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GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

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1963 CONSULTATIONS UNDER ARTICLE XVIII:12(b) WITH INDONESIA

Basic Document for the Consultation[1]

1. Legal and administrative basis of the import restrictions

The authority of the Government to control imports has its legal basis in the Foreign Exchange Regulation of 1940 and the Foreign Exchange Ordinance of 1940, both these measures emanated from the Dutch Colonial Administration and are applicable by virtue of clause II of the Transitional Provisions of the 1945 Constitution.

The Foreign Exchange Institute which is under the direction of the Bank of Indonesia is the Government agency assigned to administer the import and exchange control system in Indonesia. On its behalf, combined import and exchange licences are issued by the Bureau of Import-Exchange Licences. Daily control is a co-operative work of the Foreign Exchange Institute, Bank of Indonesia, the foreign exchange banks especially authorized for this purpose, and the customs.

On 6 March 1962, by Presidential Decree No. 94 which involved regrouping of the Cabinet, the Monetary Board was dissolved. As by the same Decree the position of the Governor of the Bank of Indonesia was elevated to ministerial level, it was felt that matters concerning monetary policy, which included also the field of import control could be more efficiently handled by a Minister of Central Bank Affairs and if necessary, co-ordinated by the Deputy Prime Minister for Financial Affairs. Prior to this change the Monetary Board composed of the Minister of Finance, the Governor of the Bank of Indonesia the Minister of Distribution, the Minister of Production and the Minister of Development and Reconstruction, was the supreme body in monetary affairs.

2. Methods used in restricting imports

Before 6 March 1962 the system of import control was a licensing system based on quantitative restrictions. This was secured by way of an annual foreign exchange budget which was revised quarterly and which included an import budget. The categories of goods appearing in the import

[1] Revised on the basis of new material and statements supplied by the Indonesian authorities in May 1963.

budget belonged to the most essential import goods for the domestic economy. With the exception of rice and textiles, the import policy gave preference to imports of raw materials in comparison with consumer goods while in the case of capital goods, the permission to import was mostly linked with the availability of a long or medium-term loan. The importation of goods already produced in adequate quantities by the domestic industries was prohibited or at least a special permission from the Minister of Trade was required.

The application of quantitative restrictions rendered superfluous the use of cost restriction with the effect of limiting imports. Nevertheless goods were taxed differently on the basis of their essentiality for the domestic economy, although these taxes were applied primarily for revenue purposes.

The system introduced on 5 March 1962 is, briefly, as follows. Exporters are granted the use of 15 per cent of foreign currency earnings of all exports except petroleum, representing the f.o.b. value of the contract. This permission is given in the form of a foreign exchange permit or SIVA (abbreviation for "Surat Izin Valuta Asing" - Foreign Currency Permit) issued by the Exchange Fund. Exporters can use SIVA permits for their own imports or they can sell them through an exchange bank to the highest bidder. SIVA can be utilized to import all goods in Lists A and B, except nine specified commodities (textiles, weaving yarns, wheat flour, reinforcing steel, cement, tinplate, newsprint, writing paper and gunny bags) the import of which is generally carried out by the State; a special licence must be obtained if private importers wish to import these nine commodities. Certain specified goods of a more essential nature in List C can also be imported with SIVA. Items in Lists A and B imported under the SIVA arrangement are subject to the same "price component" import levies. List C goods imported under the SIVA system pay a Special Export Promotion Tax of Rp.65 per United States dollar c. and f. basis. Another Decree nullifies the provision previously in force whereby import licences for goods included in Lists A and B were issued to importers in possession of foreign exchange not officially declared.

These SIVA regulations, in the view of the Indonesian authorities, had the effect of freeing a part of the import demand from quantitative restrictions. Although in total the availability of foreign exchange was still quantitatively limited by the amount of SIVA circulating in the market, every importer in need of foreign exchange was free to exert his demand in the SIVA market and so compete with others to obtain the foreign exchange at the SIVA rate which is considerably higher than the rate paid by the importers who receive a permit to import goods falling within the import budget.

3. <u>Treatment of imports from different sources, including information on the use of bilateral agreements</u>

In general the import restrictions are not discriminatory as between countries of origin. However, the Bureau of Import Exchange Licences in issuing licences do take into account countries for which the deferred

payment arrangements available for certain countries. Bilateral trade and payments agreements exist with the People's Republic of China and Czechoslovakia. Under the current arrangements between the Central Banks of Poland and Indonesia and between the Central Banks of Mexico and Indonesia the parties are to grant to each other overdraft facilities. The settlement is to be implemented in convertible sterling in the case of Poland and Indonesia, and in United States-dollars in the case of Mexico and Indonesia. Bilateral trade agreements have been concluded between Indonesia and various Asian and Eastern-European countries, but they are not accompanied by payments agreements, accounts being in these cases settled in accordance with normal international commercial customs.

