INDONESIA

Indonesia's economic freedom score is 65.8, making its economy the 56th freest in the 2019 Index. Its overall score has increased by 1.6 points, with sharp increases in business freedom, investment freedom, and judicial effectiveness outpacing declines in monetary freedom and labor freedom. Indonesia is ranked 11th among 43 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

The government's efforts to improve Indonesia’s business environment and attract foreign direct investment by upgrading power and other infrastructure, prosecuting corruption cases more aggressively, and taking other steps to improve the regulatory environment are aimed at sustaining economic development and diversification. Remaining constraints include an inflexible labor market, long-standing protectionist rules governing trade and foreign investment in extractive sectors, and subsidies to numerous state-owned enterprises. Improvements in the legal and regulatory framework would strengthen the rule of law.

BACKGROUND: Indonesia is the world’s most populous Muslim-majority country. Since 1998, when long-serving authoritarian ruler General Suharto stepped down, Indonesia’s 262 million people have enjoyed a wide range of political freedoms, and participation in the political process is high. Joko Widodo, former businessman and governor of Jakarta, won a five-year presidential term in 2014. Indonesia is Southeast Asia’s largest economy. Key exports include mineral fuels, animal or vegetable fat, electrical machinery, rubber, machinery, and mechanical appliance parts. Continued improvements in infrastructure should help to reduce high transport and logistical costs. Indonesia has significant untapped maritime resources that could spur future development, but barriers to international trade and investment undermine prospects for growth.
Property rights are generally respected. Enforcement is uneven, and property is sometimes difficult to register, although the government recently reduced the transfer tax to make registration easier. The judiciary is independent but subject to corruption and outside influence. Despite reforms, endemic corruption remains a problem. Anticorruption efforts are resisted from within the government itself and lack widespread public support.

The top individual income tax rate is 30 percent, and the top corporate tax rate is 25 percent. Other taxes include value-added and property taxes. The overall tax burden equals 10.4 percent of total domestic income. Over the past three years, government spending has amounted to 16.9 percent of the country’s output (GDP), and budget deficits have averaged 2.5 percent of GDP. Public debt is equivalent to 28.9 percent of GDP.

Indonesia has improved its regulatory environment over the past year, implementing measures to reduce the cost of launching a business, but a lack of transparency remains an impediment. The labor market is not overly rigid, but minimum wages have been rising in recent years. Although it earned praise in 2016 for fuel subsidy reforms, the government announced a freeze on further fuel subsidy cuts in 2018.

The combined value of exports and imports is equal to 39.5 percent of GDP. The average applied tariff rate is 2.6 percent. As of June 30, 2018, according to the WTO, Indonesia had 110 nontariff measures in force. The reform-minded government has moved to dismantle some of the previously imposed barriers to foreign investment. Overall, the financial system’s efficiency has increased. The state still owns several banks.