

A tall, white, square tower with a golden flame-like top, set against a blue sky with light clouds. The tower is the central focus of the image. In the background, a white dome and other buildings are visible.

Indonesia Economic Outlook 2023



Edelman
Global Advisory

Executive Summary

The year 2022 was not easy for Indonesia. There were nearly 2.5 million cases of COVID-19 last year, which brought the total number of COVID-19 cases in Indonesia to 6.72 million through 2022. Last year, Indonesia also experienced a livestock foot-and-mouth disease (FMD) outbreak. In addition, the war in Ukraine has impacted Indonesia's consumers, affecting the distribution of wheat – as Ukraine is one of the world's primary producers – and the price of cooking oil in Indonesia.

In 2022, the Indonesian government focused more on investment and import substitution to accelerate national economic recovery. The groundwork for the commodity balancing initiative was laid by issuing Presidential Regulation 32/2022 to simplify trade licenses and give policymakers more centralized data to determine trade policies. This was followed by several policies to tighten trade while widening investment in mining products and natural commodities, as well as efforts to advance energy efficiency and transition through policies on electric vehicle conversion, as well as expanding financial inclusion.

The year also saw Indonesian efforts to influence the international stage. Indonesian President Joko Widodo and five other global leaders were named members of the Champion Group of the Global Crisis Response Group (GCRG). Indonesia also completed its G20 Presidency in 2022. Indonesia received several investment commitments and grants in 2022 that have been attributed to the completion of G20 leadership. Indonesia also sealed a USD 20 billion deal for energy transition through the Just Energy Transition Partnership (JETP) led by developed countries in the International Partners Group (IPG). Those funds will be used to support the clean energy transition by reducing emissions in the electricity sector and developing renewable energy.

Following the success of Indonesia's 2022 G20 Presidency and its active participation in the Asia-Pacific Economic Cooperation (APEC) grouping, Indonesia's 2023 Chairmanship of the Association of Southeast Asia Nations (ASEAN) is seen by many as another testament to Indonesia's independent and active foreign policy. Indonesia's ASEAN Chairmanship will likely implement the same approach regarding unresolved challenges such as the Myanmar post-coup violence and South China Sea disputes.

These accomplishments in 2022 are key milestones leading to the Indonesia Vision 2045. In trade, the government is actively promoting domestic products to accelerate national economic recovery as the nation enters the post-pandemic era. Entering 2023, the current electoral race could impact Indonesian economic and political priorities. There is a tendency for the government and legislators to embrace a more inward-looking economic policy leading up to the 2024 election.

Edelman Global Advisory (EGA) Indonesia Economic Outlook provides an overview and analysis of critical sectors in Indonesia during 2022 and examines significant policy and trends to watch in 2023.

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1 Indonesia Economic Snapshot 2022

1.1 Tightening Trade, Widening Investment

Since May 2020, Indonesia President Joko Widodo has often campaigned to promote domestic products. Starting in 2022, the government has focused more on promoting investment and import substitution to attain and accelerate national economic recovery. That policy emphasis can be seen from the numerous non-tariff barriers imposed on imports and exports of agricultural and mineral commodities. This highlights the more restrictive trade regime, instead of promoting open foreign trade, that is developing the country. New government procurement policies allow the government to intervene in the imports and exports of any private enterprises. They stipulate a more detailed mechanism for export and import approval and new criteria for importers and exporters procedures to get import/export licenses.

1.1.1 Indonesia's export and import policies dynamic

In early 2022, the government laid out the groundwork for a commodity balance system through Presidential Regulation 32/2022. The regulation is meant to simplify trade licenses and give policymakers more centralized data to determine trade policies. Under the regulation, 19 commodity groups were included in the National Commodity Balance System (SiNas NK) in 2022, including metals, gasoline, liquefied natural gas, and others. Previously there were five commodities included in the list – rice, sugar, beef, fisheries, and salt – for a total of 24 commodities now in the National Commodity scheme.

The commodity balance is to provide data on the type, quantity, and quality of goods and the time goods are available for supply or needed by demand. It is the main reference in determining export or import quotas. If there is a domestic commodity deficit, the government can impose an export ban on that good or open imports. The government can also increase exports.

Currently, under the Minister of Trade Regulation 40/2022, Indonesia bans the export and import of several commodities, namely:

Export Ban	Import Ban
<ul style="list-style-type: none"> Forestry sector (Rattan, Wood, Hoop wood, and other wood commodities) The agricultural sector (Natural rubbers in the form other than Smoked Sheet and TSNR, Porang Plants and its parts) Mining sector Cultural heritage goods Metal waste and scraps 	<ul style="list-style-type: none"> Certain types of sugar Certain types of rice Ozon depleting substances (Halogenated derivatives of hydrocarbons, Mixtures containing halogenated derivatives of methane, ethane, or propane) Used bags, sacks, and clothes Goods with refrigerated-based system which use CFC and HCFC-22 Certain types of drugs and food ingredients Registered toxic and hazardous waste and non-hazardous waste Finished forms of hand tools Medical devices containing mercury

1.1.1.1 Affected key commodities.

- Nickel

Indonesia is home to 22% of the world's nickel reserves. The government's ban on nickel ore exports since 2020 has caused major shifts in the supply chains of strategic products such as electric vehicles and rocket engines.

Indonesia's 2020 decision to halt the export of nickel ore is a continuation of its industrial policy to produce downstream materials and products in the nickel and electric vehicle (EV) battery supply chain. However, the quality of Indonesia's nickel reserves will require a multiyear process of technological upgrades to achieve this objective.

- Bauxite

On December 21, 2022, President Joko Widodo announced that Indonesia would impose a bauxite export ban starting from June 2023 to shore up the domestic processing of mineral resources. Moreover, exports of bleached bauxite will also be banned.

Indonesia is imposing the bauxite bans to duplicate its success in promoting domestic nickel processing (through its ban on nickel ore exports). The president believes that by banning bauxite, more value can be added domestically, more employment can be generated, foreign exchange reserves can grow, and economic growth can be more evenly distributed.

- Palm oil

The Indonesian government seeks to increase crude palm oil (CPO) export volume through policies laying out a range of incentives and regulatory actions. Three export regulations recently implemented include Minister of Finance Regulation 154/2022 (export levy exemption until the end of the year), Ministry of Trade Regulation 46/2022 (the CPO Reference Price mechanism) and Minister of Finance 123/2022 (the CPO export duty threshold). Through these actions, it is trying to boost CPO exports while maintaining stable state revenues from export duties.

Palm oil businesses and oil palm farmers generally support the CPO export levy waiver, yet they are still concerned about the state of the industry. Meanwhile, smallholder associations are concerned by the volatility and differences in the selling price of fresh fruit bunch (FFB) in different locations in Indonesia since FFB prices are expected to drop once the CPO export levy waiver ends.

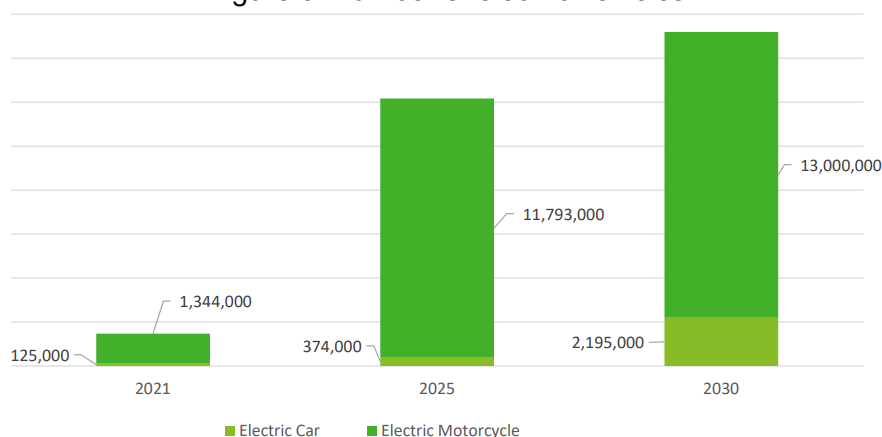
1.1.2 Indonesia's electric vehicles conversion movement

Indonesia wants to increase EV battery production to reach a total production of 140 gigawatt hours (GWh) by 2030, from which 50 GWh will be allocated for export (one gigawatt equals 1 billion watts of electric power). The remainder will be used for Indonesia's domestic EV industry, mainly for motorbikes rather than cars.

Indonesia's EV ambitions were set out by the landmark Presidential Regulation 55/2019, signed by President Widodo in August 2019, which contains provisions on local content requirements (known as the TKDN), fiscal and non-fiscal incentives, and related infrastructure such as charging stations. Regarding the TKDN, the regulation

mandates that two- and four-wheelers must contain at least 80% locally manufactured components by 2026 and 2030, respectively.

