ASIA PERSPECTIVE

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Indonesia Economic Update Report

This Issue:

Indonesia's Economic Performance in Q1

Indonesia's ban on oil exports impact global food supplies

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Indonesia’s GDP grows 5.01% in Q1 2022, fueled by a boom in exports

Indonesia's economic growth remained stable in Q1 2022, as COVID-19 restrictions were further loosened. The recovery in consumption, investment, and exports contributed to the growth in the quarter.

Indonesia’s GDP in the first quarter of 2022 registered a 5.01% growth, marking the fourth consecutive month of expansion. The country’s decision to lift many of the COVID-19 restrictions earlier this year has resulted in a significant pick-up in Indonesia's economic activity. Along with exports, private consumption and fixed investment were the two main growth drivers with a 4.34% and 4.09% increase (YoY) respectively.

On the production side, manufacturing output registered a 5.07% increase. March 2022 was the 7^{th} month of increased factory activity. The PMI (Manufacturing Purchasing Managers’ Index) captured was at 51.3. Sectors that also recorded growth are construction (4.83%), wholesale trade and retail (5.71%), communication (7.14%), mining and quarrying (3.82%), transportation and warehouse (15.79%). By contrast, government spending contracted by 7.74%, after having increased 5.25% in Q4, 2021.

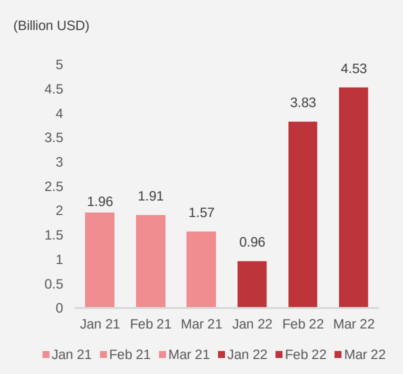
Looking ahead, Indonesia’s central bank in March 2022 lowered its economic growth prediction for the year, revising it to 4.5% - 5.3%, instead of the previous 4.7% - 5.5%, after concerns for slower global growth and disruptions in trade.

Surge in exports keeps Indonesia's economic recovery on track despite spread of Omicron

Rising global commodity prices, such as for coal, palm oil, and nickel, helped Indonesia, a major supplier of these resources, register record trade surpluses.

Indonesia's trade surplus increased sharply to 4.53 billion USD in March 2022, up from 1.57 billion USD in the same month 2021, exceeding the predicted surplus of 2.89 billion USD. With commodity prices rising, this was the largest trade surplus since October 2021.

Exports increased 44.36% YoY to a record high of 26.50 billion USD, the strongest growth in four months, supported by both non-oil products (43.8%) and oil and gas products (54.7%). At the same time, imports increased 30.85% to 21.97 billion USD.



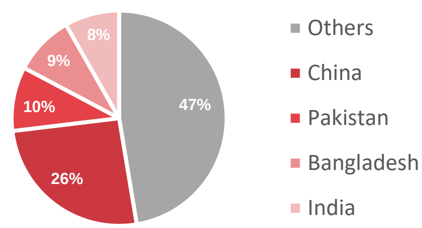
Indonesia’s oil exports ban impacted global food supply

A significant decrease in global sunflower oil exports, caused by Russia’s invasion of Ukraine, boosted demand for alternatives such as palm and soybean oil. Following the event, Indonesia, the world’s biggest palm oil producer, affirmed its economic power in the sector. Nevertheless, the country newly announced a ban on palm oil exports, causing concern across the globe.

In the past months, Indonesia faced issues of surging prices and local shortages of edible oil. Although cash subsidies were rolled out to moderate prices, increases in prices showed little signs of slowing. In April 2022, Indonesia imposed a ban on exporting pal oil from the country. At a time of rampant global inflation, concerns are raised as the ban would only further drive-up global prices on commodities. Nevertheless, the Indonesian government deemed the move necessary to tackle the local supply shortage and rising costs of branded cooking oil, which soared from 0.96 USD to 1.52 USD per liter in April 2022. Until the domestic shortage is resolved, the ban will continue under thorough evaluation from the government.

