



# GARUDA RISING ANEW

By Gita Wirjawan

**I**t seems a distant memory that Indonesia was once predicted to implode. What was once a nation that dominated the international headlines because of its political strife, economic volatility, and ethnic conflicts has rebuilt itself into one of Southeast Asia's most dynamic economies and stable countries.

While Indonesia might still make prime-time news for outbreaks of violence, those isolated episodes have not shaken the commitment of its over 240 million citizens to uphold democratic government, advocate a market economy, and build a terror-free society.

In 2009, Indonesian civil society groups quickly denounced a bomb attack on a luxury hotel in the capital, Jakarta.

Today, there is no turning back on structural reform and vigilant and responsible citizenship.

Through policies aimed at making government more accessible, creating more value in the economy, and distributing wealth more equitably, Indonesia seems ready to assume a higher international profile, in both politics and business.

When observers comment on the dawn of an Asian century characterized by waking dragons and emerging tigers, they are remiss not to mention the *garuda*, the large mythical bird that serves as Indonesia's national symbol. These economies will not only lift the region back on its feet but will also spur rapid development and sweeping social change across Asia.

Indonesia is determined to achieve the potential befitting a country of its size and



Gita Wirjawan, chairman of the Indonesia Investment Coordinating Board, speaks at the World Economic Forum in Davos, Switzerland

significance. It hopes to increase the value of its \$700 billion economy to \$1 trillion by 2014.

Both the government and its citizens believe they have no more than 15 years before the momentum for accelerated change wanes, the natural resource base declines, and its population starts to age. By then, the window to become a great nation alongside China and India will regrettably fade.

Having weathered several crises and realizing the urgency of the task at hand, the government has adopted various policies and measures that hold up the country as a model of balanced and sustainable development not only for the region but also for the rest of the world.

As the world's largest Muslim-majority nation, Indonesia

engages in interfaith dialogue, cooperates with security agencies to help dismantle terrorist groups, and supports peace efforts in the Middle East.

The country, which is the world's third-largest carbon emitter, has pledged to reduce emissions by 26 percent by 2020 and has also announced a two-year moratorium on forest clearing, one of the biggest culprits driving climate change.

As a founding member and 2011 chair of ASEAN, Indonesia will play a critical role in regional integration by 2015 and will advise member states, based on experience, on transitioning to democracy and a market economy.

The country has also reaffirmed its commitment to monetary discipline and fiscal prudence in line with G20 objectives. In fact, Indonesia's inflation has been under control and its debt-to-GDP ratio has shrunk from 83 percent in 2001 to 26 percent 10 years later.

As a nation in which half of the population is under 30 years old, Indonesia has shifted the focus of its education away from an agriculture-based and large-scale industrial economy to knowledge-driven economy. Education spending makes up for 20 percent of the national budget, roughly \$25 billion, the largest

share given to any sector.

Reliant on private investment, Indonesia has targeted "smart capital" or long-term, value-additive investment that creates jobs, spreads growth, reduces poverty, and promotes environmental sustainability.

As an economy competing for foreign direct investment, Indonesia has redefined economic nationalism by raising productivity of its assets for maximum benefit to its people. As a result, the government has liberalized many sectors that were previously closed and restricted to international investors.

By 2025, much of the world's economic output and the resulting political clout are predicted to shift to Asia. Doomsday scenarios are now long forgotten, and Indonesia has become such a huge contributor to this change that many analysts foresee the country's inclusion in the so-called BRIC economies.

With all these major developments in Indonesia, the world could never have predicted that the *garuda* economy would have reached such heights while staying under the radar.

*Gita Wirjawan is the Chairman of the Indonesia Investment Coordinating Board.*

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# Building a better Indonesia

For more than three decades, PT Surya Semesta Internusa Tbk has played a huge role in the development of Indonesia.

Over that period, the company diversified its activities into construction, building materials, property development, industrial estate development and hospitality – all in fulfillment of, in

the words of President Director Johannes Suriadjaja, a “dream of becoming an investment company.”

Currently focusing on hospitality, construction and industrial estate development, the company forged partnerships with luxury chains Sol Melia Hotels and Resorts of Spain and Banyan Tree

Resorts of Singapore. But next year, the subsidiary Surya Internusa Group plans to open budget hotels to cater to a huge domestic market.

“In 2011, we will launch and manage our own brand. The target is to build 20 hotels in the next three years, each with about 125 to 150 rooms,” he said.

Its foray into infrastructure is unsurprising because the company’s history is deeply rooted in construction. In the 1970s, it was involved in infrastructural works, airports (Surabaya) and roads (Trans-Sumatra highway) before venturing into highrise developments.

“We want to be involved in the construction of civil works and private sector infrastructure. We gather experience so that when tenders become available on public sector works, we will be ready,” Suriadjaja said.

