

Investment in Indonesia Amid Covid-19 : Challenge and Opportunity

Jakarta, 4 August 2020

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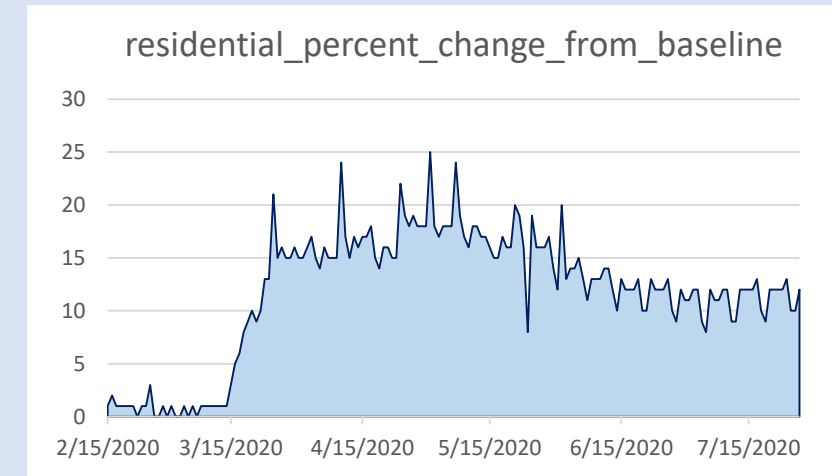
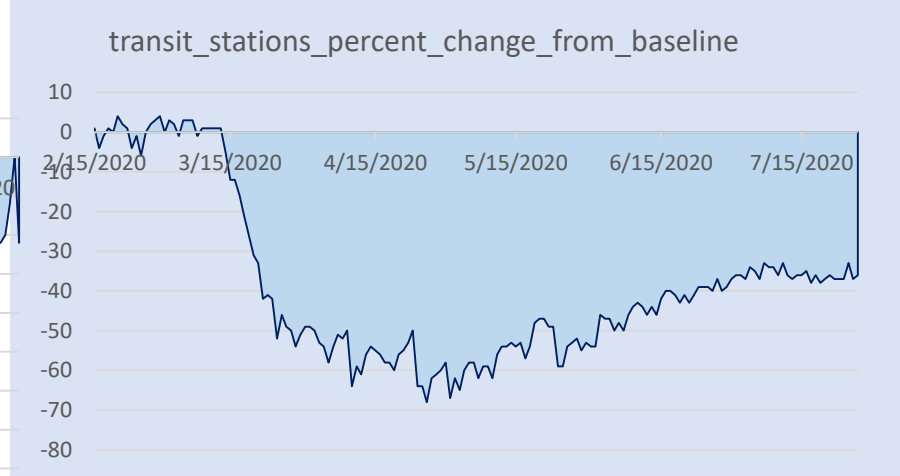
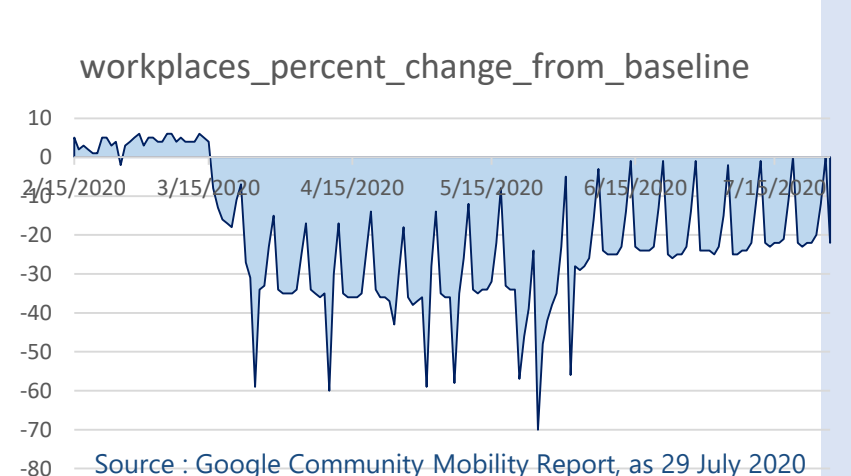
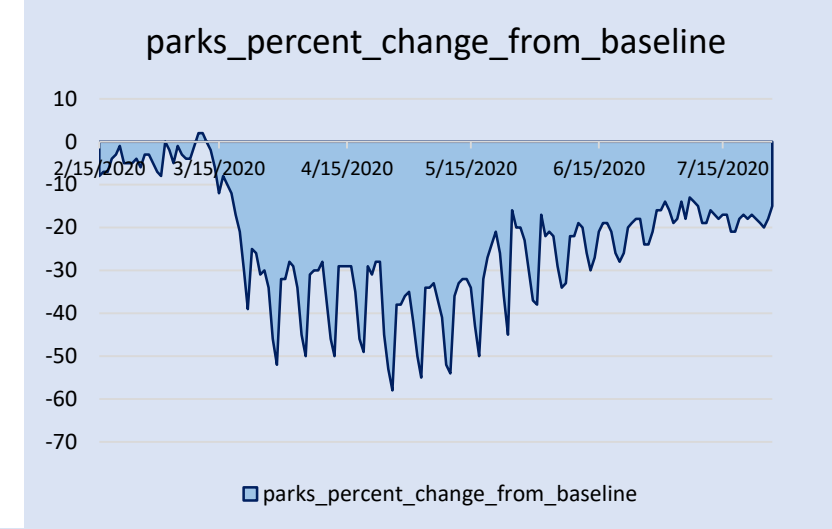
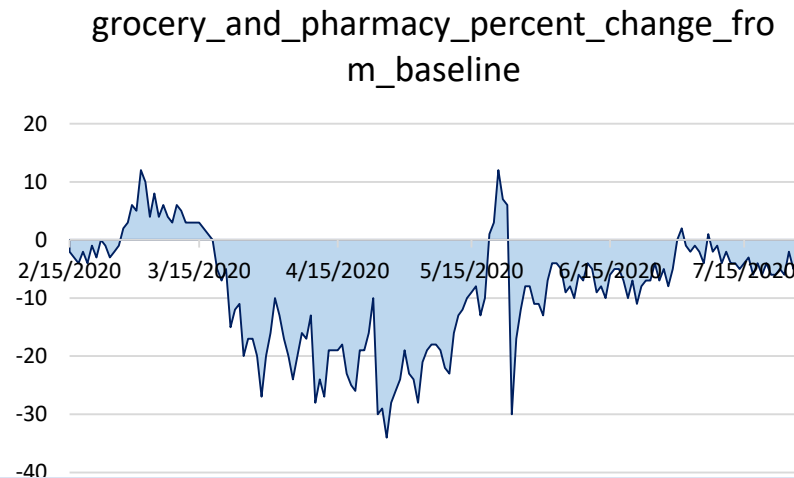
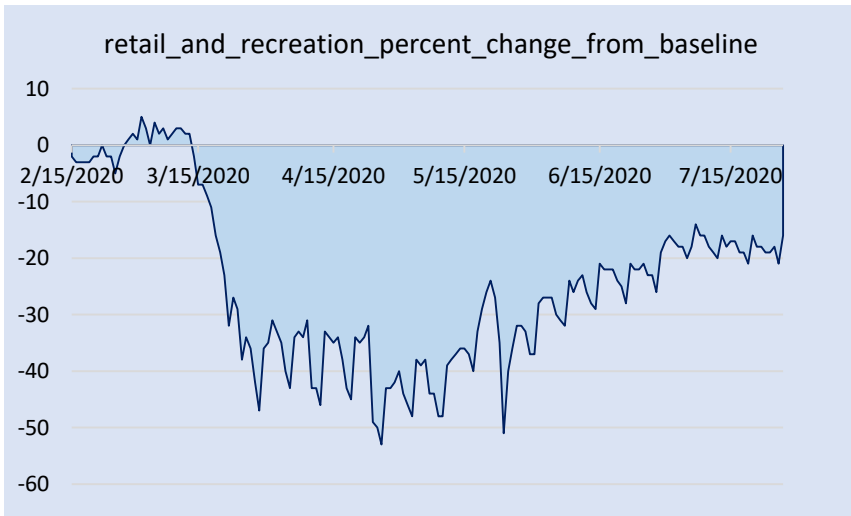


