

# Indonesian Economy Turns out to be Model for Third World

by an Analyst

THE economy of Indonesia is based on small-holder agriculture, wholesale and retail trade, manufacturing and the exploitation of petroleum, natural gas and other mineral resources. In 1991, the agriculture sector (including forestry and fishing) employed over half of Indonesia's labour force and accounted for approximately one fifth of GDP. The principal crops are foodstuffs, chiefly for domestic consumption. These are primarily rice, cassava and corn (maize). In addition, cash crops are produced for export, including rubber, coffee, palm oil, pepper and tea. Manufacturing has continued to be one of the most rapidly growing of Indonesia's major economic sectors and in 1991 accounted for 21.3% of GDP. The principal manufactured goods produced in Indonesia are textiles, processed foods, motor vehicles and electronic equipment in the consumer goods sector and plywood, cement, fertiliser, metals and glass products in the intermediate goods sector. Wholesale and retail trade contributed 16.6% of GDP, while the mining and quarrying sector, including production of oil and gas as well as of hard minerals such as copper, tin and nickel, accounted

for 13.0% of GDP. Crude oil is Indonesia's major export item and largest single source of foreign exchange earnings. Export revenues from petroleum and petroleum products accounted for \$6.7 billion or 23.0% of Indonesia's total export earnings in 1991. Manufactured goods, particularly textiles, are Indonesia's second largest export, with export revenues of \$5.0 billion. LNG is now the third largest source of export earnings, accounting for \$4.2 billion or 14.3% of Indonesia's total export earnings. Forestry products, including sawn timber and plywood, remain Indonesia's fourth largest export with a value of \$3.7 billion or 12.7% of total exports. Smallholder agriculture accounts for the majority of the production of Indonesia's export crops, which accounted for \$2.0 billion or 7% of Indonesia's total export earnings in 1991. Shortly after the change of Government in 1966, the new administration adopted an economic stabilisation policy, which had as its major objectives a reduction in the rate of inflation, the rehabilitation of

the economic infrastructure, increased export production and the provision of an adequate supply of food and clothing to the population. Government expenditure was limited to a level which could be financed by Government revenue and by receipts from international financial assistance. Restrictive controls on trade and foreign exchange were removed and a new exchange rate system, having the effect of a floating exchange rate, was adopted. New laws were enacted to provide incentives for both domestic and foreign investment, financial assistance was sought from major countries of the world and that part of Indonesia's foreign debt contracted prior to 1966 was rescheduled. The rehabilitation of transportation, public utilities and irrigation was undertaken. This permitted the Government to concentrate on stimulating economic activity, especially production of rice, crude oil and other export commodities, while at the same time bringing the rate of inflation under control. Planned development efforts began with the launching of a se-

ries of Five-Year Development Plans starting in FY 1969/70, in which the Government's economic management philosophy and objectives are set out in detail. **Role of the Government in the Economy** Indonesia has a mixed economy in which the Government, in addition to the regulation and supervision of the economy, is engaged directly in economic activities through state-owned enterprises operating in various sectors. The Government also encourages domestic and foreign private investment and the current Five-Year Plan, which runs until 1994, continues to seek an important contribution from the private sector towards the establishment of a broader and more balanced base for economic development. To achieve this objective, various measures have been introduced to encourage both domestic and foreign private investment. By the end of 1992, there are over 197 state-owned limited liability companies. State companies, defined as companies in

which the State has at least a 20% equity interest, are actively engaged in agriculture, manufacturing, trade, financial services and the exploitation of minerals and petroleum. In the mining sector, the Government's involvement is based primarily on the constitutional provision that all natural resources belong to the State and that economic activities considered essential to the country be controlled by the State. Pertamina, the State oil company, has a monopoly over all aspects of oil and natural gas production, and controls all exploration, development, production and refining of oil and gas in Indonesia. Foreign oil companies are allowed to participate in Indonesia's oil industry as contractors to Pertamina. State mining companies also produce virtually all of the country's tin, coal and bauxite and a large proportion of other hard minerals. Under Law No. 11 of 1967, which sets out the principal mining regulation, only State enterprises and agencies may be authorised to mine certain

minerals, designated as either of strategic or of vital importance to the country, a list which currently includes nickel, tin, coal, bauxite, zinc, gold, silver and uranium. Foreign companies can, however, participate in the exploration and development of these minerals as contractors to State mining enterprises or agencies. In the manufacturing sector, the Government owns and operates all but one of the existing fertiliser plants, most of the country's steel-making capacity and some of the country's paper manufacturing and cement plants. In agriculture, state-

owned enterprises operate a number of rubber, palm oil, tea and other cash crop estates. The Government participates in the financial sector through its ownership of five major commercial banks, a development bank, a savings bank, a national investment trust, a housing finance company, a credit insurance institution, a casualty insurance company, a life insurance company, a reinsurance company and four other insurance companies. All state-owned financial institutions are regulated by the Government and the central bank, Bank Indonesia.

