The Effects of Yen Appreciation upon the Japanese Foreign Investment to Indonesia
——Related with PP No.20/1994——*

Toshiro NOMURA

Introduction

The Yen appreciation has been promoting the overseas direct investment of Japanese enterprise, in particular promoting the direct investment to Asian countries since 1985. Above all, we can admit the direct investments have increased rapidly to ASEAN countries and China, and that these countries have shown a rapid development in these years. The investment to Indonesia and the development can be considered as one link in these movements.

In Indonesia, they had taken the import substitutional, protective development policy that depended upon the exports of petroleum and development aid for raising money, until the first half of 1980's. Then, they set up

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Indonesianization as development idea and nationalism had come to the front. However, they have changed their development policy into export oriented one, and opened their country to foreign capital, and they have raised development money for exporting non-petroleum products and introducing foreign capital. Because they had the bitter situation that the price of petroleum was extremely low for a long time and an accumulated debt in 1980's.

According to these situations, the direct investments to Indonesia have increased rapidly, and showed the growth that counted ten times as much money as that before, and the Indonesian economy also showed a rapid development during 1986-1990. But, the deregulation in the second half of 1980's was insufficient, compared with that in Malaysia and Thailand. The investment during this period focused on these two countries, while the investment to Indonesia could not show much increase. But, in Indonesia, labor force and natural resources are predominant as well, and we can find the viewpoint that the investment to Indonesia will make active, if the wage increase has performed in these two countries. On the contrary, in 1990's, the attention is being focused upon China as the investing country, so that the standpoint of Indonesia has been at a disadvantage clearly.

PP No.20/1994[1] has announced under these situations. By this policy, Regulation on Foreign Shareholding and Obligation of Capital Transfer have been abolished. Then the most difficult problem to prevent foreign capital from introducing has been settled. This shows that the policies based upon the nationalism and protectionism have been converted fundamentally, and that the liberalization of policy, which priority is development, has been introduced.

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[1] PP No.20/1994 is the abbreviation of "Peraturan Pemerintah Republik Indonesia Nomor 20, Tahun 1994", which means Government Regulation of the Republic of Indonesia Number 20 of 1994.

At the same time, in the exchange market, the exchange rate of Yen has gone up since February in 1993, and has passed 100 Yen and rushed 90's Yen in June, 1994. This exchange rate shows much higher than the expected rate of export by the Japanese enterprise, and the overseas investment has been put pressure strongly.

In this paper, considering these situations, the problems; the influence of the exchange market to direct investment, the investment policy of the investment induction country, the actual meaning of the investment surroundings, and the investment tendency from now will be considered in the following order. In the first place, the changing exchange rate in the 1980's will be considered focused on Yen and Rupiah. In the second place, the Indonesian investment policy and its surroundings will be investigated. Then, the influence of the direct investment in the 1980's both to Japan and Indonesia will be considered. Finally, the investment probability to Indonesia from now will be considered based upon the recent situations: the Yen appreciation since February in 1993 and the presentation of PP No.20 /1994.

I. Yen Appreciation from 1985 to 1993

(1) The trends of changing exchange rate from 1985

Table I-1 and Fig. I-1 show the change of exchange rate in east Asian countries. We understand by these, the changing exchange rate in the currency of Asian countries can be divided into two groups from 1985 onward. One of them is Japan and NIES countries. The exchange rate for the dollar in these countries has rised even though the subtle fluctuations can be found.

Above all, Yen is the currency which showed the highest rise. The Yen had gone up from about 240 to 140 (period averages by IMF), from 1985 to 1988, which showed almost twice as much as the last rate. Since then, the

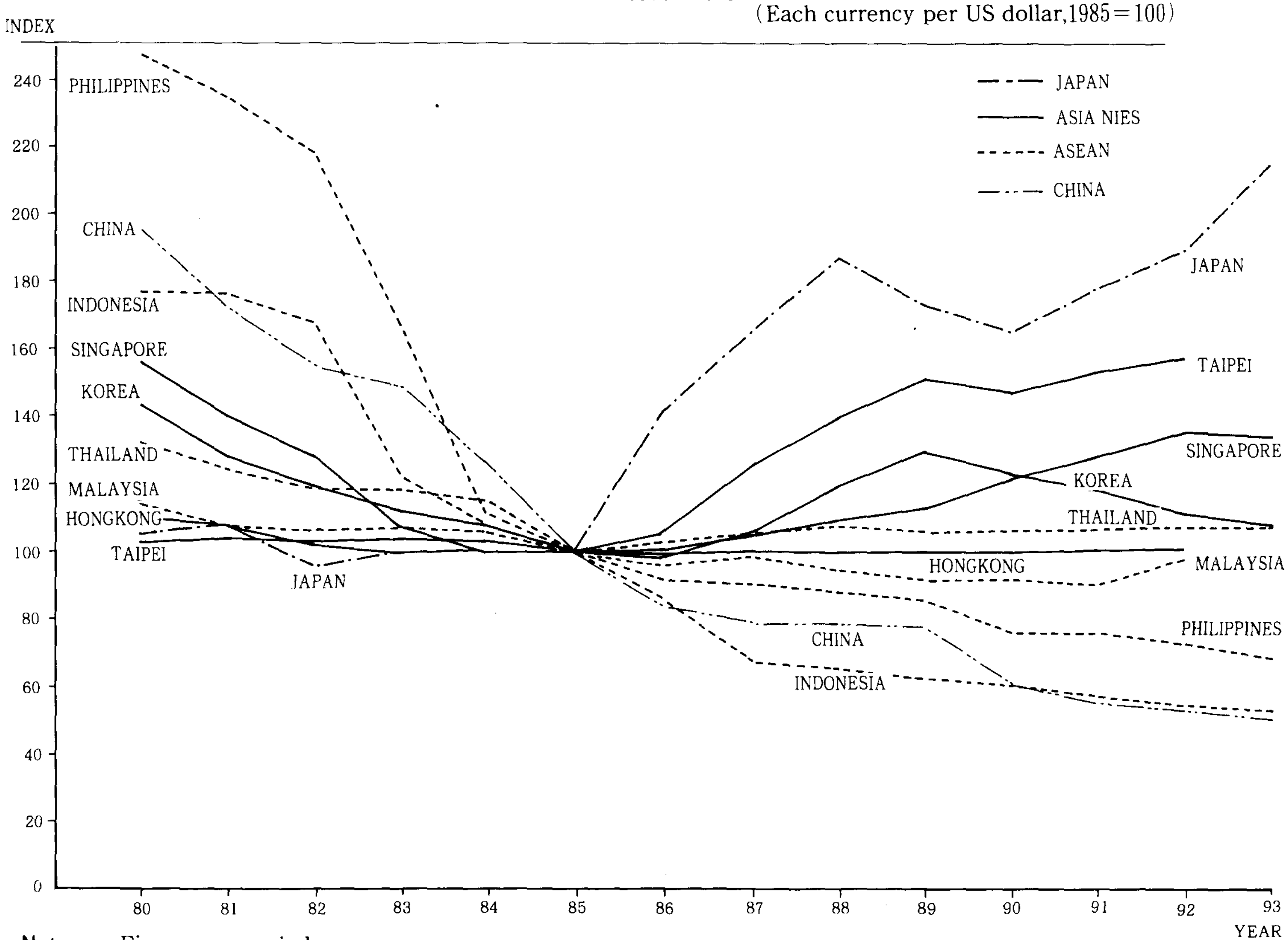
Table Ⅰ-1 The Changes of Exchange Rate in East Asian Coutries
1980～1993

(Each currency per US dollar)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
JAPAN (Yen)	226.74	220.54	249.08	237.51	237.52	238.54	168.52	144.64	128.15	137.96	144.79	134.71	126.65	111.20
INDONESIA (Rupiah)	627.0	631.8	661.4	909.3	1,025.9	1,110.6	1,282.6	1,643.8	1,685.7	1,770.1	1,842.8	1,950.3	2,029.7	2,087.1
PHILIPPINES (Peso)	7.511	7.900	8.540	11.113	16.699	18.607	20.386	20.568	21.095	21.737	24.311	24.479	25.512	27.120
MALAYSIA (Ringgit)	2.1769	2.3041	2.3354	2.3213	2.3436	2.4830	2.5814	2.5196	2.6188	2.7088	2.7049	2.7501	2.5474	2.5741
THAILAND (Baht)	20.476	21.820	23.000	23.000	23.639	27.159	26.299	25.723	25.294	25.702	25.585	25.517	25.400	25.319
SINGAPORE (S. dollar)	2.1412	2.1127	2.1400	2.1131	2.1331	2.2002	2.1774	2.1060	2.0124	1.9503	1.8125	1.7276	1.6290	1.6518
KOREA (Won)	607.43	681.03	731.08	775.75	805.98	870.02	881.45	822.57	731.47	671.46	707.76	733.35	780.65	802.67
TAIPEI (T.dollar)	36.015	36.849	39.124	40.065	39.597	39.849	37.838	31.845	28.588	26.407	26.893	26.815	25.403	
HONGKONG (H.dollar)	4.976	5.593	6.072	7.273	7.818	7.791	7.803	7.798	7.806	7.800	7.789	7.771	7.741	
CHINA (Yuan)	1.4984	1.7045	1.8925	1.9757	2.3200	2.9370	3.4528	3.7221	3.7221	3.7651	4.7832	5.3234	5.5146	5.7620

Note: Figures are period averages.
Sources: From IMF *International Fainancial Statistics*. Taipei and Hongkong are from ADB *Key Indicators*.

Fig. I -1 The Changes of Exchange Rate in the East Asian Countries 1980～1993



Note: Figures are period averages.

Sources: From IMF *International Financial Statistics*. Taipei and Hongkong are from ADB *Key Indicators*.

Yen had been weak from 1989 to 1990, but in 1990 the Yen was the weakest, then the Yen had been going up again, and coming up to standard: 110 in 1993. Since then, even though the subtle fluctuations can be found, the Yen is changing around the latter half of 90's, which showed the strongest rate; 96.95 on the 12th in July in New York exchange market.

Similarly, Taiwan dollar and Singapore dollar have been going up. Taiwan dollar had gone up from about 40's Taiwan \$/us\$ to 25's Taiwan \$/us\$, from 1985 to 1992. Singapore dollar had also gone up from about 2.2 s\$/us\$ to 1.6 s\$/us\$, from 1985 to 1993. Compared with the Yen, the rising rate is lower than that of the Yen, but the rising one is pretty high. The Korean currency; Won also has shown the high rising rate in comparison with that in 1985, the Won had been strong until 1989, the Won has been changing weak after then. Hongkong dollar has been steadily changing in 7.8's Hongkong \$/us\$.

On the contrary, the currencies of ASEAN countries and China have been going down since 1985. Among ASEAN countries' currencies, the falling rate of Indonesian Rupiah shows the highest one. The falling Rupiah has lasted for a long time from 1970's onward, and Devaluation policies have been performed widely four times during these twenty five years. The First Devaluation was performed on the 23rd in August in 1971; this devaluated the Rupiah from Rp.378/us\$ to Rp.415/us\$, which showed the 10% going down.The Second Devaluation was performed on the 15th in November in 1978; this devaluated the Rupiah from Rp.415/us\$ to Rp.625/us\$, which showed the 51% going down. Then, the government adopted the free-exchange rate system, but they were obliged to devaluate the Rupiah twice since that time; the Third Devaluation was performed on the 30th in March in 1983, when the Rupiah was devaluated from Rp.703 to Rp.970/us\$, 38% going down, and the Fourth was on the 12th in September in 1986, when the

Rupiah was devaluated from Rp.1,133/us＄ to Rp.1,644/us＄, 45% going down. Since then, the Rupiah has been floating down moderately, in 1992 the Rupiah has been floating down to the standard; Rp.2,000/us＄, and the Rupiah has kept on falling with a few percentage a year. In the currencies of other ASEAN countries, the Philippines Peso shows the next highest falling rate, while Maraysia Dollar and Thailand Baht show the steady changing rate.

The Yuan in currency of China has been falling a lot for a long time, which shows the higher percentage than that of Rupiah. The Yuan has been falling from 1.5 Yuan/us＄ to 5.8 Yuan/us＄, from 1980 to 1993, which shows approximately three quarters % going down. In comparison with the Yuan in 1985, the Yuan has been falling from 2.9 Yuan/us＄ to 5.8 Yuan/us＄, which shows about a half percentage falling.

