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Indonesia's New Administration: Infrastructure and Manufacturing Opportunities

A new era began with the inauguration of Indonesia's 7th president, Joko Widodo. "Jokowi" as he is commonly known as to the public, has pledged to revive the country's economy and aims to achieve GDP growth of 7% by 2018. Central to his plan is the improvement and development of infrastructure in the sectors of maritime, utilities and manufacturing. In this issue of IE Insights, we identify business opportunities in key infrastructure sectors arising from the vision of President Jokowi and his new administration; and share insights on how you can tap these growing opportunities in Indonesia.

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Summary

// 2014 saw Indonesia holding its presidential elections with former Jakarta governor Joko "Jokowi" Widodo inaugurated as the 7th president of the Republic of Indonesia on 20 October 2014. President Jokowi and his new administration has set a target which sees Indonesia enjoying a GDP growth rate of 7% by 2018. The improvement and development of infrastructure will be instrumental in achieving this target.

// The demand for infrastructure creates opportunities for Singapore companies in the maritime, utilities, manufacturing and industrial park development sectors. We recommend the following approaches to tap these opportunities:

- **Maritime**

With 17,000 islands, Indonesia is an archipelago nation and President Jokowi envisions it to be a "Global Maritime Axis". Sea port infrastructure is hence crucial to reduce the high logistics costs Indonesia currently faces.

Singapore companies should consider investing in key nodal ports and its supporting infrastructure, through partnerships with state-owned enterprise, Pelindo I-IV or other established Indonesian companies.

- **Utilities**

The new administration is committed to improve on the provision of utilities for the country. They target to increase the country's electricity capacity by 35,000 megawatts and provide the entire population with access to clean water by 2019.

For the power sector, Singapore companies can become Independent Power Producers can look beyond Java for additional opportunities. For large water projects, Singapore companies should cultivate relationships with the respective government stakeholders as areas of jurisdictions differ for each project.

Besides government or government related projects, Singapore companies should also consider infrastructure projects in the private space, for example, dedicated power plants or industrial water treatment plants servicing industrial parks.

- **Manufacturing and Industrial Parks**

Indonesia's new administration has emphasised the need to revitalise its manufacturing sector by developing integrated industrial estates. Indonesia aims to revive its status as a globally renowned cost-competitive manufacturing hub.

Other than competitive production costs, Singapore manufacturers will have access to the country's population of 250 million when they set up production facilities in Indonesia. Singapore manufacturers that set up factories in industrial parks also enjoy common facilities such as utilities and security.

Industrial park developers should explore opportunities out of West Java due to its competitive costs.

// One should be conscious that the new administration currently holds the minority in parliament. Time and government coordination are required before the reforms can be implemented. However, the new administration has openly expressed their commitment to the economic development of the nation and welcomes foreign investments to the country, giving a sense of optimism to investors.

Indonesia's New Administration

In 2014, former Jakarta Governor Joko Widodo, better known as "Jokowi", was elected as the 7th President of the Republic of Indonesia. He and his running mate, business magnate Jusuf Kalla, were inaugurated as President and Vice President respectively on 20 October 2014.

President Joko "Jokowi" Widodo – "Man-of-the-People"

President Jokowi's political career began as an elected mayor of Surakarta in 2005. Widely known as a humble, incorrupt individual possessing an interactive relationship with the populace, President Jokowi has won both local and international supporters. This positive image also helped him win the post of Governor of Jakarta in 2012. In his brief stint as the Governor of the capital, he implemented changes in many important areas such as healthcare, education and public transportation.

His down-to-earth personality, along with his willingness to be transparent and effect change in a challenging environment has endeared the masses as well as the international community to him.

Vice President Jusuf Kalla – Experienced Business Magnate and Politician

Vice President Jusuf Kalla is an experienced politician, having been Indonesia's Minister of Industry and Trade and Coordinating Minister of People's Welfare. As Mr Susilo Bambang Yudhoyono's (SBY) running mate in the 2004 elections, he was also Indonesia's first directly elected Vice President.

He owns Makassar-based conglomerate, Kalla Group, and is one of Indonesia's most prominent businessmen. The Kalla Group is estimated to be worth over US\$675 million and ranks 62nd in Globe Asia's 2014 edition of "Top 100 Groups in Indonesia". It has business units in finance, construction, transportation, energy and the automotive industry.

Jusuf Kalla's political experience and mastery of the business world, coupled with President Jokowi's "man-of-the-people" personality, forms a balanced partnership for the Republic of Indonesia.

