

Investment:

Trying to get back in the (relocation) game

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5 Aug 2024

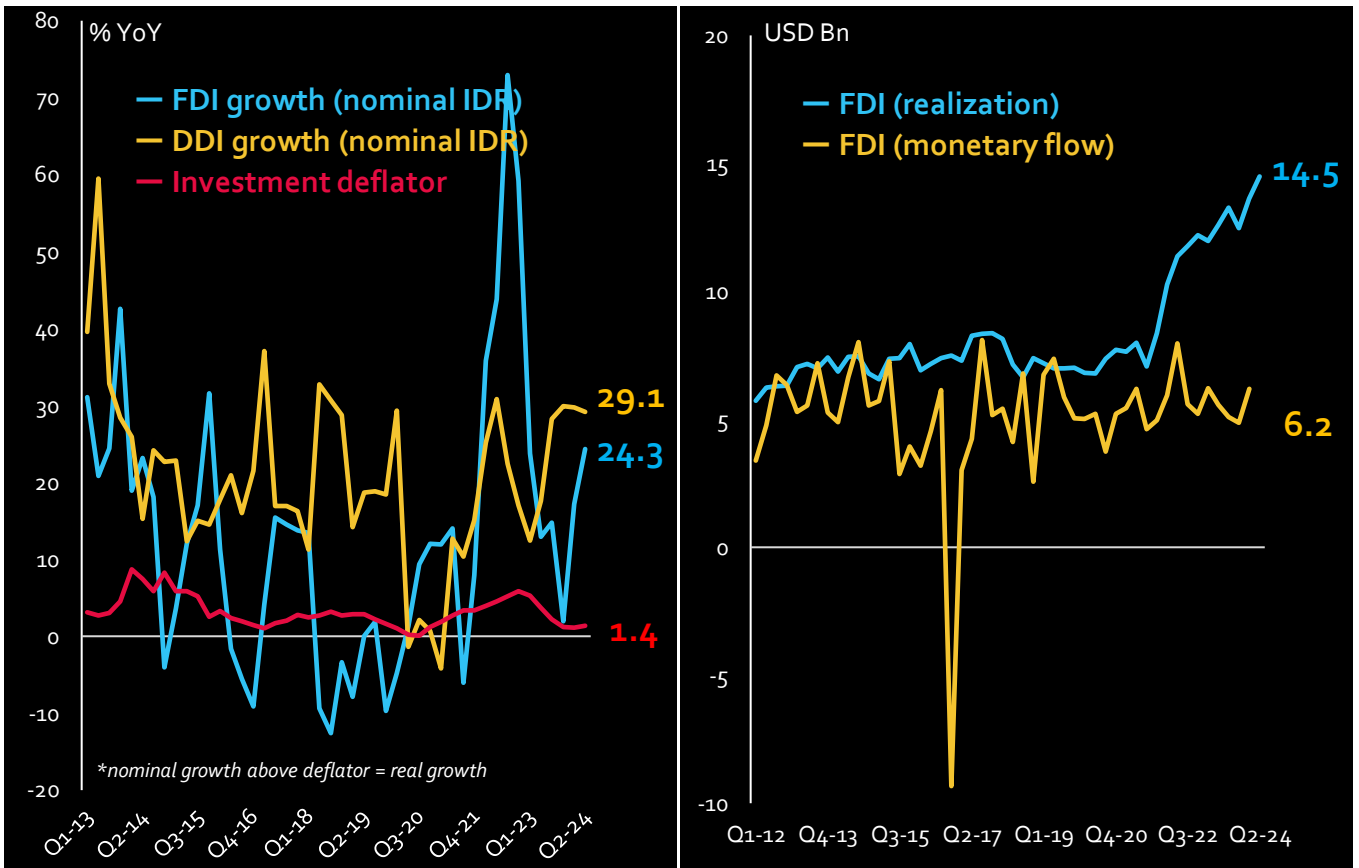
Executive Summary

- Indonesia's direct investment grew 17.2% YoY (USD 27.6 Bn) in Q2-24, with DDI growing 29.1% YoY (IDR 211 Tn) and FDI accelerated to 15.1% YoY (USD 14.5 Bn).
 - Investment mostly went into commodity-related sectors, but the numbers are significantly lower outside of them. There are also government-directed investments, which still support DDI growth.
 - Investment into manufacturing has been disappointing, in line with PMI data and the CAPEX growth of listed companies, which points to Indonesia lagging in the industrial relocation game due to relatively low industrial know-how compared to peer countries.
- Indonesia's direct investment grew 17.2% YoY (USD 27.6 Bn) in Q2-24, slowing down from 19.5% YoY in Q1-24. Domestic direct investment (DDI) continued its robust growth at 29.1% YoY (IDR 211 Tn), while foreign direct investment (FDI) accelerated to 15.1% YoY (USD 14.5 Bn).
 - Despite these glowing headline numbers, most of the investment went into commodity-related sectors (primary sectors + metal/mineral industries), which accounted for 37% of total investment (up from 31% in Q1-24). Excluding those sectors, direct investment only grew 7.9% YoY (vs 20.1% YoY in Q1-24), highlighting Indonesia's continued dependence on commodities. These sectors might get a boost in investment because of the short-lived commodity price rally in the early to mid-quarters. This dependence was even more apparent in FDI, with only 4.6% YoY growth if we take out the commodity-related sectors from the calculation.
 - Government-directed investment, reflected chiefly by DDI in construction, infrastructure, and to some extent real estate, are also showing decent growth. As has been the case in recent quarters, much of these seems to be driven by legacy projects such as the new capital city (IKN) and outstanding projects (PSN or *proyek strategis nasional*). However, the seemingly high growth compared to previous quarters is mostly due to low-base effect, with the exception of the real estate sector, which is showing almost all-time high numbers.
 - The question, though, is whether Indonesia has "extra gears" beyond commodity-related and government-directed investments. Manufacturing, unfortunately, seems to be a sobering story, with ex-metals/minerals growth of only 5.5% YoY (-10.9% QoQ) for DDI and 19.2% YoY (-11.2% QoQ) for FDI. We see further confirmation from recent PMI data and CAPEX

growth of listed companies for Q2, which was concentrated mostly in chemicals and pharmaceuticals.

