

SEMINAR OF INDONESIA

**Indonesian Economy:
Relationship With Three New Asian Giants and Its
Current Development**

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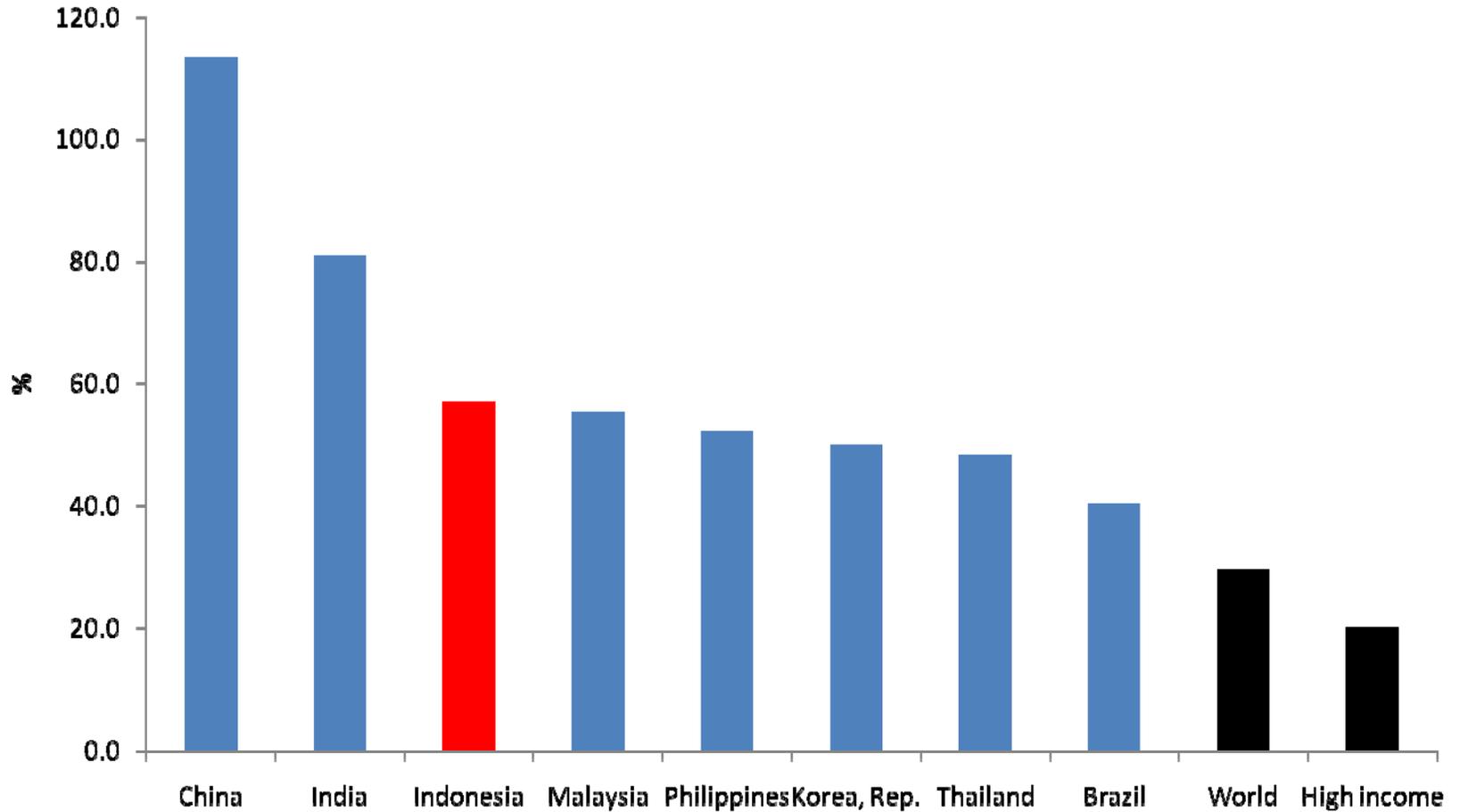
Independent Think Tank in Economic, Industry and Trade

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July 13th 2012, Asia Pacific University, Beppu - Japan

Three New Asian Giants: The Characteristics and Its Relationship

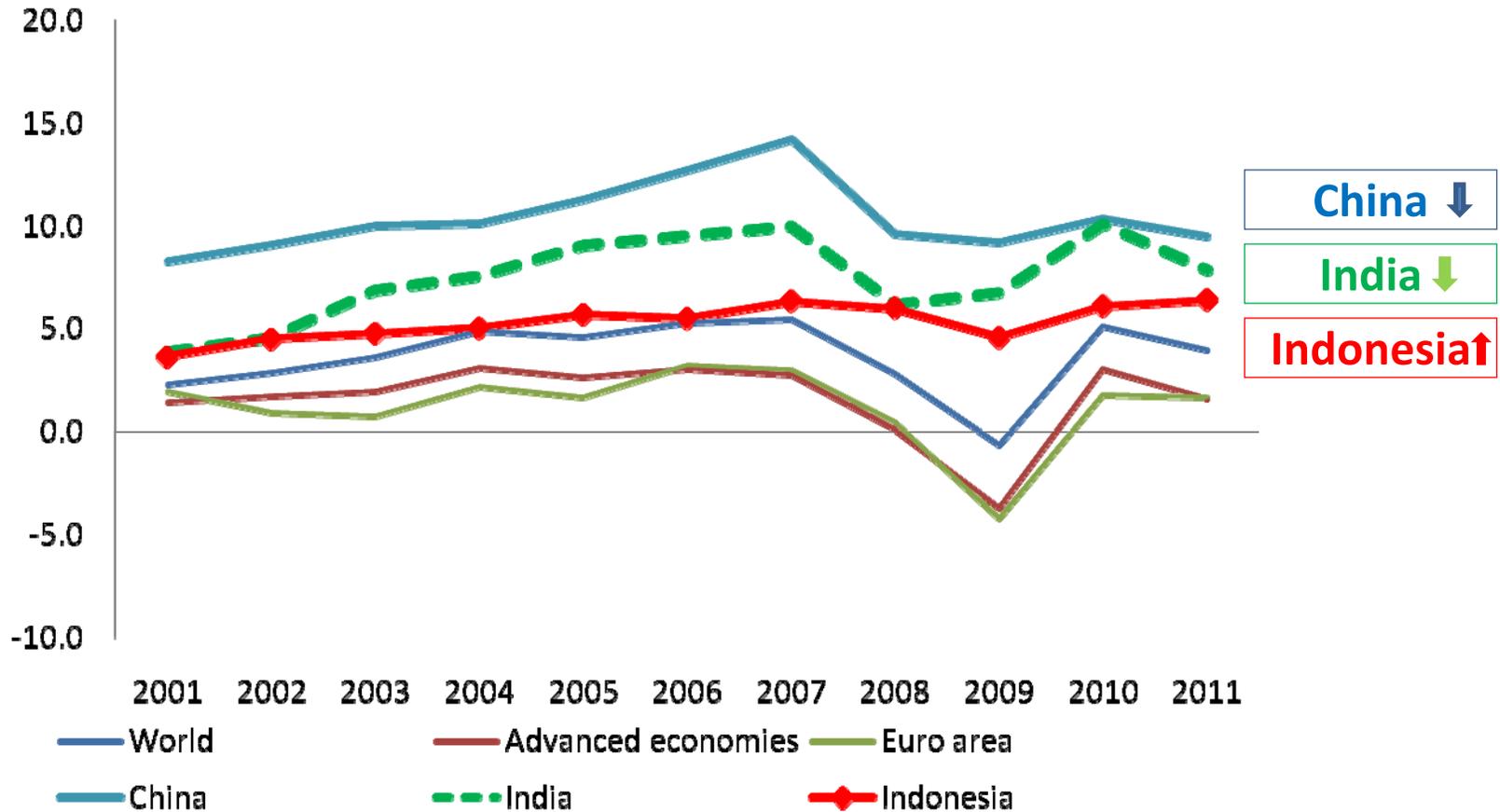
Cumulative of GDP Growth (2000-2010): Indonesia, China and India



Source: World Bank

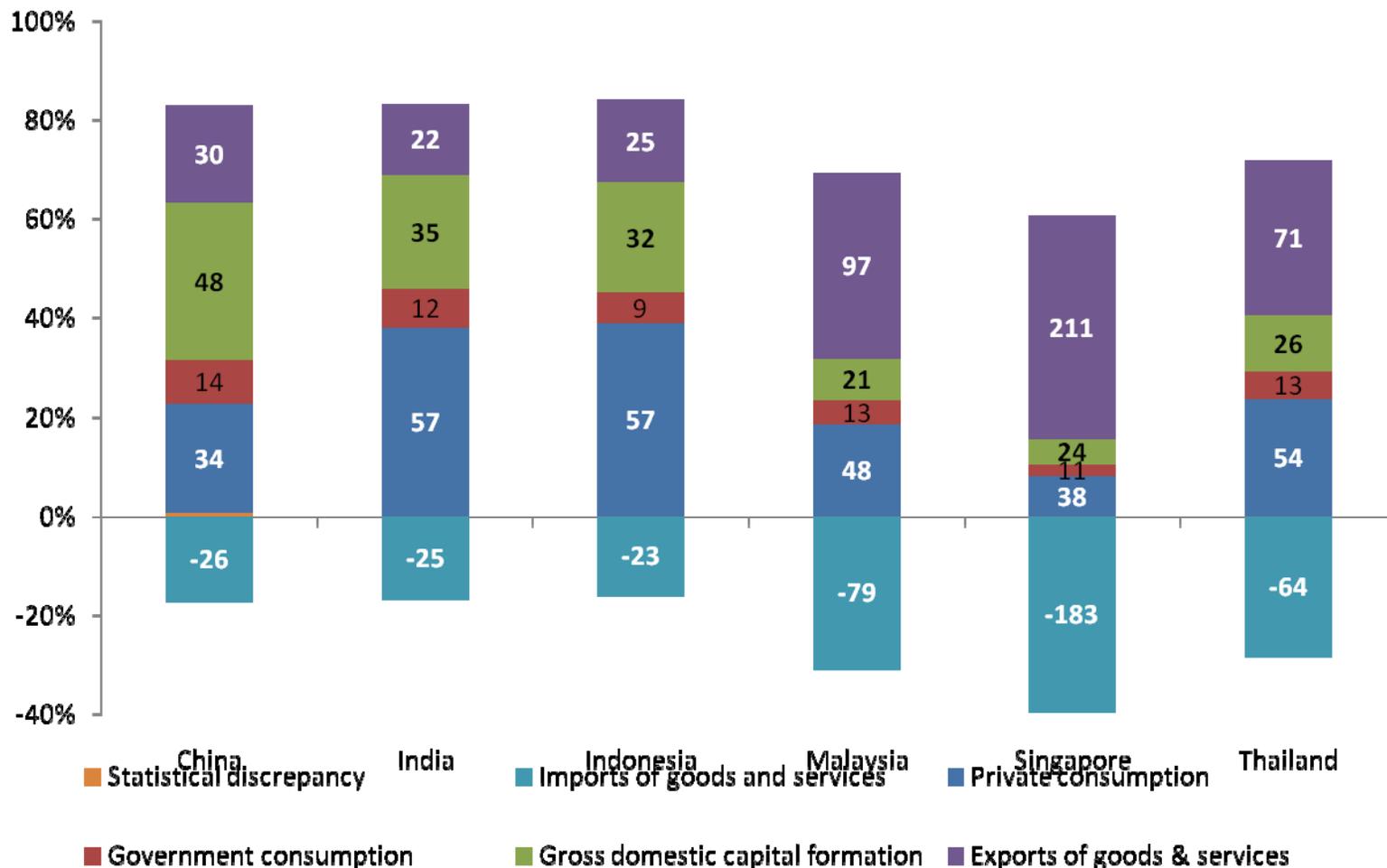
GDP Growth:

Three economies decouple from global crisis?



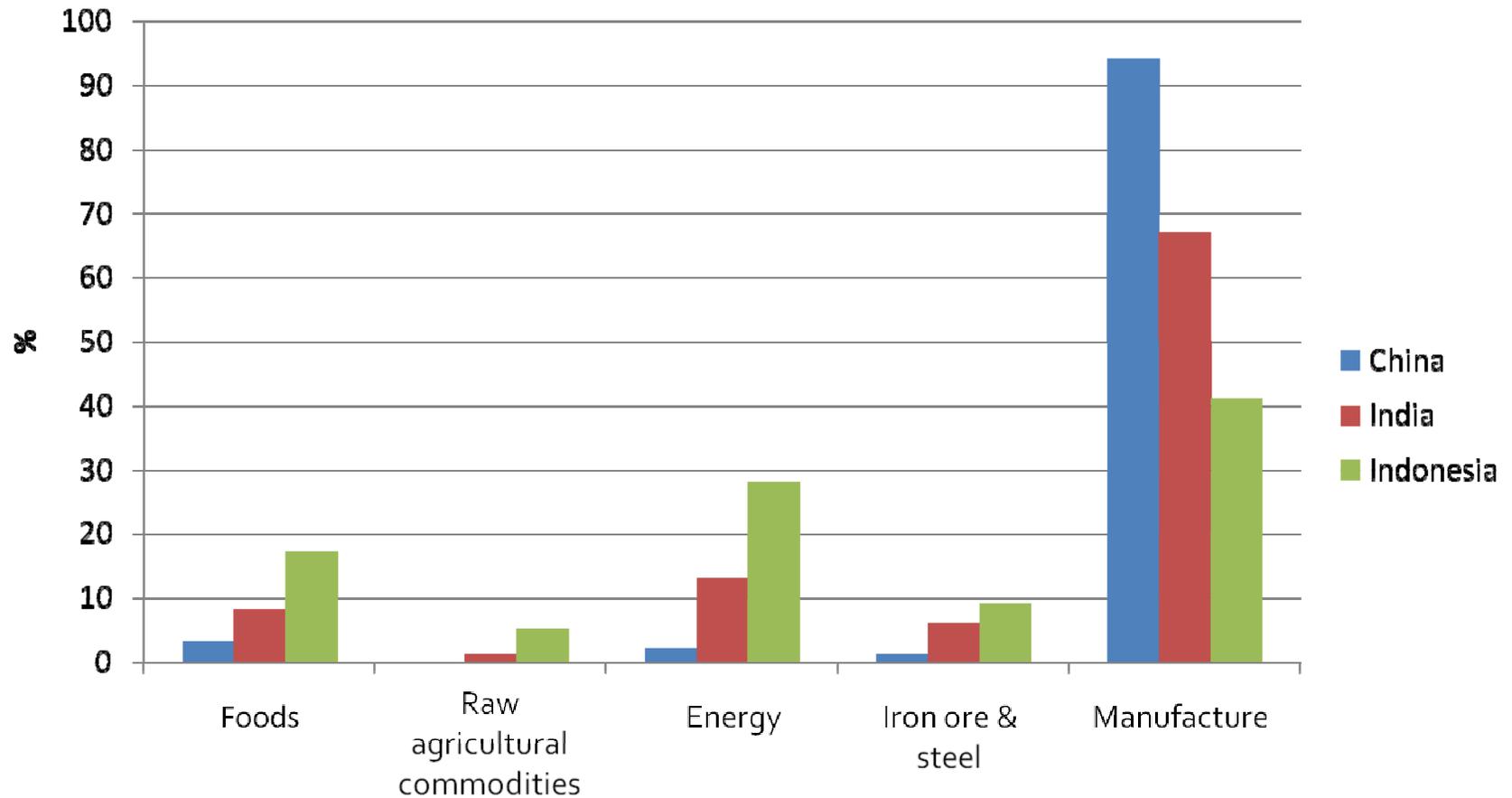
*)China and India (January 2012) are from Government Release

GDP Structure of Indonesia, India and China: Dominated by private consumption and relative low on net export



Slow-down of China & Indian Economy

Export structure difference



Indonesian Export Structure:

Reducing Global Crises Effect

1. Primary commodities (energy and raw material) dominated (> 50%) the export. Compared to Malaysia, for instance, that has 77,8% of its exports in 2009 were of manufactured goods.
2. The effect of decreasing global demand for energy and raw material as a result of global economic slowdown would have a longer time-lag than decreasing demand for final and intermediate products. Hence, when economic slowdown occurred in 2009 and 2011, Indonesian export still grew, yet decreasing.

