

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Limited Distribution

Committee on Balance-of-Payments Restrictions

REPORT ON THE CONSULTATION WITH INDONESIA

1. The Committee conducted a consultation with Indonesia under the provisions of Article XVIII, paragraph 12(b). The consultation also took into account the decision of the CONTRACTING PARTIES to the effect that consultations on the balance-of-payments problems of less-developed countries should give particular attention to possibilities for alleviating and correcting these problems through measures contracting parties might take, either individually or jointly, to facilitate an expansion of export earnings of the consulting countries.
2. The information presented to the Committee consisted of a basic document for the consultations supplied by the Government of Indonesia (BOP/105 and Corr.1); a study prepared by the International Monetary Fund for its last consultation with Indonesia in 1969 ("Background Material for 1969 Article XIV Consultation", dated 27 October 1969), together with two more recent papers ("Recent Economic Development and Outlook for 1970", dated 23 March 1970, "Supplementary Background Paper for the GATT: Recent Economic Developments", dated 21 September 1970) containing supplementary information; and, finally, a secretariat background paper for the expanded part of the consultation dealing with Indonesia's export and development plans and prospects (BOP/106, Add.1 and Corr.1).
3. The consultation took place on 28 and 29 October and followed the arrangements for such expanded consultations as agreed on by the CONTRACTING PARTIES at their twenty-fourth session (BISD, Fifteenth Supplement, page 72).

Consultation with the International Monetary Fund

4. Pursuant to the provisions of Article XV of the General Agreement the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them on the underlying payments position of Indonesia. It was noted that an International Monetary Fund consultation with Indonesia was currently taking place and, since no recent decision of the Fund was available, the Fund had transmitted the three papers, described in paragraph 2 above to assist the CONTRACTING PARTIES. The Committee took note of these papers and generally based its discussion of Indonesia's balance of payments, external financial position and its prospects on the relevant data contained therein. A representative of the Fund was present during this discussion.

Opening statement by the representative of Indonesia

5. In his opening statement, the full text of which is reproduced in the annex to this report, the representative of Indonesia outlined the principal developments that had taken place in the Indonesian economy since the last consultation in October 1967,

described the progress of his country's stabilization efforts over the last three years, and reviewed the balance-of-payments position and prospects. He noted the emphasis which his Government placed on export promotion, the diversification of export production, and the introduction of new products into Indonesia's export trade. In this connexion, he pointed out his country's increased requirement for technical assistance aimed at improving both the production and marketing of the traditional, the more recently introduced and the potential export goods. He also drew the Committee's attention to the fact that, as Indonesia does not belong to any exclusive economic grouping, action to reduce tariffs and non-tariff barriers, particularly on processed agricultural products, whether through the inclusion of those products in the general scheme of preferences for developing countries or otherwise, would considerably improve his country's export prospects.

6. Describing the general economic situation, he noted that the recent economic revival was due to the determined stabilization measures adopted by the Government, especially with respect to budget and credit policy. The virtually complete price stabilization and increased confidence in the rupiah had made possible the reforms of April 1970, through which the currency became freely convertible for any kind of purposes. The restoration of internal stability would now permit more sustained development of the economy; and to concert the Government's policies to this end a five-year development plan had been put into effect at the beginning of the fiscal year 1969/70. However, despite the success of the stabilization policy of the Government, domestic financial resources remained inadequate, and a successful implementation of the development programme would require a continuing and substantial flow of foreign aid. Despite a rapid expansion in export earnings which had already exceeded the target set for the first year of the plan, the deficit in merchandise trade remained large, and an even larger deficit was foreseen on the account of services. This trend was expected to continue into the fiscal year 1970/71, although export earnings were expected to rise by 7 per cent over the previous year and imports by 8 per cent.

7. Trade policy was being geared to the priorities established by the Five-Year Development Plan. With respect to exports, the Government recognized the need to provide a sound climate for further growth through adequate support facilities and incentive. These measures included the establishment of exporters' associations, incentives for further processing, the upgrading of product quality, improvements in the organization of export marketing, and the abolition of taxes previously levied on most export commodities. Import policy, in order to promote the domestic priorities laid down in the Plan, had been substantially revised and simplified by the Government regulation which became effective in April this year. Imports were classified into four categories which must be channelled through registered importers and, although no import licences are required, letters of credit have to be opened for all imports once foreign exchange had been purchased at one of the two official rates. As a result of the recent tariff reform, average effective rates have been further reduced to an average of 58 per cent as compared to 64 per cent in 1969, in order to adjust the cost price to normal price levels existing in the international market and to achieve normal trade levels in accordance with the degree of economic importance of individual product categories. Finally, in order to protect certain fields of domestic production, which have attained a satisfactory product quality, a limited number of competing imports have been prohibited on a conditional basis.

