ASIA PERSPECTIVE

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Indonesia Economic Update Report

This Issue:
Indonesia’s Economic Performance in Q1
FDI as the key strategy for Indonesia’s economic recovery

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Indonesia experienced a 0.74% GDP decline in Q1 2021, the lowest contraction since Q2 2020

This latest data is a part of a series of diminishing contractions since Q2 2020, implying that Indonesia's economy is gradually bouncing back from the pandemic. Though Indonesia's GDP shrunk by 2.1% in 2020, with the current pace, the country is highly expected to achieve a 4.9% GDP growth in 2021 and a following 5.4% rise in 2022.

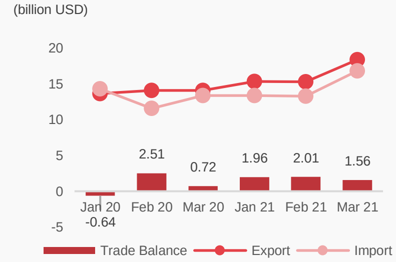
The rebound is sustained by pent-up demand for consumer and capital goods as well as the progress of the COVID vaccination campaign. In Q1 2021, household consumption, the largest contributor to Indonesia's economy, decreased with 2.23% (YoY), an improvement compared to the 3.61% decline (YoY) of the previous quarter. The yearly contraction of production output remains among certain sectors, such as transportation and warehousing (13.12% decrease YoY), accommodation and food services (7.26% decrease YoY), mining (2.02% decrease YoY), manufacturing (1.38% decrease YoY), wholesales trade, retail (1.23% YoY). The only sector that witnessed growth is the communication sector with an 8.72% increase (YoY).

Overall, the indicators of Indonesia's trading activities showed strengthening signs. The performance of the industrial products still dominated the national export value, showing that Indonesia was able to take advantage of the existing opportunities amid the pandemic. The jump in import most likely came as result from the smooth COVID-19 vaccination program and rising domestic demand prior to the fasting month of Ramadhan.

Both year-on-year and month-on-month growth of import and export were recorded in March 2021

The economic recovery of Indonesia's trading partners, particularly China, catapulted the demand for Indonesian products. As a result, Indonesia's import and export rose by 10.76% and 17.14% (YoY), respectively, in the first quarter of 2021. A trade surplus of 5.52 billion USD was recorded within the period.

In March 2021, imports to Indonesia jumped 25.73% (YoY). Specifically, an 25.82% increase (YoY) in the import of raw and auxiliary materials indicates that manufacturing is starting to move. During the same period, Indonesia's export surged by an impressive 30.47% growth (YoY), the highest record since July 2017. Export was fueled by a 38.67% rise (YoY) in oil and gas sector, 33.45% growth (YoY) in manufacturing and 25.04% growth (YoY) in agriculture.



Source: Statistics Indonesia, 2021

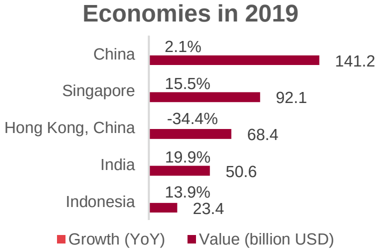
FDI as the key strategy for Indonesia's economic recovery

Under the current government's administration, Indonesia aims to attract more direct investment as a key strategy to boost economic growth as its traditional growth engine of consumption has slowed amid the pandemic.

The recently approved Omnibus Bill for Job Creation aims to spur both Domestic Direct Investment (DDI) and Foreign Direct Investment (FDI). The newly formed Ministry of Investment, which has the authority to issue investment-encouraging rules, affirmed that the greater attention will be paid to small- and medium-sized businesses with better coordination between the central administration and regional governments.

Oversea investors have been lured by softer and more flexible regulations from the Indonesian government. As competition over foreign investment is heating up the region, Southeast Asia's biggest economy offers tailormade benefits for its investors, believing that those foreign companies will significantly develop local industry.

FDI flows: Top 5 Asia's Host Economies in 2019



Source United Nations Conference on Trade and Development, 2019

One of the major benefits is expanding tax breaks in several sectors, such as house and cars purchasing. Significantly, a 0% luxury tax rate on electric cars was applied to boost domestic sales and create a more attractive market for investors.

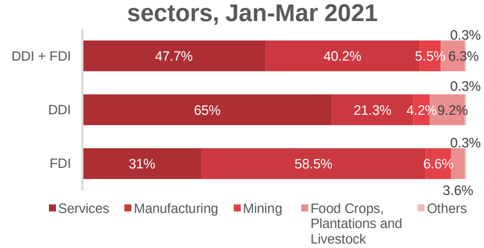
The Indonesian Government further helped to simplify the licensing process for low-risk businesses, which previously has been a lengthy permit process, to an Online Single Submission system.

The on-carbon trading for investors to offset emissions is another move, aiming at battery and electric-vehicle companies that want to invest in Indonesia's nickel supply chain. Designing environmentally friendly production is unavoidable for Indonesia, whose local processing plants rely heavily on coal for energy, to attract long-term investment.

Moreover, the Country President has a set goal worth 200 billion USD within the next two or three years for a New Wealth Fund, which will be used to push the resource-driven economy higher up the value chain. The uniqueness of this fund is that investors have the freedom to invest either in the entire portfolio or in thematic funds across different sectors, such as infrastructure, healthcare, tourism, technology, etc.

The Government's continued efforts are showing early success, with a 4.3% rise (YoY) in investment realization in Q1 2021. Particularly, Foreign Direct Investment (FDI) grew by 14% (YoY) while Domestic Direct Investment (DDI) decreased 4.2% (YoY), comparing to one year earlier.

Direct investment trend by sectors, Jan-Mar 2021



Source: Indonesia Investment Coordinating Board, 2021

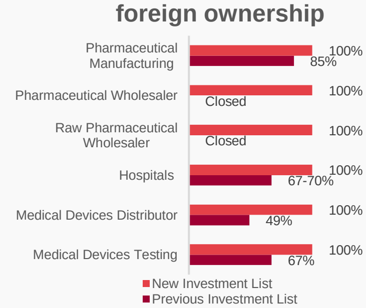
With the investment statistics in mind, it is clear that the world's confidence in Indonesia are buoyed up with new hope. Manufacturing became the most prioritized sector among foreign investors while services still dominated domestic direct investment. The top five countries investing in Indonesia are Singapore, China, South Korea, Hong Kong, and Switzerland.

Key changes to investments in the healthcare sector

A long-awaited New Investment List was released and came into force in Q1 2021, following the issuance of the Omnibus Bill. The list significantly reduced foreign ownership restrictions and opened more sectors to overseas investment. Remarkedly, investment in the healthcare sector became the center of attention amidst unsettled circumstances of the pandemic.

Considering that almost all of Indonesia's medical devices and medicinal raw materials are imported, the new policy shed light on efforts to self-sustain the healthcare sector. In particular, hospitals which used to be subject to 67-70% maximum foreign ownership, are now open for 100% foreign ownership under specific conditions. Similarly, there is no longer any foreign shareholding cap for pharmaceutical manufacturing business, which previously was subject to 85% maximum foreign ownership, and pharmaceutical wholesaling, which was completely closed for foreign ownership previously.

Changes on maximum foreign ownership



Source: SSEK

The list obviously demonstrates the commitment of Indonesian government to liberalize foreign investment in the healthcare industry. However, investors must observe closely its implementation in practice in order to conclude its actual potential.

ASIA PERSPECTIVE

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