SUMMARY

1. Since its previous Trade Policy Review in 2013 and prior to the COVID-19 pandemic, despite global challenges, Indonesia's relatively strong fundamentals and sound macroeconomic policy ensured solid growth and the resilience of its economy. During the review period, the annual average GDP growth rate stood at 5.1% (2013-19), a minor slowdown compared to previous performance, and continued to be driven by domestic demand; it was underpinned by an accommodative monetary policy mix, adapted to changing external conditions as well as fiscal stimulus measures. To address COVID-19 challenges, several additional support initiatives, including three temporary fiscal stimulus packages, involving trade-related measures and monetary policy action, were undertaken without delay to minimize the economic impact and shore up growth. During the review period, overall total factor productivity appears to have dropped slightly, whereas labour productivity rose somewhat. Developments in Indonesia's global competitiveness position reflected strengths, *inter alia,* related to its market size, macroeconomic stability and high rate of technology adoption, but also weaknesses, including relatively low innovation capacity and a relatively unskilled labour force. Inflation dropped significantly to 3% in 2019 (less than half of the 2013 level) and remained within target; during the same period, the unemployment rate also registered a relatively significant decline, to 5% in 2019.

2. During the review period, trade and trade-related structural reforms (e.g. to the regulatory and investment framework, taxation, corporate governance, labour market, micro, small and medium-sized enterprises (MSMEs) and sharia economy) were underway. They focused, *inter alia,* on raising productivity and competitiveness by improving the investment climate, accelerating infrastructure development, and promoting economic diversification. The monetary policy mix included lowering the monetary policy rate, reducing the statutory reserve requirement, and foreign exchange intervention. The fiscal deficit remained manageable and well below its legal limit; public expenditures were refocused from inefficient energy subsidies towards productive infrastructure investments.

3. Exchange rate flexibility remained critical to the economy's resilience to external shocks. The nominal exchange rate depreciated by an overall 36.1% between 2013 and 2018, followed by a 0.6% appreciation in 2019. The current account deficit narrowed from 3.2% of GDP (2013) to 1.6% (2017), and then widened to 2.9% (2018) and 2.7% (2019), reflecting, *inter alia,* developments in commodity prices, withholding tax rates, exports or imports of primary raw materials, fuels, capital or consumer goods, exchange rate movements, and foreign capital inflows. Foreign exchange reserves rose overall by about 30% (2013-19); in 2019, they were equivalent to 11.5% of GDP and 7.6 months of imports of goods and services, well above the international adequacy standard of 3 months, or 7.3 months of imports and servicing government external debt. Gross external debt, which remains largely long-term, rose by 51.9% in the period 2013-19, reflecting an increase in external debt of the non-bank private sector.

4. The moderate exposure of the Indonesian economy to international trade, its degree of openness, and its relatively weak integration into global value chains continued to be reflected by the significantly lower ratio of its trade (exports plus imports) in goods and services to GDP, that stood at 37.3% in 2019 compared to 48.6% in 2013. International trade and foreign direct investment (FDI) trends reflect the continued importance of Asia as Indonesia's main regional market and supplier. Its main individual trading partners remain China, Japan, the European Union, and the United States; Japan and Singapore are its major FDI partners. Though the share of imports from regional trade agreement (RTA) partners dropped, that of exports rose.

5. During the review period, Indonesia undertook efforts to liberalize and streamline its FDI regime in several areas, e.g. the regulatory framework, the negative investment list, and the business/investment licensing system. It made efforts to encourage FDI, despite several activities being reserved for Indonesian nationals and public entities as well as ASEAN country investors who, in certain cases, also benefit from higher shareholding ratios than others. The 2016 negative investment list lifted or eased foreign equity restrictions in key sectors, and brought Indonesia's FDI regime closer to international and regional levels of openness. More specifically, it included, *inter alia,* the opening of 45 business lines to full foreign ownership (maritime and fishery, energy and mineral resources, industry, public works, trade, tourism and creative economy, transportation, communication and informatics, and health). In addition, the list increased foreign shareholding ceilings in 39 business lines, and allowed foreign participation in another 26 lines that had been closed off entirely in the 2014 list. Furthermore, it removed the need for specific recommendation

requirements from the relevant ministries for 83 business lines. However, there are business lines which remain specifically closed, had minimum project value requirements increased, or had the permitted foreign investment share reduced. Indonesia maintains a broad network of international investment agreements. However, between 2013 and 2015, more than 20 of its bilateral investment treaties were discontinued, to allow the authorities to align their provisions with latest domestic policies, legislation and international best practices before renewal.

