

# Indonesian Economic and Business Development

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## ABSTRACT

The economic and business development of Indonesia based on the history of development planning and developed up and down according to the international economic fluctuation is covered. Indonesian economic and business development was thought of as an economic miracle pre-crisis around mid 1997, with a 7% average economic growth. However Asian crisis put Indonesia in a difficult situation due to banking and economic crisis followed by political crisis. Since Susilo Bambang Yudoyono won the first direct election, the political climate has been better and can be a first step to establish economic and business development. Based on economic indicators there is a good sign that Indonesian economic and business will recover. However, due to some problems especially lack of legal system, law enforcement, public sector corruption and the legacy of political and economic crisis, Indonesia still faces a lot of difficulties.

**Keywords:** Economic development, business development, Asian crisis, Indonesia.

## Introduction

Business and economic development of Indonesia can be studied since the colonization years of Dutch and Japanese occupation. The Dutch colonized Indonesia around 350 years and Japan over 35 years. Dutch colonization put Indonesian economy as its source of raw material for industry and economy. Indonesia was ruled by the Dutch to realize its colonial economic interest. Japan also came to take resources to finance its war ambition. Then, based on the colonial economic structure, after its independence in 1945, Indonesia had to follow the model of Dutch economic development. At the initial period of its administration, the Indonesian government developed and nationalized the agricultural sector, especially plantation and mining. Chinese merchants filled the trading sector during the colonial era. After Soeharto took power in 1967 the government opened doors to foreign companies. Japan, USA and other countries came and brought money to invest in many sectors, especially in mining, manufacturing, and banking. For many years, Japan became the biggest foreign investor in Indonesia.

In 1997, Asian crisis hit Indonesian economy and become a disaster and went to deep political crisis. The new leader could not control the euphoria of democracy. The economy worsened. In 2004, Indonesia for the first time conducted a direct presidential election and Susilo Bambang Yudhoyono was elected as the first President chosen directly by people. The elected president is expected to be a strong leader to raise Indonesian economy as a miracle as it was during 1970-mid 1990.

This paper aims on discussing the development of economic and business in Indonesia. In this regard, the following sections will discuss the form of government, structure of population, state of the economic by macroeconomic and business indicators. In the end, the paper will discuss the relationship between Indonesia and Taiwan. The attachment provides the Procedures & Requirements to Establish Limited Liabilities Company under the Framework of Foreign Investment in Indonesia

## **General Information**

### ***General***

Indonesia is the largest archipelago in the world, having 13,667 islands, 300 tribes, and 336 ethnic groups. They speak more than 250 different languages and dialects. Indonesia is located between two oceans - the Pacific and the Indian Oceans. The main islands are Sumatra, Java, Kalimantan (Borneo), Sulawesi (Celebes) and Papua (formerly Irian Jaya). Indonesia stretches some 5,500 kilometers from east to west and 1600 kilometers from north to south. Indonesia is divided into 31 provinces with Jakarta the capital city, more than 241 Kabupaten (districts), and 3625 Kecamatan (sub districts). It is the fifth most populous country in the world. In 1997 Indonesia had a population of more than and a growth rate of 1.9 %. (Leong and Lim, 1992; Mann, 1994). Unlike Europe, America or Australia, which have four seasons, Indonesia has only dry and rainy seasons. Indonesia has an equatorial climate with temperatures ranging between 25 - 35 degree Celsius. In 1996 Indonesian earned US\$ 50 per year and 60% of the population lived in absolute poverty (Tambunan, no year)

### ***Population***

Indonesia is the most populous Muslim country in the world. The country in 2000 had a population of 206.264.595 and the estimated population in 2003 was 210 million. 87.3 % of this population is Muslim (See attachment 1 population of Indonesia by province 1971-2000). The percentage of Moslems and other religions in 1990 are:

Even though quantitatively Muslims are the majority, qualitatively, especially in politics, and in business, Muslims cannot do much to implement their teachings.

Since Independence, there has been a conflict between secular and religious supporters and until now the economy and politics have been controlled by non-Muslims, or at least by non-Islamic way of life. Unlike Malaysia where Islam is a formal state religion, in Indonesia Islam is not a state religion. Indonesia has Pancasila, or Five Basic Principles, as the state ideology.

**Table 1**  
**The Percentage of Population according to Sex and Religions 1990**

<i>Sexes</i>	<i>Religions</i>					
	<i>Islam</i>	<i>Catholics</i>	<i>Christian/ Protestant</i>	<i>Hindu</i>	<i>Buddha</i>	<i>Others</i>
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Male	87.1	3.6	6.1	1.8	1.1	0.3
Female	87.3	3.6	6.0	1.8	1.0	0.3
Male + Female	87.3	3.6	6.0	1.8	1.0	0.3

**Sources:** Indonesian Statistics Bureau 1990.

**Note:** The detailed population based on regions can be seen from appendices Tab1e-1.

The basic principles consist of: 1. Belief in one God; 2. Just and ethical humanity 3. Unity of Indonesia. The state is governed by secular ideology. The implementation of Islamic Law (the Shariah) depends on individuals or groups and is not enforced by the state. Because Indonesia formerly was not really a democratic state, social initiatives always came from the top or government elites. Government and political elites were dominated by secular ideology. Even though Muslims proposed to start Islamic banks before independence, the existence of Islamic banks could not be realized until the support of political elite was obtained.

