

PAK-INDONESIA POLITICO, ECONOMIC AND TRADE RELATION:
A CASE ANALYSIS FROM 1980 - 81 TO 1993 - 94

Muhammad Ayoob Shaikh
Anwar Hussain Umrani

INTRODUCTION

The word Indonesia means the "Islands of Indies". On August 17th, 1945, Indonesia was declared an independent nation,¹ since then the country is known, "The Republic of Indonesia".² Indonesia the largest country in South East Asia both in population and in area, is made up of 13600 Islands and stretches across 3000 miles of sea in the region of equator, of which about 6000 are inhabited. The estimated area of the Republic of Indonesia comprises about 19,04,569 square kilometers of land.³

Indonesia's five main Islands are Java 51,000 square miles the most fertile and densely populated Island, Sumatra 180,000 square miles in size Kalimantan of 2/3 of the Island of Borneo measuring 208,000 square miles, Sulawesi, 73,150 square miles and Irian Java 162,200 square miles which forms the second world's biggest Island of New Guinea.⁴ It was once a Dutch Colony called the Netherlands East Indies. The Islands trench in a rough crescent for 3400 miles (5400 k.m.) from the tip of the Malay Peninsula eastward to the Philippines and Australia.⁵

Indonesia is world's fourth most populous country, having over 180 million people, after China, India and the USA, having their population over 1028,733 and 252 million respectively, and the largest among the Islamic world.⁶ Indonesia is very rich in its mineral resources and it is the principal producer of petroleum. It also exports Coffee, Tea, Sugar and Copra.

The climate is tropical, with two monsoon seasons, a wet season from November to March, and a dry season from June to October. Humidity is high averaging about 80%, the daily temperature range 70 f to 90 f varies little from winter to summer. Rainfall in low lands averages 70 inches to 120 inches annually and in some mountain regions reaches 240

inches. Indonesia's land area is generally covered by thick tropical rain forests, where, over many centuries, periodic volcanic flows from the numerous active volcanoes have deposited rich soils on the low lands, particularly in Java.⁷

Pakistan since her emergence as an independent state in 1947, is a result of the division of the former British India. It lies between 23 and 37 degrees North Latitude and 61 and 76 degrees East Longitude. It is bounded by Iran in the West, Afghanistan in the North-West, India in the East and South-East and Arabian Sea in the South. There is a common border with China alongside Gilgit and Baltistan in the North.

The total area of Pakistan is 796096 square kilo meters with a population of 84.3 millions according to population census 1981. Pakistan is divided into four provinces viz; Punjab, Sindh, NWFP and Baluchistan.

Climatically, North and North-Western high mountainous ranges are extremely cold in winter while the summer month of April to September are very pleasant. The vast plains of the Indus Valley are extremely hot in summer with a cold and dry weather in winter. The coastal strip in the South has a temperate climate. There is a general deficiency of rainfall. In the plains annual average ranges from 16 centimetres in the Northern parts of the lower Indus plains to 120 centimetres in the Himallyan region. Rains are monsoonic in origin and fall late in summer. Pakistan has an agricultural economy with a net work of cannals irrigating a major part of its cultivated land. Wheat, cotton, rice, millet and sugarcane are the principal crops. Among fruits, mango, orange, banana and apple are grown in abundance in different parts of the country. The natural resources are natural gas, coal, salt and iron. The country has an expanding industry. Cotton textiles, sugar, cement and chemicals play an important role in its economy. It is fed by vast hydro electric power. Urdu is the national language and is used as a medium of understanding throughout the country.

Pakistan played an important role in the independence movement of Indonesia when the founder of Pakistan Quaid-i-Azam Muhammad Ali Jinnah had raised his thundering voice of protest against the colonial atrocities on Indo-

nesia in November 1945. He had also appealed then to the sub-continental Muslims to extend all possible support and help to the people of Indonesia in their struggle for independence. As a result six hundred Pakistanis had deserted the British Army and had fought on the side of Indonesia freedom fighters.⁸ As soon as Pakistan became the member of the United Nations, she sponsored the case of Indonesia before the Security Council, although she was not a member of the council at that time.⁹

When the Dutch Government took action in Indonesia, the constituent Assembly of Pakistan immediately debated the action on 23rd December 1948 and expressed considerable interest in the crises. The Foreign Minister of Pakistan condemned the Dutch action and promised every action in the diplomatic direction or any other direction opened to Government.¹⁰ The cause of Indonesian independence was also supported by Pakistan in the conference of Asian countries convened at Delhi in January 1949 during which Pakistan strongly emphasized the proposal for inclusion of Indonesia question on the agenda of the fourth session of the General Assembly.¹¹

