Indonesian Economy Attains Robust Growth

Continued from page 8

investments reached US$ 154.1 billion.

The broad-based manufacturing sector has been the main beneficiary, attracting two-thirds of cumulative domestic approvals and 68 per cent of cumulative approved foreign investment to April 1996. For domestic investors, the chemicals, textiles, non-metallic minerals and paper industries have attracted the largest amounts of approved investment; while for foreign investment chemicals, paper and pulp and metal goods have led in terms of the value of approved investments. The rapidly expanding services sector, however, has attracted growing interest accounting for 21.1 per cent of the cumulative value of domestic approvals and 25.4 per cent of cumulative approved foreign investment to April 1996.

More than 40 countries are investing directly in Indonesia. Among those, Japan led with US$ 27 billion of approved investment by the end of 1995, followed by the UK with US$ 20.7 billion, Hong Kong US$ 16.4 billion, Singapore US$ 15 billion, the USA $11.5 billion, the Netherlands US$ 8.6 billion and Taiwan US$ 8.1 billion.

Compared with investments in the petroleum sector and projects under the capital investment laws, direct investment in the financial sector has been relatively small. The significance of such investment, however, lies not so much in its volume as in the impact it has had on asset formation and fund mobilisation. This is particularly illustrated by the banking sector. In 1987, the year before the commencement of major deregulation of the finance sector, the state banks dominated with 65 per cent of total bank assets of Rp. 48.2 trillion; 62 per cent of accumulated funds worth Rp. 29.3 trillion; and 69 per cent of the Rp. 31.5 trillion in outstanding credit. Eight years later, at the end of December 1995, and following the opening of banking to more domestic and foreign firms, the private sector (private national, joint-venture and branches of foreign banks) accounted for 57.3 per cent of a vastly increased asset base of Rp. 298.7 trillion; 61 per cent of the Rp. 214.7 trillion of commercial bank funds; and 57.9 per cent of total outstanding credit amounting to Rp. 234.6 trillion.

Of the Rp. 815 trillion investment requirement through Repelita VI, approximately 23 per cent is expected to be provided from central government resources (the state budgets) with the bulk (77 per cent) coming from a mix of private savings, state enterprises own funds and funds generated on their own account by the regional governments of Indonesia's 27 provinces.

A new deregulation package was announced in June 1996, focusing on labour intensive and export industries and, more generally, on enhancing the efficiency of the domestic industrial base. In the meantime, opportunities for new direct investment range across all major sectors of the economy — from oil and gas exploration and processing, agriculture and mining-based industries, high-tech capital goods, chemicals and electronics to infrastructure projects.

Economic Growth

Indonesia has achieved a remarkable transformation of its economy over the past three decades. The Indonesian economy today is growth-oriented and outward-looking driven primarily by the manufacture of diversified products for international markets.

Hailed by the World Bank as one of the best economic performances in the developing world, robust economic growth during the 25 years of Indonesia's First Long-Term Development Plan (1968/69-1993/94) made possible significant advances in human resources development, social welfare and poverty reduction. Over the period, average GDP growth reached 6.8 per cent, inflation averaged less than 10 per cent and absolute poverty was reduced from 60 per cent of the population to less than 14 per cent. More recent evidence, based on a revision of Indonesia's national accounts to 1993 prices shows the economy as having grown at an even faster rate than previously thought. Average annual GDP growth over the five years to 1993 reached 8.3 per cent, followed by an estimated 7.5 per cent in 1994 and almost 8.1 per cent in 1995.

Originally, Indonesia's current (Sixth Five-Year Development Plan — Repelita VI) projected economic growth averaging 6.2 per cent a year together with further advances in human resource development, social welfare and poverty reduction. In the light of the more rapid expansion achieved in recent years, the Government has revised the projected average annual growth rate for Repelita VI to 7.1 per cent.

Achievement of many of the ambitious targets set for Repelita VI calls for a major investment effort, in terms of both quantity and quality. Previously, the Government had determined that some, Rp. 660 trillion (approximately US$ 300 billion at the end of 1994 US$/Rupiah exchange rate) in new capital funds would be required to finance new and upgraded development projects over the five fiscal years to 1998/99. In line with the projected higher growth rate, that requirement has also been revised upwards to Rp. 815 trillion (approximately US$ 370 billion). The magnitude of the requirement poses major challenges for Indonesia in terms of boosting public and private sector savings and in maintaining the macro-economic stability so vital to attracting and encouraging new investment.

