TRADE POLICY REVIEW MECHANISM

THE REPUBLIC OF INDONESIA

Report by the Secretariat

In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the Secretariat submits herewith Volume A (Text) of its report on the Republic of Indonesia. Volume B (Tables and Appendices) is presented in document C/RM/S/12B.

The report is drawn up by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by the Republic of Indonesia. As required by the Decision, in preparing its report the Secretariat has sought clarification from the Republic of Indonesia on its trade policies and practices.


NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
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SUMMARY OBSERVATIONS

(1) Indonesia in World Trade

1. Indonesia currently ranks 31st and 35th among world exporters and importers, respectively. Its share in world merchandise exports was 0.7 per cent in 1989.

2. Between 1981 and 1986, falling commodity prices, especially for petroleum, depressed Indonesia's trade performance. During a period in which the dollar value of world merchandise trade largely stagnated, Indonesia's merchandise exports declined (Chart).

![Graph of Indonesian and world merchandise exports, 1979-89](image)

3. Since 1986, Indonesia's trade performance has turned around. Export growth matched that of world trade until 1988 and, more recently, has expanded at a faster rate. The dollar value of merchandise imports also strongly recovered from its trough in the mid-1980s. Indonesia's ratio of merchandise exports to GDP grew from 21½ to 24 per cent between 1985 and 1989, and that of merchandise imports from 12 to 18 per cent. Trade-led economic growth followed the introduction of more outward looking trade policies.

4. Trade liberalizing measures were reinforced by a progressive deregulation of financial markets and rules governing foreign and domestic investment. Rapid growth in foreign investment resulted, rising tenfold between 1986 and 1990. Access to overseas capital, technology and skills contributed to a more competitive industrial structure, created employment, boosted Indonesia's trading potential and alleviated the country's debt burden.

5. Trade and investment reforms, complemented by prudent monetary and fiscal policies and efforts to maintain a realistic real exchange rate, have played a major rôle in diversifying the economy and promoting broadly-based growth. Although still substantial, the dependence on oil and gas exports has fallen in favour of manufactured exports. Fuel exports declined in dollar value by one-half over the past decade, and now account for 40 per cent of total merchandise exports. By 1989, manufactured exports represented 50 per cent of total merchandise exports, up from 11 per cent in 1981. The ratio of manufactured exports to GDP has more than doubled to 12 per cent since 1985.

6. Export diversification has been strongest in processed natural resource-based products such as plywood, the single most important manufactured export item, and major labour intensive industries like clothing and footwear. Several smaller industries such as wooden and rattan furniture, petrochemicals, pulp and paper have emerged as potentially important economic activities. Agricultural exports, mainly coffee, spices, tea, shrimps and rubber, have also performed well.
7. Geographical diversification of trade has been less pronounced. Japan, United States and Singapore have remained Indonesia's main trading partners, accounting for over half of merchandise trade. Buoyant growth has occurred in trade with other ASEAN members, the major developing economies of East Asia and the European Communities.

(2) Institutional Framework

8. Indonesia does not have a basic trade law, although a Commercial Code enacted in 1847 still exists. Instead, trade policy is formulated and administered through the use of numerous legal instruments and regulations, such as presidential decrees, decisions and instructions; joint ministerial decrees; and ministerial decrees and instructions.

9. The main Ministries involved in setting trade policies in Indonesia, namely Trade, Industry, Agriculture, Finance and the Co-ordinating Ministry for Economic, Financial and Industry Affairs (EKUIN), along with Bank Indonesia, each have separate responsibilities over aspects of trade and industry policies. Informal procedures play an important rôle in formulating these policies.

10. No permanent body exists in Indonesia to advise the Government on trade-related policies. However, a Deregulation Team comprising high-ranking Government officials and chaired by the Junior Minister of Finance provides advice on trade-related and other economic policies. The Team has played a vital rôle in devising deregulatory reforms implemented since May 1986. The Government interacts informally with the private sector in formulating policy reforms.

11. Indonesia has no independent statutory body to review the Government's economic policies, including the provision of public assistance to industries. Industry requests for tariff protection are reviewed by an inter-departmental Tariff Team.
(3) Trade Policy Features and Trends

12. Indonesia became a contracting party to the GATT in its own right in 1950. It signed the GATT Code on Subsidies and Countervailing Duties in 1985 and is an observer to six other Tokyo Round Codes. Indonesia has participated actively in the Uruguay Round both individually and also as a member of ASEAN, the Cairns Group and the International Textiles and Clothing Bureau.

13. Tariff rates are applied on an m.f.n. basis to over 90 per cent of the total value of Indonesian imports. The only major exception to the application of m.f.n. tariffs are reductions of up to 50 per cent for eligible ASEAN imports in the framework of the Preferential Tariff Agreement.

14. Indonesia's participation in the GSTP is currently limited to preferences for three products in trade with the Republic of Korea. The maximum preference margin on imports eligible for GSTP treatment is that accorded ASEAN members.

15. Indonesian exports receive GSP treatment from most developed countries.

(1) Recent evolution

16. Sweeping reforms in Indonesia's economic policies became necessary in the mid-1980s after a severe deterioration in its terms of trade. A further external shock was the increase in debt service repayments on non-US dollar foreign debt following the dollar's depreciation, especially against the Japanese yen. These shocks cost Indonesia an estimated 10 per cent of GDP.

17. The Government reversed its previous inward-looking policies and introduced a broadly based adjustment programme to restructure the economy and promote export-led growth. Its approach to economic reform was
comprehensive. Tight monetary and fiscal policies restrained both public and private expenditures, helped control inflation and consolidate the balance of payments. International competitiveness of Indonesia's industries was boosted by two major currency devaluations and the introduction of a flexibly-managed exchange rate system. Rules on foreign and domestic investment were relaxed, the financial sector deregulated and the foreign trade regime substantially liberalized.

18. The need for import-opening measures reflected the Government's recognition that the lack of competitively priced foreign goods was hindering economic development in Indonesia. In 1985, the Government set about removing the main import-bottlenecks to future development. A major initial step was to overhaul customs procedures, including the introduction of compulsory pre-shipment inspection of most imports by a specialized company (SGS). Clearance time for many imports has now been reduced, from weeks and sometimes months, to less than three days.

19. Successive trade reforms introduced since the mid-1980s have removed many impediments to structural change and, by exposing industries to greater international competition, enhanced efficiency in the use of resources. Changes in trade policies have been introduced gradually. Major trade reform packages were introduced in March 1985, May and October 1986, January and December 1987, November 1988 and May 1990.

20. Trade reforms have been implemented in a selective fashion, concentrating on areas within manufacturing offering least resistance to change. Because of the competitive pressures induced by policy reforms, liberalization measures had to be reversed in certain areas. Specific measures of assistance continue to shelter some industries, such as segments of the steel, clothing and transportation sectors, from international competition.

21. Agricultural self-sufficiency remains a central policy objective, and relatively few major reform initiatives have so far been made in the agricultural and food processing industries. The pricing and marketing of
strategic crops such as rice, sugar and soybeans are controlled by the Government through the National Logistic Affairs Bureau (BULOG). Input subsidies on fertilizers, irrigation facilities, seed and, until recently, pesticides are also granted to promote self-sufficiency. Farmers, like other users, receive petroleum products at subsidized prices.

22. Trade restrictions have increased in some areas of primary industry. Export controls and restrictions on unprocessed agricultural and forestry products have been extended, in recent years, as part of the Government's strategy to increase the domestic value added content of natural resource-based products.

23. Despite the substantial achievements at this stage of trade policy reform, wide disparities in the levels of public assistance still prevail in Indonesia, both across broad sectors and between individual industries. Indonesian experience suggests that a more uniform assistance structure would reduce distortions, induce a more efficient allocation of resources and help combat inflation by making the economy more flexible and encouraging greater price competition.

(ii) Type and incidence of trade policy instruments

24. Tariffs and import licensing are the principal instruments of import policy in Indonesia. These continue to be major impediments to trade in important areas of the Indonesian economy. With tariffication and relaxation of many licensing restrictions, tariffs are playing a more important rôle in determining the level and pattern of imports.

25. Average m.f.n. tariffs applied in Indonesia have been progressively lowered to 22 per cent (simple average), down from 37 per cent in 1984. Some 5 per cent of tariff items attract tariffs above the general ceiling of 40 per cent implemented from May 1990. Rates of 60 per cent or higher are levied on goods like footwear, cosmetics, chemicals and plastics. Tariff peaks of 100 and 200 per cent apply to transport equipment.
26. Substantial tariff escalation occurs in the Indonesian customs schedule, especially in clothing, chemicals, steel, pulp and paper. On average, tariffs for consumer goods are more than double the rates applied to capital and intermediate goods. Import surcharges of up to 40 per cent, applied mainly to goods receiving relatively high tariffs, accentuate tariff escalation and contribute to a more disparate tariff structure. This is compounded by certain arrangements that enable various producers to import inputs at concessional tariff rates. Imports of consumer goods, constrained by escalating tariffs, represent less than 5 per cent of total imported products.

27. Import surcharges have compensated domestic producers in certain sensitive industries for the removal of import licences. They have been maintained on many goods beyond the period of one year for which the surcharges were initially envisaged. Cushioning producers for a prolonged period of time creates the risk of undermining further efforts to liberalize trade.

28. Indonesian authorities are currently examining the possibility of limiting the use of all surcharges to a period of one year. The Indonesian authorities announced in May 1990, as part of the latest package of trade-related policy reforms, that some three-quarters of existing surcharges would be eliminated in September 1991.

29. The exclusive use of ad valorem tariffs contributes to the transparency and predictability of the Indonesian tariff. Indonesia has never applied variable levies or seasonal tariffs. The last remaining specific tariffs on rubber tyres were replaced with ad valorem rates in May 1990.

30. Tariff predictability is, however, diminished by having less than 10 per cent of items bound. Also, in some instances, surcharges have brought duty levels above bound rates. The Indonesian authorities have offered a major increase in bound tariffs, in particular for textiles and footwear, in the framework of the Uruguay Round.
31. With one exception, commodity-specific taxes in Indonesia are levied at the same rate on domestic and imported goods. Imported cigarettes carry an excise tax of about double the rate levied on domestically-produced cigarettes.

32. Reforms to Indonesia's import licensing system have reduced both its coverage and restrictiveness. Imports of many goods are either no longer restricted, or can be freely made for use as inputs by producers. However, restrictive import licences continue to distort domestic production patterns; about one-quarter of all goods produced domestically would be covered by the licensing system. Documentation used by SGS, which apparently contains precise details on the licensing arrangements, has not yet been made available by the Indonesian authorities.

33. Merchandise, which can only be imported by authorized importers, cover some 10 per cent of tariff items. Importer-producers (IP licences) allow producers to import inputs not available domestically. The registered importers (IT licences) and producer-importers (PI licences) receive licences with sole importing rights, including importation of goods which they produce. Trade monopolies for individual products exist in the form of sole agents (AT licences) which are national distributors appointed by the Government.

34. All six registered IT licence holders, importing mainly consumer goods, are State-owned. PI licences provide several State-owned producers, such as Krakatau Steel, Pertamina (petroleum) and Dahana (explosives), monopoly power over importation of competing goods. BULOG's domestic marketing controls over so-called strategic foodstuffs like rice and sugar are underpinned by sole importing and exporting rights.

35. Imports of certain restricted goods, such as strategic agricultural commodities, fresh fruits, milk products, batik goods, garlic, some steel items and strategic minerals like coal, are only permitted by the Government when shortfalls occur in domestic production. This is enforced through formal or informal quotas or prohibitions applied by the
State-trading companies upon advice by the Ministry of Trade. Private companies granted sole importation rights are also expected to pursue import policies that are consistent with government objectives.

36. The rôle played by State trading and other firms granted import privileges lessens the transparency and predictability of Indonesia's trading régime. The close, and often informal, relationship between the Government and authorized importers creates uncertainty for suppliers and promotes a system that may be vulnerable to manipulation by vested interest groups.

37. State-trading enterprises dominate several designated strategic manufacturing industries, such as shipbuilding, steel, aerospace, cement, fertilizers and aluminium. Certain of these sectors, especially the engineering industries, are subject to local content plans. Lists specified by the Ministry of Industry prevent domestic assemblers from importing certain components in completely-knocked-down kits.

38. While eased for certain products, local content requirements remain high on some other products. For commercial vehicles, trucks and motorcycles, a 100 per cent local content of components remains the objective. Content requirements could vary among firms on the basis of ad hoc decisions by the Ministry of Industry.

39. Import prohibitions exist in some cases, such as completely-built-up motor vehicles, trucks and machinery, to underpin local content requirements.

40. Other bans apply to products imported from South Africa, Israel, Angola and, following the 1990-91 Gulf crisis, all trade with Iraq and Kuwait is under embargo.

41. Procurement by Government, including that of State-trading companies, is essentially reserved for domestic suppliers. Although public tender is obligatory for contracts above Rp 500 million, only foreign suppliers
meeting Indonesia's countertrade arrangements will be considered. These policies, operated since 1982 to diversify exports, require foreign contractors to purchase Indonesian exports of non-oil and non-gas products. The countertrade requirement is equal to the value of the contract, after allowing for any Indonesian local content included in the contract and any Indonesian taxes paid by the supplier in fulfilling the contract. To date, products totalling some US$2.1 billion and covering 26 countries have been exported by Indonesia under these arrangements.

42. Counterpurchase deals involving the Government have applied to many products, such as plywood, rubber, coffee, tea, cocoa, palm oil, pepper, shrimps, textiles, aluminium, tin, coal, nickel and cement. Similar arrangements cover the export of aircraft components by the State-owned aircraft company (IPTN) in return for Indonesia importing aircraft from certain suppliers. Bilateral counterpurchase agreements, signed in 1988 by the Government with Iran and Iraq, provide for State-trading enterprises to exchange oil imports for Indonesian non fuel exports, such as tea, rubber and plywood.

43. Other trade-related measures include health, safety and technical regulations or standards. For example, most agricultural imports require a sanitary or phytosanitary certificate. Permits from the Ministry of Agriculture are also required to import most plants, fresh flowers, seedlings, vegetables and fresh fruit. Indonesia's standards, being generally less stringent than international norms, appear not to be a major trade impediment.

44. On the export side, restrictions and regulations applying mainly to natural resource-based industries, affect over one-quarter of Indonesia's production of tradeable goods. These include prohibitions on logs, rattan, raw hides and cement; quotas on goods like rattan mats; taxes on several export items, including specific rates with a high incidence on certain varieties of sawn timbers; and licensing of registered and supervised goods requiring export approval from the Minister of Trade.
45. Export prohibitions applied by Indonesia on tropical logs and rattan, which are also said to be based on employment and environmental considerations, have contributed greatly to the improved export performance of downstream producers, such as plywood and furniture manufacturers. The reductions in domestic prices of unprocessed products induced by the export bans have, it appears, been equivalent to a substantial input subsidy. For example, the export prohibition on lumber has been estimated by one study to benefit plywood exporters and other processors with a 20 per cent reduction in domestic log prices.

46. Only registered exporters may export goods to which restrictions are applied in overseas markets, in particular textiles, clothing and tapioca. Exports of plywood, spices and rattan mattes are also reserved for registered exporters. Supervised exports, approved only after domestic requirements are met, include major agricultural products such as rice, wheat flour and soybean that are only exportable by BULOG, and also salt, fertilizer and certain vegetable oils. Informal arrangements surrounding the licensing of some export products, and the imposition of quotas, have at times detracted from the transparency of the Indonesian trading system.

47. Voluntary quality control standards apply to many agricultural exports to improve their international reputation. These operate mainly on agricultural commodities, such as fish, tapioca, shrimps, coffee, tea and vegetable oils, but also relate to a few manufactured products, like wire and plated steel products. Where possible, export standards correspond to international norms, such as those established by the ISO. However, they remain less stringent for many products.

48. Direct export assistance in Indonesia is limited to promotional and marketing activities financed by the Government. Arrangements assisting exports were curtailed following Indonesia's signing of the GATT Code on Subsidies and Countervailing Duties. Export Certificates were abolished in 1986, and concessional export credits under the Export Credit Facilitation Scheme progressively removed for new loans. Joint-venture banks are required to extend export credits, basically on commercial terms. Export
promotion and marketing assistance is provided by the Government-funded National Agency for Export Development. Relatively minor export credit guarantees and insurance are provided by the Government.

49. A recent study points to substantial compliance costs imposed on both importers and exporters by the fragmented nature of the Indonesian trading system, involving many departments and agencies.

(iii) Temporary measures

50. Indonesia has never taken recourse to Article XIX. It last used the balance-of-payments provisions of the GATT in 1967.

51. Indonesia has no legislative procedures governing the use of anti-dumping and countervailing measures. Import surcharges are imposed to protect domestic infant industries from fluctuating world prices. Arrangements for implementing surcharges are largely informal, lack public scrutiny, and have no legal appeal procedures available to grieved parties, such as consumers and downstream producers. Sunset clauses automatically terminating surcharges after one year have rarely been adhered to in practice.

52. Import surcharges have been apparently used, in some instances, as a substitute for anti-dumping action. According to Government officials, Indonesia is considering the introduction of anti-dumping legislation along the lines of the GATT Code.

(iv) New initiatives

53. The Indonesian Government remains committed to the on-going reform of its trading system. The last reforms were implemented in May 1990. A further package of reforms, initially due for release late last year, is to be announced in the next few months. Such an announcement would be well inside the Government's aim of implementing another major reform package within two years.
Trade Policies and Foreign Trading Partners

54. The thrust of comprehensive deregulatory reforms since the mid-1980s has been to integrate Indonesia more closely into the world economy through the gradual introduction of market-opening measures. The changing structure of price incentives induced by these reforms has successfully promoted diversified export growth and accelerated economic expansion in Indonesia over the past three years, at a time of declining world economic growth.

55. Greater dependence on the world economy has strengthened Indonesia's interests in, and reliance on, the multilateral trading system. The Government has no immediate plans to enter new bilateral trading arrangements with regional neighbours. Rather, Indonesia appears to be focusing its regional efforts on strengthening existing ASEAN ties. Member governments have recently agreed to an Indonesian proposal to examine the elimination of non-tariff barriers to intra-ASEAN trade. Bilateral trade and economic co-operation agreements concluded by Indonesia are subject to normal GATT rules, and apply no special dispute settlement procedures.

56. The active participation of Indonesia in the Uruguay Round is considered as offering the best prospects for a relatively small but dynamic trader to share in the rewards of more liberal world trade. Improved access to markets for Indonesian goods is seen as playing an important role in strengthening Indonesia's capacity to servicing debt obligations and reducing the need for foreign borrowings.

57. Efforts by Indonesia to achieve freer overseas markets have been concentrated in sectors where world trade is highly distorted, such as textiles and agriculture. Indonesian exports of textiles and clothing to Canada, the EC, Norway, Sweden and the United States remain restricted by MFA quotas. Indonesia has pressed for the integration of trade in textiles and clothing into GATT, taking into account the need for certain transitional arrangements. Footwear exports are also constrained by foreign trade barriers, especially quantitative restrictions. In
agriculture, Indonesia along with other members of the Cairns Group, supports a reduction of distortions to international trade in view of its perceived long-term potential as a net food exporter.

58. Improved access in external markets would, in the Government's view, reinforce Indonesia's efforts to liberalize the domestic market. Better overseas marketing opportunities would help muster internal support for the Government's reforms. This will become more important if future reforms are to tackle areas where Government support is firmly embedded.

59. Pockets of industry, including many strategic manufacturing and agricultural products, continue to be largely insulated from world market pressures. Extending reforms to cover import policies in these areas, including changes to State trading operations, Government procurement and countertrade practices, would promote structural adjustment in the economy; be a further impetus to export development and economic diversification; and raise import demand.

60. Imports into Indonesia, especially of capital and intermediate goods, have already grown strongly in line with the export-led investment boom. Access to Indonesia's expanding import market by overseas suppliers has been generally provided on a non-discriminatory basis. Export growth areas benefiting from trade liberalization have attracted high levels of foreign direct investment and related imports.

61. Some trading partners have been concerned with the trade-distortive effects of Indonesia's policies towards using export restrictions to boost exports of major natural resources in processed form. Whether Indonesia benefits in the long term from such policies will depend on its ability to develop export-competitive processing industries not dependent on continued support through depressed input prices.

62. Further deregulatory reforms should create additional market opportunities for foreign exports into Indonesia and stimulate Indonesia's export potential in a broad range of products. Although many of the most
difficult areas of reform remain to be tackled, the adjustment of industries enjoying high levels of protection to international competition would offer economic benefits both for Indonesia's trading partners and the domestic economy. As in many other developing economies, trade and economic growth in Indonesia remain closely linked, and international trade can be expected to contribute to strengthening Indonesia's position as one of the more rapidly growing developing countries.
I. THE ECONOMIC ENVIRONMENT

(1) Major Features of the Indonesian Economy

1. With a population of around 185 million, Indonesia is the fifth most populous country in the world, and the third largest developing country. It is the world's largest archipelago, consisting of 13,667 islands stretched along the equator over a distance of more than 5,000 km. About 6,000 islands are inhabited. The largest islands are Kalimantan, Sumatra, Irian Jaya and Sulawesi. The population is heavily concentrated on the three densely populated islands of Java, Madura and Bali where more than 100 million people live.  

2. The Indonesian society is of great diversity. Among the country's 300 different ethnic groups, more than 200 local languages are spoken. Although the population is predominantly Moslem (87 per cent), other religions (Buddhism, Hinduism, Catholicism, Protestantism and Confucianism) and traditions have contributed to the cultural diversity of Indonesia.

3. Population growth has been declining in recent years, to an estimated annual 2 per cent, due to a fall in the birthrate. However, this has not yet affected the labour force which continues to expand rapidly. During the five-year plan 1989-1994, almost 12 million people are expected to enter the labour market. 2 It is estimated that Indonesia's real GDP must expand at a minimum annual rate of 5 per cent to create jobs for the expanding labour force. 3 Economic growth, which had been subdued by weak oil and other commodity prices until the mid-1980s, has been above 5 per cent since 1986.

4. While increasing in terms of domestic currency, annual real GDP per capita has remained at around US$500 in the 1980s, as the rupiah has been recurrently devalued against the US dollar. The number of people living below the subsistence level is estimated to have declined from 54 million (40 per cent of the population) in 1976 to 30 million (17 per cent of all

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1 The Government operates a transmigration programme which resettled more than two million people on the "outer islands" between 1980 and 1986. Between 1989 and 1994, the Government intends to resettle a further 550,000 households.

2 Economic planning in Indonesia is based on a series of five-year plans (Repelita). The first plan, Repelita I, covered the years 1969-70 to 1973-74. The current plan, Repelita V, commenced on 1 April 1989 and will end on 31 March 1994. The plans are indicative and do not provide blueprints of projects to be funded by public or private sources.

3 In the more labour-intensive non-oil/LNG sector, the required growth rate is somewhat higher (6 per cent).
Indonesians) in 1987. However, a large segment of the population continues to live barely above the official poverty line.

5. Indonesia is rich in natural resources. Tropical, sub-tropical and some temperate crops can be produced on a year-round basis. Indonesia is the world's leading producer of certain spices, the second largest producer of natural rubber and palm oil, the third largest producer of coffee and a leading producer of copra. Indonesia is the world's major producer of tropical hardwoods. The country has considerable reserves of oil and natural gas, and mineral resources such as tin, nickel, coal, copper, bauxite and some precious metals.

6. With merchandise exports of nearly US$24 billion and merchandise imports of US$17.4 billion in fiscal year 1989-90, Indonesia was the world's 31st largest exporter and the 35th largest importer of merchandise (Table I.1). Foreign trade plays a vital rôle in its economic development. Indonesia's ratio of merchandise trade (average of exports plus imports) to GDP - 21½ per cent - is high, even as compared to the main developed countries. Expanding exports, particularly in labour-intensive manufactured goods, are regarded a prerequisite to attaining key government objectives, such as the creation of employment to absorb the rapidly growing labour force.

7. Indonesia is a net importer of services. According to Bank Indonesia, in 1989-90, the deficit on the services account was an estimated US$8 billion (Table 1.2). Freight on imports accounted for nearly US$1.9 billion of this deficit. Net imports of non-freight services amounted to US$6.1 billion, of which US$3.5 billion was a deficit in investment income, largely due to interest payments on foreign debt. However, Indonesia recorded a surplus on travel, as receipts from tourism (US$1.6 billion) were larger than payments on travel abroad (US$700 million).

(i) Agriculture

8. Agriculture, including forestry and fishing, is Indonesia's major economic sector, accounting for about one quarter of GDP and nearly

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The Central Bureau of Statistics defines the official poverty line as an income which covers a daily intake of 2,100 calories and some necessary non-food expenditures.


Indonesian wage rates are among the lowest in South East Asia.
50 per cent of overall employment. The principal crops - rice, cassava and maize - are produced mainly for domestic consumption. Cash tree crops such as rubber, coffee, palm oil, coconut, copra, tea and spices like pepper are mainly exported. The agricultural crops sector is dominated by a large number of smallholders. Smallholder cultivation is particularly present in the production of tobacco (97 per cent), coffee (95 per cent), sugar (76 per cent) and rubber (72 per cent).

9. Rice production has been increasing, supported by government policies designed to develop infrastructure (research, storage facilities and large scale irrigation projects) and to subsidize inputs, notably credit for working capital, fertilizer and pesticides. The policies of promoting food self-sufficiency have transformed Indonesia from being, until the early 1980s, the world's major importer of rice to exporting surplus production in recent years.

10. Forests cover 144 million hectares of land, or 75 per cent of Indonesia's land surface. All forest resources are controlled by the State, but exploitation is mostly carried out by authorized private companies. Deforestation has led to the recent implementation of conservation programmes, export restrictions and the curtailment of additional foreign investment in the forestry sector.

11. Indonesia has large untapped aquatic resources, but over-exploitation occurs in shallow coastal fishing areas due to the use of traditional methods and equipment. Current policies are aimed primarily at promoting the development of deep-sea and ocean fishing, as well as fish and shrimp farming. Handling and processing facilities are rather limited. Indonesia is attempting to rehabilitate the industry with assistance from international agencies and donor countries.

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7 The share in employment of agriculture has continued to fall from 63 1/2 per cent in 1973 to 54 per cent in 1988. The agricultural sector is expected to provide 4 million additional jobs during Repelita V (equivalent to one-third of the total expansion of the labour force).

A smallholder farm on Java is about 0.5 of a hectare. Families resettled under the transmigration programme generally receive plots of 3 hectares, of which 2 hectares are reserved for the cultivation of estate crops and 0.75 hectare for growing food crops.


Only Brazil and Zaïre have larger tropical forests. World Bank estimates (1988) of forested area were lower (113.5 million ha). These estimates took account of deforestation and land converted to smallholder use.
Mining and oil extraction

12. The production of oil and gas as well as hard minerals such as copper, tin and nickel, accounts for about 11 per cent of GDP. In recent years, the value added of this sector expanded less rapidly than that of other sectors of the Indonesian economy. The declining share of mining and petroleum in GDP reflects lower oil prices, government policies to diversify the economy and reduce dependence on oil revenues and, more recently, a conservation policy designed to prevent rapid depletion of Indonesia's petroleum reserves. In times of rising oil prices, such as during the current Gulf crisis, the value of petroleum output in Indonesia is boosted, and the share of the mining sector in GDP is likely to increase again.

13. Indonesia is a member of the Organization of Petroleum Exporting Countries (OPEC). In 1989, Indonesia produced around 1.23 million barrels per day (b/d) of crude oil and nearly 180,000 b/d of condensates. Without further oil discoveries, current depletion rates and rapidly increasing domestic demand suggest that Indonesia would become a net importer of oil by the next century. However, the prospects of new oil discoveries are good. There are 60 known oil basins. Thirty-six basins have been explored and 14 developed.

14. In 1987, roughly half of Indonesia's crude oil production was refined domestically, mostly by Pertamina, the State-owned company. Further expansion of processing capacity is aimed at promoting domestic refining of petroleum products and boosting the petrochemical industries.

15. The production of natural gas totalled nearly 2 trillion standard cubic feet (scf) in 1989. With a market share of 40 per cent, Indonesia is the world's largest exporter of liquefied natural gas (LNG). Long-term supply contracts have been signed with Japan, the Republic of Korea and Taiwan. Indonesia has also embarked upon a major programme to expand its output of liquefied petroleum gas (LPG). In 1988, Indonesia commenced a ten-year contract to supply Japan with 1.95 million tons of butane and propane annually. Natural gas is gaining importance as a domestic source of energy, and as a raw material.

11 Condensates are a by-product in the manufacture of natural gas. Condensates and natural gas are not subject to OPEC production quotas.

12 The Government of Indonesia does not publish estimates of recoverable oil and gas reserves. In 1989, the Minister of Mines and Energy put proven and potential reserves at 11 billion barrels of oil and 91 trillion cubic feet of gas. The Petroleum Report, issued by the United States' Embassy in Jakarta (June 1990), refers to estimates of recoverable reserves ranging from 6 to 11 billion barrels of oil and 87 to 107 trillion cubic feet of gas.
16. The Government is promoting the domestic use of Indonesia's considerable reserves of coal. Domestic consumption reached almost 4 million tons in 1988. Coal production rose from 0.65 million tons in 1983 to 4.45 million tons in 1988. It is targeted to exceed 15 million tons in 1994. Coal will be used primarily to generate electricity and as a direct energy input in industries such as cement. Coal may increasingly become available for export.

17. Indonesia is the world's second largest producer of tin, and a major exporter of bauxite to Japan. Copper production, mainly for export, has been significant since 1973. Indonesia's estimated reserves of nickel-oxide ores, some 40 million tons, are among the largest in the world. Other important minerals include iron sands, which are at present used mainly as a raw material for the cement industry, an expanding gold mining industry, and silver mining which has recovered from its slump in 1983.

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13 Estimates vary between 6.5 billion tons and 28 billion tons.
(iii) Manufacturing

18. The manufacturing sector barely existed in 1966. In 1989, it accounted for 18 per cent of GDP (Chart I.1). The principal manufactures made in Indonesia are labour-intensive consumer goods such as processed food and beverages, tobacco products, textiles, clothing and electrical appliances. The production of more capital-intensive intermediate goods such as chemicals, cement, glass, fertilizer, wood products, machinery and basic metal products has been increasing rapidly.

### Chart I.1
GDP shares by sector (current prices)

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1986</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>40%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Mining, etc.</td>
<td>20%</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>20%</td>
<td>35%</td>
<td>45%</td>
</tr>
<tr>
<td>Services</td>
<td>20%</td>
<td>20%</td>
<td>15%</td>
</tr>
</tbody>
</table>

**Source:** Central Bureau of Statistics.

19. Indonesia has followed a different path of industrialization than other countries in the region. Until the mid-1980s, the strategy had been predominantly inward-looking and was largely based on Indonesia's large natural resource endowment. However, many resource-based activities are capital-intensive and create little employment. Only very recently has
Indonesia begun to exploit its comparative advantage stemming from the ample supply of low-skilled or unskilled labour.\(^{14}\)

20. The labour-intensive, export-oriented industries, such as textiles and clothing, footwear, leather products, wood products, furniture, rubber products and pottery and china, are largely privately owned. Resource-based and relatively capital-intensive industries - cement, fertilizers, petrochemicals, paper, steel and aluminium - are regarded as "strategic" industries where State ownership is prominent. Recently, the Government has taken steps to privatize some of its commercial holdings (cement, tyres).

21. The Indonesian Government has actively promoted the development of capital and technology-intensive industries, such as motor vehicles, aerospace products and high technology shipbuilding, and is considering the future use of nuclear energy. Local assembly of motorcycles, passenger cars and commercial vehicles began in the early 1970s.\(^{15}\) The Indonesian State Aircraft Company (IPTN) was established in 1976. Many of these activities are carried out as joint-venture projects with foreign enterprises from developed countries.

22. Much of Indonesia's manufacturing base is concentrated on Java, particularly in the capital Jakarta and in cities such as Bandung (aircraft), Cilegon (steel and petrochemicals), Cibinong (cement) and Cikampek (fertilizers). Yogyakarta in Central Java is a centre for some of Indonesia's light industries, such as batik, ceramics, plastics and leather. While the industrial sector in Java is fairly diversified, manufacturing activities in Sumatra and the Southern coasts of Kalimantan and Sulawesi are dominated by a few large resource-based industrial complexes (cement, rubber and processing of petroleum and wood).

(2) Recent Economic Performance

23. In the 1950s and early 1960s, the Indonesian Government focused on political rather than economic issues. The "New Order" Government which came to power in 1966 faced severe economic problems. These included a contracting economy, a large and inefficient public sector, high external debt, spiralling inflation and falling levels of private investment. The new Government moved quickly to restore monetary and fiscal stability, and encouraged overseas and domestic private investment through the enactment of policies such as tax incentives and liberalization.

\(^{14}\) Economic growth has been constrained by shortages of trained professionals and certain types of skilled labour.

\(^{15}\) A phased local content programme called for full local manufacture of motor cycles and commercial vehicles by the end of 1987. In February 1987, the deadline was extended for three years (see Chapter V, section 3(iii), for further details).
of the Foreign Investment Law (January 1967) and the Domestic Investment Law (November 1968).

24. In the 1970s, development policies were based on import substitution. Indonesia enjoyed a period of accelerating industrial growth. Average annual growth of real GDP was 8 per cent during the decade. Aided by the increase in oil prices in 1973/74, the Government invested directly in capital-intensive industrial projects such as petroleum refining, petrochemicals, fertilizers and cement.

25. When oil prices peaked in 1981, oil and gas accounted for 25 per cent of GDP, 80 per cent of export earnings and 75 per cent of Government revenue. Sharply deteriorating terms of trade, due mainly to falling world oil and commodity prices, sent the Indonesian economy into recession. In 1982, GDP fell by 4 per cent. A widening current account deficit was financed by a reduction in foreign currency reserves and increased foreign borrowing.

26. The Government responded with adjustments to its economic policies. During 1983, the rupiah was devalued by 27 1/2 per cent against the US dollar, credit markets were deregulated, and a major tax reform was designed to strengthen government (non-oil) revenues. Public investment was cut.

27. In 1983 and 1984, high economic growth rates were recorded, but inflation had reached double digit levels in 1983. Tight monetary policies succeeded in reducing the inflation rate to 5 per cent in 1985. However, Indonesia's vulnerability to weak commodity prices again emerged and the growth of real GDP slowed down to 2 1/4 per cent (Table I.3). In an effort to promote economic efficiency, tariffs were cut and customs, port and shipping operations were completely reorganized.

28. Mounting foreign debt and sliding oil prices required further reforms. Indonesia effectively revoked import substitution policies in favour of export-oriented reforms through measures announced in May 1986. The import régime was relaxed for export-oriented firms and steps were taken to promote foreign investment. The "May package" was supplemented by another major devaluation and further import liberalization measures in the second half of 1986.

