U.S. Department of State
FY 2001 Country Commercial Guide: Indonesia

The Country Commercial Guide for Indonesia was prepared by U.S. Embassy Jakarta and released by the Bureau of Economic and Business in July 2000 for Fiscal Year 2001.

TABLES OF CONTENTS

This Country Commercial Guide (CCG) presents a comprehensive look at Indonesia's commercial environment using economic, political and market analysis. The CCGs were established by the recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. government agencies.

CHAPTER I - EXECUTIVE SUMMARY

Indonesia greeted the millennium with optimism, following two years of economic and political turmoil (during which the country's gross domestic product contracted nearly 14 percent and the decades-long rule of President Soeharto came to a turbulent end). Indonesia began its recovery in 1999, successfully navigating its first parliamentary elections and later experiencing the fair and transparent selection of its new head of state, President Abdurrahman Wahid.

Foreign businesses, which had put on hold decisions regarding Indonesia until this political process was complete, warmly applauded the peaceful transition of power. At the same time, Indonesians began to feel more secure about the future and consumer confidence began to return. This was immediately visible in greatly increased sales of private automobiles and in the surge in consumer spending: stores increased their stocks and buyers returned to the opulent malls of Jakarta.

However, while other economies of South East Asia rebounded impressively in 1999, Indonesia continued to sputter. President Wahid's early support (later reversed) for a referendum on independence in Aceh was the first of many political issues, such as civilian-military relations and demands for more regional autonomy, that consumed the new government to the detriment of the economic reform process. Sectarian fighting in the Malukus, separatist violence in Aceh, allegations of corruption within the government and sparring with the new Parliament have all fully engaged the Wahid administration, distracting it from critical economic reforms needed to restore the economy. As a result, in the year since the publication of the last Indonesia Country Commercial Guide, few of the fundamental structural reforms needed for recovery have been put in place. The banking sector remains weak; the largest firms remain technically bankrupt; a huge share of national assets remains in government custody; judicial reform has been delayed; and corruption remains endemic.

Despite the serious problems Indonesia has faced in the past three years, most foreign companies with a presence in the market have stood fast. Among American investors, very few closed their operations during the economic crisis, although most did retrench. In fact, once the crisis bottomed out in 1999, many established American firms took advantage of the strong dollar to rebuild and improve their local operations. New investment, however, has been strikingly absent amid uncertainties over whether President Wahid's government can and will carry out promised reforms. After a hiatus of two years during the worst of the economic crisis, high profile trade and investment missions returned to Indonesia in 2000, although few have produced results.

Trade has also been slow to rebound, although 2000 appears to be a year of recovery. A significant piece of good news in 2000 was the apparent resumption of export growth: in the first quarter, non-oil exports had recovered to 93 percent of their pre-crisis levels; and total exports (boosted by higher world oil prices) had almost returned to pre-crisis levels. Export growth has been accompanied by an increase in imports, which in the first quarter of 2000 stood at 60 percent of pre-crisis levels. The remainder of 2000 should show continued growth for U.S. exports, which are likely to reach at least $3 billion at the current rate of exchange.

Prospects for American exports in certain sectors are good, despite the fact that many economic reforms remain to be tackled. Promising growth in selected best prospect sectors – such as educational and training services; computers and peripherals; telecommunications equipment; life insurance; and, food supplements – reflect consumers' willingness to spend again on products or services they value highly. At the same time, Indonesian companies have increased imports of necessary inputs and components for their export products. Other best prospects identified in this FY 2001 Country Commercial Guide reflect this trend. Industrial chemicals; agricultural chemicals; forestry and woodworking equipment; oil and gas equipment; mining equipment; industrial pumps; pulp and paperboard; and food processing and packaging equipment are all promising sectors which support Indonesian export industries.

If Indonesia can push forward badly needed reforms – increasing regulatory transparency, reducing corruption and promoting the rule of law – the country should again prove a profitable destination for U.S. investment and exports. The turmoil of recent years does not diminish the attractiveness of this country, with its rich natural resources (e.g., oil, gold, natural gas, plantation crops, coffee, spices and seafood products). However, American businesses may find new challenges facing them as the country embarks on a process of political and economic decentralization, which will grant significantly enhanced decision-making responsibilities to the provinces. As this new paradigm emerges, American companies may find themselves spending more time reaching out to regional officials, and building relationships with Indonesian partners outside of Jakarta.

The U.S. Embassy and the U.S. Commercial Service in Indonesia are available as resources to American businesses approaching this challenging market. Using this document as an introduction to the Indonesian market, U.S. firms will gain an insight into the numerous opportunities this country offers.

Country Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or via the Internet. Please contact STAT-USA at 1-800-STAT-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at www.stat-usa.gov, www.state.gov, and www.mac.doc.gov. They can also be ordered in hard copy or on diskette from the National Technical Information Service

(NTIS) at 1-800-553-NTIS. This Indonesian CCG is posted on the Embassy's web site: www.usembassyjakarta.org and the U.S. Commercial Section's site: www.jakarta.uscc.org, where information on promoting U.S. exports to Indonesia is regularly updated. U.S. exporters seeking general export information/assistance and country-specific information should contact the U.S. Department of Commerce, Trade Information Center, by phone at 1-800-USA-TRADE, by fax at 202-482-4473, or via the Commerce Department home page at www.usatrade.gov.

CHAPTER II - ECONOMIC TRENDS AND OUTLOOK

A. Summary

In the past year, Indonesia experienced fundamental political changes that were a first stage in reforms necessary to provide a sustainable foundation for future growth. In June 1999, the country held parliamentary elections in which multiple parties competed and which were widely received as free and fair. In October 1999, the People's Consultative Assembly chose Abdurrahman Wahid as President and Megawati Sukarnoputri as Vice President in a process regarded as producing a legitimate government. President Wahid appointed a cabinet drawn from several political parties.

The new government faced immense challenges -- consolidating internally, establishing the rule of law, addressing human rights cases and corruption, putting civil-military relations on a new footing, establishing new patterns for relations between the central, provincial, and district governments, and improving the economy's health. On economic issues, members of the economic cabinet moved quickly to re-establish active relationships with the International Monetary Fund (IMF) and the World Bank and, in January 2000, signed a new Memorandum of Economic and Financial Policies (MEFP) to the IMF. Implementation of some of the commitments contained in the MEFP, especially involving corporate debt and bank restructuring, was confusing and fragmentary over the opening months of the program.

An overarching challenge facing both the government and business community as of mid-2000 was that Indonesia's economy had not yet shaken off the effects of the 1997-98 financial and economic crisis. Instead, the most serious problems -- companies saddled with bad loans, and crippled banks -- had not been dealt with decisively. Indonesia's recovery was being delayed as a result. In the interim, even as Indonesia labored to emerge from the crisis, new economic realities had emerged that together painted a sobering before-and-after picture:

-- Private capital inflows crimped: Few expected the massive net inflows of the early 1990s--which fueled real GDP growth averaging 7.2 percent per year from 1990-96--to resume anytime soon, especially because foreign creditors were still licking their wounds.

-- Banking sector deep freeze: Banking sector growth was a hallmark pre-crisis; its collapse was a central feature of the crisis. The collapse required a massive GOI rescue effort, coordinated by the Indonesian Bank Restructuring Agency (IBRA), that will take several more years to complete and over a decade to pay for. In the meantime, the banking system remained in a deep freeze. In early 2000, few banks, including recapitalized banks, were lending except to consumers, though some banks were eager to resume limited corporate lending provided that credit-worthy companies could be found. With banking activity at a low ebb as of mid-2000, companies were seeking alternative financing, using cash flow, issuing domestic bonds if they qualified, or in a few cases borrowing abroad.

-- Exchange rate volatile: Stability was the watchword pre-crisis, part of the lure for foreign investors seeking to lock in high returns on rupiah assets. Volatility was a fact of life afterward. Hedging mechanisms were incomplete. Even so, a return to an effectively fixed-rate system was unlikely.

-- Government debt large: Pre-crisis, the GOI borrowed abroad each year to help finance its budget and some years it prepaid higher-cost debt. It had a comfortable debt-to-GDP ratio and virtually no domestic debt. Neither was true afterward. Government debt exceeded GDP, and debt servicing was a major constraint on government expenditure.

-- Legal uncertainty: There was no legal certainty in the pre-crisis days, but there was predictability, based on a tacit understanding that contracts would be honored and debts paid. President Soeharto's fall left a vacuum that was unlikely to be filled for several years as Indonesia moved from a personality-based to a rule-based system. In the interim, the problem was that the economic crisis left a host of unresolved legal issues--including major ownership questions--in its wake.

-- Regional decentralization: As the economy was undergoing upheaval, Indonesia's far-reaching transition to a decentralized political and fiscal system--under laws passed in 1999 that take effect May 2001--added another layer of uncertainty that was especially relevant for foreign investors.

What did these shifts mean for Indonesia? First, financial austerity: businesses were hard-pressed to get capital and government was constrained by its debt overhang. Second, uncertain future growth prospects: in the second half of 1999, GDP began recovering from its 1998 low point, and forecasts were for reasonable growth in 2000. But investment remained depressed, with long-dormant construction sites as visible reminders. In light of large uncertainties and unresolved regional issues, potential domestic as well as foreign investors were sitting on their hands while existing investors faced new difficulties. Compared to other countries in the region, Indonesia appeared to be in the slow lane toward recovery. End Summary.

B. Some Rays of Hope, But Slow Progress Overall

Before looking at the factors weighing on Indonesia's economy as it emerged from the worst of the crisis, it is worth noting the brighter side. After a real GDP decline of 13 percent in 1998, and negligible growth in 1999, GDP was expected to increase 3-4 percent in 2000, according to Bank Indonesia, the IMF, and private economists (see Table 1). The macroeconomic picture was more stable than at the peak of the crisis because of low inflation (the CPI rose only 2 percent in 1999, and inflation was forecast to reach only 7 percent in 2000) and relatively low nominal interest rates (down from 40 percent in March 1999 to below 11 percent at end-April 2000). The agricultural sector, which employed close to half the workforce, was producing as before (better than under 1997-98 drought conditions), though there were structural stresses affecting the sector.

Table 1. Indonesian Real GDP, 1999 vs. 1998

A. By Production Category

Production Category	Percent Change 1999 vs. 1998	Share of GDP
Manufacturing	2.19	26%
Agriculture, Forestry	0.67	21%
Retail, Hotel, Rest.	-1.10	16%
Mining	-0.11	10%
Services	2.82	9%
Finance and Leasing	-8.67	6%
Construction	1.15	6%
Transport. and Comm.	-0.72	5%
Electricity, Gas, Water	7.25	1%
Total (categories weighted)	0.23	100%

B. By Expenditure Category

	Percent Change 1999 vs. 1998
Household Consumption	1.48
Government Expenditure	0.69
Investment	-20.78
Exports of Goods/Services	-32.06
Imports of Goods/Services	-40.90

Note: Real GDP declined 13 percent in 1998.
Source: Central Bureau of Statistics (BPS).

Consumers' domestic spending picked up in early 2000, reflecting improved consumer confidence after President Wahid's election in October 1999, as well as the "switching" effect of a weakened currency that made imported goods more expensive in local currency terms and domestic goods more attractive. The surprise results were early 2000 waiting lists to buy the most popular cars, new restaurants and stores opening in Jakarta and other cities, and even a mild resurgence in home building. The boom was said to be fueled in part by flight capital returning from overseas, though there were no reliable data to confirm the anecdotes.

More generally, many observers were surprised by the resiliency of the Indonesian economy even during the worst of the economic crisis. The 1998 GDP decline of 13 percent did not send armies of unemployed into the streets. Though many manufacturing firms closed their doors or cut back production (many remained at reduced output levels in early 2000), the shock absorbers were Indonesia's vast informal economy, close family networks, and increased agricultural export earnings, especially off Java. In short, Indonesia limped through the worst of the crisis, but did not fall. That image is relevant for the near term, as the same open-market economics that had produced such impressive growth in the three decades before the crisis remained intact. At the same time, the resiliency of the economy in the face of the crisis ultimately lessened the pressure to fundamentally reform Indonesia's financial and legal infrastructure.

Though the crisis left several major changes in its wake, other fundamental features of Indonesia's economy were unlikely to change in the near term:

C. Robust Trade Sector

A hallmark of the pre-crisis economy was rapid expansion of exports as well as imports. Exports increased by an average of 11 percent per year during 1993-96. During 1998-99, imports collapsed and exports sagged, largely because of disarray in the financial sector. A significant piece of good news in 2000 was the apparent resumption of export growth. First quarter 2000 figures showed that non-oil exports had recovered to 93 percent of their pre-crisis (third-quarter 1997) levels, while total exports--boosted by higher world oil prices--were at almost 100 percent of the pre-crisis level (see Table 2).

While a return to export growth, if sustained, would be welcome, the export mix was likely to remain low-tech and natural-resource-based: low-tech manufactured goods (sport shoes, textiles, basic electronics, with many inputs imported); natural resources (plywood, furniture, paper); and agricultural products (palm oil, spices). There was no evidence that exporters had taken advantage of the changed exchange rate picture to improve productivity. Instead, many claimed that the exchange needed to remain weak (having depreciated about 30 percent in real terms since before the crisis, see Table 7) for their products to remain competitive.

Table 2. Export Values, by quarter, 1997-2000

Quarter	----------------- Exports	--------------------		
	Oil/gas	Non-oil	change*	Total
		US$ billions		
III-97	2.7	11.3		14.0
IV- 97	2.9	11.0	-3.0%	13.9
I- 98	2.3	10.0	-8.9%	12.3
II- 98	1.8	10.3	2.5%	12.1

III-98	1.9	10.8	5.2%	12.7
IV- 98	1.9	9.7	-10.3%	11.6
I- 99	1.9	8.3	-14.8%	10.1
II- 99	1.9	9.6	16.3%	11.5
III-99	2.8	10.5	9.8%	13.3
IV- 99	3.2	10.3	-2.2%	13.5
I- 00	3.3	10.6	2.8%	13.9

* Quarter-on-quarter change of non-oil export values, an indicator of manufacturing performance.
Source: Central Bureau of Statistics

Export growth was accompanied by an uptick in imports (see Table 3), including capital goods. Even so, imports stood at 60 percent of pre-crisis levels. Imports of capital goods, primarily machinery and other equipment vital for manufacturing, declined to 30 percent of their 1997 level in 1999, according to preliminary estimates. The decline was not critical given the deep recession that left much manufacturing capacity underutilized, but it would be important once growth resumed and it meant that modernization plans had been postponed.

Table 3. Import Values, by quarter, 1997-2000

Quarter	---------- Imports-----------	
	Total US$ billions	change*
III-97	9.5	
IV- 97	8.9	-5.8%
I- 98	6.2	-30.3%
II- 98	5.6	-9.3%
III-98	6.2	10.4%
IV- 98	6.5	5.1%
I- 99	4.8	-26.2%
II- 99	5.4	11.7%
III-99	4.9	-9.0%
IV- 99	5.1	4.9%
I- 00	5.7	10.6%

* Quarter-on-quarter change.
Source: Central Bureau of Statistics

D. Business Ownership Patterns Unchanged

The Indonesian Bank Restructuring Agency (IBRA) technically owned most of the manufacturing sector and much real estate as of mid-2000. But since it had not foreclosed much of anything, there was little everyday evidence of changed ownership.

Rather than foreclose, IBRA made a conscious decision to give owners a stake in debtor firms' recovery. But a lack of resolute political support prevented IBRA from expeditiously reaching settlements with recalcitrant debtors, creating an impression of debt gridlock.

Moreover, even as IBRA sells assets and settles debts, ownership is likely to remain concentrated in the hands of the pre-crisis ownership group. Supporting this impression is anecdotal evidence that business groups are buying back and retiring their non-IBRA debt at reduced rates offshore through proxies. Politicians' proposals to shift ownership on a grand scale to ethnic Indonesian ("pribumi") owners got little traction. Harsh corporate debt settlements could lead to some prominent owners losing their companies, or divesting segments of their empires, but that had not occurred as of mid-2000. Small and medium business, less affected by the crisis due to lower debt levels, should continue to be a dynamic part of the economy whose prospects would be improved by reform to remove obstacles to doing business. At the same time, large state-owned companies will still play an important role in the economy, barring an unexpected acceleration of privatization.

E. Work Force Skilled In Basics

Indonesia's manufacturing work force was generally regarded as skilled-in-the-basics but undereducated. The limitations that made high-tech manufacturers reluctant to set up shop in Indonesia pre-crisis were sure to persist beyond the next several years. Improving human resources was Indonesia's fundamental long-term challenge. Alarmingly, competitors in China, Vietnam, and India were capturing many of the low-tech markets in which Indonesia had recently excelled.

F. Internal Market Attractive

A population of 210 million would remain an interesting market by any measure. But it remained to be seen when the rapid growth of the middle class -- an exciting feature of Indonesia's pre-crisis economy -- would resume.

G. Some Fundamentals Are Challenging

Against this background -- a large, low-tech, agricultural, regionally diverse, trading economy -- what had changed? Mainly the financial environment, both externally and internally. In essence, Indonesia's private sector lost its line of credit with the outside world in 1997-98. Foreign creditors stopped being paid as the rupiah exchange rate collapsed. Domestic banks collapsed because their loans were not repaid either. In response, the GOI pledged to prop up the banks (and their depositors) and took on a huge load of foreign and domestic debt. The consequences of this sequence of events were likely to continue looming over the economy for several years:

H. Private Capital Flows

During the five years preceding the crisis, 1992-1996, net private capital inflows averaged US$ 7.2 billion per year (see Table 4), or an average of 4 percent of GDP per year. In 1997, the tide reversed. Net capital inflows, even taking into account heavy government borrowing, remained negative in 1998 and 1999.

Table 4. Indonesia: Net Capital Inflows

	1992	93	94	95	96	97	98	99*
				US$ billions				
Private	5.4	5.2	3.7	10.3	11.5	-0.4	-13.8	-7.4
FDI	1.8	2.0	2.1	4.3	6.2	4.7	-0.4	-1.5
Other	3.6	3.2	1.6	5.9	5.3	-5.0	-13.5	-6.0
Gov't	12.8	12.8	0.3	0.3	-0.5	2.9	10.0	5.2
Total	18.1	18.0	4.0	10.6	11.0	2.5	-3.9	-2.3

note: FDI is foreign direct investment
* Preliminary data for January-September
Source: Bank Indonesia

Analysts regarded a resumption of private capital inflows as essential for placing Indonesia back on a growth path. Even so, few expected substantial inflows to resume for several years. A May 2000 macroeconomic forecast prepared by the National Development Planning Agency (Bappenas), with a best-case scenario assuming that Indonesia successfully reformed many aspects of its economy, foresaw net negative private capital flows through 2001, followed by resumption of net inflows: US$ 2.4 billion in 2002, US$ 5.4 billion in 2003, and US$ 6.7 billion in 2004.

I. Bank Trauma; Bad Loans Unresolved

Banks were at ground zero of the financial crisis that hit Indonesia in 1997-98. Normal banking ground to a halt. Upwards of 70 percent of bank loans were estimated to be non-performing. The banking system's total credit fell by almost 50 percent during 1999, from Rp 545 trillion at end-1998 to Rp 278 trillion at end-1999. The total number of banks had declined from 238 pre-crisis to 162 (5 state-owned national banks, 27 state-owned regional development banks, 120 private banks, and 10 foreign branches, not counting joint-venture banks and foreign banks' representative offices). The crisis left Indonesian banks in parlous condition, on par with American banks at the height of the Great Depression.

The GOI embarked on a massive bank recapitalization program in 1999, guided by the IMF and other international financial institutions, that it planned to complete by mid-2000. There were five categories of domestic banks involved in the ambitious restructuring process:

-- State-owned banks: With their credit portfolios abused for years, the state-owned banks had the biggest bad loan portfolios. In several cases they still had much the same management as before the crisis. Four of the banks were merged into Mandiri, now Indonesia's largest bank. State-owned banks had been partially recapitalized; their collective capital adequacy ratio (CAR) was negative 9.4 percent as of the end of January 2000.

-- Taken-over banks: The largest private banks, BCA and Danamon, as well as other banks, were taken-over by the Indonesian Bank Restructuring Agency (IBRA). They had been partially recapitalized, and in some cases were being merged, with the aim of re-privatization.

-- Category "A" banks: With capital adequacy ratios (CAR) of 4 percent or better, these mostly small private banks did not require recapitalization. The GOI pledged to reassess their condition and close them if their financial condition deteriorated, but there had been scant attention to this issue.

-- Category "B" recapitalized banks: The GOI selected nine banks for GOI-assisted recapitalization in March 1999. Seven of the nine made it through the process and were apparently relatively healthy, but two of the larger ones, Bank Niaga and Bank Bali, remained in limbo.

-- Category "C" closed banks: Thirty-eight private banks with CAR worse than negative 25 percent were closed in March 1999; 10 other banks had been closed in 1998. Settlements of the owners' liquidity credit loans from Bank Indonesia remained pending.

Recapitalization: As of April 2000, the GOI had issued Rp 312 trillion in recapitalization bonds (the bonds replaced bad loans, and the GOI in turn took majority ownership of the banks). Estimates were that at least an additional Rp 114 trillion in bonds would be needed to complete the program, bringing the total to Rp 426 trillion (US$ 54 billion, see Table 5). The Finance Ministry in 1999 issued an additional Rp 228 trillion (US$ 28.5 billion) in bonds to Bank Indonesia to repay Bank Indonesia for liquidity credits. Even so, Bank Indonesia announced at the end of January 2000 that the overall capital adequacy ratio of the banking system was still negative 7.15 percent.

Challenges: As of mid-2000, the banking sector was no longer in a state of collapse, but neither had it recovered substantially. Several state-owned banks continued to lose money. The challenges for the GOI and bankers were to (1) restore the solvency of the banking system (banks were to raise capital adequacy ratios to 8 percent by end-2001); (2) re-privatize much of the banking sector and introduce professional standards in the state-owned banks; (3) pay the tremendous costs associated with the bail-out; (4) restore a climate of normal corporate lending that would promote economic growth; and (5) establish supervisory and legal standards that would prevent future banking crises.

Restructuring would be a multiyear process requiring difficult political commitments from a fragile coalition government. This meant that Indonesia's economy would have to cope with a wounded banking sector in the interim. A number of coping mechanisms had already emerged. Companies were said to be using internally generated cash flow to finance inputs (68 percent of companies said that was how they would finance capital spending, in a March 2000 survey) and, in rare cases, expansions. Relatively creditworthy companies were borrowing offshore from Singapore or Hong Kong. Other companies were issuing domestic bonds. One conglomerate, Sinar Mas (known internationally under its holding company name, Asia Pulp and Paper, APP) continued to issue USD-denominated bonds because its paper and palm oil businesses were still seen as strong. Meanwhile, domestic banks incrementally increased lending, but continued to focus on the consumer sector rather than on capital-starved corporates. Corporates remained for the most part in suspended animation, having neither paid nor restructured their pre-crisis debts.

Table 5. Bank Assets and Bank Recapitalization Bonds as of April 2000 (all figures in Rp trillions)

Bank	Status	-- Recap. Bonds ---		Assets
		Received	Expected	
State Banks				
Mandiri	Recapd. 10/99 and 12/99	178	(not clear)	205
BNI	Partial recap. 4/00	30	30	98
BRI	Delayed	0	29	31
BTN	Delayed	0	11	11*
Subtotal		208	70	345
Category "B" Banks				
BII	Recap. 5/99	8.7	-	44*
Lippo	Recap. 5/99	7.7	-	24
Universal	Recap. 5/99	4.6	-	10*
Prima Exp.	Recap. 5/99	0.6	-	2*
Bukopin	Recap. 5/99	0.4	-	8*
ArtaMedia	Recap. 5/99	0.1	-	1*
Patriot	Recap. 5/99	0.1	-	0*
Bali	Delayed	0	5	9*
Niaga	Delayed	0	9	17*
Subtotal		22	13	115
Taken-Over Banks				
BCA	Recap. 5/99	65	-	96
Danamon	Recap. 5/99	17	(see below)	26
PDFCI	merged with Danamon 12/99-		-	2*
Tiara	see note 1		30	4*
Nusa	"		-	4*

RSI	"		-	3*
Duta	"		-	1*
Tamara	"		-	1*
Jaya	"		-	0.5*
Rama	"		-	0.4*
Pos	"		-	0.2*
Subtotal		82	30	138
Total		312	114	598

Note 1: These 8 banks are to be merged with Danamon. The combined bank will receive additional recapitalization projected to total Rp 30 trillion.
Source: Recapitalization figures from IBRA and press reports. Assets are December 1999 (* are September 1999) estimates by Infobank magazine. Total assets of the banking system, including foreign banks' assets, were estimated at Rp 812 trillion.

J. IBRA's Role

The Indonesian Bank Restructuring Agency (IBRA), created in January 1998, was charged with the heavy lifting associated with bank and corporate restructuring. In addition, it was the GOI's primary means of recovering some of the costs associated with the massive restructuring program. IBRA reported that it had about US$ 52 billion in assets as of April 2000 (see Table 6). Its three main tasks were to: (1) restructure banks in preparation for their re-privatization, then sell them; (2) restructure and collect on bad loans taken over from banks, with assistance from the Jakarta Initiative Task Force (JITF) and Attorney General; and (3) sell assets pledged by bank owners as settlement of the emergency Bank Indonesia Liquidity Credits issued in 1997-98. These tasks were difficult enough on their face, but IBRA's more significant obstacle was lack of resolute political support under President Soeharto (January-May 1998), President Habibie (May 1998-October 1999) and President Wahid (elected in October 1999). The jury was still out on this issue as of mid-2000.

Table 6. IBRA Assets as of April 2000

Category	Rp trill.	US$ bill.
Loans transferred from frozen, recapitalized, state-owned, and taken-over	217.5	28
GOI investment in recapitalized and taken-over banks	86.8	11
Assets from Shareholder Loan Settlements for Bank Indonesia Liquidity Credits 1	93.8	12
Non-core assets (property, etc.)	3.6	0.5

Total	401.7	52

Note: Rp 402 trillion was equivalent to about 36 percent of Indonesia's 1999 GDP, Rp 1,107 trillion.
Source: IBRA monthly report, April 2000

K. Exchange Rate Volatile

Pre-crisis, the stable rupiah was a linchpin of both Indonesian borrowers' and foreign lenders' calculations. From 1990-1996, for example, the rupiah depreciated an average of 3.9 percent per year with relatively little variation (ranging from 2.7 percent to 5.5 percent per year). Bank Indonesia managed the exchange rate on a gradual weakening path to keep Indonesia's exports competitive. The business community believed the exchange rate would remain both stable and predictable. Meanwhile, deposit interest rates over that period were in the teens or higher (ranging from 13 to 23 percent, according to IMF figures), and lending rates were higher (ranging from 18 to 26 percent or more). The numbers meant that Indonesian borrowers were motivated to borrow at lower interest rates abroad. They did so in droves. On the other hand, some foreign investors placed funds on deposit in Indonesia or loaned out funds there, because the rates were favorable even when the rupiah depreciation was taken into account. The result was that Indonesia's corporate world and financial system became very internationally integrated -- and, it turned out, vulnerable to an exchange-rate shock. When the crisis hit in 1997, Indonesian corporates had an estimated US$ 80 billion in foreign debt, equivalent to over a third of Indonesia's GDP that year. Little of that debt had been paid as of mid-2000; most remained to be restructured.

The pre-crisis exchange rate calculations changed in August 1997 when the GOI announced an end to the managed float. Under the managed float, the GOI had pledged to intervene when the exchange rate threatened to go outside a several-percentage-point band. But having watched neighboring countries expend large amounts of foreign exchange reserves in fruitless efforts to stabilize their currencies in mid-1997, GOI authorities opted out of that system. The rupiah weakened somewhat over the rest of 1997 (see Table 7). The rupiah then lost its moorings entirely in 1998, driven partly by mounting inflation but mainly by political uncertainty.

The exchange rate strengthened somewhat in 1999 but volatility remained a fact of life. The standard deviation of the exchange rate averaged 5 percent per week in 1999, according to a bank analyst, and in early May 2000 the rupiah's value against the USD was still fluctuating by as much as 5 percent per day. The FY 2000 GOI budget introduced in January 2000 posited an average exchange rate of Rp 7,000/USD for April-December, but the exchange rate weakened to Rp 8,000/USD as of end-April, suggesting that parts of the budget might have to be recalculated. For businesses, the variable and varying exchange rate became another element of uncertainty that they had to take into account. The hedging mechanisms available in more developed economies were not always at hand: a bank analyst said in March 2000 that in practical terms there was no forward rupiah market beyond one month.

Business people and officials were disturbed that variations in the exchange rate, in a foreign exchange market that was said to have decreased from US$ 2 billion/day pre-crisis to only US$ 100-200 million/day in early 2000, appeared to be driven more by political than economic issues. Hence, improvements in economic factors were no guarantee of a stronger or more stable exchange rate. (As Table 8 indicates, political uncertainty resulted in a steep premium on the GOI's USD-denominated "Yankee" bonds, where the exchange rate is not at issue, during the crisis. In early 2000 the premium was still a significant five percentage points above U.S. treasuries, compared to about one percent pre-crisis.)

Table 7. Rupiah/USD Exchange Rate Indices by quarter, 1997-2000 (June 1997=100)

	Nominal	Real
Jun-97	100	100
Sep-97	75	77
Dec-97	53	58
Mar-98	29	40
Jun-98	16	26
Sep-98	23	44
Dec-98	31	59
Mar-99	28	57
Jun-99	36	72
Sep-99	29	57
Dec-99	35	68
Mar-00	33	65
Apr-00	31	61

Note: This table indicates that as of April 2000, the rupiah retained 31 percent of its pre-crisis value against the USD in nominal terms, but 61 percent in real terms, taking into account Indonesian consumer price inflation (and assuming U.S. inflation to be negligible).