“Kabinet Kerja” – The Working Cabinet

The cabinet was announced on 26 October 2014 after assurance from the Corruption Eradication Commission (KPK) that cabinet members have not conducted activities that would be flagged for corruption.

The 34-member “Kabinet Kerja” (The Working Cabinet) is young and made up of various technocrats who had held positions in the civil service, universities, stated-owned enterprises or the private sector. Ministers in the economic team include:

// **Mr Sofyan Djalil – Co-ordinating Minister of the Economy**

An experienced Minister, who served as State-Owned Enterprise Minister and Information and Communications Minister under SBY's first term of presidency.

// **Mr Rachmat Gobel – Trade**

From the private sector, he is the Commissioner (Chairman) and founder of the Gobel Group of companies. Gobel Group is in the manufacturing business and is a partner to the Matsushita/Panasonic Group in Indonesia.

// **Mr Bambang Brodjonegoro – Finance**

Former Deputy Minister and a long-serving civil servant in the Finance Ministry. His appointment was widely expected and touted by observers as a choice to bring continuity to the Finance Ministry.

// **Ms Rini Soemarmo – State-Owned Enterprises**

Former President-Director of Astra, one of Indonesia's largest diversified conglomerates, whose main business interests lie in the automotive sector. She was also the head of the President's transition team.

// **Mr Saleh Husin – Industry**

Former Commissioner of drinking water company, PT Ades Alfindo Putra Seti, he entered politics with the National Mandate Party PAN in 2001, before joining Hanura; he was a member of parliament from 2009 to 2014.

Economic Priorities of Indonesia's New Administration

President Jokowi identified several economic priorities which he will pursue. He envisions Indonesia to regain its economic growth prospects and targets for the country to enjoy a GDP growth of 7% by 2018. To achieve these targets, he and his administration laid down the following plans for Indonesia:

1. Transforming Indonesia into a Maritime axis:

Develop the maritime capability of Indonesia with President Jokowi's "sea toll road" vision, which aims to greatly reduce the logistics costs in the country.

2. A focus on Infrastructure, including Power and Water:

Address the deteriorating state of Indonesia's basic infrastructure. A plan to improve infrastructure across the country, including power and water was outlined.

3. Emphasis on Industrial Parks and manufacturing:

Ensure that Indonesia remains globally competitive in the areas of import substitution and labour intensive manufacturing by developing industrial parks and promoting the country as a manufacturing destination. This will lead to self-sufficiency and aid job creation that will eventually grow the economy.

Categories of Government Projects

The Indonesian government via the National Development Planning Agency (BAPPENAS) has organised government projects into five categories as shown in Figure 1 below.

For each category of projects, the respective roles of the government and private sectors, and the source of financing are determined. Private sector can participate in projects classified in categories 2, 3 and 4. However, under Category 5, collaborating with the state-owned companies (SOEs) in projects assigned to them should also not be ruled out.

Figure 1: Categories of government projects

| | Project Feasibility | Financing Scheme | |
|----------------------|--|--|---|
| Regular* | 1 Economically feasible but financially not feasible | Government Government | National Budget (APBN) |
| | *Are preferred for eastern Indonesia, rural area and border area | | |
| Creative Financing** | 2 Economically feasible but financially not feasible | Private Government | Hybrid Financing |
| | 3 Economically feasible but financially marginally feasible | Private Government Private | PPP with Government Support (VGF) or other Creative Financing such as PFI, PBAS, Infrastructure Bank, Land Bank, etc) |
| | 4 Economically and financially feasible | Private Private | Regular PPP |
| | 5 Economically feasible but financially not feasible | State-Owned Enterprise State-Owned Enterprise | State-Owned Enterprise Assignment |
| | **Are preferred for western Indonesia and urban area | | |

Infrastructure spending:
 Operation and Maintenance
 Construction

Source: Indonesia Development Planning Agency (BAPPENAS), 2015

Government projects that seek private sector participation will be presented in the Private Partnership (PPP) Book (2015 edition). The PPP book will offer more than 40 projects, totalling US\$52 billion¹ and include infrastructure projects in the maritime and utilities space.

Projects classified under the Public-Private Partnership (PPP) route are typically awarded through a tender process.

¹ "Indonesia to offer PPP Projects worth \$52b", The Jakarta Globe, November 2014

Sector Overview:

Ports - Indonesia as a “Global Maritime Axis”

President Jokowi has emphasised his commitment to accelerate sea port development in Indonesia, the world’s largest archipelago nation. His vision of turning the country into a global maritime axis² was a mainstay in his campaign, and will be fulfilled via his envisioned “sea toll road”.

