Foreign direct investment vital for unlocking Indonesia’s potential

Indonesia's ascent to among the world's top 10 economies is not a matter of if but when.

Francois de Maricourt, President Director HSBC Indonesia
Published on **The Jakarta Post**
Mon, July 29, 2024

For decades, the world's top 10 economies have been a club dominated by developed nations. However, the landscape of global economic power is shifting – and doing so rapidly.

It was only 20 years ago that emerging economies like China, India and Brazil broke into this exclusive group, challenging the traditional hierarchy and reshaping the landscape of global economic power dynamics. This evolution also underscores the potential for developing nations to rise and claim their place on the global stage.

A number of meetings that I have had with potential foreign investors all confirm that Indonesia is ready to do just that. But what exactly defines a developing economy? It is a nation with a substantial population, significant natural reserves and a trajectory of rapid economic expansion. Indonesia fits this definition perfectly.

As a significant member of ASEAN, a geopolitical market comprising 10 percent of the world's population, Indonesia holds considerable sway. Within this group, Indonesia alone accounts for a staggering 41 percent of the population and 37 percent of the region's total economic output. Although Indonesia, like many other countries, is currently facing challenging conditions including higher interest rates and currency depreciation, it has proved time and time again that its economy is resilient, thanks to sound fiscal policies. Clearly, then, Indonesia's ascent to the ranks of the world's top 10 economies is not a matter of if but when.

The significance of this has not gone unnoticed by the Indonesian government, and it has set an ambitious target to achieve this milestone by 2045. This commitment reflects not only a bold vision for Indonesia's future but also a strategic imperative to secure its position as a global economic powerhouse. It is also a commitment that is expected to be fully supported by president-elect Prabowo Subianto when he takes over as Indonesia’s new leader in October this year.

To realize this goal, Indonesia has mapped out a comprehensive strategy which, at its core, is the relentless pursuit of accelerated and sustainable investments, both domestically and internationally. This is a multifaceted approach that encompasses targeted policies, regulatory reforms and strategic partnerships aimed at unleashing Indonesia's full economic potential. Domestically, Indonesia is doubling down on infrastructure development, education and innovation to foster a conducive environment for growth and prosperity.

On the foreign direct investment (FDI) front, Indonesia is actively courting foreign investors, positioning itself as an attractive destination for business expansion and new growth opportunities. In fact, Indonesia’s FDI reached a record high of US$47 billion in 2023. As of the first quarter of 2024, FDI had reached $12.5 billion. This is 15.5 percent higher than in the same period last year and accounts for nearly 51 percent of combined investments from foreign and domestic sources. This is hardly surprising as Indonesia is laying out the welcome mat for international businesses seeking to tap into its vast market potential.

This is being done through strategic incentives, streamlined regulations and investor-friendly policies. In view of Indonesia's wide-ranging aspirations, the attraction of FDI is essential. From a fundamental development perspective, a strong inflow of FDI represents new capital, technology and expertise, which are key to stimulating economic growth as well as increasing productivity and creating much-needed new jobs.

From the infrastructure standpoint, FDI represents attractive public-private partnerships in projects such as roads, ports, power plants and telecommunications networks, all of which are needed for Indonesia to enhance connectivity, facilitate trade and support long-term economic development. But perhaps most critically, FDI can help diversify and transform Indonesia's industrial base by channelling investment into new sectors and high-value-added industries which form the basis of a modern, green economy.

In particular, Indonesia has decided a major impetus of its transformation will focus on downstream manufacturing and moving to a net-zero economy by 2060. Downstream industries are particularly critical, as they add value to raw materials and move Indonesia up the manufacturing value chain. With a road map in place, Indonesia aims to attract $545.3 billion in investment by 2040 across 21 priority commodities from the mining and forestry sectors.

Take, for instance, the burgeoning eco-friendly electronic vehicle (EV) ecosystem. Indonesia's status as the world's largest producer of nickel has catalyzed investment in downstream activities, including smelters and the EV value chain. Foreign companies like Huayou Cobalt, China National Gold Group Corporation and Contemporary Amperex Technology have been the early movers in this area. Over the next five years, an estimated $30 billion will be invested in processed metals and $45 billion in EV production alone, potentially driving Indonesia's growth to 5.8 percent by 2028. Indonesia's journey since gaining independence 79 years ago has been remarkable.

But the decades yet to come promise even greater excitement and opportunity. For example, Indonesia's ratification of the Regional Comprehensive Economic Partnership (RCEP), a free trade agreement (FTA) signed by 15 countries and representing 30 percent of the global gross domestic product. It aims to reduce tariffs, streamline trade procedures and promote economic cooperation among member countries. However, according to former trade minister Enggartiasto Lukita, Indonesian businesses are still unaware of the major tariff elimination and how they can make use of the trade pact to benefit their businesses.

This is where trade intermediaries such as global banks can play a vital role in facilitating trade, providing trade finance solutions, matchmaking and offering deep market insights on investment and other business opportunities. While trade intermediaries can play a pivotal role in connecting Indonesia to the global economy and facilitating both trade and investment, the right conditions must prevail, including several key macroeconomic conditions and policies.

Chief among these is a stable political and economic environment that can provide investors with confidence in Indonesia's long-term prospects. This has been in place over the past two decades and indeed, in the post-Soeharto era, Indonesia has seen notable improvements in a number of important areas such as clear and transparent regulations, investment laws and property rights protection, to name just a few.
Fiscal incentives such as tax breaks or investment subsidies are already in place, and policies need to be further calibrated in the face of increasing competition from emerging economies for

FDI. By prioritizing these macroeconomic conditions and implementing supportive policies, Indonesia can attract not just more but also sustainable foreign investment inflows for long-term economic growth and development.

Indonesia's trajectory toward becoming a top global economy is inevitable. By accelerating and sustaining its inflow of foreign direct investment, especially in strategic downstream sectors, Indonesia is poised to take its rightful place among the world's economic giants.