



Indonesia Economic Development & Liberalization

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Agenda

- Opportunities & challenges
- Economic development
 - Key performance indicators
 - FDI
- Industry development
 - Industry 1.0 → 4.0
 - Infrastructure
- Micro development
 - E-commerce
- Conclusion



Economic development in Indonesia

Challenges

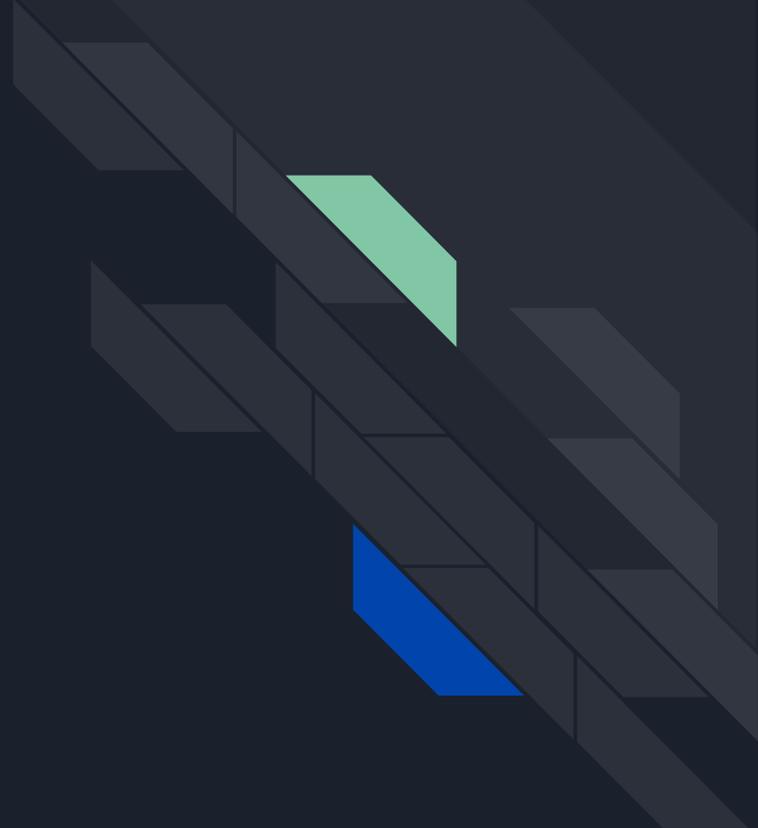
- Poor infrastructure
- Ethnic diversity
- Corruption
- Regulations

Opportunities

- Huge market
- Abundant natural resources
- Low labor costs
- Young work force

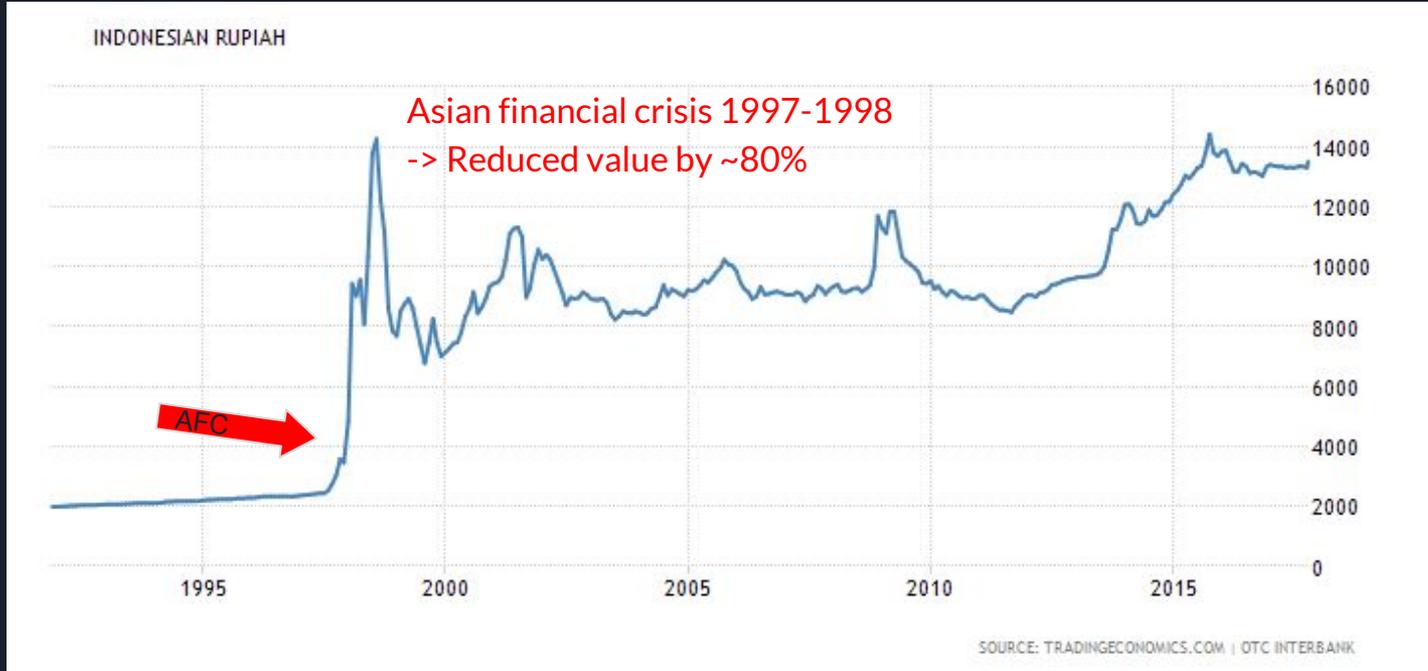
Economic Development

Key performance indicators



Indonesian Rupiah

Historical perspective



Source: <https://tradingeconomics.com/indonesia/currency>

Indonesian Rupiah

Effect on domestic industries

- Low purchasing power
- Expensive to import raw material & spare parts
- Difficult for local businesses to survive

Fear of widespread closures and layoffs

- Protectionist policies:
 - Increased import tariffs
 - Negative investment list

Protect domestic industries



Indonesian Rupiah

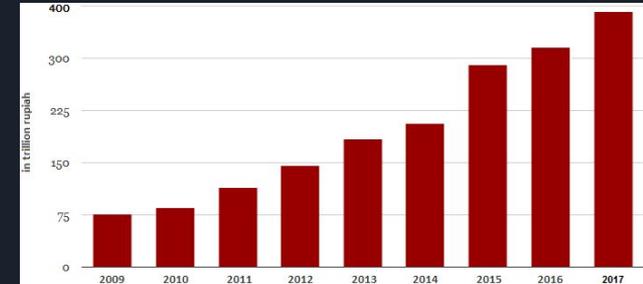


"We sell in rupiah, but we pay to the dealer in dollars, so that means our costs have effectively gone up by 20 to 25%" /Eddie Widjaja

Indonesian Rupiah

What is being done to improve the situation?