A separate export-import regulation exists in connexion with trade between certain regions of Sumatra and Singapore/Penang. The poor banking and transportation facilities make it necessary to deviate temporarily from the normal import procedures. For exports from these regions of Sumatra the exporters are allowed to retain 30 per cent of their export proceeds, the amount of which can be used to finance essential imports (foods, clothing and development goods) from Singapore or Penang. It is the intention of the Government of Indonesia that this special arrangement of trade between Indonesia and Singapore/Penang will expire in the course of 1963.

4. Commodities or groups of commodities affected by the various forms of import restrictions

The Indonesian authorities consider that although in general all goods are subject to licensing, the SIVA regulation introduced in March 1962 considerably modified the very strict import controls in force at that time. As one of the considerations to introduce the SIVA regulation was to stimulate exports, first priority has therefore been given to certain exporters (exporters who are simultaneously producers) to enable them to rehabilitate their production units. In the past this group was hampered by the import restrictions to obtain the goods needed to maintain their production, and under the new regulation they are automatically given a foreign exchange licence (SIVA) in the amount of 15 per cent of their export proceeds which they can use for the rehabilitation of their estates.

In 1962, owing to growing difficulties in the balance of payments, the Government decided for the time being to concentrate on the imports of essential goods which were subject to a preferential rate and for which by means of an annual import budget a certain amount of foreign exchange was allocated. The rest of imports were regarded as non-essential and were channelled through the SIVA market. Otherwise no import budget was drawn up for such goods.

In October 1962 new regulations came into effect, under which import goods were divided into five categories, among which two categories with the lowest effective rate applied to the essential goods. For these goods the effective rate of exchange was Rp.45, Rp.90 and Rp.270 per United States dollar.

The rate for SIVA imports was considerably higher. At the end of 1962 the quoted price to obtain a SIVA was Rp.900 per United States dollar. Based on this rate and considering that for some goods a SIVA retribution had to be paid, the effective rate came in the order of Rp.900, Rp.945 and Rp.1,170 per United dollar.

5. State trading or Government monopoly used as a measure to restrict imports for balance-of-payments reasons

Since 23 April 1959 a group of State-trading enterprises have been given the sole responsibility of importing fifteen categories of the country's most essential requirements, namely:

textiles	paper	rice	weaving yarn
cement	reinforcing iron	cloves	sewing thread
tinplate	gunny bags	cambrics	textile dyes
raw cotton	wheat flour	fertilizers	

The operation of these enterprises involves no discrimination among the sources of supply. This system is by no way used to restrict imports from one country to the advantage of another country.

The basic idea to temporarily entrust the imports of certain essential goods to State-trading enterprises is to prevent speculation in such goods in view of their scarcity in the Indonesian market.

6. Measures taken in the last year in relaxing or otherwise modifying restrictions

The Indonesian authorities are of the view that in 1962, when Indonesia was faced with increasing balance-of-payments difficulties, the Government could not afford further steps towards the relaxation of import restrictions. In fact 1962 saw a general intensifying of the existing restrictions including those applying to imports. Nevertheless the introduction of the SIVA regulation in March, followed by the October regulations could mean relaxation of restrictions for certain categories of import. For instance the concentration of imports of the essential goods in its import budget could mean a larger allocation for certain categories of these goods, while goods in the SIVA category were now freed from the strict quantitative rules in the import budget. For certain products for which a large demand exist in the domestic economy this could in practice mean larger import allocations than before.

On the whole total import licences issued in 1962 were, however, considerably lower compared with the preceding year.

7. Effects of restrictions on trade and general policy in the use of restrictions for balance-of-payments reasons

(Statement by the Indonesian authorities)

The gain in our international reserves during 1959 and 1960 was entirely spent again in the two following years. There was even a net loss of US$85 million in our gold and foreign exchange holdings when we compare the situation at the end of 1958 with that of 1962.

Gold and Foreign Exchange Holdings

(in million United States dollars)

	Official reserves	Other	Total
End of 1958	153	68	221
" " 1959	234	107	341
" " 1960	301	117	418
" " 1961	122	162	284
" " 1962	94	42	136

The continuing deterioration in the balance of payments and accordingly in our international reserves during the last two years was caused by external as well as internal factors.

As the dominating external factor may be mentioned the depressed price level of our export products in the international markets, which reflected itself in lower export receipts in 1961 and 1962. The worsening price trend was also felt in the rubber markets, a product of major influence in the country's exports.

An average of monthly price quotations of rubber in New York showed this convincing picture:

Price of Rubber (RSSI) in New York

(cents per pound)

1959	36.4
1960	38.5
1961	29.6
1962	29.4

Source: International Financial Statistics.

Internal factors played also an influencing rôle in shaping the balance of payments of 1961 and 1962. Because of a considerable ease in the import restrictions, imports increased sharply in 1961 and 1962, but especially in 1961. This was the result of a Government decision to allow a larger inflow of civilian import goods as the severe import restriction during the two proceding years has created numerous shortages in the domestic markets. Military imports increased also as a result of the heightening crisis in the West Irian dispute.