The Outline

- Overview
- Why Indonesia Need Investment
- The Opportunity
- Issues to address
- Policy Implication

Covid-19 reduce economic activities

After the relaxation of PSBB, economic activity has not equalled the baseline

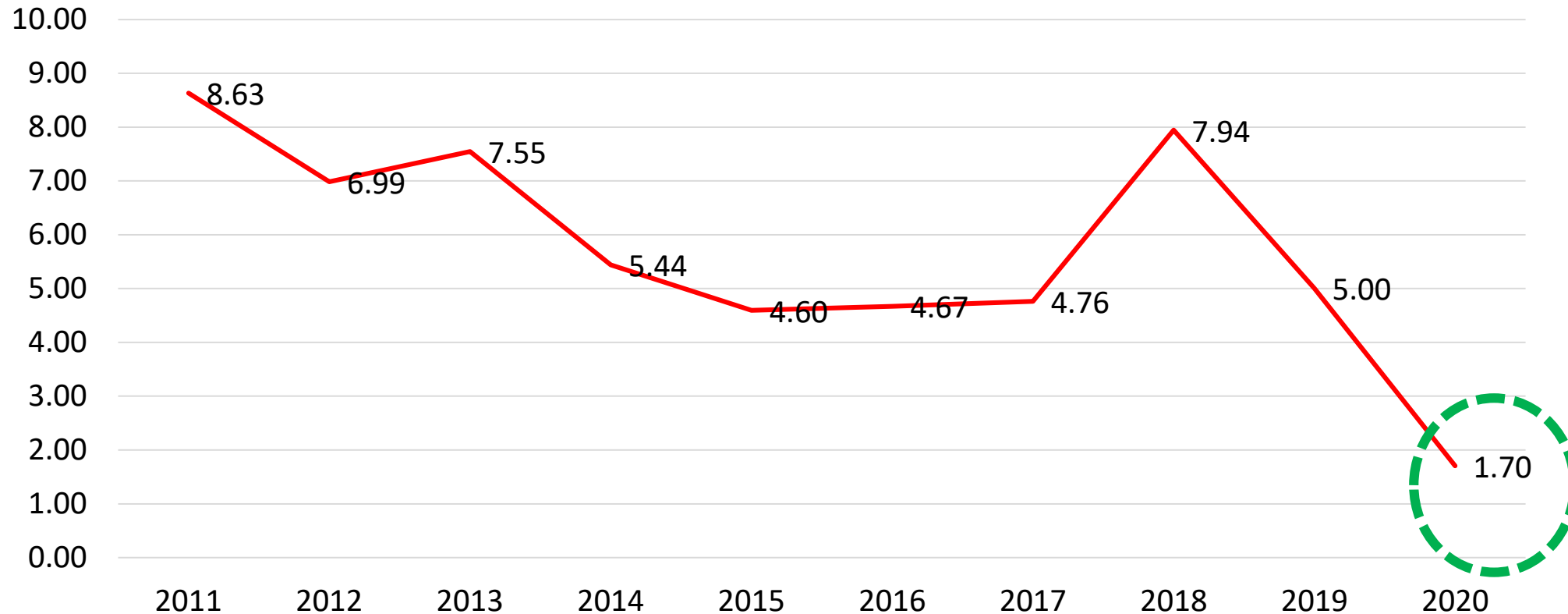


Source : Google Community Mobility Report, as 29 July 2020

Covid-19 Reduce Capital Stock

For a decade, investment growth in the 1st quarter just 1,7%

Q1-Investment Growth (yoy,%)