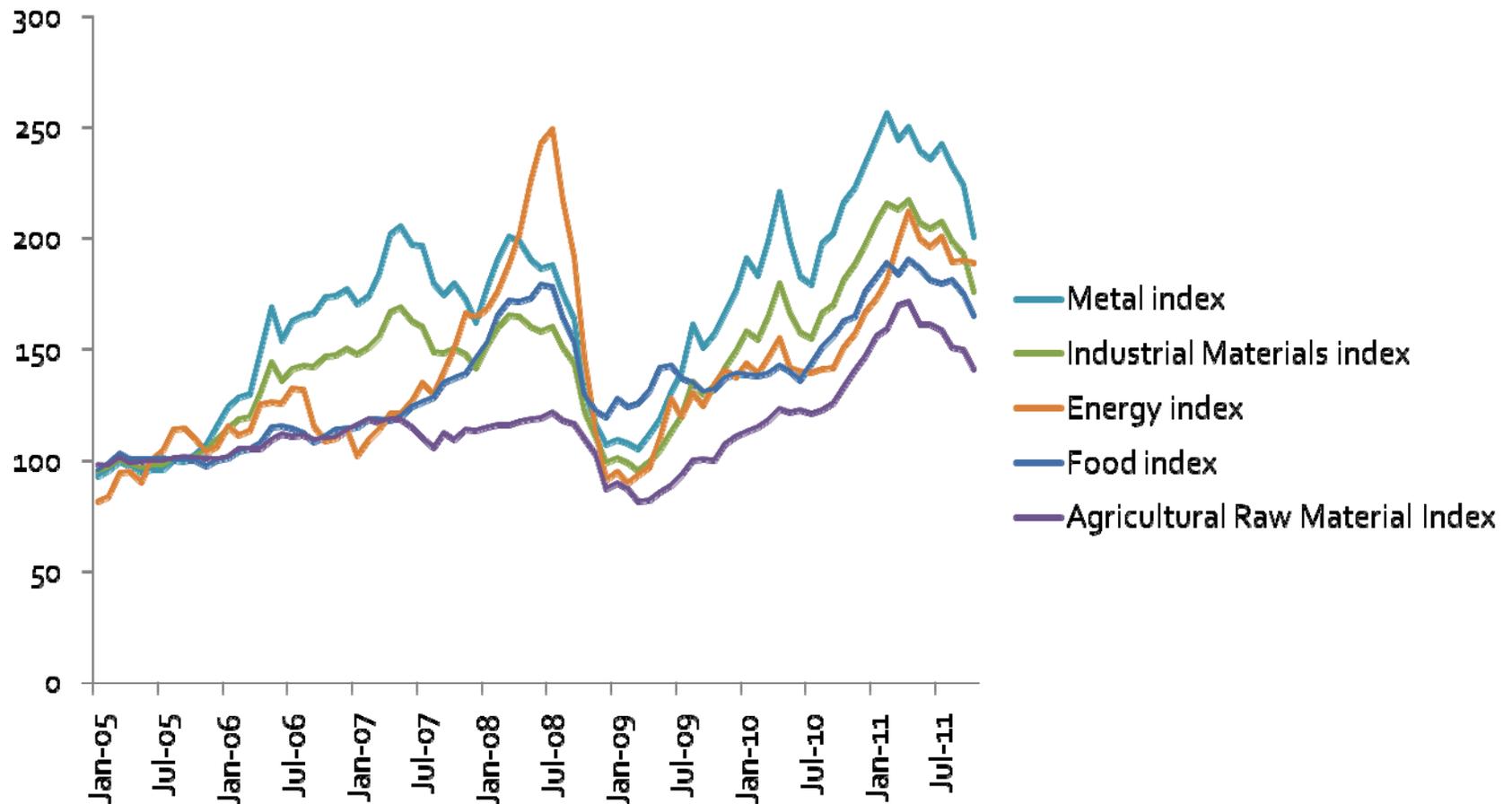
Indonesia Top 10 Export Commodities: Raw Material

No	Products	Billions USD	Contribution
1	Coal; briquettes, ovoids & similar solid fuels manufactured from coal	18.17	11.5%
2	Petroleum gases	13.67	8.7%
3	Palm oil & its fraction	13.47	8.5%
4	Crude petroleum oils	10.40	6.6%
5	Natural rubber, balata, gutta-percha etc	7.33	4.6%
6	Copper ores and concentrates	6.88	4.4%
7	Coconut (copra), palm kernel/babassu oil & their fractions	2.29	1.5%
8	Refined copper and copper alloys, unwrought	2.26	1.4%
9	Petroleum oils, not crude	2.19	1.4%
10	Uncoated paper for writing, printing etc.	2.07	1.3%
	Total 10 products	78.74	50%
	All products	157.78	100.0%

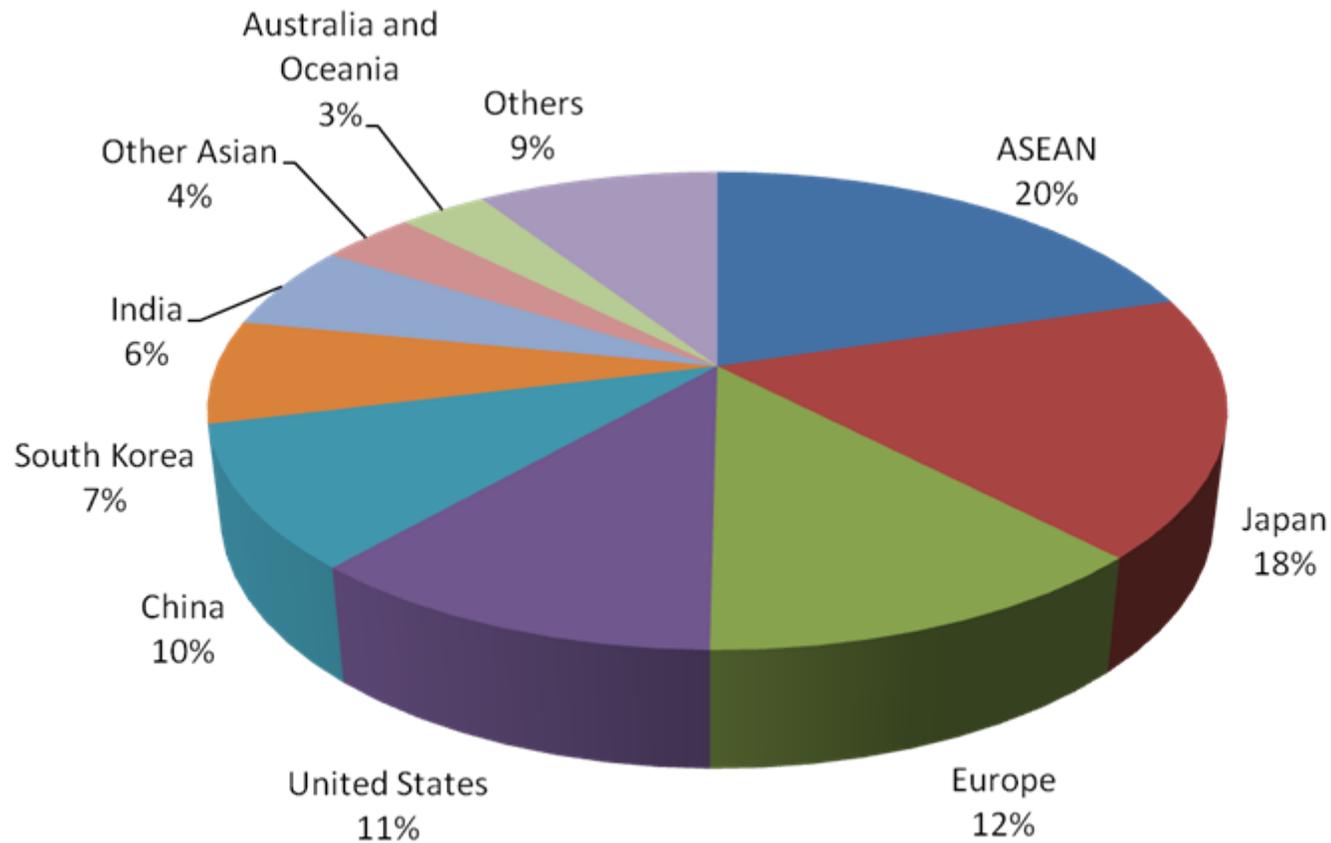
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3. When world commodities prices has decreased before global crisis (2009) and world downturn (2011), this situation has been taken by many industrial countries as an opportunity to keep importing commodities for stock piling. Indonesian export to major destination countries (ASEAN, China and Japan) has increased in the periods.
4. While India and China experienced growth deceleration in 2011 due to their major exports were manufacturing products, both final and intermediate products.

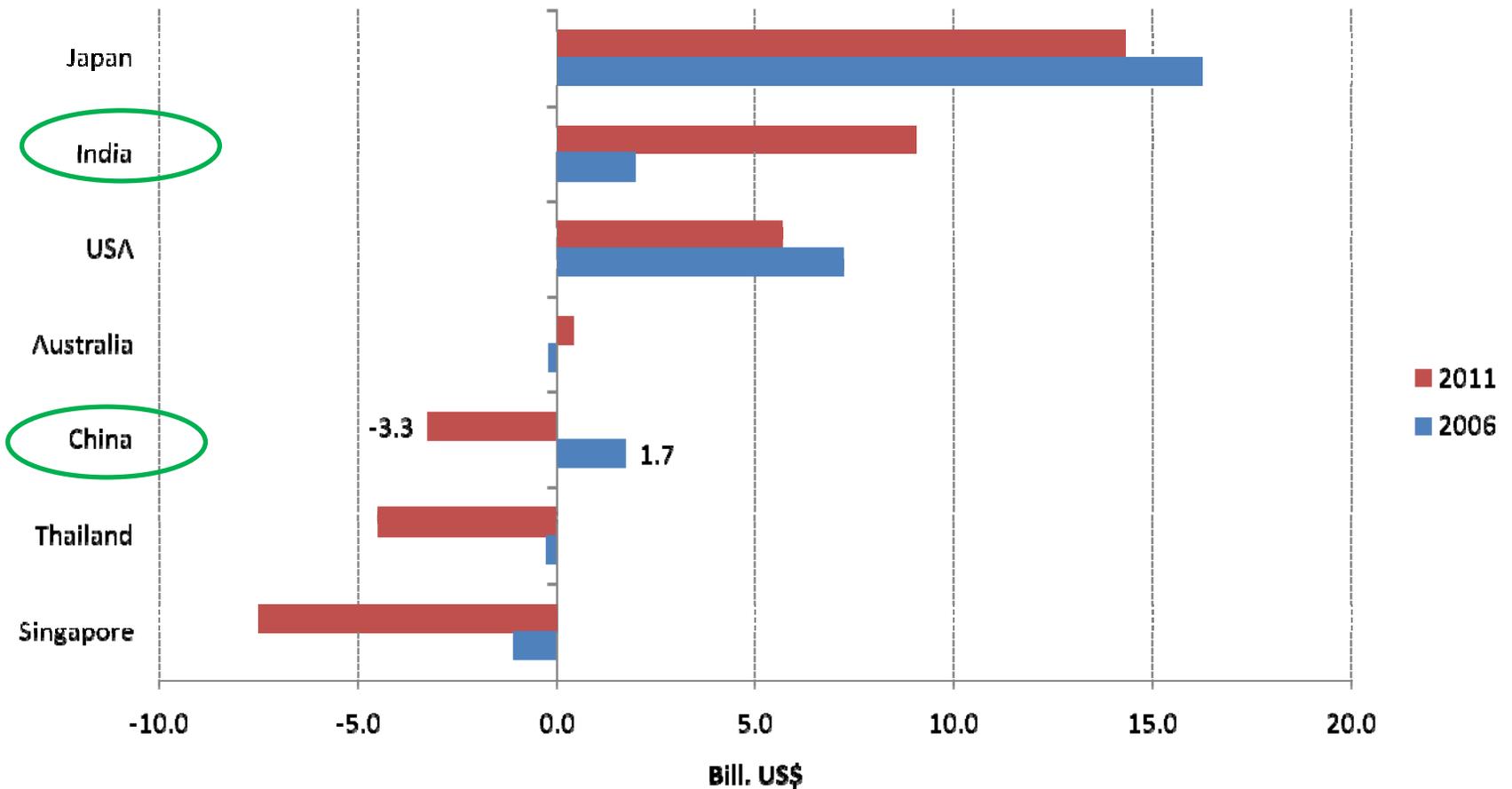
Primary Commodities: World price fluctuation



Indonesian Exports: Country of destinations (2007-2011)



Indonesia Trade Balance with some important countries



Top 10 Indonesia Commodities Export to China: China dependence

No	Product	Value (Bil. US\$)	Share	China Dependence*
1	Coal	6.0	26%	29%
2	Palm oil & its fraction	2.1	9%	32%
3	Natural rubber	1.9	8%	20%
4	Lignite w/n agglomerated, excl jet	1.6	7%	52%
5	Nickel ores and concentrates	1.2	5%	24%
6	Cyclic hydrocarbons	1.0	4%	6%
7	Chemical wood pulp	0.8	4%	9%
8	Aluminum ores and concentrates	0.8	3%	37%
9	Crude petroleum oils	0.6	2%	0%
10	Copper ores and concentrates	0.5	2%	3%
	10 Product	16.3	71%	

import share from Indonesia (% total import from world)

Source: ITC, 2011

Top 10 Indonesia Commodities Export to India: India dependence

No	Product label	Value (Mil. US\$)	Share	India Dependence
1	Palm oil & its fraction	5256	39%	76%
2	Coal; briquettes	4626	35%	32%
3	Copper ores and concentrates	1041	8%	20%
4	Natural rubber	316	2%	46%
5	Coconut (copra)	190	1%	97%
6	Chemical wood pulp,	155	1%	45%
7	Binders for foundry molds or cores	126	1%	35%
8	Cyclic hydrocarbons	92	1%	8%
9	Thermionic, cold cathode valves & tube	80	1%	30%
10	Human & animal blood; vaccines, toxins, micro-organism	70	1%	12%
	Total 10 products	11951	90%	

Top 10 Indonesia Commodities Import from China: Indonesia dependence from China

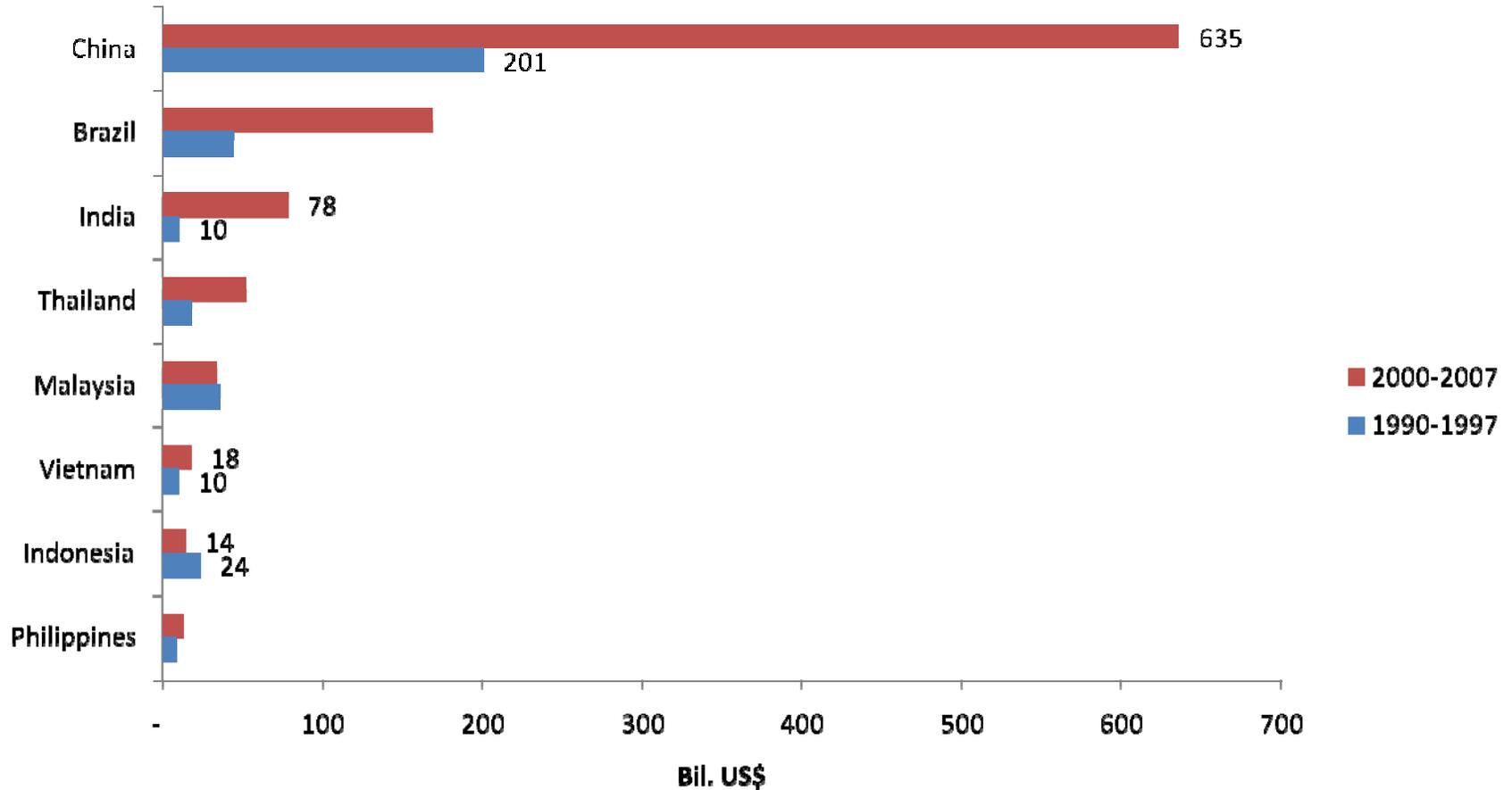
No	Product	Value (bil. US\$)	Share	Indonesia dependence
1	Electric app for line telephony	2.27	9%	50%
2	Automatic data processing machines;	1.54	6%	70%
3	Petroleum oils, not crude	0.72	3%	3%
4	Part suitable for use solely/princ with televisions,	0.54	2%	35%
5	Printing machinery	0.43	2%	42%
6	Cruise ship, cargo ship, barges	0.35	1%	26%
7	Woven cotton fabrics	0.34	1%	59%
8	Television receivers	0.33	1%	55%
9	Woven fabrics of synth. filam yarn	0.31	1%	38%
10	Tubes, pipes and hollow profiles	0.29	1%	30%
	Total 10 Products	7.11	27%	

