Interview: Lin Neumann – Managing Director, AmCham Indonesia



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Lin Neumann, Managing Director of AmCham Indonesia, highlights the opportunities in the Indonesian market, recent industry results, and the complex regulatory system in Indonesia: the main barrier to market access.

You have been at AmCham since October 2014 after more than 20 years as a journalist around South-East Asia. What was your assigned missions upon joining and what are the chamber's main achievements in the last three years?

As a chamber, our main mission is to be the advocate of choice for American business in Indonesia so our main activities focus around advocacy related to streamlining and making the business environment more conducive to foreign investors. We also offer social activities like any chamber but most of our activities are about engaging with the government on specific policies and regulatory issues with the help of our committees and sharing information with our members.

As for our accomplishments, in 2015, we were the main private sector partner during the Indonesian President's visit to Washington DC. Additionally, when we held our US-Indonesian Investment summit last year, we welcomed eight cabinet ministers. This summit is an annual high-profile event, one of our biggest, where we bring together a number of companies and the government in order to discuss various themes from energy to life sciences and information

technology. For the event, we also produce an annual investment report. Last year, we learned that the USA contributes about USD 90 billion a year to Indonesia's GDP, or roughly 10 percent. This really highlights that America's private sector is one of the main partners of Indonesia and explains why we are working on strengthening the relationship between the two countries.

How would you say the attractiveness of Indonesia has evolved in the past few years from the perspective of American companies?

It all comes down to the struggle between the attractiveness of this market and the complexity of the regulatory environment. On the positive side, Indonesia is a vibrant market that has been experiencing solid growth this year of around 5.2 percent. This growth could be higher, for example the President of Indonesia wants it to be around 7 percent. This is attainable if the country makes some fundamental changes in the way it approaches investors. The domestic market is big with a growing middle class making up around 30 percent of the population with more disposable income, reasonably good jobs and an appetite for spending. There are political issues but Indonesia is still a functioning democracy with peaceful transitions of power and effective elections. Indonesia also has bountiful natural resources but a rather contentious policy towards them.

All of these elements work for the benefit of the country. It is a place where you can do business and succeed if you manage to go through the regulatory hoops. A great many of the companies that I have seen here are generating good revenues.

How would you say investment in the pharmaceutical sector has been evolving?

In the pharmaceutical sector, companies definitely want to invest more and gain greater market access. If a foreign company thinks that there is a secure, reliable and predictable area to invest in, they will do it. A number of foreign companies have long-standing investments in domestic manufacturing here. However, at the moment, there are ongoing discussions with the government about driving foreign investment towards domestic manufacturing and local content. It is often resisted by companies because they want to make their own business decisions and don't want to be forced to invest. They would like to see a more incentive-based structure rather than a "regulatory whip". Nonetheless, the area in which multinationals have an edge here is definitely in innovation and cutting-edge drugs, especially in cancer treatments and life-saving drugs. There is also a growing demand for medical devices, specifically for treatment of noncommunicable diseases. A lot of issues are arising from the Indonesian diet like diabetes and high blood pressure so the country is in need of dialysis machines.

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Another area of interest is the new universal health care scheme (JKN) that the government has put in place, as they are spending more on healthcare and trying to cover everybody. This greater national spending on pharmaceuticals and medical devices has increased the desire for companies to have their products on the government-approved list of treatments, which of course will generate growth. There is a lot of interest, especially at a basic level. I know of one medical device company whose products are registered on the government's list that has seen a growth in their revenues of 50 percent in the last year. Pharmaceuticals is one of Indonesia's key growth sectors with an annual growth of around 12 percent. The government is also eager to make Indonesia the manufacturing hub of the region but they are not yet ready for it.

Going back to the regulatory complexity that you mentioned earlier, can you tell us how it is more complicated for foreign companies to do business here?

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First, it takes time to get approval for new drugs. Indonesia actually has one of the longest waiting times in the world. Even if a drug is approved by the US-FDA, you still need to wait for the Indonesian decision. There are also concerns about the new patent law passed last year. We are now discussing it with the government before the implementing regulation is passed (which will validate the law and make it effective) as this patent law presents some issues about exclusivity, suggesting that the patent holder will lose exclusivity within five years if they do not locally manufacture the object of their patent. There will be a struggle over compulsory licensing as well as companies would like to see the regulations first.

Another sensitive area is the Halal law as it is linked to religion and it would be very difficult for the industry. It was passed in 2014 and is one of the most sweeping Halal laws in the world, calling for the mandatory Halal certification of products that can be consumed or put on human bodies. This includes food, pharmaceuticals and cosmetics and could potentially even include clothes and shoes. The question now is: Are they really going to implement this very broad law? In the pharmaceutical sector, it would mean that companies are required to separate their manufacturing and supply chain from other products. However, we are still discussing the law with domestic players and we have until 2019 before the final decision is made. All these issues are looming so companies are wondering what is going to happen.

Others issues are arising too. For example, the country is not well-equipped for research and development or clinical trials as the regulatory environment does not allow the exportation of blood samples. The openness of the country towards foreign investment in the health sector is really

limited. There is no foreign practitioner, foreign hospital or even medical school here. If Indonesian doctors are educated abroad, even in the best universities, their education will not be recognized by the country and they will have to pass the Indonesian exams and go back to school before they can practice. However, the country is clearly lacking doctors and infrastructure. It needs to be open to foreign investment in healthcare and upgrade its treatment techniques through innovation and education. At least in other Asian countries like Thailand and South Korea they value foreign input in the industry even if they mainly have domestic practitioners.

If we come back to Indonesia in three to five years, where do you think the country will be heading and what are your strategic objectives for AmCham?

I believe Indonesia will establish a more sophisticated investment market and take high-value products and services to the population. As these will be the last years of President Joko Widodo, I think that there will be stability on the political side and that Indonesia will still be a secure place with a vibrant pluralistic society.

AmCham is an interesting place as it keeps evolving and we always have to face challenges and find solutions, which really motivates me to come to the office every day. This country offers a lot of diversity and in AmCham we are gradually shifting our profile from the extractive industry (oil and gas and mining), which has seen a downturn here, to growing industries such as healthcare and life sciences, e-commerce, tourism and agriculture.

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