

MICROECONOMICS OF COMPETITIVENESS



AN ANALYSIS OF THE BALI TOURISM CLUSTER

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PART 1- COUNTRY ANALYSIS: INDONESIA

Geography - Indonesia is the largest archipelago in the world with 17,508 islands, of which 6,000 are inhabited. Together they are roughly three times the size of Texas. The country has the second



highest biodiversity with extensive rainforests on the islands of Sumatra, Borneo, Sulawesi and New Guinea. It is blessed with a large natural endowment, but also cursed by 76 active volcanos, regular earthquakes and several resulting tsunamis.¹

Demography - Indonesia is densely populated with 940 people per km². It has the fourth largest population in the world: 251 million people. 44% lives in cities. The four major cities are on the island of Java, including the capital Jakarta with more than 9 million citizens. The official language is Bahasa Indonesia, which is a modified form of Malay. However, there are more than 742 languages spoken in Indonesia, including Javanese, Dutch and English. There is a similar diversity in ethnic groups, though the Javanese form with 40.6% the largest group. There are 6 official religions, but the country is predominantly Muslim (86.1%).²

Indonesian History at Glance

Indonesia went through more than 350 years of colonization by western civilization, with the Dutch rule being the longest. On August 17, 1945, on behalf of the Indonesian people, Sukarno and Hatta proclaimed independence from Japan who had taken rule from the Dutch in 1942.

¹ CIA. The world Fact Book. <https://www.cia.gov/library/publications/the-world-factbook/geos/id.html>

² IBID

Sukarno then became the first president of the republic. He governed using a nationalistic approach and implemented protectionist policies which favored indigenous businesses. State owned enterprises were formed to serve as the national economic engines, with preferences and monopolies granted to these companies. The economy deteriorated leading to hyperinflation and stagnation, which made Indonesia one of the poorest countries in the world. Following a failed coup attempt in 1965 by the Communist Party, Sukarno lost his power and gradually handed over power to Suharto, who was sworn in as the second president in 1966.

Suharto's administration quickly regained macroeconomic stability. Foreign investment was opened to enable capital inflow, many business barriers were relaxed and infrastructures were built. The economy grew strongly up to the early 1990s, with GDP increase and poverty rate decline. However, the administration was tainted by an authoritarian rule that fostered favoritism to small groups of conglomerates, including Suharto's family members. Corruption, collusion, and nepotism were widespread in the administration. In 1997, the Asian financial crisis hit Indonesia which led the Rupiah currency to a devaluation that reached 700% and an inflation rate of 70% within months. The economic downturn ignited protests against Suharto's 32-year rule. In 1998, Suharto stepped down in the midst of the economic and political crisis. He handed the presidency to his Vice President Habibie.

The end of Suharto's regime marked the beginning of a new era: the widely known "reformasi" or the reformation era. In the next 6 years after President Suharto's resignation, Indonesia had three different presidents until the 2004 general election.

In 2004, Susilo Bambang Yudhoyono (SBY) took office as the first President of Indonesia to be elected directly by the people. Democratization saw the beginning of more balance between

stakeholders in the country: the parliament, the judiciary body, the local government and the media. Decentralization of power to the local governments began with local leaders elected directly by the people. New political institutions were established as reforming forces such as the Corruption Eradication Commission, the Constitutional Court, and the Judicial Commission. The SBY administration has tried to enforce the rule of law and implement more pro-business, open-market policies. A key economic policy was implemented with tourism, trade and investment (TTI) at the core.

Indonesian Economic Performance

After the financial crisis, Indonesia experienced tremendous economic growth. The annual growth of Gross Domestic Product (GDP) has stabilized from -13.7% during the economic crisis to an average of 4% to 6% between 2000 and 2011. Indonesia is now the 17th largest economy in the world and currently one of the G-20³ member countries. It now has a GDP of approximately \$700 billion, the largest in the ASEAN countries. The GDP per capita has increased from \$1,000 to \$4,000; a 400% increase within a decade. Consequently, there has been a gradual reduction in the poverty of in Indonesia to almost 2%. There was a sharp increase in poverty in 2005 as a result of increased oil prices which resulted in Indonesia reducing its oil subsidies.

³ A group of Finance Ministers and Governors of Central Bank of the 20 major economies in the world

The financial sector was badly hit during the financial crisis. At the peak of the crisis, non-performing loans (NPLs) were at almost 35% and the capital adequacy ratio is far below the minimum requirements of 8%⁴ indicating the financial sector was undercapitalized while the quality of loans was deteriorating.

However, the financial institutions now are more stable as indicated in the Figure 1. The

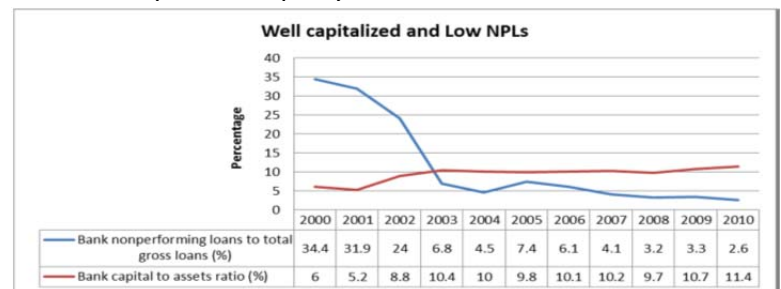


Figure 1: Performance of the Financial Sector for the past 10 years
Source: World Bank Data

financial sector is now well capitalized and maintained a lower level of NPLs. The capital adequacy ratio is 11.4% well above the minimum requirement of 8% set by the international standards and the NPLs has reduced from 35% to below 3% in 2010.

The driver of Indonesia's remarkable economic achievements for the past 10 years is its heavy reliance on its bountiful natural resources. Indonesia has the largest geothermal reserves in the world (40% of the reserves are in Indonesia), is the world's 2nd largest exporter of coal, and has huge oil reserves. In agriculture, Indonesia is both the largest exporter of palm oil and cocoa in the world. Currently, 62% of Indonesia's revenue comes from the oil or agriculture sectors.

Indonesia is blessed with some of the world's most breathtaking beauty- beaches, forests, mountains and volcanoes, drawing millions of tourists to visit Indonesia. Indonesia's 5th largest sector is the tourism sector which is 7%. While tourism is also based on the endowments of beautiful islands, beaches, and biodiversity, it also draws upon the cultural history and national heritage of Indonesia.

