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INDONESIA

INVESTMENT HANDBOOK

August 2020

Krungsri Research

Executive Summary: Indonesia's positive long-term prospects offer business opportunities for Thai businesses

Growth outlook in 2020 for Indonesia, the largest economy in ASEAN, turns bleak as it has been severely hit by the Covid-19 pandemic and we expect growth to be flat and risk to slip into a negative territory.

Long-term growth prospects however remain favorable and the country could enjoy growth rate of 5.0%-6.0% p.a. underpinned by its supportive underlying fundamentals of demographic structure, structural reforms, infrastructure overhaul, and rising FDI inflows driven partially by relocation of foreign firms out of China. With those levels of growth rate, Indonesia would be among the fastest growing emerging markets.

On the back of growth story of Indonesia on the horizon, there are ample business opportunities for Thai businesses. In our view, some potential sectors in Indonesia are (1) financial services, (2) food and beverage, (3) consumer goods, (4) healthcare and pharmaceuticals, and (5) Homewares.

Indonesia: A Country Overview

Official name	Republic of Indonesia
Form of State	Presidential republic
Economic system	Market-led economy
Total area (sq. km)	1,904,569
Local government	31 provinces, 1 autonomous province, 1 special region, and 1 national capital district
Total population (person)	267,026,366 (July 2020 est.) Median age: 31.1 years Population growth rate: 0.79% (2020 est.)
Climate	Tropical; hot, humid; more moderate in highlands
Urbanization	Urban population: 56.6% of total population (2020) Rate of urbanization: 2.27% annual rate of change (2015-20 est.)
GDP (official exchange rate)	USD1.015 trillion (2017 est.). Indonesia is the largest economy in Southeast Asia and a member of G20
GDP - composition, by sector (2017 est.)	Agriculture: 13.7% Industry: 41.0% Services: 45.4%
Agricultural products	Rubber and similar products, palm oil, poultry, beef, forest products, shrimp, cocoa, coffee, medicinal herbs, essential oil, fish and its similar products, and spices
Industries	Petroleum and natural gas, textiles, automotive, electrical appliances, apparel, footwear, mining, cement, medical instruments and appliances, handicrafts, chemical fertilizers, plywood, rubber, processed food, jewelry, and tourism
Exports - commodities:	Mineral fuels, animal or vegetable fats (includes palm oil), electrical machinery, rubber, machinery and mechanical appliance parts
Labor force (2016 est.)	125 million
Taxes and other revenues:	13% (of GDP) (2017 est.)
Fiscal year:	Calendar year

Source: CIA Factbook compiled by Krungsri Research

Macro forecasts: The covid-19 pandemic will harm the immediate growth outlook, but long-term prospects remain favorable

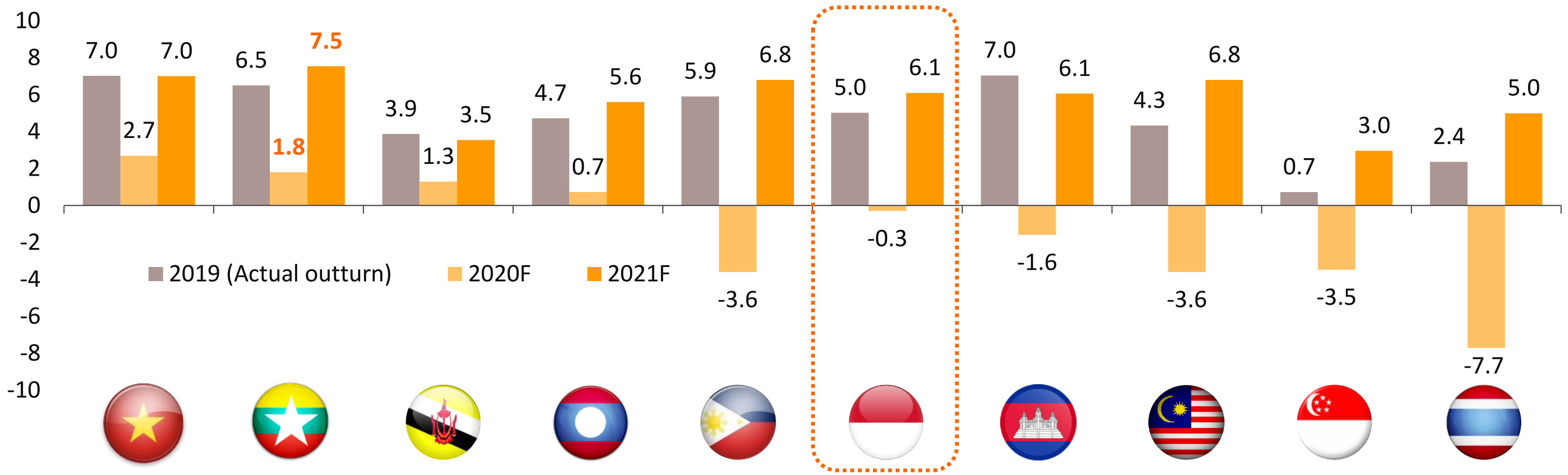
Indicators (% change, otherwise indicated)	2017	2018	2019	2020F	2021F
Real GDP	5.1	5.2	5.0	-0.3	6.1
CPI (end-period)	3.6	3.1	3.1	3.1	3.1
Net lending (+)/borrowing (-) (% of GDP)	-2.5	-1.8	-1.8	-6.3	-5.2
Domestic public debt (% of GDP)	29.4	30.1	30.2	n/a	n/a
Private sector credit	8.7	12.0	12.3	12.4	n/a
Current account balance (% of GDP)	-1.6	-3.0	-2.9	-2.9	n/a
Trade balance (% of GDP)	18.8	-0.4	-4.6	-0.6	n/a
Foreign Direct Investment (USD bn)	20.6	22.0	23.7	27.0	n/a
Overall balance	11.6	-7.1	1.6	3.1	8.5
Gross International reserves					
In billions of USD (end period)	130.2	120.7	121.9	124.7	n/a
In months of prospective GNFS imports	7.2	6.4	6.0	5.7	
Total external debt (USD bn)	352.5	376.8	415.0	455.2	n/a
Total external debt (% of GDP)	34.7	36.9	37.7	37.7	n/a
Official exchange rate (USD/IDR, end of period)	13,568	14,390	13,901	n/a	n/a
Nominal GDP (in trillions of rupiah)	13,587	14,826	16,047	17,409	n/a
Nominal GDP (USD bn)	1,015	1,022	n/a	n/a	n/a

Note: Data updated as of July 2020

Source: IMF WEO (June 2020), IMF Article IV Staff Report on Indonesia, AMRO, Krungsri Research

Growth is expected to slip into a negative territory in 2020, but it should resume its potential path of 5.0% - 6.0% p.a. in the medium term

Growth projection for ASEAN members (2019-2021, %YoY)



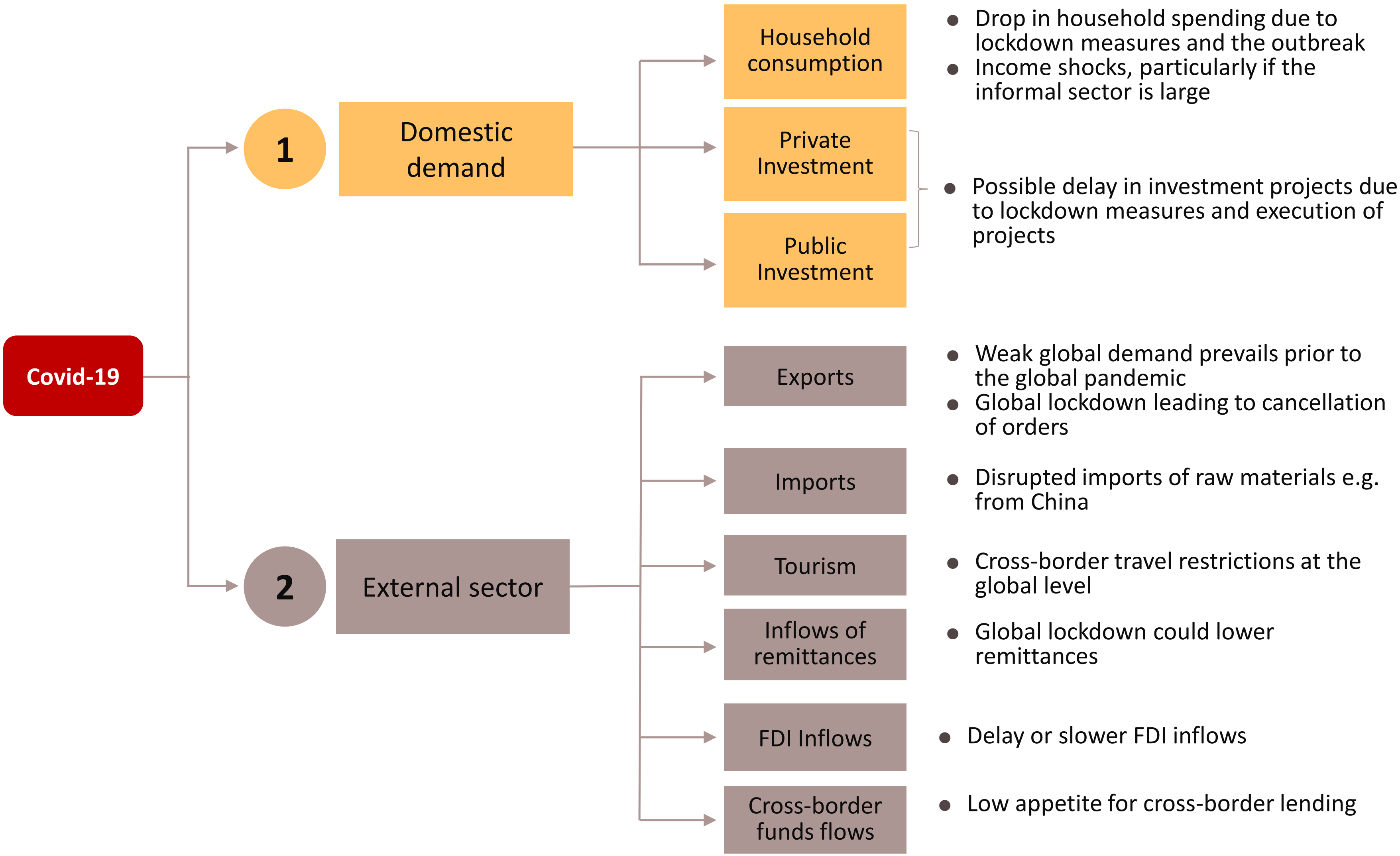
Amid a dim short-term outlook due to the covid-19 pandemic, **Indonesia's growth momentum is likely to be favorable over the long term, there are at least 4 main factors to underpin the bright growth prospects:**

1. **Supportive fundamentals** including demographic dividend resulting growing and wealthier middle-class consumers
2. **Ongoing structural reforms** including the omnibus law[1/] , lowering corporate tax, as well as labor market reforms to support and facilitate manufacturing and industrial developments and to attract FDI inflows
3. **Infrastructure investment** which is expected to unlock the country's structural bottlenecks and to lift its economic potentials
4. **Free trade agreements** such as bilateral agreements, ASEAN Economic Community (AEC 2025), and the Regional Comprehensive Economic Partnership (RCEP)

Note: 1/The omnibus law is a comprehensive bill that would regulate many provisions in various industry sectors into one law. It seeks to strengthen the economy by increasing competitiveness, creating jobs and promoting the ease of do business in Indonesia

Source: IMF WEO (July 2020) compiled by Krungsri Research

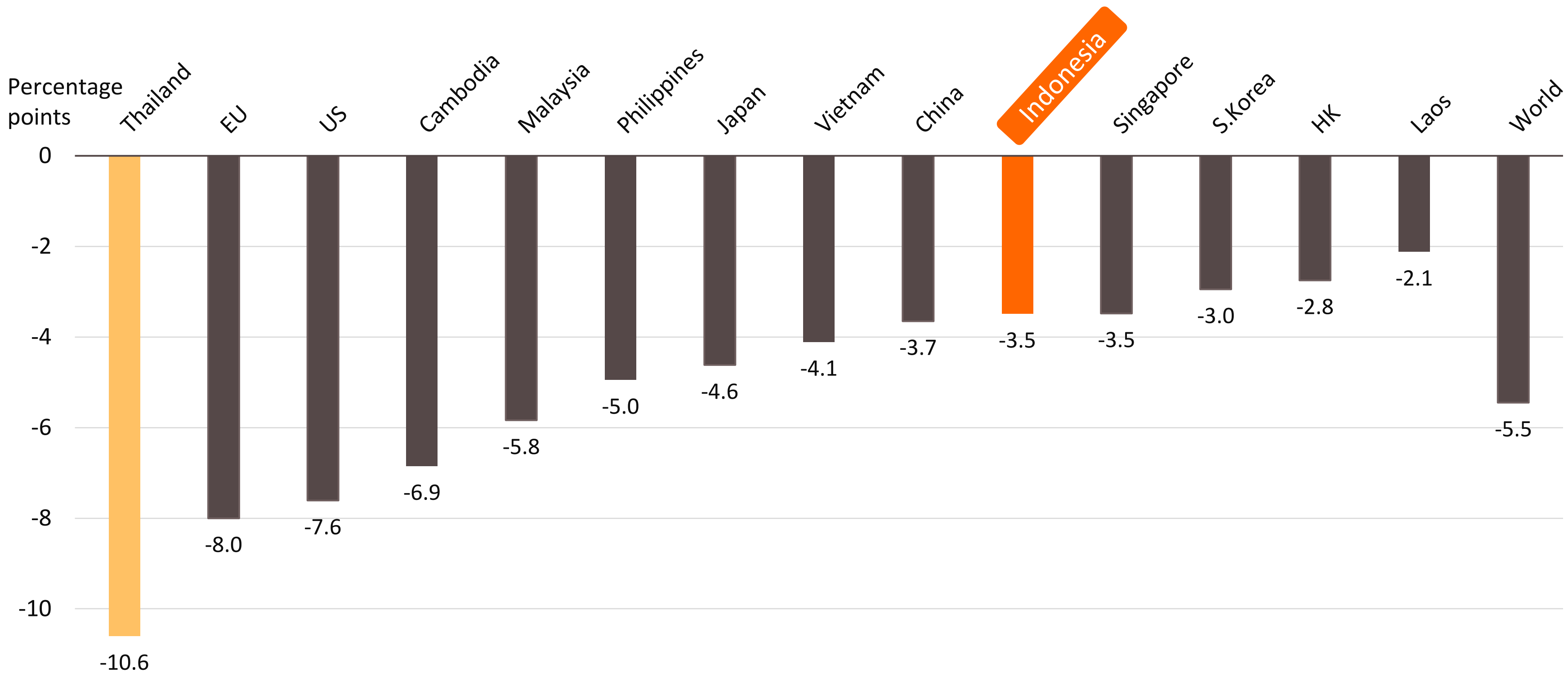
Covid-19 pandemic shocks are likely to weigh on Indonesia's growth through different channels



The pandemic could pose a negative impact of 5.5% on 2020 global growth according to our model

The outbreak would reduce global GDP growth substantially by 5.5ppt from baseline forecast (pre-outbreak). **Krungsri Research now projects the outbreak would pose a negative impact to the Indonesian economy of 3.5 ppt, at the same magnitude as Singapore.** We estimate the impact on Indonesia's GDP through the following channels – tourism, supply disruption at home and abroad, and multiplier effect.

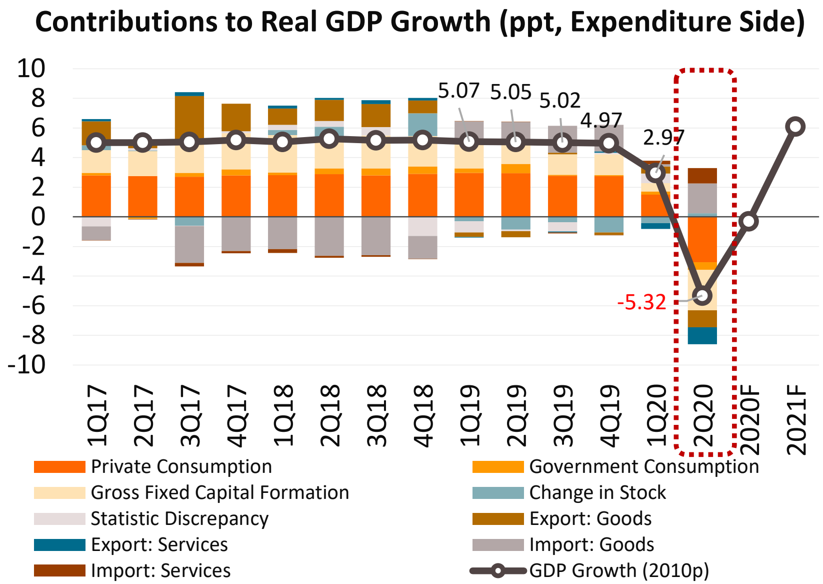
Spillover impact of coronavirus outbreak on GDP growth of selected Asian economies

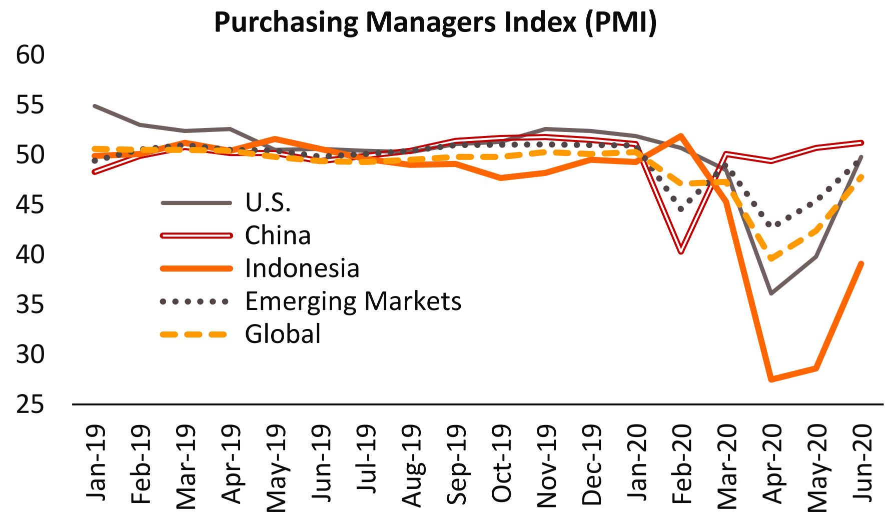


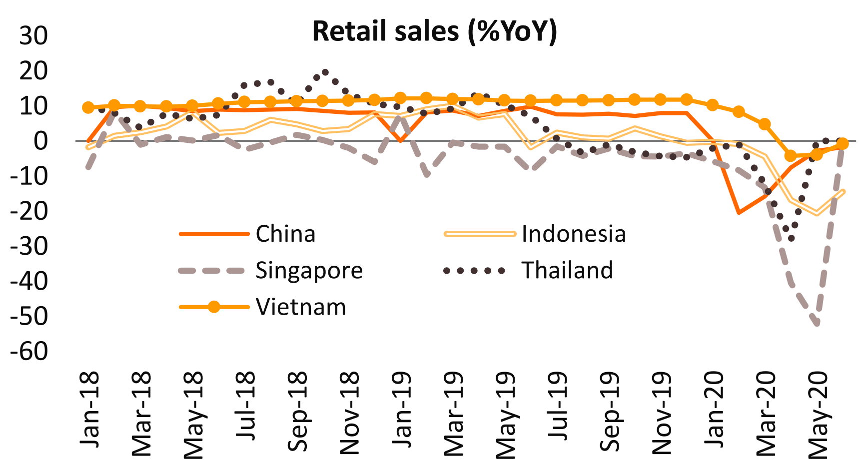
Note: *Krungsri Research has studied these effects by adopting computable general equilibrium model (CGE) to measure the spillover effects. Also, we adopt vector autoregression model to assess how economies react periodically to these changes.

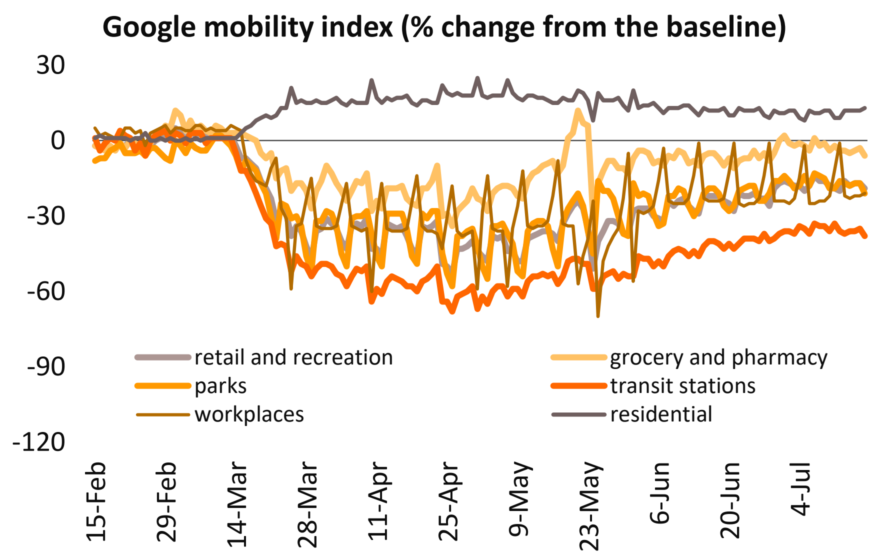
Source: Global Trade Analysis Project (GTAP), Krungsri Research

However, the economy is likely to bottom out in 2Q20 and start to pick up gradually in 2H20 should the outbreak is successfully contained









Source: CEIC, Google Mobility Index

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A series of measures to counter the impact of the covid-19

The government adopted various containment measures, including mobility restrictions, travel bans on domestic and international air and sea travel, screening at ports of entry, school closures, and other restrictions on public events since the report of the first confirmed COVID-19 case on 2 March 2020. Indonesia has recently begun easing some containment measures under a "new normal." The city of Jakarta has started a transitional phase from large-scale social restrictions on 5 June and further eased restrictions on malls on 15 June and parks and recreation areas on 20 June 20.To weather the impact of the pandemic, the government has launched a series of stimulus policies as follows:

Fiscal Policy

- **The budget deficit cap of 3% of GDP, introduced in 2003 following the Asian financial crisis, is removed to ramp up stimulus to support the economy and the government plan to revert to the 3% cap in 2023.**
- The government expects the 2020 budget deficit to widen to 6.34% of GDP as it steps up spending to cushion economic impact of the pandemic and the deficit is set to remain sizeable about 5.2% of GDP in 2021, up from a previous estimate of 4.7%.
- On 31 March 2020, the government announced the first two fiscal packages amounting to IDR 33.2 trillion (0.2% of GDP), and an additional package of IDR 405 trillion (2.6% of GDP).
- On 4 June 2020, the package was further expanded to IDR 677.2 trillion (4.2% of GDP), as part of a national economic recovery program.

Monetary policy

- **Bank Indonesia (BI) reduced the policy rate by 100 bps cumulatively in February, March, June, and July 2020, to 4% p.a.**
- Other measures to ease liquidity conditions are also introduced such as lowering reserve requirement ratios for banks.
- Bank Indonesia (BI) agreed to directly buy IDR397.5trillion in government bonds at a maximum coupon rate to correspond with the benchmark BI seven-day reverse repo rate (7DRRR) to fund health care and social safety nets. This mechanism is known as a burden-sharing scheme which is about IDR574.59 trillion (USD39.7bn) in total to finance the country's COVID-19 response and bolster economic recovery efforts.

