DEVELOPING PALM SUGAR IN THE CONTEXT OF INDONESIA INDUSTRIAL STRATEGIES

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OUTLINE

- Background problems
- Response: prioritizing industrial options
- Industrial strategies (policies): horizontal vs vertical
- Institutionalization and implementation
- Further steps
BACKGROUND PROBLEMS
MAIN PROBLEMS

- Employment applicants are growing in number while there is a great number of informal workers with low productivity.

- When growth is fast and economic warming takes place, it leads to current account deficit, import increase (due to high elasticity of import goods against high economic growth), and inflation (as an indicator of less efficient economy).

- Indonesian economy mainly depends on natural resources with very good price since 2003 till 2011 (commodity cycle). As the result, terms of trade in Indonesia leads to less competitive manufacture sector.

- Commodity price cycle has been going down and is predicted to stay down for a long period, while manufacture sector has not yet been capable to replace commodity sector.

- IMF, WB and other international organization has predicted that less conducive situations of global economy and geopolitics will still be taking place for the forthcoming 3-4 years. As a country with open economy, Indonesia will be much influenced by global economics situations.

- Slow growth, low employment rate, wide gini-ratio.
DEVELOPMENT OF MANUFACTURE INDUSTRY EXPORT

COMMODITY-BASED MANUFACTURE IS DOMINANT, WHILE LABOR-INTENSIVE MANUFACTURE GOES SLOW

Manufactured, Labor-Intensive & Commodity-Based Exports in Current Prices (US$) 1975-2015

Source: Badan Pusat Statistik (2015)
Manufactured Goods Exports Index for various countries 2002-2014 (2002 = 100)

Source: UNCTAD Stat Data Center 2014 and central bank in each country
DEVELOPMENT OF LABOR-INTENSIVE EXPORTS SIGNIFICANTLY DECREASES OVERTIME

Percentage Change in Exports, 1975-2014 (%)
In current prices - in US $

Source: Badan Pusat Statistik (2015)
COMMODITY-BASED MANUFACTURE EXPERIENCED NEGATIVE GROWTH IN 2013-2014

Percentage Change in Exports, 1975-2014 (%)
In constant prices - in US $

Source: Badan Pusat Statistik (2015)
WHERE TO WIN?—
INDUSTRIAL OPTIONS
The latest industrial activities should fulfill at least 4 criteria

- Create a significant increase of employment rate especially for agriculture workforce, low-productivity service, and informal sector (like domestic assistants) as well as other job applicants newly entering employment market.
- Have more productivity hat those already existing or those of shrinking sectors
- Have more export potentials than those already existing
- Have industrial projects with more medium-term, though not in short-term, economic and financial profit.
Mapping priorities of Manufacture Industries options

- Based on employment rate
- Based on export penetration to the global market
- Based on productivity
- Based on financial force and sale growth
- Based on source and strategy of funding
- Based on banking/capital market data
- Based on import elasticity towards GDP
Deeper analysis (beyond manufacture industries)

- Pharmacy and Health Technology Industry: has high growth potential due to many factors like National Health Insurance System

- Agribusiness Industry: highly potential as industry with agricultural products, especially with Indonesian agricultural soil

- Creative industry, related to cultural property developed and supported by ICT

- Tourism industry, related to natural and cultural richness
**Industrial Options:**

Industrial Options based on Employment rate, Productivity, Export, Industrial Linkage (forward and backward) and considering industries succeeded from China and competed by many competing countries like India, Vietnam, Thailand, Philippines, and Bangladesh.

Based on the five criteria, there are three industrial categories

1. **Export-oriented, labor-intensive, highly productive industries (high category)**
   
   Prioritized policy for this category is to maintain and win the larger global market. Strategic options needs to be formulated for some industries potential to win the global market.

2. **Export-oriented, labor-intensive, less productive industries**
   
   Prioritized policy for this category is to increase the productivity of manufacture industry through improving skill/training, product and design innovation, etc.