Top 10 Indonesia Commodities Import from India: Indonesia dependence from India

No	Products	Value (Mil. US\$)	Share	Indonesia Dependence
1	Cyclic hydrocarbons	463.9	11%	33%
2	Maize (corn)	381.4	9%	37%
3	Petroleum oils, not crude	338.6	8%	1%
4	Trucks, motor vehicles for the transport of goods	299.1	7%	13%
5	Electric app for line telephony	265.7	6%	6%
6	Ground-nuts, not roasted	219.9	5%	86%
7	Cotton, not carded or combed	124.2	3%	7%
8	Soya-bean oil-cake and other solid residues	119.5	3%	9%
9	Flat-rolled products of stainless steel	117.0	3%	24%
10	Cane or beet sugar and chemically pure sucrose	91.2	2%	5%
	Total Import	2420.4		

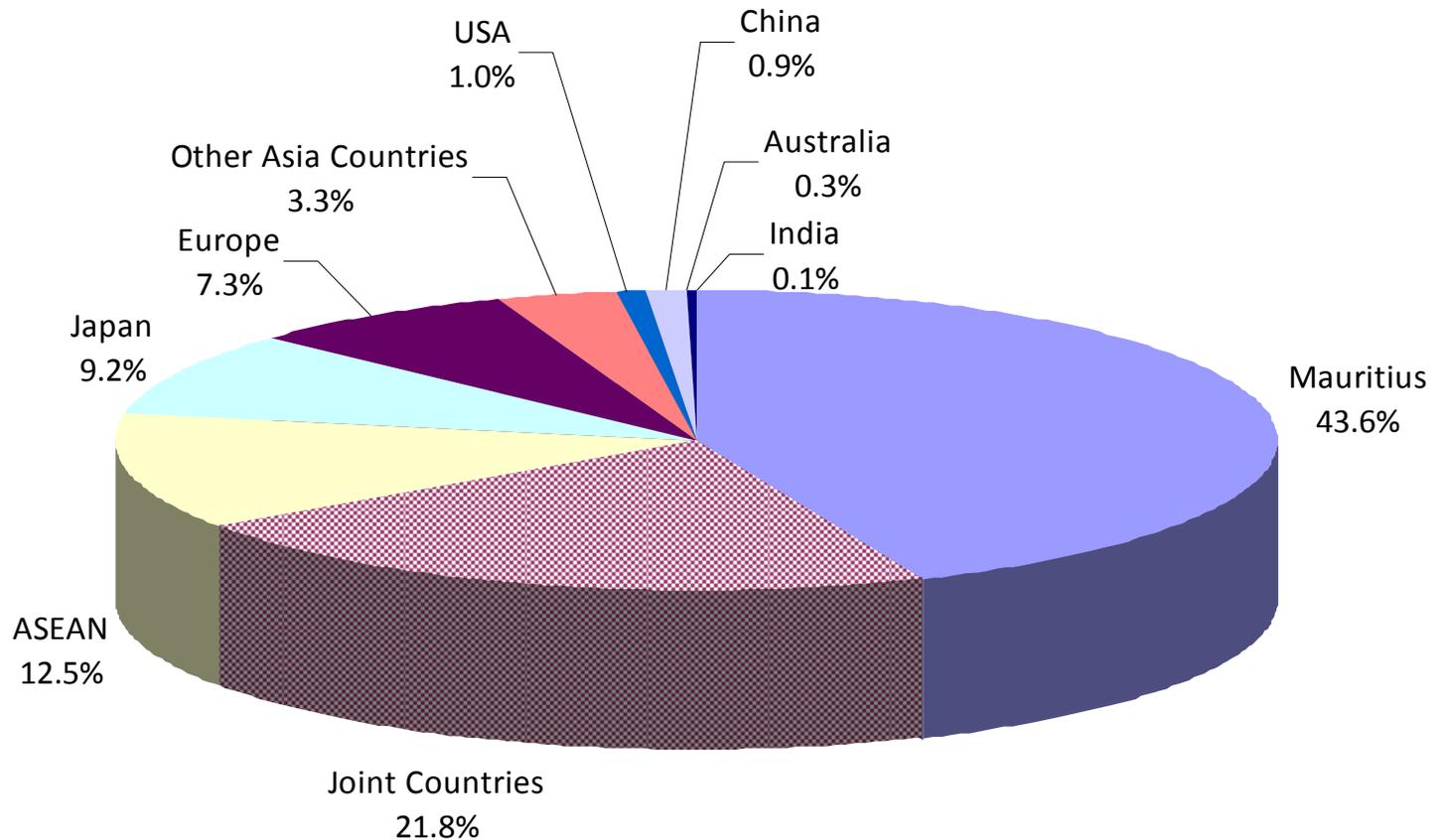
Accumulation of FDI Net Inflow

China has high investment competitiveness



China's and India's FDI in Indonesia

Insignificant but increasing in some sector



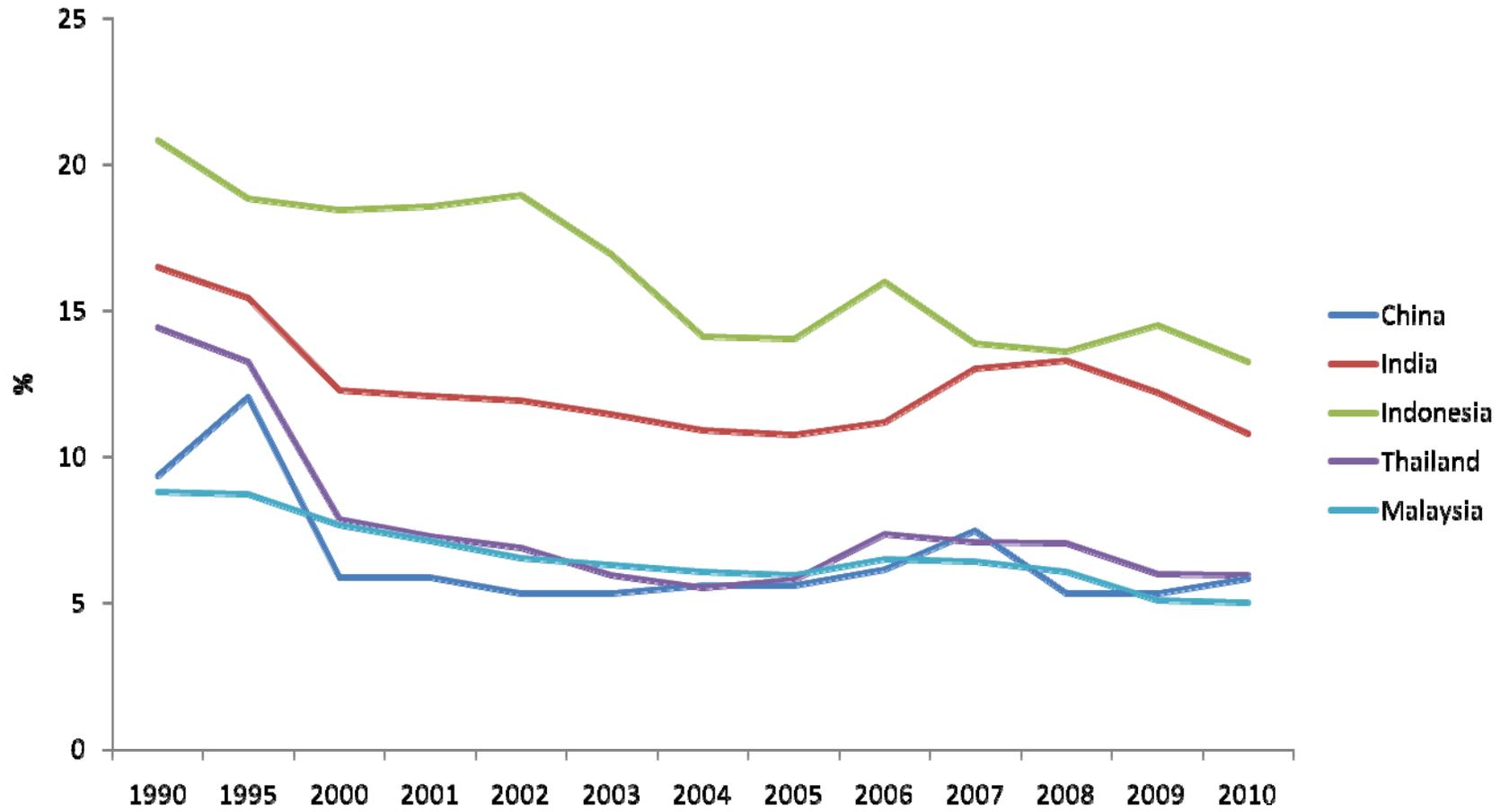
Source: Indonesia Investment Coordinating Board, 2011

Competitiveness Index: Logistic Performance Index

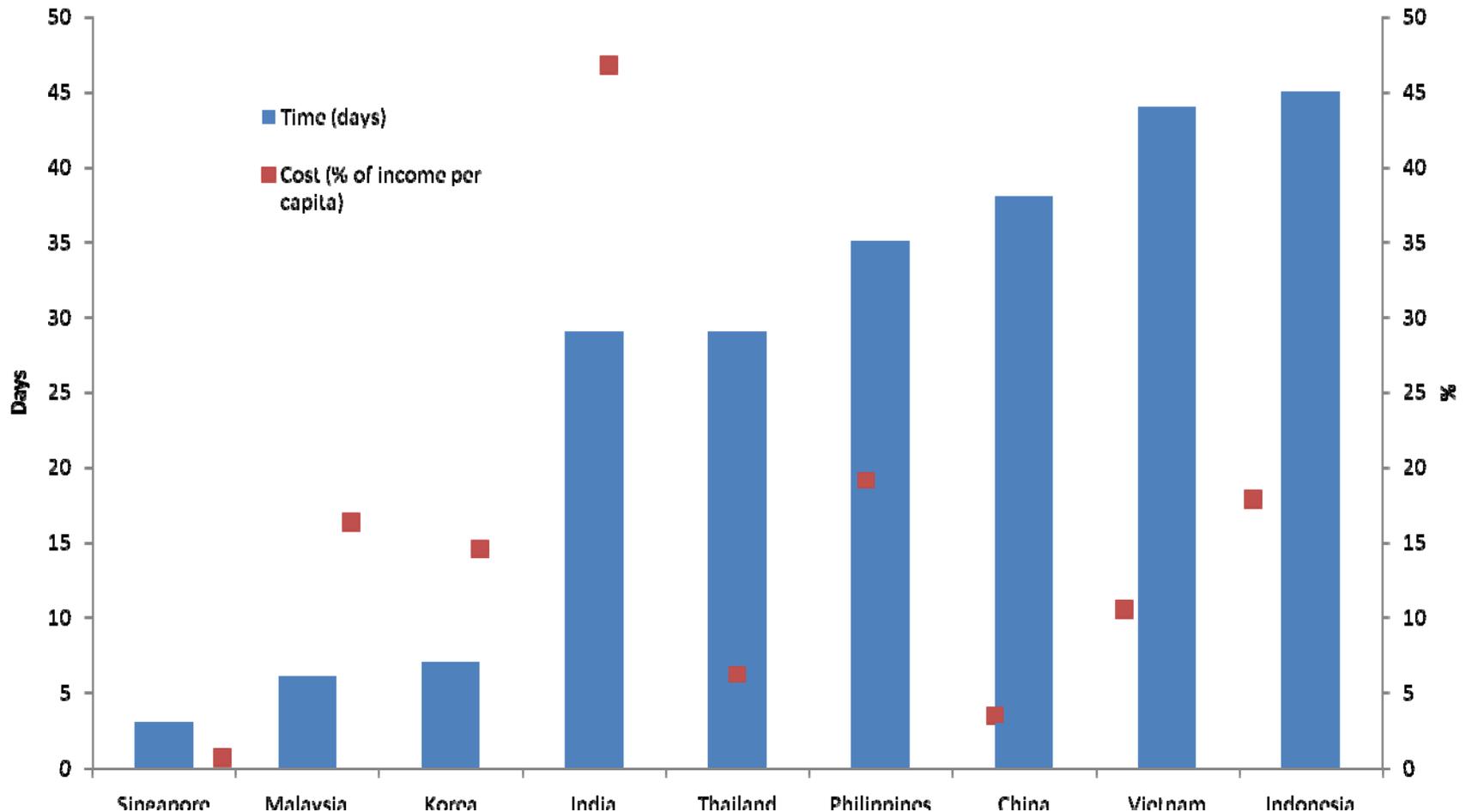
Country	LPI Rank	LPI Score	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
China	26	3.5	3.3	3.6	3.5	3.5	3.5	3.8
Malaysia	29	3.5	3.3	3.4	3.4	3.5	3.5	3.9
Thailand	38	3.2	3.0	3.1	3.2	3.0	3.2	3.6
India	46	3.1	2.8	2.9	3.0	3.1	3.1	3.6
Philippines	52	3.0	2.6	2.8	3.0	3.1	3.3	3.3
Vietnam	53	3.0	2.7	2.7	3.1	2.7	3.2	3.6
Indonesia	59	2.9	2.5	2.5	3.0	2.9	3.1	3.6

***) Year 2012**

Competitiveness Index: Lending Interest Rate



Competitiveness Index: Time and cost in starting a business



Global Competitiveness Index 2011-2012: From 44th to 46th as a Result of Policy Choices