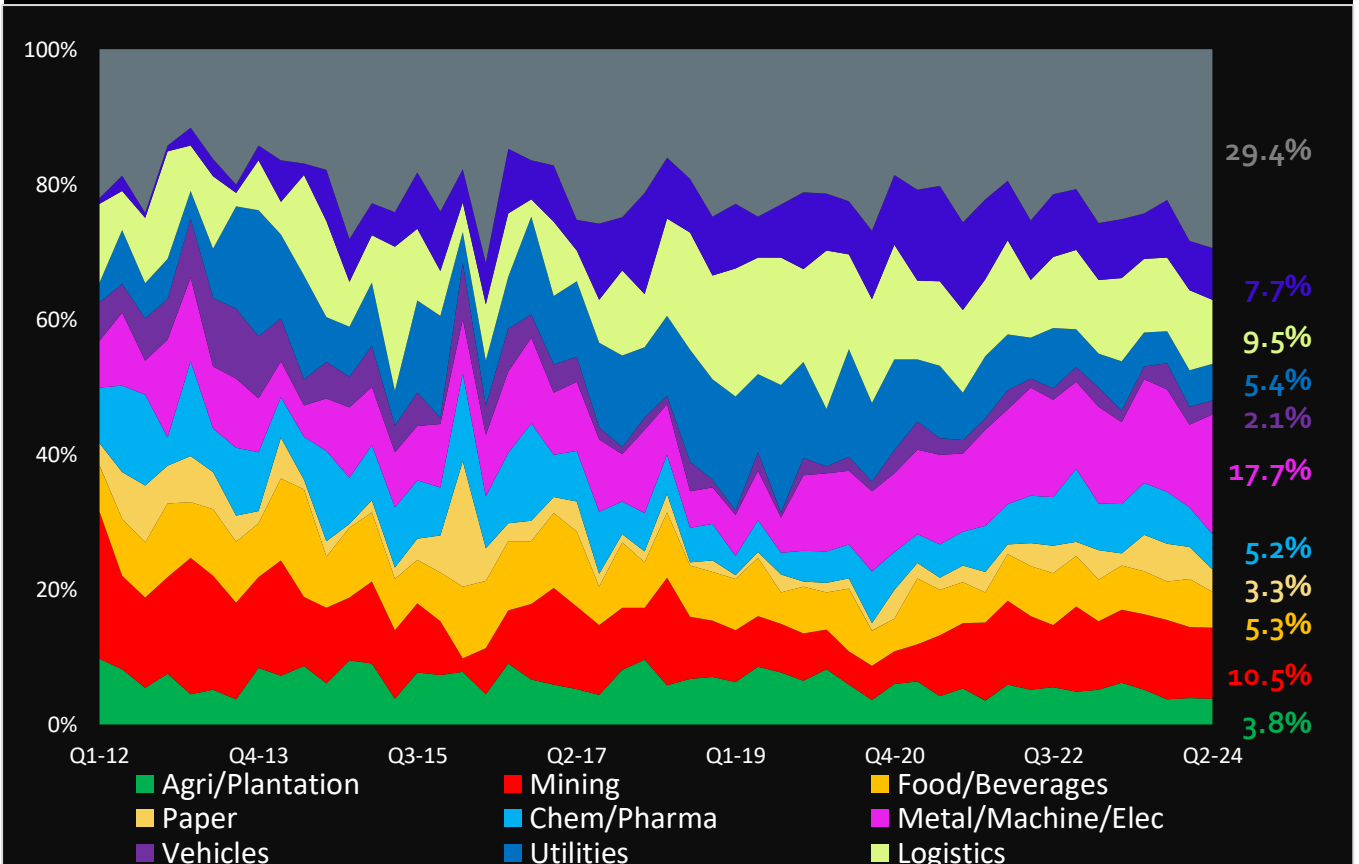
- This slowdown is unfortunate, given that manufacturing is shaping up to be a “hot ticket” for emerging countries in the near-term. While Chinese overcapacity remains a looming concern, the potentially intensifying trade war between the US and China could drive a new wave of relocations.
- Peer countries, including other big ASEAN economies and India, seems to be benefiting from this trend, but Indonesia appears to be behind in the relocation game. Of course, this should not come as a surprise as Indonesia’s proposition to Chinese FDI has mainly been about its natural resources rather than its industrial know-how. This is less favorable than India or Vietnam with their overall tech expertise, Thailand with its strong base in automobiles, or Malaysia and Philippines with their preexisting capabilities in semiconductors.
- Alas, commodity-dependent economies like Indonesia may not enjoy much tailwind from commodity prices over the next few quarters. The government, then, would have to get extra creative to attract FDI. Supporting DDI is trickier because of its inherent dependence on liquidity windfall from commodities, but the next government could choose to push for extra CAPEX or capital injections to SOEs if it is able to relax the legal strictures on fiscal deficits. The liquidity constraint that hampers investment is also quite apparent when we look at some of the ideas that the government has been floating in recent weeks, such as Golden Visas and family offices for foreigners.

