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Indonesia's Failing Economy: The Imperative for Reform

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An Intelligence Assessment

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December 1986

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Indonesia's Failing Economy: The Imperative for Reform [redacted] 25X1

An Intelligence Assessment

This paper was prepared by [redacted] 25X1
[redacted] Office of East Asian Analysis. Comments and queries are welcome and may be addressed to the Chief, Southeast Asia Division, OEA [redacted] 25X1

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Indonesia's Failing Economy: The Imperative for Reform 25X1

Key Judgments

Information available as of 20 November 1986 was used in this report.

Indonesia's economy, in our opinion, cannot grow enough to stem rising unemployment without either far-reaching reforms that would lead to a more open, freer market economy or dramatic increases in the price of oil. Even under our most optimistic assumptions, economic growth would average no more than 3 to 4 percent annually for the rest of the 1980s, a rate far short of the 5 to 6 percent needed to employ the 2 million entrants to the labor force each year. Worsening unemployment will increase the likelihood of antiregime violence and could erode the regime's ability to rule before the end of the decade. 25X1

Rekindling economic growth would require that Indonesia diversify its oil-dependent and inefficient state-dominated system in favor of a competitive, export-oriented economy. To do this, Jakarta would have to abolish most of the regulatory and protectionist measures that have been enacted over several decades. Moreover, the government would have to eliminate corrupt business practices, such as import monopolies awarded to well-connected individuals, which, while politically and socially acceptable, are crippling the economy. 25X1

Despite a 31-percent devaluation of the rupiah in September 1986 and several other recent measures to increase export competitiveness and encourage foreign investment, the government, we believe, lacks the resolve to implement effective economic reforms. In our judgment, the impetus must come from those elements of the elite who benefit most from the protectionist system—high-level officials in the military and the bureaucracy and vested business interests, many with close ties to the presidential palace. The technocrats who favor opening the economy to foreign competition continue to be overridden by protectionists who favor extensive regulation, import substitution aided by high tariffs and quantitative restrictions, and import monopolies. 25X1

The key to meaningful economic reform, in our view, is President Soeharto, who is the final arbiter of all major economic and political decisions in the country. We see little prospect that Soeharto will move ahead with comprehensive economic reform because such a course would jeopardize the political structure he has created over 20 years, a system of privileged economic access that has allowed his family to build a financial empire that we estimate totals at least $500 million. The protection of his family's business interests by all accounts increasingly preoccupies Soeharto, in particular his consideration of a successor who would protect those interests when he leaves office. 25X1

EA 86-10047
December 1986

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Jakarta's dim economic prospects almost certainly will affect US official and commercial interests in Indonesia. Indonesian officials will be sensitive to any reductions in bilateral economic assistance or restrictions on access to the American market. US business investment in the country, which amounted to less than $50 million last year, will stay depressed until Jakarta reduces protectionism and economic reform shows some progress. In addition, US bankers will be watching for indications that Jakarta is unable to service its $40 billion foreign debt—a development, in our judgment, that could restrict new credit and precipitate a debt crisis as early as mid-1987. 25X1

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Contents

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Indonesia's Failing Economy: The Imperative for Reform [redacted]

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Signs of an Ailing Economy

A sharp decline in economic growth—the result of weak export performance since 1984 and the plummet of world oil prices in early 1986—is forcing severe retrenchment in the Indonesian economy.[1] Jakarta is countering reduced revenues from falling oil prices with draconian spending cuts, a tactic praised by foreign bankers but stifling economic growth and exacerbating an already serious unemployment problem:

- In real terms, the government's budget for fiscal 1987—which began on 1 April—will be around 85 percent of what it was in 1984 and about on par with the 1981 budget, according to our estimates.
- During 1982-85 annual real economic growth averaged 3 to 4 percent, compared with about 8 percent in 1973-81.
- According to our estimates, unemployment in urban areas is on the order of 35 percent, with substantial underemployment as well. [redacted]

