

OPENING REMARKS

BY

HIS EXCELLENCY DR. SUSILO BAMBANG YUDHOYONO

PRESIDENT OF THE REPUBLIC OF INDONESIA

AT A BREAKFAST MEETING

WITH AUSTRALASIA AND THE AUSTRALIA INDONESIA

BUSINESS COUNCIL

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Ladies and Gentlemen,

Introduction:

Let me begin by thanking The Asia Society Australasia Center and the Australia Indonesia Business Council for inviting me to speak here today.

I am pleased to meet all of you here in Sydney. I fondly remember visiting your beautiful city back in 2003 as Co-ordinating Minister for Politics and Security. Back then, I had a feeling that I would return to this city, though I certainly did not imagine that I would come as Indonesia's President.

The nice thing about being President, of course, is that when you are invited to give an address, no matter what topic they assign you, they usually let you speak about anything you want.

So today, I wish to speak to you about two subjects. First, the question of how Indonesia is doing, especially since the new political landscape that was created after the historic Parliamentary and Presidential elections last year.

The second subject is my favorite, that is, on the improved state of Indonesia - Australia relations, and how it can translate into greater business opportunities for you.

Let me start with the first subject : how is Indonesia doing ? Are things changing ? Are things changing for the better ?

The simple answer to that is "yes". Let me offer 3 points to support the proposition that Indonesia is moving forward steadily, but surely.

First, our political development and democratic transition is robust.

If you have not been to Indonesia lately, you will hardly recognize the political landscape.

Democracy is alive and kicking. Civil society is thriving, and so is freedom of speech and of the press. Political participation is strong. The Parliament is very active and independent. The relationship and responsibilities between the Presidency and the Legislature is much clearer than before. And for the first time, an Indonesian President is directly elected by the electorate. We are also seeing the return of political stability and certainty as the present political arrangement is expected to hold-up until the next elections in 2009.

And there is definitely a new "energy" since the historic elections of 2004. The great yearning for change, so predominant during the elections, now takes the form of huge expectations for my administration. These expectations drive me and my Government to do our best, but I must admit that these expectations at the beginning were too high. After my first 100 days, I think the people are developing more realistic expectations.

Secondly, our economy is steady, stable, growing and full of opportunities.

In 2004, Indonesia was able to maintain macroeconomic stability with inflation at 6.4 percent and growth at 5.1 percent.

This year, we expect growth to pick up to 5.5 percent, and with the right policies, we are convinced we will achieve our target for an average growth rate of 6.6 percent in the next five years. Per capita income is now higher than prior to the crisis at over \$1000/capita.

We are also managing our fiscal situation with debt levels coming down and the deficit under control. My decision on March 1, to raise the price 29% certain oil products was politically difficult but economically necessary for our long-term growth. With the fiscal situation vastly improved, Indonesia now has one of the smallest deficits in Asia, with budget deficit outcomes being below forecast in recent years.

Debt levels have gone down rapidly and are expected to continue to do so. The debt to GDP ratio has been successfully reduced from 99% in 2000 to 53% in 2004. It is predicted that by the end of 2005 the debt to GDP in 2004 will decline to 48%. This is considered very good even by OECD standard.

By the end of 2004, the sign of investment recovery are evident with the import of capital goods increasing by 44 percent, investment rising by 11 percent, and for the first time since the crisis, we are seeing net capital inflows.

I happily note that confidence in Indonesia is growing, with upgrades being undertaken by various Rating Agencies, booming stock market, increases in the pledge by donors at the recent CGI (Consultative Group on Indonesia) meeting in January. For example :

Moody's upgraded Indonesia two-notch in 2003 to B2, once in June and other in September.

S&P upgraded Indonesia three-notches in 2003 and 2004 to B+ (in May 2003, October 2003 and December 2004).

And **Fitch** upgraded long term local and foreign currency sovereign ratings from B+ to BB- with positive outlook (January 2005)

So the signposts are good, and I have every confidence that we will stay on track towards growth.

And thirdly, **we are holding up well** despite being the Government with arguably the worst luck for getting one bad break after another. The hardest part of my Presidency is dealing with the unknowns, and there have been too many of them. The earthquake in Nabire, the earthquake in Alor, the massive tsunami in Aceh and North Sumatra, the flood in South Sumatra, the earthquake in Nias.

I think there is a quality of resilience and endurance about Indonesia that is simply remarkable. And each tragedy seems to make us even stronger as a nation.

I suppose the bottom line is that Indonesia is transforming rapidly—not just changing, but transforming.

And as Indonesia is fast transforming, Indonesia - Australia relations are also undergoing transformation.

