

Indonesia's Economic Horizon: Trends and Projections.

ESFS Research

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1. Introduction

In a constantly shifting world, it seems there is no doubt that global powers will shift in the future. PwC believes Indonesia will be the 4th world top economy (in GDP at PPPs)¹ by 2050. But how realistic is that? In this article, we'll unpack Indonesia's demography, economy, and international position to see if it's really on track for such a transformation. Let's dive into Indonesia's potential.

Figure 1. Emerging markets will dominate the world's top 10 economies in 2050 (GDP at PPP's)²

	2016	2050	
China	1	1	China
US	2	2	India
India	3	3	US
Japan	4	4	Indonesia
Germany	5	5	Brazil
Russia	6	6	Russia
Brazil	7	7	Mexico
Indonesia	8	8	Japan
UK	9	9	Germany
France	10	10	UK

E7 economies
 G7 economies

Sources: IMF for 2016 estimates, PwC analysis for projections to 2050

1.1. Indonesia's historical background

Indonesia's history will help us see how Indonesia has gotten to where it is and what it might achieve in the future, especially in terms of politics, population, economy, natural resources, and international relationships.

First, we need to understand that history mixes together different cultures, valuable resources, and important geopolitical roles, helping us understand where it stands today and its future direction. Its location on key sea routes has made it throughout history an essential place for trade.

In its early days, Indonesia was shaped by the strong empires of Srivijaya and Majapahit, which were central to trade and culture in Southeast Asia. The introduction of Islam in the 13th century changed the region significantly, leading to the establishment of Islamic kingdoms and spreading the religion across the islands.

¹ [The World in 2050: PwC](#)

² Idem

Figure 4. Ex-president Suharto giving a speech⁵



Now, Indonesia shows its resilience, with a deep cultural background, its fight for freedom, and its efforts to build a democratic system.

After the conclusion of Dutch colonial rule in 1949, Indonesia's political landscape was shaped by its diverse ethnic and religious society. Following colonization, the nation established democratic institutions, but it wasn't until President Suharto's departure in 1998 that Indonesia truly transitioned to a multiparty democratic system.

Despite this transition, the institutional framework has faced political tensions, particularly originating from corruption scandals. The elites that emerged during Suharto's dictatorship continued to wield significant influence over the political, judicial, and military domains, using their authority to influence election results. This influence became evident towards the end of Susilo Bambang's presidency (2004-2014), marked by corruption controversies that played a role in the election of President Joko Widodo, representing the Indonesian Democratic Party (PDI-P).

Figure 5. Indonesian President Joko Widodo casts his ballot during elections in Jakarta, Indonesia April 17, 2019⁶



⁵ [President Suharto](#)

⁶ [Joko Widodo se encamina hacia la reelección en Indonesia – DW - 17/04/2019](#)

This pattern changed with Widodo, who emphasized pluralism, anti-corruption efforts, poverty alleviation, and economic development. His main goal was to boost economic growth by improving the investment climate, reducing bureaucracies, and encouraging infrastructure projects. Strong public support propelled Jokowi to reelection in the April 17, 2019, elections. Even though he initially avoided sharing power with traditional parties, he returned to the usual corrupt and nepotistic behaviors of previous Indonesian politicians, to protect his position. This trend was shown by Jokowi's forging of a political partnership with his rival Prabowo Subianto to co-lead Indonesia, which was emphasized by the selection of Jokowi's eldest son, Gibran Rakabuming Raka, as Subianto's vice presidential candidate.

Many Indonesians view Mr Subianto, as a clear reminder of 32 years of oppression during the rule of former dictator Suharto, since he is his son-in-law. He has been accused of torturing activists and violating human rights, and even his military career came to an abrupt end when he threatened Suharto's successor. His political approach, representing the Gerindra political party, emphasizes integrating "the positive aspects of capitalism and socialism", strengthening security and military, and maintaining Indonesia's strategic neutrality policy.

The preliminary counting of the presidential elections held on February 14, 2024, suggest that Mr. Subianto could emerge victorious since he won over 50% of the vote out of the two other major contenders, Ganjar Pranowo (PDI-P) and Anies Baswedan (Independent), although the official results are still pending. Therefore, Joko Widodo, ineligible to run for re-election after having served the maximum two terms in office, will continue being the president until October 2024.⁷

Figure 6. The three Indonesian presidential candidates, Anies Baswedan (right), Prabowo Subianto (center) and Ganjar Pranowo⁸



⁷ [Prabowo Subianto will be the next president of Indonesia | The Economist](#)

⁸ [Indonesia election: Who are the presidential candidates?](#)

1.2. Foreign policy of Indonesia

As explained previously, Indonesia plays a crucial role in the Southeast Asian region, due to its size and geographic location. This country has maintained open relations with other countries and has joined many international organizations. Since September 1950, Indonesia has been a member of the United Nations and has held non-permanent seats on the Security Council. As a founding member of ASEAN, the World Bank, the IMF, and the Asian Development Bank, Indonesia holds a pivotal position in both regional and international affairs. Despite withdrawing from OPEC in 2009, as the country became a net oil importer, it remains a distinguished global actor, participating in organizations such as the World Trade Organization, the Organization of Islamic Cooperation, and the G20.

Indonesia's foreign policy focuses on promoting a democratic, open, and modern nation, while actively participating in multilateral and regional cooperation schemes. Their foreign policy includes maintaining privileged relations with its neighbors and regional partners, addressing issues in the South China Sea, and defending its interests in the Natuna Islands region, which is rich in resources. This is part of an ambitious economic diplomacy strategy that aligns with the country's reform process and economic growth promotion.

2. Demography and workforce Trends

Indonesia possesses one of the largest populations globally, with 275 million inhabitants, ranking fourth after India, China, and the United States, respectively. The country has maintained a yearly growth rate of approximately 1.3% in recent years. There are notable differences in the population distribution of Indonesia; Java is home to almost 60% of the country's total population, while Papua and other areas only have less than 1.5%⁹.

In terms of age composition, Indonesia features a relatively young population, with 27% of it below the age of 14 and 17% aged between 15 and 24. Geographically, urban areas account for 54.7% of the total population, with Jakarta serving as the largest urban center^{10 11}.

Indonesia is currently undergoing a demographic transition marked by declining fertility rates and reduced infant mortality, leading to a substantial increase in the working-age population (15 to 64 years old). However, this transition also implies significant population aging, as evidenced by the projected rise in the aged dependency ratio (65+ population/15 to 64 population) from less than 10% in 2020 to over 46% expected by 2100. This phenomenon is attributed partly to increasing life expectancy, particularly among older demographics. These demographic shifts will impact the overall population volume, as, although the annual population growth rate will become negative, Indonesia's total population is still projected to reach 320 million by 2100.

⁹ [IMF eLibrary](#)

¹⁰ *Idem*

¹¹ [Indonesia: Oficina de Información Diplomática](#)

Figure 7. Population distribution by age and sex for Indonesia¹²

Figure 1. Fertility, Population Growth and Life Expectancy

(In percent, left scale)

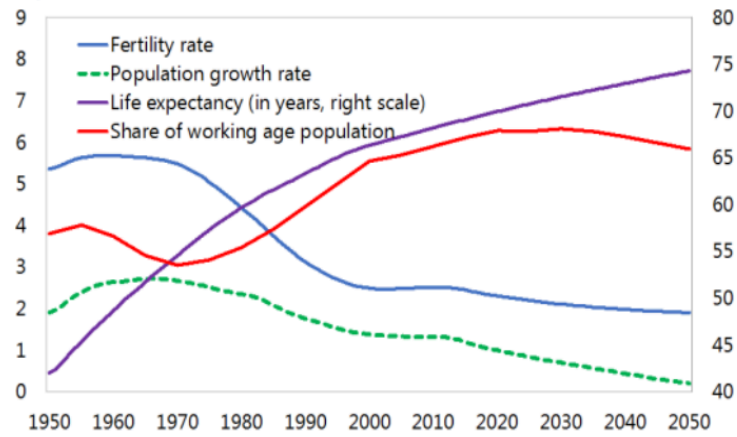
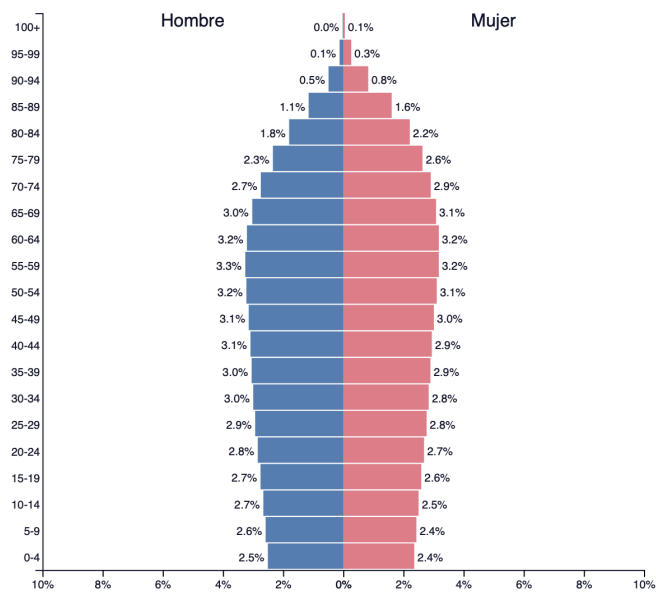


