PROGRAM ECONOMIC ASSESSMENT

I. INTRODUCTION

1. The proposed Competitiveness, Industrial Modernization, and Trade Acceleration Program targets three priority reform areas: (i) creating an enabling environment for investments, (ii) easing barriers to trade, and (iii) growing and upscaling enterprises. The outcome will be a more competitive and investment-friendly business environment. This program economic assessment analyzes the reforms envisaged under the program. It finds that the reforms are expected to improve the investment climate and logistics performance and support the growth of micro, small, and medium-sized enterprises (MSMEs). This will increase foreign direct investment (FDI), exports, and the contribution of MSMEs to the economy.

II. MACROECONOMIC CONTEXT

2. The pandemic has affected Indonesia’s economy but the country has coped well with the crisis. Key economic and social indicators have regained their pre-pandemic levels. Gross domestic product (GDP) contracted by 2.1% in 2020 but grew by 3.7% in 2021 and 5.3% in 2022, bringing output to about 7% greater than in 2019. After losing the classification of upper middle income in 2021, Indonesia regained it in 2023. The unemployment rate increased from 5.3% in 2019 to 7.1% in 2020 but has since declined to 5.9% in 2022. At 9.5%, the poverty rate in 2022 is also close to its pre-pandemic level. Furthermore, there is ample policy space to respond to future shocks. The 2022 fiscal deficit was 2.4% of GDP, a year ahead of the scheduled return to the 3.0% deficit ceiling and is projected to remain well below the ceiling in 2023. Public debt was 39% of GDP in 2022, compared with 41% of GDP in 2021. Sovereign credit ratings are stable and external debt is deemed to be sustainable.

3. Global economic slowdown and geopolitical tension could affect Indonesia’s economy. Growth for the full year is projected to be 4.80%, based on the export boom waning as global growth slows, and private consumption and investment growing only modestly. The near-term risks arise from geopolitical tensions, slowing growth in Indonesia’s major trading partners, and potential food price shocks due to the Russian invasion of Ukraine and the arrival of El Niño. For the longer-term, although the economy is now larger than in 2019, it is about 8% below its full potential, and estimates of potential growth are slightly below 5%. However, to become a high-income economy by 2045, Indonesia needs to grow by at least 6% annually. Indonesia achieved record trade and current account surpluses. The trade surplus in 2022 was $63 billion, compared with $44 billion in 2021, the previous record. After subtracting the usual deficits in services and incomes, the current account surplus was $13.2 billion (1% of GDP) in 2022, compared to 0.3% in 2021. By comparison, pre-pandemic current account balances averaged –2.5% of GDP (footnote 1).

4. Fiscal policy in 2023 will focus on keeping the deficit at 3% by increasing revenues and spending consolidation. The waning of the pandemic and the economic recovery allowed lower spending on health and economic stimulus. Windfall revenues and increasing subsidy

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2 International Monetary Fund (IMF). 2023. 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Indonesia. Washington, DC; and IMF. 2022. Article IV Consultation Staff Report. Washington, DC.
3 El Niño is an extreme weather event comprising increased temperatures and rainfall, resulting in drought and flooding that can severely impact food production and drive up food prices.
spending, both due to high commodity prices, have impacted Indonesia’s state budget. Total spending was 13% larger than budgeted. Revenues, however, were 42% larger than expected due to the export windfall, the recovery of economic activity, and new tax measures (including an increase in the value-added tax [VAT] rate to 11% in April 2022) (footnote 3). Total revenues grew by 44.5% for the first 10 months of 2022. Income taxes increased by 60.3% in 2022. Sales and luxury taxes increased by 43.8% due to the increased VAT rate. International taxes increased by 37.8%, driven by higher export volumes and prices.4 Despite a stronger than expected fiscal performance in 2022, Indonesia’s tax-to-GDP remains low (and lower than pre-pandemic levels) at 9.8% in 2019, decreasing to 9.1% in 2021, compared with Thailand (14.7% in 2019 and 14.3% in 2021) and Malaysia (12.0% in 2019 and 11.2% in 2021). However, Indonesia’s expenditure-to-GDP ratio increased from 8.8% in 2019 (before the pandemic) to 9.1% in 2021. In 2023, 1 year before the general elections, the combination of fiscal consolidation and the political budget cycle may affect government fiscal policies.

