

BUSINESSES MIXED ABOUT 2017, OPTIMISTIC FOR 2018



TENGGARA
STRATEGICS

TENGGARA STRATEGICS IS A BUSINESS AND INVESTMENT RESEARCH AND ADVISORY INSTITUTION ESTABLISHED BY THE CENTRE FOR STRATEGIC AND INTERNATIONAL STUDIES (CSIS), *THE JAKARTA POST* AND PRASETIYA MULYA UNIVERSITY.

From September-December 2017, Tenggara Strategics conducted its inaugural Business Leader Survey to gather the opinions of executives at leading companies on business and economic conditions over the past year (2017) and their predictions for the coming year (2018).

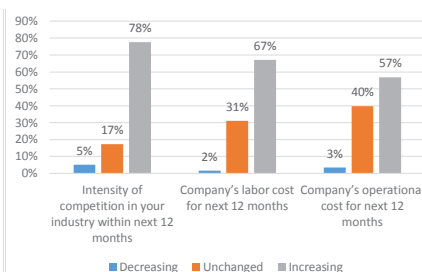
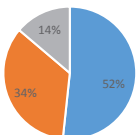
The survey also evaluates business leaders' opinions on the quality of the government's economic policies in the last year.

The survey involved 58 respondents from diverse business sectors, consisting primarily of executives (President Director, Director, Commissioner) of large companies with more than 100 employees and annual revenue of Rp 50 billion or more. Most of our respondents have predominantly domestic ownership, with some particularly export-oriented in their business activities. Here are some of the key findings of the survey:

2018 Outlook on business and economy

Business situation and performance in 2018

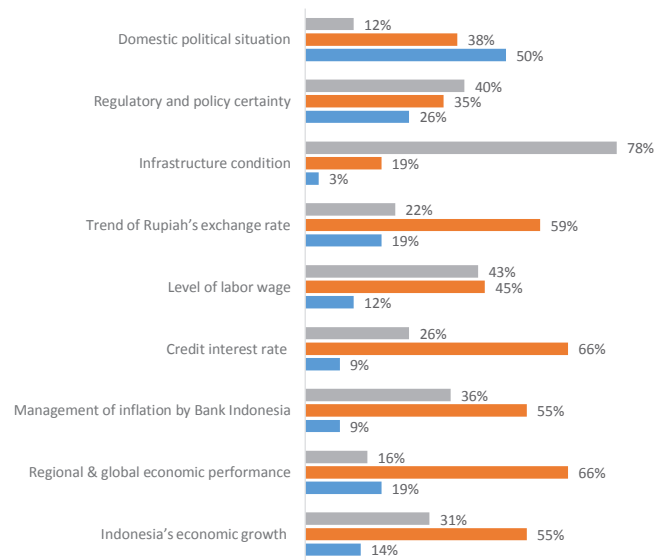
■ Optimistic ■ Unchanged ■ Pessimistic



Most respondents are looking forward to promising business conditions in 2018, with more than half (52 percent) optimistic that the business environment will improve in 2018, in contrast to only 14 percent being pessimistic. Despite the general optimism, most respondents still expect the current challenges to continue in 2018.

Economic Situation for 2018

■ Good ■ Unchanged ■ Poor



More than half of respondents predict further increases in labor costs (67 percent), operational costs (57 percent) and particularly in the level of business competition (78 percent).

In the broader view, respondents remain ambivalent regarding the prospect of economic growth in 2018, with 55 percent expecting little or no change from the current growth rate. Nevertheless, 31 percent of respondents are looking forward to greater economic growth in 2018, while only 14 percent expect slower growth.

Respondents are overwhelmingly positive about the prospects

Summary of Key Findings

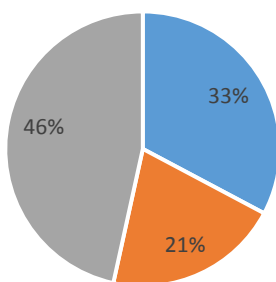
- *Relatively stagnant business condition for the past year amid more intense competition.*
- *General satisfaction with current economic condition. Progress on infrastructure development and inflation management are particularly appreciated, as reflected in favorable evaluation of ministers in these areas.*
- *General optimism about future business prospects; current challenges expected to continue into 2018.*
- *Despite ongoing reform, regulatory certainty is still lacking. Informal costs in trade and investment activities still exist; results suggest such costs likely to be a burden at local government level.*
- *General ambivalence toward investment policies and progress of investment facilitation programs.*
- *Several trade policies deemed inappropriate: import policies too restrictive, trade facilitation ineffective; as reflected in respondents' evaluation of trade-related ministries.*
- *Labor policies, particularly on layoffs, severance payments and minimum wage, remain obstacles.*
- *Private sector could be better involved in economic policies and infrastructure projects.*
- *Most government programs and initiatives do not appear to directly impact businesses.*

