

INDONESIA'S ECONOMY: WHAT MAKES IT A POTENTIAL INVESTMENT DESTINATION POST THE PANDEMIC?

PRESENTATION TO A WEBINAR HOSTED BY THE
INDONESIAN INVESTMENT PROMOTION CENTRE, SYDNEY

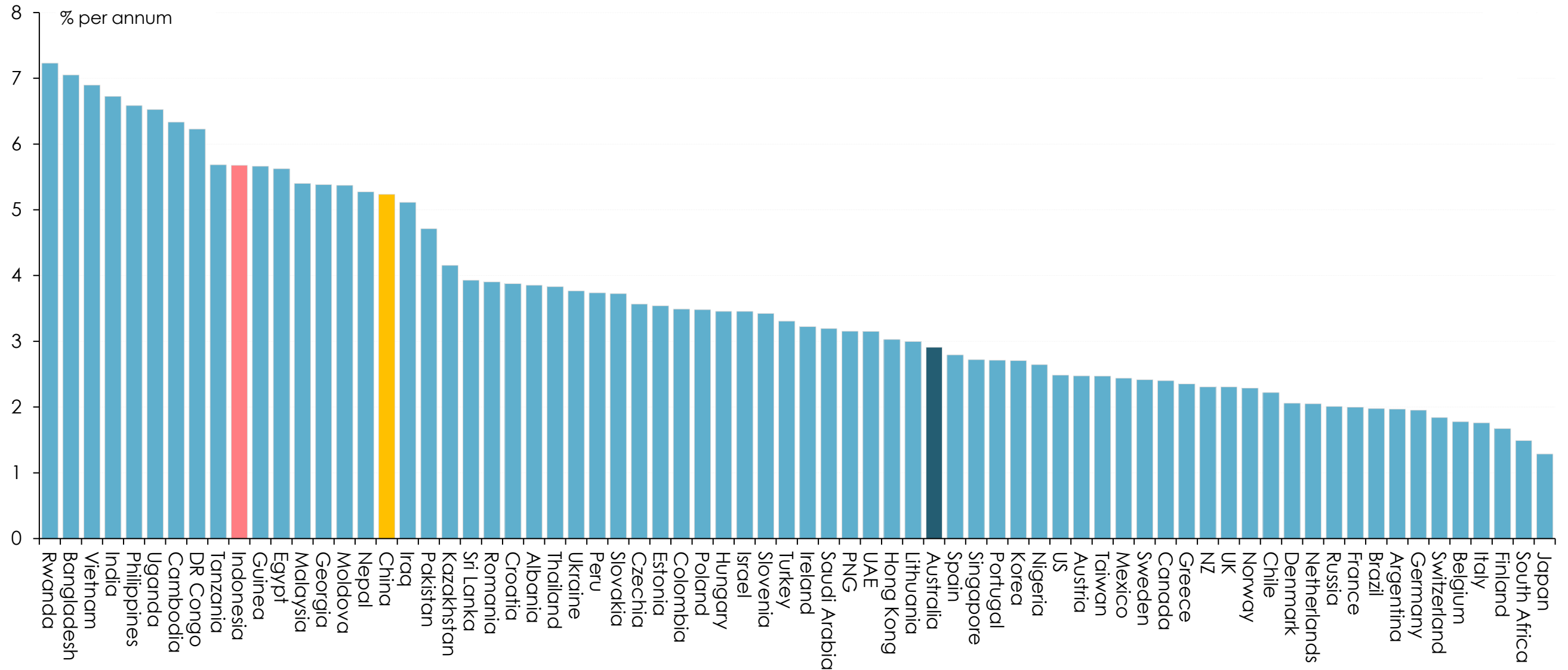
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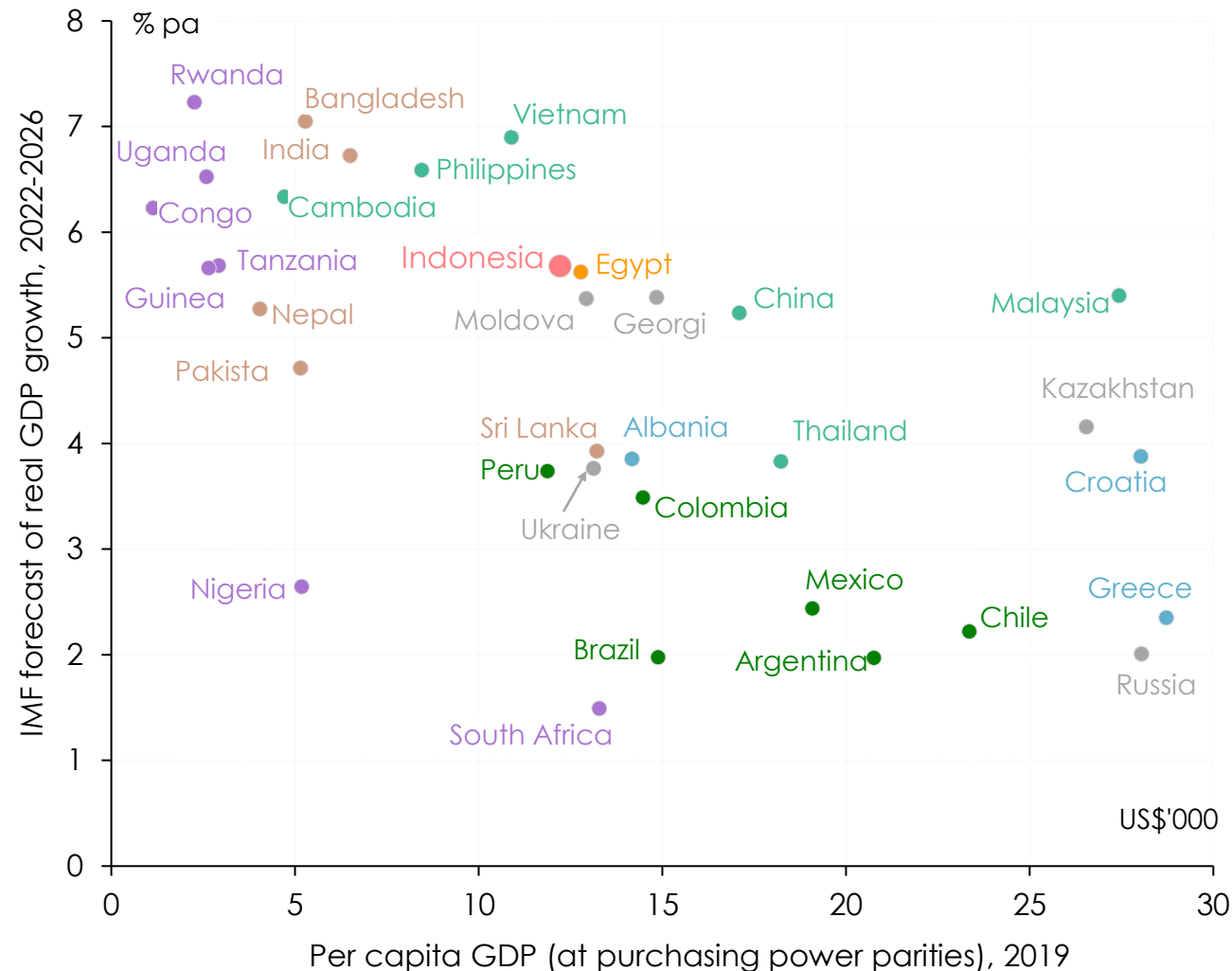
The IMF expects Indonesia will have one of the world's fastest growing economies over the next five years – faster, in particular, than China

