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# **PROMOTING REGULATORY REFORM FOR INVESTMENT IN INDONESIA**

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# BACKGROUND

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1. Indonesia has changed a lot in terms of regulatory reforms.
2. After the crisis, a dynamic trend has occurred to response towards the internal as well as external influences including political and economic situations.
3. Challenges emerges: (i) Low investment, (ii) Moderate Economic Growth, (iii) Poverty and Unemployment

# Paper Focuses on:

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- ☐ Review on Macro Economic Condition
- ☐ Policy Reforms on Investment
- ☐ Review on Investment Progress in Regions
- ☐ Impact of Investment on Employment
- ☐ Summary

# GEOGRAPHICAL MAP OF INDONESIA



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# MACRO ECONOMIC CONDITION

# ECONOMIC INDICATOR

	2001	2002	2003	2004
Growth (%)	3,4	3,7	4,1	4,8*
Inflation (%)	12,55	10,03	5,06	6,50*
Deficit on Budget (% GDP)	3,5	1,7	1,9	1,2*
Interest Rate for SBI (%)	17,62	12,99	8,31	7,34**
Export Growth on Oil Gas (%)	-11,0	3,4	5,2	7,0*
Savings (miliar USD)	28,02	32,04	36,25	36,6**
Rupiah/USD	10.452	9.375	8.465	8,500*