8. The representative of Indonesia noted that while various studies by international organizations had emphasized that his country, with its rich and varied natural resources, faced favourable export prospects over the longer term, over the next few years a satisfactory export performance would depend not only on continued price stability and administrative organizational improvements inside the country but also on a number of factors clearly beyond the control of the Indonesian Government. These included, most importantly, the trends of world market prices for Indonesia's main export commodities, the tariff treatment of these products in the main import markets and, last but not least, the continued availability of external assistance, both financial and technical.

Balance-of-payments position and prospects

9. Members of the Committee congratulated Indonesia on the success of its stabilization programme, noting that the achievement of such a degree of stability in four years was indeed remarkable. The Committee noted that, although Indonesia's past growth had barely been sufficient to meet the annual increase in the population, it was now possible to raise the rate of growth, since the general climate of stability combined with the rich natural resources of the country offered important incentives to economic enterprise. Though members of the Committee appreciated the continuing difficulties in rehabilitating Indonesia's existing production potential, they drew attention to certain encouraging signs, particularly in the field of export expansion. They recalled that in its assessment of Indonesia's Five-Year Plan, the secretariat considered the targets set for exports and imports to be cautious and realistic; indeed the export results obtained in 1969 and in the first half of 1970 were somewhat ahead of the Plan targets. Nonetheless, the members of the Committee noted that the Plan itself forecast a significant deficit in merchandise trade to continue through the next five years. This deficit, which might perhaps be reduced somewhat if exports continued to grow at their rate of recent years, would be met by foreign private investment and economic assistance. The representative of Indonesia agreed that exports had so far considerably exceeded the targets forecast in the Plan, but pointed out that this was largely due to the expansion in petroleum shipments and favourable developments in prices for certain tropical products, other than rubber. The incentives provided by the Government also resulted in an accelerated growth of earnings from the minor export products; these gains, however, did not suffice to offset the losses resulting from the decline in the price of rubber, still a major export earner. There was also the possibility that a shortage of technicians and business managers would need to be overcome before the country's productive potential could be fully rehabilitated and here the volume of external financial and technical assistance would be of key importance.

10. In answer to questions concerning certain marked discrepancies between Indonesian trade figures and the customs returns of several major trading partners, the representative of Indonesia pointed out that discrepancies between export and import statistics of two trading partners were a general phenomenon and that in

his country's case they were further accentuated by the special difficulties of recording and aggregating the data on trade flowing through the country's main ports. The general recording of exports and imports was being improved, and it was expected that the discrepancies referred to would narrow in the future as the recent measures to simplify procedures took effect.

11. In commenting on the balance-of-payments position, the representative of Indonesia drew attention to the measures in hand for strengthening the control of foreign exchange surrendered by exporters and reducing the level of import dependence. With respect to the former, there had been an expansion in credit facilities for exporters, producer-price differentials had been established to promote quality while the substantial reduction in the taxes and other charges previously levied on exports made the control and proper recording of trade much easier. Furthermore, it was the intention of the Indonesian authorities to gradually reduce their dependence on trade taxes of all kinds by shifting to sales and consumption taxes once administrative procedures had been improved. All the implications of such a change were currently being studied by a team of experts assembled by Harvard University, and their report to the Government was expected early next year.

12. The members of the Committee raised specific questions concerning the system of dual exchange rate, and the policy of prohibiting the importation of certain types of products. With respect to the first issue, the representative of Indonesia explained that the exchange rate arrangements had a dual purpose, namely to influence the composition of imports (the rate more favourable to importers being applicable only to the categories of most essential and essential goods) and to ensure that the available economic assistance would be utilized as promptly as possible. The maintenance of a special (more favourable) rate for this purpose was further justified by the fact that a large part of the economic aid available to Indonesia was still tied to purchases in the donor country which, if a unified rate were in effect, would result in a cost disadvantage for the importer. He also pointed out that an agreement among donor countries progressively to untie their economic assistance would considerably facilitate Indonesia's effort to unify these two rates. The Committee noted however that the existence of a dual rate, which applied to imports under all aid programmes, also resulted in more complex administrative procedures. In this context, the representative of the International Monetary Fund pointed out that the dual-rate system had received the approval, on a temporary basis, of the Executive Board of the International Monetary Fund, and that it indeed represented a radical simplification of the system previously in existence.

