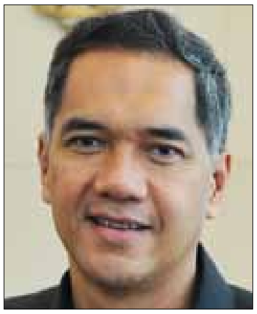
Climbing the value chain

INTERVIEW WITH GITA WIRJAWAN
MINISTER OF TRADE, REPUBLIC OF INDONESIA



GITA WIRJAWAN was appointed as the Minister of Trade of the Republic of Indonesia in October 2011. Previously he was the Chairman of Indonesia's Investment Coordinating Board (BKPM). A Harvard-educated investment banker, he has held key appointments in Goldman Sachs and JPMorgan, and was senior advisor to JPMorgan for Southeast Asia. Before he joined the government, he was Founder and Chairman of Ancora Capital, a Jakarta-based private equity fund.

What are the main aims of the Ministry of Trade and what are your key policy initiatives?

The Ministry of Trade – also known as Kemendag – formulates, implements, and monitors trade policy and relevant technical instruments to support Indonesia's economic development. Our key policy initiatives are focusing on promoting Indonesia's capacity to climb up the value chain in a sustainable manner, as well as in protecting our consumers by abiding with international standards and practices.

Indonesia's trade-related investments, coordinated through *The Master Plan for Acceleration and Expansion of Indonesia's Economic Development* (MP3EI), particularly supports the strengthening of our domestic competitiveness. Our international trade cooperation also continues to underline critical investment in capacity building. Key to the stability of the region, Indonesia also plays a significant role in the reformulation of regional economic architecture towards a more resilient global economy, including the ASEAN Economic Community, and the critical steps towards multilateral trading system.

As the host of APEC 2013 and the 9th WTO Ministerial Meeting, Indonesia will champion the recalibration of global trade to bridge developed and developing economies in a more coordinated and mutually beneficial economic structure. On track to become the 7th largest economy in the world, Indonesia will also continue to support growth with equity and is well positioned to champion strategic economic cooperation.

Major export commodities

Current	*Potential*
Textiles and textile products	Leather and leather products
Electronics	Medical instruments and appliances
Rubber and related goods	Herbal medicines
Palm oil	Processed food
Forest products	Essential oils

How important is the role of the private sector in Indonesia's economic and export growth and how is government creating an enabling environment for this process?

Indonesia's economic growth has been driven by domestic consumption, investment and strategic government spending. With its demographic dividend, Indonesia is one of the the key global markets with attractive business environment. This is evidenced by the influx of FDI, 27 per cent increase year on year and the continuing climb of realised investments outside our main island, now at 47 per cent, that have been well supported by partners in the private sector.

With the government playing a complimentary role of regulation, funding, and provision of services, private initiative and investment can help provide basic services and conditions to improve health, education and infrastructure. Such public-private partnership can further propel Indonesia's focus in climbing up the value chain. This, along with other facilitations, is hoped to improve conditions in the least developed regions around the country.

Indonesia has been successful in attracting foreign direct inward investment in some of its key industries, in particular those adding value to raw material commodities. What in your view are the attractions and what special incentive regimes will make further investment growth in particular sectors possible?

Indonesia's economy grew by 6.4 per cent in the first quarters of 2012 on the back of investment and domestic consumption. At the same time, foreign direct investment in Indonesia's manufacturing sector is also on the rise. In the second quarter of 2012, foreign direct investment in manufacturing activities reached USD 1.2 billion, up by more than 62 per cent year on year. Singapore, Japan, the United States, South Korea and the Netherlands are among Indonesia's chief investors. They evidently are attracted by Indonesia's vast natural resources, large domestic market and low labour costs, as well as its relatively stable political environment and rapid economic expansion.

Global analysts have projected that Indonesia could boost its global market share in manufacturing, create millions of new jobs, and facilitate structural transformation. But riding on the back of domestic and international demand is not enough. To improve overall competitiveness and sustain growth, the government and private sector need to overcome main challenges in the manufacturing sector – particularly on providing both soft and hard infrastructure.

How is export-led industrialisation being stimulated?

Indonesia's export structure has been dominated by primary commodities and industry, which reached 65 per cent. Export's contribution to the GDP is now 26 per cent, far less than key neighbouring countries, thus contributed to its resilience amid global economic challenges. However, recent key indicators illustrate that manufacturing output and consumption of manufactured goods are not just strong but also growing.

While having abundant natural resources, Indonesia must be able to promote processed products that will provide high added value. This will assist with higher local absorption to raw materials. In support of food and energy security, Indonesia will also need to reduce dependencies to imported materials that can otherwise produced locally. Attractive market price and stability are key to building a more efficient and productive national production base, towards becoming a net exporter for key commodities. Combined with sensible trade facilitations, export-led industrialisation will be done in a responsible manner.

What is your policy on economic diversification away from commodities and agriculture?

Indonesia possesses a well diversified economy that is driven primarily by manufacturing, trade, and agriculture – supported by strong domestic consumption. Increased investment in the manufacturing sector, grew by 62 per cent in the second quarter of 2012, will expand production capacity and possibilities for Indonesia to offer internationally competitive products and services. Indonesia's abundant renewable (agricultural products) and un-renewable (mining and minerals) natural resources will need to be managed sustainably through industrial processes that will provide high added value, increasing local absorption to raw materials.

Supporting development in the agricultural sector, three key focus areas are: boosting yields, shifting production into high-value crops, and reducing post-harvest and value-chain waste. With these, we could become a large net exporter of agricultural product, supplying more than 130 million tons of harvest to the international market.

How important is the small business sector to the Indonesia's trade economy?

In Indonesia, the small business sector has historically been the main player in domestic economic activities. They provide a large number of employment and hence generating primary or secondary source of income for many rural poor households. They generally account for more than 90 per cent of companies across sectors and generate the largest employment, providing livelihood for over 90 per cent of the country's workforce – mostly women and the young.

The majority of SMEs, especially microenterprises (MIEs), which are dominated by self-employment enterprises, are scattered widely throughout the rural areas, and, therefore, are likely to play an important role in developing the skills of villagers, particularly women, as entrepreneurs. Therefore, increasing financial inclusion around the country is key to realising this opportunity. F

Global analysts have projected that Indonesia could boost its global market share in manufacturing, creating millions of new jobs

Exports – Imports

	Aug-12		Jan-Aug 2012	
	Billion US$	% MoM	Billion US$	% YoY
Exports	14.12	12.27	127.17	5.58
Oil & Gas	2.85	2.30	25.94	5.58
Non Oil & Gas	11.26	14.49	101.23	5.58
Imports	13.87	15.21	126.67	10.28
Oil & Gas	3.31	19.97	27.51	2.46
Non Oil & Gas	10.56	22.35	99.16	12.66

Aug 2012 Surplus US$ 0.25 Billion & Jan-Aug 2012 Surplus US$ 0.5 Billion

Source: BPS, processed by Pusdatin Perdagangan