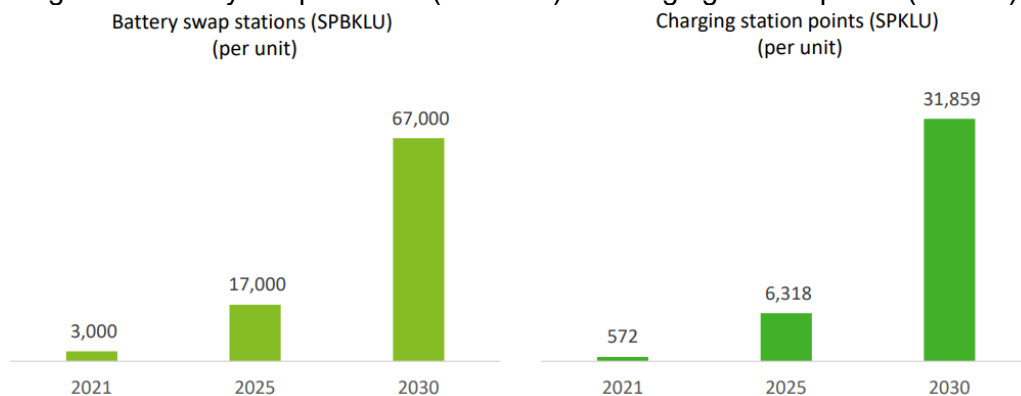
Figure 3. Number of electric vehicles



Source: Deloitte Indonesia Perspectives. 2022

More detailed provisions were later set out in two implementing regulations issued by the Ministry of Industry in November 2020. The Minister of Industry Regulation 27/2020 details the calculation methodology for the TKDN and provides a development roadmap for Indonesia's EV and battery industry, and Minister of Industry Regulation 28/2020 which requires assembly in Indonesia for completely knocked down (CKD) and incompletely knocked down (IKD) vehicles. The latter also provides various tax incentives for EV manufacturers and consumers.

Figure 4. Battery swap stations (SPBKLU) & Charging station points (SPKLU)



Source: Deloitte Indonesia Perspectives. 2022

Indonesia is set to build its first EV battery plant and aims to begin production by 2023. The project is being initiated by Indonesia Battery Corp (IBC), a holding company consisting of four state-owned enterprises, namely Mining Industry Indonesia (MIND ID), Pertamina, Perusahaan Listrik Negara (PLN), and Aneka Tambang in partnership with a consortium led by South Korea's LG Group in what will be an initial investment worth USD 1.2 billion.¹

¹ Approximate equivalent value of USD using the exchange rate on 31 December 2022

The total investment for the IBC-LG project is estimated to reach USD 9.8 billion and employ 1,000 workers. The Deltamas industrial area in Bekasi, West Java province, has been chosen as the facility site it is located only two hours from Jakarta by road and the project site will span some 33 hectares. The facility is expected to have a capacity of 10 GWh, with the batteries manufactured there slated to be used in Hyundai electric vehicles.

Meanwhile, a Chinese consortium, which includes China's Contemporary Amperex Technology (CATL), will invest USD 5 billion in a lithium battery plant in Indonesia, with production starting in 2024. Both CATL and LG supply batteries for Tesla's made-in-China models.

On December 14, 2022, Industry Minister Agus Gumiwang Kartasasmita announced at a conference in Brussels, Belgium, that Indonesia will provide USD 5,145² worth of cash incentives for every EV car purchases and USD 515³ in cash incentives for every electric motorcycle purchases. Minister Agus Gumiwang stated that the subsidy also aims to boost electric vehicle sales and encourage global EV manufacturers to realize their investments in Indonesia.

With Indonesia looking to boost investment in its EV battery sector to USD 33 billion by 2033, the country presents ample opportunities for foreign EV manufacturers.

1.1.3 Financial inclusion

According to the Indonesian government's Financial Services Authority (OJK) Regulation 76/2016, financial inclusion is defined as availability of access to various institutions, products, and financial services according to the needs and capabilities of the community in order to improve people's welfare. Moreover, the World Bank stated financial inclusion is a key supporting factor in reducing poverty and increasing prosperity. Indonesia is fully committed to supporting the growth of financial inclusion in the country, including through:

- Presidential regulation 82/2016 concerning the National Strategy for Financial Inclusion aims to expand public access to financial services to be able to encourage economic growth, accelerate poverty reduction, reduce inequalities between individuals and regions in order to realize the welfare of the Indonesian people.
- OJK together with other institutions supports growth by encouraging the development of financial products and services, as well as seeking to fulfill the other four elements of financial inclusion: expansion of access to finance, availability of financial products and services, products and financial services usage, and improvement of quality.

OJK focuses on expanding public financial access policies by carrying out various programs including:

- Regional Financial Access Acceleration Team (TPAKD), which is the coordination forum to increase the acceleration of access to finance. In 2022, a total of 462 TPAKD had been formed.
- One Account, One Student (KEJAR) is the implementation of Presidential regulation 26/2019 concerning Indonesia Saving Day and the formation of

² Approximate equivalent value of USD using the exchange rate on 31 December 2022

³ Approximate equivalent value of USD using the exchange rate on 31 December 2022

Indonesian Student with Saving Programs. As of 2022, KEJAR had reached 81.06% of Indonesian students, which achieved the Indonesian government's target of 80%.

- Student Savings (SimPel/SimPel iB) is a product to expand students' access to finance. To date, there have been 42 million SimPel saving accounts with a total nominal value of IDR 7.1 trillion.
- Student and Youth Savings (SiMuda), which is a saving program for youth equipped with insurance features and investment products. In 2022, there were 584 thousand accounts with a nominal value of IDR 1.8 trillion.
- Credit/Financing Against Moneylenders (KPMR) is a credit/financing service with a fast, easy, and low-cost process for the MSMEs. As of 2022, there were almost one million customers and fund disbursed amounting to IDR 25.6 trillion.

Figure 7. National Financial Index Inclusion and Financial Inclusion by Financial Services Sector



Source: National Survey of Financial Literacy and Inclusion (SNLIK) 2022

A National Survey of Financial Literacy and Inclusion (SNLIK) conducted by the OJK shows an improvement in the financial inclusion of the Indonesian people. Based on the survey results, the level of financial inclusion increased to 85.1% compared to 76.19% in 2019. Even though it continues to increase, the level of financial inclusion is still below the target set by the government. In 2024, the Government and OJK are targeting to reach 90%.

Furthermore, the Asian Development Bank (ADB) has approved a \$500 million loan to promote financial inclusion in Indonesia through reforms. Those reforms are anchored on digital infrastructure to promote financial inclusion, that also include financial technology and private sector collaboration, along with an enhanced regulatory framework to supervise market conduct and consumer protection. Other efforts, such as building up financial and digital financial literacy, will also be intensified.

1.2 Influencing Global Governance

1.2.1 President Joko Widodo becomes a member of the UN Champions Group

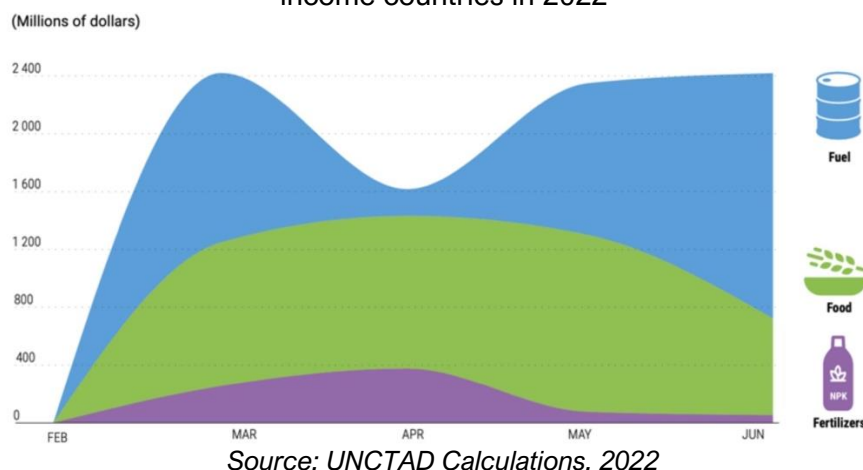
Following a declaration by UN Secretary-General António Guterres on March 14, 2022, Indonesia President Joko Widodo and five other global leaders have been named as members of the Champions Group of the UN's Global Crisis Response Group (GCRG).

The other leaders are Bangladesh Prime Minister Sheikh Hasina, Danish Prime Minister Mette Frederiksen, German Chancellor Olaf Scholz, Barbados Prime Minister Mia Amor Mottley, and President of Senegal Macky Sall.

The UN Secretary-General established the Global Crisis Response Group (GCRG) on Food, Energy, and Finance as a forum for coordination among UN agencies to develop actions to address three crises (food, energy, and finance), analyze crisis data, and promote cooperation for the implementation of solutions. Thirty-two members of UN agencies and their partners make up the GCRG Steering Committee, which is presided over by Amina J. Mohammed, the Deputy Secretary General of the UN.

Rising energy costs contribute to the vicious cycle of tight household budgets, food insecurity, energy poverty, and escalating social discontent, worsening the cost-of-living issue. The problem threatens hard-won improvements in access to electricity and has a profound effect on disadvantaged communities in emerging nations.

Figure 6. Russia-Ukraine War drives up the trade deficit in selected commodities for low-income countries in 2022



Source: UNCTAD Calculations. 2022

Note: Calculations are changes in the price of corn, maize, sorghum, barley, soybean oil, sunflower oil, fertilizers, crude oil, gas, and coal.

In response to the possibility of an unprecedented wave of hunger and destitution brought on by the conflict in Ukraine, GCRG was established. Around 30% of the globally consumed wheat comes from Russia and Ukraine. Russia continues to be a major fertilizer producer, the second-largest oil exporter, and the top exporter of natural gas.

The conflict has significantly impacted global financial, oil, and food sectors, driving commodity prices to all-time highs. According to UN's preliminary study, up to 1.7 billion people in 107 economies, predominantly in Africa, Asia and the Pacific, Latin America, and the Caribbean, are exposed to at least one of the three dangers. Up to 1.7 billion people in Africa, Asia, the Pacific, Latin America, and the Caribbean are exposed to at least one of three threats across 107 economies. Even one risk can have such severe consequences as debt difficulties, food shortages, and outages.

1.2.2 G20 Indonesian and economic agreements.

Indonesia successfully completed its G20 Presidency in 2022. Nevertheless, Indonesia took over the G20 Presidency under unusual circumstances. Initially, Indonesia was

scheduled to host the G20 Summit in 2023, but an exchange was made with India in 2022 as Indonesia is scheduled hold the ASEAN Chairmanship in 2023.

