



ASIA PERSPECTIVE

Investment Outlook

Indonesia // 2022

Indonesia's investment landscape

Indonesia provides an attractive destination for investments thanks to its natural resources, strategic location, and large population. In the past two years, Indonesia's sustained an increase in FDI realization despite the pandemic, which has proven that foreign investors' interest in the country remains intact.

Economic Growth

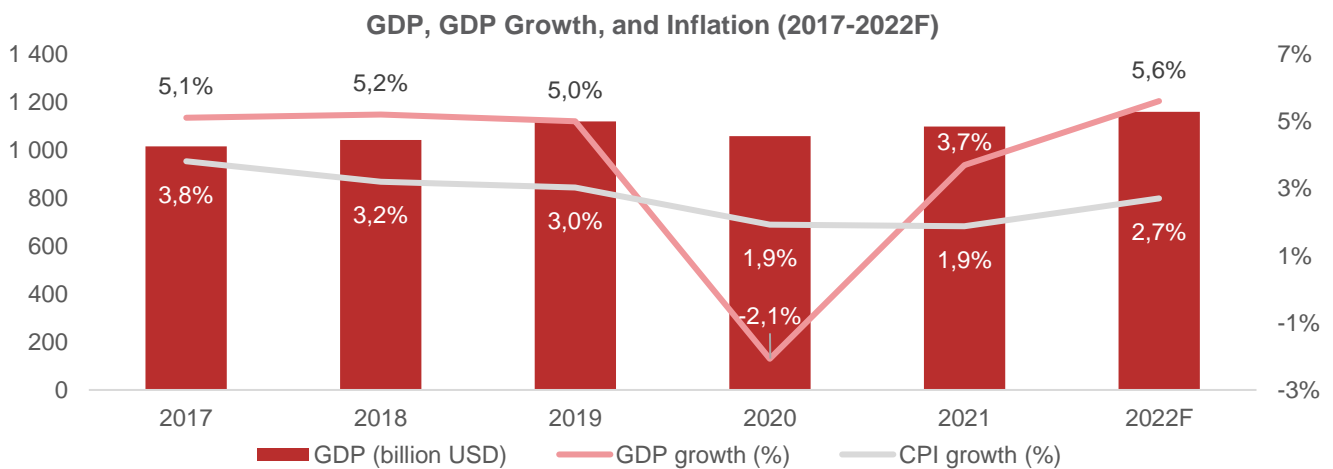
Indonesia's economy bounced back in 2021 from its contraction in the previous year thanks to an ease in pandemic restrictions and the reopening of businesses. The country's GDP accelerated 5.02% in Q4, from a 3.15% in Q3. This brought the total GDP growth for 2021 to 3.7%, which can be compared to the previous year's deep shrinkage of 2.1%.

The economy is expected to continue to grow in 2022, mainly driven by support by government policies, vaccination rollouts, and an improving global economy. However, concerns and uncertainties remain as Indonesia is facing another wave of the pandemic, fueled by the spread of the omicron variant. The International Monetary Fund forecasted Indonesia's GDP to grow 5.6% in 2022, while the Indonesian government expects a 5.2% growth.

Inflation

The Consumer Price Index (CPI) of Indonesia hit 1.87% in 2021, the highest rate in the last 18 months. The inflation rate in Indonesia started to climb progressively since September 2021 and increased 0.57% in December. The main drivers for this is an increased spending during year-end holidays and increases in price for food.

Looking forward, the inflation rate of 2022 is projected to follow an upward trend at a faster rate than 2021. The Asian Development Bank projected the CPI of Indonesia to reach 2.7% in 2022. Bank of Indonesia has set inflation target to be within the range of 2–4% for 2022, backed by increasing national production capacity, increases in consumption, and monetary policy normalization.



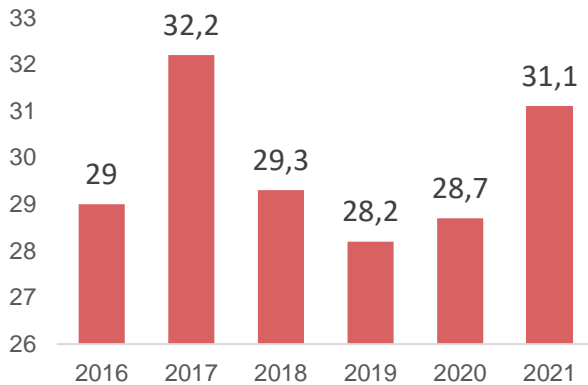
Source: World Bank, Trading Economics, ADB, IMF



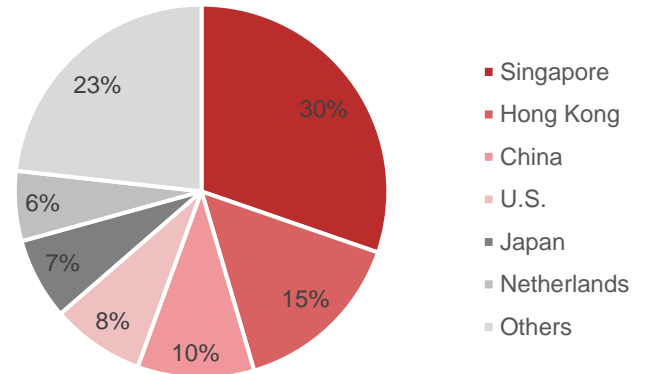
Foreign Direct Investment (FDI)

