

THE NEW ECONOMY AND DEVELOPMENT: AN INDONESIAN PERSPECTIVE

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Harold Mitchell Development Policy Lecture, ANU

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Outline


- Navigating Indonesian Economic Development in the new normal
- The potential for the New Economy/Creative Economy for Indonesian Economic Development
- Realizing economic development means structural reforms and change in strategy/approach: how to make that happen – 6 lessons in policy reform

New Normal for Indonesian Development

- No easy money or fiscal stimulus, **productivity driven growth**
- Low commodity prices to stay, **diversification of commodity based exporters urgent** – productivity based growth
- **China slowing down** and structural reforms: opportunity for labor intensive exports, and beware services and innovation
- **Changing ways of doing trade**, production networks to GVC and as cross border barriers come down, NTBs and especially standards will become a big issue
- Types of goods and services demanded and supplied affected by (lifestyle, environment, health): **demographics** (aging northeast Asia and bonus in SEA and India) + **middle class** – growth pole (40% now coming from emerging economies)
- **Urbanization**: smart, creative and livable cities

Diversification and structural transformation


The more capabilities a country has, the more diversified the country is



Products that need more capabilities will be made by fewer countries, and products will be more ubiquitous



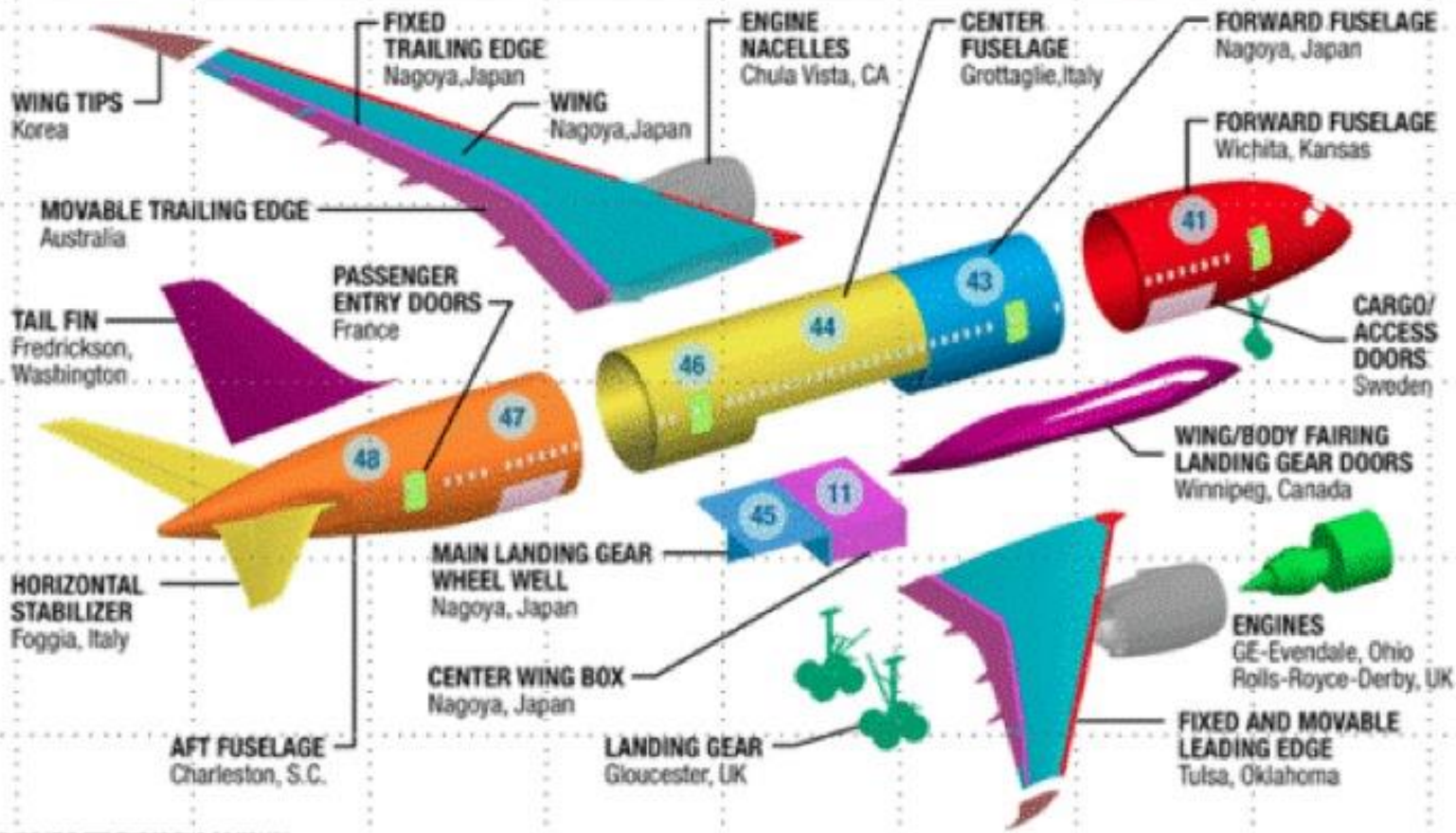
Countries with richer set of capabilities will be more diversified, and able to produce more ubiquitous products.



