



Relocating Investment to Indonesia in the Time of Covid-19: Opportunity and Challenges

Rosan P. Roeslani
Indonesia Chamber of Commerce & Industry
Chairman

Indonesia adalah salah satu negara paling optimis di Dunia, dengan pemulihan yang cepat pasca covid-19



➤ Background



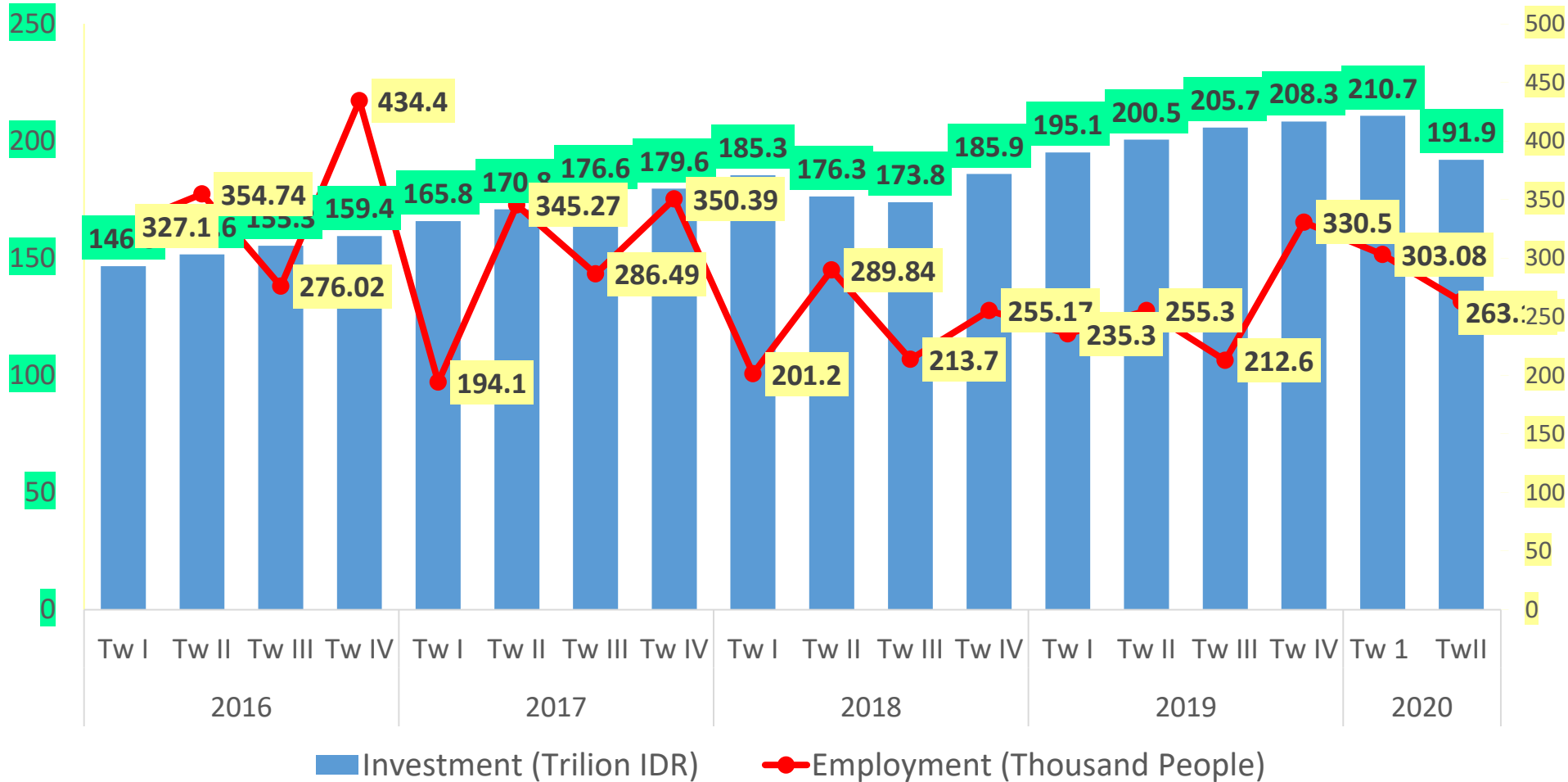
- The global pandemic of COVID-19 has created further uncertainty for the world economy. One of the aspects which greatly disrupted by the pandemic is the production supply chain which subsequently slowing down the productivity hence cut down the economic performance in many countries.
- Facing this new challenge, governments and industries must set out new policies and strategies to ensure the continuity of the economy. Putting too much focusing only one location of base of production has proven risky should unprecedentedly event like the new pandemic occurs in the future.
- Relocation and redistribution of the production is one of the considerable options for industries.
- Indonesia is also one of the countries which face the challenge to curb the spread of the virus. Various policies have been taken by the government to mitigate the effect of COVID-19.
- Amidst the challenge, Indonesia is still promising as an investment destination since the economic outlook is better than global average.

