

Indonesia's current account balance in 2003 was US\$7.6 billion, ranking it 25th in the world and 4th among Association of Southeast Asian Nations (ASEAN) members (behind Singapore, Malaysia, and Thailand).

**External Debt:** At the end of 2002, Indonesia's external debt was US\$131.3 billion. This figure represented a slight decline from the immediately preceding years. About 56 percent of this indebtedness was in the governmental sector and the rest in private-sector enterprises and domestic securities owned by nonresidents. A total debt of US\$132.9 billion was estimated for 2003, compared with US\$2.4 billion about fifteen years earlier.

**Foreign Investment:** Foreign investment in Indonesia has been on the decline since the Asian banking crisis. In 1997 Indonesia received a total of US\$33.1 billion in approved foreign direct investment, most of it in the manufacturing sector (and most of that in chemicals and pharmaceuticals). By 2000 the total had plummeted to US\$15.2 billion, with manufacturing and chemicals and pharmaceuticals receiving the greatest share. Further decreases were experienced in the succeeding years. In 2003 Indonesia received a total of US\$9.3 billion with the same relative distribution.

**Foreign Aid:** Indonesia received US\$43 billion in International Monetary Fund (IMF) aid in 2003, and this assistance has traditionally been an important part of the central government's budget. From 1967 to 1991, most aid was coordinated through the Inter-Governmental Group on Indonesia (IGGI) founded and chaired by the Netherlands; since 1992, without the Netherlands, the organization has been known as the Consultative Group on Indonesia (CGI). Although Indonesia terminated its IMF aid program in December 2003, it still receives bilateral aid through the CGI, which pledged US\$2.8 billion in grants and loans for 2004. Japan and the Asian Development Bank also have been key donors.

**Currency and Exchange Rate:** Indonesia's currency is the rupiah (Rp, also sometimes Indonesian rupiah—IDR). The exchange rate in December 2004 was US\$1=Rp9,176.

**Fiscal Year:** Calendar year. Prior to 2001, the fiscal year ran from April 1 to March 31.

## TRANSPORTATION AND TELECOMMUNICATIONS

**Overview:** Although government programs are aimed at improving the overall transportation network, Indonesia's economic situation and archipelagic character make that a daunting task. Passenger and freight transportation via interisland and inland waterways is probably the most important form of transportation in Indonesia. Railroads are heavily used on Java (including Madura) and Sumatra for passengers and cargo but are nonexistent on the other islands. Air transportation has expanded, though unevenly, in the past decade.

**Roads:** Based on 1999 estimates, Indonesia had a total of 342,700 kilometers of roads, mostly (about 60 percent) located on Java, Madura, Bali, and Sumatra; 158,670 kilometers (46 percent) were paved, of which 27,358 kilometers were classified as main roads and 40,490 kilometers as secondary roads. Another 184,030 kilometers (54 percent of the total) were unpaved. About 32

percent of the roads were classified as highways. There are smaller networks of roads on Sulawesi and Kalimantan, while smaller islands often have limited roads within or connecting major settlements. Urban transit is dominated by motor vehicles; the use of automobiles (there were 3.4 million in use in 2002), buses, minibuses, and motorcycles is widespread, even in seemingly remote areas.

**Railroads:** Track length totaled 6,458 kilometers in 2002, of which 125 kilometers were electrified. All rail facilities were government-owned and -operated until 1991, when government liberalization created a public corporation, now called PT Kereta Api (Persero), which operates Indonesian Railways. The corporation possesses almost total commercial freedom, with the exception of some passenger fares that remain fixed by the government, but it continues to face financial problems as the rising demand for its services is coupled with shortfalls in investment and revenues. However, some of this demand has been met by private passenger and freight service operators that have entered the market since 1995. All railroads are narrow gauge, with 5,931 kilometers 1.067 meter gauge, and 497 kilometers 0.750 meter gauge in 2002. Some 211 kilometers of roadbed are double tracked, and 125 kilometers of 1.067 gauge electrified, all on Java. Other railroads are located on Madura and Sumatra. Most were used for passenger transportation as of 2002, but there was increasing use for freight from the early 1980s onward. A 15-kilometer-long mass rapid transit system, partly underground, was planned for Jakarta, but as of 2004 (it was initially expected to be completed in 2001) construction had not begun because of a lack of funds.

**Ports:** Indonesia has 379 ports and harbors controlled by the Ministry of Communications for international and interisland trade. The four main ports—all designated gateways to handle Indonesia's exports—are at Tanjung Priok (near Jakarta), Tanjung Perak (near Surabaya), Belawan (Medan), and Makassar (South Sulawesi). Other major ports are at Cilacap, Cirebon, and Semarang (all on Java), Kupang (Timor), and Palembang (Sumatra). Some 127 ports are classified as capable of handling international shipping. As a result of port improvements begun in the mid-1980s, container handling capacity has doubled at both Makassar and Tanjung Perak, and there are future plans to provide much-needed improvements to Tanjung Priok and Belawan. However, no foreign shipping lines call at Makassar because the port does not meet International Ship and Port Security (ISPS) code. Interisland maritime transportation is crucial, supported by a large fleet of traditional and modern boats and ships.

**Inland and Coastal Waterways:** Interisland transportation is critical to domestic commerce. Traditional sailing craft are widely used, but they increasingly are motorized. The merchant fleet is composed of 718 ships of 1,000 gross registered tons or more. These ships include, by type, the following: cargo (398), refrigerated cargo (2), container (57), bulk carrier (47), roll on/roll off (15), petroleum tanker (128), chemical tanker (13), specialized tanker (12), liquefied natural gas (6), passenger (10), passenger/cargo (13), short-sea passenger (9), vehicle carrier (7), and livestock carrier (1). There also are 35 oceangoing vessels, 259 interisland vessels, more than 1,000 modernized local-use vessels, almost 4,000 traditional vessels, and 1,900 special bulk carriers. River transport plays a major role in eastern Sumatra, Kalimantan, and Papua. Most of Indonesia's major rivers are at least partly navigable, but those on Java are used primarily for irrigation.

**Civil Aviation and Airports:** The government owns one airline, Garuda Indonesia, and one smaller subsidiary, Merpati Nusantara Airlines. Civil aviation as a private-sector venture has greatly increased from one private airline in 1993 to 27 private domestic airlines by 2004. The major air facility is Sukarno-Hatta International Airport, which opened outside Jakarta in 1985, and in 1991 an additional terminal greatly increased airport capacity. There are other major airports in Denpasar, Medan, Surabaya, and Batam Island. In 2003 there were an estimated 661 airports in Indonesia, of which 154 had paved runways (four with more than 3,000-meter runways) and 507 had unpaved runways. Six of the larger airports can accommodate wide-bodied aircraft. Additionally, there were 22 heliports in 2003. Indonesia had a fledgling domestic turboprop airliner industry under development under the government-owned Indonesia Aerospace in the late 1990s, but it reached only a prototype-level of production.

**Pipelines:** In 2003 Indonesia had 672 kilometers of condensate, 125 kilometers of condensate/gas, 8,183 kilometers of gas, 7,429 kilometers of oil, 66 kilometers of oil/gas/water, 1,329 kilometers of refined products, and 72 kilometers of water pipelines.

**Telecommunications:** Indonesia has been a pioneer in national satellite communications since 1975. A third generation of satellites, known as Palapa C1 and C2, was launched in 1996; these satellites provide a number of interisland and international telecommunications services. In 2002 there were some 7.8 million telephones and 11.7 million mobile cellular telephones in use, producing a ratio of some 91 units per 1,000 people. International telephone service was widely available. Radio and television were long dominated by government networks, but private stations have been on the rise since the early 1990s. As of 1998, there were 678 AM, 43 FM, and 82 shortwave radio stations and more than 31 million radios. In 2000 more than 31.7 million television receivers were in use. Estimates vary as to the number of Internet users in Indonesia—between nearly 4 million and 8 million. By 2002 there were more than 2.3 million personal computers, producing a ratio of 11.9 units per 1,000 people.

