

## Does Customs Facilitation Programs Enhance Regional Economic Growth?

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### ABSTRAK

*Measuring the effect of customs facilitation and fiscal decentralization are essential to assist regional government. This activities are important in order to direct the regional economic growth policy. The customs facilitation is important because this policy could reduce the tax rate in trade activities. While the fiscal decentralization gives the local governments higher authority to manage their funds. The local governments need an assurance, regarding the relationship between the utilization of customs facilitation and the fiscal decentralization to their regional economic growth, in order to optimize the benefit of this instrument. This research describes the relationship between Customs facilitation, Free of tariff and import taxes, fiscal decentralization, own-source revenue and general allocation grant, to the regional economic growth in West Java. The panel data from 2012 to 2015 and regression analysis are used in this paper. The result implies that the customs facilitation, import taxes, has a positive and significant impact on regional economic growth.*

## 1. INTRODUCTION

### 1.1. Background

In the new global economy, economic growth has become one of the best approximations to be used by the government as consideration in formulating its policies. Economic growth refers to the increase in the capacity of an economy to produce goods and services, compared from one period of time to another. According to Mankiw, economist often use data on gross domestic product (GDP) to measure economic growth since it measures the total income of everyone in the economy (2003, 205).

The economic growth rate is a measure of economic growth from one period to another in percentage terms. It provides insight into the general direction and magnitude of growth for the overall economy. The economic growth rate demonstrates the change in a nation's income over a specified period of time (most of the time using yearly basis) and can be expressed as:

$$\text{Economic growth rate } (\Delta Y) = \frac{GDP2 - GDP1}{GDP1}$$

GDP is considered as the broadest indicator of economic output and growth because it represents the market value of all of goods and services produced by the economy during the specific period measured. It includes personal consumption, government purchases, private inventories, paid-in construction cost, and the foreign trade balance (exports are added, imports are subtracted).

Real GDP takes inflation into account, allowing comparisons against other historical time periods. It is the one indicator that elaborates the most about the health of the economy and the advance release will almost always move markets. It is by far the most followed, discussed, and digested indicator for not only policy makers, but also investors.

While the nature of economic growth is most often leaning towards a positive movement, in reality the economic changes of a country can be positive or negative. The positive value of economic growth addresses an increasing capacity of a country. In contrast, a negative value of economic growth indicates that the country's capacity is shrink. In other words, the income lost over the time period being examined. An economy is considered falling into a recession when a country experiences two consecutive quarters with falling growth rates.

## 2. THEORETICAL FRAMEWORK

### 2.1. Gross Domestic Product

The general consensus shows that 2.5-3.5% per year growth in real GDP is the range of best overall benefit; enough to provide for corporate profit and jobs growth yet moderates enough to not incite undue inflationary concerns. If the economy is just coming out of recession, it is safe for the GDP figure to jump into the 6-8% range briefly, but investors will look for the long-term rate to stay near the 3% level.

While GDP measurement takes the country as a whole observation, in smaller scope, the measurement

of a region's economy is expressed as gross regional domestic product (GRDP). It represents the aggregate of gross value added (GVA) of all resident producer units within the region. GRDP is one of the most useful tools for the local government to monitor its economic growth because it includes regional estimates on three major factors, such as agriculture, forestry, and fishery; industry sector (mining and quarrying, manufacturing, construction, electricity, and water); and service sector (transport, communication and storage, trade, finance, ownership of dwellings and real estate, and private government services).

Increasing the regional economic growth has always been one of the local government's significant interest since it indicates the expansion of goods and service in the specific region. The central government encourages the local government to utilize regional economic growth using tax facilitation as an instrument. Customs facilitation is one of the best option. The main reason is because customs facilitation has emerged as a powerful platform in facilitating trade and assisting industry in Indonesia.