Panel 1. Investment growing due to the robust growth of DDI and accelerating FDI



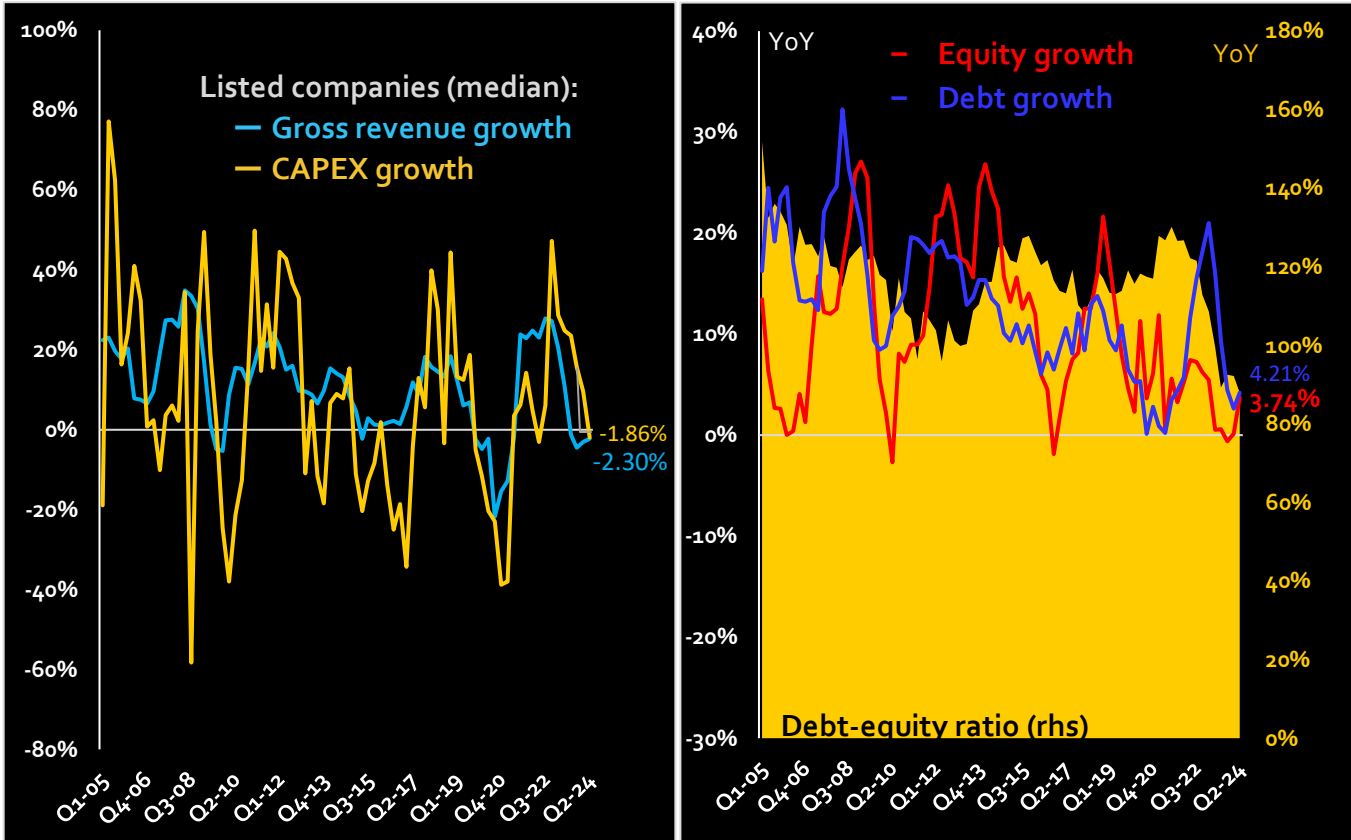
Source: BKPM, BPS, BI, calculation by BCA Economic Research

