



MONASH
University

Public Services as a source of Innovation

Dalam Meningkatkan Kualitas
Pelayanan Publik di Era Jatim Bangkit

Fully Accredited in Australia, Indonesia and Globally

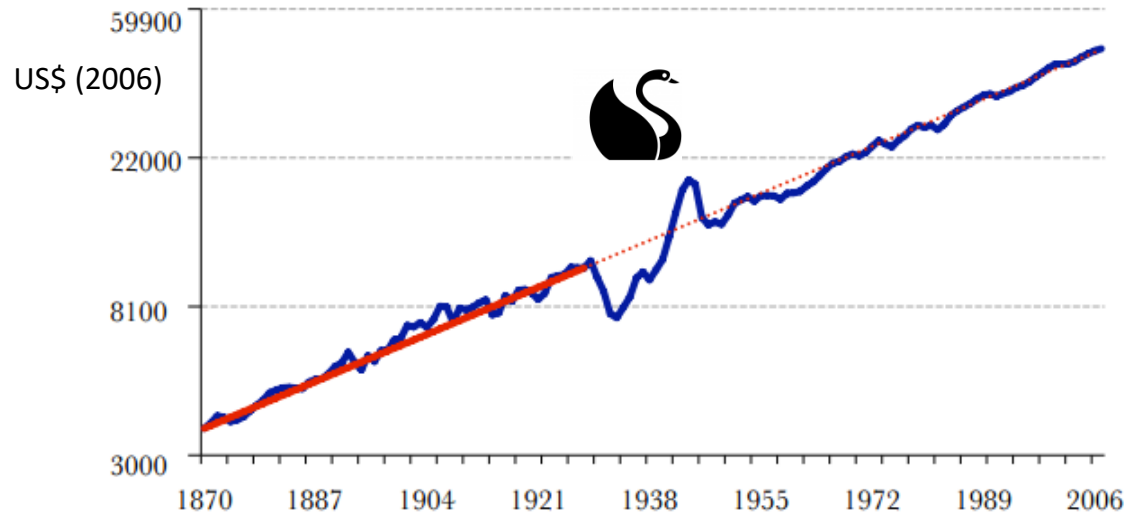
Professor Edward Buckingham, Monash University Indonesia

January 26th, 2023

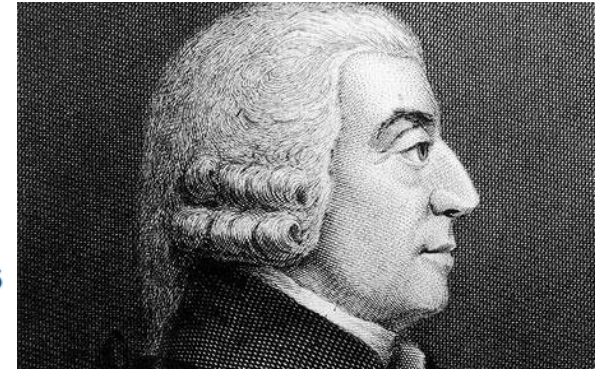
Macro economic growth is a good place to measure the fruits of innovation

“...per capita in the US over long horizons tends to grow at the average rate of 1.85% per year”

US Real GDP per capita in 2006 US\$ (1870-2006)



