

Indonesia Services Dialogue Executive Briefing

May 19, 2016

Tatiana Nenova
World Bank Group



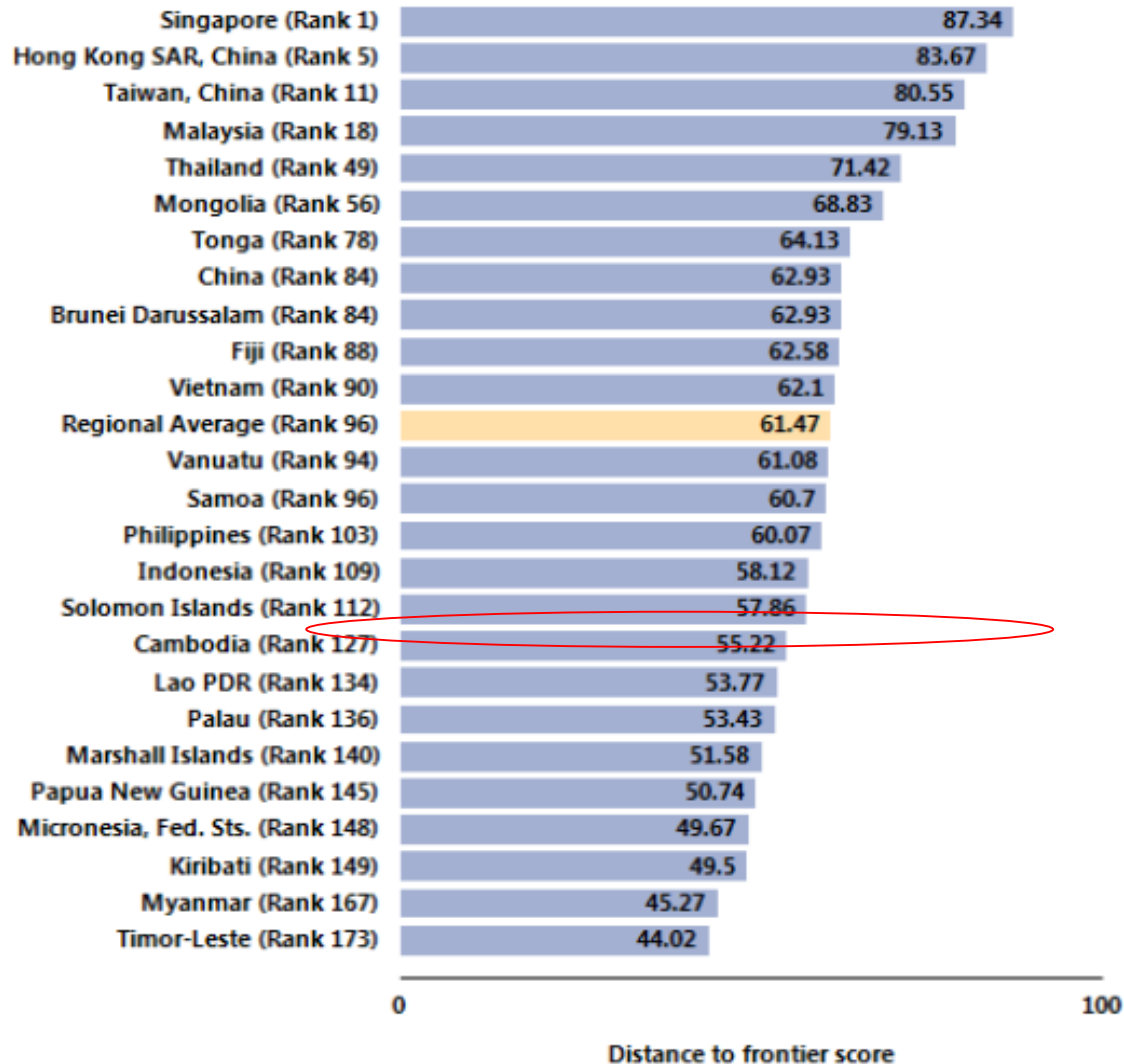
Stimulus packages 2015-2016

Package 1	134 regulations on the simplification of regulatory and bureaucratic burden, wages, gas, power distribution license, tax on transport, trade finance, financial inclusion, inland FTA, logistics.
Package 2	Industrial estates, interest rate for exporters, import tax for capital goods in industrial estates, aviation
Package 3	Fuel, electricity and gas prices
Package 4	Land licensing, wages (fixed formula), KUR, financial support for export-oriented SMEs
Package 5	Asset revaluation, eliminate double taxation of investment funds, Islamic banking
Package 6	Tax incentives for Special Economic Zones, Water, Fast Process (paperless) of Import Licensing for Pharmaceutical Raw Materials
Package 7	Waive income tax for workers in labor-intensive industries, Free leasehold certificates for street vendors
Package 8	One Map Policy for land utilization; incentives for Oil Refineries; Incentives for aircraft maintenance service companies
Package 9	Integrate INSW & InaPort, Single billing system for SOE port services, IDR use for payments, postal services
Package 10	Relaxation of the negative investment list (DNI)
Package 11	Lower property tax for local REITs, harmonized customs checks in ports, loan subsidies for exporting SMEs, roadmap for the pharmaceutical industry
Package 12	Regulatory simplification for SMEs – procedures for start-ups (94->49), permits reduced from nine to six.

The reform effort should continue

- ▶ **Regulations**: There were 12,741 national regulations in 2010-15, the number of licenses is unknown. The One-Stop-Shop handles 160 of them.
- ▶ **Trade**: Non-tariff measures restrict 62% of about 10,000 products. Given multiple NTMs on a single product, the number is likely little changed after the recent reform packages.
- ▶ **DNI**: In 2014 there were 661 business fields with DNI restrictions. The 10th reform package (Feb 11, 2016) reduced that to 522.
- ▶ **Logistics**: Total logistics costs are at 22.6% of sales vs. 15% in Thailand and 13% in Malaysia. ¼ of that is inventory costs due to uncertain supply.
- ▶ **PPPs**: Infrastructure capital stock declined from 28% of total capital stock in 1995 to 18% in 2012, or from 49% of GDP to 38% over the period.

Indonesia lags behind competitors in East Asia in rankings on the ease of doing business



Starting a business: 173

(Hong Kong 4, Singapore 10, Malaysia 14)

Registering property: 131

(Singapore 17, Malaysia 38)

Enforcing contracts: 170

(Singapore 37, Malaysia 44)

Trading across borders: 105

(Singapore 41, Malaysia 49)

Protecting minority investors: 88

(Singapore 1, Malaysia 4)