Connectivity: The “sea toll road”

The “sea toll road” project will see the revitalisation of existing ports and the development of new deep sea ports. The project will drive the end goal of reducing the archipelago’s logistics costs, which currently takes up 24% of GDP³. This “sea toll road” will see international freight ships calling at the 5 gateway ports of Belawan in North Sumatra, Tanjung Priok in Jakarta, Tanjung Perak in East Java, the Port of Makassar in South Sulawesi and Sorong in West Papua, before being re-distributed to other parts of Indonesia.

24 ports⁴ have been identified for development to expedite the transformation of the country into a maritime axis. Please refer to Figure 2 for the locations of the 24 ports.

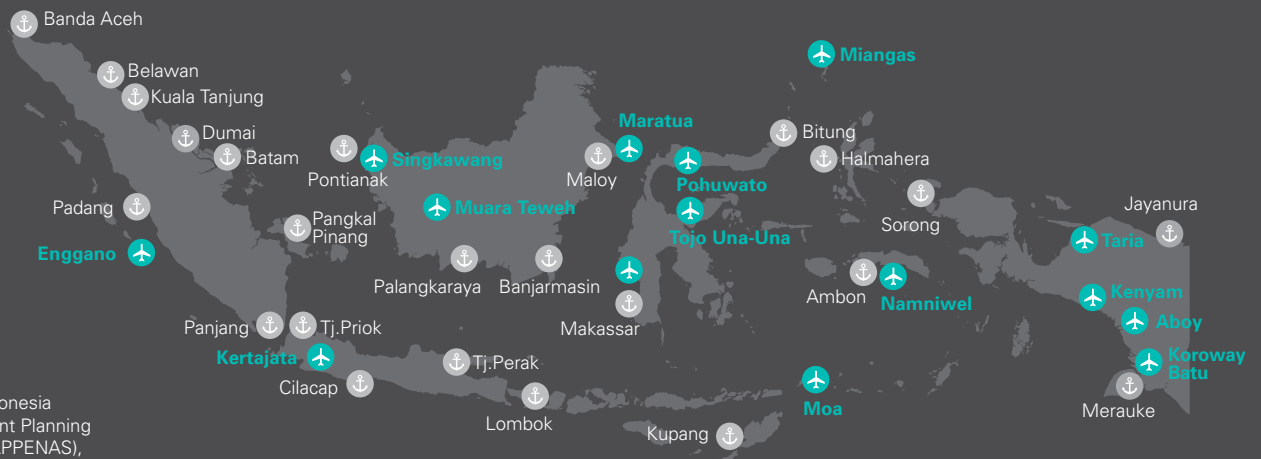
2 “Jokowi Touts Maritime Axis in Inauguration Address”, The Jakarta Globe, October 2014

3 “High logistics costs still harming RI competitiveness” The Jakarta Post, March 2014

4 Indonesia Development Planning Agency (BAPPENAS), 2015

Sector Overview:
Ports - Indonesia
as a "Global
Maritime Axis"

Figure 2: Locations of 24 seaports and 15 airports slated for development



Source: Indonesia
Development Planning
Agency (BAPPENAS),
2015

US\$6 billion⁵ has been set aside by the Indonesian Administration to develop the ports. However, it was also identified that foreign investment is required to complement the government's efforts. This presents opportunities for investors across the entire sea port value chain, from master-planning to construction to operations and maintenance (O&M).

⁵ "Indonesian President sets maritime ambition with \$6 billion port plans", Bloomberg, November 2014

Recommended Approaches:

// Target key port projects and supporting infrastructure

The ports of Belawan, Tanjung Priok, Tanjung Perak, the Port of Makassar, and Sorong are key nodes in President Jokowi's "sea toll road" project. As major distribution nodes to the rest of the country, these ports, along with the other identified ports are due for development or upgrading. Other than engaging in the operations and maintenance (O&M) of these ports, Singapore companies can also partake in their development in areas like master planning and construction.