Since its inception as an independent nation, Indonesia has operated a mixed economy, in which private businesses have been allowed to operate alongside a variety of state-owned enterprises, public utilities and other government-directed monopolies. In the early years of independence, however, private enterprise was limited to the relatively small number of businesses established before independence.

Later, during the early years of the New Order Administration under President Soeharto, Indonesian policy makers embarked upon the initial steps towards a stronger application of market principles, based on a larger private sector role in the economy. A legislative framework was put in place as weakly as 1967 with the enactment of the Foreign Capital Investment Law of that year (subsequently amended by the Foreign Investment Law of 1970), and the Domestic Capital Investment Law of 1968 (also amended in 1970).

Trade Deregulations

Beginning in 1983 with the first measures for reform of the financial sector, deregulation has not only subsequently been extended to the rules directly governing investment but has also influenced investment decisions by embracing trade policy and the reduction of domestic protection.

Since the mid-1980s, most of the changes in trade policy have been implemented through a series of almost annual deregulation packages whose main feature has been the reduction of the coverage on non-tariff barriers (NTBs — principally import licensing — on imports. The packages have progressively brought about a significant reduction in the average tariff level and the overall share of production protected by NTBs.

The trade deregulation package introduced in May 1995, for example, provided for a near across-the-board five percentage points (10 percentage points for tariffs of 40 per cent) reduction in import duties. Specifically, tariffs on 4,500 items were reduced by five percentage points; on 1,050 items by 10 percentage points; and on 500 items by 15 to 35 percentage points. In addition, tariffs on 249 items were eliminated; surcharges on 45 items abolished and reduced on 50 others; and restrictive import licenses (NTBs) on 69 items were converted to tariff surcharges of between 5 and 10 per cent.

The May 1995 package also marked a significant departure from previous trade measures which not only effected immediate tariff reductions but was accompanied by a schedule for future tariff reductions through the year 2003. On this programme, tariffs below 20 per cent will be reduced to five per cent by the year 2000; while tariffs in excess of 20 per cent will be reduced to 20 per cent by 1998 and to 10 per cent by 2003.

The immediate effect of the May package was to reduce the average tariff plus surcharge to 15 per cent — a cut of 4 percentage points or 25 per cent over the previous level. The level of protection afforded to domestic production and to imports are also estimated to have fallen by 20 per cent and 25 per cent respectively.

Heartiest Felicitations on
51st Anniversary of Independence
of
The Republic of Indonesia

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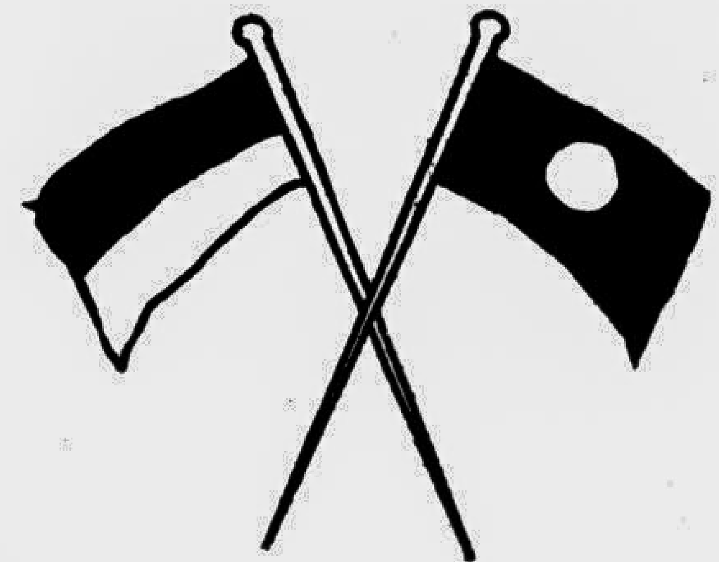

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Continued from page 8

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