



THOMAS WHITE - GLOBAL INVESTING
CAPTURING VALUE WORLDWIDESM



Country Profile: Indonesia

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It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens...Global Citizens.

The Thomas White organization was founded in 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?

Now 15 years later, our firm growth and strong subsequent portfolio performance has confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.

A handwritten signature in black ink that reads "James S. White, Jr." The signature is written in a cursive, flowing style with a prominent initial 'J' and a long, sweeping tail on the 'e'.

Indonesia: Change Overcoming Chaos



An ornately decorated door at one of Indonesia's Sacred Monkey Temple sites in Pura Dalem Agung, Bali.

Set against the magnificent waters of the Indian Ocean, 17,000 islands lie sparkling like jewels in the sun. Shores of sand. Acres of green. Never too cold, never too hot, Paradise, it seems, grew up here.

Indonesia is a vast, steamy archipelago, (the world's largest), pulsing with life and rich in spectacular diversity. The world's biggest flower, the Rafflesia, grows here along with the famed Komodo Dragons, the largest lizards. Diverse, myriad hues have colored this nation, offering such cultural variety and geographical complexity that a journey to Indonesia is a tryst with nature. With a varied tapestry of colors, Indonesia, like many countries in the South East Asian region, was traumatized by a destructive past – yet not destroyed. Its rebirth as a nation has only just begun.

Years of dictatorship mar fragile independence

Remains of the Homo erectus or 'Java Man' have been found in the Indonesian archipelago suggesting that it was inhabited 1.8 million years ago. The islands came under the influence of Indian traders, and the earliest known kingdoms were mainly Hindu or Buddhist-dominated ones such as Srivijaya, Mataram and Majapahit. The landscape of the country forever changed when Islam first made its appearance in the 11th century, and eventually became its most widespread religion.

Indonesia then endured a violently ruptured history over the next few centuries. Tossed around like a pawn between colonial powers such as the Portuguese, Dutch, the British and the Japanese, the nation finally declared independence on August 17, 1945, led by Sukarno and Mohammad Hatta.

As it often happens, the dreams of independence in a young nation were marred by harsher, brutal reality. The economy struggled, and Sukarno unveiled what he termed the Guided Democracy Policy – declaring himself president-for-life. In the ensuing chaos, an abortive coup, allegedly by the Indonesian Communist Party (PPI), brought the army officer Suharto into the limelight, and eventually to power. A New Order coalition era began, and 500,000 Indonesian communists were massacred under this autocratic rule. Suharto’s regime was the beginning of despotism, and ironically one of the brightest periods of Indonesia’s economic history.

The authoritarian regime brought stability – and Indonesia grew. Suharto clung to power with a

vicious grip. But power brought with it the sweet fragrance of corruption and he and his family accumulated gross wealth. In 1975, Indonesia invaded East Timor, annexing the country in a brutal show of force. More than 200,000 Timorese have died since then. The 1997 Asian economic crisis hit Indonesia hard, and under threat of impeachment, Suharto eventually resigned in 1998 paving the way for democracy. Susilo Bambang Yudhoyono defeated Megawati Sukarnoputri in the first-ever direct presidential elections and assumed office in 2004. Considering Indonesia’s often violent, virulent and bitter power struggles, these peaceful elections for the presidency promise to usher in a new era of calm to a country that has suffered so much.

Indonesia and the World	
Nominal GDP (\$)	510 billion
GDP Rank	19/191
Per Capita GNI (\$)	1880
Per Capita GNI Rank	145/210
Population Rank	4/224
Geographical Area Rank	16/250
Global Competitiveness Rank	54/131
Economic Freedom Index Rank	119/157
Human Development Index	111/182
Major Industries	Petroleum, Natural Gas, Textiles, Automotive

Indonesia functions as an independent republic with its chief executive being the president elected by direct popular vote. The president is assisted by an appointed cabinet and exercises full and complete authority over the administration of the government. The People’s Consultative Assembly includes the House of Representatives consisting of 550 members as well as a 128-member Council of Regional Representatives. Members are elected for five-year terms. Current president Susilo Bambang Yudhoyono is assisted by Jusuf Kalla.

Unity in diversity

Indonesia is one of the most diverse nations on earth – with over 350 ethnolinguistic groups - its culture has embraced many strains of influence from India, China, Arabia, The Netherlands and even Portugal. In a country of numerous dialects and languages, one language still emerges as common – Bahasa Indonesia – although Javanese, Sundanese, Madurese, and Malay are widely spoken.

Indian influence is particularly evident in Indonesia’s architecture – the Borobudur monument and the Prambanan Hindu temple are evidences of the sweeping grandeur of expression that dot this country’s landscape. A drum and gong orchestra known locally as the gamelan is one of



Built during the Sanjaya dynasty, Prambanan is the largest Hindu temple in Indonesia.

Indonesia’s best known classical music forms with influences borrowed from Sudanese, Javanese and Balinese culture. Home to a number of classical dance forms, Indonesia’s varied culture finds its truest expression in court dances like *bedaja*, *serimpi*, and Javanese mask dances such as *wayang topeng*.

