FY 2003 : Country Commercial Guide - Indonesia

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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.

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CHAPTER 1, EXECUTIVE SUMMARY

As this Country Commercial Guide goes to press, the Indonesian Government, led by President Megawati Soekarnoputri, is facing significant challenges. The government is striving to combat terrorist elements in the country, to create effective democratic institutions, and to advance economic reforms. These are a tall order for a country that has witnessed repeated political and economic upheavals in recent years. Since the downfall of President Suharto in 1998, the country has had three Presidents. Little more than one year ago, Megawati Soekarnoputri, the daughter of Indonesia's first President was elected in a special session of the highest legislative body to become the fifth President of Indonesia, succeeding the troubled tenure of President Abdurrahman Wahid.

The terrorist activities during the last quarter of 2002, and in particular the October 12 bombings in Bali, took the country by surprise, and the impact on the economic and business environment is still being assessed. Given the resulting strong travel advisories by a number of Indonesia's trading partners, business and leisure travel to Indonesia and the entire region have declined significantly. Indonesian Government Ministers quickly reached out to the foreign business community in Indonesia and to their traditional partners overseas to assure them that the government is taking new measures to address the security situation. Nonetheless, the prolonged security threat resulted in an unpredictable commercial environment and dampened the early signs of recovery from the economic crisis that hit Asia in mid-1997.

The Megawati Administration made significant progress in stabilizing Indonesia's economy during its first year in office. It rejuvenated Indonesia's economic reform program and restored Indonesia's relationship with the IMF, which had deteriorated during the Presidency of former President Abdurrahman Wahid. In April 2002, the Paris Club of official creditors recognized the GOI's renewed commitment to economic reforms by agreeing to reschedule USD 5.5 billion in principal and interest payments falling due from April 1, 2002 to December 31, 2003. Indonesia maintained positive GDP growth through the world economic slowdown in 2001, GDP growth figures exhibiting signs of a strengthening economy. GDP grew 3.92 percent YoY in Q3 2002, improving on first quarter YoY growth of 2.87 percent.

Preliminary economic assessments following the October 2002 Bali bombings predict a modest economic slowdown. Current consensus is that Indonesia's GDP for 2003 could drop by a full percentage point to 3.0 percent. On November 1st, 2002, the Government of Indonesia and the House of Representatives formally agreed to slash the official economic forecast for next year a full percentage point from 5 to 4 percent. Tourism and related sectors such as transportation and restaurants are the most likely to be affected.

The economic impact of the Bali bombings blasts will likely be very serious for Bali but more manageable for the country as a whole. An estimated 4.3 million foreign tourists visited Bali in 2001, and tourism-related activities account for about half of Bali's economy. Occupancy rates at most Bali hotels, which were full before the blasts, are now at 20 percent or less. Although net bookings (cancellations minus new reservations) at some hotels have turned positive again, the World Bank estimates that tourist arrivals in Bali could fall by 20 percent in 2003 at a cost of approximately 350,000 jobs (Bali's total labor force is about 1.7 million). Handicraft producing areas in East Java will also be hard hit by the slump in tourists. January 2003 will be a crucial month; if there are signs of an upswing by that time, most hotels and tourism-related businesses will likely refrain from laying off their workers in expectation of better days ahead.

The impact of the bombings on Indonesia's economy should be more manageable. Bali's economy is about 1.3 percent of the national economy, and tourism and related industries nationwide contribute an estimated 3.5 - 4.5 percent to GDP. Tourism contributed about USD 5.3 billion to Indonesia's balance of payments in 2001. If tourist arrivals decline 20 percent in 2003, most economists expect GDP growth to fall by a full percentage point from four percent to about three percent. Indonesia's current account surplus in 2003 could fall by USD l - 1.5 billion. The GOI has revised downward its official growth estimates, and submitted an updated budget to Parliament calling for an expanded fiscal stimulus to counter the effects of the bomb blasts. The key question for Indonesia's future growth prospects will be the indirect effect of the bombings on consumer and business confidence.

The U.S. and other donors expressed broad support for Indonesia's efforts to overcome the Bali bombings at a November 1 interim meeting of the Consultative Group on Indonesia (CGI). But there was also a strong consensus among donors that the GOI needs to boost security and improve the investment climate in order to spark a full recovery from the bombings. We recommend you follow a similar line in your private interactions with Minister Soewandi. While foreign donors will help mitigate the short-term economic effects of the bombings, a lasting recovery will require effective GOI action to combat domestic terrorism and improve the investment climate.

To date, no investment has left the country as a result of the Bali bombings. However, previously investors were already beginning to leave the country, moving their factories to other countries where the incentives are more attractive and the investment climate more favorable. New investment is not taking place, and according to economic experts this new investment is key to sustained recovery, since increased consumer and government spending are not enough on their own. The decline in foreign investment indicates that Indonesia is no longer seen as profitable investment destination. Investors point out to problems in the country to restore security, production capacity, employment and improved productivity.

Some new commercial opportunities have arisen out of the unfortunate security situation, including proposed procurement by the police and other government entities of security equipment and services at airports, ports and other tourist destinations. Attractive financing will be necessary to complete these transactions. Additional “best prospects” for American business in Indonesia, range from Industrial Chemicals, Water Resources Equipment and Services, Telecommunications Equipment and Services, Oil and Gas field machinery, Franchising, Medical Equipment, Educational Services, and Industrial Pumps. In the medium and long term there are enormous possibilities in a market of 220 million potential customers.

As a country in the early years of democracy, outbreaks of communal violence around the country are among the key political issues with economic implications. The implementation of decentralization, while offering democratic dividends, has been uneven and many issues including revenue-sharing between the central and local governments remain unresolved. Continuing reports of high-level corruption, especially in the judiciary, point to the need for comprehensive reform and implementation of good governance practices. While the response to Megawati's administration has been hopeful, it is still unclear what impact her government finally will have on combatting the terrorism, advancing economic reform and enhancing general business conditions.

CHAPTER 2, ECONOMIC TRENDS AND OUTLOOK

The Megawati Administration made significant progress in stabilizing Indonesia's economy during its first year in office. It rejuvenated Indonesia's economic reform program and restored Indonesia's relationship with the IMF, which had deteriorated during the Presidency of former President Abdurrahman Wahid. From September 2001 to April 2002, the GOI pushed through several important economic reforms, including reducing fuel subsidies and selling a majority stake in Bank Central Asia, Indonesia's largest formerly private bank. In April 2002, the Paris Club of official creditors recognized the GOI's renewed commitment to economic reforms by agreeing to reschedule USD 5.5 billion in principal and interest payments falling due from April 1, 2002 to December 31, 2003.

The markets responded positively to the GOI's improved policy performance. Indonesia maintained positive GDP growth through the world economic slowdown in 2001, with year-on-year (YoY) GDP growth bottoming out in the fourth quarter of 2001 at 1.6 percent. Growth picked up slowly in the first three quarters of 2002. The GDP grew 3.92 percent YoY in Q3 2002, improving on first half YoY growth of 2.87 percent. During the first three quarters of 2002, higher spending by government and consumers, up 10.8 and 5.8 percent YoY respectively, drove growth.

Despite the uncertain international environment, Indonesia's export performance began recovering in the first half of 2002 from its Q4 2001 low. Non-oil and gas exports increased in three consecutive quarters from Q1 to Q3 2002, with exports in the latter quarter 22.9 percent above their levels in Q4 2001. Increased political stability and more decisive monetary policy performance by Bank Indonesia (BI) led the rupiah to appreciate over 14 percent through the end of November 2002, stabilizing near the Rp 8,800/USD level. YOY CPI inflation rates fell from a two-and-a-half year high of 15.1 percent in February 2002 to 10.3 percent in October 2002.

The Government's FY 2002 budget implementation was on track through the first half of the year, with the full year deficit projected to fall slightly below the GOI's Rp 42.1 trillion target (equivalent to 2.5 percent of GDP.) In December 2002, Parliament passed a conservative Rp 365.8 trillion (USD 41.5 billion) FY 2003 budget that forecasts a Rp 36.6 trillion deficit, equivalent to 1.9 percent of projected 2003 GDP. The final budget includes an expanded fiscal stimulus designed to boost domestic demand in the wake of the October 12, 2002 Bali bombings. In recognition of the GOI's improving fiscal position, several international rating agencies upgraded Indonesia's sovereign ratings in August and September 2002.

GDP Growth: Future Prospects Uncertain

Despite the Megawati Administration's success in stabilizing the economy, concerns mounted in 2002 about Indonesia's short and medium-term GDP growth prospects. Indonesia's YoY GDP growth rates have remained in the 3-4 percent range since the beginning of 2001, with few signs of take-off to the 7.2 percent average GDP growth Indonesia experienced from 1990-96. A sustained period of strong economic growth and low inflation would give the GOI much needed room to consolidate its recovery from the 1997-98 financial crisis, reach a balanced budget, further reduce the country's debt/GDP ratio, and continue corporate restructuring.

With household consumption already growing almost six percent a year and the outlook for robust export growth clouded by an uncertain world economy, reviving business investment is the key to restoring GDP growth to pre-crisis levels. However, investment statistics through the first eight months of 2002 were very weak. Foreign investment approvals declined 39 percent from the same period in 2001 to USD 3.55 billion. The 39-percent decline came on the back of a 42 percent decrease in foreign investment approvals in 2001. Provisional balance of payments (BOP) statistics for 2001 indicate that while Indonesia's private capital deficit narrowed from its 2000 level, net foreign investment remained strongly negative during the year at USD -5.9 billion.

The October 12, 2002 terrorist bombings in Bali complicated the GOI's economic challenge. An estimated 4.3 million foreign tourists visited Bali in 2001, and tourism-related activities account for more than half of Bali's economy. Occupancy rates at most Bali hotels fell precipitously after the attacks, and at the end of 2002 were only slowly recovering. The World Bank estimates that tourist arrivals in Bali could fall by 20 percent in 2003 at a cost of approximately 350,000 jobs. The impact of the bombings on Indonesia's economy should be more manageable, since Bali's economy represents only 1.3 percent of GDP. Tourism and related industries nationwide contribute a modest 3.5 – 4.5 percent of GDP. Most economists expect GDP growth to fall by about one full percentage point in 2003 to approximately three percent.

Analysts cite a number of factors contributing to Indonesia's prolonged business investment slump. These include slowing structural reforms, rapidly rising labor costs, the lack of an efficient and transparent legal system, widespread official corruption, signs of impending infrastructure shortages, uncertainties stemming from Indonesia's decentralization program, and competition from other labor-intensive economies in Asia, especially China and Vietnam. Although the GOI has held dialogues on doing business issues with domestic and international business groups, through the end of 2002 it made little progress in formulating and implementing a meaningful reform program that would encourage potential investors. Focusing on improving Indonesia's investment climate has emerged as the GOI's top short-term policy challenge.

Implications for U.S. Business

Despite the many challenges facing the GOI, Indonesia retains most of the advantages that fueled rapid economic growth during the 1980s and early 1990s. These include generally adequate infrastructure, ample natural resources, an adequately trained work force, a strategic geographical location in the heart of South East Asia, and a large and expanding internal market of approximately 220 million people. These factors will remain attractive for many U.S. firms, particularly if the GOI makes significant headway on the policy issues described above.

GDP Growth: A Tentative Expansion

Although economic growth picked up moderately in the first three quarters of 2002, the post-Bali bombing outlook for Q4 is much less favorable. According to Central Bureau of Statistics (BPS) figures, GDP grew 3.92 percent YoY in the third quarter of 2002 after expanding 3.51 percent in Q2. Growth in the quarter was broad based, with government consumption, household consumption, investment and net exports all showing modest increases. Consumer spending continued its post-1999 pattern of strong growth, expanding 5.8 percent in the first three quarters of the year over 2001 levels. On the production side, growth was fairly evenly spread in the first three quarters, with manufacturing, transportation and communications, utilities, and retail, hotels, and restaurants showing the most consistent growth.

Indonesia's quarterly YoY GDP growth rate has increased in three consecutive quarters since Q4 2001, when growth bottomed out at 1.6 percent. Table 1 outlines Indonesia's Q2 2002 real GDP performance by production and expenditure category:

Table 1: Indonesian Real GDP, Q2 2002 vs. Q2 2001

A. By Production Category

Production Category	Percent Change Q3 2002 vs. Q3 2001	Share of GDP
Manufacturing	3.0	28.7
Agriculture	6.7	18.4
Retail, Hotel, Restaurant	4.3	17.7
Mining	0.8	9.5
Services	1.2	9.9
Finance and Leasing	3.4	7.3
Construction	5.7	6.4
Transportation and Comm.	6.1	8.4
Electricity, Gas, Water	5.0	1.9
Total (categories weighted)	3.9	100.0

B. By Expenditure Category

Expenditure Category	Percent Change Q3 2002 vs. Q3 2001	Share of GDP
Household Consumption	4.9	69.6
Government Expenditure	15.6	7.9
Investment	2.1	18.5
Exports	1.6	34.1
Change in Stock	---	-3.9
Imports	0.2	-26.1
Total (categories weighted)	3.9	100.0

Source: Central Bureau of Statistics (BPS).

Exports: Slow Recovery

When measured in dollar terms, Indonesia's exports in the first ten months of 2002 fell 0.9 percent to USD 47.6 billion compared to the same period in 2001. Non-oil and gas exports rose 2.0 percent to USD 37.7 billion during that period, while oil and gas exports fell 10.6 percent to USD 9.9 billion. Third quarter 2002 non-oil and gas exports remain 7.5 percent below their post-crisis peak in Q3 2000. However, YoY growth figures disguise a modest export recovery since the final quarter of 2001, when total exports fell to their lowest level in more than three years. Non-oil and gas exports rose from Q1 through Q3, with exports in the latter quarter 22.9 percent above their levels in Q4 2001. Total monthly exports topped the USD 5 billion level in four of the five months between June and October 2002.

Table 2 outlines Indonesia's post-crisis quarterly export performance.

Table 2. Indonesia: Post-Crisis Export Performance

Quarter	Oil/ Gas(1)	Non- Oil/Gas(1)	Total(1)	YoY Change(2) (Non-Oil/Gas)
97-Q3	2.7	11.3	14.0	16.5%
-Q4	2.9	11.0	13.9	12.2%
98-Q1	2.3	10.0	12.3	17.6%
-Q2	1.8	10.3	12.1	-12.7%
-Q3	1.9	10.8	12.7	-4.4%
-Q4	1.9	9.7	11.6	-11.8%
99-Q1	1.9	8.3	10.1	-17.0%
-Q2	1.9	9.6	11.5	-6.8%
-Q3	2.8	10.5	13.3	-2.8%
-Q4	3.2	10.3	13.5	6.2%
00-Q1	3.3	10.8	13.9	30.1%
-Q2	2.1	12.0	14.1	25.0%
-Q3	2.3	12.9	15.2	22.9%
-Q4	4.7	12.0	16.7	16.5%
01-Q1	3.9	10.9	14.8	0.9%
-Q2	3.2	11.2	14.4	-6.7%
-Q3	3.0	11.3	14.3	-12.4%
-Q4	2.6	9.7	12.3	-19.2%
02-Q1	2.7	10.0	12.7	-8.3%
-Q2	3.0	11.5	14.5	2.7%
Q3	3.1	12.0	15.0	6.2%

(1) USD billions. Source: BPS.
(2) YoY percentage change of non-oil and gas exports, an indicator of manufacturing performance.

Indonesia's export mix remains predominantly low technology manufactured goods and commodities. Manufactured goods represent approximately two-thirds of total exports. Given continuing economic uncertainty in Indonesia's export markets, many analysts forecast flat full-year export performance in 2002.

Uncertain Prospects for 2003

Given recent growth trends and the impact of the Bali bombings, most economists are forecasting full year 2002 GDP growth rates of 3.0 - 3.5 percent. The GOI forecast 2003 GDP growth of 4.0 percent in its final FY 2003 budget, but most economist believe this forecast is too optimistic. With household consumption already growing more than six percent a year, the outlook for more robust export growth clouded by an uncertain world economy, and the fallout from the Bali bombings, reaching the 2003 target will require a significant revival in business investment.

Indonesia needs a sustained period of strong economic growth and low inflation in order to consolidate its recovery from the 1997-98 financial crisis. A period of robust economic growth would give Indonesia's troubled corporate and banking sectors room to recover and restructure their operations along more efficient lines. Equally importantly, a period of sustained GDP growth would provide employment opportunities to Indonesia's millions of unemployed and under-employed workers.

Economists calculate that Indonesia's labor force is increasing by 2.2 - 2.7 percent a year, a growth rate equivalent to 2 - 2.5 million new job seekers each year. The National Development Planning Agency (BAPPENAS) in turn estimates that 4 percent GDP growth translates into an increase in the demand for labor of 2.4 percent, or 2.2 million new job opportunities per year. These figures make it clear that in order to re-employ large numbers of workers who lost their jobs during the 1997-98 crisis and absorb new labor market entrants, Indonesia needs a sustained period of GDP growth well above 4 percent.

Monetary Indicators: Significant Improvement

Increased political stability after President Megawati assumed office coupled with more decisive monetary policy by BI led to significant improvements in Indonesia's monetary indicators during the first eight months of 2002. YoY base money growth declined rapidly from its September 2001 peak of 24.6 percent, reaching single digits by May 2002, and Indonesia has consistently met its IMF base money targets in 2002. At the same time, the rupiah appreciated almost 15 percent through November 2002 from its year-end 2001 level, stabilizing near or above Rp 9,000/USD for much of the second and third quarters.

CPI inflation edged downward from its February 2002 YoY peak of 15.03 percent, declining to 10.33 percent YoY in October. The appreciating rupiah played a key role in bringing down CPI inflation: approximately one-quarter to one-third of changes in the CPI index can be traced to the "pass through" effect from changes in the value of the rupiah.

Improving monetary indicators gave Bank Indonesia scope to begin reducing interest rates in January 2002, after raising interest rates on Bank Indonesia Certificates (SBIs) more than 500 basis points since June 2000 in an effort to control inflation and defend the value of the rupiah. BI's effort to drive down interest rates gathered steam after March 2002, and by the end of August, SBI rates had fallen over 320 basis points from their year-end levels, to 14.35 percent. Table 3 presents more detailed information on Indonesia's recent monetary indicators.

Table 3: Indonesia: Recent Financial and Monetary Indicators (Source: BI)

Month	Base Money(1)	CPI(2) Inflation	Rupiah/USD XR(3)	SBI(4) Int. Rate
Jan. 2001	17.7%	8.28%	9,450	14.74
February	18.0%	9.14%	9,835	14.79
March	16.1%	10.62%	10,400	15.58
April	20.6%	10.51%	11,675	16.09
May	18.3%	10.82%	11,058	16.33
June	17.0%	12.11%	11,440	16.65
July	17.3%	13.04%	9,525	17.17
August	20.9%	12.23%	8,865	17.67
September	24.6%	13.01%	9,675	17.57
October	19.0%	12.47%	10,435	17.58
November	19.1%	12.91%	10,430	17.60
December	11.9%	12.55%	10,400	17.62
Jan. 2002	11.8%	14.42%	10,320	16.93
February	13.7%	15.13%	10,189	16.86
March	12.7%	14.08%	9,655	16.76
April	10.8%	13.30%	9,316	16.61
May	9.0%	12.93%	8,698	15.51
June	8.6%	11.48%	8,730	15.11
July	6.7%	10.05%	8,716	14.93
August	5.3%	10.60%	8,890	14.35
September	6.1%	10.48%		13.22
October	6.7%	10.33%		13.10

(1) Source: BI. YoY growth rate of base money.
(2) Source: BI. YoY growth rate in CPI inflation.
(3) Source: BI. End-month BI middle exchange rates.
(4) Source: BI. End-month interest rate for one-month Bank Indonesia Certificates (SBIs).

No Turnaround in Private Capital Flows

Preliminary balance of payments data for 2001 show a continuation of Indonesia's post-crisis pattern of large current account surpluses coupled with continuing capital account deficits. In the four years preceding the crisis (1993-96), net private capital inflows averaged USD 7.7 billion per year (see Table 4), or an average of over 4 percent of GDP. In 1997 this pattern reversed as imports and foreign investment (portfolio and direct) collapsed, resulting in average net capital flows of a negative USD 6.05 billion per year from 1998-2001.