Table 8. Perceived risk: Interest Rate Spread of GOI Yankee Bonds (due in 2006) over U.S. Treasuries, 1997-2000

Date	Spread basis points
2-Jan-97	96
3-Mar-97	104
2-Jun-97	106
2-Sep-97	160
2-Jan-98	525
1-Apr-98	498

1-Jun-98	725
1-Sep-98	1,476
4-Jan-99	1,030
1-Apr-99	851
1-Jun-99	738
1-Sep-99	531
3-Jan-00	489
1-Mar-00	489
1-May-00	494

Note: 100 basis points = 1 percent.
Source: U.S. investment banking firm

L. Government Debt Large

As Table 9 indicates, the GOI had a relatively comfortable debt situation pre-crisis. The GOI borrowed abroad each year, primarily from a group of donor countries grouped in the Consultative Group on Indonesia (CGI), as well as from multilateral institutions such as the World Bank and Asian Development Bank. The proceeds were used to fund the development budget. By long-established convention, the GOI avoided domestic borrowing, because economists feared it could lead to inflationary financing. The resulting debt-to-GDP ratio was sustainable -- part of what was widely seen as Indonesia's prudent macroeconomic management strategy.

As a result of its shouldering the cost of the 1997-1998 banking crisis and borrowing from the IMF, the GOI's debt burden increased sharply in 1998-99. Officials were unnerved by the fact that the debt load exceeded GDP in 1999 -- a fourfold increase over 1996. (High debt-to-GDP ratios are not unprecedented for Indonesia, economist Anne Booth recently wrote. In the late 1980s, Indonesia's ratio was about 80 percent, reduced over the next decade because of strong economic growth.) The immediate concern, however, was not so much the debt burden as the servicing costs. To create some breathing room, the GOI went to the Paris Club to reschedule principal due to sovereign creditors on two occasions, in September 1998 (rescheduling loans falling due August 1998-March 2000) and in April 2000 (rescheduling loans falling due April 2000-March 2002).

Even so, debt servicing was sure to be a major issue going forward. In the FY 2000 GOI budget, for example, debt service (which already assumed that bilateral sovereign debt would be rescheduled) accounted for 27 percent of expenditures, eclipsing the entire development budget at 21 percent. Pre-crisis, development expenditures had helped reduce Indonesia's poverty rate and develop its infrastructure. Looking forward, there was pressure to keep restraining expenditures (by cutting fuel subsidies and moderating civil service salary increases, for example) and raising revenues (through higher taxes and better collection) because crisis-era debt servicing bills would keep rolling in for the foreseeable future. Despite demands that the government "do something" to improve economic conditions and create jobs, the debt overhang would make it difficult for the

GOI to adopt expansionist fiscal policy. A May 2000 Bappenas study projected that given solid GDP growth, low interest rates, and other favorable developments in the economy, the debt-to-GDP ratio could be reduced to 53 percent by end-2005. Analysts considered that projection very optimistic.

Table 9. GOI Foreign and Domestic Debt, 1995-2000

	Foreign	Domestic	Total	Debt/GDP
		US$ billions		
1995	63.5	0.0	63.5	31%
1996	56.3	0.0	56.3	25%
1997	57.9	0.0	57.9	27%
1998	71.5	0.0	71.5	72%
1999	78.9	68.7	147.6	105%
2000 proj.	78.9	93.4	172.3	99%

Note: 1999's Domestic Debt figure is based on Rp 312 trillion in bank recapitalization bonds issued, plus Rp 228 trillion in bonds issued to repay Bank Indonesia for liquidity credits (converted at the 1999 average exchange rate of Rp 7855.2/USD). The 2000 projection assumes no net additional foreign debt, and an additional Rp 114 trillion in recapitalization bonds issued (converted at the GOI-budget exchange rate of Rp 7,000/US$).
Source: Data from Bank Indonesia, Business News

M. Legal Uncertainty

It was well known before the crisis that Indonesia's economic system was rife with corruption. However, the Soeharto-era patronage system amounted to an informal but often predictable substitute for a properly functioning justice system. Courts could not be relied on to issue impartial verdicts, but contracts were honored, for the most part, and debts paid. With Soeharto's abrupt resignation in May 1998, the former system broke down. At the same time, a host of thorny legal issues arose in connection with the mountain of unpaid domestic and foreign debts and contracts concluded during Soeharto's rule. The result was gridlock. A revised bankruptcy law was introduced in September 1998, but the Commercial Court proved disappointing to creditors. Thirty bankruptcy cases were filed in 1998 and 100 were filed in 1999. Creditors won about one-fifth of cases. IBRA remained winless in bankruptcy court after several attempts in early 2000.

The lack of legal certitude was not the only problem. Outside of the courts, flagrant political interference kept IBRA from doing its job of going after well-connected debtors. In the most notorious case, mid-1999's Bank Bali scandal, GOI officials allegedly conspired to arrange an IBRA payment to the bank, siphoning off over half the amount for then-ruling party Golkar.

The justice system was not the only corrupt institution by any means, but the extent of corruption there was disturbing because it stood in the way of erecting the professional legal infrastructure that Indonesia needed to effect reform. Before the GOI could use the justice system to clean up corruption, it had to clean up corruption in the justice system.

As of mid-2000, thoroughgoing judicial reform was not yet underway, but there were steps being taken that, if they were not reversed, could lead to progress on corporate debt restructurings. In line with the IMF program, ad hoc judges were to be appointed to the Commercial Courts, and would hear cases at IBRA's request. An early-2000 effort to appoint ad hoc judges failed, but a renewed effort was said to be nearing success as of mid-2000. This effort to place new judges in the courts was seen as a stopgap measure until the entire court system could be overhauled, starting with the Supreme Court. Systems were being put in place to shunt non-cooperative debtors to the Attorney General for legal action. The Jakarta Initiative Task Force had beefed-up authority to offer "sticks and carrots." However, these measures remained untested as of May 2000. The upshot was that legal uncertainty was an additional factor that foreign and domestic businesses had to take into account before investing here. Some foreign investors had doubts about likely progress on the judicial front in the near term, opting instead to deal only with Indonesian businesses that had proven reputations for integrity.

N. Regional Decentralization

In May 1999, in an effort to satisfy restive regions clamoring for more local authority and revenues, the GOI passed Law 22 on Regional Autonomy and Law 25 on Fiscal Balance Between the Center and the Regions. Both laws are to take effect in May 2001. Law 22 devolves most functions away from the center to provincial and sub-provincial regency ("kabupaten," or county equivalent) levels, though the central government retains responsibility for foreign affairs, defense, justice, monetary and fiscal affairs (though regions can borrow on their own), and religious affairs. Law 22 calls for local legislative bodies to elect provincial governors and other officials.

Law 25 is best known for its revenue sharing formulas: 15 percent of net oil revenues, 30 percent of net gas revenues, and 80 percent of forestry, mining, and fishing revenues will go to the provinces and regencies, mainly to the latter. However, other aspects of revenue sharing that would determine the net benefit or loss to a given region were left to regulations. The implementing regulations had not been published as of early May 2000, prompting analysts to speculate about which areas would gain and which would lose under the new system. Law 25 contained a vague formula to protect non-resource-endowed areas from suffering declines in financial flows from the central government, but the details were unclear and bound to be controversial.

For Indonesians as well as foreign investors and others, the far-reaching laws were fraught with great uncertainty. In the context of Indonesia's highly centralized system, a wholesale shift of authority and revenues to the sub-provincial level was potentially--if implemented in full--revolutionary, and potentially--in light of untested regional capacities, and the central government's budget constraints-- problematic.

The impression in mid-2000 was that regions had taken hold of Law 22 and were essentially implementing it in advance of the official schedule. Local authorities were dividing up forests for logging (in one case handing out concessions for what was ostensibly a national park), counting local mining revenues as already theirs, and causing concern among U.S. and other foreign investors whose regional operations some local governments regarded as additional revenue sources. An additional concern was that regions seemed eager to take on the "profit centers" such as mines and forests, but reluctant to handle "cost centers" such as hospitals and schools. With only one year to go before the laws took effect (but longer to work out the uncertainties), decentralization was an area that merited close attention.

O. Implications for U.S. Business

1. Trade

For U.S. exporters to Indonesia, the 1997-98 crisis was a major setback. Prior to the crisis, when the Commerce Department identified Indonesia as one of several "big emerging markets," U.S. merchandise exports to Indonesia were growing by 10 percent per year, from US$ 2.8 billion in 1992 to US$ 4.5 billion in 1997. When the crisis hit, U.S. exports plunged, totaling only US$ 1.9 billion in 1999. Early 2000 (January-February, see Appendix A) data suggested that U.S. exports to Indonesia were on the increase again. But it was likely be several years before U.S. exports, along with other nations' exports to Indonesia, recovered to pre-crisis levels. Meanwhile, Indonesian exports to the United States remained strong. Having doubled from US$ 4.5 billion in 1992 to US$ 9.2 billion in 1997, they increased further to US$ 9.5 billion in 1999.

Was there was a silver lining to the collapse of Indonesia's import market? For U.S. companies that had not yet established robust relationships in Indonesia, maybe so. The crisis-induced dislocations in Indonesia's economy meant that many of the old importer-exporter relationships had broken down. U.S. companies willing to aggressively build trade relationships during the recovery period (including being willing to provide creative financing, such as letters of credit via an offshore bank, for example) could see substantial benefits once strong growth resumes.

In addition, there were bright spots for U.S. exports as selected Indonesian sectors recovered. U.S. export figures in early 2000 showed good Indonesian demand for raw materials for pulp and paper, forestry and woodworking equipment, agricultural sector equipment, and building products. Indonesian business people showed renewed interest in U.S. trade shows in 1999 and 2000. Expansion of Indonesia's nascent Internet businesses meant opportunities for U.S. firms, and upgrading of bank and telecommunications information systems provided other opportunities. Education and training remained a significant U.S. export to Indonesia, with an estimated 12,000 students studying at U.S. colleges and universities.

2. Investment

United States companies were among Indonesia's leading investors pre-crisis. Cumulative investment approvals from U.S. companies totaled US$ 5.1 billion dollars during 1995-99, not counting the important oil and gas sector where U.S. firms were leaders. Not surprisingly, overall investment figures fell sharply as a result of the crisis, and U.S. figures declined apace. In 1998, U.S. investment approvals (fewer than half of approved foreign investments are usually realized) totaled only US$ 568 million; in 1999, the figure was only US$ 136 million, excluding not only oil and gas, but also financial sector projects. U.S. investors' concerns went beyond the general economic slowdown. U.S. electricity infrastructure companies faced contract renegotiations with the Indonesian government; U.S. mining companies endured local authorities' efforts to garner a growing share of company revenue, emboldened by the movement toward regional autonomy; and some U.S. companies struggled with regional unrest. Potential new investors were understandably hesitant. That said, most U.S. companies with a presence in Indonesia opted to ride out the difficulties, seeing a return to growth in the future.

CHAPTER III - POLITICAL ENVIRONMENT

A. Nature of the Political Relationship with the U.S

The United States and Indonesia have enjoyed good relations in recent decades. These close ties are based in large measure on the numerous interests that the two nations share. The fourth most populous nation in the world and the largest by far in Southeast Asia, Indonesia has pursued cooperative relations with its neighbors, thereby contributing greatly to peace and stability in the region. Through its membership in the Non-Aligned Movement, the Organization of Islamic Conference (OIC), the Association of Southeast Asian Nations (ASEAN), the ASEAN Regional Forum, and the Asia-Pacific Economic Cooperation (APEC) forum, Indonesia also wields substantial influence on a number of other security and economic issues of importance to U.S. interests. Indonesia welcomes continuing U.S. engagement in the region, which it regards as a key factor in creating conditions that have facilitated stability and economic growth in Asia. On the bilateral economic front, the United States is the single largest investor in Indonesia, when natural resources and financial services are taken into account, and is a major market for Indonesia's exports.

The United States also assumed a leading role in the international community's response to the economic crisis that struck Indonesia three years ago. Working with international financial institutions, the U.S. contributed as well to Indonesian efforts to implement needed financial reforms and doubled its own economic assistance in support of social safety net programs designed to cushion the impact of the economic downturn on poorer Indonesians. Thanks in part to long-standing relationships with Indonesian non-governmental organizations, the U.S. was well placed to provide substantial technical and financial assistance to support Indonesia's June 1999 parliamentary balloting, the country’s first free elections in over four decades, and to contribute to the country’s democratic transition.

Promoting respect for human rights and strengthening democratic institutions, particularly the justice sector and the rule of law, are prominent features of U.S. policy toward Indonesia. The months following the election of President Abdurrahman Wahid in October 1999 have witnessed significant improvements, as evidenced by the release of all political prisoners, the dismantling of the Soeharto-era state security coordination apparatus (BAKORSTANAS), and the initiation or revival of investigations into serious human rights abuses. The media now report developments freely and routinely publish a wide range of opinion on sensitive issues. The government has allowed new political and social organizations to form freely, and promulgated new labor union registration regulations that have permitted more than two dozen new labor unions to form. Human rights concerns, however, still exist, especially as these relate to the security forces, which have been implicated in serious past abuses in Aceh and elsewhere. Inter-communal strife, often with religious overtones, has also flared up in disparate parts of the country.

The United States strongly supported Indonesia's decision to permit the people of East Timor to determine their own future. East Timor voted for independence from Indonesia in an August 30, 1999 referendum and is currently under the authority of the United Nations’ Transitional Administration in East Timor (UNTAET). UNTAET was established by a unanimous vote of the UN Security Council on October 25, 1999 for the purpose of rebuilding East Timor and helping to establish a new government. Violence erupted throughout East Timor after the August 30, 1999, United Nations-sponsored ballot in that province. Although stability has largely returned to the territory following the arrival of international forces, crime and lawlessness are problems. Under UNTAET oversight, the nucleus of a new East Timorese government is forming, but the economy is depressed and basic services often lacking. An estimated 162,000 persons who fled East Timor during the violence have returned; 125,000 still remain outside of East Timor, mostly in West Timor. The U.S. and Indonesia's other friends have stressed the obligation of the Indonesian government to allow the safe return of all East Timorese who wish to go back to East Timor, and to bring to justice those responsible for the violence.

B. The Political Situation in Brief

Indonesia held its first pluralistic and competitive parliamentary elections in 44 years in June 1999, during which forty-five new parties along with the three officially sanctioned under the Soeharto Government contested 462 seats in the country’s parliament (DPR). (The remaining 38 seats in the DPR are allotted to the military.)

The election campaign, which many predicted would see violent incidents, was generally peaceful. The actual voting process went relatively smoothly. Although there were some allegations of fraud, the results were accepted by the major parties. The Indonesian Democratic Struggle Party (PDI-P) led by Megawati Sukarnoputri received approximately 34 percent of the popular vote and was accorded the largest number of seats in the DPR. The second largest number of seats will go to the GOLKAR party, which during the Soeharto years was government-sponsored and is now headed by President Habibie. More than twenty other parties also gained representation in the new DPR.

The 500 members of the DPR, along with another 200 representatives selected from the provinces and from societal groupings (such as religious leaders, women, students, and ethnic minorities) form the People's Consultative Assembly (MPR). In a transparent balloting procedure, the MPR elected Abdurrahman Wahid as President on October 20, 1999, and Megawati Soekarnoputri as Vice President on October 21, 1999. President Wahid appointed a 35-member cabinet on October 26, 1999, composed of representatives of all the major political parties.

Since that time, the DPR has vigorously asserted its constitutional prerogatives, including its right to review government-proposed legislation, to question and challenge the President and members of his cabinet, and to provide a forum for public debate and presentation of grievances. In a departure from past practice (in which the MPR only met once every five years), the MPR will hold its first annual session in August 2000. At that time, President Wahid will present an account of his government's performance during his time in office, and a lively debate is expected.

C. Major Political Issues Affecting the Business Climate

The Wahid government faces great challenges in consolidating Indonesia's democratic transition, restoring the country's economic momentum, and in bringing the benefits of development to all Indonesia's citizens. Among the key political issues with economic implications are outbreaks of communal violence around the country, but especially in Maluku and Aceh; expressions of desire for independence in Aceh and Papua (formerly Irian Jaya); and a rising level of lawlessness and vigilante justice. The government must also deal with demands for greater local participation in government and in the management of natural resources. Continuing allegations of high-level corruption point to the need for comprehensive reform and implementation of good governance practices. In this regard, far more effective mechanisms will be required to enforce commercial, criminal, and administrative laws.

CHAPTER IV - MARKETING U.S. PRODUCTS AND SERVICES

A. Distribution Channels

In June 1998, the government of Indonesia eliminated many restrictions on foreign investment in retail operations. Foreign firms are now allowed to operate retail outlets in most major urban areas, although some restrictions remain in the provinces. In addition, many foreign firms use franchising, licensing, and technical service agreements to distribute their goods.

Indonesia also lifted many restrictions on foreign participation in wholesale distribution services. Under government regulations No.15/1998 and No.16/1998, foreign companies may distribute both locally produced and imported goods at the wholesale level. These foreign companies may also conduct retail operations, but in order to do so must form a separate retail company.

B. Representatives and Agents

Foreign firms may open and maintain one local representative office in each of the 27 provinces, with permission of the Indonesian Department of Industry and Trade. The representative(s) may be an Indonesian company or individual, or a foreign national. Trade representatives may not engage in direct sales nor conclude deals, but they may engage in sales promotion and marketing, or do market research and provide technical advice. In many cases, foreign companies have established close connections with Indonesian importers, allowing the two companies to function as one. The Indonesian company acts as importer and distributor, and the foreign company promotes its products, sometimes seconding expatriate staff as employees to its Indonesian distributor/partner. A more active role for the foreign firm can be arranged through a management contract, which can take many forms.

The services of an aggressive, active Indonesian citizen agent or distributor can be an important means of expanding sales in Indonesia, because they know the cultural minefields and systemic processes that foreigners would need years to begin to master.

The variety of relationships between foreign principals and Indonesian representatives can take many forms, including the secondment of expatriate staff to the Indonesian company to oversee service delivery according to the foreign party's expectations. In many instances, foreign companies have established close connections with Indonesian national importers, allowing the two companies to operate virtually as one. The Indonesian company acts as an importer/distributor for overseas principals and the foreign company promotes its products within Indonesia.

Appointment of an Indonesian agent (or distributor) requires care, since it is difficult to get out of a bad relationship. Indonesian law allows the severing of an agency agreement only by mutual consent or if a clause permitting the severance is contained in the original agency agreement. A trial agency period at least six month is generally written into agency contacts. As in many countries, the Indonesia's network of contacts and personal power dictates what it costs to buy oneself out of a bad agency agreement.

For sales to the private sector, the appointment of an Indonesian sole agent is not required by law, although Indonesians agents prefer to have this kind of relationship. Since 1980, in order to spur the development of indigenous enterprise, particularly new, small, economically weak enterprises, the government began requiring the state oil company Pertamina and other government agencies to deal through Indonesian agents when purchasing imported goods or services. The government also began to pressure foreign firms into dealing through an Indonesian agent, rather than third-country middlemen. The predilection of some foreigners for regional representatives, often based in Singapore, rather than Indonesian-based representatives, is particularly unwelcome by the government although it is not prohibited by law. For these reasons, a foreign firm selling to government agencies would do well to appoint an Indonesian firm as its agent.

Many Indonesian importers do not specialize in particular product lines, and represent a multiplicity of foreign manufacturers and product lines. Generally, however, large conglomerates establish discrete company units that tend to specialize around a product range. Medium and smaller importers also specialize in a narrow range of goods, but no one is averse to adding a completely different product line if profit can be foreseen. Since mid-1998, many agents of industrial products whose market collapsed with the recession have begun looking at new, income-generating lines as diverse from their norm as Louis XIV furniture (for export) or consumer foodstuffs.

It is generally advisable to set up agency arrangements with firms that handle a complementary range of products. These are not essential, however, since substantial sales can often be made by firms active in quite different product lines. An increasing number of firms identifying themselves as suppliers of "technical goods" concentrate on general industrial machinery and equipment. These firms often have engineers on their staff and are prepared to provide engineering assistance and after-sales technical support.

The main difference between a representative office and an agent is that the former cannot “sell” or sign contracts but only market and do research, while the latter can perform all trade activities. Only Indonesians can function as agents.

Foreign principals often work out a management agreement that allows the foreign company in Indonesia to play a more active role in the marketing efforts of its Indonesian agent or distributor. In many cases, a separate agreement is signed between the expatriate personnel and the foreign employer to regulate this relationship. The tax liability of the foreign firm is limited to the income of the expatriates assigned to the representative office, while any other taxes are assessed to and borne by the agent. Types of management agreements include: (1) technical assistance agreements; (2) management agreements; and (3) management agreements coupled with financial agreements.

The technical assistance agreement limits the foreign firm's function to providing technical assistance to the Indonesian company. The management agreement allows the foreign firm to manage the company or a division within the company. In the management agreement coupled with a financial agreement, the foreign firm also finances the Indonesian operation, either under the name of the Indonesian company or a division thereof. Remuneration to the foreign company can be in one of the following forms:(1)fixed fee;(2) commission; or (3) profit-sharing. Whatever basis is used for remuneration, it must be formulated clearly in the agreement, and it must be applicable under the present Indonesian laws. To protect the foreign company's interests properly, a bona fide and comprehensive agreement should be drawn between the parties concerned.

C. Franchising

The entry of U.S. firms into Indonesia's franchise industry has largely ground to a halt due to the economic crisis that has affected Indonesia's economy since 1997. The depreciation of the rupiah has made difficult the payment of franchise royalties in foreign exchange. Creative arrangements must be agreed at the current time, generally involving a deferred payment scheme until the rupiah and the economy recover.

Franchises facilitate the transfer of know-how and managerial expertise to the franchisee companies while simultaneously allowing the franchiser to quickly establish a presence in the country. Under a typical franchising agreement, the franchiser receives royalties and fees as stipulated in the contract. In exchange, the franchisee has the right to use (and manufacture) copyrighted, patented or service-marked materials identifying the enterprise. The franchiser typically provides training and organizational guidance in return for a guarantee that the franchisee will follow these operational directions.

With the release of the Government Regulation No.16 of 1997 dated June 18, 1997, the Indonesian franchise industry for the first time has a foundation in Indonesian law. This regulation, which was complemented by the issuance of a Decree of the Ministry of Industry and Trade No.259/MPP/Kep/7/1997, is designed to promote an orderly climate for the franchise business as well as to provide guidance and protection for both franchisers and franchisees.

The regulation, which contains a description of the franchiser - franchisee relationship, states that a franchise agreement between a franchiser and a franchisee must be written in Indonesian and be subject to Indonesia law. The GOI has limited the operation of large franchise businesses to provincial capitals. Only small and medium-scale enterprises, or licensed non-small-scale entrepreneurs, may operate franchise businesses in smaller cities or rural areas. This regulation was designed to insulate indigenous small and medium-size companies against competition from foreign franchisers, and to encourage local companies to develop their own franchise concepts.

Moreover, the regulation obligates every franchise business to obtain a registration certificate, namely STPUW (Surat Tanda Pendaftaran Usaha Waralaba or Franchise Business Registration Certificate), from the Ministry of Industry and Trade. The registration should be made at least 30 working days from the date when the franchising agreement, which shall be valid for at least 5 years, takes effect. The regulation further stipulates that priority should be given to the use of domestic goods and / or products as long as they meet the required quality standards.
For information, please contact:

Mr. Darwis
Kepala Subdit Kemitraan Usaha
Department of Industry and Trade
Direktorat Bina Usaha Perdagangan

Jl. M.I. Ridwan Rais No. 5
Jakarta 10110
Tel.: 385-8189
Fax : 345-3114

D. Direct Marketing

Direct marketing is used in Indonesia to sell many kinds of products, from insurance to sewing machines. Companies such as Avon and Amway have built up large businesses by direct marketing through local distributors. Independent Indonesian companies have copied their methods and success.

E. Joint Ventures/Licensing

Since 1994 the government has removed most requirements for domestic equity and joint ventures. However, Foreign investors who opt for 100 percent initial ownership are obligated to divest to Indonesians some share -- as little as one percent -- after 15 years. This can be accomplished through the stock market. This requirement is too new to have been tested yet.

As a practical matter a local joint venture partner is often essential for success in this market, for the same reason that an activist Indonesian agent or distributor has advantages over a foreign trade representative office. The choice of an Indonesian joint venture partner is critical for many reasons, especially for knowledge of the local scene and contacts, which are important for successful operations in Indonesia. A few experienced firms provide background, credit-type reports on Indonesian entrepreneurs and firms (See Chapter XI for list of Consultants and contact information).

A partnership in Indonesia is difficult to dissolve. Consequently, the first choice has to be the correct choice. Business sense is as crucial to any commercial endeavor and contacts in Indonesia as anywhere else; “contacts” alone, while important in Indonesia, can not substitute for business skills in an Indonesian partner.

Because Indonesians place great importance on personal relationships and mutual understanding, partnerships tend to be based primarily on genuine accord, with the written contract playing a less significant role. It is therefore important that any agreement be well understood by both sides. A contract over which there are conflicting interpretations is certain to cause future problems.

In some cases, licensing arrangements for products/services are more cost-effective options for U.S. companies doing business in Indonesia, but firms should apply the same cautions recommended for joint venture partners.

F. Steps to Opening a Representative Office

Statements emanating from the Indonesian Investment Bureau (BKPM) in mid-1999 offer hope of changes that will reduce the paperwork process and delay in applying for the necessary government permit for a foreign investment in Indonesia. At present, a business permit issued by the appropriate government agency is required to establish an office in Indonesia. Several government agencies may be involved in issuing a business permit, depending on the nature of the business.

To open a foreign representative office in Indonesia, the firm must appoint a representative: the representative may be an Indonesian company, Indonesian national, or an expatriate. A foreign representative office in Indonesia is actually more of a liaison office. According to Indonesian law, a representative office is restricted in the types of activities that it can pursue. These offices are restricted from signing sales contracts, collecting payments, and participating in other related business activities. Prior to opening an office, however, the firm must establish itself as a legal entity by registering with the proper Indonesian government authorities. The process is as follows:

i. A letter of intent and a letter of appointment [indicating the appointed representative], both from company headquarters and on official letterhead, must be sent to the Indonesian Embassy or an Indonesian Consulate for notarization. A letter of reference from the embassy or consulate is also required (See Chapter XI for contact information).

ii. The notarized letter of intent, the notarized letter of appointment, and the letter of reference, along with the resume of the appointed company representative and his or her Indonesian work permit (KIMS Card) needs to be submitted. If the appointed company representative is an Indonesian citizen, a copy of the Personal Identity Card (KTP) needs to be submitted instead. All the material is submitted to:

Rifana Erni
Director for Domestic Business Development
Director General of Domestic Trade
Ministry of Trade and Industry
Jl. M.I. Ridwan Rais 5, Jakarta 10110
Tel.: (62-21) 385-8189
Fax : (62-21) 345-3114
Email: erni@pusdata.dprin.go.id

Regional representative offices, classified as serving two or more other ASEAN nations, can also be established in Indonesia. The regional representative office is also limited to more of a liaison role and is restricted from participating in many business transactions. Interested firms should contact the Capital Investment Coordinating Board (BKPM) for procedure information:

H.M. Rozy Munir, SE., M.SC
Minister and Chairman
Capital Investment Coordinating Board (BKPM)
Jl. Jendral Gatot Subroto 44

Jakarta Selatan, Indonesia
Tel.: (62-21) 525-0023
Fax : (62-21) 522-7607

Representative offices that are involved in construction, engineering, or related consulting are required to register with the Ministry of Public Works. Foreign representative offices in these fields, in conjunction with Indonesian companies, are allowed to seek project opportunities, submit proposals, participate in tenders, and oversee projects at all levels. Foreign engineering firms with representative offices can participate in government projects. For procedure information, interested firms should contact the Ministry of Public Works.

Ir. Subagia Sastrosoegito
Chair of the Working Group for Construction Services and Public Works
Ministry of Public Works
Jl. Pattimura 20
Jakarta Selatan, Indonesia.
Tel.: (62-21) 720-3371 ext.261/263, 739-5588
Fax : (62-21) 751-1843

Many foreign firms opt to have local consulting firms or their Indonesian representatives take care of the registration process. The application process time varies from two to four weeks. Representative offices are also required to submit reports of business transactions and employee information on an annual basis to the Department or Ministry that it is registered with.

G. Selling Techniques

Indonesian consumers, particularly from the middle and lower income groups, are sensitive both to price and to general economic trends (e.g. interest rates). Thus, importers of U.S. goods and services here will pay close attention to pricing, more than to product quality and promptness in delivery when making purchasing decisions. They will seek low interest financing, particularly in the coming year.

Other key success factors for doing business in Indonesia are patience and presence. Companies that have made a commitment to the country by establishing an office, or some other significant presence, will be more successful in marketing their products than those that attempt to sell their product on annual whirlwind trips. Brand loyalty and name recognition is highly valued by the Indonesian consumer.

To sum up, ways by which foreign interests can engage in business in Indonesia include:

- the appointment of agents and/or distributors
- representative office
- technical assistance or licensing agreements
- joint venture operations
- establishing a 100 percent foreign-owned subsidiary

A joint venture production operation can be a good option for products that have sales potential in both the domestic market and as exports throughout the rest of Asia.

H. Press Contacts

Personal contacts are important in Indonesia, and businesses should foster open communication with the press. The embassy Public Affairs Section (PAS), located at the Embassy chancery is available to help identify valuable local media contacts. PAS is available to assist company representatives in working with Indonesian media for maximum commercial advantage. Please contact the Press Attaché or the Public Affairs Counselor at the American Embassy for further information (See Chapter XI for contact information).

I. Advertising

Advertising in local media and newspapers is recommended for introducing new products, particularly in areas of purchasing power concentration, such as Jakarta and West Java. However, advertising is currently restricted by government decree to 35 percent of a newspaper's content. In July 2000, the prices quoted for a full color, quarter page ad ranged from about Rp. 9,000,000 ($1,058: US$ 1 = Rp. 8,500) to $4,285 in five daily newspapers. In those same newspapers, a black and white 2 column, 150 cm ad ranged from about Rp. 2,000,000 ($235: US$ 1 = Rp. 8,500) to about $775.