⁴ Bank International Settlements sets Risk Weighted Capital Ratio (RWCR) of 8% under Basel II and but higher ratio for Basel III

This sector is a potential growth sector in the future. Since 2004, the annual GDP growth of tourism exceeded the GDP annual growth of Indonesia in every year but 2008, indicating its potential to be the main contributors for Indonesia's future revenue. However, as seen in

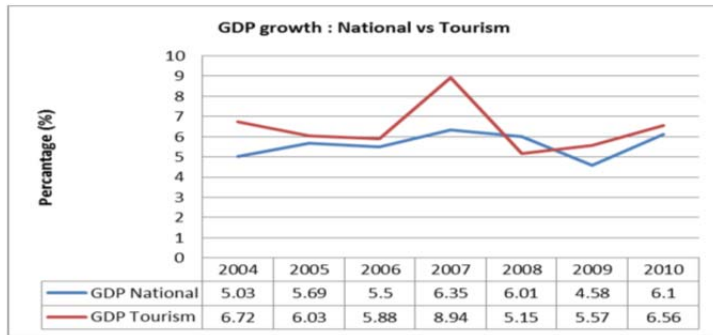


Figure 2: Annual Growth GDP National vs GDP Tourism
Source: Indonesia Statistical Department

Figure 2, the annual growth of GDP for tourism lags that of Indonesia. This is due primarily to the global economic crisis which decreased tourist travel, in particular from European countries.

To understand the potential of the tourism sector to grow, it is essential to assess the drivers of competitiveness. These drivers will be discussed below and each has both assets and liabilities.

Endowments

Despite the abundance of natural resources and strategic geographical location, Indonesia is also vulnerable to natural disasters such as earthquakes since it is situated in the “Ring of Fire”, among the most eruption-prone areas in the world. A 2004 undersea earthquake resulted in a disastrous Tsunami⁵ that wiped out an entire city in Aceh, North Sumatera killing approximately 130,000 people. The country is also very dispersed resulting in a huge challenge for the Government to provide necessary transportation infrastructure.

Addition, given that Indonesia is the largest Muslim population in the world, it was once known to be the breeding ground for terrorism, particularly after 11 September 2001. Due to a consistent fight against the extremists by the Government, there were several incidents where

⁵ The Sumatra-Andaman Earthquake has sent an aftershock of Tsunami wave on 26 December 2004 killing more the 230,000 people and considered to be one of the world deadliest natural disaster recorded.

Indonesia was attacked by the terrorists groups, both in the capital city, Jakarta and in Bali, killing more than 200 foreign tourists. The details of the 3 major terror attacks in Indonesia appears in Figure 3 below.

No	Date	Incident	Casualties
1	12 October 2002	Bali	202 died and 240 injured
2	1 October 2005	Bali	20 died and 129 injured
3	17 July 2009	Jakarta	7 died

Figure 3: Series of Terrorists Attack in Indonesia
Source: Wikipedia

Macro Economics Environment

In terms of macro-economic environment and conditions, the indicators for both fiscal and monetary for Indonesia are very strong and stable, as evidenced by positive trade balances for the past 10 years as well as gradual reduction of debt to GDP ratio to a manageable level. As shown in Figure 4, the inflation rate has been stable for the past 5 years after it reached its peak of nearly 60% during the financial crisis in 1998.

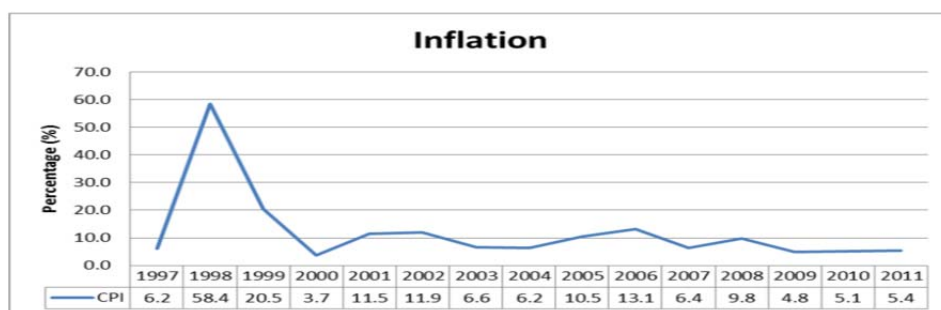


Figure 4: Low Inflation in Indonesia
Source: World Bank Data

This stability is validated by the international rating agencies Moody's, Standard & Poor and Fitch, who have given Indonesia strong ratings.

The macroeconomic competitiveness for Indonesia has improved significantly compared to other countries such as Malaysia, Singapore, Thailand and Australia. However, many improvements must be achieved to continue to gain on these nations. For example, despite the growth in GDP and stable macro-economic environment, the GDP per capita and the productivity level is far below the competitors. Figure 5 clearly indicates that Indonesia lags its competitors.

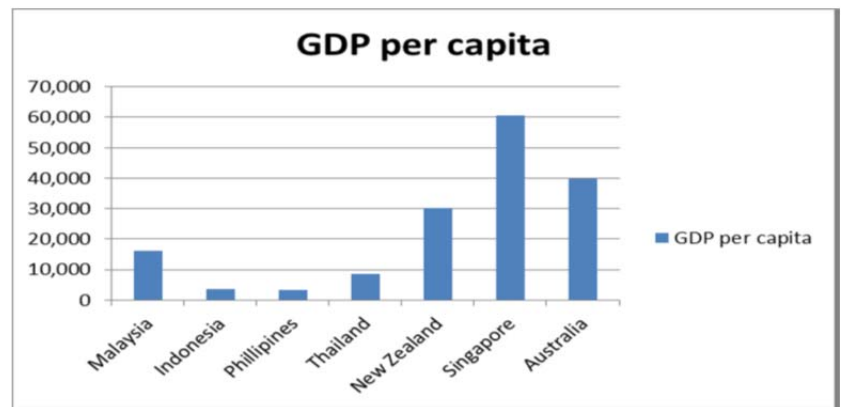


Figure 5: Comparison of GDP per capita for selected countries
Source: World Bank Data

Social infrastructure and political institutions

Indonesian human development is one of the strongest assets. A country with 251 million people, nearly 45 million people are a member of the consuming class⁶. The density of the population is dispersed with 53% of population living in cities throughout Indonesia. However, they produce 74% of the GDP, contributing a hefty 55 million skilled workers living in the Indonesian economy. However, there is a disadvantage of having a large population, particularly in areas of education and poverty. The human development index (HDI), an indicator launch by the United Nations⁷ denotes that Indonesia has a low 5.8 years of mean schooling by people ages 25 and older, ranking the country 121st globally. The country is also caught in a net of poverty with 18.1 percentage of the population living below the international poverty line \$1.25 (in purchasing power parity terms) a day.

