

Indonesia independence day

Cultural ties, biodiversity draw Japan to archipelago

Prof. Dr. Jusuf Anwar
AMBASSADOR OF INDONESIA TO JAPAN

My warmest greetings to readers of The Japan Times on this, the 65th anniversary of the independence of the Republic of Indonesia. It is a privilege for me to offer you a brief look into recent developments in Indonesia and to provide an overview of the current state of Japan-Indonesia relations.



Since transitioning to a fully democratic nation with a directly elected government, Indonesia has experienced rapid social and economic change. Under the leadership of President Susilo Bambang Yudhoyono, Indonesia has worked hard to achieve solid economic development and I am pleased to report that the macro-economic outlook is very positive despite the fact that the global economy remains in turmoil. Indonesia is committed to continuing to focus on social and economic development, and as a member of the G-20 it is also ready to assume its responsibilities on the global stage, while at the same time continuing to work with its neighbors to achieve regional stability.

Since the founding of diplomatic relations more than 50 years ago, Japan has been one

of Indonesia's most important regional partners and the relationship between Japan and Indonesia today is a mutually beneficial one built on strong ties and complementary economies. Japan has for many years been an important source of foreign direct investment for Indonesia, and an increasing number of Japanese manufacturers have set up operations within Indonesia to take advantage of a skilled labor force and a competitive labor market. For Japan, meanwhile, Indonesia is an important source of natural resources, energy and raw materials for Japan, and the Strait of Malacca remains one of Japan's most important trade routes.

At the same time, Indone-

sia, with its large population and rapidly growing middle class, is becoming an increasingly important consumer market for Japanese companies, and this will only increase in the years to come as the global economy emerges from recession.

A very positive development in Indonesia-Japan relations was the arrival in Japan of more than 500 Indonesian nurses and caregivers who are here to take part in a trainee program at Japanese hospitals and nursing homes. This is a fine example of the close relations that exist between our two countries and I sincerely hope that this program will be a success.

Some readers may be aware that an Indonesian Fes-

tival was held in July in Yoyogi Park, showcasing traditional and contemporary music and dance, Indonesian food, and trade and investment opportunities in Indonesia. This event was very well-attended by both the Indonesian community here in Japan and by Japanese people eager for a taste of Indonesia in Tokyo. The festival highlighted the close cultural ties that exist between Japan and Indonesia, with several Japanese groups performing traditional Indonesian songs or dances, and Indonesian musicians offering their interpretations of Japanese classics. Such interpersonal contacts are just as important as intergovernmental relations in promoting international understanding and regional stability, and as this event is to be held annually I would like to invite readers to come and join us in Yoyogi Park in July of 2011 for another weekend of Indonesian

sights, sounds and flavors.

As one of the most biodiverse nations on Earth, Indonesia is only too aware of the importance of protecting and preserving our natural habitats, and in this regard there have been several positive developments in recent months. Indonesia has shown its commitment to reducing global carbon emissions levels by pledging to reduce greenhouse gas emissions, within a business-as-usual trajectory, by 26 percent in 2020. This figure has been called optimistic, but 14 percent of the reduction of emissions will be made in the forestry sector and can be achieved by reducing emissions from deforestation and forestry degradation and by promoting reforestation. President Yudhoyono has himself stated that the way to address climate change and emissions in Indonesia lies in revamping resource management in one of the largest and

strategically located forestry regions in the world.

An excellent example of this endeavor is the highly successful tree planting program carried out by the Indonesian Ministry of Forestry, which has now been considerably extended and expanded. The initial program was called "One person, one tree" and aimed to plant 230 million trees, the same number as the population of Indonesia. As part of this program, students from schools in Japan traveled to Bali and West Java and joined their Indonesian counterparts in tree planting activities. The revised program for 2010 has now been allocated more than 900,000 hectares of land and aims to see 1 billion trees planted in an Indonesia-wide effort to check carbon emissions.

Staying with the theme of biodiversity, I am also pleased to inform you that Indonesia and Japan continue to actively cooperate on promoting environmental awareness through zoo exchange programs that have seen Indonesian orangutans, Komodo dragons, tigers and Sumatran tigers find homes in Japan. There are in fact currently as few as 400 Sumatran tigers remaining, and Indonesia is firmly committed to their preservation through a mix of strategic policy, regulation and action such as relocating and rehabilitating tigers into their natural, wild habitats. Such programs can be extremely expensive and time consuming, but their value to future generations is priceless.

