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Trade Policy Review Body

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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.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Indonesia.

Contents

1 OVERVIEW

1.1. Indonesia is predicted to enter new phase in its economic development, benefiting from demographic dividends contributed by the significant size of its labour force. According to 2018 census data, around 68% of Indonesia's total population (179.13 million people) is in the productive age (15-64 years old). And to ensure that this demographic bonus works towards Indonesia's favour, the Government strives to provide Indonesia's human capital resources with good quality education and training.

1.2. In the period between 2015-2018, the expansion of domestic economic activities resulted in the creation of an additional 9 million jobs. The unemployment rate fell to 5.34% in 2018, compared to the 5.94% level in 2014. On the other hand, GDP per capita continued to increase from USD 3,531 in 2014 to USD 3,927 in 2018, equaling to GNI per capita of USD 3,820. The poverty level lowered to a single digit (9.82% in 2018), a tribute to the effectiveness of poverty prevention programmes. Furthermore, a Gini ratio of 0.389 in 2018 compared to 0.414 in 2014 testified a reduction in income inequality. As to the Human Development Index (HDI), it recorded an increase from 68.9 in 2014 to 71.39 in 2018.

1.3. During the same 2015-2018 timeframe, the Indonesian economy grew steadily at an average rate of 5.0% per year, higher than the 4.5% per year average incurred by other developing countries. Amongst the factors contributing to this achievement were the implementation of various structural reforms, including policies that improve the investment climate, enhance industrial competitiveness, upgrade logistics efficiency, stimulate export, promote tourism, and strengthen people's purchasing power.

1.4. Positive performances in various sectors of the economy drove this relatively high economic growth of Indonesia, with the service industry as the main engine growth. Service industry dominance continued into 2019, with remarkable growth of the information and communication services industry (9.41%) as well as the transportation and warehousing industry (6.40%). In contrast, manufacturing industry only grew 3.8%. Meanwhile, the non-oil and gas manufacturing sector grew above 4% in 2019.

1.5. On the expenditure side, investment was the major driver of economic growth, with an expansion rate averaging 4.45% per year. The Government implemented a number of fiscal incentives, and demonstrated serious efforts in simplifying investment regulations and procedures to improve investment climate, along with developing supporting infrastructure to facilitate a higher level of business activities. During the same period, household consumption managed to grow an average of 5.0% per year. Moreover, government consumption grew by an average of 3.0% per year amid declining state revenues. Meanwhile, both exports and imports of real goods and services grew at an average of slightly below 3% per year.

1.6. The endeavour to maintain economic stability was rewarded with the well-managed inflation and exchange rates, increasing foreign exchange reserves, and the state of current account deficit within its safety limit. Between 2015-2018, inflation rates were stable, averaging 3.3% per year. Amid efforts to control the exchange rate and current account deficit, the balance of payments continued its relatively strong position. Meanwhile, foreign exchange reserves increased from USD 111.9 billion in 2014 to USD 120.7 billion in December 2018.

1.7. Fiscal policies took into account medium-term fiscal sustainability, and resulted in a debt ratio lower than 30% of GDP, as well as a budget deficit and primary balance that continued to shrink and led to positive values by 2018.

1.8. The strong and stable economic performance has trickled down as increased welfare for the Indonesian people not only during the period of this trade policy review, but also projected for some years following it. However, a number of prevailing uncertainties will cast a shadow the performance of the global economy, which will also directly and indirectly affect the performance of Indonesia's economy. Global economic growth and trade are expected to slowing down by an estimate of 3.6 and 3.8% per year respectively, for the years 2020-2024. The price of Indonesia's main international export commodities, including coal and palm oil, are also expected to decline, along with the shift in the world's demand for alternative sources of energy. Other anticipated factors of uncertainty include the trade war, China's economic slowdown, and the inflationary pressure from monetary policy normalization in the United States and the European Union.

2 ECONOMIC DEVELOPMENT

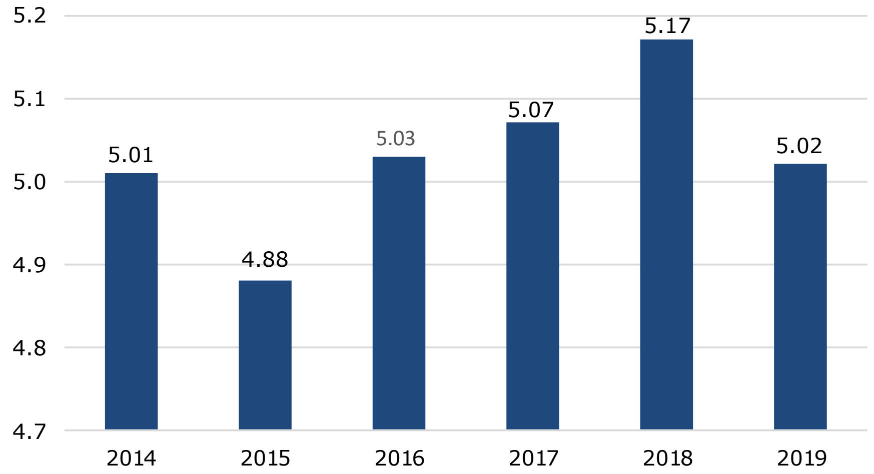
2.1 Macroeconomic Performance

2.1. Despite the ongoing global economic turmoil that has caused a reduction in trade volume and slowed down economic growth, the Indonesian economy managed to demonstrate a positive performance up to the first semester of 2019, with consumption growth, government spending realization, and positive net export contributions as the leading driving forces.

2.2. The stability of economic growth from 2016 to 2019 reflects Indonesia's macroeconomic achievement. Although economic growth slowed down in 2019 due to decreasing net export during the second semester of 2019, growth in the economy was still maintained around 5%.

Chart 2.1 Economic Growth Realization, 2014-19

(%, YoY)



Source: Indonesia Statistics.

2.3. In 2019, the growth of GDP and its main driver, the household consumption, remained at 5.02% and 5.04% respectively. Household's consumption, represented by non-profit institutions, shrank at -0.62% in 2015 and reached its highest at 12.19% in 2014. The government consumption had growth level of 3.25% in 2019, partly due to the Government's decision to set forth the full allocation of social aid for poor society. Although the government consumption rate in 2019 is slower compared to growth rate in 2018 (4.8%), the share for social aid increased from 6% to 8%.

Table 2.1 GDP Growth Realization in the Expenditure Side, 2015-2019

(%, YoY)

Descriptions	2014 (baseline)	2015	2016	2017	2018	2019
PDB Growth	5.01	4.88	5.03	5.07	5.17	5.02
Household Consumption	5.15	4.96	5.01	4.94	5.05	5.04
Non-Profit Institutions Serving Households Consumption	12.19	-0.62	6.64	6.93	9.10	10.62
Government Consumption	1.16	5.31	-0.14	2.12	4.80	3.25
Investment (Gross Fixed Capital Formation – PMTB)	4.45	5.01	4.47	6.15	6.64	4.45
Goods and Services Export	1.07	-2.12	-1.66	8.90	6.55	-0.87
Goods and Services Import	2.12	-6.25	-2.41	8.07	11.88	-7.69

Source: Indonesia Statistics. Viewed at: https://www.bps.go.id/publication/2020/05/29/e0e4f4ed95af42a44f97decf/produk-domestik-bruto-indonesia-menurut-pengeluaran--2015-2019.html.

2.4. On the other hand, investment in 2019 experienced a slowdown, growing at below 5%. The US-China trade war, which caused global economic uncertainty, contributed to this slowdown. Meanwhile, net exports contributed positively, driven by the contracted growth of imports relative to export growth.

2.5. The service sector – including corporate services, information and communication services, health services, and social activities – contributed significantly to the growth of business activities. The three sectors, respectively, were able to grow by 10.25%; 9.41%; and 8.68% (YoY). The manufacturing industry grew at a rate lower than the 3.80% incurred by the economy, due to the contraction experienced in the oil and gas processing industry. The agriculture sector grew at 3.64%, which is slightly lower than the 2018 rate. This relatively stable growth in the agriculture sector was made possible by the high growth incurred in the plantation sub-sector, livestock, and fisheries.