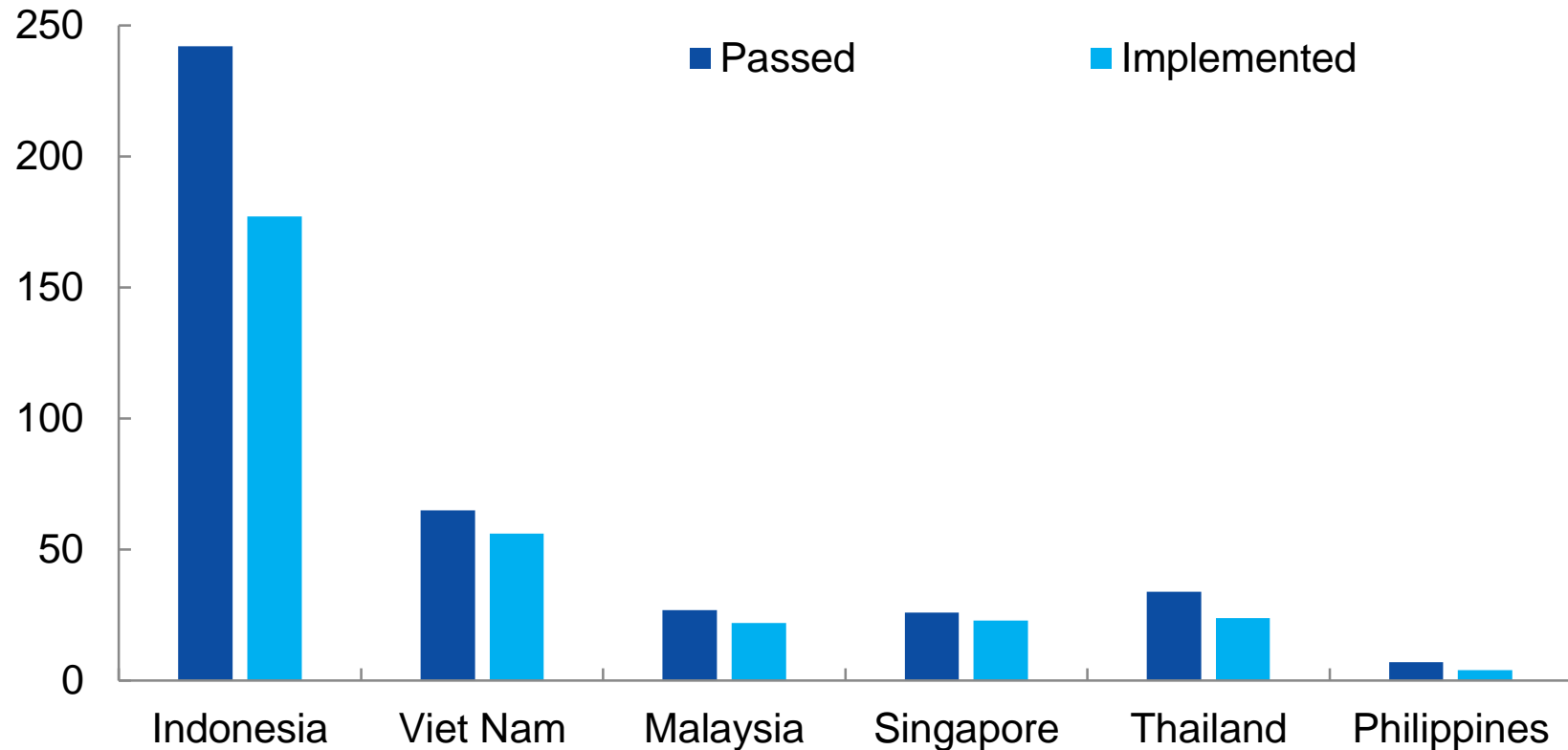
*out of 189 economies surveyed globally

The reform effort should continue

- ▶ **Regulations:** There were 12,741 national regulations in 2010-15, the number of licenses is unknown. The One-Stop-Shop handles 160 of them.
- ▶ **Trade:** Non-tariff measures restrict 62% of about 10,000 products. Given multiple NTMs on a single product, the number is likely little changed after the recent reform packages.
- ▶ **DNI:** In 2014 there were 661 business fields with DNI restrictions. The 10th reform package (Feb 11, 2016) reduced that to 522.
- ▶ **Logistics:** Total logistics costs are at 22.6% of sales vs. 15% in Thailand and 13% in Malaysia. ¼ of that is inventory costs due to uncertain supply.
- ▶ **PPPs:** Infrastructure capital stock declined from 28% of total capital stock in 1995 to 18% in 2012, or from 49% of GDP to 38% over the period.

Indonesia remains an active user of restrictive trade & investment measures in South East Asia

Number of restrictive measures on trade and investments, June 2009-to date



Source: Global Trade Alert (accessed 13/11/2015); World Bank staff calculations

The reform effort should continue

- ▶ Regulations: There were 12,741 national regulations in 2010-15, the number of licenses is unknown. The One-Stop-Shop handles 160 of them.
- ▶ Trade: Non-tariff measures restrict 62% of about 10,000 products. Given multiple NTMs on a single product, the number is likely little changed after the recent reform packages.
- ▶ DNI: In 2014 there were 661 business fields with DNI restrictions. The 10th reform package (Feb 11, 2016) reduced that to 522.
- ▶ Logistics: Total logistics costs are at 22.6% of sales vs. 15% in Thailand and 13% in Malaysia. ¼ of that is inventory costs due to uncertain supply.
- ▶ PPPs: Infrastructure capital stock declined from 28% of total capital stock in 1995 to 18% in 2012, or from 49% of GDP to 38% over the period.