Changing the term of the presidency left Indonesia with limited time to prepare. Furthermore, the global economy was having a rough time at the start of 2022. While the global recovery from the COVID-19 pandemic was just starting, supply chain problems began surfacing. Moreover, Russia's invasion of Ukraine in February drastically escalated geopolitical tensions and it further pushed up commodity prices. This increased global inflation and uncertainty.

Under the G20 Bali Leaders' Declaration the Leaders agreed upon five important points:

- Staying agile and flexible in macro-economic policy responses and cooperation while continuing public investment and structural reforms and promoting private investment and multilateral trade.
- Protecting macroeconomic and financial stability and remaining committed to using all available tools to strengthen financial resilience, promote sustainable finance and capital flow, and reduce risks.
- Promoting food and energy security and market stability by providing temporary and targeted support to cushion the impact of rising prices and strengthening dialogue between producers and consumers.
- Catalyzing innovative financing and private investment in low- and middle-income countries to support the achievement of the Sustainable Development Goals (SDGs).
- Recommitting to accelerate achievement of the SDGs, achieving prosperity for all through sustainable development.

Bilateral Economic Agreements

Throughout the period of its G20 presidency, Indonesia received several investment commitments and grants. The Ministry of Investment stated that during the G20 Summit Indonesia gained USD 8 billion in investments. President Joko Widodo also said that G20 Indonesia 2022 has left around 226 multilateral projects worth around USD 238 billion. It also gave the country bilateral projects worth USD 71.4 billion. All of this is clean energy deals from Indonesia's stewardship of the G20 in 2022 was good for the country's effort to attract foreign investments.

- **Indonesia-China**
The governments of Indonesia and China signed a number of bilateral agreements in the fields of economy, maritime, and trade after the G20 Summit in Bali. The five agreements are as follows:
 - Joint promotion plan within the framework of the Global Maritime Axis and Belt and Road Initiative
 - Joint development of the center for conservation, research, innovation of Indonesian-Chinese medicinal plants and banana
 - Industrial vocational training in the industrial sector
 - Improving digital economy cooperation
 - Expansion and deepening of bilateral economic and trade collaboration (BETC)

BETC acts as a legal umbrella for both countries' economic and trade cooperations. China and Indonesia agreed to renew the BETC agreement since the previous agreement expired in April 2021. The renewal of the agreement demonstrated the

commitment between the two countries to optimize market potential while expanding the areas of bilateral economic, trade, and investment cooperation. With the signing of the BETC Agreement, Indonesian Trade Minister Zulkifli Hasan said he is optimistic that the value of trade and economic cooperation between the two countries, which had been going well, will continue to increase.

- Indonesia-United States

During the G20 Summit President, Joe Biden unveiled a transformative new Partnership for Global Infrastructure and Investment (PGII) initiatives that will accelerate Indonesia's clean energy transition and promote enduring prosperity. The new initiatives include:

- Just Energy Transition Partnership (JETP)
- Millennium Challenge Corporation (MCC) Compact
- Carbon Capture Initiative

JETP will mobilize USD 20 billion in public and private sector financing in Indonesia. Meanwhile, the MCC Compact, which is worth USD 698 million, will later support the development of high-quality, climate-conscious transportation infrastructures, mobilize international capital in support of Indonesia's development goals by building the capacity of Indonesia's financial markets, and increase access to finance for women owned business and Micro, Small, and Medium Enterprises (MSMEs). A USD 2.5 billion agreement between Exxon Mobil and Pertamina has also been secured. The fund will be used to study the development of a regional carbon capture and isolation hub in Indonesia. This partnership will later enable key industry sectors to decarbonize, including the refining chemicals, cement, and steel sectors, thereby lowering carbon emissions while creating economic opportunities.

- Indonesia-Japan, United Kingdom, South Korea

During the G20 Summit Indonesia signed bilateral agreements with Japan, the United Kingdom, and South Korea on the development of transportation infrastructure, especially Mass Rapid Transit (MRT). Details of the agreements are as follows:

- Memorandum of Cooperation (MoC) between Government of Indonesia and Government of Japan regarding the continuation of the construction of MRT Jakarta East-West Line Phase 1.
- Letter of Intent (LoI) between the Government of Indonesia and the Government of the United Kingdom regarding the cooperation in the development of MRT Jakarta. The United Kingdom also expressed their readiness through an Expression of Interest to provide funding of USD 1.25 billion for the development of the next MRT phases.
- Memorandum of Understanding (MoU) between Indonesia and the South Korea government regarding the MRT Phase 4 construction cooperation. The MoU is a follow-up to the talks between the two countries during the 28th ASEAN Transport Minister Meeting, which was held on October 16-17, 2022.

- Indonesia-Turkey

The two countries have agreed to accelerate energy transition by establishing collaboration in the procurement of electric buses through a B-to-B scheme. The agreement between business actors has been carried out by Turkish electric bus

producer Karsan with PT. Schahmindu Perkasa (Credo Group). In addition, Turkey will also make investments in the Trans Sumatra Toll Road Project. Furthermore, President Joko Widodo and his counterpart President Recep Tayyip Erdogan agreed to negotiate a Comprehensive Economic Partnership Agreement (CEPA), which is a scheme of economic cooperation of both countries that is broader than just trade.

- **Indonesia-United Arab Emirates (UAE)**
Sixteen business agreements were signed in the Indonesia-UAE Investment Forum initiated by the UAE Ministry of Economy in collaboration with the Indonesian Chamber of Commerce and Industry's B20. These agreements covered several sectors, namely healthcare facilities, aircraft maintenance, electric mobility, and defense agreements. Other agreements were signed around cooperation on the organization of the 2023 Annual Investment Meeting in Indonesia. Previously, both countries also signed B-to-B MoUs worth USD 3.6 million during the G20 Summit in Bali. The MoU was Signed by 11 Indonesian business representatives as suppliers with two UAE businesses on September 23, 2022. The products in the MoU include garments, fruits, grocery foods, footwear, plastic utensils, furniture, lighting, and handcrafts.

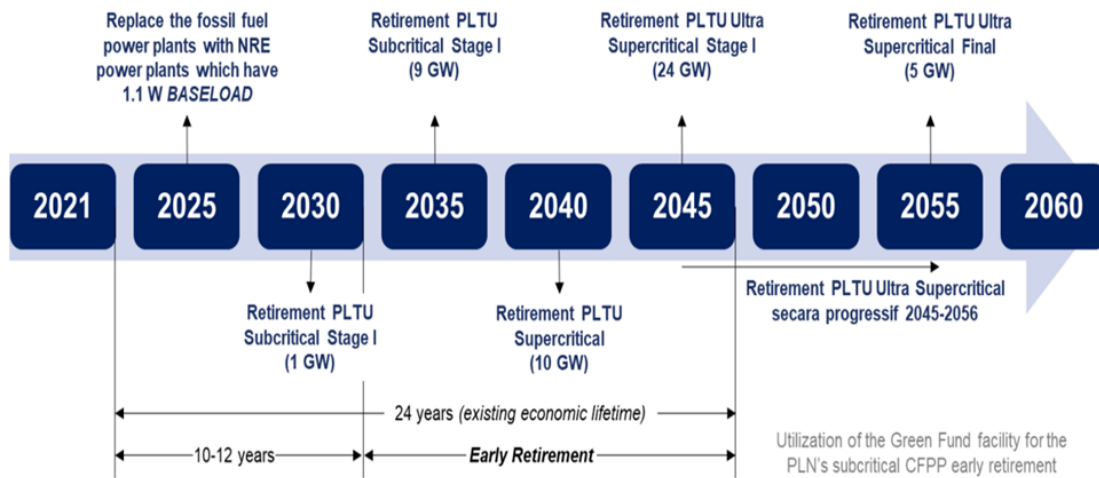
1.2.3 JETP deal and its risks.

Indonesia sealed a USD 20 billion deal for energy transition through the Just Energy Transition Partnership (JETP) from developed countries in the International Partners Group (IPG) for the next three to five years. This fund supports the clean energy transition by reducing emissions in the electricity sector and developing and increasing renewable energy.

This amount is the largest climate finance commitment for a developing country ever carried out. Coordinating Minister for Maritime Affairs and Investment Luhut Binsar Pandjaitan said the Indonesian government would lead the preparation of an investment action plan under the Energy Transition Mechanism (ETM) platform managed by PT SMI (Sarana Multi Infrastruktur).

JETP is expected to encourage Indonesia to accelerate achievement of the target of net zero emissions by 2050. This commitment also includes accelerating the reduction of the electricity sector's greenhouse gas emissions to net zero by 2050. The strategy is based on the expansion of renewable energy, the gradual decrease in coal-fired power generation, and commitments to regulatory reform and energy efficiency.

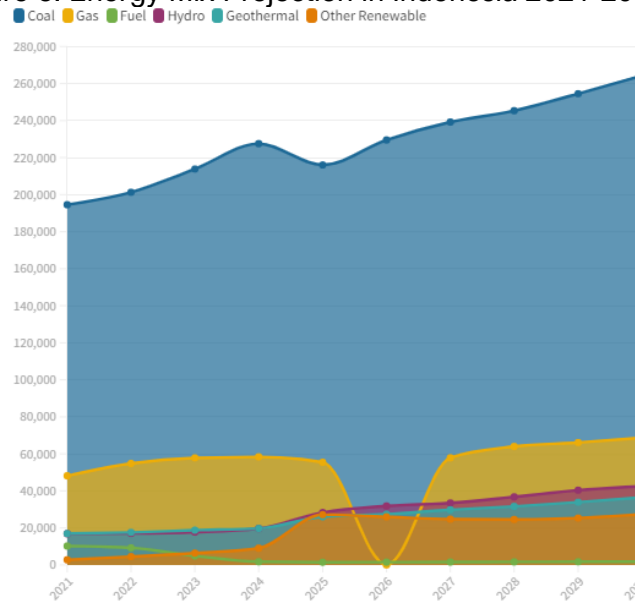
Figure 7. PLN pathway for Coal-Fired Power Plant early retirement
PLN Roadmap for Early Retirement of CFPP to Support Net Zero Emission 2060



Source: PLN, D-insights. 2022

Under the JETP, Indonesia must reduce emissions from the electricity sector to 290 million tons of carbon dioxide (CO₂) in 2030 before reaching zero in 2050. Indonesia must also increase its mix of new and renewable energy (NRE) to 34% of its total electricity generation in 2030.

