



**Asia-Pacific  
Economic Cooperation**

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**2009/SOM1/008anx4**  
Agenda Item: IV

## **Presentation by Economy Under Review - Indonesia**

Purpose: Consideration  
Submitted by: APEC Secretariat



**First Senior Officials' Meeting – Plenary  
Session  
Singapore  
16 February 2009**



Asia-Pacific  
Economic Cooperation

# Indonesia IAP Peer Review

Singapore, 13 February 2009



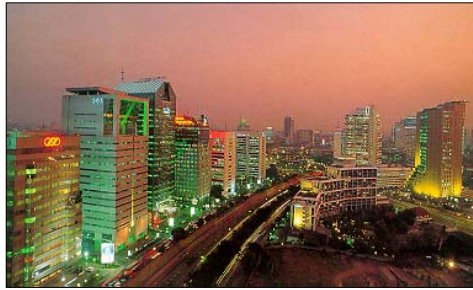
1

## Index

- 1. The Macroeconomy:**
  - ☐ Reform Agenda
  - ☐ Responding to Global Financial Crisis
- 2. Key Progress Toward Bogor Goals**

2

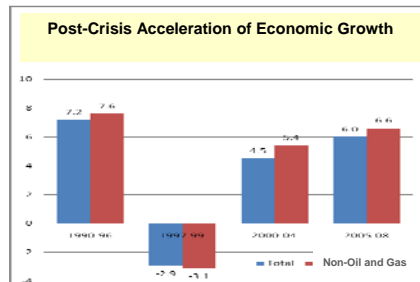
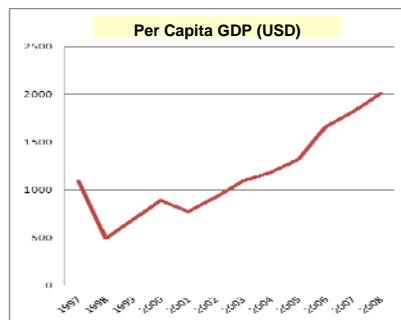
## Macroeconomy



3

## New Era of Growth

Continued efforts to reform the economy has allowed Indonesia to enjoy its most rapid growth since the Financial Crisis of 1997/98



Focus has been directed to investment, macroeconomic & financial policies, foreign trade, energy security, agriculture, fisheries, forestry, environment, micro & SMEs, infrastructure, labor

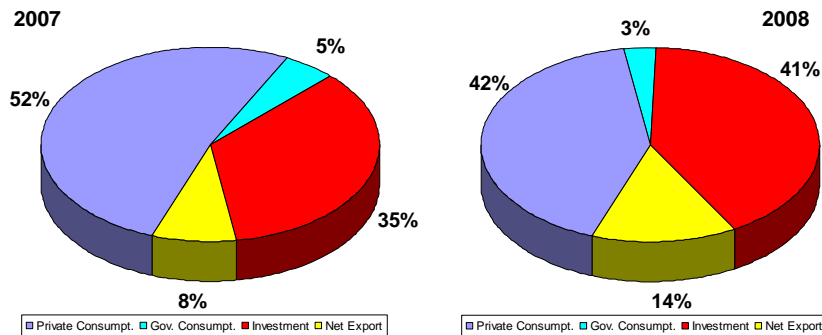


4

## Sources of Growth

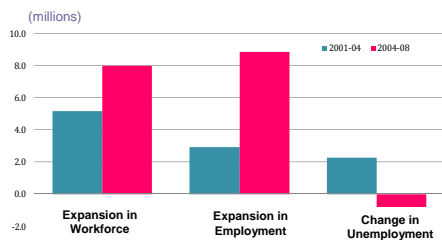
Accelerated growth has been supported by improved equilibrium in sources of growth where investment and export take on greater importance alongside continued high growth in private consumption

Contributions to GDP Growth



5

## Employment & Poverty

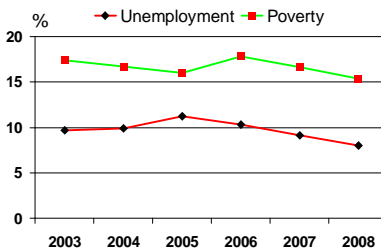


Unemployment in 1998-2005 was mounted both in total numbers and percentage of workforce

