

Bridging the development divide

INTERVIEW WITH DR RIZAL RAMLI

COORDINATING MINISTER FOR MARITIME AFFAIRS, REPUBLIC OF INDONESIA



RIZAL RAMLI

is a graduate of the Institut Teknologi Bandung and Sophia University, and also holds a doctorate degree from Boston University. A former student activist, jailed in Bandung in 1978/79 for his pro-democracy stance, he began his public service career under President Abdurrahman Wahid and was appointed Chairman at Econit Advisory Group and Coordinating Minister of the Economy (August 2000 to June 2001) and Minister of Finance (June to July 2001). More recently, he has served as President of the Board of PT Semen Gresik, President Commissioner at PT Bank Negara Indonesia (Persero) Tbk and as Independent Commissioner of PT First Media Tbk.

Could you begin by providing an overview of your responsibilities as Coordinating Minister for Maritime Affairs and your key priorities since taking up the post in April 2015?

The new ministry was conceived by President Widodo in October 2014, when he took office. In April 2015 there was a cabinet reshuffle, because the President wanted to improve coordination between ministries and to reassure investors concerned about protectionism, mixed policy signals and slower growth. I coordinate four ministries: fishing, transportation, tourism, and energy and mining.

Historically, as an archipelago nation, Indonesia has had a strong maritime sector, but we have not made full use of it in recent years. The President has reminded us that we need to look to the sea for our future, and that our survival depends on a strong maritime sector.

One of my key priorities is the fishing industry. Indonesia is the world's largest archipelago and has vast fish-rich seas. As such, the nation already ranks among the largest producers in aquaculture worldwide. However, as in other sectors of the economy, the country has yet to tap the full potential of the fishing industry and optimise profitability. With our population of more than 250 million people, there is not only the potential of large foreign demand but also significant domestic demand for fishery products. Improvement in efficiency is crucial in order to boost both the quantity and quality of Indonesia's seafood products. For example, most fishermen still use traditional techniques and equipment. Apart from increasing production, we also want to meet demand from abroad for a wide range of products, such as fish, shrimp and crab.

We also expect to see higher demand for Indonesian fish from abroad as the Indonesian government has been combating illegal fishing in its waters.

Some 60 million households depend on fishing for their livelihoods, and yet most of them are still living in poverty. Fishing has to start moving up the value chain and one of the ways to do that is to invite investors into the sector. We are changing the laws to allow for almost 100 per cent foreign ownership in key areas such as cold storage and fish processing.

Indonesia also has the potential to become one of the world's leading shipbuilding nations. Ours is a shipbuilding country in the making. At present, we produce a mere 100 ships per year, largely with high costs of production, due

to unfavourable tax policies. But now the government has implemented a range of tax incentives that we believe will attract foreign investors to this important sector.

You have also been focusing on improving efficiency at the country's ports. What progress are you making in this regard?

That is correct, and the government continues to cut unnecessary regulation. Tanjung Priok is the busiest and most advanced of our ports, handling more than 50 per cent of Indonesia's trans-shipment cargo traffic. It is also among the least efficient in Southeast Asia, with turn-around times six times that of Singapore, and severely congested due to slow customs handling, as well as limited port capacity. But we have now reduced turnaround to three days, and we expect to reduce that further very soon. We have done this by cutting red tape and by using rail to move freight, which is how things are done elsewhere in the world.

At the same time, we are improving maritime connections throughout Indonesia's thousands of islands and coastal cities. This represents a strategic shift from six decades of Java-centric development to that of Indonesia as a whole. Until now, governments have spent more on Java than everywhere else, but we are going to start investing to bring the rest of the country up to Java's level, because income here is higher than the national average. And to do that, we have to increase connectivity between the islands. Let me give you an example: we built more than 20 airports last year; they are small airports, but we did so at half the previous cost. This reflects our commitment to good governance. We are also considering lowering corporate taxes in the eastern provinces, such as Papua, to encourage investment there in productive activities.

Tourism infrastructure in designated island development areas is also under your remit. What are your priorities for this key sector?

Most visitors to Indonesia stay in Bali and Java. There have been efforts in recent years to develop new areas, but these have not been sufficiently focused: each year we would spend money on up to 80 locations, meaning there was little or no impact. When I came into office I said we have to change the strategy. We will focus on ten new locations and we will build the infrastructure necessary for development. Once the basic infrastructure

is in place, such as roads, electricity, and water supplies, we will invited investors in, both foreign and domestic. Our goal is for tourism to generate US\$20 billion by 2020. Tourism is also the cheapest way to create jobs.

In the past, people were always interested in investing in Indonesia. However, the restrictions on ownership meant that foreigners would have to find local partners. But being able to have full control opens up more opportunities for foreign investors.

The trend has been to restrict investment. For the first time in ten years, we have a President saying the opposite: Indonesia is opening seven business areas related to the tourism industry, which is expected to have a huge economic multiplier, to direct foreign investment, and these include restaurants, bars, cafes, and sports-related facilities covering swimming, soccer, tennis courts and sports centres.

President Widodo is revising hundreds of regulations which have been pinpointed by the chief economics minister as major barriers to economic activity.

Until now, because policymaking processes were fragmented across many ministries and government agencies, there was no formal, independent evaluation process to assess regulations from an economy-wide perspective, or to ensure public consultation involving a broad base of stakeholders takes place. The creation of ministries like mine is removing these barriers.

The international investment community still has many concerns about governance in Indonesia. What is being done to improve transparency?

Despite negative perceptions, we are making progress in tackling corruption. First of all, the Indonesian people

are determined to eradicate graft, and the free media and social networks provide ample room to deliver their voices on a national scale. This means that being actively anti-corruption is an important vote-winner for aspiring politicians, and being involved or mentioned in a graft case can seriously damage a career. A negative side effect (for the country's economy) of this public scrutiny is that government officials are currently being very prudent and hesitant to disburse their government budget allocation, being afraid to become the victim of a graft scandal. This has slowed down government spending and means that up to 30 per cent of the budget goes unallocated. We want to be as open and transparent as possible with tendering, but we also need to speed things up. It currently takes up to half a year for tendering to be completed. The idea is to get the budget approved by November, and by the first week of January we can start signing contracts. This means we can use the budget to improve infrastructure, while avoiding graft and misuse of public money.

Can you explain how asset revaluation of state-owned firms will help boost tax revenue?

Several state-owned companies are planning to hold asset revaluations this year. With the tax rate set at 4 to 6 per cent, there will be an additional Rp 8.4 trillion to Rp 10.61 trillion (US\$60m to US\$75m) in tax revenue. The government has offered tax incentives for asset revaluation. Through the fifth economic policy package, a company that files for an asset revaluation in the first half of 2016 will be subject to 4 per cent income tax and 6 per cent in the second half. Prior to the release of the policy package, the normal tax income rate for asset revaluation was 10 per cent.

The government is reversing six decades of Java-centric development policy in favour of a more holistic approach



President Jokowi's government is supporting major Maritime infrastructure development comprising a back-bone of sea toll routes throughout the Indonesian archipelago which will form part of the modern Silk Road the for 21st century.