



INDUSTRIAL REFORM And CHALLENGES

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AMAZING Indonesia

10th
World's Largest **Economy**

1 trillion
USD GDP (PPP)



INDONESIA



2nd fastest growing
G20 Member State
after China

4,876
USD GDP
per capita (PPP)

17,508 islands
Biggest **Archipelagic** Nation

253 million
Population (in 2013)

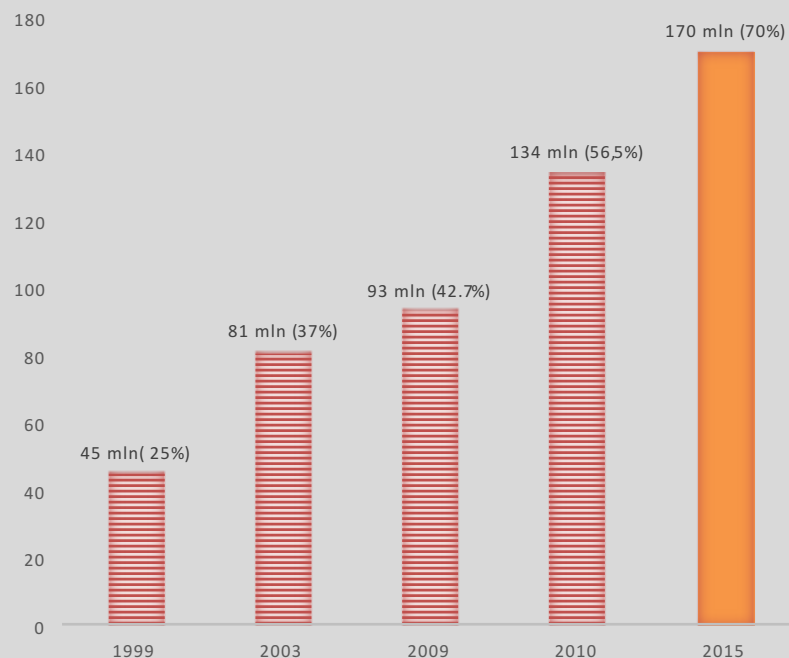




DEVELOPMENT

Indonesian Market Positive Attributes

NUMBER OF POPULATION IN
MIDDLE INCOME



Large and Growing Market

Having the 4th population in the world with 253 million people, around 56% of which are middle income population and over 61% of which lives in urban areas, Indonesia offer large domestic market.

Robust and Sustainable Growth

Indonesia is Southeast Asia's largest economy, ranking 10th in the world and averaging over 5% growth over the last decade. In 2014, its growth is at 5.02%.

Thriving Democracy

Indonesia is one of the most vibrant democracies, has maintained political stability, has completed third time in a row peaceful and successful legislative and presidential elections.

Note : middle income=per capita expenditure per day \$2-\$20.

Source : BI and BPS.



DEVELOPMENT

Investment Trend in Indonesia

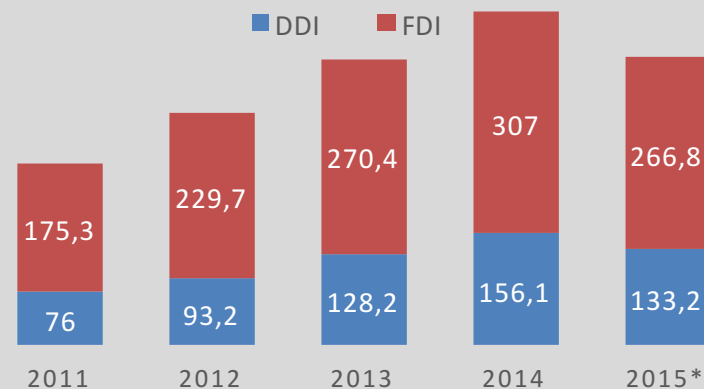
- Indonesia has sustainable investment growth in last 5 years, with significant growth of FDI, and remain to be main destination in ASEAN for several sectors of industries.
- Compare to another ASEAN countries, Indonesia is main destination for FDI after Singapore.
- Indonesia FDI share of total ASEAN Countries is 16.4%, second highest after Singapore.