Beginning in 2006, accelerated economic growth has resulted in positive net employment, bringing down the unemployment in absolute term and percentage of workforce

Poverty has been reduced significantly alongside the reduction of unemployment amid a surge in poverty in 2005-2006

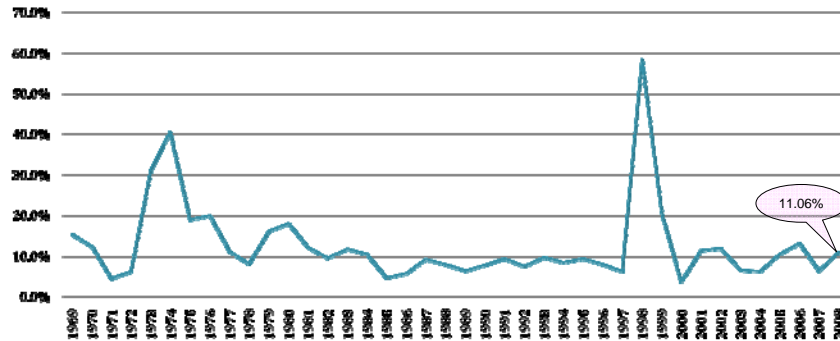
Poverty reduction takes place in both rural and urban areas



6

## Inflation, 1969-2008

Macroeconomic stability has been restored to the long-term level. 2008 inflation was **11.06%**, below the originally forecasted **12.9%** (June 2008 estimate). To better compete at global level, Indonesia needs to curb inflation to **3%-5%** per annum. Hence, structural rigidities must be eliminated



7

## Opening Business

Reform in many aspects of governance brings improvement in business climate. The Government put targets to shorten time for opening business, and significant progress has been noticed

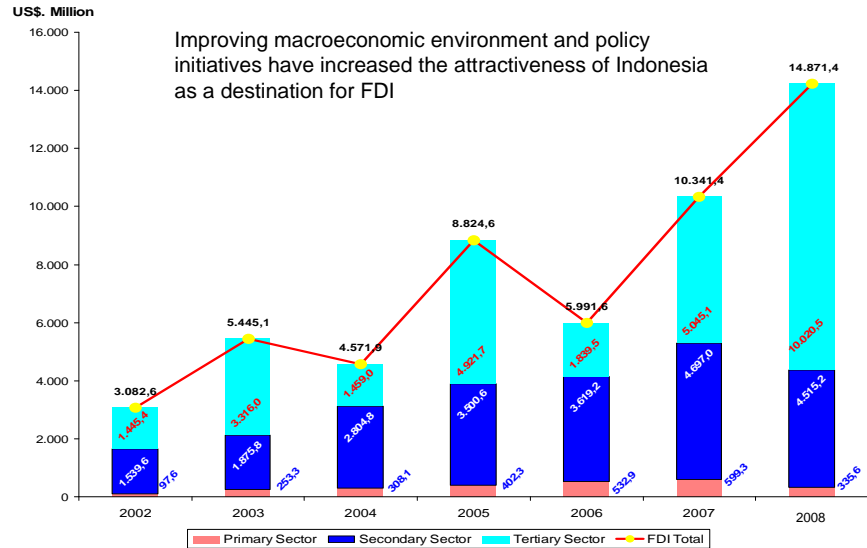
No	Process	Days Before	Days Targeted
1	Clearance of corporation name	7	1
2	Signing of act of deed	7	1
3	Domicile information	10	Omitted
4	Tax Identification Number	14	1
5	Opening account for paid-up capital	4	1
6	Payment of non-tax revenue	1	1
7	Validation of act of deed	30	7
8	Company registration	15	3
9	Stated in the State Gazette	2	2
10	Trade license	14	3
11	Registration of workers	14*	1*
12	Workers insurance	7*	1*
Days Total to Open Business		104	20



\*Can be processed in parallel with # 10

8

## Realization of FDI



9

## Outlook for 2009

Growth projections do not differ widely, reflecting confidence in the economy and in measures taken by the Government in response to the global financial crisis

