

Advisory Blog

Timely insights on the issues that matter most to advisors and their clients

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Emerging Markets

Indonesia's Economic Achievements and Strategic Position Are Likely to Draw Global Investors

By: Steven Quattri | March 7, 2024

KEY POINTS

1. Indonesia is the second-fastest-growing, trillion-dollar economy in the world, with estimated average growth of 5% annually for the next five years.
2. Under former President Jokowi, Indonesia's inflation fell from 7.2% to 2.6% as infrastructure investments halved logistics costs and enhanced efficiency.¹
3. Indonesia just crossed the \$5,000 GDP per capita threshold typically associated with accelerating growth in key consumption categories.

The presidential election in February of Indonesia's Defense Minister Prabowo Subianto to replace the hugely popular Joko Widodo, affectionately known as Joko, is likely to have a continued positive impact on the flourishing economy of the world's third-largest democracy.

My recent visit to this sprawling archipelago, comprising 18,000 islands, allowed me to engage with policymakers and business leaders, offering insights into Indonesia's significant economic strides. In my view, four key metrics underscore the nation's economic transformation under Jokowi's administration, highlighting substantial progress in infrastructure development, inflation management, export growth, health care expansion and regulatory reforms aimed at improving the business climate.

Four key factors in Indonesia's economic transformation

First, infrastructure investments have nearly halved logistics costs from 27% of GDP in 2014 to 14% in 2023, thanks to the construction of 16 new airports, 18 seaports, 36 dams and over 2,000 kilometers of toll roads.² Moreover, the Association of Southeast Asian Nations' (ASEAN) built the country's first-ever high-speed rail, which we experienced firsthand. These developments have enhanced the efficiency and competitiveness of Indonesia's economy.

Second, under Jokowi's leadership, inflation fell to 2.6% from a decade-long average of 7.2%, aligning with the regional average of 2.1%.³ This achievement stems from improved logistics, alongside the reduction of tariffs and other protectionist measures that contribute to a more predictable economic environment.

Third, since 2017, base metal export volumes have increased fivefold, and foreign direct investment in processing has quadrupled, driven by policies encouraging onshore refining of nickel. Such measures have attracted investments from major firms including Hyundai and Foxconn. Indonesia now has the world's largest universal health care system, covering approximately 94% of its population, or over 260 million people. This achievement should theoretically lead to a multiplier effect in the years to come.

Fourth, the country has made remarkable improvements in the business environment, jumping past 47 countries to place 70th in the World Bank's ease of doing business ranking. The time it takes to start a business has been slashed from 57 to 13 days, and the associated costs have been reduced from 21% of per capita income to 6%.⁴

Poised for robust growth

While Jokowi's departure marks a new era, the solid foundation he established suggests Indonesia will be one of the key bright spots in the global economy for years to come. Subianto, a former special forces general, is widely expected to continue Jokowi's key policies of economic development and job creation, which is good news for investors. In the new multipolar world, Indonesia is in a sweet spot given its official policy of "non-alignment," or not being associated with the superpowers. We expect investments to flow in from many countries, including the U.S., Japan and China.

Furthermore, after crossing the \$5,000 gross domestic product (GDP) per capita threshold marks a significant milestone for Indonesia, including a potential shift in consumer spending patterns toward discretionary items such as apparel, cosmetics, travel and durable goods.

Looking ahead, we believe Indonesia is poised for robust growth, with GDP growth on track to outpace all other trillion-dollar economies, except for India. There are many parallels between India and Indonesia. Both countries have large but youthful populations (56% of Indonesians and 60% of Indians are below the age of 35),⁵ a large middle class, a significant domestic market and policies including digitization, localization and deregulation that have unleashed economic growth.

Bottom line: While many global investors are keen to benefit from India's trajectory, Indonesia, the world's fourth-most-populous country, still accounts for less than one-fifth of 1 percent of global equity allocations.⁶ Given its economic achievements and strategic position, global equity investors are likely to soon take an interest in Indonesia.

¹ Haver Analytics, Central Bank of Indonesia, as of Dec. 31, 2023.

² Haver Analytics, Jakarta Post, as of Dec. 31, 2023.

³ Haver Analytics, Central Bank of Indonesia, MSIM calculations, as of Dec. 31, 2023.

⁴ UNSD, 2020; UNFPA, 2023.

⁵ Haver Analytics, World Bank, MSIM calculations, as of Dec. 31, 2023.

⁶ Haver Analytics, World Bank, MSIM calculations, as of Dec. 31, 2023.

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"While Jokowi's departure marks a new era, the solid foundation he established suggests Indonesia will be one of the key bright spots in the global economy for years to come...yet Indonesia, the world's fourth-most-populous country, still accounts for less than one-fifth of 1 percent of global equity allocations."⁵

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