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RESTRICTED

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Committee on Balance-of-Payments Restrictions

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1979 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH INDONESIA

Statement Submitted by Indonesia under the Simplified Procedures for Consultation¹

I. CURRENT ACCOUNT

Goods and services

Exports

In 1977/1978 Indonesia's total exports amounted to US\$10,860 million or about 17.9 per cent over total exports in 1976/1977. The increase was due to the larger export volume as well as the rise in prices of some export commodities in the world market.

In 1977/1978 Indonesia's oil exports value reached US\$7,353 million, showing an increase of about 15.8 per cent from the preceding year. The increase was attributable to the higher international oil prices, following the decision of the OPEC countries which was effective on 1 January 1977, as well as the higher volume. The OPEC decision was to raise crude oil price by 10 per cent but the effective average increase of Indonesia oil prices was lower, owing to the downward adjustment of the premiums commanded by certain Indonesian crudes. LNG (Liquefied Natural Gas) which was exported for the first time in 1977/1978, made a net contribution to export earnings of US\$93 million and are expected to increase in the coming years especially with the completion of the LNG plant in Arun.

Non-oil exports in 1977/1978 were also encouraging with respect to almost all major commodities. The value of non-oil exports rose by 22.5 per cent in 1977/1978 and this mainly due to higher prices in the international market. The value of rubber exports in 1977/1978 reached US\$608 million, an increase of 5.4 per cent compared to the total value in the preceding year, despite its lower export volume. The lower export volume of rubber was caused by increasing domestic consumption which was not compensated by higher production.

¹L/3772/Rev.1.

In 1977/1978 export of timber was still the leading contributor to Indonesia's foreign exchange earnings among non-oil exports commodities, with its total value of US\$943 million. The declining demand for Indonesian timber in the international market was the main cause of the lower export volume and the lower rate of increase in its value compared to the previous year.

Similar to other commodities, exports of coffee, tea and fish products in 1977/1978 were also quite encouraging. Coffee in 1977/1978 made a contribution to export earnings of US\$626 million, while tea US\$120 million. The crop damages in Brazil in 1975, which had not been fully recovered, caused the price of coffee to remain fairly high in the international market, while the higher price of tea was attributable to an expansion of world demand and to quality improvement.

For non-oil mineral exports, tin performed fairly well in 1977/1978 with its export value reaching US\$253 million, a 39.8 per cent increase over the preceding year. On the other hand the value of other non-oil mineral exports was lower compared to the value in 1976/1977.

Non-oil import

The value of non-oil imports in 1977/1978 was US\$7,241 million. Compared to that in 1976/1977, which amounted to US\$6,167 million, there was an increase of 17.4 per cent. The increase was due to higher programme, non-programme and project aid imports even though private capital imports decreased.

Provisional figures of non-oil imports in 1978/1979 were US\$7,866 million. Compared to previous years it was higher only by 8.6 per cent. The lower rate of growth of non-oil imports in 1978/1979 is mainly caused by lower programme and private capital imports even though project aid and non-programme imports were still increasing.

Services

The value of non-oil services in 1977/1978 amounted to US\$1,401 million, excluding programme import freight. Compared to the value of non-oil services in 1976/1977, which amounted to US\$1,208 million, it showed an increase of 16.0 per cent.

Provisional figures of service payments in 1978/1979 were US\$1,541 million. Compared to previous year it was only 10.0 per cent higher, due to lower value of transportation and travel despite investment income, government n.i.e. (not included elsewhere) and others were increased.

From the development of export and import of commodities in 1977/1978, the Indonesian balance of trade in 1977/1978 recorded a surplus of US\$2,129 million, about 64 per cent over the surplus in the previous year. Having regard to the export and import of services, the current account in 1977/1978 showed a deficit of US\$690 million, 14 per cent lower than the deficit in the previous year.

II. CAPITAL ACCOUNT

In 1977/1978 net capital inflow showed an amount of US\$1,521 million, or US\$174 million lower than the net capital inflow in the previous year. This was due to lower net capital inflow in the government sector caused by higher official debt repayments in 1977/1978 compared to that in 1976/1977. On the other hand, net capital inflow in the private sector increased by 363.2 per cent compared to that in the previous year.

