

# Economic reform

## AMBASSADOR INSIGHT

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INDONESIA has a new administration under President Joko 'Jokowi' Widodo and Vice-President Jusuf Kalla, sworn in on 20 October 2014, which has outlined economic reform priorities in order to accelerate growth over the next five years to increase job opportunities and improve people's welfare.

The government committed to shift consumption to productive activities through a fuel subsidies adjustment in November 2014, giving more focus to infrastructure financing, healthcare and education, as well as human resources development.

The eradication of corruption is also high on the agenda. President Jokowi stressed the importance of good governance before the start of the working cabinet.This highlights the new direction reflecting a strong desire to boost the business climate. The new administration's policies have raised global investors' confidence in Indonesia.

The government is also working to improve the business climate in Indonesia by circumventing and streamlining bureaucracies. In January 2015 the government established a one-stop-service centre at the office of the Investment Coordinating Board, intended to provide quick, simple, transparent and integrated licence services for investment and business licensing.

Indonesia's current economic landscape under the new administration offers huge investment opportunities for Irish businesses. For a start, a total of US$650bn during the five-year period will be invested in infrastructure by the government. President Jokowi has made upgrading the country's ports infrastructure one of his priorities. As an archipelagic country of more than 17,000 islands, the maritime industry is key to the fortunes of the country and to the continued development of its trade relationships. The government is creating a 'Sea Toll Road', which it hopes will modernise the country's ports system.

The Government has prioritised spending re-allocation to achieve greater productivity. It plans to build power plants of 35,000MW necessary to establish industrial and manufacturing zones. Under the Infrastructure Plan 2015–2019, as many as 2,650km of new roads will be built; as well as 1,000km of highways; 24 new sea ports; 59 sea port developments; 2,159km of rail lines; 1,099km intra city rail lines; 15 new airports; and 20 airport infrastructure developments – all of which will open new trade routes and improve connectivity.

Apart from infrastructure, a wealth of opportunities exist for Irish business across a range of sectors, such as oil and gas, power generation, renewable energy, education, healthcare, ICT, plantation, mining, and so on.

Ireland has a competitive advantage in manufacturing industries such as pharmaceuticals, ICT, machinery, dairy products, as well as transport infrastructure. Knowledge, expertise and technology in these sectors would be necessary to advance a strong manufacturing base in Indonesia.

Other key sectors include food and agri-tech, education, tourism and international financial services. Ireland's membership of the EU provides Indonesian businesses with a gateway to enter European markets. Commodities from Indonesia such as textiles, timber, palm-oil, rubber, fish products, electronics and automotive products can be distributed to Europe through Irish markets.

The opening of the Irish Embassy in Jakarta in 2014 underscores the great potential that exists for future trade, investment and business links between the two countries.

I would advise Irish businesses to consider Indonesia's abundant natural resources, the size of the domestic mega-market, the young and technically trained workforce, as well as the large consumer base with fast-growing spending power.

Indonesia is a natural choice as a hub of production and innovation. Having plants, factories and business centres in Indonesia will open bigger markets for your business. Within a few hours flight or a few days shipping you can reach the 600 million people in the ASEAN market, and by going a little further you can reach the high value East Asia markets.

 

## ECONOMIC OVERVIEW

Indonesia has a balanced economy, a big consumer market and huge infrastructure needs, and is among the major emerging markets projected by the World Bank to lead the world's economy by 2025. With a GDP of US$1tr in terms of purchasing power parity, Indonesia is currently the 16th largest economy in the world and is forecasted to be in the top 10 within the next two decades. Two of the world's well known credit rating agencies raised Indonesia's sovereign debt rating to investment grade.

Being the largest economy in the Southeast Asia – contributing 40pc of Southeast Asia's GDP– Indonesia has experienced average growth of 5–6pc in the past five years. It still managed to maintain a moderate economic growth rate of 5.02pc in 2014. This was lower than the 5.8pc posted in the previous year, but in line with the Central Bank projection of 5.1–5.5pc, with a tendency towards the lower range due to the fuel subsidy adjustment in November 2014 and global economic growth, which was not as strong as previously estimated. In 2015 the Central Bank expects the economy to expand in the range of 5.4–5.8pc.

On the supply side, Statistics Indonesia (BPS) announced in February 2015 the growth of all sectors in the economy, including agriculture, livestock, forestry and fisheries (4.18pc); and mining and quarrying (0.55pc), contracting from the previous year due the slowdown in global demand, as well as the ban on mineral exports to promote the development of a domestic processing industry.

The highest growth recorded was in the information and communication sector (10.02pc). From the expenditure side, investment recorded the highest growth of 12.4pc, while domestic consumption grew by 5.1pc. Contraction was felt in terms of export performance in Q4/2014, decelerating to 4.53pc due to weak demand from emerging market countries and lower commodity prices.

Investment has become the new engine of Indonesia's economic growth, with both domestic and foreign direct investment on an upward trajectory. Investment realisation in the period January to December 2014 was Rp463.1tr (US$38.6bn), an increase of around 16.2pc from the same period in the previous year, according to an investment realisation report by domestic direct investment and FDI companies.

The five leading FDI sectors in 2014 were: mining (US$4.67bn); food (US$3.14bn); transportation, warehouse, and telecommunication (US$3bn); metal, machinery, and electronic industry (US$2.47bn); and chemical and pharmaceuticals (US$2.32bn).

