A STUDY ON FOREIGN DIRECT INVESTMENT AND BUREAUCRACY IN INDONESIA

By

Darmansyah

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

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Professor Seung-Joo Lee

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Committee in charge:

Professor Seung-Joo LEE, Supervisor ____________

Professor Dong-Young KIM ____________

Professor Kwon JUNG ____________

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ABSTRACT

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Darmansyah

Indonesia is still one of the countries with a low performance and low potential for FDI. Based on Global Competitiveness Report (GCR) 2009-2010, the main problem faced by entrepreneurs in doing business in Indonesia is inefficient bureaucracy. Moreover, in the World Bank report in 2010 it is also explained that to a start business in Indonesia, the investors have to go through nine procedures and have to wait for 60 days, which is the longest time compared to other ASEAN6 countries. Some investment regulations that are still conflicting with each other will not be beneficial to support the new investment law as a reformed driver for the investment policy that has been imposed since 2007. Red tape occurs not only in the central but also in the local government as the consequences of the institutional and legal framework. This paper analyzed the condition of FDI and bureaucracy in Indonesia through trend analysis as well as comparative analysis by using data from credible organizations in Indonesia and worldwide. In order to abolish this situation the government needs more effort to formulate efficient bureaucracy to attract investors. Both central and local government should have strong commitment to support the process of bureaucracy reform. Moreover, the government should support the electronic and online system persistently to reduce bureaucrat's intervention.

Key words : Bureaucracy, Foreign Direct Investment (FDI)

Dedicated to Rofieka, Putri, Icha and Daffa

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ABBREVIATIONS

ADB	: Asian Development Bank
ASEAN6	: Assosiation South East Asian Natioan 6 (Indonesia, Philippines, Vietnam, Thailand, Malaysia and Singapore)
BKPM	: *Badan Koordinasi Penanaman Modal* (Indonesia Investment Coordinating Board)
FDI	: Foreign Direct Investment
EIU	: Economist Intelligence Unit
MNCs	: Multi National Companies
OECD	: Organization for Economic Co-operation and Development
TNCs	: Trans National Companies
UNCTAD	: United Nations on Trade and Development
WEF	: World Economic Forum

Chapter I

INTRODUCTION

1.1. Background

Indonesian investment climate has been getting worse in the last few years. It is evidenced by a drastic decrease in the total investment value. According to the Indonesia Investment Coordinating Board (BKPM), and FDI (Foreign Direct Investment) Realization Report 2010 statistics, Indonesian FDI in 2009 has been declining US$ 10.815 million if compared to that in 2008 which was US$ 14.871,4 million[1]. In fact, Indonesia now has not yet been included into one of the most important destination locations for MNCs or TNCs (Multi National Companies or Trans National Companies). The report of UNCTAD in 2008 (Exhibit 1) showed that from the Southeast and East Asia countries, only Singapore, China (including Hong Kong), Taiwan, Malaysia, Japan and South Korea are included in the list of the most important destination for the world's largest TNCs[2]. According to this report, Indonesia is one of the countries with low performance and low potential for FDI. The aforementioned proves that Indonesia becomes a country that is not attractive for FDI because of many factors that hamper potential investors to invest.

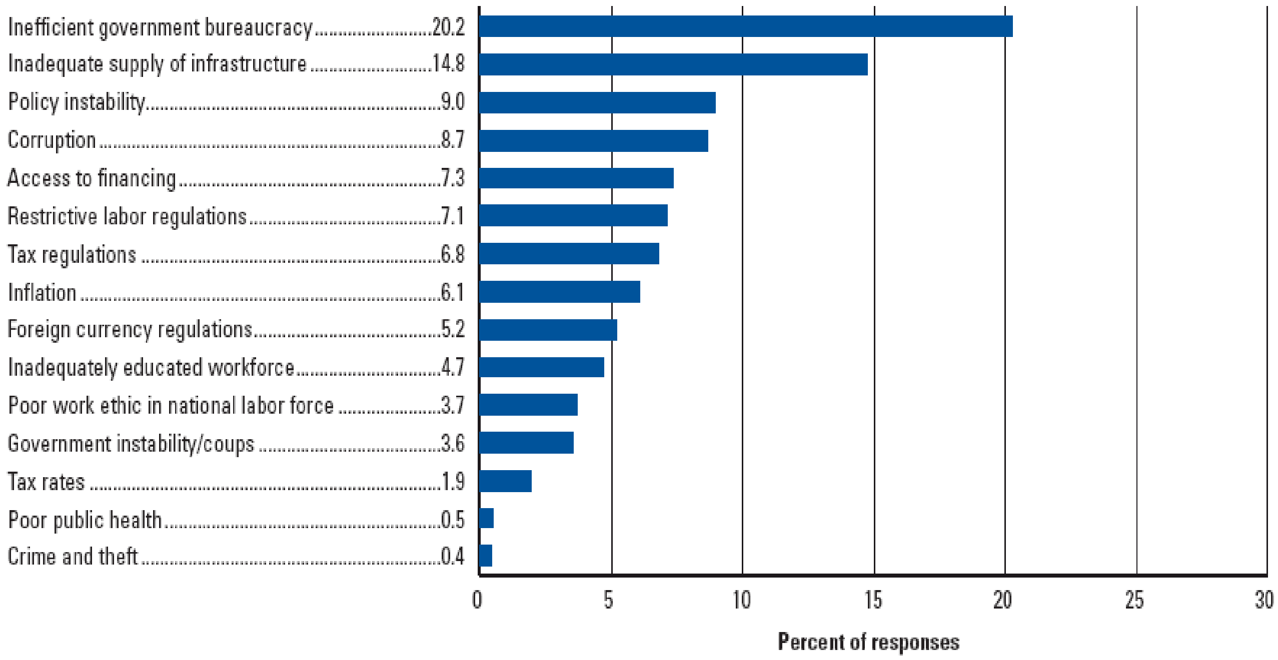
One of the major obstacles in doing business in Indonesia is the lack of legal certainty. Thelegal certainty is the major factor that encourages investors to invest their money in a country. From the survey conducted by World Economic Forum (WEF) in 2009, in The Global Competitiveness Report (GCR) 2009-2010, (Figure 1) showed that the main

[1] Indonesia Investment Coordinating Board, *Statistic of foreign direct investment realization by sectors*, Initials. (2010).
[2] United Nations Conference on Trade and Development (UNCTAD), Initials. (Ed.). (2009). *World investment Report 2009*. Switzerland: United Nations, page 56.

problem faced by entrepreneurs in doing business in Indonesia is the inefficient bureaucracy[3].

Moreover, in the World Bank report entitled Doing Business in 2010 described (Exhibit 2) that to start a business in Indonesia, the investor need 60 days. It is the longest time if compared to other ASEAN6 including Philippines. The time required is very long because the investors have to go through nine procedures. In addition the cost to start a business that must be paid by investors reached 26% of GDP per capita. Based upon the analyses of available data, this paper will analyze Indonesian bureaucracy (regulations and institutions) in attracting FDI.

Figure 1: The Most Problematic Factors for Doing Business in Indonesia (WEF, 2009)



According to Michalet (2000), there are some factors that generally should be discovered by investors before deciding to invest their money in one country, i.e.: 1) the stable political system and economy of the country. 2) A transparent, stable, non-

[3]World Economic Forum, *The Global competitiveness report 2009-2010.* Schwab, Klaus. (Ed.). (2009), page 172.

discriminatory legal and regulatory environment. laws and regulations that should be followed. In case of conflict, an efficient, non-corrupt legal system is required. 3) Bureaucratic procedures and institutional rigidities must be banned. Transaction costs should be as small as possible. When administrative procedures are too complex, investors tend to move to another place[4].

For this reason, the most important factor that should be considered by the government is legislation and laws which guarantee legal certainty for investors to invest in Indonesia. This includes the Tax Law (Act Number 16 year 2000), the Labour Law (Act Number 13 year 2003) and the Investment Law (Act Number 11 year 1970). Whereby the three laws are the most urgent in the regulation of investment, because of some articles which are not responsive to the investment sector, Indonesia becomes a country that is not attractive for investors. As the head of the Indonesia Investment Coordinating Board (BKPM), Gita Wirjawan, said "We still have issues with legal certainties and transparency"[5].

1.2. Research Goals

Some legal factors that hamper investors in doing business in Indonesia are the less responsive attitudes to some laws in investment sectors, i.e. Taxation Act, Labour Act and Investment Act. Moreover, the Indonesian present regulations have not provided a responsive regulatory arrangement. For example, in the Income Tax Act, the government gives incentives that can only be obtained by the investors in export-oriented industries in a certain period only. The large number of taxes (Exhibit 3) that is charged to investors put Indonesia in the rank of 54th among 133 countries (GCR WEF, 2009)[6]. This shows that Indonesia is left

[4] Michalet, Charles-Albert, *Strategies of multinationals and competition for foreign direct investment*. 24, (2000), page 6-7
[5] The Jakarta Post, Jakarta, 25 March 2010.
[6] World Economic Forum, *The Global competitiveness report 2009-2010.* Schwab, Klaus. (Ed.). (2009), page 408.

behind in implementing tax incentives policies compared to other ASEAN countries like Malaysia and Singapore.

Additionally, the Labour Act in Indonesia is also less responsive to the investment world. Paragraph 3, article 164 of the Labour Act for severance pay, layoffs, and reduction of employees is a good example. Severance pay rules widen the distance between high paid and low-wages workers. The high severance pay scale is burdensome to entrepreneurs. In its implementation, this act would lead to layoffs difficulties because of the high costs, slow restructuring of the business world, and incompetent recruitment of new workers. If this rule is revised in regard of the investor interest, thereupon investors will be more interested in investing in Indonesia.

As an illustration, in the hotel sector, the number of permits that need to be approved for building a new hotel is up to 37 units. This happens because each part of the hotel must have special permission from the relevant ministries. For instance, to build a restaurant inside the hotel needs a permit from the Ministry of Health because it involves healthy serving and safe food for consumers, meanwhile, to build a swimming pool permission is needed from the Ministry of Sports, and the use of labour should have a permission from the Ministry of Labour and should clearly follow regulations set forth in the applicable labour laws, and so on (Indonesia Investment Coordinating Board, 2009)[7]. Moreover, according to the ADB key indicators in 2009 (Exhibit 5), it takes almost 80 days to register a new business in Indonesia compared to other ASEAN countries like Malaysia (less than 20 days), Thailand (less than 40 days) or the Philippines (less than 50 days)[8]. This illustrates that Indonesia has a much more costly procedure that discourages new business. These lengthy registration procedures are a disincentive for foreign investors.

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[7] Indonesia Investment Coordinating Board, *Statistic of foreign direct investment realization by sector*. Initials. (2010).

[8] Asian Development Bank (ADB), Initials. (Ed.). (August 2009). *Key Indicators for Asia and the Pacific 2009*. Page 255

The basic purposes of the study are to analyze the situations of the FDI and bureaucracy conditions in Indonesia related to foreign investment. It also aims to identify leading factors of FDI and to suggest some policies to combat with FDI problems. The major objectives of this study are:

a. To analyze the existing bureaucracy related to institutional and policies for FDI in Indonesia.
b. To analyze the existing legal framework related to FDI.
c. To suggest some policies for attracting foreign investment in Indonesia especially those related to the bureaucracy and legal aspects.

1.3. Research Methodology

This thesis used the research methodology which refers to the entire process of planning and carrying out a research study. The objectives of this thesis are to examine the overall structure and trend of FDI in Indonesia and to review the law and policies related to FDI and current bureuacracy.

1.3.1. Hypothesis

Bureaucratic inefficiency often becomes an obstacle in attracting FDI inflow because most investors will invest their money to the countries that have simple and easy bureaucracy both in the licensing and implementing of investment. Therefore, this thesis will formulate the hypothesis about the relationship between bureaucracy and investment in Indonesia.

The first hypothesis is the poor bureaucracy will affect the interest of investors to invest through FDI. In other words, if there is bureaucracy inefficiency, then there will be less FDI in Indonesia. Indonesia is the country that has a complex bureaucracy resulting in lower investment.

The second hypothesis is the decentralization process in the provinces and districts in Indonesia has created an inefficiency of bureaucracy. Under this hypothesis, it can be explained that decentralization has generated an unfavourable environment to FDI and business sector as a whole.

1.3.2. Data Sources

The data of this research are collected mainly from secondary sources. To analyze the bureaucracy and legal framework, the current policies and investment laws related to the foreign investment in Indonesia are used. Besides, publications, books, journals and articles are studied to understand the basic concepts of foreign direct investment. Data collection is mainly from Indonesian Investment Coordinating Board (BKPM), Ministry of Industry, Ministry of Finance, and Bank Indonesia as the Central Bank of the Republic of Indonesia.

In addition, this research also gathered the data from international institutions such as World Bank, International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD), Association South East Asian Nation (ASEAN), and Asian Development Bank (ADB). Furthermore, to complete this research, the sources have been collected from various published magazines, newspapers, different economic journals and some web sites.

1.3.3. The Method of Analysis

The methodology to analyze the hypothesis was the qualitative analysis with the comparative approach of bureaucratic condition and trends of FDI in Indonesia compared to neighbouring countries, especially ASEAN6. More detailed analysis is to analyze the condition of bureaucratic of each province in Indonesia and trends of FDI. So, the type of research methodology used is both descriptive and analytical study. Furthermore, this study will analyze components of bureaucracy, which includes the licensing system, bureaucratic complexity and labour conditions. To deepen the analysis, the analysis of the system of decentralization and its impact on the investment climate in Indonesia is also presented.

1.3.4. Significance of Study

The significances of the study identified are : (a) It contributes to knowledge regarding Indonesian bureaucracy and implication to FDI which may be used for further study in this field; (b) Acquire knowledge of bureaucracy and factor to influence the bureaucracy in Indonesia. (c) Provide appropriate recommendation for both central and local government to improve the quality of bureaucracy for FDI interest..

1.4. The Structure of Thesis

Investment climate in Indonesia is still worse compared to other countries; it is evidenced by the survey results from WEF 2009 and the declining rate of the FDI realization in year 2009 relative to year 2008. One of the important factors is bureaucracy, including, the lack of legal certainty. Legal certainty can be realized with the establishment of responsive laws. Based on this hypothesis, this thesis is structured in the following way:

Chapter 1 addresses the background of the problem of FDI in Indonesia related to the FDI trend and international perfectives.

Chapter 2 presents the FDI trend and performance in Indonesia, determinant factors and comparative with other ASEAN countries.

Chapter 3 presents the overview of bureaucracy, the overview of Indonesia's investment regulation which explain the government efforts to improve the investment condition, the analysis of the bureaucracy related to investment in Indonesia, cope with institutional analysis, labour analysis, doing business factor analysis and comparative analysis with other ASEAN countries. This chapter also presents the investment law and decentralization of government authority to the local government and its implication to FDI.

Chapter 4 presents the conclusion of pervious chapters, the present possible policy implication related to the effective bureaucracy for improving investment climate to attract FDI in Indonesia.

Chapter II

FOREIGN DIRECT INVESTMENT IN INDONESIA

Foreign direct investment (FDI) is a major catalyst for development and the integration of developing countries in the global economy. FDI can play an important role in order to reduce poverty. FDI is a powerful engine to bring major benefits to countries and regions, in terms of enhanced financing, export capacity, growth, employment, skills and technology transfer.

According to Yussof and Ismail (2002), FDI has played an important role in the economic development of many developing countries including Indonesia's economies. First, it has provided an additional source of capital, an expanded host country production activity. The inflow of capital in the form of FDI allowed host economies to invest in production activities beyond what could be achieved by investing domestic saving alone. Second, it has promoted exports and trade, especially in the more open host nations. Third, FDI has crucially helped to transfer new technology to the host country. In general, FDI provides the fastest and the most effective way to deploy new technologies in developing host countries. Finally, FDI also improves the international allocation capital, particularly if the return on capital is higher in the host country than in the source country.

FDI is a source of capital accumulation, both physical and human capital. Well designed FDI will raise economic growth, thereby adding to the growth of employment. FDI can also generate revenues for governments to spend on focused infrastructure and services. These revenue effects are both direct (some taxes) and indirect (when FDI raises economic growth). Hence, FDI can contribute to countries by reducing income-poverty (through its employment effect) and by creating revenue as a source of finance for human development, such as, health care and education.

