Out of the slow lane

While Jakarta is a hotbed for foreign investment, it is determined to do business on its own terms. As part of our series on the MINT economies, **Rose Dykins** reports on the Indonesian capital

Having a good source of young, ambitious workers is seen as a huge asset

Jakarta is a city that could easily swallow you up. The amount of time it takes to travel a couple of kilometres in a taxi – about 30 minutes as you inch your way through unyielding traffic – only exaggerates the sprawling dimensions of the capital.

During my visit, I spent far more time gridlocked – staring out of my cab's window at entire families balancing on single mopeds and the occasional petrified pony pulling a cart – than I did at the appointments I was trying to reach. Jakarta's chaotic traffic is symptomatic of a city whose infrastructure currently cannot cope with the demands of the many who want to feed off its enormous potential.

Fortunately, change is on its way. Work has begun on building a mass rapid transit (MRT) system, with the north-south line due to be operational by 2018. Construction of the east-west line is not expected to begin until 2024-27 but, once complete, the MRT will span more than 110km, and may finally persuade some of the ten million daily drivers to take public transport. There are also plans for a two-line monorail to link up the city, with a 2018 completion date targeted.

For now, in a baby step towards reducing pollution and congestion, it is forbidden to drive on certain main roads every Sunday from 5am to 11am. Looking down from my hotel window at this time, I see the tarmac of the main highway is still buzzing with activity, only the cars have been replaced by a sea of runners in brightly coloured shorts and children on bicycles. There's always something surprising to see in Jakarta – and those who are willing to embrace the chaos and understand the workings of this dynamic metropolis could reap some big rewards.

With Indonesia being one of four emerging economic powerhouses known as the "MINTs" (Mexico, Indonesia, Nigeria and Turkey), the nation has hit the financial headlines recently. Jakarta has been crowned number one (out of 34 cities) in AT Kearney's 2014 *Emerging Cities Outlook* report, and there are plenty of reasons why the capital has been tipped for big things.

Indonesia is the fourth-most populous country in the world, with more than 250 million people, about 50 per cent of whom are under the age of 30. Having a good source of young, ambitious workers is seen as a huge asset by potential investors, and is a contributing factor to healthy economic growth.

"A lot of our guests are from multinational companies who are here because they recognise that over the next ten years, the opportunity for growth [thanks to] those aged between 15 and 30 is bigger than

anywhere else," says Giles Selves, general manager of the Keraton at the Plaza hotel, a member of Starwood's Luxury Collection situated in the central business district (CBD). "It's exciting and it's good for the economy.

As well as the number of youthful faces, another observation about Jakarta's citizens is that they love to shop. While poverty is endemic, it is well hidden, and there is little evidence of it in the CBD, where the quantity and grandeur of its malls rivals the Middle East. These shopping cities are air-conditioned social centres for the growing middle class. These newly affluent and aspirational consumers are another huge draw for international exporters and multinational companies.

Facebook opened offices in Jakarta earlier this year to access the local advertisers and companies that speak to its 69 million Indonesian monthly users. Ikea's first store in the country was scheduled to open in September, in western Jakarta, and Volkswagen opened an outlet here last year – 300 new cars join the capital's roads each day, so the automotive industry is big business.

According to the Boston Consulting Group, Indonesia's middle-class consumers are set to double in number to 141 million by 2020. Their spending power is such that international companies are ensuring they tailor their products accordingly to satisfy the local market.

Sean Brennan, regional vice-president of Alila Hotels and Resorts, says: "There are two million international travellers to Bali every year, compared with seven million Indonesians travelling there, so we know we need to build hotels for Indonesians, because that burgeoning middle class is fuelling the hotel sector."

Indonesia's GDP growth hasn't fallen below 5 per cent for the past six years and, although it has slowed (falling to 5.2 per cent in the first quarter of 2014, compared with 5.7 per cent the previous quarter), it is forecasted to rise again to 5.8 per cent in 2015. Chris Wren, chief executive of the British Chamber of Commerce (BCC) in Indonesia, says: "Indonesia weathered the last global financial storm very well indeed, with almost no impact. It showed resilience because of the sheer volume of people and because 60 per cent of its consumption is domestic driven. However, if there is a sustained depreciation of natural resource values, Indonesia could find itself in something of a cash-flow crisis."

Aside from the tropical beauty of its 18,000-island archipelago, which generates US$8.5 billion in annual revenue from tourism, the abundant oil, gas, coal and mineral reserves are key pillars of Indonesia's economy. Mining exports account for 12 per cent of the nation's GDP, and the country is the world's number-one exporter of nickel ore, thermal coal and refined tin. Steps have also been taken recently to ensure that the

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Bottom left: Alila Jakarta

financial gain from some of its natural assets stays in the nation's pocket.

Indonesia's Negative Investment List is essentially an index of business sectors indicating the percentage of foreign ownership permitted for each one, with some being closed entirely to overseas investment and partnerships. It is updated every three years, and the government issued a revised list in April.

While there are some sectors on the revised list where foreign ownership has increased slightly – including pharmaceuticals and telecoms – there are many key industries where it has diminished, such as warehousing; or closed altogether – electrical power installation, and oil and gas support services. The 2014 list also stated that onshore oil and gas drilling was now shut off from new foreign investment, whereas previously it was open to up to 95 per cent ownership. Overall, it's a setback for many potential foreign investors.