of infrastructure development in the coming year, with 78 percent expecting it to advance even further. Respondents are also generally optimistic that more improvements will be seen in the areas of regulatory/policy certainties, inflation management and labor wage stabilization.

2017 Perception on business and economy

Business situation in 2017

■ Good ■ Poor ■ Unchanged



Respondents had mixed perceptions on business conditions in 2017. Only 33 percent found it satisfactory, while 21 percent considered current business conditions were poor. The remaining 46 percent fell somewhere in the middle.

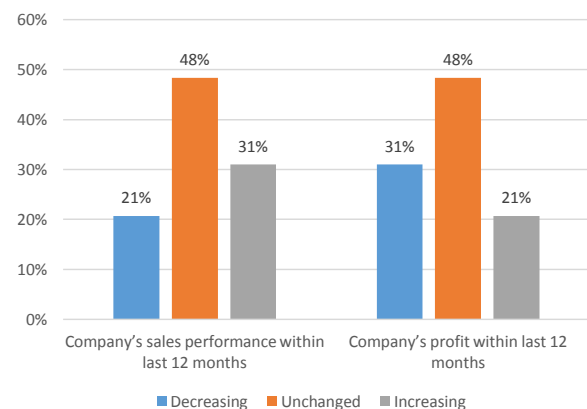
Most respondents did not observe any noticeable differences in profit and sales in 2017. Nevertheless, more respondents (31

percent) reported increased sales and decreased profit, as opposed to only 21 percent reporting increased profit.

Most respondents noticed a higher intensity of competition (77 percent), as well as rising labor (67 percent) and operational costs (57 percent) in the last 12 months.

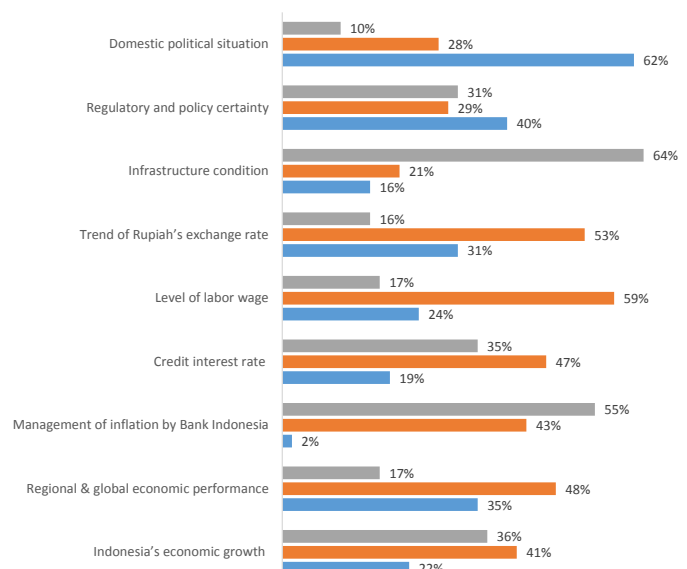
Despite the unfavorable media narratives over the last two years, e.g. weakening purchasing power and increasing costs, 36 percent of respondents believed the general economic situation in 2017 was satisfactory, while only 22 percent believed it was unsatisfactory.