⁶ McKinsey Global Institute, *'the archipelago economy: Unleashing Indonesia's potential'*, September 2012, <http://www.mckinsey.com/insights/asia-pacific/the_archipelago_economy>.

⁷ UNDP, *'International Human Development Indicators'*, 2013, <<http://hdrstats.undp.org/en/countries/profiles/IDN.html>>.

In terms of political institutions, it is making progress with the establishment of the Corruption Eradication Commission (KPK)⁸. By making corruption a high-risk and low-reward activity, the KPK is helping pave Indonesia's path to better governance and improved economic development. The fight against corruption has contributed to the increase confidence in the corruption perception index from 1.9 in 2001 to 3.2 in 2012 (on a 1- 10 scale)⁹. Clearly, the lesser corruption perception is insufficient to reduce the negative perception in the legislative branch. The overall ranking of Indonesia's transparency stands at 118, compared to the neighboring Thailand at 88 and Malaysia at 54.

Indonesia Exports and Competitiveness Diamond

Indonesia is a country that is very dependent on its natural resources. As seen in the export

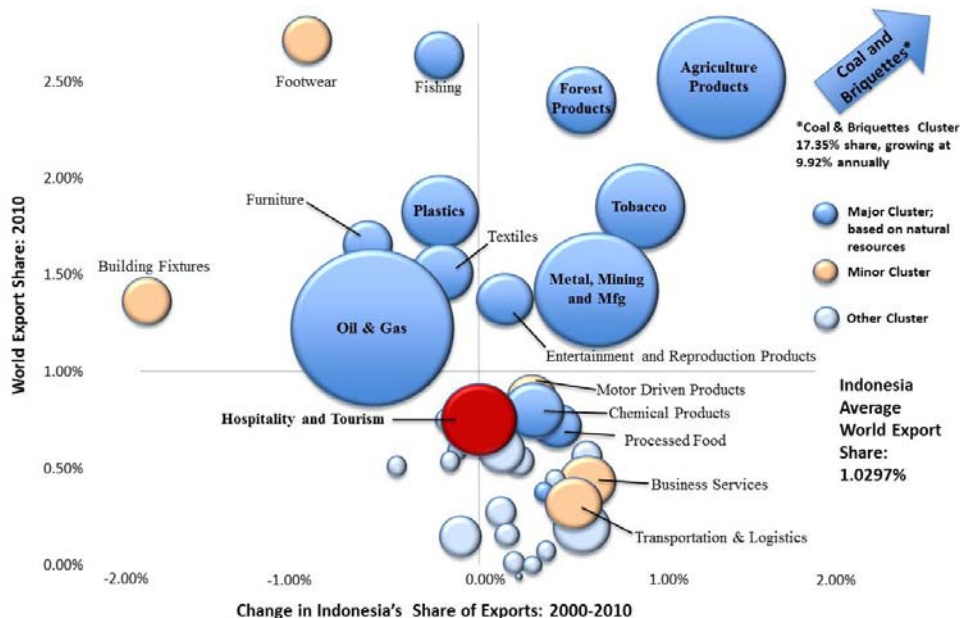


Figure 6:Indonesia World Exports
Source: Institute for Strategy and Competitiveness

bubble chart, Indonesia's exports are heavily weighted on coal, oil and gas, agriculture, and metal, mining and manufacturing, and to a lesser extent, on fishing, forestry, and tobacco. One highlight (and indeed the focus of this report) is the small yet

important cluster of Hospitality and Tourism.

⁸ Bolongaita, Emil P. 2010. "an Exception to the Rule? Why Indonesia's Anti-Corruption Commission Succeeds Where Others Don't - a Comparison with the Philippines' Ombudsman." *Chr. Michelsen Institute (U4 Issue 2010:4)* 4: 1.

⁹ International, Transparency. 2012. "Corruption Perception Index 2012." 2012: January 3, 2013-1.

One cannot fully understand the competitiveness of a country without examining it using the *Diamond* tool developed by Professor Michael Porter of the Harvard Business School. The four elements help tell the story of the competitiveness of the country.

We see that Indonesia has points on each side of the ledger in all areas of the Diamond. Factor conditions are essentially business inputs; Indonesia has some major negatives here in poor quality of transportation and logistics and poor “doing business” policies.

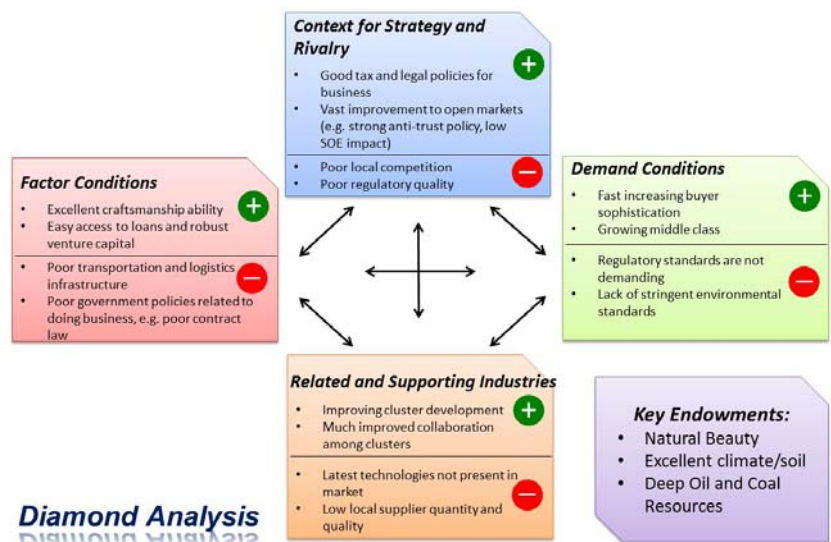


Figure 7: Diamond Analysis of Indonesia Competitiveness

Demand conditions measure the sophistication of the local demand; here we see that the middle class is growing and sophistication of demand increasing, but that regulatory standards and in particular environmental standards are needed. The Context for Strategy and Rivalry measures local incentives to encourage productivity and investment; Indonesia has a good business climate (open markets, good tax and legal policies) but the local firm competition is low. Finally the Related and Supporting Industries speaks to the country’s robustness of supplies and supporting businesses; here, Indonesia is improving cluster depth and collaboration, but there is limited quantity of suppliers and a dearth of technological sophistication.

Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI)

In an effort to sustain its economic growth, the government initiated a master plan which was drafted by the Boston Consulting Group. It identified key challenges which must be addressed through comprehensive measures by the different stakeholders. The MP3EI, was inducted as an official government document to transform Indonesia into a top 10 world economy by 2025.

The 2025 Vision: Create a self-sufficient, advanced, just and prosperous Indonesia

It is a collective approach toward improving and utilizing the country's resources, strategic position and manpower, which aims to enhance collaboration between central government, local government, state owned enterprises, and the private sector.

MP3EI studies identified the main challenges of the nation as:

1. Primary focus on agriculture and industries which extract and harvest natural resources, with very limited focus on products with added value.
2. Limited infrastructure: transportation, and information and communication technology.
3. Quality of human resources: 50% of workers have primary school education and only 8% attain a formal diploma.
4. Rapid urbanization: 53% living in urban areas and will increase to 65% in 2025 ☐
implications of employment structure, increase land use conflicts

With these challenges identified, the government is committed to collaborate with the private sector and other stakeholders to improve the business environment and crafted:

Productivity, Value, and Innovation Focus

1. Increase value-add and expanding the value chain for industrial production processes.
2. Encourage efficiency in production and integrate domestic markets to push for competitiveness and strengthen the national economy.
3. Strengthening of national innovation system in production, process and marketing towards innovation-driven economy.

Strategy encompassing 3 main elements:

1. Development of 6 regional economic corridors: Sumatra, Java, Kalimantan, Sulawesi, Bali-Nusa Tenggara, Papua-Kepulauan Maluku
2. Strengthening national connectivity locally and internationally
3. Strengthening human resource capacity, and national science & technology to support the development of main programs

Emphasis of the economic development of the 6 economic development corridors:

1. Increase of productivity and value-adding on natural resource management
2. Diverse and inclusive economic development, connecting corridors with other regions
3. Sector and regional development synergies to enhance competitive advantages
4. Integrated economic development between transportation and logistics
5. Supported with fiscal and non-fiscal incentives, ease of regulation, licensing, and optimum public services

Need for Improved Coordination and Collaboration

This team has observed that although the MP3EI has crafted a comprehensive strategy towards economic development, a more coordinated and collaborative approach is needed between the national and local governments, private sector, and Institutes for Collaboration (IFCs). There are several IFCs we identified needing to be integrated such as Kadin Indonesia (the Indonesian Chambers of Commerce and Industry), Apindo (the Indonesia Employers Association), the National Economic Commission (KEN), and the Implementing Committee for the MP3I. These organizations can help provide the glue between the national level strategic plan and the local level implementation of that plan

PART 2 - CLUSTER ANALYSIS: BALI

Geography – Bali is located to the east of the island Java. It is a mere 5.632 km², which is 0.3% of Indonesia's landmass. It has two active volcanos: Mount Batur and Mount Agung. The latter erupted in 1963. Bali is a tsunami risk with its low lying beaches, but was shielded from the catastrophic 2004 tsunami



by the islands of Java and Sumatra. The island is known for its natural beauty, especially the beaches and the rice terraces in the Ubud region (My Bali Guide 2012).

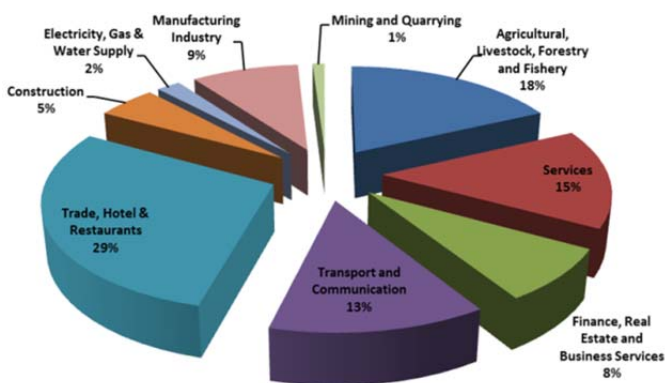
Demography – Bali houses 3 million Indonesians of which 370.000 live in the capital of Denpasar. The main languages are Balinese and Bahasa Indonesia, due to the influx of migrant workers. English is a common third language, due to the 8 million tourists that visit each year. The main religion is Balinese Hinduism (95%) in contradiction to the dominant Muslim religion in the rest of Indonesia. Tourism claims 45% of the workforce, though farming, fishing and

craftsmanship are also important sectors. Balinese are known to be friendly and service oriented.

The top attractions of Bali can be divided in three categories nature, temples and culture. Nature includes first and foremost the beaches and the rice terraces in the Ubud region. Bali became known in the seventies as a surfers-paradise and at Kuta beach this is still a reality. Mount Batur, the sacred monkey forest, the National Park, the hot springs, and elephant safaris are popular attractions. The Besakih 'mother temple' and Tanah Lot at the ocean side are perhaps the most famous temples, but Bali has a plethora. Culture can be found in Batubulan village and GWLK cultural park. Most attractions are located in the south or close-in in the Ubud region.