Hence, the diversification that matters is at the level of capabilities

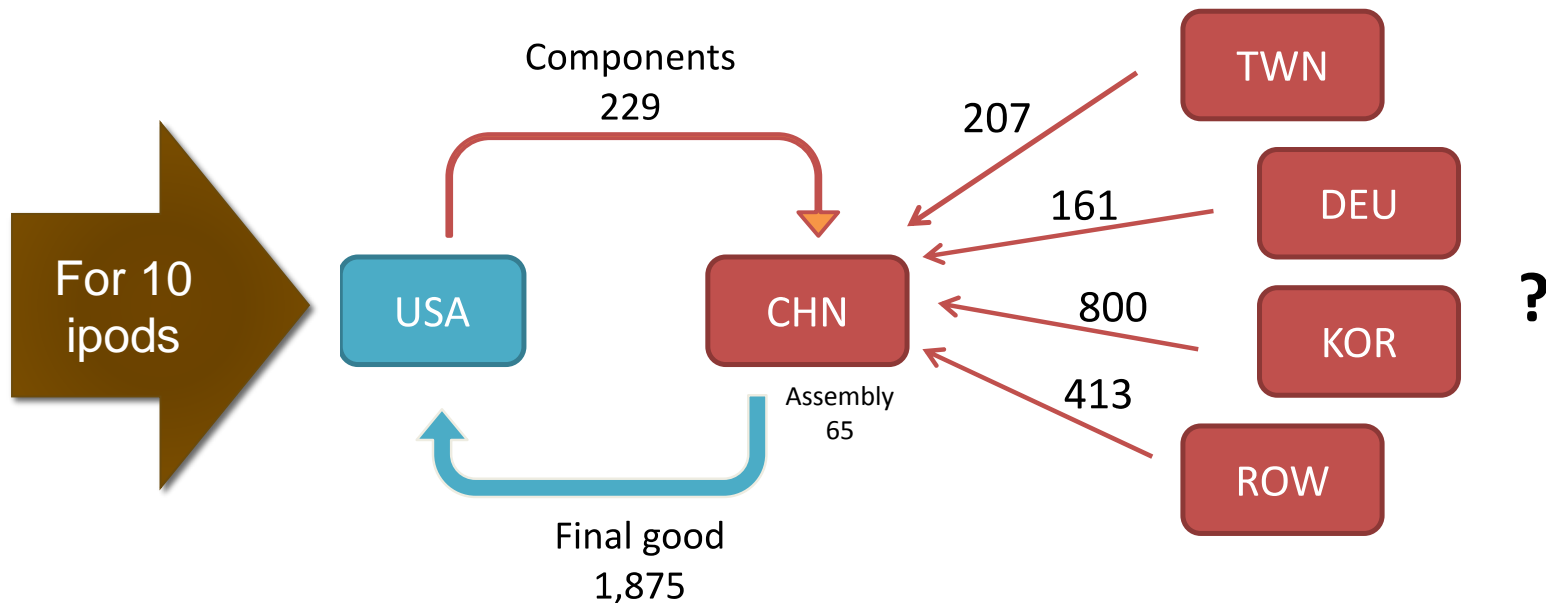
THE COMPANIES

U.S.	CANADA	AUSTRALIA	JAPAN	KOREA	EUROPE
Boeing	Boeing	Boeing	Kawasaki	KAL-ASD	Messier-Dowty
Spirit	Messier-Dowty		Mitsubishi		Rolls-Royce
Vought			Fuji		Latecoere
GE					Alenia
Goodrich					Saab



Example of Global Value Chains

- The case of iPod (Linden et al, 2009), iPhone (Xing and Detert, 2010), iPad (Linden et al, 2011) show that most components are imported from outside China. The value added made in China through the assembly process only contribute small part of the final value of the products.