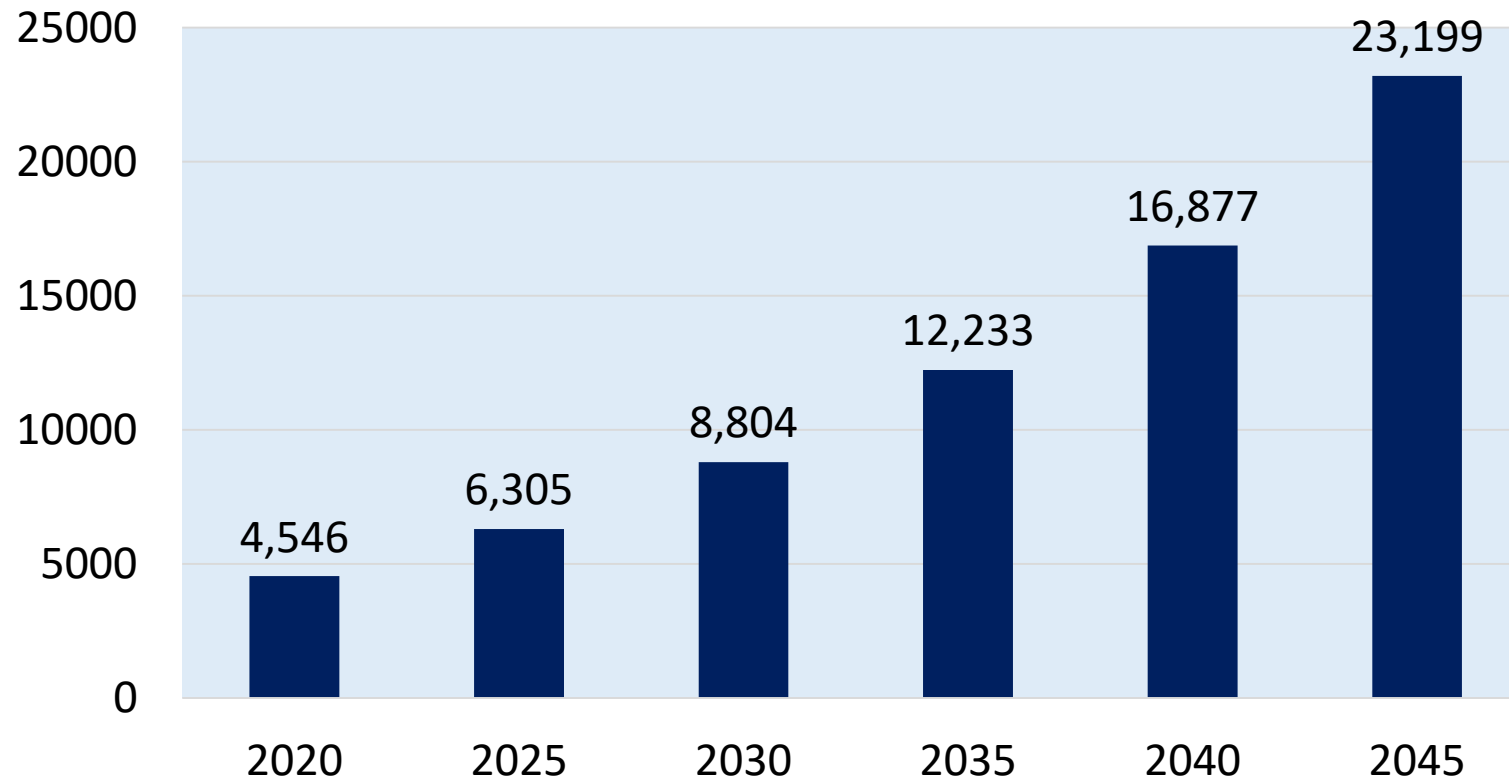
Source: BPS-Statistics Indonesia, (2020)

The need of investments does not only relies on
The Covid-19 impact, but beyond that..

Indonesia as an upper middle-income country

Investment needed to reach its economy target of becoming high income country.

Target on Income per capita (US\$)



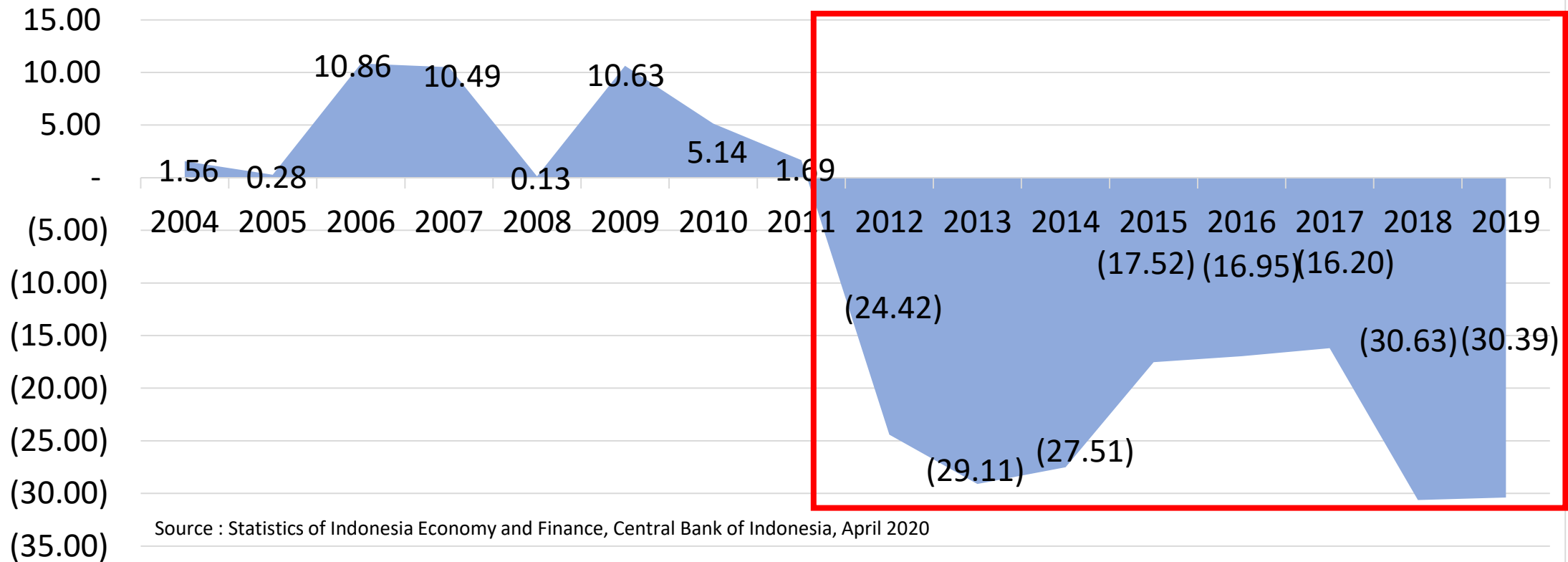
GNI per capita of Indonesia rise to US\$4,050 in 2019, surpassing the income threshold for upper-middle income, from \$3,840 in 2018

