

REMARKS BY AMBASSADOR SUDJADNAN PARNOHADININGRAT,
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“Indonesia – US Relations and Economic Cooperation”

Mr. Dan Hendrix,

President/CEO

Arkansas World Trade Center

Distinguished Guests,

Ladies and Gentlemen,

Good Afternoon!! Thank you for that warm welcoming introduction. First of all I am so pleased to be here tonight in front of the distinguished members of the Government, Business and Community of the State of Arkansas, I like to thank the Arkansas World Trade Center for organizing this afternoon’s wonderful gala business luncheon. I am very grateful to have a partner like the Arkansas World Trade Center. I think they have done a very wonderful job in enhancing U.S-Indonesia relations particularly with the State of Arkansas. I see great potential in the cooperation between Indonesia and the State of Arkansas especially in agricultural, manufacturing, P to P contact as well as between academic institutions. So please let’s have a round of applause for Mr. Dan Hendrix and members of the Arkansas World Trade Center.

Ladies and Gentlemen,

This month of August is a very auspicious month for Indonesia in which our country has just celebrated its 63rd Independence Day on August 17th. Indonesia, with a population of about 237 million people, is the fourth largest country and the third largest democracy in the world. As the largest Muslim-majority nation, Indonesia has continued to retain a multicultural and pluralist identity guaranteed by its Constitution as well as becoming a role model in democracy and international peace in the Southeast Asian region and the World.

Since the democratic transition that started in 1998, Indonesia has vigorously worked to consolidate its democracy. Three rounds of national elections with a total of 350 million votes were cast including 117 million voters for the direct election of the president, which was stated by the US Department of State as the “largest single day election in the world”. Categorized by Freedom House as a “free” country, independent domestic and foreign observers have all confirmed Indonesia’s electoral process to be free, fair and relatively peaceful.

In 2004, Indonesia elected Dr. Susilo Bambang Yudhoyono as the first directly elected President of Indonesia. In that same year also Indonesia first directly elected its Members of Parliament. And next year, we will have our Presidential and Parliamentary elections again. As of April 2008, Indonesia has held a series of elections in 355 regions, namely 22 provinces, 272 districts and 61 municipalities all over Indonesia. These were all carried out through a transparent and largely peaceful process where the participants have accepted the results of the elections. Institutionally, we have a much improved relationship between the executive, legislative and judicial branches of government, resulting in a healthy and constructive checks and balance system among the national institutions.

This is precisely the reason why the Indonesian Government with support of the people continues to intensify and preserve together the agenda to make Indonesia safe and peaceful. The significant progress in security field is in line with the government's three main agenda to create an orderly and peaceful Indonesia, as well as a just and democratic Indonesia, and to improve the people's well-being.

The open political environment of the new Indonesia has given impetus to resolution of longstanding conflicts in a number of regions. In Aceh, peace has been restored and a new governor and heads of regencies have been directly elected. Political debates in Aceh are now dominated by economic, social and reconstruction issues, rather than security. The situations in Maluku and Poso have improved significantly and sectarian conflicts have largely abated. In Papua and West Papua, elected officials work with the national government to undertake major steps to address development issues, empower local people, and improve the security environment.

Ladies and Gentlemen,

Let me now inform you on the current economic situation and progress. After almost a decade struggling to recover from the economic and financial crisis, the Indonesian economy is now in the right track for sustained economic growth. In spite of the current slowdown and uncertainties in the global economy, the Indonesian economy is growing at an impressive rate.

In 2007 the Indonesian economy grew by 6.3% and in 2008 the expected growth is over 6%. This is in line with the annual IMF report which states that Indonesia is relatively not impacted by the U.S financial downturn and global food and energy

crises. This economic growth is supported by new investment, significant growth of export as well as increasing domestic consumption. While pursuing economic growth, the Government also gives high priority on poverty reduction by focusing on job creation, education and health services

Meanwhile, debt to GDP ratio continues to slide down from 100% in 1999 to 56.9% in 2004, 42.1% in 2006 and 35.6% in 2007. The government is targeting to reduce this ratio to fall below 35% in the near future. Foreign reserves have climbed continuously from \$34.7 billion in 2005 to \$42.59 billion in 2006 and to \$54.9 billion in 2007 and \$60 billion until July 2008. In addition, Indonesian products continue to be competitive in the world economy.

