

2017 Annual Competitiveness Analysis and Impact of Exchange Rates on Foreign Direct Investment Inflows to Sub-National Economies of Indonesia

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Impact of Exchange Rates on Foreign Direct Investment
Inflows to Sub-National Economies of Indonesia**

In 2016 and 2017, ACI was ranked 13th globally, 2nd in Asia and 1st in Singapore amongst 90 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

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 **A**SEAN in the context of the rise of **C**hina and **I**ndia.

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 synergising 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.

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 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 with The World Bank (2015), SPRING Singapore (2014) and European Central Bank (2014). The Memorandum of Understanding between The World Bank and National University of Singapore, coordinated through ACI, was signed in 2016.

- VI. We have signed Memoranda of Understanding with various institutions in Greater China economies, including 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 Memoranda of Understanding with six Chief Ministers' Offices in Andhra Pradesh (2015 & 2017), Bihar (2015), Chhattisgarh (2015), Madhya Pradesh (2015), Odisha (2015) and Punjab (2015).
- VIII. We have signed Memoranda of Understanding 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 Memoranda of Understanding with ASEAN think-tanks and institutions, including Vietnam Chamber of Commerce and Industry (2016), Centre for Strategic and International Studies, Indonesia (2015), Institute of Strategic & International Studies, Malaysia (2015), Philippine Institute for Development Studies (2015), Thailand Development Research Institute (2015) and Central Institute for Economic Management, Vietnam (2015).

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 make adjustments 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 CompNet into Asia, thereby pioneering the Asia CompNet research network 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

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In the tradition of the Asia Competitiveness Institute (ACI) at the Lee Kuan Yew School of Public Policy, National University of Singapore (NUS), our research publications make a distinctive contribution to the understanding of economic development in Asia. These books, first published in 2013, in the Asia Competitiveness Institute - World Scientific Series evaluate and track competitiveness for the sub-national economies of China, India, Indonesia and ASEAN annually through combining leading-edge methodologies with an extensive dataset. The study covers four environments of competitiveness: (1) Macroeconomic Stability, (2) Government and Institutional Setting, (3) Financial, Businesses and Manpower Conditions, and (4) Quality of Life and Infrastructure Development. It also conducts "what-if" policy simulations to propose policy suggestions.

2017

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**2017 ANNUAL COMPETITIVENESS ANALYSIS AND IMPACT OF EXCHANGE RATES
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OF INDONESIA**

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5.17 Commentary on Recent Developments in Lampung, 2015–2017

By: Ayi Ahadiat
Universitas Lampung

Province Location



Source: ACI.

5.17.1 Economic Conditions

Lampung's economy grew at the rate of 5.15 percent in 2016 — above the national and regional growth rates. Its nominal GRDP was Rp281.11 trillion, rendering it as the fourth largest economy in Sumatra. Despite having the second highest population in Sumatra, average GRDP per capita growth rate (9.17 percent) was higher than the national average (6.39 percent). Its main economic sectors were agriculture, forestry and fisheries, processing industry as well as vehicle trade and repair.

Exports fluctuated between 2014 and 2016, but declined in 2016 largely due to the fall in global commodity prices. Exports included CPO, rubber, coal, coffee, tea and spices. Imports rose in 2016 as demand was not met by local suppliers. Imported goods included live animals, fertilisers, sugar and confectionery as well as food industry waste.

Realised investments fluctuated in 2014–2016, but values remained above the government's target. Food, electricity, gas and water as well as hotels and restaurants were the sectors receiving most FDI, while DDI were mainly found in chemical and pharmaceutical goods, services, food crops and plantation, and food industry.

5.17.2 Social Conditions and Development

Lampung's Gini ratio increased from 0.35 to 0.36 between 2014 and 2016, although it remained below the national average (0.40). Life expectancy, however, increased from 69.66 years in 2014 to 69.94 years in 2016. School enrolment rates had also increased, in line with a declining overt unemployment rate which remained below the national average. Despite the annual increases, the province's HDI in 2016 (67.75) was still below the national average (70.18) and was the lowest amongst provinces in Sumatra.

Social incidents often relate to land ownership disputes between residents and firms. Moving forward, firms will be more involved in the regional development through the provision of corporate social responsibility (CSR) programmes and participation in the ongoing coordination between government and law enforcement agencies. There have been no horizontal conflicts between ethnic and religious groups due to continuous efforts by the government as well as traditional, religious and community leaders to unite the people under Lampung's primary social philosophy of Piil Pesenggiri: "one with high moral behaviour in the community life."

5.17.3 Provincial Government Policies

The provincial government has enacted several policies aimed at easing investments which will encourage economic growth. These include (i) developing the industrial plan for Lampung Province, (ii) constructing occupational safety and health management system, (iii) protecting intellectual works in Lampung, (iv) protecting and empowering MSMEs, (v) providing incentives to ease investment, (vi) controlling forest areas and providing private health and business travel services in Lampung as well as (vii) establishing provincial credit guarantee companies (PPKD) in the province.

Since the enactment of provincial regulation (Perda) No. 23/2014 on local government, several authorities of regencies and cities have been transferred to the provincial government in order to facilitate the coordination and effectiveness of public services related to the ease of doing business. Besides deregulation, such law also serves to ensure legal certainty to businesses investing in the province.

5.17.4 Local Political Scene

Governor Muhammad Ridho Ficardo and Deputy Governor Bachtiar Basri are the leaders of Lampung from 2014 to 2019. They envision Lampung as “the leading and the most advanced province in Sumatra, prosperous with a clean government, guided by the spirit of giving and service.” Issues of infrastructure, agriculture, governance and poverty became the priority programme of the pair. To date, the government has helped to speed up toll road development, transform Radin Inten II into an international airport, accelerate poverty alleviation and encourage investments in industry and services.

Key Economic Indicators, 2015

Land Area (km²)	34,624
Population	
Total Population	8,117,300
Urban Population (%)	28.30
Poverty Rate (%)	13.53
Labour Force	3,832,108
Labour Force Participation Rate (%)	47.21
Gross Regional Domestic Products (GRDP) — 2010 prices	Rupiah (million)
GRDP	199,536,100
GRDP (non-minerals)	187,441,000
GRDP per Capita	24.58
GRDP per Capita (non-minerals)	23.09
Economic Composition	% of GRDP
Primary Sector	37.99
Secondary Sector	26.97
Tertiary Sector	35.05
Trade — 2010 prices	Rupiah (million)
Exports	38,001,211
Imports	23,582,005
Top-3 exports: animal or vegetable fats and oil; meat and edible meat offal; dairy produce	
Top-3 imports: mineral fuels; sugars and sugar confectionery; livestock	
Infrastructure	
Paved Roads (km)	14,083
Domestic Air Traffic (Passengers)	1,420,443
International Air Traffic (Passengers)	0
Domestic Cargo at Seaport (Tons)	13,675,385
International Cargo at Seaport (Tons)	12,116,731

Source: BPS Indonesia compiled by ACI.

Lampung's Regional People's Representative Council (DPRD) consists of 10 political parties, primarily the Indonesian Democratic Party of Struggle (PDIP) (20.00 percent), the Democrat Party (12.94 percent), Party of the Functional Group (Golkar) (11.76 percent) and the Great Indonesia Movement Party (Gerindra) (11.56 percent).