Foreign Direct Investment into ASEAN Countries (2014)

Country	Total Net Inflow(US\$ million)	Share to Total(%)
Brunei Darussalam	568.2	0.4
Cambodia	1726.5	1.3
Indonesia	22276.3	16.4
Lao PDR	913.2	0.7
Malaysia	10714	7.9
Myanmar	946.2	0.7
Philippines	6200.5	4.6
Singapore	72098.3	52.9
Thailand	11537.9	8.5
Vietnam	9200.1	6.8

Source : ASEAN FDI Statistics Database

INDONESIA INVESTMENT REALIZATION (IDR TRLN)



DDI=Domestic Direct Investment, FDI=Foreign Direct Investment
Source: BKPM



Indonesia *Industrial Sector Development*



APINDO Economic Roadmap

Program Recommendation

Continuing and accelerating **bureaucratic and licensing reform** to support the improvement of the manufacturing sector investment climate

Increasing the **capacity of manufacturing industry human resources** to boost the **productivity** and face competition

Implementation of the Indonesia National Standard (SNI) as an incentive to increase **the quality of domestic products**

Developing an integrated, institutionalized, and legal-formal incentive-subsidy policy scheme in order to encourage **the competitiveness of manufacturing exports**, which are still within the framework of the WTO

Accelerating the development of intra and inter economic corridor **energy and logistic infrastructure** as a stimulus of manufacturing industry investments

Main Vision

Toward a Manufacturing Sector with *Global Competitiveness*, Added Value, and Absorbing Quality Employment



*The Importance of **Manufacturing Sector** Revitalization in Indonesia*



manufacturing industry that absorbs workforce and drive productivity becomes the key for the sustainability of Indonesia **structural transformation** into a high-income country



Industrialization strategy needs to root on expansion of **work opportunity** and **economic productivity improvement**



Development of a highly productive manufacturing sector with high productivity may not solely on domestic market but also **global market**



Improvement of **manufacturing export competitiveness** is highly crucial to be done, considering Indonesia is no longer able to rely on exports of commodity and natural resources-based products, and needs to shift to manufacturing product export



From macro side, **export acceleration** is also highly essential because Indonesia cannot continue relying on domestic market and consumption as its economic strategy



The development of manufacturing industry export competitiveness is currently on the right momentum. At global level, **Indonesia is predicted to have the opportunity to take over** market share of labor-intensive industry products that **China has begun to abandon**



Challenges

Facing Industrial Development in Indonesia



Policies Uncertainties related to Business



Inadequate Infrastructure



Un-attractive Labor Situation



Challenges

Facing Industrial Development in Indonesia :

Policies Uncertainty

Rules are
often
Unclear

- ✓ Policies in Indonesia are often vague, and the details can take years to clarify and implement that can make it harder to plan an investment strategy.
- ✓ One central-bank law drafted in 2011 that prohibited the use of foreign currencies in domestic transactions was only clarified in March 2015—and some companies said it still left out details about how broadly it would apply.

Rules
can
change
quickly

- The Indonesian government often makes sudden changes to the rules, in ways that are difficult to predict.
- In July 2015, the gov't raised import tariffs on 1,000 goods. For Levi's, duties rose to 25% from 15%, and the company was notified the day before the increase took effect.
- Early of 2015, beer producers were hit by a surprise ban on the sale of alcohol at convenience stores.



