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TRADE POLICY REVIEW MECHANISM

Communication from the Republic of Indonesia

The attached communication¹ from the Government of the Republic of Indonesia responds to questions raised by Australia, the Nordic countries, the United States, New Zealand and Switzerland during the trade policy review of Indonesia held on 25-26 April 1991.

¹English only.

I. INDONESIA'S ECONOMIC AND TRADE REFORM

QUESTIONS BY AUSTRALIA

Q. Noting the pattern of reversal of some reform initiatives identified by the Secretariat, please provide an assessment of which measures have been most effective in achieving the Government's objectives of increasing efficiency and export diversification?

A. Indonesia's reform efforts started by dealing with the most basic macro-economic variables which could serve as a foundation on which to base a sound, sustainable long-term non-inflationary growth, namely the foreign-exchange régime and the banking reform. In one sweep, the entire macro-economic management is geared to respond to market signals.

At a later stage, the efforts are concentrated on attacking directly the impediments to efficient operation across whole sectors by identifying specific steps.

Q. What is the contribution made to the reform process by any independent, ad hoc or other research bodies which have focussed on the cost and benefits to the domestic economy of protection and liberalization?

A. Discussions between the Indonesian Government and various international agencies such as the IMF and the World Bank on domestic reform have taken place for quite some time as a matter of routine. To the extent that reform and adjustment may have costs, there is a need to have access to financial assistance during the time of adjustment. In this case, Indonesia was privileged to have access to such facilities as the World Bank Trade Policy Adjustment Loans where credit incentives are made available to undertake adjustments in trade policy. Various experts have also been called from time to time.

Q. What are the external difficulties faced in maximizing the gains made from unilateral liberalization?

A. The most difficult external problem we faced in maximizing the gains made in liberalization is the question of external recognition. Reform is a difficult process. While it has a distinctly technical component, it is also a delicate political process. There has not been sufficient recognition of the significance of the efforts made, of the domestic political risks which the Government has taken, and of its intention to continue the reforms. We therefore appreciate those high-income, developed countries who have taken an enlightened view.

One also needs to bear in mind that such liberalization effort is a two-way road which must be met by free international market through an equivalent effort by major trading partners in encouraging a less distorted international trading environment.

QUESTION BY DISCUSSANT

Q. Are there any plans to change this policy (the market driven, deregulation of the financial sector, relaxation of rules on inward investment and liberalization of the trade régime, and the exchange-rate policy of Bank Indonesia) or any further assessment of this experience by Indonesia in this area?

A. The structural adjustment that has taken place in Indonesia for the last several years had been based on a conviction that a market-driven economy will lead the economy to be more efficient by allowing competition to take place. From the performance of the economy in the last few years, the Government feels assured that the structural adjustment bears promising results. Against that background, the Government will endeavour to keep this policy and, if possible, deregulate further sectors of the economy according to the need.

In the financial sector, the deregulation of the sector in the past few years has made the sector a very open one. In the banking sector, for instance, allowance is made to have new joint venture banks and also bank offices in 8 large cities in Indonesia. Similarly, non-bank financial institutions have also experienced deregulations which made them open to competition from new entrants. Recently, new regulations were becoming more in conformity to international regulations. Besides, the Government has already submitted a draft of a new Banking Act in order to increase the predictability and the transparency of the banking regulations in Indonesia.

In the field of exchange rates, Bank Indonesia will maintain the existing exchange-rate policy in which the exchange rate of the Indonesian currency is adjusted to the development of a basket of currencies and the inflation rates of the trading partners. This policy has proved to be providing an environment of stability and has improved the business and investment climate in Indonesia.

II. INDUSTRIAL POLICY

As a part of her development programme, sectoral diversification is one principal operating objective. Excessive dependence on a narrow range of primary products placed the country in a precarious situation of being a captive of price and income fluctuations. Moreover, primary products alone

could not be expected to absorb the employment needs. Industrialization is therefore an essential part of Indonesia's development programme to absorb employment, increase income and diversify the structure of the economy.

QUESTIONS BY THE NORDIC COUNTRIES

Q. Some areas of industry like steel and textiles are still highly protected. Any plans for reduction? What time frame?

A. Steel is considered a strategic sector. The industry is still in its infancy. We intend to develop further our capacity to meet domestic demand. However, to make the steel industry competitive, Indonesia has in the past gradually reduced the protection of the steel industry. This process is expected to continue in the future in line with the strengthening of the steel industry in the country. Each time, we have to look into the matter before some policy changes could be made.

