No. 25

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

NATIONAL AGENCY FOR EXPORT DEVELOPMENT (NAFED)
MINISTRY OF INDUSTRY AND TRADE
REPUBLIC OF INDONESIA

THE SECOND PHASE OF THE FOLLOW-UP STUDY ON THE DEVELOPMENT OF SUPPORTING INDUSTRIES IN THE REPUBLIC OF INDONESIA

EXPORT PROMOTION

March 2000

SANWA RESEARCH INSTITUTE AND CONSULTING CORPORATION
(SRIC)
TOKYO, JAPAN

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PREFACE

The Government of Japan decided to conduct the follow-up study to "the Study on the Development of Supporting Industries in the Republic of Indonesia", which had been completed in 1997, and entrusted the follow-up study to Japan International Cooperation Agency (JICA). This second phase of the follow-up study, focusing on export promotion, was conducted after completion of the first phase※.

※"the Follow-up Study on the Development of Supporting Industries in the Republic of Indonesia" (December 1998 to March 1999)"

JICA sent a study team, led by Mr. Naoyuki TESHIMA of Sanwa Research Institution and Consulting (SRIC) Corporation and constituted by members of SRIC to the Republic of Indonesia four times from July 1999 to March 2000.

The team held discussions with the officials concerned of the Republic of Indonesia, and conducted related field surveys. After returning to Japan, the team conducted further studies and compiled the final results in this report.

I hope this report will contribute to export promotion of supporting industries in the Republic of Indonesia and to the enhancement of friendly relations between our two countries.

I wish to express my sincere appreciation to the officials concerned of the Government of the Republic of Indonesia for their close cooperation throughout the study.

March 2000

Kimio Fujita

Kimio Fujita
President
Japan International Cooperation Agency

March 2000

Mr. Kimio Fujita
President
Japan International Cooperation Agency
Tokyo, Japan

Dear Mr. Fujita.

Letter of Transmittal

We are pleased to submit the final report of the Second Phase of the Follow-up Study on the Development of Supporting Industries in the Republic of Indonesia (Export Promotion). The Report covers the present export condition of six industries (textile and textile products, food and beverage, wooden products, electric and electronic parts, automobile parts and machinery parts) in Indonesia and export promotion policies of other ASEAN countries. Based on these studies, the study team proposed the export promotion strategies that should be implemented by Indonesian exporters and the Government of Indonesia.

For the Government, we propose eight strategies such as restructuring of trade promotion organization, designing the export strategy master plan, brand promotion, design promotion, model products promotion (One-stop service), increasing efficiency for custom clearance and logistics and strengthening trade finance through trading house improvement. For the exporters, we make individual recommendations for each industry. In addition, we also propose the establishment of export strategy plan as well as strengthening marketing power.

Indonesian Government has been implemented the export promotion policy as a countermeasure to repay a huge foreign debts resulted by the Asian economic crisis and to boost up the economic activities in general, which has been stagnant due to recent political instability. We believe that the programs recommended in the report will serve as a basis for export promotion for each industry as well as for stimulation for further development of the Indonesian economy.

We would like to take this opportunity to express our sincere gratitude to your Agency, the Ministry of Foreign Affairs and the Ministry of International Trade and Industry. We also want to express our appreciation to the National Agency for Export Development (NAFED) and other related authorities of the Republic of Indonesia for close cooperation and continuous assistance extended to us during our investigations and studies in Indonesia.

Very truly yours,

Naoyuki Teshima
Team Leader
The Second Phase of the Follow-up
Study on the Development of
Supporting Industries (Export Promotion)
In the Republic of Indonesia

Abbreviation

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AICO	ASEAN Industrial Cooperation
AOTS	The Association for Overseas Technical Scholarship
APEC	Asia-Pacific Cooperation
APKIND	Association of Wood-Panel Producers
ASEAN	Association of Southeast Asia
ASMINDO	Indonesian Furniture Industry & Handicraft Association
BAPEKSTA	Badan Pelayanan Kemudahan Ekspor dan Penfolahan Data Keuangan
BEI	Bank Export Indonesia
BI	Bank of Indonesia
BKPM	Badan Koordinasi Penanaman Modal
BPS	Badan Pusat Statistik
CAD	Computer-Aided Design
CAM	Computer-Aided Manufacturing
C&F	Cost & Freight
CD Yarn	Carded Yarn
CEO	Chief Executive Officer
CEPT	Common Effective Preferential Tariff
CIF	Cost, Insurance, and Freight
CMT	Cutting, Making&Trimming
D/A	Documents Against Acceptance
DEP	Department of Export Promotion
D/P	Documentary bill for Payment
EDB	Economic Development Board
EDI	Electric Data Intelligence
EEC No.	European Economic Community (Regulation) Number
EMC	Equivalent Moisture Contents
EPTE	Export Oriented Production Entrepots Entrepot Pruduski Unuk Tujuan Expor
EPZ	Export Processing Zone
EU	European Union
FC	Franchise