In 2021, Indonesia's FDI realization recorded a 10% increase (YoY) and reach 31.1 billion USD. Although affected by the spread of COVID-19, the economy has been able to rebound thanks to the government's successful measures in containing the virus and rolling out vaccines. Thus, foreign investors have been able to continue their investment activities after an initial suspension caused by strict lockdown and travel restriction.

FDI Realization in Indonesia 2016-2021
(billion USD)



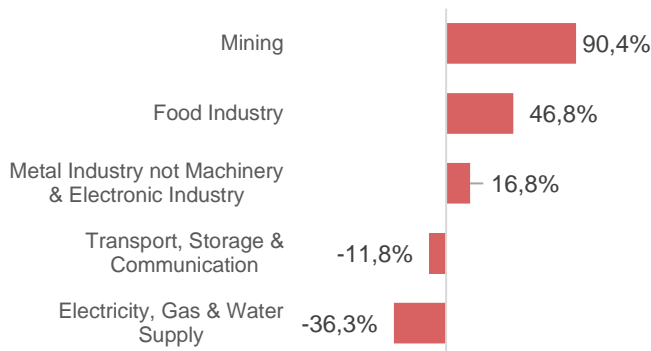
Share of FDI by investor countries 2021



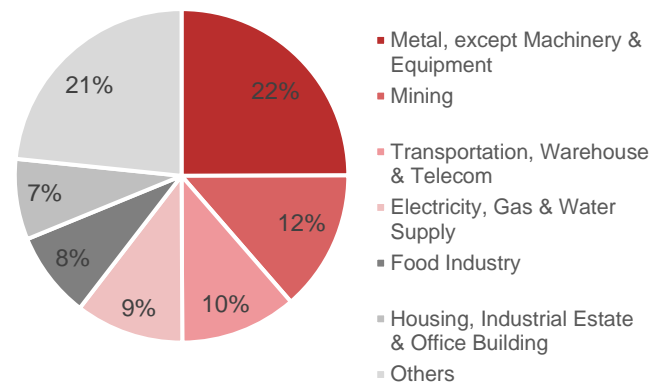
Source: Investment Coordinating Board Indonesia (BKPM)

Singapore remained Indonesia's largest foreign investor with an investment value of 9.4 billion USD, making up around 30% of Indonesia's total FDI in 2021. Hong Kong jumped up one position from last year to becoming the second-largest investment partner, with a total of 4.6 billion USD in investment value, accounting for 15%. Replaced by Hong Kong, mainland China fell to third place and contributed with 10% of Indonesia's total FDI.

Indonesia's FDI YoY growth by top 5 sector 2021



Share of FDI by sector 2021



Source: Investment Coordinating Board Indonesia (BKPM)

Metal, mining, transportation, warehouse, and telecommunication are the sectors that received the most FDI in 2021. Remarkably, investment in mining increased significantly by 90.4%, compared to 2020. The food industry and metal industry also gained more attention and investment as its FDI rose 46.8% and 16.8% (YoY) respectively.

Looking into 2022, the Indonesian government set a goal to attract more investment in the sectors for processing natural resources, aiming to transform and develop downstream processing of natural resources instead of exporting unprocessed resources as in the current system. Additionally, the government is also targeting the electric vehicle (EV) industry to develop its supporting industries, in order to get more value from the nation's rich abundance of resources.



Indonesia to increase FDI opportunities

On 2 February 2021, President Jokowi announced new Presidential Regulation No. 10/2021, related to investments in the business sector (the Positive Investment List). The new investment list came into effect 4th March 2021, replacing the previous Negative Investment List which included business activities that were closed, or partly open, to foreign investment. Under the new regime, most of the foreign investment restrictions in the Negative List have been lifted.

The general approach of the list is that all lines of businesses are 100% open to foreign investment except for those that are in some way restricted or prohibited under the list. These sectors are either (1) closed to foreign investment or reserved for the Indonesian Government; or (2) open for foreign investment but subject to certain restrictions and conditions. Business sectors that are not included in the Positive Investment List are considered open to foreign investment without restrictions unless another law or regulation suggest otherwise.

The key changes of the new regulation include the removal of some of the business sectors that were included in the previous negative list. The Positive List has reduced the number of sectors closed for investment from 20 to only 6 sectors. The technology, media, and telecommunication sector is one of the sectors that has now opened to foreign investment. All telecommunication network and service activities are now 100% open to foreign investments, which include telecommunication activities with or without cable, satellite telecommunication activities, premium call services, premium SMS content services and other multimedia services that were previously subject to a 67% foreign investment restriction.