Bali 2010 GDRP Sector Contribution

The pie chart below depicts Bali's GDRP by sector. Highlights from this chart are:



- Trade, Hotel and Restaurants account for 29% of the GDRP
- Agricultural, livestock, forestry and fishery comes in second, and support the tourism cluster with natural scenery as well as organic farm tour options
- The next largest sectors of services, finance, real

Figure 7: Indonesia GDRP by Sector

estate and business services, and transport and communication also are essential elements for the tourism cluster as they are required for the cluster development

Cluster Performance

By looking deeper into the trade exchange of Bali, we can understand the characteristics of the island. The trade export market originating from Bali is very active. As of February 2013, the trade export is valued at \$43M. Figure 8 shows that the top three main export destination of Balinese product is the United States, Singapore and France. The top Balinese products include clothing, fishery, jewelry, wood, and furniture. The trade products can become a signature of Bali to the outside world. More effort to enhance trade export could make Bali better known to the outside world. This will in turn help increase the curiosity of the foreigners abroad to visit

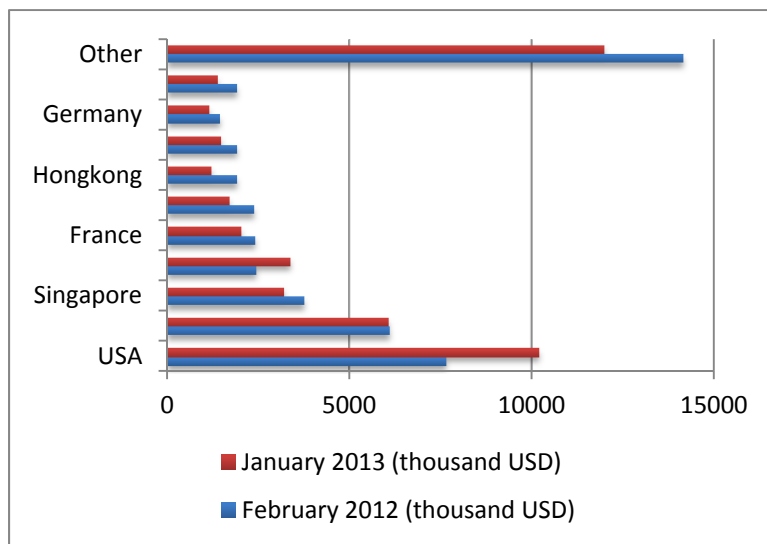


Figure 8: Bali Export Destinations

Bali. The high amount of trade to the US, France and Germany may be a potential to drive tourism from these countries. Interestingly, the top three tourist origin countries are China, Australia, and Japan. Imports also help round out the potential for

tourism generation. Bali relies heavily on imports of products from Hong Kong, Singapore and the US.

Ida Ayu Kencanawati Pidada, secretary of Bali Export Development Organization (BEDO) recently said to the media that “so far SMEs produced items just to follow mainstream trends,

without adding distinct Balinese touches”¹⁰. This could be one of the key reasons why although there is a significant export from Bali to elsewhere, but it does not translate to a higher tourist from that country.

Cluster Time Line

Bali tourism started in 1960s when the first international airport, Ngurai Rai International airport, opened in 1969 after six (6) years of construction. In 1972, with the advice of the World Bank, the first Master Plan for Tourism Development in Bali was created. The plan focused on the development of tourism in the East Part of Bali to attract foreign tourists. Two important events in the 1980s made tourism more important to the Indonesian economy: the oil crisis in the middle 1980s and the opening of foreign airlines to fly direct to Bali in 1987. However, due to rapid development in Bali throughout in 1980s, the Government decided to freeze the construction of the hotel in 1991. The tourism sector in Bali took another hit during the ASEAN financial crisis as there were riots due to political instability.



Over time the government of Indonesia has introduced several logo's for Indonesia and even one for Bali. All exist next to each other, which creates logo confusion and a lack of a consistent message.

¹⁰ The Jakarta Post, 'SME products lack Balinese style', January 9, 2013, < <http://www.thejakartapost.com/bali-daily/2013-01-09/sme-products-lack-balinese-style.html>>.

The Bali Tourism Cluster Diamond Analysis

As was done in the case of Indonesia, the task is now to examine the competitiveness of the Bali tourism cluster in the Diamond tool. The examination shows that there are several issues at play:

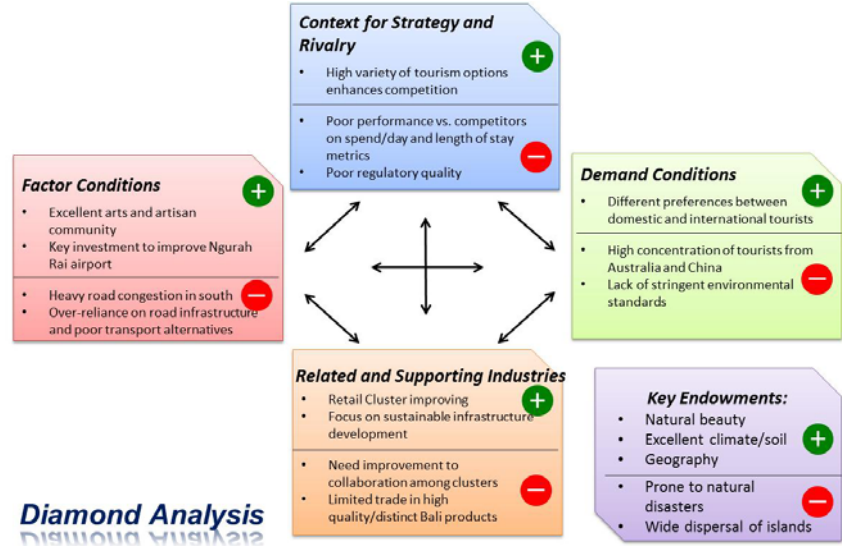


Figure 9: Bali Tourism Cluster Diamond Analysis

<u>Element</u>	<u>Advantage</u>	<u>Challenge</u>
Factor Conditions	Excellent arts and artistry and key improvements to airport	Heavy overreliance on roads leads to high congestion
Demand Conditions	Bifurcation of demand from domestic and international tourists	High concentration of tourists from China and Australia
Context for Strategy and Rivalry	High variety of tourism options	Low spend/day and length of stay compared with competitors
Related and Supporting Industries	Improving Retail cluster Focus on sustainable development	Must improve cluster collaboration

Bali Tourism Cluster Map

The map below shows the Bali Tourism cluster. Tourism is a bit different than more traditional industries in that a very distinct supply chain and downstream distribution and value-add organizations are not present. Tourism is more of an ecosystem of various travel service, tour, restaurant, and transportation providers as well as resort, attraction, entertainment and

convention proprietors. There certainly is a supply chain to provide, for instance, the various products and services a resort operator needs. But the product is not really a product or a service. Tourism is about providing an experience to a traveler. The map shows additional elements related to the tourism cluster: related Retail, Culinary, Transportation and Logistics, and Construction clusters as well as Institutes for Collaboration, Universities, and government entities that interact with the cluster.