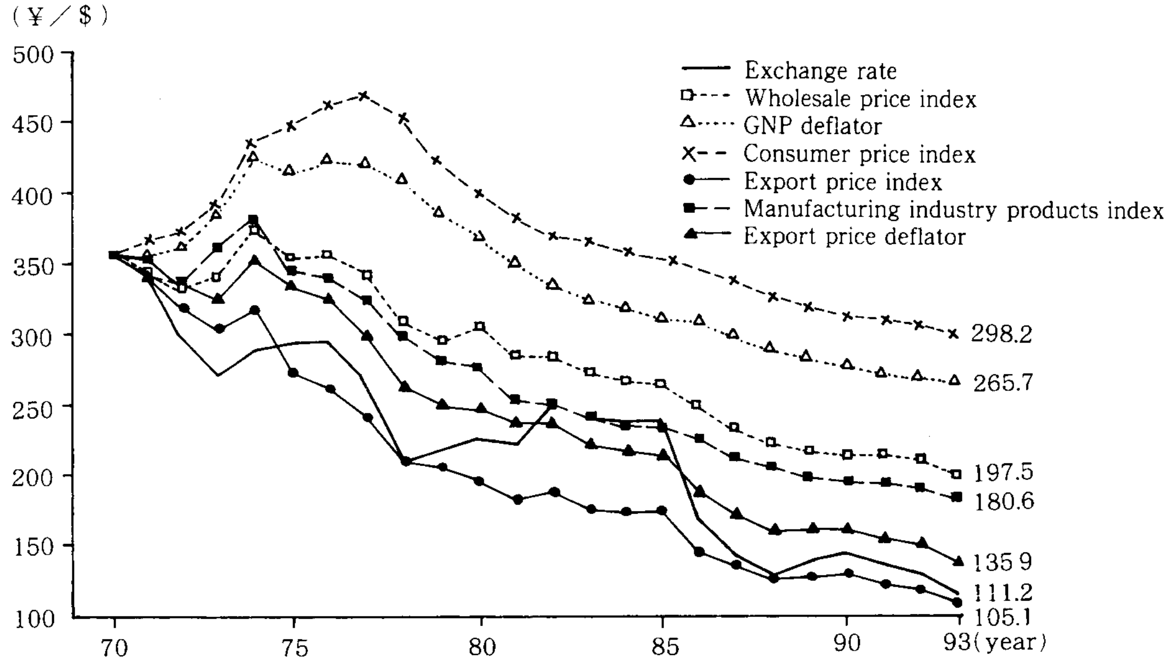
As shown above, the Yen has been going up with the currency of NIES, while the Rupiah has been going down with the currencies of ASEAN and China. Particularly, the Yen and the Rupiah have been floating widely, which shows the two opposite change; the strongest and the weakest. These situations are interesting to examine how the widely different exchange rates have an influence on these two countries. In the first place, I will consider how the rising Yen had have an influence on Japanese enterprise.

(2) Effects of the Change of Foreign Exchange Rate upon Japan and Indonesia

In this section, I will consider this problem by comparing with purchasing power parity. Fig. I -2 and Fig. I -3 based upon *White Paper on International Trade in Japan 1994* show to compare purchasing power parity with the exchange rate.

In Figure I -2, the base year is set in 1970, the great gap can be found between the purchasing power parity and the exchange rate. In particular,

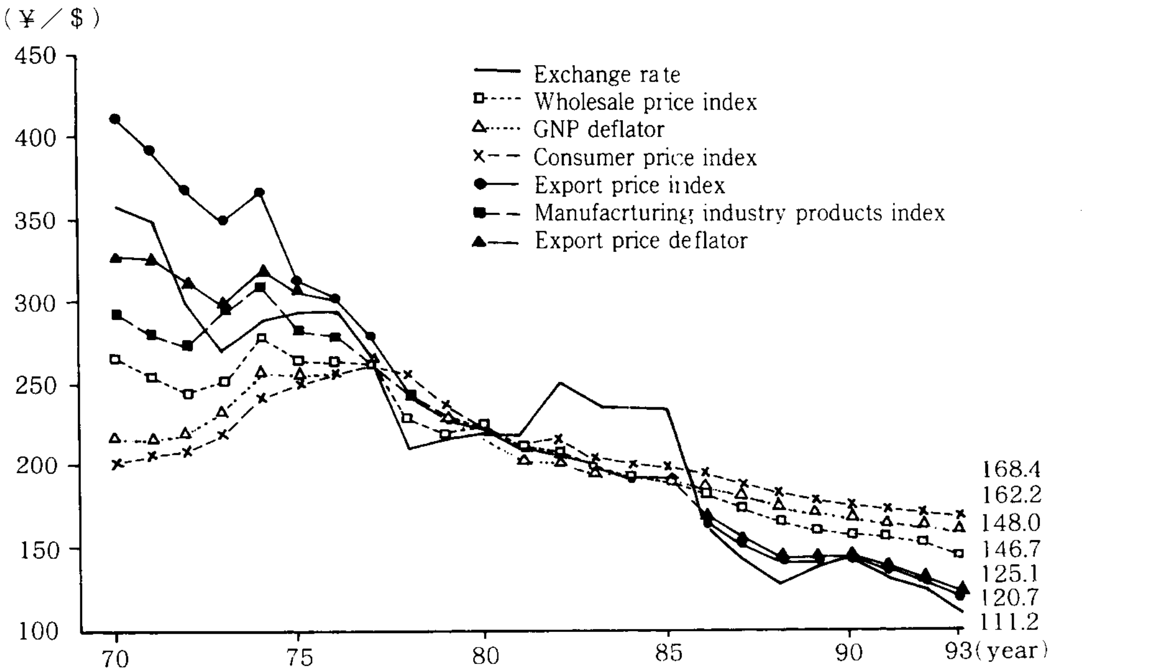
Fig. I -2 Trends in purchasing power parity (1970 as base year)



Materials: Economic Planning Agency "Annual Report on National Accounts," Bank of Japan "Price Indexes Monthly," Management and Coordination Agency "Monthly Report on The Consumer Price Index,"U.S.Department of Commerce "Survey of Current Business," IMF "IFS"

Source: MITI "White Paper on International Trade Japan 1994"

Fig. I -3 Trends in purchasing power parity (1980 as base year)



Materials: Economic Planning Agency "Annual Report on National Accounts," Bank of Japan "Price Indexes Monthly," Management and Coordination Agency "Monthly Report on The Consumer Price Index," U.S.Department of Commerce "Survey of Current Business," IMF "IFS"

Source: MITI "White Paper on International Trade Japan 1994" the gap between the actual exchange rate and the consumer price index, and the gap between the actual exchange rate and the wholesale price index are very wide; the former 298.2 Yen/us＄ in 1993, and the latter 197.5 Yen/us＄, while the actual exchange rate is 111.2 Yen/us＄. Still in comparison with GNP defrator, the rate is 265.7 Yen/us＄, and this gap is also wide. These figures clearly show that it is very difficult to export goods with the normal price level (productivity). In comparison with these figures, manufacturing industry products index shows the close figure to the actual situation, but even this shows 180.6 Yen.us/＄, which is widely separated from the actual rate. This shows that it is still difficult to export goods even with the normal price level of manufacturing industry. The rate closest to the actual rate is Export price defrator, which shows 135.9 Yen/us＄. Furthermore, Export price index is 105.1 Yen/us＄, which is above the actual rate. Supposed that the base year is set in 1980 (Fig. I -3), the same tendency can be found,but in this case, the actual rate is above Export price index, and above all indices. The parity shows the strong Yen, setting the export price as standard, because the export enterprise has more promoted to lower costs than non-export enterprise. This movement itself shows that the Japanese enterprise received the pressure of strong Yen. Besides, it will be necessary to lower the cost more when the actual rate is above the parity setting the export price as standard.

Such a tendency can be found consistently since 1985, which shows that the export enterprise has always got the pressure of strong Yen for ten years. The rush to invest overseas in the second half of 1980's keeps up with the pressure of strong Yen. The indices in 1993 shown above, the actual rate is still above the purchasing power parity, and even above the parity of the export price as standard,depending which year is the base year. This shows that Japanese enterprise cannot catch up with the advancing situation of stong Yen, even though Japanese enterprise has promoted the productivity of domestic products as base. The pressure for export enterprise to move into the oversea areas can be found still strong from now on.

Then, how is the influence of weak Rupiah on the economy in Indonesia, in connection with the investment? Generally speaking, the falling currency in the investment receiving country will bring the exchange risk to the investing enterprise. If the exchange rate is apt to fall in some country, and high interest rate policy has to be adopted, it will be necessary for the investing enterprise to borrow foreign currency for raising long-term money with low interest rate. Then, when the overseas affiliated company raises a long-term money by borrowing or by providing the capital from holding company, the exchange risk will occur to the holding company in case of providing the capital, or to the subsidiary company in case of borrowing. The only way to raise foreign currency funds without exchange risk is to raise money by foreign currency and pay back by foreign currency got by export. Thus, if the investment is export oriented, the investment to the foreign country with the tendency of falling currency is no problem .But if the investment is domestic market oriented, such investment has to receive the exchange risk in propotion to domestic sales.

Therefore, Indonesia, where devaluation has been performed repeatedly, and the exchange rate has been floating down, stands on the disadvantageous situations in comparison with Thailand and Maraysia with the steady exchange rate. This situation can be said to have an influence on the investment tendency of Japan to a degree. However, the investment to China with the wide floating exchange rate has been increased steadily, where the floating rate cannot necessarily give a crucial factor to the investment. If the investment policy and the investment environment are attractive, the disadvantageous points can be made up for. Besides, the falling rate of currency can have one side to strengthen the competitive power of export in its country, so that these situations cannot be denied totally. But the steady exchange rate will be recognized as important factor for investment environments in case of the long-term business.

As mentioned above, Japanese enterprise has got the strong pressure of overseas expansion by the strong Yen, while Indonesia has stood on the disadvantageous situation with the exchange rate. Then, I will seek the recent tendency of the investment under these situations in the second half of 1980's.

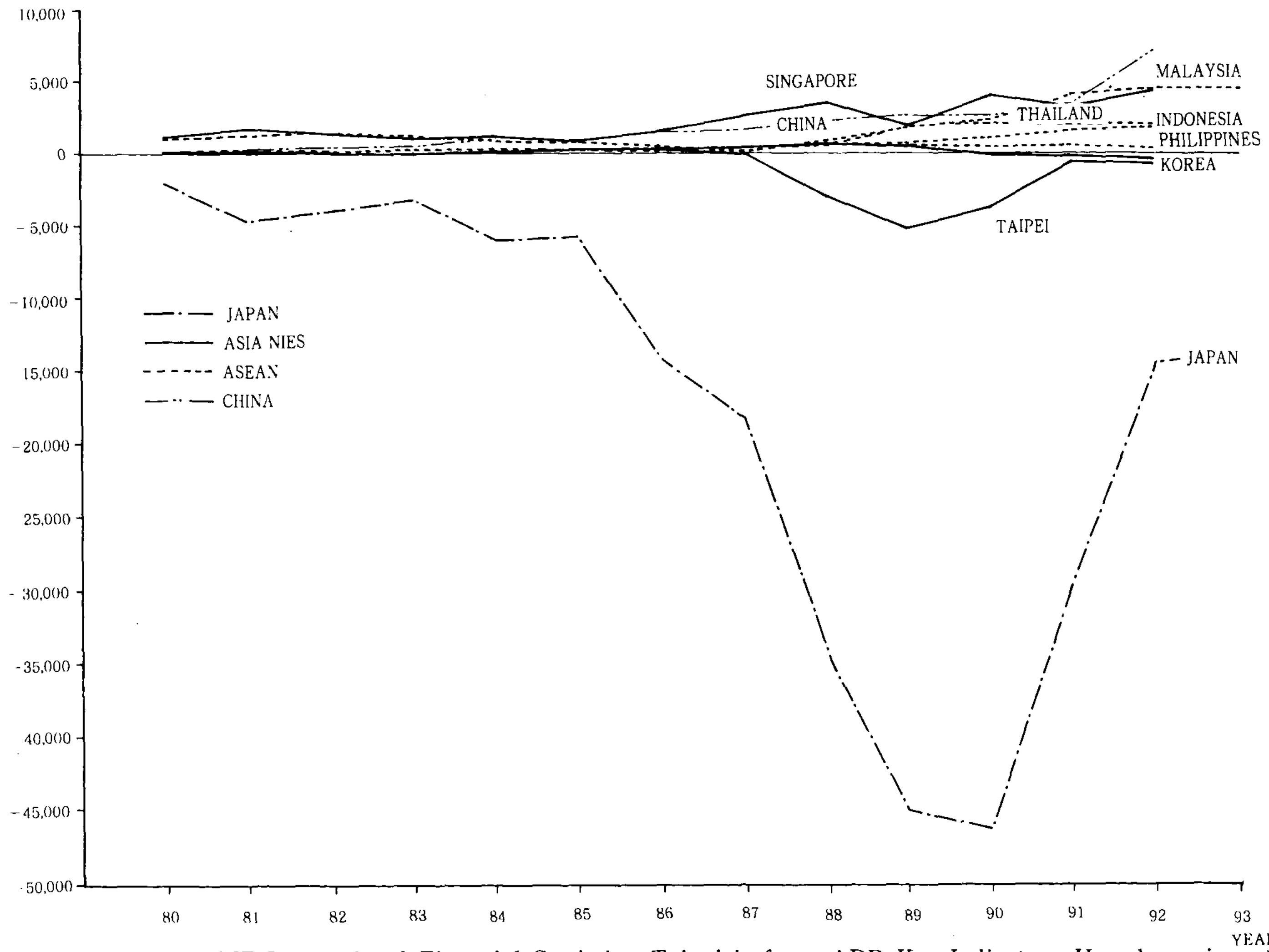
(3) Japanese Foreign Direct Investment Rush to Asian Countries

Figure I -4 shows the direct investment of East Asian countries (Japan, NIES, ASEAN, Chinese) from 1980 onward, seeking Net inflow (inflow-outflow). This shows that Japanese outflow has been increasing rapidly since 1985. Japanese outflow contains two patterns; market oriented investment to the United Stated and to EC, and cost oriented investment to Asian countries. During this period,the investment to the United States has rapidly increased for avoiding the trade friction, so that only Figure 4 cannot show clearly that the strong Yen has been a strong influence on the rapid increase of the investment. But the strong Yen seems to have been a strong influence on the direct investment, referring to the document *Actual Reports of the Direct Investment to Foreign Countries* published by the Ministry of Finance, among which some percentage can be considered to invest Asian countries.

