



**TRADE POLICY REVIEW**

REPORT BY

INDONESIA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Indonesia is attached.

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## 1 INTRODUCTION

1.1. Indonesia is Asia's fifth largest economy, the fourth most populous nation in the world and endowed with abundant natural resources. Strong macroeconomic performance can be attributed to successful policy management and to the substantial reforms undertaken since the Asian crisis that strengthened the macroeconomic framework and liberalized the international trade regime. Considerable investments in network industries have boosted potential output, and further improvements are expected with the gradual implementation of the Master Plan for the Acceleration and Expansion of Indonesia's Economic Growth.

1.2. Indonesian economy was continuously improving during 2010, bolstered by solid domestic demand and favourable external condition. The global economic recovery that began gaining traction during the first half of 2009 progressed further during 2010, underpinned by vigorous growth in emerging market nations. This upward trend was accompanied by sustained increases in global commodity prices that have increased inflationary pressure, particularly in emerging market economies. In advanced economies, however, economic growth is relatively limited, accompanied by low inflationary pressure. This condition prompted emerging markets to start monetary tightening by implementing macro prudential policies and raising policy rates. In contrast, advanced countries have generally opted for maintaining a loose monetary stance by holding interest rates down, while some countries have even injected their economies with substantial amount of liquidity (quantitative easing). The difference in the crisis responses between emerging market countries and the developed world spurred massive capital inflows to emerging market economies, including Indonesia.

1.3. Indonesia also plays a much bigger role in the global economy. Currently, it ranks 17th as the world's largest economy. Indonesia will continue its significant involvement in many regional and global forums, e.g. WTO, ASEAN, APEC, G-20 and other bilateral activities. In 2013, Indonesia will be a host country for APEC Summit Meeting (October 2013) and WTO Ministerial Conference IX (December 2013) in Bali. Indonesia had successfully overcome the 2008's global economic crisis, which was highly praised by international economic agencies. While other countries experienced their debt rating being down-graded, Indonesia on the contrary improved its debt rating significantly.

## 2 ECONOMIC AND TRADE ENVIRONMENT

### 2.1 Main economic and policy development

2.1. The near-term global economic outlook is fragile and emerging economies, including Indonesia, again face the risk of a potential crisis that is not of their making. The growth outlook for Indonesia's major trading partners (MTP), at 3.3% in 2012, remains relatively weak as increased Euro zone uncertainty adds to the ongoing drags on global growth from budget cutting and deleveraging in developed economies, and capacity constraints in some developing economies. Recent international financial market turbulence looks set to continue in the near-term and, while this baseline scenario remains the most likely outcome, capital flows to emerging economies and sentiment are likely to remain volatile. Further enhancing crisis preparedness is therefore a policy priority for economies such as Indonesia but, at the same time, it is important to push ahead with reforms and investments which can support medium-term growth in what is likely to be a weaker global economic environment.

2.2. In 2011, the Indonesian economy showed excellent performance in the midst of the global economic slowdown, Europe debt crisis, climate change and natural disasters on a global level, as well as political tensions in the Middle East and North Africa. Indonesia's economy grew by 6.5 in 2011, the highest in the period 2007-2011, and it was the highest growth rate since the economic crisis in 1997/1998. Economic growth in 2011 was mainly supported by domestic resiliency in the form of increased investment, a stable purchasing power, and the growth of exports of goods and services. From the expenditure side, economic growth in 2011 was primarily driven by investment in the form of Gross Fixed Capital Formation as well as exports of goods and services that grew respectively by 8.8% and 13.6%. Purchasing power was maintained, people's consumption and government consumption grew respectively by 4.7 and 3.2%. From the field of business side, the economic growth of 6.5% was mainly sourced from non-oil manufacturing sector, agriculture and

trade, hotels, and restaurants as well as transport and communication sectors grew respectively by 6.8%, 3%, 9.2% and 10.7%.

2.3. The improved performance of non-oil industries became the driver of economic growth from the production side. In the whole year of 2011, non-oil manufacturing grew by 6.8% and was primarily driven by base metals, iron and steel; food, beverages, and tobacco; textiles, leather goods, and footwear; cement and mining, as well as transportation vehicle, machinery, and equipment. The improvement of this non-oil manufacturing industry will generate optimism of resurgent of industrial sector as a driver of the economy, after non-oil manufacturing industry slowdown since 2006.

2.4. The momentum of economic growth and stability also boost economic growth quality. This is reflected by reduced levels of poverty and unemployment. In 2011, the number of poor people decreased to 30.0 million people (12.5 %) or decreased from 37.2 million people in 2007 (16.6%). The number of unemployed has fallen to 7.7 million people, or decreased from 10.0 million people in 2007. Human resource development achievement was also improved, indicated by the human development index (HDI) and various human resources indicators in the Millennium Development Goals (MDGs). HDI increased by 0.572 to 0.617. In 2012, strived a better quality of growth, with the implementation of various programs for the poor with a wider distribution.

