

Keynote Address
by
H.E. Dr. Susilo Bambang Yudhoyono
President
Republic of Indonesia
At the Indonesia Global Investment Forum
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Mr. President,

Distinguished Speakers and Participants,

Friends of Indonesia,

My Friends,

I am delighted to be here with leaders of business and industry, a group that has been especially friendly to Indonesia over the years.

Even at the very beginning, when we in Indonesia were still fighting a revolutionary war for independence, American business people and business people of various countries supported our struggle.

You helped nurture the Indonesian economy to unprecedented heights of vigour in the 1970s and the 1980s. When the going got rough during the Asian financial crisis, you stood by us and later helped make our recovery possible.

When tragedy in the form earthquake and tsunami struck in our province of Aceh, you promptly and generously gave humanitarian assistance. For that we are grateful.

Now I hope that you will join us as we seek the high path to growth.

I do wish we were meeting in better times. We cannot, however, wish away the visitations of tragedy—in Aceh and in the deep American south—and the realities of a global recession. We cannot close our eyes to the skyward rise of oil prices and to the march of the expensive dollar.

But it's still nice to be among friends—especially friends who will roll up their sleeves and ask: "What needs to be done?" And they will do it. In a word, friends who are also partners.

My friends, I came here to tell you what needs to be done in Indonesia, what we Indonesians are doing about it, and what you can do in tandem with us that will be good for everybody.

We have gone a long way since the Asian financial crisis of 1998. In the midst of that crisis, we launched an era of reform and democratization that we have sustained until today. Reform and democratization brought about several years of recovery, consolidation and stability. During my tenure, we hope to launch an era of sustainable growth.

Our economy attained a healthy growth of 5.1 percent last year. We expect our economic growth to rise to 5.5 percent this year and to an average of 6.6 percent in the next five years.

We also intend to reduce the unemployment rate from 9.5 percent to 5.1 percent and cut the poverty rate in half to 8.1 percent by 2009—a Millennium Development Goal to which we are firmly committed.

To achieve this goal, we have adopted an economic strategy that is “pro-growth,” “pro-job creation” and “pro-poor.” A strategy based on human development.

This means giving the highest importance to education. Our largest budgetary allocation, some Rp 31.5 trillion goes to this sector.

This also means investment in the health of our people, for which we have allocated Rp11.5 trillion in our budget.

Above all, this means social justice: our people must be given their basic entitlements, including opportunities for personal development and access to the benefits offered by a market economy.

It becomes the duty of government, therefore, to create jobs. We cannot, of course, legislate jobs into existence. But we can create policies that attract investments that create jobs. We are doing this with all the vigour and the creativity that are at our command.

We need a total of \$426 billion worth of investments to make possible an economic growth of 6.6 percent every year until 2009. We especially welcome investments in technology-intensive ventures that create added value on our export products.

Because of its impact on job-creation, we see private investment, especially foreign direct investment, as necessary for the conquest of poverty. It is a key factor to human development. Every job created by an investment lifts an individual from extreme poverty and redeems her dignity. That is why we are determined to make foreign direct investments the engine of our economic growth.

For the same reason, my Government takes a keen interest in the viability of every business and industry in Indonesia. I regard every entrepreneur as a partner in the lofty business of creating jobs. In all my foreign trips, I make it a point to address business forums. In personal consultations, I seek the views of business leaders and ask about their concerns.

That is how I got to know what business people want, what you fear and what you hate. I have a good grip on what issues you are concerned with. And I can understand if these concerns make you hesitate.

I assure you, however, that you need not hesitate.

I have heard many complaints about the hassle from so many layers of bureaucratic requirements, the rivers of red tape that you must wade through, the innumerable signatures that you must obtain and the eternity of waiting that you must endure before you can even start a business in Indonesia.

I am aware of your confusion at what appear to be conflicting regulations.

I realize that there are taxation issues that you want to be resolved.

I can feel your burden when the business environment in which you operate turns out to be high-cost.

I share your hatred for corruption.

And I know that you regard these as precious: legal certainty and transparency in the actions of government, the sanctity of contracts and the protection of intellectual property rights.

You want to see labour laws and regulations that strike a happy balance between the welfare of workers and the viability of the enterprise.

You want to see globally competitive national infrastructure.

You want efficiency, fairness and honesty in customs administration and port services.

And in general you want government to be responsive to your operational requirements and to provide an environment conducive to your company's growth and profitability.

These are valid concerns and legitimate wants. My Government owes it to you to address them promptly and effectively. I am here to assure you that we are taking concrete policy measures to address them.

Our anti-corruption drive has teeth and bites deeply. There are no sacred cows. Scores of high-ranking officials, including governors, parliamentarians, regents and mayors are being investigated. All of them will have their day in court.

I am proud to tell you that a recent joint study by the World Bank and the University of Indonesia showed that corruption per total production declined from 10 percent to six percent in Indonesia. This is the clearest sign that we are making headway in the battle against graft.

We are now putting the finishing touches to an investment legislation that will soon be submitted to Parliament. When passed, it will radically change the way business is done in Indonesia.

With this law you can be certain that foreign and local investors receive equal treatment. It assures freedom to repatriate profits and guarantees against nationalization. Designed to promote transparency and accountability, it has a clause on dispute settlement. It also provides various incentives to encourage partnerships between big business and small and medium enterprises.

The law will be complemented by four sets of regulations.

The first is a definitive list of sectors that are open and sectors that are open on certain conditions to private investors. That removes from government officials the discretion to decide if a sector is open or closed to investment. Under the law, a sector may be closed to private investment on the basis of national interest, including security, public health and environmental concerns.