13. Further information was also provided by the Indonesian representative on the extent and purpose of the import prohibitions which were not only applied to protect domestic industry but also to create employment opportunities. In all, some twelve

items were subject to the embargo: cloth with batik design, tyres of certain sizes, used bottles, certain dry batteries, built-up commercial vehicles, built-up motor cycles, bulbs and fluorescent lamps, radios and television sets, and galvanized iron sheets. It was stressed that the prohibition was only conditional and that if a number of conditions - relating to the volume, quality standards and prices of domestic production - were not met, the prohibition could be revoked. The system was of a temporary nature and would be maintained until such time as a more suitable method of protection could be devised for Indonesia's industries. Members of the Committee suggested that the maintenance of some degree of outside competition was desirable as a spur to greater economic efficiency and that consideration should be given to other methods, preferably those operating through the price mechanism, such as tariff and similar charges, but that even quotas would be preferable to outright prohibition.

14. Information was also provided on the purposes of the importer organizations and the existence of certain surcharges and fees on imported goods which were additional to the conventional customs duty. The former had been established to facilitate the maintenance of price stability while supporting selected priorities in the Development Plan, especially where the import of certain goods had a considerable influence on the cost-of-living index. The use of importer associations for selected goods on the import programme made possible the monitoring of the price changes and the flow of these products through the distribution system. With respect to the additional taxation of imports, the Committee was told that, while a number of surcharges were still levied, their total had been reduced, and the whole system would undergo a major reform when Indonesia's tariff became converted to Brussels Tariff Nomenclature some time next year.

System and method of restriction

15. Members of the Committee remarked on the extensive changes which had taken place in Indonesia's commercial policy as a result of the liberalizing decrees issued in April 1970 and the recently announced tariff reductions. In answer to requests for clarification, the representative of Indonesia explained that the purpose of Government Regulation No. 16 which was one of the two legal bases for the country's restrictive system, was to achieve economic expansion through the improvement of the foreign exchange system and that as a result of the reform there was now, except for imports financed by aid which were transacted at a special lower rate, only one general exchange market in which the rate would reflect market trends. The required issue of a letter of credit to an importer who had purchased foreign exchange was not a means of control but an automatic operation.

16. A member of the Committee raised a question concerning the registration of authorized importers and the importance attached to the deposit as a condition of registration. The representative of Indonesia announced that an initial deposit was no longer necessary but, at the moment of registration, prospective importers had to be able to satisfy certain administrative formalities.

17. A further question was also asked with respect to the specific agreements through which imports could be effected without the mandatory letter of credit, and which countries were parties to these agreements. Clarification was also requested on the extent to which product lists were attached to specific trade agreements. The representative of Indonesia informed the Committee that his country no longer maintained payments agreements with countries members of the International Monetary Fund. The specific agreements in question, as for example that concluded with Malaysia, were designed to facilitate trade in the produce of certain geographical regions which were isolated from banking facilities. Though the opening of letters of credit was not required the trade still had to be registered with the Ministry on the basis of information furnished by its resident commercial attaché. The Committee was also informed that the trade agreement in force did not contain indicative lists of products.

18. The representative of Indonesia also explained that for certain reasons, notable to restrict smuggling, goods formerly imported by DP (Supplementary Foreign Exchange) from Singapore and Hong Kong, since April 1970, could now only be imported after the opening of a letter of credit. Furthermore, prior to the shipment of these goods, their invoices had first to be certified by the competent Indonesian authorities stationed in Singapore and Hong Kong.

19. Particular attention was drawn by the Committee to certain elements of tariff policy, the effects of which could be of an uneconomic nature. It was noted that while basic duty rates were not unduly high, effective rates had increased through the imposition of surcharges. In this context, attention was drawn to the influence exercised by the structure of the tariff on the choice of domestic production and investment. High rates resulting from the sharp distinction between "non-essential" and "essential" imports could provide an inducement to produce products which may not accord with a rational allocation of domestic resources. Members of the Committee thus suggested the consideration of alternative instruments for a more flexible control of priorities between essential and non-essential production, such as sales and consumption taxes. It appeared from the discussion that many of the matters referred to were under consideration by the Indonesian authorities. Though the overall objective was to shift its revenue dependence away from customs charges and duties, the Government's first priority was the adoption of the Brussels Tariff Nomenclature during which exercise, the representative of Indonesia assured the Committee, the surcharge position would be given a further examination. The representative of Indonesia also pointed out in answer to comments on the criteria for determining groupings on the import list, that any anomalies that might exist would be picked up in the current tariff reclassification exercise.