At the same time, the im-



Surreal beauty: Indonesia's aquatic life is one of the most biodiverse in the world. EMBASSY OF INDONESIA



Enjoying nature: Bunaken National Park, in North Sulawesi, Indonesia, is a popular tourist destination for scuba diving.



Meditation: The Borobudur temple compound, located in central Java, is a UNESCO World Heritage site and a famous place for Buddhist pilgrimages.

portance of tourism for Indonesia should not be underestimated and in this regard we are striving to offer an environmentally friendly and remarkable experience for all visitors to Indonesia. Each year, Indonesia is proud and pleased to welcome visitors from Japan and the world to its shores, and in the current global economic climate I believe the immense variety of attractions to be found in Indonesia offer unrivaled value.

For Japanese visitors, I am also pleased to note that earlier this year a new "visa on board" system was inaugurated by Garuda Indonesia air-

lines whereby visitors can obtain their entry visas in flight, thus greatly streamlining and simplifying the arrival process. In this regard, I urge readers to consider not only the perennially popular destination of Bali, but also some of the other unique experiences to be found within the 17,000 islands of the Indonesian archipelago, whether they be diving, hiking, shopping or sampling the many varieties of local cuisines and cultures to be found there. There is literally something for everyone, and there is no better time than now to visit our part of paradise!

Structural changes help shelter economy from global crisis

Budi Mulya
DEPUTY GOVERNOR OF BANK INDONESIA
(THE CENTRAL BANK OF INDONESIA)

Indonesia emerges from the recent global financial crisis with a fine reputation. As the largest country in Southeast Asia, Indonesia's economy grew at an annual rate of 6.2 percent in the second quarter of this year. This growth accelerated from 2009, when the gross domestic product expan-

ded 4.5 percent on a yearly basis.

Indonesia is now structurally better off than it was a decade ago, with especially dynamic transitions in almost all sectors. The full commitment of extensive transformation measures, despite its challenging process, have provided a more resilient foundation toward Indonesian economic development. Moreover, the consistent and prudent practice of

macroeconomic management has proven to contribute to shelter the domestic economy from further adverse impact from the most recent global crisis.

Among the few countries in the region, Indonesia has experienced a positive growth of 6 percent in 2008 and 4.5 percent in 2009. In the first half of 2010, Indonesia still grows stronger than estimated.

For the full year in 2010, the

Indonesian economy is expected to grow at 6 percent and slightly higher in 2011 and 2012. These estimates were mainly supported by high and inclusive growth of domestic demand. Yet export performance and investment have also shown a slight increase and are expected to sustain their upward trend.

Concerning prices, inflation in Indonesia has increased to 6.22 percent year-on-year (yoy) in July, up from the previous month's level of 5.05 percent (yoy). This increased due to uncertain seasonal conditions and some production and distribution disturbances related to heavy rains in some parts of Indonesia. However, the inflation rate is expected within the target range of 5 per-

cent, plus or minus 1 percent, in 2010 and 2011.

The government and Bank Indonesia will pursue the necessary fiscal, monetary and banking policy actions to ensure that future inflation remains on track. In the latest monetary policy decision, Bank Indonesia kept its benchmark interest rate, known as the BI Rate, at 6.50 percent. This level is considered as adequate to ensure the inflation expectation within the target range and supportive to maintain the growth momentum, as well as to encourage bank lending.

Meanwhile, the balance of payment figure indicates a strong indication of improvement, brought about by strong

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the 65th Anniversary of Independence
of the Republic of Indonesia



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Nation places priority on ensuring economy moves on right track

CONTINUED FROM PAGE 6

domestic economic fundamentals and a conducive global economy. The current account balance in the second quarter this year is to be higher than previously estimated and expected to be around a \$1.8 billion surplus. The overall balance surplus will also improve to be at around \$5.4 billion, higher than previous estimations.

These developments have contributed to the increase of the foreign exchange reserve to \$76.3 billion. The current foreign exchange reserve level is equivalent to approximately 5.8 months of imported goods and the monthly installment of government debt, higher than what is observed in peer group countries.

The progress in the Balance of Payments have contributed to the Indonesia rupiah (IDR), which continues in an appreciation trend, despite some corrections in May with moderate volatility caused by market concern with regards to the rescue package in the euro zone. Since early this year, the IDR has appreciated at around 5 percent, with a lower volatility in the second quarter this year.