Exchange rate policy

- **BI has intervened in the spot and domestic non-deliverable foreign exchange markets, and in the domestic government bond market to maintain orderly market conditions.**

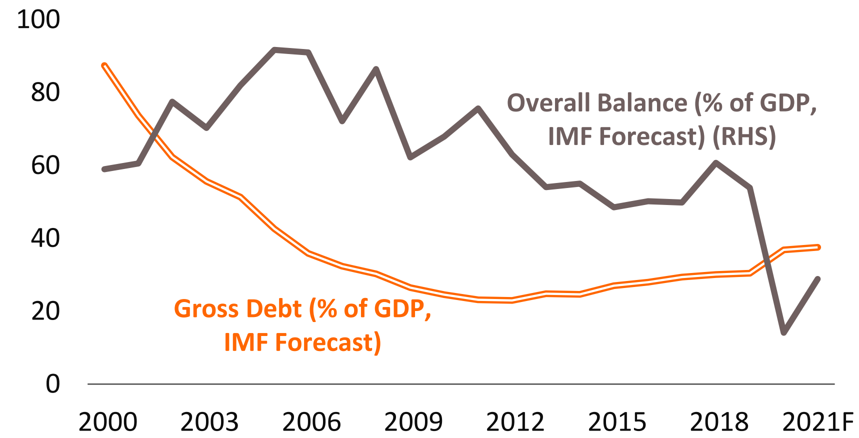
Source: IMF Covid-19 policy tracker, Bloomberg

Fiscal prudence has been well maintained since the AFC in 1997

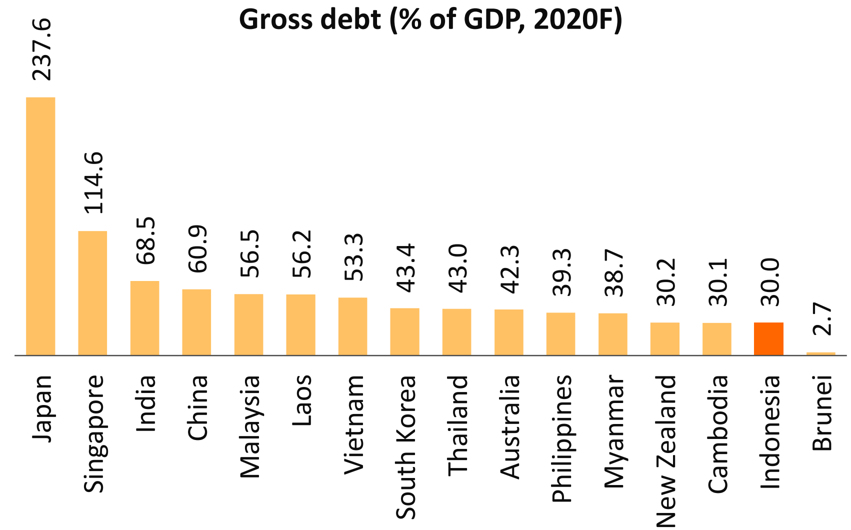
Indonesia's fiscal rule

- **As the country was suffered the most during the Asian Financial Crisis (AFC) of 1997-98, Indonesia has adopted a strict fiscal rule with the annual budget deficit capped at 3% of GDP and the public debt ceiling of 60% of GDP since 2003.**
- The Government of Indonesia lowered its debt-to-GDP ratio from a peak of 100% shortly after the Asian financial crisis in 1999 to below 30% until the outbreak of the covid-19 pandemic.
- Performance of Indonesia over the last decade has been recognized by the international rating agencies. Fitch Ratings raised Indonesia's sovereign rating to BBB- in December 2011, and to BBB in December 2017, taking the country back to investment grade status some 14 years after it lost this status. Moody's joined Fitch as the second major ratings agency to upgrade Indonesia to investment grade with a sovereign rating of Baa3 in January 2012 and then to Baa2 in April 2018. Standard & Poor's (S&P) upgraded it in April 2011 to BB+ and then to BBB- in May 2017 and BBB in May 2019. Based on weak growth prospects in 2020 given the coronavirus shocks, S&P downgraded the rating outlook from stable to negative in April 2020.
- With an investment grade rating from the three major rating agencies, Indonesian bonds can be included in a wider range of investment funds.

Gross debt and budget balance



Gross debt (% of GDP, 2020F)



Source: CEIC, IMF, World Bank

Sovereign debt rating has been subsequently upgraded to an investment grade by the big three international rating agencies

Sovereign Debt by Country	Currency	S&P Rating	S&P Outlook	Moody's Rating	Moody's Outlook	Fitch Outlook	Fitch Rating
People's Republic of China	CNY	A+	Stable	A1	Stable	Stable	A+
Japan	JPY	A+u	Stable	A1	Stable	Stable	A
Commonwealth of Australia	AUD	AAAu	Negative	Aaa	Stable	Negative	AAA
Republic of Korea	KRW	AA	Stable	Aa2	Stable	Stable	AA-
Taiwan	TWD	AA-u	Stable	Aa3	Stable	Stable	
Republic of India	INR	BBB-u	Stable	Baa3	Negative	Negative	BBB-
Hong Kong Special Administrative Region	HKD	AA+	Stable	Aa3	Stable	Stable	AA-
Republic of Singapore	SGD	AAAu	Stable	Aaa	Stable	Stable	AAA
Federation of Malaysia	MYR	A	Negative	A3	Stable	Negative	A-
Kingdom of Thailand	THB	A-	Stable	Baa1	Stable	Stable	BBB+
Republic of Indonesia	IDR	BBB	Negative	Baa2	Stable	Stable	BBB
Republic of the Philippines	PHP	BBB+	Stable	Baa2	Stable	Positive	BBB
Socialist Republic of Vietnam	VND	BB	Stable	Ba3	Negative	Stable	BB
New Zealand	NZD	AA+	Positive	Aaa	Stable	-	AA

Note: Data updated as of July 2020
Source: Bloomberg

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Price stability has been well anchored through the inflation targeting framework adopted since 2005

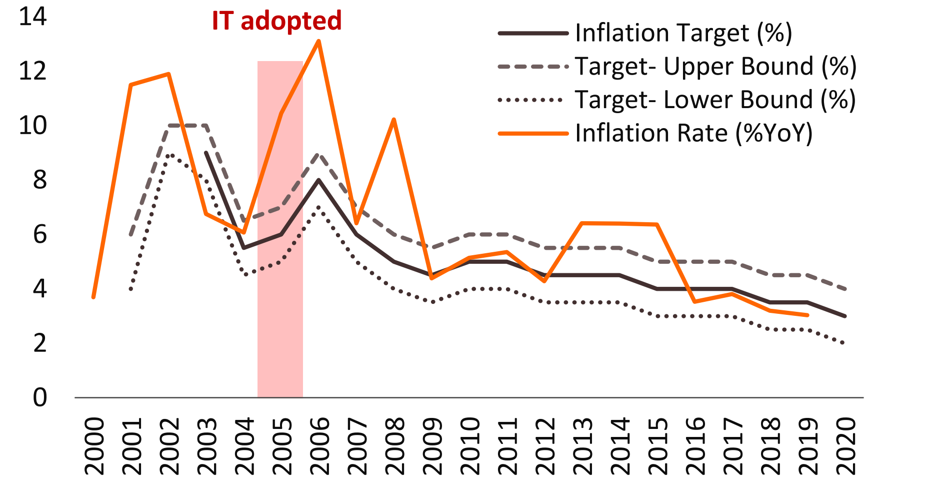
Inflation targeting adopted by Bank Indonesia (BI) in 2005

- **BI has adopted the inflation targeting (IT) framework, along with a managed floating exchange rate regime since 2005.**
- While price stability is the primary objective of the IT framework, ensuring financial stability, limiting excessive volatility of the exchange rate, and maintaining attractiveness to capital inflows to finance the fiscal and current account deficits have also been part of the framework.
- The Central Bank has also introduced macroprudential measures and capital flow management measures to influence credit growth and capital flows, respectively. Overall, the framework achieved positive macroeconomic outcomes with growth stable at about 5% since 2013, inflation within the target band since 2016, and public debt at about 30% of GDP since the global financial crisis.

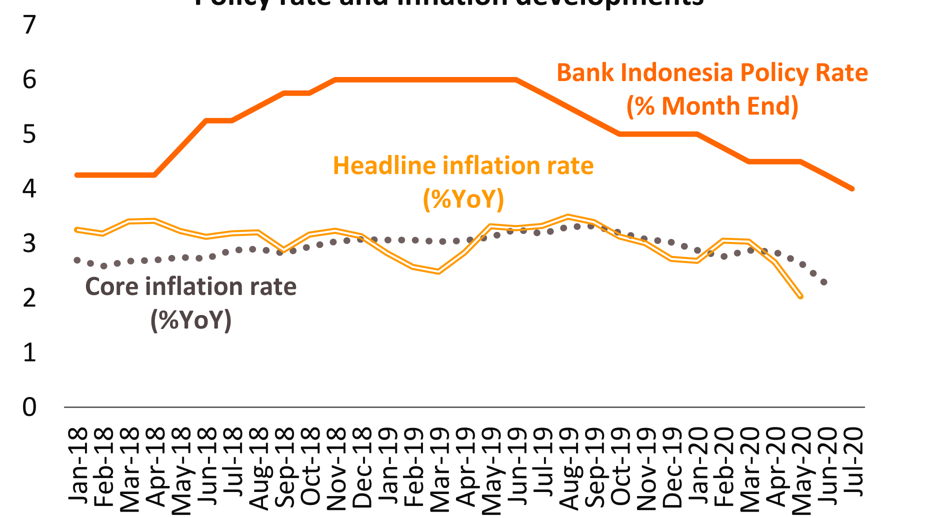
Inflation has been within the BI's target band of 2% - 4%

- **Over the past few years, the annual inflation rate has been successfully managed to be within the Bank Indonesia's 2%-4% target.** Going forward, in the absence of both demand and supply pressure, we view that price pressures are likely to remain muted for the remainder of 2020, and this should open room for the Central Bank to take care of growth.

Inflation developments in Indonesia



Policy rate and inflation developments



Source: CEIC, IMF AREAER Database

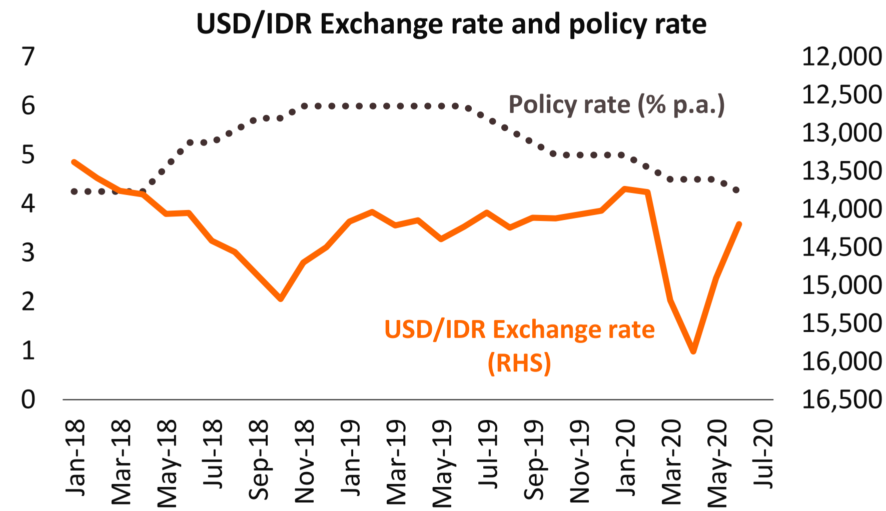
Maintaining exchange rate stability has been critical for Indonesia

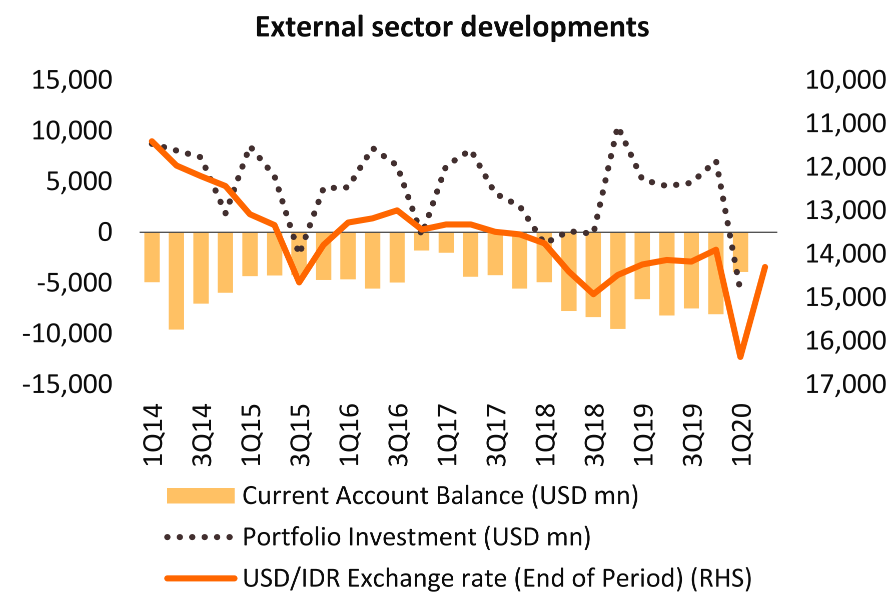
Exchange rate policy

- **The currency of Indonesia is the Indonesian rupiah (IDR). The de jure exchange rate arrangement is free floating adopted on 14 August 1997.** The exchange rate is determined by supply and demand in the foreign exchange market. Bank Indonesia (BI), however, may intervene—as part of a policy mix—whenever necessary to achieve the inflation target and to maintain macroeconomic stability.
- However, based on the IMF's report, **the de facto exchange rate arrangement is classified as stabilized since the exchange rate has been stabilized within a 2% band against the U.S. dollar since January 2017.**

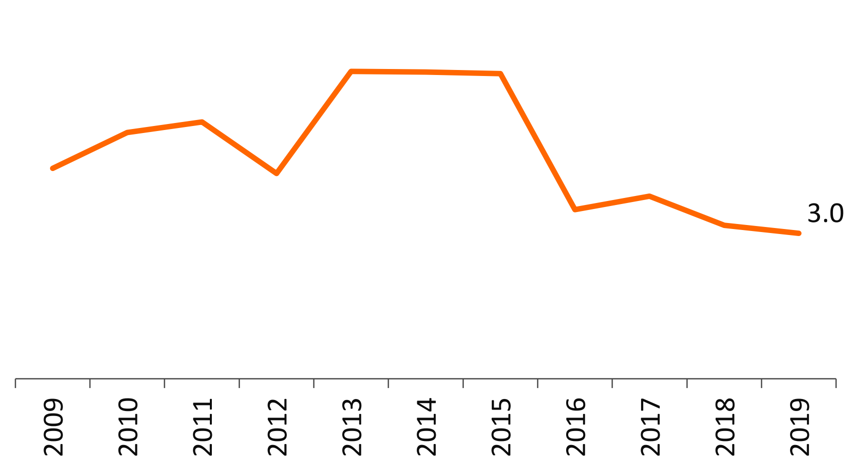
Exchange rate stability

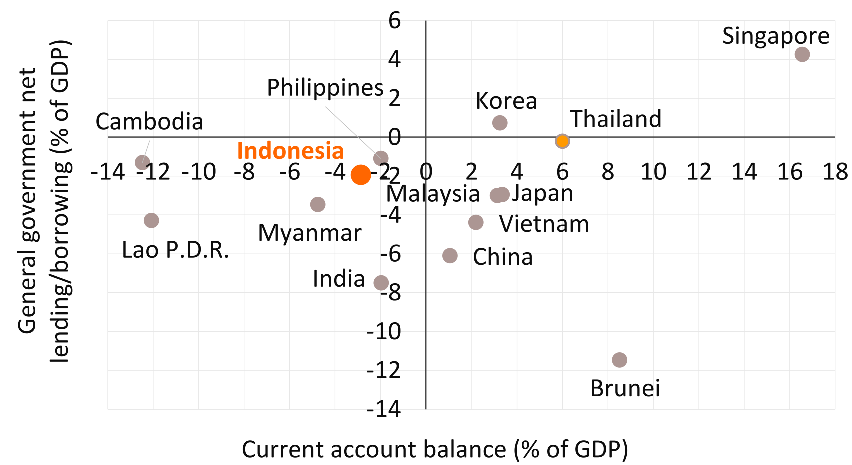
- **Exchange rate stability has been crucial for Indonesia as the country has significantly been dependent on foreign portfolio inflows to finance its saving-investment gaps.** BI's monetary policy setting has always to strike balance between growth and exchange rate stability. Indonesia has the highest share of foreign holdings of local currency bonds (as of 2019) among regional peers about 38% of total, compared to 24% and 19% for Malaysia and Thailand, respectively.

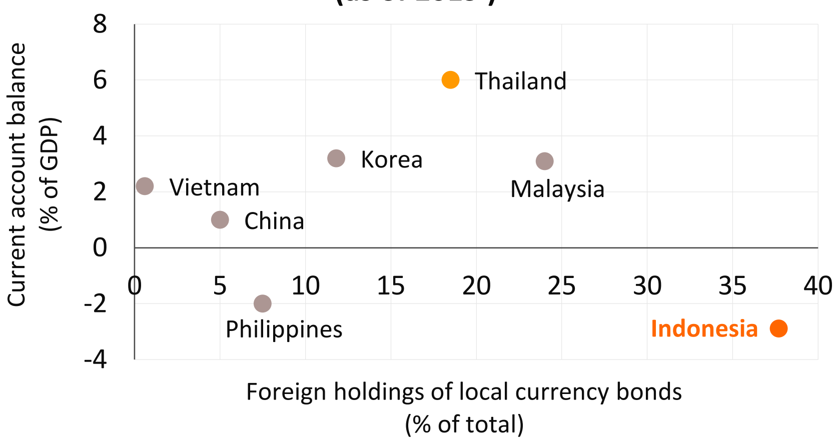


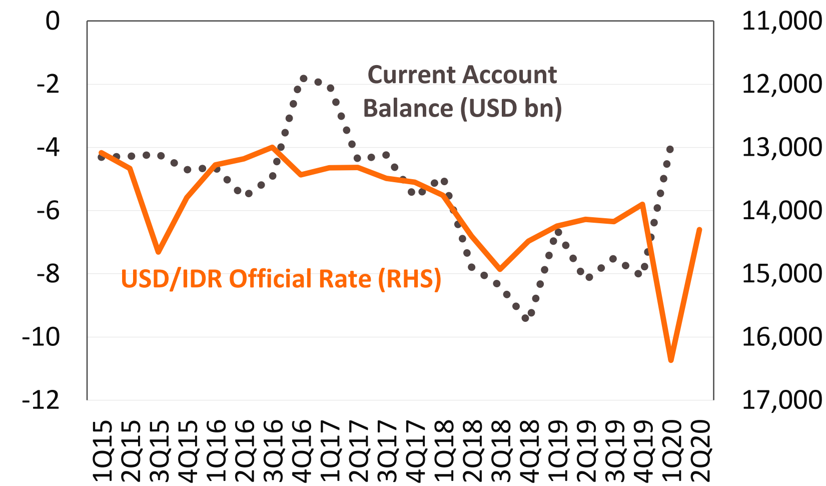


…to contain the country's external vulnerabilities as it has the highest foreign claims on domestic assets among peers





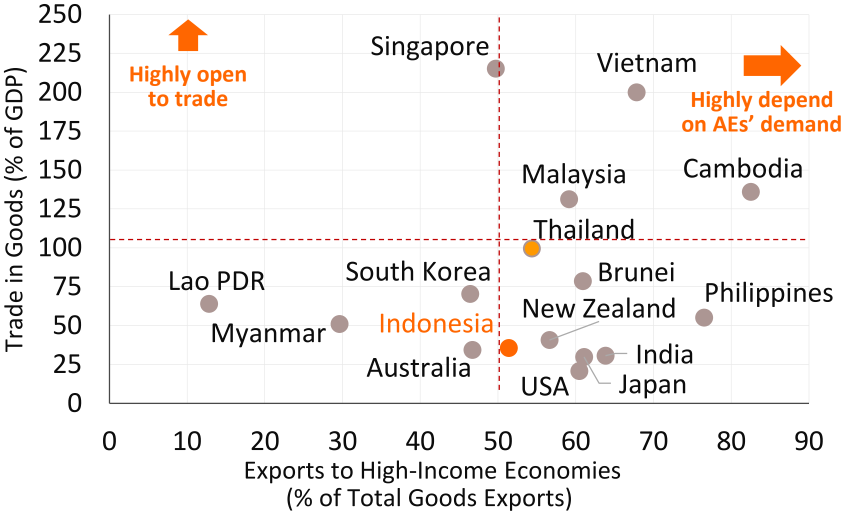




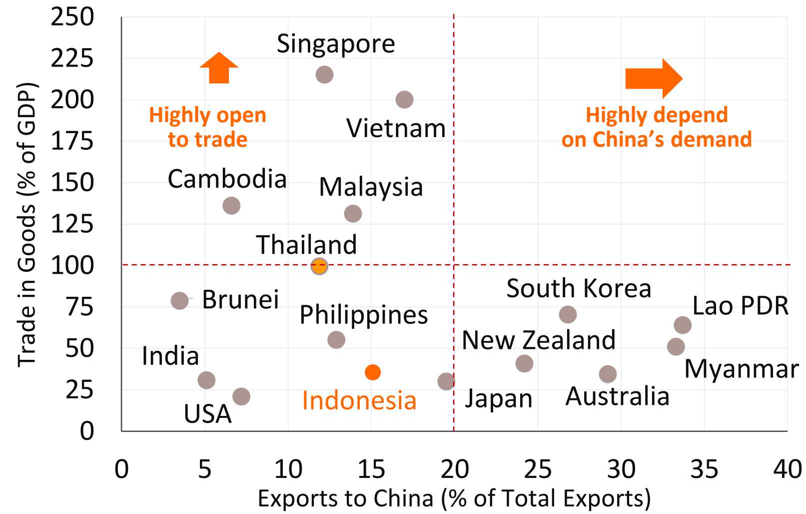
Source: CEIC, Asian Bonds Online: Asian Development Bank

Low openness to trade is expected not to insulate Indonesia from a weak global demand

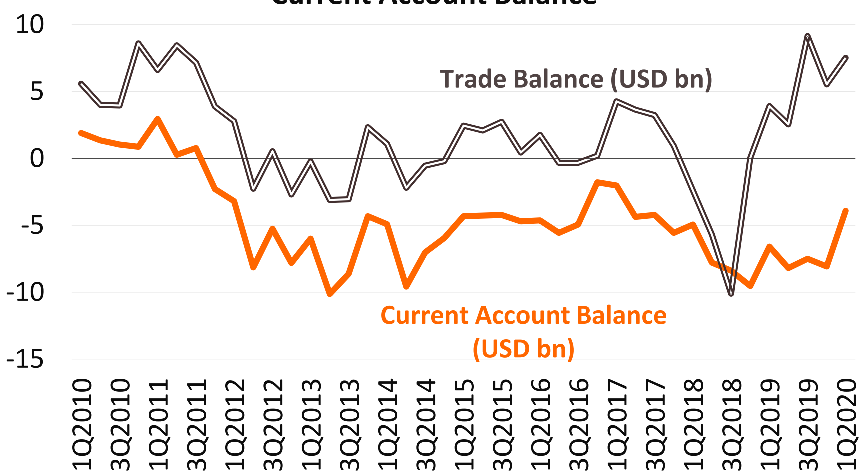
Export dependence on advanced countries of selected countries



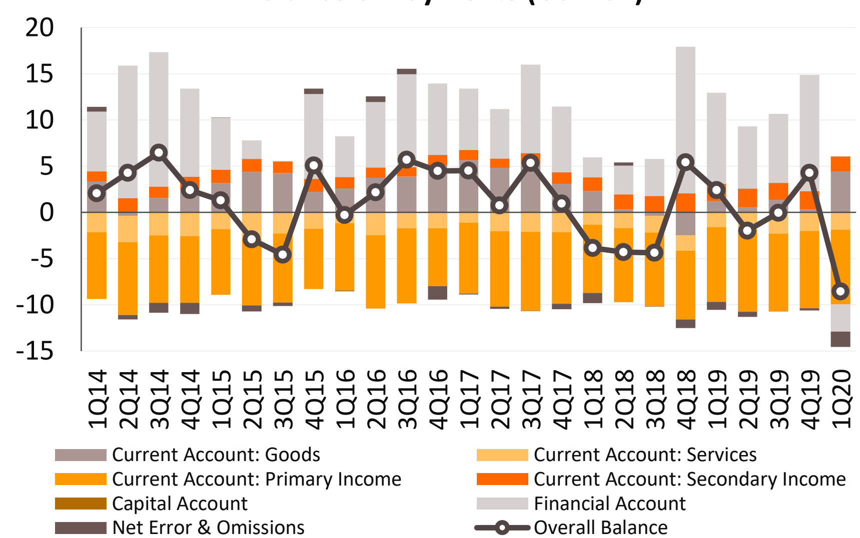
Export dependence on China of some selected countries