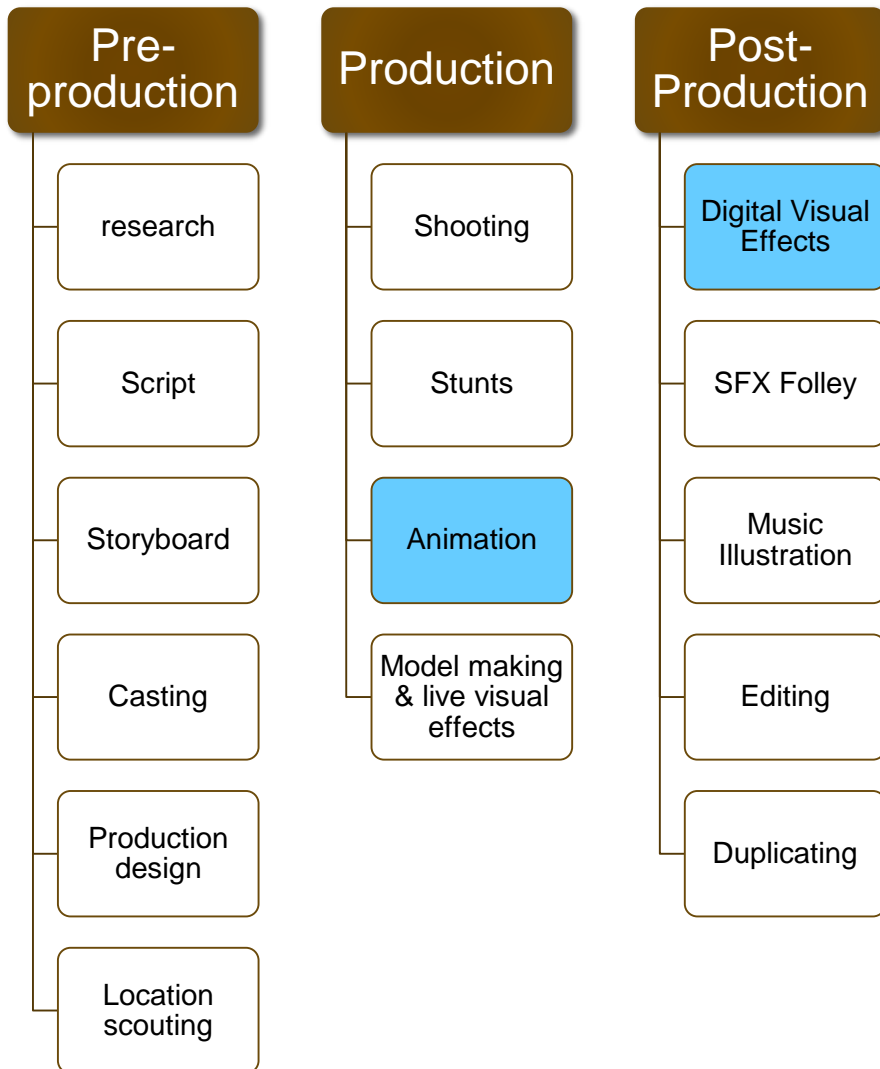


Source: OECD and WTO

Trade in Value-Added Data and Global Value Chains

- Using the conventional measurement of trade in goods, the value of exports from China to US for 1 ipods is 187.5 USD, but with the concept of trade in value added, the value of China's exports to the US for 1 is 6.5 US\$ (3.4%).
- Scrutinizing the retail price of ipod, we can see that the biggest value added is made by the US for branding and IPR value of the product.
- Global value chain vs Flying Geese Pattern of Production Network:
production fragmentation is more complex due to advancement in technology (IT, Transportation, etc), cost, access to resources and market, as well as reform of trade policy.