Figure 10: Bali Tourism Cluster Map

Bali Tourism Demand Conditions

The flow of tourist coming to Bali also differs in accordance to the origin of the tourist. The domestic tourist defined as local tourist has a specific preference differentiating them from the foreign tourist coming from outside of Indonesia. Through the data given by the Bali BPS, on average, the length of stay in Bali, Badung and Gianyar has the highest number of days stay for domestic tourist particularly in January 2013 averaging 4.21 days per visit. This is important to clarify, what makes Badung and Gianyar an attractive destination for domestic tourist. In our

interview, it is noted that domestic tourist have a high preference towards areas that has a combination of excellent beaches and good shopping area.

The high concentration of local tourists to both Badung and Gianyar creates

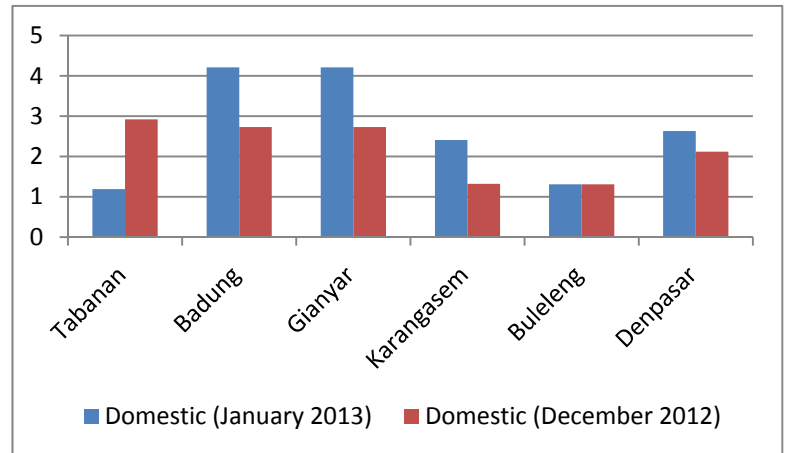


Figure 11 domestic tourists destinations and length of stay in Bali

questions of whether the district is able to cope with the number of tourist in the area. Clearly, the growth of the island as it mainly concentrated in the Southern part of Bali. Traffic congestion, lack of clean sanitation, and the absence of mass public transportation become key issues that hinder the attractiveness of Bali in the tourism industry.

Similarly, the foreign tourist has a different characteristic. Based on the average length of stay,

Karangasem in January (4.35 days) and Denpasar in December (5.35 days) are among most favorite destination. From our interview, it is noted that both areas provide one of the best view of a beach that is highly attractive for foreign tourist. Foreign tourist finds the pleasure of being in the beach rather than focus on shopping areas.

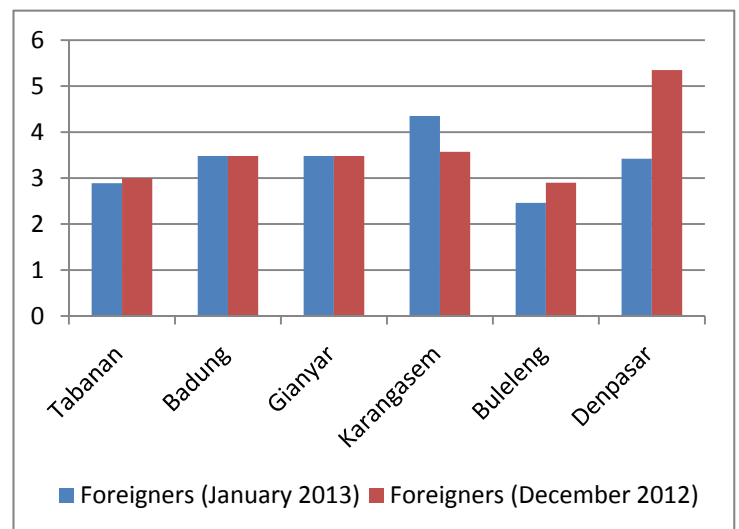


Figure 12: Foreign tourist destinations and length of stay in Bali

People from Australia, China and Japan dominate the three country of origin for tourism in Bali.

The outlook also explains that the length of stay for a foreign tourist rely heavily on the on the

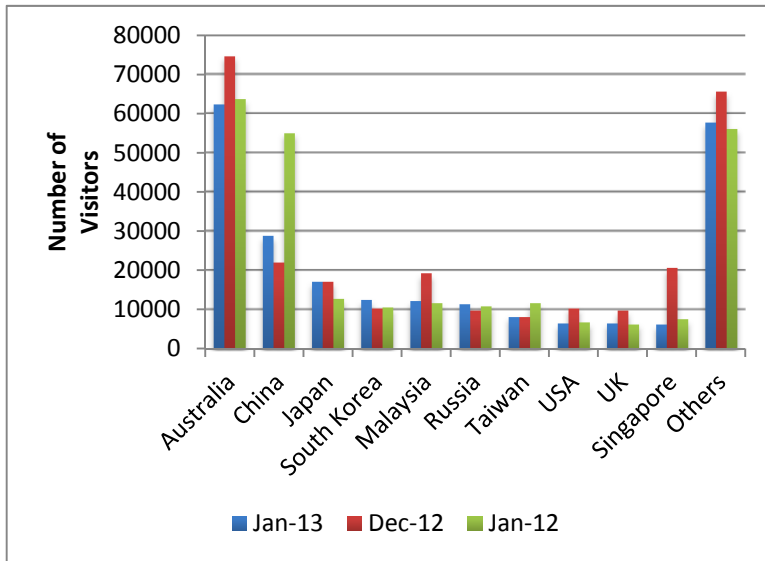


Figure 13: Bali foreign tourist points of origin

domestic horizon within a foreign country. Furthermore, the domestic changes ongoing in a certain country also affect the number of visitors coming to Bali. In January 2012, there is a significant dipped in the number of Chinese tourist coinciding with the Chinese New Year.

As elaborated earlier, this contradicts the fact that although United States, Singapore and France are the main export destination, but they are not the main visitor to the island. In the recommendation section of this report, we will highlight efforts to try to address the various findings in demand condition.