Oil and gas giant booms – a history of Indonesia’s economy

Having the world’s fourth largest population, Indonesia’s economy in the first few decades after independence was marred by political mismanagement. Yet, the country’s remarkable resilience to endure the deepest natural and political strife has ensured that Indonesia is now one of Southeast Asia’s fastest growing economies.

Despite being a market-based economy, the government exercises control over key areas. With around 158-state owned or public sector units, the government regulates the prices of all basic goods such as rice, electricity or fuel. Agriculture led the economy in output until 1991, when it was overtaken by manufacturing. In 2005, agriculture contributed around 13% of the GDP although the sector employs an estimated 44% of Indonesia’s workers. Once a major importer of rice, several reforms by the government ensured that rice production grew at 5% annually between 1969 and 1984, mainly concentrated in Java. This helped Indonesia achieve a level of self-sufficiency in the key commodity. The country now exports tea, cocoa, spices, coffee, and natural rubber, although these commodities constitute less than 10% of Indonesia’s total exports.

From being little more than a manufacturer of handicrafts and textiles, Indonesia’s manufacturing sector progressed phenomenally. During Suharto’s New Order regime, Indonesia

grew to be a key producer of steel, aluminum, and cement. Between 1985 and 1995, the country's GDP grew by around 95%, even as inflation remained well within 10%.

However, the 1997-98 Asian economic crisis struck a deathly blow. Indonesia collapsed dramatically and its currency plummeted. Forced to take massive aid from the International Monetary Fund (IMF), the Indonesian government had to resort to a number of austerity measures aimed at reforming the financial sector. The IMF subsequently withdrew aid in 1998, stating that the government had failed to abide by its terms – the effect was cataclysmic. The GDP plunged 13.2% in 1998, shrinking again in 1999, and almost half of all corporations became insolvent in 1999. Social unrest spread and unemployment peaked. A change of government with Suharto stepping down finally offered Indonesia a ray of hope. The IMF offered aid again and the battered economy began to find its feet once more although growth has been a bit erratic.

Major sectors and trading partners

During the 1990s, services expanded at an annual rate of 8.6%, more than twice as fast as agriculture. The services sector continues to grow, although there has been a dip in its growth in recent years. According to World Bank Data, in 2008 the services sector contributed 37.5% of Indonesia's GDP. Industry represented 48.1% of the GDP according to 2008 World Bank figures.

Tourism remains an important source of revenue with around six million tourists visiting Indonesia in 2008, although travel advisories to this earthquake-prone region are frequent.

Indonesia's major trade partners are:

 Japan

 The European Union

 U.S

 Singapore

 South Korea.

As well, trade with the Association of South East Asian Nations (ASEAN) is increasing. Currently, the country is the world's top exporter of liquefied natural gas (LPG). In 2008, Indonesia, which was a long-time member of OPEC, conveyed its decision to pull out of the organization although it hinted that it may perhaps return to being a net exporter of LPG once again. Mining and mineral production represents around 11.9% of GDP with around 0.5% of the country's labor force engaged in this sector.

Life expectancy at birth is estimated at 71.6 years for women and 67.8 for men, or 69.7 years total. With a 12-year public and private education system, around 3.7% of the government's expenditure is ploughed towards education.

Seismic shifts in its economic history have been mirrored in the country's banking sector. Chaos reigned supreme during the 1997-98 crisis, when many domestic banks collapsed. Relations with the IMF have been tense, and although the government established the Indonesian Bank Restructuring Agency in 1998 to rebuild the private banking sector, the pace of reform has been slow.

Recent developments: Economy continues to drive ahead despite effect of global recession

The global recession that devastated economies worldwide did not wreak as much havoc in Indonesia. The country still grew at a healthy rate of 4.5% annually in 2009, making Indonesia one of the fastest growing economies in the G20 League of Nations. This was a step down from the 6.1% growth recorded the year before, but it confirms Indonesia's status as a premier emerging economy. Such is Indonesia's economic momentum that growth is only expected to quicken in 2010, and accelerate further in 2011, once the lingering effects of the global recession are finally stamped out.

What really aided Indonesia during the economic crisis, which rocked even seasoned performers like China was the country's relative under-reliance on exports, according to the ADB, and a huge domestic market. Overseas shipments contributed 29.8% to Indonesia's GDP in 2008. That figure is only expected to rise in 2010. As world trade improves and demand picks up, exports are forecasted to grow by around 11% in 2010.

Monetary policy has been generally accommodative and it is expected to stay that way for a while. Much like other central banks in the region, the Indonesian central bank had cut interest rates to stimulate economic expansion. Now, while other Asian countries are battling inflation, Indonesia remains secure. With inflationary concerns remaining fairly low, the Indonesia central bank has kept its benchmark rate unchanged at 6.5% for seven straight months (April 2010). This follows a spree of rate cutting measures from November 2008 to August 2009. The bank has commented that it remains comfortable with current inflation levels, expected to be in the range of 5.5% to



Jakarta, with a population of more than 23 million people is the largest city in Indonesia, and the home of the Jakarta Stock Exchange.

