

The Emerald of the Equator

By **SUMIT DUTTA**

COUNTRY MANAGER AND CHIEF EXECUTIVE, HSBC INDONESIA



SUMIT DUTTA joined HSBC in 1994 and has over 20 years' experience in a number of key roles in the Group's operations worldwide. He worked for the bank in Hong Kong from 2000-05 and New York from 2005-09, before being appointed CEO of HSBC Bank in Vietnam. He held this position until he assumed his current role as Country Manager and Chief Executive of HSBC Indonesia, in August 2014.

When viewed from space, the lush, beautiful, green archipelagic Indonesia resembles emeralds. Hence, Indonesia is often referred to as the “*Zamrud Khatulistiwa*”, the Emerald of the Equator. Today, the term *Zamrud Khatulistiwa* can equally represent the glittering economic potential of Indonesia.

Located in the world's volcanic Ring of Fire, the *Zamrud Khatulistiwa* has long been blessed with fertile land and abundant natural resources. Indonesia is one of the world's major suppliers of agricultural products such as coconut oil (rank #1), palm oil (#1), rubber (#2); and rice (#3). It is a key source country for a number of natural resources: tin (#2); nickel (#3); and cement (#5). The largest gold and copper mines in the world are in Indonesia.

Today, apart from its natural resources, demographic and other factors are helping to ensure that Indonesia continues to shine more brightly than ever.

Firstly, demographics. With a population of over 250 million, Indonesia is the world's fourth most populous country. The latest population census showed that 55 per cent of its population is under 30 years old, and only 11 per cent over 55. This vibrancy is also reflected in the digital world. Indonesia has almost 90 million active internet users and almost 50 per cent of them

are between 18-25 years old. It has the fourth largest number of Facebook users, and Jakarta, the capital city, is the most active Twitter city in the world.

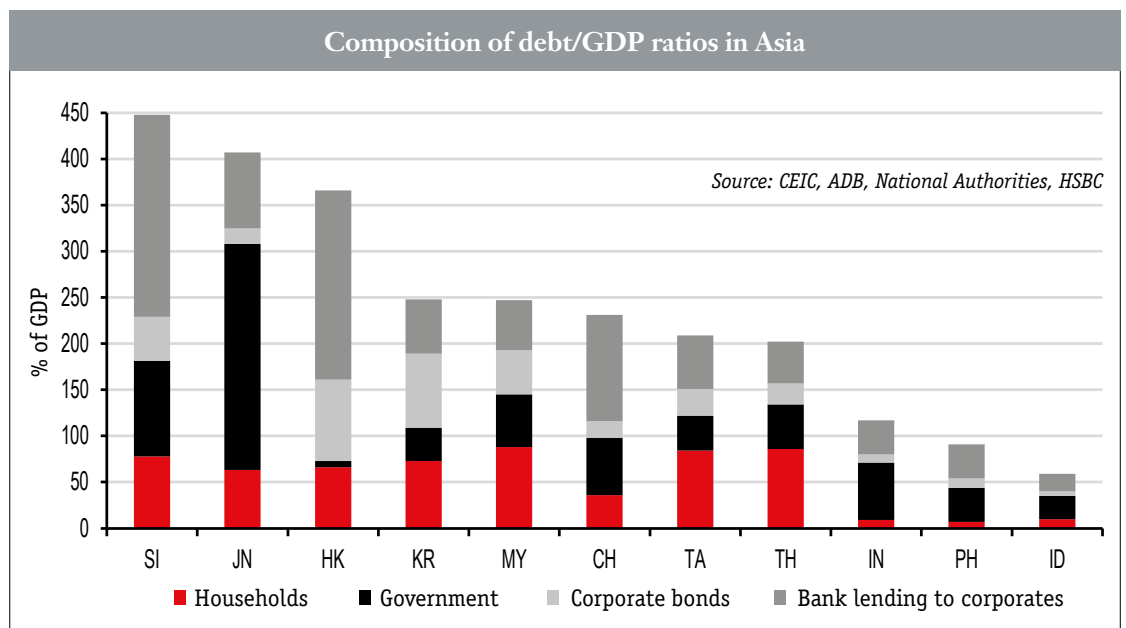
Indonesia's population is ethnically and linguistically diverse, with around 300 distinct native ethnic groups, and over 700 different languages and dialects. This diversity extends to religion as well – while the majority of its population are Muslim, the country is secular with religions like Hinduism, Christianity and others being practiced. The Vatican itself has praised Indonesia for being a good example of a country with religious harmony.

Politically speaking, Indonesia is a country with a maturing democracy and an increasingly influential and active social voice. Since 1999, Indonesia has held four free and fair elections. Political, social and economic powers are now widely shared. Reforms continue to be undertaken, with many technocrats appointed to key ministerial roles in the current cabinet. Steps to eradicate corruption have been bold and are a work in progress.