Current Account Balance



Balance of Payments (USD bn)



Source: CEIC, Trademap, Krungsri Research

Major milestone of Indonesia's developments

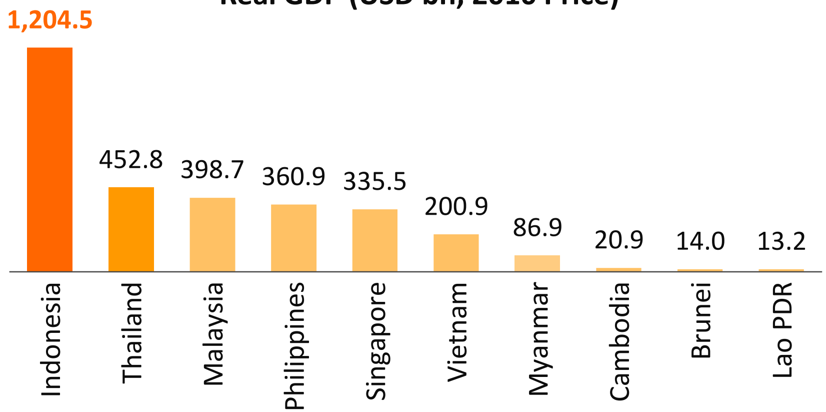
1670-1900	Dutch colonists bring the whole of Indonesia under one government as the Dutch East Indies
1949	The Dutch recognize Indonesian independence after four years of guerrilla warfare. Sukarno became the president.
1950-1965	Ruled under President Sukarno's "Guided Democracy".
1962	Joined Organization of the Petroleum Exporting Countries (OPEC) (Indonesia suspended its membership occasionally and the latest round was in November 2016 and its membership has not been reactivated since then.)
1966	Sukarno hands power to General Suharto following an abortive coup. The New Order to restore economic rehabilitation and development.
1967	Becoming a founding member of the Association of Southeast Asian Nations (ASEAN) on 8 August 1967.
1980s	Focusing on diversifying away from oil exports and towards manufactured exports due to falling oil prices.
1995	Joining the World Trade Organization (WTO).
1997	Asian Financial Crisis (AFC) and Indonesia was the worst hit country.
1998	• Protests and rioting topple President Suharto resulting in his 32-year of ruling the country. • A slump in USD/IDR exchange rate • Following the democratic transformation
1999	Joining the Group of Twenty (G20)
2004	Facing a mini-crisis due to a surge in international oil prices coupled with the currency depreciation and the government was forced to cut its massive fuel subsidies. This also led to a more than doubling in the price of consumer fuels, resulting in double-digit inflation.
2005	• Bank Indonesia (BI) has adopted an inflation-targeting monetary policy framework. • Introducing 20-year development plan (2005-2025). The plan is segmented into 5-year medium-term plan (Rencana Pembangunan Jangka Menegah Nasional: RPJMN) with different development priorities.
2014	Joko Widodo is declared the winner in the presidential election. He introduced massive infrastructure investment and structural reforms and set to achieve 7% annual growth target during his term.
2017	The European Parliament issued a resolution to phase out and eventually ban biofuels made from palm oil. This severely affects Indonesia as it is the largest exporter of palm oil, and the EU is the third largest export market after China and India.
2019	• Presidential and legislative elections held simultaneously for the first time. President Joko Widodo won the election and continued his second-term with 5 priorities are human resources development, infrastructure development, regulation simplification, bureaucracy simplification, and economic transformation and set to achieve annual growth target of 6% • The government introduced an omnibus law that would regulate several provisions in various industry sectors in one law to strengthening the Indonesian economy, increase competitiveness and create jobs.

Source: World Bank, IMF, and various sources compiled by Krungsri Research

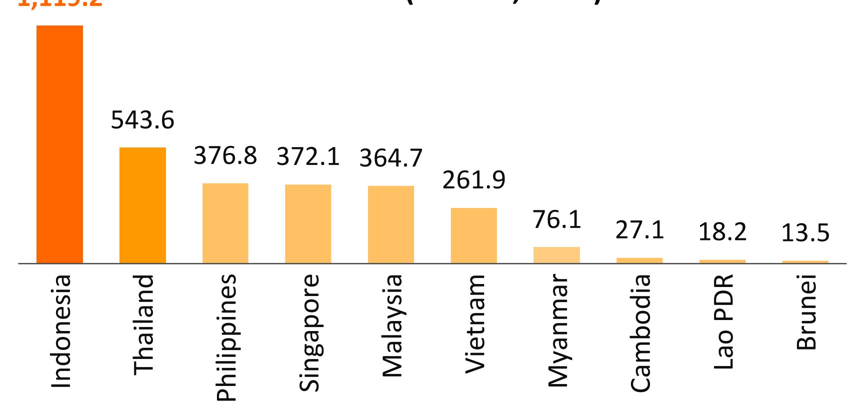
Indonesian among ASEAN peers: It has been recently upgraded to be an upper-middle income country

Indonesia – a trillion dollar economy – has been recently listed an upper-middle income countries joining Malaysia an Thailand with the yearly GNI per capita of USD4,050 by the World Bank in July 2020. This reflects the country's relatively sustained high growth over the last decade. This would also help enhance and support Indonesia's economic fundamentals.

Real GDP (USD bn, 2010 Price)



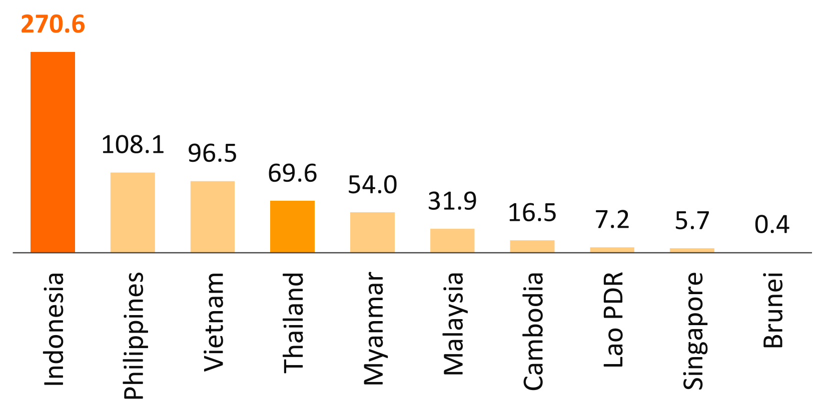
Nominal GDP (USD bn, 2019)



ASEAN members by income status (as of 1 July 2020)

ASEAN member	GNI per capita[1/] (USD)	Classification by income
Singapore	59,590	High-income
Brunei	32,230	High-income
Malaysia	11,200	Upper-middle income
Thailand	7,260	Upper-middle income
Indonesia	**4,050**	**Upper-middle income**
Philippines	3,850	Lower-middle income
Lao PDR	2,570	Lower-middle income
Vietnam	2,540	Lower-middle income
Cambodia	1,480	Lower-middle income
Myanmar	1,390	Lower-middle income

Population (Person mn, 2019)

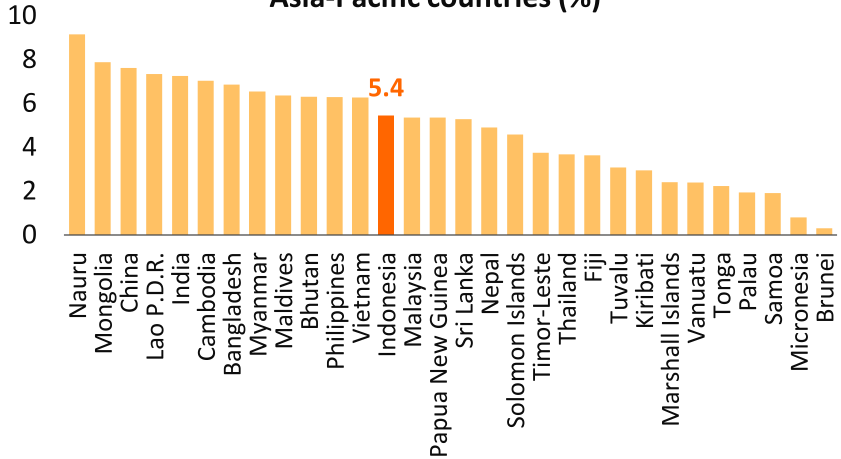


Note: 1/ Based on classification by the World Bank, lower middle-income economies are those with a GNI per capita between USD1,026 and USD3,995; upper middle-income economies are those with a GNI per capita between USD3,996 and USD12,375; high-income economies are those with a GNI per capita of USD12,376 or more.

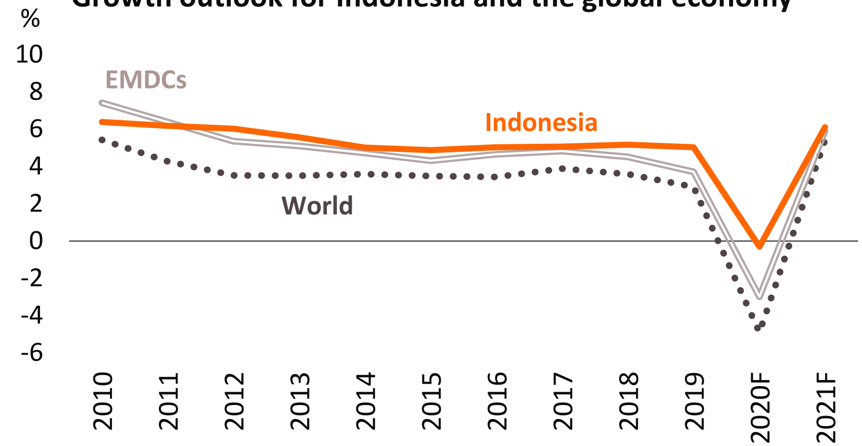
Source: IMF WEO (April 2020), IMF 2019 Article IV Staff Report on Vietnam, World Bank: WDI, Krungsri Research

Indonesia's growth potential of 5.0-6.0% p.a. is likely to be sustained over the long term driven by its underlying fundamentals

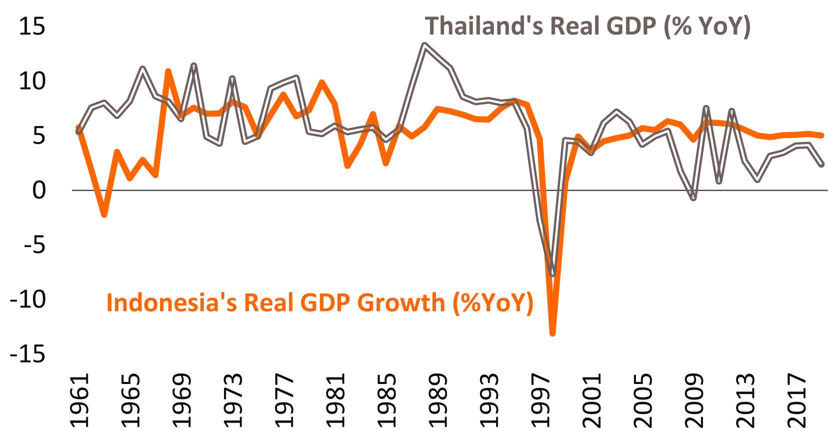
10-year average of annual growth rate of Asia-Pacific countries (%)



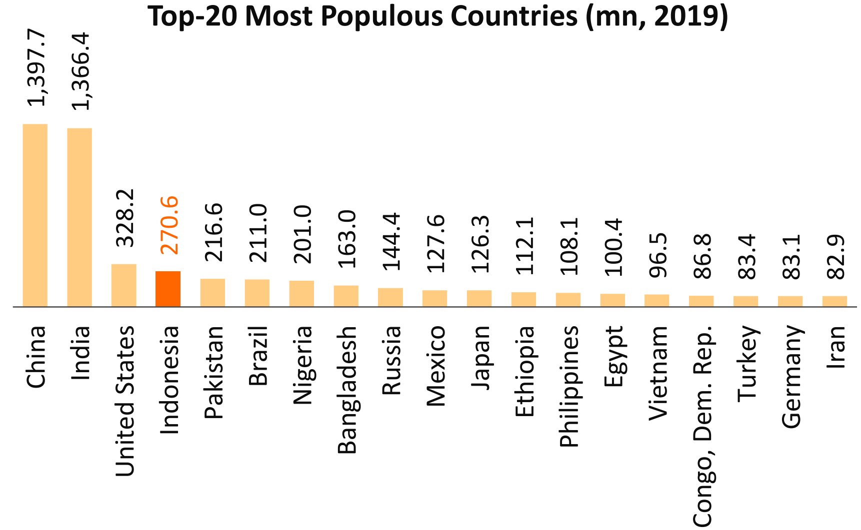
Growth outlook for Indonesia and the global economy



Economic Growth of Indonesia and Thailand (2010 price)



Top-20 Most Populous Countries (mn, 2019)



Source: IMF WEO (April 2020), CEIC, Krungsri Research

Supportive underlying fundamentals will drive Indonesia's growth potential

Over the medium to long term, we are optimistic that Indonesia's economy will follow its potential growth trajectory of 5.0%-6.0% enabling it to remain one of the fastest growing emerging markets. Its potentials are likely to be driven by its favorable underlying fundamentals as follows:

1 Favorable demographic structure (young labor force)

- Pools of young labor force for labor-intensive manufacturing
- Growing middle-class consumers and sizeable domestic market as young workers earning higher income
- Expanding physical and digital urbanization
- Attracting FDI inflows

2 Structural reforms

3 Infrastructure investment

- Raising the country's long-term potential growth by eliminating structural bottlenecks
- Enhancing the country's overall productivity and competitiveness
- Promoting ease of doing business
- Underpinning confidence and attracting FDI inflows
- Generating jobs and incomes

4 Moving towards the digital economy

- New sources of growth through digital technologies and innovations
- Improving the overall productivity and competitiveness

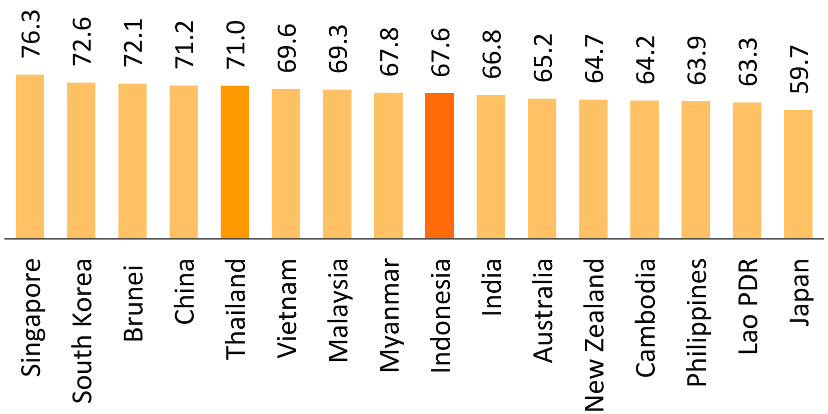
5 Foreign Direct Investment (FDI)

- Further supporting and facilitating Indonesia's industrialization by moving away from extractive industries to reinvigorate export-oriented manufacturing sectors, tourism, and the new digital economy,
- Supporting the integration to regional supply chains and value chains
- Creating jobs and new business opportunities for growing young workers.
- Financing Indonesia's investment-saving gaps

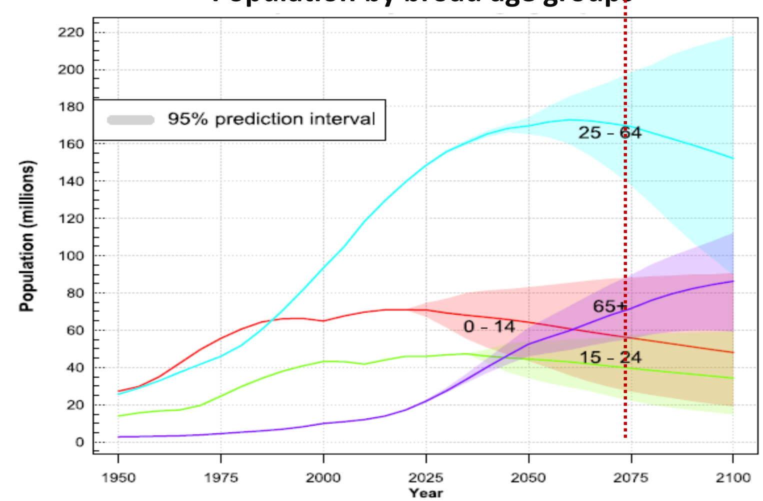
Source: Krungsri Research

Sizeable young population soon becomes middle-class consumers who will fuel domestic consumption

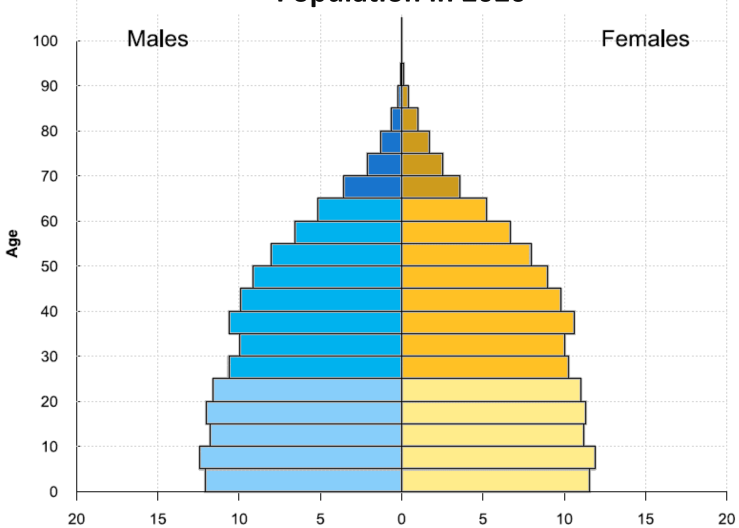
Population ages 15-64 (% of total population) in ASEAN+6 countries (2018)



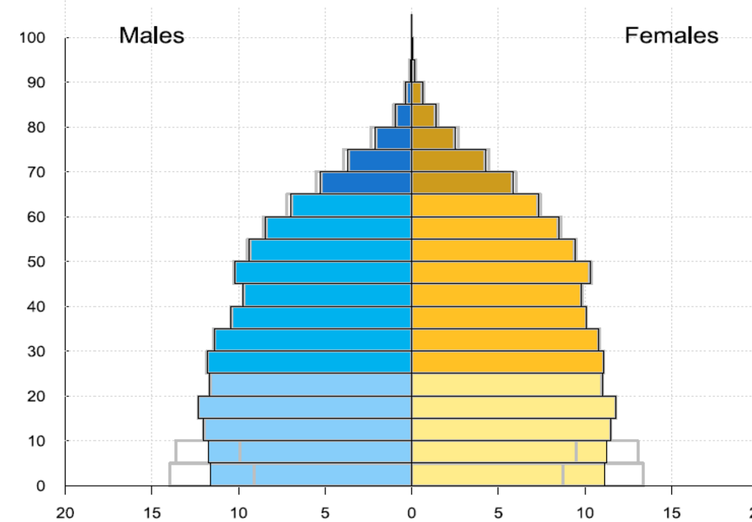
Population by broad age groups



Population in 2020



Population in 2030

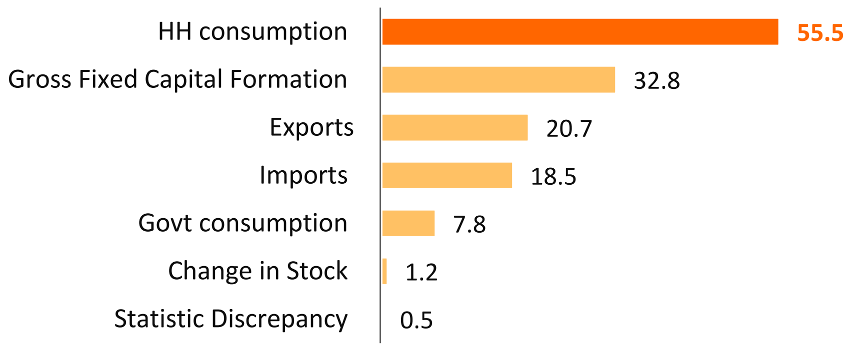


Source: UN: World Population Prospects 2019 , World Bank: World Development Indicators

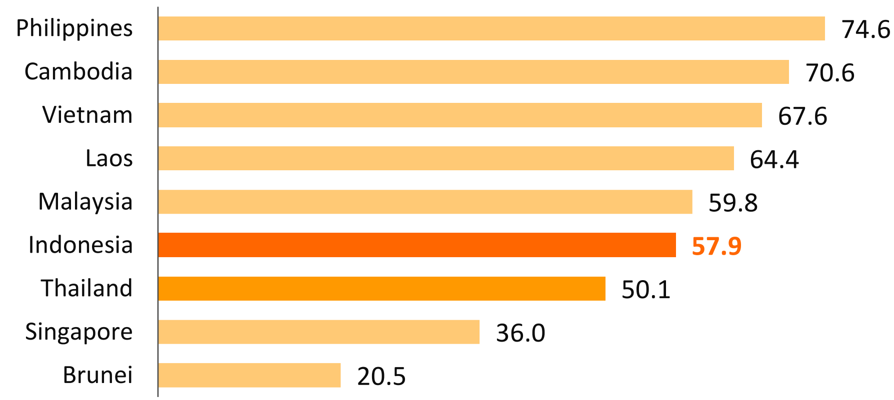
Private consumption accounting for almost 60% of GDP will therefore remain the main economic driver for Indonesia

Over the medium to long term, we are optimistic that Indonesia's economy will follow its potential growth trajectory of 5.0%-6.0% enabling it to remain one of the fastest growing emerging markets. Its potentials are likely to be driven by several favorable underlying fundamentals, particularly sizeable and growing wealthier consumers.

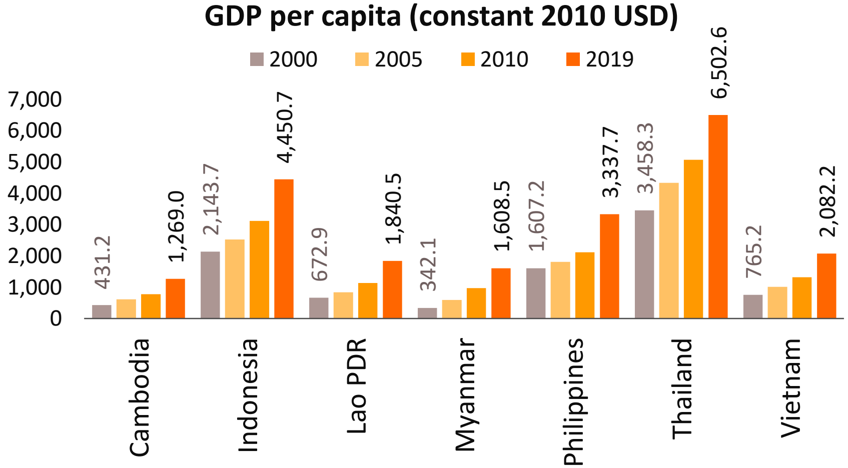
Components of GDP by expenditure (% of total in 2019)



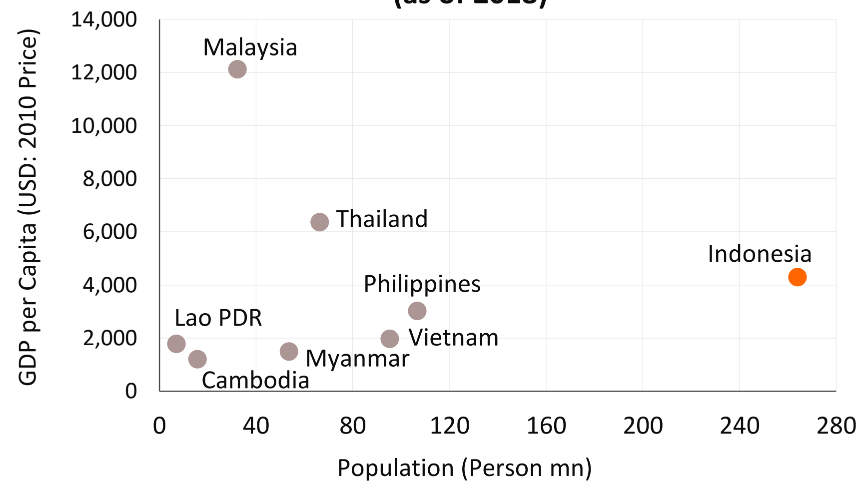
Household Final Consumption (% of Nominal GDP, 2019)



GDP per capita (constant 2010 USD)



Income per capita and population in ASEAN members (as of 2018)



Source: CEIC, World Bank: World Development Indicators

Structural reforms have been put as priorities to enhance the country's growth potentials

Structural reforms are priorities for President Joko Widodo (also known as Jokowi) in his priorities for his second final and 5-year term (2019-2024) His top agendas are (1) human resources development, (2) infrastructure development, (3) regulation simplification, (4) bureaucracy simplification, and (5) economic transformation. To achieve the annual growth target of 6% in this second term, the President seeks to promote FDI-led manufacturing sectors and exports as well as to reduce dependence on commodity exports. Indonesia is set to overhaul its nearly two-decade old labor law and regulations hindering foreign investment. The government is revising 79 separate existing laws and 1,244 clauses and combining them into the omnibus law.

