

Investment: Relocation finally picking up steam?

Executive Summary:

- **The divergence between FDI (+12.5% YoY) and DDI (-4.2% YoY) growth continues to grow in Q1-2021.**
- **Constrained private and public sector activities continue to be a drag on domestic investment.**
- **FDI on the other hand, has recorded a significant recovery despite the ongoing pandemic.** This may very well be an indicator of attempts to address critical supply bottlenecks, as well as the increasing pace of industrial relocation from China.

- The divergence in Indonesia's investment figures continues to grow (**Chart 1**). **While domestic direct investment (DDI) continued to slide downwards (-4.2% YoY in Q1-2021), foreign direct investment (FDI) proceeded unfazed on its uphill charge (+12.5% YoY in Q1-2021).**

- The story is relatively clear on the DDI front. A still-fragile economic recovery has done little to boost business appetite in the private sector. Additionally, infrastructure-related investment, still the lion's share of all DDI, actually declined on a YoY basis in Q1-2021. Indeed, government financing capacity for infrastructure projects had already begun to approach its limits even before the onset of Covid. **With both the private and public sector constrained, it is little surprise that domestic investment has continued to languish.**

- FDI performance, on the other hand, stands in stark contrast to DDI. Whereas DDI sank to its lowest level in years after the pandemic hit, FDI recently recorded its highest gain since 2017. **The positive numbers of the past few months are, to some extent, a part of FDI's ongoing recovery from the massive shock inflicted on it by the US-China trade war in 2018.**

- This however, doesn't seem to account for everything. Take for instance, the remarkable surge in manufacturing FDI (excluding metals and pharmaceuticals, which have disproportionately benefitted from specific policy initiatives or sectoral shifts due to the Covid-19 crisis), which only began to take off last year (**Chart 2**).

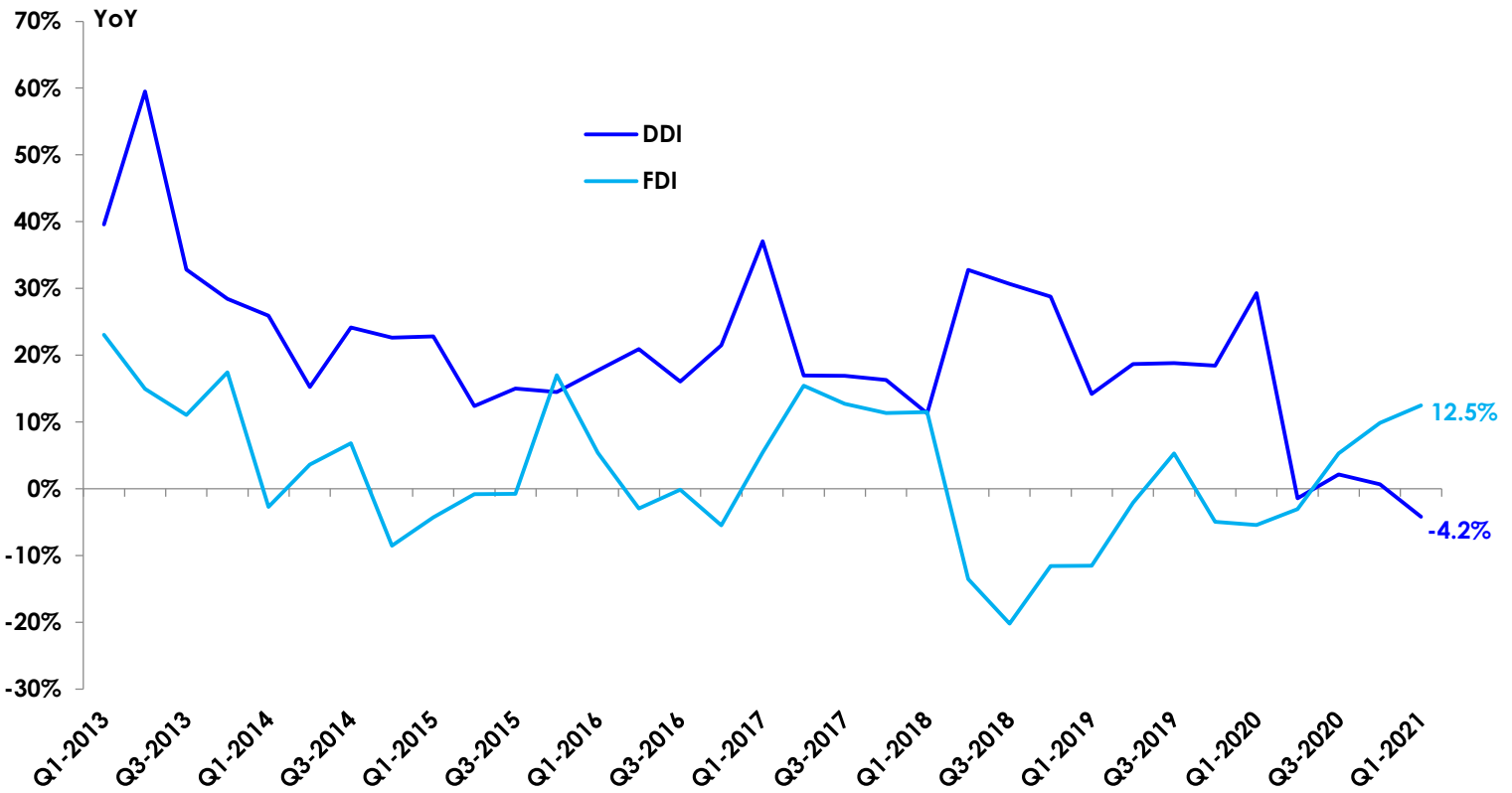
- **This may partly be a reflection of the supply chain bottlenecks that have exacerbated in the past few months, which might somewhat explain the**