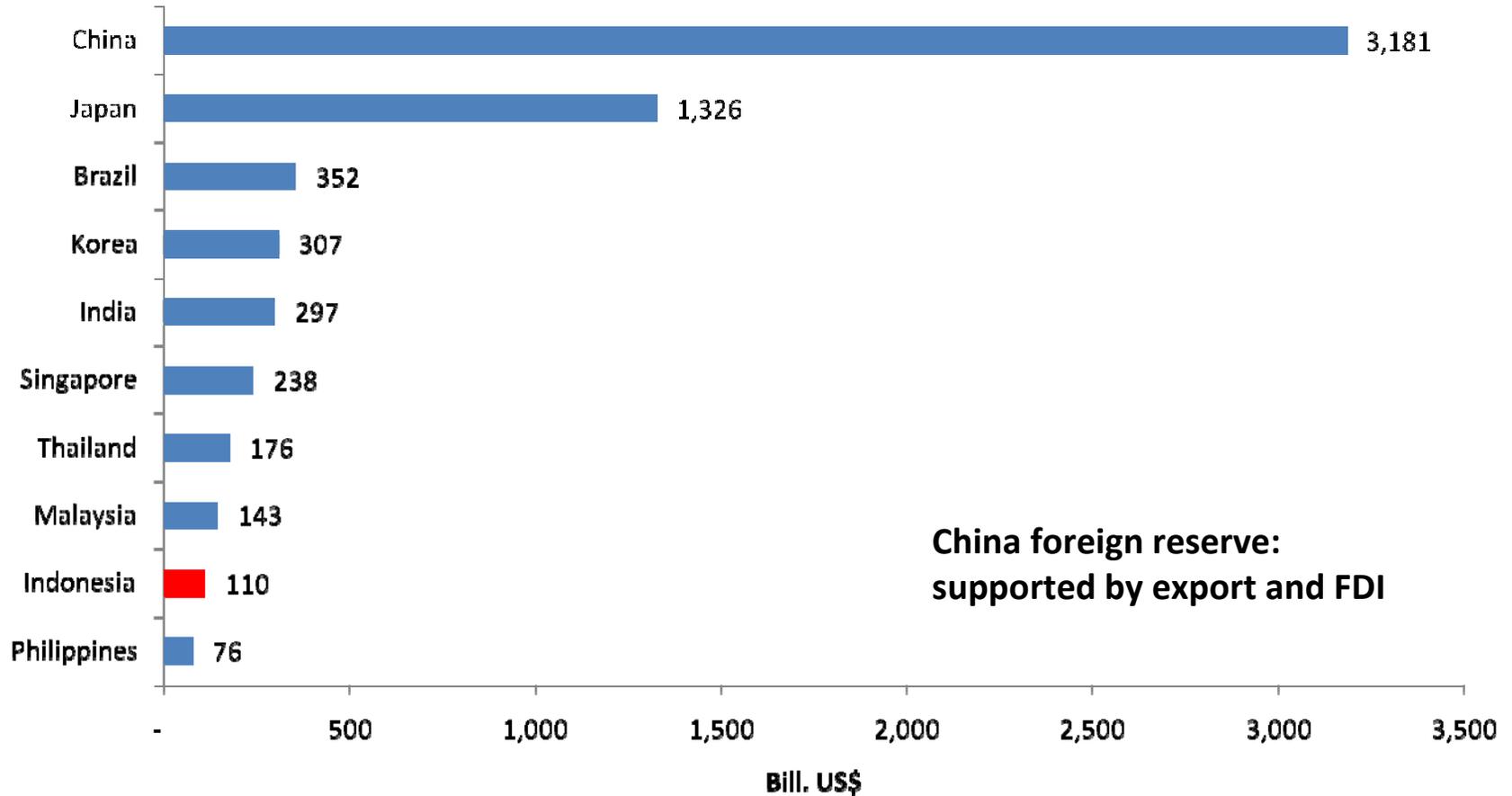
No	Indicator	Rank 2011	Rank 2010	Change
	Basic Requirements Category	53	60	7
1	Institution	71	61	-10
2	Infrastructure	76	82	6
3	Macroeconomy	23	35	12
4	Health and Basic Education	64	62	-2
	Efficiency Support Category	56	51	-5
5	High education	69	66	-3
6	Market efficiency of goods	67	49	-18
7	Labour market efficiency	94	84	-10
8	Financial market	69	62	-7
9	Technology readiness	94	91	-3
10	Market Magnitude	15	15	0
	Innovation and Business Sophistication Category	41	37	-4
11	Business Sophistication	45	37	-8
12	Innovation	36	36	0

Factors of Competitiveness Downgrade: Determinant Aspects of Investment Competitiveness

No	Level of Change	Indicators
4	Down 1-5 level (22 indicators)	Among others: Investors Protection Power (-3), Employment Rigidity (-4), etc
5	Down more than 5 level (53 indicators)	Among others: Quality of Port Infrastructure (-7), Stock Exchange Trade Regulation (-7), Trade Tariff (-15), Foreign Investor Ownership (-20), Bank Health (-20), Agreement to Delegate Authority (-24), Impact of Foreign Investment Business Rules (-29)

Foreign Reserve per December 2011

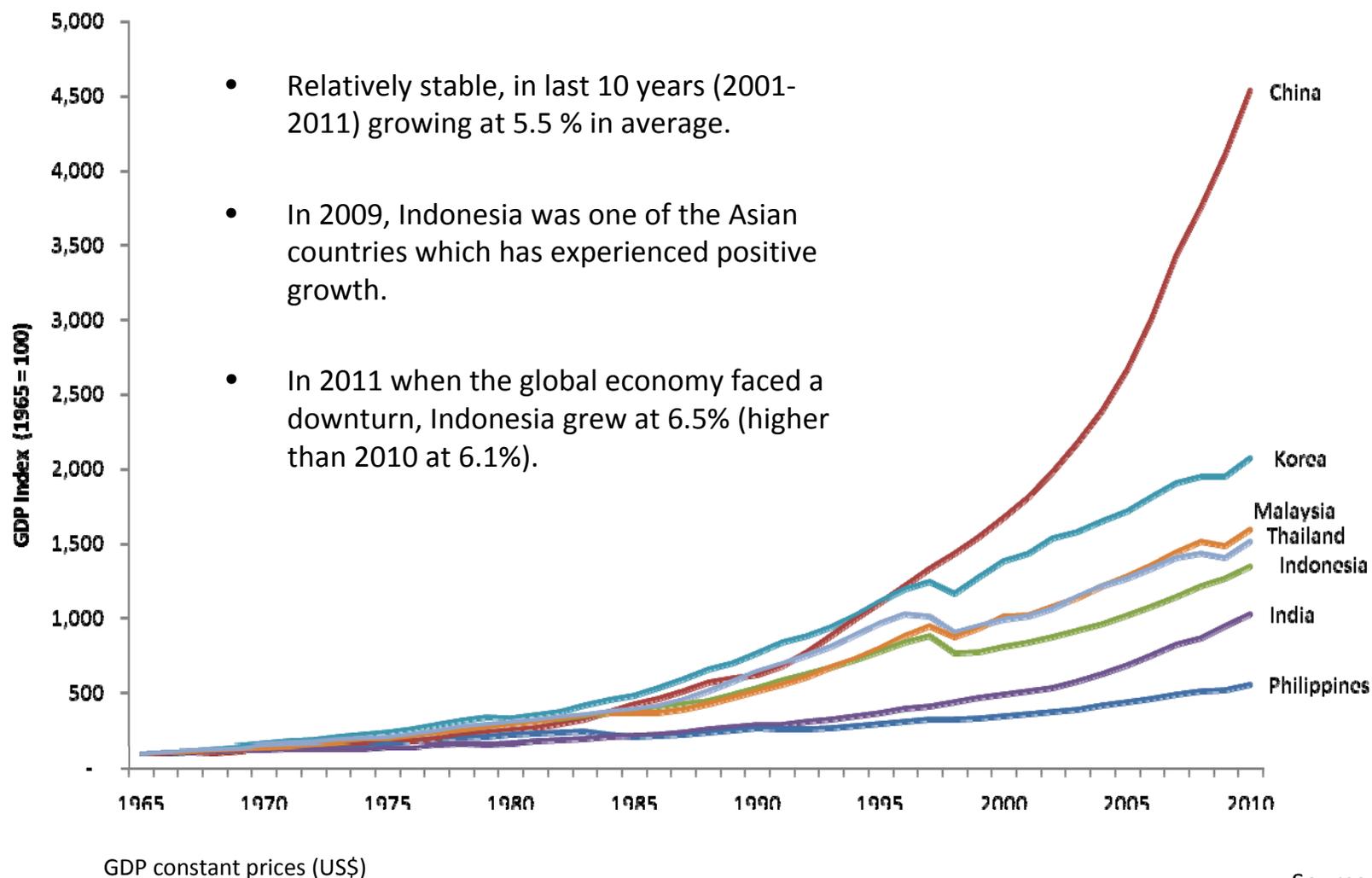
China is the real giant



Current Indonesian Economy: Looking for Inclusive Growth

GDP Index:

Indonesia optimistic in maintaining GDP growth



Factors Supported Indonesia to Avoid the Negative Impact of World Economic Downturn

1. GDP Structure

2. Export Structure

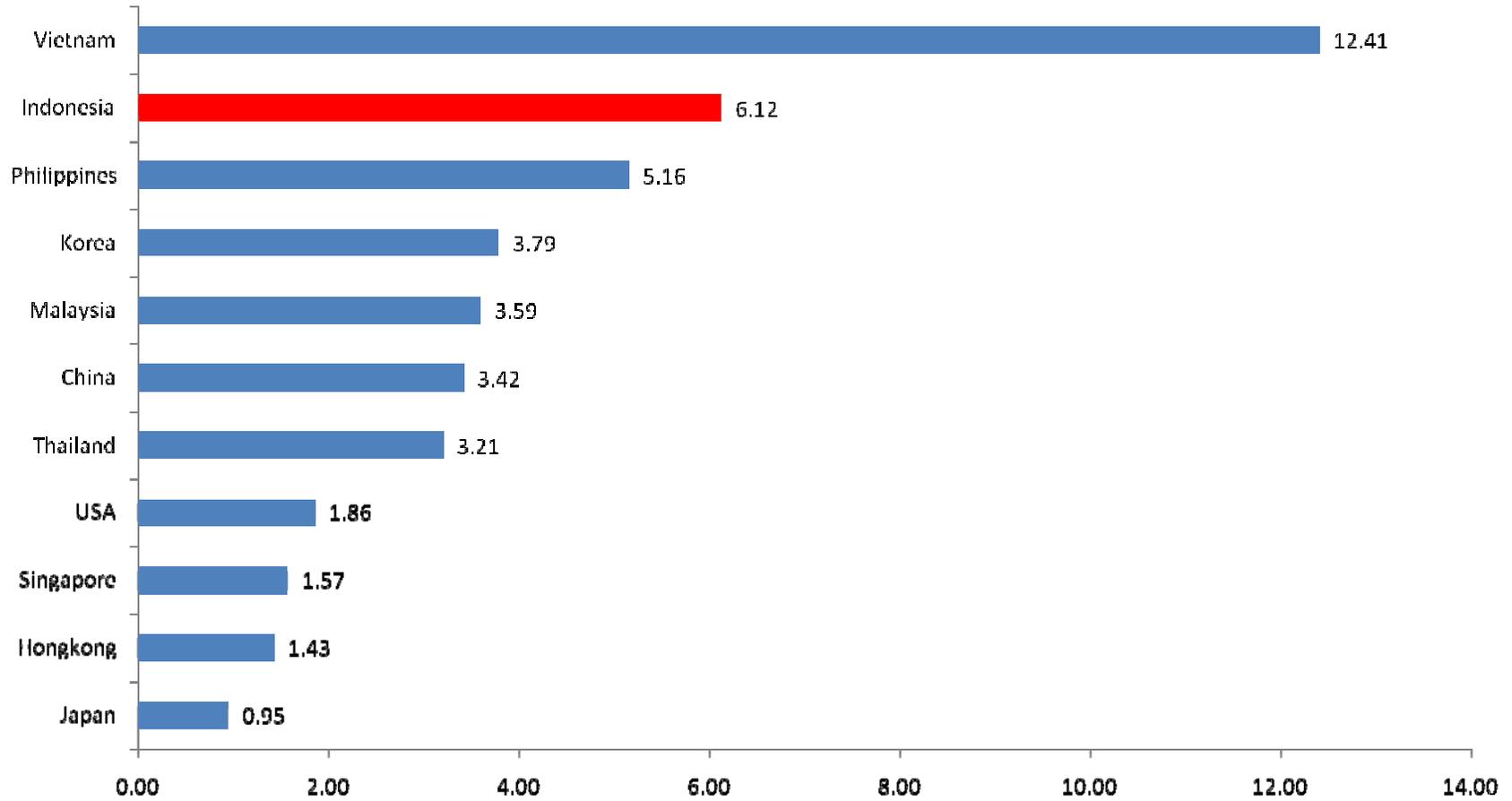
3. Capital and Financial Market Policy

4. Macroeconomic Stability Policy

Indonesian Case, Maintaining High Cost Support Has Reducing Global Crises Impact

1. Since global crises began, many emerging markets have cut their interest rate and yield of government bonds, as well as controlled capital flow.
2. Indonesia has been maintaining high interest rate (Central Bank), even when inflation was manageable.
3. Steps to control capital flows were minimum, i.e.: increasing SBI (Central Bank Certificate) tenor. Indonesia also has released financial services from value added tax obligation.

Local Government Bond Yield (10 Year)



* per January 16, 2012

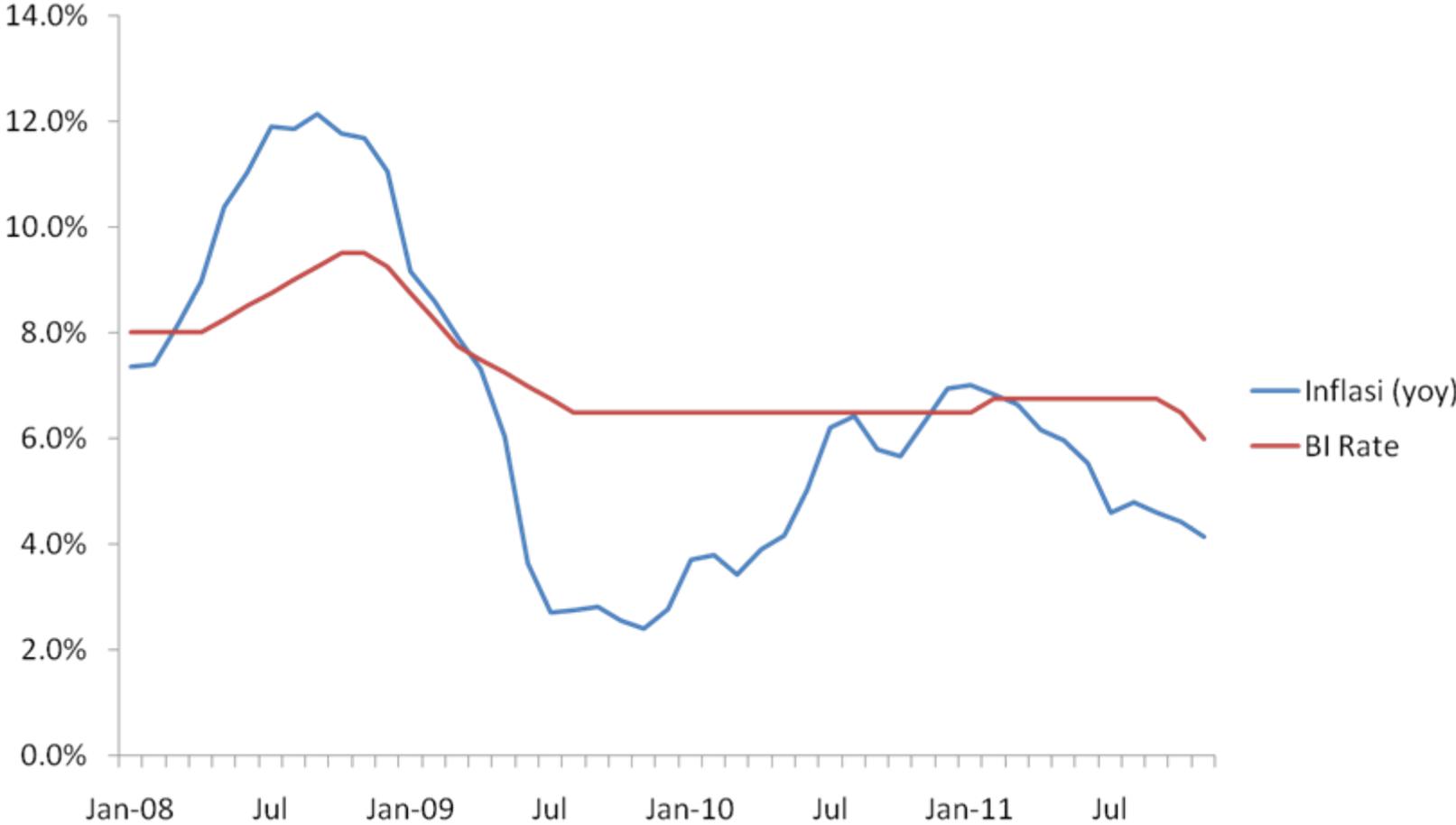
Selected Cases of Controlling Measures on Capital Inflows

