Chapter VII - Investment Climate

Openness to Foreign Investment

Since the middle of 1997, Indonesia has faced its most severe economic crisis in three decades. The economic downturn has coincided with a prolonged political crisis, which culminated in severe rioting in the capital and other cities, and the resignation of President Soeharto, Indonesia's leader for more than 30 years.

The Indonesian government turned to the International Monetary fund in October 1997 for assistance in surmounting its economic difficulties which included a substantial depreciation of the Indonesian Rupiah, rising inflation, and a collapsing banking system. The program has had several major revisions and includes major structural reforms, which should ultimately result in an improved investment climate.

The Indonesian government continues its policy of actively encouraging foreign investment and issued several new regulations in 1998 to ease the entry of foreign firms and capital into Indonesia. The Foreign Capital Investment Law of 1967, however, continues to provide the basic framework for foreign investment.

The Capital Investment Coordinating Board (BKPM) plays a key role in promoting foreign investment and approving project applications. The relevant technical government departments handle investments in the oil and gas, mining, banking and insurance industries. All other foreign investment must be approved by BKPM, which also approves domestic investments when the owners seek investment incentives. BKPM aims to function as a one-stop investor service; however, investors are routinely required to work closely with relevant technical government departments and regional and local authorities. A recent package of reforms unveiled in June 1998 freed investors from some of the cumbersome documentary requirements resulting from the need to work with local governments. Other reforms have been announced but not finalized which would free small investments from the Jakarta-based approval process by granting greater autonomy to the regional foreign investment boards.

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 without referring the purchase to BKPM. In practice, however, foreign firms are required to petition BKPM for approval. When reviewing applications from foreign firms seeking to acquire locally established firms, BKPM frequently requires the buyer to reserve a small stake for a local buyer or the original owner and, in cases where the local firm is being "rescued" by a foreign buyer, to inject capital, not just provide management expertise, technology or assume outstanding loans. The approval process to take over a "sick" firm may take as long as two months. In all cases, the purchase of domestic firms is limited to sectors open to foreign investment.

Indonesia encourages the participation of small and medium sized indigenous firms in certain sectors of the economy. Foreign investors in these sectors are required to partner with small businesses or cooperatives before investment applications are approved. A "negative" list published by the Ministry of Investment outlines sectors closed to foreign investment as well as those which require the participation of small and medium sized partners. The most recent revision of the negative list for investment was released in July 1998. Copies of the negative list are available from U.S. Commercial Center, Jakarta (See Chapter XI for Contact Information).

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

In June 1998, Indonesia also lifted many restrictions on foreign participation in domestic distribution services. Under the present 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. Companies engaging in wholesale distribution may not conduct retail operations directly, but must form a separate retail company. The number of expatriate employees, which may be granted visas to work in any single wholesale and retail business, is limited.

In June 1994 and May 1995 several previously restricted sectors were opened, some conditionally, to foreign investment, including harbors, electricity generation, telecommunications, shipping airlines, railways, and water supply. Foreign investment opportunities in many services remain restricted, however. The government is continuing to develop policies on the private provision of infrastructure through build-own-operate and build operate-transfer schemes, particularly for electric power, telecommunications, and roads.

Oil and gas: The state owns all oil and mineral rights; foreign firms participate in their extraction through exploration and production sharing contracts. The Department of Mines and Energy has the primary responsibility for oil and energy; it oversees the state oil company, Pertamina, and its production-sharing contractors. Contractors are required to finance all exploration, production, and development costs in their contract areas; they are entitled to recover operating, exploration, and development costs out of the oil and gas produced. The government is considering changes to the basic petroleum law to allow private sector participation in downstream marketing of petroleum products.

Mining: Foreign investors operate under contracts of work for general mining and production sharing contracts for coal. The contractor conducts all stages of the operation and assumes all financial and operational risks. Changes in mining law now under consideration may allow coal producers to operate under contracts of work. After the Busang affair, touted in 1996 as the world's richest gold strike but determined to contain no significant gold in May 1997, some anticipated that the government may tighten regulations regarding foreign prospecting and mining operations. This has not occurred.

Banking, Securities and Insurance: A 1988 deregulation package opened the banking, securities and insurance industries to foreign investment; all entrants had to be in the form of joint ventures, and foreign insurance and securities firms were subject to discriminatory capital requirements. In 1997, the government lifted restrictions on foreign ownership of non-bank firms listed on Indonesian stock exchanges. It intends to submit amendments to the banking law to Parliament in 1998 to ease restrictions on foreign investment in the banking sector. The Department of Finance licenses new securities and insurance ventures; Bank Indonesia, the central bank, licenses banks and regulates banking activity.