### ***The form of Government***

Indonesia was a Dutch colony for 350 years. She then became a colony of Japan for 3 ½ years. Many political and cultural analysts argue that the colonial era affected Indonesian culture. Indonesia proclaimed its independence in 1945. Since that period, Indonesia has had different government structures. Firstly, between 1945 and 1959, Indonesia had a parliamentary democracy and was governed by different Prime Ministers. During this time period Indonesia had 7 cabinets and was led by 6 Prime Ministers. One Prime Minister, Mr. Ali Sastroamidjojo led the government twice. During this era, the President held only a symbolic position. The first Indonesian general election after its independence was conducted in 1955.

Secondly, between 1959 and 1965, the form of government became a presidential system, in which President Soekarno led the government. Soekarno became a strong leader and was enshrined as life-long president. This period came to be known as “Demokrasi Terpimpin” or the “guided-democracy” system. During this time the

President led government administration. The period from Independence Day until 1966 is termed the Old Order Era, or “Orde Lama” (ORLA). Thirdly, from 1966 to 1998 (Mei 21 1998), Indonesia was governed by the New Order or Orde Baru (ORBA), led by Soeharto, an army General. This period is called Demokrasi Pancasila, that is democracy guided by 5 basic principles. During this era Indonesia held 6 general elections, firstly in 1971, followed by 9 political parties and one Golongan Karya. In 1973, Soeharto’s government had coalition with 2 political parties besides Golongan Karya. In 1997, the last election in New Order the Golkar won 75%. In 1998, Habibie replaced Soeharto as President, marking the reformation era. Habibie’S government called a new general election in 1999 with the coalition of 49 political parties.

Because the parliament rejected his accountability, Habibie decided not to join the rally for the next presidency, he resigned and Abdurrahman Wahid succeeded him in 1999. In 2001, the then Vice-President Megawati Soekarnoputri replaced Abdurrahman Wahid by Parliament’s initiative. In the 2004 general election that followed with 24 political parties and with 5 presidential candidates, Susilo Bambang Yudhoyono defeated Megawati, becoming the first directly elected new president.

The form of government in the Third World is mostly centralized, authoritarian, and paternalistic (Hikam, 1996). Some authors argue that this form of government is appropriate to enable them develop their economies (Widjaya, 1988). A centralized and authoritarian government influences every sector of social life in the country (King, 1982; Rasyid, 1998). The government has a significant role in shaping the people’s customs, culture, behavior and ethics. Thus, understanding the form of government may help to further understand the economic and business development in Indonesia.

## **Economic Development**

### ***Economic Indicators***

In 1969, Indonesia under her New Order led by President Soeharto, started the five year economic development plan. Economic development at that time emphasized industry and agriculture. During Soeharto’s era, the economic growth averaged 7% and economic condition changed dramatically. Indonesia was named as an economic miracle. During 1970-1990 economic growth reduced poverty from 60% to 15,2%. At the same time, China reduced poverty from 33% to 10%, Malaysia from 18% to 6% and Republic Korea from 23% to 8%.(Tambunan, undated).

The share of major sectors in Indonesia’s GDP in 2002 are: Agriculture, 17.5%; Industry 44.5%; and Services 38.1%. The growth rates of Indonesian GDP by total and industry are as follows:

**Table 2**  
**The Growth Rate of Indonesia GDP and Industry**

<i>No</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
GDP	4.7%	- 13.1%	0.8%	4.9%	3.4%	3.7%
Industry	5.2%	- 14.0 %	2.0 %	5.9 %	3.3. %	3.7 %

**Source:** Tambunan (2004) from Asian Development Bank.

The growth rate of Indonesia in 1988 was negative due to the Asian financial and economic crisis. However, between 2003 and 2004 the economic growth was around 6-7%.

Compared to other ASEAN countries Indonesia did not rank among the strongest economies in ASEAN, the growth rate of output by industries and total GDP were much lower than those for Cambodia, Laos, and Myanmar. Total trade as a percentage of GNP was also lower. The export performance of Indonesia was also relatively weaker compared Singapore, Malaysia and Thailand (Tambunan, 2004)

Indonesian main important Manufactured Goods are lumber and woods products, Pulp, Textile and its products, Footwear and head gear, article of stone, plaster cement, asbestos, pearls, precious stones, metals, base metals and its products, machinery equipment, mechanical appliance, electrical equipment, transportation equipment, musical instrument, arms and ammunition. In 2001 the top three in export values are Machinery, mechanical appliance and electrical (US\$ 8,650.- US\$ 1 Million), Textile and its products (US\$ 7,675.- US\$ 1 Millions), and wood and its products (US\$3,832.approx.).

According to Tambunan (2004) ASEAN is not the major target of Indonesia's export compared to the rest of the world and the share of Indonesia to ASEAN market has been developed slowly. The important markets for Indonesia are European Union, Japan and USA.

Another important thing to be noted is Manpower Export. Total export of manpower since 2001 – 2004 (September) are as follows:

**Table 3**  
**Manpower Export to Overseas**

<i>Countries</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004 (Sep)</i>
Asia Pacific	217,555	238,324	109,722	67,817
Middle East and Africa	121,180	241,961	183,770	176,788
USA	228	40	171	16
Europe	29	68	31	3
Total	338,992	480,912	293,694	244,624

**Source:** Department of Labor, RI.

The high unemployment rate in Indonesia compels manpower to search jobs overseas. However due to corrupt administrative practices some of them go abroad illegally and face a terrible life. Malaysia was the second top target country in 2004. Malaysia then enforced strict immigration law so that immigrant workers can be under the protection of government. According to the Department of Labor, migrant labor has remitted USD 907,67 Millions in 2002. Saudi Arabia is the top contributor followed by Hong Kong, Taiwan, Kuwait, Malaysia and South Korea.