5.7% in 2010. And it has indicated that it may not change its monetary policy for the rest of 2010. Price pressure was considerably reduced during the downturn years of 2008 and 2009. But Indonesia has enjoyed good harvests, and an appreciating rupiah contributed to lowered consumer prices. Domestic consumption remains robust. Private consumption grew by 4.9% in 2009, a significant figure during times when public confidence was at its lowest.

Government stimulus boosts economy

Alarmed by the events of 2008 and 2009, when economies around the world creaked and threatened to collapse, Indonesia's government introduced a \$6 billion stimulus package. Yet, late in 2009, officials announced that no more stimulus was needed to boost the growing economy.

This is the sort of confidence that is reflected in President Susilo Bambang Yudhoyono's lofty targets for Indonesia, who expects the country's economy to grow an average 6.6% annually over the next five years. Yudhoyono has also promised extensive reforms, and already his vision is starting to take a few steps towards fruition. Facing a chronic power shortage, Indonesia's electricity board, which meets most of the country's power needs, has always struggled to match demand with supply. Now, with a new law that was passed in 2009, which allows for private investors to produce and sell electricity without any intervention from the state, the power situation in the country, so crucial for a nation's progress, might see some improvement. The government has also promised to trim the unemployment rate to 5%- 6% by 2014, and reduce poverty levels by 8% to 10%.

Nature's ring of fire might still harm Indonesia's march



Banda Aceh was the worst hit among all the provinces in Indonesia during the 2004 deadly tsunami.

Nature has been kind to provide this country with precious resources – but placed on the Pacific Rim of Fire, Indonesia remains one of the world's most volatile geographical areas. Devastated by the 2004 tsunami with the city of Aceh in Sumatra hit the hardest, Indonesia continues to be plagued by repeated earthquakes and natural disasters, which are causing a huge strain on the country's fragile but growing economy.

Legal, corporate, and banking reforms have been slow in coming. Indonesia

has also been the target of terrorist attacks, with the 2004 bombing in Bali highlighting the internal dangers that might still cause rifts in the country. The 1997-98 crash was precipitated by nervous investors who believed that Indonesia's increasing security problems, crumbling infrastructure, soaring interest rates, and high levels of corruption were a deterrent to investment. The pace of liberalization of previously restrictive investment rules has been tardy. Yet, domestic consumption has been rising, and Indonesia's currency is recovering from its disastrous fall. Small and medium enterprises are thriving. The government's primary concern now is enhancing creaking infrastructure and generating enough jobs to support one of the fastest growing populations in the world. It is estimated by the central planning agency, that Indonesia needs around \$150 billion of investment to upgrade its infrastructure to world standards. Currently, such investment stands at a meager 3% to 4% of the GDP.

Indonesia has been involved in a number of border disputes over the years and relations with Malaysia, East Timor, and Papua New Guinea remain testy and fractious. Decades of strife and insurgency with separatists in Aceh were finally resolved in 2005 when a peace treaty signaled the end to a blood-spattered war that led to the loss of more than 15,000 lives. An uneasy relationship between the majority Muslims and the minority Christians in this country led to a fierce outbreak of violence in the Moluccas Islands in 2004.

Surprisingly though, as tumultuous as present conditions are, the faster the country's economy grows. 🌐

POSTSCRIPT

In the strikingly beautiful province of Aceh, a spectacularly rich mosaic of colors streaks the sunset-laden sky. The sea rushes in, almost becalmed on Lampuu beach. Land, air and water seem in unison, at one, at peace. This is Aceh.

Farther into the province, along the coastline of Kampung Jawa, wreckages of the 2004 tsunami can still be seen. Here, there is an angry truce with the sea – barracks erected for refugees whose lives were torn apart by the ravaging sea, an inhuman reminder of an unimaginable tragedy. This is Aceh.

Until a peace treaty was signed following the tsunami, vast areas of the province were rocked by



Aceh is slowly being rebuilt after the tsunami, with the World Bank providing a \$7.7 billion funding.

violence triggered by infighting between the Indonesian army and the separatist Free Aceh Movement. This is Aceh. Rich in oil and gas, the region's economy grew by 7.7% in 2006, and inflation has declined steadily. This is also Aceh. And in a way, the spectacular beauty of a the ravaged land, the years of violence, the growing economic expansion – all that is Aceh is also Indonesia. A microcosm of the macrocosm. Beautifully fragile, enduringly resilient, Indonesia remains.

Thomas White International, Ltd.

One Financial Place,
440 South LaSalle Street,
Suite 3900,
Chicago, Illinois 60605.
Email: feedback@thomaswhite.com

Thomas White India Pvt., Ltd.

Suite 300, 3rd Floor
Phoenix Towers
16/1 Museum Road
Bangalore 560001
Tel.: 91-80-40187777

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