Figure 8. Energy Mix Projection in Indonesia 2021-2030



Source: PLN, D-insights. 2022

The Center of Economic and Law Studies (Celios) Director Bhima Yudhistira said that JETP funding is significant, and it will be paid out in grants, highly concessional loans, commercial loans, guarantees, and technical assistance (TA). The deals are taken amid the global trend of rising interest rates.⁴

⁴ From "[Restructuring Debt of Poorer Nations Requires More Efficient Coordination](#)" By Guillaume Chabert, Martin Cerisola, Dalia Hakura. 2022. IMF

In response, Finance Minister Sri Mulyani assures that her ministry will not create new debt from this program and will be careful in allocating the budgets with the APBN concept. Indonesia can use the JETP funds for three to five years to reduce emissions and to support the energy transition in Indonesia. The government will identify which coal-fired power plant (PLTU) will be retired earlier. Sri Mulyani said the government will assess the energy cost per unit to determine the use of JETP funds in the future.

1.2.4 Indonesia-EU Nickel dispute

On November 22, 2019, the European Union (EU) filed a lawsuit against the World Trade Organization (WTO) regarding Indonesia's raw nickel export ban policy, which is considered detrimental to the nickel industry in EU countries. The EU lawsuit covers five main topics, namely: (a) nickel export restrictions, including actual export bans; (b) domestic processing needs for nickel, iron ore, chromium, and coal; (c) domestic marketing obligations for nickel and coal products; (d) nickel export licensing requirements; and (e) prohibited subsidy schemes.

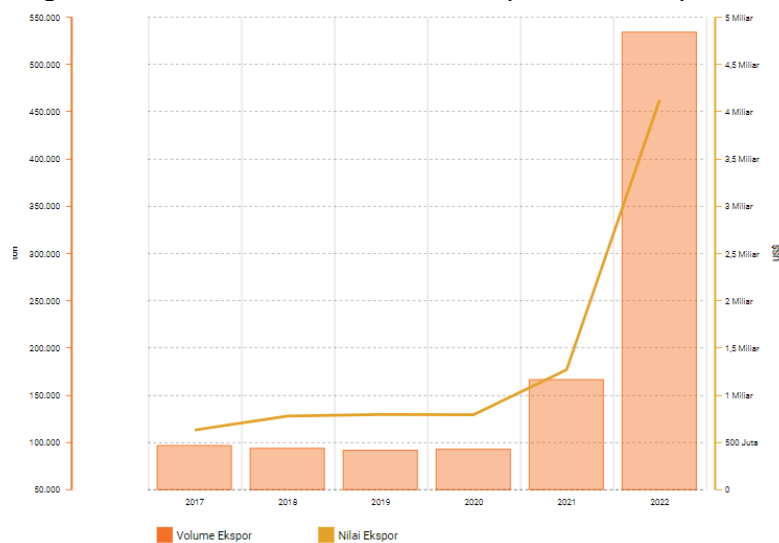
On November 30, 2022, the WTO ruled that Indonesia's export ban and domestic processing requirement on nickel ore violate WTO rules. The Indonesian Minister of Trade confirms that the government would submit an appeal.

Despite the WTO decision, Indonesia continues to ban nickel exports and applies similar rules to other raw commodities like coal, bauxite, copper, and gold. Indonesia banned nickel ore exports from the start of 2020. The Indonesian government has claimed that its raw nickel export ban, which started in January 2021, has shown positive impact after seeing increases in mining investments and exports of nickel-derived products. The Indonesian government has long desired to add value to domestic mining products, especially nickel.

On December 12, 2022, Indonesia filed an appeal against the WTO panel ruling in favor of the EU. The panel said Indonesia's ban on nickel ore exports violated global trade rules. The EU argued that Indonesian export restrictions on raw materials unfairly harmed its stainless-steel industry.

There are most likely two main reasons behind the Indonesian nickel export ban policy. The first is that the development of smelter technology in Indonesia will likely propel domestic demand for nickel ore. Indonesia currently has 21 smelters out of the targeted 53 smelters in 2024. Domestic nickel ore demand from the increasing smelters is predicted to reach 100 million tons by 2022 and will continue to increase. Processed nickel has a higher quality and price, generating more export revenue for Indonesia than nickel ore. Instead of being sold abroad, the government aims to store domestic nickel ore for smelters.

Figure 9. Indonesia's mined nickel output on ore export ban



Source: Indonesia Statistics, katadata.co.id – databoks. 2022

The second is Indonesia's nickel export ban policy aims to develop domestic downstream industries related to nickel commodities. The Indonesian government aims to attract more investment in the downstream nickel industry, mainly related to the electric battery industry.

Currently, Indonesia can only produce Class 2 nickel derivative products for stainless steel. Meanwhile, Class 1 nickel derivative products are needed to manufacture electric batteries. In his statement, President Jokowi wants Indonesian nickel to be upgraded to Class 1 nickel products for lithium batteries in EVs. The Class 1 nickel processing industry is considered lucrative for Indonesia's nickel industry.

Several Chinese Businesses have shown interest in nickel refining and processing in Indonesia. GEM Co. has committed around USD 30 billion to invest and become partners in Indonesia's nickel industry development projects. In mid-April 2022, battery giant producers CATL also began exploring investment in nickel mining and EV battery production in Indonesia.

Indonesia's policy to ban nickel ore exports is not a risk-free step. It will only bring benefits if it is balanced with special attention and risk mitigation from the Indonesian government.

1.2.5 European Union bans imports of goods linked to deforestation and its impact on Indonesia.

The EU ratified a new law to prevent companies from selling soy, beef, coffee, and other commodities linked to deforestation into the EU market on December 6, 2022. Failure to comply could result in fines of up to 4% of a company's turnover. The law was announced to enter into force 20 days later, although some rules may come into force within 18 months. Countries including Brazil, Indonesia, Colombia, and Malaysia have criticized the EU plan, warning that the regulations will be burdensome and costly.

EU countries agreed to impose a carbon tax on imported polluting products to decarbonize European industries. The carbon tax will apply to iron, steel, cement,

fertilizer, aluminum, and electricity. Companies importing these goods into the EU must purchase carbon emission certificates. The levy design prevents European industry from being undercut by cheap goods made in countries with weaker environmental regulations.

The EU is eager to become the first region to impose a carbon tax on certain imported goods that may work like trade protection due to its ability to strengthen the competitiveness of products made by EU members. After completing the preparation through the carbon border adjustment mechanism (CBAM) scheme, CBAM will take effect in 2026.

CBAM will threaten Indonesia's export commodities to Europe, such as steel, aluminum, cement, fertilizers, crude palm oil (CPO), and electricity, which are not carbon-free. CBAM can pressure EU trading partners, especially developing countries, to participate in efforts to reduce emissions. The proportion of CPO, on average, reaches 20% of Indonesia's total annual exports to Europe. If it cannot meet the CBAM criteria, the market for Indonesian products to the European Union will continue to shrink.

However, the EU would most likely insist on unilaterally imposing its own benchmarking and its deforestation-free label without giving more time to producers to meet all the sustainability requirements. It has become imperative now for Indonesia to expand its palm oil market to the Middle East aggressively, Latin America, and other Asian countries.

1.3 Notable Events

1.3.1 Post-pandemic and Indonesia's health industry

In 2022, there were nearly 2.5 million cases of COVID-19. With that, the total number of COVID-19 cases in Indonesia through 2022 reached 6.72 million, with a total of over 160,000 deaths since the pandemic started and a total of approximately 16,000 deaths in 2022 alone.

Despite the fact that the Omicron variant and its subvariants were present in Indonesia, the Indonesian government has been able to overcome the pandemic. On December 30, 2022, President Joko Widodo decided to fully stop the restrictions on community activities along with the smaller positive case rate and mortality rate.

1.3.1.1 Vaccine and health industries

Indonesia and other G20 nations in August 2022 introduced an effort to establish vaccine production and research facilities. This effort aims to increase the research and manufacturing capabilities of G20 members with middle-income levels.

The government's intentions to construct facilities for vaccine research and manufacturing line up with its intentions to produce local vaccinations in large quantities. Indovac, a recombinant protein-based vaccine created in collaboration with Baylor College of Medicine in the United States, will begin manufacturing at Bio Farma shortly. In November 2022, the Indonesian Health Ministry released Circular Letter (SE) Number SR.02.06/C/5398/2022, which detailed the use of the IndoVac vaccine and its administration.

IndoVac is one of two local vaccines entering the mass production phase. The other is Inavac, produced by Airlangga University (Unair) and PT Biotis Pharmaceutical, based on an inactivated virus platform. Meanwhile, the recombinant receptor binding domain (RBD) protein component is the foundation of the IndoVac vaccine. Next year, Bio Farma will create 120 million doses of the IndoVac vaccine.

