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In Search for Capital Resources

by Dr Josef Zlámal, Prague *

The new political leadership following Sukarno's era is endeavouring to set the Indonesian economy upon its feet. Their ambitious programme of economic reconstruction, consolidation and stabilisation is to be fulfilled especially by consolidating foreign debts through new credits, new foreign private capital investments and a balanced State Budget.

In the striving for rehabilitation the Indonesian Government is focusing its attention in the first place to the problems of repayment of foreign debts in order to reestablish in Western countries new confidence into the Indonesian economy and its efficiency. This is to promote further capital aid which is so badly needed, although as President Suharto uses to say, foreign help and credits should be regarded as a mere additional means to accelerate economic improvements.

Required Development Aid

Whereas at the previous meetings between Western creditor nations and Indonesia the equilibrium of Indonesia's State Budget and its balance of payments stood in the foreground of negotiations, the conference of the Inter-Governmental-Group-Indonesia (IGGI) held in October 1968 focused the attention on development aid. If in 1967 Indonesia's external requirements amounted to \$ 200 mn and in the following year to \$ 325 mn, for the financial year 1969/70 Indonesia was in need of \$ 500 mn — what coincided eventually with official estimates of the IMF. The session of the IGGI in April 1969 decided to make available to Indonesia for 1969/70 a credit totalling \$ 500 mn consisting of \$ 365 mn in non-food aid and the remaining \$ 135 mn in food aid.

Apart from these new credits Indonesia has still the high foreign debt inherited from Sukarno's era like a millstone round its neck, the repayment of which up to 1980 will absorb 20 p.c. to 30 p.c. of all Indonesia's foreign exchange proceeds. According to Professor Widjojo Natisastro the country badly needs the deferment of its debt service

for the period of ten years to be able to stabilise its economy.

In spite of Indonesia's total foreign debts amounting up to June 30, 1968, to \$ 2,211.9 mn¹—\$ 802.1 mn to the IGGI group, \$ 1,106.7 mn to socialist countries, \$ 10.5 mn to Pakistan, \$ 23.4 mn to other western countries and \$ 269.2 mn to some other countries—even East European countries were offering new credits after almost all their outstanding debts have been rescheduled, Roumania being the last East European country that concluded such an agreement in December 1968².

It is evident that Indonesia's efforts to reschedule its external liabilities and to be granted new credits have been successful, partly because of the fact that the new regime succeeded in renewing Indonesia's prestige on the world forum and partly because there was a growing understanding abroad of the current development in Indonesia, and foreign creditor states were convinced of good prospects for the country's economy. New credits helped to equilibrate Indonesia's budget, to amend its balance of payments and to finance partly its programme of economic renaissance. However, according to IBRD's estimates Indonesia will need further aid of some \$ 500—750 mn a year from external resources, what roughly corresponds to Professor Widjojo Natisastro's and Professor Sadli's estimates.

A New Investment Law

In the search for foreign capital the Indonesian Government spared no efforts to stimulate the interest of foreign private investors in cooperating and investing into the Indonesian economy because without foreign private capital aid the country is not able to produce more and this way to secure not only a higher standard of living for its

¹ Antara 23. 1. 1969.

² According to Mr Thajeb, Director General of Foreign Economic Relations of the Foreign Department, Indonesia's total debts to East European countries incl. Yugoslavia due in 1967 and rescheduled amounted to \$ 291.1 mn out of the sum of \$ 1,106.7 mn representing the total debt to socialist countries. See Antara 19. 3. 1969.

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population but also higher exports representing an important source of foreign exchange for the debt service and new imports. For these reasons the Indonesian Government adopted a new view on the problems of foreign investments and started a new era by passing the Investment Law of January, 1967. The principles of this Law are quite opposite to the past practice: it stops accentuating the public sector, stimulates the private sector and allows foreign capital to penetrate anew the Indonesian economy. A series of foreign companies availed themselves of this opportunity because of satisfactory guarantees provided by this Law and because of their conviction of a prosperous future for the Indonesian economy.

This new spirit can be traced in the decree restituting to foreign investors their property taken over or put under control in the preceding years. Moreover, the Government of Indonesia is prepared to make compensation to the owners of foreign enterprises who have not taken their enterprises back; owners of foreign plantations will be compensated by instalment payments to be recommenced in 1972 and owners of other foreign enterprises were asked to submit a request for compensation by July 31, 1969 latest³.

