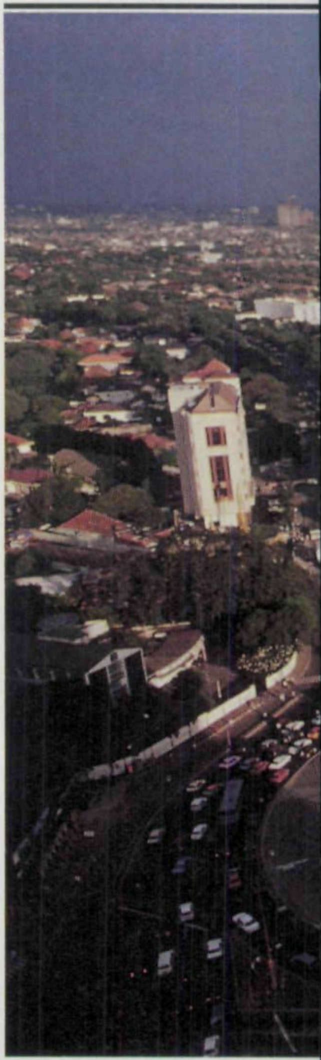
Our reporters turned up six new billionaires in Indonesia this year. While China and India get the headlines, this island nation of nearly 200 million outpaces them both in steady economic growth.

"The world's best-kept secret"

By Andrew Tanzer and Philippe Mao



Kurt Rolfes/Gamma-Liaison

Kurt Rolfes/Gamma-Liaison

Jakarta skyline; Matahari's Hari Darmawan
"They threw people's heads into my father's rice mills."

AS A YOUNG INDONESIAN of Chinese descent on the island of Sulawesi, Hari Darmawan survived a local separatist revolt in the mid-1950s. "People were killed," he recalls, "and their heads thrown in my father's rice milling factories." When Darmawan moved to Jakarta to work in his father-in-law's small shop, he experienced persecution of the Chinese community. To escape it his father-in-law fled to Singapore, but young Hari stayed on. It was the making of his fortune.

That tiny shop was the seed from which sprang P.T. Matahari Putra Prima, Indonesia's largest department store chain and a prime beneficiary of the economic boom that has swept this collection of some 13,700 islands and nearly 200 million people during the past 20 years.

Its stock now publicly traded in Jakarta, but with Darmawan still owning 66% of it, Matahari will gross \$600 million this year, a 60% gain over 1994, and its 60 stores are growing at the rate of more than one new one a month. Darmawan's stake in Matahari is worth \$160 million.

Indonesia today is spawning new wealth at an astounding rate. Long known as the Spice Islands, and a Dutch colony until WWII, this fabled island chain is fast becoming an economic powerhouse. The nation stretches more than 3,000 miles east to west, a distance greater than from New York to Seattle. Much of the population is crammed onto a single island, Java, where 115 million inhabit an area the size of New York State.

Perhaps because it is so remote, perhaps because it was once so poor, perhaps because of the romantic notions that long clung to the area, this economic miracle has been largely overlooked by much of the outside world. Yet its economic growth has consistently ranged from 6% to 7% a year since the late 1960s. Forget Joseph Conrad's Indonesia; this is Adam Smith's Indonesia.

