

Climate change and investment

INTERVIEW WITH M HATTA RAJASA

COORDINATING MINISTER FOR ECONOMIC AFFAIRS, REPUBLIC OF INDONESIA



M HATTA RAJASA graduated in Petroleum Engineering, Bandung Institute of Technology (ITB). He has been in his current position since 2009. Previously he was Minister/Secretary of State, Republic of Indonesia and also held posts as Minister of Transportation and Minister for Research and Technology. Prior to serving as a government minister, he was President Director of Arthindo Group from 1982-1999.

High rates of domestic consumption and plentiful natural resources have pushed GDP to an annual average increase of nearly 6 per cent in the past five years – a strong performance given financial crises and deteriorating outlook elsewhere. Would you agree that there are perceptions at home and abroad that the Indonesian economic success story is not fully known internationally?

I completely agree with the statement. The international community is not fully aware of the significant improvements that have occurred in Indonesia. Since the beginning of the economic reformation, which started after the 97/98 Asian economic crisis, we have conducted reforms in various areas. This includes economic reforms, bureaucratic reforms, and democratisation. And the results have been very promising so far. We are now the world's third largest democratic country.

The global community has only recently started to become aware of the fundamental changes in our country. Ratings agencies, from Fitch to Moody's for example, have once again placed investment grade ratings on our debt. And international investors have recently placed Indonesia on their investment radar again. As a result, we have experienced significant inflows of capital, both portfolio and direct investments.

Foreign investors, including those from the UK, say they would welcome greater legal and regulatory certainty and continued action to improve both the ease of doing business in Indonesia and the country's infrastructure. What would you say are the hurdles facing UK firms looking to invest in Indonesia and how best can the government address issues to better enhance relations between the UK and Indonesia?

I would like to emphasise that the Indonesian government has made strong efforts to minimise uncertainties due to changing laws and regulations. We are currently improving laws and regulations, and will continue to do so in the future to make sure that all revisions to laws and regulations will always be conducted in line with our other efforts to improve the country's investment climate. We are also continually trying to improve the investment

climate in the country. This includes, among other things, enhancing our infrastructure, reforming the bureaucracy, and eradicating corruption.

We are open to inquiries from the UK business community regarding all matters pertaining to investment in Indonesia. And we expect the planned Comprehensive Economic Partnership between Indonesia and the European Union to create more room for the UK and Indonesia to bring our relationship to a higher level.

Indonesia's government is revising its negative investment list. Please outline the specific sectors targeted for trade or investment from the United Kingdom to Indonesia.

The aim of the revision of the negative investment list is to expand the investment list, so that there are more sectors available for foreign direct investment in Indonesia. We have also adjusted our investment regulations such that we do not distinguish between foreign direct investors and domestic direct investors. Investors currently have a level playing field when they undertake investment activities in Indonesia.

In regard to UK investors, we would like to see more investments from the UK in some strategic sectors such as consumer goods, education, health care, manufacturing, financial services, ports, airports, power generation facilities, and oil and gas.

Please comment on the impact of the planned Comprehensive Economic Partnership between Indonesia and the European Union announced last year.

We would receive very significant benefits from the Comprehensive Economic Partnership between Indonesia and the European Union. We believe Indonesia and the EU, including the UK, are complementary. As such, the economic partnerships would not lead to stiffer competition between Indonesia with the EU, but they would promote stronger cooperation. The EU and the UK could satisfy Indonesia's demand for products where Indonesia does not have a comparative advantage, and vice versa.

Against this backdrop, I believe Indonesia and the UK would have plenty of room to enhance our cooperation in trade and investment in various sectors, further strengthening our economic relationship.

From limits on the foreign ownership of mines and banks to export bans on raw commodities and food import restrictions, some critics say that new protectionist measures have dealt a blow to Indonesia's reputation as one of the world's most attractive emerging markets. Would you agree that the country is entering a "transition phase" with the government pushing to implement new regulation after a decade of rapid economic growth?

I would like to emphasise on this occasion that Indonesia is not moving toward protectionism. We still believe in free trade, free flows of money, and free investment flows. Import tariffs are now at their lowest ever level. For example, we have now implemented a free trade agreement with ASEAN, China, and some other countries. FDI flows into our country are currently very strong, and they have surpassed the pre-crisis level. Moreover, we are inviting more foreign investors to invest in Indonesia. Furthermore, we do not plan to restrict

capital movements into and out of the country for the foreseeable future.

What we intend with the current regulations in the mining sector, which some have misinterpreted, is to have more value-added activities in the country. We want to reduce overexploitation of our natural resources, and, at the same time, reduce the detrimental effects of mining activities on the environment. We want our natural resources, with which we are blessed, to give more benefit to society as a whole, and, at the same time, further promote sustainable economic growth.

With regard to food import restrictions, our intention is to increase monitoring to make sure that food products, which enter our markets, are in line with the requirements. In practising the policy, however, we always adhere to international best practices. I reemphasise that Indonesia would not exercise any policy that would violate WTO agreements.

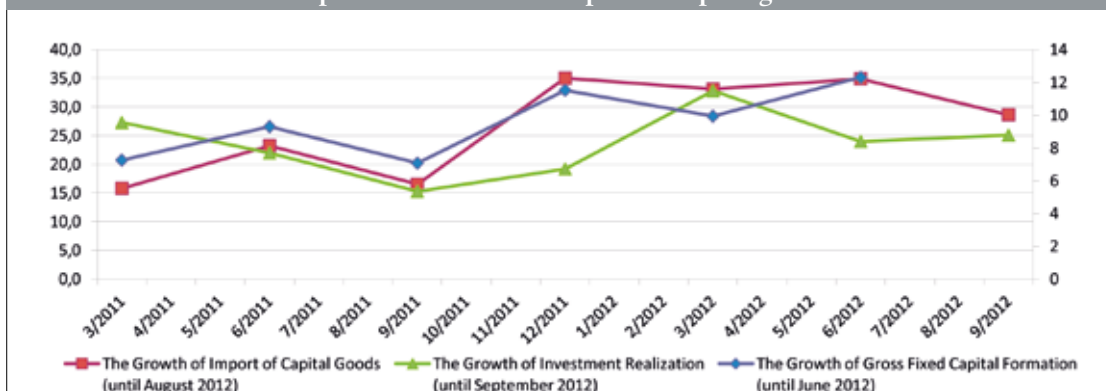
**We are
inviting
more foreign
investors
to invest in
Indonesia**

Indonesian economic corridors (Leading regions for DDI and FDI)



The map shows the regions with the highest density of DDI and FDI. The Java Corridor has the highest rates

Projection of investment realisation based on gross fixed capital formation and import of capital goods



Data shows that investment realisation is estimated to be stable from the fourth quarter of 2012

Source: BKPM