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An Overview of Indonesian Trade Policy

Center for International Trade and Investment
Jakarta, 2016

Structure of the present lecture

- Indonesia’s Road to Liberalization
- Trade and Policy environment in Indonesia
- Indonesia’s Trade and Investment policymaking process

Indonesia’s Road to Liberalization

- Soekarno era: poor social and economic growth/performance
- 1967 Soeharto regime: trade and investment were liberalised, import licensing was dismantled, a new ‘export bonus’ was introduced
- Windfall gain from increasing oil prices in 1970s: protection increased and unwillingness to further trade liberalization -> govt intervened the market, State-owned banks provided credits for favoured clients, direct production in heavy industries through state-owned enterprises

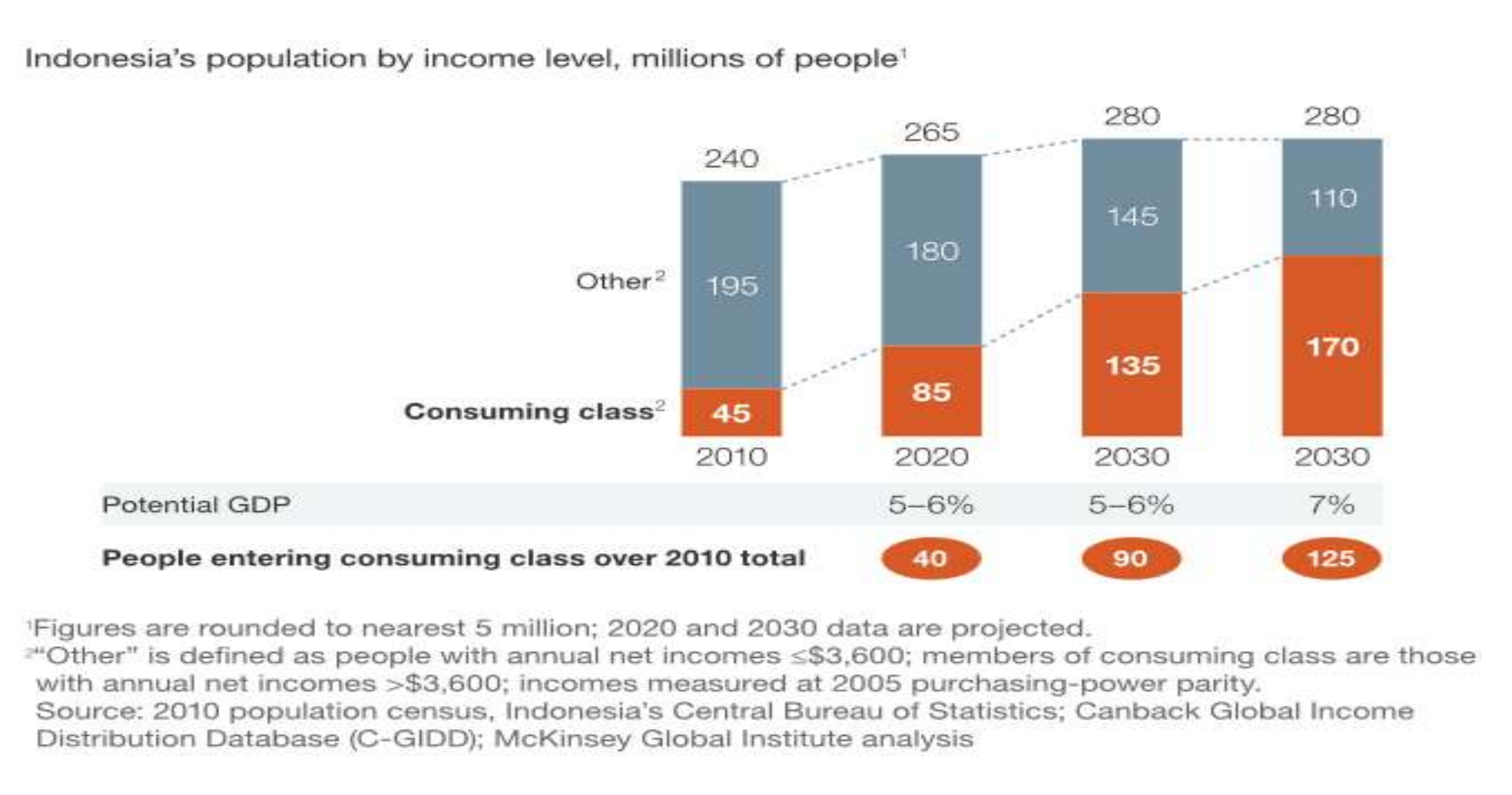
Road to Liberalization

- Oil prices collapsed: first major reforms (mid 1980-85) -> tariff reduction and converted several import licenses into tariff equivalents, abolished import monopolies, simplified customs.
- Trade liberalization getting slow in early 1990s -> tariff increased on some chemical products, national car scheme (exemption from domestic luxury tax)

Road to Liberalization

- 1997 Asian financial crisis: transition to democracy, decentralization rolled out, financial reforms required by the IMF programme -> elimination of NTM for agricultural products and measures to protect the national car scheme, removing import-licensing requirements on commodities controlled by BULOG (opened import competition on rice)
- Renewed liberalization efforts supplemented by inter commitments under AFTA, APEC and the WTO