Instrument	Recent Examples
Tax Measures	<ul style="list-style-type: none"> •Brazil: IOF tax raised from 4% to 6% •Korea: re-imposition of 14% withholding and 20% capital gains taxes on foreign purchases of government bonds •Thailand: 15% tax on interest income and capital gains earned by foreign investors
Minimum Investment Periods	Indonesia: 1-month minimum holding period for CB money market certificates
Quantitative Limits	<ul style="list-style-type: none"> •China: limits on HK bank's net open positions and ability to access Yuan through China's FX market •Indonesia: short-term external bank borrowing limited to 30% of capital •Korea: Implemented cap on size of banks' FX derivatives books
Unremunerated Reserve Requirements	<ul style="list-style-type: none"> •Brazil: 60% reserve requirements on banks' short dollar position in the spot market •Turkey: reserve requirements raised and expanded to repo transactions

Central Bank of Indonesia's Policy: Tightening Monetary Management

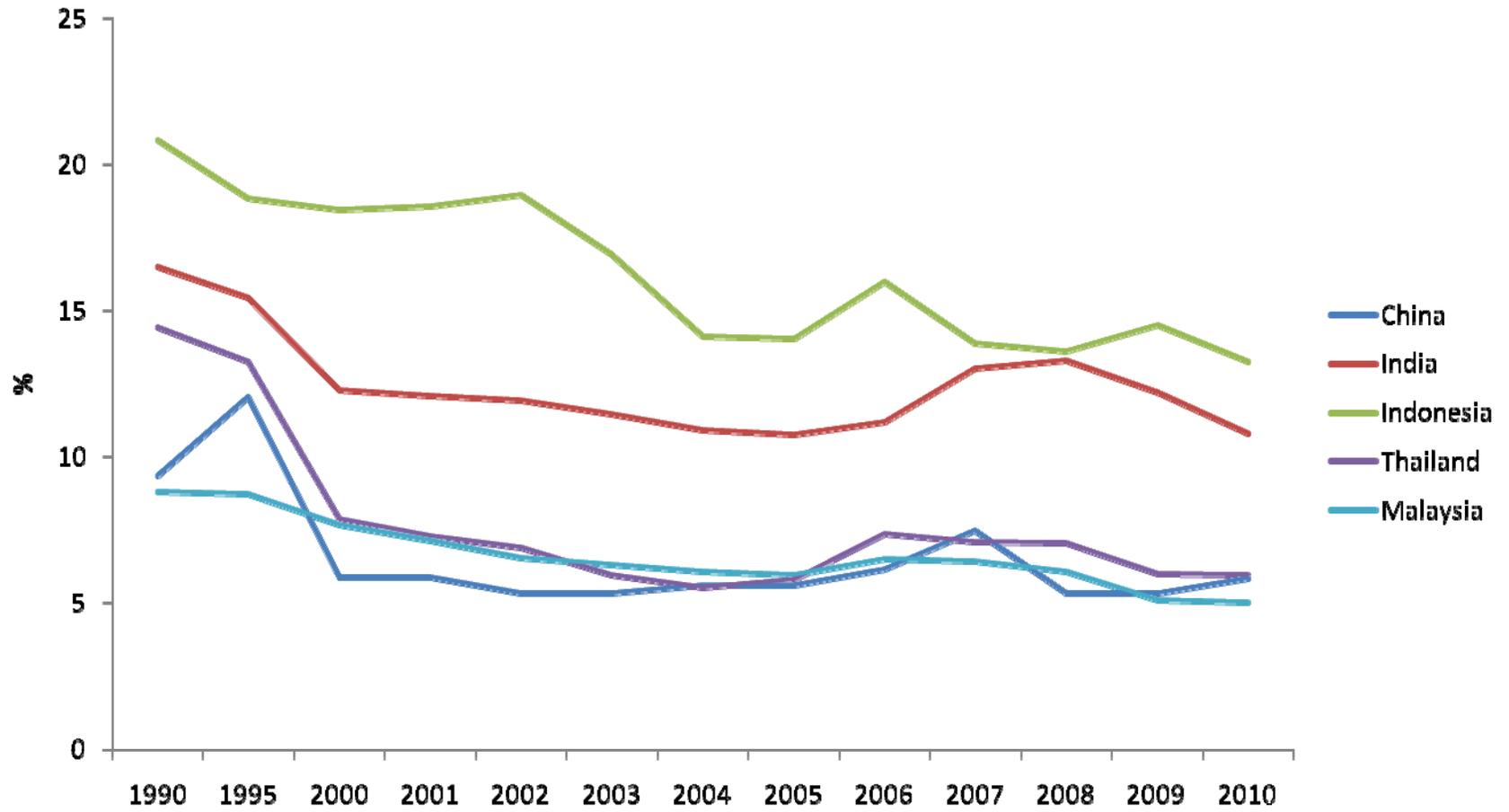
No	Policy	Effective Date
1	Widening Interest Rate of Over Night Inter-Bank Money Market	June 17, 2010
2	Amendment of conditions for Net Exchange Balance (<i>Posisi Devisa Netto</i> /PDN).	July 1 , 2010
3	Applying one month holding period of Central Bank Certificate (<i>Sertifikat Bank Indonesia</i> /SBI).	July 7, 2010
4	Additional monetary instrument of on-securities term deposit	July 7, 2010
5	Issuance of 9 and 12 month SBI	SBI 9 mo: August 2010, SBI 12 : Sept 2010
6	Application of 3 parties repurchase mechanism (repurchase) of government bonds	2011
7	Removal of 1, 6 and 9 month (Central Bank Certificate/SBI)	1 months (Jul. 2010), 3 Months (Nov.2010), 6 Months (Feb 2011)

High Interest Rate of BI: Managing inflation

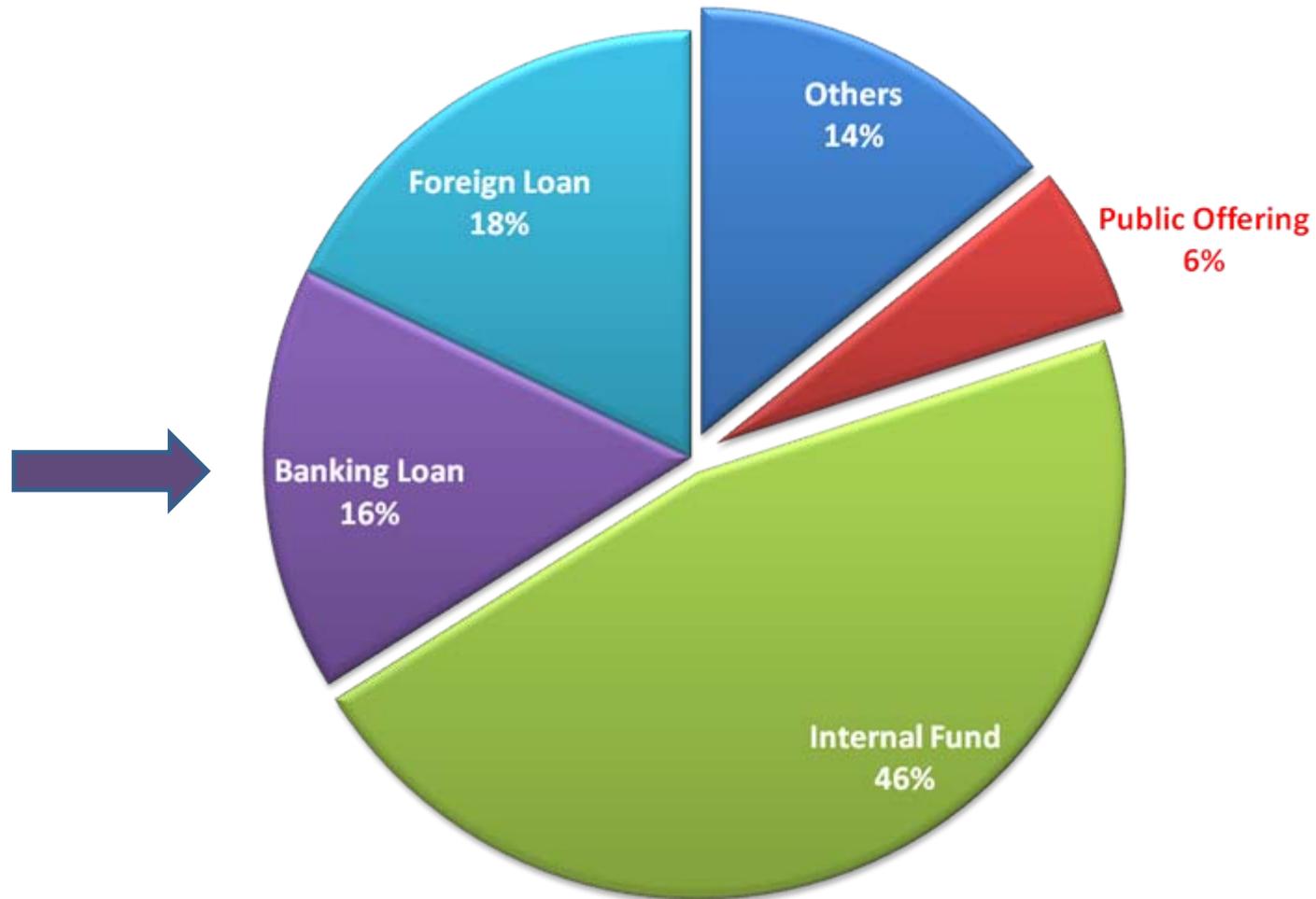


Lending Interest Rate Average

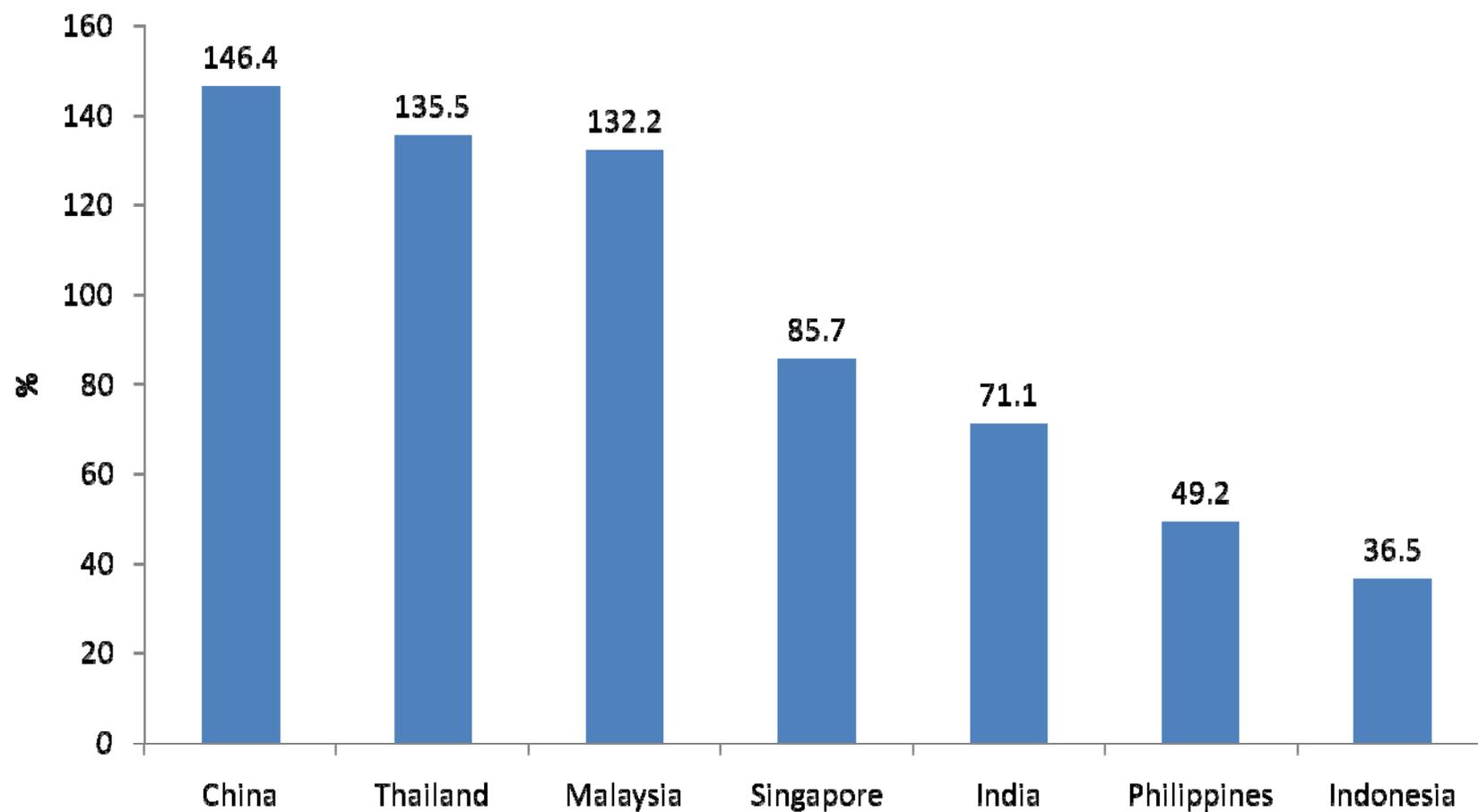
Inefficient banking sector?



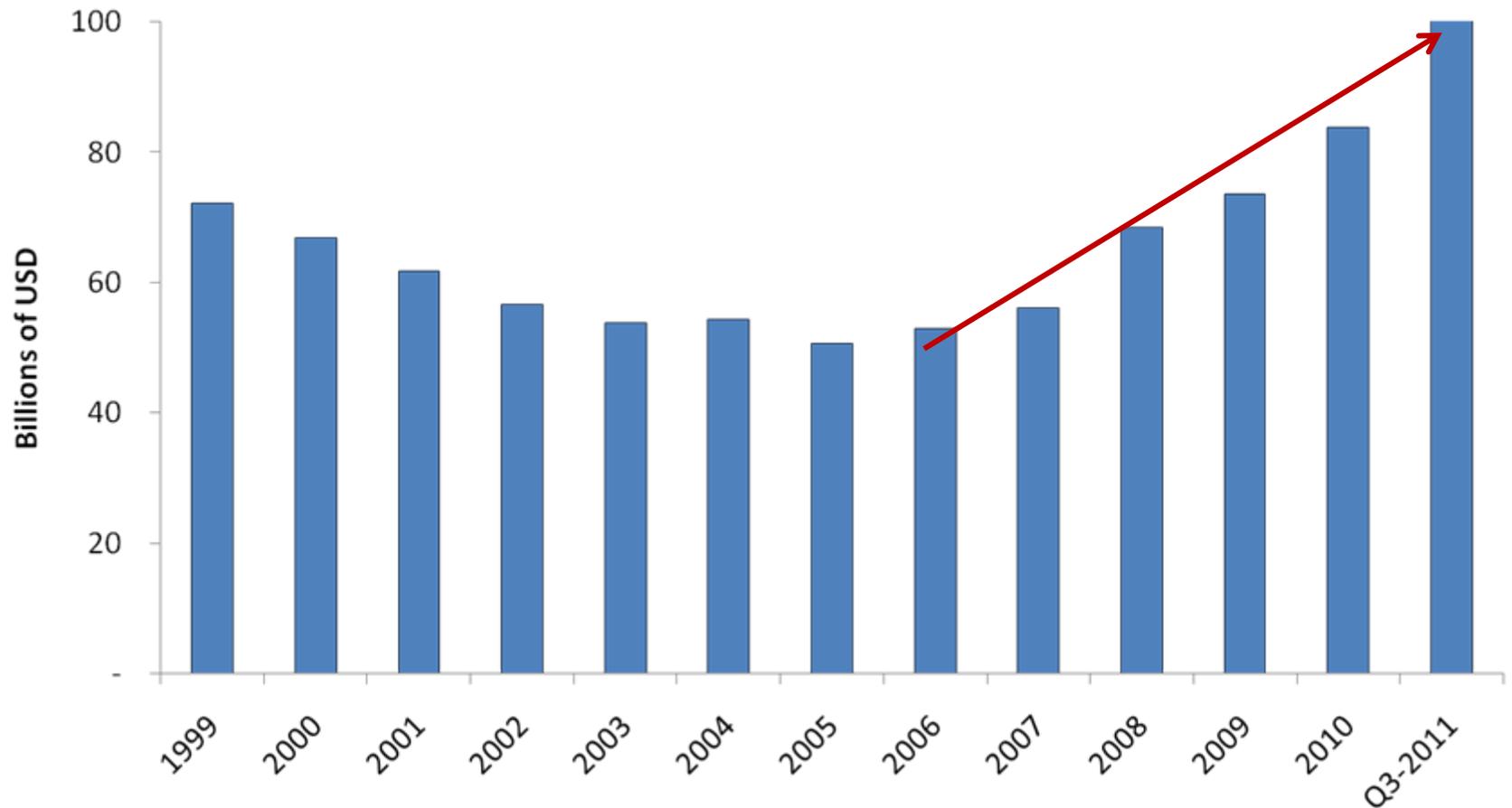
Corporate Financial Source: Abandoned Banking Loan