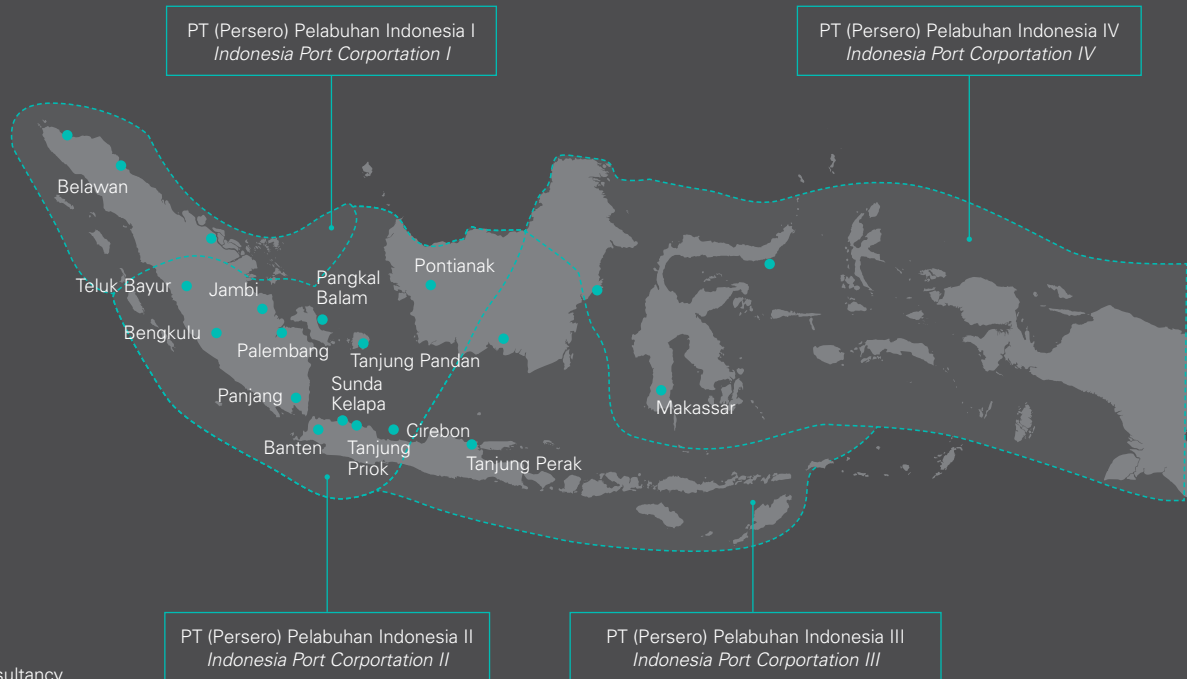
Besides participating directly in these projects, Singapore companies should consider opportunities such as container depots or logistics hubs complementing these ports, so as to capture the maximum potential of the maritime vision

// Form partnerships with Pelindo I-IV or other Indonesian companies

Port development is a sector listed in Indonesia's Negative Investment List. Foreign investment in the operations of container, bulk or multipurpose ports is hence limited to a maximum of a 49% stake⁶.

The four state-owned port companies, PT Pelabuhan Indonesia (Pelindo) I-IV, currently operate the public ports in their designated geographical regions as depicted in Figure 3.

Figure 3: Current Pelindo I-IV geographical coverage



Source:
Dewry Consultancy

⁶ Indonesia's Negative Investment List, Presidential Regulation of the Republic of Indonesia Number 39 of 2014

Pelindo I-IV have the local expertise and track record in operating public ports in Indonesia. Although it is not necessary to work with Pelindo I-IV to bid for projects, they could be strong consortium partners to bid for projects.

Other possible partners include Indonesian conglomerates with the financial might, power and ambition to invest in sea ports. Although some of these conglomerates might not have the necessary expertise in the sector, they have the knowledge of operating in the region or are engaged in complementary businesses.

// **Other private port projects**

Besides government projects, Singapore companies across the sea port value chain should also look at opportunities in privately owned ports with licences to serve specific areas like industrial parks and logistics parks. Although these ports are smaller in capacity when compared to the gateway ports of the country, the guaranteed base-loads coming from the supporting industrial zones for these ports may prove to be attractive investments. Therefore, Singapore companies could benefit from engaging Indonesian developers of industrial zones for partnership opportunities.

Sector Overview:

Utilities - Plugging the Gaps in Power and Water

The development of the utilities sector is yet another major area for the new administration. Indonesia has long faced the challenge of providing a stable supply of electricity and access to water, with the demand for both set to rise. To meet this demand, targets were set to provide electricity and water access to all Indonesian households by 2019. Currently, only 69% and 81% of households in Indonesia have access to water and electricity⁷ respectively.