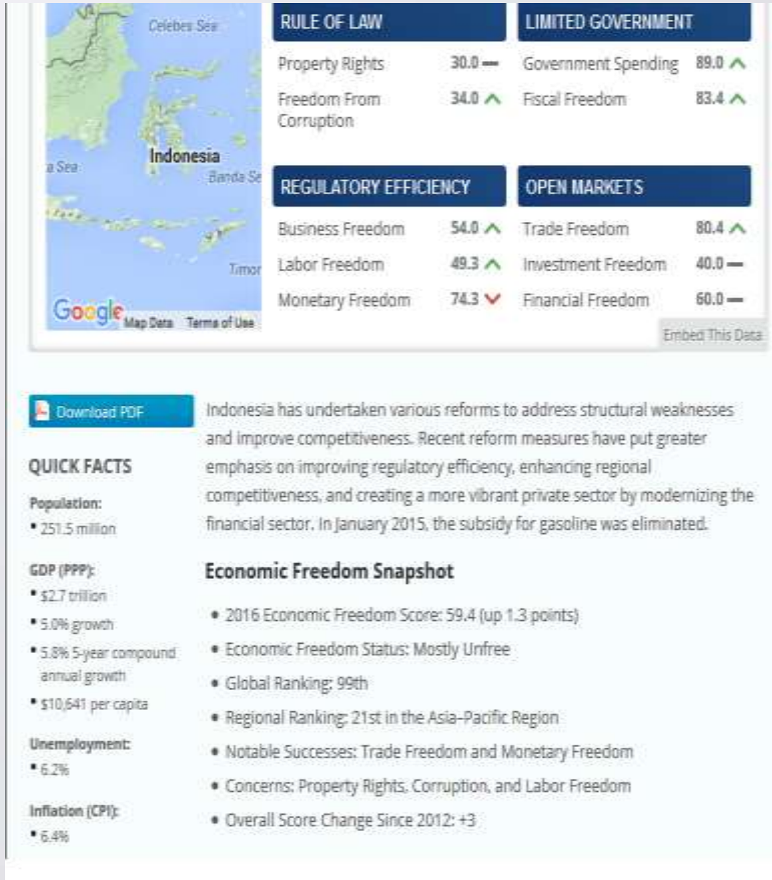
Archipelago Economy: Huge and Potential



Source: McKinsey 2012

But also Difficult…

- Indonesia is ranked 99th out of 178 countries globally by the Heritage Foundation Economic Freedom Index in 2016. The economy status: mostly unfree.
- The Index measurement is based on four categories: rule of law, limited government, regulatory efficiency and open markets.



Improvement, but still Remain Fragile…

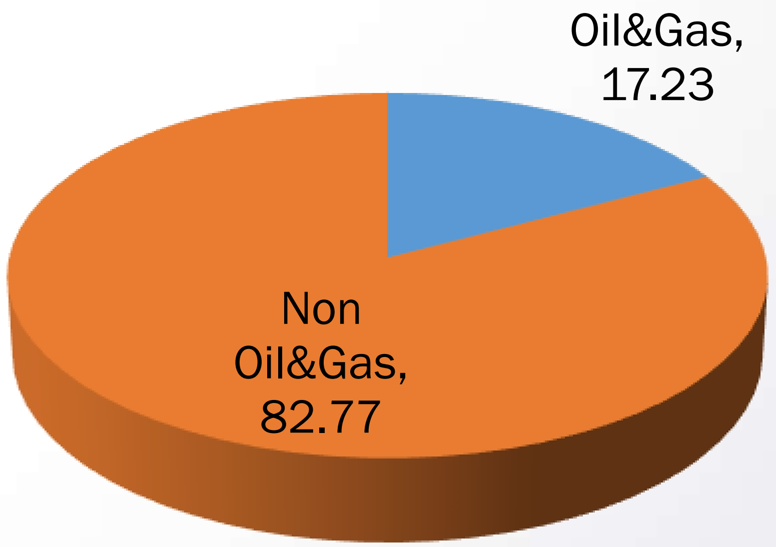
“Indonesia has undertaken *various reforms* to address structural weaknesses and improve competitiveness. Recent reform measures have put greater emphasis on improving regulatory efficiency, enhancing regional competitiveness, and creating a more vibrant private sector by modernizing the financial sector…*Despite apparent progress, Indonesia’s growth potential remains fragile* and hampered by inefficient legal and investment regimes. Political interference in the private economy discourages dynamic economic expansion, and the majority of Indonesia’s workforce is employed in the informal sector. Pervasive corruption exacerbated by a weak judicial system adds to business risk.”