[redacted] the break in world oil prices has made Indonesia's commercial creditors nervous about the country's ability to service a foreign debt that we calculate has reached $40 billion. Moreover, we estimate that principal and interest payments of $6 billion this year will absorb more than 45 percent of projected export earnings. On 12 September 1986 Finance Minister Radius Prawiro unexpectedly announced a 31-percent devaluation of the currency. According to the US Embassy, the devaluation was prompted by Jakarta's need to cut imports to retard its current account deficit, which might reach $6 billion this year. The government also hopes that nonoil exports will increase, partially offsetting the dramatic decline in export receipts since the collapse of world oil prices. [redacted]

[redacted]

In our judgment, the devaluation—and most other common prescriptions such as foreign borrowing and deficit spending—will not significantly spur growth and employment as long as Indonesia's economic prospects are dictated by the world oil market. Under even optimistic projections, which assume world oil prices of $15 per barrel, economic growth would average no more than 3 to 4 percent annually for the rest of the decade. This rate would be far short of the 5 to 6 percent the World Bank and the International Monetary Fund (IMF) estimate is needed to employ the 2 million entrants to the work force each year. Although the unemployed now pose no direct threat to the regime, the steady increase in their numbers, particularly in the cities, could fuel unrest and antiregime activity. During the unrest of 1984 and 1985, for example, Muslim radicals exploited such economic frustrations as unemployment and poor living standards, in addition to widespread resentment of corruption among the elite. The antigovernment sentiment that the radicals whipped up resulted in riots, although the regime quickly and forcefully brought the disturbance under control. [redacted] 25X1

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What Makes a High-Cost Economy

We believe that growth prospects are poor because Indonesia's nonoil exports are uncompetitive in world markets despite a plentiful supply of low-cost labor. Jakarta's longstanding policy of state-sponsored import substitution in manufacturing is largely responsible for the economy's inefficiency, in the view of most economists. For example, import controls enable domestic producers to charge 25 to 50 percent above the

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world market price for steel products used in Indonesia's metal-fabricating industry, according to the World Bank. These costs are included in the final price of the product and make it difficult, if not impossible, for Indonesia to sell manufactured products abroad. Economic Coordinating Minister Ali Wardhana has publicly criticized the import ban protecting the state-owned Indonesian Aircraft Industries (IPTN), which produce aircraft that cost twice the world price. The cost is borne by civilian and military consumers who are required to buy IPTN planes instead of less expensive foreign ones. [redacted]

The high-cost economy, in our judgment, is ultimately an outgrowth of the government's dominant role in society—a carryover of Indonesia's colonial legacy and its political culture. At the time of independence in 1945, the lack of private sector institutions compelled the fledgling, and largely military, government to fill the vacuum left by the departing Dutch, a role that was reinforced by nationalization of remaining Dutch enterprises. Today, institutionalized government intervention in economic activity is pervasive. For example, in the manufacturing sector alone, the government employs more than 20 percent of the work force and is responsible for over 30 percent of all value added, according to a private economist. The World Bank reports that the government directly and indirectly is responsible for more than half of all domestic investment activity. [redacted]

Overregulation

Extensive regulation of financial and investment activities deter both private domestic and foreign investment, according to the US Embassy [redacted] Private firms are often left to raise much needed capital in the country's rudimentary stock and bond markets because state banks, which dominate the financial sector, are set up mainly to channel financial resources into the state corporations. [redacted] private businesses are further handicapped by their inability to obtain government guarantees to borrow abroad in order to supplement hard-to-get local financing. The effects of bureaucratic obstacles are compounded by the requirement that foreign investors take on Indonesian business partners, who frequently lack experience, according to [redacted] US Embassy officials. Jakarta also restricts foreigners from investing in most consumer goods industries in favor of the more costly production of capital goods, semifinished products, and raw materials. Potential investors claim that industries such as mining, chemicals, machinery, and agribusiness offer little short- or medium-term capital return. [redacted] 25X1

