

3. Country Perspective and Market Area Overview

The macro-economic climate in which a hotel operates is an important consideration in forecasting hotel demand and income potential. Economic, demographic and tourist trends that reflect the amount of visitation provide a basis from which demand for hotel accommodation can be forecast.

The purpose of this section is to provide an overview of the market area in which the Hotel is to be located and to review available economic and tourist data to determine whether the defined market area is likely to experience future demand growth, stability or decline. The following aspects are discussed in this section:

- Country description and economy;
- Market area; and
- Tourism.

COUNTRY DESCRIPTION AND ECONOMY

Table 3-1, below, summarises the key characteristics of Indonesia.

Table 3-1 Summary of Key Country Characteristics, 2002

Country:	Indonesia
Location:	Southeastern Asia, Archipelago between Indian and Pacific Ocean
Government Type:	Republic
National Capital:	Jakarta
Population (July 2001 Est.)	228.437.220
Currency:	Indonesian Rupiah (IDR)
Climate:	Tropical, hot and humid, more moderate in highlands
Terrain:	Mostly coastal lowlands; larger islands have interior mountains
Age Structure:	
0-14 years	30%
15-64 years	65%
65 years and over	5%
Ethnic Composition:	Javanese 45%, Sundanese 14%, Madurese 7.5%, Malays 7.5%, Others 26%
Religious Composition (1998 Est.):	Muslim 88%, Protestants 5% Roman Catholic 3%, Hindu 2%, Buddhist 1% Others 1%

Source: Central Intelligence Agency

Country Overview

The Republic of Indonesia is the largest archipelago in the world, with approximately 17,508 islands, and is geographically positioned below Malaysia and Singapore in the west and below Brunei and Philippines in the east. The archipelago is divided into five main islands, which form the 23 provinces and three special territories of Indonesia:

- **Sumatra** - approximately 473,606 km² in size;
- **Java/Madura** - 132,107 km² in size - the most fertile and densely populated islands;
- **Kalimantan** - comprises two-thirds of the island of Borneo and measures 539,460 km² in size;
- **Sulawesi** - 189,216 km² in size;
- **Irian Jaya** - 421,981 km² in size and located on the world's second largest island, New Guinea. Indonesia's other islands are smaller in size.

According to the 1990 census, the geographical distribution of the Indonesian population is very uneven, with approximately 60% of the total population living in Java and Bali. The average population density of Java in 1990 was estimated at 813.5 people per km² and that of Bali at almost 500 per km², whilst that of the rest of the country was only 38.7 per km².

The national language of Bahasa Indonesia is spoken all over the country, in addition to other local languages. English is widely spoken and understood by most business people.

Indonesia possesses good international accessibility. The main international airports are Soekarno-Hatta in Jakarta, Ngurah-Rai in Bali and Batam on Bintan Island, Riau. There are 10 other smaller gateways into Indonesia across the country. Domestic flights and the train are the most convenient way to travel to most destinations within the country. Airlines flying into Jakarta include Garuda (the national airline), Singapore Airlines, Cathay Pacific, Qantas, Japan Airlines, Malaysian Airlines, Thai Airways and a number of other regional carriers.

The level of telecommunication service varies between different areas in Indonesia. Phone service is good along the main business thoroughfares and the newer residential areas. International direct dial (IDD) lines are available at almost all hotels and permit connection to an AT&T, Sprint or MCI operator. Cellular services are also readily available, but the quality of service varies. A number of Internet Service Providers (ISPs) also operate in Indonesia.

Political Overview

The Japanese occupation of Netherlands East Indies during the Second World War ended three centuries of Dutch rule. This was followed by Indonesia declaring its independence from the Japanese in 1945. In the early years of independence, the country's leaders concentrated on defending the country against Dutch attempts to reclaim rule.

Economic collapse, international isolation and ideological conflict prompted the army, led by General Soeharto, to take power in 1965. Soeharto presided over almost 32 years of economic development and authoritarian politics before being forced to resign in May 1998 in favour of his vice-president, B.J. Habibie, amid deepening financial, economic and social crises. Social distress reached a climax in May 1998, with outbreaks of serious rioting and looting in Jakarta and other cities. The riots traumatised the Chinese-Indonesian business community, which bore the brunt of these attacks.

