Indonesia : Consolidation After Period of High Growth

by Bretigne Shaffer

THE chrome and steel outcroppings that continue to sprout up in Indonesia's busiest cities are testimony to the country's rapid growth over the past few years. Between 1987 and 1990, the Jakarta Stock Exchange saw its market capitalisation soar by 9,500%. GDP growth has risen steadily since 1985, with particularly impressive growth in the last two years.

The country's current account deficit has risen in tandem with this growth, however, as have interest rates. There are also remaining fears that inflation — now estimated at 8.5% — will get out of control should the boom continue. In addition, while observers have nothing but praise for the current regime of technocrats that has guided the nation towards development, they worry that this regime may not survive Suharto's succession.

Elections to the House of People's Representatives (DPR) are scheduled for April, 1992. Members of the People's Consultative Assembly (MPR) will be chosen from among the DPR membership, and will elect the president and vice president.

After 25 years in power, it is not certain whether President Suharto will seek election after the April 1992 contest. This means, assuming he is returned, it may be his last five years in office.

Anne Gardini, of James Capel (Far East) Limited, does not see any clear-cut successors. "Who will make (the economic balance) continue to work ? Right now, there is no one with his charisma, to step into his shoes."

A smooth political transition is especially important, as the Indonesian economy undergoes fundamental changes. Balance of payment figures have been adversely affected by purchases of high value-added components, which will eventually facilitate the country's transition to a producer of higher value-added goods. For the moment though, the investment means only a rising foreign debt.

Imports grew by 33% in 1990, totalling US $21.8 billion. Although Indonesia will still have a trade surplus of US $3.5 billion, the trend is not encouraging: non-oil exports are not expected to reach the government's target of 18% growth for 1991-92, and the current account deficit is expected to go from US $2.4 billion in 1990, to US $4.2 billion this year. Some say it could go as high as US $5 billion.

Imported machinery, raw materials and other capital goods accounted for 65% of last year's imports, however, much of which will go into products for export. Imported capital goods will mean higher value-added exports in the future, but make for an unattractive current account balance in the short term.

While the Gulf war gave oil-producing countries a windfall on their exports, Indonesia's gain in this respect has been overstated. Although the country's oil and gas revenues rose by 33% upon the outbreak of the crisis, this rise was countered by a rise in the price of imported higher-grade oil products.

Indonesia has drastically reduced its dependence on world oil markets in the last five years. In 1985, oil exports accounted for over 60% of the country's total exports. By 1990, it had dropped to 37%.

Suharto's policy of deregulation has meant that it is much easier to set up operations now than it was in the past. This has proved attractive to foreign investors, who have descended upon the archipelago in droves. Most such investment comes from other Asian countries, with Japan, Hong Kong, South Korea and Taiwan leading the pack.

The traditionally strong exports related to Indonesia's timber resources continue to look forward to positive performance, despite the government's policy of prohibiting the export of raw timber and rattan. The policy is an effort to encourage the export of higher value-added products, and cuts into the wood and rattan markets in the short term.

Analysts are divided over the pulp and paper sector, which has been hurt by a drop in global pulp prices. Although the domestic paper market continues to grow, the current surge in investment in that sector means that production will outstrip demand in the near future.

Likewise, the textile industry, which the government has encouraged as part of its drive to move away from oil and petroleum products dependency, receives mixed reviews. The sector has grown rapidly since 1985, and in 1990, grew by an astounding 46%, to a total value of US $2,917 billion. Textile exports in 1985 stood at only US $543.3 million.

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Capel's Gardini forecasts that Indonesia will be the textile centre for Asia in the future. "Compared to anywhere else, they're better off," she says.

The Lippo Group's Stephen Riady agrees, stressing that now is the time to move manufacturing facilities to Indonesia.

"Quite a lot of manufacturers from Hong Kong and elsewhere are looking to go to Indonesia," he says. "But they haven't gone. The time to go is now. Manufacturers will want to find partners. If they wait a year or so, all the good partners will have been taken, leaving only the not-so-good partners."