IMF forecasts of real GDP growth, 2022-2026

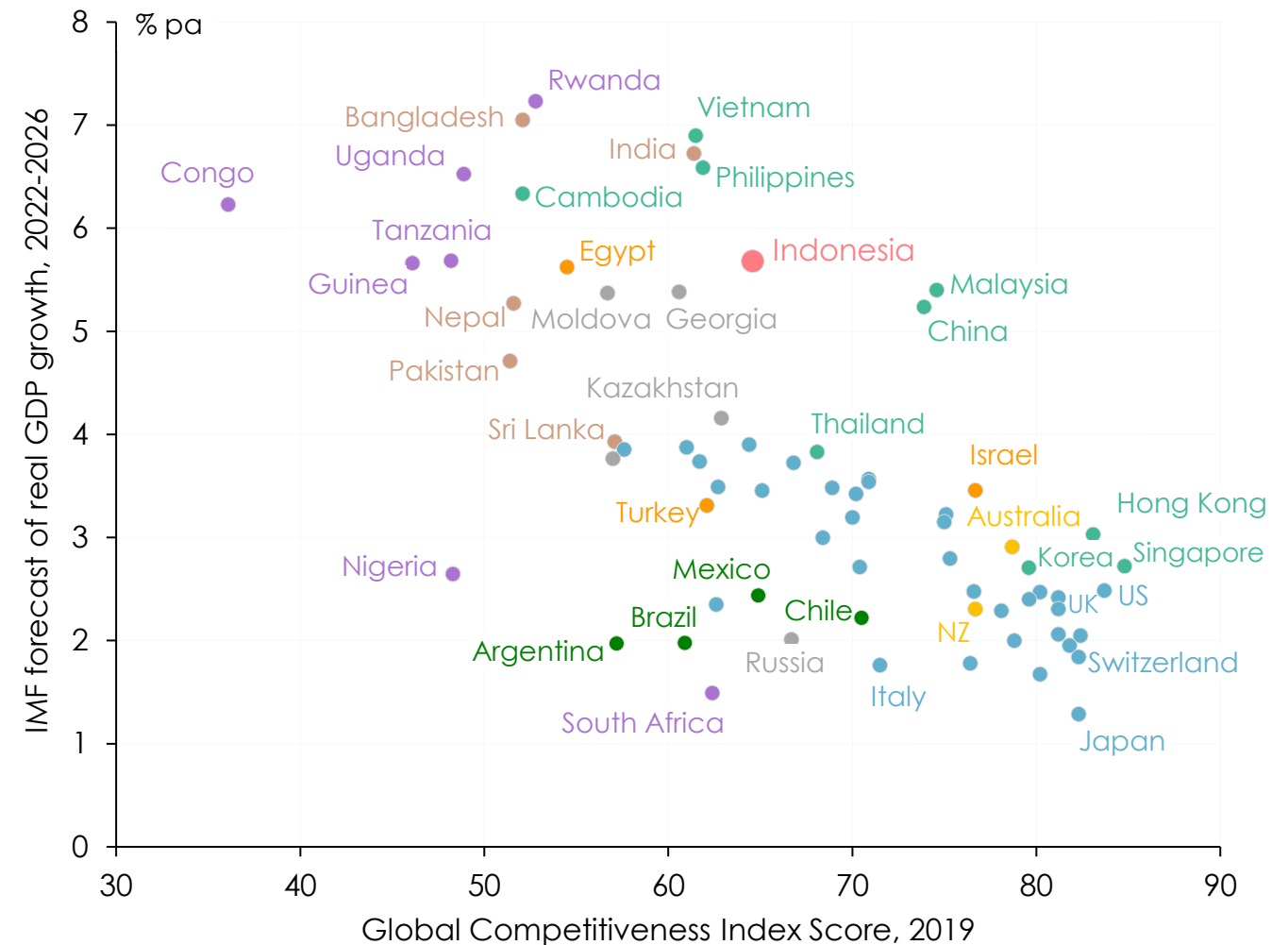


The countries expected to have faster growth than Indonesia are either poorer – and/or in other ways less ‘competitive’ than Indonesia