29. Economic growth picked up in 1986. The current account deficit widened. Restructuring efforts were supported by increased financial assistance from Indonesia's aid donors. The Government also increased non-concessional foreign borrowing. Total external debt, which had stood

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16 Between 1983 and 1988, the income loss due to external shocks was equivalent to an estimated 9 per cent of GDP.

17 The severe economic crisis in the mid-1960s had forced a
at US$32 billion at the end of 1984, reached more than US$50 billion in 1987.

30. In 1987, real GDP expanded by nearly 5 per cent, supported by rapid growth in exports of manufactures (dollar value up by 48 per cent). Although there were renewed inflationary pressures, the inflation rate (CPI) remained below 10 per cent and subsequently declined.

31. The economic reforms continued in 1987 and 1988, focusing on more liberal import licensing, a substitution of tariffs and surcharges for non-tariff barriers, a broadening of the duty exemption and drawback schemes for exporting companies, reforms to strengthen the role of capital markets and additional measures to encourage foreign investment, including in the tourism sector. Domestic investment surged in 1987. Encouraged by the reforms, the value of approved foreign investment rose threefold between 1987 and 1988 to reach US$4.4 billion.

32. The investment boom, and exports of manufactures (dollar value up 38 per cent), pushed real GDP growth to almost 6 per cent in 1988 (Table I.5). Indonesia's debt service ratio declined, although actual debt service payments rose above US$8 billion (Table I.6).

33. In late 1988, further deregulation reforms were announced. Tariffs replaced import licences on a number of items, some duties were lowered and sea transport was deregulated. New steps were taken to liberalize the financial sector. Further financial reforms were announced in early 1989, including a major change in the treatment of private investment. Other

(Footnote Continued)

rescheduling of Indonesia's foreign debt service payments in 1966. At that time, Indonesia's external debt was in excess of US$1.6 billion. Subsequently, the Inter-Governmental Group on Indonesia (IGGI) was established to provide loans for balance-of-payments financing. Members of IGGI are: Austria, Australia, Belgium, Canada, France, the Federal Republic of Germany, Indonesia, Italy, Japan, the Netherlands, New Zealand, Spain, Switzerland, the United Kingdom and the United States. Representatives of the IMF, the World Bank, ADB and UNDP also participate at the annual meetings, as well as observers from Denmark, Finland, Norway, OECD, EEC and UNICEF. Between 1980-81 and 1990-91, IGGI members have made commitments totalling over US$31 billion (Table I.4).

18 The ratio of external debt to exports rose from 195 per cent in 1985-86 to 308 per cent in 1986-87. As a large share of Indonesia's external debt is denominated in Japanese yen, the appreciating yen accentuated the level of debt expressed in US dollars.

19 Earlier, an Investment Priority List ("positive list") enumerated the sectors open to private investment and their degree of openness. Under the new regulations, private investment is principally allowed, except for

(Footnote Continued)
reform measures related to foreign financial investment and income taxation.  

34. In 1989, the trade-led expansion accelerated. Indonesia's real GDP increased by 71⁄2 per cent. The surplus in merchandise trade narrowed somewhat, as imports of capital goods and industrial inputs rose faster than exports of manufactures (Table I.7).

35. In 1990, private investment activity has remained strong, even though there have been indications of a slowdown in the growth of non-fuel exports. Signs of a rekindling of inflation have led Bank Indonesia to make cuts in subsidized credit programmes, and to reduce the growth of the money supply.

36. Overall, the recent expansion of the Indonesian economy has been led by outward-oriented manufacturing sectors, supported by major gains in agricultural output and a recovering oil sector. Since 1987, production has increased by more than 40 per cent in industries such as footwear, radios and television sets, motorcycles, tyres, batteries, paper and structural metal products. Strong growth has also been recorded in construction and several service sectors. Economic growth in Indonesia has picked up at a time when the world economy has been weakening. This suggests that the comprehensive economic reforms in Indonesia have brought tangible results in improving the efficiency of the economy and spurring investment activity, including foreign direct investment.

(3) Trade Performance

(i) Commodity pattern of trade

37. While primary and semi-processed products dominate Indonesia's exports, the most striking feature in the export mix has been the long-term shift towards exports of manufactured products. In 1988, exports of manufactures accounted for 48 per cent of Indonesia's merchandise exports.

(Footnote Continued) sectors contained in a so-called "negative list". Investors are free to set their own investment priorities within the open sectors. For details see Table AIII.1.

20 The Government's broad approach to policy reform appears to have been guided by the insight that reforms in any one sector or policy area may fail to achieve their objectives if constrained by impediments remaining elsewhere in the economy.

21 Inflation in Indonesia during the 1980s, although generally kept under control, was higher than in most other major East Asian economies. The consumer price index rose by nearly 10 per cent in 1990. The monthly increase was highest in July (2.2 per cent), when a reduction in the Government's fuel subsidy lifted prices of petroleum products.
up from 11 per cent in 1982. The value of manufactured exports reached US$8.6 billion - 49 per cent of total export value - in the first nine months of 1990.

38. Fuels continue to be Indonesia's most prominent export item. However, their share in total merchandise exports declined from the 70-80 per cent level reached in the early 1980s to around 40 per cent in 1990. Within fuels, there has been a shift from exports of crude oil towards sales of gas (LNG/LPG) and refined products.

39. Plywood is the single most important non-fuel export item, earning more than US$2 billion in foreign exchange in 1988 (Table AI.1). Exports of wood products have increased steadily in line with the Government's policy to increase value added and discourage exports of unprocessed wood. Other important primary export commodities are rubber, coffee, palm oil, pepper and tea. Exports of shrimp have risen rapidly. Overall, the share of primary commodities in total exports of merchandise has fluctuated between 1980 and 1990, due to volatility in commodity markets.

40. Dynamic export growth occurred in manufactures. For example, exports of textiles and clothing rose from some US$100 million in 1979 to nearly US$2 billion in 1989. Major increases were also recorded in chemicals and iron and steel. Export volumes of items such as plastics, ceramics, glass, cement, fertilizer, basic metal articles and furniture have risen considerably. As a product group, the export share of miscellaneous ("other") semi-manufactures rose from ½ per cent in 1980 to 14 per cent of total merchandise exports in 1988 (Table I.8).

41. Imports are dominated by capital goods, such as industrial machinery and transport equipment, and intermediate goods - chemicals, base metals and mineral products (Table I.9). In 1989 and 1990, the share of consumer goods in merchandise imports was 4 per cent.

42. Imports fell in the first half of the 1980s largely in response to a deteriorating export performance. Thus, as the value of petroleum exports declined, the value of merchandise imports dropped from levels above US$16 billion in 1982 and 1983 to less than US$11 billion in 1985 and 1986. Subsequently, the export led economic expansion fuelled renewed growth in imports. By 1989, the dollar value of merchandise imports had recovered to its 1983 level. However, reflecting the investment boom, the share of capital goods in total merchandise imports (23 per cent) was much higher than in the early 1980s (Chart I.2).
(ii) **Regional pattern of trade**

43. Japan, the United States and Singapore are Indonesia's main trading partners. Together they account for nearly 70 per cent of merchandise exports and more than 45 per cent of imports (Table AI.2). Japan alone is the destination for more than 40 per cent of Indonesia's merchandise exports, and the source of one quarter of total merchandise imports. Fuels are mainly exported to Japan (in 1989, 67 per cent of the total) and the United States (17 per cent), and this largely explains the high regional concentration of Indonesia's merchandise exports (Chart I.3).
Chart 1.3
Indonesian merchandise imports and exports in 1989 (US$ billion)

Total imports
US$ 16.4 billion

Total exports
US$ 22.2 billion

Source: Central Bureau of Statistics.
44. Over the past decade, Indonesia's trade with its three leading trading partners lagged behind trade expansion with other countries, particularly on the export side. The relatively weak export performance reflects a decline in the dollar value of exports of fuels, which was not fully offset by rapidly expanding exports of non-fuel products to those countries. Dynamic growth occurred in Indonesia's trade with the Republic of Korea, Hong Kong, other members of ASEAN (in particular Malaysia and Thailand) and China, as well as with the European Communities. Until 1988, Saudi Arabia was an important supplier of certain types of crude oil and refined petroleum products. Since then, most such imports have been subject to counterpurchase arrangements with Iraq and Iran. In 1989, Africa, Latin America and the remaining countries in the Middle East combined accounted for less than 4 per cent of Indonesia's merchandise trade.

(4) Outlook

45. According to the current five-year plan (Repelita V), the economy is projected to grow, in real terms, at an annual rate of 5 per cent between 1989 and 1994. This is in line with the rate realized during Repelita IV. Mining and quarrying output is expected to grow by a modest ¼ per cent per annum. Agriculture should expand at an annual rate of 3¼ per cent, with rice production rising by 3 per cent. The largest growth of output is predicted for manufacturing (annual rate of 8¼ per cent) and services sectors such as transportation and communications (6½ per cent), construction (6 per cent), and wholesale and retail trade (6 per cent).

46. In order to achieve these targets, investments totalling US$130 billion will be required over the five-year period, implying a further increase in the share of investment in GDP. Private domestic and foreign investors are expected to provide some 55 per cent of total investment. Public investment will continue to depend on foreign aid. Nevertheless, it is projected that the debt service ratio will decline gradually to 25 per cent at the end of Repelita V.

47. Further economic growth in Indonesia is expected to be export-led. The dollar value of merchandise exports is estimated to grow annually by 11 per cent, with oil exports increasing by 2 per cent and non-oil and -gas exports by 15¼ per cent per year (Chart I.4). Industrial goods are forecast to lead the way, in particular exports of iron and steel products, leather, paper, chemicals and rattan products.
Chart I.4
Evolution of Indonesian exports, 1981-89
and projection FY 1990-93

Billion US$

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<td>Oil/gas</td>
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<td>Non-oil/gas</td>
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</tbody>
</table>

Projection-FY

Sources: Central Bureau of Statistics and the National Development Planning Agency (BAPPENAS).

48. Exports of manufactures are projected to reach US$19 billion by 1993, representing almost 60 per cent of total merchandise exports. Income from tourism is expected to more than double during Repelita V, making this sector, next to plywood, the largest earner of foreign exchange.

49. The dollar value of merchandise imports, excluding oil and natural gas, is also expected to grow rapidly, on average by 13\% per cent per annum. Feeding the export expansion of the manufacturing sector, large increases are projected in imports of capital goods (17 per cent) as well as raw and supplementary materials (12\% per cent). Imports of consumer goods are set to grow annually by 8\% per cent.

50. Provisional estimates for the first year of the five-year plan indicate that the economy is expanding at a real rate of growth of around 7 per cent. The economy has been fuelled by investment demand and a larger than expected increase in exports, particularly of manufactured goods.
51. While the short- to medium-term outlook for the Indonesian economy appears promising, several uncertainties exist. For example, the population has not evenly shared in the recent rapid economic growth, giving rise to concerns over income distribution. As for the external environment, higher energy prices resulting from the tensions in the Middle East are a mixed blessing to the Indonesian economy. The immediate effect will be a strengthening of the balance of payments, allowing for higher imports, and a net increase government revenue (despite higher expenditure on fuel subsidies in Indonesia). However, a slow-down of economic growth in Indonesia's main trading partners may dampen demand for Indonesian non-fuel exports at a time when the domestic expansion is strongly export-oriented. Steady growth of foreign exchange earnings is essential if Indonesia is to achieve the requirements of orderly debt servicing and strong import expansion to realize its development objectives in the 1990s.

22 The National Development Planning Agency (BAPPENAS) has calculated that every US$1 per barrel increase in the price of oil, on a yearly basis, raises Indonesian exports by US$400 million (net).
II. TRADE POLICY REGIME: OBJECTIVES AND FRAMEWORK

(1) Introduction

52. Indonesia declared independence on 17 August 1945. Structured as a unitary republic, Indonesia comprises 27 provinces. Local government is based on a three-tier system of provincial, regency and village assemblies.

53. The Indonesian Constitution adopted on independence assigns the highest authority of the State to the People's Consultative Assembly (Majelis Permusyawaratan Rakyat - MPR). The Assembly must meet at least once every five years. It comprises all 500 members of the House of People's Representatives (Dewan Perwakilan Rakyat - DPR) and an equal number of appointed delegates. At present, the Assembly contains regional delegates and representatives of the "development functional groups" (Golkar - an alliance of groups representing farmers, youths, veterans, cooperatives and businessmen), the armed forces and two political parties.

54. There are five branches of government: the President, the DPR, the Supreme Audit Board, the Supreme Court and the Supreme Advisory Council. The President and the Vice-President of the Republic are elected for five-year terms by a majority vote of the People's Consultative Assembly.

55. The President appoints the members of the Supreme Advisory Council. Their task is to advise the President on specific issues and to submit proposals to the Government.

56. Judicial powers are exercised by the Supreme Court, the highest court in Indonesia. Auditing the States financial affairs is the responsibility of the Supreme Audit Board. The Board reports its findings to the House of People's Representatives.

(2) Structure of Trade Policy Formulation

(i) Legislative and executive branches of Government

57. The President, who is also the Head of Government, executes the policy of the State according to the broad lines determined by the Assembly (MPR). He selects his Cabinet, currently comprising 21 Ministers, three Coordinating Ministers, eight State Ministers, six Junior Ministers and

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23 Full sovereignty was transferred to the Republic of Indonesia by the Netherlands on 27 December 1949.

24 The DPR consists of 400 elected members and 100 members from the armed forces. The President appoints delegates based on proposals from various quarters of the Indonesian political system.
three officials with ministerial rank. In general, responsibility for matters related to international trade fall under the Minister of Trade and the Junior Minister of Trade. Within the Ministry of Trade, the administration of exports and imports is located in the Directorate General for Foreign Trade (Chart II.1).

58. The recent trade reforms have involved other ministries, such as Industry, Agriculture and Finance. In such cases, the Minister of Trade consults directly with the Ministers involved, or discussions may be conducted by the Minister Co-ordinator for Economic, Financial, Industrial Affairs and for the supervision of Development (EKUIN).

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**Chart II.1**  
**Organigramme of Directorate General for Foreign Trade**

- Directorate General for Foreign Trade
- Directorate for Export of Industrial and Mining Products
- Directorate for Import
- Directorate for Export of Agricultural and Forestry Products
- Directorate for Standardisation and Quality Control
- Directorate for Foreign Trade Relations
- Centre for Testing and Quality Control

**Source:** Ministry of Trade.
59. Laws originate in the House of People's Representatives on the initiative of the Government or members of the House. Draft legislation is subject to an explanatory phase, a general debate, final drafting in discussions between the appropriate House Commission and the Government, before being finally debated and voted upon in the House. Accepted bills are passed onto the President for enactment. Bills not ratified by the President cannot be resubmitted during the same session of the House.

60. The status of Indonesian laws and regulations is, in hierarchical order:

1. The 1945 Constitution.
2. Decrees issued by the Assembly (MPR).
3. Laws and government regulations replacing laws. The latter must subsequently be confirmed by the House of Representatives (DPR).
5. Presidential decrees (inpres) and decisions (keppres). In his daily functions as Head of Government, the President may also issue instructions.
7. Ministerial regulations (decrees).
8. Ministerial instructions.

All laws must be approved by the House of People's Representatives and the President. The contents of government regulations and presidential decrees are first discussed at length within the related Ministries and subsequently in the Cabinet.

61. Amendments to trade policies which originate in the Ministry of Trade are submitted to the Co-ordinating Minister (EKUIN). EKUIN co-ordinates the discussions with other relevant institutions. Decisions from these reviews are issued as decrees by the Minister of Trade. Before the announcement of new reform packages, the Government is in frequent contact with the private sector, including technical meetings with industry associations.

(ii) Advisory bodies

62. Indonesia has no permanent advisory body to assist in the formulation of trade policies, although the function of the Supreme Advisory Council is to advise the President on any matters, including trade policies. However, a "Deregulation Team", established in 1985, and originally chaired by the Minister of State for Administrative Reform, has had a major input in the formulation of the packages reforming economic policies, starting with the reforms in May 1986.

Pursuant to Decree of the (Provisional) National Assembly (MPRS) No. 20 of 1966.
63. The "Deregulation Team" is currently chaired by the Junior Minister of Finance. It includes a Steering Committee consisting of the assistants of the three Co-ordinating Ministers, the assistant of the Minister of State for Administrative Reform, and the Director Generals of the Ministries of Trade and Industry. A Technical Committee comprises the directors of individual trade bodies. The "Deregulation Team" reports to the Co-ordinating Minister for Economic, Financial and Industrial Affairs (EKUIN) who, in turn, reports to the President.

64. Some tariff amendments, initiated at the industry level, are implemented outside the major reform packages. Industry requests are forwarded to an inter-departmental "Tariff Team". This Team seeks advice from the relevant government agency, normally the Ministry of Industry. A "Technical Team" consults with other industries, in particular with competing industries and downstream users. It also attempts to evaluate the impact on broader interest groups such as consumers. These two teams submit a joint proposal to the Junior Minister of Finance who, in turn, makes a recommendation to the Minister of Finance. If approved by the Minister, a decree is issued (Chart II.2).

Chart II.2
Procedure for the revision of tariffs

Source: Indonesian Government.
65. The Ministry of Trade has established an "Interdepartmental Team for the Uruguay Round". Its functions are to evaluate and analyse all the Uruguay Round issues and to formulate the Indonesian position and strategy regarding the negotiations.

(iii) Review bodies

66. Indonesia has no statutory body to conduct independent reviews of the Government's economic policies. However, the Government is accountable to the House of Representatives (DPR) which may decide to evaluate the trade policies of the Government.

(3) Trade Policy Objectives

(i) General trade policy objectives

67. Trade policies support the general economic objectives of the Government. These are to promote economic growth, employment and incomes, while at the same time reducing income disparities. Prior to the early 1980s, inward-looking trade policies aimed at insulating the domestic market from international competition were seen as the best means of achieving these objectives. Since 1983, Indonesia's trade policies, especially in manufacturing, have become more outward-looking. Efforts were made to reduce Indonesia's reliance on the oil and gas sector, by expanding non-fuel exports. In agriculture, its policies remain directed towards import substitution to promote self-sufficiency of basic food products, especially rice.

68. A key trade policy objective is to maintain and improve the multilateral trading system. With the exception of tariff preferences afforded to other members of the Association of Southeast Asian Nations (ASEAN), most of Indonesia's trade receives m.f.n. treatment. The Philippines' proposal to develop ASEAN into a Common Market has met with reservations in Indonesia. A more broadly based Asian trade co-operation framework, suggested more recently by Malaysia, is being considered by the Government. Indonesia's participation (through ASEAN) in the Asia Pacific Cooperation (APEC) is designed to strengthen multilateralism.

69. Indonesia's import liberalization programme has gradually exposed domestic producers to increased foreign competition. Liberalization has involved both the tariffication of certain licences, mainly using import surcharges, and a lowering of tariffs. While major reform packages have attempted to cut protection generally, the programmes have at times targeted certain industries, such as steel and textiles in December 1987 and the pharmaceutical sector in May 1990.

70. "Strategic" industries, such as aluminium, cement, fertilizers, petrochemicals, paper, shipbuilding, aerospace and steel continue to receive preferential treatment from government policies. These industries remain dominated by State-owned companies with access to trading privileges. Although the importation of many steel products has been liberalized, for example, licences continue to restrict imports of major
products to the state-owned monopolist Krakatau Steel. At the other end of
the scale, government policies to encourage the development of small-scale
enterprises often involve selective import barriers, such as for batik
products.

71. The quest for self-sufficiency, in rice and other foodstuffs, has
been implemented through import monopolies provided to the National
Marketing Board (BULOG).

72. On the export side, policies have aimed at diversified growth of
Indonesian non-fuel exports. Since 1986, exporters have been granted duty
and VAT exemptions and refunds on imported inputs. Provisions have been
implemented for exporters to by-pass import licensing restrictions.
Export processing zones and the relaxation of investment licensing
procedures have encouraged exports of manufactures. Access to government
procurement by foreign contractors is linked to the counterpurchase of
non-traditional exports from Indonesia.

73. Indonesia restricts or prohibits exports of a number of items,
notedly unprocessed or semi-processed natural resources. The basic
objectives have been to secure the domestic supply of basic materials at
low prices, to conserve exhaustible resources and to maximize the domestic
value added by exporting more processed goods.

74. Sovereignty over natural resources is an important issue for
Indonesia. Pursuant to Article 33 (3) of the Constitution, the Government
is directly involved in the exploitation of natural resources through
State-owned enterprises, for example, in the mining and oil sector, or
exploitation rights are issued to private (including foreign) companies
such as in the forestry sector.

(ii) Objectives in the Uruguay Round

75. A major objective of Indonesia in the Uruguay Round is to strengthen
the role of the GATT and the multilateral trading system's ability to
respond to developments in the international economy.

76. The Uruguay Round is the first GATT round of trade negotiations in
which Indonesia has actively participated. The rapid growth in Indonesia's
non-oil and gas exports and the need to secure future market access for
such products has increased Indonesia's interest in these negotiations.
Indonesia sees a more liberal, transparent and predictable international
trading system as a necessary means of achieving its own trade policy
objectives. It attaches a high priority to settling trade disputes
multilaterally.

77. In textiles, Indonesia made statements on behalf of the other ASEAN
countries as well as the developing countries, members of the International
Textiles and Clothing Bureau (ITCB). The ASEAN countries favour that trade
in textiles should be covered by normal GATT rules by the year 2000.
Indonesia, on behalf of the ITCB has strongly advocated the phasing out of
MFA restrictions and the smooth reintegration of trade in textiles and
clothing into GATT by 31 December 1997. Following the expiry of MFA IV at the end of July 1991, these restrictions would be eliminated in four stages, maintaining the product coverage of the original MFA. Base import quotas would be increased progressively and certain types of restrictions eliminated. Safeguard measures would only be permitted for limited duration in cases of "serious injury".

78. As an important member of ASEAN, Indonesia's position is reflected in joint political statements. At the twenty-second ASEAN Ministerial Meeting (3-4 July 1989), the Foreign Ministers expressed concern on the emergence of trading blocs and other regional economic arrangements, as well as the increased tendency of resorting to bilateral measures in settling trade problems. They considered that an open multilateral trading system within the GATT framework should be strengthened, if a fair, equitable and healthy international trading environment was to be preserved.

79. Indonesia is a member of the Cairns Group on agriculture. Although currently a net food importer, Indonesia believes this group best serves its interests as a potential food exporter.

80. ASEAN countries have participated actively in the negotiations on trade-related aspects of intellectual property rights (TRIPS) and trade-related aspects of investment measures (TRIMS).

81. In financial services, the Indonesian position is also reflected in the Group of SEACEN (South-East Asian Central Banks). Indonesia is keen to maintain the soundness of the national financial sector in the event of multilateral liberalization of financial services.

(4) General Trade Laws and Trade Legislation

82. Indonesia has no basic trade law, although a Commercial Code, dating back to 1847, still exists. Indonesian trade policies are implemented through presidential decrees, ministerial decrees, joint ministerial decrees and government regulations. Recent reforms have involved the release of many new decrees and regulations. Major reforms are listed in chronological order in Appendix II.1.

83. Fundamental characteristics of the Indonesian import system are the registration and licensing of all importers. Importation of a number of goods, particularly those for which more or less formal quantitative restrictions apply, is reserved for a narrow group of (approved) importers. These arrangements are administered by the Ministry of Trade. The provisions for the licensing of importers are established in decree of the Minister of Trade No. 333/Kp/XII/87. The corresponding list of goods was last amended by the decree of the Minister of Trade No. 147/Kp/V/90. The rules governing the importer's identification number (Footnote Continued)
imposition of customs duties, import surcharges and export taxes is implemented by decrees issued by the Minister of Finance. The most recent amendments were made in May 1990.  

84. Concerning exports, unregulated goods can be exported by companies which have a Trading Business licence (SIUP) or a business licence. Exporters of regulated goods must register with the Minister of Trade.  

85. Certain regulations focus on the development of exports. In May 1986, joint decrees of the Minister of Finance, the Minister of Trade and the Governor of Bank Indonesia established the drawback and duty exemption facilities on imported goods and materials for exporters, foreign aid projects and investment companies. The fiscal facilities for exporters were further extended in December 1987. Export-related investment measures include the creation of bonded zones (Government Regulation No. 22/1986) and expansion of the sectors that are open to private investment.  

86. The GATT has not been directly incorporated into Indonesian laws and regulations. Consequently, no Indonesian individual has the right to sue the Indonesian Government for violation of the General Agreement before a national court.  

(5) Trade Agreements and Arrangements  

(i) Multilateral Agreements  

87. Indonesia became a contracting party to the GATT in its own right on 24 February 1950, having previously applied the GATT as part of the Dutch Customs Territory. Indonesia signed the GATT Code on Subsidies and Countervailing Duties in 1985. It is an observer to the Codes on Technical Barriers to Trade, Government Procurement, Customs Valuation, Import Licensing, Civil Aircraft and Anti-dumping.  

(Footnote Continued)  

(API) follow the provisions of the decree of the Director General of Foreign Trade (No.3/DAGLU/Kp/I/85).  

27 In addition, value added tax on goods and services and luxury taxes are imposed on the basis of Law No. 8/1983 as amended by government regulation No. 28/1988.  

28 This is based on Presidential Instruction No.4 (1985).  

29 Decree of the Minister of Trade No. 331/KP/XII/87 abolished the Exporter Identification Number (APE).  

30 The "List of Sectors that are closed for Investment" ("Negative List") was announced by Presidential decree No. 21/1989.
88. Indonesia is a member of several other multilateral organisations related to trade, such as the United Nations, UNCTAD, the Asian Development Bank, the International Monetary Fund, the World Bank, the International Finance Corporation, the International Development Association and the Islamic Development Bank. Indonesia participates in the international commodity agreements for natural rubber, coffee and tropical timber, and is a member or a signatory of various international agreements and organizations in this area, such as the Organization of Petroleum Exporting Countries, the Association of Tin Producing Countries, the International Bauxite Association, the International Sugar Organization, the International Pepper Community, the Asian Pacific Coconut Community, the South East Asia Lumber Producers' Association, the Australian Tea Council, the Association of Natural Rubber Producing Countries, the International Rubber Research and Development Board, the International Rubber Study Group and the Nickel Study Group.

(ii) Bilateral agreements

89. Indonesia has concluded bilateral trade agreements with 44 countries (Table AII.1). These are general agreements promoting trade, and do not contain provisions on import relief measures, dispute settlement procedures or preferential treatment. In addition, Indonesia has two bilateral agreements with the United States - one on subsidies and countervailing duties (1985), the other on intellectual property rights (1989) - and one agreement with the EEC concerning audio recordings.

(iii) Regional trading arrangements

90. The Association of Southeast Asian Nations (ASEAN) was established in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Brunei Darussalam joined ASEAN on 1 January 1984. The aim of the organization is to foster economic, social, cultural and scientific relations among the members. The members cooperate in areas of international trade as well as monetary and financial policies.

91. ASEAN members participate in meetings of the Asia Pacific Cooperation (APEC). The discussions include issues related to the multilateral trade negotiations. APEC is not a preferential trade agreement. Indonesia also participates in the Pacific Economic Co-operation Conference (PECC), a tripartite government-business-academic body established to promote regional trade and economic policy cooperation.

92. The ASEAN Basic Agreement on Preferential Trading Arrangements, concluded in February 1977, provides for tariff preferences. The tariff preferences consist of a 25 to 50 per cent across-the-board reduction in

31 Other participating countries are the United States, Canada, Australia, Republic of Korea, and New Zealand.
customs duties on imports originating from member States, subject to national exemption lists.

(iv) **GSP and GSTP**

93. In the framework of UNCTAD, Indonesia participates in the Generalized System of Preferences (GSP) and in the Global System of Trade Preferences (GSTP) amongst developing countries. Tariff preferences accorded to non-ASEAN countries shall not exceed the levels Indonesia extends to its ASEAN partners.
III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

(1) Exchange Rate Movements and Trade

94. The Indonesian rupiah has been subject to a managed float since November 1978. Rates of exchange are determined by Bank Indonesia using an exchange rate index that can fluctuate within a certain range. The index is the trade-weighted average exchange rate for a basket of currencies from Indonesia's major trading partners.

95. The current exchange rate policy aims at keeping a "realistic" value for the Indonesian rupiah. The objective is to maintain the competitiveness of Indonesian industries and encourage the development of new export markets.

96. At the beginning of the 1980s particularly favourable terms of trade for Indonesian commodity exports resulted in an unusual, but brief, nominal appreciation of the rupiah. In real terms the rise was more pronounced, due to the relative high inflation rate in Indonesia compared with most of its major trading partners. Between 1980 and 1982, the real effective exchange rate appreciated by around 12 per cent. Following the sudden drop in oil and commodity prices, the Indonesian authorities moved towards an active exchange rate policy in 1983. This resulted in large nominal and real currency depreciations of the rupiah between 1982 and 1986 (Table III.1).

97. Major devaluations occurred in March 1983 and September 1986 when the rupiah was devalued by 28 per cent and 31 per cent, respectively. Massive speculation against the rupiah followed the 1986 devaluation in December 1986 and May-June 1987. However, the Government has avoided further shock devaluations, and confidence in the currency has been restored through tight monetary policies and high domestic interest rates.

98. More recent nominal depreciations of the rupiah have mainly offset the high domestic inflation rates relative to Indonesia's main trading partners. Thus, the real effective exchange rate has remained by and large stable since early 1987 when it was 55 per cent below its 1980 level.

99. The impact of the real depreciations of the rupiah, and accompanying monetary and fiscal restraint, was most pronounced on Indonesia's trade in non-fuel merchandise (Chart III.1). In 1982, Indonesia's deficit in that trade amounted to US$9.4 billion. The deficit fell to US$3.1 billion in

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32 Prior to using the exchange rate index, the Indonesian currency had been pegged at Rp 415 per US dollar since August 1971.

33 Information on the exact composition of the basket of currencies is not publicly available. Currencies having a major weight in the basket would include the US dollar and the Japanese yen.
1985. The reduction was more a result of the fall in imports (US$4.33 billion) than the rise in exports (US$1.94 billion).

Chart III.1
Non-oil/gas trade balance and real effective exchange rate, 1980-90


100. In 1986, the increase in non-oil/gas exports equalled the rise in non-fuel imports. However, the 1986 devaluation and the subsequent policy of largely maintaining Indonesia's real effective exchange rate at the post-devaluation level boosted Indonesia's international competitiveness. While export-related demand for capital goods, raw materials and other inputs fuelled the growth of imports, the non-fuel trade deficit fell to US$800 million in 1988, helped by strong export performance. However, in 1989 a further surge in investment led non-fuel imports to expand faster than non-fuel exports.

101. The exchange rate effect has been less obvious on the current account. One factor in this has been the complementarity between exports of merchandise and imports of services in Indonesia, in particular in the petroleum sector. More recently, strongly expanding exports of manufactures have added to Indonesian demand for related imported services such as freight, insurance and consultancy services. Another factor has been larger capital outflows related to the servicing of Indonesia's growing foreign debt. Overall, however, the two major devaluations helped
to contain and reduce the current account deficit, principally through their stimulating effect on exports of manufactures.

102. In October 1989, Bank Indonesia sharply curtailed its trading hours of foreign exchange to reduce its influence on the currency transactions between the other foreign exchange banks. Bank Indonesia announces early each day an indicative exchange rate which is used in its morning transactions of foreign currency bills, swaps, reswaps and export draft discounts. Banks are free to set their own exchange rates for all other transactions. In the afternoon, a spot transaction rate set by Bank Indonesia is used to determine the banks' net open position. Banks are required to keep their daily net open position within 25 per cent of their own capital.

(2) Foreign Exchange Allocation

103. Prior to 1966, Indonesia maintained a complex system of foreign exchange controls and multiple exchange rates. The system was subsequently dismantled. Since 1970, the Indonesian rupiah has basically been freely convertible. In May 1988, Indonesia accepted the obligations of Article VIII, Sections 2, 3 and 4 under the Articles of Agreement of the IMF. The current controls are administered by Bank Indonesia and the Ministry of Finance.

104. Bank Indonesia trades unlimited amounts of foreign exchange or rupiah with authorized traders - licensed foreign exchange banks, non-bank financial institutions and licensed foreign exchange dealers. No taxes or subsidies apply to the purchase or sale of foreign exchange.

105. Throughout the 1980s, Bank Indonesia has been encouraging the development of a domestic foreign exchange market. Bank Indonesia's supply of foreign exchange originates from Indonesia's sale of oil and gas. The proceeds are remitted directly to Bank Indonesia, which then calculates and transfers the share of Pertamina to the state-owned petroleum company. Until January 1982, other exporters were obliged to sell all foreign

34 In April 1970, an exchange reform replaced previous multiple exchange rates with a fixed rate of Rp 378 per US dollar. However, a 10 per cent exchange tax was applied to the sale of proceeds for most non-petroleum exports, and sales of foreign aid funds were effected at Rp 326 per US dollar. The exchange tax was replaced by an equivalent export tax in 1974, while a compensation payment on imports financed by foreign aid remained until 1979.

35 Before the October 1988 deregulations, 66 banks operated in Indonesia. Since then, the number of banks has risen sharply, to 155 in mid-1990. By early 1990, the number of licensed foreign exchange banks had increased to 18 foreign banks, 16 private commercial banks and five state banks.
exchange earnings to Bank Indonesia. Since then, non-oil/gas export earnings have generally ended up in the commercial banking system. In line with the rapid rise in non-fuel exports, the inter-bank market for foreign exchange has become increasingly important. This is also reflected in the fact that some 40 per cent of Indonesia's total currency reserves are held by foreign exchange banks (Table III.2).

106. Indonesia's foreign exchange system permits free allocation and transfer of foreign currency for payment of imported goods and services. However, only the licensed foreign exchange banks can execute foreign exchange transactions relating to imports and exports of goods. Payments for imports from, and exports to, any country can be effected by any method normally acceptable in international trade. Payments for invisibles are not restricted or subject to control, and proceeds from invisibles need not be surrendered.

107. Since October 1986, banks licensed to deal in foreign exchange have been granted unrestricted rights to engage in foreign exchange/rupee swap transactions. This can be used as a hedging facility for investors and traders.

108. Foreign loans with a maturity of one year or longer made by a public enterprise require prior approval from the Ministry of Finance. All foreign borrowings must be reported to Bank Indonesia and the Ministry of Finance, and certain loans are subject to clearance. External liabilities of foreign exchange banks are subject to a 2 per cent reserve requirement, down from 15 per cent before 27 October 1988. There are no reserve requirements on the foreign borrowings of non-bank financial institutions and private companies.

109. Travellers can carry unlimited amounts of foreign bank notes to and from Indonesia. However, entry and departure holdings of Indonesian currency are restricted to Rp 50,000 per person in notes and ordinary coins. In addition, a traveller can take out up to Rp 65,000 of Indonesian gold and silver commemorative coins issued in August 1970, and up to Rp 130,000 of coins issued in October 1974.

36 Pursuant to Government Regulation No 1/1982.

37 Until March 1989, Foreign Direct Investment (PMA) companies could only sell their foreign exchange holdings to Bank Indonesia. These holdings can now be sold to any foreign exchange bank.

