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INDONESIA

Key Economic Indicators

(Billions of dollars unless otherwise indicated)

	1998	1999	2000	
Income, Production and Employment: 1/				
Nominal GDP	94	142	156	
Real GDP Growth (pct)	-13.2	0.3	4.0	
GDP by Sector:				
Agriculture	18.4	27.8	28.0	
Manufacturing	23.4	36.2	39.0	
Services	35.7	56.9	58.0	
Government	4.1	7.2	7.6	
Per Capita GDP (US$)	465	682	760	
Labor Force (millions)	92.6	94.8	96.5	
Unemployment Rate (pct)	4.7	6.3	6.2	2/
Money and Prices (annual percentage growth):				
Money Supply (M2) (pct)	62.3	8.8	12.1	
Consumer Price Inflation (pct)	75.0	2.0	7.6	
Exchange Rate (Rupiah/US$ annual average)	10,014	7,855	8,290	
Balance of Payments and Trade:				
Total Exports FOB	50.4	48.6	61.1	
Exports to U.S.	9.3	9.5	9.7	
Total Imports CIF	27.3	24.0	35.5	
Imports from U.S.	2.3	2.0	2.5	
Trade Balance	23.1	24.6	25.6	
Balance with U.S.	7.0	7.5	7.2	
External Public Debt	71.4	80.7	91.2	
Debt Service Payments/GDP (pct)	7.6	6.5	6.9	
Current Account Balance/GDP(pct)	3.9	4.1	4.8	3/
Fiscal Deficit/GDP (pct)	2.2	6.8	4.8	3/
Gold and Foreign Exchange Reserves (end of period)	23.5	27.1	27.2	
Aid from U.S. (millions of US$)	135	139	205	
Aid from All Other Sources	5.2	7.8	4.2	4/

1/ 2000 GDP figures are GOI estimates. Annual variations partly due to exchange rate fluctuations.

2/ Official GOI Estimate of open unemployment. Does not measure underemployment.

3/ Indonesian Fiscal Year. 4/ 2000 number is amount pledged (Apr - Dec)
Sources: Government of Indonesia, U.S. Department of Commerce (for trade with U.S.), IMF (exchange rates), U.S. Agency for International Development (for bilateral assistance).

1. General Policy Framework

Three years after the Asian financial crisis devastated the Indonesian economy and precipitated the fall of President Soeharto, Indonesia's reform process remains incomplete. The country is caught between the remnants of the old autocracy and full democracy and open markets. The high hopes for rapid, all-encompassing change that accompanied the October 1999 elections of President K.H. Abdurrahman Wahid and Vice President Megawati Soekarnoputri have faded.

Indonesia is the world's fourth largest country and the anchor of Southeast Asia politically and economically. The country has a strategic location, a large labor force earning relatively low wages and abundant natural resources. The government faces daunting economic problems that must be addressed if it is to regain the economic stability and growth the country enjoyed until 1997. Urgent tasks include completing the reform and democratization of government institutions; resolution of current and potential conflicts (Aceh, West Timor, Moluccas, Papua); fiscal and political decentralization; establishment of civilian control over the military; reform of the justice sector, including bringing Soeharto-era criminals to justice; eradicating corruption; maintaining and advancing economic policy deregulation; and improving the investment climate.

The IMF-supported stabilization and recovery program has been the overriding fact of economic life in Indonesia since November 1997. However, the government has often been slow to implement its commitments. For example, although the Indonesian Bank Restructuring Agency (IBRA) has completed the recapitalization of the banking system, it has been slow to dispose of assets acquired in the debt-restructuring process and to move against uncooperative debtors.

Despite the continued policy disarray, Indonesia's real economy began to recover in 2000, led largely by a release of pent-up consumer demand and surging exports. In the first seven months of 2000, Indonesia's exports were up 34 percent over the same period of 1999. Observers expect overall real GDP growth to reach four percent in 2000, a marked improvement over the zero growth in 1999, but output is still below its immediate pre-crisis level. The country retains its solid export foundation of oil, gas, minerals and agricultural commodities such as coffee, tea, rubber, timber, palm oil and shrimp. Regions such as Sumatra and Sulawesi that have strong, agricultural commodity-based economies survived the crisis with only minor disruptions. Indonesian exports to the United States have remained steady throughout the crisis at more than $9 billion annually. Imports from the United States, which fell by almost half between 1997 and 1998, have begun to recover and should reach $2.5 billion in 2000.