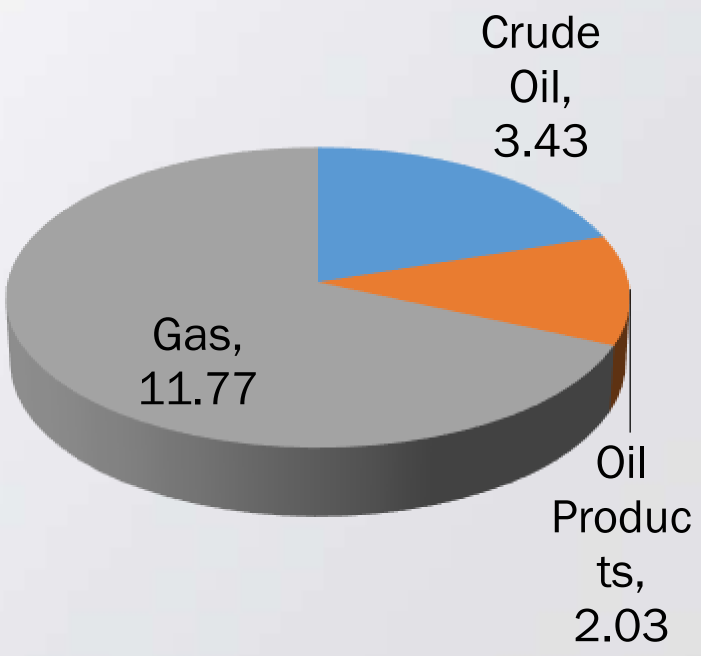
-The 2016 Economic Freedom Index, the Heritage Foundation-

- Similarly, Indonesia is ranked 88th of 168 countries by Transparency International Corruption Perceptions Index in 2015, although this position has gone up from 107 of 175 in 2014.

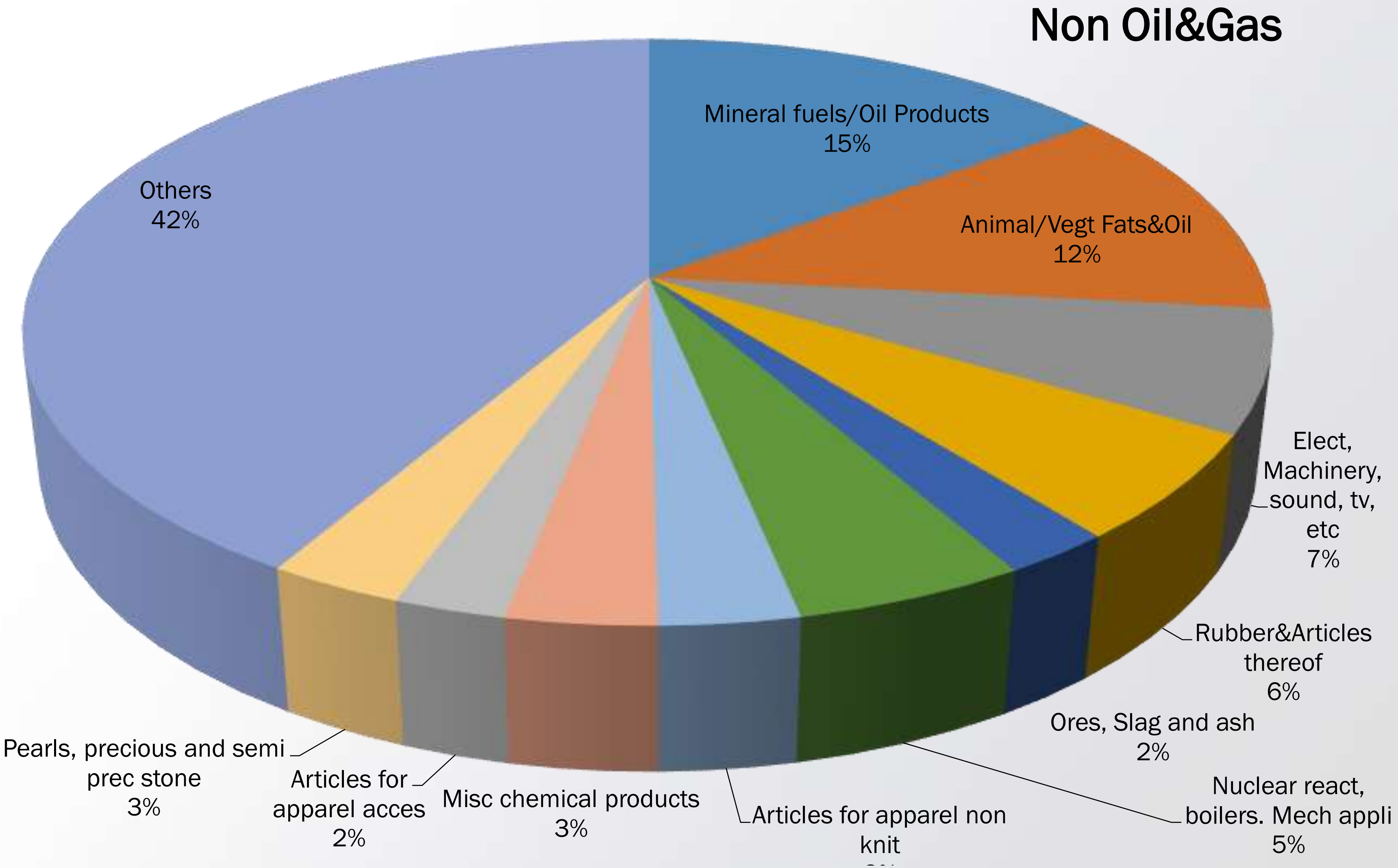
IND	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Score	1.9	2.0	2.2	2.4	2.3	2.6	2.8	2.8	3.0	3.2	3.2	3.4
Rank	122/133	137/146	140/159	130/163	143/179	126/180	111/180	110/178	100/182	118/174	114/177	107/174

