



Achieving sustainable growth

INTERVIEW WITH HE DR SUSILO BAMBANG YUDHOYONO

PRESIDENT OF THE REPUBLIC OF INDONESIA

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What lessons have you drawn from the last fifteen years with regard to your government's plans and vision for the continued development of the Indonesian economy?

The 1998 economic crisis taught us many important lessons. One important lesson is that our small and medium enterprises have proven to be resilient.

We also learned that there must be unity of purpose between the government, the business community, and the labour force. The government must create a positive and conducive climate for business to flourish, and the private sector, together with their employees, must remain cohesive. During times of crisis, lay-offs must be the last resort.

Drawing from these lessons, my government has developed various schemes to increase the capacity of our SMEs, among others through micro financing.

Although the number of middle-class Indonesians has increased significantly over the years, we still need to provide constructive support to some large sections within society that are in need. That is the reason why my development model relies on achieving a more robust, equitable, inclusive, and sustainable growth.

Indonesia has become more economically resilient. We have pursued prudent fiscal policies and constantly seek to improve the synergy between the central and regional governments. We have also improved the relationship with other economic players.

We have also prepared ourselves should there be another economic downturn. We will, of course, protect the affected poor and cover, assist and alleviate their burden. Such a combination of policies helps us in making our economy more resistant, thereby avoiding sudden increases in unemployment, controlling inflation, and maintaining other economic indicators.

The 1998 financial crisis also triggered a chain of structural reforms including the strengthening of our democratic fundamentals. We overhauled our political system and adopted a more democratic system of governance. The thriving civil society and media helped ensure that we will continue to pursue a transparent economic policy.

I have faith that our success in maintaining political and economic stability will pave the way for continuous stability and economic growth.

Let me also share with FIRST readers why Indonesia survived the 2008 crisis, and currently has high growth

with good prospects. Firstly, as a result of reforms and the re-development of our economy, we were able to strengthen our resilience and fundamentals against potential fluctuations. Secondly, the factor that made that crisis so severe was that there was no consensus on how to tackle the problems. That is why at the time of the 2008-2009 crisis, I took the lead in a national effort to face the crisis. I spent days and nights to come up with options and solutions, to identify policy responses with all stakeholders, including the central government, provincial government, governors, the private sector and economists. The third factor was the choice of solutions or policies. When the crisis occurred, we combined the need for fiscal stimulus, and we also implemented social protection and social safety net programs. Last but not least, the fourth factor was trust and confidence. I personally took charge in order that Indonesians could trust their leader – the government was indeed fully engaged and responsible in managing this crisis.

As the world's third largest democracy, Indonesia is also the largest predominantly Muslim nation in the world. Can Indonesia provide a model of moderate Islam, particularly in the Arab world?

There is a saying that democracy and Islam are strange bedfellows. I do not agree with this saying and you can see that this is not the case if one looks at Indonesia and Turkey. These are Muslim majority countries that have embraced and thrived in democracy. I feel flattered if Indonesian democracy is praised as a good model for Middle Eastern countries aspiring to democracy. I believe that the most sustained democratic system is a home-grown democracy.

However, I also believe that through the exchange of best practices in lessons of democracy, a best practices model can be developed. This is the reason behind Indonesia hosting the annual *Bali Democracy Forum*. As you may know, the *Bali Democracy Forum* is the premier intergovernmental forum on democracy in Asia.

I value learning from one another and being open minded towards different cultures. This has been true indeed because Indonesia has been strengthened through its exposure to Eastern, Islamic, and Western cultures. This exposure helps us in creating a pluralistic and tolerant society.

In today's globalised world, being open allows us to have different views on conditions of our state. This

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includes the state of our economic sector. We do not restrict international businesses from doing business in Indonesia. We also encourage our business community to go global. With more exposure overseas, they will become more professional.

I am sure that Indonesia is a living example that Islam, democracy and modernity can go hand-in-hand. We are proud that these assets can help Indonesia continue to contribute to regional stability, global peace and security, and also harmony among civilisations. But it is important to keep in mind that those assets cannot be taken for granted. We have to strive for them, and keep nurturing them. This is because there are always challenges to any efforts of democratisation, let alone when the democratic process involves multiple factors such as Islam and modernity.

Over the last fifteen years, successive governments, including your own, have sought to root out corruption from public life. What do you say to critics who make the charge that corruption is holding back the economy and that the government has let the fight against it slow?