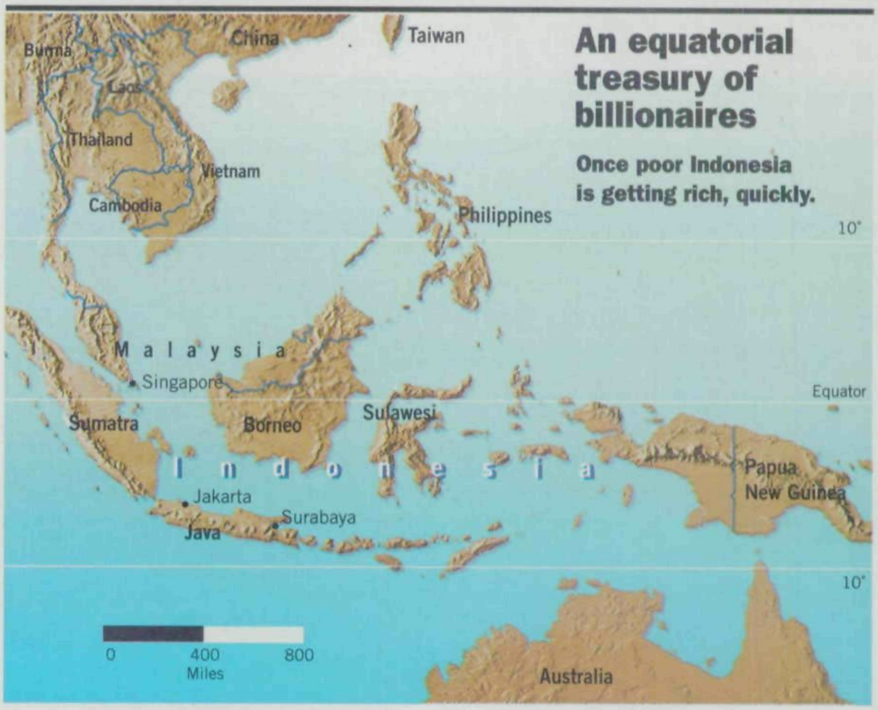
Indonesia's growth is actually accelerating: This year the growth should be 7.3%, and Credit Lyonnais Securities projects that annual growth will move up to 8% from 1996 to 2000. "Indonesia is the best-kept secret in the world," says longtime Jakarta resident Eugene Galbraith, an American who runs the stockbrokerage firm PT. HG Asia Indonesia.

In 1965 Indonesia's per capita gross domestic product was \$50,

half that of India's; this year Indonesia's per capita GDP will reach $900, nearly triple India's and double China's. "The middle class here is forming quickly," says Dennis de Tray, director of the World Bank's office in Jakarta. "Like Thailand, Indonesia is hitting the takeoff point." The market capitalization of the once obscure Jakarta Stock Exchange has swelled some 900% since 1990 *(see box, p. 116)*.

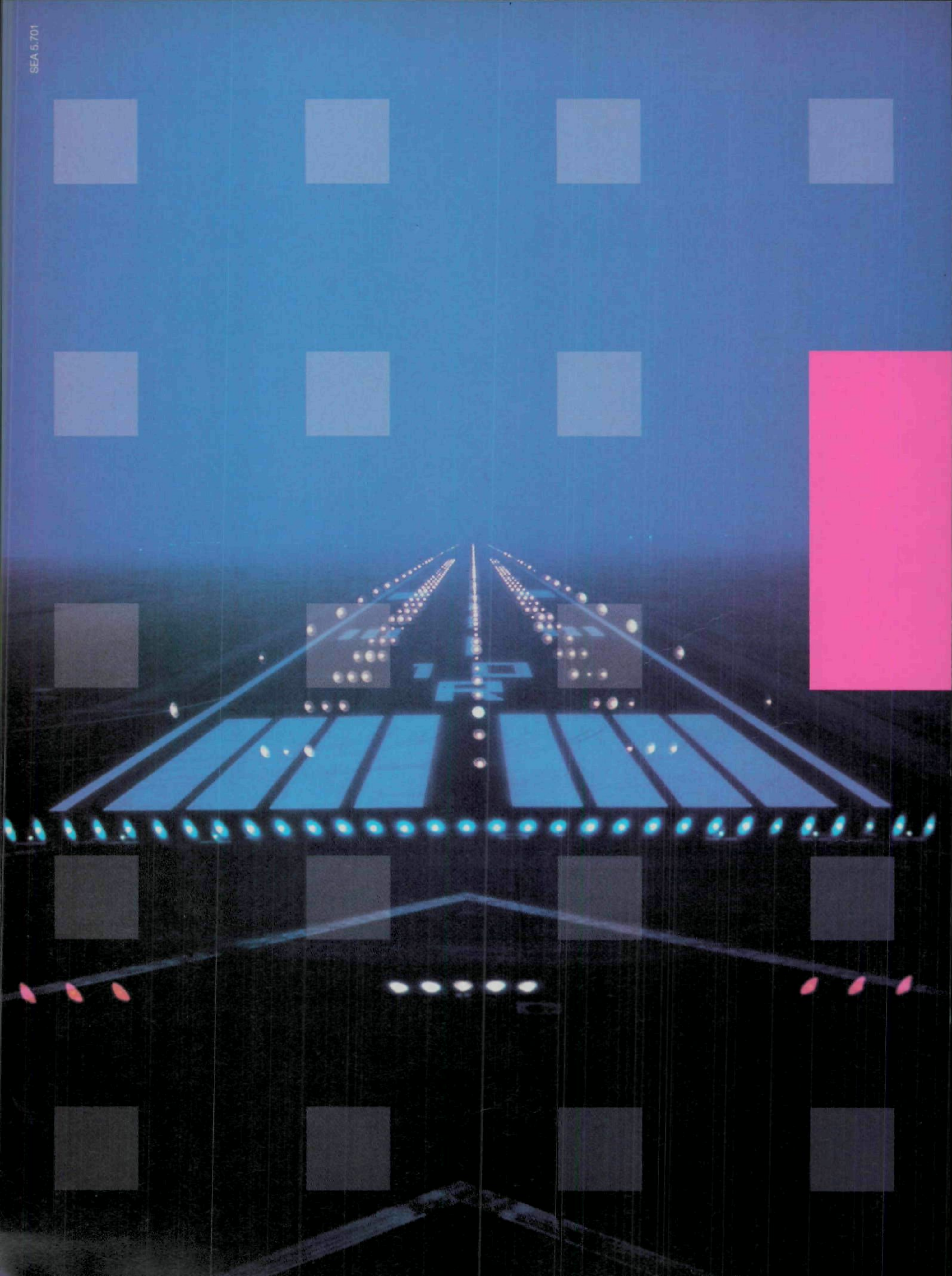
Sad to say, it took a couple of dictatorships to get this ancient land moving. After seizing power following the collapse of the wartime Japanese administration, Sukarno kept the Dutch from returning and unified the country with a national identity built around a common language, Bahasa Indonesia, formerly an obscure Malay trading lingo.