## NATIONAL FLAG

**The design of the Merah Putih, or red and white, national flag of Indonesia, is two equal horizontal bands, red on top and white at the bottom. The red stands for courage and represents the human body, while the white stands for purity and represents the human soul. Together it stands for a complete human being, one that is pure and courageous.**

- **NATIONAL DAY: 17 AUGUST (INDEPENDENCE DAY)**
- **DATE WHEN DIPLOMATIC RELATIONS ESTABLISHED BETWEEN INDONESIA AND IRELAND: 4 SEPTEMBER 1984**

## Key facts...

- **National population:** 252,164,800 (2014)
- **Top five cities and population of each:**
  - Jakarta (capital): 9.6 million
  - Surabaya: 2.76 million
  - Bandung: 2.39 million
  - Bekasi: 2.33 million
  - Medan: 2.09 million
- **Area:** 1,904,569 sq km
- **Timezone:** GMT + 7
- **Currency:** Rupiah
- **Religion/s:** Islam, Christian, Roman Catholic, Hindu, Buddha, Confucianism
- **Language/s:** Bahasa Indonesia (national language)
- **Bilateral trade with Ireland (2014):** US$171,79m
- **Irish exports to Indonesia:** US$100,94m
- **Gross domestic product (GDP):** US$ 867.5bn (2013)
- **GDP (purchasing power parity (PPP)):** US$ 1.285tr (2013)
- **Real GDP growth:** 6.2pc (2012); 5.8pc (2013); 5.01pc (2014)
- **GDP per capita (current prices):** US$3,475 (2013)
- **GDP per capita (PPP):** US$9,561 (2013)
- **GDP share of world total:** 1.4pc (2013)
- **GDP sector breakdown:** agriculture 13.38pc, manufacturing industry 21.02pc, and wholesale and retail trade 13.38pc (2014)

Sources: Ministry of Trade, Bank Indonesia, Statistics Indonesia (BPS), World Bank

## AGRICULTURE AND EDUCATION

The Indonesian agriculture sector remains an indispensable part of the country's economic structure – 13.38pc of Indonesia's total GDP in 2014 was from the agriculture sector as measured in current prices, similar to 13.39pc the previous year, according to the data from Statistics Indonesia (BPS). Food crops remain by far the largest contributor to the sector, accounting for more than half of the industry's value. However, Indonesia's growing population will require continued expansion of the food crop sector to keep pace.

President Jokowi has outlined plans to achieve food security for Indonesia through the national food self-sufficiency target, which the government aims to achieve in the next three years. The plans include a wide range of measures to boost productivity and output, including expanding food production areas, limiting the conversion of existing cropland for other purposes, and increasing yields in these areas.

Investment in value-added manufacturing such as plantation (palm oil, rubber, cocoa) and agri-food continues to be the sector that would offer the best opportunities for Irish businesses both in the short and long terms. The government has issued several incentives in the form of tax allowances, tax holidays and import duty exemption to increase private involvement in production and investment in the plantation sector. There is definitely potential to do more in these areas.

The Indonesian educational system is fast growing and well funded. According to the World Bank, Indonesia has 50 million students, 2.6 million teachers and 250,000 schools. Its educational system in terms of scale is No 3 in the region and No 4 in the world, below India, China and the US. Both central and local authorities are required to spend at least 20pc of their budgets on education.

President Jokowi's nine priorities agenda called the 'Nawa Cita' includes significantly improving the quality of education so as to improve and enhance Indonesia's human capital supporting economic growth. Ahead of the fuel subsidy adjustment in November 2014, the government reallocated spending for education subsidies targeting the poor and families near the poverty threshold in the form of the Indonesian Smart Card (Kartu Indonesia Pintar).

Ireland's competitive advantage in the education sector can play a leading role in contributing to the development of the sector in Indonesia. Ireland and Indonesia have opened discussions for a memorandum of understanding in the field of education that will facilitate more Indonesian students to study in Ireland. In other areas such as transport, Dublin Airport Authority is active in providing training and assistance in Indonesia.

The Irish and Indonesian economies are complementary, according to Irish Ambassador to Indonesia Kyle O'Sullivan

The Embassy of Ireland in Jakarta opened late last year with two Irish-based staff. Since arriving in Jakarta, the question put to them by Irish and Indonesian people alike has not been 'Why did you open an embassy?', but rather 'What took you so long to get here?'. Indonesia's scale, its complexity and its potential are all powerful arguments for an Irish presence on the ground.

Jakarta, in particular, is a huge bustling metropolis, combining the most modern with the most traditional elements in a city of 12 million people – with all the challenges and benefits that this implies.

Indonesia is not a traditional partner for Ireland and in many cases the economic ties must be started from scratch, with the eyes fixed on the potential not the actual.

The Irish and Indonesian economies are complementary and if we can make the right connections, the opportunities for mutually beneficial business are significant.

Some sectors are immediately apparent: ICT and software, food and food ingredients, medical equipment, aviation services, and specialised construction. Education and tourism will also be important. And beyond these are the sectors, markets and niches which are not immediately obvious, but where there is an opportunity for Irish companies to compete and win business because they provide the best product, service and value.

The pace of change in Indonesia's economy is astounding, with growth rates here dwarfing those of Europe and projected to continue growing strongly into the future.

Demographic, consumer and commercial trends all indicate enormous potential. Indonesia will not be a familiar environment to most Irish companies, and doing business here involves a step change from working with our traditional markets.

But this complexity is both a challenge and an opportunity. Irish companies have the flexibility, the skills and the drive to succeed in this market, and the embassy and the state agencies have an unambiguous mandate to do all we can to support them.

 