Power

Indonesia consumed 189 terawatt hours (TWh) of electricity in 2013. This figure is expected to grow at a CAGR of 8.4% from 2013 to 2022. To meet the country's growing demand for electricity, President Jokowi has ordered the development of power plants, with a total capacity of 35,000 megawatts (MW)⁸ over the next 5 years.

Perusahaan Listrik Negara (PLN) is the state-owned enterprise overseeing power generation and distribution in the country. It generates approximately 75% of the power in the country and operates Indonesia's distribution network. Out of the planned 35,000MW, PLN will undertake and finance as much as 10,000MW⁹. The remainder will be generated by Independent Power Producers (IPP), who will execute a Power Purchase Agreement (PPA) with PLN. The PPAs will allow IPPs to sell power to PLN, who will then distribute it to the grid.

PLN estimates that this project will cost US\$1.5 million per MW, and the total project cost of US\$52.5 billion will be split between PLN and the IPPs.

7 Indonesia Development Planning Agency (BAPPENAS), 2015

8 "PLN to spend \$22.5 billion on power plants", The Jakarta Post, November 2014

9 "PLN signs \$950m hedging agreement amid volatility in rupiah", The Jakarta Globe, April 2015

Recommended Approaches:

// **Becoming an Independent Power Producer (IPP)**

Up to 25,000MW of the planned 35,000MW of power is expected to be generated by IPPs, presenting opportunities for investors, especially in steam-fuelled (Pembangkit Listrik Tenaga Uap - PLTU) and hydro (Pembangkit Listrik Tenaga Air - PLTA) power plants. These are the two main models of power plants identified by the government.

IPP appointments for power plants are done via a competitive tender, held by PLN's IPP Procurement Division. A direct award is possible under specific conditions including mine-mouth power plants, renewable energy and expansion plans for current plants. More information on the process can be found in the "IPP Booklet 2013" published by PLN.

Companies who are keen to invest as IPPs will need a local partner as foreign ownership of power plants is limited according to the Negative Investment List revised in 2014.

Figure 4: Foreign ownership limits with regards to power plants

| Power Plant Capacity | Maximum Foreign Ownership limits |
|----------------------|----------------------------------|
| < 1 MW | Not allowed |
| < 10 MW | 49% |
| > 10 MW | 95% |

Source:
Indonesia's Negative
Investment List,
Presidential Regulation of
the Republic of Indonesia
Number 39 of 2014

// **High demand, low supply especially outside Java**

Singapore companies with interest in power plants should look for opportunities in provinces outside of Java as they are experiencing more severe electricity deficits. For example, the provinces of Lampung and North Sumatra on the island of Sumatra are facing electricity deficits of 300MW¹⁰ and 280MW¹¹ respectively.

Singapore companies dealing with decentralised power, especially in renewables such as mini-hydro, solar and biomass power generation capabilities, should look towards the outer islands such as Kalimantan, Sulawesi, Nusa Tenggara and the Maluku Islands. These areas typically lack critical mass or grid connectivity for a centralised power plant to enjoy economies of scale. Renewable energy will hence, be a more viable option in these areas.

Nevertheless, power opportunities in Java should not be neglected. To ensure sufficient electricity on the main economic island of Java, the government and PLN will increase the capacities of existing power plants and build new power plants. Mega projects such as the Jakarta's Mass Rapid Transit (MRT) will also increase the demand for electricity. As a result, Jakarta's government aims to increase its current electrical capacity of 6,500MW by almost 50% to 9,500MW by 2019¹². Much of Jakarta's electricity supply also come from power plants in other provinces across the island, signalling potential opportunities across Indonesia's main economic island.

// **Other private power projects**

Singapore companies specialising in small to mid-scale power plants can collaborate with companies such as industrial park developers or industries which require a reliable source of power. Investments in power plants that support operations of the industrial parks or dedicated power plants for businesses can be a viable alternative to IPPs selling power to PLN.

10 "Jokowi optimistic about tackling electricity deficit in Sumatra within 5 years", Jakarta Post, November 2014

11 "Sumatra on electricity crisis until March-end", Tempo.co, March 2014

12 "City to boost electricity capacity by 3,000 megawatts", The Jakarta Post, January 2015

Water

Indonesia's water supply, capacity and distribution network is inadequate to support its growing population and industrial needs. Only 69% of the population has access to clean drinking water¹³.

