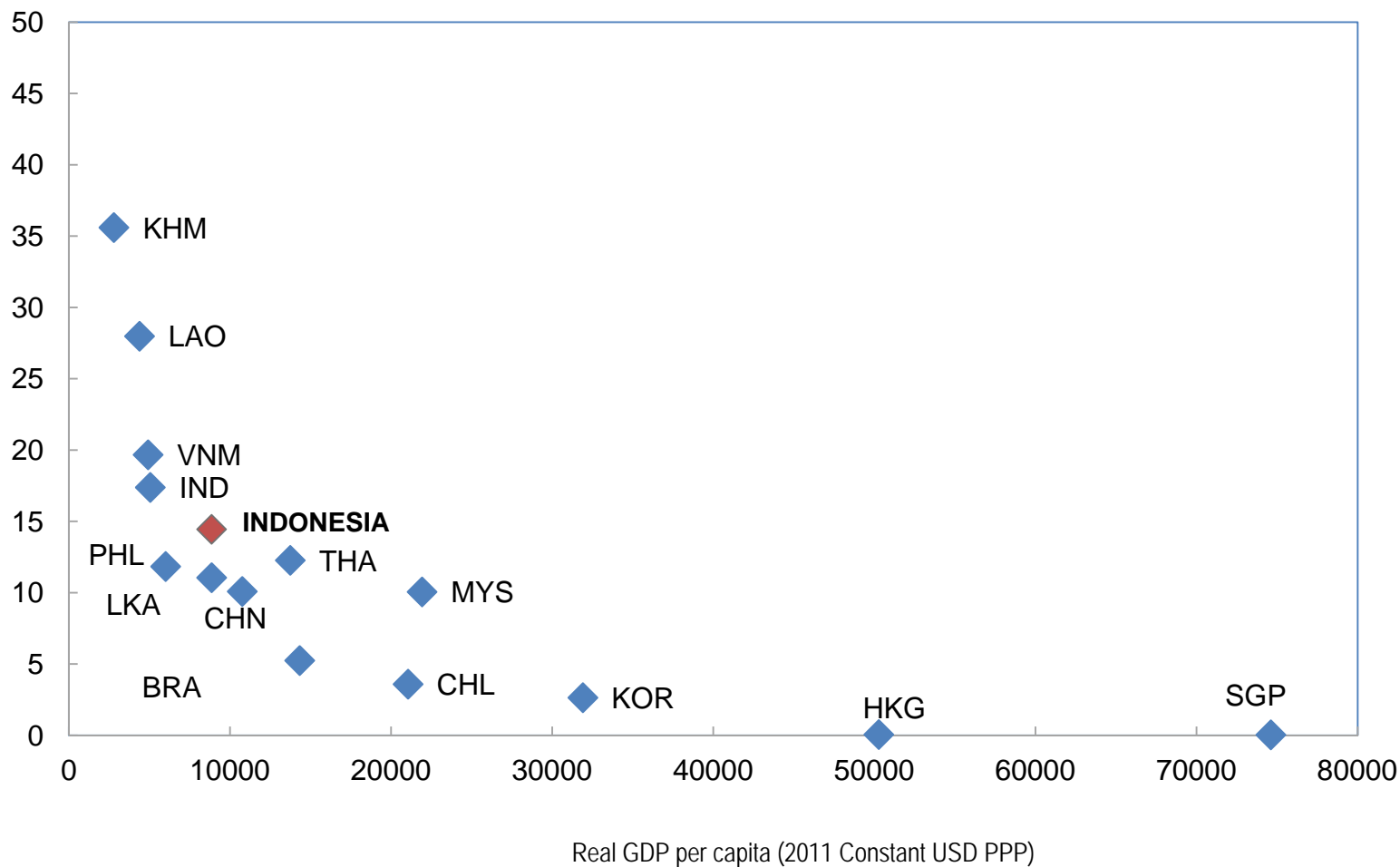






# Agriculture's share of output

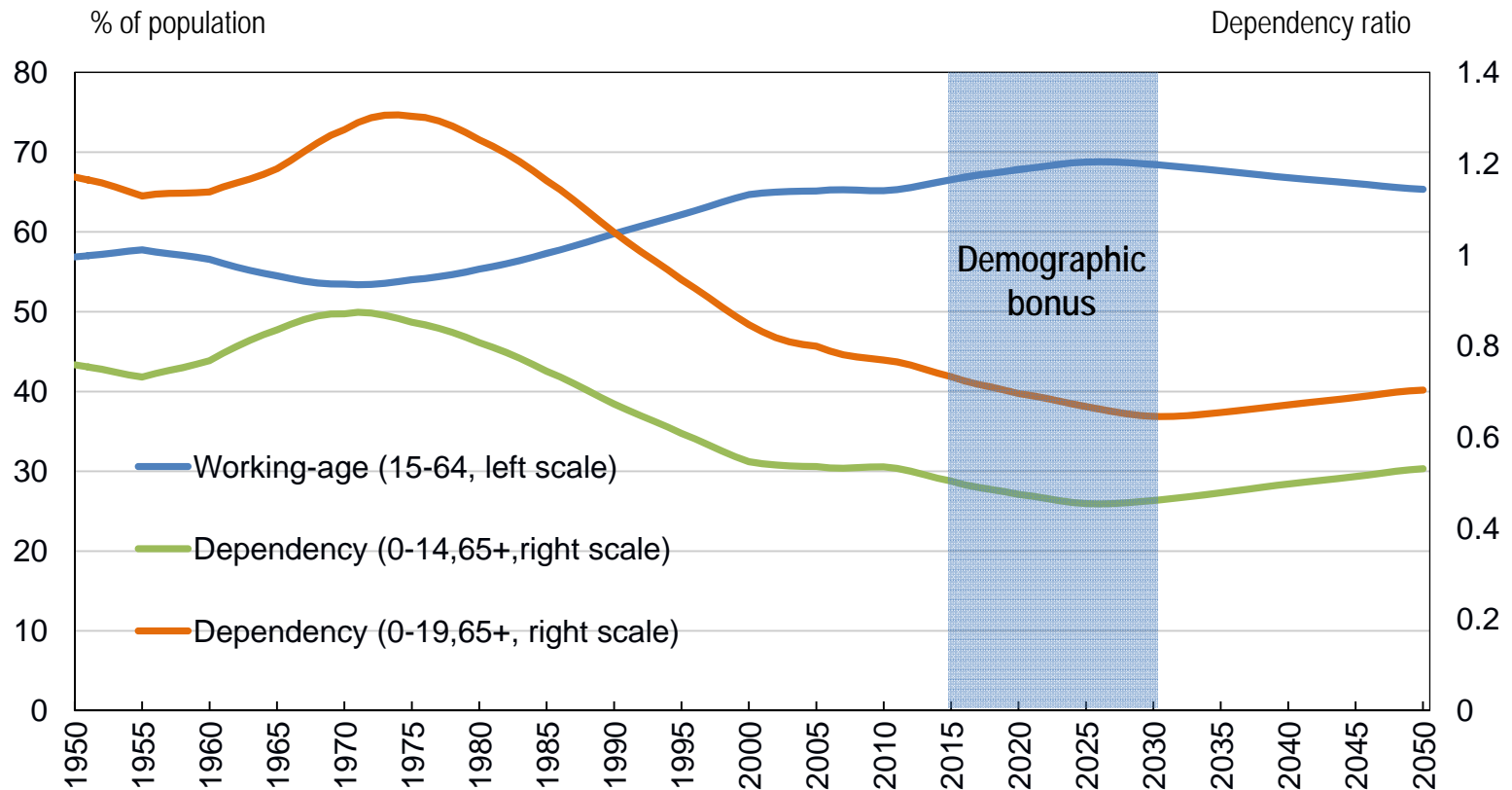
Agriculture share in value added





# The population is youthful

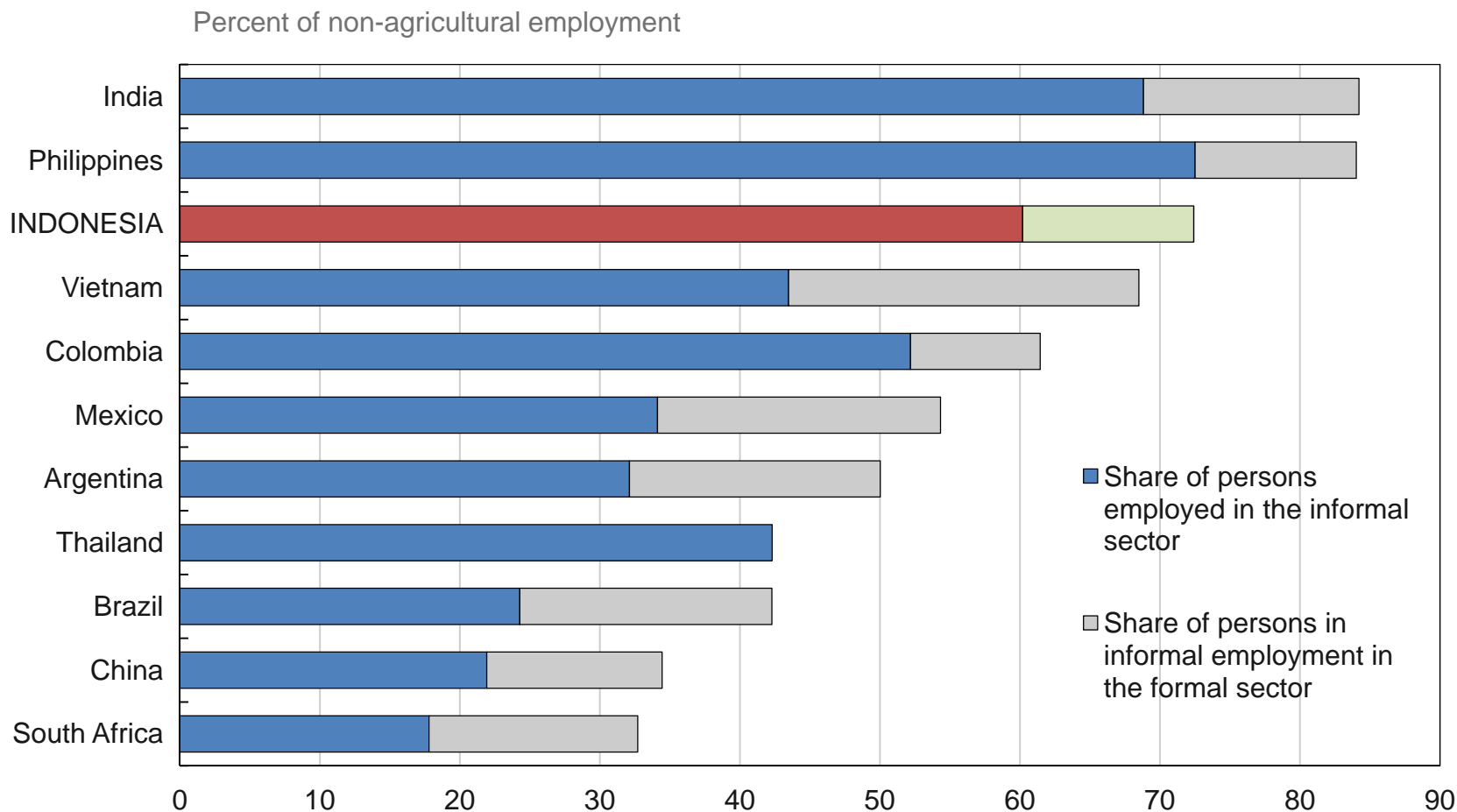
## Working-age population and dependency ratios



Source: United Nations, World population prospects: the 2012 revision.