All this, in our view, adds up to the increasing tendency of investors from countries such as Japan to place their funds in "safer" and more investor-friendly areas such as North America and Europe. As a result, as economic growth has faltered and government regulations have multiplied in recent years, private foreign investment approvals (including oil investment) have declined—from $2.9 billion in 1983 to under $900 million in 1985, according to Indonesian Government data—compounding the effects of reduced oil earnings. Moreover, these figures reflect foreign investment approved by the government; actual investment traditionally amounts to only about a third of approvals, according to IMF data. [redacted]

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Protectionism

Since independence, Jakarta has progressively built up barriers to imports—such as licenses, tariffs, and quantitative restrictions—to protect developing manufacturing industries. For example:

- Steel imports are controlled by five trading companies—one of which, P. T. Krakatau Steel, controls 80 percent of the Indonesian steel market. 25X1

- Import bans confer absolute protection to television production. According to the World Bank, the industry is made up of a large number of small firms that are unable to capture the benefits of cost reductions from mass production. As a result, televisions and other electronic consumer goods cost 20 to 50 percent more than in international markets.

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Accompanying these barriers are tortuous customs procedures, a maze of often conflicting government regulations, import monopolies, a profusion of middlemen, and ponderous licensing requirements. According to the World Bank, this has led to price distortions, misallocation of resources, abuse of authority,

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Indonesia's Investment Climate: Perennial Problems 25X1

Investing in Indonesia has never been easy or straightforward, according to [redacted] *the US Embassy:*

- *Official approval must be obtained from numerous offices in government technical and planning departments before a project can go forward. Any one of these offices can block a project, and, even if approval is ultimately granted, the process is time consuming—typically six months to a year.*

- *Because nationalist sentiment in Indonesia is very strong, few bureaucratic careers suffer from stonewalling foreign projects. Moreover, an official who gives rapid approval of a foreign venture that later becomes a problem is often dealt with sternly.*

- *Local partners are an absolute necessity for the success of a foreign investment. Few Indonesian businessmen are suitable partners, for they often lack experience and capital. Those who are suited are often greatly overextended financially.*

- *Government regulations require local majority ownership after 10 years. This requirement is troublesome to many foreign investors—particularly the Japanese who wish to establish a long-term presence in the country.*

- *Potential US investors often lose out to foreign competition* [redacted] 25X1 25X6

- *Strict land-use laws and a system of commercial law—including many outdated Dutch laws and ad hoc procedures—subject to varying interpretation by authorities further deter foreign investment.*

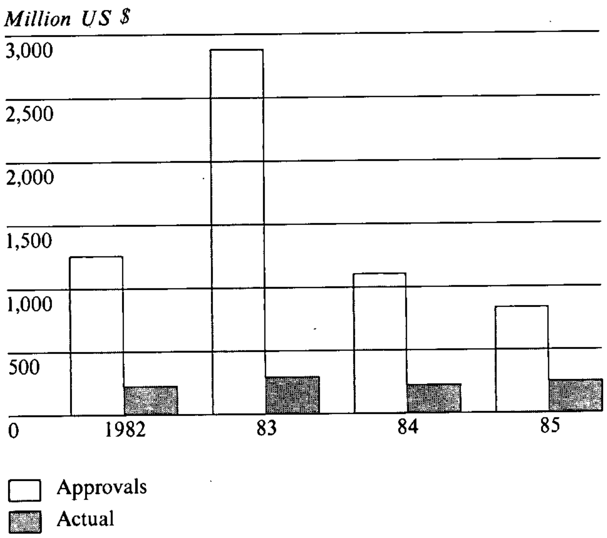
- *The lack of effective protection of patents, copyrights, and trademarks dissuades many foreign investors from risking control of their product, technology, and production processes. Only Indonesian-produced works, for instance, are protected by copyright, and foreign materials—including sound recordings and computer software—have been flagrantly pirated. Indonesia still does not have a patent law, and draft patent legislation is inadequate by US standards.* [redacted] 25X1

corruption, widespread inefficiency, and business uncertainty. The cost of this protectionism is borne by the consumer in the form of higher prices and by the economy because the country is unable to sell many of its manufactured goods abroad. [redacted]