curious fact that FDI chose to stage a comeback amidst a global crisis. Indeed, with persistent supply shortages in areas such as semiconductors and shipping equipment, investment aimed at expanding supply and closing these gaps might have reasonably increased in the past year; and with much of domestic capital still constrained, it makes sense that foreign investment would be the main driver in this regard.

- **Aside from this however, the surge in FDI may also well be an indicator of the increasing pace of industrial relocation from China.** Anecdotal experiences seem to support this: whereas media coverage in 2019 often focused on the dearth of foreign companies relocating to Indonesia despite the ongoing exodus from China, 2020 was rife with pronouncements of various multinationals signing deals to set up shop in Indonesia. Indeed, with geopolitical tensions between the US and China actually escalating since the Covid crisis, pressures for relocation are likely to have increased. This, combined with the passing of the Omnibus Law last year and the pro-reform signal it sends to investors, may have provided sufficient incentives for those mulling on expanding their business operations to Indonesia.

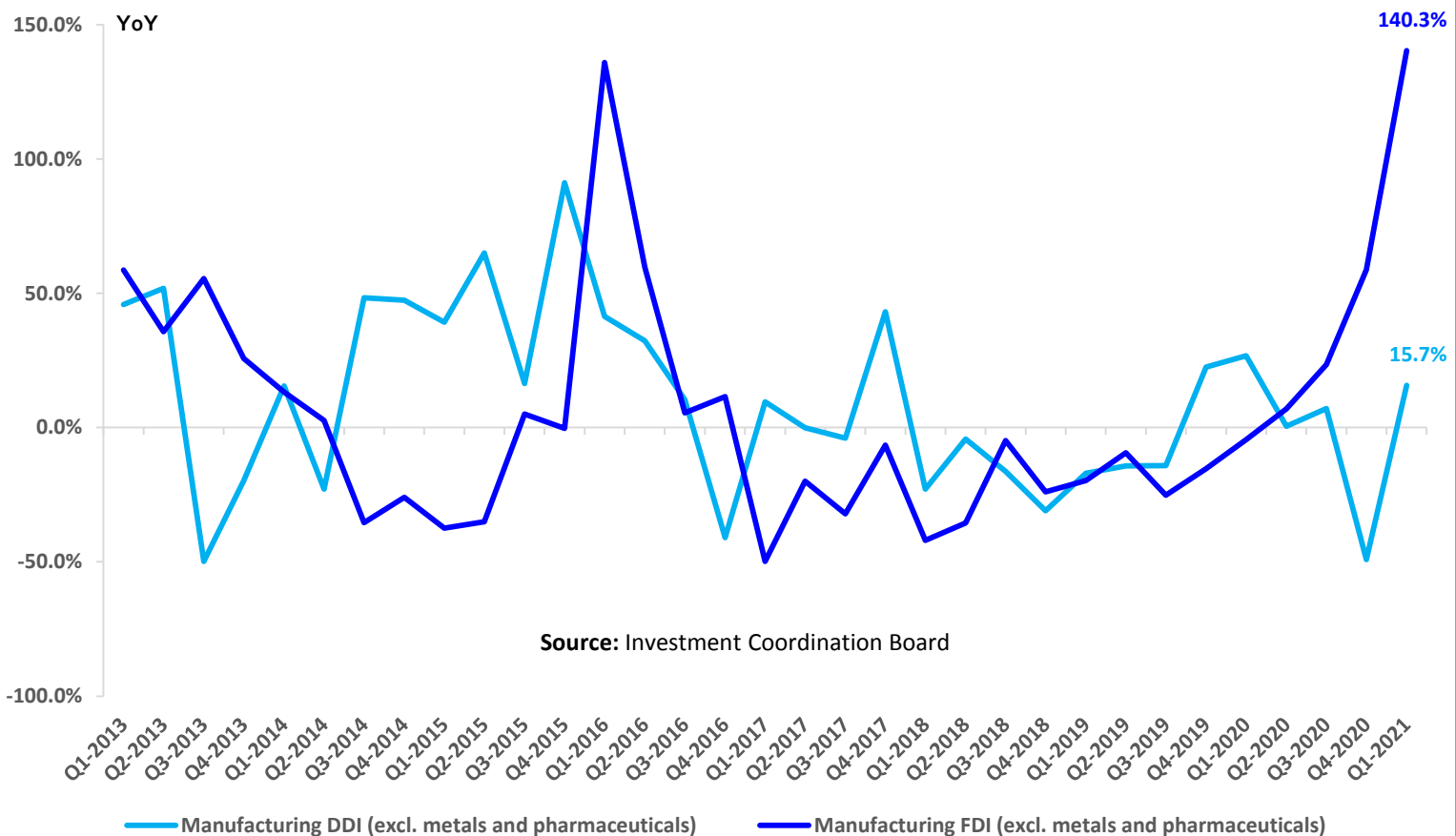
- **The long-term benefits of this influx of FDI however, are heavily dependent on the "quality" of these investments.** Much has been made of the need for Indonesia to transition away from mere commodity-extraction to higher value-added processes. FDI that continues to focus on the low-value added parts of the value chain, such as resource extraction or the final assembly of imported goods, will contribute little to this. Prioritizing high-value added investment, as well as those that contribute significantly to skill and technology transfers, will be essential.

Chart 1. FDI growth continues to recover at a faster pace relative to DDI growth



Source: Investment Coordination Board

