# Streamlining investment

## Interview with DR MUHAMAD CHATIB BASRI

Chairman of Indonesia's Investment Coordinating Board, BKPM

CHATIB BASRI has been the Chairman of BKPM since June 2012. He is also the Vice Chairman of the National Economic Committee of the President of the Republic of Indonesia. A Senior Lecturer at the University of Indonesia's Department of Economics, and Research Associate at the Institute for Economic and Social Research, Faculty of Economics University of Indonesia, he is also a member of the Asia Pacific Advisory Group of the International Monetary Fund.

**Investment in Indonesia has risen steadily over recent years. What are the main factors attracting overseas investors to Indonesia?**

The starting place to understanding Indonesia's investment success story is our macro economy. While other parts of the world are slowing down, like China and India, and in some cases, as in Europe, stuck in economic decline, Indonesia's economy has been growing. In short, in regional terms, Indonesia is an outlier, the exception. This explains why growing numbers of investors are looking at Indonesia: they know that as economies slow down, the rate of return slows, and that they will get high returns from a fast-growing economy like ours. If we look around the region, if we compare Indonesia to our neighbours' economies we see that for example, Japan has a problem with the declining value of its currency, the yen, making it more expensive to produce things, so they are looking to outsource production overseas, to Indonesia. If we look at China, we see that they have mounting wage bills, pushing up labour costs, so they look around and Indonesia comes up on their radar screen. Investors from those countries will get higher returns.

**Indonesia is also a huge market...**

Right. Our debt-to-gross domestic product ratio is below 24 per cent, we make up 48 per cent of ASEAN's economy, and we have the third largest population in the world, after China and India. Combined with political stability, a growing middle class that has reached 60 million and that in the next decade will reach 80 million, and a per capita income of well above US$9,000, you can see why Indonesia is likely to remain an attractive market and a lucrative investment destination. In short, there is huge market potential here. We have what I call the 'push and pull' factors: our investors are pushed by the rising costs in their countries, and pulled here by our many advantages. This explains why foreign investment last year was US$19 billion and has reached US$12 billion for the first half of this year alone; I think we should reach US$24 billion this year. The shape of the Indonesian economy is changing. Up until the Asian financial crisis of 1998, growth was driven by internal consumption, this is very common for countries with large internal markets, but now growth is being driven by investment. At the same time, investment has diversified: up until 1998, it mostly went into mining, but now mining investment is around 16 per cent, the same as manufacturing, or the plantation sector.

**What steps are you taking to improve the investment climate in Indonesia?**

Our goal is to streamline the investment process. This means simplifying licensing procedures, giving investors better information systems, and prioritising iconic investments with long supply chains. To facilitate investment, we have set up a help desk to provide speedy answers to investors' queries, similar to the customer service function of a bank. This service has cut the waiting time at the investment licensing office in the past five months. We guarantee that any queries by email to the BKPM will be answered within 48 hours. We have also launched an online tracking system so that investors can find out the real-time status of their proposed licenses: it's inspired by Amazon's purchasing tracking system. Our website also enables investors to obtain comprehensive information on investment, so that foreign investors don't need to travel all the way to the BKPM office in Jakarta just to ask simple questions when those answers can be readily found online.

All these efforts are what we call "service excellence" that BKPM will continue to promote. The intention is for Indonesia to attract investors other than those coming here for the traditional reasons of abundant raw materials and cheap labour.

The other area that we are addressing is land ownership. Until now, the government could not issue a compulsory purchase order on land, and it often took months and sometimes years to buy land to build roads and other infrastructure on. Now if there is a dispute about land price it can be settled through the courts in a maximum of 180 days. I believe this will go along way towards helping investors.

**The BKPM says it wants to do more to add value, to offer incentives to investors to develop raw materials. How will this work in practice?**

A country such as Indonesia, which is now a middle income country, cannot rely on natural resources or cheap labour costs: workers everywhere are calling for higher salaries, while other developing countries, such as Bangladesh, are offering cheaper labour. At the same time, commodity prices are falling. So investors are looking at other sectors; that is why investment in manufacturing has grown significantly in the second quarter of this year. We have to keep moving toward productivity-driven growth. And this can be done by adding value through innovation and technology. This has to happen in stages. Look at Brazil or Korea. We cannot do it drastically, otherwise investors will complain. Take the downstreaming policy. It has been criticised as inconsistent. Mining companies are told to create smelters here, but there is a regulation that demands a share divestment within 10 years. A smelter can cost US$3 billion, so such demands do not make sense to investors. What we can do is reach a compromise. I have spoken to officials from the Energy and Mineral Resources Ministry. I told them that I understand the objective, but we have to get there through realistic means. In this regard, coordination between the BKPM and other institutions is important before we go to the coordinating economic minister for a final review.