Figure 8. Fertility, Population Growth and Life Expectancy (In percent)¹³



¹² [Población: Indonesia](#)

¹³ [Población: Indonesia](#)

These favourable demographic trends present a unique opportunity for economic growth, as the increasing proportion of the working-age population has accelerated job absorption across various business sectors. It is anticipated that demographic trends will contribute to raising Indonesia's annual real GDP growth by close to 1 percentage point during the period from 2020 to 2050.¹⁴ This demographic advantage provides Indonesia with several benefits, as a youthful workforce tends to adapt to new technologies and acquire new skills more rapidly than an older workforce. Indeed, it is believed that by 2030, Indonesia will boast one of the largest workforces in Asia.

The employed population in Indonesia totals around 144 million, with a declining unemployment rate currently standing at 5.32%.¹⁵ In terms of the sectorial distribution of employment, the primary sector represents a significant source of wealth in Indonesia, with the archipelago possessing abundant natural resources (mining, oil and gas, and agriculture). As of 2020, the primary sector employs 30.81% of the Indonesian workforce, being the most representative sectors: the agricultural sector and the mining and extractive industry. While agriculture has been the dominant employer for decades due to the economy's heavy dependence on it, Indonesia has transitioned to prioritize the manufacturing and service sector.¹⁶

The secondary sector employs 19.89% of the workforce in Indonesia. Among its components, manufacturing stands out as the most important subsector, with particular significance in industries such as beverages and food. Additionally, the construction sector holds considerable importance, contributing to 6.28% of total employment.

Finally, the services sector is the most significant in Indonesia, employing over 49.30% of the workforce. Trade and hospitality services are notable, as well as tourism, which drives the expansion of restaurants and hotels, particularly in areas like Bali. In addition, the Indonesian government is actively diversifying the sector through initiatives like the "10 New Bali" project, aimed at developing tourist destinations such as Mandalika in Lombok and Lake Toba in Sumatra¹⁷. Transportation and communication services closely follow. Given Indonesia's geographical layout, communication infrastructure is vital for national cohesion. This distribution can be compared to China, the second most powerful country worldwide. In this country, the primary sector, primarily agriculture, employs about 25% of the workforce but has seen a decline¹⁸. Meanwhile, the secondary sector, which employs 27% of the population, thrives on significant mineral and energy production, particularly coal. The steel industry, dominated by large state-owned groups, makes China the world's leading steel producer and consumer. Construction plays a vital role in job creation and infrastructure development. The services sector has outpaced others, employing over 358 million people (48% of the population). Despite the rise of large retail chains, small-scale retail remains significant, while e-commerce thrives, with 70% of Chinese users shopping online. In finance, the emergence of the middle class drives growth in insurance and banking. State-owned banks still dominate, but commercial banks are gaining importance. Overall, China's economy is diversifying, with the services sector leading the way in growth and employment, an important difference and advantage in relation to Indonesia.

¹⁴ [International Monetary Fund: Asia and Pacific Dept. Indonesia: Selected Issues. IMF eLibrary.](#)

¹⁵ [Informe Económico y Comercial Indonesia 2022 | ICEX](#)

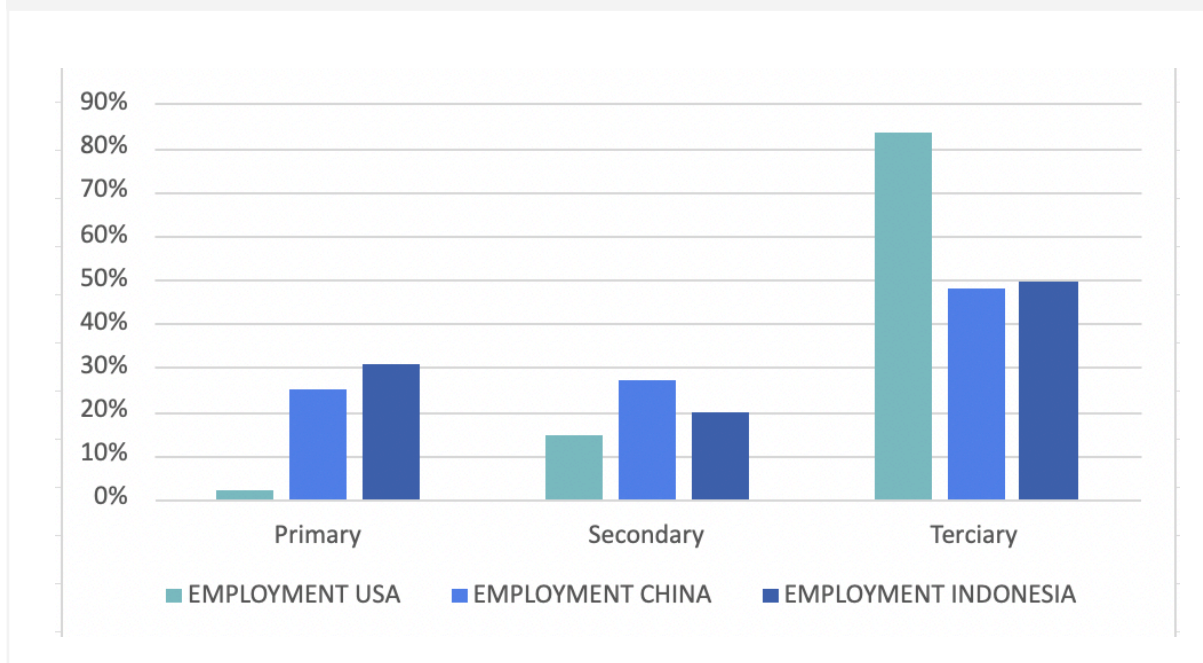
¹⁶ *Idem*

¹⁷ *Idem*

¹⁸ [Informe Económico y Comercial China 2022 | ICEX](#)

Compared to the US, another leading force worldwide, the distribution and its characteristics change. In the United States, the primary sector, which includes agriculture and forestry, employs 2% of the population, much less than Indonesia and China.¹⁹ The industrial sector, comprising 14.6% of occupation, maintains advantages in technological areas such as aerospace, microelectronics, and computing, a much more developed sector than the other countries pointed out. Efforts are being made to strengthen its capacity to safeguard the country's economic security against competition, especially from China. Recent legislative initiatives increase investment in infrastructure and promote research and development. The tertiary sector, representing 83.4% of the employment, is the primary job generator, like China and Indonesia, but with notable developed sectors including real estate, commercial, educational, healthcare, financial, and technological services. Technological advancement has been crucial for its growth, particularly in areas such as real estate sales, and scientific and technical services.