But Sukarno was a morally depraved man and leaned toward social-



An equatorial treasury of billionaires

Once poor Indonesia is getting rich, quickly.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ism, driving out foreign investment and squelching true private enterprise. Indonesia is rich in agricultural, energy and other natural resources, but by 1965 the country was bankrupt, inflation ran at 650%, the currency (the rupiah) was worthless. Famines gripped the fertile land.

On Sept. 30, 1965 an aborted coup touched off a period of chaos in which hundreds of thousands of Indonesians—including thousands of Chinese—died in ethnically and politically motivated violence. From this chaos emerged an obscure major general, Suharto, the son of a Javanese farmer. Suharto deposed the by now thoroughly discredited Sukarno in 1966 and moved Indonesia away from the Soviet Union and its Third World allies. Though no paragon of virtue, Suharto did assemble a remarkable group of economic advisers nicknamed the "Berkeley mafia" because so many of them had graduated from that California university, with degrees in economics. Working closely with the World Bank, these free-market technocrats reopened Indonesia to foreign investment, got the budget into balance and tamed inflation.

Indonesia made its currency convertible in the early 1970s, far ahead of most Asian countries—even today China's currency isn't freely convertible. Opening the country's capital account to the rest of the world forced discipline in monetary and economic management. Instead of a welfare state, Suharto's government created a state in which nearly everyone had economic opportunity—though the dictator's friends and relatives were more equal than others.

Along the way, there was a severe setback. Ironically, it was Indonesia's oil wealth that caused the setback. In the mid-1970s rocketing oil prices produced a revenue windfall and Suharto invested the surging revenues in rural schools, health care, family planning programs, irrigation and rice cultivation technology. But the oil windfall also produced big government and out-of-control spending. J. Soedradjad Djiwandono, governor of Bank Indonesia, the central bank, was a government planning agency officer at the time. He recalls: "The budget ballooned; government intervention in the economy rose so that the government did almost everything."

The collapse of oil prices sobered people up. Suharto shifted back to the economic liberalization and fiscal caution that had marked his earlier days, and Indonesia's current boom got under way. In the early 1980s oil and gas accounted for 80% of government revenues and 80% of Indonesia's total exports. Today petroleum's share is less than 25% for each and steadily dropping.

