

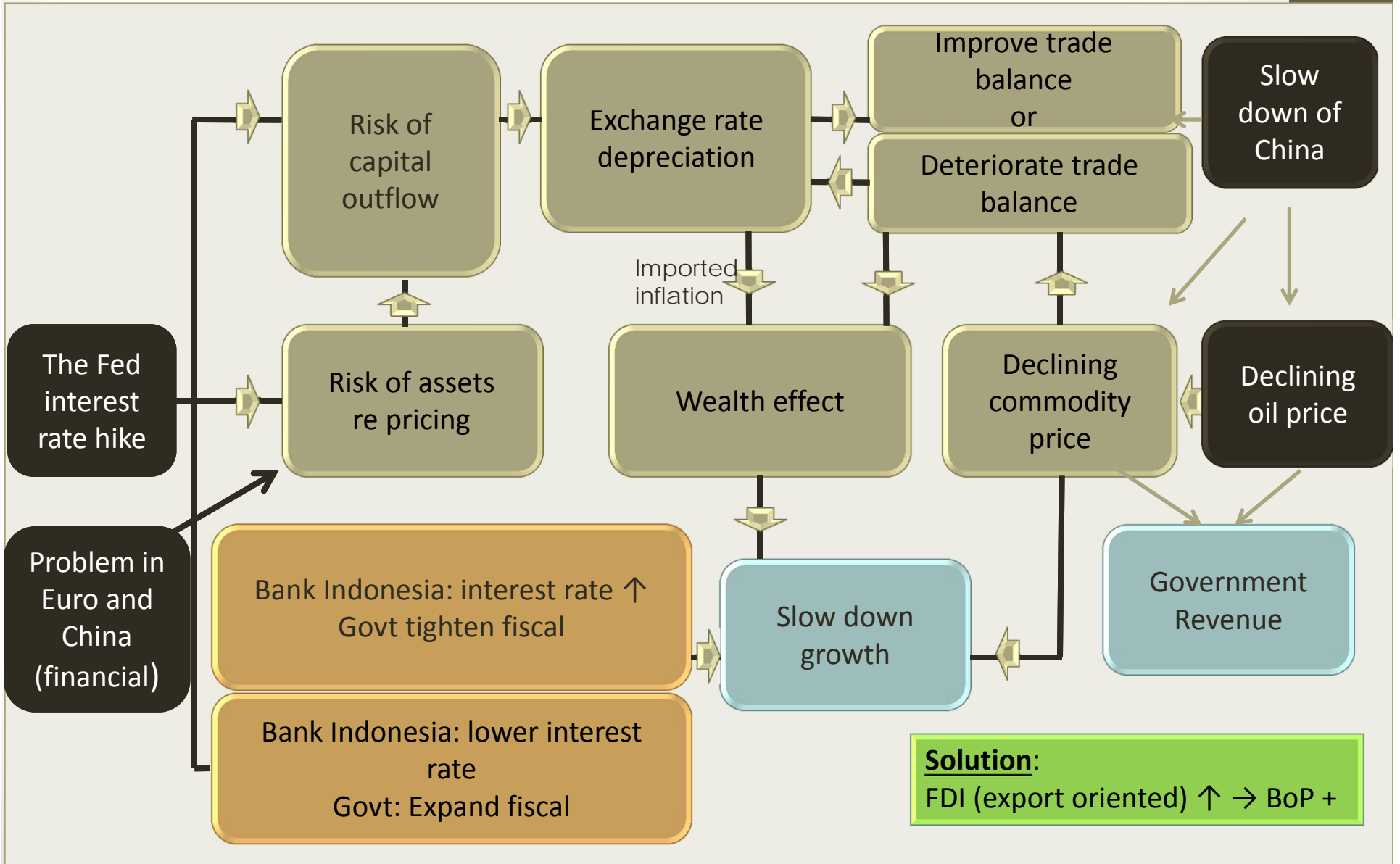
Emerging Global Challenges and implications for Indonesia

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Short term problems: macroeconomic stability