Forecast economic growth 2022-2026 vs level of per capita GDP in 2019

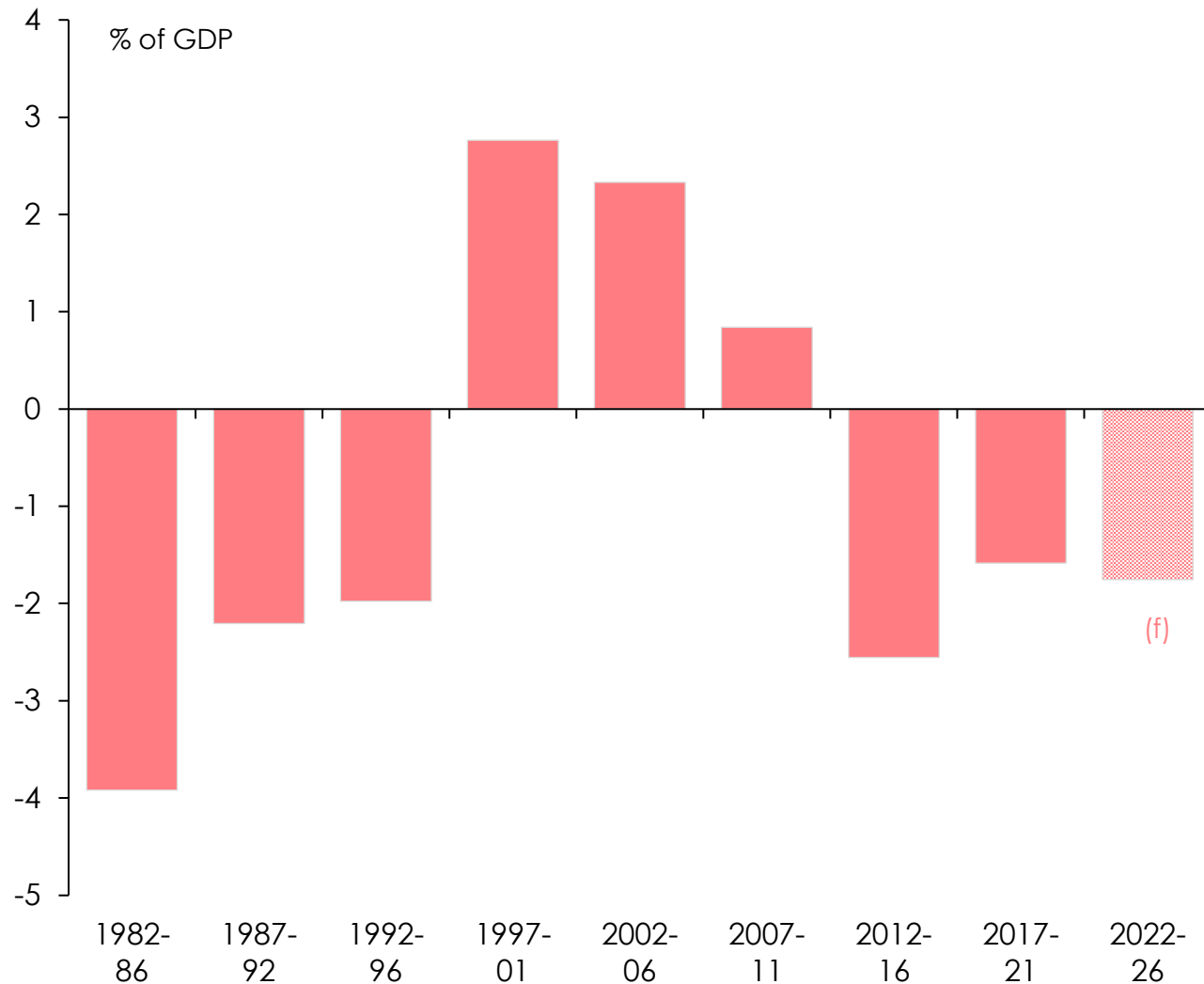


Forecast economic growth 2022-2026 vs World Competitiveness Index score in 2019

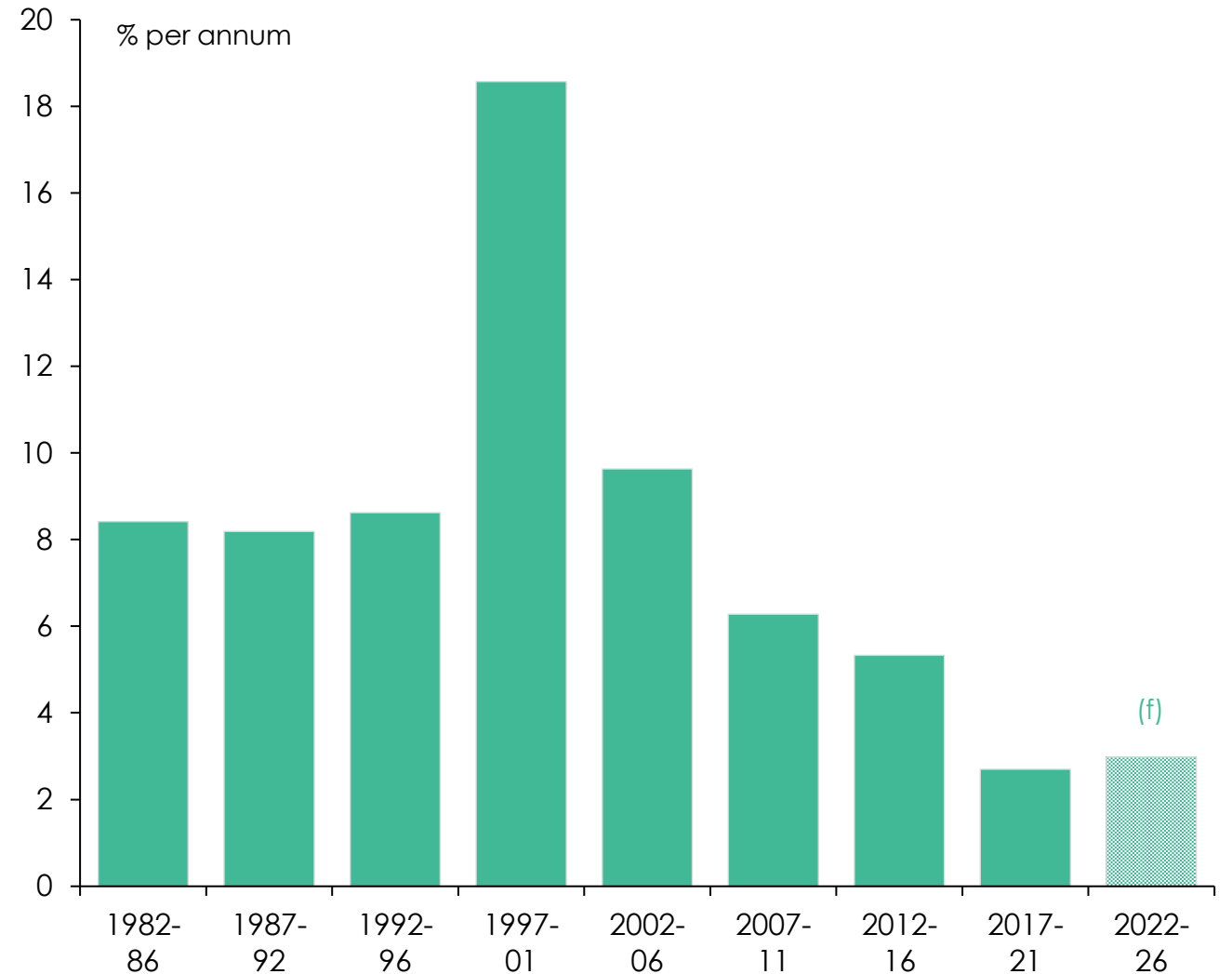


Indonesia has maintained a sustainable external balance of payments position (despite the big drop in oil exports), and kept inflation down