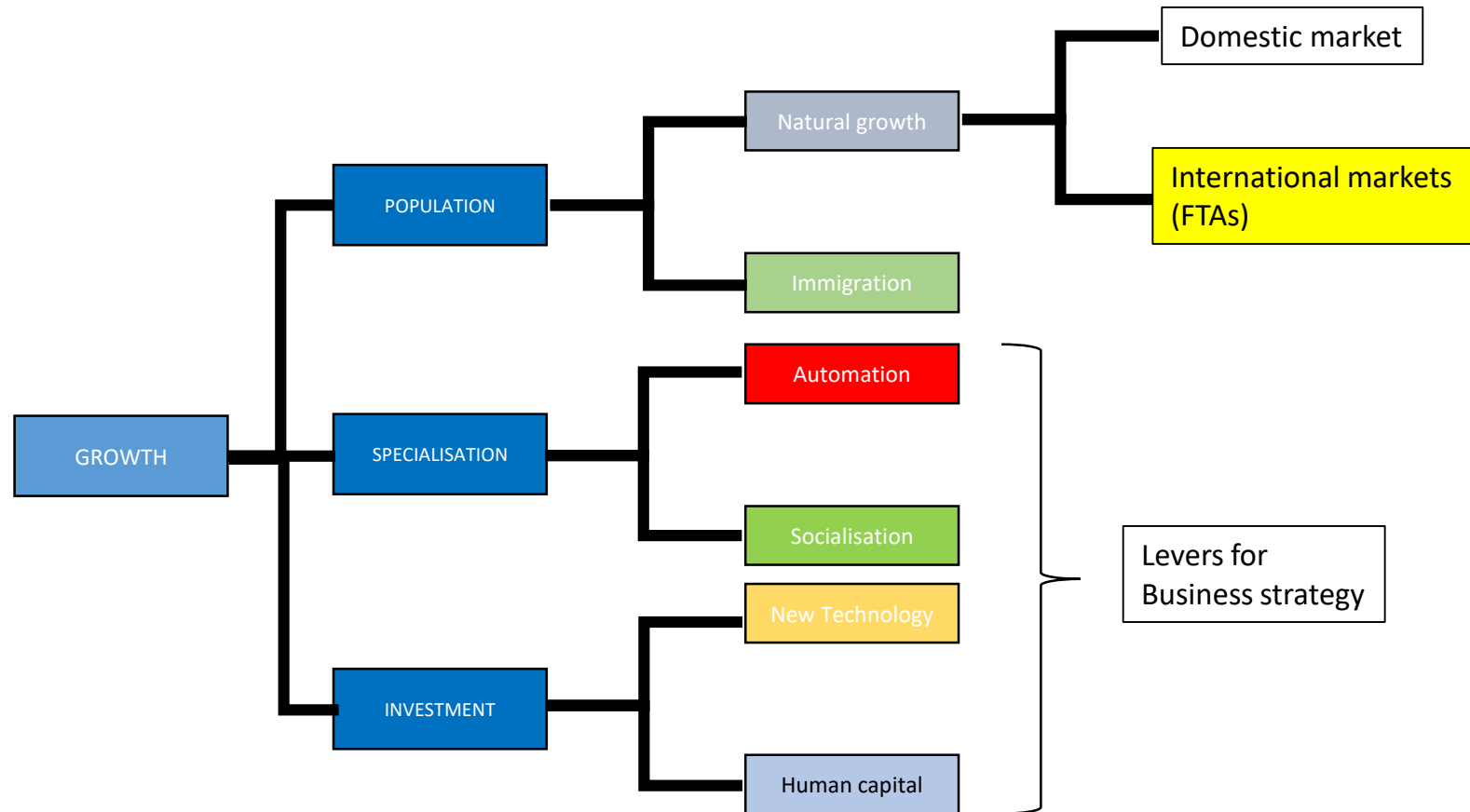
Can anyone explain it?
Here is a hint



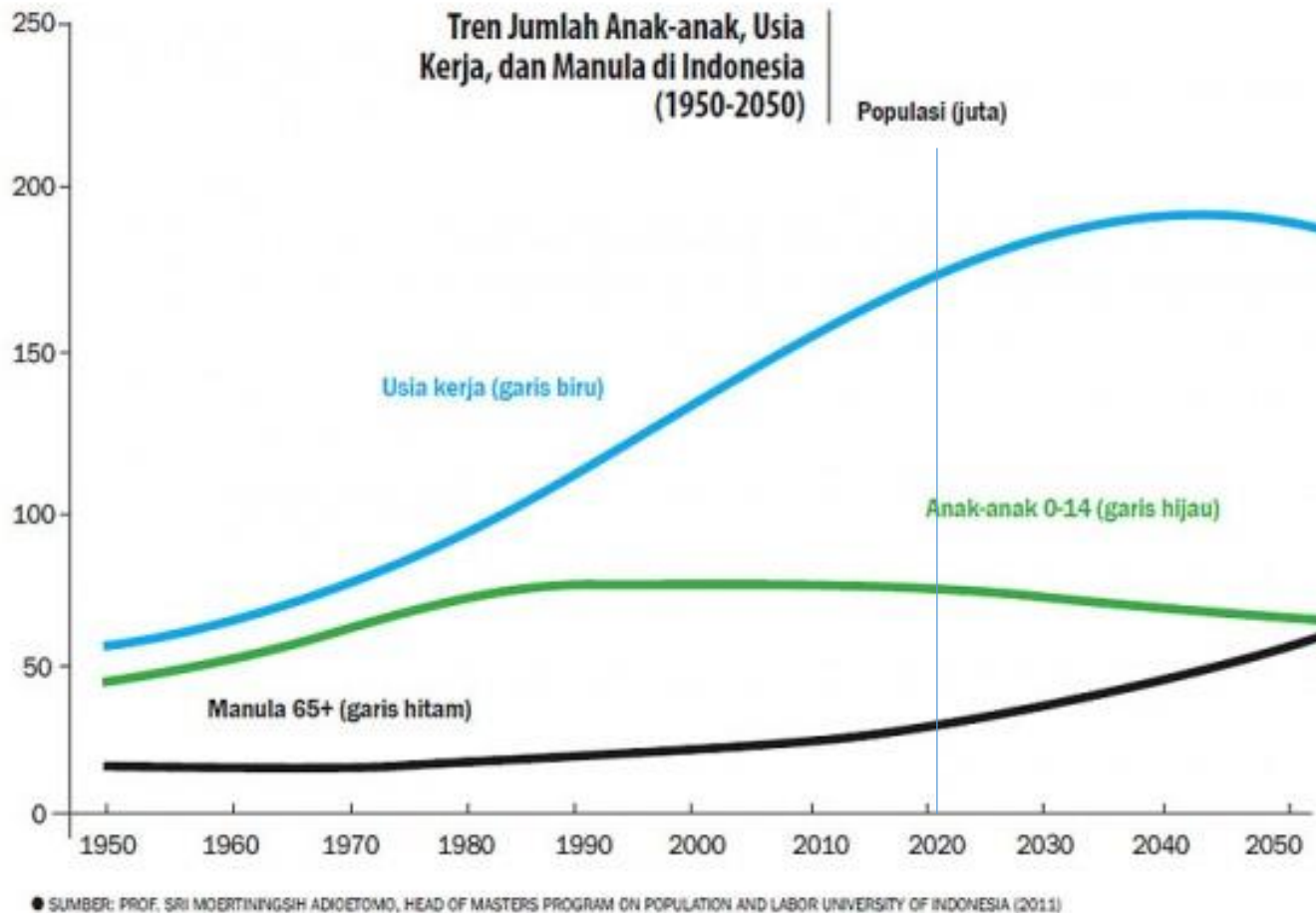
The limits to long-term growth define the innovation horizon

Breaking the components of growth (disruption) into root-causes a first step in strategy formulation

A root-cause analysis of growth starting with Adam Smith's PSI



Indonesia's working age population has expanded... Meaning markets have too...