Whilst the Habibie administration recognised the importance of stability to the business environment and had taken steps to foster this, the continuing economic crisis generated severe pain, especially among the poorest sectors of society, and posed risks of greater social unrest. In October 1999, President Abdurrahman Wahid, a moderate Islamic cleric and long-time opposition leader, succeeded Mr Habibie.

However, Mr. Wahid was impeached in July 2001 and replaced by his Vice-President, Mrs. Megawati, the daughter of Indonesia's first President, Sukarno. Although Mrs. Megawati's election was internationally acclaimed, she faces huge problems. Three years after Soeharto's fall, Indonesia's GDP is still more than 10% lower than before Asia's financial crisis.

Indonesia's outlook indicates that Mrs. Megawati is expected to remain in office until the next parliamentary and presidential elections in 2004, as there is a general consensus among political players of the need for a period of political stability. However, policy may become increasingly politicised or subject to delay as politicians jostle to raise their profiles with the electorate or within their parties ahead of the elections.

Economic Overview Table 3-2, overleaf, summarises the historic and forecast economic indicators for Indonesia from 1996 to 2003.

Table 3-2 Historic and Forecast Economic Indicators, Indonesia, 1996-03

Economic Indicators	1996	1997	1998	1999	2000	2001	2002	2003
% Change in real GDP	7.8	4.7	(13.0)	0.3	4.8	3.3	3.7	5.2
Average Consume Price Inflation (in %)	8.0	6.7	57.6	20.5	3.7	11.5	13.1	10.4
Budged Balance (% of GDP)	0.0	(2.2)	4.8	3.0	(3.2)	-	-	-
Current Account Balance (% of GDP)	(3.4)	(2.3)	3.3	4.0	5.6	5.7	5.2	5.5
Average Short-term Interest Rates (%)	19.2	21.8	32.2	27.7	18.5	-	-	-
Exchange Rate 1US\$: Rp	2.342	2.909	10.014	7.855	8422	10.293	-	-

Source: EIU, March 2002

The deep financial, economic, and political crisis that developed during 1997-98 obscured the underlying strengths of the Indonesian economy. The depreciation of Indonesia's currency, the rupiah, by some 70% vis-à-vis the US dollar, put the economy into a tailspin from which it has yet to fully recover. The deteriorating political environment between 1997 and 1999 has resulted in a serious erosion of foreign investor confidence in Indonesia. This was reflected in the financial crisis in mid-1997, which resulted in the dramatic depreciation of the rupiah against the US dollar in just a few months and an equally sharp fall in the Jakarta Stock Exchange Index. The depreciation of the rupiah was anticipated to help enhance Indonesia's international competitiveness by providing a boost to the country's exports. However, this was hampered by a number of constraints including shortages of working capital, increased costs of imported goods, poor harvests and the migration of a large number of Chinese businessmen from the country. Infrastructure projects were suspended and changes in policy also affected key sectors such as electrical power and telecommunications, forcing many engineering and contracting firms to close their offices.

Whilst Indonesia's economy still continues to be threatened by these problems, there are signs of recovery. Indonesia's extensive natural resources remain strong foreign exchange earners – oil, natural gas, various minerals including copper, nickel, tin and gold, and tropical plantations (oil palm, spices, coconut, coffee, cocoa). The Economist Intelligence Unit (EIU) recorded a growth of 4.8% in GDP during 2000 and a further growth of 3.2% in GDP during 2001.

According to a recent EIU statement, economic growth will continue in 2002, led by steady growth in private consumption and renewed export demand. This trend is likely to persist into 2003 and will be supported by some recovery in both public and private investment.

MARKET AREA

A mainly Muslim island, Lombok is located amidst Bali to the west, and Sumbawa in the east. Lombok and Sumbawa and the two main provincial islands of the province of Nusa Tenggara Barat (NTB), with the capital city Mataram, located on the west of Lombok.

