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TRADE POLICY REVIEW MECHANISM

INDONESIA

MINUTES OF MEETING

Chairman: H.E. Dr. M. Zahran (Egypt)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The second Trade Policy Review of Indonesia was held on 29 and 30 November 1994. The Chairman (H. E. Dr. M. Zahran) welcomed members of the Council, the delegation of Indonesia headed by Ambassador Hassan Kartadjoemena, and the discussants, Ambassador Don Kenyon of Australia and Mr. Mohan Kumar of India.
2. The Chairman recalled that the purpose of the Trade Policy Review Mechanism was "to contribute to improved adherence by all contracting parties to GATT rules, disciplines and commitments, and hence to the smoother functioning of the multilateral trading system, by achieving greater transparency in, and understanding of, the trade policies and practices of contracting parties" (BISD 36S/403).
3. According to the Decision taken on 12 April 1989, the Council was to base its work on two reports. The report by the Government of Indonesia for this review was contained in document C/RM/G/52 and Corr.1 and the report by the Secretariat, drawn up on its own responsibility, in document C/RM/S/52. Outlines of the main issues the discussants intended to address were contained in document C/RM/W/22. Copies of written questions submitted by the delegations of Australia, Canada, the European Communities and Hong Kong were available.
4. The Chairman then offered the floor to the representative of Indonesia.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF INDONESIA

5. The representative of Indonesia noted that Indonesia's trade-related policies were being reviewed for the second time under the Trade Policy Review Mechanism. Such reviews, which Indonesia had implemented domestically on an annual basis since the initial TPR review in 1990, provided a useful instrument to examine overall trade policy trends in the context of broader macroeconomic factors, and longer term development strategies.
6. Indonesia, a developing country, had made palpable progress since 1990. With annual average per capita income of only US\$760, and some 26 million inhabitants below the poverty line, poverty eradication was the Government's major policy priority. Development objectives required economic growth with equity, which in turn necessitated a stable macroeconomic environment. This was the framework for Indonesia's export-oriented policy. Indonesia had averaged real annual growth of over 6 per cent from 1990-94, and kept inflation checked at below 10 per cent.
7. Macroeconomic policies had successfully controlled mounting liquidity problems during 1990-92, through open market operations by the central bank and the introduction of stricter prudential standards for commercial banks. Over this period, the economy had overheated due to an expansionary monetary policy, booming foreign capital inflow, and financial and investment liberalization. Steps were taken to control excessive foreign borrowings, including the formation of the Commercial Offshore Loan Team (COLT). Budgetary discipline was also maintained by adhering to the balanced budget principle. Budget surpluses in 1989, equivalent to 1.4 per cent of GDP, gave way to deficits representing 1.4 per cent of GDP in 1992. The budget deficit was projected to fall to 0.6 per cent of GDP in 1993.
8. Although Indonesia's overall balance of payments had been in surplus since 1986, aided by considerable capital inflow, the current account was in deficit. Controlling this deficit to reasonable levels of GDP was central to the Government's trade performance objective. The deficit, rising to 3.2 per cent of GDP in 1990, had subsequently fallen to 2 per cent of GDP. Foreign direct investment had been strong: levels jumped from US\$0.3 billion in 1985 to US\$2 billion in 1993. Moreover, portfolio investment had increased substantially since the mid-1980s, although it had declined in recent years. Indonesia's international reserves in 1993 stood at \$12.7 billion, equivalent to 5.4 months of imports.
9. The Government had relentlessly pursued deregulation and debureaucratization, since higher growth was seen to be dependent on greater openness and trade orientation. A more competitive economy attuned to market signals helped to ensure that resources were being used efficiently. A good example of deregulation was the foreign exchange system. Indonesia had for some time adopted a freely convertible system where the exchange rate was determined by a managed float using a trade-weighted basket of currencies. The Government was keen to continue diversification away from oil. Non-oil exports had become the engine of growth and, accordingly, the Government had, since the early 1980s, maintained a high pace of reform that was consistent with maintaining long-term social stability.
10. Indonesia's policy reforms had successfully shifted Indonesia's trade performance away from oil dependency toward manufactured exports: the share of oil exports had fallen from above 70 per cent in the 1970s to under 30 per cent in 1993. Manufactured exports accounted for over four-fifths of non-oil exports in 1993. The Government had also been aware that further export diversification was needed to reduce excessive dependency on a handful of industrial exports. Electrical machines and apparatus as well as footwear exports had grown dramatically in recent years. Geographical

diversification of exports had occurred in recent years, with 90 per cent of exports directed to 20 trading partners, including mainly Japan, the United States and Singapore.

11. Since the initial Trade Policy Review, Indonesia had simplified import arrangements, improved customs procedures, reduced tariffs and surcharges, extended export-processing zones, and eliminated many non-tariff measures. In addition, foreign investment procedures had been simplified, the Negative Investment List reduced, and 100 per cent foreign ownership allowed with no minimal investment limit.

12. Domestic reforms, including tariffs, were consistent with Indonesia's international commitments. Following the conversion of non-tariff measures to tariffs, Indonesia had in the Uruguay Round bound 95 per cent of its tariff at a maximum duty rate of 40 per cent, and tariffed agricultural products. In services, Indonesia had made commitments in five areas, and steps had been taken to meet its commitments in intellectual property protection.

13. The Indonesian Parliament closely monitored changes in trade measures affecting domestic competitiveness and consumer welfare. The system of close co-ordination between important ministries, often initiated by the Coordinating Minister for Economics and Finance, had proved to be an effective means of implementing trade liberalization. The Government recently had established a separate unit to deal with all WTO issues.

14. The recent commitments made between Indonesia and other APEC countries to liberalize trade and investment measures reaffirmed Indonesia's commitment to a more open trading system. Indonesia's reforms were intended to be irreversible, at a pace consistent with social and political obligations and the need to avoid social disruption.

III. STATEMENT BY THE FIRST DISCUSSANT

15. The first discussant (Ambassador Kenyon) referred to the substantial domestic and trade policy reforms undertaken by Indonesia in moving its economy from one based on import substitution to one open to imports. Such reforms, necessary to integrate the country into the global economy and to improve Indonesia's trade performance, had reduced non-tariff measures. Import licensing had been reduced; average tariffs had been lowered from 37 per cent in 1984 to 20 per cent at present; both the level and coverage of surcharges had been reduced; and the investment régime was more open. Although the process of change had appeared to slow since 1990, he hoped that the pace would again quicken under REPELITA VI. Residual import licensing needed to be reformed, along with State enterprises and tariff peaks, to ensure that the tariffication of non-tariff measures was followed by reduced tariff rates. Continuing export controls also needed to be addressed.

