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INDONESIA

MINUTES OF MEETING

Chairman: Mr. Lars Anell (Sweden)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman introduced the review of Indonesia, held pursuant to the Council Decision of 12 April 1989 (L/6490). He noted that the discussion would be based on the report by the Government of Indonesia contained in document C/RM/G/12, and the report by the Secretariat contained in documents C/RM/S/12A and C/RM/S/12B.

2. The report by the Government of Indonesia followed the outline format for country reports agreed by the Council in July 1989 (L/6552). The Secretariat report followed the format of its earlier reports. In line with the Decision establishing the Trade Policy Review Mechanism, the Secretariat had sought clarification from Indonesia on its trade policies and practices with respect to the factual information contained in the six factual Chapters of its report.

3. The procedures for the meeting were set out in document C/RM/5. The Chairman thanked the two discussants for their assistance. A joint paper set out what they considered to be areas of major interest for the review (C/RM/W/5).

4. Five broad topics for discussion appeared to emerge: the Indonesian approach towards overall economic and trade policy reform: experiences and prospects; the use of major trade policy instruments, including customs tariffs, surcharges, import licensing and export restrictions; sector-specific trade policy objectives and approaches, including trade-related aspects of foreign direct investment regulations; trade, debt and the external environment; and other comments, including comments on the overall transparency of the Indonesian foreign trade régime.

5. Indonesia's particular situation as a developing country should be borne in mind.

6. He invited the representative of Indonesia to make his introductory remarks, to be followed by the two discussants - Mr. Denis and Ambassador See.

II. INTRODUCTORY REMARKS BY THE REPRESENTATIVE OF INDONESIA

7. I thank the two discussants for their attention and willingness to be discussants. The inclusion of officials from various agencies in the capital in my delegation indicates the importance we attach to this exercise.

8. The factual details of Indonesia's trade policy are found in the country paper. The Secretariat report contains extensive factual details and statistical data compiled by the GATT for the first time. My presentation highlights key policy objectives and issues which my Government considers important to share with contracting parties to indicate the substantive questions on which my Government feels strongly.

9. I thank the Secretariat for its report which complements the report prepared by my Government. It has been prepared in a fair and objective manner to capture some of the spirit of reform to which my country remains committed. Differences in interpretation do not diminish our appreciation for the Secretariat's effort.

10. I also thank the Secretariat for the technical assistance provided to Indonesia in preparing the Government report. I have often reiterated the need for technical assistance for developing countries in preparing such a report. I also underline that my Government considers the TPRM exercise useful on its own merit. We intend to undertake such an exercise domestically every year, even though our obligation is to do so every four years. I would appeal to the Secretariat to continue assisting us in the exercise.

11. The TPRM exercise has highlighted an increasing economic interdependence among countries, requiring continuous Government attention. Our prosperity is affected by others and our domestic trade policy may have effects on others. Increased interdependence provides greater opportunity for growth and prosperity, but there is a risk that disruption in one economy quickly affects others.

12. As for developing countries, it is important to ensure that the benefit of an open global trading system would continue to exist while the international obligations assumed by developing countries do not undermine the longer term development goals which have been so painstakingly pursued for quite some time. We still have a long way to go in our development effort. The international system must continue to take into account the development dimension of developing countries.

13. The preparation for the TPRM has shown the imperative for closer interaction between the GATT Secretariat and Government Ministries. In

Indonesia, preparation for the first TPRM has unleashed greater interest in GATT issues among various technical Ministries.

14. We anticipate greater initiatives, especially in the Ministry of Trade, to maintain direct contact with the various units of the Secretariat. While there is a distinct diplomatic aspect in GATT-related matters, GATT is a technical institution requiring direct Ministry of Trade involvement. Beyond the present exercise, the Ministry of Trade expects greater involvement of Trade Ministers in GATT matters.

15. I was personally the first discussant for the first TPRM exercise ever conducted. At that meeting, I stressed our understanding of the purpose of the exercise: that it should serve as an opportunity for contracting parties to understand better the trade policy of a contracting party under review. It is also the opportunity for that contracting party to explain more thoroughly its own trade policy. The intention of the exercise is not to examine the conformity of any particular policy to any particular Article in the General Agreement.

16. Indonesia's trade policy must be placed within the broad context of development and structural adjustment. Development is the overriding policy concern of my Government. In outlining the specific details of these policies, it is important to capture the main thrust of trade policy as well as the evolutionary process reflecting the problems being faced and the progress achieved. Development also means change, which means structural adjustment.

17. In dealing with development problems, we face the demographic problems associated with a large population. Indonesia is the fifth most populous country in the world. In the developing world, only China and India have larger populations. More than in most countries, therefore, employment is a serious issue from which the Government cannot escape. An economic development programme not addressing the short-term and long-term issue of employment will fail. That is why my Government regards the creation of employment opportunities as a central issue.

18. Secondly, despite two decades of progress, Indonesia remains a low-income country with a per capita income around US\$500 a year. Economic growth is a prerequisite to fight poverty. In the absence of much of the institutional, infrastructural and industrial base on which to launch a viable and sustainable growth-oriented policy, the Government, as the principal locus of economic activity, had to take steps to expand and create sectors.

19. Another objective of my Government's development policy is to ensure an equitable distribution of the fruits of development. Programmes to

assist economically weak groups are motivated by the imperative to deal with the equity problem concretely.

20. The three broad areas of concern I have described permeate over the entire spectrum of our development program. Against this background, my Government focuses its national development programme through Five-Year Development Plans. Their long-term objective is to achieve sustainable, non-inflationary growth, while ensuring that the widest possible number of people benefit from development activities.

21. Indonesia's development strategy follows a pragmatic approach. In the adjustment to external and internal changes beyond our control, the theme of growth with stability permeates. Growth is required to tackle the three major issues in our development programme. In order to absorb a growing labour force and provide equitable distribution of the benefits of development, while not allowing intolerable inflation, we have set, as a political decision, a minimum average annual rate of growth of 5 per cent.

22. The chosen policy variables therefore focus on those matters which would allow a minimum growth rate to take place below which the economy could not absorb employment, but above which it would not be sustainable without provoking inflationary pressure.

23. Given the experience of hyperinflation in the 1960s, which the Government is determined not to repeat, the State budget is not permitted to be in deficit. While some inflation is inevitable, the Government would impose discipline to ensure that it would not reach a double digit rate.

24. Development expenditures which cannot be covered by revenue must be obtained from development assistance, the bulk of which is negotiated annually with the Inter-Governmental Group on Indonesia, a development assistance consortium under the chairmanship of the Netherlands, where the World Bank, the IMF and the Asian Development Bank also participate.

25. The principal policy instruments of the Government are the State budget and the control of money supply through the Central Bank. Annually, the Government announces its routine and development budget, indicating the revenue sources, as well as the direction of the expenditure. Upon Parliamentary approval, the budget is adopted. The Central Bank takes measures when money supply is judged to be excessive. It is also responsible for the daily management of the exchange rate.

26. Foreign investment policy, another important area, affects and is affected by macro-economic policies and objectives. As a capital importing country, Indonesia regards foreign investment as a necessary supplementary component in her development process. Therefore, from the beginning of her

development programme in the late 1960s, foreign investment policy became a feature of her development policy. However, the complex nature of foreign investment has led to the need to consider the question from a wider perspective than merely opening up investment opportunities.

