



## Chapter 7

# Balance of Payments

# Chapter 7: Balance of Payments

Indonesia's Balance of Payments continued to show positive performance. At the end of 2007, the Balance of Payments recorded a surplus that mainly came from current account amounting to 2.5% of GDP. The increase in the current account surplus was driven by higher commodity prices in international markets and fairly strong global demand. Meanwhile, the surplus in the capital and financial accounts was supported by the attractive return on rupiah in the domestic financial market and the continued domestic macroeconomic stability. With these developments, foreign exchange reserves continued to accumulate, thereby having a positive impact on the confidence of players in the economy whilst also subduing the impact of the shocks from global financial markets. In general, the Balance of Payments performance and external vulnerability indicators continued to improve, such that rupiah stability was achieved.

The Balance of Payments in 2007 shows continuing strong developments. The condition of global economy and the domestic economy were still conducive for improvements in the performance of Balance of Payments. From the international side, despite slower than 2006, the global economy in 2007 still expanded fairly rapidly. The impact of slowing US economy on global economy was offset by strong growth in the developing countries like China and India. Nonetheless, the fairly rapid global economic expansion which continued in the first semester of 2007 was hampered due to shocks in the global financial markets as a result of the US sub-prime mortgage crisis. The main impact of this crisis was the reversal of private capital flow from developing countries, starting at the beginning of the second semester of 2007. The strength of the economies of emerging market countries increased foreign investors' interest, and hence supported the positive developments of Indonesia's financial markets.

From the domestic side, various improvements in the macroeconomic field already provided a strong foundation, such that Indonesia's financial markets stood up well when facing external shocks. The inflow of foreign capital, either in the form of direct investment (FDI) or portfolio investment, have continued and increased compared to their levels in 2006. The return

on the rupiah was still attractive compared to the returns offered in neighboring countries, and was in line with the lower risk factor, as shown by the rating upgrades from various ratings agencies, thus bringing in more foreign investment to Indonesia.

The increase in domestic economic activities as reflected in higher investment and consumption, helped boost imports. Nonetheless, the increase in the value of exports, which is greater than the increase in the value of imports, resulted in a higher trade surplus. Given these developments, the Balance of Payments recorded a fairly high surplus of \$12.5 billion such that the nation's foreign exchange reserves rose to \$56.9 billion equivalent to 5.7 months of imports and repayments of government foreign debt (Table 7.1). In line with these developments, the external vulnerability indicators showed an improvement compared to 2006 (Table 7.2).

To improve the performance of the external sector, the government has coordinated with the relevant parties in making various efforts. From the side of regulations, the government has already issued a number of policies involved with regulating Foreign Investment, the development and empowerment of Micro, Small and Medium size businesses, and policies which are related to the implementation and monitoring of policies/

**Table 7.1**  
**Indonesia's Balance of Payments**

	millions of \$		
Descriptions	2005	2006	2007
I. Current Account	278	10,836	11,009
A. Goods, net (Balance of Trade)	17,534	29,660	33,083
– Exports, fob.	86,995	103,528	118,014
– Imports, fob.	-69,462	-73,868	-84,930
1. Non-Oil & Gas	13,321	22,875	27,048
– Exports	66,753	80,578	93,142
– Imports	-53,431	-57,703	-66,094
2. Oil & Gas	4,212	6,785	6,036
– Exports	20,243	22,950	24,872
– Imports	-16,030	-16,165	-18,836
B. Services, net	-9,122	-9,888	-11,103
C. Income, net	-12,927	-13,800	-15,875
D. Current Transfer, net	4,793	4,863	4,903
II. Capital & Financial Account	345	2,944	2,753
A. Capital Account	333	350	530
B. Financial Account	12	2,594	2,223
1. Direct Investment	5,271	2,211	1,164
2. Portfolio Investment	4,190	4,174	6,981
3. Other Investment	-9,449	-3,792	-5,922
III. Total (I+II)	623	13,780	13,726
IV. Net Errors and Omissions	-179	729	-1,220
V. Overall Balance (III+IV)	444	14,510	12,543
VI. Reserve and Related Items <sup>1</sup>	-444	-14,510	-12,543
A. Reserve Assets Changes	663	-6,902	-12,543
B. IMF Purchases	-1,107	-7,608	0
1. Withdrawal	0	0	0
2. Payment	-1,107	-7,608	0
Memorandum:			
Reserve Asset Changes	34,724	42,586	56,920
(in months of imports and official foreign debt repayment)	4.0	4.5	5.7

1) (-) surplus; (+) deficit.

regulations<sup>1</sup>. Besides that, the government also issued a policy to boost exports, especially of textile commodities and textile products, by giving aid for machinery purchases as well as providing low cost financing. Other policies in managing the government's foreign debts in a more independent way were marked with the scrapping of the CGI forum which had for some time been a forum for Indonesia's creditors. The scrapping of the CGI was also in line with the government's policy to lessen the country's dependency on foreign financing and efforts to lower Indonesia's debt ratio such that resistance to external shocks has improved.

1 Among others are the Law No. 25/2007 concerning Foreign Investment and Presidential Instruction No. 6/2007 concerning policies to accelerate the development of the real sector and the empowerment of micro, small and medium size businesses.

**Table 7.2**  
**Indicators of External Vulnerability**

	percent				
Descriptions	1996	1997	2005	2006	2007
Current Account/GDP	-3.4	-2.3	0.1	2.9	2.5
Exports of Goods and Services/GDP	25.7	29.1	37.5	33.5	32.0
Non-Oil & Gas Exports/GDP	16.7	19.7	23.1	21.8	21.2
Foreign Debt Interest/GDP	2.7	3.0	1.0	1.3	1.2
Foreign Debt Payments/Exports of Goods and Services <sup>1</sup>	35.9	44.5	17.3	24.8	19.2
Capital Flows/GDP	4.8	1.1	0.1	0.7	1.3
Foreign Debt/Exports of Goods and Services	188.7	207.3	120.7	104.1	97.3
Foreign Debt/GDP	48.5	60.3	45.3	34.9	31.2
International Reserves/Debt Services <sup>2</sup>	91.2	73.4	185.6	138.8	210.8
International Reserves/Foreign Debt	17.4	15.7	26.6	33.1	41.7
International Reserves/Imports and Government Foreign Debt Payments (months) <sup>3</sup>	5	5.5	4.3	4.5	5.7
Foreign Debt (billions \$)	110,171	136,088	130,652	128,736	136,640
International Reserves (billions \$) <sup>4</sup>	19,215	21,418	34,724	42,586	56,920

Source: Bank Indonesia and BPS-Statistics Indonesia.

