The following communication from the discussants for the trade policy review of Indonesia has been received by the Secretariat. It concerns possible points for discussion at the special meeting of the Council on 25-26 April 1991. The points have been drawn up by the discussants in their personal capacity with a view to facilitating the discussions at the special meeting of the Council. It is understood that this communication in no way limits the scope of discussions at the review meeting.
The Republic of Indonesia

The purpose of the review is to permit the CONTRACTING PARTIES' joint appreciation and evaluation of the trade policies and practices of the Republic of Indonesia and their impact on the functioning of the multilateral trading system, account being taken of Indonesia's general economic policy and the external environment.

The following points may help to promote a more focused exchange on the major issues dealt with in the documentation supplied by the Indonesian Government and the GATT Secretariat.

A. Exchange Rate Policy and Foreign Debt

Indonesia's success in overcoming the most severe constraints to economic growth resulting from the previous foreign debt burden is attributed to an effective and realistic exchange rate by the Bank of Indonesia. Since this policy seemed to have a number of policy objectives in terms of competitiveness of exports, competitiveness of domestic products competing with imports and the stimulation of foreign investment, could there be an elaboration of Indonesia's experience in achieving policy coherence between different macro-economic policy instruments?

B. Liberalization of Investment Regime and Financial Sector

A major element of Indonesia's domestic and trade policy reform has involved a foreign investment régime and the liberalization of the financial sector. Could Indonesia explain further how it came at this particular policy mix in light of its previous experience of economic difficulties? Could the relationship of these elements of its comprehensive reform be further elaborated in terms of their impact on its trade performance?

C. Trade Diversification and Import Liberalization

Indonesia's trade diversification has been pursued in the context of a liberalization of its import régime. However, there are still major sectors of economic activities sheltered from international competition. Does Indonesia envisage completing the liberalization of its import régime to avoid potential sectoral misallocation of resources within the economy? What are Indonesia's objectives in the Uruguay Round in terms of trade liberalization?

D. Import Regime

The Indonesian import régime appears to be based on a system of exclusive authorized importers and restrictive internal distributorships. Could Indonesia comment on this régime in terms of its transparency?
there not a risk that this could introduce some structural rigidities that could deny the benefits of an open import régime?

E. AGRICULTURE

Indonesia is a major exporter of agricultural products and depends on better access to world markets. At the same time, Indonesia has a policy of achieving agricultural self-sufficiency and of supporting "strategic crops". Could Indonesia comment on this situation, having particular regard to its objectives in the Uruguay Round?

F. NON-DISCRIMINATION

Indonesia is a strong supporter of the non-discrimination principle. It also has some regional trade cooperation arrangements with neighbouring countries. Could Indonesia comment on the relationship between multilateral and regional trade liberalization?

G. SPECIFIC SECTORAL OR TRADE POLICY MEASURES

1. Import Licensing and Surcharges

Since 1986, trade liberalizing measures were introduced by the Indonesian Government. As a result of the May 1990 reforms, import surcharges were applied to compensate for the removal of import licensing. However, it has been noted in the Secretariat report that one-quarter of goods that are locally produced are still subject to import licensing requirements. The questions that could be addressed are:

(a) In 1990, imports were dominated by capital and intermediate goods. The share of consumer goods in total imports was only 4 per cent. What are the main reasons for this relatively low share of imported consumer goods? Is this part of the Indonesian Government's economic strategy? Are consumer goods imports generally placed under the import licensing system?

(b) It is noted in the Secretariat report (page 42, para. 144) that 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. What are the major import items that will still be subject to import surcharges?

(c) Restrictive import licences account for more than one-tenth of all tariff lines in the Indonesian Customs Tariff (Secretariat report, page 65, para. 213). Nearly all of these tariff lines are classified into either the IT, PI or AT importer categories. The main product items covered under these restrictive licences are mainly intermediate goods.
What are the policy reasons for dividing the restrictive licences into various categories, i.e. IT, PI and AT? Is there any plan to simplify them into a single category?

What is the relative share of total imports value that is covered by restrictive import licences?

(d) According to the GATT Secretariat report (page 42, para. 143), import surcharges have been imposed to protect domestic infant industries from fluctuation 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."

Would the Indonesian representative comment on this observation?

2. Export Restrictions and Prohibitions

It has been observed that Indonesia applies export restrictions and prohibitions to a variety of natural resource-based products like logs and rattan. Concern has been expressed whether export restrictions and prohibitions are consistent with GATT Articles XI and XX. The Secretariat report also observes that even though export prohibitions applied by Indonesia on tropical logs and rattan have contributed to the improved export performance of downstream producers, the restrictions in domestic prices of unprocessed products have been equivalent to a substantial input subsidy. Would the Indonesian representative comment on this observation?