Chart 1. Commodity-related sectors are taking more portion



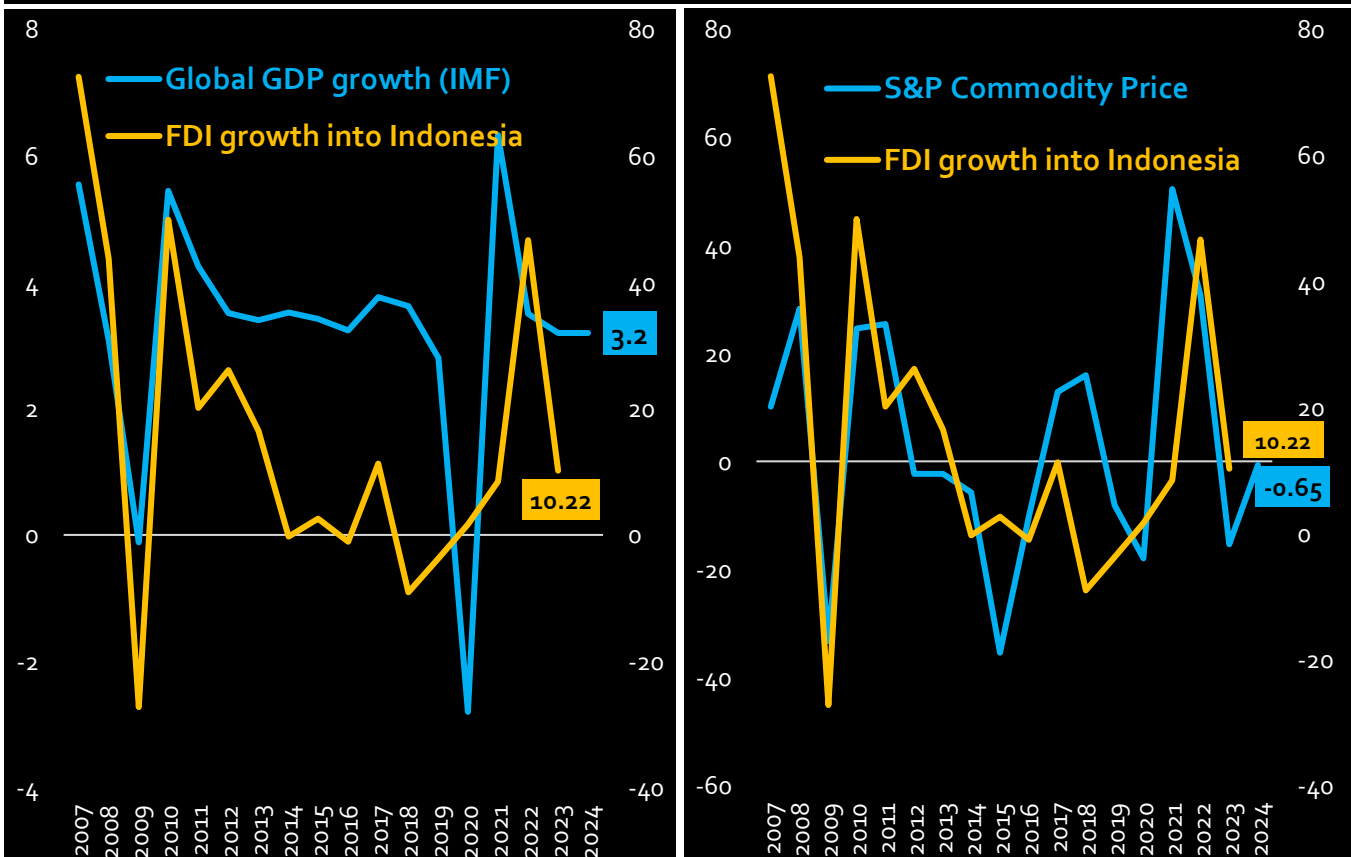
Source: BKPM, calculation by BCA Economic Research