Table 2.2 GDP Growth Realization in the Supply Side, 2015-2019

(%, YoY)

Descriptions	2014 (baseline)	2015	2016	2017	2018[a]	2019[b]
Accomodation, Food and Beverages	5.77	4.31	5.17	5.41	5.68	5.80
Information and Communication	10.12	9.70	8.88	9.63	7.02	9.41
Financial Services and Insurance	4.68	8.58	8.93	5.47	4.17	6.60
Real Estate	5.00	4.11	4.69	3.60	3.48	5.74
Company Services	9.81	7.69	7.36	8.44	8.64	10.25
Government Administration, Defence and Mandatory Social Security	2.38	4.63	3.20	2.05	7.00	4.67
Education	5.47	7.33	3.84	3.72	5.35	6.29
Health Services and Social Activities	7.96	6.69	5.16	6.84	7.15	8.68
Other Services	8.93	8.08	8.01	8.73	8.97	10.55
Agriculture, Forestry, and Fishery	4.24	3.75	3.37	3.92	3.89	3.64
Mining and Excavation	0.43	-3.42	0.95	0.66	2.16	1.22
Processing Industry	4.64	4.33	4.26	4.29	4.27	3.80
Electricity and Gas Supply	5.90	0.90	5.39	1.54	5.47	4.04
Water Supply, Waste Management, Waste and Recycling	5.24	7.07	3.60	4.59	5.56	6.83
Construction	6.97	6.36	5.22	6.80	6.09	5.76
Wholesale and Retail; Car and Motorcycle Repair	5.18	2.54	4.03	4.46	4.97	4.62
Transportation and Warehousing	7.36	6.71	7.45	8.49	7.06	6.40

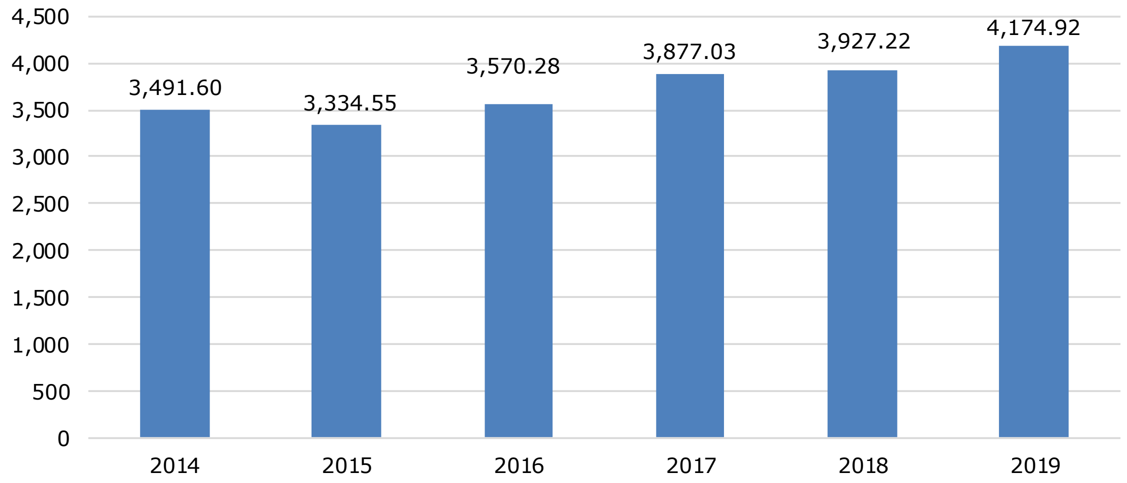
a Temporary figures.
b Very temporary figures.

Source: Indonesia Statistics. Viewed at: https://www.bps.go.id/publication/2020/06/12/7fe8d749c43bad46b1601662/pendapatan-nasional-indonesia-2015-2019.html.

2.6. Overall, the growing trend of economic growth in the last five years, along with the continued increase in GDP per capita, have tansmitted positive impacts on people's welfare. As of July 2020, World Bank categorized Indonesia as an upper-middle-income country.[1]

[1] World Bank. Viewed at: https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2020-2021.

Chart 2.2 GDP per Capita in USD, 2014-19

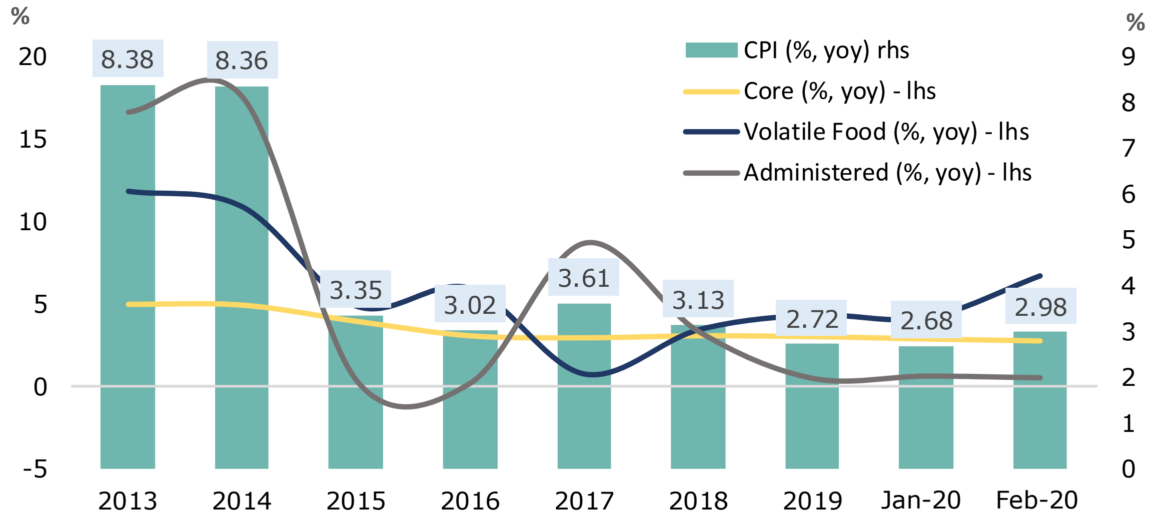


Source: Statistics Indonesia. Viewed at: https://www.bps.go.id/publication/2020/05/29/e0e4f4ed95af42a44f97decf/produk-domestik-bruto-indonesia-menurut-pengeluaran--2015-2019.html.

2.1.1 Inflation

2.7. Indonesia well maintained the inflation within the target range. Since the last review, the inflation rate was relatively stable within the target range. Inflation was a bit high in 2013 and 2014 because of the increase in energy prices due to the reallocation process of energy subsidies towards infrastructure and social development. Since 2015, the inflation rate was moving within the range of 3% ±1. Moving forward, we project the inflation to remain around 3% ±1 on the back of stable food prices, stable administered prices, and well-anchored inflation expectations.

Chart 2.3 Inflation Rate, 2013 – February 2020



Source: Bank Indonesia.

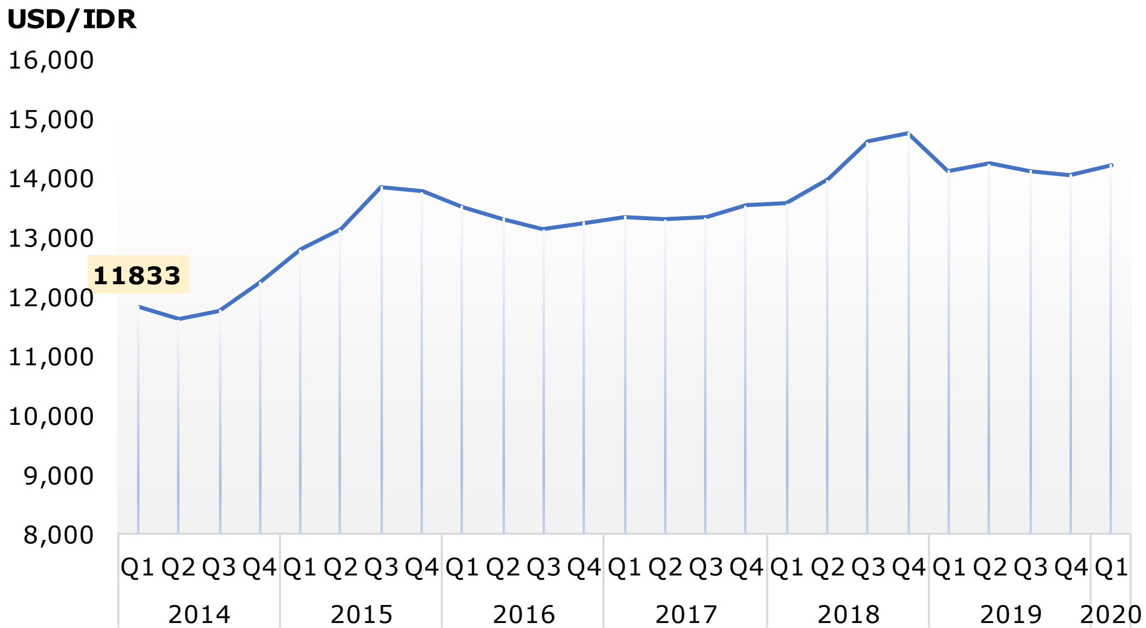
2.8. Concerted efforts between the Government and the Central Bank help to ensure the achievement of the target. The stable inflation rate in the last five years was achieved by maintaining core inflation, maintaining volatile food stability, and controlling administered price inflation. This achievement was driven by concerted efforts to strengthen the coordination of inflation policies between the Government and the Central Bank (Bank Indonesia), both at the central and regional levels. The Government and BI have implemented four strategies to achieve the inflation target, namely price affordability (stabilizing the price and managing the demand side), supply availability (strengthening production, government food reserves and food export-import management/strengthening institution), well-managed distribution (encouraging trade cooperation between regions/improving trade infrastructure), and effective communication (improving data quality/strengthening central-regional coordination).

2.1.2 Exchange Rate

2.9. The rupiah exchange rate was stable and consistent with its fundamentals, despite pressure caused by external factors. Indonesia has adopted a free-floating exchange rate system since August 1997, under which market forces determine the exchange rate. Since the last review, the Rupiah exchange rate tends to depreciate due to the increasing global uncertainty mainly from the impact of the US normalization policy and slowing global economic condition. On the other side, low inflation, improved current account deficit, a successful tax amnesty programme, and a sustained economic transformation were beneficial to Rupiah's stability. Nevertheless, the recent rebalancing of foreign capital inflows from developing countries to developed countries due to COVID-19 has exacerbated exchange rate pressures, leading to depreciation since the middle of February 2020.