## GOVERNMENT AND POLITICS

**Government Overview:** Indonesia is a republic based on limited separation of powers among the executive, legislative, and judicial branches. The constitution of 1945 is in force, but, based on a constitutional amendment of August 2002, beginning with the 2004 presidential elections, the once powerful, party-centered presidency is subject to popular election and limited to two five-year terms. Prior to the 2004 elections, the People's Consultative Assembly (Majelis Permusyawaratan Rakyat—MPR) chose the president and vice president, who were not necessarily from the same political party. Under the new law, the president and vice president are elected on a single ticket and the winning ticket must win more than 50 percent of the popular vote and at least 20 percent of the vote in half of the provinces. If these percentages are not met, a second-round runoff election is held. The president is both chief of state and head of government.

The MPR, the highest authority of the state, has both elected and appointed members. Under the amendment that surrendered its presidential election powers, the MPR also replaced its 200 nonelected members (representatives of provinces and various social groups) with elected

members of a new legislative body, the 200-seat House of Regional Representatives (Dewan Perwakilan Daerah—DPD), which was established by constitutional amendment in 2001. The DPD joins the existing 500-seat House of People's Representatives (Dewan Perwakilan Rakyat—DPR) in a bicameral, all-elected legislature. The members of both houses make up the MPR.

The highest court of the land is the Supreme Court (Mahkamah Agung), composed of justices appointed by the president from a list of candidates approved by the legislature. In 2004 the Supreme Court was preparing to assume administrative responsibility for the lower-court system, currently run by the Ministry of Justice and Human Rights. Under the Supreme Court is a quadripartite judiciary of general, religious, military, and administrative courts. Appeals can be made, sequentially, from a district court to a high court to the Supreme Court. A separate Constitutional Court was established in 2003. The Supreme Audit Board (Badan Pemeriksa Keuangan) oversees accountability of public finance and is independent of the chief executive, but its members are chosen by the president.

The judicial branch is theoretically equal to the executive and legislative branches and has the right of judicial review over laws passed by the DPR, as well as government regulations and presidential, ministerial, and gubernatorial decrees. In practice, however, the judiciary is less influential than the executive and legislative branches, and it has often been heavily influenced by the executive branch. Indonesia has not accepted compulsory International Court of Justice jurisdiction.

**Administrative Divisions:** Indonesia has 30 provincial-level units: 27 provinces (*propinsi*), two special regions (*daerah istimewa*; Aceh and Yogyakarta), and one special capital city region (*daerah khusus*; Jakarta). Since January 1, 2001, when central control over local affairs was lessened, the 357 districts (*kabupaten*) and municipalities (*kotamadya*)—the first-level provincial subdivisions—became the administrative units responsible for providing most government services. Following a 1999 referendum agreed to by the legislature, and a period of United Nations stewardship, the province of Timor Timur became the independent nation of the Democratic Republic of Timor-L'este (East Timor or Timor Lorosa'e) on May 20, 2002.

**Provincial and Local Government:** Provinces (*propinsi*) are divided into districts or regencies (*kabupaten*), which are further divided into subdistricts (*kecamatan*). There also are some municipalities or city governments (*kotamadya*) that are on the same administrative level as the districts and others that are on the subdistrict level. The lowest level of the administrative hierarchy is the village (*desa*). The chief executives are provincial governors, district or regency heads, mayors of cities, and village heads. Legislation is handled by provincial and district parliaments. Under the revised election laws, governors, mayors, and district heads (regents) were to be directly elected for the first time in 2004.

**Judicial and Legal System:** The legal system is based on Roman-Dutch law, modified by indigenous concepts and by new criminal procedures and election codes. There are 2,418 district courts, each of which has a panel of judges that conducts trials by posing questions, hearing evidence, deciding on guilt or innocence, and assessing punishment. Both the defense and prosecution can appeal verdicts. Arbitrary arrest and detention are prohibited, but the government lacks adequate enforcement mechanisms, and authorities have routinely violated the

Criminal Procedures Code. The code provides prisoners with the right to notify their families promptly, and specifies that warrants must be produced during an arrest. Exceptions are allowed if, for example, a suspect is caught in the act of committing a crime. The law allows investigators to issue warrants; at times, however, authorities make arrests without warrants.

**Electoral System:** Indonesia has direct, popular election of its parliamentary representatives. All citizens 17 years of age and older are eligible to vote. Indonesia's first free parliamentary elections since 1955 were held in July 1999 and resulted in a major victory for a new party under the leadership of Sukarno's daughter, Megawati Sukarnoputri—the Indonesian Democratic Party of Struggle (PDI-P). The PDI-P, although receiving the greatest share of the vote, did not have sufficient support within the People's Consultative Assembly (MPR), which instead chose the Muslim leader and progressive intellectual Abdurrahman Wahid as president and permitted the appointment of Megawati to the office of vice president. Up to and including this election, the president and vice president were elected separately by the MPR for five-year terms. When Wahid was found incompetent, he was deposed by the MPR, which then elected Megawati to the presidency. In accordance with constitutional changes, the 2004 election of the president and vice president was, for the first time, by direct vote of the citizenry. The first round in the presidential elections held in July 2004 narrowed the field of candidates, with the Democratic Party candidate, retired army general Susilo Bambang Yudhoyono, gaining the most votes and Megawati coming in second among the five candidates. In the second round, in September, Megawati was decisively defeated and Yudhoyono was sworn in as president in October 2004.

**Politics and Political Parties:** The old emphasis on consensus, unity, and controlled political development came to an end in the post-Suharto era, starting in 1998. Whereas the official government party, Golkar, once held an absolute majority, there are now numerous parties vying for power, and none enjoys national majority support. These parties include the Crescent Moon and Star Party (PBB), Democratic Party (PD), Indonesia Democratic Party-Struggle (PDI-P), National Awakening Party (PKB), National Mandate Party (PAN), Prosperous Justice Party (PKS), and United Development Party (PPP). As a result of the April 2004 parliamentary elections, Golkar had 128 seats, PDI-P 109 seats, PPP 58 seats, PD 57 seats, PKB 52 seats, PAN 52 seats, PKS 45 seats, and other parties 49 seats.

**Mass Media:** The constitution provides for freedom of speech and freedom of the press; however, the government has a history of restricting these rights in practice. In August 1990, the government formally announced that it would refrain from censoring domestic and foreign media and from revoking the publishing licenses of newspapers that violated regulations governing the press. Yet in practice, the government's policy toward the press did not change, and in 1994 it revoked the licenses of three major news magazines, *Editor*, *DeTik*, and *Tempo*. After President Suharto's resignation in May 1998, the government once again officially disavowed censorship, and within six months both *DeTik* and *Tempo* had resumed publication (the latter under the name *DeTak*). Private press in current operation includes nearly 50 daily newspapers, dozens of magazines, 10 foreign press bureaus, and five private commercial television stations. There are also 10 foreign press bureaus, two government radio stations (Radio Republik Indonesia and Voice of Indonesia), one government news agency (Antara), and one independent national news agency (Kantorberita Nasional Indonesia). The government does not restrict Internet usage or content.

**Foreign Relations:** Indonesia is a charter member of the Nonaligned Movement, which was established in September 1961. The April 1955 Asian-African Conference—held in Bandung, Indonesia—was an important milestone in the development of the Nonaligned Movement’s goal of independence from the Cold War superpowers (the United States and the Soviet Union) and the former colonialist powers and put Indonesia on the international stage for a time. As the Sukarno era progressed, however, Indonesia’s government was at odds with the Dutch over West New Guinea (now called Papua) and increasingly hostile toward neighboring Malaysia to the point that Sukarno withdrew Indonesia from the United Nations when Malaysia was appointed a nonpermanent member of the Security Council in 1964.