### 2.2. Customs Facilitation

In order to ensure the scope of the analysis, it is crucial to define the term of customs facilitation. As defined by the Law Number 17 of 2006 regarding Amendment to Law Number 10/1995 on Customs Article 26, the exemption or relief of the import taxes may be granted for import of (1) Goods and materials for the establishment and development of industry in the enhancement of investment purposes; (2) Machineries for the establishment and development of industry; (3) Goods and materials for the establishment and development of industry for a specified period of time; (4) Equipment and materials used to prevent environmental pollution; (5) Seeds and breeding animals for the establishment and development of agricultural industry, animal husbandry, or fishery; (6) Marine products caught by licensed hauling vessels; (7) Goods which are naturally damaged, decreased in quality, destroyed or decreased in volume or weight occurred between the time of transportation to the customs territory and the time of import approval for home use; (8) Goods, conducted by the government, both central or local, for public purposes; (9) Goods for sporting purposes conducted by the national sport organization; (10) Goods for the purposes of government project funded by foreign loan and/or grant; (11) Goods and materials to be processed, assembled, or installed on other goods intended for export.

The term of customs facilitation in this paper is limited to the customs facilitation in the form of Import Facility For Export (Kemudahan Impor Tujuan Ekspor, KITE) as mentioned in point 11, including tariff (Bea Masuk, BM) and import taxes (Pajak Dalam Rangka Impor, PDRI). While the customs facilitation in the form of cooperation with Indonesia Investment Coordinating Board (Badan Koordinasi Penanaman Modal, BKPM) as mention in point 1, 2, and 3, including import duty (Bea Masuk, BM) and import taxes (Pajak Dalam Rangka Impor, PDRI).

The customs facilitation in the form of Import Facility For Export (KITE) is one kind of facilitation offered by the Directorate General of Customs and Excise to exempt or refund the import duty and/or import taxes for import of goods and materials to be processed, assembled, or installed on other goods intended for export.

There are two kinds of KITE facilitation, which are: (1) Exemption of the import duty and/or import taxes. The goods and materials imported are to be processed, assembled, or installed on other goods intended for export shall be granted with exemption of import duty, value added tax, and luxury sales tax. The terms and conditions are: a) Imported materials is granted with exemption of import and excise duty, while value added tax/luxury sales tax are discharged (with security). b) Income tax Article 22 should be paid. c) The security will be refunded after the goods are exported/sold to the Bonded Zone. (2) Refund of the import duty and/or import taxes. The goods and materials imported or produced in Bonded Zone are to be processed, assembled, or installed on other goods intended for export shall be granted with refund of import duty, value added tax, and luxury sales tax. The terms and conditions are: a) When the goods and materials are imported, the import duty, excise duty, value added tax, and luxury sales tax should be paid first. b) The import duty, excise duty, value added tax, and luxury sales tax which are already paid in the first place shall be refunded once the goods are exported or sold to the Bonded Zone.

There are also several ground rules related to the KITE facilitation: (1) The exemption and refund of the duties might be granted to goods produced from imported materials handed over to the Bonded Zone for further process. (2) The exemption and refund of the duties shall not be granted to gasoline, lubricant oil, and capital goods. (3) Only 25% of final goods from production process can be sold within the country after they are exported/sold to the Bonded Zone. In contrast, the exemption and refund of the duties do not apply to those goods. (4) The by-products, remaining left over goods from production, rejected goods, and rejected materials from which the materials were imported can be sold within the country or destroyed.