FOB	Free on Board
GAIKINDO	Gabungan Agen Tunggal dan Industri Kendaraan Bermotor Indonesia
GBI	Gubernur Bank Indonesia (Governor of Bank Indonesia)
GDP	Gross Domestic Product
GIAMM	Gabungan Industri Alat-alat Mobil dan Motor
GMS	General Manufacturing Standard
HACCP	Hazard Analysis and Critical Control Point
IC	Integrated Circuit
IETC	Indonesian Export Training Center
IFS	Industrial and Financial Systems
IMF	International Monetary Fund
INCOTERMS	International Commercial Terms
IPO	International Procurement Office
ISA	Indonesia Sawmill and Wood Working Association
ISO	International Organization for Standardization
IT	Information Technology
ITC	International Trade Center
ITPC	Indonesian Trade Promotion Center
JAS	Japanese Agricultural Standard
JBIC	Japan Bank of International Cooperation
JETRO	Japan External Trade Organization
JI	Job Instruction
JICA	Japan International Cooperation Agency
JIS	Japan Industrial Standard
JM	Job Methods
JODC	Japan Overseas Development Corporation
JR	Job Relations
JS	Job Safety
JV	Joint Venture
KB	Kawasan Berikat
KBA	Kraftfahrt-Bundesamt
KBN	Kawasan Berikat Nusantara
KEP	Keputusan (Decision)
L/C	Letter of Credit
MATRADE	Malaysia External Trade Development Corporation

MFN	Most Favored Nation
MOIT	Ministry of Industry and Trade
NAFED	National Agency for Export Development
NIES	Newly Industrializing Economies
NTBs	Non Tariff Barriers
OECF	Overseas Economic Cooperation Fund
OEM	Original Equipment Manufacturer
OJT	On the Job Training
OVTA	Overseas Vocational Training Association
PDCA	Plan, Do, Check, Action
PJP	Long Term (25 years) Development Plan
PKBI	Pengelola Kawasan Berikat Indonesia
PMA	Penanaman Modal Asing
PTA	Preferential Trade Agreement
QC	Quality Control
QCD	Quality, Cost, Delivery
QCDDM	Quality, Cost, Delivery, Development, Management
QS	Quality System
REPELITA	5-year Development Plan
SCM	Supply Chain Management
SI	Supporting Industry
SIBOR	Singapore Interbank Rate
SITC	The Standard International Trade Classification
SME	Small and Medium-sized Enterprise
T/C	Tetron Cotton
TISI	Thai Institutional Standard of Industry
TQM	Total Quality Management
TT	Telegraphic Transfer
TTB	Telegraphic Transfers Buying Rate
TTS	Telegraphic Transfer Selling Rate
T/R	Tetron /Rayon
TUV	Technischer Uberwachungs Vereine
TWI	Training Within Industry
UL	Underwriters Laboratry
WTO	World Trade Organization
ZD	Zero District

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Study Outline

Study Outline

i. Background

In response to the request of the Government of the Republic of Indonesia, the Japan International Cooperation Agency (JICA) agreed to undertake the second phase of the follow-up study on the Development of Supporting Industries in Indonesia ("the Study").

In order to make a prompt and flexible response to the severe situation in Indonesia, JICA defined the Study as a part of the follow-up exercise by the Government of Japan to the study project on the Development of Supporting Industries in Indonesia undertaken by JICA in 1996-1997. The Study will focus on export promotion of three priority industries in addition to three supporting industries.

Export promotion is one of the most critical issues for Indonesia, and could be an important contribution to overcome the external debt problem caused by the Asian financial crisis. It is important for the Government of Indonesia to take a strategic marketing approach, which focuses on the product competitiveness including administrative costs incurred because of government involvement.

ii. Objective

The objective of the Study is to produce a set of recommendations for export promotion of the target industries in Indonesia. Target industries include textile & textile products, food & beverage, wooden products, electrical & electronic parts, automotive parts, and machinery parts. It is expected that the recommendations will serve as a reference for the Government of Indonesia to develop its overall export promotion policies. Recommendations will include the following:

1) Measures to be taken by the Government of the Republic of Indonesia for further promoting the country's exports from the target industries;

2) Practical advice and guidance for the business sector of the target industries to improve their export competitiveness in terms of production technology, management and marketing technique.

3) A desirable export promotion strategy and action plan to be formulated through a series of investigation of the target industries.

iii. Scope

The scope of the Study is as follows:

① Review of macro-economic condition and the existing export promotion policies
② Review of the export infrastructure (i.e. finance, logistics, customs and taxation)
③ Formulation of recommendations for improving the function of export infrastructure
④ Study of export promotion policies in Asia
⑤ Formulation of recommendation for improving the organizational capacity of NAFED
⑥ Formulation of recommendations for export promotion policies
⑦ Analysis of the export structure of the six target industries
⑧ Selection of marketable goods and components
⑨ Understanding of exporters' management conditions (questionnaire survey)
⑩ Customer satisfaction survey for Japanese importers
⑪ Analysis of competitiveness for selected goods and components (marketing analysis and cost analysis)
⑫ Interview survey of selected exporters (management analysis)
⑬ Recommendation of strategic options for improving export competitiveness
⑭ Develop an action plan for promoting exports.
⑮ Seminar and workshop

iv. Approach

(1) Strategic approach

A strategic mindset should be taken into account. To improve the export competitiveness of Indonesian companies, strategic plan should be proposed for a few model companies from selected sub-sectors in each industry. The strategic plan should be extendable to the other companies.