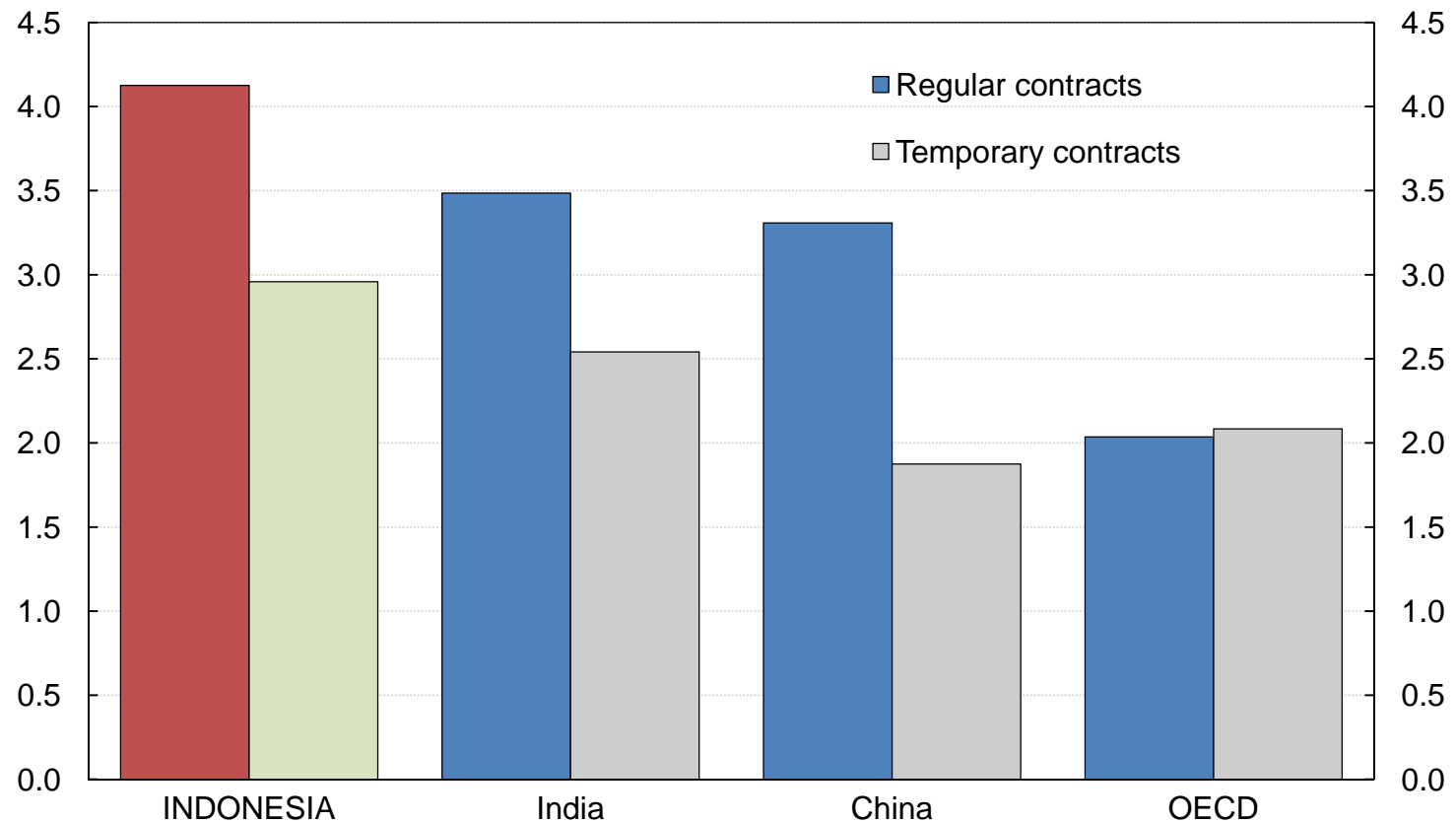
# Labour market informality





# Employment protection

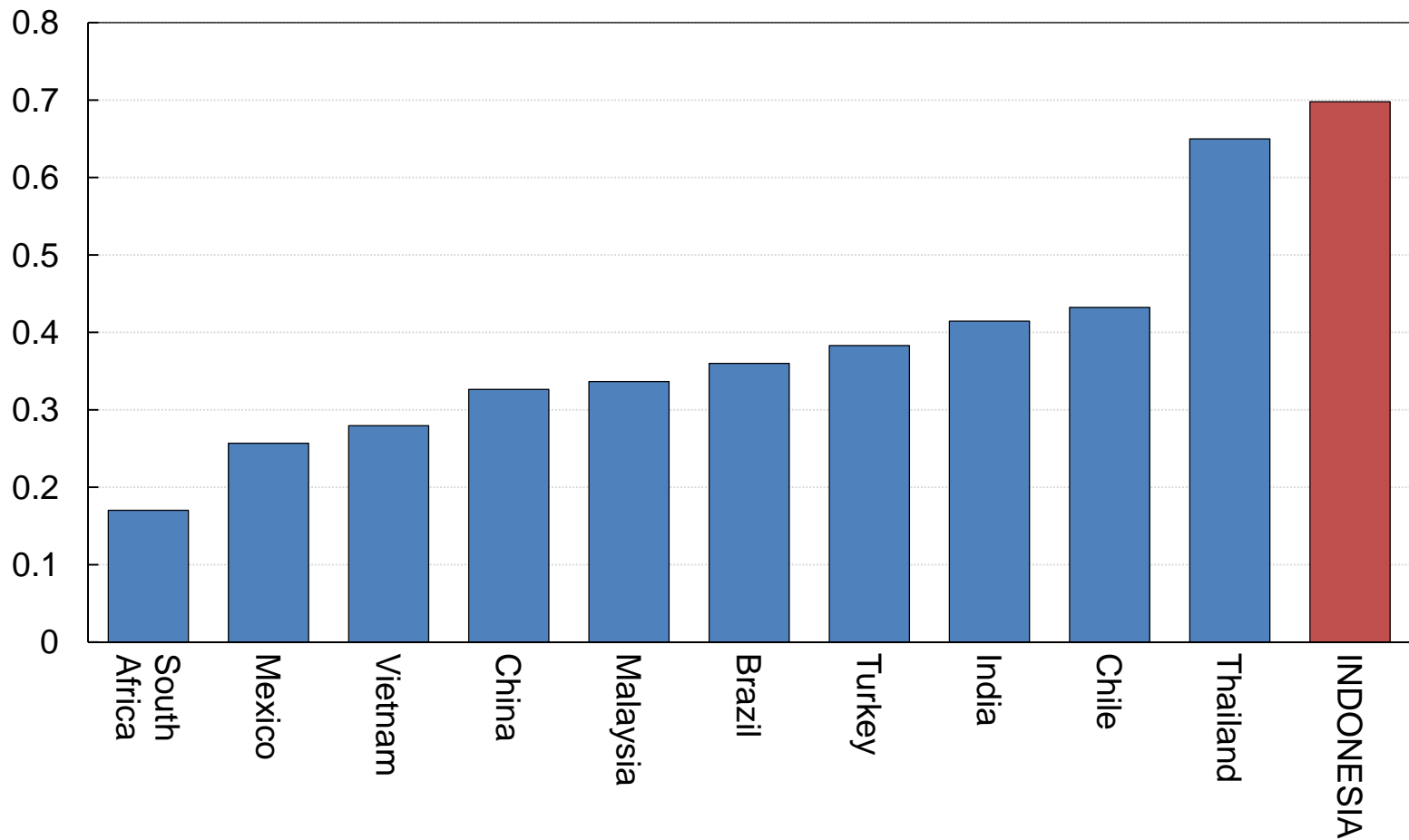
## Employment protection legislation index