Figure 9. Contribution of Sectors to Employment²⁰



3. Economy

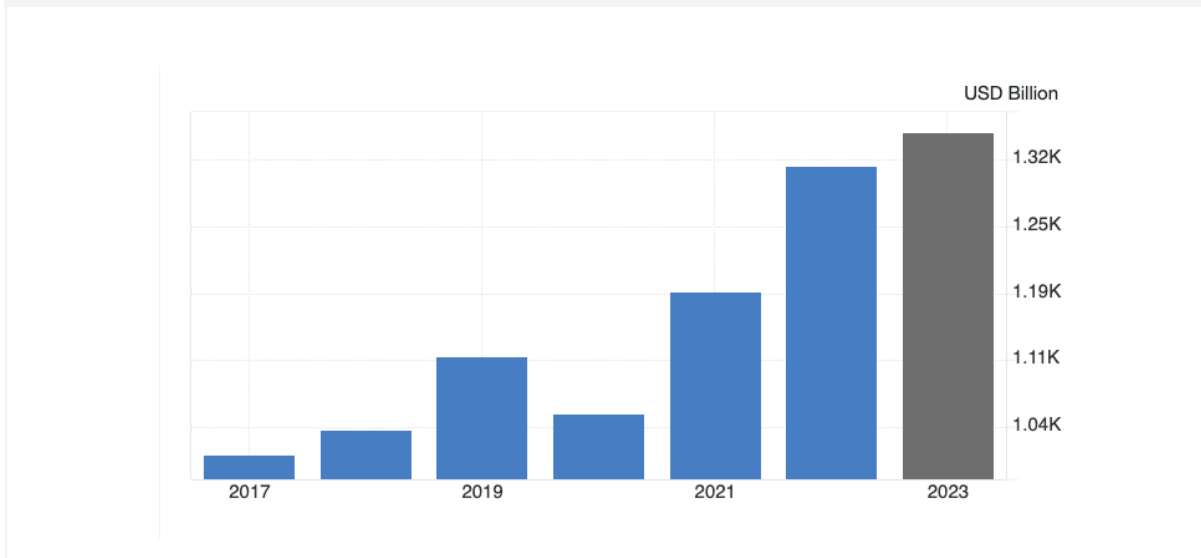
3.1. GDP

Indonesia's bright future is backed up by its economic growth and potential development. As of 2022, the emerging country was believed to be worth around 0.57 percent of the world's total economy, equivalent to \$1319.10 billion.

¹⁹ [Informe Económico y Comercial Estados Unidos 2023 | ICEX](#)

²⁰ [Economic and commercial report, Indonesia](#), [Economic and commercial report, China](#), [Economic and commercial report, USA](#)

Figure 10. Indonesia's GDP from 2017 till 2023 (forecasted)²¹



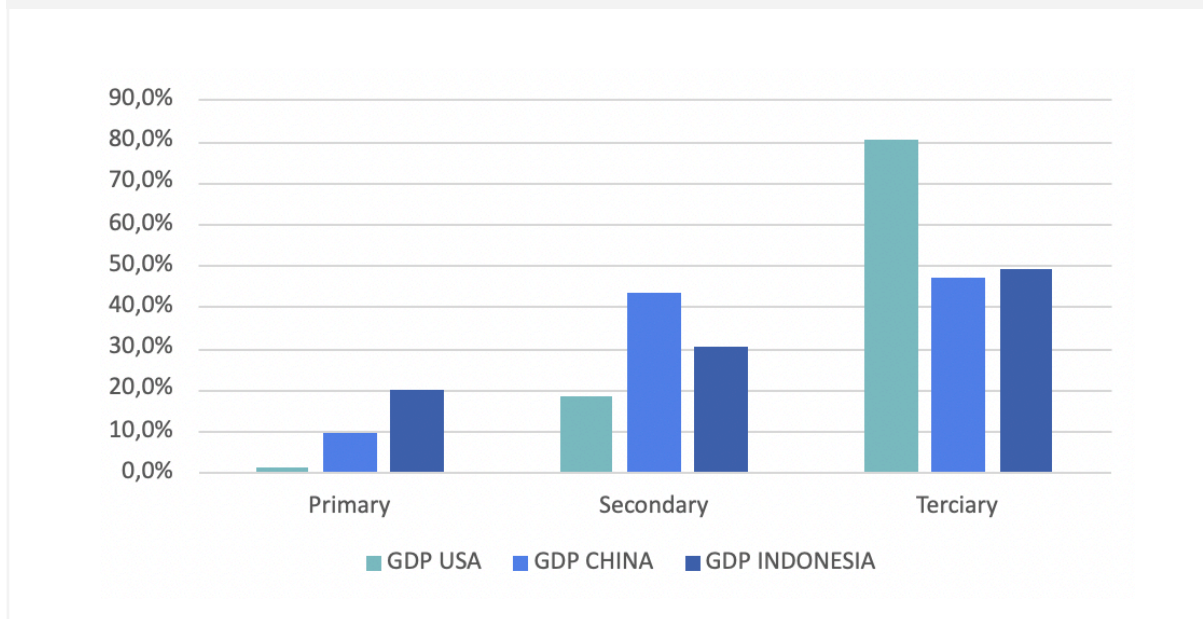
Indonesia is the largest economy in the southeastern region of Asia. The global commodity boom in 2022 was responsible for the record exports documented in the same year. Consequently, the economy grew 5.31%. The next year, in 2023, the growth was slightly lower, 5.05%. Currently, the forecast for 2024 is a 5.3% growth. The latter may be attributed mainly to the industry sector, including manufacturing, which is followed by mining in terms of total contribution to GDP.

Furthermore, in terms of the GDP distribution, it is important to highlight the importance of each sector of the economy. The primary sector contributes 20.14% of the GDP and it is most represented by the agricultural sector and the mining and extractive industry, which accounted for 14.2% and 6.44% of the GDP in 2020, respectively, totaling 20% of the domestic GDP. The secondary sector contributes 30.59% to the GDP, and within it, manufacturing is the most important sub-sector with substantial growth in recent years due to increased domestic consumption. The construction sector also holds significant importance, accounting for 10.71% of the GDP. The services sector is the most significant in Indonesia, contributing 49.27% to the GDP, being trade and hospitality services notable (15.5% of the GDP) as well as tourism (6% of the GDP).

This distribution can also be contrasted with two global leaders, the United States and China. From the graph below, Indonesia's distribution aligns more closely with China's than with the United States.

²¹ [Indonesia GDP](#)

Figure 11. Contribution of Sectors to GDP²²



3.2. Indonesia's fiscal discipline: an opportunity to grow

The level of indebtedness of a country is a crucial factor to consider when assessing investment risk. In this case, it will be analysed through the debt-to-GDP ratio, economic policies, and credit ranking.

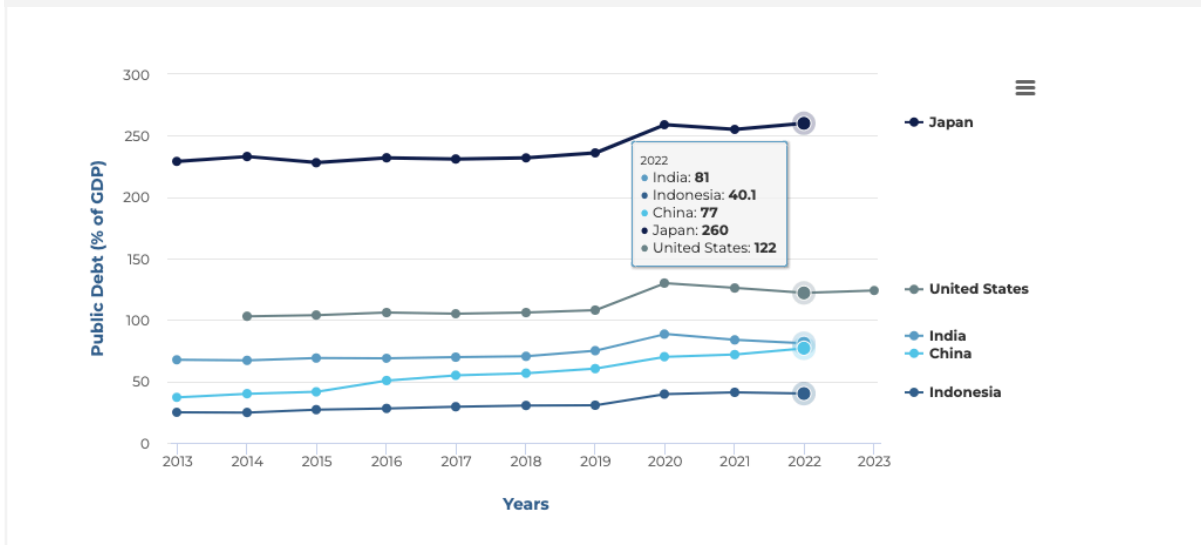
In the case of Indonesia, its debt-to-GDP ratio is notably lower than that of some of the countries it is projected to surpass by 2050. The relatively low levels of debt to GDP ratio have historical motives behind it. The Asian Financial Crisis (AFC) that took place in 1997-1998 led to such an Indicator reaching under 90% at the time. Consequently, as a result of IMF recommendations, the government established responsible and strict fiscal stances, which have been maintained since. Moreover, as of 2003, the government is obliged to maintain a public deficit below 3% of GDP and the debt to GDP ratio below 60% according to Act No. 17 of 2003.²³

The fiscal discipline in Indonesia signifies stronger confidence for international investors. The current stances upheld even economic crises during Covid, in which only the upper bound of the public deficit policy was slightly "relaxed" aiming to boost the economy, but fiscal discipline prevailed. Moreover, this commitment is reflected in the medium-term debt management strategy implemented by the Ministry of Finance. As such, by assessing four cost and risk indicators, the goal of efficiently managing the public budget is pursued. These are; Exchange rate risk, Interest Rate Risk, Refinancing Risk, and Debt Maturity Risk.