In terms of detailed aspects, respondents were particularly pleased with infrastructure development and Bank Indonesia's inflation control, with the two receiving the most favorable survey

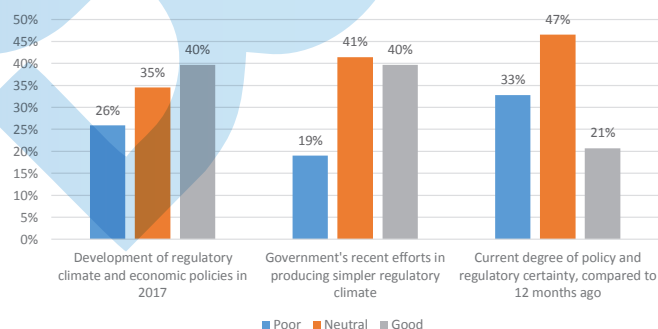


Economic Situation in 2017

■ Good ■ Unchanged ■ Poor



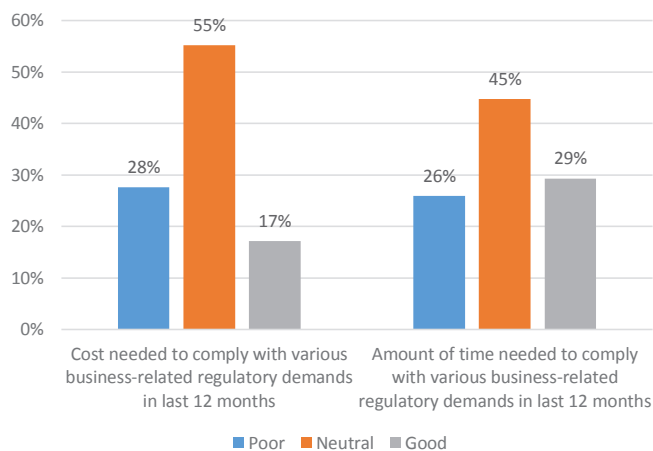
evaluations. On the other hand, some respondents raised concerns on aspects such as the domestic political environment and the lack of regulatory certainty.



General perception of recent economic policies

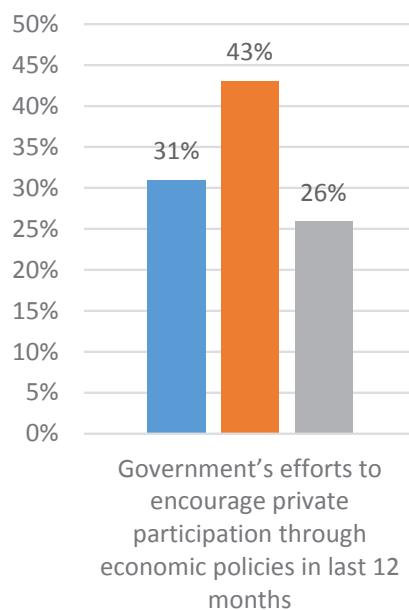
Despite various deregulation initiatives over the past few years, respondents had mixed perceptions on the government's recent economic policies. Around 40 percent of respondents had observed improvements in the regulatory climate and economic policymaking, while 26 percent believed they had been deteriorating.

In view of further queries in the survey, the perceived improvement in the regulatory climate seems to originate from the respondents' appreciation of recent government efforts to simplify regulations: 40 percent of respondents acknowledged noticeable progress in this area. On the flip side, respondents were concerned about regulatory and policy certainties, with 33 percent believing they were insufficient in the past year.

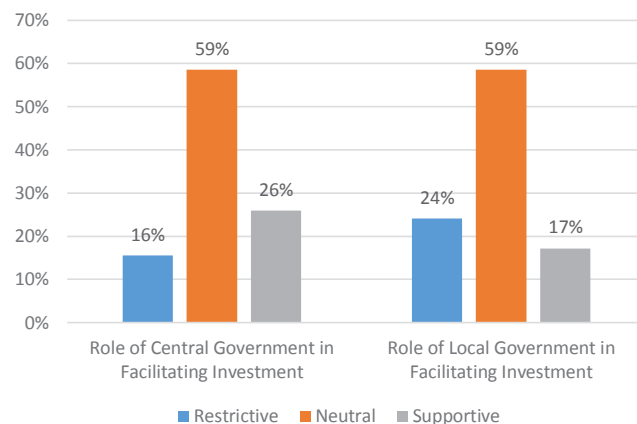


With regard to the government's facilitation of regulatory compliance, approximately half of respondents did not see any notable change in the past year. Among those who did, more respondents believed that the monetary cost of compliance had increased, while the time needed to ensure regulatory compliance had decreased slightly.

With regard to the government's effort to consider private sector interests in its economic policies, 43 percent of respondents were ambivalent, with only 26 percent saying the effort had been adequate, while 31 percent saying it had been inadequate.