(2) Market-oriented approach

The market is one of the most important factors for planning export promotion. It is necessarily to evaluate the export competitiveness of Indonesian products in the world market. Few factors have to be evaluated to measure Indonesian product competitiveness, such as the production costs and the cost incurred from the administrative process.

(3) Practical recommendations

The output of this survey would not be a research paper but a practical recommendation to support Indonesia. The recommendations would include an action plan with analysis of the present condition of each industry.

(4) Immediate response to the changes of environment

As Indonesia is still facing a serious economic problem, immediate action is necessary for recovery. Since the economic condition in Indonesia is still fluctuating and uncertain, the recommendations should be timely and based on the up-to-date information.

(5) Priority on field survey

Because of the economic crisis has led to financial and political reform, the organizational structure and business environment in Indonesia has experienced major changes. Therefore, field survey is necessary in order to understand the actual situation faced by companies in Indonesia.

v. Methodology

1). Historical analysis of the export promotion policies in Indonesia

We would examine the past and present export promotion policies such as the drawback system, the export financing system, the Export Processing Zone (EPZ), EPTE and customs duties.

2). Export promotion policy of other Asian countries as benchmarks

The benchmarking of the countries that have succeeded in implementing their industrial policies, such as Japan, Korea, Taiwan and Malaysia, are useful for Indonesian government to formulate their policies.

3). Application of our management consulting skill in organizational capacity building

Indonesian government should take action to improve legal, the socio-economic system and industrial policy for export promotion. It is also very important to enhance the function of organizations in assisting the implementation of export promotion policy. SRIC's experiences in the consulting business for both private and public entities will be helpful for capacity building.

4). Marketing approach

Marketing is a key word to improve the companies' competitiveness and one of the main factor in export promotion strategy. The strategic marketing plan would be proposed as the result of this Study.

5). Selecting target products and components
We would select the marketable products and components after reviewing the conditions of 6 target industrial sub-sectors. The study was concentrated in the selected products and components after selection.

6). Selecting model companies and planning specific program
Marketing strategies for selected company will also be used as export promotion policy for other companies in the 6 target industries.

7). Aiming comprehensive plan
Indonesia has introduced several export promotion policies as a part of its economic policy. However, those policies are not well coordinated as an effective policy for each industry. We aimed to set up comprehensive and harmonized strategic plans for both target industries and export promotion policy for the whole country, while we conducted very detail concrete cases.

vi. Schedule

Step	Start	Finish	Period
Preparation in Japan	First of July 1999	Mid July 1999	8days
1st Field Survey	End of July 1999	Mid August 1999	3 weeks
(Questionnaire Survey)	Mid August 1999	End of September 1999	45days
1st Study in Japan	First of October 1999	Mid October 1999	3 weeks
2nd Field Survey	Mid October 1999	End of October 1999	13 days
2nd Study in Japan	First of November 1999	Mid November 1999	2 weeks
3rd Field Survey	Mid November 1999	Mid December 1999	30days
3rd Study in Japan	End of December 1999	First of January 2000	2weeks
4th Field Survey	Mid February 2000	End of February 2000	8 days
4th Study in Japan	End of February 2000	First of March 2000	4days

vii. Organization of the Study Team and Assignment

(1) Steering committee

NAFED acted as the main counterpart body to JICA Study Team for the implementation of the Study, while a steering committee was organized for the smooth implementation of the Study. Members of the committee include:

- Representative from the Directorate General of the Chemical Industry, Agro and Forest Products Department in the Ministry of Industry and Trade
- Representative from the Directorate General of Metal, Machine, Electronics and Various Industries covered by the Ministry of Industry and Trade
- Representative from the Agro Business Agency in the Ministry of Agriculture
- Representative from the Chamber of Commerce
- Representative from the relevant associations and organizations
- JETRO(Japan External Trade Organization) Jakarta Center
- JICA Experts working in MOIT, IETC, BI, BEI

(2) NAFED Working Group

NAFED organized its working group in order to make collaboration work with the JICA study team.

(3) Study Team

Team member consists of:

Mr. N. TESHIMA (Team Leader)

Mr. T. KAMEYAMA (Export Promotion Infrastructure)

Mr. C. KUROKAWA (Textile and textile products)

Mr. M. MOGI (Food and beverage)

Mr. A. TAKAI (Wooden products)

Mr. T. ASAHI (Electrical and electronic parts)

Mr. T. BABA (Automotive parts)

Mr. M. HASHIMOTO (Machinery parts industry)

Ms. N. TANAKA (Assistant)/Ms. A. DEAN (Assistant)