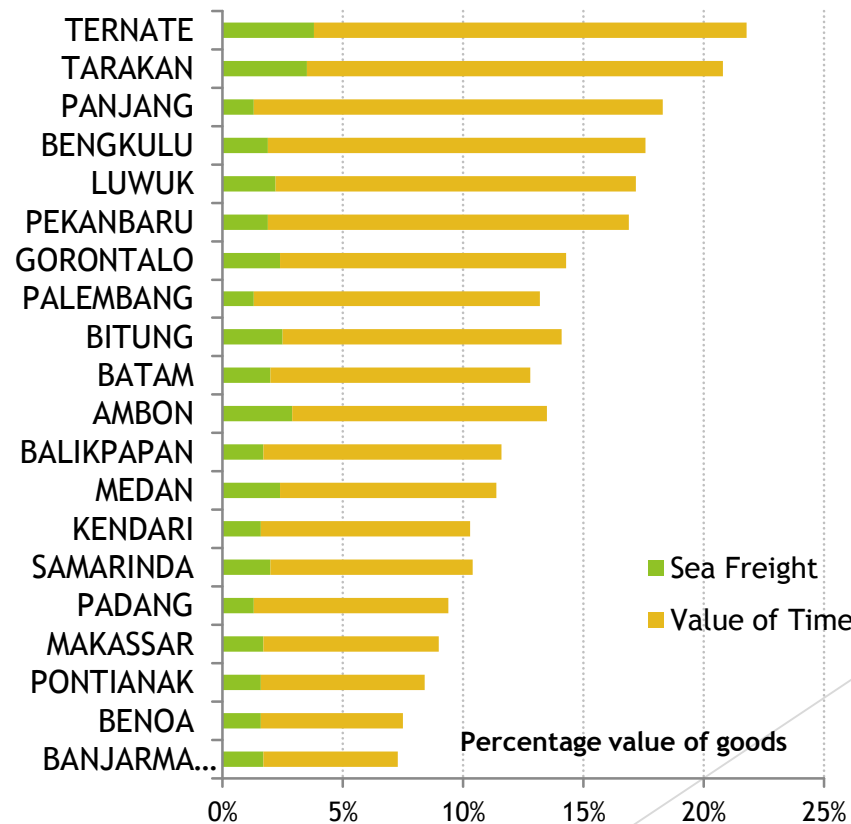
The reform effort should continue

- ▶ **Regulations:** There were 12,741 national regulations in 2010-15, the number of licenses is unknown. The One-Stop-Shop handles 160 of them.
- ▶ **Trade:** Non-tariff measures restrict 62% of about 10,000 products. Given multiple NTMs on a single product, the number is likely little changed after the recent reform packages.
- ▶ **DNI:** In 2014 there were 661 business fields with DNI restrictions. The 10th reform package (Feb 11, 2016) reduced that to 522.
- ▶ **Logistics:** Total logistics costs are at 22.6% of sales vs. 15% in Thailand and 13% in Malaysia. ¼ of that is inventory costs due to uncertain supply.
- ▶ **PPPs:** Infrastructure capital stock declined from 28% of total capital stock in 1995 to 18% in 2012, or from 49% of GDP to 38% over the period.

Not transport costs but reliability and value of time explain most of logistics cost in Indonesia

- The value of time throughout the maritime supply chain is the largest component of the logistics costs
- Freight cost only accounts for 1.5% to max 6% of the value of goods
- The value of time is typically estimated at 1% per day which is applied to lead time
- Lead time includes:
 - Shipping time
 - Time at port (unloading unstuffing)
 - Delays accounting for the frequency of calls (e.g. missing a boat)

Logistics Costs for goods shipped from the two hubs in Java (Jakarta and Surabaya)