Moreover, protectionist measures have increased in the past two years in response to the country's balance-of-payments difficulties and sluggish economy, according to US Embassy reporting. Jakarta, for example, recently granted exclusive cotton importing rights to a consortium of textile firms. According to the Embassy, this action forced up the cost of raw cotton to textile mills by 25 percent and threatens to squeeze competition from the domestic market. As it is, the World Bank estimates that Jakarta's import-substitution development strategy is nearing its limit with more than 95 percent of the consumer goods and 65 percent of the capital goods in Indonesia being domestically manufactured. [redacted] 25X1 25X1

The Cultural Factor
We believe that cultural traits have contributed to the development of Indonesia's high-cost economy. According to outside observers, the politically dominant Javanese generally disdain the competitive free-for-all necessary to develop an efficient economy, preferring

Figure 1
Indonesia: Direct Foreign Investment, 1982-85



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to maneuver behind the scenes to gain an advantage over business rivals. Jakarta's economic policies also favor the native Indonesian businessmen *(pribumi)*—such as the requirement that foreign investors take on Indonesian partners—often at the expense of the more industrious but, according to the US Embassy, widely resented Chinese minority. [redacted]

The bureaucratic tendency to "fix" government economic decision making by quietly brokering influence puts Indonesian exporters at a disadvantage. In 1985, for example, Jakarta reestablished direct trade with China after nearly 20 years because Indonesian authorities wanted to save the cost of doing business through middlemen in Hong Kong and Singapore. Despite this move, bilateral trade declined almost 9 percent in 1985 to just over $200 million. [redacted] Even with direct trade,

The Indonesian Cement Industry: A Case Study in Inefficiency

Before 1978 Indonesia's three state-owned cement plants—producing about 4.8 million metric tons per year—were incapable of meeting domestic demand, and the government had to import cement. Since then, however, the government has made a major effort to develop self-sufficiency in cement to meet the needs of the country's diverse construction projects. By the end of 1980 there were seven plants producing a total of 8.5 million tons per year with a rough balance between production and consumption. [redacted] 25X1

The building of new plants—state owned and private—continued in the mistaken expectation that the oil boom and, therefore, the construction boom would continue, with the result that Indonesia now has a cement-production capacity of about 17.4 million tons per year. This increase was largely accomplished through the erection of severe protectionist barriers that allowed producers to make substantial profits by selling cement on local markets at double the world price. As a result, roads, buildings, and all other end uses of cement are more expensive. [redacted] 25X1

Despite recent efforts to improve efficiency and to lower costs by converting the cement plants from oil to coal, the industry continues to be one of the most subsidized in Indonesia. [redacted] 25X1 *Depressed private markets and cutbacks in public works and other development projects are forcing plants to produce well below capacity—about 9 million tons per year in 1985, according to the US Embassy. Indonesian attempts to increase plant utilization by boosting exports are stymied by an inability to meet the stiff price and quality competition from other Asian producers.* [redacted] 25X1

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three "commissions" were involved—for the purchasing authority in China, for the seller in Indonesia, and for the middlemen—amounting to several times the single commission paid on Chinese imports from South Korea or Taiwan.

Focusing on the Cure

The IMF and the World Bank have recommended for over a decade that Jakarta adopt a strategy for channeling new investment into manufacturing and agricultural activities, such as plantation agriculture, that use Indonesia's plentiful supply of low-cost labor. This cure would require minimal or no protection by tariffs, import quotas, or subsidies. Such a strategy would require major reforms including:

- The simplification of investment regulations and licensing procedures.
- A substantial reduction of import bans, tariff barriers, and quantitative restrictions.

