



NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

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Indonesia: a stable economy despite precarious global conditions

MARKET INTELLIGENCE REPORT

Summary

- In July 2023, the World Bank confirmed that Indonesia had reacquired its status as an ‘upper-middle-income country’, putting it back on track to pursue its 2045 high-income status goal. Indonesia’s economic growth is projected to normalise to 4.9% this year, whilst inflation is expected to average 4.2%.
- Indonesia continues to be a market of importance for New Zealand goods and services exports – ranking 8th for export value worth NZ\$2.09 billion (year ended March 2023), and 12th for total two-way trade value worth NZ\$3.69 billion.
- In addition to diversifying the range of New Zealand’s goods exports to Indonesia (to include products from other sectors beyond dairy), there are significant market business opportunities in services trade relating to geothermal development, human capital development (education), and technological advancement.

Report

Indonesia's economy remains stable...

Global economic conditions remain precarious and global growth is expected to slow down this year to 2.1% (down from 3.1% in 2022). But in this challenging global environment, Indonesia's economy remains relatively stable and its economic growth is projected to normalise to 4.9% this year (down from 5.3% in 2022) as the commodity boom wanes and domestic demand normalises following the post-pandemic jump last year. Inflation is expected to average 4.2% in 2023 as commodity prices ease and monetary policy tightens.

The robustness of Indonesia's manufacturing sector has seen the sector remain the largest industry contributor to Indonesia's gross domestic product (GDP), making up 18.3% (2022) of total GDP, driven by strong domestic consumption. The leading manufacturing sub-sectors include basic metal, machinery, leather and footwear, textiles, transportation tools, electronics, pulp and paper, and food & beverage. These sub-sectors support other down-stream industries such as energy, information technology, communication, transportation, and logistics.

In July 2023, Indonesia reacquired its status as an 'upper-middle-income country', according to the World Bank, putting it back on track to pursue its high-income status goal – an ambition for 2045 and the centenary of independence. Whilst President Joko Widodo has expressed gratitude for the recovery of Indonesia's economic growth for the past six quarters (supported by commodity windfalls and domestic consumption), he stated that the situation ahead would not be easy due to the unstable global environment and ongoing geopolitical tensions affecting economic growth and weakening trade activity.

...but is the post-pandemic recovery phase coming to an end?

There are several indicators that suggest the post-pandemic recovery phase may be coming to an end. Challenges such as softening in investment growth, reduced labour input, and weak 'human capital formation' (development of persons' skills, education and experience to meet the development needs of the economy) could lead to lower potential growth. Declining productivity growth is weighing on economic potential, however, this is not particular to Indonesia, but is also present across most economies in the world.

From a global trade perspective, Indonesia has been performing strongly and has been consistently posting trade surpluses since 2020. According to the PwC Indonesia Economic Report, we could expect this trend to continue, considering Indonesia's primary trading partners will only experience a mild slowdown, and the prices of Indonesia's top export commodities (i.e. coal, palm oil, and nickel products) remain strong. The top five Indonesian export destinations, along with their growth projections in 2023, are China (+4.7%), USA (+0.2%), Japan (+1.2%), India (+5.4%) and Malaysia (+4.4%).

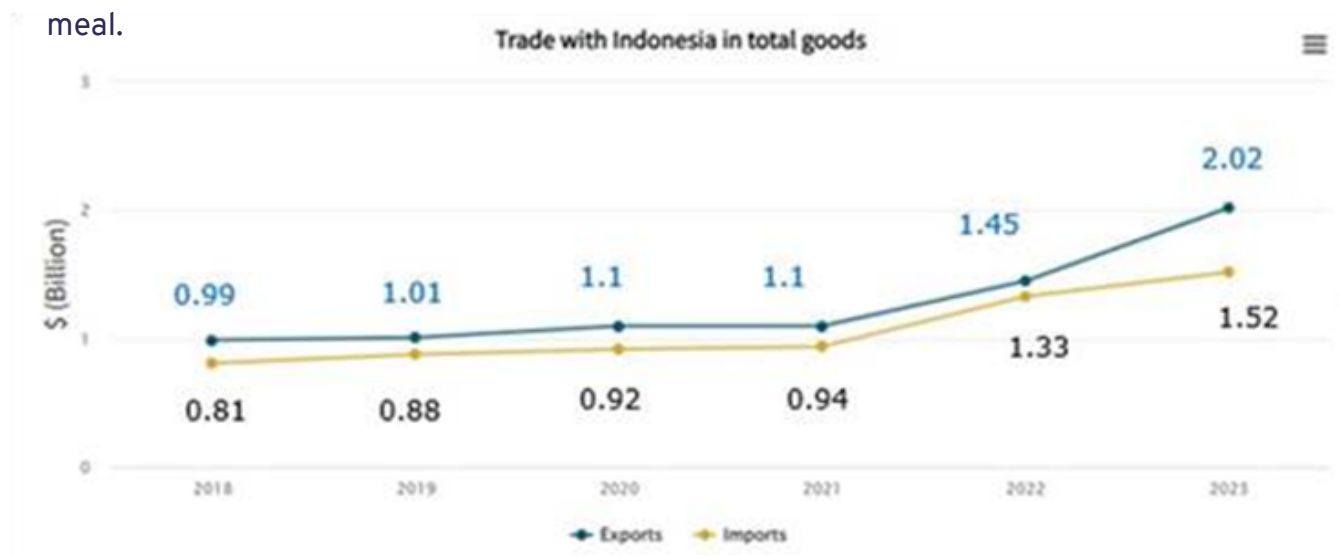
In December 2022, President Joko Widodo provided direction to Ministries to maintain national economic resilience in facing various challenges ahead, including:

- Finding synergies between fiscal and monetary policy to support the 'real sector' (part of the economy that produces tangible goods and services);
- maintaining people's purchasing power;
- increasing exports;
- increasing investment; and
- expanding downstream (in priority sectors such as agro-industry, mineral and mining, as well as oil, gas and coal) and green energy.

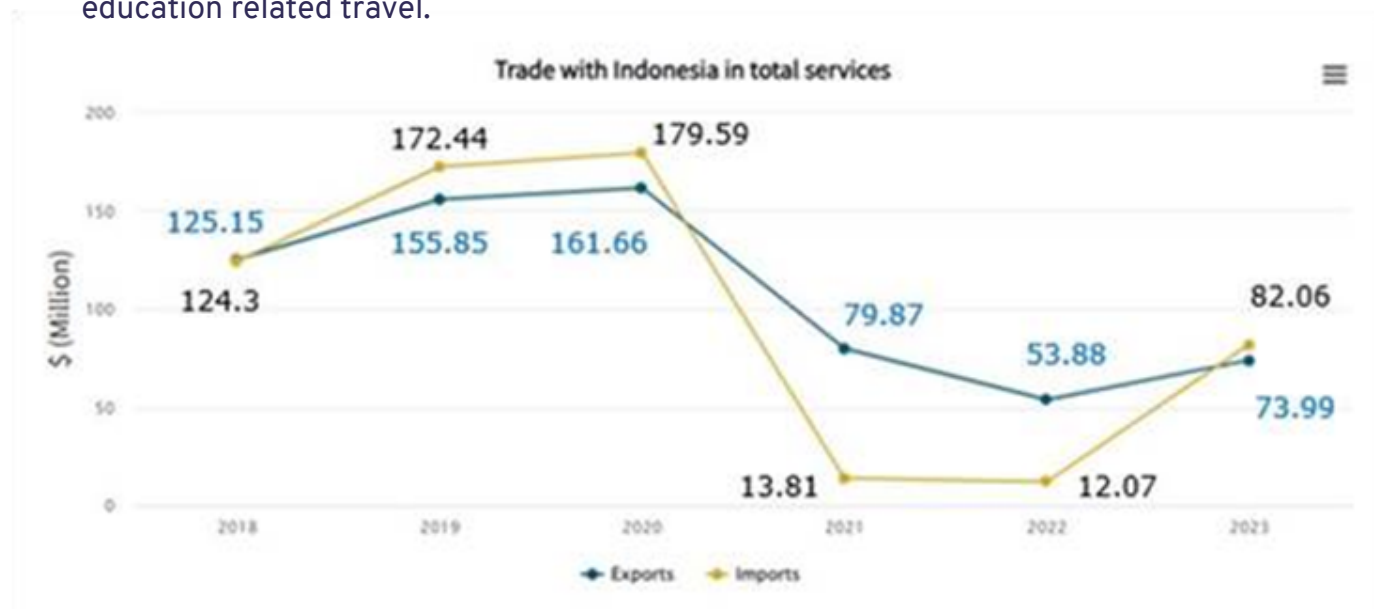
Bilateral Trade

Indonesia is currently New Zealand's 8th largest export market and ranked 12th for highest total (two-way) trade value. It continues to be a market of importance for New Zealand goods and services exports - worth NZ\$2.09 billion (year ended March 2023), with a growth of 27.8% over the past year. Together with imports worth NZ\$1.6 billion, this represents a total trade value of NZ\$3.69 billion (up 22.8%).

The increase in New Zealand's exports to Indonesia was supported by the growth of agricultural goods exports (in particular dairy exports, which increased by 25%), and the positive trend in food services in Indonesia. Indonesia became New Zealand's 6th largest goods export destination (up from 7th last year) worth NZ\$2.02 billion (up 28.2%). The top five goods exports to Indonesia by product category were: 1) dairy produce; 2) casein and caseinates; 3) wood pulp and scrap paper; 4) petroleum oils; and 5) meat and bone meal.



