

Investment in Indonesia

“Neocolonialism and Its Destruction to Peoples Economy”

Background

- *Economist mainstream* believes that prosperity of the society of a country can be reached by capitalism and neo liberalism, through the principal strategy of Foreign Direct Investment (FDI), Free Trade, Privatization and Deregulation.
- Developing Country generally practices neo liberalism strategy as a blue print (copy paste) from economic theory and practiced which run by Developing Country.
- In Indonesia case, investment policy is much more encouraged by foreign aid allocated for Law/ Bill that supports: foreign investment, rights to control land in big scale done by investor, tax haven, transfer and repatriation flexibility. All the regulations open chance to neocolonialism in Indonesia.
- Long before FTAs were signed, investment in Indonesia has been occurred widely and most of them were foreign investment covered all sectors of economy : agriculture, plantation, gas and oil mining, finance, trade and service. Comprehensive agreement of FTAs including investment and trade that will increase foreign capital to natural resources, trade, and finance in Indonesia, and in the end will make a big problem faced by peoples.

Investment History in Indonesia

- Historically, investment is associated as “colonial investment” which stretched in (1) previous investment for exploitation of resources and agriculture, (2) new investment for mastering local market also raw material and cheap worker so that become more competitive on international market.
- On the past, investment from one country to the others can be happened on the practice of colonialism. Colonialism have been open the gate for the investment on the colony.
- The colony will follow investment scheme which characteristic by exploitation and domination from the colonial countries then bring back Home (taking the economics’ surplus to the maximum).

Investment as a part of International Regime

- Investment ruled by or at least part of international trade agreement. So that investment and trade basically rule by the same regime that is multinational capital.

- Investment arrange through Bilateral agreement such as : Bilateral Investment Treaties (BITs), Trade and Investment Framework *Agreement* (TIFA), Economic Partnership Agreement (EPA) and Bilateral Free Trade *Agreement* (BFTA).
- Regional Agreement such as: *North American Free Trade Agreement* (NAFTA), European Union, *Mercosur*¹, ASEAN, *Energy Charter Treaty*-OECD); also rule by investment problem.
- Investment also arrange by Multilateral Agreement like: Multilateral Agreement on Investment (MAI) and failed, *General Agreement* on Trade in Services (GATS) and Trade-Related Investment Measures (TRIMS) on the WTO. Also practiced by *United Nations Conference on Trade and Development* (UNCTAD), Organization for Economic Co-operation and Development (OECD) and the group of World Bank.

Colonial Investment Mode in Indonesia

- Mercantilism ; through VOC, the biggest trading company in Dutch, Nusantara (Now Indonesia) had been rough colonialized. Force labour, cultivation, which mobilized forced by human energy, in order to supply the need for spice in Europe.
- Liberal Colonialism ; the participation of foreign investment to the company in Indonesia which cover : agriculture, plantation, mining and refinery sector. The resources are mobilized to developing country in Eourope in purposed of industrialization. The people of Indonesia have been in the crisis situation. The territory of Indonesia included Java and Sumatra become primary source. While outside of Java still remain the power of administrative.
- Neocolonialism ; right now, the foreign investment is controlling all over Indonesia ; Java, Sumatra, Kalimantan and Sulawesi, also including small island. The foreign investment made in all sector : agriculture, plantation, mineral mining, and coal, oil and trade and services.
- The development of Indonesia's policy about investment in line with the need of develop country to the raw material and the market for surplus of production. The act No.1, 1967 about the foreign investment, then act No. 5, 1967 about forestry and act No.11, 1967 about mining, start exploitation of forest and mining in Indonesia by foreign capital in big scale.

The law as incentive for investment

- The act no. 25. 2007 about investment in Indonesia is for giving facility and incentive to the bigger investment especially in foreign capital.
- Investment is practiced based on equal treatment with no differentiate to the origin Country.
- All kind of trade open to the investation excluding giving state close by terms and condition.

¹ *Mercosur is the result of a treaty signed in 1991 by Argentina, Brazil, Paraguay and Uruguay*

- The investment giving the incentive tax like tax income, tax fiscal for capital, engine, or equipment, the free tax for raw material, value add tax, the accelerate of amortisation and property tax.
- The investor can flow the asset to the another party according to the term and condition of law. The investor had a right to transfer and repatriate on the foreign exchange.
- Service and or right license for land by foreign party on the long term (95 year) is very easy in Indonesia. In fact, the previous law give only 70 years.