The customs facilitation in the form of cooperation with Indonesia Investment Coordinating Board (BKPM) is one of facilitation offered by the Directorate General of Customs and Excise and Indonesia Investment Coordinating Board which consist of: (1) Import duty exemption. Regulation of Ministry of Finance Number 76/PMK.011/2012 jo. Number 176/PMK.011/2009 regulates that the exemption from import duty on the import of machines, goods, and materials for production for a period of two years; import duty exemption is granted for two years based on the installed machine capacity for production purpose and available for 1 year extension; and if the company uses at least 30% local machineries, import duty exemption is available for additional product for four years. It is important to be noted that the imported machine, goods, and raw materials are not yet being locally

produced; if the local machines are available, yet unable to fulfill the criteria of required machines; if the local machines are available, yet unable to fulfill the total number of required machines. (2) Tax allowance. Government Regulation Number 9 of 2016 regulates the facilities such as total net income reduction by 30% of the investment that are charged respectively 5% per year in the six years period; accelerated depreciation and amortization; imposition of income tax on dividends which paid to foreign tax subject of 10%, or a lower rate according to the avoidance of double taxation agreement; and compensation losses longer than five years but not more than 10 years with certain conditions. These facilities shall be granted to the companies that are located in industrial or bonded zone; developing infrastructure; using at least 70% domestic raw material; absorbing 500 to 1,000 labors, having research and development program; reinvesting capital; or exporting at least 30% of selling product. There are 145 eligible business fields for tax allowance. (3) Tax holiday. Regulation of Ministry of Finance Number 159/PMK.010/2015 regulates that income tax exemption of tax holiday are available for 5 to 15 years and is possible for the extension up to 20 years under the discretion of Minister of Finance. For communication, information, and telecommunication industry, the value of investment plan could be lowered from Rp500 billion to Rp1 trillion for exemption up to 50% and if the investment value exceeds Rp1 trillion, the exemption is available up to 100%. There are nine types of industries that are eligible for tax holiday, which are upstream metal industry; oil refinery industry; organic basic chemical industry based on oil and natural gas; machinery industry producing industrial machine; processing industry based on agriculture, forestry, and fisheries; telecommunication, information, and communication equipment industry; maritime transportation industry; processing industry that are main industry in Special Economic Zone; and economic infrastructure not in the scheme of Government and Business Project.

In addition, it is important to be highlighted that all of the form of customs facilitation observed in this paper is only in the term of exemption or relief.

### 2.3. Fiscal Decentralization

Examining further into Indonesia's government structure, the implementation of decentralization policy has resulted in the increase of opportunities and obligations for the local government to expand its economic growth. The local government could use the customs facilitation as an instrument to boost the growth of local economy by cooperating with Directorate General of Customs and Excise, in order to utilize the customs facilitation in its area, since the customs facilitation is the authority of the central government in nature. But, the local government is in need of assurance regarding the relationship between the utilization of customs facilitation and its regional economic growth in order to optimize the benefit of this instrument. Empirical researches are needed to support the effort. In contrast, there are only limited numbers of

studies that can explain the relationship between those two variables. Hence, this paper attempts to explain the effect of customs facilitation on regional economic growth in West Java using panel data.

In its most basic form, fiscal decentralization refers to the division of budgetary responsibilities between different levels of government. In real world, true decentralization is not simply a geographical de-concentration of the central government's bureaucracy or service delivery, rather it is essentially linked to the territorial distribution of power. Rao, S., Scott, Z. and Alam, M. (2014) defines the decentralization of government as *'the transfer of power from central government to lower levels of government. This can include responsibility for planning and management of government functions including raising and allocating resources'*.

Hence, the term fiscal decentralization in this paper refers to *'the amount of independent decision-making power involved in subnational expenditure and revenue decisions'* as stated by Bodman and Ford (2006, 4). Furthermore, this paper only takes the subnational revenue aspect into the account, in the form of own-source revenue (Pendapatan Asli Daerah, PAD) and general allocation grant (Dana Alokasi Umum, DAU). Own-source revenue is local government revenue from its own area and imposed by local government. The revenue source consists of regional tax, regional retribution, profit from regional-owned enterprises (Badan Usaha Milik Daerah, BUMD), and other legal own-source revenue. In the other hand, general allocation grant is fund allocated by the central government for each local government in order to improve the regional development.