A listing of major, recommended newspapers and business journals (in Bahasa-Indonesia, except where noted) follows:

Newspapers (dailies):
Bisnis Indonesia
Herald International Tribune (English)
Kompas
Media Indonesia
Moneter Indonesia
Neraca Harian Ekonomi
Suara Pembaruan
Jakarta Post (English)
The Asian Wall Street Journal (English)
The Indonesian Observer (English)

Newsmagazines:
Forum (Weekly)
Gatra (Weekly)
Tajuk (Weekly)
Tempo (Weekly)

Business Journals:

Business News (Twice a week, English and Indonesian)
Eksekutif (Monthly)
Indocommercial (Monthly, English and Indonesian)
Indochemical (Monthly, English and Indonesian)
Indonesian Commercial Newsletter (Monthly, English and Indonesian)
Info Bank (Monthly)
Info Bisnis (Monthly)
Kontan (Weekly)
Prospektif (weekly)
Warta Ekonomi (weekly)

In most cases, direct mail advertising is efficient and effective, if the mailing lists are properly prepared and updated. Local advertising agencies can also assist in arranging films, slides, and posters and signboards for bus exteriors, bus stop shelters, and bridges.

Television advertising has grown rapidly and surpassed newspaper advertising in dollars spent since 1992. Indonesia has five commercial television stations (TPI, RCTI, SCTV, Indosiar and An-Teve) and one state-owned outlet (TVRI). RCTI and SCTV are the most popular stations in major cities and are available in 19 and 20 major cities, respectively. The potential viewership for any station is approximately 150 million people.

Another advertising medium is the "Standard Trade and Industry Directory of Indonesia," an official publication of the Indonesian Chamber of Commerce and Industry (KADIN). Requests may be made to the publisher at Jl. Hayam Wuruk 4 SX, PO Box 4556, Jakarta Pusat.

J. Product Pricing

Given the competition that American suppliers face from products supplied by foreign competitors, product pricing must take into account the costs of delivery, distribution, advertising, and image. As product pricing is one critical factor in determining the product’s success in the market, market research is a useful tool. This includes studies on both consumer preferences and competitive practices. Pricing is best developed with advice from local distributors, who are well attuned to the competitive factors at play in the specific market. U.S. companies may conduct their own market research, obtain information from the U.S. Commercial Service, or contract with private research firms (See Chapter XI for a list of consultants and contact information).

K. After-Sales Service and Customer Support

One critical aspect of a product’s successful penetration into any market is customer support and after-sales service. Some American firms face difficulties in providing this support due to distance and the costs of maintaining product support facilities in a foreign country.

Although some local distributor partners normally establish such mechanisms, firms should be prepared to invest substantial amounts of capital and manpower into making their local partner a first-class service provider. Regardless of the reputation a company may have internationally, Indonesian consumers value a firm that has on-the-ground customer support. They expect not only to have their needs handled locally, but also quick turnaround times.

L. Selling to the Government

Although plans are underway to privatize large state-owned companies, the Government of Indonesia is still a major customer of a variety of products and services. These cover the full range of defense materials, items needed for infrastructure projects, research and development programs, and several of the pure industrial needs categorized under "Strategic Industries." Strategic industries are under the control of the Department for the Empowerment of State Enterprises. The department is currently working with Lehman Brothers and Goldmann Sachs to set up ten holding companies to manage 144 state companies (BUMNs) as part of its BUMN reform program. The ten holding companies will be responsible for the management of the following sectors: financial services, agro-industry and consumer products, energy, tourism, telecom/media, strategic industries, logistics, mining, construction and building materials, and forestry, paper and wood-based products. In the process of forming the holding companies, there will be some liquidations involved along with the establishment of new companies.

Though it may be possible in some cases to sell directly to the government, there is good reason to use the services of an agent or distributor for the early stages of project development, delivery, installation and service needs. Traditionally, this is because most government procurement has been decided on the basis of influence peddling. This has not always meant that corrupt payments need be involved; pre-selection sometimes is based simply on favors to friends. This means that traditionally the rest of the tendering process simply has been a matter of “going through the motions” or a shadow play theater. New-to-the-market U.S. firms need the careful advice of local representatives to avoid wasting time and money in participating in a fake competition whose outcome is not transparent. The value of a local representative in this case is to make sure the outcome is favorable to his/her client, not the reverse. U.S. firms also need to be sensitive to the difficulty some Indonesians have in declaring bad news to someone; if your agent knows a tender is “cooked” against you, he may be reluctant to disappoint you with the bad news in advance. A close relationship with the agent is the best way to ensure frankness.

New efforts since May 1998 to root out corruption, collusion and nepotism (KKN, in Indonesian initials) in the government procurement process may make the process more legitimate. Also, Presidential Decree No. 7 of January 1998 was drafted to make transparent the tendering process for infrastructure projects, which until recently often resulted from an initiative of a private proponent, generally someone close to the Presidency. Implementing regulations have not been issued for this decree.

Most sales to the military must be carried out through an Indonesian agent. Often the customer will assist in the identification of the proper agent. American firms should become familiar with the "Blue Book", a listing of major projects identified by the Government of Indonesia as essential to national development priorities. The document is published annually by the National Planning Agency (BAPPENAS) and constitutes the official list of projects that are open to foreign official assistance and other sources of external financing. Most of the projects listed in this book require "soft loan" (low interest rate) financing. The U.S. government does not initiate soft loan financing, and although the U.S. Eximbank offers “matching” soft loans from its “war chest,” Indonesia almost never has accepted offers that would displace other donor commitments made through the annual World Bank-sponsored Consultative Group on Indonesia (CGI). Rarely, some U.S. firms have been successful at convincing Indonesian authorities to accept Eximbank matching soft-loans as “add-on’s” rather than displacements to another donor’s offer. Ad-hoc soft loans offered outside the CGI may offer opportunities for using Eximbank matching loans.

Projects listed in the Blue Book are classified into three categories, A, B, and C, according to their stage of preparation (i.e. feasibility). A Category C project, for example, is one for which feasibility has yet to be established. With such projects, there may be opportunities for foreign firms (especially engineering firms, consultants, etc.) to assist in determining feasibility. Category A and B projects, on the other hand, are ones for which feasibility has been or will soon be established. U.S. firms should also familiarize themselves with opportunities available through ADB or World Bank-funded projects.

M. Counter Trade Policy

The Government of Indonesia has since 1982 nominally required winners of some large government tenders to undertake reciprocal purchase or sale of Indonesian non-oil/gas products. It is stipulated for any imports of goods by government institutions that exceed 500 million rupiah in value and is financed by the State budget or other commercial credit. A foreign firm that wins this kind of government procurement is obligated to purchase Indonesian non-oil/gas commodities in an amount equal to a specified percentage of the value of goods and services bought by the government. Usually the foreign firm does not directly undertake this trade, but pays a fee to one of an approved list of Indonesian trading companies to undertake the trade on its behalf.

Procurement from the following is exempt from counter trade requirements: procurement funded by soft loans from multilateral banks; the domestic cost element of a foreign firm’s supply contract; services used by the government provided by professional experts such as accountants, lawyers, consultants and the costs of patents, fees, and the like; and purchases undertaken within the framework of joint ventures between a foreign company and a state-owned company.

In 1997 the value of counter trade reached $379 million; in 1998 it decreased to $195 million and involved 67 countries. The United States was first with $166 million worth of counter purchase, followed by Japan, Singapore, South Korea, and Philippines.

The Department of Industry and Trade is the coordinating and regulatory agency for counter trade deals. Contact:

Ir. Gumilang Putri Heryati, MM
Head of Counter Trade Division,
Directorate of Export and Import Facilitation
Directorate General of Foreign Trade
Ministry of Industry and Trade
Jl. M.I. Ridwan Rais, No. 5
Block 2, 8th Floor
Jakarta 10110, Indonesia
Tel.: (62-21) 345-0071, 385-8171 ext. 1164
Fax : (62-21) 385-8202

O. Selling to Specialized Sub-Markets

Pertamina: The national oil and gas monopoly oversees all oil and gas activities, although Production Sharing Contractors (PSC's) produce most of the hydrocarbons under contract. Purchases by either Pertamina or PSC's must be made through a local, Indonesian-owned limited liability company. Foreign suppliers have a choice of relationships they can establish, e.g. a temporary relationship for a specific sale or purpose; an agency relationship; or a joint venture, in which the Indonesian partner owns at least 5 percent of the venture. Only Indonesian companies can bid on most service contracts to Pertamina.

Most purchases of goods and services are through tender and generally only vendors with a registered vendor ID (Tanda Daftar Rekanan -- TDR) are considered qualified contractors (Daftar Rekanan Mampu - DRM) and able to bid. Sometimes direct purchasing is permitted, without competitive bidding. Under the new Presidential Decree (Keppres) No. 18/2000, the Indonesian government is establishing new Technical Guidelines for government procurement of goods and services. The decree establishes set-aside for SMEs according to the size of the procurement. Foreign suppliers are restricted to contracts worth over Rp. 10 billion (US$ 1 million) for goods/services and over Rp. 2 billion (US$ 200,000) for consulting cervices. Foreign supplier is required to cooperate with a small- or medium-sized company or cooperative in the implementation of the contract.

Tender awards by Pertamina are based on price, Indonesian content, technical advantage, and reputation. Domestic goods and services must be used, if available, even at higher cost. All equipment purchased by PSC's is considered Pertamina property upon arrival in Indonesia.

PT. Freeport Indonesia: As the largest American and foreign investor in Indonesia, producing copper and gold in Irian Jaya, Freeport is a major buyer of U.S. and other overseas goods and services for its workforce of 16,000 and its production that was planned to reach 160,000 tons of ore per day with mining facilities worth more than $4 billion. The company considers quality, price, delivery, and technical specifications of products needed. Under terms of its Contract of Work, Freeport Indonesia must allow local Indonesian suppliers to bid on all contracts, and the company follows a practice of attempting to increase procurements from Indonesia within the practical limitations of its selection criteria. Freeport Indonesia maintains purchasing offices in New Orleans (for U.S. and European suppliers), Singapore, Cairns (Australia) and Jakarta.

U.S. firms interested in selling to Freeport Indonesia should contact:

PT Freeport Indonesia Company
1615 Poydraw St., P.O. Box 51777
New Orleans, Louisiana 70112
Tel.: (504) 582-4176
Fax : (504) 582-4190

P. Regional “Growth Nodes”

Marketers and investors may also find advantage by establishing distribution or assembly/manufacturing operations in 14 “growth node” regions in Indonesia, which are targeted for economic development via special tax incentives. They include obvious large cities such as Jakarta, Surabaya, Bandung, Medan and Ujung Pandang, and less obvious districts such as Biak Island in Irian Jaya, and the Manado area of North Sulawesi. Although the government has established the “growth nodes,” it depends upon private initiatives to bring value to the idea.

The same is true concerning four “growth triangles” involving areas of Indonesia and neighboring ASEAN countries, and an “Australia Indonesia Development Area” -- all of which offer intra-regional incentives for regional distribution and assembly/manufacturing. The “Growth Triangles” include: Singapore/Riau Islands (Batam, Bintan and Karimun -- which are being developed as off-shore additions to Singapore’s industrial base; an international airport exists on Batam, which is 12 km. from Singapore); the Indonesia/Thai/Malaysia Growth Triangle (IMT-GT) including the northern-most Sumatra provinces of Aceh, North Sumatra, West Sumatra and Riau; the Indonesia/Malaysia/Singapore Growth Triangle (IMS-GT) including the Central and Southern Sumatra provinces including and south of Riau; and the Brunei/Indonesia/Malaysia/Philippines East ASEAN Growth Area (BIMP-EAGA) that was expanded in 1996 to include all Indonesian provinces in Kalimantan and Sulawesi, plus Maluku and Irian Jaya.

Finally, the “Australia Indonesian Development Area (AIDA)” aims to focus development attention on all of Indonesia except the islands of Sumatra and Java. U.S.

firms having strategic alliance with Indonesian or Australian entities can participate in AIDA projects.

Q. Protecting Your Product from IPR Infringement

Protection of intellectual property rights (IPR) in Indonesia is hampered by inadequate enforcement of the relevant laws and regulations. Foreign companies therefore must be vigilant in protecting their products from IPR infringement. Some choose to go through the Indonesian legal system, but cases may take several years before they are finally resolved.

Occasionally, foreign companies work with local law firms and law enforcement officials to conduct police raids on counterfeiters. Others conduct periodic seminars on the adverse effects of IPR infringement on the Indonesian economy, one of which is reduced investment by foreign companies.

Ultimately, the course taken by companies to protect their intellectual property rights will depend on their product. As an example, one U.S. company first identifies the counterfeiters of its products and then proceeds to work with them and sign them as legal licensees of its products. Some computer software companies provide free training and/or sell their software at competitive prices, while warning that copies of their product may contain damaging viruses. Also, companies with well-known trademarks must be vigilant in defending their marks by registering them early or seeking a cancellation of an unauthorized registration through the Ministry of Justice. In general, acquiring a strong local partner or agent can help in defending trademarks and intellectual property, as long as the arrangement remains amicable.

(See also Chapter VII - "Investment Climate" - for background on Indonesian laws and regulations regarding the protection of intellectual property rights.)

R. Need for a Local Attorney

Because Indonesia’s legal system is currently being overhauled and modernized, firms are strongly advised to locate and retain a local attorney early in the investment process. In the event of a commercial dispute, one should first attempt to reach consensus through negotiation, using a mediator acceptable to both parties if necessary. If deliberation fails to achieve consensus, then companies may enter into arbitration. To prepare for this eventuality, an arbitration clause should be included in any commercial contract with Indonesia chosen as the site of arbitration. This is recommended because foreign arbitral awards have proven difficult to enforce locally. Badan Arbitrase Nasional Indonesia (BANI) is the local arbitration board and companies may employ BANI or select their own arbitration vehicle and procedures (i.e. ICC or UNCITRAL). Only when arbitration fails should companies consider litigation. The Indonesian court system has proven to be an ineffective means of recourse for American companies.

Although foreign legal firms cannot yet open offices in Indonesia, a number of American attorneys consult with Indonesian firms, some having consulted locally for more than ten years. These attorneys are well placed to assist American firms in working their way through the Indonesian legal structure (See Chapter XI for a list of lawyers and contact information).

S. Trade Promotion

The Ronald H. Brown U.S. Commercial Center, located at the World Trade Center complex on Jalan Jendral Sudirman in Jakarta's business district, is a good place for firms interested in the Indonesian market to begin. The U.S. Commercial Center offers a variety of services that are beneficial to those wishing to take advantage of the many opportunities available in Indonesia. Full information on these services can be accessed from the Center's web site at : http://www.jakarta.uscc.org. Services include:

1. Facilities

The President's Room, located in the U.S. Commercial Center, is a well-equipped meeting room with catering options. Rental prices of this facility are less than that of an equivalent room in a hotel.

2. Market Research

The U.S. Commercial Center prepares a full range of sector specific research reports. These include short, topical Industry Market Insight (IMI) reports, and detailed Industry Sector Analysis (ISA) reports. In some sectors, ISA reports cover all ASEAN countries. All these can be easily accessed from the U.S. Commercial Center's Web Site.

3. Trade Shows

The U.S. Commercial Center maintains a presence at all the major trade shows in Indonesia and promotes U.S. goods and services through its U.S. Catalog/Video Pavilion. Interested firms can partake in the Catalog/Video Pavilion and for a small fee, the following is offered:

I. Company catalogs and promotional literatures are exhibited at the U.S. Pavilion at the major Indonesian trade shows in a number of sectors. In addition, trade show visitors can view promotional videos and websites using the Pavilion's two touch screen computers.

II. A record of Pavilion visitors who have reviewed promotional material and expressed interest is kept. That record, along with bio information on interested companies is sent to the Catalog/Video Pavilion participant.

III. Promotional materials used in the trade show are also exhibited for one full year in the permanent Catalog/Video Exhibit at the U.S. Commercial Center. Over 1,800 Indonesian representatives visited the U.S. Commercial Center last year.

4. Contact Building

The Agent/Distributor Service, offered through U.S. Export Assistance Centers, is an inexpensive way to build a shortlist of potential local representatives. This service, using our Commercial Specialists who contact local firms to determine their interest in representing the American principal, costs $250 and takes about 45 days to complete. The Gold Key Service offers an appointment service for business executives visiting Indonesia. Upon receiving company promotional material, commercial specialists investigate the local market, select potential business contacts, communicate with them, and build an appointment schedule with firms that appear to best meet the interested business' needs. When he or she arrives in Indonesia, a full schedule of appointments is already established.

To determine whether or not the Gold Key Service is an appropriate investment, free preliminary evaluations of products' potential in the Indonesian market are offered. To take part in this free evaluation, fax product literature and a half-page description of products/services. Upon completion of the preliminary evaluation, results and recommendations will be faxed back to you.

The full range of Gold Key Services is listed below:

I. Gold Key Service: $350 for research on one line of products and the scheduling of one day of appointments (generally at least four per day) in one city. Each additional day is $250 more. Four weeks of lead time is required, from the day product literature is received.

II. Two-City Gold Key: A full day of appointments in Jakarta, followed by another full day in Surabaya, Indonesia's second largest city. The cost is only $625 for these 2 days of appointments, and $200 for each additional day in either city.

III. Videoconferencing Gold Key: Only $350 for up to 8 appointments. Because of the time zone differences, these are generally scheduled over a 2 day period.

To request Gold Key appointment service or any of the other services listed above, email jakarta.office.box@mail.doc.gov, or contact Michael Carroll, Commercial Officer, Trade Promotions at fax (62-21) 526-2855 or Email: Michael.Carroll@mail.doc.gov. More extensive contact information for the U.S. Commercial Center is available in Chapter XI.

T. The Agricultural Affairs Office

The Agricultural Affairs Office (AAO) in Jakarta is the USDA office in Indonesia that works closely with U.S. exporters, Indonesian importers, trade associations and

Indonesian Government officials to increase sales of U.S. bulk and intermediate agricultural products. In addition, the AAO reports on a number of commodities and is responsible for agricultural trade policy and food assistance issues. A branch of AAO is the Agricultural Trade Office which covers the promotion of U.S. high value agricultural products. The AAO is able to assist interested agricultural exporters in a variety of ways:

1. Product and Market Information: Commodity reports and Indonesian contact lists are available on request.

2. Services and Facilities: Visiting exporters can take advantage of in-country briefings and five-star hotel arrangements at competitive U.S. embassy rates.

3. Trade Shows: The AAO encourages participation by U.S. companies in appropriate trade shows for bulk and intermediate commodities.

4. Trade Leads, Buyer Alert and AgExport Kit Services: The USDA Washington office provides a variety of services to U.S. companies. Please contact Sharon Claggett or Linda Conrad for more information, at phone: (202) 690-3416, fax: (202) 690-4374.

5. Foreign Agricultural Service's (FAS) Home Page: http://www.fas.usda.gov. The FAS Home Page provides exporters, producers, processors, researchers, trade organizations, financial institutions, and other interested individuals and groups with access to facts, figures, analysis, and activities of agricultural trade - around the clock and around the world.

U. U.S. Agricultural Trade Office (ATO)

The Agricultural Trade Office in Jakarta is the USDA office in Indonesia that works closely with U.S. exporters, Indonesian importers, trade associations, and Indonesian Government officials to increase sales of U.S. high value or consumer ready food products. The ATO is a branch of the Agricultural Affairs Office. The ATO is able to assist interested food exporters in a variety of ways:

1. Product and Market Information: Lists of importers and commodity reports are available upon request.

2. Services and Facilities: Visiting exporters can take advantage of in-country briefings, five-star hotel arrangements at competitive U.S. Embassy rates, and temporary office space.

3. Promotion Activities: A multitude of promotion opportunities are offered by the ATO, including trade shows (every year the ATO stages one major food show and several category specific food shows in Jakarta), agent shows (an opportunity for regional agents to join ATO sponsored trade shows and seminar series in major cities outside of Jakarta), in-store promotions (3-4 in-store promotions are held

each year), a monthly newsletter (sent to about 300 Indonesian traders featuring news about various products), and a library and showcase in our office that displays company information and products.

To take advantage of the activities that ATO offers, contact Dennis Voboril, Director, at fax (62-21) 571-1251, or phone at (62-21) 526-2850. Also, please refer to the U.S. Embassy Jakarta website: www.usembassyjakarta.org/fas/

V. Public Affairs Section Programs for Trade Development (PAS)

PAS organizes programs designed to help promote trade and investment. In Indonesia PAS speakers, satellite television and teleconferencing programs help promote understanding of measures needed to promote Indonesia's commercial climate. PAS programs promote the reduction of trade barriers, protection of intellectual property rights, and encourage sustained Indonesian support for trade liberalization.

PAS operates the Information Resource Center (IRC), a state-of-the-art electronic research facility located in the PAS building on the U.S. Embassy compound. IRC resources include internet access and a variety of databases accessible on-line. These include the Public Diplomacy Query (PDQ) database, Dialog, Legi-Slate, and Westlaw.

The IRC's collection of CD-ROMs include the UMI/PROQUEST series, which indexes hundreds of periodicals, with over 200 available in full image text, the U.S. Code Annotated, Phonedisc, and North American Fax. IRC staff maintains the U.S. Embassy Jakarta home page, a website with current information about the U.S. Mission, with direct links to the U.S. Department of State Foreign Affairs Network, other U.S. government agencies, and additional sites related to foreign affairs, trade, and important bilateral issues.

The PAS also recruits speakers for events such as the annual Economic Seminar, co-sponsored with the Indonesian Economists Association, and on topics including U.S. trade policy and trade promotion. For further information on the speakers program, please contact the Cultural Affairs Officer at (62-21) 344-2211, extension 2525.

The PAS Press Section, through its Book Translation Program communicates U.S. views on trade and investment issues to Indonesian policy makers and the public. Books translated into the Indonesian language under the auspices of the program include The Language of Trade by Michael Smith, The Rise of the Trading State, by Richard Rosecrance, Protectionism, by Jagdish Bhagwati and Preparing for the 21st Century, by Paul Kennedy.

W. United States Agency for International Development (USAID)

Through its development activities, USAID promotes the adoption of open trade and investment regimes and creates opportunities for U.S. technology, equipment, and services. USAID supports Indonesia's efforts to strengthen its commitments to free and open trade through reductions in tariff and non-tariff barriers thought its technical assistance to the BOI. Much of this work is being carried out in the context of Indonesia's international agreements within APEC, ASEAN and WTO. USAID is also facilitating adoption of updated laws ad regulations which will facilitate commerce and economic development as Indonesia enters the 21st century. This work has already assisted in the promulgation of new legal frameworks for capital markets, companies law, and commodities futures trading. Current work is focused on competition law, bankruptcy, secured transactions, and arbitration.

USAID's Indonesia energy program promotes the sustainable application of technologies that reduce local and global pollutants. These technologies include both grid-connected and off-grid renewable energy as well as supply and demand side energy efficiency. Activities include pilot projects, resource mapping, cost-sharing feasibility studies with developers, training, transfer of technologies for cleaner generation from fossil fuels and support for the state utility's new small private power producer program, which emphasizes renewable energy. In addition, the USAID-supported Utility Partnership Program funds a series of executive level exchanges between U.S. and host country utilities to examine how each addresses issues of mutual interest.

To date, there are four partnerships under this program: PT PLN Persero and Southern Energy, Inc of Atlanta, Georgia; PLN GENCO 1 with Portland General Electric of Portland, Oregon; PLN GENCO 2 with Mississippi Power of New Orleans; and PGN the Enron Energy Corporation of Dallas, Texas. Of special interest to U.S. renewable energy developers is the assistance available through Yayasan Bina Usaha Lingkungan (YBUL), a USAID-supported Non-Government Organization specializing in the commercialization of renewable energy.

Yayasan Bina Usaha Lingkungan
Tel. : (62-21) 520-3313
Fax : (62-21) 525-4305
Email : ybul@indo.net.id

USAID's CLEAN/Energy activity supports the Indonesian Government's efforts to reform the energy sector, thereby improving efficiency and attracting private investment. These reforms consist of rationalizing the pricing of energy, reducing energy subsidies. Redefining the role of government in the sector, developing the regulatory framework for a competitive energy market, and promoting options for cleaner energy production and use. In the electricity sector, CLEAN/Energy provides technical assistance to improve the capacity of the Restructuring Secretariat in supporting policy reforms. In the oil and gas sector, USAID provides assistance for the development of a regulatory framework for a more market-based system. CLEAN/Energy also provides assistance for improving the policy analysis capability of the Ministry of Mines and Energy in order to accelerate market-based reforms. Technical assistance is also being provided to eliminate lead form fuels. Information on these activities can be obtained thought the office of Urban and Energy Management, USAID/Indonesia (See Chapter XI for contact information regarding USAID/Indonesia).

X. United States-Asia Environmental Partnership (US-AEP)

U.S. companies interested in environmental business opportunities should contact the United States-Asia Environmental Partnership (US-AEP). A joint program of U.S. Department of Commerce and USAID, US-AEP promotes sustainable development in Asia through improved access to U.S. expertise, technologies, services and equipment to accelerate U.S. environmentally friendly technology transfers. All US-AEP activities are focussed on the objective of promoting an Asian "clean revolution," by encouraging countries to develop and adopt less polluting and more resource-efficient products, processes, and services to use during the development process. US-AEP promotion of environmentally sound technology and services provides business opportunities for a number of U.S. firms. In Indonesia, US-AEP offers two programs to assist businesses:

A. Office of Technology Cooperation: The Technology Representative's office assists U.S. firms in introducing responsible environmental products and technologies to decision-makers in Asia's public and private sectors.

B. US-AEP Environmental Infrastructure: This program helps local governments and communities deal with the environmental problems brought on by rapid urbanization. US-AEP assists local authorities address such environmental challenges, such as the lack of municipal sewage and solid waste facilities and insufficient water supplies through the transfer of U.S. environmental technologies, services, and management techniques.

The Office of Technology Cooperation and Environmental Infrastructure offices can utilize the Environmental Exchange Program (EEP) in support of environmental initiatives. These programs provides Asian professionals and organizations opportunities to address critical environmental needs in areas such as pollution prevention, environmental and hazardous waste management, air pollution, clean and efficient technology, water supply, solid waste management, and wastewater treatment. EEP programs usually take place in one of the following forms: Environmental Business Exchanges, Environmental Technical Exchanges, and Environmental Fellowships.

Trade Delegations

On an annual basis, US-AEP invites Indonesia business people to join US-AEP's two environmental reverse trade missions to the U.S. The Air & Waste Management Association (A&WMA) organize one conference and the Water Environmental Federation (WEFTEC) organizes the other conference. On a one-time only opportunity, US-AEP will reimburse each pre-qualified delegate $1,000 after they have attended all of the site visits, the exhibition and the pre arranged one-on-one appointments with US business people.

FY 2001, US-AEP is anticipating taking between ten to fifteen Indonesian businesspeople to these conferences. These conferences highlight American capabilities to provide solutions to industrial problems, such as, air pollution reduction and control equipment, air pollution monitoring, wastewater treatment and reduction, recycling, composting, engineering services and solid waste management.

Grant Assistance

US-AEP administers grants in support of its Indonesian country programs:

1. Through Institute of International Education (IIE), grants are available to provide private and public sector training (i.e., workshops and site visits) either in-country or in the states. These exchanges are normally for one, sometimes two weeks. Normally, these grants are less then US$ 10,000.

2. Through the National State Agency Development Agency (NASDA), a business to business exchange or a US business to local government exchange, grants are used to facilitate US sales. These grants are market/company driven, taking one to four months to activate from the writing of the proposal to departing for the exchange. The duration for the exchange can be one to four weeks and grants offered are for US$ 25,000 or less and are cost sharing.

3. Through the Council of State Governments (CSG), sister-city relationships that are established as long termed relationships between two partners (i.e., Lake Toba Preservation Society and Lake Champlain Clean Lakes advocacy group). These proposals are vetted once a year and might take two to thee years to complete. The grants are up to US$ 150,000 and are cost-sharing

If interested in any of these US-AEP programs, contact US-AEP in Washington or the US-AEP offices in Jakarta (See Chapter XI for contact information).

Y. Office of the Military Attaché for Defense Programs (OMADP)

OMADP is the principal point of contact for most U.S. defense industry representatives marketing defense equipment in Indonesia. In general and subject to releasability considerations (including export licensing), OMADP's main function is to facilitate the flow of information regarding U.S. systems to help Indonesian buyers make acquisition decisions, either commercially or through Foreign Military Sales (FMS).

OMADP can assist industry representatives by arranging both appointments within the U.S. Embassy and appointments with Indonesian military offices. Additionally, OMADP is a valuable source of information on the Indonesian military procurement system.

OMADP offices can be contacted at the U.S. Embassy, phone (62-21) 344-2211, ext. 2603 or fax (62-21) 384-3339 (More extensive contact information is in Chapter XI).

CHAPTER V - LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

The U.S. Embassy in Indonesia has identified a number of “best prospect” sectors, i.e. sectors of the Indonesian economy that offer particular export opportunities to U.S. firms.

Below are the listings of thirteen “best prospect” industrial sectors identified by the U.S. Commercial Service and the five top agricultural sectors identified by the Foreign Agricultural Service in Indonesia. Each listing is followed by a narrative description and statistical snapshot of the sectors. American exporters in these sectors are encouraged to contact the Commercial or Agriculture offices at the Embassy to explore avenues for entering or expanding their presence in these markets.

A. Best Prospects for Non-Agricultural Industries

1. Educational and Training Services (EDS)
2. Industrial Chemicals (ICH)
3. Oil and Gas Equipment (OGM)
4. Mining Equipment (MIN)
5. Paper & Paperboard (PAP)
6. Life Insurance (INS)
7. Forestry and Woodworking Machinery (FOR)
8. Computers and Peripherals (CPT)
9. Telecommunications Equipment (TEL)
10. Industrial Pumps (PVC)
11. Agricultural Chemicals (AGC)
12. Food Processing and Packaging Equipment (FPP)
13. Food Supplements (FOD)

Best Prospects are ranked by estimated growth, in U.S. dollar values, of U.S. exports over the coming year. U.S. $1 = Rp. 8,000

Rank : No. 1
Educational and Training Services
EDS

With a population of over 200 million, Indonesia offers a huge potential market for U.S. providers of secondary, tertiary, and vocational education. Rapid and prolonged economic growth until late 1997 had created the wealth and the demand for the best education available. U.S. schools remain the prefered option for many of the upper middle class and wealthy Indonesians. New laws allow foreign schools to operate more broadly in Indonesia.