Indonesia Exports and Imports – Jan 2014
Source: BPS





Exports



Non Oil&Gas
Mineral fuels/Oil Products 15%
Animal/Vegt Fats&Oil 12%
Elect, Machinery, sound, tv, etc 7%
Rubber&Articles thereof 6%
Ores, Slag and ash 2%
Nuclear react, boilers. Mech appli 5%
Articles for apparel non knit
Misc chemical products 3%
Articles for apparel acces 2%
Pearls, precious and semi prec stone 3%
Others 42%

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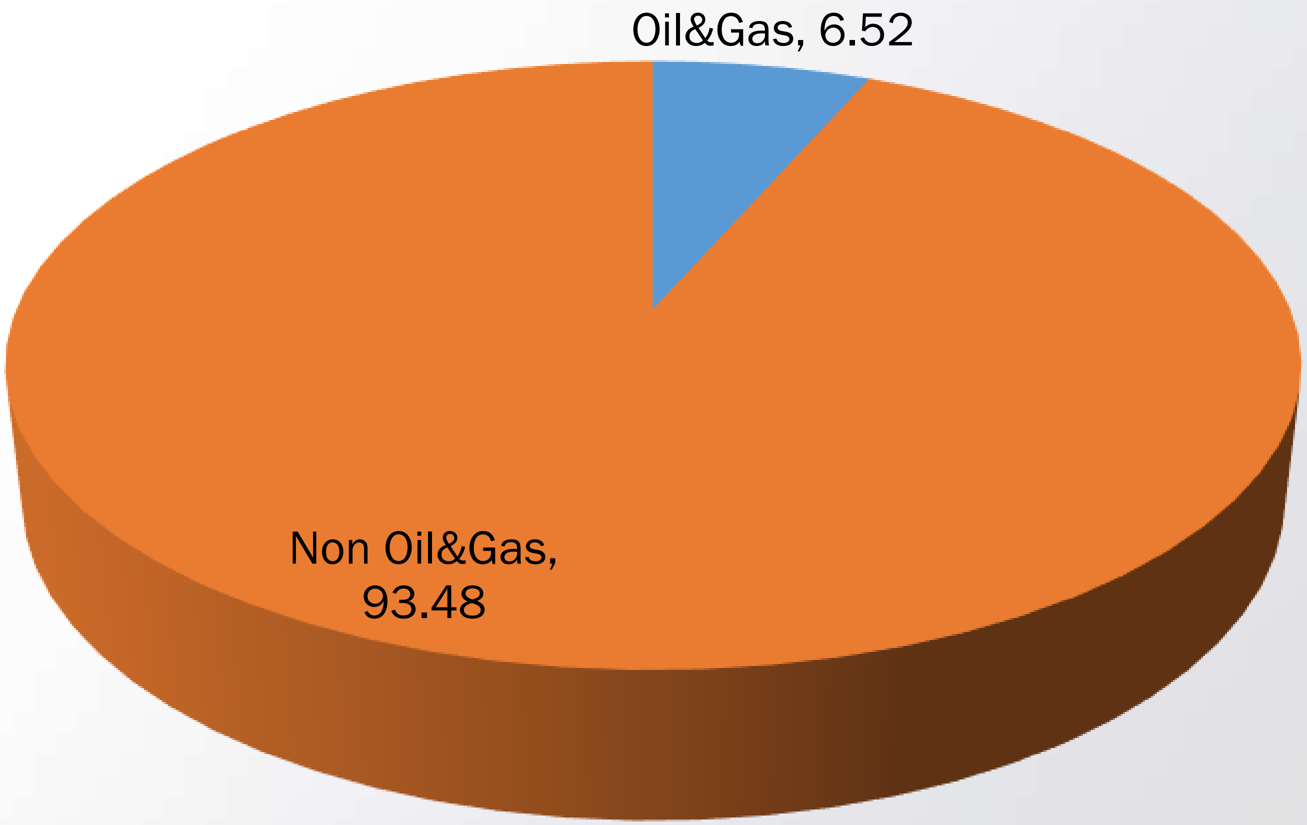
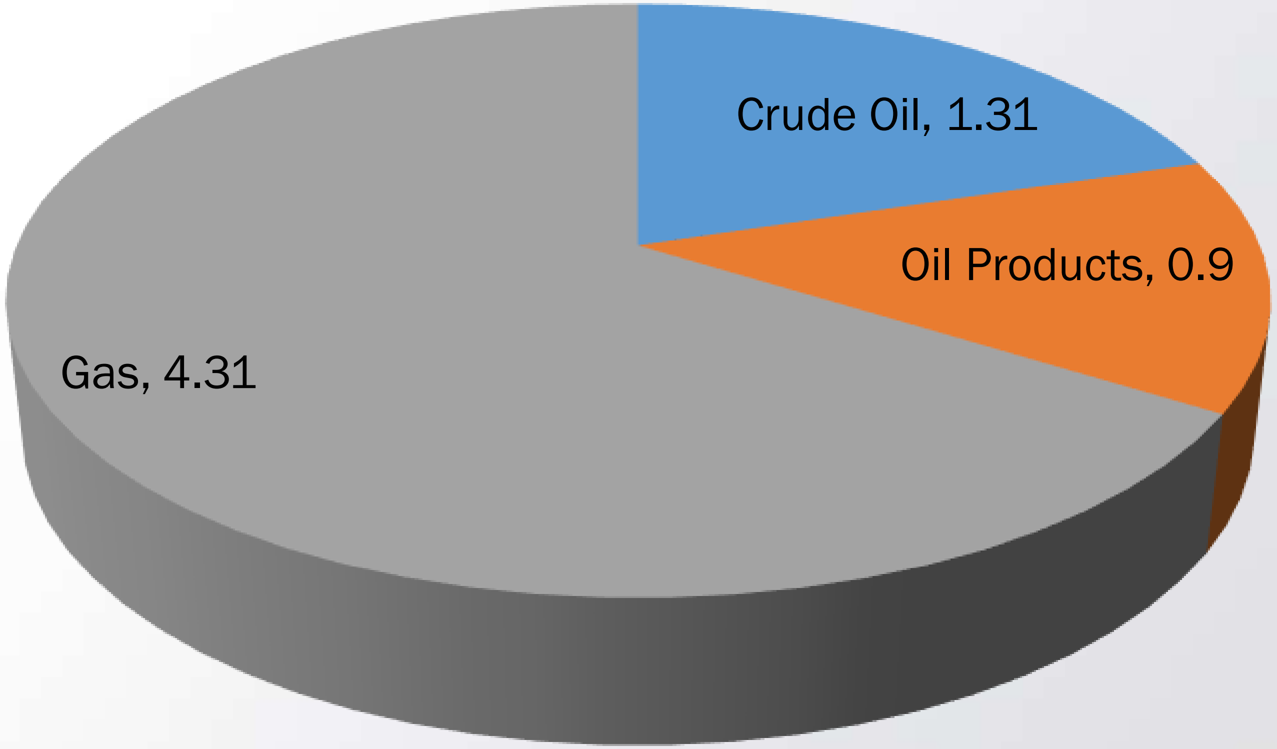
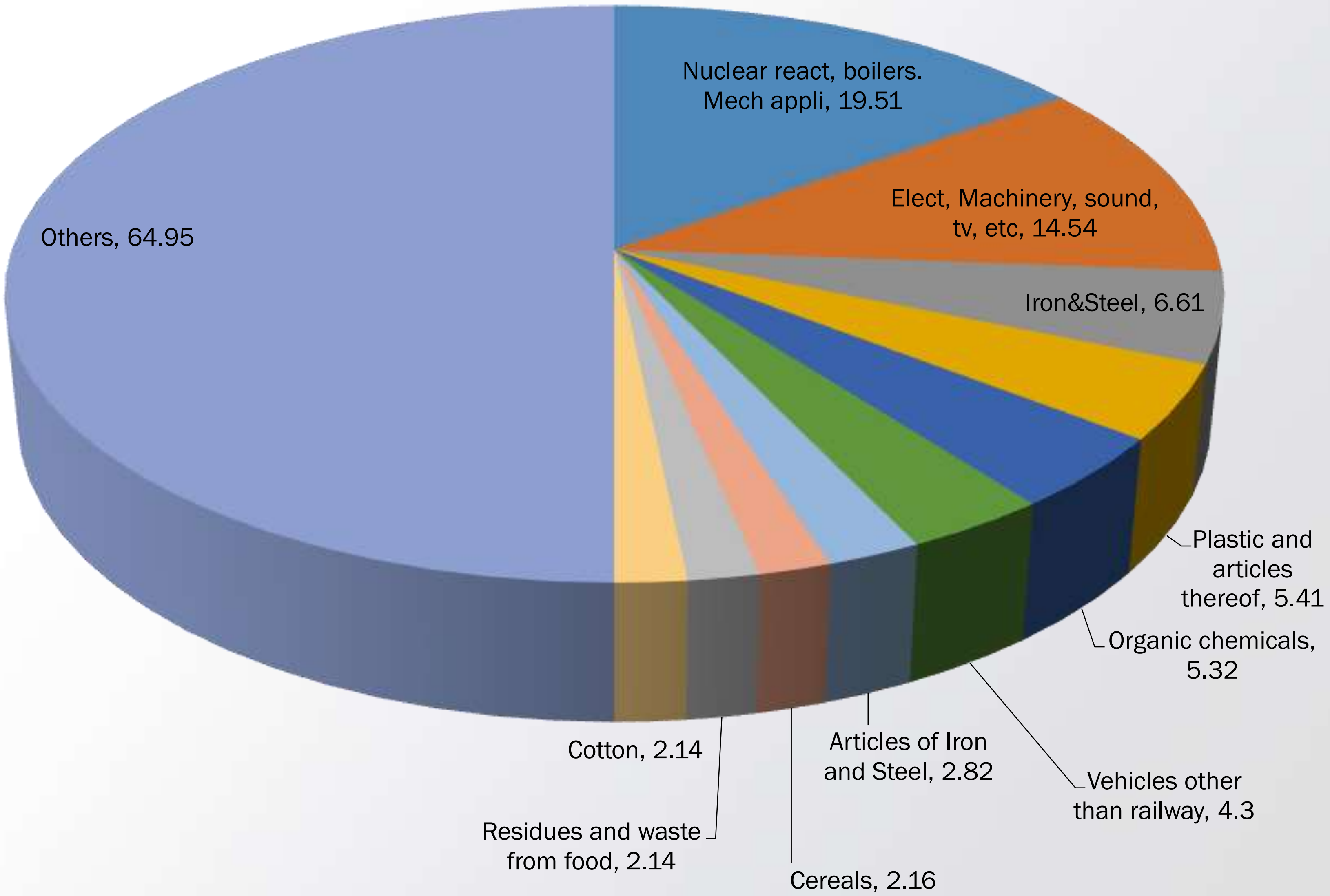
Indonesian Imports