After all eight months later when Indonesia got independence, the Indonesian Independence Day on 27th December 1949 was declared as a public holiday in Pakistan to express affection with the people of Indonesia.¹² In March 1951, a treaty of friendship was concluded with Indonesia. Indonesian independence led to frequent visits of delegations, ministers and heads of the two Governments.¹³

ECONOMIC DEVELOPMENT OF INDONESIA

Economic development in the past decade has been acknowledged by observers abroad and inside the country. International donors and organizations have praised its very careful economic management. Growth was relatively high, simultaneous with low inflation rate and manageable foreign reserves. The picture of Indonesia economy, according to various publications of the World Bank and International Monetary Fund (IMF), is as follows: (Real GDP Growth 7.2% in 1990, 6.9% in 1991, and 6.4% in 1992; Inflation Rate 8.1% in

1990, 9.4% in 1991, and 7.6% in 1992; Debt Service Ratio (DSR) 29.7% in 1990, 31.6% in 1991, and 30% in 1992.

Real GDP growth in 1993 reached 6.5% and in 1994 was estimated by at least 7% growth for 1994 was estimated to be higher than in 1993 because continued expansion as expected in the manufacturing and construction sectors. Better performance of the world economy in 1994 was supposed to add to the stimulation of the Indonesian economy, especially for export promotion. The performance of export, especially of the non-oil commodities is watched very closely by Indonesians. The stated target rate was about 15% per annum which would double the value of such export every five years. Even though the country needs such achievement because 30% of the value of merchandise exports now has to be set aside for debt service-payments, the objective remains a tall order indeed. Consequently, the deregulation and liberalization of the nation economy should be continued in the future.

Aside from macro economic indicators, the most powerful indicator of the success of Indonesia's development strategy and policy adjustment is the degree of poverty reduction. Indonesia started the 1970's with around 70 million people, or 60% of the population, in absolute poverty. By 1990, the number of the poor dropped to about 27 million, or 15% of the population.

A strong investment effort is essential to sustaining rapid economic growth. Therefore, it will be very important to implement further trade and investment deregulation. The direction of investment in Indonesia should be in physical as well as human infrastructure, where the role of government still remains large consistent with macro economic framework, public investment in Indonesia should be shifted more towards infrastructure and poverty alleviation.

In order to cope with international pressure on competition matters, policies for more liberated economy is applied in Indonesia. The recent liberalization in the rules for foreign investment was motivated by this competition. The Government Decree (PP) No.20 which was announced in June 1994 can be expected to affect investment in the near future.

This PP No.20 implies the elimination of minimum in-

vestment requirement, substantial relaxation of minimum limitation on equity ownership and disinvestment to Indonesian ownership, and the opening up of nine sectors which were previously closed to foreign investment.

Therefore, it is now possible for foreign investors to have 100% foreign ownership. The closed sectors opened up were among other seaports, electricity, telecommunication, shipping, civil aviation and drinking water. With open-up of the telecommunication sectors in Indonesia and removal of mandatory transfer of majority to Indonesian control in a specified period, there are rooms for foreign media owners to invest and play a role in the Indonesian economy at present and in future.¹⁴

PROGRESS IN MANUFACTURING SECTOR

During the first 25 years long-term development period, Indonesia's manufacturing industry showed rapid and dynamic progress. Its relationship with other sectors like agriculture, oil, gas and non oil/gas mining and services expanded flourishingly and positively.

While, during the first three REPELITAS (the first three five year development plan), manufacturing industry relied heavily on the domestic market, the last two REPELITAS saw a substantial growth in the exports of industrial commodities making it a primary source for advancement of industrial development. This development has indeed made a significant multiple impact i.e., speeding up of the growth rate in manufacturing industry itself, improvement in foreign exchange earnings as well as expensive in job and employment opportunities.

Some strong indications of such rapid development in the manufacturing industry are given below:

1. Manufacturing industry growth rate during the first long term development period recorded an average increase of 12.4% per annum, not only in terms of volume and added value, but also in terms of types of products it showed a meaningful increase. In addition, imported substitution goods registered a rapid progress, that made positive impacts on the increased added value of manufacturing goods. Today,

manufacturing industries that previously produced import-substitution goods have turned export-oriented and are able to play a greater role in the country's economy.

2. The contribution of the manufacturing industry to country's GDP grew substantially, from only 9% in 1967 to more than 20% at present.

3. The adoption of broad spectrum policies, for exports of industrial and other commodities the export value of manufactured goods continued to be impressive from year to year. Such heartening growth was attributed to the substantial increase in export of goods produced by labour and natural resource-intensive manufactures like textile industries, wood processing industries and leather processing, alongwith the rapid increase of products of glasses and ceramics as well as industries using high technologies such as those which produce vessels, cars, helicopters, aircrafts etc.