27. Government policy has been directed to make Indonesia an attractive place to invest. Foreign investment legislation and associated rules and regulations have evolved to ensure the continued attractiveness as well as to meet the evolution of changing requirements. On the other hand, foreign investment policy had to be compatible with the development objectives of the country. Of necessity, investment programmes had to be directed to sectors which Indonesia wishes to develop. Other sectors are closed to foreign investment for various reasons.

28. In the processing of foreign investment requests, therefore, there are always two areas of modifications and improvements. Over time, modification of the substance may need to be made because what may be regarded as an attractive feature of the investment climate may change. Where possible and necessary, such changes might be made after careful considerations. In addition, there are also the procedural aspects. The speed of administering the process could be improved. The deregulation and de-bureaucratization of the processing of foreign investment requests is consequently also the subject of continued attention.

29. In the macro-economic framework, which places trade policy within a wider context, there is one continuity which the Government has sought to maintain. Our economic history in the 1950s and mid-1960s tells us that fiscal and monetary indiscipline led to uncontrollable inflation. High inflation corrodes institutional gains, not only in trade and finance, but in almost every aspect of public life. The propensity to think in the short term is aggravated when an inflation psychology prevails. Once an inflationary dynamic prevails, Governments find themselves in great difficulty to stop the momentum.

30. With this past experience, the Indonesian Government has targeted sound monetary management and fiscal discipline to be a pivotal focus on which to base a development strategy. Growth with stability provides the realistic limits, as well as possibility, of sustainable growth.

31. Another area of macro-economic concern is our foreign exchange system and its management. Beginning in 1968, Indonesia moved, first gradually, then quickly, into a system of currency convertibility with no foreign exchange control. While at first risky, convertibility and free foreign exchange régime has been one of the factors which have eased capital inflow and made Indonesia an attractive place for investors. Sound foreign exchange management facilitates trade and investment flows. We therefore

complemented our policy of fiscal and monetary discipline with a healthy foreign exchange system.

32. In view of the strategic rôle of monetary policy in macro-economic management and the rôle of financial institutions in development, the financial sector will continue to receive great attention. My Government has paid great attention to deregulation of the banking and financial sector. In the past several years, a series of deregulations in the financial and monetary sector has changed the entire face of Indonesian finance.

33. These seemingly abstract goals and strategy must be placed within the perspective of Indonesia's economic history in the past two decades. Although both the country report and the Secretariat report allude to the evolution of policy, I believe I need to highlight the historical perspective more fully to appreciate the reasons for some of the major policy steps taken.

34. Indonesia achieved independence in 1945, but did not have the opportunity to embark on a serious development programme until the late 1960s. Throughout the 1950s and mid-1960s, political difficulties diverted Government attention from development issues. A serious development programme was only initiated when President Soeharto assumed his office. All the progress achieved has been the results of the development plans beginning in the late 1960s.

35. The bulk of the implementation and subsequent progress took place in the 1970s, followed by major restructuring in the early 1980s as the economy took greater shape as a multisectoral economy. In the 1990s, Indonesia will continue the reforms needed to modernize her economy and to prepare for a more competitive and increasingly interdependent global economy. As a part of that process, further opening of our economy would be expected.

36. In 1968, when Indonesia first embarked on a development plan, the infrastructure had suffered dilapidation through lack of maintenance since the end of the Second World War. There were widespread shortages of production facilities, savings and investment, and foreign exchange.

37. In the face of foreign-exchange and production shortages, it was obvious that the only politically realistic step at the time was to emphasize foreign exchange saving and import substitution.

38. Initially, manufacturing activities were predicated on the need to address the shortages of goods and foreign exchange while controlling inflation. In agriculture, a wide array of activities had to be at least

elevated to the level of the pre-war period. Thus, much attention was devoted to infrastructure repair and development.

39. Indonesia had to face the reality that in order to start properly in her development effort, almost everything had to start anew. Existing institutions, structures and infrastructures, in particular finance and banking, had to be repaired.

40. Concrete development measures became visible in the 1970s. Infrastructural projects were initiated and a sectoral policy began to take shape. The concentration on agriculture reflected the urgency of dealing with the most basic problem of food and employment.

41. Manufacturing activities began to develop, initially to meet domestic demand. A semblance of basic light manufacturing began to emerge. Textiles production was developed, initially to meet basic needs.

42. The rapid increase of oil prices in the late 1970s provided a brief period of windfall which was used to finance major infrastructural investments. But the sudden increase and decline in oil prices demonstrated the fragility of the oil market. It also showed that a growth strategy relying on a single export product is precarious.

43. After the setback in the oil market, the Government decided that the long-term economic and development objectives would be better served by a broad-based efficiency drive and export-led growth, concentrating on a multisectoral range of non-oil products.

44. The 1980s was therefore a period when restructuring was possible and necessary. The private sector began to show signs of dynamism. The bulk of Indonesian private enterprises were new entities which came into existence during the 1970s and 1980s. Deregulation showed immediate results.

45. Despite the rapid changes in Indonesia's economic development, there was a consistent policy of pursuing sustained non-inflationary growth, with continuous and growing emphasis on market-based economic principles. Difficulties in the oil field only speeded up the broad-based market-oriented approach to development. However, the market-based approach does not imply a passive Government. The Government will continue to be active to ensure that reforms continue to take place, that the economy remains competitive, and that competition prevails. This active rôle of Government is also consistent with our constitutional tradition to correct disruptive social imbalances and to pursue social equity. However, the driving force in our market-based approach is to be cost-effective.

46. Regarding sectoral policies, the first development programme concentrated on a narrow range of sectors. Export earnings were concentrated in a narrow range of traditionally export primary commodities. The longer-term development policy and the imperatives of employment, growth, and equity pointed to the need to face the immediate challenge to implant an adequate basis for a more diversified and economically rational sustainable development.

47. First, repair of all existing infrastructural and institutional assets was required before expanding to new endeavours. Subsequently, Indonesia could attack the real problems of development by designing steps and sequential actions consistent with the development objectives, but also politically and socially necessary and possible. In the 1970s, the Government systematically introduced measures and development expenditure that reflected those goals.

48. Over the broad spectrum of economic activities, Indonesia's sectoral policy combines pragmatism with the more legally prescribed elements, where there is a clear constitutional obligation to do so, such as in mining. In other areas, policy directions emerged in response to pragmatic needs to develop certain sectors which previously did not exist. All these sectors are subsequently subsumed under a development policy which are expressed in the series of five-year plans.

49. Despite the growing importance of manufacturing, agriculture remains an important sector in our economic and social life. As a traditionally agricultural country whose export composition until recent years derived largely from tropical agricultural products, Indonesia considers efforts of consolidating the effectiveness and efficiency of agriculture to be of great importance.

50. As a potentially efficient agricultural producer with a past history of efficiency, the longer-term objective in agriculture is to ensure that agriculture becomes efficient and constitutes an asset rather than a liability in our development. To do so it is essential that infrastructural and organizational improvements, market oriented-reforms, and the flow of financial resources take place.

51. In agriculture, our position in the Uruguay Round is based on the aspiration to help the process of gradually removing distortions in international trade in agriculture while ensuring that our own agriculture is securely founded on an increasingly solid economic basis of efficient market-orientation. Our membership in the Cairns Group is based on that premise.

52. For those fields of agriculture where the principal market is abroad, our intention is to ensure a continuous reform in order to enable our exports to remain competitive. Where the market is largely domestic, our national policy centres on our main concern to secure adequate domestic foodstuff. In a country with the size of population of Indonesia, with still a low per capita income, food supply adequacy, especially for the low-income segment of the population, remains an area of major pre-occupation.