2.5. Indonesia's GDP growth remained a solid 6.3% year-on-years in the three quarters of 2012, down slightly from an average of 6.5% in 2011. Seasonally-adjusted growth overall came down off the highs of the final quarter of 2011 but consumption growth held up well. The Government of Indonesia targeted that the economic growth 2012 is 6.5% in 2012. This will be supported by a maintained economic stability and strengthened domestic economy. From the expenditure side, investment, private consumption, and government expenditure will be a key driver of economic growth and estimated to grow by 10.9%; 4.9%; and 6.8% respectively. Exports of goods and services will grow at the lower rate, due to the global economic slowdown. From the production side, economic growth will be driven by manufacturing industry targeted at the rate of 6.1% along with the improvement of investment climate; whereas agricultural sector grew 3.5%, mining and quarrying sector grew 2%, and tertiary sectors, i.e. electricity, gas and water supply; construction; trade, hotels and restaurants; transport and communications; finance, real estate, business services; and services increased respectively by 6.2%; 7%; 8.9%; 11.2%; 6.3%; and 6.2%.

2.6. Indonesia has stipulated the acceleration and expansion of economic development to support its transformation into a developed country by 2025. MP3EI embodies the transformation of the national economy with the orientation based on strong economic growth, inclusive, and sustainable quality. MP3EI Implementation is expected to become an engine of economic growth and job creation, as well as encourage equitable development in the region throughout the country. Within the next 15 years, it will develop industrial clusters, both to improve the linkages between upstream and downstream industries, and between growth centres with the buffer zones. Leading industries in various regions will be built to strengthen the domestic economy structure. In order to realize the vision as a developed and prosperous nation by 2025, Indonesia is determined to accelerate the economic transformation. Therefore, Indonesia prepared The Masterplan for Acceleration and Expansion of Indonesia Economic Development (MP3EI) that put forward not business as usual approach, involving all stakeholders and focused on tangible and measurable priorities. However, MP3EI is an integral part of the existing national development planning system.

2.7. The Masterplan for the Acceleration and Expansion of Economic Development of Indonesia (MP3EI) provides the building blocks to transform Indonesia into one of the 10 major economies in the world by 2025. To achieve this, real economic growth must reach 7-9% per year, on an ongoing basis.

Table 2.1 Macro-economic indicators

	2007	2008	2009	2010	2011	2012 Target	2013 Target
ECONOMIC GROWTH (%)	6.3	6.0	4.6	6.2	6.5	6.5	6.8-7.2
<u>Expenditure side</u>							
• Private consumption	5.0	5.3	4.9	4.7	4.7	4.9	4.8-5.2
• Government consumption	3.9	10.4	15.7	0.3	3.2	6.8	6.7-7.1
• Gross fixed capital formation	9.3	11.9	3.3	8.5	8.8	10.9	11.9-12.3
• Export of goods and services	8.5	9.5	-9.7	15.3	13.6	9.9	11.7-12.1
• Import of goods and services	9.1	10.0	-15.0	17.3	13.3	11.4	13.5-13.9
<u>Production side</u>							
• Agriculture	3.5	4.8	4.0	3	3	3.5	3.7-4.1
• Mining	1.9	0.7	4.5	3.6	1.4	2	2.8-3.2
• Manufacturing industry	4.7	3.7	2.2	4.7	6.2	6.1	6.5-6.9
Oil and gas manufacturing	-0.1	-0.3	-1.5	0.6	-0.9		
Non-oil and gas manufacturing	5.2	4.0	2.6	5.1	6.8		
• Electricity, gas, and water supply	10.3	10.9	14.3	5.3	4.8	6.2	6.6-7.0
• Construction	8.5	7.6	7.1	7	6.7	7	7.5-7.9
• Trade, hotel, and restaurants	8.9	6.9	1.3	8.7	9.2	8.9	8.9-9.3
• Transport and communication	14.0	16.6	15.8	13.4	10.7	11.2	12.1-12.5
• Finance, real estate, business services	8.0	8.2	5.2	5.7	6.8	6.3	6.1-6.5
• Services	6.4	6.2	6.4	6	6.7	6.2	6.0-6.4
INFLATION RATE (%)				7	3.8	6.8	4.5-5.5
OPEN UNEMPLOYMENT (%)				7.1	6.6	6.4 - 6.6	6.0-6.4
POVERTY (%)	16.58	15.42	14.15	13.3	12.5	10.5-11.5	9.5-10.5

Source: BPS Statistic Indonesia and National Planning Agency.

2.8. The development of MP3EI can be accomplished if the government and business sector embrace a new way of thinking in doing business. Everyone must take a collective approach toward improving and utilizing the country's resources, strategic position, and manpower, in order to propel its citizens forward. The stakeholders, the central government, local governments, state owned enterprises, and private sector must work together productively. The private sector will be given a major and important role in economic development, particularly in investments to increase job opportunities. The government will not only be a regulator, it will also be a facilitator, and catalyst to support this growth. With regard to regulations, the government will amend or remove (debottlenecking) regulations that inhibit the implementation of investments. As a facilitator and catalyst, the government will provide incentives, both fiscal and non fiscal.