On investment, Indonesia has taken many progressive steps towards a sustainable pro-business environment. Measures are taken aim at improving business climate in Indonesia. A new investment law was also promulgated in 2007, which is designed to improve legal certainty, provide equal treatment for domestic and foreign investors, and provide clear mechanism to resolve disputes. In addition, in 2007 The Government of Indonesia has also designated the islands of Batam, Bintan and Karimun as a Special Economic Zone (SEZ) this will allow this area among others to be exempt from import/export duties, VAT, and luxury taxes. Also this SEZ enjoys GSP facilities and has Double Taxation Avoidance with 56 countries.

With this new Law the government improves the arrangement on legalization and licensing under One-Stop Integrated Service. In this system, it is expected that integrated service in central and regional may simplify the licensing and accelerate its completion. For example the Government has streamlined procedures for companies with expected processing time/from 104 days (IFC

Survey 2007) to about 20 days. Even more according to monitoring by office of the Coordinating Ministers for Economic Affairs in June 2008, out of thousands of incoming applications 95% were completed in 7 days or less. Further improvement is expected to be implemented through the formation of the integrated window service at the provincial and regency level.

Ladies and Gentlemen,

Considering the vastness of Indonesian archipelago, the government also provides some incentives to any investor such as who using capital goods or machinery or equipment domestically produced, as well as facilities associated to investment location in remote regions and regions with limited infrastructure.

We are heartened recently to learn that foreign direct investment in Indonesia, a market of around 230 million people with income per capita of around US\$1280, rose 73% to \$10.3 billion in 2007. I am confident that in the years to come, these developments, as well as solid macroeconomic stability, can sustain and accelerate economic growth, generate employment and reduce poverty.

In order to achieve and maintain sustainable growth, we are putting at our priority the development of key infrastructure including toll-roads, power plants and ports. We encourage private investors including our American friends here to seize the opportunity and profit from these projects. The Indonesian missions here in the US will continue to work with you, the business community, to address various issues that have been raised in order to facilitate trade and investment in Indonesia.

I would like to underline other promising business opportunities that await you in Indonesia among others mining, manufacturing, agro-business, sustainable wood-based furniture products, energy including new and renewable energy. Other industries that are opened for foreign investors include plantation, aquaculture, footwear, textile and textile product, electronic, cement, banking, retail, telecommunications, international tourism, and property.

In mining, Geologically speaking, Indonesia has enormous potentials to be explored. New opportunities are also emerging in the energy sector, with a Government-ordained shift to coal-powered energy creating a need for a new generation of power facilities. Indonesia also plans to boost power capacity by a quarter - or 10,000 megawatts - to the national power grid by 2011.

Indonesian manufacturing industry has also shown resiliency in face of high oil prices. Indonesia motorcycle sales in the second quarter of this year have increased 54.2% year on year and car sales has increased 37.7%. Indonesian vehicle sales are expected to top 500,000 units this year, despite a government decision to raise subsidized fuel prices in May. Last year, domestic car sales reached 434,449 units, industry data shows, recovering from a slump in 2006 when sales dropped to 318,904 units after the government more than doubled the fuel price in 2005.

Indonesia is also continuing to deregulate and privatize and further development and broadening of Indonesia's financial markets is one way of providing such extension. The Indonesian Government's policy of at least partially privatizing state-owned enterprises looks set to continue, providing more compelling long-term investment opportunities. Private companies are also more likely to list on the Jakarta Stock Exchange in the future.

Ladies and Gentlemen,

On bilateral relationship, Indonesia and the US share many common interests and goals, and therefore it is for our mutual benefit to further strengthen and elevate this bilateral relationship. Indeed, there are many factors that serve as the platform for building closer strategic bilateral relations between the two countries.

First, is the shared value of democracy as the basis for cooperation in various fields. Indonesia as a democratic and pluralistic country, and at the same time has the largest Moslem population in the world, ---has the same objective with the United States and other pluralistic societies to promote tolerance, harmony and moderation among its people and human kind in general; Second, is the shared interest to expand our economic and trade ties in many sectors; Third, is the continuing common endeavor to fight against global terrorism; Fourth, is the common interests to preserve and maintain international peace and stability, and particularly in Southeast and East Asia regions; and Fifth, is the strong national leadership in Indonesia that are able to carry out the political and economic reform process and who has strong commitment to develop closer Indonesia-US bilateral relationship.