53. The intermediate and longer-term aim is to achieve a level of domestic foodstuff adequacy by achieving the capabilities to produce basic foodstuff efficiently. Because of a period of prolonged neglect, much of the pre-war infrastructural and institutional basis which made Indonesia an efficient agricultural producer, had disappeared or fell into disrepair. They needed to be restored and further developed.

54. The process of rebuilding agriculture, therefore, remains an important policy objective as a part of an overall development plan. Because development in agriculture is known to be slower than in manufacturing, the results, while solid, are not as dramatic as in manufacturing. To succeed, many State efforts had to be devoted to the sector. The message we wish to give to our farmers is that agriculture is still an important sector.

55. While there are weaknesses resulting from decades of neglect, agriculture as a whole in my country is not necessarily fundamentally a weak sector. Provided that farmers are given the chance to respond to market signals, agricultural efficiency is a realistic and attainable goal. However, the Government must step in to provide the infrastructure, institutions and effective credit and financial resources. These are things which, in developed countries, and, even in many developing countries, are taken for granted. In my country they are yet to be further developed. With budget constraints, the Government will use subsidies sparingly.

56. Indonesia is also a country which is fortunate in its natural resource endowment. The policy options of natural resource management and exploitation are a set of complex choices which often places the Government in a difficult process of balancing short-term needs with long-term considerations. On the whole, the natural resource sectors, though potentially significant as foreign exchange earners, are often limited in their capacity to provide employment. Only when exploited into further processing would they provide greater employment possibilities. Employment pressures have led to the need to ensure that processing of raw materials are done in the country. Hence the need for some escalation of protection.

57. In forest products, the Indonesian Government has had to reconcile different considerations, which are often difficult to synchronize, while attempting to meet the immediate needs of domestic employment, export earnings, and environmental considerations. At the heart of the longer-term objective is the search for an optimal forest policy which meets our legitimate needs and right to exploit our own forest resources, ensure their renewal and replenishment, while also meeting the legitimate concerns of our trading partners.

58. In the field of manufacturing, Indonesia is a complete newcomer. The initial steps taken were to encourage various industrial sectors to develop and to help infant industries. Many policies were introduced on a trial and error basis. There was simply no empirical basis on which to rely on how to proceed, except to try. In introducing manufacturing activities, the first preoccupation was to meet growing production demand for the domestic market.

59. Shortages of supplies and lack of foreign exchange led to an obvious choice to proceed with import substitution. To attract foreign investment required a basic macroeconomic policy. A credible fiscal and monetary policy made it possible for the Government to establish a similarly credible foreign exchange régime which made the country attractive for investment.

60. Only when it was recognized that the Government intended to continue fiscal and monetary discipline and maintain a consistent foreign exchange régime, was the attention on foreign investment in manufactures shifted to the more specific details of company operation in each sector. By that time, the option to rely more on foreign capital as well as domestic private capital became a realistic option. By that stage, Indonesia had a wider range of policy options. She was no longer a prisoner of an import-substitution strategy.

61. Concerning trade policy, Indonesia's economic and political life has been wittingly and unwittingly influenced by international trade. Our political and economic history has been shaped by trade. In the past, the impact of trade was not always a happy one, as the legacy of our pre-independence days testifies. It should be clear, therefore, that we are concerned and sensitive about the need to ensure that the patterns and rules of the game of international trade, unlike the past experience, does serve the goals of the post-independence era, that is the goals associated with development.

62. For much of our history, international trade has been associated with trade in primary commodities. Much of the trade in primary commodities has been governed by international commodity agreements. Indonesia is a member

of various international commodity agreements and associations in products of our interest, such as rubber, tin, coffee, timber, coconut and petroleum. Trade in primary commodities takes into account the respective rules of the game that are internationally agreed.

63. GATT rights and obligations begin to take an increasing share of the attention of the Indonesian Government, as our economy assumes greater diversification of products, and as manufacturing takes on an increasing importance and share in our exports. Indonesia's active participation in the Uruguay Round testifies to a growing awareness of an important shift in our economic and trading structure. This, in turn, requires a more comprehensive approach to international trade. It requires the integration of trade issues into our development strategy.

64. This TPRM exercise has helped our officials to be better informed about the rôle of GATT in our present and future trade development. It has also helped us to focus on the operational relationships between trade and development and between our trade policy and those of others. In trade reform, especially after the fall of oil prices, our concern is centred on making the economy efficient across-the-board in order to be able to compete internationally. We do so because our growth objective cannot be attained without pursuing a proper trade policy. Therefore, there was an immediate need to reform the trade régime.

65. The immediate step taken to reform trade was to revamp the tariff policy. In the past, tariffs were used largely as a source of Government revenue. Protection was provided through non-tariff measures. Present policy is to shift reliance to tariffs as the principal instrument for protection and trade policy. To do so the Government has undertaken a process of tariffication.

66. The process is complex and delicate and requires perseverance and continuity. One should not be under the simplistic illusion that the process is mechanical and straightforward. At the initial stage, tariffs had to be set at relatively high rates to compensate for forgone non-tariff protection. However, the Government intends to undertake continuous review of tariff levels in order to make tariff reductions a part of our continuing process of deregulation.

67. Surcharges were imposed to give the protection which were previously provided by non-tariff measures. Some surcharges are due to be removed. In some instances, we may be a little behind schedule. However, the Tariff Committee continues to review the situation.

68. In my opening statement, I have tried to highlight some of the salient features of Indonesia's development objectives and policy on which

our trade policy is founded. Measured against what has been accomplished by developed countries, we fully realize the distance yet to cover in our development efforts. But we are determined to achieve our development goals.

69. Our history teaches us that we must be pragmatic about our means. However, we must also be steadfast about the direction we have chosen to go in development. My Government is committed to deliver our development objectives.

70. We also have our international obligations whose specific content will expand as the international system expands, and as our own economy becomes more multisectoral and sophisticated. As a developing country which has just gradually entered the international arena, we are entering a learning process. We hope that we can be a fast learner. The external dimension of our economic activities remains an area to which we shall pay even more attention in the years to come. Our future domestic policy will become more sensitized to external considerations and obligations.

71. The presence of our officials from the capital during the TPRM session indicates our willingness to be a full player in the multilateral trading system. Our strategy of export-led growth will make it imperative that we cooperate with all countries to ensure that access to markets remains global. We shall continue to pursue deregulation of our economy through gradually opening our domestic market leading to a brighter common future. We expect our developed countries' trading partners to continue their own market opening. We recognize that much work remains to be done. We shall continue to contribute our share.

III. STATEMENT BY THE FIRST DISCUSSANT

72. We have before us two solid reports on Indonesia's trade policies. These have been supplemented by a very thoughtful introduction by the representative of Indonesia. I have approached this review mindful that Indonesia is an increasingly important partner in the trading system. It belongs to a very dynamic region in terms of trade and economic growth and development opportunities.

73. It would appear that Indonesia is gradually strengthening its presence on world markets in a manner more commensurate with the potential size of its national economy and resource endowments. My overall impression of Indonesia is that of an economy increasingly dependent on the open trading system and in a position to make increasing contributions to the strengthening of the multilateral system.

74. I have found Indonesia's experience with its overall market-based economic and trade policy reforms, its noticeable improvements in trade diversification and management of the foreign debt to constitute an interesting case of economic development strategy by a major developing country. Indonesia's progress in moving towards a market-based and more open national economy is impressive, although there clearly are major sectors or economic activities still largely sheltered from the dynamic forces of international competition.