Source: Ministry of Planning (Bappenas) Dec 15, 2019

Saving-Investment Gap

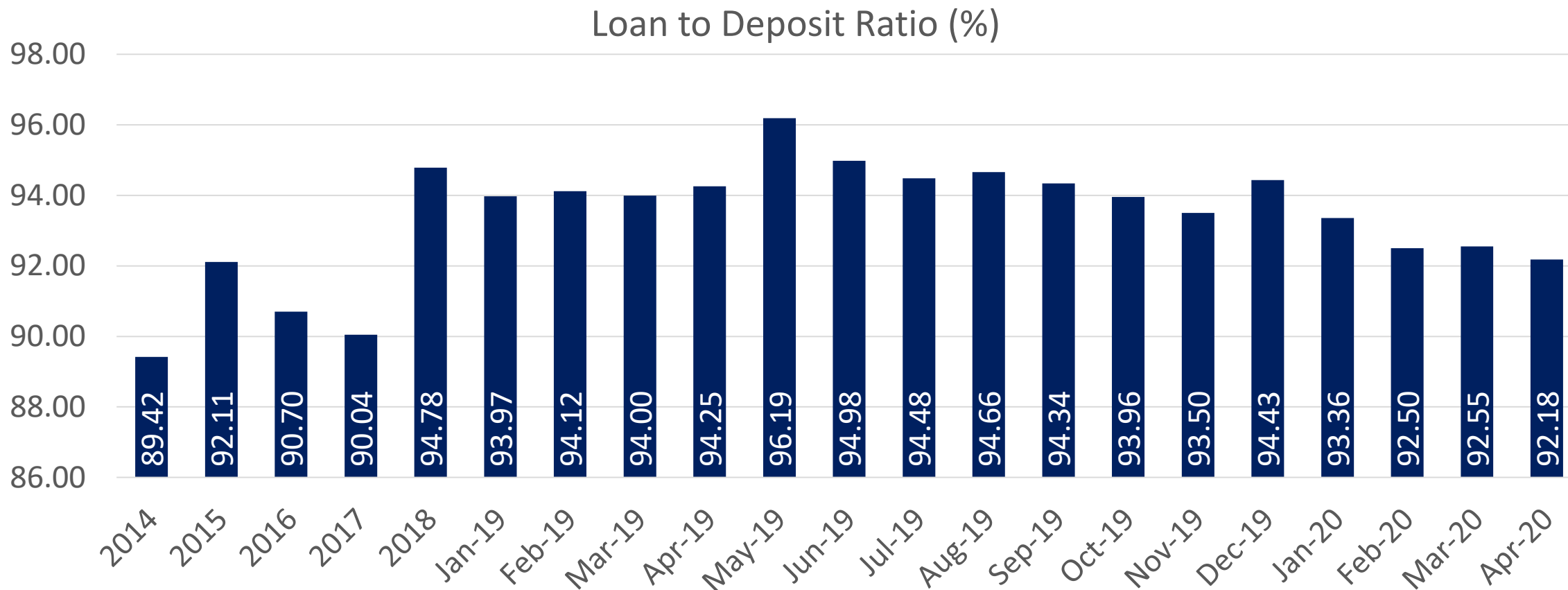
Indonesia needs further investment regard to deficit on the current account

Saving Investment Balance (Current Account)



Tight on liquidity

Loan to deposit of conventional bank passes the authority benchmark (85%)

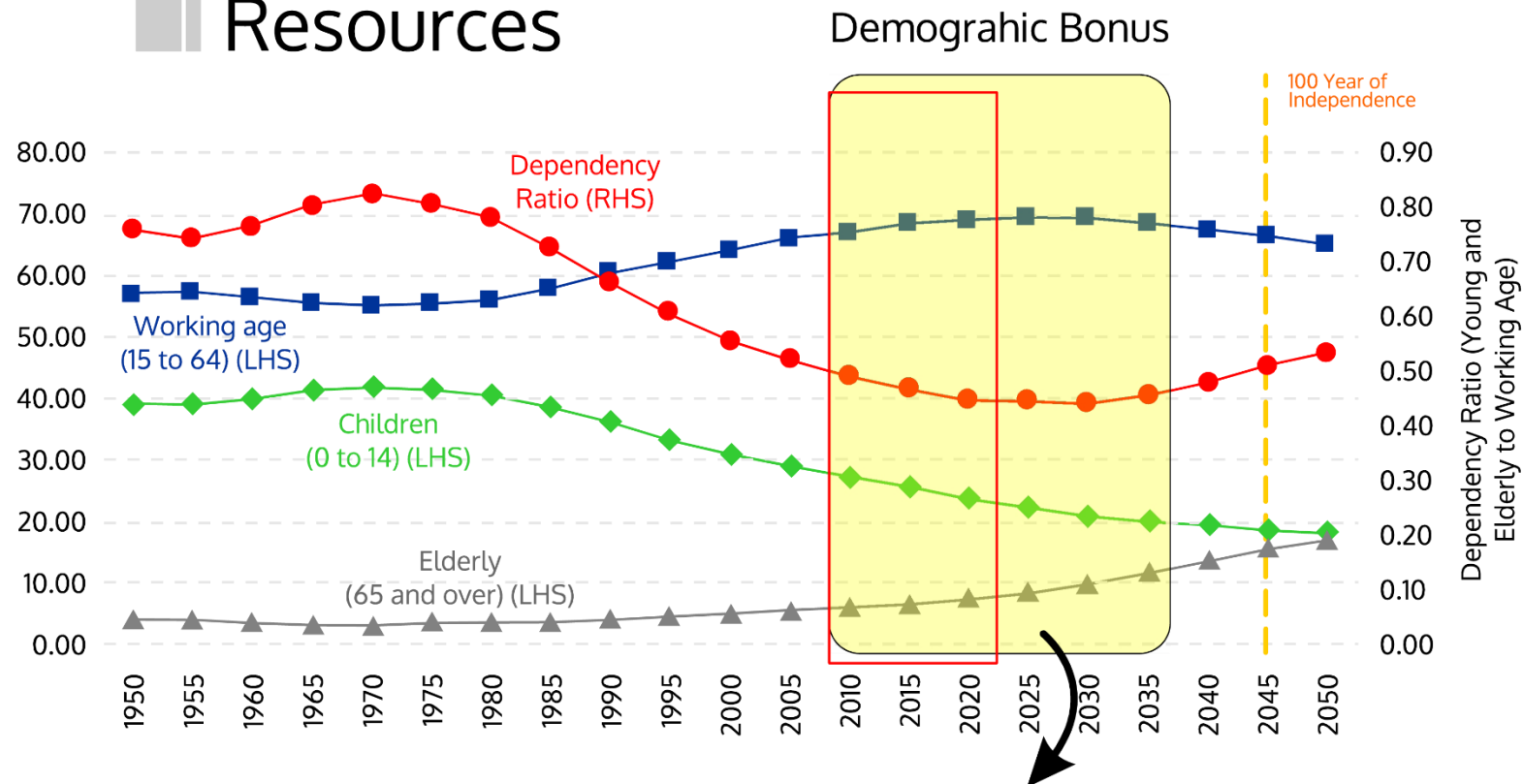


Source : Statistic of Indonesian Banking, April 2020, The Financial Services Authority

The Opportunity

Demographic bonus = big market = big opportunities

Human Resources



Source:
Coordinating Ministry for Economic Affairs

Decreasing Dependency Ratio from 2010-2040: can become demographic dividend for economic development, provided that good human resource development is in place.