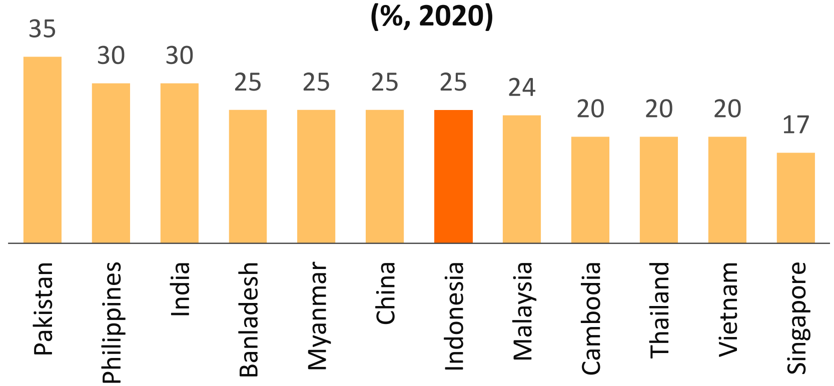
Reform areas	Key policy measures
Legislation overhaul	• The vast majority of laws and articles are to be simplified to ease business licensing process, while others are targeted at investment requirements, employment, protection of minimum wages, land procurement and economic zones among others. • The government needs to create enough jobs for 7 millions citizens currently unemployed as well as 2 million people entering the workforce each year.
Labor market	• The bill is expected to change the minimum wage system by linking wages to regional economic performance rather than GDP. The new system will only apply to the first year of employment. • The government will introduce an unemployment program under which people who lose their jobs will be eligible for cash payments and other benefits. This would set the stage for cutting severance pay which is currently considered the highest among regional peers.
Ease of Doing Business	• The bill will revise 9 laws covering the ease of doing business which is expected to help eliminate costs associated with setting up a business and relax working visa rules for certain sectors.
Negative Investment List	• The government will review its negative investment list which restricts foreign ownership in a range of industries, and this revision will be included in the job creation bill. Also, the government will establish a priority list for investment that includes high-tech, digital and labor-intensive sectors. • Some areas considered important to national interest or covered by international conventions will be off limits to foreign ownership, while others would face restrictions.

Source: Bloomberg, and various sources

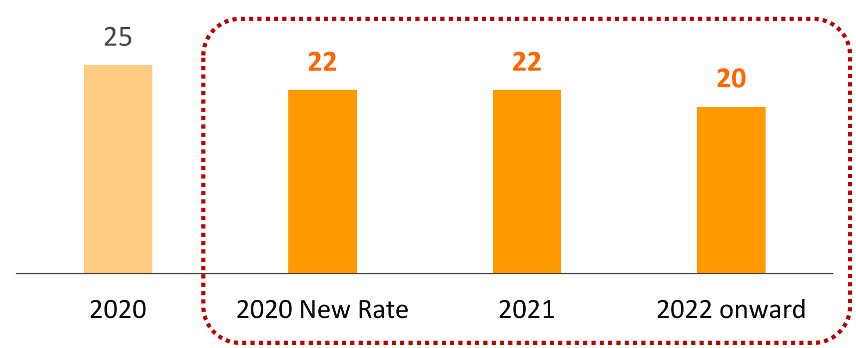
Corporate tax rate will be lowered and expected to boost investment and attract more FDI inflows

Indonesia's corporate income tax rate of 25% is higher than that of regional peers including Vietnam and Thailand. The government is planning in phrase to reduce the rate to 20% by 2022. Once endorsed by the parliament, the tax rate will be reduced from 25% to 22% for 2020 and 2021 and will be further reduced to 20% in 2022. As a part of the omnibus bill on taxation aimed at creating a more conducive business climate and attracting FDI to boost the country's economic growth. Currently, Indonesia, compared to some regional peers, has the lowest tax revenue-to-GDP ratio of around 10.2% in 2018 .

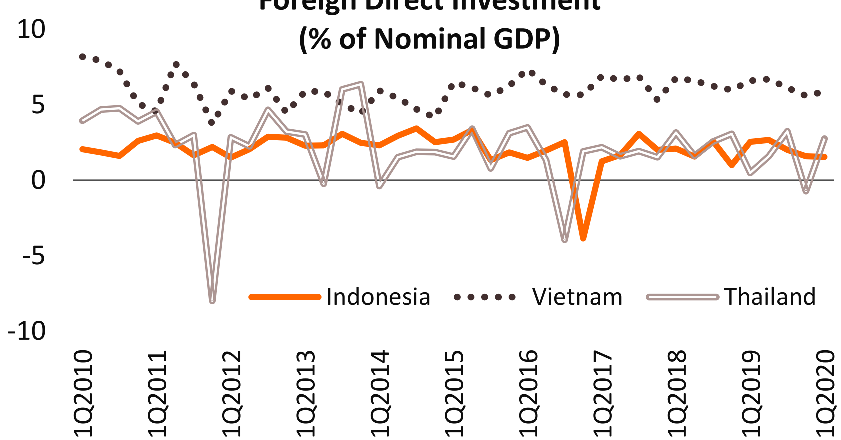
Corporate tax rates in some selected countries (%, 2020)



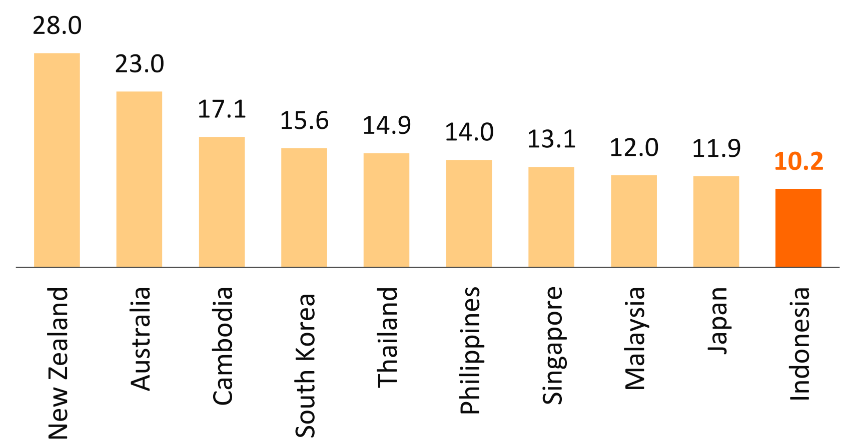
Government's plan to lower corporate income tax rate (%)



Foreign Direct Investment (% of Nominal GDP)



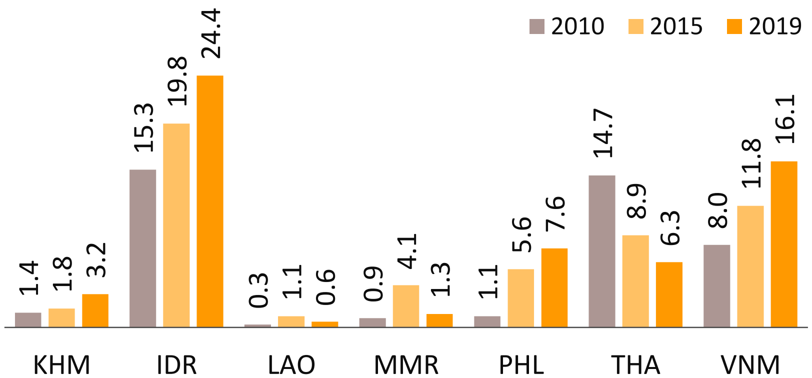
Tax revenue (% of GDP as of 2018)



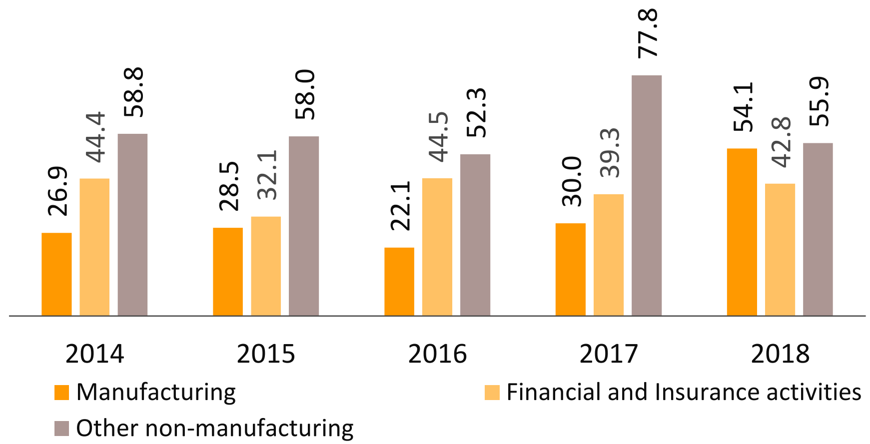
Source: CEIC, Bloomberg, World Bank: World Development Indicators

Attracting more FDI inflows remains challenging due to regulatory restrictiveness

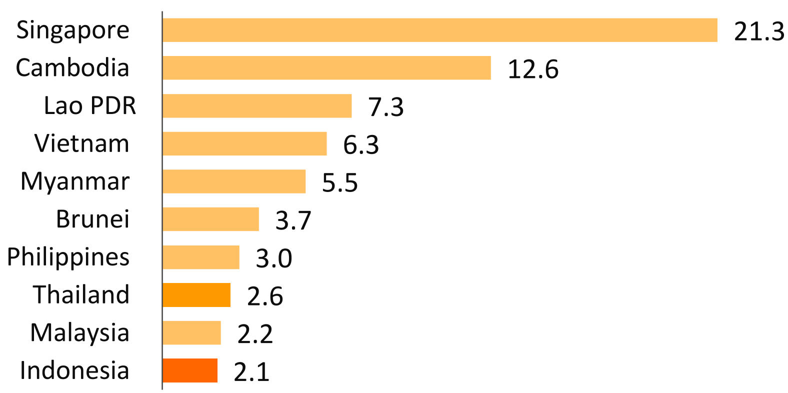
Foreign Direct Investment (USD bn)



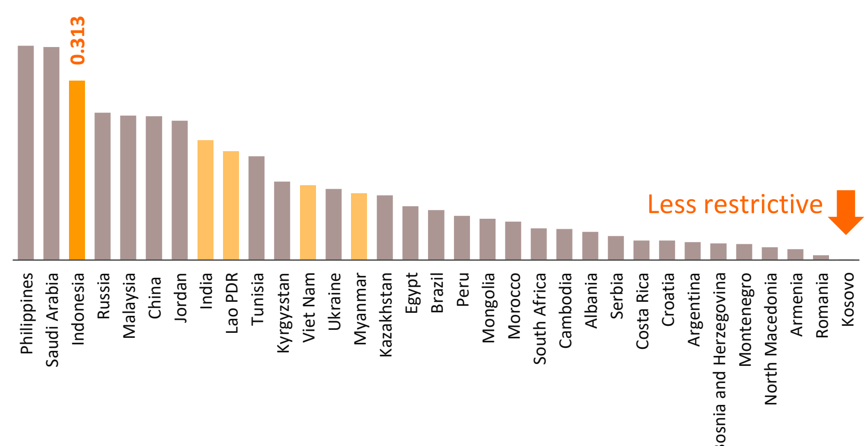
FDI inflow to ASEAN by source country and economic sectors (USD bn)



FDI-to-GDP Ratio (%, as of 2018)

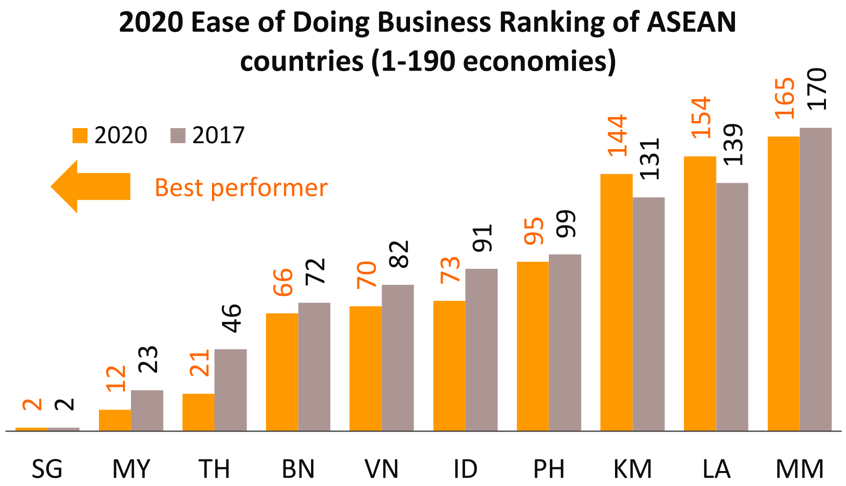


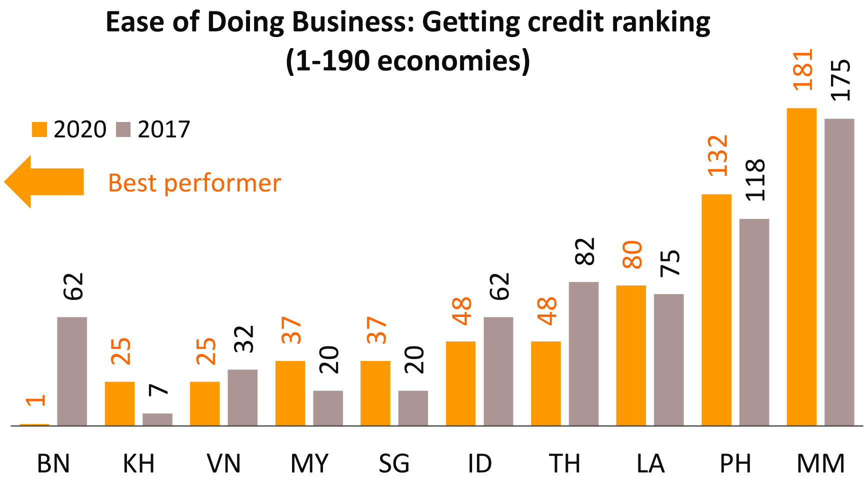
OECD FDI Regulatory Restrictiveness Index for some selected non-member countries (2018)

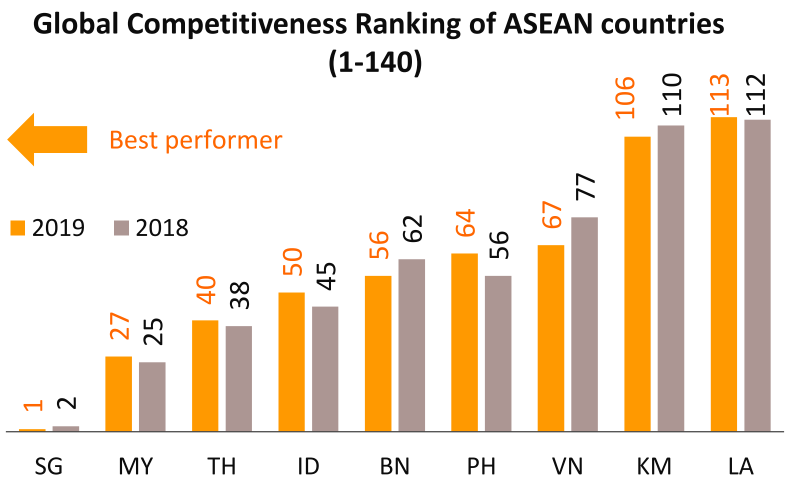


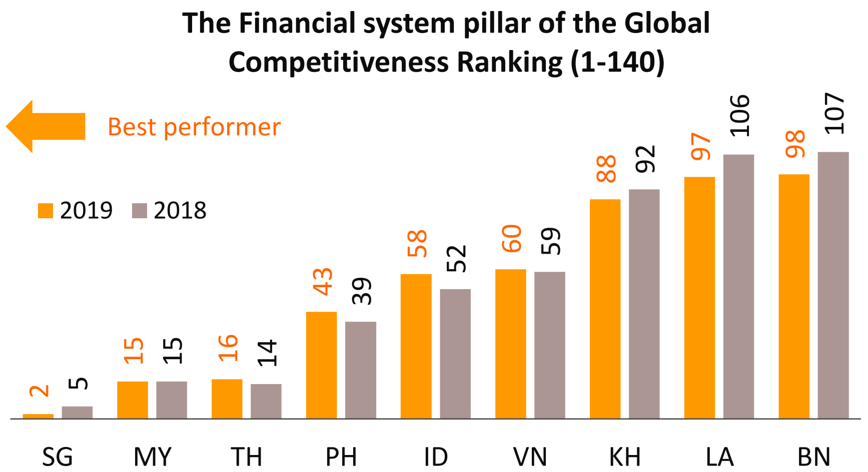
Source: CEIC, ASEAN Stat, OECD

Business environment has been improved over the past few years







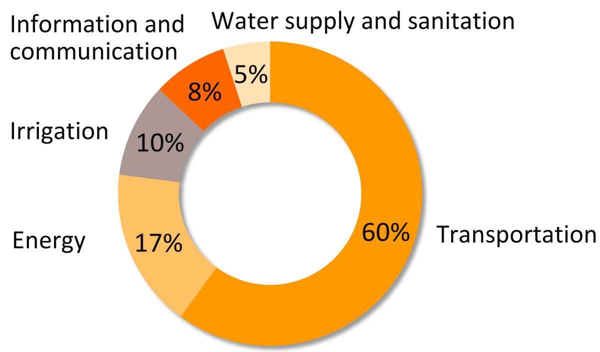


Source: World Bank: 2020 Ease of Doing Business, WEF: The Global Competitiveness Reports

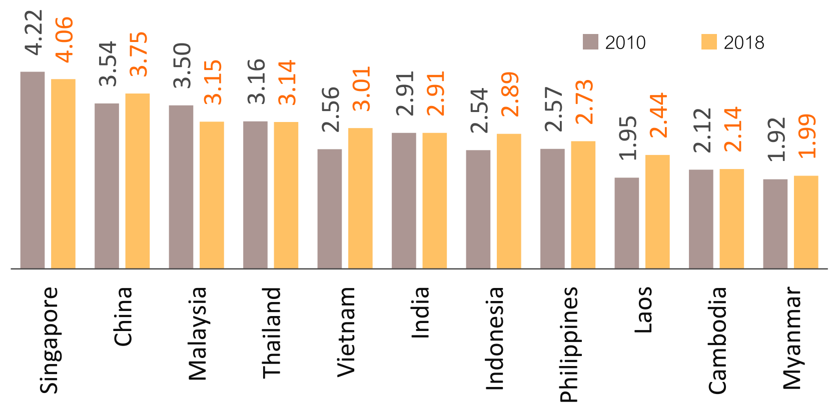
Infrastructure investment has been on the top agenda of President Jokowi to enhance long-term growth potential of Indonesia

President Joko Widodo's development strategy is using infrastructure as a key plank to boost economic growth and spread wealth beyond the main island-powerhouse of Java, where the capital is located. During his first term, there is a proposed investments over USD350bn for infrastructure investment. In his second term, the new spending plan for infrastructure across the country is equivalent to about 5.7% of GDP from 2020 to 2024, during which the government has targeted economic growth of 5.4% to 6%. If realized, this would help enhance the country's economic potentials and significantly improve its competitiveness.

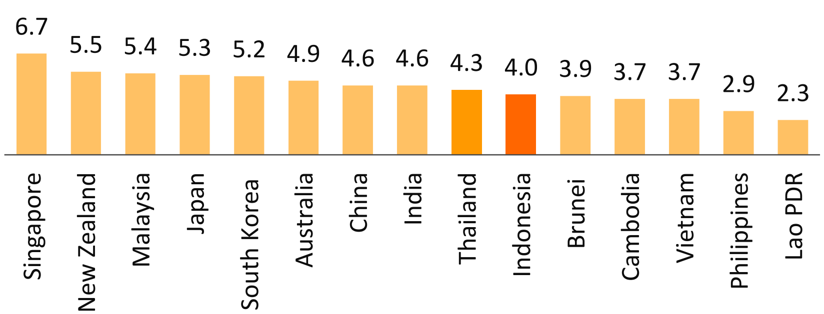
Shares of Indonesia plans of USD412bn in infrastructure spending during 2020-24 (%)



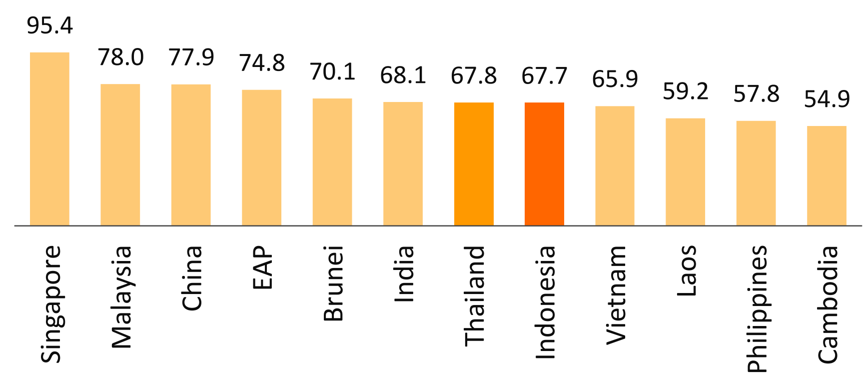
Logistics Performance Index: Quality of Trade and Transport-Related Infrastructure (1 = Low, 5 = High)



Quality of port infrastructure, WEF (1=extremely underdeveloped to 7=well developed and efficient by international standards)



Global Competitiveness Index 4.0: Pillar 2: Infrastructure



Source: CEIC, World Bank, WEF

Infrastructure development has been driven through the national strategic projects located across the country

Source: The Committee for Acceleration of Priority Infrastructure Delivery (KPPIP): https://kppip.go.id/en/national-strategic-projects/

Relocation of the capital city to East Kalimantan by is one of the infrastructure development plans

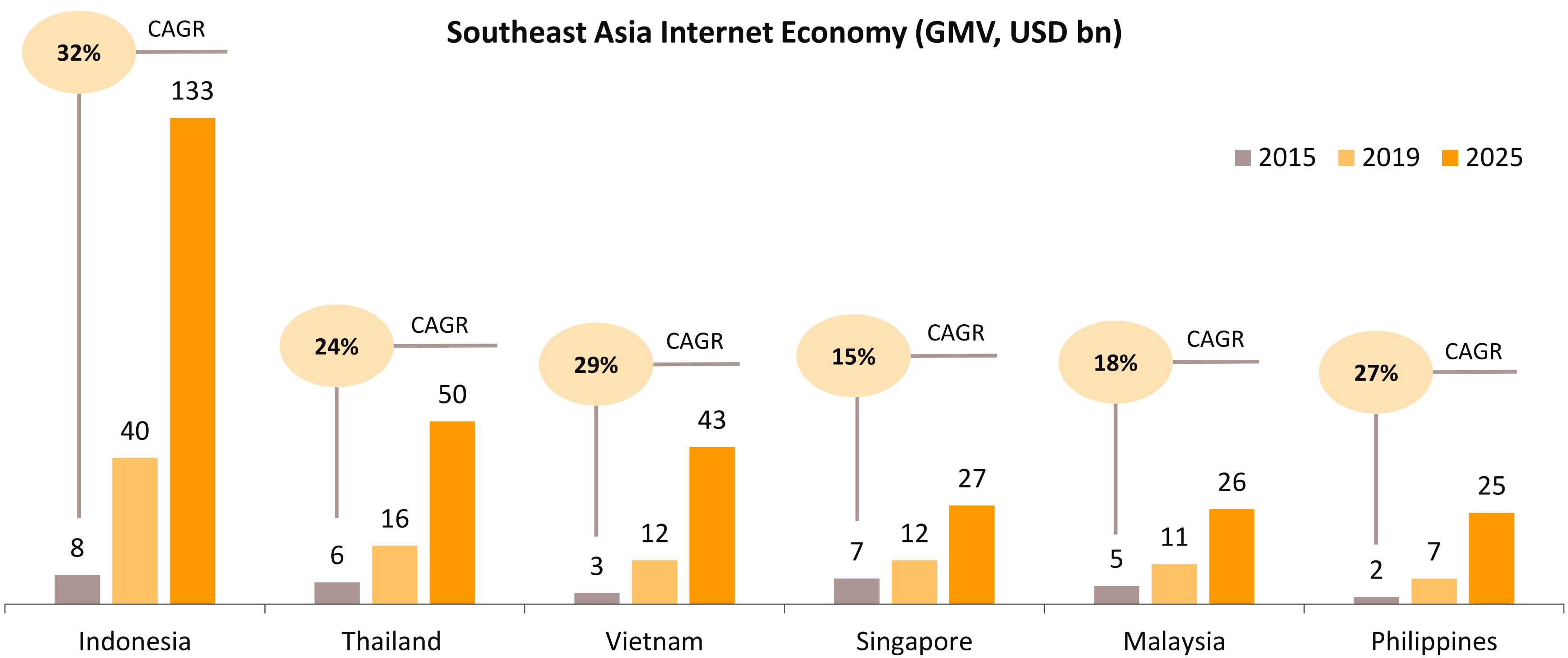
In August 2019, the Jokowi's administration announced that it would relocate the capital city which will be a new town on a 180,000-hectare situated between North Penajam Paser and Kutai Kertanegara regions in East Kalimantan. The government is currently working on a master plan for the new capital city, with a target of being finalized by the end of 2020. The construction is to be started in 2021 and the relocation is planned to begin in 2024. The relocation is expected to help ease congestion in Jakata and inequality across all the regions. The project is estimated to cost around USD33bn.