Labour costs in Indonesia remain lower than in most other Asian countries, a factor that continues to attract investors. In addition, many textile and garment manufacturers — particularly those with foreign involvement — are already beginning to upgrade into higher value-added production.

Countries that wish to attract labour-intensive investment must have three basic ingredients, says Riady, including a huge supply of land, a huge supply of labour, and substantial natural resources. Of all the countries in Asia, he says China and Indonesia lead the pack in these three areas.

As with other industries, however, textiles and garments must face the increasing problems associated with an overloaded infrastructure. Electricity shortages are particularly damaging, as they have an immediate impact on production. The industry also remains tied to imports for machinery, and some raw materials.

For foreign investors, however, says Gardini, "before targeting a sector, you need to target people — who you will be working with. Almost all sectors are potentially interesting, so identify how business is being done and by whom."

She adds that investors should "try to play strategic areas that are not yet on the stock market," such as transportation and energy generation — good bets in any developing economy; tourism and resorts; and petro-chemical and derivative products.

Foreign investment has risen by over 1,000% since 1985, with nearly US $1.5 billion in foreign investment approved by the government of Indonesia last year. The first quarter of this year saw US $2.3 billion in approved foreign investment, and US $8.3 billion in domestic investment. However, says Gardini in a James Capel report, "while it is too early to assess the effect of tight credit on foreign and local investors, the actual level of investment will probably be much lower than (that) approved by the Investment Coordinating Board in the first quarter of 1991."

Lippo's Riady adds that "Hong Kong people are concerned about Indonesian laws restrictions on foreign ownership, partnership requirements and export restrictions." What most don't realise, he says, is that many of these restrictions are on their way to being lifted. "If people wait until it is clear," he says, "that will be too late. In a few years, it will be totally different. There will probably even be 100% foreign ownership of land."

World class building continue to sprout.

Amid fears of rising inflation, Bank Indonesia began to raise interest rates in April of last year. Although the move has so far managed to curb inflation, monetary growth has continued, and reached 40% in 1990. Interest rates were forced as high as 35%, and have since moderated to between 25 and 28%. While interbank rates have been reduced even further, rates for non-bank customers remain the same.

The sector most affected by the hike is the consumer goods sector. Car sales fell by between 10 and 20% last year, and the residential property market has been hit as well. Recent growth has meant an increase in spending power, and this will continue to grow steadily in the long term. For the short and medium term, however, consumers are having to contend with inflationary pressures, as well as high interest rates. In addition, the market remains dominated by basic low-value goods, reflecting the spending power of the vast majority of Indonesia's 187 million people.

This situation is not likely to change in the near term. "Looking ahead," says Gardini, "an improvement in liquidity conditions in the short term looks unlikely and, in any case, a decrease in interest rates from such levels can only be very gradual."

Barings Securities agrees. "... the fiscal and monetary authorities in Indonesia are expected to maintain a conservative approach on both fronts over the next six months."

In a further credit-restricting move, the Indonesian government announced last month the formation of a team of economists that will have the power to approve all borrowings for projects in which state companies are involved. The team will set restrictions on the total borrowings of such projects, and will also delineate the terms of the borrowings.

The move is an effort to lessen the country's foreign debt, which is estimated at around US $66 billion. Officials stress that the new measures will not affect crucial infrastructural projects, but will be aimed at projects leaders believe the country cannot afford.

Stephen Riady, however, feels that the move will not significantly affect the economy.

"Indonesia has always had informal guidelines," he says. "It was just not in black and white. This situation will not change. The government already has control over these things."

(By Arrangement with Executive Editor.)

235 Billion francs a year for economic improvements in France.

FASHION has made Paris its capital, but until now, Paris had not offered it a worth setting for presenting the most prestigious fashion collections in the world. Soon, in 1993, this situation will be put right.

In October 1990, the Minister of Culture, Jack Lang, announced the creation of a Fashion centre. Until now, famous fashion houses had managed as best they could.