The push of foreign debt

- Multilateral fund like World Bank, Asian Development Bank, and developed countries like Japan and USA gives support to the new investment law which is No. 25, 2007. World Bank through private sector agency helping government of Indonesia fix the law of investation, with the purpose to make short cut investation procedure and eliminate useless birocratization.

Before the act no.25, 2007 has been legalized, World Bank state : *The government has an investment climate policy package covering five broad areas: investment policy, customs, taxation, labor regulation and SME policy. The package has 85 action items with time bound targets, and delegates a minister to be responsible for each action. Through September 2006, 30 of the measures had been completed and 17 were in progress. Important reforms such as the submission of the new investment law to Parliament, cancellation of regional regulations harmful to business activity, and guidelines for the development of one-stop shops by local government, have been carried out under the investment climate reform package. The World Bank supports this package. (<http://web.worldbank.org>)*

- The amount of government debt right now is 1600 trillion rupiahs consist of domestic debt, and foreign debt, which the obligation of interest rate and predict over nominal economic growth of Indonesia. If government debt merge with the private debt in year of 2008, the amount is 2500 trillion rupiahs with the obligation to pay interest and installment of principal foreign debt 450 trillion rupiahs which consist of 350 trillion rupiahs on private sector and 90 trillion rupiahs by government.
- That amount equal to the four times the Indonesia economic growth in 2008 which is 119 trillion rupiahs. By the amount of debt we can conclude that Indonesia's economic potential is enough to fully serve to the other's country interest.

Foreign Capital Domination

- The data shows that the investment in Indonesia runs into decrease significantly last 10 year. Foreign capital become dominant in the structure of Indonesia's investment. The amount of foreign capital is 86.79 % from

the total investment in 2008.

**The development of realization of investment
(The amount of permanent license)**

Year	Domestic National Investment		Foreign Investment	
	Amount of Project	Amount of Infestation (Billion Rp.)	Amount of Project	Amount of Infestation (US\$ Juta)
1999	248	16.286,7	504	8,229.9
2000	300	22.038,0	638	9,877.4
2001	158	9.890,8	453	3,509.4
2002	103	12.500,0	442	3,090.1
2003	119	11.890,0	570	5,450.4
2004	129	15.264,7	544	4,601.1
2005	214	30.665,0	909	8,914.6
2006	162	20.649,0	869	5,991.7
2007	159	34.878,7	982	10,341.4
2008	239	20.363,4	1138	14,871.4

Source : Badan Pusat Statistik dan BKPM, disusun oleh Bappenas RI tahun 2007

- The investment in Indonesia including all economics' sector; agriculture, plantation, forestry, oil and gas mining and mineral mining. Over 85% the investment of oil and gas, 100% mineral mining and 70% coal and over a half plantation investment are controlled by foreign capital.

The control of big scale land

- The investment control by land on big scale ; right know, the contract of employment of oil and gas is 95.45 billion hectare, contract work (mineral) 6.47 billion hectare, mineral exploitation right 7.67 billion hectare, coal exploitation right 24.77 hectare, **KKB/ PKP2B 5.2 million hectare, control right of natural forest (HPH Alam) 27.72 million hectare, industrial timber (HTI) 3.4 million hectare**, National Plantation 3,3 million hectare, private plantation 1.08 million hectare and total **175.06 million hectare. That amount is equal to 93 % land area in Indonesia.** The total of agriculture area that is controlled by farmer is only 11.8 million hectare.

The structure of land use in Indonesia year 2005

No.	The effectiveness	Total area (million ha)
1.	Oil and gas contract	95.45
2.	Work contract (mineral)	6.47
3	Mineral contract	7.67
4	Coal exploitation (coal right by Local Government)	24.77
5	Coal contract (KKB/ PKP2B by central Government)	5.2
6	Rights to control forest (HPH) Alam	27.72
	Forest for Industrial Cultivation	3.4
7	National Plantation *	3.3
8	Private Plantation*	1.08
	Total	175.06
	Land area	192,26

Sources : the data process from all sources, 2005

* Data year 2003

- The length of agricultural land using by farmers for rice production is only 11.8 million hectare. National rice production in 2005 was 54.056 million ton, so it is equal with 34.055 million ton of rice (conversion factor from dry husky paddy to rice is 0.63). When it s compared with population, Indonesian can consume 155.36 kilogram per year or 430 gram per capita per day by themselves.²
- The large of Indonesian forest reaches 100 million hectare. Half of the forest has experienced on damage resulted from exploitation activity and another cause such as forest burning. The rapidity of deforestation annually reaches 2,2 million hectare. Activities of big companies, mining, forestry, and plantation have big contribution on deforestation.