16. Indonesia's institutional structure, especially the formation in 1985 of the Economic Policies Deregulation Team and the Tariff Team in 1989, had played an important rôle in the reform process. He requested further information on the operation of the Tariff Team, and suggested that Indonesia should consider establishing an independent statutory advisory body to review policies as a means of sustaining reform. Such a body would improve transparency and the policy formulation process.

17. Growth in intra-regional trade, including recent developments under the ASEAN Free-Trade Area and APEC, should further aid Indonesia's market-opening efforts. Indonesia's exports had moved away from oil, with Singapore, the Republic of Korea, China, Chinese Taipei, Australia and Hong Kong increasing their relative share of Indonesian exports. Recent developments in AFTA included the acceleration in its implementation from 15 to 10 years i.e. by 2003, and the recent expansion in scope of AFTA to encompass agriculture, services and intellectual property issues. Indonesia, as Chair of the APEC meeting held recently in Bogor, was a major player in the APEC announcement that open trade and investment would be achieved in the Asia-Pacific area no later than 2020.

18. Indonesia's domestic reforms had enabled it to undertake commitments in the Uruguay Round that would "lock-in" these reforms and reinforce the progressive integration of Indonesia into the global economy. Such commitments also provided a sound basis for on-going reforms. Indonesia had accepted the Final Act without reservation, bound 95 per cent of its tariff, albeit at ceiling rates in many cases significantly above applied rates, and agreed to phase-out all additional import surcharges on bound items. In agriculture, as a member of the Cairns Group, Indonesia had accepted to tariffify all non-tariff measures and to bind all agricultural tariffs. It had also signed all key Uruguay Round outcomes on subsidies, intellectual property and services.

19. Indonesia had already logged-up some very substantial achievements in trade policy reform, with consequential benefits from trade expansion. It was important that the impetus of reform remained, both through regional liberalization under AFTA and APEC, as well under the Uruguay Round/WTO package.

IV. STATEMENT BY THE SECOND DISCUSSANT

20. The second discussant (Mr. Kumar) welcomed Indonesia's trade and investment reforms. He noted that trade reforms were important for Indonesia's continued export diversification, which itself was the best means for Indonesia to overcome externally-imposed constraints in traditional products by major trading partners. Such constraints on Indonesian exports included: the annual manioc quota of 825,000 tonnes set by the EC; textiles and clothing quotas imposed by the US, Canada, the EU and Norway; and anti-dumping actions, such as those by the US and Australia.

21. The Uruguay Round outcomes had provided Indonesia with a set of rules that could be used to further reform its economy. He complemented the work contained in the Government report using the GTAP model to quantify the gains to Indonesia from the Uruguay Round. These estimates were based on full implementation of the Uruguay Round. He questioned the impact of the TRIPs Agreement on investment, and whether its implementation would involve social costs.

22. Indonesia's policies of industrial targeting combined with strategic public enterprises, in areas such as cement, fertilizers, steel, transport equipment and BULOG, had, in his view, outlived their usefulness. Policies in these sectors included high tariffs, non-tariff barriers, price controls and investment restrictions. Indonesia needed to take the difficult step of privatizing many of these industries, despite the social costs this would involve. He asked Indonesia for information on any plans that existed for privatization.

23. He said that localization programmes, such as those used in Indonesia for motor vehicles, had substantial limitations, and should, in his opinion, be used only as a stepping stone for acquiring technology transfers and accompanying benefits. They were not a viable long-term arrangement. He asked Indonesia whether plans existed for removing localization schemes.

24. An important aspect was the continued degree and pace of Indonesia's trade and other economic reforms. Although Indonesia had achieved much, comments were sought from Indonesia on the view that not enough may have happened since the last Trade Policy Review in 1990. Difficult areas for reform remained. The import licensing arrangements were complex, and these underpinned State monopolies and quotas. He requested details of any plans for future reforms. Moreover, tariff reforms had tended to increase tariff escalation, thereby undermining some of the efficiency gains from tariff reductions.

25. The second discussant also asked whether the model based on export-led growth through global integration and open markets was correct, and if so, what were the implications for State intervention. He also discussed the use of export controls for environmental reasons and to promote sustainable development. Although such controls could, on a narrow basis, lead to inefficient resource allocation, he thought that such policies could have a rôle to play, provided they were combined with broader government controls designed to protect the environment.

V. STATEMENTS BY MEMBERS OF THE COUNCIL

26. The representative of Sweden, speaking on behalf of the Nordic countries, welcomed the substantial progress made by Indonesia in reforming its trade policies to promote export-led growth. She was pleased that Indonesia had ratified the Uruguay Round results. Within APEC, Indonesia had encouraged countries to adopt the WTO undertakings, and had emphasised that APEC developments would need to be open and consistent with the WTO. Indonesia had agreed in the Uruguay Round to increase its tariff bindings to 95 per cent, at ceiling rates of 40 per cent. However, exceptions remained, such as motor vehicles where tariffs as high as 275 per cent applied. Other trade barriers existed, including domestic monopolies and price controls. Export restrictions, such as on logs, depressed domestic log prices and provided an implicit subsidy to downstream users. These controls failed to meet Indonesia's environmental goals of sustainable forestry development. Sweden would welcome improved transparency of Indonesia's trading regime, dominated as it is by State enterprises and monopolies, as well as private conglomerates. These anti-competitive arrangements, combined with Indonesia's weak competition legislation, often lead to non-competitive behaviour. Sweden was concerned with Indonesia's inadequate intellectual property protection, which provided insufficient sanctions against such infringements, including in the areas of copyright, counterfeits and trade marks. She sought details on those measures Indonesia would need to take to implement the TRIPs Agreement. Commenting on Indonesia's efforts to strengthen its system of technical standards, the representative of Sweden emphasized that it was important for these to incorporate existing international norms.