5. **During the post-pandemic period, structural reforms are needed to raise growth above 5%**. Although Indonesia’s record of steady growth with macroeconomic stability has been exemplary, growth has been trending downward since 2011 and could be higher if Indonesia is able to exploit its current advantages of a demographic dividend, a large domestic market, and a favorable resource endowment and location. Policy reforms can build on Indonesia’s good macroeconomic track record to set the foundation for higher and more inclusive growth.

**III. RATIONALE FOR REFORM**

6. **Lifting Indonesia’s potential growth and boosting economic recovery.** The government acknowledges that a higher growth trajectory is needed to ensure that Indonesia is able to escape the possible middle-income trap over the medium- to long-term. "Vision of Indonesia 2045" envisages that Indonesia will be among the world’s five largest economies by 2045.5 To meet this aspiration, higher growth rate will be needed, which in turn will depend on increases in productivity and product diversification, an improved business environment and logistics to support the growth of firms, and stronger linkages between domestic firms and the international market. Much higher levels of FDI will be needed to spur innovation through the transfer of technology. Pursuing broader and deeper structural reforms to raise productivity and growth is further emphasized, besides safeguarding health and human development, reopening and reconnecting markets, creating jobs, and boosting consumption.6 Reviving MSMEs affected by the pandemic will be essential given their economic importance, as they accounted for 97% of total employment.7 Industrial policy supported by a better business environment will be essential for boosting Indonesia’s economy. The effective implementation of several policies through the Job Creation Law needs to be supported as they are pivotal to boosting Indonesia’s economic recovery and increasing its growth potential.

**IV. SECTOR CONTEXT**

7. **Investment, trade, and industry performance need significant improvement.** Although FDI as a share of GDP decreased from 2.2% in 2019 to 1.8% in 2021 owing to the

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5 BAPPENAS. 2019. *Visi Indonesia 2045*. To achieve the objective, Indonesia needs to grow consistently by 6% on average in 2020–2025, 6.2% in 2026–2030, 5.9% in 2031–2035, 5.6% in 2035–2040, and 5.4% in 2040–2045.
7 Harnessing the digital economy to expand MSME product lines, market reach, and productivity could help, as would steps to foster a start-up friendly business climate, greater financial access, and clusters and networks of MSMEs that can promote agglomeration and innovation.
pandemic, FDI in absolute terms increased from $19.2 billion in 2020 to $21.2 billion in 2021 during subprogram 1. Indonesia’s 2021 FDI share is significantly lower than those in neighboring countries e.g., Malaysia at 5.0% and Viet Nam 4.3% in 2021. The share of international trade in Indonesia’s GDP has stagnated since 2009, which indicates Indonesia’s diminishing global integration compared with other economies in Southeast Asia.\(^8\)\(^9\) The relatively weak performance of exports and FDI is due to the low productivity of Indonesian firms, which are dominated by micro and small-sized firms. These firms represent 99.9% of all manufacturing firms but account for only 10.7% of manufacturing value added. There is a “missing middle” in Indonesia’s manufacturing sector, as a result of a large proportion of small firms and a relatively small number of medium-sized firms transitioning into large firms. The unconducive investment environment, barriers to trade, and constraints to firm growth have been identified as causing these broader challenges.\(^10\) When viewed in combination, they reduce the competitiveness of Indonesia’s trade and industry sector by raising costs, distorting incentives, and impeding innovation.