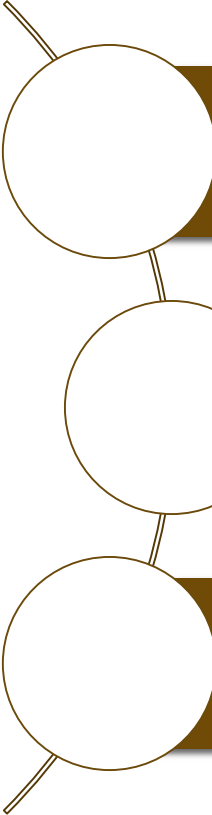
Case Indonesia: Animation



- The chart shows the production chain of Hollywood movie. The boxes with blue color show where Indonesian animation and visual effects houses take part.
- Some examples of movies in which Indonesian animation houses join the production chains:



In the context of the Global Value chains (GVC):



Countries should no longer specialize in specific goods, rather should specialize in task in which they have comparative advantage

Parts of our exports are our imports

What matters in a country's competitiveness is efficient competitive services sector.

Another revolution: offshoring ... through the digital network

The development of ICT allows production to be splintered

- **Bhagwati**

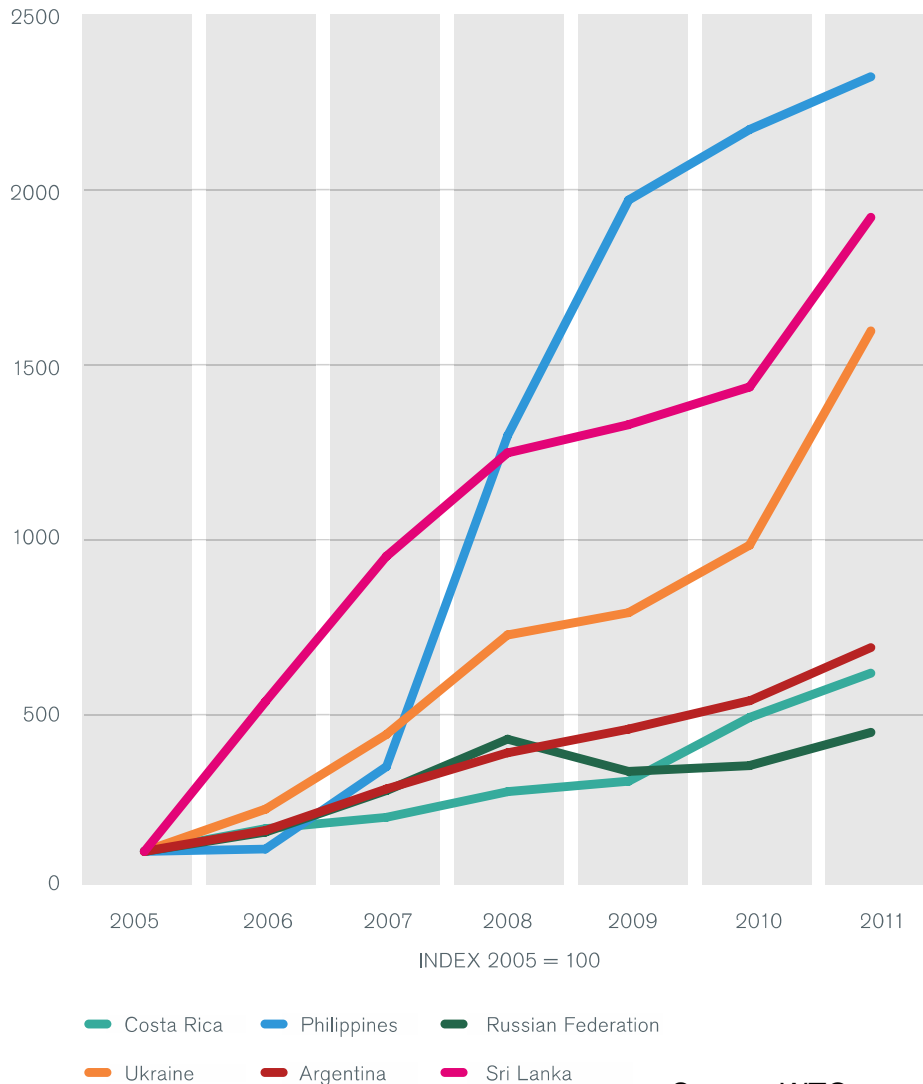
The emergence of a new global market whose effect is to slice production process into individual tasks that may be performed at locations around the world) gives space for firms to promote efficiency through outsourcing.

- **Grossman and Rossi-Hansberg**

Offshoring might be the next industrial revolution

- **Blinder**

Exports of computer services in selected developing economies, 2005-11



Source: WTO

Developing countries have started to be source of offshore services producers, given their price competitiveness.