1) Debt Service Ratio (DSR) increase in 2006 due to IMF debt repayment.

2) Foreign debt repayments including principal and interest.

3) In 1996 and 1997, the international reserves divisor did not include payments on government foreign debt.

4) In 1996, the concept of official reserves was used. In 1997-1999 based on Gross Foreign Assets, and beginning of 2000, the International Reserve and Foreign Currency Liquidity (IRFCL) concept was used.

## Current Account

The current account recorded a higher surplus of \$11.0 billion or 2.5% of GDP (Table 7.3). In line with rising prices of commodities in the international markets and the fairly strong external demand, the value of Indonesia's exports recorded a fairly large increase. In the non oil and gas mining sector, the increase in export volume was also supported by greater production capacity. In the oil and gas mining sector, especially oil, although there has been a natural decline in production each year, the volume of crude oil exports still experienced an increase. From the side of imports, increasing domestic economic activities and the relatively stable rupiah exchange rate helped propel imports growth higher. Imports of crude oil also experienced an increase to help fulfill the domestic refinery needs.

**Table 7.3**  
**Current Account**

Descriptions	millions of \$		
	2005	2006	2007
Current Account	278	10,836	11,009
– Non-Oil & Gas	-2,548	5,424	6,225
– Oil & Gas	2,826	5,412	4,784
Goods, net (Balance of Trade)	17,534	29,660	33,083
– Non-Oil & Gas	13,321	22,875	27,048
– Oil & Gas	4,212	6,785	6,036
Exports, fob	86,995	103,528	118,014
– Non-Oil & Gas	66,753	80,578	93,142
– Oil & Gas	20,243	22,950	24,872
Imports, fob	-69,462	-73,868	-84,930
– Non-Oil & Gas	-53,431	-57,703	-66,094
– Oil & Gas	-16,030	-16,165	-18,836
Services, net	-9,122	-9,888	-11,103
Income, net	-12,927	-13,800	-15,875
Current Transfer, net	4,793	4,863	4,903

The services account and the net income account recorded a higher deficit compared to 2006. The increase in the services account deficit is related to the increase in the number of foreign tourist visits, while for the income account the increase was related to an increase in profit transfers to company head offices overseas as business activities in Indonesia improved further.

For the current account, the surplus was relatively the same as in the previous year, among other things supported by hikes in the wages of Indonesian overseas

**Table 7.4**  
**Exports**

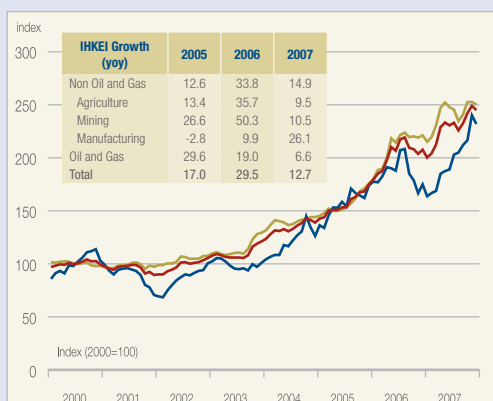
Descriptions	2006	2007	2007	
	Changes (%)		fob Value (millions of \$)	Share (%)
Non-Oil & Gas Exports	20.7	15.6	93.142	78.9
Agriculture	255.4	14.7	11.704	9.9
Mining	130.1	17.2	21.609	18.3
Industry	-7.0	15.2	59.829	50.7
Oil & Gas Exports	13.4	8.4	24.872	21.1
Total	19.0	14.0	118.014	100.0

Source: BI and BPS-Statistics Indonesia.

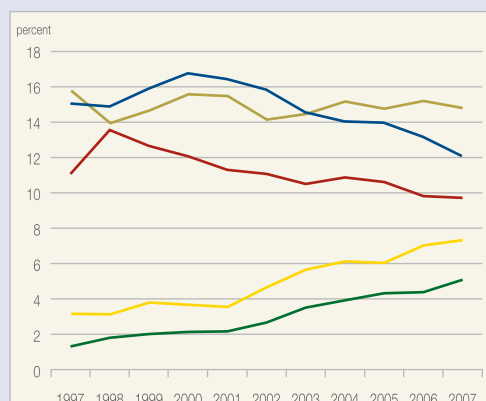
workers in 2007, especially in a number of countries in the Middle East.

### Export Developments

Exports grew fairly strongly, driven mainly by non oil and gas exports. The total value of exports in 2007 rose 14.0% to \$118.0 billion (Table 7.4). The increase in the value of exports was mainly attributable to higher commodity prices, although the increase in export volume was also seen among several commodities. Nonetheless, the increased volumes were not uniform and were still concentrated in natural resource commodities, especially mining commodities. This was in line with the tendency of price increases among mining commodities which has been evident since 2004. Meanwhile, increases in industry volume exports had not been uniform, and there was even a decline in exports of main commodities such as CPO derivatives