38 Investment swaps may have a maturity of up to three years.

39 Residents of Indonesia are subject to a departure tax of Rp 250,000 when leaving the country. This tax is normally considered to be a prepayment of income taxes.
110. Residents are free to trade and hold gold and gold coins in Indonesia. Gold can be imported by approved importers, subject to a surcharge of Rp 25 per US dollar.

(3) Foreign Direct Investment and Trade

(i) Foreign investment in oil, gas and mining

111. Foreign interests have taken an active part in the development of Indonesia’s petroleum and mining industries. Their investments are subject to sector-specific contractual and investment regulations. The Oil Law of 1960 revoked the concessionary rights of foreign oil companies. However, they were allowed to continue operations under "contract of work" (COW) arrangements. In 1966, the Government introduced "production sharing contracts" (PSCs), under which foreign companies must sign contracts with Pertamina, the State-owned enterprise. The foreign investor undertakes to finance all exploration, development and production costs while Pertamina is responsible for managing the operations. The investor is entitled to recover exploration costs, capital investments and all operating costs from the production revenue of successful wells. The remaining revenue is shared between the Government and the foreign investor, generally at an after-tax ratio of about 85 to 15 in favour of the Government. The duration of such contracts is usually 30 years, or 6 to 10 years if exploration is unsuccessful. Seventy-three production sharing contracts were in effect in July 1988. By early 1990, two contract of work arrangements remained.

112. For the natural gas sector, foreign investment regulations generally correspond to those in the petroleum sector. In 1987, seven companies operating under production sharing arrangements produced 85 per cent of total natural gas output. Pertamina and Lemigas produced nearly 14 per cent and one company produced a minor amount of natural gas under a contract of work arrangement. Foreign participation in downstream processing facilities for crude oil and natural gas, generally in the form of joint ventures with Pertamina, has been permitted since the end of 1989.

113. In the mining sector, four foreign companies extract tin, copper and nickel under contract of work arrangements. In the coal industry, ten foreign firms have concluded production sharing arrangements since 1981, and more than 100 contracts of work have recently been signed for gold exploration.

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40 Eleven "joint operations contracts" and two "technical assistance contracts" were also in effect at that time. These arrangements are essentially modified forms of production sharing contracts.
(ii) Foreign investment in other sectors

114. Indonesia's policies of nationalizing foreign-owned enterprises were changed substantially by the "New Order" Government of 1966. It enacted the Foreign Capital Investment Law in January 1967 and the Domestic Investment Law in November 1968. The Investment Coordinating Board (BKPM) was subsequently established in 1973 to act as a one-stop agency for investors.

115. Applications to undertake investment in accordance with the Foreign Capital Investment Law (PMA investment) or the Domestic Investment Law (PMDN investment) are processed by BKPM. Once a project has been approved by the Government, BKPM issues the necessary documents such as the operating permit, import licence (APIT), Approved Manpower Plan (RPTK) and fiscal facilities. The regional BKPM office (BKPM D) provides location, building and work permits (for expatriates), Land Right Certificates, Nuisance Act Permits and other regional licences. The deregulation policies have simplified considerably the application and implementation process.

116. In line with a State Guideline issued by the People's Consultative Assembly (MPR), foreign (PMA) investment must, with few exceptions (notably banking), be in the form of a joint venture with an Indonesian partner. PMA licences are valid for 30 years. Extensions for up to 30 years can be granted if additional investment is undertaken to diversify or expand production capacity.

117. The permitted initial share of foreign ownership in a project is a maximum of 80 per cent, or 95 per cent in priority areas, bonded zones and

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41 BKPM now needs 6-8 weeks to process a completed investment application. In some cases, projects have come on stream already 9 months after the investment was approved. Implementation is generally faster in Java than in other regions.

42 The last foreign bank was closed in 1964. In 1968, foreign banks were again permitted to open branches. From 1972 "non-bank financial institutions" (NBFIs) have been permitted. An NBFI usually takes the form of a joint venture between foreign and Indonesian interests. More recently, major reforms of the banking industry have been implemented through four deregulation packages, starting with the measures announced on 27 October 1988. The reforms have included permission to establish joint venture banks, removal of restrictions on the opening of branches, reductions in the minimum capital and reserve requirements and deregulation of the financial operations of State enterprises and State-owned financial institutions.
In general, divestment of foreign ownership has to be such that at least 51 per cent of the equity must be in Indonesian hands within 15 years. However, a firm under the Foreign Capital Investment Law (PMA firm) may gain the status of a firm under the Domestic Investment Law (PMDN firm) if it has only 45 per cent domestic ownership provided that 20 per cent of the equity is floated on the stock exchange.

The divestment requirements have been somewhat relaxed by the recent export-oriented reforms. Foreign majority can be retained for an additional 5 years in certain cases. Moreover, the eventual transfer of majority ownership to Indonesians is not required for foreign investment projects located on Batam Island (near Singapore) and in the bonded zones, provided that 100 per cent of the production is for export. In these cases, the foreign ownership can be as high as 95 per cent for the lifetime of the joint-venture.

In some cases, deregulation has not changed domestic laws, but modified their effects on business operations. For example, only Indonesian citizens and government entities are allowed to own land in Indonesia. However, the October 1989 reforms permit private investors, including foreigners, to establish and manage industrial estates, effectively granting them long-term (up to 80 years) leaseholds. Regulations introduced in 1989 allowed foreign (PMA) companies to establish joint venture distributors, easing the rule that importing, wholesaling and retailing are activities reserved for Indonesian citizens or companies. Foreign (PMA) companies producing intermediate or capital goods are permitted to sell directly to Indonesian companies. All other

Projects in priority areas have one or more of the following characteristics: high-risk ventures; location in remote areas; a minimum 65 per cent of production exported; those manufacturing high technology products; or investments exceeding US$10 million. Bonded zones (export processing zones) were introduced in the May 1986 reform package. Export oriented companies must export at least 65 per cent of their production (or 85 per cent for garments).

Foreign investors, especially medium-sized enterprises, have raised concerns about the general divestment requirements. This may explain why substantial investments, particularly in medium-sized projects, are implemented outside the PMA/PMDN framework. So called non-PMA/PMDN investment is processed by the Ministries concerned and not by the Investment Co-ordinating Board (BKPM).

Much land remains unsurveyed, unregistered and untitled.

In the joint ventures, Indonesians must own at least 51 per cent of the equity, and the Board of Directors must consist mainly of Indonesian nationals.
goods are distributed by regular traders or by appointed Indonesian agents. Overseas companies may establish representative offices, which can engage in sales promotion and market research, but not in regular business activities.

120. Government policies to deregulate the economy and promote foreign investment have also reduced considerably the number of activities which are closed to private, including foreign, investors. Since May 1989, these sectors have been described in a "Negative List" (DNI) published by the Investment Co-ordinating Board (BKPM). Currently, the restrictions are concentrated in metal products; food, beverages and tobacco; various wood products; certain chemicals; some paper products and certain services. Three sectors (in chicken breeding) on the "Negative List" are open to foreign-owned companies if the production is fully exported. The "Negative List" is reproduced in Table AIII.1.

121. Supported by the reforms of the foreign investment régime, the value of approved foreign investment projects, excluding oil, gas and financial services, tripled in 1988 from the previous year's level to reach US$ 4.4 billion. In 1989, the number of approved new projects doubled, whereas the approved investment value increased by 7 per cent. Preliminary data for 1990 suggest further surges in investment. By 21 July, the respective value of approved foreign and domestic investment during 1990 stood at US$5.4 billion and Rp 35 trillion (nearly US$19 billion), exceeding the record level attained for the full year of 1989 (Table III.3).

122. Data from the 1985 economic census reveal that, within manufacturing, the share of foreign investment was substantial in sectors such as glass products, plastics, footwear, and electrical equipment (Table III.4). These sectors have been among the best performers in terms of export expansion in recent years.

47 The "Negative List", introduced in May 1989, is in principle valid for three years, subject to annual reviews. It replaced the "Investment Priority List", which had indicated all sectors open to foreign and domestic investment.

48 In general, Indonesian laws prohibit foreign investment in shipping and port activities, telecommunications, media, aviation, public railways, nuclear energy development and the defence sector. Some services are specified in the Negative List.

49 Some activities are reserved for small-scale enterprises. This reservation scheme is reproduced in Table AIII.2.

50 For the period 1967 to July 1990, approved foreign investments, excluding oil, gas and financial services, totalled US$32.4 billion.
123. The current investment boom has become increasingly more export oriented. Whereas in 1986 just under half of all approved projects were for export, in 1989 three quarters of all new investment projects, foreign as well as domestic, were export-oriented. The planned export value of the approved projects rose sixfold between 1986 and 1989 (Chart III.2). The export-oriented investment is mainly directed towards the manufacturing sector, in particular textiles, paper, wood, chemical, metals, mineral and metallic-goods industries.

Chart III.2
Planned exports of new domestic and foreign investment projects, 1986-1989

(US$ billion)

Source: The Investment Coordinating Board (BKPM).

124. Since the enactment of the Foreign Capital Investment Law in 1967, foreign investment - excluding oil, gas and financial services - has mainly come from Japan (31\% per cent), Hong Kong (13\% per cent), the United States (8 per cent), the Federal Republic of Germany (7\% per cent), Taiwan (6\% per cent), the Netherlands (6 per cent) and the Republic of Korea (5\% per cent).\(^5\) Lately, investment from Hong Kong, Taiwan and the

\(^5\)The share of the United States increases considerably if investment in all sectors is included.
Republic of Korea has been particularly dynamic. Since the beginning of 1988, almost half of all new projects, representing a total approved investment capital of nearly US$4 billion, can be attributed to these three sources.
IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Overview

125. On average, Indonesia remains a moderately high tariff country, with only a small proportion of its tariffs bound under GATT. In 1990, the simple average m.f.n. tariff applying to Indonesian imports was 22 per cent, or 17 per cent on a production-weighted basis. Tariffs, including wider coverage of import surcharges, are a major instrument used to restrict imports and assist domestic producers. Their role has increased over recent years due to tariffication and the relaxation of import licences in areas such as steel, chemicals, machinery and equipment.  

126. Despite recent on-going reforms, non-tariff barriers remain a significant impediment in Indonesia to international trade. Goods corresponding to about one-quarter of domestic production are still subject to import licences. These arrangements insulate the domestic market from effective import competition by granting import monopolies over many products. State-trading and designated private companies, as well as state marketing organizations, benefit from these licences, often provided over goods which they themselves produce. In addition to formal licences and quotas, the import licensing system enables directives, quotas and prohibitions to be applied informally by the Government to many products.

127. Several import monopolies underpin marketing and pricing arrangements operating for domestic products. In the case of agricultural commodities BULOG, the State-marketing organization, has the sole right to import commodities marketed by itself. Strategic commodities subject to these arrangements are rice, sugar, wheat and wheat flour, soybean, maize, mungbeans and peanuts. These are only imported by BULOG to meet shortfalls in domestic production. The marketing arrangements involve the operation of floor price schemes and government price controls, and are designed to promote self-sufficiency in agricultural production. Fertilizer, seed, irrigation and, until recently, pesticide subsidies to farmers have operated to help meet this objective.

128. Outside agriculture, pricing and marketing arrangements apply to the petroleum sector. These arrangements, administered by the State-owned company Pertamina, are underpinned by an import monopoly. They provide an

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52 This chapter discusses the various trade policies and practices applied in Indonesia according to whether the measures operate directly on its imports, exports or, more generally, trade and production. In practice, however, the effects of these measures will not be limited to where they directly operate. Restricting imports, for example, by taxing and ultimately lowering exports, may reduce the economy's overall productive capacity if economic resources are reallocated into less efficient, import-competing activities.
input subsidy to fuel users by generally fixing prices below the prices for petroleum exports. Urea and steel manufacturers also benefit from an input subsidy on natural gas.

129. Sectoral policies apply to many manufacturing industries. Several of these, such as shipbuilding, steel, aerospace, cement, salt and fertilizers, are viewed by the Government as strategic industries, with State-trading companies having a monopoly over the production, distribution and importation of many products. For some sectors, such as those in the area of machinery, engineering, metal and transport equipment, localization programmes exist. Local content plans currently operate on around 20 products, including commercial vehicles, trucks and motorcycles, where the objective is for full domestic production of components. For other schemes, local content requirements vary, but remain generally over 50 per cent.

130. Most government procurement in Indonesia is in practice restricted to domestic suppliers, especially those from the economically weak group. Foreign suppliers are considered for government contracts exceeding Rp 500 million only on the pre-condition that they meet Indonesia's countertrade policies. These counterpurchase arrangements require the foreign contractor to import by the project's completion eligible Indonesian exports of non-oil and non-gas products equivalent to the value of the government contract, less adjustments for Indonesian content. Counterpurchase deals have existed with 25 countries for export undertakings totalling over US$2.4 billion.

131. On the export side, Indonesia applies an array of restrictions and controls apart from oil, especially on agricultural and forestry products. In total, some three-quarters of Indonesia's exports, corresponding to over one-quarter of its production of tradeables, are affected by export controls. These include export taxes, prohibitions, licensing and quality control standards. Several of these restrictions tax the industry supplying the raw material and assist the processing industries. The export bans on unprocessed logs and rattan, for example, tax the timber industries, to the benefit of processed wood industries such as plywood and furniture manufacture. Some activities are both taxed and assisted by the restrictions. Sawmilling, for instance, receives an input subsidy on its logs due to the export ban, but is taxed, in some cases prohibitively, by the specific export taxes applied to most varieties of sawn timber. According to the Indonesian Government, environmental considerations and the objective to increase employment in downstream industries have played a rôle in implementing the export bans.

(2) Measures Operating Directly on Imports

(i) Tariffs and surcharges

132. The Indonesian Customs Tariff is a single-column tariff. With the exception of imported goods receiving preferential tariff treatment under the ASEAN Preferential Trading Arrangement (see Chapter II), the same tariff rates are applied to imports from all sources. Currently, over
90 per cent of imports into Indonesia enter at m.f.n. rates, subject to several schemes providing tariff concessions and exemptions (see Chart IV.1 and Section (i)).

Chart IV.1
Status of Indonesian imports by product category, 1988

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fish, etc.</td>
<td>20</td>
</tr>
<tr>
<td>Animals &amp; products</td>
<td>40</td>
</tr>
<tr>
<td>Dairy products</td>
<td>60</td>
</tr>
<tr>
<td>Footwear &amp; travel</td>
<td>80</td>
</tr>
<tr>
<td>Tobacco</td>
<td>100</td>
</tr>
<tr>
<td>Textiles &amp; clothing</td>
<td>10</td>
</tr>
<tr>
<td>Dairy products</td>
<td>20</td>
</tr>
<tr>
<td>Machinery, etc.</td>
<td>40</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>60</td>
</tr>
<tr>
<td>Pulp, paper, etc.</td>
<td>80</td>
</tr>
<tr>
<td>Beverages &amp; spirits</td>
<td>100</td>
</tr>
<tr>
<td>Ores &amp; metals</td>
<td>20</td>
</tr>
<tr>
<td>Other industrial</td>
<td>40</td>
</tr>
<tr>
<td>Other agricultural</td>
<td>60</td>
</tr>
<tr>
<td>Leather, rubber, etc.</td>
<td>80</td>
</tr>
<tr>
<td>Chemicals</td>
<td>100</td>
</tr>
<tr>
<td>Foodstuffs</td>
<td>10</td>
</tr>
<tr>
<td>Energy products</td>
<td>20</td>
</tr>
<tr>
<td>Oilsseeds, etc.</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
</tr>
<tr>
<td>All industrial</td>
<td>80</td>
</tr>
<tr>
<td>All agricultural</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Tables AV.1-V.19; GATT Tariff Study.

(a) Conversion to the Harmonized System (HS)

133. Indonesia fully implemented the Harmonized Commodity Description and Coding System (HS) of classifying imports and exports to replace the CCCN Nomenclature on 1 January 1989. The 5,019 six-digit code descriptions, approved on 14 June 1983 in the Harmonized System of the Customs Co-operation Council, are further subdivided in the Indonesian Customs Tariff into nine-digit descriptions prescribing the tariff rates payable on imports. With the adoption of the HS, the number of tariff lines (or tariff rates) in the Indonesian Customs Tariff almost doubled, from just over 5,000 to slightly more than 9,100.

134. Prior to the HS conversion, the Indonesian Customs Tariff had been changed substantially. In March 1985, the Customs Tariff was completely
revised. Tariffs were reduced across-the-board. Peak rates of 225 per cent were eliminated by introducing a general tariff ceiling of 60 per cent, subject to important exceptions. Further substantial tariff reforms prior to Harmonization were contained in the packages of May and October 1986, January and December 1987, and November 1988. While lowering average tariff rates, these reforms also increased tariffs or import surcharges to compensate domestic manufacturers affected by the removal of certain import licences. For example, about half of the changes implemented in October 1986 were tariff increases on semi-finished or finished goods, while most tariff reductions were on inputs not produced domestically. Similarly, in the package of December 1987, tariffs were increased on 91 items, reduced on 65 items, and 110 items were declared potentially liable to surcharges.

135. While it was the Government’s intention not to alter greatly the basic structure of the Customs Tariff with Harmonization, this did not happen in practice. Studies by the World Bank, using data supplied from the Ministry of Finance and the Central Bureau of Statistics, show that with the introduction of the HS, the unweighted average tariff rate (including import surcharges) increased from 24 to 27 per cent. More importantly, the average was increased from 18 to 19 per cent when weighted by domestic production (Table IV.1). At the same time, the already high dispersion within tariff rates substantially increased. These changes from Harmonization went against the downward trend established by earlier tariff reforms.

136. The HS system adversely affected the underlying tariff structure of Indonesia in three main ways. First, to maintain tailor-made assistance for certain manufactured products, tariff splits were incorporated by introducing 485 nine-digit tariff classifications coded "ex". The number of split-tariff positions, 592, was higher because many base tariff items were split more than once, up to 12 times in one case. Tariff-splits occurred mostly in the metal products and machinery industries (40 per cent of the total) and the basic metal industry (32 per cent). Although the split-tariff rates were mainly set no higher than the base rates applying

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53 Weighted average tariff rates differ depending upon whether import or production weights are used. Import-weighted averages are biased downwards because the weight, i.e. the import value, reflects the restrictive effect of the tariff. The weight therefore tends to decline with increasing tariff levels. For example, a prohibitive tariff would have a zero weight and not be reflected in the average tariff level. Averages using domestic production as weights are biased upwards because protection induces a greater output of the assisted product.

54 Although the original HS schedule did not contain split-tariff positions, these were introduced soon afterwards in a series of decrees.
to the broad sub-divisions, import surcharges were generally higher on the split-tariff item.\footnote{137}

137. Second, the HS introduced a large number of additional import surcharges, as a means of mainly compensating domestic producers for reductions in protection from the easing of certain import licensing restrictions. The number of tariff items subject to non-zero surcharges increased from 180 to 231, and the simple average import surcharge was raised from 22 to 24 per cent.\footnote{138}

138. Third, tariff re-classifications associated with the HS resulted in tariff increases for some products and reductions in others. The HS maintained tariff rates well above the general ceiling rate of 60 per cent established by the March 1985 tariff reforms for products such as cars, buses and motorcycles.

139. The number of tariff lines with specific tariffs was reduced in the HS from 521 sub-headings, or some 10 per cent of the total, to 19 items covering most rubber tyres. These reductions were achieved by converting specific tariffs to their estimated ad valorem equivalent, usually within the range of 50-60 per cent. This improved the transparency and predictability of the Indonesian Customs Tariff.

140. Subsequent changes were made to the Indonesian Customs Tariff as part of the Government's reform package announced on 28 May 1990. These changes affected about one-third of all items. Tariffs on some 2,500 industrial tariff items were lowered. While most changes involved reductions, tariffs were increased on some products - partly to continue the tariffication process of compensating producers for the removal or relaxation of import licences (see below). The number of tariff lines in the schedule was further increased to around 9,500.

141. As with previous reforms, tariffs and to a lesser extent import licensing controls on agricultural products, were mainly unaffected by these changes.

\footnote{Furthermore, tariff splits enabled imports of a particular size or type of product to remain restricted by licences while deregulating the base tariff item.}

\footnote{Changes to import surcharges following Harmonization had reduced the simple average to 20 per cent at the time of the May 1990 reforms (Chart IV.2).}

\footnote{Ad valorem equivalents were generally estimated for each sub-heading by dividing the value of duty collections by the corresponding value of imports. For certain goods, the tariff rates were set at levels which were below the estimated ad valorem equivalents of the specific rates.}
(b) Import surcharges

142. In recent years, and in particular as part of the HS conversion and the May 1990 package, additional import surcharges were imposed on a variety of foreign goods. These surcharges operate in the same manner as tariffs. Where applicable, rates of surcharge appear in the Customs Tariff as an extra column beside the respective tariff rate. They are expressed as ad valorem rates of duty. Despite their different label, import surcharges amount to an additional tariff that assist domestic producers by raising the prices consumers pay for both imported and domestically-produced goods.

143. Import surcharges can be imposed by the Minister of Finance. As already indicated, they have served two main objectives. First, they have been seen as a less permanent means of raising tariffs to compensate domestic producers for reductions in protection following the relaxation or removal of import licensing controls. In this way, import surcharges have facilitated the tariffication process of replacing import licences with tariffs. Second, surcharges have been imposed to protect domestic infant industries from fluctuations in world prices. Although no formal procedures exist in Indonesia, this has, in practice it appears, provided producers also with relief against allegedly unfair competition from "dumped" imports.

144. Import surcharges are viewed by the Indonesian authorities as less permanent than tariffs. Indeed, when introduced, it was the Government's intention for all surcharges to lapse automatically after one year, unless a valid case could be made for their retention. However, this has not happened and most current surcharges have existed for substantially longer than one year. This matter is currently under review by the Indonesian authorities. All surcharges affected by the May 1990 reforms, representing some three-quarters of items currently subject to surcharges, are due to be eliminated in September 1991.

145. The number of items with positive surcharges was increased in the May 1990 package. This further extended the coverage of surcharges from just under 320 items to slightly over 550 items, covering 171 different product categories. Surcharges were reduced on many items, but most changes involved increased rates or the introduction of surcharges of mainly 10 and 20 per cent on new items, such as meat and fish preparations; cocoa and cocoa preparations; plastics especially polyvinyl chloride; rubber tyres; iron and steel tools, reservoirs etc; and watch straps, bands and bracelets. Surcharge rates of below 20 per cent account for almost 60 per cent of items subject to surcharges, compared with 30 per cent prior

58 In addition, there are over 40 items that are currently surchargeable with a zero rate. Surchargeable goods may be either assigned a zero rate, or set automatically at zero in the case of duty-free goods. Surcharges are rarely applied to goods with zero tariffs.
to the May 1990 package. These changes reduced the simple average rate of surcharge from 20 to 17 per cent (Chart IV.2). Rates of surcharge are $2\frac{1}{2}, 5, 10, 12\frac{1}{2}, 15, 17\frac{1}{2}, 20, 30$ and 40 per cent.
Chart IV.2
Import surcharges in Indonesia by rate following May 1990 reforms

Source: GATT Secretariat estimates using data supplied by the World Bank.
146. Import surcharges mainly apply to intermediate and consumer goods. The average tariff rate on items currently subject to a rate of surcharge of 20 per cent or more is close to 30 per cent. The combined rate for these items range from 25 to 80 per cent. Import surcharges therefore provide additional assistance to industries already receiving, on average, relatively high tariffs. These include certain vegetable oils and fats, manufactured cut tobacco, tyres, footwear and many iron and steel products. The system of import surcharges not only raises average duty levels, but also contributes to a more disparate tariff structure.

147. According to ministerial statements accompanying the May 1990 reforms, the Government is intending to scale down the role of import surcharges in providing anti-dumping relief.

(c) Average tariff levels

148. Although m.f.n. tariffs remain moderately high on average, the Indonesian Government has reduced levels considerably over recent years.

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59 The main product areas subject to import surcharges are unfrozen crustaceans (surcharge of 10 per cent); preserved vegetables (10 per cent); manioc and copra (20 per cent); vegetable oils such as ground-nut, coconut, palm kernel and babassu oils (20 per cent) and palm oil, and fats like margarine (30 per cent); processed meats and meat extracts (10 and 20 per cent); poultry (10 per cent); processed fish (10 per cent); sugar confectionery (10 per cent); cocoa preparations (10 per cent); food preparations, such as pasta and soups, as well as bakery products like biscuits and bread (10 per cent); non-alcoholic beverages like orange juice and mineral waters (10 per cent); manufactured cut tobacco (30 per cent); chemicals (5-15 per cent); pharmaceuticals (20 per cent); cosmetics and toiletries (30 per cent); rubber products such as tyres (20 per cent); paper and paperboard (5 per cent); woollen carpets (5 per cent); footwear (40 per cent); iron and steel goods (2 1/2, 10, 12 1/2, 15, 17 1/2, 20 and 30 per cent); and aluminium products (30 per cent).

60 Eliminating surcharges would reduce the manufacturing average tariff rate, weighted by domestic production, by an estimated one-fifth, or the economy-wide average tariff by one-tenth. Most affected by the removal of import surcharges would be the sectors of food, beverages and tobacco; chemicals, petroleum and coal; and metal products. Goods like processed meat, processed vegetables and fruits, other flours, bread and bakery products, noodles, manufactured cut tobacco, plastics and aluminium products would experience the largest proportional falls in assistance since their surcharge rates are high relative to tariffs.

61 Tariff reform packages were implemented in March 1985, May and October 1986, January and December 1987, and November 1988. The most recent changes were made in the package of May 1990.
Between 1985 and 1990, the average unweighted tariff rate, including import surcharges, fell from 37 to 22 per cent, or from 22 to 10 per cent on an import-weighted basis (Table IV.1). The average tariff level weighted by domestic production also declined over this period, from 29 to 17 per cent. The dispersion index (as measured by the coefficient of variation) has fallen from 108 after the March 1985 reforms to 89. However, while the disparities in tariff rates have been reduced, they remain high and above the levels existing prior to the 1985 reforms.

149. At the sectoral level, the simple average tariff rate for industrial goods is 22 per cent, compared with 24 per cent for agricultural products. In total, some 30 per cent of imports are dutiable at rates exceeding 20 per cent.

150. The major impact of tariff reductions has been achieved through reforms implemented before the HS conversion (Table IV.1). By the end of 1988, the average tariff rate weighted by domestic production was already 18 per cent, and the dispersion index 90. For the reasons discussed earlier, Harmonization went against this downward trend, worsening the tariff structure by raising the average tariff weighted by domestic production to 19 per cent, and the dispersion index to 93. On average, therefore, about half of the tariff reductions contained in the May 1990 package simply restored rates to their pre-HS levels.

151. The May 1990 tariff reductions were concentrated in areas where domestic production and, to a lesser extent, import shares were low. Consequently, the production-weighted average tariff rate fell by a lower proportion than the unweighted or import-weighted average tariff rates.

62 The coefficient of variation is an index of dispersion constructed from the standard deviation. The standard deviation is a statistical measure used to determine the dispersion between items within a frequency distribution. The coefficient of variation index is calculated by dividing the standard deviation by one plus the average tariff rate. The larger the standard deviation, and hence the higher the coefficient of variation, the greater the dispersion. The lower the dispersion in tariff rates (and in assistance levels generally), the less will decisions by producers and consumers be distorted by the tariff system.

63 These are based on the definitions used in the GATT Tariff Study which differ from those used in the International Standard Industrial Classification (ISIC). Major differences are that the Tariff Study includes many primary activities like forestry as industrial goods, while agricultural products in the ISIC exclude the food processing activities. On an ISIC basis, average tariffs are higher on industrial goods than for agricultural products (see paragraph 154).

64 Import shares or import-weighted tariff averages tend to be (Footnote Continued)
Furthermore, the May 1990 package increased tariffs in a few significant areas of domestic production.

152. In May 1990, tariffs were reduced on some 2,500 items, eliminated on a further 125 items, and raised on 100 commodities whose licensing restrictions had been removed or relaxed. The intention of these reforms was to move towards a tariff ceiling of 40 per cent. The resulting changes in the tariff structure, including surcharges, is shown in Chart IV.3.

(Footnote Continued)
unreliable indicators of levels of assistance to domestic industries. For example, average tariff rates for Indonesia on an import-weighted basis suggest a relatively rapid and continuous decline in average tariff levels since 1988. On a production-weighted basis, the decline was more modest and non-continuous, increasing in 1989 before declining again in 1990 (Table IV.1).
Chart IV.3
Tariff structure of Indonesia following May 1990 reforms

**Share**

<table>
<thead>
<tr>
<th>Rate of tariff</th>
<th>IS Before May 1990</th>
<th>IS After May 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td>1-10%</td>
<td>120</td>
<td>100</td>
</tr>
<tr>
<td>11-20%</td>
<td>80</td>
<td>60</td>
</tr>
<tr>
<td>21-30%</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>31-40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>41-50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>51-60%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt;60%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Unweighted average tariff rate**

<table>
<thead>
<tr>
<th>Rate of tariff</th>
<th>ED Before May 1990</th>
<th>ED After May 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>1-10%</td>
<td>1-10%</td>
<td>11-20%</td>
</tr>
<tr>
<td>11-20%</td>
<td>21-30%</td>
<td>31-40%</td>
</tr>
<tr>
<td>21-30%</td>
<td>41-50%</td>
<td>51-60%</td>
</tr>
<tr>
<td>31-40%</td>
<td></td>
<td>&gt;60%</td>
</tr>
<tr>
<td>41-50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>51-60%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt;60%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Includes import surcharges where applicable.

**Source:** GATT Secretariat estimates using data supplied by the World Bank.
153. Following these changes, 95 per cent of tariff items now bear rates of 40 per cent or less, compared with three-quarters previously. Duty rates of over 40 per cent still apply to 468 tariff items, equivalent to some 5 per cent of the total. Almost one-third of these items have duties of above 65 per cent.

154. Like previous tariff reforms, the May 1990 reforms affected almost exclusively manufactured goods. For these goods, the average tariff plus surcharge was reduced from 28 to 23 per cent on an unweighted basis (Table IV.2). The averages for the mining and agricultural sectors on an unweighted basis remained virtually unchanged at 5 and 16 per cent, respectively. Based on production-weighted averages, the main manufacturing industries affected by the May 1990 tariff reforms were food, beverages and tobacco (reduced from 26 to 24 per cent); textiles, leather and footwear (from 30 to 23 per cent); wood and wood products (from 38 to 32 per cent); non-metallic industries (from 35 to 25 per cent); and miscellaneous manufacturing (from 43 to 37 per cent). Tariff reductions mainly affected consumer goods.

155. Despite the introduction of a tariff ceiling of 40 per cent, high tariff peaks continue for many manufactured goods. Tariff peaks of 200 and 100 per cent apply for transport equipment such as cars, buses, motorcycles and parts. Duties of up to 60 per cent and over apply to other imported goods such as footwear, tobacco products, perfumes and toiletries, foodstuffs, chemical and plastic products, electronic products, toys and sports products.

156. Escalation of tariffs is another feature of the Indonesian Tariff. Though reduced by the May 1990 reforms, the unweighted average tariff rate for consumer goods - currently 33 per cent - is well over twice the average for intermediate and capital goods of 15 and 16 per cent, respectively (Table IV.2). As a result, downstream producers of finished goods receive much higher assistance than their input suppliers.

(d) Form of tariffs

157. In May 1990, the remaining specific rates in the HS, those applying at a rate of Rp 6,000 per kg on new and re-treated rubber pneumatic tyres

65 The May 1990 reforms shifted many tariff rates from the 45-60 to the 35-40 per cent range. The number of tariff items within the 15-40 per cent tariff rate range increased, from about one-third to over one-half of all tariff items.

66 Based on definitions used by ISIC and not the GATT Tariff Study - see footnote (63).
(excluding those used for aircraft which are duty free), were replaced by a uniform ad valorem tariff of 40 per cent, plus a 20 per cent surcharge. At the time, the ad valorem equivalents of the specific rate on tyres ranged from 8 to over 300 per cent.

158. The replacement of all specific tariffs with ad valorem rates has increased the transparency and predictability of the Indonesian Customs Tariff, and reduced the distortionary impact of the tariff on the economy. Unlike specific rates, ad valorem tariffs provide uniform rates across similar goods and set maximum levels on the assistance provided domestic industries. Assistance provided by ad valorem tariffs can only be increased by raising the tariff rate, while for specific rates, no ceiling is set and the rate of assistance varies inversely with changes in import prices.

159. Indonesia has never imposed alternate tariffs, seasonal tariffs or variable levies on imported products.

(e) Tariff reclassifications

160. Outside the major reform packages and the introduction of the HS and subsequent tariff-splits, ad hoc changes have been made to the Customs Tariff over the past five years. The frequency of these changes has declined over recent years as more tariff changes have been delivered through the major reform packages. In 1989, for example, 214 tariff items were revised on this basis, compared with 9 items so far in 1990. The revisions are made by ministerial decrees. They have involved both product

67 Prior to the introduction of the HS, 521 tariff lines, or some 10 per cent of the total, were subject to specific rates. With the conversion to HS, this number was reduced to 19. In addition to rubber tyres, goods formerly covered by specific rates included a broad range of foodstuffs, textiles and other consumer goods.

68 Specific tariff rates distort production patterns and trade flows more than ad valorem rates. Specific rates provide disparate levels of assistance for similar goods, thereby restricting more heavily imports of cheaper lines. By changing the relative prices of substitute goods in favour of the more expensive product, consumption patterns are distorted away from the lower-priced product towards the dearer alternative. Domestic manufacturers are encouraged to produce less expensive product lines where the level of protection against imports is greatest.

69 Specific rates can progressively cushion the domestic industry against less expensive imports by restricting imports more heavily when import prices decline. Domestic producers therefore benefit from an added insurance element against the prospect of a major slump in world prices.
reclassifications and sub-divisional changes. Both raw materials and final products have been affected.

(f) Tariff bindings

161. Before the conversion of the Indonesian Tariff to the Harmonized System, some 8 per cent of CCCN tariff lines (amounting to under 400 items) were bound or partially bound. The percentage of tariff bindings was marginally higher for industrial products than for agricultural commodities (8 per cent of tariff lines compared with 6 per cent).

162. Following adoption of the Harmonized System, Indonesia has renegotiated its bound customs tariff under GATT. A new schedule of bindings has been annexed to the Geneva (1990) Protocol, in accordance with the waiver granted Indonesia until 31 December 1990.

163. The schedule of bindings leaves the overall level of tariff obligations largely unchanged at about 9 per cent of all tariff lines (Chart IV.4). On this basis, around 30 per cent of imports would enter Indonesia under bound or partially bound tariff rates (Chart IV.5). The percentage of tariff lines bound for industrial products and agricultural commodities would be 10 and 4 per cent, respectively.

