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Improving the Investment Climate for Employment Creation

Paul Bartlett, Prospera
July, 2019

President lays out his vision for next five years...



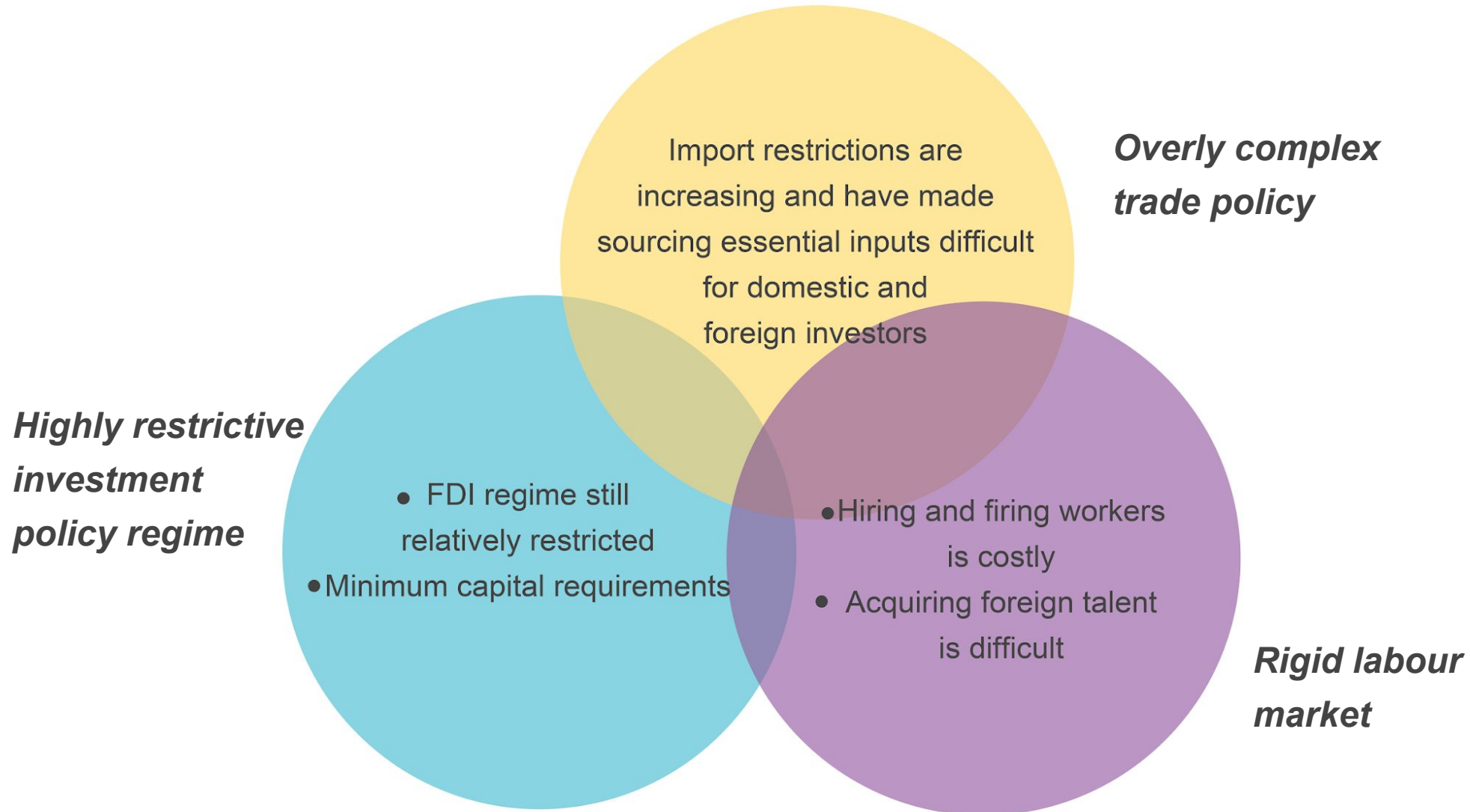
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“We must invite the widest possible investment in order to open employment opportunities. No one should be allergic to investment. In this way the employment will open as much as possible. Therefore, everything which hinders investments must be trimmed, whether slow, convoluted licensing or especially extortion!There must be no more barriers to investments because they are the key to opening jobs.”



President Joko Widodo, 14 July 2019

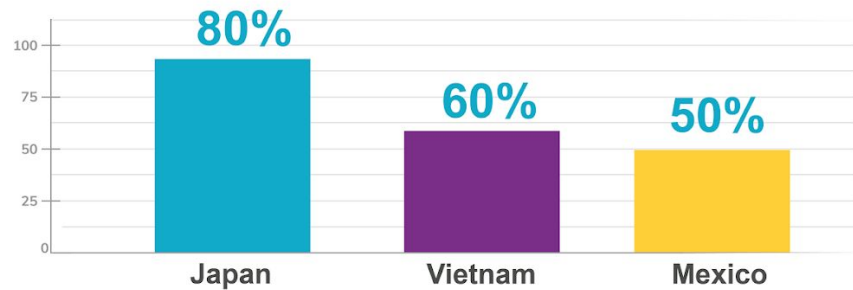
Inter-linked policy constraints to investment



Investment

Restrictions on foreign direct investment **discourage foreign firms from setting up businesses in Indonesia that could attract technology and encourage exports.**

Indonesia's stock of FDI is equivalent to **24%** of GDP, compared with



Shipping is expensive owing to closed ports. “Cabotage” and other restrictions prevent Indonesian exporters from breaking into international markets and value chains.