The macroeconomic impact of the global volatility

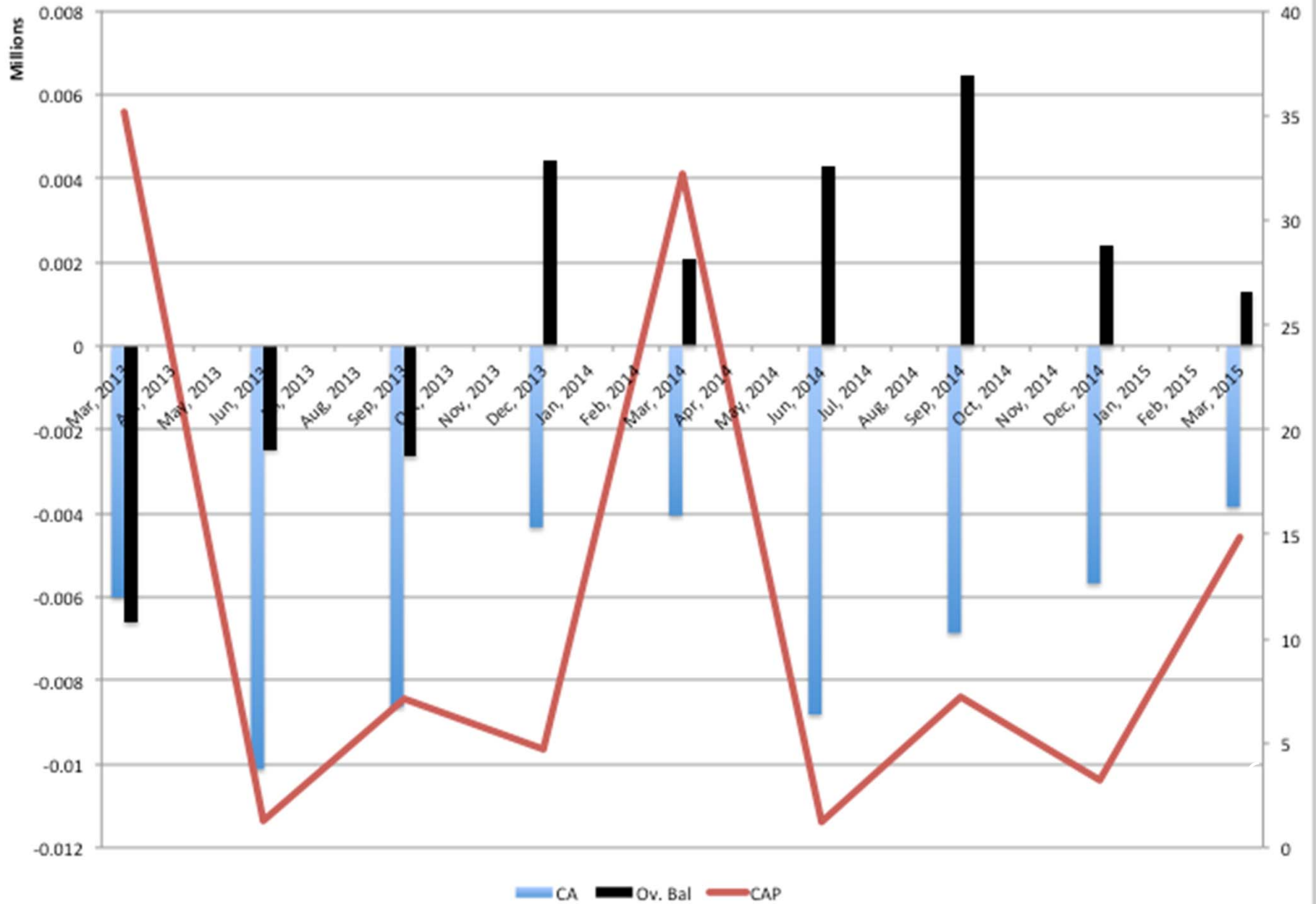


Comparing Indonesia's short-term indicators to large middle income countries

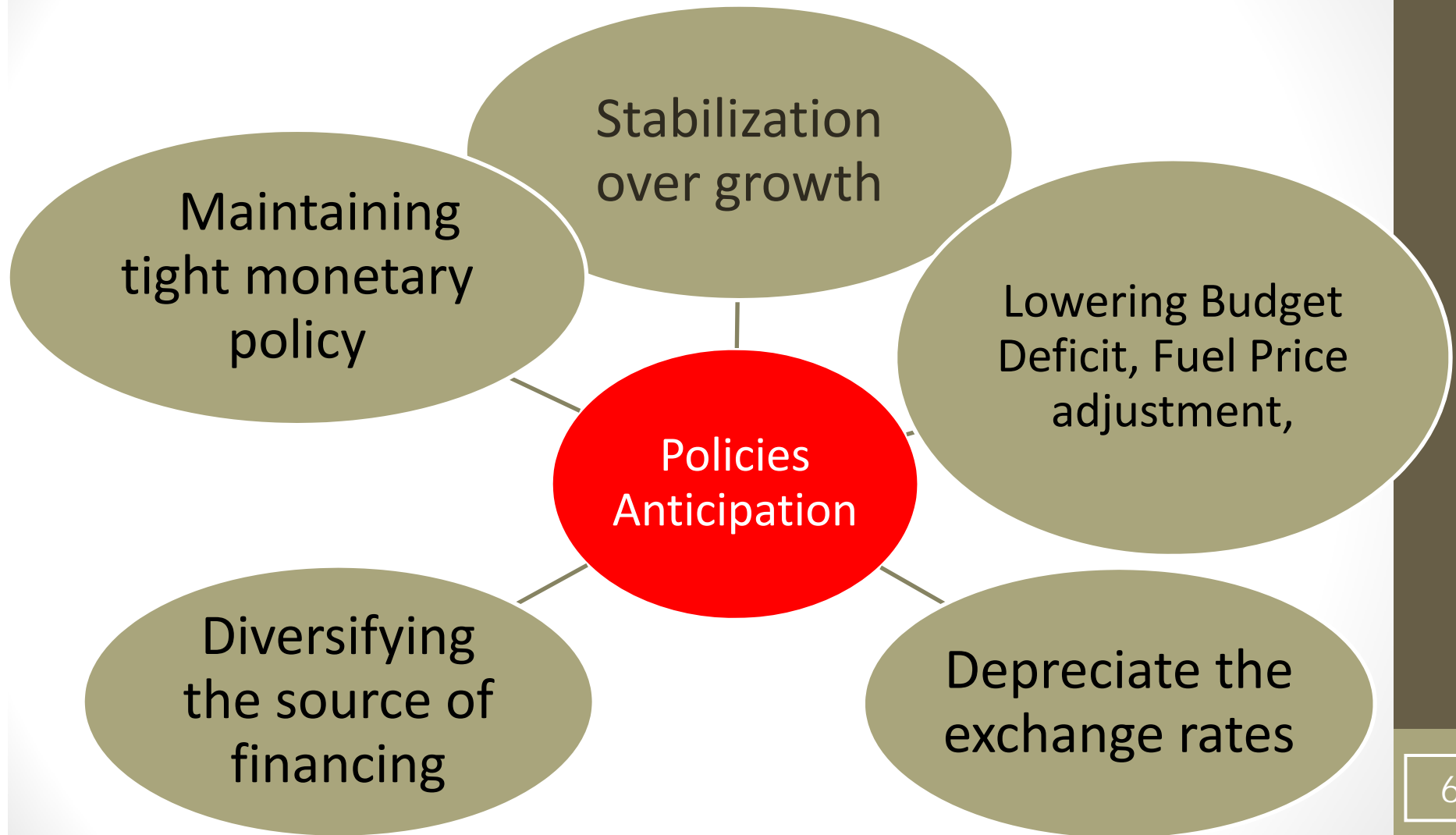
The Fragile Five Macroeconomic Indicators (2013)

Country	Gross Domestic Product Growth (%)	Current Account / Gross Domestic Product (%)	Budget Balance / Gross Domestic Product (%)	Inflation Rate (%)
South Africa	1.90	-5.80	-4.00	3.30
Indonesia	5.78	-3.20	-2.30	6.41
Turkey	4.12	-7.86	-1.20	7.49
India	5.02	-1.70	-4.90	10.91
Brazil	2.49	-3.66	1.88	6.20