Indonesia's current account balance

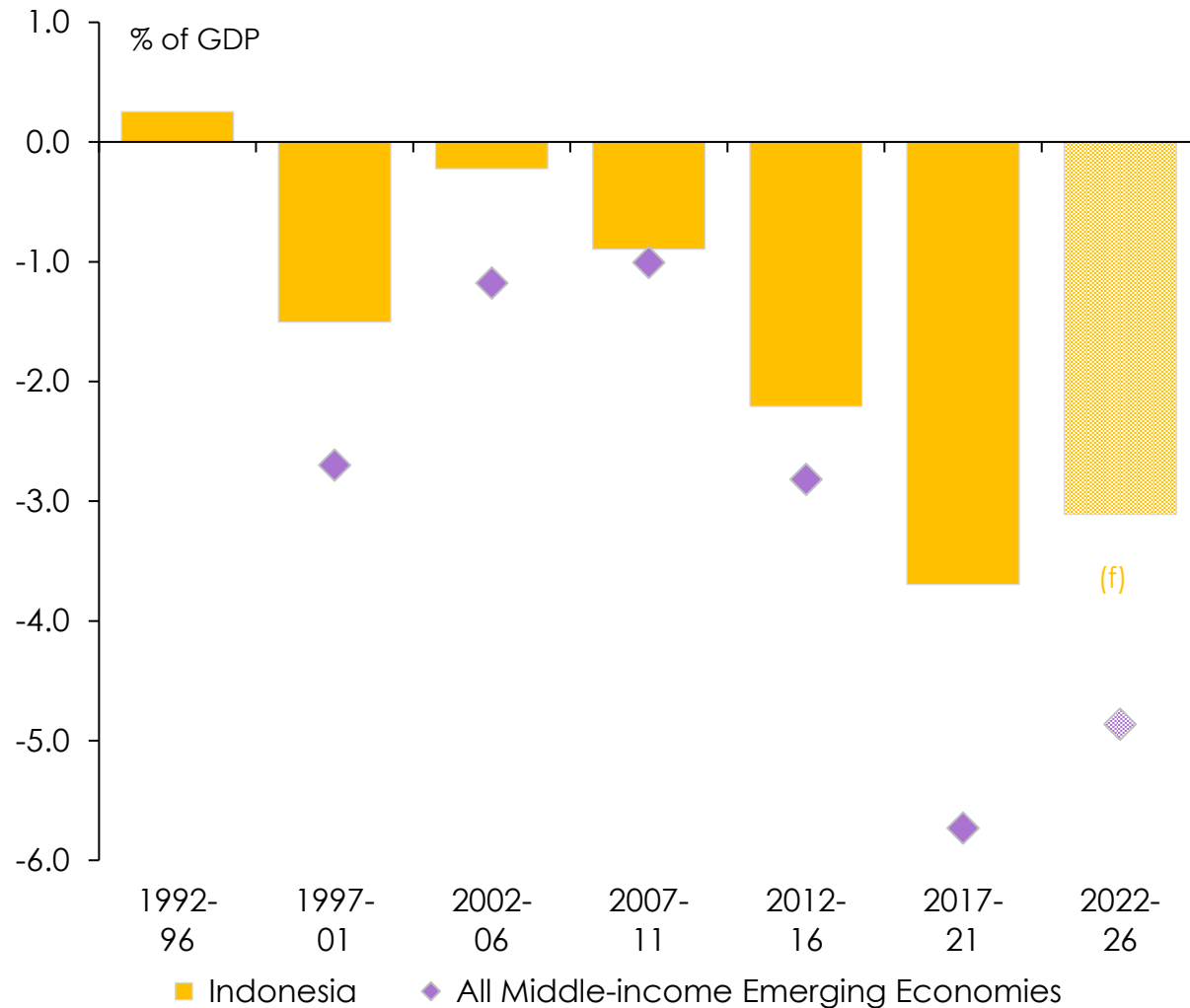


Indonesia's inflation rate

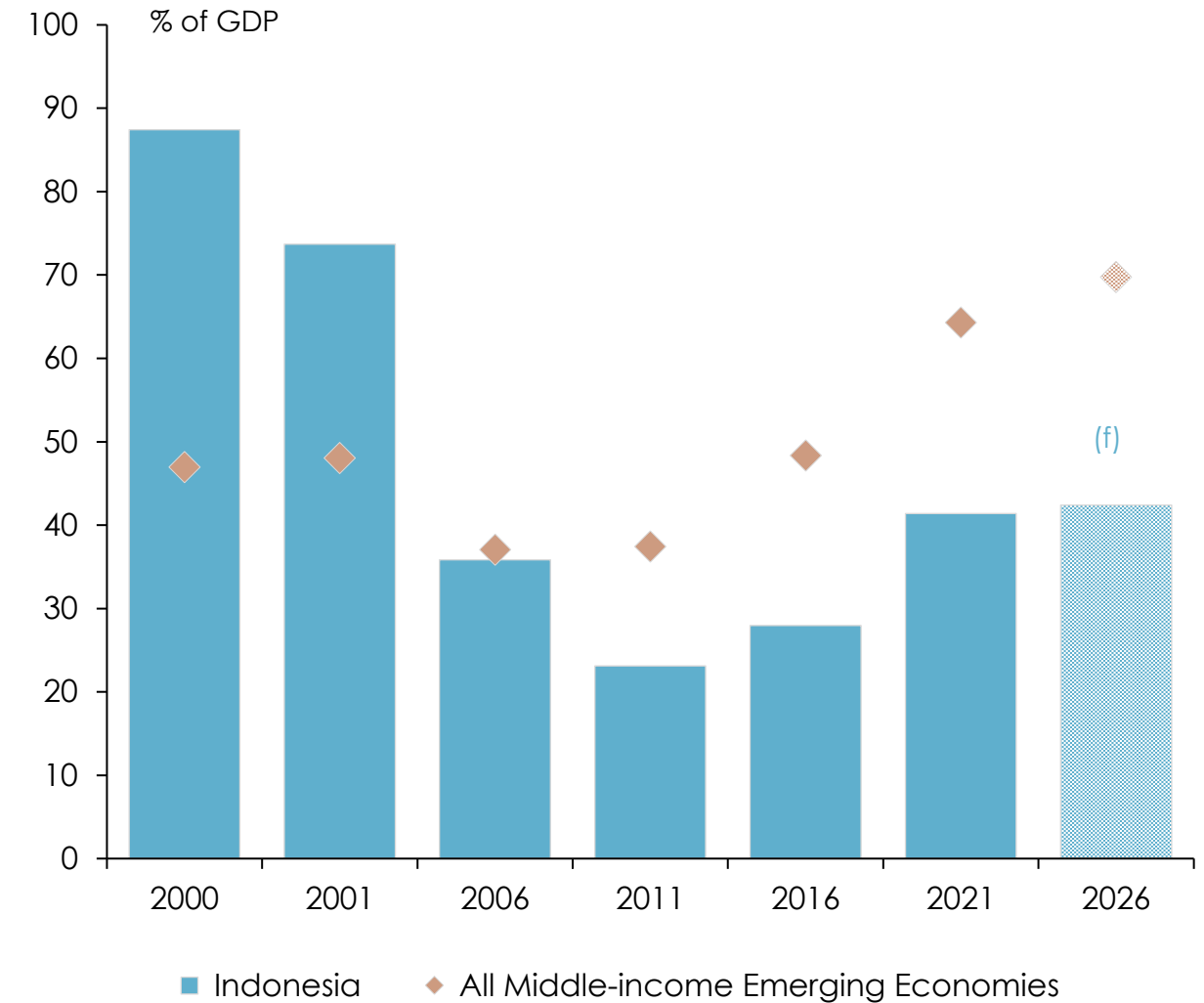


Indonesia is also maintaining prudent fiscal policy settings