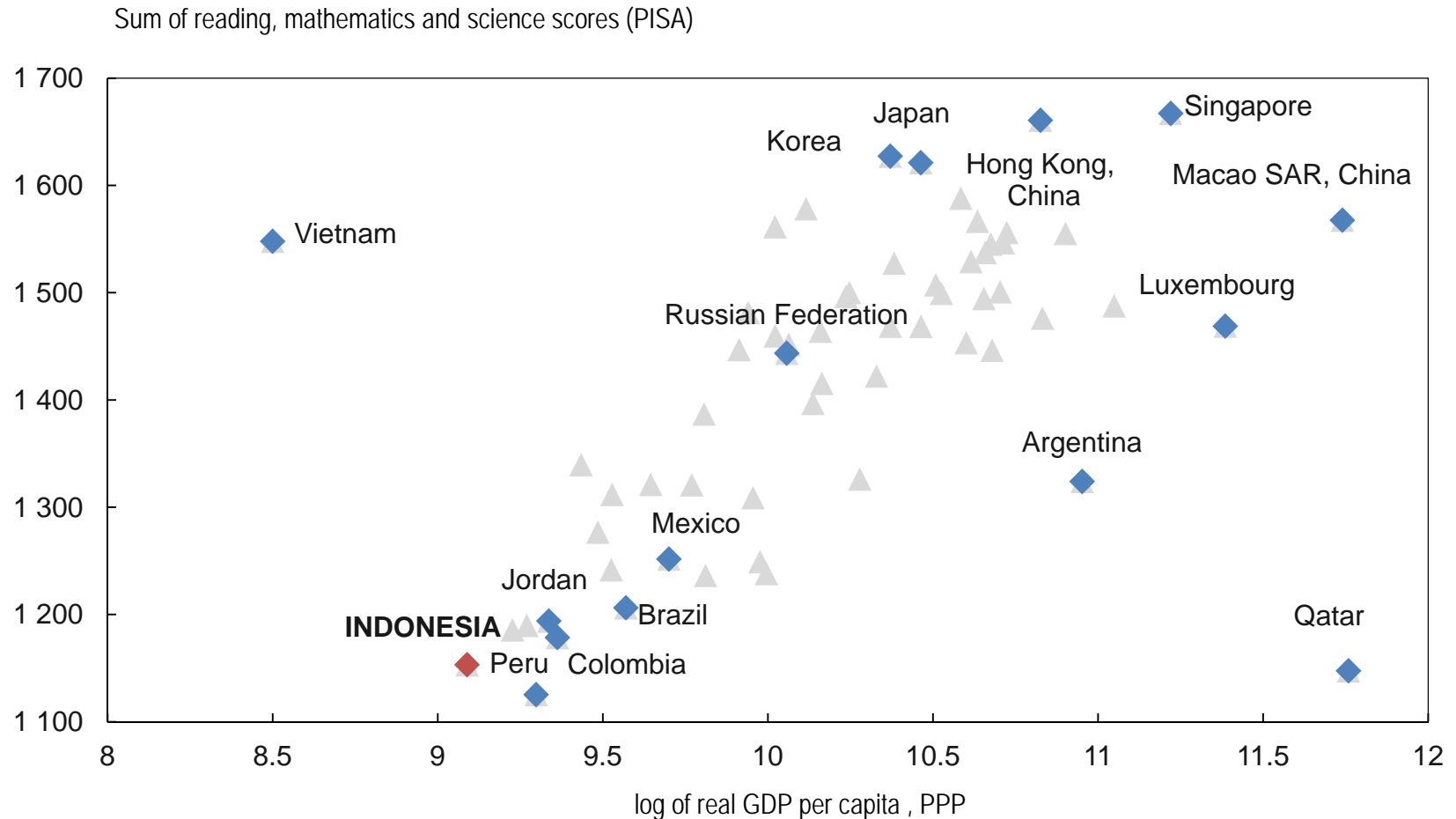
# The minimum wage is relatively high

Ratio of minimum wage to average wage



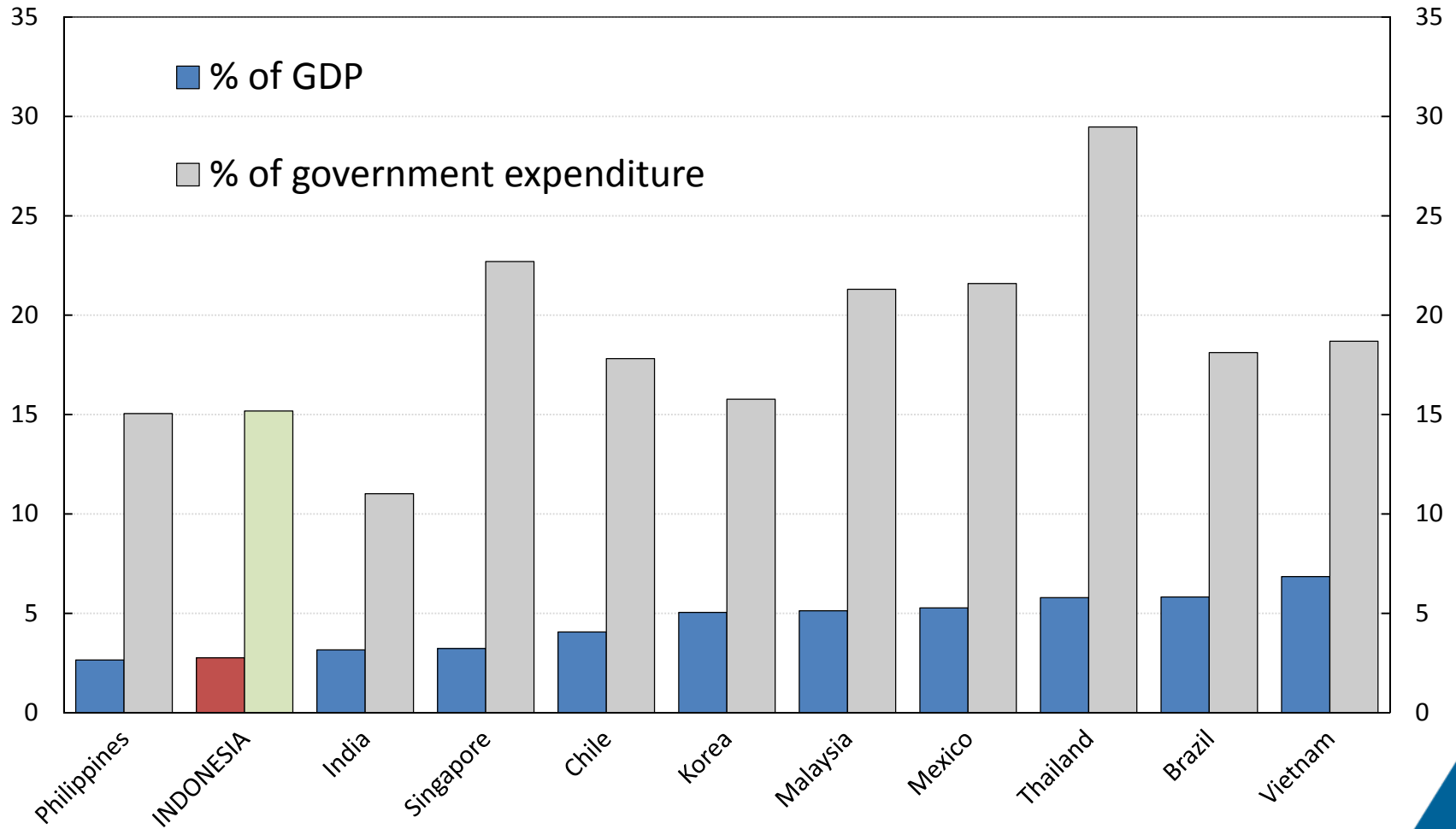


# PISA scores and GDP per capita, 2011



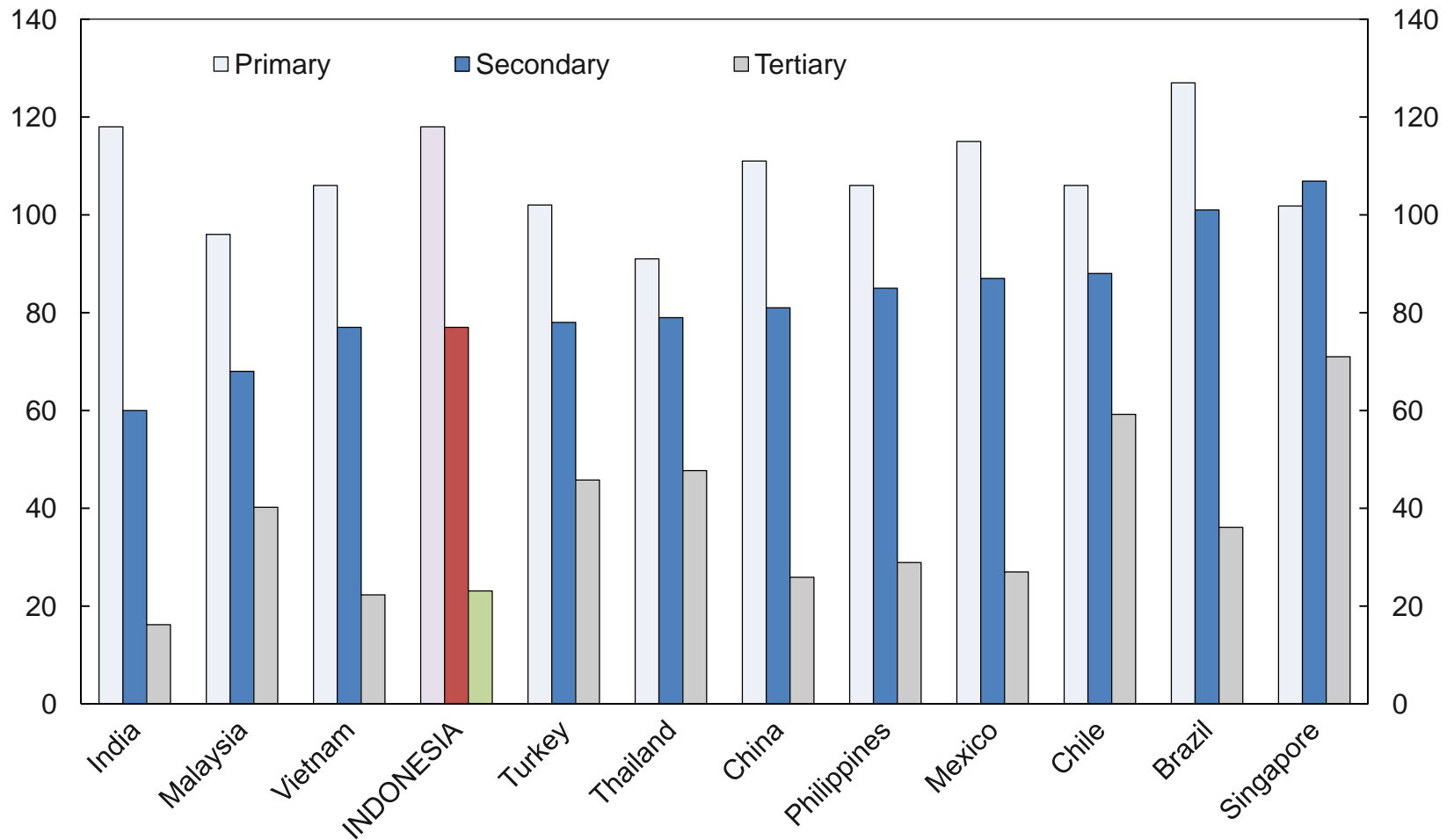


# Spending on education





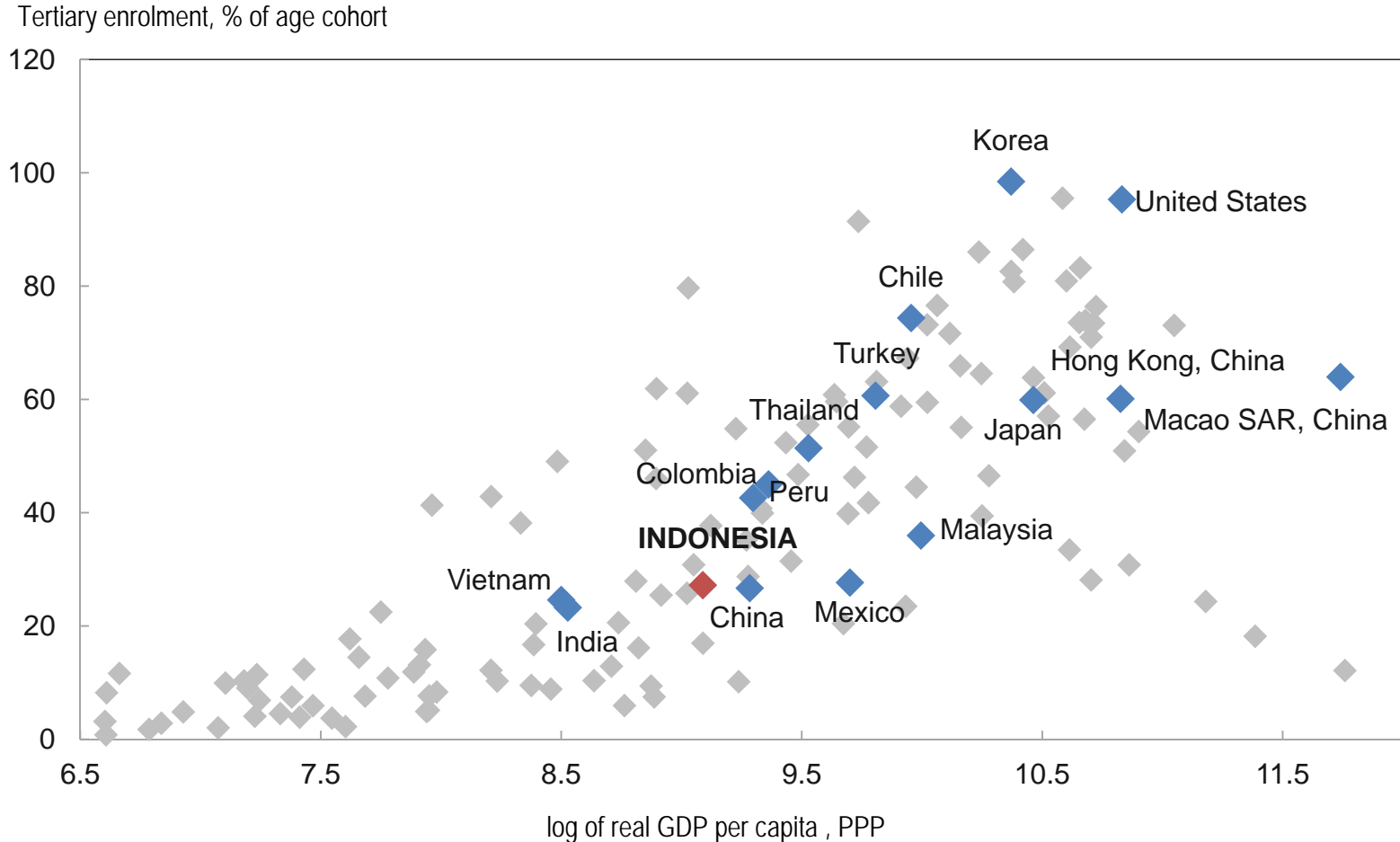
# Enrolment rates







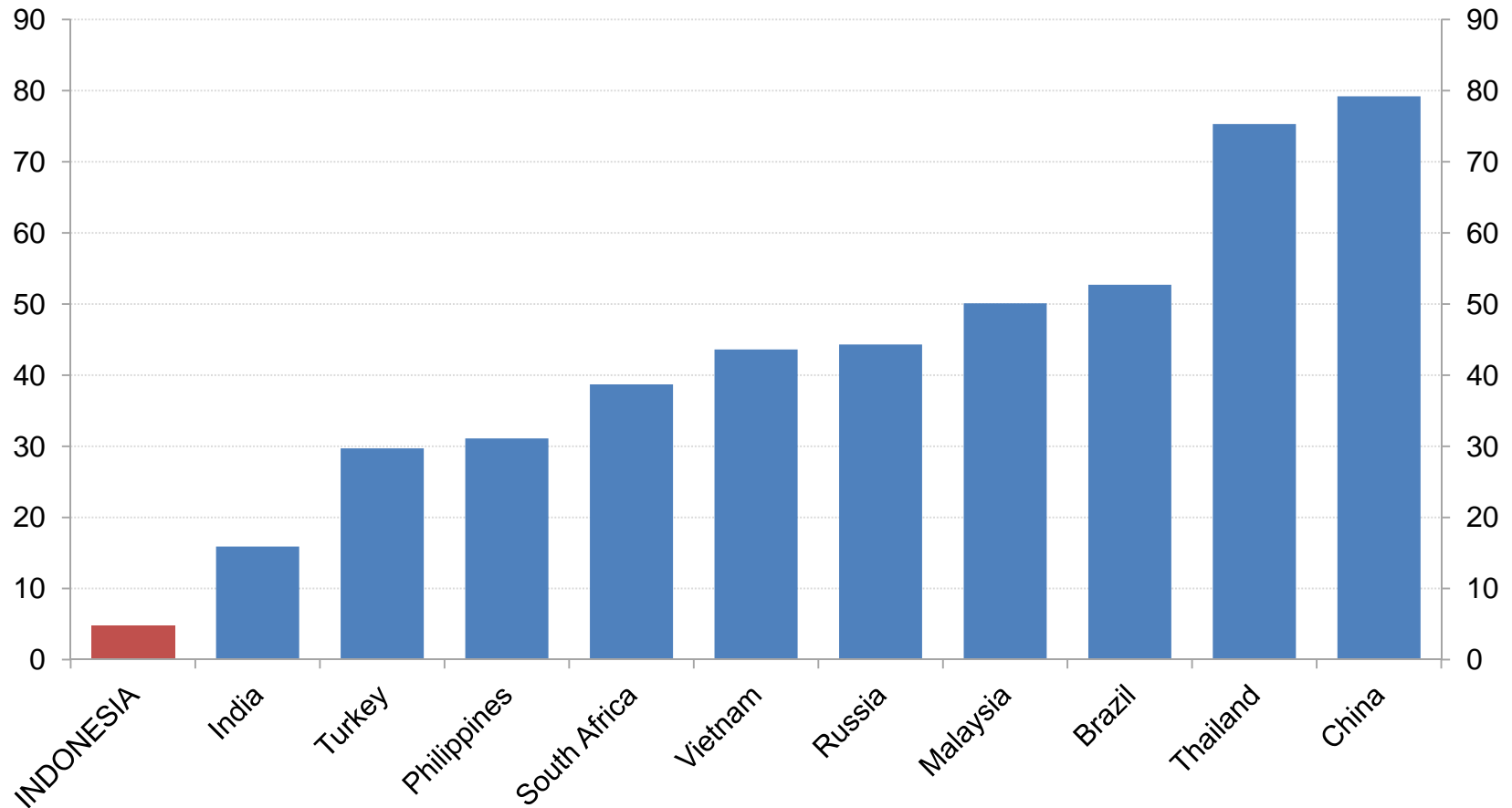
# Tertiary enrolment and GDP per capita





# Firms offering formal training to employees

% of firms offering formal training





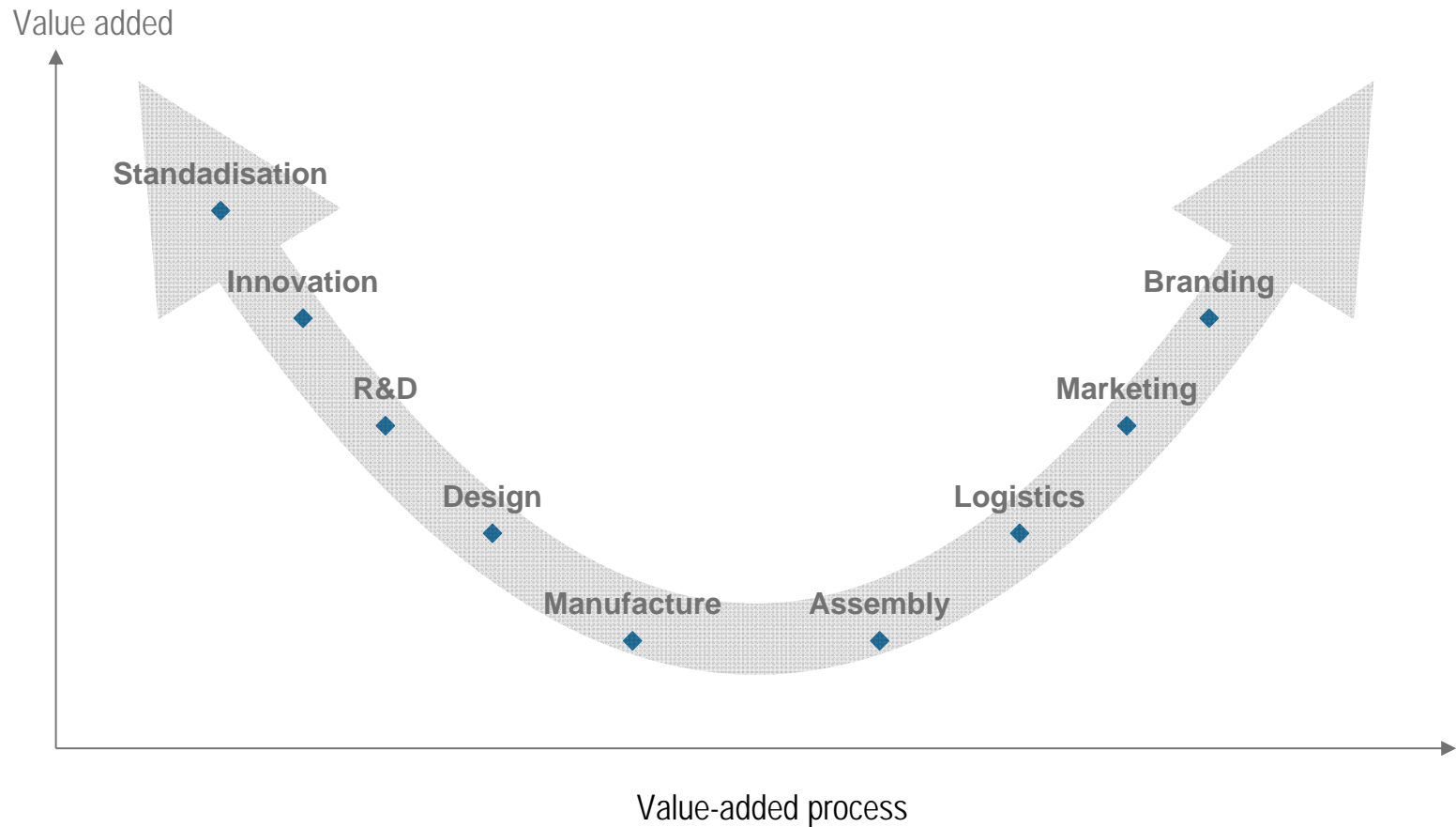
# Improve the performance of the education system

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- Maintain