

reform. The business community is optimistic but there is a realization of this as a honeymoon period, and actions have to be achieved as well as just talked about.

In terms of threats, there are rising labour and social costs in Indonesia which are not being matched by rising productivity, which is putting Indonesia at a competitive disadvantage compared to some of its global competitors who are more productive and perhaps more inviting in terms of their investment policies. There are 40 million underemployed or unemployed in Indonesia, and this is a potential time bomb because the growth rate is insufficient to keep pace with the population growth. It's been estimated that a 7% growth rate is needed just to keep pace with 2 to 3 million new entrants to the job market every year. And the current 4% growth rate is not sufficient. Economic nationalism and the rise of radicalism are to some degree deterring FDI because of perceptions. And powerful vested interests in the country are resisting positive changes. Decentralization has been a problem. It was perhaps implemented too quickly and to too low a level where inadequate human resources existed. And as a general rule, business tends to be allergic to too rapid and too restrictive changes. That is what Indonesia has been experiencing in the last several years. There has been a lot of change occurring rapidly and business has been to some degree shell-shocked by that. Many new laws and regulations are coming out with large fines or threats of imprisonment attached to them trying to motivate business to comply, but that, in effect, has had a negative or deterrent effect on investment. And one issue that I have observed over the years has been what I call the cultural shock of globalization. It is almost as if the Indonesian people have had cultural shock without traveling anywhere because of the foreign media coming into Indonesia through private TV stations. All of a sudden, the poor now know that they are poor, and I think that that is causing some social and cultural impacts to the big picture in Indonesia. Another threat is that capital is mobile. Investors can vote with their feet. I'll show you some survey results that point to an alarming potential for the departure of existing investors.

I am going to talk about some general concerns and problem areas before I get into some specific recommendations. One of the results from a survey that we carried out in 2003 shows the areas of concern to foreign investors. At the very top of the list, over 90% of respondents indicated that the legal environment is the greatest concern to them, the lack of certainty. This was followed closely by