



ASIA PERSPECTIVE

Insights: Quarter 4, 2021

Indonesia Economic Update Report

This Issue:

Indonesia's Economic Performance in Q4
Indonesia plans to stop export of key
unprocessed minerals

www.asiaperspective.com





Indonesia registered a 3.69% GDP growth in 2021, compared to the year before

Powered by the recovering domestic demand, a further easing of COVID-19 curbs, and the global commodity boom, Indonesia's GDP growth in the last quarter of 2021 accelerated to 5.02% (YoY). This resulted in a GDP growth of 3.69% (YOY) for the entire year 2021, recovering from a 2.07% contraction in 2020.

Thanks to a sharp decline in Covid-19 cases, leading to eased movement restrictions, traffic in retail and recreational areas has been recovering toward pre-pandemic levels. Annual household consumption, which makes up over half of Indonesia's GDP, grew by 2.02% (YoY). Moving forward, Indonesia is likely to expand its purchasing power in early 2022 as the services sector returns to normal. On the production side, the growth in manufacturing output (4.92% YoY), construction (3.91% YoY), wholesale trade, and retail (5.56% YoY) in Q4, 2021 all surpassed the corresponding figures in Q3, 2021. Notably, a sharp rebound in the output of both accommodation and food services (4.95% YoY growth) and transportation and warehouse (7.93% YoY growth) was recorded during the same period. Investments and public spending also grew faster during the last quarter, after being halted during previous quarter.

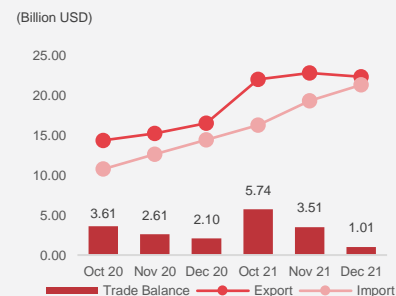
As Indonesia's economy bounced back strongly in 2021, GDP growth is expected to continue to accelerate in 2022, but concerns remain as Indonesia entered a new wave of COVID-19 in January 2022, driven by the highly transmissible Omicron variant.

Indonesia's 2021 trade surplus was the highest in 14 years

Exports from Indonesia surged by 45.52% (YoY) in the last quarter of 2021. For the last half of the year, Indonesia's exports grew by 46% compared to the same period 2020. Export growth in the last quarter was driven by the high prices of Indonesia's main commodities, such as palm oil, coal, nickel, copper, and tin.

Imports to Indonesia also witnessed an impressive growth of 50.4% (YoY) during the last quarter, and of 49% (YoY) during the last 6 months of 2021.

Overall, the trade balance in the last semester of 2021 recorded a surplus of 16.26 billion USD. Remarkably, the trade surplus of 35.34 billion USD for the entire year of 2021 was the highest in 14 years.



Source: Statistics Indonesia, 2021

Indonesia plans to stop export of key unprocessed minerals

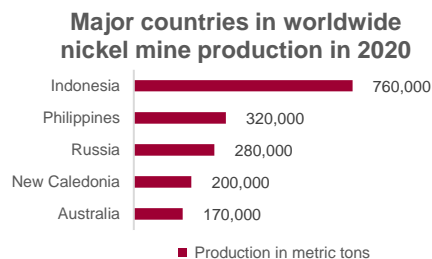
Policies on restricting export of unprocessed minerals are set to greatly benefit the resource-rich Southeast Asian nation in upcoming years. Following the country's prohibition of nickel ore-shipments, implemented January 2020, Indonesia announced further plans to halt the export of bauxite starting 2022, copper ore from 2023, and probably tin export from 2024. In addition, the government is considering a new export tax on nickel pig iron and ferronickel (a semi-refined product) as soon as 2022.



The minerals are crucial for electric vehicles, semiconductors, and other leading manufacturing industries. Around 70% percent of nickel demand today comes from steel producers. The single-largest growth sector that demands nickel is the manufacturing of batteries for electrical vehicles (EV). Indonesia is striving to become a global player in EV batteries, and a significant regional player in East Asia and the SEA region for production of electric cars, targeting to be a key supplier of products such as nickel sulfate, battery precursors, and cathode materials by 2025. Indonesia also aims to produce all EV components onshore by reserving bauxite and copper ore for domestic demand.