**Chart 7.1**  
**Indonesia's Exports Commodity Price Index**



**Chart 7.2**  
**Non-Oil and Gas Export Share by Country of Destination**

**Table 7.5**  
**Major Non-Oil and Gas Export Commodities Share by Country of Destination in Year 2007**

Japan		United States		Singapore		China		India	
Commodities	Share	Commodities	Share	Commodities	Share	Commodities	Share	Commodities	Share
Metal Ores & Metal Residual	4.22	Garments	3.84	Electrical Machines, Tools & Fittings	1.35	Fixed Vegetable Oil & Fats	1.33	Fixed Vegetable Oil & Fats	2.36
Coal, Coke & Briquettes	1.4	Crude Rubber	1.29	Office Machinery & Automatic Data Processing	1.05	Metal Ores & Metal Residual	0.82	Coal, Coke & Briquettes	0.93
Nonferrous Metal	1.23	Fish & Crust	0.81	Nonferrous Metal	0.98	Crude Rubber	0.78	Metal Ores & Metal Residual	0.57
Electrical Machines, Tools & Fittings	0.93	Manufacturing Goods	0.62	Telecommunication & Rep App	0.64	Organic Chemicals	0.59	Fixed Animal Oils, Vegetable & Fats	0.12

and electrical equipment. This was also the case for the performance of the oil and gas sector, which has not shown a significant improvement and still shows a decline in natural production due to the rather slow response of investors in regard to the exploration of new oil fields.

The increase in commodity prices on international markets is still the main factor behind the increase in the value of non oil and gas exports. The price of Indonesia's non oil and gas export commodities rose by 14.9% overall compared to 2006 (Chart 7.1). In more detail, the increases in prices in the agriculture group, the mining group, and the manufacturing group reached 9.5%, 10.5%, and 26.1%, respectively. A number of commodities that experienced fairly large price increases include CPO (74.1%), nickel (55.6%), tin (65.5%), and coffee (25.7%). In line with price increases which have gone on for some time now, a number of export commodities showed increased volumes, among others nickel, aluminum, machinery and mechanical equipment, along with chemical products. Nonetheless, a number of commodities experienced lower volume, among them some main commodities such as CPO derivatives, shrimps, copper, textile and product textiles, as well as electrical equipment.

Amidst the rising prices of commodity globally, the opportunity to raise export volume of a number of commodities could not be realized due to a number of problems. One commodity which experienced a fairly significant drop in export volume is CPO and its derivatives. The drop in CPO export volumes which occurred at the beginning of the year was related to the peak in the harvesting of fresh palm fruits which

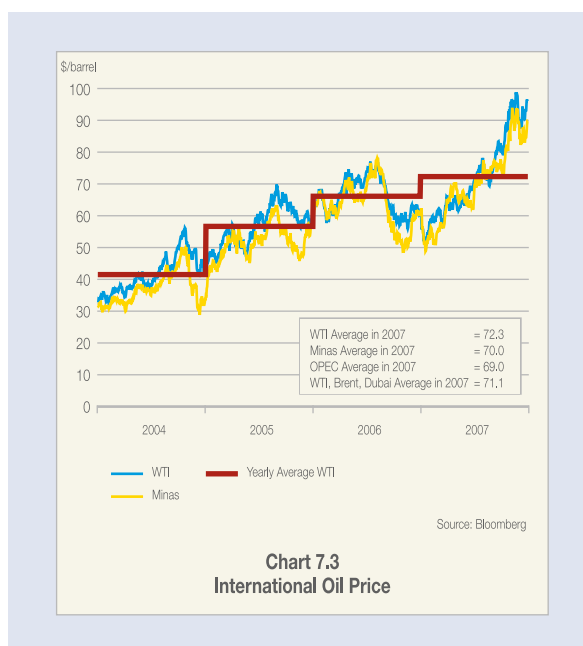
shifted forward to the end of 2006 from the beginning of 2007. Meanwhile, the reason for the drop in exports of CPO derivatives was related to the increase in CPO export taxes in the middle of the year following scarcity of cooking oil in the domestic market<sup>2</sup>. The government increased export taxes to safeguard the stability of the prices of basic needs – especially cooking oil - in the domestic market. However, in terms of potential, the opportunity to increase CPO exports is still open given the wide area of CPO plantations in Indonesia, which have continued to increase and become the largest in the world. Currently, the total area in use is around 5.5 million hectares with around another 3.7 million hectares that can be developed.

The problems of increasing export volumes were also seen in copper commodities. The drop in copper export volume was related to labor force problems. Meanwhile, the drop in shrimp exports was related to the continuation of mudflows in Sidoarjo which had an impact on the centralized shrimp ponds in the province of East Java, which is one of the centers of shrimp production. Problems regarding textile and textile-related products, in relation to the relatively low productivity of the machinery used, have been evident for some time now. The low productivity levels reduced output and had an impact on the variation and quality of the products. With regard to this matter, the government issued a policy on the development of exports of textile and textile-related products by providing help for the purchase of machinery in addition to low interest rate loans. This policy is expected to help in the restoration of

<sup>2</sup> Minister of Finance Regulation No. 61/PMK,011/2007 dated 15 June 2007 concerning the fifth change of Minister of Finance Regulation No. 92/PMK,02/2005 concerning the determination of types of export goods and rates of export tariff.

machinery in the textile and textile-related sector, such that more competitive products can be produced for sale in the international market.

The good performance of exports at a time of slowing global growth was also driven by efforts to diversify the countries to which Indonesia's products are exported. Although exports are still focused to a number of main destination countries, intraregional trade (i.e. in Asia) increased. The five main destination countries for Indonesia's non oil and gas exports are Japan (14.3%), the US (12.0%), Singapore (9.6%), China (7.3%), and India (5.3%) (Chart 7.2). The total share of exports to these five countries reached around 48.5% of Indonesia's total non oil and gas exports, slightly down compared to 2006. Scrutinized more closely, it can be seen that there are positive developments such that Indonesia has become less dependent on developed nations as main trading partners. The share of non oil and gas exports to the US, Japan and the European region are currently around 40% of the total, or down from 50% in 2000. By spreading out the share of exports to different destination countries, it is hoped that Indonesia's exports performance will become more flexible in anticipating the changes in the economic cycle in a number of the country's trading partners, especially any slowdown in the economies of developed nations (Box: Intraregional Trade in Asia).