**Another constraint on investment has been in the area of governance...**

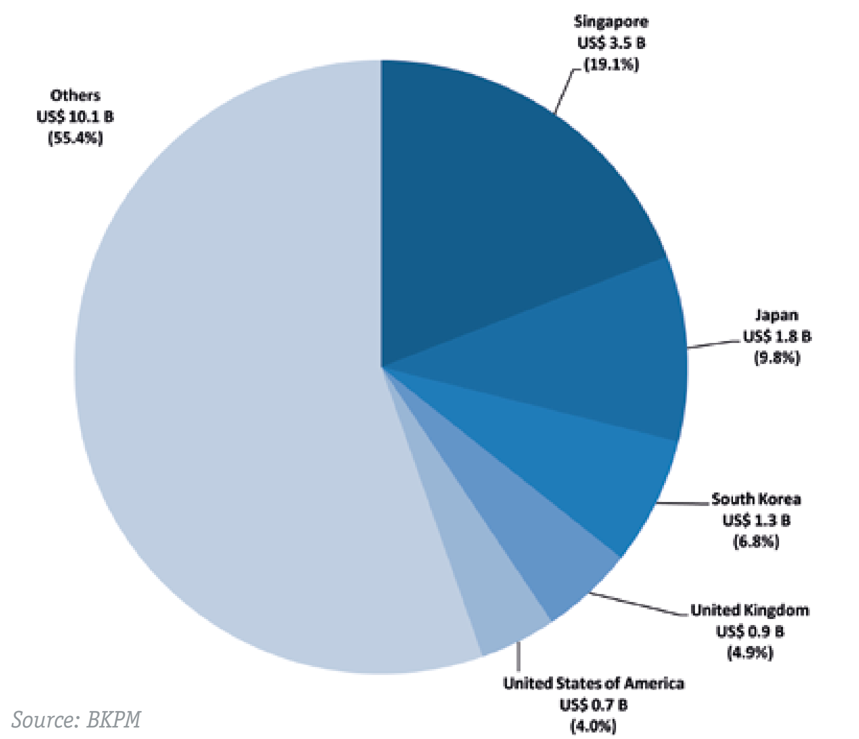
Indonesia does not rank very favourably in the leading indices on ease of doing business. But those international benchmarks don't affect us. And that is unfortunate. But at the same time, it is clear that we have been hugely successful in attracting investment. The reality at the moment is that other countries' economies are slowing down and investment is going toward the emerging markets, and away from Europe. In the World Bank's ranking, Rwanda comes higher in terms of ease of doing business, but is not currently a major destination for FDI; investors prefer to put their money into Indonesia. None of which is to say that there isn't a problem here, or that we are complacent. The problem is that there is still not enough pressure internally to reform. Maybe benchmarking is not the best way to achieve better governance.

**What strategies and initiatives are in place to combat corruption?**

Perhaps the best way to push reform is to look at the source of the problem. And the main problem is to be found at the local level: in local government. Indonesia has decentralised very rapidly in recent years, devolving power to the regions. This has brought a certain amount of legal uncertainty and corruption. I admit that this is still a problem. The question is how to handle the issue. When I was teaching at the University of Indonesia in 2001, we carried out a survey. This was the time when the government was pushing ahead with economic decentralisation. What we did was to calculate the extra costs of paying bribes. Obviously, the higher the costs, the more inefficient the business venture was going to turn out. In 2001 we discovered that the extra costs amounted to 12 per cent of total production. That is almost the same as labour costs. In 2007 we conducted the survey again. This time we discovered something very interesting: those extra costs had come down to 8 per cent. The reason was that seven years after decentralisation, local governments realised that they needed investment and that corruption and perceptions of poor governance and lack of transparency was keeping investors away: they were going to regions in the country where corruption was being tackled. So in the end, competition helped to reduce corruption. From the central government's end we encourage good governance through, for example, awards: we give an annual award to the local government that has attracted the most investment. Another approach we have taken is to keep local officials, regents, district chiefs, mayors, and governors in the loop. We invite them on overseas investment promotion trips. Usually I only deliver a keynote address and they do the rest of the work, meeting directly with their would-be investors. The BKPM helps regional leaders prepare their presentation material for investment forums. We have found that if leaders have a sense of ownership over what BKPM is doing, they will lend their full support. F

We have to keep moving toward productivity-driven growth, and this can be done by adding value through innovation and technology

**Foreign Direct Investment by country (January – September 2012)**




*Source: BKPM*