The facilities for Inavac might be larger than those for the Indovac vaccine since Biotis has planned a local vaccine manufacturing capacity of 250 million doses per year. In 2023, these two vaccinations will serve as the program's mainstay, replacing imported vaccines that were utilized the previous two years.

1.3.1.2 Rebuilding Indonesian livestock

Indonesia experienced a foot-and-mouth (FMD) outbreak in livestock, caused by the foot-and-mouth disease virus (FMDV) in 2022. This led to Indonesia's suspension of the FMD-free status by the World Animal Health Organization (OIE). The disease was found in 26 Indonesian provinces, and there have been more than 570,000 cases, with more than 9,000 deaths and 12,650 culled.

The FMD outbreak is expected to cause a potential loss of approximately USD 1.37 billion in the national economy due to livestock movement restrictions and decreased livestock productivity measures to stamp out the disease.

To increase efforts on enhancing biosecurity protocols and controlling the disease, the Government of Indonesia has extended international collaboration by working closely with the Food and Agriculture Organization (FAO) and numerous international partners, such as the Government of Australia. The Australian government has committed USD 3.46 million to support Indonesia's response and mitigation measures in Timor-Leste and Papua New Guinea, where the disease has not yet been detected. In addition, four million FMD vaccines have been delivered to Indonesia.

As of September 25, 2022, the FMD Handling Task Force (Satgas PMK) stated that over three million animals had undergone vaccination. Furthermore, to date, there are 12 provinces that no longer report cases of FMD transmission in livestock. Meanwhile, there are still five provinces with a high number of FMD cases, namely Central Java, East Java, West Nusa Tenggara, Yogyakarta, and South Sulawesi.

1.3.2 Growing unemployment numbers in Indonesia

The Statistics Agency Indonesia (BPS) recorded that the number of unemployed in 2022 was 8.42 million. This number decreased by 0.02 million people compared to the unemployment figure in February 2022. In addition, Indonesia's open unemployment rate (TPT) in 2022 reached 5.86% or an increase of 0.03 percentage points compared to the February 2022 TPT of 5.83%. It decreased compared to 2021 but has not yet reached pre-pandemic levels.

The working-age population in 2022 is 209.42 million people, making the unemployment rate still higher since many working-age people have been affected by the COVID-19 pandemic. Moreover, the Russia-Ukraine War has triggered a boom in world energy and food commodity prices, pushing the inflation rate up. As the Minister of Home Affairs said, high inflation can eventually cause a domino effect to a social crisis, unemployment, high prices, poorer population, and security.

Several prominent companies, such as Indosat Ooredoo Hutchison, decided to lay off their employees in August and September 2022. In the tech sector, Shopee Indonesia reduced 3% of its 6,232 employees, while startup Tokocrypto let go of 20% of its employees.

Apart from going out of business, many startups laid off their employees early this year, including Xendit, Carsome, Mobile Premier League (MPL), Lummo, Tanihub, Mamikos, Zenius, JD.ID, Line, Beres.id, Pahamify, LinkAja, SiCepat, and Yummy Corp. Most recently, Grab will also lay off due to the closure of the GrabKitchen service. Edutech startup Binar Academy will also lay off 20% of its employees. It also revealed that at least seven startup companies stopped operating or went bankrupt: Fabelio, Sorabel, Stoqo, iFlix, Airy Rooms, Uang Teman, and Bananas.

The next wave of layoffs will likely hit labor-intensive companies experiencing production disruptions due to raw material shortages or sluggish markets. Indonesian Textile Association (API) data revealed that 43,000 textile and textile factory workers had been laid off this year. Meanwhile, the Association of Indonesian Fiber and Filament Yarn Producers noted that around 1,500 workers had been furloughed.

The Indonesian Employers' Association (Apindo) of Sukabumi Regency, West Java, revealed that 11,335 factory employees had been laid off due to the global economic recession. The figure came from 23 companies in the labor-intensive sector, mainly from the textile or garment industry, and two electronics companies.

1.3.3 Russia-Ukraine War and its impact on Indonesia's food and energy crisis

The war in Ukraine is impacting countries all over the world, despite many of them being geographically distant. Indonesia is one of these countries. When it comes to wheat, Indonesia buys most of its imported wheat from Ukraine. In 2020 alone, Indonesia imported 2.96 million tons of wheat from Ukraine. Although wheat isn't Indonesia's staple food, it is used to make one of the country's most popular local soul food –instant noodles.

Other than that, the situation also affects price for cooking oil in Indonesia. With export activities of the two main suppliers being heavily disrupted by war, demand for an alternative type, like palm oil, soared. Thus, due to increased global demand, Indonesia has seen the price of palm oil skyrocket.

Between April and May, the Indonesian government imposed a restriction on palm oil export to ensure domestic supply. Furthermore, because of the Russia-Ukraine War, the supply of crude oil to the international market has also been disrupted. Pertamina then must increase the price of non-subsidized fuel.

In addition, Indonesia's trade performance was also disrupted as it shows a decline in Indonesia's non-oil and gas exports and wheat imports.

1.3.4 Green Transition Scheme under APEC

The 2022 Asia-Pacific Economic Cooperation (APEC) Summit was held on November 18-19, 2022 in Bangkok and senior government officials from the APEC economies discussed various efforts to promote sustainable trade and investment amidst the region's ongoing economic challenges. One of the most significant achievements of this

year's APEC Summit was the agreement on the 2022 APEC Economic Leaders' Declaration and the Bangkok Goals for the Bio-Circular-Green (BCG) Economy.

The 2022 Leaders' Declaration, which was issued at the conclusion of the 29th APEC Economic Leaders' Meeting, affirmed APEC leaders' long-standing commitment to promote strong, balanced, secure, sustainable, and inclusive growth as well as to realizing the APEC Putrajaya Vision 2040. The Bangkok Goals will chart APEC's new course on a sustainability development agenda by projecting the vision and direction laid out in the Putrajaya Vision 2040 and the Aotearoa Plan of Action, two previous APEC initiatives.

With Indonesia's successful contributions in advocating the element of capacity building and voluntary technology transfer within the Bangkok Goals on BCG Economy, it has paved the way for more comprehensive sustainable economic assistance for developing nations. During the summit, Indonesia focused on economic recovery, inclusivity, and sustainability – aligning with their 2022 G20 presidency. Coordinating Minister for Economic Affairs, Airlangga Hartarto proposed two priorities to realize the initiative: increasing the quality of green economy investment and promoting capacity building and technology transfer.

To carry out a green transition, Indonesia will need USD 323 billion to achieve its NDC target in 2030. Therefore, the country is urging APEC to establish a financing mechanism to support its members efforts to carry out energy transition.

1.3.4.1 Indonesian Biodiesel Goals

The Indonesian government has started to diversify national energy sources through the development of biofuels (BBN) as an alternative energy source. It has established a national task force for renewable energy (Timnas BBN) to develop a roadmap for the national transition to renewable energy. Based on Indonesia's renewable energy roadmap, biofuels are expected to constitute 5% of the national energy mix by 2025. This translates to 22.26 billion liters of biodiesel, bioethanol, and bio-oil.

Indonesia already uses biodiesel with a 30% blend of palm oil-based fuel known as B30 and may use biodiesel with a 35% blend of palm oil-based fuel (B35), starting in February 2023. The palm oil-based fuel allocation for 2023 is estimated at around 13 million kiloliters. Indonesian President Joko Widodo told his cabinet to prepare for the mechanism of B35 implementation amid expectations that global crude oil prices will remain high in 2023.

Meanwhile, the energy ministry has been running trials for biodiesel containing 40% fuel made using palm oil (B40). The road tests show that fuel-use efficiency is similar to the B30 blend. They also showed that engines can start about one second after ignition and that the car can use the mixture in higher elevation areas with temperatures between 17-18 Celsius.

Furthermore, the usage of biofuels is poised to enter a new phase in Indonesia. The government intends to test commercially combining bioethanol and gasoline next year. The experiment will be conducted in stages throughout the initial phase. The commercial trial of 5% bioethanol blending with gasoline or E5 will roll out in Surabaya.

2 What to Expect in 2023

Coming into 2023, the highest priority for the Indonesian government is to maintain its economic growth and hold inflation below 3%. The Minister of Finance, Sri Mulyani, said that Indonesia projects an economic growth of 5.3% year-on-year (YoY) with inflation at 3.6% YoY. Minister Sri Mulyani announced a state budget for 2023 that includes:

- A total state income of USD 160 trillion (IDR 2,463 trillion)
- State budget utilization of USD 200 trillion (IDR 3,061.2 trillion)
- Budget deficit of USD 40 trillion (IDR 598.2 trillion) or 2.84% from the previously projected 2.85% deficit.

President Joko Widodo through the Cabinet Secretary stated that the 2023 budget prioritized human capital development, strategic national projects (Proyek Strategis Nasional/PSN), economic transformation infrastructure, green economy development, and social security reform.

2.1 Revision of Nusantara Capital Law as Indonesia's 2023 National Priority Legislation

The Indonesian Parliament has agreed to include the revision of Law 3/2022 regarding Nusantara Capital City (IKN) as one of the items of National Priority Legislation in 2023. The House of Representatives agreed to proceed with the deliberation of the revision after the 2022 year-end recess while waiting for the draft submission from the government.

The Ministry of National Development Planning (Bappenas) indicated that the revision would scrutinize developer and investor terms and conditions, specifically in the areas of relocation financing. The revision aims to strengthen the arbitrary role of IKN Authorities (Otoritas IKN), a capital city relocation task force that coordinates and manages budgets for the Nusantara's development.

The revision of Law 3/2022 is crucial to attracting more investors or big massive programs, considering that only 20% of the project funding comes from public financing. One of the objectives of the revision is to strengthen the jurisdiction of IKN Authorities in orchestrating the development plan, which could catalyze investors' interest in the project.