Challenges

Facing Industrial Development in Indonesia :

Infrastructure is Inadequate

Infrastructure Adequacy

Indicator	Malaysia		Thailand		Indonesia		Vietnam		Philippines	
	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value
Infrastructure	25	5.46	48	4.58	56	4.37	81	3.74	91	3.49
A. Transportation Infrastructure	11	5.74	36	4.61	39	4.54	76	3.45	74	3.5
A.1. Quality of Overall infrastructure	20	5.62	76	4.06	72	4.16	112	3.32	95	3.65
A.2. Quality of Road	19	5.58	50	4.47	72	3.92	104	3.2	87	3.56
A.3. Quality of Railroad Infrastructure	12	5.04	74	2.39	41	3.68	52	3.01	80	2.28
A.4. Quality of Port Infrastructure	19	5.57	54	4.49	77	3.97	88	3.74	101	3.45
A.5. Quality of Air Transport Infra	19	5.74	37	5.28	64	4.51	87	3.99	108	3.57
A.6. Available Airline seat KM/Week, million	22	1958.99	15	2575.25	14	2622.9	30	816.41	25	1171.15
B. Electricity and Telephone Infrastructure	49	5.17	69	4.54	77	4.19	81	4.02	93	3.48
B.1. Quality of Electricity Supply	39	5.73	58	5.12	84	4.34	88	4.18	87	4.2
B.2. Fixed Telephone Lines/ 100 Pop	73	15.26	91	9.04	71	16.07	86	10.13	113	3.2
B.3. Mobile Telephone Subscriptions/100 Pop	30	144.68	34	137.98	54	121.54	42	130.89	86	104.5

Source : World Economic Forum, 2014

- The World Economic Forum ranks Indonesia's infrastructure as 56 out of 144 countries.
- This figure is behind Malaysia (25th), and Thailand (48th), but ahead Vietnam (81th), and Philippines (91th).



Challenges

Facing Industrial Development in Indonesia :

Infrastructure is Inadequate

Indonesia and Comparator Economies Rank Logistic Performance Index 2014

Country	LPI Rank	LPI Scores	Customs	Infrastructure	International Shipments	Logistics Competence	Tracking and Tracing	
Myanmar	145	2.25	1.97	2.14	2.14	2.07	2.36	2.83
Laos	131	2.39	2.45	2.21	2.5	2.31	2.2	2.65
Cambodia	83	2.74	2.67	2.58	2.83	2.67	2.92	2.75
Philippines	57	3	3	2.6	3.33	2.93	3	3.07
Indonesia	53	3.08	2.87	2.92	2.87	3.21	3.11	3.53
Vietnam	48	3.15	2.81	3.11	3.22	3.09	3.19	3.49
Thailand	35	3.43	3.21	3.4	3.3	3.29	3.45	3.96
Malaysia	25	3.59	3.37	3.56	3.64	3.47	3.58	3.92
Singapore	5	4	4.01	4.28	3.7	3.97	3.9	4.25

Source : Logistic Performance Index 2014, World Bank

High Logistic Cost

- According to the world bank, Indonesia logistic performance is ranked 53th out of 160 countries. The logistic performance index provides an impression of logistics of doing international trade (exports and imports at ports and air ports).
- Based on that figures, Indonesia's logistic performance remains less competitive compare to Vietnam (48th), Thailand(35th), Malaysia(25th), and Singapore (5th).
- With weak logistic infrastructure, it causes high logistic cost for businesses.