- Tax incentives
 - Additional funding for improved infrastructure
 - VISA-free initiative
- > Convince foreigners to buy more Indonesian goods



"The tourist policy has worked for other countries like Malaysia and Thailand. We currently get 9 million tourists a year - Malaysia gets 27 million a year."

/ Wiyanto Samirin, Indonesian vice president's special economic advisor.



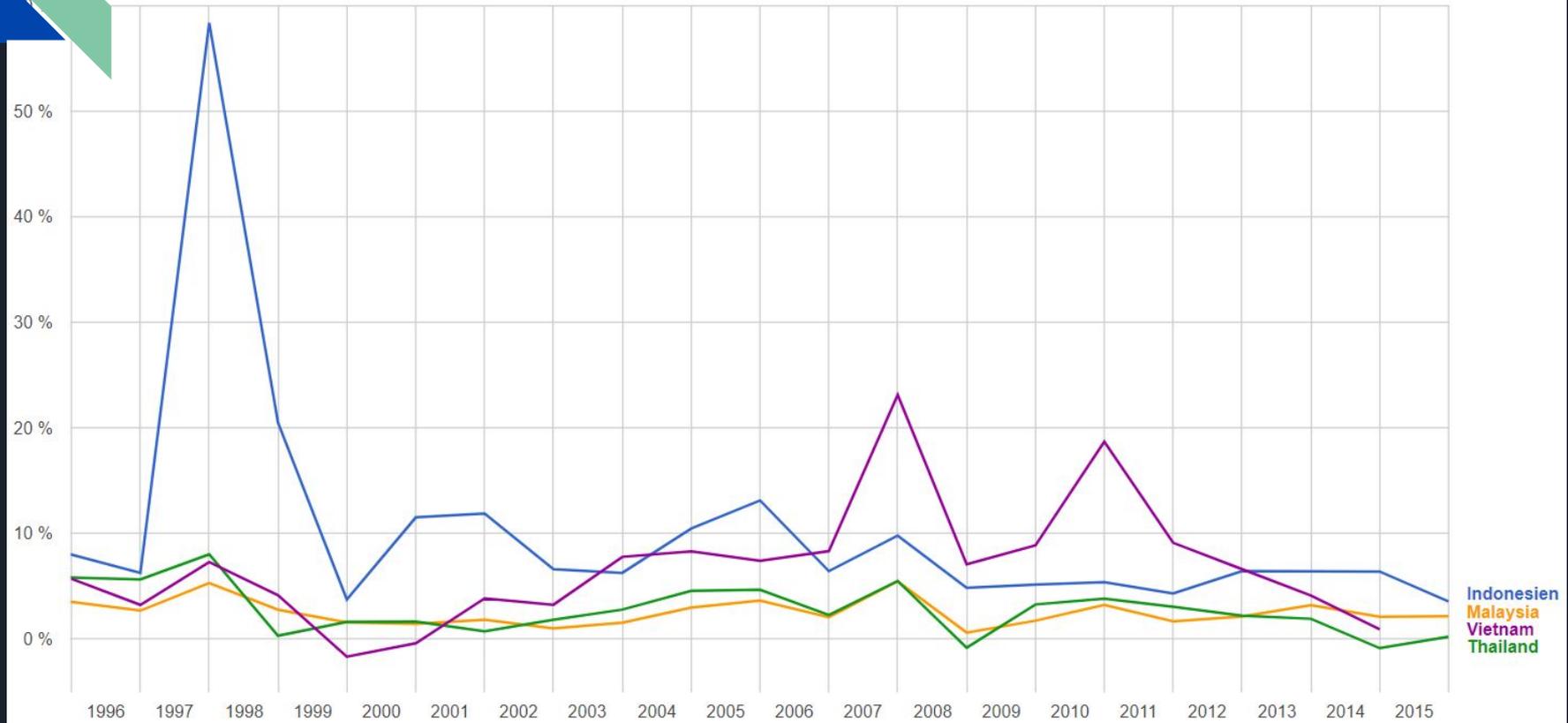
Indonesian inflation rate

- High inflation rate:
 - High interest rate
 - Low purchasing power
 - High consumption