The Indonesian government has historically maintained a "balanced" budget: expenditures were covered by the sum of domestic revenues and foreign aid and borrowing, without resort to domestic borrowing. Often the government ended the year with a slight surplus. This remains the government's long-term goal. However, the financial crisis, especially the bank recapitalization program, has placed a heavy burden on government finances. Interest payments on domestic debt, which before the crisis was almost zero, are estimated to reach Rp 55 trillion ($6.4 billion) or 19 percent of total spending in FY-2001**.** The government expects the gap between domestic revenues and expenditures to remain for several years although the rise in oil prices starting in late 1999 relieved budgetary pressure in 2000. The budgetary gap in the FY-2001 is targeted at approximately 3.7 percent of GDP.

In parallel with its fiscal policy, the Indonesian government earned a reputation for prudent monetary policy that helped keep consumer price inflation in the single digits. However, the massive depreciation of the rupiah that began in mid-1997 and huge liquidity injections into the banking system contributed to significant inflation. Indonesian monetary authorities dampened pressure on prices and the exchange rate by significantly tightening monetary policy. There are signs that inflation may be creeping back up as the government slowly releases the brakes on the money supply.

The government made steady progress in trade and investment deregulation during the decade preceding the financial crisis. Periodic deregulation packages of liberalization measures lowered investment barriers and instituted a program of comprehensive tariff reduction by staged cuts. The goal is to reduce all tariffs in the 1 to 20 percent range to 5 percent or less by 2000, and to reduce all tariffs in the 20 percent and higher range to 10 percent or less by 2003. Although the deregulation packages made comparatively less progress in reducing non-tariff barriers, the government's collaboration with the International Monetary Fund (IMF) since November 1997 prompted much bolder measures, ending most import monopolies and gradually opening Indonesia's closed distribution system. Domestic interests continue to press for protection in specific sectors.

2. Exchange Rate Policies

In August 1997 the government eliminated the rupiah intervention band in favor of a floating exchange rate policy.

3. Structural Policies

In October 1997 deteriorating conditions led Indonesia to request support from the International Monetary Fund (IMF). The government signed its first Letter of Intent (LOI) with the IMF on October 31, 1997. The letter called for a three-year economic stabilization and recovery program, supported by loans from the IMF ($10 billion), the World Bank, the Asian Development Bank, and bilateral donors. Apart from financial support, the international community also offered detailed technical assistance to the government. Foreign governments and private organizations also contributed food and other humanitarian assistance.

Indonesia's agreement with the IMF has been revised repeatedly in response to deteriorating macroeconomic conditions and political changes. The result is a complex, multi-faceted program to address macroeconomic imbalances, financial weaknesses, real sector inefficiencies, and the loss of private sector confidence. President Wahid's first cabinet, installed in October 1999, signed a revised LOI in January 2000; after the cabinet reshuffle in August 2000, the new economic team endorsed the IMF-supported economic restructuring and recovery program with minor modifications.

Since 1998, the government has introduced several measures to improve governance. These include a Competition Commission that was inaugurated in September 2000 and various bodies to investigate and prevent corruption, collusion and nepotism.

4. Debt Management Policies

Indonesia's foreign debt totaled about $162 billion as of July 2000, with about $80 billion owed by the public sector and $82 billion by the private sector. Indonesia and the Paris Club group of official creditors agreed to a second rescheduling agreement for official debt in April 2000 covering $5.8 billion in principal payments falling due from April 1, 2000 to March 21, 2002. In late September Bank Indonesia reached a parallel agreement with the London Club of commercial creditors to reschedule $340 million in principal installments on two standby loans received from a syndication of banks in 1994 and 1995.

In 1999 the government introduced a monitoring system to collect information on all foreign exchange transactions, including foreign borrowing. Borrowing in connection with state-owned enterprises has been regulated since 1991. The government continues to assert that it will not impose capital controls. It is also taking preliminary steps to establish a debt management unit at the Ministry of Finance.

5. Significant Barriers to U.S. Exports

In recent years, Indonesia has liberalized its trade regime and taken a number of important steps to reduce protection. Since 1996, the government has issued a series of deregulation packages that have reduced overall tariff levels, simplified the tariff structure, removed restrictions, replaced nontariff barriers with more transparent tariffs, and encouraged foreign and domestic private investment.

