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CGI REMAKS
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COORDINATING MINISTRY FOR ECONOMIC AFFAIRS
OF THE REPUBLIC OF INDONESIA

CGI Remarks
By
Aburizal Bakrie
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Jakarta
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Distinguished Delegates,
Ladies and Gentlemen,

Welcome to the 14th annual meeting of the Indonesian government and the Consultative Group for Indonesia. I would like to take this opportunity to express the Indonesian government's appreciation of our long standing partnership and I believe the fruits of this development partnership are now beginning to show with significant progress made in the macro-economy and the recent pick up in economic growth. However, we also come to this forum with the unfolding of the catastrophic events in Aceh and North Sumatra on our minds, with the tragic loss of more than 100,000 Indonesians, of which many were young children. The tsunami and earthquake destroyed many livelihoods and left trillions of rupiah in damages. Suddenly 1 million people have become jobless, losing all their property and belongings and falling below the poverty line. The catastrophe has resulted in many thousands of survivors, including many wounded and sick, relying for their sustenance on donations and assistance from outside their shattered communities. But perhaps just as striking is the rapid global outpouring of support and sympathy that is indicative of our strong partnership.

Re-constructing Aceh and the other destroyed communities in Sumatra will be one of the most urgent priorities of the government this year and over the medium term. Aceh reconstruction is not just a physical matter but also

involves rebuilding the social fabric of these communities. This is an opportunity for us to start a sustainable peace process by uniting all parties to overcome the tragedy. However, let me pick up on a point made by the Minister for National Development Planning at yesterday's pre-CGI gathering. While the recovery of the devastated areas in Aceh and Northern Sumatra is a top priority for us, at the same time we have a large national economic, social and political agenda that we must move forward to lift our economic growth and meet our other pressing social goals.

Therefore this morning I would like to confine my brief remarks to recent progress in the macro-economy and our efforts to improve the investment climate. My colleagues from the Ministry of Finance Jusuf Anwar and Bank Indonesia Governor Burhanudin Abdullah will talk in more detail about fiscal policy and monetary policy.

First allow me to make a few comments on the future role of the CGI process. There is no doubt that the CGI is important to us as a forum for exchanging ideas about the pertinent policy issues and how best we can tackle them. It is also an important vehicle for securing loans to support our development programs and goals. However, I do feel that the CGI meetings and agenda have become less focused than they should be on borrowing strategy and aid effectiveness. We need to sit down as partners and refine the process so that it is focused and that decisions on loan programs and projects are indeed arrived at through a consultative process that reflects the pertinent economic and social needs of Indonesia. In this way we can ensure that every dollar spent on projects and programs does indeed produce a good social and economic return for the country.

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I would now like to briefly turn to the economy. In recent quarters we have become more optimistic that our economic expansion is gaining momentum and we must capitalize on this momentum with reforms. We expect growth in 2004 to come in at around 5 percent, the highest since 2000. Investment has also shown tentative signs of recovery after the anemic performance since the crisis. Investment grew 11 percent year on year in the third quarter, also the highest since 2000. Exports have also shown a modest pick up in growth as well.

This encouraging rise in growth has come on the back of two years of macroeconomic stability as reflected in relatively low inflation, a stable exchange rate and the gradual reduction in interest rates. Remarkable improvements in fiscal sustainability in recent years, as well as a stable and democratic political environment have all contributed to this stable macro picture.

However, as I think everyone here today is well aware, this macro-economic stability has not translated into a strong employment recovery. We heard yesterday that formal employment has declined since 2001, open unemployment is increasing and an increasing number of workers are forced to find activities in the informal sector. These problems merely highlight that we have a lot of homework to do to improve the investment and business climate.

This brings me to my next message. Sustainable economic growth only persists if productivity is rising in many sectors in the economy. Increases in productivity can happen only if reforms in macroeconomic management - which have succeeded- are continued and synchronized with reforms at the

microeconomic level. Nonetheless, experience in the past shows that microeconomic reforms will encounter tough challenges politically. However a government with strong political will and strong leadership will strive to handle those political economy challenges.

In the five-year period ahead, the government has declared several economic objectives, among the most important of which are:

- A reduction in unemployment from 9.5% in 2003 to 6.7% in 2009;
- A reduction in poverty incidence from 16.6% of the population in 2004 to 8.2% in 2009.
- In order to achieve the reductions in unemployment and poverty, economic growth has to accelerate from 4.5% in 2003 to 7.2% in 2009 and must average 6.6% for the coming 5 years;
- The aforementioned objectives will only be reached if the investment to GDP ratio rises from 20.5% in 2004 to 28.4% in 2009.

In realization of these objectives, the agenda to be implemented includes accelerated economic growth that is fair and sustainable through programs to improve investment conditions, protect and preserve macroeconomic stability, UKM (Small and Medium Business) skill advancement and improvement, and efforts in poverty eradication. This is the explanation of why we chose today's CGI theme of "Accelerated growth toward a just and equitable society"

The government is committed to improvement of the environment for investment and business, as it is the private sector that creates jobs. We are targeting a growth rate of 5.5 percent for this year, and an average of 6.6 percent for the next five years. At these rates we believe we can achieve our

employment and poverty reduction goals, and as well helping us to mobilize resources for our other social goals and to make progress towards reaching our Millennium Development Goals.

The government has identified five key priority areas to achieve this growth over the medium term. First, we are committed to maintaining macro-economic stability through stable prices, fiscal sustainability and consistency, and financial sector reforms. The second priority area is accelerating investment through improving the environment for business to take place. As I mentioned at the Investment Climate Forum last week, the government intends to simplify the investment process, for example, we would like to move from an investment system of controls and approvals to one of registration and facilitation. We also understand that we need to improve labor market flexibility as a way to boost jobs, while at the same time providing workers with adequate protection. Other priorities include improving tax rules and administration and effective initiatives to combat corruption and introduce good governance in the bureaucracy.

Finally I would like to make a few remarks on infrastructure. I think everyone here today would agree with me that one of the most pressing problems facing Indonesia is the under-investment in infrastructure. We look around and see congested urban roads and highways, deteriorating rural roads and infrastructure, inefficient rail and sea transportation and bottlenecks emerging in the energy sector. These will constrain our potential economic and employment growth and international experience also tells us that infrastructure constraints trap people in poverty.

The government is committed to improving infrastructure and early this week we had a very successful Summit on the topic. With limited public resources, our approach will be twofold. First, we intend to spend to rehabilitate infrastructure and, second, open up infrastructure to private sector participation.

The strategy that we have set requires good and effective implementation. More importantly, it also requires strong and effective leadership. Economic reforms will always be controversial. The dilemma of reform lies in the fact that the benefits will come in the medium and long-term, while sacrifice is immediate. Reform will also create winners and losers, and sometimes those few people and groups with entrenched interests know how to block the progress of policy reform.

Closing remarks

Before coming to my closing remarks, let me express my gratitude to Mr. Jemal-ud-din Kassum of the World Bank for his close cooperation as CGI co-chair for some years. He plays an important role in maintaining this vital forum as we can see today. To learn more of his thinking about the future of CGI, I will invite Mr. Jemal-ud-din Kassum to speak following my conclusion.

In closing, let me thank to all delegates for your support and cooperation as development partners. I trust that the CGI and the working groups will continue to identify challenges and advance the reform agenda.

Thank you