The collections had been presented at the Palais des Congres or the Forum des Halles and, more recently, in tents set up in the Cour Carree of the Louvre. However luxurious these installations may be, they mar the appearance of the museum palace which is undergoing restoration and being refitted. They also prove to be impractical for receiving the ever increasing public of professionals, whether they be buyers, designers or journalist (each show is attended by 2,000 of the latter).

The economic importance of this area of activity is borne out by the fact that industries directly or indirectly linked to fashion represent a turnover of 235 billion francs a year, including 10% from exports, and employ more than 500,000 people.

Since 1982, the public authorities and fashion-house committees have been pouring over the matter. The solution has now been officially put forward, backed by drawings.

It will be a real "House of fashion", located in the heart of Paris, buried under the Louvre, between the glass pyramid which marks the entrance to the museum and the arc de Triomphe du Carrousel, near the Tuileries gardens.

In an area of 7,500 square metres, four extendible rooms seating 1,500, 1,200 700 and 50 people, will house the hautecouture and ready-to-wear fashion show six times a year. Outside the periods when the collections are presented, these roms will be used for events linked to fashion and luxury industries, Jack Lang gave the example of "exhibitions devoted to the arts of the table, accessories and goldware".

This centre will have ultra-perfected and comfortable technical means : changing and make-up rooms photographic and projection studios, photo and video laboratories, press-rooms benefiting from fast means of transmission and a few bars.

Moreover, the centre will have a more commercial 9,000 square metre area. It will be mainly taken up by a 250 metre long shopping mall where some 80 boutiques will present a shop-window for French, but not exclusively, luxury industries.

In order to avoid the effect of being underground, the mall will be lit by natural light coming from an inverted pyramid, recalling the one marking the entrance to the Louvre museum, a few dozen metres away.

Another visual "echo" of the museum, designed by the architect Pei (who is also involved in this project) is in the walls and flooring which will be covered in the same light architectonic concrete, looking like satin stone. There will also be cafeterias and restaurants as well as a travel agency in the shopping mall.

The contemporary architecture of the future brand new fashion centre will be enhanced by the presence of mediaeval remains recently uncovered by archeologists. These consist in a 180 metre long moat, overshadowed by an enclosing wall going back to the time of Charles V. The impressive 7 metre high wall will provide a setting for the entrance hall to the centre.

This fashion centre, sponsored by all the big names in French fashion, will cost a mere billion france. The investment is mostly being covered by a private firm, SARI.

This big property developer will take charge of the works and run the centre for 80 years, at the end of which it will revert to the state. According to those in charge of the business, this operation will become profitable at the end of ten years.

But it will only take three years before Chanel's chiffon, Saint-Laurent's capes, Lacroix's embroidered satin and Issey Miyake's subtle pleats float across the catwalk. Work has already begun. — C.T.

"Rogereconomics" aimed at getting the inflation rate down at below 5 per.cent.

by Derek Round

NEW Zealand's royal honours system, under which some citizens overnight become able to use the titles "Sir," "Lady" or "Dame" before their names, has come under fire as a "hangover from a colonial past."

Trade unionists, some editorial writers and letters to newspaper editors have been questioning the relevance of the honours system which confers titles on politicians and businessmen who they say are already well rewarded.

Much of the present criticism has followed the recent award of a knighthood to controversial former Labour Government finance minister Roger Douglas who is now Sir Roger Douglas.

airline, Air New Zealand, to private owners.

Another former member of the Labour Government, defeated in last October's General Election, became a Companion of the Most Distinguished Order of Saint Michael and Saint George, entitled to put the letters CMG after his name, and another retiring Labour politician was made an Officer of the Civil Division of the Most Excellent Order of the British Empire, with the letters OBE after his name.

In addition to the knighthoods awarded to Palmer and Douglas , the title was also conferred on a judge, the medical director of the Heart Foundation and the mayor of Wellington, the country's capital.

ferred in her name.

The recently announced honours were recommended by the Labour Government before it was defeated and, by convention, accepted by the incoming National Party government.

Nominations for honours can be made to the Prime Minister or a Member of Parliament by individuals and organisations and there is nothing to stop a citizen nominating himself for an award.