Above mentioned developments in the export and import sector both affected our balance of trade the same way. The large surplus in the trade balance achieved during 1959 and 1960 could not be maintained (1959: US$235 million; 1960: US$132 million) and there developed a large trade deficit in 1961 and 1962 (1961: US$290 million; 1962: US$133 million).

Monetary developments within the country put a severe strain also on the balance of payments of 1961 and 1962. As there was a clear stepping-up in the pace of domestic inflation during that period, the increased supply of import goods was quickly absorbed and still the heavy pressure on imports stayed on, while exports were becoming more and more unprofitable.

Although in the last two years the Government has received more foreign credits to finance imports, the large trade deficit which developed during 1961 and 1962 plus the usual deficit in the service sector could not wholly be met by foreign resources. The result was an outflow of gold and foreign exchange from our own holdings in amounts which could not be tolerated any longer.

Beginning of 1962 saw again a tightening of our import restrictions, although measures were also simultaneously undertaken to stimulate exports. The SIVA regulation as described on page 2 above was introduced to achieve both ends: as an automatic device to compensate exporters for the effects of domestic inflation on their costs and also to create a direct link between import payments and export receipts whereby a further loss in our international reserves could be avoided or at least minimized.

Domestic monetary developments in the course of 1962 necessitated a further tightening of import restrictions. In October 1962 the Government issued new import regulations which enlarged still further the kind of goods falling in the SIVA group and adjusted the import tax structure with the higher domestic price level.

Although the latest import regulations issued by the Government has resulted in a moderate improvement of our international reserve position, the situation at the end of 1962 did not show much improvement. Our official reserves at the end of 1962 reached the level of US$94 million, which is considerably below the required minimum level of official reserves of the

amount of US$135 million. This minimum requirement is stipulated in the Bank of Indonesia Act of 1953 and equalizes the total value of our imports of three months, based on the average total of imports during three preceding years.

A factor of growing importance and of growing concern pertaining to Indonesia's balance of payments in the near future will be both the inflationary situation and the burden of debt repayment caused by a large influx of foreign credits in the last four years. The Government is fully aware that this added inflexibility on the expenditure side will cause increased instability in our balance of payments, provided no firm steps are taken to curb inflation, increase exports and other foreign exchange receipts.

Starting from 1959, the import restrictions in Indonesia were gradually removed to allow goods to flow into the domestic markets which were suffering from shortages of supply. Balance-of-payments difficulties in 1961, however, necessitated the reintroduction of stricter import control which culminated in the measures issued in October 1962. Up to then the applied restrictions were not able to reverse the dangerous declining trend in our international reserves. These measures successfully arrested a further decline in our international reserves and even brought about an increase in our reserves. In spite of that, Indonesia's international liquidity position at the end of 1962 is still dangerously low and also far below the required minimum level stated in the Bank of Indonesia Act of 1953.

Especially in connexion with the disappointing performance of our exports and the heavy burden of the repayments of foreign loans, a relaxation of import controls in 1963 depends on the success of the Government to restore stability in the economic and monetary field especially with regard to inflation.

TABLE I

Indonesia: Balance of Payments

(in million United States dollars)

		1960	1961	1962[x]
A.	Goods and services			
	1. Exports f.o.b.	811	766	748
	(Of which exports of foreign-owned oil companies)	(280)	(239)	(277)
	2. Imports f.o.b.	-749	-1,056	-881
	(Of which imports of foreign-owned oil companies)	(-85)	(-47)	(-47)
	Trade balance	+132	-290	-133
	3. Freight and insurance on international shipments (net)	- 34	- 56	- 56
	4. Other transportation (net)	- 19	- 11	1
	5. Investment income (net)	- 67	- 87	-113
	(Of which investment income of foreign-owned oil companies)	(- 65)	(- 74)	(- 99)
	6. Government n.i.e. (net)	- 10	- 16	- 19
	7. Foreign workers' earnings (net)) 8. Other services (net))	- 86	- 61	- 48
	Total	- 84	-521	-368
B.	Private non-monetary sector capital (net)	20	- 11	- 17
	(Of which private capital of foreign-owned oil companies)	(20)	(- 11)	(- 18)
C.	Net errors and omissions	- 3	- 1	- 56
	Total (A through C)	- 67	-533	-441
D.	Official transfer payments and miscellaneous capital			
	1. United States grants	18	30	14
	2. Reparations	8	30	18
	3. Loans received (net)	120	349	220
	4. P.L. 480 liabilities	39	- 42	19
	5. Import pre-payments	- 22	-	1
	6. Other	2	- 2	-
	Total	163	365	272

[x] Provisional figures.

TABLE I (cont'd)

	1960	1961	1962[x]
E. Monetary movements			
1. International Monetary Fund position	- 19	34	21
2. Other short-term liabilities	- 11	- 2	19
3. Short-term assets (- increase)	- 41	121	129
4. Monetary gold (- increase)	- 25	15	
Total	- 96	168	169

[x] Provisional figures.

Source: International Monetary Fund
Bank of Indonesia.