

# Indonesia mulls TPP accession

## INTERVIEW WITH DARMIN NASUTION

COORDINATING MINISTER OF ECONOMIC AFFAIRS, REPUBLIC OF INDONESIA



**DARMIN NASUTION** graduated in Economics from the University of Indonesia and holds a Master's and a Doctorate from the Sorbonne in Paris. Over the course of his career Mr Nasution has held a number of senior positions in the financial and economic arena, including Director General of Financial Institutions at the Ministry of Finance, and Chairman of the Capital Market and Financial Supervisory Agency. He was appointed Director General of Taxes in 2006, before becoming Deputy Governor and then Governor of Bank Indonesia in 2010. He assumed his current position in 2015.

**High rates of domestic consumption and plentiful natural resources have been the main drivers of Indonesia's growth in recent years. How is the ongoing lull in commodity prices and the slowdown of China affecting the Indonesian economic success story?**

The IMF's latest World Economic Outlook (April 2016) highlighted the slower growth in China and persistent low commodity prices as key factors in the weak outlook for the global economy. China is one of Indonesia's biggest trading partners. Indonesia's non-oil and gas exports to China declined by 20 per cent in value from January to October 2015 from the same period a year ago. Our current account is impacted by the low prices of our commodity exports, and China's weakened yuan has further eroded our overall competitiveness. With this difficult global environment, we have lowered our growth estimates to low-to-mid five per cent for the coming years.

Under the circumstances, we are intensifying our efforts to raise our economy's competitiveness and have put in place a wide-ranging series of structural reform measures, accelerated infrastructure development and introduced measures to improve our investment climate and ease of doing business.

We have been diversifying our economy's dependence on commodities for some time, with greater emphasis on expanding our services sector, such as tourism, maritime, the creative economy and innovation, including financial technologies and e-commerce.

**Foreign investors have cited greater legal and regulatory certainty, a reduction in red tape, and much needed improvements in the country's infrastructure as priorities. What is the government doing to address their concerns?**

Indonesia is the fourth most populous nation and the world's 16th largest economy, endowed with plentiful natural resources. We are determined to move up the ladder of economic success and raise the standard of living for our relatively young population. Foreign investment will be needed to achieve our goal.

Foreign investors have expressed concerns over our investment climate and regulatory uncertainty. We are proactively addressing their concerns in this area through our increasingly decentralised governance structure, comprising 34 provinces and over 500

administrative regions, which hold significant authority on investment, regulatory and licensing matters.

As part of our committed effort to simplify regulatory and licensing processes, we established a One-Stop Service (BPMPTSP) earlier this year, and established regional one-stop integrated investment service centres throughout the country. The One-Stop Centre and their regional counterparts have introduced streamlined processes and coordination to facilitate foreign (and local) investors to achieve our goal of transforming Indonesia as an investment destination. This is accompanied by an aggressive drive to improve infrastructure, boost connectivity, and create a maritime 'toll road' to connect our rich and widespread archipelago.

In less than a year, we introduced eleven (11) structural reform packages aimed at raising our national industrial competitiveness through deregulation, simplifying bureaucratic procedures and rationalising fiscal incentives with special attention to micro, small and medium enterprises, streamlining investment licensing, business cost reduction incentives, accessibility to affordable finance with special attention for micro and small businesses, development of special industrial zones, and business and fiscal incentives for a wide range of investment opportunities, as well as revision of the investment negative list. More recently, we introduced measures to set up a Bonded Logistic Centre to promote Indonesia as the prime hub for both national, regional and international distribution centres for the Asia Pacific region.

**Indonesia's government is revising its negative investment list. What do you regard as the specific sectors of interest between the UK and Indonesia?**

In 2015, the UK's realised investment in Indonesia amounted to US\$503,201 million, distributed across several sectors, such as food, basic chemical industry, chemical and pharmaceutical products, agriculture, electricity, gas and water, trade and services, mining and infrastructure.

With the recent revision to our negative investment list, we are opening new sectors that UK companies should consider. For example, in tourism, specifically restaurant ownership, we have expanded foreign investment from 51 per cent to 100 per cent. Moreover, for accommodation ownership (two-stars,

one-star, non-star hotels and motels) we have extended foreign ownership from 51 per cent to 67 per cent. In the health sector, particularly medicine ingredients, foreign ownership is now 100 per cent (previously capped at 85 per cent). In trade, we have allowed ownership in non-production distribution up to 67 per cent (originally 33 per cent) while for production distribution we have allowed 100 per cent ownership (from a maximum of 33 per cent).