20. In the discussion of the restrictive system certain members noted that the problem of dumping was one of the reasons for the imposition of import embargoes. The representative of Indonesia confirmed that his country had no anti-dumping legislation but that the possibility of such legislation was at present under consideration.

21. In answer to a further query from a member of the Committee, the representative of Indonesia explained that while made-up passenger cars could be imported into the country without State intervention, such imports could only be made through dealers authorized by the Minister of Commerce and Industry.

Summary of the discussions on the expanded part of the consultation

Economic plans and problems

22. In their second sitting, the members of the Committee examined the scope and method of implementation of the Five-Year Development Plan. The Committee noted the considerable flexibility of the overall framework in which provisions for implementation were made, in the light of experience, through more detailed annual programmes. It was generally felt that the projected overall growth ratio of 5 per cent per annum was not unrealistic and that the target could even be surpassed as the general efficiency of the economy improved. Members noted the general balance set between agricultural and industrial priorities and agreed with the primary emphasis laid on the rehabilitation programme particularly in the agricultural field, which furnishes so large a part of Indonesia's export products, and employs so large a proportion of the country's labour force. Satisfaction was also expressed at the information that the latest trade statistics showed a higher than targeted growth of exports.

23. While the Committee appreciated the close linkage between Indonesia's foreign debt obligations and her efforts to mobilize domestic resources, it recognized that the debt problem was already under discussion in another forum. It was pointed out, however, that an acceleration of exports could alleviate the problem, and another speaker drew the Committee's attention to the valuable supplementary rôle that foreign private investment could play in helping to cover certain financing problems. It was essential, however, that full information be presented on the opportunities available, as with an increasingly selective investment policy overseas investors must know which sectors are to be closed to outsiders.

24. The Committee examined generally the possibilities of attaining a further increase in exports and although none of the large traditional export products appeared likely to register rapid increases in the next few years, good prospects seemed to exist for a number of products whose export volumes were still small but already growing rapidly. It was noted that Indonesia, like most developing countries, faced the task of realizing two high-priority objectives which were not always compatible: to achieve a rapid increase in production, as well as a rapid provision of employment opportunities. Import-substituting production had generally not a large impact on employment, indeed, posed some danger in certain sectors of diminishing employment effect as traditional labour-intensive methods were replaced. The main employment effect was therefore likely to come from production for export.

Review of export commodities and prospects

25. Members of the Committee reviewed with Indonesia its export prospects and problems together with its stated need for technical assistance. It was recalled that the export strategy of the Plan had been devised to promote the further diversification of the commodity composition of exports, to increase the value added in Indonesia through further processing of export commodities and to stimulate

exploration of new areas for profitable trade. The Committee noted that the success with which this would be attended depended to a large extent on the impact of the stabilization policies on export oriented production as most of Indonesia's previous export difficulties were due to supply deficiencies. While the Committee recognized that recent trends in export production augured well for the future, efforts in this area were likely to be of a long-term nature.

26. With respect to traditional export productions, largely plantation crops, the Committee was of the view that, at best, prospects were mixed. In the case of two principal industries, rubber and copra, efforts to improve and renew capital investment, which were crucial to any expansion in volume shipments, were being hampered by downward trends and fluctuations in world prices which, according to a number of long-range forecasts, were not expected to improve much in the future. Although advances in agricultural technology have helped productivity growth and enabled profits to be made even against a declining price trend this depended on the efficiency and rapidity of remedial action. Among the plantation crops exported in large volume, coffee appeared to face the best prospects followed by pepper. Coffee prices were rising and, since Indonesia was only a marginal supplier to world markets, it was felt that Indonesian exports could continue to grow at a satisfactory rate. Similarly world import demand for pepper was considered sufficient to absorb the planned increase in the Indonesian crop.