Indonesia's budget deficit/surplus



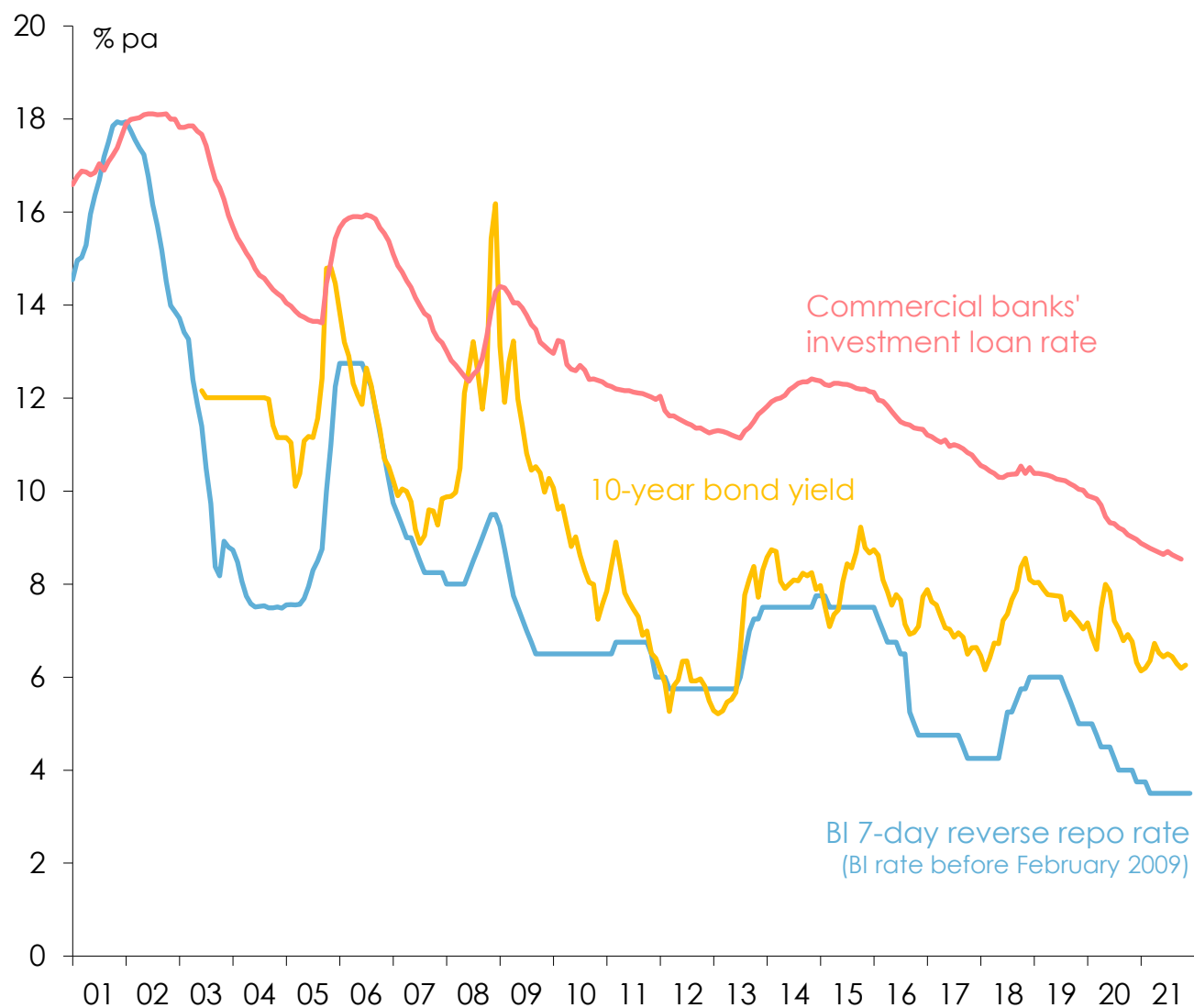
Indonesia's government gross debt



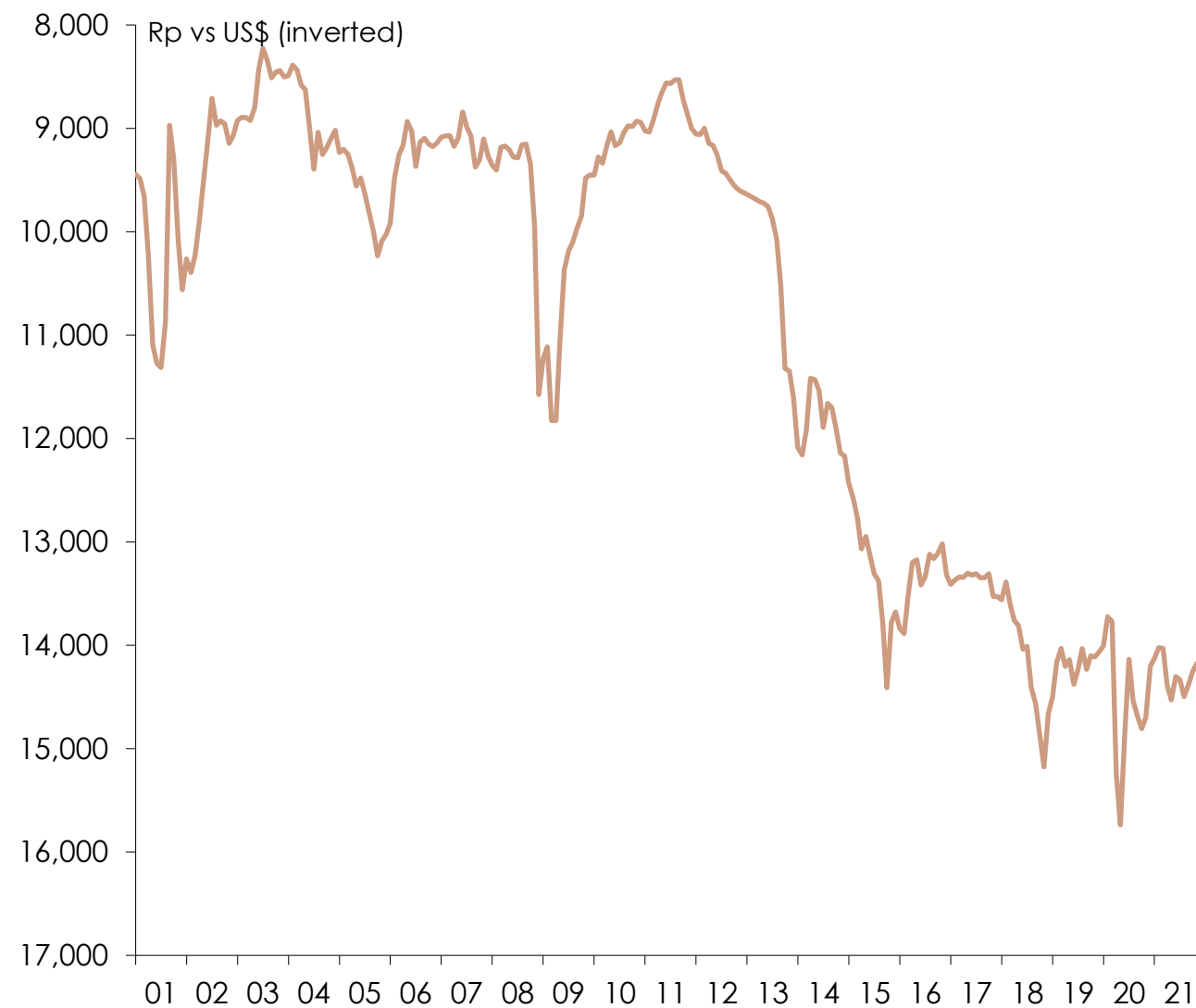
Source: International Monetary Fund, [Fiscal Monitor](#), October 2021.