27. The representative of Australia complemented Indonesia on the continued trade-related reforms made since the last Trade Policy Review, at both the multilateral and regional levels. Average tariff rates had been reduced, surcharges rationalized and the coverage of import licences reduced from 1,100 in 1990 to currently around 260. Indonesia had participated actively in the Uruguay Round, individually and as a member of ASEAN and the Cairns Group. It had ratified the Final Act, and engaged in regional trade initiatives, including AFTA and APEC's far-reaching trade liberalization developments. Further reforms, however, were necessary to improve resource-use efficiency and international competitiveness. These included reforming designated strategic industries dominated by State enterprises. Dogged by poor performance and economic inefficiency, these have been sheltered from competition through government controls over investment and trade. Other areas of concern included the use of countertrade deals as part of government procurement arrangements, the proliferation of export controls, especially on natural resource based products. These export restrictions encouraged the development of inefficient downstream industries dependent on long-term government support. Moreover, financial support to strategic industries remained obscure and their effects non-transparent.

28. The representative of Canada, noting that Indonesia was Canada's largest export market in South-East Asia, hoped that Indonesia would continue its trade liberalization. He noted that Indonesia, in signing the Final Act, had accepted new obligations in many areas, including anti-dumping, customs valuation and import licensing. Government procurement procedures in Indonesia still remained outside internationally-recognized practices, and Canada would therefore welcome Indonesia's participation in the WTO Agreement on Government Procurement. Although Indonesia had introduced several trade and investment reforms during the past four years, aimed at attracting foreign investment, promoting exports and diversifying the economy away from the oil and gas sector, a number of concerns remained. Additional information was sought on a number of these, including Indonesia's complex and non-transparent import licensing system; the rôle played by State-trading agencies and public enterprises, vested with sole importation rights which should be notified to the GATT under Article XVII; different rules-of-origin under the AFTA between Indonesian exports and imports; and the need to ensure that tariff reductions were applied on an equal basis on directly competing products, such as for soya and canola products. The Canadian representative welcomed the May 1994 investment liberalization package

which opened-up several service industries, such as sea ports, telecommunications, railways and civil aviation to joint venture arrangements, with a minimum domestic ownership of 5 per cent. He invited Indonesia to bind these changes in telecommunications and maritime transport through the GATS.

29. The representative of the European Union complemented Indonesia for its continuing trade and investment reforms since the last Trade Policy Review, and encouraged Indonesia to pursue the pace of reforms with determination. Combined with sound stabilization policies, trade-related reforms taken both within a multilateral and regional context, have increased Indonesia's trade performance and diversification, and added substantially to economic growth. Despite commendable achievements, however, Indonesia's trading régime remained quite restrictive. Trade barriers included high tariffs and surcharges, with average tariffs of 20 per cent, and a complex licensing system. Imports of motor vehicles and alcoholic beverages were two examples of markets where imports remain virtually excluded by high tariffs and surcharges; discriminatory luxury sales taxes; and restrictive import licensing requirements. According to the EU representative, preshipment inspection was now slower following transfer of these functions from SGS to PT Surveyor Indonesia; average inspection time had increased from 1-2 days to 8-10 days.

30. Indonesia's tariff schedule remained characterized by substantial tariff escalation and dispersion favouring particular sectors. These practices could result in selective rather than general tariff reforms. The EU representative sought clarification on the final objectives of Indonesia's reform programme. Although Indonesia had offered to bind 95 per cent of its tariffs under the Uruguay Round, most were at ceiling levels of 40 per cent. Unbound items, such as automobiles and components, iron and steel, some chemical products and alcoholic beverages, continued to have much higher tariffs.

31. Import quotas existed on wheat, soybeans and other sensitive products, and certain chemicals and plastic products were banned. Indonesia was asked to bring its quotas into conformity with GATT, including making information available on product coverage and levels. The EU was concerned that changes to Indonesia's sales tax system in 1993 had discriminated against imports of most non-alcoholic drinks, two-wheeled motor cycles and sports equipment. This was on top of the long-standing discrimination against imported cigarettes by excise duties. Government procurement practices in Indonesia discriminated against foreign suppliers, with clear preference being granted to local firms. Public tenders were used sparingly, and foreign suppliers were required to engage in countertrade. Foreign firms, in general, were prevented from competing in the generic drug market, and foreign joint-ventures were ineligible to tender for public pharmaceutical contracts.

32. Despite recent investment reforms, foreign direct investment remained subject to extensive regulation. Some 33 sectors were on the Negative List, closed to investment, and national treatment was generally not granted to the majority of foreign-held enterprises. Performance requirements could be imposed on some foreign producers. Entry trade barriers existed in most service sectors, such as accounting, law and retailing. In addition, insurance and banking sectors were subject to extensive requirements over joint ventures, ownership, capital and opening of branch offices. Indonesia's intellectual property protection was inadequate, and the EU representative encouraged Indonesia to rapidly implement the TRIPs Agreement, and to join the various multilateral conventions on intellectual property rights.

33. The representative of the United States welcomed Indonesia's economic reforms aimed at shifting from an import substitution to a market-oriented export-led economy. He applauded Indonesia's rôle in APEC aimed at promoting the elimination of trade and investment barriers, but thought that Indonesia should have played a more constructive rôle in the Uruguay Round by accepting more meaningful multilateral commitments. He asked when Indonesia planned to make the next tariff cuts under the

CEPT Scheme. The US commended Indonesia's foreign investment liberalization, including opening of harbours, electricity generation, telecommunications and shipping in June 1994. He wanted to see other service and retail sectors liberalized.

34. Marketing arrangements for major agricultural products, such as wheat, rice, soybeans and soybean meal, including BULOG's import monopoly and pricing practices, had been serious trade impediments. He sought information on BULOG's future rôle following the Uruguay Round, and whether any steps were planned to bring the country's agricultural quotas and other non-tariff barriers into conformity with the Agriculture Agreement. Indonesia remained on the special "301" Watch List in 1994 due to weak intellectual protection legislation, and he asked details of Indonesia's plans for implementing the TRIPs Agreement. The US representative raised a number of issues regarding Indonesia's labour laws and worker's rights.

35. The representative of Hong Kong congratulated Indonesia for its substantial economic liberalization programme implemented since 1990, and encouraged it to phase-out remaining restrictive trade measures.

36. The representative of Brunei Darussalam, on behalf of other ASEAN countries, paid tribute to the rôle played by Indonesia in regional and political stability. Market-opening measures had helped promote Indonesia's economic and trade diversification. He applauded Indonesia's commitments to implement the CEPT by 2003 under the AFTA, and the recent leading rôle it played in the APEC summit in Bogor.