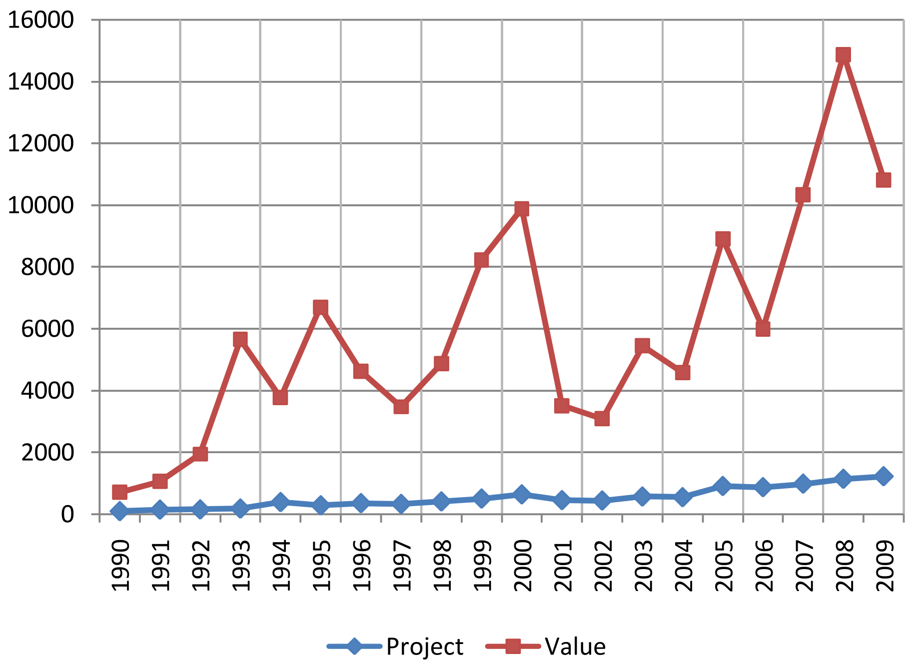
2.1. FDI Trend and Performance

Indonesia has experienced fluctuated FDI. Table 1 explains that total FDI from 1996 to 1998 decreased significantly compared to those in 1995. During 1999 and 2000 it increased sharply. However, total FDI decreased again significantly in the period 2001 - 2004. When it is compared with the total FDI in 2000, FDI after four years dropped to -181% in 2001, -220% in 2002, -81% in 2003 and -116% in 2004. Furthermore, although in 2005 the total FDI increased by 48.7%, in 2005 it dropped again around the same percentage. Likewise, total FDI increased respectively in 2007 and 2008 that reached 72.6% and 43.8%. However, it went down by 27.3% in 2009 compared to one in 2008.

Table 1.a : Foreign Direct Investment in Indonesia 1990-2009 (million US$)

Year	Project	Value
1990	100	706.0
1991	149	1,059.7
1992	155	1,940.9
1993	183	5,653.1
1994	392	3,771.2
1995	287	6,698.4
1996	357	4,628.2
1997	331	3,473.4
1998	412	4,865.7
1999	504	8,229.9
2000	638	9,877.4
2001	454	3,509.4
2002	442	3,082.6
2003	569	5,445.3
2004	548	4,572.7
2005	907	8,911.0
2006	869	5,991.7
2007	982	10,341.4
2008	1138	14,871.4
2009	1221	10,815.2

Graph 1: Foreign Direct Investment in Indonesia 1990-2009



Source : Indonesia Investment Coordinating Board /BKPM

Note :

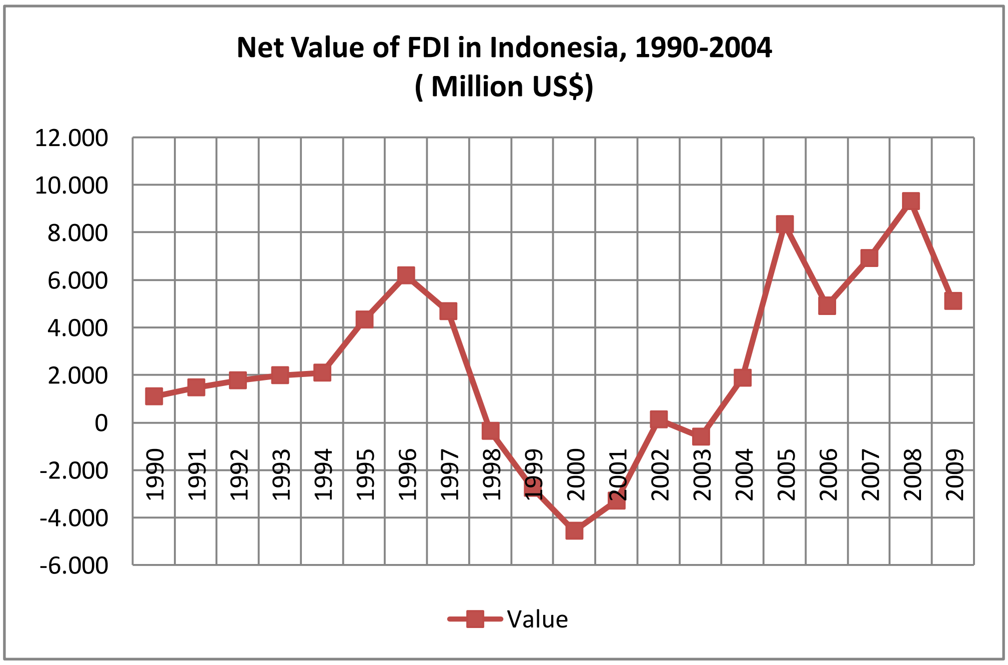
1. Excluding of *Oil & Gas, Banking, Non Bank Financial Institution, Insurance, Leasing, Mining in Terms of Contracts of Work, Coal Mining in Terms of Agreement of Work, Investment which licenses issued by technical/sectoral agency, Porto Folio as well as Household.*
2. *Projects : Total of issued Permanent Licenses*
3. *Tentative data, including Permanent Licenses issued by regions received by BKPM until December 31, 2009.*

Many factors have certainly influenced the fluctuation of FDI in Indonesia. It seems that in FDI as overall the business climate related to politics, economic, social and many other factors also impacted the total FDI in Indonesia. Bureaucracy is one of the main factors which have affected the fluctuation of foreign investment.

Table 1.b. explains that from 1998 to 2003 the net value of FDI still remain negative. The FDI net value became positive in 2004. At that time, political condition in Indonesia was relatively stable and the government implemented certain programs in order to attract FDI. FDI inflows rose up to 34.5% in 2008, reaching more than $8 billion. Political stability, optimistic domestic demand and sound economic fundamentals help boost economic growth and FDI prospects in Indonesia. Now the most important thing is how the government support this condition with a good policy and reform the bureaucracy in order to create a good business climate to promote Indonesia as the best destination for FDI.

Table 1.b.: Net Value of FDI in Indonesia, 1990-2009 (million US$)

Year	Value
1990	1,093
1991	1,482
1992	1,777
1993	2,004
1994	2,109
1995	4,346.0
1996	6,194.0
1997	4,678.0
1998	(356.0)
1999	(2,745.1)
2000	(4,555.0)
2001	(3,278.5)
2002	144.9
2003	(596.1)
2004	1,894.5
2005	8,336.0
2006	4,913.8
2007	6,928.3
2008	9,318.1
2009	5,125.3



Source: Bank Indonesia: Indonesian Financial Statistic

Note :Records international capital flows as part of balance of payments statistics

Table 2: Foreign Direct Investment in Indonesia 2006-2009
(By Sectors)

No.	Sectors*)	2006		2007		2008		2009	
		P	I	P	I	P	I	P	I
1.	Primary Sector	39	532.4	62	599.3	55	335.6	49	462.6
2.	Secondary Sector	363	3,619.7	390	4,697.0	495	4,515.2	474	3,831.1
3.	Tertiary Sector	467	1,839.5	530	5,045.1	588	10,020.5	698	6,521.2
	Total	869	5,991.7	982	10,341.4	1,138	14,871.4	1,221	10,815.0

Source : Indonesia Investment Coordinating Board /BKPM

Note :

1. Excluding of *Oil & Gas, Banking, Non Bank Financial Institution, Insurance, Leasing, Mining in Terms of Contracts of Work, Coal Mining in Terms of Agreement of Work, Investment which licenses issued by technical/sectoral agency, Porto Folio as well as Household Investment.*
2. P : Total of issued Permanent Licenses
3. I : Value of Direct Investment Realization in Million US$.
4. *Tentative data, including Permanent Licenses issued by regions received by BKPM until December 31, 2009.*

Table 2 explains the condition of FDI in Indonesia by sectors (primary, secondary and tertiary) during 2006-2009. Primary sector which covered production of products such as food crops and plantation, livestock, forestry, fishery and mining were only the smallest portion, around 5% of total FDI.

Secondary sector (manufacturing sectors) held more than 35% of FDI in 2009, and it is the second most FDI absorbent sectors. In this sector, the production of products includes textile, wood product, paper and printing, rubber and plastic, non metallic mineral, machinery and electronic, medical and optical instrument, watches and clock, motor vehicles and equipment. For examples, Toyota, Honda, Suzuki and Nissan are Japanese automobile manufacturing, whose home base FDI in Indonesia.

Tertiary sector, which mostly becomes the service sector, is the highest portion of FDI. This sector held more than 60 % of total FDI in 2009. This sector covered electricity, gas and water supply, construction, trade and repair, hotel and restaurant, transport, storage and communication, real estate, industry estate, business activities and other services.

During this period (2006-2009), primary sector was not able to increase and tend to decrease in 2008. Secondary sector also had the same pattern which was relatively stable and slightly decreased in 2009. On the other hand, tertiary sector increased significantly in 2007 and 2008 which reached 174% and 98.6% respectively compared to the previous year. However, FDI in this sector dropped almost 35% in 2009. This trend can be analyzed to determine which sector will be the best for government to attract FDI and create more benefit to the country.

In Table 3.a ASEAN is the group of countries which allocated the highest FDI for Indonesia compared to other groups of countries. Among the ASEAN countries, Singapore stands first for approximately more than 70% of total ASEAN FDI in Indonesia or more than 40% of total FDI in Indonesia in 2009. ASEAN becomes the highest number of FDI for Indonesia because of location in the same region, as ASEAN community and cultural.

Table 3.a: Foreign Direct Investment in Indonesia 2006-2009
(By Country Origin)

No.	Country	2006		2007		2008		2009	
		P	I	P	I	P	I	P	I
1.	ASEAN	124	926.5	187	4.028.4	267	1,855.7	272	4,536.6
2.	Asia excluding ASEAN	337	1,752.0	368	1,914.4	421	2,015.8	445	1,466.8
3.	European Union	130	821.2	149	1,871.6	149	1,018.7	154	1,972.6
4.	Other Europe	13	74.4	13	80.8	10	72.8	18	136.5
5.	America including USA	42	153.3	38	330.6	50	175.8	33	173.2
6.	Australia	23	9.0	27	195.6	36	40.1	29	81.1
7.	Africa	15	700.0	15	505.7	10	6,542.8	14	496.1
8.	Join Countries	185	1,555.3	185	1,414.3	195	3,149.7	256	1,952.2
	Total	869	5,991.7	982	10,341.4	1,138	14,871.4	1.221	10,8015.2

Source : Indonesia Investment Coordinating Board /BKPM
Note :

1. Excluding of *Oil & Gas, Banking, Non Bank Financial Institution, Insurance, Leasing, Mining in Terms of Contracts of Work, Coal Mining in Terms of Agreement of Work, Investment which licenses issued by technical/sectoral agency, Porto Folio as well as Household Investment.*
2. P : Total of issued Permanent Licenses
3. I : Value of Direct Investment Realization in Million US$.
4. *Tentative data, including Permanent Licenses issued by regions received by BKPM until December 31, 2009.*

Table 3.b: Foreign Direct Investment in Indonesia 2009
(Top 10 by Country Origin)

No.	Country	Project	Value	%
1.	Singapore	189	4,341.0	40.1
2.	Netherlands	32	1,198.7	11.1
3.	Japan	124	678.9	6.3
4.	South Korea	186	624.6	5.8
5.	United Kingdom	61	587.7	5.4
6.	Seychelles	4	322.2	3.0
7.	United States of America	27	171.5	1.6
8.	Mauritius	6	159.5	1.5
9.	Switzerland	11	132.1	1.5
10	Malaysia	75	129.3	1.2

Source : Indonesia Investment Coordinating Board /BKPM
Note :

1. P : Total of issued Permanent Licenses
2. I : Value of Direct Investment Realization in Million US$.

By analyzing more deeply the ranks of countries, it can be determined which countries as a top 10 for FDI inflow in Indonesia. Table 3.b. describes five countries, Singapore, Netherlands, Japan, South Korea, and United Kingdom that covered almost 70% of FDI in 2009. Most of the Singapore investments were directed to the telecommunication, service sectors, and tourism. Singapore's investment is mostly located in Batam, Bintan and Karimun Island which are close to Singapore. The Netherlands and Japan are Indonesia's second and third largest FDI inflows. The investments from these countries to Indonesia are primarily concentrated in the power/energy, telecommunication, transportation sectors and vehicle industries.

Table 4.a: Foreign Direct Investment in Indonesia 2006-2009
(By Location)

No.	Location	2006		2007		2008		2009	
		P	I	P	I	P	I	P	I
1.	Sumatera	42	898.2	72	1,398.5	95	1,009.9	123	776.2
2.	Java	718	4.416,4	792	8,503.5	947	13,566.8	946	9,370.6
3.	Bali and Nusa Tenggara	82	106.2	80	56.7	59	95.5	100	233.8
4.	Kalimantan	16	534.8	27	300.6	19	115.2	31	284.4
5.	Sulawesi	9	15.5	9	79.6	14	65.4	16	141.6
6.	Maluku	1	20.0	-	-	-	-	2	5.9
7.	Papua	1	0.6	2	2,5	4	18,7	3	2,8
	Total	869	5,991.7	982	10,341.4	1,138	14,871.4	1.221	10,8015.2

Source: Indonesia Investment Coordinating Board /BKPM

Table 4.b: Foreign Direct Investment in Indonesia 2009
(Top 10 by Location)

No.	Country	Project	Value	%
1.	Jakarta Capital Territory	456	5,510.8	51.0
2.	West Java	293	1,934.4	17.9
3.	Banten	92	1,412.0	13.1
4.	East Java	67	422.1	3.9
5.	Riau	8	251.6	2.3
6.	Riau Islands	87	230.7	2.1
7.	Bali	92	227.2	2.1
8.	South Kalimantan	5	171.8	1.6
9.	North Sumatera	13	139.7	1.3
10	Central Java	30	83.1	0.8

Source: Indonesia Investment Coordinating Board /BKPM
Note:
1. P : Total of issued Permanent Licenses
2. I : Value of Direct Investment Realization in Million US$.

Like other economic activities, FDI inflows have shown a great disparity among regions within the country. Distribution of FDI within Indonesia, Java and Sumatra have been the top performers, with the majority of FDI within Indonesia being heavily concentrated around four major cities in 2009. Four major cities are Jakarta Capital Territory, West Java, Banten and East Java. These top four cities account for more than 85% of all FDI inflow to Indonesia in 2009 (Table 4b.) In Sumatra, Riau province and Riau Island Province are drawing significant shares of FDI inflow which reached 4.4% (482.3 million US$).

Based on OECD report[9], Java has absorbed 60% of FDI projects on an approval basis since 1992. Sumatra was the second most popular region for foreign investors, attracting 21% of total FDI projects, the majority of it has gone to the province of Riau, including the major industrial locations of Batam, Bintan and Karimun. Although the importance of Java dropped slightly during the Asian crisis, it recovered quickly afterwards. The high concentration of FDI projects in Java continued from 2006 onward, with 85% of total FDI projects located in Java, particularly in the Jakarta Capital Region, despite its infrastructure deficiency. Sumatra was accounted for 11% of FDI projects in the same period with about half of investment was going to Riau.

2.2. Investment Climate in Indonesia

2.2.1. Indonesia Overview

Geography

Indonesia is the world's fourth most populated country with a population of 229 million (2009)[10]. Indonesia is also the world's largest Muslim country, and it is a very young democracy. Indonesia is also the world's largest archipelago. It consists of around 17,500 islands, of which 6,000 are inhabited. The country stretches 5,120 km along the Equator. Approximately, 80% of Indonesia's total area is the sea mass. The land area is 1,900,000 km2. The five largest islands are Java, Sumatra, Kalimantan, Papua and Sulawesi. Java is the

[9] OECD Investment Policy Reviews Indonesia 2010.
[10] Country Profile Indonesia, *G-20 advanced industrial and emerging countries Indonesia*, Federal Statistic Office, 2009.

world's most populous island, with a population density of 940 per km2, and a total population of around 125 million. Jakarta, the capital, is located in North-Western Java. Indonesia is located in an area which is called the Pacific Ring of Fire. This is an area on the edge of several tectonic plates (Pacific, Eurasian and Australian), and it is known for frequent volcanic and seismic activity. In recent years several natural disasters have occurred due to seismic activity. Indonesia borders are with Malaysia, Singapore and the Philippines in the North, and Papua New Guinea, East Timor and Australia in the East. [11]

Indonesia has a tropical climate, with average annual rainfall of between 1,780-3,175 mm. There are two seasons: the wet season lasts from October to April, and the dry season from May to September. There is rain during both seasons, but the dry season is drier and hotter. The wet season is characterized by heavy afternoon showers, and sometimes it may rain for days without end. Temperatures typically vary between 28 and 33 degrees Celsius.

Democracy

In 1998, after more than 30 years of an authoritarian regime, President Suharto was forced to resign due to people pressure. In 2004 Indonesia first democratically elected new president, Susilo Bambang Yudhoyono. In 2009, Yudhoyono was re-elected by an overwhelming majority, indicating a popular support to the reform process he initiated when elected the first time. After 10 years of democratic reforms, Indonesia is now strongly positioned among the democratic and stable regimes in Asia. There is a high level of freedom of speech, an active civil society, and an improving human rights situation, even though the country still has challenges in all of these areas.

Indonesia is today South-East Asia's most exciting democracy. Indonesians are enjoying a level of political freedom that was unthinkable 10 years ago and that still seems years into the future for some of its neighbours. After a period with frequent presidential

[11] http://en.wikipedia.org/wiki/Indonesia

changes from 1999 to 2004 under the presidents Habibie, Wahid and Megawati, the government of President Yudhoyono has successfully established Indonesia as a democracy.

Besides a free press, the country now has vigorously contested elections at all levels, from the President down to the village chief. All the main political parties, including the Islamic parties, seem committed to pluralism. Indonesia has also come a long way in decentralizing power to the provincial governments.