All of which increases confidence that interest rates will remain low and stable – and help maintain rupiah stability too

Indonesia's interest rates



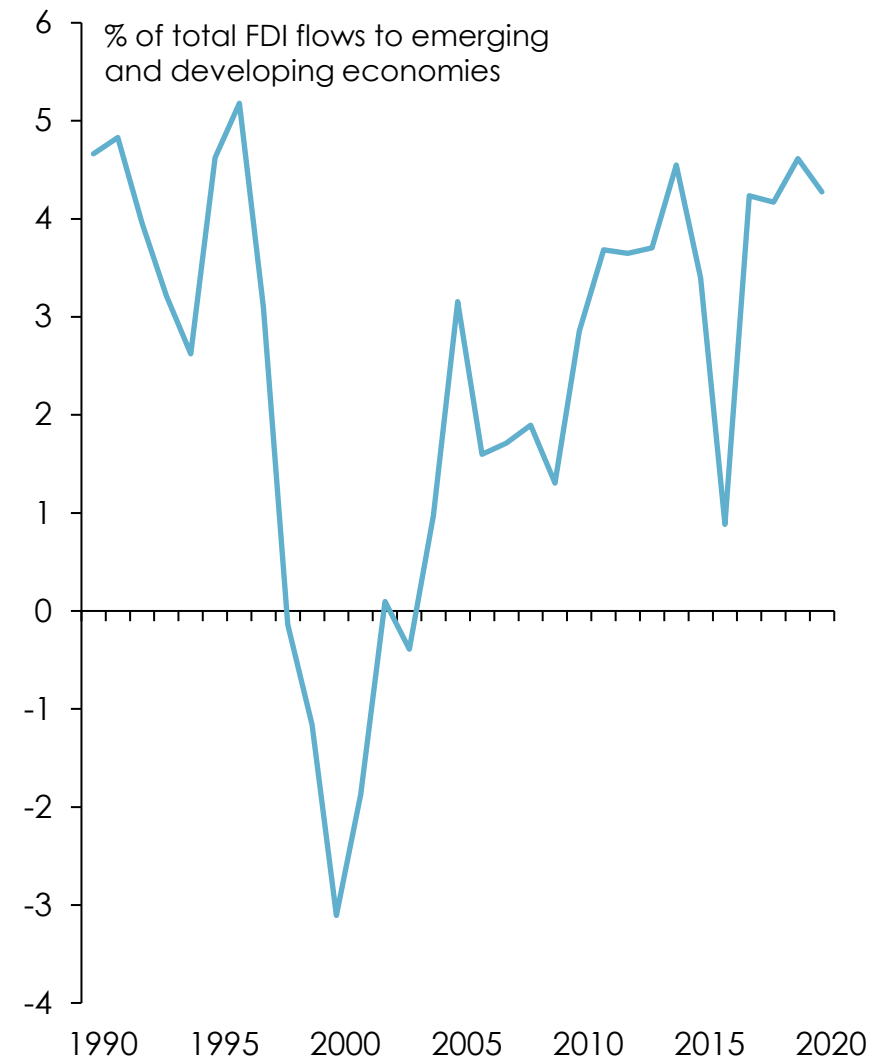
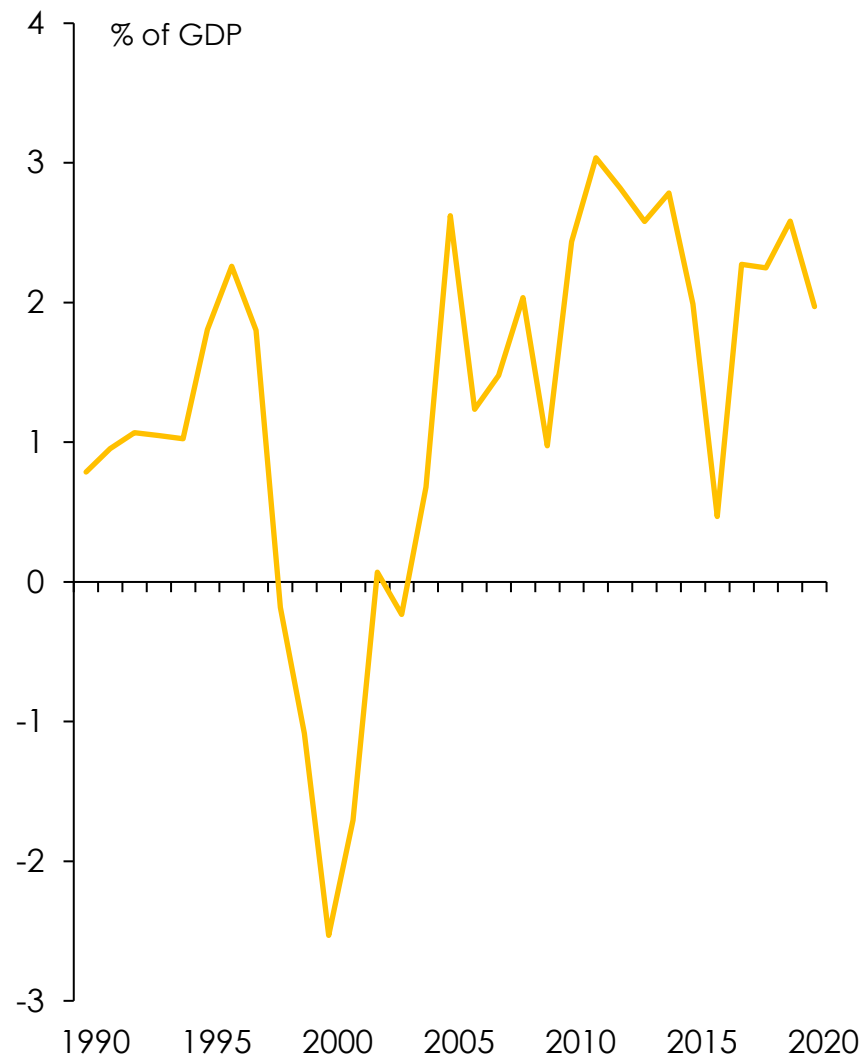
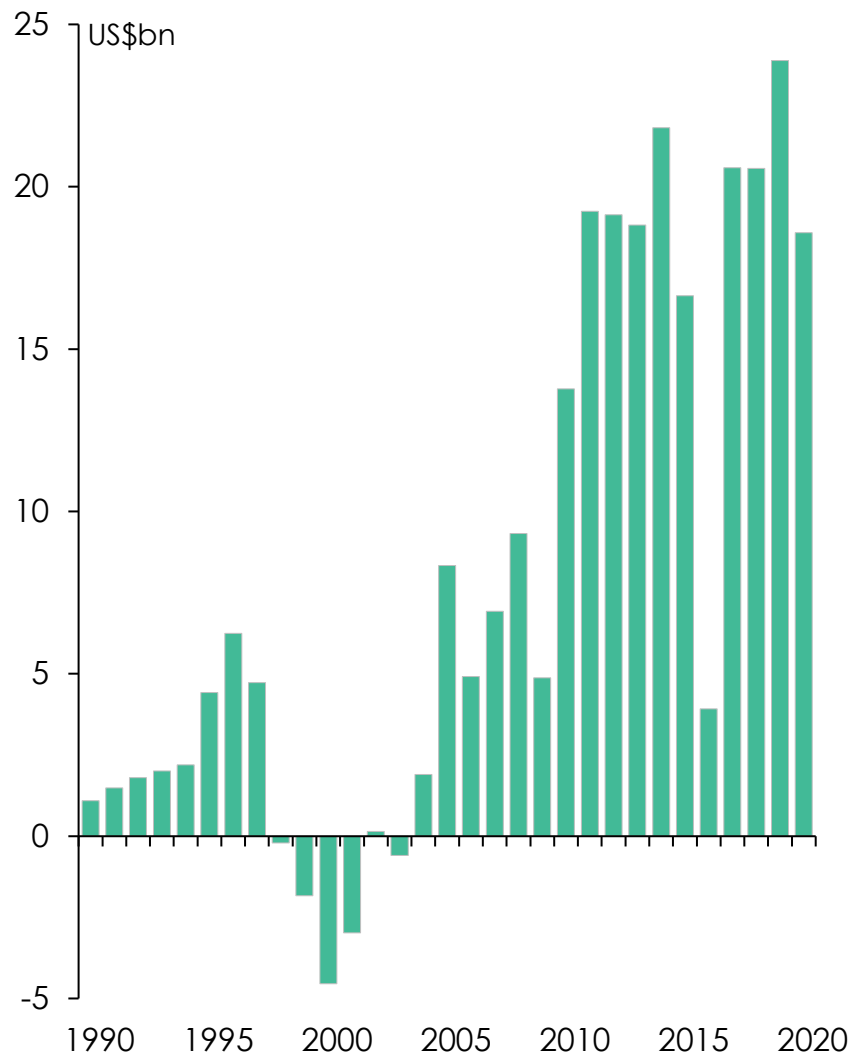
Rupiah vs US dollar