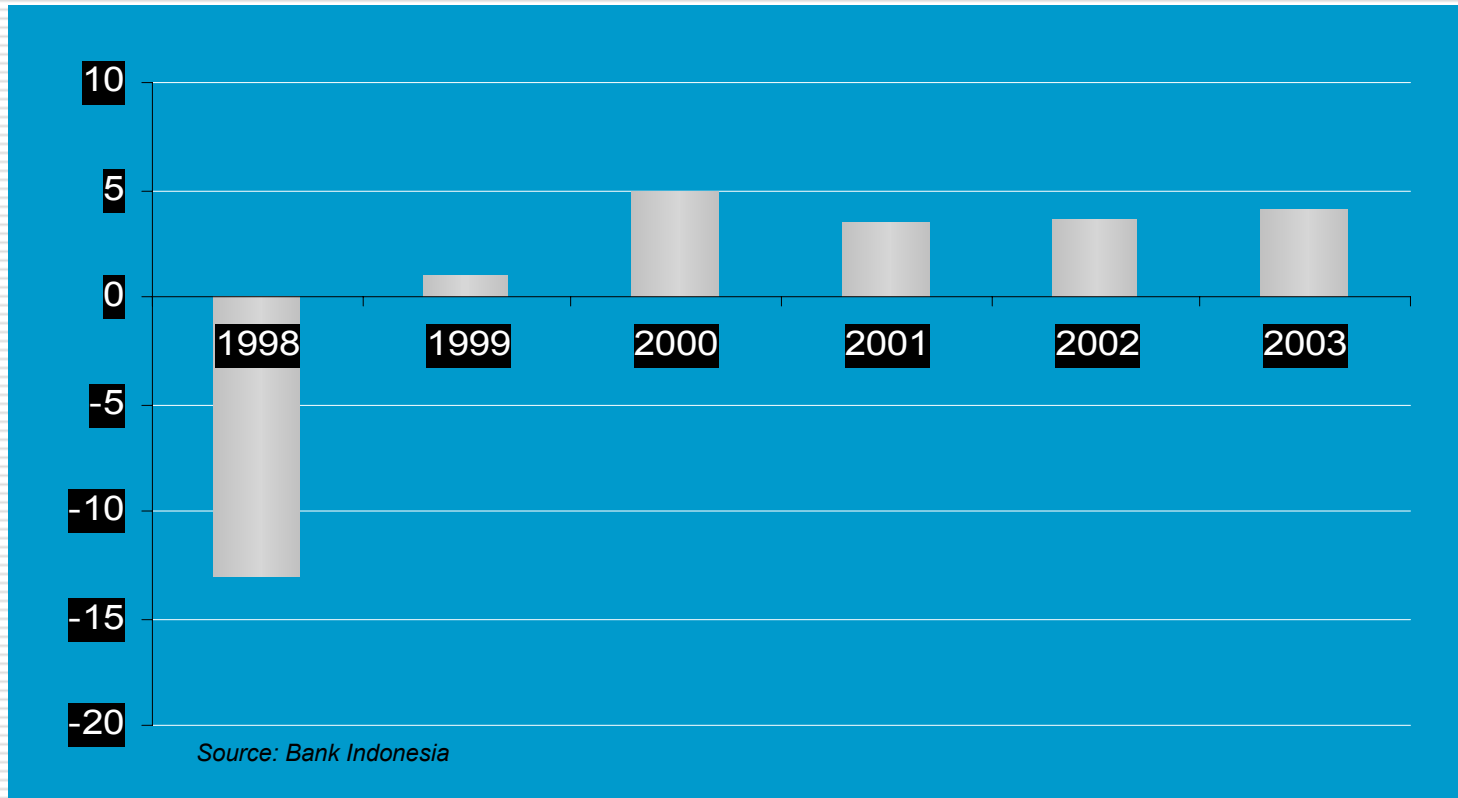
\*)Govt. target

\*\*) June 2004

# FINANCIAL INDICATOR

	2001	2002	2003
Fluctuation Rupiah on USD (y-o-y), (- : depreciation)	-21,8	9,3	7,9
Change on IHSG (y-o-y)	-17,9	12,4	58,1
Debt Rate (S&P)	CCC	CCC+	B+
Savgs in months of Imports and Debt pymnt	5,9	6,6	7,0
Public Debt (% GDP)	87,7	81,2	67,7

# ECONOMIC GROWTH





# Economic Progress....

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- The GoI sets up proper policies. The objective is to improve competitiveness with minimizing impacts.
- Several steps are taken into account: (i) to improve the investment climate; (ii) to encourage the export development; (iii) to refresh the function of intermediary banking; (iv) to improve the resilience of fiscal base overcoming the financing gap; (v) to sustain stability on monetary and financial sectors; (vi) to alleviate the poverty and increase employment.
- In short, GoI attempts to set up related economic policies through 2 major packages, i.e. Presidential Instruction No 5 of 2003 (White Paper) and Presidential Decree No 87 of 2003.

# ECONOMIC PACKAGES

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- Presidential Instruction No. 5/2003 (White Paper)
- Presidential Decree No. 87/2004

# **INSTRUCTION OF PRESIDENT No. 5/2003**

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□ White Paper (Inpres No.5/ 2003) -  
main goals :

- Maintain Macro Economic Stability
- Continue restructuring & reforming on financial sector
- Promote Investment, Export and Employment.