Left-wingers love to point out that there are great disparities of wealth in

The talk of the Bursa Efek Jakarta

As RECENTLY AS 1988, the Jakarta Stock Exchange—to locals, the Bursa Efek Jakarta—had 24 listed companies, with a total market cap of $290 million. Today there are 223 companies, valued at $49 billion.

But there's still room to grow: Mexico's market cap, for example, is $86 billion, South Korea's $181 billion.

The Jakarta Exchange took off after 1988 because the Suharto government passed a financial deregulation package that allowed, among other things, foreign investors to acquire up to 49% of a company's stock. Some 70% of daily turnover is now done by foreign institutions.

R. Ian Lloyd

Jakarta Stock Exchange

Its market cap has grown nearly tenfold since 1990.

Last year the government introduced a package of new laws to induce more Indonesian participation in their own stock market.

The 35% capital gains tax was practically eliminated, progressive taxes on dividends were capped at 30%, and comprehensive compliance and disclosure laws are next, as are mutual funds.

But the government continues to court foreign investors. A couple of Indonesian companies already have U.S. American depositary receipts: billionaire Eka Widjaja's pulp and paper company, Asia Pulp & Paper, and the telecommunications carrier, Indosat.

The government plans to sell stock in its domestic telephone company, Telekomunikasi Indonesia, this fall, and is considering the same thing for the state electricity monopoly, Perusahaan Listrik Negara (PLN), sometime soon. Foreign interest in both companies is likely to be high.

For American investors who prefer packaged investments there are funds for Indonesian stocks: Nomura Capital Management's Jakarta Growth Fund (net assets, $44 million, $8.73 a share); and BEA Associates' Indonesia Fund (net asset value of $41 million, or $8.95 per share).

But watch out: Jakarta Growth Fund and Indonesia Fund trade at 4.5% and 28.5% premiums, respectively, to net asset value.

Note that Indonesia's exchange rate is a floating peg that is closely linked to the U.S. dollar, thereby reducing the risk of exchange rate losses.

–P.M.

UPI/Bettmann

Mike Yamashita/Woodfin Camp

Ex-President Sukarno (above)
Politically shrewd, economically ignorant.
President Suharto
His only demerit: nepotism.

Suharto's Indonesia. There are. But not because economic liberalization has hurt the poor; rather it has helped some people and some places more than others. As the pie has grown, some people's helpings have grown faster than others', but even the poorest have benefited. According to the World Bank, the percentage of Indonesians living in absolute poverty is down from 60% to 14% in the past quarter century. Gains in education, health and life expectancy have been stunning. Says James Castle, an American consultant who has lived in Jakarta since 1977: "Things have gotten better for everyone."

Which means tens of millions have risen from living at the subsistence level and millions of Indonesians are becoming middle-class consumers. Jakarta sports fast-food joints, shopping malls, modern apartment buildings, traffic snarls and cellular phones. In the process, rising affluence has created opportunities for people like Darmawan and his department stores.

Suyanto Gondokusumo, who runs Dharmala Group, a diversified local conglomerate, notes that domestic travel and life insurance are two big beneficiaries. Mochtar Riady, the billionaire founder of Lippo Group *(see p. 141)*, says his bank's fastest-growing business is 15-year home mortgages, a sure sign of a stable middle-class capable of paying monthly installments.

This is not to say that Indonesia's growth is trouble-free. Its foreign debt, close to that of Brazil and Mexico, just passed the $100 billion mark; the debt-service ratio is a worrying 32% of export earnings. With half its population under the age of 24, Indonesia gets 2.5 million new job-seekers every year and can barely provide jobs even with the current rate of growth. With industrial development Indonesia uses more of its own oil and can export less to earn foreign exchange.

In affirming the private sector's role in developing the economy, Suharto's government may have stumbled on the solution to one of Indonesia's thorniest and potentially most explosive problems: the huge gap in wealth between the country's prosperous ethnic Chinese minority and the *pribumi*, or indigenous, majority. By most estimates ethnic Chinese account for about 3% of Indonesia's population but control over 70% of the country's private sector. Ethnic Chinese entrepreneurs dominate light manufacturing, trading and retailing and founded most of the firms listed on the Jakarta Stock Exchange. All ten of our Indonesian billionaires are ethnic Chinese.