6. Since 2013, Indonesia has undertaken the update of its trade-related and investment policies, as well as institutional and regulatory reform initiatives, in areas including transparency, anti-corruption, investment promotion, and economic dispute resolution. Good regulatory practice policies, including regulatory impact assessment policies, were also adopted. Trade and trade-related policy objectives have been shaped by wide-ranging strategies and policies, each with a different bearing on trade and, *inter alia,* aimed at the enhancement of productivity and competitiveness, the integration of local industry into global supply chains, and the increase of industrial investment cooperation. Between 2015 and 2018, 16 Economic Policy Packages (EPP), focused, *inter alia,* on improving the investment climate and accelerating related infrastructure developments, supported the implementation of these objectives.

7. Indonesia remains committed to the multilateral trading system. During the review period, it improved its WTO commitments by ratifying the Trade Facilitation Agreement (TFA) on 5 December 2017. At the same time, it continued to focus on strengthening regional economic integration ties, through the implementation, and/or participation in the negotiation, of several ASEAN agreements, including the Regional Comprehensive Economic Partnership (RCEP). In addition, it undertook bilateral RTA negotiating initiatives, leading to the signing of three agreements (with Australia, the European Free Trade Association (EFTA) States, and Mozambique), which are not yet in force; others are underway or under consideration. Indonesia remains a beneficiary of the Generalized System of Preferences schemes of a number of countries. Furthermore, it continued to receive Aid-for-Trade support for reaching its policy objectives. During the review period, it submitted several notifications to the WTO (e.g. agriculture, subsidies and countervailing measures, sanitary and phytosanitary measures, technical barriers to trade, and import licensing procedures). Indonesia remained active in dispute settlement cases in the WTO. As at January 2020, its involvement in new cases comprised: 6 complaints by Indonesia (1 case in consultation); 10 complaints against Indonesia (4 cases in consultation); and participation as a third party in 39 cases.

8. During the review period, the general thrust of Indonesia's trade policy was revised in several areas, including: tariffs; customs procedures; import and export prohibitions; restrictions and licensing; export taxes; and export finance, guarantees and insurance.

9. The tariff remains one of the main trade policy instruments, albeit a slightly declining source of tax revenue (2.6% of total tax revenue in 2018). Although 99.8% of tariff lines are *ad valorem*, and therefore transparent, the tariff involves a multiplicity of rates (17 *ad valorem* duties and 5 specific duties), four more than in 2012. The tariff line coverage of specific duties was halved, as most specific rates on alcoholic beverages were converted to *ad valorem* duties. As a result of an increase in duty rates on a number of products and the splitting of tariff lines related to the 2017 tariff nomenclature change, the simple average applied MFN tariff rate rose from 7.8% in 2012 to 10.1% in 2020; at the same time, tariff dispersion increased, and positive tariff escalation became more pronounced for virtually all industries. Tariff protection continues to vary across and within sectors, averaging 11.2% for agricultural products and 9.9% for non-agricultural goods in 2020 (WTO definitions). Peak tariff rates continue to apply to agriculture and related items, and are up to 150% (alcoholic beverages, and odoriferous substances used in the food or drink industries); fewer tariff lines are subject to rates of 10% or below (77.3% of all tariff lines in 2020 compared to 86.1% in 2012). At present rates, at 89.5% of all lines in Indonesia's tariff schedule are bound; as a result of the tariff level increases, the overall gap between the bound rates and the simple average MFN applied rates decreased from 29.6 to 27.8 percentage points, which suggests a persistent high unpredictability in the tariff. The applied MFN rates on 99 HS17 eight-digit tariff lines (e.g. chemical elements, worn clothing, machines for manufacture/parts/accessories for the manufacture of semiconductors, and several types of measuring instruments and apparatus) appear to exceed their corresponding bound rate by 5 percentage points.