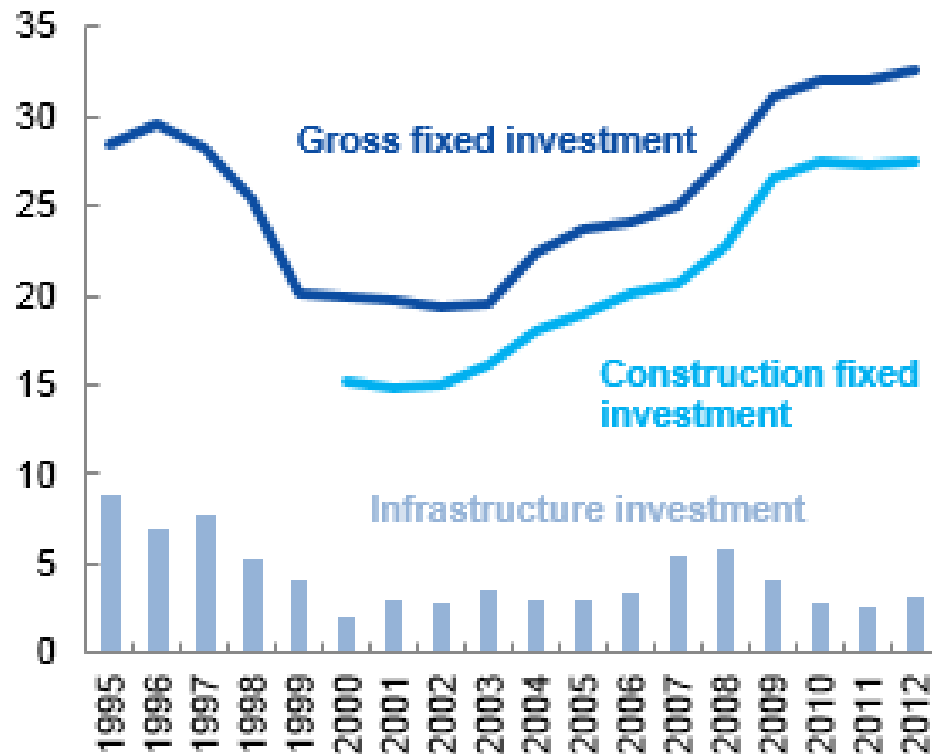


The reform effort should continue

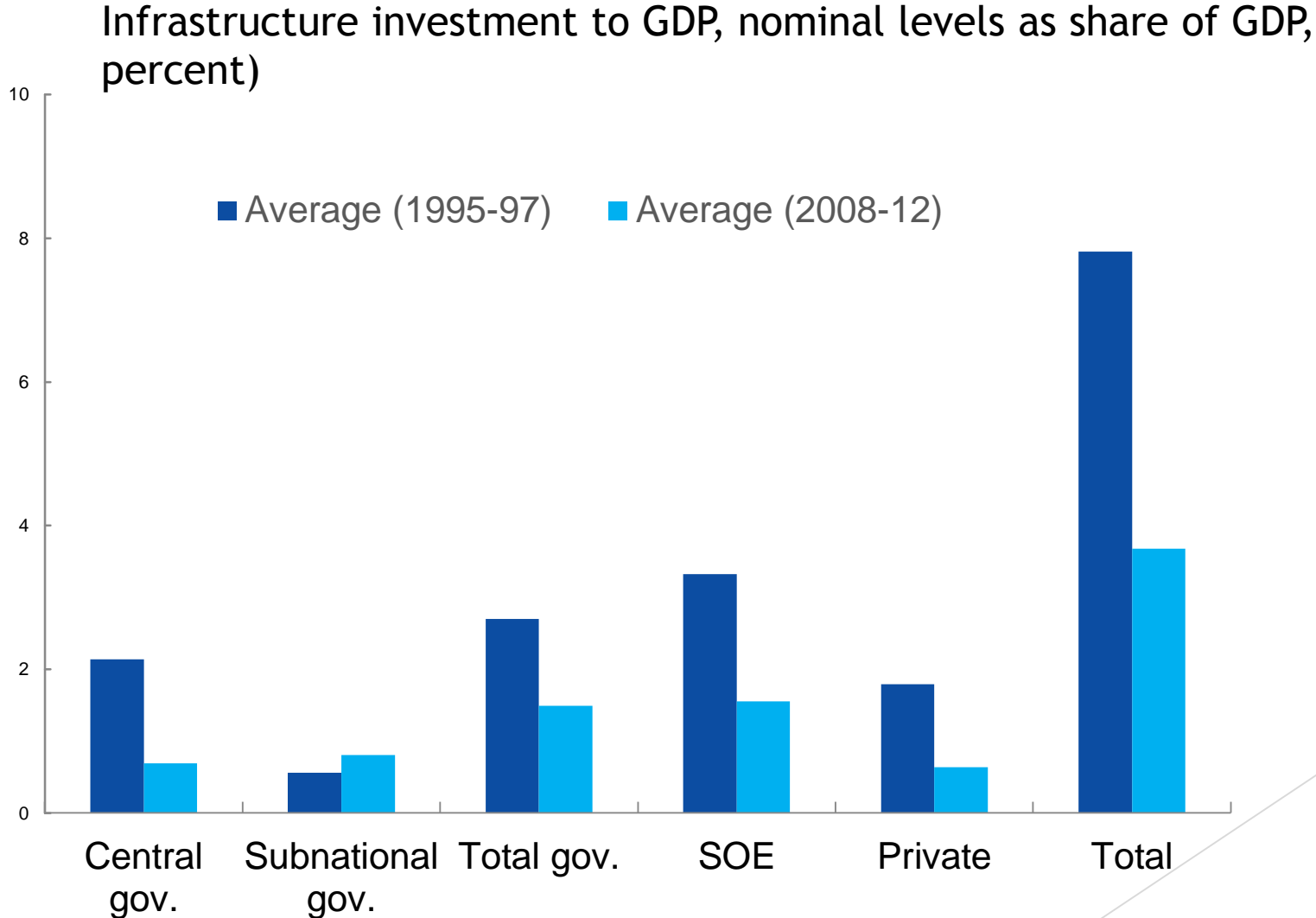
- ▶ **Regulations:** There were 12,741 national regulations in 2010-15, the number of licenses is unknown. The One-Stop-Shop handles 160 of them.
- ▶ **Trade:** Non-tariff measures restrict 62% of about 10,000 products. Given multiple NTMs on a single product, the number is likely little changed after the recent reform packages.
- ▶ **DNI:** In 2014 there were 661 business fields with DNI restrictions. The 10th reform package (Feb 11, 2016) reduced that to 522.
- ▶ **Logistics:** Total logistics costs are at 22.6% of sales vs. 15% in Thailand and 13% in Malaysia. ¼ of that is inventory costs due to uncertain supply.
- ▶ **PPPs:** Infrastructure capital stock declined from 28% of total capital stock in 1995 to 18% in 2012, or from 49% of GDP to 38% over the period.