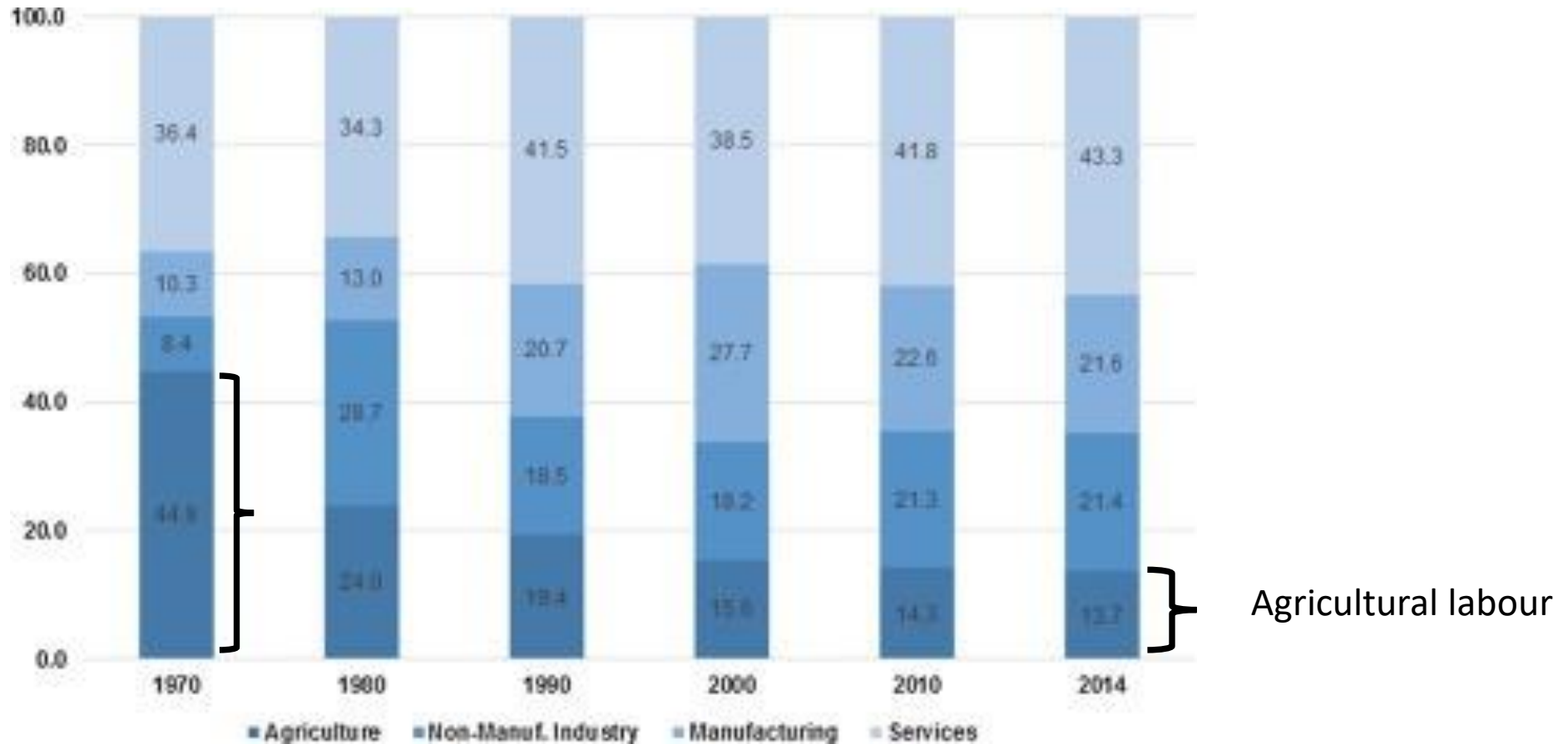


Monash Indonesia

<https://en.tempo.co/read/924084/demographic-bonus-boosts-indonesia-toward-development-in-2045>

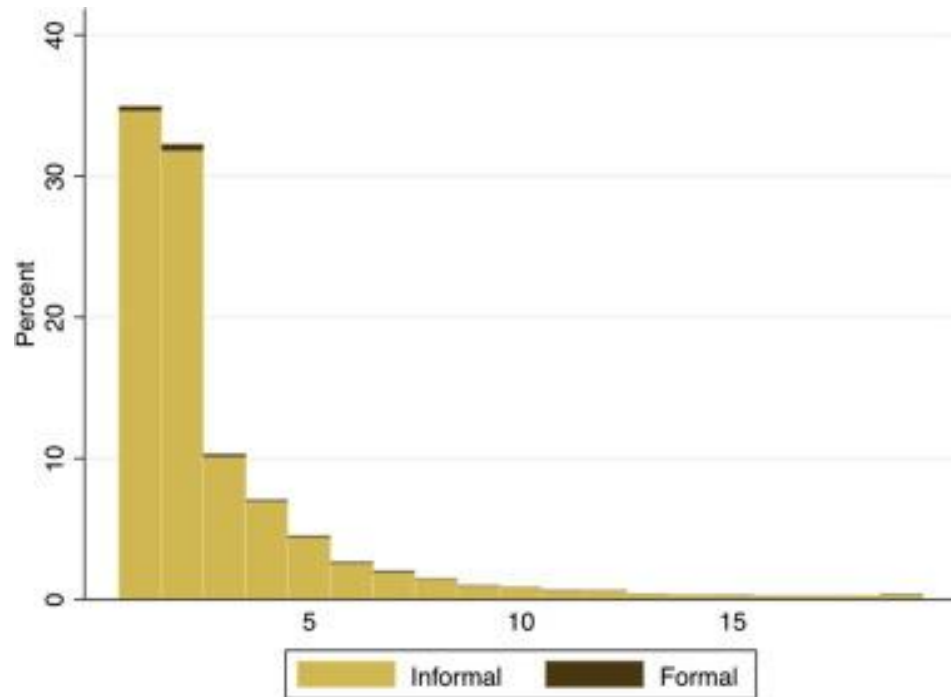
From 1970 agricultural labour has fallen...

A result of increased Productivity

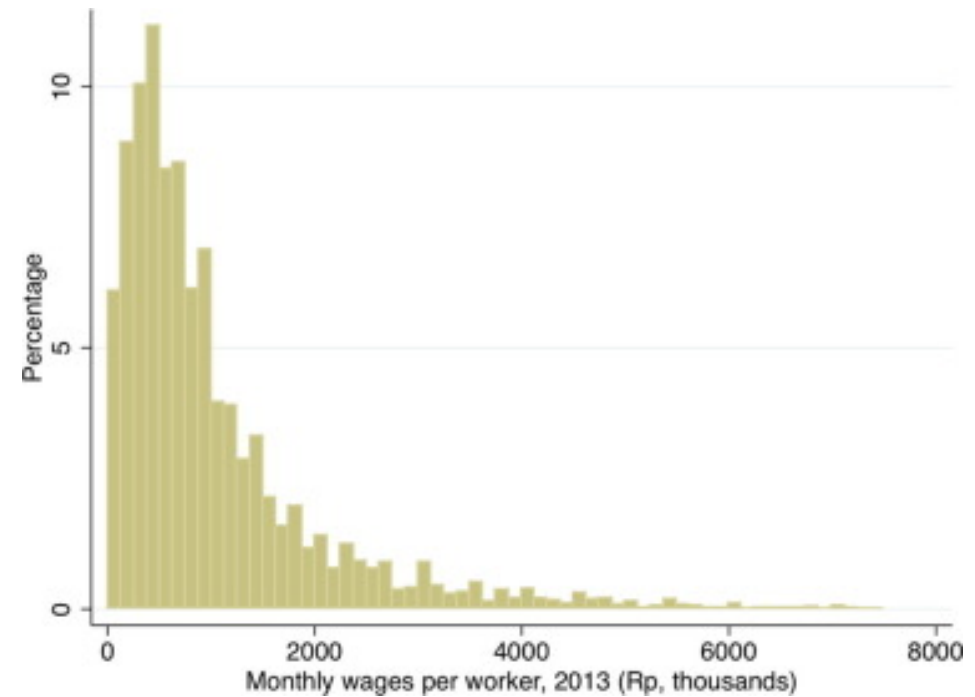


But Indonesian firms are overwhelmingly Informal and Small ... And Wages are Low

Number of workers by informality, micro and small firms (2013).