Municipal water supply is managed by state-owned water utility companies known as Perusahaan Daerah Air Minum (PDAMs). There are more than 300 PDAMs across Indonesia, with each city or regency typically having one or two PDAM units, depending on the size of the city. Municipal water projects, which are under the purview of the PDAMs, are key means to increase supply of clean water to Indonesian households. New municipal water plant projects will be announced in the PPP Book. There are also opportunities for Singapore companies to upgrade existing water plants.

Recommended Approaches:

// **Engage stakeholders from relevant levels of government**

Although the respective PDAM is the awarding party for the projects, **Singapore companies need to work with various levels of the government for the application of relevant licences or permits.** For example, to engage in a project where water has to be drawn from a river which crosses provincial boundaries, one will have to engage the central government and provincial government as both entities have the jurisdiction over the approvals needed for the water to be drawn. The engagement of the city governments are also crucial as they will be required to assist with land acquisition.

// **Local partnerships encouraged**

Although 100% foreign ownership is permitted for investments in the water sector, we encourage collaboration with a local partner. Partners can range from existing water companies in the market to complementary project partners such as distributors (for technology companies), constructors or operators. Singapore companies should note that partners could be territorially limited. An exclusive pan-Indonesian partnership is not always possible or recommended.

// **Other private water projects**

Other than municipal water projects, **Singapore companies can also target industrial water supply projects in Indonesia** via engineering, procurement and construction (EPC) or Build-Operate-Transfer (BOT) models. **Singapore companies should approach owners of industrial facilities to fully understand the available opportunities.**

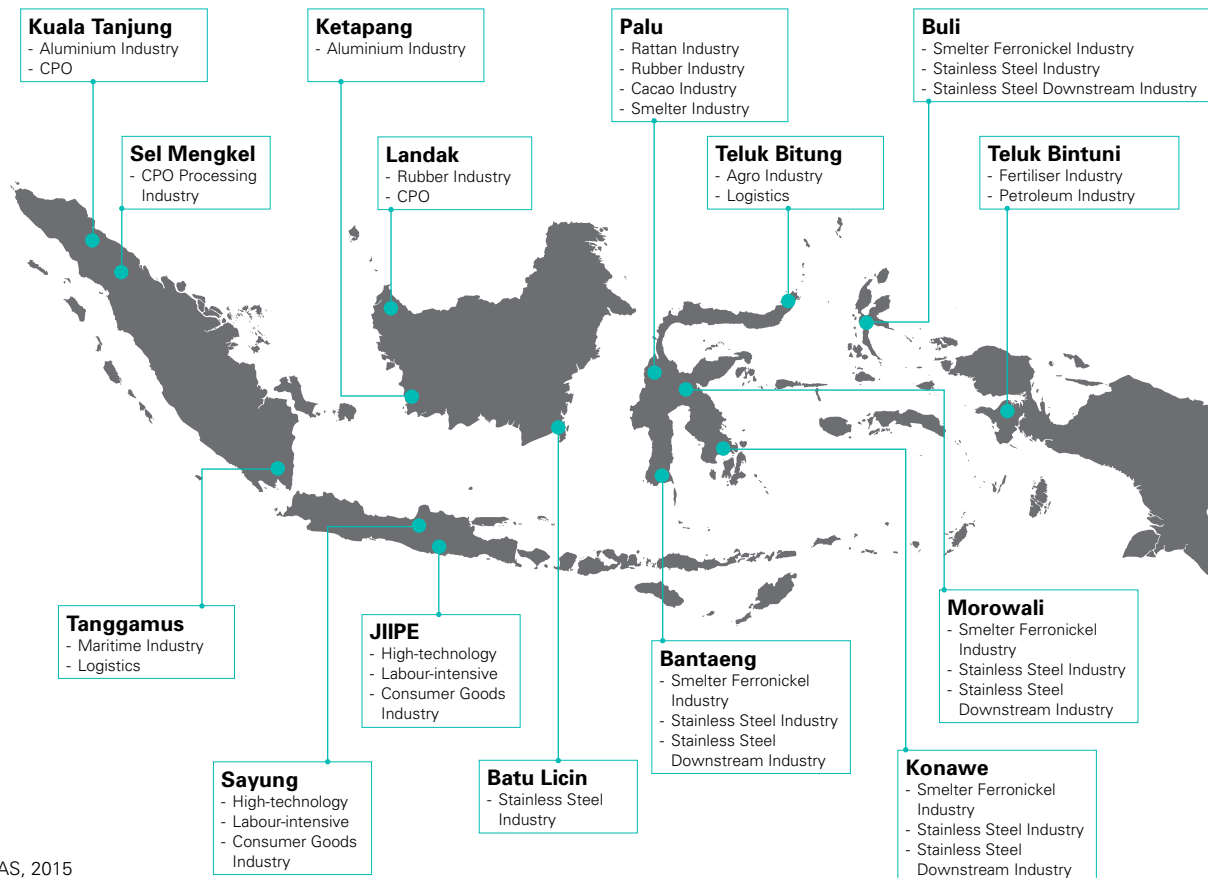
13 "All Indonesians to have access to clean water by 2019", The Jakarta Post, May 2014