New programs to enhance the efficiency of state-owned enterprise and to expose them to greater competition have been announced as part of the Indonesia's ongoing IMF program. Specifically, the government has committed to divest majority ownership in at least 7 major parastatals, including parts of the state-owned steel, telecommunications, mining, plantation, and cement firms. International investment houses have been appointed to assist the government in evaluating and packaging these firms and foreign investors are actively being sought.

Conversion and Transfer Policies

The Indonesian rupiah has depreciated in excess of 70 percent since July 1997 and remains volatile. The Indonesian rupiah is freely convertible and is traded on in an interbank market in Jakarta. Indonesia maintains no capital controls and foreign exchange may flow freely in and out of the country. No prior permits are necessary to transfer foreign exchange. Foreign investors have the right to repatriate capital and profits at the prevailing rate of exchange. The government does not place restrictions on outward direct investment. In comparison with recent years, however, the foreign exchange market is extremely thin. Prior to the onset of the economic crisis, more than USD 5 billion of rupiah routinely changed hands each day. At the present time, exchange flows rarely amount to more than a few hundred million per day.

In July 1997, the Indonesian rupiah began to weaken and Indonesia was forced to widen its trading band to 12 from 8 percent. As other regional currencies slumped and the rupiah faced even greater depreciation pressures, the government chose in August 1997 to abandon its managed float entirely to allow the rupiah to float freely. Since the last quarter of 1997, the rupiah has been extremely volatile and depreciated very sharply against the dollar.

The rapid depreciation comes against a backdrop of exchange rate predictability against the dollar. Since 1986, the rupiah's depreciation against the dollar had ranged between 2.3 percent and 5.9 percent. Depreciation against currencies of other trading partners has been larger, reflecting the changing value of the dollar. In 1991, the government instituted a system of ceilings for foreign commercial borrowing by public sector entities, commercial banks and private sector projects that have a connection with the government.

Expropriation and Compensation

Article 21 of the 1967 Foreign Capital Investment Law stipulates that the government shall not initiate nationalization of foreign investments except by law and when such action is necessary in the interest of the state. According to BKPM, no foreign investment has been expropriated since the passage of the 1967 law. There is concern at the present time that the government may nationalize projects or abrogate contracts awarded to firms connected to the family of former President Soeharto. Government officials have stated that foreign firms will not be expropriated as it dismantles the business empires of former first family members.

Dispute Settlement

The Indonesian government has agreed to submit any investment disputes to the International Center for the Settlement of Investment Disputes (ICSID) in Washington, D.C. An investment arbitration board, BANI, is available when both parties to a dispute agree to submit to its arbitration. A long-pending investment dispute involving a U.S. investor was resolved through the ICSID in 1993.

Indonesia is also party to the 1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards. The record of enforcement of foreign arbitral awards is, however, negative. In one recent case, Indonesian courts refused to recognize the applicability of third country negotiation clauses in a joint venture contract. Although the suit continues, the Indonesian court's refusal to recognize international arbitration resulted in the foreign investor's abandoning its assets in Indonesia.

The court system has not provided effective recourse for solving commercial disputes. The judiciary has not been independent and there is no law requiring Indonesian courts to enforce money judgements of non-Indonesian courts.

The GOI has recognized that the legal system must be modernized. The tax code was reformed in 1983 and amended in 1991 and 1995. New laws on banking, insurance, and pensions were passed in 1992, which codify deregulation measures previously contained in ministerial decrees. Comprehensive company and capital markets laws were enacted in 1996. Work has begun on a new commercial code. One of the government's priorities is the continuing rationalization and modernization of laws and regulations.

As part of Indonesia's program with the IMF, a new bankruptcy law has been promulgated to assist foreign creditors in collecting outstanding obligations. This law is scheduled to come into effect August 20, 1998.

Performance Requirements and 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 65 percent for export has additional incentives. It may apply for restitution of import duties paid on inputs, which are subsequently re-exported in finished form. In June 1998, the Ministry of Investments announced that it was revising the criteria for the provision of tax holidays to make them transparent and more easily applied. Several drafts have been proposed but no official version has been issued. Various criteria include investments in the less-developed eastern provinces, employment-generating industries, export-oriented industries, and risky high-tech investments.

Special investment incentives in the form of income tax, value-added tax, and luxury tax facilities are made available on a case-by-case basis by BKPM.

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

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

Right to Private Ownership and Establishment

Indonesia recognizes the right to private ownership and establishment and has relied heavily on the private sector as the principal engine of its economic growth. Parastatals have traditionally played an important role as well. Their role shrunk in recent years as private sector activity grew and privileges awarded to state-owned enterprises decreased.