10. To accelerate the development of certain activities and promote the competitiveness of certain industries in strategic sectors, industrial machinery and inputs for the production of certain goods continue to benefit from tariff reductions or exemptions. An import duty exemption scheme for companies engaged in either the establishment or modernization of a factory, including an extended duty exemption period conditional upon certain local content requirements (LCRs), remains in place. The *de minimis* value for import duty exemptions for consignment and e-commerce-traded goods on a B2C basis, in place since 2016, was reduced drastically; since September 2016, a flat customs duty charge of 7.5% on "consignment goods" has been levied, except on certain commodities in high demand (bags, shoes, and textile products) that have been subject to normal high applied MFN tariff rates. The simple average preferential tariff rate on imports from RTAs/FTAs rose by one percentage point, due to the entry in force of two new agreements and the rise of MFN applied rates.

11. During the review period, Indonesia's main trade facilitation developments included: the acceptance of the WTO TFA in 2017; the launching of the Authorized Economic Operator (AEO) programme and of a Post-Border Import Supervision Policy; the participation in the ASEAN Single Window (ASW); and the integration of the Indonesia Single Risk Management (ISRM) system within the Indonesia National Single Window (INSW) platform. Furthermore, the regulatory framework of its Customs Main/Prominent Partners programme was updated in 2017, and the product coverage of its import verification programme requirements was expanded to 29 (19 in 2013) product categories (338 items in 2020). The customs valuation regime and its main method used, the transaction value, remained unchanged; to combat under-invoicing and mis-invoicing, Indonesia continues to maintain two databases of market prices for customs valuation purposes, and the declared customs value is assessed based on a Fairness Test as reasonable or unfair. In addition to customs duties, import-related charges and internal direct taxes, imports also remain subject to a withholding tax, whose rates were raised in 2018; in 2016, harbour dues for international routes were seemingly much higher than for domestic routes.

12. Import prohibitions, restrictions and licensing remain in place, *inter alia*, to protect national interests relating to public morals, human life or health, natural resources, environment, use of locally produced goods, protection and development of domestic industries, and to enforce obligations under international agreements. The scope of import bans changed, from 143 ten-digit HS items (2013) to 124 eight-digit HS items (February 2020). These were mostly industrial products. The coverage of import licensing authorizations changed from 30 to 40 product categories, or from 2,060 eight-digit tariff lines (2012) to 3,308 ten-digit HS lines (July 2020). In certain cases, import authorizations for some products remain quantitatively restricted by considerations such as use-related (e.g. of carcass meat and horticulture), domestic produce purchase (e.g. milk and salt), self-sufficiency (e.g. rice, sugar and horticulture) and state trading (e.g. feed corn and fertilizer).

13. During the review period, the main legislative framework governing anti-dumping, countervailing, and safeguard measures remained virtually unchanged. Although recourse to anti-dumping actions dropped slightly, measures in force were on the rise, mainly on steel products such as hot-rolled coil and hot-rolled plate, tinplate, and coil/sheet, originating mostly in Asia. Indonesia initiated 40 anti-dumping investigations (2013 to end-June 2019), and 27 anti-dumping measures were in effect as at end-June 2019. No countervailing measures have been taken so far. Recourse to safeguard action dropped but Indonesia remains one of WTO's most frequent initiators of investigations and resulting actions; between 2013 and 2019 (end-June), it initiated 11 safeguard investigations and imposed 9 measures, mainly on steel products. No special safeguards (SSGs) action was taken against imports of agricultural products in the review period. Indonesia continues to use LCRs in certain areas (e.g. import duty exemptions, and government procurement), to protect and/or develop domestic industries (e.g. factory establishment or modernization, salt, dairy, pharmaceuticals, telecom equipment, energy, broadcasting, franchising, and modern retail trade).

14. Export taxes remain a policy tool for, *inter alia,* tax revenue collection (albeit significantly declining, 0.4% of total tax revenue in 2018), fostering the development of downstream processing facilities, ensuring domestic supply of intermediate inputs at below world market prices, raising domestic value-added, and reducing the rate of depletion of non-renewable mining resources. Their product coverage, encompassing palm oil, crude palm oil and its derivative products, leather and wood, raw cocoa, and mineral ore products, remained relatively unchanged but rates were revised, including the replacement of an *ad valorem* duty with a specific one (palm oil). Rates range from zero to USD 262/tonne (palm oil) or 60% (ores of copper, ilmenite, iron ore, lead, manganese, titanium, and zinc), depending on the product or facility development stage levels. Exports of certain

coal, metal mineral, and non-metal mineral mining commodities have also been subject to a 1.5% withholding tax since 2015.