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70 The waiver was extended from 30 June to 31 December 1990 by Contracting Parties on 28 May 1990.
Chart IV.4
Proportion of bound tariff rates in Indonesia, 1990

Source: GATT Secretariat estimates.

Chart IV.5
Imports into Indonesia at bound rates of tariffs, 1990

Source: GATT Secretariat estimates.
164. All tariff bindings in the annexed schedule are ad valorem rates. For almost all products, bound rates exceed the current applied rate plus any import surcharge. About half of the bound items are bound at rates of between 5 and 10 times the existing applied tariff rate, and a further 15 per cent of bound items currently duty-free, have been bound at rates of either 50, 30 or, in a few cases, 10 per cent. The existing applied and bound rates are equal for less than 5 per cent of items bound. Thus, a substantial safety margin is maintained between the bound and applied tariff rates for most products. The existing applied rates inclusive of surcharges, where applied, exceed the proposed bound rates, by as much as double in some cases, on several items of machinery and equipment, iron, steel and aluminium (Chart IV.6). Almost all of these are surchargeable items where the applied rate exceeds the bound rate by the amount of surcharge.\footnote{It appears that two bound items relating to metal products are subject to IT and FI import licences.}
Chart IV.6
Ratio of bound to applied rates in the Indonesian tariff schedule

Percentage share of total bound rates

Note: The ratios are derived from comparing bound rates with applied rates, including surcharges. A ratio of "Less than unity" indicates that the applied rate exceeds the bound rate. A ratio above unity, say of "Up to 2X" means that the bound rate is up to double the applied tariff rate. The category "More than 6X" includes those items with an applied tariff rate of zero and a higher bound rate, usually 50, 30 or, in some cases, 10 per cent.

Source: GATT Secretariat estimates.

165. Indonesia has offered to bind a further 1,016 tariff lines covering textiles, clothing and footwear at rates of either 50 or 60 per cent as part of the Uruguay Round.

(g) Regional and bilateral trade

166. As a member of the Association of South-East Asian Nations (ASEAN), Indonesia is a party to the ASEAN Preferential Trading Agreement concluded in 1977. Under this Agreement, Indonesia extends preferential tariff treatment to certain imports from other ASEAN members - Malaysia,
Philippines, Singapore, Thailand and, since 1984, Brunei Darussalam - subject to national exception lists applied by each member country. Tariff preferences of between 25-50 per cent currently apply to eligible goods. Goods subject to preferential tariffs are not listed in the Indonesian Customs Tariff. Importers must apply for the preferential tariff rates.

167. The number of tariff items on which preferences have been exchanged by ASEAN members is 15,297. Indonesia has extended tariff preferences on 2,998 items, compared with 3,687 items by the Philippines; 3,255 items by Thailand; 2,695 items by Malaysia; 2,465 items by Singapore; and 197 items by Brunei Darussalam. Members have agreed to increase the number of preferences by the mid-1990s to around 18,000 items, representing 90 per cent of all items subject to ASEAN trade.

168. The main product areas accorded preferential tariff treatment by Indonesia include agricultural products such as dairy produce, edible vegetables and fruits, spices, sugar confectionery and fruit juices; mineral products such as metallic ores and mineral fuels; chemical products such as antibiotics, insecticides and organic chemicals; textiles and articles; optical and photographic apparatus; and electrical equipment.

169. To be eligible, goods must satisfy the rules-of-origin stipulated in the Preferential Trading Agreement. Goods imported into Indonesia from other ASEAN countries must have a minimum ASEAN content of 60 per cent of the f.o.b. value of the product. For Indonesian goods exported to other ASEAN countries, the minimum Indonesian content is 50 per cent of the f.o.b. value.

170. For ASEAN Industrial Joint Venture (AIJV) projects, the margin of preference applied to eligible products imported from ASEAN countries was increased from 75 per cent to a minimum of 90 per cent in 1988. The tariff preference generally applies for four years and must be provided within 90 days of the commercial production of the good. An eligible product that is a component subject to a local content programme in the participating countries is given local content accreditation. The Agreement requires participants to protect AIJV products from dumping, unfair trade practices or any other form of unreasonable pricing of similar goods from non-ASEAN sources. From 1991, the minimum ASEAN equity ownership required for AIJV projects will be increased from 40 to 51 per cent.

171. Intra-ASEAN trade covered by the Agreement has been growing quickly in recent years. Nevertheless, intra-ASEAN trade remains relatively small. Indonesian exports to other ASEAN countries in 1989 amounted to 10 per cent.

72 The 1990 preference rates reflect a decision taken in 1987 to gradually raise preference margins from the previously agreed level of 20-25 to 50 per cent.
of its total exports. Singapore accounted for three-quarters of these exports.

172. The ASEAN Preferential Trading Agreement does not at this stage provide for any other preferential trading arrangements apart from those operating on tariffs discussed above. However, ASEAN ministers recently adopted an Indonesian proposal for a new plan requiring ASEAN countries to use the same preferential tariff rates, and to explore the possibilities of integrating foreign exchange rules and eliminating non-tariff barriers between member states. These changes, beginning with the implementation of common preferential tariffs on selected industrial products, are seen as an important means of liberalising regional trade and investment within ASEAN.

173. Indonesia currently has bilateral trading agreements with 44 countries. An agreement was concluded with China earlier this year. These trade agreements are very broad in nature and do not provide for special treatment or dispute-settlement procedures. As such, normal GATT rules apply and all parties to the agreements receive m.f.n. treatment.

(h) GSTP

174. Indonesia grants tariff preferences to imports from the Republic of Korea under the GSTP system on 3 tariff items. The tariffs applying to these products are the ASEAN rates which set the maximum preferences available under the scheme.

(i) Tariff concessions and exemptions

175. About half of all Indonesian imports are exempt from tariff duties under various schemes operated by the National Investment Co-ordination Board (BKPM) to encourage investment, as well as the BAPEKSTA scheme allowing concessional imports of inputs used in producing exports. Consequently, the average tariff rate derived from duty collections is 5 per cent compared with the import-weighted average of 10 per cent.

176. Applying to mainly raw-materials, these concessional schemes tend to add to tariff escalation. This greater escalation is generally reflected in higher effective rates of assistance for final products.

177. As an investment incentive, the Government provides exemptions from tariff duties and surcharges on raw materials and capital goods imported by companies participating in foreign and domestic investment projects approved by the National Investment Co-ordination Board (BKPM). These arrangements enable companies to import their main equipment free of duty,

ASEAN to step up Investment Ties, International Herald Tribune, 31 October 1990.
and support equipment at a duty exemption of 50 per cent. Imports of spare parts for the main equipment, up to a maximum of 5 per cent of the equipment's value, are exempt from duty. Raw materials with tariffs of 5 per cent or less used in the projects' first two years of production are also duty-free; during this period tariff rates above 5 per cent are halved. Finally, consumables used in the first year of the project are duty free.

178. Master lists of products for which tariff exemptions are sought must be compiled by the investor, and submitted to the National Investment Co-ordination Board (BKPM). After examination and technical appraisal by SGS, the masterlist is cross-checked by BKPM and the duty exemptions approved. Master lists can be extended to cover goods imported for up to three years prior to the project coming onstream.

179. Similar arrangements operate on imported goods and materials, including construction equipment, used in Government projects financed by foreign aid or foreign loans. Any duty or surcharges paid on these goods is refunded in full on application.

180. On 6 May 1986, the former Export Certificate Scheme was replaced by a scheme allowing for the exemption or drawback (refund) of tariff duties and surcharges, as well as VAT and luxury taxes, on imported inputs used in producing exports. This new P4BM scheme was extended in December 1987 and at the end of 1988. Following the changes to the scheme in 1988 and 1989, the Government re-organized the administration of P4BM to become BAPEKSTA KEUANGAN (the Agency for Export Facility Services and Financial Data Processing), an agency within the Ministry of Finance headed by a Director General.

181. Under this scheme imports of raw materials, intermediate inputs and machinery used in manufactured exports are eligible for the concession, except for fuels, lubricants and factory supplies. The Scheme distinguishes between specialist exporter-producers importing their own materials who are eligible for duty exemption, and those producers who are either non-specialist exporters or who do not import their own inputs directly. Specialist exporters can import eligible materials and machinery, including second-hand equipment, without being subject to the

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74 Joint Decree of the Ministers of Finance and Trade and the Governor of Bank Indonesia, 6 May 1986.

75 Exports containing imported inputs eligible for exemption or drawback must be inspected by P.T. Sucofindo. Specialist exporters are also required to submit a report reconciling the use of imported materials with exported products. To be eligible, imported goods must be exported within one year of the date of import.
normal import licensing or quota arrangements. As from 24 December 1987, the definition of specialist exporters was relaxed for all firms, with the exception of textile and garment producers, from 85 per cent of production exported to at least 65 per cent.

182. Non-specialist exporters or those not directly importing their own inputs continue to be subject to the normal duty and import licensing requirements. However, they can claim for a drawback or refund of the duties paid on those imports used in processing exports. The Scheme also applies to contractors importing materials and construction equipment used in Government projects financed by foreign aid or loans. Furthermore, companies purchasing master list goods for investment projects approved by BKPM may obtain drawback of import duties paid by the producer or importer.

183. According to the decree establishing the P4BM scheme, applications for import duty exemptions and for duty drawback must be processed within three and two weeks, respectively, of being filed by the exporter. In practice, the average time taken to process applications is substantially less than two weeks for both duty exemption and drawback (Table IV.3).

184. Imports amounting to US$ 19.1 billion, involving duty exemptions of US$ 9.1 billion, have been approved for exemption facilities since the scheme’s inception. The number of firms benefiting from the P4BM scheme had grown to almost 2,400 by mid-1990, up from about 2,000 at the end of 1989, and less than 300 when the Scheme first started. In the first six months of 1990, the value of approved imports obtaining exemption facilities under the Scheme was US$ 9.5 billion, compared with total approvals of US$ 6.3 billion in 1989. Revenue foregone was US$ 5.5 billion and US$ 2.6 billion, respectively. Well over half represented import duties and surcharges. Duty drawback payments (including refunds of VAT) amounted to US$38 million in the first six months of 1990, compared with US$45 million in 1989.

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76 Relaxation of import licensing restrictions under this programme is allowed only for goods that are not domestically available at a competitive price and quality. Imported goods remain subject to the normal pre-shipment inspections performed by SGS.

77 Specialist exporter-producers importing their own inputs must pay duties and taxes on the share of imported materials not used in producing exports. However, they receive a full exemption of duty and taxes on imported machinery.

78 Much of this time is spent following up with applicants who have failed to supply the necessary information. For an application containing all the necessary details, the average time taken for processing is less than one week in most cases.
185. In 1990, over one-third of total non-oil imports were covered by the scheme. These imports were used in the production of about one-quarter of non-oil exports. The industries using the scheme have spread from clothing and textiles, to include footwear, rubber products (tyres), electronics and electrical machinery, processed foods, chemicals and plastics, fabricated metal products, iron and steel products, and wood products, as well as fishing, forestry and rubber plantations in the agricultural sector.

186. Tariff exemptions are extended to cover most machinery and spare parts for the oil and gas industries. Selected firms in other industries also benefit from concessional arrangements.

(j) Customs valuation and clearances

187. Indonesia is not a signatory to the Customs Valuation Code. However, the Indonesian Government has observer status on the Committee on Customs Valuation.

188. Since 1 May 1985, Indonesia has applied, with some exceptions, the GATT Code for imported goods valued less than US$5,000. For these imports, customs value is determined on the basis of transaction value or, where considered suspect by Customs, by using other prices in line with the Code, such as the transaction value of identical or similar goods. The burden of proving that the invoice price is true and correct in Indonesia rests with importers. Appeals by importers against customs decisions on valuation and classification of goods valued below US$5,000 may be made to the Chief of Customs of the relevant area office, or directly to the central Customs office. These valuation procedures also cover imports of crude petroleum, precious stones, metals, objects of art and diplomatic goods.

189. Following the appointment of Société Générale de Surveillance (SGS) in April 1985 to handle importation procedures for goods valued US$5,000 or more, a Comprehensive Import Supervision System was introduced in accordance with Presidential Instruction No. 4 (INPRES 4). This system requires compulsory pre-shipment inspection in the exporting country for all imports entering Indonesia above US$5,000. It replaced the previous system based on check prices.

190. Along with other changes to port and shipping arrangements, the new system was introduced to improve the flow of imported goods into Indonesia

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79 The average tariff for major items imported through the exemption facility was 33 per cent in 1988.

80 Under this system, check or indicative prices, set by the Minister of Trade to reflect c.i.f. prices, were used for customs valuation to discourage under-invoicing. These prices were changed periodically whenever they differed from foreign prices for the previous three months by more than 10 per cent.
which had become a bottleneck to economic development. The policy stipulated pre-shipment inspection of imports as a means of overcoming the poor infrastructure that existed then at most Indonesian ports for receiving imported goods. P.T. Sucofindo, the surveyor appointed by the Indonesian Government, commercially assigned with the Government's agreement all rights and obligations for work outside Indonesia to SGS.

191. The pre-shipment inspections cover the quality and quantity of the goods imported into Indonesia, confirming that the invoiced c.i.f. price is consistent with the consignment. The pre-shipment inspection also verifies the tariff classification nominated by the importer; where necessary, the duty rates, as well as the rates of any value added tax, luxury sales tax and income tax, are changed. The inspection takes place either at the seller's factory or warehouse, or at the port of shipment, depending upon the nature of the goods. At times, samples of the goods may be necessary to enable confirmation of the products using laboratory analysis. The costs of inspections are fully funded by the Indonesian Government.

192. Goods passing the pre-shipment inspection of quality, quantity and price are issued with a Clean Bill of Findings (LKP). This is used by the importer to complete an Import Notification Form (PPUD) whereby he self-assesses the import duties and any other taxes payable. Once this self-assessment has been checked by the importer's bank and the amounts paid, customs clearance is permitted.

193. The c.i.f. price used for customs valuation purposes is the effective price contained in the Clean Bill of Findings. It is either the actual invoice price or, where judged by SGS to be higher, the prevailing export market price determined by inspection. On average, inspections reveal either tariff misclassifications or under-invoicing in about one-out-of-three cases. About half of these represent under-invoicing.

194. Exporters firstly appeal to SGS if the customs value determined by them is considered incorrect. A final appeal may be taken to a special Committee established by the Government under the auspices of the Director.

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81 SGS performs price comparisons to establish the prevailing export market price of the goods being inspected. A preliminary price comparison is later verified after inspection when SGS has received all final documents, including the settlement invoice, from the seller. The prevailing export market price is determined by SGS using a range of sources including the prices of comparable shipments to Indonesia and other markets; local market information; published price lists; and commodity market reports and publications. It is adjusted to take into account special conditions attached to the delivery, such as volume of order or seasonal influences. Declared freight rates are verified by SGS to ensure that they appropriately reflect the actual costs incurred by the importer, distinguishing in particular between when conference and non-conference carriers have been used.
of Imports from the Ministry of Trade. The Committee comprises representatives from the Directorate General of Foreign Trade and SGS. Appeals by importers against customs classifications determined by SGS are made, after internal review by SGS, to the Director General of Customs.

195. It has been widely acknowledged among traders and businessmen that the system operating since 1985 has greatly cut importation costs, reduced delivery times and enhanced business confidence. Most imported goods can now be cleared through Customs within a few days, compared with several weeks, and sometimes months, under the former system. An independent survey of importers commissioned by SGS, indicated that about two-thirds of importers can now clear their goods through Customs between 1 and 4 days, compared with about only one-in-ten prior to 1985. This has resulted in reduced port clearance charges for eight out-of-ten importers, with one-third of all importers reporting cost savings of between 25-50 per cent.

196. The original three-year contract with SGS was extended by the Indonesian Government in 1988. It is the Government's intention for Customs and Excise to gradually resume its own customs operations from SGS when the current contract expires in May 1991. SGS is assisting in this regard by training Indonesian customs officers and developing the necessary infrastructure.

197. In order to improve its customs capabilities, Customs and Excise has recently announced plans to introduce a Customs Fast Release System at eighty-five seaports. Imports not subject to pre-shipment inspection by SGS are to be cleared using this system. Based on the results of a pilot project established at Surabaya, this system enables most imports to be cleared through customs in less than one day. The system establishes pre-notification procedures and allows most goods to be cleared without inspection - those eligible to pass through the green channel. A facility operates for the periodic payment of duties by importers on a monthly basis (Chart IV.7).

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82 The appeal procedure is specified in radiogram no. RDG-955/BC.231, dated 16 December, 1985.

83 SGS Importers Survey INPRES 4/1985, Jakarta, August 1989. The results on importer's inventory levels were less clear-cut with just over half of responding importers reporting no change and about one-third reporting reduced inventory levels.

84 According to recent statements by the Indonesian Minister of Finance, Mr J.B. Sumarlin, the contract with SGS would be continued in 1991, although its rôle and powers would be reduced. While no details were given on what tasks might be relinquished by SGS, the Minister indicated that some inspection tasks would be transferred to Customs and Excise.
 Levies and other charges

198. Since 1985, Indonesia has applied a uniform value added tax (VAT) of 10 per cent. The VAT rate can be changed in the boundaries of 5 to 15 per cent. In 1989, the tax was extended in scope to cover most goods and many services, although numerous agricultural products remain exempt. The value added tax applies equally to imported and domestically-produced goods.

199. In addition, Indonesia selectively taxes the consumption of a wide range of other products. A sales tax, at varying rates of 10, 20 or 30 per cent, is applied to specified luxury goods such as alcoholic and non-alcoholic beverages, transport equipment, electrical equipment, cosmetics and toiletries, photographic equipment and household furniture.
The luxury sales tax does not discriminate between imported and domestically-produced goods.\footnote{85}

200. Consumption is also taxed by certain excise taxes which apply mainly to sugar, certain artificial sweeteners and cigarettes. For white cigarettes, excise duties discriminate against imported goods. The excise tax levied on imported white cigarettes is 70 per cent, compared with the main rate of 37.5 per cent on domestically-made cigarettes.\footnote{86} The rates of sales tax on tobacco cigarettes is also higher than rates (mainly of 22.5 per cent) applied to manually-made kretek (or clove) cigarettes. The market for kretek cigarettes has grown rapidly over recent years. There have been no imports of white cigarettes since 1984.

(iii) Import prohibitions

201. Prohibited imports into Indonesia cover goods such as completely-built-up (CBU) motor cycles, passenger cars, jeeps, buses, vans and trucks; and printed matter (books, magazines, newspapers, etc.) written in the Indonesian language or using Chinese characters, including cigarette packets and labels for medicines. Other goods effectively banned include mini-tractors, rice, agricultural machinery, certain pumps, EDP pesticides used for preserving wood, Penthachlorophenol (PCP) pesticides and their salts, and many final pharmaceuticals, including antibiotics combined with other substances. A ban on imports of radios and TVs in completely-built-up condition was lifted in May 1990 when these goods were shifted to the general importer category (IU importers).

202. All imports from South Africa, Angola and Israel are banned. Following the Gulf crisis, trade with Iraq and Kuwait has been prohibited.

203. Most import bans exist to protect domestic assembly or processing operations. Other objectives include the protection of national security and culture, as well as protecting community health.

\footnote{85}{For luxury goods not produced locally but imported, the incidence of the tax will fall on foreign goods. However, these luxury goods, if produced in Indonesia, would attract the same rate of sales tax. The tax does not therefore encourage domestic production relative to imports.}

\footnote{86}{The tariff equivalent of the discriminatory tax will be higher than the straight difference in tax rates. The tax is levied on a price which includes the tariff duty and any other margins needed to raise the world import price (to which tariffs apply) to the equivalent domestic tax base.}
(iv) Import licensing

204. Indonesia's import licensing system is administered by the Ministry of Trade. This system classifies goods according to the type of importer permitted to import the product. Over 85 per cent of all tariff items are unrestricted, that is, licensed to be imported by general importers. All other items are classified to the Restricted Goods List. Importation of these goods is limited to holders of the licence under which the commodity is classified.

205. All importers must be registered with the Ministry of Trade and possess a general trading licence (SIUP), an importer identification number (API) and a taxpayer code number (NPWP). Only domestic companies can become registered importers. The general trading licence and the importer identification number are valid for as long as the holder continues in his present business activity. The total number of licence holders has doubled since 1986, and currently stands at well over 6,000. Most registered importers are located in the Jakarta region.

206. Non-restricted imports are explicitly or implicitly classified to the category of general importer (IU or IU+). They can be traded by any importer satisfying the general import registration requirements. All general importers who re-registered as required by 31 December 1988 were granted IU+ status. This entitled them to import all goods classified to the IU or IU+ categories. There are well over 3,000 licence holders.

207. Restricted goods can only be imported by firms licensed under authorized categories. A range of finished and certain other products are importable solely by Indonesia's six State-trading companies, the so-called registered importers or IT licence holders. The second category, producer importers or PI, are licensed to import goods which compete with their own output. PI holders are both private and State-owned companies. The third category, importer producers or IP, are licensed to import their production inputs if they can demonstrate that domestic substitutes are not available. Finally, sole agents or AT licence holders are national distributors appointed by the Indonesian government.

208. The producer importers category (PI) includes basic foodstuffs that are licensed to be imported solely by BULOG, the government organization controlling the domestic production and marketing of these products. Also

87 Import licences for agricultural products and beverages are, however, reviewed every two years.


89 The majority of PI items restrict imports to the two State-trading companies Tjipta Niaga and Kerta Niaga.
covered is the exclusive import of certain steel products by the State-owned Krakatau Steel, and of items that can only be imported by Dahana (explosives) and Pertamina (petroleum and gas products).

209. Sole agents, or AT categories, are national companies which hold certain trade marks appointed by overseas principals as the sole companies to import, promote, distribute and carry out after-sales service of certain goods throughout Indonesia.\(^90\) The licence is valid for a certain period of time, normally five years. Sole agents must be granted a certificate of recognition by the Minister of Industry. Sole agents are obliged to "promote the business of sole agents into that of production of the goods under their agency in line with the effective provisions on industrial business licensing, including their marketing both at home and abroad".

210. Goods are generally classified as being importable by only one type of importer. However, many goods remain authorized to be imported by both IT and IP licence holders. This applies to over 100 tariff items, and mainly includes woven cotton and synthetic fabrics, certain compressors, pumps, electric motors and generators.

211. AT, PI and IT importer categories control or regulate the degree to which domestic producers are exposed to import competition. Sole agents (AT) have an import monopoly over individual products. Similarly, PI licences limit imports of a wide range of finished products to mainly state-trading firms producing the same product. These include the import licences extended to Krakatau Steel. In the case of IT licences, importation by the designated State-trading companies are influenced by government policies; for example, informal "quota" or prohibitive arrangements are often used to restrict imports.

212. The reform packages introduced since 1986 have reduced the number of tariff lines subject to restrictive licensing arrangements by more than half. These switched many IT, PI and AT licences to general importer categories (IU). As a result, the coverage of domestic production affected by licensing arrangements has fallen from just over 40 per cent at the end of 1986, to about one-quarter in 1990 (Table IV.4). One-third of manufacturing output remains affected by import licensing arrangements. As the import licensing reforms have focused on the manufacturing sector, nearly 40 per cent of agricultural production in Indonesia still receives special protection from the import licensing system. Almost three-quarters of the economy's production covered by remaining import licences relate to crops and food, beverages and tobacco.

213. Restrictive import licences account for more than one-tenth of all tariff lines in the Indonesian Customs Tariff. Nearly all of these tariff

\(^{90}\) See Minister of Industry decree No. 428/M/SK/12/1987.
lines are classified to either the IT, PI and AT importer categories.\footnote{IT licences, by far the largest non-automatic licence category, account for two-thirds of total IT, AT and PI licences. The next largest category, AT licences, accounts for a further one-seventh.} Imports subject to these restrictive categories are summarized in Table IV.5.\footnote{Documentation prepared by SGS giving precise details on the goods covered by these arrangements has not yet been made available by the Indonesian authorities.} The main product areas affected by licensing reforms have been engineering, paper, tyres, glass, man-made fibres, textiles, iron and steel and plastics. The May 1990 reforms extended these reforms by relaxing import licences on a few processed foodstuffs; chemicals and fertilizers; pharmaceuticals; metal industrial goods including iron and steel; non-metallic products like cement; and machinery and equipment.

214. In certain product areas, the change from restrictive licences to the general importer category may not by itself significantly increase import competition. This is likely for products where the import licensing provisions have not been the sole constraint on imports. Cement imports, for example, are still likely to be restrained by the complicated distributional and pricing controls that appear to exist in Indonesia on cement at the regional level.\footnote{According to the Indonesian Consumer's Foundation, the present cement trading system licenses only particular producers to supply certain areas. See \textit{Government Will Not Raise Cement Reference Prices}, Jakarta Post, 29 September 1990, p.7.} Similarly, competition from imported fertilizers is unlikely to be open as long as P.T. Pusri, a major domestic fertilizer manufacturer, continues to operate the tendering process for the supply of imported fertilizers eligible for the government subsidy.

215. Except for second-hand goods covered by a BAPEKSTA licence, imports of second-hand machinery, parts and components may only be made if the importer obtains a licence from the Department of Trade.\footnote{See joint decree Nos.536/Kpb/1X/79, 166/M/SK/9/79 and 367/M/SK/8/80 issued by the Ministers of Trade and Industry.} Such licences are only issued following a preliminary inspection by SGS in the supplying country, and a positive recommendation or approval from the Ministry of Industry.

216. For security reasons, such as the counterfeiting of bank notes, importing colour photocopying machines and equipment requires a special permit to be issued by the Minister of Trade on a recommendation from the Ministry of Defence and Security.
(v)  

**Quantitative restrictions**

217. Power to impose quantitative restrictions on licensed imports in Indonesia is given to the Minister of Trade. The legal basis for import quotas is contained in a series of decrees issued by the Minister of Trade between 1982 and 1985.

218. Publicly accessible information on licensed goods subject to quantitative restrictions and the corresponding quota levels is not readily available in Indonesia. The known measures include a global quota of 10,000 tons in 1990 on batik imports (7,000-10,000 tons in earlier years). The objective of this quota has been to preserve and protect Indonesian culture. Imports of certain steel products are restricted by a global quota. The import prohibition on trucks was temporarily lifted in 1990 and a quota of 3000 trucks set to help overcome domestic shortages.

(vi)  

**Technical regulations and standards**

219. Indonesia has an extensive system of sanitary and health regulations. The regulations are set by the Department of Health. Sanitary or phytosanitary certificates are required for imports of most agricultural products.

220. Imports of most plants, fresh flowers, seedlings, vegetables and fresh fruit require a permit from the Minister of Agriculture, as well as an international phytosanitary certificate issued by the exporting country. Potatoes and fruit may only be imported if accompanied by a health certificate confirming that the potatoes were grown at least 500 metres from plants infected by wart disease, and that fruit is free from fruit fly and has been refrigerated for seventeen days at 37°F or less prior to importation.

221. In some cases, depending on end use, imports may have to comply with local registration and testing procedures. For example, imports of fertilizers, insecticides and pesticides are only allowed after field testing of around eighteen months by the Ministry of Agriculture.

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95 Access to information from SGS on goods subject to quotas and the corresponding levels has not yet been made available by the Indonesian authorities.

96 Batik products are only importable under IT licences by the designated State-trading company. Despite the official quota limit, no imports of batik products have been made in recent years and it appears that an informal ban exists on all imports of these goods.

97 Minimum prices also apply to certain iron and steel imports.
222. Prior approval is required for imports of most animals. These imports also need an inspection certificate obtained from the Indonesian Veterinary Service.

223. Import of many food, beverages, cosmetics and health products are licensed and must be approved by the Ministry of Health. The number of imported products licensed for health reasons has increased and now covers 115 tariff items. The main products affected are cosmetics, perfumes and toiletries (37 items affected); pharmaceutical products (23 items); cereal preparations (11 items); fruit and vegetable preparations (11 items); and dairy products (8 tariff items). These products, whether imported or produced domestically, must be approved and registered by the Department of Health prior to sale. Special registration, advertising, packing and marking regulations apply.

224. Alcoholic drinks packaged in small bottles are not permitted in Indonesia. The marking, packing and labelling of these products must conform with Indonesian standards (SII).

225. Certificates of origin certified by a recognized chamber of commerce must accompany imports of drugs and narcotics. Special permits from the Ministry of Health must be obtained for imports of most pharmaceuticals. Pharmaceutical products cannot be imported where the remaining shelf life stated on the product is less than half the life reported by the manufacturer.

226. According to the 1983 National Drug Policy, foreign firms may only register prescription pharmaceuticals if they incorporate high technology and have been developed from the company's own research. All other products must be licensed to local companies. This process allegedly involves large administrative delays for foreign companies wishing to register new drugs for sale in Indonesia.

(vii) Government procurement

227. Indonesian legislation on government procurement requires domestic goods and services to be used, while "paying attention" to ensure products meeting the technical requirements are always obtained at the most favourable justified price. This legislation covers procurement of goods and services by all Government departments, agencies, State-owned enterprises and banks, as well as those of regional governments. In practice, domestically-made goods, especially those produced by the economically weaker groups, are accorded substantial preference over imported goods. This holds in particular for procurement at the regional level.

228. Following the disbandment of the Government Purchasing Committee in 1988, Indonesia has had no central government purchasing agency. Since then, all Government bodies and State-owned enterprises have been authorized to award their tenders for goods and services for all contracts worth Rp 3 billion or less. For contracts above Rp 3 billion, approval
must first be obtained from the Co-ordinating Minister for Economic, Financial, Industrial Affairs and the Supervision of Development (EKUIN).

229. Contracts let for the procurement of goods and services are audited at a later stage by the Finance and Development Supervisory Agency (BPKP). The Agency examines the correctness of the quantity and quality of the goods and services, as well as the reasonableness of the prices paid.

230. Government procurement for contracts worth Rp 20 million or less is done through direct designation or direct procurement. It is reserved for contractors or suppliers from the economically weak sector. Direct designation refers to the designation of the contract to at least three applicants from the economically weak sector recorded on the List of Capable Suppliers maintained for this purpose. Under direct procurement, an individual contractor or supplier from the economically weak sector is awarded the contract.

231. All contracts above Rp 20 million must go to tender, either public or limited. In limited tenders, only contractors or suppliers from the List of Capable Suppliers are invited to apply. Where local tenders utilize imported materials, priority must be given to using the products with the maximum local content. Contracts of between Rp 20 million and Rp 50 million must be awarded to contractors or suppliers from the economically weak sector. For contracts of between Rp 50 million and Rp 100 million, tenders are awarded to other domestic suppliers only after allowing a 10 per cent preference margin to contractors from the economically weak sector.

232. As public tenders are only necessary for contracts exceeding Rp 500 million, most contracts below this value are let under limited tender to domestic suppliers from the List of Capable Suppliers. For contracts above Rp 500 million, the potential for overseas suppliers to win contracts is conditional on meeting Indonesia's countertrade arrangements. Contractors for government procurement must comply with national standards to the maximum extent possible.

(viii) Countertrade arrangements

233. The Government's countertrade arrangements are closely linked to its national procurement policies. The Indonesian Government encourages countertrade by making counterpurchasing agreements a pre-condition for overseas suppliers to be awarded government contracts put up for public tender, i.e. contracts exceeding Rp 500 million. These policies have operated since 1982 as a means of promoting exports of non-oil and non-gas commodities to diversify the Indonesian economy.

234. Foreign companies tendering for government contracts above Rp 500 million must submit a letter of undertaking to the Minister of Trade, guaranteeing to purchase certain levels of Indonesian non-oil and non-gas exports. The value of the undertaking must be equivalent to the value of the contract, less the value of Indonesian supplies, services, taxes, duties and wages paid by the foreign supplier in fulfilling the
contract. A penalty of 50 per cent of the value of any unfulfilled export undertakings is charged at the completion of the contract, although limited time extensions may be permitted to complete the undertaking.

235. The undertaking by the overseas contractor is additional to normal Indonesian exports to the foreign suppliers' country. Additional exports to a third country will not be permitted, except where the country of the foreign supplier has not traditionally been a market for Indonesian products, or where a special permit is approved by the Minister of Trade.

236. The Ministry of Trade is responsible for administering the counterpurchase arrangements. It must issue a certificate prior to the contract being signed indicating that the counterpurchase arrangements have been complied with by the contractor. The Ministry also maintains the list of non-oil and non-gas exports eligible for meeting the countertrade requirements.

237. The countertrade arrangements apply only to Government purchases financed from the National Budget (APBN). They do not apply to Government projects financed by foreign aid or loans from international institutions such as the World Bank, the Asian Development Bank and the Islamic Development Bank. Joint venture undertakings between Indonesian and foreign companies are also excluded from these counterpurchase provisions.

238. In recent years, the counterpurchase policies have been applied and administered by the Indonesian Government in a firm but flexible manner. By the end of June 1990, Indonesia had signed countertrade agreements involving counterpurchase deals with 26 countries for export undertakings totalling over US$2.4 billion. Transactions worth almost US$2.1 billion have been completed (Table IV.6). The main countries importing goods from Indonesia subject to counterpurchase arrangements have been (West) Germany (with contracts in total worth US$665 million), followed in order by Japan, Canada, the United States, Singapore, the United Kingdom, Australia, the Republic of Korea, Switzerland and Romania.

239. Indonesian exports benefiting from these arrangements have involved a wide variety of more traditional products, such as plywood, rubber, coffee, tea, cocoa, palm oil, pepper, shrimps, textiles, aluminium, tin, coal, nickel and cement. In recent times, these arrangements have been used to develop Indonesia’s manufacturing base.

240. In line with the Government's current policies of promoting a high-technology based aerospace industry, several counterpurchase deals have been negotiated for the supply by Indonesia of certain aircraft components. A major twenty-year countertrade deal was signed in 1989 by the State-owned aircraft company (IPTN) to supply components worth US$100 million, such as parts of the "sliding" cockpit frames, fins and airframes, to Airbus Industries of France. In return, Garuda, the State-owned airline, ordered nine Airbus A-330s for delivery in 1996-97. A similar counterpurchase deal was made with the Dutch aircraft company Fokker for the purchase from IPTN of components such as speed brakes, wing spoilers, composite wing fuselage fairings and pedestal frames in return
for Garuda purchasing twelve Fokker F.100 jets. Another counterpurchase deal worth US$57 million exists between IPTN and General Dynamics in the United States, for the supply over ten years of components for the F-16 fighter. This was negotiated as part of Indonesia's decision in 1986 to purchase F-16 fighter jets.

241. In 1988, two bilateral counterpurchase agreements were signed by Indonesia with Iran and Iraq. These agreements provide for the import by Indonesia of crude oil from these countries, in return, for the purchase of non-oil and non-gas exports from Indonesia. Indonesian exports to Iran of mainly tea, plywood and rubber totalling US$24.5 million have already been agreed to under these arrangements.

(ix) **Anti-dumping and countervailing action**

242. Indonesia is not a member of the GATT Anti-Dumping Code. It has no formal legislative procedures for treating anti-dumping or countervailing complaints raised by domestic producers. Rather, such complaints are handled on an informal basis, it would appear, using the system of import surcharges designed mainly to assist local infant industries against fluctuating world prices.