Indonesia in Global Competitiveness Indeks :

Ease of Doing Business has improved over the years, as reflected in the rank but outnumbered in 2020

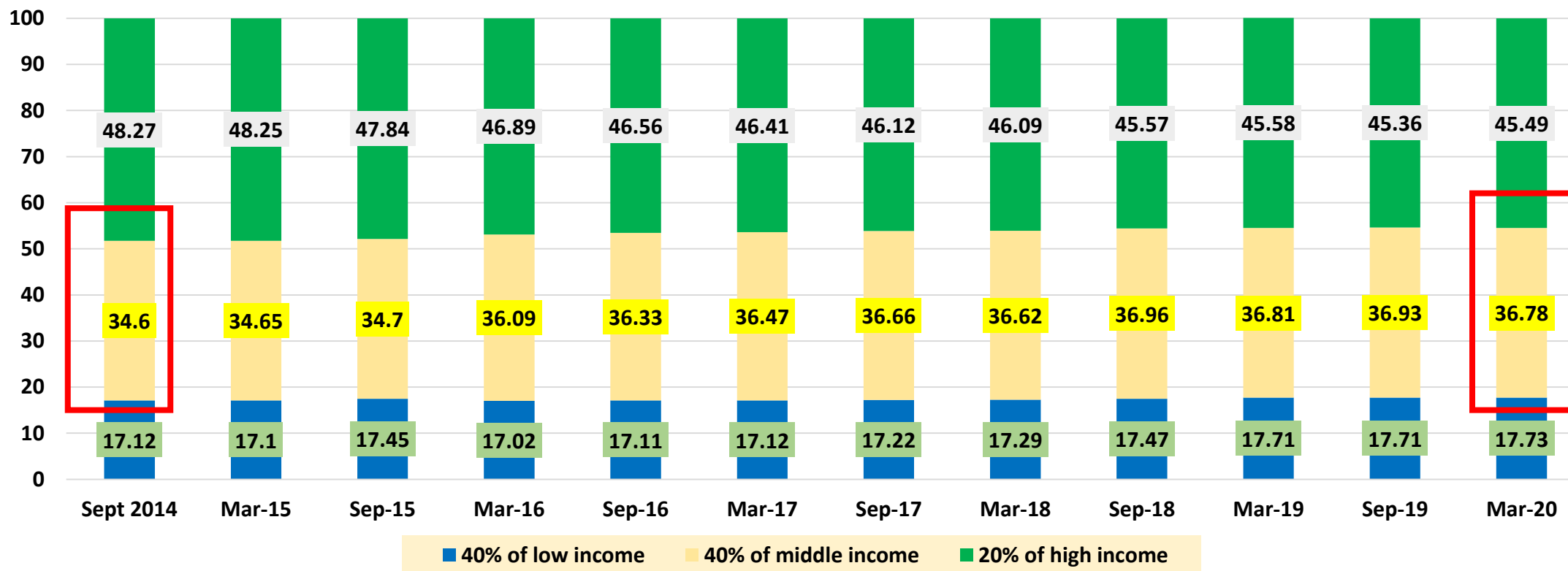
No.	Indicator of Ease of Doing Business	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Total Rank of Indonesia	129	128	120	114	106	91	72	73	73
1	Starting a business	155	166	158	163	167	151	144	134	140
2	Dealing with construction permit	71	75	150	110	113	116	108	112	110
3	Registering property	99	98	112	131	123	118	106	100	106
4	Getting electricity	161	147	101	45	61	49	38	33	33
5	Paying taxes	131	131	158	160	115	104	114	112	81
6	Trading across borders	39	37	61	104	113	108	112	116	116
7	Getting credit	126	129	67	71	70	62	55	44	48
8	Protecting minority investor	46	49	43	87	69	70	43	51	37
9	Enforcing contract	156	144	171	170	171	166	145	146	139
10	Resolving Insolvency	--	--	71	73	74	76	38	36	38

Source: World Bank (2020)

Increasing on middle class spending

Share of 40% of middle class spending rose from 34,6 (Sept' 14) up to 36,78% (March' 20)

Share of Household Spending, September 2014 – March 2020 (%)



Source: BPS-Statistics Indonesia, (2020)

Investment relocation from China

As an impact of trade war (AS-China), there are many companies (will) leave China



US companies in China considering relocation or investment cuts

WED, MAY 22, 2019 - 12:07 PM



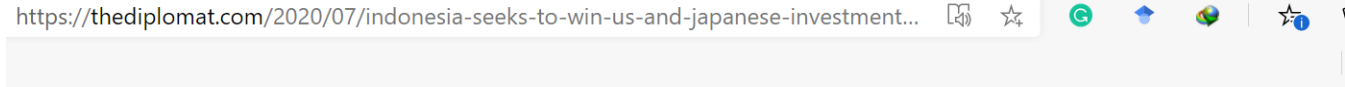
About a fifth of US companies in China are considering moving some or all of their production out of the country to deal with the trade tensions, and a third are delaying or cancelling investment decisions, according to a survey of 239 American firms in the market. PHOTO: AFP

[BEIJING] About a fifth of US companies in China are considering moving some or all of their production out of the country to deal with the trade tensions, and a third are



BREAKING NEWS

- 02:22 PM Exile no protection from Hong Kong security law, US dissident says
- 02:01 PM Government sets aside \$5320m to cover further extension of foreign worker levy rebates
- 01:03 PM South Korean sect leader arrested for hindering virus efforts



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Indonesia Seeks to Win US and Japanese Investment Fleeing China

Jakarta scrambles to capture U.S. and Japanese corporate relocations out of China as geopolitical and coronavirus pandemic concerns intensify

Where companies are going when they leave China



Source : <https://www.foxbusiness.com/economy/trade-war-companies-fleeing-china>

The Companies that have moved or will move out of China

<i>Company</i>	<i>Industry</i>	<i>Moved to (or planning)</i>
Harley Davidson	Automotive	Thailand
Hasbro	Toys	Vietnam and India
Kayamatics	Consumer Robotics	Malaysia
Merry electronics	Electronics	Thailand
Nintendo	Video Games	Vietnam
Panasonic	Electronics	Malaysia
Procon Pacific	Packaging	India
Samsung	Electronics	Vietnam
Skechers	Footwear	India or Vietnam
Steve Madden	Footwear	Cambodia
<i>Apple suppliers</i>		
Compal electronics	Electronics	Taiwan
Delta electronics	Electronics	Thailand
Foxconn	Electronics	Vietnam and/or India
Goertek	Technology Hardware	Vietnam
Pegatron	Electronics	India and Indonesia

