

INDONESIA

INTRODUCTION

Indonesia is an archipelagic nation consisting of 13,000 islands stretching between the Indian and Pacific Oceans. It has a population of 170 million people of whom some 90 million are located on the island of Java. Indonesians consist of over 300 different ethnic groups speaking 250 distinct languages and dialects. The religion of the majority is Islam although pre-Islamic local beliefs and customs remain strong. Other important religions are Christianity and Hinduism. Indonesia continues to rank as one of the more successful developing countries. Under the leadership of the Soeharto Government it has enjoyed over two decades of political stability and steady economic growth, accompanied by a rising standard of living.

POLITICAL AND ECONOMIC SITUATION

Indonesia has a complex republican form of government including an Advisory Council and Consultative Assembly and is heavily influenced by the traditional Javanese, and indeed Indonesian sense of respect for leadership and authority. The President has just been re-elected by acclamation for a fifth five year term of office. The new Cabinet appointments he subsequently made indicate that existing government policy directions will be maintained in economic liberalization measures and international relations.

The Indonesian economy is divided between a large, fragmented agricultural sector and a small, dynamic industrial sector. Indonesian industry has been fuelled by inexpensive domestic oil and is primarily oriented to satisfy a substantial domestic market. Import substitution has been the traditional emphasis of Indonesian industrialization while export earnings have come from the petroleum, forestry and minerals sectors. With the dramatic fall in prices of crude oil in the international market place and the concomitant fall in export revenues Indonesia has sought to diversify its exports and to strengthen the performance of non-oil production sectors. Various policies have been applied to achieve the desired results including a thorough reform of customs procedures, and a general liberalization of business and trading practices, which is still in process. These policies have proven to be effective: the share of non-oil export earnings grew to 60% of overall export earnings in 1987 lessening Indonesia's traditional reliance on oil exports.

Despite responsive economic policies foreign debt has risen sharply in recent years as the government borrowing for development projects in compensation for lower oil and gas export receipts. At the end of 1987 foreign debt is estimated to exceed \$45 billion with a debt service ratio in excess of 40%. Nonetheless Indonesia has managed to maintain a healthy foreign reserve position sufficient for approximately 9 months of imports. Indonesia's progressive and steady financial and fiscal policies have resulted in the country becoming one of