Chart 2. Whereas manufacturing DDI has remained stagnant, manufacturing FDI registered a remarkable surge during the pandemic



Source: Investment Coordination Board

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

	2018	2019	2020	Q2-2020	Q3-2020	Q4-2020	Q1-2021
PRIMARY SECTORS	4,827.2	3,293.8	3,280.0	595.2	714.6	957.8	807.5
Food crops, plantations, & livestock	1,721.2	946.9	1,184.2	188.2	132.8	384.4	276.6
Forestry	43.1	36.3	42.6	9.8	9.6	7.0	16.9
Fishery	24.3	54.1	48.1	5.6	2.8	5.0	5.2
Mining	3,038.6	2,256.5	2,005.1	391.6	569.4	561.4	508.8
SECONDARY SECTORS	10,343.2	9,550.8	13,202.2	2,954.9	3,666.7	3,510.7	4,473.4
Food industry	1,307.2	1,272.2	1,592.2	504.3	344.9	444.6	968.3
Textile industry	305.4	238.9	279.8	81.3	75.3	58.3	98.0
Leather goods & footwear industry	243.6	188.2	214.0	38.9	85.3	37.8	74.9
Wood industry	276.1	94.9	84.7	6.4	59.2	5.1	11.2
Paper & printing industry	663.7	446.1	942.8	106.1	116.5	594.4	123.5
Chemical & pharmaceutical ind.	1,938.4	1,486.1	1,742.6	346.5	595.4	231.3	493.8
Rubber & plastic industry	447.1	291.6	291.4	58.7	111.0	34.1	59.1
Non metallic mineral ind.	456.4	475.0	248.3	50.0	64.4	15.3	84.9
Metal, machinery, electronics, & other instruments	3,560.2	4,058.6	6,570.5	1,421.4	1,913.5	1,584.7	1,937.6
Transport equipment & other transport	971.3	754.1	941.9	199.3	192.0	475.7	597.1
Other industries	173.9	245.3	294.0	142.0	109.2	29.4	25.0
TERTIARY SECTORS	14,137.4	15,364.3	12,183.8	3,229.5	2,989.2	3,243.8	2,371.8
Electricity, gas and water supply	4,383.9	5,921.2	4,613.9	1,463.1	916.1	1,366.1	597.8
Construction	248.1	161.6	189.5	101.5	15.6	31.4	5.3
Trade & reparation	609.3	421.3	434.1	178.1	95.7	100.6	77.1
Hotel & restaurant	868.9	625.9	441.1	48.7	114.9	57.2	75.9
Transport, warehouse & telco	3,027.1	4,727.8	3,580.5	648.5	994.6	1,130.5	843.4
Real estate, industrial estate & business activities	4,287.4	2,888.6	2,191.4	526.2	604.4	457.9	535.8
Other services	712.8	617.9	733.3	263.4	247.9	100.1	236.5
TOTAL	29,307.8	28,208.9	28,666.0	6,779.6	7,370.5	7,712.3	7,652.7