Protection of Property Rights

Indonesia has suspended many private infrastructure projects, especially in the field of private power generation, for economic and political reasons. The Embassy has vigorously emphasized to the Indonesian government the importance of honoring internationally binding contracts and that all project reviews should be conducted in a rule-based, consistent, objective, and transparent manner. Many government officials recognize the importance of honoring contracts, but a risk remains that the Indonesian government may unilaterally abrogate projects and contracts.

Mortgages and secured interests in chattels and real property are recognized but a recording system is not in place. Enforcement of secured interests is problematic. The court system does not provide effective recourse for settling property disputes.

Although it remains on the Special 301 priority watch list, Indonesia has made considerable progress in improving regulatory protection for intellectual property rights. Enforcement is an ongoing problem. Indonesia is a member of the World Intellectual Property Organization and a party to the Paris Convention for the Protection of Intellectual Property. In March 1997, the Parliament passed amendments to Indonesia's patent, copyright and trademark laws designed to bring them into compliance with the TRIPS agreement of the Uruguay Round. In 1997, Indonesia also reacceded to the Berne Convention and signed the Trademark Law Treaty. Other international agreements to which Indonesia is party include the Nice Agreement for the International Classification of Unclassified Goods and Services, the Strasbourg Agreement Concerning the International Patent Classification, and the Budapest Treaty on the International Recognition of the Deposit of Microorganisms.

Patents: Indonesia's first patent law entered into effect on August 1, 1991. The law and its implementing regulations outline patent application procedures, application fees, registration of patent consultants, and patent announcements. Products and production processes are in principle patentable subject to certain requirements for a period of 14 years commencing from filing of the patent application.

The duration of a patent may be extended for another two years. In addition to this relatively short term of patent protection, other drawbacks in the law include compulsory licensing provisions, and a provision allowing importation of 50 specific pharmaceutical products by non-patent holders.

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

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

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

Transparency of the Regulatory System

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

Efficient Capital Markets and Portfolio Investment

Indonesia's banking sector was in dire condition as of June 1998, when a major effort to restructure the sector was taking shape. The economic crisis that swept Southeast Asia starting in July 1997 had nearly paralyzed Indonesia's financial sector. Most bank loans were not being serviced; banks were in turn unable to service their debts; and the collapse in bank credibility had all but shut off the flow of interbank credit.

After a decade of banking sector liberalization, the Government of Indonesia found itself forced to play an increasing role in banking as the economic crisis deepened. Bank Indonesia first provided a substantial amount of liquidity credits to banks -- in effect becoming the part owner of many troubled banks -- after several potentially disastrous runs on banks. As the extent of banking sector weakness became clear, the Government established the Indonesian Bank Restructuring Agency, charged with supervising and eventually recapitalizing ailing banks. The Government also issued a sweeping guarantee on bank deposits and other liabilities.

Because of the overall weakness of the commercial and banking sector, very little credit is available on the local market. BKPM has also announced that it is contemplating rules barring foreign investors from borrowing locally. Individual banks determine deposit and lending rates. Accounting standards and practices are not consistent with international norms. All the major international accounting firms operate in Indonesia under arrangements with domestic accounting firms.

Indonesia's capital market expanded rapidly over the last decade, led by growth of the equity market. Trading on the Jakarta Stock Exchange - the dominant securities market in the country - increased from only 27,000 shares per day in 1988 to 254 million shares per day in mid-1998. Like the banking sector, however, the stock market was hard hit by the economic crisis that struck Indonesia beginning in mid-1997. Market capitalization declined by 30 percent in Rupiah terms from May 1997 to May 1998, and by an even more dramatic 83 percent in U.S. dollar terms (see table 2). Indonesians described this collapse with the proverb, "already brought down, then hit by the falling ladder."

The lack of a well-developed bond market remained a limiting factor for Indonesia's financial sector, and arguably contributed to the financial and economic crisis. Lacking a deep domestic market for bond financing, and facing relatively high domestic interest rates for bank loans, many rapidly expanding Indonesian companies borrowed abroad during the early

1990s, running up private offshore debts of about US$ 80 billion by 1997. These loans were largely unhedged, because companies counted on the Rupiah's continuing depreciation at a slow and predictable rate against the U.S. dollar. The loans were also largely short-term, but it was common practice for lenders to roll over the principal on a yearly basis.