Given Indonesia's ongoing economic reform program, the country's tariff regime is in rapid flux. Indonesia's applied tariff rates range from 5 to 30 percent, although bound rates are, in many cases, much higher. The major exception to this range are the 170 percent duty applied to all imported distilled spirits and the tariffs on motor vehicles and motor vehicle kits (see below). Consecutive IMF programs in which Indonesia committed to implement a three-tier tariff structure of zero, five or ten percent on all imported products except motor vehicles and alcoholic beverages have reinforced the long-term liberalization policy. Indonesia also committed to eliminate all nontariff barriers except those imposed for health or safety reasons by the end of 2001. A further impetus to tariff liberalization is the ASEAN Free Trade Agreement under which ASEAN members committed to a Common Effective Preferential Tariff (CEPT) scheme for most traded goods by 2003. Indonesia implemented the first stage of its AFTA tariff reductions as of January 1, 2000 reducing tariffs on the agreed range of products to five percent or less. In June 2000 the government implemented an overdue 1999 tariff cut package, which included 708 tariff lines and 22 product sectors. This package also implemented Indonesia's final commitment under the 1996 WTO Information Technology Agreement (ITA).

Import tariffs on vehicles were lowered in June 1999 to 65 to 80 percent (depending on engine size) for completely built-up sedans, 5 to 40 percent for trucks, and 35 to 65 percent for motorcycles. Rates for parts were also reduced to a maximum 15 percent. Luxury taxes for sedans range from 35 to 50 percent.

Services trade barriers to entry continue to exist in many sectors, although the government has loosened restrictions significantly in the financial sector. Foreign law firms, accounting firms, and consulting engineers must operate through technical assistance or joint venture arrangements with local firms.

Indonesia is liberalizing its distribution system, a trend that could accelerate as it implements its IMF-supported program, which includes a commitment to remove restrictions on trade in the domestic market. For example, restrictive marketing arrangements for cement, paper, cloves, other spices, and plywood were eliminated in February 1998. Indonesia has opened its wholesale and large-scale retail trade to foreign investment, lifting most restrictions in March 1998. Some retail sectors are still reserved for small-scale enterprises under another 1998 decree. Large and medium scale enterprise that wish to invest in these sectors must enter into a partnership agreement with a small-scale enterprise although this may not require a joint venture or partial share ownership arrangement

Investment Barriers: The government is committed to reducing burdensome bureaucratic procedures and substantive requirements for foreign investors. In 1994 the government dropped initial foreign equity requirements and sharply reduced divestiture requirements. Indonesian law provides for both 100 percent direct foreign investment projects and joint ventures with a minimum Indonesian equity of five percent. In July 2000 the government revised its so-called "negative investment list." While most of the changes were minor, the decree included two controversial provision banning foreign investment in the "multimedia sector" (i.e. the Internet) and reducing the cap on foreign investment in the telecommunications sector from 95 percent to 49 percent. Under a torrent of criticism from the affected industries, the government revoked these provisions three weeks later. Sectors that remain closed to all foreign investment include taxi and bus transportation, local marine shipping, film production, distribution and exhibition, radio and television broadcasting and newspapers, some trade and retail services and forestry concessions. The government removed foreign ownership limitations on banks and on firms publicly traded on Indonesian stock markets.

The Capital Investment Coordinating Board (BKPM) must approve most foreign investment proposals. Investments in the oil and gas, mining, forestry, and financial services sectors are covered by specific laws and regulations and handled by the relevant technical ministries. Approval procedures will be modified as the government implements political and fiscal decentralization starting January 1, 2001.

Government Procurement Practices: In February 2000 the government enacted Presidential Decree (Keppres) No. 18/2000 establishing new technical guidelines for government procurement of goods and services. The decree establishes set-aside for small- and medium-sized enterprises according to the size of the procurement. Foreign suppliers are restricted to contracts worth over Rp. 10 billion ($1.2 million) for goods/services and over Rp. 2 billion ($230,000) for consulting services. A foreign supplier is required to cooperate with a small- or medium-sized company or cooperative in the implementation of the contract. Most large government contracts are financed by bilateral or multilateral donors who specify procurement procedures. For large projects funded by the government, international competitive bidding practices are to be followed. The government seeks concessional financing which includes a 3.5 percent interest rate, a 25-year repayment period and seven-year grace period. Some projects do proceed on less concessional terms. Foreign firms bidding on certain government-sponsored construction or procurement projects may be asked to purchase and export the equivalent in selected Indonesian products. Government departments and institutes and state and regional government corporations are expected to utilize domestic goods and services to the maximum extent feasible, but this is not mandatory for foreign aid-financed goods and services procurement. State-owned enterprises that have offered shares to the public through the stock exchange are exempted from government procurement regulations.