Source: Bank Indonesia, [Indonesia's Economic and Financial Statistics](#), October 2021; Refinitiv Datastream.

Indonesia has become more successful at attracting foreign direct investment in recent years

Foreign direct investment flows into Indonesia



Source: United Nations Conference on Trade and Development (UNCTAD), [World Investment Report](#), 21st June 2021.

The Omnibus Job Creation Law is a serious attempt to make Indonesia more 'investment-friendly'

- ❑ The Omnibus Job Creation Law which came into effect last November makes changes to 76 different laws governing foreign investment, business licencing, corporate taxation and employer-employee relationships
- ❑ The Omnibus Law introduces a 'risk based' approach to business licencing
 - only 'high risk' businesses will require anything more than a NIB (equivalent of an ABN) and a 'standard certification'
 - 'nuisance permits', environmental licences and company registration certificates will no longer be required
- ❑ The Law is much clearer as to the areas where foreign (or domestic) investment is not allowed (specifically listing six (such as narcotics, gambling, chemical weapons etc))
 - and specifically provides that all areas that are not closed (by the Law or presidential regulation) are open
 - it identifies 246 'priority business fields' where 100% foreign ownership will be allowed
 - and a further 51 areas where partnerships with co-operatives or micro, small or medium enterprises will be required
- ❑ The Law provides for a reduction in the corporate tax rate from 25% to 20% by 2023
 - with additional 50-100% 'tax holiday' incentives for up to 20 years for large investments in 'capital intensive' priority sectors
- ❑ Finally, the Omnibus Law also makes significant changes to the Manpower Law
 - in particular by removing many previous restrictions on the employment of foreign workers and the terms for which they can be employed

AI-CEPA opens up specific areas to Australian investors that are not open to all others

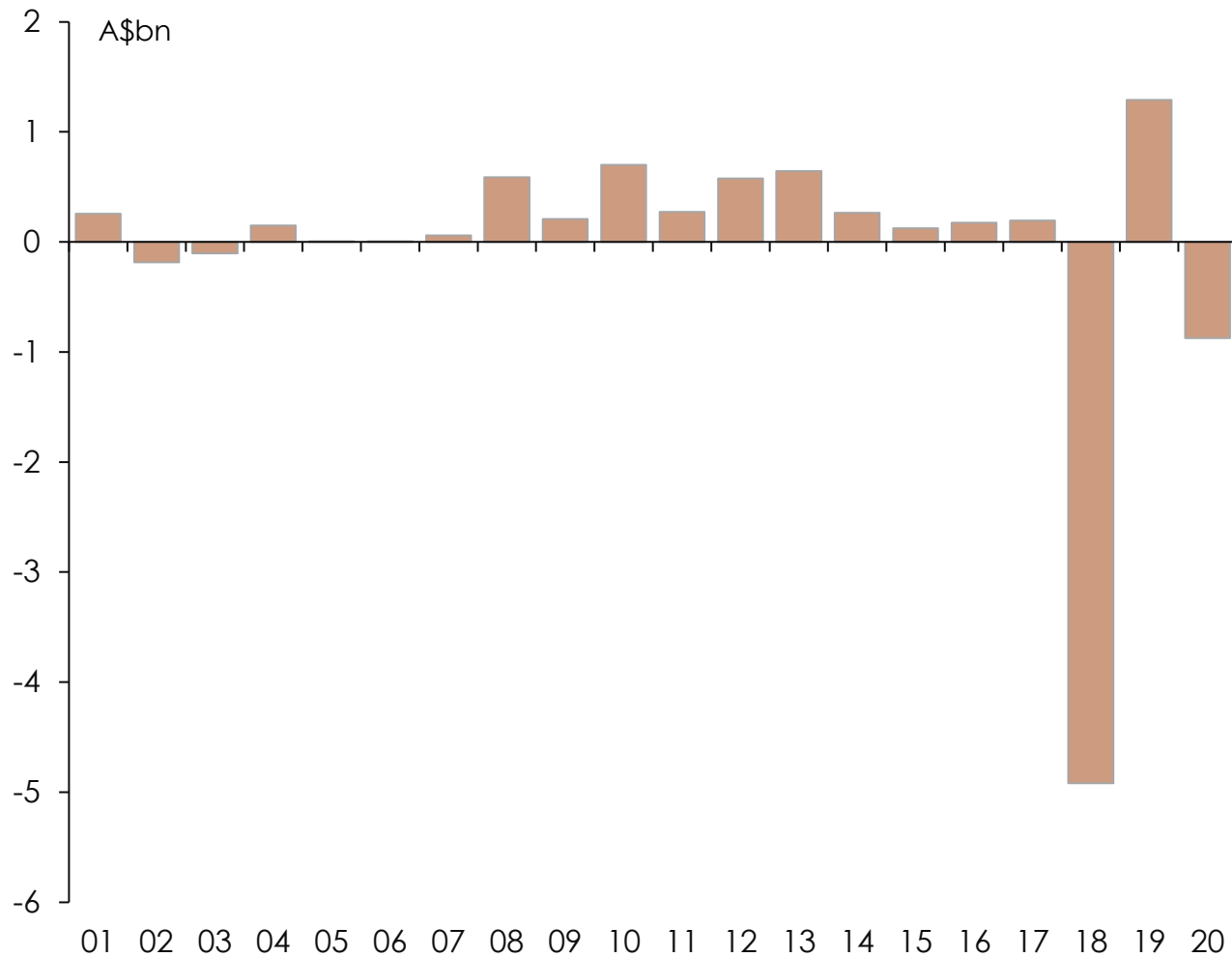
Sector	Opportunities for Australian business
Work training	Up to 67% for supplying certain technical and vocational training
University education	Automatically locks in future liberalisation for Australian universities setting up in Indonesia. Indonesia intends to open the sector further in the future.
Mining and related services	Up to 67% of contract mining services and mine site preparation services
Hospitals and in-hospital pathology, paramedic and specialist medical and dental clinics	Up to 67% of large hospitals and, within large hospitals, up to 67% of pathology, paramedic and medical and dental specialist clinic services. No geographic limitations.
Aged care services	Up to 67% of aged care facilities
Telecommunications	Up to 67% of telecommunications
Tourism	Up to 100% Australian ownership for 3, 4, and 5 star hotels and resorts, no geographical limits; up to 67% Australian ownership of most other accommodation, restaurants, cafes and bars, as well as tour operator services and tourism consultancy services; up to 51% of marinas.