Indonesia's exports fell 25 percent in 2001 from their record highs a year earlier. Coupled with a smaller reduction in imports, the decline in exports led to deterioration in the current account surplus from USD 8.0 billion in 2000 to an estimated 5.0 billion in

2001. The capital account deficit increased over the same period from USD -6.8 to -8.9 billion. According to BI, two factors led to the deterioration in the capital account: a large decrease in net official capital inflows (largely the result of a slowdown in drawings of program loans offered by the Asian Development Bank, World Bank, and Japan), and continued negative net foreign investment flows.

Table 4. Indonesia: Summary Balance of Payments Information (USD Billions, Source: BI.)

Year	94	95	96	97	98	99	00	01(2)
Current Account	–3.0	-6.8	-7.8	-5.0	4.1	5.8	8.0	5.0
Trade Balance	7.9	6.5	5.9	10.1	18.3	20.6	25.0	21.6
Capital Account	4.0	10.6	11.0	2.5	-3.9	-4.6	-6.8	-8.9
Private	3.7	10.3	11.5	-0.4	-13.8	-9.9	-10.0	-8.6
FDI(1)	2.1	4.3	6.2	4.7	-0.4	-2.7	-4.6	-5.9
Other	1.6	5.9	5.3	-5.0	-13.5	-7.2	-5.4	-2.7
Official	0.3	0.3	-0.5	2.9	10.0	5.4	3.2	-0.3
Errors/ Omiss.	–0.2	-2.3	1.3	–1.7	2.1	2.1	3.8	2.6
Monetary Mvmt(3)	–0.8	-1.5	-4.5	4.1	-2.3	-3.3	-5.0	1.4

(1) Foreign direct investment.
(2) Preliminary data.
(3) Monetary movement, minus (-) equals a surplus.

Indonesia's Official Debt: Modest Progress

Indonesia's official debt burden increased from 27 percent of GDP prior to the financial crisis to approximately 100 percent of GDP at the end of 2000 (Table 5). Virtually all of the increase came in the form of the Rp 658 trillion (USD 74.8 billion) in bonds the GOI issued to domestic banks and BI to cover the costs of Indonesia's banking sector bailout. The budgetary burden of Indonesia's debt service payments is very heavy: the GOI forecasts that total interest payments will account for almost 35 percent of central government expenditures in 2002-03. Indonesia's debt burden has become politically controversial, with some commentators urging the GOI to repudiate the country's foreign debt or limit repayments to an arbitrary percentage of GOI revenues. The GOI has made reducing Indonesia's official debt a national priority.

A combination of continued GDP growth, the appreciation of the rupiah/USD exchange rate, and the depreciation of the Japanese yen vis-à-vis the U.S. dollar (one-third of the Indonesia's official debt is yen-denominated) resulted in a decrease in Indonesia's debt/GDP ratio in 2001 for the first time since the financial crisis. The IMF and other analysts have predicted that Indonesia's debt/GDP ratio will fall further in 2002 to an estimated 75 percent of GDP. The IMF estimates that if the GOI can maintain a balanced budget and achieve 5-percent GDP growth in 2004 and 6-percent GDP growth in 2005-7, Indonesia's debt/GDP ratio could fall below 50 percent by 2007. Key to achieving this result will be maintaining budget discipline. Also important will be finalizing an agreement in principle between the Government and Bank Indonesia to restructure the Rp 228 trillion of GOI bonds held by BI in compensation for losses on BI liquidity credits.

Table 5: GOI Foreign and Domestic Debt, 1995-2001
(USD Billions)

Year	Foreign	Domestic	Total	Debt/GDP Ratio
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	67.3	0.0	71.5	72%
1999(1)	75.8	68.7	144.5	102%
2000(2)	74.8	78.0	152.8	100%
2001(2)	71.4	64.2	135.6	93%

(1) 1999 domestic debt figure based on Rp 312 trillion in bank recapitalization bonds issued, plus Rp 228 trillion in bonds issued to BI, converted at the 1999 average exchange rate of Rp 7855/USD.

(2) 2000-01 domestic debt figures based on Rp 430 trillion in bank recapitalization bonds plus Rp 228 trillion in bonds issued to BI, converted at the exchange rate of Rp 8430/USD for 2000 and Rp 10,255/USD for 2001.

Source: Bank Indonesia.

In recognition of the GOI's continued budget discipline and the country's improving debt situation, several international rating agencies upgraded Indonesia in 2002. In August, Fitch Ratings upgraded Indonesia's long-term and short-term foreign currency ratings to B from B-. Fitch also upgraded Indonesia's long-term local currency rating to B. In September, Standard & Poor’s upgraded Indonesia's long-term and short-term foreign currency ratings to CCC+ and C respectively.

In order to reduce the short-term budget burden of debt service costs, Indonesia has concluded three consecutive debt-rescheduling agreements with the Paris Club group of official bilateral creditors. In September 1998, the GOI and Paris Club agreed to reschedule USD 4.6 billion in principal payments falling due from August 1998 to March 2000. In April 2000, they concluded a similar agreement rescheduling USD 5.8 billion in principal payments falling due from April 2000 to March 2002. In April 2002, the GOI and Paris Club agreed to reschedule USD 5.5 billion in principal and interest payments falling due between April 1, 2002 and December 31, 2003.

Short-Term Policy Challenges: Fostering Investment

The key challenge facing GOI policymakers in mid-2002 is taking advantage of Indonesia's hard-won macroeconomic stability to enact effective policies to boost business investment. Indonesia's investment performance has been poor in 2002: in the first eight months of the year, foreign investment approvals declined 39 percent to USD 3.55 billion from the same period in 2001. Realized foreign investment in 2001 reached only USD 70 million, indicating that approved investment--if it is ever realized--is spread out over a long time horizon, or may be exaggerated. Many Indonesian commentators have criticized the lack of dynamism in the "real economy," but the GOI's response to lagging business investment has been tentative.

Analysts generally agree that GOI progress in the following core areas would greatly increase the prospects for sustained and robust business investment in Indonesia:

-- Legal and Judicial Reform: Foreign observers cite Indonesia’s inefficient and opaque legal system as a major obstacle to attracting foreign investment. In a serious abuse of the bankruptcy law, in June 2002 the Jakarta Commercial Court declared bankrupt a local subsidiary of the Canadian insurance firm Manulife Financial, even though the Ministry of Finance declared it was solvent. Although Manulife’s Supreme Court appeal was successful, few observers rule out the occurrence of similar cases in the future. Although the GOI has repeatedly recognized the importance of legal and judicial reform, it has moved very slowly and progress to date has been minimal.

-- Resolving Labor Problems: Back-to-back annual minimum wage hikes of 30 and 39 percent in Jakarta in 2001 and 2002, coupled with similar rises in other major cities, have reduced Indonesia's competitiveness for labor-intensive manufacturing. Extremely generous severance pay provisions have further boosted labor costs. Labor activism has also increased significantly as Indonesia's labor unions adjust to a more democratic political environment. The GOI attempted to enact a new labor law in July 2002 to deal with these problems, but the draft law effort collapsed under opposition from both labor and business groups. The increase in Jakarta’s monthly minimum wage for 2003 was a more modest 7 percent to Rp 631,000 (USD 72).

-- Reducing the Uncertainty from Fiscal Decentralization: Indonesia's ambitious fiscal decentralization program, implemented in January 2001, continues to create uncertainty for foreign investors, particularly in the mining and petroleum sectors. Many local governments have enacted taxes that discriminate against foreign investors and restrict internal trade. The Ministry of Home and Regional Affairs (MOHRA) and the Ministry of Finance (MOF) have been reluctant to nullify taxes that violate Indonesian laws or overly burden business or commerce. In addition, local governments now have the authority to approve investments in all areas except in the financial and petroleum sectors, which remain the preserve of the central government. Despite the transfer of investment approval authority, investment rules and procedures approval criteria for new investments, licensing arrangements, etc. remain unclear.

-- Reforming the Banking Sector: The GOI completed its Rp 430 trillion bank recapitalization program in October 2000, but the banking sector remains fragile. Reports of solvency problems at a number of banks continued in 2002, including at six of the eleven banks owned by the Indonesian Bank Restructuring Agency (IBRA). Despite continuing management problems at state and IBRA-owned banks, the GOI's bank privatization program moved slowly after the April 2002 sale of Bank Central Asia. IBRA postponed the sale of Bank Niaga several times, finally completing the deal in October 2002. Re-privatizing the bulk of Indonesia's banks and ending the blanket GOI guarantee on bank liabilities is crucial for resuming commercial lending to the real economy and reducing the risk to the GOI's finances from potential bank failures.

-- Infrastructure bottlenecks: Indonesia has seen very little investment in infrastructure since foreign financing dried up in the wake of the 1997-98 financial crisis. Four years later, there are signs that the country's ports, roads, and other infrastructure are becoming overloaded. The problem is most acute in the area of electric power generation, and some experts predict power shortages in the Java-Bali grid by 2004. Although the GOI has announced the resumption of some projects suspended during the crisis, it has not developed a strategy for boosting infrastructure investment to pre-crisis levels.

CHAPTER 3, POLITICAL ENVIRONMENT

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

The United States and Indonesia have enjoyed good relations in recent decades. 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 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, and by virtue of its sheer size, Indonesia can wield substantial influence on a number of security and economic issues of importance to U.S. interests. However, since Suharto's fall, Indonesia has not played an active leadership role, and when it has engaged, it has usually taken decisions based on regional consensus, which at times is not consistent with U.S. objectives. 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 four 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. It is too early to know whether or not President Megawati will be effective at promoting increased respect for human rights. Human rights advocates were pleased when she decreed that longstanding human rights cases surrounding the security forces and East Timor's independence ballot, as well as the 1984 shooting of unarmed civilians at Tandjung Priok, be heard in an ad hoc human rights tribunal, rather than in military or criminal courts. The performance of the tribunal trying the East Timor cases, however has not resulted in the conviction of any security force members to date. This process is ongoing.

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 60 new labor federations to form. Human rights concerns, however, remain, especially as these relate to the security forces, which have been implicated in serious abuses in Aceh, East Timor, and elsewhere. Inter-communal strife, often with religious overtones, has also flared up in some areas, such as Maluku, Central Sulawesi, and West and Central Kalimantan.

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. Following efforts by the United Nations' Transitional Administration in East Timor (UNTAET) to assist in the creation of a new East Timorese government, East Timor became a sovereign country on May 20, 2002.

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 Suharto Government contested 462 seats in the country's House of Representatives (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 Party – Struggle (PDI-P) led by Megawati Soekarnoputri 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 went to the former government-sponsored party, GOLKAR.

More than twenty other parties also gained representation in the new DPR. The 500 members of the DPR, along with another 195 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 the following day. Wahid appointed a 35-member cabinet on October 26, 1999, composed of representatives of the major political parties. Over the next 19 months, however, Wahid faced dissension and opposition within his coalition government, and he repeatedly reshuffled his Cabinet. His political opponents saw him as increasingly erratic and unable to lead. Compromise proposals foundered. Political opposition to Wahid -- in the form of a parliamentary move to impeach him -- gained momentum. In the early hours of July 23, 2001, Wahid issued a decree suspending both the DPR and the MPR and announcing that there would be new elections. Twelve hours later, the MPR voted Wahid out of office and inaugurated Megawati as President. Two days later, the MPR chose Hamzah Haz, Chairman of the United Development Party (PPP) as her Vice President. On August 9, 2001, President Megawati announced her new cabinet, which was generally well-received by the international community.

President Megawati has an array of challenges. Most prominent, as she has articulated, are separatism in Aceh and Irian Jaya, social unrest and decentralization efforts, and the economic recovery. Her cabinet represents a coalition of several other major political parties.

The DPR, under the chairmanship of Akbar Tandjung of the GOLKAR Party, has vigorously asserted its constitutional prerogatives, including its right to review government-proposed legislation, to question and challenge the President and members of the cabinet, and to provide a forum for public debate and presentation of grievances. However, the DPR as of August 2002 had an enormous back-log of unpassed legislation, concerning important political and economic matters. In a departure from past practice (in which the MPR only met once every five years), the MPR, chaired by Amien Rais of the National Mandate Party (PAN), began to hold annual sessions in August 2000. The MPR concluded a second annual session in November 2001 and third in August 2002. Each year, from 1999 up to and including 2002, the MPR adopted significant amendments to the 1945 Constitution. The Second Amendment (2000) included provisions guaranteeing a wide range of human rights. The Third (2001) and Fourth Amendments (2002) entailed a major restructuring of the government, providing for direct election of the President and Vice President by the citizenry. The Third and Fourth Amendments also made the Executive branch no longer subordinate to the MPR, thereby creating further checks and balances in the Indonesian government system. Indonesia will hold its next general elections in mid-2004.

C. Major Political Issues Affecting the Business Climate

The Megawati government faces great challenges in consolidating Indonesia's democratic transition, restoring the country's economic momentum, and 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, particularly in the Malukus and Kalimantan (Borneo); an armed separatist insurgency in Aceh and demands for greater autonomy or independence in Papua/Irian Jaya; and a rising level of lawlessness and vigilante justice throughout the country. The government succeeded in signing a cessation of hostilities agreement with separatists in Aceh in December, 2002. In January 2001, the government began an ambitious and massive decentralization of political and economic authority to the districts. While offering democratic dividends, the implementation of decentralization has been uneven and many issues involving power- and revenue-sharing between the central and local governments remain unresolved.

Continuing reports of high-level corruption, especially in the judiciary, 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 4, 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 30 provinces, with permission of the Indonesian Department of Industry and Trade. The representative(s) may be an Indonesian company, 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.

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 months is generally written into agency contacts. As in many countries, 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-owned 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.

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.

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 depreciated and fluctuating 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. Wawan Sukawan
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 with 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 in Indonesia as it is anywhere else; "contacts" alone, while important in Indonesia, cannot 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 any case, a soundly written legal agreement is strongly encouraged, despite the weakness of the Indonesian legal system to enforce such contracts.

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

The Indonesian Investment Bureau (BKPM), which is under the Board of Investment and State-Owned Enterprises (BPM-PBUMN), attempts to operate as a one-stop shop for investors and recent reforms have reduced the paperwork process and delays in applying for the necessary government permits for foreign investments 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:

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).

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:

Ms. Eni Suhaeni Bakri
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

Regional representative offices, classified as serving two or more other ASEAN nations, can also be established in Indonesia. The regional representative office is 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:

Mr. Theo Toemion
Deputy Minister for International Cooperation and Investment Promotion
Capital Investment Coordinating Board (BKPM)
Jl. Jendral Gatot Subroto 44
Jakarta Selatan, Indonesia
Tel.: (62-21) 525-0679
Fax : (62-21) 525-4945

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.

Mr. Yanto
Secretary for the Minister of Settlement and Regional Infrastructure
Jl. Pattimura 20
Jakarta Selatan, Indonesia.
Tel.: (62-21) 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) is available to help identify valuable local media contacts. PAS can give guidance to 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 June 2001, the prices quoted for a full color 84 mm x 110 mm ad ranged from about US$316 to about about US$926 in five daily newspapers. In those same newspapers, the same black and white ad ranged from about US$232 to about US$558.

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

Newspapers (dailies):

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

Newsmagazines:

Forum (Weekly)
Gatra (Weekly)
Tajuk (Weekly)
Tempo (Weekly, Indonesian or English)
GAMMA (Weekly)

Business Journals:

Business News (Twice a week, English or 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)
Indonesian Business (Monthly)
Swasembada (Monthly)
Capital (Monthly - Indonesian/English)

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 Goldman 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 liquidation's 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 established relationships.

This does not necessarily mean illegal payments are involved, but could exclude participants not well known in the market.

New-to-the-market U.S. firms need the careful advice of local representatives to avoid wasting time and money in participating in a 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.

The Government of Indonesia has made efforts to root out corruption, collusion and nepotism (KKN, in Indonesian initials) in the government procurement process. The current regulations which cover government procurement is Presidential Decree (Keppres) No. 18/2000, issued February 2000, which updated the Law on Government Procurement of 1994. In addition, Construction Law 14/1999 governs procurement of civil engineering services and related consulting services. U.S. companies should be aware that under Indonesia's new regional decentralization policy, local and provincial governments may begin to adopt their own procurement rules.

Indonesia grants special preferences to domestic sourcing and set-asides for small- and medium-sized enterprises as set out in the following table.

Size of Enterprise	Works	Goods	Consultants
Small Scale	< / = Rp 1 billion	< / = Rp 500 million	< / = Rp 200 million
Medium	Rp 1 to 10 bill.	Rp 500 mill. to 4 bill.	Rp 200 mill. to 1 bill.

Large firms are eligible for contracts greater than Rp 25 billion for works, Rp 10 billion for goods and Rp 2 billion for services but must tie up with a small or medium-sized enterprise based in the locality of the procurement. Foreign firms are limited to contracts above Rp 25 billion for works and Rp 2 billion for services and must form a joint venture or subcontract with domestic firms.

For other sales to the Government of Indonesia, 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 commitment 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. The government of Indonesia requires that any imports of goods by government institutions that exceed Rp. 500 million in value and are financed by the state budget must be partially paid under the counter purchase scheme, for example, by purchasing Indonesian non-oil and gas products. 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. In practice, we see little evidence that this requirement is enforced.

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 (involving 67 countries) then increased to $287 million in 1999. Since 1999, however, the level of counter trade has fallen off precipitously, as the Government of Indonesia nearly ceased all major tender activities. In 2000, total counter trade was only $3.2 million involving two countries, while in 2001 the value increased to $17 million. In early 2002 the government announced a multi-million dollar counter trade program with Thailand which was scuttered a few weeks later because the two sides could not agree on which products to include. Countertrading is again expected to pick up as the Indonesian Government's awarding of tenders increases.

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

N. 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 ($1 million) for goods/services and over Rp. 2 billion ($200,000) for consulting services. 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 work force of 16,000 and its production that was planned to reach 200,000 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 contacting Pertamina, PT Freeport Indonesia, or other specialized sub-markets should contact the U.S. Commercial Service in Jakarta for further information.

O. Regional "Growth Nodes"

In order to reach an equitable distribution of national development projects, the government took steps to boost the economic growth in several regions in Indonesia, especially the eastern provinces, by the establishment of prospective zones as centers of economic growth. Under the Presidential Decree No.150/2000, 14 Integrated Economic Development Zones were selected. They include Sanggau (West Kalimantan), Batulicin (South Kalimantan), Sasamba (East Kalimantan), Manado and

Bitung (North Sulawesi), Mbay (East Nusa Tenggara), Bukari (South East Sulawesi), Batui (Central Sulawesi), Bima (West Nusa Tenggara), Seram (Central Maluku), Biak (West Irian), Sabang (Aceh), Pare-Pare (South Sulawesi), Natuna (Riau), and Kakab (Central Kalimantan).

Marketers and investors may also find advantage by establishing distribution or assembly/manufacturing operations in the above 14 "growth node" regions targeted for economic development via special tax incentives. 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.

P. 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. Problems in IPR protection raised by industry include: rampant software, audio, and video disk piracy; pharmaceutical patent infringement; apparel trademark counterfeiting; an inconsistent and corrupt law enforcement regime, and an ineffective judicial system. The lack of effective IPR protections and enforcement serves as a considerable disincentive for foreign investment in high technology projects in Indonesia. The Indonesian court system can be frustrating and unpredictable, and effective punishment of pirates of intellectual property is rare. Foreign companies therefore must be vigilant and creative in building strategies to protect their products from infringement.

Foreign rightsholders often work with local law firms and security consultants to arrange for 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 seek to defend them 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.)

Q. 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).

R. Sources of Assistance within the U.S. Embassy

U.S. Commercial Service

The U.S. Commercial Center, located at the World Trade Center complex in the heart of Jakarta's business and banking district, provides a convenient, immediate, and affordable presence for firms interested in the Indonesian market. With critical trade information, personalized counseling, state-of-the-art facilities, key contacts, and the access it takes to do business in Indonesia, the U.S. Commercial Service is a good place to begin for American exporters serious about selling to this major market.

Full information can be obtained from the Department of Commerce's web site at: http://www.BuyUSA.gov/Indonesia.