In the mid-1960s, following an attempted coup and subsequent upheaval, in which hundreds of thousands of communists and suspected communists were killed, power was transferred from Sukarno to General Suharto and a “New Order” established in which the military was paramount. This government moved quickly to rejoin the United Nations and reopen Indonesia to Western investment and influence. Relations with China, which was widely thought to have aided the Indonesian Communist Party (PKI), were suspended. In 1967 Indonesia participated in establishing a new officially nonaligned grouping of neighbors, the Association of Southeast Asian Nations (ASEAN), which was friendly toward the Western powers. Its secretariat was placed in Jakarta, and its first secretary general was an Indonesian. The commemoration of the thirtieth anniversary of the Bandung Conference in 1985 saw Indonesia’s full reemergence on the world stage, allowing Jakarta to project itself as a leading voice in the Nonaligned Movement and providing it with an extra-regional platform for claiming proper international standing. Indonesia’s diplomatic relations with China had been reinstated in 1990. Then, in 1991, Indonesia gained its long-sought goal of chairing the Nonaligned Movement, but the 1992 Jakarta summit came at a time when the Cold War had ended and superpower rivalries were a thing of the past.

Indonesia continues to play an important role in ASEAN affairs, particularly in efforts to settle the Cambodia crisis. Indonesia’s most contentious regional relations are those with Australia, mostly over the situation in East Timor. In the 2000s, the Indonesia government proclaims that its relations with all major nations are based on the principles of nonalignment and what it calls an “independent and active foreign policy.”

**Membership in International Organizations:** Indonesia is a member of the Association of Southeast Asian Nations (ASEAN), the Nonaligned Movement, the United Nations (UN), and numerous other international organizations, including: the Asian Development Bank, Center for International Forestry Research, Developing Eight, Food and Agriculture Organization, Group of 15, Group of 77, International Atomic Energy Agency, International Bank for Reconstruction and Development, International Civil Aviation Organization, International Conference of Islamic Scholars, International Committee of the Red Cross, International Finance Corporation, International Labour Organization, International Maritime Organization, International Monetary Fund, International Telecommunication Union, Organisation for the Prohibition of Chemical Weapons, Organization of Petroleum Exporting Countries, Organization of the Islamic Conference, UN Children’s Fund, UN Conference on Trade and Development, UN Development Programme, UN Economic and Social Commission for Asia and the Pacific, UN Educational,

Scientific, and Cultural Organization, UN Fund for Population Activities, UN Industrial Development Organization, UN Information Centre, UN Office of the High Commissioner for Refugees, World Food Program, World Health Organization, World Meteorological Organization, World Tourism Organization, and World Trade Organization.

**Major International Treaties:** Indonesia is a party to numerous multilateral conventions, including the Biological Weapons Convention, Chemical Weapons Convention, Comprehensive Test Ban Treaty, Geneva Conventions, Treaty on the Non-Proliferation of Nuclear Weapons, and others. Indonesia also is a signatory to international environmental conventions on Biodiversity, Climate Change, Desertification, Endangered Species, Hazardous Wastes, Law of the Sea, Ozone Layer Protection, Ship Pollution, Tropical Timber 83, Tropical Timber 94, and Wetlands, and, as of May 2004, had signed, but not ratified Climate Change-Kyoto Protocol or Marine Life Conservation.

## NATIONAL SECURITY

**Armed Forces Overview:** The Indonesia Armed Forces (Tentara Nasional Indonesia—TNI) totaled some 346,000 active-duty personnel in 2004. The component services are the Army (TNI—Angkatan Darat), 265,000; Navy (TNI—Angkatan Laut), an estimated 57,000, of which 15,000 are marines and 1,000 are part of Naval Aviation; and Air Force (TNI—Angkatan Udara), 24,000, of which 4,000 are “quick-action” paratroopers. There is a reserve force of 400,000. With the transition to democratic rule beginning in 1998, the government endeavored to undertake steps to reform the TNI in order to improve public opinion about the military and to bring the military under civilian control. Among such steps were the devolution of the national police from the armed forces to the Office of the President and official transfer of responsibility for internal security from the TNI to the police in April 1999, focusing the military’s attention on national defense rather than domestic policing. Another important reform was a provision that military personnel had to retire or resign before occupying an elected or appointed civilian government position. However, the TNI successfully resisted transformation of its territorial command structure because of threats of terrorism and separatism, and because it needs this structure to support its huge business empire, from which it obtains an estimated two-thirds of its funding (the government budget provides only one-third of the funds needed to operate and equip the military and national police). After several years in disrepute because of revelations of extensive human rights abuses, the TNI has regained much of its lost prestige. Many Indonesians appear to favor military firmness as the country is facing terrorist, separatist, and ethnic conflict as well as a moribund economy.

**Foreign Military Relations:** Indonesia enjoys cordial military-to-military relations with a wide range of nations. Its closest ties are with fellow members of Association of Southeast Asian Nations (ASEAN). Formerly close ties to the United States, Australia, and some European countries became strained in the 1990s over human rights issues; many countries cut back their military relations with the TNI after the rampage of army and army-supported militia forces in East Timor in 1999. Because of arms sales embargoes imposed by its primary sources in the United States, Indonesia has turned to Russia and other nations of the former Soviet Union, South Korea, and Poland, among others, for major arms purchases.

Human rights and political issues have also affected sales of foreign military equipment to Indonesia, but such tensions eased after East Timor gained independence in 2002. In 1992 the U.S. Congress terminated grant military training assistance (International Military Education and Training—IMET) after learning of Indonesian military human rights abuses in East Timor. This restriction was partially relaxed in 1995, but assistance was suspended again in 1999 as a result of violence following the referendum on East Timor's separation from Indonesia.

**External Threat:** Indonesia has no conventional external threat to its security. The primary outside threat is that of international terrorism. Terrorists belonging to the regional terrorist group Jemaah Islamiyah (Community of Islam) have conducted a number of recent bomb attacks, including the bombing of two night clubs on Bali in October 2002 that killed 202 people and injured more than 300, while a bombing at the Marriott Hotel in Jakarta in August 2003 killed 12 people and injured 150. Prompt police investigative actions and international cooperation resulted in the arrests of dozens of suspects and revealed an extensive network of affiliations among al-Qaeda, Jemaah Islamiyah, and Islamic extremist groups inside Indonesia. More than 30 men were convicted in the Bali bombing case and several more in the Jakarta attack. Many of them were also involved in other terrorist attacks across Indonesia dating back to 2000. Another terrorist bombing, that of the Australian Embassy in Jakarta in September 2004, killed ten people and injured 160 and led to a new round of investigations and tightened security. Other threats to Indonesian security include piracy, particularly in the Strait of Malacca, smuggling, and maritime poaching.

**Defense Budget:** Indonesia's defense budget officially totaled approximately Rp1.26 trillion (US\$1.4 billion using an exchange rate of Rp9,000 to US\$1), or 1.06 percent of the gross domestic product (GDP) in FY 2004. However, most analysts believe that approximately two-thirds of military spending is derived from sources other than the official defense budget (diversions from other budgetary entities and from the military's huge business empire) and that actual expenditures for FY 2003 were closer to nearly Rp 3.8 trillion (US\$4.2 billion).

**Major Military Units:** The army includes 30 battalions under the centrally controlled Army Strategic Reserve Command (Kostrad), 100 battalions under 12 Military Regional Commands (Kodams), 3 operational groups in the Army Special Forces Command (Kopassus), and a 2-squadron Aviation Command. The navy has two fleets (Armadas), and the air force has two operational commands (Ko-Ops).

**Major Military Equipment:** The army is equipped with 325 light tanks, 175 armored reconnaissance vehicles, more than 600 armored personnel carriers (APCs), 245 towed artillery pieces, 70 self-propelled artillery pieces, 415 air defense guns, more than 100 surface-to-air missiles, 11 fixed-wing aircraft, and almost 100 helicopters. The navy's inventory includes 2 submarines, 15 frigates, several dozen patrol and coastal combatants of various sizes, 12 mine warfare ships, and 26 amphibious forces ships (landing ship tanks). Many of the navy's main line ships are in poor or non-seaworthy condition, particularly those acquired in the mid-1990s from the former East Germany. The navy has no combat aircraft but does have more than 40 non-combatant fixed-wing aircraft, 37 armed helicopters, and 17 transport helicopters. The marines (Kormar) have 100 light tanks, 10 anti-infantry fighting vehicles, 84 APCs, 48 towed artillery



## HISTORICAL BACKGROUND

**Prehistory:** Archaeological evidence indicates that ancestors of modern humans occupied sites in Central and East Java as early as 1.9 million years ago; presumably, these hominids were widely distributed in other areas. Fossils were found in 2003 of a tiny species of ancient hominid (*Homo floresiensis*) that lived up until at least 18,000 years ago on the island of Flores in the Lesser Sunda Islands. There is evidence of modern humans as early as about 40,000 years ago, but they may have been present much earlier. By about 5,000 years ago, the circulation of peoples within the archipelago and the absorption of influences from outside had begun to create a diverse but related complex of cultures often identified as Austronesian. What is today Indonesia lay at or near the center of this complex, which eventually spread east throughout the Pacific, and west as far as Madagascar.

