INDONESIA

Indonesia's economic freedom score is 66.9, making its economy the 56th freest in the 2021 Index. Its overall score has decreased by 0.3 point, primarily because of a decline in judicial effectiveness. Indonesia is ranked 10th among 40 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

The Indonesian economy, which had been climbing steadily higher in the ranks of the moderately free since 2017, has suffered a setback. To get back on the path to greater economic freedom, the government needs to implement effective measures to reduce corruption, strengthen the judiciary, modernize and simplify investment regulations, and increase labor market flexibility.

IMPACT OF COVID-19: As of December 1, 2020, 17,081 deaths had been attributed to the pandemic in Indonesia, and the economy was forecast to contract by 1.5 percent for the year.

BACKGROUND: Indonesia is the world’s most populous Muslim-majority country. Since 1998, when long-serving authoritarian ruler General Suharto stepped down, Indonesia’s now-267 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 and was reelected in 2019. Indonesia is Southeast Asia’s largest economy. Key exports include mineral fuels, animal and vegetable fat, electrical machinery, rubber, machinery, and mechanical appliance parts. Continued improvements in infrastructure should help to reduce high transport and logistical costs. Indonesia’s significant untapped maritime resources could facilitate future development, but barriers to international trade and investment undermine prospects for growth.

ECONOMIC FREEDOM SCORE

66.9 ▼ DOWN 0.3 POINT

REGIONAL AVERAGE (ASIA-PACIFIC REGION) 60.2
WORLD AVERAGE 61.6

HISTORICAL INDEX SCORE CHANGE (SINCE 1995): +12.0

RECENT FREEDOM TREND

QUICK FACTS

POPULATION: 270.6 million
GDP (PPP): $3.7 trillion
5.0% growth in 2019
5-year compound annual growth 5.0%
$12,302 per capita

UNEMPLOYMENT: 4.7%
INFLATION (CPI): 2.8%
FDI INFLOW: $23.4 billion
PUBLIC DEBT: 30.4% of GDP

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2019 data unless otherwise noted. Data compiled as of September 2020.
Property rights are generally respected, but enforcement is uneven, and registration of property is sometimes difficult. Indonesia has lacked clear land titles for decades. The judiciary is independent, but the court system remains plagued by corruption and other weaknesses. Corruption is endemic at all levels of government and law enforcement, and anti-corruption laws are resisted even within the government.

The top individual income tax rate is 30 percent, and the top corporate tax rate is 25 percent. Other taxes include property and value-added taxes. The overall tax burden equals 10.2 percent of total domestic income. Government spending has amounted to 16.5 percent of total output (GDP) over the past three years, and budget deficits have averaged 2.2 percent of GDP. Public debt is equivalent to 30.4 percent of GDP.

An online platform for business licensing in Jakarta helps business freedom, and electricity has become more reliable in Surabaya. A plan to reform rigid labor laws was overtaken by the pandemic. The government has launched a plan to privatize some of its 118 state-owned enterprises, many of which are unprofitable, inefficient, and increasingly expensive to subsidize.

Indonesia has 10 preferential trade agreements in force. The trade-weighted average tariff rate is 5.4 percent, and 123 nontariff measures are in effect. 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. Bank ownership is limited to no more than 40 percent per single shareholder.