Continuous Improvement of Investment Climate



	EoDB 2020 Rank	EoDB 2019 Rank	Change in Rank	EoDB 2020 Points	EoDB 2019 Points	Change in Points
Overall	73	73	= 0	69.6	68.0	↑ 1.6
Starting a business	140	134	↓ 6	81.2	81.2	= 0.0
Dealing with Construction Permits	110	112	↑ 2	66.8	66.6	↑ 0.2
Getting Electricity	33	33	= 0	87.3	86.4	↑ 0.9
Registering Property	106	100	↓ 6	60.0	61.7	↓ 1.7
Getting Credit	48	44	↓ 4	70.0	70.0	= 0.0
Protecting Minority Investors	37	51	↑ 14	70.0	63.3	↑ 6.7
Paying Taxes	81	112	↑ 31	75.8	68.0	↑ 7.8
Trading Across Borders	116	116	= 0	67.5	67.3	↑ 0.2
Enforcing Contracts	139	146	↑ 7	49.1	47.2	↑ 1.9
Resolving Insolvency	38	36	↓ 2	68.1	67.9	↑ 0.2

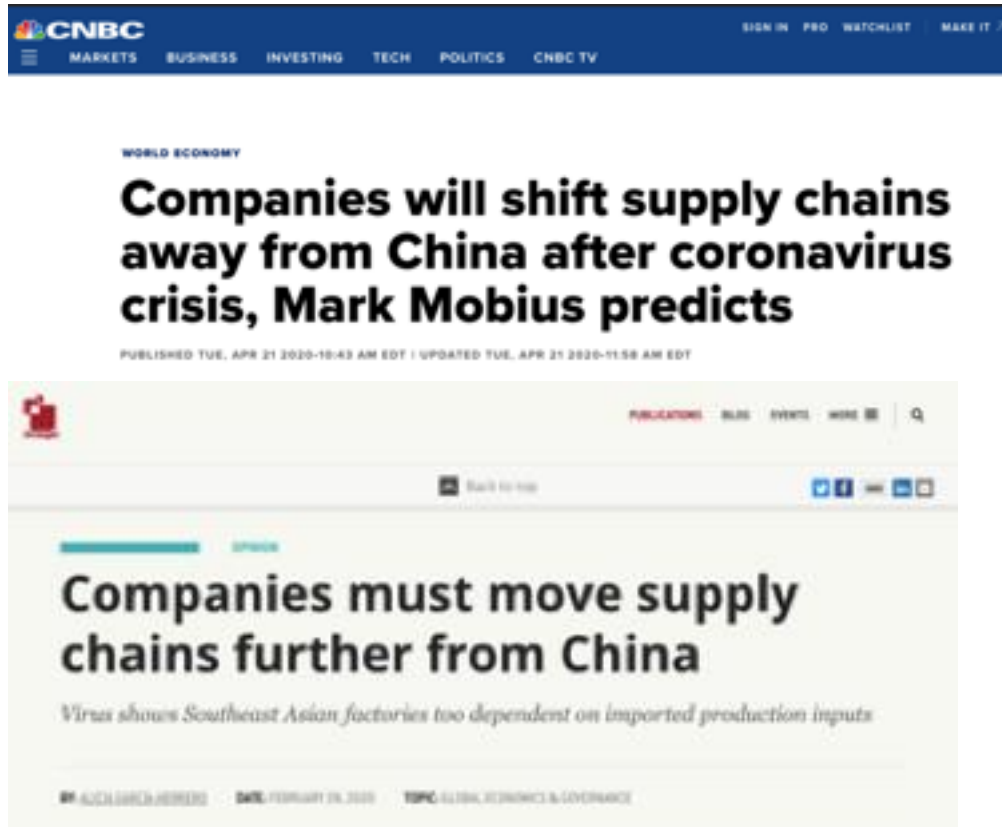
Investment Effectivity to Create Jobs



- Pada 2016, Rp 1 triliun investasi yang tercatat di BKPM mampu menghasilkan tenaga kerja 2.271 orang.
- Namun 2019, Rp 1 triliun investasi yang tercatat di BKPM hanya mampu menghasilkan tenaga kerja 1.276 orang.
- Padahal nilai investasi semakin meningkat
- Jadi perlukan investasi yang mampu menyerap banyak tenaga kerja

Source: Investment Coordinating Board of the Republic of Indonesia (BKPM)

New Opportunities Rising from Post-COVID-19: Relocation from China



- COVID-19 and US-China trade war become a wake-up call for international companies about the risks of excessive dependence on China
- European Union and the US are encouraging companies to shift their manufacturing operations out of China as part of plans to diversify global industry.
- Many firms looking to maintain their operations in Asia have turned towards ASEAN countries (Oxford Business Group,2020)
- To grasp the benefit from this opportunities, several aspects need to be prepared :
 - Ease of doing business
 - Fiscal regime (administration, tax rate, and tax incentive)
 - A land pool for industrial relocation
 - Trade policy

New Opportunities Rising from Post-COVID-19: Bringing Production Back Home