27. The Committee was of the view that of the non-traditional export products tropical timber and fisheries face possibly the best demand situation of all. Timber prices were strong and still rising and the development of a more integrated timber industry in Indonesia, it was felt, could have a particularly favourable impact on the employment situation. Certain elements were identified for closer attention - a more thorough identification of marketable species and the improvement of infra-structure - if the full benefits of world demand conditions were to be appreciated. Fishery products, likewise, face not only favourable demand conditions but could also contribute to the creation of additional employment opportunities. It was recognized, however, that these were sectors in which much would depend on Government action. In general the Committee was of the opinion that the so-called minor exports, for which the Plan projections were highest, presented a more optimistic future than most of the traditional items particularly as Indonesia was often only a peripheral supplier of these commodities to world markets. The main constraint, it was felt, would arise on the supply side, measures should thus be taken to obviate any bottlenecks developing in this field.

28. Members of the Committee were also of the general opinion that much could still be done to improve Indonesia's competitive position which in many cases had deteriorated because of a widening in quality differentials between Indonesian and similar developing country products. Such a step would help to sustain export earnings especially where demand conditions had temporarily become unfavourable. It was noted that in a number of cases Indonesia had joined associations of producer countries designed to promote efficient production and exports and that specialized information on quality upgrading techniques could doubtless be obtained through such entities. Domestic efforts through appropriate policy action designed to improve quality grading, primary processing or packing could, in a number of instances raise Indonesian export unit values even if international prices of the commodities in question stagnated or declined.

29. The Committee recognized that much of its examination and conclusions implied a considerable need for foreign technical assistance, a finding already recognized by the Indonesian Government. The Committee noted that a Bureau of Co-ordination for technical assistance was in existence, and that the Government was in the process of formulating its priorities in the field of technical assistance. The attention of contracting parties should be drawn to these needs, once the real requirements were known, since in many key areas where production and marketing improvements were needed, specialized personnel were at a premium. In this connexion the Committee noted that under the new investment law foreign investors were obliged to provide vocational training for their employees and that experts from the International Labour Organisation were already providing assistance in re-organizing the indigenous handicraft industry. The Committee also referred to the services of the UNCTAD/GATT International Trade Centre especially in the field of export promotion and suggested that the Indonesian Government's need for marketing surveys for a number of potential exports could perhaps be met by that organization which could also investigate the type of infra-structural arrangements needed before suggesting other assistance measures in the field of export promotion.

30. In respect to measures that might be taken by other contracting parties the Committee noted the statement of the Indonesian representative that as his country did not belong to any economic grouping, it was most concerned to receive equality of market treatment vis-à-vis other developing countries. While the general preferential scheme will include many commodities of export interest to Indonesia, the representative of Indonesia pointed out that discriminatory tariffs particularly with respect to processed agricultural products still hampered his country's export efforts. Indonesia's concern sprang from the fact that for many years to come, until manufactured exports could be developed, export earnings would continue to depend to a large extent on primary or simply processed commodities and this accounted for their request for action to reduce or abolish the trade restrictions in question. In this regard the representative of the European Economic Community, in noting the specific comment made with respect to the tariff situation in the Community, stated that Indonesia's concern would be submitted to the appropriate authorities of the member states. In this connexion, he also drew attention to the fact that preferential tariffs on certain products previously granted in the framework of the Second Yaoundé Convention to the Associated African States by the Community will be extended to all contracting parties of the GATT. Moreover, the Community had made considerable efforts in the field of generalized preferences which they were prepared to enact with as little delay as possible once the necessary legal action had been taken in accordance with the GATT provisions.

31. In concluding its discussion of this matter the Committee noted that reductions in trade barriers of interest to Indonesia might also benefit the trade of other developing countries. It was also noted that questions of eliminating non-tariff barriers were being pursued in a number of GATT bodies including the Committee on Trade in Industrial Products, the Agriculture Committee and the Committee on Trade and Development.

Conclusion

32. At the conclusion of the consultation the Committee thanked the Government of Indonesia for making possible a full, frank discussion of its problems. It welcomed the success of the stabilization programme and the speedy return to a situation permitting further growth, but reiterated its view that sustained foreign assistance was necessary if Indonesia was to succeed in the difficult development tasks that lay ahead. It also wished the Indonesian Government continued success in its efforts to develop a more liberal system of trade and payments. In return, the representative of Indonesia assured the Committee that their views, observations and suggestions would be transmitted to the competent authorities in his country and that he was sure that his Government would take them into account in formulating its future policy.