4. The manufacturing sector has played an important role in providing job and employment opportunities. When in 1970 it absorbed 2.5 million workers or about 7% of the total work force, at the end of REPELITA V the figure grew to 9 million or 11%.

5. The rapidly growing manufacturing sector has kept itself abreast of further capabilities gained in mastering industrial technology on a broader basis. As an illustration, the capabilities relating to mastering of technology has been embracing all industrial groups-down-stream or small industries. Alongwith its industrial design and engineering capabilities has also been mastered giving a substantial meaning to entry into the second long-term development programme.

Now, Indonesia is capable of producing industrial designs and engineering for agricultural and forest product processing industries, chemical and petro-chemical industries, power electrical industry, transport industry including vessel & aircraft industries, & telecommunication system industries. No wonder then that some national companies offer construction services on full basis to over-seas buyers who want textile, fertilizer, paper, aluminum fluoride and cement plants to be constructed.

6. In implementing the industrially sustainable man-

agement scheme, the industrial development keeps on adhering to environment friendly industrial behaviour. The implementation is aimed at securing and safeguarding environmental functions, maintaining mutual reinforcing fashion among economic sectors, and creating non-polluted environments as far as possible.¹⁵

INDONESIA EXPORT

Indonesia export track products, commodities and merchandises, including yarn, textile and textile product, apparel and accessories for men, women and children, toys, footwear, cosmetics, herbs, home and office furnishing, processed food and beverages, sporting goods, chemical products rubber products, automotive spare parts, glassware, electronic and electrical equipment, plaited crafts and furniture, textile craft and fashion accessories, coffee, tea, various spices, volatile oil, fishery and horticulture, forest, by-products, medicines, mining products and many others.¹⁶

PAK-INDONESIA ECONOMIC & COMMERCIAL DEVELOPMENT

In 1964 Indonesia-Pakistan Economic and Cultural Agreement (IPECC) was signed on the pattern of RCD. The main objective of establishing this organization was to accelerate economic and cultural cooperation between the two countries as well as in the field of trade, improvement of air transport, cooperation in the field of shipping, technology, news media, banking and insurance and exchange of artists, scientists, educationists and professors. More-over, during 1964-68, Pakistan continued to provide credit to Indonesia for the import of goods from Pakistan and upto 1968 she had extended a loan of 15 million dollars for this purpose.¹⁷ In November 1979, Pakistan donated surgical equipments worth US \$ 50 thousand for Islamic Hospital in Indonesia and also announced the award of scholarships for the Indonesia students IPECC to study medicine in Pakistan at graduate level. Indonesia also donated \$20,000 worth for Afghan refugees in Pakistan. It may be noted that earlier on Afghanistan issue Indonesia supported the view point of Pakistan, and she along with Pakistan and other 22 states, sponsored the 24 powers

resolution of the 6th emergency session of the General Assembly.¹⁸

In April, 1980, in Jakarta, Pakistan and Indonesia signed an agreement for cooperation in the use of nuclear technology for peaceful purposes. In 1981, Indonesia and Pakistan signed 27.6 million dollar agreement for setting up a sugar mill in Subang, West Java. The Heavy Mechanical Complex at Textile was to supply machinery and also supervise its erection.¹⁹

Indonesia-Pakistan Economic and Cultural Pact (IPECC) was held in May 1981, in the tenth ministerial session, for which purpose a delegation led by Indonesia Minister for Trade and Cooperative came to Pakistan. The session "took note of possibilities of collaboration between the two countries in the areas of industry, technical know-how, management and banking". The delegation of both the countries agreed to enhance cooperation in banking and accepted Pakistan's proposal for concluding an agreement to avoid double taxation. The session also approved a cooperating agreement which was signed between Pakistan Agriculture Research Council and the Indonesian Research Institute for promotion of technical cooperation in the field of research and development of food crops, industries, fisheries and animal husbandry.²⁰ It was also disclosed that volume of trade between two countries had reached upto eighty million dollars.²¹ In the month of May 1980 an Indonesian liner visited Karachi to pick up a part of 50000 tones of rice which Indonesia had contracted to purchase from Pakistan. The visit of the liner also established liner service between Indonesia and Pakistan which was discontinued in 1974.²²