It is expected growth will return to 5.5-6.0% range in 2010

Growth by Demand (%/annum)	2001-04	2005-08	2008	2009
Domestic Demand	5.1	5.7	7.7	5.7
Priv. Consumption	4.2	4.5	5.4	4.8
Gov. Consumption	8.9	8.0	10.7	10.4
Investment	6.5	8.0	12.6	6.5
Export	5.9	10.4	13.7	5.9
Import	7.2	10.5	13.6	6.1
GDP	4.8	6.0	6.2	4.7-5.0

Source: Ministry of Finance

Institutions	2009 (%)
World Bank	4.4
IMF	3.5
JP Morgan	4.2
HSBC	3.8
Nomura	3.6
Credit Suisse	4.0
Danareksa	4.8
Citi Group	4.8
Standard Chartered	4.5
Government	4.7

Private consumption and Government expenditure are expected to be the major driving forces in 2009

10

## Responding to the Crisis

Responses have been designed not only to address the short-term impacts of global financial crisis, but also to lay down more robust foundations and strengthen the underpinnings of the economy

Government's responses to the crisis are four-folds:

- **Bolstering financial sector resilience** aimed at safeguarding financial stability while moving forward with financial sector reforms
- **Fiscal consolidation** which lies in improved structure of state revenues, greater effectiveness of government expenditures, and reduced fiscal risks particularly with regard to budget deficit financing
- **Providing stimulus for growth in real sector** which includes tax cuts and VAT exemption
- **Fostering infrastructure development** through accelerated (a) tendering process, (b) disbursement of budgets, and (c) implementation of projects funded by external debt



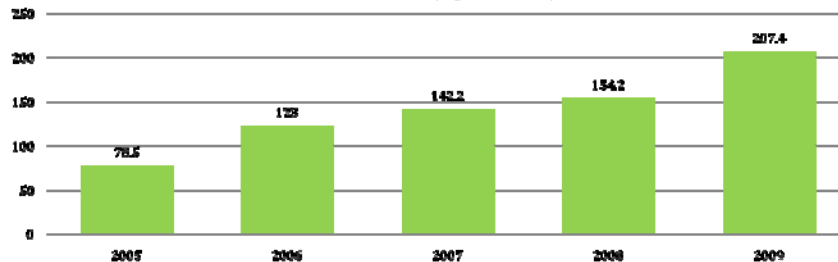
In 2009 budget, Government allocates some \$ 6.3 billion, or 1.4% of Indonesia's GDP, to stimulate the real sector

11

## Medium-Term Economic Challenges

### Challenge 1: Raising the quality of human resources

**Educational Expenditures  
excluding Training for Civil Servant  
2005-2009 (Rp trillions)**



- MDGs: Goals for the education sector are reached or on track.
- Challenge: how to make use of budget increases to strengthen the quality of human resources.

12

## Challenge 2: Closing gaps in infrastructure

Infrastructure Indicators, 2005

	Indonesia	SE Asia	OECD
<b>Water and Sanitation</b>			
- Improved Sanitation Facilities (% of pop with access)	55.0	50.6	100.0
- improved water source (% pop with access)	77.0	78.5	99.5
<b>Energy and Transport</b>			
- Electric Power Consumption (kwh per capita)	478.2	1343.5	9693.5
- Electric Distribution and Losses (% of output)	13.4	7.0	6.2
- Road. paved (% of total roads)	57.1	na	100.0
<b>Information and Communication Technologies</b>			
- Fixed and Mobil phone subscribers (per 1000 people)	270.6	496.5	1324.5
- international internet bandwidth (bits per person)	6.9	97.1	4731.5
- Internet users (per 1000 people)	72.5	88.7	525.4
- personal computers (per 1000 people)	13.9	38.2	585.2

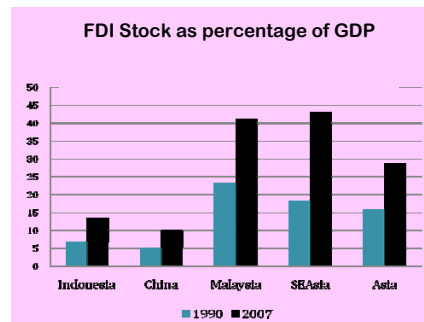
Source: World Development Indicators

Gaps will be closed through a three-fold, parallel approach: (1) allowing the private sector to fill gaps (including amendment to laws); (2) increasing central and regional infrastructure budgets; (3) Public and Private Partnership (PPP)

