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Implementing Reform and Strengthening the Economic Legal Infrastructure to Increase FDI

Submitted by: Indonesia



**Capacity Building for Sharing Success Factors
for Improvement of Investment Environment**

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Implementing Reform and Strengthening The Economic Legal Infrastructure to Increase FDI

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CHRIS KANTER
Vice President
Indonesian Chamber of Commerce and Industry

Kamar Dagang dan Industri Indonesia



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APEC Record on Investment

Started in Indonesia in 1994, APEC has long and constructive record on Investment for non-Binding Investment Principles and commitment to free and open investment.

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Outline of Remarks

Three important principles for business perspective on challenges and development of foreign investment relevant to APEC:

1. Engage and consult investors at the earliest stages of reform
2. Aim for integrity on laws for the legal framework for investment
3. Continually review weak points in implementation



1. Consulting with Investors

- Demanding investors never satisfied and always ask for more
- Government sensitivity to work and cynicism towards investors intentions (refer above)
- Indonesia's treatments towards businesses as genuine partners in reform with timely and constructive consultation has big benefits



Indonesian Experience

- Five years ago, Indonesian and foreign chambers developed a Roadmap for Economic Reform fully adopted by Yudhoyono Government
- In cooperation with Government, mapped reforms, built consensus, provided goals and solutions on policy to set common path
- Indonesian Chamber (KADIN) and foreign chambers now developing new Roadmap for incoming Government

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Lessons on Consultation

- Quality of consultation has important impact on reform outcomes
- Clear difference between consultation for policy development and socialization of new policies

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Managing Domestic Investors

- Consultation process identifies that domestic and foreign investors are commonly:
 - consider balance of risk and return
 - have more choice to invest
- Effective consultation through National Chamber:
 - responsible for national business interest
 - helps managing special interests
 - looks at alternatives for struggling sectors

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2. Aiming for Integrity in Laws

Indonesia has a robust Presidential democracy and includes:

- very assertive Parliament
 - Jealously guarding its role
- many interests in Parliament
 - No guarantee that draft legislation from Government will be passed without amendment

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Indonesian Experience

- Compromise as little as possible on the laws that lay foundations for investment
 - good laws attract foreign investment and keep domestic investment
- Indonesian Chamber worked long and hard with both Government and Parliament for:
 - New Investment and new Tax Laws and others
 - Clear protection for investors, national treatment and competitive laws

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Lessons on Making Laws

- Indonesian Chamber will take same approach with incoming Government and Parliament on:
 - legal reform, new labor laws and laws affecting regional autonomy
 - works required on specific sectors
- Recurring theme of consultation
 - Governments and Parliaments will achieve better outcomes in the legal framework by working closely with investment community

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3. Review and Address Weak Points

- Implementation challenge in Indonesia is vast
 - Scale of reform agenda
 - greater movement for regional autonomy
 - coordination of policies
 - capacities of various arms of government
- Develop an ongoing review to identify and address weak points involving domestic and foreign investors in the process



A word on Implementation Matrices

- APEC and many governments use the “matrix approach” to determine the level implementation of an investment package
 - 9 boxes out of 10 boxes checked = 90 % implementation*
- But...
 - More often than not, the remaining box is the most difficult and most critical in determining the success of the whole investment package
 - We need more qualitative approaches to examine progress and effectiveness in implementation



Indonesia Experience

- Indonesian President chairs a National Team for acceleration of investment and exports
 - Multi-departmental institutional process
 - Trouble shorter and facilitator
- Indonesian Chamber has been asked by government to establish a counter-part process involving domestic and foreign businesses developing more effective dialogue on implementation

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Lessons learned on Review Process

- Indonesia review process is a good approach
- Indonesian Chamber is looking ways to ensure its better resourced and improved
- Our goal:
 - Together, Government and Business can move from being reactive to proactive addressing implementation of investment reforms

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Conclusions

- Investment reform is one of the most important areas of cooperation for APEC as the world becomes more integrated and competitive
- Despite our recent setback, Indonesia is absolutely determined to build on the improvements to the investment climate
 - Indonesia continues to make systematic reforms on many fronts and has opened new opportunities
 - We are confident of further major improvements under the incoming government

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Thank You

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