Source: Bloomberg, Various sources of news, Krungsri Research

The digital economy will become another pillar of Indonesia's economic growth as the growth of the internet economy is expanding

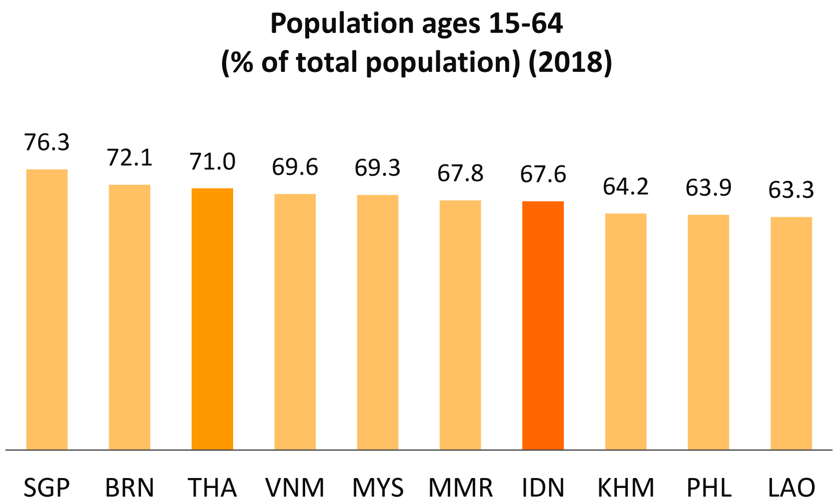
Indonesians are among the world's most enthusiastic users of digital technology. The digital economy is expected to expand to USD133bn by 2025 from USD40bn in 2019 (about 32% CAGR). Currently, the digital sector, especially e-commerce, is already a major source of jobs for Indonesian. President Jokowi has vowed to improve the investment climate to support the country's digital economy. Indonesia already has 5 unicorns –startups worth at least USD1bn – including the ride hailing and delivery app Gojek, the travel app Traveloka, e-wallet provider Ovo and online market places Bukalapak and Tokopedia. These digital platforms have play vital roles in supporting and connecting domestic small and medium enterprises to an already huge and rapidly growing consumer market.

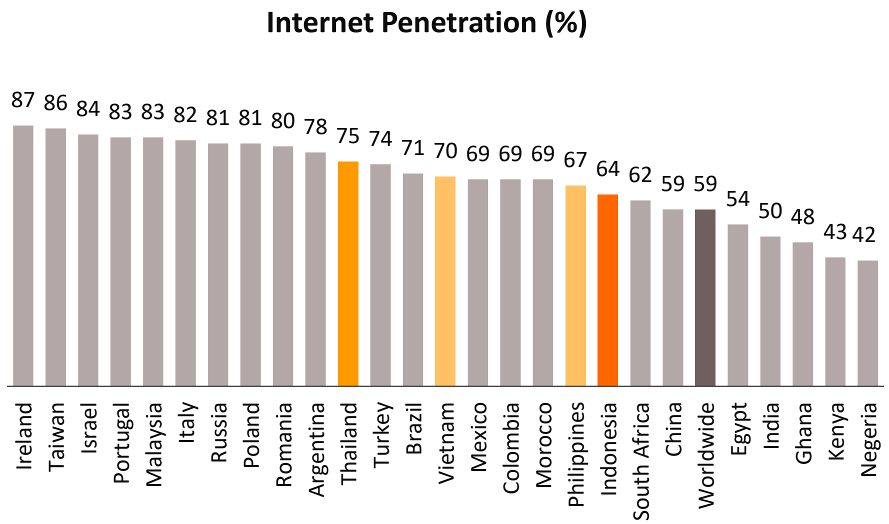
Southeast Asia Internet Economy (GMV, USD bn)

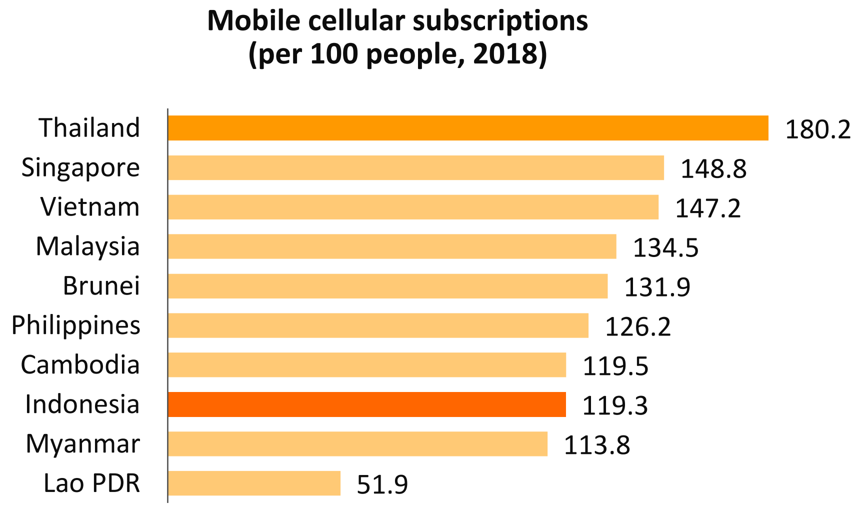


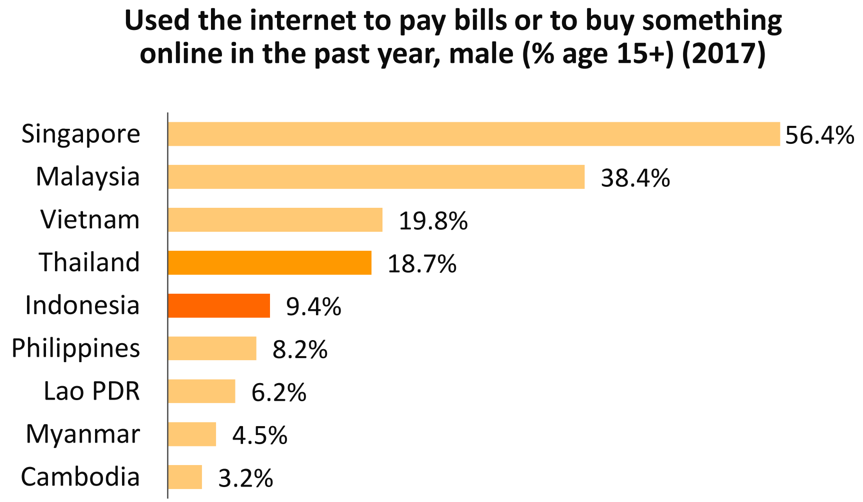
Source: e-Conomy SEA 2019 report by Google, Temasek, Bain & Company

Young and digitally savvy demographics will be a key underlying driver of the country's growing digital economy





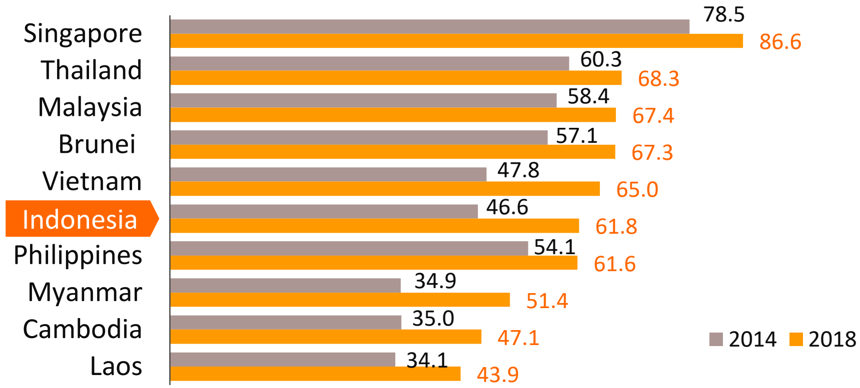




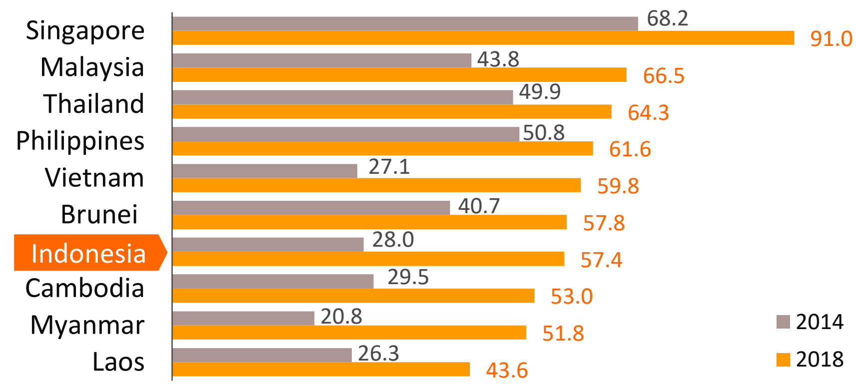
Source: CEIC

Better telecommunication infrastructure has also played a vital role in driving the digital adoption in Indonesia

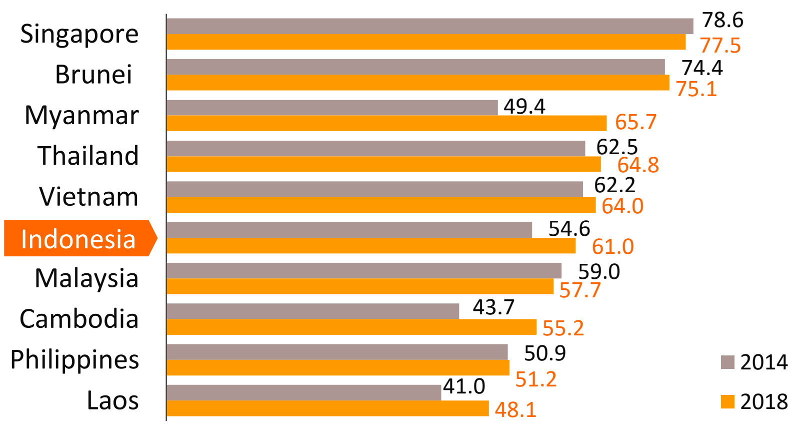
Overall Mobile Connectivity Index[1/] of ASEAN members



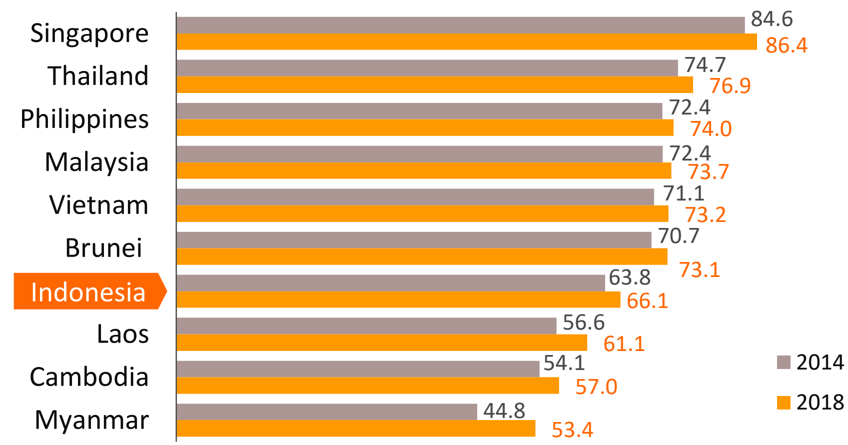
Infrastructure for mobile connectivity (sub-index)



Affordability for mobile connectivity (sub-index)



Consumer readiness for mobile connectivity (sub-index)

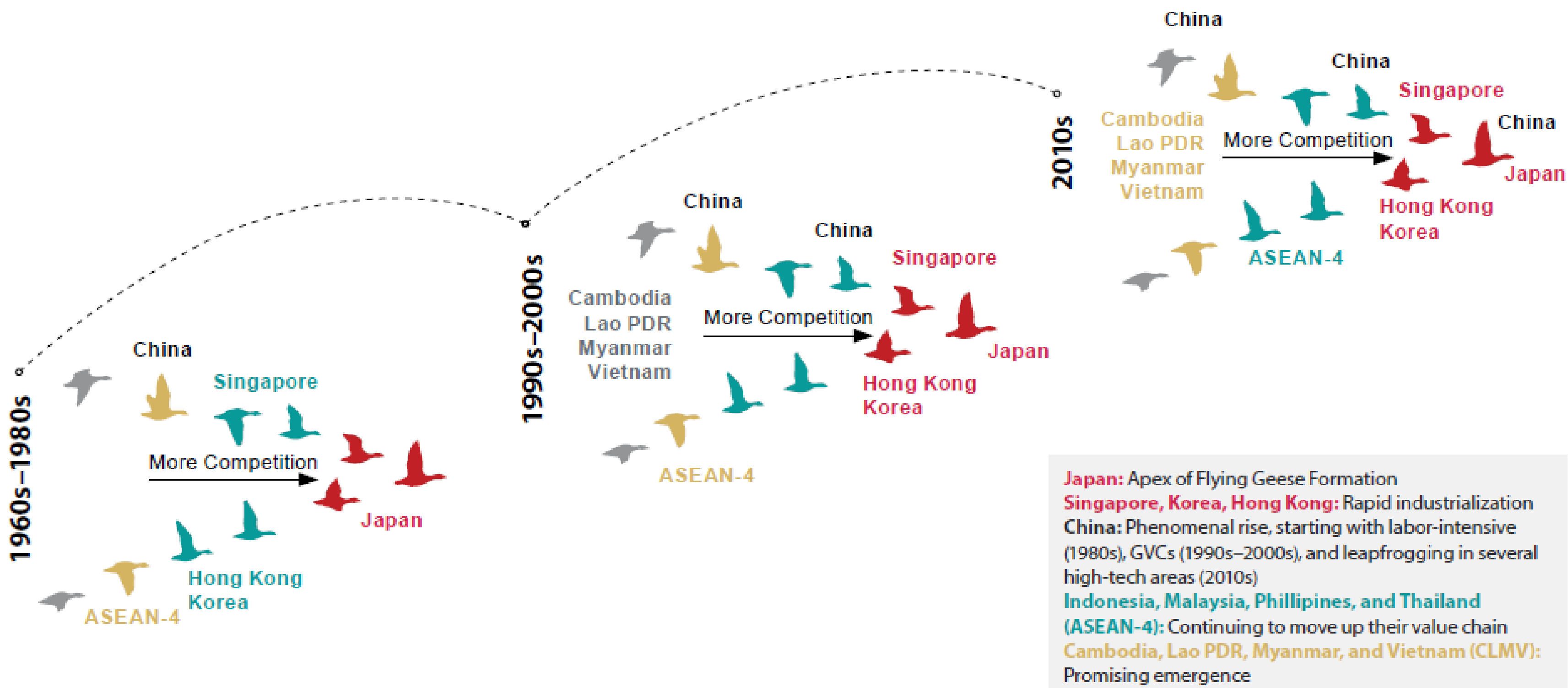


Note: 1/The Mobile Connectivity Index measures the performance of 165 countries against the key enablers of mobile internet adoption. Its objective is to support the efforts of the mobile industry, governments, and the wider international community to deliver on the ambition of universal access to the internet. Countries are scored within a range of 0 to 100 across a number of indicators, with a higher score representing stronger performance in delivering mobile internet connectivity. This web tool allows you to explore the data used in the Mobile Connectivity Index, and to compare countries across a range of metrics.

Source: GSMA

FDI inflows to be attracted by structural reforms, long-term fundamentals, and shifts in global supply chains are likely to help reinvigorate Indonesia’s manufacturing sector

Developments of Indonesia’s manufacturing sector has been stunted following the Asian Financial Crisis in 1997 reflected by a decrease in the sector share in the country’s GDP. There are also small connections between domestic manufacturing firms and global supply chains. In addition, imports of components are subject to costly and time-consuming pre-shipment inspections and tariffs resulting in uncompetitive manufacturing exports against a backdrop of the rising of regional rivals such as Vietnam and Bangladesh.



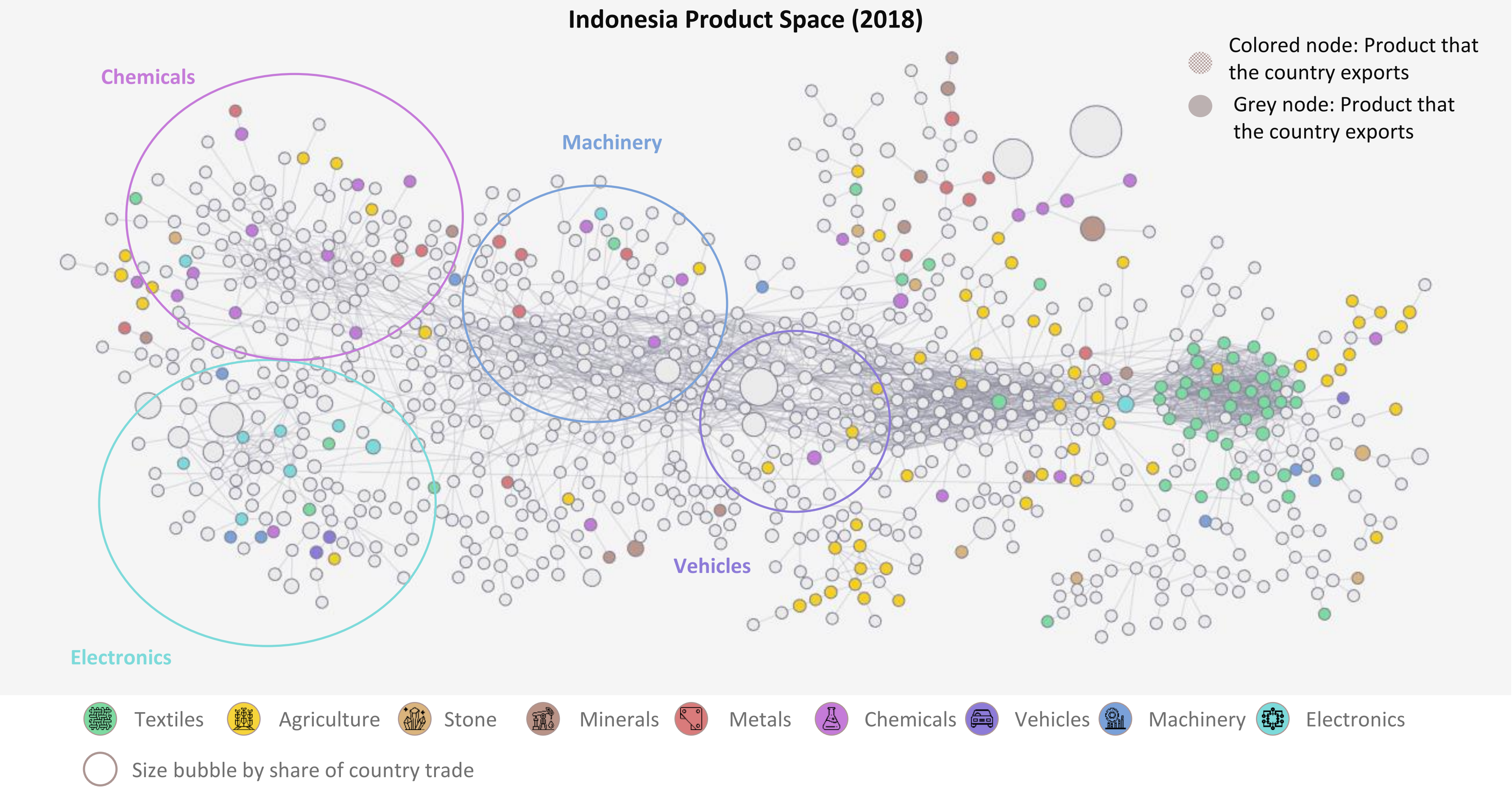
Low Value-added Manufacturing **High Value-added Manufacturing**

Source: AMRO: ASEAN+3 Regional Economic Outlook 2020

More foreign investment should support Indonesia's industrialization and moving up to higher value chains

Indonesia's manufacturing sector is currently focused on textiles where local factories supply their products to major retailers such as H&M, Walmart and J.C. Penney. Some activities on electronics and chemicals are being developed.

Indonesia Product Space (2018)

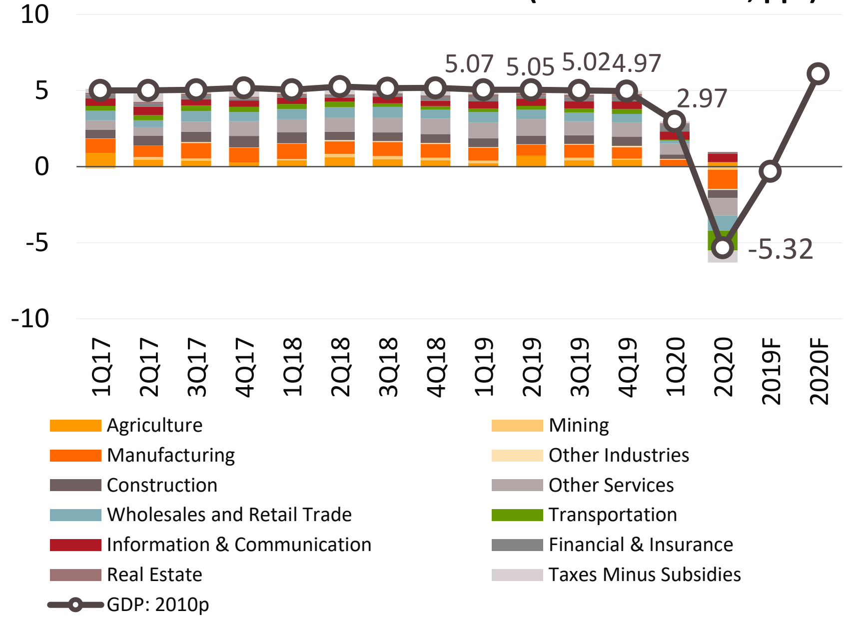


Note: 1/The Product Space depicts the connectedness between products, based on the similarities of know-how required to produce them. Product Space highlighted for products with Revealed Comparative Advantage > 1 and product nodes are sized by world trade.