**Early History:** Although Indonesian peoples clearly had contact with the outside world at an early date (cloves, found only in Maluku, had made their way to the Middle East as early as 4,000 years ago), physical evidence in the archipelago is much later. Sites containing Indian trade goods now date at about 400 B.C., and the first inscriptions (in eastern Kalimantan and West Java) at about 375–400 B.C. The first formal kingdoms of which we have extensive knowledge are Srivijaya (flourished c. A.D. 550–c. 1050), a Buddhist trading polity whose power was centered in the region of present-day Palembang and reached to coastal areas on the Malaysian peninsula and elsewhere, and Mataram, in Central Java, where magnificent Buddhist and Hindu monuments such as Borobudur and Prambanan were constructed in the eighth and ninth centuries. The greatest of the subsequent Hindu-Buddhist states, the empire of Majapahit centered in East Java, claimed hegemony from the late thirteenth to early sixteenth centuries over a wide trading region stretching from Sumatra to Maluku.

Islam entered the archipelago in about the eleventh century, but significant conversions did not take place for two centuries or more, beginning with Pasai (North Sumatra) at the turn of the fourteenth century and going on to Makasar and Central Java in the seventeenth century. Contacts from China deepened between the tenth and fourteenth centuries as a result of growing trade, but Mongol attempts to control Javanese power (in the late thirteenth century) failed, and early Ming dynasty (1368–1644) efforts to exercise great political and economic influence were fleeting. It was at this time also that Western visitors began appearing, starting with Marco Polo in the late thirteenth century and continuing with the Portuguese and Spanish in the sixteenth century. They were soon followed by the Dutch (1596) and the English (1601). Europeans affected trade and politics in specific places and periods, but for most of the archipelago beyond Java and parts of Maluku, colonial rule did not set in until the mid- or late nineteenth century.

**Colonial Period:** Dutch power in the archipelago grew very gradually, and colonial rule was not a goal of the Dutch East India Company (VOC), which dominated trade from Amsterdam and, after the early seventeenth century, a fortified port called Batavia (now Jakarta) in West Java. But on Java local realities produced, by the mid-eighteenth century, a symbiotic Dutch-Javan relationship that survived the bankruptcy of the VOC in 1799 and soon took the shape of a colonial administration, which grew and consolidated during the late 1800s. In the first decades of the twentieth century, a modern Dutch colonial state extended its control to most of the area

pieces, and about 50 air defense guns. The air force is equipped with 94 combat aircraft, 3 maritime reconnaissance aircraft, 2 tankers, 63 transports, 100 trainers, and 40 helicopters. As is the case with the navy, many of the aircraft are non-operational because of a lack of spare parts and other maintenance problems. The current inventory has arms supplied by the Netherlands, South Korea, Russia, Singapore, the United Kingdom, and the United States. There is increasing emphasis on domestic production of such items as light aircraft, small arms, and ammunition; helicopters and transport aircraft are assembled under licensing agreements. Senior officials with the air force and navy have complained that few ships, planes, or weapons systems are operational, and most are obsolete.

**Military Service:** The earliest age of service is 18, and two years of selective conscription of males are authorized.

**Military Forces Abroad:** Indonesian forces abroad are currently involved in several United Nations peacekeeping operations: the United Nations Organization Mission in the Democratic Republic of the Congo (MONUC; 13 peacekeepers, including 4 observers), United Nations Organization Mission in Georgia (UNOMIG, 4 observers), and United Nations Mission in Sierra Leone (UNAMSIL, 10 observers).

**Police:** The strength of the Indonesian National Police stood at approximately 285,000 in 2004. The national police force was formally separated as a branch of the armed forces and placed under the Office of the President in 1999. It also includes 12,000 marine police and an estimated 40,000 People's Security (Kamra) trainees who serve as a police auxiliary and report for three weeks of basic training each year. There has been occasional friction between police and the military, with several instances of armed combat between them, usually caused by disputes over "turf" and shady business enterprises.

**Internal Threats and Terrorism:** There are two general threats to Indonesian domestic security: terrorism and ethnic and religious conflict. The terrorists causing the greatest problems in Indonesia are members of the regional group, Jemaah Islamiyah (Community of Islam). Although Jemaah Islamiyah operates primarily in Indonesia, it has operational units in peninsular Malaysia, Singapore, Australia, and Papua New Guinea. Jemaah Islamiyah has perpetrated significant terrorist acts and is believed to have strong links with al-Qaeda. The government announced at the time of the October 2002 Bali bombings that terrorism was "a real and potential threat to national security" and has called upon the public to confront domestically based terrorists.

Center-region relations have been perennially problematic, with the government continuing to experience difficulties in maintaining order and the rule of law in outlying regions. The most pressing threats are separatists in Aceh and Papua (formerly Irian Jaya). The major insurgent groups are Gerakan Aceh Merdeka (GAM—Free Aceh Movement), which wants an independent Islamic state in Aceh and has an estimated strength of 2,000 armed activists; and Organisasi Papua Merdeka (OPM—Free West Papua Movement), which seeks independence for Papua and has an estimated 150 activists.

Other regions also experienced outbreaks of violence, some of them very serious, after 1996. These include religious violence in Maluku and Central Sulawesi, ethnic violence over land use and local power in Kalimantan and other locales, and violence involving both political-religious hostility as well as hysteria about the misuse of supernatural powers in East Java. There have been many incidents of anti-Chinese riots in urban areas, some of them very destructive. On several occasions, most notably in 2001, radical Muslim groups have “swept” parts of Jakarta, cities in central Java, and other tourist areas, threatening Westerners.

**Human Rights:** The United States Department of State’s Human Rights Report for 2003 (issued in February 2004) rates the Indonesian government’s human rights record as “poor” and notes that Indonesia has “continued to commit serious abuses.” Murders, torture, rape, beatings, and arbitrarily detaining civilians and members of separatist movements were all documented as abuses by security force members. The government also was accused of having frequently failed to protect adequately the fundamental rights of children, women, peaceful protesters, journalists, disabled persons, religious minorities, and indigenous people, among others. Aceh and Papua provinces were seen as the scenes of the most apparent human rights abuses, but human rights appeared to have improved in some provinces, for example Maluku and North Maluku, despite sporadic outbreaks of violence.