Trade in services, including tourism, business and education-related travel, has yet to recover to pre-pandemic levels. New Zealand exported NZ\$73.99 million of total services to Indonesia (up 27.2%) and the total trade value is worth NZ\$156.05 million. The increase in Indonesia's services exports to New Zealand (travel) may have been driven by New Zealand's border re-opening and the arrival of New Zealand tourists into Indonesia. The majority of New Zealand's services exports to Indonesia were from education related travel.



Market Challenges

While the Indonesian economy is showing steady growth, it is likely to be underperforming on its full potential. The country's regulatory complexity and uncertainty means that businesses seeking to conduct business in Indonesia face some risks. Together with labour law rigidity, a lack of skilled workforce and poor infrastructure these factors have acted as a drag on investment and led to lower levels of economic growth and prosperity in Indonesia.

Trade with Indonesia remains challenging. A protectionist outlook has meant that importing processed goods, and agricultural products in particular, face high non-tariff barriers and requirements for entry.

New Zealand businesses in Indonesia

According to NZTE, most New Zealand businesses established in Indonesia have remained engaged in the market:

- In the **food and beverage** sector, the timeframe for the shipment of fresh produce from New Zealand to Indonesia has improved and importers have adjusted well to manage their inventory on the ground.
 - In the **renewable energy (mainly geothermal)** sector – New Zealand businesses have increased their interests and efforts into Indonesia, recognising Indonesia as an important market as a result of developments in geothermal capacity, its commitment to achieving net zero emissions and international pledges of support received during its G20 Presidency in 2022. New Zealand businesses are actively visiting market, securing projects and participating in tenders with local geothermal developers either for new plants or expansion.
 - New Zealand businesses with expertise in airport technologies have been preparing to re-enter the **aviation** market.
 - In the **building and construction** sector, New Zealand businesses that provide machinery, equipment, engineering, and technology services are maintaining their business efforts through partnering with ‘channel partners’, or continue to have a presence in market.
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Market Opportunities for New Zealand businesses

Geothermal development remains promising as the Government of Indonesia (GoI) aims to reach 5,500 MW geothermal energy capacity by 2030, which would account for 23% of Indonesia’s estimated geothermal energy resource potential. The current installed geothermal energy capacity is 2,342 MW. By the end of 2023, the expansion of two existing geothermal working areas (GWAs), 10 MW ‘Dieng’ and 3 MW ‘Sokoria’ Geothermal Power Plants, will see Indonesia reach 2,355 MW of geothermal energy capacity. Opportunities for New Zealand businesses include energy capacity expansions from existing GWAs, new GWAs (greenfield developments) and exploration and studies of geothermal utilisations such as direct use & green hydrogen.

Education accounts for around 20% of the GoI’s 2023 state budget as it looks to increase the productivity and quality of human resources. In addition to addressing the economic impact of learning loss from the COVID-19 pandemic, the GoI is committed to boosting investment in the education sector by supporting the expansion of scholarship programmes, adopting information and communication technology, advancing culture, strengthening world-class universities, and developing research and innovation. In the next few years, Indonesia will need as many as nine million digital technology professionals to fulfil its digital economy potential. Opportunities for New Zealand businesses include services that support education digitisation, quality education from

early childhood to high school level (due to Indonesia's demographic composition primarily dominated by young people), capacity building support for education officers, and vocational training to match job markets. The GoI is also encouraging the establishment of in-market education facilities (foreign university campus) in Indonesia.

On **technological advancement**, several digital technology growth drivers that are significant for Indonesia's economy include clean technology, connectivity technology, cloud storage and edge computing, and next-level process automation. Opportunities for New Zealand businesses include services that support smart agriculture, smart aquaculture, clean technology, artificial intelligence development and data analytics, the Internet of Things, and intelligent automation.

Comment

In addition to diversifying the range of New Zealand's goods exports to Indonesia (e.g. shelf-stable, healthy lifestyle, high-end, time-saving food and beverages, and goods from other sectors), there are significant market business opportunities in services trade relating to renewable energy development, human capital development (education), and technological advancement.

Because of trade's cross-border nature, the risk of fraud remains. New Zealand importers are encouraged to undertake due diligence processes to avoid fraudulent digital trade, such as checking the [Indonesian exporters' business identification number](#) (NIB), tax number (NPWP), and history of exporting, prior to conducting financial transactions with potential suppliers.

Regulatory complexity remains burdensome for doing business in the Indonesian market, however, New Zealand businesses that are patient and ready to meet those challenges could find opportunity in a market with considerable potential.

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