Sector	Opportunities for Australian business
Professional services	Up to 67% of architectural, urban planning, most engineering and surveying services
Construction services	Up to 67% of most construction-related work
Energy	Up to: 95% of power plants (more than 10 megawatts) 75% of oil and gas platform construction 67% electrical power construction, installation, operation, maintenance 55% for electrical power installation constructions 51% of geothermal power plants (10 megawatts or less); geothermal surveying, drilling and operations; and offshore oil and gas drilling
Wastewater management	Up to 67% of wastewater management
Transport	Up to 67% for highways, bridges, tunnel concessions and parking services and 51% for operation of railways

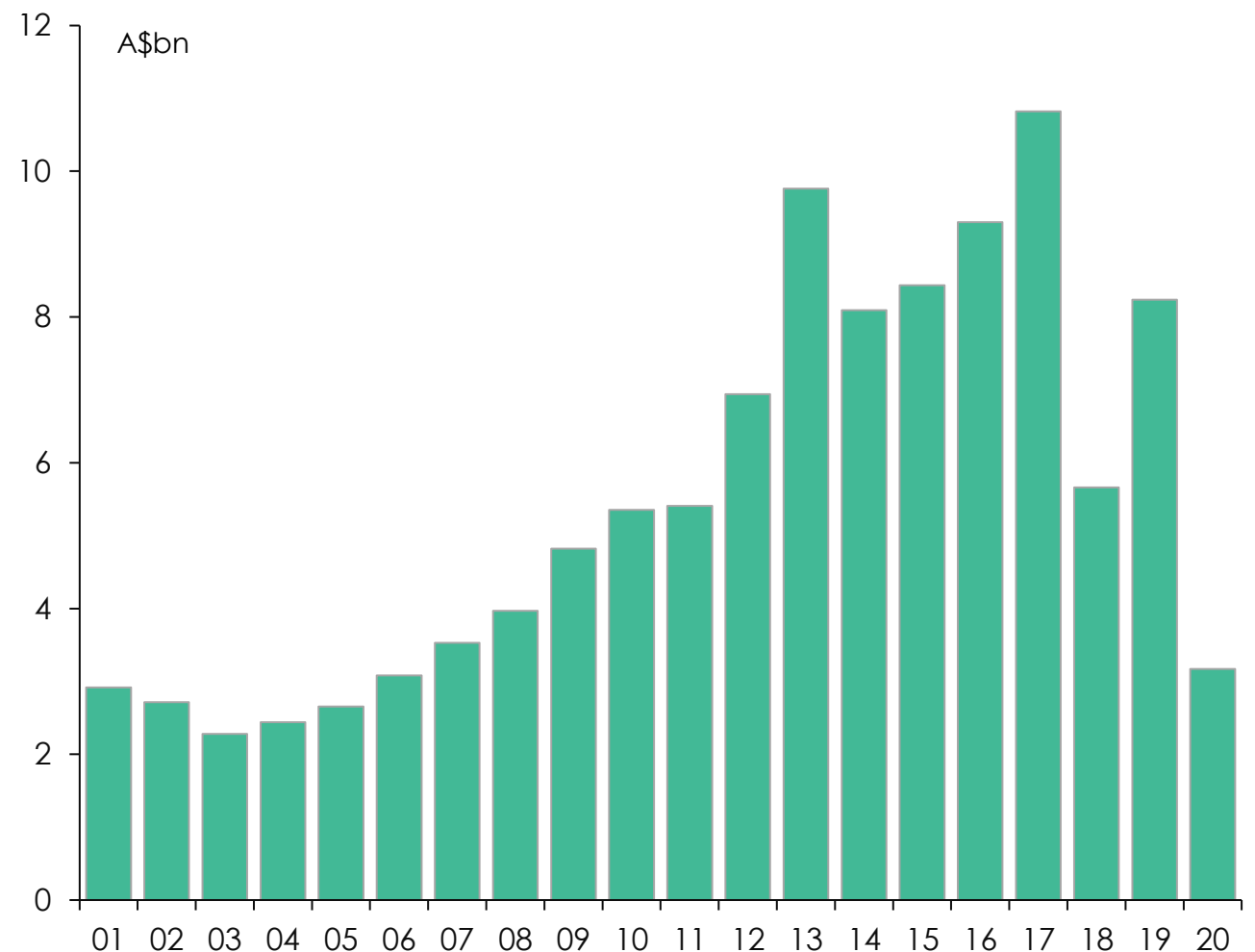
Source: Australian Department of Foreign Affairs and Trade, [Blueprint for Trade and Investment with Indonesia](#), September 2021.

AI-CEPA should open the door to more Australian investment in Indonesia

Australian investment in Indonesia – annual flows



Australian investment in Indonesia – end-of-year stocks



Source: Australian Bureau of Statistics, [International Investment Position, Australia: Supplementary Statistics](#), 2020.

Summary

- ❑ **Indonesia will be one of the most rapidly-growing economies in the world over the next five years**
 - IMF projection of 5³/₄% per annum is faster than China, 5¹/₄% per annum
- ❑ **Compared with the countries for which growth is projected to be faster (eg India, Philippines, Vietnam and some African countries) Indonesia has higher per capita income and stronger competitiveness ranking**
 - implying a wider range of investment opportunities, especially in services sectors
- ❑ **Indonesia is now able to offer a more stable macro-economic environment**
 - keeping the current account deficit and inflation low and stable creates an environment where interest rates should remain low and relatively stable, and the exchange rate can also remain stable
- ❑ **Indonesia now offers a more open and predictable legal and regulatory environment than previously**
 - the new Omnibus Law directly addresses many long-standing concerns of foreign investors
- ❑ **The Australia-Indonesia Comprehensive Economic Partnership Agreement (AI-CEPA) opens doors to Australian investors that are not (currently) available to others**
- ❑ **Indonesia will increasingly represent a viable and attractive alternative to businesses looking to reduce their dependence on or exposure to China**

Important information

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

Corinna Economic Advisory is a partner (with Llewellyn Consulting, of 1 St Andrews Hill, London EC4V 5BY, United Kingdom) in Independent Economics.

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