²

Income that is equal to 2.100 calori/day is a bottom line for them to be called "poor". In a rice there are 360 calori per 100 gram or 3.600 calori per 1 kilogram. It means that 2.100 calori equals to 0.58 kilogram of rice per day per capita.

Agricultural Production Land (Rice)

Tahun	Supporting Daya Dukung Lahan dan Produksi Pertanian (Padi)			
	Luas Lahan Padi (juta hektar)	Pertumbuhan %	Produksi Padi (ribu ton)	Pertumbuhan
1996	11,6	1,1	51.101	2,7
1997	11,1	- 3,7	49.377	- 3,4
1998	11,7	5,3	51.490	4,3
1999	12,0	2,0	50.866	- 1,2
2000	11,6	-3,0	51.899	2,0
2001	11,5	-0,9	50.461	-2,8
2002	11,5	0,2	51.490	2,0
2003	11,5	-0,3	52.137	1,3
2004	11,9	3,8	54.089	3,7
2005	11,8	-0,9	54.056	- 0,1

Sumber : Badan Pusat Statistik 2007

Natural Resources exploitation

- **Plantation sector** ; Indonesia is world's biggest production of seeds number 6, tea biggest production no.6, coffee biggest production no 4, chocolate on number 4 biggest production and number 2 CPO production, white pepper number 1, black pepper number 2, **nutmeg number 1**, natural rubber number 2, synthetic rubber number no.4, plywood number 1 and fish produce number 6 in the world.
- **Oil and gas mining sector**, Indonesia is on 20 world's oil producing country compared to the Asia Oceania, Afrika in 2005. Also, Indonesia is 10th gas produce country in the world (after Rusia, Afrika, US, Canada, Algeria, UK, Norway, Montenegro, Netherlands). In the 2008, Indonesia is on 7th gas exporting country in the world. Beside that, Indonesia is 20th crude oil producing country in the world (2005). Indonesia is on 7th over 10th rank on the coal produce in the world.
- **Mineral mining sector** ; Indonesia is 7th world's bauxit production. 2nd world copper produce and 6th gold produce, 3rd world nickel produce, 11th silver produce, 2nd tin world's produce right after China.

Export Orientation of Raw Material

- Indonesia is the biggest exporter of raw material. 2nd world's coal, gas, tin, and palm exporter.
- This export done by foreign company which play important role in strategic sector such as : oil and gas, mineral, coal and plantation. Almost export's income take by foreign company which the profit transferred into the origin of their country.
- As the result, the chain of global trade, Indonesia's position is still as a producer of raw material in order to support developing country industry. The surplus of economy and multiplier effect from the natural resources exploration in Indonesia and the economics of Indonesia become deindustrialization.

Labor Force and low wages.

- The amount of labor in all kind of foreign investments are 608 thousand people and the domestic investment 364 thousand of people or just 1% from 94 billion of labor in all kind of economics sector in the year of 2005.

Investment in Indonesia Based on Investment Status

Year	Domestic Investment			Foreign Investment		
	Project	Labor	The amount of labor per project	Project	Labor	The amount of labor per project
2001	160	75.479	472	454	101.345	223
2002	108	53.996	450	442	88.156	199
2003	119	49.219	414	570	117.216	205
2004	129	61.858	450	544	144.440	266
2005	214	122.750	574	909	156.109	172
Amount	730	363.302	2.360	2919	607.266	1.065
Average	146	72.660,4	472	583.8	121.453,2	213
I / TK		220.781.883,94			378.895.574,59	

Sources : National Agency on Development Planning 2006

- Most of labor in informal sector which doesn't have relation with the investment in Indonesia. From the total of labor in the all kind of economics sector in Indonesia 2006 that is 95,117 billion people, 59.104 billion work on the informal sector or almost 62,09% from the total working people.

Labor's composition		
Formal Sector	Informal Sector	Total
36,073,000	59,104,102	95,177,102
37,90 %	62,09 %	100

Sources : Departemen Tenaga Kerja dan Transmigrasi (Depnakertrans), 2007

- Though, all labor in formal sector are the poor people. The wages is below 600.000 rupiah each month. 46,52% from the total amount of labor in formal sector³.

Formal Sector Labor		
Non-proverty	Proverty	Total
19,291,000	16,782,000	36,073,000.00
53,48	46,52	100

- In the formal sector, most of labor work on agriculture sector which doesn't any related with the big investment. Most of agriculture in Indonesia employs traditional farming, in which land owner approximately 0.25 hectare per farmer. Agriculture area own by farmer to plant the seed is only 11.8 million hectare. Though the amount of the worker as a farmer is more than 41.3 million people.

