Indonesia’s Growth Led by its Private Sector | Alrroya

http://english.alrroya.com/content/indonesia%25E2%2580%2599s-grow th-led-its-private-sector April 4, 2011

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While some economies around the world stalled or even shrank in the wake of the recent global financial crisis, Indonesia has seen steady economic growth. Between 2007 and 2009, Indonesia’s GDP grew approximately 6.3 per cent, 6.1 per cent, and 4.5 per cent respectively. The region’s growth has not showed signs of easing soon, as it is expected to grow about 6 per cent in 2010. Amidst growing interest in Indonesia’s labor force and consumer base, the nation is part of a new wave of emerging markets fast on the heels of the BRICs.

Indonesia is the fourth most populous country in the world with 230 million people, and has the largest Muslim population of any country in the world. The largest economy in Southeast Asia, Indonesia is comprised of 17,500 islands in the Pacific. Credit rating agencies throughout the world have taken note of the positive trends emerging from Indonesia.

Fitch Ratings, Standard & Poor’s and Moody’s Investors Service have all upgraded their ratings on Indonesia’s outlook and debt. According to Bloomberg Businessweek, some investors expect to see Indonesia become an investment grade country within the next year to year and a half.

Indonesia’s steady growth can be partially attributed to its robust domestic consumption. About two thirds of the nation’s economy is based on domestic consumption. While other nations’ economies rely heavily on exports and foreign consumption, Indonesia’s strong consumer base helped insulate its economy from the global financial crisis. According to a recent BBC report, some of Indonesia’s largest department stores, which serve its growing middles class consumers, receive 80 per cent of their goods from domestic factories. As consumer purchasing power grows, so do domestic sales of locally produced goods. The higher demand for goods fuels increased production, creating new jobs, higher salaries, and an increased standard of living. This trickle-down effect channels the growth in Indonesia’s economy, protecting it to some extent from the global recession.

In the past five years Indonesia’s large population, room for growth, and low labor costs has also attracted the attention of foreign companies. Indonesia has the lowest unit labor costs in the Asia-Pacific, attracting foreign companies looking to expand their manufacturing activities. According to the Jakarta Globe, during the first half of 2010 foreign investment in Indonesia was up almost fifty percent compared to 2009. The levels of foreign investment have noticeably surpassed pre-financial crisis levels, reaching a total of $7.8 Bilion during the first half this year, compared to $6.5 Billion during the same period in 2008. Indonesia also expects continued growth in the size and earning power of its middle class, which currently makes up 35 million Indonesians. In June, Nissan announced plans to double production capacity and quadruple sales in Indonesia by 2013.

Indonesia has been an attractive region to sell goods, as well as manufacture them. Indonesia’s consumption habits are forecasted to continue to increase. In the past four years, Indonesia has seen a large number of shopping malls open up, conveniently located near business centers such as the Jakarta Stock Exchange. International franchises such as Starbucks and McDonald’s have also opened stores that are geared towards the Indonesian middle class. Transportation, housing and telecommunications sectors combined to attract 40 per cent of foreign investment in the 2nd quarter—a clear sign of a growing economy. As foreign companies expand their operations in Indonesia more jobs will be created and consumption will likely increase, thus continuing the cycle that has helped Indonesia grow in the 2000s.

However, despite the success that Indonesia has recently seen, the nation still faces some significant challenges. First challenge, and perhaps its greatest challenge, is its high level of poverty. It is estimated that almost half of all Indonesians live on less than two dollars a day. These people are largely unemployed and poorly educated. Although the average income has doubled to

$2,350 in the past 5 years, there is still room for improvement. An increase in factory jobs could benefit those in the lower income class and increase their income levels. A better opportunity of education for these folks is important. There is also a rising concern about high levels of inflation, reaching a yearly high in July.

With rising food prices and electricity tariffs, the state-run Bank Indonesia is keeping a tight watch on inflation, which is not unusual for a growing economy. In the first week of August Bank Indonesia maintained the benchmark rate of 6.5 per cent. On August 16th Susilo Bambang Yudhoyono, President of Indonesia, gave a Speech to Parliament that highlighted Indonesia's growth. Yudhoyono stated that Indonesia should reach 7.7 per cent annual economic growth in 2014 and hoped to slash poverty by ten percent within that time. These are lofty and difficult goals, and it remains to be seen what will actually be attained.

Overall, though Indonesia's growing economy shows has not shown many signs of slowing down. Perhaps one of the most encouraging signs of Indonesia's economic stability is the fact that its growth has not been fueled by government intervention. Instead, about 90 per cent of the nation's GDP comes from the private sector. With a growing labor force, consumer base, and lack of government intervention, the nation's outlook seems to remains favorable for its population and foreign investors alike.

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