The government's vision of a new capital city poses several development expectations in the region, both for the local region and neighboring countries, such as Malaysia, the Philippines, and Brunei Darussalam. East Kalimantan also offers strategic proximity to key trade routes, such as the Celebes Sea, Arafura Sea, and the Pacific Ocean. This decision highlights the importance of central and eastern Indonesia as a future hub for economic activities. The development also catalyzes Indonesia's bilateral relationship with Malaysia, the Middle East (specifically the UAE and Saudi Arabia), and China to help with the infrastructure development for the new city.

Besides new opportunities, the relocation also poses some challenges. Civil society noted several concerns from an environmental perspective as the capital city development has the potential to exacerbate existing damage due to past coal mining

activities in the area.⁵ There are also concerns regarding the development's assurance of essential infrastructure, human resources quality, and socio-cultural stability. Certainty on the prevention of red tape, land ownership resolutions, and power-sharing between the provincial and national government authorities is also a concern cited by some commentators.

2.2 Private Sector to Scrutinize Discussions on the Implementation of Financial Sector Development and Strengthening Law

The Financial Sector Development and Strengthening Law (P2SK Law) is another regulatory highlight of 2022, where the law establishes a regulatory foundation for Indonesia's financial sector. The P2SK Law marks another accomplishment of President Joko Widodo's vision of economic reform, becoming the legal foundation and governance for Indonesia's financial sector in the coming years.

The P2SK Law is a financial omnibus law reform that updates obsolete past financial regulations, such as the Banking Law (1992), Deposit Assurance Agency (LPS) Law (2004), and the Financial Services Authority (OJK) Law (2011). Several articles within the law strengthen the impact of the Central Bank of Indonesia (BI), Financial Services Authority (OJK), and The Deposit Assurance Agency (LPS) on Indonesia's financial sector stability. Moreover, the law stipulates that this should be coordinated between the above institutions in the events of a crisis.

Establishing the P2SK Law also means navigating Indonesia's financial sector challenges: balancing consumer protection and overcoming the dynamic growth of the financial industry. Financial instruments in Indonesia have become increasingly complex and diverse. Meanwhile, OJK reported through its National Survey of Financial Literacy and Inclusion in 2022 that 35.42% of Indonesian financial service consumers lack an understanding of the financial products and services they were using. The law's recognition and supervisory stipulation on the digital Rupiah, crypto assets, bullion banks, financial technology innovation sector (ITSK), and carbon markets set a legal foundation that can drive legal certainty for the corresponding sectors.

Due to the omnibus nature of the amendments, several clauses may require further scrutiny to determine their impact on private companies through the implementation of regulations. Article 339 regulated that the ratification of the derivative regulations should occur within the next two years upon P2SK Law's ratification, where the private sector could provide input on substance for the lawmakers through either relevant business associations and chambers or the Fiscal Policy Agency (BKF) under the Ministry of Finance.

2.3 Potential 2023 Landscape Imposed by the 2024 Election Year

Early in 2022, the Election Supervisory Body (Bawaslu) announced that the Executive election – Presidential (Pilpres) and Regional Head (Pilkada) and Legislative election (Pileg) 2024-2029 – will be held on February 14, 2024. Indonesia's economy is closely

⁵ New Mandala, [“A new capital city for who? Central-local tensions in Indonesia”](#). Aug 23, 2022.

linked to the political systems, as the executive branch of the government has the power to determine the policy direction and authority in various sectors of the economy.

Although the election campaign period is agreed to only last for 75 days, the race for votes starts long before the specified election date. The latest survey on [candidate electability](#) shows that Ganjar Pranowo, Anies Baswedan, and Prabowo Subianto have the highest rating among all potential candidates. Two political parties, Nasdem (National Democratic) and Gerindra (Great Indonesia Movement Party), have already declared for Anies Baswedan and Prabowo, respectively, as their presidential candidates.

2.4 Key Commodity Trade in 2023: Pathway Towards Industrialization and Protecting the Domestic Interest

2.4.1 Nickel

Entering 2023, Indonesia has submitted an appeal to the WTO for the EU's lawsuit against Indonesia's nickel ore export restrictions. The appeal stands as Indonesia's policy to proceed with nickel down-stream development. Not only the government, but political party factions (namely Social Justice Party/PKS⁶ and National Democratic/NasDem⁷) within the parliament, also indicated support towards nickel down-stream development.

Indonesia's Ministry of Finance is currently evaluating a proposed nickel export tax modification concurrent with the WTO appeal. The strategy adheres to the disputed Article XI of the General Agreement on Tariffs and Trade (GATT) 1994, where trade restrictions should exclusively be implemented through a levy, tax, or other fee modification that includes quotas, import/export permits, or other policy instruments.

2.4.2 Bauxite

The Indonesian government has invested between USD 1.350 billion and USD 4.309 billion in bauxite industrialization at the same time as it begins to implement the announced export ban on bauxite ore starting in June 2023. Similar to nickel, the Indonesian government sees this policy as increasing human resources, export value quality, and economic opportunity.

Indonesia's private sector has expressed concern regarding the domestic industry's ability to capitalize on the plan, saying that the industry could only take in 28% of the national total ore (a roughly 35 million ton gap). The Indonesia Chamber of Commerce hopes for more smelters to accommodate the plan beyond the four existing smelters in Riau and West Kalimantan.⁸

With concerns regarding domestic capacity, it is expected that there will be regulatory modifications in 2023 related to bauxite mining permits, taxes, and investment incentives in support of Indonesia's bauxite industrialization efforts.

⁶ Indonesia House of Representatives. [Ban on nickel and copper export is appreciated](#). September 13, 2022.

⁷ Indonesia House of Representatives e-media. [Maximize legal efforts in appealing the nickel export lawsuit](#). December 16, 2022.

⁸ Katadata. [Business practitioners unready to face bauxite export ban in June 2023](#). December 22, 2022.

2.4.3 Palm oil

Palm oil has been a champion commodity for Indonesia for many years. Indonesia projects a 12.8% export value increase in 2023, and the government is focused on expanding markets and addressing trade challenges due to the global recession and trade barriers.

The potential exists that Indonesia's palm oil focus in 2023 will be on building palm oil alliances and expanding more trade partnerships. China's reopening and lifting of its zero-covid policy gives potential for Indonesia to secure more trade deals linked to palm oil. Indonesia also has expanded its palm oil exports to the United Arab Emirates (UAE), Nigeria, South Korea, Egypt, and others, through partnership deals in crude palm oil (CPO). This expansion comes at the same time as the EU's anti-deforestation law imposed on Indonesia's and other palm oil-producing countries.

In addition to the EU's policy challenge to Indonesia's palm oil trade, Indonesia's Ministry of Trade decreased the Domestic Market Obligation (DMO) to export ratio to 1:6 from the previous 1:8. The strategy is to anticipate increased domestic cooking oil demand and to control cooking oil prices ahead of the festive month of Ramadan or throughout first quarter of 2023.

Another highlight of an upcoming domestic palm oil regulation is the mandatory 35% palm biodiesel blend (B35) planned by the government to start on February 1, 2023. The mandate will apply to diesel fuel businesses with cetane numbers below 51. Biodiesel was previously mandated to have a 30% blend, in which the increased composition could stabilize demand for palm oil stocks at the smallholder level.

2.5 Indonesia's ASEAN Chairmanship 2023

Prime Minister Hun Sen of Cambodia officially handed over Cambodia's year-long ASEAN Chairmanship to President Joko Widodo of Indonesia in November 2022 during the closing ceremony of the 40th and 41st ASEAN Summits in Phnom Penh. In remarks during the handover, President Widodo said "ASEAN Matters: Epicentrum of Growth" would be the theme for next year's ASEAN program.

President Joko Widodo's idea of "ASEAN Matters: Epicentrum of Growth" conveys that Indonesia seeks to maintain ASEAN's resilient economic growth during the post-pandemic recovery amidst ongoing geopolitical tensions. Indonesia's Chairmanship proposes focusing on the food crisis, possible economic recession, and regional peace. President Joko Widodo spoke about bringing forward plans to brace the region for recession through fiscal and monetary instruments as well as inclusive and collaborative maritime coordination that adheres to the "Rules of the Game."

Following the success of Indonesia's 2022 Presidency of the G20 Forum and its active participation in the Asia-Pacific Economic Cooperation (APEC) grouping, Indonesia's ASEAN Chairmanship in 2023 is seen by many as another testament to Indonesia's "independent and active" foreign policy. International relations experts have said that the diplomatic principles demonstrated during G20 will likely be implemented during Indonesia's ASEAN chairmanship. That same approach will be used to address unresolved challenges such as the Myanmar post-coup violence and South China Sea disputes.

2.6 Indonesia, ASEAN, and its Indo-Pacific Relations

With ASEAN's geopolitically strategic location in the region, Indonesia and ASEAN are interested in keeping the Indo-Pacific a region of peace and stability. Indonesia has initiated and pushed for the ASEAN Outlook on Indo-Pacific (AOIP) during the ASEAN summit in 2019. The outlook defines the bloc's vision of its geopolitical presence in a way that (1) promotes a positive paradigm and (2) promotes synergy among Indo-Pacific initiatives. The document also outlines maritime cooperation, sustainability, and green transition; trade and investment; and connectivity and Sustainable Development Goals. Overall, the outlook solidifies ASEAN's centrality and allows the bloc to set an agenda for Indo-Pacific cooperation.

In 2023, as the chair of ASEAN, Indonesia is planning to hold the first Indo-Pacific Infrastructure and Connectivity Forum to implement an economic cooperation agenda in the region. The forum aims to ensure connected initiatives in the Indo-Pacific and support the ASEAN Master Plan on the ASEAN Connectivity 2025.