The types of commodities exported to Indonesia's main trading partners were quite mixed (Table 7.5). The main non oil and gas commodities exported to the US and Japan were clothing and metal ore, respectively. Meanwhile, exports to China and India, were dominated by exports of vegetable oils and fats. The other commodity exports were relatively well distributed – a positive development. Such a condition can lessen

**Table 7.6**  
**Revealed Comparative Advantage (RCA)**

Description	SITC	RCA			World Rank <sup>1)</sup>		
		2004	2005	2006	2004	2005	2006
<b>Agriculture</b>							
– Shrimps, Crust, etc, fresh/frozen	036	9.4	6.2	7.1	3	6	4
– Coffee	071	3.9	4.0	4.1	9	6	5
– Cocoa	072	12.1	9.4	10.8	3	4	4
– Natural Rubber Latex & Other Natural Rubber	231	66.0	14.5	35.6	1	2	2
<b>Mining</b>							
– Copper Ores	283	20.6	12.8	16.9	2	2	2
– Coal	321	11.6	9.5	14.0	4	3	2
– Tin Products	687	29.1	34.3	31.5	1	1	1
<b>Industry</b>							
– Textile Products							
– Textile Yarn	651	8.1	4.9	4.9	7	7	7
– Men/Boy Apparels Knitted	843	2.8	2.3	3.2	12	12	6
– Wood & Wood's Products							
– Charcoal	245	7.2	5.6	6.0	5	2	3
– Plywood, etc	634	8.4	8.8	6.8	4	3	5
– Wood Goods	635	5.2	4.4	4.2	6	7	6
Other Fixed Vegetable Oil, liquid or thick (CPO)	422	46.6	39.5	42.2	2	1	1

Source: UNCOMTRADE.

1) Ranking based on export value in world market as SITC Code.

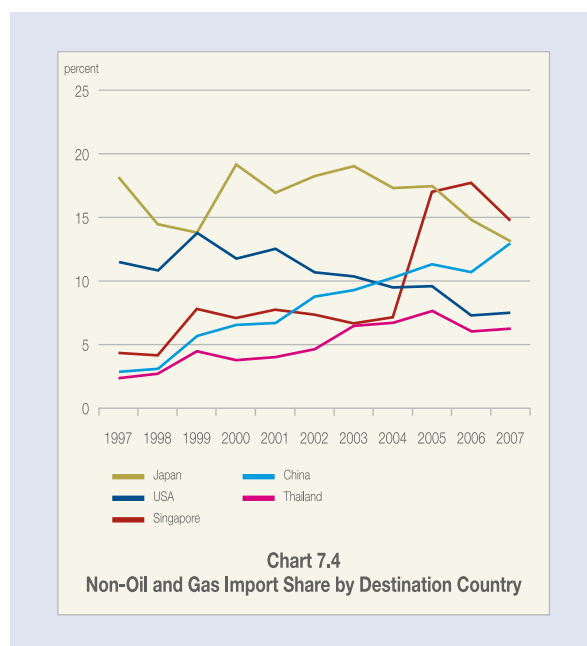
the dependency on certain products as well as certain export destinations.

In general, Indonesia's export products are still concentrated on natural resource based commodities. Based on the competitiveness indicator which is measured from the Revealed Comparative Advantage (RCA), Indonesia's prime commodities exports are still competitive. Agricultural commodities (such as natural rubber) have a high RCA and are ranked second in terms of value of Indonesia's exports. Mining commodities, such as tin, copper and coal, also have a fairly high competitiveness and are ranked first in world trade. Meanwhile, in the industrial goods group, CPO had the highest RCA (Table 7.6).

During 2007, the rupiah remained stable, thereby supporting Indonesia's competitiveness. On average, the rupiah tended to strengthen in 2007. Nonetheless, compared with other countries in the region, the strengthening of the rupiah was still relatively low such that it supported Indonesia's exports competitiveness from the side of prices.

The value of Indonesia's oil and gas exports rose in line with the rising price of crude oil in international markets. The value of oil and gas exports rose by 8.4% to \$24.9 billion. This growth was driven more by soaring prices of crude oil. On average, the price of various types of crude oil in international markets experienced increases, and for the WTI type the price even approached the \$100 per barrel in November 2007 (Chart 7.3).

Developments in fundamental factors, which were reflected in a limited increase in supply and low remaining oil production capacity, meant the price of oil was vulnerable to non-fundamental factors such as sentiment



and geopolitical factors. Besides that, the weakening trend in the value of the US dollar triggered an increase in speculation by increasing noncommercial transactions in the oil market. As a result of these developments, the average price of Indonesia's crude oil exports rose 12.2% to \$70.1 per barrel in 2007.

Based on contribution, the value of gas exports were slightly lower than the value of oil exports. In 2007, gas exports reached \$12.4 billion, while oil exports reached \$12.5 billion. From the volume side, although there was a tendency for oil production to decline, crude oil exports still showed an increase. This stemmed from the fact that the use of domestic oil for processing in domestic refineries is still not optimal. From another aspect, oil imports, either crude or derived products, also continued to show an increase for fulfilling refinery requirements and domestic fuel consumption. Meanwhile, for gas, the increase in the value of exports was not accompanied by an increase in volume. This condition was related to government policies that prioritized the use of natural gas for domestic use, among others to support the government's program to persuade the public to switch from using kerosene to LPG.