15. Export prohibitions, restrictions and licensing continue to be used in the pursuit of similar policy objectives as those of export taxes and other border measures. The scope of export prohibitions has expanded, with the main addition being the export ban on nickel ore in 2014. Export licensing product coverage was also expanded, and some new requirements were added; the main additions included coffee, rice, palm oil, coal and coal-based products, domestic marketing requirements for crude oil, and mineral ore domestic processing requirements.

16. Exports of goods and imports of materials, intermediate products and machinery used in their manufacturing remain exempt from customs duty and value-added tax (VAT) and sales tax on luxury products are zero-rated. During the review period, Indonesia continued to support exports through tax and non-tax incentives available via its free-trade zone (FTZ), bonded zone, and special economic zone (SEZs) schemes; corporate tax holidays remain available to operators in bonded zones and SEZs. Export finance, guarantees and credit insurance by the state-owned Indonesia Eximbank and Asuransi Ekspor Indonesia have been increasingly focused on a number of government-designated leading export commodities (e.g. leather and jewellery); penetration to non-traditional export markets (e.g. Africa, South Asia, the Middle East, and Eastern Europe); encouraging growth of export-oriented MSMEs; and the implementation of special-assignment export projects in synergy with a number of other state-owned enterprises (SOEs). The Eximbank's National Interest Account to Promote Exports to Nations within the African Region is subject to "domestic contribution" requirements, and foreign companies whose majority shareholders are foreign legal entities or foreign nationals are not eligible.

17. Indonesia continues to offer various fiscal incentives; VAT and luxury goods sales tax facilities, taken together, account for the bulk of revenue foregone from incentives granted. Corporate income tax holidays and tax allowances to support businesses remain in place, and efforts were made to simplify procedures and expand eligible beneficiaries. New incentive schemes introduced over the review period, are aimed at, *inter alia*, supporting: labour-intensive, vocational and research and development activities; incubators; and the geothermal sector. The excise tax structure for certain tobacco products supports small-scale domestic cigarette firms. Non-fiscal incentives, in the form of loans and interest rate subsidies, continue to be available, mainly to MSMEs. In the wake of the COVID-19 outbreak, corporate income tax was cut from 25% to 22%, and measures were taken allowing companies to defer corporation tax and waive personal income tax for a set period.

18. In 2014, standardization and conformity assessment legislation was enacted to cover metrology. As at May 2020, Indonesia had 10,858 national standards (SNIs), nearly 18% of which were harmonized with international standards. As at February 2020, it had 205 technical regulations in force, most of which were issued by the Ministry of Industry. Specific trade concerns involving conformity assessment have been raised by several Members regarding measures on various processed and unprocessed foods (particularly with respect to halal requirements); toys; ceramics; cell phones and computers; broadband equipment; and alcoholic beverages. Various new labelling requirements were introduced on food products, halal products, tobacco, electric motor devices, air conditioners, refrigerators, and fluorescent lamps. Labelling requirements were also made less onerous for certain imported goods.

19. Key SPS developments included the entry into force of new laws on animal, fish and plant quarantine; livestock services and animal health; halal product assurance; the protection and empowerment of farmers; and amendments to the Law concerning State Crops. SPS measures on beef, chicken meat and chicken products, and animal and plant/horticultural products have been the subject of WTO Members' concerns in the SPS Committee and/or in dispute settlement proceedings. Among the numerous developments over the review period, quarantine services were made more efficient, through the launch of the Indonesian Quarantine Full Automation System (IQFAST); processed food registration requirements were eased slightly; inspection fees were levied on all animal product establishments seeking to import into Indonesia; requirements for dairy processers and importers to establish partnerships with local dairy farmers in order to obtain an import permit were removed; the list of live aquatic species banned from import was expanded; and, by 2026, all halal products sold on the Indonesian market will require certificates from the newly established Halal Certification Agency; currently, these certification requirements apply to food and beverages.