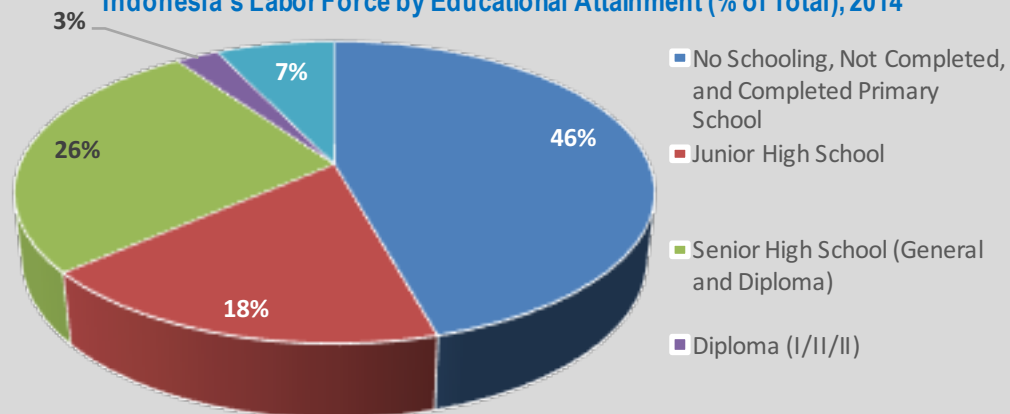


Challenges

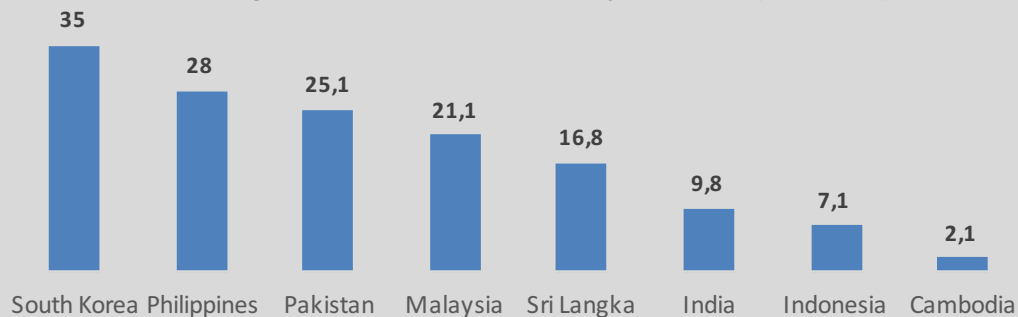
Facing Industrial Development in Indonesia :

Labor Situation is not Attractive

Indonesia's Labor Force by Educational Attainment (% of Total), 2014



Percentage of Labor Force with Tertiary Education (% of Total)



Limited Availability of Skilled Worker

- Around 46% of Indonesia's labor force is primary school graduate.
- Indonesia still has a relatively small size of labor pool equipped with tertiary education, only 7.1% labor force in Indonesia is having tertiary education.
- This figure is very low as compared to other developing – manufacturing countries, such as Malaysia (21%), Philippines (28%), as well as Pakistan (25%) and Sri Lanka (17%).

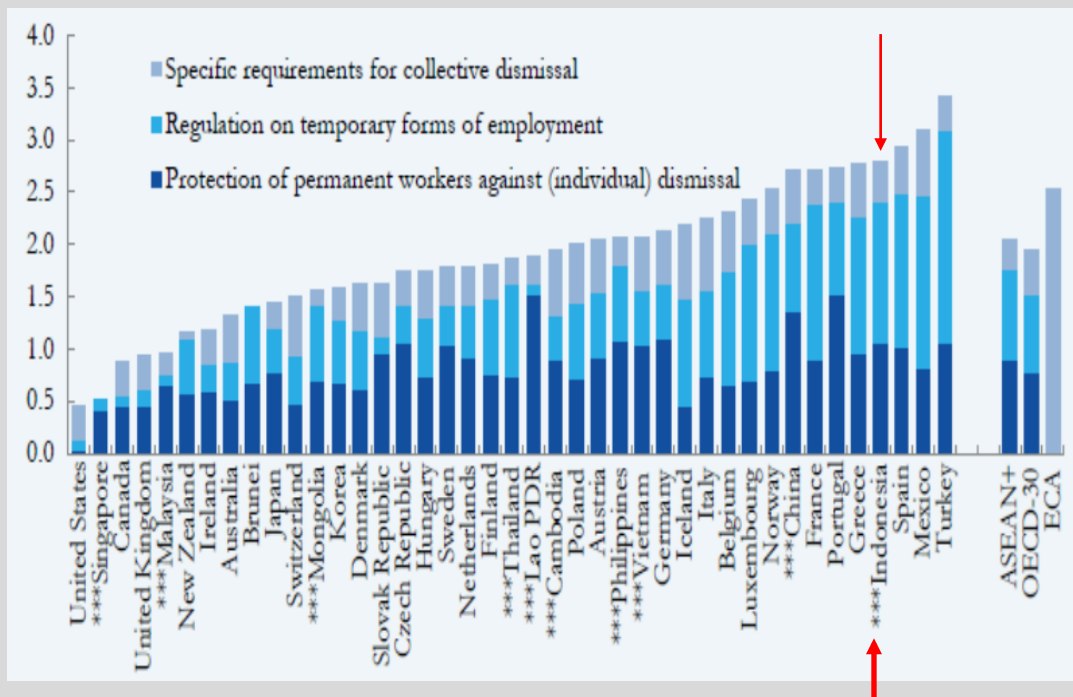


Challenges

Facing Industrial Development in Indonesia :