In a statement to the press⁴ Foreign Capital Investment Sub-Committee Chairman Dr Surjo Sediono revealed that foreign capital already committed to be invested in Indonesia and approved by the Indonesian Government under the Foreign Capital Investment Law No 1 of January 1967, so far has reached a total of \$ 725 mn, of which \$ 250 mn would be spent on oil projects and the remaining \$ 475 mn on 107 different other projects — \$ 200 mn on mining projects, \$ 80 mn on industries, \$ 80 mn on timber and the rest on fishery, banking, etc. These investments would be made by stages. The major contributors i.e. Japan, Canada, the Netherlands, the Federal Republic of Germany and Belgium are headed by the United States with the largest contribution of \$ 190 mn.

Due to the Law on Domestic Capital Investment domestic private capital investors are also interested; 15 domestic projects totalling \$ 500,000 have been already approved and further 50 projects are under consideration.

Financial Resources for Economic Reconstruction

During 1968 the new Indonesian Five-Year Development Plan was in preparation: it should provide a basis for economic reconstruction and represent an important step forward. In establishing this

³ See Government Statement signed on April 7, 1969.

⁴ Antara 7. 3. 1969.

Plan, the implementation of which was started on April 1, 1969, it has been accentuated that in the first place financial resources at home should be mobilised to finance the planned targets, while foreign resources should only be involved to meet shortages. However, because of the shattered financial situation and the resulting limited amount of domestic savings, it was necessary to finance part of the investments with foreign capital. Financial resources expected to finance investments in the framework of this Plan total Rp 1,420 bn in the period 1969/70—1974/75.

The financial sources of the development budget can be divided into three groups:

- government savings, i.e. domestic routine revenues minus routine expenditure;
- counter-value funds of aid programmes and
- project aid and technical assistance.

With regard to the fact that there is little hope to increase domestic savings within a short space of time, these government savings will play an important part in the years to come. As far as counter-value funds of aid programmes are concerned, this item is composed of:

- counter-value fund of foreign credits brought in balance with export bonus;
- aid in the form of food stuffs and
- American aid programme under PL 480.

It is expected that the third source, i.e. project aid and technical assistance could be increased annually to reach Rp 140 bn in the last year of the Five-Year Plan.

The financial sources of the development budget are composed of medium and long-term bank credits partly financed from bank savings and partly from real increase of money, and of direct capital investments. Direct capital investments in their turn consist of capital investments and capital reinvestments by domestic and foreign private investors and by State enterprises. Besides there are still resources for the financing of a short-term or complementary character: these short-term credits will be partly financed through savings in the banks and partly from real increase of money or counter-value funds of the aid-programmes.

Planning of a Budget Surplus

The implementation of the Five-Year Development Plan is based on the Annual Planning formulated in the respective State Budget which makes it possible for an eventual readjustment or improvement of the Development Plan itself.

Continued on page 230

GERMAN PRISM

Price Increases

Lowest in West Germany

The Statistical Office of the European Communities is publishing a Consumer Price Index on the basis of 1966 = 100. In the Federal Republic of Germany this index showed an annual average of 106.0 points in 1969. Prices developed similarly in Luxemburg (107.3) and Italy (107.9). In the other EEC member states price rises were considerably higher: the Belgium Index of Consumer Prices was 110.6 and that in the Netherlands 115.3. France had reached an index level of 113.9 already within the period from January to September, 1969.

Hearing on Future Problems of Development Policy

The Federal Committee for Economic Cooperation arranged a hearing on future problems of development policy on April 27 and 28. At this hearing representatives of the "Working Group Developing Countries", the Federal Association of German Industry (BDI), the Central Association of German Chambers of Industry and Commerce (DIHT), the German Trade Unions Federation, the Institutes for Economic Research, the Catholic and Protestant Churches, the Association of Taxpayers, the "Action for the Third World", and a number of journalists were heard. The Committee for Economic Cooperation by questioning leading figures known to the public aimed at forming an opinion on development policy in the Second Development Decade and to hold its own position vis-à-vis the Federal Government.

The Second Development Decade 1971-1980 is gaining growing importance in international discussions. It is the target of these talks to work out a comprehensive concept for a solution of development problems arising in future decades.

The Federal Republic is expected to make a contribution corresponding to its economic importance.