Government System

There are three other key branches of the Indonesian government, namely the Executive, Legislature and Judicial Branches. The Executive Branch includes the President, Vice-President, Cabinet Ministers as well as non-departmental agencies. The President roles are both the Head of State and the Head of Government. The President has very broad powers, and appointments and dismissals from the Cabinet are entirely at his or her discretion. The President is also responsible for appointing judges for the Supreme Court.

Legislative power in Indonesia is vested in the House of Representatives (DPR). The council is made up of 400 directly elected and 100 appointed members. Its main responsibility is to approve all statutes, and it reserves the right to submit bills for ratification by the President.

The Indonesian judiciary system is tiered into the Supreme Court, High (Appellate) Courts and the District Courts. Each of these courts is empowered to exercise both civil and criminal jurisdiction. There are also various other courts, including the Religious Courts (Muslim matrimonial and inheritance matters), the Military Courts and the Administrative Courts, which facilitate questions between citizens and officials.

Parallel with the national levels of departmental and non-departmental structures are the regional levels of administration. These are further divided into provincial, district, sub district, village and neighbourhood administrations. At the provincial level, the local government electorate is subdivided into 33 provinces, including three special territories. The provincial administration in each province is headed by a governor, and he is accountable for both the central government as well as the provincial assemblies. Under Indonesia's regional autonomy laws, most powers are granted to provinces and districts, except in matters such as foreign affairs, defence and security, justice, monetary and fiscal affairs, as well as religious affairs.

2.2.2. Indonesia as a Destination of Investment

This strategy is to update the unique selling preposition of Indonesia as a destination of investment. Thus, the foreign investors will know more about Indonesia and the benefit to invest in this country. In Figure 2 below, growing and a large domestic market, abundant natural resources, demographic condition with younger and technically trained work force, economic potential and political stability are the attractive factors for investors to come to Indonesia.

Figure 2: Investment Climate in Indonesia

Sources: Summary from Indonesia Investment Coordinating Board – BKPM, 2010

Large Domestic Market

Indonesia has a large domestic market to offer because Indonesia population is more than 230 millions. Over 50% people of which live in urban areas and adopt a modern lifestyle. A growing and affluent middle class supports GDP growth with approximately 70% of GDP accounting for private consumption. These statistics are fair well for many industries, including retail and consumer products, food processing, as well as automotive industry.

Abundant Natural Resources

Indonesia is a renowned market for resource mining. "Based on the report of Pricewaterhouse Cooper, Indonesia is even more attractive than for instance, South Africa, Australia and Canada in terms of mineral prospectively. The Indonesian natural resources provide tremendous investment opportunities".[12]

Dynamic Demography

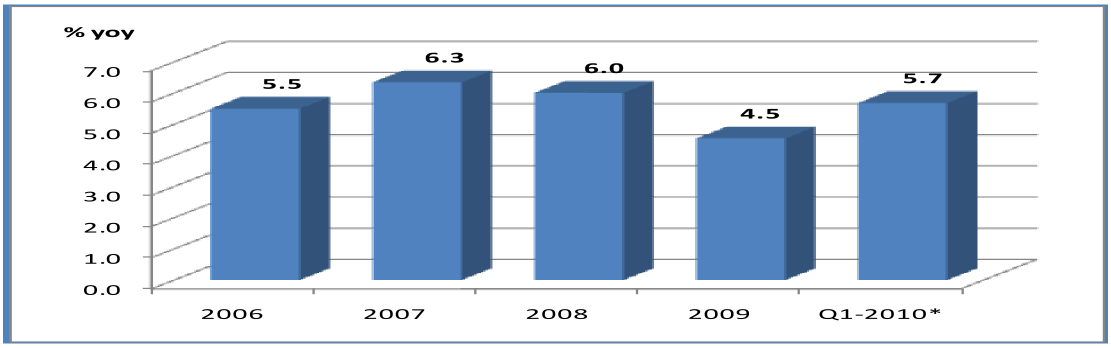
The national population from the 2000 national census is 206 million, and the Indonesian Central Statistics Bureau and *Statistics Indonesia* estimated a population of 222 million for 2006. 130 million people live in the island of Java, the world's most populous island. The population is expected to grow to around 254 million by 2020 and 288 million by 2050. This will provide more labor market supply.[13]

Macro Economic Stability

The economy performed steadily at 6.2% on average during 2007 - 2008, which was the highest GDP growth after Asian crisis (Chart 1). However, in Q4-2008, Indonesian economic performance began to moderate as an impact of the global economic downturn.

[12] http://www.bkpm.go.id/contents/general/
[13]h ttp:// http://en.wikipedia.org/wiki/Indonesia#Demographics

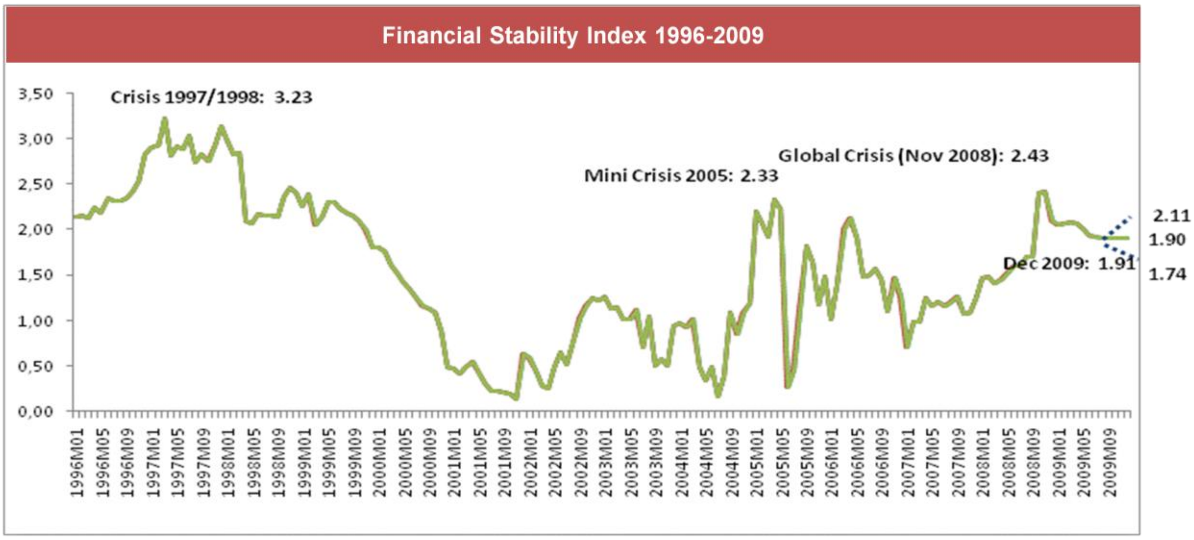
Chart 1: Indonesian Economic Growth 2006-2010



Note : Q1: First quarter 2010
Source : Recent Economic Developments, Bank Indonesia, 2010

Indonesia is fairly insulated from global spill-over. The Indonesian financial sector stays in flexible normal in the recent crisis. Strong governance structure and prudential principles: the invaluable lessons learned from the 1997/1998 Asian crisis lead the banking industry to put in place governance structures and to apply balanced prudential principles.

Chart 2: Financial Stability Index 1996 – 2009



Source: Recent Economic Developments, Bank Indonesia, 2010

Security and Political Stability

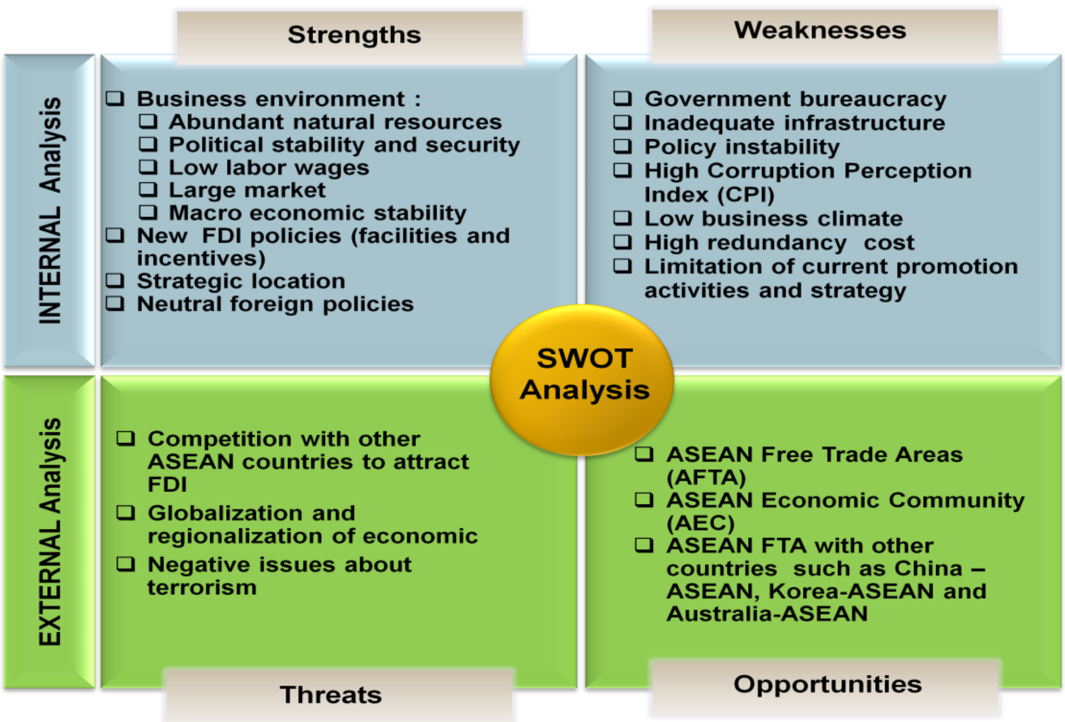
Indonesia has transformed from an authoritarian state for 30 years to democratic state with a regional role model. Indonesia succeeded to handle a transfer process to democracy.

While it has been challenging journey, today Indonesia is one of the most decentralized countries in the world with substantial funds, and authorities devolved to the regions. In addition, the 2009 parliamentary and presidential elections were conducted peacefully, signalling the consolidation of the democratic process. In 2009, Indonesia also succeeded to hold a direct election for the second time without any significant social and political problem.

2.3. SWOT Analysis of FDI Climate in Indonesia

This section will provide the analysis of the implementation of promotion strategy to attract FDI which internally and externally perspectives by using SWOT analysis. "SWOT is the strength, weakness, opportunities, and a threat. An initials of the words together to create a management strategy is a tool for analysis. Analysis of the inner side of the strengths/ weaknesses analysis, to analyze the external environment, the opportunity/threat analysis division of the strengths and opportunities and see the positive side and vice versa, brings the risk of weakness, is a tool to weigh the threat" (Wikipedia,2010). SWOT analysis for FDI strategy can be seen in Figure-3.

Figure 3: SWOT Analysis of FDI Model In Indonesia

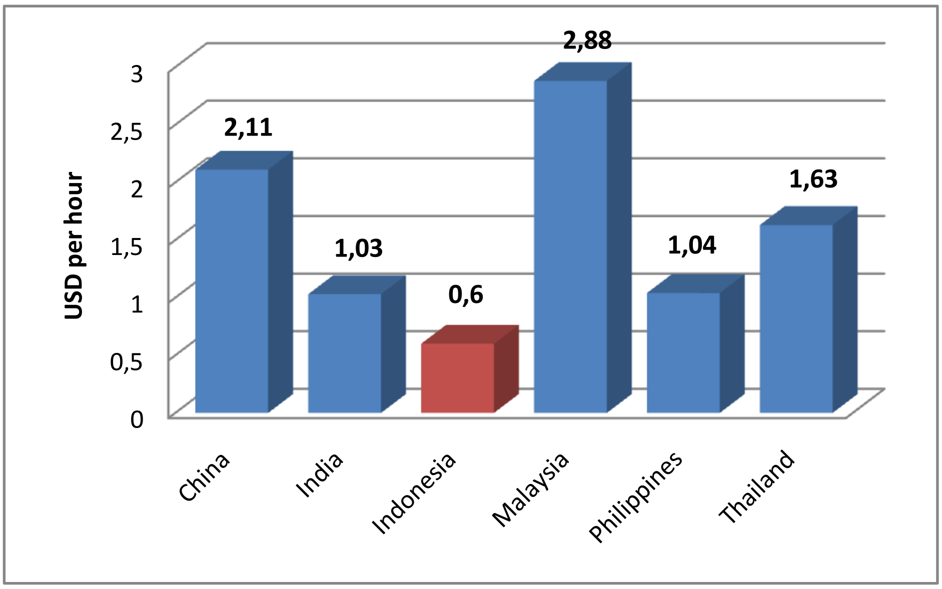


Strengths

As mentioned in the previous part Indonesian has comparative advantages compared to other countries. The comparative advantages include abundant natural resources, political stability and security, low labour wages, larger market and macroeconomic stability. Besides, Indonesia is also located in a strategic location and has implemented neutral foreign policies. Moreover, Indonesian government has also implemented some FDI incentives to invite FDI from other countries.

Indonesian labour cost is very low compared to other countries. In Figure 4, it is explained that Indonesian labour cost is only US$ 0.6 per hour. It is the lowest cost among the countries in the same region such as Malaysia, the Philippines, and Thailand and even among India and China. Indonesia which is located between two great continents, Asia and Australia, and between two oceans, the Indian and Pacific ocean make Indonesia become a strategic point of international trade.

Figure 4: Comparatives Average Labour Wages



Source : Economists Intelligence Unit, 2010

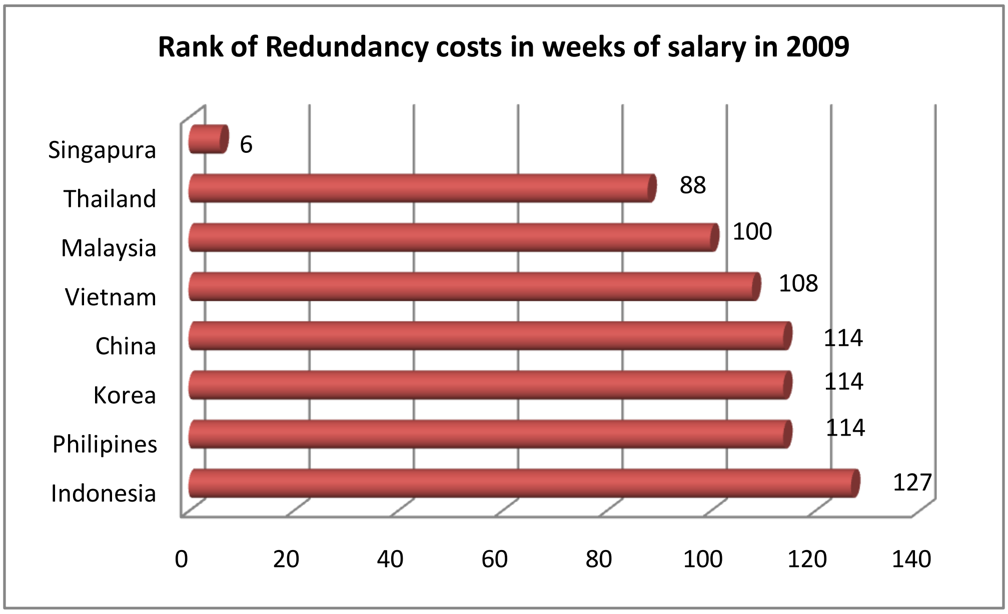
Weaknesses

The weaknesses of promotion strategy to attract FDI are related to some factors. The Global Competitiveness Report 2009-2010 published in World Economic Forum explains that inefficient government bureaucracy, inadequate availability of infrastructure, policy instability are the major problems of Indonesia in global competiveness (see in Figure 1). This indicated that Indonesia has difficult regulations such as red tape for starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.

The Corruption Perceptions Index (CPI) is also one of the weaknesses for Indonesia to attract FDI. CPI indicates that Indonesia still has problems with excessive bureaucracy and red tape, which make a businessman find it difficult to predict the cost to build a new business or to run a business. Based on International Transparency report in 2009, Indonesia was ranked at the 111st. This rank is lower than Malaysia (56th), China (79th), India (84th), and Thailand (84th). Higher corruption index might diminish the attention of investors from other countries to invest in Indonesia.

Although Indonesian labour cost is very low compared to other countries, Indonesian manpower law contribute to create redundant costs of labour in Indonesia. There are many additional costs besides salary. Compared to other countries, the redundant cost of labour in Indonesia is still high (figure 5).

Figure 5: Higher Redundancy Cost



Source : ‘Doing Business 2010’- World Bank Report, 2009

Threats

ASEAN countries become the destination for FDI from other countries. Even ASEAN countries have made the agreement related to economic cooperation, though each country tries to attract FDI to robust their economic development. As a comparison, some of ASEAN countries offer better incentives related to tax incentives or other facilities. For example, Thailand launched tax-based incentives including exemption or reduction of import duties on machinery and raw materials, and corporate income tax exemptions. Besides, Thailand also implemented non tax incentives including permission to bring in foreign workers, to own land and to take or remit foreign currency abroad.

Globalization and regionalization of economy will become a threat for economic condition if Indonesia does not prepare and implement certain policies to compete with the other countries. On the other side, globalization and regionalization of economy might also become the opportunities for Indonesia to improve the unique selling proposition which is not available in the other countries.

Negative issues from neighbouring countries about regional militant group such as *Jemaah Islamiah* (JI) pose a lingering threat to security in Indonesia. JI is blamed for a series of attacks, including the Bali bombings of in October 2002 and the Jakarta bombings in July 2009. This issue also came to be a threat for Indonesia to fascinate FDI, although in the current year this issue is not significant to influence businesses in Indonesia.