2.9. Implementation of MP3EI will include 8 main programs which consist of 22 (twenty two) main economic activities. The implementation strategy of MP3EI will integrate 3 main elements:

- developing the regional economic potential in 6 (six) Indonesia Economic Corridors: Sumatra Economic Corridor, Java Economic Corridor, Kalimantan Economic Corridor, Sulawesi Economic Corridor, Bali – Nusa Tenggara Economic Corridor, and Papua – Kepulauan Maluku Economic Corridor;
- strengthening national connectivity locally and internationally; and
- strengthening human resource capacity and national science & technology to support the development of main programs in every economic corridor.

2.10. Business enterprises (private sector companies, state and regional owned companies) have an important role in economic development, particularly in generating investments and the creation of employment opportunities. The government, on the other hand, is responsible for creating conducive macro-economic conditions for the acceleration and expansion of investments. Therefore, national development policies must be supported by the full commitments of both the government and business enterprises, in the form of:

- encouraging businesses to support and increase investment and to boost economic growth and the creation of employment opportunities;
- business enterprises must undertake innovative measures to develop technology and production methods in order to triumph in today`s global competitiveness;
- the government will provide equal and fair opportunities for all businesses;
- the government is supported by a bureaucracy that serves the needs of businesses;
- the government is creating conducive macro-economic, political, legal and social environment to support business activities; and
- the government provides social basic protection and services.

2.11. Taking into account external and internal environment, the economy is targeted to grow at 6.8% in 2013; with the open unemployment drops to the range of 6% to 6.4% of the workforce and the number of poor people decreases to the range of 9.5% to 10.5% in 2013.

## 2.2 Financial sector

2.12. Budget policy must begin with the structuring of a credible and sustainable State Budget (APBN), with provisions to accelerate economic growth in order to create equitable and sustainable development. Essential elements include:

- prioritizing the allocation of the State Budget for the development of infrastructure, improve basic public services and provide social security for the poor;
- allocating government loans to finance investment activities instead of to finance routine expenditure. The rate of return on government investment should be higher than the cost of debt;
- infrastructure will be developed in partnership with the private sector;
- subsidy will be used as an instrument of social protection by switching the subsidy objective from subsidy for goods into direct subsidy for the poor. To facilitate the implementation of direct subsidy, the proposed national "Single Identity Number" must be implemented immediately;
- the revenues and royalties from non-renewable natural resources extraction should not be treated and expanded as current revenue but rather some portion to be kept for the benefit of future generations;
- the return from processing renewable natural resources will be invested to enhance the quality of human capital and technology;
- expanding access to education and basic health service facilities; and
- improve quality of public services for the society and businesses.

2.13. Taxes and import duties are one of the instruments of economic policy to support the acceleration and expansion of national economic development. Therefore reform is considered necessary, and can be carried out using the following tax approach:

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- tax rates and import duties should be adjusted due to the economic cycle;
  - increase the number of actual Tax Payers;
  - coordination amongst authorized institutions must be carried out to ensure that all citizens who gain income above non-taxable income level pays tax according to applicable law;
  - taxes levied on the tax object in Indonesia and not levied on the tax subject in Indonesia (change in concept from National into Domestic or from the concept of GNP to GDP);
  - taxation aimed at the final consumer, replacing the system of value added tax (VAT);
  - all taxation schemes are evaluated so that there is no ambiguity in interpretation leading to clarity on what is taxable and not taxable;
  - in order to improve competitiveness and efforts to reduce tax evasion, efforts should be made to benchmark the tax rate with neighbouring countries;
  - avoidance of double taxation;
  - to avoid double counting all tax exemption or tax relief will no longer be regarded as a tax levied to the state.

2.14. Monetary and financial stability in Indonesia continues to be maintained in the midst of continued impact of the global crisis. Through an effective implementation monetary and macro prudential policy mix, Indonesia is able mitigate credit risks and prevent capital outflows without having to raise interest rates. In the last eight years, the Indonesian economy grew around 6.1-6.2% per year, one of the highest in the world.

2.15. While growth can be maintained at a high level, the inflation rate in recent years has in fact shown a downward trend towards the medium-term target of 4%. Likewise, the rupiah in the past three years have also been moving in line with the fundamental conditions. The achievement of low inflation and stable exchange rate has created a conducive climate which supports the resilience of the banking industry. Such resilience in turn serves as a shock absorber for the economy. This is supported by adequate capital strength to absorb various risks, as well as effective regulation and supervision.

2.16. With improved resiliency, the banking industry's intermediation role is on the right track. This is reflected in the relatively strong growth of productive loans, while keeping the non-performing at a low level. These positive developments provide greater room for greater economic expansion in Indonesia.

2.17. Macro prudential policy is needed to bridge the gap between macroeconomic policy with regulations towards institutions and financial markets which are micro prudential policy. In November 2011, Indonesia established the Financial Services Authority (Otoritas Jasa Keuangan, OJK) through Law No. 21 of 2011. The establishment of an independent body overseeing the financial sector had been mandated in a 2004 amendment to the law on Indonesia's central bank. Thus, the FSA will be intended to become the regulatory and supervisory agency for all financial services institutions, which include banks, securities companies, insurance companies, pension funds, and multi-finance companies. Meanwhile, Bank Indonesia will focus to conduct monetary and macro prudential policy. To smoothen the process of the OJK in assuming its new roles, transition stages are established with the purpose of transferring functions, duties and authorities in regulation and supervision of the financial service sector to OJK.