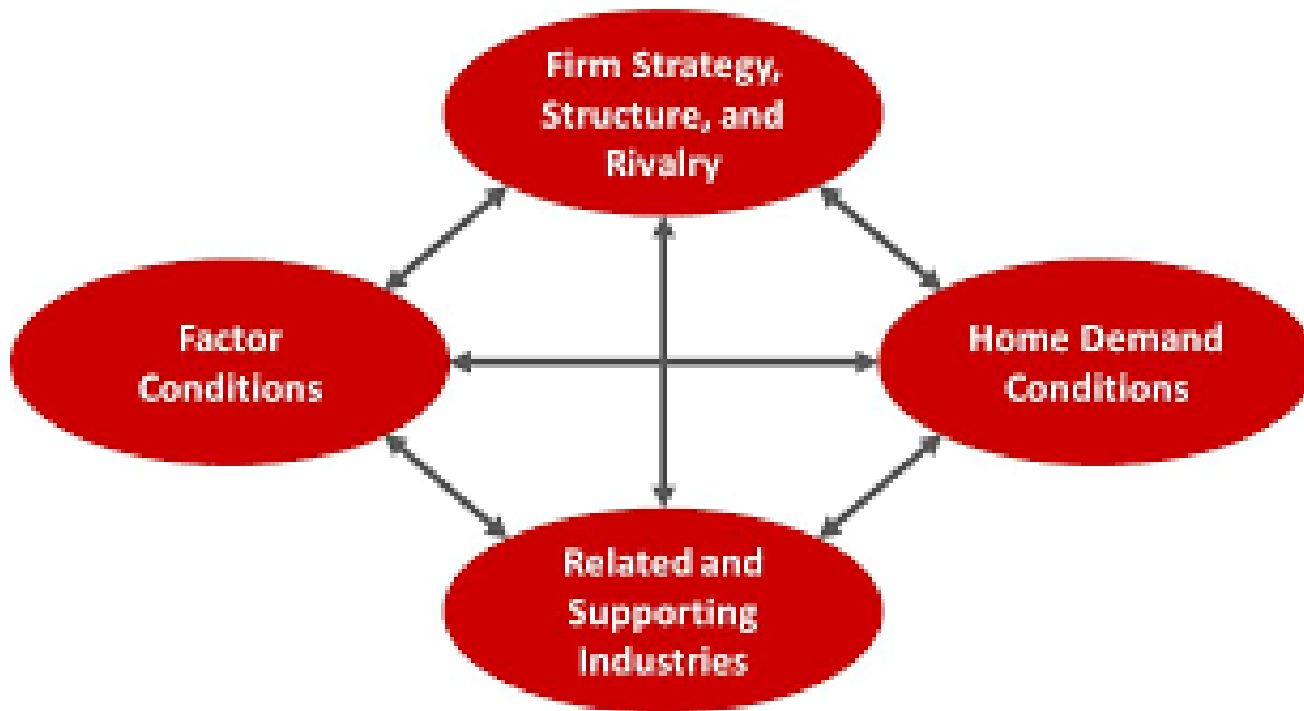


Monthly wages per worker, informal micro and small firms (2013).



The Determinants of National Competitive Advantage should interest civil servants

The Diamond of National Advantage



Firm Strategy, Structure, and Rivalry

The conditions in a country that determine how companies are established, are organized and are managed, and that determine the characteristics of domestic competition

Factor Conditions

The situation in a country regarding production factors, like skilled labor, infrastructure, etc., which are relevant for competition in particular industries.

Home Demand Conditions

Describes the state of home demand for products and services produced in a country.

It is determined by three major characteristics: their mixture (the mix of customers' needs and wants), their scope and growth rate, and the mechanisms that transmit domestic preferences to foreign markets.

Related and Supporting Industries

The existence or non-existence of internationally competitive supplying industries and supporting industries.

A competitive Indonesian textiles industry emerged in Bali.... Why?

The government's affirmative action programs in Central Java “undermined entrepreneurial skills – innovation in relation to products, markets, technologies and management – and instead encourage cultivation of political and bureaucratic contacts.” (Papanek 2006)

...subsidies in Java encouraged rent seeking.

However, in Bali, Papanek describes entrepreneurs that were able to develop textile businesses that became internationally competitive with practically no direct support or attention from government. They adopted what I call “just-enough-technology” entrepreneurship where existing institutions are able accommodate the new approaches, permitting productivity increases which in turn offset the transaction costs of learning.

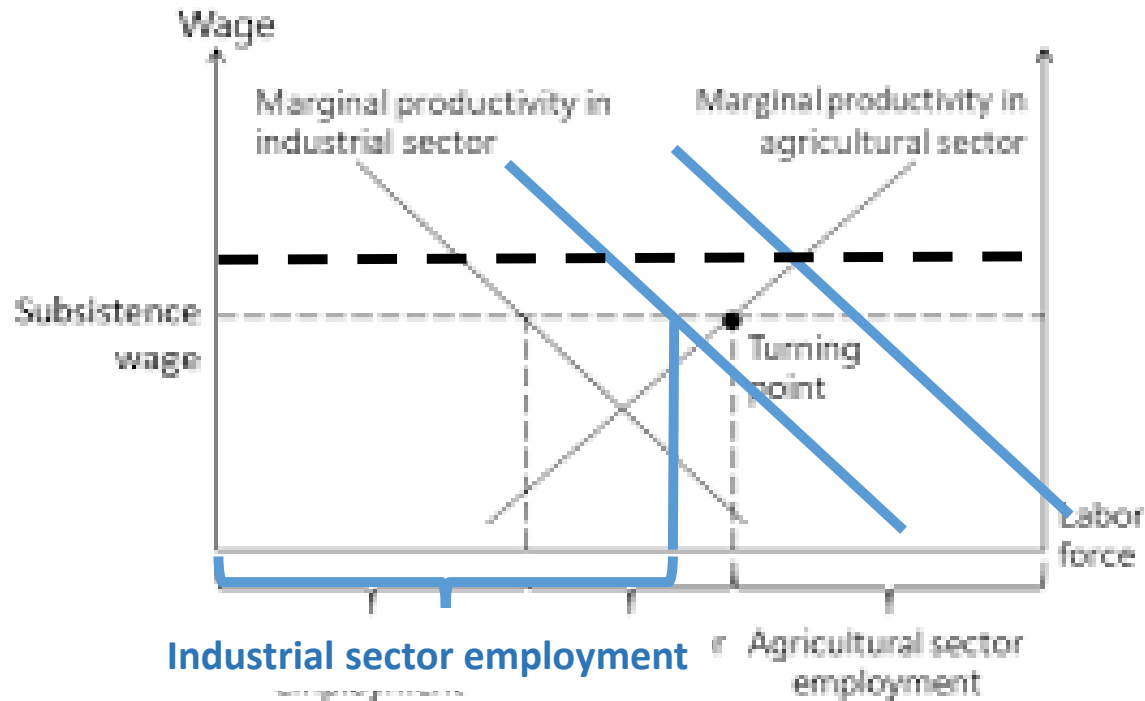
“Symbiosis with tourism was crucial for the industry”

