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# Indonesia

## Business and development exchange summary

Indonesia is the largest economy in Southeast Asia and is one of the ‘emerging’ market economies globally. During the global financial crisis, Indonesia outperformed regional neighbours and joined China and India as the only G20 members posting growth in 2009, stabilising at 5-6% in recent years. In terms of the structure of the economy, agriculture accounts for 14% of GDP, industry for 47% (of which 24% is manufacturing) and services for 39%. Notably, the contribution of mineral resource extraction to the national economy increased from 4% of GDP in 2001 to almost 7% in 2010.

The country has also undergone rapid political transformation, decentralisation and democratisation, substantially raising levels of transparency and accountability. As a large archipelago, Indonesia has to overcome significant geographic challenges and is home to a very diverse population. As the world’s largest Muslim country, Indonesia is often hailed as a model democratic and moderate Islamic nation and has a broadly functioning, multi-party, presidential democratic system.

Despite this, per capita income and social indicators are still lagging considerably compared to other middle income countries. As the world's fourth most populous country, the poverty headcount of 12% represents over 28 million people living in poverty. Further, over 46% of Indonesians live on less than US$ 2 a day. The highest incidence of poverty is found in relatively remote provinces with limited access to economic opportunities and markets, particularly in Aceh, Papua and Maluku. Parts of the country are also characterised by periodic outbursts of separatist violence, and religious intolerance generally is perceived to be on the rise.

Limited success in achieving equitable growth is largely due to weak governance and institutions, complex regulation, uneven resource distribution among regions, rampant corruption, poor infrastructure and low productivity as well as environmental degradation. Further, despite the country's economic potential, foreign direct investment, which is critical to further growth, is threatened by an increasingly nationalist economic policy, making Indonesia's business environment insecure and unpredictable.

In this context, our research in Indonesia will focus on mining and vocational training:

- Conflicts have arisen over access to concessions and benefit sharing between large-scale mining companies, artisanal and small-scale miners, as well as local communities. The effective management of this tension-fuelled but mutually dependent relationship will be critical to more equitable growth, especially in some of Indonesia's poorest and most remote provinces. Our work in Indonesia will therefore focus on mining and potential donor engagement with large-scale mining companies on the underlying causes of conflict and improved benefit sharing, building on international best practice.

- Both international and domestic businesses highlight the skills gap as an important constraint to business growth and to employment of the poor. Our research will examine ways in which donors and business can engage to help improve the quality and relevance of skills training for Indonesian youth.[i]

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[i] Cover image: Women in Jepara teak forest area harvest ground nuts, Indonesia. Center for International Forestry Research (CIFOR), Flickr, 2009