the focus on increasing access to education, especially for students from remote regions and disadvantaged backgrounds.
- Develop programmes that focus on reducing drop-out rates between primary and middle school (at age 12), and middle and high school (at age 15). Including by extending the conditional cash transfer scheme.
- Refine access and targeting of conditional cash transfer programmes that promote school attendance.
- Accelerate programme of teacher assessments and professional development. Link teacher salaries more closely to qualifications and performance.



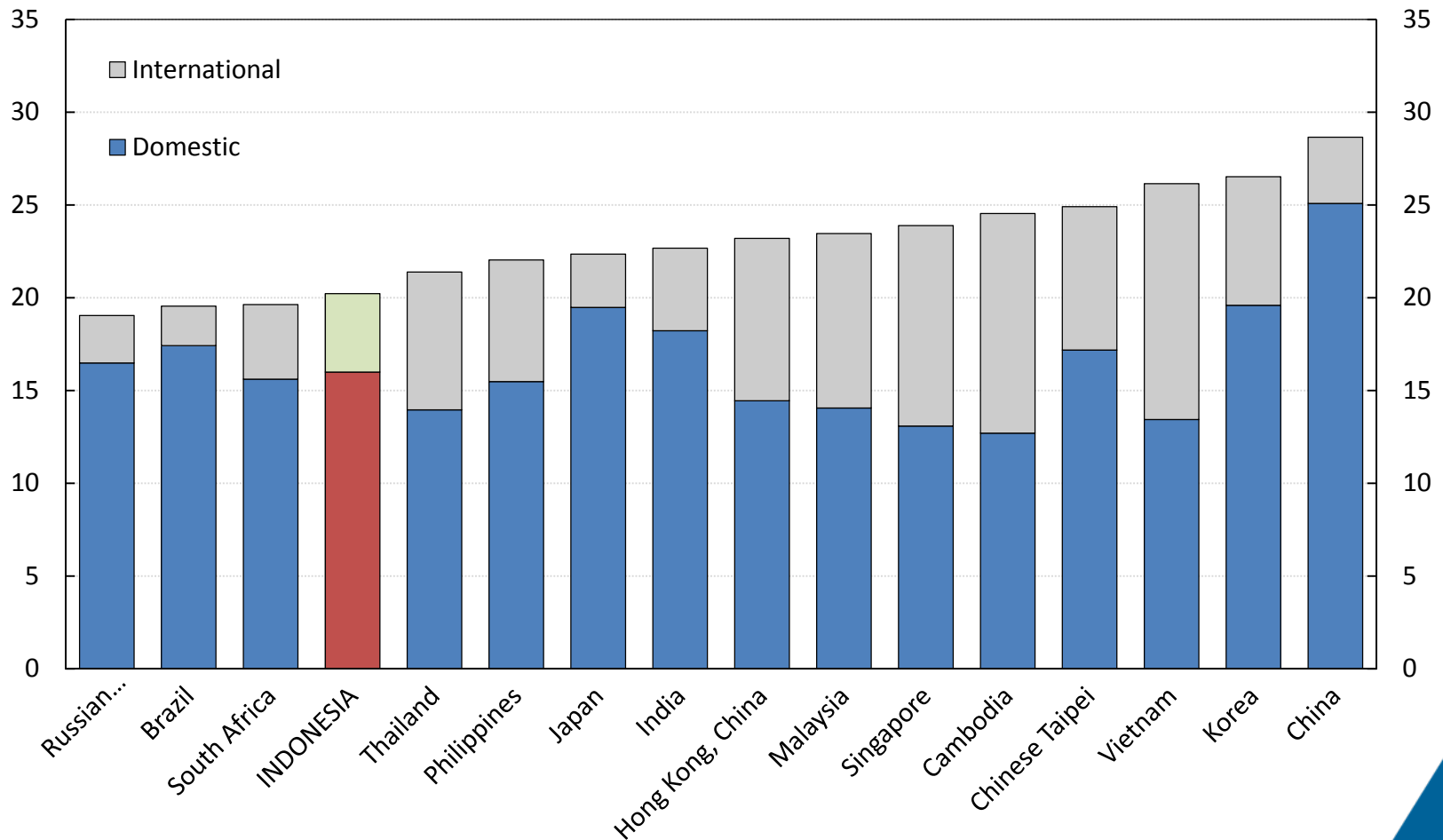
# Valued added in the global value chain process