20. There were no changes to the main legal framework for competition policy over the review period. Key new regulations were issued to: deal more quickly and effectively with partnership infringements between MSMEs, and between MSMEs and large enterprises, including through the introduction of a behavioural changes provision; make improvements to the competition agency (KPPU's) case handling procedures; and provide for clearer and faster procedures for post-merger notification and review. Over the review period, the KPPU was active in undertaking market monitoring, competition impact assessments, and issuing policy recommendations. The Government continues to stabilize the price of rice through a state-trading enterprise's (Perum BULOG's) guaranteed purchase of rice from domestic producers at a set procurement price, as well as through import activities. Additionally, the Ministry of Trade monitors prices and, if necessary, undertakes some mark-up operations regarding the availability and price stability of necessities/basic goods. Maximum prices are set for medicines and medical devices used in the National Health Insurance programme. The sales price for coal purchased by the state electricity company to generate electricity for public purposes has been regulated since 2018.

21. SOEs continue to operate in a wide range of economic activities and, in numerical terms, are most active in manufacturing, financial services, and transport/warehousing. Over the review period, there was privatization activity in the areas of mining, construction/engineering; development, maintenance and management of toll roads; steel; airlines; and cement. As at 2019, Indonesia had 112 SOEs under the Ministry of State-Owned Enterprises, 4 SOEs under the Ministry of Finance, 341 SOE subsidiaries, and 317 SOE-affiliated companies, most of which operate at a profit, according to the authorities. It is estimated that there are also 782 regional SOEs operating in the country. One state-trading entity (Perum BULOG) continues to import rice as well as other staple goods when instructed by the Government.

22. Government procurement in Indonesia remains centralized in terms of regulations and systems but decentralized for procurement execution. Overall procurement spending in FY2019 by local and sub-central governments was IDR 2,173 trillion. The regulatory framework for government procurement was revised in 2018, with the stated objective of achieving value for money, contributing to the increased use of domestic products, increasing MSMEs' participation, and sustainable development. This, *inter alia*, has significantly expanded procurement price preferences for goods and services incorporating at least 25% local content for all bids over a certain threshold, as well as thresholds for international tenders. It also established, under the National Public Procurement Agency (NPPA), a new contract dispute resolution facility as one of the methods to settle contract-related disputes, and made the e-catalogue system a formal part of the procurement process. As before, the use of domestic products is mandated if there are providers offering the goods or services with a local content plus corporate contribution value exceeding 40%; procurement packages for goods, construction services and other services up to a value of IDR 2.5 billion are reserved for small businesses. Bid-rigging continues to account for the vast majority of the KPPU's case load.

23. During the review period, there were several changes to intellectual property (IP) laws and regulations. Indonesia acceded to the Beijing Treaty on Audio-visual Performances, the Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled, the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, and the Nagoya Protocol on Access to Genetic Resources. The new 2016 Patent Act introduced various new provisions, including: online filing; stronger protection of genetic resources and traditional knowledge; an extension to the scope of simple patents; and various provisions to facilitate public access to affordable medicine, namely, amended provisions on compulsory licensing and an extension of the Bolar provision from two to five years (allowing patented pharmaceutical products to be produced by another party five years before the expiry of patent protection for the purpose of its licensing and marketing upon patent protection expiry). The 2016 Law on Marks and Geographical Indications, *inter alia,* regulates international trademark registration based on the Madrid Protocol, extends protection to non-traditional trademarks, streamlined application procedures and facilitates their renewal, and imposes more severe criminal sanctions. Furthermore, the 2014 Copyright Law, *inter alia,* extends copyright protection from 50 to 70 years after the author's death, contains provisions on the establishment of collective management organizations, and increased criminal sanctions. With respect to enforcement, positive developments included the issuing of regulations to block websites infringing IP, and the launch of an online facility for reporting IP infringements. Reportedly, a notable trend over the review period was a big increase in IP applications through the Directorate-General of Intellectual Property's online system.