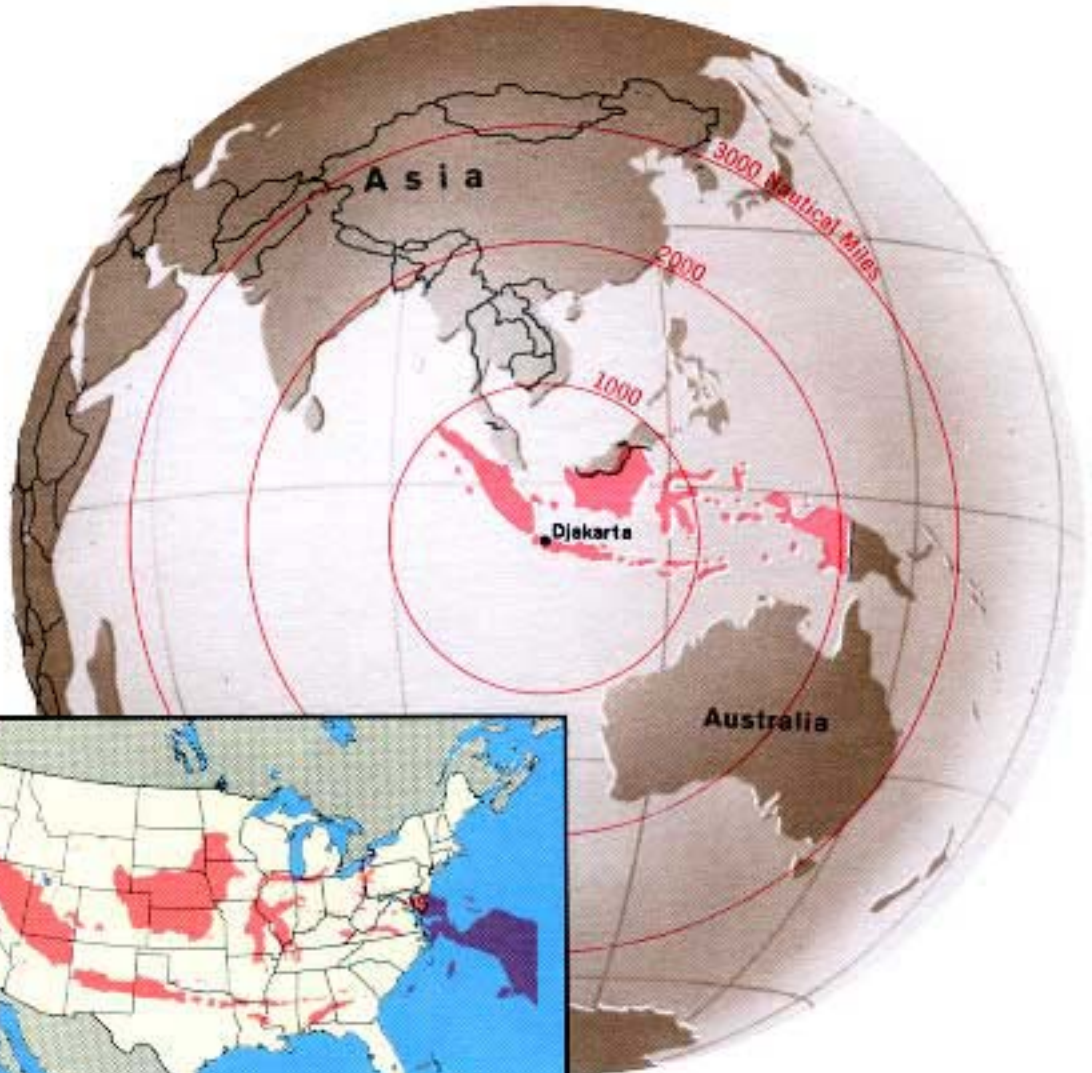




Image courtesy of the CIA World Factbook



Image courtesy of the CIA World Factbook

we now call Indonesia. Simultaneously, some of the peoples ruled by this state discovered nationalism; the first groups date from the early 1900s, and by the 1920s and 1930s an array of modern political organizations and leaders, including the well-known nationalist figure Sukarno (1901–70), came to the fore. The struggle between the Dutch colonial government and the Indonesian nationalist movement was well under way when the Japanese occupied the Indies in 1942. They remained until the end of World War II in August 1945.

**Independence Period:** On August 17, 1945, Sukarno and Mohammad Hatta proclaimed the independent Republic of Indonesia with Sukarno as president and Hatta as vice president. Allied forces (mostly British and British Indian troops) did not arrive until six weeks later, by which time the republic had begun to establish itself and nationalist pride had burgeoned. The period October-December 1945 was filled with violent conflict in which Indonesians made it clear they would defend their independence with their lifeblood. Forcing the Dutch to negotiate with the republic for an end to hostilities, the British withdrew in late 1946. The republic subsequently survived two Dutch “police actions” and an internal communist rebellion, and on December 27, 1949, The Hague formally recognized the sovereignty of a federated Republic of the United States of Indonesia, which a year later was formed into a unitary Republic of Indonesia.

Despite the holding of democratic elections in 1955, the years following the struggle for independence were characterized by political and economic difficulty: regional dissidence, attempted assassinations and coups d'état, military-civilian conflict, and economic stagnation. A period of Guided Democracy was announced in 1959 by Sukarno, who in September 1963 proclaimed himself president-for-life and presided over a political system in which the civilian nationalist leadership, much of the Islamic leadership, the large Indonesian Communist Party (PKI), and the army were all at odds. This tense and hostile atmosphere was broken on September 30, 1965, with what appears to have been an attempted PKI coup against the Sukarno government. The precise circumstances remain unclear, but the immediate result was that a “New Order” coalition of students, intellectuals, Muslims, and the army brought about a military-dominated government that removed Sukarno and permitted a broad and deadly assault on communists, especially on Java, Bali, and Sumatra. In late 1965 and early 1966, an estimated 500,000 Indonesian communists and suspected communists were killed and many more arrested. On March 11, 1966, power was transferred from a seriously ill Sukarno to a high-ranking army officer, Suharto; the PKI was formally banned the following day. Suharto became the acting president on March 12, 1967, and the New Order era began.

The New Order era, which lasted for more than 30 years, has a mixed record. Like Guided Democracy, it was authoritarian, but it was more successful in bringing stability to the nation. Unlike Guided Democracy, its economic achievements were enormous and the well-being of the majority of Indonesians undeniably improved. Average life expectancy, for example, increased from 46 to 65.5 years. On the other hand, the state's heavy involvement in banking and industry, especially the petroleum and natural gas sectors, worked against competition and encouraged corruption on a large scale. Heavy-handed political control and propagandizing of a national ideology may have aided stability, but also did not prepare the nation for a modern political existence. A modernizing, educated, and better-off middle class grew, but gained little or no political clout; poverty was reduced, but some particularly severe pockets appeared to be intractable. Suharto provided strong leadership, but he did not provide for a wise transition and,

in his last years, clung to power and favored family and friends. East Timor, which had been forcibly annexed to Indonesia in 1976, saw bitter conflict between the Indonesian military and local independence movements. When the Asian financial crisis hit in 1997–98, the New Order lost the economic justification that had guaranteed much of its public support, and there was a widespread call for Suharto to step down. He resigned on May 21, 1998, little more than two months after being selected for his seventh term as president.

Suharto was succeeded by Bucharuddin Jusuf Habibie, who sought first to resolve the East Timor situation and begin a new and more open electoral process. In 1999, following Indonesia's first freely contested parliamentary elections since 1955, Abdurrahman Wahid, well-known as both a progressive intellectual and as leader of Indonesia's largest Muslim organization (Nahdlatul Ulama, NU) became president. His quirky and often uncompromising leadership style, and questions about both his competency and his health, brought him increasing opposition and eventually serious threats of impeachment. He was dismissed from office in July 2001 in favor of Megawati Sukarnoputri, his vice president and head of the Indonesian Democratic Party of Struggle (PDI-P). Megawati, Sukarno's eldest daughter, was decisively defeated in the September 2004 presidential runoff election by the Democratic Party candidate, retired army general Susilo Bambang Yudhoyono. Yudhoyono was sworn in as president in October 2004.

## GEOGRAPHY

**Location:** Indonesia is located in Southeast Asia. The approximate geographic center is at 5ES and 120EE. It lies between the Indian and Pacific oceans and between the continents of Asia and Australia, south of Malaysia and the Philippines, and northwest of Australia.



[Click to Enlarge Image](#)

**Size:** Estimates of the size of Indonesia's total area vary. Officially, the Indonesian government says the total land area is 1.9 million square kilometers and total sea area, 7.9 million square kilometers, including an exclusive economic zone. Academic sources report a total land area of 2,027,087 square kilometers plus 3,166,163 square kilometers of territorial waters and note that the country measures about 5,100 kilometers at its greatest east-west extent, and about 1,888 kilometers at its greatest expanse north to south. According to U.S. Government sources, Indonesia has 1,826,440 square kilometers of land, some 93,000 square kilometers of water area (the sum of all water surfaces delimited by international boundaries and/or coastlines, including inland water bodies, such as lakes, reservoirs, and rivers) for a total area of 1,919,440 plus a 7.9 million-square-kilometer maritime area.

**Land Boundaries:** Indonesia's land boundaries total 1,758 kilometers, including 1,107 kilometers with Malaysia, 820 kilometers with Papua New Guinea, and 288 kilometers with East Timor.