The Suharto government's response to these challenges has been straightforward: Encourage growth and growth will take care of the problems. Last year the government opened most sectors of the economy to 100% foreign ownership (retailing and distribution are major exceptions). The newly opened industries include infrastructure projects such as power generation, telecommunications and toll roads. Unlike China, Indonesia makes no effort to keep foreign manufacturers out of its domestic market. This year tariffs were slashed again, corporate income taxes lowered from 35% to 30% and the capital gains tax cut from 35% to almost zero.

Economic growth may also alleviate the tensions between the ethnic Chinese and the predominantly Muslim *pribumi* majority. Traditionally, an educated *pribumi* sought a civil service job, which carried more status than trade or industry. No more. Business is now respectable, and there's now great status in being an entrepreneur. A semiofficial magazine formerly called *Self-Sufficiency*, which promoted import substitution, has been retitled *Self* and now celebrates native entrepreneurism. As more *pribumi* become entrepreneurs there will be less reason to envy and resent the Chinese. Lippo Chairman Riady recalls that 15 years ago all the roadside shops from Jakarta to Bandung were owned by Chinese. "Today almost all are *pribumi*," he says.

There are a number of fast-growing *pribumi* conglomerates, such as Bu-

Kurt Rolfes/Gamma-Liaison

A middle-class neighborhood in south Jakarta

Indonesia wouldn't have so many big private fortunes if its middle class weren't growing so rapidly. New popular product: 15-year residential mortgages.

Greg Girard/Contact

R. Ian Lloyd

Consumerism comes to Jakarta

kaka Group and Bakrie Brothers. Some of these were nurtured by informal affirmative action programs for the *pribumi* majority.

Foreign investors have been encouraged by all this progress. HG Asia's Galbraith estimates that Indonesia will attract $13 billion in foreign direct investment this year and $20 billion in 1996, levels India can only dream about. Louis Clinton, who runs Freeport-McMoRan Copper & Gold's Indonesian mining operations and is president of the American Chamber of Commerce in Indonesia, has this to say: "It's a great market for American companies. You see a tremendous need for infrastructure in areas where the U.S. is strong, such as airports, telecom and power stations."

There is much that foreign investors can do. Capital is in high demand: You can get 18% putting your money in an Indonesian bank account and the lending rate is currently 21.5%, yet the demand for credit races ahead. Power generation is growing nearly 15% a year, and yet still under 50% of the country's houses are electrified. The phone system has improved, but even so the percentage of homes with telephone lines is still less than 2%.

General Electric has been grabbing the opportunities eagerly. GE is investing in factories to make gas turbines, medical equipment, locomotives and lightbulbs and will supply the turbines for $2.6 billion Paiton I, the country's first foreign-owned-and-operated power plant, in which GE Capital holds a 20% stake. "Indonesia is not like China, where the bureaucrats go back on their word and change contracts," says Ram Sharma, chairman of GE Indonesia. Sharma, himself an Indian, adds: "The Indonesians are not as protective of their domestic market as the Indians."

What about corruption? The Suharto family and their friends have certainly gotten more than their share of the gains *(see box, p. 119)*. FORBES doesn't include royalty or political leaders in our survey of the world's wealthy. If we did, the Suharto clan would probably weigh in with a fortune worth over $6 billion. Mutters one Indonesian-Chinese tycoon: "Suharto's attitude is, 'I've gotten a lot of people rich; my kids deserve something.' "

But you can't blame the corruption on capitalism. It far antedates capitalism here. "Facilitating fees" are a way of life, embedded in the culture. Civil servants are miserably paid—many earn less than the minimum wage of $2 a day—and depend on "tips" to make ends meet. "Even getting a driver's license requires paying tips," grumbles Hashim Djojohadikusumo, president of Cibinong Cement Co., a leading local cement producer. "It's an administrative cost." You can look at it this way: There are many hidden taxes.

