Indonesia has prudently and successfully managed its external debt burden. With a debt-service ratio of approximately 30 per cent, the Government must continue to manage the balance of payments carefully throughout the 1990's. The economic growth rate is likely to slow down in the early 1990's as the government tightens the money supply to cool down an overheated economy and to lower the inflation rate which is approaching 10 percent.

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 percent 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 percent of the equity in the venture. The Indonesian Investment Co-ordinating Board (BKPM) oversees foreign capital investment in Indonesia. New entrants into this market should be aware of a BKPM list of sectors which are closed for new investment. The number of sectors conditionally closed to foreign investment has dropped from 60 in 1991 to 45 in 1992. There are six business areas completely closed to foreign investment.

One incentive to encourage foreign investment has been the development of Free Trade Zones. Enterprises which set up in these zones may enjoy reduced tariffs and exemptions from import and export tax, provided that their product is primarily for the export market. There is also a relaxation of minimum ownership requirement so that in most cases the foreign partner may own up to 95% of the venture.

CANADA-INDONESIA COMMERCIAL RELATIONS

Indonesia's Global Trade

Indonesia's global merchandise trade reached U.S.$47.6 billion in 1990, a 45 percent increase over trade levels a decade earlier. While import and export levels have grown at a relatively equal pace, Indonesia's trade surplus in 1990 amounted to approximately U.S.$ 3.8 billion.