Oil&Gas



Non Oil&Gas


Nuclear react, boilers. Mech appli, 19.51
Elect, Machinery, sound, tv, etc, 14.54
Iron&Steel, 6.61
Plastic and articles thereof, 5.41
Organic chemicals, 5.32
Vehicles other than railway, 4.3
Articles of Iron and Steel, 2.82
Cereals, 2.16
Residues and waste from food, 2.14
Cotton, 2.14
Others, 64.95

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Major Infrastructure and Institutional Constraints

Sumatera	Jawa	Kalimantan	KTI
Aceh: 1. **Listrik** 2. Pungutan liar 3. Kurangnya fasilitas pendukung pasar	**DKI Jakarta:** 1. Kemacetan lalu lintas 2. Kondisi geografi (banjir)	**Kalsel:** 1. **Listrik** 2. Kualitas jalan 3. Human capital	**Sulut:** 1. **Listrik** 2. Masalah upah 3. Human capital
Sumut: 1. Kualitas jalan 2. **Listrik** 3. Korupsi 4. Kriminalitas	**Banten:** 1. **Listrik** 2. Human capital 3. Kemudahan berbisnis 4. Pengagguran	**Kaltim:** 1. **Listrik** 2. Ketersediaan air bersih 3. Human capital	**Sulsel:** 1. Human capital 2. Masalah pergudangan 3. Irigasi 4. **Listrik**
Sumbar: 1. Kurangnya jalur kereta api 2. **Listrik** 3. Masalah tanah ulayat 4. Minimnya dukungan Pemda thd investasi	**Jabar:** 1. **Listrik** 2. Ketersediaan pelabuhan 3. Human capital 4. Teknologi	**Kalteng:** 1. **Listrik** 2. Human capital 3. Keterbatasan sarana angkutan batubara	**Maluku:** 1. **Listrik** 2. Kapasitas pelabuhan 3. Human capital
Sumsel: 1. Human capital 2. Kualitas jalan 3. **Listrik** 4. Korupsi	**Jateng:** 1. Bandara 2. Irigasi 3. Kapasitas pelabuhan 4. Kualitas jalan	**Kalbar:** 1. Human capital 2. **Listrik** 3. Kualitas jalan 4. Keterbatasan pelabuhan sungai	**Malut:** 1. Kualitas jalan 2. **Listrik** 3. Kurangnya keragaman industri
Kepri: 1. Kapasitas pelabuhan 2. **Listrik** 3. Kemudahan berbisnis 4. Birokrasi	**Yogyakarta:** 1. Bandara 2. Masalah Pembiayaan 3. Masalah lahan		**Bali** 1. Human capital 2. **Listrik** 3. Kualitas jalan 4. Kapasitas bandara
Riau: 1. **Listrik** 2. Kapasitas pelabuhan 3. Korupsi 4. Birokrasi	**Jatim:** 1. Kapasitas pelabuhan 2. Kemudahan berbisnis 3. Kualitas jalan 4. **Listrik**		**NTB** 1. Human capital 2. **Listrik** 3. Kapasitas pelabuhan 4. Irigasi
Bengkulu: 1. Irigasi 2. Kualitas jalan 3. Masalah pembiayaan			
Lampung: 1. Kualitas jalan 2. **Listrik** 3. Human capital			

Source: Institute for Development of Economics and Finance, 2014

Indonesia Trade Profile

OBSERVATORY OF ECONOMIC COMPLEXITY

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Indonesia

Top 5 Products exported by **Indonesia**	Coal Briquettes (12%), Petroleum Gas (9.3%), Palm Oil (8.3%), Crude Petroleum (5.9%), and Rubber (4.1%)
Top 5 Products imported by **Indonesia**	Refined Petroleum (15%), Crude Petroleum (5.5%), Planes, Helicopters, and/or Spacecraft (2.4%), Vehicle Parts (1.8%), and Cars (1.5%)
Top 5 Export destinations of **Indonesia**	Japan (15%), China (12%), Singapore (9.1%), United States (8.4%), and South Korea (7.2%)
Top 5 Import origins of **Indonesia**	China (16%), Singapore (14%), Japan (11%), South Korea (6.9%), and Malaysia (6.1%)

Indonesia is ranked 69 with an Economic Complexity Index (ECI) of -0.0199196

Indonesia is the top exporter of Palm Oil, Uncoated Paper, Soap, Coconut Oil, Margarine, Raw Tin, Non-Iron and Steel Slag, Ash and Residues, Nickel Ore, Aluminium Ore, and Lignite.