Worker on the economic sector in the year of 2005

No	The principal jobs	Man (people)	Woman (people)	Total (people)
1	Agriculture	26.891.514	14.418.262	41.309.776
2	Mining	765.326	138.868	904.194
3	Industry	7.033.757	4.919.228	11.952.985
4	Electricity, Gas and Water	179.174	15.468	194.642
5	Building	4.465.861	99.593	4.565.454
6	Trade	9.711.815	8.197.332	17.909.147
7	Transportation	5.480.334	172.507	5.652.841
8	Finance	835.396	306.456	1.141.852
9	Other services	6.075.909	4.251.587	10.327.496
	Total	61.439.086	32.519.301	93.958.387

Sources : Indonesian Labor Force, Central Statistics Agency, 2006

³ If all of the income is share to the owner's rick, so each of them have income Rp 8.583 / day (below USD 1)

Low Quality of Growth

- The development of investment followed by Product Domestic Bruto (PDB). The value of Indonesia's PDB had increase 94,72 % in the last 5 year 5 (2004-2008). But the increase of PDB doesn't have impact to the increase of prosperity of the people.

Product of Domestic Brutto Indonesia 2000-2005 (Billion Rp.)

Year	Annual
1999	1.009,732,00
2000	1.389.769,59
2001	1.684.280,49
2002	1.897.799,96
2003	2.045.853,49
2004	2.273.141,50
2005	2.784.960,40
2006	2.967.303,10
2007	3.540.950,10
2008	4.426.385,00

Source : Bank of Indonesia and Statistics Central Agency, 2009

Indonesia's PDB contributed by the big consumption, foreign investment, and government expenditure and netto export which a half is come from natural resources such as ; oil and gas, mineral, coal and plantation commodity. The consumption is support over 70% Indonesia's PDB, which are ; mass consumption, government and company's consumption.

- The value of Indonesian oil consumption in 2007 was 2,285,189.74 rupiahs per capita per month (total of Indonesian population reached 220 million people). Thus consumption is equal to 70.5 percent poor income in Indonesia.

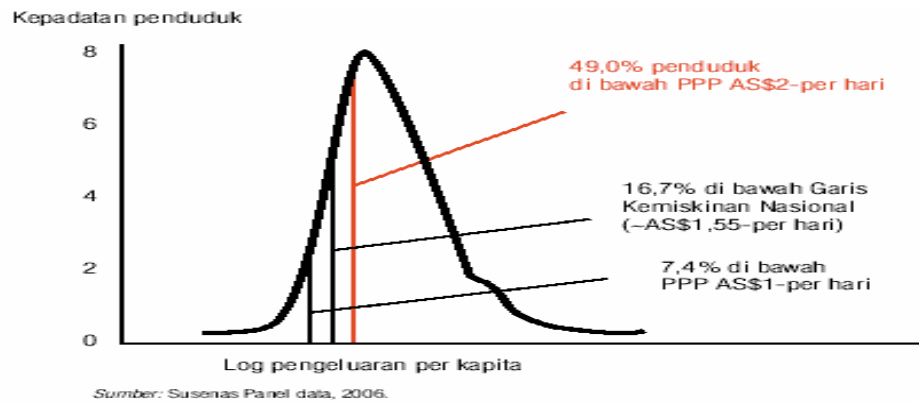
Value of Oil Consumption

Public Service Obligation (PSO) Oil	2007		
	Jumlah (kilo liter)	Harga/Liter (Rp.)	Nilai (Rp.)
Premium	17.929.843	6000	107.579.058.000.000
Crude Oil	9.851.812	2500	24.629.530.000.000
Solar	10.883.740	5500	59.860.570.000.000
Sub Total	38.665.395		189.424.514.052.000
Jenis BBM Non PSO			
Premium	16.582.173	7870	130.501.701.510.000
Crude Oil	9.591.264	9572	91.807.579.008.000
Solar	9.857.880	9232	91.007.948.160.000
Sub Total	36.031.317	8891	313.317.228.678.000

Total	74.696.712	502.741.742.730.000
--------------	-------------------	----------------------------

Sumber : diolah dari berbagai Sumber ; Pertamina, ESDM, Tahun 2008

- In the year 2005, World Bank stated that almost half of people in Indonesia has an income between USD 1 – 2 / capita/ day or in the poor condition. This condition is the worst than year before.



