

Macro Note

Indonesia: FDI Slowed In Q2 2018 On “Wait-and-See” Posturing

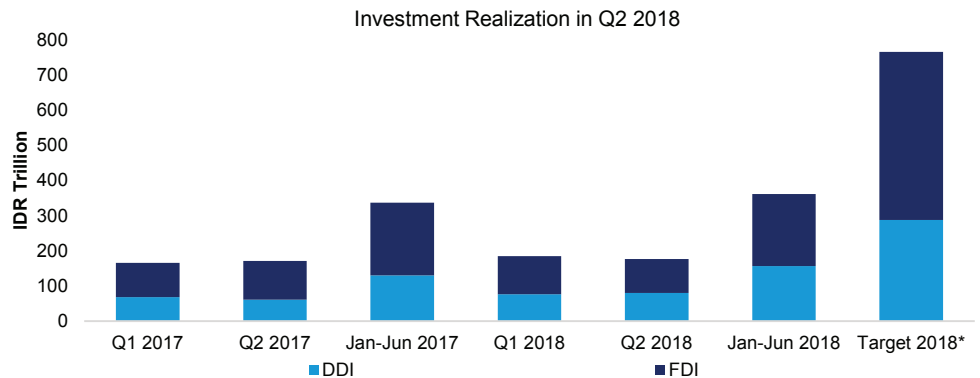
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The Indonesian Investment Coordination Board (BKPM) reported a total investment realization of IDR176.3tn (USD12.2bn) in Q2 2018, a 3.1% yoy rise. The total investment realization consists of IDR95.7tn worth of Foreign Direct Investment (FDI) and IDR80.6tn worth of Domestic Direct Investment (DDI). Nevertheless, FDI contracted on a yoy basis by close to 13% while DDI continued to grow at 32.1% yoy (Figure 1).

Figure 1. Investment Realization in Q2 2018

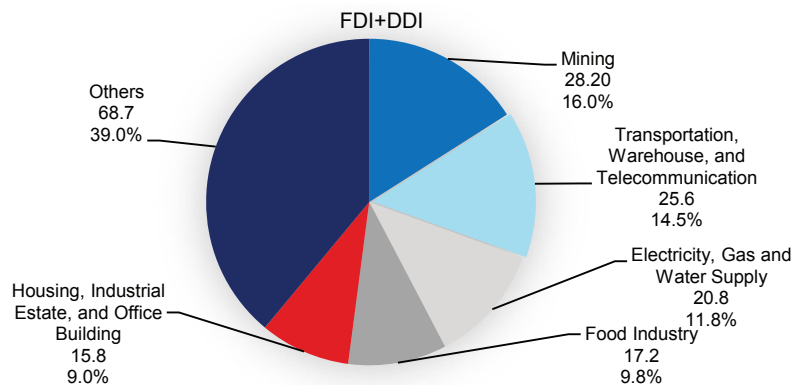
Source: BKPM, UOB Global Economics & Markets Research
 * 2018 BKPM 5-Year Target (2015-2019)



BKPM reported 5 top sectors of total investment in Q2 2018: Mining (IDR28.2trn or 16.0% from total investment); Transportation, Warehouse, and Telecommunication (IDR25.6trn, 14.6%); Electricity, Gas and Water Supply (IDR20.8trn, 11.8%); Food Industry (IDR17.2trn, 9.8%) and Housing, Industrial Estate, and Office Building (IDR15.8trn, 8.9%). Mining-related investment topped the FDI list while transportation, warehousing, and telecommunication were the highest sector that DDI is investing on. A more detailed sector lists for both FDI and DDI can be found in the Appendix I.

Figure 2. Top 5 Investment Sectors in Q2 2018

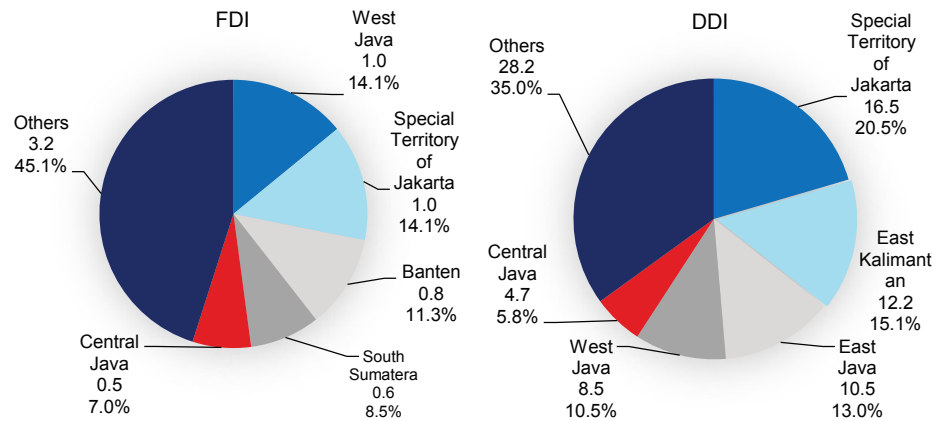
Source: BKPM, UOB Global Economics & Markets Research