Opportunities

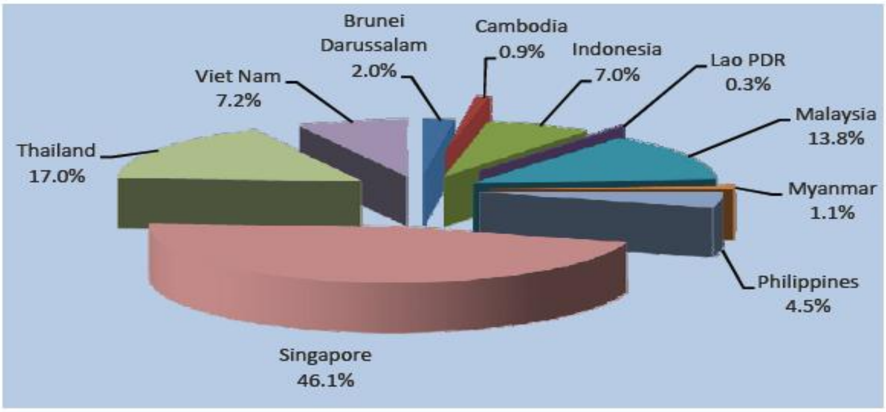
Expanded global influence might become opportunities for Indonesia to improve the unique selling proposition which is not available in the other countries. The 4^{th} ASEAN Summit in Singapore in 1992 agreed to establish a free trade area and signed the framework Agreement on Enhancing ASEAN Economic cooperation. The objective of AFTA is to increase ASEAN competitive edge as a production base for global market. AFTA also helps enlarging the ASEAN market and provide the platform for technology transfer and development of new industries. Indonesia is as well leading member of ASEAN, shaping integrative approaches in the region for security, trade and commerce, and will be the integral part of the ASEAN Economic Community in 2015. These situations are benefiting for Indonesia to improve the promotion of FDI within ASEAN countries.

In addition, ASEAN and other countries also make FTAs such as China – ASEAN FTA, Korea-ASEAN FTA, Australia-ASEAN FTA. Indonesia should be able to obtain these opportunities to attract FDI. Through FTAs, China, Korea and Australia want to find the new market to expand their manufacturing. Indonesia might become a country which has competitive advantages compared to other ASEAN countries. However, if Indonesia is not able to compete in the globalization and regionalization, it will create disadvantages because the investor will move to other countries. There is no barrier of trade among ASEAN countries with the countries that has FTA agreement with ASEAN.

2.4. FDI Comparison with ASEAN Countries

As illustrated in chart 3, Indonesia FDI in periods 1995 - 2008 was still far less than Singapore, Malaysia and Thailand. Even Vietnam's FDI position was higher than FDI in Indonesia. Although Indonesia is a big country with abundant resources, largest territory and highest population among those four countries, Indonesia has not been quite successful in attracting foreign investors.

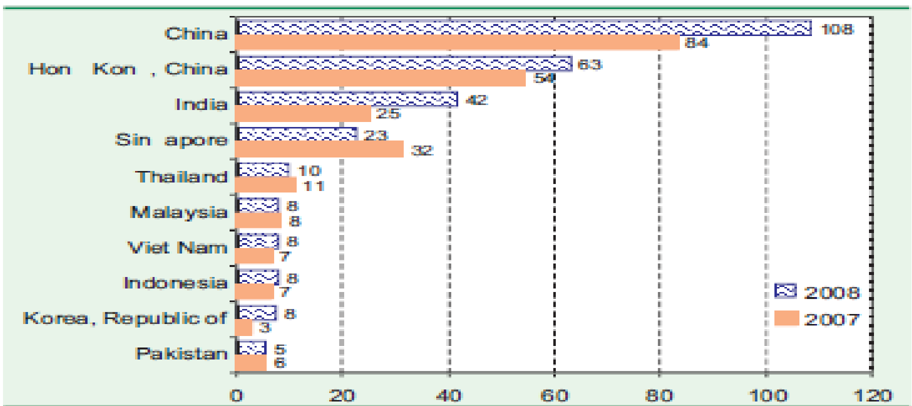
Chart 2.a.: Share of Foreign Direct Investments in ASEAN By Host Country, 1995 - 2008



Source: ASEAN Secretariat-ASEAN FDI Database as of 15 July 2009

Chart 2.b. explains that Indonesia is part of top ten countries as a recipient of FDI inflow in 2007-2008. However, Indonesia ranked below other ASEAN countries such as Singapore, Malaysia, Thailand and Vietnam.

Table 2.b.: South, East and South-East Asia: Top 10 Recipients of FDI inflows, a 2007–2008



Source :World Investment Report 2009, United Nation, New York and Geneva, 2009

Based on this Table 5, it can be explained that, Indonesian rank in 2007 was in the 4th which was below Malaysia, but in 2008 the FDI of Indonesia increased significantly (26%) and this lead Indonesia the 3rd position. However, in 2009 the FDI of Indonesia dropped to almost 91% that made Indonesia at the 4th rank and this position was below Vietnam and Thailand. The share of FDI of Indonesia was 28.3% intra-ASEAN and 71.7% from extra-ASEAN in 2009. Indonesia's share of FDI among ASEAN countries was only 12.3% in 2009.

Table 5: Foreign Direct Investments Net Inflow, Intra and Extra-ASEAN In 2007 – 2009

Foreign direct investments net inflow, intra- and extra-ASEAN

as of 15 July 2010

value in US$ million; share and change in percent

Country	2007			2008			2009			Share to total net inflow to ASEAN, 2009			Share of Intra-ASEAN, 2009		
	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow
Brunei Darussalam	62.1	198.0	260.2	0.9	238.3	239.2	0.1	176.7	176.8	0.0	0.5	0.4	0.1	99.9	**100.0**
Cambodia	271.2	596.1	867.3	240.9	574.3	815.2	170.8	359.3	530.2	3.9	1.0	1.3	32.2	67.8	**100.0**
Indonesia	1,108.2	5,820.1	6,928.3	3,398.0	5,920.1	9,318.1	1,380.1	3,496.7	4,876.8	31.2	9.9	12.3	28.3	71.7	**100.0**
Lao PDR	100.4	223.1	323.5	47.7	180.1	227.8	57.3	261.3	318.6	1.3	0.7	0.8	18.0	82.0	**100.0**
Malaysia	3,780.1	4,758.3	8,538.4	1,607.6	5,710.7	7,318.4	(269.7)	1,650.7	1,381.0	(6.1)	4.7	3.5	-19.5	119.5	**100.0**
Myanmar	93.5	621.3	714.8	103.5	872.1	975.6	19.5	559.1	578.6	0.4	1.6	1.5	3.4	96.6	**100.0**
The Philippines	5.9	2,910.1	2,916.0	139.9	1,404.1	1,544.0	18.7	1,929.3	1,948.0	0.4	5.5	4.9	1.0	99.0	**100.0**
Singapore	1,224.8	34,552.7	35,777.5	816.4	10,095.8	10,912.2	2,037.6	14,218.6	16,256.2	46.0	40.4	41.0	12.5	87.5	**100.0**
Thailand	2,489.4	8,840.8	11,330.2	1,401.6	7,168.9	8,570.5	585.8	5,371.1	5,956.9	13.2	15.3	15.0	9.8	90.2	**100.0**
Viet Nam	546.3	6,192.7	6,739.0	2,705.0	6,874.0	9,579.0	428.7	7,171.3	7,600.0	9.7	20.4	19.2	5.6	94.4	**100.0**
Total	**9,682.0**	**64,713.3**	**74,395.3**	**10,461.5**	**39,038.3**	**49,499.8**	**4,428.9**	**35,194.1**	**39,623.0**	**100.0**	**100.0**	**100.0**	11.2	88.8	**100.0**
ASEAN 5[1/]	**8,608.4**	**56,882.1**	**65,490.5**	**7,363.5**	**30,299.6**	**37,663.1**	**3,752.4**	**26,666.5**	**30,418.9**	**84.7**	**85.9**	**83.7**	12.3	87.7	**100.0**
BLCMV[1/]	**1,073.6**	**7,831.2**	**8,904.8**	**3,098.0**	**8,738.7**	**11,836.7**	**676.5**	**8,527.6**	**9,204.1**	**15.3**	**14.1**	**16.3**	7.4	92.6	**100.0**

Source ASEAN Foreign Direct Investment Statistics Database (compiled/computed from data submission, publications and/or websites of ASEAN Member States' central banks, national statistics offices, and relevant government agencies through the ASEAN Working Group on Foreign Direct Investment Statistics)

Symbols used
- \- not available as of publication time
- n.a. not applicable/not available/not compiled
- 0.0 value is below 0.1%
- Data in *italics* are the latest updated/revised figures from previous posting..

Notes
- Details may not add up to totals due to rounding off errors.
- 1/ ASEAN 5 consists of Indonesia, Malaysia, the Philippines, Singapore and Thailand, while BCLMV comprises Brunei Darussalam, Cambodia, Lao PDR, Myanmar and Viet Nam.

Sources: ASEAN Secretariat-ASEAN, FDI Database as of 15 July 2009

Chapter III

FOREIGN DIRECT INVESTMENT AND INDONESIA BUREAUCRACY

3.1. Overview of Bureaucracy

The bureaucratic arena refers to all state organizations engaged in formulating and implementing policy as well as in regulating and delivering services. While issues of bureaucratic governance are not constitutive of development *per se*, they are seen as crucial determinants of the degree to which a country makes social and economic progress or fails to do so.[14]

Sometimes bureaucracy in informal usage describes a set of characteristic or attributes such as “red tape” or inflexibility that frustrate people who deal with or who work for organizations they perceive as “bureaucrats”. Therefore, when people read the word bureaucracy or bureaucratic by itself, then it describes the negative attributes–the lack of common sense, the "nonsense" that people mean too much bureaucracy.

Kenneth (1993) in Busting Bureaucracy mentioned the bureaucratic form and it is widely used throughout both public and private sectors. Even though Weber’s writings have been widely discredited, the bureaucratic form lives on. The bureaucratic form has six principles. The first is a formal hierarchical structure. Each level controls the level below and is controlled by the level above. A formal hierarchy is the basis of central planning and centralized decision making. The second is management by rules. Controlling by rules allows decisions made at high levels to be executed consistently by all lower levels. The third is an organization by functional specialty. Work is to be done by specialists, and people are organized into units based on the type of work they do or skills they have. The fourth is an "up-focused" or "in-focused" mission. If the mission is described as "up-focused," then the

[14] Julius Court, Goran Hyden and Kenneth Mease, 2003, *The bureaucracy and Government in 16 Developing Countries*, World Governance Survey Discussion Paper *7*, Odi

organization's purpose is to serve the stockholders, the board, or whatever agency empowered it. If the mission is to serve the organization itself, and those within it, e.g., to produce high profits, to gain market share, or to produce a cash stream, then the mission is described as "in-focused." The fifth is purposely impersonal. The idea is to treat all employees and customers equally, and not to be influenced by individual differences. The last is employment based on technical qualifications. There may also be protection from arbitrary dismissal.

In recent years, there has been increasing evidence, from case studies and cross-country empirical analysis, that bureaucratic performance is important for development performance. The literature on the role of the bureaucracy during the period of rapid growth in East Asia supports the view that the bureaucracy was a key ingredient of the miracle[15]. At the same time, a substantial literature argues that the weakness of bureaucracy in Africa helps explain the poor development performance of many countries on the continent[16].

In the context of national level, governance issues in the bureaucratic arena take on special significance given the massive pressures that have been placed on public agencies in recent years to become leaner, more efficient and to bring services closer to the people. The bureaucracy, however, should not only be studied in the context of implementation of individual policies, but also in terms of governance. The rules that determine procedures in the bureaucracy, whether formal or informal, are especially important for public perceptions of how the state operates. As we know, many contacts that citizens have with the government and with the first-level bureaucrats are responsible for processing requests for services and assistance. The recent *Voices of the Poor* study provides a demonstration of the importance of this set of issues the poor highlighting that their experiences with bureaucrats are often

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[15] Peter Evans, *Embedded Autonomy: States and Industrial Transformation*, Princeton, NJ: Princeton University Press 1995; and, World Bank, .*The East Asian Miracle: Economic Growth and Public Policy*. New York: Oxford University Press 1993.

[16] Peter Blunt, *Organization Theory and Behaviour: An African Perspective*. London: Longman 1983.

unpleasant, unfair and corrupt[17]. The implication is that the way countries organize relations within the bureaucracy and between the bureaucracy and other arenas in the public realm may make a substantial difference when it comes to policy outcomes as well as the legitimacy of the regime.

In general terminology, the government is identical with bureaucracy. The government effectiveness includes ratings on such issues as the quality of the bureaucracy, the quality of service provision and the competence of civil servants. They find that government effectiveness is positively associated with per capita incomes and adult literacy but negatively associated with infant mortality.

Some international institutions measure the level of government effectiveness through some bureaucracy level. For example, The EIU provides ratings on various aspects of regulatory quality, rule of law, and corruption (among other issues) from a global network of national information gatherers reviewed by regional panels. Transparency International issues its annual Perception of Corruption Index. These agencies provide subjective assessments on some of the key issues of bureaucratic performance, including government efficacy, red tape, and corruption among public officials.

There have been a number of important studies that have used these data sets in empirical work investigating the importance of different aspects of bureaucratic quality for development outcomes. For example, using EIU data, Mauro found that the efficiency of the bureaucracy was associated with better rates of investment and growth whereas corruption was negatively related[18]. Chong and Calderon have reported a similar positive relationship

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[17] D. Narayan, R. Patel, K. Schafft, A. Rademacher, and S. Koch-Schulte, *Voices of the Poor: Can Anyone Hear Us?* Washington D.C.: The World Bank 2000

[18] Paolo Mauro, *"Corruption and Growth*", Quarterly Journal of Economics, No 110 (1995), pp. 681-712.

between institutional quality and economic growth although they also conclude that the reverse is true economic growth leads to better institutional quality[19].

This thesis starts as follows. It begins by analyzing around the key issues relating to the bureaucracy and investment in Indonesia. It focuses primarily on the links between bureaucratic rules and bureaucratic performance. It sets in the context of investment performance as well.

3.2. Overview of Indonesia's Investment Regulation

Since the late 1980s up to the start of the Asian economic crisis, Indonesia had experienced a surge in domestic and foreign direct investment. This surge was attributable to the successive deregulation measures which the Indonesian government had introduced after the end of the oil boom in 1982 to improve the investment climate for both domestic and foreign private investors. It was hoped that with a better investment climate, a more dynamic and efficient private sector would develop, which would function as a new engine of growth and major source of non-oil export revenues to offset the fall in oil export revenues.

Besides these deregulation measures, the government also introduced a series of trade reforms to reduce the strong anti-export bias of the protectionist trade regime. These trade reforms were intended to shift the import-substituting pattern of industrialization during the oil boom era of the 1970s to an export-promoting one. The aim was to encourage the non-oil and gas sectors, particularly the manufacturing sector, to generate an expanding stream of non-oil exports to offset the decline in oil exports as well as an expanding stream of non-oil taxes to offset the decline in oil tax revenues. As a result of the improvement in the investment climate and the reduction in the anti export bias of the trade regime, export-

[19] Alberto Chong and Cesar Calderon, .*Causality and Feedback between Institutional Measures and Economic Growth.*, Economics and Politics, *vol.* 12, no 1 (2000), pp. 69-81.

oriented domestic and foreign direct investment (FDI) inflows since the late 1980s rose rapidly (Thee, 2006).

Furthermore, the emphasis of the government has been more on legislative and institutional reform than on liberalization *per se*. These reforms have served to improve policy implementation, which had been a frequent complaint of investors in the past. The best measure of the effectiveness of these improvements is the substantial rise in FDI inflows in the past few years compared to the previous period.