The rapid erosion in oil and government tax revenues in the last several years and the devaluation in September have fired up the continuing public debate among senior economic policy makers over the government's industrialization strategy. On the one hand, the so-called technocrats or reformers—led by a group of Western-trained economists—are vigorously pressing the argument that Jakarta should dismantle the maze of protectionist regulations to stimulate more efficient production. Led by such figures as Finance Minister Prawiro and Planning Minister Sumarlin, this group has publicly called for government efforts to bolster the private sector and improve the climate for private investment (see appendix A). Some have urged Jakarta to sell smaller inefficient state-owned enterprises, according to US Embassy reporting.

Entrenched protectionist interests, the so-called developers, on the other hand, argue that the road to efficiency lies in reduction of imports and complete protection of domestic industry until all phases of production, from raw materials to finished products, are mastered. This group—led by Industry Minister Hartarto and Junior Minister for Domestic Product Production Ginanjar Kartasasmita—insists that Indonesia can become a modern and efficient nation only by creating a broad base of government-nurtured industries. Indeed, Kartasasmita, wrongly, argues that protectionism is not to blame for inefficiency and high costs, according to US Embassy reporting. Instead, he sees protectionism as a way to shelter companies from the high costs of doing business that result from bureaucratic inefficiency, corruption, inadequate infrastructure, and low labor productivity. Rather than deregulate the economy, this faction, according to the US Embassy, favors pushing the system to the extreme and creating several large industrial groupings, modeled after the Japanese system, that would dominate and control the economy.

Figure 2
Indonesia: Merchandise Exports, 1980-86

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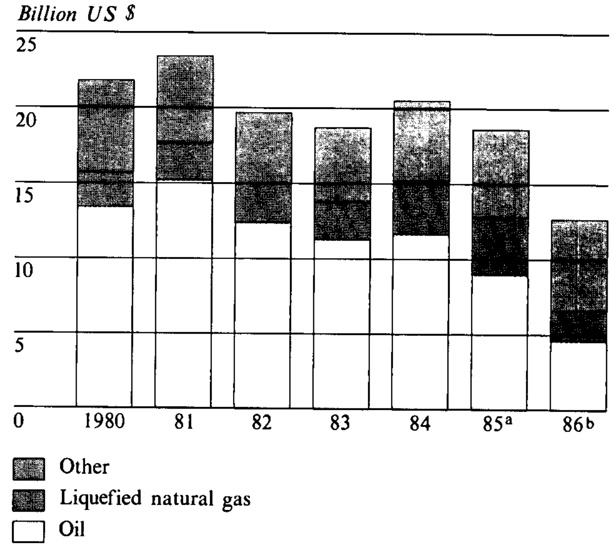

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[a]Estimated. [b]Projected.

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Stumblingblocks to Reform

The debate over industrialization strategy and economic reform is complicated by the political risks for the government, in our judgment. Since coming to power two decades ago, the Soeharto regime has used its virtual monopoly of economic access—control of government contracts, of jobs in the bureaucracy, of business permits, and of state bank financing—to reinforce its political dominance. Similarly, control of the purse strings has enabled the government to co-opt many potential detractors, such as former student activists, with government jobs or lucrative contracts. Alternatively, authorities have stifled domestic critics by threatening their economic interests. At lower levels, plant labor leaders who challenge the status quo face the threat of job loss, according to the US labor attache.

Moreover, conflict of interest is widespread and generally tolerated among Indonesian official and business circles. Government officials—technically prohibited from owning businesses—often do so indirectly behind the name of a relative or bogus business partner, according to US Embassy reporting. It is common for senior officials and their staffs, provincial governors, and military commanders to serve unofficially as "sponsors" or "patrons" for companies that deal with the government. Virtually every major company has a senior official on its board of directors who, for a share of the profits, awards it major contracts and protects its licenses and interests.

Rationalizing the economy would require Soeharto to undercut powerful interests, including his own family members and key figures in the military who profit from current arrangements. The growth of Soeharto's financial interests over the years has been such that presidential businesses are involved in virtually every sector of the domestic economy.

