New incentives to investment

INTERVIEW WITH SALEH HUSIN

MINISTER OF INDUSTRY, REPUBLIC OF INDONESIA

SALEH HUSIN was appointed Minister of Industry by President Joko Widodo in 2014. He graduated in Economics in 1996 and received a Master's degree in Public Administration from Krisnadwipayana University (UNKRIS), Jakarta, in 2007. He has held a number of senior management positions in the private sector and has been a director of PT Varia Prima Bina Jasa and President Director of PT Sapta Kencana Buana since 1998. From 2009–14 he was a Member of Indonesia's House of Representatives for the HANURA Party, and was Chairman of the Party from 2012 to 2015.

Your ministry expects the non-oil sector to grow by 8.4 per cent to 2019, while the sector's contribution towards Indonesia's GDP is expected to reach 19.4 per cent by then. Where do you see this growth coming from?

Indonesia will continue to focus on developing its downstream industry to process raw materials and export finished goods with added value, in order to catch up with other Asian countries, such as Japan. To achieve this goal, the government plans to develop the country's industrial sector in the short, medium and long term in such a way that it becomes a roadmap for the next 100 years. Included in this national industrial policy is the development of the upstream oil industry, along with the mid- and downstream industries. We will also focus on adding value in agriculture and the mineral-based industries, while at the same time strengthening our industrial capacity.

At the same time, our goal is to ensure the sustainability of our natural resources by encouraging investment in added value. The government facilitates the provision of raw materials to industry by restricting their unprocessed export, particularly in the mineral and agricultural sectors, while at the same time providing infrastructure and energy, along with fiscal incentives such as tax holidays, for the metals, agricultural and coal-based upstream industrial sectors. The incentives we are provide for these sectors apply to both foreign and domestic investors, who are treated evenly.

We expect to see a series of multiplier effects from this policy of industrial downstreaming. These include an increase in foreign and domestic investment in natural resource-based industries; a decrease of exports in low value-added sectors, particularly mineral ore and coal, as well as in agricultural commodities such as cocoa beans, rattan and rubber. Finally, our policies will lead to increased exports of high added-value industrial products, as the result of integration of the upstream industry with the mid- and downstream industries.

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. How do you assess the current climate for investing in Indonesia's manufacturing sector and how is the government addressing these to improve the investment opportunites?

Among the most challenging aspects of doing business in Indonesia are the problems caused by the number of permits required to set up any business activity. To tackle this long-standing problem, the government has launched deregulation, de-bureaucratisation and law enforcement measures. We have recently modified some 89 regulations in order to improve ease of doing business, and we will carry out further reforms to remove any other obstacles in this regard, through better coordination between government ministries and agencies and the regional governments.

Capital appreciation: Jakarta is one of the world's great megalopolises

The next challenge investors face is the high cost of energy, particularly electricity, followed by raw material costs, wages, and, in the case of local investors, higher interest rates compared to many of our regional competitors.

In response, the government is providing a range of incentives to help investors that include tax breaks and lower import and customs duties.

In addition, the government has also lifted sales tax for the transport industry, notably shipyards, trains, airplanes and spare parts. The creation of KEK special economic zones also offers manufacturers tax breaks, as well as lower manpower costs and cheaper land.

Indonesia's government is revising its negative investment list to boost investment. Please outline the specific sectors for both trade and investment between the UK and Indonesia.

In total, 35 industrial sectors have been removed from the negative investment list (DNI). This policy is aimed at boosting investment, both domestic and foreign, while providing protection to small and medium enterprises, and means that 100 per cent foreign ownership is allowed in the 35 sectors that have fully opened up to Foreign Direct Investment.

The 35 sectors include cold storage, sports centres, film processing labs, the crumb rubber industry, warehousing, tourism, e-commerce, toll road operators, telecom device certification, non-hazardous waste management and raw medicine materials. Plantation firms with more than 25 hectares of land integrated with a processing plant will also be allowed foreign ownership of up to 95 per cent. Seven types of businesses, including leasing companies, will be allowed 85 per cent ownership.

Businesses that are allowed up to 67 per cent ownership include job training, travel agencies, golf course developers, flight logistics supporting businesses, health care, private museums, catering, convention and exhibition centres, consulting and large construction companies, as well as telecoms network providers with integrated telecom services.

The seven sectors allowed 51 per cent foreign ownership include natural tourism management. This policy is not about liberalisation but an effort to modernise our economy by encouraging SMEs and national companies to improve creativity, innovation and technology.

The most popular UK products to be imported by Indonesia are industrial machinery industry and spare parts, followed by chemicals and pharmaceuticals, computers, electronic and optical goods, base metals, electrical equipment, as well as paper and paper goods.

The UK sector with the biggest potential to invest in Indonesia is pharmaceuticals. But we are confident that UK industries will find many opportunities in the new DNI.

Several leading British companies, including GSK, British American Tobacco, Unilever and Wedgwood have manufacturing operations in Indonesia. What are the key opportunities for British manufacturing investment, particularly involving the high technology sectors at which Britain excels?

We are looking to develop several priority industrial sectors that are particularly attractive to British companies. These include food processing, pharmaceuticals, cosmetics and health products, textiles, leather, and footwear, as well as transport, information and computer technology, power plants, and capital goods.

Some critics say that protectionist measures have damaged Indonesia's reputation as one of the world's most attractive emerging markets. Would you agree that the country is entering a transitional phase, with the government pushing to implement new regulations after a decade of rapid, less controlled growth?

Foreign direct investment in Indonesia picked up last quarter, which shows that the reforms of the last 18 months are already starting to attract interest. Investment from overseas rose to US$7.9 billion in three months through December, up 7 per cent from the previous quarter, according to the Investment Coordinating Board. It rose 3 per cent in 2015 to US$29.3 billion, after stagnating in 2014. We are confident that the economy will register 5.3 per cent growth this year.

Looking to the future, we will direct Indonesia toward the goal of becoming a progressive industrial country, like Japan, South Korea or Taiwan. It is now time to boost economic growth. During the current government's tenure, industry must grow at a higher level, and to do this Indonesia cannot remain merely a supplier of raw materials but should become an exporter of finished goods. Falling oil prices have added momentum to Indonesia's move to carry out its industrialisation programme, and we must use this, along with the fall in the value of the rupiah, to our benefit. At the same time, Indonesia will continue to diversify its economy from the heavy reliance on commodities that has characterised previous policies, toward developing our manufacturing, agriculture, and services sectors, while also looking at new ways to generate new sources of economic growth. This will require better infrastructure and structural reforms to improve competitiveness and investement productivity, and will be key to attracting investors into important areas such as tourism, which has huge potential. The reforms are aimed at strengthening the business climate and addressing the burden of multiple layers of regulations. In the meantime, we will push on with further reforms, particularly on trade liberalisation. F

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