Panel 2. CAPEX of listed companies fell sharply with a sluggish revenue growth



Source: Listed companies data from Bloomberg, calculations by BCA Economic Research

Panel 3. Commodity catalyst has been lacking for FDI



Source: BKPM, IMF, Bloomberg

Selected Macroeconomic Indicator

Table 1. FDI realization by sector (USD Million, *current price*)

	2021	2022	2023	Q3-2023	Q4-2023	Q1-2024	Q2-2024
PRIMARY SECTORS	4,826.2	7,064.9	6,782.4	1,913.8	1,558.2	1,811.4	1,468.9
Food crops, plantations, & livestock	950.6	1,789.5	1,945.6	566.8	308.0	306.2	560.0
Forestry	41.4	98.9	96.0	15.6	18.7	50.9	11.4
Fishery	17.2	31.6	25.7	4.6	4.4	49.4	3.2
Mining	3,816.9	5,145.0	4,715.0	1,326.8	1,227.1	1,405.0	894.4
SECONDARY SECTORS	15,802.8	24,679.4	28,689.7	7,916.9	7,719.1	7,503.8	8,644.5
Food industry	2,337.4	2,424.5	2,262.6	638.3	507.1	679.6	595.2
Textile industry	312.1	658.3	457.5	81.6	131.7	194.3	206.1
Leather goods & footwear industry	484.9	630.5	782.5	205.7	208.2	143.6	193.5
Wood industry	68.1	243.2	157.8	45.8	32.3	23.7	21.3
Paper & printing industry	952.5	1,630.0	3,430.8	1,159.6	1,164.4	983.8	833.2
Chemical & pharmaceutical ind.	1,656.5	4,505.5	4,805.2	1,335.0	1,143.3	1,076.4	848.0
Rubber & plastic industry	262.2	362.7	575.8	87.7	154.6	183.2	241.1
Non metallic mineral ind.	327.0	537.3	523.4	161.1	167.2	151.5	162.5
Metal, machinery, electronics, & other instruments	7,653.8	11,749.4	13,265.6	3,683.2	3,373.4	3,274.0	5,004.9
Transport equipment & other transport	1,501.9	1,522.8	2,046.2	425.1	766.5	670.5	384.0
Other industries	246.3	415.0	382.5	93.9	70.3	123.2	154.7
TERTIARY SECTORS	10,464.2	13,860.8	14,795.4	3,429.0	3,181.7	4,313.9	4,374.7
Electricity, gas and water supply	2,938.6	3,762.7	2,742.1	819.5	500.2	525.4	871.4
Construction	93.3	165.3	281.8	120.8	35.9	182.1	282.7
Trade & reparation	463.8	736.7	943.8	306.6	132.1	334.7	493.5
Hotel & restaurant	432.2	498.0	811.1	120.9	182.9	367.5	137.0
Transport, warehouse & telco	3,159.1	4,125.1	5,615.5	1,085.1	1,375.8	1,182.1	773.9
Real estate, industrial estate & business activities	2,186.4	3,014.6	2,574.5	595.5	601.7	946.4	805.8
Other services	1,190.7	1,558.4	1,826.5	380.6	353.0	775.7	1,010.3
TOTAL	31,093.2	45,605.0	50,267.5	13,259.7	12,459.0	13,629.1	14,488.1