**Length of Coastline:** Indonesia's coastline totals 54,716 kilometers on the Indian Ocean, Strait of Malacca, South China Sea, Java Sea, Sulawesi Sea, Maluku Sea, Pacific Ocean, Arafura Sea, Timor Sea, and other smaller seas.



**Maritime Claims:** Indonesia claims a 12-nautical-mile territorial sea and a 200-nautical-mile exclusive economic zone, measured from claimed archipelagic straight baselines. The total area claimed by the Indonesian government, including Indonesia's territorial sea and an exclusive economic zone, encompasses 7.9 million square kilometers.

**Topography:** Indonesia is the largest archipelagic nation in the world. It encompasses more than 17,000 islands (17,508 according to the Indonesian Hydro-Oceanographic Office). About 6,000 of these islands are named, and about 1,000 are permanently settled. The five main islands are Java, Kalimantan, Papua (formerly called Irian Jaya), Sumatra, and Sulawesi. There are two major archipelagos, Nusa Tenggara and Maluku, and about sixty smaller archipelagos. The larger islands of Indonesia are mountainous, with some peaks reaching 3,800 meters above sea level on the western islands and as high as 5,000 meters on Papua. The highest point is Puncak Jaya (5,030 meters) on Papua. The region is tectonically unstable with some 400 volcanoes, of which 100 are active.

**Principal Rivers:** Indonesia's waterways total 21,579 kilometers. The principal rivers are the Musi, Batanghari, Indragiri, and Kampar rivers on Sumatra; the Kapuas, Barito, and Mahakam rivers on Kalimantan; the Memberamo and Digul rivers on Papua; and the Bengawan Solo, Citarum, and Brantas rivers on Java, which are used primarily for irrigation.

**Climate:** Indonesia's maritime equatorial climate typically produces high, even temperatures and heavy rainfall; temperature variations are generally due to island structure (elevation) and time of day, while rainfall may vary across the archipelago as a result of many different factors, among them monsoon patterns, which themselves vary according to location. Average temperatures at or near sea level range from about 23EC to 31EC. In most of the country, rainfall is comparatively heavy throughout the year, with a pronounced rainy season roughly between December and March. East of Surabaya, however, a dry season is increasingly noticeable, especially between June and October. The high elevations of Sumatra, Kalimantan, Sulawesi, and Papua receive about 3,000 millimeters of rain annually; lower elevations, and much of Java, receive 2,000 or more millimeters; farther east rainfall ranges between 1,000 (Sumba) and 2,000 millimeters per year (Bali and Timor).

**Natural Resources:** Petroleum and natural gas are among Indonesia's most important natural resources. Indonesia is the world's largest exporter of liquefied natural gas. Most petroleum production is on central Sumatra, but Java also has significant production, and there are substantial proven offshore reserves. There are also large coal reserves. Other significant minerals are bauxite, copper, gold, iron, manganese, nickel, sulfur, silver, and tin. An important nonmineral resource is timber.

**Land Use:** According to 2001 estimates, 11.3 percent (206,753 square kilometers) of Indonesia's total land area is arable, and land planted in permanent crops, including an irrigated area of 48,150 square kilometers, represents 7.2 percent of the total (132,051 square kilometers). There are 1,619,687 square kilometers of nonarable land and land not under permanent crops.

**Environmental Factors:** Indonesia's geography leaves the nation vulnerable to severe flooding, unpredictable drought and plant pest attacks, volcanic activity, and earthquakes, which are sometimes associated with tidal waves (tsunami). The most important environmental issues associated with human activities are forest degradation (unregulated cutting, fires, smoke and haze, and erosion); water pollution from industrial wastes and sewage; air pollution from motor vehicles and industry in urban areas, and generally from smoke and haze caused by forest fires; and threats to biodiversity and rare plant and animal species.

**Time Zones:** Since January 1, 1988, Indonesia has had three time zones: Western Indonesia Standard Time (Greenwich Mean Time—GMT—plus seven hours), covering all provinces on Sumatra and Java, and the provinces of western and central Kalimantan; Central Indonesia Standard Time (GMT plus eight hours), covering the provinces of eastern and southern Kalimantan, all provinces on Sulawesi, and the provinces of Bali, West Nusa Tenggara, and East Nusa Tenggara; and Eastern Indonesia Standard Time (GMT plus nine hours), covering the provinces of Maluku and Papua.

## SOCIETY

**Population:** Indonesia has the world's fourth largest population after China, India, and the United States, totaling an estimated 238,452,952 individuals in July 2004, with a 1.5 percent annual population growth rate. Sixty-nine percent of the population lives in rural areas. Java is one of the most densely populated areas in the world, with more than 120 million people, or some 945 persons per square kilometer. By contrast, the most densely populated Outer Islands have 90 persons or fewer per square kilometer. Jakarta, on the western end of Java, is the largest city, with an estimated population of 11.4 million in mid-2001.

**Demography:** According to estimates of Indonesia's age structure, 29.4 percent of Indonesians are under 14 years of age; 65.6 percent are between 15 and 64; and only 5.1 percent are 65 and older. Estimates made in 2004 indicate a birthrate of 21.1 births per 1,000 and a death rate of 6.26 deaths per 1,000. In 2004 life expectancy was estimated at 71.8 years for women and 68.8 for men, or 69.3 years total. Estimates for infant mortality ranged from 37 to 63 per 1,000 live births. The total fertility rate estimated for 2004 was 2.47 children per woman.

**Ethnic Groups:** Indonesia is a culturally very diverse nation. Ethnic identities are not always clear, stable (even for individuals), or agreed upon; ethnic groups may appear or profess to be more distinct socially or culturally than they actually are. But there are about 350 recognized ethnolinguistic groups in Indonesia, 180 of them located in Papua; 13 languages have more than 1 million speakers (see below). Javanese make up 45 percent of the population, Sundanese 14 percent, Madurese 7.5 percent, coastal Malays 7.5 percent, and others 26 percent.

**Languages:** The official national language is Bahasa Indonesia (or Indonesian), a modified form of Malay, with an estimated 17 million to 30 million mother-tongue speakers and more than 140 million second-language speakers or readers. Additionally, as many as 725 other languages and dialects are spoken. Some have large numbers of speakers: Javanese (75 million), Sundanese (27 million), Madurese (nearly 14 million), and Malay (10 million). Other languages with more than

1 million speakers each, in descending order, are Minangkabau, Balinese, Buginese, Acehnese, Batawi, Banjarese, Sasak, Toba Batak, Chinese of various dialects, Makasarese, Lampung, Dairi Batak, and Rejang. Since independence, and particularly since 1965, English has replaced Dutch as the main Western language spoken and is widely used in government and business circles.

**Religion:** Indonesia has the largest Islamic population of any nation. Most Indonesians (88 percent) count themselves as Muslims and observe Islamic practices to varying degrees; another 5 percent of Indonesians are Protestant, 3 percent are Roman Catholic, 2 percent are Hindu, 1 percent are Buddhist, and 1 percent observe other religions. In some remote areas, animism is practiced. The constitution guarantees religious freedom for the five religions (the first five mentioned) recognized by the state. In 2002 the People's Consultative Assembly (Majelis Permusyawaratan Rakyat—MPR) rejected a proposal to introduce Islamic law as a constitutional requirement.

**Education and Literacy:** Indonesia has a twelve-year public and private education system (primary—grades one through six; junior high school—grades seven through nine; and senior high school—grades ten through twelve). An estimated 3.7 percent of government expenditures go toward education. Schooling is compulsory at the primary and, since 1993, junior high levels; senior high school education is optional. The system is supervised by the Ministry of National Education (which is responsible for nonreligious, public schools—about 92 percent of total enrollment at the primary level and 44 percent at the secondary level) and the Ministry of Religious Affairs (which is responsible for religious, private, and semiprivate schools—about 15 percent of total enrollment). *Pesantren* (Islamic religious boarding schools) doubled in number between 1980 and 1996 and enrolled more than twice the number of students, which in 1996 amounted to 1.9 million. Nearly 98 percent of students complete primary school according to United Nations Educational, Scientific, and Cultural Organization (UNESCO) estimates in 2001. The adult literacy rate ranges between 88.5 percent, according to a U.S. Government estimate for 2003, and 90.2 percent, according to a 2001 UNESCO estimate. In public schools, emphasis on moral and civil studies under the rubric of a state philosophy known as Pancasila (Five Principles: monotheism, humanitarianism, nationalism, democracy, and social justice), was altered after the end of the New Order. Since 2000, for example, courses in “Pancasila Morality” have been known as “Civic Education” and their intensity and propagandistic qualities much reduced. Most religious schools emphasize Islamic values and thought. There are some 1,634 institutions of higher education, including the University of Indonesia in Jakarta, founded by the Dutch in the 1930s, and Gadjah Mada University in Yogyakarta, founded by Indonesians in 1946.