2.10. Sets of policy mix managed to maintain the Rupiah exchange rate to move in line with its fundamental. To further maintain the stability of Rupiah, Bank Indonesia has implemented several measures. First, a pre-emptive, front-loading and ahead-of-the-curve policy response to stabilizes the Rupiah and consistently anchor inflation expectation. Second, conducting dual intervention in the FX market and government securities secondary market to encourage fair prices in the financial markets and maintain adequate liquidity in the money market. Third, the monetary operations in the foreign exchange and money markets were also strengthened to maintain adequate liquidity. Finally, through intensive communication, especially to market players, banks, businesses, and economists.

Chart 2.4 Exchange Rate (IDR/USD), 2014 – Q1 2020



Source: Bank Indonesia.

2.1.3 Recent Development on Fiscal Policy

2.11. In general, state budget realization – i.e. its use relative to its declared commitments – showed good performance in the years between 2014 to June 2019. In terms of state income and revenue including grants, there incurred a positive trend until the end of June 2019. In the 2019 state budget, revenues and grants were estimated at IDR 2,165.11 trillion, an increase of 11.39% from the 2018 figure. As of June 2019, income from state revenues and grants reached IDR 898.76 trillion or 41.51% of the 2019 estimate or an increase by 7.84% compared to that in the previous year. Tax revenue, which reached IDR 688.94 trillion or 76.65% of total state revenue and grants, contributed to the increase.

2.12. In the period from 2014 to 2017, the tax ratio experienced a stagnant growth. However, starting in 2018, the tax ratio began to show a positive development, driven, among others, by the increase in commodity prices, especially oil and coal. The increase in commodity prices also resulted in an increase in Natural Resources Non-Tax State Revenues (NR NTSR), which reached IDR 181.06 trillion in 2018 (a 62.93% increase from its 2017 level). By 2019, the tax ratio was targeted to increase to 11.06% of GDP. Until June 2019, the tax revenue reached IDR 688.94 trillion or 38.56% of the 2019 state budget target.

2.2 Improvement on Investment Climate

2.13. In order to facilitate large-scale investment and encourage investment in industrial areas, the government – through the Chairman of BKPM (the Investment Coordinating Board) Regulation No. 14 of 2015 – introduced the Investment Principle License *(Izin Prinsip)* in October 2015. *Izin Prinsip*, which cuts down the processing time to three days, applies to enterprises bringing in investment with a minimum total value of IDR 100 billion and employing at least 1,000 (one thousand) workers.

2.14. Investment processing time was further cut down to a one-day time period in end of 2017 through BKPM Regulation No. 13 of 2017, replacing *Izin Prinsip* with introducing *Registrasi Investasi* (Investment Registration), which allowed investors to complete the start-up procedures – namely, the investment licensing procedure and investment facilities procedure – in a more rapid manner. Under this licensing mechanism, investors in certain business field may directly obtain *Izin Usaha* (Business License) and be able to jump straight into construction activities.

2.15. In addition, the Government introduced the Ease of Direct Investment on Construction (Kemudahan Investasi Langsung Konstruksi/KLIK) in Specific Industrial Areas scheme through the Chairman of BKPM Decree No. 24 of 2016, and as amended by the Chairman of BKPM Decree No. 41 of 2018. The KLIK is available to investors in 47 industrial areas or bonded zone (including industrial parks), and allows them to directly jump into the construction stage following the issuance *Izin Prinsip*.

2.16. Moreover, in order to further facilitate investors, licensing procedure started online services in July 2017, by offering *Izin Prinsip* in digital format. Then in January 2018, the digital format of *Izin Usaha* followed suit and allowed for further optimize of the online licensing services by synergizing various sectoral licensing regime of line ministries/government bodies under the One-Stop Service Center (*Pelayanan Terpadu Satu Pintu*/PTSP). The OSS is a web-based investment licensing system that was implemented through the Government Regulation No. 24 of 2018 on the Electronically Integrated Business Licensing Service.

2.17. Indonesia has also improved several policies on investment incentives, among others that of Tax Holiday. According to the new regulation, Tax Holiday applies for 18 pioneer industries, which are specified into 169 sectors (under the Indonesia Standard Industrial Classification/KBLI). Furthermore, Tax Holiday currently also includes investments with the total value starting from of IDR 100 billion. The Tax Holiday facility is accessible through the OSS system.

2.18. The Negative Investment List (NIL) was enacted through the Presidential Regulation No. 44 of 2016 on Lists of Business Fields that are Closed to and Business Fields that are Open with Conditions to Investment. Overall, the 2016 NIL provides further opportunities for foreign investment in comparison with the previous NIL (Presidential Regulation No. 39 of 2014). Amendments introduced by the 2016 NIL have further liberalized investment rules across a range of sectors.

2.19. Numerous sectors that had been previously closed or conditionally open to foreign investment were removed from the 2016 NIL. These sectors are now 100% open to foreign investment. Notable sectors which are now entirely open to investment include, among others, trade activities (such as direct selling, distribution affiliated with production and futures brokerage), and hospitality and health services (such as production of pharmaceutical raw materials and hospital management services).

2.20. Domestic and foreign investment in the non-oil and gas sectors has been increasing during the period of 2014-2018. In 2018, direct investment reached a total value of IDR 721.3 trillion, increasing 4.1% from the previous year's value.

2.21. The Government continues to support the business community to explore investment opportunities abroad, and to take advantage of various economic partnership agreements enforced between Indonesia and partnering countries. Within the period of 2014-2018, 51 Indonesian companies established their investment in foreign countries, such as the ASEAN countries, India, China, Saudi Arabia, and Australia. These investments were established in various sectors, among others software, information and technology services, financial services, and pharmacy.[2]

2.3 Financial Sectors

2.22. Indonesia's financial market in the last five years had remained robust, characterized not only by a positive return but also by an improved capital market environment (in terms of its supply, demand, and infrastructure). The same situation applied to the financial services industry, where intermediation, risks profile, as well as capital adequacy ratios seemed strong.

2.23. Since 2014, the Jakarta Composite Index (JCI) posted fluctuative annual returns but with positive trend, ranging from the low of -12.1% (in 2015) to the high of 22.3% (in 2014). During the 2014-2018 period, the JCI posted a positive Cumulative Average Growth Rate (CAGR) of around 7.5% ytd per annum. In 2020, up to 10 March, JCI posted a negative return of -17.1%.

2.24. Financial intermediation of Indonesia's financial services remained strong and positive since 2014. Throughout the review period, banking and multi-finance intermediation managed to grow at their potential level, supported by ample liquidity. On the banking sector, intermediation reached its highest growth of 12.1% YoY on February 2019. Although slightly decreased, banking intermediation continued to grow at a moderate level of 6.10% YoY in January 2020, in line with the economic slowdown. As for financing distributed by multi-finance companies, the average growth had been above 5.9% since 2014 until December 2019, with lower growth since September 2019, hitting 2.4% growth YoY on January 2020. Due to the COVID-19 pandemic, banking intermediation growth is forecasted to be in the range of 6-8%, revised from 8-10% in the previous forecast in accordance with the revised 2020 economic growth projection.

2.25. Domestic financial institutions exhibit a generally robust condition in the last five years. Amid unfavourable economic condition, the domestic banking performances is still well maintained as indicated by stable and strong capital and profitability. Indonesian banks are well-capitalized, as shown by the Capital Adequacy Ratio (CAR) that remains high above 20%. The improvement in credit quality during the last years has also kept the Net Interest Margin (NIM) of banks as the highest in the region, which was 5.03% on average annually for the last five years. High profitability with strong capital performances of financial services industry are maintained to be resilient enough in mitigating any potential shock.

2.26. Non-performing loan (NPL) and non-performing financing (NPF) remained at low level, well-maintained below the 5% threshold, despite a hike in 2016 due to a decline in asset quality and sluggish commodity sector. NPLs of banking industry were ranging between 2-3% in the past 5 years, well below the threshold. Credit restructuring as well as prudent loan channelling managed to keep bad debt under control. Asset quality improved, in line with efforts to maintain a sound credit risk.

2.27. In early 2020, the impact of COVID-19 outbreak was also seen in credit quality, where banking NPLs in January 2020 slightly increased with NPL ratio of 2.77% gross and 2.56% of multi-finance companies NPFs. Amid these conditions, the OJK has launched new regulation as a stimulus to manage banking and non-banking industries. Liquidity also remained ample with sufficient ratio of liquid assets to non-core deposits (LA/NCD) has mostly been 90% which is well above the 50% threshold. This liquidity risk measurement has shown resiliency in the banking system. The asset quality also has been improving, through the issuance of the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*) regulation 35/POJK.05/2018 which further proved a strong commitment to

[2] fDi Markets, 2019. Online information (www.fdimarkets.com).

escalate the role of multi-finance industry in the economy while maintaining sound prudential macroeconomic policy.

2.4 Economic Challenges to Indonesia

2.28. The then prevailing global economic conditions had impacted Indonesia's export performance in 2018, which declined compared to in 2017. This decline had widened the trade deficit, causing a current account deficit that, in size, reached 2.98% of GDP in 2018. Apart from the service sector, which had always experienced a trade deficit, transactions on primary revenue also contributed to the widening of the deficit in the current account balance. In terms of the capital account, capital inflows or foreign direct investment (FDI) also experienced a slowdown in 2018. However, since the end of 2018, increased investor confidence in Indonesia's economy has enticed foreign capital inflows. In the first quarter of 2019, total FDI grew 9.0% (QoQ), which is better than the rate that prevailed in the fourth quarter of 2018, although it still grew negatively by -0.9% compared to the first quarter of 2018 (YoY).

