ASIA PERSPECTIVE

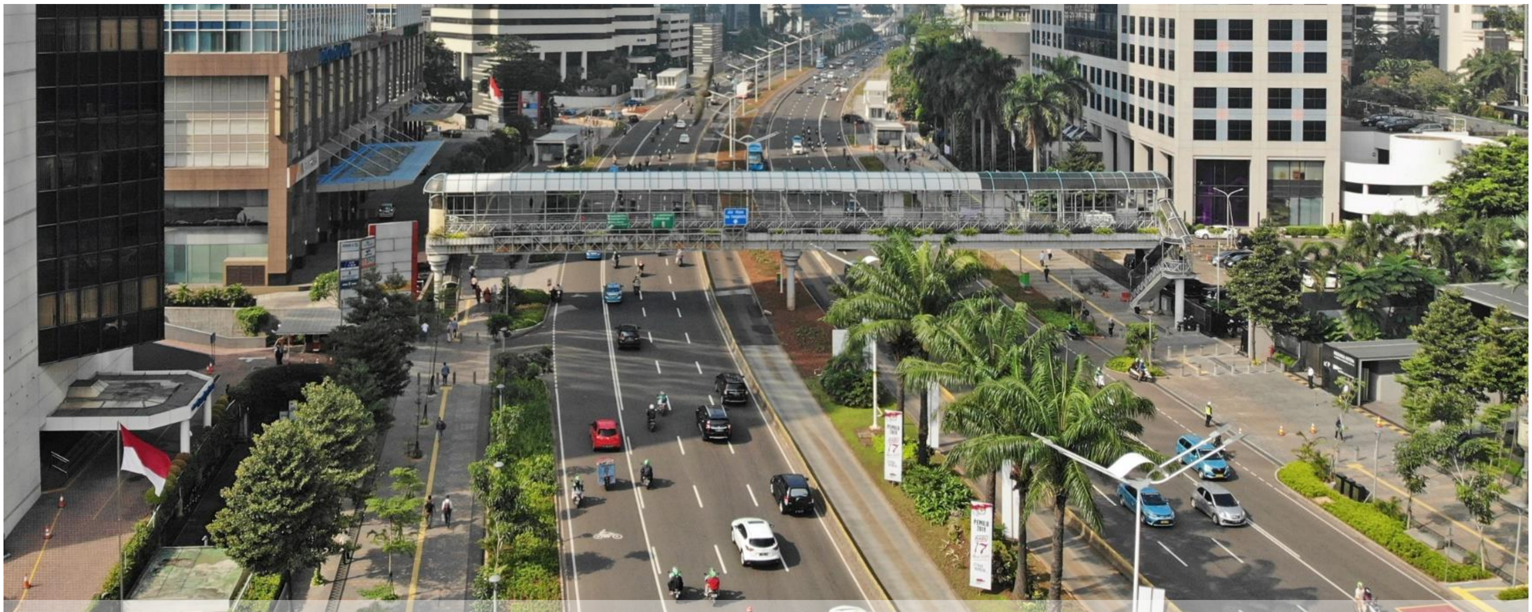
Insights: Quarter 3, 2019

Indonesia Economic Update Report

This Issue:

Indonesia's Economic Growth in Q3
The moving of Indonesia's Capital
Arise Plus Indonesia Program

www.asiaperspective.net



Indonesia’s growth was almost unchanged in the third quarter

The economic growth of Indonesia in the third quarter of 2019 rose by 5.02%, a minimum decrease from the 5.05% expansion in the second quarter.

Inflation Rate

The inflation rate remained at a low and stable level. The inflation rate dipped from 3.49% in August to 3.39% in September, while the core inflation was left stable at 3.32%. This inflation rate should allow the central bank of the Republic of Indonesia to lower interest rates further if needed, hence, stimulate domestic economic growth amid the current global economic slowdown.

Consumer Confidence Index

According to the latest Consumer Expectation Survey conducted by Bank Indonesia, the consumer confidence in economic conditions declined in September 2019, reflected through a decrease in the Consumer Confidence Index (CCI) from 123.1 to 121.8 (MoM). Along with that, the Current Economic Condition Index (CECI) and Consumer Expectation Index (CEI) also experienced a down phase of 3.6 points and 5.0 points respectively.

Interest Rate

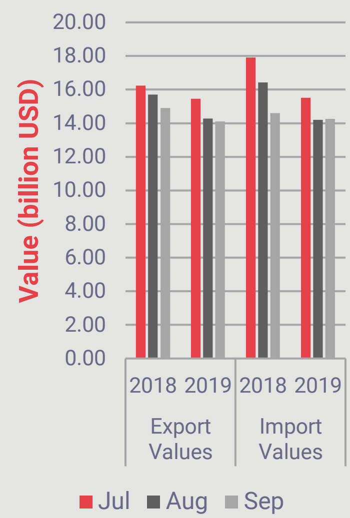
Bank Indonesia lowered its 7-day reverse repo rate by 0.25% to 5.0% during its October meeting, as widely expected. It was the fourth consecutive rate cut that brought borrowing costs to the lowest since May 2018.

Trade Balance

Overall, the export and import values have decreased considerably compared to Q3 2018. However, the gap between export and import value has been narrowed down significantly from USD 2.08 billion to USD 0.14 billion (QoQ). In addition, considering the first nine months of the year, the trade deficit has narrowed sharply to USD 1.95 billion from USD 3.82 billion in the same period of 2018.

With this pace, the Balance of Trade in Indonesia is expected to be -900 USD million by the end of 2019 and turn to surplus by the end of 2020.