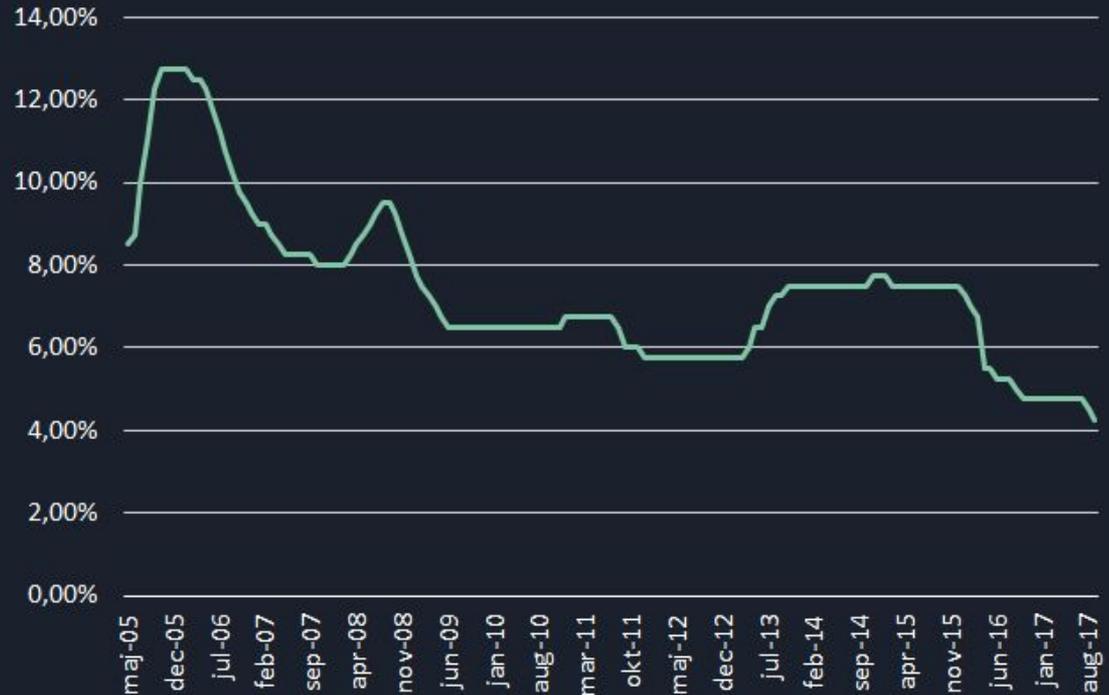
Source: Bank Indonesia

Inflation rates in south east Asia



Indonesian interest rate

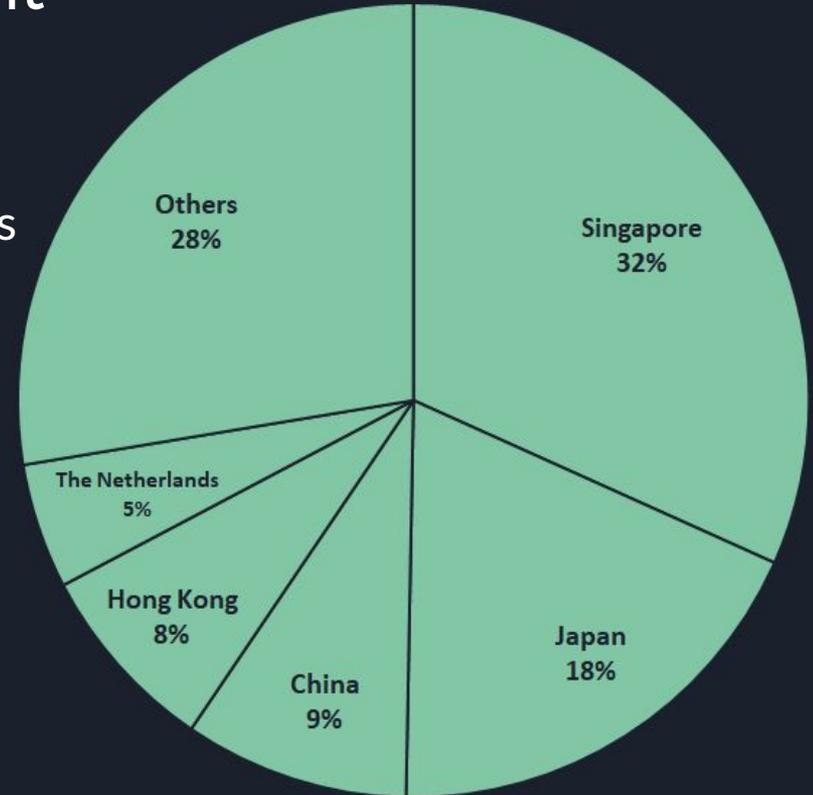
- High interest rate due to:
 - High inflation rate
 - No competition
 - Poor infrastructure



Source: Bank Indonesia

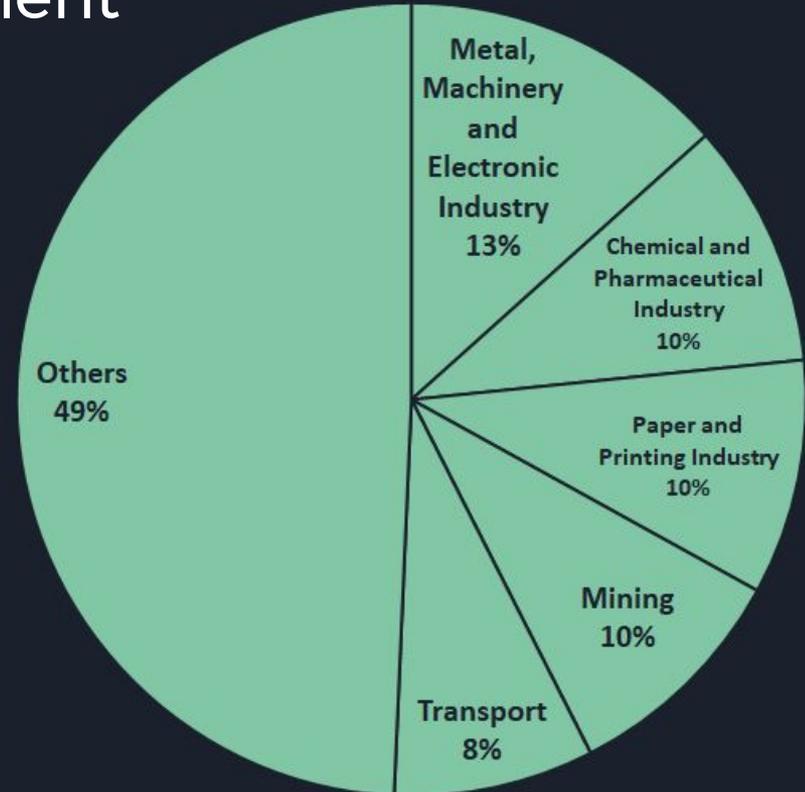
Foreign Direct Investment

- Development since mid 80's
 - Started with crisis in mid 80's
 - Need to develop non-oil exports
- Reforms lead to high economic growth
- Greatest investing countries shown in the chart to the right



Business Field of Investment

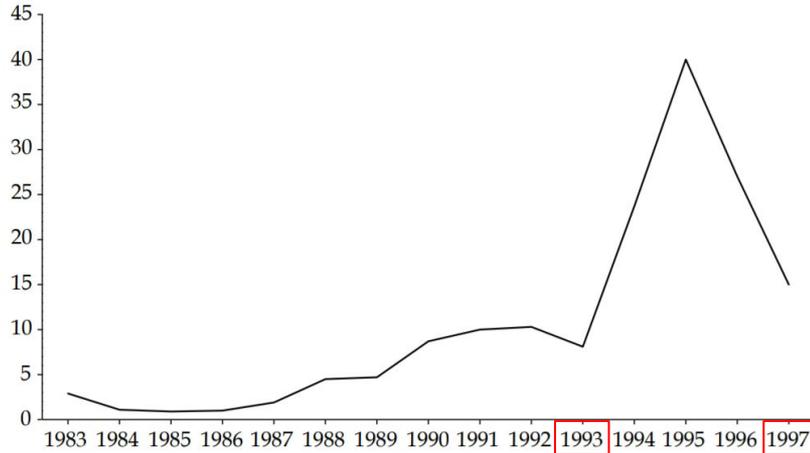
- Negative Investment List
 - Closed
 - Open with conditions
 - Others
- Most popular FDIs (chart)