### **2.3 Trade and investment**

2.18. Indonesia's economic policies are on a firm footing. So are its measures to attract foreign investment. Indonesia was released Investment Law No. 25 year 2007. This updated investment law redefines "capital investment" as all investments, whether by domestic or foreign investors, for the first time offering equal treatment to all investors. There is no longer a limit of 30 years on

foreign investment permits, and gone is the provision in Law No. 1/1967 for there to be divestment. Additionally, the new law allows for the unimpeded repatriation of capital.

2.19. Indonesia Investment Coordinating Board (BKPM) has launched a one-door integrated service (PTSP) and an electronic automation platform for investment licenses and non-licensing services (NSWi) to not only reduce the number of procedures and amount of documentation needed to invest in Indonesia, but also to bypass the need to physically come to our offices to apply for certain services. The new system has revamped internal processes and rectified human resource constraints to increase the speed and improve the quality of investor services. The system was first launched in January 2010 in the Free Trade Zone and Free Port of Batam.

2.20. Based on Presidential Decree No. 27/2009 and as part of its 100-day program, BKPM is implementing a one-stop-service system (PTSP), to cut bureaucratic red tape and allow investors to process business licenses faster. Its goal is to streamline and consolidate the number of steps and places an investor must go for business permit issuances. The program requires the consent of some 16 ministries relevant to the investment approval process, to delegate its authority to BKPM in granting licensing and non-licensing services. As of 5 February 2009, all relevant ministries have signed off on the various decrees necessary, and BKPM is moving forward with the implementation process at both the central and regional level.

2.21. In order to facilitate PTSP even further, the National Single Window for Investment (NSWi) was created. NSWi is an electronic platform for investments that enables investors to apply for license and non-license services online. The ability to fully automate the investment license process would significantly enhance the efficiency of licensing services. The system was first launched in January 2010 in the Free Trade Zone and Free Port of Batam.

2.22. All the improvements that have been and continue to be applied have placed Indonesia as #1 country for entrepreneurship in the recent 2011 BBC survey. It has also managed to jump 10 places to 44th from a total of 139 ranked countries in the World Economic Forum's Global Competitiveness Report in 2011. Moreover, Indonesia has also been listed as one of the top 10 most attractive destinations for FDI in UNCTAD's World Investment Prospects Survey in 2010.

#### **2.4 Effort for green growth**

2.23. Indonesia is in the process of conducting technical studies needed to inform The Low Carbon Development Strategy (Emission Reduction Opportunities and Policies: Manufacturing Sector). The Low Carbon study/development options will prove that sound environmental management, reduction of emissions, economic efficiency and growth are compatible goals, important to the sustainability of Indonesia's development path.

2.24. Indonesia is also seeking to reform economic and fiscal policy is also seeking to reform economic and fiscal policy to meet green economy objective. A range of government-led studies is underway in Indonesia that looks at options to reduce emissions:

- provide domestic enabling conditions supported by innovative financing mechanisms as well as policy reforms (fiscal/pricing policy, standards, education and training);
- create public and private partnership and including green investment funding mechanisms;
- green investment at the core of the stimulus packages include green investment in regular government budget investment in regular government budget; and
- provide global enabling conditions (trade, IPRs, ODA, TT and environmental agreements).



### **3 INTERNATIONAL TRADE RELATIONS**

#### **3.1 Multilateral trade cooperation**

##### **3.1.1 Indonesia in Doha Development Agenda (DDA)**

3.1. Indonesia struggles to improve market access in the multilateral forum through cooperation and international negotiations in the WTO forum and the Non-WTO. Indonesia makes the most of the existence of the multilateral trading system within the framework of the WTO since 1995. As an advance developing country, Indonesia has been enjoying many benefits for its membership on WTO.

3.2. Since the DDA was launched in 2001, developing countries including Indonesia are more active and play a substantial role in the multilateral negotiation round. The multilateral trading system is the most fair and beneficial trading system to the developing countries. This has made the first priority for Indonesia in the area of international trade cooperation.

3.3. The General Council, on 11 December 2012, agreed that the 9th WTO Ministerial Conference in Bali, Indonesia will take place on 3-6 December 2013. Bali is expected to be targeted for completion of negotiation DDA.

3.4. Trade Facilitation Issues expected to be the "early harvest" with an intensive approach to other developing countries that have a position in line with Indonesia such as India, Brazil, Singapore and South Korea as well as the LDC Package and the balancing negotiation between Agriculture issue and non-Agriculture Market Access (NAMA).

##### **3.1.2 Indonesia active participation in DDA issues negotiation**

###### **3.1.2.1 Agriculture**

3.5. Indonesia shares actively in Agriculture negotiation and joins in Chairns Group, G20 and G33. Together with other countries that are Members of G33, Indonesia proposed Special Product (SP) and Special Safeguard Measures (SSM). The proposal was based on the interest which are not only the interests of Indonesia but also the interest of other countries. The interests are poverty reduction, food security, rural development and economic growth.