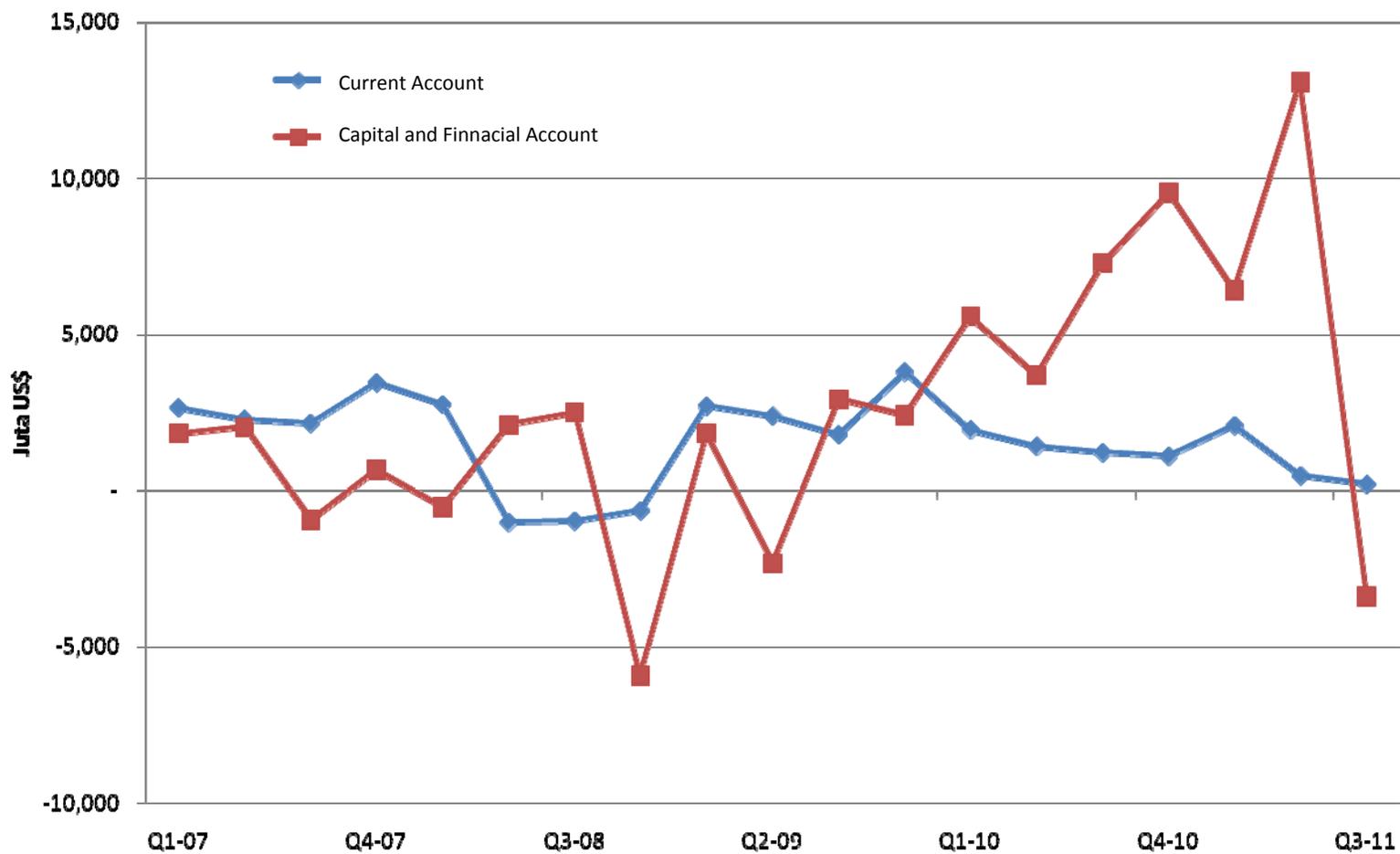
Domestic banking credit as % of GDP: Indonesia is the smallest



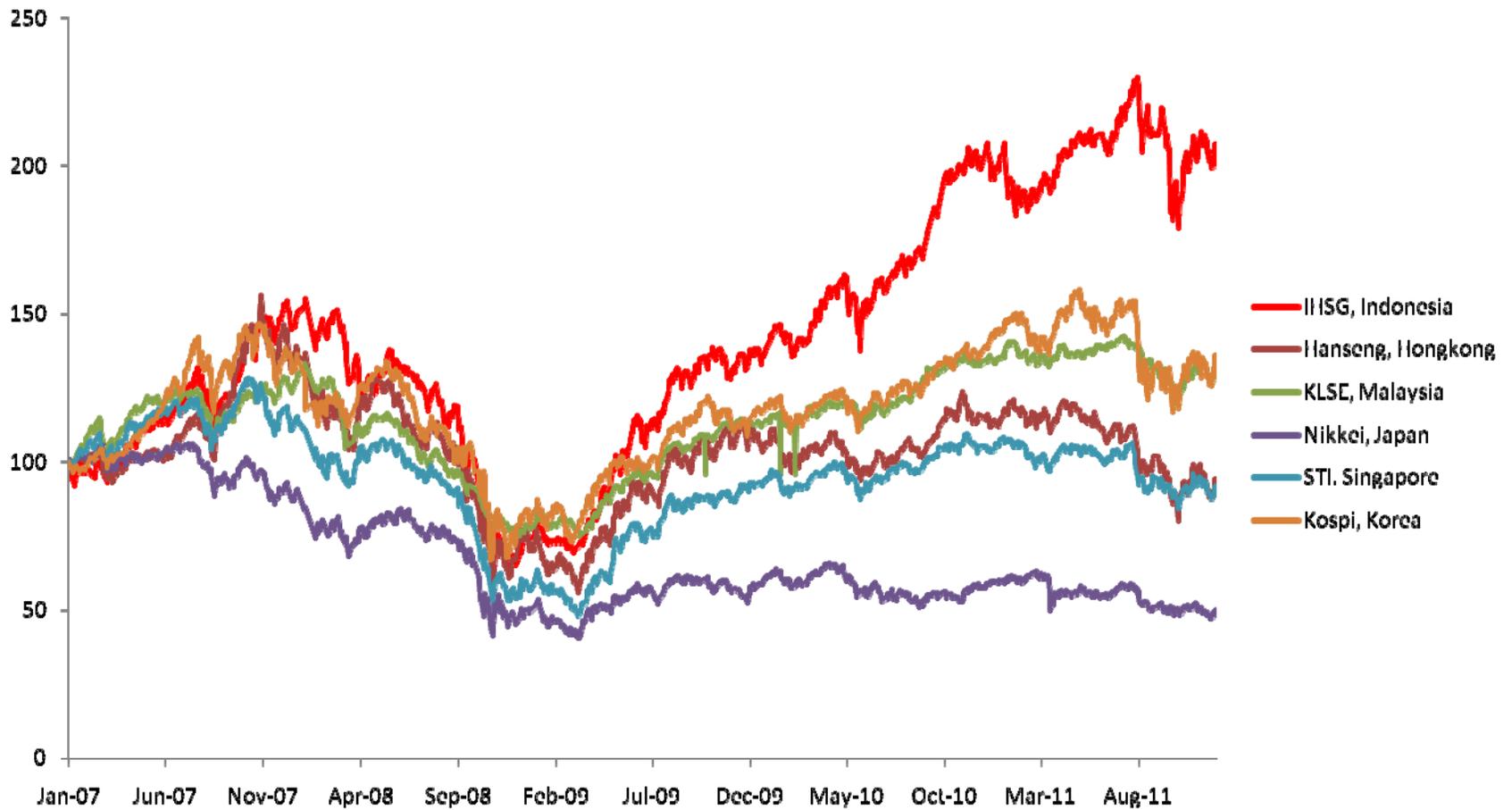
Corporate Financial Source: Increasing of Foreign Loan



Balance of Payment



Asian Stock Market Index: Indonesia Grew Higher

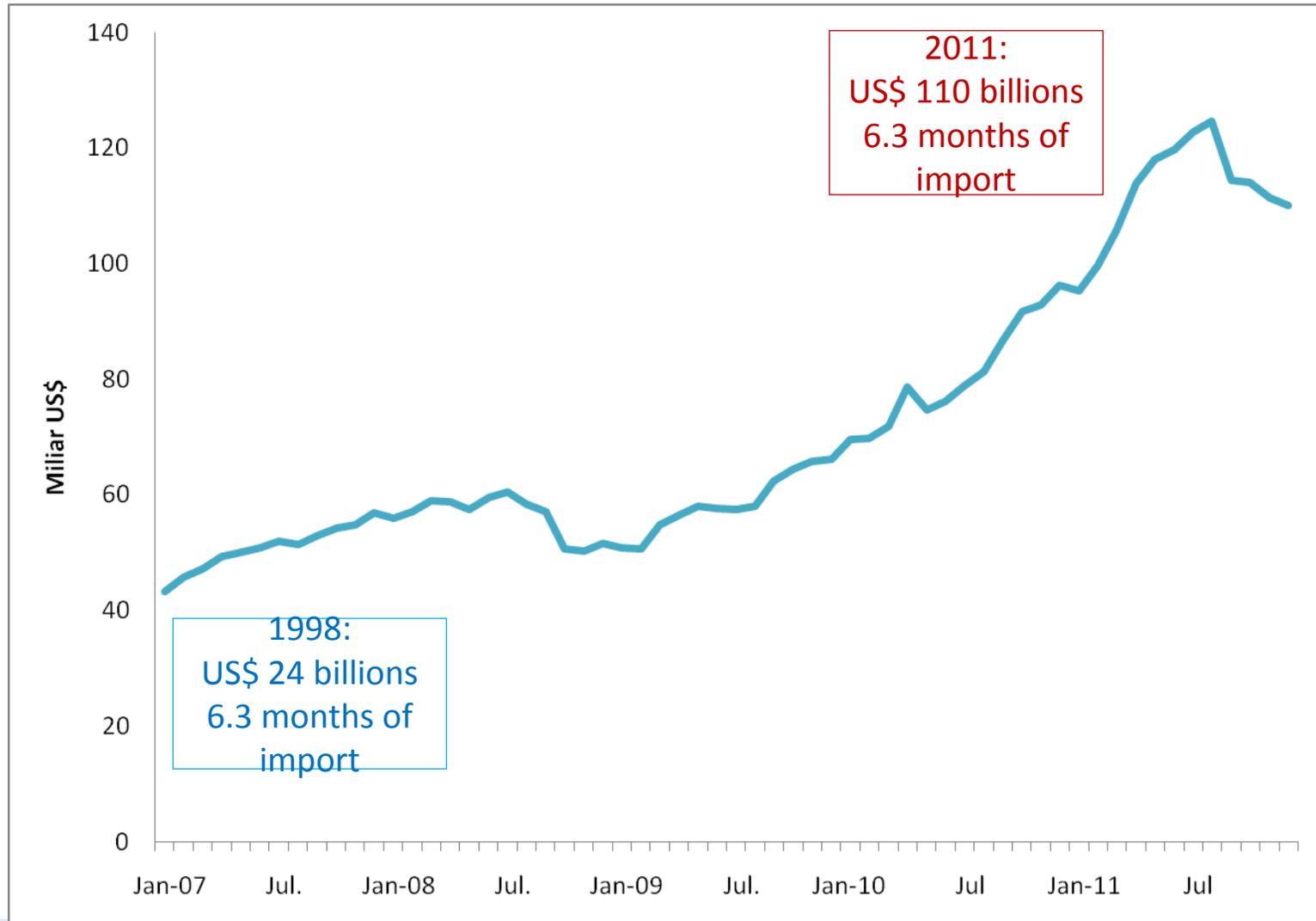


Portfolio Investment: The Level of Foreign Ownership

(in Trillion Rupiah)

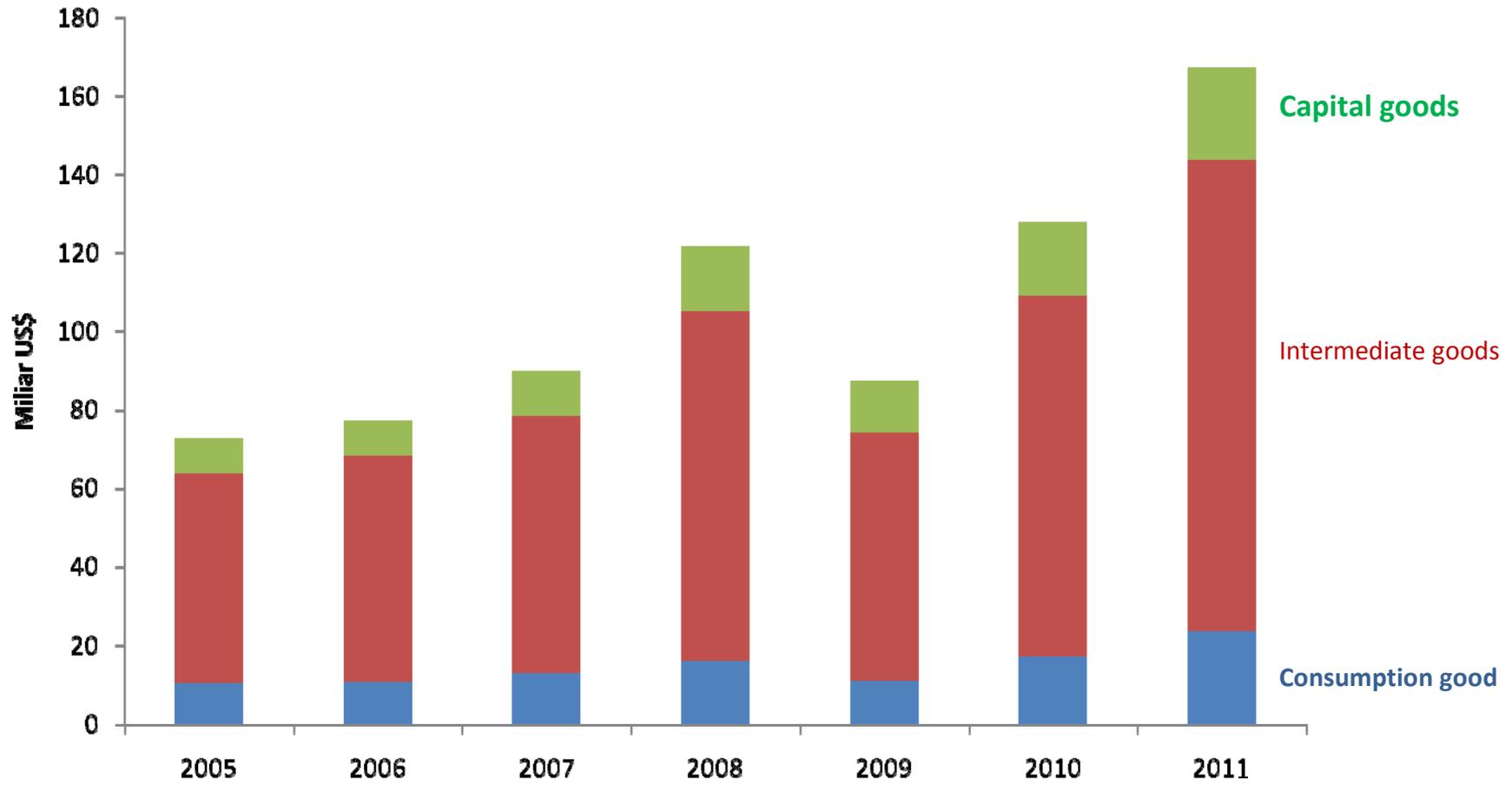
Year	Central Bank Certificate	%	Government Obligation	%	Stock	%	Total
Dec-08	8.4	10	87.4	17	452.2	60	548
Dec-09	44.18	5	108	19	783.1	61	935
Dec-10	54.93	27	195.76	31	1,184	63	1435
Dec-11	21.34	15	220.79	31	1,211	60	1447