The Government's overall economic policy is directed by the Economic Stabilisation Council which is chaired by the President. Members of the Council include the Coordinating Minister for the Economy, Finance, Industry and Development Supervision and the Chairman of the National Development Planning Agency (BAPPENAS) as well as the Ministers of Agriculture, Finance, Industry, Trade and Communications and the Governor of Bank Indonesia. The fundamental economic policy of the State was enunciated in two decrees, one issued by the Provincial People's Consultative Assembly in 1966 and known as the Renewal of Basic Economic, Financial and Development Policies and the other, known as the Basic Outline of National Policy, issued by the People's Consultative Assembly in 1973. These decrees are the basis for the formulation of the Five-Year Development Plans. It is the function of BAPPENAS to prepare the development plans and to co-ordinate the country's development programmes. Detailed financial and operational specifications of the public sector programmes are delineated in the annual budget. Fiscal and monetary policies are prepared and implemented by the Ministry of Finance and Bank Indonesia, respectively, under the direction and co-ordination of the Economic Stabilisation Council. Details of fiscal policy are contained in the annual budget which is submitted to and approved by the House.



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## Indonesia a Delight for Tourists

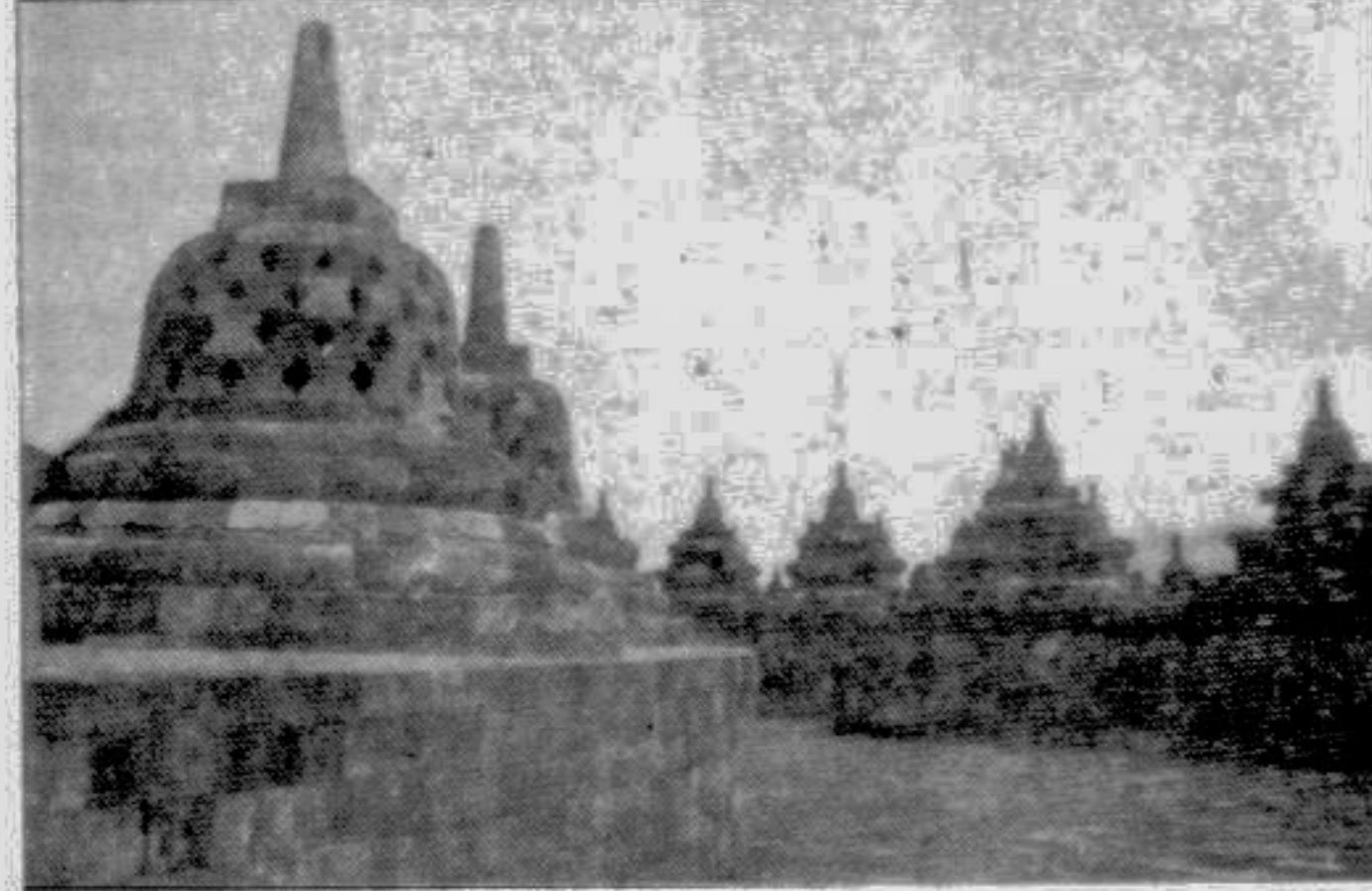
THE number of tourists visiting Indonesia has increased steadily over the past few years and particularly rapidly since 1986. 2.6 million tourists visited the Republic in 1991, an increase of 18.08 per cent over 1990. It is estimated that 2.9 million