ANNEX

Opening Statement by the Representative of Indonesia

As has been stated during our last consultation, in October 1967, my Government took the view that the only remedy to overcome our difficulties at that time was to completely overhaul the current economic order and structure and to adopt a new attitude in an effort to restoring the economy by laying down a new basis for economic policies. As a consequence, my Government has, in the last three years, travelled the most conventional road in our stabilization efforts, namely: first, a strict adherence to a balanced budget policy; secondly, the implementation of a selective and cautious credit policy; and thirdly, the assurance of a sufficient supply of the daily needs, especially food.

The most striking achievement in these efforts no doubt has been the curtailment of inflation. While in 1966 the cost of living rose by 639 per cent, the 1967 increase was limited to 112 per cent, in 1968 to 85 per cent and in 1969 to only 10 per cent. This degree of economic stability, as measured through the consumer price index for Djakarta, is one which we have never encountered before in the last ten years of our history.

It is indeed a source of satisfaction that, during the past years, we have been able to see the return and the strengthening of public confidence in the rupiah as a concrete evidence of the results of our joint endeavour. Stability of the value of and trust in the rupiah have not only inspired a certain amount of confidence and peace of mind among the people but have also been instrumental in making available more funds for development operations. The time deposit scheme which started in October 1968 up to this moment has shown an unqualified success and the amount is now approaching the level of Rp 40 billion.

It is gratifying indeed to note that the realistic policies implemented in the last three years together with the assistance extended by friendly governments and international institutions within the framework of the Intergovernmental Group on Indonesia - of which most of you are members - have borne the fruits we have been hoping for.

Nevertheless, my Government is fully aware that there is no reason to be complacent and that a prolonged period of stabilization and development efforts still lie ahead.

Fiscal year 1969/1970 is considered to be the year of transition from stabilization to development with stability. It is also the year of the initiation of the Five-Year Development Plan.

The year of 1969 was still a year of stabilization efforts, in the sense that the results achieved in stabilization still had to be maintained and reinforced in order to prevent the reappearance of inflation and other economic obstacles and to ensure the success of development.

At this early stage of development, when the public sector still plays a very decisive rôle, government budget is an extremely important instrument and mechanism as an annual operational plan. In view of this and in order to relate its effect more closely to seasonal variations in economic activity, my Government has changed the fiscal year as from this year, to one starting from 1 April and ending on 31 March.

Government finance

The Government Financial Note in the State budget for 1970/71 explained that the limited domestic financial resources and the need to carry out development programmes has prompted the Government to seek additional financial resources from abroad.

The Government's basic policy in international economic relations is to obtain an expanding market for our export products and additional foreign exchange aid to supplement the financial resources for the financing development projects. For the same reason the policy of maintaining the exchange rate stability and of confining imports to vital commodities through import, fiscal, and credit policies will be continued. The import policy for 1970/71 follows the same line and direction of the previous budget year, and aimed at further promoting productive activities.

Budgetary performance for the years 1967, 1968 and 1969/70 and the projected budget for 1970/71 can be seen on the table supplied to the Committee (cf. BOP/105/Add.1). The 1968 and 1969/1970 budgets are in overall balance at Rp 185,283 million and Rp 334,762 million respectively, while the budget for 1970/71 will be balanced at Rp 449.9 billion.

Balance-of-payments developments

In estimating the balance of payments for the 1970/71 fiscal year, the trend in the previous fiscal year (1969/70) has served as a basis. The balance of payments for 1970/71 is estimated to have a deficit of \$459 million, which is 8 per cent higher than the deficit in 1969/70. It is envisaged that the deficit may be covered by a net capital inflow of \$459 million which will be 30 per cent higher than the net capital inflow in the 1969/70 fiscal year.

Exports in 1970/71 are estimated at \$1,113 million, an increase of 7 per cent from those in 1969/70. Exports excluding oil total US\$676 million, representing an increase of 3 per cent from such exports in 1969/70.

On the other hand, imports in 1970/71 are estimated at US\$1,159 million which constitutes an increase of 8 per cent from the 1969/70 level. If the import of oil is excluded then the figure will amount to US\$1,059 million, which means an increase of 8 per cent from those in 1969/70. Thus the trade balance is expected to suffer a deficit of US\$46 million, or 22 per cent higher than in 1969/70.