Indonesian Corruption: Greed or Patronage and Largess?

Indonesians traditionally have maintained a high degree of tolerance for what by Western standards is considered corruption and conflict of interest. Those in positions of influence are expected to attend to the financial needs of their relatives, friends, and subordinates—an ingrained system of patronage that reinforces allegiance to the regime's political and economic leadership 25X1
Indeed, a person's prestige is a reflection of his ability to share the material rewards of his position. To the extent that they personally benefit financially and politically, most middle- and upper-class Indonesians thus have a vested interest in preserving the system. 25X1 25X1

Because official pay scales are low and many civilian bureaucrats and military officers depend on under-the-table income to survive, many Indonesian businessmen resort to payoffs to secure the approvals, permits, and financing necessary to conduct business. 25X1 *Thus, according to several Indonesian press observers, many high school and college students consider a position in the civil service attractive because of the opportunities for under-the-table income.* 25X1

Despite the lack of reliable statistics on corruption in Indonesia, some Indonesian officials claim the problem is becoming worse. During 1983-85, for example, more than 2,000 people were found guilty of various corrupt practices—an increase of more than 400 percent over the previous two years, according to reporting from the US Embassy. 25X1 *Even before this trend became apparent, the perception among some Indonesian officials was that the problem had reached major proportions.* 25X1 *Vice President Umar, formerly chairman of the National Audit Board, once estimated that waste and corruption accounted for 30 to 40 percent of the state budget.* 25X1 25X1

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[redacted]

On most matters, but, on the issue of business dealings in particular, Soeharto does not tolerate criticism of his family. [redacted] he views criticism of either the presidency or the family as an attack on the government. Unwritten guidelines prohibit the media from publicizing stories critical of the First Family, and Soeharto has never allowed the holdings of his family or close associates to be investigated. To deflect public criticism of official corruption, Jakarta periodically conducts nominal anticorruption campaigns, which usually implicate only low-level officials and businessmen. [redacted]

Prospects for Change From the Top . . .

Since Soeharto is not likely to jettison the system of economic favoritism that he has used for two decades to cement allegiance to his government, we believe the technocrats' efforts to streamline the economy will have little impact. Citing Indonesia's bleak economic prospects for 1986, Economic Coordinating Minister Ali Wardhana earlier this year announced initiatives—dubbed the May 6 Package—to promote economic growth. These proposals purportedly would reduce nontariff barriers and extend to foreign investment projects rights normally reserved for wholly indigenous ventures. For example, foreign investors would be allowed, under certain circumstances, to obtain loans from state banks at subsidized rates and to distribute their own goods in the domestic market without having to market them through wholly owned Indonesian firms, as is now required. [redacted]

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It is questionable in our judgment whether Jakarta will follow through with effective implementation, which has been a problem with reform packages the government has announced over the years. According to the US Embassy, the May 6 Package is the result of much compromise and bureaucratic infighting, while the terms are generally vague and at times contradictory. For example, there is a provision for refunds of import duties paid on materials that are incorporated into exports and a separate provision for the exemption from import duties for exporting firms. Few of the measures cited by foreign investors as necessary to improving the investment climate, such as relaxing the regulation that requires local majority ownership after 10 years, were directly addressed in the package, according to the US Embassy. [redacted]

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Jakarta took further steps on 25 October 1986 by announcing a series of economic measures that build on those outlined in the May 6 Package. They include dismantling six import monopolies and eliminating or reducing a wide range of import duties. The measures initially have been well received by Indonesia's foreign assistance donors—the IMF, the World Bank, and the Intergovernmental Group on Indonesia—who, according to the US Embassy, regard the measures as a realistic attempt to cope with the country's current economic problems. Indonesian trade officials [redacted] also realize that freer trade would help promote economic recovery, but they point out that the 25 October measures excluded import monopolies that benefit high-ranking government officials. In fact, two of the most striking omissions from the list of import monopolies to be abolished are plastics and steel, sectors that have

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significant First Family business involvement. Moreover, according to press reports, only a small percentage of Indonesia's imports will be affected by the monopolies to be eliminated.