Context for Rivalry and Firm Strategy

The hotels on Bali have been concentrated in the South, in the Ubud region inland and are now expanding along the coastline to the south-east. The majority is relatively close to the International airport and ferry terminal at the capital

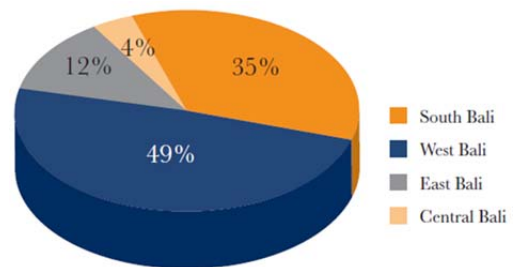


Figure 14: Bali hotel distribution

Denpassar. The main attractions are also in the same region. There is a trend towards more sophistication. Most hotels being built are 4 star (28%) or 5 star (32%) hotels. The new 3 star hotels (40%) also have luxurious rooms, but no restaurants and sometimes no swimming pool (Horwath HTL 2012). They are catered to visitors that like to eat out and go on day trips. All inclusive hotels are not popular in Bali.

Kevin Abramowicz, the general manager of the 5 star Legian Hotel, explains that the turnover of staff is with 6 months relatively high, since there are so many opportunities in tourism.

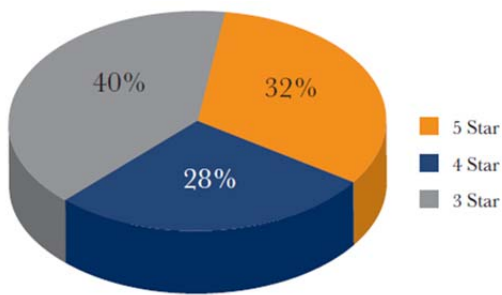


Figure 15: Bali hotel ratings distribution

Employer loyalty is created by giving additional training sessions and languages courses. When compared to a similar destination like Phuket Abramowicz says the service is higher, but the beaches in Thailand are perhaps better. He acknowledges that the hotel association and

the local government should work together to keep the beaches clean and in pristine state.¹¹

Factor Conditions

Education - In terms of education as a factor conditions, Bali is still behind other regions in terms of literacy rate. Based on the statistics, Bali illiteracy rate is still among the highest among the regions compared to that of other regions. More importantly, it has the higher illiteracy rate compared to average Indonesia level for the youth level that is 10% compared to that of 7% for the country. It is also supported by the fact that only two universities in Bali is in the top 100 of Indonesia top universities and they are Ganesha University of Education, Singaraja (34th) and Indonesia Institute of Arts, Denpasar (68th). Besides these two Universities, Bali housed two other popular universities such as Bali State Polytechnic, Kuta and Udayana University, Denpasar which is just established in 2006. In one of the interviews with the owner of a restaurant Mr. Degan, he indicated that one of the main issues he faced is the low level of education of Balanese. Mr. Degan is a chef and has worked as a chef at several 5 star hotels in Bali, Thailand and Maldives before decided to open his own restaurant in Bali.

¹¹ Interview with Kevin Abramowicz, the general manager of the 5 star Legian hotel

Due to this issue, he needs to allocate time to train and equip them with necessary skills, which would increase time and costs. He also emphasized it is challenging to find an English speaking Balinese worker.

Related and Supporting Industries

Culinary - The link between tourism and a culinary experience can be enhanced. Ingredients from Bali have deep historic roots, as the Dutch in the 16th century already imported spices from the island. The rich volcanic soil makes the local rice and other agricultural products well known. Made Martini, trade attaché at the Indonesian Embassy, sees an important role for local Balinese agricultural products. “A local entrepreneur started a social initiative in a poor region of Bali, which focused on cultivating cashew nuts. They are so rich of taste. I am helping him to export the nuts to high-end restaurants in the USA”. These products can be introduced to visitors (Martini 2012). Similarly, the Balinese kitchen can be introduced to tourists, which could lead to a wider international demand for Indonesian food, just like the Thai kitchen has conquered the world.

IFCs - Similar at the national level, the coordination between the government and private agencies relevant to the tourism sector in Bali should be improved. One of the critical IFCs here is Bali Tourism Board which was established in 2002 by nine (9) major associations among others are Indonesian Hotel and Restaurant Association, Bali Tourism Transportation Association and Bali Village Tourism Marketing and Promotion Association. The Tourism Board should be a one-stop center for tourists to seek for information with regards to tourism in Bali. In terms of the promotion of the exports of SMEs products and Bali’s entrepreneur development, there are two important agencies that are directly involved i.e. Bali Export

Development Organization (BEDO) and Euro-Bali Export Network. BEDO which was founded in 2006 focuses on assisting Bali's SMEs and entrepreneur in terms of capacity building, networking, training and knowledge sharing. In addition, it facilitates the SMEs to participate in the international trade fairs. As for Euro-Bali Export Network was an extension of BEDO focusing on promoting trade cooperation possibilities between Europe and Bali for products such as jewelry, furniture, handicraft and garment. ASEAN tourism cooperation is another IFC that is very critical in order to embark on regional tourism. It was formalized in 1976 and the most significant milestone is the establishment of the ASEAN Tourism Information Center in 1988. The purpose of this IFC is for shared resources focusing on the areas of promotion, marketing as well as research. In 1992, it has successfully launched the Visit ASEAN (VAY 92). Given the specialties of each IFC, better coordination and cooperation would yield greater synergy.

Retail Cluster - We have identified that Bali's retail shopping Sector is increasing its role as an important sector for the tourism cluster. It mainly has three formal retail type of stores: department stores, supermarket/minimarket, and specialty stores (specific apparel, surfing equipment, local souvenir shops). Although there are foreign retail chains such as Seven Eleven, Ripcurl, Quick Silver, the bulk of stores are local owned. The informal retail sector at the traditional (non-modern) markets is also popular especially amongst local tourists. There is lack of sophistication in suppliers to the retail sector.

Overview of the Bali-Nusa Tenggara Economic Corridor

- The theme of Bali - Nusa Tenggara Economic Corridor is the Gateway for Tourism Industry and National Food Support

- Challenges facing the corridor: Unequal population distribution, low investment level, limited availability of basic infrastructure
- Main economic activities: Tourism, Fisheries, Animal husbandry

Bali Tourism Brand Value Proposition - Bali became known in the seventies as a surfers paradise with pristine beaches and a beautiful blue ocean. That image still stands today but should be built upon. The re-branding of Bali with the arts and crafts logo and the Hindu tagline “Shanti, Shanti, Shanti” was a mistake, as craftsmanship and Hinduism are not driving factors to visit Bali (Creative Roots 2012).



The proposed logo of Bali positions it clearly as an island with a blue ocean. The green lines symbolize the famous Ubud rice fields.



