A GLANCE AT ECONOMIC GROWTH IN INDONESIA

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INTRODUCTION

The Republic of Indonesia is the world's largest archipelagic state of about 13,700 islands stretching from Malay peninsula to New Guinea between mainland of Southeast Asia and Australia. The total land area is 1,919,400 square kilometers. Indonesia is ranked as the world's fourth most populous nation after China, India and the United States. The estimated population of 1994 is 200,409,714. The Indonesian economy grew rapidly, aided by oil revenue, timber export to Japan, and the Green Revolution in rice agriculture. Foreign investment helped industrial development, which was shaped, however, by domestic content laws and other trade restrictions. In recent years, declining oil revenues have been partly compensated by the growth of industry and tourism. President Suharto remains in power, at the head of the Golkar united-front party.

SOCIAL AND ECONOMIC SUCCESSES

Indonesia has experienced political stability and steady economic growth for over a generation since General Suharto became president in 1986. The economic success is partly due to the declining of birth rate. Earlier projections had estimated that the population would reach 280 million by the year 2001, but the World Bank set the total for the year 2000 at 209 million. Indonesia would be one of the population centers of the world, but its problematic population growth rate was under control.

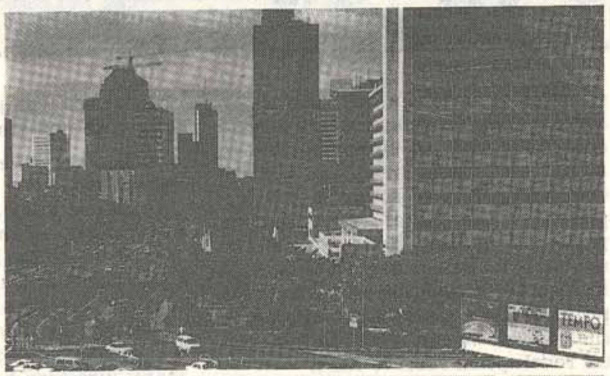
As stated by James C.Abegglen, professor of International Business at Sophia University in Tokyo, Indonesia's gross domestic savings increased from 8 to 36 percent of GNP between 1967 and 1991, And these savings advanced the investment that pushed the economy to grow.

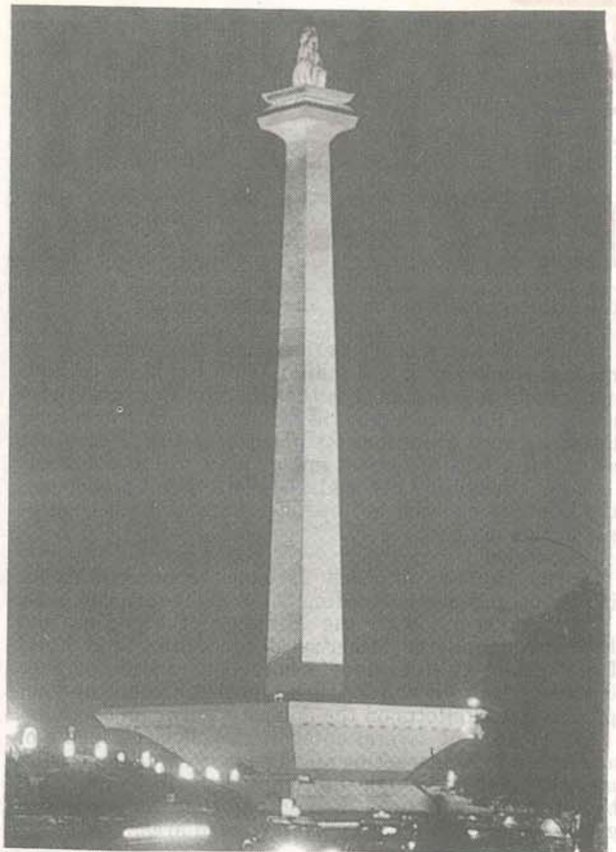
With the economic growth has the standard of living been rising. The middle class population with per capita income of US$900 was estimated at 14 million in 1995.