. . . And From Below

We see no indication that disparate elements have begun to make common cause against the elite and the system of economic access, although signs of unease are present. The unrest in early 1985, for example, largely took the form of antigovernment pamphleteering, sermons, bombings, and arson, aimed at criticizing the elite's blatant corruption, particularly its ties to key Chinese businessmen. There have been few significant incidents since then, but we believe this is primarily the result of the government's cracking down on all opposition. The regime has sentenced several of its political and Islamic critics to long prison terms, and recently security officials have renewed warnings to the press to avoid sensitive issues—such as First Family corruption and speculation about the economy. Nonetheless, US Embassy officials believe Soeharto must move against massive vested interests if he expects to dispel a growing popular mood of economic frustration that could cloud the April 1987 parliamentary election and Soeharto's reelection to a new five-year term in 1988.

In the longer term, if the regime fails to make needed reforms and to deal effectively with the social strains stemming from the weak economy, we believe the likelihood of popular violence will increase, especially violence aimed at the ethnic Chinese community. A protracted economic downturn or only a slowly growing economy could eventually start to erode the broad popular confidence in the institutions of Soeharto's government, complicating his plans for a smooth transition of power to a successor who would perpetuate Soeharto's basic political and economic policies—and protect his family's financial interests.

Implications for the United States

Jakarta's dim economic prospects seem certain to affect both official US and American business interests in Indonesia. Indonesian trade officials are likely to intensify their press on Washington for preferential access to the US market for Indonesian products, especially such goods as textiles and plywood. In addition, the performance of the Indonesian economy, particularly the extent to which Jakarta dismantles its protectionist barriers and implements economic reform, will in part determine whether American businessmen will revive now slumping investment in Indonesia and move more enthusiastically into sectors other than petroleum and gas. According to Commerce Department data, US firms are waiting for Indonesia's economic conditions to improve so they can invest in such industries as machine tools, furniture manufacture, agribusiness, and pharmaceuticals.

Further, US bankers, although continuing to give Jakarta high marks for its pragmatic financial management, will be watching for signs that Indonesia is unable to service its $3.3 billion in medium- and long-term debt to the US private sector. On the basis of World Bank and other estimates of Indonesia's debt service obligations and likely foreign revenues, Indonesia needs new credits of some $6 billion for 1987 to avoid a debt repayment crisis.

While at the moment the political situation is quiet, we cannot dismiss the possibility that radical Islamic and other frustrated groups would exploit the economic downturn to renew their antigovernment activity and criticism of Jakarta's political and economic links to the United States. Such a deterioration in civil order would further deter US investment. More broadly, Indonesia's economic well-being and political stability are important to US regional security interests. Washington benefits from Jakarta's political and economic orientation toward the West and its cooperative role within the Association of Southeast Asian Nations (ASEAN). Despite frequent differences over votes in the United Nations, Jakarta is a moderating force in OPEC, Islamic, and Third World forums.

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Appendix A

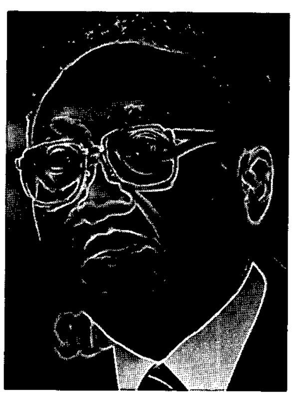
Key Figures in the Debate

The Technocrats

Ali Wardhana
Coordinating Minister for Economics, Finance, and Industry

Often called Indonesia's "financial guru," Wardhana has been an economic adviser to President Soeharto for almost 20 years. Among technocrats he is perceived as one of the strongest proponents of the free market and deregulation. According to press reports, Wardhana is staunchly opposed to protectionist measures, especially with regard to industries that produce materials to be used later in the manufacture of finished products. 25X1