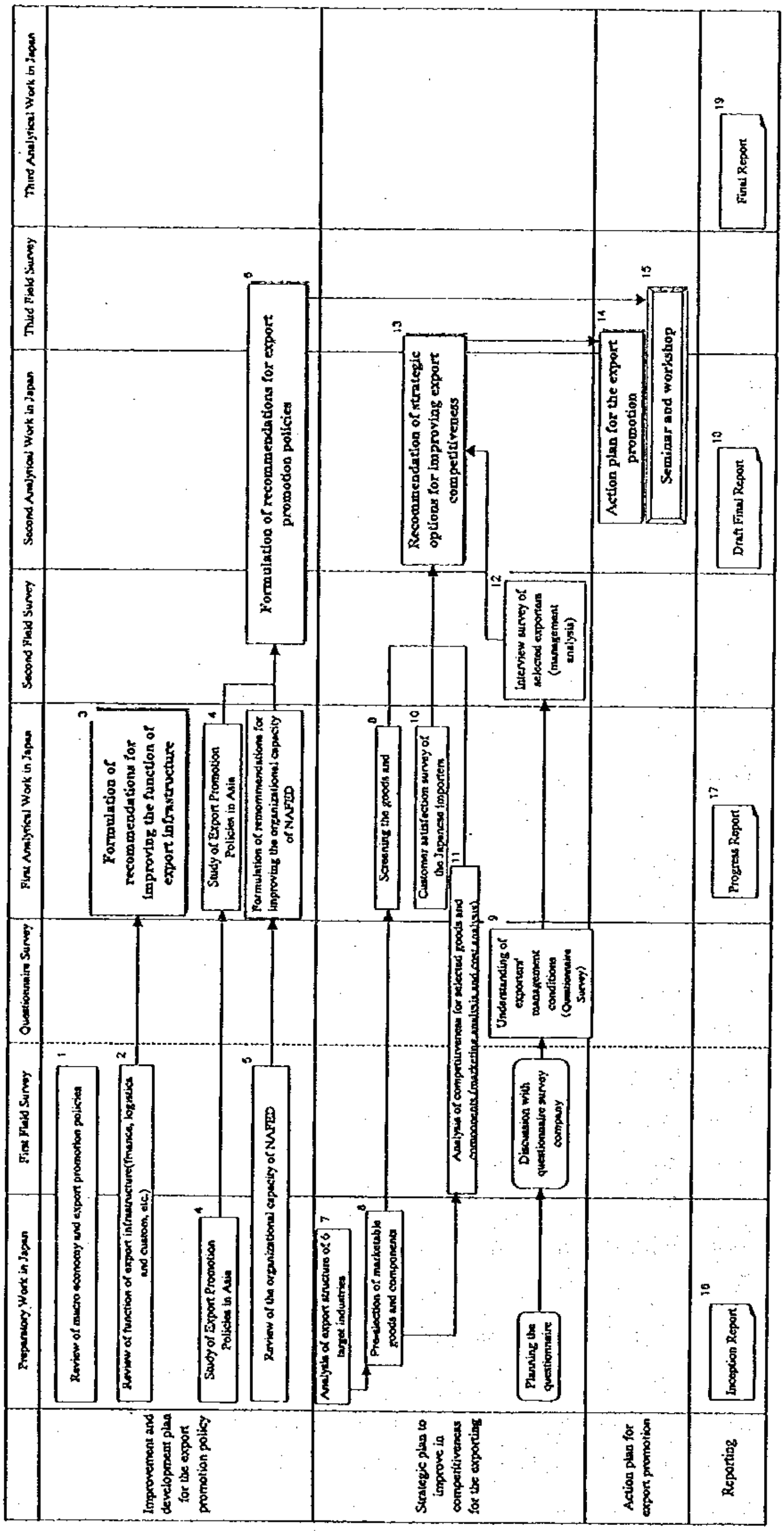
(4) Local Consultant

A local consulting firm was selected for carrying out the questionnaire survey. SRIC Jakarta office supervised the local consulting firm.

(5) Cooperation with Related Japanese Organization and Experts

The study team has cooperated with Japanese related organizations such as JETRO, JODC, OECF, and Japan Exim Bank in order to harmonize the existing strategy implemented by these organizations. The Study Team has cooperated with JICA Experts, who are working on export related activities in the Ministry of Industry and Trade and the Central Bank. (OECF and JEXIM were merged as JBIC from October 1, 1999.)

vii. Study Work Flow



I. Restructuring of the Export Industrial Policy

Chapter 1. Macroeconomic Background

The second stage of Indonesian national plan named Long Term Development 2 (PJP-2) and Five-year Development plan (REPELITA-6), started in 1994, aimed for further economic and social development as the continuation of the first stage of the plan. Manufacturing industry, especially, is expected to become a driving force of high efficiency and competitiveness in Indonesian economy. The industries in Indonesia need to utilize cheap labor costs and natural resources to increase international competitiveness. In order to meet this objective, it is necessary to develop knowledge and technology and promote small and medium sized enterprises to strengthen the economic structure.

As the globalization in world economy and rapid technology progress have alerted Indonesian industries that they will not be able to rely on its enormous amount of work force and natural resources any more, in REPELITA-6, following points were elaborated:

(1) Technology in Indonesia become out of date quickly, and consequently the cycle of economic values of the industrial products shortens drastically.
(2) Natural resources are facing the danger of exhaustion.
(3) Budget for the investment are decreasing
(4) Human resources will be crucial factor to obtain competitiveness in the world market.