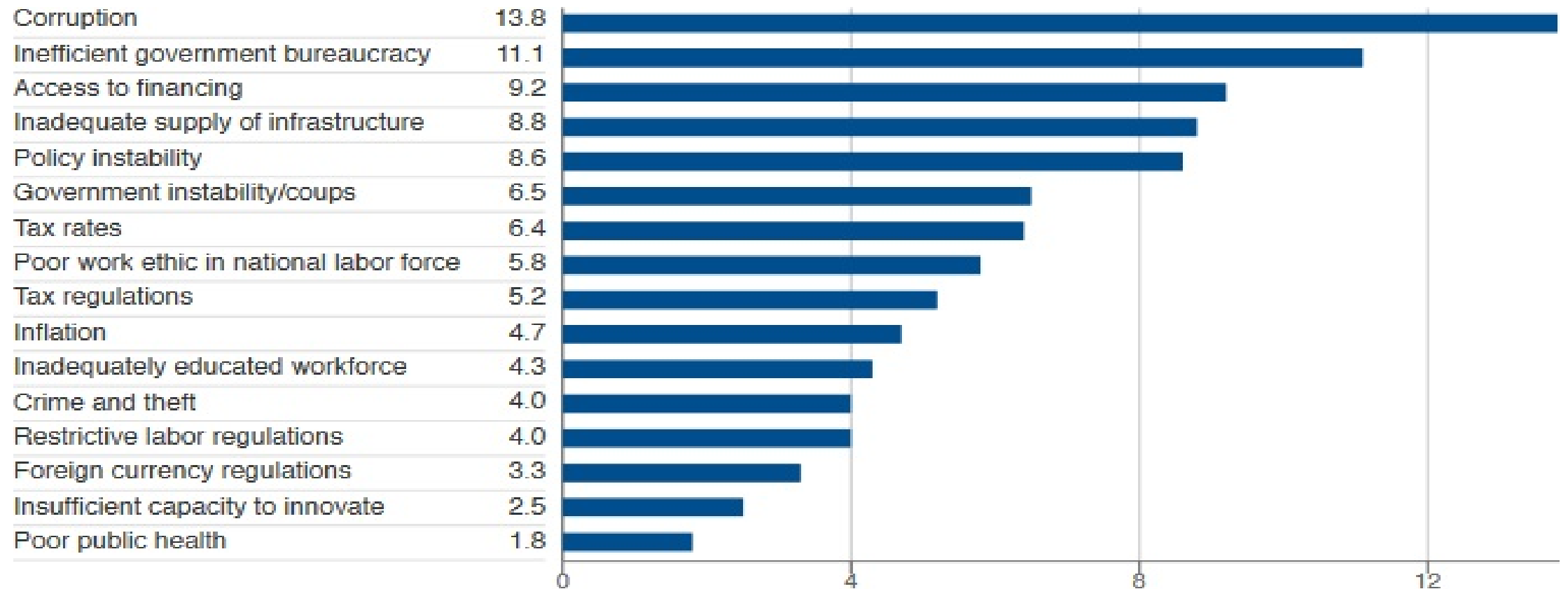
Source : economic.rabobank.com

Regard to Covid-19, investment on health industry is beneficial in the long run

The screenshot shows a web browser displaying a news article on The Jakarta Post website. The browser's address bar shows the URL: <https://www.thejakartapost.com/news/2017/07/20/indonesian-healthcare-relies-heavily...>. The website's header includes the logo for The Jakarta Post, a 'PREMIUM SUBSCRIPTION' button, and a 'LOG IN / REGISTER' link. The navigation menu lists categories such as NEWS, BUSINESS, SE ASIA, OPINION, LIFESTYLE, TRAVEL, MULTIMEDIA, DEEP LOOK, PAPER EDITION, and MORE. The main content area features the article title 'Indonesian healthcare relies heavily on imported equipment' by Jon Afrizal, published by The Jakarta Post on Thursday, July 20, 2017, at 02:28 pm. A thumbnail image of a medical professional in a blue scrubs and a pink headscarf is visible. To the right of the article is a 'MOST VIEWED' sidebar with a list of five items: 1. Jokowi supports reopening of Bali tourism, 2. Arrest of fugitive Djoko Tjandra took a week to plan, minister says, 3. Tests reveal increase in COVID-19 clusters in Jakarta's houses of worship, 4. Common mistakes to avoid when using air fryers, and 5. Indonesia's latest official COVID-19 figures. The Windows taskbar at the bottom shows the search bar, several application icons, and the system tray with the date and time (11:48 PM, 8/1/2020).

But there are some issues to address...