# **President Decree No. 87/2003**

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- Set up a National Team for Industrial Development & Investment Promotion (*Tim Nasional Peningkatan Ekspor dan Peningkatan Investasi* /PEPI), Keppres 87/ 2003.**

- Main Tasks :**

- Formulate Policy on Export and Investment;**
- Set up Strategic Steps to Boost Economic Export and Investment;**
- Review and Give Recommendations in Boosting Export and Promoting Investment.**

# OTHER RELATED POLICIES ON INVESTMENT

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- Proposed Draft of Law on Investment
- Presidential Decree No 29 of 2004 on One Roof Service
- A Presidential Decree No 80 of 2003 on government procurement, and followed by e-procurement

# BOOSTING EXPORT AND INVESTMENT

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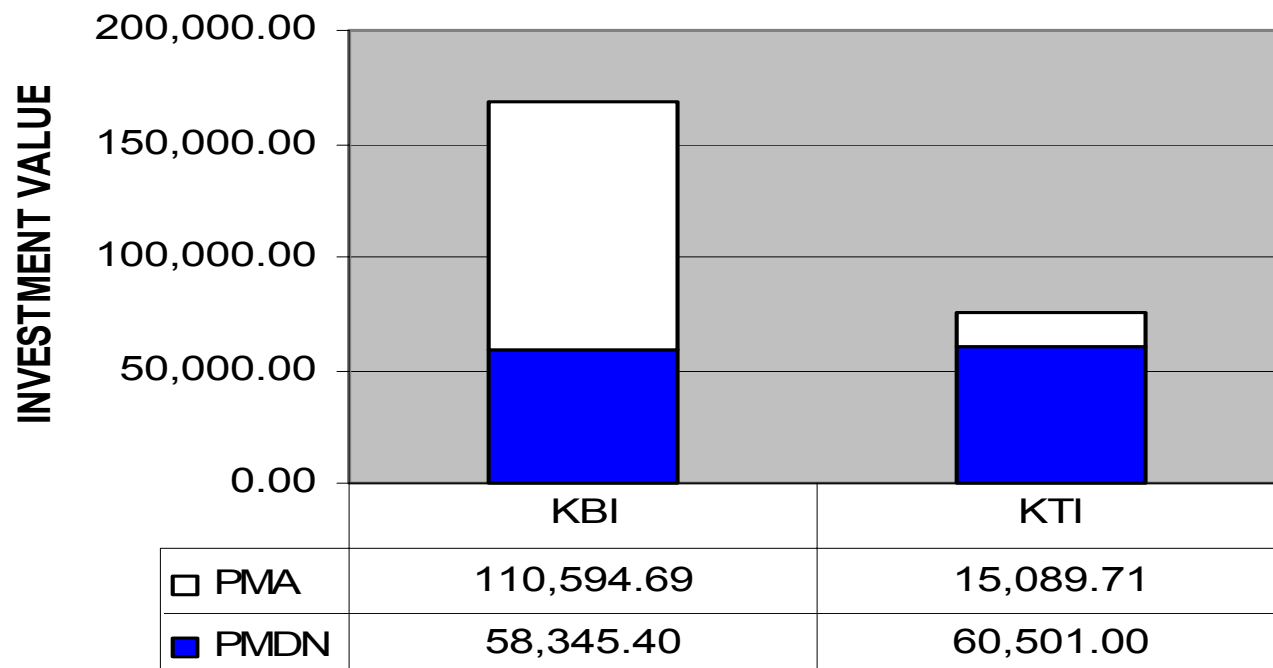
- ❑ Economic package on Export and investment. Promotion (Pres. Decree No.87/03) with A National Team
- ❑ Progress on related policies
  1. The government maintains its vigilance to prevent issuance of local regulations inconsistent with prevailing laws and regulations.
  2. The Customs and Excise streamlines its operations to reduce malfeasance and evasion.
  3. High priority to investment in infrastructure to support growth, investment and employment creation.
  4. A series of trade facilitation measures is underway.
  5. The support for SMEs
  6. Presidential Decree No 29 of 2004 dealing with Provision on Investment for domestic and Foreign Investment through one roof licensing service.