2.29. Although the 2013 crisis was not a major, taper tantrums or normalization of monetary policy in the United States had slowed down of the Indonesian economy, which grew only by 5.78%, accompanied by a weakening exchange rate and CSPI (Composite Stock Price Index) in the stock exchange. Moreover, despite the threat of trade war between the United States and China that had significantly reduced the volume of global trade transactions throughout 2018, Indonesia's economy – compared to its peer countries – still grew reasonably well by 5.17%. Household consumption was the main contributor to this growth, and had, in the last four years, contributed an average of 56% of growth in the economy, with rate of growth (of the household consumption variable) being maintained at an average of 5%. The stability of the Indonesian economy continued until the beginning of 2019. In the first quarter of 2019, the Indonesia economy was able to grow by 5.07%.

2.30. The performance of the economy had shown improvements, but the dynamics of the global economy in 2018 exerted pressure on the Rupiah's exchange rate and balance of payments. Indonesia's balance of payments in 2018 incurred a deficit of USD 7.1 billion, due mainly to the trade balance deficit; meanwhile, the services account incurred a surplus due to the surplus in the travel service sector. The primary and secondary income balance also improved, driven by an increase in investment income and remittances. The pace of money growth in 2018 slowed, with an average growth of M1 of 8.73% (YoY) and M2 of 6.90% (YoY), due to efforts to maintain the depreciating Rupiah exchange rate of 6.89% in 2018. The weakening of the Rupiah in 2018 was caused by a combination of external factors, including adjustments to the FFR (Federal Funds Rate) of the US' Federal Reserve, Trade War, Brexit, and geopolitical changes. However, the Rupiah was relatively stronger than the currency of other developing countries such as the Indian Rupees, South African Rand, Brazilian Real, and Turkish Lira which in 2018 each, respectively, depreciated by 9.23%, 15.86%, 17.7%, and 39.26%.

2.31. Having gone through various crises and challenges, Indonesia has proven to be a resilient country able to sustain development and grow its economy into becoming stronger. In commemoration of the 100th anniversary of its independence in 2045, Indonesia is determined to become a sovereign, developed, just, and prosperous country, in accordance with the Vision of Indonesia 2045. However, to realize that vision, there are still many challenges both in the short and long term. These challenges include output gaps, global uncertainty, demographics toward the aging population, middle-income traps, and economic transformation.

3 INTERNATIONAL TRADE ENGAGEMENT

3.1. Between 2018 and 2019, Indonesia was active in initiating, conducting, and completing negotiations with various trade partners. The results of these negotiations became amongst the references in formulating various international economic and trade cooperation, as well as references in increasing engagement in various regional and multilateral cooperations. The utilization of the results of the negotiations that have been implemented, is reflected in the 2015-2019 NMTDP (National Medium-Term Development Plan).

3.1 Bilateral

3.2. By the end of the time period covered in this trade policy review, Indonesia had implemented four bilateral trade negotiations, namely the Indonesia-Pakistan PTA, the trade in goods component of the Indonesia-Chile CEPA, the Indonesia-Japan EPA, and the Indonesia-Australia CEPA.[3] Three bilateral negotiations were in the ratification stage, namely Indonesia-EFTA CEPA, Indonesia-Mozambique PTA, and Indonesia-Korea CEPA. Meanwhile, nine bilateral negotiations were still ongoing or in the process of review, namely Indonesia-EU CEPA, Indonesia-Turkey CEPA, Indonesia-Pakistan TIGA, Indonesia-Tunisia PTA, Indonesia-Bangladesh PTA, Indonesia-Mauritius PTA, Indonesia-Morocco PTA, Indonesia-Iran PTA, and the Protocol to Amend Indonesia-Japan EPA.

3.3. Indonesia has also initiated exploratory process in conducting 15 additional trade arrangements covering approximate 50 trading partners, as follows: 5 in Southern Africa; 15 in Western Africa; 7 in Eastern Africa; 1 in Northern Africa; 6 in the Persian Gulf; 1 in Southern Asia; 4 in South America; 2 in the Pacific; and 5 in the Eurasian.

3.2 Regional

3.4. During the time period covered by this trade policy review, Indonesia through ASEAN had implemented or ratified five regional negotiations covering seven trading partners, namely: the ASEAN-China FTA; ASEAN-Australia-New Zealand FTA (AANZFTA); ASEAN-India FTA; ASEAN-Japan CEP; the ASEAN-Korea FTA; and the ASEAN-Hong Kong FTA & Investment Agreement.[4]

3.5. Meanwhile, one regional negotiation (covering one additional trading partner) are in the ratification process, namely the ASEAN-Japan Investment, Service & MNP Agreements. Additionally, two regional negotiations were ongoing or in the process of review, namely the ASEAN-India FTA; and ASEAN-Australia-New Zealand FTA (AANZFTA).

3.6. Within ASEAN, Indonesia and other ASEAN members are currently conducting a review process of the ASEAN Economic Community (AEC). During the time period of this trade policy review, Indonesia and ASEAN also have five trade-related agreements, namely: the (1) 4th Protocol to Amend ASEAN Comprehensive Investment Agreement (ACIA); (2) 1st Protocol to Amend ASEAN Trade in Goods Agreement (ATIGA) to Allow the ASEAN Wide Self-Certification; (3) ASEAN Trade in Services Agreement (ATISA); (4) Protocol to Implement 10th Package of Commitment under ASEAN Framework Agreement on Services (AFAS); and (5) ASEAN Agreement on E-Commerce.

3.7. Beyond, the ASEAN and their six free trade agreement partners (China, Korea, Japan, Australia, New Zealand, and India) have worked together in negotiations on Regional Comprehensive Economic Partnership (RCEP). As the lead, Indonesia works to ensure that negotiations move toward more ambitious goals within the RCEP cooperation framework, which covered many issues, *inter alia*, trade in goods, trade in services, investment, economic and technical cooperation, e-commerce, intellectual property, competition, and dispute settlement.

3.8. Indonesia's economic and trade intra-regional interactions are further facilitated, amongst others, through intra-regional economic and trade cooperation such as the East Asia Summit (EAS), Asia-Pacific Economic Cooperation (APEC), and the Indian Ocean Rim Association (IORA).

3.9. Through APEC, Indonesia has continuously put forward diverse initiatives to promote and facilitate trade with the aim to achieve sustainable and inclusive growth. These include supporting the implementation of WTO's TFA, enhancing Economies' cooperation to better participate in the GVCs and regional connectivity, optimizing the benefit of digital economy for all society and collaborating efforts to bridge the digital gap, addressing non-tariff measures that hinder trade in agriculture products, and promoting the internationalization of and enhancing access for MSMEs in the Asia-Pacific Region.

[3] Implementation of IA-CEPA starts from 5 July 2020.
[4] The AHK-FTA entered into force on 4 July 2020.

3.10. As to IORA, in 2015-2017, Indonesia took chairmanship to lead the grouping in presenting ideas and strategic initiatives in economic and trade cooperation that had been agreed during Indonesia's presidency.

3.3 Multilateral

3.11. Indonesia strives to continue to optimize its bridge-builder role on various major and emerging economic and trade-related issues of importance to the developing country members and the least-developed country members, within the WTO process as well as outside the WTO framework.

3.12. Within the WTO, Indonesia makes the most of the multilateral trading system, firmly recognizing, in 1995, that the multilateral trading system was the fairest and beneficial trading system to the developing countries.

3.13. While there was no affirmation of the Doha Round's continued commitment reflected in Ministerial Decisions in both the 10th WTO Ministerial Conference in Nairobi and the 11th WTO Ministerial Conference in Buenos Aires, there was also no agreement among members to stop the Doha Round negotiations. Therefore, Indonesia believes that it is important for members to continue negotiating the Doha Development Agenda (DDA) as mandated.

3.14. Outside the WTO framework, Indonesia supported G20 Japanese Presidency in making WTO reform as priority issue. Indonesia also shared its views on the relevance of development elements as an integral part of the multilateral trading system, as well as on the urgency to provide strong political guidance and strategic direction to improve the functioning of the WTO in order to support the maintaining of the WTO as the backbone of international trading system. In addition, Indonesia has benefitted from works of the G20 to project its national short-and-mid-term interests into the international fora, such as blended finance for SDGs financing, the role of creative industry in supporting economic growth, recognition towards biofuel as a way to reach cleaner energy use and development, family farming as an important component in agriculture, and the role of women as agent of peace.

3.15. Within the broader multilateral framework, and in line with the WTO Trade Facilitation Agreement, Indonesia has actively participated in the negotiation on the Framework Agreement on Facilitation of Cross-border Paperless Trade through the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). Indonesia is also benefitting from various initiatives of the United Nations Conference on Trade and Development (UNCTAD) to complement the process in other multilateral forums.