Historically, the authorities in Jakarta have appointed the provincial governor. Recently however, the appointed governor has been a local person. This has been widely regarded as a positive improvement. In addition, more authority and powers have been delegated to the provincial governors, including the responsibility for tourism.

The island of Lombok is divided into four key areas, namely:

- Koto Madya Mataram, which houses the most developed urban area on the western coastline of Lombok, including towns such as Mataram, Ampenan, Cakranegara and Sweta;
- Lombok Barat (capital Mataram), which encompasses the western side of Lombok;
- Lombok Tengah (capital Praya), which encompasses the southern central area of Lombok; and
- Lombok Timur (capital Selong), which encompasses the eastern area of Lombok.

Recent History

In recent years, the perception of travel to Lombok has been negatively impacted, first by the 1997 riots in Mataram and Praya following the economic crisis and then by the riots in January 2000. It is widely believed that the latter were well-organised events that largely involved groups from outside Lombok. Following the riots, many embassies warned against travelling to Lombok. In addition, many tour operators displaced demand from Lombok and Indonesia to 'safer' destinations such as Thailand and Malaysia.

Although the perception of Lombok's safety has since improved, it may take several years for the industry to fully recover from the aforementioned events.

Population

According to the 1997 census, Lombok has a population of approximately 2.6 million inhabitants, with the majority living in and around the principal centres of Mataram, Praya and Selong. It is estimated that approximately 90% of the population are Sasak. The Sasak people are predominantly a Muslim race and are believed to have originated originally from northwest India or Myanmar. The remainder of the population are Balinese, Chinese and Javanese.

Economy	In former times, the economy of the area was based solely on agriculture, pottery and textiles. With the development of the tourist industry throughout the 1990s, the economy of Lombok benefited and tourism became an important contributor to the local area economy.
Climate	The climate in Lombok is similar to that of neighbouring Bali. The wet season extends from October to May, and the period between June and September is dry and hot. The dry season corresponds with the highest level of tourist arrivals. The average annual rainfall ranges between 20 mm and 250 mm and the average annual temperature ranges from 20°C to 32°C.
Accessibility	Lombok is accessible by sea and air. The majority of tourists to Lombok arrive at either Selaparang International Airport or the ferry terminal at Lembar, located south of Mataram. Selaparang Airport is accessible from regional destinations such as Singapore and Kuala Lumpur as well as from the surrounding islands. The Lembar ferry terminal is accessible from Bali. Furthermore, Lombok has a well-maintained internal road network, which facilitates travel around the island. However, some outlying villages may be somewhat difficult to access.
TOURISM	<p>Lombok is famed for its beaches, trekking and diving areas. The island's charm lies in its centuries-old culture, tranquil coastal areas with virgin beaches and green mountains. Mount Rinjani, an active volcano, is the second highest mountain in Indonesia and the Gilis, just off the north coast, are three small islands featuring white sand beaches and coral formations. In addition, Lombok benefits from its unique island culture, which has strong Balinese influences. A reasonable volume of tourists to Lombok also visits Bali. As such, Lombok has the potential to increase its exposure and popularity as either a good alternative to Bali or as a complement to it.</p> <p>In addition, the Tourism Authority of Lombok organises the following annual events:</p> <ul style="list-style-type: none">• Putri Nyale Ritual, an ancient local festival on the Kaliantan peninsula;• Festival Patut Patah Patju, a dance festival with contests and races;• Senggigi Festival, a cultural parade that showcases Sasak musical performances and art and craft exhibitions;• Independence day festival, including sporting events and celebrations;• Ngaturang Pakelem Rinjani, a festival on Mount Rinjani;• Lebaran Topat, a carnival and festival along Senggigi Beach;• Perang Topat, a festival at Lingsar Temple;• News Year's Eve puppet show and festivities.

Feeder Markets

As detailed arrival data to Lombok by nationality is not available, we have analysed the nationality mix of arrivals to Bali, which we consider to be comparable to that of Lombok as the same feedermarkets are considered to generate demand for hotel accommodation in Lombok. The future growth of feeder markets is an important consideration for resort hotel markets, as the condition and strength of feeder market economies affects the spending power of the inhabitants, which in turn determines the likely level of future demand.