# Production stages in manufacturing

Index of production stages

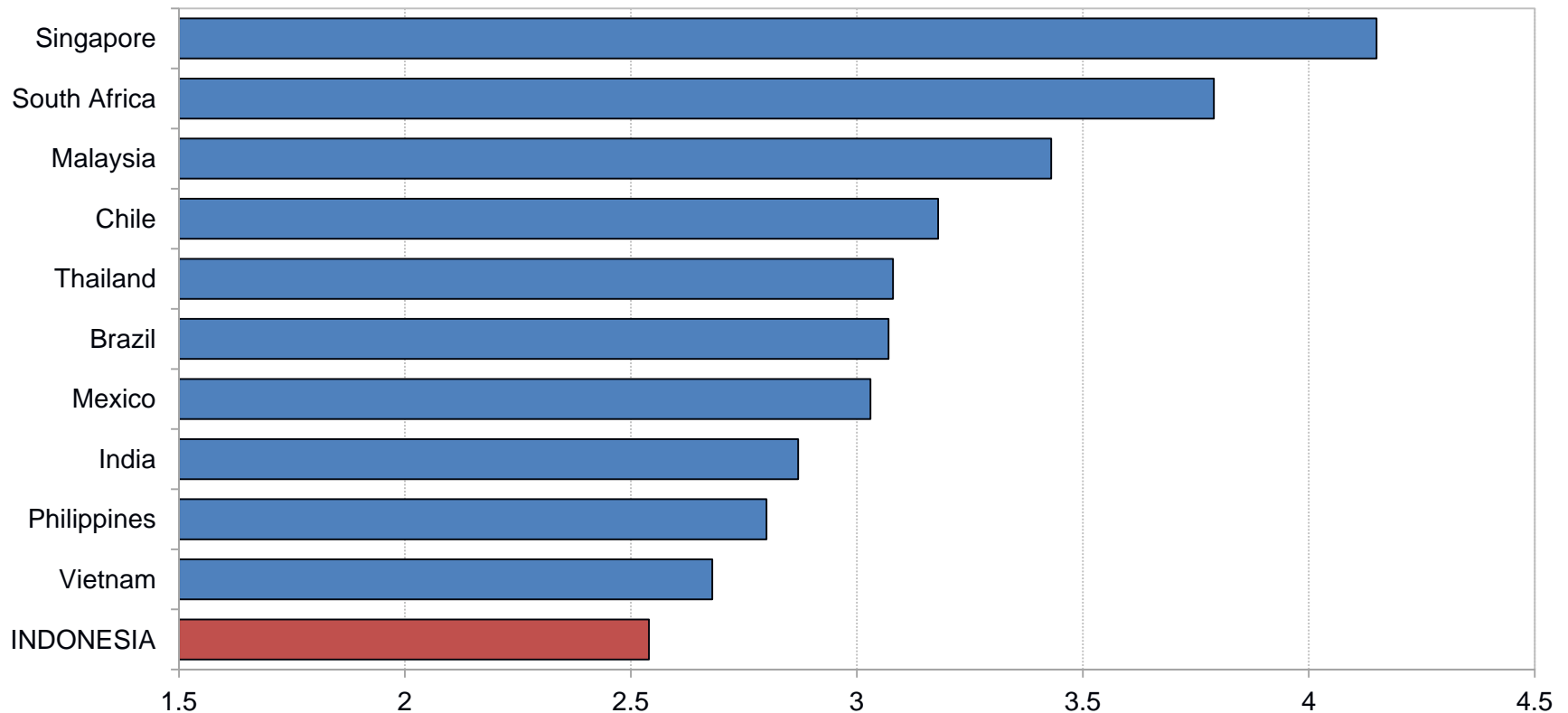




# Improving infrastructure is a top priority

Logistics performance index, 2014

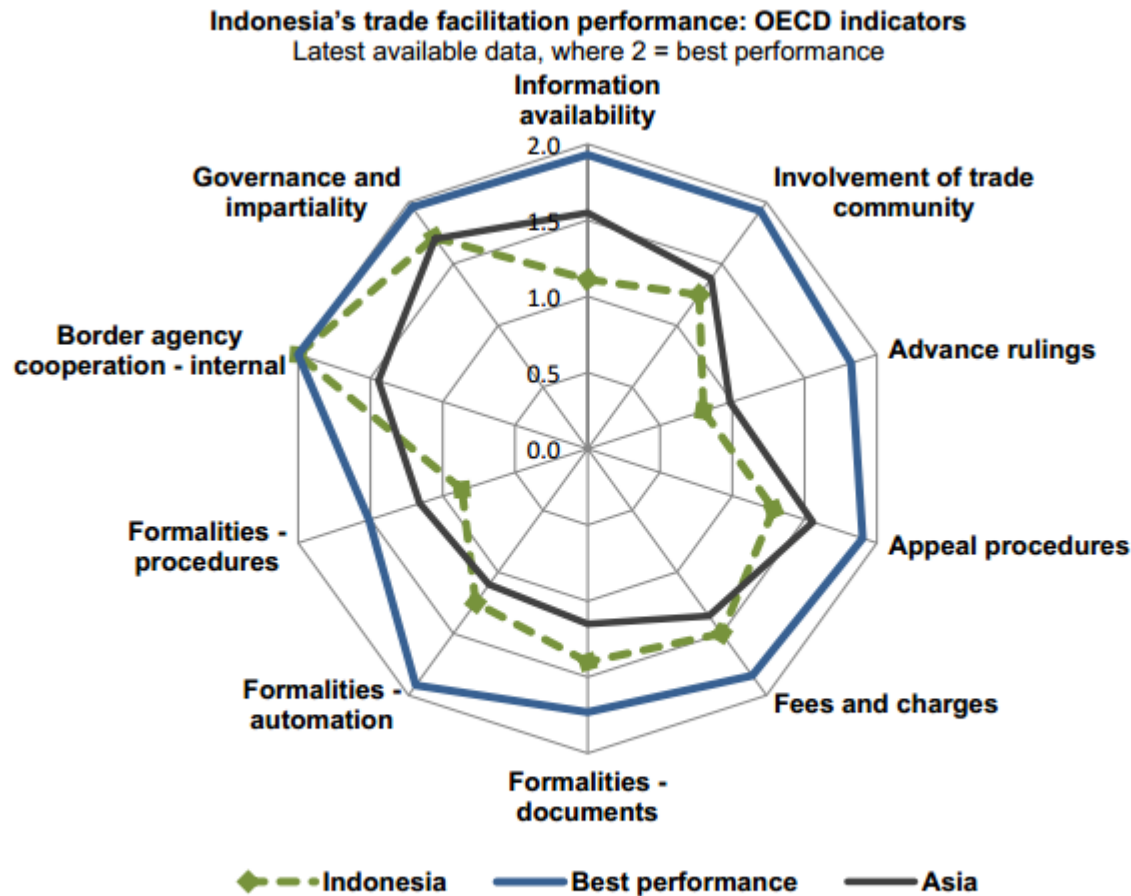
Quality of trade- and transport-related infrastructure (1=low to 5=high)



Source: World Bank, World Development Indicators.



# Trade facilitation is far from best practise

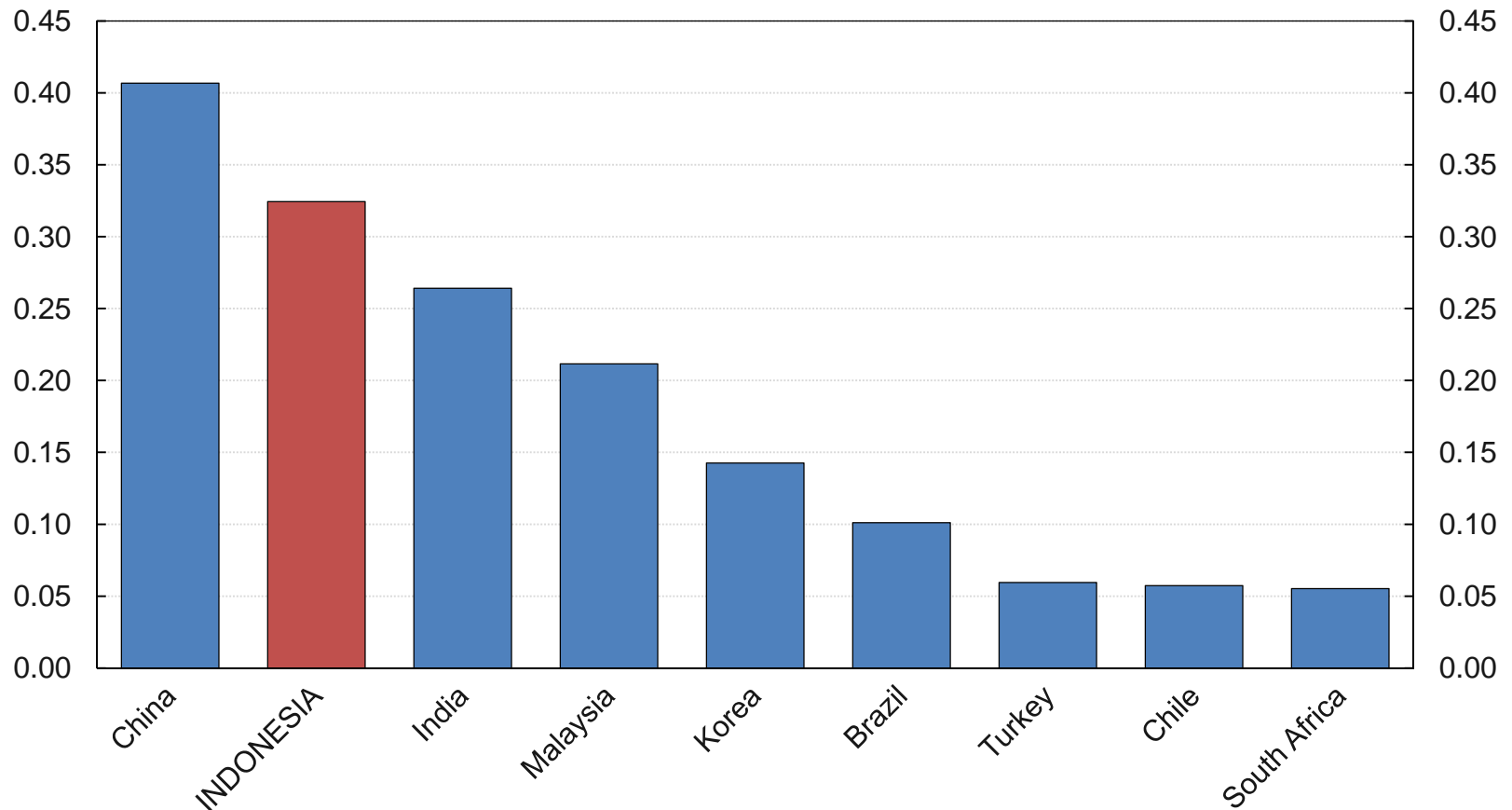


Analysis is based on TFIs latest available data as of January 2013 and the set of TFIs as constructed in "Trade Facilitation Indicators: The Potential Impact of Trade Facilitation on Developing Countries' Trade" (OECD Trade Policy Paper No. 144, 2013). "Best performance" denotes the average of the top quartile for each of the trade facilitation areas covered, across all countries within the database.