V. PROGRAM AND POLICY FORMULATION

8. **Recognizing these constraints on growth, the government has launched critical structural reforms.** These reforms are guided by the policy direction laid out by President Joko Widodo for his second term in office and include promoting investments, simplifying bureaucracy, and accelerating human capital development. In October 2020, Indonesia’s parliament approved the Job Creation Law (commonly referred to as the Omnibus Law) that amended 78 laws and targeted improvements to business licensing procedures; hiring of workers; economic zones; MSMEs; and research, innovation, and ease of doing business. In addition, the government’s reform agenda also targeted improvements to logistics and trade as well as increasing firm productivity. The proposed program is geared toward helping Indonesia achieve faster growth that is both inclusive and sustainable to realize its development aspirations.

9. **Subprogram 2 comes at a critical time as the country recovers from the COVID-19 pandemic.** It focuses on (i) creating an enabling environment for investments, (ii) easing barriers to trade, and (iii) growing and upscaling enterprises. It adopts a programmatic approach that combines policy-based loans with technical assistance and knowledge work to support relevant government reforms. The outcome of the program will be improved competitiveness and an investment-friendly business environment. The program’s impact will be strengthened economic resilience for quality growth and reduced disparities between regions in line with the Vision of Indonesia 2045 and the National Medium-Term Development Plan (RPJMN) 2020–2024. (See the transmission mechanism, benefits, and impact of the program in Section VII and VIII).

VI. CAPACITY AND POLITICAL CONSTRAINTS

10. **In a large and diverse economy with a complex geography like Indonesia, there are risks of reforms and large-scale institutional or regulatory changes being captured and held back by vested interests.** Moreover, coordination issues between government ministries and between national and subnational government levels may affect the implementation of reforms. Indonesia compares unfavorably with other major economies in the region in government effectiveness, with inequitable distribution of well-qualified personnel and a lack of effective coordination among levels of government, especially at the subnational level. One study found

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\(^8\) The share of trade relative to GDP in Indonesia was 58.0% in 2000. By 2021, it had shrunk to 40.4% of GDP. On the contrary, Viet Nam's trade to GDP ratio grew from 96.6% in 2000 to 184.4% in 2021, while Malaysia's reduced from 192.1% in 2000 to 144.2% in 2021, yet it is still higher compared to Indonesia.

\(^9\) In Visi Indonesia 2045, the target for the contribution of the manufacturing sector to GDP will be around 27%.

\(^10\) For further discussion on sector constraints see the Sector Assessment Summary (linked document).
that consultation and evaluation by the state are not prominent in practice, while activities such as policy analysis, decision-making, and coordination were not conducted sequentially. Indonesia is facing a crisis of hyper-regulation: too many regulations, with too little coordination and even less scope for enforcement. This is due to three main reasons: legislative planning is not in line with development planning; laws and regulations are often made at the incorrect level of government; and there is an absence of monitoring and evaluation mechanisms for laws and regulations. Given multiple political actors with diverging interests and institutional capacity, economic reforms need to be undertaken in stages to create success stories and then to capitalize on these successes to attain greater credibility and political support for more complex reforms. The program adopts a programmatic approach that combines technical assistance and knowledge work to support relevant government reforms. A programmatic approach was selected as this provides flexibility to address the complexity of multiyear reforms spanning various government ministries.

VII. TRANSMISSION MECHANISMS AND BENEFITS OF THE PROGRAM

A. Reform area 1: Creating an enabling environment for investments

11. Policy actions under reform area 1 are expected to improve the investment climate, which will lead to more investment. The reforms have made starting a business easier and faster by doing the following: upgrading the Online Single Submission—Risk-Based Approach (OSS-RBA), rolling out the program across all subnational administrations and identifying preferred sectors for investment, approving one FDI in pioneering industries, simplifying land-related transactions for investors, enhancing the attractiveness of special economic zones (SEZs), and attracting FDI in the manufacturing sector by introducing fiscal and nonfiscal incentives.