1. Facilities at the U.S. Commercial Center

The President's Room -- Located in the U.S. Commercial Center, the President's Room is an elegant conference room ideal for business meetings with economical catering options. Fully equipped with state-of-the-art video conferencing facilities and all forms of presentation/communications equipment and infrastructure, the President's Room has frequently been used for company promotions, video-conferences, company product launches, meetings/seminars, official signing ceremonies, etc. Facilities and services are offered at reasonable prices, approximately half the cost of booking a similar facility at a hotel.

Office Space Rental -- The Commercial Center also has ready-to-move-in office suites for rent at very competitive market rates, providing a professional, flexible, and convenient environment for American companies looking for a temporary office space or a longer term arrangement.

Commercial Library -- Our comprehensive Commercial Library offers useful information for American companies looking for buyers, agents & distributors, as well as for Indonesians looking for American suppliers.

<u>2. Market Research</u>

The U.S. Commercial Center prepares a full range of sector specific research reports including 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 http://www.BuyUSA.com.

Other more customized services are also offered for a small fee:

- International Partner Search -- American companies can find Indonesian partners and licensees without leaving home. The Commercial Service provides a report on up to five qualified agents, distributors, manufacturer's representatives, joint venture partners, licensees, franchises, or strategic partners who have examined a U.S. company's materials and have expressed an interest in the company's products. ($600, 15 working days lead time)

- Enhanced International Company Profile -- A report containing thorough background information on local companies to help U.S. companies evaluate potential partners. ($400, 10 working days lead time)

- Video Market Briefing -- Answer up to 5 key questions with analysis by industry experts via a 30-min video-conference. ($150, plus telephone line cost)

<u>3. Contact Building</u>

The core of our contact building services - the Gold Key Service—offers an appointment service for business executives visiting Indonesia. Upon receiving company promotional material, our 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 the U.S. company representative arrives in Indonesia, a full schedule of appointments is already established.

The full range of Gold Key Services is as follows:

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

Turbo Gold Key: An expedited Gold Key service with less than 2 weeks lead time. $500 for a 6-appointment day and $250 for any additional day.

Video Gold Key: Gold key service via video-conference. Meet your qualified international partners without the hassle of traveling time and expenses. Only $350 for up to 4 appointments. Due to the time zone differences, appointments are generally scheduled over a 2-day period.

Other contact-building services designed to achieve U.S. company's objectives include:

Single Company Promotion: Assistance in promoting new-to-market U.S. companies' products by having your own mini trade show in the US Commercial Center (or other local venue) organized jointly with the American Embassy's Commercial Section in Jakarta. Fee includes one-day use of the conference facilities (the President's Room), assistance with event organization/invitations, plus two staff assistants. ($300)

To request the Gold Key appointment service or any of the other services listed above, email jakarta.office.box@mail.doc.gov. More extensive contact information for the U.S. Commercial Center is available in Chapter XI.

4. 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.A. Catalog Shows, 'On the Road' Outreach Program, and Catalog/USA Pavilion.

Catalog Shows/'On the Road' Outreach Program: Major annual catalog show in Jakarta plus in 4 to 6 provinces throughout Indonesia per year. Interested firms can partake in these shows in the form of corporate sponsors. Sponsoring companies' logos, banners and promotional literatures are distributed at the shows. Companies also receive after event reports and complete database of show visitors.

Catalog/USA Pavilions: Companies can partake in selected Indonesian trade shows show for a small fee. The following will be offered: Company catalogs and promotional literatures are exhibited at the USA Pavilion at key Indonesian trade shows in a number of sectors. A record of trade leads from the Pavilion visitors who have reviewed promotional material and expressed interest is sent, along with bio-information on interested foreign companies, to the participating U.S. companies.

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 trade financing issues. The AAO is able to assist interested agricultural exporters in a variety of ways:

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

Services and Facilities: Visiting exporters can take advantage of in-country briefings and five-star hotel recommendations.

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

Trade Financing: The AAO can provide information on how to use the GSM-102/103, Facilities Guarantee, Supplier Guarantee, and Collateral Account programs and contacts for eligible Indonesian banks.

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

The Foreign Agricultural Service's Home Page is 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 data, analysis, trade policy developments and agricultural trade activities – around the clock and around the world.

To take advantage of the activities that the AAO offers, please contact Mr. Charles Alexander, Agricultural Counselor, at phone (62-21) 3435-9161, fax (62-21) 3435-9920, or email alexanderchuck@fas.nsda.gov. For consumer-ready products, please refer to the Agricultural Trade Office.

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 for retail and consumer-ready products are available upon request.

2. Services and Facilities: Visiting exporters can take advantage of in-country briefings, five-star hotel recommendations, 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 400 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 Mr. Chris Rittgers, Director, at fax (62-21) 571-1251, or phone at (62-21) 526-2850, or email at rittgersc@fas.usda.gov. Also, please refer to the U.S. Embassy Jakarta website: www.usembassyjakarta.org/fas/

Public Affairs Section Programs for Trade Development (PAS)

PAS organizes and supports programs designed to help promote trade and investment. In Indonesia, PAS speakers, PAS-organized press briefings and dissemination of information to the media, 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.

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) 3435-9526.

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 which have been translated into the Indonesian language under the auspices of the program include Economics in One Lesson by Henry Hazlitt, Return to Depression Economics by Paul Krugman and The Lexus and the Olive Tree by Thomas Friedman.

United States Agency for International Development (USAID)

USAID promotes the adoption of open trade and investment regimes and creates opportunities for increased two-way trade between Indonesia and the United States centered on technology, equipment, and services. USAID supports Indonesia's commitments to the World Trade Organization with special emphasis on the agricultural sector (tariff and non-tariff barriers) through its technical assistance to the GOI. This assistance has expanded since last year's Ministerial Conference - "development" round - of the WTO in Doha, Qatar. USAID is also facilitating adoption of laws and regulations that facilitate commerce and economic development in Indonesia. This work has already assisted in the promulgation of laws for commodities futures trading, capital markets and corporate law. The current work is focus on competition law, bankruptcy, secured transactions, and arbitration legislation.

USAID’s energy program supports efforts by the government of Indonesia to improve efficiency and attract private sector investment in the energy sector. The Critical 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. The program also provides assistance for improving the policy analysis capability of the Ministry of Energy and Mineral Resources (MEMR) in order to accelerate market-based reforms. This technical assistance to MEMR includes support for their subsidy reduction program, supply and demand, regional energy policy, and environmental issues related to energy.

In the oil and gas sector, USAID provides technical assistance for the development of a regulatory framework for a more market-based system. In October 2001, President Megawati Soekarnoputri signed the law no. 22/2001 on the mining of oil and natural gas, which initiates the reform in the oil and gas sector. This law will: (1) transfer the management of the production sharing contracts (PSCs) from Pertamina to the government; (2) open the down-stream oil sector, from refinery to retail, to competition; (3) set-up an independent regulatory body to regulate the down-stream sector, and (4) corporatize Pertamina. The opening-up of the down-stream oil sector, which was previously under Pertamina's monopoly, will further open up opportunities for private investment. USAID assistance will focus on the development of regulations and capacity building to implement the new law. In the electricity sector, USAID provides technical assistance to improve the capacity of MEMR’s restructuring teams in supporting policy reforms.

USAID’s energy program also supports measures to protect natural resources, reduce emissions and mitigate the negative environmental impacts of energy development. USAID is supporting efforts to eliminate lead from fuels and promote the use of unleaded gas. The 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, and transfer of technologies for cleaner generation from fossil fuels and renewable energy.

The interested U.S. renewable energy developers may request assistance 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) 720-6125
Fax:(62-21) 722-0905
Email: ybul@indo.net.id

The information on these activities may be obtained through the Energy Office, USAID/Indonesia (See Chapter XI for contact information regarding USAID/Indonesia).

Other small businesses may access “match-maker” service from:

Global Technology Network - Indonesia
Tel: (62-21) 791-82717
Fax: (62-21) 791-82716
E-mail: smedev@cbn.net.id

This is a part of the Agency’s worldwide Trade Capacity Building activities, which reflect that USAID is an important player in trade development worldwide. A copy of the Agency’s 2001 trade capacity survey can be found at: http://www.qesdb.cdie.org/tcb/index.html

United States-Asia Environmental Partnership (US-AEP)

US-AEP links Asia and the United States in cooperative environmental improvement efforts. US-AEP is a program of USAID, and through its development activities it strengthens institutions for environmental protection and creates access to US expertise, information and professional networks. These activities also create opportunities for applying US technology and services. US-AEP/Indonesia works closely with the Commercial Section on environmental projects and programs.

The US-AEP Policy Program in Indonesia supports the Government of Indonesia and non-governmental actors in strengthening policies and practices, particularly in the areas of urban air quality, vehicle emissions reduction, and the phase-out of leaded gasoline.

The Urban Infrastructure Program helps local governments and communities deal with the environmental problems brought on by rapid urbanization. US-AEP assists local authorities to improve the management and financial stability of municipal water enterprises. The program also addresses issues in wastewater treatment and solid waste management.

The Industry Program helps to improve the environmental management of industrial processes. In particular, the program promotes cleaner production, voluntary disclosure, and energy and material efficiency.

Grant Assistance

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

1. Through the Institute of International Education (IIE), travel funds are available to provide private and public sector exchanges (i.e., workshops and site visits) in Asia and the United States. These exchanges are normally for one to two weeks, and they usually fit within larger ongoing US-AEP programs.

2. Through the Technical Services Support Contract agency, small grants are available which support the activities approved in the annual Indonesia Workplan.

3. Through a cooperative program between US-AEP and The Asia Foundation, small grants are available to support civil society initiatives.

4. Through the Council of State Governments (CSG), cooperative relationships between American and Indonesian institutions are established. These proposals are vetted once a year and might take two to three years to complete. The grants may be up to $150,000 with cost-sharing.

The main point of contact for US-AEP/Indonesia is the Director for Program Coordination and Policy. The coordinates are as follows:

US Commercial Center
Wisma Metropolitan II, 3rd Floor
Jl. Jend. Sudirman, Kav. 29 - 31
Jakarta 12920 Indonesia
Tel: +62 21 526-2850 ext. 1004
Fax: +62 21 526-2849
General US-AEP Website: www.usaep.org

Office of the Military Attaché for Defense Cooperation (ODC)

ODC is the principal point of contact for most U.S. defense industry representatives for marketing defense systems, articles and training services in Indonesia. ODC's main function is to facilitate the flow of information about U.S. systems to help Indonesian buyers make acquisition decisions, either commercially or through Foreign Military Sales (FMS).

U.S. firms should be aware that FMS sales to Indonesia have been suspended since 1999, and the Leahy amendment restricts direct military-to-military cooperation. The suspension for commercial sales of non-lethal defense articles/spare parts and safety of used spares/sub-component for lethal end-items has been lifted.

ODC assists industry representatives by arranging appointments in the U.S. Embassy and with Indonesian military officer. ODC also, is a valuable source of information on the Indonesian military procurement system.

ODC offices may be reached by phone (62-21) 3435-9601 or fax (62-21) 384-3339 (additional contact information may be found in Chapter XI).

CHAPTER 5, 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 twelve "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. Industrial Chemicals (ICH)
2. Pollution Control Equipment (POL)
3. Water Resources Equipment and Services (WRE)
4. Telecommunications Equipment (TEL)
5. Aircraft Parts (AIR)
6. Oil and Gas field machinery (OGM)
7. General Services (Retail)
8. Franchising (FRA)
9. Electrical Power Systems (ELP)
10. Security and Safety Equipment (SEC)
11. Computers and Peripherals (CPT)
12. Educational and Training Services (EDS)

Best Prospects are ranked by the estimated growth in U.S. exports (in U.S. dollar value) for the coming year. U.S. $1 = 9,000 Rupiah

Rank: No. 1

Industrial Chemicals
ICH

Industrial chemicals are generally regarded as intermediate substances and materials vital to the industrial preparation of finished products of all types. Indonesia's dependence on imports of chemicals remains very strong since domestic chemical industries can not yet meet local demand. Indonesia, in particular, depends heavily on imported upstream and midstream chemical products. In Indonesia, most industrial chemicals have been imported from the United States, Japan, Germany and the United Kingdom. International companies such as Dow Chemicals, Union Carbide, BASF, DuPont, LG, Hoechst, and Ciba Chemicals are among the significant industrial chemical players with manufacturing operations in Indonesia.

As the economic condition has been showing an improvement, domestic demand for chemicals is projected to increase in 2002. This increased demand represents an export opportunity for U.S. industrial chemical supplies. Promising sub-sectors include both organic (HS29) and inorganic (HS28) chemicals and tanning and dyeing extracts (HS32) and other chemical products (HS38).

US $ Millions	2000 (Actual)	2001 (Actual)	2002 (Est.)
Total Market Size	4,752.9	4,329.0	4,545.5
Total Local Production	2,391.7	2,382.8	2,502.0
Total Exports	1,718.4	1,712.0	1,797.6
Total Imports	4,079.6	3,658.2	3,841.1
Imports from the U.S.	425.6	331.5	399.5

Note: The above statistics are unofficial estimates.

Rank : No. 2

Pollution Control Equipment
POL

During the last two-year were challenging years for the pollution control market in Indonesia. There is still a demand for environmental products and services in Indonesia. The Indonesian government continues to focus attention on the environment.

Air pollution is still one of Indonesia's greatest environmental challenges. Indonesia's continued use of leaded gasoline compounds Jakarta's transport-related air pollution problem. The government began to take steps to phase out the use of leaded gasoline in 2001 together with the state oil company, Pertamina, aim to supply unleaded gasoline throughout Indonesia within the next 3-5 years and are currently planning refinery modifications. Octane-boosting fuel additives, detergents, and lubricants that meet Indonesian, U.S. and international criteria for safety, human health, and environment might be used in the reformulated gasoline. After gasoline phase-out is complete and other technical preconditions are met, the Indonesian Government intends to require the use of catalytic converters to reduce air pollution.

Most of Indonesian's environmental pollution control equipment needs are met through imports. U.S. pollution control equipment and technology is well regarded in Indonesia though the economic crisis has sometimes pushed environmental cleanup onto the back burner, and the weak Rupiah makes imported U.S. equipment prohibitively expensive for many Indonesian companies.

In Indonesia, locally manufactured products are very widely used for the supporting equipment of wastewater treatment plants, such as steel structures, screens, filters, air diffusers, chemicals, steel tanks, pipes, fittings and valves. Centrifugal pumps and aerators are also already produced locally, but although considerably cheaper in comparison to most imported products, these have not yet gained much popularity for quality reasons.

Since environmental issues cut across so many industry sectors, the market potential data is solely based on judgement. In addition, The Indonesian Central Bureau of Statistics classifies environmental pollution control equipment under various types of pumps, furnaces (for incinerators) and filtering equipment (rather than under a specific environmental HS code). However, prospective customers in Indonesia include international joint ventures (especially where the foreign partner has made a commitment to a clean environment), donor-funded projects, many of which require environmental impact statements and action plans, those Indonesian cities and regions which have a commitment to a cleaner environment (e.g., the Jakarta Inspection and Maintenance program for automobiles/leaded gasoline).

US $ Millions	2000 (Actual)	2001 (Actual)	2002 (Est.)
Total Market Size	188	180	208
Total Local Production	11.0	9.7	12.0
Total Exports	17.2	18.1	20.0
Total Imports	182.38	198.0	216.0
Import from the U.S.	32.2	29.5	34.0

Note: The above statistics are unofficial estimates.

Rank : No. 3

WATER RESOURCES EQUIPMENT & SERVICES
WRE

Clean water and sanitation is major challenge for Indonesia. Small locally based cooperatives are responsible for supplying water in most of Indonesia. There has been some attempt to develop this sector (e.g. with private sector participation) but most cooperatives remain short of fund to invest in water resources equipment and services. The sanitation sector has received even less attention than the water supply sector, though some major cities have installed wastewater management programs and facilities.

With rapid growth in its urban population, Indonesia has a tremendous need to enhance the management of production and distribution of its clean water supply. Investments in municipal water projects are huge. Local governments, the owners of municipal water enterprises (PDAM), face financial and managerial constraints in meeting the demand for clean water. At present, about 300 PDAMs are operating in Indonesia, comprised of 8 large-scale PDAMs (over 50,000 house connections) and 77 medium-scale PDAMs (10,000 to 50,000 house connections). The rest are small-scale PDAMs (less than 10,000 house connections).

After the Asian economic crisis of 1997/98, and 300% increase in the local currency price of consumables, only about 30 PDAMs are able to recover operations and maintenance (but not depreciation) costs. 164 PDAMs are just breaking even, and the rest are in a critical financial condition. Until decentralization, the main implementor of new water supply construction projects has been the central government agency, the Directorate General of Regional Infrastructure Development, Ministry of Settlements and Regional Development.

Prospects for the clean water sector in Indonesia have encouraged foreign investors to venture in this business. Suez Lyonnaise des Eaux and Vivendi of France, Biwater, and Thames Water of Britain have been operating several clean water supply facilities and are looking to increase their investments in Indonesia.
The principal end users of water supply during Indonesia's monetary crisis were new industrial installations and new customers of municipal water enterprises. The reasons are : (1) water enterprises must increase connections in order to sell their excess capacity, and (2) multilateral loan funds for expansion of water supply are still coming

through. The most likely end users of new water treatment facilities would be export-oriented enterprises such as a new mining concession, a new oil production site, or a factory processing export quality goods.

The upgrades, and expansion of water supply are unlikely in the present downturn, except in specific areas, as where an American-owned factory processing export goods would have to be expanded, or through multilateral bank funded government projects.

At present, the water pumps have the best prospects for the Indonesian market. Similarly, the best products/equipment for industrial water supply are filters and pumps, especially for use in high rise buildings, mining, and the petroleum industry.

US $ Millions	2000 (Actual)	2001 (Actual)	2002 (Est.)
Total Market Size	807	872	960
Total Local Production	677	731	804
Total Exports	17.0	18.0	19.0
Total Imports	147	159	175
Imports from the U.S.	30.5	34	39

Note: The above statistics are unofficial estimates.

Rank : No. 4

Telecommunications Equipment
TEL

In the recent past, The Government of Indonesia has made several announcements to support the development of its telecommunications infrastructure. Since 1999, the Indonesian Government has announced that the liberalization of this sector will take place by restructuring the industry and allowing foreign telecommunication companies to enter the Indonesian telecom domestic fixed line market. However, there is a distinct feeling that the reform process in the telecom sector has slowed down, since several important elements in telecom regulation are not in place. Nevertheless, there are some signs that the demand for telecommunications equipment particularly from the well-to-do regions of Indonesia and from the wireless segment may rise.

The introduction of the new Telecommunications Law no. 36/1999 to liberalize the telecommunications sector and the announcement in August 2000, that the monopoly of major operators in Indonesia - PT Telkom (the domestic local and long-distance carrier), PT Indosat, and PT Satelindo (both international carriers) – are planned to be terminated. PT Telkom's exclusive right in operating domestic and long-distance fixed lines are to be terminated in August 2002 and 2003, respectively. PT Indosat and PT Satelindo are to lose their exclusive rights in operating international services in August 2003.

In order that the competition will be truly and effectively starting in August 2002, all parties are expecting that the several important elements in regulation such as, regulation of the universal services obligation, interconnection, modern and more transparent licensing and the telecommunication independent regulatory body are in place.

The Presidential Decree No.6/2001 instructing various government entities to further use and develop the information and technology sector suggests that the government has strong intentions to build the telecommunications and information technology industry in the country. The current administration (in order to strengthen the implementation of the above decree of the previous administration) has established a state Ministry of Communications and Information to oversee the development of broadcasting, mass media and information technology. The new ministry will be focusing on the development of e-government strategies and coordinating standards for national and regional government agencies.

Although in practical terms this may not translate to large increases in equipment orders in the short term, given that the regional governments have now obtained larger budgetary allocations and some resource-rich regions are exceedingly obtaining greater taxation revenue, in the long term, it is expected that some regional agencies will increase the telecommunications and IT equipment purchases. Furthermore, they are expected to increase the telecommunications network and subscriber lines through the establishment of locally operated telephone companies.