243. The use and coverage of import surcharges has tended to increase in recent years (see Section b). This is particularly the case in the areas of basic metal products, especially iron and steel, where import surcharges of varying rates have been applied to an extensive range of goods that are dutiable and remain importable only by Krakatau Steel under PT licences. For many of these items, the rate of surcharge substantially exceeds the basic tariff rate.

244. Using a broad remedy like import surcharges as an anti-dumping device does not enable the action to be targeted against offending suppliers. Surcharges must be applied across all exporters of goods classified to the nine-digit tariff item - the level at which they operate. While many items are currently subject to a zero rate, the fact that they are surchargeable may itself be sufficient to restrain competing imports.

245. According to Indonesian authorities, the Government is intending to introduce anti-dumping legislation along the lines of the GATT Code. However, details are not available.

(x) **Local content schemes and mixing requirements**

246. The Indonesian Government assists domestic manufacturers of certain components by imposing a number of local content schemes on domestic assemblers. These obligations form an essential element of the Government's sectoral plans promoting many manufacturing industries, especially in the areas of machinery, engineering, metal and transport equipment. No new local content schemes have been introduced since 1986, but many existing schemes have been modified or had their lives extended for a number of years.
247. Local content schemes in Indonesia operate through deletion lists. Localization programs are stipulated in various decrees by the Minister of Industry. These specify the components to be sourced locally and, in most cases, provide an explicit timetable for replacing the imported components. Master lists are prepared which contain non-deleted components that are not specified for local sourcing and can be imported. Components deleted from the Master lists are to be sourced locally and cannot be included in completely-knocked-down (ckd) packs imported by assemblers or final goods' processors. Master lists are prepared for each assembler and reviewed bi-annually by the Ministry of Industry. The system is subject to discretionary case-by-case reviews. This procedure reduces the transparency of the local content programmes and often results in differential treatment among firms from the same industry.

248. Local content schemes assist domestic suppliers by raising the demand for components subject to deletion, and penalize assemblers who are forced to pay above world prices to source components locally. The schemes apply to certain components used in the manufacture of motor vehicles such as commercial vehicles, trucks, motor cycles and forklifts; heavy equipment; mini-tractors; small to medium diesel and gasoline engines; electrical home appliances such as TVs, radios and radio communication equipment; agricultural machinery such as rice and palm oil processing equipment; electrical equipment like generators, motors, mini-circuit breakers and meters; machine tools including grinders, drills and lathes; pumps; and boilers (Table IV.7). A voluntary local content plan applies to passenger motor vehicles.

98 In some cases, the decree stipulates which components should be manufactured by the assembler in-house and which should be produced out-of-house by local component suppliers.

99 Deleted components may be left on the master lists by the Ministry of Industry if the assembler can show either that the locally-made component is not available; does not meet the necessary technical standards; or is not produced in sufficient quantities.

100 By requiring domestic assemblers to source locally certain components, local content schemes enable a share of the assistance afforded the assemblers or final goods' processors to be appropriated by suppliers of domestic components. As such, local content schemes assist domestic component suppliers at the expense of local assemblers; the greater the share of total assistance flowing to component suppliers, the greater the penalty imposed on assemblers and the lower will be their (effective) assistance.

101 These local content programmes were introduced in two phases. The first phase saw the establishment of programmes for commercial motor vehicles (1976), motorcycles (1977) and electric home appliances (1978).
249. Imports of completely-built-up (cbu) products are either prohibited (for example, commercial and passenger vehicles, trucks, motorcycles, mini-tractors, rice agricultural machinery and a few types of pumps) or restricted by AT licences. Imports of ckd packs satisfying the specified deletion lists may be imported duty free by domestic assemblers under importer producer (IP) licences. In this way, the Government encourages the development of industries using domestically-sourced components.

250. Local content plans in Indonesia generally aim for a high level of components to be sourced domestically. In many cases such as transport equipment, government policy is for 100 per cent local content. These local content requirements have been phased-in over a number of years, through deletion lists that have required increasing levels of local content. In many machine industries, components are fully sourced locally. For others, the percentage of local content is often above 50 per cent, and policies continue to be directed at further raising local content. In a few areas, however, the Government has tended to avoid rigid schedules of deletion by taking into consideration the quality and availability of local components when specifying those items which cannot be imported.

251. In recent years, the Government has tended to administer local content schemes in a more flexible way. Some of the local content requirements have been eased. The timetables for achieving several local-content targets were lengthened, such as for commercial vehicles, motorcycles, tractors, diesel and gasoline engines. As from February 1987, assemblers of the first three products have been permitted to practice "multi-sourcing" of parts. In the case of diesel engines, a more

(Footnote Continued)

All other local content plans were introduced in a second phase between 1983 and 1986. The local content programme on certain home appliances like refrigerators, air conditioners, electric fans and gas cookers was discontinued in 1985. Products selected by the Government for local content provisions are in areas where Indonesia was thought to have a comparative advantage provided scale economies could be realized.

102 In some cases the renewal of AT licences is conditional on the licence holders demonstrating that they are making sincere efforts to comply with deletion timetables set for localization by the Ministry of Industry.

103 There is evidence that the granting of investment and other operating licences by Indonesian authorities have been conditional on applicants demonstrating a strong commitment or "satisfactory" progress in increasing local content in areas subject to localization requirements.

104 This allows assemblers to individually import components not yet subject to deletion from any source without having to be part of a
flexible method of implementing local content requirements was introduced in 1986. 105

252. With the main exception of the scheme for trucks, the transparency of local content schemes has been enhanced by permitting assemblers to voluntarily import deleted components outside the plan at the standard tariff rates on spare parts. By not making deletion mandatory, the assistance provided to component suppliers is no longer "open ended". A ceiling rate is set equivalent to the tariff rate payable on imported components. 106 Nevertheless, the share of locally sourced components has remained high due to high tariffs on imported components, frequently exceeding 60 per cent.

253. Since 1986, imports of many components subject to local content provisions in the areas of heavy equipment, generators, tractors, household appliances and consumer electronics have been changed to importer-producer (IP) status. In such cases assemblers are allowed to import their components directly without having to go through approved importers (IT) or sole agents (AT).

254. Similarly, the import status of several final products subject to local content provisions have been relaxed so that users now have the option of importing the final product. This occurred mainly in the areas of consumer electronics and machine tools which are now in the general importer (IU) category; forklifts and certain heavy equipment such as crawlers, bulldozers and hydraulic excavators reclassified to the importer-producer (IP) category; and pumps which are now importable under approved-importer (IT) or producer-importer (PI) categories. Increased import competition from final products will reduce assistance to domestic assemblers. This will tend to undermine the local content plans by making it more difficult for assemblers to meet the required levels of local content.

(Footnote Continued)
completely-knocked-down (ckd) kit. For all other products, non-deleted components can only qualify for the reduced tariff if imported as part of the ckd pack.

105 Assemblers were given the flexibility of choosing which local components to substitute in production provided they met the specified local value-added targets and achieved the necessary programme of deletion by the end of the programme (1989).

106 By not providing for this possibility, conventional local content schemes represent a non-transparent form of assistance. Quantifying the extent to which these arrangement increase the level of assistance provided component suppliers above the tariff on imported components is difficult. Assistance will vary both between suppliers of different components and over time (with no upper limit), depending upon the prevailing market conditions for domestic components.
255. One mixing requirement continues to operate outside the machinery, engineering and transport equipment sectors. \(^{107}\) It benefits dairy farmers and relates to milk processing. To import milk products and milk raw materials duty-free under approved importer (IT) licences, milk processing firms authorized by the two designated importers must satisfy certain mixing requirements. These stipulate the purchase of one unit of locally produced milk for every two-units (in fresh milk equivalents) of imported milk. Since its introduction in 1982, this plan has become more restrictive, raising local content on a volume basis from 12.5 per cent to the current level of 33 per cent. \(^{108}\) Since October 1985, the Ministry of Trade has strictly enforced these mixing requirements in an effort to expand the dairy industry.

(xi) State-trading enterprises

256. An important aspect of Indonesia's trade policy environment is the targeting for development by the Government of certain strategic industries. Such industries are usually dominated by State-owned enterprises that receive trading privileges to enable the Government to control their supply. Strategic food commodities are mainly controlled by BULOG, and include rice, sugar, maize, wheat and wheatflour, soybeans, soybean meal, mung beans and fish meal. In the mining sector, strategic and vital minerals are almost exclusively mined and processed by State-trading companies. These include oil, gas, coal, tin, nickel, bauxite, zinc, gold, silver and uranium.

257. A number of manufacturing activities have been selected as strategic industries. They include shipbuilding, aviation, steel, fertilizers, petrochemicals, paper, aluminium, salt and cement. Once again, some of these sectors are run by State-trading monopolies.

258. Indonesia's import licensing arrangements grant State-trading companies import monopolies over a wide range of products. The approved-importer (IT) category, for example, covers many goods which can only be imported by the six State-trading companies of PT Kerta Niaga, PT Pantja Niaga, PT Mega Eltra, PT Tjipta Niaga, PT Dharma Niaga and PT Sarinah. Sole importing rights are also extended under producer-importer (PI) licences to these (especially Tjipta Niaga and Kerta Niaga) and other

\(^{107}\) A previous mixing requirement assisting cotton growers by requiring spinning mills to match imports of cotton fibres with purchases of locally-made fibres was suspended in November 1987. This scheme stipulated imports of cotton fibres to be matched with domestic purchases in the ratio of 10:1.

\(^{108}\) Originally, the ratio of imported milk materials to domestic purchases was 7:1. Because local milk is more expensive than imported milk, the percentage of local content is higher when expressed on a value basis (currently 38 per cent compared with 33 per cent).
State-trading organisations, such as BULOG over imports of basic foodstuffs like rice and sugar; Krakatau Steel on many steel products; Perum Dahama over all explosives; and Pertamina on petroleum and gas products.

259. Many State-trading enterprises have received government funding to help offset trading losses. These funds effectively provide a production subsidy to the industry. In 1989, funds provided by the government to State-owned enterprises totalled Rp 141 billion, compared with Rp 125 billion in 1988. Over three-quarters of the funds paid in 1989 went to industry (Table IV.8).

(xii) **Article XIX action**

260. Indonesia has never implemented Article XIX action to provide import restrictions to safeguard domestic industries.

(xiii) **Other measures**

261. A recent study on trade procedures and documentation in Indonesia concluded that the administration of the trade regime is fragmented among many government departments, agencies and other organizations. Substantial compliance costs are imposed on traders through meeting requests for documentation and information. The study identified 121 different types of documents used by Indonesia in international trade, as well as a total of 36 organizations that are regularly involved in administering trade (see Appendix IV.1). Up to fifteen organizations can be involved in a single shipment.

(3) **Measures Operating Directly on Exports**

(i) **Export promotion**

262. In order to increase Indonesian exports of non-oil and non-gas products, funds are provided to assist export promotion. This assistance is largely delivered through the National Agency for Export Development (NAFED), established in 1971 as part of the Ministry of Trade, and the Export Support Board (ESB) formed in 1986. The National Agency advises the Government on export policies and regulations, and provides assistance to train local manufacturers and exporters. The Export Support Board provides technical assistance in overseas marketing and promotion, as well as production management, with the objective of improving the international competitiveness of Indonesian exporters.

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109 R.N. Shivpuri, Preliminary Study on Trade Facilitation in Indonesia, UNCTAD, December, 1989.

110 See decree no.89/kp/III/86 of the Minister of Trade.
263. Products of finished and semi-finished manufactures as well as processed and semi-processed agricultural commodities benefit from the export assistance. Priority in assistance is given to goods high in export growth, value added, local content of raw materials, labour intensity and domestic multiplier effects. More specifically, the assistance covers the financing of a wide variety of export promotional activities, including the provision of marketing information and services, participation in and organization of trade fairs and overseas selling missions, as well as the services conducted by the overseas trade representatives (comprising eleven Trade Promotion Centre Offices). The Export Support Board (ESB) reimburses the approved costs incurred by eligible exporters on a cost sharing basis, up to a maximum of 75 per cent of the total cost of the project. In the case of export-support organizations, financial assistance of up to 100 per cent may be granted.  

264. The National Agency for Export Development (NAFED) is a Government agency belonging to the Ministry of Trade. Its annual budget is some US$2.5 million. Financial assistance provided by the Export Support Board is funded by the World Bank.

(ii) Export finance

265. Export finance is provided by the Export Credit Facilitation Scheme, introduced in 1982. Until recently, this finance was provided on largely concessional terms in accordance with Government Regulation No.1 of 1982. This stated that export credits, export credit guarantees and export insurance are to be provided on soft terms to promote exports of non-oil and non-gas products. Export finance to primary products was set at an interest rate of 6 per cent, unless the exports came from so-called "strong" industries. Strong industries were defined as having stable international markets and reasonable high prices, such as coffee, tea, palm oil, logs, shrimps, crude oil, bauxite, nickel and coal. For these items, the interest rate for export finance was set at 9 per cent. Non-primary producers, in particular manufacturers, received export credit at an interest rate of 11 per cent.

266. Following a bilateral agreement with the United States, Indonesia signed the GATT Code on Subsidies and Countervailing Duties in March 1985. In this context, the Indonesian Government made a commitment to phase out export subsidies by April 1990. The cumulative reduction in export

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The exact cost-sharing arrangements are determined according to the exporters financial capacity and the technological characteristics of the industry.

See Decree no. 14/65/Kep/Dir/UKU of 1982 by the Minister of Trade.
subsidies was achieved by progressive increases in interest rates on export finance provided all industries to more closely reflect market levels.\textsuperscript{113}

267. Export credits are now provided by the commercial banks. All joint-venture and foreign banks operating in Indonesia must maintain at least 50 per cent of their total outstanding credits in the form of export credits within one year of obtaining a banking license. Export credit facilities were extended in October 1988 to suppliers of raw materials, semi-finished and finished products for export purposes. To stimulate exports of finished rattan products, the interest rate on export credits was set at 9 per cent for exporters and suppliers of raw rattan, semi-finished and finished rattan products.\textsuperscript{114}

268. Substantial concessions continue to exist on outstanding soft loans. It was estimated that the total level of outstanding disbursements for export finance in 1987 of Rp 2.1 trillion, implied an annual subsidy of Rp 190 billion.\textsuperscript{115} There is, however, little data available on what industries benefit most from these concessions.

(iii) Export credit guarantees and insurance

269. Export credit guarantees and insurance are provided through the Government agency Asuransi Elespor Indonesia (PT ASEI).

270. Export credits provided by Bank Indonesia through commercial banks must be covered by insurance against the exporter defaulting on his payments. The premium for this Pre-shipment Export Financial Guarantee (PEFG) is shared equally between Bank Indonesia and the bank providing the export credit. The guarantee is provided automatically by PT ASEI. The amount of indemnification is fixed at 85 per cent of the loss. The remaining loss is shared equally between Bank Indonesia and the lending bank. As at July 1989, the backlog of claims stood at Rp 18.7 billion, down considerably from the level of Rp 25.6 billion in 1986.

\textsuperscript{113}The cumulative reduction in export subsidies was 50 per cent by 1 April 1987, and 75, 90 and 100 per cent by this date of successive years. The interest rates were increased on 2 May 1990 from 9 and 11.5 per cent to 14 and 14.5 per cent respectively. At that time, interest rates in Government banks were 15 per cent.

\textsuperscript{114}With the exception of rattan products, interest rates on export credits provided by the banks are commercially determined. While they reflect market levels, however, the obligation on banks to provide a minimum share of export credit finance is likely to benefit the high-risk exporter who may otherwise not have access to export credits.

271. The Export Credit Insurance Guarantee Scheme is funded by the Government and covers exporters against non-payment from overseas importers. The scheme covers about one-half of one per cent of Indonesia's total non-oil and non-gas exports. As most of Indonesia's non-oil and non-gas exports are traded on sight letter of credit terms, the demand for this type of export insurance is low. The very limited coverage across importers and countries exposes PT ASEI with potentially large losses relative to premium income.

(iv) Export restrictions and controls

272. In contrast to the recent relaxation of licensing arrangements on imports, Indonesian exports have been subjected to increasing regulations and controls over recent years. Export bans were extended in 1988. The incidence of approved exporter arrangements has increased. In 1989, export restrictions covered over 27 per cent of Indonesia's production of tradeable goods. Some three-quarters of Indonesia's mining output, including oil and gas, is covered by export controls. For agriculture and manufacturing (excluding oil and gas), the proportion is 18 and 13 per cent, respectively. Around three-quarters of Indonesia's merchandise exports are regulated in some way.

273. Export regulations in Indonesia cover bans or prohibitions, licensing arrangements, quotas and taxes. Export quality controls are applied to a wide range of products, especially in the primary industries (mainly forestry and mining), but also for some processed manufactured products such as wood and rubber products. Some products are subject to several export regulations. Exports of pepper, tin ores and concentrates and processed woods are, for example, subject to a mixture of licences, taxes and quality controls.

274. The increased use of export restrictions in Indonesia mainly reflects the Government's objectives of promoting the conservation of scarce resources, encouraging greater domestic processing of Indonesia's natural resources such as forests and rattan, and preserving the environment. As such, export controls outside the oil and gas sector apply mostly to unprocessed or semi-processed agricultural and forestry products. Export prohibitions on logs and rattan, for example, have encouraged domestic processing by tending to provide firms with their main inputs at less than world prices.

\[\text{116} \quad \text{Paul S.J. Wymenga, } \text{The Structure of Protection in 1989 in Indonesia, Jakarta, February, 1989, p.3.}\]

\[\text{117} \quad \text{As indicated in Chapter V, there is some evidence to indicate that the export ban on logs depressed domestic prices by around 20 per cent below world levels. See G. Fane and C. Phillips, op. cit., p. 28.}\]
275. Exports of goods are not subject to export inspection, except where there is suspicion by Customs that the goods concerned may be violating export regulations, or under-declaring export values on goods subject to export taxes. In December 1987, the need for an export identification number (APE) was revoked. Since then, the only requirement for exporting goods has been the possession of a trading licence (SUIP) from the Ministry of Trade. As in the case of imports, this licence is only available to domestic companies. Alternatively, the firm should have a Business Licence issued by the relevant government department, such as the Ministry of Industry in the case of manufacturing industries.

(a) Export prohibitions

276. Prohibited exports are mainly forestry products like logs, pulpwood, sawn ramin, meranti and agathis and low value sawn wood, green veneer, raw and semi-finished rattan; animal and marine products such as raw skins and hides as well as certain live rare fish and shrimp fry; and manufactured products like low grade rubber, remilled and smoked rubber, scraps of iron, steel, brass and copper, as well as rare animals or plants, antiques and kapok seed.

277. Most export prohibitions have existed for some time. However, a new prohibition was recently applied to cement exports. A few prohibitions have been extended in recent years to mainly promote greater domestic value added and employment in the processing of natural resources. The log ban existing since 1980, for example, was extended in 1988 to cover pulpwood used in manufacturing chipwood and low value sawn wood. Similarly, the export ban on scrubbed, but unwashed, smoked or sulphured rattan of 1979, was extended to cover exports of all raw material rattan in October 1986. The export ban was further extended in July 1988 to cover semi-processed rattan products.

(b) Export licensing arrangements and quotas

278. The export of a wide range of goods from Indonesia requires a licence to be issued by the Ministry of Trade. Goods subject to these licensing arrangements consist of two broad groups.

279. First, there are products which can only be exported by registered or approved exporters. They include exports of textiles, clothing, petroleum oil and tapioca subject to international import or production quotas. Other products covered are mainly vegetables; cassia vera; spices such as...

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118 The extension of the prohibition to cover semi-processed rattan was brought forward from 1 January 1989 to 1 July 1988 (see decree of the Minister of Trade No. 190/KP/VI/1988). As from 1 September 1988, the list of prohibited semi-processed rattan products was changed to include rattan webbing and to exclude chair parts and other seats not exported in completely-knocked-down (ckd) form (decree No. 275/KP/VIII/1988).
pepper; plywood as well as sawn and processed wood; tin; liquid natural gas; gold and silver products; and rattan mats. For these products, export licences are intended to stabilize the international market by avoiding excessive competition between Indonesian producers.

280. The number of approved exporters for any given commodity is usually fixed in close consultation with the relevant Commodity Trade Association. Joint Market Offices (JMOs) have also been established by the Ministry of Trade to market certain products, including all goods produced on State plantations, such as coffee, cocoa, rubber, tea, crude palm oil, cassia vera and, until recently, nutmeg. For many products such as cassia vera, Joint Market Offices determine export prices and allocate the export orders between the various suppliers.

281. Second, exports of certain agricultural and fertilizer products are supervised to ensure that domestic requirements are met. These arrangements impose informal quotas on some products which vary in restrictiveness and the degree of formality. For example, rice, wheat flour and soybean can only be exported by BULOG. Other exports supervised by the Ministry of Trade include salt, live cattle, fertilizer, kapok seed, newsprint, bandeng fry and certain vegetable oils like palm, palm kernel and coconut oils.

282. The authority to apply quotas to licensed exports rests with the Ministry of Trade who ensures that the objectives of the licensing arrangements are achieved. The Minister determines the annual quota levels and the exact specifications of the goods subject to quantitative restrictions. Full information on exports subject to quota is not readily available in Indonesia. It is difficult therefore to know with certainty what licensed goods are subject to export quotas and at what levels. Formal export quotas apply to goods such as rattan mats. Furthermore, as for imports, exports are restricted by informal arrangements administered as part of the export licensing system.

283. Quota entitlements are allocated between exporters by the Ministry of Trade, often in close consultation with the respective trade associations. For many products with less formal arrangements, quotas are allocated informally between exporters where the criteria and procedures used are not known. In the case of formal quotas, the Ministry of Trade considers the exporters' reliability and continuity as a supplier, his previous exporting performance, including his success in penetrating and developing new

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119 Nutmeg, along with mace, tengkawang oil seeds, cinnamon and vegetables from North Sumatra were removed from export regulation by the May 1990 package. Requirements for the approval of coffee exporting and marketing groups were also revoked.

120 Exports of these products by BULOG have been negligible and prime consideration has been given to supplying the domestic market.
markets for the goods concerned, and his adherence to existing quota regulations. Exporters are expected to utilize their own quota entitlements. In exceptional circumstances, quotas may be transferred to other recognized exporters approved by the Ministry of Trade.

284. As mentioned above, regulated exports include textiles and clothing exported under the MFA, which Indonesia signed in 1978. The participating trading partners are Canada, the EC, Norway, Sweden and the United States. In addition, bilateral agreements containing a memorandum of understanding for the monitoring and surveillance of Indonesian exports of textile products exist with Finland and Austria.

285. Quotas are applied under a bilateral agreement to Indonesian exports of tapioca to the EC. The current agreement expires in 1992. Limiting exports to a fixed volume of 825,000 tons per year, it contains no flexibility criteria such as carry-forward of unused quota levels to subsequent years. Export entitlements are allocated by the Ministry of Trade according to exports of tapioca to non-EC countries. Previously, Indonesia has been unable to meet its full quota. Entitlements have been allocated using the ratio of two units of exports to EC countries for every one unit exported to other countries. In view of the growth in Indonesian production and exports to non-EC countries, this ratio will need to be reduced.

(c) Export taxes

286. Indonesia operates a comprehensive system of export taxes. The rates are stipulated by the Minister of Finance after consultation with the Minister of Trade. Ad valorem export rates are either 5, 10, 20 or 30 per cent. Specific rates apply on wood products. For some items, especially treated hides and skins, additional export taxes of 20 or 30 per cent apply.

287. Products subject to ad valorem export taxes include mainly the agricultural goods of pepper (tax rate of 10 per cent); palm nuts (5 per cent); tengkawang seeds (20 per cent); chinchona bark (either 30 or 50 per cent depending upon moisture content); natural cork (5 per cent); and most treated animal hides and skins, such as those of bovine and sheep (mainly 50 and 60 per cent including the additional export taxes). Exports of aluminium waste and scrap are taxed at 30 per cent.

288. In the case of wood and sawn timber, new specific export taxes were introduced in April 1989. They increased considerably the tax rates of 5 or 20 per cent formerly applying to exports of these products. The new export taxes are specified in US$/metre and cover seven broad classifications, corresponding to 278 varieties of sawn timbers. Tax rates range from US$3/cubic metre for common varieties to US$900/cubic metre for some ebony products. The median export tax is US$40/metre. For many wood varieties, the specific export taxes are prohibitive, reaching in some cases 100 per cent ad valorem.
289. The Government has granted a 50 per cent reduction in the rate of export tax in order to promote exports of processed and raw timber produced and shipped from Irian Jaya. Several products are exempt from this reduction, including ramin, white meranti, agathis, ebony, sonokeling and nonokembang.

290. Check prices determined periodically by the Ministry of Trade are used for some products to determine the amount of tax. Otherwise, the ad valorem rate of tax is applied to the declared f.o.b. export price.

(d) Export quality standards

291. The Ministry of Trade, through the Directorate of Standardization and Quality Control, began specifying minimum standards in 1985 for a number of exported goods. The objective has been to improve the reputation of Indonesian exports.

292. The standards are determined taking into account factors such as the capability of Indonesian producers, the requirements of the buyers, the quality standards of other producing countries and established international standards. Indonesia is attempting to set its export quality standards to comply with those established internationally by the International Organization for Standardization (ISO) and, to a lesser extent, the Codex Alimentarius Commission.

293. Despite efforts to improve quality standards, Indonesia still has difficulties in meeting international quality standards for many products. This is recognized for some products, such as the moisture content of tea, where less stringent standards than those set internationally are applied. There are no cases where the Indonesian standards are more stringent than those applied internationally.

294. Export quality standards apply to a variety of Indonesian agricultural exports. They include certain types of fish, tapioca, shrimps, coffee, tea, spices such as pepper and nutmeg, vegetable oils, and cocoa beans, as well as to a few manufactured products like dry batteries, insulated wire and plated steel products.

295. Exports covered by quality standards must be screened by sampling and testing laboratories approved by the Ministry of Trade through the Centre for Quality Testing of Commodities (PPMB). Only those government bodies and private agencies specifically approved for sampling and testing exports requiring quality certification are empowered to issue certificates of quality (SM). Parties violating these export quality requirements will be subject to certain prescribed sanctions.

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121 Some importing countries have not accepted the results of export quality tests performed on certain products in Indonesia.
296. Producer-exporters may apply to the Centre for Quality Testing Commodities for permission to conduct internal laboratory tests on their exports. Permission is granted where the Centre is satisfied that the producer-exporter is capable of meeting the general testing provisions, and the specified technical requirements. As from 1 August 1987, approved producer-exporters have been able to issue their own certificates of quality (SM).

(v) Bonded zones

297. The Indonesian Government has allowed the establishment of special Bonded Zones in order to promote exports. Companies locating in these zones must export at least 85 per cent of production. They can import goods, which are re-exported after processing or warehousing, duty free. Imports into the zone from the Indonesian Customs area are also free of any charges until exported. Exporters may claim drawback of any tariff duty that may have been paid on goods sourced from the Indonesian customs area.

298. The main Bonded Zones in Indonesia are at Nusantara Harbour and the Tanjung Priok Port in Jakarta. Activities permitted in these zones include storing, sampling, sorting, re-packing, marking and labelling. Factories engaging in light manufacturing activities for export, such as electronics, semi-conductors, garments and food processing, are eligible to locate in these zones.

299. The procedures for importing and exporting into Bonded Zones are laid down in several ministerial decrees. Investors apply to the Investment Co-ordinating Board (BKPM) for a licence; other licences normally issued by the regional administrators are not required. For these projects, 95 per cent of foreign ownership is allowed, with no subsequent divesture required.

300. Batam Island is being established as a bonded zone and an industrial estate.

(vi) General system of preferences

301. As a developing country, Indonesia receives preferential tariff access to most developed countries participating in the GSP system.

(4) Measures Affecting Production and Trade

(i) Input subsidies

302. In Indonesia, users from all sectors benefit from the subsidization of petroleum products. Other input subsidies assist mainly farmers. They include subsidies on the consumption of fertilizers, financial credit and irrigation facilities. Urea manufacturers (and some other producers) receive natural gas - the main source of nitrogen for making urea - at subsidized prices.
(a) Fertilizers

303. Fertilizer subsidies funded by the Government to assist farmers have traditionally been a key element in the Government's policies of promoting agricultural self-sufficiency, especially in rice production. They enable all farmers to purchase fertilizers at prices below world market levels.

304. Fertilizer subsidies are provided to farmers by the Government through PT Pusri, one of the five State-owned domestic fertilizer producers. This company has the sole rights to import, sell and distribute foreign and domestically-produced fertilizers to farm cooperates (KUDs) and private retailers at prices fixed by the Government. In 1990, farmers paid farm-gate prices of Rp 185/kg for bagged urea and ammonium sulphate (AS) fertilizers, and Rp 210/kg for bagged triple superphosphate (TSP), multiple organic phosphate (MOP) and single organic phosphate (SOP). Thus, although a two-tier pricing structure now operates, farmers still pay uniform prices, or close to, for different types of fertilizers whose world prices can vary as much as 100 per cent.

305. The subsidies are paid on the main types of fertilizers, including both phosphatic and nitrogenous fertilizers. The amount of the subsidies paid by the Government have been generally reduced since October 1988 by raising domestic prices. In 1990, the subsidies stood at Rp 46.39 per kg of urea (down 7 per cent over the previous 12 months); Rp 241.5 per kg of TSP (down 13 per cent); Rp 108.2 per kg of AS (down 8 per cent); Rp 110.59 per kg of MOP (down 21 per cent); and Rp 343.16 per kg of SOP (up 25 per cent since being introduced in April 1989). The extension of the subsidy to cover SOP and the large rise in the subsidy rate has reduced the gains made from cutting subsidy rates on other fertilizers.

306. The fertilizer subsidies are paid not to the farmer, but to PT Pusri in the case of imported fertilizers, and to other domestic fertilizer producers (Chart IV.8). Since the Government sets both the farm-gate price and the producer (importer) price, the benefits of the fertilizer subsidies are shared between the farmer and the fertilizer producer (importer). The subsidy provided to farmers will be the difference between the farm-gate prices set by the Government and the import parity prices of equivalent fertilizers.

122 With the exception of ammonium nitrate which is subject to IT licences, fertilizers are no longer classified to restrictive import licenses. However, the import monopoly is in effect maintained by PT Pusri's sole rôle in the distribution of imported fertilizers eligible for the fertilizer subsidy.

123 Reduced fertilizer prices to farms from these subsidies encourage heavier application rates and greater consumption of fertilizers. An important factor affecting this is the extent to which fertilizers may be (Footnote Continued)
Subsidy scheme on fertilizers in Indonesia

**Imported fertilizer**
- **Importers**
  - C&F + Local Cost
  - Rp. A
- **Distributor**
  - Distribution Cost
  - Rp. B
- **Farmers**
  - Payment
  - Rp. C
- **Subsidies Rp. \[A(C-B)\]**
  - G.O.I

**Locally-produced fertilizer**
- **Producer**
  - Prod. Cost
  - Rp. A
- **Distributor**
  - Distribution Cost
  - Rp. B
- **Farmers**
  - Payment
  - Rp. C
- **Subsidies Rp. \[A(C-B)\]**
  - G.O.I

**Source:** Government of Indonesia.

(Footnote Continued)
substituted for other inputs, such as intensive cultivation of available farming land. Fertilizer consumption in Indonesia is well above other ASEAN countries, 75 kg of plant nutrient compared with 32 kg and 24 kg in the Philippines and Thailand, respectively.
307. In 1986-87, the average fertilizer subsidy received by farmers, weighted by domestic fertilizer consumption which comprises mainly triple superphosphate and urea, was equal to an estimated 39 per cent. This means that farmers were then receiving fertilizers, on average, more than one-third below the c.i.f. price of imports. On this basis, the share of the Government's fertilizer subsidies accruing to farmers was estimated at some Rp 400 billion. Intensive users of fertilizers, especially of triple superphosphate which was estimated to have the highest rate of input subsidy, would benefit most.  

308. These estimates are supported by information supplied by the Indonesian authorities on the subsidy rates provided farmers for urea and triple superphosphate. The rates of subsidy increased in 1988, especially for urea (Table IV.9).  

309. It has been estimated that the complete removal of fertilizer subsidies would affect mainly tobacco and other estate crops which are intensive users of fertilizers. For rice farmers, the removal of these subsidies would be equivalent to about a 3 per cent decline in rice prices.  

310. Previously, farmers had benefited also from government subsidies provided on the consumption of pesticides. According to the World Bank, these subsidies had enabled farmers in the past to obtain pesticides at prices of up to 40 per cent below international levels. The financial cost to the Government of the pesticide subsidy was Rp 90 billion in 1986-87, of which about half was estimated to accrue to farmers.  

311. Pesticide subsidies were terminated as from 1 January 1989.  

(b) Concessional credit  

312. Through its liquidity credit system, Bank Indonesia has provided high priority loans at concessional interest rates to assist mainly rural producers. Under this facility, Bank Indonesia re-finances eligible loans extended to farming communities by Indonesian banks. The extent to which

124 Ad valorem rates of the fertilizer subsidies were estimated to be 20 per cent for ammonium sulphate, 36 per cent for urea, 43 per cent for potassium chloride and 53 per cent for triple superphosphate. See G. Fane and C. Phillips, op. cit., p.192.  

125 By distorting relative prices between different types of fertilizer, these arrangements tend to encourage greater consumption of fertilizers with the highest subsidy. Of course, the degree of distortion depends upon the technical feasibility of substituting fertilizer types for each other.  

Bank Indonesia re-financed bank loans has varied between the different programmes, from 55 per cent to 100 per cent (Table IV.10).

313. The main programmes providing concessional credit are the Kredit Investasi Kecil (KIK) and the Kredit Modal Kerja Permanen (KMKP) schemes. They finance the economically-weak group of indigenous enterprises comprising small-scale entrepreneurs such as farmers, fishermen and craftsmen, and small-scale corporate bodies. By April 1989, outstanding loans under these two schemes had increased to well over Rp 2,300 billion, compared with Rp 1,800 billion one year earlier. The KIK scheme covers small-scale investment credit provided over a medium or longer term on special terms and conditions to finance the development and expansion of existing or new projects. The KMKP scheme provides soft credit to finance the working capital requirements of small enterprises. An additional scheme, which channels funds through village unit co-operatives (Koperasi Unit Desa or the KUD scheme), provides concessional loans to low income farmers.

314. Quantifying the value of the interest rate subsidy provided by these concessional arrangements is difficult. The most recent estimates available are for 1986-87. These indicate an interest rate concession of, on average, 8 percentage points. This corresponds to an agricultural subsidy of around Rp 120 billion per year. The main users of this concessional credit were the rubber, coconut and sugar cane growers. For these producers, the implied subsidy rates resulting from concessional credit were estimated to be 3, 3 and 5 per cent respectively.