- WEF (2020):
 - The coronavirus crisis has revealed the fragility of the modern supply chain. Recent data shows the devastating economic impact as week-on-week trade in China, the US and Europe halved because of the crisis.
 - The impact of China's lockdown and its dominance in key areas of manufacturing have further highlighted the problem with modern supply chains. When Chinese factories closed, manufacturers struggled to pivot due to a lack of flexibility in their supplier base.
 - One likely consequence is that global firms will diversify their supply chains in the future, instead of relying only on China.
 - **We will also see a decentralization of manufacturing capacity, with companies looking to bring production home.**

Innovation and Upgrading Opportunities



- Indonesia need to upgrade if they wish to participate in GVCs and reduce the adverse effects of the power of buyers and manufacturers
- Upgrading is typically related to the improvement of a firm's productivity and competitiveness and can be understood as building technological and managerial capacity that allows local players to participate effectively in value chains.
- Type of upgrading:
 - Process upgrading or improving the efficiency of internal processes
 - Product upgrading or improving old products through quality and price performance as well as through time to market, or differentiating by introducing new products faster than rivals.
 - Functional upgrading implies raising value added by changing the mix of activities conducted in the firm.
 - Inter-chain upgrading assumes moving to a new, more profitable value chain, where higher rents can be captured

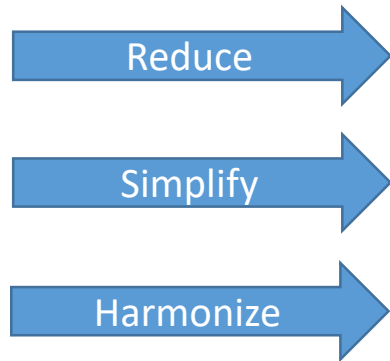
About Omnibus Bill

Indonesia is Hyper Regulated



Current Conditions

- 8,848 Central Government's Regulations
- 14,815 Ministry Regulations
- 15,966 Local Governments' Regulations



