



# America-Southeast Asia Program

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## Indonesia's Green Emerging Economy



International Renewable Energy Agency (IRENA) and the Indonesian Ministry of Energy and Mineral Resources, the Indonesia Energy Transition Outlook have rolled out a road map which charts a decarbonization highway for Indonesia to 2050 and aligns the country to the Paris Climate goals. Photo Credit IRENA

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Indonesia's President Joko Widodo presiding at the G20 Summit in Indonesia's resort island of Nusa Dua, Bali, where he attends a working session on energy and food security, Photo Credit – AFP.

Indonesia is a major, rising economic powerhouse in Southeast Asia. It recently hosted the G20 Summit on the island of Bali for world leaders last year. This G20 Summit was an incredibly complicated given the tension surrounding several of the nations in attendance being on opposite or neutral sides of the war in Ukraine. Yet Indonesia managed the G20 Summit skillfully and did an incredible job of diplomacy to stress many critical issues such as food and energy security for the developing world. Indonesia is becoming an emerging market not only because of its increasing population, but because of its focus on education combined with economic opportunities.

About a decade ago Indonesia was known as one of the “Fragile 5” emerging markets, along with Turkey, Brazil, India and South Africa. These countries were counted as rising economies in the global market, but were often vulnerable to capital overflows, currency fluctuations, and crises when global interest rates rose. Flash forward ten years later and Indonesia has become the largest economy in Southeast Asia and vibrant democracy in a region where democracy has lately fallen by the wayside, being eclipsed by authoritarian regimes. The Indonesian Rupiah is also one of the best performing currencies in Asia right now and it has even managed to stay at a base rate during the Covid-19 Pandemic. Inflation has slightly gone above 2-4% and even with global inflation rising

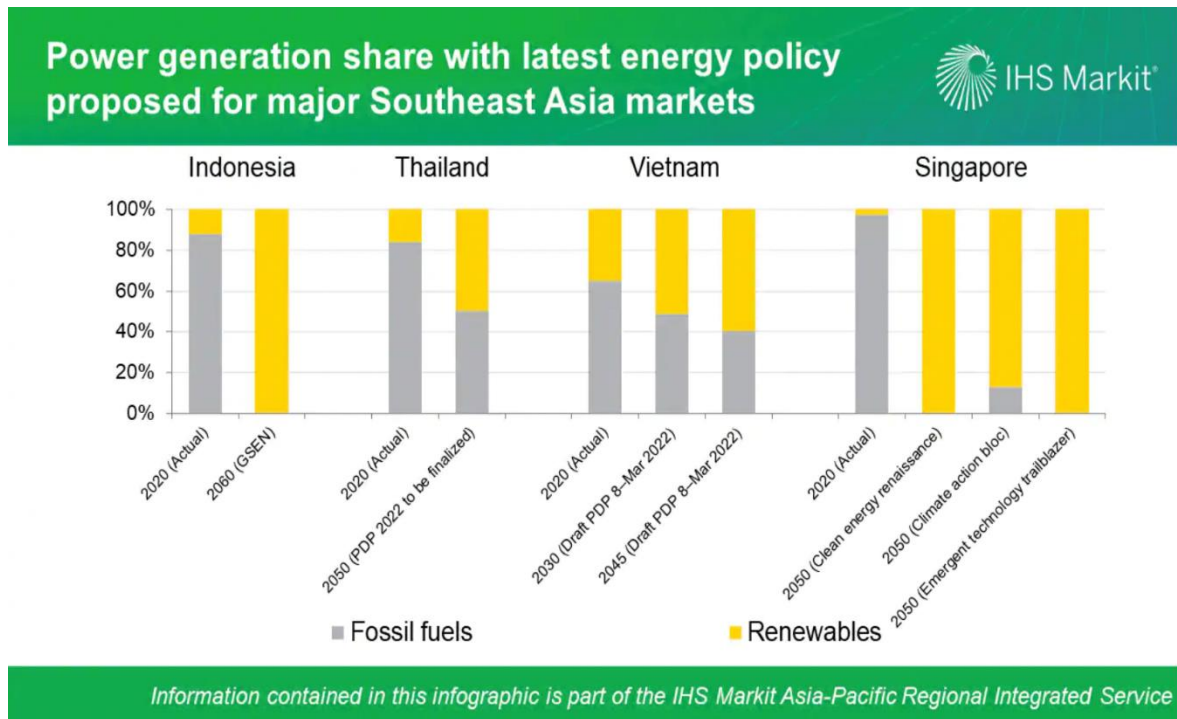
and fluctuating around the world, Indonesia's economy has become remarkably resilient to these shifting economic trade winds. This is in stark contrast to just a decade ago when the simple mention of lifting interest rates caused the Rupiah to plummet 20%. Lawmakers and banking officials in the country believe they have learned from past issues and mistakes and are now selling bonds to more local investors so as not to rely too much on foreign currencies like the U.S dollar. Ivan Tan, S&P's financial institutions analyst has also said that "Indonesia benefits as a net commodity exporter and is in a very good place to control some of the supply side inflationary pressures that some of the other economies are grappling with." (Reuters, Suroyo & Sulaiman). Indonesian President Joko Widodo has stated he has ambitions for Indonesia to become a wealthy country by 2045. Some analysts see these economic improvements as temporary achievements, but the Bank of Indonesia has no plans to hike up rates since there is currently a low level of inflation in the country and the currency has been holding steady in comparison to other Asian currencies over the recent turbulent years.