In foreign exchange, policy still remains consistent with the free-floating system. The IDR movement recently is considered still adequate into the external sector and still supportive into anchoring inflation expectations.

Regarding the issue of short term capital flows, which always have been such a double-edged sword into small, open economies like Indonesia, the approach taken by authorities in Indonesia is consistent with the free capital mobility regime as stated in the foreign capital system law (Law No. 24/1999). However, to prevent from the negative impact of "hot money" flows, Bank Indo-

nesia emphasizes prudent banking and financial market deepening measures, as well as encouraging longer-term investment. The six measures as in the latest Bank Indonesia policy package launched in June is also in view of this balanced approach.

Further, the banking industry and the domestic financial market also show a continued sound performance and maintain a well-capitalized condition. In general, the domestic financial market has recovered well from pressures observed during the peak of the crisis, which mainly were triggered by liquidity scarcity perceptions and the impact of the flight to safety panic phenomenon. All money market indicators have recently returned to their normal pattern.

The banking intermediation has also been showing an improvement. In the first half of this year, bank lending grew at around 19 percent and for 2010 is expected to grow at the 22 percent to 24 percent range, which will ensure economic growth, while nonperforming loans (NPL) are well-maintained at a low around 3 percent (gross) and capital adequacy ratio (CAR) at an average level of 18 percent.

On the fiscal side, the government also showed a strong, consistent effort in budget management efficiency and discipline. The fiscal deficit keeps to low levels of below 3 percent of gross domestic product (GDP), which this year is expected to be 2.1 percent, and will be in a declining trend for years ahead, while at the same time various measures are taken to continually improve its spending mechanism. Prudent fiscal policy has resulted in a significant decline in the debt to GDP ratio from 77 percent in 2000 to at or below 30 percent recently.

The economic performance of Indonesia has provided a stronger foundation to sustain the further economic development. Those achievements have partly also been reflected in a better investor risk perception as shown in the decline of the credit default swap (CDS) spread, which is now stable at around 180 basis points for 5 years' CDS, and recent sovereign rating improvement from major rating agencies.

The Japan Credit Rating Agency (JCR), based in Japan, in its latest rating action has upgraded the Indonesian rating outlook to investment grade. JCR has upgraded its ratings on the foreign currency long-term senior debts of the Republic of Indonesia to BBB- from BB+ and those on its local currency long-term senior debts to BBB from BBB-.

This upgrading reflects Indonesia's enhanced political and social stability, along with the progress in democratization and decentralization. Also taken into the consideration were the sustainable economic growth outlook underpinned by solid domestic demand, an alleviated public debt burden as a result of prudent fiscal management, reinforced resilience to external shocks stemming from the foreign reserves accumulation and an improved capacity for external debt management and efforts made by the government to outline the framework to deal with structural issues such as infrastructure development.

Challenges ahead

The Indonesian economy is on the right track for further economy recovery. The economy will move at a faster pace and will be around 7 percent growth within the next couple of years, given the already proven domestic resilience so far.

Economic growth will also be boosted by the upturn in exports and investment. Improving external demand and better risk perception toward the

domestic fundamental economy will also keep the current account and financial account in good shape, and contribute to the increase of the foreign exchange reserve.

However, there is of course a risk that has to be taken into account and monitored closely with regard to the global financial market and economic development. The prospect of an advanced economy, with respect to its banking sector, and the fragility of the global financial market, has to be monitored very closely since it will impact Indonesia's export performance. The strong world leaders' commitment hopefully will moderate the risk factor.

The continuous, strong commitment of the government to implement infrastructure projects, especially in transportation and energy sectors, and reform measures in the investment climate, will ensure the prospect of the domestic economy. With respect to the latter, it is important to note that the public check and balance mechanism in ensuring a more efficient bureaucracy and improving the business climate has been increasing significantly compared to a decade ago.

Regarding inflation risk, Bank Indonesia will pursue its policy to ensure the future inflation is on track with the established target. In this regard, the government and Bank Indonesia have taken measures to strengthen relevant policy coordination to better monitor and control inflation.

As a member of the G-20, Indonesia has also takes steps based on the global agenda on financial sector reform and strengthening banking industry capital and risk management, as well as to encourage market disclosure and the adoption of more convergence in international accounting standards. Yet the implementation will of course consider the stage and the structure of the domestic financial market and banking industry.

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