²² [Economic and commercial report, Indonesia](#), [Economic and commercial report, China](#), [Economic and commercial report, USA](#)

²³ [Debt sustainability and debt management in Indonesia – lessons from China](#)

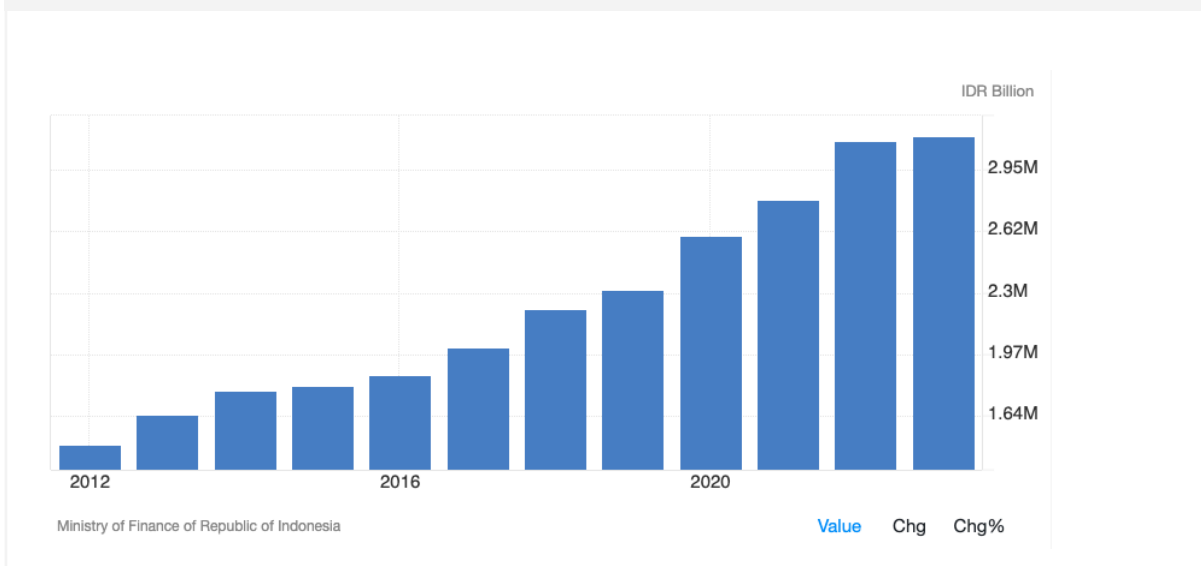
Figure 12. Indonesia Public Debt (% of GDP)²⁴



The above can be interpreted as an ideal situation for the country. Indonesia is projecting a low risk of default, its strong financial foundations, and therefore showcasing a stable economy. With a debt-to-GDP ratio of 40.1%, it is evident that Indonesia's production is capable of sustaining its public debt. Consequently, there is room for steady economic growth in the future through the boosting of the economy with moderate public spending. Overall, this demonstrates a solid basis for Indonesia's financial potential to become a leading player in the global economy.

The election period in 2024 was crucial to determine the country's future in terms of policy stance. Thus, this period characterized by public spending contributed to an increase in such, therefore, currently, it is expected to drive the national output to over "5% year-on-year growth in 2024".²⁵

Figure 13. Indonesia Fiscal Expenditure²⁶



²⁴ [Indonesia Public Debt \(% of GDP\)](#)

²⁵ [2024 Indonesia economic outlook marching ahead against external hurdles](#)

²⁶ [Indonesia Fiscal Expenditure](#)

Indonesia shows signs of a looser fiscal policy in the near future and has the margins to implement it. President-elect Joko Widodo's declarations led to the expectation of further similar policies that impulse economic development: "The government must encourage the public to spend as much as possible to boost our economic growth"²⁷. In general, the responsible public spending of the past is now being capitalized by the current government in office to boost the economy without incurring the risk of a large public deficit that leads to default. This translates to a positive outlook due to the expected future growth, together with the confidence of investors in the stability of the economy due to its historically strong foundations. That being stated, it is still important to thoroughly evaluate the possible increases in price expectations that may trigger production going back to the natural level through shifts in the short-run aggregate supply, fuelled by the potential increase in the bargaining power of the labour force.

Additionally, credit risk is another factor to consider when analysing the economic stability of a country. Indonesia was most recently ranked (in 2022) as BBB in the Standard & Poor's credit rating²⁸, a qualification associated with the medium level, with forecasted stability for the future. Furthermore, Moody's long-term rating for local currency placed Indonesia on the Baa2 level, also indicating a medium risk assessment. To complement the credit analysis, the country's risk premium is a relevant topic to address. Indonesia portrays a low-risk profile by ranking below the average in the Southeast Asia region in both the equity risk premium (ERP) and country risk premium (CRP), with values of 2,78 and 7,38 respectively. As a whole, credit risk is another factor that contributes to showcasing a perception of stability in the country, even more, compared to neighboring countries.

3.3. The Nickel Opportunity

When considering Indonesia's financial prospects, it's important to emphasize its abundant natural resources and advancements in artificial intelligence (AI). These factors play a crucial role in its potential to become a prominent global leader.

3.3.1. Nickel: A Foundation for Economic Growth

Indonesia is a leader in the nickel sector, with 1.8M metric tonnes²⁹, holding the world's largest reserves of this crucial metal, essential for lithium batteries in electric vehicles (EVs) and various electronic devices. This positions Indonesia at the head of the green energy transition. The government's policies to enhance local processing and refining of nickel aim to maximize the growth of a local EV and battery manufacturing industry, potentially boosting the economy significantly.³⁰

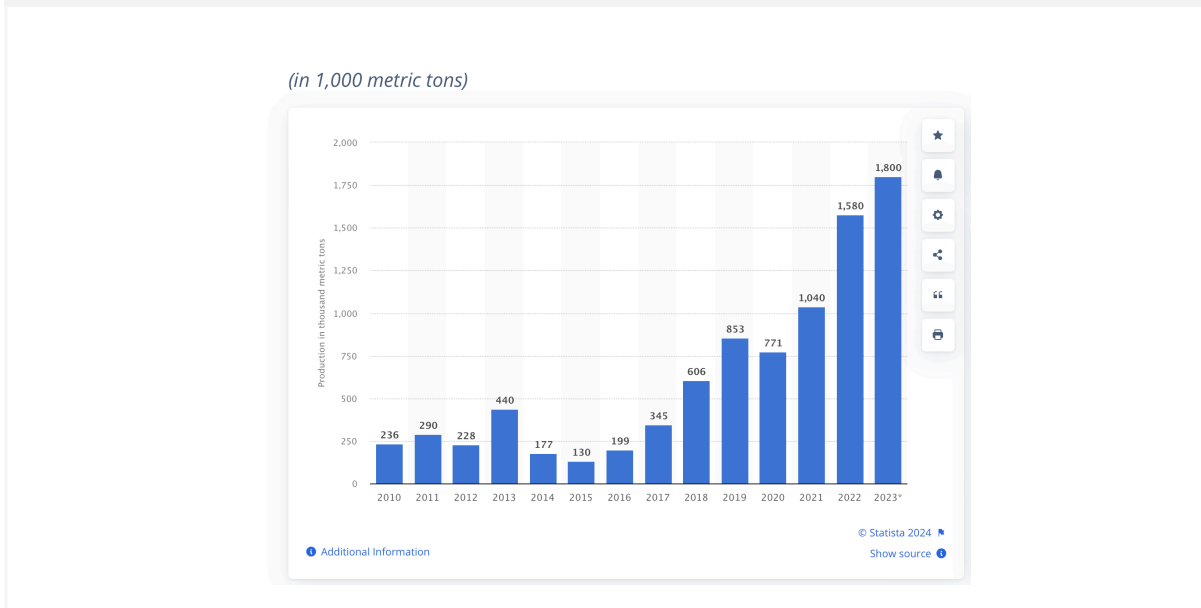
²⁷ [Jokowi urges all governors to encourage public spending](#)

²⁸ [Credit Rating - Indonesia](#)

²⁹ [Indonesia nickel mine production 2023 | Statista](#)

³⁰ [Indonesia's Economic Growth to Ease Slightly in 2024 as Commodity Prices Soften](#)

Figure 14. Mine production of nickel in Indonesia from 2010 to 2023³¹



3.3.2. Artificial Intelligence (AI): Forging Ahead

Indonesia, a country rich in natural resources, is diving into the world of artificial intelligence (AI) to boost its economy. Microsoft recently announced a significant investment of \$1.7 billion³² to enhance Indonesia's AI capabilities, highlighting the nation's dedication to technological progress.