37. The representative of New Zealand applauded Indonesia's sound economic management and on-going trade and investment reforms, such as the packages introduced in 1993 and 1994. Such reforms had enhanced Indonesia's international competitiveness through increased import competition. Nevertheless, Indonesia needed to address inefficiencies in many industries, such as agriculture and food processing, through lower, more uniform tariff rates. New Zealand supported Indonesia's membership of AFTA, provided it remained outward-looking and GATT-consistent, as a useful step towards trade liberalization and economic growth in South East Asia. Indonesia's offer in the Uruguay Round to remove non-tariff barriers, some on products of New Zealand interest, and to bind 95 per cent of its tariff at ceiling levels was seen by New Zealand as a considerable concession, which gave credence to its attempts to move to a tariff-based system of protection.

38. Domestic output remained distorted by the import licensing system which protected about one-third of domestic production. Of particular concern to New Zealand were Indonesia's highly protected dairying and meat industries. In dairying, bound tariff rates on some products such as AMP, WMP, yoghurt, buttermilk, AMF and processed cheese, had been set well above applied rates. In addition, import licences underpinned mixing requirements, and applied to fresh cheese. Moreover, retail packs of milk were effectively excluded from importation, and investment restrictions applied in the processing sector. Indonesia had offered in the Uruguay Round to phase out the dairy-mixing requirements over 10 years, and to replace them with moderate tariffs. Meat imports continued to be covered by licences controlled by the Directorate-General of Livestock Services to support local feedlot operators. Import licences, issued for predetermined quantities, were valid from 3-6 months, depending upon the meat type. Secondary meat cuts and offal appeared to be treated differently to control supplies and minimize the impact of imports on domestically-produced meat. Imported meat was also affected by the technical regulation stipulated by the Directorate-General of a minimum shelf-life requirement of 3 months.

39. The representative of Japan congratulated Indonesia for the continued trade and investment liberalization that had occurred since 1990. It had gradually lowered tariffs and surcharges, reduced

import licensing, and deregulated the investment régime. Nevertheless, substantial trade restrictions remained; one-third of domestic production was protected by import licensing and bans, and over half of non-oil exports were controlled. Japan therefore urged Indonesia to continue its efforts to deregulate or abolish restrictive measures, and to make its trading system more transparent. The representative of Japan requested details on the current investment regulations, including foreign ownership requirements, following the deregulatory package introduced in May 1994. He also sought details on the rôle and operation of export-processing zones and export-oriented production entrepôts, including, in particular, the incentives provided to indirect exporters.

40. The representative of India referred favourably to Indonesia's current efforts to reform its trading environment. He was surprised to hear that other delegates had raised with Indonesia issues concerning the TRIPs Agreement and labour matters; these were currently outside the scope of the Trade Policy Review Mechanism.

41. The representative of Hungary commented favourably on Indonesia's market-opening measures taken since the last review, as a means of promoting export-led growth and diversification away from oil and gas. Such trade reforms had focused on lowering tariffs and surcharges, reducing import licensing restrictions and investment deregulation. Nevertheless, tariffs, averaging 20 per cent overall, remained much higher on some products, such as certain chemicals and transport equipment. Moreover, import licensing, despite the number of tariff lines affected falling by three-quarters since 1990, continued to protect large shares of manufacturing and agricultural output. Of main concern to Hungary were the restrictions on agriculture and steel; he sought details of any plans by Indonesia to reduce the scope of its import licensing régime. Excise and sales taxes applied to some products, including non-alcoholic drinks, discriminated against imports. He requested information on when Indonesia intended to eliminate these discriminatory taxes.

42. The representative of Argentina noted Indonesia's improved trade performance since 1990 and the continued need for a stable macroeconomic environment, including budgetary discipline. Its trade and other economic reforms were moving in the right direction, such as lower tariffs, subject to remaining tariff peaks on products like cars and alcohol, and some dismantling of the import licensing régime. He sought details on the exclusion of services and agriculture from the CEPT Scheme, and asked whether the scheme would be trade-creating, thereby lowering industrial protection in Indonesia, or trade-diverting. He wondered what the reasons were for the recent decline in foreign direct investment, and what effects this might have on Indonesia's export capacity. Indonesia was requested to comment on the apparent time lags of, on average, up to 12-18 months between investment approval and implementation. He also questioned the rôle of State-trading agencies in meeting Indonesia's industrial objectives.

43. The representative of Egypt commended Indonesia for its autonomous trade reforms, including on-going investment and financial deregulation as well as other market-based improvements. These, combined with appropriate stabilization policies, had strengthened Indonesia's trade performance. Indonesia provided a good model for other developing countries to follow. Indonesia had played an active rôle at both the regional and international level and, along with Egypt, was a member of the Non-Aligned Movement. The Indonesian delegation was requested to comment on the cooperation among developing countries in the framework of the Group of 15, and especially after the entry into force of the WTO Agreement.

VI. REPLIES BY THE REPRESENTATIVE OF INDONESIA AND ADDITIONAL COMMENTS

44. The Chairman suggested that the Council debate be structured along the main themes of overall economic performance; the import régime; exports and the export régime; regional initiatives; other issues; and outlook.

(i) Overall economic performance

45. The representative of Indonesia said that long-term stable, non-inflationary growth required the establishment of a solid macroeconomic foundation. The main elements of Indonesia's macroeconomic policy had been tight budgetary discipline, prudent monetary policy, disciplined management of the balance of payments, and prudent management of the external debt. He felt that only when the economic fundamentals were in place would trade liberalization have a lasting effect.

46. The representative of Indonesia stated that a successful change from import substitution to export orientation required deregulation. It was also necessary to avoid domestic social upheaval, as this could undermine long-term reform. While the process needed to be continuous, the Government had to be aware beyond which limits reform could not be pushed at any given moment.

47. Recent trade reform packages had mainly simplified import arrangements, improved customs procedures, reduced tariffs and surcharges, improved conditions in export-processing zones, and eliminated non-tariff measures. Application procedures for foreign investment had been simplified, the negative investment list had been reduced, and foreign parties were now allowed to own 100 per cent of shares in foreign investment companies without any minimal investment limit.