### ***Asian Crisis***

Indonesia experienced economic miracle between 1970-mid 1997. In 1997, Indonesia faced a domino effect of economic crisis from Thailand and other Asian countries. Initially, an exchange rate crisis was followed by capital market crisis, banking crisis, eroding public confidence and then an unprecedented political crisis. The economic crisis retarded Indonesia's economic development.

Banking crisis adversely affected the state budget, which otherwise should have enabled the government to recapitalize the banking industry. Almost US\$ 80 billions had to be paid by government to recapitalize its banking industry and US\$ 8 billion had to be paid yearly as interest cost on bond issued to save the banking industry. So far, government has closed and frozen up as many as 90 banks from 240 to 150 banks (Siswanto, 2001). Indonesian GDP declined to 13,1 % after the crisis (see table 2 above). During the economic crisis in 1997 the outflow of funds was estimated at US \$ 80 billions.

Tsunami in 2004 hit the Indonesian economy hard. Tsunami took away 120,000 lives and caused huge destruction of economic facilities and infra structure, especially in Aceh and North Sumatra. The total cost of Tsunami is expected to be US\$ 20 billions?

### ***Inflation Rate***

Some economic indicators (inflation and interest rates 2000 to 2002) of certain industrial countries compared to Indonesia can be seen in Table 2, as follows:

Due to political risk, and Indonesian economic situation, the inflation rate and interest rate remained higher compared to other industrial and developing countries. This fact could be one of the reasons why the investors discourage to invest their funds in Indonesia.

In line with economic recovery, the inflation rate also declined. Inflation stood at over 10% in 2002. Between 2003 and 2005, the rate went down to one digit level. Monthly Inflation rate in 2003 ranged between 5.16% and 8.68%. In 2004 it ranged between 4.60% and 7.20%. Between January and March 2005 inflation rate ranged between 7.15% and 8.81%. The improving inflation rate is a sign of better economic condition ahead.

**Table 4**  
**Inflation Rate In Indonesia and some Industrial Countries**

<i>Country</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Inflation rate:			
Industrial Countries	2.2	1.4	1.7
Developing Countries	5.7	5.6	6
Country in Transition	15.9	11.3	8.8
<b>Indonesia</b>	9.35	12.55	10.03
Interest rate (short term)			
USA	3.7	2.1	3.2
Japan	0.2	0.1	0.1
Europe Union	4.1	3.4	3.8
<b>Indonesia</b>	14.53	17.62	12.93

Sources: Indonesian Statistic Board 2002 and BI 2000's annual report.

Interest Rates on Saving Deposit in Commercial Banks since 2001 – 2004 were as follows: 19 %, 8,96 %, 5,14 % and 4,37 %. The trend is down. The same situation happened with the rate of interest of Bank Indonesia Certificates (Sertifikat bank Indonesia or SBI). In May 2002 the rate was 16,29%; by December 2002 it declined to 13.12%, to 8.38 % in December 2003 and 7.30 % in December 2004.

### ***Foreign Exchange***

Before the crisis in 1997, the average exchange rate of the Rupiah against the dollar was US\$ 1 = Rp 2,500.-. Since the economic crisis in 1997 the Rupiah's exchange rate has been very volatile, fluctuating from Rp 9,000,- to Rp. 16,000. Per US \$ 1. The average exchange rates against US Dollar were as follows: in 2000, Rp 8,403.-; in 2001. 10,255. ; and in 2002, Rp. 9,316.-. Since Megawaty's government until now the exchange rate ranged between Rp. 9,200 and 9,600.- Indonesia's Foreign Debt, as of December 2002, based on Bank Indonesia's annual Report 2002 is as follows (US\$ million):

**Table 5**  
**Government and Private Debt**

Government Debt	US \$ 74.197
Private Debt	US \$ 55.230
Total	US \$ 120.897

Source: Bank Indonesia Annual Report.

Foreign Debt in 2004 is US\$ 136.14042 in millions

### ***Foreign Investment***

In 1967, after Soeharto took power, he opened doors to foreign investment flows. The flow of foreign investment entering Indonesia until 1997 was abundant.

Since 1997, when President Soeharto signed a letter of intent asking for help from the IMF, Indonesia's economy has been controlled and monitored by IMF, even though there is public demand to exit from the IMF program, due to its failure to revive Indonesia's economy. IMF, as argued by some scholars, has failed and only concentrates on the interest of industrial countries and MNCs, rather than serving the interest of Indonesia (Stiglitz, 2002). In a recent study-by agreement IMF's own Independent Evaluation Office (IEO) it was stated that the IMF has blundered in helping Indonesia, Brazil and Korea (Khanna, 2003). Indonesian economic growth in 2002 was around 4% and according to the government senior minister the growth is expected to be around 5% in 2003.

As a member of AFTA (established 1992) Indonesia attracted the foreign investments, especially in the manufacturing sector, which is to enjoy special privileges, such as income tax exemption, full foreign equity ownership, duty free import of capital goods, domestic market access, and at least 30 years long-term lease for industrial land. The Procedures and Requirements to Establish Limited Liabilities Company under the Framework of Foreign Investment in Indonesia can be seen in attachment 6.