Further more, Indonesian economy which has been in good performance since 1994, the first year of REPELITA-6, faced a challenge and the GDP1998 decreased suddenly by 13.7% due to the Asian economic crisis which started in August, 1997. The depreciation of Rupiah has seriously affected Indonesian economy. The production for domestic consumer market has decreased by 20% in automobile and electronic industries as compared with 1996. The depreciation of Rupiah did not help increasing exports from Indonesia due to the difficulties in procurement of imported intermediate goods and unorganized delivery system. On the other hand, Indonesian country debt exceeded US$ 68 billion in June 1999. Under these circumstances, strengthening and developing the industrial sectors are necessary in order to sustain economic growth in the future as well as to keep repaying its debts. For this purpose, those industries that have already had a large export volume, such as textile and textile products, foods and beverages and wooden products, need to be improved so that they have higher added values. At the same time, it is essential to foster the supporting industries such as electric and electronic parts, automobile parts and machinery parts, in order to minimize the rate of imported intermediate goods and increase their export competitiveness.

New Indonesian government led by new president Wahid, has announced its policies such as national reconciliation, clean governmental procedure, maintaining the principle of market economy, inviting foreign investment, measures for poverty and promoting decentralization. Indonesian economy started to stabilize under new government and the exchange rate that once depreciated to Rp. 9,000 per dollar, now appreciated to Rp 6,000 / Rp. 7,000 since November 1999. The recovery process is seen from the first quarter of 1999, after hitting the lowest point in the forth quarter of 1998. According to the first semiannual balance of international payments statistics of 1999 published by the Bank Indonesia, export value from Indonesia has decreased by 10.8% whereas import has decreased by 9.1% as compared to the same period previous year. Although the trade balance indicated US$ 8,5 billion surplus, the total amount has reduced by 13.3%. On the other hand, a current balance has increased by 39.5% and indicated US$ 2.3 billion due to the improvement in the invisible trade balance.

Table1.1.1. Indonesian International balance of payment

(Units: US$ million)

	1993	1994	1995	1996	1997	1998	1999/1H
Trade balance	8,231	7,901	6,533	5,948	10,075	18,429	8,491
Exports	36,607	40,223	47,454	50,188	56,298	50,371	23,213
Imports	28,376	32,322	40,921	44,240	46,223	31,942	14,722
Balance of services	-5,887	-6,619	-8,071	-8,540	-9,666	-7,334	-6,162
Income balance	-4,987	-4,693	-5,874	-6,008	-6,332	-8,212	--
Current transfers	537	619	981	937	1,034	1,089	--
Current account	-2,106	-2,792	-6,431	-7,663	-4,889	3,972	2,329
Capital balance	5,632	3,839	10,259	10,847	-603	-10,347	-125
FDI (net)	[1,648]	[1,500]	[3,743]	[5,594]	[4,499]	[-400]	[-1,122]
Adjustment	-2,932	-263	-2,255	1,319	-2,133	2,724	542
Total balance	594	784	1,573	4,503	-7,625	-3,651	-2,746
Foreign reserve	11,263	12,133	13,708	18,251	16,587	22,713	26,319

Note) Balance of services in 99/1H obtains income balance and current account
Source: IMF/IFS/Indonesia Bank

According to the custom base trade statistics, both exports and imports decreased to US$ 44.1 billion (decreased by 1.94%) and to US$ 21.8 billion (decreased by 5.09%) respectively, the trade balance indicated US$ 2.3 billion surplus. Furthermore, the imports decreased in August and September comparing to that of the year before, whereas the exports increased by 12-20%. Considering the continuous high market price in crude oil, the trade balance of 1999 is expected to surpass comparing to that of year before (US$ 18.4 billion in international current balance). In 1999, in spite of the increase of exports to Japan, as the biggest trading partner, the exports to Asia, USA and EU have decreased by 11.1% as of July 1999.

Table 1.1.2. Exports values by country

(Unit: US$ million)

	1997		1998		1999 (Jan.-Jul.)	
		Growth rate		Growth rate		Growth rate
Asia	21,629	15.1%	20,456	-5.4%	10,285	-19.0%
Japan	12,461	-3.3%	9,116	-26.8%	5,306	0.0%
USA	7,113	4.7%	7,031	-1.2%	3,791	-6.2%
EU	8,056	4.3%	7,766	-3.6%	4,027	-13.2%
Total	53,443	7.3%	48,848	-8.6%	25,922	-11.1%

Note) Asia includes China but excludes Japan

Source: BPS

The commodity exports, apart from crude and natural gas, manufactured goods have increased significantly. The export values of wooden products, textile and textile products and paper, paperboard and articles have been recovering recently.

Table 1.1.3. Exports values by commodity

(Unit: US$ million)

	1997		1998		1999 (Jan.-Jul.)	
		Growth rate		Growth rate		Growth rate
Mineral Fuels,Lubricants etc.	13,353	3.8%	9,429	-29.4%	3,799	-6.1%
Manufactured Goods	9,703	-10.1%	8,772	-9.6%	3,994	13.2%
Miscellaneous Manufactured Articles	6,982	-19.6%	6,659	-4.6%	2,774	-6.3%
Machinery and Transport Equipments	4,622	-7.5%	4,656	0.7%	1,989	11.7%
Raw materials	4,357	-14.3%	3,720	-14.6%	1,314	-4.8%
Total	53,444	7.3%	48,848	-8.6%	25,922	-11.1%