- A substantial number of the original entrepreneurs in Bali were tourists
- With time the Pribumi entrepreneurs learned from the tourists and eventually replaced them.
- An on-the-spot retail market which reduced the lines of communication significantly.
- Garuda, the national carrier, lost the monopoly over international flights to Bali, the costs of transport fell
- They made use of their knowledge of village cottage industry to contract out sewing - the most labour intensive part of clothing production.
- By accessing cheap village resources (labour and skills) entrepreneurs were able to limit their investments in infrastructure and management:
- “Having sewing done in the villages had substantial advantages in cost and flexibility”
- Meanwhile, they focused on scalable activities such as “analysing the market and developing designs; cutting the cloth; inspections and quality control of finished garments; packing, shipping, arranging credit and collecting payments.”

Low wages: A function of surplus labour

Surplus labour: A function of marginal productivity

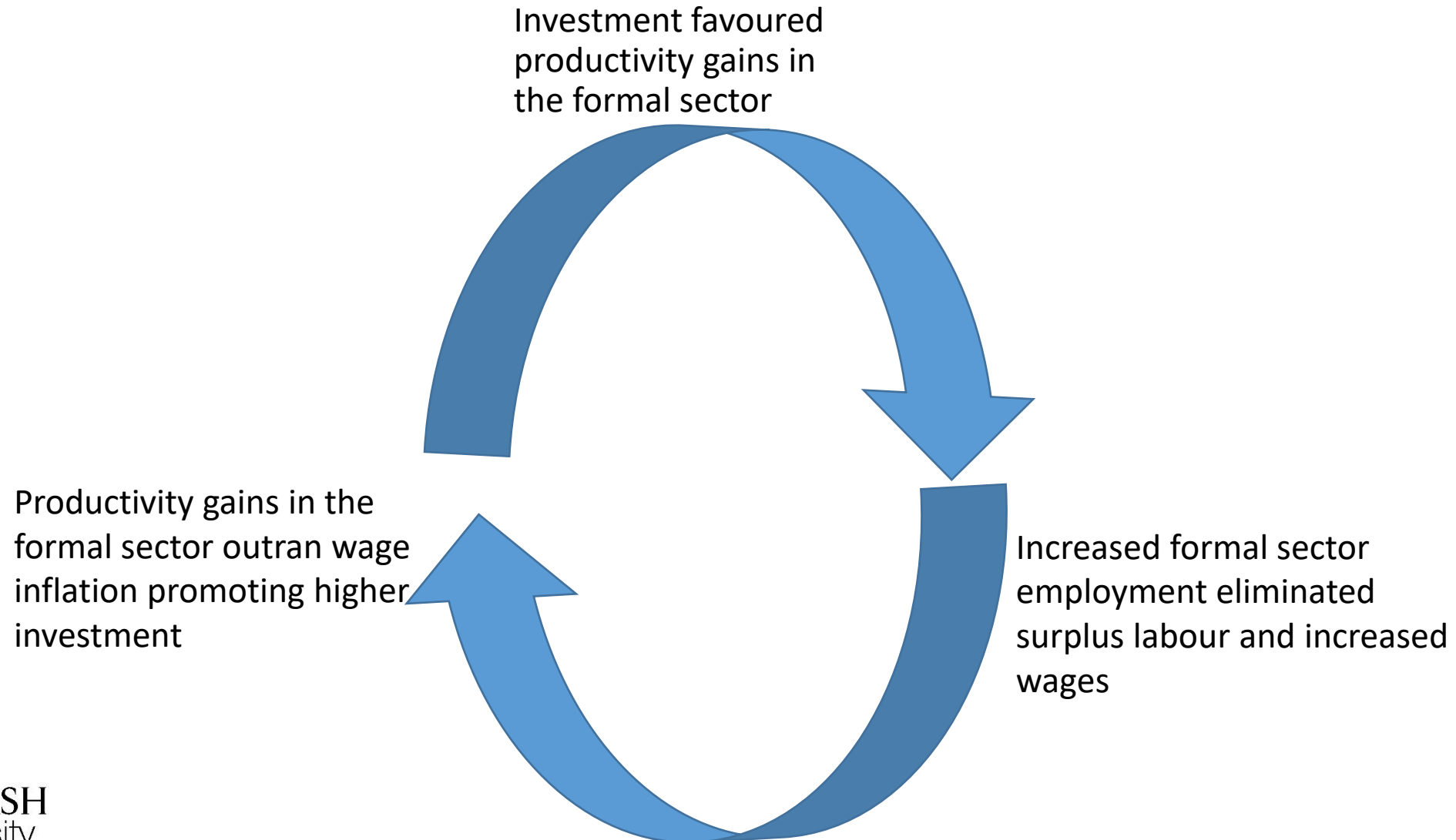
As Industrial sector employment increases, surplus labour falls



Sir Arthur Lewis, Nobel prize 1979

Indonesia has excess labor in rural areas (low productivity sectors such as agriculture) and this limits wage increases urban areas (high productivity sectors such as industry)