48. The Indonesian representative mentioned that all Ministers in the Presidential Cabinet had full jurisdiction over their respective departments. In undertakings of national importance, a process of coordination was normally initiated by the Coordinating Minister for Economics and Finance. Parliament monitored very closely tariff changes or other measures affecting competitiveness and consumer welfare. Now that the Uruguay Round had been completed, a unit was being established to deal specifically with all WTO issues.

49. The Government supported strategic industries to provide an adequate base for technological capabilities in the future. Although such measures might be expensive in the short run, they could prove to be useful in the longer term. Various ways existed to help ensure increased efficiency through cooperation with foreign enterprises, for instance, through cooperation agreements and joint participation of foreign capital. He was confident that the Government would continue to develop ways of ensuring that these industries were efficient, and that support for such industries would be reduced over time.

50. The first discussant referred to the fundamental link between sound macroeconomic management and successful trade liberalization and microeconomic reform. Noting the perceived "stop-go" nature of certain aspects of Indonesia's reform efforts, he suggested that the Indonesian Government should consider the establishment of an independent statutory body to advise on trade and industry policies. Such a body would aid policy consistency and transparency, as well as providing an impetus to the reform programme. Regarding the rôle of strategic industries, he urged Indonesia to follow overseas trends towards divesting state-owned enterprises, placing greater reliance on the market mechanism.

51. The second discussant commented favourably on the trade and investment reforms contained in recent packages. He requested additional details on the pace of Indonesia's reforms, including on any plans that the Government might have for further liberalization. Although he saw some rôle for

State-owned enterprises in imperfect markets, he questioned their continued existence in Indonesia following market deregulation.

52. The representative of Australia raised the issue of the establishment of an independent statutory authority in Indonesia, and whether the Government had given any consideration to making the deliberations of the Tariff Team public in an attempt to improve transparency.

53. The representative of Indonesia responded by stating that there was a high level of public debate in Indonesia concerning the importance of trade policy, due primarily to Indonesia's involvement in the Uruguay Round. Indonesia was conscious of the need to improve policy consistency and expertise in trade policy formulation. The Indonesian representative said that Indonesia often adopted a pragmatic approach to reform, seizing on all opportunities to do what was possible. Indonesia still saw an important rôle for government intervention in certain cases. Despite the non-public nature of the Tariff Team's deliberations, it did receive inputs from the public and had operated effectively.

(ii) Import régime

54. The Indonesian representative indicated that his Government's policy was to further reduce average tariff levels. Tariff reviews would be carried out on a continual basis. Tariff reductions were currently being considered in some sectors, including transport equipment.

55. He conceded that recent reforms had temporarily increased the dispersion in tariff rates. However, this was partly because duty reductions were concentrated on raw materials and capital goods, which already had among the lowest duties. Moreover, tariffication of non-tariff measures had introduced high tariffs in certain areas, such as motor vehicles. Tariff rate dispersion would be narrowed as Indonesia continued to reduce tariff rates on finished products, especially on those products having high rates. The Government was not considering reducing the list of items exempted from ceiling bindings.

56. Surcharges were temporary and formed part of the tariffication process and removal of non-tariff measures. Since Indonesia did not yet have an Anti-Dumping Law (due to be tabled before Parliament in early 1995 as part of the new Customs Law), surcharges had been used as an anti-dumping measure. However, in line with the Uruguay Round Agreement, this practice would be discontinued.

57. Also in line with the Uruguay Round Agreement, the Indonesian representative stated that discriminatory sales and excise tax arrangements would be eliminated.

58. Indonesia had progressively reduced the number of import licences. In 1990, there were 1,122 tariff items covered by licensing. This had been reduced to 318 by December 1993, and had been further cut to 261 in June 1994. In the case of infant industries, particularly up-stream ones which strengthened the industrial structure and reduced undue dependence on imports, the Government had tended to deny tariff protection as a matter of policy.

59. The manufacturer usually determined the expiry date on quarantine and health regulations.

60. The Indonesian representative indicated that most imports, i.e. imports with an f.o.b. value of US\$5,000 and above, were subject to compulsory pre-shipment inspection (PSI) in the exporting country. PSI, introduced on 1 May 1985, was initially performed by the government-appointed surveyor, the Société Générale de Surveillance (SGS). This responsibility was transferred to PT Surveyor Indonesia in July 1991; SGS continued, however, to have responsibility for PSI in countries where PT Surveyor

Indonesia had no established office. During the transition period, some adjustments were likely which, in turn, might have affected average inspection times.

61. Indonesia, like other Uruguay Round signatories, was committed to applying the Agreement on the Implementation of Article VII (Customs Valuation Agreement) as well as the Agreement on PSI. Where inconsistencies occurred between the Agreements, the Customs Valuation Agreement would take precedence. The Indonesian Customs Administration had made some preparations in applying the Customs Valuation Agreement. This entailed the drafting of necessary legislation and regulations, as well as training customs personnel.

62. The Indonesian Government did not regard State-trading enterprises as a generalized phenomenon; the intensity of State-trading varied according to the nature and behaviour of the commodity concerned. State-trading enterprises operated to rectify market failure, and to stabilize prices and supply in order to avoid social disruption. In the agriculture sector, the Indonesian Government had begun phasing-out all non-tariff measures. However, during this transitory process, BULOG would continue to stabilize commodities that would otherwise fluctuate excessively. In accordance with GATT, the level of protection afforded by BULOG would not exceed bound tariff levels.

63. It was his Government's view that in the absence of countertrade, normal trade might not otherwise occur with countries facing foreign exchange problems. Therefore, the Government felt that countertrade could be used to create trade with such countries.

64. Local content requirements were basically a temporary measure aimed at ensuring that there was a market for domestic products. This had been important when the Government initiated its diversification policy to reduce dependency on oil exports. Under the Uruguay Round agreements, the Government was committed to eliminating the local content requirement for the soyabean meal industry and for dairy products within 3 and 10 years, respectively, after the WTO's entry into force.

65. The first discussant referred to Indonesia's impressive achievements to date in trade and investment reforms, and the important rôle that the GATT/WTO can play in promoting such reforms. It had moved its import regime away from a non-tariff one to one based on tariffs. Furthermore, it had bound 95 per cent of its tariff in the Uruguay Round, including on all agricultural products. Although State-trading entities still existed in agriculture, Indonesia had tariffed all of its non-tariff measures in agriculture, often at modest levels compared to some other significant developed countries. Indonesia needed to focus on eliminating remaining import restrictions to become more market oriented and to maintain existing pressures for reform.