### Import Developments

Imports growth was quite high and in line with the more rapid pace of economic growth. Overall, total imports (C&F) grew by 15.0% to \$92.4 billion (Table 7.7). The

**Table 7.7**  
Imports

Description	2006	2007*	2007	
	Changes (%)		C & F Value (millions \$)	Share (%)
Non-Oil & Gas Imports	8.0	14.6	71.907	78.2
Consumer Goods	18.4	46.8	7.241	6.1
Raw Materials	7.8	12.0	50.502	56.1
Capital Goods	5.4	11.0	14.164	15.9
Oil & Gas Imports	3.0	16.7	20.474	21.8
<b>Total</b>	<b>6.9</b>	<b>15.0</b>	<b>92.381</b>	<b>100.0</b>

**Table 7.8**  
**Major Non-Oil and Gas Import Commodities Share by Country of Origin**

Singapore		Japan		China		United States		Thailand	
Commodities	Share	Commodities	Share	Commodities	Share	Commodities	Share	Commodities	Share
Electrical Machines, Tools & Fittings	2.24	Motor Vehicles	1.92	Iron & Steel	1.65	Other Transportation Equipment	0.89	Motor Vehicles	1.53
Telecommunications & Rep. App	1.44	Iron & Steel	1.56	Telecommunications & Rep. App	1.23	Industrial Machinery & Fittings	0.54	Sugar & Honey	0.49
Organic Chemicals	1.43	Specialized Industrial Machinery	1.25	Electrical Machines, Tools & Fittings	0.96	Textile Fiber & their waste	0.53	Industrial Machinery & Fittings	0.43
Office Machines & Automatic Data Processor	1.10	Industrial Machinery & Fittings	1.23	Textile, Textile Yarn & Textile Products	0.93	Oil Ores, Nuts & Seeds Oil	0.52	Electrical Machines, Tools & Fittings	0.38

quite significant increase in imports was experienced by oil due to higher oil prices, the decline in domestic production and the increase in domestic fuel consumption. The stability of rupiah helped push imports of non oil and gas products higher, especially imports of consumption goods which rose 46.8%. Nonetheless, the increase in imports needs to be looked at in closer detail, since it might indicate that the competitiveness of domestically made products has declined further. Meanwhile, imports of capital goods and raw materials also showed an increase in line with the domestic economic expansion.

Based on the country of origin, the proportion of imports from the five main countries was relatively unchanged. Overall, the proportion of non oil and gas imports (C&F) from the top five countries reached 54.5% or \$39.2 billion, or relatively unchanged from the proportion in 2006 of 56.5% (Chart 7.4). The higher penetration of goods imported from China means that the proportion of goods imported from China is already as large as the proportion of goods imported from Japan. The imports of cheap products from China are a substitute for imports of goods from other countries, such that imports from Japan and the US tended to show a decline. The type of imported products from Indonesia's main trading partners was fairly mixed. Imports of vehicles were mainly from Japan and Thailand. Meanwhile, imports of machinery generally originated from Indonesia's top five trading partners, with Singapore providing the largest proportion (Table 7.8).

### **Developments in the Services Account, the Net Income Account, and the Current Account**

The deficit in the services account and the net income account experienced an increase, while the surplus in the current account was relatively unchanged. The increase in the deficit for the services account mainly originated from an increase in transportation costs for imports and the flow of Indonesian tourists to other countries, including overseas travel for Hajj and Umroh. From the side of receipts, the flow of incoming foreign exchange was mainly contributed by foreign tourists whose number increased to 5.5 million or reaching a new high. The increase in foreign tourist visits reflects the improved security conditions, along with an increase in MICE (meetings, incentives, conferences and exhibitions) on an international scale. Various efforts have already been made by a number of parties including the government to attract foreign tourists including promotions in a number of tourism exhibitions, developments in main tourism regions, in addition to the increase in the number of countries which received the visa on arrival (VOA) facility from 52 in 2006 to 63 at the end of 2007.

The deficit in the net income account rose 15.0% to \$15.9 billion. The increase in the deficit mainly stemmed from an increase in the profits transferred and the reinvested earnings of multinational companies in Indonesia. This reflects the better profitability of multinational companies resulted from Indonesia's improving business prospects. Meanwhile, the current account recorded a surplus mainly due to the contribution from money transfers made by Indonesian overseas workers. In 2007, the incoming funds transferred by Indonesian overseas workers recorded

**Table 7.9**  
**Foreign Direct Investment (FDI)**

Description	millions of \$		
	2005	2006	2007
FDI (net)	5,271	2,211	1,164
Abroad (net)	-3,065	-2,703	-4,407
In Indonesia (net)	8,336	4,914	5,571
Non-Oil and Gas	7,282	4,122	4,633
Oil and Gas	1,054	793	938

a surplus of \$4.9 billion or up 7%. One effort related to the development of Indonesian overseas workers was the wage increases for Indonesian overseas workers in a number of countries and especially the Middle East in 2007<sup>3</sup>. Based on country, Saudi Arabia and Malaysia remained the largest employers of Indonesian overseas workers. Overall, positions filled by Indonesian overseas workers in 2007 reached 4.3 million, or lower than the 4.6 million in 2006.

#### Capital and Financial Transactions

Compared to the previous year, the capital account and the financial account recorded a lower surplus of \$2.8 billion. Based on its composition, the net inflow of portfolio investment was still quite dominant, while foreign direct investment (FDI) showed positive developments. The continued high return on the rupiah and the macroeconomic stability encouraged inflows of portfolio investments. Meanwhile, some progress on the infrastructure front has helped create a more conducive investment climate, thus giving a boost to FDI.

#### Direct Investment Transactions

In 2007, FDI recorded a surplus that was lower than in the previous year, yet with a more balanced composition than in 2006. The increase in net incoming FDI was offset by an increase in net FDI outflows (Table 7.9). From the liabilities side, FDI recorded a bigger surplus in line with the improving investment climate and more rapid economic activities. FDI investment in the oil and gas sector has continued to increase as crude oil prices have soared. This increase also reflects government efforts to raise oil production through direct bidding of a number of oil and gas blocks since 2006. In 2007, new contracts were obtained for 35 upstream projects and 26 oil and gas blocks with total commitment reaching \$13.0 billion. It was a similar story for FDI in the non oil and

3 Regulated through Circulation Letters No. 01/BNP2TKI/VI/2007 dated May 16, 2007 dan No. 02/BNP2TKI/VI/ 2007 dated June 14, 2007 concerning the increase of minimum wages of Indonesian overseas workers in Singapore and Saudi Arabia, respectively.