Foreign Direct Investment

(the amount of \$ that invest in Indonesian companies)

FIGURE 2 *Approved Foreign Direct Investment in Indonesia, 1983–97*
(\$ billion, current prices)

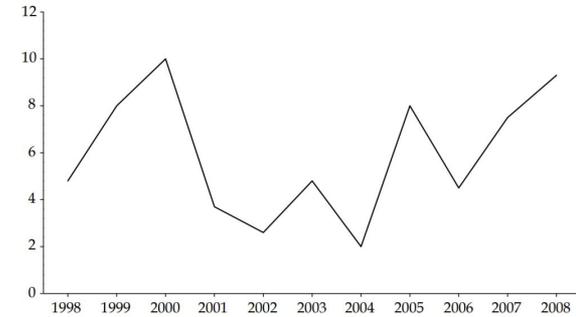


Sources: Data from Ramstetter (2000, 37) and BKPM.

Note: Excludes oil and gas.

1993 allow foreign ownership in joint ventures
1997 Asian Financial Crisis

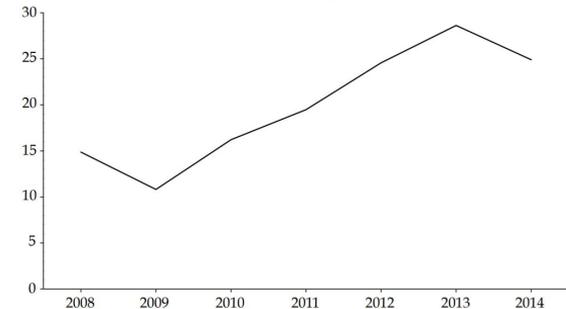
FIGURE 3 *Approved Foreign Direct Investment in Indonesia, 1998–2008*
(\$ billion, current prices)



Source: CEIC Indonesia Premium Database.

Note: Excludes oil and gas.

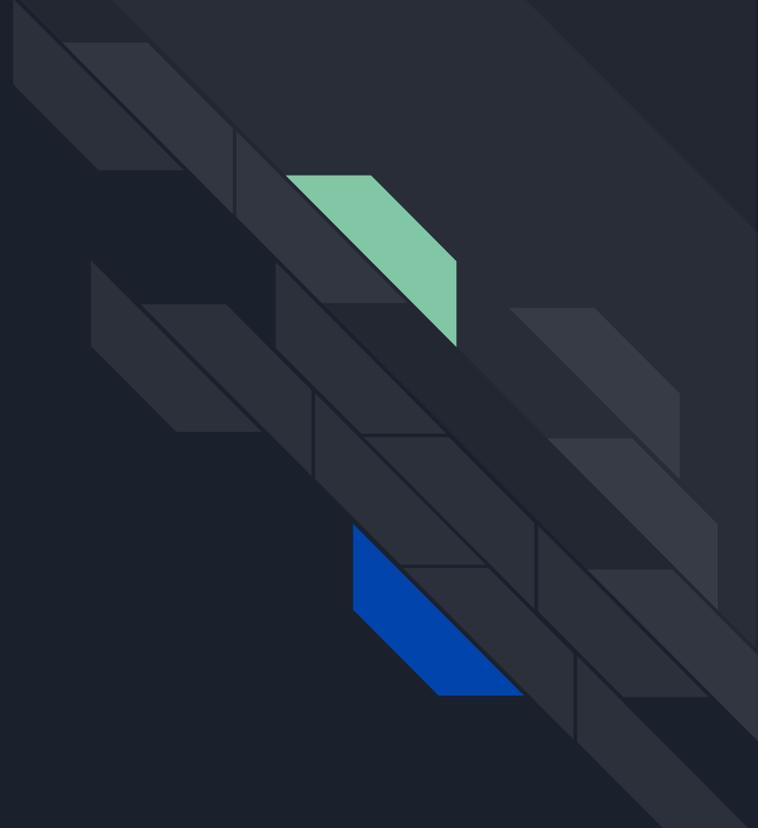
FIGURE 4 *Realised Foreign Direct Investment in Indonesia, 2008–14*
(\$ billion, current prices)



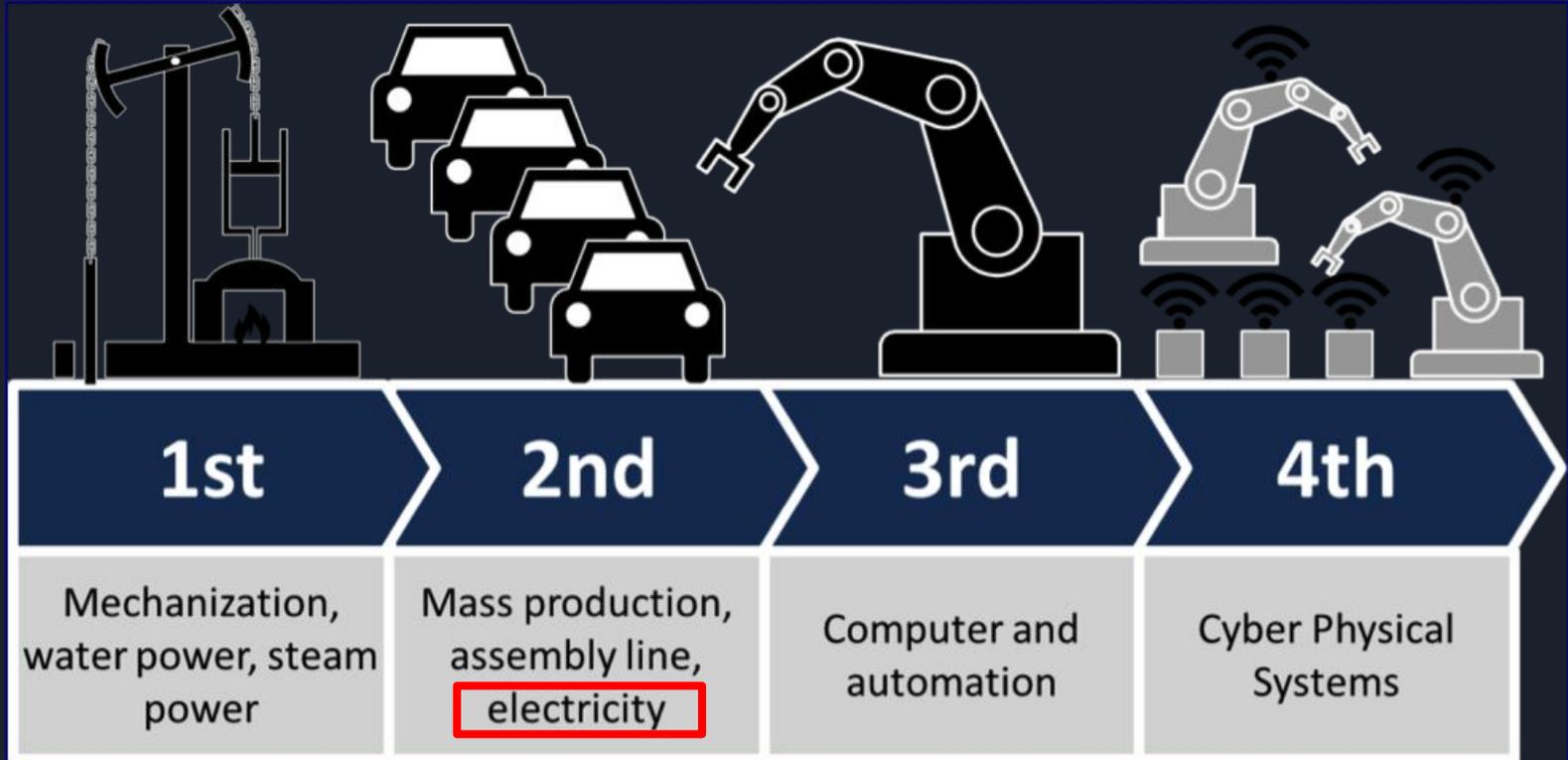
Sources: Data from BPS (2014) and *Jakarta Globe*, 28 Jan. 2015.