The effects of this decisions were evident immediately. The major importers of Indonesia’s palm oil - China, India, Bangladesh, and Pakistan - had to look to Malaysia as a temporary solution to compensate for the decrease in volume, although proving insufficient. China’s import value on palm oil from Indonesia dropped around 51% in the first quarter of 2022, compared to a year earlier. Nearly half of India’s total palm oil is imported from Indonesia, while Pakistan and Bangladesh import around 80% of their palm oil from the same source. Malaysia, which is considered Indonesia’s alternative, struggled to fill the gap in global demand for palm oil. While Indonesia makes up about 60% of the global palm oil supply, the world’s second-biggest palm oil producer Malaysia accounts for only a third of the total volume. Moreover, the country’s local demand is not being met as its largest import source from neighboring Indonesia has been retreated.

Country shares of Indonesia's palm oil exports (2021)



Source: Indonesia’s Trade Ministry, 2021

Experts warned that other countries would eventually suffer as well as palm oil is one of the most critical commodities used in food, cosmetics, and cleaning products. Palm oil accounts for nearly 60% of global vegetable oil shipments. Thus, the ban affects not only palm oil availability, but also vegetable oil worldwide. Food costs are surging at the fastest pace ever, and the ban will likely result in far-reaching impacts on global food supplies in the upcoming future. Large corporates could also not escape the adverse impact. The major packaged food producers Nestle, Mondelez International, and Unilever expect costs to continue to rise as long as the export ban remains.

In terms of impact, the ban will likely achieve the government’s short-term goal to decrease domestic prices of cooking oil. However, several other negative impacts might transform Indonesia’s palm oil sector massively. Plantation, refinery and packaging companies, and millions of smallholders will be affected. Unlike conglomerates, which control nearly half the Indonesian market for cooking oil and thus have more power to dictate market prices, millions of smallholders would suffer from a record high price drop of palm fruits. Unless the government carries out fundamental reforms to strengthen the economic power of smallholders and improve support for the overall sector, the results of the export ban might backfire.

15 billion USD investment raise hope for Indonesia’s EV market

Indonesia’s government has an ambitious plan for Electric Vehicles (EV) sector and has been seeking investments to realize the plan for years. Policymakers plan to have 2.2 million electric cars on the road by 2030, which is not an easy feat for a country that bought a total of fewer than 1 million cars in 2021, most of which are gas-fueled models.

Yet recent global events contributed to an unexpected boost. Supply chain disruption and soaring prices on raw materials, largely triggered by the war in Ukraine and COVID-19 lockdowns in China, turned major investors to Indonesia for long-term investment. Amidst a recent market meltdown that doubled prices on metal, Indonesia, the world’s largest nickel producer, holds potential to stabilize the cost of raw materials, offering an economic advantage for battery makers and allowing manufacturers to diversify beyond traditional manufacturing hubs like China.

One of the most important deals was recently made by South Korean LG Energy Solution, investing in a vertically integrated manufacturing project with a value of 9 billion USD. The goal is to build a mines-to-manufacturing supply chain, including the manufacturing of nickel smelting as well as assembling finished products. A plan for a 1.1 billion USD battery cell plant was also announced 2021 as part of a joint venture between LG Energy Solution and Hyundai Motor. Additionally, Chinese battery maker CATL partnered with local players to invest in another 6 billion USD electric-vehicle project.

Though many efforts are required, these investments could greatly support Indonesia’s goals in developing an electric-vehicle supply chain within its borders.

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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
stockholminfo@asiaperspective.com

Hong Kong
Tel: +85-(0)-227-399-698
hkinfo@asiaperpective.com

Jakarta
ininfo@asiaperspective.com

Helsinki Representative
Johan Hackman
Tel: +358 400607378
johan.hackman@asiaperspective.com

Milan Representative
Luca Poggiaroni
Tel: +39 393 9113552
luca.poggiaroni@asiaperspective.com