**Table 7.10**  
**Portfolio Investment (Liabilities Side)**

Description	millions of \$		
	2005	2006	2007
Public Sector, net	4,826	4,514	5,270
Foreign Exchange Bond	2,095	1,930	1,425
Government Securities	2,054	2,209	2,612
SBLs	677	375	1,233
Private Sector, net	444	1,593	4,711
Stocks	-165	1,898	3,559
Corporation Securities	609	-305	1,152
Total	5,270	6,107	9,981

gas sector which recorded an increase in 2007. The FDI inflow, either from loan withdrawals from parent company head offices overseas or from increasing capital (equity) rose quite significantly. One source for quite significant increase in FDI was in the form of reinvested earnings. The increase from this source reflects the greater certainty in Indonesia's business climate as investors continued to expand their businesses. In 2007, the inflow of net FDI in the oil and gas sector recorded increases of 18.3% and 12.4% to \$0.9 billion and \$4.6 billion respectively. From the asset side, there was an increase in capital outflows by 63.0% to \$4.4 billion. This can be viewed as a positive development since Indonesian companies were better able to compete overseas. As such, although overall the net FDI recorded a surplus which was relatively unchanged, based on its composition it showed a positive development.

Various efforts have been made to attract foreign investors to Indonesia. One of them, which is to improve business certainty, has already been carried out through Law No 25 / 2007 concerning foreign investment and Presidential Instruction No. 6/2007 concerning policies to accelerate the development of the real sector and the empowerment of micro, small and medium size businesses. Through adoption of this regulation, the certainty of foreign business in Indonesia is expected to be better guaranteed, for example from the risk of nationalization, the determination of business sectors which are open and closed, along with integrated services from a better structured bureaucracy. Through this presidential instruction all action plans can be implemented, by monitoring implementation of each action plan which had already been proposed in 2006 and 2007. In 2007, foreign investor confidence in Indonesia's investment climate tended to improve. Various rating agencies raised their sovereign ratings for

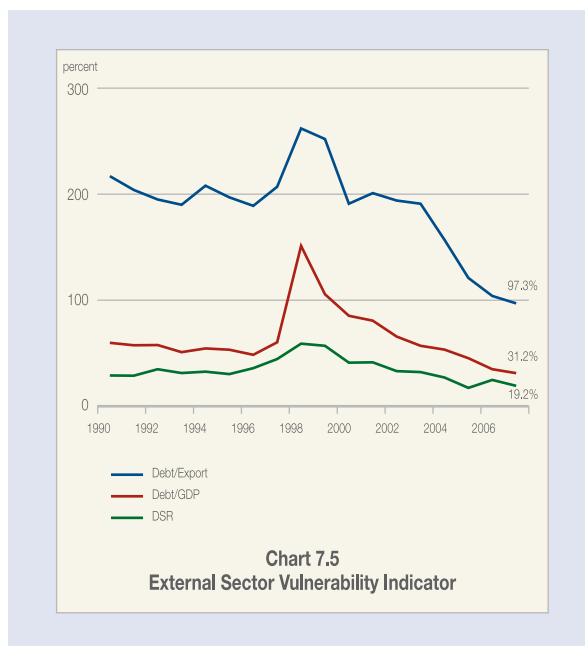
**Table 7.11**  
**Other Investment Transaction**

Description	millions of \$		
	2005	2006	2007
Other Investment, net (Public Sector)	-848	-2,497	-2,363
Assets	0	0	0
Liabilities	-848	-2,497	-2,363
Other Investment, net (Private Sector)	-8,601	-1,296	-3,559
Assets	-8,646	-1,588	-5,633
Liabilities	45	292	2,075
<b>Total</b>	<b>-9,449</b>	<b>-3,793</b>	<b>-5,922</b>

Indonesia. In turn, Moody's, Rating and Investment, and Japan Credit Rating Agency raised their ratings to Ba3, BB+, and BB, respectively.

### Portfolio Investment Transactions

The portfolio investment transactions recorded a bigger surplus and showed greater resilience toward the effect of global financial shocks. During 2007, the total surplus of the portfolio investment transactions reached \$7.0 billion or higher than in the previous year. From the external side, the increases in portfolio capital inflows were still supported by significant liquidity in the global financial markets. From the domestic side, the increased surplus mainly stemmed from improved confidence in macroeconomic condition and economic prospect. The investment return in rupiah terms was also relatively still more attractive compared to the returns available in other emerging markets. Indonesia's capital markets showed greater resilience to the impact of global market shocks. Capital outflows, as a result of shocks in global financial markets that were triggered by the sub-prime mortgage crisis in the US, were not too large.



Based on each component, portfolio investment inflows on liabilities side increased compared to the previous year, while on the asset side there was relatively little change. Overall, portfolio investment on the liabilities side recorded a higher surplus of \$10.0 billion (Table 7.10). In the public sector, the increased surplus was contributed by rupiah denominated SUN and SBI, while the contribution from foreign currency denominated SUN declined. In the private sector, the increased surplus was contributed by foreign purchases of stocks and bonds issued by domestic companies.