Source: J. Thomas Lindblad (2015) FOREIGN DIRECT INVESTMENT IN INDONESIA: FIFTY YEARS OF DISCOURSE, *Bulletin of Indonesian Economic Studies*

Industry Development



Industry 1.0 → 4.0



What reasons hinder Indonesia's Industrial Development?

1. Insufficient Electric Power Supply
2. Communicative conditions are generally poor
3. High Logistics Cost



What reasons hinder Indonesia's Industrial Development?

4. Government Policy Protectionism

5. Lack of fundamental education and professional training skills



How Indonesian Government tries to improve this situation?

- **Enhance the Industry**

- Natural resources: all of the Indonesian natural resources have to be processed, not exported as raw material.

- **Government helps to start a business**

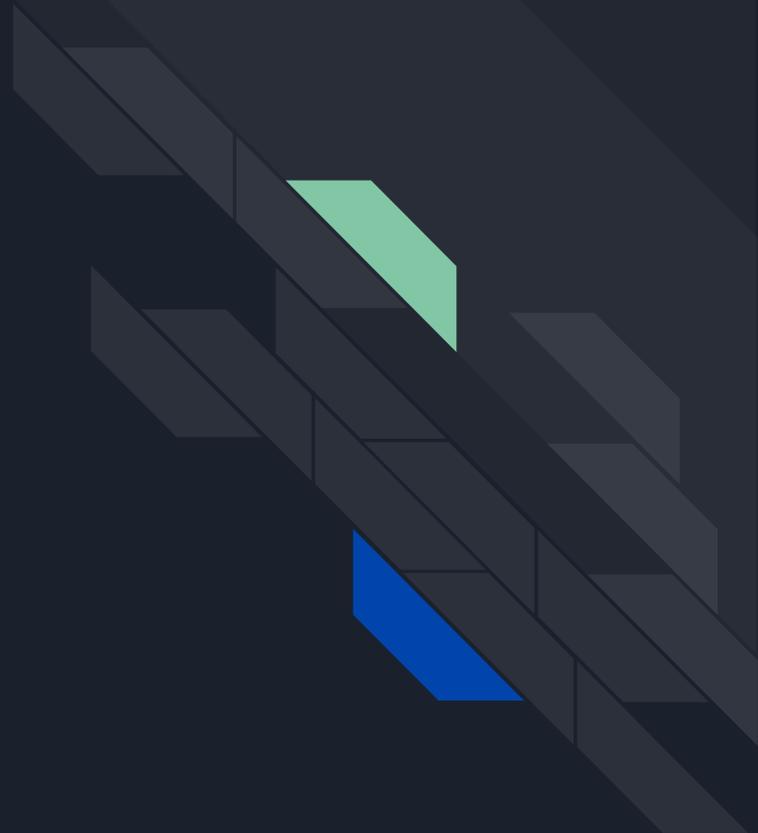
- Request investors to build factories in Indonesia.

- Provide Indonesian job opportunities

Land and Property Ownership in Indonesian

1. Right to own (Hak Milik / 擁有權)
2. **Right to build** (Hak Guna Bangunan / 建築權) 30 years + 20 years
3. **Right to cultivate** (Hak Usaha / 開墾權) 35 years + 25 years
4. **Right to use** (Hak Pakai / 使用權) 25 years + 25 years
5. Right to rent (Hak Sewa / 出租權)

Micro Development



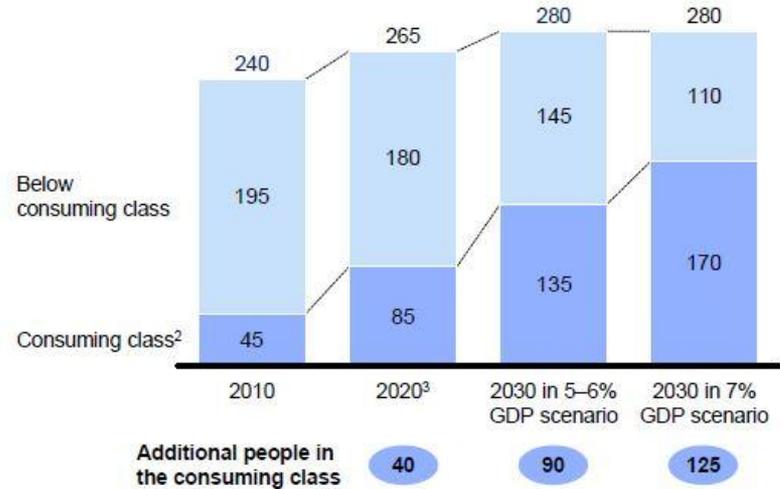
Service Sector

E-commerce

- Alibaba 's Acquisition of Lazada
- Why Indonesia is attractive
 - world's fourth-most populated country
 - 50% of the population is urban
 - Rising middle class and disposable income
 - Low penetration of E-commerce

An estimated 90 million Indonesians could join the consuming class by 2030

Million people¹



¹ Rounded to the nearest five million.