24. Agriculture continues to play an important role in the economy (13.3% of GDP in 2019), with rice, palm oil, oil palm fruit and palm kernels accounting for nearly two thirds of the total value of production; palm oil remains the main agricultural export. Policy objectives include self-sufficiency in staple foods, and targets for rice, maize, soybeans, sugar and beef were set. The regulatory framework was updated in several areas, including financial assistance, agrarian reform and food security. Tariff protection for agricultural products rose, and remains above the overall applied MFN average and the average for manufacturing. Restrictive import licensing requirements for several products, aimed at promoting domestic production to fulfil local demand requirements, remain in place. Export taxes, prohibitions, and licensing requirements continue to affect certain products. As at 2019, seven SOEs were involved in agricultural, forestry and fishing activities, including trading. Tax and non-tax policy instruments, in the form of land concessions, subsidized fertilizers, irrigation infrastructure improvements, concessional loans and market price support for rice, continue to be used for raising agricultural output, productivity and competitiveness.

25. Fisheries' contribution to GDP increased slightly (2.8% in 2019), with aquaculture's importance and fish stocks on the rise. Policy priorities included the improvement of fishery-related infrastructure, the optimization of aquaculture, the development of the marine and fisheries industry, and the strengthening of monitoring, surveillance and enforcement systems. An ecosystem approach to fisheries management was followed. Regulatory developments included areas such as the management of coastal area and islands, large fishing vessel licences, and the ban of fishing trawl and seine nets. Since 2016, FDI has been allowed for cold storage of fish and fish processing. Wild capture remains reserved for domestic capital. Tariff protection for fisheries increased slightly. Non-tax incentives are mostly focused on small fishers, and virtually all involve grants; subsidized diesel is limited to boats of less than 30 GT. Considerable action was taken to address illegal, unreported and unregulated (IUU) fishing activities.

26. Regarding forestry, action was taken to, *inter alia,* address deforestation driven by expanding plantations for palm oil, through a moratorium prohibiting the conversion of primary natural forests and peatlands to palm oil, pulpwood and logging concessions; in addition, a social forestry programme is underway. The exploitation of timber forest products of natural forests is entirely reserved for domestic capital. Export of roundwood and rough sawn timber for all species remains banned, to protect domestic wood-processing industries. Procedures for smallholders and small-and-medium enterprises (SMEs) to obtain timber legality verification certification were eased; since 2016, Forest Law Enforcement, Governance and Trade (FLEGT) timber export licences have been issued. Forest law enforcement was strengthened, and Indonesia committed to reducing its emissions from deforestation and forest degradation through the REDD+ mechanism.

27. Mining and energy continue to make significant contributions to the economy. The main policy and legislative framework for mining remained virtually unchanged; 100% foreign investment in the mining sector is allowed, subject to the foreign share ownership divestment rules on the transition from the pre-2009 licensing regime to the current one. Export taxes and restrictions on minerals, to support the development of domestic processing facilities, were continued. A 2014 ban on exports of unprocessed (or not-sufficiently processed) minerals was relaxed in January 2017, subject to certain conditions, including the fulfilment of domestic market obligation (DMO) requirements. Mineral and coal sales benchmark prices, and the floor price for the royalty calculation, remain in place. Coal is subject to special pricing, DMO and transport/insurance (implementation pending) requirements, to support the state-owned electricity company and national shipping and insurance industries.

28. Indonesia remains dependent on imports of hydrocarbons and electricity to cover its energy consumption needs. Policy objectives include achieving security in the domestic energy supply by reducing gasoline dependency and increasing the use of renewable energy sources. Most oil and gas production is carried out by international contractors under production-sharing contracts (PSCs); in 2017, a new form of PSC, based on the gross production split, replaced the cost-recovery scheme in place since 2008. The state-owned limited liability oil and gas company expanded its scope to include gas, renewables and upstream operations, both within Indonesia and abroad. FDI participation in oil and gas upstream activities is subject to limitations. Quantitative export restrictions based on DMO requirements for oil and gas continue to apply. LCRs on procurement for oil and gas projects were raised. Significant changes to the fuel subsidy policy, allowing for considerable reduction in the entire energy subsidy bill, were made; at present, subsidies keep retail prices for three fuels below world market level: gasoline (distribution costs compensation); diesel (fixed subsidy); and kerosene (fixed price).