12. Starting a business becomes easier and faster. Under subprogram 2, the government upgraded the OSS-RBA to support regulations of relevant ministries and local governments relating to the issuance of licenses and permits through the OSS-RBA, roll out the licensing system across subnational administrations at the province level and identify preferred sectors for investment, and adopted a road map for promoting green investment and integrated environment assessment into planning. These reforms will result in the implementation of the updated business licensing process, OSS-RBA, in provinces all over Indonesia. They are expected to reduce the average time for starting a business to 1 day in 2026 from 13 in 2019, to operationalize the OSS-RBA in 38 provinces in 2026 from none in 2019, to reduce the number of business activities with certain restrictions for investors to 46 in 2026 from 350 in 2019, and to boost investment. Restrictions on FDI led to productivity losses of 3.6% in TFP and reduction in value added per worker by 2.9% in Indonesian firms. The reforms envisaged in the program through addressing the constraints inhibiting FDI inflows and simplifying the business procedures are expected to improve value added and productivity-led growth.

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14 In 2021, 34 provinces in Indonesia have adopted the OSS system.
15 The new policy action has been completed with the BKPM/MOI issued ministerial regulation no. 222/2022 on guideline for sustainable investment and the National Land Agency issued Ministerial regulations No. 5/2022.
16 As of March 2023, the OSS-RBA has issued 7,590,214 of new licensing across sector and local governments.
13. **Simplifying land-related transactions for investors.** Land acquisition remains the biggest problem that slows down the execution of investment projects in Indonesia.\(^{18}\) The government operationalized a land bank to manage state land, which would cover planning, acquisition, procurement, management, utilization, and distribution of land; simplified procedures and clarify requirements for foreign land ownership; and provide clarity on land titles for both above and below the ground. under subprogram 2. The reforms to simplify land-related transactions for investors are expected to boost FDI inflows to Indonesia. Evidence shows that reforms to help firms secure sites by making land acquisition easier will enhance investment and productivity.\(^{19}\) Indeed, improved property rights in Indonesia have been found to boost productivity by 35%.\(^{20}\)

14. **Enhancing the attractiveness of special economic zones.** Despite the establishment of SEZs in Indonesia, factors such as excessive regulation and complicated licensing procedures have discouraged the private sector from relocating to SEZs\(^{21}\). Under subprogram 2, the government further strengthened the business case for operating in SEZs by issuing a regulation to establish a health SEZ that permitted for the first time foreign healthcare service providers to operate in Indonesia and introduced electric smart card to facilitate immigration check for foreigner workers. These reforms are expected to lure FDI inflows to Indonesia’s SEZs, as evidenced in many countries.\(^{22}\) For instance, SEZs in the People’s Republic of China (PRC) have helped to increase FDI by 27.8%.\(^{23}\)

15. **Attracting foreign direct investments in the manufacturing sector.** FDI in manufacturing in Indonesia has been shrinking.\(^{24}\) This is unfortunate, as Indonesian firms with foreign ownership have higher productivity levels (13.5%), higher labor productivity (48.9%), higher employment (21.7%), and higher average wages (34.4%).\(^{25}\) To attract FDI in the manufacturing sector, the government introduced fiscal and non-fiscal incentives.\(^{26}\) Under subprogram 2, the government, through Badan Koordinasi Penanaman Modal, approved FDI for the manufacturing of batteries for electric vehicles.\(^{27}\) Evidence shows that the combination of fiscal and non-fiscal incentives helps attract FDI into the manufacturing sector.\(^{28}\) These reforms are expected to further FDI inflows to Indonesia and enhance capital and labor productivity in the manufacturing industry.\(^{29}\)

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\(^{18}\) KPPI. *Progress of Infrastructure Development in Indonesia.*


\(^{21}\) GPMI. 2016. Indonesia’s Growing Special Economic Zones Present Opportunities, Challenges. Washington, D.C.


\(^{24}\) For further discussion on sector constraints see the Sector Assessment Summary (linked document).