Services has become engine of job creation. More than that, it creates decent job with the need of some level of skills, not merely low-skilled low-wage labors.

The opportunity not only arise from developing countries with big population but also relatively small countries, even landlocked countries. The key is to have access to the digital world.

Digital age

Every technology disruption brings changes in all aspects of life:

- New business models
- New approach of political campaigns
- New methods of social support targeting
- Etc.

NEW ECONOMY: Destructive Technology: source of growth

- Destructive technologies – the application of mobile internet, big data, internet of things, automation, cloud, etc. – could modernize sectors across the economy and drive major productivity improvements
- This destructive technologies could produce up to US\$ 625 billion in annual economic value for Southeast Asia by 2030 (but the region need to prioritize building out backbone infrastructure to capture this opportunity)



Mobile Internet



Big data



Internet of Things



Automation of
knowledge work



Cloud

Destructive Technology: source of growth (example)

- **The mobile Internet:** It can pave the way for productivity gains and more efficient delivery of vital services. It is a particularly useful vehicle for overcoming Southeast Asia's geographical barriers and widening access to information, products, and services for rural populations.
 - Mobile banking and mobile payments, for example, are expanding financial inclusion.
 - Telemedicine can deliver health care to remote areas, and digital learning tools can improve the quality of education and teacher training across the region.



“Growth in developing country exports was stronger still, averaging 12.1 per cent annually for the period. Such exports of creative goods and services reached US\$ 227 billion in 2011, or 50 per cent of the global total.”

Creative Economy Report 2013, UNESCO and UNDP (Nov, 2013)

Creative goods: Exports, by economic group, 2002 and 2011 (in millions of US\$)

	World		Developing		Developed		Transition	
	2002	2011	2002	2011	2002	2011	2002	2011
All Creative Goods	198'240	454'019	73'890	227'867	123'169	222'597	1'181	3'555
Art Crafts	17'503	34'209	9'201	23'383	8'256	10'653	45	172
Audio Visuals	455	492	35	90	417	400	3	2
Design	114'694	301'262	53'362	172'223	60'970	127'239	362	1'800
New Media	17'506	43'744	4'412	14'607	13'071	28'918	23	219
Performing Arts	2'754	-	250	-	2'478	-	26	-
Publishing	29'908	43'077	3'157	8'106	26'061	33'650	690	1'321
Visual Arts	15'421	31'127	3'474	9'456	11'916	21'631	31	40

“New Economy”

The traditional view of structural transformation:



Indonesia new normal and new economy

- Value added in new economy and GVC world is about competitiveness and where one is in the value chain or being hub of the value chain, depends on
 - openness in trade and investment for goods, services and people movement.
 - Competitiveness: infrastructure, access to internationally competitive inputs and technology, and a conducive ecosystem.
 - Its not about import substitution vs export orientation, or down stream value adding, domestic content or self sufficiency.
 - **STRUCTURAL REFORMS and INFRASTRUCTURE BUILDING NEED TO CONTINUE.**
- Its also about responding to the new economy challenges and creative economy as a new source of growth and competitiveness. **CONDUCTIVE ECOSYSTEM NEEDED**
- Policies for empowerment and inclusiveness can be achieved with other policies and built in or main streamed in the policy taken.

Cognizant of the Nationalistic Tendencies: Possible Packaging

- FOCUS on Human Capital this should be the new NATIONAL INTEREST (government are bad at picking winners and losers are certainly good at picking government). Different type of industrial policy focusing not on the sector/or outcome, but on the input side (facilitation and incentives for R&D, training etc).
- “Generally speaking however there seems to be an acceptance in most countries that international trade is better free than unfree (Fair not free), even if is often politically- problematic for leaders and government ministers to say so” (Tax-News.com Editorial, April 8, 2014)

6 lessons in policy reform and change

1. Political Commitment at the top: low politics and top down in pre democratic period, much harder to implement and make reforms stick after democratic period
2. Bad times lead to good policies: never waste a good crisis (Winston Churchill). Boom and bust (1986), financial crisis (1998, 2009), fragile five (2013)
3. Role of International Commitments and benchmarks: WTO, APEC, ASEAN, UNESCO Creative City Network, international experience, but need to be balanced

6 lessons in policy reform and change

4. Evidence Based Policy Making:

Changing laws and regulations (RIA)

Framing the issue, justification for change/reform and benefits, packaging and making it resonate, role of media and other stakeholders

Targeting and design of policy based on targeting (industrial policy failures and lessons – criteria, SSN, gender eg.)