3. **Export-oriented, capital-intensive, highly productive industries**
   
   Prioritized policy for this category is to penetrate global market. However, industries in this category tend to have high import elasticity, so particular policy is required to hold the main industries in Indonesia to secure the balance.
INDUSTRIAL PRIORITIES

• Export-oriented and labor-intensive manufacture: pressing the surplus of workforce and increasing income

• Manufacture with high import elasticity: overcome current account deficit when economy grows

• Agriculture processing: increasing productivity and quality of agricultural products and developing efficient supply system

• Systematic and rational mineral processing: maximizing domestic commodity value

• Creative and tourism industries

• New manufacture industry (combination of applied ICT and cultural richness)

• Pharmacy and health technology/hospital industry: taking advantage from Health Insurance, being uncontested industry and avoiding monopoly rent

• Developing value-chain/supply industry: being key element in industrialization by increasing commodity values and resource utilization across regions and nations.
HOW TO PLAY—
MAIN STRATEGIES OF NATIONAL MANUFACTURE INDUSTRIES
Main Strategies of National Industries

**Medium-term**
(2015-2025)

1. **Horizontal policies** (generally applied to all chosen industries) focusing on labor-intensive industries to increase productivity and export.
2. **Vertical policies** (for specific industries) at import substitution for intermediate goods
3. Establishing special economic region for prioritized industries

**Jangka Panjang**
(2025-...)

Improving industries to higher level especially to capital-intensive and highly-productive industries to expand global market share.
### INSTRUMENTS THAT ARE GENERALLY APPLIED TO ALL MANUFACTURE INDUSTRIES BUT SPECIALLY APPLIED TO PRIORITIZED INDUSTRIES

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Actions/Policy Initiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearing obstacle for growth</td>
<td>Overcoming obstacles in supply, logistic and infrastructure</td>
</tr>
<tr>
<td></td>
<td>Increasing infrastructure budget</td>
</tr>
<tr>
<td></td>
<td>Strengthening institutionalization and regulation</td>
</tr>
<tr>
<td>Efficient fund allocation</td>
<td>Competitive value</td>
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<td>Free trade regime</td>
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<td>Institutions with the capacity of securing contract and functioning market</td>
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<td>Flexible workforce market allowing movement to higher sector</td>
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<td>Better access to financial resource</td>
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<td>Capital accumulation</td>
<td>Increasing domestic deposit, withdrawing FDI</td>
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<td>Governmental continuous macro-policy</td>
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<td>Rational tax policy and administration</td>
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<td>Effective bureaucracy, secured property, better future expectation</td>
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<td>Stabilized macro-economy and financial access</td>
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<td>Overcoming low technology problem</td>
<td>Institutions with the capacity of adaptively promoting patent regime</td>
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<td>Technology-based education,</td>
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<td></td>
<td>Lenient trade and investment policies to attract FDI</td>
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<td>Fiscal policies for technology adaptation</td>
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Import Substitution is important for some reasons:

1. Indonesian’s import which is dominated with raw materials and capital commodity tends to increase during economic growth. This leads to current account deficit in the middle of stagnant commodity export.

2. There is a missing link within Indonesian industrial value chain. Indonesian manufacturers mostly produce low value commodities, while at the same time high value commodities are imported.
Industries which are naturally dominant should be integrated with the latest technology development, supply chain, storage and information technology.