Labor Situation is not Attractive

Labor Market Rigidity



Source: OECD Employment Protection Legislation Database (2008-2010 values) as cited in World Bank Development Policy Review 2014 *Indonesia: Avoiding the Trap*

Labor Market Rigidity

- According to the OECD, Indonesia's labor market legislation is among the most rigid in the region.
- The regulation entails a condition of which workers gradually acquire greater power and rights, while businesses have to face higher cost both to hire and fire labors.



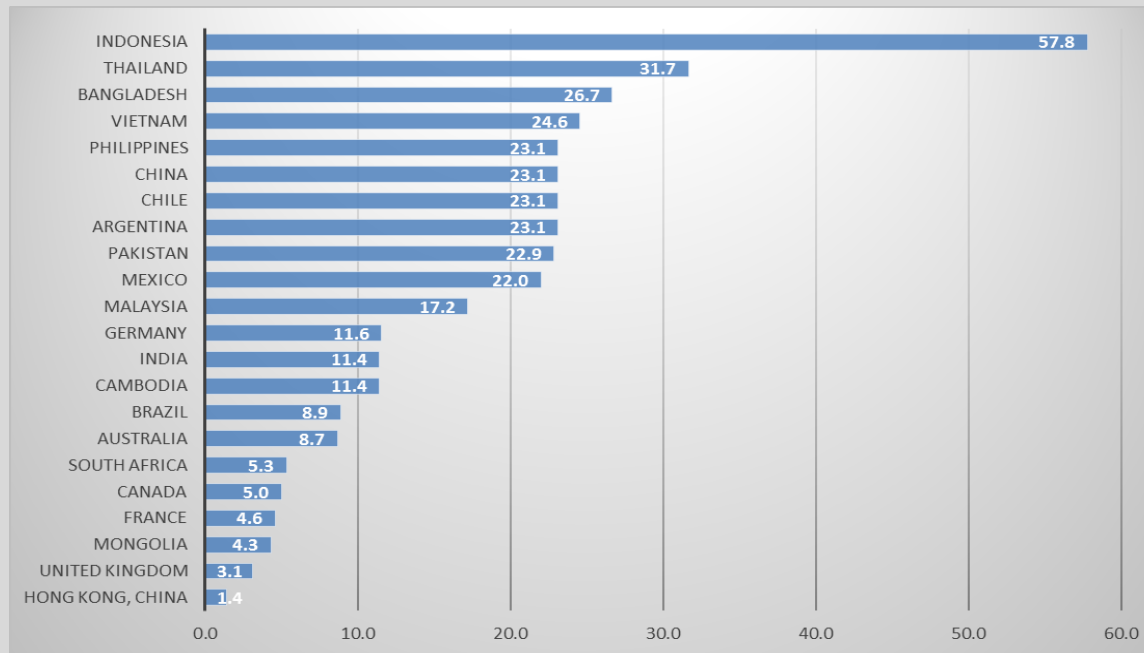
Challenges

Facing Industrial Development in Indonesia :

Labor Situation is not Attractive

Severance Pay for Redundancy Dismissal

(average for workers with 1, 5 and 10 years of tenure) : in salary weeks



Source : World Bank Doing Business, *Employing Workers* Dataset (2014).

