Indonesia's Global Trade

Indonesia's two-way trade with the rest of the world reached $45 billion in 1989, an 11% increase over 1988. Imports and exports have grown at an equal pace, with the 1989 trade surplus amounting to approximately $8.6 billion, a 9% increase over 1988. Throughout the 1980's, Indonesia had experienced a trade surplus, though it fluctuated from a high of $14.3 billion in 1981, to a low of $5.9 billion in 1983.

In 1988, almost two thirds of Indonesia's exports were directed to Japan, the USA and Singapore. These same three countries supplied more than 45% of Indonesia's imports.

Indonesia's exports are largely composed of primary commodities, with oil and gas constituting about 40% of the total, wood and wood products, 11%, and rubber, 6%. Total exports amounted to $26.7 billion in 1989. As of that year, the oil and gas portion of total exports had decreased significantly since 1985 when it represented almost 70%. This made Indonesia less vulnerable to fluctuating world oil prices. Imports reached $18.1 billion in 1989. 75% of that total was made up of intermediate goods, including industrial raw materials and fuels, and a further 19% was accounted for by capital goods such as machinery.

Foreign investment in Indonesia comes mainly from Japan, Hong Kong and Taiwan, and has grown significantly in recent years, with commitments of more than $5.6 billion announced in 1989. Actual 1989 foreign investment inflows amounted to about $1 billion, a substantial increase from the mid 1980's when inflows amounted to about $0.4 billion.

The Business Environment

The Indonesian Government has undertaken numerous reforms in order to encourage foreign direct investment. These include the reduction of import quotas; the elimination of non-tariff barriers in favour of a flat tariff (Indonesia has eliminated non-tariff barriers on all but 15% of import categories); the abolition of import and export licensing; the dismantling of import monopolies; the removal of duties on products used in manufacturing goods for export; and an allowance for foreign investors to invest in most sectors of the economy.

Indonesia welcomes foreign investment to support continued growth and development of the economy. Of particular importance are investments in sectors where either capital, technology, or management skills are not yet locally available. As well, emphasis is placed on the expansion of commercial activities and production for export markets.

All foreign investment must be in the form of a joint venture with an Indonesian partner. In most cases the partner must own at least 20% of the equity in the venture. The Indonesian Investment Coordinating Board (BKPM) oversees foreign capital investment in Indonesia. New entrants into this market should be aware that a list of sectors which are closed for new investment has been formulated by BKPM.