The United States has been an important partner in Indonesia's economic recovery efforts as well as in the ongoing democratization and political reform. On the political and defense sector both countries among others work closely through such fora as Indonesia-U.S Security Dialogue (IUSSD) and Bilateral Defense Dialogue (BDD). A major milestone was achieved in November of 2005, when the U.S Government lifted restrictions in U.S-Indonesia military relationship which has been a stumbling block over the last decade.

As members of the UN Security Council, the two countries are also working closely to address various issues of importance such as on nuclear non proliferation measures, middle-east conflict as well as on other threats to international peace. While from time to time we may have different perspectives on the issues faced by the Security Council, nevertheless through constructive cooperation we have been able to advance the works of the Security Council together with the other members.

Ladies and Gentlemen,

The United States is a key trading partner for Indonesia. It is Indonesia's second largest export destination after Japan. Indonesia is the US' 29th largest trading partner. In 2007, our total bilateral trade was \$18.54 billion; an increase of \$2.01 billion from 2006 total figure. In the first semester of this year Indonesia's total trade in goods with the U.S has increased 16.8% to \$10 billion compared to the same period last year. Many Fortune 500 companies have a presence in Indonesia, and in 2006 total US accumulated investment in Indonesia reached \$10.6 billion, an increase of 11.6% over the year 2005. In 2007, U.S investment in Indonesia is 145 million dollars. Under the Trade and Investment Framework Arrangement (TIFA), our two countries continue to work closely to facilitate greater flows of trade and investment. Through its development aids and assistances, the United States is also playing a crucial role in our efforts to address poverty and enhance the quality of life of the Indonesian people.

Yet as another sign of the improvement in U.S-Indonesia relationship and Indonesia's security environment, the U.S Government in May of this year has

lifted the travel warning to Indonesia. This travel warning has been in place since 2000. Security is a significant factor for the success of the "Visit Indonesia Year" aimed at boosting Indonesia's tourism industry. In 2007, the tourism sector has contributed US\$5.3 billion to the state revenues. The number of foreign tourists visiting Bali, as a barometer of the country's tourism, has recorded tremendous increase, even higher than before 2002. The number of U.S tourist visiting Indonesia jumped 2.33% from 112, 956 in 2006 to 125,053 in 2007. I believe the U.S tourist visit to Indonesia is still far below the potential and not on par with other major U.S tourist destination abroad. In this regard, I would like to encourage more U.S tourist to visit Indonesia as their destination by considering the current progress and recent development in Indonesia.

I'm please to let you know that Indonesia is also promoting itself as one of the major destination for international conferences which depends a lot on the readiness of the logistic and security measures of the country. This is another proof that Indonesia is very serious in creating a much more conducive climate in handling the overall tourism industry.

Ladies and Gentlemen,

Across matters of engagement, there are many opportunities for Indonesia and the U.S. to grow closer. In this regard the Indonesian Embassy and Consulate Generals in the U.S have given these areas its full attention to facilitate any effort in promoting our bilateral cooperation.

Distinguished guests, ladies and gentlemen,

Before I conclude my remark, I would like to take this opportunity to invite the members of the Arkansas government and business community to take part in

the 23rd Indonesia Trade Expo, 21-25 October 2008 in Jakarta through the U.S Trade Mission 2008 to Indonesia organized by the Indonesian Embassy in Washington, D.C. The 23rd Indonesia Trade Expo will consist of Exhibition, Trade Expo Forum, Product Presentation, Networking Reception and Indonesian Iconic Pavilion. There you can meet the Indonesian business community, outsource your trading partners and enjoy the beauty of different tourism sites of your choice.

I trust that the flows of trades and investment between our two countries are crucial elements of future economic growth and job creation both for the US economy and the Indonesian economy. I believe every one of us here has a great chance doing business as well as enjoy the many tourism destination offered in Indonesia beyond Bali, I invite you all to come and see for yourself.

I thank you.