Sector Overview: Manufacturing and Industrial Parks

Revitalising the Manufacturing Sector

Revitalising the manufacturing sector is one of the new administration's key strategies to accelerate economic growth. 15 integrated industrial areas¹⁴ will be developed across the country to help Indonesia regain its former manufacturing powerhouse status, as well as elevate the role of industry and manufacturing in the country. Badan Koordinasi Penanaman Modal (BKPM), Indonesia's Investment Coordinating Board, has also identified that manufacturing will focus around the areas of labour-intensive, export-oriented as well as import-substitution industries¹⁵.

Figure 5: Locations of 15 industrial areas identified to be developed



Source:
BAPPENAS, 2015

14 Indonesia Development Planning Agency (BAPPENAS), 2015
15 "19 Kementerian Kirim Petugas Pengurus Izin", Rakyat Merdeka, January 2015

Indonesia is an attractive market for manufacturers and industrial park developers. Lower manufacturing costs as a result of competitive labour and land costs, translate into savings for the price-sensitive Indonesian consumer and help manufacturers gain an edge over imported goods. For example, the average daily wage cost for a factory worker in Indonesia is US\$8.60, compared to other regional manufacturing locations such as Thailand's US\$16.30, and Malaysia's US\$26.70¹⁶.

Other than competitive manufacturing costs, manufacturing in Indonesia will allow direct access to the country's population of 250 million and its growing middle class. Notable MNCs with a strong manufacturing presence in Indonesia include L'Oreal, Samsung and Unilever.

Recommended Approaches:

// **Industrial park opportunities – Out of West Java**

62% of Indonesia's industrial parks are located in the provinces of DKI Jakarta, Banten and West Java¹⁷ with the remaining 38% spread across Central and East Java, Sumatra, Sulawesi and East Kalimantan. This data shows a distinct concentration of the country's industrial activities in the western region of Indonesia's main economic island.

To equalise the distribution of Indonesia's production centres across the country, the new administration is supporting the development of 15 industrial areas across Indonesia including Central and East Java, Kalimantan, Sulawesi, as well as in coastal areas of eastern Sumatra, where conditions such as land price and labour supply are favourable for industries.

Singapore industrial park developers should consider these areas for industrial park opportunities. Other than the support from the new administration, land and labour prices in these areas are significantly lower than that of Jakarta and West Java. Land prices in popular industrial locations such as Bekasi, Greater Jakarta, was around US\$206 per square metre of land in 2013/2014. Comparatively, land prices averaged US\$100-150¹⁸ per square metre in Kendal and Candi in Central Java. Similarly, the 2015 minimum wage, Upah Minimum Kota (UMK) in Jakarta and Semarang (Central Java) is Rp2,700,000 (US\$216) and Rp1,685,000 (US\$132) respectively, showing that areas outside of West Java provided a more competitive cost option.

¹⁶ "Southeast Asia at the Crossroads: Three paths to prosperity", McKinsey Global Institute, November 2014

¹⁷ Indonesia Industrial Estate Association, 2012

¹⁸ Company interviews by Colliers International, 2013-2014

// **Manufacturing in Indonesia's industrial parks**

We recommend Singapore manufacturers to set up in established industrial parks in Indonesia. Locating within an industrial park will allow manufacturers to enjoy common infrastructure such as security and utilities provided by the industrial park developers. It might also ease the hassle of multiple permit applications as these will be handled by the industrial park developers.

Manufacturing in most industries is open to foreign investment without any foreign ownership limitations though exceptions do exist. For example, foreign ownership in pharmaceutical manufacturing is limited to a maximum of 85%.

BKPM provides various incentives such as tax holidays, tax allowances and import duty facilities to attract investors like industrial park developers or manufacturers. For example, corporate tax exemptions of between five to ten years (from the date of commercial production) will be granted to manufacturers of the five identified pioneer industries¹⁹ and in remote areas. An extension of the tax holiday is possible depending on the competitiveness and strategic value of the industry. Figure 6 provides more details on the incentives available to investors.