315. Beginning 1 February 1990, Bank Indonesia has rationalized the provision of liquidity credits to improve the efficient use of bank loans, and to ensure increased access to credit by economically weak businesses. A reduction in both the number of programmes and the volume of liquidity credit is envisaged. In future, Bank Indonesia liquidity credits will be extended to banks for financing only the working capital of farmers via the KUD Scheme (to be funded entirely by Bank Indonesia); for the harvesting of wet rice, secondary crops and cloves by cooperatives and their purchases of fertilizers (three-quarters of which will be provided by Bank Indonesia); the operations of BULOG in providing sugar and food; and general investment credit provided by development banks, including credit provided to the plantation sector.

127 These estimates also included the assistance provided by the BIMAS scheme and the World Bank funded Tree Crop projects such as the Nuclear Estates Scheme (NES) which aimed at raising incomes of farmers producing rubber, oil palm, coconuts and related crops. A large share of the loans made under the BIMAS scheme which provided the majority of subsidized rural credit prior to 1984, were never recovered. See G. Fane and C. Phillips, op. cit., p. 132.
316. Under the new arrangements, the interest rates charged farmers on loans was increased to 16 per cent per annum in 1990. Future interest rates are to be tied to market levels. Substantial subsidies remain on outstanding loans subject to the former concessional interest rates.

317. Reductions in the volume of Bank Indonesia liquidity credits under the new arrangement are being substituted by a requirement that all banks provide a minimum of 20 per cent of their credit to the economically weak groups. This requirement is additional to funds provided by banks under Bank Indonesia liquidity credits. It is intended to provide general credit facilities to support the growth of small indigenous businesses. Funds under this Small Business Credit scheme (KUK) are provided to businesses with total assets of Rp 600 million or below, up to a maximum level of credit of Rp 200 million. The credits are to be provided largely on commercial terms.

(c) Crop seeds

318. The supply of crop seeds for rice, soybeans and cauliflowers is restricted to the government-owned National Seed Corporation, Penin Sang Hyang Sin. This company has a monopoly on the right to import seeds. A mechanism similar to the fertilizer subsidy is operated by the Government. Funds are paid to the State-owned company so that crop seeds can be supplied to farmers at reduced prices. The level of subsidy is Rp 207.50 per kg of seed, compared with a uniform farm-gate price for all types of seeds of Rp 450/kg. No information is available on the extent to which this subsidy is shared between farmers and the seed supplier.

319. Since 1988, maize seeds have been supplied to farmers at a price intended to cover the costs of the National Seed Corporation.

(d) Irrigation facilities

320. Many farmers in Indonesia are provided irrigation facilities substantially below their full operating and maintenance costs. This input subsidy raises the competitive position of major crops intensively using irrigated water.

321. According to a recent World Bank report, "water is currently the most subsidized of all agricultural inputs in Indonesia, with farmers paying only a fraction of the costs of the incremental benefits from irrigated water". According to this report, the annual subsidy to users of

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128 Foreign banks and joint venture banks which are required to provide 50 per cent of their credit for exports are exempt from this regulation.

irrigation water has been estimated at Rp 1.3 trillion, or Rp 343,000 per hectare of irrigated land.

322. While there is only limited information on the incidence of the subsidy across different users of irrigation water, major beneficiaries appear to be farmers of soybeans, sugar cane, rice, maize and peanuts. For these crops, the input subsidy on irrigation water was estimated to be equivalent to an output subsidy of up to 10 per cent.130

323. The Indonesian Government has transferred the operation and maintenance of many irrigation systems to provincial governments, encouraging them to reduce the subsidies by introducing user charges. While some provincial governments have adopted service fees for using irrigation water, the fees have remained small and provide no basis for full cost recovery. Similarly, attempts to recover revenue through the imposition of land and property taxes applied to the improved value of irrigated land are minor.131

(e) Natural gas

324. The fertilizer and steel industries benefit from a subsidy provided by the Government on natural gas used in production. In the case of fertilizer, the competitiveness of urea manufacturers, and hence the manufacture of nitrogenous fertilizers, is greatly dependent on this subsidy. For all other users, the price of natural gas supplied by Pertamina is set on a project-by-project basis in order to fully recover extraction and processing costs.

325. In the case of urea manufacturers, the price of natural gas has been fixed by Presidential decree for many years at US$1 per million British thermal units (BTU). As the international price for natural gas is about double, this represents a subsidy rate on natural gas used by urea manufacturers of around 50 per cent. Since natural gas is the main input cost in urea manufacture, the subsidy has a significant effect on urea prices. It has been estimated that the cost of urea production rises by US$3 per ton for every US$0.1 per million BTU increase in the price of natural gas.

130 The equivalent rates of output subsidy for the five crops were estimated to be 10, 9, 5, 3 and 3 per cent, respectively. See G. Fane and C. Phillips, op. cit., p.130.

131 These taxes are also an indirect and inefficient method of charging users for irrigation facilities.
326. Based on 1987 figures, the subsidy of US$1 per million BTU would have reduced the production costs of urea by US$30 per ton. This implies a total annual subsidy to urea manufacturers of around Rp 160 billion.

327. The State-owned steel manufacturer, P.T. Krakatau Steel, benefits from subsidized natural gas.

(f) Fuels

328. A petroleum subsidy financed by the Government has been provided in most years to users of fuel products under the petroleum marketing arrangements operated in Indonesia. These provide for the State-owned oil company, Pertamina, to sell its products at prices set by the Government. Pertamina controls the purchasing, production and domestic marketing of refined petroleum products. Depending upon the level of world prices, the domestic prices are usually set below world prices, providing a fuel subsidy to all users of petroleum products.

329. The Government covers losses incurred by Pertamina on domestic sales. The amount is calculated as the difference between the revenue received by Pertamina on domestic sales less its costs of production, including a normal profit margin. This financial subsidy is paid directly from the budget. The subsidies are applied across all fuel products, but are greatest on kerosene and diesel fuels.

330. While there was no budget allocation in 1986-87, a substantial petroleum subsidy of over Rp 400 billion was paid to Pertamina in 1987-88, equivalent to an overall input subsidy of 8 per cent. The value of the subsidy fell to Rp 255 billion in 1988-89, but increased again sharply in 1989-90 to Rp 706 billion. For industries that are intensive users of petroleum products, subsidized fuel costs enhance their competitiveness with imports.

331. In order to eliminate the projected petroleum subsidy of Rp 627 billion for 1990-91, the Government increased domestic fuel prices by an average of 15.7 per cent in May 1990. The price increases varied from 10 per cent for fuel oils, up to 32 per cent for aviation fuels. The price for diesel fuel used in transport and industrial purposes increased by 22 per cent and 17.5 per cent, respectively. However, if the price hike

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133 It does not fully compensate Pertamina for the domestic marketing arrangements since, without them, the petroleum products could be sold at the higher world prices.

134 The actual rate of input subsidy afforded petroleum is likely to be substantially higher since the financial subsidy paid by the Government is based on lower domestic prices and not world prices.
for crude oil resulting from the Middle East crisis in August and September 1990 continues, further rises in domestic prices will be necessary to eliminate the subsidy.\footnote{For example, at the September 1990 price levels, subsidies to Pertamina are required whenever the OPEC price for crude oil rises above US$18 per barrel.}

(ii) Production subsidies

332. While subsidising fertilizer users, the fertilizer arrangements financed by the Government also raise manufacturers' returns by providing a production subsidy. Domestic fertilizer producers, which are fully owned and operated by the Government, are paid prices determined by the Government according to each producer's costs of production, including a profit margin. Fertilizer manufacturers therefore receive a price well above the world price. The margin varies between manufacturers, depending upon their international competitiveness.

333. According to World Bank estimates, a substantial share of the fertilizer subsidy was appropriated by the manufacturers and not the farmers. In 1986-87, this share was estimated to be some Rp 200 billion, out of a total fertilizer subsidy payment of Rp 580 billion. Since fertilizer prices paid by the Government are set individually for each fertilizer manufacturer, the rate of production subsidy varies across producers, depending upon their production costs. The average producer subsidy weighted by domestic production was estimated to be 24 per cent in 1986-87. Urea producers were estimated to receive between -15 and 40 per cent above world prices, while the higher cost producers of triple superphosphate and ammonium sulphate were estimated to have received between one to two times the world price.\footnote{See G. Fane and C. Phillips, \textit{op. cit.}, p. 189. Urea producers also receive an input subsidy on natural gas - see Section 4(i)(e).}

(iii) Agricultural pricing and marketing arrangements

334. In order to promote price stabilization and improve farm incomes, the Indonesian Government has established domestic marketing and pricing arrangements for several agricultural products. The existence of these arrangements are seen as strategic elements in Indonesia's agricultural policies of attaining food self-sufficiency and security.

335. Agricultural marketing arrangements operating in Indonesia are handled by BULOG, a State board set up in 1967 to control the marketing and pricing of major foodstuffs. According to legislation, its rôle is to control the prices of paddy rice, wheat flour and other commodities as determined by the Government with a view to safeguarding price stability, both in the interests of producers and consumers. In addition to rice and...
wheat, other commodities currently controlled by BULOG include mainly sugar, soybean and soybean meal.

336. Details vary between individual commodities. The main features of all arrangements include extensive controls over the growing, acquisition, processing, distribution and sale of the commodities concerned, at prices which are either set or controlled by the Government. For example, BULOG is the sole distributor of all sugar produced in Indonesia. Competition is eliminated by granting sole importing rights to BULOG. In the case of certain products, such as sugar cane and soybeans, direct production target controls are applied so that farmers grow these commodities, and not other crops like rice. Acreage controls are being reduced in some areas, in favour of providing adequate market incentives to induce production of selected commodities.

337. Domestic prices are set mainly on the basis of costs of production. In particular, domestic prices of sugar and soybeans have consistently been high relative to international levels.
V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Overview

338. Protectionist policies in the past have been employed by the Government to deal with a variety of development objectives. These include the growth of a more diversified industrial sector with reduced dependence on fuel exports to create employment, earn foreign exchange and boost investment opportunities to establish the pre-conditions for sustained economic development.

339. Since the mid-1980s, the policy stance of the Indonesian Government has shifted noticeably from one of inward-looking protectionism to one of developing outward-looking industries. Despite substantial achievements so far in trade reform, the Indonesian economy remains characterized by wide disparities in the provision of public assistance across production activities. This holds for both the sectoral level and within each sector.

340. At the sectoral level, assistance to manufacturing by measures such as tariffs and import licensing is estimated to exceed that provided agriculture. Agriculture (including forestry and fishing) receives

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137 In assessing the impact of trade measures, it is important that they be viewed from an economy-wide perspective. Because of the interrelationships between industries, trade policies can only assist the preferred activity to the detriment of others, i.e. one industry's protection is another industry's burden. Import restrictions used to protect domestic industries, for example, tax efficient export activities.

138 Several studies have recently attempted to quantify levels of assistance using the measures of nominal and effective rates of protection. The effective rate of assistance is the percentage increase in the activity's value added resulting from a country's structure of assistance. It measures net assistance by taking into account not only output or gross assistance (measured by the nominal rate of assistance on outputs) but also any penalties (e.g. from tariffs) and benefits (e.g. from subsidies) operating on an activity's inputs. Thus, it is a more accurate summary measure of the extent to which an activity has been assisted or penalized by the overall assistance structure. The estimates of effective assistance and supporting information presented in this Chapter are taken mainly from studies conducted by the World Bank and their consultants, or by the Ministry of Industry. They include G. Fane and C. Phillips, Effective Protection in Indonesia, Report Submitted to the Ministry of Industry, December 1987 and P.S.J. Wymenga, The Structure of Protection in Indonesia in 1989, Working Paper No. 17, Industry Analysis Project, Centre for Data Processing and Analysis, Ministry of Industry, 1990.
nominal and effective rates of assistance equal to 9 and 13 per cent respectively, compared with 14 and 23 per cent for total manufacturing, or 19 and 60 per cent if the oil and gas industries are excluded (Table V.1). The corresponding gross and net subsidy equivalents (expressed in 1990 prices) are Rp 3.6 trillion and Rp 3.3 trillion for agriculture and Rp 8.5 trillion and Rp 4.1 trillion for total manufacturing. In other words, assistance from mainly consumers is estimated to be raising the annual net returns of all domestic producers by Rp 7.4 trillion (equal to the summation of the net subsidy equivalents), or around US$ 4 billion.

341. The lower assistance levels for agriculture reflect mainly the low assistance for rice growing which dominates the sectoral average. It is also due to the high regulation of agricultural exports compared with manufactured exports, especially in the area of natural resource-based products like wood, rubber and hides. Export restrictions in these areas tax the agricultural activity by reducing output prices and assist the development of the domestic downstream manufacturing process.

342. Major agricultural exporting industries receive well below average assistance or are effectively taxed by the trade policies in Indonesia, including producers of cassava, rubber, coconut oil, palm oil, coffee, pepper, nutmeg and tea (Chart V.1). Import-competing commodities receive much higher levels of assistance, and include the food crops of sugar, soybeans, vegetables, fruit, peanuts and rice, as well as animal products, especially dairying.

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139 Two different classifications are used in this Chapter. Product categories are discussed according to the classification used in the Tariff Study. However, the nominal and effective rate estimates are based on the International Standard Industrial Classification (ISIC). Major differences exist between these two classifications (see Chapter IV).

140 The tax imposed on forest products by these export restrictions is reflected in the negative nominal and effective rates of assistance estimated for forestry of, on average, -38 and -42 per cent, respectively. Excluding forestry increases the corresponding averages for agriculture to 14 and 22 per cent.

141 Assistance estimates referred to are based on the proportional difference between the product's domestic (assisted) price and its world (unassisted) price. These estimates need to be interpreted cautiously in cases where world prices are being distorted by the trade policies applied by major suppliers, such as for certain agricultural commodities. However, for more permanent distortions in world trade, assistance estimates based on actual world prices would continue to be a useful means of measuring the effects on domestic welfare of a country's own trade policies.
Chart V.1
Industries in Indonesia ranked by effective rates of assistance, 1990

<table>
<thead>
<tr>
<th>Industry</th>
<th>Negative</th>
<th>Positive</th>
<th>Up to 2 times</th>
<th>2-4 times</th>
<th>4-10 times</th>
<th>&gt;10 times</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leather (E)</td>
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<tr>
<td>Sawn processed wood (E)</td>
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<tr>
<td>Wood &amp; bamboo (E)</td>
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<tr>
<td>Other forest products (E)</td>
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<tr>
<td>Milk products (I)</td>
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<tr>
<td>Tin ore (E)</td>
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<td>Iron sands (E)</td>
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<td>Copper (E)</td>
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<td>Other milled cereals (I)</td>
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<td>Printing &amp; publishing (I)</td>
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<td>Gold &amp; silver (E)</td>
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<td>Veg &amp; animal oil (E)</td>
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<tr>
<td>Smoked meat &amp; rubber (E)</td>
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<tr>
<td>Pepper (E)</td>
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<td>Shipbuilding (I)</td>
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<td>Oil refining (E)</td>
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<tr>
<td>Processed soybean (I)</td>
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<tr>
<td>Nickel (E)</td>
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<td>Plastic resins, fibres (I)</td>
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<tr>
<td>Coconut oil (E)</td>
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<td>Other metal ores (E)</td>
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<tr>
<td>Chemical, fertil., ore (I)</td>
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<tr>
<td>Dried cassava (E)</td>
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<tr>
<td>Rubber (E)</td>
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<tr>
<td>Salt (I)</td>
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<tr>
<td>Processed tea (E)</td>
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<tr>
<td>Crude oil &amp; gas (E)</td>
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<tr>
<td>Liquid natural gas (E)</td>
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</tbody>
</table>

Below average assistance

Positive

Up to 2 times

2-4 times

4-10 times

Above average assistance
Chart V.1 (cont'd)

Note: Covers all tradeable industries from the Indonesian 1987 input-output data. Average effective rate is calculated by weighting each industry's level of assistance in 1990 by its estimated share of value added in 1987. See chapter V text (footnote 2) for a definition of the effective rate of assistance.

In each category, industries are ranked in ascending order of effective assistance, i.e. leather is the least assisted industry and cigarettes the most highly assisted. Industries receiving lower assistance are penalized relative to other industries receiving higher assistance, and those having negative assistance are penalized absolutely compared with the free trade situation.

(I) after each industry indicates that it is an import-competing activity and (E) signifies that the activity is export-competing. The extent of the anti-export bias inherent in the Indonesian assistance structure is illustrated by the fact that all export-competing industries except one, receive below average effective assistance. Of those industries receiving negative effective assistance, over two thirds are export-competing.

343. In manufacturing, the structure of incentives also varies widely across and within individual industries. In food, beverages and tobacco, for example, effective rates of assistance range from -18 per cent for "other milled cereals" to over 500 per cent for processed meats, wheat and other flours, sugar, ground coffee and cigarettes. Similar disparities in effective assistance exist in several other product groups, especially chemicals, wood products, non-metal products and engineering products. In some cases, major exporting industries such as textiles and footwear receive high levels of assistance.

344. At the economy level, the wide variations in assistance between activities producing internationally-traded goods is even more pronounced. Well over two-thirds of total value added by industries (including oil and gas) producing traded goods are penalized by the assistance structure and receive negative effective protection. Almost one-quarter of value added receives effective assistance above the economy-wide average of 12 per cent (Chart V.2). Industries receiving more than double the average rate account for 10 per cent of total value added.

**Chart V.2**

Distribution of value added in Indonesian industries by effective rate of assistance

<table>
<thead>
<tr>
<th>Percentage share of total UVA</th>
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<tbody>
<tr>
<td>60</td>
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<tr>
<td>50</td>
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<tr>
<td>40</td>
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<tr>
<td>30</td>
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<tr>
<td>5</td>
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<tr>
<td>2</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

Negative assistance: 0-5, 10-20, 30-40, 50-100, >100
Positive assistance: 0-10, 20-30, 40-50

Note: Based on estimated value added without assistance.

Source: GATT Secretariat estimates based on data supplied by the World Bank.
345. The main source of industry assistance is trade barriers which increase consumer prices. Studies on assistance suggest that the total annual income transfer to producers from consumers (including downstream processors) paying above international prices around Rp 12 trillion (equivalent to US$6.5 billion) in 1990 prices. Even if as little as one-third of these total income transfers came from final consumers (as opposed to downstream processors) of manufactured products like food, clothing, footwear and motor vehicles, the annual tax imposed by assistance on Indonesian families, especially those earning below average incomes, would be substantial.

(2) Agriculture

346. Agriculture accounts for about one-quarter of GDP in Indonesia, contributes to well over one-third of non-oil exports, and employs above half of the workforce. Regulatory policies have been implemented in this sector to help achieve Indonesia's long-standing policy objective of self-sufficiency in certain strategic food commodities. Although rice production was the overriding concern prior to achieving self-sufficiency in the mid-1980s, this objective has shifted to include other products, notably sugar, soybeans and maize. Other objectives of agricultural policy include boosting exports, improving the income and living standards of farmers, expanding employment and business opportunities, and supporting regional development and the transmigration programme from Java to the less populated outer islands such as Sumatra, Irian Jaya and Kalimantan.

347. Production of strategic foodstuffs has been encouraged through programmes of diversification and intensification. Through BULOG, the government controls or influences the marketing and pricing of a number of these commodities, including rice, sugar and soybean. Central to these arrangements is the granting of import monopolies to BULOG over commodities marketed by itself. Imports occur only to meet shortfalls in domestic production.

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142 Where assistance is provided primarily through higher prices, the gross subsidy equivalent provides an indication of the transfers from consumers (including downstream processors) to producers due to the structure of assistance.

143 This corresponds to an average annual income transfer per person from assistance of US$12. Although small in absolute terms, it represents a substantial share, of the order of 10 per cent, when compared with the median annual level of expenditure per person in Indonesia of US$130-140 (expressed in 1990 prices). For half of the population, annual expenditure levels would be below this amount. Some one-fifth of the Indonesian population, for example, spends annually less than US$100 per head. Savings would be negligible for these people and expenditure levels would closely approximate incomes. See Ravallion and Happi (1989) for survey data on expenditure patterns in Indonesia.
348. Other features of the Government's agricultural policies include floor price schemes for several products, production targets, consumption subsidies on fertilizers, seeds and (until recently) pesticides. There is also an array of export restrictions designed to promote greater domestic value added in major agricultural and forestry industries.

(i) Dairy products

349. The production of milk and milk products in Indonesia is heavily regulated and dairying is one of the most highly assisted agricultural industries. In 1989, the average nominal rate of protection afforded the dairy industry was 100 per cent and the effective rate of assistance well over 500 per cent (Chart V.1).

350. At the heart of the arrangements assisting milk production are tight restrictions on imported dairy products. The restrictions are combined with a local content scheme that makes importation of milk inputs for domestic processing conditional on processors meeting local content requirements. The intention is to encourage domestic production and achieve greater self-sufficiency in milk products. The industry has historically reconstituted imported materials for processing into finished products such as butter, condensed milk and milk powder.

351. Imports of raw milk and milk products are restricted by tariffs and import licensing arrangements. Tariffs on dairy products range from 5 to 40 per cent. The simple average tariff rate is 27 per cent (Table AV.1). Almost two-thirds of all tariff items covering dairy products are subject to import licences (Table V.2).

352. Most import licences are of the IT type which restrict imports of milk products to State-trading companies appointed by the Minister of Trade. The only approved importer of milk raw materials, such as non-fat milk powder, full cream milk, butter milk, anhydrous milk fat and lactose, is PT Pantja Niaga. Finished milk products, like non-fat milk powder, full cream milk and those required for food processing, can also be imported by PT Kerta Niaga. In practice, these products are imported by private firms authorized by the two approved State-trading companies. Informal import quotas applied by the Ministry of Trade are allocated by the approved State-trading companies between the private importers. The State-trading companies ensure that private importers do not exceed their quota entitlements.

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144 An activity's effective rate of assistance will be higher the greater the rate of assistance on outputs exceeds that on its material inputs. Furthermore, since the effective rate measures the proportional increase in an activity's value added, industries like milk and milk products which are estimated to have low value added at international prices, will tend to have high effective rates of assistance.
353. Under the mixing requirements, it is compulsory for authorized importers to purchase one unit of locally-produced fresh milk for every two units of imported milk product (in fresh milk equivalents). Milk satisfying these arrangements can be imported duty free. When introduced in 1982, the ratio of domestic purchases to imported milk raw materials was set at 1:7. Since then, the mixing requirement has been progressively increased to its current level of 1:2. This requirement has been strictly enforced by the Ministry of Trade since October 1985.

354. The farming industry has had great difficulty in meeting the more stringent mixing requirements. This has necessitated the Government introducing a number of programmes to raise milk production, such as providing concessional loans to farmers to improve herd quality through the cow import scheme.

355. The application of the mixing arrangements have varied to some extent between processors. In order to encourage the establishment of processing plants, new plants have been given a reduced mixing requirement of 3.5 units of imported product per domestic unit. New plants have been encouraged to locate in more isolated areas.

356. The burden of meeting the local content provisions is equalised between processors by using "fresh milk absorption" certificates. These eliminate the need for the costly transportation of fluid milk between regions. Processors in areas of abundant milk supply purchase more than they require and sell their certificates to processors in other areas where local milk supplies are insufficient. Prices of certificates are set by the Government and not market-determined.

357. Processors pay higher prices for their milk inputs because of the mixing requirements. In this way, dairy farmers capture at least part of the assistance afforded the milk processing industries by way of import restrictions. It has been estimated that the price of domestic milk is on average twice as expensive as imported milk materials. This corresponds to a tariff on milk of 100 per cent. On average, these arrangements raise the price above world levels of milk inputs to processors by one-third.

358. Assistance afforded the dairy industry is ultimately paid for by consumers in the form of higher prices for dairy products. It has been estimated that the arrangements restricting imports of dairy products raise domestic prices, on average, by over 40 per cent. The largest increases of 70 and 50 per cent were estimated for ice-cream and milk powder, respectively. These higher prices transfer income from domestic consumers of dairy products to the dairy industry. Quantifying the share of assistance between the milk processing and dairy farming activities is difficult, but Indonesian officials have stated that the cartelized processors are capturing most of the benefits.

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145 The average of two units imported at world prices and one unit purchased domestically at double the world price.
359. This category covers a wide range of commodities, such as fruits, vegetables, tropical beverages, sugar, flour, preparations of cereals and certain animal products like eggs. Tariff information, including surcharges where applied, together with other measures affecting trade are summarized in Table AV.2.

(a) Fruit and edible nuts

360. Fruit output in Indonesia accounts for 10 per cent of total agricultural production. About half of this production is bananas. The next most important items are oranges and mangoes which together account for a further one-quarter of all fresh fruits produced. Other fruits include durian, papaya, pineapples and rambutan. Practically all fruits grown in Indonesia are consumed domestically.

361. The main import restrictions on fresh and dried fruits in Indonesia are licensing arrangements and tariffs. Practically all fruit imports are restricted to approved State-owned enterprises. This applies to over 95 per cent of all tariff items covering fruit imports (Table V.2). Informal quotas are often imposed by the Ministry of Trade on imports of fresh fruit by appointed State-trading enterprises. Examples include pomelos, grapes and citrus fruit such as oranges, lemons and limes. In practice, imports of a wide variety of fruit have been negligible, including fruits which do not directly compete with domestic production.

362. Tariffs of 30 per cent apply to imports of all fresh fruit, except for bananas which are dutiable at 20 per cent.

363. Quantifying the extent to which the import licensing controls provide additional assistance above the tariff is difficult. This is likely to change over time depending upon prevailing market conditions. Studies have indicated that tariffs are the operative instruments assisting domestic fruit growers. Based on an average nominal rate for tariffs of 25 per cent, the effective rate of assistance provided fruit growing is estimated to be 27 per cent. Assistance will be higher to the extent that import licensing restrictions rather than tariffs are the binding constraint on the level of imports. The Government is intending to remove the high incidence of import licensing on fresh fruits through tariffication, followed by the gradual lowering of tariff levels.

364. The Indonesian Government has recently concluded an agreement with the United States of America permitting imports of apples and pears totalling US$2.6 million over the one-year period from 1 September 1990.

365. Peanuts are a strategic food and the major edible nuts produced in Indonesia. They are mainly grown in East Java (Chart V.3). Tariffs of 30 per cent apply to all imported edible nuts. All imports of edible fresh or dried nuts are subject to IT licences which limit importation to designated State-trading companies. A floor price set for peanuts appears to have been supported by BULOG purchasing peanuts through village
co-operative unit (KUDs). Peanut production receives assistance equivalent to nominal and effective rates of protection of 30 and 43 per cent, respectively.

(b) Fresh vegetables

Production of fresh vegetables accounts for 15 per cent of Indonesia's output of agricultural commodities. The main vegetables grown, onions and garlic, together account for over 40 per cent of production. Other important vegetables include tomatoes, cabbages, cucumbers and terons.


See speech by BULOG Chairman, Mr. Bustanil Arifin, reported in Indonesia Magazine, Jakarta, 1990, p.36.
This sub-category includes the production of cassava. In 1988, cassava production amounted to some Rp 2000 billion, most of which was consumed domestically as human food or processed into tapioca flour. Cassava is exported to the EC under an import quota where it is processed into animal feed (see Chapter IV).

367. With the main exception of garlic, imports of fresh vegetables are free from licensing. Garlic imports attract a 10 per cent tariff and may only be imported under IT licences by approved private importers. A formal quota exists on garlic imports.

368. Other vegetables subject to import licensing are fresh, chilled or dried sweet corn, certain other dried vegetables and certain beans. Mungbeans is a strategic food that may only be imported by BULOG under IP licence. Floor prices are supported by BULOG purchasing mungbeans through village co-operative units (KUDs). Imported sweet corn is dutiable at 30 per cent and beans attract a tariff of 10 per cent.

369. Most imports of vegetables are dutiable at 30 per cent. Seed potatoes may be imported free of duty. A 20 per cent surcharge applies to imports of cassava. Tariffs for vegetables, inclusive of surcharges, range from zero to 50 per cent, the simple average rate being 23 per cent.

370. Based on tariffs, the average nominal and effective rates of protection afforded vegetable growing in Indonesia are 21 and 27 per cent, respectively. Tubers such as potatoes receive higher assistance, equivalent to a nominal rate of 29 per cent and an effective rate of 33 per cent. The most highly assisted activity in this sector is the growing of beans with estimated rates of, on average, 30 and 47 per cent, respectively. This is primarily due to the licensing restrictions on imports of mungbeans which provide assistance above the 10 per cent tariff.

(c) Prepared or preserved fruit and vegetables

371. The main prepared or preserved fruit and vegetables made in Indonesia are canned fruit, canned mushrooms and jams. Over half of Indonesia's output of these products is exported. The category also includes the manufacture of tapioca flour which, in terms of output, is about four times larger than the fruit processing industry.

372. Imports of canned fruit and other prepared or preserved fruit products are subject to tariffs ranging from 30 to 60 per cent. This corresponds to a simple average of 38 per cent. Import surcharges of 10 or 20 per cent apply to a few products.

373. Licensing arrangements apply to many imported products, such as certain preserved berries, citrus fruit and melon peel. In total, about

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147 According to Indonesian officials, smallholders are not the major beneficiaries of protection afforded fresh vegetables.
one-quarter of all tariff items in this area are covered by import licences of the IT type (Table V.2). These limit imports to State-trading companies. Informal quotas are often applied by the Ministry of Trade to imports of many of these products. Imports of a few products are subject to licensing controls for health reasons.

374. Tariffs on canned vegetables and other prepared or preserved products range from 5 to 50 per cent. Most of these products are dutiable at either 30 or 40 per cent. The simple average tariff rate is 30 per cent. Import surcharges of mainly 10 per cent apply to a few products. The highest duty of 50 per cent, including a 30 per cent surcharge, applies to tapioca flour.

375. Imports of a few canned products are limited by IT licences to State-trading companies. These include canned tomato paste and sago flour. Less than 5 per cent of all tariff items covering prepared or preserved fruit and vegetables are affected by licensing restrictions.

376. Processed vegetables and fruit receive, on average, assistance equivalent to a nominal rate of 21 per cent and an effective rate of 45 per cent. The production of non-wheat flours and meal receive assistance of 28 and over 500 per cent, respectively. This is largely due to the high duty rates on imported tapioca flour and the estimated negligible value added in Indonesia’s production of non-wheat flours and meal, when measured at international prices.

(d) Coffee, tea and spices

377. Indonesia is the third largest producer of coffee and a major exporter of tea. In 1988, these products combined were worth over Rp 2,200 billion, of which 80 per cent was coffee. Both industries are export orientated, with well over two-thirds and one-third, respectively, of coffee and tea production exported.

378. Imports of processed coffee and tea are free from licences. Tariffs ranging from free to 30 per cent, corresponding to a simple average rate of 21 per cent, apply to coffee imports. Imported tea is dutiable at 30 per cent. Imports of both coffee and tea are free from surcharges.

379. The spice industry in Indonesia specializes mainly in the production of cloves, pepper and nutmeg. In 1988, production of these three spices totalled some Rp 800 billion, of which about two-thirds was cloves and

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148 Following expiration of the International Coffee Agreement in July 1989 in which Indonesia was allocated an export quota, the Government suspended its quota system but continued to restrict coffee exports to approved or registered exporters (Minister of Trade Decree no. 265/kp/x/89). Requirements for approval of coffee exporting and marketing groups was revoked in May 1990, thereby enabling individual firms to become coffee exporters registered by the Minister of Trade. Coffee and tea exports are subject to minimum quality standards.
one-quarter was pepper. Cloves production is used almost exclusively on the domestic market for manufacturing kretek cigarettes. About half of pepper and nutmeg production is exported. Indonesia dominates the world market for nutmeg, supplying over 70 per cent of the world's trade volume.

380. Cloves can be imported into Indonesia at a duty of 5 per cent. However, imports are subject to IT licences and are only permitted through an official government agency that is responsible for the allocation of cloves among domestic users, especially kretek cigarette manufacturers.

381. The Government attempts to control the production and marketing of domestic cloves through rural co-operatives by requiring all sales to be purchased and auctioned by the Government. However, these requirements are circumvented by private traders who purchase directly from the farmers. The Government collects a fee from private traders on these sales.

382. Domestic clove prices have collapsed recently due to excessive supplies on the market. The domestic price for cloves of as low as Rp 3,000 per kg has fallen well below the current floor price set by the Government of Rp 6,500 per kg. Stocks by the State-owned company PT Kerta Niaga which had been authorized by the Government to support the floor price by buying cloves from farmers, have reached excessive levels. Stocks held by cigarette manufacturers, the major purchaser, have also reached excessive levels, equivalent to three years cigarette production.

383. Apart from cloves, all spices imported into Indonesia are dutiable at 30 per cent. Exports of pepper are regulated and can only be made by registered or approved exporters. Minimum quality standards apply to exports of pepper. An export tax of 10 per cent applies based on check prices set by the Ministry of Trade. These tax pepper production which are estimated to receive nominal and effective rates of assistance of -5 and -15 per cent, respectively.

384. Exports of nutmeg and mace were deleted from the list of regulated exports in May 1990. This followed the collapse, in early 1989, of an agreement between the Indonesian and Grenada Nutmeg Association (the only alternative world supplier) to sell through a single foreign spice trading firm at an agreed price. Despite recent attempts by the Joint Marketing Board for Nutmeg to defend the higher prices, large stocks and substantial world oversupply have resulted in drastic falls in the international price of nutmeg. Exports of nutmeg and mace are subject to minimum quality standards.

(e) Cocoa and cocoa preparations

385. Imports of cocoa paste and cocoa preparations are dutiable at 40 per cent, including a 10 per cent surcharge. Cocoa beans are dutiable

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149 Previously exports of nutmeg were restricted to approved exporters who were members of the Nutmeg Trade Association.
at a tariff rate of 10 per cent. Tariffs in this category therefore range from 10 to 40 per cent, but average 40 per cent in simple terms.

386. Over two thirds of tariff items related to cocoa and cocoa preparations are subject to import licences for health reasons. These cover most cocoa preparations, especially chocolate confectionery.

387. Cocoa exports are subject to minimum quality standards.

(f) Sugar and confectionery

388. In order to achieve self-sufficiency in sugar production, sugar is one of the most heavily regulated and controlled industries in Indonesia. These controls operate right through from the growing of sugar cane to the refining and marketing of the finished product. Despite the self-sufficiency goals, sugar production remains well below domestic consumption levels.

389. Sugar is a strategic food commodity. Marketing and production controls are maintained by BULOG who has sole importation rights over the distribution and production of all sugar. Some 15 tariff items, representing 40 per cent of all sugar tariff items, are covered by import licences (Table V.2). Most of these direct imports to BULOG who import through foreign agents to the extent necessary to meet shortfalls in domestic production. BULOG negotiates directly with these agents rather than using open international tenders. Commission of up to US$15 per ton is paid on these purchases compared with average commissions paid on international tenders of less than US$ 1 per ton.

