

Key Note Address
Chairman of Indonesia Investment Coordinating Board
Euromoney Investment Conference
Jakarta, 29 September 2010

Distinguished guests, business leaders, ladies and gentleman; It is indeed an honor to be here today to address all of you in this important event.

The title of my talk today is “Indonesia: Open for Business”. We truly are, and I am here today to share with where Indonesia is today, and how Indonesia has gone a long way from where it was a decade ago when the Asian crisis hit in the late 90s.

I came straight from the airport to address this important forum. I was in Seoul over the past two days for a joint promotion event with the Managing Director of Singapore Economic Development Board, and I was in New York last week for the US-ASEAN Summit with Vice President H.E. Boediono. In New York, together with the Vice President, we also had the opportunity to meet with some prominent business leaders in a business forum and a one-on-one meeting. These discussions with potential and existing investors confirm the notion that Indonesia is open for business. Investors around the world have begun to see its potential: to be the Asian economy powerhouse.

I understand that you had the opportunity to hear about our macro outlook in the next 5 years from some prominent Indonesians including Mr. Budi Mulya, Deputy Governor of Bank Indonesia and Mr. Chatib Basri, so I won't repeat it again here. Allow me here to look beyond the 5 year horizon and look further ahead:

By 2020, Standard Chartered estimates that Indonesia's nominal per-capita GDP will quadruple from the current level, resulting in an increase in social welfare. This estimate was that followed by a British Bank that performed two forecast scenarios, to find out a ballpark figure, as follows:

Based on GDP growth and inflation forecasts, Indonesia's nominal GDP per capita will be about 11 times higher in 2020 than in 2000, exceeding the US\$6,000 mark in 2017.

Based on the compound annual growth rate of nominal GDP per capita between 2000 and 2008, Indonesia's nominal GDP per capita will be 13 times higher in 2020 than in 2000, exceeding the US\$6,000 mark in 2016. (According to development economists, US\$6,000 is the per-capita income threshold that countries need to surpass before their peoples can enjoy a decent modern standard of living)

With 240 million people, this increase in discretionary income means huge domestic market potential. Coupled this with a young demographic and the highest consumer confidence index in the world last year in a survey by AC Nielsen, and you know that there is much to be gained to doing business in Indonesia.

I am sure you are all familiar of Indonesia's natural resources potential, its strategic location, and global standing, with macroeconomic stability and macropolitical stability at its helm. What I

would like to share with you today are some updates on the reforms we have and will continue to carry out to improve the investment climate in Indonesia. Namely they are: one-stop-shop in PPP Infrastructure, tax incentives, investment facilitation.

As you may know, infrastructure has been a big bottleneck in Indonesia. Indonesia in the last years have only been spending 3% of its GDP on its much needed infrastructure. In the next 5 years, Indonesia is targeting to build 20,000 km of roads, 15,000 MW, as well as key ports and other infrastructure, with estimated total cost of US\$ 160 billion. The government has set aside US\$ 50 billion from public funding, but the rest needs to be supported by private investments, including projects developing under private-public partnership scheme.

Just a few weeks ago, the Investment Coordinating Board (BKPM), Ministry of Finance and Ministry of Planning signed an agreement to work together and accelerate private-public partnership in infrastructure. The agreement is signed in the spirit of simplifying the process of investing for those who'd be interested in developing a PPP project, with the Indonesia investment coordinating board mandated to package and market the projects, as well as facilitate those who would be interested in investing in it. This "Front Office" function, together with better project preparation, fiscal proactivity and better coordination, are some of the game changers in PPP infrastructure that we hope would yield the breakthrough needed in this area.

We understand that there has been a lot of rhetoric around Infrastructure development in Indonesia. Therefore we would like to start this endeavor modestly. We are starting by focusing on delivering 5 PPP infrastructure projects, covering toll roads, power plants, railway, cruise terminal, and water supply. We are now focusing on preparing these projects thoroughly prior to offering them to investors. This effort will also be boosted with the land law for public use, which is expected to be passed later in the year.

Another area of focus for us, is to draw smart capital Indonesia. That is, investments that are focused on providing long term added value to the country, create jobs and contributed to economic growth. One way of improving Indonesia's attractiveness is by exploring again the issue of tax incentives. Over the past few weeks, there has been intensive discussions between the Ministry of Industry, Ministry of Investment and the Indonesia Investment Coordinating Board to develop a list of criteria for the provision of tax incentives. Essentially, we are working to establish a threshold by which tax incentives would be given to investors based on size of investments, numbers of job created, location (whether it is in a less developed or developed location), types of sector (pioneer, high-tech, etc. We are creating this criteria with a top down and bottom up approach. Top down by learning what other countries are doing, and bottom up by discussing with some large companies and other stakeholders on their area of priorities in making an investment decision. We found that tax incentives would be a good tool to attract investments in sectors that would otherwise be difficult to develop, such as renewable energy, biotechnology, etc.

In addition, we have also carried out reforms to improve our investment climate, including:

1. the establishment of a one-stop-shop to service investors;

2. the creation of a national single window for export and import procedures in all major ports;
3. the establishment of special economic zones;
creation of industrial clusters for better organized facilitation;
4. further value creation through down-streaming of certain sectors as to create jobs;
5. an initiative to finalize a reduced and clearer negative list, relating to such sectors as health care, agriculture, education, logistics, creative industry and telecommunication;
6. an initiative to finalize spatial planning spearheaded by the Ministry of Forestry in coordination with other government agencies, including regional governments;
7. an initiative to reform of the land acquisition and labour laws in preparation for infrastructures building;

Some of our reforms have yielded some results, and this can be seen in some of the global rankings issued by prominent global organizations. According to the recent Global Competitiveness Index 2011-2012 by World Economic Forum, Indonesia is ranked 44th (out of 183), an impressive gain of 10 places, mainly driven by a healthier macroeconomic environment and improved education indicators.

However, the bigger vote of confidence I see are from investors such as yourself. Under the investment numbers recorded by the Indonesia investment board, in the last year, Indonesia has seen a surge in its investment realization figures. In the first half of 2010, Indonesia posted a 40% rise in investments, totaling Rp92.2 trillion or over 58% of the target we set out.

For me, as a former investment banker and an investor myself, the story of Indonesia is a story of a country on the right track to be one of the global power house in Asia. As our economy continues to grow, so will our global standing. Right now, Indonesia is already a proud member of the G20, the largest economy in ASEAN, and has been talked about as the additional I in BRIC countries. We hope that you join us in this journey of opportunity.