13

## Challenge 3: Integrating into Global Economy

Indonesia's export ratio is low ....So is FDI

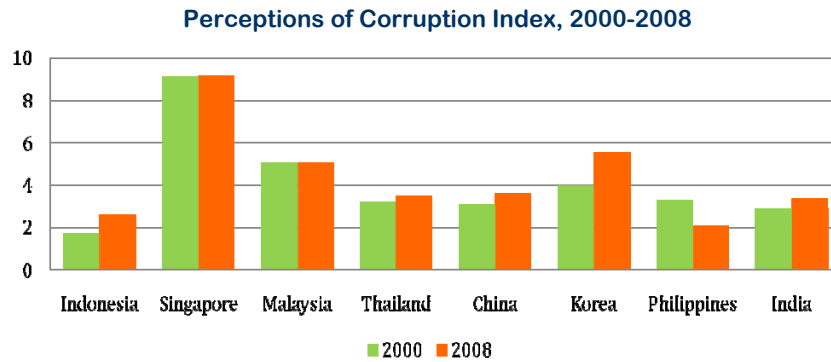


Measures to boost Indonesia's global market competitiveness include institutional reforms in Presidential Instruction No. 5/2008 to be pursued alongside other programmes, such as increased education expenditures

14



## Challenge 4: Improving the quality of bureaucracy

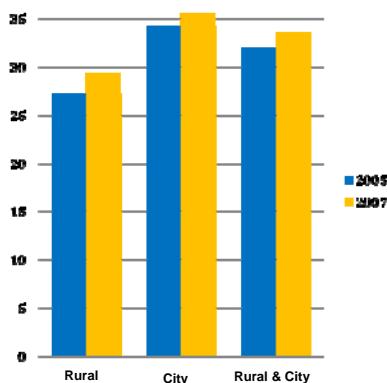


Gradual implementation of reforms - island by island approach. Some actions have produced results, e.g. tax and customs administration reforms that have bolstered state revenues and enhanced service quality.

15

## Challenge 5: Improving income distribution

Gini Index (%), 2005-2007



### Income Distribution Improvement Programme

#### ■ Taxation Reform

- Focus: expansion of the tax base. Present structure still unevenly based.

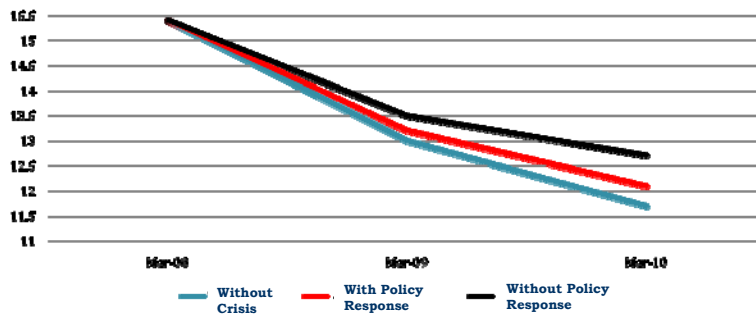
#### ■ Government expenditures

- Energy subsidies (fuel) reallocated to social expenditures
- Expansion of community block grant system (PNPM)
- Improved mechanism for fund transfers to regions (General and Special Allocation Funds) → reduce interregional disparities
- Focused improvements in subsidies: near-poor families, farming subsidies

16

## Impact on Poverty

Impact of 2008/2009 crisis on poverty predicted less severe than that of 1998 crisis