*Gold = Top 5 sectors for the year

Source: BKPM

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

	2018	2019	2020	Q2-2020	Q3-2020	Q4-2020	Q1-2021
PRIMARY SECTORS	67,021.8	78,884.9	47,580.1	12,791.9	8,545.5	9,998.7	14,793.0
Food crops, plantations, & livestock	30,781.1	43,598.9	32,096.6	8,698.9	5,669.9	7,410.1	9,889.9
Forestry	3,053.1	9,366.5	1,163.6	202.1	195.1	249.9	133.5
Fishery	87.5	247.5	564.9	130.5	354.1	43.6	191.4
Mining	33,100.0	25,672.0	13,755.0	3,760.4	2,326.4	2,295.1	4,578.2
SECONDARY SECTORS	83,644.2	72,673.8	82,817.9	23,007.6	19,517.6	20,500.5	22,971.2
Food industry	39,087.9	36,602.6	27,872.7	10,767.5	5,934.3	3,862.8	7,614.5
Textile industry	3,596.7	1,312.6	2,103.3	589.8	669.7	782.5	813.3
Leather goods & footwear industry	282.1	77.3	394.7	139.9	55.5	179.5	115.0
Wood industry	1,535.7	1,585.5	1,263.4	199.8	302.4	292.1	56.5
Paper & printing industry	2,894.0	2,950.2	3,745.9	1,233.8	607.0	724.0	3,101.6
Chemical & pharmaceutical ind.	13,337.7	9,484.2	22,526.1	4,701.8	7,532.0	8,657.7	2,238.3
Rubber & plastic industry	3,414.5	3,069.1	4,428.7	960.0	984.8	713.7	1,226.8
Non metallic mineral ind.	4,523.4	3,572.9	5,861.9	1,126.2	1,547.2	555.9	4,216.5
Metal, machinery, electronics, & other instruments	12,418.0	9,334.8	10,013.6	1,819.5	1,429.2	4,009.5	2,912.2
Transport equipment & other transport	1,836.8	2,608.2	2,556.6	1,004.7	92.9	401.8	472.0
Other industries	717.4	2,076.5	2,051.0	464.6	362.6	321.0	204.5
TERTIARY SECTORS	177,533.5	234,933.2	283,137.7	58,486.9	74,785.5	73,167.2	70,253.2
Electricity, gas and water supply	37,264.8	37,164.2	35,518.8	9,395.8	11,251.4	9,343.6	11,470.5
Construction	44,979.6	55,090.7	68,289.2	11,826.7	22,995.9	19,343.9	9,562.8
Trade & reparation	6,429.8	13,662.9	16,748.4	4,558.7	4,840.3	3,401.7	4,887.8
Hotel & restaurant	9,096.3	16,163.6	10,203.1	2,449.4	2,428.6	2,714.1	5,733.6
Transport, warehouse & telco	58,739.9	68,082.5	93,282.8	17,724.8	17,739.1	20,170.2	13,299.2
Real estate, industrial estate & business activities	15,471.8	27,796.5	44,852.8	7,592.0	12,617.5	15,526.9	21,609.8
Other services	5,551.4	16,972.7	14,242.6	4,939.5	2,912.7	2,666.8	3,689.5
TOTAL	328,199.5	386,491.9	413,535.7	94,286.4	102,848.6	103,666.4	108,017.4

*Gold = Top 5 sectors for the year

Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	4.8
GDP per Capita (US\$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	3.1
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14.050	14.460
Trade Balance (US\$ billion)	8.8	11.8	-8.5	-3.2	21.7	10.1
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-1.8

** Estimation of Rupiah's fundamental exchange rate

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