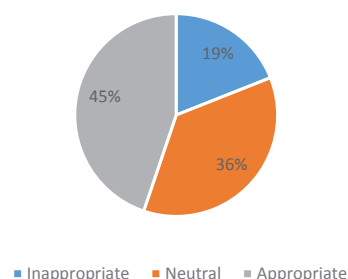
■ Ineffective ■ Neutral ■ Effective



Opinion on investment policies

Regarding investment policies, the majority of respondents were neutral in their views on the role of central and local governments in facilitating investment. Although most respondents believed that the central government had successfully facilitated investment through its macro, national-level policies, with 26 percent agreeing

Government Openness on Investment

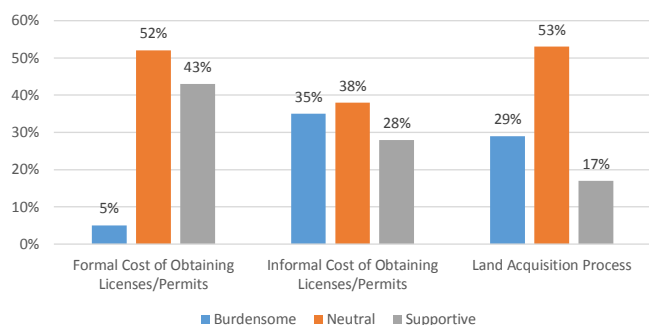


that the policies had been supportive, with only 16 percent saying they had been restrictive, they considered local governments had imposed additional burdens on investment or business expansion (24 percent "restrictive", 17 percent "supportive").

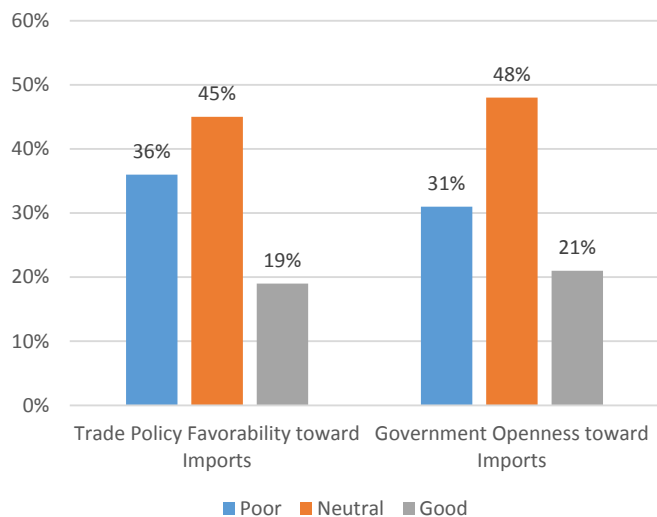
This was reinforced in the respondents' general

satisfaction with the degree of investment openness: 45 percent respondents believed the government had maintained an appropriate degree of openness, as opposed to only 19 percent believing it had not. Furthermore, respondents were highly satisfied with specific policies for facilitating investment, with 43 percent responding that the formal cost of obtaining licenses/permits had been supportive.

Aspects that particularly hampered investment were several informal costs the respondents had encountered in obtaining licenses/permits, with 35 percent citing such costs were a burden on their business activities. To a lesser extent, respondents were concerned about the slow land acquisition process, with 29 percent claiming it was a problem for their investment activities.



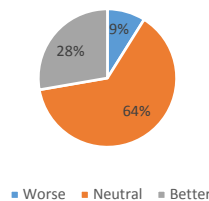
Opinion on trade policies



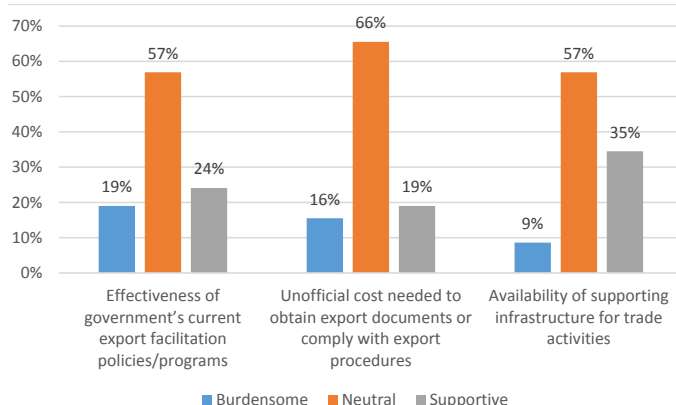
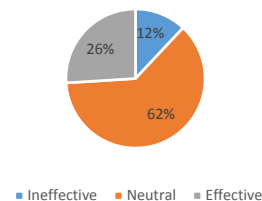
More respondents (36 percent) believed that the government's current trade policies were inappropriate, while only 19 percent found the policies to be appropriate. In particular, more respondents (31 percent) believed that the government's import policies were too restrictive, as opposed to only 21 percent who believed they were too open.