The encouraging growth in the Indonesian cellular market in 2001 and continued growth in 2002 is expected to surpass the number of fixed lines. This tremendous growth in cellular market is spurred by the affordable prepaid connection and the popularity of SMS (by February 2002 has exceeded six million messages per day). SMS usage is growing rapidly following the implementation of inter-operator SMS in May 2001, between the three national cell operators.

US $ Millions	2000 (Actual)	2001 (Actual)	2002 (Est.)
Total Market Size	420	410	430
Total Local Production	663	500	525
Total Exports	496	347	364
Total Imports	253	257	269
Imports from the U.S.	42	26	29

Note: The above statistics are unofficial estimates.

Rank : No. 5

Aircraft/Parts
AIR

The airline industry in Indonesia has been growing since 2000 and is predicted to remain attractive in 2002. The passenger numbers expected to reach around 9.6 million people, an increase of 6% from 2001. As of May 2002, there are fifteen scheduled airline companies operating in Indonesia. They are Garuda Indonesia, Merpati Nusantara Airlines (MNA), Mandala Airlines, Bouraq Indonesia, Dirgantara Air Sevice (DAS), Pelita Air Service, Lion Mentari Airline, Bayu Indonesia Air, Airmark Indonesia Aviation, Jatayu Gelang Sejahtera, Star Air, Republic Express, Kartika Airlines, Indonesian Airlines Avi Patria, and Metro Batavia. The first five companies are old players in the industry, which survived the recent economic crisis and the other ten companies are new players, which started their operations in the last two years. One new company, Air Wagon International (Awair) has temporarily stopped its operations. In addition, the Directorate

General of Air Communication has granted new licenses to six other companies; however, they have not started their operations yet.

The country's entire fleet serves more than 400 routes to over 90 destinations across the country. In 2001, the average load factor reached 68%, which is the same as the 2000 and 1999 level but higher than the 40% average load factor recorded in 1998 (during the depth of the Asia financial crisis). The total aircraft used by the airlines in 1999 were 125 units and it has decreased to 110 units in 2000. By May 2002, there are around 134 units aircraft operated by the operators. There might be more aircraft coming when the new airlines start their operations and additional aircraft needed by the existing airlines.

Imported products account for almost 95% of all aircraft spare-parts consumed in Indonesia. Indonesia's imports of aircraft spare-parts totaled $ 277.8 million in 2000. In 2001 (temporary figures) the total import value decreased slightly by 5% and amounted to $ 264 million. The import value for American aircraft spare-parts totaled US $ 44.5 millions in 2000 and decreased to US$ 35.6 million in 2001 (preliminary figures). The actual import value of US products could be higher than it was recorded. Many Indonesian companies imported various US products through Singapore. The other major suppliers to Indonesia's market were Singapore, Britain, Japan, France and Germany. With more new airline companies in operation this year, it is predicted that the total market will increased by 5% and the share of US products will increase by 10% in 2002.

Imports from U.S. suppliers are particularly strong in the following areas: turbo propeller of power not exceeding 1,100 kW of aircraft engines, parts of turbo-jets or turbo propellers, other for aircraft engines, aircraft electrical wiring sets, other parts, and aircraft launch gear and part.

US $ Millions	2000 (Actual)	2001 (*)	2002 (Est.)
Total Market Size	280.8	265,8	279.1
Total Local Production	15.0	15.0	15.0
Total Exports	12.0	13.2	13.7
Total Imports	277.8	264.0	277.8
Imports from the U.S.	44.5	35.6	39.2

Note : (*) preliminary figure
The above statistics are unofficial estimates

Rank : No. 6

Oil & Gas field Machinery
OGM

The market for oil and gas equipment in Indonesia remains attractive and stable for the last three years. In 2001, nine new contracts were signed to undertake oil and gas in deep water exploration areas, with total investment of US$ 5 billion. The value of capital invested by Production Sharing Contract (PSC) operators in Indonesia reached $ 3.9 billion in 2001, below the estimated investment value of $ 5.4 billion. The total investment for exploration in 2001 reached $361 million. For development spending, Pertamina and its Production Sharing Contractors spent $ 754 million and their production spending reached $ 2.4 billion. In 2002, the government plans to award new contracts for exploration in 17 geographical blocks in Eastern Indonesia.

Foreign contractors account for 95 percent of the country's oil and gas production, with an estimated output of 1.5 million barrels of oil per day. In 2001, contractors conducted 915 development drilling, consisting of 718 onshore drillings and 197 offshore drillings. In addition, contractors also conducted 62 exploration drillings (24 onshore and 34 offshore drillings).

Indonesia imported $ 592.7 million worth of oil and gas equipment in 2000. Imports of U.S. products amounted to $ 294.2 million, or 49.3 percent of the total import requirement. In 2001 (preliminary figures), the total import value of oil and gas equipment increased around 6% to $ 628.7 million. However, the value of imported US products decreased around 40 percent of the total import value. The actual import value of US products may be higher than what is reported. Many US products are being imported to Indonesia through Singapore. American suppliers are particularly strong for the following equipment: tools for drilling (not rock drilling), pile-drivers and pile-extractors, self propelled boring and sinking machinery, parts of boring/sinking machinery, drill pipe of a kind used in drilling for oil and gas, casing or tubing of a kind used for oil and gas pipelines, and floating or submersible drilling or production platforms. The other countries that also supplied to oil and gas industry in Indonesia were Japan, France, Singapore, Australia and China.

The following table shows the development of the Indonesian market for oil and gas equipment in two years, 2000-2001, with an estimate of the market for 2002. It is estimated that the market will increase by 5%, and the market share for US products will increase by 10% in 2002 as the new explorations begin and the increases in the utilization of existing capacities are in place.

US $ Millions	2000 (Actual)	2001 (*)	2002 (Est.)
Total Market Size	667.0	677.5	711.4
Total Local Production	140.6	154.7	170.2
Total Exports	66.3	105.9	118.5
Total Imports	592,7	628,7	660.1
Imports from the U.S.	294.2	176.5	194.2

Note: (*) temporary figures
The above statistics are unofficial estimates.

Rank : No. 7

General Services (Retail)
GSV

The retail industry in Indonesia has evolved significantly from poor traditional markets and modest kiosks to sophisticated hypermarkets and superstores. People are now more accustomed to shop for daily necessities in shopping malls although they need to stand in a line to pay for their purchases. Although many business sectors are still recovering from the economic crisis, the retail sector is on a rebound. Total sales of the retail sector have been increasing since the downfall in 1998. At present, many big retailers are engaged in major expansion projects. With the entrance of some foreign retail giants like Carrefour, Makro, and Sogo, competition in the Indonesian retail market has become very fierce.

In 2001, the Indonesian retail industry booked an approximate sales turnover of $3.5 billion, of which 32.3 percent was generated by hypermarkets such as Carrefour and Makro. Although foreign retailers account only 8 % in terms of the number of outlets, they collect approximately 26 % of the total retail sales revenues. It is predicted that retail sales will reach $8.4 billion in 2005. New investment is estimated to increase by $1.2 billion in 2005.

US $ Millions	2000 (Actual)	2001 (Actual)	2002 (Est.)
Total Retail Sales	2,800	3,502	3,852
Generated by Local Retailers	2,059	2,575	2,833
Generated by Foreign Retailers	741	927	1,019

Note: The above statistics are unofficial estimates.

Rank : No. 8

Franchising
FRA

Indonesia offers a great long-term market potential for franchising, a business concept that began to develop in 1970s. The industry started with 3 franchises in 1970s and grew to some 35 franchises with 308 outlets in early 1990s. The industry had grown rapidly since then. By August 1997, the number of franchises reached 253 with a total of more than 2,000 outlets.

Due to the fall of the country's currency followed by political and social instabilities at the end of 1997, many franchises have stopped their operation and closed down approximately 500 outlets. The industry began to recover in late 1999 to early 2000 when there were around 17 new foreign and 9 domestic franchises started their business.

Today, there are a wide range of franchise businesses that operate in Indonesia, including food and beverages, educational and training services, real estate groups, automotive garages, children services, and many others. American franchises dominate the franchise business in Indonesia and hold up to 55% of the domestic market for foreign franchises, which accounts for approximately 80% of the whole market. Until recently, estimated future growth in the franchise industry was considered to be around 10% per year.

Number of Franchise Business	2000	2001	2002 (Est)
Total	261	274	300
Local Franchises	39	42	45
Foreign Franchises	222	232	255
U.S. Franchises	122	128	140

Note: The above statistics are unofficial estimates.

Rank : No. 9

Electrical Power Systems
ELP

Indonesia is predicted to face a power shortage in 2004-2005. With the average growth rate of 9% per year, the electricity demand will reach 23,000 MW in 2004-2005. At present, the total supply is 18,608 MW, where 14,000 MW comes from the state-owned electricity company, PLN, power generation plants. The rest of the power supply comes from the independent power producers.

The government has projected that the financial need for power development during 2001-2010 is US$ 33.698 billion. The plan consists of the development of 25,519 MW power plants; 14,604 kilometers of transmission networks, the development of 48,777 MVA of central distribution stations, distribution network, and rural electricity. Around US$ 19,286 will be used to developed the electricity in Java-Bali, and the rest for other islands in Indonesia. However, due to the lack of funding, the government relies heavily on the private sector to secure the country's power supply.

Recently, the government announced a release of seven power plant projects, which were postponed due to the economic crisis. The projects are: Tanjung Jati B, Paiton I and II, Gunung Salak Unit 4,5,6, Derajat Unit II, Sengkang and Lahendong. The implementation of those projects are expected to attract more than US$ 7 billion in investment.

Indonesia imported $ 420 million electrical power equipment in 2000. The number was decreased slightly to $ 403 million in 2001 (preliminary figure). The market share of US products was 13% of the total imported product or $ 53 million in 2000, and decreased to $ 48.3 million in 2001 (preliminary figure). There will be more opportunities in the next two years if all the seven power plant projects will be implemented soon. It is predicted that the total market and the market share of US products will increase by 10%. The other suppliers for this industry in Indonesia are Singapore, Japan and Germany.

US $ Millions	2000 (Actual)	2001 (*)	2002 (Est.)
Total Market Size	453.3	433.1	476.4
Total Local Production	248.3	211.1	232.2
Total Exports	215.0	181.0	199.1
Total Imports	420.0	403.0	443,3
Imports from the U.S.	53	48.3	53.1

Note : (*) preliminary figure
The above statistics are unofficial estimates

Rank : No. 10

Security and Safety Equipment
SEC

The Indonesian security and safety equipment market offers excellent prospects for U.S. products. Demand for security and safety equipment in industrial plants, commercial buildings, oil/gas fields and mining operations has increased. In addition, in the medium and long term, demand should also increase in the construction sector. As the construction industry gradually recovers from the economic crisis, security systems and equipment will be especially needed in new high-rise buildings and in residential units. Upscale public and commercial buildings, as well as residential buildings, need not only building accessories such as keys and conventional locks, but also sophisticated security and safety equipment.

Indonesians often hear news about the increasing number of crimes. Police crime statistics show that the crime rate is growing between 10 to 15% annually, attributable in part to the current unstable economic conditions in Indonesia. The level of crime has also been rising due to the widening gap between the rich and the poor. This high level of crime frightens home owners, especially those of middle and upper level incomes, so they prefer to use more sophisticated security equipment, including alarms for fences, garages, doors, and windows, access control systems, cameras and the like. Commercial and industrial buildings such as hotels and restaurants, shopping and recreational centers, manufacturing plants, offices, hospitals, schools and universities, etc., will also need security systems and equipment similar to, or more sophisticated than, that needed by residential units.

The current economic conditions and the widening gap between the rich and the poor in Indonesia have increased the number of crimes. Growing crime rate and people's feeling of insecurity increases the potential for security and safety equipment. It is a common practice in parking areas, both in public and commercial buildings that the security guard will check the cars with metal detectors. Demand for security and safety equipment in industrial plants, airports/ports, oil/gas fields and mining operations has increased. Commercial and public places such as hotels and restaurants, shopping and recreational centers, offices, hospitals, schools and universities, will also need security system and equipment similar to, or more sophisticated than, those needed by residential units. The need varies from upgrading or replacing the existing equipment and to install additional equipment.

The total value of imported products in safety and security increased remarkably in 2001. In 2001, the value reached $ 25.9 millions doubled from $ 12.6 millions in 2000. Imports of U.S. products amounted to $ 2.6 million, or 20 percent of the total imports. The other suppliers of security and safety equipment are Australia, Singapore, Netherlands and Germany.

U.S companies are particularly strong in supplying safety headgear, fire extinguisher, burglar or fire alarm and similar apparatus, other electric sound or visual signaling apparatus, and other breathing appliances and gasmask. In the next two year, it is predicted that the market will grow by 10%. There will be an increase demand for personal safety equipment, identification equipment, airport security equipment and building security devices from U.S manufacturers.

US $ Millions	2000 (Actual)	2001 (*)	2002 (Est.)
Total Market Size	13.6	26.5	29.2
Total Local Production	16.5	18.1	18.1
Total Exports	15.5	17.5	17.5
Total Imports	12.6	25.9	28.6
Imports from the U.S.	2.5	2.0	2.15

Note: (*) preliminary figure
The above statistics are unofficial estimates

Rank No. 11

Computers and Peripherals
CPT

The Indonesian computer industry indicates a positive outlook for the year 2002 and beyond. The total PC sales in 2002 is expected to reach 500,000 units valued at US$ 375 million, an increase from 451,000 units sold in 2001 and 415,000 units in 2000. Internet kiosks, each with an average of 8 PCs, are also expected to boost the sales of PCs in Indonesia. The government is planning to boost the number of internet kiosks across the nation from 2,500 in 2001 to 500,000 in 2004 to popularize internet among general public. The number of internet users are expected to grow to 4 million in 2002, including 42% of the users accessing the internet through internet kiosks.

The major brands of PC s dominating the market include; Compaq, Acer, Hewlett-Packard and IBM. The locally assembled PCs, such as Zyrex, Mugen, Wearnes, Access, Indopc, and unbranded units dominate the local market. In 2001 their sales accounted for 65 % of the market share. These figures have remained stable in recent years as the quality became more competitive. The top six PC vendors holding 32 % of the market share include Compaq, Acer, Hewlett-Packard, IBM, Zyrex and Mugen. The most of the local PC vendors assembling PC units use Intel processors (assembled in Malaysia), memories/DRAM mostly from Korea, Taiwan Japan and the U.S, the motherboards, mice keyboards and peripheral cards from Taiwan and China.

US $ Millions	2000 (Actual)	2001 (Actual)	2002 (Est.)
Total Market Size	311	338	375
Total Local Production	884	503	528
Total Exports	2,017	1,138	1,195
Total Imports	156	196	225
Imports from the U.S.	24	24	25

Note: The above statistics are unofficial estimates.

In addition to the figures listed above for the imports from the U.S., a considerable amount of indirect imports occurs mainly through Singapore. It is observed that several U.S. manufacturers such as ATI, Cisco, Hewlett Packard, Intel, Maxtor, Seagate and Sun microsystems have manufacturing plants in Asian countries from which the goods are shipped to Indonesia.

Rank : No. 12

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 education and vocational education.

The on-going economic crisis and the depreciation of the rupiah against the dollar has caused studying abroad for many Indonesians to be prohibitively expensive. However, the strong belief in the good quality of overseas education has not discouraged Indonesians' interest in studying abroad. The recent appreciation of rupiah will encourage Indonesians to consider the U.S. as a destination to further their education.

Indonesia, a traditionally strong undergraduate market for the U.S., has shown signs of increasing interest in the graduate programs. This shift is caused by a general view among Indonesians that many undergraduate study programs in Malaysia and Europe offer good quality education. Countries like Malaysia, Germany and Netherlands have gained increasing popularity since English is used as the medium of instructions. Furthermore, due to the currency exchange rate, Malaysia offers lower cost of living and tuition fee; while many institutions in Germany and Netherlands provide free tuition. However, Indonesians still prefer to pursue their graduate studies in the U.S. In the 2000-2001 academic year, there were an estimated of 11,625 Indonesian studying in the United States, representing a growth of 2.9 percent from the previous year. This increase moved Indonesia to rank from the eighth to the seventh largest foreign national group studying at the higher education level in the United States. (Institute for International Education statistics). Approximately 68.5 percent were enrolled in 2-year or 4-year programs and, 25.1 percent in graduate programs, and the remaining 6.4 percent in non-degree programs, including English language studies. Indonesian students form 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 depreciation of the Rupiah.

US $ Millions	2000 (Actual)	2001 (Actual)	2002 (Est.)
Total Market Size of Education	2,308.5	2,300.0	2,487.9
Sales by Local Institutions	1,572.7	1,415.2	1,550.0
Total Sales by Foreign Institutions	735.8	884.8	937.9
Sales by US Institutions	339.0	348.7	348.7

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 2001/02 imports are forecast to remain at about 490,000 tons.

1,000 Metric Tons	1999/00	2000/01 Oct/Sep Marketing Year	2001/02
Total Market Size	492	530	490
Total Local Production	3	7	12
Total Exports	24	26	20
Total Imports	450	570	510
Imports from the U.S.	97	243	63

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	1999/00	2000/01 Oct/Sep Marketing Year	2001/02
Total Market Size	2,598	2,440	2,440
Total Local Production	1,300	1,020	860
Total Exports	0	0	0
Total Imports	1,275	1,317	1,550
Imports from the U.S.	1,149	1,317	1,470

Soybean Meal

The poultry industry is booming after the economic downturn of 1997 and 1998, pushing soybean meal imports to 1.32 million metric tons for 2001/021 marketing year. Poultry is the main animal protein source for most Indonesians.

1,000 Metric Tons	1999/00	2000/01(Est) Oct/Sep Marketing Year	2001/02
Total Market Size	1223	1,200	1,320
Total Local Production	0	0	0
Total Exports	0	0	0
Total Imports	1028	1,320	1,400
Imports from the U.S.	139	884	700

Wheat

The emergence of Indonesian private sector wheat imports has led to notable increase in U.S. exports, spurred by a variety of U.S. assistance programs. Mills are experimenting with different varieties and qualities of wheat. Demand is on the rise, primarily due to higher noodle consumption.

1,000 Metric Tons	**1999/00**	**2000/01(Est)**	**2001/02**
		Jul/Jun Marketing Year	
Total Market Size	4,424	4,040	4,340
Total Local Production	0	0	0
Total Exports	3	4	5
Total Imports	3,724	4,864	4,500
Imports from the U.S.	426	840	500

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. In 1999 and 2000, 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 25 percent since late 1998 (currently at around Rp. 9,0200/US$1), leading to a concomitant decline in prices of imported food at the wholesale level.

US $ Millions 2001(Est)		**1998**	**1999**	**2000**
	Imports of U.S. Consumer Ready Food			
Fresh Fruit	4.9	18.0	24.4	29.5
Processed Fruit & Vegetables	9.1	10.3	11.6	11.5
Dairy	4.2	12.1	13.2	14.5
Red Meat	1.8	5.5	8.6	9.5
Poultry Meat	1.8	6.7	9.0	1.5
Snack Foods	0.7	0.9	1.9	1.8
Others	8.2	9.7	11.1	10.3
Total	28.9	63.2	79.8	78.6

CHAPTER 6, TRADE REGULATIONS, CUSTOMS AND STANDARDS

In recent years, Indonesia has liberalized its trade regime and taken a number of important steps to open its markets to imports. In the late 1980's the Indonesian government put in place a policy of long-term trade reform to wean the economy away from an over dependence on oil and gas and increase Indonesia's industrial competitiveness. The result has been reduced overall tariff levels, a simplified tariff structure, replacement of non-tariff barriers with more transparent tariffs with the aim of encouraging foreign and domestic private investment.

A. Trade Barriers

Indonesia's applied tariff rates range from 5 to 30 percent, although bound rates are, in many cases, much higher. In the mid-1990's, the government began a series of annual deregulation packages designed to gradually lower applied tariff rates, convert non-tariff barriers into tariffs, and remove restrictions on foreign investment. By the projected end of the process in 2003, there will be a three tier structure (0, 5 or 10 percent) for tariff rates, except on sensitive items such as automotive and alcohol. Import tariffs on vehicles were lowered in June 1999 to 25-80 percent (depending on engine size for completely built up sedans), 0-45 percent for trucks, and 25-60 percent for motorcycles. Rates were also reduced for parts to a maximum 15 percent. Luxury taxes for sedans range from 10-75 percent, for trucks zero percent and for motorcycles 0-50 percent. Effective January 1, 2002, Indonesia, along with its regional partners, fully implemented the ASEAN Free Trade Agreement (AFTA). Indonesia has now reduced tariffs for all products included on its original commitment (7,206 tariff lines) to five percent or less for products of at least 65 percent ASEAN origin. The government will reduce rates on 66 remaining tariff lines, mostly in the chemicals and plastics sectors, to the 5 percent AFTA ceiling by 2003.