\(^{26}\) The PRC and now Viet Nam are examples of countries that have benefited from progressive FDI policies.

\(^{27}\) In September 2021, HKML Indonesia, controlled by a consortium of the Republic of Korea’s companies and “Industri Baterai Indonesia,” a subsidiary of a state-controlled miner, will build and operate the $1.1 billion factory on battery for electric vehicles. The factory is located in Karawang New Industrial City, West Java.


16. **Outcome.** The government expects that the reform measures to make starting a business easier and faster, simplify land-related transactions for investors, and enhance the attractiveness of SEZs, along with other reform agenda, will help improve Indonesia’s score in the Organisation for Economic Co-operation and Development (OECD) FDI Regulatory Restrictiveness Index to 0.10 in 2026 from 0.30 in 2019 and boost FDI inflows to Indonesia. The index gauges the restrictiveness of a country’s FDI rules by looking at the main types of restrictions on FDI, including screening or approval mechanisms and restrictions on land ownership. Evidence shows that easing FDI restrictions by 10% (OECD FDI Regulatory Restrictiveness Index) leads to an increase in total FDI inflows by 2.1%. The reforms are expected to contribute to the government’s target of an increase in FDI from $25 billion per annum in 2019 to $30 billion per annum in 2026 (RPJMN 2020-2024).

B. **Reform area 2: Easing barriers to trade**

17. This reform area will reduce impediments to domestic and cross-border trading, which will boost exports and support higher investments. The reforms will help ease barriers to trade through the implementation of the new National Logistics Ecosystem (NLE) Masterplan (2020–2024) and by upgrading the Indonesia National Single Window (INSW) as an extension of the NLE, as well as by improving Indonesia’s market access by ratifying regional trade agreements.

18. **Implementation of the National Logistics Ecosystem.** The logistics ecosystem was enhanced by reforms in subprogram 2 with the government piloting the single submission system for domestic and international sea and air transportation and key ministries, including agriculture, trade, industry, health, and the food and drug; single operating system for port operators, including an integrated container service and delivery logistic platform at five large ports, and an online payment platform for logistic services. Under subprogram 3, the government will incorporate rail transport into the integrated container service and delivery logistics platform. These reforms are expected to reduce logistics costs and boost exports. Evidence shows that improvements in countries with better logistics systems increase their role in global trade by exporting.

19. **Upgrading the Indonesia National Single Window.** To simplify the business processes of government logistics services, the government expanded the Indonesia National Single Window (INSW). Under subprogram 2, the government expanded the INSW by integrating a value-added tax exemption system integrated with the investment list of the BKPM, e-sanitary and phytosanitary system, single submission for exports and good exports notification, expansion of e-certificate of origin, and Association of Southeast Asian Nations customs declaration document. The INSW will increase efficiency by reducing processing costs and boosting compliance with regulations and laws.

30 The index gauges the restrictiveness of a country’s FDI rules by looking at the four main types of restrictions on FDI: foreign equity limitations; screening or approval mechanisms; restrictions on the employment of foreigners as key personnel; operational restrictions, e.g. restrictions on branching and on capital repatriation or land ownership.


32 The implementation of NLE has increased the efficiency and resulted a significant reduction in cost and time of the logistics services.


20. **Enhancing market access.** Under subprogram 2, the government adopted a road map for strengthening competitiveness of government procurement framework under trade agreements and implement a program to promote women-owned business in government procurement, which includes developing and testing a dedicated gender responsive procurement training module and annual reporting on women-owned business participation in government procurement. Evidence reveals that an immediate and full implementation of free trade agreements will boost exports and economic growth by almost 0.9 percent annually.\(^{35}\)