Indonesia's regulations on FDI in services, especially shipping, **are the most restrictive of all the G20 economies.**

Tax exemptions are skewed towards small businesses. **This discourages Indonesian firms from expanding and becoming more productive.**

Large firms are 30 times more productive than small ones. But **90% of Indonesians work in small inefficient firms** with fewer than 5 workers.



Large firms pay income tax of 25% but **small and medium firms pay just 0.5%**



Trade

Exporters and importers face high administrative costs owing to licenses and regulations.

Foreign trade is worth less than 40% of gross national income, the lowest since the early 1970s.

An Indonesian firm spends nearly **5 days** completing customs checks and documents to export a shipment of goods.

That compares with...



 **1/2 day**
in Singapore

 **1 day**
in Turkey

 **2 1/2 days**
in Brazil



Imports take **8 1/2 days** to clear in Indonesia.

“Non-tariff barriers” to trade such as licenses increase the cost of living in Indonesia by almost 8%.

That’s equivalent to a **tax of Rp3,000,000** per year for every household.

Skilled Labour

The cost of firing workers in Indonesia is high. This means firms employ staff on **temporary contracts and don't develop professional skills through training.**

To dismiss a worker in Indonesia, it costs...



Less than **10%** of Indonesian firms offer formal training, compared with...



Skilled foreign workers bring creativity and talent. **But the law limits their numbers and it is expensive to hire them.**





**Indonesia will benefit if
it allows more international
firms and workers here**



Costs of services sector restrictions are significant

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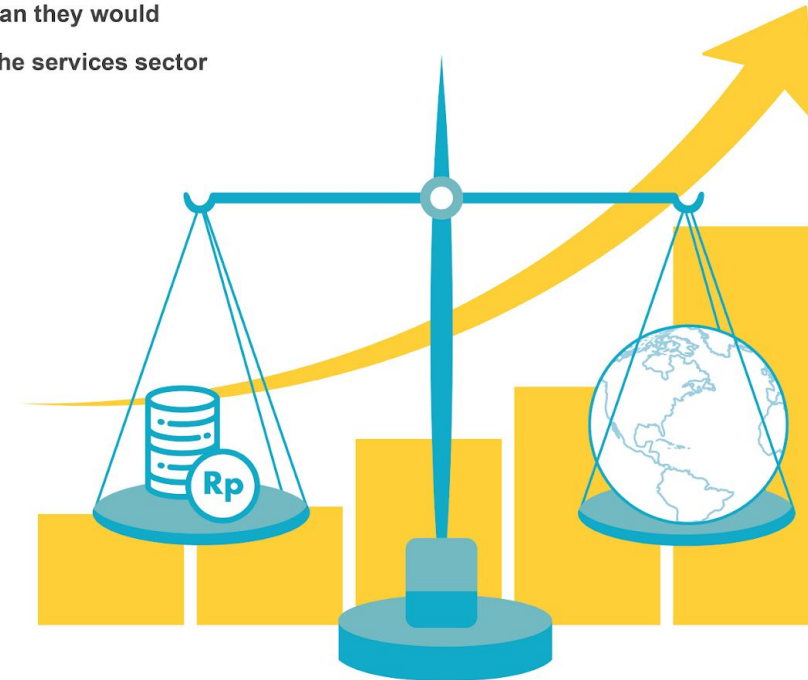
To achieve its development goals, **Indonesia needs international investment and labour**

Indonesia's economy is **10% smaller and employment 10% lower** than they would otherwise be owing to restrictions on international investment and labour in the services sector

Cost of Indonesian restrictions on...	GDP	Employment
FDI	-2.28%	-1.25%
Foreign Labour	-8.13%	-8.74%
Total	-10.41%	-9.99%

Removing these restrictions would add around **\$100 billion** to **GDP** and create more than **10 million jobs**

Restrictions on foreign workers impose by far **the largest penalty**



No crowding out of domestic players:



Higher restrictions



Less foreign and
domestic investment

Source: Prospera, 2018

Success story



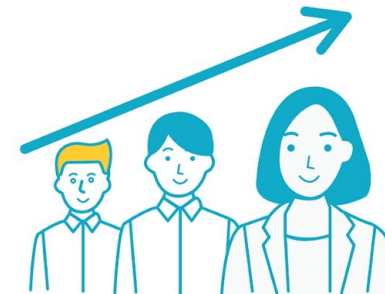
Mr Bruce, an Australian accountant, arrives in Indonesia to work for a large mining company.



After some years, Mr Bruce sees an opportunity: Indonesians are superb software programmers and mining firms need specialised accounting software. He leaves his job and starts his own small company.



Today Mr Bruce employs 250 highly skilled software programmes—most of them Indonesian—at the company's offices in Jakarta and Bali.



The company exports its services to mining firms across the world. It is a great success story for Indonesia!

Thank you

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