6. Export Subsidies Policies

Indonesia joined the GATT Subsidies Code and eliminated export-loan interest subsidies as of April 1, 1990. As part of its drive to increase nonoil and gas exports, the government permits restitution of VAT paid by a producing exporter on purchases of materials for use in manufacturing export products. Exemption from or drawbacks of import duties are available for goods incorporated into exports. Free trade zones and industrial estates are combined in several bonded areas. Since 1998, the government has gradually increased the share of production that firms located in bonded zones are able to sell domestically, up to 100 percent.

7. Protection of U.S. Intellectual Property

Indonesia is a member of the World Intellectual Property Organization (WIPO) and in 1997 became full party to the Paris Convention for the Protection of Intellectual Property, the Bern Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, and the Trademark Law Treaty. Indonesia was the first country in the world to ratify the WIPO Copyright Treaty, but has not ratified the companion WIPO Performances and Phonograms Treaty. In April 2000 the U.S. Trade Representative placed Indonesia on the Special 301 Watch List in recognition of the progress that had been made on the legal regime but noted in its report the continuing crippling weaknesses in Indonesia's IPR enforcement regime.

Among the serious deficiencies in Indonesia's intellectual property regime are rampant piracy of software, books, and videos, trademark piracy and an inconsistent enforcement and ineffective legal system. In order to bring Indonesia's laws into compliance with the TRIPS Agreement, the Indonesian government drafted (but not enacted as of October 2000) new laws on protection of trade secrets, industrial design and integrated circuits to complement existing laws on patents, trademarks and copyrights. Even with the new laws in place inadequate enforcement and a non-transparent judicial system unfamiliar with intellectual property law will pose daunting problems for U.S. companies. The Indonesian government often responds to U.S.

companies with specific complaints about pirated goods or trademark abuse, but the Indonesian court system can be frustrating and unpredictable, and effective punishment of pirates of intellectual property has been rare.

Indonesia’s 1997 Patent Law addressed several areas of concern to U.S. companies, including compulsory licensing provisions, a relatively short term of protection, and a provision that allowed importation of 50 pharmaceutical products by non-patent holders.

8. Worker Rights

a. *The Right of Association:* Private sector workers, including those in export processing zones, are by law free to form worker organizations without prior authorization. In August 2000 the government enacted a new law governing trade unions that continued a trend since 1998 toward removing barriers to freedom of association. Some labor organizations criticized the new law for maintaining some existing restrictions on unions. Since 1998, more than 20 new or previously unrecognized unions have formed. The courts may dissolve a union under the 2000 law if union members are convicted of crimes against the state.

Civil servants are no longer required to belong to KORPRI, a nonunion association whose central development council is chaired by the Minister of Home Affairs. State enterprise employees, defined to include those working in enterprises in which the state has a five percent holding or greater, usually were KORPRI members in the past, but a small number of state enterprises have units of the Federation of All-Indonesian Trade Unions (SPSI). New unions are now seeking to organize employees in some state-owned enterprises. Teachers must belong to the teachers' association (PGRI). All organized workers except civil servants have the legal right to strike. Private sector strikes are frequent.

b. *The Right to Organize and Bargain Collectively:* Registered unions can legally engage in collective bargaining and can collect dues from members through a checkoff system. In companies without unions, the government discourages workers from utilizing outside assistance, preferring that workers seek its assistance. By regulation, negotiations must be concluded within 30 days or be submitted to the Department of Manpower for mediation and conciliation or arbitration. Agreements are for two years and can be extended for one year. According to NGOs involved in labor issues, the provisions of these agreements rarely go beyond the legal minimum standards established by the government, and the agreements are often merely presented to worker representatives for signing rather than being negotiated.

Although government regulations prohibit employers from discriminating or harassing employees because of union membership, there are credible reports from union officials of employer retribution against union organizers, including firing, which is not effectively prevented or remedied in practice. Administrative tribunals adjudicate charges of antiunion discrimination. However, because many union members believe the tribunals generally side with employers, many workers reject or avoid the procedure and present their grievances directly to the national human rights commission, parliament and other agencies. Security forces continue to involve themselves in labor issues, despite the Minister of Manpower's revocation in 1994 of a 1986 regulation allowing the military to intervene in strikes and other labor actions.

c. *Prohibition of Forced or Compulsory Labor:* The law forbids forced labor, and the government generally enforces it. However, according to credible sources, there are several thousand children working on fishing platforms off the East Coast of North Sumatra in conditions of bonded labor. Most are recruited from farming communities, and once they arrive at the work site, are not permitted to leave for at least three months and until a replacement worker can be found. In 1999 the government ratified ILO Conventions 105 (Forced Labor) and began removing children from the fishing platforms.