Fig. I -5 shows the expansion of the investment to Asian countries in Fig. I -4. This figure shows clearly that Taiwan and Korean belong to the capital exporting countries, while China belongs to the capital importing country. In particular, China, Singapore, Malaysia, and Thailand show the satisfactory import of the capital, and Indonesia is followed by these

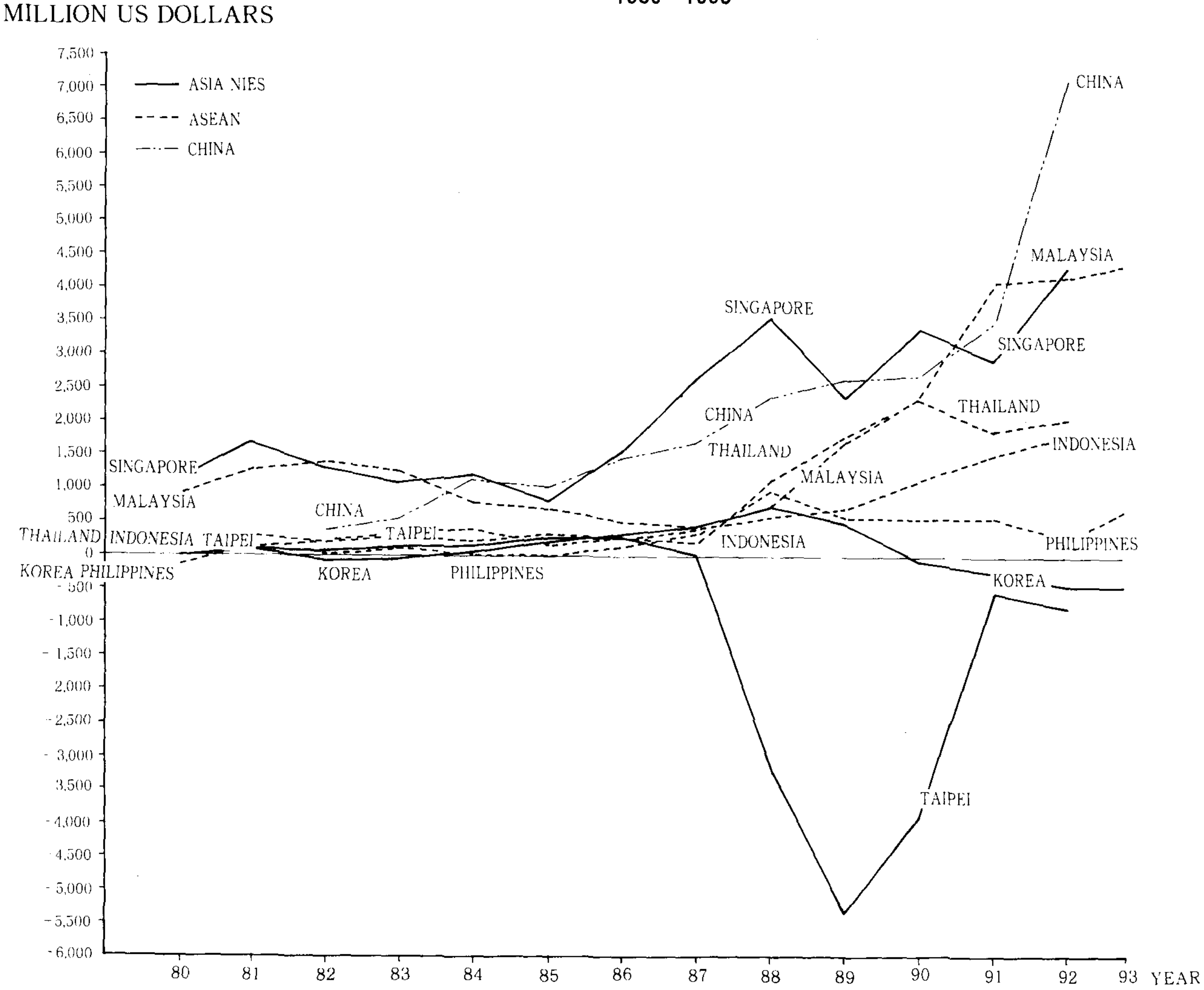
Fig. I -4 The Changes of Foreign Investment into East Asian Countries (Net infrow)
1980~1993

MILLION US DOLLARS



Sources: From IMF *International Financial Statistics*. Taipei is from ADB *Key Indicators*. Hongkong is not available.

Fig. I-5　The Changes of Foreign Investment into East Asian Developing Countries (Net Inflow)
1980～1993



Sources: From IMF *International Financial Statistics*. Taipei is from ADB *Key Indicators*. Hongkong is not available.

countries. The investment statistics of ASEAN countries shows that Japan is the utmost investing country and the amount of the investment has rapidly increased, even though subtle fluctuations can be found every year. Then, the strong Yen can be said to increase the direct investment to ASEAN countries rapidly.

By the way, the detailed explanations how exchange rate has been changing in the second half of 1980's have to be shown; the strong Yen and strong currency on one hand, and the weak currency in ASEAN and China on the other have made Japan and NIES countries capital exporting country, and have made ASEAN and China capital importing country. However, even when the productive base has to be changed with the rising exchange rate of domestic currency as in Japan and NIES, there still remains the problem to decide which country is the most desirable country for the investment. The decision for the investing country depends upon the investment policy and the investment surrounding of the country. Then, I will examine the investment policy and the investment surroundings of these countries, focused on the Indonesian ones.

II. Changes of Foreign Investment Policy in Indonesia

In this chapter, I will consider the investment policy in Indonesia. But, the development policy has to be shown to understand the investment policy, for investment policy depends upon the development policy. Then, I will examine the changes of the development policy in Indonesia.

(1) Changes of Development Policy

——From Import Substitution Industrialization to Export Oriented Industrialization——

From the viewpoint of development method, the development strategy since the Soehart government can be divided into two periods; the import substitution industrialization period and the export oriented industrialization period. Based upon the division suggested by Prof. Dorodjatun, the Deregulation, which divide into two periods; the import substitution industrialization period and the export oriented industrialization period, can contain two different stages; stage Ⅰ (1983～1984), and stage Ⅱ (1985～present), and the Deregulation Policy has been promoted totally since stage Ⅱ.[2] This period is corresponding to the transition from REPELITA Ⅲ (1979/80-1983/84) to REPELITA Ⅳ (1984/85-1988/89), and the development strategy in Indonesia seems to have changed from the import substitution industrialization to the export oriented industrialization during a few years before and after this transition.

The influence of the change to world-wide neo-liberalism (Sacherism, Reganomics, etc.), other factors such as the changing development policies in other Asian countries common to other developing countries as well, can be considered as the transition background of the development strategy. In the case of Indonesia, the factors caused by its economic structure have been strongly considered as its background. One of them is that the petroleum price was falling and floundering under the economic structure dependent on the income of petroleum.

To perform the economic development, the following problems have to be considered deeply; what is the purpose of the development, how to promote the development, and how to raise money for the development. In considering the purpose of the development, the problem whether the

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(2) Dorodjatun Kuntjoro-Jakti, "Deregulation Policy and the Changes of the Investment environment", (*The Investment in Indonesian Industry and its Economic Role*, eds. by Suruyo Sudiono, Research Institute of Asian Economy, 1992, Chapter Ⅳ.

development is for the political independence or for the development itself has to be discussed. In considering the way of the promotion, the problem whether the development is based on market system or based on the economic plan has to be discussed, or the problem whether the development is under the control of private capital or under the control of the government has to be considered as well. However, the purpose and the way have been conditioned on the possibility of raising money. Any development has to be conditioned on the possibility of raising money to perform. The money market, the capital market, the financial fund, foreign capital introduction, overseas financial etc. can be considered as the place to raise money for the investment, but under the stage of insufficient underdevelopment of the money market and the capital market, the way to raise money for the development is obliged to raise foreign currency by exporting natural resources and receiving foreign aid and to depend upon the tax revenues from the associated enterprise with natural resources. In the case of Indonesia, raising foreign currency by exporting petroleum and the tax revenues by the associated enterprise with petroleum have shown the high ratio for the source of the development money.

Table II-1 shows the ratio of petroleum/gas made up of total exports, during the period called the First Petroleum Boom (1973-78), the exports of petroleum/gas came to make up 70% of total amount of exports, since then high ratio had maintained until the middle of 1980's. Table II-2 shows that the price of Indonesian crude oil (Minas) had gone up from $ 1.67 per barrel (just before REPELITA I began.) to $ 13.55 par barrel in January in 1977; the First Boom, which had gone up more than eight times as much as before. During the period called Second Petroleum Boom(1979-81), the price had gone up $ 35 per barrel to the standard in January in 1981. Corresponding this situation, the amount of petroleum exports went over us $ five billion in

Table II-1 Percentage of Oil and Natural Gas in Export
(1969/70-1994/95)

(Unit: million us$, %)

Fiscal Year	Oil and Gas	%	Non Oil and Gas	%	Total	%
REPELITA I						
1969/70	384	36.8	660	63.2	1,044	100
1970/71	443	36.8	761	63.2	1,204	100
1971/72	590	42.9	784	57.1	1,374	100
1972/73	965	49.8	974	50.2	1,939	100
1973/74	1,708	47.3	1,905	52.7	3,613	100
REPELITA II						
1974/75	5,153	71.7	2,033	28.3	7,186	100
1975/76	5,273	73.8	1,873	26.2	7,146	100
1976/77	6,350	68.9	2,863	31.1	9,213	100
1977/78	7,353	67.7	3,507	32.3	10,860	100
1978/79	7,374	65.0	3,979	35.0	11,353	100
REPELITA III						
1979/80	12,340	66.7	6,171	33.3	18,511	100
1980/81	17,298	75.6	5,587	24.4	22,885	100
1981/82	18,824	81.9	4,170	18.1	22,994	100
1982/83	14,744	79.0	3,928	21.0	18,672	100
1983/84	14,449	72.9	5,367	27.1	19,816	100
REPELITA IV						
1984/85	13,994	70.3	5,904	29.7	19,901	100
1985/86	12,437	66.8	6,175	33.2	18,612	100
1986/87	6,966	50.9	6,731	49.1	13,697	100
1987/88	8,841	48.2	9,502	51.8	18,343	100
1988/89	7,640	38.5	12,184	61.5	19,824	100
REPELITA V						
1989/90	9,337	39.2	14,493	60.8	23,830	100
1990/91	12,763	45.4	15,380	54.6	28,143	100
1991/92	10,706	36.0	19,008	64.0	29,714	100
1992/93	10,480	29.7	24,823	70.3	35,303	100
1993/94(p)	9,172	24.1	28,880	75.9	38,052	100
REPELITA VI						
1994/95(e)	9,200	21.5	33,589	78.5	42,789	100

Notes: (p) provisional. (e) estimated.

Sources: RAPBN 1993/94 (Nota Keuangan dan Rancangan Anggaran Pendapatan dan Belanja Negara 1993/94) and materials of ministry of finance.

Table II-2 Indonesian Crude Oil Prices, 1969-1993

(Minas/ICP in us $ per barrel)

Year	Month	Price
1969	January	1.67
REPELITA I 69/70~73/74		
1971	April	2.21
1972	April	2.96
1973	April	3.73
REPELITA II 74/75~78/79		
1974	April	11.70
1975	October	12.80
1977	January	13.55
1979	January	13.90
REPELITA III 79/80~83/84		
1979	April	15.65
	December	25.50
1980	January	27.50
	February	29.50
	May	31.50
1981	January	35.00
1982	November	34.53
1983	March	29.53
REPELITA IV 84/85~88/89		
1985	February	28.53
1986	January	25.13
	February	21.00
	March	14.45
	April	10.66
	May	10.38
	June	12.11
	July	10.25
	August	9.83
	September	12.20
	October	12.27
	November	12.31
	December	13.07
1987	January	15.39
	February	17.58
	March	17.51
	April	17.57
	May	17.62
	June	17.86
	July	18.83
	August	18.76
	September	18.00
	October	18.21
	November	17.84
	December	16.93

Year	Month	Price
1988	January	17.22
	February	17.20
	March	15.45
	April	16.04
	May	16.46
	June	16.45
	July	15.24
	August	14.55
	September	13.88
	October	11.98
	November	12.35
	December	14.08
1989	January	17.04
	February	17.50
	March	17.25
REPELITA V 89/90~93/94		
1989	April	18.21(1)
	May	18.64
	June	18.07
	July	17.94
	August	17.15
	September	17.02
	October	17.36
	November	17.86
	December	18.07
1990	January	19.24
	February	19.32
	March	18.83
	April	17.49
	May	16.30
	June	15.55
	July	14.81
	August	19.19
	September	28.03
	October	35.29
	November	33.57
	December	29.01
1991	January	25.48
	February	21.79
	March	17.72
	April	17.37
	May	18.01
	June	18.30
	July	18.56
	August	19.00
	September	19.49
	October	20.45
	November	21.01
	December	20.34

Year	Month	Price
1992	January	18.32
	February	17.88
	March	17.35
	April	17.47
	May	18.20
	June	19.51
	July	20.67
	August	20.22
	September	19.64
	October	19.73
	November	19.47
	December	18.70
1993	January	17.89
	February	17.51
	March	18.42
	April	18.84
	May	18.67
	June	18.41
	July	17.44
	August	17.56
	September	17.01
	October	17.13
	November	16.07
	December	14.15(2)
1994	January	
	February	
	March	
REPELITA VI 94/95~98/99		
	April	
	May	
	June	
	July	
	August	
	September	
	October	
	November	
	December	
1995	January	
	February	
	March	
	April	
	May	
	June	
	July	
	August	
	September	
	October	
	November	
	December	

Notes: (1) Since April 1989 the Indonesia crude prices were calculated using ICP.
(2) Provisional figure.

Sources: RAPBN (Nota Keuangan dan Rancangan Anggaran Pendapatan dan Belanja Negara) 1989/90, 1990/91, 1991/92, 1992/93, 1993/94, and materials of ministry of finance.

