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Indonesia's golden pathway toward sustainable growth

Indonesia has set its sights on a momentous goal—achieving *Indonesia Emas* (Golden Indonesia) by 2045, the year which marks Indonesia's centenary as an independent nation. A pivotal pillar of this vision, articulated by the Indonesian government, is sustainable economic development, encompassing strategies to boost investment into growth sectors and facilitating trade, services.

The present landscape paints a promising picture, positioning Indonesia on the path to realizing this ambitious vision. Having been living in Indonesia for almost four years and interacting with multinational companies operating in Indonesia, I personally have an optimistic view on Indonesia's economy.

According to HSBC Global Connection survey, of the firms which are already operating in Indonesia, 22 percent said they were planning to prioritize their growth in Indonesia over the next two years. For businesses currently not operating in Indonesia, interest is even higher with 25 percent seeing Indonesia as the forerunner for their international expansion.

That Indonesia sits so favourably with investors should come as no surprise, given its strong—and some would even say, unique—fundamentals: No other country in ASEAN can match Indonesia for population size, which is a third of the region's combined population; its natural resources which are as vast as they are varied; the rising tide of domestic income and wealth; and consistent government support for investment-friendly policies that encourage the influx of foreign direct investment (FDI) into the country.

Over and above these fundamentals, Indonesia is also undergoing a major transformation catalysed by the rise of digital and technology adoption across all levels of government, business and society.

All of these have the potential to lead Indonesia to a point of convergence in 22 years, and to *Indonesia Emas 2045*.

To reach this destination however, Indonesia must maintain strong growth momentum by continuing to drive high levels of FDI inflow, harnessing the transformative power of the digital age, and achieving this while developing a lower carbon economy.

Indonesia's journey towards economic growth has been significantly bolstered by its supportive government and regulatory environment.

Proactive steps have been taken to create a favourable climate for both domestic and foreign businesses. Reforms and initiatives have led to simplified regulatory procedures, and reduced bureaucratic hurdles all of which are having a positive impact on FDI which reached US\$43 billion in 2022, which was dominated by metal mining and mining sectors that saw more than \$16 billion combined

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Antara/Cahya Sari

Game-changer: A student from the SMKN 55 Jakarta state vocational high school demonstrates on Sept. 27 a electric motorcycle converted from an internal combustion engine, on display at the Jakarta Innovation Days exhibit.

(ASEAN Briefing Weekly).

While the growth of FDI inflows into Indonesia may appear modest, HSBC data is showing two important underlying trends.

The first is that Indonesia is quietly making substantial gains in global FDI market share.

Second, realized foreign investment is taking place especially in sectors that add significant value to the economy, such as in the processing of minerals and metals, a shift that signifies a growing confidence among investors in Indonesia's potential and capacity to generate higher returns.

Against this backdrop, is the global shift towards a green economy, and a relentless push toward sustainability in business operations and sustainable returns on the bottom line.

Indonesia has already embarked on its decarbonizing journey, with regulations promulgated to achieve net-zero carbon emissions by 2060.

According to the International Energy Agency, this will need Indonesia to triple its renewable energy investments to an annual \$8 billion until the end of this decade. Impetus for this could come from the just launched Indonesia Carbon Exchange by President Joko "Jokowi" Widodo.

With an estimated potential of a staggering Rp 3,000 trillion (\$20 billion) it is expected to open new sustainable and environmentally sound economic opportunities.

On Indonesia's journey toward net zero, steps are being taken to electrify its mobility sector. Indonesia's approximately 115 million two-wheel vehicles and 16 million four-wheel vehicles account for about 40 percent of total energy consumption and are the main contributors to the chronically poor air quality, especially in urban cities.

This provides a compelling segue into the realm of electric vehicles (EVs), a sector for which the government is providing significant support. This makes perfect sense for Indonesia, which is the world's largest producer of nickel ore and a major source of copper, cobalt and bauxite, all of which are essential for producing EV batteries.

In addition to electrification of the mobility sector, Indonesia is also urgently addressing the need for industries, including power generation, to transition from the use of fossil fuel to alternative energy sources.

This is reflected in the government's national electricity plan which has a long-term goal of 28 percent new and renewable energy, 25 percent gas, 47 percent coal, and 0.1 percent oil for power consumption, and more recently the creation of the Just Energy Transition Partnership (JETP), which will see an estimated funding of USD 20 billion over the next five years from international donor partners toward Indonesia's adoption of renewable energy.

Indonesia's transformation into a digital nation is yet another ace in its pocket. The country has one of the world's highest number of internet users at some 196 million and has created more unicorns than any other Southeast Asian nation outside Singapore, including GoTo, Tokopedia, Ovo and Bukalapak. In spite of this however, there is still substantial headroom for growth.

More than a quarter of the 278 million population has yet to go online, and about a third is still unbanked. Also, Indonesia ranks only 56th in the world in terms of access to technology.

It is imperative that government continues to create an environment that allows e-commerce and digital connectivity to

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flourish among its more than 270 million citizens.

Its efforts to upgrade both physical and regulatory infrastructure, such as the rollout of 4G connectivity to 4,000 districts and subdivisions this year, is a step in the right direction and help to generate maximum benefit from its increasingly tech-savvy population.

In light of these circumstances,

and underpinning all of this, it is imperative for policymakers and the business community to concentrate their efforts on ensuring that Indonesia's unique blend of green prospects and investment potential renders it an attractive hub for global capital looking for sustainable returns.

In this respect, all stakeholders, including financial institu-

tions, must take on an active role. Banks, in particular, are positioned to serve as intermediaries, bridging investors with suitable green investment opportunities. Moreover, they can play a pivotal role in assisting local companies in formulating projects that align with international standards and sustainable practices, to achieve *Indonesia Emas* by 2045.