The Positive List also introduced 245 “priority sectors” consisting of several business lines that focuses on research and development, including key sectors such as metals, oil refinery, renewables and transportation. Foreign investors operating in priority sectors will be eligible to receive fiscal incentives such as tax allowances and tax import-duty exemptions, and/or non-fiscal incentives such as ease of submission of licenses, work permits, energy, raw-materials, labour and infrastructure that are otherwise subject to the prevailing laws and regulations.

The implementation of the new Positive list reflects the Indonesian government’s attempt to improve its business environment for foreign investors, representing a major opening of Indonesia’s economy to the rest of the world. With the increasing focus from the government, as well as the favourable business environment, Indonesia will continue to be an attractive destination for foreign investment in the coming years.

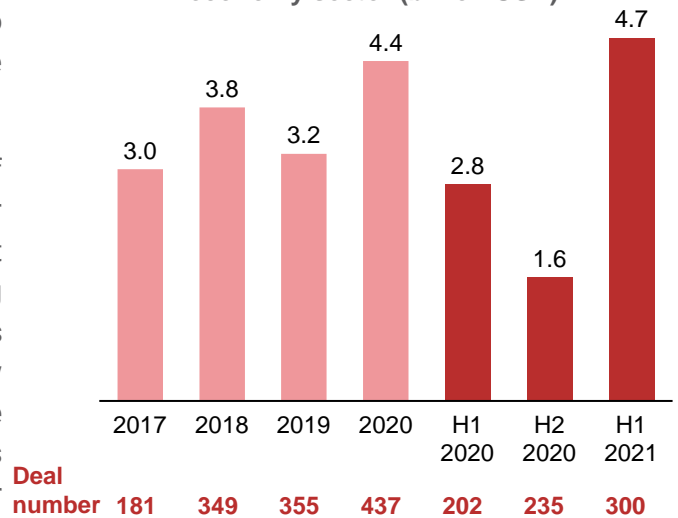
Strong investment growth expected in Indonesia's digital economy and green economy in 2022

Investments into Indonesia in 2022 will concentrate in the country's incessantly growing digital economy and government-fostered green economy. Indonesia surpassed Singapore as Southeast Asia's most heavily invested digital economy in 2021. At the same time, the Jokowi government pushes for support from foreign investors in Indonesian electric vehicles and resource-processing development.

Indonesian digital economy is booming. According to the latest SEA e-Conomy report by Google, Bain, and Temasek, Southeast Asia's digital economy is expected to expand to 363 billion USD by 2025, with nearly half of the growth contributed by Indonesia alone.

Funding in the digital economy sector during the first half of 2021 surpassed the deal value of each of the last four years, making Indonesia the hottest investment destination in Southeast Asia. The market has strong growth fundamentals, proven by the surge in consumers in the market in recent years. As many as 21 million new consumers entered Indonesia's digital market since the start of the Covid-19 pandemic. This factor alone has given both domestic and global investors reason to pour money into the country. Public exits are also rising, with multiple recorded listings of unicorns and decacorns on the Indonesia Stock Exchange.

Value of M&A Deals in Indonesian digital economy sector (billion USD)



Source: : e-Conomy SEA 2021, Google, Temasek, Bain.

Note: Deals include investments by venture capital, private equity and strategic investors

Green economy - an economy that is low carbon, resource-efficient, and socially inclusive - has become the main focus of investments in Indonesia. Despite their abundance in natural resources for the energy sector, the country faces limited access to green funding and technology transfer. To tackle these challenges, the government strives to establish cross-border cooperation that could help Indonesia realize its transition to a green economy.

Multiple foreign-invested green projects are set to develop in 2022, including electric vehicle (EVs) projects by South Korea's LG Group, and China's Contemporary Amperex Technology. Taiwan-based Foxconn also stated that it has partnered with Indonesia's Investment Ministry and several companies for EV development. The cooperation will include the development of EV-supporting industries such as energy storage systems, battery exchange stations and recycling.

According to Indonesia's Investment Ministry, more than half of the total investment in Indonesia is by foreign investors. The country is undeniably an appealing investment destination in multiple sectors. In 2022, continually strong investment inflows to the country is highly expected, especially in its surging digital and green sectors.



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.



Contact Asia Perspective

For full office postal addresses, please visit: <http://www.asiaperspective.com/contact-us/>

Shanghai

Tel: +86-(0)-21-340-106-10
shinfo@asiaperspective.com

Beijing

Tel: +86-(0)-185 0048 6766
beijinginfo@asiaperspective.com

Zhongshan

Tel: +86 18 826 002 703
zhinfo@asiaperspective.com

Ho Chi Minh City

Tel: +84-35 417 4913
vninfo@asiaperspective.com

Stockholm

Tel: +46-(0)-70-769-92-07
stockholm@asiaperspective.com

Helsinki Representatives

Johan Hackman
Tel: +358 400607378
johan.hackman@asiaperspective.com
Sami Lindstrom
Tel: +358 405774344
sami.lindstrom@asiaperspective.com

Jakarta

vninfo@asiaperspective.com