1974, and the ratio made up of total exports went over 50% and reached to 70%. In 1979, the amount went over us $ ten billion, and in 1981, the ratio made up total exports went over 80%. This export pattern belongs to the typical pattern dependent upon the export of petroleum. And in those days some energy sources for domestic industry were changed from petroleum to substitute energy source (coal etc.), such a plan for raising the export ratio was drawn up.(3)

In the case of Indonesia, the financial structure is also dependent upon petroleum. The development work of mining petroleum/gas is undertaken by the national oil company; Pertamina or the overseas oil company under the contract with Pertamina. But the business by Pertamina has been limited only on land, the ratio of overseas oil company stands high with quantity of mining work and the production scale. The data in 1990, in the case of crude oil, CALTEX has made up 46.5.% (the ratio per a day's production), and MOBIL has made up 8.2% . The overseas oil company, including these two companies, has made up about 95%, and Pertamina, about 5%. (Table II -3). In the case of natural gas, MOBIL also has made up 44.9% (the ratio per a day's production), and HUFFCO has made up 22.2%, while Pertamina has made up 12.0% (Table II -4).(4) The tax revenues from petroleum/gas enterprise is the tax revenues of petroleum/gas.

Table II -5 shows how much percentage tax revenues of petroleum/gas

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(3) Sumitoro Djojohadikusumo, "The Future Prospect of the Indonesian Economy" (*Indonesian Economy*, ed. by Tee Kiann Wee, Mekon, 1984, Part II. p.78. The author was the minister of state for research (1974-79).

(4) But, the system defines that the petroleum/gas business belonged to the national business by "the government regulation of the mineral oil and gas industry (1960)," then the overseas gas company was defined as the contractor with Pertamina, and the company was operated by entering a contract with Pertamina. Some forms of the contract can be found, but Production Sharing ↗

Table II-3 Crude Oil Production by Company

(Unit:10,000 barrel per day)

Company	1988	1989	1990
Caltex	59	65	68
Arco	14	13	12
Mobil	11	12	12
Maxus	6	7	9
Total	10	9	8
Pertamina	7	7	7
Unocal	6	7	7
Others	20	22	23
Total	134	141	146

Source: MIGAS

Table II-4 Natural Gas Production by Company in 1990

(Unit:10^{12} feet^3)

Company	Production
Mobli	0.97
Huffco	0.48
Pertamina	0.26
Inpex	0.11
Arco	0.06
Others (13 companies)	0.28
Total	2.16

Source: MIGAS

has made up upon the national annual revenue. The dependent rate has been going up during the First and Second Petroleum Boom. The structure of annual revenue consists of two parts; domestic annual revenue and development annual revenue (aid from foreign countries), and the domestic annual revenues with development revenues show the total amount of annual revenues, then the percentage will be different based upon the denominator; domestic annual revenues or total amount of annual revenues. However, anyway, the dependent rate upon the petroleum/gas has been going up rapidly. In 1969, when REPELITA I was performed first, reflecting the standard price $ 1.67 per barrel, the annual revenues showed the amount Rp.66 billion, which made up slightly under 30% on the domestic annual revenues and also under 20% to standard on the total amount of annual revenues. But, after 1974, when the First Petroleum Boom was over and REPELITA II was the first to act, the amount showed Rp.957 billion, which made up more than 50% on the annual revenues. In 1979, when REPELITA III was the first to act, both amounts made up more than 60%, and in 1981, when the Second Petroleum Boom showed its peak, the amount made up 70% on the annual

↘ Contract (PSC) is the most general one. PSC defines that oversea company can collect the expenses of mining, development, and the production from producing crude oil, and after collecting the expenses, the crude oil had to be divided into the following ratio of Indonesian side for overseas side was 85 to 15 (after tax deduction). However, on the CALTEX contract, the ratio of Indonesian side for overseas was 88 to 12 (after tax deduction). In the case of natural gas, on the contract before 1975, the ratio of Indonesian side for overseas was 65 to 35 (after tax reduction), and on the contract after 1976, the ratio of Indonesian side for overseas was 70 to 30 (after tax reduction). In detail, Cf. *Basic Materials in every Sector of the Republic of Indonesia* Vol I, Indonesian Office of Japan International Cooperation Agency, 1992, XI, or *Handbook for Indonesia*, Jakarta Japan Club, 1991/92, IV-2. Indonesia has been a member nation of OPEC (Organization of Petroleum Exporting Countries was established among five countries such as Saudi Arabia.) since 1962.

Table II-5 Percentage of Oil and Natural Gas Revenue in Total Revenue
(1969/70-1994/95)

(Unit:billionRp,%)

Fiscal Year	Oil and Gas Revenue A	Non Oil and Gas Revenue	Total Domesitic Revenue B	A/B (%)	Development Revenue C	Total Revenue D (B+C)	A/D (%)
REPELITA I							
1969/70	65.8	177.9	243.7	27.0	91.0	334.7	19.7
1970/71	99.0	243.1	342.1	28.9	119.8	461.9	21.4
1971/72	140.7	287.3	428.0	32.4	135.5	563.5	25.0
1972/73	230.5	360.1	590.6	39.0	157.8	748.4	30.8
1973/74	382.2	585.5	967.7	39.5	203.9	1,171.6	32.6
REPELITA II							
1974/75	957.2	796.5	1,753.7	54.6	232.0	1,985.7	48.9
1975/76	1,248.0	993.9	2,241.9	55.7	491.6	2,733.5	45.7
1976/77	1,635.3	1,270.7	2,906.0	56.3	783.8	3,689.8	44.3
1977/78	1,948.7	1,586.7	3,535.4	55.1	773.4	4,308.8	45.2
1978/79	2,308.7	1,957.4	4,266.1	54.1	1,035.5	5,301.6	43.5
REPELITA III							
1979/80	4,259.6	2,437.2	6,696.8	63.6	1,381.1	8,077.9	56.0
1980/81	7,019.6	3,207.4	10,227.0	68.6	1,493.8	11,720.8	59.9
1981/82	8,627.8	3,584.8	12,212.6	70.6	1,709.0	13,921.6	62.0
1982/83	8,170.4	4,247.9	12,418.3	65.8	1,940.0	14,358.3	56.9
1983/84	9,520.2	4,912.5	14,432.7	66.0	3,882.4	18,315.1	52.0
REPELITA IV							
1984/85	10,429.9	5,475.6	15,905.5	65.6	3,478.0	19,383.5	53.8
1985/86	11,144.4	8,108.4	19,252.8	57.9	3,572.6	22,825.4	48.8
1986/87	6,337.6	9,803.0	16,140.6	39.3	5,752.2	21,892.8	28.9
1987/88	10,047.2	10,756.1	20,803.3	48.3	6,158.0	26,961.3	37.3
1988/89	9,527.0	13,477.3	23,004.3	41.4	9,990.7	32,995.0	28.9
REPELITA V							
1989/90	11,252.1	17,487.7	28,739.8	39.2	9,429.3	38,169.1	29.5
1990/91	17,711.9	21,834.5	39,546.4	44.8	9,904.6	49,451.0	35.8
1991/92	15,039.1	26,545.7	41,584.8	36.2	10,409.1	51,993.9	28.9
1992/93	15,330.4	32,122.1	47,452.5	32.3	10,715.7	58,168.2	26.4
1993/94(b)	15,127.6	37,641.4	52,769.0	28.7	9,553.1	62,322.1	24.3
REPELITA VI							
1994/95(b)	12,851.2	46,885.9	59,737.1	21.5	10,012.0	69,749.1	18.4

Note: (b) budget.

Sources: RAPBN 1993/94 (Nota Keuangan dan Rancangan Anggaran Pendapatan dan Belanja Negara 1993/94) and materials of minisitry of finance.

revenues, and 60% to the standard on the total amount of annual revenues. Then, the development annual revenues showed Rp.1 trillion 709 billion, which made up more 10% on the total amount of annual revenues, the total amount of annual revenues showed more than 70%, including annual revenues of petroleum/gas and the development annual revenues, which showed the remarkable structure of annual revenues dependent upon petroleum and aids. After that, the dependent rate had been going down slowly, corresponding to the gradual falling of the crude oil price, but even until around the mid-1980's, high dependent rate had maintained. The results, in 1984, made up about 50% on the total amount of annual revenues, and more than 60% on the domestic annual revenues, which showed the remarkable structure dependent upon petroleum/gas.

Thus, the structure of economy in Indonesia was deeply dependent upon the petroleum/gas both in exports and in finance. This fund of petroleum, which increased rapidly, was used for raising necessary money to the economic development, and this fund was used as a source of revenue to develop the economy totally, which was the first performance after the independence. These development was found during the period; REPELITA II (1974/5-78/9), and REPELITA III (1979/80-83/84), corresponding to the Petroleum Boom. The income from petroleum can make it possible to raise the development money, then it can be said that the rate of foreign capital as a source of investment capital has become to be low.

On the basis of this rich domestic funds, REPELITA II set up the ideology "to strengthen the basis for the economic development and develop with well-balanced way" as the development ideology, and the introduction of foreign capital has been restricted in order to preserve the domestic industry, and to raise Pribumi. In REPELITA III, the ideology "to divide the development achievements impartially" was set up, and some groups of scholars claimed that the Clause V of Pancasila for the Indonesian national ideology; the Pancasila economy had to be established based upon the economy "for treating all the Indonesians with social justice" (the Preamble to the Constitution).(5) This means the plan of economy policy to divide the income fairly, to enrich the welfare, and to put an emphasis on agricultural development. According to the viewpoint of Hatta, the economic structure as the basis was defined as the economic system based upon the family principle and national cooperative, and as the economic system that free competitions were restricted.(6) Actually, under the stage with the low international competitive power, to improve both the government management section and the private section, competing for the foreign capital had to be refrained, that was why the introduction of the foreign capital had to come to be controlled. In the beginning of the Soehart Government, under the Foreign Investment Law (1967), the Domestic Investment Law (1968), and REPELITA I (1969/70-73/74), the foreign capital was introduced without distinction to raise the fund for economic development. However, through the change from the selective introduction policy in 1970, the Conference for the Stabilization of the Economy was held in January in 1974, since when the foreign capital had to be introduced with some restrictions, and the Conference established the following guidelines, such as the guideline that the economy had to be Indonesianized by the joining and the protection of Pribumi capital, whether that was domestic or foreign one, that the realm to open the foreign capital had to be reduced (expansion of negative lists), that

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(5) About every purpose, political content, and the achievements REPELITA, Cf. *Economic plan in ASEAN … Historical Problem and the Prospect* …, Kunio Igusa, Research Institute of Asian Economy, 1988.

(6) Mohammad Hatta, "The Guided Economy", (Draft of the speech for the orientation at Pancasila Research Institute of Economy, *Indonesian Economy*, ed., by Tee Kian Wee, 1984, Part I.)

the system that the foreign capital was well treated had to be reduced, and that the joint management had to be obligatory.[7] During this period, the ideology to raise Pribumi and "Indonesianize" the economy seemed to precede to strengthen the regulation of the foreign capital, but after that, because the Petroleum Boom presented and strengthened the basis to support this policy, the restriction from the introduction of the foreign capital had come to keep on until deregulations in the second half of 1980's were performed. Then, as the purpose of the development policy, by correcting the income differential in the country and performing the social justice, the increase of national income, the increase of domestic savings, and the expansion of domestic market were attempted, then the steady growth of economy would be prospected. As for the details of the policy, corresponding to the stage of the Indonesian development at that time, as found in the plan to produce domestic cars, the imported goods had to be produced in the country, the private capital had to be raised for those to shoulder this tendency, and the self-support rate of rice had to be raised etc., the import substitute strategy had been taken to protect and improve the domestic industries in the wide areas, and these plans had to be promoted by the national project.

However, the falling price of crude oil, which showed gradually since 1982, was advanced remarkably in 1986, and in August in 1986, the price showed the worst one: $ 9.83 per one barrel, which showed less than one third as much as the best price: $ 35.00 per one barrel in 1981. After then, the price of crude oil had been floating in the $ 10's, and on the precondition that the economy was expanded by the Petroleum Boom, no longer would it be possible to raise development fund only from the oil income. Actually, after the exports of petroleum/gas showed the peak; $ 18 billion and 824

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[7] In details, Cf. *Handbook for Indonesia,* Jakarta Japan Club 1991/92, Ⅷ.

million in 1981 (the ratio of petroleum/gas; 81.9%), the exports had begun decreasing, and in 1986, that showed as low under $ 10 billion; $ 6 billion and 966 million (the ratio of petroleum/gas; 50.9%). In the side of annual revenues, the annual revenue for the petroleum/gas showed Rp.10 trillion 429.9 billion (dependent degree 65.6% on the domestic annual revenue) in the 1984's results. In 1985, the amount showed Rp.11 trillion and 144.6 billion (57.9%), but in 1986's results, the amount decreased less than Rp.10 trillion; Rp.6 trillion and 337.6 billion, and after that the oil price had been recovered a little bit, but the dependent degree on the domestic annual revenue has been floating around 40%. Besides, the devaluation performed three times; in 1978, 1983, and 1986, has made further attacks on this situation, so that the conversion of the structure dependent upon the petroleum had to be demanded. These conversions are as follows: a series of deregulation policies; at first deregulation of foreign capital, had to be performed, and the policy to get the foreign currency by exporting the non-petroleum goods had to be adopted; the export oriented industrialization strategy.

As shown above, the development policy in Indonesia has changed from the import substitute industrialization to the export oriented industrialization. With this change, the policy of the foreign capital has been changing from the regulation of the foreign capital with the priority over the national capital to the deregulation of the foreign capital with the priority over the economic development. Other ASEAN countries showed the similar changes, though their background and situations were different from each other. Then, I will examine the process of deregulation focussed on the situations in Indonesia, comparing with other ASEAN countries.