Ex. Agribusiness industries (coconut, chocolate, coffee, rubber, corn, fruits, vegetables, etc.),

Creative industries (culture + entertainment + IT),

Tourism industries
SERVICE DEVELOPMENT ALONG THE SUPPLY CHAIN AND FUNDING FOR SME

- System of information and supply chain are developed by adopting ICT
- Creating communication network mechanism for formal dialogue between government and investor to overcome obstacles (trouble shooting unit)
- Bettering access to funding resources (MSME) through asset certification system (production tools, machine, etc.), certification of business location, skill certification, supply chain network/bank/special funding organization (community bank)
- Revitalization of the functions of Local Governmental Banks to become Community Banks
- Developing efficient supply chain finance
- Reformation of national and local government to facilitate enterprise activities
Government shall intensify rural-cities value chain by bettering logistics and ICT (like bukalapak.com) to cut off middle man.
Institutionalization and Implementation
FRAME OF INSTITUTIONALIZATION

- President, as the highest political and governmental leader, shall take part in determining industrialization strategies
- Committee of coordination and implementation
- Enterprise world should be actively involved in implementing industrial strategies
- Mechanism should be transparent and accountable against policy intervention
- Mechanism of evaluation and monitoring is needed to do adjustment
Goals

These strategies are aimed to accomplish changes in industrial structure as well as increase in manufacture production, rate of employment and rate of export.
Prioritized manufacture development up to the forthcoming 10 years: Prioritized industrial options

- Significant effort to increase employment rate
- Movement from agriculture, informal/less productive sector to higher level and more productive sectors
- Increasing export penetration of certain industries to dominate global market
- Involved in competition of global market left by China
- Significant forward linkage and backward linkage
- Industries having capacity to press import are well-growing when global economy is growing. However, it needs to keep in mind that the limit of tolerance of current account deficit is under 3%.
- With high domestic demand due to high number of citizens, Indonesia needs to formulate outward looking industrial strategies based on domestic demand power
GOVERNMENT’S ROLES

- The main role of government is to formulate rational policies to support the conduciveness of enterprises within regulation circumstances to boost industrialization, and with the main priority of overcoming constraints of infrastructure, skill development, financing and investment.

- Government takes part in building industrial infrastructure such as industrial region to sustain industrial cluster, support investment, and innovate/develop industry by R&D.
Intervensi Strategis

Macro-economy frame: sustain macro-level stability and balance to by focusing on inclusive growth, economic diversification and level of competitiveness

Overcoming the main binding constraints

Efficient and affordable infrastructure service (including transportation, communication, ICT, power and water supply)

- Skill development: supporting industrialization, restructuring education system by focusing on technical and vocational skill and practice of various expertise, including modern technology and ICT
- Formulating strategy of continuous financing, especially for SME
- Cooperating with entrepreneurs and workers to decrease workforce cost and export promotion (increase of productivity related to salary increase, rational cost for termination of employment, competitive currency in export and establishment of industrial cluster).
ENTERPRISE’S ROLE

Enterprises involve actively in consultation and implementation of strategies of industrialization

Public-Private partnerships are very important in seeking, identifying and overcoming problems in business as well as to increase employment rate, create better business nuance and attracting investors.

Enterprises shall maintain the standard quality of production, improve workforce’s skill to increase productivity
FURTHER STEPS
FURTHER STEPS

1. Identification of the competitors in each chosen industry, analysis of the industry, analysis of linkage and market in global/regional and domestic level and analysis of global value and supply change in international trade.

2. Financial analysis in corporation level in each sector of the chosen priority to further specify the required policy.

3. Determination of industrial priorities, strategies, and actions to be executed in short, medium and long term development.

4. Role and responsibility distribution: national/local government, enterprises (Public and Private), investors, and financial resources.

5. Evaluation, monitoring, coordination and trouble shooting.
Not one policy works for all. Different approach is required in every stage of progress in development of a country and of a sector.

Policies can be horizontal (applicable for all industries/sectors) and at the same time can be selective according to chosen strategies of industrialization.

Flexibility and persistence is required.

The late industrial policies tend to emphasize system, network, institutionalization and capability.

Failure risk of government is always taken into account.

There is a challenge to evaluate the strategies and programs of policies. Implementation works with planning, design, monitoring and evaluation.
# CV

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- Bachelor in *Control System Engineering from* the University of the Hague, Netherlands, 1992
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