## **Business Indicators**

### ***The Structure of Indonesia's Financial System***

The structure of financial systems from country to country varies slightly. In the developed countries, the role of banking sectors is decreasing in importance; however in the developing countries it is most influential. In a country where the domination of the banking sector is significant, the role of the central bank is vitally important (Zurianto, 1996). Financial institutions include:

- (a) banking institutions such as commercial banks, savings banks, development banks
- (b) non-banking financial institutions such as security companies, leasing companies, insurance firms, factoring
- (c) capital market

(Binhadi, 1995:171)

In terms of assets and number of offices, the core of the Indonesian financial sector is its banking system, at least before 1997 crisis (Nasution, 1995, 1996; Cole and Slade, 1996). Indonesia's banking system consists of BI, all commercial banks (of which 5 out of 141 in Indonesia are state-owned banks), and People's Credit Banks. In 1994, Nasution maintained that BI and all commercial banks in 1997 held over 90% of the gross assets of Indonesia's financial assets, consisting of 21.3% by BI and 78.7% by all other commercial banks. The situation has not changed



much in the post-crisis. Almost 46.4 % of the total of Indonesia's commercial banks' gross assets were dominated by the state owned banks (BI, 2002). This percentage highlights the important role of the banking sector in Indonesia's financial system. The development of Indonesia Reserve Requirement for the last 5 years in US\$ millions between 2000 and 2004 are as follows: \$22,522.5, \$20,497.1, \$24,455.17, \$28,011.12, \$27,476.15.

### ***Capital Market***

Capital market was established in 1976. Indonesia now has two capital markets Bursa Efek Jakarta (BEJ) or Jakarta Stock Exchange (JSX) and Bursa Efek Surabaya (BES) or Surabaya Stock Exchange. The history of Indonesian capital market started in 1880, from the colonialist era. Based on the book of Effectengids that was published by Verreniging Vor de effectenhandel. In 1912, Amsterdamse Effecteunbeurse established its branches in Batavia (Jakarta). Due to World War II, all activities of the capital market was closed by the colonial government.

After Indonesian Independence historical change can be divided into two kinds: The first one comprised the Old Order (1945-1966). The development of capital market in this era was insignificant. After Soeharto took power, the New Order rebuilt the capital market. In 1976, Indonesian government established the Capital Market Supervisory Body (BAPEPAM) and in 10 August 10, 1977, based on the Presidential Decree No 52/1976, the new capital market was launched. Many companies were "went public" and sold their stock at the Jakarta Stock Exchange. The capital market also opened up to foreign investors who could buy upto 49% of the shares of domestic companies.

In 1992, the Indonesian capital market was privatized and its operation using Jakarta Automated Trading System (JATS). There are 332 company were listed in the Jakarta Stock Exchange. Value Trading in JSX between 2000 and 2004 were as follows, respectively: US\$ 4,465.12, \$ 6,614.1; \$ 10,200.4, \$ 16,746.6, \$ 30,052.8, \$ 35,213.9. Combined Stock price Indexes between 2000 and 2004 were as follows: 416,32, 392,03, 424,94, 679,3 and 1000,23.

Even though the share of capital market was still below the banking industry as the source of capital for the economy, the development of the market is significant. The government continuously improved the regulation and supervision. Indonesia is expected to have one-roof supervisory board to govern over all financial institutions: capital market, banking and non-banking financial institution, called OJK (Otoritas Jasa Keuangan). The Board of Security Exchange Supervisory or Badan Pengawas Pasar Modal has been established since JSX established and become a very independent supervisory board.

### ***Some Problems on the Economic and business development***

The new government still faces a lot of problems in pursuing economic and business development of Indonesia. The legacy of colonial era and the previous government still hold out as barriers against acceleration of economic and business development. The lack of qualified human resources, the foreign debt, corruption, Asian Crisis effects, legal aspect, and Indonesian cultures, the euphoria of democracy and international pressure are some problems that faced by new government. The process of general election of President, governors, mayor, head of district (Bupati) is having positive and negative effects. The new process is expected to select a qualified and competent leader but at the same time there is a problem of money politics and the expensive process and the possibility of social conflicts among the people. The legacy of previous government especially on the structure of economy, foreign debt, corruption and the dependency on the foreign intervention are a main barrier of economic and business development.

Some new rules have been set up by the Parliament as well as the President, e.g giving autonomy to the local governments, fighting corruption, freeing press, reducing subsidies to some commodities, negotiating foreign debt, cooperation with other countries, liberalization of financial markets, encouraging foreign investments. However, those ideal rules are not enough if bureaucrats and people do not support the government initiatives. The government, private sectors, people and international community must cooperate hand in hand to achieve the economic and business development.

The Indonesian culture is different from western culture, some of the policies and their implementation do not consider this contingent factors and as a result there was a failure in the implementation of the policies. Due to the spread of corruption in all level of bureaucracies there is hindrance in the achievement and effectiveness of good policies and goals. The lack of qualified educational sector is also another barrier for economic and business development. The management of economic development needs a global and qualified human resources, so far some strategic developments are taken by foreign experts.

### **Taiwan and Indonesia Economic relationships**

Taiwan and Indonesia has been a long story and have a very good economic cooperation. The trade, export and import goods and service and other form of economic cooperation can be seen below.

#### ***Trade Volume & Commodities***

Compared to ASEAN countries Sakakibira and Yamakawa (2003) noted that Trade Intensity Index (1998-2000) Indonesian and Taiwan equalled 4.1. The higher ones were Vietnam 7.6, Philippines 7.2 and the lower indexes were Brunei 0.7 and

Laos 0.8. Trade index between Taiwan and Indonesia was 1.6, which is low compared to the rest of the world. The highest indexes were of USA 21.7, Japan 18.2. Taiwan has no trade index with China, Brunei, Cambodia, Laos, and Myanmar. Trade index between Taiwan and Vietnam was 0.7. From this figure we can argue that the trade relation between Taiwan and Japan still can be developed.