29. During the review period, on-grid installed power plant capacity and national electrification increased. The state-owned electricity company remains responsible for the majority of power generation, with *de facto* exclusive powers over the transmission, distribution and supply of electricity to the public; in light of the importance of coal-powered plants to the fuel mix, the DMO requirements for coal seem to have significantly eased the burden of the company. FDI participation in power plants is subject to limitations. Since 2017, the scope of the electricity subsidy has been reduced, thus lowering the subsidy amount disbursed; however, the average electricity tariff remained below the average production cost. Electricity tariffs continue to differ, depending on the end-user's purchasing power and installed power capacity, thus involving a cross-subsidization element. Domestic support to new and renewable energy sources was prioritized, to achieve the targeted energy mix. Action was taken to address issues relating to the regulatory framework on electricity tariffs and pricing from renewable energy sources. The 2008 mandatory policy of a biodiesel mixture of fatty acid methyl ester (FAME) from palm oil into fuel oil intensified, to, *inter alia,* meet renewable energy targets and reduce diesel consumption.

30. Manufacturing remains an important activity in terms of its contribution to the economy (20.5% of GDP in 2019) and exports (45.8% in 2019). Although the bulk of manufacturing firms continue to be micro and small firms, large firms and joint ventures appear to be the most productive, and foreign-owned manufacturing plants seem to produce about half of manufacturing exports. A concentration of SOEs remains in relatively capital-intensive activities. The 2018 Making Indonesia 4.0 policy seeks to achieve global competitiveness in five target industries: food and beverages, textiles and garments, automotive, electronics, and chemicals. Tariff protection for manufacturing increased considerably; peak rates continue to be applied on transport equipment, and certain chemicals and photographic supplies. Several non-tariff measures continue to protect domestic producers, ensure supplies for domestic processing (e.g. import licensing, contingency measures, LCRs, government procurement preferences, export taxes, and restrictions), and promote their exports (e.g. zone-designated schemes and concessional export credit to SMEs). Tax and non-tax incentives, including tax allowances, tax holidays (involving corporate income tax) and subsidized credit, remain in place. The garment, textiles and footwear industry benefited from increased tariff protection and an additional export performance-linked tax incentive. Similarly, tariff protection to the automotive sector was considerably raised, and certain incentives were introduced to facilitate consumers' shift to alternative-fuel vehicles (i.e. reduced luxury goods sales tax, concessional credit, and discounts for electricity upgrade of vehicles) and the establishment of an electric vehicle (EV) industry (i.e. fiscal and non-fiscal incentives tied to LCRs).

31. The contribution of services to GDP rose gradually over the review period, from 42.6% in 2013 to 46.1% in 2019. In 2018, Indonesia was ranked the 41st largest exporter and the 34th largest importer of commercial services in the world.

32. Indonesia maintained financial sector stability throughout the review period, including in the wake of the COVID-19 pandemic. To mitigate the effects of the pandemic, the Government put in place a supportive regulatory framework, and channelled funding through domestic banks to enable them to restructure existing, and disburse new, loans to businesses. The banking sector continues to be dominated by majority-state-owned banks. The insurance sector is fragmented, and there were several bankruptcies and mergers over the review period. Insurance penetration remains low, at under 3% in 2019. Sharia financial services increased over the review period, albeit from a low base. Indonesia's capital market, although still relatively small, grew steadily in terms of listed entities, numbers of investors and value of trades. The 2014 Insurance Law and its implementing regulations tightened restrictions on foreign ownership, and introduced a single presence policy. Regulatory changes in the financial services sector included, *inter alia*: the launch of an integrated electronic payment system network, the National Payment Gateway; the implementation of a financial information services system; increased bank transparency provisions relating to Indonesia's pledge to join the OECD-led Automatic Exchange of Information Initiative; and various measures to encourage the growth of the fintech sector. The latter includes the implementation of a regulatory sandbox approach, and measures to support the growth of fintech peer-to-peer lending platforms. The proportion of Indonesian citizens with bank accounts increased substantially over the review period, from 36% in 2014 to over 76% in 2019.

33. The telecommunications sector saw a steep decline in fixed-line subscriptions over the review period, and an increase in mobile cellular subscriptions up until 2018, when there was a significant drop. The latter may have been due to a government requirement for holders of certain sim cards to re-register them. Internet usage by individuals and fixed broadband subscriptions more than

doubled, albeit from a low base with respect to the latter. Fixed-line services are dominated by a single operator and, while there is more competition in the mobile cellular segment, one operator has a 50% market share. Nevertheless, there appears to be strong price competition among mobile operators, which led to particularly affordable mobile data prices. In 2019, the construction of a high-speed, fibre-optic nationwide Internet network was completed. FDI restrictions were eased in the areas of telecommunication equipment certification; fixed and mobile telecommunication networks and telecommunication networks integrated with telecommunication services; and telecommunications services (e.g. Internet service providers).