In 1998, it was estimated that there were 137,461,670 Indonesians between the ages of 7-44. 31.66 percent (43,524,100) Indonesians of that age group are enrolled in formal education. The remaining 68.34 must rely on non-formal vocational education and training programs. Because of the on-going economic crisis, studying abroad is prohibitively expensive for many Indonesians. Thus, educational institutions that are able to provide the benefits of a foreign education without the costs of traveling abroad are likely to be popular options.

In 1998, the Government of Indonesia (GOI) released a set of regulations which allows foreign educational institutions at the tertiary level to operate in Indonesia. In order to improve the quality, competitiveness, and competence of Indonesian human resources, the Indonesian Ministry of National Education has also announced regulation No. 261/U/1999, which to allows foreign institutions/companies to establish training centers in the Republic of Indonesia. This regulation allows foreign training centers to conduct courses for foreign languages, information technology, industrial/technical training, management/business training, transportation, hospitality and health, and other critical fields.

USD Millions	1998	1999	2000 (Est)
Total Market Size of Education	2,195.5	2.308.5	2,308.5
Sales by Local Institutions	1,429.7	1,572.7	1,572.7
Total Sales by Foreign Institutions	765.8	735.8	735.8
Sales by US Institutions	332.1	265.7	265.7

Note: The above statistics are unofficial estimates

Rank : No. 2
Industrial Chemicals
ICH

With the appreciation of the rupiah against the U.S. dollar in 1999 its trade in the Rp 7,000 – 8,000/ US$ range, the industrial chemical industry has been reviving. Despite increased domestic production, Indonesia demand for chemical imports has increased as the currency has strengthened and as the economy has begun to show improvement. This increased demand represents export opportunities for U.S. manufacturers of certain chemical products.

As of the end of 1999, Indonesia's dependence on imports of chemical material remained quite strong, particularly on import of upstream and midstream products. The existing midstream and upstream chemical industries do not yet meet local demand and the demand is projected increase to the next two years, consequently Indonesia will remain heavily dependent on imports for next two years.

Promising subsectors: petrochemicals, dyestuff, organic and inorganic chemicals, fertilizer chemicals and plastic raw materials.

USD Millions	1998	1999	2000 (Est)

Total Market Size	1,209.8	1,591.7	1,919.9
Local Production	464.5	326.5	326.5
Export Market	806.3	886.9	886.9
Import Market	1,551.6	2,152.1	2,480.3
Imports from the U.S.	136.6	215.2	297.6

The main suppliers of the industrial chemical products covered are Japan, Singapore, South Korea, the United States and Saudi Arabia.

Rank : No. 3
Oil and Gas Equipment
OGM

The capital invested by Production Sharing Contract (PSC) operators in Indonesia reached $4.4 billion in 1999, only slightly down from $4.7 billion in 1998. The market for oil and gas equipment remains one of the best prospects for U.S. exports.

Indonesia imported $512.9 million worth of oil and gas equipment in 1999. Imports of U.S. products amounted to $205.3 million, or 43.4 percent of the total import requirement. American suppliers are particularly strong for the following equipment: tools for drilling (not rock drilling), self propelled boring and sinking machinery, parts of boring/sinking machinery, drill pipe of a kind used in drilling for oil and gas, other line pipe of a kind used for oil and gas pipelines, and floating or submersible drilling or production platforms.

It is predicted that the market for oil and gas equipment will increase by approximately five percent next year. Enhanced oil recovery (EOR) equipment is expected to have very good prospects in the coming years, as Indonesia's limited oil reserves are continuously shrinking. More than a quarter of crude oil is currently produced using EOR technology.

USD Millions	1998	1999	2000 (est)
Total market size	575.4	512.9	538.5
Total local production	80.0	85.0	89.3
Total exports	30.0	45.0	47.3
Total imports	525.4	472.9	496.5
Imports from the U.S.	256.6	205.3	215.6

Note : The above statistics are unofficial estimates.

Rank : No. 4
Mining Equipment
MIN

Business activity in the Indonesian mining sector remains stable. In 1999, the mining sector showed a net revenue gain of 0.6% , after a decline of 3% in 1998. The mining industry contributed 3.7% and 2.8% to the Gross Domestic Product (GDP) in 1998 and 1999, respectively.

Before the crisis, the total Indonesian market for surface mining equipment had grown at an annual rate of about 22% per year. As a result of the economic slowdown, investments in mining equipment were cut back significantly, dropping from $886.5 million in 1997 to $641.8 million and $371.6 million in 1998 and 1999, respectively. However, because the mining industry has put off purchases for so long, over the next three years the total market value should grow at a annual rate of at least 10%, if the investment climate somewhat improves.

U.S. suppliers of surface mining equipment held 20% of the market in 1997, with this share increasing to 35% in 1998 and 1999. American suppliers are particularly strong in the following areas: pneumatic elevators; bulldozers; other hydraulic excavators; self-propelled coal or rock cutters and tunneling machinery; self- propelled boring or sinking machinery; buckets, shovels, grabs and gribs; parts of boring and sinking machinery; crushing and grinding machines for stones; and other crushing or grinding machines for stones.

The following table shows the development of the Indonesian market for surface mining equipment in two years, 1998-1999, with an estimate of the market for 2000.

USD Millions	1998	1999	2000 (est)
Market Size	641.8	371.6	403.1
Local Production	148.7	112.8	112.8
Total Exports	89.2	56.4	56.4
Total Imports	582.3	315.2	346.7
Import from the U.S.	203.8	111.3	121.4

Note: The above statistics are unofficial estimates

Rank : No. 5
Paper & Paperboard
PAP

Indonesia’s pulp and paper industry has grown at an average annual rate of 20% in the last decade. The industry is still largely reliant on imports of pulp, waste paper, and chemicals to process pulp and paper products, which come mostly from the United States.

Indonesia produces both long and short fiber, although the majority is short fiber pulp from local plantations - rice straw, bagasse, kenaf, and wood. Since pulp mills are often part of large scale and integrated pulp and paper operations, pulp output is supplied to the paper manufacturing operations. Export is a secondary market for the excess pulp supply only. Currently, there are 14 short fiber pulp mills and 3 long fiber pulp mills from a total of 80 pulp and paper manufacturers in Indonesia.

USD Millions	1998	1999 (Est)	2000 (Est)
Import Market	678.5	883.5	1,800
Local Production (tons)	9.8	11.5	14.0
Export Market	855	1,125	1,500
Total Market Size	n/a	n/a	n/a
Import from the U.S.	87.5	101.5	600

Note:
The above figures are unofficial estimates based on HS no. 470100000 to HS no. 470790900.

Best prospects:

HS Codes	Product Description
470100000	Mechanical wood pulp
470200000	Chemical wood pulp, dissolving grades
470311000	Chemical wood pulp, soda or sulphate unbleached, of coniferous
470321000	Chemical wood pulp, soda or sulphate bleached, of coniferous
470329000	Chemical wood pulp, soda or sulphate bleached, of non-coniferous
470411000	Chemical wood pulp, sulphite, unbleached, of coniferous
470421000	Chemical wood pulp, sulphite, bleached, of coniferous
470500000	Semi chemical wood pulp
470710100	Waste of paper/paperboard of unbleached kraft paper for paper making purposes
470790100	Unsorted waste and scrap for paper making purposes

Rank : No. 6
Life Insurance
INS

Unlike Indonesia's ailing banking sector, the life insurance industry has fared well in coping with the ongoing economic crisis. In fact, most insurance companies booked solid growth in premium incomes in the last two years due to a significant growth in the number of new policyholders.

The demand for life insurance continued to grow despite a drastic drop in early 1998 when many policyholders discontinued their contracts. The bullish demand will continue to expand in coming years with an improvement in people's awareness about the importance of life insurance.

According to data provided by the Association of Indonesian Insurance Companies, total premium income of all insurance companies in Indonesia reached Rp1.89 trillion ($236 million) in the first half of 1999. This is more than half of 1998 total premium income of Rp3.13 trillion ($390 million). A survey on the performance of 36 local and joint-venture insurance companies revealed that a sharp rise in new premium income and the number of new policyholders contributed to significant growth in the first half of 1999. It was projected that 1999 total premium income will exceed 1998's by 50 percent. In 2000, the life insurance industry was projected to grow at least 29 percent from 1999.

However, while new premium growth was impressive in the first half of 1999, income from continued premiums (premiums of old policyholders) during the same period only constituted 43 percent of total continued premium income in 1998. Nevertheless, as the second half of the year is a significant growth period in the insurance industry, it is expected that the total income of continued premiums will reach the same amount as in 1998.

USD Millions	1998	1999	2000
Total Premium Income ($ million)	390	585	755
Total Claims ($ million)	742	338	436
Number of policyholders (thousands of people)	17,200	18,600	24,000
Number of agents (thousands of people)	49	67	86

Note:
The above statistics are unofficial estimates
Exchange Rate 1997-1999 1 US$ = Rp 10,000

Rank : No. 7
Forestry and Woodworking Machinery
FOR

The forestry sector continues to play an important role in the national economy. Tropical forests cover 143 million hectares, or 75 percent of Indonesia's land, making Indonesia Southeast Asia's richest nation in terms of forest resources.

The forestry and woodworking equipment market is driven by the demand for Indonesian wood products. The value of Indonesia's exports of forest products in 2000 is expected to reach $8 billion. Plywood, pulp and paper, sawn timber, and logs currently dominate the export market for forest products. Indonesia's forest product export policy encourages export of decorative plywood, carved panels, knock-down furniture, and value added finished products. In the past two years, the furniture industry has also grown into a significant downstream industry.

The target for log production in 1999/2000 and 2000/2001 is expected to reach 114.72 million cubic meters or 57.36 million cubic meters per year, of which 32.8 million cubic meters is from natural forests, 22 million cubic meters from plantation forests, and 2.56 million meters cubic from community forests.

Promising Subsectors: woodworking equipment, feller bunchers, and harvester machinery

USD Millions	1998	1999	2000
Total Market Size	373.1	265.5	350.0
Total Local Production	63.2	64.5	70.9
Total Export	20.2	25.6	26.8
Total Import	360.1	226.6	305.9
Imports from the U.S.	85.9	43.4	56.4

Note: The above statistics are unofficial estimates.

Rank : No. 8
Computers and Peripherals
CPT

Indonesian computer and peripherals imports experienced a slight growth to $121 million in 1999 from $120 million in 1998. This growth contrasts with a decrease of 49% in the period of 1997-1998. It is estimated that the Indonesian computer market will further increase in 2000. This is not only because more Indonesian companies are implementing IT solutions to support their businesses but also because of the development of the Indonesian internet sector.

In 1999, the United States played a substantial role in Indonesian computer and peripherals imports. With a total import value of $36 million- representing a 30.31% market share – the United States was the import leader in this industry, followed by Singapore (18.59%), Germany (12.69%), and Japan (6.98%).

In 1999, Indonesia’s largest computer and peripherals import was H.S. 8471.90.000: Other data processing machines and units thereof, accounting for 14.33% of the total imports. The biggest supplier for this category was U.S. (38.02%), followed by Austria (10.31%) and Germany (7.52%). The second largest import was H.S. 8471.60.200: Display monitors, accounting for 11.18% of the total imports, which came from Chine (26.96%), Singapore (16.00%) and U.S. (14.79%). The third largest import was H.S. 8471.49.900: Other than CPU for personal microcomputers presented in the form of system, accounting for 9.08% of the total imports, which came from Germany (24.76%), Singapore (18.91%) and U.S. (17.80%).

USD Millions	1998	1999	2000 (Est)
Total Market Size	222	237	280
Total Local Production	180	410	450
Total Exports	78	294	310
Total Imports	120	121	140

Imports from the U.S.	32	37	43

Note: The above statistics are unofficial estimates.

Rank : No. 9
Telecommunications Equipment
TEL

The Indonesian Government has made a strong commitment to support the development of its telecommunications infrastructure. The Indonesian Government will start liberalizing this sector gradually by allowing foreign telecommunications companies to enter the Indonesian telecommunications sector with the stipulation that they must enter into an agreement with the state owned telecommunications company, PT Telkom, and/or pay compensation. The Indonesian Government recognizes that new entrants into the telecommunications market would accelerate market growth. This will increase opportunities for US telecommunications equipment and service companies to enter the Indonesian market.

Uncertainty about government policy led to a decrease is telecom imports from 1998-1999. In 1999, total Indonesian telecommunication import value was $135 million, a decrease of 68% from $424 million in 1998. With a total import value of $14 million - representing a 10.48% market share – the United States, in the fourth position, was among the largest Indonesian telecommunications suppliers. Germany with market share of 28.1% was the market leader, followed by Korea (14.7%), and France (12.4%). As policy questions are settled, imports are expected to rebound

In 1999, Indonesia's largest telecommunications equipment import was H.S. 8517.90.100: Parts for Telephone Sets, accounting for 22.28% of total imports. The biggest supplier for this telecommunications equipment was Germany (52.51%), followed by France (16.57%), and Sweden (10.76%). The second largest import was H.S. 8525.20.100: Cellular Telephone, accounting for 15.88% of the total imports, which came from Korea (90.31%), followed by Finland (2.11%), and Sweden (1.76%). The third largest import was H.S. 8517.80.000: Other Electrical Apparatus for Line Telephony/Telegraphy, accounting for 11.61% of the total imports, which came from Germany (64.36%), followed by Japan (10.08%), and the United Kingdom (8.66%).

USD Millions	1998	1999	2000 (est)
Total Market Size	551	229	249
Total Local Production	510	378	398
Total Exports	383	284	298
Total Imports	424	135	149
Imports from the U.S.	113	14	23

Note: The above statistics are unofficial estimates.

Rank : No. 10
Industrial Pumps
PVC

The domestic market for industrial pumps is expected to remain strong in the long-term, because of strength in a number of key end-user markets, including the chemical, petrochemical, food processing, waste water, pulp and paper, coal and gold mining industries.

A wide range of international brands is available in Indonesia through local agents and distributors. The market offers plenty of opportunities for entry of new U.S. brands. American pumps are well regarded in the local market, as they are known to be of excellent quality and long durability.

Local producers are still unable to produce sophisticated and high quality industrial pumps; therefore, a large share of Indonesian pump consumption is still imported. The U.S. was the largest supplier of pumps to Indonesia followed by Japan in 1999, accounting for 25.6 percent and 16.0 percent, respectively.

Promising Subsectors: oil and gas (API standards), chemical, mining, processing, and industrial pumps.

Export and Import Figures, 1998 - 2000

USD Millions	1998	1999	2000
Total Market Size	126.0	85.7	89.9
Total Local Production	2.0	2.4	2.5
Total Export	1.6	1.9	2.1
Total Import	125.6	85.2	89.5
Imports from the U.S.	35.1	21.9	22.9

Note: The above statistics are unofficial estimates.

Rank : No. 11
Agricultural Chemicals
AGC

The agricultural chemicals industry is one of the most promising industries in Indonesia. Currently, 25.9 million hectares are under cultivation of which 16.9 million hectares for food crops (rice, corn, soya bean, etc), 0.5 million hectares for horticulture (onion, garlic, vegetable, etc), and 8.5 million hectares for plantations (coconut, clove, sugar, etc).

According to the Department of Agriculture, fertilizer consumption in Indonesia for the planting season of 1999-2000 was around 7.0 million tons, consisting of 4.5 million tons urea, 1.0 millions tons KCl, 900,000 tons ZA, and 600,000 tons TSP fertilizers.

Indonesia's overall annual demand for pesticides is estimated at 300,000 tons. Currently, almost eighty percent of pesticides' active ingredients are imported.

Promising sub-sectors include fertilizer, herbicides/growth regulators and fungicides.

USD Millions	1998	1999	2000
Import Market	136.17	271.10	311.77
Local Production	1,754.40	1,824.58	2,098.27
Export Market	234.25	252.80	263.50
Total Market Size	1,656.32	1,842.88	2,146.54
Import from the U.S.	6.10	9.76	12.75

Note:
The above statistics are unofficial estimates and include HS no. 310100140 to HS no. 310590000 and HS no. 380810000 to HS no. 380890900
U.S. imports are assumed to be 3.6% and 4.1% in 1999 and 2000 respectively

Rank : No. 12
Food Processing and Packaging Equipment
FPP

In the year 2000 the Food Process and Packaging Equipment sector is expected to grow by 1.09 percent and the U.S. exports to Indonesia are expected to grow by 1.16 percent.

Small home industries still predominate most processed food sectors, especially noodles, bakery/biscuits/cookies, sweets and snack foods.

Local distributors mentioned that U.S. equipment is well-known with an excellent reputation because of quality, durability, and high technology: however, U.S. products are not always price competitive.

Foreign investment in the food processing and packaging equipment is increasing as a result of liberalized investment regulations and the need for new capital in the wake of the near collapse of the economy. Heinz (P.T. Heinz ABC Indonesia), Campbell Soup (P.T. Arnott's Indonesia) and Nabisco (P.T. Nabisco Foods) are U.S. corporate operations in Indonesia which export to the region using their world brand names.

The main players are large-scale food-industrial corporations such as P.T. Indofood Sukses Makmur Tbk, ABC group, Pronas Group, Sierad Group and Orang Tua Group, all of which are multi-product, vertically integrated manufacturers and processors. Small and medium size companies, however, also thrive. Most firms focus on supplying the fast-growing domestic market.

The best sales prospect for U.S. food processing and packaging equipment include:

HS 84.22.30.900	Other machinery for filling and closing containers
HS 84.22.40.000	Other packing and wrapping machinery
HS 84.38.90.000	Parts and machinery for the industrial preparation/manufacture of food/drink
HS 84.41.10.900	Other cutting machinery

Within these sectors, U.S. suppliers are already relatively strong and should strengthen their market position with respect to other countries.

USD Millions	1998	1999	2000 (Est)
Total Market Size:	443.5	357.0	390.87
Total Local Production:	44.0	47.0	50
Total Exports:	6.6	9.0	10
Total Imports:	406.1	318.977	350.87
Total Imports from U.S.	7.6	6.917	8

Note: the above statistics are unofficial estimates.
Source: Central Bureau Statistics

Rank : No. 13
Food Supplements
FOD

Indonesia enjoyed remarkable economic growth before the economic crisis began in July 1997. This growth led to a rapidly expanding middle-class with more sophisticated demands and to a change in consumption patterns. These developments in turn increased health awareness and demand for food supplements.

The food supplements market in Indonesia was estimated at $43.8 million in 1999 and it is projected to grow by 5-10% in 2000. The market consists of over 70% imports with some locally sourced or manufactured items. Imported products are dominated by the US, followed by Australia, China, Japan and Taiwan. US products are highly regarded in Indonesia with a market share of around 40% of total imports. This situation is unlikely to change in the near future.

USD Millions	1998	1999	2000 (Est)
Total Market Size	33.3	43.8	50.0

Total Local Production	9.6	10.0	10.0
Total Exports	0	0	0
Total Imports	23.7	33.8	40.0

Note: The above statistics are unofficial estimates

B. Best Prospects for Agricultural Sectors

1. Cotton
2. Soybeans
3. Soybean Meal
4. Wheat
5. Consumer Ready Food Products

Cotton

Indonesia remains the world's largest cotton importer. Marketing year 2000/01 imports are forecast to remain stable at about 510,000 tons. Cotton imports for MY1999/2000 are estimated up at 3,000 tons from the previous year at 510,000 tons as spindle utilization started increasing as the country's political and economic situation began to stabilize. The U.S. cotton market share was steady at 15% in MY1999/00 (Aug-Dec) (15% in MY1998/99) but is forecast to increase in MY2000/01 due to quality and price competitiveness.

1,000 Metric Tons	1998/99	1999/00	2000/01
	Aug/Jul Marketing Year		
		(Est)	
Total Market Size	479	509	509
Total Local Production	3	3	3
Total Exports	0	0	0
Total Imports	507	510	510
Total Imports from U.S.	76	77	81

Soybeans

Indonesia is the world's largest consumer of soybeans for food use. Per capita consumption of soybeans, primarily in the form of tofu and tempe, is ten kilograms annually. The United States is the dominant supplier of the large and growing import market for soybeans. Increased emphasis on corn production suggests that domestic soybean production will remain flat while demand and imports continue to rise. Domestic consumption has not been affected by increased prices, as soybean products remain the most inexpensive protein source for the Indonesian consumer.

1,000 Metric Tons	1998/99	1999/00	2000/01
	Oct/Sept Marketing Year		
		(Est)	

Total Market Size	2,390	2,630	2,800
Total Local Production	1,300	1,360	1,420
Total Exports	0	0	0
Total Imports	1,070	1,284	1,400
Total Imports from U.S.	1,039	1,200	1,260

Soybean Meal

The poultry industry is beginning to recover from the economic downturn of 1997 and 1998, pushing soybean meal imports up an estimated 18 percent for 1998/99 marketing year. The local integrated poultry-feedmill industry and those poultry farms which survived the crisis are reportedly making handsome profits.

1,000 Metric Tons	1998/99	1999/00	2000/01
	Oct/Sep Marketing Year		
		(Est)	(Est)
Total Market Size	800	1,110	1,200
Total Local Production	0	0	0
Total Exports	0	0	0
Total Imports	941	1,100	1,150
Total Imports from U.S.	63	65	0

Wheat

The emergence of Indonesian private sector wheat imports has led to a dramatic increase in U.S. exports, spurred by a variety of U.S. assistance program. At the same time, imports of subsidized flour are hurting the domestic flour mills and may lead to an anti-dumping finding later this year.

1,000 Metric Tons	1998/99	1999/00	2000/01
	July/Jun Marketing Year		
		(Est)	(Est)
Total Market Size	2,500	2,600	2,700
Total Local Production	0	0	0
Total Exports	0	0	0
Total Imports	2,642	3,000	2,800
Total Imports from U.S.	239	800	800

Consumer Ready Food Products

Most imported consumer ready food products are consumed by Indonesia's upper and middle class, expatriates and tourists. Imports of U.S. products declined significantly in 1998 following the economic crisis that hit in July 1997. Beginning with the 1998 holiday season - a period that runs from December - February and includes Christmas, Lebaran, and Chinese New Year - imports have showed signs of recovery. Those signs were even more evident in 1999, when there was a dramatic resurgence of consumer-ready imports. Although the number of expatriates and tourists remain below pre-crisis levels, the middle and upper class Indonesian consumers have apparently adapted to the increased price levels of imported food products. The exchange rate has also appreciated by nearly 50 percent since late 1998, leading to a concomitant decline in prices of imported food at the wholesale level. A stronger exchange rate - combined with the gradual normalization of trade financing - should help U.S. suppliers begin to recover sales into the Indonesian market. In 2000, consumer-ready imports are expected to increase 22 percent

Imports of U.S. Consumer Ready Food

USD 1,000,000	1997	1998	1999 (Est)	2000 (Est)
Fresh Fruit	49	5	18	18
Processed Fruit & Vegetables	15	9	10	9.6
Dairy	16	4	12	12.6
Red Meat	14	2	5	9.5
Poultry Meat	1	1.9	6.6	13
Snack Foods	2	0.6	0.8	4.1
Others	10.4	4.5	6.5	5
Total Consumer Ready Food	116	29	63	76.2

CHAPTER VI - TRADE REGULATIONS AND STANDARDS

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

A. Trade Barriers

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). The long-term liberalization policy has been reinforced by consecutive IMF programs in which Indonesia committed to implement a three-tier tariff structure - 0, 5 or 10 percent - on all imported products except motor vehicles and alcoholic beverages. Indonesia also committed to eliminate all non-tariff barriers, except those 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.

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

Services trade barriers to entry continue to exist in many sectors, although the GOI 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 is likely to accelerate as it implements its IMF program, which includes an end to 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

B. Customs Valuation

Since April 1997, the Customs Directorate of the Ministry of Finance has operated a post-entry audit system, which relies primarily on verification and auditing rather than inspection to monitor compliance. A paper-less electronic data interchange system that links importers, banks, and customs was also introduced and is slowly being adopted. Indonesia is in compliance with the WTO Customs Valuation Agreement.

C. Import Licenses

The GOI continues to reduce the number of items subject to import restrictions and special licensing requirements. Goods such as alcoholic beverages, hand tools, artificial sweeteners, engines and pumps, tractors, rice, lube oil, and explosives continue to be regulated.

D. Export Controls

Like Indonesia’s import tariff regime, export controls are in a state of rapid change as the government works to implement reforms associated with the IMF program. Many of the restrictions and taxes placed on exports affect agricultural products, including major cash crops like rubber, palm oil, coffee, and copra. Export restrictions and controls are applied by the government to a number of food commodities in an effort to ensure adequate domestic availability and stable prices of such products, particularly with the weak economy in recent years.

E. Import Documentation Requirements

The government requires the following for most imports:

pro-forma invoice	commercial invoice
certificate of origin	bill of lading
insurance certificate	special certificates

According to the Indonesian Customs Law that came into effect in April 1997, importers are now required to notify the Customs Office in the first stage by submitting the import documents on a standard form computer diskette. Customs Inspections of imported goods may be made after they are imported in the importer’s warehouse. Typically, the Indonesian importer takes care of this process.

F. Free Trade Zones & Warehouses/Special Import Provisions/Temporary Entry

The government encourages foreign investors who export to locate in bonded or export processing zones (EPZ). There are a number of EPZs in Indonesia, the most well known being Batam Island, located 20 km. south of Singapore. Indonesia also has several bonded zones or areas that are designated as entree ports for export destined production (EPTE). Companies are encouraged to locate in bonded zones or industrial estates whenever possible. Other free trade zones include a facility near Tanjung Priok, Jakarta's main port, and a bonded warehouse in Cakung, also near Jakarta.

There is a duty drawback facility (BAPEKSTA) for exports located outside the zones. Producers located within the bonded areas are allowed to sell up to 15% of their product into the local market. Foreign and domestic investors wishing to establish projects in a bonded area must apply to the National Investment Coordinating Board (see Chapter VII, Investment Climate).

G. Labeling and Marketing Requirements

Regulations of food labeling are currently in place. The government is proposing new tighter food labeling guidelines requiring labels in the Indonesian language. Indonesian importers have expressed concern that these new regulations could act as a non-tariff barrier to imports of packaged food products.

The market for foreign pharmaceuticals has been open since the October 1993 Deregulation Package. Previously Indonesia limited pharmaceutical imports to those that incorporated high technology and were the product of their own company’s research. The 1993 package also relaxed the registration requirements for pharmaceuticals approved in other countries. However, administrative changes at the Ministry of Health in early 1999 have resulted in a dramatic slowdown in registration and approval of new products. As of early 2000, the backlog in new registrations was almost two years. This represents a serious barrier to entry into the Indonesian market.

H. Prohibited Imports

The government controls the import of video tapes, laser discs and other entertainment products for both exhibition and private use. Such goods are subject to review by a censor board.

I. Membership In Free Trade Agreements

As a member of the Association of Southeast Asian Nations (ASEAN), Indonesia is party to the ASEAN Free Trade Agreement (AFTA). Through AFTA, ASEAN members are phasing in a Common Effective Preferential Tariff (CEPT) scheme, which will be completed for most traded goods in 2003.

CHAPTER VII-INVESTMENT CLIMATE

A. Overview

With the right policy framework and a strong commitment to reform, Indonesia should be able to capitalize on its fundamental economic strengths to restore investor confidence. Indonesia offers a large domestic market and a correspondingly large workforce, abundant natural resources, reasonably modern telecommunications and other infrastructure, a strategic location along some of the world's major trade routes, and substantial experience with market-based economics and the international trade and payments system. Three years after the onset of its economic and political crisis, Indonesia has a new government led by President Abdurrahman Wahid and Vice President Megawati Sukarnoputri. Their economic team negotiated a new Memorandum of Economic and Financial Policies with the IMF that was signed in January 2000. The following month, multilateral and bilateral donors pledged USD 4.7 billion in assistance for fiscal year 2000 through the Consultative Group on Indonesia (CGI). The Government negotiated a second rescheduling of official bilateral debt through the Paris Club in April.

With reaffirmation of Indonesia's market-based economic policy orientation and generous support from the international community, the stage was set for a recovery of the investment climate. Investor confidence has, however, remained depressed, with existing and potential investors citing a number of concerns: political uncertainty; upcoming political and fiscal decentralization; uneven implementation of economic reform commitments; the unreliable judicial system; security issues; and treatment of existing investors.

Political uncertainty: President Wahid drew cabinet members from several parties that had supported his election; the resulting “rainbow coalition” has proven an uneasy and quarrelsome combination. The President has fired several cabinet members; a major cabinet reshuffle is anticipated after the session of the People’s Consultative Assembly (MPR) scheduled for August 2000. Continued power jockeying among parties and between the executive branch and the legislature, central bank, and other institutions has further complicated investors’ assessments of Indonesia’s political outlook.

Decentralization: In April 1999, the Indonesian Parliament (DPR) passed two laws devolving authority to regions (primarily to regencies rather than provinces) and establishing principles of fiscal decentralization. Both laws are scheduled in enter into effect in 2001. The impact of decentralization on investment rules and procedures -- including the taxing authority of the regions, new investment approval criteria, and licensing -- remains unclear. Many provincial governments have criticized the central government’s slow pace and lack of consultation in formulating the decentralization laws’ implementing regulations.