This is the third day of my visit in Australia, and everything I have seen so far convinced me even more that Indonesia and Australia are headed for stronger, closer, better relations.

Yesterday, Prime Minister Howard and I announced a Comprehensive Partnership that promises a new era of bilateral relations between Indonesia and Australia. This Partnership promises to strengthen what is already one of Indonesia's most elaborate relations with any country.

This Comprehensive Partnership affects you, the business community, because ultimately what fuels this partnership is the people. The more people interact, the more students exchange, the more businessmen connect, the stronger the partnership.

I believe that we are ready to embark on a broader, deeper and mutually advantageous relationship based on not just G-G relations, but most importantly B-B (business-to-business).

After all, this has proved to be the more resilient part of our links. Our bilateral relations may have its ups and downs, but the economic and business relations between our two countries generally have not been affected by them.

Just look at our trade.

Trade between our two countries have continued grow, with two way trade reaching A\$ 8.49 billion. Indonesia is Australia's 10th largest markets, with Australian exports rising to A\$ 4.23 billion, while Indonesian exports to Australia reached A\$ 4.26 billion.

Meanwhile, approved Australian investment in Indonesia reached \$ 3.9 billion making it the 7th largest investor. A number of Australian companies have significant

investments and a long history of involvement in the Indonesian mining and energy sector. Australian businesses have also entered into the agro-based sectors and the financial, health and education sectors.

But please excuse me for saying this, for I think our business links can do better. Much better.

There are plenty of new investment opportunities that have not been fully harnessed. For example, the Joint Working Group on Agriculture and Food industry recently identified the following opportunities in Indonesian food and agriculture industries for Australian businesses : growth potential for cheese production, good prospects for business alliances in the high growth beverage sector, downstream processing of beef, bakery and cereal production, and new and novel food ingredients.

There are also opportunities in infrastructure development, which is a top priority for my Government's economic program. In January this year, we held a major infrastructure summit in Jakarta, after which 91 projects worth \$22.4 billion, out of the total of \$156 billion, will be tendered in 2005.

20 projects have been announced in Tranche I in March, and the remainder in June. These include toll roads, electricity, gas, transportations and telecommunication projects. The government has a plan of mutually beneficial public-private sector partnership in infrastructure investment for the commercially viable sectors. For those sectors that are not attractive for private investment, the government will use its own resources.

In persuading you to take part in Indonesia's infrastructure development opportunities, I am of course aware of the issues that are of concern to foreign investors. Bureaucratic bottlenecks, completing needed policy and regulatory reforms, and the risk management framework--yes, we are working hard on this.

The government is also working hard to improve the general investment climate and reduce the costs of doing business in Indonesia. **Firstly**, the government is

currently reviewing the investment law to ensure national treatment and provide clear guidelines.

Second, we reviewing the approval, registration and licensing procedures with the objective of streamlining and providing transparency. We hope to achieve these improvements beginning this year.

Third, we are committed to addressing key issues already identified by the business sector as burdening the costs of doing business. The labor regulations related to retrenchment, outsourcing and contract labor, and wage setting are being reviewed with the objective of finding a better balance between the need to protect workers on the one hand, and overburdening employees and contributing to an inflexible labor market, on the other hand.

We are also undertaking a comprehensive review in order to reduce the number, cost and time to process exports and imports, and reducing the time and administration costs at the tax and customs departments.

On the issue of decentralization, we are reviewing the various overlapping regulations between the central government and local governments with the focus on improving legal certainty and efficiency.

Fourth, we know that the issue of legal certainty is of important concern for investors. We are doing a number of things to address this.

We are reviewing and amending laws and regulations, harmonizing rules and regulations, establishing new courts and improving the management of courts.

Finally, my government has and will continue to take a firm stance against corruption. We have enacted the necessary laws and regulations and we have also taken action in a growing number of corruption cases of government and non government officials.

There is also the acceleration of the action-oriented program to address illegal logging which has resulted in the seizure of tons of illegal logs and the arrests and prosecution of those allegedly involved.

So there you have it. A new President. A new Parliament. A new Indonesia. An exciting new bilateral relations between Indonesia and Australia. And a whole set of new business opportunities for you.

My only hope is that you take advantage of all this. And that is why I am here today : to PERSONALLY convince you that if you invest your money with us, you WILL grow with us, your investment WILL be in good hands and good prospects.

I am convinced that Indonesia is well on its way to an exciting new era of growth, dynamism and progress for Indonesia.

Be part of it. Profit from it. Join us in investing in Indonesia future

I thank you, and I look forward to our discussions.