Although Indonesia is protecting its own interests, there is a danger that some of its more nationalistic policies could hamper its economic progress, particularly if it rejects foreign investment in areas that could use external expertise to grow. One example of this is education – foreigners are not permitted to have direct shareholdings in education facilities.

"We cannot understand it," says the BCC's Wren. "In the context of business competitiveness, nationalism will be best served if the quality of education gets better, but that is unlikely [to be the case] to any meaningful extent while direct investment in the education sector remains closed to foreign investors."

While the size and youth of Indonesia's workforce is there, many outside investors will not be able to utilise it if levels of education are not appropriate, and if workers can't communicate with the international business community. "In Indonesia, generally, English language proficiency is far behind Malaysia and Singapore," Wren says. "As a result, the country has lost out on the opportunity to outsource services in the way that the Philippines has been able to."

He adds: "I think the business community feels that Indonesia does well and is growing, but it could be growing a lot faster, and it's got to be one of the world's biggest underachievers because of its lack of real, independent leadership."

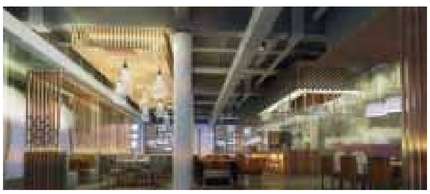
In July, Jakarta governor Joko "Jokowi" Widodo was voted Indonesia's next president. Due to assume his new role next month, he has been likened to US president Barack Obama because of the potential social change that he represents. Jokowi is seen as the people's president, with ▶

policies encompassing a national minimum wage, free healthcare and tackling corruption. He was also favoured by foreign investors over his main opponent, Prabowo Subianto – who previously declared that "Indonesia is not for sale" – for being more liberal and less nationalistic.

Although much has been written about how the presidential elections will decide how open for business Indonesia will continue to be, it should be noted that Jokowi is leading a coalition government. His own party, the PDI-P (Indonesian Democratic Party), had to join forces with a handful of other political parties with diverse aspirations to gain enough seats in government. Even if he attempts to make foreign investment easier, there's a strong chance that he will be shackled by the debts he owes to these parties.

It remains to be seen how international business with Indonesia will be affected, but the opportunities are still there for those who go into the market with the right mindset. "Anything involved in retail has a good chance here, along with healthcare technologies, IT and deep sea exploration," Wren says. "I would also strongly suggest that people look at manufacturing opportunities, as there are incentives to be negotiated [such as] tax-free zones."

He adds: "Take time to get to know the market. Invest in professional advice from the chambers of commerce. And don't just look at the headline positives – despite the statistics, this is one of the slowest return-on-investment economies you could get involved in. Businesses need to have a medium-term perspective, a long-term commitment and a strong belief that this market is for them and their product."■



Left and above: Doubletree by Hilton
Below left: Keraton at the Plaza

Left: The Langham Jakarta

UPCOMING HOTELS

- **The 180-room Raffles Jakarta** will open in the Ciputra World Jakarta complex in the central business district later this year.
- **Marriott** will open the 275-room JW Marriott Jakarta Kemang Village later this year, and the 208-room JW Marriott Jakarta West St Moritz in 2015.
- **Starwood** will launch a 160-room Aloft hotel next January, a 250-room Westin in March and a 300-room Sheraton hotel in June. The 125-room St Regis Jakarta and the 250-room W Jakarta will follow in January 2016; and, in July 2017, a 140-room Aloft will join the portfolio.
- **The Langham Hospitality Group's** Jakarta debut will open within the District Eight complex – a commercial development in the CBD – in 2017. It will have 170 rooms and 30 suites.

WHERE TO STAY

KERATON AT THE PLAZA – A LUXURY COLLECTION HOTEL

Open since 2012 in the CBD, this 22-floor property connects with the Plaza shopping mall via a passage from the lobby. Each of the 140 luxurious rooms has butler service and huge walk-in showers. There is a 15-metre indoor pool for guests, as well as a 24-hour gym. The hotel's restaurant, Bengawan, serves Mexican cuisine and there are two sleek boardrooms, one of which is free to use by all guests for two hours per day during their stay.
keratonattheplazajakarta.com

ALILA JAKARTA

The 246-room Alila Jakarta, open since 2001, has smart and comfortable rooms offering free wifi and spacious bathrooms. Friendly staff help to create a pleasant atmosphere. The Shanghai Storm restaurant serves well-presented Chinese cuisine. There is an outdoor pool, a gym and a spa, which was refurbished last year. The leisure concierge service includes tailor-made sightseeing itineraries and excursions.
alilahotels.com/jakarta

KEMANG ICON

For those doing business in south Jakarta, the Kemang Icon is a characterful property with 12 suites offering a good amount of privacy, each featuring a different design and lots of space. The rooftop restaurant, the Edge, offers à la carte room service, and the area surrounding the infinity pool is a glamorous setting for events overlooking the rooftops of the bustling Kemang district. The hotel opened in 2006.
alilahotels.com/kemangicon

DOUBLETREE BY HILTON HOTEL JAKARTA-DIPONEGORO

The first Doubletree by Hilton in Indonesia opened its doors in June, in the Menteng district, within easy reach of the CBD. Its 253 rooms are both comfortable and contemporary. The hotel's ballroom can hold up to 700 delegates theatre-style, and there are seven smaller meeting rooms. The Open restaurant serves up a variety of international cuisines, and there is a 60-metre outdoor pool and a 24-hour gym.
doubletree.hilton.com