Leading this effort is the Indonesian government's strong support for AI research and development. They're focusing on vital sectors like healthcare, finance, and agriculture, aiming to use AI to make processes more efficient and innovative. By integrating AI technologies, Indonesia hopes to tackle challenges such as improving healthcare services and transforming agricultural methods for sustainable food production.

The predicted growth of Indonesia's AI industry is impressive, with estimates suggesting it could reach \$366 billion by 2024. This emerging sector is attracting various players, from startups to established tech firms, all eager to capitalize on Indonesia's expanding AI landscape. As a result, Indonesia is experiencing a surge in technological innovation and entrepreneurial activity, driving economic growth and diversification³³.

3.3.3. Combining Natural Resources and Technology

Indonesia's combination of abundant natural resources and focus on AI offers a special chance for long-term economic development. By utilizing its nickel reserves for the global move towards renewable energy and fostering a dynamic AI industry, Indonesia is making its way for a robust

³¹ [Indonesia nickel mine production 2023 | Statista](#)

³² [Microsoft announces US\\$1.7 billion investment to advance Indonesia's cloud and AI ambitions](#)

³³ [Indonesia's Economic Growth to Moderate in 2023-2024](#)

economic future. These strategic actions not only establish Indonesia as a key player in the global market but also showcase its potential as a future economic leader.³⁴

To sum up, Indonesia's large nickel reserves and efforts in AI development are important for its economy. These factors suggest a bright future for the country globally. By using its natural resources and tech abilities wisely, Indonesia is on track to become a top global player soon.

PT Vale Indonesia TBK exemplifies a corporation that has significantly benefited from government subsidies. Currently, its primary focus is on nickel processing; however, the company also engages in nickel extraction and encompasses a broad spectrum of activities related to this industry.

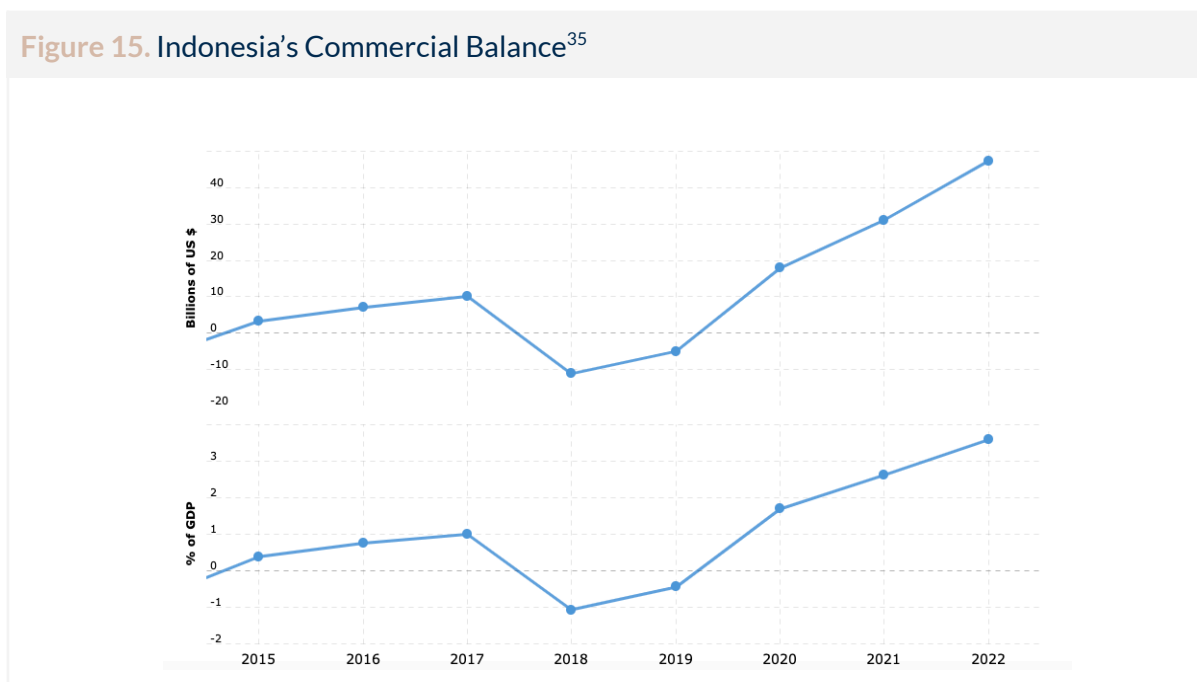
4. International position

When analysing the current situation of Indonesia in terms of its international trade, it is important to highlight the commercial balance, top partners, merchandise & services commercialized, relevant trade agreements, and foreign direct investment.

4.1. Commercial Balance

The commercial balance represents the difference between total exports and imports within a country in a determined period of time. In the case of Indonesia, a trade surplus has been the norm since the 2019-2020 period.

Figure 15. Indonesia's Commercial Balance³⁵



³⁴ [Indonesia's Economic Growth to Ease Slightly in 2024 as Commodity Prices Soften](#)

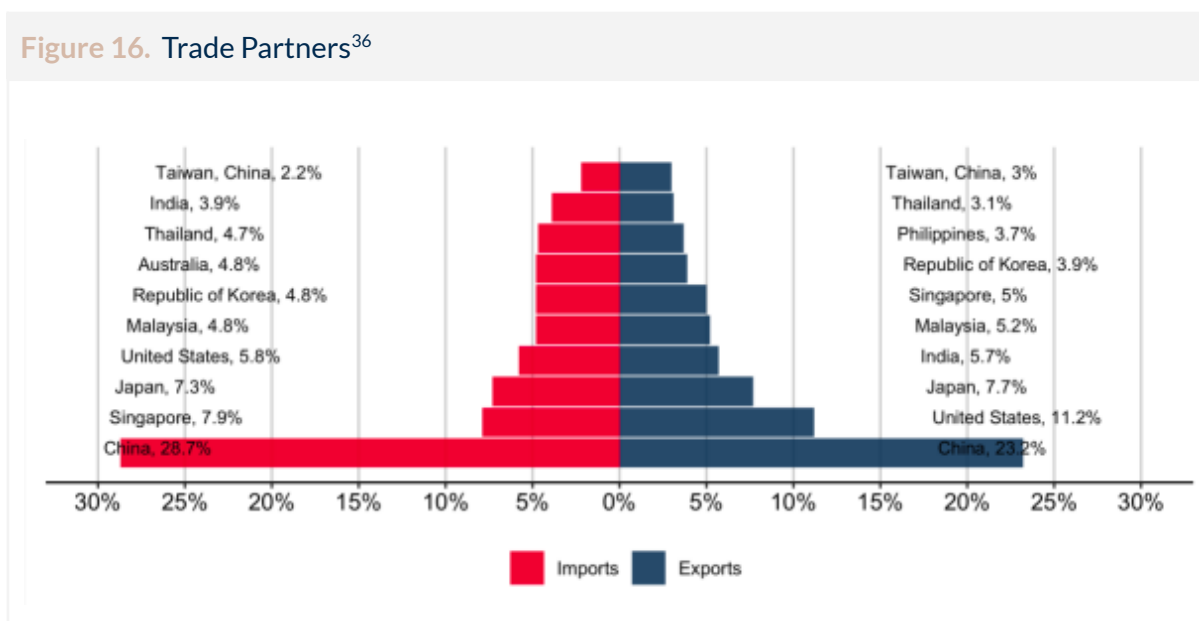
³⁵ [Indonesia Balance of Trade](#)

In further detail, in the most recent years, Indonesia has shown steady growth, both in terms of total volume (Billions of US\$) and as a percentage of GDP. From 2019-2020, the deficit turned into a surplus with a 459.43% Increase. The growth remained constant in the following years; a 73.57% increase from 2020 to 2021 and a 52.49% increase from 2021 to 2022, reaching a total value of 47.48 Billion US dollars.

The pandemic had much to do with Indonesia's recovery from the deficit in the 2020 period. Imports fell much more than exports, which on the other hand, even with some occasional falls throughout the year, had a generally positive balance over the same period. The resilience shown during the crises implies the reliability of the economy to overcome similar events in the future. In addition, since 2021, the increase in revenue due to the high demand for Indonesian exports is a positive signal that will allow greater economic growth. Lower dependency on external sources of financing, and the possibility of investing in infrastructure & technology that lead to further development of productivity, both contribute to the perception of potential future growths of the over 47.48 billion of output in the country.