² Consuming class defined as individuals with an annual net income of above \$3,600 at 2005 purchasing power parity (PPP).

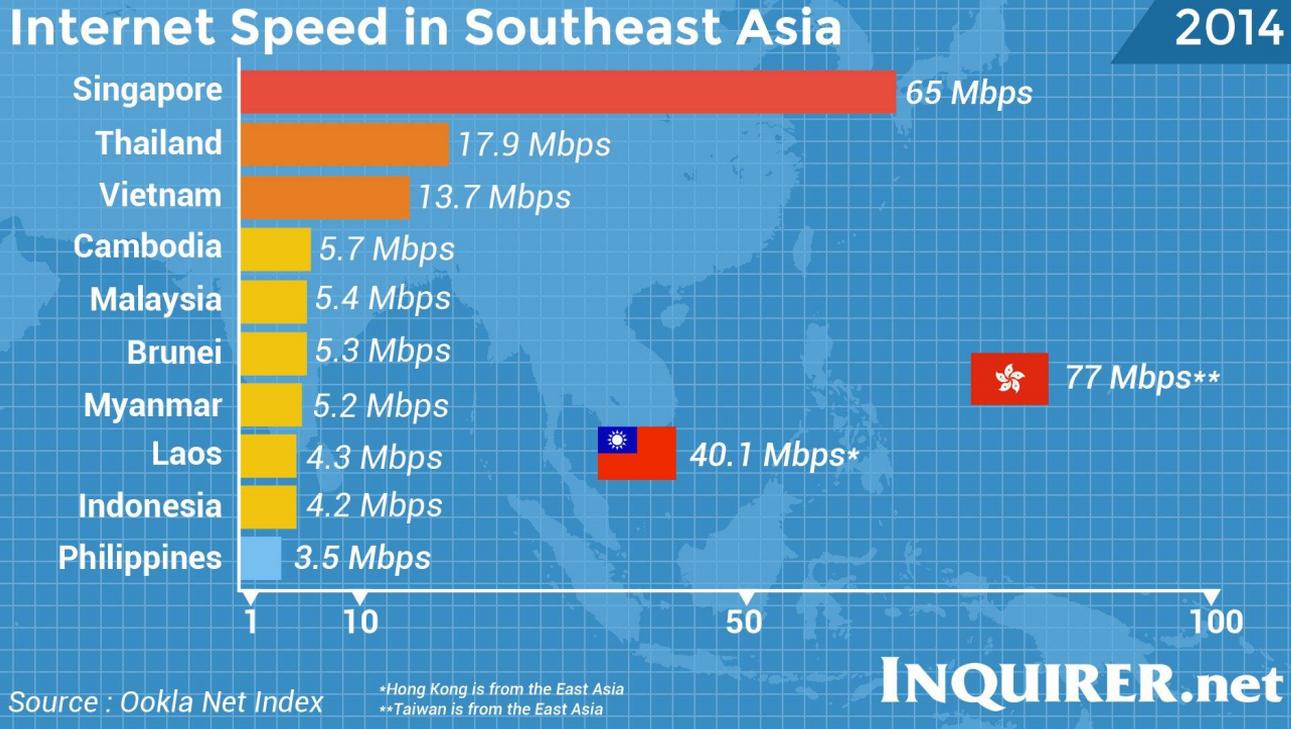
³ Based on annual GDP growth of between 5 and 6 percent.

SOURCE: McKinsey Consumer and Shopper Insight (CSI Indonesia 2011); 2010 Population Census, Indonesia's Central Bureau of Statistics; Canback Global Income Distribution Database (C-GIDD); McKinsey Global Growth Model; McKinsey Global Institute Cityscope 2.0; McKinsey Global Institute analysis

Telecom

Penetration rate of Internet: 51% (but low speed)

Penetration rate of smartphone: 47%



Transportation

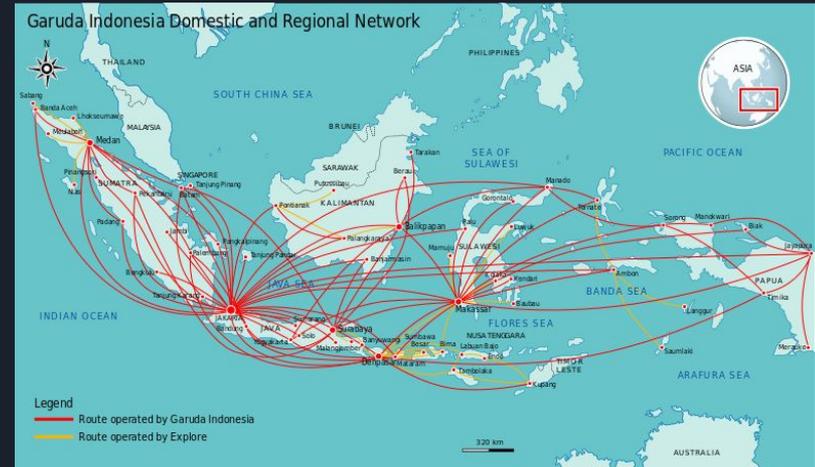
- **Sea transport:**
 - more expensive than land transport.
 - Has big price difference in domestically-produced products.
 - Fishery industry is not very well. (lack of cold storage transport facilities)



From ID, more expensive



From China, Cheaper!!



Transportation

- Land Transport:

-Long delivery days. (2~3 weeks)

-Severe traffic jam. (weekday: 18 km/hr)



Logistic

- How does Lazada provide service?
 - In-house delivery (Lazada Express)
 - 3rd party logistics (cooperate with local logistic companies.)
 - Building more logistic center (hubs).
 - Motorcycles driver.



Payment method

Offline:

- Bank transfer (such as ATM): higher dropout rate.
- Cash on delivery (COD): difficult to meet courier's time.