The second is a clear incentives framework, which is related to the draft tax law. It will specify sectors eligible for tax incentives such as investment allowance, accelerated depreciation and carry-forward losses.

The third addresses complaints about overlapping regulations and procedures required by the central and regional governments. There will be no overlaps under the new amended decentralization law. We are also preparing regulations that will clarify the division of responsibilities between central and regional governments on investment policy and its implementation.

The fourth is probably the most important to you: it will radically simplify the procedures and bring down the cost of setting up business in Indonesia. No longer will you need 150 days to start a business. We will reduce this to no more than 30 days by simply changing the present approval procedure to a quick registration procedure.

At the same time, we will make the Board of Investment the principal promoter and facilitator of investment. As such it will provide efficient and integrated services for investors. The Board will make available to investors information on investment opportunities, facilitate licensing and other administrative procedures at the central government level. Through its regional branches, it will provide exactly the same services at the regional government level.

I will reactivate and personally lead the National Team for the Development of Exports. Its members, who will be reporting to me regularly, will be the ministers relevant to investment. The Team will help resolve strategic issues faced by the business community.

I know how investors, both local and foreign, are often distressed at not knowing where to go when they need help from the government. They are shuttled from one office to another without getting results. We cannot allow this to happen any more. If the problem is real and legitimate, a solution must be promptly offered.

I therefore intend, through the mechanism of this Team, to hold an “Informal President’s Investors Forum” every four months. This will be in the format of a round table discussion with business leaders so that I can listen to the business sector’s urgent concerns and respond to them.

Through this same Forum, I will regularly check on the progress of actions taken to address these concerns.

In our economic strategy, the capital market has an important role as an alternative source of financing for the real sector. We are committed to the protection of investors in our capital market regardless of their nationalities. Hence, we are developing more reliable investment facilities that involve less risk without diminishing the prospects for profits.

We are instituting reforms in taxation and customs. The corporate tax will be reduced from the present 30 percent to 27 percent in 2007, and keep on reducing it to 25 percent in 2010. Income tax will be reduced from today’s 35 percent to 30 percent by 2010. We will continue to expand the tax base and simplify tax and customs procedures, including those for restitution purposes. We will provide special tax incentives for small enterprises. We will reduce non-tariff barriers to trade.

We are modernizing our labour regulations to bring about a more fruitful partnership between management and labour.

We are enhancing coordination between the central and regional governments. By amending the law on regional taxation, we will put a clear limit to taxes and fees imposed by regional governments. We are streamlining regulations issued by both central government and regional governments to prevent overlap and contradiction. We have already cancelled 400 such regulations. More will follow.

I am not saying that all our problems will be solved tomorrow and then everything will be bright for Indonesia. There is the reality of skyrocketing oil prices, the momentary weakening of the Rupiah and the rigours that these economic debacles are wreaking on the vulnerable segments of our society.

What I can tell you is that we have taken strong measures to specifically address the current oil crunch and other distortions of the economy.

First, we are definitely going to take the pressure off the national budget by reducing subsidies for domestic fuel prices. This will be complemented by fiscal measures to discipline the national budget. We will continue to reduce the deficit.

Our drive to speed up and increase the volume of investment as well as to promote exports should help bolster our economy against financial adversities. And, of course, we will continue stimulating the real sector to create more job opportunities.

We are removing state monopoly on the downstream part of the oil and gas sector. We are liberalizing this sector to attract new investments and to increase production.

To shore up the Rupiah, we will judiciously raise interest rates, as needed.

We will continue to foster development in the countryside and in the agricultural sector to alleviate poverty. At the same time, we are putting in place a social safety net to ensure that the poor are not crushed by any further destitution. Within weeks that social safety net will be in operation.

At bottom, our economic strategy has not changed. It remains “pro-growth,” “pro-job creation” and “pro-poor.” With this strategy, I am absolutely confident that Indonesia today is not in any danger of a repeat of the crisis of 1997-1998.

Today we do not have a large volume of dollar debts as we did at the time of the crisis. We have considerable foreign exchange reserves in dollars. And our banking and financial sector has undergone extensive reform.

In 1998, the lifting of subsidies led to riots. Indonesia was then in the grip of authoritarian rule. A social safety net was put together only after the damage was done.

Today, before we remove the subsidies, we will see to it that social safety nets are in place so that society will not suffer any turbulence as a result of this resort to strong medicine.

The main difference is that today we have a working democracy—in which the people’s right to protection from economic storms is well recognized and respected. Ensuring the social protection of the most vulnerable segments of society, we also ensure that there are no social upheavals as we take the blows of any economic crisis.

That is the beauty of democracy.

A democracy also provides all the political incentives for a government to become an institutional partner of the market. That is why in Indonesia today we have a government that listens to the market, responds to the market and works with the market.

And, of course, we still have our fundamental assets: abundant natural resources, a huge market that has the enthusiasm to exercise its considerable purchasing power, a labour force that has considerable skills and a hunger for more skills, and a basic infrastructure that is the legacy of decades of phenomenal growth.

Above all, we have a vision to share with friends and partners like you—of an Indonesia where human development has triumphed as a result of inflows of venture capital.

An Indonesia where big, medium and small businesses work and prosper together.

An Indonesia that has defeated poverty as a basic problem of the human condition.

You have the capital and the entrepreneurial spirit. We have the potential and the vision, the policies and the political will.

Put these together and the ultimate result can only be a tremendous harvest of profits for you and benefits for our people.

Thank you.