###### **3.1.2.2 Non Agriculture Market Access (NAMA)**

3.6. Indonesia's position in NAMA negotiations is to strive for the opening of market access for industrial products which not cause a negative impact in terms of offensive and defensive interests. Indonesia also has shown pro-active role negotiation, especially in the discussion of the issue of tariff cuts. This role is acknowledged by members where Indonesia actively seeks the agreement on tariff reduction formula.

3.7. Indonesia is considered by members as one of the proponents of targets that may facilitate the achievement of critical mass in sectorial initiatives. Despite seeing the sectorial initiative is non-mandatory, Indonesia positively respond to the request states proponent to undertake the discussion of specific sectors. In addition, Indonesia promotes the transparency in technical regulations and encourages members to reduce non-tariff barriers.

###### **3.1.2.3 Services**

3.8. Indonesia feels that the Doha Round should further the important gains achieved with the conclusion of the of the GATS and that the Doha Mandate on progressive liberalization as established on 15 April 2005 and at the 2008 Signalling Conference should be the focus of Members' efforts in the on-going services negotiations. In this context Indonesia feels that developed countries need to further open markets for services exports of developing countries, while the process of opening markets in developing countries needs to consider the level of development and readiness for liberalization in these countries. In the request-offer process, Indonesia has yet to officially file a request to any of its negotiating partners. However, Indonesia feels it has an obligation to try and obtain from its negotiating partners commitments that meet

the demands of developing countries in the context of modes of supply of export interest to developing countries, particularly Mode 4.

#### **3.1.2.4 Trade facilitation**

3.9. Indonesia has been actively engaged and participated in Negotiation Group on Trade Facilitation (NGTF) in support of the conclusion of this issue. In general, Draft Proposed Text of NGTF was adopted from Revised Kyoto Convention of World Customs Organization (WCO) in which Indonesia has already implemented through Indonesia's National Law. Indonesia is fully concern on Special & Differential Treatment (S&DT) for Developing and Least Developing Countries (LDCs), in particular with the issues of capacity building, technical assistance and transitional period to implement this agreement.

3.10. Indonesia is of the view that Trade Facilitation is one of important issues that could be considered as deliverables outcome in the IX WTO Ministerial Conference Bali next December. Indonesia asks Members to enhance the negotiation process and willingness to conclude the issue.

#### **3.1.2.5 Trade and environment**

3.11. Ministry of Environmental cooperates with Ministry of finance have "the exception of customs duty for equipment and materials that is used to prevent pollution" program through Finance Ministerial Decree number 101/PMK 04/2007. A few equipments that get the exception of import duty, such as: aerator, belt press, chemical pump, pH control, decanter, air blower, biological, and screen. Those are categorized as a liquid pollutant control. Other equipments are: electrostatic precipitator, continuous electromagnetic. Those are categorized as air pollutants control. This mechanism is imposed on MFN basis.

#### **3.1.2.6 Aid for trade**

3.12. Indonesia is fully supporting LDCs to get aid for trade to encourage their integration into the world trading system and to minimize constraint on international trade. As a middle income country, Indonesia participates in aid for trade both as recipient and donor. Indonesia has already given aid for trade to a few of LDCs through South-South Cooperation mechanism in terms of technical assistance.

#### **3.1.2.7 Trade-related Aspect of Intellectual Property Rights (TRIPS)**

3.13. Indonesia is a co-sponsor of document TN/C/W/52 which proposes draft modalities for TRIPS negotiation. Indonesia believes that TRIPS-CBD issue, together with GI-Register and GI-Extension, should be discussed in parallel as part of single undertaking.

3.14. Indonesia supports the amendment of Article 29 of the TRIPS Agreement to incorporate mandatory disclosure requirement in patent application. Disclosure requirement will prevent misappropriation of Genetic Resources and associated Traditional Knowledge and will ensure Prior Informed Consent and Access Benefit Sharing.

### **3.2 Regional and bilateral cooperation**

#### **3.2.1 Regional cooperation**

3.15. Indonesia increases its contribution on the regional cooperation. Not only does Indonesia give attention to the development of ASEAN, but Indonesia also pays attention to the East Asia Summit and the Group of 20 (G20).

3.16. ASEAN signed Free Trade Agreement (FTA) with 3 (three) trading partner countries. ASEAN – Japan FTA was signed in 2008, ASEAN – Australia & New Zealand FTA was signed in 2009 and ASEAN – India was signed in 2009.

3.17. On the occasion of the 21st ASEAN Summit and Related Summits, the Heads of State/Government of the Member States of ASEAN and ASEAN's free trade agreement (FTA)

partners – Australia, China, India, Japan, Korea and New Zealand signed a joint declaration on the launch of Negotiations for Regional Comprehensive Economic Partnership (RCEP).