(2) Changes of Foreign Investment Policy

The Foreign Investment Policy in Indonesia has been changing gradually since the Package on May 6th in 1986, but the drastic changing point can be found on the Government Regulation No.20 (PP No.20) in 1994. This can be called the peak of all the previous deregulations. This policy can be said to show the complete changes of foreign investment policy in Indonesia from the regulation policy putting a priority upon the national capital to the deregulation policy of the foreign capital putting a priority upon the economic development. I will examine this PP. No.20, comparing with the previous deregulations.

In the first place, I will seek the changes of the previous deregulations to the foreign capital in Indonesia before PP No.20. The main deregulations are as follows:

① PP No.24/1986[8] (May 6 Package, 1986)

・Deregulation about the period of business licence. It's valid 30 years from extensive investment. For example, one company which got the licence at 1970 was given the licence of extensive investment at 1980, the licence is totaly valid until 2010.

② Keppres No.17, 1986[9] (May 6 Package, 1986)

・The condition treated PMA as PMDN.[10] a. 75% stock is owned by Indonesian private, or b. 51% stock is selled in sotck market, or c. 51% stock is owned by Indonesian private and/or State in the condition of 20% stock is listed.

③ BKPM No.17/SK/1986[11] (Oct. 25 Package, 1986)

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(8) PP No.24/1986: Peraturan Pemerintah Republic Indonesia Nomor 24 Tahun 1986: Government Regulation Republic of Indonesia Number 24 of 1986.

(9) Keppres No.17, 1986: Keputusan Presiden Republic Indonesia Nomor 17 Tahun 1986: Decree of the President of the Republic of Indonesia Number 54 of 1986.

(10) PMA: Penanaman Modal Asing: Foreign Investment. PMDN: Penanaman Modal Dalam Negara: Domestic Investment.

・Permit to buy the stock of PMDN by PMA. The Purchasing maximum amount could be decided according to the export rate of the purchasing enterprise. Non-export enterprise: foreign capital less than 25%, Export enterprise: foreign capital less than 49%, exporting ratio 100%: foreign capital less than 80%.

④ BKPM No.5/SK/1987 (Dec. 24 Package, PAKDES, 1987)

・The term of transferring the capital had been extended from within ten years to within fifteen years since the commercial production began.

・Located on the bonded area, in the case of exporting ratio; 100%, the establishment with foreign capital; 95% could be permitted as a special case, and the obligation to transfer the capital was exempted.

・In case of the investment amount more than US $ 10 million, or located on the distant ten states, or the exporting ratio; more than 65%, the establishment with foreign capital; 95% could be permitted. The obligation to transfer the capital was 80% within 10 years, and 49% within 15 years.

・The permit to purchase the stock of PMA and PMDN by PMA. But the ratio of the foreign capital for the other enterprise was limited within 80%.

⑤ Keppres No.50, 1987 (PAKDES, 1987)

・If PMA defines the ratio of the foreign capital as 55%, and lists 20% of the holding stock, that would be treated as PMDN.

(At this point, the meaning "that was treated as PMDN" was not mentioned. But, in BKPM No.8/SK/1989, this was clearly specified that the obligation to transfer the capital was exempted. As one interpretation of the law, if "treated as PMDN", the entry of the circulation became to be possible.)

⑥ Keppres No.21, 1989 (May 5 Package, 1989)

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(11) BKPM No.17/SK/1986: Keputusan Ketua Badan Koordinasi Penanaman Modal Nomor 17/SK/1986: Decision of the Chairman of the Investment Coordinating Board Number 17/SK/1986.

・Method of regulation to business field was improved. Method was changed from positve list called DSP (Daftar Skala Prioritas) which shows open field to negative list called DNI (Dafter Negatif Investasi) which shows closed field. At the same time, closed field reduced from 273 to 75.

⑦ BKPM No.8/SK/1989 (May 5 Package, 1989)

・If PMA defines the ratio of the foreign capital as 55%, and lists 20% of the holding stock, that would be treated as PMDN. The foreign capital satisfied with the above conditions was permitted to exempt the obligation to transfer the capital. (The regulation of Keppres No.50, 1987 was incorporated into the decision of BKPM, and specified the exemption of the obligation to transfer the capital. Deregulation for the enterprise operated more than 15 years.

⑧ BKPM No.9/SK/1989 (May 5 Package, 1989)

・ The minimum amount of the investment was reduced from US $ one million to US $ two hundred and fifty thousand with conditions, which were as follows; in the case more than fifty employees,and the exporting ratio; more than 65%, or supplying other industries with materials and parts.

⑨ PP No.17, 1992 (Apr. 22, 1992)

・Three conditions of special cases were established. Special Case 1: in case of more than 50 employees and the exporting ratio; more than 65%, or supplying other industries with material and parts. Special Case 2: with the investing amount: more than US $ 50 million, or located on the distant fifty states. Special Case 3: located on the bonded areas and with the 100% exporting ratio.

・According to the conditions of the special cases, the deregulations of the investment ratio were performed. General: less than 80%, Special Case 1: less than 95%, Special Case 2: 100%, Special Case 3: 100%.

・The term to transfer the capital had been extended from within 15 years to within 20 years since the commercial production began. According to the conditions, more deregulations were performed. Special Case 1: 80% within 10 years, less than 20 years within 20 years. Special Case 2: less than 95% within 5 years, less than 80% within 20 years. Special Case 3: less than 95% within 5 years.

⑩ Keppres No.32, 1992 (Jun. 6, 1992)

・Daftar Negatif Investasi, DNI, Negative Lists was revised. These areas reduced from 60 types of business to 51 types. At the same time, the areas on a small scale reserve reduced from 38 types of business to 37 types.

⑪ PP No.7, 1993 (Jan. 28, 1993)

・The case located on the special district of Reau state was added to the Special Case 2 of PP No.7, 1993. (This regulation got the development agreement between Indonesia and Singapore.)

⑫ PP No.9, 1993 (Feb. 17, 1993)

・The period of business license was changed from 30 years after the company's establishment to 30 years after the beginning of the commercial production.

⑬ PP No.50, 1993 (Oct. 23, 1993)

・The Special Case 1 of PP No.17 was changed into the case that the amount of investment; more than US$ 2 million, and supplying other industries with materials and parts. The investment ratio of the foreign capital; 100%, capital had been transferred for ten years, the term: 49% within 20 years.

⑭ Keppres No.54, 1993 (Jun. 10, 1993)

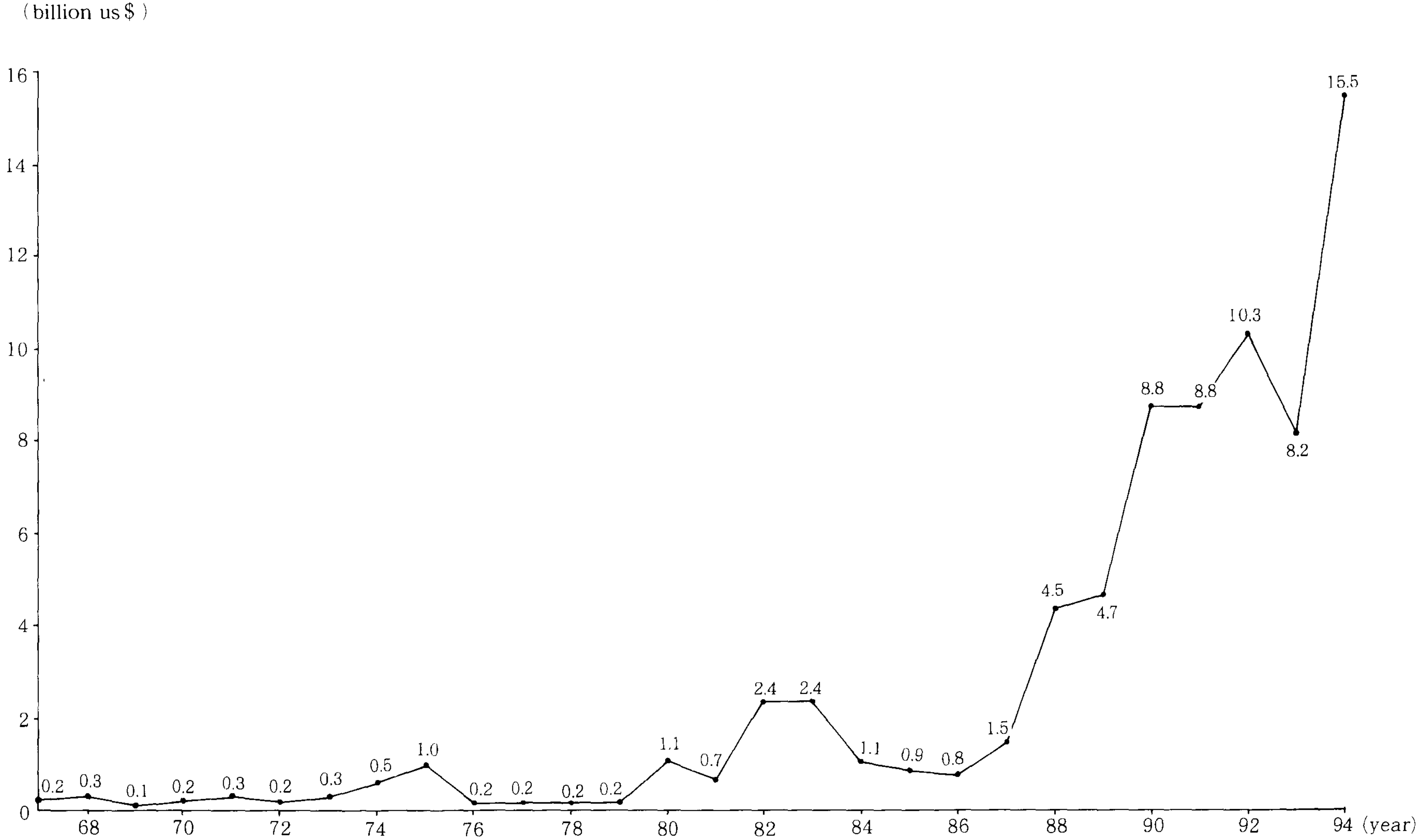
・Daftar Negatif Investasi, DNI, Negative Lists was revised. These areas reduced from 51 types of business to 34 types.

⑮ PP No.20, 1994 (May 19, 1994)

・Abolition of PP No.50, 1993. Complete change from the policy on nationalism to the policy putting a priority on the development.

Because of the above liberalization steps, overseas investment to

Fig.Ⅱ-1　Trends of Foreign Investment
(1967～1994)



Note: 1994 is from January until July.
Sources: BKPM.

Indonesia has increased rapidly. On the BKPM approval base, the amount has been going up; in 1986; 800 million, in 1988; 4.4 billion, in 1990; 8.8 billion, in 1991; 8.8 billion too, which showed ten times as much as the previous one. Among the investing countries, Japan shows the highest amount of investment. Next to Japan, Hong Kong, Taiwan, and Korean were followed.[12]

As shown above, the investment has increased rapidly under the deregulation in the 1980's, and the development fund can be raised by the direct investment. However, under the stages before PP 20/1994, deregulation has been prevailed, but the policy of the investment had the remarkable peculiarity putting the priority on the national capital, which could be found in the regulation of the foreign shareholding ratio and in the regulation to transfer the capital. Then, on the details of PP No.50 (1993), I will examine the policies with two different sides; deregulation and nationalism, before PP No.20 (1994).

(3) Principle of Joint Venture

PP. No.50, 1993 (Oct. 23, 1993) can be considered as the old regulation, corresponding to PP 20/1994. This government regulation has not shown new conditions except the only new condition about the investing ratio 100% of the foreign capital, which contains the article; in case of supplying other industries with materials and parts, the investment amount more than US$ 2 million, but this policy seems to compile all the old regulations (Table II-6).

The most remarkable peculiarity of the old regulation is that the form of

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(12) However, the fields of petroleum and finance were excluded on this data. If including these fields, the United States of America seems to show the higher amount.

Table Ⅱ-6　PP No.50, 1993 (Oct. 23, 1993)

Form of investment and foreign shareholding ratio	Principle:　Form of joint ventire. Foreign shareholding raito is 80 % or less. (article 2)
	Exception:　100% foreign shareholding Conditions:　Meeting into one of the following requirements. ①the value of paid up capital is 50 million us $ or more. (article 4) ②they are located on the distant 15 provinces. (〃) ③they are located on the designated zones in Riau province. (〃) ④the value of paid up capital is 2 million us $ or more, and they provide basic materials or components to other industries. (article 5) ⑤they are located on the Bonded Zone or EPTE. (article 6)
Obligation of transfer of capital	Principle:　49% or less within 20 years. (article 2)
	Exception:　80% or less within 20 years. Conditions:　they are located on the Bonded Zone or EPTE. (article 6)
Minimum investment amount	Principle:　1 million us $. (article 1)
	Exception:　250,000 us $ Conditions:　They employ at least 50 workers, and (a) at least 65% of products are designed for export, or (b) they provide basic materials or components to other industries. (article 3)
Investment zone	There is no regulation. But one of the conditions as 100% foreign shareholding is required to be located on the 15 distant provinces. (article 4)
Categories of business which are open for foreign capital	Regulated by negative list. (Keppres No.54,1993)
M&A by foreign capital	To be permitted within the limit of 80% share of company. (BKPM No.5 /SK/1987)

Source:　BKPM

joint venture has to be in principle, and the 100% foreign shareholding has to be exceptional. This refers to opposite sides, as defined that the form of joint venture is in principle, this seems to regard the foreign capital as the partner of the economic development. The foreign capital is no longer inconsistent with promoting the domestic national capital, or this is not an obstacle towards the Indonesianization of economy. Rather, the foreign capital can be regarded as the partner to promote these. Furthermore, even as an exception, 100% foreign shareholding has been permitted, which refers to the same attitude. This is one side of the form of joint venture in principle.