The event will be an important venue for ASEAN to achieve its economic recovery and ASEAN-led infrastructure development. Currently, investment in infrastructure development relies on other countries' agendas such as the Belt and Road Initiative from China, PFI from the US, and the Global Gateway Investment Strategy from the EU.

Additionally, the AOIP also highlighted the importance of maritime domain. The Indo-Pacific region is an area that is covered by a large amount of water areas, comprising the Indian and Pacific oceans. Critical oceanic issues that need to be addressed include maritime environment and pollution, exploitation of marine resources, transnational maritime crime, and the blue economy and marine science collaboration. At this moment, the AOIP has not yet covered maritime security, but inclusion of that topic is possible in consideration of current disputes in the South China Sea.

3 Analysis

The year 2045 will mark the 100th Anniversary of Indonesia's independence. In anticipation of that important milestone, the government strives to ensure that Indonesia is a sovereign, progressive, fair, and prosperous nation. To accelerate achievement of that goal, the Ministry of National Development Planning (Bappenas) has prepared Indonesia Vision 2045 to set the future path to becoming an advanced economy.

Under the optimistic and baseline economic growth scenarios with an initial average of 5.7% and 5.1% GDP growth until 2045, Indonesia is expected to become a high-income country within 18 to 20 years and the fifth to the seventh largest economy in 2045. The strategy to achieve this vision is built upon four pillars: (1) human development and the mastery of science and technology; (2) sustainable economic development; (3) equitable development; and (4) national resilience and governance.

The accomplishment in 2022 was one of the key milestones in leading up to the Indonesia Vision 2045. In the area of trade, the government actively promoted domestic products to accelerate national economic recovery as the nation enters the post-pandemic era. The issuance of Presidential Regulation 32/2022 sets out the foundation for a commodity balance. The purpose of this regulation is to simplify the trade licensing process and to provide policymakers with more centralized data to make decisions about trade. The commodity balance is also the primary reference in determining export or import quotas.

Amongst others, nickel, bauxite, and palm oil are the affected commodities under the export bans imposed by the government. The brief suspension of the key commodities from Indonesia shook global markets and exacerbated existing global supply concerns. Considering these enormous challenges, the government has emphasized that banning key commodities will increase value for Indonesia and create investment opportunities.

Along with the aspiration of national economic recovery, the government continues its ambition to promote EV conversion. With an initial investment worth USD 1.2 billion, the national EV battery plant project is initiated to be kicked off by Indonesia Battery Corp (IBC) in 2023. The plan is supported by the local content requirements (TKDN), which mandate that two- and four-wheeler EVs must contain at least 80% locally manufactured components by 2026 and 2030.

However, the TKDN is pressing foreign manufacturers to establish its facility and counterpart with a local entity in Indonesia. In return, the manufacturers will be eligible to receive various tax incentives from the government. With Indonesia looking to boost investment in its EV battery sector to USD 33 billion by 2033, the country presents exciting opportunities for foreign EV business players to invest.

In the area of financial inclusion, the government has set a target to achieve 90% financial inclusion by 2024, up from 76% in 2022. With multilateral support from Asian Development Bank (ADB), the Financial Services Authority (OJK) will manage a USD 500 million loan to promote financial inclusion, digital infrastructure, financial technology, and private sector collaboration, along with an enhanced regulatory framework to supervise market conduct and consumer protection.

In March 2022, UN Secretary-General António Guterres declared President Joko Widodo and five other global leaders as members of the Champion Group of the Global Crisis Response Group (GCRG). The group aims to become a platform for coordination among UN agencies to address the three crises of food, energy, and finance in response to the Russia-Ukraine War.

With the conclusion of the G20 Presidency, Indonesia has some clear advantages in utilizing a number of bilateral and multilateral agreements. In terms of the energy transition, the Joko Widodo administration appears to be taking a proactive approach to secure commitments from the country's bilateral and multilateral agreements. Its cooperation partners are China, the US, Japan, UK, South Korea, Turkey, and the UAE.

Aligned with the bilateral agreement, a multilateral plan titled Just Energy Transition Partnership (JETP) is currently in the works for the Ministry of Finance to lead. Under the Energy Transition Mechanism (ETM) platform, USD 20 billion will be managed by the special mission vehicle, PT SMI (Sarana Multi Infrastruktur, Persero). The proposed strategy will allocate funds to expanding renewable energy, reducing coal-fired power, and enhancing energy efficiency.

In 2022, EGA also recorded some notable challenges faced by the government. One of the challenges that could lead to opportunity was the Indonesia-EU dispute on nickel. Experts recommend the government consider the potential revenue loss from a ban on nickel exports. The ban on nickel exports risks the diminution of state tax revenue from companies and export duties, so state revenues from the downstream nickel industry must be able to replace the loss.

One effort that can be made is to create incentives to attract investors. The government can offer tax holidays or tax leave and reductions to corporate income tax (PPh) exemptions for a certain period. Several investors have shown interest in nickel refining and processing in Indonesia, including Chinese company GEM Co. and Chinese battery giant producers CATL.

On the other hand, Indonesia was also among the countries that criticized the European Union's scheme on Carbon Border Adjustment Mechanism (CBAM), which will be effective in 2026. The plan prevents companies from selling commodities linked to deforestation into the EU market. The Indonesian government views it as threatening the country's essential export commodities to Europe, including crude palm oil (CPO), iron, steel, and aluminum.

Experts recommend that the government and producers focus on developing market standards accepted by partner countries, such as India, China, Pakistan, and several other Asian countries with larger markets. Therefore, the government should realistically refocus on two key market-development areas.

The first is to expand and strengthen non-European export markets with a specific focus on adopting science-based sustainability standards. The second is to create new comprehensive market standards for non-EU export markets, which go beyond but include sustainability, fair trade, and human rights.

Indonesia Economic Outlook 2022-2023			
Key Areas	Key Challenges	Key Opportunities	Outlook
Trade and investment	<ul style="list-style-type: none"> Export and import policy dynamic EU bans imports of goods linked to deforestation Indonesia-EU Nickel dispute 	<ul style="list-style-type: none"> Electric vehicles conversion movement G20 Indonesian and economic agreements 	Positive
Health		<ul style="list-style-type: none"> Vaccine and health industry advancement in post pandemic Rebuilding livestock post-FMD outbreak 	Positive
Geopolitics	Russia-Ukraine War	<ul style="list-style-type: none"> President Joko Widodo becomes a member of the UN Champions Group Indonesia ASEAN Chairmanship 2023 	Positive
Financing		<ul style="list-style-type: none"> Financial inclusion target Financial Sector Development and Strengthening Law 	Positive
Social	Growing unemployment number in Indonesia		Fair
Energy	<ul style="list-style-type: none"> Just Energy Transition Partnership (JETP) Green transition mission under APEC 	Biodiesel ambition	Fair
Politics	Political dynamic of the 2024 election year		Fair
Law	Nusantara Capital Law as National Priority Legislation		Fair

In the area of health, Indonesia is expecting significant activity under government mandates to construct facilities for mRNA vaccine research and manufacturing line up. The plan is aligned with the intention to produce local vaccines in large quantities. IndoVac and Inavac are the two trade names for the locally-produced vaccines by Bio Farma and Biotis Pharmaceutical, respectively. In 2023, these two vaccines will serve as the program's mainstay, replacing imported vaccines utilized during the previous two years with a target of up to 120 million doses distributed in 2023.

Aside from the positive outlook for vaccine manufacturing, Indonesia experienced a foot-and-mouth outbreak in livestock in 2022. The disease was found in 26 provinces, and there have been more than 570,000 cases, with more than 9,000 deaths and 12,650 animals culled. As a response to mitigation measures supported by FAO and the Australian government, the government's Task Force (Satgas PMK) announced in December 2022 that over three million animals had undergone vaccinations with a notable decrease in active cases and affected areas.

Another challenge is coming from unemployment. The Statistics Agency Indonesia (BPS) recorded that the number of unemployed in 2022 was 8.42 million. Apart from going out of business, many startups laid off their employees early this year. The next wave of layoffs will likely hit labor-intensive companies experiencing production disruptions due to raw material shortages or sluggish markets. Experts said challenges to expand job opportunities, especially in the formal sector and new work culture, also play essential roles in magnifying the situation.

The war in Ukraine is also impacting food and energy pricing in Indonesia. As export activities of two major suppliers were disrupted by war, demand for alternative commodity resources like palm oil soared. The Indonesian government restricted palm oil export between April and May to support domestic consumption. On top of the rising food prices, the supply of crude oil to the international market has also been disrupted. The state-owned oil and gas company, Pertamina, has increased the price of non-subsidized fuel due to the crisis.

Held in November 2022, Indonesia positioned the Asia-Pacific Economic Cooperation (APEC) Summit in Bangkok as a platform to carry out its green transition mission. Indonesia said it will need USD 323 billion to achieve its Enhanced Nationally Determined Contribution (E-NDC) target in 2030. Therefore, Indonesia is urging APEC to establish a financing mechanism to support its members' transition, and this would be aligned with its biodiesel ambition.

Starting last year, the Indonesian government has initiated diversifying national energy sources by developing biofuels (BBN) as an alternative energy source. It has established a national task force for renewable energy (Timnas BBN) to develop a roadmap for the national transition to renewable energy. Based on Indonesia's renewable energy roadmap, biofuels are expected to constitute 5% of the national energy mix by 2025 or increase to 22.26 billion liters of biodiesel, bioethanol, and bio-oil.