Foreign Exchange Reserve: Ratio to import

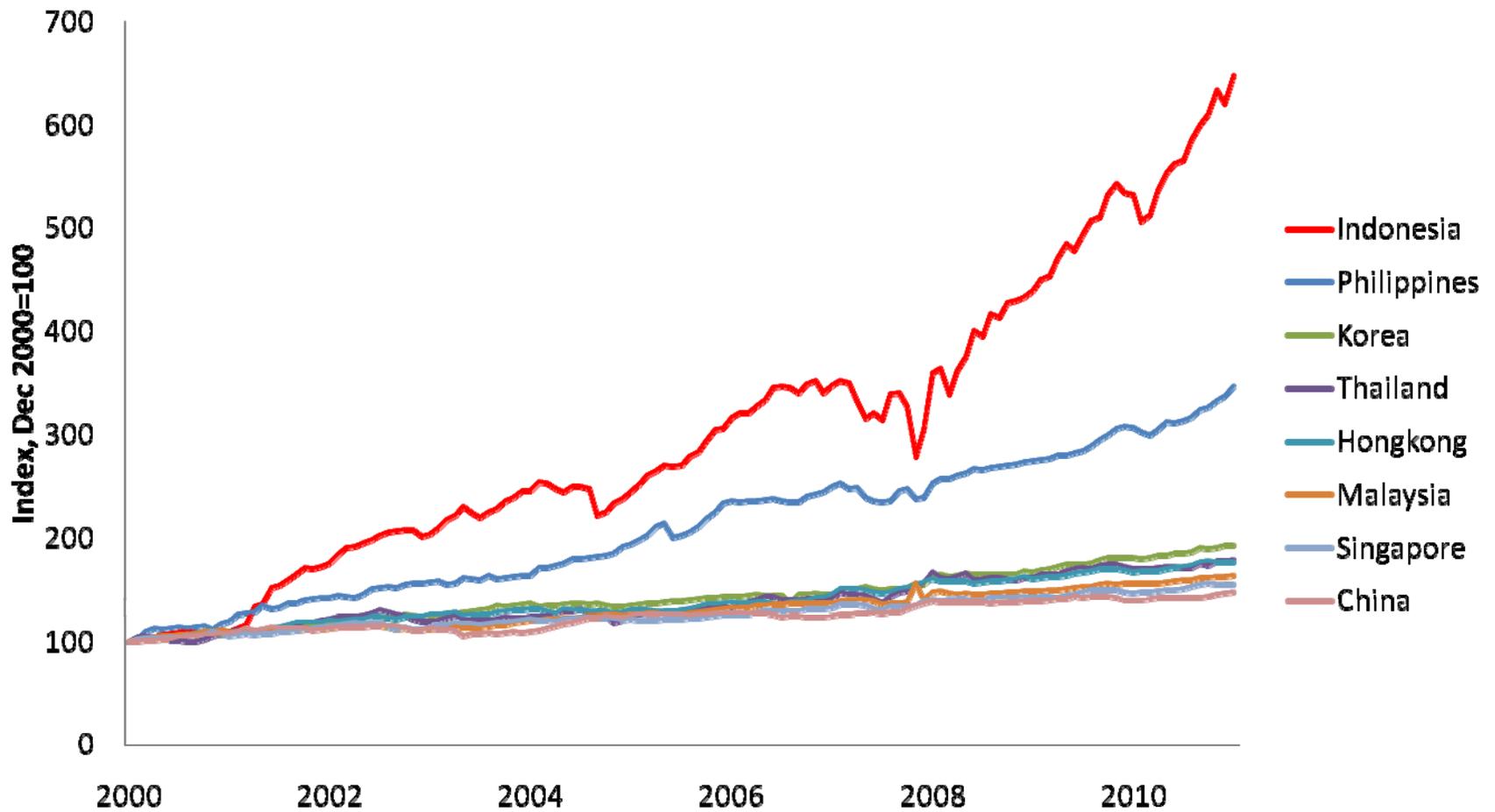


Acceleration in Import Growth

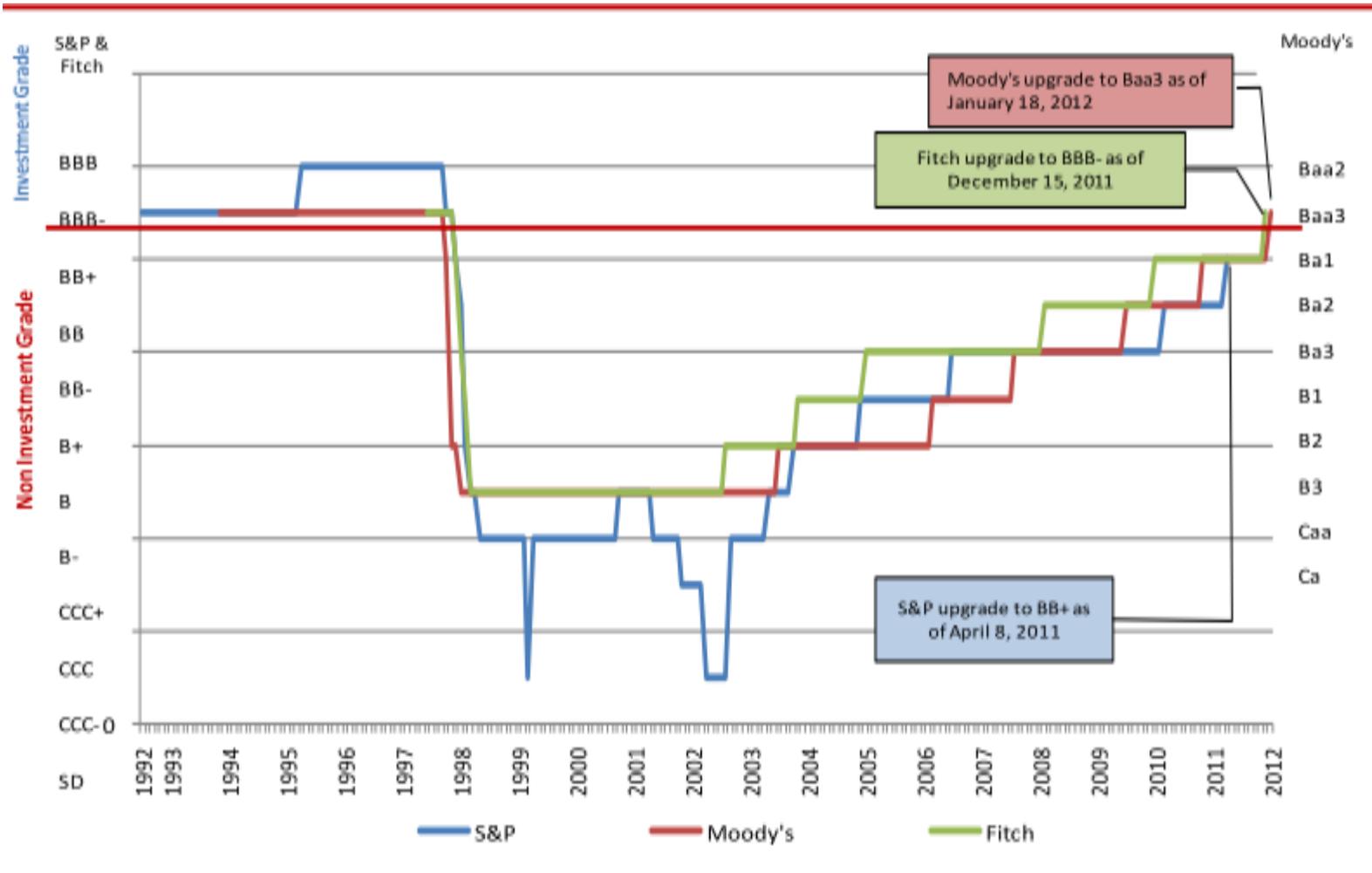
Consumption goods increase by 35% in the last 5 years and some intermediate goods are actually consumption goods



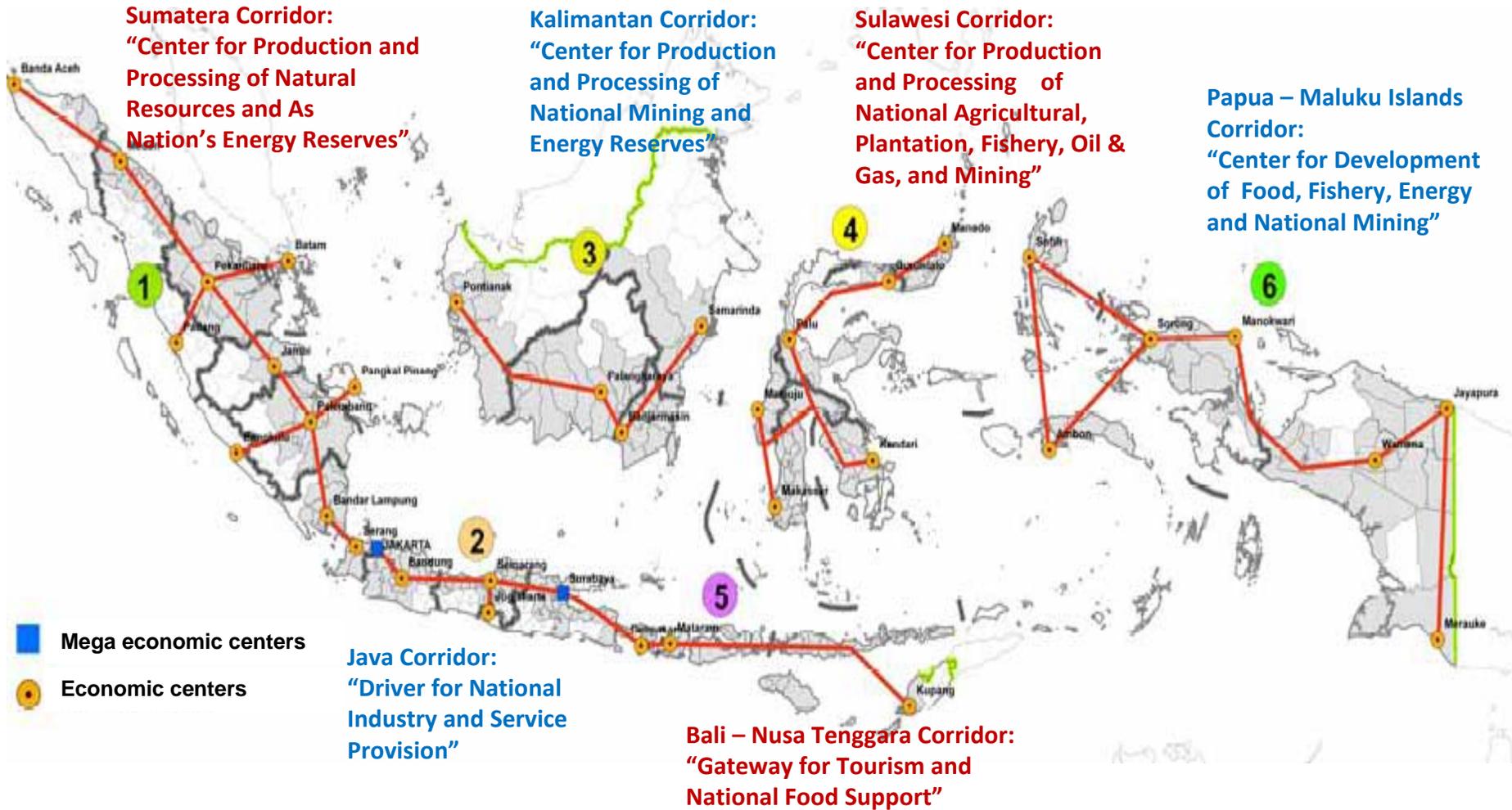
Asian Local Currency Bond Returns Indices



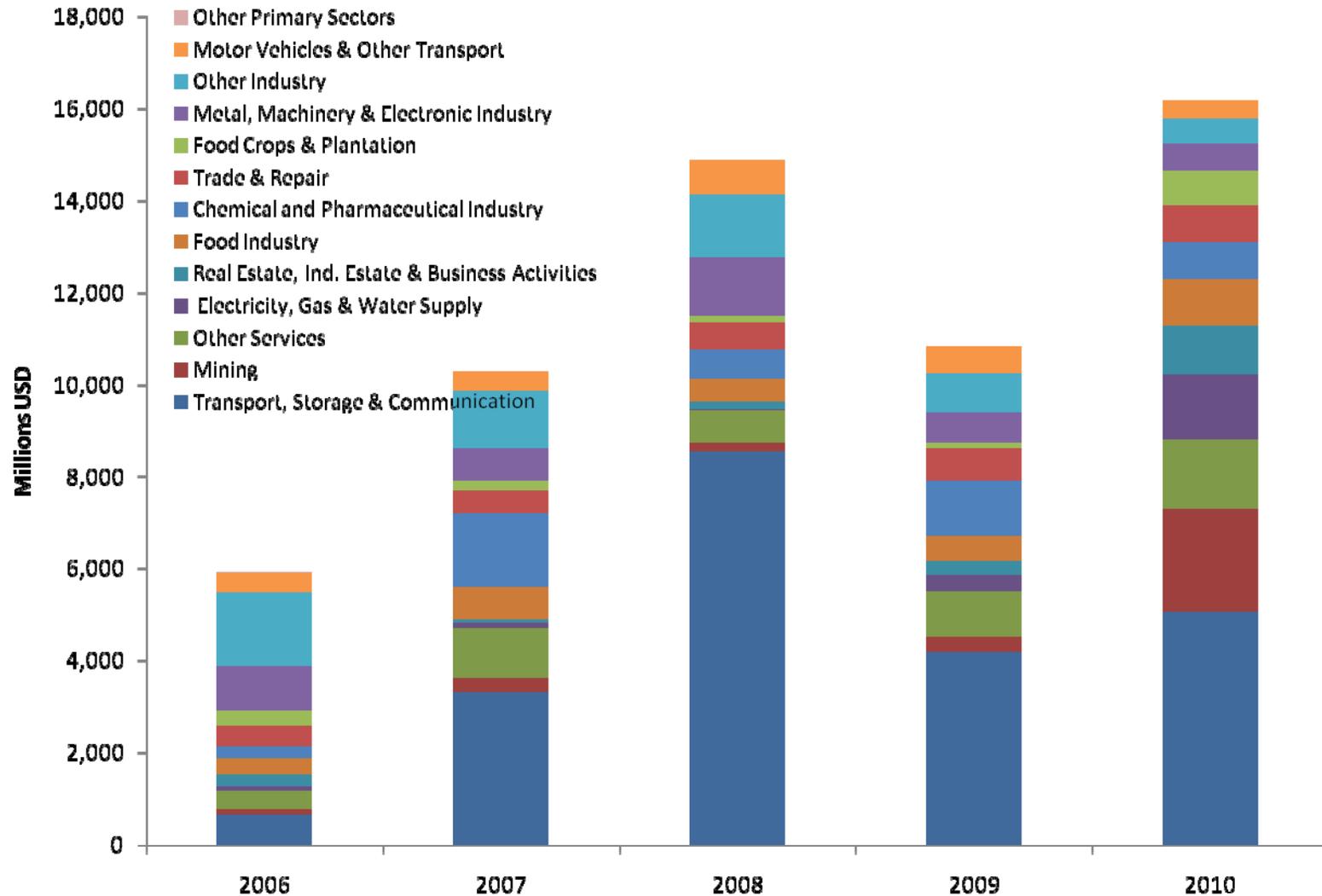
Indonesian Sovereign Rating: Return to the same position after 13 years



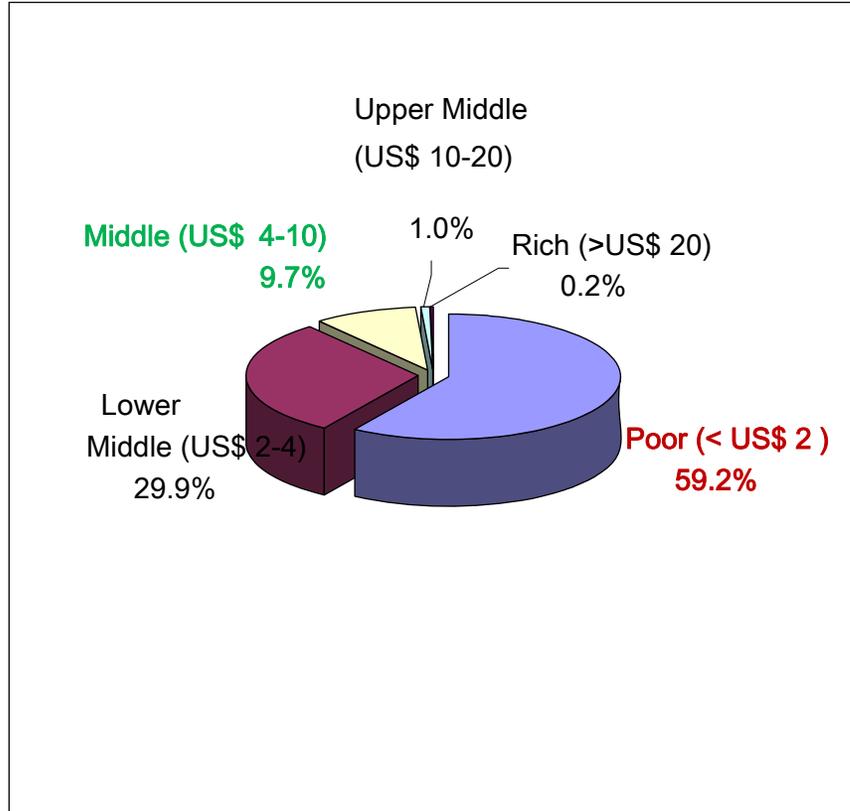
Master Plan for the Acceleration and Expansion of Indonesia's Economic Development : Six Economic Corridors