High Severance Pay

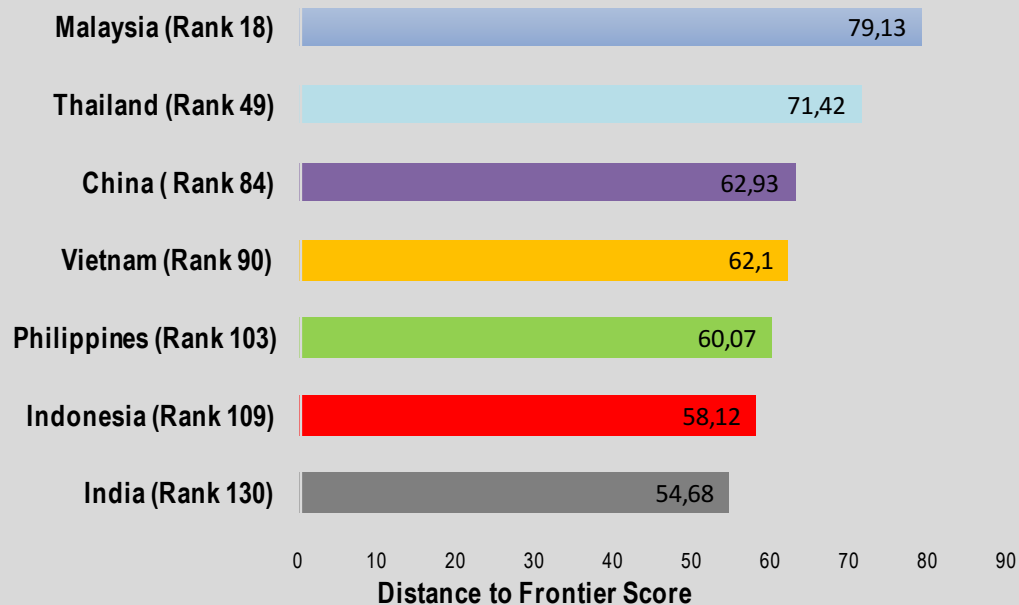
- Indonesia has the highest severance pay level (measured in salary weeks) in the region – it is even higher than that of advanced economies in Europe and North America Continent.
- In average, if employers in Indonesia want to dismiss a worker, they have to pay averagely about 58 weeks of salary, as opposed to employers in major manufacturing economies, like China, which have to pay only equal to averagely 23 weeks of salary.



BUSINESS CLIMATE FOR INDUSTRIAL DEVELOPMENT

The Ease of Doing Business

Indonesia and Comparator Economies Rank on the Ease of Doing Business 2016



Source : World Bank, Doing Business 2016 Report

- According to the World Bank's "Doing Business 2016", Indonesia is now ranked 109th out of 189 countries.
- Indonesia is ahead of India (130th), but behind China (84th).
- In South-east Asia, Indonesia is behind Malaysia (18th), Thailand (49th), Vietnam (90th), the Philippines (103th).



BUSINESS CLIMATE FOR INDUSTRIAL DEVELOPMENT

The Ease of Doing Business

Doing Business Sub-indicators 2016

Topic	Doing Business Rank													
	Indonesia		Malaysia		Vietnam		Thailand		Philippines		China		India	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Starting Business	173	163	14	12	119	125	96	91	165	157	136	127	155	164
Dealing With Construction Permits	107	110	15	15	12	12	39	47	99	94	176	177	183	184
Getting Electricity	46	45	13	13	108	130	11	11	19	21	92	86	70	99
Registering Property	131	131	38	36	58	58	57	57	112	110	43	41	138	138
Getting Credit	70	71	28	24	28	36	97	90	109	105	79	71	42	36
Protecting Minority Investors	88	87	4	4	122	121	36	33	155	154	134	133	8	8
Paying Taxes	148	160	31	32	168	172	70	62	126	125	132	133	157	156
Trading Across Borders	105	104	49	48	99	98	56	55	95	94	96	96	133	133
Enforcing Contracts	170	170	44	44	74	74	57	57	140	139	7	7	178	178
Resolving Insolvency	77	73	45	43	123	125	49	45	53	50	55	53	136	136

