Indonesia Investments

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- ADB and OECD Revise Up Their GDP Growth Projections for Indonesia in '23
- Logistics Costs; One of the Notorious Bottlenecks in the Indonesian Economy
- Taking a Look at a New Phenomenon in the Digital Economy: Social Commerce
- Indonesia Becomes the First Southeast Asian Country to Enjoy a Bullet Train
- Strong US Jobs Report ‘Hurts’ Rupiah
Indonesia Investments

Monthly Report – September 2023

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Preface

The monthly report of Indonesia Investments is written and published by business consultancy CV Indonesia Investments, headquartered in Yogyakarta (in Indonesia), with the assistance of investment company Van Der Schaar Investments B.V. (based in Delft, the Netherlands). This report aims to inform the reader of the latest, most relevant, political, economic and social developments in Indonesia as well as those crucial international developments that (may) impact on the economy of Indonesia or on its politics.

Our reports are intended for a diverse audience, including individual and corporate investors, financial market participants, diplomats, policymakers, decision-makers, academics, journalists, and analysts.

The website www.indonesia-investments.com is the key reference and access point for gaining knowledge about the markets, economy, business sectors, politics, and
cultures of Indonesia. This online platform is owned by Van Der Schaar Investments B.V. which was established in 2009 but stands in a tradition stretching back to urban development in the Dutch capital city of Amsterdam in the early 20th century.

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Introduction – September 2023 Report

This month’s edition includes a couple of highly interrelated topics. We take a look at the notoriously high logistics costs of Indonesia. As is widely known Indonesia has great difficulty pushing these costs lower, which subsequently makes the country’s investment and business environment less attractive as businesses’ competitiveness becomes undermined compared to that of their foreign counterparts. And so, there are enough stories of investors preferring to invest in Vietnam for this reason.

The main problem is, of course, that Indonesia is a huge Archipelago. This makes it much more challenging to transport products, for example from the manufacturer to the end-consumer. It then requires adequate (hard) infrastructure, such as a good network of roads, seaports, airports, and railways, as well as efficient procurement, warehouse and logistics processes to cut these costs and be a competitive company. However, Indonesia still struggles at all these matters.

Yes, the Indonesian government under the leadership of President Joko Widodo has put great emphasis on infrastructure development, including mass transportation such as the Jakarta Mass Rapid Transit and the Jakarta Light Rail Transit, as well as new toll roads, seaports, airports and Southeast Asia’s first high-speed (bullet) train. However, the country’s infrastructure deficit remains wide, while these construction projects are complex and therefore typically require much more time and money.
than initially planned (which is not an appealing situation for private investors). One of these big projects is in fact discussed in this report: the new bullet train that can bring passengers from Jakarta to Bandung (and the other way round) in 45 minutes only. Initially, this project was targeted to be completed by 2019. However, it would take around four more years –and around USD $2.0 billion in additional investment funds– to achieve the target. It is interesting to take a closer look at what caused the delay in this project.

While logistics and infrastructure are very challenging in Indonesia, we also need to be aware that ‘imperfection’ is where there exists plenty of room for improvement, innovation, and enhanced efficiency. In other words, smart people can come up with innovative solutions to make the flow of products and services in society much more efficient. In some cases this can lead to massive success within a short time-span only. Gojek and Tokopedia serve as great examples.

This actually brings us to the third related topic: the case of e-commerce. Indonesia’s e-commerce sector is already the engine of growth in the country’s digital economy. However, we are still at the very early stages of development of the digital economy, and so there is ample room for further growth. Meanwhile, new developments also take lawmakers by surprise. In this edition we take a closer look at social commerce, a new phenomenon in Indonesia, with special focus on China’s TikTok Shop, which has become quite popular in Indonesia, but at the same time also made lawmakers
decide to revise regulations to overcome some regulatory loopholes as the TikTok Shop forms a combination of social media and social commerce.

But we start this month’s edition with a different topic, namely the carbon exchange that was launched in Jakarta in September 2023 by President Widodo. This exchange should function as another tool to reach Indonesia’s net zero emissions ambition by 2060.

Richard van der Schaar, MA Indonesian Studies
Managing Director

**Indonesia Investments**
Yogyakarta, Indonesia
2 October 2023

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**Green Financing**

The Launch of the Indonesian Carbon Exchange; A New Instrument in the Energy Transition

Indonesian President Joko Widodo visited the Indonesia Stock Exchange (or IDX) on 26 September 2023 to inaugurate the Indonesian Carbon Exchange (abbreviated as IDXCarbon) and thereby enabling carbon trading. Through carbon trading Indonesia facilitates green financing in an effort to achieve its energy transition goals (which includes the net zero emissions target by 2060).

Based on Financial Services Authority (*Otoritas Jasa Keuangan*, or OJK)’s Decree No. KEP-77/D.04/2023 and OJK Regulation (or POJK) No. 14 of 2023 on Carbon Trading through the Carbon Exchange, IDXCarbon is given the operating authority as well as the responsibility to facilitate carbon trading in Indonesia.
Meanwhile, through Presidential Regulation No. 98 of 2021 on the Implementation of Carbon Pricing to Achieve the Nationally Determined Contribution Targets and Control over Greenhouse Gas Emissions within National Development, regulations related to carbon pricing are stipulated, including carbon trading.

**What Is Carbon Trading?**

Almost every activity – ranging from traveling, manufacturing to farming – leads to the emission of carbon dioxide (CO₂), which contributes to the greenhouse effect (a process that occurs when gases in Earth's atmosphere trap the Sun's heat). Reducing greenhouse gases could therefore help to reduce global warming. One way to do this is by carbon trading.

[...]

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