3.16. Other multilateral processes that have contributed to Indonesia's work on the multilateral trade front are those affiliated to several international commodity institutions, such as, the International Tripartite Rubber Council (ITRC), International Coffee Organization (ICO), Association of Natural Rubber Producing Countries (ANRPC), Asian and Pacific Coconut Community (APCC), International Pepper Community (IPC), Council of Palm Oil Producing Countries (CPOPC), International Cocoa Organization (ICCO), and the International Coconut Community (ICC).

3.17. As one of the Founders and active Members of the international commodity organizations, Indonesia has contributed in determining the direction of the organizations. In 2019, Indonesia was elected as Chairman of the ICO, ANRPC and ITRC. Furthermore, in the ICO, Indonesia has been supporting the development of the global coffee industry by promoting better cooperation among coffee stakeholders, from both the production and consumption sides, towards price stability, sustainability and welfare.

3.4 Roles at the World Trade Organization

3.4.1 Agriculture

3.18. Indonesia's engagement in agriculture-related meetings is conducted within the purview of the Committee on Agriculture Regular Session (CoA-RS) and the Committee on Agriculture Special Session (CoA-SS).

3.19. Through the CoA-RS, Indonesia has completed its agricultural notifications from 2012 to 2018. Indonesia has also fulfilled its obligation to answer the Annual Questionnaire on Export Competition as mandated by the Ministerial Decision on Export Competition at the 10th WTO Ministerial Conference. Indonesia is currently at the finalization stage to implement the said mandate on eliminating its export subsidy entitlement.

3.20. Through the CoA-SS, Indonesia – along with the G33 and Cairns Group – has been negotiating for Agricultural reforms to address inequities and imbalances in the Uruguay Round Agreement on Agriculture, as well as to work towards ensuring a development-oriented trading regime that provides a level playing field to agricultural producers in developing country members.

3.21. With the G33, Indonesia has been advocating for proposals that aim at poverty reduction, food security, and rural development. These proposals are on Special Products (SP), Public Stockholding for Food Security Purposes (PSH), and Special Safeguard Mechanism (SSM). Indonesia strongly believes that amongst the strong signals the entire WTO membership can transmit to indicate the prevailing relevance of the WTO, and to give strong signal that the negotiating arm of the WTO is well and functioning, is a mutually acceptable permanent solution to the PSH as well as a balanced and agreeable outcome on SSM.

Sanitary and Phytosanitary

3.22. Through regular meetings of the Sanitary and Phytosanitary (SPS) Committee, Indonesia has been conveying concerns (to members) as well as responding to concerns (from members) over SPS measures that are deemed more trade restrictive than necessary. With agricultural products playing an important role in overall trade, Indonesia supports and participates in review processes that aim to facilitate better operation and implementation of the SPS Agreement.

3.23. Moreover, Indonesia understands that sanitary and phytosanitary standards-setting is closely linked to members' ability in conducting risk analysis and assessment techniques, which are a set of skills not automatically acquired by all members especially developing countries and LDC members. Hence, in order to level the playing field, Indonesia believes that technical assistance (TA) and Special and Differential Treatment (S&DT) should continue to be an integral part of the SPS Agreement.

3.24. In conjunction to members being urged to use risk analysis techniques developed by relevant international organizations, Indonesia complements its active participation in the WTO-driven SPS agenda with an active participation in the three standard-setting bodies relevant to SPS-related purposes, namely: Codex Alimentarius Commission (Codex) for food safety; International Office of Epizootics (OIE) for animal health and zoonoses; and International Plant Protection Convention Secretariat (IPPC) for plant health.

3.4.2 Non-Agriculture Market Access (NAMA)

3.25. Indonesia has been pro-active in discussions on the non-agriculture market access, amongst others by promoting transparency in measures related to technical regulations, and encouraging members to reduce non-tariff barriers.

3.26. Since the last review, Indonesia has regularly participated in meetings of Committee on Technical Barriers to Trade (TBT) to convey concern (to members) and respond to concerns (from other members). Indonesia strives to continue its active role in the committee, and improve the implementation of the agreement through various forums in the WTO, to ultimately lessen non-tariff barriers in global trade. One such effort is the establishment of the Indonesia National Committee for Internal Coordination on TBT in 2017 consisting all government institutions and stakeholders related to standardization and conformity assessment, to support the implementation of the principle of transparency in the WTO TBT Agreement and formulate Indonesia's position in responding concerns from WTO members. In order to improve notification and inquiry tasks, the Government also develop a website as an integrated media of information for stakeholders. In 2017, Indonesia updated its Harmonized System Nomenclature for Schedule XXI from HS 1996 to HS 2002. This update is notified under document G/MA/TAR/RS/458.

3.4.3 Services

3.27. Indonesia still believes that Members' effort in the ongoing services negotiations should be focused on the important gains from the Doha Round that were achieved with the conclusion of the GATS and the Doha Mandate on progressive liberalization, as established on 15 April 2005 and at the 2008 Signalling Conference.

3.28. Amongst the notable points to this progressive liberalization mandate is that Developed members need to be more open to foreign workers, especially foreign workers from developing and LDC members, so that developing and LDC members could export more services. Nevertheless, for developing and least-developed countries, before opening the markets for their service sectors, they must consider the level of development and readiness for liberalization in services.

3.29. In terms of services negotiation, Indonesia has been actively participating in the Joint Statement Initiative on E-Commerce. Indonesia also has yet to officially file a request to any of its negotiating partners. Indonesia would like to see negotiating partners make commitments that satisfy the demands of many developing members. Such commitments must support developing members' aim to increase their services export, in particular that of Mode 4.

3.4.4 Trade-related Aspect of Intellectual Property Rights (TRIPS)

3.30. Indonesia attaches importance to negotiations held under the TRIPS Council, and actively engages itself in discussions on related agenda items, such as: the Triplets Issue (Review of the Provision of Article 27.3B; Relationship between the TRIPS Agreement and the Convention on Biological Diversity; Protection of Traditional Knowledge and Folklore); Non-Violation and Situation Complaint (NVSC); and the Observer Status for CBD Secretariat and South Centre. For the Triplets Issue, Indonesia supports the amendment of Article 29 of TRIPS Agreement to provide legal obligation to incorporate Mandatory Disclosure Requirement in the patent application. Such legal obligation will prevent misappropriation of GRTKF and will ensure Prior Informed Consent and Access Benefit Sharing. At the domestic level, Indonesia made some progress in developing a database to prevent claims/misappropriation of GRTKF. Additionally, progress also came in the form of government regulation concerning access to genetic resources and the fair and equitable sharing of benefit arising from their utilization, namely Regulation of the Minister of Environment and Forestry No. 2/2018.

3.4.5 Environmental Issue

3.31. Indonesia believes in a balanced approach to sustainable palm oil management, taking into account the sector's contribution in absorbing 17 million local workers, as well as the accompanying law enforcement against deforestation efforts. This approach has been Indonesia's commitment to the 2030 Agenda, which Indonesia presented at the WTO Committee on Trade and Environment (CTE) regular meeting in June 2018 in Geneva.

3.4.6 Trade Facilitation

3.32. In 2018, Indonesia notified categories of commitments to implement the TFA, and transparency obligations under the TFA. Indonesia has implemented all provisions, except Advance Rulings, Risk Management, and Notifications for Enhance Controls or Inspections. In order to ensure the implementation of TFA, the Government of Indonesia has established the National Committee on Trade Facilitation. Indonesia continues to give its best effort in order to fully implement all TFA provisions.

3.4.7 Aid for trade

3.33. Indonesia fully endorses LDC members to benefit from the aid for trade scheme to encourage their integration into the world trading system, which minimizes the constraint LDCs face in international trade activities. As a middle-income country, Indonesia participates in aid for trade initiative both as a recipient and donor. Indonesia has already given aid for trade to a few LDCs through the South-South Cooperation mechanism, in terms of technical assistance.

3.4.8 Fisheries

3.34. Indonesia participates actively in Fisheries Subsidies negotiations, and submitted a proposal in 2017. Indonesia has also notified fisheries sector subsidies in 2019 in accordance with the mandate of Article 25 of the SCM Agreement.

3.35. In 2017, Indonesia tabled TN/RL/GEN/189.Rev1, which proposes a discipline on the prohibition for certain fisheries subsidies, and a discipline on special and differential treatment for developing countries. Indonesia believes that special and differential treatment should be the heart of the fisheries subsidies negotiation, considering the major contribution of the fishery sector to development in developing and LDC members. Additionally, Indonesia believes that an effective discipline must be in place in order to achieve the objective as mandated.

3.36. Indonesia also believes that subsidies related to IUU Fishing must not be tolerated, given such activities have great detrimental effects on the economic and social aspects. Moreover, Indonesia is also of the view that an effective fisheries management plan has a major contribution to deter overfishing and overcapacity. Therefore, it should be included in the discussion on achieving the intended results of fisheries subsidies discipline.

3.4.9 Priority Issues

3.37. In the context of the Doha Framework, Fisheries Subsidies are expected to be the next in line after the successful negotiation of the Trade Facilitation Agreement. The negotiation itself was mandated to be completed in 2019. Therefore, Indonesia continues to be actively involved the process in order to fulfil the mandate. In addition, Indonesia also considers the ocean sustainability aspect of the discipline.

4 TRADE AND TRADE RELATED POLICY

4.1 National Economic Policy Packages

4.1. Between 2015 and 2018, the Government has issued 16 national economic policy packages (NEPP) to encourage national industry and competitiveness amid the global economic slowdown. There are five NEPP which focus on trade-related policy development, especially on harmonizing exports and imports.