3.18. The objective of launching RCEP negotiations is to achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement among the ASEAN Member States and ASEAN's FTA Partners. RCEP will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues. Furthermore, ASEAN is still in the process of negotiation with United States of America under ASEAN-US Trade and Investment Framework Agreement (TIFA). Indonesia is also active in negotiation under Asia-European Meeting (ASEM).

3.19. Indonesia is also active to participate negotiations in Asia-Pacific Economic Cooperation (APEC), D-8, Organization of the Islamic Cooperation (OIC) and International Commodity Organization such as Association of Natural Rubber Producing Countries (ANRPC), Asian and Pacific Coconut Community (APCC), International Pepper Community (IPC), International Tripartite Rubber Council (ITRC) International Coffee Organization (ICO), and International Cocoa Organization (ICCO).

### **3.2.2 Bilateral cooperation**

3.20. Indonesia has implemented a bilateral agreement with Japan (IJ-EPA) for an economic partnership that was signed on August 2007. In addition, Indonesia is also still in process of negotiation of Bilateral Economic Cooperation with several countries such as Iceland, Liechtenstein, Switzerland and Norway under Indonesia-EFTA Comprehensive Economic Partnership Agreement (IE-CEPA); India; Pakistan; and Iran.

3.21. Indonesia also establishes joint group discussion for Bilateral Economic Cooperation with several countries such as Chile, Turkey, Tunisia, Egypt, United States, European Community, Australia and Republic of Korea.

## **4 TRADE AND RELATED POLICIES DEVELOPMENT**

### **4.1 Trade development and policy**

#### *Export*

4.1. Pressure on Indonesia's exports began in 2009. In the period of January-September 2009, oil and gas exports declined 51% due to declining oil and gas prices in the international market. Meanwhile, non-oil exports decreased by 18.3% in January-September of 2009 because of declining world demand as a result of the global economic crisis. Heaviest pressure occurs in the export of industrial products reached 25.5% decline compared with the value of exports in the same period in 2008 due to the decrease in, both price and volume non-oil export.

4.2. In line with the recovery of global economic contraction, export of goods in 2010 has increased sharply. In 2010, exports of goods recorded US\$157.8 billion, or growth of 35% compared with 2009, both in the export of oil and gas and non-oil exports. Oil and gas exports increase by 47.4% compared with US\$19.0 billion in 2009. Meanwhile, total non-oil exports in 2010 expanded to US\$129.7 billion, or 33.1% growth compared with the performance in 2009.

4.3. During the last ten years, Indonesia's export has continued increase, except for 2009. Strong growth of export was stimulated by strong demand from new emerging Asia countries such as China and India, as well as substantial demand from Japan and United States and ASEAN countries. For the same period, imports grew by 19.6% per year and reached its peaks in 2008 (73.5%). The highest import growth in 2008 is explained primarily by strong demand for imports of raw materials and capital goods used in production for exports and the domestic market. Also, as the changed on the import recorded system which included the bounded zone.

4.4. Trade development focuses on 3 (three) goals which are Increasing export of non-oil products; Strengthening domestic market; and Managing the availability of main/basic products and strengthening national distribution channel.

4.5. To achieve that goals, Indonesia have several strategies such as Management and other related support; Improvement of tools and infrastructure of human resources; Monitoring and improvement of human resources accountability; R & D on trade issues and trade information system; Development of domestic trade and trade defence leading to best practice management on national distribution, free flow of goods and services, certainty on business and competitiveness of domestic product; Development of foreign trade leading to competitiveness of non-oil and gas export and market diversification, and well management both export and import; Development of international trade through improvement on trade diplomacy both goods and services and trade defence; and Export development through market diversification of exported products.

**Table 4.1 Performance of Indonesian exports**

Value of Exports (USD thousands)	2009	2010	2011	2012 Jan-Nov
<b>Total Export</b>	116,500.0	157,779.1	203,616.7	174,763.1
Oil and gas	19,018.3	28,039.6	41,593.2	34,003.0
Non-oil and Gas	97,491.7	129,739.5	162,023.5	140,760.1
Agriculture	4,352.7	5,001.9	5,169.1	5,161.0
Manufacturing	73,435.9	98,015.1	122,189.2	107,048.1
Mining and other	19,703.1	26,722.5	34,665.2	28,551.0
<b>Growth of exports (%)</b>				
<b>Total export</b>	-14.98	35.38	29.05	-6.25
Oil and gas	-34.71	47.50	48.34	-10.50
Non-oil and gas	-9.66	33.02	24.88	-5.17
Agriculture	-4.83	14.90	3.34	10.05
Manufacturing	-16.93	33.47	24.66	-4.64
Mining and other	31.93	35.34	29.72	-9.29

Source: BPS-Statistic Indonesia.

## 4.2 Investment development

4.6. There are several policies to support the improving investment in Indonesia (competitiveness) which are fiscal incentives such as Income tax reduction for investment in particular sectors and/or particular region (tax allowances), Tax Holiday and Tariff redemption in importing machine, raw material for particular industries for new investment and expansion; and non fiscal incentives such as integrated one stop services in investment sector (PTSP) and electronic investment licensing and information service system/SPIPISE).