Textiles is a new industry. We are just developing our capability in recent years. In the Uruguay Round, we have made a conditional offer for tariff binding in textiles, subject to satisfactory agreement in textiles. However, Indonesia as one of the textile-producer developing countries is prepared to see the integration of the textiles sector into the GATT. In this respect, the reduction of textiles protection in Indonesia can be reduced along the lines of the agreed textile arrangement in the Uruguay Round.

Q. Very high local content requirements are placed on important sectors under State control (shipbuilding, steel, cement, fertilizers). Are there any plans to change these requirement towards liberal ones?

A. By its nature, local content in cement production is high. The rôle of SOE (State-owned enterprise) in the cement industry has been declining since privately-owned cement producers hold the larger part of the market share. Similarly, the primary material input for fertilizer production is hydro-carbon (either natural gas or crude oil), which does, of course, lead to a high local content. For those products no local content requirement is placed by the Government. The raw materials of the cement, steel and fertilizer industry can be sourced from the most economic sources. Since many of the raw materials for those industries are available domestically at the most economic prices, it is natural that most of the raw materials are sourced domestically. However, for the steel industry most of the raw materials are imported.

Q. For commercial vehicles, the requirements of 100 per cent local content of components seem to be applied in an arbitrary way between

different producers. Are there any plans to change these requirements towards more liberal ones?

A. As mentioned in the official statement, the employment creation is an overriding concern of the Government due to the large inflow of the labour force seeking jobs. Therefore, the industrial policy for commercial vehicles is to prepare the country in building up the technological capacity through the requirement of the use of local components. Through this policy, thousands of jobs were also created in the production, the distribution, maintenance and related services of the commercial vehicles. This policy has already achieved the major part of the objectives.

At this stage, the production of commercial vehicles using local domestic components has become increasingly competitive. It is hoped that the protection of this industry will gradually be reduced in the coming years.

QUESTIONS BY THE UNITED STATES

Q. What appropriate Government or quasi-Governmental entities are responsible for certifying and establishing industrial quality standards?

A. The process of establishment and certification of industrial quality standards involves the Ministry of Industry and recognized private institutions. At the stage of establishing standards, the Research and Development Agency develops the proposal for a certain standard in consultation with the producers, consumers and technical experts. The agreed proposal will subsequently be approved by the Minister of Industry in the form of an Industrial Standard Certificate.

For industrial products in which standards have been established, the certification is done by Government agencies or by private institutions recognized by the Ministry of Industry.

Q. What are the prescribed procedures for obtaining import approval for industrial products?

A. The import régime of the industrial products in Indonesia comprises free imports, regulated imports and prohibited imports. For the products that can be imported freely, there is no approval needed for importation of such products. For the products under regulated import classifications, several categories of importers are approved to undertake the importation of the products, i.e. sole distributors (AT), producer-importers (PI), importer-producers (IP) and approved importers (IT). The procedures for importing under this category are broadly the same as for free imports. In the last several years, as noted in the GATT report, many products under

this category have been liberalized and can be imported freely by any importer. For prohibited imports, there are cases in which second-hand products (such as machinery) are allowed to be imported. The importation of this product is made possible by having the imports approved by the Ministry of Trade after having obtained a recommendation from the Ministry of Industry.

III. AGRICULTURE

Agriculture is an important basic sector which provides income to the low-income population. Domestically, the thrust is to ensure productive capability so as to enable development of basic food production at an economic rate.

QUESTIONS BY THE NORDIC COUNTRIES

Q. There seem to be no major reforms planned in agriculture. The sector has received subsidies in the form of input subsidization. Trade in essential products is controlled by the State. Are there any plans to deregulate or are they still regarded as essential for maintaining the needed level of production to ensure self-sufficiency in major products?

A. In agriculture, the basic thrust of policy is to increase productivity, to expand infrastructure to be restored to the level of efficiency of the pre-war levels. At this stage, the self-sufficiency in rice production has been achieved for a number of years and has brought about increased income of farmers. The achievement of the objective has also increased the purchasing power of the rural people which in turn has encouraged the progress in the manufacturing and other sectors.

The Government strongly believes that an efficient agricultural sector is an attainable objective. With the progress achieved so far, the Government has already reduced gradually the amount of the fertilizer subsidy extended to farmers. Against this background Indonesia along with other efficient agricultural countries of the Cairns group has made considerable efforts in the Uruguay Round to reach an agreement on reductions of subsidy levels in the agricultural sector.

