



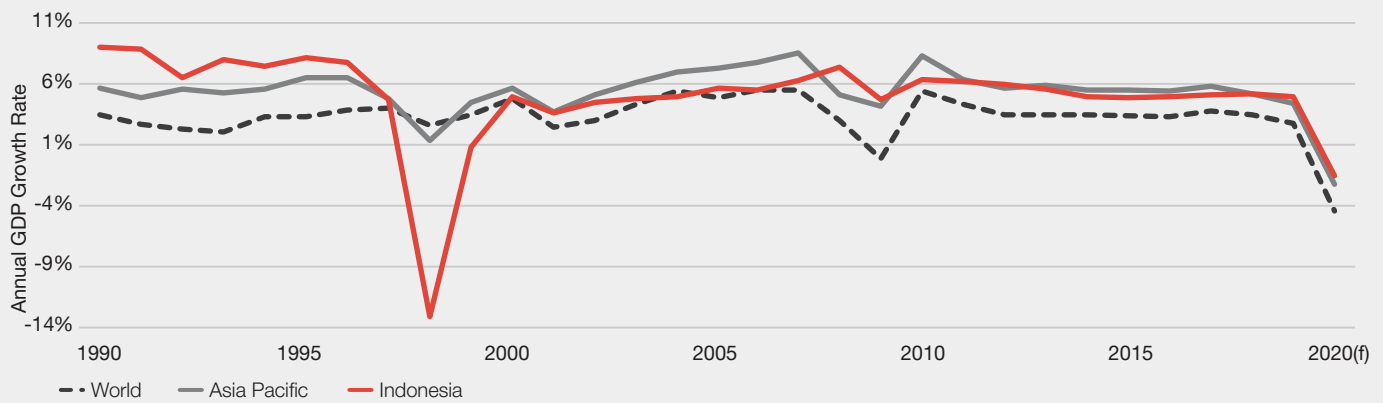
Time to Act Indonesia

A nation on the move

Driven by policy reforms, a large and expanding workforce and strong growth in private consumption, Indonesia has been able to achieve significant economic and social development over the past two decades. The country has recorded steady economic growth since the Asian financial crisis in 1997, pushing its gross domestic product (GDP) from US\$115 billion in 1998 to almost ten times (US\$1,120 billion) in 2019. Besides this, Indonesia has also strengthened its human capital, reducing the country's poverty rate by more than half since 1998, to only around 10 per cent in 2020. Notably, Indonesia has been able to achieve these results with adequate fiscal prudence – maintaining a low debt burden (government gross debt at 30.5 per cent of GDP in 2019, compared to 80.8% for Asia Pacific) and steady growth in foreign exchange reserves. Technology adoption has also shaped into a new growth driver in recent years, marked by rising internet penetration and a growing government focus on boosting innovation.¹

To improve efficiency for business and investment, the Indonesian parliament passed the Jobs Creation Law, commonly referred to as the “Omnibus Law” on 5 October 2020. The Omnibus Law is a bold initiative and the most comprehensive economic reform ever launched in Indonesia. It will need a massive process of synchronisation of existing laws, including the issuance of new implementing regulations and revision of certain other regulations in the spirit of harmonization at central, regional and municipal level. The law highlighted five big initiatives: developing a dynamic and hardworking workforce, industry cooperation and technology, continuing infrastructure development and simplifying regulations, continuing government reforms by streamlining bureaucracy and pushing for economic transformation.

Economic growth trends for Indonesia, compared to regional and global averages



Source: International Monetary Fund (October 2020)

Economic and Human Development Index (HDI) performance of key Asia Pacific markets



Source: International Monetary Fund (October 2020); United Nations



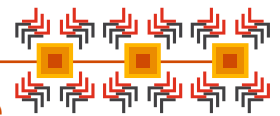
The need for change

While Indonesia has made notable economic progress in the past few decades, there remains scope to further enhance the people's well-being – creating the need for more inclusive growth in the years ahead. With the onset of the COVID-19 crisis, overcoming key growth challenges needs to be of utmost priority as Indonesia seeks to revive growth and design a stronger future trajectory – creating an urgency to act now.