Source: BPS

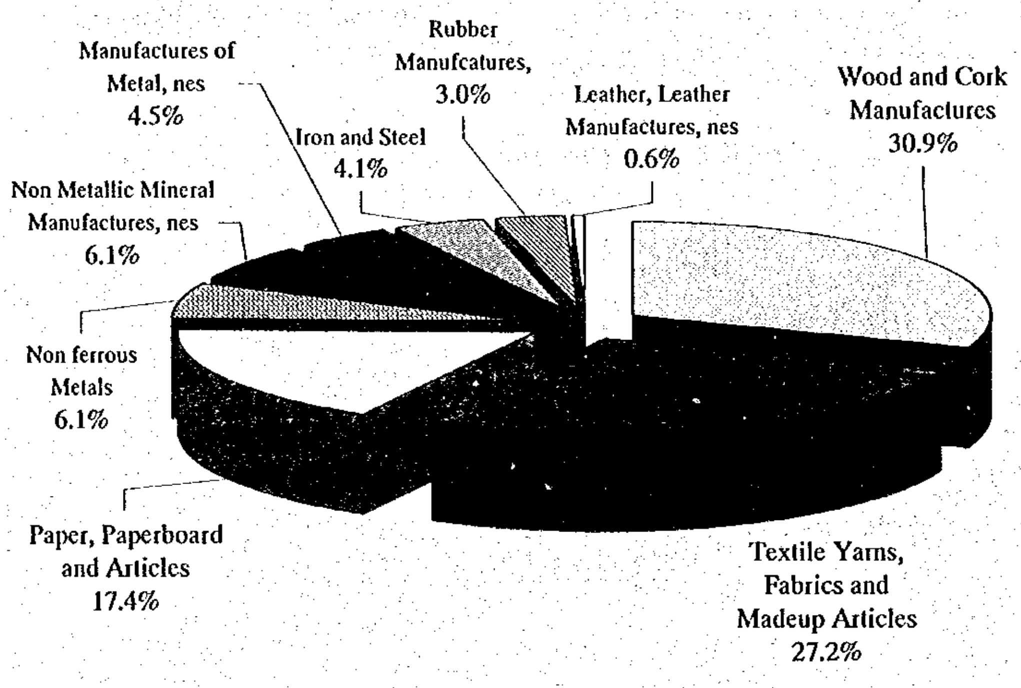
Table 1.1.4. Exports values (Manufactured Goods)

(units: US$ million)

	1994		1995		1996		1997		1998		1999Jan.-Sep.	
		Growth Rate		Growth Rate		Growth Rate		Growth Rate		Growth Rate		Growth Rate
Wood and Cork Manufactures	4,833	-5.8%	4,663	-3.5%	4,843	3.9%	4,455	-8.0%	2,736	-38.6%	1,438	21.1%
Textile Yarns, Fabrics and	2,498	-5.3%	2,713	8.6%	2,834	4.4%	2,255	-20.4%	2,359	4.6%	923	14.2%
Paper, Paperboard and	594	20.1%	932	56.9%	942	1.1%	926	-1.7%	1,415	52.8%	468	28.4%
Non ferrous Metals	405	33.5%	710	75.3%	665	-6.3%	653	-1.8%	625	-4.4%	256	-2.3%
Non Metallic Mineral	322	-3.3%	343	6.5%	408	18.9%	304	-25.5%	332	9.2%	127	94.8%
Manufactures of Metal, nes	328	5.8%	420	27.9%	432	3.0%	476	10.1%	364	-23.4%	168	31.3%
Iron and Steel	309	-0.4%	377	22.3%	335	-11.2%	328	-2.2%	614	87.4%	189	-33.4%
Rubber Manufcatures,	135	27.3%	235	74.1%	299	27.2%	269	-10.0%	251	-6.7%	104	19.4%
Leather, Leather Manufactures,	47	4.6%	45	-4.9%	37	-18.0%	36	-1.3%	76	110.1%	23	-22.9%

Source: BPS

Figure 1.1.1. Breakdown of the export values of manufactured goods (1999 Jan.-Sep.)



Source: BPS

For the import values, consumption goods increased by 26.2% as compared to previous year and this indicates Indonesian economic recovery. Import of raw materials and intermediate goods also increase gradually, and this indicates that the private sector has resumed their operation. However, the private sector has not been ready for a big investment and the small number of capital good imports shows it. This probably caused by the delay of capital restructuring program in domestic banking sector as well as stagnation of financing.

Table1.1.5. Imports values by commodity

(Unit: US$ million)

	1997		1998		1999 (Jan.-Jul.)	
		Growth rate		Growth rate		Growth rate
Consumption goods	2,166	-22.8%	1,918	-11.4%	1,324	26.2%
Raw materials & Intermediate goods	30,230	-0.8%	19,612	-35.1%	10,501	-5.4%
Capital goods	9,284	-3.8%	5,807	-37.5%	1,716	-52.3%
Total	41,680	-2.9%	27,337	-34.4%	13,541	-14.0%

Source: BPS

Chapter 2. Review on Trade Policies

2.1. Overviews

Although Indonesian economic policy had been stable in the last three decades, the economic and financial crisis that arose in 1997 has entailed a major transition in the political system. Until the crisis, policy-making remained highly centralized and not transparent. Economic policy objectives were defined in a long-term perspective (REPELITA plans) and the process of reform was pursued in a rather gradual manner, mainly through periodic deregulatory packages. The recent crisis, however, has led the country to a deep recession, resulting in a sharp drop in real incomes and a large increase in unemployment.