Omnibus bill covers a number of diverse or unrelated topic, thus the regulations making process becomes more easier, simple, and productive



Benefit of Omnibus Bill

Omnibus bill is an innovative regulation that aims to change many laws that hamper investment climate

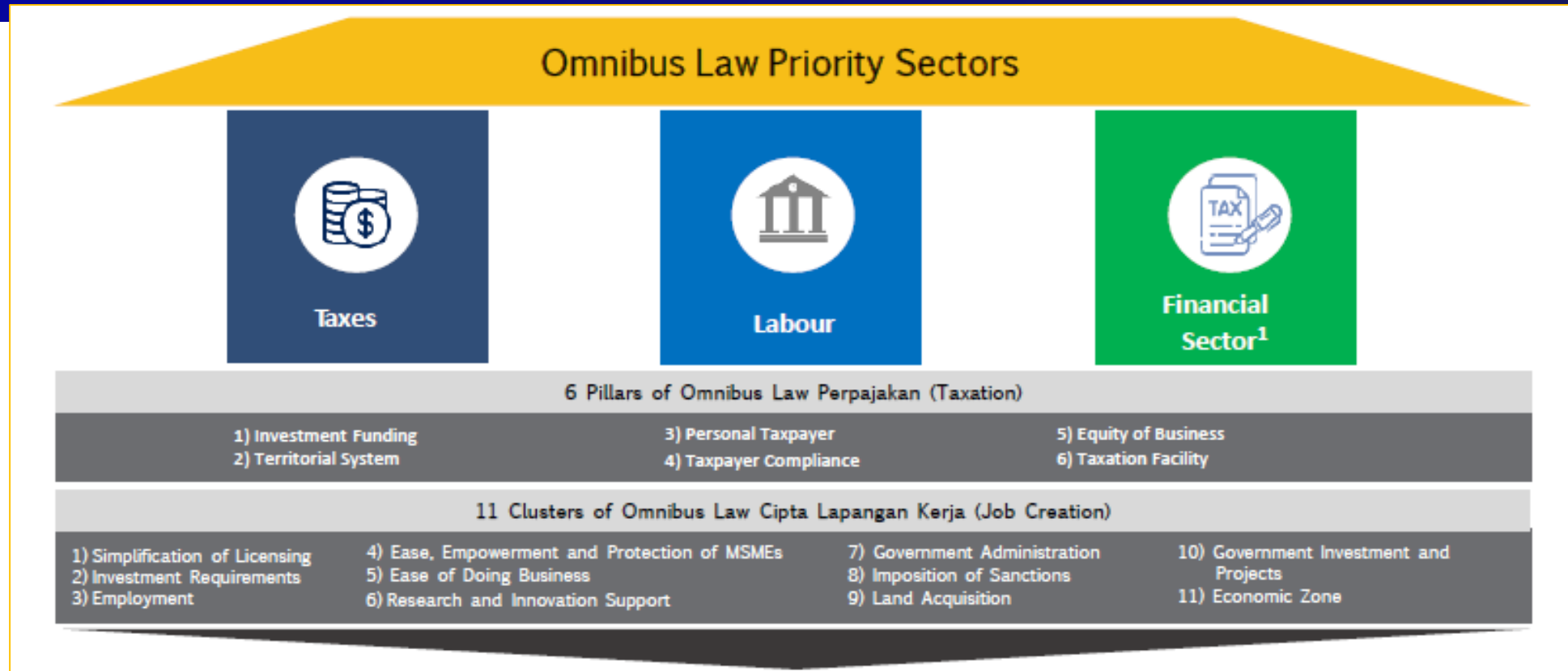
1. Solve overlap problems among government institutions
2. Efficient law making process
3. Eliminate sectoral ego

The Consequence of Omnibus Bill

- Existing Law are still in force except articles that are covered in Omnibus bill
- Existing Law are no longer in force if the changed articles are the core of the law