#### 2.4. Research Purpose

The purpose of this research to explain the effect of customs facilitation and fiscal decentralization on regional economic growth in West Java using specific data for facility of Import Facility for Export (KITE) and Indonesia Investment Coordinating Board (BKPM) in term of exemption of import duty and import taxes, local government own-source revenue (Pendapatan Asli Daerah, PAD), and general allocation grant (Dana Alokasi Umum, DAU). The objective of the research is to inform West Java local government and customs authority about the recommendation to optimize the benefit from customs facilitation and fiscal decentralization.

The study sought to answer the following specific research questions:

1. What is the effect of customs facilitation and fiscal decentralization on regional economic growth in West Java?
2. What is the recommendation for the West Java local government and customs authority to optimize the benefit from customs facilitation and fiscal decentralization?

#### 2.5. Previously Published Studies

In 2014, Albert observed the region of Central Java province and found that local revenue has a

positive and significant impact on GDP with a significant level of 5%. He suggested that an increase of \$1 million local revenue could increase GDP an additional \$2.6 million. Later in 2015, Putri's research result appeared to be the same. She found that own-source revenue has a positive and significant influence on economic growth in districts/urban districts located in Central Java province. She suggested that every 1% increase on own-source revenue could increase the economic growth and additional 62.2%.

Study about Indonesia's regional growth determinant has been done before in 2010. Vidyattama attempts to investigate the determinants of Indonesia's provincial growth of income per capita and discusses some issues related to the appropriate regional growth model estimation that utilizes generalized method of moments (GMM) dynamic panel estimation. The result suggested that transportation infrastructure, trade openness, and human capital are important provincial growth determinants.

In contrast, previously published research regarding customs facilitation impact on regional economic growth is limited. Hence, this paper plays an important role in addressing the issue.

### 3. RESEARCH METHODS

#### 2.1. Research Objects and Time Frame

This research observes West Java province consisting:

- 1) District/urban district of Bandung
- 2) District of West Bandung
- 3) District/urban district of Bekasi
- 4) District/urban district of Bogor
- 5) District of Ciampis
- 6) District of Cianjur
- 7) Urban district of Cimahi
- 8) District/urban district of Cirebon
- 9) Urban district of Depok
- 10) District of Indramayu
- 11) District of Karawang
- 12) District of Kuningan
- 13) District of Purwakarta
- 14) District of Subang
- 15) District/urban district of Sukabumi
- 16) District of Sumedang
- 17) District/urban district of Tasikmalaya

The research time frame captured in this research is period of 2012-2015.

#### 2.2. Type of Data

This research uses secondary data, listed as following.

1. Regional economic growth rate of West Java province is in the term of aggregate increase in gross regional domestic product (GRDP). This data is obtained from Indonesia Statistics Center. Later on this paper, this variable will be expressed as Y.

2. Customs facilitation of Import Facility for Export (KITE) in the term of exemption of import duty (Bea Masuk, BM) and import taxes (Pajak Dalam Rangka Impor, PDRI) used by the corporations in West Java Province. This data is obtained from Directorate General of Customs and Excise (DGCE). Later on this paper, this variable will be expressed as KITE BM and KITE PDRI.
3. Customs facilitation of Indonesia Investment Coordinating Board (BKPM) in the term of exemption of import duty (Bea Masuk, BM) and import taxes (Pajak Dalam Rangka Impor, PDRI) used by the corporations in West Java Province. This data is obtained from DGCE. Later on this paper, this variable will be expressed as BKPM BM and BKPM PDRI.
4. Fiscal decentralization in the term of own-source revenue (Pendapatan Asli Daerah, PAD) of West Java local government. This data is obtained from the Directorate General of Fiscal Balance. Later on this paper, this variable will be expressed as PAD.
5. Fiscal decentralization in the term of General Allocation Grant (Dana Alokasi Umum, DAU) of West Java local government. This data is obtained from the Directorate General of Fiscal Balance. Later on this paper, this variable will be expressed as DAU.