QUESTIONS BY NEW ZEALAND

Q. Import licenses are required among other things for apple imports. We understand that there has recently been some suggestion that these licenses could be interpreted as specifying which country the product is to be sourced from. If correct, this would appear to discriminate between contracting parties. Can Indonesia provide assurances to contracting parties on this?

A. Licenses to import apples are given to, among others, the Approved Importers. The Ministry of Trade issues licenses regularly for a certain value of products. It is not stipulated in the issuance of licenses to import certain products from a particular source. It is the approved importers who decide where the products would be imported based on their judgement about the quality and the prices of the product.

IV. NATURAL RESOURCES

QUESTIONS BY THE NORDIC COUNTRIES

Q. Are there any plans to reduce export restrictions for natural resource-based industries? Judging from the data on export performance, Indonesia's own export industry of higher value-added products seems to be of high competitive standing which casts doubt on the need for this kind of protection. Is it still regarded as necessary in order to enhance export possibilities?

A. Different options are being seriously considered by the Government of Indonesia. The primary objective of the export restrictions policy is to promote domestic processing in order to:

- maximize value added;
- create more jobs;
- augment income;
- promote development of rural/remote areas;
- conserve the raw material base.

Achievement of socio-economic as well as conservation objectives are the main thrust of the policy introduction and implementation.

Creation of jobs is among the top priorities of economic development. As an illustration, man-hour requirements for production of 1 m³ of logs, sawn timber, moulding and plywood and furniture are 3, 6 to 10, 15 to 20 and 75 to 100, respectively.

QUESTIONS BY THE UNITED STATES

Q. What plans does Indonesia have to reduce or eliminate export restrictions such as those on certain wood products?

A. The maximum annual log production has been set at 31 million cubic metres in order to keep the production at environmentally and economically sustainable level. In recent years, realized products have varied between 22 to 25 million cubic metres to feed both saw milling and ply milling industries. Restriction of sawn timber exports is expected to improve the industry's efficiency and raw materials usage. This implies that non-efficient millers will be eliminated from the business. At the same time, the policy is intended to speed up the development of down-stream industries in order to realize the socio-economic as well as conservational objectives of forestry development.

In the case of sawn timber, exemption of certain species from the restrictions may pose a new problem. It should not be forgotten that many species have very similar morphological performances. Exemption of particular species may lead to manipulation in terms of species and quality. Therefore, this option requires special attention.

The policy of restricting sawn timber exports along with strict enforcement of forestry laws has had a positive effect on forest conservation as indicated by log production figures mentioned above.

V. TRADE POLICY

(a) Trade Reforms

QUESTIONS BY AUSTRALIA

Q. Noting that a significant element of reforms to date has been an overhaul of customs procedures, please provide further information on customs administration procedures, particularly the extent of Ministerial powers to make changes to the import régime for certain products.

A. The Minister of Trade is fully responsible for the formulation of import policy. However, in formulating the policy, the Minister undertakes consultations with other relevant Ministers. There are also possibilities for the private sector to express their opinion to Ministers. In the case where the formulation relates to commodities with extensive interests, the Minister of Trade shall consult other Ministers under the coordination of the Coordinating Minister for Economics, Finance and Industry. When it is necessary, Ministers may have guidance from the President.

Q. Please also provide further details on procedures for tariff classification.

A. Since January 1989, Indonesia has been implementing the tariff classification based on the Harmonized System, covering 9,066 tariff lines.

The system has 9 digits, of which the last 3 additional digits are for national sub-headings.

Q. It is noted that while tariffs and import licensing are the principal instruments of import policy, escalation is a significant feature, bindings are low, and surcharges are used as a mitigating instrument. What are the Government's intentions regarding possible further tariff reforms and a more uniform assistance structure?

A. As a part of tariff reform, Indonesia has been taking steps to move away from non-tariff measures to tariffs. As a result, Indonesia has reduced significantly non-tariff measures as a form of trade policy and it will continue to do so on a stage by stage basis. In pursuing our development efforts, the protection of domestic industries will be implemented in the form of tariffs in conformity with GATT disciplines.

(b) Import restrictions

QUESTION THE NORDIC COUNTRIES

Q. The level of tariff bindings is rather low (10 per cent). What is the possibility of Indonesia increasing its binding?

A. The level of bindings by Indonesia is not too low among developing countries. Indonesia also offers binding in textiles conditional on satisfactory conclusion of the textiles agreement in the Uruguay Round. An offer of an additional 1,016 bound tariff lines was submitted in November 1990.