390. BULOG procures at government prices the entire output of refined sugar. Eighty per cent of output is processed by State-owned refineries. Refined sugar can only be sold through private wholesalers appointed by BULOG at prices fixed by the Government. Reasonable retail prices are set by the Government at the provincial level to cover the production, storage and transportation costs, plus an acceptable profit margin for the distributors.

391. Without effective international competition from imports, BULOG has been able to maintain domestic prices well above world levels. The sugar processing industry receives an effective rate of assistance of over 500 per cent. Nominal assistance, paid for by domestic consumers and downstream food processors through higher sugar prices, is 37 per cent. The assistance afforded the industry is well above that provided by tariffs. These range from 10 to 30 per cent, and average 15 per cent on a simple basis.

392. In addition to higher domestic prices for sugar, production targets have been used to induce farmers to grow sugar cane. Sugar cane intensification programmes have been employed in Java. Without such targets, many farmers would choose to grow rice.

393. The sugar confectionery industry is relatively small in Indonesia. Some 20 per cent of output is exported.
394. With the exception of certain cake-making material which is dutiable at a tariff of 10 per cent, imports of sugar confectionery enter at duty rates of 40 per cent. This rate includes an import surcharge on candies and chewing gum of 10 per cent. The simple average tariff rate for sugar confectionery is 38 per cent.

395. Imports of chewing gum, non-medicated sweets, fruit jellies, white chocolate and candies are controlled by licences for health reasons. These licences affect come two fifths of all tariff lines covering sugar confectionery (Table V.2).

396. The sugar confectionery and chocolate industry in Indonesia receive effective assistance estimated to be over 200 per cent. This reflects an average nominal rate of assistance on output of 41 per cent and estimated low value added by the industry at international prices.

(g) Products of the milling industry

397. This category covers the manufacture of flour from products such as cereals, malt and starches as well as preparations made from cereals and flour. In Indonesia, these include mainly the manufacture of flour from wheat and the manufacture of flour products like bread, biscuits and noodles. Production is almost entirely consumed on the domestic market.

398. Tariffs on these products range from zero to 70 per cent. The simple tariff average is 21 per cent.

399. Tariffs on cereal flours, groats and meal are 5 per cent, except for wheat or meslin which are free of duty. All cereal pellets are dutiable at 15 per cent, while starches are predominantly imported at a tariff rate of 5 per cent. Malt is imported at tariff rates of 5 per cent (ground) and 10 per cent (unground).

400. Substantial tariff escalation exists with higher tariffs applying to preparations made from flour and starch. Tariffs on these products are generally 30 or 40 per cent, and import surcharges of 10 per cent (20 per cent for one item) operate on many products, like pasta and biscuits. The highest tariff of 60 per cent plus a surcharge of 10 per cent applies to canned stuffed pasta. The simple average tariff rate on cereal preparations is 39 per cent.

401. Wheat and wheat flour are strategic food commodities, and import licences restrict their importation to BULOG. The restrictions operate as part of the domestic marketing arrangements for flour. Wheat is imported by BULOG through directly negotiated contracts for the manufacture of flour and sold domestically under special marketing arrangements operated by BULOG. Wheat is not grown in Indonesia and imports account for over one-fifth of Indonesia’s total food imports.

150 Exports of wheat flour are supervised by, and may only be made with approval from, the Ministry of Trade.
402. Under the marketing arrangements, imported wheat is milled into flour using private flour millers contracted to BULOG, especially P.T. Bogasari Flour Mill. The price at which imported wheat is sold by BULOG to the contracted millers is usually set by the Government below the world price. This loss is later compensated for by a grant from the Government, financed by flour consumers through a Government surcharge included in the wholesale price at which Bogasari sells flour to licensed distributors. These flour prices are set by the Government and, in addition to the surcharge, incorporate a flour processing fee for millers, selling and distribution costs and value added tax.

403. Flour prices are set by the Government on a cost of production basis and are decoupled from world prices. For example, in 1986-87, the domestic wholesale flour price was about 50 per cent above the world market price. Import licences prevent consumers of wheat flour, including downstream processors, from purchasing flour at world prices.

404. Flour millers can sell bran and pollard made as by-products from wheat supplied by BULOG at subsidized prices. The input subsidy on wheat used to process bran and pollard can be considerable. It was estimated, for example, that the input subsidy was 33 per cent in 1986-87. Millers could purchase their wheat at prices some one-third below international levels. Consequently, the production of wheat flours, including both the production of flour and by-products, is highly assisted, even though the nominal rate of protection is zero. Indeed, if the input subsidy was removed and flour millers were required to pay world prices for their wheat, it is estimated that the milling activity would, on average, generate negative value added.

405. Outside wheat and flour, IT licences are applied to imports of certain tapioca substitutes that limit their importation to State-trading companies. Many prepared foodstuffs included in this category are subject to import licensing arrangements for health reasons (Table V.2). This is especially the case for bakery products where some two-thirds of all tariff items are affected.

(h) Other foodstuffs

406. This group includes mainly eggs, natural honey and certain miscellaneous edible preparations, such as yeasts, sauces and soups. The

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151 Allowing for the value of the bran kept and sold by Bogasari implies a total milling charge in Indonesia of US$116 per ton, compared with US$35-45 per ton in the United States.

152 Although arithmetically negative value added at international prices results in a negative effective rate of assistance, such industries are in fact the most highly assisted. Without assistance, the activity would not be economically viable.
main products manufactured in Indonesia falling into this category are eggs, soy sauce and honey. Production of soy sauce is a major end use for soybeans grown in Indonesia (see section viii).

407. Tariffs on other foodstuffs imported into Indonesia range from zero to 40 per cent, with a simple average of 27 per cent. Except for a 10 per cent rate applying to homogenised composite food preparations and a few other products, products are free from import surcharges. Shell eggs can be imported into Indonesia at a rate of 20 per cent. Unshelled eggs are dutiable at 30 per cent.

408. In addition to a tariff of 30 per cent, honey imported into Indonesia is subject to licensing controls for health reasons. Indonesia is attempting to raise its self-sufficiency in honey production above its current annual level of 500 tons. Imports totalling 180 tonnes annually from mainly the United States of America, the People's Republic of China and Australia are made to meet the shortfall in domestic production.

409. Miscellaneous edible foodstuffs like sauces and soups are dutiable at rates of mainly 30 per cent. Tariffs average 27 per cent on these products and range from 10 to 40 per cent. Imports of a few products are subject to licenses for health reasons.

(iii) Fish, shellfish and products

410. The fresh fish and fish processing industries are important growth areas in Indonesia, accounting for over 8 per cent of all agricultural commodities produced. About two-thirds of the industry is based on marine seafoods, the main growth area. The remainder is freshwater based. About one-third of marine seafood sales are exported, while freshwater seafoods and dried and smoked fish are almost totally sold on the domestic market.

411. Tariffs for the category as a whole range from zero to 60 per cent. The simple average tariff, including surcharges where applied, is 29 per cent (Table AV.3).

412. Imports of fresh or frozen fish are not subject to licensing arrangements. Tariffs of mainly 20 and 30 per cent apply. Thus, while tariffs range from zero to 30 per cent for these products, the simple average tariff is 25 per cent. Imports of crustaceans and lobsters (mainly shrimps) are dutiable at 30 per cent, unless imported in airtight containers, where a rate of 30 per cent plus a 10 per cent import surcharge applies. Imported molluscs (in any form) such as oysters, scallops and mussels are dutiable mainly at 30 per cent, although some are dutiable at 20 per cent.

413. Exports of shrimps have increased over recent years, from US$200 million in the mid-80s to US$550 million in 1989. This followed a reorientation of production away from ocean shrimps towards in-land pond production in the 1980s. Exports of shrimps are free from restrictions,
although quality controls apply. A substantial lowering of the tariff on imported shrimp-feed meal in 1986 encouraged shrimp farming.

414. Licensing arrangements operate on imports of nearly all fish in smoked, dried or salted form. IT licences restricting imports to State-trading companies apply to 19 tariff items, equivalent to over 90 per cent of all tariff items for these products (Table V.2). Tariffs of 20 or 30 per cent also apply to imported products. For certain smoked fish, import surcharges of 30 per cent are set, giving a combined duty of 60 per cent on some products.

415. Imports of prepared or preserved crustaceans are dutiable at 40 per cent. A 10 per cent import surcharge applies for some products. Except for a few products where IT licences apply, products are free from import licensing controls.

416. Nominal rates of protection afforded these industries are 12 per cent for marine fish, 29 per cent for freshwater fish, and 21 per cent for dried smoked fish. The corresponding effective rates of protection are 14, 32 and 27 per cent.

417. In order to protect traditional fishermen, licensing arrangements implemented by the Ministry of Agriculture apply to fishing vessels over 30 gross tons and engines over 90 horse power. Licensing of certain other fishery and fish farming activities are applied at the provincial level.

(iv) Beverages and spirits

418. The value of production is equally split between alcoholic beverages, comprising mainly beer but also wine and spirits, and non-alcoholic drinks such as soft drinks, fruit juices and spa waters. The industries cater almost exclusively for the domestic market.

419. Tariffs on alcoholic and non-alcoholic beverages range from zero to 60 per cent. The simple average tariff rate is 40 per cent (Table AV.4). Tariffs of 40 per cent generally apply to all imports of beer, wines, fermented beverages and spirits. A few products, such as compound alcoholic preparations and some fermented beverages, dutiable at 40 and 30 per cent respectively, have import surcharges corresponding to 10 and 20 per cent.

420. Imports of vegetable and fruit juices and most waters are dutiable at 40 per cent. For some products a tariff of 30 per cent is supplemented by an import surcharge of 10 per cent. One water product is dutiable at 60 per cent, including a 20 per cent surcharge.

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153 Imports of Indonesian shrimps into the United States are blacklisted by the Food and Drug Administration largely because of bacterial contamination and filth. Export quality controls also apply in Indonesia to frozen froglegs and tuna fish.
421. Nearly two-thirds of tariff items classified to this category are covered by either IT licences or, to a much smaller extent, licences imposed for health reasons on fruit and vegetable juices. Imports of alcoholic beverages like wines, beers and spirits are almost exclusively restricted to State-trading companies. Over 90 per cent of all tariff items covering alcoholic beverages are subject to IT licences (Table V.2).

422. The manufacture of alcoholic beverages in Indonesia is closed to both foreign and domestic investment even where more than 65 per cent of production is to be exported.

(v) Tobacco

(a) Unmanufactured tobacco

423. Tobacco growing in Indonesia represents some 2 per cent of agricultural output. Only a small percentage (well under 10 per cent) of output is exported. Exports totalled US$50 million in 1989.

424. The tariff rate on imported tobacco leaf is 15 per cent (Table AV.5). Apart from the tariff, no other restrictions apply to imported tobacco leaf.

(b) Manufactured tobacco

425. Manufacture of cigarettes and other tobacco products account for some 7 per cent of total Indonesian manufacturing output. By far the major tobacco processing activity in Indonesia is the manufacture of kretek cigarettes which are a mixture of high quality cloves and tobacco. The consumption of domestically-made kretek cigarettes completely dominates the cigarette market in Indonesia, having largely displaced traditional white (tobacco) cigarettes.

426. Tariffs and surcharges of 30 per cent each apply to all imports, except for roll-your-own tobacco (dutiable at either 30 or 15 per cent) and tobacco extract and essences (dutiable at 5 per cent). Import duties therefore range from 5 to 60 per cent, with a simple average rate of 50 per cent. These high tariffs, together with a low domestic value added at international prices, result in average effective rates of assistance for the production of tobacco products of over 500 per cent.

427. The manufacture of tobacco products also benefits from a discriminatory excise tax imposed on imported cigarettes at a rate of 70 per cent, compared with rates of 30 and 35 per cent levied on domestically-made white cigarettes. As the tariff equivalent of this discriminatory sales tax would be substantially above the straight difference in rates of around 35 per cent, imported white cigarettes in Indonesia bear a combined tariff equivalent of over 100 per cent. No imports of cigarettes have been recorded in Indonesia since 1984.

428. Lower excise taxes apply to the manufacture of kretek cigarettes which is closed to both foreign and domestic investment, unless 65 per cent of production is to be exported. These lower taxes benefit the local
production of kretek cigarettes at the expense of both the domestically-produced and imported white cigarettes.

(vi) Animals and products thereof

(a) Live animals

429. Livestock production in Indonesia accounts for some 4 per cent of agricultural output. Well over three-quarters of live animals produced are cattle and goats. Some pigs and buffalo are also raised.

430. Importation of live animals are subject to quarantine and health regulations. All live animals imported are dutiable at a tariff of 15 per cent, unless imported for breeding purposes where the rate is zero (Table AV.6).

431. Exports of live horses, cows, buffalo, sheep and goats are supervised and may only be made with the approval of the Ministry of Trade.

432. It was estimated that the effective rate of assistance for the production of live animals was 16 per cent in 1989.

(b) Meat

433. Livestock slaughtering in Indonesia accounts for some 8 per cent of total agricultural output. It comprises mainly of beef, buffalo, goats and poultry which are sold on the domestic market.

434. Although tariffs on fresh, chilled or frozen meats range from free to 30 per cent, nearly all items are dutiable at 30 per cent. Meat imported into Indonesia is free from licensing, except for imports of poultry meat which are restricted almost exclusively to State-trading companies by IT licences (Table V.2). These account for about one-quarter of tariff items classified to this category.

435. Tariffs on prepared or preserved meat products range from 30 to 70 per cent inclusive of import surcharges which apply to most products. Most products are dutiable at 40 per cent. Imports of most poultry preparations and a few pig products are covered by IT licences and can only be imported by State-trading companies.

(vii) Grains

436. Some one-third of agricultural output in Indonesia consists of cereals. By far the major cereal produced is rice which accounts for over 90 per cent of cereal production. Maize accounts for most of the remainder. Small amounts of sorghum, barley and rye are also produced.

437. At the processing level, milled cereals account for some 20 per cent of manufacturing output, of which almost all is rice. Self-sufficiency in rice production is at the core of the Government's policies of food security. To achieve this objective, the Government provides special attention and assistance to the growing, production and marketing of rice.
in Indonesia. Domestic marketing of rice is administered by BULOG, and direct controls apply on the acreage and the varieties of rice grown. Subsidies on irrigation facilities, fertilizers, seed, rural credit and, until recently, pesticides, also promote rice production. Tariff information along with other measures affecting trade are summarized in Table AV.7.

438. Rice is the main strategic food marketed by BULOG. It heavily influences the growing and selling of the final product, and is the only permitted importer of rice. Through BULOG, the Government fixes minimum producer and ceiling prices for rice. These are maintained using bufferstocks. Rice purchased by BULOG from the farmers via village co-operatives is sold when necessary to keep the prices below their ceiling levels. BULOG constructs and maintains the storage facilities needed for its rice stocks. These have been particularly costly, and a level of 1 million tons is considered a minimum desirable level. These stocks are also used by BULOG to meet the rice allowances distributed to so-called "budget groups" like armed forces personnel, civil servants and employees of certain government enterprises.

439. The guaranteed minimum price for rice set by the Government is determined by a complex formula. It takes into account farmer's costs of production, including the subsidized price of major farm inputs like fertilizers and seed. In 1990, the floor price for paddy rice was set at Rp 270 per kg, compared with a buying price by BULOG of Rp 283 per kg. The buying price for milled rice was set at Rp 436 per kg.

440. The extent to which rice growers receive prices above international levels is difficult to quantify. Although rice imports are duty free, domestic rice prices have been maintained above international levels by the regulatory arrangements insulating the home market from import competition. However, studies have indicated that rice prices have closely followed world movements. It has been estimated that the domestic prices for milled rice have been, on average, about 10 per cent above world prices. This would imply that Indonesian rice consumers are paying annually some Rp 900 billion more than if rice was available at world prices. However, due to greater fluctuations in world prices, these have exceeded domestic prices in some years and, more recently, have tended to match local prices.

441. The growing and processing of other cereals are subject to tariffs of mainly 5 per cent. Exceptions are wheat and maize for other than seed which are dutiable at free and 10 per cent, respectively. Maize is a strategic commodity grown mainly in East Java. It is predominantly used in the animal feed industry (Chart V.4). Floor prices for maize were set and supported by BULOG purchasing the commodity through village co-operative units (KUDs). The floor price for maize was terminated on 1 January 1991.

(viii) Oilseeds, fats and oils and their products

(a) Vegetable oils, vegetable seeds and oilcake

442. Over 80 per cent of Indonesia's production of oilseeds is exported. A number of these products are supervised commodities that can only be exported with the approval of the Ministry of Trade. These include soybean, palm and palm kernel oil, coconut oil, copra and palm kernel. Minimum quality standards also apply to exports of most products. In addition, palm nuts and tengkawang seeds are subject to export taxes of 5 and 20 per cent respectively.

443. Tariffs, including surcharges where applied, on imported products classified to this category range from 5 to 60 per cent. The simple average tariff rate is 18 per cent (Table AV.8).
444. The industry is dominated by the production of sunflower seeds which, if imported, are dutiable at 10 per cent, the same rate as other oilseeds. However, surcharges of 20 per cent apply to the importation of palm nuts and kernels. Imports of copra, dutiable at a tariff of 5 per cent, are also subject to a surcharge of 20 per cent. Ground nuts are dutiable at 30 per cent.

445. Soybeans, accounting for over 1 per cent of Indonesia's agricultural output, are dutiable at 10 per cent. More than one-third of Indonesia's total soybean output comes from East Java. Government policy is to replace soybean imports with domestic production. As such, soybean is a strategic food commodity subject to floor price support by BULOG. In addition, production targets have been set for the growing of soybeans.

446. BULOG has a monopoly over imports of soybean grain and meal. Its policy is to import soybeans only to cover shortfalls in domestic production. In 1990, imports of soybeans were about 0.5 million tons, equivalent to about 30 per cent of domestic consumption. Imports comprise predominantly soybeans for human use, but include lower grade soybeans for crushing into soybean meal used for animal feed. Most of Indonesia's production of soybean is geared towards human use, for the manufacture of tahu, tempe and soy sauce.

447. Soybeans imported by BULOG for human use are channelled into the production of tempe and, to a lesser extent, tahu by cooperatives and private factories. About two-thirds are sold to cooperatives through the Regional Procurement Agencies (DOLOG) at the world price. The remainder is distributed through the Soybean Association to be traded by private factories, normally at a higher price than cooperatives pay for imported soybean. Imported soybeans are mainly consumed by tempe producers whose quality requirements are better served by imported soybean (Chart V.5). Factories located in the main soybean growing areas receive no import allocation from BULOG.
Chart V.5
Marketing of soyabean


448. Through its importing, marketing and pricing controls, the soybean market is controlled by BULOG. A floor price is operated by BULOG on soybean grain for human use. As this price is usually well below the market price, growers sell not to BULOG but directly to the factories at the market price processors pay BULOG for imported soybean. However, because domestic production is directed towards meeting the demand for

155 In 1988, for instance, the BULOG floor price was approximately half the import price for soybean grain of about Rp 600 per kg.
lower-quality soybeans, this represents a substantial price premium for the domestic product.

449. Imports of soybeans for crushing into animal feed are processed under contract to BULOG by a private miller, PT Sarpindo. In addition to BULOG paying a crushing fee of Rp 20 per kg, Sarpindo keeps and markets the soybean oil that is a by-product. Soybean meal is sold to the major animal feedmills by BULOG at fixed prices. In the first half of 1989, these prices exceeded world prices by around 15 per cent.

450. These domestic marketing and pricing arrangements for soybean and its derivatives have maintained domestic prices well above international levels. It was estimated, for example, that these arrangements increase domestic prices of soybeans, on average, by 60 per cent above world levels. The growing of soybeans receives effective rates of assistance estimated to be 90 per cent. The cost of these arrangements to consumers and downstream users, such as livestock producers (especially chicken farmers) is substantial.

451. The growing and processing of edible vegetable oils is an important industry in Indonesia, accounting for some 3 per cent of agricultural output. The industry is dominated by palm oil, but the cheaper and highly substitutable coconut oil still accounts for 40 per cent of production. Imported coconut and palm oils attract a tariff of 10 per cent, and import surcharges of 20 and 30 per cent. Imports of other vegetable oils are dutiable at a tariff of either 10 or 20 per cent, and are free from surcharges.

452. The Government intervenes in the edible oils market in order to achieve an adequate supply of cooking oil at stable, affordable prices for consumers. The marketing and price controls include arrangements whereby crushing mills allocate domestic cooking oil manufacturers with a fixed quota of crude palm oil at prices below world levels. This holds down the domestic price of coconut oil which is a close substitute for crude palm oil in manufacturing cooking oils. These marketing arrangements have penalised copra and palm oil farmers.

453. Import licensing restrictions on refined vegetable oils were removed in 1988. However, the domestic refining of vegetable oils continues to be assisted by a 30 per cent tariff applying to imports. Thus the domestic price of edible oils has been maintained substantially above international levels.

156 Prior to the establishment of the crushing mill by PT Sarpindo in 1988, BULOG allowed private importers to import soybean meal under a special license.

157 The implicit fee charged by Sarpindo for crushing, including the value of the oil, is around US$73 per ton. This is very high by international standards.
454. Investment in producing and refining crude palm and coconut oils has been strictly controlled by the Ministry of Industry and the National Investment Co-ordination Board (BKPM). These activities are closed to foreign and domestic investment, even if more than 65 per cent of production is to be exported.

(b) Other fats, oils, waxes and their products

455. Products classified as other fats, oils, waxes and their products are free from import licensing restrictions. Tariffs range from 5 to 60 per cent, with a simple average of 13 per cent. Import surcharges of either 20 or 30 per cent apply to some products. Margarine is dutiable at 60 per cent, including an import surcharge of 30 per cent.

(ix) Other agricultural products

456. These categories include cut flowers and other agricultural products of animal and vegetable origin. Products falling in these categories are free from import licensing restrictions.

457. Cut flowers are dutiable at 40 per cent. Tariffs on imported bulbs, plants and seedlings range from free to 20 per cent, the simple average tariff being 11 per cent (Table AV.9). Phytosanitary and sanitary regulations apply to most of these imports.

(3) Industry

458. Manufacturing plays an increasingly important rôle in the Indonesian economy. It accounts for one-fifth of GDP, up from one-tenth a decade earlier. Manufactured exports as a proportion of total exports have increased fivefold over the same period and represent about one-half of Indonesia's merchandise exports.

459. Despite recent reforms, tariffs and import licensing controls continue to be major barriers to imports in a number of product areas. These include steel, clothing, food processing, transport equipment, chemicals, machinery equipment, and paper products. Tariff escalation is high in many of these industries, especially in clothing, chemicals and steel products. Many component industries in these sectors benefit from other policies, such as local content programmes.

460. The manufacturing sector benefits from a number of export restrictions imposed on natural resource products. These encourage greater processing and domestic value added. Export restrictions applied to unprocessed and semi-processed forestry products, such as the export prohibitions on logs and rattan, benefit downstream processors by reducing input prices. Plywood and furniture manufacturers, for example, have gained from these arrangements. Similarly, export bans on hides and taxes on leather exports assist footwear manufacturers by reducing the price of domestic leather.

461. Measures currently affecting trade and production in Indonesian industries, together with data on imports and tariff rates, including surcharges where applied, are summarized in Tables AV.10-19.
462. The textiles industry is Indonesia's most important export-oriented manufacturing activity. It expanded rapidly between 1985 and 1988, experiencing annual average growth rates in value added and employment of 24 and 16 per cent, respectively. This has been accompanied by strong export growth rates of above 30 per cent per annum. Total textile exports have increased from US$0.8 billion in 1986 to around US$2 billion in 1989. The fastest growth rates have occurred in the clothing sector, although growth in the production of fibres and fabrics has also been strong.

463. A key rôle in the export growth of the textiles industry was the introduction of the P4BM facility in 1986. This enabled textile exporters to import inputs at world prices and to by-pass remaining licensing arrangements. Approximately one-third of Indonesia's textile exporters imported their inputs through this facility in 1988.

464. Another important factor was the complete removal of trade restrictions on cotton. This started in 1986 when cotton imports were shifted from IT licences to the less restrictive IP category. Domestic fabric producers were thus able to import their own cotton. In January 1987, imports of cotton were further derestricted by being moved to the general importer or IU category. The last remaining trade restriction, the local content provisions that required importers to purchase one ton of local cotton for every 10 tons imported, was terminated in November 1987.

465. Tariffs on textiles and clothing range from zero to 40 per cent, the simple average tariff being 29 per cent. A high degree of tariff escalation exists in this sector. Tariff rates on fibres of generally no more than 5 per cent, and from 10 to 20 per cent for yarns, rise to 30 to 40 per cent for fabrics. Nearly all items of clothing are dutiable at rates of 40 per cent, and from 35 to 40 per cent for non-clothing items such as floor coverings and linen.

466. A similar pattern exists in the licensing arrangements. The basic raw materials of fibres and yarns are free from import licensing. Most clothing and certain made up articles like linen are subject to IT licences and can only be imported by State-trading companies (Table V.2). About two thirds of all IT or IT/IP licences operated in Indonesia are found in this sector. This is equivalent to over one-quarter of all tariff items found in this category, of which about 60 per cent cover clothing and made-up products.

467. All batik clothing and textile products are subject to IT licences and can only be imported by State-trading companies. Although a global quota has been set, authorized State-trading companies have been, it appears, instructed not to import batik products. As a result of this informal import ban, imports of batik products have been zero. These bans have been maintained mainly to protect the domestic batik cottage industries from international competition, such as from Malaysian exports.
(a) Textile fibres, yarns and fabrics

468. Tariffs on textile fibres are mainly 5 per cent or less. Exceptions include certain man-made fibres, such as polyester and artificial filaments and fibres, that are dutiable at 10 per cent. Thus, although tariffs on textile fibres range from zero to 40 per cent, the simple average tariff rate is 7 per cent.

469. Imported yarns are dutiable at rates of between zero and 20 per cent, corresponding to a simple average of 13 per cent. Generally speaking, products falling within this category, such as cotton and woollen yarns, are dutiable at rates of either 10 or 20 per cent.

470. Fabrics, if imported, enter at tariff rates ranging from 5 to 40 per cent, averaging 30 per cent on an unweighted basis. Woollen and cotton woven fabrics are dutiable at rates of mainly 40 per cent, as are woven fabrics of synthetic and artificial yarns. Fabrics woven from flax, jute and other vegetable textile yarns are dutiable at rates of generally either 20, 30 or 40 per cent.

471. A large share of fabrics dutiable at either 30 or 40 per cent are also subject to IT or IT/IP licences (Table V.2). Imports are thereby restricted to either approved State-trading companies or producers importing their input requirements. Out of 720 tariff items classified to this category, goods falling in 194 items, equivalent to almost one-quarter, may only be imported by IT or IT/IP licence holders.

472. As a result of tariffs and import licensing arrangements, the manufacture of textiles in Indonesia receives average effective assistance of 32 per cent for spinning and 53 per cent for weaving. These correspond to average nominal rates of 10 and 17 per cent, respectively.

(b) Made up articles and clothing

473. Made up articles and related products, excluding clothing, are dutiable at rates ranging from zero to 40 per cent, the simple average being 27 per cent. Nearly all carpets and other textile floor coverings are dutiable at 40 per cent, as are most specialized fabrics, tapestries and textile wall coverings.

474. Tariffs of 35 and 40 per cent apply to imports of linen products, including bed, toilet, table and kitchen linen. All types of linen, including batik linen, can only be imported by State-trading companies under IT licences.

475. Duties on imports of clothing range from 5 to 40 per cent. Nearly all imports are dutiable at 40 per cent, and the simple average tariff is 39 per cent. Most imports of clothing are subject to IT licences and are thus restricted to approved State-trading companies (Table V.2). The coverage of tariff items subject to IT licences is over 50 per cent.

476. Non-clothing textile articles are estimated to receive the highest assistance among textile and clothing products, equivalent to a nominal
rate of 30 per cent and an effective rate of 125 per cent. The respective
average rates of assistance for clothing are 20 and 58 per cent and 14 and
29 per cent for carpets.

(ii) **Footwear and travel goods**

477. The footwear industry has shown annual growth rates of more than
10 per cent since 1973. Export growth has been remarkable and they now
account for two-thirds of production, compared with less than 10 per cent
in 1986. A recently expanding area has been the production of sporting
footwear. Footwear imports largely consist of high quality fashion items
and special brand names not produced in Indonesia.

478. Tariffs for footwear and travel goods range from 20 to 80 per cent,
the simple average rate being 47 per cent. Import surcharges of
40 per cent apply to most items of footwear. Imports of footwear and
travel goods are free from licensing restrictions.

479. Despite its high export orientation, the footwear industry receives a
high level of protection. The nominal rate of protection on output is
estimated, on average, to be 34 per cent. Consumers pay substantially
higher prices on domestically-made and imported footwear due to tariffs.

480. Footwear manufacturers also benefit on their inputs from the export
bans on hides and the export taxes on semi-processed leather. These in
effect provide an input subsidy to shoe manufacturers on leather sourced
domestically. Subsidized inputs and high tariffs on competing imports,
together with estimated negative value added at international prices,
provides high effective assistance to footwear.158

(iii) **Transport equipment**

481. The transport equipment sector accounts for over 3 per cent of
manufactured output in Indonesia. Well over half of the sector’s output is
motor vehicles, with a further one-quarter being ships. Transport
equipment is primarily sold domestically, although attempts are being made
to develop exports.

482. Investment in transport equipment has been tightly controlled by the
BKPM. In a wide range of areas, both foreign and domestic investment is
closed, unless 65 per cent of production is to be exported. Areas closed
to investment include motor vehicles such as trucks, pick-ups, buses, two
and three wheeled vehicles, and multipurpose vehicles like jeeps, as well
as engines and other components for commercial vehicles; railway parts and
equipment; aircraft, helicopters and aircraft components, such as engines
and communications equipment. In the case of the rail and aircraft

158 As noted earlier, negative value added at international prices
implies high levels of assistance even though arithmetically the effective
rate is minus.
industries, investment is permitted if in co-operation with the State-owned monopolies.

483. Tariff rates for this sector are among the highest in Indonesia, ranging from free to 200 per cent. The simple average tariff rate is 57 per cent.

484. The transport equipment sector receives, on average, high nominal and effective assistance. Shipbuilding is estimated to receive negative effective assistance, while the rates for the production of motor vehicles and motorcycles are 461 and over 500 per cent, respectively. Consumers of motor vehicles and bikes are estimated to pay over an extra Rp 1 trillion per year to domestic producers as a result of protection.

(a) Motor vehicles

485. The Government's policy objective for the motor vehicle industry continues to be the full domestic manufacture of most types of motor vehicles. Special arrangements have been designed to transform the motor vehicle industry from basically an assembly operation using imported completely-knocked-down kits, to an industry utilizing domestic components.

486. The sale of locally assembled motor vehicles are assisted by a prohibition on imports of completely-built-up motor vehicles classified to categories I, II, III and V. Category I vehicles, representing the major type of motor vehicle produced in Indonesia, embraces commercial vehicles of up to 2.5 tons; category II covers vehicles of between 2.5 and 9 tons, such as minibuses, light trucks and other light commercial vehicles; category III covers medium sized trucks of between 9 and 24 tons; and category V covers jeeps. Imports of sedans are classified to a separate category. They are also prohibited in completely-built-up form. Category IV vehicles include heavy trucks and lorries over 24 tons. They may be imported under sole agency or AT licences, as may special purpose vehicles like cranes and concrete trucks.

159 Automotive sales increased by 4.7 per cent in 1989 from 166,972 units in 1988 to 174,845 units. In 1989, the share of motor vehicles produced in Indonesia on a quantity basis was 63 per cent for category I; 11 per cent for category II; 5 per cent for category III; 2 per cent for category IV; 1 per cent for category V; and 18 per cent for sedans. The Ministry of Industry has forecast total sales in 1990, which were up by 58 per cent in the first quarter, to increase to 250,000 units.

160 The motor vehicle industry is experiencing excess demand, especially in the medium capacity trucks. In order to ease these pressures, the Government lifted a protective embargo in May 1990 to authorize the import of 3,000 completely-built-up trucks before December 1990.
487. Tariff rates for motor vehicles average 57 per cent, ranging from free to 200 per cent. Imports of final sedans and category I vehicles attract a duty of 200 per cent. Tariffs on category II and III trucks generally range from 30 to 60 per cent. Category V vehicles imported in completely-built-up form are dutiable at 100 per cent. Of course, these tariffs are only relevant to the extent that the import prohibition does not apply. Category IV vehicles and special purpose vehicles imported under AT licences generally pay duties of from 5 to 30 per cent.

488. In order to assist the production of components in Indonesia, the Government has implemented a localisation programme for commercial vehicles requiring assemblers to use domestically-made components. The scheme has been revised three times since being introduced in 1976, the latest revision being in 1987. The Ministry of Industry maintains a list of components which cannot be imported by domestic assemblers as part of completely-knocked-down packs (the import-deletion programme). Completely-knocked-down packs may be imported at a tariff of 100 per cent and are free from licensing. The import-deletion programmes encourage specialist component production, often by vehicle assemblers backwardly integrating their operations into the manufacture of components.

489. The Government's localisation programme provides for the full manufacture of category I commercial vehicles using domestically-made components by 1991. As of 30 June 1990, local content for these vehicles had reached 64 per cent, equivalent to the local manufacture of 178 components. The Government expects this level of increase to 87.5 per cent by the end of 1990 - substantially below its objective. The localisation programmes for commercial vehicles falling in categories II and III were temporarily suspended in 1987. Local content for category III vehicles in 1989 was 37 per cent.

490. There are no official local content plans for the manufacture of sedans and category IV trucks. The degree of local content in these vehicles is much lower, around 14 per cent for trucks and from 6.5 to 30 per cent for sedans. Major assemblers, such as Ford, Toyota, Honda, Daihatsu, Suzuki, Mitsubishi and Mazda have, however, taken steps to incorporate locally-produced components to comply with a voluntary local content plan for sedans.

491. Plans were recently revealed by the PT Indo Mobil Group, one of Indonesia's leading automotive firms, for the manufacture of a new locally-built sedan aimed at the mass market. The car will be made using 74 per cent locally-made components supplied by some 24 domestic component manufacturers, including the engine, as well as parts from a local Honda motorcycle plant and local Mitsubishi component-makers.

161 The previous deadlines for full localization were 1990 and 1987.

492. Localization arrangements have resulted in a domestic motor vehicle industry with some 25 different brands being assembled locally. A wide range of Japanese manufacturers are covered in Indonesia, representing over 90 per cent of vehicles sold. Most of the larger component manufacturers are owned by vehicle assemblers. The main components produced locally include engines; transmission, clutch and steering systems; shock absorbers; shell rims; batteries; and spark plugs. Recent large investments in these areas have greatly increased Indonesia's capacity to produce components.

493. The Indonesian Government decided not to participate in the ASEAN brand-to-brand complementation scheme agreed to in October 1988. The authorities have indicated that this will only be considered once the Government's objectives of localization in the motor vehicle industry have been achieved.