The data regional economic growth rate of West Java is expressed in percentage. In the other hand, the data for customs facilitation of Import Facility for Export (KITE), customs facilitation of Indonesia Investment Coordinating Board (BKPM), and own-source revenue of West Java are expressed in hundred billion rupiahs.

Regional economic growth rate of West Java province is the dependent variables while customs facilitation and fiscal decentralization indicators are the independent variables.

#### Data Analysis

Relating customs facilitation and fiscal decentralization with regional economic growth encounters two challenges: defining and measuring customs facilitation and fiscal decentralization indicators and choosing a modeling methodology to estimate the importance of customs facilitation and fiscal decentralization for regional economic growth. The research approach taken here contributes to a deeper understanding in each of these areas, thus it is capable in giving an insight to the local government and customs authority in assisting the policy design and enhancing the coordination between parties. The result allows the local government and customs authority to determine the relationship between customs facilitation and fiscal decentralization with regional economic growth.

First, customs facilitation is defined and measured. The customs facilitation which taken into the account are in the form of Import Facility For Export (KITE) and in the form of cooperation with Indonesia Investment Coordinating Board (BKPM). Each form is measured using two variables (import duty and import

taxes), resulting in four variables representing customs facilitation in totals.

Second, modelling methodology is choosen. A regression model is considered the best approach to examine the relationship between customs facilitation, fiscal decentralization, and regional economic growth.

The data analysis is conducted on the following step.

1. Generating customs facilitation and fiscal decentralization indicators.
2. Formulating the econometric model.
3. Running the panel data processing.
4. Checking for result error.

## 4. DISCUSSION

### 4.1. Generating Customs Facilitation and Fiscal Decentralization Indicators

Customs facilitation indicators consist of KITE BM, KITE PDRI, BKPM BM, and BKPM PDRI are generated in value term of rupiah. Fiscal decentralization indicator is represented by PAD in the term of rupiah. Considering the enormous value of these five variables, the value is then expressed in hundred billion. The regional economic growth is expressed in percentage. All of the variables are provided for each district/urban districts observed in every specific year. Completing this process, all indicators now have a single value for every district/urban district per year.

The examination of customs facilitation and fiscal decentralization indicators constitutes some important information. By running a summary statistics on the indicators, the range of the highest and the lowest utilization of customs facilitation among the district/urban district can be identified. This identification is crucial for local government evaluation later on the recommendation section in this paper. It contains the information, which district/urban district should improve the utilization of customs facilitation in order to optimize the benefit from customs facilitation offered by customs authority. The summary statistics of customs facilitation is provided in Table 1.

Table 1. Summary Statistics for Value of Customs Facilitation

Indicators	Std. Dev.	Min	District/urban district	Max	District/urban district
Y	1.0243	2.1614	Indramayu	7.9613	Karawang
KITE BM	0.1564	0.0000	Ciamis, Cianjur, Depok, Indramayu, Karawang, Kuningan, Subang Sumedang Bandung Barat, Bogor, Ciamis, Cirebon, Depok, Indramayu, Karawang, Purwakarta,	0.5214	Cimahi
KITE PDRI	0.1716	0.0000	Sukabumi, Subang, Tasikmalaya Bandung Barat, Ciamis, Cimahi, Cirebon,	0.6530	Bogor
BKPM BM	0.5807	0.0000	Depok, Indramayu, Tasikmalaya Bandung Barat, Ciamis, Cianjur, Cimahi, Cirebon, Depok, Indramayu, Sumedang,	2.3700	Bekasi
BKPM PDRI	0.5197	0.0000	Tasikmalaya	2.3185	Karawang
PAD	8.2749	1.1252	Kuningan	33.4143	Bekasi
DAU	7.5216	4.8917	Cimahi	35.3228	Bandung

Note: Mean equals 1.0; SD, standar deviation; Min, minimum; Max, maximum.