FDI Realization: Dominated by transport and communication

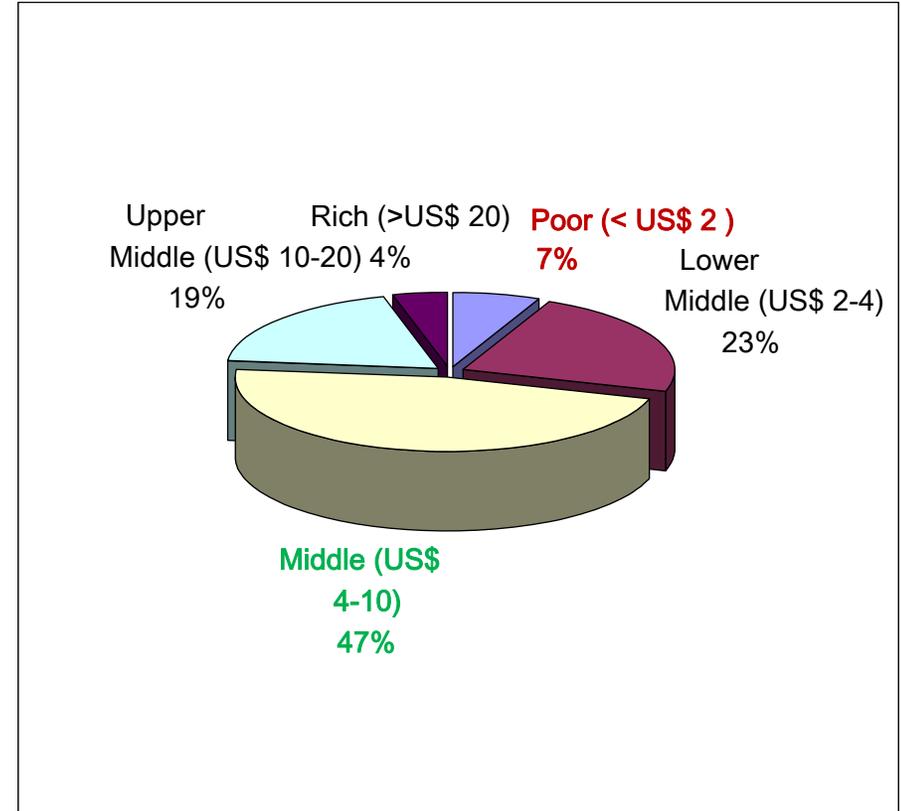


Economic Growth and Poverty: Ineffective in Eradicating Poverty



INDONESIA (2009)

10,7% of population included in middle and upper middle classes

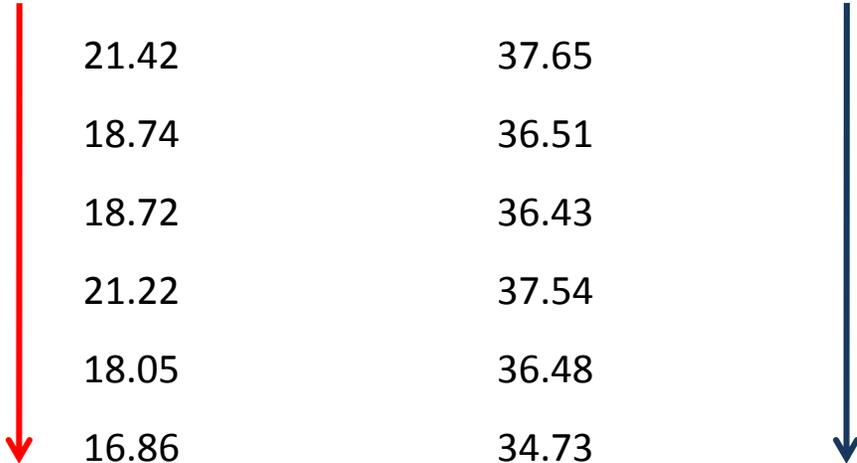


CHINA (2007)

66% of population included in middle and upper middle classes

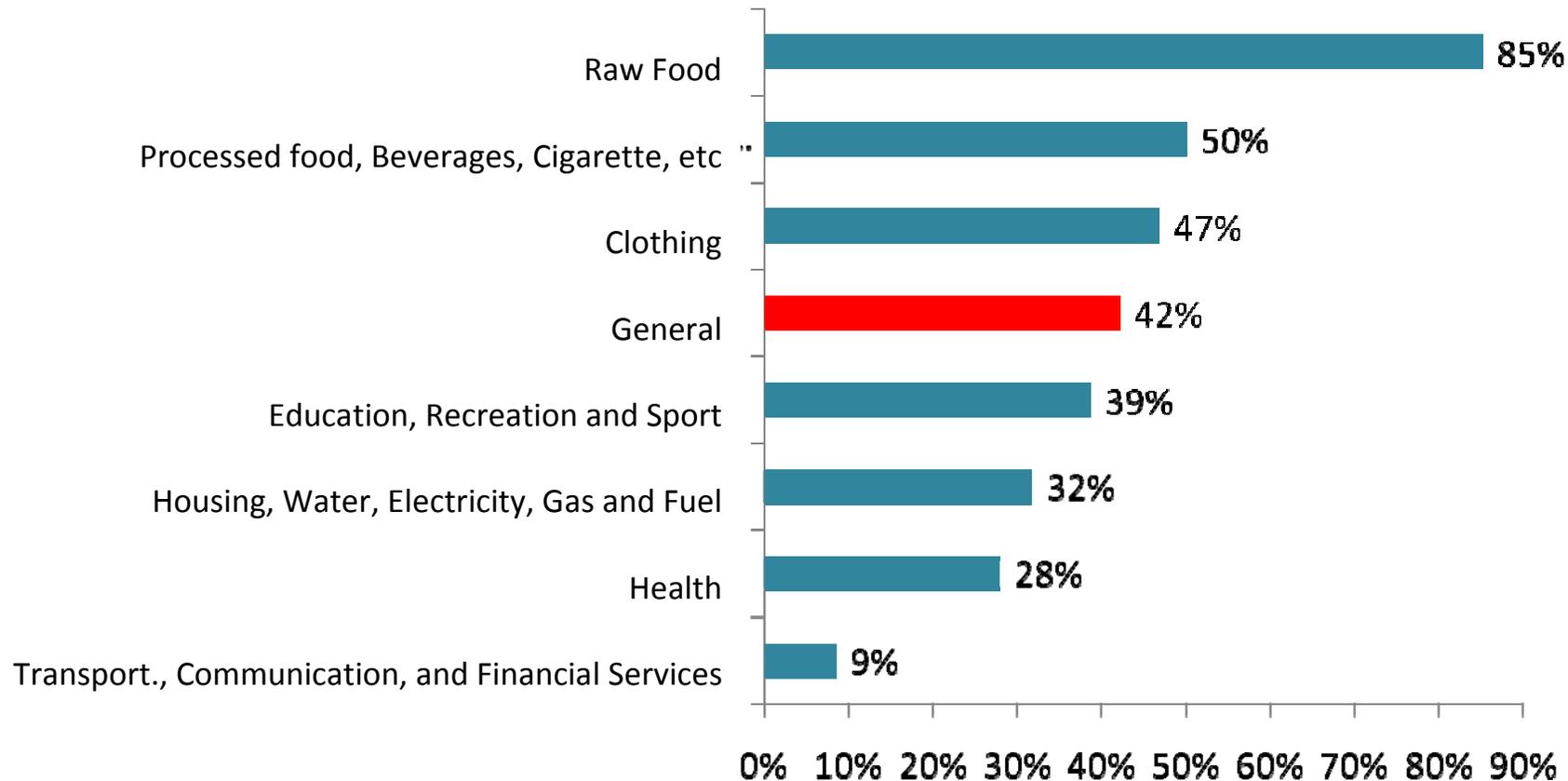
Economic Growth and inequality: Increasing gap in income distribution

	40 percent Low Expenditure	40 percent Medium Expenditure	20 percent High Expenditure	Gini Index
2005	20.22	37.69	42.09	0.33
2006	21.42	37.65	41.26	0.36
2007	18.74	36.51	44.75	0.38
2008	18.72	36.43	44.86	0.37
2009	21.22	37.54	41.24	0.37
2010	18.05	36.48	45.47	0.38
2011	16.86	34.73	48.41	0.41



Source : Based on Panel National Socio Economic Survey, BPS.

Higher Inflation are Facing by the Lower Income: Cummulative Inflation 2005-2010



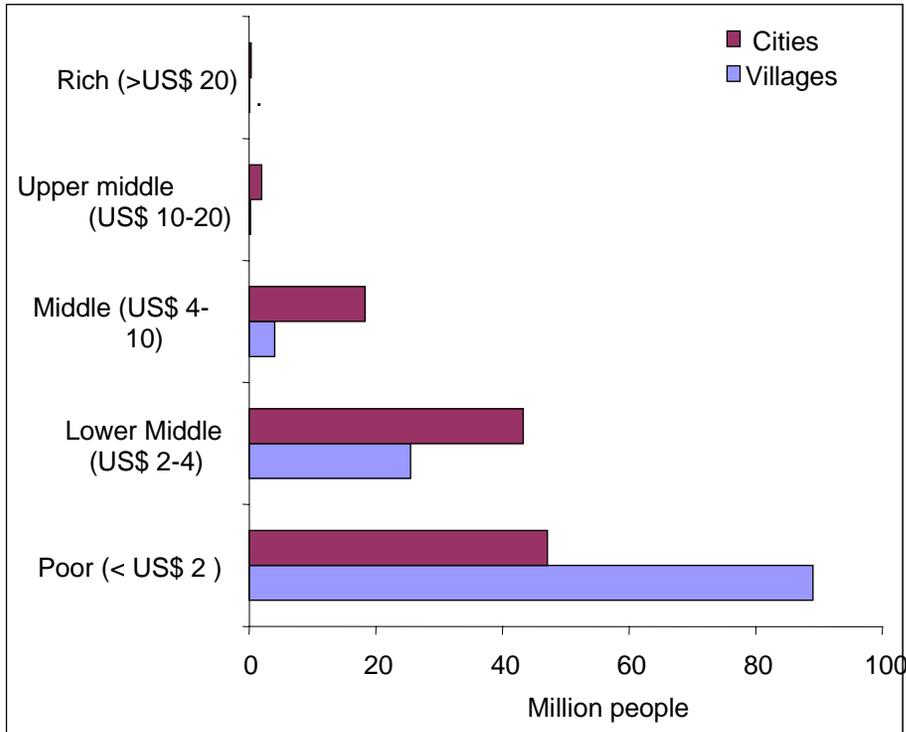
Sector's Contribution To GDP Growth

Sectors	2007	2008	2009	2010	2011
Agriculture, livestock, forestry and fishery	0.5	0.67	0.54	0.39	0.47
Mining and quarrying	0.2	0.06	0.37	0.29	0.14
Manufacturing industry	1.3	1.00	0.58	1.17	1.52
Electricity, gas and water supply	0.1	0.08	0.10	0.04	0.03
Construction	0.5	0.47	0.44	0.45	0.41
Trade, hotel, and restaurant	1.5	1.19	0.23	1.47	1.60
Transport and Communication	0.9	1.20	1.23	1.18	1.04
Finance, real estate and business services	0.7	0.77	0.48	0.54	0.67
Sevices	0.6	0.58	0.59	0.57	0.64
Gross Domestic Product	6.3	6.01	4.58	6.10	6.52

Manufacturing Sector: Sub-Sectors Growth Rate (Q1-Q3 2011)

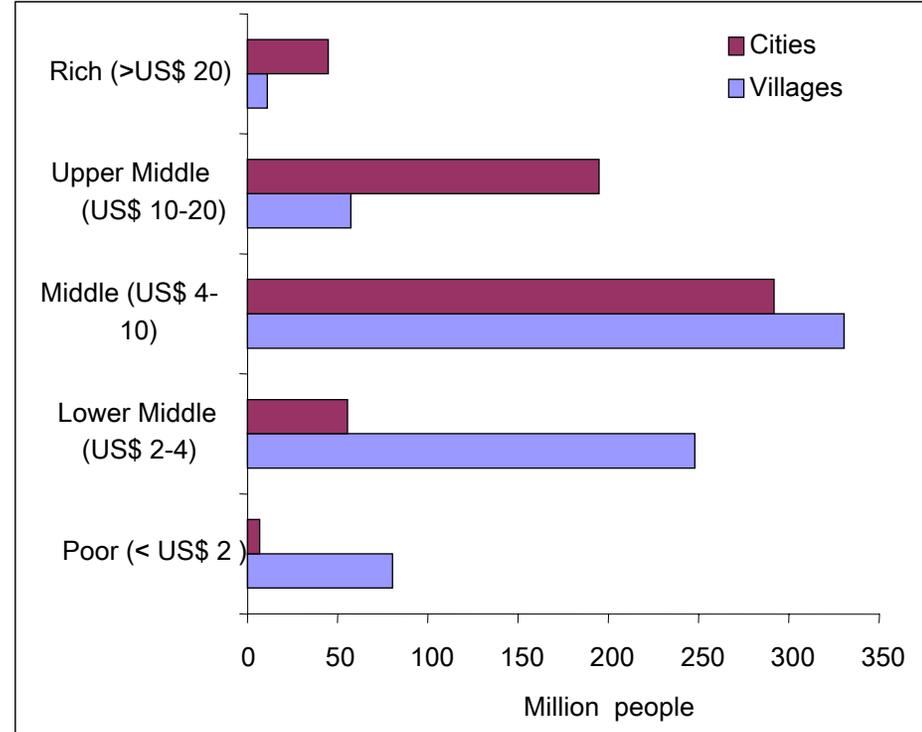
Sub Sector	Growth Contribution
Oil and gas manufacturing	-0.05%
Petroleum Refinery	0.04%
Liquefied Natural Gas	-0.10%
Non Oil-gas manufacturing	5.98%
Food, beverages and tobacco	1.96% (dominated by CPO)
Textile, leather products and footwear	0.75%
Wood and other wood products	0.03%
Paper and printing products	0.10%
Fertilizers, chemical and rubber products	0.51%
Cement and non metallic quarrying products	0.17%
Iron and steel basic metal	0.20%
Transport equipment, machinery and apparatus	2.23% (dominated by motor bike)
Other manufacturing products	0.03%
Manufacturing industry	5.93%

Economic Growth and Middle Class: Nurturing New Middle Class in Villages



INDONESIA (2009)

middle and upper middle classes people only in cities



CHINA (2007)

middle and upper middle classes are more in villages

Current Indonesian Economy: Relationship with three Asian economic giants

1. Indonesia, China and Indian economic relationship is now become stronger and important both in investment and international trade.
2. The three new Asian economic giants have similarities and differences in their economic structures and level of competitiveness. With those similarities they could maintain positive growth during crisis in 2009 and 2011.
3. However, the different policy and strategy in each country have been resulting different economic competitiveness both in international trade as well as in catch up global investment.
4. Despite the weakness, there is one important lesson learn for Indonesia and India from China economic development that is the successful of China to create better quality of growth. The high economic growth is not only success in eradicating poverty, but also in creating new middle class both in city and villages.

Current Indonesia Economic Growth:

Optimistic in maintaining stable growth, but need better policy choice for inclusive growth

1. Compared to global economic, growth decoupling occurred in Indonesia. Indonesian economy still grew amidst global economic downturn.
2. Some factor has supported Indonesia to be relatively resistant from global economic downturn :
 - a) GDP structure: dominated by private consumption
 - b) Export structure: dominated by primary commodities
 - c) Maintaining high cost support (maintaining high interest rate and minimum control of capital inflows)
3. Several indicators may have shown that Indonesia experienced decoupling. But, actually Indonesia experienced a relative long time lag of negative impact of global crisis. Such positive performance did not result in the improvement of competitiveness as well as the people's quality of life.