The biggest value of export for Indonesia is in Oil and Gas, Since 1989 the total Total Trade Volume between Taiwan and Indonesia was US\$ 3.2 billion (2002). There are 23 main export commodities from Indonesia to Taiwan: Crude rubber, synthetic Rubber, Oil, Coal, Bracket, Mining products, Logging, textile, Communication equipment, steel, copy paper, beer, lamp holder from sea shell, coconut flour, meal and powder, polyester texture yarn, coffee, cigar, plastic table cloth, confectionery, PE and PP woven fabric, writing paper & newsprint, tire, urea & diammonum phosphate, wooden furniture, detergent powder, handicraft, petroleum, coconut, pearl (See attachment 5 on Indonesian Main Important Manufactured Goods). The biggest export items are machinery and wood and its products. (See attachment 5 for detailed on Indonesian main important Manufactured goods).

Indonesia also sends human labor to Taiwan. Based on the data from the Ministry of Manpower in Indonesia, human labor entered Taiwan since 1986 and almost 478.000 Indonesian labor work in Taiwan. In August 2004 total manpower works in Taiwan was 19.000. Majority of them are working in informal sector.

**Table 6**  
**Economic Indicators of Taiwan and Indonesia**

<i>No.</i>	<i>Indicators</i>	<i>Taiwan</i>	<i>Indonesia</i>
1.	GDP 2004	US\$ 576,2 billion	US\$ 827,4 billion
2.	GDP Growth	6%	4,9%
3.	Agriculture from GDP (2002)	1,7 %	17.5%
4.	Industry from GDP (2002)	30,9 %	44.5 %
5.	Services from GDP (2002)	67,4%	38.1%
6.	Population below property line	1%	16,6%
7.	Inflation rate	1,7%	9,3%
8.	Interest rate		20%
9.	Labor force	10.22 million	111,5 million
10.	Unemployment rate	4,5%	9,2%
11.	Yearly Revenue Budget	US \$ 67.41 billion	US\$ 52,13 billion
12.	Yearly Expenditure Budget	US \$ 76.70 billion	US\$ 55,88 billion
13.	Public debt from GDP	32,4 %	56,2%
14.	Current Account	US \$ 21.16 billion	US\$ 7,338 billion
15.	Export	US\$ 170.5 billion	US\$ 69,86 billion
16.	Import	US\$ 165.4 billion	US\$ 45,07 billion
17.	Reserve		US\$ 27,48 billion

### ***Investments***

Total Investment of Taiwan to Indonesia developed very rapidly. Total investment 2001–2004, respectively are as follows in million US\$ 18.2, US\$ 8.7, US\$ 1.6, US\$ 19.2 and US\$ 1.5 (Bank Indonesia, 2004)

### ***Taiwan vs Indonesia***

The comparison of economic indicators between the two countries can be seen in the following data:

### **Conclusions**

The economic and business development of Indonesia has fluctuated since 1945. The form of government and the political climate have significantly affected since the independence. The Asian Miracle and the Asian Tigers have put some Asian countries as exemplary success stories of economic development. But the 1997 crisis deeply ravaged the economic, banking, and political climate.

Indonesian reform has shown good signs toward stable economic growth. But she has much homework to do after the colonial era, Soekarno and Soeharto eras. The first directly elected President has a strong mandate to lead Indonesian people to build economic welfare and achieved a sustained and prosperous society. This is a main social capital to be ground for the global society. The economic indicators have shown that Indonesia, with abundant natural resources, may achieve her track record as an economic miracle. Some of obstacles facing Indonesia should be resolved if Indonesia would like to resume her economic miracle.

The economic relationship between Taiwan and Indonesia appears not to be optimum. We may have room to maximize economic cooperation. Both countries may have to set their economic, business and other social educational relationships in order to benefit both government and people of both countries. The two countries either private or government bodies can set a prospective relationships that may encourage the economic, business and social educational growth. In the era of globalization no border and barrier of cooperation should be exist.

As academics we encourage the flourishing of economic cooperation between the two countries. Such cooperation ought to proceed in the fields of education and human resource development. Human resource is the core of economic development. The more human resources there are the higher the economic growth. The heart of education is in the university. We may arrange a more intensive cooperation between our universities in this field.