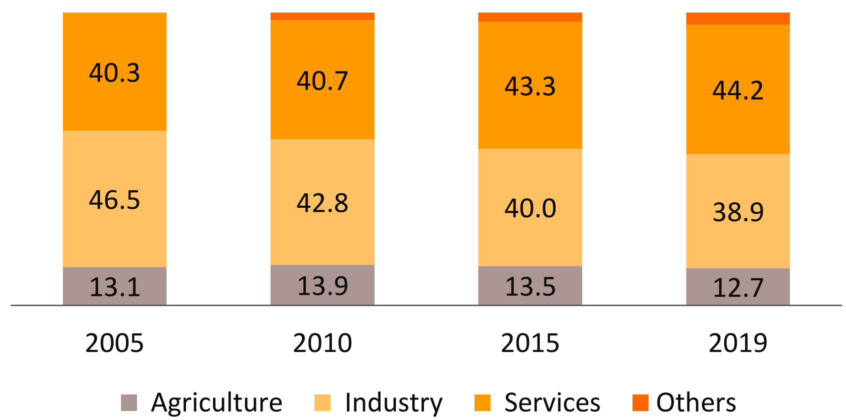
Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity (2017). http://www.atlas.cid.harvard.edu.

Manufacturing sector should contribute more to the economy on production side over the long term

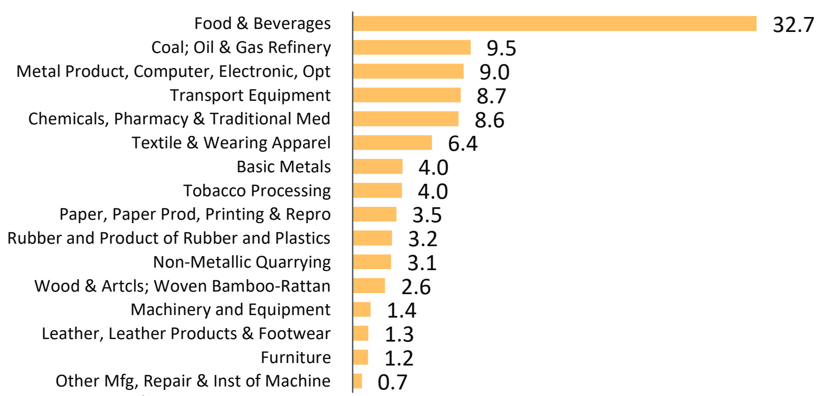
Contributions to Real GDP Growth (Production Side, ppt)



Economic Structure of Indonesia: Production side (% share of nominal GDP)

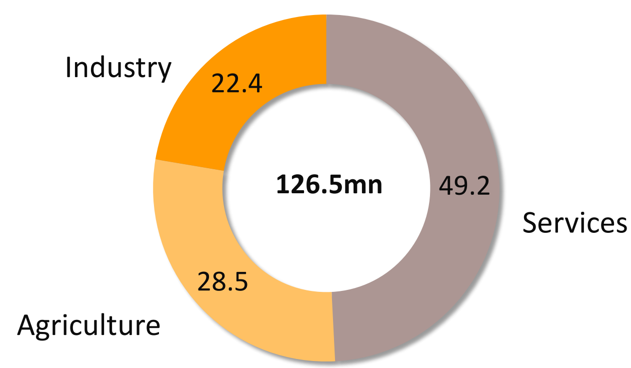


Components of manufacturing industry (% of total)



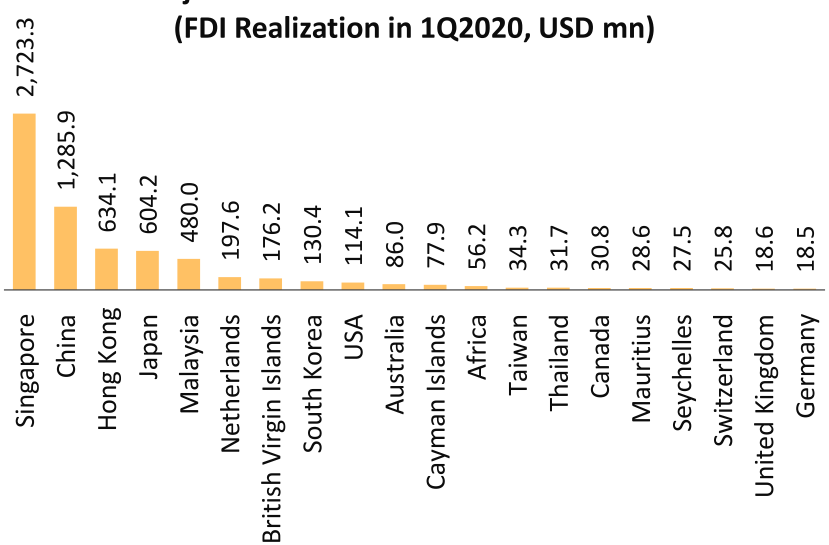
Source: CEIC, Trade Map

Share of employment by economic sector (%, 2019)

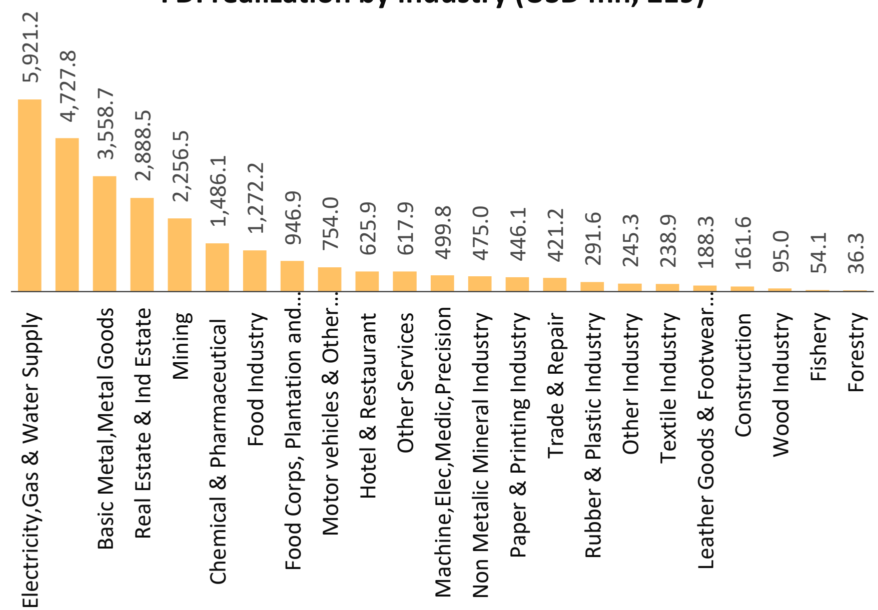


Relocation of foreign firms to Indonesia should boost Indonesia's efforts to become the region's manufacturing hub

Major sources of FDI inflows to Indonesia (FDI Realization in 1Q2020, USD mn)



FDI realization by industry (USD mn, 219)



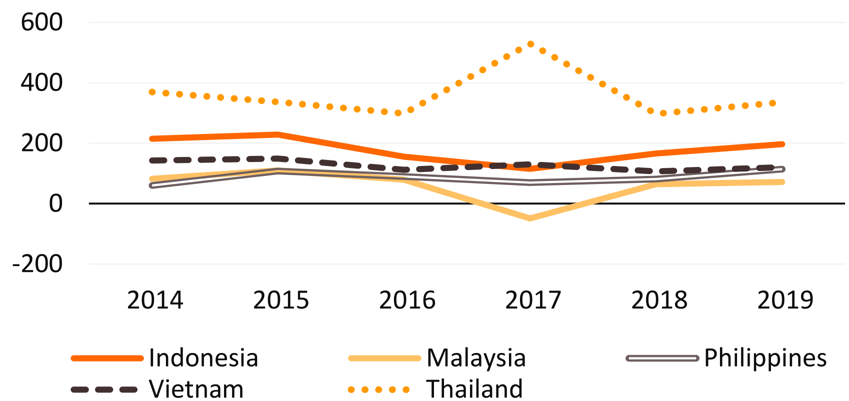
Some foreign companies to relocate their production base to Indonesia

LG Life's Good | Panasonic | DENSO | KENDA

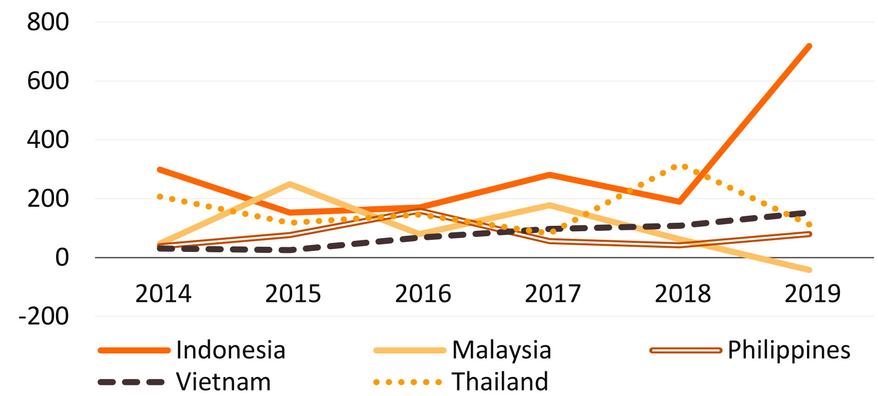
Source: CEIC, Bloomberg, and various sources

Japanese direct investment in Indonesia has been rising, particularly the manufacturing sector

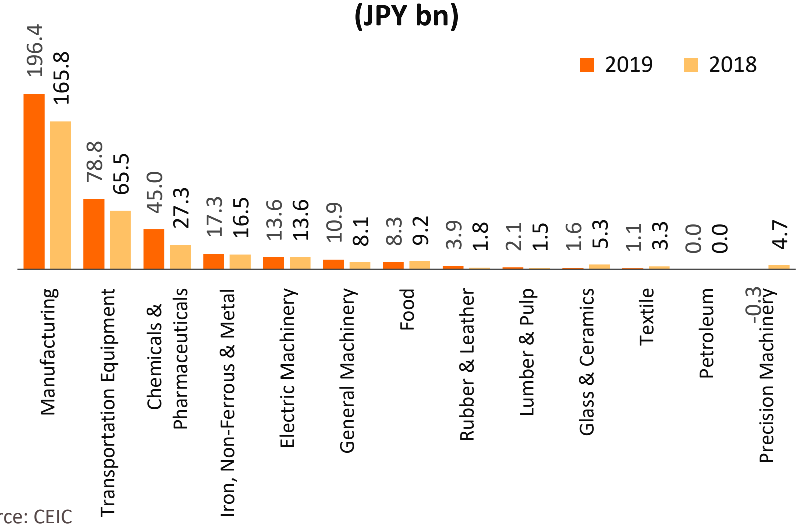
Japan outward direct investment to ASEAN-5 countries: Manufacturing sector (JPY bn)



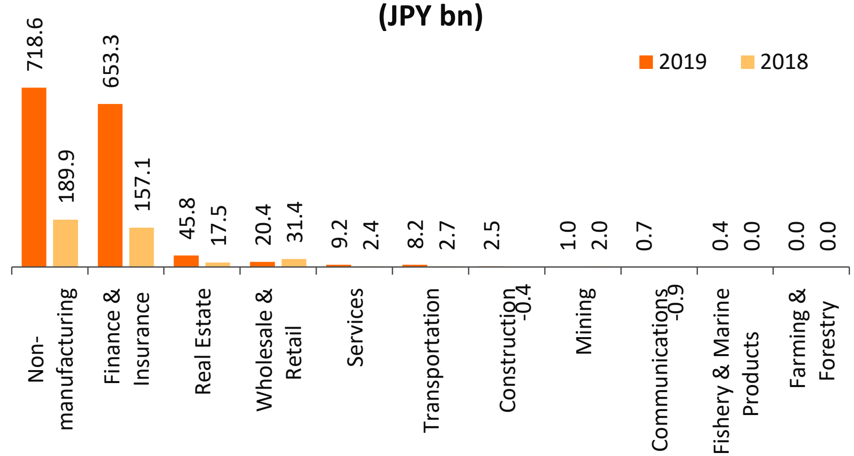
Japan outward direct investment to ASEAN-5 countries: Non-manufacturing sector (JPY bn)



Japan ODI to Indonesia: Manufacturing sector (JPY bn)



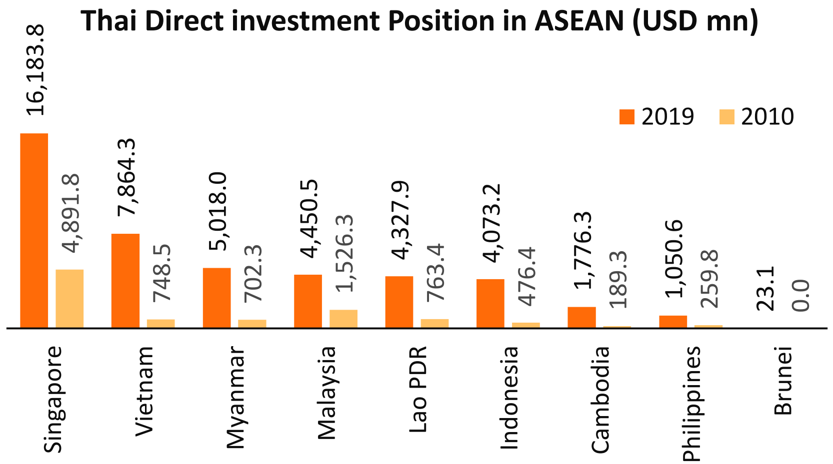
Japan ODI to Indonesia: Non-manufacturing sector (JPY bn)

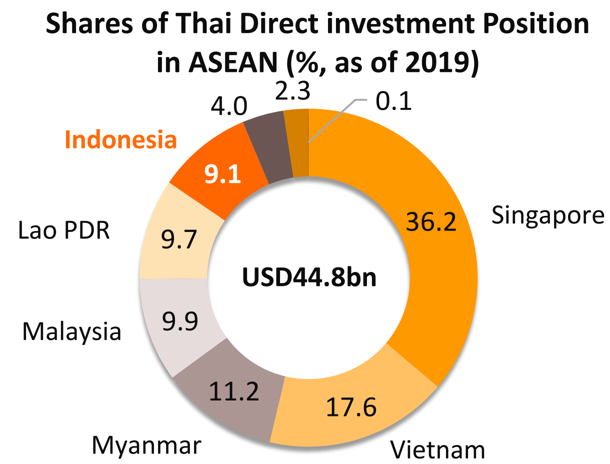


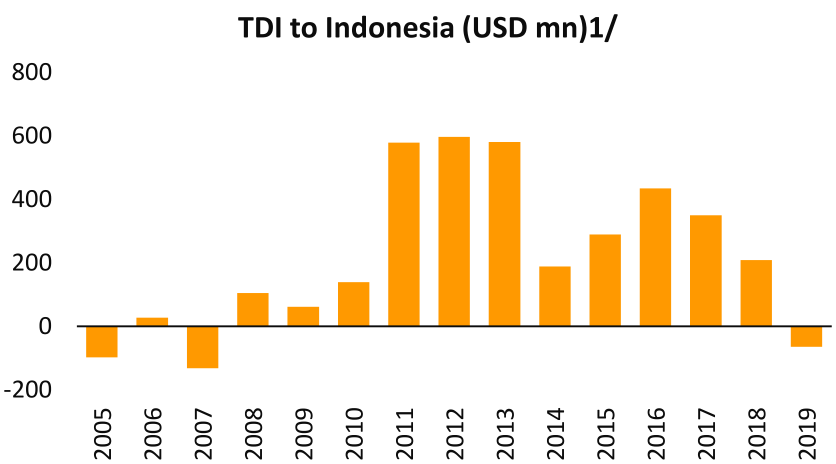
Source: CEIC

krungsri Research

Financial services and insurance are the top areas for Thai Direct Investment in Indonesia





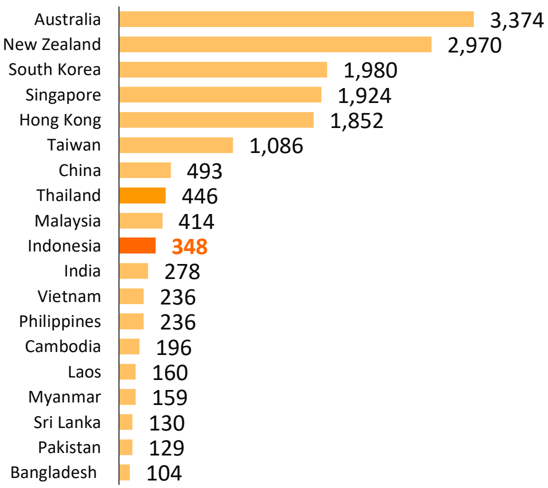


Note: 1/Positive figures reflects that the volume of transactions associated with the increase in investment during the period (either in the form of equity capital, reinvestment of earnings, or lending to affiliates) is higher than those associated with the decreases in investment (either in the form of divestment, affiliated enterprises abroad incur losses or pay dividend in excess of the profit of the current period or affiliates' repayment on their inter-company borrowings). On the contrary, negative figures means the increases in investment during the period are lower than the decreases.

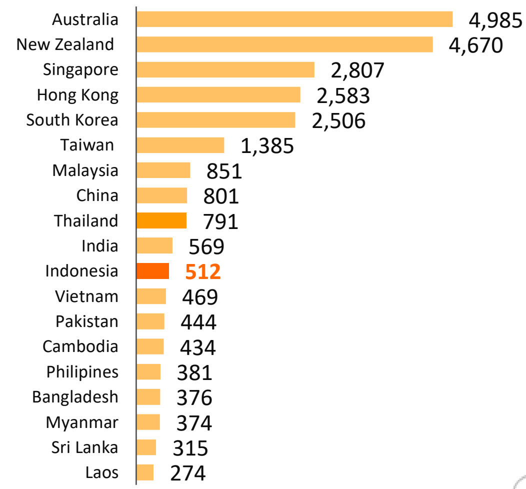
Source: CEIC, Bank of Thailand

Relatively low wage levels should support attractiveness of Indonesia in attracting labor-intensive industries

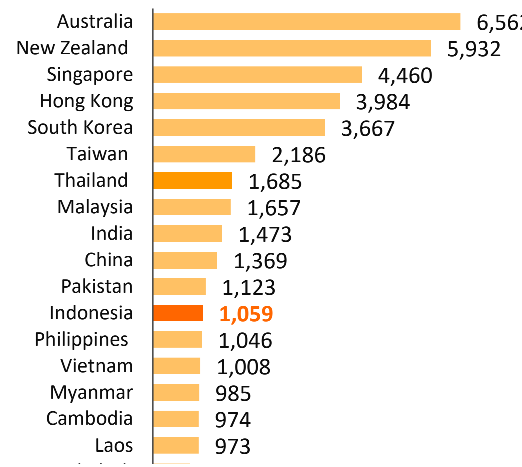
Manufacturing: Worker



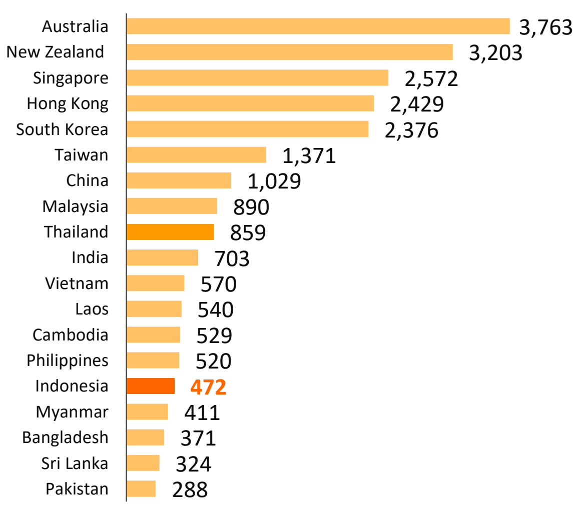
Manufacturing: Engineer



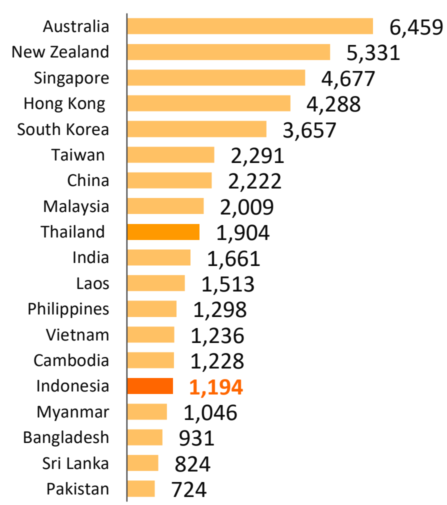
Manufacturing: Manager



Non-Manufacturing: Staff



Non-Manufacturing: Manager

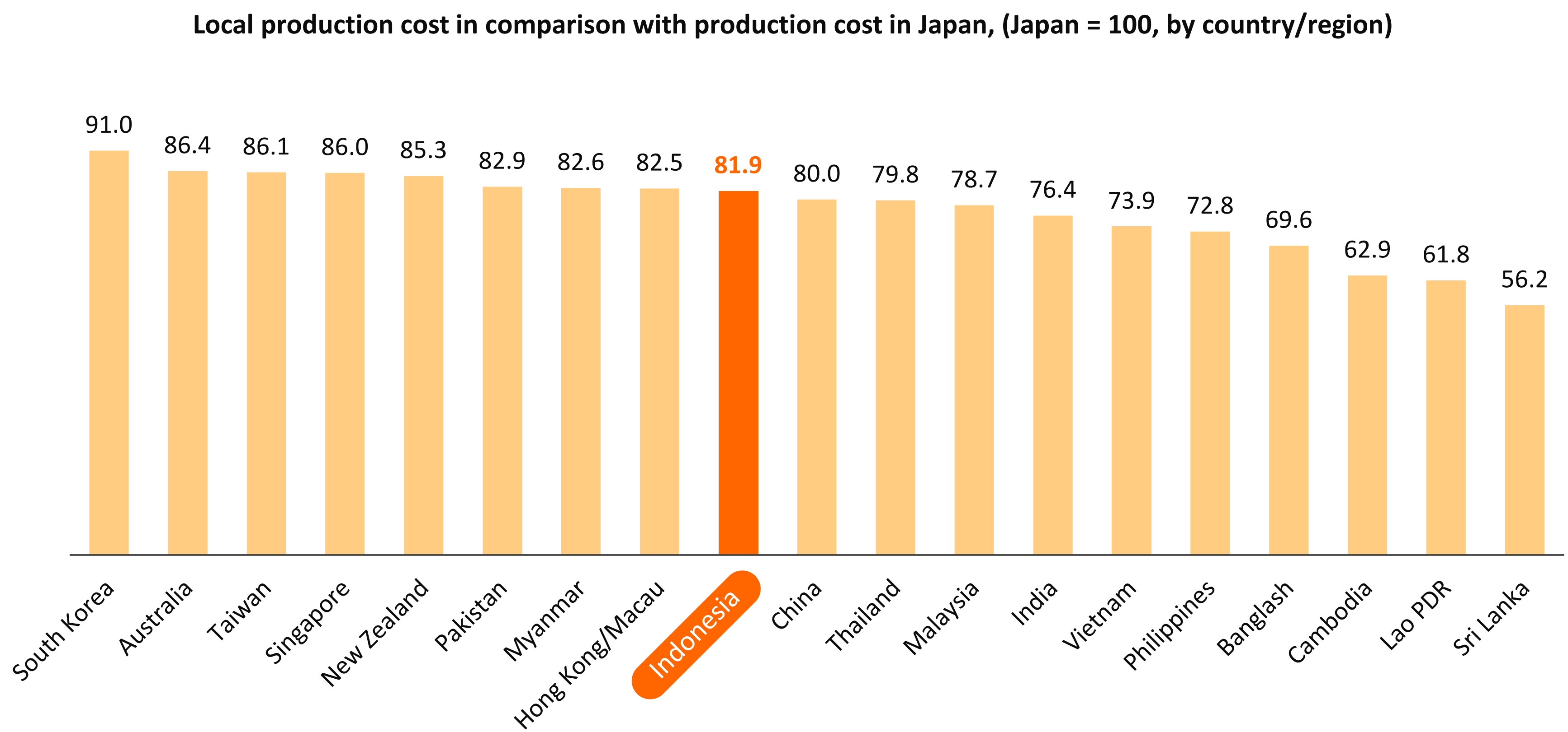


Base salary: Salary excluding benefits, as of August 2019
Worker: Regular general workers with 3 years of work experience, not including contract-based and probationary workers
Engineer: Regular employees who are core technicians, graduates of a vocational college or university, and have 5 years of experience
Manager (Manufacturing): Regular employees who are section managers in charge of sales, university graduates, and who have 10 years of work experience
Staff: Regular general workers with 3 years of work experience, not including dispatched and probationary workers
Manager (Non-manufacturing): Regular employees who are section managers in charge of sales, university graduates, and who have 10 years of work experience

Note: Except for Cambodia, base salaries were reported in local currencies. (For Myanmar, salaries were reported selectively either in the local currency or in US dollars.) The average wage for each job type in the local currency was converted to the US dollar, using the average exchange rate of August 2019 published by the central bank of each country/region or by the State Administration of Foreign Exchange for China. For Myanmar, where companies reported base salaries either in the local currency or in US dollars, base salaries reported in the local currency were converted to US dollars, and then the average was calculated.

Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania

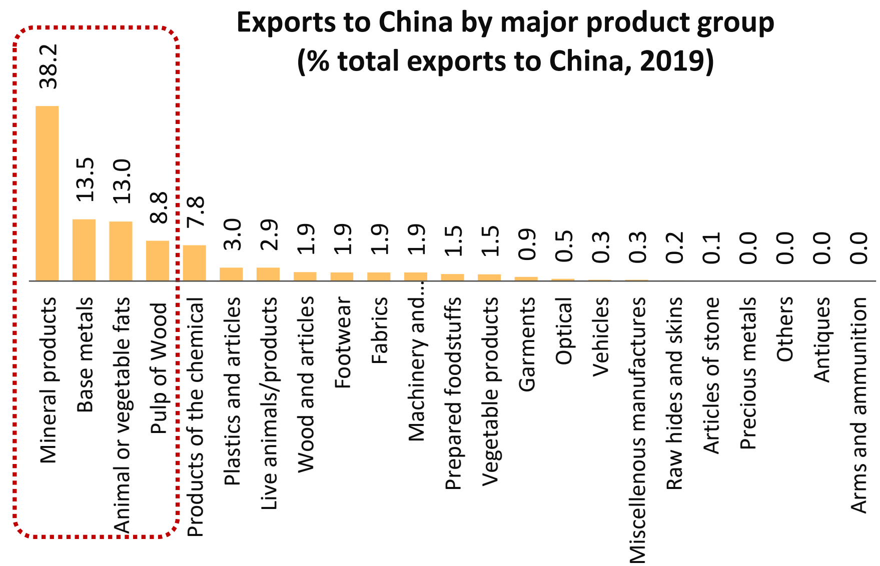
Cost of production in Indonesia could be lowered in the medium term should the structural reforms are accomplished

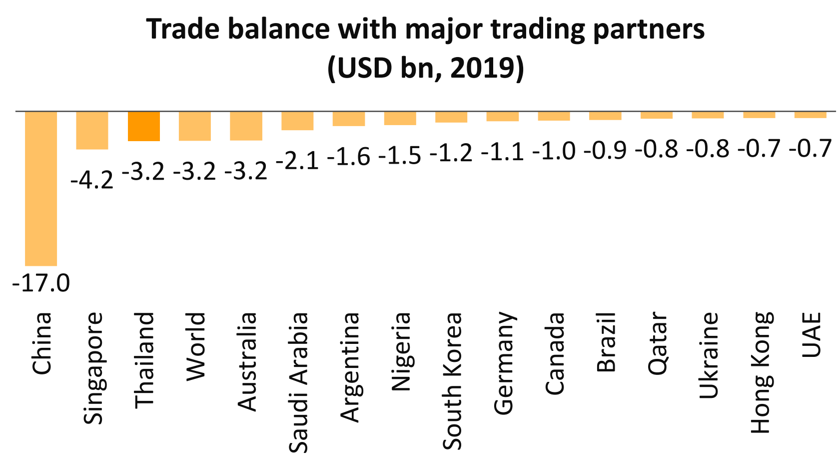


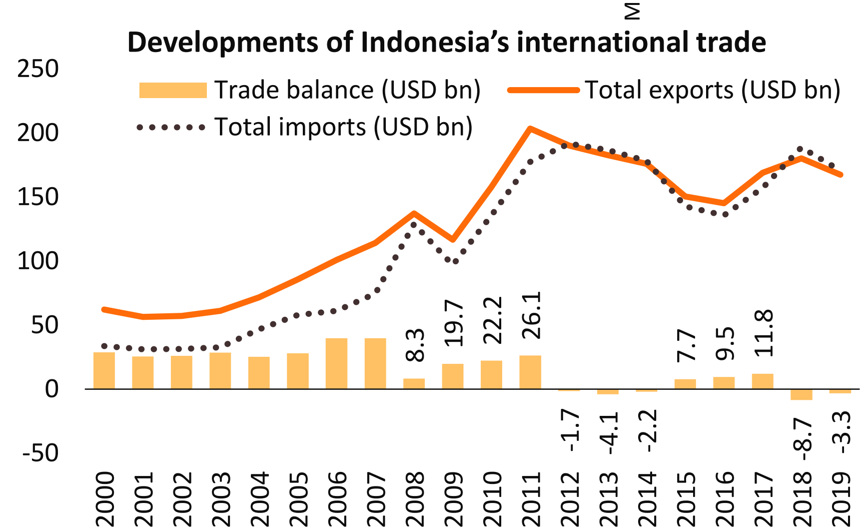
Note: Production costs for Japanese firms operating in those countries which include the costs of all resources consumed in producing a product, such as materials, labor, and others.

Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania

Industrial developments and reforms are expected to help diversify Indonesia's trade structure away from commodity exports







Source: CEIC, Trade Map

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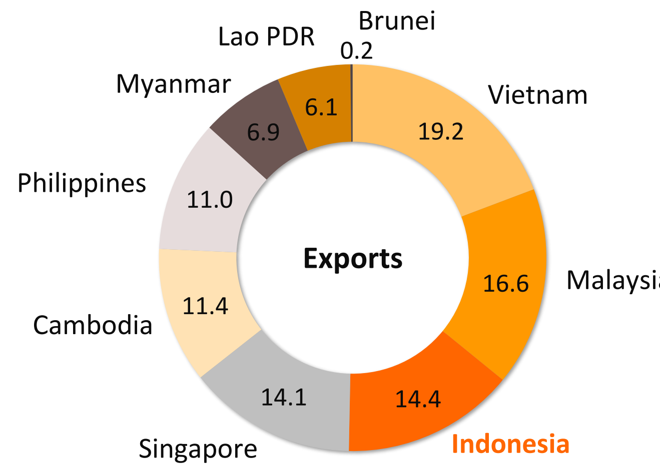
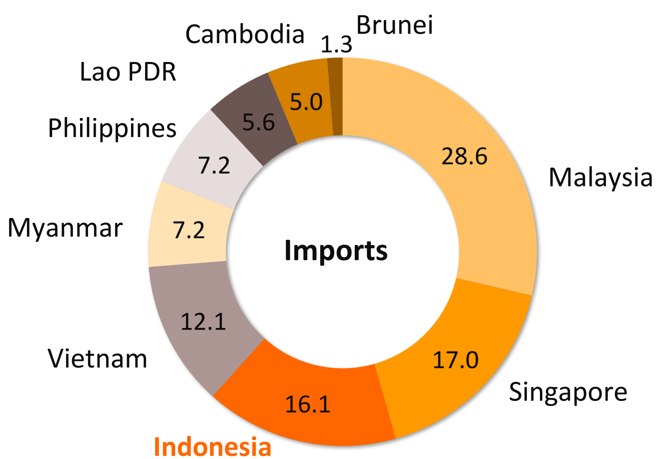
Indonesia is one of the key trading partner in ASEAN for Thailand

Thailand bilateral trade with Indonesia (USD bn)

Share of Thailand's export to ASEAN (%, 2019)



Shares of Thailand's import from ASEAN (% , 2019)



Major goods traded between Thailand and Indonesia (2019)

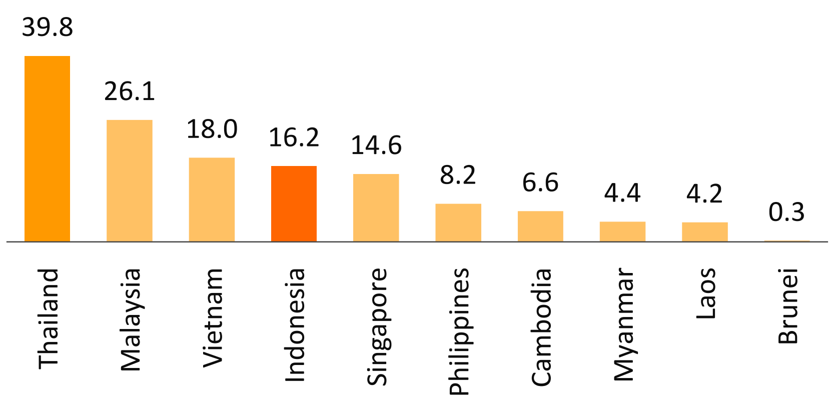
Major Thailand's exports to Indonesia	USD mn	Major Thailand's imports from Indonesia	USD mn
1. Motor cars, parts and accessories	1,388.98	1. Coal	931.84
2. Sugar	1,014.38	2. Crude oil	748.40
3. Polymers of ethylene, propylene, etc. in primary forms	821.79	3. Parts and accessories of vehicles	573.82
4. Chemical products	708.10	4. Machinery and parts	519.61
5. Machinery and parts	539.69	5. Passenger cars	418.90

Source: CEIC, Thailand's Ministry of Commerce

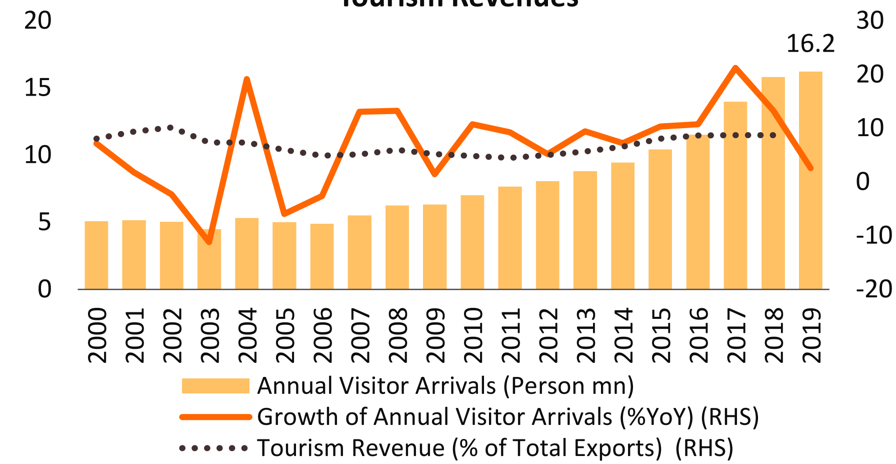
Tourism sector: The government is putting efforts to generate revenue and address its current account deficit

Better infrastructure would also complement the government's efforts to attract more tourists to help narrow the current-account deficit, which widened to a four-year high in 2018 and pressured the nation's currency, bond and stock markets.

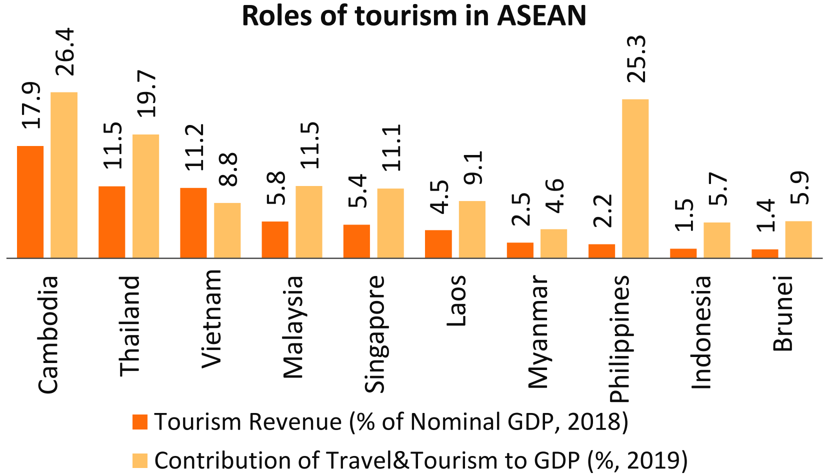
Annual Visitor Arrivals (Person mn)



Tourism Revenues

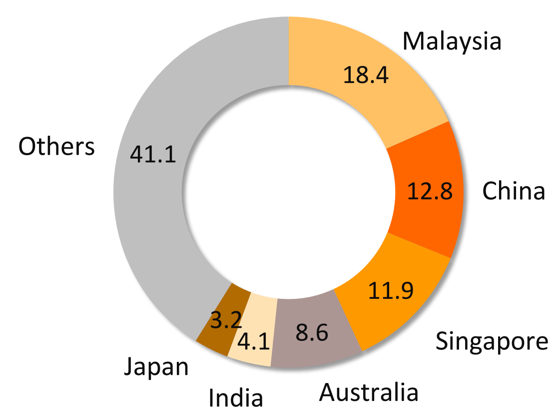


Roles of tourism in ASEAN



Source: CEIC, World Bank: World Development Indicators

Shares of tourist arrivals by nationality (% of total arrivals, 2019)



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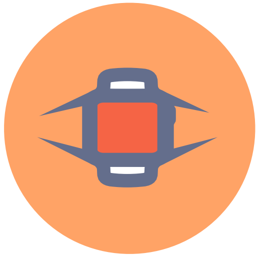
Growing wealthier young Indonesian consumers open up business opportunities for Thai investors

Indonesia is projected to home over 295 million inhabitants by 2030. This would also mean that there would be a sizeable young and wealthier consumers as the country is expected to enjoy a stable and sustained high growth trajectory over the medium to long term on the back of favorable economic drivers. We therefore view that this would provide business opportunities for Thai firms seeking markets to grow their business in the region. Some top sectors in our mind are (1) financial services, (2) food and beverage, (3) consumer goods, (4) healthcare and pharmaceuticals, and (5) homewares.

Financial services

Food and beverage

Consumer goods



Healthcare and Pharmaceuticals

Homewares

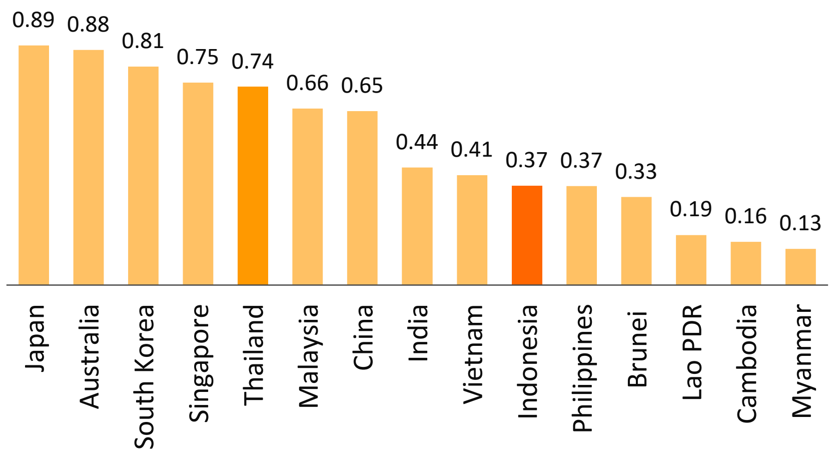
Underlying trends in Indonesia

Financial services	Food and beverage	Consumer goods	Healthcare and Pharmaceuticals	Homewares
• Sizeable unbanked and underbanked population • More demanding wealthier and young consumers • Personalization	• Sizeable domestic market • Growing young middle-class consumers • Health consciousness • Urbanization • Premiumization	• Sizeable domestic market • Growing young middle-class consumers • Health consciousness • Urbanization • Premiumization	• Sizeable domestic market • Growing young middle-class consumers • Health consciousness • Urbanization • Premiumization	• Sizeable domestic market • Growing young middle-class consumers • Health consciousness • Urbanization • Premiumization

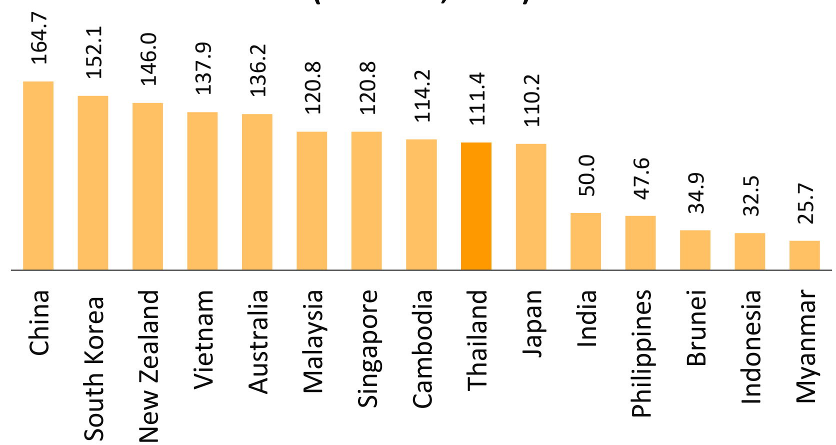
Source: Krungsri Research

Financial services: Unbanked and underbanked population remain sizeable in Indonesia

Financial Development Index (as of 2018)



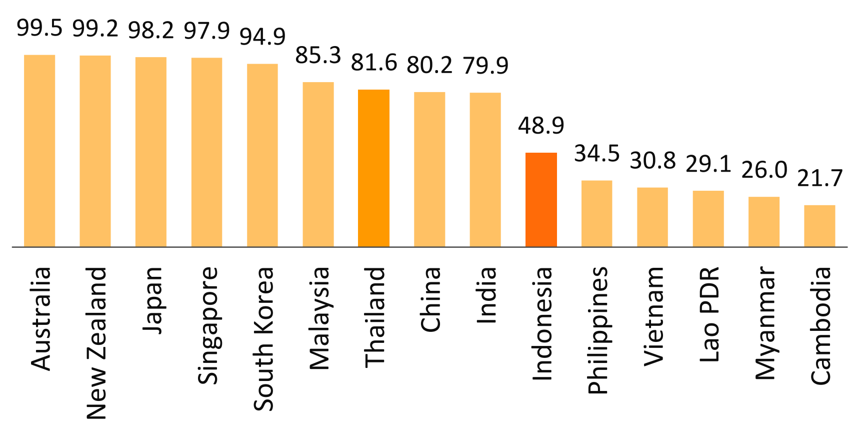
Domestic credit to private sector by banks (% of GDP, 2019)



Financial Institutions in Indonesia: Asset Size (% of GDP)

	2016	2018
Commercial Banks	54.3	54.4
o/w State-Owned Banks	21.3	22.1
Insurance companies	3.3	3.7
Social Security Funds	3.0	3.3
Voluntary Pension Funds	1.8	1.9
Mutual Funds	2.7	3.4
Discretionary and Alternative Funds	1.5	1.6
Finance Companies	3.6	3.4

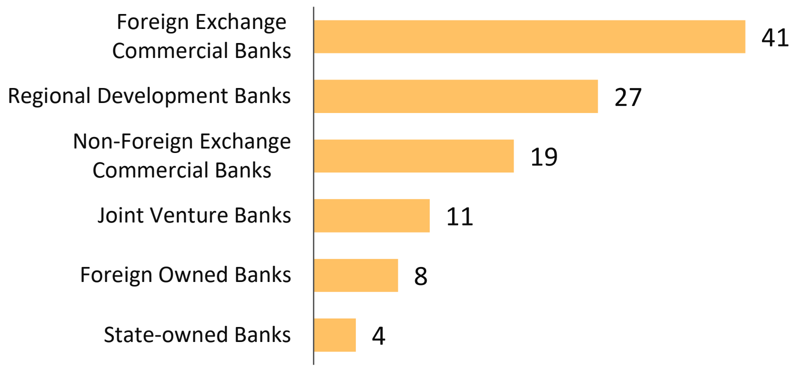
Account ownership at a financial institution or with a mobile-money-service provider (as of 2017)



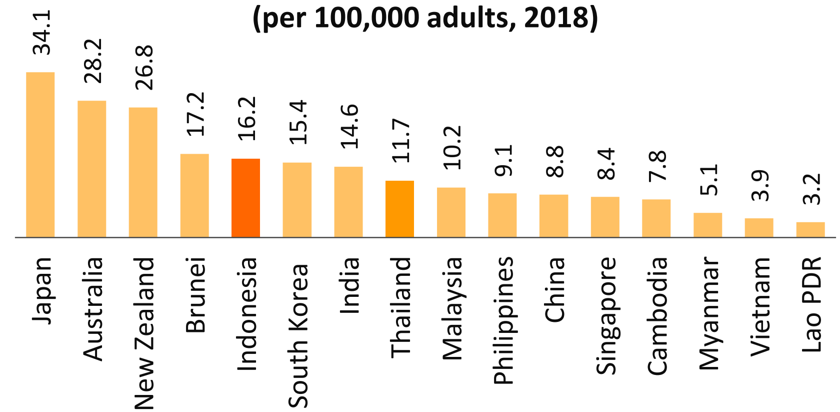
Source: CEIC, Bloomberg, GSMA, AMRO, World Bank: World Development Indicators

…Despite there are a large number of banks and other financial service providers: mobile-led financial services could be used to promote financial inclusion

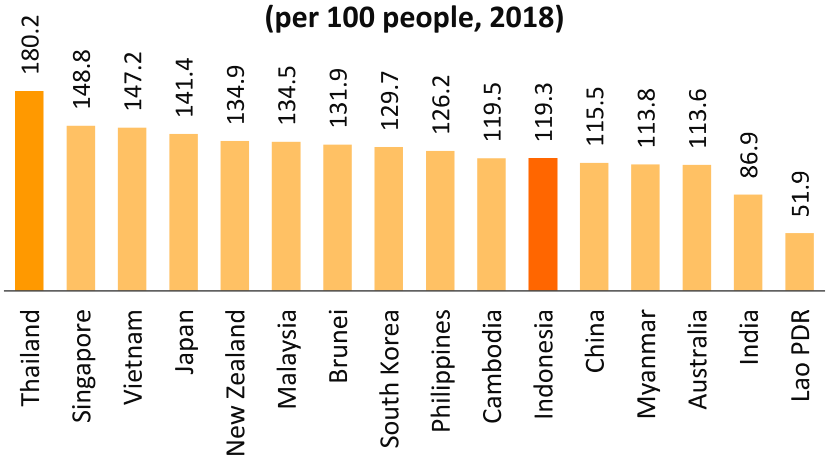
Number of banks in Indonesia (as of 1Q2020)



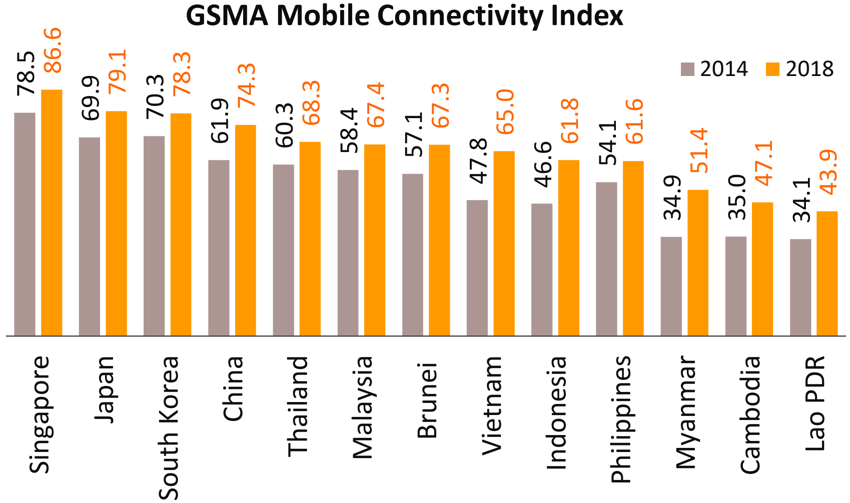
Commercial bank branches (per 100,000 adults, 2018)