Simplifying Regulations Through Omnibus Laws

Omnibus Law Group a diverse range of Issues into legislation, Aimed at Creating Jobs and Empowering SMEs



- Following the inauguration of his second presidential term in October 2019, President Joko Widodo announced his administration's plans to continue regulatory reform by focusing on initiatives such as developing a dynamic and qualified workforce, promoting industry cooperation through technology, further enhancing infrastructure development and economic reform as well as simplifying regulations and bureaucracy.
- To achieve such ends, President Widodo's Government subsequently prepared three bills of omnibus laws, namely an omnibus bill on job creation, an omnibus bill on development and strengthening the financial sector and an omnibus bill on tax provision.
- Omnibus laws refer to laws that group diverse and unrelated issues which are drawn into a bill which is accepted in a single vote by a legislature.



Ease and Requirements for Investment in the Omnibus Bill on Job Creation

Chapter III: Improvement of Ecosystems for Investment and Business Activities

1. Application of Risk Based Approach (RBA) Licensing
2. Simplification of Basic Requirements for Business Licensing and Land Procurement
 1. Suitability of Spatial Use Activities
 2. Environmental Permit
 3. Construction Permit and Certification of Occupancy
3. Simplification and Ease of Business Licensing and Requirements
 1. Making Risk Based Approach as a standard for business licensing
 2. Regulations on the issuance of business licensing permits regulated by NSPK
 3. Business Licensing Arrangements in 15 Sectors
 4. Investment Requirements in Specific Sectors







Bab VI: Ease of Doing Business

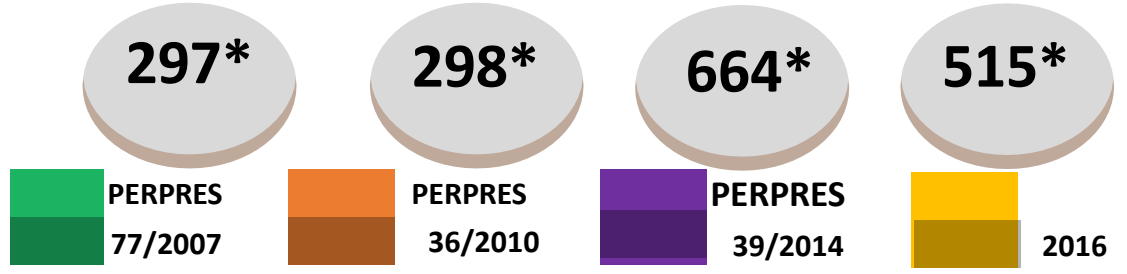
1. Ease of Immigration Regulations for Foreign Investment (guarantees can be in the form of a deposit)
2. Ease of patents for making products or processing products in Indonesia (flexibility).
3. Ease of establishing a Limited Company (PT) for big business and for Micro and Small Enterprises (can be established by 1 person).
4. Revoking Nuisance Law (Nuisance Permit).
5. Availability of Raw Materials and / or Supporting Materials for Industry and regulation on the importation of fisheries and salting commodities.
6. Revoking Requirements for Company Registration.
7. Encourage Village Owned Enterprises (BUMDes) to register as a legal entity.

The government is currently preparing an Investment Priority List (DPI) which is part of an attempt to ease the business sectors regulated in the Negative Investment List (DNI)

- Investment in Indonesia is considered very closed compared to other ASEAN countries
- The number of closed sector or open with requirements is higher compared to other countries

Until 2014, the number of business sectors regulated in the Negative Investment List (DNI) continued to grow. In 2016, the Government began to relax the business sectors regulated in DNI.