# Foreign direct investment regulations are restrictive

FDI regulatory restrictiveness index, closed=1 and open=0

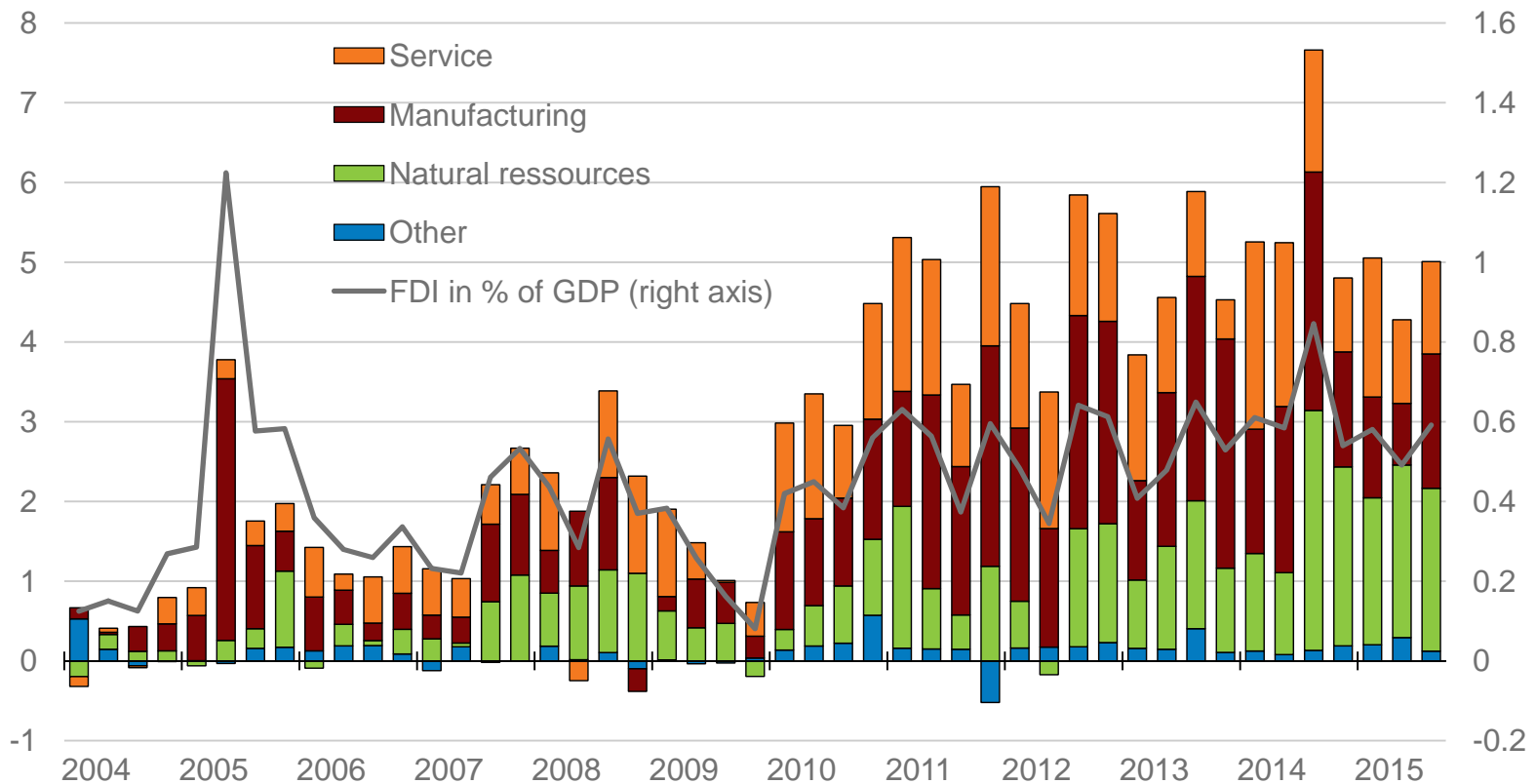






# Yet foreign direct investment is robust

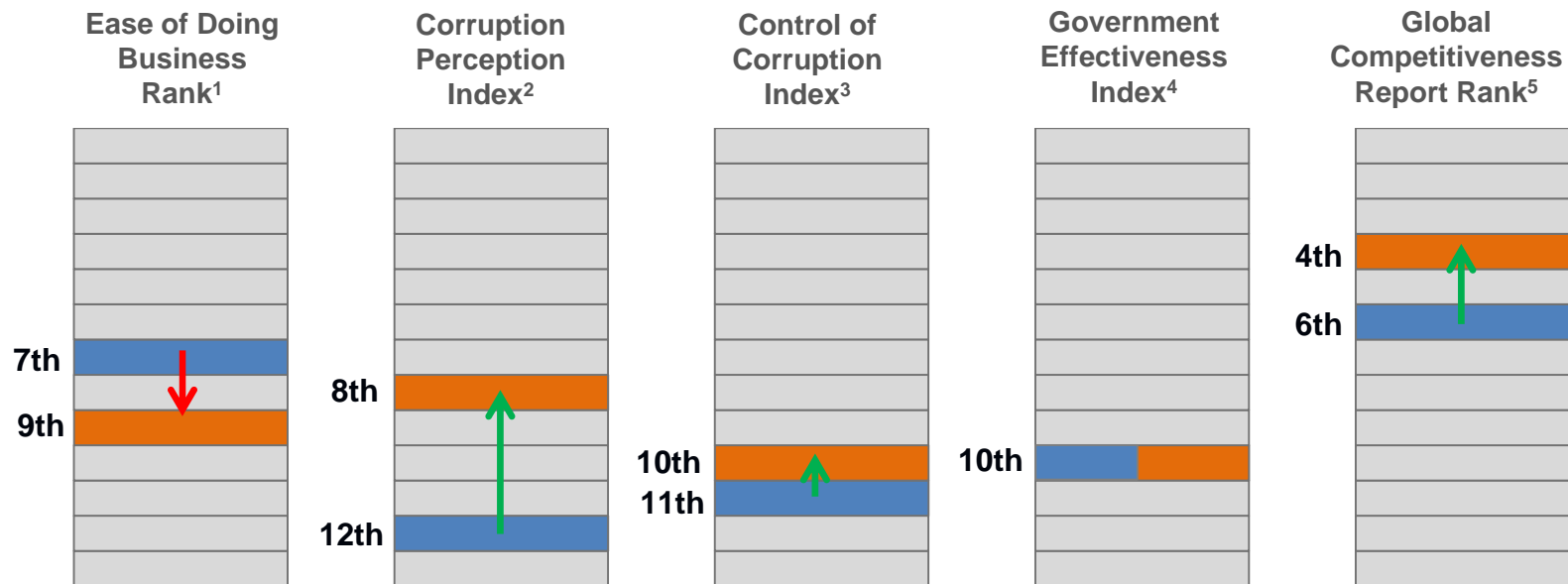
FDI in Indonesia, USD bn and % of GDP





# Progress in tackling corruption and improving governance needs to continue

Indonesia's change in ranking relative to peer countries\*



\* Malaysia, Thailand, South Africa, Russia, Vietnam, China, Philippines, Brunei (for 1,3 & 4), Brazil, Cambodia, India, Myanmar (for 2 & 5) and Laos.

Source: 1. World Bank "Ease of Doing Business" **2010 & 2015**. 2. Transparency International **2005 & 2014**. 3. World Bank Worldwide Governance Indicators **2005 & 2012**. 4. World Bank Worldwide Governance Indicators **2005 & 2012**. 5. World Economic Forum **2006-07 & 2014-15**.



# Measures to boost sustainable growth

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- Raise public spending on infrastructure. Infrastructure bonds and PPPs.
  - Focus on transportation and logistics to support industry, as well as natural disaster prevention and water treatment.
- Facilitate trade so as to foster more integration into global value chains. This includes removing logistics bottlenecks in ports.
- Avoid protectionist measures that inhibit openness to trade and foreign investment with uncertain development payoff.
- Further relax foreign direct investment rules. This includes further paring down the "negative investment list".
- Remove barriers to the development of a vibrant services sector including overregulation of the sector.
- Improve mechanisms to prevent corruption, and provide more resources, especially to the Corruption Eradication Commission (KPK).
- Expand support to sub-national governments for capacity building.



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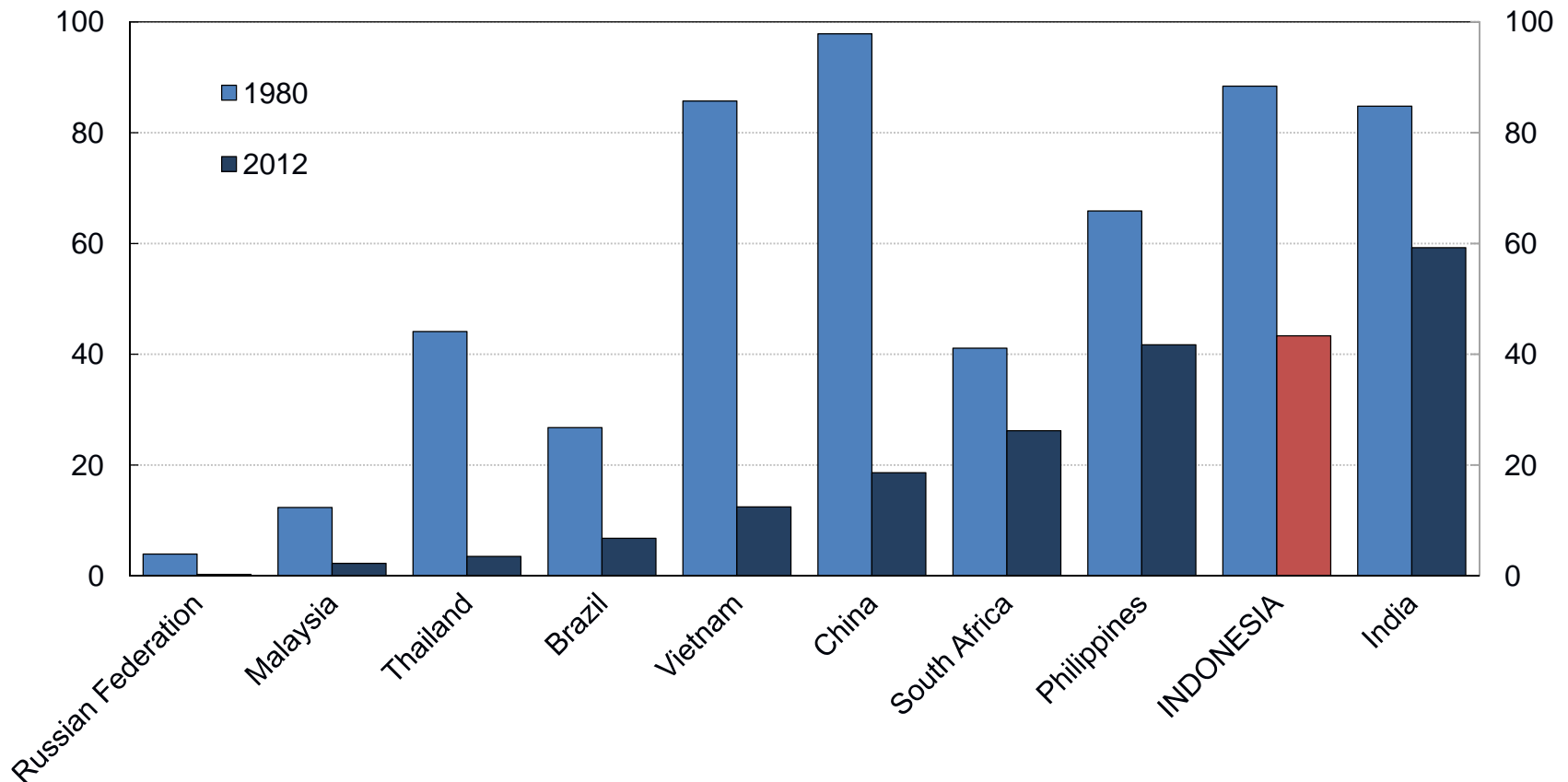
# Poverty and inequality