66. The second discussant referred to the substantial achievement by Indonesia in raising its tariff bindings from below 10 per cent of items to 95 per cent under the Uruguay Round. He commented favourably on Indonesia's commitment under the Uruguay Round to phase-out some local content plans.

67. The representative of New Zealand encouraged Indonesia to continue with its reform programme. He asked for details on the current situation concerning the introduction by Indonesia of anti-dumping legislation.

68. The representative of Australia welcomed Indonesia's intention to consider tariff cuts on transport equipment, and requested information on whether similar cuts were currently being considered by the Indonesian Government.

69. The representative of the European Union, while welcoming the binding of 95 per cent of tariff items under the Uruguay Round, pointed out that Indonesia had previously, with bindings on less than 10 per cent of items, lagged behind other Asian countries. He requested further details on any other sectors, apart from transport equipment, where tariff reductions were being considered, and on the time frame for such reductions. He also asked about Indonesia's intentions regarding the imposition of discriminatory commodity taxes and whether these would be brought into conformity with the GATT, especially luxury taxes which discriminated against imported motor cars, as well as discriminatory excise taxes on imported cigarettes. He asked whether Indonesia intended to sign any of the plurilateral agreements, such as on civil aircraft.

70. The representative of the United States asked when Indonesia intended to make the next round of tariff cuts under the CEPT Scheme.

(iii) Exports and the export régime

71. The representative of Indonesia said that prohibitions on exports were generally related to standards regulations aimed at protecting antique goods with an historical value and conserving the environment. Export taxes were imposed on certain raw materials to develop downstream industries and preserve natural resources. Tax exemptions were given to companies or factories operating in Export-Processing Zones (EPZ) or in Export-Oriented Production Entrepôts (EPTE) that exported a minimum of 75 per cent of their finished products. However, tax exemptions were denied to firms supplying inputs to EPZ or EPTE companies. He pointed out that one of the main objectives of trade policy was to diversify exports both in terms of market and products.

72. The first discussant stated that Indonesia's use of export taxes on certain raw materials was not the best means of promoting downstream industries. Taxing competitive exports penalized competitive exporters and risked promoting value-added industries that became dependent on "permanent life support" from the Government. Such arrangements ran counter to Indonesia's market opening approach.

73. The second discussant raised the environmental considerations of export taxes and the potential conflict between these and market forces. Export taxes in his view could have an appropriate rôle to play in meeting environmental concerns, provided they were backed up with other environmental policies. Such export restrictions alone were unlikely to fulfil environmental objectives.

74. The representative of Australia sought information on the extent to which environmental issues had been publicly debated in Indonesia.

75. The representative of Argentina requested details on the relationship between foreign direct investment and Indonesia's export performance, and the extent to which export growth was being hindered by impediments to implementing overseas investment in Indonesia.

76. The representative of the European Union questioned the effectiveness of export controls for protecting the environment. He asked what was the justification for introducing an annual export quota in July 1993 on lamscant of 100,000 cubic meters, and whether it was envisaged to increase the quota. The administration of export quotas in Indonesia was largely non-transparent.

77. The representative of Indonesia stated that there was always a lag between investment approval and implementation. Indonesia was environmentally conscious and activities should be friendly to the environment as well as being economically rational. This was particularly important for forestry

management. His Government was concerned, however, that Indonesian exporters would face restrictions imposed by trading partners purportedly for environmental concerns.

(iv) Regional initiatives

78. The representative of Indonesia pointed out that the acceleration in the implementation of the CEPT Scheme would mean reducing the time frame for AFTA from 15 to 10 years; eliminating the products on the Temporary Exclusion List by transferring them to the Inclusion List in five equal annual instalments, beginning 1 January 1995 (the first instalment should be completed by 1 January 1996); and the eventual inclusion of all agricultural products. He pointed out that Indonesia had unilaterally reduced tariffs on an m.f.n. basis, and that for some products the m.f.n. rates were now lower than CEPT levels. This reflected the fact that the CEPT encouraged trade liberalization on an m.f.n. basis, which underscored AFTA's outward-looking orientation.

79. The time frame of liberalization under AFTA had been accelerated to 10 years, starting 1993, and the tariff levels in 2003 would be 0 to 5 per cent. The Indonesian commitment consisted of 2,816 fast track products and 4,539 normal track products. Its exclusion list comprised 1,654 products. The schedule of tariff reductions for the fast track was for 1,097 products (0-20%) to be reduced to 0-5 per cent by 1998; and 1,719 products (25-40%) to reach 0-5 per cent by 2000. For the normal track, 1,587 products (0-20%) would be reduced to 0-5 per cent by 2000; and 2,952 products (25-40%) to 0-5 per cent by 2003. On the Temporary Exclusion List, 1,654 products would be included in the fast track/normal track within five years, starting 1995.

80. Local content requirements in the rules of origin for ASEAN-PTA preferences were 60 per cent. However, Indonesia applied a local content rule of only 50 per cent to encourage trade. In AFTA, the local content requirement was 40 per cent, both for the single country content and ASEAN content.

81. In order to strengthen the open multilateral trading system, APEC had decided to accelerate the implementation of Uruguay Round commitments and to undertake work aimed at deepening and broadening the Round's outcome. APEC leaders were committed to continuing the process of unilateral trade and investment liberalization and had agreed not to use measures that would increase protection.

82. The first discussant commented on the open regionalism reflected in the AFTA and the APEC initiatives. Trade liberalization under these arrangements would not exclude third parties and would benefit all trading partners, reinforcing Indonesia's commitment to an open world trading system.

83. The representative of Egypt referred favourably to Indonesia's regional initiatives, stating that regionalism and multilateralism were two sides of the same coin.

(v) Other issues

84. The Indonesian representative stated that, although his country would maximise the use of transitional periods provided for in the TRIPs Agreement, his Government was currently amending the Copyright (1982 and 1987), Patent (1989) and Trademark (1992) Laws. These would be tabled in Parliament in 1995. In the light of the TRIPs Agreement, Indonesia was also preparing to draft a series of new laws on industrial design, integrated circuits and trade secrets, of which the latter would be tabled in Parliament in 1996.