Unlike Britain, New Zealand does not have peerages with the holders able to use titles like Baron and Baroness.

New Zealanders who receive honours frequently say the award is not for them personally but simply recognition of the office they hold or the

'My God, what do you have to do to get a knighthood?

organisation in which they are active.

Former Prime Minister Geoffrey Palmer commented: "I found my period of public service to New Zealand a great adventure. It is pleasing to me that what I have done has been recognised in this way."

But trade union leader Ken Douglas, urging scrapping the system of royal honours, says: "It's a hangover from a colonial past, it's not really got much relevance."

Some critics of the royal honours system would like to see expansion of the Order of New Zealand, similar to the Order of Australia and Order of Canada, countries which no longer award royal honours.

Introduced in 1987, the Order of New Zealand is intended to recognise outstanding service to the Crown and people of New Zealand and is restricted to 20 people. Members of the order include the Maori Queen, two former prominent trade unionists, a businessman and arts patron, and Sir Edmund Hillary, the first man to climb Mount Everest.

Britain's Queen Elizabeth, the Queen Mother, is a member of the order and former Commonwealth Secretary-General Shridath Rampheal is an honorary member.

While the Order of New Zealand may be expanded, it is unlikely to replace the present royal honours system.

Also rewarded in the traditional New Year Honours List was former Labour Prime Minister Geoffrey Palmer who was made a Knight Commander of the Most Distinguished Order of Saint Michael and Saint George and is now Sir Geoffrey, with his wife entitled to be known as Lady Palmer.

Most criticism has centred on the title conferred on Douglas who has been blamed by many in his own Labour Party for high unemployment and depressed economic conditions as a result of his tough financial policies (known as "Rogernomics" aimed at getting the inflation rate down (it is now below 5 per cent).

"My God, what do you have to do to get a knighthood?" an angry newspaper reader asked. "Stuff up a country?"

Ken Douglas (no relation), head of New Zealand's biggest trade union organisation, the Council of Trade Unions, said the former finance minister was being rewarded "for services to the wealthy and privileged."

And Sue Piper, President of the Public Service Association, the civil servants' biggest union, complained the honour for Roger Douglas "for public services" was "ironic" as he had deliberately distanced the community from public service by his policies of selling off state assets,

like the telecommunications network and the national

A long-serving member of the National Council of Women was made a Dame of the British Empire—the highest honour conferred on a woman. This is the same title held by New Zealand's Governor-General, Dame Catherine Tizard, who received it when she was mayor of Auckland, the biggest city.

But not all awards in the honours list sparked the same controversy as those made to the politicians. Round-the-World yacht race winner and Sportsman of the Year Peter Blake was made an Officer of the Order of the British Empire and similar awards went to other prominent sportsmen and women.

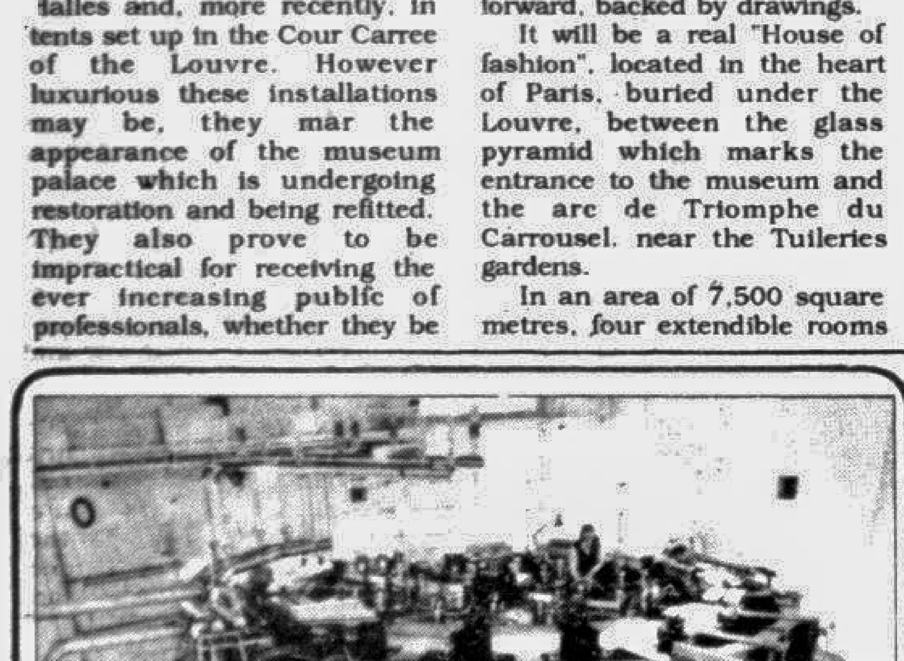
Last year prominent cricketer Richard Hadlee was given a knighthood, becoming Sir Richard Hadlee and his wife Lady Hadlee. Knighthoods in the past have also gone to prominent singers, artists, farmers, leaders and members of the native Maori Community.