4.2. One of the focus of the NEPP is to encourage the competitiveness of national industries through deregulation, bureaucratization, and law enforcement and business certainty. Policy deregulation is intended to rationalize regulations by eliminating duplication, harmonizing regulations, and eliminating regulatory inconsistencies. There are 134 regulations that are reviewed to cut regulations that are considered to hamper the competitiveness of national industries.

4.2 Sectoral Policies

4.2.1 Agriculture

4.3. The agriculture sector remains as one of the most important sectors in the Indonesian economy, due to its ability in absorbing labor, in becoming the source of economic growth, and as a contributor to foreign exchange. The agriculture sector contributes 13.26% of Indonesia's GDP in 2018. Agricultural development has helped reduce poverty, raise incomes, and improve food security – especially for those who live in rural areas and engage mainly in farming activities.

4.4. The Indonesian Government has also designated some specific and priority agricultural products into the self-sufficiency programme. Such designation applies to rice, which by far is the main staple food for the majority of the population. Other food crops that have also been designated are soybeans, corn, sugar, and beef.

4.5. From 2015 to 2019, the import of some commodities (such as rice, corn, shallots, and chili) have reduced dramatically. On the other hand, agricultural export has increased by 29.7%, with total value of IDR 1.764 billion in 2018. Several export commodities showed significant growth, such as palm oil by 22.5%, rubber 21.3%, coconut 14.8%, coffee 28.6%, durian 32%, mangoes teen 252.61%, banana 706.2%, and pineapple 1.520%.

4.6. Since 2015, the Indonesian government has developed a set of policies to support family farmers. These policies are based on a modernized, innovative, and holistic approach, and be implemented through several revolutionary breakthroughs. This programme has included shifting from traditional to modern agriculture through provisions of high-tech machinery and high yielding varieties; changing existing policies; developing agricultural infrastructure and downstream industries; managing the supply chain; providing agriculture insurance for paddy and cattle; and empowerment for farmers and rural communities.

4.7. For the upcoming years from 2020 to 2024, the Government has set its policies toward strengthening agriculture human resources; improving agriculture modernization; optimizing utilization of land resources for food; and strengthening agriculture competitiveness and export.

4.2.2 Fisheries

4.8. Fisheries and aquaculture significantly contribute to the economy and food security. In 2014, the production of those two sectors reached 20.47 million tonnes, with further increase reaching 24.31 million tonnes in 2018. Specific to fisheries, its contribution to the national GDP had gradually increased from 2010 to 2018, with an average growth of 6.56% per year. Moreover, Indonesia's export for fisheries products also increased in the period 2017-2018, as much as 4.45% in volume (tonnage) and 7.44% in value (USD million). The main export commodities in 2018 were shrimp, tuna, squid-octopus, crab and seaweed. Meanwhile, the latest data demonstrates that fisheries sector contribution accounted for 2.28% of the National GDP in the second Quarter of year 2019, increasing 6.25% compared to the same period in the previous year. This growth was mainly supported by the increase in marine capture fisheries and seaweed production.

4.9. In an effort to combat illegal, unreported and unregulated (IUU) fishing, Indonesia sets very strict measures, and continues a zero-tolerance policy for IUU fishing as stipulated in Law of the Republic of Indonesia No. 31/2004 as amended by Law of the Republic of Indonesia No. 45/2009 on Fisheries. Furthermore, the Agreement on Port State Measures to Prevent, Deter and Eliminate IUU Fishing (PSMA) adopted in 2016 acts as an additional legal instrument that deters IUU fishing activities. The positive impacts of combating IUU fishing came in the form of an increased fish stocks to 12.54 million tonnes in 2016, and an increased prosperity of fishermen. In combatting IUU fishing, Indonesia has also cooperated with many partner countries and entities, both bilaterally or multilaterally, and through international forums.

4.10. In developing its fisheries industry, Indonesia offers opportunities to foreign investors to conduct fisheries-related businesses, such as cold storage services, processing and aquaculture. Incentive includes providing investors with assurance on the sustainability of fisheries business in the fish processing industry as long as the fishery business is in the possession of a Processing Business Permit (SIUP).

4.11. In order to control the quality, safety and fish health assurance system of fish and fisheries products from upstream to downstream, Indonesia implements Good Handling Practices, Good Aquaculture Practices, Biosecurity system, Good Manufacturing Practices, and Hazard Analysis and Critical Control Point (HACCP) system. Complementary to these practices and systems are the respective competent authority who conducts the inspection, verification, surveillance and sampling. Meanwhile, to effectively ensure the flow of trade in fisheries, Indonesia continues to develop bilateral cooperation with trading partners through Memorandum of Understanding (MoU) or Mutual Recognition Arrangement (MRA) in quality, safety and fish health assurance system.

4.12. Indonesia will continue its efforts to strengthening sustainable fisheries management including the eradication of IUU fishing and destructive fishing; strengthening sustainable aquaculture; improving competitiveness and added value of fish and fish products; increasing fisheries business and investment; calling up marine and fisheries industry; strengthening human resource capacities, innovation, research and technology; as well as developing marine-based regional approach.

4.2.3 Manufacture

4.13. The industrial sector is the driver of national economic development, because it has been able to make a significant contribution in increasing added value, employment, and foreign exchange, as well as being able to make a major contribution in the formation of national competitiveness. The non-oil processing industry sector contributed 17.66% of the total national GDP in 2018. Industry remained as the biggest contributor compared to other sectors. Sub-sectors with the highest average growth were food and beverages at 8.71%; followed by metal goods, computers, electronic goods, machinery and equipment at 4.02%; transportation equipment at 3.67%; and chemicals at 3.40%.

4.14. The 2015-2035 National Industrial Development Master Plan (RIPIN) is stipulated by Government Regulation No. 14 of 2015, and is the implementing instrument to the mandate on Law No. 3 of 2014 concerning the industry, and simultaneously serves as a guideline for the government and industry players in industrial planning and development. RIPIN emphasized the seriousness of the government in realizing the objectives of industrial development, that is: to make the national industry as a pillar and driver of the national economy; to increase the depth and strength of industrial structures; and to equitably distribute industrial development throughout Indonesia.

4.15. In an attempt to achieve these three goals, the Government devices a national industrial policy (KIN). The KIN is divided into three stages, with the first stage (2015-2019) in effect within the timeframe of this trade policy review. This first stage was intended to increase the value-added of natural resources in the upstream industry, especially industry based on agriculture and natural resources.

4.16. One of the sectors targeted by the Government is the development of the metal industry sector. Incentives are given to investment in metal smelters, especially those that support increased domestic utilization (development of the automotive industry, government infrastructure projects to housing that has grown significantly in the last 5 years), and the development of new technologies. Steel product capacity is expected to grow from 12 million tons to 17 million tons in the next 5 years.

4.17. In the automotive sector, the policy of producing energy-efficient and affordable (LCGC) motorized vehicles has succeeded in transforming Indonesia's niche product for the large middle-low income market from two-wheel vehicles to four-wheel vehicles. Additionally, these LCGC motorized vehicles have also become a champion for Indonesian products entering the export market. In the next 5 years, Indonesia targets to initiate local production of two-wheel and four-wheel electric vehicles (EV) along with its components, building the required infrastructure and giving incentives (tax holiday and super deductible tax) for investment in research and development, technology transfer, and building the electric vehicle battery industry to ensure its linkage in the supply chain.

4.18. Food and beverages industry continue to be the biggest sub-sector in size, making up 36.9% of all non-oil processing industry. It is also the sub-sector with the fastest growth. In terms of increasing the value added and value chains of agricultural and marine based food and beverage products, the food and beverages industry strived to improve the quality of its products. Amongst the strategy being followed is by adopting internationally accepted product standards; giving tax deduction as a stimulus for innovation; and improving industrial human resources competencies through vocational education programs that are conducted in collaboration with similar initiatives in related industries, as well as through competency certification in accordance with industry needs.

4.19. The Government introduced the Making Indonesia 4.0 initiative, a road map to develop Indonesia's manufacturing sector following industrial practices characterized under the 4th Industrial Revolution (4IR) concept. The road map aims to double labor productivity, thereby increasing global competitiveness and lifting Indonesia's global export market share. Indonesia's targets in implementing 4IR include: to make it into the world's top 10 list of economic powers based on GDP; to double the ratio of productivity to cost; to secure a 10% contribution of net exports to GDP; and to allocate 2% of GDP into research and development activities. The Making Indonesia 4.0 road map contains 10 national initiatives, all geared to accelerate the development of the manufacturing industry in Indonesia. These initiatives include: to enhance the flow of goods and materials; to redesign industrial zones; to accommodate sustainability standards; to empower MSMEs; to put in place national digital infrastructure; to attract foreign investment; to improve the quality of human resources; to develop the ecosystems for innovation; to give incentives for investment in technology; and to harmonize rules and policies.

4.2.4 Services

4.20. In the last years, growth in services trade has contributed significantly to Indonesia's economic growth. Data from Statistics Indonesia (BPS) depicts a higher QI to QII economic growth in 2019 compared to that of the same period in 2018, with growth reaching 5.02% in 2019.

