Indonesia's economic take-off subject to delay

New political willingness to postpone sensitive industrial projects welcomed, writes **Clare Bolderson**

THE Indonesian government's recent decision to postpone four big energy and petrochemicals projects worth just under $10bn has sent a ripple of relief through much of Jakarta's business and financial community.

It is the first real indication that the government is prepared to act to ease mounting pressures on Indonesia's overstretched economy and, more importantly, that it is prepared to override political sensitivities in so doing.

Many countries envy Indonesia's economic success. GDP growth rates of more than seven per cent in 1989 and 1990 and projected growth of around six per cent this year are impressive, as are the increasing levels of domestic and foreign investment over the past three years.

An abundance of natural resources and a huge labour force provide a good basis for the future and, as Mr Hartojo Wignjowijoto, an economist says: "in the medium to long term, Indonesia still has lots and lots of positives". But the short term, he admits, is more worrying.

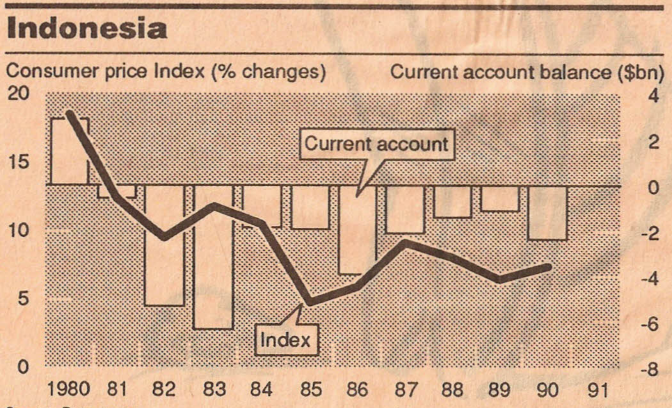
Indonesia earned a reputation as a model developing country in the mid-1980s when, largely on the advice of the World Bank, it implemented radical economic changes which reduced barriers to foreign and domestic private investment and shifted the economy away from its dependence on oil and gas. The result was a more diversified export base and a greatly enhanced private sector.

But Indonesia now faces some serious problems. A slowdown in the growth of non-oil exports hit the country as its appetite for imports and foreign loans started to peak in 1990.

The current account deficit of $3.7bn in 1990/91 is expected to widen to around $6bn this fiscal year. Indonesia's $60bn foreign debt is one of the biggest in the developing world and the World Bank's annual report warns that sustained growth would require "continued high levels of financial support from the donor community".

A chronically weak infrastructure is restricting growth and inflation in 1991 may match last year's official rate of nearly 10 per cent, despite the government's tight money policy.

Depressed commodity prices have not helped Indonesia's situation and the current drought could affect agricultural output, which accounts for 20 per cent of GDP.



Source: Datastream

In 1990 talk of an impending "economic take-off" was frequently splashed across the Indonesian press. This year it has all but disappeared and in its place has come the realisation that strict discipline is needed to get things back on track.

As the strains have become more obvious, an estimated $80bn worth of "mega projects", most of them infrastructure-related and petrochemical plants planned over the next three years, have attracted most attention. Mr Sumitro Djojohadikusumo, an economist and former cabinet minister, was the first to raise publicly concerns about the amount of foreign borrowing needed to finance such projects when he called in July for the freezing of all but "unavoidable" investments.

"Only projects for the improvement of electricity and telecommunication facilities and transportation infrastructure should be categorised as unavoidable" Mr Sumitro said.

His sentiments were echoed by others but many though the call would go unheeded because many projects involved businessmen close to President Suharto's family.

Last week's announcement that the Foreign Commercial Debt Team, established in early September to approve all offshore financing for government related projects, had set a ceiling of $5.9bn on foreign commercial borrowing for 1991-92 and had postponed four big investment projects has provided some reassurance. Three of the postponed projects involved leading businessmen close to President Suharto's family, while the President's youngest son had connections with the fourth.

The shelving of the projects and the planned ceiling on foreign commercial borrowing are only a first step and implementing the policy in a country with no restrictions on capital or foreign exchange flows is not expected to be easy.

"Fine-tuning" is, however, a word regularly spoken by government ministers and the actions so far have been widely welcomed. Now economists are urging the government to go further.

They say taxes must be increased and tax collection, which is currently almost non-existent, must be enhanced, while the newly liberalised financial sector must have regulatory and supervisory systems built into it. They also call for greater efforts to bring down inflation.

The government has to find jobs for some two million people each year, to overcome severe shortages of electricity in its industrial heartland of Java and to address the problems of a telecommunications system on the verge of collapse. It also has to ensure a more even distribution of wealth, particularly to the undeveloped eastern regions of the country.

All this comes as Indonesia prepares for a general election next June, a largely cosmetic exercise in which the outcome is a foregone conclusion but which nevertheless is the focus of much campaigning and political fanfare.

However, one western economist sums up current sentiment. Indonesia must continue to tighten its belt if it wants to get back on the road to take-off and "being hampered by the election is a luxury the country can not afford" he says.

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