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p-Leader — Indonesia

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Productivity as a stimulus of national economic growth and competitiveness of the Indonesian economy

The Indonesian economy is the largest in Southeast Asia and considered to be one of the world's emerging market economies. Indonesia is currently the third fastest-growing country in the Group of Twenty industrialized and developing economies, after India and PR China. The government is a significant driving force in economic growth because it owns more than 164 enterprises in key production and service sectors and administers the prices of several basic commodities, including fuel, rice, and electricity. Since the 1997 Asian financial crisis, the government has started to exercise more control of economic activities in private-sector assets through financial reforms.

Macroeconomic trends

From 2000 to 2003, some sectors like finance, housing, mining and quarrying, and utilities grew in manpower resources, although in general, Indonesia grew annually at only 3.8%. Overall, the macroeconomic and monetary developments until the beginning of 2005 indicated stable economic conditions, but that stability did little to boost economic growth, which was primarily driven by domestic consumption rather than production (refer to Table below). Meanwhile, despite promotion efforts by the government, the level of investment remained low. Weakness in the banking intermediation system and lack of infrastructure support contributed to dampening of the investment climate. Similarly, from the external side, export growth remained low and only experienced a new increase in 2004.

Table. Indonesia's macroeconomic performance, 2000–2010 (%)

Year	GDP growth	Inflation rate	Unemployment rate
2000	4.23	–1.17	—
2005	4.90	6.10	9.20
2006	5.60	10.50	11.80
2007	5.50	13.20	12.50
2008	6.30	6.30	9.10
2009	6.10	9.90	8.40
2010 (projected)	4.50	4.80	7.70

Source: CIA World Factbook: https://www.cia.gov/library/publications/the-world-factbook/geos/id.html.

The agricultural sector, considered a safety net, experienced poor performance, with value added per worker in agricultural production ranking the lowest (in index value), while the mining and quarrying sector had the highest value added per worker.

In 2008, the $512 billion economy of Indonesia expanded by 4.4% in the first quarter compared with 2007. Indonesia's macroeconomic fundamentals were strengthened with the implementation of wide-ranging economic and financial reforms, including a rapid reduction in public and external debt and strengthening of the corporate and banking sector. In 2009, the economy of Indonesia showed positive growth in nearly all sectors. Overall economic growth of 4.5% was driven by the trading sector (services, transportation, finance, etc.), which experienced a 34% growth. However, the tradable sectors such as agriculture and manufacturing industries grew by only 9.5% and 1.9%, respectively. The lower growth in the tradable sectors also reduced the ability of the economy to absorb expansion of the labor force.

The biggest challenge for Indonesia in the next five years, 2010–2014, is the recovery of the national economy. Faced with global competition, economic recovery efforts must be able to address the high unemployment rate of 8.14% (or 8.96 million people) and the poverty rate of 14.5%. There are three fundamental problems that limit the development of real sector activities: weak investment activity; high unemployment; and labor market vulnerability. Inflationary pressures are also still high.

Productivity trends and government response

Currently, the rate of growth in formal employment compared with nonformal job creation is decreasing. Moreover, the labor market vulnerability is also characterized by low manpower productivity. To deal with global competition, Indonesia must prioritize measures to raise productivity and strengthen national competitiveness. National productivity growth over the period 2005–2009 averaged only 2.94%. Indonesia ranked 32nd out of 57 countries that were surveyed for competitiveness for the *International Management Development World Competitiveness Yearbook 2010.*

The Indonesian government is aware that national productivity and competitiveness are largely determined by productivity at the micro or enterprise level as well as the quality of public service at central and regional levels. In this case, the Indonesian government has confirmed that it will implement a development program called "Pro-Growth (Economic Growth), Pro-

Job (Employment Opportunities), and Pro-Poor (Antipoverty)." This program will be led by the Ministry of Manpower and Transmigration (MMT) and supported by the national productivity movement to improve the welfare of the people. Some of the targets by 2014 are an economic growth rate of 7–7.7%, unemployment rate of 5–6%, poverty incidence rate of 8–10%, growth in investment of 12.1%, and income per capita of US$4,500.

An Entrepreneurship Program is included under the 2010–2014 Indonesian Development Plan to address the problem of unemployment. Currently, the MMT, through the National Productivity Institute, is developing the course module of the Entrepreneurship Program. The program is expected to be implemented in 2011, with a target of as many as 11,000 trainees. Hopefully, this will lead to the establishment of more enterprises. Alongside this program, the government is also promoting the development of industrial clusters to foster the production of local commodities and restrict exports of agricultural raw materials such as palm oil, cocoa, rubber, and other natural resources to draw attention to the importance of labor resources.

Although global economic conditions are difficult, the Indonesian government believes that, by establishing responsive policies and through dedicated implementation of its programs, the economy and business climate will stabilize. Poverty reduction through the creation of employment opportunities will continue to be pursued to achieve national development.

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