A similar bottleneck existed in China... until it didn't



Concluding remarks

- Build clusters not industries, as they are more flexible
- Gradually establish standards that set or at least match global standards
- Do not confuse comparative advantage with competitive advantage (no short cuts)

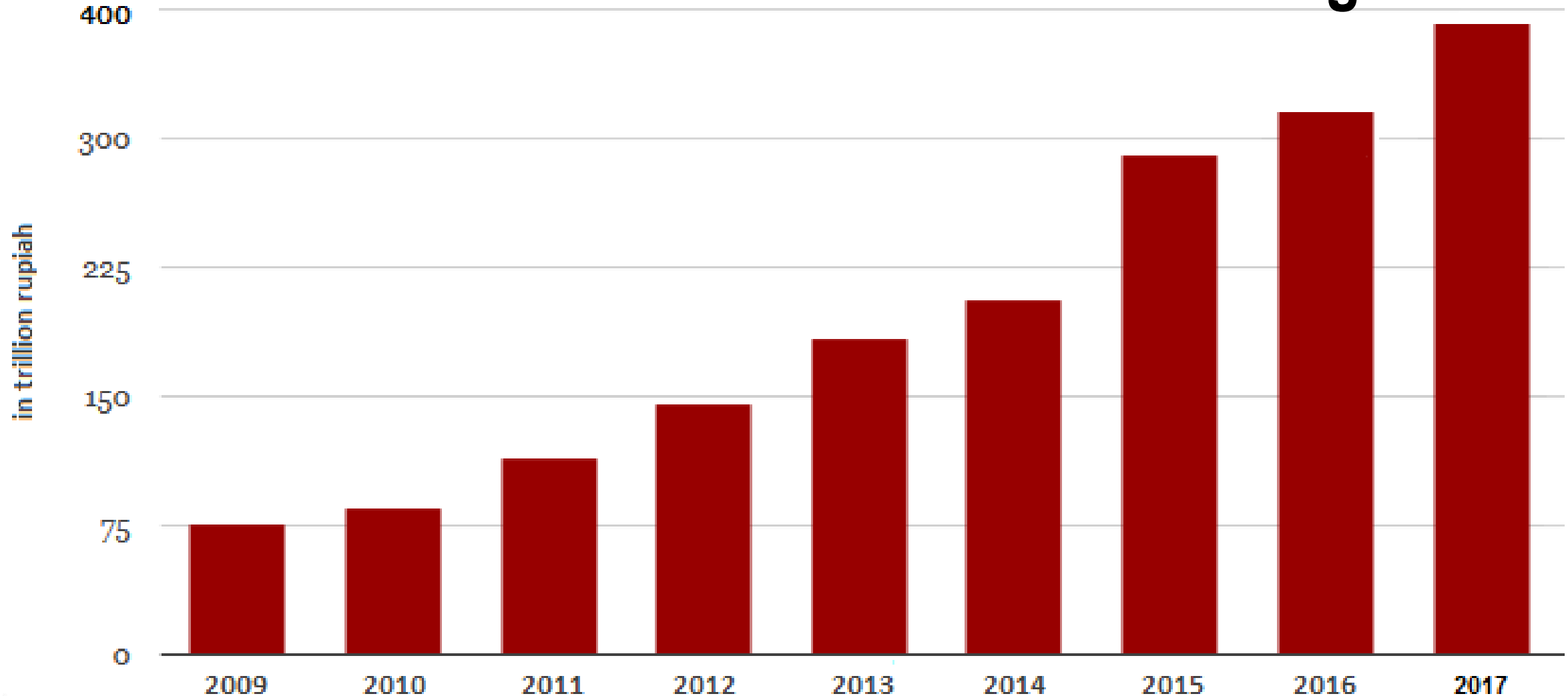
THANK YOU

Welcome to Monash University, Indonesia

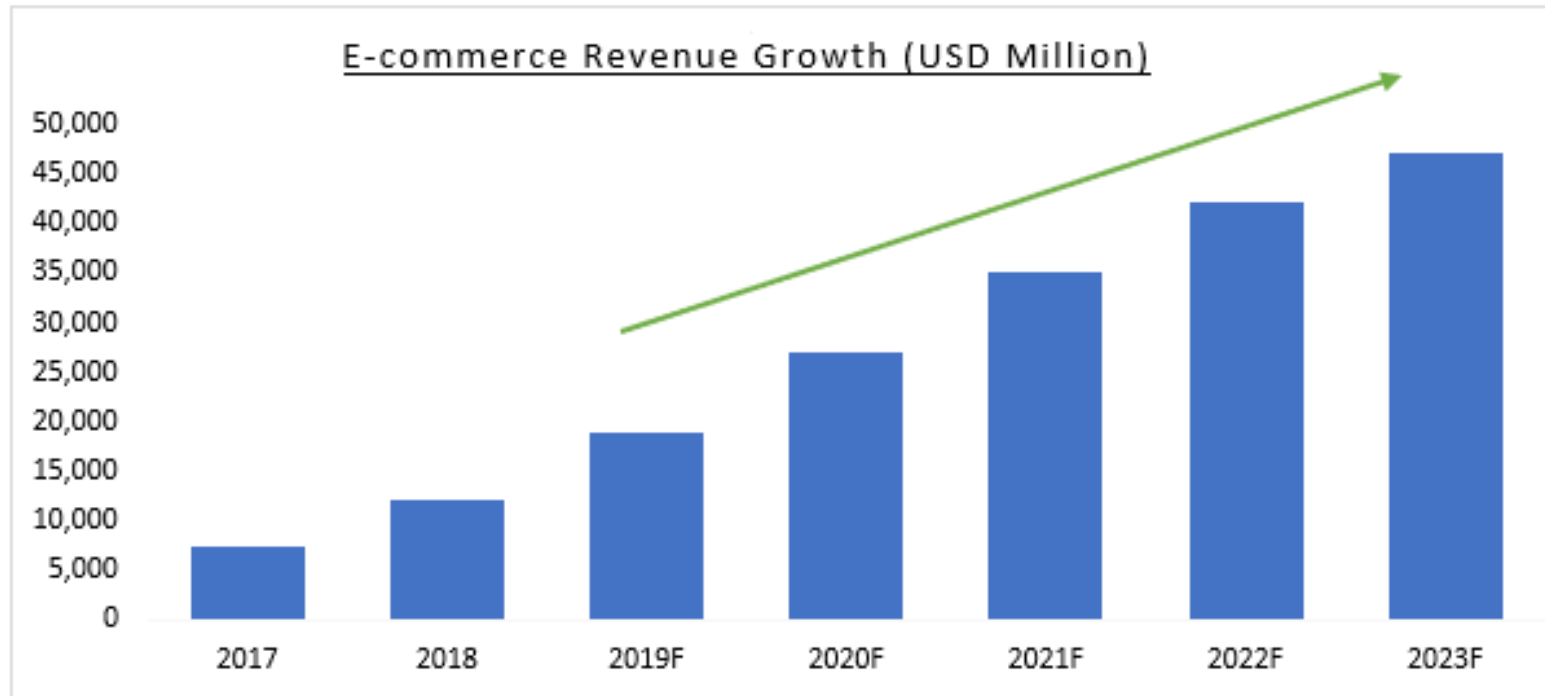
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Funds Allocated to Infrastructure Spending in the Indonesian Government's Annual State Budgets