6 lessons in policy reform and change

5. Implementing Reforms and making them stick

- Sequencing, quick wins and islands of best practice
- Champions in govt, local govt and stakeholders
- Ownership of process: bureaucrats, stakeholders
- Peer Pressure: with monitoring and targets (IFC Cost of doing business), UNESCO
- Transparency and service level satisfaction
- Institutionalizing processes



What is Creative Economy?

- Fourth wave – after agrarian based economy, industrialization and IT based economy



Creative Economy is the new economy based on ideas and creativity which is based on creative human resources and *stock of knowledge* (including cultural heritage) as the main input

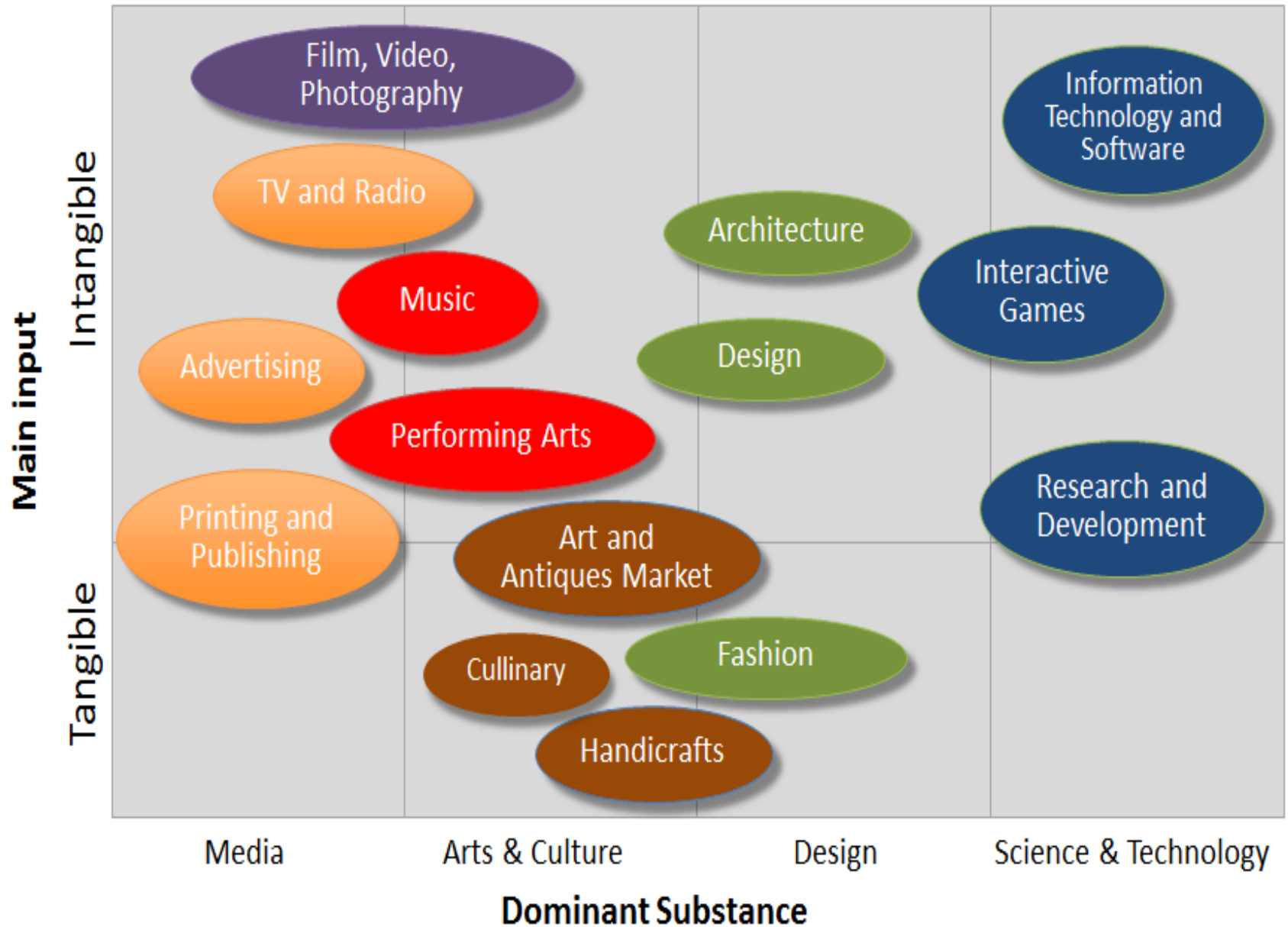
Creative industries is defined as industries which result from the utilization of creativity, skill and talent of individuals to create high economic value added and employment

