

# Nusantara's Sovereign Tapestry

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*Japan and the US are making significant commitments to Indonesia's SWF, foreshadowing the country's central position in ASEAN's economy and geopolitics*

## Key Points

- **Indonesia's pole position in Southeast Asia** is recently being **recognised** when the US and Japan pledged an **aggregate US\$6 bn** to the country's maiden sovereign wealth fund –
  - US\$2 bn from the US International Development Finance Corp (DFC)
  - US\$4 bn from the Japan Bank for International Cooperation (JBIC)
- The **commitments** from DFC and JBIC could also help both the US and Japan to further **advance the Indo-Pacific Strategy**, a policy advocated by President Donald J Trump for "Free and Open" dialogues with regional allies and partners in Southeast Asia, also championed by Japan
- Coincidentally, the Indo-Pacific Strategy has also identified **the ASEAN** as "the **top destination for US investment** in the Indo-Pacific"
- Indonesia is set to be among the most favoured investment destinations in Southeast Asia –
  - FDI: **China** is stepping up its share and chalks up **28.7%** of the realised FDI in the first 9 months of 2020, **up from 15% in 2018**
  - Private equity: the near US\$1 bn in deal sum participated by investors so far in 2020 is virtually the same as that for 2019, suggesting there is **no diminished** interest in Indonesia, although the country recorded its first economic contraction in 20 years during the second quarter



On a visit to Vietnam in November 2017, US President Donald J Trump minted his Indo-Pacific strategy - a “Free and Open” concept based on building collective security through a network of regional allies and partners in this economic zone. It also promotes economic prosperity while champions good governance and shared principles.

Three years later, Washington took one of its most concrete steps toward laying the foundation of this policy.

On 19<sup>th</sup> November, the US government, through its US International Development Finance Corp (DFC), signed a letter of interest to invest US\$2 billion in Indonesia’s inaugural sovereign wealth fund, the Nusantara Investment Authority (NIA). It is the first known government-affiliated institution that has made such a sizeable commitment to NIA since President Joko Widodo indicated that his country would be launching a US\$15 billion sovereign wealth fund.

The DFC, a development bank, is the merged entity of the former Overseas Private Investment Corp, a development financing institution,

and USAID’s Development Credit Authority. Its mandate is to help drive economic growth in developing countries.

Before the ink dried on the DFC’s pledge to NIA, Japan, through its policy-based financial institution, Japan Bank for International Cooperation (JBIC), also committed an audacious 57 trillion rupiah (US\$4 billion) to NIA.

In a matter of three weeks, Indonesia successfully secured US\$6 billion from two of the world’s largest economies for its maiden government investment fund.

The launch of the NIA came at a time when Indonesia’s realised foreign direct investment recorded a 5.1% year-to-year decline to US\$20.9 billion in the first nine months of 2020. The commitments from the US and Japan are particularly timely, as Indonesia recorded its first economic contraction in 20 years during the second quarter of the year.

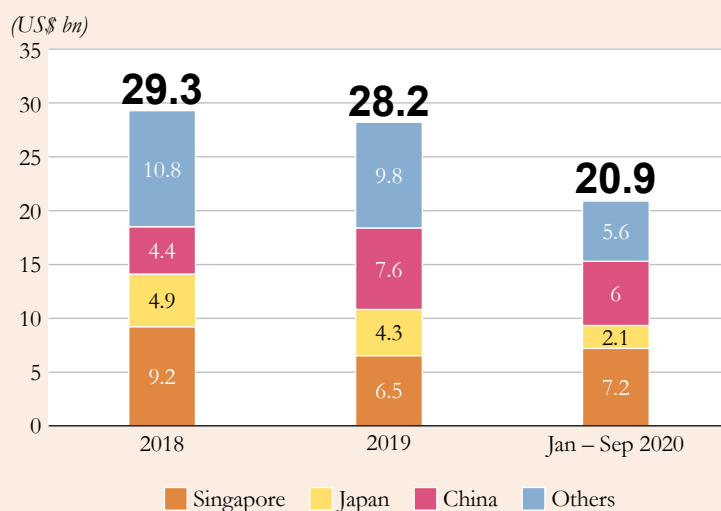
Yet this multi-billion dollar pledge is more than financial support to advance economic growth in the archipelago nation. It is also an unequivocal acknowledgement of the increasingly complex and rapidly evolving geopolitical tapestry

in Southeast Asia; and Indonesia is a centrepiece.