tourists visited Indonesia in 1992, 11.5 per cent above the level of 1991. It is also estimated that tourists spent over US\$ 2.5 billion in 1991 exclusive of airfares, an increase of more than 19.6 per cent over the previous year. In 1991, the largest number of

tourists arrived from Singapore followed by Malaysia, Japan, Australia and the United Kingdom. The average length of stay in 1991 was 12 nights per person. Indonesia has 142 international standard hotels providing approximately 43,000 rooms. In Jakarta, there are eight five-star hotels with 3,876 rooms and five four-star hotels with 1,667 rooms. A number of further five-star hotels are currently under construction in Jakarta.

Tourism information offices are located in Frankfurt, Los Angeles, Singapore, Sydney and Tokyo. A Co-operative Agency for the Promotion of Indonesian Tourism (BKPTI) has recently been established by the Directorate General of Tourism and various private tourism organizations. Particular emphasis has been placed on developing tourism in Bali where a number of international standard hotels have been constructed over the past few years. There are presently 60 international standard hotels with 5,720 rooms in Bali. Construction of a number of further luxury hotels is underway, particularly at the Nusa Dua tourist resort on the southern tip of Bali.

To facilitate tourist travel to Bali, Garuda, the state-owned airline in co-operation with foreign flag carriers, has routes linking Denpasar with a number of major cities including Amsterdam, Tokyo, Honolulu, Taipei, Hong Kong, Bangkok, Kuala Lumpur and Singapore.



Borobudur temple



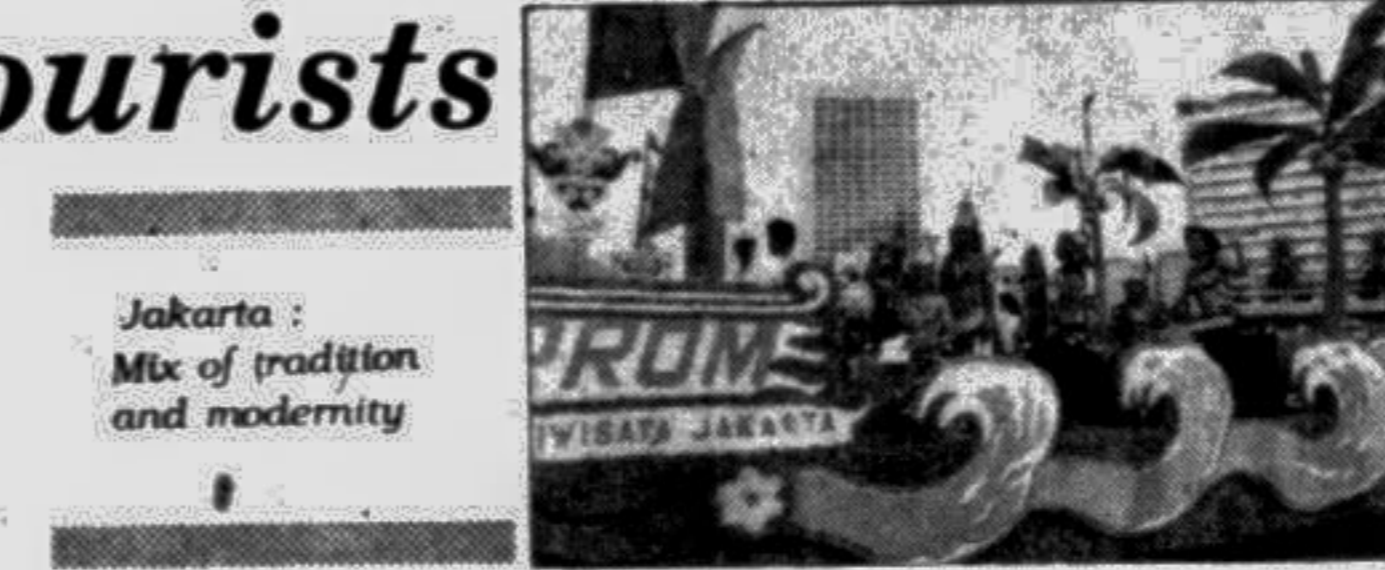
Yogyakarta - Foremost cultural centre of Java.