It may sound cynical, but the truth is this: There is corruption that stifles and corruption that merely demands a cut of the take. Indonesia's is the second sort. It is not Nigeria, nor the Philippines under Marcos. The "tips" stay in the economy; the power plants and roads do get built. A foreign banker long familiar with Indonesia says: "The big difference is that the Marcoses stole their country blind and invested the money in Manhattan real estate, whereas the Suhartos have invested heavily at home."

Also Suharto is deregulating the economy, and deregulation is a potent corruption fighter. Notes Mari Pangestu, chief economist at Jakarta's Center for Strategic and International Studies: "When you deregulate the economy, you take away opportunity for corruption."

Lippo Group's Riady gives an example. In the old days opening a letter of credit meant applying for licenses from several government departments, each of which would seek a bribe. And then you'd probably have to make a payoff to the loan officer in the state bank. With financial deregulation, says Riady, you don't need any government licenses and the private banks compete aggressively for your business.

The paternal, enigmatic Suharto is 74 but is in robust health and will likely run for another five-year term when his current term expires in 1998. He will, of course, win.

Of course, Suharto will not rule forever. After him? James Castle, an American scholar of Indonesia turned consultant, is a long and close observer of Indonesian society. "There won't be a change of policy after Suharto," he predicts. "There is a wide consensus now in society that this country is on the right track. That is a powerful force for continuity."

Meet the family

PRESIDENT SUHARTO has brought unity and prosperity to Indonesia and he and his family have shared handsomely in the process. The family wealth is, conservatively, in the neighborhood of $6 billion—one of the world's great fortunes.

Go through the shareholder lists of a wide variety of Indonesian companies and a Suharto relative or two is sure to pop up, especially if it's a business that depends on government approvals and licenses.

The president's eldest daughter, Tutut (there are three sons and three daughters), owns pieces of businesses that build and operate toll roads in the Jakarta area.

Her youngest brother, Tommy, controls a government-sanctioned clove monopoly that buys spice from Indonesian farmers and sells it at a handsome markup to the country's huge clove-cigarette industry, the source of three of our ten Indonesian billionaires' fortunes.

Bambang, President Suharto's middle son, runs Bimantara Citra Group, started in the early 1980s as a trading company. Bimantara, 55%-owned by Bambang, 42, and 20% by a brother-in-law, owns the country's largest commercial TV network; among other things, it operates a natural gas pipeline; owns a controlling stake in Jakarta's Grand Hyatt Hotel; produces petrochemicals; and sells Mercedes-Benz cars.

Last year, without any tender, a company in which Bambang is invested was awarded a license to operate satellites and a second international phone carrier, Satelindo, to compete with the government-controlled Indosat. In March 1995 Deutsche Telekom paid $586 million for a 25% stake in Satelindo. Bambang will take Bimantara Group public later this year.

The public stock will be offered chiefly to foreign investors—probably to create a buffer between son Bambang and any post-Suharto government.

How do Indonesians feel about the president's family cashing in on their connections? They prefer not to talk about it, though the family's defenders argue that they would rather see this wealth in *pribumi*—indigenous—hands rather than belonging to more ethnic Chinese.

Western businessmen, however, are indignant about having to cut the first family into their deals—in private, that is. "The [Suharto] family are rent-takers, not businessmen," snaps one American businessman in Jakarta. "They get commissions but don't add value." He adds that there is more resentment against the family than Indonesians will admit. "When Suharto dies, there's a real question whether his kids are safe in Indonesia," the banker opines.

"Except for nepotism, I'd give the president an A+," says another veteran foreign businessman. "Unfortunately, he's going to go down in history as having that blind spot."

–A.T.

Robin Moyer/Time Magazine

Robin Moyer/Time Magazine

Suharto's third son, Hutomo (Tommy) Mandala Putera (left); eldest daughter, Siti (Tutut) Hardijanti Rukmana

Cashing in on daddy's position.

It's LG. And it's the new name for the Lucky-Goldstar Group. We've been growing for almost 50 years, and as we continuously look to the future, we see a changing world; a world of ample opportunities, a world of challenges to be met with the LG philosophy of blending creativity with advanced technology. We are preparing for the future by renewing our commitment to