Members of the armed forces, police and fire services also regularly receive awards in the honours lists.

New Zealand is now one of the few countries in the British Commonwealth to retain the honours system based on the British system of titles and honours.

The honours are recommended by the New Zealand Government to Queen Elizabeth for her approval and con

—Depthnews Asia



It would require a tremendous amount of money to construct such a research centre as seen in Munich, Germany.

The summit on the economic advancement of rural women

Poverty is a complex phenomenon affecting two-thirds of rural women in the developing world. While its consequences are often striking — hunger, malnutrition, and environmental degradation — the causes of poverty are often invisible. As a result, development efforts tend to focus more on addressing the consequences rather than the causes of poverty, which are inextricable linked to the neglect of women's crucial role in the development process. While in recent years development interventions have tried to mainstream women in this process, the economic circumstances of rural women, and especially of poor rural women, continue to receive insufficient attention.

The Summit for the Economic Advancement of Rural Women, to be held in Geneva on 25-26 February 1992, provides a unique opportunity to raise public awareness and generate political commitment for the economic empowerment of rural women and their families the world over. The underlying premise of the Summit is that rural women are prime movers within the development process rather than welfare recipients, vital agents of change rather than passive bystanders, and strategic actors in the search for innovative approaches to food security rather than helpless victims of poverty.

The Summit follows on a participatory process undertaken by the International Fund for Agricultural Development (IFAD), which included four regional consultations and an international consultation on the economic advancement of poor rural women. This process has led to the formulation of Guidelines for Action and has provided an important input in the development of a Declaration in support of the empowerment of rural women to be endorsed at the Summit.

In recognition of the role played by IFAD in support of the economic advancement of rural women, the Wives of Heads of State and Government of Colombia, Egypt, Malaysia, Nigeria, Senegal and Turkey called upon the Fund to provide organizational and secretarial support for the Summit. Queen Fabiola of Belgium, who was the first to recognize the significance of the Summit, has graciously extended her patronage to the event. With the commitment of Wives of Heads of State and Government from around the world, the Summit will : (i) put the issue of rural women and their families at the top of the agendas of governments, non-governmental organizations as well as the United Nations system; (ii) create a global awareness of rural women's economic constraints, undervalued contribution and vast untapped potential, and bring into sharp focus the links between gender, rural poverty, family welfare and national development; and (iii) mobilize national and international action as well as resources that will help improve the socio-economic position of rural women worldwide.

By demonstration their support for rural women as powerful agents for social and economic change, the Wives of Heads of State and Government will send a forceful message to the world and to policy-makers at all levels and will help to transform the world's understanding of women's role and contribution in society. Even more importantly, the Summit will lend greater visibility to rural women's potential in fighting the causes of poverty and in spearheading economic development.

In the course of its second regular session of 1991, the Economic and Social Council (ECOSOC) of the United Nations officially endorsed this historic initiative by adopting a resolution which urges all member states, appropriate organs, organizations, and bodies of the United Nations system and relevant non-governmental organizations.

—IFAD