

Management Awards of Asia

Keynote Address

by
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Ladies and gentlemen, award winners and guests,

It is a pleasure and honor to be here tonight. The honors for excellence awarded by the Asian Institute of Management are perhaps the premier management awards in Indonesia and indeed the region. The prestige of the companies and institutions receiving the awards serves as a useful reminder to all of the importance of quality and excellence in whatever we do. The Institute of Management is to be commended on its work. Reflecting on excellence and picking out those who are making the greatest strides not only rewards deserving recipients but also raises awareness and confidence. The companies represented here are among the best known in Indonesia, and tonight's recipients reflect the rapid growth and diversification of industry and services in Indonesia.

I would like to welcome you to tonight's Award Ceremony with some thoughts on where I believe the economy may be going, and what this means in terms of the challenges and opportunities in the years ahead. As it is evening, and we are in such good company, I will keep these remarks rather short, to allow more extended conversation among the distinguished guests.

Before beginning, I would like to take a moment to give special thanks to the Indonesian Banking Institute and particularly Mr. Rachmat Saleh and Mr. Haroen Al Rasjid for hosting us. These kinds of events do not take place without dedicated and selfless people behind them. The IBI and Indonesia are fortunate to have leaders with such vision and practical skills.

There has been much in the press of late about export and growth slowdowns in the Southeast and East Asian region. In fact a well known US academic, Paul Krugman, is quoted as saying that slowing export growth may push some of these countries into unsustainable balance-of-payments deficits. Admittedly, after years of very high growth, a number of countries are showing signs of lower economic growth. Exports are growing more slowly, and in some countries (China, and South Korea) have even contracted. In part, this reflects movement in the dollar/yen exchange rate, where last year's high yen exaggerated dollar export gains, and this year's low yen minimizes them. In addition, the developed countries are estimated to be growing by only 2% this year, while East and Southeast Asian exports have been growing at more than 10% annually. In the past, rapid growth in exports with slow growth in the developed countries was possible as market shares were small, but with increased export success, Asian products now dominate developed country markets in many areas. For instance, many Asian economies and increasingly our own, have large export shares in electronics, which have been growing slowly. Thus, our economies are now increasingly subject to cycles in developed countries' demand.

Nevertheless, in Indonesia, we are confident that we can continue to maintain a satisfactory growth rate in the years to come. In fact, recent years have seen growth above the *Repelita VI* target of 7.1%, with growth ranging between 7.5% and 8.1% in 1994 and 1995. The recent economic investment initiatives have provided a powerful incentive to the private sector, and fixed investment growth has been running above 10% annually since mid 1994. With this growth, fixed investment alone is now approaching a historical high at 30% of GDP, and has

resulted in the boom in construction and manufacturing, which we see around us.

We anticipate that over the next year, the measures already taken or in process will create a soft landing for the Indonesian economy, with overall growth in the 7% range, lower inflation and interest rates, and slower depreciation in the rupiah. This should bring us into better alignment with regional and international rates, and facilitate the integration of the Indonesian economy in the global era.

The rapid growth in the economy in recent years has been led by the private sector. Only 10 years ago, in 1985, over 40% of all investment still came from the public sector. By 1995, this had declined by about half to around 25%. The impact of a decade of reforms built on a strong base of prior development has literally transformed the economy and even the landscape.

However, there is a serious challenge to managing this process. The government, like the private sector, or even any manager in his professional capacity, faces the problem of how best to leverage scarce resources to obtain desired objectives. Good people are always scarce, finances are always tight, and time is always short. Thus we have to prioritize and allocate resources to the areas with the highest returns.

Sometimes we have to invest in education and health at the expense of infrastructure, forgoing some present growth in the belief that more growth is possible later. However, at other times, we can use our resources to achieve social ends by leveraging private resources. Thus, building a road into an isolated village serves to move the village into the market economy and raise the effective prices they receive for their output. Or if we place our infrastructure in one place versus another, it may create more jobs for the same money.

Our development strategy, indeed requires that we balance equity and stability with growth. This implies certain responsibilities. Most infrastructure, regional equity, poverty alleviation, improved education, and health are expensive government obligations needed to preserve equity and stability as well as to maintain growth. In the past, the government had claim on a relatively large share of the resources available to society, and could direct them to achieve these mandated objectives. Now, the private sector's resources dwarf those available to the public sector. Thus, the government challenge is to support private business sector efforts to grow and develop while still achieving our social equity objective. This is the key management challenge facing the government.

More recently we have begun to appreciate that the private sector can effectively do many of the jobs the government needed to do in the past. Privatizing economic infrastructure, where possible, saves government resources to meet equity and stability challenges while providing enhanced opportunities for the private sector, and improved services for the general public. In this case we can use our scarce resources to regulate the process and leave the rest to you, to the private business community.

There is of course, no end to the other challenges that the government and the private sector face. But of these, perhaps the most urgent is managing in an increasingly open economy. The speed of change in the area of global integration only increases. As part of AFTA or APEC or the WTO, we are continually negotiating new arrangements on trade restrictions, sometimes investments, and increasingly, other less-related areas. This progress toward lower barriers among economies is a powerful force, certain to continue and we can expect increasing opportunities as well as challenges both at home and abroad.

Our experience with deregulation has shown us the power of market forces in accelerating growth, creating employment and exports in deregulated areas. As tariffs fall, and deregulation moves into areas previously protected, pressure on firms to improve efficiency increases. While the net effects are positive, we realize that there are often losers as well. The bottom line of the challenge here, is working with the private sector to provide the infrastructure required, upgrade the education of the work force, reduce government impediments to private sector activity, and improve equity.

We are committed to liberalizing trade, and will take the necessary measures to prepare our people and economy to meet the timetables we have agreed to. And, if our past performance is a reliable indicator, we can be confident that we will meet this new challenge successfully, thus continuing the process of integrating our economy into the global market.

In this process, the private sector will undoubtedly continue to play the dominant role, even more than in the past. Therefore, the development of our private sector is an important goal. We have many strengths, including an increasingly productive and skilled labor force, and a natural resource endowment not found in too many places in the world. With rapid growth and higher incomes, markets are large both at home and in the region generally, and they are growing. Those are the ingredients of an economic and business environment conducive to the development of a strong and vibrant private sector comprised of foreign as well as domestic entrepreneurs and companies.

In conclusion, I urge you, as award winning representatives of the private sector, to continue on your path of achievement and excellence. With more companies in your class, we should be able to meet the management challenges facing us as we enter the 21st century.

Once again, congratulations on your achievements and thank you for the opportunity to address you this evening.