When compared with BRICS and OECD countries, Indonesia delivered an impressive performance over the last decade:

- GDP grew by 5.8 per cent per annum – outpaced only by China and India.
- Strong fiscal discipline resulting in a low (26 per cent) public debt to GDP ratio – vs 42 per cent a decade ago.

Indonesia's debt/GDP ratio is amongst the lowest compared to its Asian peers



- GDP per capita of US\$3,416 grew by 9.3 per cent per annum.
- A G20 member with the #16 largest economy – compared to #22 a decade ago.

Indonesia is one of the ‘founding fathers’ of Association of Southeast Asian Nations (ASEAN). It is a dominant force in ASEAN, contributing 35 per cent of total ASEAN GDP and over 40 per cent of ASEAN’s population. With the establishment of the ASEAN Economic Community (AEC) on 31 December 2015, Indonesia continues to play a significant role in the liberalisation of the flow of goods, services, capital and, ultimately, skilled labour within the region in a bid to raise its competitiveness and facilitate investment into infrastructure.

The sheer size and scale of Indonesia is staggering. It extends over 5,000 kilometres (over 3,000 miles) from east to west and over 1,750 kilometres (over 1,000 miles) from north to south across over 17,000 islands. (Just for perspective, the distance between the eastern and western tips of Indonesia is almost the same as the distance between London, England and New York City).

Logistics costs involved in transporting goods across these islands can be high. In some cases, transporting goods from China to Indonesia is cheaper than moving goods from one part of Indonesia to another. This is one of the reasons why the new administration, led by President Joko Widodo, has put a renewed emphasis on the development of infrastructure in Indonesia.

To demonstrate such emphasis, the President himself frequently visits infrastructure projects to inspect their progress, and he expects his cabinet ministers to do the same. Also, regulations passed in late 2015 allow projects for the next budget year to be pre-funded and pre-bid for. This has helped to avoid the problems with the disbursement of funds experienced in the first half of last year.

The government is also trying to improve Indonesia’s competitiveness by simplifying processes and shortening turnaround time for investment approvals. The Indonesian Investment Coordinating Board (Badan Koordinasi Penanaman Modal – BKPM) has been driving the investment approval transformation. Since September 2015, 11 stimulus packages have been announced, each containing several reform measures – many already implemented – to boost the investment and business environment for both local and foreign players. In particular, the 10th package contained a review of the Negative Investment List, giving foreigners access to sectors such as maritime and logistics that are strategic to the administration’s long-term economic goals.

International banks like HSBC can play a major role to support the Indonesian government in driving investment into the country. Using its large global network, HSBC can promote Indonesian infrastructure projects to its

customers across the globe, particularly corporates which have capabilities in planning and executing these types of projects. International banks can also offer financial solutions and access to global capital markets to Indonesian corporates to improve the commercial viability of the projects. Furthermore, they can share their experiences with similar projects in other emerging markets with the government and other stakeholders, enabling these projects to be structured more efficiently.

HSBC commenced its operations in Indonesia in 1884 and has been present in this country for over 130 years. Indonesia is one of its key strategic markets and one in which HSBC intends to grow and invest in. HSBC was rated the “Best Foreign Bank in Indonesia” in 2015 by *Finance Asia*, and last year became the first foreign bank to receive approval from its regulators to merge its branch operations with its local subsidiary Bank Ekonomi Raharja to become a larger, better capitalised and locally incorporated bank. This will enable HSBC to have a network of around 100 branches in over 25 cities and towns across Indonesia and to connect its customers to more opportunities, both within Indonesia as well as internationally.

The Emerald of the Equator, *Zamrud Khatulistiwa* is poised to shine ever more brightly and HSBC is proud to have the opportunity to contribute towards its growth. E

The sheer size and scale of Indonesia is staggering: the distance between the country’s eastern and western tips is almost the same as that between London and New York

Real GDP Growth 2005-2015(*)

| Rank | Country | Growth Rate |
|------|------------------|-------------|
| 1 | China | 9.5% |
| 2 | India | 7.5% |
| 3 | Indonesia | 5.8% |
| 4 | Poland | 3.9% |
| 5 | Chile | 3.8% |
| 6 | Israel | 3.8% |
| 7 | Turkey | 3.7% |
| 8 | Korea | 3.5% |
| 9 | Slovak Republic | 3.4% |
| 10 | Luxembourg | 2.9% |
| 11 | Brazil | 2.7% |
| 12 | Australia | 2.7% |
| 13 | South Africa | 2.6% |
| 14 | Mexico | 2.3% |
| 15 | Russia | 2.3% |
| 16 | Iceland | 2.0% |
| 17 | New Zealand | 2.0% |
| 18 | Switzerland | 1.9% |
| 19 | Czech Republic | 1.8% |
| 20 | Ireland | 1.8% |

(*) Constant price in national currency. 2015 estimate. BRICS is Brazil, Russia, India, China, and South Africa. OECD is Organisation for Economic Cooperation and Development. Source : IMF World Economic Outlook Database – October 2015

Real GDP Growth 2005-2015(*)