Despite the severe economic crisis of the past four years, Indonesia has maintained its policy of steady, long-term tariff liberalization. However, over the past year, special interests have begun efforts to take advantage of the weakness of the central government to seek reinstatement of former special trade privileges, especially in the agricultural sector. So far, these efforts have had limited success but the trend is worrisome. There remains a large gap between the letter of a particular regulation and the reality. Domestic interests often take advantage of the non-transparency of the legal and judicial systems to undermine regulations or law enforcement to the detriment of foreign parties. Also, new laws on regional autonomy and fiscal decentralization have granted significant new powers to the provincial and sub-provincial governments. The potential exists that local governments will impose new tax or non-tax barriers on inter-regional trade as they seek new sources of local revenue.

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 has liberalized its distribution system, including ending some 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 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 enterprises that wish to invest in these sectors must enter into a partnership agreement with a small-scale enterprise although this does not explicitly 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 nominal compliance with the WTO Customs Valuation Agreement but U.S. companies operating in Indonesia have reported problems with Customs procedures and valuations made by Indonesian Customs. Many also complain of a host of irregular and non-transparent fees required to get shipments released. The U.S. government continues to monitor the situation.

C. Import Licenses and Restrictions

According to the Directorate General of Customs and Excise the following goods are still subject to import restrictions, licensing and/or prohibition: narcotics, psychotropics, explosive materials, fire-arms and ammunition, fireworks, certain books and printed materials, audio and /or visual recording media (which are subject to censorship), telecommunications equipment, color photocopying equipment and parts and equipment thereof, endangered wild fauna and flora and parts thereof, certain species of fish, medicines, unregistered food and beverages at the Department of Health, dangerous materials, pesticides, ozone-depleting substances and goods containing ozone depleting substances, wastes, culturally valuable goods, and other items. Further information can be found at http://www.beacukai.go.id/english/Procedure/index.htm. In 2000, the Government of Indonesia banned the import of U.S. chicken parts, which has been the basis of a trade dispute between the two countries.

In March 2002, the government issued a decree (Kepmen 141/MPP/Kep/3/2002) requiring importers of certain critical products to obtain a special importer identification number (NPIK). The government explained its actions as a way to stop large-scale smuggling of these products, which were hurting domestic producers. The products covered by the decree include: corn, rice, soybeans, sugar, various textile products, shoes and footwear, certain electronic products and their components and two types of children's. When importers complained of in adequate time to prepare, the government delayed implementation of the decree for six months. In addition, alcoholic beverages, lubrications and explosives and certain dangerous chemicals compounds continue to be subject to special import licensing regulations. The government controls the import of videotapes, laser discs and other entertainment products for both exhibition and private use. Such goods are subject to review by a censor board.

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, most notably crude palm oil (CPO) which remains subject to a 5 percent export tax, 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

Food labeling regulations requiring labels in the Indonesian language and expiration date (rather than the standard “best used by” date) are in place but are not being consistently enforced. Some importers have complained that the government appears to be implementing the regulations in such a way as to maximize revenue. A product registration regulation is also in place that requires detailed product processing information so as to approach proprietary information. The registration procedure can also be quite lengthy and expensive. Indonesian importers and U.S. exporters have expressed concern that these regulations could act as non-tariff barriers to imports of packaged food products.

The market for foreign pharmaceuticals have 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. Foreign pharmaceutical companies report ongoing problems obtaining timely registration of new products from the Ministry of Health. New regulations issued in July 2000 have helped reduce some of the backlog in new registrations.

H. 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 7, INVESTMENT CLIMATE STATEMENT

Overview
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1. The administration of President Megawati Soekarnoputri has made important strides in its first year in reducing political instability, strengthening Indonesia's relationship with the International Monetary Fund (IMF), and reinvigorating the country's economic reform program. These developments led to increased confidence in the economy during the first half of 2002, with both the rupiah and Jakarta Stock Exchange performing strongly. Consumer confidence and exports have begun to rise from their very low levels of late 2001. However, the Megawati Administration has made much less progress in improving Indonesia's troubled investment climate, and several adverse court rulings against foreign companies brought investment issues to the forefront of GOI policymaking in 2002.

2. Existing and potential investors cite a number of concerns with respect to Indonesia's investment climate: security, the lack of legal certainty, confusion over regional autonomy policies and fiscal decentralization, uneven implementation of economic reform commitments, and tax and labor issues.

3. Security: Security is a major concern for investors, particularly those in the extractive industries. Plantations and mining operations have experienced looting, occupation of land by squatters, and illegal mining. These events reflect opportunism by local interests as well as a lack of effective law enforcement. Outbreaks of sectarian violence in Maluku, Lombok, Central Sulawesi and other areas, as well as separatist movements in Aceh and Papua, continue to challenge national unity. A perceived breakdown in law and order undermines the government's guarantees regarding the security of foreign and domestic investments.

4. Legal Uncertainty: Foreign investors have major concerns about the lack of legal certainty, the difficulties of enforcing contracts, and differential treatment of domestic versus foreign companies. Indonesian courts have repeatedly issued rulings ignoring binding arbitration clauses in contracts. Indonesia's Bankruptcy Law, which was amended in 1998 to establish a separate Commercial Court, has been a disappointment to creditors. In a serious abuse of the bankruptcy law, the Commercial Court declared bankrupt a local subsidiary of the Canadian insurance firm Manulife Financial, even though the Ministry of Finance declared the subsidiary solvent. Manulife successfully appealed to the Supreme Court; however, few observers rule out the occurrence of similar cases in the future. Parliament in considering amendments to the bankruptcy law that may pass by the end of 2002.

5. Decentralization: The process of devolving administrative authority to the regions as outlined under laws 22 and 25 began on January 1, 2001, remains incomplete and has achieved mixed results. Local authorities have the right to impose certain new local taxes and levies; however some of these new taxes have impeded commerce and targeted investors. Local communities, impatient for the financial benefits of decentralization, have sought to obtain extra-contractual concessions

from companies operating in their areas. The central government has been slow to use its explicit authority to overturn burdensome taxes that violate the law.

6. Economic reform: The GOI's progress on structural reform issues has improved under President Megawati. The GOI has completed four quarterly IMF reviews since September 2001. However, a sharp rise in anti-IMF sentiment among Jakarta politicians and commentators in mid-2002 has called into question the degree of political support for further reforms.

7. Tax and Labor Issues: In April 2002, the DPR enacted a new law creating a tax tribunal to replace the Tax Disputes Settlement Board (BPSP), a special government institution. The tax tribunal will hold public hearings on tax disputes to combat irregularities and closed-door deals previously done between taxpayers and the judges. Labor management relations in Indonesia have undergone sweeping change since the fall of former President Suharto. The GOI has tried to better define worker rights, but most business observers believe the GOI has not struck a balance between protecting worker rights and the competitiveness concerns of business. A controversial set of new labor laws remained mired in the legislature as of December, 2002.

Note: The following discussion summarizes the legal, regulatory, and de facto investment framework as of mid-2002. The FY 2002 budget assumes an average exchange rate of Rp. 8500/USD. However, the exchange rate used throughout this report is Rp. 9,000/USD, the prevailing rate at the time of publication. However, the GOI uses its own formula to calculate the rupiah value of U.S. dollar investment projects.

Openness to Foreign Investment

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8. Indonesia encourages private sector-led growth and foreign investment. It has maintained a relatively open foreign investment regime. President Megawati frequently appeals for greater foreign investment during her trips abroad, and investment law reform comprises one of the objectives of the GOI’s IMF-supported economic reform plan.

9. However, these efforts have fallen far short of investor expectations, and new investment has slowed substantially. Investment statistics show that in 2001 investment approvals fell to USD 9.03 billion from USD 15.41 billion in 2000. However, the actual foreign investment realized in 2001 amounted only to USD 70 million. For the first five months of 2002 foreign investment approvals were only USD 1.67 billion, a 58% decline from USD 3.97 obtained over the same period in the prior year.

10. Under Indonesia’s current investment law, Capital Investment Coordinating Board (BKPM) plays a key role in promoting foreign investment and approving many project proposals, including investments in Bonded Zones (Kawasan Berikat) and Integrated Economic Zones (KAPET). However, in practice a plethora of often-competing approval bodies leads to confusion among potential investors. The relevant technical government departments handle investment approvals in oil and

gas, banking, and insurance industries. Investors may also apply for investment approvals with Indonesian Embassies abroad or provincial Regional Capital Investment Coordinating Boards (BKPMDs). Regional autonomy legislation permits each province, district and city to accept and approve applications, and many have been doing so since 2000. It is still unclear whether investors will in the future need approvals from both central and local governments.

Sectoral Restrictions
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11. Indonesia's investment law allows the establishment of wholly owned foreign companies, except for sectors on the GOI's "negative investment list." Presidential Decree 96/2000 sets out the most recent list of sectors with investment restrictions of some sort. These include the following:

A. Sectors closed to all investors: businesses that produce, process, or develop any of the following: marijuana, sponges, harmful chemical products, weapons, alcoholic drinks, casinos, air traffic systems.

B. Sectors closed to foreign investors only:
--germ plasm cultivation;
--forest concessions;
--lumbering contractors;
--taxi/bus transport and small-scale water transport services;
--print media, TV, radio, film and cinema, including distribution and exhibition;
--small-scale retail trade.

C. Industries with restricted ownership limits for foreigners:
--airport/seaport construction and operation;
--electricity production, transmission and distribution;
--atomic power plants;
--shipping;
--drinking water;
--railway service;
--certain medical services.

In addition, a variety of industries are open to foreign investment under certain limitations, usually restrictions on business locations and scope of operation. Projects in these industries require special licensing.

D. Other sectors are reserved for domestic small-scale enterprises, or large or medium-scale foreign companies on condition that they partner with local small businesses or cooperatives before investment applications are approved, such partnerships need not include explicit domestic share ownership (See Appendix).

12. Government Regulation No. 20/1994 and Decree No. 15/1994 requires foreign investors with wholly owned companies to divest partial ownership to an Indonesian partner after fifteen years of commercial operations. The regulation does not specify the required divestment percentage, and may lead GOI officials to

make arbitrary rulings in the future. BKPM officials maintain that foreign investors will only need to divest between one and five percent of ownership, but no companies are required to divest prior to 2008.

Distribution
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13. 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. Such an agreement, in practice, has not required equity participation by the small-scale enterprise. In addition, many foreign firms use franchising, licensing, and technical service agreements to distribute their goods. Indonesia has lifted many restrictions on foreign participation in domestic distribution services.

14. 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 may be substantially affected by decentralization. Companies engaging in wholesale distribution may not conduct retail operations directly, but must form a separate retail company.

Investment Approval Process
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15. 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. A foreign investor may be an individual or a corporate entity. A PMA must have a minimum of two managers/shareholders, and at least one director and chairman. There are no minimum or maximum total investment (debt plus equity) requirements, however investors in the manufacturing sector typically are expected to have a debt to equity ratio of 3:1 or less, while those in the agricultural or mining sectors may have ratios of 6:1 or greater.

16. 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. In cases where a foreign buyer is buying out a troubled Indonesian firm, BKPM frequently requires the investor to inject capital, not just provide management expertise, technology or assume outstanding loans. The approval process to take over a troubled firm may take as long as two months.

17. BKPM claims to require only ten days to process the initial investment approval (IIA) (or investment license) once the applicant has furnished all requested information and documentation. In practice, however, this process can easily be

delayed for two to four weeks depending on the availability of officials and complete submission of documents. The IIA serves as a temporary operating license for a period up to three years (the IIA can be extended), and it enables the PMA company to start its commercial activities.

18. 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. With the Deed of Establishment executed, the company may obtain a taxpayer registration number from the Directorate General of Taxation of Foreign Companies. This requires about one week. The PMA company must open a special foreign investment account at an approved foreign exchange bank in Indonesia. Should the PMA company's IIA indicate plans to hire expatriates, it will need to file an application for approval of its manpower plan with BKPM.

19. A PMA company becomes a limited liability company after the Ministry of Justice and Human Rights (MOJHR) grants approval. The process takes a maximum of two months after the MOJHR receives the Deed of Establishment, tax ID number, PMA bank account information from the notary who initially prepared the Deed of Establishment. After obtaining approval from the MOJHR, the PMA should submit its Deed of Establishment to the Ministry of Industry and Trade (MOIT) within thirty days. Following registration at the MOIT, the Deed of Establishment should be published in the Supplement to the State Gazette (Tambahan Berita Negara), a process normally handled by the notary. During the time between receiving approval from the MOJHR and Deed of Establishment's publication in the Gazette the founding shareholders are personally liable for all obligations undertaken in the company name. If importing, BKPM may require the firm to seek an additional license, and the PMA company may need to enroll employees in JAMSOSTEK's mandatory employees social insurance program. If the PMA employs more than 25 people, the Manpower Department must also give approval.

20. 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 submit an application for a Permanent Business License (Ijin Usaha Tetap, or IUT) with a recommendation letter from BKPMD to BKPM. Each IUT is valid for 30 years and subject to renewal. The investor must submit semi-annual reports to BKPM and BKPMD.

Draft Investment Law
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21. President Megawati has encouraged the BKPM to complete and submit to parliament a new investment law to replace the current 1967 law. The draft law promises equal treatment to domestic and foreign investors and a range of incentives, including tax holidays. The law also creates a "one-stop shop" which would concentrate investment approvals for all sectors within BKPM. However, other ministries have strongly resisted this dramatic increase in BKPM's authority to approve investments. Regional governments, which under regional autonomy legislation have investment approval authority, also oppose the concept.

IBRA Asset Sales and Privatization
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22. Sales of equity stakes and loans by the Indonesian Bank Restructuring Agency (IBRA) represent an opportunity for foreign investors. IBRA plans to raise approximately USD 3.9 billion in cash through the sale of assets in 2002. It plans to sell several hotels and real estate companies, a canning company, and several textile and wood-based firms. In early 2002 IBRA completed the sale of one of Indonesia's largest retail banks, BCA, and is scheduled to sell Bank Niaga and Bank Danamon before the end of the year. The GOI has also published a list of state-owned firms it plans to sell in 2002, including the long distance provider PT Indosat, in order to meet a Rp 6.5 trillion (USD 720 million) privatization budget target. Difficulties establishing the valuation of the state-owned firms, labor resistance, nationalism, and the challenge of attracting buyers in an uncertain investment and security environment have slowed the program.

Oil and gas
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23. The Indonesian government passed a new petroleum law in October 2001 that deregulates the upstream and downstream sectors in two years. The law removes Pertamina's monopoly over downstream oil distribution and marketing of fuel products, and makes no procedural distinction between foreign and domestic oil and gas companies. Pertamina's responsibility to manage Production Sharing Contracts (PSCs), which authorize investors to produce oil and gas, will shift to the central government.

24. The oil and gas law creates two new governmental bodies: the Executive Body that takes over Pertamina's functions in the upstream and the Regulatory Body that will supervise downstream operations. The Regulatory Body will license downstream operators to assure sufficient domestic supplies and the safe operation of refining, transport and distribution of petroleum products. The new law extends the Domestic Market Obligation (DMO) to natural gas producers and will require them to allocate 25 percent of their production to the domestic market. Previously, the DMO required only crude oil producers to allocate 25 percent of their production to domestic markets. The GOI must still establish the implementing regulations for the new law.

Services
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25. In 1999, 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 1998, the GOI amended the 1992 Banking Law to allow Bank Indonesia, instead of the Ministry of Finance to issue banking licenses.

26. Services trade barriers continue to exist in many sectors. Foreign accounting firms must operate through technical assistance arrangements with local firms, and citizenship is a requirement for licensing as an accountant. Foreign agents and auditors may act only as consultants and cannot sign audit reports. Foreign law firms cannot establish a legal practice in Indonesia, and many foreign law firms enter into a cooperative work agreement with local firms. Indonesian citizenship, as well as graduation from an Indonesian legal facility or other recognized institution, is required for admittance to the local bar. Foreign engineering consultants can operate only by forming a joint venture with local partners in Indonesia.

Conversion and Transfer Policies

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27. The rupiah has stabilized significantly from trading at the Rp 11,440/USD level in July 2001 when President Megawati took office. After an initial surge following Megawati's election, the rupiah weakened again in the last half of 2001. Since then it has strengthened slowly to the Rp 8,800/USD level, an increase of 23 percent. Previously, the rupiah was very volatile ranging from Rp 2,500/USD prior to the Asian Financial Crisis to a low of Rp 17,000/USD after President Soeharto resigned in June 1998. Although the stability of the rupiah has returned, the approach of elections in 2004 and slower economic growth combined with high levels of debt have made exchange rate risk a major concern of investors.

28. Indonesia has no system of capital controls and foreign exchange flows freely in and out of the country. No prior permits are necessary to transfer foreign exchange and 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. Since April 2000, Indonesian residents are required to report all foreign exchange transactions above USD 10,000 or the equivalent. Bank Indonesia introduced regulations prohibiting banks in Indonesia from transferring Rupiah to non-residents in January 2001 to control speculative trading of the Rupiah. The regulations also limit the quantity of derivative transactions against the rupiah by onshore banks to USD 3 million.

Expropriation and Compensation

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29. 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, the GOI has not expropriated any foreign investment since the passage of the 1967 law. In 1999, however, the Overseas Private Investment Corporation (OPIC) paid a claim by a US investor after the GOI failed to honor an arbitration award. The GOI subsequently repaid OPIC. The GOI also paid USD 15 million compensation to the Multilateral Investment Guarantee Agency (MIGA) for its insurance payment to the Pasuruan Power project.

Dispute Settlement
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30. The court system does not provide effective recourse for solving commercial disputes, however, it has been effective in the majority of cases where the courts have been asked to implement arbitration decisions. The judiciary is nominally independent under the law, but there is inadequate protection in place to assure the accountability of judges and court staff. Legal practitioners say irregular payments and other collusive practices often influence judicial outcomes. The GOI has recognized that there must be judicial reform, but implementation has been very slow. Indonesian parties have in several instances taken commercial disputes to local courts, which have accepted jurisdiction despite contractual arbitration clauses calling for adjudication of disputes in foreign venues.

31. Indonesia is a signatory to the Convention On The Settlement Of Investment Disputes Between States And Nationals Of Other States (ICSID). Only one case has been brought to the ICSID by a US investment company, which was successfully settled in its favor. Indonesia's Arbitration Law recognizes the right of parties to apply any rules of arbitration procedure they may mutually agree upon, and provides default procedural rules that apply if no other rules have been designated. An Indonesian commercial arbitration board, BANI, is available if both parties agree. Ad hoc arbitrations have been held in Indonesia using the United Nations Commission on International Trade Laws (UNCITRAL) arbitration rules, as well as others. ICC arbitrations have also been held in Indonesia.

32. In 1981, Indonesia joined the 1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards, but since that time Indonesian courts have registered fewer than two dozen foreign awards for enforcement. Prior to the passage of the new Arbitration law in 1999, enforcement lay with the Supreme Court, which was slow to act on decisions. Since 1999, the Central Jakarta District Court has been responsible for enforcement of awards and the process is improving. There are a few aberrant cases still outstanding, but for the most part awards are being enforced. The new law has greatly reduced instances where district courts have failed to apply the law, and the legal practitioners predict the process should improve as more judges educate themselves about arbitration. The relative success with arbitrations may be explained primarily the desire of both parties not to completely sever their business relationship.

33. 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.

Performance Requirements and Incentives
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34. The GOI has notified the WTO of its compliance with Trade-Related Investment Measures (TRIMS) Notification.

35. The MPR revoked tax holiday incentives in 2000. However, a BKPM sponsored draft investment bill, under cabinet review, aims to reestablish such incentives. 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 for export markets may apply for restitution of import duties paid on inputs subsequently re-exported in finished form.