**ATTACHMENT - 1**  
**Population of Indonesia by Province 1971, 1980, 1990, 1995 and 2000**

<i>Province</i>	<i>Population</i>				
	<i>1971</i>	<i>1980</i>	<i>1990</i>	<i>1995</i>	<i>2000</i>
Nanggroe Aceh Darussalam	2,008,595	2,611,271	3,416,156	3,847,583	3,930,905
Sumatera Utara	6,621,831	8,360,894	10,256,027	11,114,667	11,649,655
Sumatera Barat	2,793,196	3,406,816	4,000,207	4,323,170	4,248,931
Riau	1,641,545	2,168,535	3,303,976	3,900,534	4,957,627
Jambi	1,006,084	1,445,994	2,020,568	2,369,959	2,413,846
Sumatera Selatan	3,440,573	4,629,801	6,313,074	7,207,545	6,899,675
Bengkulu	519,316	768,064	1,179,122	1,409,117	1,567,432
Lampung	2,777,008	4,624,785	6,017,573	6,657,759	6,741,439
Kep. Bangka Belitung	-	-	-	-	900,197
DKI Jakarta	4,579,303	6,503,449	8,259,266	9,112,652	8,389,443
Jawa Barat	21,623,529	27,453,525	35,384,352	39,206,787	35,729,537
Jawa Tengah	21,877,136	25,372,889	28,520,643	29,653,266	31,228,940
DI Yogyakarta	2,489,360	2,750,813	2,913,054	2,916,779	3,122,268
Jawa Timur	25,516,999	29,188,852	32,503,991	33,844,002	34,783,640
Banten	-	-	-	-	8,098,780
B a l i	2,120,322	2,469,930	2,777,811	2,895,649	3,151,162
Nusa Tenggara Barat	2,203,465	2,724,664	3,369,649	3,645,713	4,009,261
Nusa Tenggara Timur	2,295,287	2,737,166	3,268,644	3,577,472	3,952,279
Kalimantan Barat	2,019,936	2,486,068	3,229,153	3,635,730	4,034,198
Kalimantan Tengah	701,936	954,353	1,396,486	1,627,453	1,857,000
Kalimantan Selatan	1,699,105	2,064,649	2,597,572	2,893,477	2,985,240
Kalimantan Timur	733,797	1,218,016	1,876,663	2,314,183	2,455,120
Sulawesi Utara	1,718,543	2,115,384	2,478,119	2,649,093	2,012,098
Sulawesi Tengah	913,662	1,289,635	1,711,327	1,938,071	2,218,435
Sulawesi Selatan	5,180,576	6,062,212	6,981,646	7,558,368	8,059,627
Sulawesi Tenggara	714,12	942,302	1,349,619	1,586,917	1,821,284
Gorontalo	-	-	-	-	835,044
M a l u k u	1,089,565	1,411,006	1,857,790	2,086,516	1,205,539
Maluku Utara	-	-	-	-	785,059
Papua	923,44	1,173,875	1,648,708	1,942,627	2,220,934
INDONESIA	119,208,229	147,490,298	179,378,946	194,754,808	206,264,595

Source: Indonesian Statistic Bureau, 2000 (30 Province).

**ATTACHMENT 2**  
**Value Growth of Foreign Trade with Main Partner Countries,**  
**Indonesia, 2003 - 2004**

<i>Partner Country</i>	<i>2003</i>		<i>2004</i>		<i>Growth (%)</i>	
	<i>Export</i>	<i>Import</i>	<i>Export</i>	<i>Import</i>	<i>Export</i>	<i>Import</i>
<b>ASIA</b>						
1. Japan	13 603.5	4 228.2	57 646.4	6 081.6	323.76	43.83
2. Republic of Korea	4 323.8	1 527.9	25 275.0	1 942.6	484.56	27.14
3. China	3 802.5	2 957.5	12 631.9	4 101.3	232.20	38.67
4. Taiwan	2 233.1	877.1	24 074.9	1 240.3	978.09	41.41

<i>Partner Country</i>	<i>2003</i>		<i>2004</i>		<i>Growth (%)</i>	
	<i>Export</i>	<i>Import</i>	<i>Export</i>	<i>Import</i>	<i>Export</i>	<i>Import</i>
5. Singapore	5 399.7	4 155.1	18 390.9	6 082.8	240.59	46.39
6. Malaysia	2 363.9	1 138.2	10 509.7	1 681.9	344.59	47.77
<b>AUSTRALIA &amp; OCEANIA</b>						
1. Australia	1 791.6	1 648.4	4 724.4	2 214.9	163.70	34.37
2. New Zealand	156.1	153.7	999.5	223.7	540.29	45.54
<b>AMERICA</b>						
1. United States	7 373.7	2 694.8	7 371.0	3 225.4	-0.04	19.69
2. Canada	382.1	321.8	245.4	551.8	-35.78	71.47
<b>EUROPE</b>						
1. United Kingdom	1 135.8	463.7	1 534.8	703.2	35.13	51.65
2. Netherlands	1 401.5	369.6	3 987.0	474.6	184.48	28.41
3. France	652.8	453.2	718.5	544.2	10.06	20.08
4. Germany	1 416.8	1 181.2	1 550.0	1 734.0	9.40	46.80
5. Italy	843.9	323.7	6 072.5	473.3	619.58	46.22

Note: Export in FOB, Import in CIF.

Source: Indonesian Statistic Bureau ( 2004 )

### ATTACHMENT 3

#### Quantity and Value of Oil and Gas Export Indonesia, 1989 - 2002

<i>Year</i>	<i>Oil and Gas</i>			<i>Total</i>	<i>% of Oil and Gas to Total</i>	
	<i>Crude Oil</i>	<i>Oil Products</i>	<i>Gas</i>			
<b>FOB Value (million USD)</b>						
1989	5,140.4	919.9	2,618.4	8,678.7	22,158.9	39.2
1990	6,219.9	1,183.9	3,667.3	11,071.1	25,675.3	43.1
1991	5,695.7	1,018.7	4,180.5	10,894.9	29,142.4	37.4
1992	5,397.7	1,221.2	4,052.0	10,670.9	33,967.0	31.4
1993	4,778.4	914.7	4,052.7	9,745.8	36,823.0	26.5
1994	5,071.6	932.9	3,689.1	9,693.6	40,053.4	24.2
1995	5,145.7	1,296.9	4,022.0	10,464.6	45,418.0	23.0
1996	5,711.8	1,516.1	4,493.9	11,721.8	49,814.8	23.5
1997	5,480.0	1,302.5	4,840.1	11,622.5	53,443.6	21.8
1998	3,348.6	708.1	3,815.5	7,872.2	48,847.6	16.1
1999	4,517.3	917.9	4,357.0	9,792.2	48,665.4	20.1
2000	6,090.1	1,651.6	6,624.9	14,366.6	62,124.0	23.1
2001	5,714.7	1,189.4	5,732.2	12,636.3	56,320.9	22.4
2002	5,227.6	1,307.5	5,577.6	12,112.7	57,158.8	21.2
2003	5,621.0	1,553.8	6,476.9	13,651.7	61,058.3	22.4

Source: Indonesian Statistic Bureau 2003.