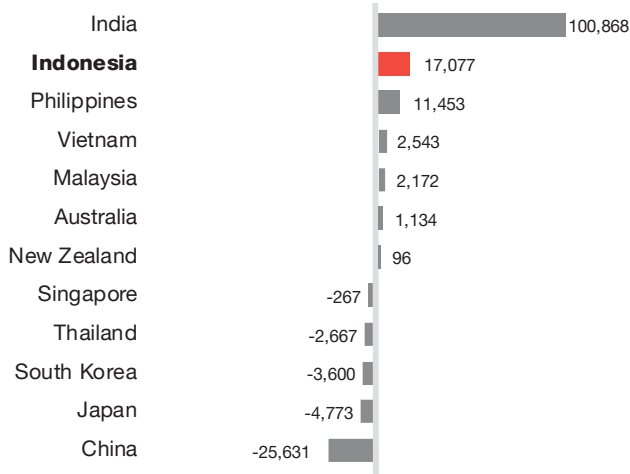
Employment growth: Indonesia is projected to add more than 17 million people to its workforce by 2030 – intensifying the need for new jobs. A significant share of employment also remains concentrated in the informal sector (55-65%) – marked with lower social security for workers and reduced tax earnings for the government. The economic slowdown induced by COVID-19 and a growing focus on automation to improve competitiveness, could further make it challenging to generate large-scale employment opportunities.²

Environmental sustainability: Warming temperatures, rising sea levels and changing weather patterns make climate change a key challenge for Indonesia. Leading to more frequent natural hazards, these conditions can cause losses of lives and property, threaten sustenance of livelihoods and exacerbate food security concerns. The agriculture sector also remains vulnerable, witnessing productivity concerns and rising resource scarcities. Accounting for a substantial share of 29 per cent in total employment at present, agriculture also remains pivotal to future plans of achieving more inclusive growth in Indonesia.³

Institutional maturity: As Indonesia works towards becoming a more attractive destination for global investors, greater focus will be required on strengthening the institutional environment to drive economic growth balanced with social prosperity. For example, strengthening intellectual property (IP) laws and enforcement will be key to boosting innovation to drive economic opportunities, while financing reforms and local capacity building efforts can help improve urban development and the quality of public services.⁴

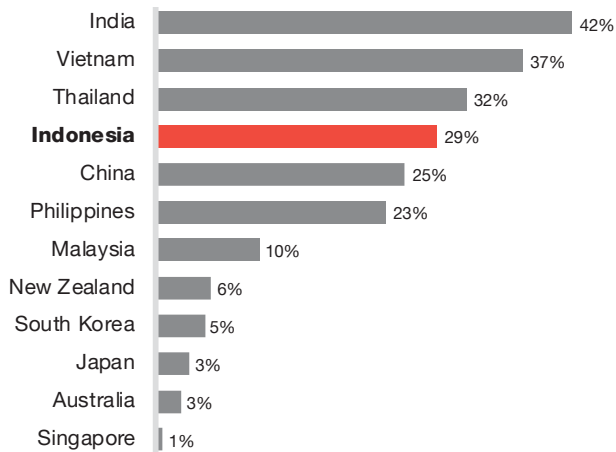


Growth in working-age* population, 000s, 2020-2030



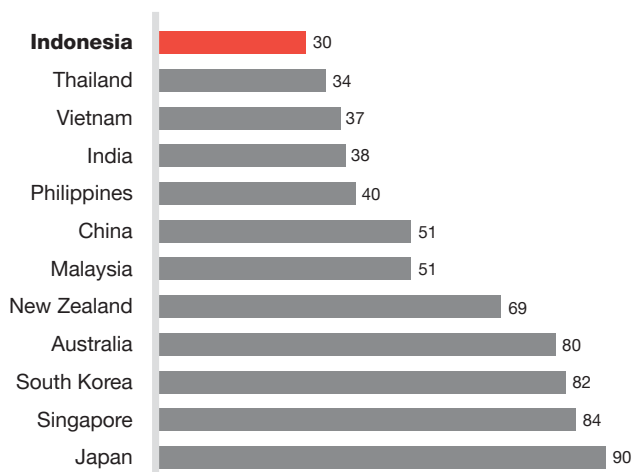
Source: International Labour Organization
 *Working-age population highlights the number of adults aged 15-64 years in a country