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**President Jokowi has indicated Indonesia's intention to join the Trans-Pacific Partnership (TPP). What are the economic and trade benefits for Indonesia and what further reforms would the country have to make to get there?**

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TPP member countries account for nearly 40 per cent of global GDP and will introduce new market rules for rapidly changing areas of international trade in goods and services, reducing trade and investment barriers among member countries. Indonesia, as the largest economy in Southeast Asia, is doing an in-depth evaluation of membership of TPP, taking into account that four of the ten ASEAN member nations are already in the Partnership.

Like in any membership of regional and international trade arrangements, Indonesia accepts the trade-offs, including structural, regulatory and other reforms necessary to participate in and fully realise the economic and other benefits from such membership, including that of TPP.

We have formed a high-level coordination team, including stakeholders from numerous business sectors, and commenced the complex analysis necessary to address issues regarding Indonesia's

membership, and the impact, reforms and processes that are needed for our government to reach a decision on participation in TPP.

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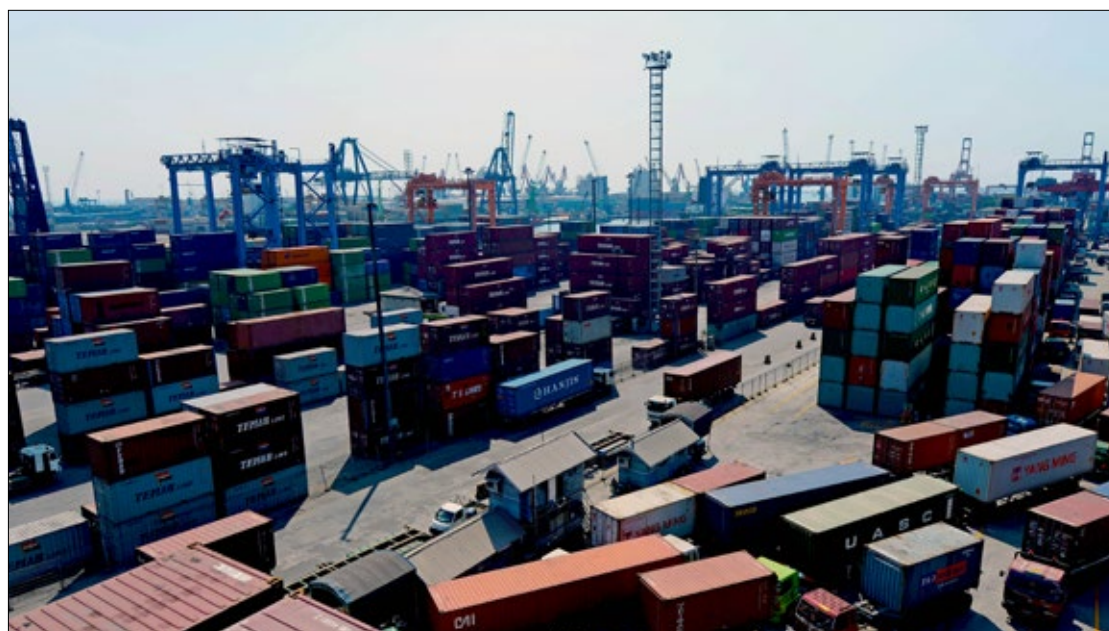
**From limits on the foreign ownership of mines and banks to export bans on raw commodities and food import restrictions, some critics say that such protectionist measures have dealt a blow to Indonesia's reputation as one of the world's most enticing emerging markets. Would you agree that the country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

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There is a perception in some quarters of an increasingly nationalistic outlook in recent debates on "ownership" in some of our more strategic natural resources, particularly in the energy sector. Our multi-party parliament is open and free and, in debates on legislation and regulations, has often expressed different views, as one would expect from a vibrant parliamentary democracy.

Indonesia is an open economy. Our deregulation packages, including the recent decision to increase foreign ownership in several sectors and to open up sectors previously closed to foreign investors, is a positive signal of our commitment to greater openness in our economy. Our membership of the ASEAN Economic Community, and accelerated moves to start the negotiation phase for a partnership pact with European Union through the finalisation of the Indonesia-EU CEPA scoping paper during President Widodo's upcoming visit, along with our indicative interest towards joining TPP, are actions that confirm our commitment to become a free and open economy. E

**Indonesia accepts the trade-offs, including structural, regulatory and other reforms necessary to participate in and fully realise the economic and other benefits of TPP membership**



Tanjung Priok port in North Jakarta, operated by PT Pelabuhan, is Indonesia's busiest and most advanced port