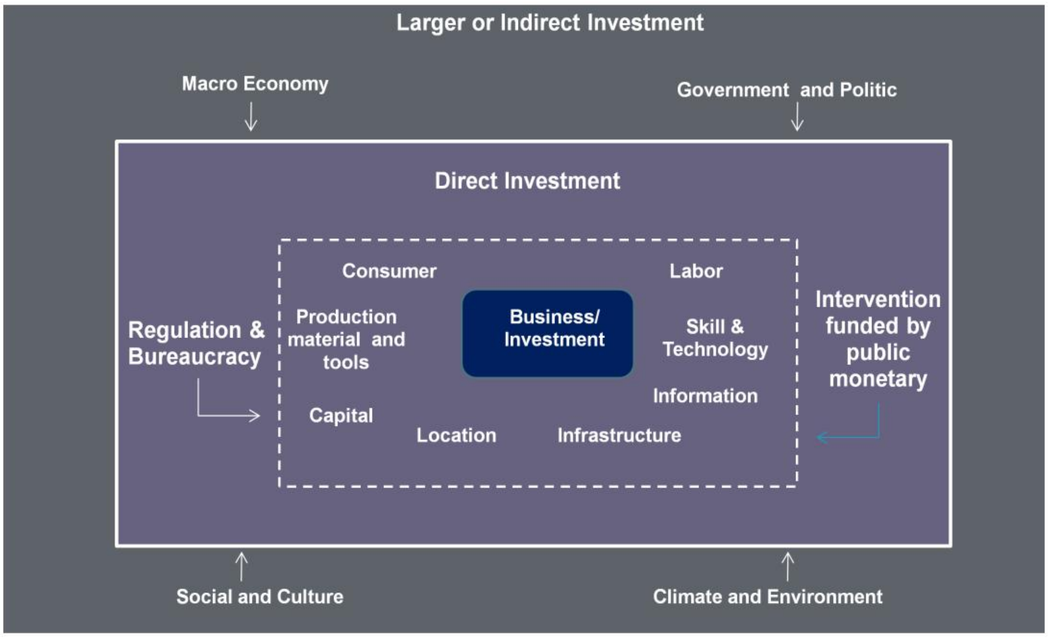
Figure 6: A Chronological of FDI Liberalization in Indonesia (OECD, 2010)

1986	• Relaxation of limits of foreign ownership for export-oriented firms • Several sectors previously closed to FDI are opened, including retail trade
1987	• Foreign investors allowed on stock exchange
1988	• 16-year ban on new foreign bank entry removed • Joint ventures allowed to distribute their products lo
1989	• Switch from Positive to Negative List, with hundreds of sectors opened to foreign investment under certain conditions (*e.g.* export requirement, co-operation with SMEs) • Foreigners allowed to purchase 49% of shares of listed companies
1994	• Minimum capital requirement for foreign investment eliminated • Nine strategic sectors opened to 95% foreign ownership • Up to 100% foreign ownership permitted throughout Indonesia (80% previously) • Divestiture requirement reduced to only a token amount of local equity • Domestic partnership requirements relaxed
1995	• Ten sectors removed from Negative List, including motor vehicles
1997	• Presidential Decree removes 49% foreign equity limit on purchases of listed shares
1998	• Full foreign ownership allowed in banking
1999	• BKPM no longer requires Presidential signature for approvals • Local cont • ent programme for motor vehicles phased out • Full foreign ownership of holding companies allowed, including through acquisitions • Several sectors opened further to FDI, including retail, general importing, palm oil plantations, broadcasting and downstream operations in the oil sector.
2007	• Investment Law does away with general divestiture requirements • New Negative List opens some sectors to greater foreign participation
2009	• Mining Law allows foreign ownership of concessions • Electricity Law allows for private operators in areas not served by PLN
2010	• New Negative List opens some sectors to greater foreign participation

3.3. Analysis of Investment Bureaucracy

Environment, in which business may be well-operated, can be divided into two categories, they are direct environment and larger environment (Figure 7). Larger environment is the one that will influence a business act indirectly and consisting of components as follows; macro economy (trading policy, industrial policy, financial policy as well as monetary policies), politics and government at the national as well as local level (for instance, the scope of policy making, stability and security). Moreover, the larger environment also includes services granted by the government (such as educational and health, infrastructure, utility and security services, external aspects (such as global trading, consumer trend and attitude toward businesses act), and climate to a natural environment (such as a raw materials, weather condition and peasant cycle)[20]

Figure 7: Environment Influence Business and Investment



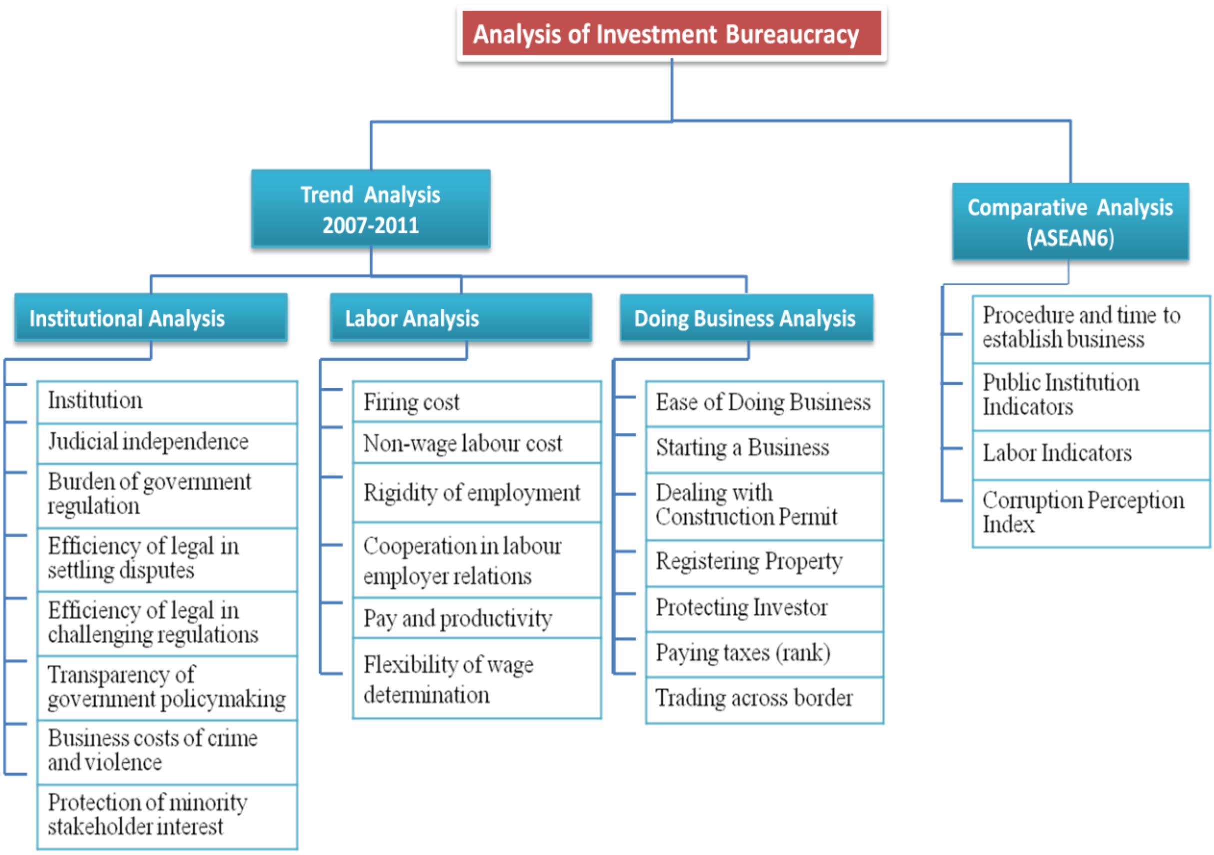
Direct environment influenced business as a whole such as consumer, labor, capability, technology, production, infrastructure, capital and working network. It is also

[20] Tulus Tambunan, *"Growth of Foreign Investment in Indonesia and Encountering Problems",* Kadin Indonesia and Centre for Industry and SME Studies, Universitas Trisakti, 2006

including bureaucracy and regulation such as institutions, rules, tax tariff, license and permission, process and product standard, costumer and environment protections, and intervention funded by public monetary such as financial services for business act.[21]

Related to the investment environment in Indonesia, it is necessary to analyze the factors that affect investment. Analysis can be performed using time series analysis and comparative analysis with other ASEAN countries. The model of the analysis can be described as follows.

Figure 8: Analysis of Investment Bureaucracy



3.3.1. Institutional Analysis

Investment bureaucracy is indicated by public institutions, or in other words public institution is an important factor to the business world. Based on the report by World

[21] Porter, M.E. (1998b), *On Competition*, Boston: Harvard Business School Press.WEF (2004), *The Global Competitiveness Report 2004-2005*, Oxford University Press.

Economic Forum as presented in Table 6, this table represents the relative position by several indicators from public institutions in Indonesian that draw major attention from prospective investors. From this table, most of the indicators indicated a poor Indonesian economic condition. For example, in terms of independent judicial that is political influence ranging from government members (ministries and president), political figures, community as well as companies, Indonesian rank although it increased from 98 to 66 in last three years. However, there are indicators that declined from 66 to 67 (2010-2011). In terms of a burden government regulation to improve the quality of business environment, it was also falling down from 23 to 36 in 2010-2011. Efficiency of a legal framework in settling disputes for a business player to deal with any business conflict and to refuse any legality of government acts or rules, Indonesian position falls from 59 to 60. Moreover, transparency of government policymaking and business costs of crime and violence which is crucial for investment development also indicated to become a poor performance. In general, the rank for the institution tends to fall down from 58 to 61.

Table 6: Indonesian Position in Some Indicators related to Public Institution Based on The Global Competitiveness Report 2007-2008 until 2010-2011

Indicator	2007-2008	2008-2009	2009-2010	2010-2011
Global Competitiveness	54	55	54	44
Institution	82	68	58	61
Judicial independence	98	80	66	67
Burden of government regulation	22	45	23	36
Efficiency of legal framework in settling disputes	75	66	59	60
Efficiency of legal framework in challenging regulations	75	63	52	55
Transparency of government policymaking	131	121	87	91
Business costs of crime and violence	24	47	62	75
Protection of minority stakeholder interest	11	34	48	33

Source: The Global Competitiveness Report (2007, 2008, 2009 and 2010)

3.3.2. Labor Analysis

It is certain that investment climate is crucial to attract foreign investment and there is number of factors called hard factors that are extremely important to invite foreign capital investment that is labor. These factors related and due to productivity and quality of human resources in one country will be taken into account by prospective investors before doing so. Based on Table 7, almost all indicators are getting worse such as firing cost, rigidity of employment, cooperation in labour employer relations and flexibility of wage determination.

Table 7: Indonesian Position in Some Indicators Related to Labor Based on The Global Competitiveness Report 2007-2008 until 2010-2011

Indicator	2007-2008	2008-2009	2009-2010	2010-2011
Firing cost	116	117	119	-
Non-wage labour cost	32	30	-	-
Rigidity of employment	79	87	82	100
Cooperation in labour employer relations	16	19	42	47
Pay and productivity	5	18	29	20
Flexibility of wage determination	44	79	92	98

Source: The Global Competitiveness Report (2007, 2008, 2009 and 2010)

3.3.3. Doing Business Analysis

Table 8 indicated the simplicity to start a business and investment in Indonesia was not improving too much from 123 in 2008 and 122 in 2010. There are some positive indicators related to starting a business, dealing with a construction permit, registering property and protecting investor. Indonesia was actually in a better position compared to previous years. However, in terms of paying taxes and trading across border (export and import), Indonesia's position based on the above table is worsened. It was because the government did not change some regulation in these fields. For example, tax rate was increasing from 37.3% to 37.6%. Moreover, the cost of export and import also increased in last two years.

Based on ADB report, at the national level, exporters pay higher bribes. A significant business deterrent is corruption in the bureaucracy. The Investment Climate Survey results indicate that corruption at the national government level amounts to about 4.6% of sales. Informal payments to the national government are higher among firms dealing with MNCs operating in Indonesia. Exporters also make greater informal payments than non-exporters to national government authorities as a proportion of sales.

Table 8: Indonesian Position in Some Indicators related to Ease to Doing Business Report 2008 until 2010

Factors (Explanation)	2008	2009	2010
Ease of Doing Business (rank)	**123**	**129**	**122**
Starting a Business (rank)	**168**	**171**	**161**
Procedure (number)	12	11	9
Time (days)	105	76	60
Cost (% of income per capita)	80.0	77.9	26.0
Dealing with Construction Permit (rank)	**99**	**80**	**61**
Procedure (number)	19	18	14
Time (days)	196	176	160
Cost (% of income per capita)	286.8	221.1	194.8
Registering Property (rank)	**121**	**107**	**95**
Procedure (number)	7	6	6
Time (days)	42	39	22
Cost (% of property value)	10.5	11	10.7
Protecting Investor (rank)	**51**	**53**	**41**
Ease of shareholder suits index (0-10)	3	3	3
Strength of investor protection index (6.0)	5.7	5.7	6.0
Paying taxes (rank)	**110**	**116**	**126**
Total tax rate (% of profit)	37.3	37.3	37.6
Trading across border (rank)	**41**	**37**	**45**
Document to export (number)	5	5	5
Time to export (days)	21	21	21
Cost to export (USD per container)	667	704	704
Document to import (number)	6	6	6
Time to import (days)	27	27	27
Cost to import (USD per container)	623	660	660

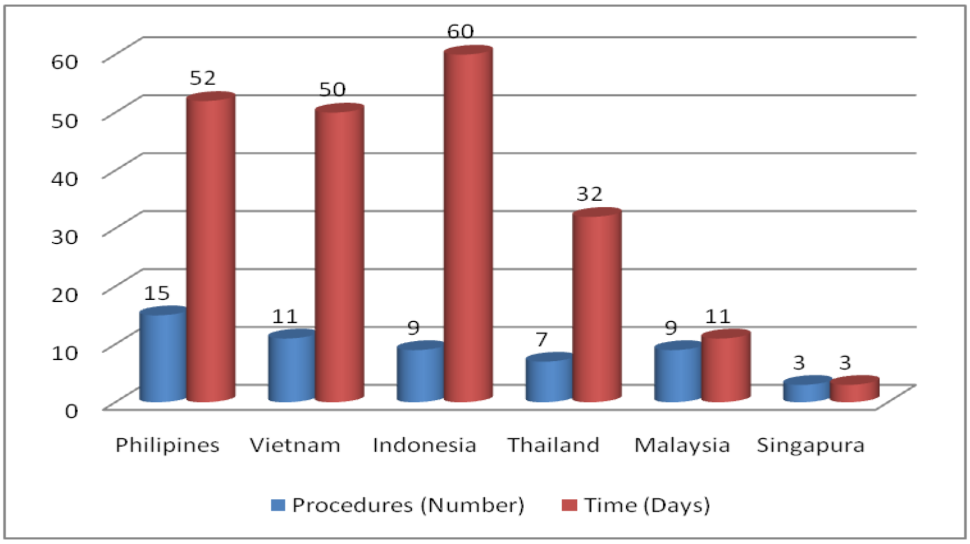
Source : http://www.doingbusiness.org/reports/doing-business/doing-business, 2008-2010

In these areas, there is risk to unrecorded extra payment or bribery act related to export-import activities, and the irresponsibility to use public utilities, Indonesia ranked in poor level as well, and it should be the one factor that must be eliminated to gain effectiveness from government regulations, which is bound to support the recovery of business activities process and thus improve the investment climate in Indonesia. For some countries, perhaps, which have been already long investing in Indonesia and familiar to Indonesian customs in conducting business, such conditions might not be serious matters as to barricade their future investment in the domestic market. However, for middle scale companies emerging from new countries, this condition might appear uneasy to gain potential profit in making some investment in Indonesia.

3.3.4. Comparative Analysis

Indonesian President said “No longer will you need 150 days to start a business”. We will reduce this to no more than 30 days by simply changing the present approval procedure to a quick registration procedure”[22]. Until 2010, based on Doing Business Report Indonesia position in Ease Doing Business in term of starting a business is still poor compared to other ASEAN6 countries. Although Indonesia already has reduced the number of procedures from 12 to 9 procedures during the last three years, Indonesia needs more days to process the licenses compared to other ASEAN countries. Establishing a business in Indonesia is a complex, uncertain, costly and time consuming process.

Chart 3 : Procedure and Time To Establish and Register Business (2010)



Source: World Bank, Doing Business in 2010

[22] Keynote address, *Indonesia Global Investment Forum*, New York, September 15, 2005

Moreover, from several indicators in Table 9 related to public institution, Indonesia's position was relatively poor. This is explaining that public institutions in Indonesia were not conducive for business/investment climate compared to other ASEAN6 countries. Malaysia and Singapore, on the other hand, positioned themselves at the higher rank. Singapore ranked itself at the first position in all mentioned indicators within ASEAN region. Even in the last indicators, Singapore put itself in the highest position from all surveyed countries. This means that Singapore has been the most attractive country for investors.

Based on Figure 7 above it is shown that business activities are influenced by two environments according to their nature, directly and indirectly, or the later is also defined as larger environment that includes macroeconomic environment consisting of many factors ranging from banking conditions, monetary market improvement, tax system to government regulations inflicting the business world.

Table 9: Indonesian Position in ASEAN6 related to Public Institution Indicator Based on the Global Competitiveness Report 2010-2011

Country	Irregular Payments and Bribes	Judicial Independence	Burden of Government Regulation	Efficiency of legal Framework in Settling Disputes	Efficiency of legal Framework in Challenging Regulations	Transparency of Government policy making	Business costs of Crime and Violence	Strength of Investor Protection
Indonesia	95	67	36	60	55	91	75	33
Philippines	126	111	126	122	116	123	104	109
Vietnam	107	64	120	61	58	73	88	133
Thailand	70	54	42	46	48	63	82	12
Malaysia	55	52	17	30	30	37	93	4
Singapore	3	21	1	1	6	1	17	2

Source: The Global Competitiveness Report (2010)

In terms of labor, Table 10 illustrates that two important indicators in the table are the redundancy costs in weeks of salary and the rigidity of employment. Indonesia's position was the worst compared with ASEAN6. On the other hand, Singapore, Thailand and Malaysia positioned themselves at the higher rank, while Singapore ranked in the first position in all mentioned indicators within ASEAN region.

Table 10: Indonesian Position in ASEAN6 related to Public Institution Indicator Based on The Global Competitiveness Report 2010-2011

Country	Redundancy Costs in weeks of Salary	Rigidity of Employment	Cooperation in Labour -Employer Relations	Pay and Productivity
Indonesia	127	100	47	20
Philippines	114	75	56	82
Vietnam	108	50	38	4
Thailand	88	25	34	29
Malaysia	100	18	16	6
Singapore	6	1	1	1

Source: The Global Competitiveness Report (2007, 2008, 2009 and 2010)

Another comparison is corruption indicators. Indonesia has faced problems of corruption. Indonesia has traditionally been seen as having some of the world's most corruption institutions (Butt 2009). The figures in Table 13 support this assessment. In a comment referring to 2008, Transparency International (2008) noted that Indonesia is plagued by rampant corruption, but that there have been some signs of improvement in recent years. Nonetheless, corruption remains serious problem. Some recent reports indicate new setbacks, with the police force, the parliament and the attorney general's office obstructing the work of the anti-corruption commission. (Panturu and Von Luebke 2010)

Table 11 : Corruption Perceptions Index in Selected Countries

Countries/Years	2001	2009
Singapura	9.2	9.2
Hongkong	7.9	8.2
Taiwan	5.9	5.6
South Korea	4.2	5.5
Malaysia	5.0	4.5
China	3.5	3.6
Thailand	3.2	3.4
Indonesia	1.9	2.8
Vietnam	2.6	2.7
Philippines	2.9	2.4

Source: Tranparency International, (http:/www.transparency.org/).

