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Soft Launching of a Comprehensive Wealth Report in Indonesia

Jakarta, December 14th, 2023 | The soft launch of the IISD-LPEM FEB UI study on comprehensive wealth in Indonesia, held from November 20 – 22, 2023 was a success with a total of 128 attendees from various ministries and agencies, NGOs, think tanks, as well as the general public. The event was enriched by world-renowned scholars who are at the forefront of promoting the concept of comprehensive wealth. Notable figures such as Prof. Bambang Brodjonegoro, Matthew Agarwala, and Robert Smith gave presentations on the concept of comprehensive wealth and the findings of the study. Additionally, panelists included representatives from Statistics Indonesia (BPS), the Ministry of Finance, Bappenas, World Bank, and Bank Indonesia.

The results of our study, combined with results from the World Bank's Changing Wealth of Nations 2021 (CWON) report, point to the following conclusions.

- Indonesia's overall comprehensive wealth is growing well. We find a compound annual average growth rate of 3.6% in real per capita comprehensive wealth from 1995-2020. This is the same figure as the World Bank finds in its CWON report[1]. Growth is driven mainly by produced and human capital, both of which doubled since 1995.
- Indonesia's natural capital[2], on the other hand, has not grown at all since 1995 according to our results[3]. This suggests that Indonesia has been relying on a drawdown of its natural capital to support the growth of produced and human capital. This is a valid approach to economic development and one that has been used by many other countries, including rich, industrialized countries. However, the approach is only

[1] World Bank figures refer to the period 1995-2018, are expressed in constant US dollars and cover a different set of assets, so are not fully comparable (World Bank, 2021, *The Changing Wealth of Nations*: Washington, D.C. (link).
[2] Timber, fisheries, farmland, minerals, fossil fuels and aquaculture.
[3] The World Bank finds 0.1% growth.

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sustainable so long as natural capital is not depleted. This approach cannot be maintained forever, however, since natural capital will eventually fall below levels where it – and its contributions to well-being can be sustained. Trends within the natural capital wealth account are revealing in that regard, with declining forest wealth, declining fisheries wealth, increasing agricultural wealth, and heavily fluctuating non-renewable (energy and mineral) wealth.

- Though Indonesia's human capital has been growing steadily since 1995, levels of wealth and growth rates remain below global averages and regional peers[4].
  - Indonesian human capital per capita is just one-quarter of the global average and half of Malaysia's, according to the World Bank.
  - According to the World Bank, Indonesian human capital growth (1.6%[5]) is below the global average (2.0%) and well below several other major economies in the region countries (China - 7.2%; South Korea – 4%; Malaysia – 3.1%).
  - Nearly one-fifth of human capital is devoted to agriculture, where returns are just one-fifth of other sectors.
- Indonesia's produced capital wealth per capita also grew since 1995, though again levels and growth rates remain below those of other countries.
  - Indonesia only has about half as much produced capital per capita as Malaysia.
  - Malaysia generates about one-and-a-half times more GDP overall per unit of produced capital.
  - Canada generates more than twice as much value added per unit of produced capital used in the agriculture industry.
- Overall, the findings suggest that Indonesia is not managing its comprehensive wealth portfolio as effectively as other nations. This suggests that Indonesia is at risk of remaining in the "middle-income trap", a situation that preoccupies Indonesian society and government[6]. Since Indonesia gained independence, several of its neighboring countries have gained status as solidly upper-middle-income or high-income countries (notably, China, Malaysia, and South Korea). Indonesia, on the other hand, remains close to the divide between lower and upper middle-income categories[7].
- Better management of Indonesia's wealth – especially of its vast natural resources – could generate significant additional income to help avoid the middle-income trap. The relatively low level of comprehensive wealth per capita combined with the low productivity of that wealth means that Indonesia does not generate nearly as much income as other countries. Improving the productivity of wealth would go a long way to helping Indonesia escape the middle-income trap. Doing so would immediately yield additional revenues for governments that could be reinvested to increase absolute levels of wealth. This is a win-win. To benefit from it, though, Indonesia needs a review of policies in many areas (natural resources, fiscal policy (taxing and spending), education, health, air quality management[8], innovation, technology, trade openness, and business competitiveness) to ensure that impediments to productivity growth are identified and eliminated.

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[4] Note: these results are based on World Bank data to ensure comparability across countries. IISD-LPEM FEB UI results for human capital show a higher growth rate (3.1% annually).

[5] We found that real human capital per capita grew at an annual rate of 3.1%, which is substantially higher than the World Bank's figure of 1.6%, which is based on values measured in constant US dollars. Part of the difference in the growth rate is explained by the increase in the exchange rate of the Indonesian rupiah to the US dollar following the Asian financial crisis of 1998.

[6] See, for example, this article from the Jakarta Post. Indonesia aims to achieve high-income status by 2045.

[7] According to the World Bank, Indonesia had gross national income (GNI) per capital of $4,580 in 2022, whereas Malaysia had a value of $11,780, China had a value of $12,850 and South Korea had a value of $35,990. The World Bank classifies lower-middle income status as GNI per capita below $4,465, meaning that Indonesia is on the border of lower and middle income status (link). High-income status begins at GNI per capita of $13,845, meaning that Malaysia and China are approaching that status and South Korea has already well surpassed it.

[8] Poor air quality has been demonstrated to have serious negative impacts on cognition, respiratory illnesses and other morbidities. Improving air quality in Indonesia's large cities could be a quick win in terms of increasing the productivity of human capital. Doing so would require efforts to control emissions from coal-fired power plants and road vehicles. Ideally, the country would shift away from coal toward natural gas or renewable energy sources.