

# Indonesia is in better shape

**INTERVIEW WITH MUHAMMAD LUTFI**

CHAIRMAN, BKPM



MUHAMMAD LUTFI is a self-made businessman who started an oil trading company at the age of 24. He later diversified with other commodities and made forays into the media, owning a local daily newspaper, as well as launching a lifestyle TV station called Jak TV in Jakarta. He resigned his executive positions in the private sector on his appointment by President Yudhoyono to the post of BKPM Chairman in 2005. Mr Lutfi is a former chairman of Indonesia's Young Entrepreneur Organisation and is a staunch supporter of small and medium-sized businesses and entrepreneurs in Indonesia.

## **As the head of the Indonesian Government's investment board could you bring us up to date on current investment trends in Indonesia?**

The Indonesian Government is pro-business. We understand that business creates economic growth, economic growth creates jobs, and jobs fight poverty. Indonesia has gone through momentous changes. Firstly, I don't think there is another country in the world that fights corruption like we do. We strive for transparent and good government because we know it is the basis of an efficient economy.

Secondly, in 2007 we passed new investment legislation. That gives the same treatment to international and national investors regardless of whether you invest US\$500 or US\$500 million (mn). Moreover, income, royalty, and profits can all be repatriated freely. The new investment legislation also rules that in the event of litigation, Indonesia will uphold any international arbitration rulings. We have also simplified visa requirements to make it easier for investors to do business in our country and offer significant tax incentives in certain sectors. Furthermore, we don't impose any restrictions on foreign workers, particularly on high-level executives.

## **Which sectors are you targeting for investment?**

The government's new direction for investments focuses on three main sectors, energy, food, and infrastructure. Highlighting the energy sector, this sector alone contributes nearly 30 per cent of total revenue, and is a major source of foreign exchange. Not to mention, Indonesia has the largest natural gas reserves in the Asia-Pacific region. Until now, Indonesia exports raw materials. The government has committed to end that practice. We are going to increasingly start sell goods that have gone through processing.

We are producing 2.3 mn barrels per day of gas and oil equivalent, but we still import at least 20 mn kilolitres of fuel. Therefore, we expect to see more value-added in this sector. Since the 1990s, there has been substantial decline due primarily to aging oil fields and lack of investment in oil production equipment.

The state owns all petroleum and mineral rights. Foreign firms participate through production-sharing and work contracts. Even though oil and gas contractors are required to finance all exploration, production and development costs in their contract areas, they are entitled to recover operating, exploration, and

development costs out of the oil and gas produced.

## **And mining? Concerns have been expressed that the new mining legislation can leave foreign players unsure about their position.**

There are two parts to this issue. Mining companies require work permits, which have to be approved by local administrations. The new legislation improves the process and therefore mining permits will be reviewed periodically, a similar process that is carried out in the United States. The Indonesian mining sector is in full production and is rapidly expanding. These reasons open significant investment opportunities for the mining equipment and technology supply. In the last ten years, there has been very little foreign investment in the mining sector, especially for hard rock mining. Meanwhile, Indonesia has one of the world's largest reserve of coal, copper, tin, nickel and gold and wants to earn more from the sector.

## **And what other areas are of interest to investors?**

Indonesia is known for its richness of natural resources. We are the world's number one crude palm oil producer, the second largest cocoa and copper producer, number four in gold, and number eight in coal output. We want to build on this, because in the past energy followed industries, but in the future industry will follow energy. It makes sense to invest in these sectors: firstly, because we have a domestic market of 237 mn people. The middle class alone is 80 mn people, which will double probably by 2025: that's about the same size as Malaysia, and about three quarters of Australia's and four times the size of Singapore's.

We are also interested in investors helping to develop our commercial power generating and distribution infrastructure. We are also rapidly extending the road network and building new international airports at the same time. We are also opening up our port sector, which will mean that private companies will be able to set up joint ventures with the state-owned ports administration.

## **What impact will the global financial crisis have?**

We expect an increase in foreign direct investment for 2009, which is another positive sign of the country's economic growth. Although the investment growth is not as high as last year's 43.8 per cent growth, in view of the current global economic crisis the country's economy is still in better shape than that of other Asian countries. ■