Indonesia's BoP

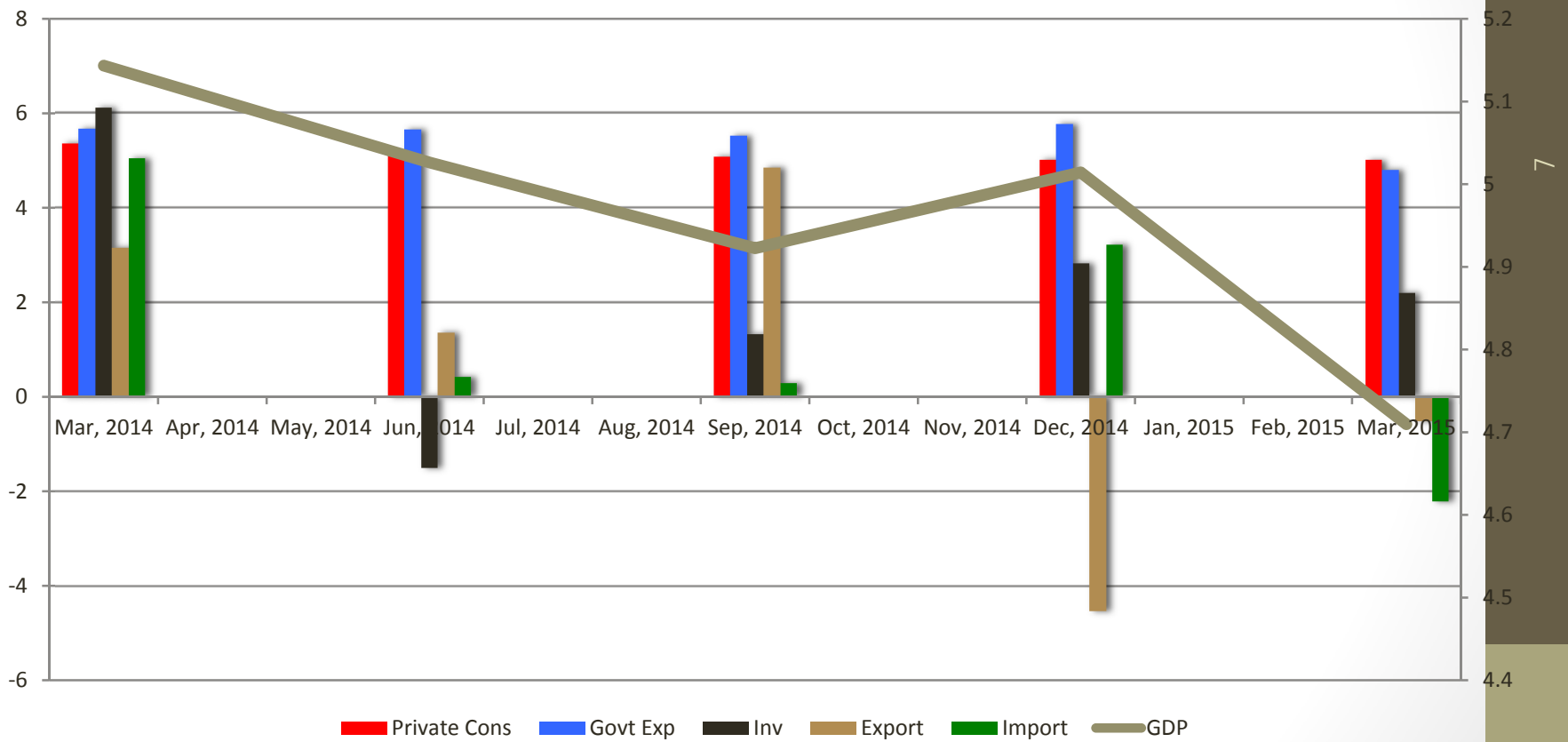


Expenditure switching and reducing policy



GDP Growth

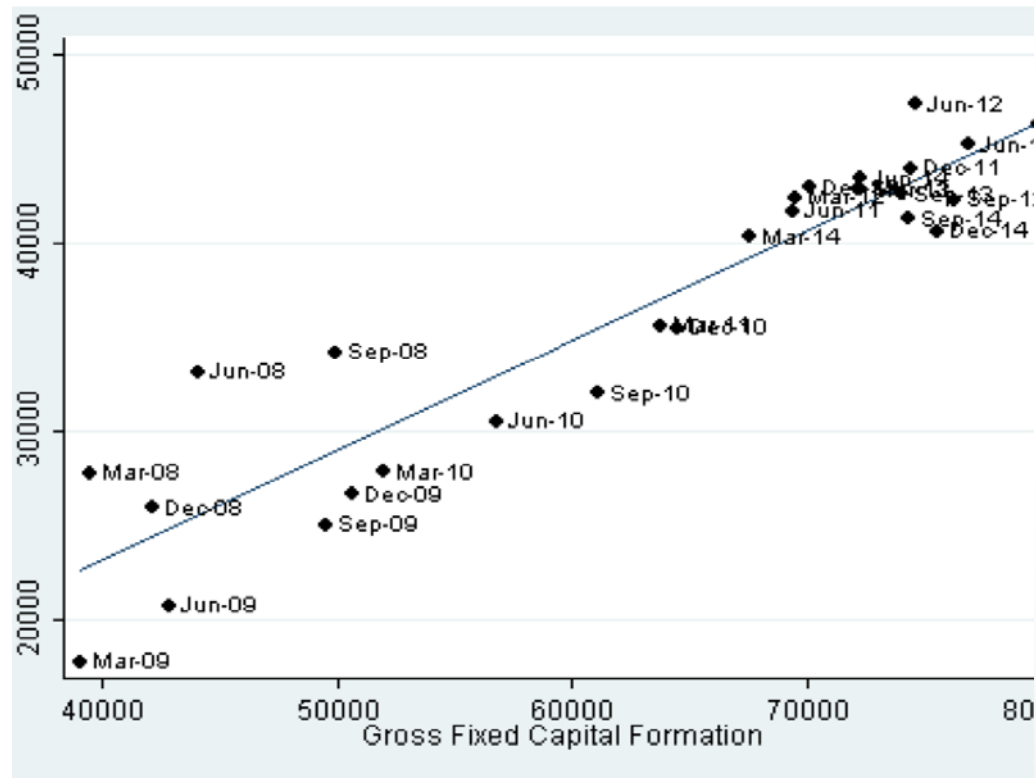
GDP Growth



Short and long term challenges

- ▶ Short term:
Potential growth is limited
--> stabilization over
growth
- ▶ Medium-
long term:
focus on supply constraint

*Correlation: gross fixed capital formation and import