At present, Indonesia is undoubtedly facing its biggest economic and social challenge in decades. Under the conditionality set force by IMF, it has been undertaking to remove most impediments to domestic and international trade within three years. All IMF-sponsored reforms in the field of trade are to be implemented on an MFN basis. Indonesia has also committed to conform with WTO Agreements. In relation with ASEAN partners, Indonesia applies the principle of open regionalism, an idea that it also promotes in the APEC forum. Tariff reductions under the AFTA-CEPT scheme of ASEAN have been kept largely in lime with unilateral MFN tariff cuts.

The recovery of Indonesian economy in general, and promotion of trade, in particular, highly depends on the establishment of more rules-oriented, transparent and competition-oriented internal policies. In the past, large public and conglomerates benefited from tax incentives, tax exemptions, subsidized lending, production licenses, procurement awards for production-sharing arrangements, and other forms of formal and informal government support. While the expansion of these conglomerates contributed to the diversification of production in Indonesia, it also resulted in the concentration of production and the accumulation of private debt in the hands of a few business groups. They often receive internal as well as external privileges, which impedes fair competition. The Government effort towards more open competition policy is essential for the further economic recovery and gaining confidence from domestic as well as international business communities.

2.2. External Policy-Making

2.2.1. Multilateral agreements and arrangements

Indonesia ratified Marrakesh Agreement in December 1994 and became a founding Member of the WTO on January 1, 1995. Since then, Indonesia has taken seriously the need for timely implementation of its obligations. In many areas, Indonesia fulfilled the implementation of its commitments in such as in the followings:

-Rapid elimination of all (172) surcharges in 1995

-Removal of most non-tariff measures between 1995 and 1998

-Elimination of local-content requirements on soybean cakes (1998) and dairy products (1998)

2.2.2. Regional agreements or arrangements

While Indonesia is very active since the creation of the WTO and undertaken substantial unilateral trade liberalization on an MFN basis, it is also working towards the creation of free-trade agreement among ASEAN members and participates actively in the APEC forum.

Indonesia supported the creation of a Free-Trade Area among ASEAN countries (AFTA). On January 1993, ASEAN members started to implement tariff reductions agreed under the Common Effective Preferential Tariff (CEPT), the backbone of AFTA, with a view to reducing all tariffs on ASEAN trade to between 0 and 5% over a maximum of 15 years and to eliminating non-tariff barriers. The 1995 ASEAN Summit formalized a proposal to advance the completion of AFTA from 2008 to 2003. In December 1998, the Heads of State of ASEAN in Hanoi agreed on the principle of again bringing forward the completion of the free-trade area from 2003 to 2002, but the completion will not be mandatory but be left on a best effort basis.

ASEAN members also seek to develop joint industrial projects between private companies from different ASEAN countries, by granting, under the new "ASEAN Industrial Cooperation" (AICO) scheme, a preferential tariff of 0-5% on the output of participating companies. As part of cost saving effort within a corporate group by complementing components each other, number of multi-national companies, in particular Japanese automobile, electric and electronic manufacturing companies have applied for AICO scheme.

Indonesia is also active in promoting the forum for Asia-Pacific Cooperation (APEC) and hosted the second meeting of APEC leaders in Bogor in November 1994. There, members committed themselves to free and open trade and investment, and by 2010 for industrial economics and no later than 2020 for developing economies. At the APEC Summit meeting in Osaka in November 1995, members further specified APEC's work programme, by identifying 15 priority areas for future work. In November 1997, these 15 priority sectors were defined.

2.3. Incentives related to Investment

Indonesia offers certain tax and non-tax incentives to foreign investors. There are two main schemes. Under the first scheme, foreign investors are currently able to obtain a full exemption from tariffs (and VAT) on imported goods and raw materials used for commercial production during the first two years (depending on the type of goods). BKPM (Investment Coordinating Board) and PT Sucofindo determine the list of imported capital goods and raw materials eligible for tariffs and tax exemptions.

Since 1996, Indonesia has also operated a scheme involving income tax holidays for newly established foreign investment companies participating in specific, generally export-oriented, industries (textiles, leather, electronics, etc). Under the Regulation, income tax is to be borne by the Government, for a maximum of ten years. For certain industries located outside the islands of Java and Bali, the exemption can be extended for a further two years. [1] Approvals are issued by the President of the Republic, on the recommendation of the "Evaluation Team on Tax Facilities for the Specific Industries", an inter-Governmental body comprising experts from the BKPM and the Ministry of Finance, which operates under the responsibility of the Coordinating Minister of Economics, Finance and Industry. However, IMF has been demanding to abolish this tax holiday scheme on the ground that it conflicts with the present tax regulation and tends to benefit large firms. The Government has organized the investigative committee for these problems.

2.4. Tariffs and Non-Tariff Barrier

Indonesia has made considerable achievements for the reduction of applied tariffs, with the lowering of rates going well beyond its WTO commitments. Applied MFN tariffs have been reduced from an unweighted average of about 20% in 1994 to 9.5% in 1998.[2] Nevertheless, high tariffs continue to protect a few products such as alcoholic beverages, motor vehicles, certain basic chemicals, and, to a lesser extent, leather and textiles products.

