

# Weathering global uncertainty

## INTERVIEW WITH HE DR SRI MULYANI INDRAWATI

MINISTER OF FINANCE, THE REPUBLIC OF INDONESIA



**SRI MULYANI INDRAWATI** is an executive director of the International Monetary Fund, representing 12 economies in Southeast Asia as well as serving as Indonesia's finance minister. In 2001, Mulyani left Indonesia for the US and served as a consultant with the USAID for programmes to strengthen Indonesia's autonomy. She also lectured on the Indonesian economy at Georgia University. A prominent economist, Mulyani was appointed a member of the National Economic Council during Abdurrahman Wahid's administration. She has since served as Minister of National Development Planning and Chairperson of the National Planning Agency.

### What are your main challenges at the moment?

At the macro-economic level, Indonesia is doing well. We have seen growth over the last 18 months of more than 6 per cent. These are the highest levels since the crisis back in 1997-98. Government revenue has been increasing, and not just due to last year's high oil prices. We have also seen revenue increases from other commodities. The budget deficit for 2008 was around 2.1 per cent of GDP. This was because Indonesia had been lagging behind in infrastructure, education and health spending. So we have had to focus spending on these key areas.

Indonesia's fiscal policy is designed to boost economic growth, thereby reducing unemployment and inflation. But the main challenge is to allocate spending correctly: that's why the government is focusing on infrastructure, education, and health.

### Can the international investment community expect consistent policy regarding investment?

Democracy and decentralising government to the regions is certainly creating a more complicated decision-making process in Indonesia, but it doesn't mean that it should hamper the progress of development. From my experience in government, co-ordination is stronger between ministries because each minister now understands that the only way to get anything done is by working with other ministries toward achieving national goals, regardless of political affiliation. That said, there are some challenges coordinating between the central government and regional administrations, which are often from different parties.

### How is Indonesia weathering the global financial crisis?

Last year's high commodity prices benefited Indonesia. It's different from the financial crisis of ten years ago. That was partly caused by a weak banking sector. But now we can capitalise on this situation. What the government is doing now is to develop infrastructure by inviting investors to explore and then to invest in primary sectors like mining, energy, and agriculture. The economy is growing above 6 per cent still, so demand for energy and food within the domestic market is very strong. The global economic crisis is becoming a concern because it is reducing demand. The exchange rate is now more volatile because of uncertainty about the fundamentals of the big economies. But overall, because the fundamentals of our economy are right, we can weather this uncertainty.

### What is the Government doing to improve the climate for foreign direct investment?

The Government created what we call the investment climate through a policy package that consists of improving the tax system, customs procedures, and by cutting red tape. Overall we have achieved around 85 per cent of what we set out to do. The results can be seen in terms of the macro-economic indicators.

There is a pull and push factor to FDI. The pull factor is what we can provide here to attract FDI: infrastructure; less bureaucratic hassles; lower transaction costs; greater efficiency; no discrimination toward foreign investors; and opening up of new sectors to overseas investors.

The push factor comes from trends like the current global imbalances, which are affecting countries like China. This is prompting many global players to diversify their risk. And Indonesia is among the countries that have become the investment destination for those manufacturers. Indonesia has become a very attractive place for manufacturers, because we are politically stable and enjoy strong economic growth.

### Can investors be confident that the rules won't change?

Once a law has been passed it's going to be there for quite some time. Indonesia has a very high reputation for honouring contracts. One of the features of the new culture here is good governance and respect for the law.

### Where do you see Indonesia in ten years time?

The economy has huge growth potential. What is encouraging about Indonesia's economic development in the medium term is that it has been accompanied by very rigorous structural reform. This has not only involved changing the law, but perhaps more importantly it has meant reforming our institutions and bureaucracy. Looking ahead ten years, if these all good policies can be continued, I am very confident Indonesia is going to be Asia's new emerging economy. Why? Because we have vast natural resources and we are strategically positioned. Indonesia is in ASEAN, and most other members are also healthy economically. This offers us advantages in terms of new markets. I think Indonesia is going to capitalise more on the opportunities presented by the global economy, despite the recession.