We make the following comments regarding key feeder markets to Bali and Lombok:

- The key feeder markets for four- and five-star hotels in Bali are European countries, which account for approximately 30% of total international arrivals. Key markets are the United Kingdom, Germany and France. Whilst other countries such as Italy and Netherlands are also important feeder markets, they represent a relatively small percentage of total demand at five-star deluxe hotels
- Visitors from Asian countries to Bali account for 55% of total arrivals. The most prominent feeders market for four- and five-star hotel accommodation are Singapore, Japan and Australia.

Arrivals from the Americas represent approximately 8% of total arrivals, with the USA representing the majority of this demand.

Table 3-7, overleaf, sets out the EIU projections for each key feeder market discussed.

Table 3-7 Economic Indicators of Key Feeder Markets, Lombok, 2000-06

	2000	2001	2002	2003	2004	2005	2006
United Kingdom							
Real GDP Growth %	3.0	2.3	1.6	2.2	1.8	2.1	1.7
Consumer Price Inflation %	2.1	2.2	2.0	2.3	2.4	2.5	2.5
Budget Balance as % of GDP	1.8	0.2	-0.7	-1.1	-1.3	-1.6	-1.8
Current Account Balance as % of GDP	-1.7	-1.6	-2.0	-2.2	-2.0	-1.4	-0.8
Exchange Rate: £1 Stg buys US\$ (annual average)	1.51	1.44	1.51	1.55	1.52	1.48	1.47
Germany							
Real GDP Growth %	3.1	0.6	0.8	2.2	2.4	2.5	2.2
Consumer Price Inflation %	2.0	2.5	1.3	1.5	1.6	1.7	1.8
Budget Balance as % of GDP	-1.4	2.7	2.5	1.8	1.2	-1.3	0.3
Current Account Balance as % of GDP	-1.1	0.5	0.2	0.3	0.7	0.4	0.2
Exchange Rate: 1 Euro buys US\$ (annual average)	0.92	0.99	0.89	0.97	1.02	1.01	0.99

France	2000	2001	2002	2003	2004	2005	2006
Real GDP Growth %	3.2	2.0	1.4	2.6	2.2	2.5	2.4
Consumer Price Inflation %	1.7	1.6	1.6	1.8	1.7	1.7	1.7
Budget Balance as % of GDP	-1.3	-1.7	-2.1	-1.7	-1.4	-1.1	-0.9
Current Account Balance as % of GDP	1.8	2.0	2.3	2.7	2.6	2.8	2.4
Exchange Rate: 1 Euro buys US\$ (annual average)	0.92	0.90	0.89	0.97	1.02	1.01	0.99
Japan	2000	2001	2002	2003	2004	2005	2006
Real GDP Growth %	1.7	-0.4	-0.5	1.6	1.2	1.0	1.0
Consumer Price Inflation %	-0.7	-0.7	-1.6	-0.6	-0.3	1.5	0.8
Budget Balance as % of GDP	-5.8	-8.1	-8.4	-9.4	-9.7	-8.9	-9.8
Current Account Balance as % of GDP	2.5	2.1	2.3	2.5	2.5	3.0	3.3
Exchange Rate: Yen buys US\$ (annual average)	.0093	.0092	.0085	.0078	.0076	.0079	.0082
Australia	2000	2001	2002	2003	2004	2005	2006
Real GDP Growth %	3.7	2.4	4.1	4.3	4.0	3.8	4.4
Consumer Price Inflation %	4.5	4.4	2.8	2.5	2.8	2.7	3.1
Budget Balance as % of GDP	0.4	-0.6	0.1	1.0	1.8	2.1	2.5
Current Account Balance as % of GDP	-3.7	-2.7	-3.5	-3.1	-2.7	-2.8	-2.8
Exchange Rate: A\$ buys US\$ (annual average)	1.63	1.93	1.87	1.78	1.70	1.63	1.62
Singapore	2000	2001	2002	2003	2004	2005	2006
Real GDP Growth %	9.9	-2.0	2.9	5.4	6.1	5.5	5.2
Consumer Price Inflation %	1.4	1.0	0.2	1.3	1.5	1.9	2.0
Budget Balance as % of GDP	3.5	2.0	-0.3	1.8	3.2	3.9	4.1
Current Account Balance as % of GDP	23.7	27.2	26.7	25.1	23.4	20.8	19.4
Exchange Rate: S\$ buys US\$ (annual average)	0.59	0.56	0.56	0.59	0.59	0.59	0.59
USA	2000	2001	2002	2003	2004	2005	2006
Real GDP Growth %	5.0	1.1	1.4	3.6	3.5	3.2	3.1
Consumer Price Inflation %	3.4	2.8	0.9	2.6	3.0	3.2	3.2
Budget Balance as % of GDP	2.4	1.3	-0.2	-0.2	-0.4	-0.6	-0.6
Current Account Balance as % of GDP	-4.4	-4.0	-3.6	-3.9	-4.1	-4.0	-4.1
Exchange Rate: US\$1 buys Euro (annual average)	1.09	1.11	1.12	1.03	0.98	0.99	1.01