Creativity is not just artistic based but also based on science, engineering, innovation and IT base





Classification of Creative Industries





Eg. Economic Contribution In Indonesia 2013

7%
National
Economy
(Rp. 641.8
Trillion i.e USD
58 billion)

10.7%
Labor Absorption
(11.9 m people)

9.68%
No Companies
(5.4 m co, a lot of
SMEs)

re

do

or 2

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Creative industries used by many countries not only for export, but also as soft power and nation branding which increases the economic value of the cultural heritage of the country.



Italia: italian cuisine,
fashion



Korea: K-Pop



Thailand: thai cuisine



Japan: manga, J-pop,
culinary



USA: Hollywood,
musik



China: chinese restaurant,
museums & exhibitions

Creative Economy increases nation branding and



Batik and wovem cloth used in contemporary way (foto shows design of Cotton Ink, Indonesia Fashion Forward)



Eko Nugroho Indonesia's contemporary artist designs for Louis Vuitton



Airport in Blimbingsari Banyuwangi designed from traditional Osing design

Case Indonesia: Games and Apps



picmix

Picmix is a photo-editing and photo-sharing apps made by Indonesian apps producer.

In its launching, picmix's growth was higher than instagram's growth when it was launched.

Picmix has been downloaded for more than 23 million times.



Infinite Sky was one of the top 10 most downloaded iphone games. Infinite Sky is made by TouchTen, an Indonesian game developer.

One of the character in the game is named after Javanese' folklore hero: Gatotkaca

Case Indonesia: Games and Apps



DreadOut

DreadOut is an Indonesian horror video game made by Digital Happiness, a game developer based in Bandung, Indonesia.

The game is about some highschool students who got lost and have to survive various Indonesian local ghosts.

DreadOut is also sold on Steam, the biggest games marketplace in the world. DreadOut has successfully raise 25,000 USD through international crowdfunding platform.

6 lessons in policy reform and change

6. Coordination: whole of government, whole of stakeholders, whole of society approach

Evidence based policy and clarity on goal and target – translated into strategic vision – who does what – so division of duties, responsibilities, policy change, etc clear. Within and between ministries, central-local, stakeholders, international partners.

Coordination mechanisms - clear

7 Strategic Issues from Numerous FGDs

Human Resources and capital

1. Education
2. Creative talent and skills

Creative Resources

1. Natural
2. Cultural

Growing Industry and business

1. Creativepreneurship
2. Growing the business
3. Quality creative products

Financing

1. Financial institutions and sources of funding
2. Appropriate access and competitive cost

Access to markets and networks

1. Penetration of domestic and international markets
2. Diversification including going global

Supporting infrastructure and technology

1. Infrastructure (electricity, telecom/ internet, physical, on line platforms)
2. Technology and R&D to produce creative products