In the November 4, 2019 “A Free and Open Indo-Pacific - Advancing a Shared Vision” (Report) published by the Department of State of the US government, it identified ASEAN as “the top destination for US investment in the Indo-Pacific”. According to the Report, in 2018, the cumulative US investment in this economic region towered to US\$271 billion, more than its combined foreign direct investments into China and Japan for the same year. The NIA will thus serve as a platform for the world’s largest economy to advance its Indo-Pacific Strategy in this economic bloc.

For JBIC, its pledge of US\$4 billion to Jakarta is a continuation of the vision of its former Prime Minister, Mr Shinzo Abe, also a champion of the Indo-Pacific Strategy. In a speech delivered on 25<sup>th</sup> September 2018, published in the Report, Mr Abe spelled out his country’s ideology of the “Free and Open Indo-Pacific Strategy”. It stems from the “desire to preserve the blessings of open seas, together with ... all countries and peoples who share the same intent” (Fig. 15).

Indonesia: Realised Foreign Direct Investment - by Origin (2018 - Sep 2020)



- In the last 2 years and 9 months, three major economies, Singapore, Japan and China, were the 3 largest sources of foreign direct investment (‘FDI’) in Indonesia
- China had stepped up its FDI into Indonesia in 2019 when it was already engaged in a trade dispute with the US, indicating Indonesia’s central role in China’s ASEAN strategy –
  - 2018: 15% of the year’s realised FDI
  - 2019: 27%
  - 2020: 28.7% for the first 9 months of the year
- In the surveyed period, the US carved out only a modest profile in Indonesia’s FDI

Fig. 15

Source: The Investment Coordinating Board (BKPM)

**Comments**

Battered by the coronavirus outbreak, Indonesia’s gross domestic product continues to slide, at -3.5% on a year-on-year basis in the third quarter, albeit an improvement to the -5.3% in the preceding three months. Yet it has been able to sustain private equity investors’ interest. In the first nine months of the year, investors are estimated to have participated in a near US\$1 billion worth of transactions in Indonesia, virtually the same as for 2019 (Fig. 16).

In an attempt to shore up inflow of foreign capital, in October, Indonesia introduced the Jobs Creation Bill to ease regulatory hurdles that discourage foreign investment. Known as Omnibus Law, it is seen as a bold initiative to relax labour regulations and simplify business licensing procedures, among others. Most recently, Indonesia gestured to Mr Elon Musk, founder of Tesla Inc. President Joko offered a launching site to Mr Musk’s SpaceX venture.

The Omnibus Law, the beckoning of outstanding foreign enterprises to set up their bases in Indonesia, along with the commitments from the US and Japan, could be impetus to attract further inflow of foreign capital into Indonesia in 2021. This will in turn further heighten Indonesia’s geopolitical position in Southeast Asia. ■

**PE Deal Pace in Indonesia (2018 - Nov 2020)**

- Despite being the largest economy in Southeast Asia, private equity’s deal sum in Indonesia remains at just around 10% of the total of this economic region, suggesting that ample investment opportunities remain untapped in Indonesia
- The US\$3.2 bn recorded in 2018 was skewed by the US\$1.5 bn from PT Aplikasi Karya Anak Bangsa, commonly known as Gojek, and US\$1.1 bn raised by PT Tokopedia

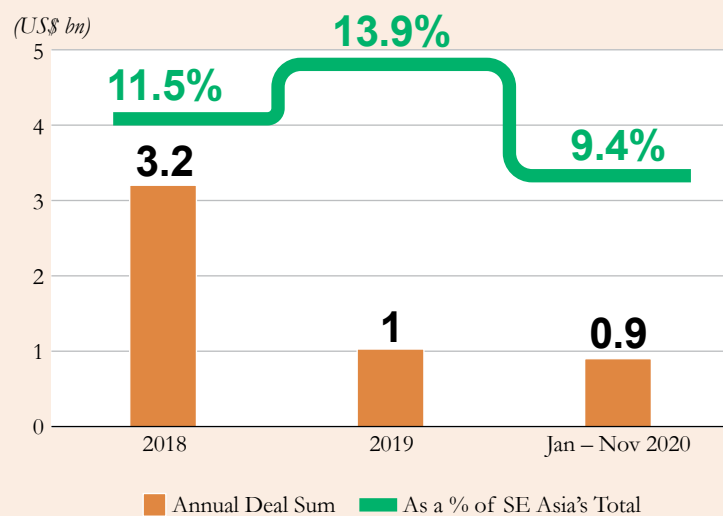


Fig. 16

SOURCE: ASIA PRIVATE EQUITY REVIEW