**ATTACHMENT 4**  
**Indonesian Main Important Manufactured Goods ( million US\$ )**

<i>Main Products</i>	<i>1985</i>	<i>1995</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
Wood&its product	1209	5092	2947	3707	3709	3832
Pulp	27	1452	2115	2441	3002	2598
Textiles	545	6064	5024	6853	8204	7675
Footwear	14	2113	1255	1685	1780	1607
Articles of Stone, Plaster cement, as Bes	14	340	235	529	639	607
Base metals & its Products	658	1798	1701	1900	2346	2036
Transportation equ Pment	3	483	710	564	587	553
Instruments-measu Ring& musical	69	278	282	339	488	520
Arms&ammunition	–	0	7554	1110	19	18
Machinery	90	3399	3965	4785	10311	8650

Source: ADB (2003).

**ATTACHMENT 5**  
**Key Economic Indicators of ASEAN 10 Countries**

<i>No</i>	<i>Country</i>	<i>Total Area ( sq km )</i>	<i>Population 2003in 000</i>	<i>686,276Share of Industry</i>	<i>GDP 2003 (million US\$ )</i>
1.	Brunei	5,765	363	na	4,715
2.	Cambodia	181,035	13,588	28,0	4,215
3.	Indonesia	1,890,754	214,519	44,5	208,492
4.	Laos, PDR	236,800	5,637	24,7	2,043
5.	Malaysia	330,257	24,711	48,7	103,161
6.	Myanmar	676,577	53,515	10,5	9,605
7.	Philippines	300,000	81,453	32,5	80,359
8.	Singapore	682	4,353	33,6	91,355
9.	Thailand	513,254	62,553	42,5	143,308
10.	Vietnam	330,363	81,095	38,5	39,021
	ASEAN	4,465,487	541,787		686,276

Source: ASEAN Finance & Macroeconomic Surveillance Unit ( FMSU ) Database.

**ATTACHMENT 6**  
**The Procedures & Requirements To Establish Limited Liabilities  
Company Under The Framework of Foreign Investment In Indonesia**

**A. Legal Basis**

Save the certain area which is governed under specific regulations (such as mining, banking, and finance), in general direct foreign investment activities is governed by the foreign Capital Investment Law, Law No 1 of 1967 as amended by Law No 11 of 1970 (Foreign Investment Law).

Pursuant to the Foreign Investment Law, the Foreign Investment shall be conducted by forming a foreign investment company (“PMA Company”). In the form of a limited liability company, abbreviated as “PT” (Which is governed by the Limited Liability Company Law, Law No 1 of 1995- “Company Law”). As a limited liability company, a PMA company shall have at least 2 founders or shareholders.

Without prejudice to the prevailing implementing regulations, a PMA Company can be set up by way of :

- (a) Establishing a new PT by way of joint venture with other foreign investor(s) (100% foreign owned); or
- (b) Establishing a new PT by way of joint venture with Indonesian partners; or
- (c) Purchasing shares in existing PT (could be a PMA company, a company established under framework of Domestic Investment Law (“PMDN Company”) or non PMA Company and PMDN company).

In this memorandum, the explanation set out herein is limited only to the establishment of a new PT either by way of joint venture with other of foreign investor(s) (100% foreign owned) or by way joint venture with Indonesian partner(s).

All PMA companies are fallen under the coordination of the Capital Investment Coordinating Board (“BKPM”). Therefore all applications related to the establishment of PMA Companies and its amendment thereafter are managed by BKPM.

BKPM was established as a “one-stop-shop” in 1973 for foreign investors wishing to set up PMA company. The intention of BKPM was that a Potential foreign investor would need to obtain one license from BKPM, instead of being requirement to approach each Indonesian government which may have jurisdiction over relevant areas of investment for approval engage in activities in particular areas. Application for investment may be made both in Indonesia, and following recent law, offshore through an Indonesia Embassy or Consulate.

#### **B. Negative List and Activities which require a partnership with a small scale enterprise.**

A PMA company may only be created or formed for business activities which are open for foreign investment. In this regard, the Indonesian Government under the Presidential Decrees, namely the Presidential Decree No 98 of 2000 as amended with Presidential Decree No 118 of 2000, have issued the list of activities which are (i) closed for foreign investment, (ii) 100% opened and (iii) opened under certain requirements among others, the requirement to have partnership with the local party.



In addition to the negative list, the Indonesian government under the Presidential Decree, namely the Presidential Decree No 127 Of 2001, have also issued the list of activities which are required to have a partnership arrangement with an Indonesian small-scale enterprise. In this regard, the Indonesian government permits the partnership with the small-scale enterprise under any of the following schemes:

(a) Nucleus-Plasma scheme (Inti plasma)

In the nucleus-plasma scheme, the PMA company shall act as the nucleus and the small-scale enterprise as the plasma. The PMA Company shall carry out the fostering activities ranging from the provision of production means, technical guidance to the marketing of products. The PMA company as the nucleus shall foster and develop the small-scale enterprise as the plasma in :

- Providing and preparing the land
- Providing the production means
- Providing the technical guidance in business and production management
- Achieving, controlling and enhancing the required technology
- The financing and
- Providing other assistance needed for increasing the business efficiency and productivity

(b) Sub-Contract scheme

In the sub-contract scheme, the small-scale enterprise shall procedure the components needed by the PMA company as part of its product. The PMA company shall foster and develop the small-scale enterprise in :

- Processing part of the production and components
- Procuring the raw material used for the continuous production at reasonable quantities and prices.
- The guidance & technical skill on the production and management
- Achieving, controlling and enhancing the required technology
- The financing

(c) General Trading Scheme

In the general trading scheme, the PMA company shall market the products of the small-scale enterprise or the small-scale enterprise shall supply the need required by the PMA company. In the general trading scheme the partnership between the PMA company and the small-scale enterprise can take place in the forms of joint marketing, provision of business location, or the receipt of supplies from the small-scale enterprise, to meet the needs required by the PMA company.