The tagline ‘Taste Paradise’ sends a subtle message that the Balinese kitchen is something to experience. There is an opportunity for the agriculture and culinary clusters to forge a stronger bond with the tourism cluster. Balinese spices, rice and other distinct products can be introduced to visitors, that might bring their newly acquired tastes back home. Similarly, tourists can experience the Balinese kitchen, which could drive demand of Balinese ingredients and cuisine abroad; Thai cuisine has conquered the world, Balinese cuisine can make strides. Tourism promotion and culinary promotion at trade shows can overlap and reinforce each other.

Challenges and Recommendations

The analysis performed on both Indonesia’s Macroeconomic competitiveness as well as Microeconomic Competitiveness highlighted many challenges and leads to several

recommendations. A full list of challenges and recommendations can be found in the accompanying powerpoint presentation to this report.

Endowments

<i>Challenge</i>	<i>Recommendation</i>
<i>Indonesia has a key endowment of location and its islands are quite diverse, however they are highly disconnected</i>	This can be addressed by developing a comprehensive strategy at the national level to improve transportation infrastructure connecting the islands, including the development of more and better regional airports as well as investing in the many seaports throughout Indonesia and developing hi-speed ferry service to interconnect the islands.

Macroeconomic

<i>Challenge</i>	<i>Recommendation</i>
<i>There is a very high dependence on natural resources.</i>	The national government, in concert with private sector business leaders must develop a plan to target investment, training, and policy to develop industry around the natural resources industries to get higher value products and services into Indonesia's industrial portfolio. Just an example would be to develop a more robust food processing and packaging cluster around the agriculture sector.

<i>Challenge</i>	<i>Recommendation</i>
<i>High percentage of population living in poverty</i>	It is vital to the sustained growth of Indonesia that a national plan be made to develop a higher standard of living for all Indonesians

High level of corruption (and, importantly the perception of corruption) There can be no simple plan to address this, but a sea change in government is needed. It must include the executive branch as well as legislative and encompass political parties and those wielding influence. A key driver can be a revamped judiciary empowered to stamp out corruption. This broad-based approach must move down to the regional and local government levels.

Microeconomic- the Bali Tourism Cluster

<i>Challenge</i>	<i>Recommendation</i>
<i>Weak transportation infrastructure</i>	If a nation is a body, then transportation is the circulatory system that sustains life throughout the body. The vast majority of Bali goes unused and underdeveloped. Most tourists, both domestic and international, are trapped in the south and center of the island where the beaches, attractions and entertainment options, and related shopping and culinary sectors are richest. A comprehensive transportation plan that includes railroads, regional airports, and high speed ferries to take tourists to farther afield locations- first within Bali then later to other islands.
<i>Roadway congestion</i>	
<i>Trash collection and clean-up issues</i>	
<i>Tourist points of origin greatly concentrated</i>	Currently, China, Australia, and Japan dominate the tourism market. A detailed marketing, communications and branding campaign can bring the message of Bali as Paradise to a larger range of affluent countries in Europe and North America led by Balinese trade of unique agricultural and art and artisan products.

<i>Challenge</i>	<i>Recommendation</i>
<i>Low length of stay and spend per day</i>	By unlocking the rest of Bali and eventually other islands through the concerted transportation plan cited above, Bali and Indonesia can increase the length of tourists' stays and by developing and emphasizing Bali's unique artistry , culinary and agriculture sectors, the spending rate can be increased.

Conclusion and Final Recommendation

There are several key challenges facing the Bali tourism cluster and most of them have nothing to do with the tourism industry. Chief among them is the lack of a robust transportation infrastructure. This creates a lack of connectivity to the rest of the island as well as to nearby islands. Symptoms of this ailment are roadway congestion, a trash collection and clean-up problem in the south, and essentially locking Bali's 8 million annual tourists due to overreliance on roads. These issues are anathema to Bali's brand of Paradise. A comprehensive transportation plan is necessary for the island and the national government must reconsider the policy of fuel subsidies. This is making driving a very cheap method of travel for Balinese and tourists and exacerbates the congestion and trash issues.

Beyond this specific issue, there is a more general issue facing Indonesia in general and Bali in particular. That issue is a lack of execution and implementation of national strategic plans. The Indonesian government paid \$4 Million for the Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI). This plan, in the case of Bali, has not yet been implemented. The plan has been reviewed in the course of this analysis and found to be a solid

start. However, the Implementing Committee on the MP3EI has largely been unsuccessful. This team recommends a new approach to implementation.

There must be an identified champion for the Bali- Nusa Tenggara Corridor. This person must be either selected by the President or given the official support of the President to implement the Bali- Nusa Tenggara Corridor portion of the MP3EI. This leader **must** be given the authority and the responsibility to implement so that when he or she speaks, it is as if the President is speaking. There is a difference between leadership and management. Managers do things right. Leaders do the right things. The leader of the implementation team must do the right things but also must be surrounded with people who do things right.

The implementation team must be a cross-functional team of Ministerial people- NOT the ministers themselves, they are too busy running their Ministries, but key staff that are in turn given the authority and responsibility from their Ministers to implement the plan. This will ensure that when any issue arises it can be resolved quickly and efficiently. This team must include both local private sector heads and regional and local government representatives- ideally leaders in Bali, Nusa Tenggara, and key cities in those regions. All members must buy into the plan and be pulling on the same rope to get the corridor plan implemented and key recommendations of this report (such as improving the transportation infrastructure) will get done.

The force of will of leaders can solve many problems. The Denpasar Ngurah Rai Airport expansion has been done quickly to prepare Bali to host the upcoming APEC CEOs Summit in October 2013. The Bali Tourism cluster will benefit greatly from that kind of high-priority

atmosphere. That is the kind of atmosphere a new implementation team as outlined above can bring.

In conclusion, there are many key positive elements to the Bali tourism cluster. Bali is the “Island of the Gods” for a reason. But the gods never had to deal with day-to-day problems such as roadway congestion, troubling trash removal problems, or a lack of diversity in tourism destinations. By following the recommendations in this plan and addressing the key challenges highlighted Bali can indeed be the tourism Gateway for Indonesia.

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Disclosure:

1. Two members of the team namely Jimmy Ghani and Izhari Mawardi are Indonesia nationals.
2. No travel was conducted for research purposes.
3. Bali, Taste Paradise logo by Frank Kampes. F-Dimension, Hilversum, The Netherlands.

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