75. I found it interesting that the market-orientation, deregulation of the financial sector, relaxation of rules on inward investment and liberalization of the trade régime, all seem to have been moving hand in hand as central elements of Indonesia's comprehensive approach to its drive to economic growth. When put together with the exchange rate policy of Bank Indonesia, these policies seem to have been successful in strengthening Indonesia's capacity to contain and even reverse its national indebtedness situation. I am sure that any further assessment of this experience from a trade and international competitiveness perspective would be of interest to the TPRM participants.

76. The rapid diversification of Indonesia's export performance, away from a dominant dependence on oil exports is an encouraging feature coming out of the reports before this meeting. It would seem that this export diversification was based on a relatively diversified domestic industrial economy previously largely oriented to the internal market. I wonder whether this trade diversification has recently also been accompanied by a significant diversification of its industrial structure.

77. Any further assessment of the rôle played by the liberalization of Indonesia's import régime in achieving this greater export diversification

would also be valuable. In this respect it is notable that a few major industrial sectors seem to be still largely sheltered from the forces of international competition.

78. I have noted that Indonesia's trade strategy is anchored in a strong commitment to the non-discrimination principle of the GATT system. An elaboration on the rôle Indonesia places on regional trade arrangements as part of its overall trade liberalization and cooperation strategy would certainly be appropriate.

79. I am intrigued by an obvious policy dichotomy when it comes to Indonesia's agriculture. The priority placed on achieving agricultural self-sufficiency for an economy with a major agricultural export thrust, and certainly looking to the future, would deserve a better evaluation. Indeed this seems to be a feature which obviously Indonesia is trying to reconcile with the agricultural trade reform objectives and priorities it places in the context of the Uruguay Round. In addition, I believe that the notion of strategic crops would deserve some better understanding by participants to this TPRM process.

80. I have of course noted with interest the efforts described in Indonesia's introductory statement to remove market distortions to agricultural production and trade and enhance agricultural efficiency.

81. Finally, I have a question about what appears to be a unique feature of Indonesia's import régime. That is the operation of its open trade régime seems to be based on a system of exclusive authorized importers as well as on a restrictive internal distributorship. I wonder whether this is not introducing structural rigidities in an economy more and more oriented to export led activities. This seems to mean that the import régime also may be less transparent than it could otherwise be.

IV. STATEMENT BY THE SECOND DISCUSSANT

82. I would very much like to share the complimentary remarks by my co-discussant Mr. Denis about the Secretariat report and the national report compiled by the Indonesian Government.

83. These two reports are very useful in helping participants here to review and assess Indonesia's trade policy not only in the context of GATT but also as part of Indonesia's overall economic strategy, including diversifying its industrial and export base to achieve export-led growth. We noted that trade liberalizing measures have been reinforced by a progressive deregulation of the financial markets, relaxation of rules governing foreign investment, the pursuance of prudent monetary and fiscal policies, and efforts to maintain a realistic exchange rate.

84. This process of structural adjustment has been reflected in the composition of Indonesian exports. We noted that while fuel exports still account for 40 per cent of its total merchandise exports, by 1989 manufactures represented 50 per cent of its total exports, and 18 per cent of its GDP from a barely existent figure in 1966.

85. Successive trade reform packages were introduced since the mid-1980s to expose industries to greater international competition. A notable measure is the use of import surcharges to compensate domestic producers in certain sensitive industries for the removal of import licenses. The May 1990 trade reform package also indicated that three-quarters of these import surcharges have been targeted to be eliminated by September 1991. It would be useful for us to learn from the Indonesian experience how this reform measure has been operating so far, and whether in the light of that experience plans are underway to replace all restrictive import licensing by import surcharges.

86. The Secretariat report has also referred to the rather complex system of import licensing in Indonesia. It is also said that restrictive licensing still applies to one-quarter of all goods produced domestically. A related question is whether this is primarily intended to protect the infant industries especially in the consumer goods area. The Secretariat report has noted that the share of consumer goods in total imports represented 4 per cent only. Moreover, are there plans to simplify this rather complex licensing system, now being divided into IT, PI, or AT importer categories? What are the main purposes in classifying the import licensing into those importer categories?

87. Another point that has been highlighted is that of export controls. It is observed in the Secretariat report that while export prohibitions on logs and rattan have contributed greatly to the improved export performance

of downstream producers such as plywood and furniture manufacturers, the reductions in the domestic prices of unprocessed products induced by the export bans appeared to have acted as a substantial input subsidy. Of course, the question of export prohibitions is of increasing interest to the GATT in the light of their implications for the GATT but also from the point of view of industrial restructuring and environmental considerations. We would very much like to hear the comments of the Indonesian representative on this, especially on the trade-off between upstream and downstream producers and on overall economic gains arising from this export restriction.

88. Other specific issues have been mentioned in the discussants' paper. I need not repeat them.

89. We are extremely pleased that Indonesia has decided to be among the first few developing countries to opt for the TPRM review. The elucidation by the Indonesian representative of the Indonesian experience in carrying out its structural reforms, the problems that are still being confronted, and their expectations from GATT and the major trading partners would be of great interest to the participants.

V. STATEMENT AND QUESTIONS BY MEMBERS OF THE COUNCIL

90. Members of the Council thanked the Indonesian Government and the Secretariat for their reports and the discussants for their comments. They appreciated the substantial progress made by Indonesia in implementing domestic liberalization through deregulation and integrating its economy into the world trading system through trade reform. Indonesia's recent economic performance based on export-led growth proved the success of its policies. Indonesia was encouraged to continue its efforts based on the principles of efficiency, transparency and non-discrimination, despite difficulties which might arise during implementation of the programme. Some participants raised specific questions on certain areas of concern. Members welcomed Indonesia's active participation in the Uruguay Round, and expressed appreciation for its early submission to the TPRM exercise.

91. The representative of Canada noted that Indonesia's active participation in the Uruguay Round, particularly as a member of the Cairns group, was a sign of the importance of trade for its economy. He encouraged Indonesia further to examine its own trade régime for agricultural products, in order to reconcile its self-sufficiency goals for a number of agricultural industries with its commitment to liberalize world agricultural trade.

92. Pointing to the significant growth in foreign investment, he encouraged attempts to stimulate domestic investment through liberalization, given the capital constraints caused by debt repayment. Canadian firms participated in a number of investment projects and joint ventures with Indonesia. They had, however, sometimes found the process of new investment cumbersome and subject to non-standardized requirements. He asked whether there were any plans further to standardize the investment process in order to replace the potential for administrative discretion with transparent guidelines. The existence of a "negative list" of investment prohibitions for private and foreign investors was also troubling and it was not clear why, for example, metal, food, chemical and paper products were included on the list.

93. Despite reduction in overall applied tariff rates, high tariffs and tariff escalation existed in a number of sectors, including pulp and paper, transportation equipment and chemicals. He encouraged Indonesia to lower its tariffs and increase its level of bindings within the context of the Uruguay Round.

94. The share of consumer goods in total imports was only 4 per cent. Tariffs were generally high for these goods. He wished to know whether such goods were also subject to quantitative restrictions maintained through the import licensing system, the basis for any such restrictions,

and whether there was a timetable to permit larger imports of consumer goods, to distribute the benefits of economic growth to Indonesian consumers.

