

ASIA-PACIFIC BUSINESS AND INVESTMENT PROSPECTS
after the Monetary Crisis Period

by

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Honored Guests, Ladies and Gentlemen,

It gives me great pleasure to be with you here today. Much of my work over the past year has been devoted to developing and implementing responses to the on-going economic crisis, and I so applaud the focus of today's forward-looking seminar. Although I am not sure we can characterize today as already part of the post-crisis period, I find it entirely appropriate that a group of private-sector leaders such as yourselves is gathering together today to discuss the opportunities that will emerge as the crisis recedes. The optimism implicit in such a discussion is a welcome and important reminder that the problems of the day will not be with us forever, and that the most astute businessmen and women are already exploring opportunities to participate in the coming recovery.

I am sure that you have already given considerable thought to the specific investment opportunities that you think may arise in the coming months. That is appropriate given your role as representatives of the private sector. This morning, I would like to address my comments more to the positive role that the government can play in making the investment environment as efficient and as transparent as possible. If we do that, and I am confident that we already have made excellent progress in that direction, then I believe that the economy truly will offer many new opportunities for those who are willing to invest in the Indonesian recovery.

Let me highlight briefly three aspects of the economic environment that I believe provide reasons for optimism regarding future business opportunities in Indonesia. *First*, our progress on the elimination of barriers to investment since the onset of the crisis creates new markets and new opportunities. The past several decades had seen the Indonesian economy experience a tremendous opening, with deregulation packages lowering tariffs and eliminating trade restrictions. But when the regional economic turmoil began last summer, the Indonesian economy still had sectors that were distorted by monopolies and by restrictions on trade and investment.

In recent weeks, the Government made commitments to lower many tariffs and eliminate many of the remaining restrictions. Investment procedures in retail and wholesale activities have been simplified and liberalized, and other reforms have shortened the list of activities closed to foreign investors. Interregional trade has been made less expensive through the elimination of restrictions on the shipping industry. And in production and trade, not only have many tariffs been lowered, but we have also reformed many markets that had been dominated by special relationships. Special national projects that once received not only protection but also preferential access to other resources and facilities now must compete on market principles. Monopolistic arrangements affecting lumber, cloves, garlic, wheat, soybean, sugar and even rice, have been eliminated.

We have reduced or eliminated subsidies to enhance competition and encourage domestic production and income of producers, especially farmers. Many of you may not deal in these sectors, but these recent developments need to be recognized for what they are. Substantial evidence of the government's commitment to enhancing efficiency in the domestic economy, and

these accomplishments should be a real source of optimism about future opportunities, not just in these sectors, but throughout the economy.

The second source of optimism is the increasing transparency in the processes that govern economic activity in Indonesia. Although it is still too early to claim success over the crisis in the banking sector, the actions taken to date and the reforms already in progress demonstrate that a stronger, more efficient, and more transparent system will be the result. The system will be better regulated than before, and more information will be required, but this type of government involvement will be designed to facilitate the proper functioning of the financial sector. *While* there are some in the private sector who may be concerned about greater government monitoring and regulation, I think the events of the past 18 months provide compelling evidence that prudential regulation of the banking sector is an absolute necessity if we are to be linked to the global capital markets. Only with strong enforcement of proper banking practices will we generate an economic environment that can promise stable long-term growth.

Greater transparency relates not just to the banking sector, but requires the establishment of a clear set of rules and the honest and fair enforcement of those rules. To this end, I believe that the enactment of our new bankruptcy law represents a solid step forward that will benefit the entire business community. I can understand how local businesses may not immediately get excited about a bankruptcy system that makes it easier for creditors to take debtors to court, but in fact a clear establishment of the rights and responsibilities of both parties in such transactions will, in the end, make borrowing easier in the future. The implementation of this new system should be seen as a major element of our bid to win back investor confidence. Thus, once implemented the system should offer all healthy businesses the prospect of more available credit in the future. New competition legislation, which is now being deliberated in the parliament should also help demonstrate the commitment to the establishment and protection of an economy that is solidly built on market principles. We have just passed amendments to the banking legislation, that allow more freedom for foreign participation in national banking. The new law in central bank will be introduced, that will make the central bank free from government interference. Taken together, these reforms that are either enacted or are still being developed represent a significant reason for optimism about the future of the Indonesian economy, as it is already apparent that the rules that structure the economy will be more transparent than those of the past.

The third source of optimism regarding prospects in the Indonesian economy is not a new development, but rather a reflection on the sound

foundations of the economy that have survived the economic crisis. Decades of strong economic growth required extensive new infrastructure, and the roads, ports, irrigation systems, and power facilities all remain in place. 1998 will see GDP decline, but the infrastructure remains solid and underutilized. The human side of the production decision should appear similarly advantageous for investors, as wages are competitive and labor is abundant. Even with rising nominal wages, I think it is fair to say that investors will not be able to find a better trained labor force so eager for employment as they will find in Indonesia.

In fact, despite the devastating crisis, much of Indonesia's economy continues to function. The rural economy was battered by the 1997 drought that extended into early 1998, but its resilience is already apparent. Indeed, parts of the country that produce cash crops for export are actually better off today than they were before the crisis, and are demanding new consumer goods. And we are optimistic that even the rice growing areas will respond to the new high-price environment by producing more than ever before once normal weather patterns return.

The distribution system that once was considered broken and malfunctioning has shown its resilience, as well. Markets continue to offer a full range of goods throughout the country, albeit at higher prices than before. But even on the price front, the September inflation data provided a glimmer of hope about returning price stability. As our currency and the domestic price environment stabilizes, forward planning will become a lot easier for everyone.

I do not mean to paint too optimistic a picture of the future. The Indonesian economy has been damaged by the regional economic crisis, and we still face difficult times ahead. But today's seminar is organized around the concept of future prospects for business and investment, and even today I believe there are many reasons to be optimistic about the future. We still need to take care of today's problems with speed and integrity, but the system we are putting in place should provide everyone in Indonesia with new opportunities for prosperity in the post-crisis period.

I want to close by offering my appreciation to all of you for joining in this seminar, and the broad representation here speaks well for our future. By voting with their feet, investors and businesses returning to Indonesia can help make the recovery happen. From the Government of Indonesia, you can expect that we will do all that we can to help build a healthy economic environment that will foster opportunities for renewed growth.

Thank you very much.