Almost two out of three respondents do not see any particular change with regard to government's efforts to facilitate export activities. Nevertheless, 28 percent of the respondents are aware of progress made in this area, compared to the previous year, while only 9 percent think it has been regressing.

Progress in Government Export Facilitation Policy



Effectiveness of Current Export Facilitation Policy

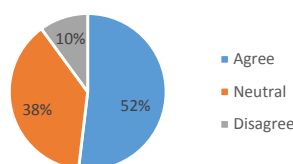


As for the effectiveness of these trade facilitation programs, the overwhelming majority of respondents were unsure. Only 25 percent of respondents agreed that current facilitation programs had been effective in promoting their export activities, while 12 percent stated explicitly that they had not been effective.

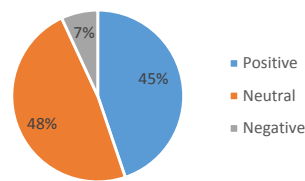
In the context of trade facilitation, more respondents (35 percent) believed that the existing infrastructure for trade had been supportive of their business activities. On the other hand, some noticeable concerns respondents raised include transportation costs, insurance, export financing facilities, and informal costs for export/import documents, citing them as a burden for their business activities.

Opinion on infrastructure development policies

Concrete impact from government's infrastructure development projects in last 12 months

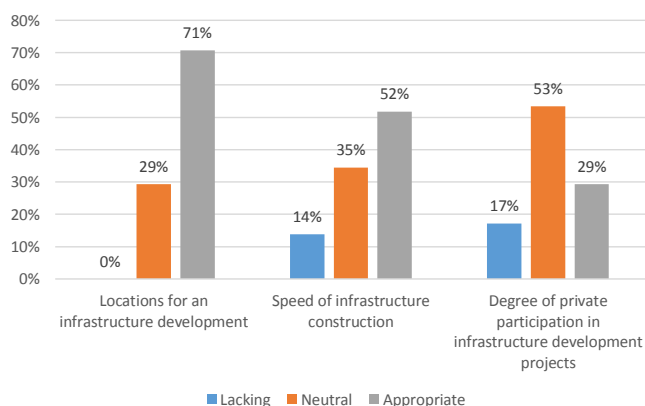


Impact of government's infrastructure development projects on business



More than half of respondents (52 percent) experienced concrete impact of the government's current infrastructure projects. The perceived impact of the projects are mostly positive, as only 7 percent said the projects had a negative impact on their businesses.

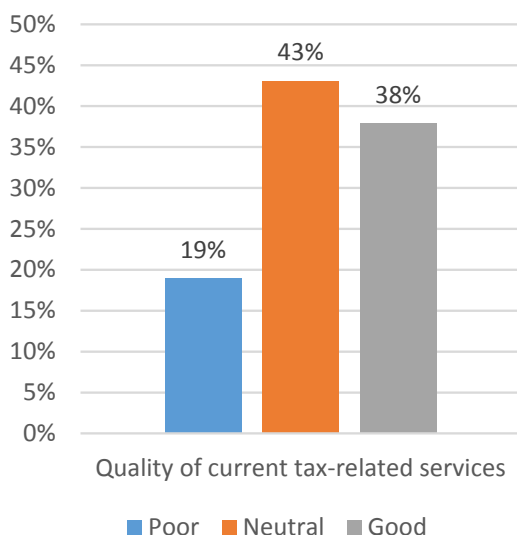
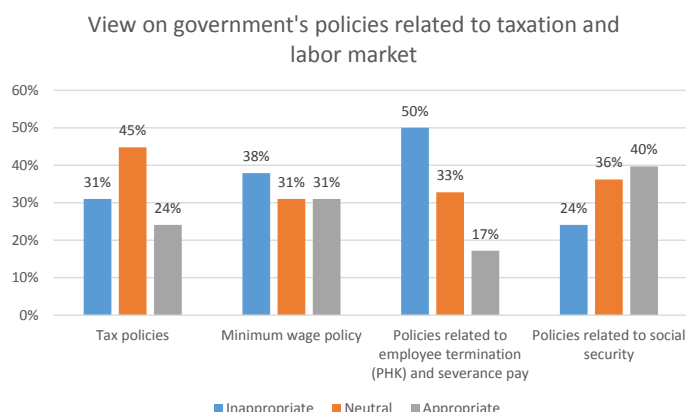
The overwhelming majority of respondents (about 70 percent) believed that the type and location of the infrastructure projects



were appropriate. About half of respondents are generally satisfied with the rapid progress of the infrastructure projects.

