

A Perspective on the Indonesian Presidential Election

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To the extent that foreign investment was discussed during the Presidential election debates, it acted mostly as a football, there to be kicked and abused notably by the losing candidates. Apparently foreign investors, so voters were encouraged to believe, have been having much too easy a time in Indonesia and need to be sharply reined in.

No one could plausibly argue that the record of foreign investment in Indonesia is unblemished. Neither is it in the United States nor across Europe. However, collectively the risk-taking and ingenuity of foreign investors has cumulatively created billions of dollars of tax revenue and millions of job opportunities for Indonesia.

Yet during the elections the investment community remained tight-lipped and endured the barbs. They just had to trust that the Indonesian voters were able to see through the hype and recognize who is most likely to represent their best interests.

Such trust was not misplaced. The markets have already spoken and are a sure indicator as to who investors wished to see win. They must, therefore, congratulate the Indonesian electorate on their choice just as we all congratulate Susilo Bambang Yudhoyono and Boediono on their victory. The winning pair convinced the electorate that they are Indonesia's best hope for the next five years.

There is no doubt that they both possess the intellectual understanding of what needs to be done to advance Indonesia economically. They have pledged 7 percent growth contrasted with their opponents' seemingly fantastic targets of more than 10 percent. However, it is delusional to imagine that either target can be achieved without strong support from foreign investors.

Therefore, it will be critical that the leadership team has the political will as well as the skill to vanquish those vested interests that wish to undermine the momentum of reform. That will be a key to convincing foreign investors that Indonesia is a destination where they need to be engaged.

Since 2004, foreign investment has certainly increased, though the amounts realised are insignificant when compared to China and India over the same period.

The increases that have been achieved can be attributed to improvements in the security situation, sound macroeconomic management and unprecedented efforts to eradicate corruption. It will continue to be critical that progress in all those areas is maintained.

Nevertheless, significant new investment has been limited to a relatively narrow range of sectors. Indonesia is now a net importer of oil, and the mining industry, except maybe coal, is enveloped with uncertainty. Massive potential investment has possibly been foregone during a global mineral boom as government and parliament have procrastinated over the

enactment of a mining law that in its final form does nothing to encourage new foreign investment.

The top priority of the present government, when first elected, was to tackle the infrastructure deficit. Although there has been progress, overall it has fallen far short. Investors continue to endure power interruptions, a broken land-transportation system and congested ports, which continue to contribute to the high cost of doing business. Infrastructure is both an investment opportunity in itself as well as a critical enabler of further investment in other sectors.

Another disappointment was the failure to reform the disastrous manpower regulations that were a legacy of the previous administration. Contradictory regulations originating from different ministries and the undermining of central government commitments to investors by regional governments do nothing to instill confidence among foreign investors. The time it takes to register a business has been reduced, but the current situation still leaves Indonesia lagging behind many of its competitors.

Foreign investors do need to be convinced they are welcome in Indonesia and that the government has a team that is focused on supporting investors with mechanisms in place to solve problems energetically and effectively. There needs to be a paradigm shift from an emphasis on control to one of active encouragement and promotion.

Unfortunately, when foreign investment hits the headlines, the stories are frequently negative and discouraging; the traumas endured by Temasek, Newmont, ExxonMobil and the expansion of the negative investment list are examples that live long in the memory and do nothing to enhance perceptions about Indonesia. When a nation needs to attract foreign investment, it is surely counterproductive to attack aggressively some of those corporations and institutions best able to help you.

The war to attract new investment in the current global crisis will only intensify further. Indonesia now has a golden opportunity to be a winner.

It will only achieve this through resolve and by acting consistently in good faith. We all know what the problems are. If the future is to belong to Indonesia, solutions must now be found.

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