4.2. Indonesia's top trade partners

Figure 16. Trade Partners³⁶



As shown in the graph for the top merchandise markets for Indonesia in 2021, China is on top of the list as Indonesia's most important international trade partner. It currently represents 29.7% of the country's total imports and 23.2% of its exports. The next on the list in terms of international trade is the United States, with 5.8% of imports and 11.2% of total exports. The US is followed by Japan, which represents 7.3% of imports and 7.7% of exports for Indonesia. It is worth mentioning Singapore's share in Indonesia's imports, currently established at 7.9% of the total, makes it an important trade partner. Other relevant trade partners are; India, Malaysia, and the Republic of Korea.

³⁶ [ESCAP, Asia-Pacific Trade and Investment Trends Brief 2022/2023 : Indonesia](#)

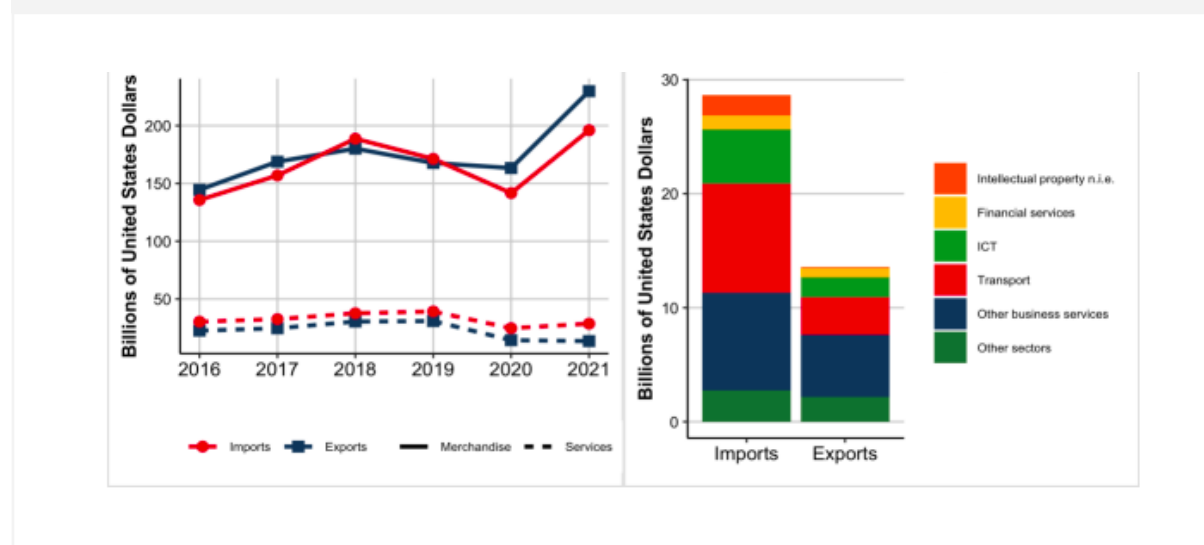
Geographical proximity and economic complementation are the two main factors for the establishment of China as a main trade partner. The relatively short distance between both allows the transportation costs to be diminished, leading to lower transaction costs in general, causing a boost in commerce. This established trade is strengthened further by the optimal supply and demand conditions. Indonesia's production of raw materials including coal, palm oil, and petroleum derivatives is highly demanded by China's manufacturing plants, which need them to produce their manufactured goods. Furthermore, trade agreements in place enhance commercial relationships, while securing long-term cooperation between both parties. In essence, the economic complementarity is beneficial for both countries. China has a reliable supplier of raw materials, and Indonesia can expand its export business by having a strong commercial partner like China.

4.3. Goods and Services

Merchandise/goods is the largest type of trade in the country, it represents 91% of total trade. Indonesia has a trade-to-GDP ratio of 39.5% as well as steady growth in terms of its exports. This can be appreciated from 2017 to 2021 with an 11.8% increase. In addition, it has demonstrated a steady growth of imports, of 8.9% in nominal value on average per year. It is valid to compare Indonesia's growth with that of the Asia-Pacific region, which it outperformed by 2.2% in total merchandise exports. However, it was smaller in terms of import growth in the same category. Outstandingly, in 2021 Indonesia experienced a significant merchandise export growth of 40.7% as well as a 38.4% increase in its merchandise imports.

Services make up 9% of the total Indonesian trade (2021). Between 2017 and 2021, Indonesia saw an annual decline of 8% in exports of commercial services, and a yearly average decrease of 1.1% in imports of commercial services. Both were below the Asia-Pacific region average of 3.7% and 1.7% growth during that same period. Distribution within the service trade by sectors can be seen graphed below together with a comparison to merchandise trade. (ESCAP, Asia-Pacific Trade and Investment Trends Brief 2022/2023: Indonesia, 2023)

Figure 17. Merchandise and Services Trade (left) & Services Trade by Sector (right)³⁷



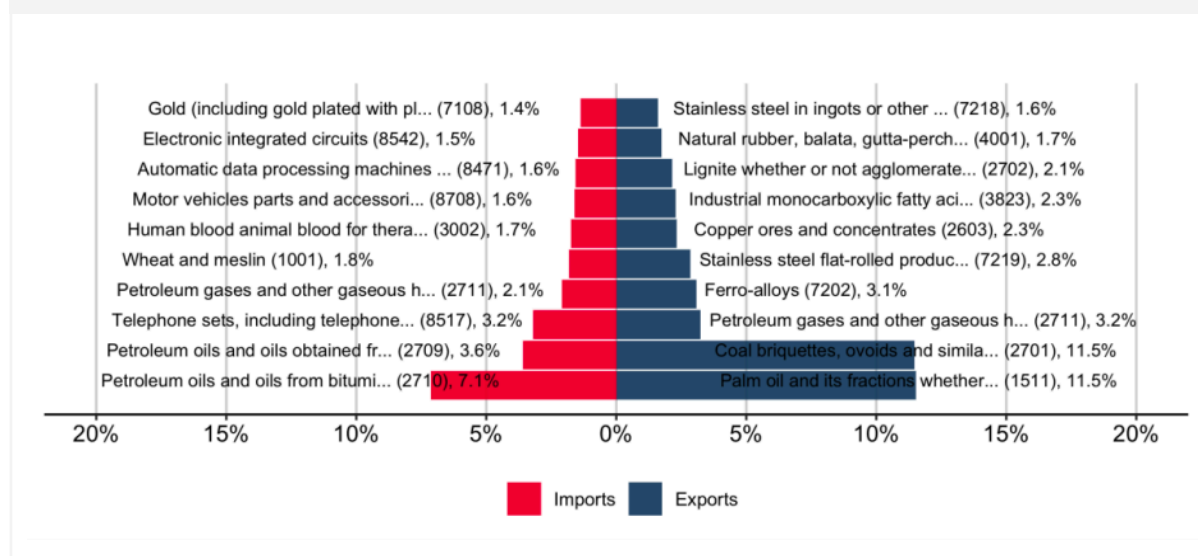
³⁷ [ESCAP, Asia-Pacific Trade and Investment Trends Brief 2022/2023: Indonesia](#)

4.4. Most important products

It is imperative to mention Indonesia's status as the major oil & gas producer in its region and as an important worldwide player. In terms of petroleum reserves, by 2019 these were calculated to be over 2,400 million barrels³⁸. The country occupied the 29th position in the proven oil reserve ranking in the same year. By 2021, the reserves grew by 100 million barrels (4.1%) to reach 2,500 million barrels. In terms of production of barrels per day, Indonesia reached 887,000 in 2020, accounting for 1% of worldwide production. Two years later, by 2022 the country's production reached 1,728,000 petroleum barrels per day and the 13th position in the worldwide ranking.

Indonesia had a tie-in regarding the contribution to total exports in its two main merchandise categories in 2021. "Palm oil and its fractions, whether refined or not, but not chemically modified", together with, coal and its derivatives, properly identified in the graph as: "Coal briquettes, ovoids, and similar solid fuels manufactured from coal" both contributed 11.5% to Indonesia's total export share. On the import side, the first category was largely superior to the second. However, both are petroleum-related. "Petroleum oils and oils from bituminous minerals, excluding crude; along with preparations containing over 70% of these oils by weight; including waste oils", constituted 7.1% of total imports. The second place was held by "Petroleum oils and oils obtained from bituminous minerals; in their crude form" with a share of 3.6%. The full list of main products can be seen below.