However, respondents are less satisfied with the degree of private sector involvement in infrastructure development, with only 29 percent believing it had adequate private sector involvement. The government should therefore consider preparing specific measures to facilitate greater involvement of the private sector in future infrastructure projects.

Opinion on tax and labor policies



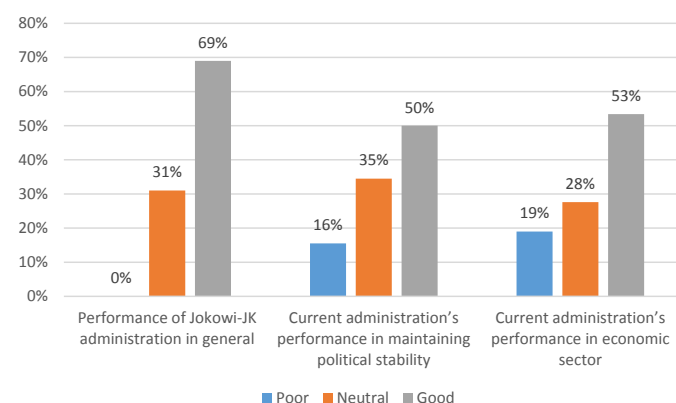
We also surveyed respondents' views on other economic policies that are relevant to their business activities, particularly tax and labor policies. Regarding tax policies, the collective response was ambivalent: 31 percent of respondents believed they were inappropriate, while only slightly less (24 percent) believed they were appropriate.

Despite concerns about the substance of prevailing tax policies, respondents still appreciated the quality of tax services delivery, with 38 percent responding that it had been satisfactory, as opposed to only 19 percent responding that delivery had been poor.

However, respondents tended to be less satisfied about existing labor policies. Policies on layoffs and severance payments are clearly on respondents' minds, with 50 percent saying policies in these two areas were inappropriate and hampered their businesses, while 38 percent considered the prevailing minimum wage policy as inappropriate.

Such perceptions may be related to inadequate enforcement of the minimum wage formula at the local level. On the other hand, 40 percent of respondents were generally satisfied with the government's social safety net programs.