What these tell us…

- Indonesia trade relies on commodities
- Trade has contributed significantly to Indonesia’s economic growth but still remain below potential (it is below that of other Asian economies such as China, India, Singapore)
- Two major stumbling blocks for trade growth are infrastructure and institutional constraints
- Vehicles and military industries are growing
- A marked shift of increased trade with developing countries, particularly in Asia

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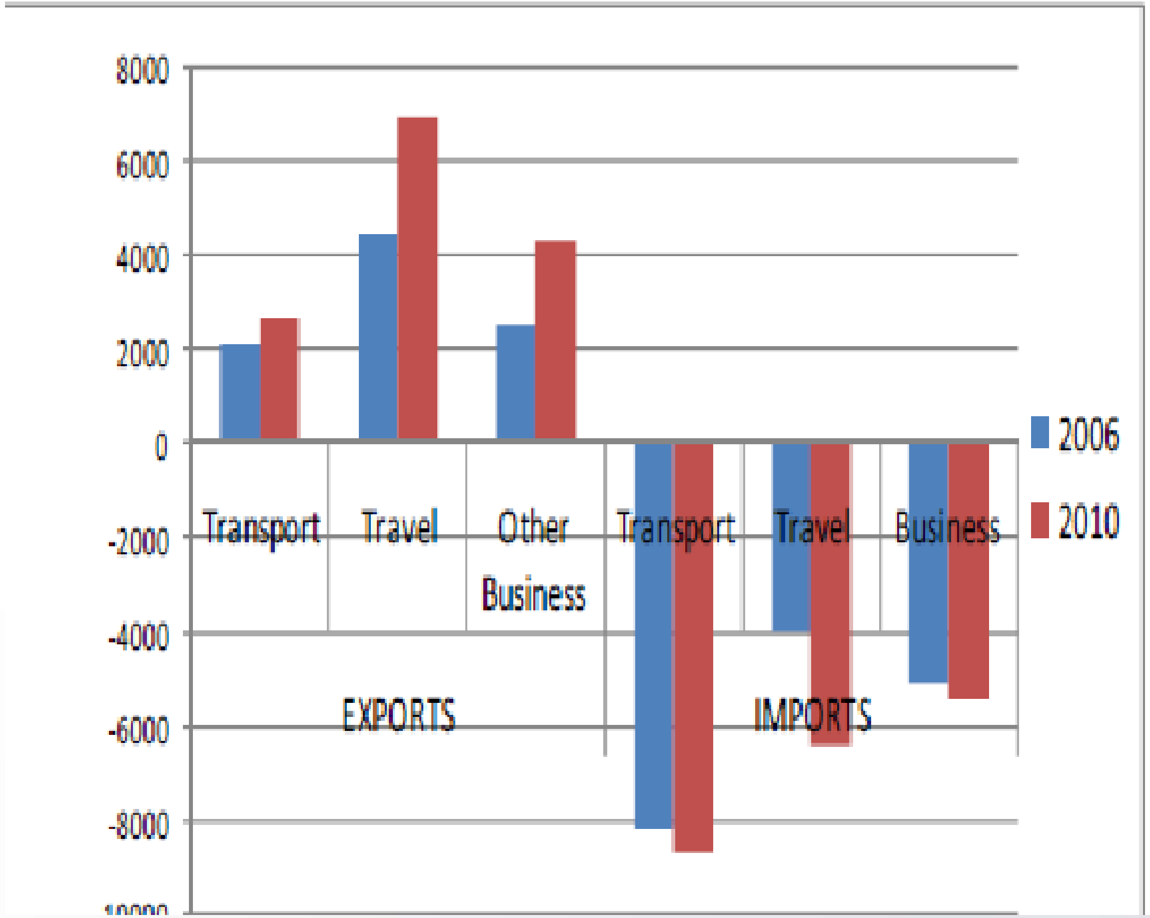
Indonesia's Trade in Services
Source: BI



Indonesia Trade in Services

- Travel services represent tourism sector, the biggest export, followed by other business services and communication services and transportation services
- Import side, transportation services account for half of Indonesia's services imports followed by travel and other business services
- Most Indonesian's export destination is Asian market, origins of imports are Japan and US

Types of Indonesia's NTMs

- Licenses
- SPS
- Technical barriers to Trade
- Export restrictions
- Other restrictions such as local content requirements

Licenses

- Automatic and non-automatic licenses
- Producer Importer License (IP)
- Registered Importer License (IT)
- Specific Importer Identification Code Number (NPIK)
- Import Approval Document (SPI)
- These licenses and requirements are required and issued by MOT and BPOM

SPS

- SPS measures for animal, fish and plant products -> must obtain an approval of disembarkation from ships for testing and a certificate of release by the relevant quarantine agency
- Import Notification Document (Surat Keterangan Impor) -> imports of food supplements, processed foods, traditional medicines, drugs and materials for the production of cosmetics must be approved by BPOM

TBT

- Mandatory standards certification and commodity registration requirements issued by a number of agencies
- Standard National Indonesia/SNI
- Certification is made by the National Accreditation Committee