However, the condition that 100% foreign shareholding cannot be permitted in principle, which means that the foreign capital cannot be recognized as a partner without the form of joint venture. If not the form of joint venture, introduction of the foreign capital can expand the local employment, among which the export industry can contribute to the acquisition of the foreign currency. But only this situation cannot be recognized as the partner of the economic development. The foreign company cannot be recognized as the partner of the economic development until the foreign capital and the local one has begun joint venture with each other. To the end, the cooperation on the micro and individual level with each other has to be required as the condition as the partner.

The same two different sides can be found on the obligation to transfer the capital, which shows the second remarkable one in the old regulation. But, on this point, the nationalism at that time came to the front. The obligation to transfer the capital has to be required to change into the local majority within 20 years after the stating commercial operation. This is because the foreign-affiliated enterprise (PMA: Pananaman Modal Asing) has an obligation to change into the domestic enterprise (PMDN: Penanaman Modal Dala Negari) within 20 years. Therefore, if applying joint venture, as far as that is a foreign majority, that cannot be regarded as a partner of the economic development beyond the limited period. Finally, as far as the Indonesianization is guaranteed, the foreign company can be a sufficient partner. The form of joint venture can be regarded as the means of economic development, and finally the purpose is to create a strong Indonesian enterprise, where the strong nationalism can be found.

However, the majority of the foreign capital can be permitted, even under the regulation on the limited period, the positive estimation toward the foreign capital can be found as far as that is concerned. Besides, if the majority can be even transferred, the operation will be possible after that, the transfer of the capital cannot be recognized to deny the role of the foreign capital. After the conversion to the minority, that can be recognized as the partner. This shows the some open peculiarity in some way.

In addition to this, the obligation to transfer the capital has been expanded many times, which has an important meaning. The period to transfer the capital was defined as 10 years at first, which was expanded to 15 years by BKPM No.5/SK/1987 (PAKDES, 1987), and further expanded to 20 years by PP No.17, 1992 (Apr. 22, 1992). As this background, the situation has come to the surface that it was difficult to perform this policy actually. The foreign capital advanced in the 1970's, under this regulation actually, the local side cannot buy that, because the scale of the capital has become huge. Then, the policy itself has to be changed repeatedly, expanding the period to transfer.

In the similar circumstances, the exceptional steps have been established to transfer the capital as these ones; Keppres No.50, 1987 (PAKDES, 1987), and BKPM No.8/SK/1989 (May 5 Package, 1989). Both defined that the ratio of the foreign capital is 55%, and if the 20% holding stock is listed, that will be treated as PMDN, whose purpose has been manifested by the

BKPM decision, just after the Declaration of the President. The details that "that will be treated as PMDN" specifies the deregulation of the obligation of the capital transfer, actually the exemption of it. This will promote the transfer by selling through the stock market to the local side, corresponding to the case that the direct purchase cannot be performed easily. However, after adopting this system, even the 55% ratio of the foreign capital can be regarded as localized; namely, majority transfer will be exempted actually, which means the extremely important change of the policy. Indeed, many enterprises whose period of transfer is expired had a plan to localize by this system. This seemed that this policy can be considered as a byway, even though the announcement of PP No.20 has prohibited many cases, where the recession of the nationalism can be found. Setting up the policy to transfer the capital based upon the nationalism, on the actual stages, this viewpoint has been recessed, considering the actual circumstances. On this spot, the conditions towards PP. No.20 can be considered to be already arranged.

In the next place, I will examine the incentive steps to the manufacturer of parts and materials. The old regulations contained the following two steps; the 100% foreign shareholding can be permitted (but the investing amount; more than US$ 2 million), in case of supplying other industries with parts and material, and the minimum amount of investing can be deregulated from US$ one million to US$ two hundred and fifty thousand (but with more than fifty employees), where the intention not only to put together finished goods but also to produce parts and materials in Indonesia can be recognized. This is in the position on the full-set doctrine that in Indonesia all the steps from parts to putting together have to be done to the end, not on the international division system of labor that in Indonesia only putting together has to be done and the parts have to be imported from foreign countries. And this full-set doctrine seems to reflect the Indonesian

Nationalism as the biggest country in ASEAN countries.

On the contrary, the incentive step toward the investment to Bonded Zone, EPTE can be found as the well-treated step toward 100% foreign shareholding. In case of the location on Bonded Zone, EPTE, ① 100% foreign shareholding can be permitted, and ② the ratio of transferring the capital can be deregulated to 80%, and the Indonesianized can be exempted. Therefore, this means that the foreign capital can be recognized as the partner for the economic development, not with the form of joint venture. Such a stage is restricted to Bonded Zone, EPTE, which seems to express the power of the Indonesian regulation, and even partially, the exemption from the joint venture principle and capital transfer seems to expess the direction toward Deregulation.

In the next place, I will examine how the foreign capital policy can be applied practically on the economic policy. The old regulations contained the exceptional steps about the foreign shareholding ratio to promote the Government policy. The first is that the investment except Java can be promoted as the investment incentive step. According to the old regulations, 100% foreign shareholding could be permitted as the exceptional case to the distant fifteen states. The distant states are as follows from the east: Irian Jaya, Maluku, East Timor, East Nusatenggara, West Nusatenggara, South Slawesi, Southeast Slawesi, Central Slawesi, North Slawesi, East Kalimantan, Central Kalimantan, South Kalimantan, West Kalimantan, Bengkulu, Jambi. These fifteen states are all the states without Java, Bali, and Sumatra (except Bengkulu and Jambi), which included all the developing areas.

Indonesia is a big country which has thirteen thousand seven hundred islands in the country; 5,100 km. from east to west, 1,900 km. from north to west, and 1920,000 square km. with the population: 180 million. The administrative division consists of 27 states, among which Irian, Slawesi, Kalimantan, Java, and Sumatra can be mentioned as big islands. But, the 60% of all the population live in Java and Madola, which is only 6.9% in area, and the economy is concentrated on Java. On the contrary, the eastern areas in Indonesia; Irian, East Timor, Nussatenggara, Slawesi, Kalimantan etc. show the low development, the big diffrence can be found between Java and these eastern areas. Besides, the more development has been performed by the direct investment, the more difference can be found. Furthermore, Indonesia is a multi-tribe country, which consists of 300 tribes as one nation, and with the completely different 250 languages, and the expansion of the economic difference will probably lead to the antagonism among the tribes.

This is why the development on the areas except Java has a very important theme on the policy for the government, not only from the social justice, but also from the viewpoint from the stability of the nation. Then, the incentive step toward the under developing areas have been included among the investment policy. However, in these areas, infrastructure has been extremely delayed both in industrial and in living sides, then the investment introduction for the manufacturing industry could not be considered as the actual movement. Actually, to introduce the investment for the manufacturing industry, the industrial districts have to be developed in these areas, the arrangements of infrastructure have to be performed intensively, and the powerful well-treated stages have to be required including the taxation system. Nevertheless, the incentive step has only deregulate the foreign shareholding ratio, and the deregulation that the transfer of the capital has to be obligatory proposed on Bonded Zone and EPTE does not have to be applied, and other incentive steps cannot be found. In this sense, the incentive steps cannot be performed actually toward the developing areas, but only the ratio of the investment has been deregulated.

The second one to promote the government policy is to take an incentive step to the special areas in Riau. Indonesia has made an agreement with Singapore about the development on the special areas in Riau, and this step corresponds to the agreement. This incentive step has permitted 100% foreign shareholding and the special areas has been restricted on the tourist development areas on Bintan island, industrial districts, headwaters development areas on Karimun Kecil island, and the related areas to crude oil on Karimun Besar island.

As mentioned above, I have shown the peculiarities about the regulations before PP No.20. The process of the deregulation has gradually recognized the limit of the foreign investment policy based upon the nationalism. The content of the policy showed the compromise between the nationalism and the deregulation. In this sense, the period from the second half of the 1980's to the first half of the 1990's can be recognized as the transition period from the Petroleum Boom policy to the new policy. Through this transition period, Indonesia has changed totally into the open policy; PP No.20.

(4) PP No.20

The primary items in PP No.20 are as shown on the Table II -7. I will examine the peculiarities of PP No.20 according to the Table.

The first peculiarity is that the form of joint venture and the obligation to transfer the capital, that is, the main principle of foreign investment policy has been completely abolished. The form of joint venture can be selective with 100% foreign shareholding, which means the principle has been abolished. The condition that the form of joint venture has to be 95% or less foreign shareholding at its establishment, but after that, raising the foreign sharing ratio will be possible. The obligation to transfer the capital will be abolished in case of joint venture, and in case of 100% foreign shareholding, the ratio as a goal has been abolished and only 1% transfer can be permitted.

Table II-7 PP No.20, 1994 (May. 19, 1994)

Form of investment and foreign shareholding ratio	Form of joint venture and 100% foreign shareholding are both available. (article 2) In case of joint venture, foreign shareholding is 95% or less at its establishment. (article 6)
	Principle of joint venture in the past is completely abolished.
Obligation of transfer of capital	Form of joint venture: There is no regulation about tarnsfer ratio and deadline of transfer. (article 6) 100% foreign shareholding: There is no regulation about tarnsfer ratio, but within 15 years they shall sell part of their shares. (article 7)
Minimum investment amount	There is no regulation about minimum investment amount. "The amount of capital invested under foreign capital investment shall be determined according to the economic feasibility of relevant business activities." (article 2)
Investment zone	Bonded Zone and Industrial Estate shall receive priority. (article 4) But foreign capital can use their plots of land, as long as these are designed for industries. (Elucidation of PP No.20, article 4)
Categories of business which are open for foreign capital	The following 9 public fields are opened. ports/generation, transmission and distribution of electricity/telecommunications/shipping/airlines/drinking water supply/public railways/atomic energy reactors/mass media. (article 5) Conditions: Foreign shareholding is 95% or less. (article 5) New negative list is not announced. (Still regulated by former negative list)
M & A by foreign capital	There is no regulation except the categories of business classified on the negative list.

Source: BKPM

This means that the influence of the nationalism has become scarce on the foreign investment policy, and the foreign investment policy has totally changed into the liberalized policy.

In particular, PP No.20, different from the general law, can apply to the existing enterprises, so that all the enterprise with the foreign capital; not only newly-established enterprise but also the existing one, has released from the previous policies. The Indonesianized policy of economy based upon the nationalism was considered as the national policy of Indonesia, which shows a very important meaning. Particularly, the introduction of the foreign capital has played a role as a pillar to the economic development recently, where the complete liberalized policy has been introduced as the means of the important transition which influence the peculiarities of the development policy itself.(13)

The second peculiarity is that the regulation about the minimum investment amount has been abolished. Before, the principle amount; US $ one million, exception; US $ two hundred and fifty thousand, and the policy putting a priority on the major enterprise. The conditions as exceptions are defined as "more than fifty employees,and the exporting ratio; more than 65%, or in case of supplying other industries with materials and parts", which promote the investment of the exporting enterprise and manufacturer of parts. This

(13) Besides, 100% foreign shareholding has become the not exceptional case, which has made all the exceptional steps abolished, and the same regulations can apply to all the enterprise (but, excluding the types of business listed on the negative lists) in Indonesia without any relations to the investing area and the peculiarity of the enterprise. Before, setting up the exceptional steps could lead to the policies, which have abolished completely. These have shown the movement to encourage the investment to the underdeveloping areas, and to encourage the investment to Riau state, and the investment to the industry of parts. The government will be obliged to take the new policy, corresponding to this change.

step also stands on the same line, which promotes the positive introduction of the manufacturer of parts. The intention to promote the relocation of the manufacturer of parts can be found, which advanced in Malaysia and Singapore.

The third peculiarity is that Bonded Zone, Industrial Estates shall receive the priority, whose purpose is to promote the movement into Bonded Zone, Industrial Estates, but no details about the incentive steps have shown. Therefore, this can be regarded not as the deregulation, and might be regarded as the introduction of the new regulation. Then, the explanation one by one which was reported at the same time, has manifested on purpose in case of the enterprise' land specified as the industrial district, there is no regulation. Then, the settlement of this regulation has to be empty, and the true value cannot be found. The movement steps to Industrial Estate etc. has to be promoted, not by the deregulation, but by the priority steps on the taxation system.

The fourth peculiarity is that nine public fields have been opened with the entrance into the fields of foreign capital. These fields had been prohibited from the entry of the foreign capital by the Foreign Capital Investment Law. The background why this entry was prohibited is based upon the doctrine of the nationalism that entrusting the foreign capital has to be regarded as dangerous. Why this has to be set free is to improve infrastructure by introducing the fund and the technology of the foreign capital. Then the thought putting a priority on the development has come to the front.[14]

The fifth peculiarity is that purchasing stock by the existing enterprise

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[14] However, Article 6 of the Foreign Investment Law defines the condition less than 95% foreign shareholding, because the entry "foreign investment exercising full control" has been prohibited. Then, the raising of the foreign capital ratio cannot be permitted.

(PMA, PMDN) with the foreign capital can be permitted, which shows that the perticipation of the capital to the existing enterprise, M & A can be permitted.(15) But, the purchase by the direct dealing has been prohibited, in principle the purchase can be done in the stock market, where the government's intention can be recognized to vitalize the stock market by treating the foreign capital. Besides, the acquisition of the stock can be defined to have no influence on the status (PMA or PMDN) of the other company, where PMDN with majority foreign capital can appear. This means that majority owned foreign company can use the right permitted previously only on PMDN, and how the authority will treat this will be focussed.