Issues: Corruption

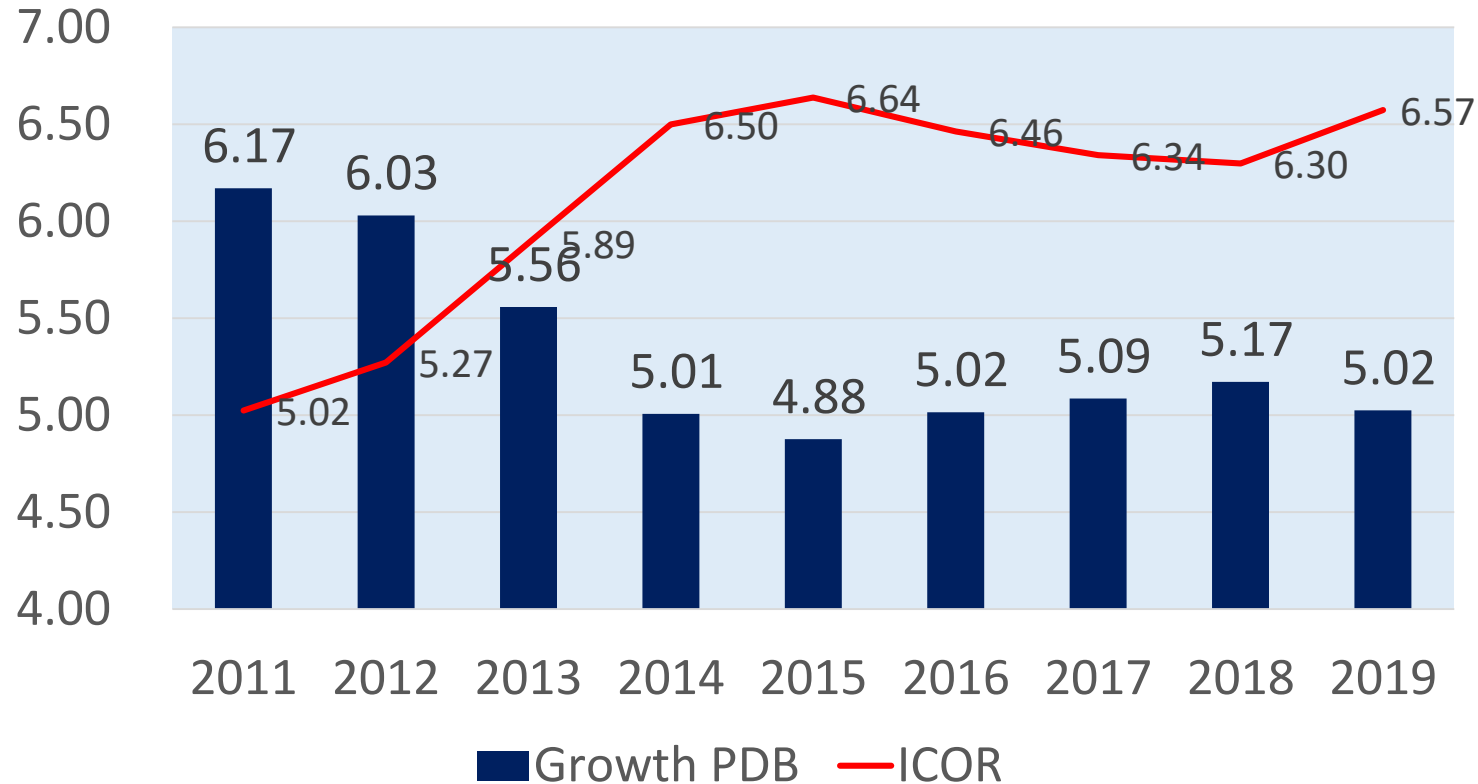


Source: Global Competitiveness Report 2017-2018

Issues: Inefficient on Investment.

ICOR remain still higher than other countries

ICOR vs Economic Growth



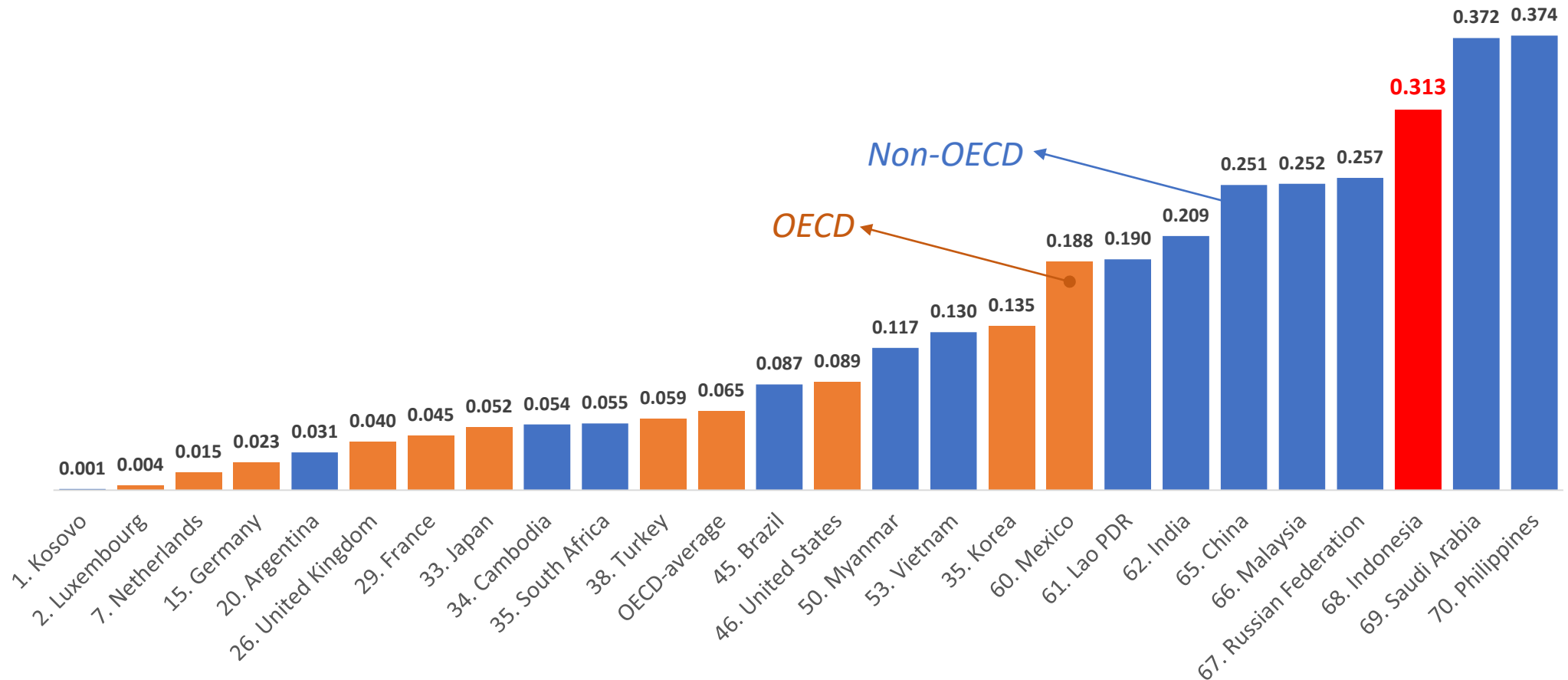
ICOR of Peer Countries	
Countries	ICOR (2018)
Philippines	3.7
Thailand	4.5
Malaysia	4.6
Vietnam	5.2

Source: Ministry of Finance, 2020

Source: BPS-Statistics Indonesia, (2020)