Demag AG Optimistic about the Future

The Chairman of the Board of Managers of Demag AG, Duisburg, Herr Wolfgang Reuter, is extraordinarily optimistic about the future. His firm is expecting a turnover growth rate of 20 to 25 p.c. for 1970. The doubling of turnover within the next five years as announced by the Board of Managers a year ago will probably be reached earlier by Demag.

The Board of Managers is also satisfied with the annual balance for 1969. Investments of the concern have been raised to approx. DM 95 mn, the major part of which falls to the share of additional participations. Although Demag will invest again DM 90 mn in 1970, this time the emphasis is on fixed assets. International turnover in 1969 rose by 24 p.c. to DM 1.18 bn. Of this total 37 p.c. falls to the share of foundry construction and turnover of products, 27 p.c. to mining techniques, 11 p.c. to building-machinery and 25 p.c. to mechanical engineering with compression techniques, compressed air techniques and plastics processing machinery.

Tax Changes at a Constant Taxation Ratio Disputed

With indefatigable energy the Opposition supported the Federal Minister of Finance, Alex Möller, in his intention to raise taxes in consideration of the economic situation. But he has been opposed in the ranks of his own political party—the Social Democrats (SPD)—and its coalition partner, the Free Democrats (FDP). The latter party seems to be more interested in its old

liberal principles than in an adequate economic policy. When the personally wealthy Minister of Finance did not find a majority for his first proposal, he demanded—as a contribution to the topical redistribution of property—a heavier taxation of high incomes and a relief of the lower ones.

Again a compact opposition made itself felt: Its advocates talked the German economy into an artificial restlessness by emphasising the consequences of the planned tax increases. In order to ease the tension the Federal Minister of the Interior asserted that the taxation ratio would remain constant. But this promise is of little use, for the unrest of the economy is caused by individual tax increases, which do not run contrary to the promised constant tax ratio if there are tax reductions in other sectors. And this is exactly what Dr Möller intends to do. The differing incidence of taxation of individual groups is not taken into consideration at all by this promise. Certainly the opposition parties will maintain their obstruction against this proposal, but it remains uncertain whether the FDP will yet agree with the Möller-plan.

**Collective Wage
Agreements for
Individual
Chemical Firms**

It was not so much the wage level that was disputed in the hard discussions within the chemical industry but the area of application of wage agreements. Hitherto uniform

wage agreements were concluded for a certain region between the competent employers' organisation and trade unions of an individual sector. Thus an agreement applied to all firms of this region. True, the effective wages frequently did not only differ from these agreements but also between enterprises. But it is just this gap between wages as agreed upon and those actually paid that has been always a thorn in the side of the trade unions — and it ought to be, for the attraction of the unions is impaired by it. The Chemical Industry Union sought a way out of this dilemma by demanding wage agreements applying to individual firms — which in contrast to other countries is a demand unheard of in Germany. The entrepreneurs struggled against allowing American conditions to spread. Once more the employers could obstruct such individual wage agreements, although only at the cost of far-reaching concessions. Thus the differences between wages agreed on in collective bargaining and those effectively paid will be reduced by an anticipated rise of standard wages. Besides, a wage increase by an average of 11 p.c. was agreed

on. Wage agreements applying to individual firms would fit quite well into the Federal Republic's economy, for there is the hope that the publication of wage differences within an industrial branch might promote the mobility of labour — and that is what is urgently needed in view of economic growth in the Federal Republic.

**BMW-Turnover
Increases but
Lower Profits
Anticipated**

In 1969 a total of 144,700 BMW-motor vehicles left the assembly lines — i.e. 33 p.c. more than in 1968. Sold were 141, 359 cars, i.e. almost 27 p.c. more than a year ago. At the

same time export turnovers increased visibly by 41 p.c. to more than DM 595 mn. Total turnovers rose by 40 p.c. to about DM 1.45 bn. Turnover target for 1970 is approx. DM 1.7 bn. This year DM 200 mn are to be invested. Expected profits are supposed to be smaller due to the uncertain cost increases.

The Board of Managers of BMW denied officially the always recurring rumors of a possible selling out to Daimler-Benz or Volkswagen. Nevertheless insiders pretend to know that a merger of the three big motor vehicle producers in Germany will take place in 1972.

**In Spite of
Full Employ-
ment High
Growth Rates**

In the Federal Republic of Germany the target of full employment has been reached already for more than ten years. With that economic growth has touched its natural limits.