**Health:** Indonesia had a three-tiered system of community health centers in the late 1990s, with 0.66 hospital beds per 1,000 population, the lowest rate among members of the Association of Southeast Asian Nations (ASEAN). In the mid-1990s, according to the World Health Organization (WHO), there were 16 physicians per 100,000 population in Indonesia, 50 nurses per 100,000, and 26 midwives per 100,000. Both traditional and modern health practices are employed. Government health expenditures are about 3.7 percent of the gross domestic product (GDP). There is about a 75:25 percent ratio of public to private health-care expenditures. Human immuno-deficiency virus/acquired immune deficiency syndrome (HIV/AIDS) has posed a major public health threat since the early 1990s. In 2003 Indonesia ranked third among ASEAN nations

in Southeast Asia—after Burma (Myanmar) and Thailand—with a 0.1 percent adult prevalence rate, 130,000 HIV/AIDS cases, and 2,400 deaths. In Jakarta it is estimated that 17 percent of prostitutes have contracted HIV/AIDS; in some parts of Papua, it is thought that the rate of infection among village women who are not prostitutes may be as high as 26 percent. Two other health hazards facing Indonesia in 2004 were dengue fever and dengue haemorrhagic fever (DHF) and avian influenza. All 30 provincial-level units were affected by dengue fever and DHF, according to WHO. The outbreak of highly pathogenic avian influenza (A/H5N1) in chickens and ducks in Indonesia was said to pose a significant threat to human health.

**Welfare:** Of the government budget for FY2002, 8.8 percent was devoted to the category of “social welfare, health, and the empowerment of women.”

## ECONOMY

**Character and Structure:** Although the New Order brought spectacular development to Indonesia during the 1970s and 1980s, lifting the nation out of the dire economic conditions of the previous two decades, this success did not solve major structural problems and, indeed, may have created new kinds of difficulties. Increasingly in the 1990s, the economic outlook was weakened by charges dubbed “Corruption, Collusion, and Nepotism” (Korupsi, Kolusi, dan Nepotisme—KKN), which after 1996 were leveled particularly at Suharto and his family. Despite liberalization and surveillance policies enacted in the late 1980s, these factors grew in importance and left the economy particularly vulnerable to, and ill-prepared to address, the financial crisis of 1997-98, which saw the gross domestic product (GDP) drop an officially estimated 13 percent and inflation rise to nearly 60 percent in 1998 alone. In mid-1999, nearly 25 percent of the population was thought to be living in absolute poverty, compared with about 10 percent five years earlier. Since then, Indonesia’s economic growth has been slow and somewhat erratic. Major factors are slow progress on legal, banking, and corporate reforms; continued military action in resource-rich Aceh; and terrorism targeting international capital and tourism.

During the New Order, the economy was transformed from one having virtually no industry in 1965 to production of steel, aluminum, and cement by the late 1970s. At present, Indonesia is the world’s number-one exporter of liquefied natural gas (LNG) and the seventeenth largest oil producer in the world, responsible for about 1.8 percent of world production and 5.2 percent of total Organization of Petroleum Exporting Countries (OPEC) production in 2004. The emphasis in the early 2000s was on less government interference in private business and greater technology inputs. Agriculture predominates and benefits from an infusion of modern technology by the government. Indonesia is a major aid recipient.

Indonesia’s major trade partners are Japan, the European Union, the United States, Singapore, and the Republic of Korea (South Korea); trade with Association of Southeast Asian Nations (ASEAN) members is increasing. In spite of government liberalization of previously restrictive investment rules, foreign investors continue to experience numerous difficulties in conducting business. Since the late 1990s, companies have remained wary of investing in Indonesia, and an increasing number of manufacturers have relocated outside the country because of security issues, deteriorating infrastructure, substantial corruption, high interest rates, and increasing

labor costs. The 1997–98 economic downturn hurt Indonesia more deeply and for a longer time than other Southeast Asian nations. In 2003 the government terminated its loan program with the International Monetary Fund (IMF) because of its reluctance to continue implementing unpopular economic restrictions. However, there are positive economic signs in steady domestic consumption, a strengthened currency, and successful small and medium business enterprises.

**Gross Domestic Product (GDP)/Purchasing Parity Power (PPP):** In 2002 GDP was Rp1,609.8 trillion (US\$172.9 billion; for value of the rupiah—Rp—see below). However, average annual growth of both GDP and GDP per capita have slowed substantially since the 1980s. The average annual growth of GDP in 1982–92 was 6.9 percent; in the 1992–2002 period, it was 2.5 percent. The average annual growth in GDP per capita for 1982–92 was 5.0 percent, and in 1992–2002 it was 1.1 percent. In 2002 PPP was Rp6,052.2 trillion (US\$650 billion), and PPP per capita was Rp28.6 million (US\$3,070), which ranks as 141 out of 208 countries listed by the World Bank. Estimated PPP was Rp7058.7 trillion (US\$758.1 billion) in 2003. The estimated average PPP per capita for 2003 was Rp29.8 million (US\$3,200).

**Government Budget:** For 2003 Indonesia's government budget was Rp 334.5 trillion (US\$39 billion) in revenues and Rp 368.8 (US\$43 billion) in expenditures, including capital expenditures. The budget is formulated by the Ministry of Finance and approved by the legislature. Budgets are developed as part of five-year economic development plans (Repelita—Rencana Pembangunan Lima Tahun).

**Inflation:** The estimated inflation rate in Indonesia for 2003 was 6.6 percent. This level ranked Indonesia 163d in the world. Among Southeast Asian nations, only East Timor, Laos, and Papua New Guinea had higher inflation rates.

**Agriculture, Forestry, and Fishing:** In 2004 agriculture represented a declining share (17.5 percent or lower; down from 20.6 percent in 1993) of gross domestic product (GDP) but employed a majority of workers (an estimated 45 percent of the total labor force) in 2004. Only about 11.3 percent of the total land is arable. Farming is by smallholders and on large private and government-owned commercial plantations. Rice dominates food production, but cassava, corn, fruits, sweet potatoes, and vegetables also are important subsistence crops. Green Revolution technological advances and increased use of fertilizers, pesticides, and irrigation improved rice production in the 1970s and 1980s. Cash crops include cocoa, coffee, copra, palm oil, peanuts, rubber, soybeans, sugar, tea, and tobacco. Animal husbandry (dairy and beef cattle, poultry and eggs, and pigs) and fishing are small but valuable parts of the agricultural sector. Attempts to ameliorate rural poverty by means of a transmigration program moving families from crowded agricultural regions such as Central Java to less crowded areas in, for example, Sumatra and Kalimantan, have failed. Greatly expanding a program begun by the Dutch early in the twentieth century, at the program's height in the 1979–84 period the Suharto government moved 500,000 people. Poor funding and preparation, local hostility, suspicions about ulterior motives, and (somewhat ironically) economic growth on Java, brought about a precipitous decline; in 2000 the transmigration program was ended.

**Mining and Minerals:** Mining and mineral production represented about 11.9 percent of gross domestic product (GDP) and employed about 0.5 percent of the labor force in 2004. Crude

## COUNTRY PROFILE: INDONESIA

December 2004

### COUNTRY

**Formal Name:** Republic of Indonesia  
(Republik Indonesia; the word Indonesia was coined from the Greek *indos*—for India—and *nesos*—for island).