**Table 7.12**  
**Indonesia's Foreign Debt Position**

Notes	2005	2006	2007			
			March	June	September	December*
Government	75,406	67,722	69,085	66,155	68,088	69,340
Private	48,601	50,983	51,127	52,073	53,641	53,909
a. Financial Institutions	6,371	6,560	6,992	6,900	6,948	7,465
– Bank	4,042	4,544	4,963	4,935	4,837	5,351
– Non-Bank	2,329	2,017	2,029	1,965	2,111	2,114
b. Non-Financial Institutions	42,229	44,423	44,135	45,173	46,693	46,444
Securities	6,646	10,031	11,071	15,253	15,218	13,391
– Government	4,666	8,087	9,105	13,233	13,147	11,269
– Bank	15	30	47	75	52	50
– Non-Financial Institutions	1,965	1,914	1,919	1,944	2,019	2,073
<b>Total</b>	<b>130,652</b>	<b>128,736</b>	<b>131,283</b>	<b>133,482</b>	<b>136,947</b>	<b>136,640</b>

\* Provisional figures

### **Other Investment Account**

Other investment transactions recorded a higher deficit than in the previous year, which is of \$5.9 billion, in line with the government's more independent debt management strategy. In the public sector, other investment transactions recorded a higher deficit of \$2.4 billion (Table 7.11). This is a reflection of government policy which tried to reduce the burden of foreign debts by adopting a strategy that withdrawals should be lower than debt repayments. An interesting development in the management of government debts in 2007 was the scrapping of the CGI forum at the beginning of 2007. As a result, flexibility in the management of government foreign debts could be better conducted on a bilateral basis. These efforts were also accompanied by the effectiveness of disbursement of remaining loan commitments which had not been withdrawn.

The scrapping of the CGI did not immediately bring about a drastic decline in drawdowns of government debts. Although the drawdown of project loans declined, drawdown of program loans increased. Drawdown of government loans in the form of program loans which were obtained in 2007 even rose to \$1.9 billion from \$1.5 billion in 2006. The same was also the case with the drawdown of project loans which were mostly CGI commitments from the previous year. Although the drawdown of government loans did not in general experience any obstacles, the size of the loans was adjusted in accordance with fiscal repayment requirements and was maintained at a lower level than the payments. The government's independent debt management strategy was also reflected in the priority of domestic financing.

In the private sector, the other investment transaction recorded a higher deficit to \$3.6 billion. One factor causing the increase in the deficit was capital outflows recorded on the asset side in the form of savings owned by residents living overseas. Based on experience, these capital outflows can become a source of supply of foreign currencies if there is a shock which results in increased demand for foreign currencies in the domestic market. This phenomenon is also one factor which can explain the relative stability in the movement of the rupiah exchange rate amidst uncertainty in global financial markets.

### **External Vulnerability Indicator**

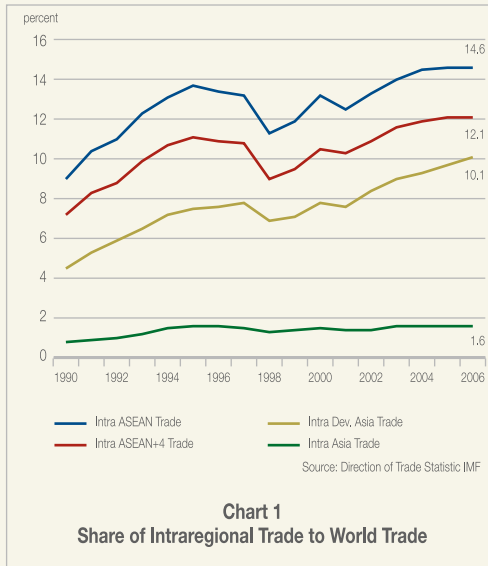
By attaining a surplus in the current account, the capital account, and the financial account as stated above, the total Balance of Payments in 2007 recorded a surplus of \$12.5 billion. The improvement in the performance of the Balance of Payments was also accompanied by a better Balance of Payments structure, thereby helping to support rupiah stability in 2007. Although the role of short-term capital inflows was still quite large, the long-term capital flows continued to show positive developments. The external vulnerability indicators tended to improve. Even though the position of foreign debts rose to \$136.6 billion (Table 7.12), the ratio of foreign debts toward GDP and exports continued to decline to 31.2% and 97.3%, respectively (Chart 7.5). These two indicators show a continued improvement from the critical level as defined by the World Bank. The same is also true for the ratio of debt repayments to exports of goods and services to 19.2%, or below the critical level of 20%.

# Asia Intraregional Trade

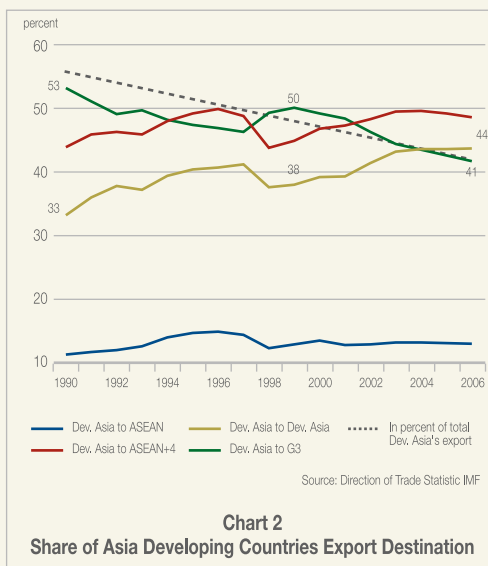
Asia intraregional trade has tended to increase in the last few years. The increase in intraregional trade has thus reduced Asia's share of trade with developed countries. The share of intraregional trade in ASEAN, ASEAN+4, and developing countries in Asia has continued to increase relative to the total world trade (Chart 1)<sup>1</sup>. Intraregional trade growth in developing countries in Asia reached 44% in 2006, or increased sharply from 33% in 1990 (Chart 2). As such, the share of trade from developing countries in Asia to the main developed nations or the G3 (the US, the European region, and Japan) declined from 53% in 1990 to around 42% in 2006. Although the role of trade to the G3 developed nations is still quite large, the decline in the trade share to developed nations is a positive development amidst the current economic slowdown taking place in developed countries. This shows greater independence in the trade of developing countries in Asian region. Asia intraregional trade to the US, European region and Japan has continued to decline, while trade with China has increased rapidly (Table 1). With the economies of developed nations slowing, the impact of the slowdown can be partly compensated by increased trade with China and other countries in Asian region.