36. 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. Under Manpower regulations, any expatriate who holds a work and residence permit must contribute USD 1,200 per year to a fund for local manpower training at regional manpower offices. 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.

37. At present, Indonesia does not have formal regulations granting national treatment to U.S. and other foreign firms' participating in GOI-financed and/or subsidized research and development programs. 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.

38. Indonesia does not have rules requiring investors to 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.

Right to Private Ownership and Establishment

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39. 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 economic growth. At the same time, State-owned Enterprises (SOEs) play a dominant role in many sectors, including oil and gas retail and distribution, electric power generation and transmission, civil aviation, banking, and fertilizer production and wholesale. Their role has declined as private sector activity grew and privileges awarded to SOEs have decreased. The Parliament formed the State Ministry for SOEs in 1998; privatization is an important part of its mandate.

Protection of Property Rights

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40. In July 2002 the GOI announced its intention to restart previously suspended private infrastructure projects, especially in the field of private power generation. The change in policy stems from greater economic stability, growth in electricity

demand, as well as GOI efforts to honor internationally binding contracts. The U.S. government has urged that the GOI conduct all project reviews and contract negotiations in a rule-based, consistent, objective, and transparent manner.

41. GOI regulations allow mortgages to be registered against real property and seagoing vessels in their appropriate registries, as well as security interests in chattels, equipment, accounts receivables and insurance proceeds. A search facility is currently in place for only mortgages. The extreme uncertainty inherent in Indonesia's courts means there is no assurance that security interests will be recognized by the courts in a specific case and enforced. Foreign entities have no freehold rights to land ownership in Indonesia. Foreign investors' land holdings are often obtained through long-term lease agreements (normally for 30 years) with the government or private parties. These lease holdings can be used as collateral. Foreign companies may also establish a limited company under Indonesian law that can legally obtain rights to land, mostly in the form of Right to Cultivate (HGU) or Right to Build (HGB). However, there are contradictory regulations which could undermine a foreign company's HGU.

42. 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. Again the problem is not only incomplete or inaccurate record keeping, but also an ineffective and corrupt enforcement system.

43. In April 2002, the USG placed Indonesia on the Special 301 Priority Watch List in response to continued problems in the enforcement of intellectual property rights. Since 2000, Indonesia has made progress in improving the regulatory and legal framework for protection of intellectual property rights. Indonesia has enacted new laws providing protection for industrial designs, integrated circuits, trade secrets and plant varieties, in accordance with TRIPs obligations. In 2001, Indonesia significantly amended its existing patent and trademark laws and began plans to draft optical media regulations. The amended laws establish provisions for commercial courts to process intellectual property rights cases within the country's civil commercial courts. Effective enforcement of IP rights through Indonesia's justice system is still very difficult.

44. Indonesia is a member of the World Intellectual Property Organization and has acceded to numerous international conventions on intellectual property rights, including the Paris Convention for the Protection of Intellectual Property; the Berne Convention for the Protection of Literary and Artistic Works (with a reservation on Article 33); and signed the Trademark Law Treaty. Other international agreements to which Indonesia is a party include: the Nice Agreement for the International Classification of Unclassified Goods and Services, and the Strasbourg Agreement Concerning International Patent Classification.

45. Patents: The current patent law dates from 2001, which amended and consolidated in a single text all previous legislation. In 1997, Indonesian law extended the term of patent protection to 20 years from 14 years, and maintained the provision for a two-year patent extension. The amendment allows for the patenting of plant and animal varieties. Unfortunately, the GOI requires that to qualify for protection a

patented item or chemical entity be “worked” or produced in Indonesia. Companies importing a patented item will not qualify for protection and the GOI would not block the import of similar unpatented products. The rules on content of voluntary patent licenses appear to be more restrictive than is permitted by the WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. Inventions that are contrary to Indonesian laws and regulations are excluded from patent ability, and the standard for excluding inventions contrary to the public interest appears to be inconsistent with TRIPS requirements. Indonesia provides product patent protection for foods and beverages and is a signatory of the Patent Cooperation Treaty.

46. Trademarks: Indonesia’s current trademark law dates from 2001, when Parliament amended and consolidated all previous texts. 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, and protection is for ten years. The law offers protection for service marks, collective marks and sets forth a procedure for opposition to registration of similar marks prior to examination by the trademark office. The law covers well known trademark protection, however, procedures are not yet in place for registering well known trademarks. The law provides for administrative cancellation of registrations competing with well-known marks, but rights-holders continue to have difficulty enforcing this provision. Indonesia is a joint signer of the Trademark Law Treaty, and the Nice Agreement for the International Classification of Unclassified Goods and Services.

47. Copyright: Indonesia enacted a new copyright law in July 2002, which incorporates all existing provisions of previous legislation, including rental rights to audiovisual, cinematography, and computer software. It also, for the first time includes criminal penalties for end-user piracy. The law will also make possible enhanced regulation of global disc production facilities once the Ministry of Industry and Trade issues implementing regulations. The law will not fully come into force until July 2003. The current law provides for licensing rights for sound recordings, and for producers of phonograms. The duration of copyright protection is for 50 years or in the case of an individual’s work, the duration of life and then 50 years after his death. Indonesia has acceded to the WIPO Copyright Treaty, but enforcement of copyright laws is weak.

48. Business Software Alliance reported that 90 percent of all CDs (audio, video, and software) for sale in Indonesia are pirated and ranks Indonesia just behind Vietnam and China as the world’s worst offenders. According to US industry estimates, in 1999 total losses from copyright piracy exceeded USD 170 million. At the urging of the film and entertainment industry, the GOI has plans to draft optical disc regulations that require all CD production facilities to be licensed. On a positive note, in July 2002 Microsoft reported improved sales following a successful prosecution of local software pirate dealers in 2001.

49. New technologies: Indonesia passed a law protecting plant varieties in December 2000. Patent holders may file an application for protection at the Plant Variety Protection Office in the department of Agriculture. The U.S.-Indonesia Science and Technology Agreement ensures protection for intellectual property derived from cooperative activities under the agreement's umbrella.

Transparency of the Regulatory System
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50. 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 and rent seeking opportunities. Deregulation has been somewhat successful in removing barriers, creating more transparent trade and investment regimes, and has alleviated, but not eliminated, red tape. U.S. businesses routinely cite transparency problems and red tape as factors hindering operations.

51. In April 2002, the DPR enacted a new law creating a tax tribunal to replace the Tax Disputes Settlement Board (BPSP), a special government institution. The tax tribunal will hold public hearings on tax disputes to combat irregularities and closed-door deals previously done between taxpayers and the judges. Some businesses fear such hearings will force the release of confidential business information.

Efficient Capital Markets and Portfolio Investment
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52. Indonesia's capital market expanded rapidly during the 1990s, led by growth of the equity market. The Jakarta Stock Exchange (JSX) is the dominant securities market in the country. Although the JSX has performed strongly so far in 2002, transaction volumes in 2002 remain well below their pre-crisis levels. Corporate bond issues increased in 2002 as interest rates declined; nonetheless the lack of a well-developed corporate bond market limits financing options for key firms.

53. In February 2001, the GOI liberalized foreign ownership in Joint Venture Securities Company allowing foreigners to own up to 85% of paid-up capital in joint venture companies engaged in finance, other than securities. Licensed foreign entities involved in the securities business are now allowed to own up to 99 percent of paid-up capital of joint venture securities companies.

54. Foreign firms generally enjoy good access to the Indonesian securities market. Financial reforms introduced in 1987 allow foreign firms to form joint ventures with Indonesian partners in the securities market as underwriters, broker-dealers, and investment managers. In 1997, MOF lifted the 49-percent restriction on foreign purchases of shares in non-bank listed firms, and in 1999 lifted those restrictions for banks. In 1998, MOF lifted discriminatory capital requirements on foreign securities. Portfolio investment is regulated by BAPEPAM, which the GOI formed in 1976 to regulate and supervise capital and stock market activity.

55. The large amount of non-performing corporate debt, estimated in late 2000 at USD 65 billion, is a major factor limiting capital markets growth in Indonesia. Although debtors and creditors have reached agreement on a substantial number of restructuring terms sheets through IBRA and the Jakarta Initiative Task Force, few of these agreements have reached legal closing. As a result, few of Indonesia's

corporations are creditworthy.

Political Violence
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56. Foreign investors in Indonesia, particularly in the oil, gas, and mining sectors have been the victims of a number of acts of political violence in recent years. There were attacks and bombings by a separatist group against a major LNG facility in Aceh. Mines and oil production facilities in North Sulawesi and Riau provinces have been subject to blockades by local groups. Labor disputes have also turned violent in several instances.

57. In June 2002, a bomb exploded outside a Jakarta nightclub and two others placed in public locals were defused and removed, renewing fears of another wave of bombings in the capital. During an earlier wave in late 2000, there were explosions at the Jakarta Stock Exchange, diplomatic facilities and a shopping mall. On Christmas Eve that same year, a bombing campaign struck churches throughout Indonesia, leaving 16 dead and over one hundred injured.

58. The Department of State warns citizens to defer non-essential travel to Indonesia. In particular the Department warns American citizens to avoid all travel to the regions of Aceh, Papua (formerly Irian Jaya), the Moluccas (North Maluku and Maluku), West Timor, Central and West Kalimantan, and Central and South Sulawesi due to recurring violence in those areas. The Department of State encourages American citizens considering travel to Indonesia to review carefully the information available in the State Department's Consular information sheet, available on the Internet at http://www.usembassyjakarta.org or on the Bureau of Consular Affairs' home page http://travel.state.gov. This public announcement contains information concerning specific locations in Indonesia which should be avoided or where extra caution is warranted.

Corruption
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59. In recent years, considerable attention has focused on the increasing costs of corruption and influence peddling to local and foreign businesses, and the economy as a whole. In early 2002, Indonesia was rated as the most corrupt economy in Asia in an annual survey conducted by a risk consultancy company. Since the fall of Suharto, eliminating government corruption and collusive business practices has become a national issue. However, Indonesia’s judicial branch is underfunded and recent legislation strengthening judicial independence appears to have reinforced the impunity of judges from effective accountability. Experienced court observers say all participants in the justice system from police to Supreme Court Judges augment their incomes through bribes, fees, or other unofficial means. Although a free press provides extensive coverage of past and current corruption investigations, successful prosecutions have been rare. In November 2001, the GOI passed new anti-corruption legislation to clarify sections of the 1999 Law on the Eradication of Corruption, including gratuities received by public employees. The 1999 law provided for the creation of the Commission for

Eradication of Corruption (KPTPK), however, this commission has yet to be established and will require additional legislation. In 2002, a court convicted the head of the House of Representatives, Akbar Tandjung, on corruption charges, However, he retained his leadership position in the House and in his political party, GOLKAR, pending an appeal.

60. University of Indonesia research conducted in the third quarter of 2001 reported bribes to the government bureaucracy increased total business costs by 10 percent. Bribes increased costs by a greater amount in less advanced regions outside of Java. Common business complaints include: frequent demands for "facilitation fees" to obtain required permits or licenses, government award of contracts and concessions based on personal relations, and an arbitrary legal system. In addition, foreign companies continue to report difficulties in obtaining and renewing necessary immigration permits for expatriate staff.

Bilateral Investment Agreements
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61. Indonesia has signed investment protection agreements with 54 countries, but an Agreement with the United States is still in draft form as of June 2002. GOI bilateral investment agreements exist for Argentina, Australia, Bangladesh, Belgium, Cambodia, Chile, Cuba, Czech Republic, Denmark, Egypt, Finland, France, Germany, Hungary, India, Italy, Jamaica, Jordan, Kyrgyzstan, Laos, Malaysia, Mauritius, Mongolia, Morocco, Mozambique, North Korea, Norway, Pakistan, People's Republic of China, Poland, Qatar, Romania, Singapore, Slovak Republic, South Korea, Spain, Sri Lanka, Sudan, Suriname, Syria, Sweden, Switzerland, Thailand, The Netherlands, Tunisia, Turkey, Turkmenistan, Ukraine, United Kingdom, Uzbekistan, Vietnam, Yemen, and Zimbabwe. As of November 2001, Indonesia has also signed treaties for the avoidance of double taxation with 51 countries, of which 43 have come into force, including the treaty with the United States.

OPIC and Other Investment Insurance Programs
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62. Since 1967, Overseas Private Investment Corporation (OPIC) has provided insurance to U.S. investors in Indonesia covering: inconvertibility, expropriation, and war, revolution and insurrection. In 1987, OPIC extended coverage to bid bonds on service contracts. OPIC has also provided project financing to companies with at least 25 percent U.S. ownership.

Labor
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63. Labor management relations in Indonesia have undergone sweeping change since the fall of former President Suharto. Since 1998 unions have become more active in organizing and asserting their rights, bringing them into conflict with management and GOI plans for SOE privatization. After years of neglecting labor,

the House of Representatives passed legislation in 2000 that provided greater protection for workers than found in many countries. The GOI has tried to better define worker rights, but most business observers believe the GOI has not struck a balance between protecting worker rights and the competitiveness concerns of business.

64. Indonesia now has over 60 labor federations, and thousands of plant-level unions registered with the Ministry of Manpower. The process of union formation is detailed in law 21/2000 on trade unions, which allows ten or more individuals to form a union and permits multiple unions in a company. There is considerable confusion about interpretation and enforcement of existing labor laws and regulations due to their need for revision and their limited dissemination. Moreover, there is a lack of understanding and uncertainty surrounding proposed changes in labor law. Since 2000 the MPR has been considering additional draft laws to clarify the rights of workers and create guidelines for labor relations. Controversial draft laws on the protection of workers' rights and the resolution of industrial disputes were debated in 2002 Parliament sessions but failed to pass.

65. There has been no progress in revising the controversial Labor Ministerial decree 150/2000. This decree makes it difficult to terminate a worker, even those who have committed major violations or crimes, and provides for severance payments to workers who resign, or are fired. The GOI abandoned attempts to revise Decree 150 in the face of major labor protest in early 2001. GOI efforts to establish a national tripartite committee to revise the decree have failed due to confusion over which worker's federation would represent labor.

66. Official statistics for 2000 show Indonesia has a working age population (those above the age of 15) of 141 million and a labor force of 96 million. The Ministry of Manpower claims that as much as 65 percent of the total number of workers is employed in the informal market. A labor market study reports that Agriculture, Services, and Industry employ 43 percent, 43 percent, and 14 percent of the labor force, respectively. The lack of job training opportunities and the low quality of government educational institutions have created a large number of workers whose skills do not match market demand. Indonesia has a shortage of qualified managerial and professional personnel. In 1999, 55 percent of the labor force had an elementary school education, 15 percent finished junior high school, 17 percent completed high school, 2 percent obtained a college degree and 2 percent graduated from university.

67. The Ministry of Manpower claims 30 million are underemployed and about 8 million more are unemployed or work less than 15 hours a week. Most observers believe these estimates understate the true number of unemployed and underemployed workers. A report by the Asian Development Bank estimated that Indonesia's economic growth would have to reach 7-8 percent to absorb all the new graduates and workers entering the workforce each year. However, in 2000 and 2001 economic growth rates only reached 4.8 percent and 3.3 percent, respectfully.

68. Foreign and domestic investors are increasingly concerned about the impact of rising minimum wages on the competitiveness of their businesses. Regional governments set the minimum wage for their localities. The governor of Jakarta hiked the minimum monthly wage by 38 percent in 2002 to RP 591,266 (USD 68 at

RP 8700/USD 1). This increase followed a 30 percent hike in minimum wages in 2000. Monthly minimum wages in Indonesia wary from USD 35 – 65. Wages remain very low in absolute terms and many workers still do not receive the minimum wage.

69. Indonesia has signed ILO Convention No. 138 and incorporated it into law 20/1999, which bans the employment of children under 15 year old. Nevertheless, the Central Bureau of Statistics reports that 3.8 million Indonesian children between the ages of 5 and 18 must work to support their families, an underestimate according to many observers.

70. The United States has traditionally been a top choice for Indonesians wishing to study abroad. In the 2000-2001 academic year, there were an estimated 11,625 Indonesians studying in the United States, representing a growth of 2.9 percent from the previous year. Indonesia now ranks seventh in the total number of students attending colleges and universities in the United States, according to statistics of the Institute for International Education (IIE). Approximately 68.5 percent were enrolled in 2-year or 4-year programs and, 25.1 percent in graduate programs, and the remaining 6.4 percent in non-degree programs, including English language studies.

Foreign Trade Zones/Free Ports
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71. The GOI offers incentives to foreign and domestic industrial companies that locate in any of Indonesia's seven designated bonded zones. The largest bonded zone is on the island of 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.

Foreign Direct Investment Statistics
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72. For the first five months of 2002 investment approvals fell 58% to USD 1.67 billion from USD 3.97 billion over the same period in 2001. Although project totals for the first five months have not been announced, in the first quarter of 2002 the number of projects fell to 189 from 281 for the same period in 2001. The amount of foreign investment approvals have declined every year since 1997 with the exception of 2000, when approvals rose to USD 15.4 billion, or 41 percent over prior year, helped by economic growth of 4.8 percent, and strong oil and commodity prices.

73. Except as noted, the Capital Investment Coordinating Board (BKPM), the central processing point for most investment applications, collected the data below. The data does not include investments in the following sectors: oil and gas, finance, banking, non-bank finance, insurance, and leasing. BKPM approval reports should be treated with caution, because the agency performs little monitoring of investment project implementation. Some investors may inflate the value of their investments to maximize GOI incentives. For example, the mid-1990's approvals were inflated for several years by a surge of interest in oil product refineries, most of which were never constructed. In addition, year-on-year comparisons of domestic approvals after the rupiah began to decline in mid-1997 are difficult because of the currency's fluctuating value.