QUESTIONS BY THE UNITED STATES

Q. Could Indonesia please give a status report on its programme of non-tariff barrier liberalization?

A. The most recent measures on the liberalization of non-tariff measures was the Policy Package of May 1990.

Q. At what pace will the removal of most or the transformation of quantitative and licensing imports be?

A. In the past, a series of tariff reforms consisting of 1986, 1987, 1988, 1990 Policy Packages were implemented. Each package contained ever-increasing numbers of deleted non-tariff regulations and substituted tariffs for them.

Q. Is a new "deregulation package" planned for implementation this year?

A. Deregulation is a process which involves continuing discussions and consultations among related Ministries and Government Agencies.

QUESTION BY NEW ZEALAND

Q. Has Indonesia notified these surcharges to GATT? What steps, if any, has Indonesia taken to negotiate and reach agreement with interested CONTRACTING PARTIES on any products where a surcharge has effectively breached GATT bindings? Can Indonesia give a commitment to implement rigorously a one-year limit on surcharges? Does Indonesia intend to maintain, extend or reduce the implementation of these surcharges?

A. Surcharges are intended to be temporary. The intention is to eliminate these. The schedule so far is for September 1991.

QUESTIONS BY SWITZERLAND

Q. At present, less than 10 per cent of the tariffs are bound. The country report indicates that Indonesia envisages an extension of the product coverage for tariff bindings. What is the timeframe of the programme envisaged and what are the products which are likely to be consolidated into bindings?

A. Binding will be done in stages. However, the process will be gradual. This process will take place. In the meantime, the process of tariffication, which is the essential first step, is not yet fully completed. The process is still continuing. The Tariff Committee continues to monitor the developments. The Committee makes continuous assessment on where to go next.

Q. The Secretariat report indicates that less than 5 per cent of the tariffs bound are set at the level of the applied tariffs. Therefore, there exists for most of these products a substantial margin of protection between the level of binding and the effective rates, the latter being sometimes substantially higher than the bound rates. Would Indonesia remedy such a situation?

A. As a long-term objective, gradual tariff reductions and progressive bindings over time would be sought. However, the process of trade reforms in any country is unique to that country. Past records indicate that Indonesia has been persistent in its reform. What cannot be indicated at present is the timeframe and the selection process. The process will take place pragmatically. We will undertake each reform as opportunity arises. Past records indicate that the frequency of reform is high, the speed is rapid but the steps cannot be predetermined in advance because it involves continuous domestic negotiations in the country.

(c) Pre-shipment inspection

QUESTION BY THE UNITED STATES

Q. We note Indonesia's decision to contract with SGS for pre-shipment inspection and the adoption of a GATT-legal duty exemption/drawback system for imports. However, we understand that Indonesia has announced plans to reinstate its own Customs Services and not to renew its SGS contract.

Can Indonesia share with the CONTRACTING PARTIES where this process stand, and when it will be completed?

What procedural operations will be implemented once Indonesia resumes its own customs operation?

A. Indonesia has used the services of SGS for pre-shipment inspection in order to facilitate the process of imports, which in turn, facilitates the process of trade and economic activity in general. However, it was always made clear that when our system of customs procedures has been properly established, the Customs Services will indeed be reinstated. However, we are open to the need to develop other services in the field of pre-shipment inspection which may be needed.

QUESTION BY SWITZERLAND

Q. In the Indonesian Report, it is indicated that the practice of counter-purchase is one of the instruments of trade policy for Indonesia. It is also stated that counter-purchase is not applicable to transactions if the source of funds originates from soft credit. What falls under the criteria of credits extended on favourable conditions?

A. Under various development assistance programmes, Indonesia is recipient of credits under favourable terms with respect to the interest rates and maturity. These credits also cover export credits. Counter-purchase requirements cannot be applied to these credits. On the other hand, some of the countries extending these loans may, on their part, impose conditions that would tie the use of the credits to purchase goods only from that country.

To the extent that the goods from those countries extending credits may be judged to be too expensive, the credits may in fact remain undisbursed for quite some time. However, because a borrowing country may use the availability of a credit line to cushion its foreign-exchange reserves, those credits may be contracted in any case, even if the disbursement is slow.

VI. INVESTMENT POLICY

Foreign investment is an important component in the development process. As a matter of basic policy, we encourage the inflow of investment. Policy changes in the detail according to the sectors we wish to develop. But the process of making the investment climate attractive will be an evolving one. The Government in turn will adjust according to new realities.