Economic reform: The GOI's major economic policy challenges remain to increase budget revenues, including through the privatization of state-owned enterprises (SOEs); to complete bank recapitalization, including disposing of assets held by the Indonesian Bank Restructuring Agency (IBRA) to reduce the program's budgetary burden; to promote debt restructuring between Indonesia's corporate debtors and their foreign and domestic creditors; to redefine the fiscal relationship between the central, provincial, and sub-provincial governments; to increase transparency and accountability of government operations; and to attract private investment in order to generate employment. In June 2000, an IMF representative enumerated three major structural problems that hampered Indonesia’s economic recovery: its huge public debt (about USD 70 billion); the large number of private assets under state control that have been neither restructured nor sold; and the massive amount of unrestructured foreign corporate borrowing.

Although the GOI has been successful in stemming inflation and interest rates have dropped dramatically, exchange rate volatility has re-emerged as a potential problem. The GOI has articulated a strategy for rebuilding the banking sector, restructuring corporate debt, and undertaking other structural reforms, particularly in the justice sector, but implementation has been uneven. Of particular concern have been slowness in disposing of IBRA-held assets and forcing debtors and former bank owners to court and unwillingness to privatize SOEs.

Judicial system: The GOI has taken some steps to foster judicial independence by the promulgation of a new Law on the Judiciary (No. 35/1999) which transfers most of the administrative and regulatory functions related to the court system from the former Ministry of Justice (now styled the Ministry of Law and Legislation) to the Supreme Court, and by forming an independent National Law Commission in December 1999. Nevertheless, the government still has not announced a thoroughgoing plan for justice sector reform, substantial steps toward reforming the courts have yet to be taken, and the judicial system still does not offer reliable recourse for investors.

Indonesia still ranks in the lower reaches of transparency and corporate governance assessments of Asian countries. Perpetrators of Soeharto-era corruption and the Habibie-era Bank Bali campaign finance scandal have not yet been brought to account, although a multitude of investigations into these and other (human rights, for example) cases is under way. Indonesia's Bankruptcy Law, which was amended in 1998 to establish a separate Commercial Court, has been a disappointment to creditors. The lack of legal certainty surrounding contract enforcement and differential treatment of domestic versus foreign companies are major concerns of foreign investors. The courts have issued rulings that ignore binding arbitration clauses in contracts, for example, in cases involving independent power producers and a Swiss pharmaceutical firm.

Existing investors: In addition to enduring the more general problems affecting the investment climate, existing investors -- particularly in extractive industries -- have suffered considerable specific problems at the hands of central and regional government officials. Some have been criticized by cabinet officers and other members of the government, who have alleged that contracts concluded under the Soeharto government were impaired or who have accused companies of environmental, labor, human rights, and other abuses. These allegations have not been accompanied by evidence or followed up by legal action. Local communities, impatient for the benefits of decentralization, have sought to obtain extra-contractual concessions from companies operating in their areas. Some non-governmental groups, which have enjoyed unprecedented freedom since former President Soeharto's fall, have also criticized foreign investors. Various foreign investors have also experienced labor unrest. Some mining ventures have been forced to suspend operations as a result of these and related problems.

Security: Plantations and mining operations in particular have been affected by security issues. Looting, occupation of land by squatters, and illegal mining are among the problems investors face. Outbreaks of sectarian violence in Maluku, Lombok, Central Sulawesi and other parts of the archipelago, as well as and separatist movements in Aceh and Papua, continue to challenge national unity. A perceived breakdown in law and order tasks the government's ability to guarantee the security of foreign and domestic investments. Filling the security void are a growing number of vigilante groups, who have made security concerns more acute.

Despite its economic and political difficulties, Indonesia has maintained a relatively open foreign investment regime and has even taken some concrete steps to streamline its investment application and permit processes and to facilitate foreign investment. The sharp drop in investment approval values has started to show some signs of turnaround in 2000. According to the most recent statistics covering January 1, 2000 through June 15, 2000, foreign investment approvals were up about 17 percent, rising from USD 1.8 billion for the same period in 1999 to USD 2.1 billion in 2000.

Note: The following discussion summarizes the legal, regulatory, and de facto investment framework as of mid-2000. Further shifts in President Wahid's cabinet may occur following the August MPR session. The FY 2000 (April–December 2000 budget assumes an average exchange rate of Rp 7000/USD.) The exchange rate used throughout this report is Rp 9,000/USD1, the rate prevailing at the time of publication.

A. Openness to Foreign Investment

Indonesian government policy is to encourage private sector-led growth and foreign investment. President Wahid has adopted increasing foreign investment as a personal cause, and since taking office has carried a message of welcome in his foreign travels. In 1998 and 1999, the GOI issued several new regulations to ease the entry of foreign firms and capital into Indonesia. However, the Foreign Capital Investment Law of 1967, which provides the basic framework for foreign investment, is still in effect. The law has been under revision for almost two years and its reform comprises one of the objectives of the GOI's IMF-supported economic reform program.

Investment in Indonesia is categorized as either domestic (PMDN) or foreign (PMA). An investment with any degree of direct foreign ownership is defined as PMA. The Capital Investment Coordinating Board (BKPM) -- now subsumed under the Board of Investment and State-Owned Enterprises (BPM-PBUMN) -- plays a key role in promoting foreign investment and approving project proposals. The relevant technical government departments handle investments in the oil and gas, banking, and insurance industries. BKPM, or the corresponding provincial board (BKPMD), approves foreign and domestic investment in all other sectors.

While BKPM/BKPMD aims to function as a one-stop investor service, investors are routinely required to work closely with relevant technical government departments, such as Finance, Manpower, Land Affairs, and Justice, as well as regional and local authorities, unless they investing in Bonded Zones (Kawasan Berikat) or in Integrated Economic Zones (KAPET). Recent reforms have freed investors from some cumbersome documentary requirements resulting from the need to work with other departments and local governments. One significant change is that master lists of capital goods and basic material imports for both foreign and domestic investments are approved by BKPM/BKPMD and no longer need clearance from the Directorate General of Customs and Excise.

The GOI has also made efforts to streamline and simplify foreign investment application processes. For example, approvals for foreign investment over USD 100 million no longer must be approved by the President of Indonesia, but can now be approved by the Chairman of BKPM. Currently there are no restrictions on the investment level (below USD 100 million) that can be approved by a BPKMD. Starting in January 2000, some provinces, among them the Jakarta District, West Java, West Kalimantan, and East Kalimantan, started accepting foreign investment applications. Plans are afoot to permit Indonesian embassies and consulates abroad to accept and process foreign investment applications.

Obtaining initial investment approval (IIA) now takes an average of 10 to 15 working days, a marked improvement from the past when application processing could take months. The IIA serves as a temporary operating license for a period of 12 months (the license can be extended), and it enables the PMA company to start its commercial activities. The IIA allows the parties to form a limited liability company (Perseroan Terbatas, or P.T.) by executing through an Indonesian notary a Deed of Establishment. The Articles of Association of the PMA company are included in the Deed of Establishment and must comply with Law No. 1/1995 on Limited Liability Companies. Once executed, the Deed of Establishment is submitted to the Ministry of Law and Legislation (MOLL). Approval usually takes more than the 60-day statutory maximum, and until companies receive formal approval, the founding shareholders are personally liable for all obligations undertaken in the name of the company. Once the permission has been received, the PMA company must be registered in the Company Registry under the Department of Industry and Trade and the Deed of Establishment published in the Supplement to the State Gazette (Tambahan Berita Negara). The time between formal MOLL approval and publication in the Supplement can take more than a year, during which the directors of the company are jointly and severally liable for actions taken in the name of the company.

The IIA can be used until the PMA company reaches the state of commercial operation or commercial production. At that point, the PMA company must apply through BKPM or the appropriate BKPMD for a Permanent Business License (Ijin Usaha Tetap, or IUT). This licensing process can take months.

A foreign investor may be an individual or a corporate entity. Private entities may establish, acquire, and dispose of interests in business enterprises. Current regulations permit foreign firms to acquire domestic firms in sectors open for foreign investment after receiving approval from BKPM. When reviewing applications from foreign firms seeking to acquire locally established firms, BKPM frequently requires the buyer to reserve a small stake for a local buyer or the original owner and, in cases where the local firm is being "rescued" by a foreign buyer, to inject capital, not just provide management expertise, technology or assume outstanding loans. The approval process to take over a "sick" firm may take as long as two months. In 1998, the GOI established the Jakarta Initiative, with a mandate to eliminate obstacles to corporate debt restructurings. In May 1999, the government issued regulations providing incentives for corporate debt restructurings that could address some of the obstacles to foreign investment in existing, but distressed, firms.

Some sectors are closed to all private or foreign investment. According to the July 1998 “negative list”, published by the Ministry of Investment and State-Owned Enterprises, 16 business fields are closed to both foreign and domestic investment, while nine business fields are closed only to foreign investment. Sectors that remain closed to foreign investment include freshwater fishing, forest utilization, taxi/bus transport, local shipping, private television and radio broadcasting, cinema operation, management of radio and satellite frequencies, domestic trade and support services (except for large-scale retailing, distributing and wholesaling services, restaurants, quality certification, market survey services, and sales services), and medical services. (Copies of the negative list are available from U.S. Commercial Center in Jakarta and on the Internet at

WWW.USEMBASSYJAKARTA.ORG - see Commercial Center). The GOI has missed several deadlines in its IMF-supported economic reform program for issuing a new, shorter negative list. Officials anticipate issuing the revised list soon.

In June 1994 and May 1995 several previously restricted sectors were opened, some conditionally, to foreign investment, including harbors, electricity generation, telecommunications, shipping, airlines, railways, and water supply. Foreign investment opportunities in many services remain restricted, however. The government is continuing to develop policies on the private provision of infrastructure through build-own-operate and build operate-transfer schemes, particularly for electric power, telecommunications, and roads. Full foreign ownership is not permitted in these sectors. Local partners are required to own anywhere from five to 51 percent of these investments. Electric generating plants that were developed as independent power projects ran into difficulties when the sharp depreciation of the rupiah led the Indonesian Government to postpone projects or seek renegotiation of the terms of Power Purchase Agreements.

Other sectors are reserved for small-scale enterprises. Large or medium-scale foreign companies must partner with small businesses or cooperatives before investment applications are approved. Presidential Decree No. 99/1999 on Small-scale Enterprises details sectors open only to small businesses and those open to medium and large-scale companies in partnership with smaller firms.

The GOI has eliminated many restrictions on foreign investment in retail and wholesale operations. Foreign firms are now allowed to invest directly in both wholesale and large-scale retail trade sectors (generally interpreted as shopping centers, malls, supermarkets, and department stores), with the condition that they enter into a cooperative agreement with a small-scale enterprise. In addition, many foreign firms use franchising, licensing, and technical service agreements to distribute their goods. Indonesia has also lifted many restrictions on foreign participation in domestic distribution services. Under current regulations, foreign companies manufacturing in Indonesia may distribute their locally produced goods at the wholesale level and may apply for permits to import and distribute other products as well. These licensing processes, like many other processes, may be substantially affected by decentralization. However, companies engaging in wholesale distribution may not conduct retail operations directly, but must form a separate retail company. Further, the number of expatriate employees granted visas to work in any single wholesale and retail business remains limited.

Current legislation (Government Regulation No. 20/1994 and Ministry of Investment Decree No. 15/1994) mandates a fifteen-year time limit after which foreign companies must divest a percentage (usually one to five percent) of their shares to allow Indonesian citizens to take up minority holding in the company. The new draft law on investment proposes to remove the fifteen-year time limit and leave the determination of time to the discretion of the Ministry of Investment and State-Owned Enterprises. U.S. firms are urging the GOI to eliminate the condition altogether as a means to further improve Indonesia’s investment climate.

Oil and gas: The Indonesian government, through state oil and gas company Pertamina, owns all oil and hydrocarbons in the ground. Oil contractors (mainly foreign) operate under production sharing contracts (PSCs) and variations of PSCs to explore and produce hydrocarbons from a licensed area. The contractor is reimbursed for allowable expenditures. In return, the contractors have certain rights to split oil and gas production with Pertamina.

The Indonesian government plans to resubmit an oil and gas bill to Parliament in 2000. A first bill, submitted to Parliament in early 1999, was rejected. Like the original, the current draft contemplates a shift in management of PSC contractors from Pertamina to the central government and gradually phases out Pertamina's responsibility for PSCs. The draft law may also call for an end to Pertamina's monopoly over downstream oil distribution and marketing of fuel products.

Mining: Foreign investors operate under coal contracts of work (CCOW) and contracts of work (COW) for general mining. The contractor conducts all stages of the operation and assumes all financial and operational risks. The government's latest eighth-generation COW and fourth-generation CCOW contain significant new provisions that give regional governments greater input in mining companies' community development plans and a larger share of royalties and taxes. Both of these new contractual arrangements, however, have not been finalized pending promulgation of regulations to implement the 1999 Fiscal Decentralization Law.

Banking, Securities and Insurance: A 1988 deregulation package partially opened the banking, securities and insurance industries to foreign investment. In 1998, in keeping with its commitments under the World Trade Organization's (WTO) Financial Services Agreement, the government equalized the capital requirements for domestic and foreign insurance firms. In a move that exceeded its WTO commitments, in 1998 the GOI also amended the 1992 Banking Law to allow full foreign ownership of banks. The GOI also removed restrictions on foreign banks opening additional branches outside of Jakarta. The Department of Finance licenses new securities and insurance ventures; Bank Indonesia, the central bank, licenses banks and regulates banking activity.

1. Privatization

To enhance the efficiency of state-owned enterprises and as part of the Indonesia's ongoing IMF-supported economic reform program, the Habibie government set an ambitious timetable to divest majority ownership in SOEs. Difficulties establishing the valuation of the state-owned firms, domestic resistance to selling key national assets, and the challenge of attracting buyers in an uncertain political and economic environment slowed the program down.

The FY 2000 (April-December 2000) has a budget target of Rp 6.5 trillion (USD 722 million) to be raised from privatization. On June 29, 2000, the GOI launched a revised State-Owned Enterprise Masterplan in response to concerns about lagging privatization and continuing "high-cost" practices in the 164 enterprises. The revised plan aims to accelerate SOE restructuring and privatization and to establish good governance practices (transparency, independence, and accountability) within the parastatals. The government has slated 10 companies from a variety of sectors, including mining, plantations, airport operations and fertilizer, to be fully or partially privatized before the end of 2000. Nine SOEs are on “standby” for privatization in 2000, and the others for more gradual privatization through 2004.

2. Conversion and Transfer Policies

In July 1997, the Indonesian rupiah began to weaken in the face of regional currency instability. Indonesia opted to float the currency in August 1997 rather than spend large amounts of reserves to defend it. The rupiah depreciated sharply from 2,500/USD in July 1997 to a low of 17,000/USD in June 1998. By December 1998, the rupiah had strengthened to Rp 8,000/USD. Following the election of President Wahid on October 20, 1999, the rupiah strengthened further to Rp 6,700/USD. More recently, however, the rupiah has shown signs of weakening, hovering around Rp 9,300 per USD in early July 2000.

The Indonesian rupiah is freely convertible and is traded in the Jakarta and offshore (principally Singapore) interbank markets. Indonesia maintains no capital controls and foreign exchange may flow freely in and out of the country. No prior permits are necessary to transfer foreign exchange. Foreign investors have the right to repatriate capital and profits at the prevailing rate of exchange. The government does not place restrictions on outward direct investment. Foreign Exchange Law No. 24/1999, which entered into force in April 2000, requires the reporting of all foreign exchange transactions above USD 10,000. The new law does not change the system of free currency convertibility.

3. Expropriation and Compensation

Article 21 of the 1967 Foreign Capital Investment Law stipulates that the government shall not initiate nationalization of foreign investments except by law and when such action is necessary in the interest of the state. According to BKPM, no foreign investment has been expropriated since the passage of the 1967 law. In one case, however, OPIC paid a claim by a U.S. investor after the Indonesian Government failed to honor an arbitration award. Although there has been concern that a post-Soeharto government might nationalize projects or abrogate contracts awarded to firms connected to the family of former President Soeharto, Indonesian government officials have stated that foreign firms will not be expropriated in the process of dismantling the business empires of former first family members. However, several foreign companies who signed contracts during the Soeharto era have had their contracts challenged by provincial and local governments and NGOs.

4. Dispute Settlement

The Indonesian government has agreed to submit any investment disputes to the International Center for the Settlement of Investment Disputes (ICSID) in Washington, D.C. A long-pending investment dispute involving a U.S. investor was resolved through the ICSID in 1993. Indonesia has signed on to UNCITRAL (United Nations Commission on International Trade Laws) arbitration rules. Foreign firms have entered arbitration hearings in Indonesia under UNCITRAL administration. An Indonesian investment arbitration board, BANI, is available when both parties to a dispute agree to submit to its arbitration.

Indonesia is also party to the 1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards. The record of enforcement of foreign arbitral awards is, however, negative. In practice, foreign companies have had great difficulty enforcing foreign arbitration awards or getting the judicial system to honor arbitration clauses in contracts involving foreign investors. In 1999, Indonesia enacted a Law on Arbitration that addresses many concerns, but the new law’s impact has yet to be felt.

Disputes between Independent Power Producers (IPPs) and the state electric company PLN and lack of respect for arbitration rights clauses in contracts, as in the Swiss pharmaceutical company’s case, have been cited by many foreign chambers of commerce operating in Indonesia as major causes for alarm and strong deterrents to further investment in Indonesia.

The court system does not provide effective recourse for solving commercial disputes. The judiciary is nominally independent, but irregular payments and other collusive practices often influence judicial outcomes. The GOI has recognized that the legal system must be modernized. Legal and judicial reform is an important part of Indonesia's economic reform program. Amendments to the Bankruptcy Law entered into effect in August 1998, but the court's performance has been extremely weak.

Aiming to make the Bankruptcy Law more effective, the GOI has announced it will submit a new amendment to the law to Parliament in August 2000. Indonesia enacted laws on consumer protection, anti-corruption, and anti-monopoly/competition in 1999; however, the regulatory frameworks to enforce these new laws remain incomplete.

5. Performance Requirements and Incentives

The GOI has notified the WTO of its compliance with TRIMS’ Notification.

Various fiscal incentives are available to both foreign and domestic investors. A company producing for the domestic market may apply for import duty exemptions on all required machinery and equipment as well as on raw and supporting materials needed during the first two years of commercial production. A company producing 65 percent for export has additional incentives. It may apply for restitution of import duties paid on inputs that are subsequently re-exported in finished form. Special investment incentives in the form of income tax, value-added tax, and luxury tax facilities are made available on a case-by-case basis by BKPM.

The tax holiday system is under review and may be abolished. The GOI re-introduced basic tax holidays with Government Regulation No. 45 of 1996. According to Regulation 45, specific sectors, including capital goods manufacturing, agribusiness, infrastructure, sea and air transport, engineering, and professional personnel training may be eligible for tax holidays. In 1999, Presidential Decree No. 7/1999 laid out evaluation criteria for tax facilities for new investors entering designated "pioneer" industries. According to the decree, the basic incentive period is three years, with an additional two years for investments outside of Java and Bali. The incentive period can be extended for investments that employ more than 2,000 Indonesian workers, are at least 20 percent held by an Indonesian cooperative, and/or whose total investment is US$ 200 million or more excluding land and buildings. Tax exemption for qualifying investments begins at the start of commercial operations or after the project is licensed, whichever comes first. Time beyond five years to achieve startup will be deducted from the period of the tax incentives. In January 2000, following the signing of its new Letter of Intent with the International Monetary Fund, the GOI announced it would withdraw all or at least some of its tax facilities for new investors as listed in Decree No. 7. Tax holidays are covered by tax laws bills currently under consideration by Parliament.

Indonesia expects foreign investors to contribute to the training and development of Indonesian nationals, allowing the transfer of skills and technology required for their effective participation in the management of foreign companies. As a general rule, a company can hire foreigners only for positions that the government has deemed open to non-Indonesians. Employers must have manpower training programs aimed at replacing foreign workers with Indonesians.

At present, Indonesia does not have formal regulations concerning U.S. and other foreign firms' participation in GOI-financed and/or subsidized research and development programs on a national treatment basis. The State Ministry for Research and Technology handles applications on a case-by-case basis. However, the Ministry is currently drafting regulations to enable interested parties to pursue their interest in a clear and systematic manner.

Indonesia does not have rules requiring that investors purchase from local sources or export a certain percentage of output. Rules that encouraged investors to locate in industrial estates were diluted in June 1998. Foreign firms are not required to disclose proprietary information to the government before investing.

6. Right to Private Ownership and Establishment

Indonesia recognizes the right to private ownership and establishment and has relied heavily on the private sector -- albeit at times heavily protected -- as the principal engine of its economic growth. Parastatals have traditionally played an important role as well. Their role declined as private sector activity grew and privileges awarded to state-owned enterprises decreased. A State Ministry for State-Owned Enterprises was formed in 1998; privatization was an important part of its mandate.

The Indonesian Bank Restructuring Agency (IBRA), established in 1998, is assigned responsibility for banks that have been closed or taken over by the government. In addition, under the bank recapitalization program, it has assumed custody of non-performing loans. IBRA's mandate is time-bound and its stewardship of formerly private assets is to be temporary. IBRA has suffered numerous delays in meeting its mandate. Currently IBRA controls assets with a face value of about Rp 600 trillion (about USD 66 billion. The GOI has tasked IBRA with disposing of USD 18.9 trillion (about USD 2.1 billion) in assets during FY 2000, but progress has been slow. IBRA's biggest success story to date was the sale of its shares in the publicly listed automotive giant PT Astra International. It also launched an initial public offering (IPO) for Bank Central Asia (BCA). IBRA plans to sell 14 to 20 additional companies by the end of 2000, many through IPOs.

7. Protection of Property Rights

Indonesia has suspended many private infrastructure projects, especially in the field of private power generation, for economic and political reasons. The U.S. Embassy and other U.S government entities have vigorously emphasized to the Indonesian government the importance of honoring internationally binding contracts and urged that all project reviews and contract negotiations be conducted in a rule-based, consistent, objective, and transparent manner.

Mortgages and secured interests in chattel and real property are recognized, but a comprehensive and efficient recording system is not in place. Foreign entities have no freehold rights to land ownership in Indonesia. Foreign investors' land holdings are often obtained through long-term lease agreements with the government. Leases are generally for 20 or 25 years and are renewable up to 100 years. These lease holdings can be used as collateral. Enforcement of secured interests is problematic.

The court system does not provide effective recourse for settling property disputes. Indonesia's decentralization process has unleashed a flurry of new land claims by local residents against companies, often operating on government-granted concessions located in their communities.

In April 2000, the USG downgraded Indonesia to the Special 301 watch list from the priority watch list where it had been for four years. Indonesia has made progress in improving the regulatory and legal framework for protection of intellectual property rights. Effective enforcement of IP rights through Indonesia's justice system is still very difficult. Indonesia is a member of the World Intellectual Property Organization and a party to the Paris Convention for the Protection of Intellectual Property. In March 1997, the Parliament passed amendments to Indonesia's patent, copyright and trademark laws designed to bring them into compliance with the TRIPS agreement of the Uruguay Round. In 1997, Indonesia also reacceded to the Berne Convention and signed the Trademark Law Treaty. Other international agreements to which Indonesia is party include the Nice Agreement for the International Classification of Unclassified Goods and Services, the Strasbourg Agreement Concerning International Patent Classification, and the Budapest Treaty on the International Recognition of the Deposit of Microorganisms. New laws to protect industrial design, trade secrets, and integrated circuits are expected to be in place by the end of 2000.

Patents: Indonesia's first patent law entered into effect on August 1, 1991. The law and its implementing regulations outline patent application procedures, application fees, registration of patent consultants, and patent announcements. Products and production processes are in principle patentable for a period of 14 years commencing from filing of the patent application, subject to certain requirements. The patent may be extended for another two years. In addition to this relatively short period of patent protection, other drawbacks in the law include compulsory licensing provisions, and a provision allowing importation of 50 specific pharmaceutical products by non-patent holders, and patent protection granted only to pharmaceutical products manufactured in Indonesia. The government has proposed amendments to the patent law to increase the patent protection period among other things.

Trademarks: The current trademark law took effect on April 1, 1993. This act states that trademark rights are determined on a first-to-file basis rather than on a first-use basis. After registration, the mark must actually be used in commerce. The law offers protection for service marks and collective marks and sets forth a procedure for opposition prior to examination by the trademark office. It also provides well-known trademark protection, although, to the detriment of several foreign marks, procedures for registering trademarks as well-known have not been fully developed. Cancellation actions must be lodged within five years of the trademark registration date.

Copyright: Parliament passed amendments to the 1982 copyright law in 1987 and March 1997. The amended law affords protection to foreign works, expands the scope of coverage and raises the terms of protection to international standards. The United States and Indonesia concluded a bilateral copyright agreement extending reciprocal protection in 1989. In May 1997, Indonesia reacceded to the Berne Convention on copyright protection. The government has proposed new legislation that will increase penalties for copyright infringement.

New technologies: Indonesian law does not include specific protection for biotechnology. Legislation covering integrated circuits is being drafted for presentation to Parliament. The U.S.-Indonesia Science and Technology Agreement ensures protection for intellectual property derived from cooperative activities under the agreement's umbrella.

8. Transparency of the Regulatory System

Indonesia has a tangled regulatory and legal environment where most firms, both foreign and domestic, attempt to avoid the justice system. Laws and regulations are often vague and require substantial interpretation by implementing offices, leading to business uncertainty. Deregulation has been somewhat successful in removing barriers, creating more transparent trade and investment regimes, and has alleviated, but not eliminated, red tape. Transparency problems and red tape are routinely cited by U.S. businesses as factors hindering their operations in Indonesia. Please refer to Overview and Corruption sections for information on GOI reform efforts.

9. Efficient Capital Markets and Portfolio Investment

The key institution managing Indonesia’s bank restructuring effort is the GOI's Indonesian Bank Restructuring Agency (IBRA), set up in January 1998), with the counsel of the international financial institutions. To date, the restructuring effort has entailed the closure of over 60 private banks, Government takeover of 11 others including the two largest private banks, and recapitalization of 7 banks in May 1999 (with Government providing up to 80 percent of the required capital and banks owners the other 20 percent). Restructuring of the state-owned banks, which held the largest non-performing loan portfolios, began in late 1999 after merger of four of the state banks into a new bank called "Mandiri."

Scandals and mismanagement have interfered with Indonesia's efforts to reform and restructure its banking sector. The Bank Bali scandal was uncovered in mid-1999. Suspects have been named in the scandal but to date, none has been sentenced by the courts. On June 21, 2000, the Attorney General’s office detained Central Bank Governor Syahril Sabirin for his alleged involvement in the Bank Bali scandal.

Individual banks determine deposit and lending rates, although the blanket government guarantee on banks’ payment obligations covers interest on deposits up to a stipulated percentage only. As of mid-2000, very little new lending had occurred. Interbank overnight interest rates averaged 10.3 percent per annum as of late June 2000.

Underlying problems remain. For example, all the major international accounting firms operate in Indonesia under arrangements with domestic accounting firms, but accounting standards and practices are not considered consistent with international norms.

Indonesia’s capital market expanded rapidly over the last decade, led by growth of the equity market. The Jakarta Stock Exchange is the dominant securities market in the country. The lack of a well-developed bond market remains a limiting factor for Indonesia’s financial sector.

Foreign firms generally enjoy good access to the Indonesian securities market. Financial reforms introduced in 1987 allowed foreign firms to form joint ventures with Indonesian partners in the securities market as underwriters, broker-dealers, and investment managers. The 49-percent restriction on foreign purchases of shares in non-bank listed firms was lifted in 1997, and for banks in 1999. Discriminatory capital requirements on foreign securities were removed in 1998. Portfolio investment is regulated by BAPEPAM, the Indonesian equivalent of the Securities and Exchange Commission.

As of June 2000, Indonesia’s USD 67 billion offshore corporate debt still remained largely unresolved, though a framework was in place for debt workouts: the Jakarta

Initiative, launched in November 1998, was available to provide debt workout facilitation; the Indonesian Debt Restructuring Agency (INDRA) offered borrowers access to foreign exchange at a stable exchange rate; and a commercial court to hear bankruptcy cases had been established.

10. Political Violence

American citizens traveling to Indonesia and East Timor should exercise caution. Political activity, demonstrations, and localized hooliganism in Jakarta have increased recently and are expected to continue throughout the lead-up to and during the People's Consultative Assembly (MPR) session, which will take place in August 2000.

Indonesia welcomed its first democratically elected government in October 1999. The government's widespread support led to a general decrease in the level of civil unrest. At the same time, however, unrest in various regions of Indonesia continues and security forces have had difficulties maintaining law and order.

East Timor voted for independence from Indonesia in an August 30, 1999 referendum and is currently under the authority of the United Nations' Transitional Administration in East Timor (UNTAET). UNTAET was established by a unanimous vote of the UN Security Council on October 25, 1999 for the purpose of rebuilding East Timor and helping to establish a new government. Violence erupted throughout East Timor after the August 30, 1999, United Nations-sponsored ballot in that province. Although stability has largely returned to the territory following the arrival of international forces, crime and lawlessness remain a major problem. American citizens are strongly encouraged to exercise caution in East Timor and to avoid areas along the border between East and West Timor.

The western half of the island has been the scene of several physical assaults on foreigners by disgruntled pro-integration Timorese militia forces. American citizens are encouraged to defer non-emergency travel to West Timor, especially in areas where East Timorese refugees are concentrated.

In Maluku (also known as the Molucca Islands or the Moluccas), serious communal violence broke out on the island of Ambon in January 1999 and has now spread throughout this island group. The intensity of the violence compelled the Government of Indonesia on June 26, 2000, to declare a "Civil State of Emergency." American citizens are urged to avoid all travel to Maluku, including the provinces of both Maluku and North Maluku, and to depart immediately if they are already there. Although anti-Christian sentiment is not widespread in Indonesia, inflammatory statements by community leaders, as well as violence in Maluku, have sparked some tension between Moslem and Christian communities elsewhere in Indonesia. Serious communal violence has also broken out in the province of Central Sulawesi.

On January 17, 2000, anti-Christian violence broke out on the resort island of Lombok, leading to looting and the burning of a number of churches. Although there has not been a recurrence of major violence since January, American citizens should take this earlier unrest into account when planning travel. Lombok is about 25 miles from the island of Bali.