**Short Form:** Indonesia.

**Former Names:** Netherlands East Indies; Dutch East Indies.

**Term for Citizen(s):** Indonesian(s).

**Capital:** Jakarta (Special Capital City Region of Jakarta), located on the north coast of Java.

**Major Cities:** The eight largest cities in 2004 were Jakarta (Java), Surabaya (Java), Bandung (Java), Medan (Sumatra), Palembang (Sumatra), Semarang (Java), Ujungpandang (Sulawesi), and Tangerang (Java).

**Date of Independence:** Proclaimed August 17, 1945, from the Netherlands. The Hague recognized Indonesian sovereignty on December 27, 1949.

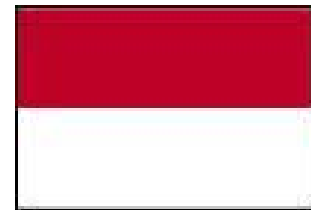
**National Public Holidays:** Religious holidays (celebrated by followers of that faith): include Imlek (Chinese or Lunar New Year, movable date in January or February); Eid’l Adha (Feast of the Sacrifice of the Prophet Ibrahim, movable date); Hari Raya Nyepi (Balinese Hindu New Year, movable date in March or April); Hijriyah (Islamic New Year, first day of Muharram, first month of the Islamic calendar, variable date); Good Friday (movable date in March or April); Maulid (Birthday of the Prophet Muhammad, movable date); Waisak (Buddha’s Birthday, movable date in May or June); Ascension of Christ (movable date in May or June); Isra Miraj Nabi Muhammad (Night Journey and Ascension of the Prophet Muhammad, movable date); Eid’l Fitri (end of the month of Ramadan, variable cluster of two days, often late in the year); and Christmas (December 25). Other days commemorated include: New Year’s Day, January 1; National Education Day, May 2; National Awakening Day, May 20; National Children’s Day, July 23; Independence Day, August 17; National Sports Day, September 8; Armed Forces Day, October 5; Youth Pledge Day, October 28; Heroes’ Day, November 10; and Women’s Day, December 22.

### Flag:

The Indonesian flag has two equal horizontal bands of red (top) and white. It is similar to the flag of Monaco, which is shorter, and also to the flag of Poland, which is white (top) and red.



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petroleum and natural gas are predominant. About 1.2 million barrels of petroleum are produced per day, a decline from peak levels of production enjoyed in 1995, when production was at 1.6 million barrels per day. Most proven reserves (estimated at 7.1 billion barrels) are offshore. Central Sumatra is the largest oil-producing region and also has about 60 percent of the reserves of coal, of which a total of 114 million tons were produced nationwide in 2003. Indonesia is the world's largest exporter of liquefied natural gas. An estimated 69 billion cubic meters were produced in 2001, and Indonesia had an estimated proven reserve of 5.5 trillion cubic meters in 2002. Other minerals of significance are bauxite, copper, gold, iron sands, nickel, silver, and tin; most of these minerals are highly localized and often difficult and costly to extract.

**Industry and Manufacturing:** The industrial sector accounts for an increasing share of gross domestic product (GDP)—42 percent in 2002, up from 27 percent in the late 1980s—and employed about 19 percent of the work force in 2001. Basic industries are automotive and transportation manufactures, food processing, forest products processing, metal manufactures, oil and natural gas processing, and textiles, as well as such other industries as electronic goods, footwear, furniture, garments, and paper goods. Most production is on Java and Sumatra.

**Energy:** Efforts are underway to decrease dependence on petroleum and to increase the use of alternative energy sources, especially natural gas and coal to generate electric power. Modernized electric power generation produced 95.78 billion kilowatts in 2001, using fossil fuels (86.9 percent), hydropower (10.5 percent), and other sources (2.6 percent). Indonesia has no nuclear power generation. Rural electrification projects have brought power to more than 14 million village homes since the early 1990s.

**Services:** Services are estimated to produce between 38 and 42 percent of gross domestic product (GDP) and employed about 37 percent of the work force in 2001. Government service is one of the fastest growing sources of employment and attracts a majority of the best-educated personnel. The sector is characterized by a mix of modern government-operated utilities, stable private services, and numerous self-employed operators in the informal, personal services sector.

**Banking and Finance:** Much like Indonesia's general economic performance, the country's banking and finance have exhibited both positive and negative signs. Relations with the International Monetary Fund (IMF)—a benchmark for foreign investors' attitudes toward the country—have been tense, and the government formally terminated its loan program with the IMF in December 2003. In the future, Indonesia will likely have to rely on bilateral arrangements, and Japan has indicated that it will pick up some of the slack. Furthermore, the rapid growth in capital markets during the early 1990s has slowed considerably, and share indices have not yet regained their pre-1997 levels.

During the financial crisis of 1997–98, a great many domestic banks collapsed. In 1998 the government allowed foreign ownership of banks and removed restrictions on foreign bank branches outside Jakarta. However, slow progress in bank restructuring has also made foreign investors cautious. The Indonesian Bank Restructuring Agency (IBRA) was established in 1998 to rebuild the private-sector banking industry and dismantle crony conglomerates, which involved selling the banks around which the conglomerates were structured and establishing holding companies to liquidate conglomerates' assets. The Salim banking group's assets were

successfully dispersed in this fashion; IBRA also sold majority stakes in Bank Niaga to foreign concerns in November 2002 and in Bank Kanamon Indonesia in July 2003. In addition, IBRA merged five smaller banks into the new Bank Permata. Nevertheless, investors have been cautious because of price manipulations in sales of bank shares, such as the case in which the Riady group was able to resume its previous control over the Lippo Bank, and public opinion has shown anxiety about losing the country's assets to foreign investors.

Indonesia's continued efforts to deal with both domestic and international debts have hindered its attempts to attract foreign investment as well as its efforts to help business and banking recover. Limited corporate restructuring and continuing uncertainties about capital inflows have hindered banks' efforts to increase private-sector lending. Although bank loans started to rebound in 2001–02, foreign subsidiaries generally rely on foreign financial markets to raise capital, and for local services they tend to use foreign bank branches. Small businesses and consumers are increasingly obtaining credit from pawn shops.

**Tourism:** The 1990s, dubbed by the government a “Visit Indonesia Decade,” saw concerted efforts to increase foreign tourism. Travel agencies increased more than 600 percent to nearly 2,500, and rapid construction of facilities took place. Tourist arrivals quintupled, reaching about 5 million in 1996 and earning in excess of US\$6 billion. The upheaval and violence associated with the end of the New Order brought declines, however; 2001 saw about 4.2 million arrivals and, as a result of deflation of the rupiah, estimated receipts of under US\$4 billion.

**Labor:** The New Order period saw the rapid growth of an industrial work force and increasing labor unrest. There were about 350 strikes in 1996, nearly twenty times the number only seven years earlier. Government policy attempted to repress labor activism, but at the same time adopted a policy of raising the minimum wage annually; by 1997 it was three times what it had been six years earlier. The fall of Suharto lifted many pressures on unions and raised minimum wages even more quickly, Jakarta's rising nearly 40 percent in 2001 alone and steadily after that, to about US\$80 a month in 2004. In 2002 Indonesia's the labor force numbered 100.5 million, of which an estimated 10.5 million were unemployed. Another 32 million individuals fell into the category of “disguised unemployment.”

**Foreign Economic Relations:** The principal export trade is with, in descending order of importance, Japan, the European Union, the United States, Singapore, South Korea, China, and Taiwan. The most important export commodities are crude petroleum and petroleum products; electrical and telecommunications equipment, natural gas (mostly to Japan), natural rubber, plywood, and textiles also are important. Key import partners are Japan, the European Union, the United States, Singapore, South Korea, China, Australia, and Taiwan. The principal imports are machinery and equipment, chemicals, fuels, and foodstuffs.

**Trade Balance:** Indonesia registered a positive trade balance throughout the 1980s and 1990s despite the sharp decline in oil prices in the mid 1980s. In 2003 exports were estimated at US\$63.2 billion versus US\$38 billion in imports.

**Balance of Payments:** Since 1999, Indonesia's balance of payments has fluctuated from +US\$1.2 billion in 1999 and 2000, to –US\$717 million in 2001, to +US\$6.4 billion in 2002.