494. In 1977, a similar local content programme was extended to motorcycles of between 70 and 200 cc. As part of this programme, the importation of motorcycles in completely-built-up condition is prohibited and subject to a tariff rate of 100 per cent. Imports of completely-knocked-down packs are dutiable at a tariff of also 100 per cent, except for bikes with an engine capacity of 50 cc or less, where kits are dutiable at 30 per cent.

495. In 1979, the production of motorcycles required domestic sourcing of cables, footrests, stands, batteries and wheels. This list was extended in 1980 to include a further 14 products, such as fuel filters and muffler brackets. More imported components are to be deleted until motorcycles become almost entirely produced in Indonesia.

496. In February 1987, several important modifications were made to the programmes on commercial vehicles and motorcycles. In addition to combining the two programmes, producers were allowed to source separately non-deleted components from imported completely-knocked-down kits. Such "multi-sourcing" enabled domestic manufacturers to import non-deleted components at the concessional tariff (usually free) from the cheapest international source, and not necessarily from the foreign supplier of the completely-knocked-down kits.

(b) Ships and boats

497. Tariffs on imported ships and boats range from free to 30 per cent. However, nearly all can be imported duty-free. The only exceptions are certain pleasure craft which are dutiable at either 5 or 30 per cent. The simple average tariff rate is 5 per cent.

163 The new arrangements also introduced a process of consultation between industry and the Government for determining the master list of components. This helped to ensure that the industry was capable of meeting the local content requirements being established, such as producing the necessary quantities and satisfying the required technical specifications.
498. The Government views shipbuilding as a strategic industry. It is interested in establishing a strong shipbuilding industry following the industry's decline during the mid to late 1980s. Longer term plans exist to produce high-technology boats like jetfoils. The industry currently employs 12,000 workers and has recently won several major international contracts. A consortium of national State-owned shipbuilding firms has just signed a contract with Rederi AB Gotland, a Swedish shipping company, for the construction by July 1992 of a 6000 DWT container vessel worth US$45 million.

499. The leading shipbuilding companies in Indonesia are State-owned, the largest being P.T. Pabrik Kapal Indonesia. These companies benefit from the purchasing policies of the Government, the major purchaser of ships in Indonesia.

500. In 1984, the Government decided to immediately replace ships in the domestic fleet over 30 years (estimated then at 300), and in future, to scrap ships that were 25 years old. The new ships, designated Caraka 1, 2 and 3, were to be purchased from domestic yards at costs likely to be greater than similar foreign ships or second-hand imported ships. Ship owners were also required by the Government to sell their scrapped vessels to Krakatau Steel at less than half the price offered by foreign scrapyards.

501. The construction and replacement programme for Caraka Jaya freighters is well behind schedule. Four ships are scheduled to be completed in 1990. Concessional finance from the State-owned ship-financing firm PT Pengembang Armada Niaga National is now available to help shipping firms purchase these ships. The Government has installed a project committee to co-ordinate the construction programme and offered foreign component suppliers access to the scheme through joint ventures with Indonesian enterprises. In late 1988, the Government suspended the scrapping requirement for older vessels and lifted the ban on the purchase or leasing of foreign ships below 5000 DWT.

502. In order to improve the competitiveness of the shipbuilding industry, the Government recently abolished import duties on major components not produced in Indonesia, such as engines, propellers, navigational equipment and pumps. Furthermore, shipbuilders may import steel directly and are no longer tied to purchasing from the State-owned company P.T. Krakatau Steel.

503. Government imports and exports must be carried in Indonesian registered vehicles. In practice, this is normally set at 50 per cent. No such requirement applies to private shipments. Transhipment must be serviced by Indonesian-owned ships, unless it can be shown that suitable national vessels are not available.

(c) Aerospace industry

504. The aerospace industry is a strategic industry which the Government is keen to develop, including the production of high technology products. The State-owned manufacturing monopoly, IPTN, expanded in 1984 its assembly of aeroplanes and helicopters into manufacturing light planes under licence
from the Spanish aircraft company Construcciones Aeronautics SA (Casa). Several of these planes have been built. IPTN has recently released its own plans for the construction, by 1996, of a new 50 seater turboprop commuter aeroplane (called the N-250). Contracts have already been signed with FFV Aerotech Asia AB, a subsidiary of the State-owned Swedish leasing group FFV, for the sale of 24 aircraft valued at US$240 million.

505. Several ambitious high-technology projects have also been advanced by the aerospace agency Lembaga Penebangan dan Antariska Nasional. These include the Satellite Self-Sufficiency Programme to develop and build low orbit satellites and launching systems. It plans to establish testing facilities for rocket engines and is looking at the construction of radar-tracking stations.

(iv) **Ores and metals**

(a) **Minerals**

506. In Indonesia, minerals that are classified as having strategic or vital importance can only be mined by State-owned enterprises. These include the main minerals mined in Indonesia, namely nickel, tin, copper, bauxite, zinc, gold, silver and uranium.

507. Tin mined by the State-owned company P.T. Tambang Temah accounts for 85 per cent of production. All other minerals (except coal) are mined and processed by the State-owned company P.T. Aneka Tambang. Foreign contractors participate in the mining sector through production-sharing agreements and contracts of work with the State-mining enterprises.

508. PT Tambang Temah has announced plans for an extensive modernization programme designed to reduce its production costs from US$5,700-6,000 per ton to US$4,500 per ton. Finance from the World Bank of US$5,500 million is being sought for this programme.

509. Next to Brazil and Malaysia, Indonesia is the largest tin producer in the world. World exports of tin are controlled by the Association of Tin Producing Countries through country export quotas. These were reintroduced in 1987 following the international tin crisis in the mid-1980s. Tin exports are regulated to registered or approved exporters. Indonesia's export quota for tin has been increased in recent years in line with improved international prospects for tin. Over 90 per cent of Indonesia's production is exported.

510. Bauxite production is exported to Japan. Much of the nickel ore is processed for export into nickel and nickel matte. Ores and concentrates of iron, copper, lead, tin, silver and platinum are subject to an export tax of 10 per cent. Exports of gold and silver are regulated and may only be exported by registered or approved exporters.
511. Tariffs applying to basic metals are mainly 5 per cent. Tariff escalation exists in the metal industries. Tariffs on manufactured metals average 22 per cent, with a range from free to 70 per cent.

512. The processing of basic metals in Indonesia is dominated by the production of iron and steel products at Cilegon (West Java) and the smelting of aluminium at Asahan (North Sumatra). Both these operations are protected by a combination of tariffs, import licensing arrangements and State involvement.

513. Steel is seen by the Government as a strategic industry. Its development has been heavily influenced by past import-replacement policies that made it one of the most regulated Indonesian industries. Manufacture of iron and steel in Indonesia is by the State-owned monopoly Krakatau Steel. It supplies in full the national production of steel slabs and cold rolled products, 97 per cent of hot strip and 40 per cent of steel rod.\textsuperscript{164} Production of iron and steel has developed in response to the government providing made-to-measure protection since its inception. While attempts have been made to reduce this protection, certain parts of the industry continue to receive preferential treatment compared with other industries.

514. Tariffs and surcharges apply to imports of most iron and steel products. Duty rates (inclusive of surcharges) range from free to 60 per cent, yielding a simple average of 20 per cent.

515. In addition to tariffs, iron and steel products remain subject to extensive import licensing controls. These were reduced somewhat by the conversion of KS to IP licences in the May 1990 package. IP licences enable certain steel users like shipbuilders to import steel inputs. Furthermore, some previously restricted products were shifted to the general-importer or IU category. However, of the 430 tariff items relating to semi-manufactured steel products, KS and IP import licences still apply to 204 items. KS licences continue to provide Krakatau Steel with an import monopoly over 127 items (Table V.2).

516. Cold rolled sheets and associated downstream products is one area that remains heavily regulated. Imports continue to be restricted, either by KS import licences or by having replaced licences with higher tariffs and

\textsuperscript{164} Plans to expand steel production were recently announced by the Junior Minister of Industry. The production capacity of Krakatau Steel is to be increased by an investment programme of US$480 million to meet the domestic need for steel which is projected to grow from 3.5 million tons to 5 million tons in 2000. Due for completion in 1993, the expansion programme includes raising the production capacity of steel slab and hot strip from 1 million tons per year, each, to 2 million tons, and steel rod from 200,000 tons per year to 250,000 tons. Domestic funding will come from the Government, banks and from the equity fund of Krakatau Steel.
surcharges. Split-tariff positions have been created to maintain protection for certain specific products.\(^{165}\) Imports of tin plate, for example, remain subject to KS licences which restrict users to purchasing inferior quality domestic tin plate at prices some 40 per cent above international levels.\(^{166}\)

517. In addition, the Indonesian Government through its 40 per cent interest in the project via Krakatau Steel, has recently provided finance to PT Cold Rolling Mill Indonesia. This project, which is 60 per cent privately owned, had been in financial difficulties since commencing in 1987. The financial package provided by the Government appears to have included a cash grant of around US$350 million and a further loan of some US$75 million.

518. Foreign and domestic investment in the manufacture of cold rolled low carbon steel sheets and tin plated steel sheets is prohibited, unless 65 per cent of production is to be exported.

519. In order to increase supplies of scrap metal to the steel industry at lower prices, the Indonesian Government has banned the export of iron and steel scrap.

520. Aluminium smelting in Indonesia is currently located at Asahan. Plans exist for a further smelter to be constructed at Kalimantan. The smelter at Asahan is jointly owned by Japanese and Indonesian interests and supplies aluminium to both the Japanese and domestic markets. The smelter has encountered financial difficulties since commencing in 1985. This culminated in the Indonesian and Japanese Governments providing a capital injection of Yen 66 billion (equivalent to approximately US$470 million) in 1987 to assist the project.

521. Exports of aluminium waste and scrap are subject to a 30 per cent tax based on check prices set by the Ministry of Trade.

522. Non-ferrous metals and metal products are generally free from licensing restrictions. IT licences apply to a certain type of aluminium plate which is dutiable at 60 per cent (Table V.2).

523. The manufacture of basic metal products receives, on average, nominal and effective rates of assistance equivalent to 25 and 55 per cent, respectively.

524. Within the sub-category of metal manufactures, tariffs range from 5 to 70 per cent on tools (averaging 17 per cent), and from 20 to 30 per cent

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\(^{165}\) The steel industry has the highest incidence of surcharges and tariff splits in the manufacturing sector.

\(^{166}\) In late 1988, the domestic price of tin plate was US$982 per ton compared with prices of US$710 per ton for imported plate.
(averaging 28 per cent) for cutlery. The highest average tariff of 35 per cent is for household equipment where tariffs range from 20 to 40 per cent.

525. IT licences restrict imports to State-owned companies for 16 per cent of all tariff items covering ores and metals. Licences apply to hand tools used in horticulture, such as shovels and forks which are dutiable at 40 per cent.

(v) Machinery and equipment

526. This category comprises most of Indonesia's engineering industries. It includes the manufacture of non-electrical machinery, such as agricultural, metalworking, construction and office machinery. Electrical machines are also covered by this group. Indonesia's main production lines in this area include industrial and telecommunications equipment as well as professional and scientific apparatus.

527. Imports of non-electric machinery are constrained by tariffs which range from zero to 60 per cent, equivalent to a simple average tariff of 14 per cent. In addition, import licences apply to imports of many of these products. For power generating machinery and construction, mining and handling equipment, over one-quarter of tariff items remain subject to a mixture of IT, IP and AT licences (Table V.2). Overall, one-tenth of tariff items classified to non-electrical machinery are subject to licensing requirements.

528. In the case of electrical machines and apparatus, tariffs range from free to 60 per cent, averaging 18 per cent (simple average). Import licensing arrangements apply to certain electrical machinery used in industry. They cover about 20 per cent of tariff items falling in this category and are either IT, IP or AT licences.

529. Many of the AT and IT licensing arrangements and high tariffs on electrical and non-electrical machinery and equipment support local content programmes. Local content plans exist for some 17 product categories.\textsuperscript{168}

\textsuperscript{167} Major groups of electrical and non-electrical machinery and equipment subject to import licences include compressors, refrigerating and air-conditioning equipment, boilers, elevators, pile drivers, bulldozers, heavy equipment, forklifts, rice hullers and dumpers, and marine engines, winches and communications equipment.

\textsuperscript{168} Local content programmes administered by the Ministry of Industry apply to certain engines, mini-tractors, two sizes of electrical generators, certain agricultural machinery used in the rice industry, boilers, electric meters, heavy equipment, machine tools, palm oil processing equipment, certain electric motors, forklifts, pumps and mini-current breakers.
530. The last local content plans were introduced in 1986 on mini-circuit breakers and pumps. The deletion programme for small and medium diesel engines was modified in 1986. Completion of the programme was extended until 1990. This scheme specifies certain main components, equivalent to 35 per cent of the value of an engine, that must be sourced locally by the end of the scheme. The level of local content was to be 14 per cent by January 1988, but manufacturers could choose what components to source locally by then.

531. In February 1987, the programme for tractors was modified and the timetable extended to 1990. It was combined with the deletion programme for motor vehicles and motorcycles. Tractor manufacturers were permitted to source individual components from suppliers other than those supplying the imported completely-knocked-down kits (so-called "multi-sourcing" of parts).

532. Both foreign and domestic investment in manufacturing non-automotive piston engines, covering petrol engines 10 horse power or below, and diesel engines of varying power ratings, is prohibited unless 65 per cent of production is to be exported. The same investment restrictions apply to the heavy equipment industry, including the manufacture of bulldozers, loaders, graders, excavators, road rollers and forklifts with diesel engines.

(vi) Energy products

(a) Petroleum sector

533. With the diversification of the Indonesian economy into non-oil and non-gas areas, the relative importance of the petroleum sector has declined over recent years. Nevertheless, it remains a major sector of the Indonesian economy. Indonesia is the world’s largest exporter of liquified natural gas (LNG). Exports of LNG are planned to increase from the 1989 level of 18.7 million tons to 20 million tons by 1992.

534. Indonesia is a member of OPEC. Its exports of crude oil and condensates totalled 292 million barrels in 1989, about 60 per cent of domestic output. Due mainly to capacity constraints, Indonesia voluntarily renounced an increase in its OPEC production quota for 1990, leaving its quota at 1.374 million b/d. It is the Government’s objective to raise production capacity to 1.5 million b/d by 1992.

535. Crude oil, liquefied petroleum gas (LPG) and liquefied natural gas are regulated products that can only be exported by registered or approved exporters.

536. Tariffs on petroleum products and coal are generally 5 per cent. However, the petroleum sector in Indonesia is heavily regulated by marketing and pricing controls. Pertamina, the State-owned monopoly, has sole rights in the oil and gas sector over exploration, development, production, refining and distribution of final petroleum products. This includes sole importation rights to all petroleum products through PI licences imposed on competing imports. The prices of refined petroleum
products are fixed by the Government. Downstream users have been subsidized by being able to purchase products at prices below world levels. The consumption subsidy is financed by the Government.

537. Participation by foreign companies in the Indonesian petroleum sector is controlled by Pertamina through production-sharing contracts. Under these arrangements, foreign oil and gas contractors are able to operate in Indonesia under joint venture arrangements with Pertamina, provided certain terms are met. The arrangements tend to vary between agreements. They involve the sharing of "profit oil" between the foreign contractor and Pertamina, so that after taxes a prescribed percentage, usually 85 per cent for oil and 70 per cent for gas, accrues to the Government. Profit oil is that part of crude oil production above "cost oil" which covers the contractors current operating costs and the amortized costs of drilling and exploration. Private contractors carry the full risks of exploration, and are only reimbursed for these costs if the field produces oil. Contractors must also supply from their share of profit oil a domestic marketing obligation to Pertamina of approximately 8.5 per cent of all production.

538. The Indonesian Government has been keen to promote oil exploration to help supplement existing reserves. A new set of production and exploration incentives were announced in early 1989. These generally improved the attractiveness to foreign companies of production-sharing contracts (Table V.3). Another change since 1 April 1989 was the introduction of a free market crude pricing system to determine the foreign contractors' tax liability. This sets monthly prices for each producer based on the international prices of five types of crude oil. Previously, Indonesian crude prices were determined using the official Government selling price which bore no relationship to prevailing world prices. Eleven new production sharing contracts were signed in the first seven months in 1990, compared with nineteen in 1989.

539. Government policy is to expand refining capacity to meet rising domestic demand and promote greater domestic value added in the oil industry. Greater domestic refining capacity enabled Indonesia to terminate refining in Singapore in 1987. The number of refineries is currently eight. An agreement to construct a major new refinery in Balorgan, West Java, was signed in April 1990 between Pertamina and a major

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169 Domestic prices of refined products were increased in May 1990 by an average 15.7 per cent, the first increase since 1986 (see Chapter IV).

170 For production sharing contracts signed after 1988, oil production splits for particular fields may vary between 75/25 (for so-called frontier areas) and 90/10 in favour of the Government. However, splits of 85/15 are likely to remain the most common.

171 The contractor is paid the export price or the Government selling price for this oil for the first five years, after which he is paid US$0.20 per barrel, or 10 per cent of the export price in certain circumstances.
consortium of overseas companies. As this and several other planned petroleum refineries come onstream, the Government is intending to completely replace crude oil exports with exports of refined petroleum products and petrochemicals.

(b) Coal

540. Indonesia is relatively rich in reserves of medium to high quality coal. Exports are expected to increase as future production from new mines outstrips domestic demand. Coal output has expanded sevenfold in recent years, and is expected to increase by a further fourfold by 1994 to 15 million tons. Imports are only made to meet shortfalls in domestic production.

541. Coal production is controlled by two State-owned enterprises, Persuaalam Umum Tambang Batubara and P.T. Tambang Batubara Bukit Asam. Most coal production is used domestically for power generation, and by energy intensive industries such as cement. The Government has recently banned further foreign investment in the coal industry.

542. Coal is considered a strategic or vital resource. Priorities for the coal industry were established in 1976 by a Presidential instruction that domestic coal be used to the maximum extent possible in the power generation and cement industries. In line with this decree, the State electricity authority (PLN) must consume locally produced fuel inputs. This involves PLN paying prices for coal, at least from the Bukit Asam coal mine, well above world prices. While coal prices at other domestic mines are lower, they are also generally above world prices.

(vii) Chemicals

543. Indonesia's demand for basic petrochemicals has increased as its manufacturing base has broadened. These products, formerly met mainly from imports, are in future to be sourced domestically to a much greater extent. This is viewed by the Government as another means of promoting greater domestic value-added in its petroleum and gas resources.

544. Major factories involving overseas partners are under construction. They are due to come onstream in the early 1990's. These include a US$500 million petrochemical complex of four plants to produce styrene monomer, acrylonitrile butadine styrene, high impact polystyrene, and styrene acrylonitrile resins. The State-owned company Pertamina is also negotiating with foreign interests for the construction of a US$1.7 billion styrene plant.

545. Tariffs on chemicals range from zero to 60 per cent, but the simple average tariff rate is much lower at 14 per cent. Basic chemicals receive relatively low tariffs equal, on average, to 7 per cent. However, tariffs in the chemical sector escalate substantially on finished chemical products. The simple average tariff on paints and varnishes is 26 per cent and 19 per cent for plastic products.
546. The highest tariffs are found on perfumes, cosmetics and toilet preparations. These are dutiable at a tariff and surcharge of 30 per cent each. Soaps are almost entirely dutiable at 30 per cent, while washing preparations and detergents are dutiable at either 15 or 30 per cent.

547. There is a high incidence of import licensing restrictions for health reasons on cosmetics and toilet preparations (Table V.2). Almost half of all tariff items are covered.

548. One quarter of tariff items covering medical and pharmaceutical products remain subject to IT import licences restricting imports to State-trading companies, or are licensed for health reasons.

549. For the first time, major deregulatory measures were made to the pharmaceuticals industry in May 1990. Import licences were replaced with tariffs and surcharges on a number of medicinal products, such as capsules for medicines and basic medical raw materials. Licensing procedures for domestic businesses engaged in supplying medicines and for the registration of medicines were simplified. In addition, foreign firms can now distribute domestically through joint ventures with Indonesian firms.

550. Cement production is a strategic industry in Indonesia. State-owned enterprises account for half of production and the Government is the major single user of cement. In line with the recent construction boom, the cement industry is undergoing substantial growth. Cement production for the first 8 months of 1990 was 10.5 million tons, of which 8.5 million tons was sold on the domestic market. Plans exist to substantially raise capacity. The production capacity of the Tonasa cement factory is expected to increase substantially with its fourth plant expected to produce 3.2 million tons annually by 1992. New plants under construction by Semen Padang and Semen Gresik are expected to raise annual cement capacity by over 6 million tons when they come onstream in 1992-93.

551. Prior to the May 1990 reforms, the cement industry was protected by restrictive IT import licences. These licences no longer operate. However, import competition will remain restricted because in addition to the 20 per cent tariff, distributional regulations and price controls are apparently maintained at the regional level by the Ministry of Industry, in consultation with the Cement Association. Reference or guiding prices are set at the provincial level and announced in a decree by the Minister of Trade, the latest being dated 10 March 1990. Current prices range between provinces from Rp 5,000 per 40 kg. bag to Rp 6,700. Cement exports were recently prohibited to help ease the domestic shortages and the substantial upward pressures on domestic prices. The Government has indicated that it will not raise the reference prices for cement. It has instructed cement producers to abide by the reference price agreement by not charging prices above the set levels. See Government Will Not Raise Cement Reference Prices, Jakarta Post, 27 September 1990, p.7.
have been converted to using coal, are required to meet their energy intensive demands from regional coal mines to the maximum extent possible.

552. Nominal and effective rates of assistance for chemicals are, on average, 12 and 34 per cent, respectively. By far the most highly assisted segments of the industry are paints and lacquers (nominal and effective rates of assistance of 33 and over 500 per cent respectively), cleaning materials (37 and over 500 per cent) and medicines (24 and 87 per cent). These impose an annual burden on domestic consumers, including downstream processors, in the form of higher prices which transfer income to domestic producers equivalent to an estimated Rp 350 billion per annum.

(viii) **Leather, rubber, wood, articles thereof and furniture**

(a) **Leather**

553. Tariffs on imports of raw hides and skins, leather and furskins range from zero to 40 per cent. The simple average is 11 per cent. Tariffs escalate substantially on leather products. On raw hides and skins, they average 4 per cent, compared with 8 per cent for semi-manufactured products and 36 per cent for manufactured leather articles. Tariffs on these latter products range from 20 to 40 per cent.

554. The export of hides is prohibited and export taxes apply to most kinds of semi-processed leather. Taxes on exports of semi-processed leather include, on top of the base rate, an additional export tax, totalling mainly 50 or 60 per cent. These arrangements have reduced the domestic price of leather substantially below world levels, thereby benefiting users of domestic leather at the expense of leather producers.

(b) **Rubber**

555. Rubber is traditionally Indonesia's most important agricultural product. It is one of the world's top three rubber producers, accounting for about one-quarter of world production.

556. A high degree of tariff escalation exists in rubber products. Average rates increase from 6 per cent on raw rubber to 20 per cent on semi-manufactured products, and to 30 per cent on manufactured articles. This is mainly due to the high duties on rubber tyres of 60 per cent, including a surcharge of 20 per cent. Other rubber products are free from surcharges, and are dutiable at much lower rates, mostly free, 5 and 30 per cent. The higher rates on rubber products largely reflect the Government's plans for promoting a more extensive rubber products' industry to increase domestic value added.

557. The export bans on various types of low grade rubber, including a production ban on SIR 50 used in the manufacture of tyres, effectively assists both the tyre and latex manufacturers. Tyre manufacturers benefit through access to rubber inputs at lower prices. This input subsidy, together with high tariffs on outputs, assists the tyre industry.
558. Tariffs on forestry products imported into Indonesia range from free to 30 per cent. The simple average tariff rate is 19 per cent.

559. Exports of forestry products are tightly controlled by the Government. These restrictions include a prohibition on the export of unprocessed logs and green veneer; the regulation of a wide range of sawn and processed timbers and plywood; and specific export taxes on a wide range of sawn timbers, some with prohibitive ad valorem equivalents. These regulations have been introduced to generate employment, to promote greater domestic value added, to increase foreign currency earnings and to ensure sustainable forest management.

560. As a result of the export ban on logs, wood processing industries such as plywood and blockwood manufacturers have benefited from lower log prices. It has been estimated that the ban on log exports, for example, lowered domestic log prices by as much as 20 per cent. Up to 1989, 296 sawn timber factories had been installed with annual production capacity of 8.8 million cubic metres. Similarly, 108 plywood factories existed with an annual production capacity of almost 7.5 million cubic metres.

561. Plywood, with domestic content of almost 100 per cent, has grown to be Indonesia's leading export earner. Total plywood exports in 1989 were $US2.7 billion, or some 8 million cubic metres. The development of high value added industries has been an important source of employment in

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173 For products where Indonesia is a price setter on the world market, export taxes may improve national welfare. However, any benefits accruing to the country would be temporary unless market power is maintained in the long term. The experience of other countries with export taxes indicate that these gains are difficult to capture in the longer term, due to product and country substitution. Indonesia is generally regarded as a price taker on the export market for most products, with the possible exception of logs, plywood, rattan, nutmeg and rubber. Even in these cases, however, export taxes would be a more efficient means of achieving these gains than export bans or quotas.

174 Fuel subsidies provided by the Government encouraged plywood producers to use fuel as the main energy source. According to Indonesian officials, subsidized fuel prices in Indonesia are more expensive than those confronted by foreign manufacturers, and do not therefore provide the Indonesian industry with a competitive advantage.

175 G. Fane and C. Phillips, op. cit., p.28.

176 Eighteen plywood factories constructed in 1984-1985 were recently inaugurated in Indonesia. These export-oriented factories scattered in eight eastern Indonesian provinces export mainly to the United States, European and Japanese markets.
Indonesia. The forestry sector is estimated to provide direct employment to 2,519,780 workers. Log consumption for the production of exported plywood was 14,369,673 cubic metres, compared to peak exports of Indonesian logs prior to the prohibition of 19,443,000 cubic metres in 1978. Government officials believe that the policies of prohibiting timber exports have made a very positive contribution to meeting their objectives, enabling Indonesia to achieve a sustainable yield for natural forests.

562. While the export ban on logs benefit the wood processing industries, they tax the forestry and basic timber industries. In the short-term, these policies have reduced exports. Prior to the export ban, logs were one of Indonesia's largest single export earner.

563. In 1988, the Government announced that it would abolish the Reforestation Guarantee Fund into which forestry concession holders were required to deposit US$4 per cubic metre of extracted timber. Its replacement, the Reforestation Fund, commenced on 1 July 1989. Loggers must contribute to this Fund as a means of financing reforestation activities. The contribution rate was increased from US$7 per cubic metre of wood extracted to US$10 per cubic metre on 1 July 1990.

564. Foreign and domestic investment in new forestry projects has been banned by the Indonesian Government, except in Irian Jaya. This ban is mainly intended towards limiting production capacity in growth industries like plywood and sawn timber. It is also aimed at the conservation of forest resources and to ensure sustainable yields. The investment ban applies even if production is to be fully exported.

565. The export ban on sawn timber of ramin, white meranti and agathis has encouraged greater processing by benefiting the household furniture industry.

177 It is largely for these reasons that the average nominal and effective rates of protection for forest products are -38 and -42 per cent, respectively.

178 The World Bank estimated that, up until the mid-1980s, the log export ban had cost Indonesia four dollars in lost log exports for every dollar gained in plywood exports. Another study estimated that the log export ban, up to 1987, had cost the Indonesian economy in total between US$2-3 billion in foregone export receipts. See H. Lindsay, The Indonesian Log Export Ban: An Estimation of Foregone Export Earnings, Bulletin of Indonesian Economic Studies, Volume 25, No. 2, August 1989, pp. 111-123. According to Government officials, studies of these kind are out of touch with the development needs of Indonesia. They point out that continued world supply at previous logging rates would have depressed international prices by creating a surplus, thereby wasting natural resources and reducing industrial value added and employment opportunities in Indonesia. The four dollars loss calculated by the World Bank is seen as an accountant's tabulation with no reference to actual market conditions.
industry. Tariffs on imported furniture range from 10 to 50 per cent, with a simple average of 40 per cent.

(ix) Pulp, paper and paperboard

566. Tariff escalation exists in the paper industry. Tariffs on basic wood pulp are 5 per cent, while for paper and paperboard and manufactured articles, tariff rates average 25 per cent. A few products remain subject to IT import licences (Table V.2).

567. The development of the paper industry prior to 1986 was highly influenced by the import régime. Much higher tariffs, coupled with restrictive import licences on major paper and paper products, had generated an inefficient industry structure in the more processed end of the market. At the raw material end, an efficient pulp industry had developed without resort to high tariffs or restrictive import licences.

568. Since 1986, the removal of most import licences and the reduction in tariffs on paper and paper products towards a 30 per cent tariff has exposed the industry to greater competition. The paper industry has, however, benefited from the export prohibitions and restrictions applied to forestry products. Newsprint is a supervised export commodity whose export requires approval from the Ministry of Trade.

569. The manufacture of laminated kraft paper for bagging cement and the printing of valuable paper are closed to foreign and domestic investment, even if production is to be fully exported. The only exception is investments covering the printing of valuable paper made in co-operation with the State printing enterprise Perum Peruri.

570. Nominal and effective rates of protection for paper products are, on average, 14 and 20 per cent, respectively. Although printing and publishing receive a low level of assistance, the manufacture of paper and paperboard and their products receive high nominal and effective assistance, estimated on average at around 20 and 100 per cent, respectively.

(x) Other products

571. This is a heterogeneous residual category. Production in Indonesia in this category is dominated by fertilizers, for which the average tariff rate was below 1 per cent and the tariff range was from free to 5 per cent; glass and glassware for which the average tariff was 28 per cent and the tariff range was free to 50 per cent; and other mineral manufactures, for which the average tariff rate was 27 per cent and tariff rates ranged from free to 50 per cent.

572. The fertilizer industry is a strategic industry in Indonesia. As such, it has been one of the most highly regulated sectors in the economy. All fertilizer is produced by five State-owned enterprises.

573. The regulatory arrangements for fertilizers include a subsidy to both farmers and fertilizer producers; an input subsidy on natural gas supplied
by Pertamina to urea manufacturers; price fixation at all distributional levels by the Government; export supervision; and an import monopoly on all trade down to the retail level by one of the State-trading enterprises, PT Pusri.

574. Prior to May 1990, the import monopoly was maintained by IT licences which restricted imports to PT Pusri. These were removed in May 1990 on all fertilizers except one. However, the import monopoly effectively remains as fertilizers must be imported by Pusri to be eligible for the fertilizer subsidy.

575. The manufacture of fertilizers in Indonesia receives average assistance of 25 per cent nominal and 71 per cent effective. The manufacture of nitrogenous fertilizers by other than in co-operation with a State-owned company, except for ammonium nitrate, is closed to foreign and domestic investment, unless 65 per cent of production is to be exported. The same investment restrictions apply to the manufacture of ammonium chloride used in fertilizer production.

576. The export of raw and semi-processed rattan for Indonesia is prohibited. By depressing the domestic price of these products below international levels, these bans benefit furniture manufacturers at the expense of rattan producers. Foreign and domestic investment in the processing of raw rattan and the manufacture of semi-finished and finished rattan products is prohibited, even if production is totally exported.
VI. TRADE DISPUTES AND CONSULTATIONS

577. Indonesia has no statutory domestic procedures for conducting consultations or negotiations with trading partners in the event of trade disputes.

578. Issues which potentially give rise to trade complaints are discussed bilaterally with trading partners. Over the past decade, such discussions have related mainly to trade relations with the United States, the EC, Australia and New Zealand. For example, discussions with New Zealand concerning Indonesia's restrictions on fruit imports were recently settled by an exchange of letters of understanding. Similarly, as noted earlier, bilateral talks have resulted in Indonesia agreeing to import US$2.6 million worth of apples and pears from the United States for the period September 1990 to August 1991. Rattan exports to the Netherlands have been exempted from the general export ban, provided that the materials are to be processed by handicapped persons.

(1) GATT Dispute Settlement

(i) Article XXII and XXIII

579. Indonesia has never been involved, as a defendant, in any GATT dispute settlement procedure. Indonesia has never initiated any complaints under GATT procedures.

580. In 1987, Indonesia intervened in the Panel examination of the taxes on petroleum and certain imported substances ("Superfund Tax") by the United States. At the time, Indonesia's export earnings had fallen because of lower petroleum prices and the declining value of the US dollar. Indonesia pointed out that, as the United States purchased some 35 per cent of Indonesia's petroleum exports, these taxes would aggravate its development problems. While supporting the environment objectives of the Superfund Act, Indonesia objected to the raising of funds in violation of the General Agreement, in particular Article III. It was felt that these actions were imposing on developing countries the costs of environmental protection in an industrialized country.

581. Indonesia has held consultations under GATT Article XXII with the European Communities concerning Indonesia's ban on exports of certain tropical woods. This matter has been raised on several occasions by the EC in the GATT Surveillance Body since June 1987. On 3 July 1989, the representative of the European Communities reported to the Surveillance Body that the consultations had not been conclusive. Subsequent consultations have specifically dealt with Indonesia's taxes and restrictions on exports of rattan.

582. Article XXII consultations were requested by the United States in April 1989 concerning quantitative restrictions allegedly maintained by Indonesia on various products and import charges applied on certain bound items. The countries discussed the issues on two occasions without reaching agreement.
583. In February 1991, the United States requested further consultations under GATT Article XXIII. According to the United States, Indonesia maintains quantitative restrictions which are inconsistent with Article XI. Bound items allegedly affected include dry garlic, certain citrus fruits, grapes, yellow soybeans and soybean cake/residue. The United States believes that Indonesia has not fulfilled the notification requirements pursuant to Article XVIII. It is further claimed that import charges on certain items exceed the bound rates contained in Schedule XXI, and that this is inconsistent with GATT Article II.

(ii) MFA

584. In 1984, Indonesia brought a dispute settlement case against the United States, under Article 11.4 of the MFA, concerning action taken by the United States on eight textile categories. The Textiles Surveillance Body (TSB) recommended that restrictions should be rescinded on two categories, non-cellulosic spun man-made fibres and certain shirts. Imports of printcloth (Category 315) were found by the TSB to be causing a real risk of market disruption. Following further consultations between the two countries, the United States notified amendments concerning restraints on six categories. New levels implemented were substantially above the reference levels or previous restraints (COM.TEX/SB/1067).

(2) Other Disputes

585. The Secretariat is not aware of any formal trade dispute involving Indonesia outside the GATT framework. The bilateral trade agreements concluded by Indonesia contain no formal dispute settlement procedures and are subject to normal GATT rules.

586. The ASEAN Committee on Trade and Tourism is authorized to review and supervise the implementation of the ASEAN preferential trading agreement. Disputes relating to the implementation of the agreement may be referred to the Committee, which shall consult with the parties concerned and arrive at a mutually acceptable solution. Depending on the circumstances, a member State may temporarily suspend the application of a concession until a mutually satisfactory solution has been reached. The other members of ASEAN must be given 30 days prior notification of such action being taken.