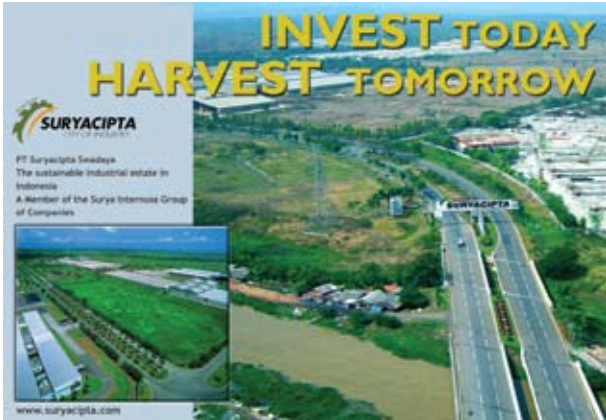
Of the company’s property portfolio, the largest is its

Suryacipta City of Industry, a 1,400-hectare industrial estate located in Karawang, West Java, about 60 minutes away from Jakarta.

“The industrial park is doing very well now. Demand is high and we’ve begun to expand our site. If the economy keeps growing, within two years, we will be out of space and will need more land,” said Suriadjaja.

“At Suryacipta City of Industry, we believe at the core of every business are people, products, and profits. And within an eco-friendly estate of over 1,400 hectares, we provide you with an environment to make the best of your investment. Everything your business needs you will find right here. We invite you today to join a number of international manufacturing, electronics, food, and automotive companies that made Suryacipta their home,” he added.

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Roundtable on Sustainable Palm Oil

# Indonesia becomes world's second-largest source of coal

The last five years have presented unparalleled opportunities for foreign investors looking at Indonesia.

Between 2005 and 2010, the country's GDP grew at an average of 5.68 percent. The financial sector emerged from the recent global recession relatively unscathed, having learned its lesson from the 1997 Asian currency crisis.

The manufacturing sector and fast-moving consumer goods sector continue to power the economy but natural resources and mining have become Indonesia's newest major engines

of growth. In fact, Indonesia has become the world's second-largest exporter of coal, with companies such as Kaltim Prima, Adaro, and Arutmin leading the way.

Rapid growth has also brought with it growing pains. Especially in the major cities, Indonesia has not been able to cope with the rapidly growing number of new cars hitting the roads, resulting in day-long rush hour traffic.

Demand for energy is also at an all-time high.

The electrical power requirement of Indonesia is expected to grow by at least 10 percent annually over the next six years. Unless the country upgrades its plants and shifts to lower-cost coal and gas-powered plants, the country will not be able to keep pace with demands. Such shortages have already resulted in frequent rolling blackouts across the country.

So, the government recently implemented the "10,000 Megawatt" program, aimed at raising electricity production by 10,000 megawatts by 2013. This project will require at least 30 million tons of coal per year and the participation of the private sector to increase coal production.

"We will be supplying 50 percent of the coal needed to power these new plants," explained Arutmin Chief Executive Faisal Firdaus.

Established by BHP Mineral Exploration Inc., Arutmin spent the first eight years on exploration. Growth was slow because the company began its production only in 1989. Then, in 2001, BHP

let go of its holdings in Arutmin, which was then bought by Bumi Resources, the country's largest coal mining company.

The buy-out made Arutmin the third largest coal mining company in the country. It currently operates four mines and one coal terminal, all strategically located along the coast of South Kalimantan, which reduces transport costs and makes the coal more affordable to the end consumer.

Having separated mine sites is advantageous to a company like Arutmin as it looks towards expansion.

"With separated mine sites, we have the flexibility to expand without any disturbance to our neighboring operations. We don't have to worry about only using one method of transportation, or one way to load the barge. We can grow each site independently from the other," he said.

Since it produces high-end coal for more advanced markets like Japan and low-end coal for domestic and regional use, Arutmin has built a strong reputation for itself in the international coal market.

In 2010, Arutmin exported about 82 percent of its coal. Traditionally the main export market for the company was Japan, but today China has become its largest export market.

Since the company can produce high-end coal for more advanced markets like Japan, and low-end coal for domestic and regional use, Arutmin has been able to build a strong reputation and name for itself in the international coal market.

"We are well known in terms of name and product. We have very good quality in terms of low-ash and low-sulfur coal, so we have products that create less impact on the environment," explained Firdaus.

With a strong product line and a dedicated export market, the company is poised for rapid growth. Plans are already in place for the company to increase its output to 35 million tons per year in the next two years.

The company will also expand

*"We are well known in terms of name and product. We have products that create less impact on the environment."*

its product line.

"We have begun trial products with our upgraded brown coal (UBC) products in cooperation with Japan's Kobe Steel Ltd (Kobelco)," said Firdaus. The UBC Process raises the heat value of brown coal 1.5 times, to the same level as high-rank bituminous coal but has only one-third of the ash. It is also more efficient to store and ship, making upgraded coal a viable alternative to high-rank coal. Firdaus vows to make this product commercially available very soon.