Rising investment to GDP; but not where it matters: manufacturing and infrastructure

(nominal investment levels as share of GDP, percent)



Infrastructure investment to GDP has fallen with the exception of subnational government



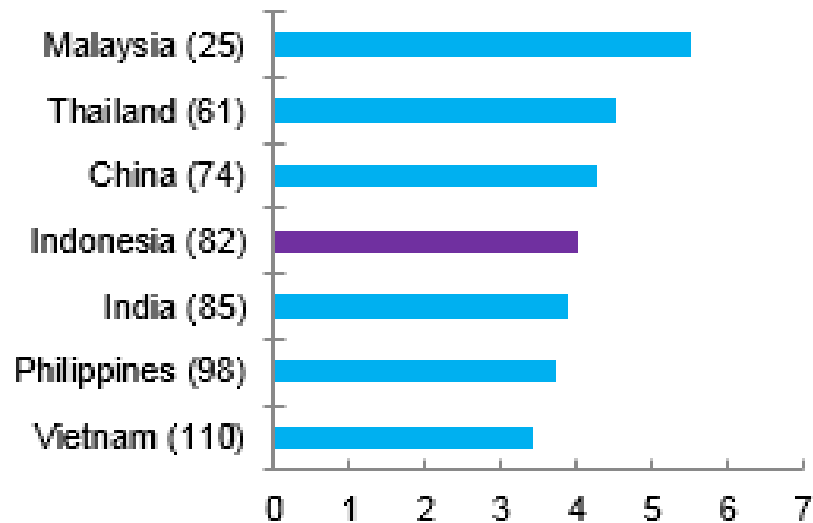
Source: World Bank staff calculations

Low quality along all types of infrastructure

- 25% of Indonesians with no reliable power
- 16% of urban dwellers have piped water
- Transport congestion ubiquitous
- Logistics costs are at 24% of GDP

Figure 1: Indonesia ranks relatively low on quality of infrastructure indices...

(Overall quality of infrastructure index, 2013-14)

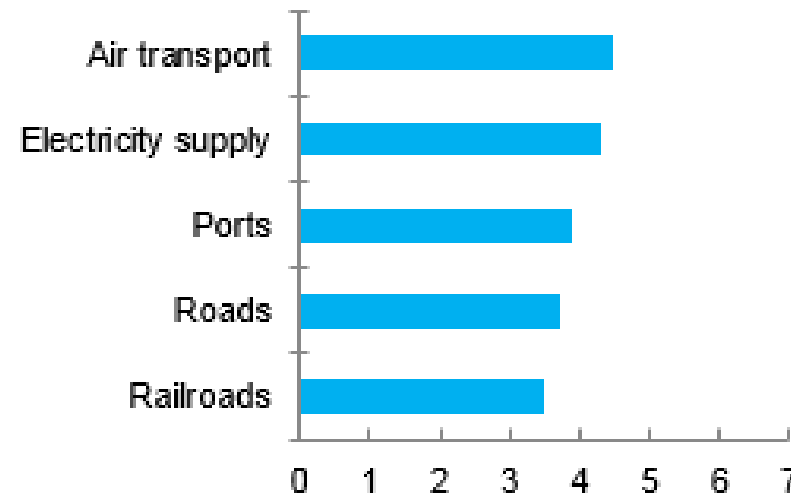


Note: Quality of infrastructure index (scale 1-7 where 7 is the best)

Source: Source: World Economic Forum Global Competitiveness Report 2013-2014

Figure 2: ... with weak performance across most types of infrastructure

(Quality of infrastructure indices, 2013-14)



Note: Quality of infrastructure index (scale 1-7 where 7 is the best)

Source: Source: World Economic Forum Global Competitiveness Report 2013-2014