Indonesia is top-3 most restrictive towards FDI

FDI RRI -Total, 2018

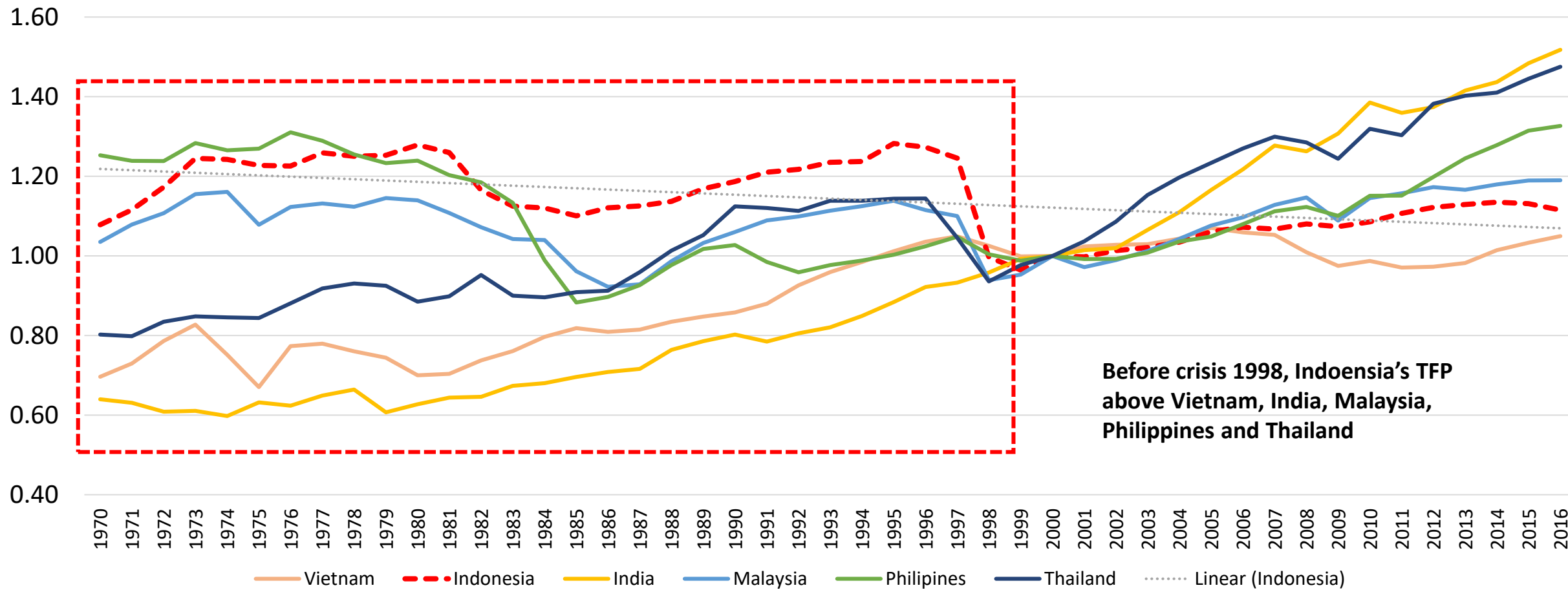


The Foreign Direct Investment Regulatory Restrictiveness Index (FDI RRI) measures four types of statutory restrictions on foreign direct investment: (i) foreign equity restrictions, (ii) screening and prior approval requirements, (iii) rules for key personnel, and (iv) other restrictions on the operation of foreign enterprises. The FDI RRI is a composite index which takes values between 0 and 1, with 1 being the most restrictive. It covers 70 countries: 36 OECD and 34 non-OECD.

Source: OECD, *FDI Regulatory Restrictiveness Index*. <https://stats.oecd.org/Index.aspx?DataSetCode=FDIINDEX>

Issues: Declining on Total Factor Productivity

Total Factor Productivity Indonesia 1970 - 2016

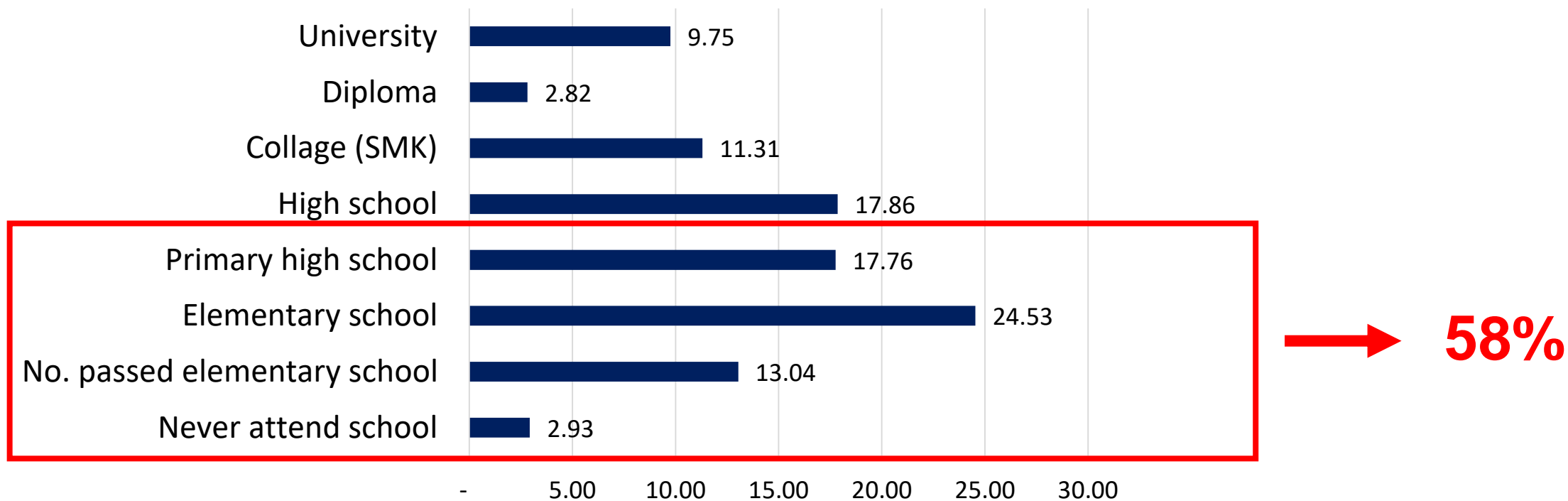


Before crisis 1998, Indonesia's TFP above Vietnam, India, Malaysia, Philippines and Thailand

Issues: Unskilled Labor

About 58% labor in Indonesia have not passed high school (as Feb' 20)

Labor by Education (Feb 2020, %)



Source: BPS-Statistics Indonesia, (2020)

Policy Implication

- Eliminate corrupt environment and practices.
- Technical assistance for unskilled labor.
- Investment climate improvement policy.
- Financial deepening policy regard to reduce saving-investment gap.
- Omnibus law?

Thank You