Export & Import Values of Indonesia in Q3 2018-2019



Official Announcement about moving Indonesia's Capital

In August 2019, the Indonesian Government announced plans to move its current capital from Jakarta to the province of East Kalimantan on Borneo island. According to the National Development Planning Minister Bambang Brodjonegoro, the plan to move the capital would be completed within five years. The decision has instantly caused arguments among the public.

Locations of Jakarta and the New Capital

As any other capital city, Jakarta is under the constraints of rapid urbanization and overpopulation. The negative effects of Jakarta's traffic congestion and pollution are estimated to cost the economy USD 10 billion annually. Moreover, as a result of groundwater drilling and the sheer weight of skyscrapers, Jakarta is sinking at one of the fastest rates in the world (95% of the northern part is expected to be underwater by 2050). Besides, Indonesia is made up of 18,000 islands, but more than half of the population live on the Java island, where Jakarta is located. Wealth has historically been concentrated there as well, despite the natural resource riches of its outer regions. Therefore, moving the capital is expected to even out the social polarization and support more balanced regional development.

Traffic Jams have always been one of the greatest concerns for citizens in Jakarta

Opportunities for foreign investors

Along with this change of location comes the opportunities for foreign investment in certain industries.

First of all, there is much potential in developing maritime infrastructure as this helps the newly-relocated capital open new trade routes through Eastern Indonesia. Hence, it is capable of exploring new markets for export and taking advantage of the area's natural resources, which eventually contributes to the economic development of the city.

Secondly, electricity production still heavily relies on fossil-fuel-fired power plants in Kalimantan. As the president wants the new capital to utilize renewable energy for its electricity needs, this presents huge potential for foreign investors in the field of solar energy, hydroelectric dams, wind farms, and biomass generators development.

Finally, the government also wants to diversify the destinations it has to offer for tourism beside Bali and Lombok. In the past few years, the province has already developed more than 500 tourist sites, with more nature reserves and tropical forests being reserved and protected. The area presents various opportunities for international hotel chains and high-end luxury resorts.

Impacts on businesses in Jakarta

Jakarta will continue to grow and remain Indonesia's economic hub. Despite the USD 33 billion price tag for the new capital, the government has designated an additional USD 40 billion for urban regeneration projects in Jakarta over the next 10 years. The majority of this fund will be spent on infrastructure projects including the MRT, bus lanes, water pipe system, sewage system and so forth. Thanks to this initiative, property, manufacturing, and services sectors throughout the metropolitan area of Jakarta are expected to flourish.

Arise Plus Indonesia Program to Support Regional Integration from EU

On September 25th 2019, the inauguration of the ARISE Plus Indonesia has taken place in Jakarta with the attendance of Head of Delegation of the European Union to Indonesia - Vincent Piket, Director General of National Export Development of the Ministry of Trade - Dody Edward, and Deputy Minister of the National Development Planning Agency - Bambang Prijambodo. ARISE Plus Indonesia is a four-year grant program (worth EUR 15 million) aiming to enhance Indonesia's competitiveness in global value chains, promote inclusive and sustainable economic growth, boost job creation and increase employment in a gender sensitive way.

Moreover, ARISE Plus-Indonesia will cover the following priority areas and components:

• Trade and Investment Policy including FTA and CEPA

• Trade Facilitation

• Export Quality Infrastructure (focusing on agri-food, fisheries, wooden products and cosmetic preparation sectors)

• Intellectual Property Rights (IPR) focusing on Geographical Indications (GIS) – Implementation of the National GI Strategy including international promotion of selected GI products.

ASIA PERSPECTIVE

Asia Perspective is an independent management consultancy with global presence and local knowledge. We assist our clients with business advisory regarding analysis, strategy and implementation. Our mission is to turn our clients' Asia business vision into reality and add significant value to your business.

We offer specialist services covering purchasing, market entry, commodity strategy and financial advisory. This includes market research and forecasts, sourcing and pricing strategy, M&A advisory, risk assessment studies etc.

SHANGHAI OFFICE

Address: Room 605, Bund Center,
No.222 East Yan'an Road, Huangpu District,
Shanghai 200002, China
中国上海市黄浦区延安东路222号外滩中心605室，
邮编：200002
Tel: +86-(0)-21-340-106-10
Email: shinfo@asiaperspective.net

ZHONGSHAN OFFICE

Address: No.70 XinDi Road, Huangpu Town,
Zhongshan City, Guangdong Province,
528429 China.
Tel: +86 760 2321 0700
Email: zhinfo@asiaperspective.net

HONG KONG OFFICE

Address: Room 602, 6/F, Taurus Building, 21A/B
Granville Road, Tsimshatsui, Hong Kong
Tel: +85-(0)-227-399-698
Email: hkinfo@asiaperpective.net

YANGON OFFICE

Address: 2nd Floor, Urban Asia Center,
Corner of Mahabandoola Rd. and 48th St.
Botahtuang Tsp., Yangon, Myanmar
Tel: +95-(0)-1243-33-77
Email: yginfo@asiaperspective.net

HO CHI MIN CITY

Address: 11 Đoàn Văn Bơ, Phường 12, Quận 4,
Hồ Chí Minh City, Vietnam
Email: vninfo@asiaperspective.net

STOCKHOLM OFFICE

Address: Karlavägen 100, Room 549, 115 26
Stockholm, Sweden
Tel: +46-(0)-76-295-94-82
Email: stockholminfo@asiaperspective.net

SAN FRANCISCO OFFICE

Address: 60 Corte Patencio, Greenbrae, CA
94904, USA
Tel: +1-415-726-85-47
Email: sfinfo@asiaperspective.net

HELSINKI REPRESENTATIVES

Johan Hackman
Tel: +358 400607378
Email: Johan.hackman@asiaperspective.net

Sami Lindstrom
Tel: +358 405774344
Email: Sami.lindstrom@asiaperspective.net