d. *Minimum Age for Employment of Children:* Child labor exists in both industrial and rural areas, and in both the formal and informal sectors. According to a 1995 report of the Indonesian Central Bureau of Statistics, four percent of Indonesian children between the ages of 10 and 14 work full-time, and another four percent work in addition to going to school. Many observers believe that number to be significantly understated, because documents verifying age are easily falsified, and because children under 10 were not included. Indonesia was one of the first countries to be selected for participation in the ILO's International Program on the Elimination of Child Labor (IPEC). Although the ILO has sponsored training of labor inspectors on child labor matters under the IPEC program, enforcement remains lax. In April 1999 the government ratified ILO Convention 138, which establishes a minimum working age of 15, and in March 2000 the government ratified ILO convention 182 on the Elimination of the Worst Forms of Child Labor.

e. *Acceptable Conditions of Work:* Indonesia does not have a national minimum wage. Rather, area wage councils working under the supervision of the national wage council establish minimum wages for regions and basic needs figures for each province, a monetary amount considered sufficient to enable a single worker to meet the basic needs of nutrition, clothing, and shelter. In Jakarta, the minimum wage is about $40 (Rp. 344,000) per month (at an exchange rate of Rp 8500 to the dollar). There are no reliable statistics on the number of employers paying at least the minimum wage. Independent observers' estimates range between 30 and 60 percent.

Labor law and ministerial regulations provide workers with a variety of other benefits, such as social security, and workers in more modern facilities often receive health benefits, free meals, and transportation. The law establishes seven-hour workdays and 40-hour workweeks, with one 30-minute rest period for each 4 hours of work. The law also requires one day of rest weekly. The daily overtime rate is 1-1/2 times the normal hourly rate for the first hour, and twice the hourly rate for additional overtime. Observance of laws regulating benefits and labor standards varies from sector to sector and by region. Employer violations of legal requirements are fairly common and often result in strikes and employee protests. In general, government enforcement and supervision of labor standards is weak. Both law and regulations provide for minimum standards of industrial health and safety. In the largely western-operated oil sector, safety and health programs function reasonably well. However, in the country's 100,000 larger registered companies in the non-oil sector, the quality of occupational health and safety programs varies greatly. The enforcement of health and safety standards is severely hampered by corruption, by the limited number of qualified Department of Manpower inspectors and by the low level of employee appreciation for sound health and safety practices. Workers are obligated to report hazardous working conditions. Employers are forbidden by law from retaliating against those who do, but the law is not effectively enforced.

f. *Rights in Sectors with U.S. Investment:* Working conditions in firms with U.S. ownership are widely recognized as better than the norm for Indonesia. Application of legislation and practice governing worker rights is largely dependent upon whether a particular business or investment is characterized as private or public. U.S. investment in Indonesia is concentrated in the petroleum and related industries, primary and fabricated metals (mining), and pharmaceutical sectors.

Foreign participation in the petroleum sector is largely in the form of production sharing contracts between the foreign companies and the state oil and gas company, Pertamina, which retains control over all activities. All direct employees of foreign companies under this arrangement are considered state employees and thus all legislation and practice regarding state employees generally applies to them. Employees of foreign companies operating in the petroleum sector are organized in KORPRI. Employees of these state enterprises enjoy most of the protection of Indonesia labor laws but, with some exceptions, they do not have the right to strike, join labor organizations, or negotiate collective agreements. Contract workers in the petroleum sector do have the right to organize and have joined independent trade unions. A 1995 Minister of Manpower regulation exempts the petroleum sector from legislation requiring employers to give permanent worker status to workers who have worked for the company under short-term contracts for more than three years. Some companies operating under other contractual arrangements, such as contracts of work and, in the case of the mining sector, coal contracts of work, do have unions and collective bargaining agreements.

Regulations pertaining to child labor and child welfare are applicable to employers in all sectors. Employment of children and concerns regarding child welfare are not considered major problem areas in the petroleum and fabricated metals sectors. Legislation regarding minimum wages, hours of work, overtime, fringe benefits, health and safety applies to all sectors. The best industrial and safety record in Indonesia is found in the oil and gas sector.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		7,378
Total Manufacturing		66
Food & Kindred Products	20	
Chemicals & Allied Products	79	
Primary & Fabricated Metals	5	
Industrial Machinery and Equipment	-21	
Electric & Electronic Equipment	19	
Transportation Equipment	(1)	

Other Manufacturing	(1)
Wholesale Trade	8
Banking	287
Finance/Insurance/Real Estate	287
Services	53
Other Industries	2,424
TOTAL ALL INDUSTRIES	10,504

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.