95. The existence of public and private import and distribution monopolies was confusing. He wondered what proportion of imports were under State or private monopoly control, and how the Government decided which organizations should become import monopolies and for what products. He encouraged Indonesia to streamline and liberalize its system to improve efficiency and transparency. He welcomed the plan to remove three-quarters of existing surcharges by September 1991, but enquired which surcharges would continue to apply thereafter and when they would be phased out. Indonesia's public procurement practices, and in particular its countertrade requirements, raised some concern. He encouraged Indonesia to liberalize access, particularly for large infrastructure projects.

96. The representative of Japan highly appreciated Indonesia's transition to a more liberalized economy, through a steady and extensive process of deregulation. Indonesia had an increasingly important rôle to play, as one of the key nations in South-East Asia, in the development of the multilateral trading system.

97. However, there were areas of economic and trade policy where further efforts for reform would be required of the Indonesian Government. Import licensing covered one quarter of the goods produced locally, effectively insulating domestic producers from import competition. Import surcharges were still imposed, despite the original intention to let them all lapse automatically after one year. State-trading import monopolies affected a wide range of products and many State-trading enterprises also received considerable Government funding. Deregulatory reforms of these State enterprises should be considered. He hoped that Indonesia would continue its efforts towards further economic liberalization, and requested details about a forthcoming major reform package mentioned in the Secretariat report.

98. The representative of Australia congratulated the Indonesian Government on the progress it had made towards substantial deregulation and liberalization of its economy. He commended Indonesia for facing early review under the TPRM. He expected further reforms would offer economic benefits both for Indonesia's trading partners and the domestic economy. In the Cairns Group, Indonesia shared with Australia a vital interest in securing comprehensive and sustained reform of world agricultural trade through the Uruguay Round.

99. An examination of the rôle of the exchange rate and the use of tight monetary policy and high domestic interest rates would be useful. Noting

that the current account deficit had been contained and reduced, he asked the Indonesian representative to elaborate on Indonesia's experience with exchange rate policy and the interplay between macro-economic and trade policies.

100. The foreign investment régime remained quite complicated despite deregulation. A substantial "negative list" prohibited or restricted foreign investment in a range of sectors and products which appeared related to Indonesia's policy objectives of increasing and diversifying exports. He welcomed any further comments that could be provided on this.

101. Regarding import liberalisation, key steps included the overhaul of customs procedures undertaken in the mid-1980s, and progressive tariffication and relaxation of import licensing. Tariffs and import licensing were the principal instruments of import policy. Tariffs had been progressively lowered. However, pockets of high tariffs, tariff peaks, tariff escalation and import surcharges combined with substantial tariffs contributed to a disparate and complex tariff structure. Nevertheless, the increasing reliance on a more transparent tariff mechanism was commendable and he noted the commitment to continue the move to tariff-based protection and the consideration of increased bindings.

102. An elaboration of the legislative and administrative bases for import surcharges, their use as compensation for removal of import licensing and the similarities between Indonesia's surcharges and normal anti-dumping actions would be welcomed. The lack of formal, transparent procedures for licensing and surcharging was also of note. He encouraged Indonesia to continue progressively opening up "strategic" industries which remained sheltered from international competition by specific measures of assistance.

103. Certain policy measures appeared complex, lacked transparency and were potentially discriminatory and anti-competitive. These included importer authorisation/licensing, restrictive distributorships and State-trading monopolies in key sectors. While many of these were features of a developing economy, Indonesia was encouraged to examine the domestic benefits of liberalization in these areas.

104. Access to Indonesia's import market was generally non-discriminatory, but local content requirements and Government procurement could create some divergence. State-trading enterprises dominated several designated industries. Local content plans applied to some of these sectors, especially engineering. Government procurement was mostly reserved for domestic suppliers or foreigners who engaged in countertrade arrangements. Discrimination occurred under the ASEAN preferential trading arrangements, covered by a GATT waiver from Article I.

105. Arrangements assisting exports had been curtailed after Indonesia joined the Subsidies Code. Relatively minor assistance was provided by Governmental export credit guarantees and insurance. However, he sought further information on the extensive use of export restrictions.

106. The representative of the European Communities commended Indonesia for its energetic efforts to reform the economy. Structural adjustment was market-based and encouraged the private sector. Deregulation had reduced non-tariff barriers and relaxed investment rules. A wide fiscal reform was based on the introduction of a value-added tax. Financial deregulation had reinforced the efficiency of monetary policy. A realistic exchange rate policy had maintained competitiveness and diversification of the economy. Indonesia had maintained sound monetary and financial policies and fully serviced its foreign debt.

107. Despite progressive trade reforms, some imperfections remained. The trading system was still relatively restrictive, with quantitative restrictions and relatively high tariffs, particularly on consumer goods. Indonesia had become a major textile exporter, but maintained restrictions on textile imports. He wondered when licence requirements on yarns would be removed.

108. The State-trading system could hamper the growth of small and medium sized enterprises. A State monopoly on certain spices had recently been reintroduced. Replacing licensing with surcharges did not imply liberalization if the surcharges were maintained indefinitely. The rôle of BULOG in Indonesia's agricultural sector and the export ban on forestry products were questioned. A discriminatory excise tax on tobacco effectively prohibited cigarette imports.

109. He sought information about the future implementation of preshipment inspection and Indonesia's intentions to sign further GATT Codes. He encouraged Indonesia to take further steps towards trade liberalization.

110. The representative of New Zealand believed that the benefit of outward-looking, market-oriented reforms was demonstrated by the impressive improvement in Indonesia's economic and trade performance since the mid-1980s. Greater reliance on ad valorem tariffs, largely applied on an MFN basis, and the reforms to the import licensing system were positive and important developments. Noting the selective approach of previous trade reforms, he welcomed Indonesia's commitment to furthering its open market efforts.

111. In agriculture, high tariffs and tight and unpredictable restrictions, enforced through formal and informal practices, were difficult to reconcile with the broad thrust of reform. The emphasis on

self-sufficiency and the strategic nature of agricultural industries raised some questions.

112. A high incidence of import licensing and high effective rates of assistance prevailed in the dairy sector. Import restrictions were apparently supplemented by a purchasing requirement for locally produced milk powder. This requirement might be reviewed in relation to GATT Article III.1. Cartelized processors were capturing most of the benefits, rather than farmers or consumers. The dairy sector, and agriculture in general, should receive special attention in the ongoing trade liberalization programme. Indonesia's offer in the Uruguay Round could be improved in this respect. He noted that Indonesia's efforts to achieve freer overseas markets were concentrated in sectors where their export opportunities were severely restrained.

113. He underlined the importance, in the context of transparency, of reducing the incidence of informal procedures as part of Indonesia's general trade policy reforms. The implementation of import surcharges was also sometimes informal and could affect tariff bindings. He welcomed the intention to eliminate three-quarters of the surcharges by September 1991. He sought information about the scope of and future plans for the ASEAN preferential trading arrangement. The effect of extending the ASEAN PTA on the MFN principle should be kept in mind.

114. Indonesia's call for technical assistance to assist developing countries in playing a more effective rôle in GATT and the MTNs deserved a response. Indonesia's intention to pursue policies conforming with GATT principles of responsible trading practices was welcomed. A fair and supportive international trading environment was needed to promote Indonesia's liberalization, particularly when bearing in mind the development dimension.

115. The representative of Finland, speaking on behalf of the Nordic countries, pointed to the significant structural changes undertaken by Indonesia, which had decreased its dependence on oil and gas. These changes were largely attributable to the market opening measures taken by the Indonesian Government. He asked whether the efforts for further diversification of the foreign trade were to be continued.

