A green light for investment

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In February, Indonesia's President Joko Widodo, popularly known as Jokowi, addressed US business leaders attending an ASEAN trade conference in San Francisco. He told his audience he was still not satisfied with the pace of economic reform in his country and was saying "Hasta la vista, baby!" to long-standing constraints that have limited foreign investment in Southeast Asia's largest economy.

In the days that followed, the Indonesian government announced a series of measures aimed at further opening up sectors of the economy previously taboo to foreign investment in what President Widodo has called a "big bang" liberalisation of investment rules.

In fact, February's is just the tenth, albeit the most sweeping, of a raft of reform packages that the president has ordered since a major cabinet reshuffle that brought in new, liberal faces in August 2015.

For example, the appointment of Tom Lembong as Trade Minister has been seen as one of the most dramatic moves in the reshuffle. An investment banker by career, Mr Lembong has been described an "apostle" of liberalisation, and is committed to opening up the Indonesian economy, ratcheting up growth and taking a whole new approach to government.

"The next big wave is deregulation. A lot of our infrastructure is owned by state enterprises – airports, telephone companies, electricity companies," said Mr Lembong in February.

Big changes to negative investment list

In what has been described as the country's biggest opening up in a decade, the Indonesian government has made major revisions to its controversial Negative Investment List of business sectors that are closed to foreign investors. It removed 35 main sectors from the list, allowing for companies in these sectors to be fully owned by foreign investors.

"There are 49 sub-sectors affected, so in my opinion, this is a big bang," President Widodo said in February, adding that he is confident the move will help Indonesia attain GDP growth rates of 5.3 per cent this year, after that figure fell to 4.8 per cent last year.

Among the industries now fully open to foreign capital are the communication and information, health, manufacturing, and general works sectors. In the communication and information sector, that means internet cafes and telecommunication devices test labs.

The health sector, meanwhile, will see industries relating to raw material for pharmaceuticals, hospital business consultancies, health laboratory clinics and medical check-up clinics taken off the negative investment list.

In the manufacturing sector, the only industry opened up for full foreign ownership will be the crumb rubber industry, which previously only allowed 49 per cent of its shares to be owned by foreign entities.

The general works sector, meanwhile, will allow full foreign investment in toll roads and waste management companies. But the biggest changes will be seen in the tourism and creative economy industries, where up to 15 areas are now opened up fully to foreign investors.

Taking stock of these new fields now open to foreign investors in Indonesia, it is the logistics and healthcare-related industries that arguably stand out as the most significant opportunities. Indonesia's logistics sector remains one of the most challenging elements of doing business in the country, an issue that has been brought more sharply into focus by the coming into force of the ASEAN Economic Community. The opening up of cold storage services and warehousing was a strategic move by the Jokowi government to support its efforts in stimulating the country's fisheries and aquaculture sectors within the Masterplan for Acceleration and Expansion of Indonesia's Economic Development (MP3EI), which aims for a more equitable distribution of the fruits of economic growth.

The introduction of BPJS, the universal healthcare and insurance system, while welcome, has also highlighted shortcomings in terms of healthcare facilities, as well as the comparatively high price of drugs due to the reliance on imported materials. The sharp drop in the value of the rupiah over the course of 2014-15 has made Indonesia's dependence on imports of raw pharmaceutical materials untenable. Almost all raw materials for pharmaceutical products are imported from markets such as China and the United States, which in turn makes Indonesian generic and ethical medicines up to a third more expensive than the global average. There will be significant opportunities to serve smaller players in Indonesia's highly fragmented pharmaceutical sector as they seek to compete on price, especially as BPJS' role and weight in the market expands.

"A forecast GDP growth of above 5 per cent per year and the rising middle class will inevitably drive the demand for affordable health care," said Health

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Minister Nila Moeloek in February.

Meanwhile, in a further effort to boost growth, the nation's central bank, Bank Indonesia, also announced in February that it was cutting its benchmark interest rates, as well as in the amount of reserves banks have to hold, in the hope that the move will stimulate bank lending to businesses. Bambang Brodjonegoro, the Finance Minister, described the new measures as an "appetiser" for more extensive fiscal stimuli.