When the exchange rate crisis hit in mid-1997, companies suddenly faced loan payments that were very large in Rupiah terms. In addition, lenders balked at providing new loans and became increasingly reluctant to roll over short-term loans. The supply of foreign capital that Indonesia had come to rely on abruptly dried up. The flow of capital reversed course as foreigners and Indonesians alike began taking their wealth out of the country. As of mid-1998, a priority issue for the Indonesian Government and business sector was to restore confidence so that capital inflow would resume. A longer-term issue was development of a more vibrant and self-reliant domestic capital market.

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

There are no formal restrictions regarding mergers and acquisitions. However, Indonesian companies are closely held and, prior to the economic crisis, their owners rarely put up more than 20 percent of their stock for public offering. The Indonesian Parliament has enacted a comprehensive capital markets law with the aim of increasing transparency, certainty, and accountability.

Powerful business conglomerates own Indonesia's largest private companies. The companies within each conglomerate share directors and major shareholders. Articles of association and incorporation do not limit or prohibit foreign investment or participation.

Political Violence

In May 1998, major rioting in Jakarta and other cities and towns led the U.S. Department of State to recommend that all American citizens depart Indonesia and, with the exception of essential staff, all U.S. government employees and their dependents were ordered to leave. Many other countries, including Canada, Australia, Singapore, and Japan, issued similar warnings. By mid-June the Department of State authorized the return of all U.S. government employees and dependents, but continued to warn American citizens to exercise caution.

Because of the continuing potential for civil unrest, Indonesia has recently been added to the War Risk Rating List for insurance underwriters. Nascent insurrections exist in several parts of the country including East Timor, Irian Jaya and Aceh.

Corruption

In recent years, considerable attention has focused on the costs of corruption and influence peddling to local and foreign businesses, and the economy as a whole. Local and foreign companies have long reported that corruption is commonplace, and surveys of business executives working in Asia have ranked Indonesia among countries where corrupt practices are most pervasive and act as a disincentive to direct foreign investment. Demands for "facilitation fees" to obtain required permits or licenses, government award of contracts and concessions based on personal relations, and a legal system that is often perceived as arbitrary are frequently cited problems. Foreign companies have had little success in filing formal complaints, either through legal or administrative channels that lead to corrective action. Foreign companies frequently report difficulties in obtaining and renewing necessary immigration permits for expatriate staff based in Indonesia.

Efforts to combat corruption have not been effective although a 1996 report from the National Planning and Development Board recognized the judicial system's shortcomings. Since the resignation of President Soeharto in May 1998, however, the identification and elimination of corruption, collusion and nepotism has become a national obsession. Untangling the webs the former first-family and crony-controlled businesses and contracts has been problematic for the Indonesian authorities and there is considerable maneuvering on this front.

Bilateral Investment Agreements

Indonesia has signed investment protection agreements with many countries, including the United States, Belgium, Denmark, France, Germany, the Republic of Korea, the Netherlands, Norway, Switzerland, and the United Kingdom. It has also signed treaties for the avoidance of double taxation with several countries, including the United States. On February 1, 1997, a new U. S. - Indonesia tax treaty went into effect that reduced withholding rates to 10 percent, on par with rates accorded by Indonesia to Japan and major European countries.

OPIC and Other Investment Insurance Programs

Since 1967, all three types of Overseas Private Investment Corporation (OPIC) insurance -- inconvertibility, expropriation, and war, revolution and insurrection -- have been available to U.S. investors in Indonesia. OPIC coverage was extended to bid bonds on service contracts in 1987. OPIC also offers project financing to U.S. firms. At this time, OPIC is not processing any applications for insurance in Indonesia, but this policy may change because of improved labor rights since June 1998.

Labor

The labor force is estimated at about 90 million, of which about 75 percent are between the ages of 15 and 34. The labor force has grown by an average of 2.5 percent over the past 30 years, though this rate is decreasing with the drop in fertility rates, increasing urbanization and lengthening school attendance. Women make up approximately 40 percent of the work force. Before the economic crisis began in 1997, the Indonesian government estimated "open" unemployment (defined as a person who is working less than one hour a week) to be roughly 5 percent. Now the government estimates that 15 million persons, 17 percent of the labor force and 50 percent of the industrial work force, is unemployed. Unions and non-governmental observers estimate that more than half of the population is under-employed.

Before the economic crisis, the education level of Indonesia's labor force had risen to the point that some 26 percent of non-agricultural workers have graduated from high school, and about five percent had educational achievement at a university level. Only 25 percent of the non-agricultural workers had not completed primary school, although this figure reached almost 50 percent within the agricultural work force. However, high price inflation and large-scale layoffs have squeezed family incomes and caused at least 20 percent of all students to drop out of school during the last year, according to Indonesian government estimates.