Nevertheless certain branches quite frequently show high growth rates. Thus e.g. a new record has been reached by the German automotive industry for April 1970. The production of passenger cars surpassed the level of the previous year's corresponding month by 23 p.c. and the output of trucks rose by 26.5 p.c. even. The production of 378,182 motor vehicles and tractors in April is a new monthly record. The daily output of 17,190 vehicles is a new record, too. Overtime work and extra shifts have contributed considerably to this development. Revenues from the wages tax rose by 29 p.c. in April and this goes to show that vehicle construction is no special case. Apart from wage increases agreed on between the employers and trade unions, this trend reflects the workers' preparedness to work overtime. All this is showing that there are no rigid limits to production in a time of full employment and that output is flexible not only in a recession.

Continued from page 227

In the State Budget for the financial year 1969/70 the development budget represents Rp 123.4 bn. This new State Budget has one outstanding feature which it was quite impossible to imagine a few years ago: whereas Sukarno's State Budget ended notoriously with a deficit, the "New Order" succeeded in planning a budget surplus on the routine account, i.e. a part of the domestic routine revenues, or more precisely a surplus on the routine account totalling Rp 24 bn—domestic routine revenues totalling Rp 228 bn minus routine expenditures amounting to Rp 204 bn—will be used to finance the development budget representing thus the first step on the road to a balanced State Budget. In this way the routine budget is inter-linked with the success or failure of the development budget for the same financial year.

In 1967 domestic revenues were insufficient to meet routine expenditure and thus a part of foreign credits had to be used to balance the difference. In 1968 the policy aiming at a balanced State Budget enabled the Government to use all foreign financial aid exclusively for development at a time when routine expenditures were met by domestic revenues. This was of course strengthening Indonesia's position at the IGGI meetings.

This way Indonesia has just begun to stand on its own feet and there is a fully justified hope that in future this country will be eventually able to implement all development on the basis of its own strength. It is expected that government savings on the routine account could reach Rp 226 bn within five years what appears quite feasible supposing the economic activities will continue to increase and the policy of austerity and efficiency in all sectors of State expenditures will be continued. The limitation of the State manufacturing sector, the closing of unprofitable and subsidised State enterprises, the simplification of their management and reintroduction of the principles of efficiency seem to be a good omen for the future.

Government Revenue Estimates in 1969/70

Category of Revenue	Amount in Rp billion
A. Direct taxes	91.2
B. Indirect taxes	134.3
C. Non-tax revenues	2.5
I. Domestic routine revenues (A+B+C)	228.0
II. Development revenues – revenues from foreign sources	
1. Foreign credits	63.184
2. Project aid	36.234
Development revenues total	99.418
Total revenues (I+II)	327.418

Source: Antara 8. 2. 1969. Table simplified and amended by the author.

Present Tax System Unsatisfying

In connection with Indonesia's search for further domestic capital resources it is worthwhile to make a few remarks about the present tax system: In the State Budget 1969/70 the whole direct tax yield is evaluated at approx. Rp 91.2 bn and the indirect tax yield at some Rp 134.3 bn, with an improvement in direct tax yields as compared with the past. It is expected that probably Indonesia will also make some progress in the sphere of indirect taxes as the increasing economic activities, production and trade will contribute to higher tax yields. The yields of the non-tax revenues, consisting of "administrative revenues" and revenues resulting from State participations are roughly estimated to reach some Rp 2.5 bn during 1969/70.

Generally it should be the role of each government to apply such a reasonable fiscal policy as to enable the mobilisation of sufficient funds for the State without burdening excessively the tax payers. In this sphere there is still much to be done in Indonesia as the present tax system is far from being satisfactory. In the field of taxation it is necessary above all to improve the tax administration and to proceed to the intensification and extension of tax collection. In the long run the respective tax groups and the structure of taxation must be changed.

For the time being and for the near future government savings still play an important part in financing development programmes and therefore their level should and can be considerably improved. However, it is expected that perspective the greater part of investments will be covered by the private sector and financed through private savings.

Inflation under Control

After summing up facts and figures on the latest development of Indonesian economy we come to the conclusion that although there are still serious problems to be solved in the capital sphere—debt service, considerable capital requirements abroad and at home to finance development—one of the main economic problems, i.e. inflation seems to be already under control.

In Indonesia as well as abroad satisfaction has been voiced regarding latest developments. Even the World Bank is feeling optimistic and has stressed that the sound and realistic policy pursued by the present Government in promoting foreign investments and trade justifies hopes that the fifth-largest nation will regain an important place in international economy.