The sixth peculiarity is that the opening of the distribution sector still remains to be solved. This change of the policy has not opened the distribution sector. The wholesale trade, retail trade, or importing sales has not been permitted on the PMA company (the company which is established by foreigner whether it is joint venture or 100% owned) in Indonesia. Therefore, in case of manufacturing industries, the products cannot be wholesaled by their enterprise, where it has come to be necessary to establish their PMDN sales companies (the company which is established by Indonesian only) for wholesale trade and the retail one, or to entrust the distribution to the existing local sales companies. Thus, the enterprise in Indonesia, as far as that is PMA, the production and the sales belong to the separate companies. But, actually, the investment to sales companies by PMA has come to be possible, and the sales companies with majority foreign capital can be

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(15) Besides, purchasing the stock by the existing enterprise (PMA, PMDN) with PMA has been permitted, which shows that this is not a new policy. The new point that the maximum purchase has changed from 80% to no regulation, which means the existing lines have been authorized by involving into the government regulation.

found,[16] but as far as the company is recognized as PMA, there cannot be any change that the retail sales cannot be performed. In case of import sales for the finished goods, the same regulation can be found, where the investment by PMA cannot be permitted either, and it will be necessary to establish the complete local company or to entrust to such an existing one. These problems have not been solved at all by PP No.20, and have been considered as the future ones to be settled.

As shown above, the peculiarities of PP No.20 have been manifested historically. The historical changes can be found; not only the changing policy on the foreign capital, but also the symbol for the changing development policy. However, what PP 20 has specified will clearly be shown much more by comparing with other countries, not only from the historical viewpoint. Then, I will examine PP No.20 in comparison with other ASEAN countries.

(5) Foreign Investment Policy in Indonesia in comparison with other ASEAN countries.

Every ASEAN country has shown the change from strengthening the priority steps on the taxation system as the investment policy of the foreign capital in the 1980's, and to deregulate the various rules towards the foreign capital from 1990 onwards. Table Ⅱ-9 shows the regulation about the investing ratio of the foreign capital among ASEAN four countries (Philippines,

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(16) For example, the case using exceptional rule in Keppres No.17/1986 can be found. In this case, under some conditons, PMA can be recognized as PMDN. And another rule also has been found, regulating that PMA can be recognized as PMDN in case of 55% foreign shareholding and 20% listing of the holding stock (Keppres No.50, 1987, and BKPM No. 8/SK/1989), where the distribution entry by the PMA enterprise can be possible, but the actual achievements cannot be found. This is because this rules have never shown the possibility of the distribution entry, and because it is difficult to decide the local ratio of the listing foreign capital.

Indonesia, Malaysia, and Thailand), and the regulation about the transfer ratio of the capital, where Indonesia can be mentioned as the most remarkable country with these deregulations. In Indonesia, PP No.20 has made it possible to guarantee the entry of the foreign capital freely, even in comparison with other countries.

In Malaysia and Thailand, the policy to decide the foreign shareholding ratio according to the exporting ratio has been taken, the intention to invite export-oriented enterprise can be clearly found. In both countries, 100% foreign shareholding condition can be defined as exporting ratio 80% or more, and the same ratio can be found as follows: exporting ratio 50% (Thailand), 51% (Malaysia) or more permitted as the majority foreign shareholding, and less than 50% (Thailand), 51% or less (Malaysia) as the local majority. Besides, no regulation can be found about the transfer capital in both countries. These two countries have adopted such an open policy since 1980's, so that these countries can be considered as attractive for the foreign capital to change the export base during the period of the first strong Yen (1985-1988). Actually, the investment to the manufacturing industries has been focussed in these two countries. But, comparing with the present situation that deregulations have been performed in Indonesia, Bumiputeras policy in Malaysia, the Promoting List for the investment in Thailand have shown the stronger regulations. Particularly, in Malaysia, to promote the domestic industries of parts, the new policy has been introduced not to regard the sales to EPZ as the exports,[17] the regulations seem to become even strong.

(17) This means that the foreign-affiliated manufactures, delivering to local assembly manufacturers, have got the regulation about the investing ratio. For example, in case of delivering all to the assembly manufactures located on EPZ, the exporting ratio can be defined as nothing, the maximum amount of the foreign shareholding is 30%.

Table II-8 The Regulations on Foreign Shareholding Ratio and the Obligations on Transfer of Capital in 4 ASEAN Countries

	PHILIPPINES	INDONESIA	MALAYSIA	THAILAND
Definition of Foreign Capital	Non-Philippine Corporation (more than 40% of capital entitled to vote is owned by Non Philippines National) (Omnibus Investment Code of 1987)	Corporation of which more than 50% of capital is owned by foreigners. (Domestic Investment Act of 1968)	Non-Resident Controlled Companies, NRCC (50% or more of paid up capital is owned by Non-Resident, or the branch of the company that is established out of Malaysia, or the company that is controlled by Non-Resident)	1. Corporation of which 50% or more of capital is owned by foreigners. 2. Corporation of which more than 50% of shareholders are foreigners. (Alien Business Law of 1972)
Regulation on Foreign Shareholding (Principle)	100%	· 100% · In case of the joint venture, it starts 95% and less.	Depend on export ratio	Depend on export ratio
Regulation on Foreign Shareholding (Rule-1) Condition to Hold 100%	· Project that is classified as Pioneer in IPP (Investment Priorities Plan). · In case of the project that is classified as Non-Pioneer, the project which wants to hold 100% has to export 70% or more. (1993 Investment Priorities Plan)	· 100% owned foreign affiliate. (Government Regulation No.20 / 1994, Dated May 19, 1994)	[No equity condition] · Project that exports 80% or more of their product. (MIDA, April 1994)	· In case of the Investment promotion Industry spcified by BOI, 1. the total amout of investment is 1 billion baht and more, or 2. the project that exports 80% or more of their sales. (BOI announcemnt NO.5 / 2535, 1992) · Project that is located at industrial estate of IEAT (Industrial Estate Authority of Thailand), and that exports 100% of their sales. · In case of the Industry listed on LIST C of Alien Business law, it is necessary to get a permit from ministry of commerce. (Alien Business Law of 1972)
(Rule-2) Condition to Hold 51～99%	· Project that is not listed on the Transitory Negative List based on 1991 Investments Act.	[95% and less] · In case of the joint venture, it starts 95% and less. (ditto)	[79% and less] · Project that exports 51%～79% of their product. (MIDA, April 1994) · In case of the project of which foreign equity is less than 100%, the equity taken up by Malaysians should be allocated to bumiputeras. (ditto)	[Depend on negotiation with BOI] · In case of the Investment promotion Industry spcified by BOI that exports 50% or more of their sales. (BOI announcemnt NO.5 / 2535, 1992) · In case of the Industry listed on LIST C of Alien Business Law, it is necessary to get a permit from ministry of commerce. (Alien Business Law of 1972)

	PHILIPPINES	INDONESIA	MALAYSIA	THAILAND
(Rule-3) Condition to Hold under 50%	[40% and less] · Project that is listed on the Transitory Negative List based on 1991 Investments Act. [30% and less] · ditto [25% and less] · ditto [0%] · ditto		[30%～51%] · Project that exports 20%～50% of their product. (MIDA, April 1994) [Maximum 30%] · Project that exports less than 20% of their product. (ditto)	· In case of the Investment promotion Industry specified by BOI that exports less than 50% of their sales. (BOI announcemnt NO.5 / 2535, 1992) · Where the Thailand majority is required in the list of BOI. · In case of the Industry listed on LIST A of Alien Business Law. (Alien Business Law of 1972) · In case of the Industry listed on LIST B of Alien Business Law. (Except Investment promotion Industry spcified by BOI) · In case of the Industry listed on LIST C of Alien Business Law, and ministry of commerce require less than 50%.
Obligations of Transfer of Capital	· Within 30 years, Non-Philippine Corporation must change its status to Philippine Corporation (60% or more of capital entitled to vote is owned by Philippines National). But this rule does not apply to the registered company which exports 100%. (Omnibus Investment Code of 1987)	· In case of the joint venture: None · In case of the 100% owned foreign affiliate: within 15 years, it is necessary to transfer its capital. There is no regulation with concrete transfer ratio. (ditto)	· None.	· None.

Sources: PHILIPPINES: Department of Trade and Industry, *Foreign Investment Act of 1991 R.A.7042*, ditto, *Investment Priorities Plan 1993.*
INDONESIA: *Government Regulation No.20/1994, Dated May 19. 1994*
MALAYSIA: Malaysian Industrial Development Authority (MIDA), *Malaysia,Investment in the Manufacturing Sector, Apr., 1994*
THAILAND: Materials of Board of Investment.

Besides, both countries have shown a wage increase, so that the labor-intensive industry move its production base gradually to another countries.

In Philippines, the regulations about foreign capital have two different sides and difficult to understand. The national basic laws are Omnibus Investment Code of 1987, and Foreign Investment Act of 1991, where 100% foreign shareholding can be permitted in principle. Only the types of business on the negative list have to be closed down. The regulation seems to be much set free only by these laws, for 100% foreign shareholding in principle and the regulation on the negative list. On the contrary, the different regulations called Investment Priority Plan can be found, where the types of business classified as Pioneer can get a promotion and those classifies as Non-Pioneers have to get a regulation. In case of Non-Pioneer, the condition for 100% foreign shareholding is more than 70% exporting ratio. And, within 30 years, the obligation to transfer 60% capital to the local side can be found. This means that the regulations in Philippines are comparatively strict, and with the public security problems, the investment is not so active. However, with the liberalization and the recovery of the public security, the investment to Philippines seems to be attractive, where labors with low cost and English communicative people, and the prospective aspect seems to be found as the relocation for the labor-concentrated industries.

As shown above, PP No.20 seems to show the highly advanced liberalized policy, comparing with other ASEAN counties, after that one of the conditions seem to have arranged to introduce the foreign capital. Indeed, the investment conditions for the foreign capital have to be considered not only by the regulations towards the foreign capital, but also by the various factors such as taxation system, infrastructure, country risk etc., so that with more deregulations to the foreign capital, the introduction of the foreign capital cannot necessarily be promoted. But, actually, at least one of the arrangements has been settled to introduce the foreign capital.

Ⅲ. Investment Environment in Indonesia

(1) Average Wage per Month in Every Country

At first, the average wage of every country roughly estimated has to be shown (TableⅢ-1). The material based upon the statistics in 1990, which were previous figures a little bit, shows the roughly estimated amount, by which the basic tendency can be found. This shows that the average wage in Indonesia is 10,000 yen per month, one twenty sixth as much as that in Japan (260,0000 yen), one twelfth as much as those in Korea and Taiwan, and one eighth as much as those in Hong Kong and Singapore, which shows a low standard in comparison with Japan and NIES. Besides, comparing with those in ASEAN countries, that is one half as much as that in Thailand,and ranks the lowest standard among ASEAN countries.

TableⅢ-1 Average Monthly Wage of Every Country

(Unit: 10 thousand Yen)

Japan	U.S.	U.K.	West Germany	Korea	Taiwan	Hong Kong	Singa-pore	Thai-land	Indo-nesia	India	Bangla desh	China	Eastern Europe
26	27	24	31	12	11	8	8	2	1	1	0.6	0.5	1～3

Note: Principally figures do not include overtime pay. But figures about Korea and Taiwan include it.
Source: Ministry of Labor "White Paper on Labor in Every Country"

As the measures towards the strong Yen, in case of shifting the production overseas, Indonesia can be cnsidered as one of the profitable investing countries, and the rapid increase of the investment in the 1980's has greatly depended upon the situation with abundant labor force with low wage. The deregulations have been performed nowadays,the investment movement will be the center of attention from now. But, only from the wage standard, the wage in China is one half (about 5,000 yen) as much as that in Indonesia, Bangladesh shows the same standard, and much lower standards can be found in the developing countries behind. Actually, recent various investigations show much more interest in China than that in Indonesia, so that the rise of China can be considered as the menace to Indonesia.

Indonesia and China share the same peculiarities with each other on the point of rich labour force and natural resources. But, China has much richer labour and resources, because the land is bigger than that of Indonesia. Therefore, to introduce the newly started investment and relocation, the arrangement on the investment policy and investment environment will be required, being aware of the competition with China.

(2) Infrastructure

For the arrangement of infrastructures, the industrial and the life infrastructures including the city functions can be mentioned as the most important. Even supplying the rich infrastructures on each industrial area, the enterprise cannot be operated smoothly, if the industrial and life infrastructures have not been arranged to function the city totally.

On this point, Jakarta (including suburbs) has showed remarkable development and change in these days, which shows a very attractive environment. About the industrial infrastructures, the network of superhighway has been arranged very well,and along the about thirty minutes' driving distance from the center, large-scale industrial areas have been developed in three areas, counting only the Japanese trading firms. Comparing with that in Bangkok, traffic jam is scarce, and the transportation is smooth. As in Bangkok, horrible traffic congestion to prevent the city functions from working cannot be found. Comparing with that in Philippines, electric power supplies are rather steady.

On the life environments, Japanese inhabitants have reached close to 10,000, so that Japanese food shops, Japanese restaurants, modern high-ride housings, and golf course have rapidly been arranged. Without the insecurity of public peace as in Philippines, the serious air pollution cannot be found as in Bangkok. The life environments can be said to have been arranged for the resident employees of the Japanese companies.

In the local cities as Bandung and Surabaya, the arrangements of the industrial basis and the life environment have been performed, the problems about infrastructures cannot be found so much for the investment to Java.[18] These situations can be considered as one factor to increase the investment rapidly, the sufficient arrangement can be said to be performed for the future increase of the investment.

In Chapter Ⅰ, I have examined in detail that the changes of the exchange rate from 1985 onwards have changed Japan and NIES into the capital exporting countries. In Chapter Ⅱ and Chapter Ⅲ, I have examined the investment policy and its environment in Indonesia as a receiving country of the capital, comparing with the situations in other ASEAN countries. Then, I will examine how the direct investment has actually influenced on both economies.

