

JENNIE S. BEV

INVESTMENT GRADE FOR INDONESIA?

The recent Indonesia Investment Summit in Jakarta was a party filled with euphoria. Vice President Boediono, Indonesia Investment Coordinating Board (BKPM) Chairman Chatib Basri, Minister of Trade Gita Wirjawan, Minister of Tourism and Creative Industry Mari Elka Pangestu, economists and investors in Indonesia all showed a positive attitude towards Indonesia's potential. While both Fitch Ratings and Moody's raised Indonesia's credit rating to investment grade, Standard and Poor's (S&P) hasn't done this yet.

Economists are optimistic that next year's growth would remain at 6.5% or even more, despite the global recession. With such a large domestic market, of which 53% live in urban areas, we can expect to see more ripple effects of the global economy in this growth market. The large population of 240 million people, of which 60% are under 39 years old, provide a ready workforce and the costs of doing business in Indonesia are competitive with other countries.

Indonesia has many alluring factors, of course, but at the same time one has to strike a note of caution—can it be that good? For the challenges are also prevalent: lack of reliable infrastructure in between cities and islands, lack of reliable local suppliers, and lack of skills in this large labor pool.

The recent announcement by Minister of Education M. Nuh that he plans to eliminate English in the curricula for public elementary schools was a shock as it's a complete opposite to, for instance, what Australia is do-



ing. Very much aware of the Asia's rise, Australia now encourages students to learn Indonesian. Apparently, there is disconnect among Indonesian ministers, which could have been eliminated with good coordination and a synergistic effort to achieve economic goals.

INDONESIA HAS MANY ALLURING FACTORS, OF COURSE, BUT AT THE SAME TIME ONE HAS TO STRIKE A NOTE OF CAUTION—CAN IT BE THAT GOOD?

One of the prospective global investors at the summit asked about this, as it would naturally create an inconvenience if young people entering the workplace might not be able to communicate well in English. Thus the Minister of Education's plan appears to take an antiquated approach to the educational system in Indonesia.

Poor project management and project execution are other nagging issues requiring attention. It is common knowledge that Indonesians are used to "rubber time," meaning that a meet-

ing may start one or even two hours later than planned due to various excuses, among which is heavy traffic preventing the start of the meeting on time.

Jakarta is already notorious for its heavy traffic that causes delivery delays. Frequent labor strikes also add to low productivity and unreliability. While healthy labor unions can be part of a developed civil society, strikes should not reduce productivity.

The reality check for Indonesia is that, according to World Bank's Doing Business rankings, Indonesia is ranked low in terms of starting a business (166th), resolving insolvencies (148th), getting electricity (147th), and enforcing contracts due to weak rules of law (144th). Also, Indonesia's loan interest rates are among the highest in the world. Overall, Indonesia is ranked

128th out of 185 countries in terms of doing business, according to the World Bank. In addition, Indonesia is ranked 100th out of 183 countries in terms of corruption according to Transparency International. Indonesian economic policy is also notorious for its protectionism. Having an investment grade is an achievement indeed, especially after a long uphill battle to regain pre-1997 financial crisis growth level. However, it appears that Indonesia has much homework to do before qualifying for an S&P upgrade. 