Political changes have given new impetus to aspirations for independence in Aceh and Papua (formerly known as Irian Jaya). Violent incidents continue to occur in Aceh and American citizens are strongly urged to defer all travel to that province. Violence has targeted American companies with growing frequency. American citizens resident in Aceh should consider departing. In Papua, violence has been less frequent. The government of Indonesia has restricted the travel of U.S. and other foreign government officials to the provinces of Aceh, Papua, and Maluku. Security concerns are cited as the reason for this prohibition. American citizens should take this into account when planning travel to these regions. As of mid-2000, this restriction remained in effect.

The Department of State encourages American citizens considering travel to Indonesia to review carefully the information available in the State Department's , available on the Internet at or on the Bureau of Consular Affairs' home page at . All Americans resident or traveling in Indonesia are encouraged to register with the U.S. Embassy in Jakarta (tel: 62-21-344-2211), the U.S. Consulate General in Surabaya (tel: 62-31-568-2287), or the U.S. Consular Agency in Bali (tel: 62-361-233-605) and to obtain updated information on the security situation. Registration may be completed in person, by fax or through the U.S. Embassy homepage. Although a U.S. liaison office will open in East Timor in the coming months, there is currently no official presence there.

11. Corruption

In recent years, considerable attention has focused on the costs of corruption and influence peddling to local and foreign businesses, and the economy as a whole. Since the fall of Soeharto, the identification and elimination of corruption, collusion and nepotism (KKN) have become national issues with a newly freed press providing extensive coverage of past and current corruption investigations. In 1999, the Parliament passed two landmark laws designed to fight corruption, particularly in government activities. The first, Law No. 28, requires senior government officials to disclose their wealth and subjects them to audits. A commission is to be established, with enforcement powers, to review those audits and take appropriate action. The second, Law No. 31, widens the definition of corruption, increases penalties and establishes an anti-corruption commission. That commission is to be operational by early 2001.

Surveys of business executives working in Asia have ranked Indonesia among countries where corrupt practices are most pervasive and act as a disincentive to direct foreign investment. Demands for "facilitation fees" to obtain required permits or licenses, government award of contracts and concessions based on personal relations, and a legal system that is often perceived as arbitrary are frequently cited problems. Despite President Wahid's pronouncements against corruption, progress on individual cases has been slow. A number of high-profile corruption cases have been widely reported in the press although none of the accused has been brought to trial. Meanwhile, petty corruption appears to be flourishing. Foreign companies have little success in filing formal complaints through either legal or administrative channels. Foreign companies continue to report difficulties in obtaining and renewing necessary immigration permits for expatriate staff based in Indonesia. In some cases, unsubstantiated corruption allegations have been made by government officials against foreign companies, particularly those operating in the resources sectors, but there has been no evidence presented or prosecution of corruption cases against foreign investors.

B. Bilateral Investment Agreements

Indonesia has signed investment protection agreements with 52 countries, including the United States (Agreement on Investment Guarantees), Argentina, Australia, Bangladesh, The Netherlands, Belgium, Chile, People's Republic of China, Czech Republic, Denmark, Finland, Hungary, United Kingdom, Italy, India, Jamaica, Germany, Jordan, Cambodia, South Korea, Cuba, Kyrgyzstan, Laos, Malaysia, Morocco, Mauritius, Mozambique, Egypt, Mongolia, Norway, Pakistan, France, Poland, Romania, Singapore, Slovak Republic, Spain, Sri Lanka, Sudan, Suriname, Syria, Sweden, Switzerland , Thailand, Tunisia, Turkey, Turkmenistan, Ukraine, Uzbekistan Vietnam, Yemen, and Zimbabwe. Indonesia has also signed treaties for the avoidance of double taxation with 50 countries, including the United States. On February 1, 1997, an amendment to the U.S.-Indonesia tax treaty went into effect that reduced withholding rates to 10 percent, on par with rates accorded by Indonesia to Japan and major European countries.

C. OPIC and Other Investment Insurance Programs

Since 1967, all three types of Overseas Private Investment Corporation (OPIC) insurance -- inconvertibility, expropriation, and war, revolution and insurrection -- have been provided to U.S. investors in Indonesia. OPIC coverage was extended to bid bonds on service contracts in 1987. OPIC has also provided project financing to companies with at least 25 percent U.S. ownership.

D. Labor

The labor force is estimated at about 95 million, of which about 75 percent are between the ages of 15 and 34. The labor force has grown by an average of 2.5 percent over the past 30 years, though this rate is decreasing with the drop in fertility rates, increasing urbanization and lengthening school attendance. Women make up approximately 40 percent of the work force. Before the economic crisis began in 1997, the Indonesian government estimated "open" unemployment (defined as a person who is working less than one hour a week) to be roughly 5 percent. As recently as March 2000, the Indonesian Minister of Manpower estimated that 36 million persons (38 percent of the labor force) were unemployed or underemployed. However, the government's August 1999 annual Labor Force Survey reported that only 6.03 million persons over age 15 (6.4 percent of the labor force) were unemployed (i.e., worked less than one hour the previous week). In 1998, the Labor Force Survey reported that 34.3 million persons (39 percent of the labor force) were working less than 35 hours per week. The Labor Force Survey includes workers employed in the informal sector, while government estimates focus on job losses from formal sector employment. Some economists, unions, and other non-governmental observers have criticized the Labor Force Survey as understating real unemployment; these other sources estimate that more than half of the population is under-employed.

Before the economic crisis, the educational level of Indonesia's labor force had risen to the point that some 26 percent of non-agricultural workers had graduated from high school, and about five percent had educational achievement at a university level. Only 25 percent of the non-agricultural workers had not completed primary school, although this figure reached almost 50 percent within the agricultural work force. However, high inflation and large-scale layoffs have squeezed family incomes and caused four to five percent of all students to drop out of school during the last year, according to Indonesian government and World Bank estimates.

The United States has traditionally been a top choice for Indonesians wishing to study abroad. In the 1998-1999 academic year, there were an estimated 12,142 Indonesians studying in the United States, marking a 8.6-percent decline from the 1997-1998 academic year (Institute for International Education (IIE) statistics). Approximately 68 percent were in undergraduate programs, 26 percent in graduate programs, and the remaining 6 percent in non-degree programs, including English language studies. The decline in enrollment of Indonesian students in U.S. colleges, universities, and other institutes of higher education is largely attributed to the drop in the rupiah's value in relation to the dollar. While Indonesian students are the eight largest foreign national group studying at the higher education level in the United States, they are the fourth largest group studying at community colleges. Community colleges offer more affordable academic programs, an attractive advantage to students whose financial resources may have declined with the devaluation of the rupiah.

Job creation and the alleviation of underemployment are targets of economic policymaking, especially in light of the massive layoffs caused by the economic crisis. The unemployment rate for higher education graduates was much higher than the overall unemployment rate even before the crisis. Nonetheless, Indonesia is experiencing shortages of qualified managerial and professional personnel.

The government sets minimum wages by region. The minimum wage in Jakarta was set at Rp. 286,000 (approx. USD 33.00 at Rp. 8,700 per dollar) per month as of April 1, 2000. Labor strikes have become increasingly common in recent years. There were fewer strikes in 1997-1999 due to the economic downturn, but the frequency of strikes has increased in 2000. Strikes usually relate to failure of employers to pay the minimum wage, denial of benefits, lack of an effective union, and termination of employees. The Indonesian government promulgated a new regulation in September 1998 which makes it easier for labor organizations to register as trade unions, and more than two dozen new unions have formed as alternatives to the Federation of All-Indonesian Trade Unions (FSPSI), which was the sole government-recognized union prior to 1998.

Indonesia's industrial relations system is in flux. As of July 2000, the Indonesian Parliament was considering two draft laws that would make significant changes in the registration, status, and rights of trade unions and in the industrial dispute resolution system. A third law is being drafted to replace the 1997 law on manpower affairs, which has never been put into effect because workers' and human rights groups have charged that it provides inadequate protection of worker rights. In addition to uncertainties about changes in labor law, there is considerable confusion about enforcement and interpretation of existing law and regulations.

E. Foreign Trade Zones/Free Ports

Foreign and domestic industrial companies located in any of Indonesia's seven designated bonded zones are provided with several incentives. The largest bonded zone is Batam, located just south of Singapore. Investors in bonded zones are not required to apply for additional implementation licenses (location, construction, and nuisance act permits and land titles), and foreign companies are allowed 100 percent ownership. These companies do not pay import duty, income tax (Article 22), value added tax (VAT), and sales tax on imported capital goods, equipment, and raw materials until the portion of production destined for the domestic market is "exported" to Indonesia, in which case fees are owed only on that portion. Companies operating in bonded zones may also lend machinery and equipment to subcontractors located outside of the bonded zone for a maximum two-year period. The companies have also enjoyed exemption from VAT and sales tax on luxury goods on the delivery of products to subcontractors for further processing outside of bonded zones.

In April 2000, regulations on VAT and luxury tax exemptions were modified (Tax Department Circular No. SE. 10/PJ.52/2000) as they pertain to Batam. Starting April 1, 2000, all sales of goods for internal consumption in Batam were to now be subject to VAT and luxury taxes. Goods for export would remain exempt from these taxes. However, after Batam authorities and residents protested the change in policy, President Wahid agreed to postpone its implementation to January 1, 2001.

F. Foreign Direct Investment Statistics

Foreign investment interest in Indonesia has fallen substantially since the onset of the economic crisis in mid-1997. According to statistics from the Capital Investment Coordinating Board (BKPM) from 1967 through December 1999, the GOI approved 7,665 foreign investment applications worth more than USD 228.2 billion (excluding investment approvals in oil and gas, banking, and financial services). While foreign investment approvals reached almost USD 34 billion in 1997, they declined to less than USD 14 billion in 1998, and reached only USD 10.89 billion in 1999. However, realized foreign investment showed modest signs of recovery in 1999, rising from USD 2.9 billion in 1998 to USD 7.6 billion in 1999 (USD 3.0 billion of the 1999 total was for a single proposed project, an oil refinery).

The downward trend of investment approval values continued to show very modest signs of abatement in 2000. According to the most recent BKPM statistics covering January 1, 2000 through June 15, 2000, foreign investment approvals were up 16.7 percent, rising from USD 1.8 billion for the same period in 1999 to USD 2.1 billion in 2000. The number of approved projects rose from 483 to 589.

Through June 15, 2000, the basic metals sector (approvals valued at about USD 700 million) was the most attractive sector for foreign investment applications, followed by textile and chemical sectors (each about USD 200 million), food and trade sectors (each about USD 100 million), property (USD 90 million), and construction (USD 80 million). Through the same period, Japan led in approved foreign investment applications (42 projects worth about USD 900 million), followed by Singapore (96 projects worth USD 200 million), The United Kingdom (28 projects worth USD 200 million), the United States (23 projects worth USD 80 million, and South Korea (105 projects worth 70 million).

Japan is the largest cumulative foreign investor in Indonesia, excluding the oil/gas sector, where the United States is the leading investor. Between 1967 and 1999, BKPM-approved Japanese investment applications reached about USD 35.3 billion, about 15 percent of the total. According to Indonesian government statistics through December 1999, The United States ranked sixth in cumulative BKPM-approved investment since 1967, with a total of USD 10.4 billion, although not all approved investment was realized. Through May 31, 2000 the United States still ranked sixth among foreign investor nations with cumulative BKPM investment approvals of USD 10.5 billion.

Table: BKPM Statistics on Top Ten Investing Countries (Cumulative BKPM Approvals)/Top Five Sectors January 1, 1967-May 31, 2000

	(Billions of USD)
Japan Total	36.2

Chemical Industry	10.9
Metal Goods	9.2
Textile Industry	2.3
Basic Metals	3.6
Paper Industry	2.9
United Kingdom Total	21.2

Chemical Industry	13.6
Utilities (electricity, gas, water)	3.9
Food	1.4
Plantations	1.0
Mining	0.7
Singapore Total	19.2

Paper Industry	4.1
Real Estate/ Industrial Estate	3.5
Hotel/ Restaurant	1.9
Metal Goods	1.7
Chemical Industry	1.4
Taiwan Total	16.1
Paper Industry	10.6
Textile Industry	1.1
Non-Metallic Minerals	0.9
Wood Industry	0.8
Metal Goods	0.8
Hong Kong Total	14.5
Chemical Industry	4.8
Utilities	1.8
Real Estate/ Industrial Estate	1.5
Textile Industry	1.4
Office Building	0.8
United States Total	10.5
Chemical Industry	3.3
Mining	1.9
Utilities	1.3
Metal Goods	0.8
Non-Metallic Minerals	0.7
South Korea Total	9.4
Chemical Industry	1.8
Metal Goods	1.7
Basic Metals	1.4
Textiles	1.1
Hotel and Restaurant	1.0
Australia Total	9.4
Mining	3.2
Utilities	2.4
Chemical Industry	1.9
Construction	0.4
Other Services	0.4

Germany Total	8.3

Transport/ Storage	5.4
Chemical Industry	1.6
Metal Goods	0.7
Pharmaceuticals	0.1
Office Building	0.1
The Netherlands Total	6.2

Chemical Industry	1.5
Food Industry	1.2
Transport/ Storage	1.0
Hotel/ Restaurant	0.6
Real Estate/ Industrial Estate	0.5

Note: These numbers are approvals only and do not include oil and gas and financial and insurance sectors.

Not included in the BKPM-approved investment figure is substantial U.S. investment in Indonesia's hydrocarbon sector. In 1999, Caltex (Chevron and Texaco) retained its position as Indonesia's number one oil producer, with close to half of crude and condensate output. It was followed by several other U.S. companies including Conoco, Unocal, Arco, Mobil, and Vico. According to Ministry of Mines and Energy data, petroleum companies planned to spend USD 4.8 billion in 2000 on exploration, drilling, and production -- a USD 500 million increase over the actual spending for 1999. The 2000 budget figure includes USD 743 million for exploration, USD 867 million for development drilling, and USD 2,755 million for production.

According to the Ministry of Mines and Energy, investment in Indonesia's mining sector (gold, coal, etc.) totaled USD 15.9 billion over the last 32 years, with U.S. companies accounting for USD 7.1 billion. P.T. Freeport Indonesia, an affiliate of the U.S. mining firm Freeport McMoRan, is one of the largest foreign investors in Indonesia and accounted for the bulk of investment in the mining sector.

Another significant investor in Indonesia's mining sector is Denver-based Newmont Mining Company, which operates a gold mine in North Sulawesi and the Batu Hijau copper and gold mine on Sumbawa Island. According to Newmont, the Batu Hijau mine, operating since December 1999, was the largest greenfield mine operation ever, with USD 1.8 billion invested.

Major U.S. companies produce consumer and other products and provide services for the domestic market. General Motors has built a USD 110 million vehicle assembly plant, and General Electric Capital Corporation and Ford Credit are both active in automobile financing joint ventures. In 1996, General Electric opened the first locomotive factory in

Southeast Asia and created the second largest lighting company in Indonesia. In 1998, H.J. Heinz Co. formed H.J. Heinz ABC Indonesia by purchasing a majority share in PT. ABC Central Food company. Also in 1998, Newbridge Capital purchased Astra Microtonic Technology microchip factory in Batam.

Several U.S. independent power producers (IPPs) have invested in Indonesia's electric power sector. Although the government in 1997 put on hold a number of the IPP projects, some, such as Unocal's geothermal plant in West Java and El Paso's gas-fired plant in South Sulawesi, are currently in operation. Edison Mission Energy's large coal-fired plant in Paiton, East Java, has also begun to provide electric power, and will soon be joined by a Siemens/PowerGen plant at the same site.

In addition to Japan, the UK, and the United States, Indonesia's other major foreign investors include Hong Kong, Singapore, the Netherlands, Taiwan, South Korea, Germany, and Australia.

CHAPTER VIII – TRADE AND PROJECT FINANCING

The framework for trade and project financing in Indonesia changed significantly in the wake of the 1997-8 financial crisis. Indonesia's banking system has only partially recovered from the crisis, and many banks remain technically bankrupt or are hamstrung by very low capital reserves. Unprecedented levels of corporate debt have limited the ability of many private sector firms to obtain trade or project financing, and the cost of imported capital goods has risen substantially in the wake of the rupiah's devaluation. These economic factors coupled with lingering political instability have led to steep declines in both imports and direct foreign investment, and private capital inflows have remained strongly negative since 1998.

Banks were at ground zero of the 1997-98 financial crisis. When the smoke cleared, the total number of banks had declined from 238 pre-crisis to 162 (5 state-owned national banks, 27 state-owned regional development banks, 120 private banks, and 10 foreign branches, not counting joint-venture banks and foreign banks' representative offices). The GOI launched a massive bank recapitalization program in 1999 that has stabilized the banking sector but is not yet completed. While the banking sector is no longer in a state of collapse, it has not yet recovered to pre-crisis levels, and several large state-owned banks continue to lose money. Banks remain reluctant to make new loans outside of the consumer sector, leaving the interest earned on bank recapitalization bonds as the prime source of income for many. While local banks are not expected to return to normal levels of business in the near-term, lending by foreign banks and joint venture banks has resumed on a modest scale to selected customers, primarily exporters.

Corporate loan restructuring has progressed very slowly, and most Indonesian firms find that obtaining trade and project financing has become significantly more difficult. Many local companies can neither meet requirements for new loans nor service their existing bank debt. Letters of credit remain difficult to come by and can face difficulties in gaining acceptance abroad.

Despite lagging progress on bank and corporate debt restructuring, a tentative and potentially short-lived economic recovery has been underway since the second quarter of 1999. GDP growth for 1999 as a whole was slightly positive and is projected to reach 3-4 percent in 2000. Inflation and interest rates have declined dramatically from their mid-crisis levels, and stronger oil prices and improved export earnings coupled with a fall-off in imports has pushed the current account into surplus. The GOI has accumulated foreign exchange reserves above the targets set in its IMF program. The improved indicators have strengthened the overall lending environment, and if sustained, could lead to increased demand for trade financing in the mid-term as well as enhanced opportunities for U.S. exporters.

Since the onset of the crisis, the GOI has taken a number of steps to encourage private sector lending. Indonesia retained an open capital account with no foreign exchange controls both during and after the crisis. The May 1999 foreign exchange law requiring banks and other businesses to report large foreign exchange transactions for monitoring purposes has not had a significant effect on capital flows. The GOI has also implemented specific measures aimed at increasing the supply of trade financing, including:

--Establishment of a US$ 1 billion collateral fund deposited offshore to encourage acceptance of Indonesian letters of credit (set up in mid-1998);
--Government insurance for repayment of trade financing extended by Indonesian banks (set up in late 1998, but little used);
--Establishment in July 1999 of Bank Ekspor Indonesia, a Trade Maintenance Facility arising from the June 1998 “Frankfurt Agreement” (renewed in May 2000).
--Creation of a US $1 million short-term credit guarantee program in collaboration with foreign export credit agencies, including the U.S. Export-Import Bank.

In June 2000 Bank Indonesia (BI) announced a package of regulatory changes designed to encourage bank lending, including trade financing. These measures include amendments to BI’s prudential regulations concerning the recalculation of capital-asset ratios to permit additional credit expansion. A second amendment to the prudential regulations extends until May 2001 (or December 2002 for loans restructured through the Jakarta Initiative) the time limits by which all banks must comply with BI’s legal lending limit (the limit concerns the percentage of bank credit which may be allocated to individual firms). A third BI circular relaxed the requirement that banks liquidate equity positions in a debtor company after 5 years or when the company achieves net profits in two consecutive years (the latter provision was changed to require divestment only once a company achieves a cumulative profit).

A. Financing Options

Prior to the financial crisis, a large number of Indonesian banks maintained correspondent relationships with American banks. However, given the fundamental restructuring underway in the banking system, many of these relationships are no longer in effect. Exporters should contact the U.S. Commercial Center in Jakarta for up to date information on correspondent banking relationships. The Chase Manhattan Bank, Citibank, American Express Bank and Bank of America maintain branch offices in Indonesia. Eight additional U.S. banks have representative offices in Jakarta: FleetBoston Financial, Bank of New York, Union Bank of California, Bankers Trust, First Union (formerly Core States), Morgan Guaranty Trust Company, Nations Bank, and Republic National Bank of New York.

With the sharp drop-off of private capital flows since the economic crisis, Indonesia is now heavily dependent on official financing, primarily from the Asian Development Bank (ADB), World Bank, and major bilateral donors. The World Bank, ADB, and other multilateral and bilateral donors meet periodically in the Consultative Group on Indonesia (CGI). At the February 2000 CGI meeting, donors pledged to disburse up to US$ 4.7 billion for the 2000 fiscal year. Bilateral sovereign creditors agreed to reschedule US$ 6 billion in GOI principal payments due from April 2000 to March 2002 at the April 2000 meeting of the Paris Club.

American firms can participate in projects funded by the ADB and the World Bank. Information on projects and procedures is available through U.S. Commercial Service officers assigned to each multilateral development bank as well as commercial officers in individual countries (See Chapter XI for contact information). See web home pages, including http://www.ita.doc.gov/mdbo for information on all development banks.

B. Asian Development Bank

The Asian Development Bank, headquartered in Manila, is an international financial developent institution owned by 56 member countries of which the United States and Japan are the largest shareholders. The ADB is currently the third largest aid donor to Indonesia, disbursing $1.1 billion in loans in 1998 and $1.02 billion in 1999. According to press report, cumulative ADB loans to Indonesia reached over $17 billion in December 1999, making it the ADB’s largest current loan recipient.

The U.S. Department of Commerce maintains a commercial liaison office at the ADB headquarters in Manila. The liaison office reports directly to the Office of Multilateral Development Banks at the Commerce Department in Washington D.C., and assists U.S. suppliers and consultants in winning contracts on projects and activities funded by the ADB. The liaison office works closely with the U.S. Executive Director at the ADB, who represents the United States on the bank's board of directors. (See Chapter XI for contact information, or ADB’s home page at http://www.adb.org/mainpage.asp)

ADB’s lending portfolio provides commercial opportunities for consultants, equipment suppliers, contractors and project sponsors from the Bank’s member countries. In 1999, American companies won US$236 million worth of contracts under ADB projects for a wide range of equipment and services. The U.S. maintained its number one ranking in total procurement awards for the year among donor countries. Cumulatively, U.S.

companies have won US$ 4.6 billion worth of contracts since the bank began its operations.

Indonesia's borrowings in 1999 reached US$1.02 billion for three combination project-programs. The first was a US$400 million loan for Power Sector Restructing which includes a technical assistance to establish a competitive electricity market. The second was for US$ 300 million, for a Health and Nutrition Sector Development Program; and the third was US$ 320 million for Community and Local Government Support Development. Indonesia also received US$ 11.2 million in technical assistance for various projects in the agriculture, transport, health, government operations and environment sectors. An essential area in ADB's operational strategy in Indonesia is support for gender issues particularly as it relates to poverty alleviation.

ADB's current three-year lending program includes US$ 3.6 billion for Indonesia. These cover projects for agriculture management, support for small and medium enterprises, reforms in state-owned enterprises, basic health and education, road rehabilitation governance, water supply and skills development.

C. World Bank

The World Bank Group is a multilateral lending agency consisting of four closely related institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The World Bank provides loans to developing countries to help reduce poverty and to finance investments that contribute to economic growth.

D. The International Bank for Reconstruction and Development

(IBRD) provides funding for creditworthy developing countries with relatively high per capita income, as well as technical assistance and policy advice. Loans are made only to governments or to agencies that can obtain a government guarantee. The IBRD also provides partial risk or partial credit guarantees (with a counter-guarantee from their government) to private lenders on development projects. Cumulative IBRD lending to Indonesia exceeds $11 billion through 1999. Opportunities exist for U.S. companies to supply goods and services in connection with these loans.

The International Development Association (IDA) provides assistance on concessional terms to the poorest developing countries (per capita incomes below $895 in 1998) that are not sufficiently creditworthy for IBRD financing. As with the IBRD, procurement procedures are well established and offer opportunities for U.S. suppliers, engineers and consultants. In 1998, the World Bank declared Indonesia eligible for IDA support again and $136 million in funds were committed through the Bank's 1998/1999 fiscal year.

The International Finance Corporation (IFC) is an affiliate of the World Bank that provides project financing for private investment in developing countries. IFC offers long-term loans and equity investments, as well as other financing services. Unlike the IBRD and IDA, the IFC does not require government guarantees. Since its first investment in 1971, the IFC has made $1.3 billion in net commitments to Indonesia. U.S. companies seeking investment funds should contact the IFC directly. (See http://www.ifc.org for contact information.)

The Multilateral Investment Guarantee Agency (MIGA) was established in April 1988 to promote the flow of foreign direct investment among member countries by insuring investments against non-commercial (political) risk and by providing promotional and advisory services to help member countries create an attractive investment climate. Indonesia is a member of MIGA and has benefited from guarantees totaling $313 million. U.S. companies seeking investment guarantees should contact MIGA.

The World Bank is the second largest aid donor to Indonesia, disbursing $659 million in 1998 and $2.1 billion in 1999. It has a large resident office in Jakarta.

Examples of World Bank projects in Indonesia include:

Energy:	Suralaya Thermal Power Project
Environment:	BAPEDAL Development Project
Financial Sector:	Banking Reform Assistance Project Telecom Sector Modernization
Health/Nutrition/Population:	Water Supply & Sanitation for Low Income Communities
Rural Development:	Agricultural Financing
Transport:	Highway Sector Investment II
Urban:	Surabaya Urban Development Project

World Bank structural adjustment lending has included two policy reform support loans focusing on financial sector restructuring, corporate restructuring, and governance, a social safety net adjustment loan, and a water sector adjustment loan.

Contact information for the World Bank and the U.S. and Foreign Commercial Service Liaison staff at the bank is available in Chapter XI. An excellent resource for all the multilateral development banks is the Office of Multilateral Development Bank Operations at the Department of Commerce. Services offered include a newsletter, counseling center, referrals and business outreach. Contact information for the office is also available in Chapter XI.

E. The U.S. Export-Import Bank

The U.S. Export-Import Bank (Ex-Im) currently offers short, medium, and long-term loans to support U.S. exports to Indonesian public sector buyers as well as private sector buyers who obtain a sovereign guarantee from the GOI. Ex-Im can also support exports of consumer goods, spare parts, raw materials (on terms up to 180 days), and bulk agricultural commodities (on terms up to 360 days) under its short-term credit insurance policies. Exports of capital goods and related services can be supported by Ex-Im's long-term loans and guarantees of commercial bank financing (up to 10 years repayment), or medium-term loans, guarantees and insurance (up to five years repayment).

Ex-Im can generally offer the maximum support allowed within OECD rules. Ex-Im also has "war chest" monies available to match soft loan offers from competitor countries that exceed OECD guidelines. Ex-Im does not initiate soft loan offers without evidence of a competitor offer already having been made. Ex-Im programs are explained on their homepage, located at http://www.exim.gov.

F. Trade and Development Agency

Funding for feasibility studies, technical assistance, technology visits to the U.S., and trade-related training on major infrastructure projects is available from the U.S. Trade & Development Agency. TDA-funded studies are then used by financial institutions, such as the U.S. Ex-Im Bank, to make project financing decisions. TDA has maintained a significant presence in the Indonesian market, even during the economic crisis period. Recent examples of TDA activity include $302,400 for a Gas Development/Procurement Plan, $249,000 for a demonstration of LIDAR Remote Imagining Technology, and $483,500 for a Wastewater Treatment Plant feasibility study on the island of Batam. Most recently, TDA funded two definitional missions to visit the Aceh region to identify project opportunities of potential U.S. exporters.

TDA maintains a regional office in Manila and activities in Indonesia are represented by the U.S. Commercial Service office in Jakarta. (See Chapter XI for contact information).

G. Overseas Private Investment Corporation (OPIC)

The Overseas Private Investment Corporation plays an important role in helping U.S. firms reach expanding markets. Since beginning operation in 1971, OPIC has been the key U.S. government agency encouraging American private business investment in developing countries, newly emerging democracies, and fledgling free market economies. OPIC assists American investors through four principal activities: financing of businesses through loans and loan guarantees; supporting private investment funds; insuring investments against a broad range of political risks; and, engaging in outreach activities designed to inform the American business community of investment opportunities overseas. Investors are urged to contact OPIC directly for up-to-date information concerning availability of OPIC services in Indonesia (See Chapter XI for contact information).

H. Islamic Development Bank

Established in 1973, the Islamic Development Bank seeks to foster the economic development and social progress of member countries and Muslim communities through participation in equity capital and grant loans for projects, as well as providing other types of financial assistance. The IDB recently dispensed a US$ 500 million loan to

Indonesia within the framework of the Consultative Group on Indonesia (CGI), and has given US4 9.29 million in loans to build Islamic schools in various regions of Indonesia. In additions, the IDB is planning to give loans to Bank Mandiri for export financing. The Islamic Bank is headquartered in Jeddah, Saudi Arabia (See http://www.isdb.org or Chapter XI for additional information and contact information).

I. Financing of Agricultural Exports

The Embassy's Agricultural Affairs Office and Agricultural Trade Office in Jakarta have successfully launched several credit guarantee programs to facilitate the export of U.S. agricultural products to Indonesia. Under the GSM-102 Credit Guarantee, the U.S. Department of Agriculture, via the Commodity Credit Corporation, will issue a loan guarantee with repayment terms of up to three years. Coverage is available for a wide variety of products ranging from cotton, soybeans and feedgrains to leather, lumber and planting seeds. The program has grown from an initial allocation of $15 million in FY92 to $400 million in FY98 and FY 2000. With the USDA guarantee, banks are generally able to offer lower interest rates than may otherwise be available. The interest rates, however, are negotiated by the banks and are not set by USDA. Use of this guarantee facility has increased during the economic downturn in Indonesia. The guarantee is assisting Indonesian companies, which are otherwise having difficulty with trade financing. The U.S. Department of Agriculture has also made an additional regional program of $90 million available.

Another program, the GSM-103 facility, is available for animal breeding stocks with credit terms of seven to ten years. To date the $10 million available each year under this program has not been utilized by Indonesian banks.