Figure 18. Top Merchandise Products³⁹



4.5. Trade Agreements

As of 2021, Indonesia was actively engaged in 14 operational trade agreements. 3 additional agreements were signed and awaiting completion. 9 more agreements were being negotiated. The most relevant for the future outlooks of the country were the Indonesia-EU and ASEAN-EU

³⁸ [International - U.S. Energy Information Administration \(EIA\)](#)

³⁹ [ESCAP, Asia-Pacific Trade and Investment Trends Brief 2022/2023 : Indonesia](#)

trade agreements. Both agreements promised to increase total trade (both exports and imports) and undoubtedly favor Indonesia. Their specific contribution to total trade can be seen below.⁴⁰

Figure 19. Trade Agreements⁴¹

Title	Status	Year in Force	Share of Total Exports (%)	Share of Total Imports (%)
ASEAN-Republic of Korea	in force	2010	24.64	25.20
Group of 8 Preferential Trade Agreement (D-8 PTA)	in force	2011	9.78	6.35
Indonesia-Pakistan	in force	2013	1.65	0.09
ASEAN-Hong Kong, China	in force	2019	21.65	21.86
Indonesia-Chile	in force	2019	0.11	0.08
Australia-Indonesia	in force	2020	1.39	4.81
Indonesia-European Free Trade Association (EFTA)	in force	2021	0.60	0.47
Indonesia-Mozambique	signed	N/A	0.05	0.01
Indonesia-Republic of Korea	signed	N/A	3.88	4.82
Indonesia-United Arab Emirates	signed	N/A	0.82	1.10
ASEAN-European Union (EU)	under neg.	N/A	28.54	26.06
India-Indonesia	under neg.	N/A	5.74	3.91
Indonesia-Canada	under neg.	N/A	0.46	1.05
Indonesia-European Union (EU)	under neg.	N/A	7.78	5.67
Indonesia-Iran	under neg.	N/A	0.08	0.01
Indonesia-Morocco	under neg.	N/A	0.04	0.05

Currently, the [Indonesia-EU](#) trade agreement is still under negotiation, with pending meetings between the parts scheduled for 2024. However, the [ASEAN-EU](#) agreement was ultimately signed and is currently in force. The latter has formed a strategic economic partnership between both regions since 2020. The agreement has resulted in a very beneficial alliance for both parties. The EU became ASEAN's 3rd largest trading partner, being responsible for 10% of ASEAN's total trade. Specifically, as of 2022, bilateral trade in goods reached €272 billion between both.

That being said, to determine the motives behind the agreement in place it is relevant to mention the political relations between ASEAN and the EU that trace back to 1980 when the signing of a cooperation agreement between both parties took place. Furthermore, the *Nuremberg Declaration*⁴² (2007) enhanced the partnership. It establishes a long-term commitment to strengthen such a relationship from a multilateral approach. Regarding economic cooperation, among others, both commit to “Encourage greater interaction of the private sector between ASEAN and the EU” and “Create a conducive environment for more trade, investment and other economic activities between the EU and ASEAN”. Most recently, the 2022 EU-ASEAN commemorative summit in Brussels presented the plan of action up to 2027. As such, the “Global Gateway” plan involves the provision of 10 Billion euros leveraged by the EU

⁴⁰ Values of “Share of total imports (%)” and “Share of total exports(%)” for trade agreements classified as “under neg.” are considered as forecasts.

⁴¹ [ESCAP Asia-Pacific Trade and Investment Trends Brief 2022/2023 : Indonesia](#)

⁴² [Nuremberg Declaration on an EU-ASEAN Enhanced Partnership](#)

and member states to fund sustainable investments between the parts. These involve but are not limited to: Green Transition and Sustainable Connectivity.

The stable long-term multilateral relationship between ASEAN and the EU is definitely an asset for Indonesia. Whether it is used for the negotiation and leverage of its pending trade agreement with the EU, or simply as a commercial ally, the Asian country is a direct beneficiary of the improvement in trade relations and investments in the region. The outlook for the future is bright for Indonesia in terms of the next investments in the region given the commitments of the EU at least until 2027. In any case, the value added in terms of trade has been already very significant for both, amounting to 32 Billion in 2022⁴³ despite facing the Covid pandemic repercussions and expected to develop further in the future.

4.5. Foreign Direct Investment (FDI)

The FDI measures the inflows and outflows in terms of investment in a country. The inflows estimate the investments made by foreigners in stakes of national companies. On the other side, the outflows are the investments made by residents of the country in foreign economies. When analysing emerging markets, inflows are determinant to economic growth, increasing access to funding for the development of projects, infrastructure, and even improvement of labour productivity by the transfer of skills from international investors. In the early stages of developing economies, the volume of outflows is still significantly lower and less relevant than that of inflows due to the prioritization of the latter, for it is more immediate to the contribution of growth.

Figure 20. Foreign Direct Investment 2016-2021⁴⁴



The evolution of both inflows and outflows from 2016-2021 is graphed above and shows their drastic increase in 2016 recovering from a great decline in 2015. Subsequently, both have remained at approximately the same respective level since 2017. The previous portrays certain stability in the investment environment of the country. That being said, it is valid to highlight that

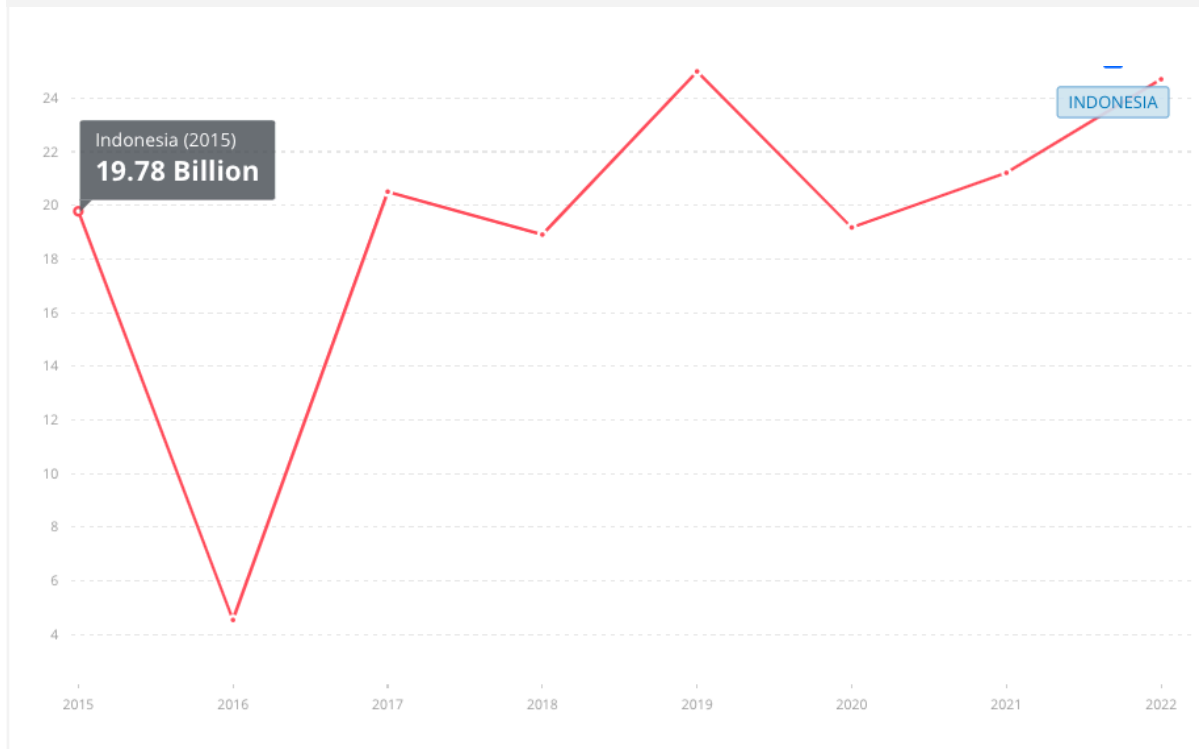
⁴³ [European Union Trade and Investment with Indonesia 2023](#)

⁴⁴ [ESCAP, Asia-Pacific Trade and Investment Trends Brief 2022/2023 : Indonesia](#)

Global commodity prices, China's economic stability, and Indonesia's environmental crises are factors that specifically influence the country's Foreign Direct Investment Inflows. Hence, these factors may risk its future economic growth & long-term stability.