Reforms reflect push to catch up with neighbours

Chief Economic Minister Darmin Nasution says that the sweeping measures had to be taken to boost investment in Indonesia at a time of declining global trade that has weakened investor interest in Indonesia.

Mr Nasution says he is also concerned about how Indonesia is faring with regard to attracting investment compared to its neighbours. "We do not want to drift along in the slow current. Especially with our investment ranking in ASEAN, which is below Malaysia and Thailand," he told local media in February.

Buffeted by international trade headwinds and a domestic spending pause, Indonesia, in 2015, experienced its slowest growth since 2009. Indonesia has been hit by the current slump in the prices of raw materials, particularly due to the sharp decline in world prices for thermal coal and LNG, both of which are key Indonesian exports. Commodities have been a significant contributor to the nation's economy and budget, accounting for around 62 per cent of Indonesia's exports in 2014.

Those problems had been compounded by deterioration in the foreign investment climate due to, for instance, increasingly stringent local content requirements for multinational companies.

Moreover, businesses still face considerable regulatory barriers in Indonesia, which ranks 109 out of 189 countries in the World Bank Ease of Doing Business Index for 2016.

Although there are positive signs of change, with Indonesia having improved its position in the World Bank ranking by 11 places (compared to its ranking in 2015), more regulatory reforms are needed to make the Indonesian business environment more attractive for new investment, say experts, pointing out that President Widodo won office partly on a pledge to revive Indonesia's slowing economy by cutting red tape and slashing fuel subsidies, promising to divert money toward boosting the economy.

In terms of who could profit most from Indonesia's liberalisation, experts say it is companies that are able to participate in improving and building the country's infrastructure – such as roads, seaports, airports and medical facilities – that will benefit most.

Two of the key sectors that have been liberalised – healthcare and transport services – offer considerable opportunities to countries such as the United Kingdom, which boast advanced private sector services firms.

In the area of transport and logistics, the liberalisation of warehouse distribution and cold storage, as well as port management services and cargo handling, offer significant opportunities to advanced logistics management companies from the United Kingdom, as well as other EU countries with leading international logistics providers.

Meanwhile, Indonesia's finance ministry announced last year that it will give tax holidays of up to 20 years to foreign investors in six specified sectors. To be eligible, companies must invest a minimum of US$71 million, in return for which they could receive a tax break ranging between 10 and 100 per cent. The move hopes to attract investment into pivotal industries, including machinery, chemicals, maritime transport, as well as upstream oil and gas enterprises. The initial period for the tax holiday will be between five to 15 years, with a possible extension of a further five years. The initiative will enable companies to earn twice the revenue that previous regulations permitted, says the government.

The tax breaks were part of the sixth economic reform package, which also included tax breaks to encourage businesses to set up in less saturated provinces and thereby promote widespread growth across the archipelago in eight special economic zones dedicated to tourism and MICE, the palm oil sector, manufacturing, logistics and metal processing, fisheries, rubber, and petrochemicals.

The idea is to create clusters of specialised areas of business that can benefit from the ready availability of resources. Businesses involved in industries not identified as the special economic zone's specialised area of focus can apply for a less advantageous but nonetheless still substantial 30 per cent net-income tax reduction for a six-year period. Moreover, the sixth economic policy package removes VAT on imported raw materials needed by companies in special economic zones.

It is also possible that Indonesia will also open the door for foreign investors to manage the special economic zones as a means of drawing more manufacturers to these areas.

The bold policy moves since August of 2015, show a clear commitment by the Indonesian government to improve the country's economy. Restrictive regulations have been a major obstacle, as is lack of infrastructure, and now various much-needed projects will get the go ahead under the new coordinating ministers. Observers at home and abroad have broadly welcomed the moves in dealing with the issues slowing down growth. It is fine for European investors, and particularly those from the United Kingdom, to make the msot of 'Indonesia's moment'. F

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