Starting a Business

Indicator	Thailand	Vietnam	Philippines	Malaysia	Indonesia
Procedures(number)	6	10	16	3	13
Time(days)	27.5	20	29	4	46.5
Cost(% of income per capita)	6.4	4.9	16.1	6.7	19.4
Paid-in min. capital (% of income per capita)	0	0	3.3	0	31

Source : World Bank, Doing Business 2016 Report

- Primary factor for Indonesia's low ranking in the ease of doing business is difficulty in establishing and starting a business against a backdrop of inefficiency and a complicated and frustrating bureaucracy.
- According to data collected by Doing Business, Starting a business in Indonesia requires 13 procedures, takes 46.5 days, cost 19.4% of Income per capita and requires paid-in minimum capital of 31% of income per capita.
- That figures are behind Malaysia, Philippines, Vietnam, and Thailand.



APINDO's Perspectives *What Business People **Worry***



Business license reform by launched a one stop shop, but is it really speed up?
considering regional autonomy seems are late in following BKPM's goals for reforming licenses...



infrastructure budget will go to inefficient...
in the meantime, budget absorption improvement in 2016 will accelerate vs 2015



Indonesia has inflexible labour laws and minimum wages have shot up albeit from low base...
regional authorities must adopt PP No. 78/2015 in order to maintain certainty
in wages increase from year to year



protectionist rules persist at the previous time.. but gov't has launched 10th economic
policy package for erasing many obstacles through revision of negative investment lists (DNI)



A portion of the savings from budget surplus needs to be earmarked for micro, small and medium enterprises that
can move quickly. the right program should be developed for SMEs, which equally serve micro players



Recommendations *Toward Development of Industrial Sectors*

SECTOR STRATEGY

The focus of manuf sector policies in general should be directed to facilitate light industry and processing/component that opens employment to attract heavy industry to be located near it.

While heavy industry readiness is being improved (particularly on human resources, infrastructure, and technology readiness), option to join global supply chain can help the acceleration of industrialization in Indonesia. The enormity of domestic market as well as Indonesia's location in East Asia market are important assets in attracting light industry investment and processing that absorbs labors. The improvement of buying power and light industry density and processing, in turn, will become attraction for heavy industry to be located near its market.

SECTOR STRATEGY

Labour-Intensive Sector

Labor-intensive sector together with agro-based product are sectors with the most important roles in economic development, particularly in **creating employment** and eradicating poverty. The main challenge faced by these sectors is the declining competitiveness due to *labor market rigidity*. Therefore, it needs employment policy reformation particularly with regard to wage and severance pay that consider all stakeholders, namely labors, employers, and job seekers.

CROSS-SECTOR STRATEGY

Reducing General Obstacles





Recommendations

HOW To Accelerate SMEs Development

The gov't indeed has a key role to play by **facilitating** or **supporting capacity building in SMEs**, especially SEs and MEs so these enterprises can become subcontractors. The technological and managerial gaps between MNCs and their SME subcontractors can be bridged through capacity building.



POLICY DIRECTIONS

The gov't supports for SMEs have been in various forms, ranging from a variety of special credit schemes to technical assistance and various types of training and skill upgrading. The emphasis has been given too much on financial aspect; **much less attention has been given on technology development, innovation capability and skills development.**

The existing **paradigm** of SME dev't should **change** from **"the successful SMEs dev't strategy is marked by the annual increase in number of units"** and **"SMEs are important because they create employment"**, **TO** **"the successful SMEs dev't strategy is marked by the annual increase in number of innovated and productive enterprises"**, and **"SMEs are important because it generate high value added, export, and they form domestic competitive supporting industries"**.

In efforts to support capacity building in SMEs, the gov't should **promote closer integration between R&D institutes and universities and SMEs** by facilitating their effort to build strong networks. The gov't can encourage the involvement of R&D institutes and universities in local SMEs' capacity building in their own district by providing a variety of facilities.

Globalization and trade and investment liberalization should also give **opportunities to local SMEs to integrate into global production network**. Subcontracting is one thing to facilitate this. To develop into highly competitive supporting industries or vendors supplying certain parts of global products is another way.



THANK YOU

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