Corruption eradication is a challenge that my government continues to work hard on. There is no doubt that I view corruption as an extraordinary crime that has a negative effect to our development.

The fight against corruption is work in progress. I am glad that there are high profile cases that we have been able to prosecute. These cases arose in various parts of Indonesia, indicating the excesses of regional autonomy.

In addressing this issue, my position is clear and firm. The law must be enforced without discrimination. It should provide a deterrent effect, as well as guaranteeing justice and impartiality. I have always instructed all government agencies to prevent all forms of corruption, and not abuse state and regional funds.

Such measures will allow my government to increase economic growth and put funds to finance development. The fight against corruption will not stop. Again, I believe that upholding the law without discrimination is key. It is vital that we give full support to law-enforcing institutions in fighting corruption.

The role of the Indonesian Corruption Eradication Committee is also extremely important in continuously working hard to stop and prosecute corruptors. The Police Force, the District Attorney, and the Supreme Court Justice are all equally important.

I am glad that the fight against corruption is moving forward, tackling challenges and making progress constantly, each and every day. This progress has been made possible by our aggressive anti-corruption campaign at national as well as regional levels. And I strongly hope that as we attain more and greater progress, we can achieve good governance, effective

administration, higher productivity—all of which, in my opinion, will in turn strengthen the fundamentals of a modern Indonesia.

You were re-elected in 2009 in a landslide victory with a poll rating of over 60 per cent. Do you feel that you have taken sufficient advantage of this popularity to push through a tougher agenda for development and social justice?

I am humbled and honoured to have been re-elected through a landslide victory. My re-election has enabled me to continue my development agenda. I want to promote growth while still remaining people-centred. In my second term, I am trying to achieve this through the four pillars of my development strategy: pro-growth, pro-jobs, pro-poor, and pro-environment.

I have faith in the values of this strategy. Let me illustrate: the poverty rate in Indonesia has declined steadily. In 2004, it was 16.7 per cent and in 2011 it decreased to 13 per cent. More and more Indonesians are joining the middle class. Our economy maintains its positive growth path. In 2004, its growth rate reached 5.1 per cent, and in 2011 our economy grew at 6.5 per cent. Our per capita income has also increased rapidly. In 2004 it reached US\$1,196, increasing to US\$3,542 in 2011.

Through this development strategy, I am also trying to push for synergy between development and sustainability. In our quest for economic development we have not sacrificed our environment. There are several measures that we have undertaken, for example we have put a moratorium on the clearing of primary natural forests and peat lands.

I believe that achieving progress and prosperity through development is not an instant process. It needs time and requires sustained efforts. It also needs support from all sections of society. We did have public support as my party – Democratic Party, won 150 seats (almost 30 per cent of the total) in the 2009 parliamentary elections. But we need more than just a parliamentary majority. And no less important is public participation in the development process. The government and the people can collaborate to eradicate poverty and achieve growing sustainable development.

In April 2012 the Indonesian government announced a joint re-launch of the UK-Indonesia Partnership Forum. Please comment on the significance of this key initiative.

I believe that the re-launch of the Indonesia – UK Partnership Forum reaffirms our commitment to a deeper cooperation between the two countries.

It also shows our commitment to enhance collaboration not only at bilateral level but also in global forums. The two countries also share common interests

Sustainable forestry is significant to our efforts at sustainable development

in foreign policy and international security issues. We are both willing to contribute to international peace and security. The two countries are major participants in UN peace missions.

The UK is also a permanent member of the UN Security Council, and Indonesia is the leading country in ASEAN and the Non-Aligned Movement. This is where I see great potential for collaboration. And don't forget that both countries also have strong commitment to promote inter-faith dialogues and harmony among civilisations. In addition, the two countries are members of the G20 with fervent commitment to promoting strong, balanced, sustainable, and inclusive growth.

With economic stability in both countries, especially after the global financial crisis and during the eurozone crisis, we share hopes for stronger cooperation in the area of trade and investment. The UK is one of our main trade partners. Bilateral trade in 2011 reached 2.89 billion US dollars, increasing from 2.63 billion US dollars in 2010. The UK is also among the top 5 commercial investors in Indonesia.

Indonesia is an emerging economy with steady economic growth since 2001. Indonesia's large domestic market is also an important factor. Our economic growth is projected to reach 6.5 per cent this year. Therefore, I see strong reasons for greater cooperation in trade and investment.

In addition, climate change and sustainable growth are also critical matters. The establishment of the UK

Climate Change Unit has supported our collaboration in these areas. We also have the *Hutan Harapan* project in Jambi, in cooperation with the Royal Society for the Protection of Birds.