Agriculture employment, % of total employment, 2018



Source: World Bank

International IP Index, 0-100 (highest), 2020



Source: US Chamber of Commerce

Building a new future

Tackling these growth challenges has become necessary to repair, redesign and rebuild Indonesia's economy for a post-COVID-19 future – while enabling a socially inclusive and environmentally sustainable growth trajectory. This requires all stakeholders (the government, businesses and the society) to shift from old conventional growth models and build new growth pillars for the future.

Pillar	1	<h3>Advancing the digital economy</h3> <ul style="list-style-type: none"> Building digital value chains for resilience From digital risk to digital trust — collectively enabling the pathway
Pillar	2	<h3>Enabling regional enterprise growth</h3> <ul style="list-style-type: none"> Propelling companies for growth within Asia Pacific Boosting regional trade in services as a new growth lever
Pillar	3	<h3>Rebalancing supply chains and fostering innovation</h3> <ul style="list-style-type: none"> Developing balanced and resilient regional supply chains Fostering a collaborative innovation ecosystem
Pillar	4	<h3>Expanding and future-proofing the labour force</h3> <ul style="list-style-type: none"> Upskilling today to be relevant tomorrow Preparing the employees of tomorrow
Pillar	5	<h3>Building climate change resilience towards a net-zero future</h3> <ul style="list-style-type: none"> Building solutions for a net-zero circular economy Adopting technology to address food and agriculture concerns

1

Pillar 1 - Advancing the digital economy

Digitalisation has become a significant need for Indonesia to further improve market competitiveness and enhance human capital. Digital solutions can help Indonesia in boosting productivity to attract manufacturing investments, while online channels can improve the reach of essential services such as health and education. Digitalisation has become even more vital in the future, with COVID-19 related disruptions making resilience a key priority. Indonesian businesses now need to focus on digital adoption at the right points across their value chains while becoming more cyber resilient. The government is also required to extend greater support to transform small and medium-sized enterprises (SMEs) and take steps to strengthen the society's trust in digital systems.⁵

2

Pillar 2 - Enabling regional enterprise growth

Moving outside domestic shores has become crucial for business growth, prioritising expansion within Asia Pacific to target rising regional demand. Indonesian businesses will need to localise and be more agile in new regional markets, exploring alliances and acquisitions to lower entry barriers and growth risks. Government support will also be crucial to help businesses internationalise. Digitalised services offer potential to grow cross-border trade, but will need national agencies to assist firms in identifying target markets and in building their brand presence overseas. Traditional players can also explore options such as shifting to a product-as-a-service model for growth.⁶

3

Pillar 3 - Rebalancing supply chains and fostering innovation

Leading Indonesian businesses need to rebalance their fragmented global operations with more integrated regional networks to improve resilience. They will also need to take a lead in fostering agile innovation – working with the government, funding bodies and academic institutions to build more specialised ecosystems suited to Indonesia's and the broader region's fast changing requirements. Local suppliers will need to become future-ready as well, building stronger propositions (e.g. engineering excellence or technology leadership) and participating in innovation initiatives to become preferred partners for firms building regional supply chains in Asia Pacific.⁷

4

Pillar 4 - Expanding and future-proofing the labour force

Aligned with Indonesia's changing growth requirements, its workforce also needs to be equipped to foster digitalisation and drive higher value addition. The government needs to take a lead in this regard, highlighting its growth vision and driving more targeted engagement with other ecosystem participants, all across the education journey. Businesses need to build a more focused and agile talent development plan, in line with their industry's growth trajectory and the evolution of specific roles – while helping SMEs in their supply chains to bridge key capability gaps.⁸