QUESTIONS BY NEW ZEALAND

Q. The Secretariat report notes several points where informal procedures are important in Indonesian trade policy. This can hamper transparency, predictability and consistency. We understand that New Zealand exporters have experienced a case where a license to invest in a domestic company was issued after satisfying all requirements, then withdrawn and rewritten without satisfactory explanation. Can Indonesia comment on such informal practices?

A. Each country has a specific culture in the decision-making process. Informal consultation among various ministries constitute a speedy way to formulate appropriate policy decisions. The informal procedures are exercised only in dealing with particular cases. It seems difficult to ask a country to cease its practice of consultation among agencies involved.

Regarding the experience of New Zealand exporters, we would like to inform you that during the period of January 1987 - April 1991 there are only four approved investment projects from New Zealand (joint ventures between New Zealand and local companies). The projects are in the fields of wood processing, nutritional powder and furniture industries. All approvals issued for those projects have never been withdrawn.

If the case experienced by New Zealand exporters related to the nutritional powder project, the matter was as follows: The New Zealand Dairy Board and PT Suqizindo submitted an application to form a joint venture project in the field of "nutritional food processing industry". The Government approval was issued stating the field of investment to be exactly the same as mentioned in the application.

During the implementation of the project the company produced milk powder which was marketed widely. According to the Priority List for Investment valid at that time, the production of milk powder was open only for domestic investment and foreign joint ventures were not allowed to invest in that field. This information was widely known by investors. The Milk Producers Association protested the production of milk powder to for the above joint venture. The Government then sent a letter to the joint

venture company, clarifying the type of products allowed to be produced via BKPM letter No. 2006/A.2/1987 dated 8 December 1987.

Since the issuance of that letter there was no further claim submitted by the joint venture company. The case has been solved and the company can operate its project in accordance with the license given.

VII. GATT RULES

QUESTIONS BY THE NORDIC COUNTRIES

Q. Indonesia does not have countervailing or anti-dumping duty legislation. It seems that import surcharges have at least in some cases been used as a substitute for anti-dumping duties.

Are there any plans to introduce anti-dumping legislation, or do away with high import surcharges?

A. Import surcharges are normally imposed to provide the margin of protection in the process of tariffication to replace the level of protection given in the form of non-tariff protection. They are not intended as a substitute for anti-dumping measure.

As to the question of whether Indonesia intends to introduce an anti-dumping legislation, the question is still an open one. We are examining the entire question with an open mind.

QUESTION BY SWITZERLAND

Q. Indonesia is a signatory of the Code on Subsidies and Countervailing Duties. She has an observer status in the Committees of the Codes on Technical Barriers to Trade, Government Procurement, Customs Valuation, Import Licensing, Trade in Civil Aviation and Anti-dumping.

Is Indonesia envisaging signing the codes?

A. The entire range of GATT rules are currently under negotiation in the Uruguay Round. The Round is expected to deal with improving all GATT rules and to take into account the development needs of developing countries. We will take a final position on those Codes in the context of our overall assessment of the package negotiated in the Round. However, we are following the negotiations very closely.

VIII. INCREASED PARTICIPATION IN GATT ISSUES

QUESTIONS BY THE UNITED STATES

Q. Indonesia calls for greater participation by developing countries in GATT. It is noted, however, that the "lack of training and information networks regarding GATT issues and negotiations" limits developing countries' ability to effectively participate.

Can Indonesia explain more specifically the limitations that it sees as interfering with developing country GATT participation and provide examples of how Indonesia believes that the GATT CONTRACTING PARTIES could best help address this problem?

A. The Indonesian delegation is grateful for the question posed by the United States' delegation. The GATT is not a well-known and well-understood international institution, even among officials in economic ministries and the newly emerging business community.

Indonesia's active engagement in GATT has only taken place during the Uruguay Round. There is a learning process needed. We are making efforts to make the multilateral trading system, especially GATT matters, to be better understood by wider communities.

Indonesian trade officials, who in the past had not been engaged in GATT issues extensively, are now beginning to be trained to deal with the technical issues of GATT. Indonesia has been recipient of technical assistance for training of trade officials from the Government of the Netherlands and the United States AID in the context of development assistance. The Indonesian Government wishes to express its appreciation to the assistance provided by the Netherlands and the United States. We hope to extend this awareness to the business community and the general public in view of the increased importance of trade in the economic life of the country.