Two new facilities, the Supplier Credit Guarantee Program (SCGP) and the Facilities Guarantee Program (FGP), have been introduced in Indonesia. The SCGP program is aimed at commodities that are generally traded without Letters of Credit. The SCGP covers 50 percent of the principal for up to 180 days. A total of $50 million for the Southeast Asian region was made available in FY 99. Eligible commodities are generally high valued products such as meat, fruit and consumer-ready products. The FGP program for the region totals $50 million and covers equipment and services aimed at facilitating imports of U.S. agricultural commodities.

The following Indonesian banks are eligible to participate in the GSM-102 and GSM-103 programs:

Bank Antardaerah	Bank Artha Graha
Bank Bali	Bank Buana Indonesia
Bank Bumi Arta	Bank Century Intervest
Bank Chinatrust Tamara	Bank Credit Lyonnais Indonesia
Bank Danamon	Bank Duta
Bank Haga	Bank Hagakita
Bank Halim Indonesia	Bank International Indonesia

Bank Kesawan
Bank Mandiri
Bank Muamalat
Bank Negara Indonesia
Bank NISP
Bank PDFCI
Bank Rakyat Indonesia
Bank Sakura Swadharma
Bank Tabungan Negara
Bank Tiara Asia
Bank United City (Unibank)
Bank Universal
Baiwa Perdania Bank
Finconesia Bank
IBJ Indonesia Bank
ING Indonesia Bank
Korea Exchange Bank Danamon
Rabobank Duta Indonesia
Tat Lee Buana Bank
Bank Lippo
Bank Mayapada
Bank Multicor
Bank Niaga
Bank Panin
Bank Prima Express
Bank Rama
Bank Shinta Indonesia
Bank Tamara
Bank Umum Koperasi Indonesia (Bukopin)
ANZ Panin Bank
BLL Commonwealth
Dai Ichi Kangyo Indonesia Bank
Fuji Bank International Indonesia
Jaya Bank International
Paribas – BBD Indonesia Bank
Sumitomo Niaga Bank
United Overseas Bali Bank

CHAPTER IX - BUSINESS TRAVEL

A. Business Customs

The best time for an initial business trip is September through June, as school holidays and vacation time in the summer months can impact on the availability of many business people. Visitors should check the local holiday schedule before traveling to Indonesia. The normal business attire is a lightweight business suit or white shirt, tie and slacks for men, and a business suit or dress for women.

Indonesia is a very diverse country, with more than 300 different ethnic groups. Some Indonesians are traditional in culture, others may be considerably “Westernized.” Many Indonesians do not conduct business transactions or make decisions in the same direct fashion Americans do, so U.S. business people should be prepared to spend a good deal of time with clients before getting down to the business transaction. Traditional Javanese culture emphasizes harmony and the word "no" is rarely used. This can make it difficult for a Westerner to ascertain exactly how a business proposal is being received. Patience and the development of personal relations is the key. Because Indonesians do business with "friends," people that they know, developing a rapport is crucial. While quality and price are important, they are secondary to the personal interaction of the business partners.

During business meetings, tea or coffee is almost always served and should be accepted. However, it should not be consumed until the host invites you to do so, which may not occur until the end of the meeting. Generally speaking, it is best to use the right hand in receiving or eating. Although hand shaking is a common practice, avoid hearty handshakes and other physical contact. Do not show the soles of your shoes when seated. A publication that may be of use to some business executives is “The Guide for Business Representatives,” available for sale by contacting: Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, tel.: (202) 512-1800, fax (202) 512-2250. Business travelers to Indonesia seeking appointments with U.S. Embassy-Jakarta officials should contact the U.S. Commercial Center in advance. The U.S. Commercial Center can be reached by telephone at (62-21) 526-2850 or by fax at (62-21) 526-2855. More extensive contact information is available in Chapter XI.

Business Hours:

Commerce: 0730-1600 Monday to Friday*	Government: 0900-1600 Monday to Friday*
Banks: 0900-1500 Monday to Friday*	Shops: 0900-2200 Monday to Saturday

*Moslems are released for prayers every Friday from 1100-1200.
When making a business trip do not expect to schedule meetings for Friday afternoons or Saturdays.

B. Travel Advisory and Visas

Entrance and Residence Requirements: Tourists and business visitors from the United States may obtain a 60-day short visit pass upon arrival. All visitors must have at least 6 months validity left in their passports and a round-trip or onward ticket. To extend this pass a trip outside the country is usually required. Visitors to Indonesia should reserve enough funds to pay the Rp. 50,000 airport departure tax.

A 6-month to 1-year temporary residence visa may be obtained from the Embassy of the Republic of Indonesia, for either single or multiple entries (See Chapter XI for contact information). When requesting residence visas, one should allow sufficient time to meet whatever requirements may be imposed (e.g. sponsorship letters). All residents must pay a Rp. 1 million fiscal tax at the airport every time they leave the country.

Employment is not allowed without a work permit from the Ministry of Manpower. In addition, foreign and domestic investors must submit an employment plan to the Capital Investment Coordinating Board (BKPM) to obtain approval for expatriate employee work permits. Permits are issued only for positions that cannot be filled by Indonesian nationals.

Travel advisory: Americans travelling to Indonesia should exercise caution. Demonstrations and other violence can occur without warning. Travel within Jakarta and other major Indonesian cities is generally safe, however, visitors to Indonesia should avoid large gatherings and other situations that could become violent. As a result of the economic crisis and increased unemployment, the amount of petty crime is on the increase, particularly in the popular tourist areas. Please see note about taxis in the "Transportation" section below.

Up-to-date travel advisories may be obtained from the U.S. Embassy or Department of State, or on the U.S. Embassy home page (http://www.usembassyjakarta.org).

C. Business Infrastructure and Environment

Transportation: In Jakarta, taxis are inexpensive and widely available except during morning and evening rush hours and Saturday nights during the peak social season, when they become scarce. In Jakarta, make certain the taximeter is turned on. In other cities it may be common for drivers to negotiate a price rather than use the meter. However, one should also exercise extreme caution while using taxis. The number of patrons reporting thefts and assaults in taxis has increased in recent months, and has prompted many expatriates to use only the most reputable taxi companies, opting to summon taxis by telephone rather than flagging them down on the street. In Jakarta, Blue Bird taxis (and the sister Silver and Golden Bird luxury taxis) are considered to be the safest and most reliable and they can be summoned by telephone (794-1234).

Business travelers may wish to hire a private car which can be arranged through their hotel prior to arrival. Rates for this exceed $100 per day. Alternatively, arrangements can also be made with a taxi driver. Taxi and private limo drivers may not speak much English or be particularly knowledgeable about the city, and visitors are occasionally taken on roundabout routes. Allow plenty of time between meetings to accommodate Jakarta traffic jams; one half hour between locations in the central city is recommended.

Train and air services are usually used for domestic travel. Domestic flights are the most convenient way to travel to most in-country destinations, but the train from Jakarta to Bandung is perhaps an exception, as it is highly recommended. For inter-city train service, book a first-class (Eksekutif) seat if available, which can be done by travel agents or at the train station one week in advance. Ferry services for people and vehicles link the major islands and many of the smaller islands.

Language: The national language of Bahasa Indonesia is spoken all over Indonesia, in addition to local languages. English is widely spoken and understood in Jakarta by most business people, although much less so in other cities. Most of the better hotels have English-speaking staff, as do the shopping centers that cater to expatriates. International telephone operators also speak English. However, the level of English can vary. Indonesian firms hoping to conduct business with foreigners generally try to employ some English speakers.

Telecommunications: Telephone services vary between areas in Jakarta. They depend largely on the local telephone exchange's capacity to handle traffic. Phone service is good along the main business thoroughfares and the newer residential areas, which are served by fiber optic trunk lines. In the older residential areas service is less reliable, extra phone lines can be costly, and obtaining them can be time consuming. International direct dial (IDD) lines are available and will allow connection to an AT&T, Sprint or MCI operator, but rates are considerably higher than calling from the United States. Cellular services are readily available but the quality of service varies.

Internet: A number of Internet Service Providers (ISPs) operate in Indonesia. The following are some of the largest and most established ISPs in Indonesia:

IBM Internet Connection
PT. Sistelindo Mitralintas
Landmark Center I, 19th & 32nd Floor
Jl. Jend. Sudirman No.1
Jakarta 12910
Tel.: (62-21) 523-8128
Fax : (62-21) 522-3432
E-mail: sistelindo@ibm.net
Internet: http://www.ibm.net

CBNnet
PT. Cyberindo Aditama
Gd. Manggala Wanabakti IV, 6th Floor, Suite 808 A
Jl. Jendral Gatot Subroto, Senayan
Jakarta Selatan, 10270
Tel: (62-21) 574-2488
Fax: 62-21) 574-2481
Contact: Sugiharto Darmakusuma, General manager
E-mail: sales@cbn.net.id
Internet: http://www.cbn.net.id

Radnet
PT. Rahajasa Media Internet
Plaza 89, 6th Floor, Suite 601
Jl. H.R. Rasuna Said Kav. X-7/6
Jakarta 12950
Tel.: (62-21) 252-6363
Fax : (62-21) 252-4777
Contact: Roy Rahajasa Yamin, Director
E-mail: info@rad.net.id
Internet: http://www.rad.net.id

Idola
PT. Aplikanusa Lintasarta
Menara Thamrin, 12th Floor
Jl. M.H. Thamrin Kav.3
Jakarta 10340
Tel.: (62-21) 230-2345

Fax : (62-21) 230-3883
Contact: Adeng Achmad, President Director
E-mail: sales@idola.net.id
Internet: http://www.idola.net.id

Sistelindo
PT. Sistelindo Mitra Lintas
Landmark Tower I 19th Fl.
Jl. Jendral Suridman No. 1
Tel.: (62-21) 523-8128
Fax: (62-21) 526-3020
Contact: Mr. Vennyzano, President Director
Internet: http://www.ibm.net.id

Express Delivery & Airlines: DHL, UPS and Federal Express operate in the major cities; incoming parcels are subject to delay at customs. Many foreign firms have established their own regular pouch service, using normal airfreight services. Airlines flying into Jakarta include Garuda (the national airline), Singapore Airlines, Cathay Pacific, KLM, and a number of other regional carriers. Connections can be made to all major airlines, including U.S. carriers, in Singapore or Hong Kong. No U.S. airlines currently fly into Jakarta, although Continental Micronesia Airlines flies into Denpasar, Bali from Guam.

Housing: Housing costs have declined, but vary widely. Depending on the size and location of the residence, one can expect to pay from $1,000-$5,000 per month for an expatriate standard house or a luxury apartment in Jakarta. The cost of gas, electricity, and water per month is estimated to be about Rp. 50,000, Rp. 2 million, and Rp. 25,000. Rent is usually paid in U.S. dollars, and leases are typically paid two years in advance.

Health: It is recommended that short term visitors to Indonesia receive the Hepatitis A, Hepatitis B, and Typhoid vaccinations, in addition to all routine childhood immunizations before arrival. The Hepatitis vaccination series takes six months to complete. Those considering travel outside the major cities (Jakarta, Surabaya, Medan, southern Bali, etc.) should take anti-malaria medication; Mefloquine or Doxycycline are considered adequate prevention measures against malaria. Physicians in the United States should be able to answer questions pertaining to immunizations and other health concerns.

Air pollution in the larger cities causes a number of common respiratory ailments to both visitors and long-term residents.

Dehydration as a result of intestinal illnesses can be a serious, even life-threatening condition if not treated. Persons suffering from severe diarrhea should obtain oral rehydration tablets from a pharmacy. If vomiting makes it impossible to adequately rehydrate, visit a clinic immediately.

There are a few modern, well-equipped clinics and hospitals in Jakarta which are considered adequate for minor illnesses, but expatriates generally prefer to fly to

Singapore or their home countries for treatment of serious illnesses and/or operations. An adequate pre-hospital emergency system, similar to the “911” system in the U.S. does not exist in any of the Indonesian cites. Many local hospitals operate their own ambulances, with no common standards. Response time can be prolonged. In the event of illness or emergency, the following clinics and hospitals are among those frequented by expatriates in Jakarta:

Clinics

International SOS (AEA) Medika Clinic
Jl. Pangarang Antasari 10
Cipete, Jakarta Selatan
Tel.: 750-5980 thru 86 - Medical Center and Appointments
750-5973 - Client Services and Information
750-6001 - Emergencies and Alarm Center
Fax : 750-6002, 750-6003

Medikaloka Health Care Center
Graha Irama Building
Mezzanine 1st and 2nd Floor
Jl H.R. Rasuna Said, Block X-1, Kav. 1-2
Jakarta Selatan
Tel.: 526-1118
Fax : 526-1119, 526-1438
International SOS
Setia Budi Building-II, Ground Floor
Jl. H.R. Rasuna Said
Kuningan, Jakarta
Tel.: 525-5367
Fax : 520-7524

Hospitals

R.S. Pondok Indah
Jl. Metro Duta Kav. UE
Pondok Indah, Jakarta Selatan
Tel.: 765-7525
Fax : 750-2324
Emergency : 750-2322
Notes: has 24-hour emergency room, own ambulance service and a large clinic.

R.S. Jantung Harapan Kita (National Cardiac Center)
Jl. Letjen S. Parman Kav. 87
Jakarta Barat
Tel.: 568-4085, 568-4093
Fax : 568-4130

Notes: Hospital is dedicated to heart problems. There is an intensive care area, and a 24-hour emergency room for cardiac care. This is the place to go for suspected heart attack.

R.S. Cipto Mangunkusumo (Central Hospital)
Jl. Diponegoro 69
Jakarta Pusat
Fax : 314-8991
Emergency : 314-4029, 390-5839
Notes: A government hospital with a good intensive care unit. Cardiologist on duty 24 hours/day. For emergency cardiac care, go to the cardiac emergency unit, not to the regular emergency room.

R.S. MMC Kuningan
Jl H.R. Rasuna Said Kav. C-21
Kuningan, Jakarta Selatan
Tel.: 520-3435 thru 3450
Fax : 520-3417
Emergency : 527-3473
Notes: 24-hour emergency room and own ambulance service, in addition to a large clinic

R.S. Medistra
Jl. Jend. Gatot Subroto Kav. 59
Jakarta Selatan
Tel.: 521-0200
Fax : 521-0184
Notes: 24-hour emergency room and own ambulance service, in addition to a large clinic

R.S. Graha Medika
Jl. Raya Pejuangan Kebon Jeruk
Jakarta 11530
Tel.: 530-0887-9
Fax : 532-1775
Notes: 24-hour emergency room and own ambulance service, in addition to a large clinic

Food: Exercise reasonable care in food preparation at home and menu selection while eating out because of questionable sanitation practices. Imported meats, vegetables, and packaged foods are readily available from most stores in the Hero grocery store chain (locations through out Jakarta), at Sogo in the Plaza Indonesia/Grand Hyatt complex, and at Kem Chicks in the Kemang district.

Drinking tap water anywhere in Indonesia is not advised. Use commercial bottled water from your hotel or purchased from a supermarket. “Aqua” is one of the more common brands used by expatriates. Avoid buying bottled water from street vendors if possible.

Short-term visitors to Indonesia are well advised to eat only in hotels and restaurants that cater to up-scale visitors. Caution, however, should also be exercised in these “5-star” establishment, with particular attention to fresh vegetables and salads. Do not eat from street stalls. Avoid raw, unpeeled fruits and uncooked vegetables, food that is prepared in advance and then left to stand, and raw or undercooked meats, seafood, and shellfish in questionable eating venues. At home, wash and soak all local fruit and vegetables in Clorox-treated, soapy water.

D. Holiday Schedule

The U.S. Embassy and American Consulate in Surabaya close on American and Indonesian holidays. Holiday dates for FY 1999-2000 are listed below.

U.S. Holiday	Indonesian Holiday	Date
	Independence Day	Aug. 17, 2000
Labor Day		Sept. 6, 2000
Columbus Day		Oct. 11, 2000
	Ascension of Mohammad	Oct. 25, 2000
Veterans' Day		Nov. 11, 2000
Thanksgiving		Nov. 25, 2000
Christmas Day	Christmas Day	Dec. 25, 2000
	Idul Fitri (End of Ramadhan)	Dec. 27-28, 2000
New Year's Day	New Year's Day	Jan. 1, 2001
Martin Luther King's Birthday		Jan. 17, 2001
Washington's Birthday		Feb. 19, 2001
	Idul Adha 1422 H (Moslem Day of Sacrifice)	Mar 5, 2001
	Hindu New Year (Nyepi)	Mar 25, 2001
	Moslem New Year (1422H)	Mar 26, 2001
Good Friday	Good Friday	Apr 13, 2001
	Waisak (Buddhist New Year)	May 17, 2001
Memorial Day		May 29, 2001
	Ascension of Christ	May 24, 2001
	Mohammed's Birthday	Jun 4, 2001
Independence Day		Jul 4, 2001
	Independence Day	Aug. 17, 2001
Labor Day		Sept. 4, 2001
	Ascension of Mohammad	Oct. 15, 2001
Columbus Day		Oct. 9, 2001
Veteran's Day		Nov. 11, 2001
Thanksgiving Day		Nov. 23, 2001
	Idul Fitri (End of Ramadhan)	Dec. 16-17, 2001
Christmas Day		Dec. 25, 2001

Note: Many of the Indonesian holidays are based on a lunar calendar, updates may be checked at http://www.usembassyjakarta.org or http://www.holidayfestival.com/Indonesia.html

CHAPTER X - ECONOMIC AND TRADE STATISTICS

Appendix A: Country Data

Population in 1999:	210 million (projection based on 1990 census)
Population growth rate:	1.7 %/year (avg. 1990-97)
Religions:	Islam, Hinduism, Buddhism, Christianity, Animism
Government System:	Emerging Democracy
Work-week:	Monday-Friday

Appendix B. Domestic Economy

	1998	1999	2000 (forecast)
GDP (USD billions)	99	138	74
Real GDP growth (%)	-13.4	0.2	3.0
GDP per capita(USD)	492	688	829
Government spending as percent of GDP	27	20	22
CPI (%)	77.6	2.0	7.0
Unemployment (%)*	5	5	5
Foreign Exchange Reserves USD billion)	24.1	27.2	27.2
Average exchange rate for USD 1.00**	10,014	7,855	8,000
Debt service ratio (Debt service/exports, %)	37	41	40
U.S. economic aid (USD millions)	250	270	273

Appendix C: Trade (USD billions)

Total exports (1)	48.8	48.7	13.9
non-oil/gas (1)	41.0	38.9	10.6
oil/gas (1)	7.8	9.8	3.3
Total imports (1)	27.3	9.7	5.7
U.S. exp. to Indonesia (2)	3.5	1.9	0.9
U.S. imp. from Indonesia (2)	7.0	9.5	3.1

Notes:
* Indonesia does not have reliable unemployment data, because of the large informal workforce.
** 2000 figure is embassy forecast based on January-June.
Note 1: 2000 figure is January-March.
Note 2: 2000 figure is January-April
Sources: Indonesian Central Bureau of Statistics, Bank Indonesia, Ministry of Finance, World Bank, U.S. Department of Commerce.

CHAPTER XI - U.S. AND COUNTRY CONTACTS

Appendix D: U.S. and Country Contacts

1. Chambers of Commerce

Based in New York City, the membership of the American-Indonesian Chamber of Commerce is comprised of over 150 companies and individuals doing business in Indonesia. It has an active program of monthly luncheons, featuring speakers knowledgeable about Indonesia and briefing programs for newly appointed American and Indonesian Government officials. The Chamber also publishes "OUTLOOK/ INDONESIA," a quarterly publication containing interpretations of new Indonesian policies, sectoral reviews, summaries of recent Chamber activities, and an Executive Director’s column. In addition, the American-Indonesian Chamber of Commerce provides business translations, either from English to Indonesian or Indonesian to English. Their contact information is as follows:

The American-Indonesian Chamber of Commerce
317 Madison Avenue, Suite 520New York, NY 10017
Tel.: (212) 687-4505
Fax : (212)687-5844
Email: aiccny@bigplanet.com
Internet: http://www.aicc.globalnetlink.com
Contact: Wayne Forrest, Executive Director

The American Chamber of Commerce in Indonesia, known as AMCHAM, is affiliated with the Asia-Pacific Council of American Chambers of Commerce (APCAC). Its 600 members include leading U.S. firms with offices in Indonesia, associates, individuals, and special members. The chamber prepares a number of useful guides to doing business in Indonesia and a membership directory. AMCHAM assists U.S. firms in assessing business opportunities by staging briefing breakfasts at the requestor's expense. Their contact information is as follows:

American Chamber of Commerce (AMCHAM)
World Trade Center, 11th Floor,
Jl. Jendral Sudirman Kav. 29 - 31
Jakarta 12920, Indonesia
Tel: (62-21) 526-2860
Fax: (62-21) 526-2861
Email: amcham_indonesia@ibm.net
Internet: http//www.amcham.or.id
Contact: James W. Castle, President

2. Related Business Councils and Associations in the U.S.A.:

California-Asia Business Council
1946 Embarcadero, Suite 200
Oakland, CA 94606

Tel.: (510) 536-1967
Fax : (510) 261-9598
E-mail: shanahan@calasia.org
Internet: www.CalAsia.org
Contact: Mr. Shanahan Lim, Program Manager, Ms. Jeremy W. Potash, Executive Director

Indonesian American Business Association
P.O. Box 420398 Houston, TX 77242-0398
10900 Richmond Avenue, Houston, TX 77242
Tel.: (713) 789-0702
Fax : (713) 789-0559
E-mail: iaba@onramp.net
Internet: www.iaba-usa.org
Contact: Engeline Tan, Executive Director

Pacific Basin Economic Council
PBEC International Secretariats
900 Fort St., suite 1080
Honolulu, Hawaii, USA 96813
Tel.: (808) 521-9044
Fax : (808) 521-8530
E-mail: info@pbec.org
Internet: www.pbec.org
Contact: Robert G. Lees, Secretary General

U.S.-ASEAN Business Council
Support Services/MIS
1400 L Street NW #375
Washington, DC 20005
Tel.: (202) 289-1911
Fax : (202) 289-0519
E-mail: mail@usasean.org
Internet: www.us-asean.org
Contact: Jackie Darden

3. Indonesian Trade Associations

The major trade association in Indonesia is the Indonesian Chamber of Commerce and Industry (KADIN). Members include representatives from private industry, cooperatives, public corporations, utilities, as well as state-owned enterprises. In addition, there are numerous other specialized and professional organizations that represent the interests of various other sectors and trades in the economy. Contact information for KADIN is as follows:

Indonesian Chamber of Commerce & Industry (KADIN)

Menara Kadin, 29th Floor
Jl. H.R. Rasuna Said X-5 Kav. 2-3
Jakarta 12940
Tel.: (62-21) 916-5535, 916-5538, 527-4485
Fax : (62-21) 527-4486
Associations of importers and exporters, most of whom are organized on a commodity basis, include the Importers Association of Indonesia (GINSI) and the Indonesian Association of Exporters (GPEI). Both organizations have head offices in Jakarta. Contact information is as follows:

Importers Association of Indonesia (GINSI)
Gedung Bank Niaga, 1st Floor
Jl. Raya Pasar Minggu #45
Jakarta Selatan
Tel.: (62-21) 7919-8986, 7919-8987, 7919-8988
Fax : (62-21) 790-0808
Contact: Mr. H. Amirudin Saud, Chairman

Indonesian Exporters Association (GPEI)
21 Jl. Wolter Monginsidi No. 88A
Jakarta 12170
Tel.: 725-2612, 725-2613
Fax : 725-2615
Contact: Dipl. Ing. H. Benny Soetrisno

The Indonesian Government established the National Agency for Export Development within the Ministry of Trade to promote the export of less renowned products. These products include handicrafts (ie, jewelry, batik, handwoven fabric, and wood carvings), agricultural and cottage industry products, and new manufactured products. The agency will also assist foreign buyers and importers in establishing contacts with Indonesian companies. Contact information is as follows:

National Agency for Export Development
Jl. Gajah Mada No. 8
Jakarta 10130
Tel.: (62-21) 634-1082
Fax : (62-21) 633-8360

4. Trade and Project Financing

U.S. Trade and Development Agency
American Business Center
25th Flr., Ayala Life-FGU Center
6811 Ayala Ave., Makati City
Philippines

Tel: (632) 887-1196/-1192
Fax: (632) 887-1225 fax
E-mail: tdasia@skyinet.net

Commercial Liaison to the Asian Development Bank
U.S. and Foreign Commercial Service
2nd Floor, GSO Building Seafront Compound
Roxas Boulevard, Pasar City
Manila, Philippines
Tel.: (632) 804-0460
Fax : (632) 804-0357
E-mail: Stewart.Ballard@mail.doc.gov
Internet: http://www.ita.doc.gov/mdbo
Contact: Stewart Ballard, Senior Commercial Officer

U.S. Trade and Development Agency
1621 North Kent Street, Suite 300
Arlington, VA 22209-2131
Tel: (703) 875-4357
Fax: (703) 875-4009
Internet: www.tda.gov

TDA Regional Office – Manila
John Herrman, Deputy Regional Manager
2/F, RSC Bldg. Seafront Compound
Roxas Blvd.
Manila, Philippines
Tel: (632) 804-0381 or –0363
Fax: (632) 804-0367
E-mail: tdasia@skyinet.net

Overseas Private Investment Corporation (OPIC)
1100 New York Avenue, N.W.
Washington, D.C. 20527
Tel.: (202) 336-8799
Fax : (202) 408-9859
Internet: http://www.opic.gov

Export-Import Bank of the United States (EX-IM Bank)
811 Vermont Ave., NW
Washington, D.C. 20571
Tel.: (800) 565-EXIM(3946), (202) 565-3946
Fax : (202)565-3380
Asia hotline : (800) 565-3946 ext.3905
Internet: http://www.exim.gov

Islamic Development Bank
P.O. Box 5925
Jeddah, 21432
Kingdom of Saudi Arabia
Tel.: (966-2) 636-1400 (10 lines)
Fax : (966-2) 636-6871
Tlx: 601 137 ISDB SJ
E-mail idb.comm@mail.oicisnet.org or idb.archives@mail.oicisnet.org
Internet: http://www.isdb.org

The World Bank
Office of the U.S. Executive Director
Commercial Service Liaison Staff
Jill Wilkins or Kimberly Versak
1818 H Street, NW
Washington, DC 20433
Tel.: (202) 477-1234
Fax : (202) 522-3405
Internet: http://www-esd.worldbank.org/
E-mail: kversak@worldbank.org or jwilkins@worldbank.org

In Indonesia:
Mark Baird, Indonesia Country Manager
Jakarta Stock Exchange Building
Tower 2, 12th Floor
Jl. Jendral Sudirman, Kav. 52-53
Jakarta 12190 Indonesia
Tel.: (62-21) 529-93000
Fax : (62-21) 529-93111

5. Indonesian Government Contacts

The following is a listing of President Abdurraham Wahid's cabinet as of March 2000. Because of the uncertainties surrounding the Indonesian government at the time, business persons who wish to get in touch with these cabinet members can contact the U.S. Commercial Service in Jakarta for up-to-date contact information or to forward correspondence.

6. Coordinating Ministers:

Political and Security: Lt. Gen (Ret.) Suryadi Sudirja
Economic, Finance, and Industry: Drs. Kwik Kian Gie
People's Welfare and Poverty Alleviation: Basri Hasanuddin, MA

Ministry:
Agriculture: Dr. Ir. Muhammad Prakosa, Ph.D
Defense/Armed Forces Commander: Prof. DR Juwono Sudarsono
Education: DR Yahya A. Muhaimin
Finance: DR. Bambang Sudibyo, MBA
Foreign Affairs: DR Alwi Shihab
Forestry and Plantation: DR Nurmahmudi Ismail
Health: Dr. Achmad Suyudi, MHA
Home Affairs: Lt. Gen. (Ret.) Suryadi Sudirja
Industry and Trade: Lt. Gen. Luhut B. Panjaitan
Law and Legislation: DR Yusril Ihza Mahendra, SH, MSC
Manpower: DR Bomer Rasaribu, SH
Maritime Exploration: Ir. Sarwono Kusumaatmadja
Mining and Energy: Lt. Gen. (Ret.) Susilo Bambang Yudhoyono
Religious Affairs: Drs. K.H. Muhammad Tolchah Hasan
Residential and Area Development: Ir. Erna Witoelar, M. Si
Transportation and Communications: Lt. Gen. Agum Gumelar

State Ministers:
State Secretary: Dr. Ali Rahman, M. Sc.
Cooperatives, Small and Medium Enterprises: Drs. Zarkasih Noer
Environment: DR Soni Keraf
Human Rights: Dr. Hasballah M. Saad
Investment/Head of BKPM: H.M. Rozy Munir, S.E., MSC
Public Affairs: DR Anak Agung Gde Agung
Public Works: Dr. Ir. Rozik Boedioro Soetjipto
Reform of State Apparatus: Rear Adm. Freddy Numberi
Regional Autonomy: DR Ryaas Rasyid
Research and Technology: Dr. A.S. Hikam
Tourism, Art and Culture: Drs. Hidayat Djaelani
Transmigration and Population: Ir. Al-Hilal Hamdi
Women's Affairs: Dra. Khofifah Indar Parawansa (Ms)
Youth and Sports: Drs. Mahadi Simambela

Officials of Ministerial Rank:
Attorney General: Marzuki Darusman, SH
Governor of the Bank of Indonesia: DR. Syahril Sabrin
Indonesian Armed Forces (TNI) Commander-in-Chief: Admiral Widodo A.S.