III. BALANCE OF PAYMENTS 1977/1978

As mentioned above, the current account in 1977/1978 recorded a deficit of US\$690 million, 14 per cent below the deficit in the previous year. However, the overall balance of payments of Indonesia in 1977/1978 continued its gratifying improvement and showed a surplus of US\$651 million. The US\$651 million surplus in balance of payments of Indonesia in 1977/1978 along with US\$1,001 million surplus in 1976/1977 have made Indonesia's foreign exchange reserves increase substantially in 1977/1978.

IV. BALANCE-OF-PAYMENTS PROSPECTS FOR 1978/1979

The balance of payments of Indonesia in 1978/1979 will be affected to some extent by Indonesia's new foreign exchange policy conducted in November 1978.¹ In 1978/1979 the balance of payments of Indonesia is expected to record another surplus amounting to around US\$479 million, 26.5 per cent lower than the surplus in the previous year. The value of oil exports is likely to remain around US\$7.5 billion, while the value of non-oil export is projected to increase moderately since both volume and price change are expected to be insignificant. The value of non-oil imports is estimated around US\$7.8 billion, about US\$0.6 billion over its value in 1977/1978, as most of the large projects that were started in the first half of this decade are nearing completion. As the result, the balance of trade will continue to show a surplus even though the current account will still produce a deficit of about US\$1,180 million, due to the deficit in service account. After considering the capital account and error and omissions, the balance of payments of Indonesia in 1978/1979 is likely to show a surplus of about US\$479 million and the official foreign exchange reserves will continue to increase.

¹Rupiah was depreciated by about 50 per cent and was no more pegged to the United States dollar.

EXPORT REGULATIONS SINCE 1977

In order to boost export earnings, particularly to meet the expanding development activities in the Second Repelita (the Five Years Economic Development Plan) and to pave the way of the coming third Repelita, the Indonesian Government has issued various export regulations. The regulations were mainly directed to strengthen the competitiveness of Indonesian exports in the international market as well as to promote domestic export processing industries.

The regulations issued since 1977 are as follows:

1. The Presidential Decree No. 36/1977 dated 20 July 1977 about the formation of the Co-ordinating Team on Export to the Middle East and it was intended to boost the export of goods and services to the Middle East.
2. The Decision of the Board of Directors of Bank Indonesia No. 10/102/Kep/Dir/ULN dated 30 December 1977 with the main objective to strengthen the competitiveness of Indonesia's exports in world market. Under this provision, certain commodities may be exported on irrevocable usance letter of credit.
3. The Decree of the Minister of Trade No. 04/Kp/1/1978 dated 4 January 1978 concerning export procedures and standard quality coffee export. Under this provision coffee may only be exported by national trading companies which have Export Identification Number (APE) and exported coffee should meet certain quality requirements.
4. The Decree of the Minister of Finance No. 10A/KMK/06/1978 dated 10 January 1978 in which the export tax rate on logs was 20 per cent, while the rate on wood products and processed timber was 0 per cent, and the rate on certain types of processed timber was 10 per cent. The main objective of this regulation was to promote domestic wood processing industry and to increase the exports of processed timber.
5. The Decree of the Minister of Trade No. 20/Kp/1/1978 dated 26 January 1978 which prohibited export of high quality timber. This Decree was aimed to promote domestic high quality wood processing industry and employment opportunities.
6. The Government Regulation No. 29, 1978 dated 16 October 1978 on export taxation. Under this provision, the export commodities are classified into four classes with different export tax rates applied to each class. The tax rates are 0 per cent, 5 per cent, 10 per cent and 20 per cent.

7. The Decree of the Minister of Finance No. 408/KMK/011/1978 dated 25 October 1978 which imposes additional export tax on certain main export commodities. The revenue obtained from this tax will be used to promote the exports of these commodities through rehabilitation and development of plantation.
8. The Government Policy dated 15 November 1978 on economic affairs. Under this provision export-import procedures were simplified. Rupiah was depreciated about 50 per cent and Rupiah was no longer pegged to the US dollar. The regulation was aimed to strengthen the Indonesian export position in world market and to expand domestic production.