	 Indonesia	 Singapura	 Malaysia	 Thailand	 Filipina	 Vietnam
Closed	20	0	0	0	1	6
Open with Requirements	495	4	11	43	33	0
TOTAL*)	515	4	11	43	34	6



*) is the number of closed sector, targeted specifically for MSMEs and Partnerships and open with requirements

Application of Risk Based Approach (RBA) Business Licensing

- The application of risk-based business licensing (RBA) can be argued as a licensing innovation in Indonesia that is expected to solve licensing issues
- Risk Based Approach (RBA) licensing has been best practice in a number of countries such as the United Kingdom, the Netherlands and Australia
- Lessons from the OECD:
 - The application of risk licensing also cannot be uniformed for all sectors
 - Implementation of risk-based licensing needs to be done gradually, focusing on sectors that have strong data certainty
 - Indonesia has a very large number of informal sectors compared to OECD countries so the RBA implementation needs to be careful
- There is a need for supervisors in determining risk in various sectors

From License Approach to Risk Approach

License Approach

- All businesses are required to have a Business License without considering the complexity and characteristics of respective sectors. The impact is that there are many regulations and permits, but they are not necessarily substantial
- NSPK is not standardized
- Because the focus is on licensing aspects, the implementation of supervision of business activities is not standard and not optimal

Risk Approach

- Business licensing is based on the risk level of business activities
- Types of business licensing are NIB (registration), STANDARD CERTIFICATE and PERMISSION
- Business licensing and implementation of supervision based on the level of risk of business activities
- The focus is on supervision business activities, not on licensing