As the world's largest nickel producer with the biggest nickel reserves, the fifth largest producer of bauxite, and the second-largest producer of tin in 2020, Indonesia is in a strong negotiating position. The country is aware of the economic opportunities this development provides and is increasingly focuses on attracting investments in production capacity along the supply chain. It is the way out for a country that has the most abundant resources in the world, yet the mining sector only accounts for 6.4% of the economy. The reinforcement of domestic manufacturing and the spur of downstream sectors are expected to create more local jobs and lead to an increase in exports of more valuable products.

To comply with the government's direction, local manufacturers must prioritize domestic demand, otherwise their business permission might be revoked.



Source: Statista, 2022

The policy shifts in the Southeast Asian archipelago have shaken global commodities markets, pushing up prices for other countries that need the supplies. The European Union (EU) already filed a lawsuit against Indonesia's export restriction at the World Trade Organization (WTO), claiming that the export ban on nickel ore was unfair to EU steel producers. Although critics regard these policies as resource nationalism, Indonesia considers them to be crucial to lift the so-called resource curse, where an abundance of natural resources can be a factor leading to underdevelopment.

While the export ban means losing short-term export earnings, jobs, and government revenue, Indonesia puts its bets on long-term benefits. In November 2021, Indonesia reported a 35 billion USD of added value generation by refining more nickel domestically rather than shipping raw material overseas. The move has triggered an influx of investment, mainly from China, into nickel processing. In October 2021, South Korea's Hyundai Motor Group and LG Energy Solution started the construction of a \$1.1 billion EV battery plant, with commercial production in Indonesia expected to start in 2024. Tesla, China's Contemporary Amperex Technology, and other big companies, have expressed interest in helping to create an Indonesian EV battery supply chain. Meanwhile, Germany-based BASF and French nickel processor Eramet are considering building a nickel- and cobalt-refining complex in Indonesia. This progress shows that even though international players are expressing concerns about the law from, the country's strategy has come into strong effect.

Indonesia to construct the world's largest green industrial park

In December 2021, Indonesia's President Joko "Jokowi" Widodo gave order to start the construction of the world's largest green industrial park in Bulungan, North Kalimantan. The hub represents a leap in Indonesia's economic transformation from being a raw materials exporter to a significant global manufacturer.



The planned total area is 16,400 hectares of land, which can be almost doubled in size in the future. The park aims to attract hi-tech manufacturers of lithium-ion batteries, semiconductors, solar panels, green aluminum, and industrial silicon, among many others. It will also significantly stimulate job creation, with the construction alone requiring at least 100,000 workers, and up to 200,000 workers when it starts operating. This 132 billion USD project is majorly funded by investors from Indonesia, China, and the United Arab Emirates.

Hydropower and solar power will be used to power the park, setting the standard for the development of future green industrial parks in the country. This development will pave the way for Indonesia's metal producers, notably aluminum producers, who previously have struggled to meet global environmental agreements. Matter-of-factly, aluminum produces the second-highest emissions and stands as the metal that is most affected by carbon pricing policies. As such, adopting new environmentally friendly production processes will put Indonesia's manufacturers on the right track. Moreover, the government hopes the green hub will assist in reducing aluminum imports and take advantage of the huge bauxite deposits located in Kalimantan.



Asia Perspective is an independent management consultancy with global presence and local knowledge. We assist our clients with business advisory regarding analysis, strategy and implementation. Our mission is to turn our clients' Asia business vision into reality and add significant value to your business.

We offer specialist services covering purchasing, market entry, commodity strategy and financial advisory. This includes market research and forecasts, sourcing and pricing strategy, M&A advisory, risk assessment studies etc.



Contact Asia Perspective

For full office postal addresses, please visit: <http://www.asiaperspective.com/contact-us/>

Shanghai

Tel: +86-(0)-21-340-106-10
shinfo@asiaperspective.com

Ho Chi Minh City

Tel: +84-35 417 4913
vninfo@asiaperspective.com

Jakarta

ininfo@asiaperspective.com

Beijing

Tel: +86-(0)-185 0048 6766
beijinginfo@asiaperspective.com

Stockholm

Tel: +46-(0)-70-769-92-07
stockholminfo@asiaperspective.com

Zhongshan

Tel: +86 18 826 002 703
zhinfo@asiaperspective.com

Helsinki Representatives

Johan Hackman
Tel: +358 400607378
johan.hackman@asiaperspective.com
Sami Lindstrom
Tel: +358 405774344
sami.lindstrom@asiaperspective.com