

Indonesia's 'Chicken and Monkey economics' have transformed into a soaring eagle, championing the EV race and attracting record-breaking FDI.

President Jokowi's economic reforms have unleashed Indonesia's true potential, propelling it to become a thriving economy with a young population driving sustainable growth.

Infrastructure development has been a major thrust with a pipeline project for over

300 Bn

'Chicken and Monkey economics' is how a senior Indonesian government functionary described the pre-Jokowi (Jokowi is the nickname for President Joko Widodo) economic model of Indonesia at a recently concluded investor conference in Bangkok. The chicken uses its beak to dig the grain out of the ground while the monkey simply plucks the desired fruit. Indonesia was seen to be a country which was largely excavating its natural resources without any incremental value addition. The country has been richly blessed with vast amounts of hard commodity reserves while the tropical weather has made it a major exporter of various soft commodities. However, historically this has not led to much capacity development or growth in more value-accretive downstream industries. This has specifically been one of the key focus areas of the Jokowi administration.

Possessed with leading nickel and other key base metal reserves, Indonesia has decided to champion the EV race by setting up a comprehensive end-to-end ecosystem for vehicle production. As an initial sign of success, two auto OEMs, namely, Hyundai and Wuling, have already set up EV production in the country (we had the opportunity to visit the former during our recent visit). In 2022, the country received approx. USD 43 billion in FDI, up 44% from 2021, with metals, machinery, and equipment industries accounting for nearly half of the FDI. The country is witnessing smelter construction at three sites along with hydro developments. While some of it may appear polluting, the country has set a zero-emission target of 2060 implying that there are strict environmental and energy replacement targets for these projects.

Supported by various economic reforms under President Jokowi, Indonesia has been one of the world's fastest growing economies and has witnessed the fastest growth in the ASEAN region over the last few years. As the fourth most populous country with an average age of around 30 years, it will likely enjoy favourable demographics until the middle of the next decade, which should sustain the growth momentum provided the country keeps up with the desired economic reforms.

The Widodo Economics

President Jokowi is considered the most popular leader the country has seen by pursuing large, ambitious plans for the country's growth despite many critics doubting the accomplishments initially. This became to be commonly known as 'The Widodo Economics.' Within the initial 100 days of his first term starting in 2014, the Jokowi administration managed to reform fuel subsidies, the social assistance program, and eased investment licensing without the burden of any new restrictive regulation. Additionally, there has been a consolidation of ministries to remove unproductive government departments.

Infrastructure development has been a major thrust of the Jokowi administration. With over a USD 300 billion project pipeline, it made for an ambitious target. Some of the projects have been completed while several others are



under development. Among the landmark projects has been the Jakarta-Bandung High Speed Railway and the new greenfield national capital, Nusantara. This visible progress has resulted in the soaring popularity of President Jokowi – the latest figures released by the polling agency Lembaga Survei Indonesia (LSI) show an approval rating of 76.2 at the start of the year (this is a 13-percentage point increase since September 2022).

Three-Horse race likely to become two

As much as Indonesians like President Jokowi, the country's constitution prohibits him from running for a third term. The upcoming elections in 2024 are likely to see three contestants – namely, Ganjar Pranowo, Anies Baswedan and Prabowo Subianto, as the potential candidates for the presidency.

Ganjar, currently the Governor of Central Java, is seen as the closest replacement for President Jokowi, given his track record as an able administrator as seen under his governorship. Like Jokowi, he is also seen as a secular moderate and therefore does not enjoy the support of religious parties. In a nation of over 17,000 islands, the largest island of Java plays a key role in Indonesian politics since it accounts for over half of the country's population. Therefore, Ganjar's Javanese identity is an important advantage. Markets

Markets will likely favor a Ganjar victory, signaling alignment with Jokowi's reformist agenda and continuity of the same.

Anies, supported by religious parties, poses as the principal challenger to Ganjar, but his involvement in a controversial project raises skepticism among the markets and business community.

will likely favour a Ganjar victory as it may imply complete alignment with Jokowi's existing reformist agenda and continuation of the same.

Anies, former Governor of Jakarta, will likely be the principal challenger to Ganjar, supported by the religious parties. In the run-up to the election, there is a risk of igniting the conflicts between the Islamists and pluralists in the country. During his tenure as the Governor of Jakarta, Anies was caught up in a controversy involving an important reclamation project in North Jakarta, eventually leading to the stalling of the project. Therefore, the markets and business community might see his elevation with greater scepticism.

Prabowo, the Minister of Defence and a former military general is the likely third contender should it become a three-way contest. Our interaction with leading political experts in the country suggests that given Prabowo's health issues and a very similar electoral proposition to Ganjar, he may have to drop out of the race. However, experts also tell us that a three-way contest will help Ganjar secure a win, while a two-way runoff may help Anies as he will ensure the marginal Prabowo supporters.

Muddled politics but clear economic priorities

We derive greater comfort from the likely continuation of the progressive economic agenda irrespective of the election outcome, even though Indonesian politics may seem muddled for now. Putting the election rhetoric



aside, experts reckon there is greater congruence with respect to the growth-oriented economic agenda amongst the three key contenders. An Anies victory is unlikely to derail the economic agenda set by President Jokowi, while Ganjar's is likely to take it even further.

Economic Outlook

Indonesia makes a compelling long-term case for itself underpinned by structural reforms and favourable demographics, even though the near term appears hazy due to impending elections in the country and the consequent rhetoric.

Indonesia is one of the biggest countries with a population of 300 million and roughly half of that in the labour force. Only 20 million people work in the formal sector which has led to a large informal sector in the economy with over 60 million ultra-micro and micro businesses translating to 60% of the country's GDP. Evidently, this has resulted in low financial penetration, and the government plans to increase it from 76% to 90% through various industry and policy initiatives. However, rising interest rates globally have created uncertainty, albeit Indonesia has managed to keep inflation largely under control. The recent trends indicate that inflation has peaked and we are close to the end of the tightening cycle in the country. In addition, Indonesia has successfully managed to de-risk itself from external financial shocks by reducing its reliance on external borrowing.

A stable macro environment has translated into broad consumer spending as seen in the strong consumer confidence index. Our meetings also highlighted that this is visible in robust property demand and consumer discretionary spending such as autos (2w and 4w sales). However, capex may not recover until the overhang of elections are over next year.

From a longer-term perspective, Indonesia is favourably placed in an increasingly multi-polar world and will likely be the beneficiary of investments both from countries/companies seeking to de-risk from China and Chinese companies seeking to expand their geographical footprint. In security terms too, the region remains largely stable and important for global trade.

We expect Indonesia to remain the fastest growing country not just in the region but also among the major USD 1 trillion+ economies globally.

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We anticipate Indonesia to sustain its rapid growth, both regionally and among the major USD 1 trillion+ economies worldwide.

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