

Analysis of Industrial Production Index (IPI) of **Indonesia** in 2020

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Where is Indonesia?

The largest economy in Southeast Asia, Indonesia – a diverse archipelago nation of more than 300 ethnic groups – has charted impressive economic growth since it overcame the Asian financial crisis of the late 1990s. Today, Indonesia is the world's fourth most populous nation, the world's 10th largest economy in terms of purchasing power parity, and a member of the G-20. Furthermore, Indonesia has made enormous gains in poverty reduction, cutting the poverty rate by more than half since 1999, to 9.78% in 2020. Prior to the COVID-19 crisis, Indonesia was able to maintain a consistent economic growth, recently qualifying the country to reach the upper middle-income status.

The Situation of Indonesia's IPI

Indonesia's industrial production rose 2.0% year on year in 2020, following a drop of 0.8% year on year in 2019. Indonesia's industrial production index has been growing with an average rate of 4.0% yearly from 1999 to 2020. The data reached an all-time high growth of 34.5% in Jan. 2001 and a record low decline of 18.6% in Jan. 1999. In Year 2020, the coronavirus pandemic has bogged the growth rate of IPI. To compound matters further, measures that Jakarta itself has taken to combat the virus—restricting the movement of people and temporarily shutting down businesses—have also devastated domestic demand. The pandemic will not cause problems for the Indonesian economy in the short term. The decline in domestic demand is expected to be offset by a decline in imported goods, and even if the rate of decline in imports is higher than the rate of decline in domestic demand, domestic production will grow to meet national demand. In the long-term Indonesia's economy will suffer because of weak demands and poverty.

The ease of restrictions at the beginning of the third quarter of 2020 has boosted manufacturing activities in Indonesia. But the return of restrictions has worsened the manufacturing numbers again after September. Exports of goods recovered in September but fell again in October 2020. Imports declined further in October to nearly 27% lower than a year earlier, bringing the January-October trade balance to a surplus of USD 17 billion (from a deficit of USD 2 billion in 2019). In year 2021-22, growth is projected to be driven by consumption as pent-up demand is met, but the level of GDP will remain far below its pre-pandemic trend, and therefore insufficient to prevent social distress.



The projected recovery of exports will contribute to a further significant narrowing of the current account deficit. Inflation is set to edge up to 3%, the mid-range of the manufacturing target, by year 2022. Moreover, the fiscal deficit is expected to shrink but will still exceed 3% of IPI in 2022.

Indonesia's IPI Structure Related to the Fastener Industry

Note that the numbers in the following Tables are in thousand USD.

1- Transport Equipment and Other Manufactures

The main export destinations for Indonesia's products in this sector are listed in Table 1.

Export Destinations	Table 1. Transportation Equipment				
	2016	2017	2018	2019	2020
Philippines	7,607,807	8,685,942	8,646,652	8,480,678	5,162,779
Thailand	806,356	892,009	1,030,449	1,222,981	674,439
Vietnam	121,529	159,813	433,177	579,153	1,112,026
Japan	499,465	537,339	562,003	531,515	474,507
Total	9,035,157	10,275,103	10,672,281	10,814,327	7,423,751
Growth	---	14%	4%	1%	-31%

Table Highlights:

- Year 2020 (we can call it as the year of pandemic) is a nightmare for Indonesian producers. A 31% decline in their export seems to be a tragedy.
- Vietnam is the only country whose import from Indonesia has increased by two times.

2- Electrical and Electronic Productions

In this sector, there are three countries with the import from Indonesia exceeding 1 billion USD as shown in Table 2:

Export Destinations	Table 2. Electric and Electronic Devices				
	2016	2017	2018	2019	2020
Singapore	2,013,685	2,251,083	2,655,289	2,744,684	2,856,226
Japan	1,298,833	1,467,421	1,648,355	1,690,857	1,477,483
USA	1,694,865	1,517,280	1,277,619	1,494,065	2,208,451
Total	5,007,383	5,235,784	5,581,263	5,929,606	6,542,160
Growth	---	5%	7%	6%	10%

Table Highlights:

- Pandemic could not stop the growth of Indonesia's exports in this segment.
- Indonesia has reached a 10% growth, which is the highest rate since 2016.
- Japan is the only country whose import from Indonesia has reduced and the reduction margin is around 13%.

3- Furniture and other Wooden Products

In this sector, it should be mentioned that China's value of import from Indonesia has not been clarified yet for year 2020; consequently, we assumed that the value of China's import might be the same as in year 2019. Nevertheless, if China's import changes by (+/-)20%, the total growth will also change by (+/-)4%.

Export Destinations	Table 3. Wooden Products (Furniture and so on)				
	2016	2017	2018	2019	2020
Japan	868,618	875,270	1,025,432	916,507	789,836
China	935,681	865,582	732,527	556,089	556,089
USA	388,403	416,251	633,430	473,092	597,355
S. Korea	327,488	362,237	458,360	421,526	420,339
Total	2,520,190	2,519,340	2,849,749	2,367,214	2,363,619
Growth	---	0%	13%	-17%	0%

(estimate)

Table Highlights:

- The problem of this sector has appeared since year 2019, which means it is not caused by the pandemic period.
- It is notable that the decline in Japan's import has been offset by an increase in US import.



4- Iron and Steel Productions

It should be mentioned that in this sector the values for 2020 have not been updated yet for Indonesia; therefore, Table 4 merely reveals the market size before the pandemic period.

Export Destinations	Table 4. Iron and Steel Production				
	2015	2016	2017	2018	2019
China	297,075	938,438	2,111,271	2,929,454	3,158,975
Taiwan	89,682	55,212	123,982	948,007	1,029,491



Last Word

To sum up, we suggest that it is vital to build manufacturing clusters with the capability to better position Indonesia's manufacturing sector in global competition. Moreover, fostering local innovation in design, marketing, process, and services, is crucial for extracting higher added value along the spectrum of manufacturing processes. In other words, expanding the manufacturing infrastructures for domestic and foreign customers would increase Indonesia's resilience and strengthen its economic base. Besides, global demand for manufacturing goods and transforming a manufacturing sector to a service sector in developed countries are expected to grow Indonesia as a main player of this sector (especially Electric and Electronic Devices), but it will not happen before Indonesia improves its banking system. Finally, the inappropriate monetary policy response and handling of the banking sector exacerbated the crisis, leading to bank runs and capital outflows. ■



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