Samolana Island: Place of interest



Fauna familiar to both Asia and Australia are found in Indonesia



## Land and Climate

Indonesia is the largest archipelago in the world. It consists of five major islands and about 30 smaller groups. Altogether there are 13,667 islands and islets, of which about 6,000 are inhabited. The archipelago is on a crossroad between two oceans, the Pacific and the Indian, and bridges two continents, Asia and Australia. This strategic position has always influenced the cultural, social, political and economic life of the country.

The five main islands are: Sumatra which is about 473,606 sq km in size; the most fertile and densely populated islands, Java/Madura, 132,107 sq km; Kalimantan, which comprises two-thirds of the island of Borneo and measures 539,460 sq km; Sulawesi, 189,216 sq km; and Irian Jaya, 421,981 sq km, which is part of the world's second largest island, New Guinea. Indonesia's other islands are smaller in size.

The archipelago is divided into three groups. The islands of Java, Sumatra and Kalimantan, and the small islands in-between, lie on the Sunda Shelf which begin on the coasts of Malaysia and Indo China, where the sea depth does not exceed 700 feet. Irian Jaya which is part of the island of New Guinea, and the Aru Islands lie on the Sahul Shelf, which stretches northwards from the Australian coast. Here the sea depth is similar to that of the Sunda Shelf.

The climate and weather of Indonesia is characterized by two tropical seasons, which vary with the equatorial air circulation (the Walker circulation) and the meridian air circulation (the Hadley circulation). The displacement of the latter follows the north-south movement of the sun and its relative position from the earth, in particular from the continents of Asia and Australia, at certain periods of the year. These factors contribute to the displacement and intensity of the Inter-tropical Convergence Zone (ITCZ) which is an equatorial trough of low pressure that produces Irian. Thus, the west and east monsoons, or the rainy and dry seasons, are a prevalent feature of the tropical climate.

## Education, Health and Social Welfare

Continued from page 8  
at the end of the First Plan to 14.6 million at the end of the Third Plan, of which an estimated 12.3 million were permanent acceptors. During the Fourth Plan period, the number of participants in the National Family Planning Programme increased to 18.8 million and in the Fifth Plan is anticipated to reach 21.5 million. In seeking new participants and maintaining present participants, a variety of services is provided. These include the provision of medical services such as the supply of contraceptives, post-natal services, information leading to the social acceptance of smaller families, training of field workers and administrators, logistical support and administration and evaluation of the programme. The programme began on Java, Madura and Bali and has since been extended to virtually the whole country.

Working conditions are regulated by the Labour Law, which is administered by the Department of Manpower. This stipulates the maximum number of working hours to be seven hours a day and forty hours a week. The law does not provide for fixed minimum wage rates.

The rehabilitation of rural housing is undertaken through Government-sponsored programmes, which covered some 1,000 villages during the Second Plan and was extended to 5,000 villages during the Third Plan. During the Fourth Plan, rural housing in some 7,500 villages was improved under these programmes and in the Fifth Plan period it is estimated that 20,000 villages, involving 300,000 houses, will be covered. To date during the Fifth Plan, the rehabilitation of rural houses in some 4,104 villages has taken place. Low-cost urban housing has been developed by the State Urban and Housing Department Corporation, Perumnas, which built 103,654 units during the Third Plan period. In the Fourth

Plan period, 343,425 urban housing units were built, of which 88,411 were built by Perumnas. In the Fifth Plan, it is estimated that 450,000 units of low-cost housing will be constructed, of which 120,000 units are expected to be built by Perumnas. To date during the Fifth Plan 194,246 urban housing units have been built, of which 28,812 have been built by Perumnas.

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