85. In accordance with the TRIPs Agreement, the Indonesian representative assured Council that Indonesia would implement national treatment on intellectual property rights. Indonesia had a

comprehensive IPR legislation, and a good enforcement record. It levied penalties and sanctions for copyright and trademark violations and patent infringement, which were subject to civil liabilities and imprisonment. Indonesia was also trying to ensure that all legislation conformed to the TRIPs Agreement. Although Indonesia did not currently have a system of IPR enforcement at the border in accordance with TRIPs, such a system would be incorporated into the new Customs Law, to be tabled in Parliament in early 1995.

86. On TRIMs, he stated that although liaison offices were not allowed to engage in exports and imports, the Government did provide opportunities for foreign parties to establish foreign investment companies to export either their own products, or those of other industrial manufacturers. In order to encourage foreign investment, the Government had introduced a new Regulation (No. 20, in 1994) to enable foreign parties to own 100 per cent of a foreign capital company, except in areas where a minimum local ownership of 5 per cent was needed. Wholly-owned foreign capital companies were required to divest part of their ownership to an Indonesian party within 15 years. The number of shares transferred depended on mutual agreement.

87. In 1989 the Government had issued the Negative List of Investments to replace the earlier Priority List. The Negative List was reviewed regularly, and in 1993 the list comprised 33 different fields of business, compared to 75 fields in 1989. His Government accorded equal opportunity to both foreign and domestic capital, except in certain areas such as taxis, local shipping, scheduled/chartered flights, aircraft and component workshops located at airports. Areas of particular interest for foreign investment included textiles, chemical products, metal products and hotels. He reported that foreign companies could be established anywhere in Indonesia. Where there were already industrial estates, industrial processing activities sustained by foreign investment were prioritized; foreign companies were allowed to be located in industrial zones where justified by technical and economic considerations.

88. The Indonesian representative explained that it was difficult to answer questions on services since such data was rudimentary. For example, a detailed picture was not available by sector, and the aggregate number was still a residual. The origin of services imports or the destination of services exports could not be specified. However, certain services could be presented to give an indication of the dimension of Indonesia's services trade. Indonesia was a net services importing country; the services deficit of US\$8.9 billion in 1990/91 had reached US\$10.3 billion in 1993/94. Subtracting the debt servicing figure of US\$3.9 billion in 1990/91 and US\$4.5 billion in 1993/94, the services deficit was still very substantial, US\$5 billion and US\$5.8 billion in 1990/91 and 1993/94, respectively. While details on the liberalization of services could not be presented, the available figures indicated that the Indonesian services sector was reasonably open.

89. The representative of Australia enquired as to the policies that Indonesia intended to implement to improve the efficiency of the services sector, and whether these included further liberalization of services trade.

90. The representative of Japan wondered whether Indonesia intended to expand the arrangements associated with export processing zones and export processing entrepôts.

91. The representative of Egypt reiterated his Government's view that issues concerning labour standards were beyond the scope of the Trade Policy Review Mechanism and the GATT/WTO generally.

92. The representative of the European Union asked how the Government intended to comply with the TRIPs Agreement in future, and that the EU was ready to provide Indonesia with technical and

financial assistance to implement effective IPR legislation. He also sought clarification as to whether Indonesia had signed the plurilateral Agreement on Government Procurement.

93. In reply, the representative of Indonesia confirmed that his Government had not signed the Plurilateral Agreements on Government Procurement and Civil Aircraft. He indicated that Indonesia would continue to liberalize its service markets gradually.

(vi) Outlook

94. The representative of Indonesia stated that his Government would continue the adjustment process, and that the various trade barriers would be eliminated gradually in accordance with the needs of national development. Indonesia would implement the results of the Uruguay Round in accordance with the agreed timetable. However, Indonesia was moving faster in the context of ASEAN.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

95. In concluding this, the second review by the Council of Indonesia's trade policies and practices, I would like to summarize, on my own responsibility, the salient points to emerge during the discussions. As usual, these remarks are not intended to substitute for the Council's collective evaluation and appreciation of Indonesia's trade policies and practices, which will be reflected in the minutes of the meeting.

96. Following the opening statement by Indonesia, the Council's discussions focused on six main themes:

(a) Overall economic performance

97. Council members welcomed the continuation of Indonesia's sound macroeconomic policies since its first review in 1990. Real annual economic growth had averaged over 6 per cent. Inflation, following excess liquidity pressures in 1990-92, had been kept below 10 per cent through prudent monetary policies and the balanced budget requirement. This background had enabled trade and investment liberalization to continue - although more cautiously - and assisted Indonesia's ongoing diversification from the petroleum sector into manufacturing. Members commended the recent liberalization of the investment and trade régimes, in May and June 1994, including the continuing process of replacing non-tariff barriers with tariffs.

98. A number of questions were asked about Indonesia's transition from an import substitution development strategy to one based on export-led growth. Several participants drew attention to Indonesia's support for strategic manufacturing and agricultural industries and sought details of the coverage and pace of privatization efforts. Members stressed the need for Indonesia to improve the transparency of its trade and investment régimes which, despite impressive achievements to date, remained complex and discretionary. It was suggested that transparency could be facilitated by the existence of a public independent statutory body to advise the Government. In this context, details were requested on the rôle and operation of the Economic Policies Deregulation Team and the Tariff Team.

99. In response, the representative of Indonesia noted that a solid macro-economic foundation was needed to ensure that trade liberalization had a lasting effect. The shift to outward orientation required major deregulation measures, but these had to be handled in such a way as to minimize social disruption. He outlined the contents of Indonesia's trade and investment packages, as well as other deregulation measures. Institutional changes were being put in place to deal with Uruguay Round implementation. The rôle of strategic industries, support to which had been declining, was to provide an adequate base for technological capacities in the future.

(b) Import régime

100. Members recognized that Indonesia had made great strides in moving from a régime relying heavily on non-tariff measures to one based very largely on bound tariffs. Its participation in the Uruguay Round had made an important contribution to this process. However, the overall average remained at 20 per cent; tariff escalation and dispersion had tended to increase, exacerbated by import surcharges which had often been used as anti-dumping measures, and substantial tariff peaks persisted. Concern was also expressed that tariffs on some high-rate items would remain unbound. Some members noted that pre-shipment inspection delays had increased considerably as customs functions were being transferred back to the Indonesian authorities.