Table 1. Leading Foreign Investors With Cumulative Investment Totals, 1996-2000

Rank	Country	Number of Projects	Total Investment Amount (USD Million)
1.	United Kingdom	480	17,762
2.	Japan	269	17,762
3.	Singapore	743	7,965
4.	Germany	126	5,750
5.	Taiwan	467	5,740
6.	South Korea	719	3,795
7.	Netherlands	172	3,269
8.	Australia	291	3,225
9.	USA	226	2,607
10.	Hong Kong (SARC)	96	2,088

Table 2. Foreign Investment Approvals & Actual Investment Value Realized, 1996-2001

Year	Number of Projects	Total Value (USD Million)	Actual Value Realized (USD Million)
2001	1,317	9,027	70
2000	1,524	15,413	2,600
1999	1,174	10,891	1,340
1998	1,034	13,563	1,210
1997	783	33,833	2,080
1996	948	29,940	4,670

Table 3. Top Ten Sectors By Value Per Year, 1996-2000

Sector		Projects	Total Value (USD Million)
2001			
1.	Chemicals	33	2,310
2.	Other services	213	1,521
3.	Hotel/Restaurant	48	892
4.	Paper & Printing	13	742
5.	Basic Metal	103	652
6.	Transportation/Telecom	85	373
7.	Motor Vehicles	43	355
8.	Trade	44	340
9.	Textiles	58	328
10.	10. Food Industry	27	279
2000			
1.	Chemicals	89	7,448
2.	Trade	499	1,411
3.	Transportation/Telecom	61	1,218
4.	Metal Goods	132	1,005
5.	Basic Metal	8	824
6.	Food Industry	39	701
7.	Textiles	107	401
8.	Food Crops	17	311
9.	Real Estate	21	302
10.	Hotel/Restaurant	48	260
1999			
1.	Chemicals	75	3,266
2.	Electricity/Gas/Water	2	2,310
3.	Paper	15	1,412
4.	Food Industry	48	681
5.	Metal Goods	85	593
6.	Basic Metals	9	501
7.	Plantations	17	284
8.	Trade	348	279
9.	Textiles	121	240
10.	Food Crops	10	224

1998			
1.	Chemicals	73	6,173
2.	Electricity	6	1,795
3.	Real Estate	19	1,271
4.	Metal Goods	119	891
5.	Plantations	22	725
6.	Hotel/Restaurants	56	451
7.	Basic Metals	13	394
8.	Food Industry	32	342
9.	Non-Metal Minerals	15	237
10.	Food Crops	10	224
1997			
1.	Chemicals	93	12,563
2.	Transportation/Telecom	36	5,900
3.	Paper	14	5,353
4.	Metal Goods	190	2,332
5.	Electricity/Gas/Water	8	1,840
6.	Non-Metallic Minerals	17	1,457
7.	Real Estate	20	1,394
8.	Food Industry	26	573
9.	Textiles	5	373
10.	Food Crops	3	234

Table 4. Foreign Investment Approvals by Region
1996-2000

Year	Region	Total Investment (USD Million)	% Year-on-Year Change
2001	Java	4,146	(61)
	Sumatra	3,939	31
	Kalimantan	242	77
	Sulawesi	70	0
	Maluku/Irian	105	102
	Bali	519	299
	Nusa Tenggara	6	(99)
	TOTAL	9,027	(42)
2000	Java	10,613	303
	Sumatra	2,999	(61)
	Kalimantan	137	40
	Sulawesi	70	(50)
	Maluku/Irian	52	108
	Bali	130	(33)
	Nusa Tenggara	1,413	9320
	TOTAL	15,431	42

1999	Java	2,636	(76)
	Sumatra	7,653	440
	Kalimantan	227	(69)
	Sulawesi	141	26
	Maluku/Irian	25	78
	Bali	193	(38)
	Nusa Tenggara	15	(79)
	TOTAL	10,891	(20)
1998	Java	10,840	(47)
	Sumatra	1,416	(87)
	Kalimantan	723	(32)
	Sulawesi	193	(55)
	Maluku/Irian	14	(97)
	Bali	309	167
	Nusa Tenggara	70	367
	TOTAL	13,565	(60)
1997	Java	20,535	15
	Sumatra	11,164	160
	Kalimantan	1,056	(63)
	Sulawesi	426	(83)
	Maluku/Irian	522	(1)
	Bali	155	(70)
	Nusa Tenggara	15	(99)
	TOTAL	33,833	13

Table 5. Foreign Investment Approvals by
Top Ten Counties of Origin, 1996-2000

Country		No. of Projects	Total Value (USD Million)
2001			
1.	Malaysia	104	2,240
2.	Saudi Arabia	5	1,502
3.	Singapura	154	1,139
4.	Japan	99	762
5.	UK	72	723
6.	Mauritius	18	524
7.	South Korea	283	369
8.	Australia	48	256
9.	Netherlands	35	88
10.	U.S.	36	73

2000			
1.	UK	79	3,645
2.	Japan	93	1,954
3.	Netherlands	43	1,159
4.	Germany	28	960
5.	South Korea	284	688
6.	Singapore	218	536
7.	Somalia	1	260
8.	U.S.	51	241
9.	Malaysia	74	168
10.	China	43	160
1999			
1.	Saudi Arabia	5	3,007
2.	Australia	61	2,458
3.	Taiwan	91	1,489
4.	Singapore	147	731
5.	Japan	70	644
6.	UK	72	507
7.	South Korea	201	263
8.	Malaysia	50	186
9.	U.S.	46	136
10.	Germany	38	87
1998			
1.	UK	49	4,745
2.	Japan	78	1,331
3.	Singapore	126	1,268
4.	Malaysia	63	1,060
5.	U.S.	46	568
6.	Hong Kong	18	549
7.	Netherlands	33	412
8.	South Korea	112	202
9.	Taiwan	91	165
10.	Australia	69	85
1997			
1.	UK	31	5,477
2.	Japan	94	5,421
3.	Germany	15	4,468
4.	Taiwan	101	3,419
5.	Singapore	118	2,299
6.	Malaysia	59	2,289
7.	South Korea	67	1,410
8.	U.S.	32	1,018
9.	Netherlands	22	320
10.	Hong Kong	17	251

Appendix

Areas Reserved For Small–scale Businesses Under Presidential Decree DEC/2001

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1. Farming of *buras* chicken;
2. Trawler fishing using small ships within a 12 miles coastal radius;
3. Seeding and caring of fish;
4. Fishing of fresh water aquarium fish;
5. Cultivation of honeybees;
6. Cultivation of forests for sugar palm, sago, rattan, candlenut, bamboo, and sweet wood;
7. Cultivation of swallows in the wild;
8. Cultivation of forests for tamarind, coal, syrup, wood oils;
9. Very small-scale mining;
10. Manufacture of traditional processed foods;
11. Processing of fibers into cloth using hand-operated equipment;
12. Manufacture of textile products using hand-operated equipment;
13. Processing of non-food plantation and forest products;
14. Manufacture of manual or mechanic hand tools for handicraft or cutting;
15. Manufacture of farming hand tools;
16. Manual or semi-automatic maintenance and repair services for cars, boats under 30 Gross Ton (GT), electronic and home appliances;
17. Manufacture of cultural heritage handicrafts;
18. Manufacture of pottery products for household use;
19. Rural transport services on land and inland water (for ships up to 30 GT);
20. Telecommunication booth services and cable installation for houses and buildings;
21. Single-professional health practice;
22. Health practice by a group of professionals;
23. Provision of basic health services;
24. Health research Center;
25. Apothecary services;
26. Maternity house;
27. Traditional medical services;
28. Drug stores;
29. Retail of traditional drugs;
30. Collection of “simplisia”.

Areas Open to Medium and Large-scale Business in Cooperation With Small–scale Businesses Under Presidential Decree DEC/2001

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1. Cultivation of roots;
2. Farming of white snappers “kerapu”, “bandeng”, “labi-labi”, “nila”, “sidat” fish, bull frogs and pearl oysters;
3. Cultivation of industrial forests;
4. Small-scale mining;
5. Manufacture of powder and thick sweet milk and processed foods from roots, sago, “melinjo” and Copra;
6. Manufacture of *Batik* cloth by printing technique;
7. Processing of raw rattan and leather goods;
8. Manufacture of pottery products for building materials and chalk products;
9. Manufacture of silver handicrafts;
10. Manufacture of wooden boats for tourism and fishing;
11. Manufacture of farming machinery using primary technology;
12. Manufacture of hand pumps, bicycle equipment, electronic equipment and other components and water meters;
13. Large scale retail services;
14. Combined hotel, restaurant and holiday resort services;
15. Tourism services;
16. Taxi services, ship loading services, freight forwarding services, courier services, people’s sailing services;
17. Vocational training services.

CHAPTER 8, 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 to 146 (5 state-owned national banks, 27 state-owned regional development banks, 104 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. While the banking sector is no longer in immediate threat of collapse, lending activity is far from 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 it difficult to access usual means of trade and project financing. 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, the Indonesian economy has shown some signs of recovery. Since 1999 Indonesia has resumed positive GDP growth but at levels far below those enjoyed in the early 1990’s. In 2001, the economy grew 3.5%. Inflation and interest rates have declined dramatically from their mid-crisis levels, but is still in double digits and putting a serious strain on government finances. Since the depth of the crisis, improved export earnings have enabled Indonesia to have a positive current account balance but export growth slowed in the wake of 9/11 amidst faltering growth rates in Indonesia’s major trading partners. The GOI has accumulated foreign exchange reserves above the targets set in its IMF program.

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 $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 $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. J.P. Morgan Chase 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, Wachovia Bank NA., 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 November 2001 CGI meeting, donors pledged to disburse up to $3.2 billion for the 2002 fiscal year. On April 12, 2002, Indonesia negotiated a third Paris Club arrangement with bilateral creditors. The arrangement covers principal and interest rescheduling from April 1, 2002 to December 31, 2003. The terms of the arrangement are as follows: 20 years repayment including 10 years grace for ODA loans and 18 years including 5 years grace for non-ODA loans. The agreement will reduce Indonesia’s debt service obligations during the consolidation period from $ 7.5 billion to a maximum of $ 2.7 billion.

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, Asia's premier nonprofit, multilateral financial institution, is headquartered in Manila, Philippines. ADB-financed social, physical and financial infrastructure projects in the public sector create commercial opportunities in many areas, such as: agriculture and natural resources (including disaster management); education and training (including distance learning); energy (including power generation, renewable energy and energy efficiency); environment (including water supply, waste treatment and air pollution control); financial services (including banking and insurance reform, small business finance, microfinance and capital markets development); healthcare (including telemedicine); infrastructure (including housing and urban redevelopment); and transportation (including rail, road and port projects). Every ADB-supported project aims to reduce poverty as it fosters sustainable economic growth, social benefits and good governance.

Indonesia was a founding member in 1966 and is one of the bank's largest borrowers. In 2002, ADB approved $766 million in loans to Indonesia and $20.2 million in technical assistance grants. The loans were for a basic education project and a governance and privatization program. In the ADB's revised operational strategy for Indonesia, the bank's assistance is focused on private sector, human and social development, and environmental management. The bank's planned lending for the period 2002-2004 includes over $3 billion in loans for rural microfinance, irrigation, coral reef rehabilitation, financial governance, power transmission, road rehabilitation, urban poverty reduction, water supply and sanitation, health service, and government decentralization.

With East Timor's membership in 2002, ADB now has 61 member countries. The Bank's membership in the Asia Pacific region includes 33 active borrowers from Southeast, South, East and Central Asia, Mongolia, and the island nations in the South Pacific.

ADB’s total lending in 2001 totaled $ 5.4 billion. In addition, the bank provided $146.4 million in technical assistance to its member countries. For the second straight year, India was the largest borrower (28.1% of total, or $1.5 billion). The PRC, traditionally the largest borrower, came in second (18.7% or $997 million). Third largest was Pakistan (17.9% or $956.8 million), followed by Indonesia (9.4% or $500 million), Bangladesh (5.6% or $297.9 million), and Vietnam (4.9% or $260.6 million).

Sectorally, transport and communications received the largest share of bank lending in 2001, garnering 26.7% of total lending. As ADB focused on cross-cutting issues, "multisector" projects ranked second with 14.2%, followed by "others", 14%. Energy follows with 12.4%; agriculture and natural resources - 11.3%; finance - 10.6%; social infrastructure - 9.2%; and industry and nonfuel minerals - 1.6%. (Detailed plans for each borrowing member country and project information can be found on the ADB website: www.adb.org.

ADB's grants and loans generate substantial, hard-currency commercial opportunities in borrowing Asian developing countries for consultants, suppliers, prime contractors, subcontractors, banks and project sponsors from the bank's member countries. In 2001, American companies won over $309 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 $4.8 billion worth of contracts since the bank began its operations.

Aside from its public sector operations, ADB has also been lending directly to the private sector since 1983. ADB private sector operations serve to mobilize further investments for projects that have a high developmental impact as well as technical, socioeconomic, financial and environmental viability. In 2001, ADB's loan/equity assistance to the private sector totaled $67.8 million for 6 projects. ADB financed two pioneering social sector projects in Vietnam for pilot projects in healthcare and education and invested in a private Thai equity fund and a new housing bank in Sri Lanka. In Indonesia, ADB has financed 12 private sector projects with a total value of $170 million.

ADB maintains a resident office in Jakarta and in 17 other member countries. There are also field offices and extended missions in four cities as well as three representative offices in Tokyo, Washington, D.C., and Frankfurt.

The U.S. Department of Commerce maintains a Congressionally-mandated Commercial Liaison Office for the ADB. The Office's mission is to help American firms access, enter and expand in Asian emerging markets that benefit from ADB assistance. The Office provides market research (project leads and status information), counseling, advocacy, and outreach/training programs in the Asia Pacific region as well as in the continental U.S. to help U.S. firms take advantage of ADB-related commercial, financial and infrastructure project development opportunities in countries borrowing from the ADB.

To perform its mandate, the U.S. Commercial Liaison Office (CS ADB) cooperates with the Office of the U.S. Executive Director of the ADB and works closely with U.S. Commercial Service, including CS Jakarta, and U.S. Department of State posts throughout the Asia Pacific region. An American Senior Commercial Officer heads the office, supported by two Commercial Specialists and focuses on environment projects primarily in South and Southeast Asia. CS ADB invites American firms to work with it in pursuing ADB commercial, financial service and infrastructure project development opportunities.

The Office contact information is:

Address: The U.S. Commercial Liaison Office for ADB (CS/ADB)
American Business Center
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6811 Ayala Avenue,
Makati City, Philippines 1226

U.S. mailing address:

PSC 500 Box 33,
FPO AP 96515-1000

E-mail: manila.adb.office.box@mail.doc.gov

Telephones: (632) 887-1345(-7)

Fax: (632) 887-1164

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)

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 $11.5 billion through 2000. 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 beginning in the 1998-99 fiscal year, this program started up again in Indonesia.

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, $2.1 billion in 1999 and an estimated $530 million in 2000. 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
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 $500 million loan to Indonesia within the framework of the Consultative Group on Indonesia (CGI), and has given $49.29 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 helps administer 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 grew from an initial allocation of $15 million in FY92 to $650 million in FY 2001. The program was suspended at the start of FY02 pending discussions with the Ministry of Finance concerning issues involving the Credit Guarantee Assurance from the Government of Indonesia. It is not known when these issues will be resolved and the program operational again in Indonesia.

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 available. Another program, the GSM-103 facility, is available for animal breeding stocks with credit terms of seven to ten years.

Two other 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 65 percent of the principal for up to 180 days. Eligible commodities are generally high valued products such as meat, fruit and consumer-ready products. The FGP program for the region covers equipment and services aimed at facilitating imports of U.S. agricultural commodities.

CHAPTER 9, 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, and in particular should try to avoid the Muslim fasting month of Ramadhan, during which appointments are often difficult to schedule. 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 often 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 (visa) 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 departing Indonesia should reserve enough funds to pay the Rp. 100,000 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). Note that all residents must pay approximately 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.

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

Travel advisory: American citizens resident or traveling in Indonesia are advised to exercise caution at all times, be alert to suspicious or unclaimed packages, vary times and routes and other aspects of personal daily routine and keep a low profile. All travel to Aceh, Maluku, West Maluku, Papua (Irian Jaya), West Timor, Central and West Kalimantan (Borneo) and Central and South Sulawesi should be avoided. Throughout Indonesia demonstrations and other violence can occur without warning. Visitors to Indonesia should avoid large gatherings and other situations that could become violent. The amount of petty crime is also on the rise, particularly in the popular tourist areas. Please see note about taxis in the "Transportation" section below.

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 family of 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 Floor
Jl. Jend. Sudirman Kav.1
Jakarta 12910
Tel.: (62-21) 528-99456
Fax : (62-21) 522-3432
E-mail: sistelindo@ittglobal.net
Internet: http://www.attglobal.net

CBNnet
PT. Cyberindo Aditama
Gd. Manggala Wanabakti IV, 6th Floor, Suite 618 B
Jl. Jendral Gatot Subroto, Senayan
Jakarta Selatan, 10270
Tel: (62-21) 574-2488
Fax: 62-21) 574-2481
Contact: Dani Sumarsono, President Director
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: Eko Priyono, Marketing 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: Ms. Zuraida Boerhanudin, 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) 522-3432
Contact: Mr. Vennyzano, President Director
Internet: http://www.attglobal.net

Express Delivery & Airlines: DHL, UPS, Federal Express, Airbone Express and BDP (located in Surabaya) 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), United Airlines, Northwest Airlines, Qantas/British Airways, 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. Malarone is also a good choice. 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 may obtain powder to make up oral rehydration solution from a local 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

Global Doctor
Jl. Patiumura No. 15
Kebayoran Baru
Jakarta
Tel.: 725-0955
Fax.: 725-0955

Note: New clinic operated by an experienced Australian health care company. One unique service they offer is on-site telemedicine consultations with various specialists in Perth, Australia.

Hospitals

R.S. Pondok Indah
Jl. Metro Duta Kav. UE
Pondok Indah, Jakarta Selatan
Tel.: 765-7525
Fax : 750-2324
Emergency : 750-2322
Note: 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
Note: 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 71
Jakarta Pusat
Fax : 314-8991
Emergency : 314-4029, 390-5839
Note: 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
Note: 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
Note: 24-hour emergency room and own ambulance service, in addition to a large clinic.

R.S. Graha Medika
Jl. Raya Pejuangan Kav.8, Kebon Jeruk
Jakarta 11530
Tel.: 530-0887-9
Fax : 532-1775
Note: 24-hour emergency room and own ambulance service, in addition to a large clinic.

R.S. Pantai Indah Kapuk
Jl. Pantai Indah Utara 3
Pantai Indah Kapuk
Jakarta 14460
Tel. 588 0911
Fax. 588 0910
Note: New, very clean and well-operated private hospital in North Jakarta (near Pluit) with 24-hour emergency services.

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 such "5-star" establishments, 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 General in Surabaya close on American and Indonesian holidays. Holiday dates through 2003 are listed below.

U.S. Holiday	Indonesian Holiday	Date
New Year's Day	New Year's Day	Jan. 1, 2003
Martin Luther King's Birthday		Jan. 20, 2003
	Chinese New Year	Feb. 1, 2003
	Idul Adha (10 Dzulhijjah 1423 H)	Feb. 12, 2003
Presidents Day		Feb. 17, 2003
	Moslem New Year (1 Muharram 1424 H)	Mar. 4, 2003
	Nyepi (Saka New Year 1925)	Apr. 2, 2003
	Good Friday	Apr. 18, 2003

U.S. Holiday	Indonesian Holiday	Date
	Muhammad's Birthday (12 Rabiul Awal 1424)	May 14, 2003
	Waisak (Buddhist New Year)	May 16, 2003
Memorial Day		May 26, 2003
	Ascension of Christ	May 29, 2003
Independence Day		July 4, 2003
	Independence Day	Aug.17, 2003
Labor Day		Sept. 1, 2003
	Ascension of Muhammad (27 Rajab 1424 H)	Sept. 24, 2003
Columbus Day		Oct. 13, 2003
Veteran's Day		Nov. 11, 2003
	Idul Fitri (1&2 Syawal 1424 H)	Nov. 25-26, 2003
Thanksgiving Day		Nov. 27, 2003
Christmas Day	Christmas Day	Dec. 25, 2003

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 10, ECONOMIC AND TRADE STATISTICS

A. Country Data

Population in 2002:	212 million
Population growth rate:	1.49 % per year (avg. 1990-2000)
Religions:	Islam, Protestant, Catholic, Hindu & Buddhism
Government System:	Emerging Democracy
Work-week:	Monday-Friday

B. Domestic Economy

	2000	**2001**	**2002 (forecast)**
GDP ($ billions)	150	144.8	184.7
Real GDP growth (%)	4.7	3.3	3.3
GDP per capita($)	719	742	871
Government consumption expenditure as percent of GDP	7.08	7.43	5.67
CPI (%)	9.4	12.6	12.1
Unemployment (%)*	5.0	6.2	6.5
Foreign Exchange Reserves $ billion)	27.2	29.4	28.9
Average exchange rate for $1.00**	8,530	10,300	9,500
Debt service ratio (Debt service/exports,%)	37.8	45.3	49.2
U.S. economic aid ($ millions)	243	230	200

C. Trade (USD billions)

Total exports (1)	62.1	56.3	57.3
non-oil/gas (1)	47.9	43.4	43.2
oil/gas (1)	14.2	12.9	14.1
Total imports (1)	30.2	35.4	35.1
Indonesia Exp. to U.S.	10.4	10.1	9.0
Indonesia Imp. from U.S.	2.4	2.5	2.3

Notes:

* Indonesia does not have reliable unemployment data, because of the large Informal workforce.

** 2002 figure is embassy forecast based on January-May.

Note (1): Based on GOI statistics

Sources: Indonesian Central Bureau of Statistics, Bank Indonesia, Ministry of Finance, World Bank, U.S. Department of Commerce.

CHAPTER 11, 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 520
New York, NY 10017
Tel.: (212) 687-4505
Fax: (212)687-5844
Email: aiccny@bigplanet.com
Internet: http://www.aiccusa.org
Contact: Wayne Forrest, Executive Director

The American Chamber of Commerce in Indonesia, known as AMCHAM, has over 500 members, including leading U.S. firms with offices in Indonesia, associate members (non-U.S. companies), individuals, and special members. The Chamber prepares a number of useful guides to doing business in Indonesia, has developed position papers on key policy issues and maintains a useful membership directory. AMCHAM assists U.S. firms in assessing business opportunities by staging briefing breakfasts at the requester's expense. Members have access to a number of active committees addressing business issues in the areas of banking, telecom, IPR, energy, etc. The 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: info@amcham.or.id
Internet: http//www.amcham.or.id
Contact: Mrs. Carol Hessler, President

The U.S. Chamber of Commerce is the most extensive, nationwide chamber in the United States. The U.S. Chamber has expanded its overseas activities and is exploring a number of programs designed to assist SME exporters to the Asian Region.