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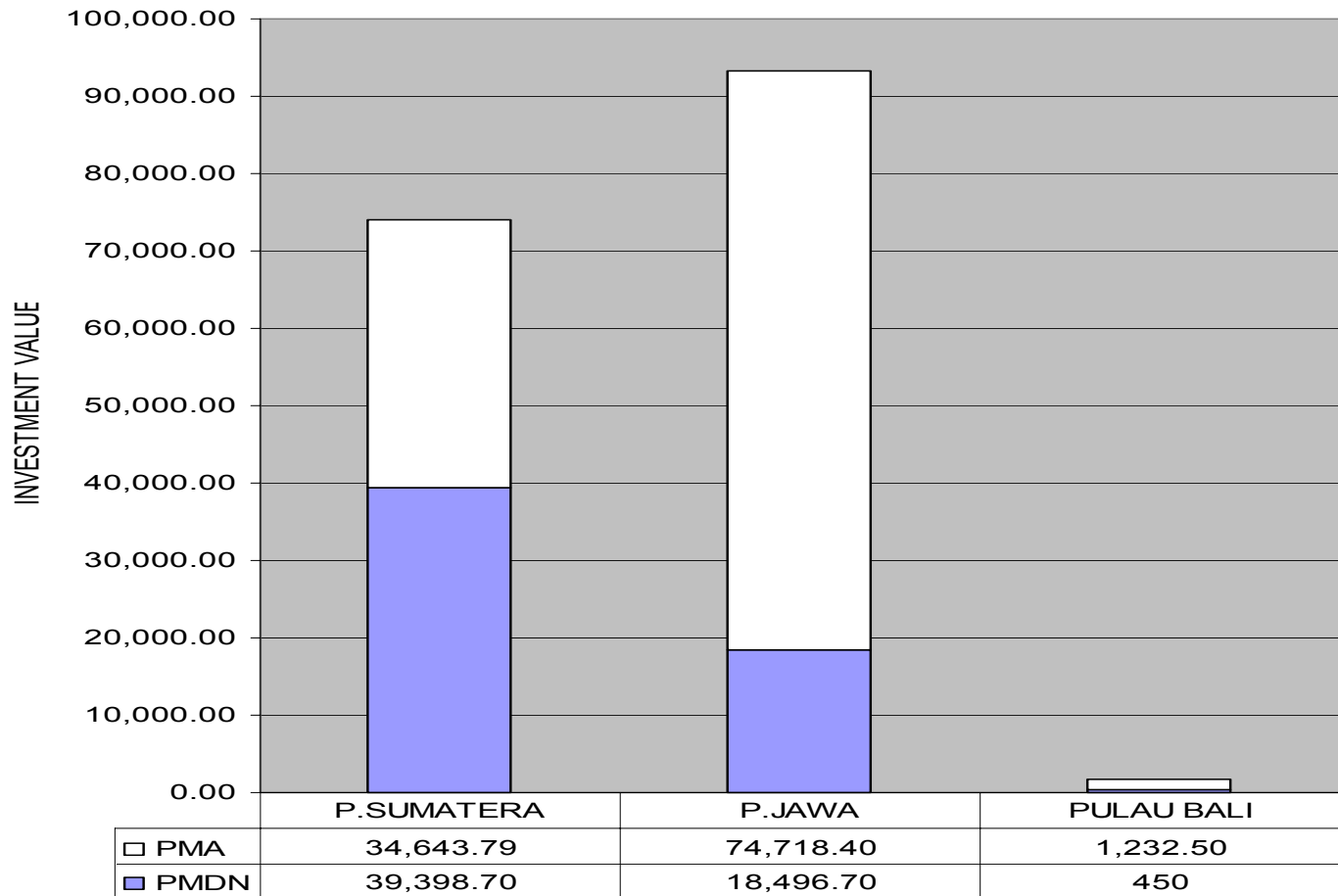
# INVESTMENT VS EMPLOYMENT

