Regional Disparity in Indonesia's Demographic Dividend

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MOTIVATION
Economic contribution of Eastern Indonesia has been stagnant.

58% of GDP
Even though declining, the Gini coefficient is relatively high. Rising GINI in the rural areas in recent years might be due to increasing TFR amongst the poor, especially in Eastern Indonesia.
Indonesia has become the largest productive-age population country in South East Asia

Population
Life expectancy
Urban population percentage

119.2 million 55.1 years 14.6%

Sumber: BPS, Sensus dan Supas

Population
Life expectancy
Urban population percentage

255.1 million 70.8 years 53.1%

Sumber: BPS, Sensus dan Supas
First Demographic Dividend will end in the 2030s

- End of first Demographic Dividend is in 2030-2034 where we will have around 60 effective workers to support 100 population
- First Demographic Dividend will potentially contribute approximately 0.2% average per year to economic growth before it becomes negative
- Controlling TFR at replacement rate in the future is shortening the demographic dividend period
Large variation in TFR among provinces

• *Keluarga Berencana* (KB) in Indonesia is acclaimed as the **best family planning program** in the world
• KB managed to **reduce the fertility rate by nearly one half** in a relatively short period
• Yet some provinces still had high TFR in 2015, and there is an indication that the TFR increased in the past two years
• Large differences in TFR divide the provinces into four types of demographic transition: Late, early, pre-transition, and uncertain

*Source: SP and Supas, various periods, BPS*
Uneven population distribution and demographic transition

Late transition
Below-replacement rate TFR, large share of older population, window of opportunity has passed

Early transition
Increasing share of children and working population, older people start to increase

Pre-transition
Stagnant declining fertility, later period of window opportunity

Uncertainty to reach the window of opportunity
High fertility, high mortality, low access to education and health

Research questions

• How far does disparity occur among the regions?
• Why is it unequal?
• What are the consequences?
• What should we do about it?

• Using the 2012 NTA to analyze the disparity in:
  • Labor income share
  • Demographic dividend
• Policy implications
• Higher performers mostly in provinces with economy centers: Jakarta has the highest earnings
• Some provinces have earning profile with a short peak
• Other provinces have lower earnings
• Jakarta has the highest self-employed income but drops at an earlier age
• The other provinces have more substantial self-employed income at older ages
Half of the provinces, all outside Java, rely heavily on self-employment income.
Contribution of labor income by region

% Share of Self-Employed to labor income by Region

- Sumatera: 53%
- Java: 40%
- Kalimantan: 53%
- Sulawesi: 55%
- Bali-NT: 42%
- Maluku-Papua: 55%

Contribution to national labor income by region

- Sumatera: 56%
- Java: 49%
- Kalimantan: 7%
- Sulawesi: 8%
- Bali-NT: 23%
- Maluku-Papua: 5%

• Only Java and Bali-NT have less than 50%
• Overall, total contribution of labor income is 56% from Java and only 4% from Bali – which also has lower self-employed income
• The other islands, Sumatera, Kalimantan, and Maluku-Papua, have bigger potentials to improve their contribution of self-employed income to total national labor income.
Why is it unequal? and what are the consequences?

- Demography
- Productivity
- Migration (international and inter-regions)
- Growing informality
- Less development in Eastern Indonesia
Converging economic support ratio

- The ageing provinces (late transition) have declining economic support ratio
- Other young provinces still have a rising support ratio
Converging economic support ratio

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First Demographic Dividend
Late-Transition Provinces – First demographic dividend has passed or will finish soon

First Demographic Dividend (%)
Young provinces will potentially reap the benefits for another 20 years.
The first demographic dividend will end soon in Java, Kalimantan, and Sulawesi

**Support Ratio by Regions**

**First Demographic Dividend**

<table>
<thead>
<tr>
<th></th>
<th>Nasional</th>
<th>Sumatera</th>
<th>Java</th>
<th>Kalimantan</th>
<th>Sulawesi</th>
<th>Bali-nt</th>
<th>Maluku-papua</th>
</tr>
</thead>
<tbody>
<tr>
<td>End Year</td>
<td>2031</td>
<td>2033</td>
<td>2024</td>
<td>2024</td>
<td>2025</td>
<td>2046</td>
<td>2034</td>
</tr>
<tr>
<td>Peak of Support Ratio</td>
<td>60,1</td>
<td>58,7</td>
<td>60,2</td>
<td>59,8</td>
<td>59</td>
<td>58,9</td>
<td>59,4</td>
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<tr>
<td>% average</td>
<td></td>
<td></td>
<td>2015-2035</td>
<td>0,17</td>
<td>0,17</td>
<td>0,01</td>
<td>0,02</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>2035-2055</td>
<td>-0,07</td>
<td>(0,08)</td>
<td>(0,16)</td>
<td>(0,10)</td>
</tr>
</tbody>
</table>
Future Work Leading to Policy Recommendations

• Incorporate production and consumption for each province and region and analyze the effect of productivity on the demographic dividend

• Analyze the demographic dividend calculation more deeply to provide policy implications by region
  • Human capital development to improve productivity
  • Potential of savings and asset accumulation (2nd demographic dividend)
  • Link between the second demographic dividend and the new pension system

• Incorporate the implications for policy formulation for medium-term development, 2020-2024, in special chapters on the demographic dividend
Thank you