(2008-2014, quarterly, USD mn)*



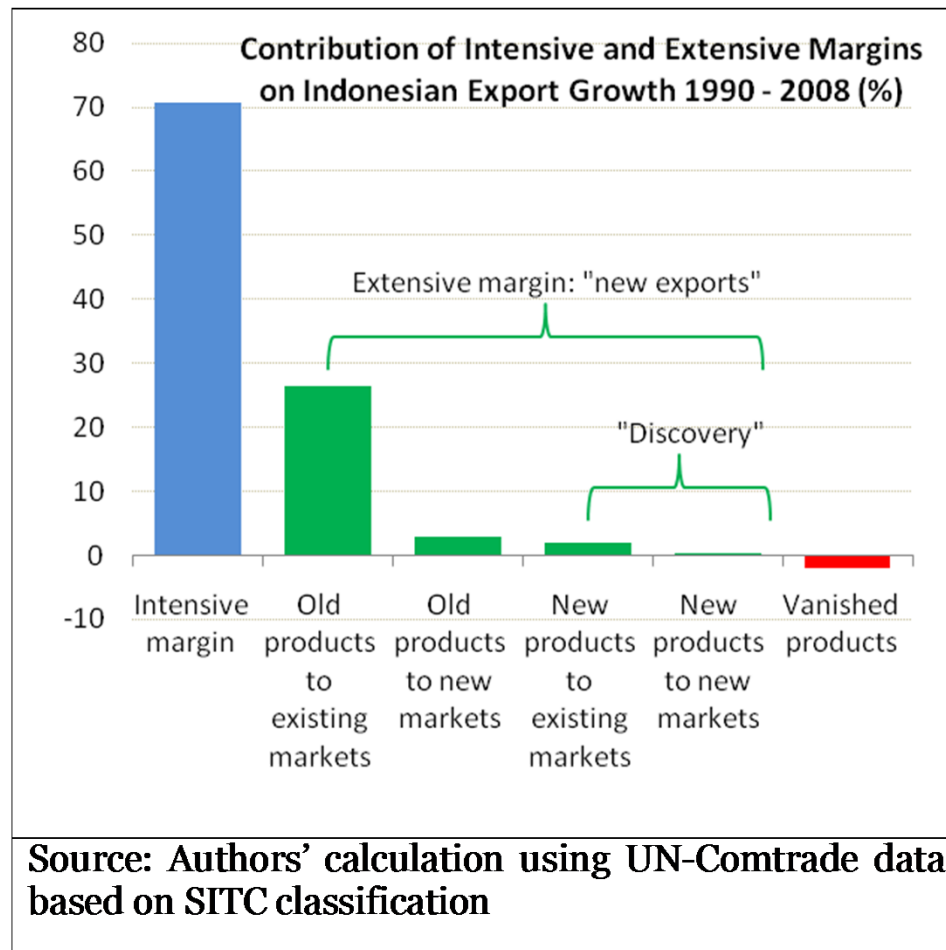
ce: CEIC

Need a global policy dialogue

- Any policy in the US, Europe will have an impact on Asia
- Bring the growth agenda back on the table: growth at advance economy vs Emerging Market
- Open trade, FDI
- Prepare for Liquidity support
- Financial stability