# **DOMESTIC AND FOREIGN INVESTMENTS IN KBI-KTI** **AUGUST 2000 - JULY 2001**



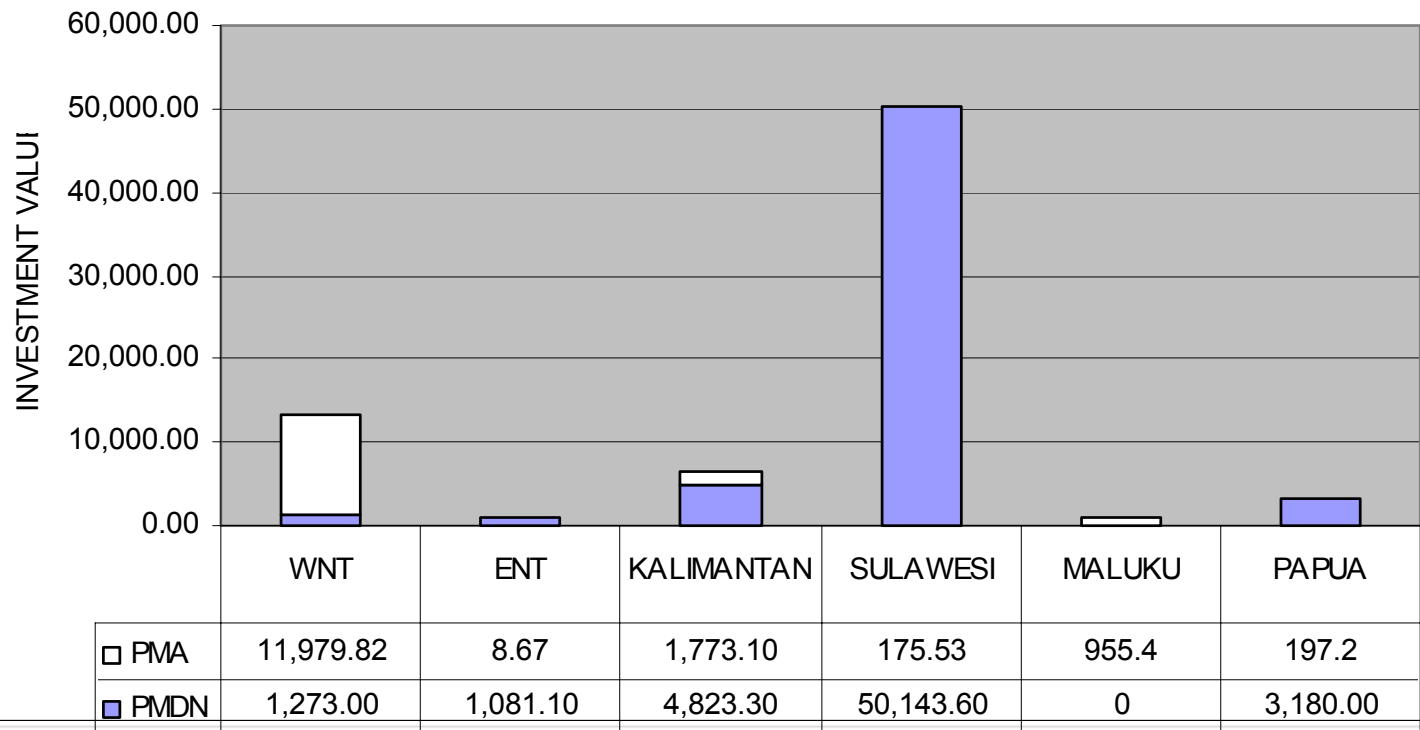


**DOMESTIC AND FOREIGN INVESTMENTS IN KBI  
AUGUST 2000 - JULY 2001**



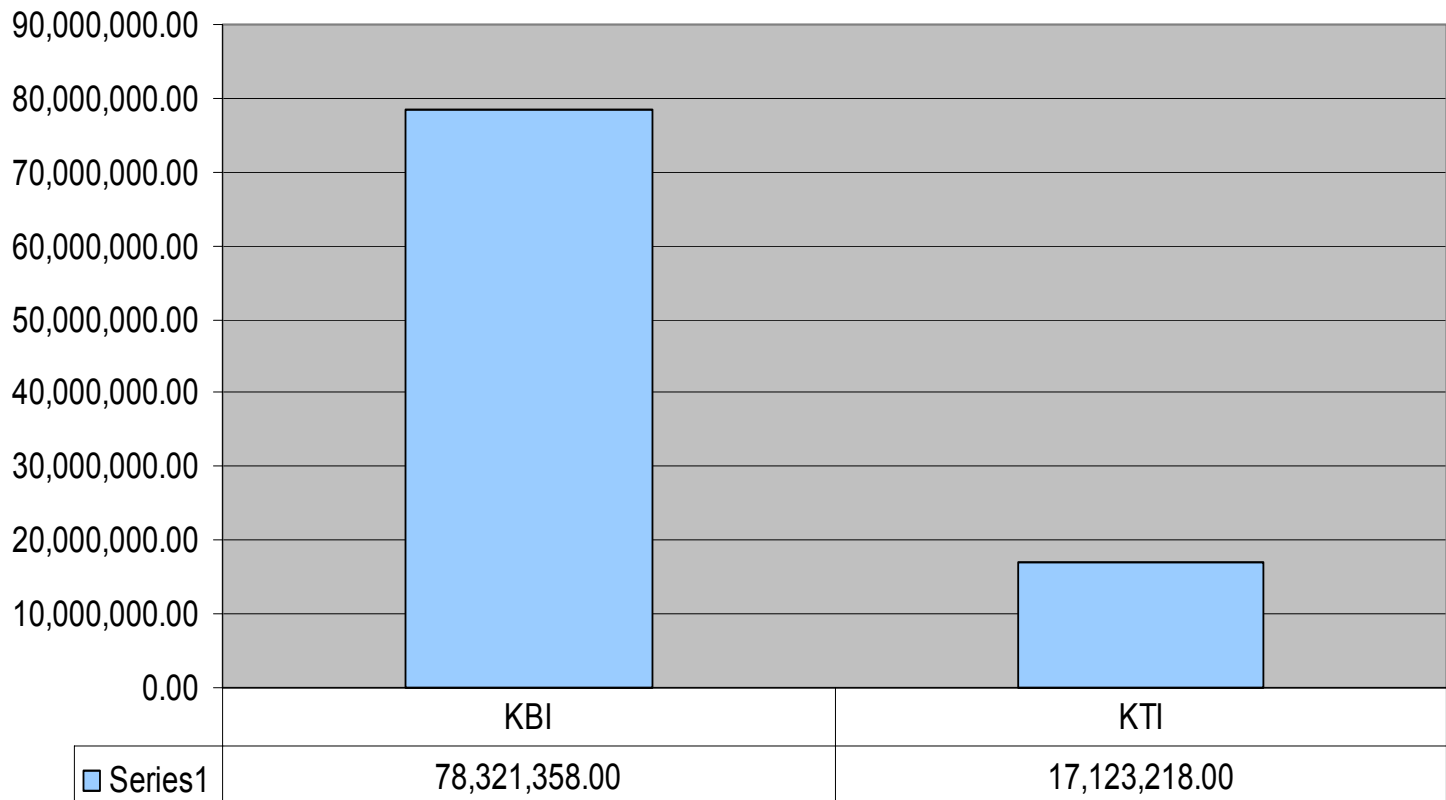
<b>Total</b>	<b>74.042.49</b>	<b>93.215,10</b>	<b>1.682.50</b>
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DOMESTIC & FOREIGN INVESTMENTS IN KTI  
AUGUST 2000 - JULY 2001