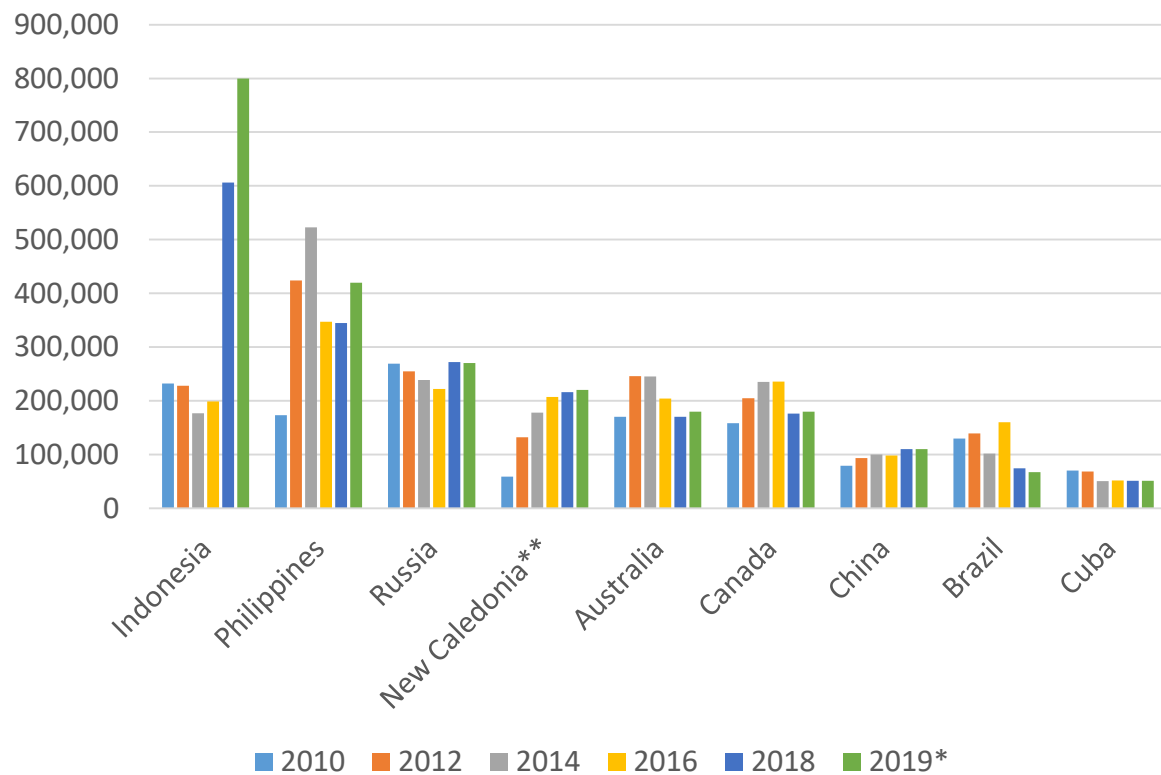


Bringing Production Back Home: Downstream Opportunities in Indonesia



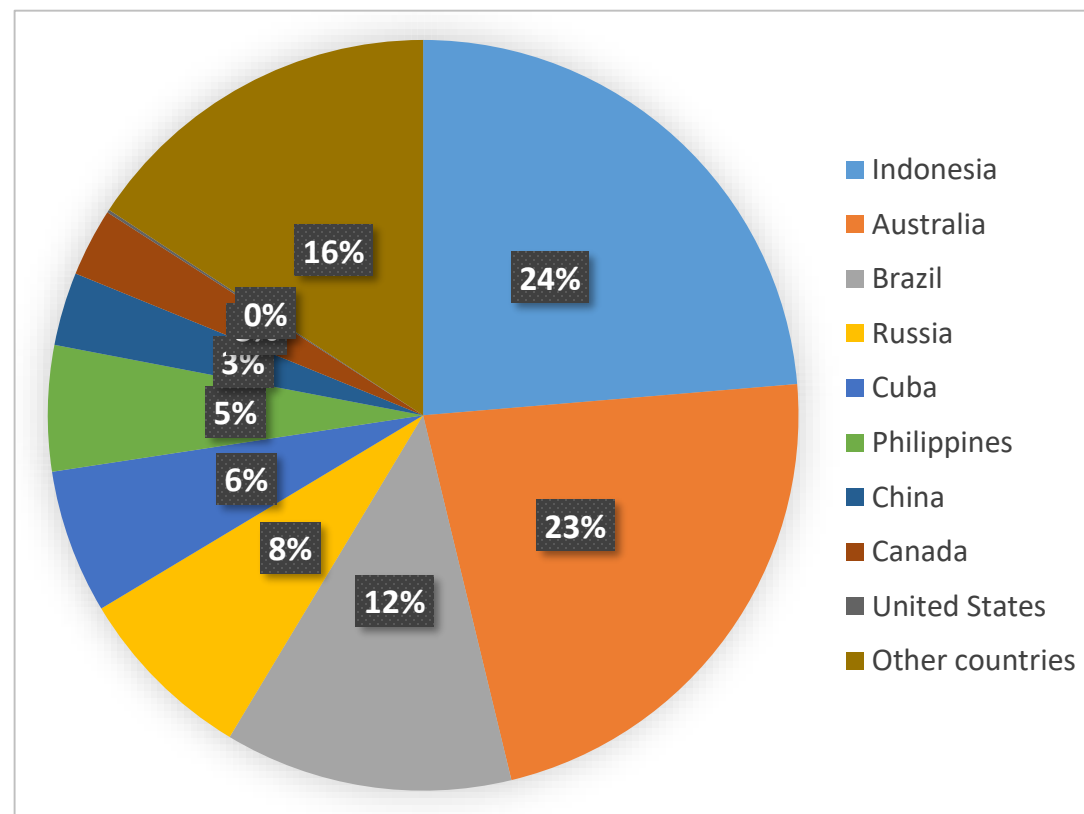
Indonesia as the Big Player in Nickel

Nickel Production by Country



Sumber: Statista (2020)

Share of Nickel Reserve by Country



Sumber: Statista (2020)



Strategy to Maintain Investment Climate During COVID-19 Pandemic



- 1 Facilitating existing companies that operate in Indonesia
- 2 Facilitating potential of existing companies not yet been executed
- 3 Bringing in new investments
- 4 Providing incentives for business expansion of existing companies



THANK YOU

Menara Kadin Indonesia 3rd, 24th & 29th Floor
H.R. Rasuna Said X-5 Kav 2-3 Jakarta 12950 Indonesia
Phone : +62 21 5274484 (Hunting) Fax : +62 21 5274331, 5274332