Medium term and long-term issues: how to improve productivity

In technology: no self discovery

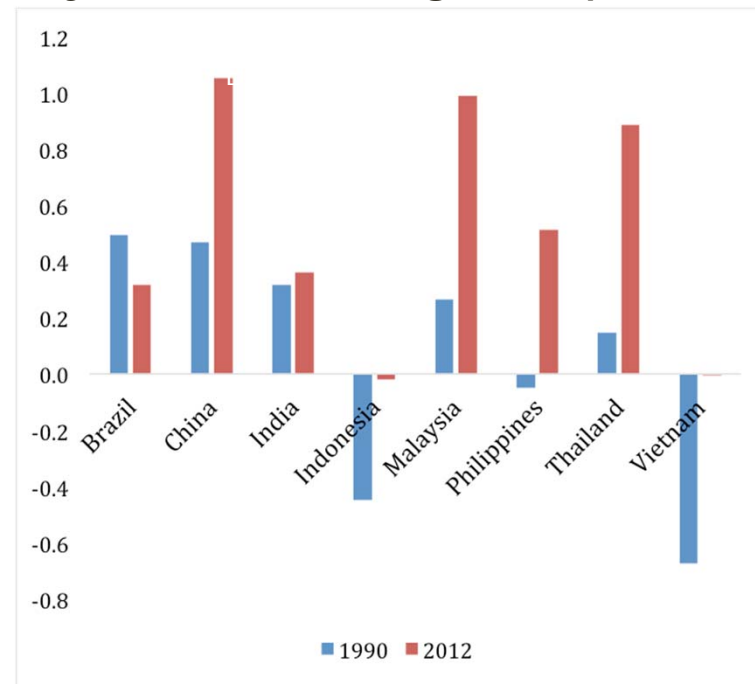


Source: Basri and Rahardja (2011)

Capability to undertake complex task is still behind other middle income countries

- ▶ If products could not be made in Indonesia, where else can they be made?
- ▶ From observed trade data, Indonesia made progress in improving capability to export products requiring more complex task (but so does Vietnam)
- ▶ Why matters? It reflects institutional capacity and ability to accumulate and channel knowledge into productive activities

Not yet able to manage complex tasks?



Development challenges are beyond macro-stability

	Brazil	China	India	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Characteristics (2013)								
Population (person mn)	200.4	1,357.4	1,252.1	249.9	29.7	98.4	67.0	89.7
GDP Per Capita (in PPP, USD)	5,823	3,583	1,165	1,810	6,998	1,581	3,438	1,029
Density (person/sq km)	24.0	144.6	421.1	137.9	90.4	330.0	131.2	289.3
Real Exchange Rate Movement (%)								
2003-2013 (average)	68.3	31.4	-0.3	6.4	2.5	39.2	25.0	50.9
PISA Test Score (2012)								
Math	391	613	351*	375	421		427	511
Science	406	580	348*	382	420		438	528
Broadband Penetration								
Fixed (wired)-broadband subscriptions per 100 inhabitants (2013)	10.08	13.36	1.16	1.3	8.22	9.12	7.36	5.62
Logistics Performance Index (2014)								
Percentage of shipment met quality	82	76	67	70	97	71	83	76
Government effectiveness score	-0.08	-0.03	-0.19	-0.24	1.10	0.06	0.21	-0.30

Looking forward

- Shifting towards high growth cannot happen instantly without jeopardizing macro-stability. Increasing productivity is the key words. It has to go through the supply side
- Investing in human capital is a must
 - But need to be accompanied by steady improvement in governance and infrastructure (logistics, ICT)
 - Environment for knowledge exchange: labor market, creativity, openness to FDI
- Managing political process

Policy anticipation

Short term

- **Increase aggregate demand:**
- **cash transfer,**
- **cash for work,**
- **tax incentive for companies to keep their workers**

Medium term

- **Infrastructure**
- **Human capital: Attract FDI for technology spill over**
- **Tax incentive for R&D, training, export oriented sector**