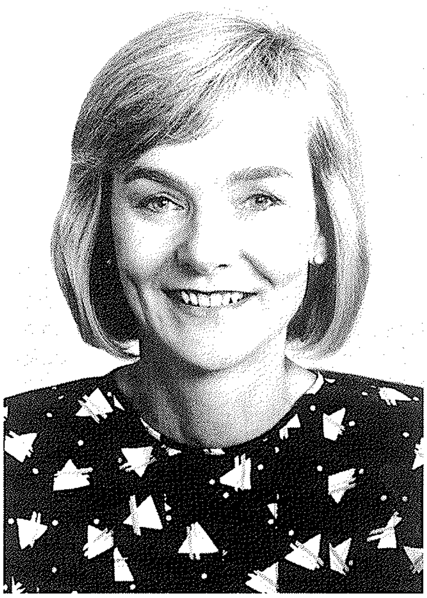
BRIGHT FUTURE FOR INDONESIAN MARKETS

LEGISLATORS ACT TO UNDERPIN LONG-TERM DEVELOPMENT



By ROSLYN ALLAN

Indonesia's capital markets are showing strong potential for growth as the economy explores new directions.

Eleven members of The Securities Institute of Australia were among about 140 delegates from a dozen countries at the 13th annual conference of the Asian Securities Analysts Council in Jakarta in September.

The conference, hosted by the Indonesian Society of Securities Analysts, heard of the remarkable growth of Indonesia's economy and its securities industry. However, in his opening address, the Indonesian Minister of Finance, Dr J. B. Sumarlin, admitted frankly that the nation's capital markets were "not enjoying their finest hour". Dr Sumarlin went on to point out that the charter of the analysts present was to look beyond the immediate situation and assess the long-term potential.

He noted the various regulatory responses aimed at restoring confidence in the stockmarket and spoke of the economy's solid long-term prospects.

In the past four years, he said:

- investment from foreign and domestic sources has more than trebled;
- 60 new general banks, 19 joint-venture banks and hundreds of new bank branch offices have been established;
- listings on the Jakarta Stock Exchange have increased from 24 in 1987 to 139 today; and
- capitalised value of the exchange has risen from $US249 million at the end of 1988 to more than $US6 billion.

Conference participants heard from a number of Indonesian speakers whose topics included the Indonesian monetary system, Indonesian industry, foreign and domestic investment, problems and prospects for the growing Indonesian economy, and the development of the nation's tourism industry.

Stephen Law, managing director of Fidelity Investment Ltd, Singapore, gave a hard-hitting address on a foreign fund-manager's view of the Indonesian capital market. Stuart Cook, regional research director of Baring Securities Ltd, Hong Kong, spoke on strategies for Pacific Rim stockmarkets and expressed the view that Australia was currently the most fundamentally attractive equities market in Asia.

The 14th ASAC Conference will be held in Tokyo in late September or early October, 1992.

The following are extracts of some of the Jakarta conference papers:

Indonesian economy: The story of the Indonesian economy over the past two decades has been one of transformation of such pace and depth as to make it unique among the developing nations. Driving this progress has been a firm commitment — yet pragmatic and flexible approach — to fiscal, monetary, investment and trade reform, coupled with improvements in our public administration.

Like the stockmarket today, the

Roslyn Allan ASIA, managing director of The Securities Institute of Australia, attended the ASAC Conference in Jakarta.

economic numbers in the mid-eighties did not look promising. But we rebounded from a loss of more than a third of our national revenues due to the collapse of oil prices, with our economy achieving growth rates in excess of 7 per cent in each of the past two years.

An internationalised and competitive financial service industry has emerged, capable of providing a wide and sophisticated range of financial products.

At the same time, we are acutely aware of the fact that deregulation does not mean no regulation. Among our key goals has been that of promoting confidence in the financial sector through the provision of an appropriate regulatory framework — one that would encourage greater efficiency through competition, yet not compromise the overall integrity of the financial system.

In recent months, we have promulgated regulations aimed at instilling discipline in the banking sector by setting a timetable for achieving the capital adequacy ratios set by the Bank for International Settlements. Also, Bank Indonesia has stepped up and is continuing to strengthen its supervision of the banking sector.

