SINGAPORE: Indonesia is the most popular destination for foreign investment in Southeast Asia, attracting a record level of foreign direct investment (FDI) of US$22.8 billion in 2012.

The country's FDI for the last quarter of 2012 rose 22.9 percent from a year earlier, according to data from the Indonesia's Investment Coordinating Board.

The Lee Kuan Yew School of Public Policy says Indonesia, now the 16th largest economy, is on track to become the world's 7th largest economy by 2030 as more foreign investors turn their eyes to Indonesia.

The country's Investment Coordinating Board is expecting foreign direct investment to increase by 23 percent this year after growing 26.7 percent in 2012.

Experts say investors in China are showing keen interest in resource-rich Indonesia's mining industry and consumer sectors.

The presence of a yuan-clearing bank in Singapore will also help to facilitate Chinese investments in Indonesia.

Tan Khee Giap, Co-director, Asia Competitiveness Institute, Lee Kuan Yew School of Public Policy, says: "Indonesia will be a rising middle power and, according to our studies, among ASEAN 10, the growth of Indonesia has the biggest spinoff to the Singapore economy because not only they are close to us, they will use our infrastructure - the seaport and the airport and also the spillover economic activities."

Japanese manufacturers are also expected to move part of their manufacturing operations to Indonesia following Japan's recent row with China over disputed islands.

Luky Eko Wuryanto, Indonesian Deputy Minister for Infrastructures & Regional Development, says: "Manufacturing factories have to be built also in our country so along that lines, in total, we probably privatise around 10 to 15 sectors, according to our analysis."

Indonesia's 140 state-controlled firms account for nearly a fifth of the country's gross domestic product last year.

Their revenues are estimated to have hit US$155 billion last year.

In particular, Jakarta has said it is open to liberalising its airline and banking sectors with deals like DBS's proposed acquisition of Bank Danamon pending approval from its central bank.

Luky Eko Wuryanto says: "Indonesia is also one of the fastest growing markets for airline passengers right now - more than 19 percent per year, we have been opening the airline industry."

Minister Wuryanto adds that Indonesia is keen to upgrade its sea ports and improve connectivity from the western part of Indonesia to other ASEAN countries like Singapore, Malaysia and Thailand.

Singapore remained the largest source of Indonesia's FDI in 2012, followed by Japan, South Korea and the US.

- CNA/ch