¹⁹ The five pioneer industries are base metals, oil refining and basic petrochemicals, machinery, renewable energy and telecommunication equipment.

Figure 6: Incentives for foreign investments

| Tax Holiday | Tax Allowance | Import Duty Facility |
|--|---|---|
| (MoF Regulation No.130/PMK.011/2011) | (Government Regulation No.52/2011) | (MoF Regulation No.176/PMK.011/2009) |
| <p>5 to 10 years Tax relief, starting from the commencement of commercial production</p> <p>50% for a further 2 years Reduction of corporate income tax after the expiration of the tax holiday; this is extended by MoF</p> <p>Pioneer industries</p> <ol style="list-style-type: none"> 1. Basic metal industries 2. Oil refinery industries and/or basic organic chemicals 3. Machinery industries 4. Industries of renewable resources 5. Communication devices industries <p>1 trillion rupiah Minimum investment plan (US\$100 million).</p> | <p>Investment tax allowance Up to 30% taxable income reduction in 6 years</p> <p>144 business segments²⁰ Eligible for tax allowance, expanded from 38 segments in the previous regulation</p> <p>Preferential tax allowance for investments in certain business sectors and/or investments in certain project location (especially outside Java island)</p> | <p>Machines, goods, materials for production 2 years import duty exemption or 4 years for companies using locally-produced machines (min. 30%)</p> <p>Industry Which produces goods and/or services, including:</p> <ol style="list-style-type: none"> 1. Tourism and culture 2. Public transportation 3. Public health services 4. Mining 5. Construction 6. Telecommunication 7. Port |

Source:
BKPM, 2015

20 "Government to expand scope of tax incentives", The Jakarta Post, April 2015

Conclusion: **Optimism in spite of Challenges**

The Minority in the Parliament

The absence of a majority coalition in Parliament for President Jokowi is notable. The April 2014 legislative elections saw the 560 seats in The People's Representative Council (Dewan Perwakilan Rakyat (DPR)), being won by 10 parties. The DPR was then further divided into two coalitions, Koali Merah Putih and Koalisi Indonesia Hebat.

The opposition-led Koalisi Merah Putih initially held the majority with 63% of the seats while the Koalisi Indonesia Hebat led by PDI-P initially garnered only 37% of the seats. In October 2014, the United Development Party (PPP), Indonesia's oldest Islamic party pledged its allegiance to the PDI-P led coalition²¹. Even with PPP on board, the coalition is still the minority with 44% of the seats.

The split in the DPR could affect the speed of passing and implementation of various policies.

²¹ "PPP joins Jokowi's coalition", The Jakarta Post, October 2014



Conclusion:
Optimism in spite
of Challenges

Government Coordination Needed for Project Details and Implementation

The new administration has announced new policies and reforms since its inauguration in October 2014. Most of these are focused on the social and economic development of the nation. However, a number of project details as well as the implementation of these policies and reforms have not been announced. As such, investors will have to factor time required for the coordination between the different levels of government and agencies, before project details will be released and/or implemented.

Optimism for Investors

Despite the challenges present, investors in Southeast Asia's largest nation have reasons to be optimistic. Besides the plans for infrastructure development laid out by the President, the new administration has announced promising reforms for economic growth, notably the channelling of fuel subsidies into infrastructure projects.

Investors can also look forward to improved business processes by the new Administration. During one of the President's "blusukan"²² visits to BKPM, he sent a message that he intends to create an investment friendly environment by eliminating inefficiencies and bureaucratic processes for investors. The recent launch of BKPM's online licence application system, followed by the streamlining of permit processes into a single application handled by BKPM (BKPM's One-Stop integrated service – PTSP)²³, is a promising first step.

The successful implementation of the infrastructure initiatives outlined by the new administration will spearhead the advancement of Indonesia's economy. Increased private investments to improve the infrastructure could unleash the significant growth potential in Southeast Asia's largest nation. It would propel Indonesia's growth story, offering business opportunities across the value chain, from production to distribution to consumption.

²² "Blusukan" is the manner in which President Jokowi makes impromptu visits to hear directly from the people of their needs and concerns. He has been doing "blusukan" visits since he was the governor of Solo.

²³ "Jokowi inaugurates BKPM one-stop integrated service", The Jakarta Post, January 2015

International Enterprise Singapore

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