Evaluation of government performance

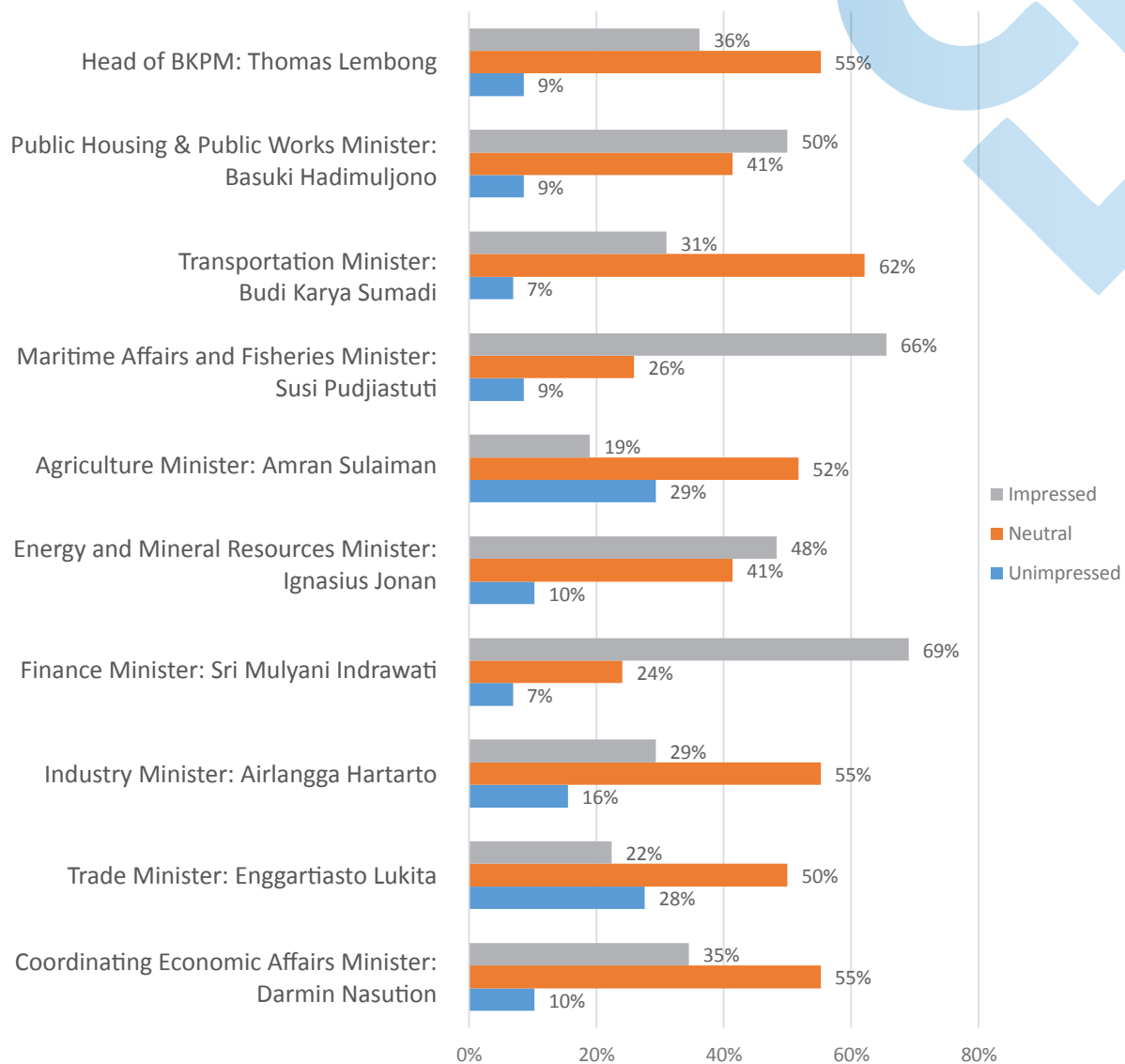


Finally, we asked our respondents to evaluate the general performance of the current administration, and the performance of several business-related ministers. Most respondents (69 percent) believe the overall performance of the Joko Widodo-Jusuf Kalla administration to be satisfactory. This degree of satisfaction is spread evenly across specific indicators.

However, some concerns were raised with respect to the administration's general economic policymaking and its ability to maintain political stability, with a minority of respondents believing that the current administration could have done better in these particular areas (19 percent in economic policymaking, 16 percent in maintaining political stability).

Respondents collectively gave overwhelmingly positive ratings to three ministers for their performance in the past year: Finance Minister Sri Mulyani Indrawati (69 percent satisfaction); Fisheries and Maritime Affairs Minister Susi Pudjiastuti (66 percent); and Public Works and Public Housing Minister Basuki Hadimuljono (50 percent).

It should be noted that most respondents are familiar with policies related to public finance and infrastructure, but generally have limited knowledge on policies related to the fisheries sector.



At the other end of the spectrum, respondents are not particularly impressed with three ministers: Agriculture Minister Amran Nasution (19 percent satisfaction); Trade Minister Enggartiasto Lukita (22 percent); and Industry Minister Airlangga Hartarto (29 percent).

Closing remarks

This survey asked business leaders to evaluate the effectiveness of government policies by asking them how the policies in question affected the way they experienced daily, concrete business activities. Despite favorable responses in several policy domains (particularly infrastructure), one of the interesting findings that were reflected throughout the survey result was the considerable amount

of respondents who were either indifferent or ambivalent in their responses.

This may serve as an indication that some of the government's current initiatives or policies have neither good nor bad impacts on businesses, and therefore, have not been highly relevant to actual business activities. This is an important lesson that more government initiatives and programs do not necessarily lead to perceptible changes among businesses.

One of the government's tasks for the coming year, therefore, is to ensure that the policies and programs that are currently being formulated are really in touch with businesses and their activities, and to address the problems that are typically encountered in implementing new policies and programs. ■