Mobile cellular subscriptions (per 100 people, 2018)



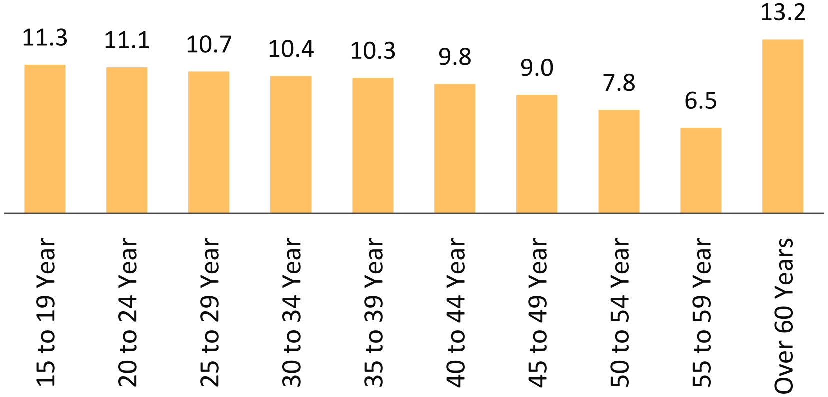
GSMA Mobile Connectivity Index



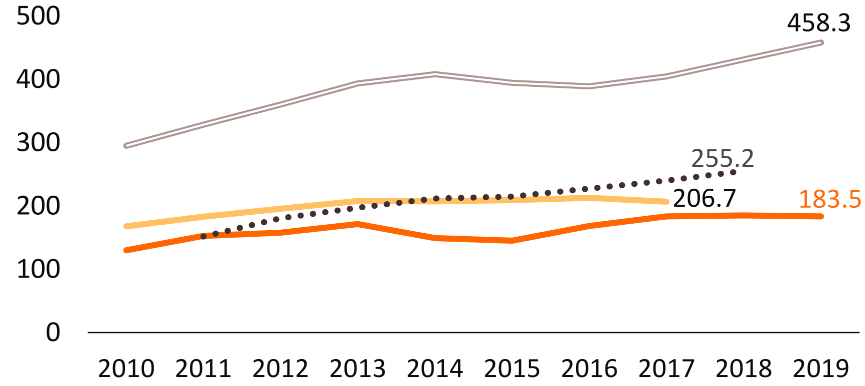
Source: CEIC, Bloomberg, GSMA, World Bank: World Development Indicators

Consumer goods: Sizeable middle-class and young consumers coupled with growing e-commerce are underlying drivers for the future growth

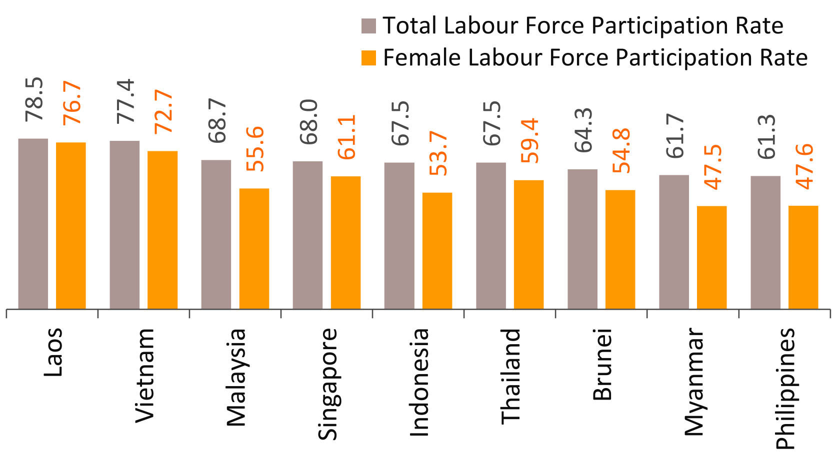
Working Population by age group (% of total active age)



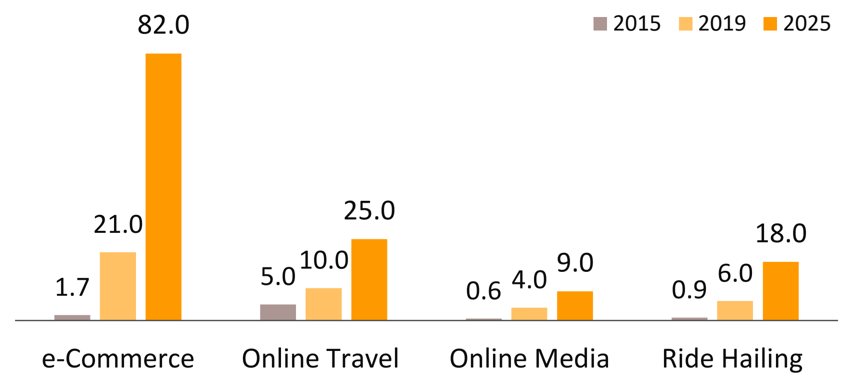
Monthly Earnings (USD)



Labor Force Participation Rate (%, 2019)



Indonesia internet economy (GMV, USD bn)



Source: Fitch Solutions, EMIS, Euromonitor, e-Conomy SEA 2019 report: Google, Temasek, Bain & Company

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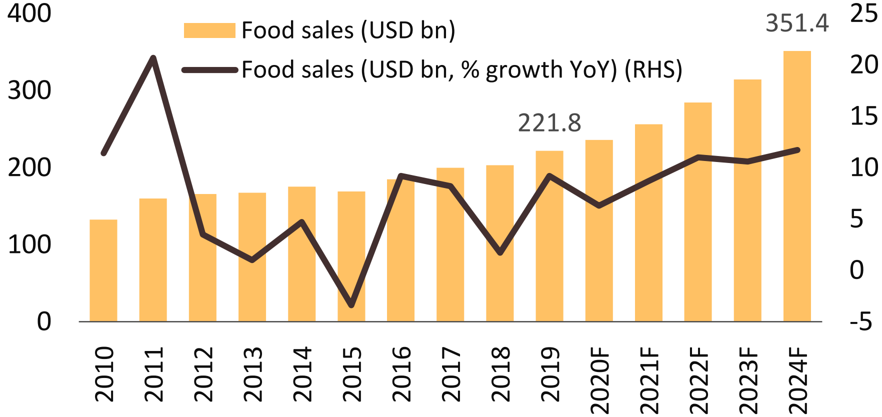
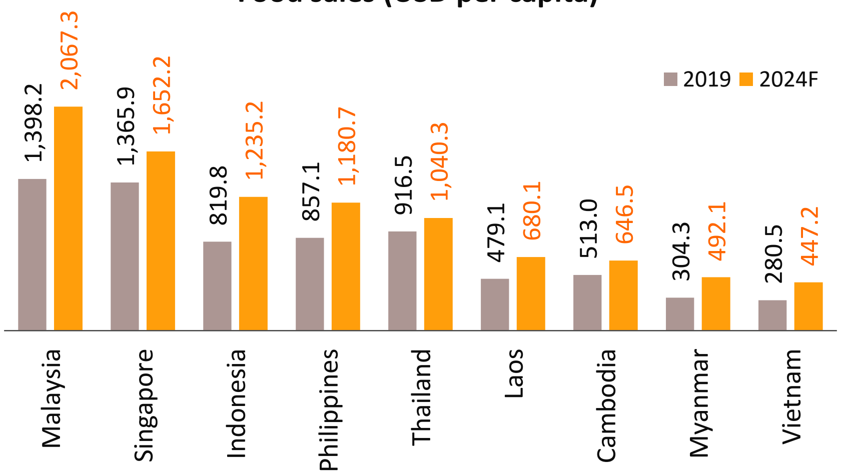
Food: Thailand's competitive advantages in the food and agricultural industries should support Thai firms to penetrate Indonesia's halal food and healthy food sectors

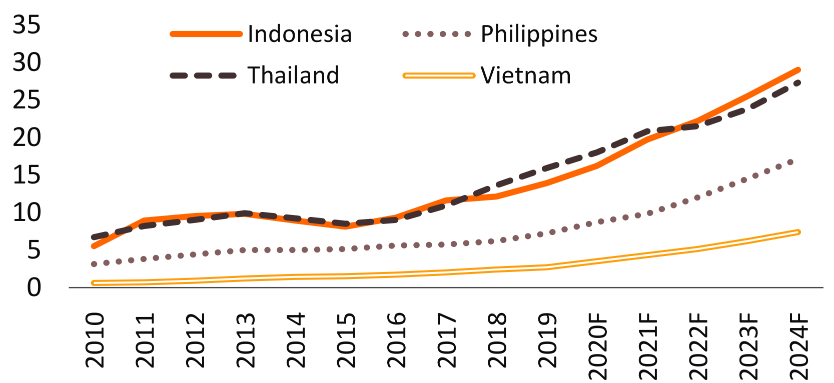
Market size: Food sales in Indonesia



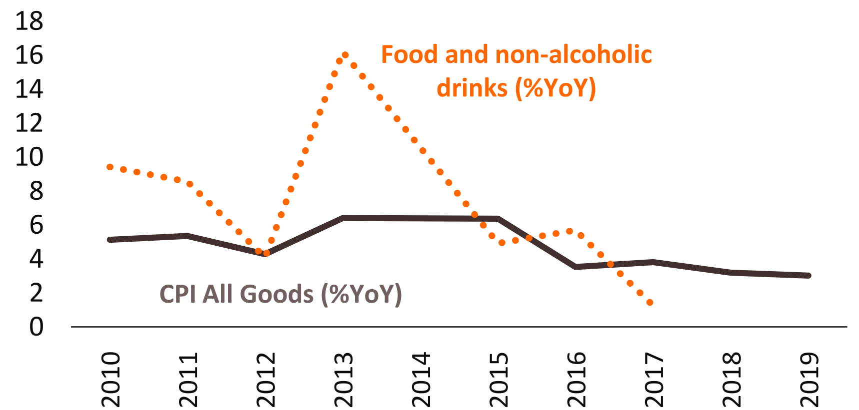
Food sales (USD per capita)



Households earning USD15,000+ (% of total)



Developments of food prices



Source: Fitch Solutions, EMIS, Euromonitor

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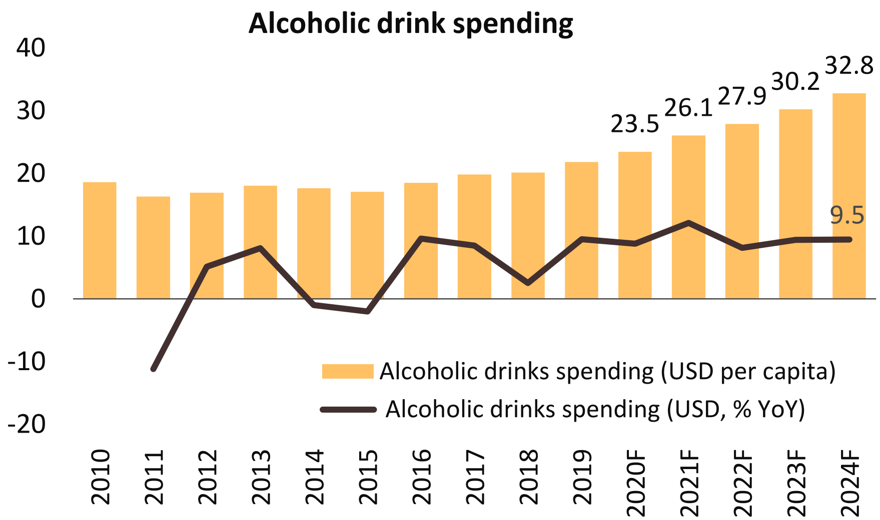
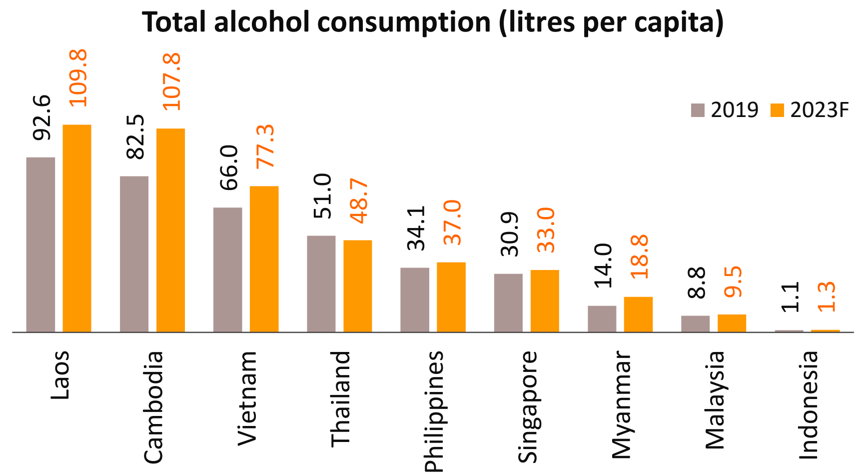
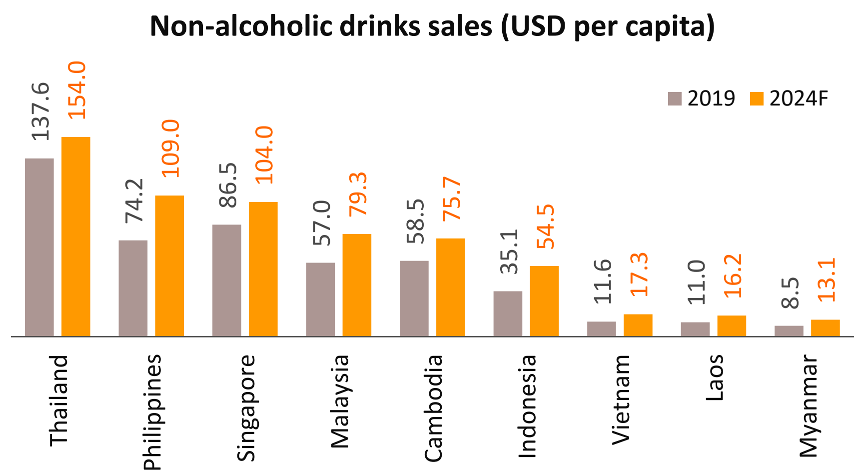
Beverage: Demand for healthier alternative drinks[1/] are likely to be boosted by increased local consumers' health-consciousness

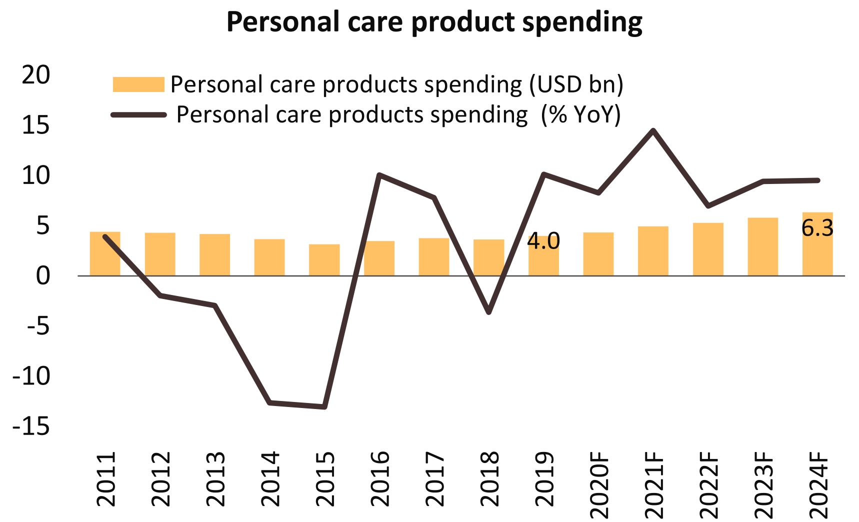


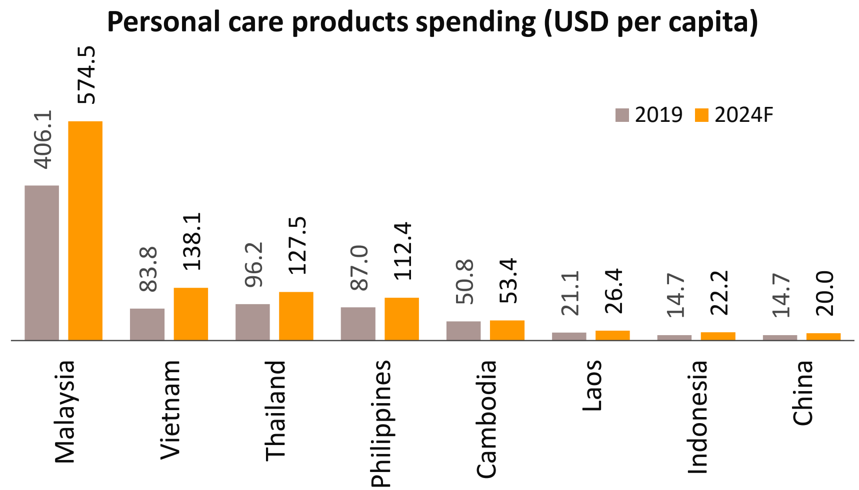


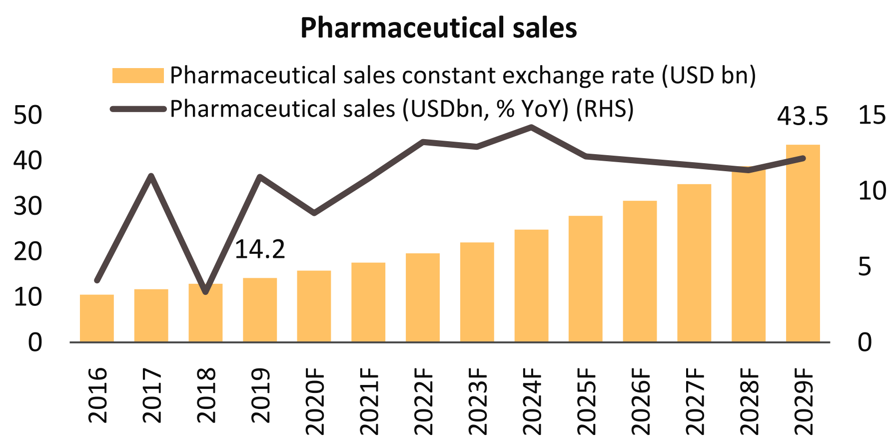


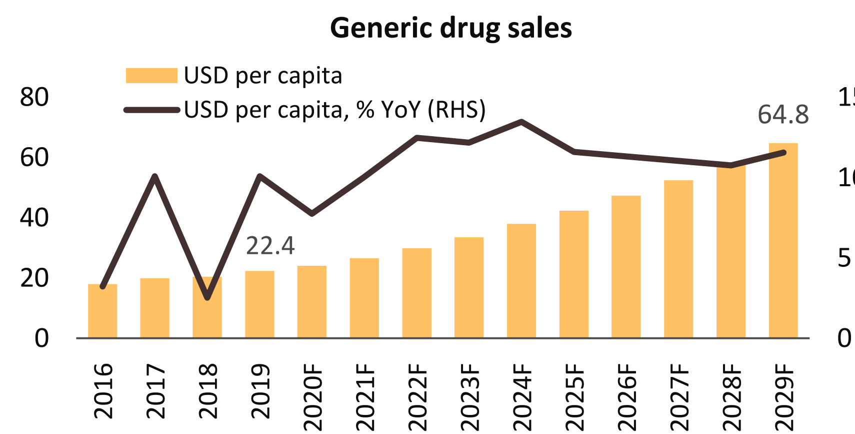
Note: 1/ including energy drinks, bottled water and fruit juices functional beverages as well as non-alcoholic drinks such as higher-value coffee products
Source: Fitch Solutions, EMIS, Euromonitor

Personal care products and pharmaceuticals: Higher demand for quality goods will be increasing in line with higher disposable income of young consumers





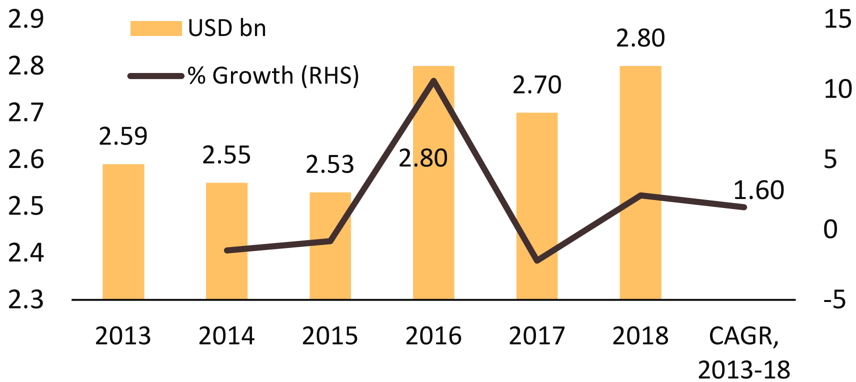




Source: Fitch Solutions, EMIS, Euromonitor

Homewares: Booming real estate sector and rising urbanization are supportive underlying for its future growth

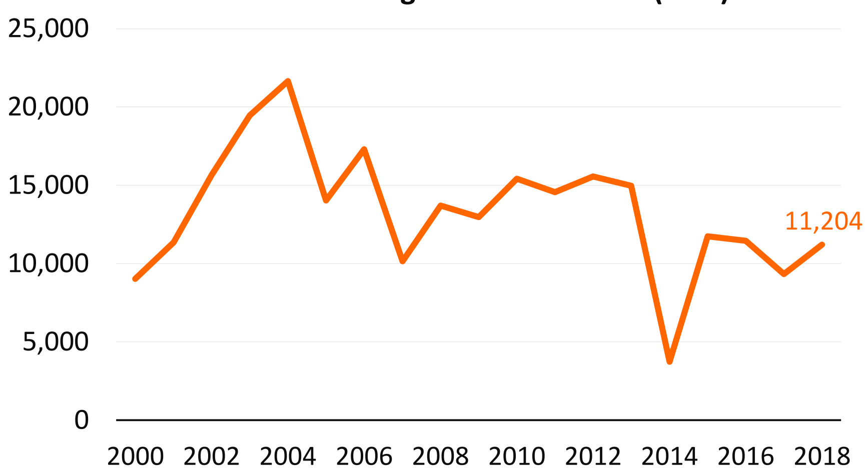
Homewares in Indonesia, sale values (2013-18, USD bn)



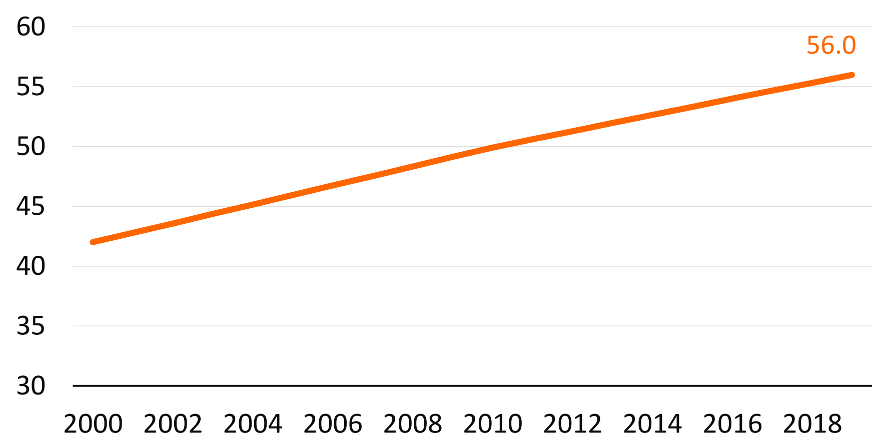
Home in Indonesia, category analysis by sales (USD bn), 2018

Category	USD bn	% Share
Furniture & Floor Coverings	4.11	45.42%
Home improvement & Gardening products	2.14	23.63%
Homewares	**2.80**	**30.95%**
Overall	**9.06**	**100%**

Construction Building Permit in Jakarta (Unit)



Urban Population as % of Total Population



Source: Fitch Solutions, EMIS

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