The increase in intraregional trade has been supported by rapid economic growth in Asian region, especially in China and India. Strong GDP growth and the very large size of the population underpinned the external demand in Asian region. In 2007, the share of Chinese and Indian GDP toward GDP of developing countries in Asia was already more than 50% combined, or amounting to 47.6% and 16.0%, respectively<sup>2</sup>. Other developments which supported increased intraregional trade were industry relocation policy by developed nations, especially from Japan, to various countries in Asia. This

1 (Asia Developing Nations = Asia-Japan-Middle East countries). (ASEAN = Indonesia, Malaysia, Singapore, Thailand, Vietnam, Philippines, Brunei Darussalam, Cambodia, Myanmar, dan Laos). (ASEAN+4 = ASEAN + Japan+ China + India + South Korea).  
2 Using nominal GDP from WEO-IMF Oktober 2007 database.



development was also supported by large foreign direct investment flows to Asia along with various bilateral and multilateral trade cooperation policies in the Asia region which have been quite intensive since the 1990s.



**Table 1**  
**Intraregional Export Destination to Several Countries**

Origin Countries	Export's Destination*														
	USA			Euro Zone			Japan			China			India		
	1990	1999	2006	1990	1999	2006	1990	1999	2006	1990	1999	2006	1990	1999	2006
Asia's Developing Countries	21.9	21.9	16.9	16.9	17.0	16.2	14.3	11.1	8.5	15.7	17.4	22.2	0.7	1.0	1.6
ASEAN	19.4	20.1	14.1	16.0	16.5	13.0	18.9	12.4	10.6	6.4	8.6	14.8	1.2	1.7	2.4
ASEAN+4	25.1	24.4	18.2	18.2	17.2	16.0	8.4	7.8	6.9	5.0	7.7	10.8	0.7	0.9	1.5
Indonesia	13.1	14.2	11.5	12.3	15.1	12.2	42.5	21.4	19.4	5.7	6.9	9.3	0.2	1.9	3.2

\* Share to origin country's total export,  
Source: IMF Trade Directions Statistics

**Table 2**  
**Business Cycle Correlations to Developed Countries**

	USA			Euro Zone			Japan		
	1995-98	1999-02	2003-07	1995-98	1999-02	2003-07	1995-98	1999-02	2003-07
EM Asia	-0.64	0.71	0.56	0.16	0.28	0.17	0.66	0.36	0.04
Indonesia	-0.50	0.10	-0.53	0.14	0.27	-0.50	0.64	0.55	-0.58

Lower intraregional dependency on the G3 was supported by an intraregional trade structure, which was intra-industry in nature, while trade with developed nations was more inter-industry in nature<sup>3</sup>. Intra-industry trade in the trade with Asia countries indicates specialization in line with the comparative competitiveness of each country for export purposes. This is in line with the increased business cycle correlation to the countries in Asia, while the business cycle correlation of developing countries in Asia with developed nations tended to decline (Table 2)<sup>4</sup>. The decline in the dependency of trade with developed nations was also reflected in the decline in the business cycle correlation between Indonesia with those three developed regions. The correlation was even negative (in the period 2003-2007), as Indonesia's economic growth tended to accelerate amidst the economic slowdown taking place in developed nations.

From the aspect of traded commodities, intraregional trade in Asia is dominated by raw materials or intermediate goods. In general, the export share from developing countries in Asia, including Indonesia, is mainly in the form of raw materials (Table 3)<sup>5</sup>. The tendency of raw materials to dominate the share of

exports occurred in both intraregional trade and trade with the G3 developed regions. These exports of raw materials are mainly primary products which have to be processed further. This exports structure, unfortunately, has a relatively low added-value in real sector activities, for example, in the absorption of workers. For Indonesia, the structure of exports to the US is already relatively good, dominated by consumption goods (55%), especially textile and textile-related products. Nonetheless, Indonesian exports to other countries are still dominated by raw material commodities (primary products). Exports dominated by primary commodity also took place to main export destination countries such as Japan (mining goods, unprocessed rubber), China (CPO and unprocessed rubber), and India (CPO and mining goods).

For the domestic economy, the not so well-balanced structure of exports implies the need to make improvements on the supply side and to enhance the competitiveness of exports to benefit from the high growth momentum in developing countries and the need for an industrial strategy directed toward exports of finished goods such that the added-value is greater.

3 Intra industry trades tend to increase business cycle correlations among countries, while inter industry trades tend to decrease business cycle fluctuation. See Harm Zebregs, *Intraregional Trade in Emerging Asia*, IMF Policy Discussion Paper, PDP/04/1, April 2004.

4 The computation of business cycle correlations is based on Phase Average Trend model developed by OECD.

5 The commodity classification is based on Broad Economic Indicators (BEC), United Nations Statistic Division, April 9, 2007.

**Table 3**  
**Intraregional's & Indonesia's Exports Commodities to Several Zones**

percent

Origin Countries	Country of Export's Destination*														
	USA			Euro Zone			Japan			China			India		
	1995	1999	2006	1995	1999	2006	1995	1999	2006	1995	1999	2006	1995	1999	2006
Asia's Developing Countries															
Capital Goods	20.1	20.0	26.0	17.5	20.6	27.0	10.2	12.5	16.6	12.5	11.8	19.0	14.9	11.1	22.0
Raw Materials	34.8	35.3	34.0	39.4	39.9	39.3	49.3	46.5	53.2	66.5	66.1	67.4	75.8	73.7	68.4
Consumer Goods	43.6	42.0	36.6	40.2	36.3	29.6	39.9	37.5	25.6	20.2	18.4	9.6	6.3	8.2	5.1
Indonesia															
Capital Goods	12.1	6.0	4.9	3.8	4.4	7.8	1.0	1.6	2.5	2.4	1.6	4.9	1.1	0.8	2.8
Raw Materials	42.5	39.5	39.4	55.9	50.2	59.1	81.3	81.7	84.7	84.6	83.2	87.8	89.7	81.4	91.8
Consumer Goods	45.3	51.3	55.4	40.3	40.6	33.1	17.0	13.2	6.8	12.5	13.1	5.0	5.7	6.3	3.9

\* share to origin country's total exports.

Source: UNCOMTRADE