Equally, through the capital market decrees announced last December, we added muscle to prudential regulation of the stock exchange by restructuring BAPEPAM as the capital markets supervisory agency and providing for a clear separation of its supervisory responsibilities from day-to-day operational management of the market... We will not hesitate to continue to enforce the law in rooting out and punishing harmful irregularities.

That having been said, proper development of the capital market is not a matter for the government alone, but is a shared responsibility by all participants. We are concerned that breaches of the regulatory codes by players from the private sector may have contributed to loss of confidence in the stockmarket. It is vital that we all cooperate to restore and maintain public trust in our capital markets. — *Dr J.B.Sumarlin, Indonesian Minister of Finance.*

Privatisation: In Indonesia, as in many other countries in the early part of their development, BUMN [as state-owned enterprises are known in Indonesia] were created to deal with "entrepreneurial failure", ie, the inability or unwillingness of the private sector to establish industry even when it is in the national interest.

Entrepreneurial failure arises from several reasons. First, the capital requirements of many large projects, such as steel mills, electricity generation or petrochemicals, are beyond the capacity of the private sectors of developing countries. Government then has to develop the industry for the sake of national development. Pertamina and other large-scale projects fall into this category.

Apart from the large scale of many projects, private entrepreneurs are likely to be risk-averse and therefore shy away from projects that require large initial capital outlay and returns that accrue in the distant future. Since the risks associated with government projects are spread over the entire population, governments are more likely to fill in the vacuum created by the absence of the private sector . . .

Privatisation has emerged as an important instrument of government policy in many countries. A major attraction of the privatisation option for the cash-strapped governments of many countries lies in the potential for raising revenues.

In surveying the international scene, one finds Great Britain as the only developed country that pursued — and accomplished — divestiture on a large scale. Divestiture has also taken place in varying degrees in France, Germany, Canada and Australia, but nowhere outside Britain has it fundamentally altered the important position of the public sector in the economy; and in most developed countries, sectors traditionally reserved for the public sector continue to remain so.

Given the realities of divestiture, it is likely that state-owned enterprises will continue to play an important role in the economies of many of the developed, and almost all of the developing, countries in the medium term . . . It is therefore even more important — and urgent — to devote time and resources to running the state-owned enterprises more efficiently.

The concept of privatisation adopted in Indonesia is broader than the mere sale or transfer of assets to the private sector. In fact, all activities designed to help the BUMN operate in an improved and competitive manner are viewed as "privatisation". As owner of BUMN, the government must provide clear guidelines, define its objectives, allow autonomy to managements and hold them accountable for results by developing the capacity for monitoring and performance evaluation and incentives. The managements must introduce professionalism, improve the quality of their employees, increase profitability and efficiency and generally attempt to fulfil the expectations of the owner.

It may be said that privatisation is *one* of the answers to improve the efficiency of BUMN. However, privatisation must be defined in each country on the basis of its overall economic and social goals. The conditions necessary for divestiture or sale of state-owned enterprises are not the same in all countries. — *Dr Fuad Bawazier, director of State-Owned Enterprises, Indonesian Ministry of Finance.*

Stock exchanges: The Capital Market Decree of 1990 provides for the privatisation of all securities exchanges in Indonesia. This means that the exchanges will be owned by the broker-dealers and run by professional managers appointed by them. It means that these professional managers, in the interest of developing the market, will set the operating rules. It also means that these professional managers will have the power and obligation to inspect the books and records of the exchange members and to order disciplinary action against those who break the rules or threaten the harmony of the market.

Self-regulation of the securities market does not mean that the government is absent from the scene. Rather, it means that the first line of defence is the private sector, acting together in its own best interests to police the market. If these measures fail, the government will move in to protect the public.

Although the private stock exchange must operate to promote the market, it is not intended to be a private club, reserved for a privileged few. In fact, the Capital Market Decree of 1990 requires that the majority of the commissioners of the exchange be non-brokers, so as to ensure that membership rules and discipline are guided by broad public interest. — *Marzuki Usman, chairman, BAPEPAM.* □