Online:

- Credit card/ Debit card : penetration is around 6%
- Online payment service (e-Wallet): Hello pay



80% transfers via bank transfers and it's growing

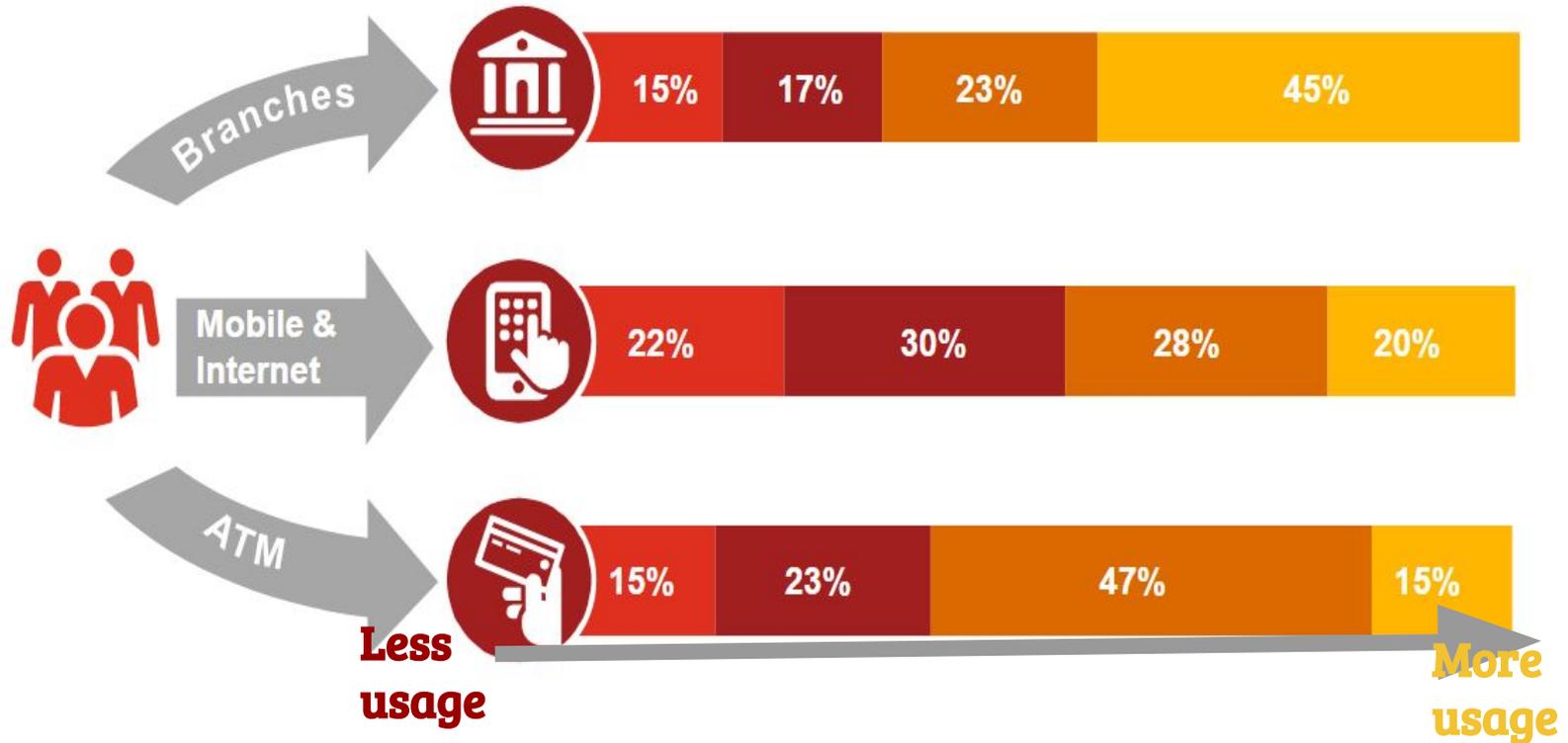


Note: CAGR is for 2012-2016 only. 2017+ are estimates

Source: Xendit research @ www.xendit.co (2017), aCapture ((2014), PayVision (2014), DI Marketing (2016)

Figure 21: Branch channels still dominate over digital and ATM

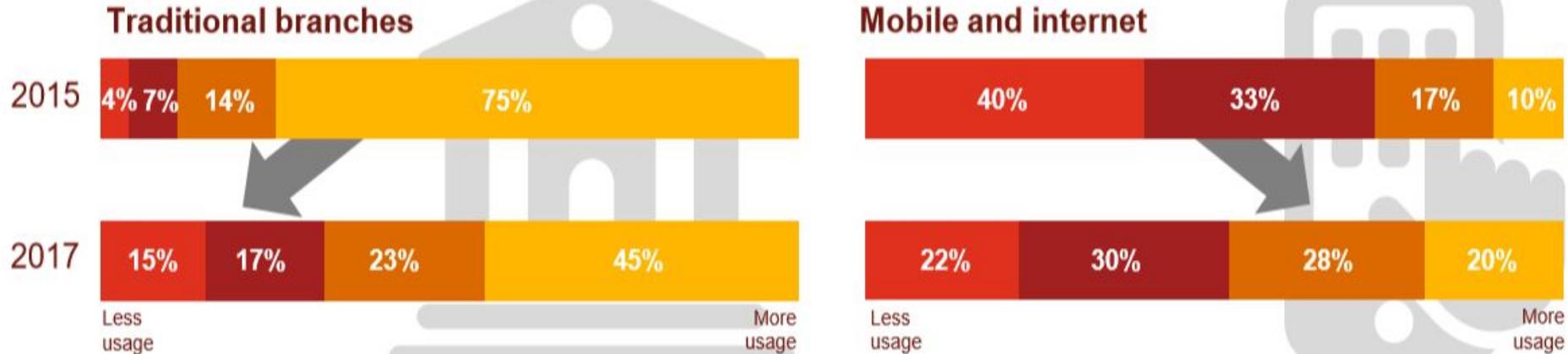
Q: What is your estimate of the proportion of customer transactions processed through branch, internet/mobile banking and ATM?



For Bank transfer, **branches** still dominate over ATM, but customers are rapidly migrating to digital channels

Figure 22: Clear trend of customer migration from branches to digital channels

Q: What is your estimate of the proportion of customer transactions processed through branch and internet/mobile banking?



Conclusion

Improvement:

1. Infrastructure-- such as Internet:

- People can use app to improve life quality.
- Narrow the Urban-rural gap.
- Digitalization of government service.