*In Indonesia DR refers to a male with a Doctorate degree; Dr. refers to a male with a medical degree; Drs. refers to a male with a bachelor degree; Dra. refers to a female with a bachelor degree; SH. refers to a male or female with a law degree; MSC is a male or female with a Master of Science

6. U.S. Government Contacts

U.S. Embassy, Jakarta

Mailing Address from U.S.:	International Mail:
American Embassy - Jakarta	American Embassy-Jakarta
Box 1 Unit 8129	Jl. Medan Merdeka Selatan #5
FPO, AP 96520	Jakarta 10110, Indonesia

U.S. Ambassador Robert S. Gelbard	Deputy Chief of Mission Stephen Mull
1st Aide to Ambassador Janice G. Smith	Sec. to DCM Brenda Dudley

Internet: http://www.usembassyjakarta.org

U.S. Commercial Center
Alice Davenport, Counselor for Commercial Affairs
Judy R. Reinke, Commercial Attaché
Michael Carroll, Commercial Officer
Wisma Metropolitan II, 3rd Floor
Jl. Jendral Sudirman Kav. 29-31
Jakarta 12910, Indonesia
(From the U.S., use Embassy's FPO mailing address – see above)
Tel.: (62-21) 526-2850
Fax : (62-21) 526-2855
Email : jakarta.office.box@mail.doc.gov
Internet : http://www.jakarta.uscc.org

U.S. Asian Environmental Partnership
Gerald Sanders, Technical Representative
Wisma Metropolitan II, 3rd Floor
Jl. Jendral Sudirman Kav. 29-31
Jakarta 12910, Indonesia
Tel.: (62-21) 526-2844, 526-2848
Fax : (62-21) 526-2846, 526-2849
Email: usaepdir@rad.net.id
Internet : http://www.usaep.org

U.S. Asian Environmental Partnership
Office of Environmental Infrastructure
Tel.: (62-21) 344-2211 Ext. 2480
Fax : (62-21) 380-6694

U.S. Agricultural Trade Office (ATO)
Dennis Voboril, Agricultural Attaché
Wisma Metropolitan II, 3rd Floor
Jl. Jendral Sudirman Kav. 29-31
Jakarta 12910, Indonesia
Tel.: (62-21) 526-2850

Fax : (62-21) 571-1251

The following U.S. Embassy Offices are located at:
Jl. Medan Merdeka Selatan #5
Jakarta 10110, Indonesia

Foreign Agricultural Service
Kent D. Sission, Counselor for Agricultural Affairs
Deanna M. Johnson, Agricultural Attaché
Tel.: (62-21) 344-2211 (ext. 2161)
Fax : (62-21) 380-1363

Economic Section
Judith Fergin, Economic Counselor
Michael Uyehara, Resources Officer
Robin McClellan, Science and Technology Officer
David DiGiovanna, Trade Officer
William Heidt, Finance Officer
Vicky Alvarado, Economic Officer
Tel.: (62-21) 344-2211 (ext. 2073)
Fax : (62-21) 386-2259

Public Affairs Section
Greta Morris, Public Affairs Counselor
Karl Fritz, Press Attaché
Tel.: (62-21) 344-2211 (ext. 2500)
Fax : (62-21) 381-0243
E-mail: gmorris@pd.state.gov/kfritz@pd.state.gov

Informational Resource Center (IRC)
Melling Simanjuntak, Library Director
Tel.: (62-21) 350-8467
Fax : (62-21) 350-8466
E-mail: irc@usembassyjakarta.org

Agency for International Development (U.S. AID)
Terry Myers, Director
Paul Deuster, Chief, Private Sector Development Office
Tel.: (62-21) 344-2211 (ext. 2308)
Fax : (62-21) 380-6694

Defense Attaché Office (DAO)
Col. Joseph H. Daves, Defense Attaché
Tel.: (62-21) 344-2211 (ext. 2191)
Fax : (62-21) 386-2259

Office of the Military Attaché for Defense Programs
Col. James Tompkins, Military Attaché
Tel.: (62-21) 344-2211 (ext. 2601)
Fax : (62-21) 386-2259

U.S. Consulate General – Surabaya
Robert Pollard, Consul General
Joaquin F. Monserrate, Pol/Econ/Commercial Officer
Lina Jusuf, Commercial Specialist
American Consulate General
Jl. Raya Dr. Sutomo #33
Surabaya, Indonesia 60264
Tel.: (62-31) 567-6880, 568-2287, 568-2288
Fax : (62-31) 567-4492 Telex : 34331
E-mail: amconsby@rad.net.id

U.S. Consulate Medan (to be opened sometime in the year 2000)
Ronald Deutch
Jl. Walikota No. 13
Medan, Sumatra Utara
Tel.: (62-61) 415-2200, 453-1251
Fax: (62-61) 451-8711

U.S. Consular Agent Bali
Andrew Toth, Executive Office
Jl. Hayam Wuruk 188, Denpasar, Bali, Indonesia 80235
Tel.: (62-361) 233-605, 222-424
Fax : (62-361) 222-426
E-mail : tabuh@denpasar.wasantara.net.id

7. U.S. Government – Washington D.C.

Trade Information Center
U.S. Department of Commerce
Ronald Reagan Building, Mezzanine Level
Washington, D.C. 20230
Tel.: 1-800-USA-TRAD(E)8723 or (202) 482-0543
Fax : (202) 482-4473
Internet: http://www.ita.doc.gov/tic or http://tradeinfo.doc.gov//
Flashfax: 1-800-872-8723 (Use flashfax for rapid access to the most frequently requested information on doing business throughout Asia.)

Elena Mikalis / Farah Press
Desk Officers for Indonesia (Policy Issues)
U.S. Department of Commerce
Room 2324

14th and Constitution Ave., N.W.
Washington, D.C. 20230
Tel.: (202) 482-3894
Fax : (202) 482-3316
E-mail: Elena_Mikalis@ita.doc.gov, Farah_Press@ita.doc.gov
Internet: http:\\www.ita.doc.gov

U.S. Department of State Office of Business Affairs
Commercial Coordinators
22201 C St., N.W., Room 2318
Washington D.C., 20520
Tel.: (202) 647-1625
Fax : (202) 647-3951
E-mail: cbaweb@state.gov
Internet: www.state.gov/www/about_state/business/index.html

U.S. Department of Agriculture, Foreign Agricultural Service, Trade Assistance and Promotion Office
1400 Independence Ave., S.W., Room 6958-8
Washington D.C. 20250
Tel.: (202) 720-7349
Contact: Scott Cook, Contracting & Acquisition Management Division

United States-Asia Environmental Partnership (US-AEP)
Asia/Near East Bureau
U.S. Agency for International Development
1300 Pennsylvania Ave, NW
Washington, D.C. 20523-4101
Tel.: (202) 712-0270
Fax : (202) 216-3379
Internet : http://www.usaep.org

8. Indonesian Embassy and Consulates in the United States:

Embassy of the Republic of Indonesia
2020 Massachusetts Avenue, N.W.
Washington, D.C. 20036
Tel.: (202) 775-5200
Fax : (202) 775-5365
Internet: http://www.kbri.org

Consulate General Office-New York
5 East 68th St.
New York, NY 10021
Tel.: (212) 879-0600
Fax : (212) 570-6206

Consulate General Office-Los Angeles
3457 Wilshire Boulevard
Los Angeles, CA 90010
Tel.: (213) 383-5126
Fax : (213) 487-3971
E-mail : kabidpen@kjri-la.com
Internet : http://www.kjri-la.com

Consulate General Office-Houston
10900 Richmond Ave.
Houston, TX 77042
Tel.: (713) 785-1691
Fax : (713) 780-9644

Consulate General Office-Chicago
Illinois Center Suite 1422
233 North Michigan Ave
Chicago, IL 60601
Tel.: (312) 938-0101
Fax : (312) 938-3148

Consulate General Office-San Francisco
1111 Columbus Ave.
San Francisco, CA 94133
Tel.: (415) 474-9571
Fax : (415) 441-4320

9. Market Research, Consultants, and Lawyers

Performing market research in Indonesia is difficult because detailed statistics on production and consumption are often not available through published sources. External trade statistics, however, are fairly detailed and additional data can be obtained for a fee from the Central Bureau of Statistics (Biro Pusat Statistik):

BPS
Ir. Sutomo No. 8
P.0. Box 3
Jakarta Pusat
Tel.: (62-21) 384-1195, 384-2508, 381-0281-4
Fax : (62-21) 385-7046
E-mail : bpshq@bps.go.id
Internet : http://www.bps.go.id

Unrecorded trade may distort import statistics and trends. For example, BPS figures tend to understate import values, as these figures exclude duty-free imports, including duty-free imports for investment and certain other transactions. Although there is a growing number of Indonesian organizations active in market research, the number remains small and expertise varies. Branches of American banks will often conduct market surveys for their customers, and several U.S. consulting firms now have affiliates in Jakarta. A growing number of foreign law firms, including some from the United States, are also entering the Indonesian business community as business consultants. Members of INKINDO, the Association of Indonesian Consultants, are able to perform a wide range of research and consulting services. INKINDO was established by Indonesian consultants based in Jakarta. The contact information for this association is as follows:

Association of Indonesian Consultants (INKINDO)
Jl. Bendungan Hilir Raya, No. 29.
Jakarta 10210
Tel.: (62-21) 573-8577/78
Fax : (62-21) 573-3474.
E-mail : inkindo@pu.go.id
Contact: Ir. H. Muhayat, Chairman

PT. Data Consult publishes a biweekly newsletter entitled "Indonesian Commercial Newsletter." The newsletter contains a sectoral survey in each issue and other market information. The addresses of several market research firms in Jakarta are listed in the "Sources of Information" section of the Overseas Business Report. Information regarding firms that are capable of conducting market surveys, including the aforementioned ones, may be obtained from the Foreign Commercial Service, U.S. Embassy in Jakarta, or in the following list of consultants and market research firms.

10. Consultants and Market Research Firms

AC Nielsen Indonesia
15/F Wisma Bank Dharmala
Jl. Jendral Sudirman Kav. 28
Jakarta 12920
Tel.: (62-21) 521-2200
Fax : (62-21) 521-2203/2204
E-mail: acn@acnielsen.co.id
Internet : www.acnielsen.com
Expertise: Public relations consulting, media relations, crisis management, public relations planning, government consulting.
Contact: Mariana M.G. Warokka

Business Advisory Indonesia (PT. Laksana Tata Indonesia)
Wisma Bank Dharmala, 11th floor, Suite 1103
Jl. Jendral Sudirman Kav. 28
Jakarta 12920
Tel.: (62-21) 522-8613
Fax : (62-21) 522-8612

E-mail: bai@prima.net.id
Expertise: Management consulting, government and corporate research, official sworn-in English/Indonesia language translations of documentation's.
Contact: Mariana Warokka

Castle Group
Menara Batavia, 8th floor
Jl. K.H. Mas Mansyur Kav. 126
Jakarta 10220
Tel.: (62-21) 572-7321
Fax : (62-21) 572-7329
E-mail: castle@castleasia.com
Internet: http://www.castleasia.com
Expertise: Market entry strategy consulting, customized market and industry analysis, customized profiles of local business groups and potential, local regulations and business practices, syndicated sector reports, and business briefing program for senior managers.
Contact: James Castle

CIC Consulting Group
Jl. Raden Saleh No. 46
Jakarta 10330
Tel.: (62-21) 310-1081, 314-7433
Fax : (62-21) 310-1505
Cable: CISIRAYA-JAKARTA
E-mail: cisi-cic@idola.net.id
Expertise: Market and feasibility Studies (including pharmaceuticals, cosmetics, medical supplies, health equipment, food and beverages, hotels, golf course, resorts, and recreation facilities), periodical/business Reports, credit information services, partner seeking services, project reports, consumer research, business to business research, social research, and agricultural research.

Citra Duta Artistry (CDA International)
Niaga Tower, 25th Floor
Jl. Jendral Sudirman Kav.58
Jakarta 12190
Tel.: (62-21) 250-5346
Fax : (62-21) 250-5347
E-mail: cda@idola.net.id
Expertise: Office renovation, project management, architectural design, and interior design.

Consensus MBL
Division of the MBL Group Plc., an NFO Worldwide Company
Jl. Bangka Raya 18, Pela Mampang
Jakarta 12720
or

P.O. Box 4334
Jakarta 12043
Tel.: (62-21) 719-1858/9, 719-1861, 719-5355
Fax : (62-21) 799-0152, 719-9550
E-mail: cmblindo@dnet.net.id
Internet: www.mblasia.com
Contact Name: Gordon Guscott, Sjafril Djalal
Expertise: Market research and strategic planning and consultancy.

PT. Data Consult, Inc.
Maya Indah Building II
Jl. Kramat Raya No.5-L
Jakarta 13210
Tel.: (62-21) 390-4711, 390-4712, 390-1879
Fax : (62-21) 475-3227
Or Jl. Pulomas Raya 31
Jakarta 13210
Tel.: (62-21) 475-3302, 475-3304, 475-3226
Fax : (62-21) 475-3227
E-mail : datacon@idola.net.id
Internet : http://www.datacon.co.id
Expertise: Market Research.

Ganesha Aggies Jaya
Jl. Pertogogan II No. 22 A
Kebayron Baru
Jakarta 12160
Tel.: (62-21) 7279-3904
Fax : (62-21) 739-5049
E-mail: ganesha1@cbn.net.id
Expertise: Indonesian labor laws and practices, expatriate staffing, residence and work permits, company establishment, corporate and individual document processing, and human resource related activities and publishing Indonesian Labor Law Library CD-ROM.

Grant Thornton
Wisma Grant Thornton
Jl. Sisingamangaraja No. 3C
Jakarta Selantan 12120
Tel.: (62-21) 720-2605
Fax : (62-21) 720-2606
E-mail: gti@grant-thornton.co.id
Internet: http://www.grant-thornton.co.id
Expertise: Accounting and audit services, tax advice and compliance, government advisory, municipal finance, corporate recovery and reconstruction, merger and acquisition advisory, information technology, hospitality and leisure consulting, business

establishment and maintenance, inbound investment services, corporate finance, valuation and business planning, employee compensation and benefit planning.

Harvest International Inc.
Wisma Metropolitan I, 10th floor
Jl. Jendral Sudirman, Kav. 29
Jakarta 12920
Tel.: (62-21) 525-1641, 570-1491
Fax : (62-21) 520-7789
E-mail: hgoldstein@harvest-international.com or
Expertise: Consulting in business development, investment, project development, and trade.

PT. IBIS Dharma Nusa
Fatmawati Mas Blok 1/113
Jl. R.S. Fatmawati No. 20
Jakarta 12430
Tel.: (62-21) 769-9757
Fax : (62-21) 765-4906
E-mail : henri@ibisworld.com
Expertise: Market research on industrial sectors.

Indonesia Executive Search (I.E.S.)
Graha Irama, 9th floor
Jl. H.R. Rasuna Said Kav. X-1 No. 1-2
Jakarta 12950
Tel.: (62-21) 526-1250
Fax : (62-21) 525-5529
E-mail: dansearch@attglobal.net
Contact Names: Dan Goldsmith, Managing Director
Expertise: Executive search services, human resource and management consultancy.

Penelitian Hukum Indonesia (PHI)
(PT Terataimas Indocitra)
Wisma Bank Dharmala, 11th floor, Suite 11-03
Jl. Jendral Sudirman Kav. 28
Jakarta 12920
Tel.: (62-21) 522-8613
Fax : (62-21) 522-8612
E-mail: hukum@rad.net.id
Expertise: CD-ROMs containing full text of Indonesian law in English and Indonesian, development of full text databases for business and industry, information systems consulting.

Plansearch Associates
Jl. Limau 1/28 A

Kebayoran Baru
Jakarta 12130
P.O. Box 83 JKSBA
Tel.: (62-21) 739-5017, 722-8052, 727-94117
Fax : (62-21) 739-5017
E-mail: plans@indo.net.id
Contact: Gunter J. Schwarze, Guido B. Schwarze, Ronald A. Schwarze.
Expertise: Intellectual Property, partner searches, financial investigations for money collections, market research, and environmental studies.

SOFRES FSA Jakarta (Taylor Nelson Sofres Group)
Menara Thamrin Suite 1401
Jl. M.H. Thamrin Kav. 3
Jakarta 10250
Tel.: (62-21) 230-2788
Fax : (62-21) 230-2794
E-mail: JakartaOffice@id.tnsofres.com
Internet: www.tnsofres.com
Contact Name: Hans Lang and Yanti Zen
Expertise: Quantitative and qualitative market research, customer satisfaction and awareness studies, advertising testing, test marketing, concept testing, brand tracking, trade, economic and industrial research.

12. Law Firms and Attorneys

Ali Budiardjo, Nugroho, Reksodiputro
Graha Niaga, 24th Floor
Jl. Jendral Sudirman Kav. 58,
Jakarta 12190
Tel.: (62-21) 250-5125(11 lines), 250-5136
Fax : (62-21) 250-5121, 250-5122, 250-5392, 250-5001
E-mail: abnrco@abnr.co.id
Singapore Office:
50 Raffles Place
37-00 Singapore Land Tower
Singapore 048623
Tel.: (65) 320-8708
Fax : (65) 320-8709
Expertise: Commercial, corporate, and financing matters, including joint venture arrangements, licensing, banking, energy, mining, forestry, project finance, stock & bond issues, construction & engineering projects, maritime law, labor issues, patents, trademark, and other intellectual property matters.
Contact: T.M. Zahirsjah, Ferry P. Madian, Gregory Churchill

PT. CB Indonesia
16th Fl. Central Plaza

Jl. Jendral Sudirman Kav.47
Jakarta 12930
Tel.: (62-21) 525-1985, 570-1425, 525-3340
Fax : (62-21) 525-0734
E-mail: cbindon@attglobal.net.
Expertise: Joint ventures, insolvency and corporate reorganizations, finance and capital markets, infrastructure and property development, and commercial transactions and disputes.
Contact: Michael Horn

Dewi Soeharto & Rekan
Plaza Exim, 24th Fl.
Jl. Jendral Gatot Soebroto Kav.36-38
Jakarta 12190
Tel.: (62-21) 526-3473
Fax : (62-21) 526-3474
E-mail: dsrekan@indosat.net.id
Contact: Dewi Kamaratih Soeharto, Garry W. Christian
Expertise: Aviation, banking and finance, commercial, construction, corporate, energy and resources, entertainment industry contracts, environmental, foreign investment and joint ventures, government, intellectual property protection and enforcement, international trade, labor and employment, maritime, media and board casting, real property, securities, tax, telecommunications.

Frans Winarta & Partners
Kelapa Gading Boulevard TB 2/24
Kelapa Gading Permai
Jakarta Utara 14240
Tel.: (62-21) 453-3236, 453-2143
Fax : (62-21) 452-0083, 451-6605, 452-0933
E-mail: frans_winarta@hotmail.com
Contact: Frans H. Winarta
Expertise: Corporate law (cross-border acquisitions and mergers, investments, business, and matters regarding intellectual property), commercial laws and banking regulations, general international trade laws, employment and land laws, civil and administrative law, litigation and international commercial arbitration.

George Widjojo & Partners
Patents, Trademarks & Copyrights
Advocates & Solicitors
Jl. Kali Besar Barat No. 5
Jakarta 11230
Indonesia
P.O. Box 2102 / JKT
Jakarta 10021, Indonesia
Tel.: (62-21) 691-2226, 692-4533, 690-1707

Fax: (62-21) 692-3648, 693-0712
E-mail: gwidjojo@indosat.net.id
Contact person: Mr. George Widjojo
Expertise: Patents, Trademarks, Copyrights and Designs

Hadiputranto, Hadinoto & Partners
Bursa Efek Jakarta Tower II, 21st Floor
Jl. Jendral Sudirman Kav. 52-53
Jakarta Selatan
Tel.: (62-21) 515-5090, 515-5091, 515-5092
Fax : (62-21) 515-4840, 515-4845
Contact: Ms. Sri Indrastuti Hadiputranto
Expertise: International and general practice, corporate, commercial, foreign investment, tax: labor and employment law, banking and finance (including project finance), capital markets, intellectual property, construction, natural resources telecommunications, insurance, mergers and acquisitions, and environmental law.

Jusuf Indradewa & Partners-Legal Consultants
Bank Artha Graha Tower, 15th Floor
Lot 25, Sudirman Central Business District
Jl. Jendral Sudirman Kav. 52-53
Jakarta 12190
Tel.: (62-21) 515-2122
Fax : (62-21) 515-2382
E-mail: jusufind@uninet.net.id
Contact: Cecilia Sianawati (Managing Partner), Jusuf Indradewa (Senior Partner), Indra D. Santosa (Technical Advisor), Maya Pradjono (Partner)
Expertise: Legal matters relating to establishment of businesses, opening representative and branch offices, joint ventures, direct foreign investment companies, intellectual property rights, mergers and acquisitions, initial public offerings.

Karim Sani Law Firm
Wisma Danamon Aetna Life, 11th Floor
Jl. Jendral Sudirman Kav. 45-46
Jakarta 12930
Tel.: (62-21) 577-1177
Fax : (62-21) 577-1947, 577-1587
E-mail: kksm@indosat.net.id
Expertise: Investment, tax, energy, mining, information technology law, and arbitration/mediation.
Contact: Karen Mills (International Legal Advisor), Kitty Sugondo-Kramadibrata (Project Legal Structure & Commercial Citigation), Iswahjudi A. Karim (Banking & Finance), Asrul Sani (intellectual Property Rights & Commercial Litigation), Tio M. Manihuruk (Corp. Finance/Capital Markets & Property Investment)

Kusnandar & Co.

Aetna Danamon Tower II, 24th Fl.
Jl. Jendral Sudirman Kav. 45
Jakarta 12930
P.O. Box 2057, JKT 10001
Tel.: (62-21) 577-1435
Fax : (62-21) 577 1436
E-mail: kusnalaw@ub.net.id
Internet: http://www.kusnandar.co.id/
Expertise: Foreign and domestic investment, banking, multi finance, the capital market, securities, tax, natural resources, plantations civil, commercial & criminal trademark, patent & copyright litigation & enforcement trade secret, industrial design, liquidators & bankruptcy lawyers, merger, acquisition, consolidation & integrated circuit official receivers, administrators project finance, licensing, counterfeit domestic & overseas arbitration, admiralty, insurance trade, anti-monopoly company establishment in land, construction & conveyance, labor, unions & CLA, Indonesia or offshore tax review, maintenance accounting service, sworn translation.
Contact: Winita E. Kusnandar, John S. Beaumont

Lontoh & Kailimang
Jl. H.O.S. Cokroaminoto No. 47
Jakarta 10350
Tel.: (62-21) 392-3355
Fax : (62-21) 392-3366
E-mail: lonka@indo.net.id
Contact: Harry Ponto
Expertise: Civil law, including adoption and child custody, wills, collections, contracts, corporations, government relations, foreign claims, insurance, labor, direct foreign investment, trademarks/copyrights, auto accidents, immigration, capital market, narcotics, customs, and criminal defense.

Lubis, Ganie, Surowidjojo
Menara Imperium, 30th Fl.
Jl. H.R. Rasuna Said Kav. 1
Jakarta 12480
Tel.: (62-21) 831-5005, 831-5025
Fax : (62-21) 831-5015, 831-5035
E-mail: lgslaw@rad.net.id
Contact: Lubis, Ganie, Surowidjojo
Expertise: Representation of foreign and Indonesian clients on commercial and corporate law matters, including acquisition, corporate reorganization, mergers, agency and distributorship, arbitration, banking, capital market, commercial litigation, construction, corporate finance and secured transactions, energy, foreign, and domestic investment, commercial litigation and arbitration, international trade, lease financing, maritime and shipping, mining, real estate transactions, tax, telecommunications, intellectual proprietary rights including trademark, copyrights and patents, venture capital, insurance and labor.

Makarim & Taira S
Summitmas I, 17th Fl. & 18th Fl.
Jl. Jendral Sudirman Kav. 61-62
Jakarta 12069
Tel.: (62-21) 252-1272, 252-2460
Fax : (62-21) 252-2750, 252-2751, 252-2234
E-mail: m_ts@pacific.net.id
Expertise: International and general practice. foreign investment, commercial, capital markets, banking and finance, constructions, energy and natural resources, intellectual property, commercial litigation, tax, mergers and acquisitions, property development.

Makes & Partner (in association with SKADDEN, ARPS, SLATE, MEAGHER & FLOM)
Menara Batavia, 7th Floor
Jl. K.H. Mas Mansyur Kav. 126
Jakarta 10220
Tel.: (62-21) 574-7181
Fax : (62-21) 574-7180
E-mail: makes@indosat.net.id
Contact: Iwan Setiawan
Expertise: Corporate and commercial law, restructuring and reorganizations, mergers and acquisitions (including tender offers), foreign and domestic capital investment (including joint ventures), banking and corporate finance (including bank financing, issuance of debt instruments and establishment of venture capital companies and local branches of international investment and commercial banks), capital markets (including debts and equity offerings by Indonesian companies in the Indonesian and International capital markets as well as listing on the Jakarta, Surabaya, Singapore, New York, London, and Luxemburg Stock Exchanges and Nasdaq), telecommunications, energy and infrastructure (including oil and gas contracts and project finance) and real property law.

Mochtar, Karuwin & Komar
Wisma Metropolitan II, 14th fl.
Jl. Jendral Sudirman, Kav 31
Jakarta 12920
Tel.: (62-21) 571-1130
Fax : (62-21) 571-1162, 570-1686
E-mail: mail@mkk.co.id
Contact: Emir Kusumaatmadja
Expertise: General corporate and commercial law, specializing in the legal aspects of international finance, foreign investment, infrastructure, and privatization.

Prof. Dr. Sudargo Gautama
Jl. Merdeka Timur 9
Jakarta 10110
Tel.: (62-21) 345-6529, 384-1358, 384-7165, 380-9488

Fax : (62-21) 384-6180, 381-3166
E-mail: sgautama@rad.net.id
Contact: Prof. Dr. Sudargo Gautama
Expertise: General, civil and criminal law, patents and trademarks, private international law, consulting, and litigation.

Rosetini Ibrahim & Associates
Wisma GKBI 33rd. Fl., Suite 3309
Jl. Jendral Sudirman #28
Jakarta 10210
Tel.: (62-21) 574-1225
Fax : (62-21) 574-1226
E-mail: rosetini@rosetini.com
Internet: www.rosetini.com
Contact: Rosetini Ibrahim, Richard Weiss, Dennie Rahmanto
Expertise: Corporate law, finance and foreign investments.

Soewito, Suhardiman, Eddymurthy & Kardono
Wisma Bank Dharmala, 14th Fl., Suite 1403
Jl. Jendral Sudirman Kav.28
Jakarta 12920
Tel.: (62-21) 521-2038
Fax : (62-21) 521-2039
E-mail: ssek@ssek.com
Internet: http://www.ssek.com
Contact: Darrell R. Johnson, Michael D. Twomey
Expertise: Corporate, commercial and financial law practice, energy and natural resources, maritime, banking, capital markets and securities law, insurance, intellectual property, investment, labor, franchising, real estate, construction and engineering, mergers and acquisitions, tax law, arbitration, hotel and tourist development, environmental law, international trade, government contracts, immigration, oil and gas law.

Taira & Suyudono
Menara Dea Suite 1104
Kawasan Mega Kuningan
Jakarta 12950, Indonesia
Tel.: (62-21) 576-3030
Fax: (62-21) 576-3033
E-mail: finlaw@taira.co.id
Contact: Frank Taira Supit, Benny Suyudono
Expertise: Corporate law, corporate finance, capital markets, infrastructure, financial litigation, financial transactions, complicated business

13. Related Internet Sites:

The following is a list of Internet sites that contain information, in English, that is of interest to the business community in Indonesia:

National Trade Data Bank:
http://www.stat-usa.gov

Antara (Official News Agency of Indonesia)
http://www.antara.co.id

Tempo Interactive (Indonesian business journal)
http://www.tempo.co.id

Compilation of related Indonesia Sites (Multiple Sources)
http://www.iit.edu/~indonesia/jendela

14. Other Publications:

The U.S. Commercial Service and the private consulting firm The Castle Group in Jakarta publishes a guidebook entitled American Business in Indonesia. It lists selected U.S. firms and Indonesian agents, distributors, and licensees of U.S. firms. It is sold for $25 plus $30 for courier service to the United States. If interested, please contact the U.S. Commercial Service in Jakarta (Contact information above).

CHAPTER XII - MARKET RESEARCH AND TRADE EVENT SCHEDULE

A. Market Research

Below is a listing of original market research reports produced by the U.S. Commercial Service in Indonesia during FY 2000 and planned for FY 2001. A complete list of market research is available on the National Trade Data Bank (NTDB).

FY 2000 Industry Sector Analysis (ISA) Reports
1. Motor Vehicle Industry Overview
2. Petrochemicals
3. Forestry Equipment
4. Food Supplements
5. Agricultural Chemicals
6. Industrial Dye Chemicals
7. Mining Equipment
8. E-Commerce and Value Added Services
9. Food Processing and Packaging Equipment (Asean Regional)
10. Motorcycles
11. Internet E-Commerce (Asean Regional)
12. Automotive Sector Overview (Asean Regional)

FY 2001 Industry Sector Analysis (ISA) Reports (Planned)

1. Paper and Paperboard
2. Education and Training Services
3. Industrial Pumps
4. Computers and Peripherals
5. Toys and Games
6. Health Care Industry
7. Security Equipment
8. Packaging and Labeling Equipment
9. Life Insurance
10. Water and Wastewater Services

FY 2000-2001 International Market Insight (IMI) Reports.
See www.stat-usa.gov or www.jakarta.uscc.org for a full listing of brief, timely IMI reports on a wide range of industrial sectors and services in Indonesia.

B. Trade Event Schedule

Date:	Event:
November 22-25, 2000	U.S. Catalog & Video Pavilion at Woodworking & Forestry Indonesia
	U.S. Catalog & Video Pavilion at Manufacturing Indonesia
	U.S. Catalog & Video Pavilion at Building & Construction Indonesia
February, 21-24, 2001	U.S. Catalog & Video Pavilion at Communications Technology Indonesia
February 2001	Food and Hotel Indonesia (USDA-endorsed)
March 2001	Study USA 2001
March/April 2001	Automotive Trade Mission to ASEAN Region
June 2001	USA Catalog Show Jakarta/Surabaya

Note: Firms should consult the export promotion calendar on the NTDB, or contact the Commercial Section of the U.S. Embassy in Jakarta for the latest information or to arrange individual trade programs.