*Gold = Top 5 sectors for the year

Source: BKPM

Table 2. DDI realization by sector (IDR Billion, *current price*)

	2021	2022	2023	Q3-2023	Q4-2023	Q1-2024	Q2-2024
PRIMARY SECTORS	62,766.7	111,217.3	155,140.2	39,364.5	40,479.3	44,021.5	56,902.9
Food crops, plantations, & livestock	29,374.7	38,878.5	42,912.0	10,997.5	9,151.9	11,054.9	7,961.0
Forestry	6,862.7	8,603.1	23,032.5	5,135.9	5,883.0	11,243.8	16,347.1
Fishery	1,012.1	1,214.1	2,506.5	968.4	392.0	496.2	428.9
Mining	25,517.1	62,521.6	86,689.2	22,262.7	25,052.3	21,226.6	32,165.9
SECONDARY SECTORS	94,698.7	143,564.3	171,657.3	46,485.2	48,085.0	48,605.1	46,219.0
Food industry	26,517.5	54,937.0	54,827.9	14,532.4	13,571.8	18,835.6	14,141.5
Textile industry	1,972.4	5,614.7	7,949.8	1,854.3	1,446.2	1,713.6	1,777.2
Leather goods & footwear industry	700.4	483.4	1,641.5	242.3	467.9	140.3	466.6
Wood industry	1,143.7	3,587.9	4,610.7	1,330.3	1,126.7	2,263.4	862.8
Paper & printing industry	7,833.6	9,508.2	9,295.0	2,608.4	2,641.8	3,859.3	1,455.3
Chemical & pharmaceutical ind.	23,363.6	28,905.2	33,869.9	8,988.4	11,266.8	7,505.4	9,273.0
Rubber & plastic industry	7,803.1	7,369.7	9,256.1	1,900.6	2,795.2	2,340.3	1,609.7
Non metallic mineral ind.	6,522.2	6,367.9	7,770.4	1,793.4	1,514.7	2,054.8	2,728.1
Metal, machinery, electronics, & other instruments	16,190.9	17,643.8	30,149.5	10,339.2	9,036.6	7,867.2	9,559.0
Transport equipment & other transport	1,459.3	2,425.2	6,172.7	784.0	2,620.0	571.9	3,077.3
Other industries	1,192.0	6,721.3	6,113.8	2,111.7	1,597.2	1,453.4	1,268.5
TERTIARY SECTORS	289,598.5	297,987.3	348,125.9	92,285.0	92,824.7	104,482.8	107,966.2
Electricity, gas and water supply	38,727.7	32,107.5	37,584.9	6,539.1	10,134.4	13,871.3	9,986.4
Construction	39,569.4	33,846.5	32,813.4	9,000.6	9,116.3	5,296.8	7,511.7
Trade & reparation	22,432.3	31,051.3	48,557.8	16,204.3	10,830.4	16,473.7	18,490.0
Hotel & restaurant	17,819.3	21,579.1	23,362.9	5,799.7	6,545.1	6,172.5	5,403.4
Transport, warehouse & telco	61,241.6	75,138.4	76,659.4	24,816.5	19,403.0	30,218.4	29,648.0
Real estate, industrial estate & business activities	85,497.8	66,167.9	77,099.2	16,647.1	22,582.5	15,192.9	21,438.7
Other services	24,310.4	38,096.7	52,048.2	13,277.6	14,213.0	17,257.3	15,488.1
TOTAL	447,064.0	552,768.8	674,923.4	178,134.64	181,388.98	197,109.36	211,088.15

***Gold = Top 5 sectors for the year**

Source: BKPM



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Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	2.87
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	16,172
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.5

*Estimated number

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