

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

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ON FOREIGN DIRECT INVESTMENT INFLOWS TO SUB-NATIONAL ECONOMIES  
OF INDONESIA**

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## Chapter 5

# Commentary on Recent Developments in 34 Indonesian Provinces

### 5.1 Introductory Notes

Asia Competitiveness Institute's (ACI) study on sub-national level competitiveness in Indonesia provides a broad yet all-encompassing view of the spread of competitiveness in Indonesian provinces. While Chapter 1 has outlined recent key developments in Indonesia at the national level, it is useful to also look at province-specific information that could give contextual knowledge to the results in order to fully maximise the findings from the study. Such information can also supplement any other studies pertaining to Indonesia, for instance that of the impact of exchange rate movements and volatility on foreign investments in Indonesia, as outlined in Chapter 4. This chapter aims to provide such contextualised, province-specific information.

A novel addition to this year's update of ACI's study on Indonesia's sub-national competitiveness, this chapter features commentaries on recent developments in each of the 34 Indonesian provinces between 2015 and 2017. As far as possible, the section on each province has been contributed by ACI's respective local academic partners. Papers from these academics have been translated from Indonesian into English and, where relevant, have been summarised to fit the format of this book. In addition to supplementing our evidence-based study with the necessary background information that are context-specific to the individual provinces, this chapter is also a culmination of ACI's commitment to take the collaboration with our local academic partners to a deeper level.

Each provincial write-up consists of five sections. The first pertains to recent economic trends, which cover the province's economic growth, trade as well as investments. The second expands upon the social conditions of the province as reflected by key social indicators as well as notable incidents pertaining to social and industrial relations, if any. Key governmental policies and projects that have recently been enacted in each province are outlined in the third section, shedding light onto each provincial government's development priorities. This section also gives insight to the province's future development trajectory. The fourth section gives context to each province's political conditions by looking at the dynamics of key leaders and political parties in each province. Finally, some key economic indicators of each province are included in the last section. The data for these indicators were those from 2015 and were obtained from Indonesia's Central Bureau of Statistics (BPS). Meanwhile, all other relevant statistics, numbers and policies mentioned in the subsequent sections were obtained from various official reports and news articles that are listed in the References section.

The write-ups of all 34 provinces in this chapter have been arranged according to the province names in an alphabetical order.



### 5.13 Commentary on Recent Developments in East Kalimantan, 2015–2017

By: Syarifah Hudayah and Felisitas Defung  
Universitas Mulawarman



Source: ACL.

#### 5.13.1 Economic Conditions

East Kalimantan's economy between 2015 and 2017 has slowed down due to it being prone to global economic fluctuations. As a province that is export-oriented and commodity-reliant, the fall in global demand and price of oil and gas, coal and CPO have affected the economy negatively. The province's economy had even contracted, with a negative growth rate of 1.21 percent in 2015 and 0.38 percent in 2016.

Both exports and imports of East Kalimantan had fallen between 2015 and 2017. Oil and gas exports fell significantly from US\$61.41 billion to US\$3.78 billion in 2016 due to declining coal exports — the province's major export commodity (54.99 percent). Imports had similarly declined by 32.60 percent in 2016.

The economic slowdown has had a negative impact on investments, which have declined during the same period. DDI fell from Rp10.42 billion to Rp6.50 billion in 2016, while FDI fell from US\$2.38 billion to US\$1.17 billion in the same period.

East Kalimantan's overall economic growth since 2015 has been below the national level.

#### 5.13.2 Social Conditions and Development

The province's HDI has been increasing in the past seven years. In 2016, the province's HDI rose by 3.28 points to 74.59 relative to 2010, with improvements across all indicators. Life expectancy also improved from 72.89 to 73.68 in 2016. However, net enrolment rate has slightly declined despite the government's initiative of providing compulsory and free nine years of education.

Within the past three years, there have been several important incidents pertaining to social issues that have gained public attention. The first is related to labour layoffs due to economic contraction in East Kalimantan. As of September 2015, it is estimated that around 10,721 workers have lost their jobs. The second involves the informal ties between civil society organisations and firms, particularly in the mining and plantation sector, which have created tension between them and the community at large. The third relates to the rejection of the operation of online transportation providers by conventional drivers. This rejection has manifested itself in violent acts such as destruction of vehicles and persecutions.



15-2017

### 5.13.3 Provincial Government Policies

The current government has enacted provincial regulation (Perda) No. 6/2015 on incentivising and easing investments in the region. Among other things, it provides investors with legal certainty. Bureaucracy and red tapes have also been cut short with the establishment of a one-stop integrated service agency.

In order to further develop the province's economy, the government has identified certain strategic economic zones: the Kariangau-Bulaminung manufacturing industry zone in Balikpapan and North Penajam Paser, the trade of goods and services zone in Samarinda, the petrochemical industry zone in Bontang-Marangkayu Kutai Kartanegara, the Malay petrochemical industry zone in East Kutai, the agropolis in East Kutai as well as the agriculture industrial zones in Paser and North Penajam Paser, Kutai Kartanegara and West Kutai, as well as Mahakam Ulu.

### 5.13.4 Local Political Scene

Local elections (Pilkada) last took place in 2013, where Awang Faroek and Mukmin Faisal won with 43.02 percent of total votes. With a mission to "build East Kalimantan for all", they aim to create a "prosperous East Kalimantan that is equal and fair, on the basis of agro-industry and eco-friendly energy". The pair was supported by a coalition of 11 political parties. Economic development was a key issue during the 2013 Pilkada.

Out of the 55 seats in the Regional People's Representative Council (DPRD), the Party of the Functional Group (Golkar) dominated with 14 seats. Not all political fractions in DPRD are pro-government; several that were known as "oppositions" include Golkar, the Indonesian Democratic Party of Struggle (PDIP), the fraction of Democrat Party, the National Mandate

### Key Economic Indicators, 2015

Land Area (km <sup>2</sup> )	129,067
<b>Population</b>	
Total Population	3,426,600
Urban Population (%)	66.00
Poverty Rate (%)	6.1
Labour Force	1,539,491
Labour Force Participation Rate (%)	44.93
<b>Gross Regional Domestic Products (GRDP) — 2010 prices</b>	
GRDP	440,647,700
GRDP (non-minerals)	159,677,000
GRDP per Capita	128.59
GRDP per Capita (non-minerals)	46.60
<b>Economic Composition</b>	
	% of GRDP
Primary Sector	56.49
Secondary Sector	27.23
Tertiary Sector	16.28
<b>Trade — 2010 prices</b>	
	Rupiah (million)
Exports	169,868,135
Imports	53,499,101
Top-3 exports: mineral fuels; inorganic chemicals; wood and articles of wood	
Top-3 imports: mineral fuels; machinery and mechanical appliances; vehicles and vehicle accessories	
<b>Infrastructure</b>	
Paved Roads (km)	5,066
Domestic Air Traffic (Passengers)	7,921,189
International Air Traffic (Passengers)	73,229
Domestic Cargo at Seaport (Tons)	65,093,553
International Cargo at Seaport (Tons)	211,518,694

Source: BPS Indonesia compiled by ACL

Party (PAN) and the Prosperous Justice Party (PKS), the Great Indonesia Movement Party (Gerindra) as well as the fraction of National Democrat Party (Nasdem) and People's Conscience Party (Hanura).

### Development

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