BKPM also noted the top five investment realization based on project locations (top 5) were: Special Territory of Jakarta (IDR29.9tn, or 16.9% from total investment); West Java (IDR22.2 tn, 12.6%); East Java (IDR16.0tn, 9.1%); Banten (IDR14.4tn, 8.2%); and East Kalimantan (IDR13.8 tn, 7.8%). In summary, Java still dominates as a location of investment destination (Figure 3). Appendix II provides more breakdown of investment amount from each province in Indonesia.

Figure 3. Top 5 Investment by Region in Q2 2018

Source: BKPM, UOB Global Economics & Markets Research



What's more important is the interpretation and views on the declining FDI momentum. BKPM Chairman Tom Lembong said that there were some factors that affected investment realization figures on the downside in Q2 2018. The volatility of the IDR (rupiah exchange rate) and the ongoing US-China rising trade tensions have had an impact on the slowing pace of investment growth. In addition, he further mentioned that Indonesia has also entered a political year that will continue on till next year. As such and in the midst of uncertainty, investors tend to slow down their investment activities and tend to adopt a "wait and see" investment posturing towards Indonesia as its choice of investment destination.

However, Chairman Lembong further commented that the government of Indonesia will ensure various facilities and simplification of procedures for investment activities that have been issued through various government regulations will continue to be streamlined as to provide legal and business certainty. The Indonesian government remains open to various improvements and welcome investors' feedbacks on obstacles that need to be addressed for investing in Indonesia. Coordination between ministries and government institutions as well as with the local governments will be improved as to encourage higher investment realization in the future. Further on the positive side is that although investment growth is slowing down, it still absorbs considerable labor as a result of investment activities across the regions, which has brought about the multiplier effect. Also, continued absorption of workers may also bring along opportunities for skills upgrading of local workers that would further enhance competitiveness of investment into the shore. This is especially so as Indonesia is at the same time increasingly embracing more investment activities that will require adoption of the newest technologies.

Finally, we remain cautiously optimistic on Indonesia's potentials to be one of the key investment destinations going forward. However, some challenges still need to be addressed to ensure more sustainability of foreign investment in the Indonesian real sector. Rupiah volatility is one of the key factors that investors are clearly focusing on. Nevertheless, we are comforted by closer coordination between key policymakers in ensuring that economic policies will continue to anchor financial stability while at the same time maintaining support towards better quality economic growth in Indonesia.

Appendix I. List of FDI by Sector

No	Sector	Investment (USD Million)	Project
1	Mining	995.3	352
2	Housing, Industrial Estate, and Office Building	962.8	491
3	Electricity, Gas and Water Supply	898	313
4	Metal, Machinery and Electronic Industry	781.1	1,044
5	Transportation, Warehouse, and Telecommunication	586.3	314
6	Chemical and Pharmaceutical Industry	533.2	620
7	Food Crops and Plantation	363	328
8	Food Industry	361	924
9	Hotel and Restaurant	291.7	1,284
10	Paper, Paper Based Goods and Printing Industry	271.2	155
11	Other Services	265.1	1,622
12	Rubber, Rubber and Plastic Based Goods Industry	168.6	402
13	Vehicle and Other Transportation Industry	121.7	483
14	Trade and Reparation	121.4	2,505
15	Leather Goods and Footwear Industry	81	164
16	Non Metallic Mineral Industry	75.6	145
17	Construction	62	168
18	Wood Industry	55.7	115
19	Textile Industry	50.7	433
20	Livestock	39.9	96
21	Other Industries	37.4	297
22	Fishery	12.4	43
23	Forestry	4.3	38
24	Medical instrument, Precision, Optical, and Watch Industry	1.9	21
TOTAL		7141.5	12357