4.6. Deep-dive into Indonesia's FDI Inflows

Figure 21. Foreign direct investment, net inflows (BOP, current US\$)⁴⁵



The FDI inflows boost Indonesia's economy, increase commercial agreements & foster international trade relations. However, as mentioned above, these may be distorted by several factors. An example is the drastic net inflow decline seen in the period of 2015–2016. The Foreign Direct Investment declined by an unprecedented 77%, from 19.78 billion to 4.54 Billion. As one of the main causes of the decline, Indonesia's economic dependency on China, its main trade partner, is a relevant issue to address. China was one of the major countries affected by the global economic deceleration occurring in the same period. This translated to uncertainty for investors in the country, Asian region, and emerging markets in general. In addition, the fall in commodity prices, which is key for Indonesian exports and therefore the country's GDP, may have contributed to signalling uncertainty to international investors. Lastly, environmental and social crises were also contributors to the FDI decline. "2.6 million hectares of Indonesian land burned between June and October 2015" (World Bank, 2016)⁴⁶. Moreover, the first ISIS terrorist attack in Southeast Asia took place in Indonesia's capital Jakarta in January 2016.

⁴⁵ [World Bank: Foreign direct investment, net inflows \(BoP, current US\\$\) Indonesia](#)

⁴⁶ [The Cost of Fire: An Economic Analysis of Indonesia's 2015 Fire Crisis](#)

As a result, besides the social costs, the country's economic activity was diminished and exposed. Overall, the combination of the global deceleration, the decline in commodity prices, and the multiple crises in Indonesia were directly linked to the FDI collapse in the country due to the loss of investor confidence.

The previous may indicate that despite successfully overcoming social and environmental emergencies, Indonesia needs to address its dependency on China and commodity prices to achieve its goal of becoming a world economic power by 2050.

5. Challenges Indonesia faces

Indonesia, spread across more than 17,000 islands, faces a big challenge in connectivity and infrastructure (building roads, bridges, and communication systems that connect all parts of the country). This challenge is even bigger because the country needs to make sure that people living in less populated or remote areas can get to schools and hospitals easily and have the same job opportunities as those in cities. As cities grow and get better facilities, it's important not to forget about the smaller towns and villages.

At the same time, Indonesia is trying to deal with environmental issues. The country is known for its beautiful forests, but many of these areas are being cut down or damaged, Indonesia's primary forest loss increased slightly to 230,000 hectares (568,000 acres) in 2022 from 202,900 hectares (501,400 acres) in 2021⁴⁷. This not only harms the plants and animals living there but also adds to global warming, a problem for the whole planet. Indonesia is working on finding a balance between using its natural resources for economic growth and keeping its environment healthy.

Politics and how the country is run are also important for Indonesia's future. Since the late 1990s, Indonesia has made a lot of progress in becoming a more democratic country, but there are still problems like corruption and disagreements between different groups of people. For Indonesia to do well both inside and outside the country, it needs to make sure that its government works well and fairly and that all its people, no matter their background, feel included and respected.

Tackling these issues of connecting the country, protecting the environment, and making sure politics are fair and inclusive is crucial for Indonesia. It's not just about becoming a leading country on the world stage, it's also about making life better for its own people.

5.1. Doing Business Indicator

The Doing Business report is published annually by the World Bank. It is a widely used tool by investors, and policy-makers to assess the business environment of a country. The report provides a quantitative assessment of regulations affecting domestic businesses in 190 economies worldwide.

⁴⁷ [Indonesia claims record-low deforestation, but accounting raises questions](#)

Figure 22. Doing Business Indicator⁴⁸



Indonesia is ranked 73rd in the Doing Business ranking, with a total score of 69.6/100. Undoubtedly, the ranking displays that Indonesia has much room to improve if it wants to compete with the current competitive standards of the world powers. Despite being above average in some indicators -getting electricity, protecting minority investors, getting credit, and resolving insolvency-, the country is ranked poorly in decisive areas -starting a business, dealing with construction permits, registering property, trading across borders, and enforcing contracts-. This situation creates uncertainty and may lead to disincentivizing investors. In any case, major structural and political changes are needed to boost Indonesia's ranking to a global power level.

5.2. Education and Health Inequalities

Over the past two decades, Indonesia has witnessed a rapid escalation in wealth disparity, surpassing that of any other country in Southeast Asia. Presently, it ranks as the sixth nation worldwide with the most pronounced wealth inequality.⁴⁹ Particularly disadvantaged are the poorest, with women having a disproportionate burden of low wages and workplace insecurity. Disparities in infrastructure access show a notable difference in population, with rural regions notably underserved compared to urban regions. Land ownership remains heavily concentrated among large corporations and individuals, who disproportionately benefit from these.

This unequal distribution of wealth is reflected in the Gini coefficient, a measure of social inequality, which demonstrates a relatively significant figure. In 2017, the Gini index exhibited a modest improvement, reducing to 0.391 from 0.41 in 2015. However, this improvement is overshadowed by a comparative degradation from the 0.30 index recorded in 2000, suggesting that substantive changes in social inequality within Indonesia have yet to occur.

⁴⁸ [Doing Business in Indonesia - World Bank Group](#)

⁴⁹ [Inequality in Indonesia: millions kept in poverty | Oxfam International](#)

Figure 23. Wealth Inequality Across Asean⁵⁰



In terms of education, Indonesia faces significant developmental challenges. While there has been notable progress in increasing school enrollment rates, with more children attending school than ever before, there remains a concerning number of children who are still out of school, estimated at around 4.3 million aged 7–18 years. Among those at the highest risk of school exclusion are the poorest children, those with disabilities, and those residing in underdeveloped regions of the country. Recent data analysis reveals that 57 percent of school-aged children with disabilities are not attending school, highlighting significant barriers to inclusion⁵¹. Geographically, the out-of-school rates vary significantly, ranging from 1.3 percent in relatively affluent areas like Yogyakarta to as high as 22 percent in impoverished regions such as Papua.

Even among children who do attend school, many struggle to attain basic academic skills, with less than half achieving minimum proficiency levels in reading and mathematics. Adolescents also face challenges in accessing education and employment opportunities, with nearly a quarter of 15 to 19-year-olds not engaged in education, employment, or training, and youth unemployment hovering around 15 percent.

Despite progress in expanding access to education, the COVID-19 pandemic has exacerbated existing inequalities, with many students from low-income families lacking access to online or distance learning and experiencing increased dropout rates due to school closures. Moreover, poor school facilities, infrastructure quality, and natural disaster risks further compound the

⁵⁰ Credit Suisse Research Institute

⁵¹ [Educational Challenges In Indonesia](#)

challenges faced by the education system. Additionally, discrepancies in internet access and teacher qualifications contribute to inequalities in remote learning, particularly for marginalized children. Addressing these challenges requires comprehensive reforms, including improvements in teacher recruitment processes, investment in infrastructure, and targeted interventions to ensure equitable access to quality education for all children in Indonesia.

Educational problems are also spreading to healthcare. Indonesia has been consistently underinvesting in its health sector, spending slightly more than two percent of its GDP on this sector.⁵² There are many chronic problems in Indonesia's health system, including gaps in health infrastructure, the availability, and quality of health workers, and inequities in access to health care, to name a few, have long been apparent.

6. Conclusion

Despite facing challenges in education and healthcare development, it is clear that Indonesia is set to emerge as a leading global player in the future, due to several key factors.

Demographically, Indonesia benefits from a young workforce, expected to significantly contribute to its GDP growth in the upcoming years. Economically, the nation's abundance of natural resources, particularly in nickel, positions it as a key player in emerging technologies like electric vehicles and renewable energy. This means Indonesia holds some power over other countries since it possesses a significant amount of natural resources defined as critical because of their limited availability, which supports future technology development. Additionally, Indonesia's status as a major oil and gas producer in its region strengthens its economic positioning.

Furthermore, the country's commitment to AI research and development shows its dedication to fostering innovation. Its stable economic base, demonstrated by a low debt-to-GDP ratio and stable trade relationships, provides a basis for growth. With a promising trade sector, most highlighted for its petroleum-related goods, and strategic alliances with major players such as China and the United States, Indonesia will strengthen its position in the global economy. Moreover, its active participation in international organizations and diplomatic efforts shows its commitment to local stability and global cooperation.

In conclusion, Indonesia's combination of demographic strength, economic potential, and international relationships provides a solid foundation to boost itself into one of the largest economies worldwide. While it might not be top 4, as PwC argues, it will surely gain relevance and move up from its current position.



⁵² [An evaluation of health systems equity in Indonesia: study protocol - International Journal for Equity in Health](#)

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