# Poverty has declined markedly

Poverty head count ratio at \$2 a day (PPP)  
% of population

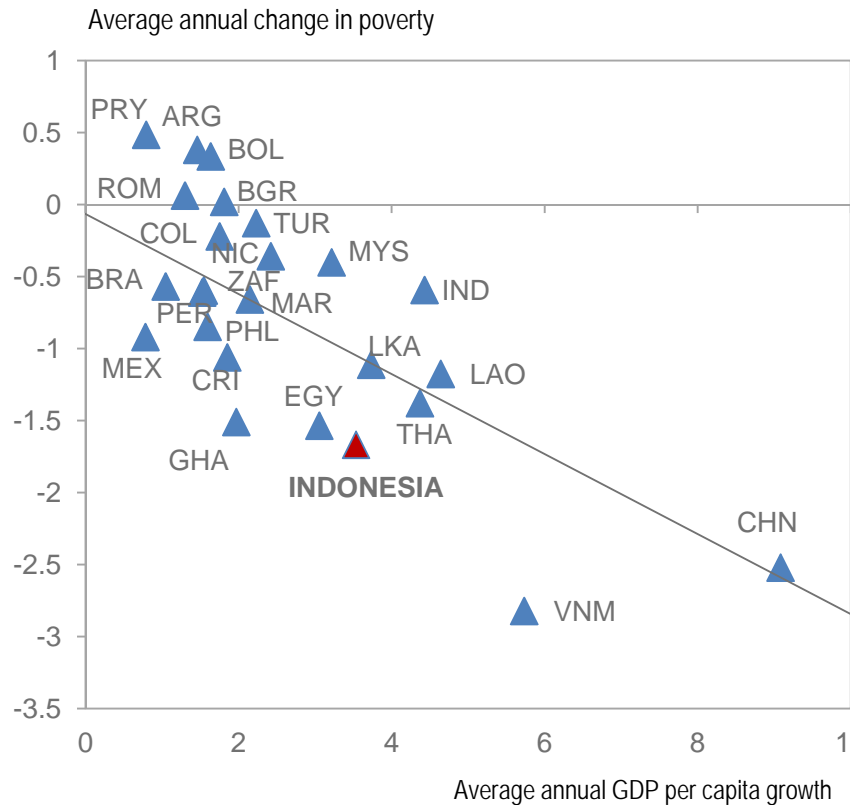


Source: World Bank World Development Indicators.