21. **Outcome.** Reforms targeting the easing of trade barriers are expected to contribute to the government’s target of an improvement of Indonesia’s score in the World Bank Logistics Performance Index (LPI)\(^ {36} \) to 3.5 in 2026 from 3.1 in 2019 and the government’s target of a reduction in the cost of logistics to 20.0% of GDP in 2026 from 23.9% in 2019. Evidence shows that improvements in the logistic performance index support significant growth in a country’s trade flows.\(^ {37} \) The reforms will also contribute to the increase in manufacturing exports from $115.7 billion per annum in 2019 to $183.4 billion in 2026.\(^ {38} \)

C. **Reform area 3: Growing and upscaling enterprises**

22. **This reform area will help firms increase their productivity and upscale operations.** It will do so by supporting reforms that encourage growth in businesses through an integrated system to improve interministerial policy coordination and targeting for MSMEs. Secondly, incentives will be provided to firms to adopt new technologies and upgrade workers’ skills using tax deductions and foreign investment into start-ups in SEZs. More productive and competitive firms will make Indonesia an attractive destination for FDI, particularly in productive sectors such as manufacturing.

23. **Integrated system to improve interministerial policy coordination.** Small firms in Indonesia face difficulties in increasing their productivity due to the licensing and regulatory burden and the additional costs needed to grow their operations (e.g., investment in new machinery and technologies, raising wages, and providing further training for workers) to increase production.\(^ {39} \) In response, to encourage growth in businesses, the government will make a concerted effort to support the growth of MSMEs. Under subprogram 2, the government issued presidential regulation on a new integrated national plan for enterprise development; launched an integrated MSME system, with sex disaggregated data, which will be used to set a baseline to observe and will be reported annually; and established an inter-ministerial committee to improve the delivery of government services to enterprises. An empirical study in the PRC observed that doubling firm size increases firm productivity by 2%–10%.\(^ {40} \) Boosting the size of firms in Indonesia by helping them transition into larger firms will be vital for broad-based and productivity-driven economic growth (footnote 39).


\(^ {36} \)The Logistics Performance Index (LPI) is the weighted average of country scores on six key dimensions: customs performance, infrastructure quality, ease of arranging shipments, logistics service quality, consignment tracking and tracing, and timeliness of shipments.


\(^ {38} \)The target in 2026 is the outcome proposed by the government in the RPJM 2020–2024.

\(^ {39} \)A recent study shows that sales growth of Indonesian manufacturing firms is negatively affected by the licensing and regulatory burden, including labor and tax regulation (footnote 2).

24. **Overall outcome.** The government expects that the reform measures will encourage growth in businesses, the adoption of new technologies, and the upgrading of workers’ skills. These reforms are expected to establish an integrated system to improve interministerial policy coordination and targeting for MSMEs. Evidence reveals that integrated support for the operation of MSMEs will accelerate the process of upscaling enterprises. This will increase the share of value-added by SMEs to total value-added by the processing industry (non-oil and gas) to 20% in 2026 from 18.5% (2019 baseline). It will help expand MSME output to 65% of GDP from 57% of GDP in 2019 (footnote37).

25. **EFFECTS OF THE REFORMS**

26. The impact of OSS-RBA on FDI is positive and statistically significant. Provinces that have adopted OSS-RBA observed an increase of 2.4% in their FDI. This result is also consistent with previous studies that show the impact of economic reform on FDI. Similarly, the impact of the OSS-RBA will also affect future FDI. Provinces that have implemented OSS-RBA will also see an increase of 2.5% in future FDI (table 1). This estimation suggests that the policy reform will boost the FDI of Indonesia in the future.42

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<thead>
<tr>
<th>Impact of Policy Reforms (Implementation of OSS-RBA) on FDI</th>
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<tr>
<td>Dependent Variable</td>
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<td>OSS-RBA Implementation</td>
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<td>Year Dummies</td>
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<td>Method</td>
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FDI = foreign direct investment, GDP = gross domestic product, OLS = ordinary least squares, OSS-RBA = Online Single Submission–Risk-Based Approach.

*** Significant at 1%, ** Significant at 5%, * Significant at 10%.

Source: Asian Development Bank estimates.