With a deficit of \$413 million on the services account, the total deficit on the current account is expected to be \$459 million which will be met by net official and private capital inflow.

Official transfers and capital inflows are estimated at \$480 million, consisting of programme aid amounting to \$340 million and project aid to US\$140 million. From this an amount of US\$84 million will have to be deducted for debt servicing. Besides, transfer of private capital will amount to US\$63 million.

Owing to the genuine efforts of our Government, which has committed itself to economic development and thanks to the assistance provided by friendly countries, we have reached a stage of relative stability. In order to achieve economic expansion while maintaining economic stability, the Government has launched the 17 April regulation, which basically made the currency fully convertible. This policy could be considered not only bold for a developing country, but also the first of its kind introduced by a country which for years has suffered from economic deterioration.

We feel that the new policy is a right one and as evidence you may compare the figures from the months of April-September 1970 with those before April 1970 which bear out the correctness of the course the Government has taken.

Our total exports were \$274 million (non-oil \$174 million, oil \$100 million) in the first quarter of 1970, \$287 million (non-oil \$179 million, oil \$108 million) in the second quarter, and \$303 million (non-oil \$193 million, oil \$110 million) in the third quarter. For the same period in 1969 the figures are:

\$ million	Total	Non-oil	Oil
First quarter	230	144	86
Second quarter	243	157	86
Third quarter	270	179	91

Taking into consideration the declining trend in the price of rubber, a commodity which accounts for a large part of Indonesia's foreign exchange earnings from non-oil commodities, the export performance must be regarded as encouraging. Although the prices for other commodities such as coffee and pepper have indeed slightly moved upwards in April-September, these increases do not compensate for the reduction in earnings caused by the decline in the price of rubber. The encouraging trend is evidenced by the increase in the volume of exports; the first quarter of 1970 showed a volume of 9,807,300 tons while in the second quarter this was 10,694,400 tons.

The Government of Indonesia fully recognizes the importance of providing incentives to exports as a prerequisite to the realization of the Five-Year Development Plan which required an increasing amount of foreign exchange.

In order to give the necessary support and incentives, the Government of Indonesia has provided certain facilities to exporters and producer-exporters. Associations have been set up among others, for coffee, pepper and copra, with a view to ensuring proper remuneration for producers, better product processing in order to face competition in both domestic and foreign markets. Continuous efforts are also being taken by the Government to improve the marketing of export products. Associations of producing countries have been established for rubber, copra and pepper with the objective of co-ordinating production and marketing in order to maintain stable prices at a reasonable level.

Furthermore, the export policy will be directed towards the attainment of substantial growth and diversification both in the types of export goods and the direction of trade. In improving the industrial sector, priority will be given to investment in the field of export production and will be decided on the basis of productivity and foreign exchange earnings potential. The Government has already taken the decision to provide credit facilities to exporters for the collection of export commodities, so as to prevent the use of less acceptable financing from foreign resources.

There are a number of factors which are beyond our control, notably the tariff and non-tariff barriers in importing countries.

Since 17 April the amount of foreign exchange bought at the bourse for import purposes no longer reflects the actual level of imports. This is due to the possibility of foreign exchange bought for services payment being used for the purchase of goods. How much of the foreign exchange sold on services account has been actually used for the purchase of goods is not yet known.

Subject to this qualification, the foreign exchange sold for import purposes has been as follows: for the first quarter of 1970, \$181.5 million; for the second quarter, \$173.2 million, and for the third quarter, \$126.9 million. These figures do not include imports of parcels, PL 480 shipments or imports financed by foreign aid.

The import policy is primarily geared to attain a relative stability in prices and simultaneously to support production of those products that have been accorded priorities in our Five-Year Development Plan. In this context the Government has adopted a programme for the importation of these items, and for the proper execution of this programme has established an importers association and a distributors association.

As for the protection of domestic industries the import policy provides for the prohibition of imports of certain goods. These policy measures have been taken because these goods are already produced locally in satisfactory quality and because of the dumping practices of some countries. However, these import prohibition measures are subject to certain conditions; local producers have to guarantee the quality of their products, are not allowed to raise their prices and are required to provide the consumers with adequate supplies. If these conditions are not met, the prohibition will be revoked.

Furthermore, the import policy will be pursued in a way which will alter the composition of the imports in line with the objectives of the development plan.