REGULATION ON IMPORT SINCE 1977

In the framework of a successful national five years' economic development plan, the Indonesian Government policy on imports is directed to stimulate development of domestic industries. The policy is reflected from the regulations which prohibit imports of goods that can be produced by domestic industries. At the same time it gives exemption of import duties on capital goods and raw material imports.

The regulations on imports issued since 1977 are as follows:

1. The Decision of the Director-General of Customs and Excises No. KEC/DJBC/77/2642 dated 19 March 1977 which stated that imported goods originating from Hong Kong, Malaysia, Singapore and Japan should be supplemented by an invoice signed by the Indonesian Ambassador or Head of the Custom Representatives in the respective countries.
2. The Decree of the Minister of Trade No. 202/Kp/VII/77 dated 7 July 1977 mentioned that measuring tools and scales other than types that have been prohibited can be imported with a special permit from the Minister of Trade.
3. The Decree of the Minister of Finance No. 269/KMK.05/77 dated 30 August 1977 imposed an additional 500 per cent surcharge on sanitary napkins imports (BEN Nos. 59.01.90 and 60.05.00)
4. The Decree of the Minister of Trade No. 363/M/IX/77 dated 7 September 1977 stated that copra/coconut oil can be permitted only by an importer appointed by the Department of Trade.
5. The Decree of the Minister of Trade No. 440/M/XII/77 dated 25 December 1977 allows soybean to be imported only with the recommendation made by BULOG.
6. The Decree of the Minister of Trade No. 03/Kp/IV/78 dated 12 April 1978 mentioned that import of any types of electric colour machine and its equipments or spare parts can be conducted only by the importer appointed by the Minister of Trade.
7. The Decree of the Director-General of Custom and Excises No. S-173/BC/78 dated 20 March 1978 imposed specific excises on tobacco and tobacco products abroad into Indonesian custom areas by plane/ship passenger, visitors, crew or sent through postal services.

8. The Decree of the Director-General of Taxation No. S-673/Pj.24/78 dated 19 April 1978 stated that the withholding tax rate on the opening of irrevocable usance L/C is Rp 38/US\$1, which is the same as the rate on opening regular L/C.
9. The Joint Decree of the Minister of Trade, Minister of Finance and the Minister of Industry dated 13 December 1978 invalidated the joint Decree of the Minister of Trade, the Minister of Finance and the Minister of Industry dated 31 December 1976 which concerns imports of some industrial commodities (textile, polyester fibres, sacks and bags etc.).

BALANCE-OF-PAYMENTS SUMMARY, 1976/1977 - 1978/1979

(US\$ Million)

	1976/1977 (act)	1977/1978 (act)	%	1978/1979 (prov. act)	%
1. Net oil	+ 3,710	+ 4,445	+ 19.8	+ 4,641	+ 4.4
2. Non-oil (net)	- 4,512	- 5,135	+ 13.8	- 5,821	+ 13.4
(a) Exports f.o.b.	+ 2,363	+ 3,507	+ 22.5	+ 3,586	+ 2.3
(b) Imports c. & f.	- 6,167	- 7,241	+ 17.4	- 7,356	+ 8.6
(c) Services	- 1,208	- 1,401	+ 16.0	- 1,541	+ 10.0
3. Current account (1 + 2 + 3)	- 802	- 690	- 14.0	- 1,180	+ 71.0
4. Official transfer and capital	+ 1,823	+ 2,106	+ 15.5	+ 2,319	+ 10.1
(a) Programme aid	+ 147	+ 157	+ 6.8	+ 196	+ 24.8
(b) Project aid	+ 1,676	+ 1,949	+ 16.3	+ 2,123	+ 8.9
(c) Others	-	-	-	-	-
5. Debt payments	- 166	- 761	+358.4	- 501	- 34.2
6. Miscellaneous capital	+ 38	+ 176	+363.2	- 195	-110.8
(a) Direct investment	+ 287	+ 285	+ 0.7	+ 410	+ 43.9
(b) Trade credits	- 32	- 50	+ 56.2	-	-100.0
(c) Others	- 217	- 59	- 72.8	- 605	+91.4
7. Total (4 through 7)	+ 893	+ 831	-	+ 443	-
8. Error and omissions	+ 108	- 180	-	+ 36	-
9. Monetary movements	- 1,001	- 651	-	- 479	-