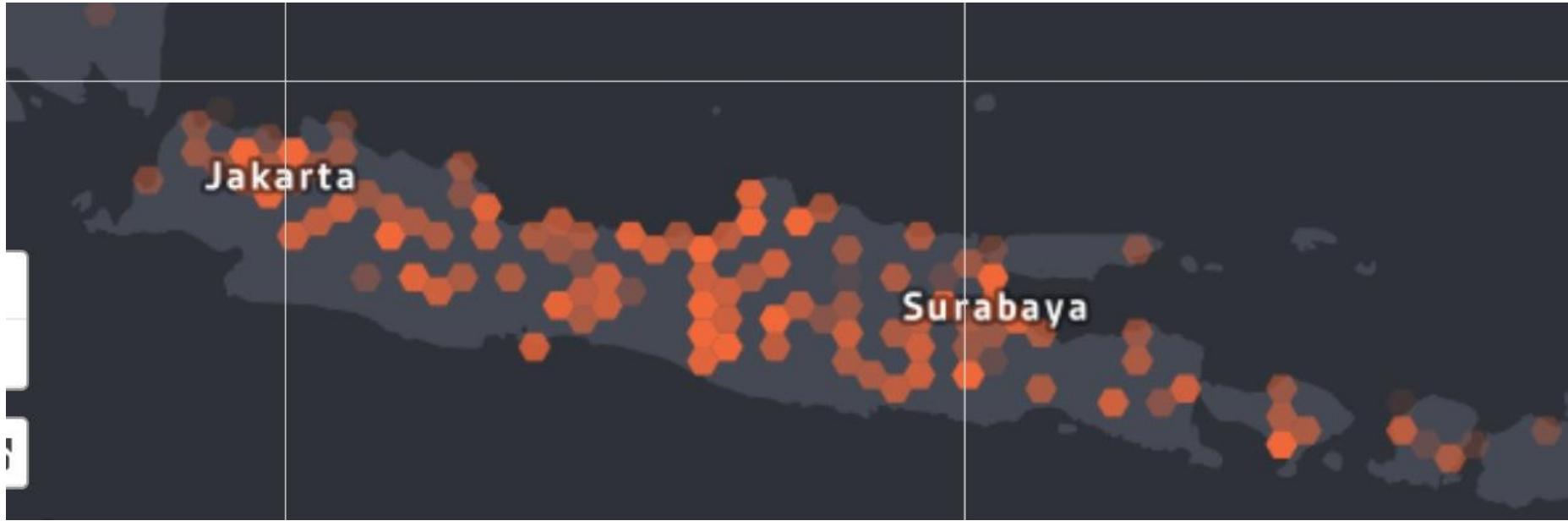
Institutions

1. Conducive business climate
2. Active participation of stakeholders
3. Maintreaming creativity and innovation
4. Active participation in international fora
5. Policies that foster appreciation of creative people, talent, entrepreneurship, and industry (eg. Awards, IPR)
6. Appreciation for local natural and cultural resources

Case Indonesia: 99designs



Indonesia has been the main source of designers in a one of the world's major design-task marketplace, 99designs.com. Indonesia was the biggest source of designers in 2013, and was the second in 2014. By February 2015, there are more than 129 thousands registered Indonesian designers in 99designs.com



In Java, the outspread of designers is the most striking. These designers do not only come from urban and educated group but rather mostly come from rural area with no formal training in design.

Some examples:

- In Salaman District, Magelang Regency (1 hour from Yogyakarta), the designers are spread out in 20 villages, with each village has approximately 100-200 designers.
- In Parakan District, Temanggung Regency (Parakan District is suburb of Temanggung, one of main producers of tobacco), there are 60 designers, 4 of whom already platinum designers in 99designs.com

Meet our new source of foreign exchange receipt: **Desainer Kampung**



- Most of them are **self-taught**, humbly refer themselves as “logo crafter” instead of designers
- Most designers have other jobs as farmers, construction workers, even head of sub-village (kepala dusun) with relatively **low-level education**
- **Do not speak English**, use Google Translate to communicate with clients and to pitch in contests
- **Earn 200-2000 USD per month** (while regional minimum wage rate is approximately 100 USD per month).
- Mostly get payments through **shared PayPal account** (difficulty in getting credit card)

Some lessons from these “desainer kampung”:

Some Conclusions

- **HRD**
- **New ways to access market and value adding**
- **Basic** infrastructure, including electricity, internet access, and banking services, is important.
- **Community/Institutions** play key role in how people adapt and reap benefit from technology disruption
- Indonesia has become not only market but also **co-creator** in the digital era.
- Social: Less rural-urban migration of youth, and less social issue of unemployment (theft, drinking)

New Challenges Arise

- Given new source of income, people face **higher opportunity cost** to take higher education or to undertake farming and usual jobs
- Better access to **secure financial services**
- The need for **financial literacy**, how to also spend the income to be reinvested to productive activities.
- How to **upgrade skills**
- **Is there a need to scale up? Or creativepreneurship?**

Recommendations

- The key is not to be isolated, be open. Hence, **ACCESS** is key: access to hardware, access to software, access to skills, access to financial services, etc.
- Countries should not wait until they have sophisticated infrastructure and high skilled population. The most important thing is provision of **basic infrastructure** for all.
- Countries should not all be innovators –creator of new technology, the key is to be able to **creatively use and utilize available technology**.
- The importance of building **healthy ecosystem** – includes reliable input, competitive talents, access to technology, access to various financing, access to market, healthy industry structure, and conducive business climate.

Thank you.