One important development in our collaboration in global sustainable growth is the co-chairmanship of Indonesia and the UK, together with Liberia, at the UN High-Level Panel of Eminent Persons on Post-2015 Development Agenda. Through this, we work together to ensure the inclusion of sustainable growth in the vision of the Post-2015 agenda.

Another critical field of cooperation is education. Currently, there are about 2,000 Indonesians studying in the UK. We are grateful that many of our Indonesian students are recipients of the Chevening, Jardine Matheson and Premier Oil scholarships.

We have also developed university-to-university cooperation. In this matter, Indonesia has also granted Dharmasiswa scholarships to students from the UK to learn the Indonesian language and culture.

Please comment on your government's efforts to conserve Indonesia's forests, which are a step ahead of those taken by many of the other heavily forested nations.

Sustainable forestry is significant to our efforts in sustainable development. It is also significant to our climate improvement efforts. In the past, Indonesia's forestry policy allowed the cutting of timber from forests, as we believed that it would help us develop.



Prime Minister
David Cameron with
HE Dr Susilo Bambang
Yudhoyono, President of
the Republic of Indonesia

This policy then resulted in the degradation of our forests. Today, such a policy is no longer acceptable. We have been trying our best to save our tropical forests, and pursue sustainable forestry. We voluntarily took a unilateral measure to permanently conserve 35 per cent of our tropical rain forests. We have also applied a moratorium on new permits related to primary natural forests and peat lands. This is done to improve our forest and peat land management systems.

Thanks to these policies, our deforestation rate has declined from 3.5 million hectares per year to less than half a million hectares per year. I have also championed the One Billion Indonesian Trees for the World (OBIT) program. I am pleased to inform you that in the past two years we have planted around 3.2 billion trees.

In short, to promote sustainable forestry, we learned from our past mistakes by adopting prudent policy measures. We are also trying to change the way we live and to be more eco-friendly. We are also trying to employ technological innovation in food, energy, and climate security. We are quite optimistic of reaching our goal of reducing our greenhouse gas emissions by 26 per cent in 2020, or by 41 per cent with international support.

What strategy is your government pursuing to make the business and investment environment more attractive to overseas capital?

To be frank, foreign investment in the past seven years has shown a significant positive trend. Since 2006, it has grown at an average rate of 34 – 35 per cent. In 2012 up to the third quarter, its total reached the value of 229.9 trillion rupiahs. We predict by the end of 2012 realised investment may reach 300 trillion rupiahs. This is the highest in our history. In addition, investment is equally allocated among natural resources and manufacturing, and equally distributed between Java and Non Java.

Despite this welcome trend, I must admit that we should continue to work hard to create a conducive and positive climate for investment. Therefore, we will continue to improve business regulations, increasing legal certainty, and building more infrastructure. These are serious measures because we want to prevent a high-cost economy and the loss of opportunity in achieving our development goals.

The potential for a high cost economy is an issue I observe closely. We are in the process of evaluating 13,520 regional regulations and have already annulled 824 regulations that are unnecessary. We have sped-up the issuance of business licences from 60 days to 17 days. What is also important to note is that we are also paying close attention to law enforcement. Law enforcement efforts are crucial in providing a greater sense of security and stability in investment.

I strongly believe that Indonesia has abundant investment potential and business opportunities. To increase this potential, infrastructure development is also key. For infrastructure, we have come up with the *Master Plan on the Acceleration and Expansion of Indonesia's Economic Development* (MP3EI). With this Master Plan, we will take concerted measures in pursuing greater national development. We will do this by massive infrastructure development projects.

Under the Master Plan, Indonesia has established six major growth corridors. The Master Plan has 22 main economic activities. These 22 economic activities are integrated in eight programs. These eight programs are: agriculture, mining, energy, industry, marine, tourism, telecommunications, and the development of strategic areas.

The Master Plan projects will be financed by both the government and the private sector. I understand that for this to work, regional governments must also be committed. Therefore, I have asked the regional governments to provide its budget for capital expenditure. The total planned investment in the Master Plan from 2011 to 2025 is about 437 billion US dollars. The Indonesian government, the state-owned companies, and the private sector altogether will contribute 65 per cent of this investment.

I believe that by continuously improving our investment climate, and especially through the Master Plan, we will be able to maintain the trend of our current economic growth.

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HE Dr Susilo Bambang Yudhoyono, President of the Republic of Indonesia