Source: BKPM, UOB Global Economics & Markets Research

Appendix I. List of DDI by Sector

No	Sector	Investment (IDR Billion)	Project
1	Transportation, Warehouse, and Telecommunication	17,790.40	194
2	Mining	14,856.50	101
3	Food Industry	12,364.70	883
4	Electricity, Gas and Water Supply	8,774.80	322
5	Food Crops and Plantation	5,370.90	320
6	Hotel and Restaurant	3,209.40	286
7	Chemical and Pharmaceutical Industry	3,030.30	365
8	Housing, Industrial Estate, and Office Building	2,846.70	249
9	Metal, Machinery and Electronic Industry	2,560.90	375
10	Textile Industry	2,314.50	209
11	Paper, Paper Based Goods and Printing Industry	1,194.50	159
12	Non Metallic Mineral Industry	1,154.90	142
13	Trade and Repairation	1,151.70	560
14	Other Services	1,080.40	283
15	Rubber, Rubber and Plastic Based Goods Industry	988.2	302
16	Construction	564.5	210
17	Vehicle and Other Transportation Industry	554.8	81
18	Wood Industry	303.4	108
19	Other Industries	192.1	108
20	Livestock	163.6	66
21	Leather Goods and Footwear Industry	97.6	21
22	Fishery	4.7	24
23	Medical instrument, Precision, Optical, and Watch Industry	1.1	5
24	Forestry	0	2
	Total	80,570.80	5,375

Source: BKPM, UOB Global Economics & Markets Research

Appendix II. List of FDI by Region

No	Location	Investment (USD Million)	Project
1	West Java	1,024.50	2,897
2	Special Territory of Jakarta	997.3	3,039
3	Banten	764.8	1,106
4	South Sumatera	603.4	172
5	Central Java	506.3	464
6	East Java	413.7	908
7	Central Kalimantan	273.7	128
8	North Sumatera	269.2	328
9	Papua	255.5	80
10	Bali	224.7	836
11	West Kalimantan	194.1	184
12	South Sulawesi	182.6	110
13	Riau Islands	175.9	499
14	West Nusa Tenggara	163	347
15	Riau	152.6	176
16	Southeast Sulawesi	125	39
17	East Kalimantan	122.9	147
18	North Sulawesi	108.2	59
19	West Sumatera	86.6	88
20	Central Sulawesi	86	66
21	North Maluku	84.2	22
22	Bengkulu	77.9	26
23	Aceh	46	55
24	Lampung	37.9	68
25	West Papua	36.7	35
26	South Kalimantan	28.4	55
27	North Kalimantan	28	43
28	East Nusa Tenggara	26	97
29	Bangka Belitung Islands	19.1	58
30	Jambi	12.5	75
31	Gorontalo	6.9	18
32	Special Territory of Yogyakarta	6	110
33	West Sulawesi	1.4	6
34	Maluku	0.4	16
TOTAL		7,141.40	12,357

Source: BKPM, UOB Global Economics & Markets Research

Appendix I. List of DDI by Sector

No	Location	Investment (IDR Billion)	Project
1	Special Territory of Jakarta	16,500.60	301
2	East Kalimantan	12,163.10	132
3	East Java	10,485.50	852
4	West Java	8,483.90	839
5	Central Java	4,735.80	780
6	Banten	4,191.80	370
7	Central Kalimantan	2,796.40	98
8	South Kalimantan	2,422.50	75
9	West Sulawesi	1,757.20	14
10	Riau	1,709.70	235
11	Bangka Belitung Islands	1,691.70	64
12	South Sumatera	1,683.80	144
13	West Kalimantan	1,661.10	152
14	North Sumatera	1,618.20	209
15	Jambi	1,187.90	93
16	Riau Islands	1,018.20	121
17	West Sumatera	885.6	118
18	South Sulawesi	791.3	204
19	Central Sulawesi	669.1	38
20	North Kalimantan	667	45
21	Bengkulu	561.9	36
22	North Maluku	512.6	6
23	East Nusa Tenggara	476.4	34
24	Bali	411.9	74
25	Lampung	358	50
26	North Sulawesi	351.3	31
27	Special Territory of Yogyakarta	220.8	70
28	West Nusa Tenggara	195.9	48
29	Southeast Sulawesi	174.2	20
30	Gorontalo	65.1	7
31	Aceh	62.2	85
32	Papua	52.7	15
33	Maluku	7.6	9
34	West Papua	0	6
TOTAL		80,571.00	5375

Source: BKPM, UOB Global Economics & Markets Research

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