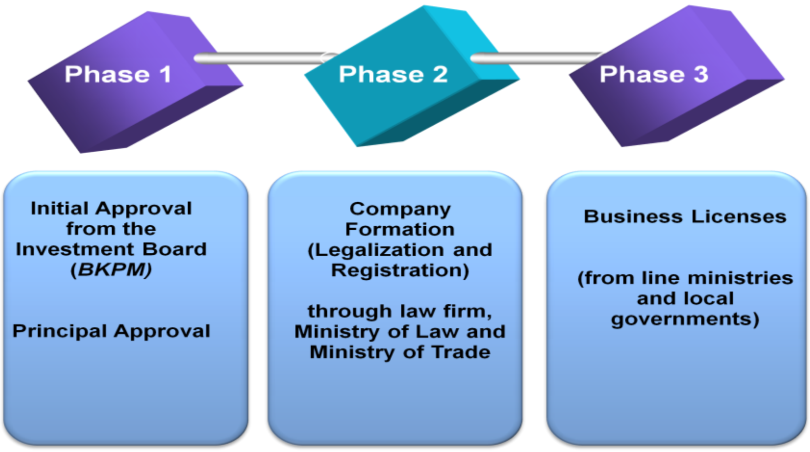
Note : The index ranges from 10 (very low perceived corruption) to 1 (very high perceived corruption)

It is difficult to know exactly how harmful corruption is to FDI inflows to Indonesia. However, there are many anecdotal reports of foreign firm deciding not to invest in Indonesia for fear that corruption would lead to ill-will or to problems with home country authorities. The AES Corporation, a US-based giant in the electricity industry, also stayed out of Indonesia, allegedly because of concerns about the level of corruption. (See for example, Well 2007:354)

3.4. Investment Procedure Analysis

Comparing to other ASEAN6 countries, Indonesia needed much longer days to set up business, especially for FDI. As mentioned above, establishing a business in Indonesia is a complex, uncertain, costly and time consuming process. Why is the process so slow and costly? There are three phases that should be followed by investors if they want to invest in Indonesia.

Figure 9: Phases to Start Investment in Indonesia



Sources: Summary from some regulations

Phase 1: Initial approval from the Investment Coordinating Board (BKPM).

The information requirements are complex and unclear. Initial applications are often rejected. BKPM can require investors to amend individual items on the application (e.g., equity). Due to the complexity of the process, investors often use costly intermediaries, such as law firms.

Phase 2: Company formation (legalization and registration)

Establishing a company requires more steps than in most regional economies. The company's deed of establishment must first be drawn up by law firm, and then "legalized" by the Ministry of Law and Human Right. This precedes company registration, which takes place at the Ministry of Trade. Publication of the deed of establishment in the state Gazette is mandatory and takes up to 6 months. During this interval the company's founders are personally liable.

Phase 3: Business licenses for local and technical licenses

After getting approval from the Investment Coordinating Board, investors need to establish a company through Ministry of Law and Human Right, and registering at Ministry of Trade. Besides, most investors will still need numerous local permits and licenses. Some investors also need technical licenses issued by line ministries, such as a forestry license, mining license or airline license.

As mentioned by Chapter XI article 25 paragraph 3 in the Investment Law of 2007, FDI in business entity should be incorporated as a limited liability company as called *Perseroan Terbatas (PT)*. Although foreign (and domestic) companies are allowed to set up operations anywhere, factories have to be set up either in an industrial estate or in other special areas zoned for industry. A company that wants to apply for a new investment must submit the document MODEL I/PMA (Appendix 1) to the Indonesia Investment Coordination Board.

Table 12.a.: List Outlines the Procedures to Set up a Foreign Company in Indonesia

No.	Procedure	Time to Complete	Associated Costs (IDR)
1	Obtain the standard form of the company deed; arrange for a notary electronically; obtain clearance for the Indonesian company's name at the Ministry of Law and Human Rights.	4 days	200,000
2	Notarize company documents before a notary public	4days	2,526,816
3	Pay the State Treasury for the non-tax state revenue (PNBP) fees for legal services at a bank	1 day	200,000
4	Apply to the Ministry of Law and Human Rights for approval of the deed of establishment	7 days	1,580,000
5	Apply for the permanent business trading license (*Surat Izin Usaha Perdagangan, SIUP*)	5 days	250,000
6	Register with the Ministry of Manpower you have 10 or more employees, or are paying a monthly payroll in excess of Rp. 1 million, you must register.	14 days (simultaneous with procedure 5)	no charge
7	Apply for the Workers Social Security Program (*Jamsostek* Program). If your company has 10 or more employees, or monthly wages higher than Rp. 1 Million per employee, the company must apply for this Program.	7 days (simultaneous with procedure 5)	no charge
8	Obtain a taxpayer registration number (NPWP) and a VAT collector number (NPPKP). The company must obtain a tax registration number from the Tax Office, and a VAT collector number if one expects annual revenues of more than Rp. 600 million from the sales of goods and services	14 days	no charge
9	Register with the Company Register (Department of Trade) and obtain a registration certificate (TDP)	15 days	500,000

Source : http://www.doingbusiness.org

Besides, there are other licences and permits for certain purposes. Those are local permits for all factories. Other licenses commonly required by manufacturing enterprises and usage permits are explained in Table 12.b. Table 12.c. and Table 12.d.

Table 12.b.: Local Permits required for All Factories

No.	Licences/Permits
1	Environment permits (various)
2	Building licences (*Izin Mendirikan Bagunan*)
3	Location Permit (*Izin Lokasi*)
4	Principle Permit (*Izin Prinsip*)
5	Nuisance Permit (*Izin gangguan/HO*)
6	Work Safety Permits (*Izin Keselamatan Kerja*)

Table 12.c.: Other Licences for Manufacturing Enterprises

No.	Licences
1	Industrial business permit (*Ijin Usaha Industri/Tanda Daftar Industri*)
2	Warehouse registration (*Tanda Daftar Gudang*)
3	Permit to change land status (*Ijin Alih Funsi Lahan*
4	Foreign worker permit (*Surat Ijin Tenaga Kerja Asing*)
5	Permit to deviate from standard work time (*Surat Ijin Penyimpangan Waktu Kerja dan Waktu Istirahat*)
6	Permit for women to work nights (*Surat Ijin Kerja Malam Wanita*)
7	Permit to drill for water (*Surat Ijin Air Bawah Tanah*)

Table 12.d.: Usage Permits

No.	Permits (Surat Ijin Pemakaian)
1	Boiler (*ketel uap*)
2	Pressure vessel (*bejana tekan*)
3	Elevator (*pesawat lift*)
4	Crane (*pesawat angkat*)
5	Diesel motor usage permit (*motor diesel*)
6	Production machine (*mesin produksi*)
7	Generator (*instalasi listrik*)

This illustration reveals how many licences and permits that should be obtained by investors to start their businesses in Indonesia despite the government's effort to reform this bureaucracy.

According to Rustiani (2008), several issues in licensing in Indonesia can be grouped as follows. First, overlapping and uncertainty policies lead to business uncertainty. Inconsistence of regulations often creates the lack of legal certainty and additional cost.

Moreover, the investors find it so difficult to predict their profitability of business. Second, institutional issues, too many agencies involved without adequate coordination lead to an inefficient bureaucracy. Indeed, poor coordination between ministries is a common classic problem in Indonesia.

Based on World Bank report in 2010, Indonesia is one of the reformer countries. Indonesia eased incorporation and post-incorporation processes for new business registration by introducing online services, eliminating certain licences, making the registry more efficient, and cutting company deed legalization fees, publication fees, registration fees, and business licence[23]. However, this reform is still not sufficient to recover the position of Indonesia to compete with other ASEAN countries. Table 13 explains the reform subjects that have already been done by Indonesia in terms of business and investment. Nevertheless, still it is not enough to make Indonesia become a competitive country.

Table 13: Reforms in Indonesia 2005-2009

Doing Business Report	Starting a business	Dealing with construction permits	Employing workers	Registering property	Getting credit	Protecting Investor	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
DB 2006					✓	✓				✓
DB 2007	✓									
DB 2008		✓			✓	✓				
DB 2009	X				✓					
DB 2010	✓			✓		✓				

Note: X indicates a negative reform
Source: Doing Business in Indonesia, 2010

3.5. Investment Law Analysis

Investment Law number 25/2007 has covered all important aspects of investment, including services, coordination among institutions, facilities, rights and obligation of investors, labor relationship and kind of sector that could be inserted by the investor. This law is a landmark law on investment in Indonesia which provides national treatment and standard protection to investors.

[23] The World Bank, Doing Business in Indonesia 2010, Washington, D.C. 2010

The Investment Law number 25/2007 which was passed by Parliament in March 2007 provides national treatment for established enterprises, in contrast to the separate treatment for foreign and domestic firms in earlier laws. Compared to the earlier legislation it also offers greater transparency in terms of the sectors covered, more extensive land use rights and a reduction in administrative burdens through the creation of an integrated service facility and longer work permits for key personnel (OECD Report 2010).

3.5.1. Simplify the Investment Licensing

Two of these aspects which so far are two serious problems faced by investors already addressed in this law are licensing and investment protection. It will be a very positive effect on investment activities in Indonesia if implemented according to provisions in the premises of investment law.

First, Article 1 and Number 10 in Chapter I, mentioned that "*One-Stop Integrated Service" means an administrative activity of licensing and Non-licensing with delegation or referral of authority from an institution or agency with licensing and non-licensing authority, the administrative process of which begins from the stage of application to the stage of issue of documents, which is done in one place*". This service is expected to accommodate the desire of investors / entrepreneurs to obtain a more efficient, easy, and fast service. Indeed, operating this service is not easy, because it requires the same vision and coordination among the public institutions which is related to investment activities.

Moreover, if this service can be implemented comprehensively, assuming other factors of full support such as legal certainty, political stability, flexible labour markets, stability of macroeconomic policies and infrastructure, it would create positive impact for investment growth. For example, a foreign investor who wanted to invest in a region in Indonesia, a one-stop integrated service will satisfy him because he needs no longer time to wait to obtain business licenses in Indonesia. In fact, he doesn't need to pay taxes and other levies that may be un-official rate due to the length of the bureaucracy that must be taken before the services were conducted under one roof.

However, the implementation of this law is not as simple as mentioned in that article. There are three major factors that should be considered. First, investment licenses are mostly inter-connected one to others (no stand alone). The investment licenses are generally a package with other permit regulations that directly and indirectly affect the investment. As an illustration, Table 14 presents a number of laws and regulation of the most influential investment from a start to build a business until the business is operated. If the laws and regulation in Table 14 are conflicting among them, consequently the Law No. 25/2007 will not be beneficial in the implementation stage. Therefore, the government needs to identify laws and regulation related to investment to reduce the limitation of investment related to the regulation framework.

Table 14: Law and Regulation Affected to Law of Investment No. 25/2007

Laws/Regulations	Year	Contents
Trade Minister Reg.: 37/M-DAG/Per/9	2007	Company registration
Trade Minister Reg.: 37/M-DAG/Per/9	2007	Business Trading Licences (SIUP)
Law No. 40/2007	2007	Business company form
Law No.39/2007	2007	Excise
Law No. 17/2007	2007	Customs
Law No. 2/2006	2006	Settlement of industrial relations
Law No. 13/2003	2003	Labour
Law No. 22/2001	2001	Investment in oil and gas.

Sources: Identify from many unofficial sources

Besides, it is difficult to measure how effective the law to support FDI. However, anecdotal evidence indicated that some laws and regulations contribute to slowdown FDI inflow. At least there are ten laws that need to be revised because they hamper the investment climate and reform the bureaucracy said Taufik Effendi, a member of Indonesian Parliament. Ten laws that need to be revised are the company establishment law, disruption law, law on companies' ordinance, investment law, land law, custom law of land acquisition and construction, mining and coal law, capital market law, and the law on establishment of legislation. "The centralization of authority in the ministry of investment and lack of clarity in local institutional cause the application of the standards in the area has a different interpretation, “he said. Moreover, bureaucratic obstacles still occur due to policies between the central and local governments and barriers to the implementation of policies between central and local institutions. In addition, the minimum welfare of officials was not able to change the their attitudes as a public servicers who tend to corrupt. At the end the service is unqualified[24].

Second, Article 4 and Number 2b in Chapter IV, mentioned about major investment policy that is *“The Government shall adopt major investment policies : ensure the legal certainty, business certainty, and business safety for investors starting from the licensing process to termination of investment activities in accordance with provisions of laws and regulations”*. This statement will guarantee investors to set up a business in Indonesia in terms of security, social and political condition.

However, The Global Competitiveness Report 2009-2010 indicates that from 133 countries, Indonesia is in the 79th rank in terms of reliability of police Services, 89th in terms of business costs of terrorism, the 81st in terms of organized crime and the 62nd in terms of business costs of crime and violence. It means that Indonesia still has problems related to social and security, which is very annoying or intimidating for prospective investors to invest their capital in Indonesia.

Anecdotal evidence derives from the cases of mining in Indonesia. Kompas (Friday, 23 May 2008), a daily national newspaper, reported an assessment from oil and gas company which are operating in Indonesia. The assessment indicates that the investment climate in oil and gas sector tends to be unfavorable. A major issue based on the survey conducted by a

[24] Media Indonesia.com, 10 UU hambat Investasi dan reformasi Birokrasi, 15 April 2011.

public accounting firm, Priceswaterhouse Coopers (PWC) is a number of problems related to bureaucracy and cost recovery which emerged in the last two years. The survey is conducted every two years, and it has been done for three times. The survey respondents were 176 senior managers from 61 companies affiliated in exploration, drilling and seismic. PWC technical adviser for oil and gas field, William Deertz, points out five issues which make Indonesian oil and gas investment uncompetitive and unfavorable. Those issues are compliance of oil and gas contracts, uncertainty about cost recovery, taxation, and government agencies intervention (excluding Ministry), asset guarantee and security.

According to the President of the Indonesian Petroleum Association, Roberto Lorato, there are five main problems which create investment uncertainty in oil and gas sector in Indonesia. The problems are the different interpretation of tax rules, oil and gas sector law and unfavorable cooperation contracts, overlapping rules of land used, lack of clarity for domestic need and export policies, inefficient bureaucracy and overlapping financial audit authority. (Damayanti,2008)

In addition, Tjahyono - Chairman of the Association of Indonesian Mining Services (ASPINDO) said that “This permit is a very long process, the consequences for us as entrepreneurs would get a big enough impact,". The new law No. 4/2009 and Minister Regulation No. 28/2009 stated that the mining services business license is directly issued by the minister. Going through this long process, creates legal uncertainty and dampens the willingness to invest. Another negative impact is that the credibility of the mining service's business will decrease the level of uncertainty. In addition, the banks would also hesitate to withdraw funds considering the unclear business license.

3.5.2. Investment Administration

Based on Law No.25/2007 about Investment, Government Regulation No. 38/2007 and Presidential Regulation No. 27/2009 investment administration is categorized into two administrations.

a. Central government's investment administration is carried out by Indonesia Investment Coordinating Board which include:

   i. Investments that are across provinces, related to nonrenewable natural resources with high environmental damage risks, in Industries that are of high national priority scales, linked to the functions of uniting and linking regions and linked to national defense and security strategy;

   ii. Foreign Investment & Foreign Investors that use foreign capital conducted by foreign governments & foreign nationals or foreign business entities and using foreign capital derived from foreign government, based on agreement made by the Government & Foreign Government.

   iii. Other investment fields which by law become the government's affairs.

b. Local government's investment administration is separated from provincial government and district/city level.

   i. Provincial government administers investment in the scope of cross district/city; investment which becomes Provincial Government affair is in accordance with Government Regulation No. 38/2007; and investment which becomes Central Government affairs.

   ii. District/city government administers investment in the scope of one District/City; investment which becomes District/City Government affair according to Government Regulation No. 38/2007; and investment which becomes central government affairs, and which has been delegated to district/city governments

This law aims to improve the effectiveness of the investment process in the central government and provincial government as well as provincial and local government (district and city). However, there is some coordination problem related to investment licenses. Without clear investment guidance, local governments interpreted the authority in processing an investment in their region differently from the central government interpretation. This issue is also related to the implementation of regional autonomy (decentralization government) that is the vagueness regarding permits/license investment between local and central government.

3.6. Decentralization and Local Bureaucracy Analysis

Decentralization was launched by the issuance of Law No. 22/1999 (amendment by Law No. 32/2004) on Regional Autonomy and Law No. 25/1999 on the Fiscal Balance between the Central Government and the Regions (amendment Law by the Law No. 33/2004). Decentralization has generated issues unfavorable to the business sector, as local governments are free to impose new taxes and levies within certain limits and approve investments in all areas except oil and gas.

The problems of foreign firms are often caused by local authorities. Since Indonesia's decentralization in 2001, the quality of public policies and ecaonomic governance has come to differ markedly across regions. Some local goverments have been encouranging local and foreign firms, whereas many others have contrained firms through imprudent taxation, corruption and inefficiency bureaucracy.[25]

Based on some research of international institution such as International Finance Cooperation (IFC), The Asia Foundation and Swisscontact conclude that local regulation (*Perda*) such as licensing procedures has also become complicated, costly, and time-consuming in the absence of common procedures and standards among local governments. The issuance of conflicting license requirements has generated confusion among investors and unnecessarily raised transaction costs.