Indonesian economy is at the point of takeoff. With a massive population, considerable resources, eased restrictions on investment and private initiatives, economic progress will continue. Once dominated by agriculture, then by energy and mining, Indonesian economy today is a privatized, diversified marketplace with more than two-thirds of all activities in manufacturing, construction, transport, communications and services. As foreign investment provides needed capital and the 74.4 million-person labor force continues to make gains in education, manufacturing should lead Indonesia's ongoing growth in exports, which rose by 55 percent in comparison with its imports of 42 percent from 1990 to 1994. Oil and gas remain major exports. Other exports now account for more than 70 percent of the country's export earnings. They consist of chemicals, electronic equipment, garments, textiles, plywood, rubber, coffee, spices and fishery products.

Foreign investment in the first quarter of 1995 was nearly half that for all of 1994, thanks in part to the deregulation designed to attract Japanese companies. Japan is a fundamental partner in Indonesia's economic growth. Trade with Japan is 40 percent of the nation's total trade. Nearly two-thirds of all aid is from Japan, and one-third of all foreign direct investment in Indonesia is made by Japanese companies. Japanese are laying down the foundations for major market positions as Indonesia comes to the turn of the century.

Bilateral trade between Indonesia and the United State is growing. Currently, American imports of Indonesian goods (US$5.8 billion in 1994)





are two-thirds of American exports to Indonesia (US$3.5 billion). This surplus has been increased recently.

BIGGER STEPS IN BURGEONING PROSPERITY

President Suharto was determined to put Indonesia on a more competitive path. To get rid of trade tariff within the Association of South East Asian Nations by 2000, Indonesia has been taking stronger steps than many other Asian nations. President Suharto removed tariffs on 6,000 imports by as much as 50 percent on May 23,1995. To modernize Indonesia eleven months earlier, he had opened key service sectors, such as telecommunications and power generation, to private investment. The results were US$6 billion worth of tentative deals with six international telephone companies and a US$2.5 billion contract to build a power plant with the American and Japanese investors.

Telecommunication project is planned to install 5 million new telephone lines in 1999. Indonesia is the first developing country to launch a telecommunication satellite in the mid-1970s. And the direct satellite broadcast will be on line in 1996. A World Bank estimate states that Indonesia will spend US$82 billion by 2004 on power generation and US$2 billion on water and sanitation projects. In the next five years, Indonesia plans to add 12,000 megawatts of general electricity, approximately doubling its capacity.

Since 1986, Indonesia has reformed its trade policy to increase domestic competition. In January, 1995, Indonesia issued new tax laws, among which is a reduction in the tax rate on corporate interest earnings to 15 percent. Domestic companies need only 51 percent Indonesian ownership or 45 percent Indonesia ownership and 20 percent held through an Indonesian stock exchange. The Jakarta Stock Exchange took off after the Suharto government passed a financial deregulation package that allowed, among other things, foreign investors to acquire up to 49 per cent of the company's stock.

MAJOR DIFFICULTIES

The bottom-line gains and economic prospects mentioned above are key incentives for the economic growth in Indonesia. However Indonesia has to cope with obstacles to its development. Political favoritism and corruption are in a volatile mix. Nepotism and bribery often come under criticism from press. Red tape is a strong impediment to foreign investment. Bribes and connections are still the preferred ways to get things done in business. For President Suharto, to achieve his goals, he has to fight these challenges. This is a problem of political will, according to Thee Kian Wie, senior research associate at the Center for Economic & Development Studies, a state-run institute.

Another factors destabilizing Indonesian economy and politics is the striving for political power of Muslim fundamentalists. Their future pattern of religious fanaticism remains unclear and unstable.

Besides, the move of the new middle class toward greater political involvement is another cause of instability. "It's true that the Indonesian middle class has never had it so good as now, and their children are going overseas to study" said Harold Crouch, senior fellow in political science at the Australian National University in Canberra. "At the same time they are grumbling a lot". These students, many trained in the United States, have become elite technocrats, and paradoxically, they have been heavily relied on in the Suharto administration. They advocate for social progress through an accelerating evolution.

CONCLUSION

Indonesia is a rising Asian dynamo with a growing middle class, eagerly longing for more openness and sincere reflection. Free market reforms are the command of the day. Most political observers think the ruling Golkar Party will become stronger and President Suharto will be reelected by the new Parliament in 1998. What will emerge in the next term, many people hope, is a strong but tolerant government that is more responsive to the needs of a better informed and richer society. Indonesia might follow the path of South Korea and Taiwan, former military dictatorships that have evolved into middle class dominated democracies. With continuous economic growth, rising living standard, political stability, and pragmatic and non-ideological approach to dealing with problems, Indonesia could become a middle income country by the year 2000■