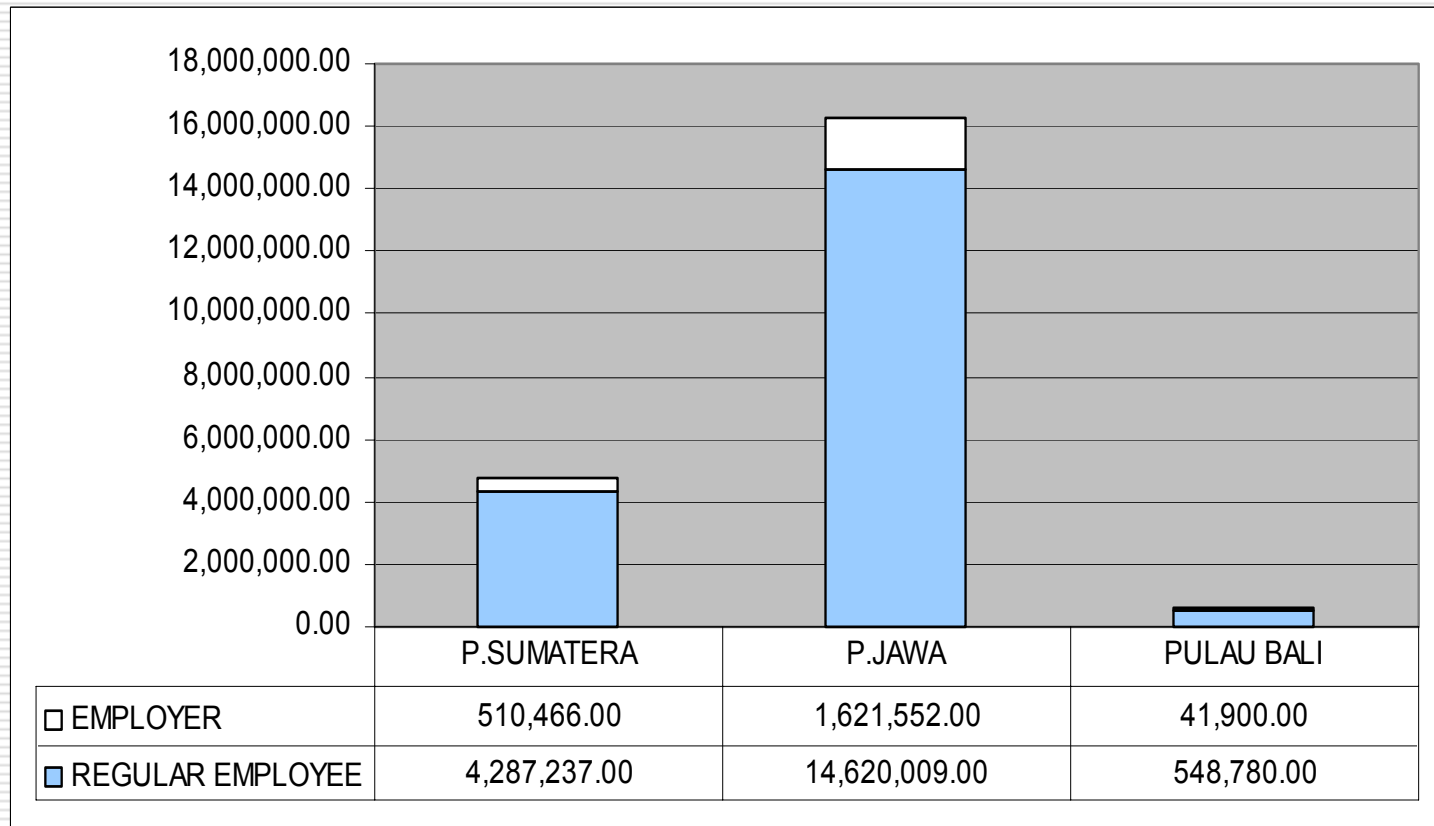


<b>Total</b>	13.252,82	1.089,77	6.596,40	50.319,13	955,4	3.377,20
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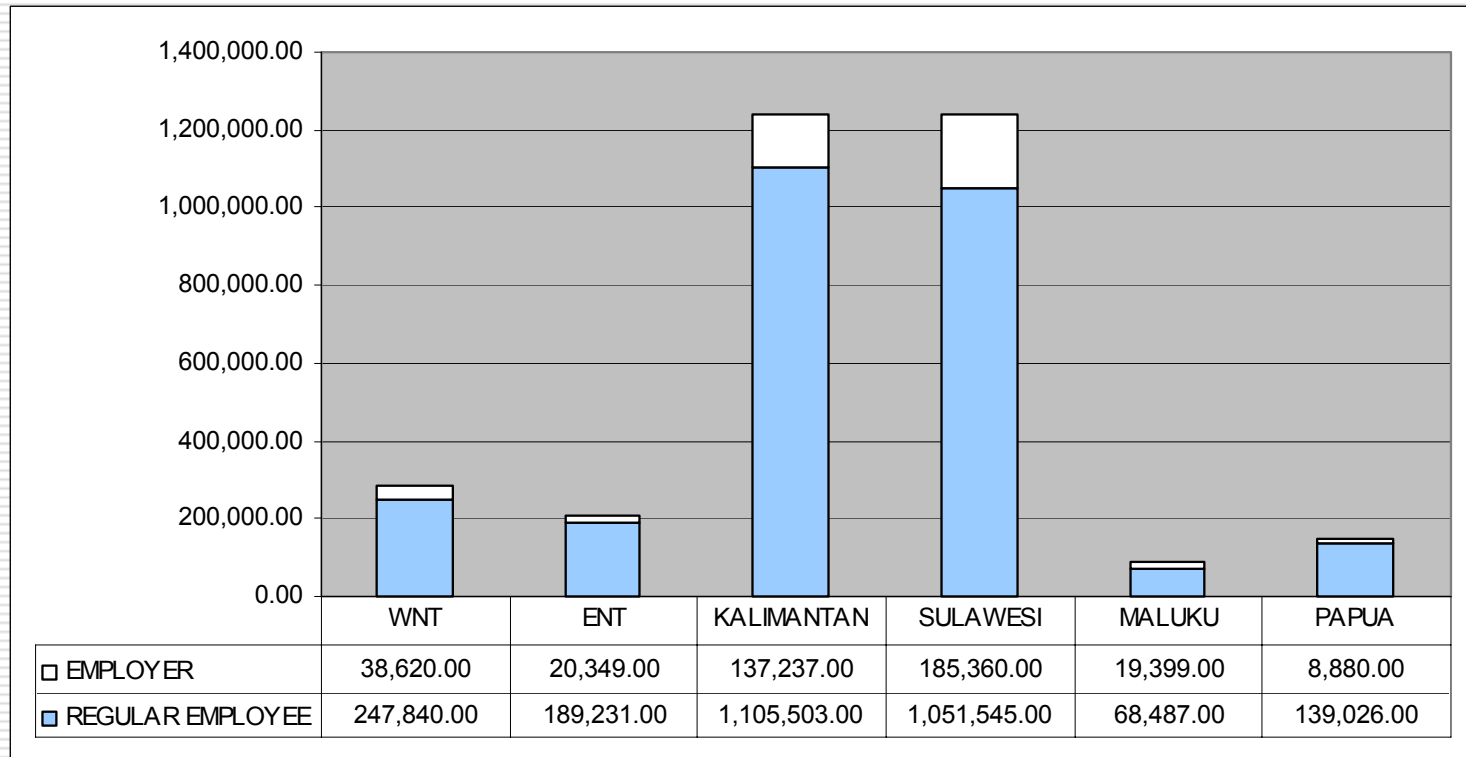
ECONOMICALLY ACTIVE WORKERS IN KBI - KTI  
JULY 2003 (PERSUS)