Source: Author's computation based on data from indicated sources.

The summary statistic can extract several important information. It implies the district/urban district which are leading in the term of regional economic growth, customs facilitation usage, and fiscal decentralization. Using this information, the local government of district/urban district could define its position among each other hence it could generate better benchmarks as an improvement target.

#### 4.2. Formulating The Econometric Model

The regional economic growth is actually affected by various indicators, such as trade openness, infrastructure, local government expenditure and revenue, investment, and others.

The basic structure of the equation used in this research is:

$$\Delta Y_t^D = b_1 KITE\ BM_t^D + b_2 KITE\ PDRI_t^D + b_3 BKPM\ BM_t^D + b_4 BKPM\ PDRI_t^D + b_5 PAD_t^D + e_t^D$$

The explanation of each variable denotation are:

**b** terms are coefficient

**t** is year observed

**D** is the district/urban district observed

**ΔY** is the regional economic growth rate

**KITE BM** is the value of customs facilitation from Import Facility for Export (KITE) in the term of exemption of import duty (Bea Masuk, BM)

**KITE PDRI** is the value of customs facilitation from Import Facility for Export (KITE) in the term of exemption of import taxes (Pajak Dalam Rangka Impor, PDRI)

**BKPM BM** is the value of customs facilitation from Indonesia Investment Coordinating Board (BKPM) in the term of exemption of import duty (Bea Masuk, BM)

**BKPM PDRI** is the value of customs facilitation from Indonesia Investment Coordinating Board (BKPM) in the term of exemption of import taxes (Pajak Dalam Rangka Impor, PDRI)

$e_t^D$  is the error term

#### Panel Data Processing

There are three models offered in panel data processing, Pooled Ordinary Least Square (OLS) or usually known as Common Effect (CE) regression, Fixed Effect Model (FEM) regression, and Random Effect Model (REM) regression. In order to decide which regression is appropriate for the model in statistical perspective, Chow Test and Hausman Test is conducted. The result implies that REM is the best fit for the models. The result of the regression is presented in the Table 2 below.

The regression results using REM indicate that the approach that used in generating a set of customs facilitation and fiscal decentralization indicators and deploying them into the model is generally successful. The value of adjusted R<sup>2</sup> is 0.1345. It means that the independent variables can explain more than 13% of the dependent variable. The other 87% of regional economic growth rate is explained by another factors that are not observed in this research. This condition is

considered satisfying as other variables related to growth rate (e.g. consumption, investment, government expenditure, etc) are not taken into the account, but the result of adjusted R<sup>2</sup> is exceed 10%.

The model has passed two classical assumption test required: normality test and multicollinearity test, indicating that all variables data used in the model are valid.

Table 2. Result for Regression of Regional Economic Growth on Customs Facilitation and Fiscal Decentralization Variables (Random Effect Model)

Variable	Coefficient
Constant	5.2499
KITE BM	-0.5676
KITE PDRI	-0.6033
BKPM BM	-1.3181
BKPM PDRI	1.7695***
PAD	0.3616
DAU	0.0545
Number of observation	68
Adjusted R-squared	0.1345

\*Significant at the 10 percent level.

\*\*Significant at the 5 percent level.

\*\*\*Significant at the 1 percent level.

Source: Author's computation based on data from indicated sources using Stata.

Table 2 shows that the one out of five indicators are statistically significant. The estimated coefficients of each indicator are different, showing the estimated elasticities of regional economic growth with respect to preferred specification. Seeing from policy perspective, it implies that different form of customs facilitation will affect regional economic growth rate. Robust technique is used in estimating standard error of the model to eliminate model misspecification and enhance the accuracy of the model.