4.21. The structure of Indonesia's GDP, at current prices and in QIII-2019, was dominated by the service sector, which contributed up to 51% compared to the 48% figure during the same period in 2014. In the case of Indonesia, the service sector consists of construction services, wholesale trade and retail; car and motorcycle repair, transportation and warehousing, provision of accommodation and food and beverage, information and communication, financial services and insurance, real estate, corporate services, educational services, health services and social services and other services.

4.22. The Indonesian economy is also characterized the large number of labour force working in the services sector. International Labour Organization (ILO) data from 2018 depicts that the services sector absorbs around 48.1% of the available workforce, compared to 2017 which absorbed 47.2%. As a comparison, the ILO data records that the agricultural sector absorbs 29.6% of workforce, while the industrial sector accounts for 22.3%.

4.23. The development strategy for services sector includes initiatives to encourage the participation of domestic service providers in foreign trade, amongst others by increasing the quantity and quality of the exports of priority services through: (1) increasing the utilization of priority services produced by domestic businesses, in order to provide incentives for the development of national service industries; and (2) optimizing resources available within the networks global services production to improve the competitiveness of the services sector.

4.24. Consequently, with a view to support the above-mentioned strategy, efforts are made to: (1) increase promotion of Indonesian tourism; (2) increase the quality and quantity of exports of Tourism Services and Maritime Transportation Services; and (3) improve the quality and skill of Indonesian workers.

4.2.5 Public Stockholding (PSH)

4.25. At the moment, the Government has only registered rice – specifically, Government Reserve Rice (GRR) managed by state-owned Perum BULOG – in the WTO product coverage for PSH. GRR is aimed at supporting low-income producers (poor small-scale farmers) and national food providers. For five years from 2014-2019, the existence of the GRR programme has kept the price of rice at a level affordable to domestic consumers.

4.26. Indonesia has actively carried out PSH notifications, as incorporated in the Domestic Support notification, wherein the last notification was reported for the years of 2012-2018. Indonesia's market price support (MPS) during 2012-2018 was always below the allowed *de minimis* value of 10%, ranging in value from 0.1-0.85% of the total production value.

4.27. Moreover, Indonesia guarantees that its PSH products will not be exported to global markets, and, thus, will not cause trade distortion.

4.28. In Presidential Regulation (Perpres) No. 48/2016, the Government has defined the type of staple food, in addition to rice, that must be maintained in terms of supply availability and price stability, namely corn, soybean, sugar, cooking oil, wheat flour, red onion, chili, beef, chicken meat, and eggs. Therefore, these products are considered as staple foods, and are justified candidates to be included in the PSH product coverage.

4.2.6 Standardization

4.29. In the period of 2013-mid 2020, Indonesia stipulated Law No. 20 of 2014 on Standardization and Conformity Assessment, which is the umbrella legal instrument for issues related to standardization. The Law is implemented through the Government Regulation No. 34 of 2018 on National System on Standardization and Conformity Assessment. These legal documents cover standard-setting and implementation, accreditation, certification, inspection, metrology, research, and development, cooperation, information system, mentoring, as well as monitoring and public participation.

4.30. Based on the Presidential Regulation No. 4 of 2018 on National Standardization Agency (BSN), the BSN is the government institution in charge of standardization development, and has been given more responsibilities with the National Metrology Institute (NMI), which was previously under the Indonesia Institute of Science (LIPI), being incorporated into the BSN organizational structure. This organizational change further strengthens BSN's role as the national focal point in the fields of standardization, conformity assessment and metrology.

4.2.7 Micro, Small and Medium-Sized Enterprises (MSMEs)

4.31. According to data from the Ministry of Cooperative and SMEs, there are approximately 64.19 million units of MSMEs in Indonesia. These MSMEs made up 99.99% of total business in Indonesia, and employ more than 116 million people. In Indonesia, MSMEs are classified as business with assets ≤ IDR 10 billion, or turnover ≤ IDR 50 billion, as defined by the Law of Republic of Indonesia No. 20/2008.

4.32. At present, the largest number of internet users in Southeast Asia are found in Indonesia. Meanwhile, Indonesian internet users is the third-largest in Asia, after China and India. In 2018, electronic commerce in Indonesia is estimated to reach USD 27 billion, making Indonesian economy in Southeast Asia with the fastest-growing digital economy. The electronic commerce industry had significantly revolutionized the business practice of Indonesia's MSMEs. Trade becomes more possible and more recordable, with numerous additional benefits in terms of enabling MSMEs to access credits from formal financial institutions.

4.33. In addition, Indonesia is also amongst the top five economies in the world with the most numbers of start-ups. The number of Indonesian start-up companies has reached 2150 in 2019. Four start-up companies from Indonesia, namely Tokopedia, Traveloka, Bukalapak, and OVO have become unicorns, start-ups with valuations above USD 1 billion or equivalent to IDR 14 trillion. Go-Jek is the largest start-up company in Indonesia, which is now a USD 10 billion – or equivalent to IDR 140 trillion – decacorn.

4.34. Indonesia recognizes MSMEs as an engine of Indonesia's economic growth. More than half of the revenue in the Indonesian economy is generated by MSMEs. The existence of electronic commerce has further facilitated MSMEs in increasing income and employment opportunities, and in becoming more innovative and competitive. In order to improve the quality of human resources in cooperatives and MSMEs, the Indonesian government has conducted various training programs, workshops, internships, and assistance with a variety of relevant and up-to-date themes including motivation and entrepreneurial skills, business management, vocational, cooperatives, etc. The program was carried out throughout Indonesia, across the 34 provinces. Some programmes have more specific objectives and cross-cutting issues (involving several ministries and institutions), such as entrepreneurship and vocational training programs for underdeveloped regions, border areas, post-disaster, people with disabilities, counter terrorism, priority sectors, etc.

4.35. The Government has developed several regulations to encourage the growth of electronic commerce in Indonesia, one of them is Presidential Regulation No. 74 of 2017 concerning the Road Map of the 2017-2019 Electronic-Based National Trading System. The regulation contains directions and steps to achieve the government's goal of creating 1,000 technopreneurs by 2020, with a valuation of USD 10 billion and e-commerce transactions of USD 130 billion. In addition, the government also issued the 14th NEPP, which is an initiative related to the ease in expanding access to technology-based start-up funding, consumer protection, and human resource education.

4.36. There are some other programmes and policies for MSMEs provided by the Government, which include programmes and policies on financing and taxation. The main financing programme from the Government is called 'People Business Credit Program' or 'Kredit Usaha Rakyat (KUR)', which is intended to empower and encourage MSMEs to develop their business competitiveness.

4.37. The Government, through the Central Bank of Indonesia (Bank Indonesia), also issued Bank Indonesia Regulation No. 17/12/PBI/2015, which obliges commercial banks to integrate a minimum ratio of MSMEs financing in their credit activities.

4.38. The Government has also issued Government Regulation No. 23/2018 concerning income taxes on income from businesses received or obtained by taxpayers with certain gross circulations. Under the regulation, MSMEs are given the opportunity to choose income tax calculations that are appropriate to their character, either through 0.5% of gross income or with calculations [0.25 - (0.6 billion / gross income)] x taxable income.

4.2.8 Intellectual Property Rights

4.39. Indonesia has issued a regulation to administer the Collective Management Organization (CMO) under the Minister of Law and Human Rights Regulation No. 36/2018 on National Collective Management Organization (National CMO), providing regulations on the royalty distribution system to copyright holders. Moreover, taking down sites infringing copyright has also been carried out by the Directorate General of Intellectual Property (DGIP) in cooperation with the Ministry of Communication and Information. Indonesia has also ratified two international treaties in the field of intellectual property since January 8th, 2020: (1) the Marrakesh Treaty, to facilitate access for persons who are blind, visually impaired, or otherwise print disabled in Indonesia; and the Beijing Treaty on Audio-visual Performances.[5]

4.40. Regarding Trademark, Indonesia has acceded the Madrid Protocol with the Presidential Regulation No. 92/2017 on the Promulgation of Protocol Relating to the Madrid Agreement Concerning the International Registration of Mark.

4.41. Concerning Geographical Indication, Indonesia has issued Law No. 20/2016 on Marks and Geographical Indications to replace Law No. 15/2001 on Trademark, and issued Government Regulation No. 51/2007 Number 51 of 2007 on Geographical Indication regulating the procedures for Geographical Indication registration to promote export. In 2015, DGIP strengthened the domestic stakeholders' understanding on geographical indications through various seminars in collaboration with foreign parties and technical assistances for local governments. In 2018, DGIP launched an application for Geographical Indication registration called e-Indikasi Geografis (e-Indigeo). This public service innovation was intended to facilitate online registration system.

4.42. Indonesia made improvements to the online Intellectual Property application service in 2018, namely through 'e-hak cipta', an online copyright recording system which applies Cryptography Technology, making it easier for the public to register copyright digitally in one day. Indonesia also made development in its e-Government system by building smart, effective, efficient, and transparent work culture through IT-based application system for budget implementation called 'Electronic Administration System for Intellectual Property (E-SAKI)'.

4.43. On 17 August 2019, Indonesia launched an online system for registration of patent, trademark, and industrial design. Indonesia has also regulated intellectual property law enforcement under Government Regulation No. 20/2017 on Import Control of Goods Allegedly/Originated from Infringement of Intellectual Property, and Minister of Finance Regulation No. 40.PMK.04/2018 on Recordation, Affirmative Action, Warranty, Temporary Suspension, Monitoring and Evaluation to Control Import and Export of Goods Suspected Infringing or Results from Intellectual Property Infringement. Currently, DGIP is conducting improvements to the online IP services, such as receiving online report on infringement to satisfy public needs and provide wider access for the public to intellectual property services.