Case Study on Investment in Indonesia

- Investment in mining in East Nusa Tenggara. Total former investment : USD 1.85 billion dollar. That investment came from US and Japan Company. Supported by financial institution, USD 500 billion from Exim Bank Japan, USD 425 million dollar investment from Exim Bank America and USD 75 million from Germany Export Credit Agency named KFW. The area of contract covered 1.12 million hectare, including Lombok Island and Sumbawa Island. The revenue of NNT Company in 2005 was estimated USD 1.522 billion and net revenue USD 1.284 billion or 11.556 trillion. That investment created massive poverty amounted 32 percent of the population and 56 percent population nearby the mining company. Beside that, unfinished conflict and criminalization towards environmental activist were happened there.
- Investment in Batam Special Economic Region : It spends state budget in bog amount in development of mega project of infrastructure causing corruption of the government official in there. Fact showing that land control in big scale in Batam is in the scheme of Singapore economic regionalism. Industry that grows there is footloose industry with low labor wage, 1.33 percent foreign labor receives 26.78 percent wage. Instead of that, economic surplus is received by Singapore.
- Investment by Tourism Corporation : Investment fund is sourced from national bank and ends with the bankrupt in the monetary crisis 1997/1998, left debt to state amounted 1.38 trillion rupiahs .
- This investment involves land robbery of the poor, either to become tourism area or the infrastructure such as airport. One of the land

owner was paid only by 20 kilograms of rice as a reclaim of his/her 50 ares land. Findings from National Commission on Human Rights mentioned that violence had been happened against peasant organization in NTB 18 September 2005.

12 people were arrested in that land reclamation, 9 of them had been shot, 27 of them got injury, and 6 of them had been punched by police.⁴

Free trade agreement

- After WTO failed and deadlock because of the push of the country such as India and China, Indonesia move forward with doing the free trade agreement. Right know, Indonesia actively conducts trade agreement with country such as : Japan, Australia, New Zealand, China, India, Korea and potentially with USA and European Union.

Free Trade Agreement in Indonesia

No.	Name of FTA	Status
1.	ASEAN Free Trade Agreement (AFTA)	Signing
2.	Indonesia – Japan EPA	Signing
3.	ASEAN-China FTA	Signing
4.	ASEAN-Korea FTA	Signing
5.	ASEAN-India FTA	Signing
6.	ASEAN-EU FTA	On the process
7.	ASEAN-Australia-New Zealand FTA	Signing
8.	Indonesia – AS FTA	Pre-negotiation
9.	Indonesia – EFTA (Swis, Leichestein, Norwegia, dan Islandia)	Joint-Study Group

Source : IGJ's document

- One of core idea of FTA is the eliminate tariff. The government of Indonesia actively doing the agenda eliminate tariff barrier especially import tariff for the agricultural product. In fact, the existence of the tariff have related with the live of farmer, labor and poor people.

⁴ Source : Sengketa Tanah Desa Tanah Awu, Nusa Tenggara Barat, Komisi Nasional Hak Azasi Manusia, KOMNAS HAM, 2006.

Conclusion

- Indonesia's Position on the chain of global trade had not been moved since 200 years ago. This country is the source of mineral, gas, and plantation in order to support industry in the developed country. On the other hand, domestic economy moves into de industrialization.
- The entrance of big scale investment makes threat to the life of farmers. The case study held by IGJ related to the mining investment **Newmont Corporation, Lombok Tourism Development Corporation and the making of Special Economic Zone Batam**, show that big scale of investment makes take over of land area of the farmer, the taking of natural resources and taking the benefit by foreign capital and ecological impact and social conflict.
- Big scale of investment makes the access of community vanish to the natural resources especially the productivity's of community become decrease. As the result, Indonesia become importer of food such as : rice, soybean, meat, milk, wheat, sugar, salt on the big amount. Before that case, this food product can be produced by domestic farmer.
- The economic liberalization through WTO and FTA has potential to reduce farmer, labor and poor people's access to the market and adequate income.

Solution for Indonesia

- **Agrarian Reform** ; Indonesian society needs real agrarian reform in the form of land distribution, agriculture production tools, capital, technology and access to the price and market in order to increase their income. Income per capita in a day in Indonesia that found in case study in West Nusa Tenggara amounted 5500 rupiahs per capita per day, that is below the average of poverty stated by World Bank (USD 1- 2 in a day)
- **Protection dan Subsidy** ; In production level and productivity in which farmers need subsidy from government, WTO and FTA come to force down farmer's access to market. Protection and subsidy should be provided by government.
- **National Industrialization** ; In the last 20 years, Indonesian economy entered de-industrialization phase where more than 70 percent component of Indonesian industry was coming from import. National industry grew in a form of footloose industry. Indonesia has experienced deindustrialization before reaching the phase of industrialization. Thus, to build strong economic structure, it needs good industrial policy.