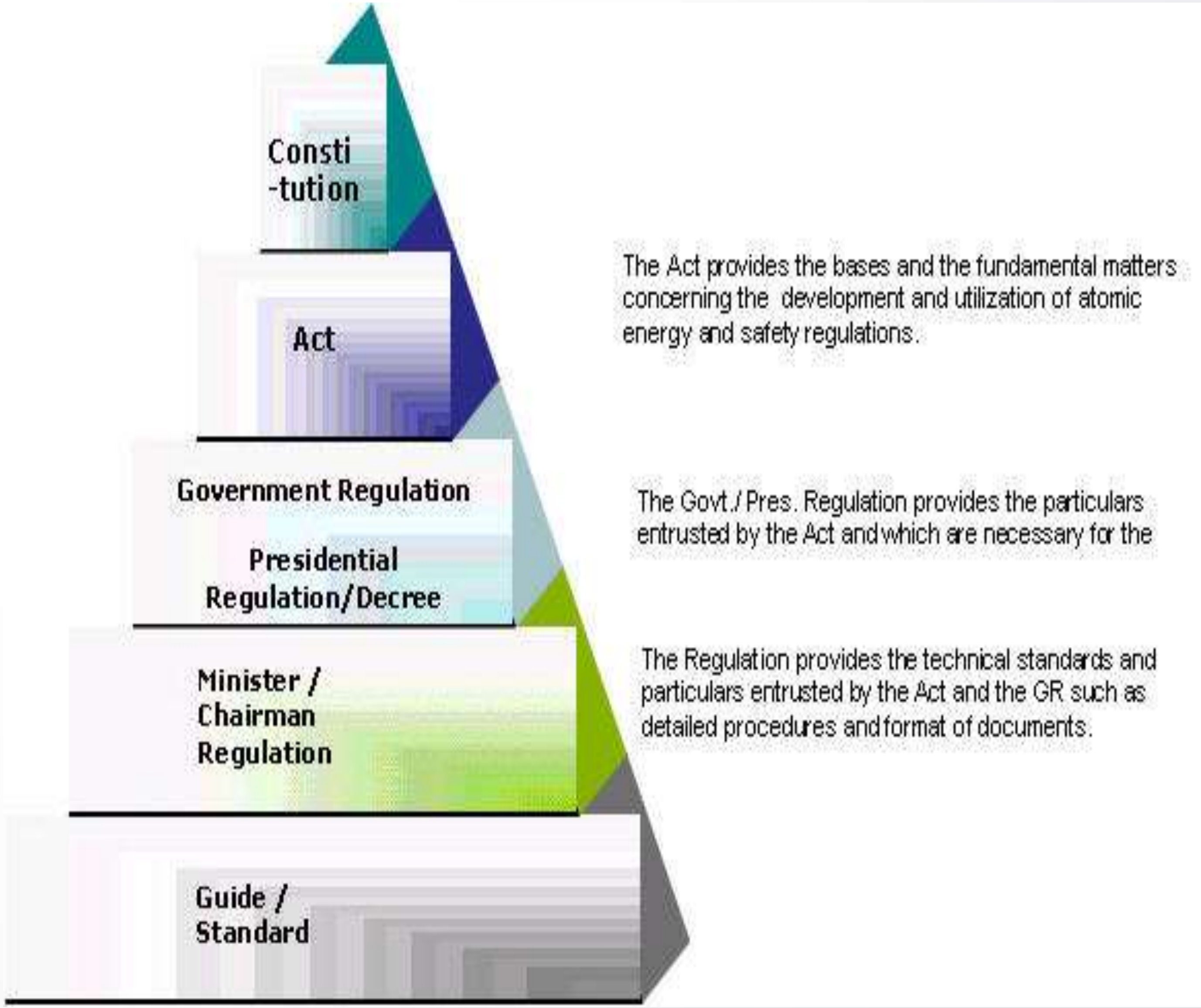
Export Restrictions

- Purpose: to stablise domestic prices, as a means to promote downstream industries or as a retaliation for trade or other policy stances taken by foreign government
- E.Q. Mining under the Mineral and Coal Mining Law 4/2009 which requires that minerals and coal be processed before exporting; Rattan, Minister of Trade signed a decree banning the export of raw rattan in 2011.

Other Types of NTMs

- Local content requirements, e.q. in telecommunication sector
- State trading enterprices, e.q. Bulog
- Pre-shipment inspection (PSI)
- Limitation on the port of entry, e.q. horticultural imports

Trade and Investment Policymaking Process in Indonesia



Ministries Involved in Policymaking Process

- Ministry of Trade:
  - responsible for supporting Indonesia in Inter trade negotiations, handling WTO and regional issues as well as substantive issues such as services.
  - It doesn’t have responsibility for policy reform except in those areas in which it’s the principal sectoral ministry such as wholesale and retail trade, commission agent and franchising
  - MoT has formed a Non-Tariff Team and is developing standard operating procedures for the evaluation of proposed NTMs under its control

- Ministry of Finance:
  - Responsible for tariffs and is assisted by Team Tariff of which the Ministry of Trade is a member
  - Regulating certain professional services and financial services
- Coordinating Ministry of Economic Affairs
  - Coordinating various ministries and government agencies that deal with cross-cutting economic policy issues, e.q. drafting the government Master plan for the Acceleration of Economic Development 2011-2025
- BKPM
  - Handling investment policy and domestic and foreign investment applications and investment promotion

Final Observations

- Trade and investment provide significant contribution to Indonesia’s economic growth
- Indonesia’s trade in goods concentrate in commodity products
- Services is less developed and concentrated in few sectors
- The use of NTMs appears to be increasing
- Policymaking process are fragmented across many ministries and government agencies

Look to the Future

- Infrastructure development and institutional reforms
- De-regulation and efficiency
- Embracing digital economy
- Enhancing the role of service sectors
- Improving intra-government agency coordination and coherence
- Deeper economic integration in the region and beyond
- Reducing reliance on exports of commodities and looking at value-added goods and services

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