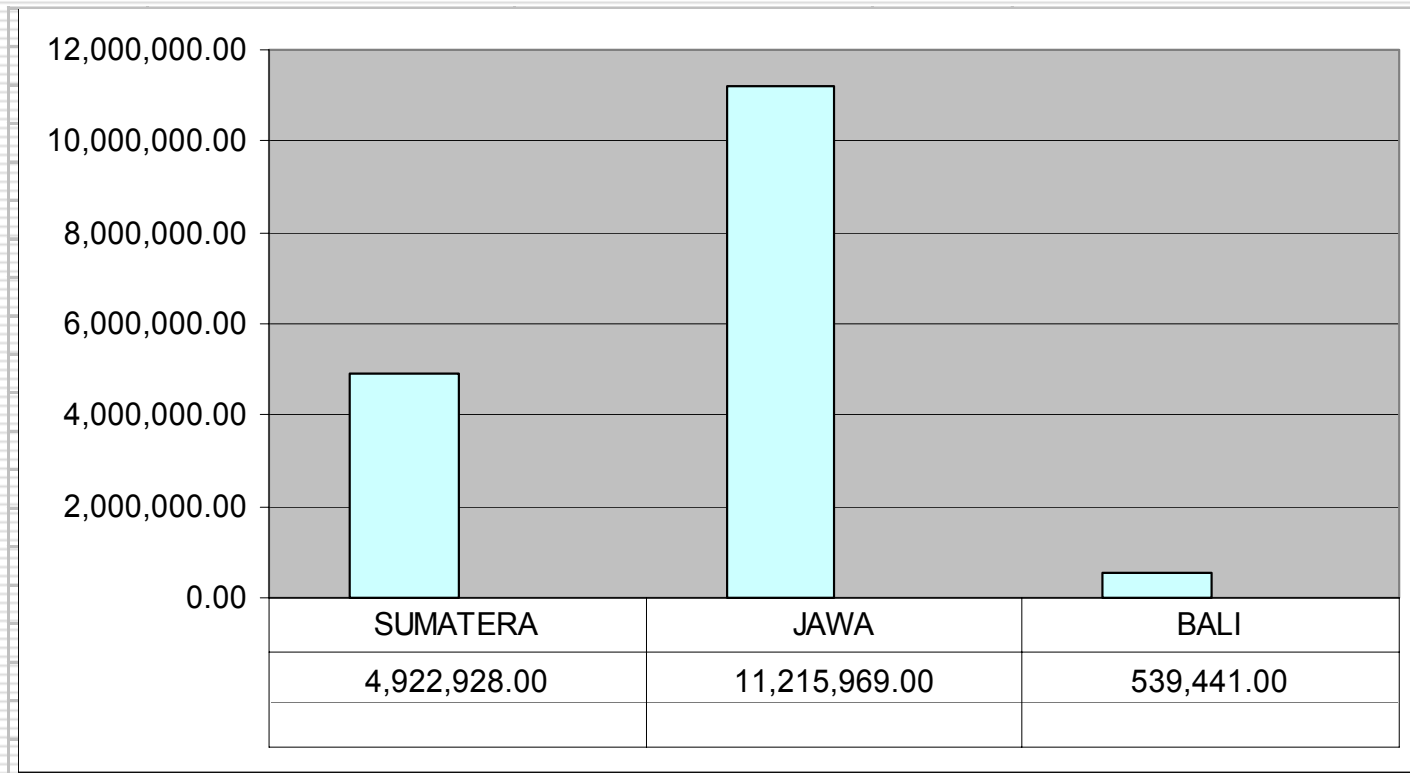
# Employee & Employer of KBI for 2003



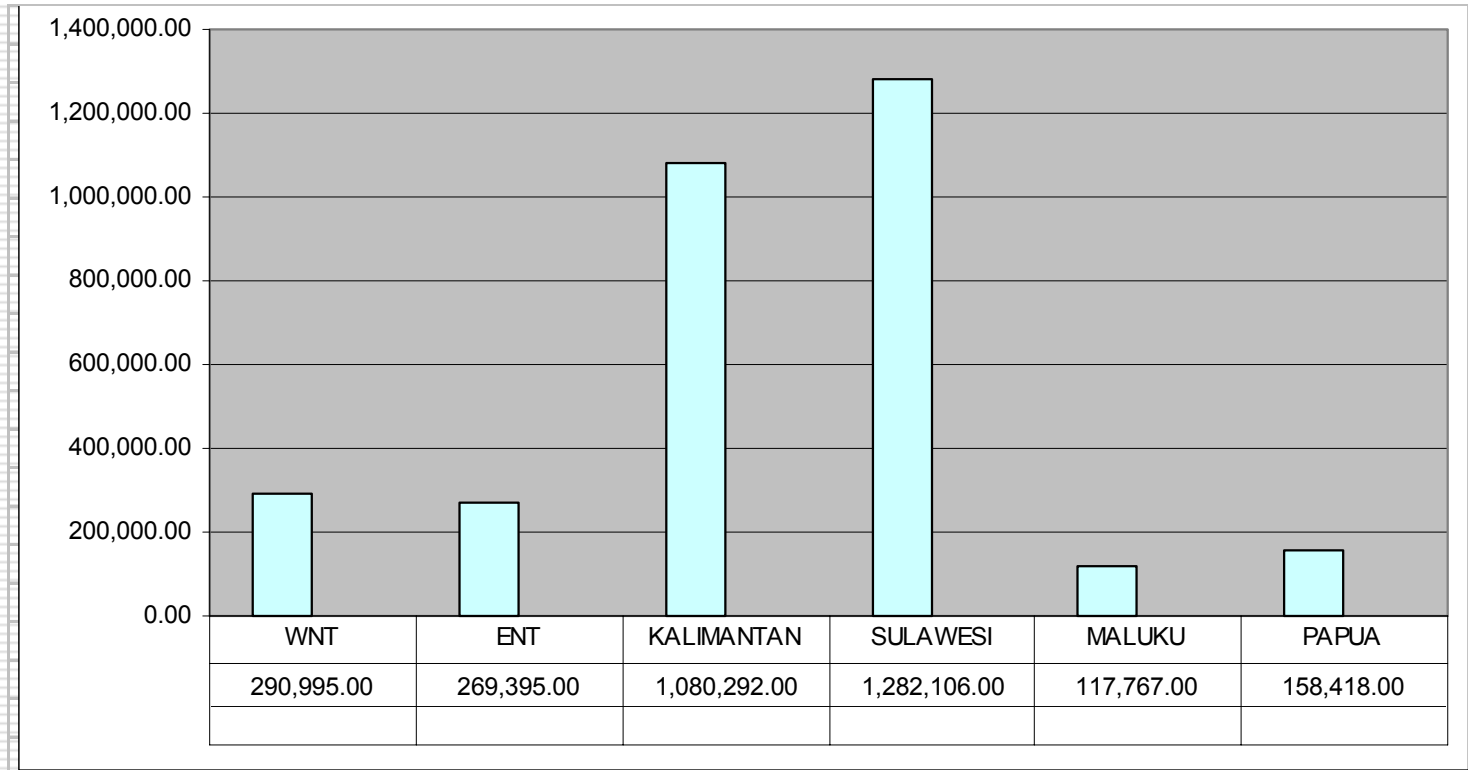
# Employee & Employer of KTI for 2003



# Labour Force 2003- KBI



# Labour Force 2003- KTI



# SUMMARY

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- ❑ Indonesia is relatively successful in recovering the crisis, and ready to promote investment and export development with proper policy reforms.
- ❑ Challenges that can be put properly as opportunity to reboost the development performance
- ❑ The Government attempts to boost the economy through structural and directive policy reforms: i.e. 'White Paper' and Pres. Decree No. 87 of 2003, and proposed draft on Law on Investment, Presidential Decree No. 29 of 2004.
- ❑ Synchronized systems introduced in complying with domestic and international dynamics



# SUMMARY (cont...)

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- Econ Packages: On Track
- Pattern of Investments Varied
- Dom. Investm.: Traditional Sectors;  
Foreign Investm.: Modern Sectors
- HR Quality-Low: 70% of total Workers
- Reltnship. b/w Invstm vs Workers:  
Contrast Pattern;  
KBI (Sumatra) Strong Corr.  
KTI Weak & Neg.

# Continued...

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- Through the laws and related decrees, investors and business people can look forward to a more harmonious relationship and all brings into investors' confidence and improving competitiveness.
- The government remains committed to implement the Presidential Decree No. 87 of 2003, and related policy reforms on Investment.