101. The complexity of remaining import licences was seen by some delegations as an obstacle to imports. Licensing was often backed up by State-trading or monopolies, including control by BULOG of trade in agricultural goods such as rice. Attention was called to standards applied to imports of meat and mixing requirements for dairy products; the commitment to phase the latter out over ten years was welcomed.

102. Questions were asked about Indonesia's commodity and excise tax system, which was seen as discriminating against imports of products such as cigarettes, motor vehicles and luxury goods. Questions were also asked about the long-term viability of Indonesia's local content requirements, such as on motor vehicles.

103. Some members expressed concern regarding Indonesia's government procurement practices, which remained restrictive and included preferences for domestic suppliers; attention was called to the continued use of countertrade arrangements to increase non-oil exports.

104. The representative of Indonesia indicated that his authorities intended to reduce average tariffs further, including in transport equipment. In this process, tariff disparities would also be reduced. Surcharges were temporary; their use to counter dumping would cease as Indonesia implemented the Anti-dumping Agreement. Discriminatory taxes would be eliminated. Import licensing had been reduced, but the Government preferred this method to allow infant industries to develop scale economies. Normally, health and safety requirements respected such conditions as the manufacturer's stated expiry date. Indonesia was committed to applying the Customs Valuation and Preshipment Inspection Agreements; in case of any inconsistencies in the application of these agreements, the Valuation Agreement would take precedence. Indonesia was also committed to eliminating non-tariff measures in agriculture, but in the transition period BULOG would continue to stabilize prices. Countertrade was seen as a positive measure used to assist trade with countries with foreign exchange shortages. Local content requirements were temporary; they would be phased out for soybean meal within three years and for dairy products within ten years of the entry into force of the WTO.

(c) Export régime

105. Some members commented on the use by Indonesia of export taxes on logs and some other products. Such measures could encourage inefficient downstream industries and lead to domestic resource misallocation. Questions were asked about the use of export controls as a main instrument to achieve environmental objectives and promote sustainable development.

106. Export diversification was seen by several members as the best means of overcoming constraints in Indonesia's external trading environment, such as quotas on textiles and clothing in developed markets. A question was asked about the relationship between investment conditions and the performance of manufactured exports. Additional information was sought on the operation of export processing zones and export oriented production entrepôts in Indonesia.

107. The representative of Indonesia said, in response, that export prohibitions mainly related to standards, protection of antiquities and nature conservation, while export taxes were intended to develop downstream industries and preserve natural resources. Environmental debate had markedly increased in Indonesia. Tax exemptions were enjoyed by companies in EPZ or EPTes which exported at least 75 per cent of their output; this did not apply to suppliers to those companies. There was always a lag between investment commitments and implementation; export projections could not be made on a factory basis. Indonesia was hoping to achieve diversification of both markets and products.

(d) Regional initiatives

108. Members recognized the importance of intra-regional trade in Indonesia's development. Reference was made to Indonesia's active rôle in supporting the ASEAN Free-Trade Area (AFTA) and the aim of implementing the region's common effective preferential tariff (CEPT) by 2003. Members sought clarification on the CEPT tariff reduction programme and the treatment of services and agricultural products. Additional details were requested on rules of origin under the AFTA, especially the difference in content levels between Indonesian exports and imports.

109. Members acknowledged Indonesia's major rôle in the recent APEC summit, and the initiatives taken to promote free trade and investment in Asia and the Pacific by the year 2020. Assurances were sought that such arrangements would be implemented in an outward-looking manner, within the perspective of the WTO.

110. In response, the representative of Indonesia provided details on the acceleration of the CEPT, as well as the time frame for further liberalization under the AFTA. This had been accelerated to 10 years, with a final tariff level of 0-5 per cent to be achieved under different tracks. Products in the temporary exclusion list would be included from 1995. He noted that the APEC Bogor Declaration contained a decision to accelerate the implementation of the Uruguay Round commitments and to undertake work aimed at deepening and broadening the outcome of the Round.

(e) Other issues

111. The representative of Indonesia stated that, while Indonesia would, in the interests of transparency, volunteer information on "new areas" such as services, TRIPs and TRIMs, he did not consider labour standards a subject for TPRM discussion.

112. Members welcomed steps taken in May 1994 to liberalize Indonesia's investment régime, including the decision to open some service industries to foreign direct investment. However, a number of concerns remained, on aspects such as investment restrictions applied to products on the Negative Investment List. Clarification was sought on the operation of foreign ownership and divestment requirements, including the share of foreign ownership to be divested by wholly-foreign-owned companies within the stipulated 15 years.

113. Members sought clarification on the implications of the TRIPs and TRIMs agreements for Indonesia, and of plans to improve its intellectual property rules. Some participants commented on the restrictions applied in Indonesia's service industries, and sought information on policies aimed at making the sector more competitive.

114. The representative of Indonesia responded that, during the transitional period allowed in the TRIPs agreement, new provisions would be prepared. Indonesia was already preparing amendments to its relevant laws for tabling in the next two years. Data on trade in services were everywhere rudimentary, but existing figures showed that Indonesia was a net importer of services with deficits of US\$5 billion in 1990/91 and US\$5.8 billion in 1993/94, excluding debt servicing. This indicated that the services sector in Indonesia was reasonably open. Conditions were also changing fast and gradual opening of the market would continue.

(f) Outlook

115. A number of members, noting signs that the process appeared to have slowed, emphasized the need for Indonesia to continue steadily with trade-related reforms. The need for continuity and irreversibility of policies was stressed. In this connection, some members sought information on the timing of future reforms. Commitments made by Indonesia under the Uruguay Round were seen as one important means of "locking in" autonomous policy reforms, and facilitating Indonesia's progressive integration into the global economy.

116. In response, the representative of Indonesia said that trade barriers would be eliminated gradually and steadily, in accordance with the needs of national development and the maintenance of a competitive environment. Uruguay Round commitments would be implemented according to the agreed timetable; developments in ASEAN would, however, move more rapidly.

Conclusions

117. Members welcomed the significant progress achieved by Indonesia in attaining a stable macroeconomic environment and ongoing trade and investment reforms. They welcomed Indonesia's active participation in the Uruguay Round and its recent ratification of the WTO Agreement. Indonesia was urged to maintain its successful reform programme, including reducing high tariffs, eliminating surcharges and distortions which could impede development in the future. Future reviews under the WTO procedures were seen as a welcome guide to further progress in all relevant areas.