(d) The franchise scheme

In the franchise scheme, the PMA company as the grantor of the franchise shall give the rights to use the license, trademark, and business distribution channels to the small-scale enterprises along with the managerial guidance assistance

(e) The agency scheme, the small-scale enterprise shall be given special rights to market the products of the PMA company.

(f) The Share Participation Scheme.

In the share participation scheme, the PMA company/the founders of the PMA company shall establish a partnership with the small-scale enterprises by way of inviting the small-scale enterprise jointly invest in a new project/company or through a share purchase at reasonable prices with convenient payment system which does not inflict the small-scale enterprise

**(c) Procedures for establishment of a PMA company**

**1. Capital Adequacy**

No formal minimum capital requirements exist for establishing a PMA company. BKPM will, however, conduct its own examination as to the capital adequacy of the project based on the commercial feasibility of the proposal.

There is not any formal debt to equity ratio for establishing a PMA company. BKPM has however a general policy that the maximum debt to equity ratio of the PMA company is 75% : 25%.

**2. Foreign Investment Application**

The application for the foreign capital investment shall be made using type 1 / PMA application form, as attached hereto and accompanied with the following documents:

(a) For Foreign participant:

- (1) Copy of articles of association of the foreign company in English or Indonesian language; and or
- (2) Copy of the valid passport for foreign individual

(b) For Indonesian participant :

- (1) Copy of articles of Association of the company and its amendment or identity card for individual; and
- (2) Copy of tax identification number (“NPWP”)

- (c) Flowchart of the production process and raw materials requirements for processing industries.
- (d) Explanation of business activities for services sector.
- (e) Power of attorney to sign and manage the application if the participant(s) are represented by another party.
- (f) Other requirements from the relevant sector, minister of the proposed activity, as the case may be;
- (g) If the proposal activity is required to have a cooperation with the small scale enterprises:
  - (1) Copy of the agreement between the small-scale enterprises and the founders/shareholders of the proposed PMA company ( For the interest of the PMA company);
  - (2) Letter of statement from the small-scale enterprises stating that the small scale enterprises fulfills the criteria-scale enterprises pursuant to the prevailing regulations.

### ***3. BKPM Approval***

Based on the application, BKPM will review and further decide whether the application will be approved or not. If the application is approved, BKPM will issue an approval which will be valid as in-principle business license maximum valid for 3 years. The issuance of the BKPM approval in practice may take up to one month, although the prevailing regulation provides a 10 working days as from the complete and accurate application is received by BKPM as a deadline for BKPM to give its decision.

### ***4. Incorporation***

After obtaining the BKPM approval, the founders/ shareholders of the PMA Company shall conduct the incorporation process of the PMA company by executing Dead of Establishment (DoE) that containing the articles of association of the PMA Company before a Notary Public.

In relation to the establishment of new PMA Company, after executing the DoE, the Shareholders of the PMA company shall then undertake the following actions; Obtaining Letter of Domicile for the PMA Company. The letter of domicile is obtained from the relevant Head Of Sub District/Kelurahan which has the jurisdiction over the office of the PMA Company. In issuing the letter of domicile, the Kelurahan shall require the following documents (a) copy of the DoE of the PMA company, (b) copy of identity card of the President Director of the PMA company, (c) letter of domicile issued by the building owner which the office of the PMA company located

(b) Obtaining NPWP for the PMA company from the relevant Tax Office

In order to obtain the NPWP, the PMA Company shall submit an application using a form which has been provided by the Tax Office, accompanied with the following documents (a) copy of the DoE of the PMA company, (b) copy of Identity Card of one of the Directors of the PMA Company (in case the Director is foreigner, it is also required to submit letter of his/her domicile issued by Kelurahan), (c) copy letter of domicile of the PMA company which is issued by the Kelurahan.

(c) Injecting capital to the PMA company's account

Further, the Director (s) of the PMA Company shall open an account in a Bank Located in Indonesia. After the account has been established then the relevant founders /shareholders of the PMA Company in exchange for the issuance of shares by the PMA Company to the relevant shareholders.

### ***5. Minister of Justice Approval***

The DoE shall be filled by Notary Public to the Minister Of justice and Human Rights of this Republic for its approval accompanied with the following documents :

- (i) Receipt of Money transfer given a bank in relation to the PMA Company's Account
- (ii) Copy to the BKPM approval
- (iii) Copy to the NPWP; and
- (iv) Copy of the Letter of Domicile.

As from the approval of the Minister of Justice to the DoE, the PMA company shall become as a legal entity.

### ***6. Registration and Publication***

After obtaining the Minister Of Justice approval, within 30 days, the DoE shall be registered with the Register of Enterprises Office at the Regional Office of the Department of trade & Industry

Following such registration, the relevant DoE shall be Published in State Gazette of Republic.

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