4.7. Negative Investment List (NIL) enacted based on the Presidential Regulation No. 36 year 2010 regarding the list of business fields closed to investment and business fields open, with conditions, to investment.

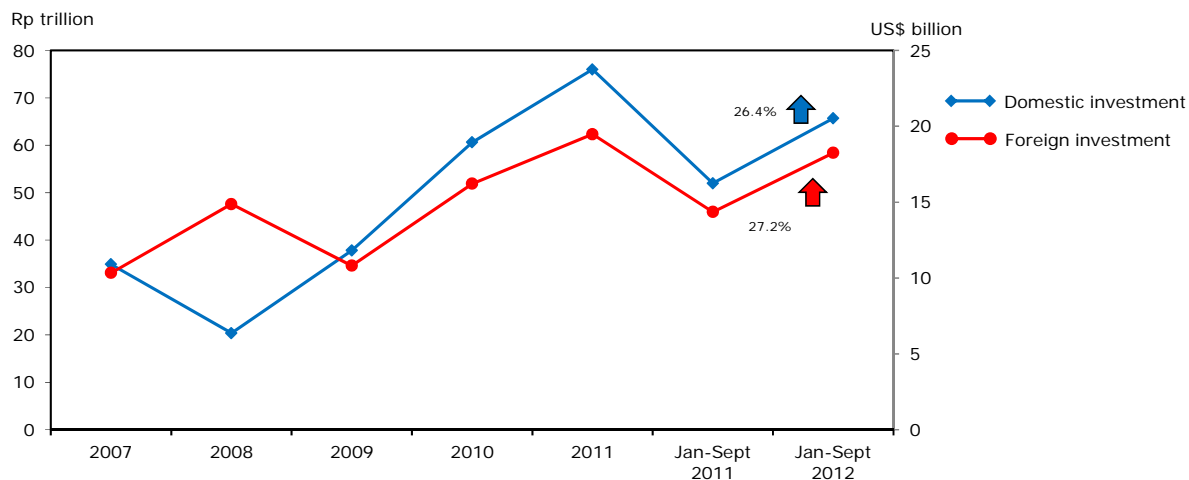
4.8. The NIL improves the clarity of regulations and business field related to investment, increase the attractiveness of investment in Indonesia, and new attachment format so that will be more easily known and understood by investors/stakeholders.

4.9. 63. The realization of domestic and foreign investment in non-oil and gas sectors has increased during the last five years. The domestic investment increased by Rp 34.9 trillion in 2007 to Rp 76 trillion in 2011, rose 117.8%. This also applies to the foreign investment which rose 76.5% (Chart 4.1).

4.10. Policies such as clear regulation for domestic and foreign investment, streamlining the business process in Indonesia, and land law have been launched to improve investment climate and to provide certainty for business activities in Indonesia. Although investment competitiveness in Indonesia is not really as good as the other ASEAN member countries, the investment in Indonesia has been growing continuously. That of global financial crisis in 2012, Indonesia's investment is able to maintain its performance. The realization of domestic and foreign

investments increased respectively by 26.4% and 27.2% in the period of January-September 2012 compared to the same period in 2011.

**Chart 4.1 Realization of domestic and foreign investment in non-oil and gas sectors**



Source: Board of Investment Coordination.

### 4.3 Sectoral policies

#### 4.3.1 Agriculture

4.11. Strategic agricultural development goals in 2012 are achieving sustainable self-sufficiency and self-sufficiency, rising food diversification, increasing added value, competitiveness and exports, increasing farmers welfare.

4.12. Prospective commodities Indonesia in the international market are palm oil, rubber, cocoa, coconut, coffee, mango, mangos teens, bark, ornamental plants and medicinal plant.

4.13. To improve the quality and competitiveness (value added to support competitiveness) of Agricultural Product in the International market, several things that have been and are being carried out are promotion and advocacy in various countries, improved handling level on farm and off farm, implementation of Good Agricultural Practices (GAP), Good Handling Practices (GHP), Standard Operating Procedures (SOP); and certification.

#### 4.3.2 Fisheries

4.14. The legal basis for Indonesia Fisheries regulated in Fisheries Act No. 45 Year 2009. Related to the issue of illegal, unreported, and unregulated fishing (IUU fishing). Indonesia has strong commitment to prevent, reduce and combat activities IUU fishing.

4.15. Indonesia has the term of requirement trade to Europe Union namely Certification Catch Fish that stipulated in the Marine and Fisheries Minister Decree No. 13 year 2012; Indonesia also has endorsed a Regional Plan of Action (RPOA) in order to pursue responsible fisheries, including combat against IUU Fishing.

4.16. For investment in the fishing industry, stipulated in the joint investment policy, Marine and Fisheries Minister Decree No. 49 year 2011.

#### 4.3.3 Forestry

4.17. Indonesia has more than 17,000 islands, with 181,157 million ha land area, consist of 130.68 million ha forestland. The function of forest area is as conservation forest (26.8 million ha), protection forest (28.8 million ha), production forest (32.6 million ha), limited production forest (24.4 million ha) and convertible production forest (17.9 million ha).