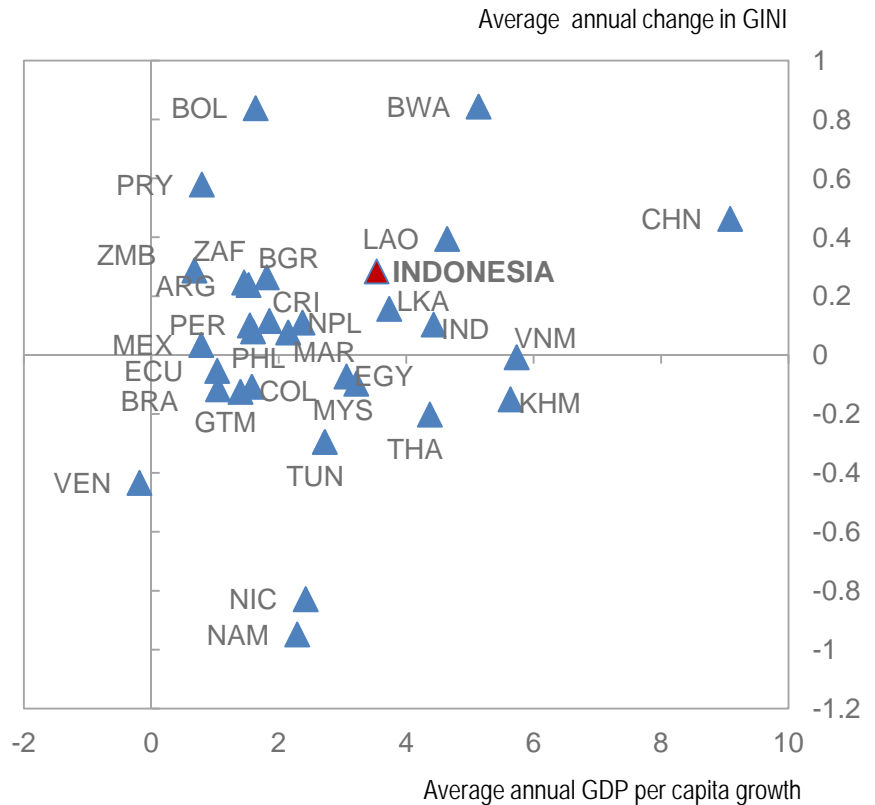


# Poverty and inequality across countries

## A. Poverty head count ratio



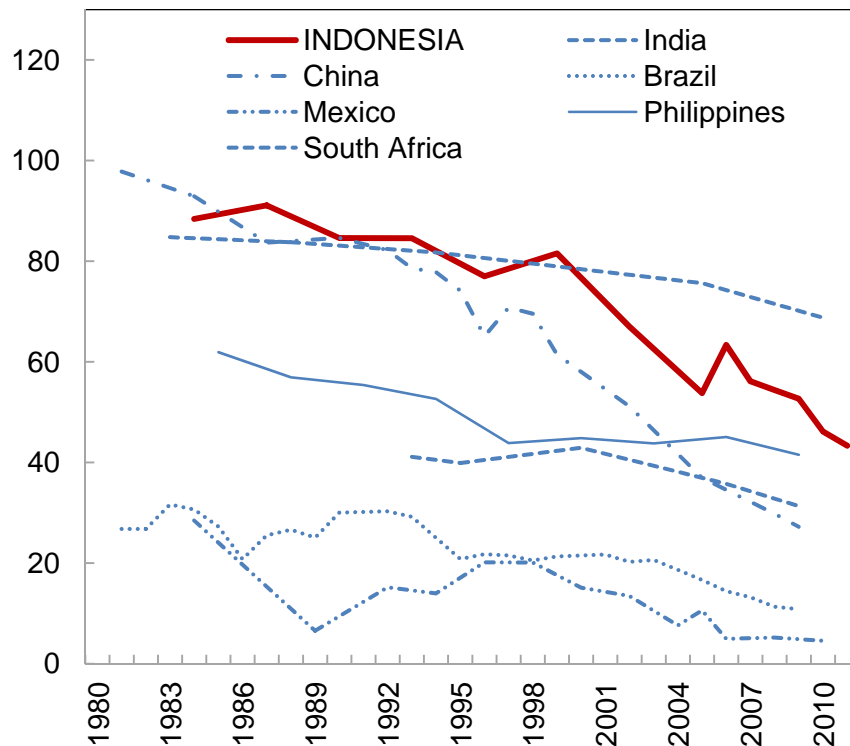
## B. Gini coefficient



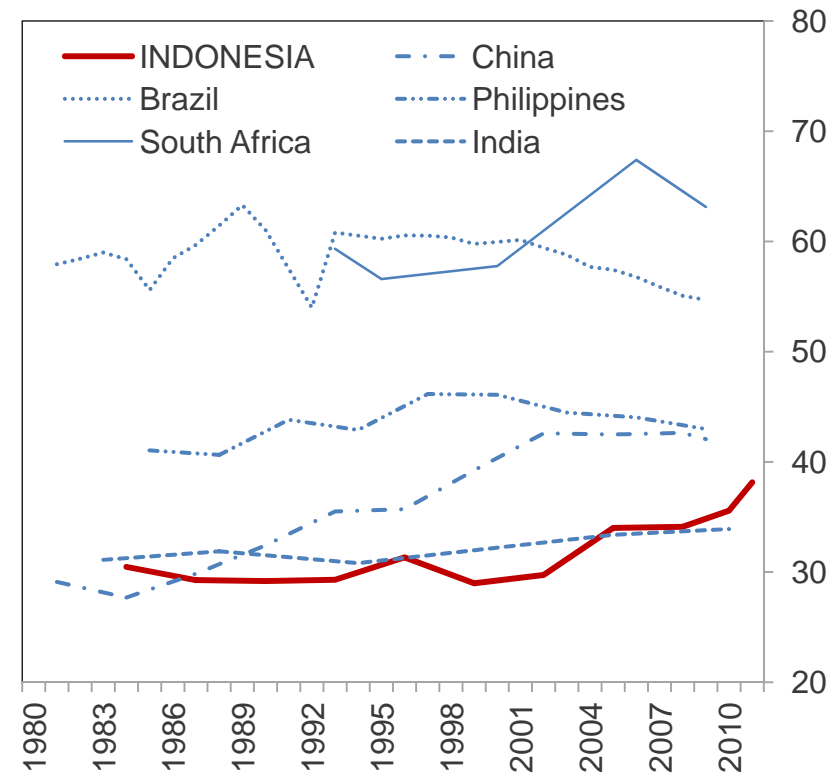


# Poverty and inequality over time

## A. Poverty head count ratio



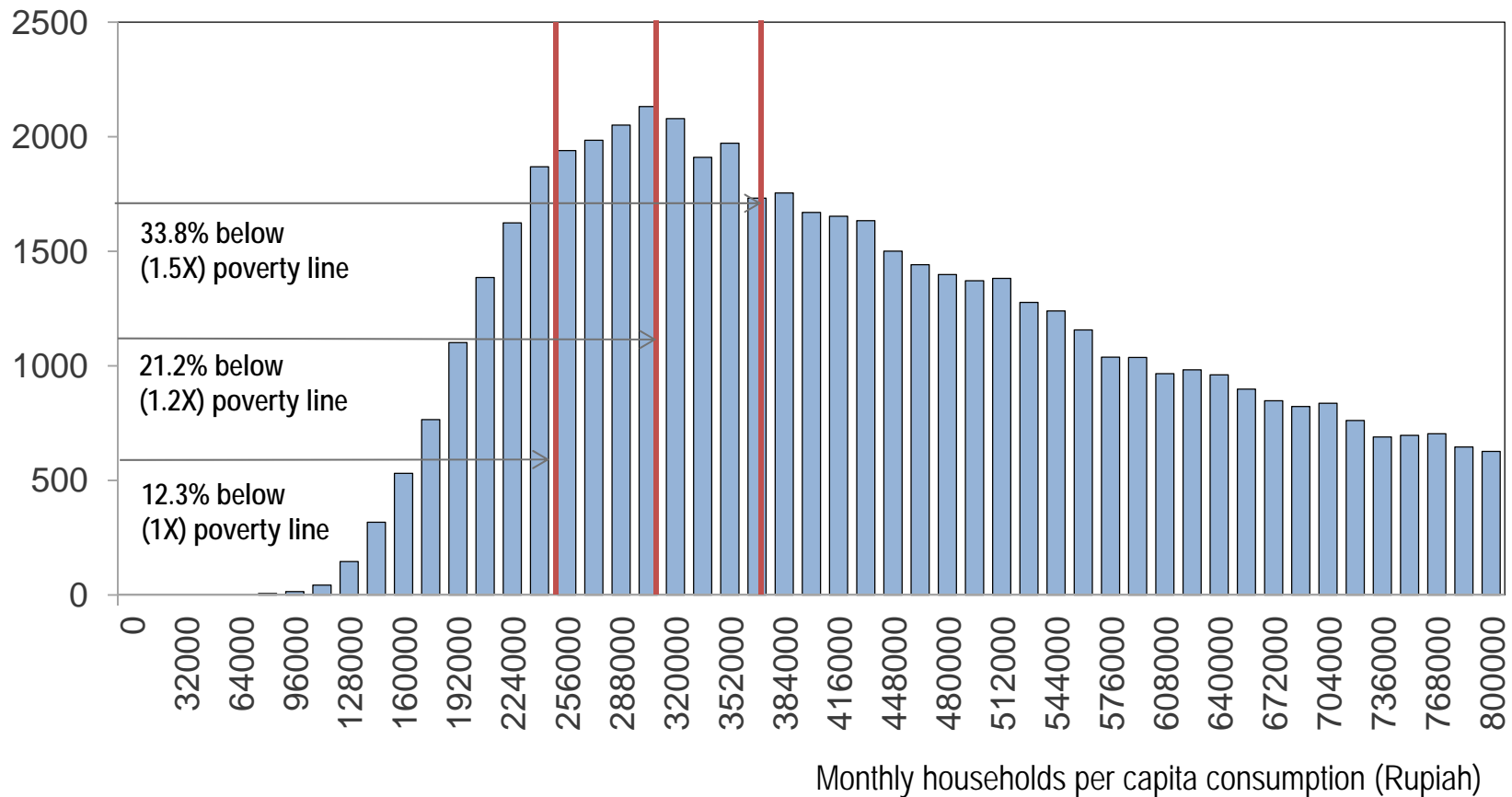
## B. Gini coefficient





# Vulnerability to poverty

Distribution of per capita consumption, 2012





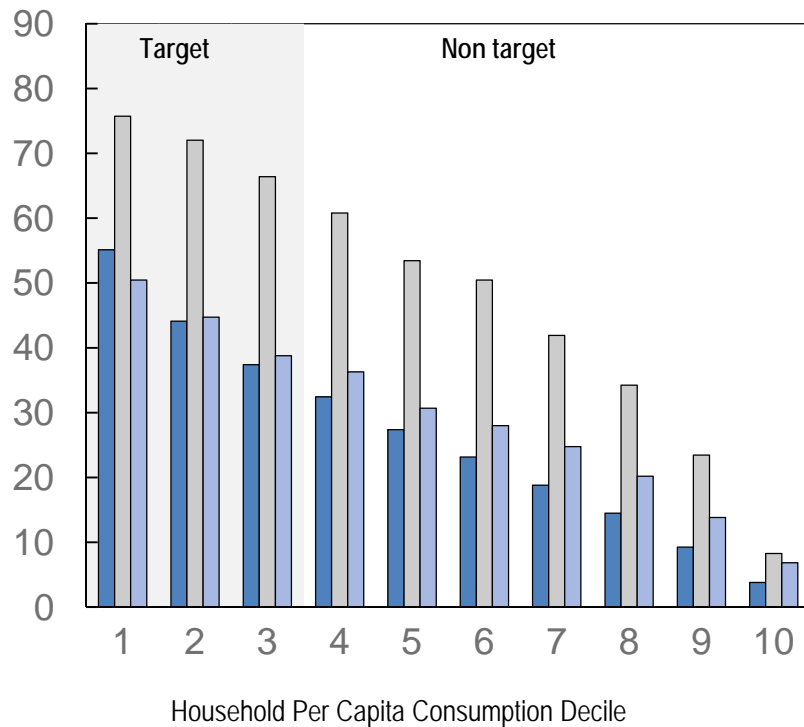


# Benefits coverage and shares received

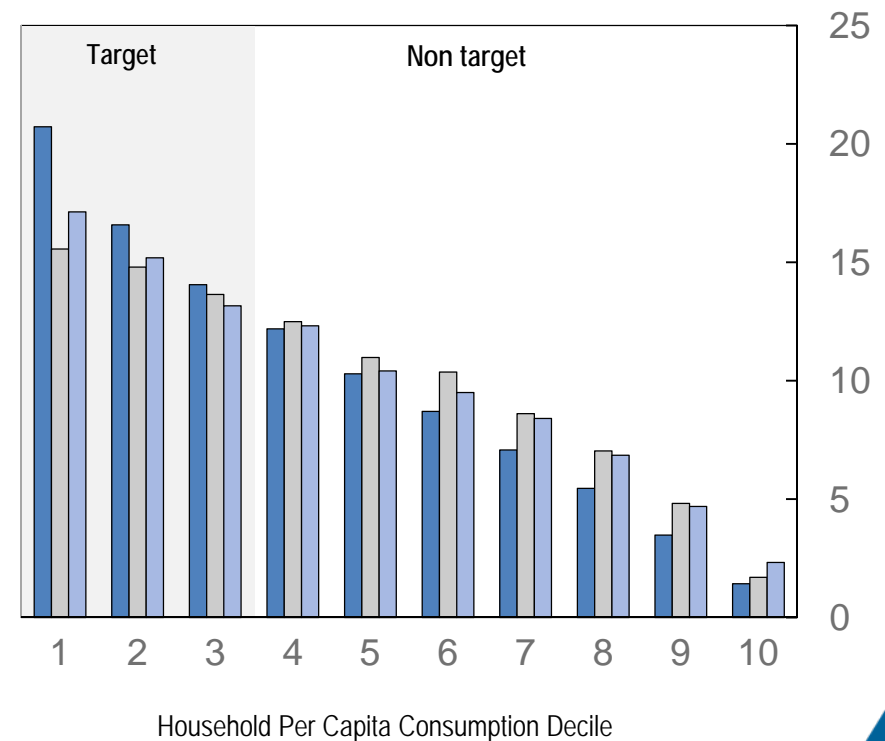
A. Benefit coverage by decile

B. Share of benefits received by decile

Percentage Receiving Benefits

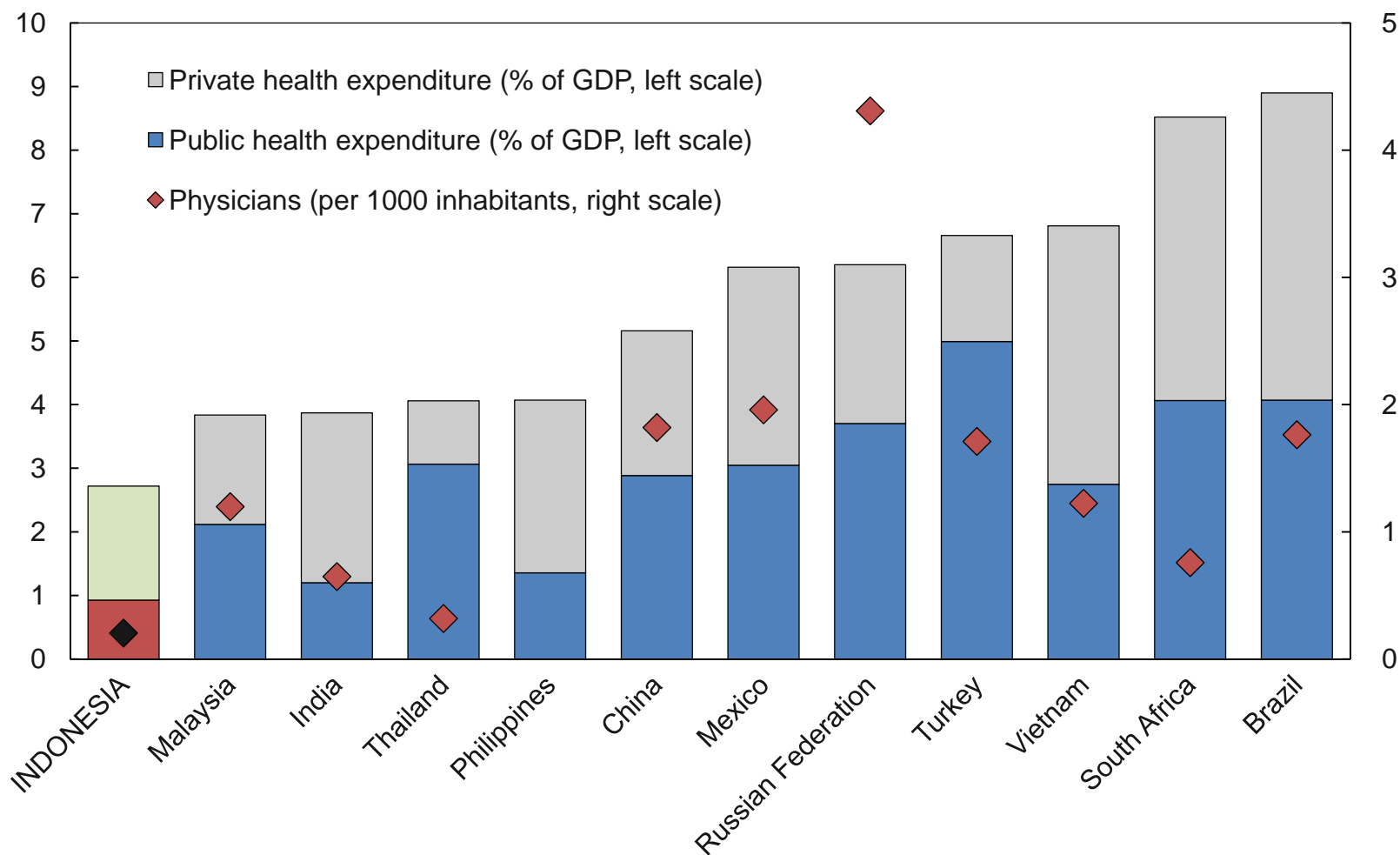


Percentage Receiving Benefits





# Health expenditure and doctors





# Measures to improve the performance of the social security system

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- Better target poverty alleviation programmes to poor households.
- Continue progress towards a single registry of vulnerable households.
- Expand the use of conditional cash transfers so as to motivate families to keep children in school and encourage the regular use of health care services.
- Adjust the subsidised rice scheme (RASKIN) to include more foodstuffs (and perhaps use vouchers).
- Increase financial inclusiveness by further developing branchless banking.
- Tackle labour market informality by:
  - reducing labour market rigidities (redundancy rules, etc.);
  - improving incentives to join the tax-transfer system (social insurance and benefits).



# OECD Economic Survey of Indonesia 2015

[www.oecd.org/economy/economic-survey-indonesia.htm](http://www.oecd.org/economy/economic-survey-indonesia.htm)

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