Generally, the analysis reveals that customs facilitation in the form of BKPM PDRI (1.7695) is the only variable which have significant effect on regional economic growth rate. Exploring the results deeper, unexpected result come from customs facilitation in the form of BKPM BM, KITE PDRI, KITE GM, and BKPM BM. These variables have negative effect on regional economic growth rate. In the other hand, BKPM PDRI, as expected, have a positive effect on regional economic growth rate. This is an important first consideration for the policymakers, not only in the central government but also in the local government, as they identify the form of customs facilitation and regional economic development priorities in the future.

KITE BM (-0.5676) has a negative nonsignificant effect on regional economic growth because its probability of significance is 0.84 which is greater than 0.05 implying that the H<sub>0</sub> (b = 0) is accepted. Thus, the value of -0.5676 is irrelevant for interpretation. Furthermore, KITE PDRI (-0.6033) also has a negative nonsignificant effect on regional economic growth. It

implies that the value of -0.6033 is irrelevant for interpretation because its probability of significance is 0.87 which is greater than 0.05.

The reason why customs facilitation in the form of KITE not significant is because the commodities imported using this facility are mostly raw materials. Once these raw materials used to produce finished goods, they have to be exported and sold abroad. Thus, the economic activity involved does not contribute to the regional economic growth. In other words, the government cannot explain the regional economic growth using this variable.

BKPM BM (-1.3181) has a negative effect on regional economic growth, its probability of significance is 0.96 which is greater than 0.05 implying that the  $H_0$  ( $b = 0$ ) is accepted. Thus, the value of -1.3181 is irrelevant for interpretation, hence not significant.

BKPM PDRI (1.7695) has the largest elasticity among the customs facilitation indicators, suggesting that the greatest effect on regional economic growth of West Java would come from the exemption of PDRI from BKPM facility. Furthermore, the p value of this variable is 0.006 which is smaller than 0.01, implying that BKPM PDRI is significant at the 1% level. An increase of Rp100 billion exemption of BKPM PDRI will increase an additional 1.77% of regional economic growth. This result is very promising for the local government to be put into consideration in formulating its policy to gain greatest benefit from the regional economic development.

Customs facilitation in the form of BKPM is significant because the commodities imported using this facility are capital goods and raw materials which the finished goods produced using these commodities are sold within the country.

PAD (0.3616) and DAU (0.0545) has a positive effect on regional economic growth. Experiencing the same condition with KITE BM, KITE PDRI, and BKPM BM, these two variables have probability of significance which are greater than 0.05 (0.29 for PAD and 0.47 for DAU) implying that these variables are also irrelevant for interpretation.

## 5. CONCLUSIONS

The key innovation of the approach used in this research is observing customs facilitation centering the observation on KITE and BKPM as indicators and to provide insight for the local government in formulating its policies.

Examining the benefits of customs facilitation on regional economic growth may accommodate more targeted decision-making by the local government policymakers. Measuring KITE BM, KITE PDRI, BKPM BM, BKPM PDRI as customs facilitation indicators and deploying them into the econometric model offers local government policymakers more information. It is useful in determining which customs facilitation might provide the greatest benefits in terms of increasing regional economic growth. Taking the PAD and DAU into the account also useful in examining the impact of fiscal decentralization.

The local government, together with the DGCE, should consider simplifying the customs facilitation

administration procedure in the term of BKPM in order to improve the regional economic growth significantly. The local government might want to initiate more campaign involving the Small Medium Enterprises in its area regarding customs facilitation in order to give the companies a better understanding about the benefits of customs facilitation.

The result of this research could also be useful for DGCE in evaluating the customs facilitation in the form of Import Facility For Export (KITE) and cooperation with Indonesia Investment Coordinating Board (BKPM).

In summary, this research is able to provide the answers of the research questions stated at the beginning of the paper. First, customs facilitation has a significant impact on regional economic growth of West Java. Second, West Java local government should encourage the usage of customs facilitation in the form of BKPM in order to optimize the benefits from customs facilitation and to gain the greatest increase in its regional economic growth.

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