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[25] Robert E.Lipsey, *Foreign Direct Investment and Growth in East Asia: Lesson for Indonesia*. Bulletion of Indonesia Economic Studies, Vol.47, No.1 2011

The study of Bank Indonesia [26] also reveals that decentralization has given negative impact to the business activities because local government enacted some local regulations, they are:

a. As a ”Burning Issues” and tend to become harsh for business activities
b. lack of clarity about the procedure,
c. too numerous of terms’
d. long time permits,
e. too expensive and additional costs (illegal)

The study also found that one of the main impacts of the autonomy law on the attitude of local government officials was their treatment to local government own revenue (*Pendapatan Asli Daerah/PAD*) as the key performance indicator of the implementation of local autonomy. As a result, local governments were racing to increase PAD (mostly local taxes and retributions) without proper consideration on economic efficiency with respect to both local and national economic development.

Based on OECD report 2010, the problem of red tape has been compounded by the massive decentralization over the past decade as the approval process has shifted to the district and provincial level. In particular, regional regulations on taxes and levies have created an additional burden for investors. To counter this problem, the Ministry of Finance has evaluated regional regulations and made recommendations to the Ministry of Home Affairs concerning a regulatory review. As a result, more than 12,000 regional regulations have been reviewed, resulting in the cancellation of 1,878 by the end of 2009 by the Ministry.

[26] Research Paper to identify “Central and Local Regulation for Small Medium Enterprise Business Development”, 2009

Chapter IV

CONCLUSION AND POLICY IMPLICATION

4.1. Conclusion

Government policies and action have directly or indirectly have caused effects on investment cost starting from public services, working permit administration, other bureaucracy, monetary policy that affected national economy climate and government spending to improve infrastructures. The all factors above influenced the investment cost which influences the interest of investor to invest their capital to the certain country. As the consequences, the government should be able to manage all the matters to improve the conducive environment for FDI.

Many indicators from the international survey showed that Indonesia has excessive bureaucracy to attract FDI. Although the government has committed itself to streamline administrative procedures, current institutional practices may be a challenge to be reformed. After obtaining preliminary approval from BKPM, a company has to obtain a multitude of licences and approvals from various government agencies and also inefficient bureaucracy practices. The current efforts of establishing a “one-stop” investment service and of improving the existing investment law are positive developments that should be followed by more comprehensive policies such as streamlining the local and central governments’ roles in investment procedures.

Indonesia's position in the group of ASEAN countries in terms of FDI was not so satisfying, especially when compared with the condition of Indonesia as a country which has remarkable natural resources, abundant human resources, strategic location and stability in economic and political conditions. However, in terms of FDI Indonesia’s rank was below Singapore, Malaysia and Thailand. Even now Indonesia FDI position was below Vietnam.

Vietnam is very aggressive in attracting investors through the renewal program known as "Doi Moi" which started in 1986. This program includes actions for streamlining “red tape” in investment procedures.

There is a possibility that other ASEAN countries become rivals of Indonesia to attract FDI. However, Indonesia also has a chance to learn from other ASEAN countries, which have succeeded to attract FDI. In order to reform bureaucracy, Indonesia can learn from Singapore which only has three procedures and an investor who wants to start a business there only needs three days (see Chart 3). Singapore is also in the top ranks in terms of burden of government regulation, efficiency of a legal framework in settling disputes, transparency of government policymaking and business impact of rules on FDI.

One of the most important things is that the experience of decentralization indicates that some local governments are unprepared to assume their new and expanded role. Consequently, there is a need to improve the capacity of local governments and to introduce better and more efficient arrangements of investment-related regulations between local and central governments, including investment licensing and start-up regulations. A better budget allocation between local and central governments is also necessary to ensure that local governments have sufficient resources to undertake their new responsibilities and to stop resorting to nuisance taxes and retributions for new investment.

4.2. Policy Implication

The data analysis above brings forth two main areas of policy concerns, namely institutional and regulatory reform. To focus on these two main areas, both central and local governments are required to revamp this condition through some policy options. The first is Indonesia needs to undertake urgently comprehensive institutional reform in the key areas. Institutional problems that create uncertainty, unnecessary red tape, and bureaucratic burdens hinder the process of setting up and running a business in Indonesia. The institutional problems also send alarming signals to potential investors, further reinforcing the need for institutional reforms. The government needs to provide assurance on the enforcement of contracts and property rights and to uphold policy credibility and consistency. In particular, the government should ensure the proper working of judicial and legal system, such that, firms do believe and have confidence that the court system practices fairness or impartiality and that the judicial system will enforce business contracts and property rights. This should be in line with the government's commitment to the overall battle against corruption. Red tape and corruption are links each other because excessive bureaucracy tends to corrupt.

Second, while the government has committed itself to streamline administrative procedures, current institutional practices may be a challenge to be reformed. After obtaining preliminary approval from BKPM, a company has to obtain a multitude license and approvals from various government agencies. The government is possible to streamline the investment process through (a) abolish multiple registration points that investors currently provide similar information three times: (i) to the Investment Coordinating Board, (ii) the Ministry of Law and Justice, and (iii) the Ministry of Trade. These are called "approval", "legalization "and "registration," but each step is part of what other countries call company registration. Moreover, the government needs more focus to implement the current streamlining programs which have been implemented in few provinces to all Indonesia provinces.

a. One Stop Integrated Services or PTSP.

   PTSP purpose is to reduce the number of procedures and amount of documentation needed to invest in Indonesia and to bypass the need to physically come to offices to apply for certain services. The new system has revamped internal processes and rectified human resource constraints to increase the speed and improve the quality of investor services. This program also gives a clear procedure for investor to get a new investment permit.

b. Electronic System for Information Servicing and Investment Licensing or SPIPISE

SPIPISE is an electronic system for investment administration that enables investors to apply for licenses and non-license services online. SPIPISE also provides investment information. SPIPISE was established to facilitate PTSP. It started to launch in January 2010 in the Free Trade Zone and Free Port of Batam. It will be implemented in all provinces and districts/cities in stages. The objectives of SPIPISE are to integrate data, license, and non-license services; to provide easy, fast, accurate, transparent, and accountable license and non-license services; and to synchronize investment service policies of various ministries and also between the central and local governments.

c. Indonesia National Single Window or INSW

INSW is an integrated public services system that provides facility for submission and processing of standard electronic information, to resolve all processes of activities dealing with the traffic of export, import, and transit goods, in order to increase national competitiveness.

Third, the government needs to improve labor relations under the recently approved Labor Law 13/2003. There is some area for improvement in order to meet the expectation of investor. In particular, Indonesia’s excessive requirement for severance pay increases the cost of business and is possible to discourage investment as indicated in Table 7 above. The government should search alternative solutions, which benefit the employees and do not become a burden for investors, such as national pooling fund for firing workers to entire worker social security program. This alternative is possible to reduce firing cost for individual company or investor.

The fourth is improving the quality of bureaucracy in local investment. Local governments have more responsibilities as well as greater flexibility in improving their local investment climate. Enterprising local governments have introduced innovative policy reforms and actively promoted investment to attract more projects in their local areas. This healthy competition can spread good practices across the country. The central government has been encouraging local government efforts by clarifying functions/responsibilities between central and local governments, providing guidance in the enforcement of central government laws/regulations at the local level and facilitating learning and exchange of good practices among local governments. Besides, the local government needs to optimize the implementation of one-stop integrated services centre by transferring the sectoral licensing authorities from ministries to BKPM at the central level as well as from local government departments to local investment administration agencies at the local level.

Lastly, Indonesia should have to introduce a package of incentives and to send positive signals in order to win over foreign investors' confidence. The incentives might be made available on equal terms to both domestic and foreign investors. The incentive system should fit a comprehensive framework that adequately uses the country's or provincial comparative advantage and maximizes its competitiveness. Although this option is not closely related to this research topic but this policy option will encourage foreign companies to invest in Indonesia as compensation cost of bureaucracy.

EXHIBITES

Exhibit 1:

Matrix of inward FDI performance and potential

	High FDI performance	Low FDI performance
	Front-runners	Below potential
High FDI potential	Australia, Bahamas, Bahrain, Belgium, Botswana, Brunei Darussalam, Bulgaria, Chile, China, Croatia, Cyprus, Czech Republic, Dominican Republic, Estonia, Finland, Hong Kong (China), Hungary, Iceland, Ireland, Jordan, Kazakhstan, Latvia, Lebanon, Lithuania, Luxembourg, Malaysia, Malta, Netherlands, New Zealand, Panama, Poland, Portugal, Qatar, Singapore, Slovakia, Slovenia, Spain, Sweden, Trinidad and Tobago and United Arab Emirates.	Algeria, Argentina, Austria, Belarus, Brazil, Canada, Denmark, France, Germany, Greece, Islamic Republic of Iran, Israel, Italy, Japan, Kuwait, Libyan Arab Jamahiriya, Mexico, Norway, Oman, Philippines, Republic of Korea, Russian Federation, Saudi Arabia, Switzerland, Taiwan Province of China, Thailand, Tunisia, Turkey, Ukraine, United Kingdom and United States.
	Above potential	Under-performers
Low FDI potential	Albania, Angola, Armenia, Azerbaijan, Bolivia, Congo, Costa Rica, Ecuador, Ethiopia, Gabon, Gambia, Georgia, Guyana, Honduras, Jamaica, Kyrgyzstan, Mali, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Nigeria, Republic of Moldova, Romania, Sudan, Tajikistan, Uganda, United Republic of Tanzania, Viet Nam and Zambia.	Bangladesh, Benin, Burkina Faso, Cameroon, Colombia, Côte d'Ivoire, Democratic Republic of the Congo, Egypt, El Salvador, Ghana, Guatemala, Guinea, Haiti, India, Indonesia, Kenya, Madagascar, Malawi, Myanmar, Nepal, Niger, Pakistan, Papua New Guinea, Paraguay, Peru, Rwanda, Senegal, Sierra Leone, South Africa, Sri Lanka, Suriname, Syrian Arab Republic, TFYR of Macedonia, Togo, Uruguay, Uzbekistan, Venezuela, Yemen and Zimbabwe.

Source: UNCTAD 2008

Exhibit 2:

Doing Business 2010

INDONESIA		East Asia & Pacific		GNI per capita (US$)	2,007
Ease of doing business (rank)	122	Lower middle income		Population (m)	228.2
✔ **Starting a business** (rank)	161	✔ **Registering property** (rank)	95	**Trading across borders** (rank)	45
Procedures (number)	9	Procedures (number)	6	Documents to export (number)	5
Time (days)	60	Time (days)	22	Time to export (days)	21
Cost (% of income per capita)	26.0	Cost (% of property value)	10.7	Cost to export (US$ per container)	704
Minimum capital (% of income per capita)	59.7			Documents to import (number)	6
		Getting credit (rank)	113	Time to import (days)	27
Dealing with construction permits (rank)	61	Strength of legal rights index (0-10)	3	Cost to import (US$ per container)	660
Procedures (number)	14	Depth of credit information index (0-6)	4		
Time (days)	160	Public registry coverage (% of adults)	22.0	**Enforcing contracts** (rank)	146
Cost (% of income per capita)	194.8	Private bureau coverage (% of adults)	0.0	Procedures (number)	39
				Time (days)	570
Employing workers (rank)	149	✔ **Protecting investors** (rank)	41	Cost (% of claim)	122.7
Difficulty of hiring index (0-100)	61	Extent of disclosure index (0-10)	10		
Rigidity of hours index (0-100)	0	Extent of director liability index (0-10)	5	**Closing a business** (rank)	142
Difficulty of redundancy index (0-100)	60	Ease of shareholder suits index (0-10)	3	Time (years)	5.5
Rigidity of employment index (0-100)	40	Strength of investor protection index (0-10)	6.0	Cost (% of estate)	18
Redundancy cost (weeks of salary)	108			Recovery rate (cents on the dollar)	13.7
		Paying taxes (rank)	126		
		Payments (number per year)	51		
		Time (hours per year)	266		
		Total tax rate (% of profit)	37.6		

Source: World Bank and International Finance Corporation, 2009

Doing Business 2009

INDONESIA		East Asia & Pacific		GNI per capita (US$)	1,650
Ease of doing business (rank)	129	Lower middle income		Population (m)	225.6
Starting a business (rank)	171	**Registering property** (rank)	107	**Trading across borders** (rank)	37
Procedures (number)	11	Procedures (number)	6	Documents to export (number)	5
Time (days)	76	Time (days)	39	Time to export (days)	21
Cost (% of income per capita)	77.9	Cost (% of property value)	10.7	Cost to export (US$ per container)	704
Minimum capital (% of income per capita)	74.2			Documents to import (number)	6
		Getting credit (rank)	109	Time to import (days)	27
Dealing with construction permits (rank)	80	Strength of legal rights index (0-10)	3	Cost to import (US$ per container)	660
Procedures (number)	18	Depth of credit information index (0-6)	4		
Time (days)	176	Public registry coverage (% of adults)	26.1	**Enforcing contracts** (rank)	140
Cost (% of income per capita)	221.1	Private bureau coverage (% of adults)	0.0	Procedures (number)	39
				Time (days)	570
Employing workers (rank)	157	**Protecting investors** (rank)	53	Cost (% of claim)	122.7
Difficulty of hiring index (0-100)	61	Extent of disclosure index (0-10)	9		
Rigidity of hours index (0-100)	0	Extent of director liability index (0-10)	5	**Closing a business** (rank)	139
Difficulty of firing index (0-100)	60	Ease of shareholder suits index (0-10)	3	Time (years)	5.5
Rigidity of employment index (0-100)	40	Strength of investor protection index (0-10)	5.7	Cost (% of estate)	18
Firing cost (weeks of salary)	108			Recovery rate (cents on the dollar)	13.7
		Paying taxes (rank)	116		
		Payments (number per year)	51		
		Time (hours per year)	266		
		Total tax rate (% of profit)	37.3		

Source: World Bank and International Finance Corporation, 2008

Doing Business 2008

INDONESIA		East Asia & Pacific		GNI per capita (US$)	1,420
Ease of doing business (rank)	123	Lower middle income		Population (m)	223.0
Starting a business (rank)	168	**Registering property** (rank)	121	**Trading across borders** (rank)	41
Procedures (number)	12	Procedures (number)	7	Documents to export (number)	5
Time (days)	105	Time (days)	42	Time to export (days)	21
Cost (% of income per capita)	80.0	Cost (% of property value)	10.5	Cost to export (US$ per container)	667
Minimum capital (% of income per capita)	38.4			Documents to import (number)	6
		Getting credit (rank)	68	Time to import (days)	27
Dealing with licenses (rank)	99	Strength of legal rights index (0–10)	5	Cost to import (US$ per container)	623
Procedures (number)	19	Depth of credit information index (0–6)	3		
Time (days)	196	Public registry coverage (% of adults)	20.5	**Enforcing contracts** (rank)	141
Cost (% of income per capita)	286.8	Private bureau coverage (% of adults)	0.2	Procedures (number)	39
				Time (days)	570
Employing workers (rank)	153	**Protecting investors** (rank)	51	Cost (% of claim)	122.7
Difficulty of hiring index (0–100)	72	Extent of disclosure index (0–10)	9		
Rigidity of hours index (0–100)	0	Extent of director liability index (0–10)	5	**Closing a business** (rank)	136
Difficulty of firing index (0–100)	60	Ease of shareholder suits index (0–10)	3	Time (years)	5.5
Rigidity of employment index (0–100)	44	Strength of investor protection index (0–10)	5.7	Cost (% of estate)	18
Nonwage labor cost (% of salary)	10			Recovery rate (cents on the dollar)	12.6
Firing cost (weeks of salary)	108	**Paying taxes** (rank)	110		
		Payments (number per year)	51		
		Time (hours per year)	266		
		Total tax rate (% of profit)	37.3		

Source: World Bank and International Finance Corporation, 2007

Exhibit 3:

Ranking on the Total Tax Rate

RANK	COUNTRY/ECONOMY	HARD DATA
1	Qatar	11.3
2	Kuwait	14.4
2	United Arab Emirates	14.4
4	Saudi Arabia	14.5
5	Bahrain	15.0
6	Zambia	16.1
7	Botswana	17.1
8	Lesotho	18.0
9	Macedonia, FYR	18.4
10	Luxembourg	21.0
11	Oman	21.6
12	Mauritius	22.2
13	Cambodia	22.6
14	Hong Kong SAR	24.2
15	Namibia	25.3
16	Chile	25.9
17	Iceland	26.8
18	Singapore	27.9
18	Suriname	27.9
20	Timor-Leste	28.3
21	Ireland	28.8
22	Pakistan	28.9
22	Switzerland	28.9
24	Denmark	29.9
25	Mongolia	30.3
26	Ethiopia	31.1
26	Jordan	31.1
28	Malawi	31.4
29	Montenegro	31.8
30	Nigeria	32.2
31	Croatia	32.5
32	Ghana	32.7
33	Latvia	33.0
34	Trinidad and Tobago	33.1
35	Korea, Rep.	33.7
36	Israel	33.9
37	Serbia	34.0
38	Nepal	34.1
39	South Africa	34.2
40	Mozambique	34.3
41	Malaysia	34.5
41	Uganda	34.5
43	Bulgaria	34.9
43	Ecuador	34.9
43	El Salvador	34.9
46	Paraguay	35.0
47	United Kingdom	35.3
48	New Zealand	35.6
49	Dominican Republic	35.7
50	Kazakhstan	36.4
51	Guatemala	36.5
52	Armenia	36.6
53	Slovenia	36.7
54	Indonesia	37.3
55	Brunei Darussalam	37.4
56	Thailand	37.8
57	Georgia	38.6
58	Netherlands	39.1
59	Guyana	39.4
68	Madagascar	42.8
69	Syria	43.5
70	Portugal	43.6
71	Bosnia and Herzegovina	44.1
72	Burkina Faso	44.6
72	Morocco	44.6
74	Tanzania	45.1
75	Canada	45.4
75	Côte d'Ivoire	45.4
77	Turkey	45.5
78	Senegal	46.0
79	Egypt	46.1
80	Lithuania	46.4
81	Greece	47.4
81	Slovak Republic	47.4
83	Finland	47.8
84	Romania	48.0
85	Czech Republic	48.6
85	Estonia	48.6
87	Russian Federation	48.7
88	Honduras	49.3
89	Australia	50.3
90	Albania	50.5
90	Germany	50.5
92	Panama	50.6
93	Philippines	50.8
94	Kenya	50.9
95	Jamaica	51.3
96	Cameroon	51.4
96	Mali	51.4
98	Mexico	51.5
99	Austria	54.5
99	Sweden	54.5
101	Japan	55.4
102	Costa Rica	55.7
103	Venezuela	56.6
104	Hungary	57.5
105	Belgium	58.1
106	Ukraine	58.4
107	Uruguay	58.5
108	Tunisia	59.1
109	Spain	60.2
110	Chad	60.5
111	Kyrgyz Republic	61.4
112	Nicaragua	63.2
113	Sri Lanka	63.7
113	Zimbabwe	63.7
115	Puerto Rico	64.7
116	France	65.4
117	Brazil	69.4
118	India	71.5
119	Benin	73.2
120	Italy	73.3
121	Algeria	74.2
122	Bolivia	78.1
123	Colombia	78.4
124	China	79.9
125	Tajikistan	85.5
126	Mauritania	98.7

Source: World Economic Forum 2009

Exhibit 4:

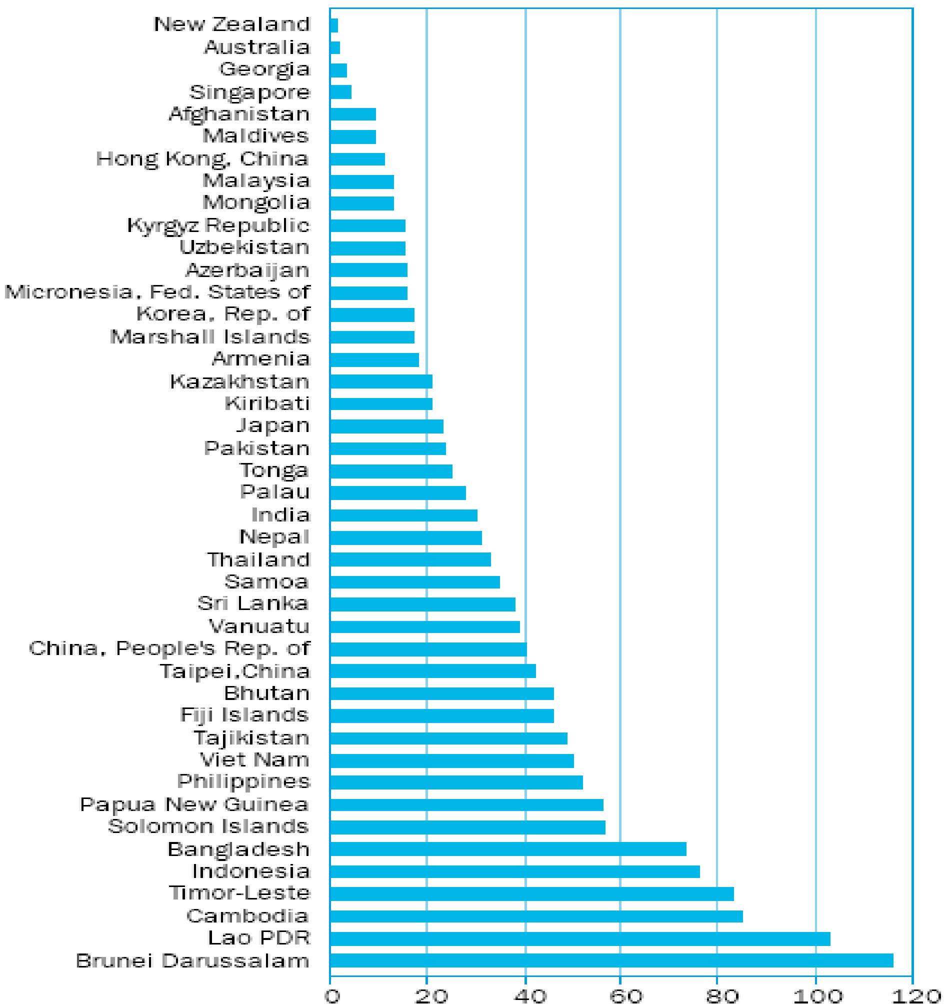
Ranking on the Labour Market Efficiency in Indonesia

7.01	Cooperation in labor-employer relations	42
7.02	Flexibility of wage determination	92
7.03	Rigidity of employment*	82
7.04	Hiring and firing practices	34
7.05	Firing costs*	119
7.06	Pay and productivity	29
7.07	Reliance on professional management	55
7.08	Brain drain	25
7.09	Female participation in labor force*	104

Source: World Economic Forum 2009

Exhibit 5:

Number of Days required to register a New Business, 2009



Source: Asian Development Bank 2009

Exhibit 6:

Ranking on the Ease of Doing Business 2009 - 2010

2010 RANK	2009 RANK	ECONOMY	2010 REFORMS
1	1	Singapore	3
2	2	New Zealand	0
3	3	Hong Kong, China	3
4	4	United States	0
5	6	United Kingdom	2
6	5	Denmark	0
7	7	Ireland	1
8	8	Canada	0
9	9	Australia	0
10	10	Norway	1
11	16	Georgia	2
12	12	Thailand	1
13	15	Saudi Arabia	2
14	11	Iceland	1
15	13	Japan	0
16	14	Finland	1
17	24	Mauritius	6
18	17	Sweden	0
19	23	Korea, Rep.	2
20	18	Bahrain	1
21	19	Switzerland	0
22	20	Belgium	2
23	21	Malaysia	2
24	22	Estonia	2
25	27	Germany	2
26	25	Lithuania	1
27	30	Latvia	2
28	26	Austria	0
29	29	Israel	1
30	28	Netherlands	1
31	31	France	2
32	69	Macedonia, FYR	7
33	47	United Arab Emirates	3
34	32	South Africa	1
35	33	Puerto Rico	0
36	34	St. Lucia	1
37	49	Colombia	8
38	38	Azerbaijan	2
39	37	Qatar	0
40	36	Cyprus	0
41	80	Kyrgyz Republic	7
42	35	Slovak Republic	1
43	50	Armenia	3
44	42	Bulgaria	2
45	39	Botswana	2
46	61	Taiwan, China	2
47	41	Hungary	1
48	48	Portugal	4
49	40	Chile	0
50	44	Antigua and Barbuda	0
51	55	Mexico	2
52	46	Tonga	1
53	58	Slovenia	2
54	43	Fiji	1
55	45	Romania	1
56	65	Peru	6
57	68	Samoa	2
58	82	Belarus	6
59	57	Vanuatu	1
60	56	Mongolia	0
61	52	Kuwait	2
62	51	Spain	1
63	64	Kazakhstan	3
64	53	Luxembourg	1
65	60	Oman	2
66	54	Namibia	0
67	143	Rwanda	7
68	59	Bahamas, The	0
69	73	Tunisia	2
70	62	St. Vincent and the Grenadines	2
71	77	Montenegro	4
72	72	Poland	4
73	63	Turkey	1
74	66	Czech Republic	3
75	67	Jamaica	1
76	70	St. Kitts and Nevis	1
77	83	Panama	2
78	74	Italy	0
79	79	Kiribati	0
80	75	Belize	0
81	78	Trinidad and Tobago	0
82	89	Albania	3
83	76	Dominica	0
84	81	El Salvador	0
85	85	Pakistan	1
86	102	Dominican Republic	1
87	71	Maldives	0
88	90	Serbia	2
89	86	China	1
90	99	Zambia	1
91	88	Grenada	2
92	87	Ghana	1
93	91	Vietnam	2
94	108	Moldova	3
95	84	Kenya	1
96	94	Brunei Darussalam	1
97	92	Palau	0
98	93	Marshall Islands	0
99	103	Yemen, Rep.	3
100	104	Jordan	6
101	98	Guyana	2
102	95	Papua New Guinea	1
103	110	Croatia	1
104	96	Solomon Islands	0
105	97	Sri Lanka	1
106	116	Egypt, Arab Rep.	4
107	111	Ethiopia	3
108	101	Lebanon	2
109	100	Greece	1
110	117	Guatemala	4
111	105	Seychelles	0
112	106	Uganda	1
113	107	Kosovo	1
114	109	Uruguay	1
115	114	Swaziland	0
116	119	Bosnia and Herzegovina	1
117	113	Nicaragua	0
118	112	Argentina	1
119	115	Bangladesh	3
120	118	Russian Federation	3
121	121	Costa Rica	1
122	129	Indonesia	3
123	123	Nepal	1
124	122	Paraguay	1
125	120	Nigeria	1
126	124	Bhutan	1
127	125	Micronesia, Fed. Sts.	0
128	130	Morocco	1
129	127	Brazil	1
130	128	Lesotho	0
131	126	Tanzania	0
132	131	Malawi	2
133	132	India	1
134	144	Madagascar	1
135	140	Mozambique	2
136	134	Algeria	4
137	142	Iran, Islamic Rep.	4
138	133	Ecuador	0
139	137	West Bank and Gaza	2
140	135	Gambia, The	0
141	136	Honduras	3
142	146	Ukraine	1
143	138	Syrian Arab Republic	1
144	141	Philippines	3
145	139	Cambodia	0
146	147	Cape Verde	2
147	155	Burkina Faso	5
148	156	Sierra Leone	5
149	159	Liberia	3
150	145	Uzbekistan	2
151	154	Haiti	2
152	164	Tajikistan	5
153	150	Iraq	0
154	149	Sudan	2
155	148	Suriname	0
156	162	Mali	5
157	152	Senegal	1
158	151	Gabon	0
159	160	Zimbabwe	1
160	168	Afghanistan	3
161	158	Bolivia	0
162	153	Comoros	0
163	157	Djibouti	1
164	173	Timor-Leste	1
165	166	Togo	2
166	161	Mauritania	0
167	165	Lao PDR	1
168	163	Côte d'Ivoire	0
169	170	Angola	3
170	169	Equatorial Guinea	0
171	167	Cameroon	3
172	172	Benin	2
173	171	Guinea	0
174	174	Niger	1
175	175	Eritrea	0
176	177	Burundi	0
177	178	Venezuela, R.B.	0
178	176	Chad	0
179	179	Congo, Rep.	0
180	180	São Tomé and Principe	0
181	181	Guinea-Bissau	1
182	182	Congo, Dem. Rep.	1
183	183	Central African Republic	1

Source : Doing Business 2010, IFC and World Bank

APPENDIX

MODEL I/PMA (apply for a new investment)[27]

Submitted to BKPM in 2 (two) copies.

Peraturan Kepala BKPM

No. 1/P/2008

MODEL I / PMA

FOREIGN INVESTMENT APPLICATION

This investment application under the Investment Law No. 25 Year 2007 for approval and facility, is herewith submitted to BKPM on behalf of the Government of The Republic of Indonesia.

I. DESCRIPTION OF THE PARTICIPANTS

a. Foreign Participant(s)
   1. Name of Company (ies) or individuals : ....
   2. Main line of business : ....
   3. Address : ....
      - Phone Number : ....
      - Fax number : ....
      - E-mail : ....

b. Indonesian Participant(s)
   1. Name of Participant(s)
      (company, cooperative or individuals) : ....
   2. Tax Registration Code Number (NPWP) : ....
   3. - Main line of business : ....
      - Investment status : PMA, PMDN or Non PMA/PMDN*)

*) Stripe which are not used

   4. Legalization by Ministry of Law and Human
      Rights (Number and Date) : ....
   5. Address : ....
      - Phone Number : ....
      - Fax number : ....
      - E-mail : ....

[27] Indonesia Investment Coordinating Board

II. DESCRIPTION OF THE PROPOSED FDI (PMA) COMPANY

1. Name of Company : ……………………………………
2. Main Line of Business : ……………………………………

III. DESCRIPTION OF THE FDI (PMA) COMPANY (if the company is already incorporated)

1. Name of Company : ……………………………………
2. Main Line of Business : ……………………………………
3. Address : ……………………………………
   - Phone Number : ……………………………………
   - Fax number : ……………………………………
   - E-mail : ……………………………………
4. Number and Date of Articles of Association of the Company : ……………………………………..
5. Number and Date of Approval from Minister of Law and Human Rights : ……………………………………

III. DESCRIPTION OF THE PROPOSED BUSINESS ACTIVITY

A. PROPOSED PROJECT ACTIVITY

If the proposed project activity located in more than one location and or consist of more than one sector line of business, the proposed project activity (location, production, sales, land required, employment, allocation of investment funds) must be divided for each location and or for each sector.

1. Location of the project : ……………………………………
   - Address : ……………………………………
   - Regency/City : ……………………………………
   - Province : ……………………………………
2. Annual Production :

Name of Product (s) / Services	Designed capacity		Remarks
	Value	Amount	
……………………….……………....	...…………	………………...	………..………………
……………………….……………....	...…………	………………...	………..………………
……………………….……………....	...…………	………………...	………..………………

3. Annual Sales of Products :

Name of Product (s)/Services	Export Market (%)
……………………………..……………….	………………..……………
……………………………..……………….	………………..……………
……………………………..……………….	………………..……………

Estimated total export value : US$……………….………………..…

4. Land area required : ……..……………………..Sq.M /Ha*)

5. Indonesian Employees : ………..………...………… person

6. Allocation of Investment Funds (US$/Rp) *)
   *) Stripe which is not used.

   a. Fixed capital :

   - Cost of Land & land development : ………………………….…………

   - Cost of Building : ……………………….…………

   - Cost of Machinery, Equipment and spare parts : ……………………….…………

   - Miscellaneous : ……………………….…………

   Sub total : ……………………….…………

   b. Working Capital (one turnover operation) : ……………………….…………

   Total : ……………………….…………

7. Implementation will be completed within ………..….. months from the date of the issuance of the Government's Approvals.

B. SOURCE OF FUND

1. Source of Capital :

   a. Equity : US$…………………………….

   b. Loan : US$…………………...…………

Total *) : US$………………..…………

*) Total investment funds is equal to the alocation of investment funds

2. Equity Capital :

   a. Authorized Capital :

      US$……………………..………

   b. Issued Capital :

      US$……………………..………

   c. Paid-up Capital *) :

      US$……………………..………

*) Paid-up capital is equal to issued capital

3. Shareholding (s)

a. Foreign Shareholder (s)	US$	%
……….……………………………………....	…..…………………...	………..……………...
……….……………………………………....	…..…………………...	………..……………...
Sub Total		
b. Indonesian Shareholder (s)	US$	%
……….……………………………………....	…..…………………...	………..……………...
……….……………………………………....	…..…………………...	………..……………...
c. Total (a + b)	US$…………………..…	100%

IV. DECLARATION

1. We acknowledge that the company shall be obliged to take preventive measures against any negative impact on the society and environment resulting from the operation of our investment project, at our joint venture company's own expense(s) and in conformity with the applicable laws and regulations.

2. This application has been properly and duly executed and we (the participants) are responsible for its accuracy, correctness and completeness, including all data and documents attached here to.

……………………..,……….,20…….

Foreign Applicant(s)

(…………………….……..)

Name, Signature

Indonesian Applicant(s)

Stamp duty Rp. 6.000,-

(……...……………………)

Name, Position, Signature, Stamp

ENCLOSURES:

1. By Foreign Participant:
   a. Articles of Association of the Company in English or Indonesian language; or
   b. Copy of valid passport for foreign individual

   or

   By Existing Foreign Direct Investment Company (PMA) :

   a. Articles of Association of the Company and any amendment(s)
   b. Approval from Minister of Law and Human Rights
   c. Tax Registration Code Number (NPWP)
   d. Copy of Investment Approvals (SP/IUT BKPM)

2. By Indonesian Participant:
   a. Articles of Association of the Company and any amendment(s) and Approval from Minister of Law and Human Rights, or
   b. Identity Card for Individual
   c. Tax Registration Code Number (NPWP).

3. By Newly Incorporated Foreign Direct Investment Company (PT. PMA)
   a. Articles of Association of the Company
   b. Approval from Minister of Law and Human Rights

4. Flowchart and description of the production process and raw materials requirement for processing industries or description/explanation of business activities for services sector.

5. Letter of recommendation from the technical ministries or other related government agencies concerned, if required.
   If the recommendation is not available yet, the company may submit the investment application to BKPM enclosing copy of recommendation letter application to technical ministries or other related government agencies including the receipt from the latter agencies. BKPM will send a letter to the latter agencies regarding the recommendation application from the company, and if within 17 (seventeen) working days there is no response or recommendation, BKPM will issue the investment approval. Particularly for Capture Fisheries, recommendation letter from the Ministry of Marine Affairs and Fisheries is still needed before the Investment Approval Letter issued by BKPM.

6. Power of Attorney to whom who sign and/or submit the application if the participant(s) are represented by another party.

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