116. Many liberalizing measures had increased the transparency and predictability in the trading system. A significant increase in foreign investment had further fostered economic growth. The debt service ratio had been reduced. He asked whether any policy measures were envisaged further to alleviate the balance-of-payments situation.

117. He hoped that Indonesia would continue its market-oriented trade liberalization and movement towards full integration in the multilateral trading system. Remaining regulatory systems hampering economic development needed to be replaced by market-oriented practices. Despite significant improvements, a multitude of regulatory requirements seemed a notable obstacle for the establishment of foreign enterprises, including their personnel.

118. In Government procurement, Indonesia's countertrade requirements could result in less economic decisions than pure cost-benefit analysis among offers. He wondered whether aspects relating to trade diversification were regarded by Indonesia as more relevant than cost considerations in this area.

119. He noted that Indonesia had signed the Subsidies Code and would appreciate any information on Indonesia's intentions to join other Codes in which it had observer status. He sought Indonesia's view on the possibilities for increased economic integration among ASEAN countries, its position regarding the Malaysian initiative to create a larger East Asian Economic Grouping and the consequences such a project could have for Indonesian trade policy. Indonesia's experience could guide other countries undertaking structural reforms. Trade liberalization had improved the country's economic growth and decreased its vulnerability, but the experience showed many of the difficulties that had to be overcome.

120. The representative of India commended the adjustment programme undertaken by the Indonesian Government since the mid-1980s. Tariffs and the incidence of non-tariff measures had been considerably reduced. He expressed understanding for restrictions on imports of strategic agricultural commodities, imports of which were permitted only when shortfalls occurred in domestic production. Export controls and restrictions on unprocessed agricultural and forestry products were necessary to enable Indonesia to attain its macro-economic policy objectives. For countries at Indonesia's stage of development, the priority was to liberalize imports of capital goods and intermediate products to assist the economic development and industrialization process. Consumer goods needed to be protected through comparatively higher tariffs and non-tariff measures.

121. An open and supportive external economic environment was essential for Indonesia's economic reform programme to succeed. Indonesia's major export items, agricultural products, textiles and clothing, were heavily restricted in major import markets, not governed by GATT rules and international trade in these items was extensively distorted. Developed countries should remove distortions in these sectors and open their markets to enable the liberalization programmes initiated in Indonesia and other

developing countries to succeed and provide an impetus for similar programmes to be initiated in other countries. Incentives for liberalization by developing countries could only exist if their competitive exports could find open markets.

122. The representative of Brazil acknowledged that economic growth in developing countries remained closely linked to the expansion of trade, foreign investment, and a pragmatic insertion into the world trading system. The liberalization measures taken by Indonesia should be met by freer international markets in a less distorted trade environment.

123. Improved market access would stimulate further efforts to liberalize the areas which remained to be reformed in Indonesia. She noted the Government's objective of further export-led growth and the low share of many developing countries in Indonesia's trade. She asked whether there were any plans to increase the geographical diversification of Indonesia's exports, particularly to other developing countries.

124. The representative of Switzerland pointed to the economic growth achieved by Indonesia since the 1970s. Principal factors were a more open trade régime, tight monetary policy, deregulation of foreign investment and diversification of exports. Indonesia had not resorted to the balance-of-payments provisions of the GATT since 1967. Further intended reforms, notably general tariff reductions and a substantial increase in tariff bindings, would enhance the transparency and predictability of the Indonesian tariff system. Switzerland asked whether Indonesia intended to sign the GATT Codes to which it was currently an observer, and sought clarification of the credit arrangements to which Indonesia did not apply its counterpurchase policy. A timetable for the further binding of Indonesian tariffs was also requested.

125. The representative of the United States complimented Indonesia's achievements in undertaking significant reforms since the mid-1980s. The shift toward a more open market for imports and investment was a move in the right direction. Highlights were the six deregulation packages during the last five years, Indonesia's accession to the GATT Subsidies Code and the adoption of a duty exemption and drawback system consistent with GATT provisions, its active and constructive participation in the GATT, the reorganization of its customs service and the arrangements to improve customs clearance, the relaxation of regulations concerning foreign investment, and notable progress in improving the protection of intellectual property rights. The payoffs produced were a good lesson, particularly for those countries maintaining highly-regulated and heavily protected economies.

126. However, despite major reforms, a disparate tariff structure, providing special treatment to certain sectors, could result in selective trade reform. Other areas of concern were the remaining import substitution policies, import monopolies, substantial protection accorded to strategic industries, import licensing restrictions, import surcharges and the introduction of less transparent additional taxes to offset the loss in protection afforded by higher tariffs. He urged Indonesia to review the consistency of its quantitative restrictions and import charges with its GATT obligations and take prompt action to eliminate any inconsistencies. An expansion of tariff bindings was imperative to fix liberalization as commitments within the GATT system.

127. The extension of export controls and restrictions on unprocessed agricultural and forestry products did not follow the direction of most other trade reforms. The export ban on forest products and prohibitive export taxes on sawn and processed timber products, had been expanded recently. High export taxes on wood products acted as further export bans. Indonesia's objectives should be reached through more effective means, such as the provision of a favourable business climate through liberal investment and taxation laws.

128. In spite of recent improvements, investment continued to be affected by lack of national treatment, burdensome procedures, and monopolistic arrangements. Some regulations seemed to run counter to other Indonesian policies to promote more foreign investment.

129. He disputed a reference in the Secretariat report (paragraph 364) to an agreement concerning Indonesian imports of apples and pears from the United States. He denied the existence of any such agreement between the United States and Indonesia.

130. The representative of Chile supported the liberalization process of Indonesia. In the Cairns group, Indonesia had demonstrated its commitment to liberalize and integrate its economy into the world market. The reform process could be further reinforced in the areas of tariffs and import licensing procedures. He encouraged Indonesia to continue its promotion of economic growth and social equity.

VI RESPONSES BY THE REPRESENTATIVE OF INDONESIA

131. The representative of Indonesia was grateful for the constructive comments, observations and questions posed by other delegations. The thrust of the discussion had focused on issues covering a wide range of policy decisions made by Indonesia in pursuit of its development programmes. He appreciated the pertinent points raised about the need to emphasize the development context of public policy in developing countries and to incorporate social considerations, such as equity, into the design of development programmes. He also thanked the two discussants for their helpful service in directing the flow of the discussions.

132. Indonesia's reforms had started by dealing with the foreign exchange régime and the banking system. These served as a base for sound, sustainable long-term non-inflationary growth and geared the entire macro-economic management to respond to market signals. Subsequent efforts were concentrated on attacking impediments to efficiency across sectors. The formulation of Indonesia's structural adjustment reforms included regular discussions between the Indonesian Government and various international agencies such as the IMF and the World Bank. To finance reform and adjustment, Indonesia had access to World Bank Trade Policy Adjustment Loans. Various experts had also been consulted when formulating policy decisions.

133. The most difficult external problem in maximizing the gains from liberalization had been the question of external recognition. Reform was a delicate political process. The efforts made were significant, the Government had taken domestic political risks and intended to continue the reforms. He therefore welcomed the enlightened views about the efforts Indonesia had made.

134. Sectoral diversification was a principal operating objective in Indonesia's industrial policy. Excessive dependence on a narrow range of primary products placed the country in a precarious situation, captive to price and income fluctuations. Primary products could not absorb the employment needs. Industrialization was therefore an essential part of Indonesia's development programme to absorb employment, increase income, and diversify the structure of the economy.