34. Several support measures are in place to support the transport sector: new VAT facilities were extended to assist the shipping, railway and air transport industries; and import tax reductions were granted on goods related to aircraft maintenance. Subsidies continue to be provided to support "pioneer" shipping companies who provide transport to remote regions; and various support measures were extended to the airline sector in 2020 to mitigate the impact of the COVID-19 pandemic. It appears that higher port tariffs on international routes subsidize much lower tariffs on domestic shipping routes. Other developments over the review period include: efforts to reform and simplify transport-related licensing and permit requirements; the ratification of various ASEAN air transport instruments; new and ongoing infrastructure projects; and the signature of the Government's first contract with a foreign company to develop and operate an airport within Indonesia. FDI restrictions were eased in various areas, namely: passenger land transportation and non-scheduled land transportation; supporting services for transport terminals; air transport supporting services (computer reservation systems, ground handling, and aircraft leasing); services activities related to airports; freight-forwarding services; air cargo expedition services; general sales agencies for foreign airlines; and maritime cargo handling services.

35. Tourism is a key generator of employment and one of Indonesia's main sources of foreign-currency earnings. Over the period 2013-19, there was year-on-year growth in both visitor numbers and revenue from tourism, and the number of hotel rooms also significantly increased. New developments over the review period include: efforts to develop the international medical tourism segment; a major expansion in the number of countries eligible for visa-free travel to Indonesia; measures to encourage cruise liner visits; and measures to increase the sustainability and quality of tourism businesses. FDI restrictions were eased in the areas of bars; cafes; the operation of sports facilities; restaurants; golf courses; travel bureaux; motels; private museums; and meetings, incentives, conferences, and exhibitions (MICE) operations. The COVID-19 pandemic has had a serious impact on the sector; as at end-June 2020, more than 2,000 hotels were closed, and almost all tourism destinations, amenities and facilities had been stopped. Indonesia saw a 45% drop in visitor arrivals over the period from January to April 2020, compared with the same period in 2019.

36. Distribution services are a major generator of employment and contributor to economic activity in Indonesia. In 2014, Law No. 7 of 2014 on Trade was enacted to, *inter alia*, govern distribution services; it contains general rules regarding e-commerce. FDI restrictions were eased with respect to distribution affiliated with production; direct selling through marketing networks; department stores; distribution not affiliated with production; warehousing; and retail trading via mail or Internet order. Additionally, new FDI limits were set for certain e-commerce activities; 100% FDI is permitted in certain e-commerce activities involving investments of more than IDR 100 billion, and for those activities under the IDR 100 billion threshold, FDI is capped at 49%. The retail e-commerce segment grew rapidly over the review period, and a new regulation was issued in 2019 to govern the e-commerce marketplace and e-retail practices. In line with the Government's E-Commerce Roadmap for the period 2017-19, government measures to support SME e-commerce activities were initiated.

37. In light of the COVID-19 pandemic, Indonesia's economic growth in 2020 is expected to either range from 4.2% to 4.6% or contract by 0.4% and recover to 5.2%-5.6% in 2021. Prior to the outbreak, risks to the growth outlook were skewed to the downside, and appeared to be mainly exogenous, *inter alia,* involving trade tensions posing additional risks to commodity prices, international trade flows, global business sentiment and investment growth, and weaker-than-expected growth in China. Despite the COVID-19-related stimuli, the pandemic may have put at risk domestic demand, the main driver of growth in Indonesia, as well as expected benefits from progress in raising productivity via the structural reforms underway. Future prosperity and sustainable growth depend on the Government implementing total factor productivity-enhancing structural reforms, as well as addressing issues relating to regulatory uncertainty, investment

climate, border protection, domestic support measures, LCRs, and state involvement in the economy. These and related reforms, including a reduction of labour market rigidities and more competition in the domestic market, would increase the resilience of the economy and its ability to cope with external competition, thus enabling it to continue meeting its economic and welfare objectives.