The United States has traditionally been a top choice for Indonesians who wish to study abroad. In 1996, there were an estimated 12,000 Indonesians studying in the United States, most in the fields of business and engineering. The sharp drop in the rupiah's value in relation to the dollar, however, has significantly reduced the number of Indonesians who can afford foreign study.

Job creation and the alleviation of underemployment are targets of economic policy making, especially in light of the massive layoffs caused by the economic crisis. The unemployment rate for higher education graduates was much higher than the overall unemployment rate even before the crisis. At the same time, Indonesia is experiencing shortages of managerial and professional personnel. Education and human resource development remain high priorities for the government.

The government sets minimum wages by region. The minimum wage in Jakarta and West Java was set at Rp. 198,500 (approx. $17.00 at Rp. 14,100 per dollar) per month as of August 1, 1998. Regulatory requirements, such as that for 30 days full pay per month, increase the take home amount. Labor strikes have been common in recent years. Strikes usually relate to failure of employers to pay the minimum wage, denial of benefits, lack of an effective union, and termination of employees. The Indonesian government promulgated a new regulation in May 1998 which make it easier for labor organizations to register as trade unions, and several new unions have formed to join the Federation of All-Indonesian Trade Unions (FSPSI), which was the sole government-recognized union prior to 1998.

Indonesia's industrial relations system is based on the national ideology of Pancasila. In its industrial relations application, Pancasila emphasizes the traditional Indonesian values of harmony and consultation leading to consensus. In reality, such consensus is hard to reach and enforcement of labor regulations is a major problem. However, a foreign joint venture can expect more rigorous enforcement of labor regulations as well as other laws than a local firm.

Foreign Trade Zones/Free Ports

Investments in the manufacturing sector which are located in designated bonded zones pay no duty on imported inputs until the portion of production destined for the domestic market is "exported" to Indonesia, in which case duty is owed on that portion. This benefit is available to domestic and foreign firms alike.

Foreign Direct Investment Statistics

Foreign investment interest in Indonesia has fallen substantially since the onset of the economic crisis in mid-1997. From 1967 through 1996, BKPM approved foreign investment applications worth more than $173 billion; over half were approved after 1993. Foreign investment approvals reached almost $24 billion in 1994, $40 billion in 1995, and $30 billion in 1996. In 1996, foreign investors were most attracted to the chemical industry, including two oil refineries that accounted for 25 percent of approved investment. BKPM also approved significant foreign investment for infrastructure (electric/gas/water) and housing projects, with 13 and 9 percent respectively. Metal goods and the pulp/paper industry each attracted some 10 percent of approved foreign projects in 1996. Foreign investment in oil, gas, mining, banking and insurance all fall outside BKPM's purview;there are several billion dollars more annual foreign investment in these sectors.

Japan is the biggest cumulative foreign investor in Indonesia, excluding the oil/gas sector. Between 1967 and 1996, BKPM- approved Japanese investment applications reached some $35 billion, 20 percent of the total. Indonesia's second largest company, Indonesia Petroleum, is a Japanese joint venture, as is the largest automobile manufacturer, P.T. Astra. Japanese partners also figure heavily in the pulp, paper and petrochemicals industries. Japan was Indonesia's largest foreign investor in 1996, with approvals worth some $7.7 billion.

The United States ranks fifth in cumulative BKPM-approved investment from 1967-1996, with a total of $12.5 billion. However, the BKPM statistics do not include investment in the oil and gas sector, where the United States is by far the largest player. U.S. companies, including Caltex, Maxus, Arco, Mobil, Union Texas, and Unocal pump the lion's share of Indonesia's crude petroleum and natural gas. U.S. oil services companies have significant investments in Indonesia to serve the oil fields, including fabrication yards for offshore oil platform development.

P.T. Freeport Indonesia, an affiliate of the U.S. mining firm Freeport McMoRan, is the largest direct U.S. investment. Freeport Indonesia is implementing a $500 million mine and mill expansion and recently signed a new 30-year contract of work for its copper and gold concession in Irian Jaya.

Major U.S. companies produce consumer and other products and provide services for the domestic market. General Motors is building a $110 million vehicle assembly plant and the General Electric Capital Corporation has established a multi-million dollar automobile financing joint venture. In 1996, General Electric opened the first locomotive factory in Southeast Asia and created the second largest lighting company in Indonesia.

Mission Energy has taken the lead in a consortium to build a multi-billion dollar coal-fired power plant in East Java. Investors have been increasingly interested in producing in Indonesia for export, with Batam Island a newly favored investment site. Four U.S. banks have branches in Indonesia and there are nine U.S. bank representative offices.

Indonesia's other major foreign investors include the United Kingdom, Hong Kong, Singapore, the Netherlands, Taiwan, and South Korea.