Entering 2023, Indonesia offers a generally positive outlook in the areas of economic growth, trade, and investment. Maintaining economic growth and holding inflation below 3% are the top priorities for the Indonesian government. With the passage of the Financial Sector Development and Strengthening Law (P2SK Law), Indonesia will be in a better position to cope with the challenges confronting its financial sector: maintaining consumer protection while adjusting to the industry's dynamic growth.

We anticipate that the three key commodities in 2023 will still be nickel, bauxite, and palm oil. As it has done with nickel, the government aims to increase export quality and economic opportunity distribution through its industrialization strategy. Despite the global recession and trade barriers, palm oil is expected to add 12.8% to the country's export

value in 2023. In 2023, the government plans to expand the palm oil market and continue expanding its trade.

In the domestic political arena, the current electoral race could impact Indonesian economic and political priorities. There is a tendency for more inward-looking economic policies leading to the 2024 election, determined by potential candidates' policy plans to strengthen electability. Businesses should maintain neutrality and make considerable efforts to stay on top of the ever-shifting policy dynamics.

Another notable development to monitor in 2023 includes the revision of Law 3/2022 regarding Nusantara Capital City (IKN). Due to the fact that only 20% of the project funding comes from public sources, the government, through the Ministry of National Development Planning (Bappenas) indicated the need for parliament to revise the law so, the law is listed under the National Legislation Priority 2023.

About EGA

Edelman Global Advisory (EGA) is a boutique firm providing business, government, and advisory services to navigate today's changing geopolitical and economic landscape. Based in Washington, D.C., EGA has deep expertise on the ground in the US and Canada, APAC, MENA, Europe, Latin America, and India. EGA's team members work seamlessly with Edelman's other 6,000+ world-class communications professionals to align political and regulatory strategies with communications and messaging around policy issues.

EGA President Agung Yudha leads our Indonesia Team with the support of Ridwana Saleh, Senior Vice President, Advisory & Trade. The team has extensive experience working with the government, NGOs, the private sector, and representing firms across various sectors in navigating the everchanging Indonesian political and regulatory landscape to achieve their business goals.

Glossary

<i>Anggaran Pendapatan dan Belanja Negara (APBN)</i>	A national state budget that outlines revenue and spending targets for a financial year.
Aotearoa Plan of Action	APEC's individual and collective implementation plan for the APEC Putrajaya Vision 2040.
APEC Putrajaya Vision 2040	A vision convened by APEC countries for 2020-2040 in areas of Trade and Investment, Innovation and Digitalization, and Economic Growth.
ASEAN Outlook on the Indo-Pacific (AOIP)	An agreement amongst ASEAN Leaders regarding ASEAN's centrality and contribution to the Indo-Pacific regional community architecture.
B35	A blend of biodiesel and petroleum diesel with a Indonesian government mandatory 35:65 ratio.
B40	An Indonesian government program that regulates a blend of biodiesel and petroleum diesel with a 40:60 ratio.
Bio Farma	An Indonesian pharmaceutical state-owned enterprise and the only vaccine manufacturer in Indonesia.
Carbon Border Adjustment Mechanism (CBAM)	Carbon tariff on carbon intensive products, such as cement and some electricity, imported by the European Union. Currently being legislated as part of the European Green Deal, to take effect in 2026 with reporting starting in 2023.
Deposit Assurance Agency (<i>Lembaga Penjamin Simpanan/LPS</i>)	An autonomous institution in Indonesia that assures the customers' savings with authorities to legislate deposit assurance policies in Indonesia.
Election Supervisory Body (<i>Badan Pengawas Pemilihan Umum/Bawaslu</i>)	An independent supervisory agency tasked with oversight the administration of general elections throughout Indonesia.
Energy Transition Mechanism (ETM)	A program to increase the development of energy infrastructure and accelerate the energy transition towards net zero emissions/NZE (Net Zero Emissions) with the principle of being just and affordable in 2060 or accelerated.
EU's Law on Deforestation-Free Supply Chain	A law that stipulates a set of key goods placed on the EU market will no longer contribute to deforestation and forest degradation in the EU and elsewhere in the world.

Financial Sector Development and Strengthening Law (P2SK Law)	An omnibus law that updates obsolete past financial laws related to financial services authority and regulations.
Financial Services Authority (OJK)	An autonomous Indonesian government agency which regulates, supervises, inspect, and investigate the financial services sector.
Fiscal Policy Agency (<i>Badan Kebijakan Fiskal/BKF</i>)	A unit under the Ministry of Finance of the Republic of Indonesia which has a strategic role as a formulator of fiscal and financial sector policies, with the scope of tasks covering macroeconomics, state revenue, state spending, financing, the financial sector and international cooperation.
FMD Handling Task Force (<i>Satuan Tugas Penanganan Penyakit Mulut dan Kuku/Satgas PMK</i>)	A task force with cross-coordination function between central and provincial government in handling the Foot and Mouth Disease in Indonesia.
House of Representatives (<i>Dewan Perwakilan Rakyat/DPR</i>)	One of two elected chambers of the People's Consultative Assembly (MPR), the national legislature of Indonesia, elected every five years.
IKN Authorities (<i>Badan Otorita IKN</i>)	A cabinet level-agency formed by Indonesian government, working directly under the President of Indonesia. The agency will become a special agency tasked with managing and governing the city of Nusantara, future capital of Indonesia located on East Kalimantan.
Inavac	Indonesian COVID-19 vaccine.
Indonesia Battery Corporation (IBC)	Indonesian government initiative to realize Indonesia as a global electric vehicle battery producer.
Indonesian Chamber of Commerce and Industries (<i>Kamar Dagang dan Industri/KADIN</i>)	An organization for Indonesian entrepreneurs and Indonesian who's engaged in the economic sector.
Indonesian Employers' Association (<i>Asosiasi Pengusaha Indonesia/Apindo</i>)	An independent non-partisan organization of Indonesian entrepreneurs engaged in the economic sector.
Indonesian Textile Association (<i>Asosiasi Pertekstilan Indonesia/API</i>)	An association of the textile community from upstream to downstream engaged in the industry and trade of textiles and textile products.
IndoVac	Indonesian COVID-19 vaccine.

International Partners Group (IPG)	A group consists of European Union, United States, United Kingdom, France, Germany, Italy, Canada, Japan, Norway, and Denmark which supports energy transition in developing countries.
Minister Regulations (<i>Peraturan Menteri/Permen</i>)	Regulations stipulated by Minister based on content material in the context of administering certain affairs in government.
Nusantara Capital City (<i>Ibu Kota Nusantara/IKN</i>)	Indonesia is planning to move its capital from Jakarta in Java to a new city named Nusantara in East Kalimantan on the island of Borneo.
One Account, One Student (<i>Satu Rekening, Satu Pelajar/KEJAR</i>)	An Indonesian government's efforts to instill a culture of saving money from an early age.
Open Unemployment Rate (<i>Tingkat Pengangguran Terbuka/TPT</i>)	Indicator which describes lack of labor utilization resulting from not being absorbed by the labor market.
Pertamina	Indonesian state-owned oil and natural gas corporation.
Priority National Legislation (<i>Prolegnas Prioritas</i>)	The priority scale for the formulation of laws in the context of realizing a national legal system in Indonesia.
Regional Financial Access Acceleration Team (TPAKD)	A coordination forum between relevant agencies and stakeholders to increase the acceleration of access to finance in the region in order to encourage regional economic growth.
Second Home Visa	A type of permit that allows foreigners to entry and stay in Indonesia for 5 or 10 years.
<i>Simpanan Mahasiswa dan Pemuda (SiMuda)</i>	Savings program for youth between the ages of 18-30.
<i>Simpanan Pelajar/Simpanan Pelajar Syariah (SimPel/SimPel iB)</i>	Savings for students issued nationally by banks in Indonesia.
<i>Sistem Nasional Neraca Komoditas (SiNas NK)</i>	Digital applications simplify and speed up the data submission process between business actors and the government.
<i>Stasiun Pengisian Kendaraan Listrik Umum (SPKLU)</i>	The public charging station is a place to charge electricity as fuel for electric vehicles.
<i>Stasiun Penukaran Baterai Kendaraan Listrik Umum (SPBKLU)</i>	Public battery swap station. Electric vehicles have a battery as a place to store electric power. The battery in the vehicle can be exchanged at SPBKLU.

State Electricity Company (<i>Perusahaan Listrik Negara/PLN</i>)	Indonesian government-owned corporation which manages electric power distribution and generates majority of the country's electrical power.
State-Owned Enterprise (<i>Badan Usaha Milik Negara/BUMN</i>)	Indonesian government entity to earn profit for the government, control monopoly of the private sector entities, provide products and services to citizens at lower price and for the achievement of overall financial goals and developmental objectives.
Statistics Agency Indonesia (<i>Badan Pusat Statistik/BPS</i>)	A non-departmental government institute of Indonesia that is responsible for conducting statistical surveys. Its main customer is the government, but statistical data is also available to the public.
Strategic National Project (<i>Proyek Strategis Nasional/PSN</i>)	Projects implemented by the Government, Regional Governments, and/or business entities that have a strategic nature for increasing growth and equitable development in the framework of increasing community welfare and regional development.
<i>Survei Nasional Literasi dan Inklusi Keuangan (SNLIK)</i>	National-scale survey held every three years by the Financial Services Authority to map the current state of Indonesian financial literacy and inclusion.
Sustainable Development Goals (SDGs)	Call to action adopted by all United Nations on members to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity.
<i>Tingkat Komponen Dalam Negeri (TKDN)</i>	Domestic Component Level or TKDN is the amount of domestic component in goods, services, and combination of goods and services.
Trans Sumatera Toll Road Project	An under-construction tolled expressway stretching across Sumatra Island in Indonesia from the northern tip of Banda Aceh to the southern tip of Bakauheni, South Lampung, Indonesia.



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