135. The strategic steel industry was still in its infancy. Its capacity to meet domestic demand would be developed. To make the steel industry competitive, protection would continue to be reduced gradually in line with the strengthening of the industry. The situation would be reviewed each time before policy changes could be made. In textiles, a new industry where Indonesia's capacity was still growing, Indonesia had made a conditional offer for tariff bindings, subject to a satisfactory textile

agreement in the Uruguay Round. Further liberalization of the sector would be considered.

136. The establishment of industrial quality standards and certification procedures involved the Ministry of Industry and private sectors approved by the Ministry. The Research and Development Agency developed standards proposals in consultation with producers, consumers and technical experts. Agreed proposals were subsequently approved by the Minister of Industry in the form of an Industrial Standard Certificate. Where industrial standards had been established, certification was performed by Government agencies or by private establishments approved by the Ministry of Industry.

137. Agriculture was a basic sector which provided income to the low-income population. The basic policy thrust was to increase productivity, to expand infrastructure, to develop extension services, and to restore pre-war efficiency levels. Indonesia was self-sufficient in rice. The intention was to ensure economic food production especially for basic foodstuffs consumed by the low-income population. An efficient agricultural sector was an attainable goal. The Government had gradually reduced the fertilizer subsidy extended to farmers. Indonesia and other countries had reiterated the need for market-based agricultural production in the long-term.

138. The Indonesian Government was considering various policy options with regard to exports of natural-resource based products. The primary objective of export restrictions was to promote domestic processing in order to maximize value added, create employment, augment income, promote rural and remote area development and conserve raw materials. Achievement of socio-economic and conservationist objectives was the main thrust of the policy being introduced.

139. The basic aim of Indonesia's trade policy was to shift the orientation of protection from non-tariff measures to tariffs. Tariffs would increasingly be the principal instrument of trade policy. The process was complex and delicate, requiring continuous attention by the Government. Tariff escalation was an important instrument for developing countries excessively dependent on raw materials exports until they reached a certain level of diversification.

140. By the standards of developed countries, Indonesia's level of bindings might seem low. However, the direction was towards a continuous expansion of bindings. Indonesia had even offered bindings in textiles, conditional on a satisfactory agreement on textiles in the Uruguay Round. The matter was subject to continuous review.

141. Indonesia's intention was to eliminate surcharges. The schedule was currently September 1991. Import surcharges were normally imposed to provide protection during the process of tariffication, to replace protection provided by non-tariff measures. They were not intended as substitutes for anti-dumping measures. Indonesia was examining with an open mind the question of introducing anti-dumping legislation.

142. Trade cooperation in ASEAN was conceived in a pragmatic manner. Presently, trade preferences were extended to 15,297 products. Coverage would be expanded over time. Indonesia did not have a dogmatic view concerning approaches to regional co-operation. Steps should be practical and workable and strengthen the common interest of ASEAN countries. One scheme being developed concerned closer complementation of economic activities between Singapore, Batam Island in Indonesia, and Johor in Malaysia. Further co-operation schemes should be expected among ASEAN countries.

143. Concerning pre-shipment inspection, Indonesia had used the services of Société Générale de Surveillance (SGS) in order to facilitate the processing of imports, thus facilitating the process of trade. It had always asserted that the Customs Services would be reinstated when a new system had been established. However, other services in the field of pre-shipment inspection might be needed. A joint-venture company, PT Surveyor Indonesia, had been created with SGS, the Government of Indonesia and the State enterprise PT Sucofindo as shareholders. The new company would be assigned to undertake pre-shipment inspection. SGS would receive a sub-contract for one year, renewable for two years. By 1995, PT Surveyor Indonesia was expected to operate 85 per cent of pre-shipment inspections:

144. The Indonesian report indicated that counter-purchase was one of the trade instruments of Indonesia. Counter-purchase did not apply to transactions if funding originated from soft credits. Indonesia received credits on favourable terms with respect to interest rates and maturity under various development assistance programmes. These credits also covered export credits. Counter-purchase requirements could be applied to these credits. However, some countries extending the loans might tie the use of such credits to purchases of goods from those countries. Credits could remain undisbursed for quite some time when goods were considered to be too expensive. The credits could, however, be contracted, even if disbursement was slow, in order to cushion foreign exchange reserves.

145. Indonesia encouraged foreign investment. Investment policies were constantly under review and adjusted to new realities.

146. Indonesia would take a final position regarding the signature of further GATT Codes in the context of its overall assessment of the package negotiated in the Uruguay Round. In that process, Indonesia would participate actively. In Indonesia, the GATT was not well known or well understood, even among officials in economic Ministries and the emerging business community. Indonesia's active engagement in GATT had only taken place during the Uruguay Round. In the learning process, efforts were made to make the multilateral trading system better understood. Indonesian trade officials were currently being trained to deal with the technical issues of GATT. He expressed appreciation for the technical assistance for the training of trade officials provided by the Netherlands and the United States. He hoped to strengthen the awareness of multilateral trade issues among the business community. The TPRM exercise helped Government officials to better understand the complexity of GATT issues.

147. Council members had raised a number of questions which merited careful and complete answers. These dealt with more technical aspects, such as import procedures and practices. Indonesia would submit a written response to these questions.

VII OTHER STATEMENTS

148. The representative of the European Communities repeated his tribute to the success of Indonesia's development policies. Its trading partners had posed questions in order to know more about how, and by whom, the trade policy reform had been initiated, administered and managed to understand its future course. Having heard Indonesia's very detailed explanations and answers, he congratulated them upon the orientation of their trade policy. Indonesia's active rôle in the Uruguay Round and its will to integrate into the world economy was appreciated. He encouraged the regional integration efforts of ASEAN. He recognized the coherence between Indonesia's trade liberalization and its macro-economic objectives. The Community would always co-operate to ensure further trade liberalization. He suggested that the international press would report that Indonesia had "succeeded brilliantly in its examination before the GATT".

149. The first discussant concluded that Indonesia's economic and trade policy reforms were on the right track. Indonesia had been encouraged to remove some of the remaining restrictive practices in its trade régime. Indonesia clearly supported an open trading system. However, the integration into the world economy was a two-way process. The need for greater transparency in Indonesia's import régime was an area of concern.

150. The second discussant associated himself with the views expressed by the first discussant. The trend in Indonesia's reform process was very positive. Indonesia was a developing country making important contributions to the GATT and the international trading system. Account had been taken of Indonesia's history of development and its national policy objectives. Further structural adjustment might be facilitated by more transparency and simplification of investment rules and the import licensing system. The discussion had been very useful and provided a good understanding of Indonesia's trade and macro-economic policies and objectives. He thanked the Indonesian representative for his thorough replies to the questions raised. He particularly noted the intention to provide a written reply to some of the specific questions.

VIII CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

151. This special meeting of the Council has reviewed and collectively evaluated Indonesia's trade policies and practices, and their impact on the functioning of the multilateral trading system. As usual, my closing remarks are not intended to substitute for the appreciation made by the Council of Indonesia's trade policies and practices, but to summarize, on my own responsibility, the salient points emerging from this review. The full discussion, including Indonesia's responses to points raised by participants, will be reflected in the minutes of this meeting.

152. Members noted that the impressive achievements to date by Indonesia in economic and trade reform have reinforced its rôle as a developing country participant in GATT and strengthened its integration in the world economy.

153. The Council welcomed the thrust and direction of the changes in trade and economic policies introduced since 1985 by Indonesia, a developing country with a large population, low per capita income, and a growing labour force. These changes were made in response to the adverse impact on the Indonesian economy of the severe external shocks - falling commodity prices, especially for petroleum, and an increasing debt burden - occurring during the first half of the 1980s.