4.18. Indonesian Timber Legality Verification System (SVLK) is a licensing scheme that guarantees export timber in accordance with the laws of Indonesia's forests through government and legal definitions that have been approved by various parties. Indo-TLAS consists of legality standards, criteria, verifiers, verification methods, and evaluation norms. Indo-TLAS designed to be a legality verification system that is reliable, efficient and fair as a contribution in the fight against illegal logging. TLAS/SVLK is a cornerstone for sustainable forest management accomplishment. This certificate is our national commitment to eradicate illegal logging and illegal trading.

#### 4.3.4 Manufacturing

4.19. According to Indonesia Economic Development Acceleration and Expansion Master Plan 2011-2025, and The legal basis of the industry in Indonesia is Presidential Decree No. 28/2008 on National Industrial Policy (KIN) to accelerate the industrial sector in Indonesia, the policy called "Acceleration of Industrialization" e.g.: encouraging participation of entrepreneurs in building the infrastructure, accelerated of government decision making processes, reorientation of exports policy of raw materials and energy sources; encourage an increasing of productivity and competitiveness and promoting the integration of the domestic market in Indonesia.

4.20. The Indonesian industrial performance in 2011 was very encouraging. The non-oil industry growth in 2011 was 6.8% and higher than the economic growth which was 6.5%. While, the non-oil industry growth in 2010 was only 5.1%. For the third quarter of 2012, the industrial growth increased by 7.27% compared to the third quarter of 2011 (y-o-y).

4.21. The growth was supported by all industrial sectors. The highest growth of 9.1% was in fertilizer, chemical, and rubber product and followed by food, beverage and tobacco industry which was 8.1%. Meanwhile, the lowest growth by -0.86% was in wood and forest product. The Industrial growth in 2011 was beyond the target of Ministry of Industry Strategic Plan for 2010-2014 which was 6.1%. In 2012, the non-oil industry growth is predicted to continue growing higher than the Strategic Plan's target, which around 6.85%.

4.22. Investment in the industrial sector (manufacturing sector) increased significantly from 2007 to 2011. Domestic investment increased from IDR 26.289 billion (2007) to IDR 39.048 billion (2011) or increase by 48.53%, as well as in Foreign Direct Investment (FDI) amounted USD 4697 million (2007) increased by USD 6779.5 million (2011) or by 44.34%.

## 5 FUTURE POLICIES DIRECTIONS

5.1. The main guideline of Indonesia trade development was stated in the long term national development program 2005-2025 and Indonesia efforts to increase exports through foreign trade policies in the next five years aimed at improving the competitiveness of non-oil exports product through market diversification and increasing diversity and quality of product. These policies are stipulated in the Indonesia's Medium-Term Development Plan (Rencana Pembangunan Jangka Menengah/RPJPM). Therefore, the strategy to increase exports during the five year- development particularly to encourage increased non-oil exports, during the period 2010-2014 as follows:

- increasing attempt to exports non-oil products that seize high value added, based on natural resources, and has a large market demand; therefore, export product development in the future will be emphasized on the plantation base product and its derivative, fishery products and its derivative, processed mining product, processed food/beverage, textiles and textile products, machinery and electrical equipment, chemicals and chemical products, and leather products and footwear;
- encourage exports of creative products and services that are mainly produced by small and medium enterprises (SMEs);
- encourage efforts to diversify export market to reduce the level of dependency to a specific export market;
- focused efforts to expand market access, promotion, and facilitation of non-oil exports facilitation in Africa and Asia region;

- encourage utilization of various trading schemes, and international trade cooperation with more beneficial to national interests;
- encourage the development of trade activities in the border areas which can be used as a gate for economic activity and trade with neighbouring countries; as well as
- institutional strengthening and financing for particular foreign trade that drives the effectiveness of non-oil export development.

5.2. Based on the strategy and direction of development policy, Indonesian priorities for foreign trade development are focused on the following areas: (i) increasing diversification Export Market; (ii) improving Product Quality and diversity of exports product; and (iii) Increasing Export Facilitation.

5.3. In addition, to accelerate the Indonesia Economic Development, Indonesia has stipulated the Master plan Acceleration and Expansion of Indonesia Economic Development (MP3IE) 2011-2025. The implementation of MP3IE is expected to fully support and complement existing development planning documents produced by the government, including Long Term National Development Plan (RPJPN) and Medium Term National Development Plan (RPJMN). The implementation of MP3IE will be coordinated by a Committee chaired by the President of Republic of Indonesia.

5.4. MP3IE the 2025's vision is achieved by focusing on 3 main goals: (1) Increase value adding and expanding value chain for industrial production processes, and increase the efficiency of the distribution network. In addition increase the capability of the industry to access and utilize natural resources and human resources. These increases can be attained by the creation of economic activities within regions as well as among regional centres of economic growth, (2) Encourage efficiency in production and improve marketing efforts to further integrate domestic markets in order to push for competitiveness and strengthen the national economy, (3) To push for the strengthening of the national innovation system in the areas of production, process, and marketing with a focus on the overall strengthening of sustainable global competitiveness towards an innovation-driven economy.

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