

INDONESIA

Canada's relationship with Indonesia was traditionally characterized by development assistance programmes and a modest level of trade. While neither country is a dominant player in the other's market, trade represents the strong basis of the bilateral relationship. International economic and trade fora such as Asia-Pacific Economic Cooperation (APEC), the Multilateral Trade Negotiations, as well as the Association of South East Asian Nations (ASEAN) itself, also provide areas for effective cooperation.

Recent Economic Developments

A number of factors have contributed to the solid economic growth which Indonesia has been experiencing in recent years. These include a stable political environment, the diversification of its economy away from a dependence on oil exports, and moves by the Indonesian government towards reducing its role in major industries in order to develop a more vibrant economy. A stronger private sector is the result. Economic indicators are positive. Since 1983, Indonesia's real GDP growth has averaged 5.5% per annum, and the 1989 growth rate has been estimated at 7.3%. Consumption rates have also risen significantly, from 2.8% in 1987 to 6.3% in 1989. In addition, last year witnessed a return to 1980/81 record values of exports at \$32.9 billion.

These indicators reflect reforms put into effect in the last several years which focus on deregulation, and the commitment to move toward the privatization of public corporations. Severe external shocks from the global recession and weakening oil prices during the mid-1980's threatened Indonesia's economy, but government policies have contributed toward a return to earlier economic performance. These policies have included tax reform, the liberalization of banking laws, an overhaul of customs and export procedures, and incentives to attract increased foreign investment and non-oil/gas exports. Combined with budget austerity, these factors have bolstered the Indonesian economy against the effects of oil price fluctuations.

Future developments in Indonesia's economy will depend in a large part on the success of the current Five Year Development plan (Repelita V), covering the fiscal year 1989/90 through to 1993/94. It aims at a sustained level of economic growth on the basis of a more equitable distribution of income and greater national stability. In Repelita V, the economic structure is expected to become better balanced. More than half of the total national budget has been allocated to the communications, education and agriculture sectors. The National Budget is expected to reach \$160 billion, with \$118.3 billion (74%) coming from domestic revenues, and the remaining portion sourced from multilateral and bilateral assistance. Repelita V comes at a time when Indonesia will have to absorb 11.9 million new job-seekers into its labour force over a five-year period, making the creation of widespread employment opportunities, the development of human resources, and the provision of basic needs and social services important priorities.