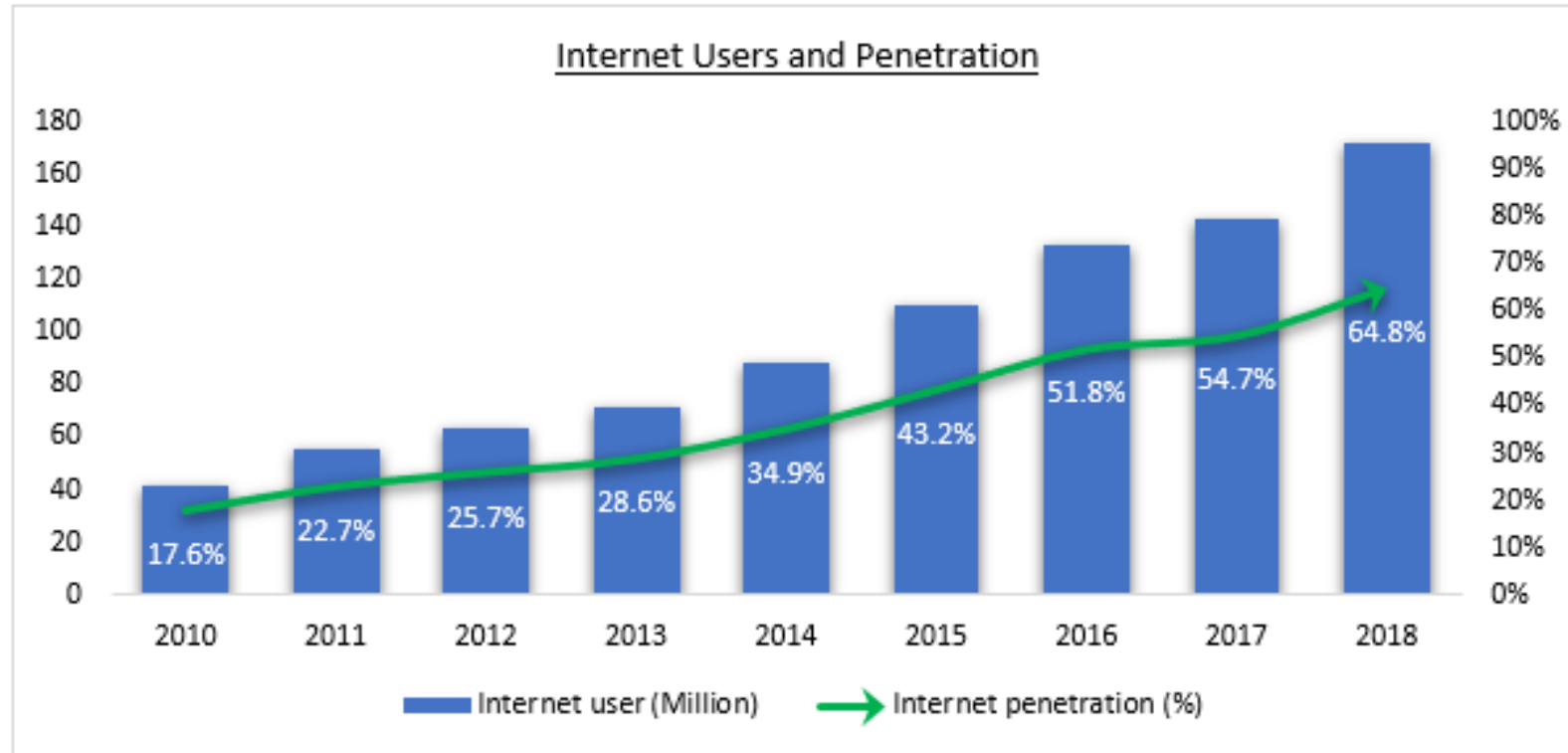
And the costs of transacting in Indonesia are set to fall