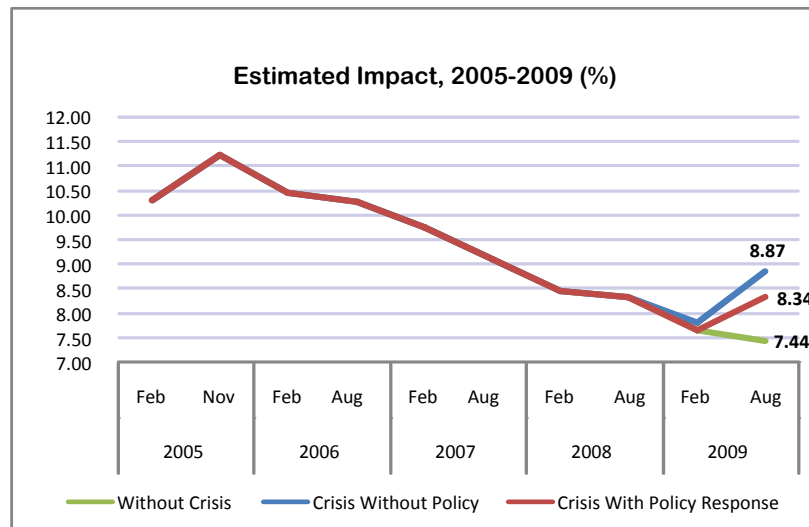


The 1998 crisis resulted more from El-Nino and hyperinflation; the 2009 crisis will not significantly influence agriculture sector. The 1999-2005 phenomenon to repeat itself - *less job growth with poverty reduction*

17

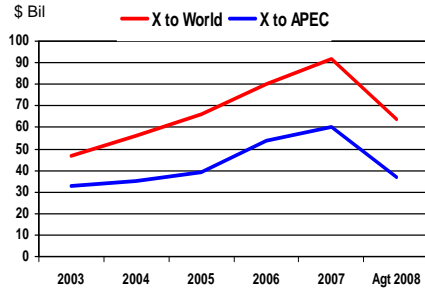
## Impact on Unemployment

Estimated Impact, 2005-2009 (%)



18

## Importance of APEC: Trade

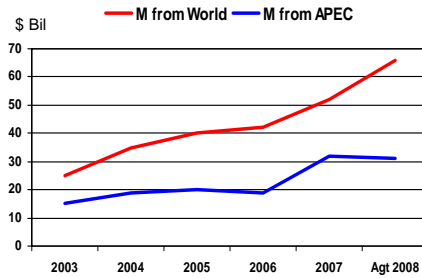


APEC has been the most important export market for years, representing more than 65% of Indonesia's total export in 2007

Export to APEC includes agriculture, fishery, mining, and manufacturing products

APEC has also been a major source of import where more than 60% of Indonesia's import in 2007 was originating

Two major groups of import from APEC are capital and consumer goods



19

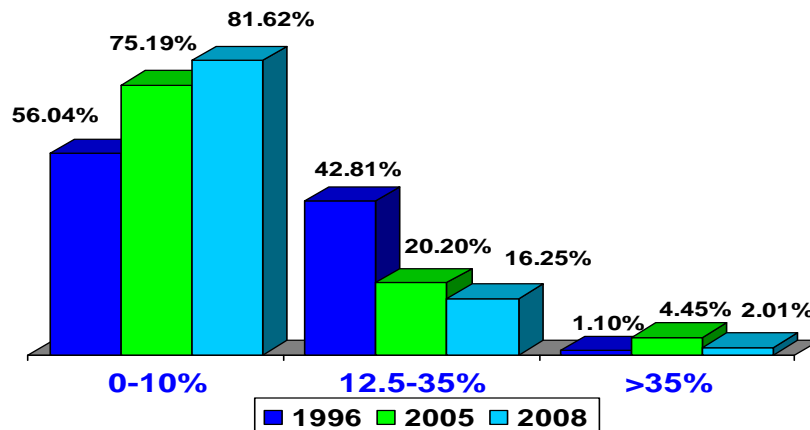
## Key Progress Toward the Bogor Goals



20

## Tariff

- ☑ No Tariff Quotas
- ☑ Total number of tariff lines adjusted from 11,163 in 2005 to 8,749 in 2008
- ☑ Simple average tariff rate decreases over time, from 13.01% in 1996, to 9.87% in 2005, and 7.64% in 2008
- ☑ Progress in term of tariff structure:



21

## Non-Tariff Measures

- Some products have been unilaterally freed from non-tariff measures, including on exports of timber, crude palm oil and leather, and on imports of fishing vessels, wheat, wheat flour, soybean, garlic, and a range of auto products
- Role of "Bulog," a state trading company, in handling trade in strategic products has been reduced substantially and procurement is subject to open bidding process
- Measures applied to a limited products are based on health, safety, moral or environmental reasons, or put in place to address smuggling
- Applies no export subsidies, nor minimum import price arrangements

22

## Services

### Telecom

- No exclusivity for local, long-distance, and international call services
- Foreign investment permitted through share ownership, joint operation scheme, or contract management and procurement
- 11 fixed/mobile phone services providers operating in Indonesia

### Construction

- Opened to foreign participation through a joint venture or Limited Liability Company with foreign ownership of up to 55%

### Distribution

- Wholesale is open to foreign investment except for pharmaceutical products
- Supermarket (>1,200m<sup>2</sup>) and department store (>2,000m<sup>2</sup>) are open to foreign investment
- Direct selling is opened to foreign investment with maximum FEP up to 60%
- Issuance of licenses (trade, direct selling, etc) within 5 working days (terms & conditions applied)



23

## Services

### Financial (Banking Sub-Sector)

- Foreign bank allowed to open a branch office or establish a new commercial bank in cooperation with INA's national or legal entity
- Foreign ownership up to 99% of paid-up capital
- 100% foreign participation in banks through stock market



### Financial (Non-Banking Sub-Sector)

- Foreign insurance/reinsurance company can operate in form of Limited Liability Company or a joint venture with initial FDI up to 80%

### Tourism & travel-related

- Under GATS, some sub-sectors are 100% open for foreign participation in eastern part of Indonesia, Kalimantan, Bengkulu, Jambi, Sulawesi, and East Nusa Tenggara



### Maritime

- Foreign shipping company can form a joint venture company
- Foreign investor can form a joint venture company to participate in extension of port capacity with FEP of up to 49%

24

## Investment

- Improving investment climates by enacting a new investment law based on the principles of:
  - Legal certainty, transparency, accountability, equal treatment without discriminating the country of origin, sustainability, environment-friendly
- Improving investment facilities
- Signed Investment Guarantee Agreements with 63 countries by 2007, 12 of which are APEC Economies
- Investment facilitation been improved significantly with a view to shorten administrative procedures of starting a new business from 104 days to a target of 20 days



25

## Standards & Conformance

- Ⓢ Developed by 2007 a total of 6,746 National Standards of Indonesia (SNI), 30% had been aligned with int'l standards
- Ⓢ Formed the Indonesian Standardization Society (MASTAN)
- Ⓢ MOUs with:
  - Philippines, Turkey, Jordan, Egypt, Iran, Germany, Saudi Arabia, American Society for Testing and Materials, National Fire Protection Association, International Association of Plumbing and Mechanical Officials
- Ⓢ Member of ISO/IEC (and more than 280 ISO technical committees and working groups), ITU, CAC, OIML and others, including regional: APLAC, PAC, PASC, APMP, APLMF
- Ⓢ Develop technical infrastructure and establish recognition of conformity assessment procedures
- Ⓢ Promote transparency on standards & conformance



26

## Customs Procedures



- Improvement commenced in 2002 and 2006 on management, operations & staffing of Customs agency
- Academia and international consulting firm assisted
- **Focus 1:** recruitment, training, exposure and empowerment of personnel. Integrity Pact introduced
- **Focus 2:** streamlining of procedures based on risk management principles. "Client Service Charter" developed to inform procedures, service standards, time and payment required, channels for info and feedbacks
- **Focus 3:** creating Internal Affairs Unit; Clients' Compliance Advisor and Information Service Units; "one-stop-service" capabilities; defining performance indicators
- **Focus 4:** opening Prime Service Offices in 2007 onward
- "National Single Window" (NSW) is the centerpiece of reform, designed to speed up export and import, lower costs, and improve validity and accuracy of customs transactions

27

## IPR

Major achievements include:

- ✿ Conformity with TRIPS Agreement
- ✿ Implementation of GI (Geographical Indication) Registration System in 2008
- ✿ Establishment of National Task Force in 2006 to better deal with the IPR infringements
- ✿ Intensified measures by enforcement agencies on site to curb IPR infringements resulting in confiscation of more than 7 million pirated CDs, DVDs, VCDs, and software across the country
- ✿ Launching of Intellectual Property Digital Library (IPDL) for public uses
- ✿ Capacity building program and IP campaigns by various institutions aimed at raising public awareness and enhancing capacity of stakeholders



28

## Competition Policy

- Develop a healthy and fair business climate and equal business opportunities for efficient functioning of economy and realization of public welfare
- Introduce, promote and implement law and regulations to ensure transparency, accountability and due process of law
- Between June 2000 and March 2008, 70 decisions were made relating mostly to collusive tenders and exclusive agreements, and 50 policy recommendations were submitted to government
- In the process of developing close cooperation with related enforcement agencies and reviewing the existing law and regulations for enhanced effectiveness
- Build cooperation in ASEAN (ASEAN Expert Group on Competition) and participate in activities of OECD, WTO, ICN and UNCTAD



29

## Government Procurement

- GP system has been developed based on the principles of value for money, open and effective competition, transparent, non-discrimination, and accountable
- The 2003 Presidential Regulation has been amended several times in an effort to meet the said principles and to better respond to national and regional dynamism (local elections, disaster recovery, etc)
- Personnel have to be certified before performing as procurement officials
- National Public Procurement Agency established in 2008 to better manage and develop the GP system
- Introduction of e-Procurement System in some ministries and local governments while drafting a public procurement law
- Indonesia's GP system is modeled after procurement methods practiced in many countries, giving special consideration to Indonesia's settings



30



## Dispute Mediation

- Legal basis: 1999 Law on Arbitration and Alternative Dispute Resolution
- System carried out by Indonesian National Board of Arbitration (BANI)
- BANI has cooperation with similar institutions in Japan, Netherlands, Korea, Australia, Philippines, Hong Kong, Singapore, and with SICA-FICA
- Other mediation institutions: National Board of "Syariah" Arbitration; Board of Stock Market Arbitration of Indonesia; National Mediation Center



31

## Business Mobility



- Visa waiver granted to nationals from 12 countries for a max 30-day stay
- Duration for Visa on Arrival extended in 2005, from 3 days to 7 days
- Countries enjoying Visa on Arrival facility been increased, from 21 countries in 2004 to 63 countries in 2007, supported by including more international airports and seaports to apply at
- Border facilitation improved in 2008 by allowing ABTC holders with no pre-clearance to enter through ABTC lanes



32

## RTAs/FTAs

- ASEAN Economic Community 2015 (2010 for 11 Priority Integration Sectors and 2013 for 1 Priority Integration Sector)
- ASEAN+1: China (goods: signed in 2003/2004; investment\*); Korea (2006); Japan (goods, 2008); Australia-New Zealand (comprehensive\*); India (goods\*)
- On-going ASEAN negotiations with EU (comprehensive-launched in 2007); China (services), India (investment & services); Korea (investment)
- Indonesia-Japan Economic Partnership Agreement (2007)
- △ Being proposed or under joint study:
  - ✦ Bilaterals with Australia, India, Pakistan, EFTA, Chile, Turkey, Tunisia
  - ✦ ASEAN+1 with GCC, Pakistan, MERCOSUR
  - ✦ ASEAN+3 towards East Asia FTA

\*Expected to be signed in 2009

33

## Capacity Building

Indonesia is an economy of +220 million people, +17,000 islands, and +350 ethnic groups

With a continued democratizing process, coupled with constant changes of economic and social settings, Indonesia is a real moving picture—not a snapshot

A major challenge is building the capacity of its people to better be connected to the region and the world beyond

APEC could play a key role to assist through enhanced and expanded capacity building programs targeted especially to young entrepreneurs and SMEs, which in turn will help addressing the issues of poverty and social welfare



Other key areas for APEC cooperation are those of immediate benefits such as customs, investment promotion, standards, IPR, e-Commerce

34

*Thank You*



*Mount Rinjani, West Nusa Tenggara*