In Cilegon, Indonesia, the Suralaya coal power overshadows the landscape, as Indonesia is one of the world's largest coal-producing countries but has planned to drastically end its reliance on fossil fuels. (AP Photo/Dita Alangkara)

Along with being the host of the G20 Summit and further developing its economy, Indonesia has also been making progress on issues of environmental concern such as deforestation

in the palm oil sector. Indonesia is the world’s largest producer of palm oil. They are also the world’s biggest exporter of the product with 58% of its production being exported. The palm oil industry makes up 4.5% of the Asian country’s GDP and has lifted millions of citizens out of poverty due to the growth of the industry. The problem with this major industry is that it is one of the leading causes of deforestation in the country and the continuing expansion of palm oil plantations is only making the problem worse. This has been a driving factor of loss of regional biodiversity and in turn contributes to the climate crisis. The domestic use of palm oil also increased for manufacturing and consumption from 32% in 2018 to 40% in 2020. Besides Indonesia themselves, the largest market importers for palm oil are China and India who depend on it for their manufacturing sectors.



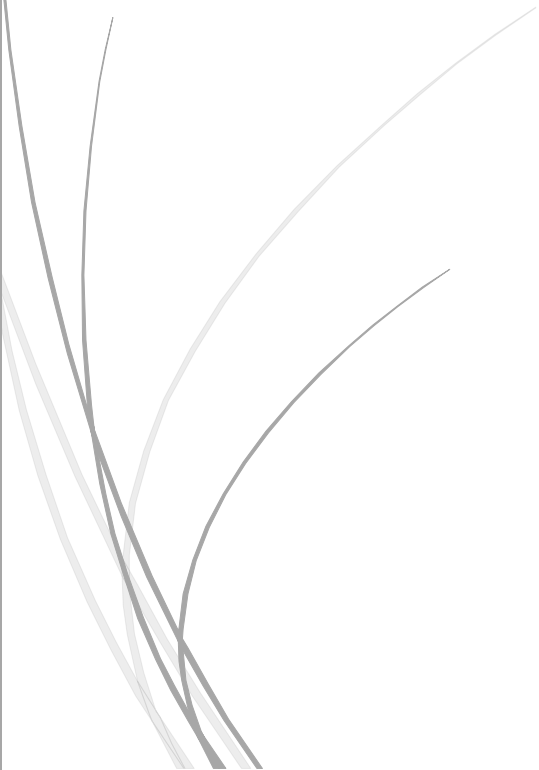
Info Graphic: IHS Markit

This also goes hand in hand with the shift within the country in trying to orient itself towards a clean energy economy. Indonesia is currently the third biggest producer of coal, but that is quickly changing thanks to investments from major world powers. Last year Indonesia signed a 20-billion-dollar agreement with world leaders and international lenders. This agreement is known as the “Just Energy Transition Partnership” or JETP and will help developing nations to increase renewable energy resources and decrease their dependency on coal and other harmful fossil fuels. Indonesia is aiming to make their power generation industry transitioning by 2030 and hopefully be completely emissions free by 2050. Indonesia has made a great amount of progress in starting to

create a clean energy economy, but they still have a long way to go. Some criticism of this agreement is that it is not completely clear what restrictions, if any, will be placed on the country for building new coal power plants or if they would decrease coal exports. The other issue with committing to these new goals of striving towards a clean energy economy is that global energy prices have been rising since the Russian invasion of Ukraine began a year ago and most prices are not expected to come back down very soon. With the help of the international community, there is hope that they will be able to reach their emissions and renewable goals in the timeline set by the JETP and President Widodo and eventually exit their era of coal power generation.

### *New Sources*

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