27. Easing trade barriers is expected to contribute to the government’s target of reducing the cost of logistics to 20.0% of GDP in 2026 from 23.9% in 2019. Evidence shows that improvements in the logistic performance index support significant growth in a country’s trade flows. The reforms will also contribute to the increase in manufacturing exports from $115.7 billion per annum in 2019 to $183.4 billion in 2026.43

28. Integrated support for the operations of MSMEs will accelerate the upscaling of enterprises, which will contribute to the government’s target of increasing the share of

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42 The heterogeneity impact of OSS-RBA in a specific province or island cannot be measured because of the low sample size available for each region.

43 The potential impact is estimated from the impact projected by the government in the RPJMN 2020–2024.
value-added by SMEs to total value-added by the processing industry (non-oil and gas) to 20% in 2026 from 18.5% in 2019. It will also contribute to the government’s projection to expand MSME output to 65% of GDP from 57% of GDP in 2019 (footnote 42).

29. To conclude, continued efforts to enhance the investment climate, as supported by the proposed reforms, are key to attracting a substantial and steady inflow of foreign investment and boosting economic growth. This will not only provide financing for development but, over the longer term, spur technological innovation to improve the productivity and competitiveness of Indonesia’s firms and exports (para. 6). This is important for Indonesia, where potential growth has weakened (para. 2 and para. 3), and achieving high income status will require increases in productivity and economic growth. The sustainability of the program reforms beyond program completion are demonstrated in the commitment made by the government to meet its aspirations of becoming a high-income country through economic transformation. Moreover, enhanced institutional capacity and increased support from development partners are paramount and have become priorities of the government over the long-term.44

44 The Government of Indonesia is currently formulating the Long-Term Development Plan (RPJPN 2025-2045), recognizing the significance of long-term economic reform. The RPJPN draft highlights several crucial aspects, particularly pertaining to the long-term government strategy. This includes enhancing the state and institutional capacities and acknowledging that Indonesia’s economic development necessitates support from all relevant stakeholders.
ANALYSIS AND THE EMPIRICAL METHOD [COLUMN (1) IN TABLE 1] USED TO COMPUTE THE EFFECT OF THE REFORMS

The analysis uses a pooled least square regression by including time dummies to isolate unobserved time trends that may affect both the implementation of OSS-RBA and the level of FDI. For instance, the impact of the COVID-19 pandemic may alter FDI coming into Indonesia. The unit observation used is provincial level data between 2019 and 2021.\(^1\) The estimation investigates the impact of OSS-RBA adoption at the provincial level on the level of FDI. The OSS-RBA approach was initially piloted in West Java and Central Java in 2020 before it was launched nationally in 2021. It is therefore assumed that these two provinces were the early adopters of OSS-RBA. In 2021, all provinces in Indonesia at the time adopted the OSS-RBA system.

\[
\text{FDI as a share of GDP}_{p,t} = \beta_0 \text{OSS-RBA Implementation}_{p,t} + \mu_t + E_{p,t} \quad (1)
\]

where \(\text{FDI as a share of GDP}_{p,t}\) is the share of FDI to GDP in province \(p\) at year \(t\). \(\text{OSS-RBA Implementation}_{p,t}\) is a binary variable that has the value 1 if the province has implemented OSS-RBA and 0 if it has not. On this basis, West Java and Central Java are assigned a value of 1 in 2020 and all provinces are assigned a value of 1 in 2021. \(\mu_t\) denotes the time-fixed effects that control time invariant characteristics which affect the implementation of the OSS-RBA and the FDI as a share of GDP at the same time. Finally, \(E_{p,t}\) is the error term.

The same method is used in column (2), the only difference being the variable \(\text{OSS-RBA Implementation}_{p,t}\) where the model uses the lag variable of the OSS-RBA implementation to estimate the impact of current policy changes on future FDI.

\(^1\) FDI data at the provincial level was taken from Statistics Indonesia (BPS).