U.S. Chamber of Commerce
1615 H Street, N.W.
Washington, D.C. 20062-2000
Tel.: (202) 659-6000, 465-5461, 463-5461
Fax: (202) 822-2491
Email: mbrillia@uschamber.com, asia@uschamber.com
Internet: http://www.uschamber.com
Contact: Myron A. Brilliant, Vice President, Asia International Policy

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

U.S.-ASEAN Business Council
1101 17th Street, N.W., Ste. 411
Washington D.C. 20036
Tel.: (202) 289-1911
Fax: (202) 289-0519
Internet: www.us-asean.org
Email: wlohman@usasean.org
Contact: Walter Lohman, Director of the Indonesia and Singapore Committees
or
U.S.-ASEAN Business Council Representative Office
Menara Batavia, 4th Fl.
Jl. K.H. Mas Mansyur Kav. 126
Jakarta, Indonesia
Tel.: (62-21) 573-0407
Fax: (62-21) 574-4981
E-mail: dhutagalung@usasean.org
Internet: www.us-asean.org
Contact: David Hutagalung, Representative

California-Asia Business Council
1919 Clement Ave., Building 11
Alameda CA 94501
Tel.: (510) 523-8188
Fax: (510) 865-0812
E-mail: info@calasia.org, jeremy@calasia.org, katherine@calasia.org
Internet: www.CalAsia.org
Contact: Ms. Katherine Pitarys, Program Manager, Mr. Jeremy Potash, Exec. Director

Indonesian American Business Association
P.O. Box 420398 Houston, TX 77242-0398
or
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 Secretariat
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

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) 916-2710
Fax: (62-21) 527-4486
Contact: Iman Sucipto Umar, Executive Head

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)
Oil Center Bldg., 1st Floor
Jl. MH. Thamrin No.55
Jakarta 10350
Tel.: (62-21) 3983-7395-97
Fax: (62-21) 3983-7394
Contact: Mr. H. Amirudin Saud, Chairman

Indonesian Exporters Association (GPEI)
Jl. Pangeran Jayakarta No. 131 A / 44-46
Jakarta 10730
Tel.: (62-21) 625-3745, 625-3751
Fax: (62-21) 600-8852
Contact: T. Dirgantoro, Secretary General

4. Trade and Project Financing

U.S. Trade and Development Agency
1621 North Kent Street, Suite 200
Arlington, VA 22209-2131
Tel.: (703) 875-4357
Fax: (703) 875-4009
Email: info@tda.gov
Internet: www.tda.gov
Contact: Geoffrey Jackson, Regional Director for Asia & Pacific Islands, South Asia & Mongolia

U.S. Trade and Development Agency (TDA)
Asia Regional Office
Bangkok, Thailand
Tel.: (662) 205-5090/5600 (direct)
Fax: (662) 255-4366
E-mail: sbonnaffons@tda.gov or stacy.bonnaffons@mail.doc.gov
Internet: www.tda.gov
Contact: Stacy Bonnaffons

U.S. Commercial Liaison Office for ADB (CS/ADB)
American Business Center, 25th Floor
Ayala Life - FGU Center
6811 Ayala Avenue, Makati City
Metro Manila 1226, Philippines
PSC 500 Box 33
FPO AP 96515-1000
Tel.: (63 2) 887-1345, 887-1346, 887-1347
Fax: (63 2) 887-1164
E-mail: manila.adb.office.box@mail.doc.gov
Contact: Stewart Ballard, Senior Commercial Officer

Overseas Private Investment Corporation (OPIC)
1100 New York Avenue, N.W.
Washington, D.C. 20527
Tel.: (202) 336-8799
Fax: (202) 408-9859
Email: info@opic.gov
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) 565-3911/3402
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
E-mail: idbarchives@isdb.org.sa
Internet: http://www.isdb.org

The World Bank
Office of the U.S. Executive Director
Commercial Service Liaison Staff
1818 H Street, NW
Washington, DC 20433
Tel.: (202) 473-1000, Jessica's contact: 458-2707
Fax: (202) 477-6391, Jessica's fax-line: 522-1671, 522-3393
Internet: http://www.worldbank.org/
E-mail: akartadjoemena@worldbank.org
Contact: Jessica Poppele, Country Program Coordinator

The World Bank (Indonesia Office)
Jakarta Stock Exchange Building
Tower 2, 12th Floor
Jl. Jendral Sudirman, Kav. 52-53
Jakarta 12190 Indonesia
Tel.: (62-21) 529-93000 ext. 3084
Fax: (62-21) 529-93111
Email: malarief@worldbank.org
Internet: www.worldbank.or.id
Contact: Andrew Steer, Country Director; Mohammed Al Arief

5. Indonesian Government Contacts

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 (i.e., jewelry, batik, hand-woven 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) 634-3136, ext: 206
Fax: (62-21) 633-8360
Contact: Drs. Harmen Sembiring, Director of market area development for U.S., Australian & New Zealand

Other Indonesia Government contacts of interest are:

Indonesia - U.S. Bilateral Relations
Ministry of Industry and Trade
Jl. M.I. Ridwan Rais V
Building II, 6th Floor, Jakarta
Tel.: (62-21) 344-2576, 3483-0788, 385-8171 ext: 1148
Fax: (62-21) 385-8191, 385-8206
Contact: Rita Algamar Sembiring, Head of Section

Information Office for Customs and Duties
Jl. Jend. A. Yani 108, Building A, 2nd Fl.
Jakarta, Indonesia
Tel.: (62-21) 489-1581 ext. 775
Fax: (62-21) 489-2859
Contact: Drs. Erlanga Mantik, Director

6. Coordinating Ministers/Cabinet

The following is a listing of President Megawati Soekarnoputri's and Vice President Hamzah Haz's cabinet as of June 2002. Because of the uncertainties surrounding the Indonesian government at this 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.

Coordinating Ministers:
Political, Social, and Security: Gen. (Ret.) Susilo Bambang Yudhoyono
Economic, Finance, and Industry: Prof. Dr. Dorodjatun Kuntjoro-Jakti
People Welfare: M. Jusuf Kalla
Ministry:
Agriculture : Prof. Dr. Ir. Bungaran Saragih
Culture and Tourism: I. Gde Ardika
Defense: Matori Abdul Djalil
National Education: Prof. Dr. Abdul Malik Fajar, MSc
Energy and Mineral Resources: Dr. Ir. Purnomo Yusgiantoro
Finance: Dr. Boediono
Foreign Affairs: Dr. Hassan Wirajuda
Forestry: Dr. M. Prakosa
Health: Dr. Achmad Suyudi MHA
Home Affairs: Lt. Gen. Hari Sabarno
Industry and Trade: Rini M.S. Soewandi
Justice and Human Rights: Prof. Dr. Yusril Ihza Mahendra, SH
Manpower and Transmigration: Jacob Nuwa Wea
Maritime Affairs and Fisheries: Dr. Ir.H. Rochimin Dahuri
Religious Affairs: Prof. Dr. H. Said Agiel Munawar, MA
Housing and Regional Infrastructure: Soenarno
Communications and Transportation: Lt. Gen. (Ret.) Agum Gumelar
Information and Communication: Syamsul Mu'arif
Social Affairs: Bachtiar Chamsyah

State Ministers:
State Secretary: Bambang Kesowo
Administrative Reform: M. Feisal Tamin
Cooperatives, Small, and Medium Enterprises: H. Alimarwan Hanan, SH
Environment: Nabiel Makarim
Research and Technology: M. Hatta Rajasa
Women and Empowerment/Chairperson of the National Family Planning Board: Sri Redjeki Soemaryoto, (Ms.)
National Development Planning/BAPPENAS: Kwik Kian Gie
State Enterprises: Laksamana Sukardi

Junior Ministers:
The Acceleration of Development in Indonesia's Eastern Regions: Manuel Kaisiepo

Officials of Ministerial Rank:
Attorney General: M.A. Rachman
Acting Governor of the Bank of Indonesia: Dr. Syahril Sabirin
Indonesian Armed Forces (TNI) Commander-in-Chief: Endriarto Sutarto

*) 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; Ir. refers to a male or female with an engineering degree.

7. 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 Ralph L. Boyce
Aide to Ambassador Phuong B. Handler

Deputy Chief of Mission Stephen D. Mull
Aide to DCM Koji C. Kanazawa

Internet: http://www.usembassyjakarta.org

U.S. Commercial Center
Margaret Keshishian, Counselor for Commercial Affairs
Wisma Metropolitan II, 3rd Floor
Jl. Jendral Sudirman Kav. 29-31
Jakarta 12920, 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.usatrade.gov

U.S. Agricultural Trade Office (ATO)
Chris Rittgers, Agricultural Attaché
Wisma Metropolitan II, 3rd Floor
Jl. Jendral Sudirman Kav. 29-31
Jakarta 12920, Indonesia
Tel.: (62-21) 526-2850
Fax: (62-21) 571-1251
Email: atojkt@cbn.net.id
Internet: www.usembassyjakarta.org/fas

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

Foreign Agricultural Service
Chuck Alexander, Counselor for Agricultural Affairs
Chris Rittgers, Agricultural Attaché
Tel.: (62-21) 3435-9000 (ext. 2161)
Fax: (62-21) 3435-9920

Economic Section
Shari Villarosa, Economic Counselor
Douglas Koneff, Resources Officer
Whit Witteman, Science and Technology Officer
Hugo Y. Yon, Trade Officer
William Heidt, Finance Officer
Edward S. Jackman, Telecom Officer
Justin Higgins, Civil Aviation Officer
Tel.: (62-21) 3435-9000 (ext. 9073)
Fax: (62-21) 3435-9918

Public Affairs Section
Greta Morris, Public Affairs Counselor
Stanley Harsha, Assistant Press Attaché
Tel.: (62-21) 3435-9000 (ext. 9500)
Fax: (62-21) 3810-243
E-mail: gnmorris@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 (USAID)
Terry Myers, Director
Paul Deuster, Chief, Private Sector Development Office
Tel.: (62-21) 3435-9000 (ext. 9303)
Fax: (62-21) 380-6694

Defense Attaché Office (DAO)
Col. Joseph H. Daves, Defense Attaché
Tel.: (62-21) 3435-9000 (ext. 9725)
Fax: (62-21) 3435-9921

Office of the Military Attaché for Defense Programs
Tel.: (62-21) 3435-9000 (ext. 9631)
Fax: (62-21) 384-339

U.S. Consulate General – Surabaya
Phillip L. Antweiler, Consul General
Andrew H. Nissen, Pol/Econ Officer
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
E-mail: amconsby@rad.net.id

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

U.S. Asian Environmental Partnership
Wisma Metropolitan II, 3rd Floor
Jl. Jendral Sudirman Kav. 29-31
Jakarta 12920, Indonesia
Tel.: (62-21) 526-2844, 526-2848
Fax: (62-21) 526-2849
Email: usaepdir@rad.net.id
Internet: http://www.usaep.org

8. 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-TRADE (8723) or (202) 482-0543
Fax: (202) 482-4473
Internet: http://www.ita.doc.gov/td/tic/

David Bisbee
Desk Officer for Indonesia
Market Access and Compliance
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: David_Bisbee@ita.doc.gov
Internet: http://www.mac.doc.gov

U.S. Department of State
Commercial and Business Affairs (E/CBA) Office
Commercial Coordinator
2201 C Street, NW, Room2318
Washington, DC 20520
Phone: (202) 647-1625
Fax: (202) 647-3953
E-mail: cbaweb@state.gov
Internet: www.state.gov/e/eb/cba/

U.S. Department of Agriculture
Foreign Agricultural Service
Agricultural Export Service Division
1400 Independence Ave., S.W., Room 4939-S
Washington D.C. 20250
Tel.: (202) 720-7349
Contact: Daniel Berman, Director of Agricultural Export Service Division
E-mail: berman@fas.usda.gov
Internet: http:// www.fas.usda.gov

United States-Asia Environmental Partnership (US-AEP)
Asia/Near East Bureau
U.S. Agency for International Development
1300 Pennsylvania Ave., NW, 4th Fl.
Washington, D.C. 20523-4101
Tel.: (202) 712-0270
Fax: (202) 216-3379
Internet: http://www.usaep.org

9. 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
Email: info@kbri.org
Internet: http://www.embassyofindonesia.org

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

Permanent Mission of Indonesia to the United Nations
325 East 38th Street
New York, N.Y. 10016
Tel.: (212) 972-8333
Fax: (212) 972-9780
Email: ptri@indonesiamission-ny.org
Internet: www.indonesiamission-ny.org

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

Consulate General Office-Houston
10900 Richmond Ave.
Houston, TX 77057
Tel.: (713) 785-1691
Fax: (713) 780-9644

Consulate General Office-Chicago
72 East Randolf St.
Chicago, IL. 60601
Tel.: (312) 345-9300
Fax: (312) 345-9311

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

10. Consultants and Market Research Firms

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 (Badan Pusat Statistik):

Badan Pusat Statistik
Jl. Dr. Sutomo No.6-8
P.O. Box 3
Jakarta Pusat 10710
Tel.: (62-21) 350-7057
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

A number of Indonesia-based firms have identified themselves to the U.S. Commercial Service as offering consulting or market research services. Information regarding firms that are capable of conducting market surveys may be obtained from the Commercial Service, U.S. Embassy in Jakarta, or in the following list of 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.indonesia@acnielsen.com
Internet: www.acnielsen.co.id/home.asp
Expertise: Public relations consulting, media relations, crisis management, public relations planning, government consulting.
Contact: Teguh Yunanto, Director

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 English/Indonesia language translations of documentation.
Contact: Mariana Warokka

CastleAsia
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@cic.co.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.
Contact: Mr. Parlin Sihombing

Citra Duta Artistry (CDA International)
Niaga Tower, 3rd Floor
Jl. Jendral Sudirman Kav.58
Jakarta 12190
Tel.: (62-21) 250-5346
Fax: (62-21) 250-5347
E-mail: info@cda.co.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) 717-90152
E-mail: mail@nfoindo.com
Expertise: Market research and strategic planning and consultancy.
Contact Name: Sjafril Djalal

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) 390-4711
Fax: (62-21) 390-1878
E-mail: datacon@idola.net.id
Internet: http://www.datacon.co.id
Expertise: Market Research. PT. Data Consult (see below) publishes a biweekly newsletter entitled "Indonesian Commercial Newsletter." The newsletter contains a sectorial survey in each issue and other market information.

Ganesha Aggies Jaya
Jl. Petogogan II No. 22 A
Blok A, Kebayoran Baru
Jakarta 12160
Tel.: (62-21) 7279-3904
Fax: (62-21) 739-5049
E-mail: info-support@ganesha-aggies.com
Expertise: Indonesian labor laws and practices, expatriate staffing, residence and work permits, company establishment, corporate and individual document processing.
Contact: Michael McGowan

Grant Thornton
Wisma Grant Thornton
Jl. Sisingamangaraja No. 3C
Jakarta Selantan 12120
P.O. Box 4123/JKTM-JKT 12041
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.
Contact: Jim Kallman, Jimmy S. Budhi, Baudouin Coomans

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
Internet: www.harvest-international.com
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, 526-1251
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
Golden Plaza Blok B 12
Jl. Fatmawati 15, Jakarta 12430
Tel.: (62-21) 759-12390/91
Fax: (62-21) 759-12392
E-mail: plansearch@indo.net.id
Expertise: Plansearch Associates is capable of conducting market research in the areas of: corporate and investigative reports, environmental studies, consumer, institutional,

agriculture, market tests and advertising and analysis in the areas of intellectual property, asset research, partner search, financial and locate
Contact: Gunter Schwarze

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: Jakarta.Office@id.tnsofres.com, fasgis@attglobal.net, hans.lang@id.tnsofres.com
Internet: www.tnsofres.com
Expertise: Quantitative and qualitative market research, customer satisfaction and awareness studies, advertising testing, test marketing, concept testing, brand tracking, trade, economic and industrial research.
Contact Name: Hans Lang, and Gordon Stewart

11. 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
Contact: T.M. Zahirsjah, Greg Churchill
Singapore Office:
24 Raffles Place
322-01/02 Clifford Centre
Singapore 048621
Tel.: (65) 533-5332
Fax: (65) 533-5313
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: Ferry P. Madian

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: Bill Sullivan

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
Expertise: 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, media and board casting, real property, securities, tax, telecommunications.
Contact: Dewi Kamaratih Soeharto

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
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.
Contact: Frans H. Winarta

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, 690-1707
Fax: (62-21) 692-3648, 693-0712
E-mail: gwidjojo@indosat.net.id
Expertise: Patents, Trademarks, Copyrights and Designs.
Contact: Mr. George Widjojo

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
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.

Contact: Sri I. Hadiputranto

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
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.
Contact: Cecilia Sianawati (Managing Partner), Jusuf Indradewa (Senior Partner), Indra D. Santosa (Technical Advisor), Maya Pradjono (Partner)

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) 577-1587
E-mail: karimsani@cbn.net.id
Expertise: Banking and Finance (including Islamic Financing), Insolvency and Debt Restructuring, Capital Market, Foreign Investment, Merger and Acquisitions, Mining and Energy, Intellectual and Property Rights, Maritime, Telecommunications, Construction and Environment, Arbitration and Mediation, General Corporate and Commercial Litigation.
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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.
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12. Related Internet Sites

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

<u>U.S. Commercial Service</u>:
http://www.export.gov
http://www.usatrade.gov
http://www.buyusa.com

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

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

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

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

13. 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. This publication lists selected U.S. firms and Indonesian agents, distributors, and licensees of U.S. firms. It is sold for $55 plus $35.35 for courier service to the United States. And $ 20 addition fee, if your address located outside of the FedEx delivery area. If interested, please contact the U.S. Commercial Service in Jakarta (contact information above).

CHAPTER 12, MARKET RESEARCH

Market Research

Below is a listing of original market research reports produced by the U.S. Commercial Service in Indonesia during FY 2002 and planned for FY 2003. A complete list of market research is available on the National Trade Data Bank (NTDB) CD-ROM. Or you may see: www.stat-usa.gov/mrd.nsf/vwISA_Country?OpenView

FY 2002 Industry Sector Analysis (ISA) Reports

1. Cellular Telephone Services
2. Electrical Power Systems
3. Franchising
4. Laboratory Equipment – Biotechnology
5. Sporting Goods and Recreation Equipment
6. Telecommunications Equipment
7. Water Resources and Equipment

FY 2003 Industry Sector Analysis (ISA) Reports (Planned)

1. Agricultural Chemicals and Fertilizers
2. General Services (Retail)
3. Health Food Supplements
4. Pollution Control Equipment
5. Safety and Security Equipment
6. Wireless Communication – Equipment and Services

For FY 2002-2003 International Market Insight (IMI) Reports, see: www.usatrade.gov for a full listing of brief, timely IMI reports on a wide range of industrial sectors and services in Indonesia.

CHAPTER 13, TRADE EVENT SCHEDULE

The U.S. Commercial Service participates in trade events to support U.S. companies interested in exploring business opportunities in Indonesia. The following events are currently scheduled during fiscal year 2003:

Date:	***Event:***
October 2002	Education & Training Trade Mission
October 2002	Fire Rescue Safety & Security Expo (U.S. products literature center)
February 2003 – September 2003	US Commercial Center "On The Road" catalog shows 2003 (various cities in Indonesia)
March 2003	Study USA 2003 (part of the Study USA - Asia regional tour)
May 2003	USA Catalog Show 2003, Jakarta
May 2003	"Oil and Gas Technology-Indonesia" catalog exhibition, Jakarta
September 2003	Franchising Matchmaker to Indonesia
September 2003	Multi-State catalog exhibition , Jakarta
October 2003	Clean Water Trade Mission to Thailand, Malaysia and Indonesia.

"On the Road" - on-going program of seminars and catalog shows held in major cities outside of Jakarta. U.S. companies wanting to include catalogs in this promotional opportunity should contact the Commercial Service office in Jakarta.

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