United Kingdom

Whilst the UK economy grew marginally in 2001, it is anticipated to recover further between 2002 and 2004, in response to an increase in external demand, which is likely to positively impact the export industry. However, despite a comfortable re-election in June 2001, the Labour government is likely to face increasing voter dissatisfaction, reduced party loyalty and rising industrial unrest. As a result of this and of the fact that limited economic growth is anticipated from 2005 onwards, UK demand for hotel accommodation is either likely to remain constant or only increase marginally.

Germany

The GDP growth rate for Germany in 2001 was approximately 0.6%. The decline in growth rates over 2000 levels is primarily due to the effects of the economic slowdown in the US. Economic recovery is expected towards the end of 2002 through to 2005. Unemployment is forecast to rise in 2002, but to fall to around 5% by 2005. With limited economic growth in Germany, demand for hotel accommodation is likely to remain constant or only increase marginally.

France	<p>The French economy grew at a reasonable rate in 2001, despite a forecast dip in GDP growth in 2002. Although there was a surprising increase in support for the far right during the recent elections, Mr. Chirac was re-elected president. As such, from 2003 onwards, the French economy is expected to experience steady growth and the demand for hotel accommodation is either likely to remain constant or only increase marginally.</p>
Japan	<p>The Japanese economy is anticipated to decline to -0.5% in 2002 and a debt crisis is likely to occur if economic growth does not accelerate. Growth is likely to be retarded by three main issues: the deflation of consumer prices, the weakness of the financial sector and a high proportion of non-performing loans. The limited economic growth in Japan is likely to cause a slowdown in the demand for hotel accommodation.</p>
Australia	<p>Australia's GDP growth rate was 2.4% in 2001 and is anticipated to rise to 4.1% in 2002. With sentiments improving following the change in government, strong growth rates of 3.8-4.4% are forecast for the period 2003-06. As such, arrivals from Australia are likely to increase.</p>
Singapore	<p>The PAP continues to dominate the political arena in Singapore. The government recently announced various measures to induce economic growth, such as a reduction in corporate and personal taxes and a general reduction in business costs. As such, the economy is expected to recover from 2002 onwards. With fairly strong economic growth being forecast thereafter, arrivals from Singapore are likely to increase.</p>
USA	<p>Economic recovery is forecast for 2002, and relatively strong growth rates are expected from 2003 to 2006. Although President Bush's threats following the terrorist attacks in September 2001 could strain foreign relations, full-fledged military attacks on Iran, Iraq or North Korea are deemed unlikely. As a result of the anticipated economic growth and the increasing confidence in air travel, it is likely that demand from the US will recover in 2002 and 2003.</p>
CONCLUSION	<p>The development of the tourist industry in Indonesia and particularly in Lombok has been negatively impacted by the political and economic situation between 1997 and 2000. Furthermore, both Indonesia and Lombok have recently suffered further setbacks due to the negative perception of travelling to Muslim countries following the terrorist attacks in the US in September 2001.</p> <p>However, as the political and economic climate improves, we consider that Lombok could offer greater potential as an international tourist destination. We consider Lombok's long-term potential to be somewhat similar to that of Bali.</p>