5

Pillar 5 - Building climate change resilience towards a net-zero future

Facing growing sustainability risks, Indonesia needs to prioritise action on minimising the economic and social costs of climate change. The agriculture sector requires government and business attention, enabling new technologies to improve productivity and strengthen food security. Plans to build a circular economy need to be better designed for more visible impact – creating incentives to form a tri-entirety partnership between governments, businesses and communities. Indonesian businesses also need to prioritise sustainability to stay relevant to consumers, adopting new growth strategies and operations models to move towards a net-zero economy.⁹



The way forward

There is now an urgent need for action. The government needs to become more proactive in enabling change, businesses need to take a lead in driving new solutions and the society needs to become a more active collaborator to sustain long term impact. Regional collaboration has become a necessity to make Asia Pacific more resilient and future-ready, and will need growth markets such as Indonesia to evolve into a regional role – serving as providers of an aspirational workforce, drivers of economic activity and testing grounds for consumer-focused innovation. Indonesia also has the potential to emerge as a centre for entrepreneurship and lower-cost innovation, the benefits of which can be spread across Asia Pacific.¹⁰

Much needs to be done. It's now the **'Time to Act'** and move together towards a stronger shared future.



Endnotes

- 1 International Monetary Fund, World Economic Outlook, October 2020; The World Bank, 'The World Bank In Indonesia', October 2020; Asian Development Bank, Innovate Indonesia, March 2020; The Jakarta Post, 'Indonesia's forex reserves hit all-time high in July from global bonds, govt. loans', August 2020; International Labour Organization, Employment and growth in Indonesia (1990–2015), 2018
- 2 International Labour Organization, ILO Modelled Estimates, 2020; Indonesia Investments, 'Unemployment in Indonesia', 2020; International Labour Organization, Indonesia Jobs Outlook 2017 - Harnessing technology for growth and job creation, December 2017
- 3 The Jakarta Post, 'Climate change cause of Greater Jakarta floods, BMKG says', February 2020; Carbon Brief, 'The Carbon Brief Profile: Indonesia', March 2019; International Monetary Fund, 'Boiling Point', September 2018
- 4 U.S. Chamber of Commerce, 2020 International IP Index, February 2020; World Bank, 'Indonesia: Bold Reforms Needed to Realize Urban Potential', October 2019; World Bank, Worldwide Governance Indicators, 2019
- 5 GSMA, Spotlight on Indonesia: Seizing the digital transition opportunity now, February 2020; PwC discussions with subject-matter specialists
- 6 PwC discussions with subject-matter specialists
- 7 PwC, 'Digital hubs to support Indonesia's thriving digital economy: Business players', December 2019; PwC discussions with subject-matter specialists
- 8 The Jakarta Post, 'Why skills development is even more imperative for Indonesia', July 2020; PwC discussions with subject-matter specialists
- 9 The Jakarta Post, 'A land without farmers', August 2020; Forbes, 'Indonesia: Sustainable Success', December 2019; PwC discussions with subject-matter specialists
- 10 PwC discussions with subject-matter specialists



Contacts

Indonesia

Eddy Rintis

PwC Asia Pacific Vice Chairman, Indonesia
Territory Senior Partner, PwC Indonesia
eddy.rintis@pwc.com

Ay Tjhing Phan

Markets Leader, PwC Indonesia
ay.tjhing.phan@pwc.com

Asia Pacific

Raymund Chao

PwC Asia Pacific Chairman
Chairman, PwC China
raymund.chao@cn.pwc.com

Christopher Kelkar

PwC Asia Pacific Vice Chairman, Operations
Global Alignment Leader
christopher.s.kelkar@pwc.com

Sridharan Nair

PwC Asia Pacific Vice Chairman, Markets
sridharan.nair@pwc.com

David Wijeratne

Growth Markets Practice Leader, PwC Singapore
david.wijeratne@pwc.com

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