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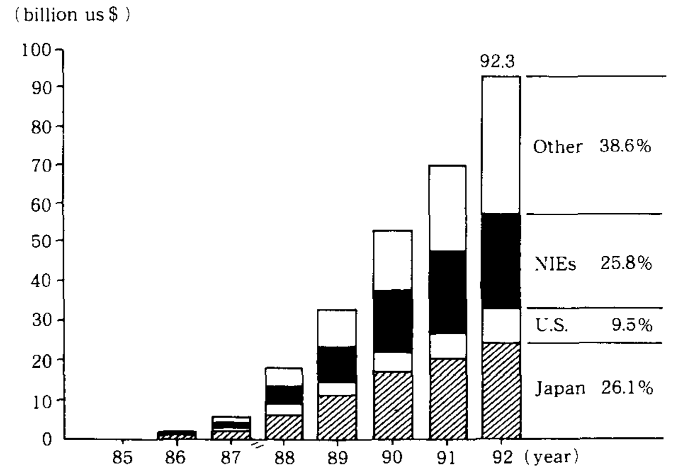
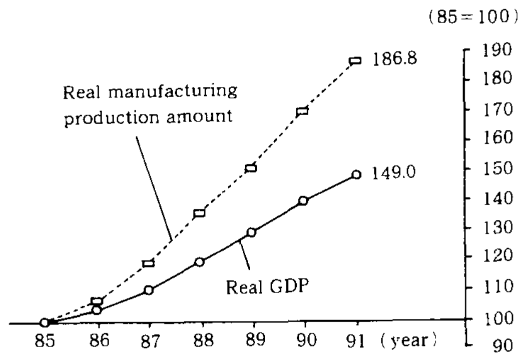
(18) But, in case of the investment to other areas except Java, the big differences can be found both on the industrial and life sides, so that cautious judgement have to be required. In particular, in the areas; Kalimantan, Slawesi, Irian, where some districts can be found as contaminated areas with contagious diseases, then such an underdevelopment on the life infrastructures seems to show a serious one.

Fig. Ⅳ-1 Economic growth of ASEAN 4

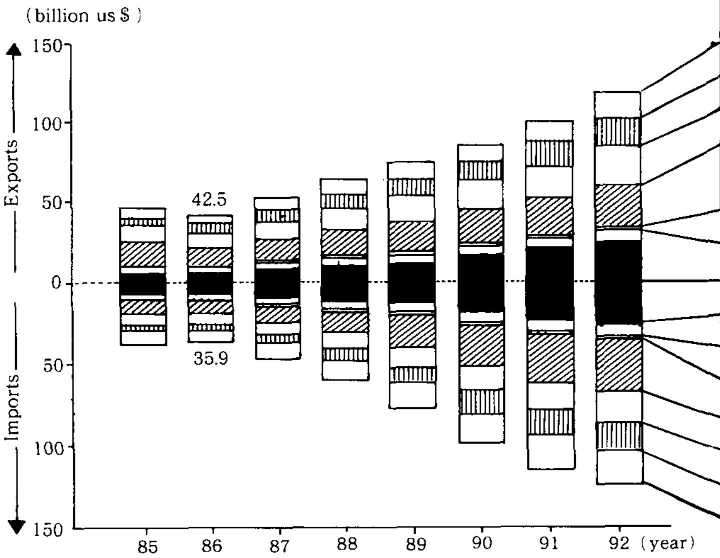
① Accumulated foreign direct investment in ASEAN 4



② Real GDP and real manufacturing production amount



③ Exports and imports



	Exports and imports (billion US $)	Growth from the previous year (%)
Total exports	117.3	13.4
Other	15.4	26.7
EU	18.9	27.3
U.S.	23.6	6.8
Japan	24.7	27.6
China	2.9	13.9
ASEAN 4	5.2	17.2
NIEs	26.5	15.9
NIEs	27.2	13.6
ASEAN4	5.7	25.8
China	3.0	▲2.4
Japan	32.2	9.4
U.S.	17.2	10.0
EU	18.5	11.3
Other	20.6	1.5
Total imports	124.4	9.6

Notes: 1. Accumulated foreign direct investment is on an approved basis since 1986.
Investment in Malaysia is comprised of only that in manufacturing industries.
As for Thailand, approved joint investments by some countries are repeatcd in the investor countries' data, and investments in elevated railways are excluded.
2. In the graph (2), 1985 is used as the base year (100).

Materials: IMF "DOT," Asian Development Bank "Key Indicators of Developing Asian and Pacific Countries," National statistics of the countries concerned

Source: MITI "White Paper on International Trade Japan 1994"

Ⅳ. Economic Growth of ASEAN 4 and Hallowization in Japan

(1) Economic Growth by Foreign Investment in ASEAN 4

Fig. Ⅳ-1-① shows the investing amount to ASEAN four countries (Indonesia, Malaysia, Thailand, and Philippines) by setting the base year as 1986 and the amount as the accumulated one, which shows that the investment from Japan and NIES has increased rapidly since 1985. The accumulated amount until 1992 has counted $ 92.3 billion, which has reached several ten times as much as that in 1986. In detail, Japan is 26.1%, NIES 25.8%, U.S.A. 9.5%, other countries 38.6%, and even the total amount of Japan and NIES has went over 50%. It is clear that the investing countries to these areas are Japan and NIES.

Fig. Ⅳ-1-② shows the real GDP of ASEAN four countries in the same period. Comparing with the amount in 1985, the amount in 1991 has increased about 1.5 times as much as that in 1985. Real manufacturing production amount has increased about 1.9 times as much. Putting Figure Ⅳ-1-① together, the interrelations between direct investment and its growth can be manifested clearly.

Fig. Ⅳ-1-③ shows the amount of export and import in the same period. The amount of export is $ 117.3 billion in 1992, which has reached about 2.8 times as much as that in 1986. The figure in 1992 shows the $ 26.5 billion as the exporting amount to NIES, which stands first. The following countries are to Japan and to U.S.A.; the amount to Japan is $ 24.7 billion, to U.S.A., $ 23.6 billion. The amount to ASEAN four countries is $ 5.2 billion, which is very small. The amount of import in 1992 is $ 124.4 billion, which is about 3.5 times as much as that in 1986. Based upon the statistics of every country, the amount of import from Japan is $ 32.2 billion, which stands first. The following countries are from NIES, and from EU; $ 27.2 billion from NIES and $ 17.2 billion from EU. The amount from ASEAN four countries is $ 5.7 billion. The interrelations between the trade and the direct investment can be found clearly.

As shown above, under the situations that the direct investment has been increasing rapidly, it is easy to understand how the ASEAN four countries have been growing rapidly. Then, I will examine how is the influence on Japan and NIES; the investing countries. The following is about Japan.

(2) Hallowization in Japanese Economy

The two sides have to be considered how the direct investment has influenced on the Japanese economy. The first side is that the capital goods, parts, intermediate materials for the production activity will be exported from Japan after the establishment of the local corporation; "the effect for leading exports". The second side is that the previous exports will be substituted by the overseas production, because the overseas production have come to be full-scale; "the effect of the export substitution." The third side is that some parts of the goods produced overseas will be imported reversely to Japan; "the effect of reverse import".

Among these, "the effect for leading exports" will be active for the production of the capital goods, parts, intermediate materials in Japan, which will well function to the Japanese economy. However, when "the effect of the export substitution" has appeared, the domestic productive ratio will be decreased with the overseas productive ratio. Then, in place of the industries with the high productive ratio, new industries will develop in the country, and the structures of the industry will have to be changed. But, if this changes have never be promoted, the structure of industries will be hollowized. As well as "the effect of export substitution", if "the effect of the reverse import" has appeared, this tendency will be strengthened more and more.

The test calculation by Economic Planning Agency shows that the increase of the direct investment will act as a factor on the balance of trade to have a deficit, particularly from 1990 onwards, this tends to expand to have a more deficit, which reflects that "the effect of export substitution" and "the effect of the reverse import" have appeared strongly.

If strong Yen has advanced above export profit rate, every enterprise will promote the direct investment in the way pursuing the cost. Then, if the structures of the industry have not been changed, corresponding to the situation, the hollowization of the industry cannot be avoided. The direct investment means that the adaptation to the actual situations will be required for the Japanese enterprise, and that the investment fund will be flowed in for Asian countries. But, the negative influence has been found from the viewpoint of the national economy of the investing country, so that the appropriate settlements have to be required.

V. Yen Appreciation in 1994 and Possibility of Japanese Investment

(1) Yen Appreciation in 1994

Finally, I will examine the recent exchange rate floating and the trend toward the investment by the Japanese enterprise. The present Yen can be found since February in 1993, and since June in 1994, the rate has reached less than one hundred yen, the rate has been floating around the second half of 90's yen.

Corresponding to this situation, the examination performed by Small and Medium Enterprize Agency on the 6th in July in 1994 shows that the exporting rate for profit has been defined as from 105 yen to 110 yen among the many enterprise; 32.3%, while the rate has been defined as more than 110 yen among many enterprise; 60.3% in total. On the contrary, the rate has been defined as less than 100 yen among the least enterprise; 1.6%.

As the measures to Yen appreciation, in the first place, the following measures can be considered to keep the domestic base for production; strengthening of the domestic sales, the improvement of the quality, cost reduction, personel cut etc. At the same time, the base for the production can also be investigated to change into overseas. The examination by Economic Planning Agency in 1993 shows that the time-lag from Yen appreciation to the actual direct investment can be considered as from one year to one and a half, so that the period for the direct investment can be assumed from in spring to in summer in 1994, counting from February in 1993, or from in summer to in fall in 1995, counting from June in 1994. On this side, the possibility of the direct investment will be strengthened very much.

However, on the other side, the situations cannot be neglected that the accumulation of the overseas capital stock has greatly been advanced, because the overseas direct investment has been performed actively in the second half of the 1980's. The examination by the Export-Import Bank of Japan in August-September in 1993 shows that the remarkable reason why the overseas investment has not been performed is that "the previous overseas expansion has made the sufficient base kept, and the present situation will make it possible to get over the future situation".

Besides, under the present situation of the domestic economy, the enterprise profit has deteriorated, so that the enterprise cannot afford to perform overseas investment. Then, the increase of the direct investment will not be considered to appear after more Yen appreciation and the domestic business upturn.

However that may be, the movement to perform the direct investment preceding can be found, by the prospective view on the high growth ratio of ASEAN, and by the prospective view that the competitive power might be lowered in case of the domestic production, and it is not clear when such a movement will come true, but there is no doubt that direct investment will be increased.

(2) Possibility of Japanese Investment to Indonesia

Under these conditions, deregulations have been performed drastically in Indonesia. As the investment environment, wages stand the second next to China, and the infrastructures have been arranged. For the moment, China can be considered to the competing country for the investment. Supplied with attractive investment environments much more than those of China, the possibility can be considered that the investment to Indonesia will be increased rapidly.

However, considering the rich labour force and rich natural resources, China has the much more advantage over Indonesia. Indonesian peculiarities have to be manifested, on the points of the investment policy and the advantage of investment environment. On this point, PP No.20 has shown the advantage to be secured on the investment policy. But, if defined in the policy side, the following problems still seem to remain.

1. Opening the distribution department towards the foreign capital. In particular, opening the wholesale department towards the manufacturer. Actually, the manufactures are obliged to entrust even the wholesales to the different company, which shows an insufficient work. Both retailing and importing departments have to be opened, by which the improvement will have to be performed rapidly to unite production to sales on the same system.

2. Reduction of the corporation tax and the introduction of the priority measures on the taxation system. The corporation tax is separated into four levels; from 15% to 35%, and the level; 35% has been adapted to most

enterprise. Now, the procedures have been advanced to change the ratio; from 10% to 30%. But, the priority measures on the taxation system have never been taken towards the enterprise of the foreign capital, so that the tax rate will be expected to reduce greatly.

Besides, Asian countries have Tax holiday for several years since the operation, and such a priority measures may be examined to introduce in Indonesia. Anyway, it will be very important to reduce the tax shoulder for the enterprise of the foreign capital,which can be considered as one item to arrange the investment environment.

Still, there is such an idea that tax revenues have to be secured to arrange the infrastructures, but this PP No.20 has permitted the entry of the foreign capital to the public fields, then the arrangements for the infrastructure by BOT way etc. have to be performed from now on.

3. Simplification and Promptness of the procedures of the investment. In various fields, the procedures are separated into many levels, and various fields, so that it takes a long time to get the permit, and obscure parts have been pointed out in some parts. Recently, the necessary procedures for the investment are as follows; acquisition of the investment permit, acquisition to approve the permission of the employment of foreigners and the importing materials etc., acquisition of the permit for the location and construction etc., and it will take three or four months to go through all the necessary procedures. Simplifying these procedures. Besides, it will have to be considered to abolish the approval of the permission in principle.

4. Supplying informations of the investment to Japan, and other foreign countries. In Japan, the informations about Indonesia are very scarce. Nevertheless, Indonesian professional office for the investment cannot be found in Japan. The informations about investment in Indonesia have to be got by the Japanese adviser of BKPM in Indonesia, or by the Economic

Department at Indonesian Embassy, or at ASEAN Center. On the contrary, the competitive countries such as Thailand, Malaysia etc. have early opened the professional office for the investment in Japan, where the Japanese members are stationed, so that information services have been shown. On supplying the informations for the investment, Indonesia is greatly behind other countries. The improvement of publishing informations as well as that of the policy will be expected.

If the policy to the foreign capital has been improved so much, and the trade has been liberalized and has made it possible to divide business within ASEAN countries, and the arrangements for the investment environment have been advanced much more, then the introduction of the foreign capital will make a success in Indonesia, "the growth by the direct investment" will be able to put on track.