In the field of the customs tariff I wish to inform the Committee that further to the reform effected in January 1970, the Government, by Decision of 23 October 1970, has again reduced import duties on 125 items. This new tariff reform has the effect of further reducing the average effective rates to 58 per cent as compared to 64 per cent in 1969 and 61 per cent in January 1970, as shown in Table 10 of document BOP/106.

The rate of inflation after the new regulation of 17 April 1970 can generally be described as favourable. The monthly inflation rates are as follows:

January 1970	+ 7.29 per cent
February 1970	+ 0.04 per cent
March 1970	- 0.44 per cent
April 1970	- 1.52 per cent
May 1970	+ 0.24 per cent
June 1970	+ 1.75 per cent
July 1970	+ 0.23 per cent
August 1970	- 0.24 per cent
September 1970	- 1.8 per cent

The background paper prepared for this consultation by the GATT secretariat concludes that Indonesia, with her rich and varied natural resources, faces very favourable export prospects over the longer term. This conclusion emerges also from similar studies undertaken by other international organizations, such as the World Bank, the FAO and the IMF. At the same time, however, it is obvious from all these documents that Indonesia will have to make very considerable efforts to increase exports so as to ensure sufficient foreign exchange for both imports, particularly those of the vital investment goods, and for the repayment of foreign debt. Despite the progress already made in restoring the effectiveness of internal administration, Indonesia will need foreign assistance to meet these

targets, in particular technical assistance aimed at improving both the production and marketing of export goods, and at introducing new products into export trade, With the exception of petroleum and mining, there is hardly a category of exports where both unit and total export earnings could not be considerably improved by judiciously applied technical assistance programmes of this kind. By way of illustration, I shall mention only two export sectors to indicate our need for, and the potential benefits of, technical assistance.

Among the more recently developed exports, those of forestry and fishery products enjoy particularly good export prospects. At the same time, further expansion of these exports would have a very favourable impact on employment. These, however, are sectors in which further expansion largely depends on government initiative and planning and in which, therefore, technical assistance would be most useful. In the field of forestry, a thorough assessment of natural resources has to be undertaken to furnish a basis for the formulation of an effective policy for granting concessions. Further research will be needed for determining potential uses of those timber species which are not yet commercially exploited, and for finding markets for them. Timber extracting and processing methods of small indigenous enterprises will have to be improved. In the field of fisheries, large training effort will have to be undertaken to ensure adequate supply of skilled operators for modern fishing vessels. There is large scope for increasing the exportable supplies by a more efficient internal marketing of the catch.

The Indonesian Government is now engaged in formulating its priorities in the field of technical assistance aimed at promoting exports, and I hope that this expanded consultation will also increase the understanding of donor governments of our needs in this area.

Commercial policy constitutes another area in which appropriate action could considerably relieve the problems now pressing on our balance of payments. I do not have to remind the members of the Committee of our past efforts in this area, nor of the fact that we are still looking for relief by way of reduction or elimination of tariffs and non-tariff barriers - either in the context of generalized scheme of preferences or otherwise - on a number of agricultural, mainly processed agricultural products in which our economy has been showing a promising export potential.

As we have stated on several occasions in GATT and other international organizations, my country belongs to the group of developing countries which have no attachment to or arrangement with any exclusive economic grouping such as the EEC or the Commonwealth.

My delegation, at the last Session of the Special Committee on Preferences, hailed the General Scheme of Preferences as a measure intending, as one of basic objectives, to do away with existing discriminatory practices in some trade systems. The Indonesian representative also requested the inclusion in the positive list of donor countries such products as pepper, tea, palm oil, coffee, manioc, unmanufactured tobacco, etc. which represented between \$100 and \$115 million, or about 25 per cent of Indonesia's export (excluding oil). There is no denying the fact that our products are suffering from existing tariffs and discriminatory treatment with consequential adverse effects on our export earnings.

The Indonesian delegation is very pleased today of having the opportunity of exchanging views with the distinguished members of the Committee and my Government has specially sent representatives from Djakarta to take part in the discussion.

We are sure that this deliberation will bring forth practical and useful suggestions and views, which will be of benefit to Indonesia in her endeavour to improve her economic situation, especially with regard to commercial policy measures used by other contracting parties which either limit or discriminate against Indonesia's products.

My Government hopes that this consultation will lead to the identification of our external trade problems and in the light of these difficulties suggestions would emerge on ways and means to improve Indonesia's export earnings and balance-of-payments situation.