4.2.9 State Trading Enterprises

4.44. As one component to the national economic system, state-owned enterprises (SOEs) play a strategic role to raise prosperity of the nation by providing goods and services for the public; conduct

[5] The ratification of Marrakesh Treaty and Beijing Treaty regulated under Presidential Regulation No. 1/2020 and No. 2/2020.

economic activity including trade; increase national economic growth and state financial revenues; and to assist the development of SMEs.

4.45. The role of SOEs is manifested in business activities in almost all sectors, among others the agricultural sector (PTPN for plantation and Perum BULOG for agriculture commodities); manufacturing (PT. PAL for shipping and INKA for train transportation); fisheries (PT. Perikanan Nusantara and Perum Perikanan Indonesia); and mining and energy (PT. Pertamina).

4.46. Perum BULOG is registered as a State Trading Enterprises (STE) entity under the WTO. Throughout the time period of this trade policy review, Indonesia made notification up to the year 2018, on trade activities conducted by Perum BULOG.

4.47. Perum BULOG's duties are to carry out the procurement of paddy grain/rice to ensure the stability of domestic rice price by applying the Applied Administered Price (APP); to maintaining a stock of the Government Reserve Rice (GRR) for food security purposes; and to distribute GR to low-income people, victims of natural disasters, social conflicts, international aid initiatives addressing food insecurity.

4.2.10 Trade Facilitation

4.48. Indonesia fully supports trade facilitation initiatives to encourage the presence of long-standing opportunities for investment and, consequently, economic growth through simplifying business procedures at the border and reducing unnecessary trade cost for export and import by implementing the provisions of the Revised Kyoto Convention of World Customs Organization (WCO) into Indonesia's national law.

4.49. During the 2015-2017 period, the Government has made efforts to boost Indonesia's standing in the Ease of Doing Business Ranking (EoDB), through: implementing several programs such as the Single Billing Electronic Systems for Taxes, Customs Duties, Excise and other charges in all Customs Office; implementing Risk Management system at the border; and implementing Inaportnet System to support the movement (tracking and tracing) of goods in and out of the port area, and integrate the system with the Delivery Order (DO) Online system for handling goods and operation of Toll Road access. These programs and systems have improved the efficiency (i.e. minimizing port dwelling time) of the flow of goods in and out the Port of Tanjung.

4.50. Overall, this approach simplifies the trading system, amongst others by shifting prohibitive and restrictive supervision from border to post border, which has been in effect since 1 February 2018. The approach also aims to address obstacles in attaining industrial competitiveness, that is obstacles such as limited access to imported raw materials and low export competitiveness.

4.51. These designated programs were successfully implemented and made positive result to Indonesia EoDB rank, especially on the aspect of Trading Across Border indicators related to Time Needed for Documentary Compliance (Import and Export) which has reduced significantly since 2015, as shown in the table below:

Table 4.1 Indonesia Ease of Doing Business – Trading Across Border (TAB), 2015-19

TAB Indicators	2015	2017	2019
EODB Rank (190 Countries)	120	91	73
TAB DTF (Score 1 - 100)	63.53	68.57	67.27
Time to Export: Border Compliance (hours)	53.3	53.3	53.3
Cost to Export: Border Compliance (USD)	254	253.7	253.7
Time to Export: Documentary Compliance (hours)	72	61.3	61.3
Cost to Export: Documentary Compliance (USD)	170	138.8	138.8
Time to Import: Border Compliance (hours)	99.4	99.4	99.4
Cost to Import: Border Compliance (USD)	383	382.6	382.6
Time to Import: Documentary Compliance (hours)	144	132.9	106.2
Cost to Import: Documentary Compliance (USD)	164.4	164.4	164.4

4.2.11 Information and Communication Technologies (ICT)

4.52. Indonesia has relaxed several regulations and simplified licensing process includes cutting the bureaucracy and implementing e-licensing, with the aim to boost the ICT business sector, and to increase foreign direct investment in the ICT sector. This policy is expected to improve the quality of service, create a healthy business competition climate as well as employment in the ICT sector. In developing the ICT sector, the government plays a double role as regulator as well as the engine for ICT ecosystem development.

4.53. The challenge of an archipelagic country like Indonesia is to put in place the needed ICT infrastructure in order to connect all regions of the country. To address this challenge, the Government has launched the Palapa Ring Program, which is one of the tools intended to increase connectivity in the economy. The programme comprised of a 36,000 kilometers-long fiber optic cable network covers Sumatra, Java, Kalimantan, Nusa Tenggara, Papua, Sulawesi and Maluku, and one backhaul to connect them all. It is estimated that the Palapa Ring Program will contribute an increase in regional GDP from around 4.5% until 6.4%, as well as create 200,000 jobs in the next ten years. Additionally, the Palapa Ring will also provide 2.5 million users with broadband access, improving market access for retail sectors in rural areas as well as increasing market access for the wider industry and manufacture sectors.

4.54. For the postal service sub-sector, the Public Service Obligation (PSO) policy aims to broaden the provision of postal services to match the boom in e-commerce activities. The PSO will facilitate the physical movement of goods tied to virtual transactions. The PSO will, in general, address logistic development gap between rural and urban areas by facilitating logistic development in rural areas and making them part of global logistics chain.

4.55. The Government has fully maximized its effort in broadening public's access to telecommunication infrastructure, where 4G connection and fiber optic facilities are found in all 34 provinces. The infrastructure for 2G has reached 99.19%, while that of 3G and 4G has reached 96.30% and 97.59%, respectively. In terms of land area coverage, 4G coverage has reached 685.2 thousand square km out of Indonesia's total area of 1.8 million square km, with total residential coverage reaching around 92%. In 2019, Indonesia succeeded in reaching the rate of broadband tariffs of 2.73% of GDP per capita, as mandated in the Indonesia Broadband Plan (2014-2019), with 5% being the highest rate.

4.56. The average internet speed (bandwidth) in Indonesia has also increased to 11.62 Mbps (download rate). In terms of equitable distribution of infrastructure, the percentage of households in Java that have enjoyed fixed broadband services is 13%, while in terms of cellular services, village penetration has reached 92.88%. The Government also issued various policies and regulations to improve infrastructure development and accessibility, mobile broadband penetration, affordability of broadband service prices, as well as equitable distribution of infrastructure, ecosystems and services telecommunication.

4.57. On improving supporting facilities for e-commerce, the Government has in place three main programmes, namely: (1) digital economy ecosystem; (2) content management system; and (3) cyber governance. The digital economy ecosystem programme targets on improving the ecosystem for digital start-ups, facilitating MSMEs, fishermen, and farmers to go online, as well as facilitating the development of smart city. The content management system programme targets on increasing digital literacy and internet content management skills of the general public in order to prevent the proliferation of contents that violate Indonesia's law. While the cyber governance programme aims at improving the monitoring system over electronic transaction, ensuring respect for data privacy, and conducting further studies and evaluation of digital platforms.

5 WAY FORWARD

5.1. For Indonesia, trade has been one of the tools towards attaining economic development. Hence, trade activities complement development efforts. This trade policy review is being conducted amidst global economic slowdown due to the COVID-19 pandemic. In the immediate and near future, trade policy will most likely be formulated in response to the needs of the economic recovery efforts post-COVID.

5.2. Apart from the adverse effect of the COVID-19 pandemic on trade and the global economy, there are also various other uncertainties that need to be anticipated in evaluating the way forward on Indonesia's trade policy. These uncertainties already existed prior to the pandemic, and amongst them are the trade war, the economic slowdown in China, and the pressure of normalizing monetary policy that have switched from the US to the European Union. Additionally, the price of Indonesia's main international export commodities – including coal and palm oil – is also expected to decline, along with the shifting of world demand on other commodities and products.

5.3. Post-COVID, exports of goods and services are targeted to grow. The increase in the exports of goods will be supported by the revitalization of the processing industry, thus encouraging the diversification of non-commodity export products and reducing import dependency. On the other hand, the increase in the exports of services, particularly travel services, will accrue through the development of the tourism sector. Consequently, imports of goods and services will also grow, driven by the increase in domestic demand and investment.

5.4. To achieve quality economic growth in the future, the Government has designated improvements in structural transformation as one of the priority policies. The policy is mainly driven by the revitalization of the manufacturing industry, while still encouraging the development of other sectors through modernization initiatives on the agriculture, downstream mining, and sustainable infrastructure development sectors, as well as through the transformation of the services sector.

5.5. In Indonesia's NMTDP, one of the targets to reach the economic expansion of 2020-2024 was to increase investment (gross fixed capital formation). To achieve this target, private investment (foreign and domestic) will be encouraged through deregulation of investment procedures, synchronization and harmonization of licensing regulations, including the increasing of Indonesia's EoDB from rank 73 in 2018 to rank 40 in 2024. Additionally, the Government will also contribute to the increase in investment including through its state-owned enterprises, especially in infrastructure development. Hence, there will be an increase in ratio of the stock of infrastructure to GDP. Increased investment along with investment efficiency will be aimed at enhancing productivity, generate employment as well as to improve welfare all Indonesian people.