Wardhana is a charter member of the so-called Berkeley Mafia, having received a Ph.D. in economics (1962) from the University of California at Berkeley. He has served as an adviser to the Presidential Economic Advisory Team (1964-68) and as Minister of Finance (1968-75), where he played a pivotal role in reducing inflation and stabilizing the economy. Wardhana has been Chairman of the Board of Governors of the World Bank (1972-73), and the Asian Development Bank (1972-73). In January 1984 he was named to the Presidium of the Advisory Council of Golkar, the government political party. 25X1



Radius Prawiro
Minister of Finance

Prawiro is another key economic policy maker who espouse policies favoring a market-oriented development strategy, foreign investment, free convertibility of currency, a flexible exchange rate, prudent external debt management, and the use of fiscal and monetary policy to maintain stable prices. 25X1

Prawiro—a certified public accountant who received an M.A. in economics (1962) from the University of Indonesia—has worked with the State Audit Board and as governor of Bank Indonesia (1966-73), the country's central bank. He has been Trade Minister (the job he had before his current position), a governor of the World Bank and the IMF (he was chairman of the IMF Board of Governors in 1971), and an alternate governor of the Asian Development Bank. In June 1983 Soeharto appointed him to the board of commissioners of Pertamina—the national oil and gas monopoly—and in 1984 he was named to the Presidium of the Advisory Council of Golkar. 25X1

Johannes Baptista Sumarlin
Minister of State for National Development Planning;
Chairman, National Development Planning Board

Sumarlin, another member of the so-called Berkeley Mafia, favors a market-oriented development strategy and strongly encourages cooperatives and private-sector ventures. Although he has encouraged state companies to seek private financing and be more competitive, he argues that strategic economic sectors such as natural resources must be under government control for maximum public benefit. 25X1

Sumarlin received an M.A. in economics (1960) from the University of California at Berkeley before earning a Ph.D. (1968) from the University of Pittsburgh. He has served as Minister of State for Control of State Apparatus and vice chairman of the National Development Planning Board. Sumarlin is also a member of the Board of Directors of Pertamina, the national oil and gas company. In January 1984, he was named to the Presidium of the Advisory Council of Golkar. 25X1

The Protectionists

Hartarto
Minister of Industry

Since his appointment as Minister of Industry in 1983, Hartarto has pushed vigorously for development projects that would decrease the country's need for imports. He believes that protectionism is necessary to foster domestic industry and to create capital-intensive industry. The technocrats recently had a difficult time convincing Hartarto to agree to the "May 6 Package," which is intended to encourage more foreign investment and to reduce nontariff barriers to imports. 25X1

Hartarto—who holds engineering degrees from the University of Indonesia and the University of New South Wales in Australia—has directed the offices of pulp and paper; machinery and chemical industry; silicates, fertilizer, and petrochemicals; and basic chemicals. He was also a director of PT Semen Cibinong, a large cement plant that was a joint venture of the Indonesian Government and Kaiser Cement. 25X1

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Ginanjar Kartasasmita
Junior Minister for the Promotion of the Use of Domestic Products;
Chairman, Capital Investment Coordinating Board

An up-and-coming official in President Soeharto's brain trust, according to US Embassy reporting, Ginanjar Kartasasmita earned a degree in chemistry (1965) from Tokyo University. He plays what are often contradictory roles concerning domestic production and foreign investment within the government bureaucracy. As junior minister for the promotion of domestic products since March 1983, Ginanjar has vigorously spearheaded a "Buy Indonesian" campaign. However, as chairman of the Capital Investment Coordinating Board since February 1985, he has been charged by Soeharto with overcoming the slump in Indonesian investment by cutting bureaucratic redtape and eliminating rules and regulations that had chased off foreign investors. 25X1

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Next 2 Page(s) In Document Denied

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