2. Education system :

Provide educated workers-> lower unemployment rate-> improve income inequality.

Conclusion

Improvement:

3. Government system:

- Improve Corruption.
- Simplify the process (such as license application)
- Establish law to protect intellectual property.

Introduction

Economic
development

Industry
development

Micro
development

Conclusion

Q&A

Thank you for Listening!



Q & A

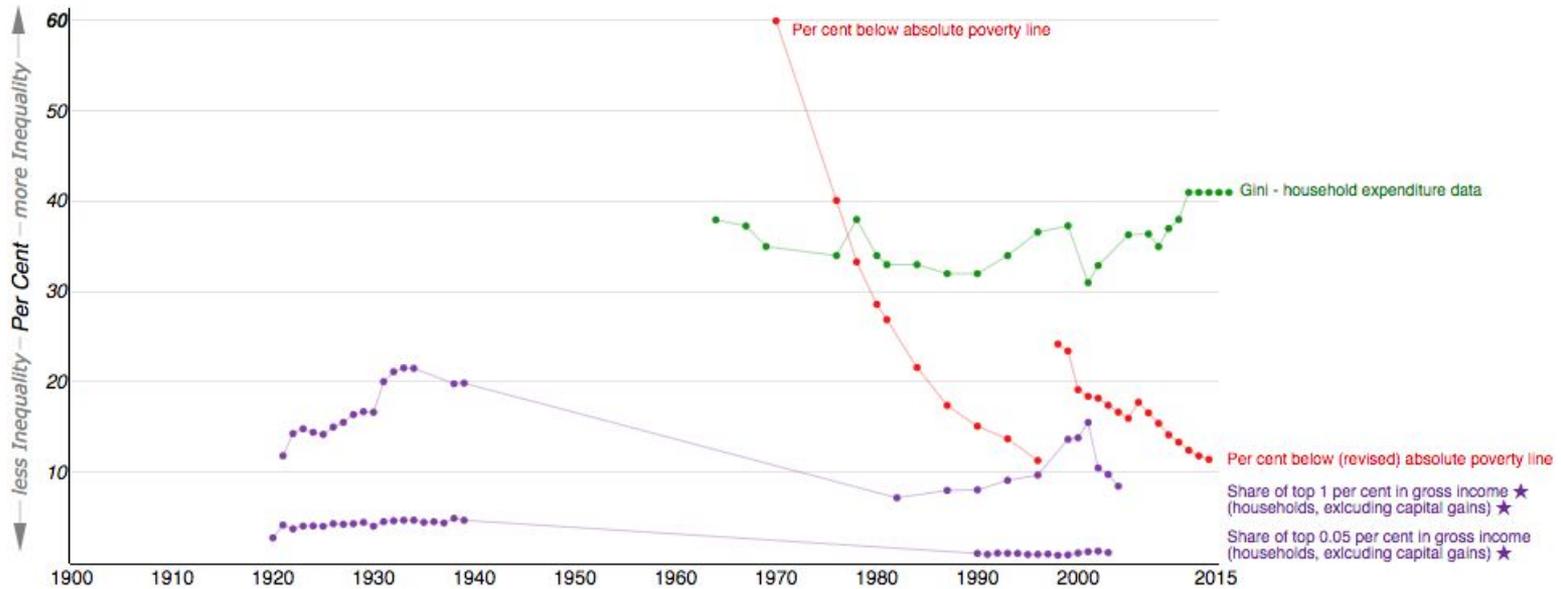
Income Inequality



Income Inequality

Economic Inequality in Indonesia

• Overall Income Inequality • Poverty • Top Income Shares

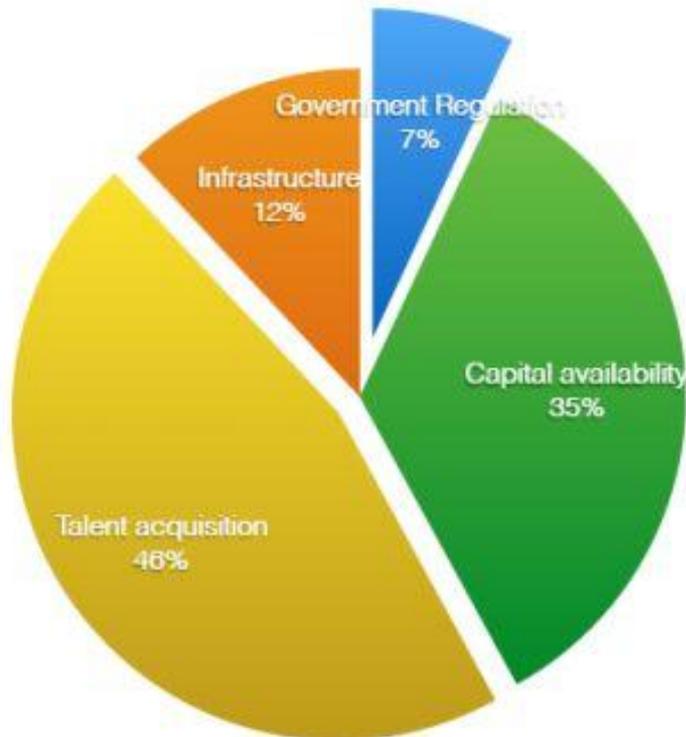


A. B. Atkinson, J. Hasell, S. Morelli and M. Roser (2017) – 'The Chartbook of Economic Inequality' at www.ChartbookOfEconomicInequality.com

[Click here](#) for an explanation of the measures of economic inequality.

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Issues & Challenges



“
As a startup founder in Indonesia,
what is your biggest challenge?
”

sources:<https://e27.co/latest-trends-indonesia-e-commerce-firms-take-not-20160202/>



Appendix

Indonesian Poverty & Inequality Statistics

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Relative Poverty (% of population)	16.6	15.4	14.2	13.3	12.5	11.7	11.5	11.0	11.2	10.9 ¹
Absolute Poverty (in millions)	37	35	33	31	30	29	29	28	29	28 ¹
Gini Coefficient/ Gini Ratio	0.35	0.35	0.37	0.38	0.41	0.41	0.41	0.41	0.40	0.39 ¹

¹ In March 2016

Source: Statistics Indonesia (BPS)



Foreign Direct Investment

Compete with SEA for foreign investment

- Pros: Abundant natural resources/ large population/ lower labor cost, etc
- Cons: higher investment cost (insufficient infrastructure)/ long processing time on licence application