154. It was noted that Indonesia had tackled these challenges resolutely by embarking upon comprehensive economic reforms. These comprised prudent monetary and fiscal policies, a realistic exchange rate policy, and progressive deregulation of financial markets and rules governing foreign and domestic investment. The resulting increases in investment had encouraged a more competitive industrial structure, created employment, boosted Indonesia's trade potential and alleviated the country's debt burden.

155. Central to these efforts was the major and continuing trade deregulation and liberalization programme undertaken, in a number of packages, since 1985. This had brought about an important reversal in the direction of Indonesia's trade policies. The programme involved a complete overhaul of customs procedures; removal or tariffication of many non-tariff barriers; and tariff reductions.

156. Tariffs were in the process of replacing licensing as the major instrument of import policy. Members welcomed the predominantly non-discriminatory nature of Indonesia's tariffs, which were generally applied on an m.f.n. basis, using ad valorem rates.

157. Indonesia's membership of the Subsidies Code had led to the curtailment of direct export subsidies, and the introduction of a GATT-consistent duty exemption and drawback scheme. Members encouraged Indonesia to consider signing other Tokyo Round Codes in which it was currently an observer.

158. Indonesia's active rôle in the Uruguay Round, including as a member of the Cairns Group and a prominent participant in areas such as textiles and clothing, was welcomed.

159. While Council members commended Indonesia for the direction and extent of its trade policy reforms, concerns were expressed in a number of areas:

- Tariffs remained high and disparate, with peaks and substantial escalation often exacerbated by temporary surcharges;
- The level of tariff bindings was low, at under 10 per cent of tariff lines. Further tariff bindings would give greater stability to the reforms;
- Surcharges were frequently used to compensate domestic producers for removal of import licensing, or to provide temporary relief. In a few cases, surcharges had lifted duty levels above bound rates. Many surcharges had been extended beyond the sunset period of one year. Members welcomed Indonesia's intention to remove three-quarters of existing surcharges in September 1991 and requested information about the incidence of remaining surcharges and a possible timetable for their removal;
- A substantial share of domestic output was still covered by formal and informal non-tariff measures. The existence of a complex system of import licensing, including approval of sole distributors and a substantial rôle for State and private monopolies, resulted in a lack of transparency and could inhibit the growth of small and medium sized enterprises;
- The very low share of consumer goods in Indonesia's import structure was noted;
- Reference was made to the differential rates of excise taxes on tobacco products, which, it was suggested, had effectively prohibited cigarette imports for a number of years and protected domestic production;

- Concern was expressed about the trading effects of Indonesia's self-sufficiency programme in key agricultural commodities. In this connection, it was suggested that the extensive marketing and price controls administered by BULOG could have adverse effects on trade;
- The consistency of Indonesia's aims within the Uruguay Round of pursuing market opening in agriculture and textiles, with its own protective policies in these areas, was questioned;
- "Strategic" industries, such as food processing, shipbuilding, heavy equipment, motor vehicles and steel, continued to be sheltered from international competition by import prohibitions, subsidies and local content requirements over and above the applied tariffs and licensing arrangements;
- In this connection, members sought information on the rationale for prohibition of investment in a number of sectors, through a "negative list". It was noted that additional investment in permitted sectors was often subject to cumbersome and non-transparent discretionary procedures;
- In respect of Government procurement, concerns were raised about the inhibiting effect on competition and efficiency of widespread countertrade requirements for large contracts and the reservation of smaller purchases to domestic suppliers;
- Participants drew attention to the use of formal and informal export restrictions, in the form of export prohibitions, quotas, taxes, licensing and supervision, to promote the development of natural resource-based processing industries, such as logs, sawn timber, rattan, raw hides and cement. Some members questioned the environmental and economic justification for such measures.

160. Some members expressed understanding for Indonesia's developmental aims in the areas of strategic agricultural and processed natural resource-based products, and for the priority given by Indonesia to imports of capital and intermediate goods rather than consumer products.

161. In reply to these questions and comments, the representative of Indonesia stated that while he could provide, during the meeting, answers to general questions, more technical issues would be answered in writing at a later stage. Indonesia appreciated the broad range of questions that had been put, and in particular noted the pertinent points raised concerning

the need to place trade reform in the perspective of development and equity in a country such as Indonesia. He also appreciated the constructive comments raised on the dynamics of Indonesia's macroeconomic policies.

162. The basic thrust of Indonesia's economic reforms was to deregulate the exchange rate and the banking system as a basis for providing future sustainable growth. Tackling impediments to efficiency was a major concern in promoting structural adjustment. The Indonesian representative emphasized the need for financial assistance during periods of trade policy adjustment. The political risks associated with domestic reform should be recognized by other participants.

163. Indonesia's objective of sectoral diversification, away from dependence on mining and primary products, was intended to reduce the economy's vulnerability and provide much-needed employment. In this context, the Indonesian Government did support strategic industries, such as steel, which were in their infancy. However, efficiency would be improved through a process of continued reductions in protection.

164. Agriculture, being an important basic sector, benefited from special arrangements to ensure that production of key food commodities satisfied domestic requirements. However, efficiency remained a major long-term priority and reforms such as reductions in the fertilizer subsidies were aimed at this.

165. A major aspect of trade policy was a shift of orientation from non-tariff barriers to greater reliance on tariffs. This was a complex and delicate process which required careful attention. He acknowledged that tariff escalation had played a rôle in the development of certain industries. While the level of tariff bindings was low by developed country standards, Indonesia had offered, within the Uruguay Round, to substantially increase bindings. In this connection, he noted that Indonesia had offered a number of tariff bindings on textiles and clothing, subject to a satisfactory agreement in that area.

166. Surcharges were intended to be temporary and most were due for removal in September 1991. They were not intended to be a substitute for anti-dumping procedures, but were used to provide producers with a margin of security when non-tariff barriers were relaxed. The Indonesian authorities were still considering whether to adopt anti-dumping legislation along GATT lines.

167. The use of export restrictions on raw materials to promote greater domestic value-added, increase income opportunities and to conserve raw materials was constantly under consideration.

168. A joint-venture company had now been created between the Société Générale de Surveillance, PT Sucofindo, and the Indonesian Government, to handle pre-shipment inspections. By 1995, this new company was expected to handle 85 per cent of inspections. The objective remained the full reinstatement of Indonesian Customs as and when possible.

169. Although countertrade was an important instrument of Indonesian public-sector trade, these arrangements were not applicable to "soft" credit. He noted that donor countries providing "soft" credits, including export credits, often tied their aid to purchases from their industries.

170. The negative list of investment prohibitions in certain sensitive industries was continuously being reviewed and updated. Further details would be provided in Indonesia's written response.

171. The Indonesian representative emphasized the need faced by developing countries to ensure that their Government officials received adequate training on GATT matters. He saw the TPRM exercise as playing an important part in this process.

172. In conclusion, the Council commended Indonesia for the reforms undertaken. These had already generated substantial tangible benefits, both domestically and for Indonesia's trading partners. The Council encouraged Indonesia to vigorously pursue its efforts to liberalize and deregulate its trade and economic policies, to increase the transparency of its trade régime and to broaden the scope of these reforms into areas as yet untouched. The Council noted that Indonesia's efforts to diversify and expand exports encountered some substantial tariff and non-tariff barriers in foreign markets. It emphasized that a supportive world trading and financial environment, including improvements in market access, would make a significant contribution to encouraging Indonesia's development efforts and the process of reform on which it had embarked in recent years.