Given the company's rapid growth and planned expansion, Firdaus stressed the importance of giving back to the local communities surrounding the mines.

Every year, Arutmin executives sit down with government representatives to plan their annual work program, including their contribution to the local societies. Also, company representatives from each mine go out into the communities and discuss the

individual needs of each area, whether they be in healthcare, sports, culture or education.

"We maintain close relations with local leaders and chiefs of villages. We sit down with them, discuss their exact needs, and craft a yearly program for them. We work closely with the government and have received several recognitions regarding our work," said Firdaus.

Every year, the company gets recognized not only for its CSR work but also for its work with the environment.

It has received the Ministry of Environment's yearly award for Environmental Performance Rating Program (PROPER). And in 2009 and 2010, it received the "Green Award," which recognizes the company's commitment to the government's environmental standards. Of 50 coal mining and natural resource-related companies, only six have received the prestigious award.

[www.arutmin.com](http://www.arutmin.com)



Arutmin Chief Executive Faisal Firdaus



To become a worldclass coal producer that delivers sustainable added value to all stakeholders




Arutmin operates safe and environmentally friendly mining operations. We implement a safety and environment management system that has been certified by the government and holds OHSAS 18001:2007 certification.

We do the environmental management and monitor mine rehabilitation with the aim of becoming a "green" mining operation. We also hold ISO 14001 certification.

In the field of CSR, Arutmin empowers the local community surrounding the mine to make them autonomous and allow them to prosper by respecting local values and cultures.

Our community development programs focus on livelihood, healthcare, education and culture.





# Domestic giants ready to take on the world

*"Indonesia has become aware of itself and demand patterns have been changing."*

Indonesia's resilience to the 2008 global financial crisis was unsurprising. The country did learn its lesson well in the aftermath of the the 1997 Asian currency meltdown.

Over the past two years, Indonesia's plantation companies grew between five and ten percent, with crude palm oil (CPO), leading the way.

The country, in 2009, became the world's largest producer of CPO, with a total output of 19.4 million tons.

Whether upstream or downstream, Indonesian palm oil companies have made a strong effort to become environmentally certified.

Megasurya Mas, a maker of palm oil-based products, is the world's first palm oil derivative company to obtain a Roundtable on Sustainable Palm Oil (RSPO) certificate.

"I've always believed that this sustainability issue, the RSPO certification, is very important. It is not required by regulation to be RSPO-certified, but in places like Europe, if you are not RSPO-certified, people will not buy from you. Our goal is always to be the industry standard," said Managing Director Bahari Karim.

And in crisis, lies opportunity.

"Our turning point was the Asian currency crisis. A lot of companies in Indonesia folded up but we stuck with it. The change of our

business model by producing more value added downstream products helped us survive the crisis," Bahari said.

The Indonesia banking sector has gone from Asia's weakest to one of its most robust, with strong balance sheets and a rapidly growing consumer sector with many new borrowers.

Between 30 to 35 percent of the population is in the middle income group and the country's GDP per capita has neared the \$3000 mark associated with rising economies.

According to Eugene Keith Galbraith, president commissioner of PT Bank Central Asia Tbk (BCA), the only locally-controlled of the country's top private banks, "The Indonesian economy is largely domestic consumption driven, so our sensitivities to the global problems were somewhat minimized. Indonesia is a country which now has a very substantial self-ascribing middle class. It's not so much that it's growing. It's that it has become aware of itself and demand patterns have been changing."

BCA is the country's largest transactional bank, responsible for 30 to 40 percent of all payments in the local banking system.

"The bank was the first to introduce ATMs. We have always been in the forefront of commercial application of technologies. We are the first bank to use PCs and we are the only

bank in the world with a satellite-based real-time network which links the whole country," Galbraith said.

Meanwhile, Indonesia's property sector has benefited from low interest rates and a more prosperous middle class.

President Director of Lippo Karawaci, Ketut Budi Wijaya, sees great potential in this.

"The middle income group has disposable income in excess of \$5000. This is the income group that ranges from \$5000 to \$15,000 per annum. There are big windows opening to us as a first mover to take advantage of this consumer growth," says Wijaya.

Lippo Karawaci is one of the country's largest conglomerates and operates \$3 billion in assets. Over the next 5 years, the company hopes to acquire \$8 billion in assets.

"We benchmark ourselves in terms of performance, governance and best practices. For example, we are the only property company rated by 3 agencies, which are Moody's, Standard and Poors, and FitchRatings. S&P announced they were upgrading our rating one notch from 'B' to 'B+'. This is an appreciation not only of the company but also of Indonesia," Wijaya said.

"We really want to attract multinationals in order to bring international best practices into the organization," he added.

## Supporting Your Business Success

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