PAK-INDONESIA TRADE

Indonesia is one of the old trade partners of Pakistan and has constantly maintained trade relationship in export and import which has increased particularly after the formation of IPECC. The export to Indonesia in 1974 amounted to 903.9 million dollars, in 1970 it was 173.7 million dollars and in 1980 the amount of export was worth 177.9 million dollars respectively.²³ Study reveals that the import from Indonesia

during 1976-77 was worth 383,792 thousand rupees, during 1977-89 it was worth 531,577 thousand rupees and during 1978-79 it was worth 447,187 thousand rupees respectively.²⁴ In 1980-81 Pakistan had exported Rs.73 million commodities to Indonesia and Rs.245 millions commodities Pakistan imported from Indonesia. The amount of Pakistan imported from Indonesia is almost 70.20% more as its export to Indonesia. The following is the table of trade development:

TABLE-1
PAK-INDONESIA TRADE 1980 - 81 TO 1993 - 94

Year	Export to Indonesia	% (+) (-)	Import from Indonesia	% (+)) (-)	Balance of Trade	% (+) (-)
1980-81	73	-	245	-	-172	-
1981-82	294	302.73	428	74.69	-134	-23.00
1982-83	147	-50.00	376	-12.14	-229	70.89
1983-84	312	112.24	432	14.89	-120	47.59
1984-85	173	-44.55	653	51.15	-480	300.00
1985-86	421	143.35	937	43.49	-516	7.50
1986-87	439	4.27	410	-56.24	29	-94.37
1987-88	611	39.17	585	42.68	26	-10.34
1988-89	1314	115.05	946	61.70	368	1315.38
1989-90	1048	-20.24	1019	7.71	29	-92.11
1990-91	706	-32.63	1448	42.10	-742	2458.62
1991-92	2129	201.55	2007	38.60	122	-83.55
1993-94	1608	-24.47	2821	40.55	-1213	894.26
1994-95	996	-38.05	3366	19.31	-2370	95.38
Total	10271	-	15673	-	6550	-
Average	733.64	-	1119.50	-	467.85	-

Source: Economic Survey of Pakistan 1994-95, pp.177-178.

It is clear from the above table that the export to Indonesia increased by 302.73% and import from Indonesia increased by 74.69% in the year 1981-82, when compared to the 1980-81. The export and import declined by 50% and 12.14% in 1982-83 when compared with 1981-82. Study reveals that the export to Indonesia increased by 112.24% and import from Indonesia increased by 14.89% in 1983-84, when compared with 1982-83. In 1984-85 the export to Indonesia declined by 44.55% and import from Indonesia increased by 51.15% in comparison of 1983-84. Similarly the export to Indonesia in-

creased from 1985-86 to 1988-89 and import increased from Indonesia from 1987-88 to 1993-94.

It is evident from the Table-1 that Pakistan export to Indonesia on an average is 733.64 millions and Pakistan import from Indonesia on an average 1119.50 millions during the period from 1980-81 to 1993-94 and balance of trade on an average 467.85 during the above period. It is also clear that the Pakistan's export to Indonesia 10.271 millions and import from Indonesia 15673 so, the import from Indonesia increased by 52.59% during the period from 1980-81 to 1993-94.

Study ascertained that Pakistan is one of the major buyers of Indonesia black tea. In 1992, nearly 28000 tones of black tea were shipped from Indonesia to Pakistan, the world's second largest tea importer, one of the largest market for Indonesian tea. Pakistan's demands for Indonesian tea will increase in coming years according to the Chairman of the Association of Indonesian Tea Producers.²⁵

CONCLUSION

After independence in 1945, Indonesia could start with economic development which, however, stood hampered by the unstable security conditions of 1960's. However, the Indonesia's impressive record of economic development is in the past 50 years of its independence. Indonesia has launched a new product of her industries namely, fifty-seat twin-engine aircraft CN-250, Plindo Java 500-1, a 500 passenger ship, and express train car. It is one among the achievements. Indonesia has uncontrolled population growth economic plans, because it would put great pressure on resources. Efforts should be made to integrate manpower planning in national economic plan. It is also noted that public and private sectors have to create job opportunities for unemployed manpower by creating new labour-intensive projects every year, that will be useful for nation and economic development of Indonesia.

Indonesia had small manufacturing industries in 1960's. Presently Indonesia to a greater degree is the exporter of petroleum, tin, plywood, and rubber products. But yet, in comparison to the ASIAN countries, Indonesia's manufac-

turing has a small place in its economy.

A comparative study of export and import between the two countries since 1951 shows that Pakistan has a favourable balance of trade with Indonesia.

It is finally concluded that our country's relations with Indonesia are not only of the nature of ideological and spiritual ties but also because both Pakistan and Indonesia have similarity of views on many international issues and they have got clear understanding of their mutual benefits. Changes in the international politics have not affected their relations and the same would continue to be strengthened in future with the passage of time.

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