Source: Statista, Televisory's Research

<https://www.televisory.com/blogs/-/blogs/booming-indonesian-e-commerce-market>

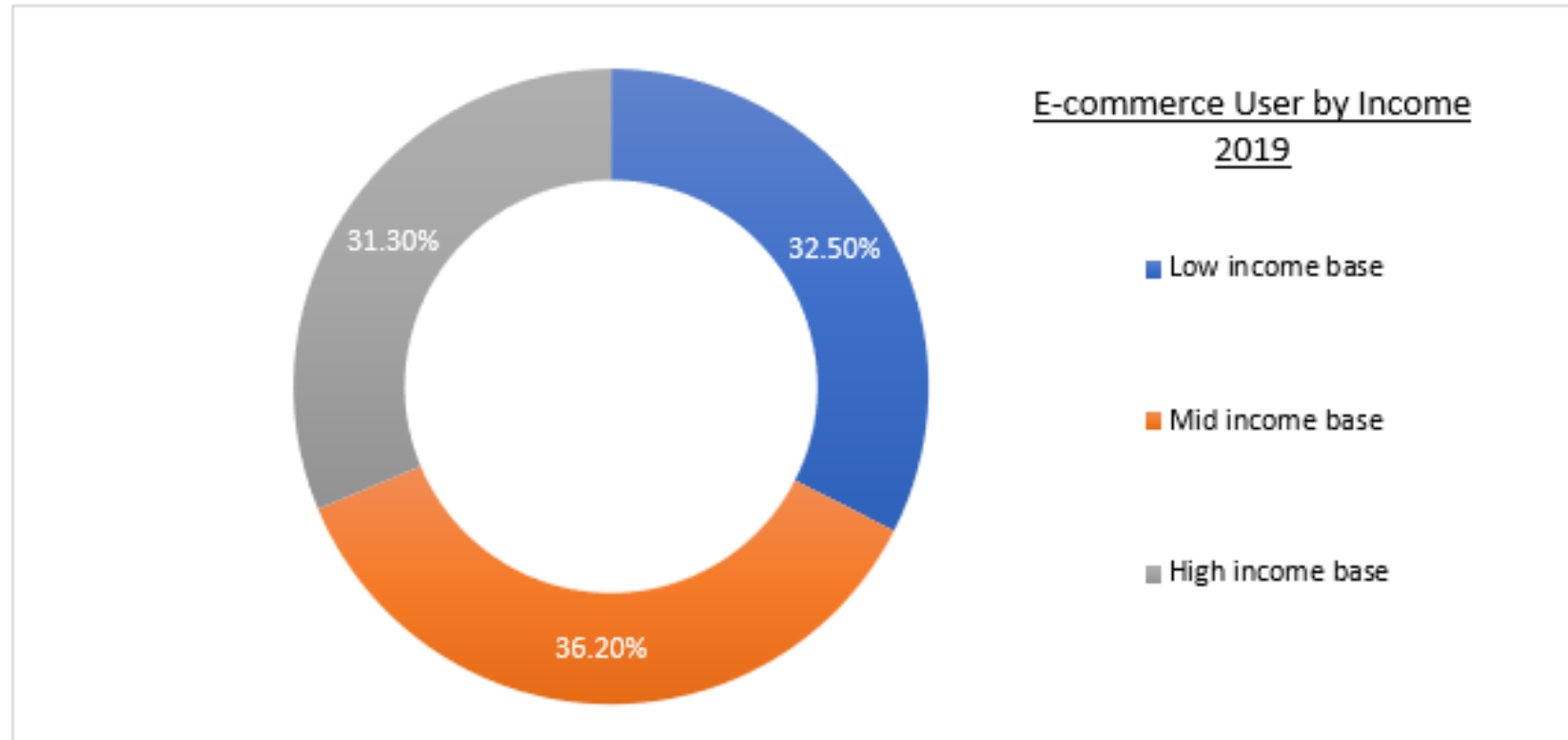
Because internet penetration rates are surging



Source: Televisory's Research, Asosiasi Penyelenggara Jasa Internet Indonesia (APJII), We are Social USA

<https://www.televisory.com/blogs/-/blogs/booming-indonesian-e-commerce-market>

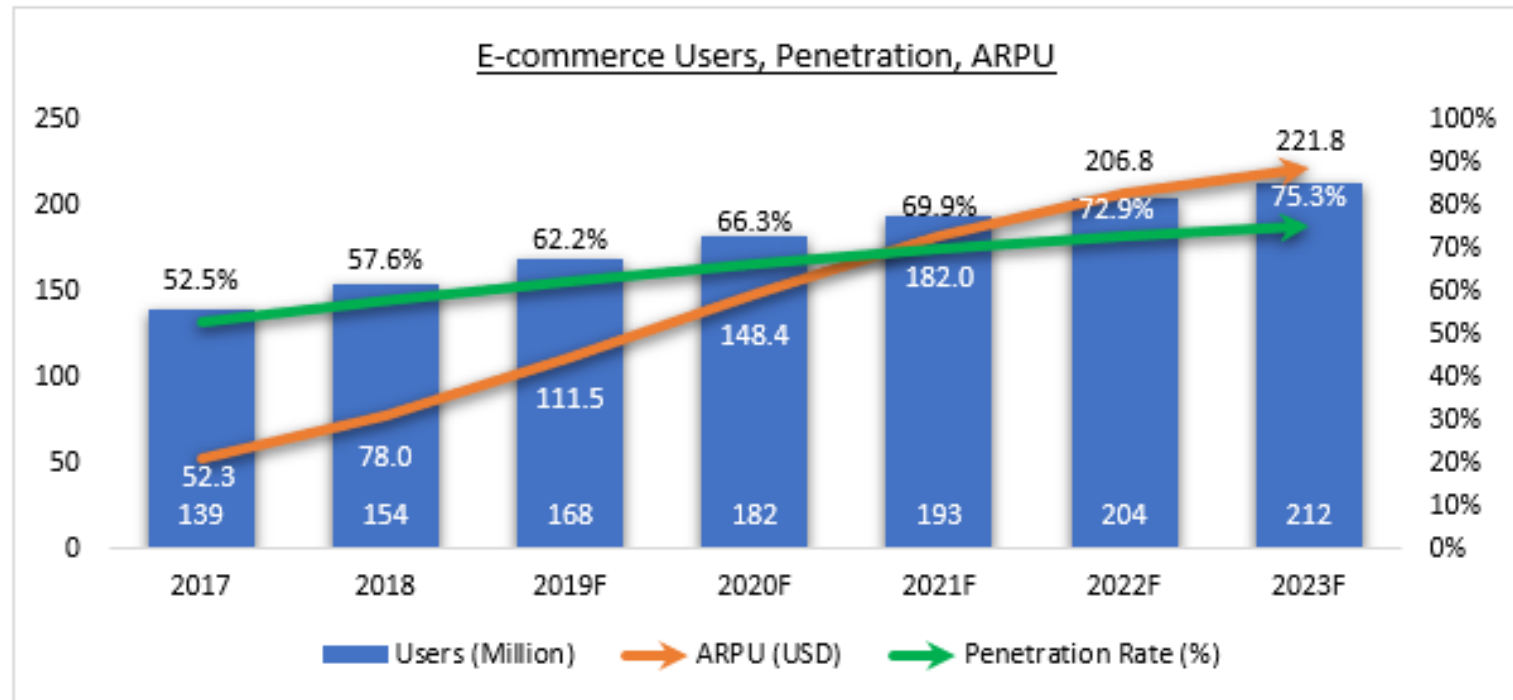
And the informal sector is part of this story



Source: Statista, Televisory's Research

<https://www.televisory.com/blogs/-/blogs/booming-indonesian-e-commerce-market>

The Average Revenue Per User will surpass \$200 pa



Source: Statista, Televisory's Research

<https://www.televisory.com/blogs/-/blogs/booming-indonesian-e-commerce-market>