Until the financial crisis, limited progress had been made in removing the array of non-tariff barriers (NTBs), such as import monopolies and restrictive licensing, as well as export controls, which continued to affect up to 10% of imports, 40% of non-oil exports and 30% of production.[3] NTBs and export measures were often combined with other forms of assistance, including restrictions on domestic trade, price fixing and subsidies, all of which were aimed at providing protection on various grounds. As a result, the list of products benefiting from some form of protection or assistance was still extensive when the crisis broke in 1997. It includes most strategic food commodities, mining and wood resources, key intermediate industrial goods (fertilizers, cement, iron and steel) and transport equipment.

The removal of trade restrictions is at the heart of Indonesia's current reform process. Indonesia has committed itself, by the end of the IMF-programme period, to remove all non-tariff import measures and export restrictions not justifies by health, safety or environmental grounds. Accordingly, a large number of import licensing requirements and restrictions on exports have been removed since the end of 1997. For example, Indonesia deregulated trade in most agricultural commodities (except rice), terminated monopolies in certain intermediate industries (cement, plywood[4] and rattan industries), and reduced export taxes on key commodities.

The table 2.4.1. shows the progress of the reduction process for Tariff and NTBs under ADB's program as of July 1999. Most of the target set for the reduction of Tariff has been achieved,

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[1] Government Regulation 45/1996

[2] Trade Policy Review: Indonesia 1998, WTO, Geneva, January 1999

[3] Ibid.

[4] Before it was dismantled in January 1998, APKINDO, the Association of Wood-Panel Producers, controlled the export and shipment of wood-panel products in Indonesia.

however, the elimination of NTBs still remains to be seen.

Table 2.4.1. Reduction of Tariff and Non-Tariff Barriers under ADB Program

Objectives	Action Planned	Action to be Completed Prior to Board	Action to be Completed Prior to
Strengthen international competition by reducing tariff and non-tariff barriers	1 Increase international competition and improve efficiency in the trade and industrial sectors by reducing the distortions in the anti-export bias due to high and variable import tariffs:		
	a) Reduce tariff rates by 5 percentage points for goods with rates of 15 to 25 percent (excludes motor vehicles and alcohol).	Done (April 1998)	
	b) Tariffs on food, non-food agriculture products, chemical products, and steel/metal products to be reduced by 5 percentage points.	Done (April 1998)	
	c) Reduce to 0 percent final rate of import duty on basic materials for the production of automotive components, and goods and materials for the production of components, accessories and coachwork of special motor vehicles.	Done (June 1999)	
	d) Exempt from import duty imports of goods and materials from bonded warehouses to be processed, assembled or installed in other goods for manufacturing motor vehicles destined for exports.	Done (June 1999)	
	2 Remove BULOG's import monopoly by allowing all importers to freely import any commodity.	Done (September	
	3 Reduce the list of products requiring importer-producer(IP) and importer-trader(IT) licenses.	Done (June 1998)	
	4 Liberalize importer-producer (IP) and importer-trader (IT) license (i) Licenses imposed for reasons of environmental, safety, security public health and morality reasons to be converted where feasible into more transparent and non-discriminatory instruments;		31-Mar-01
	(ii) All other IP and IT licenses will be liberalized into a system of transparent and non-discriminatory instruments involving either (a) conversion into the general class of licenses (IU) available to all interested importers through simple registration and (b) conversion into duties, excise taxes, etc. consistent with agreements with IMF.		
	5 Rationalize export taxes on palm oil products:	Done	
	a) Reduce the maximum rate from 60 percent to 30 percent;	(June 1999)	
	b) Eliminate tax on crude and refined bleached coconut oil;		31-Dec-99
	c) Remaining taxes (8 items) to be reduced to between 26 percent and 7 percent;		
	6 Reduce export tax on palm oil to no more than 10 percent.		

Source: Policy Matrix: Industrial Competitiveness and Small and Medium Enterprise Development Program, ADB, July 1999

2.5. Export Restrictions and Controls

2.5.1. Export bans and prohibition

Export bans and prohibition concern mainly live fishery products, wildlife, hides and skins of certain animals such as reptiles, some rubber material and a variety of waste and scrap products.

Their aim is to protect endangered species and prevent the exportation of dangerous materials.

2.5.2. Export taxes

Prior to the economic crisis, export taxes affected about 80 products, covering a wide range of forest products (logs, sawn timber and rattan), agricultural products (crude palm oil and coconut oil), and mining and metal products (ores and concentrates of copper, lead, tin, etc.). In February 1998, Indonesian Government committed to phase out "punitive" export taxes and export taxes on leather, cork, ores and waste aluminum were abolished. In April 1998, the rates of export tax on logs, sawn timber, rattan and minerals were reduced to a maximum of 30%, and the temporary export ban on palm oil was replaced by export tax of 40%.(After that, the export tax was reduced to 30%)

2.5.3. Regulated exports (licensing requirement and quotas)

Until the crisis, nearly half of Indonesia's exports of agricultural products, and significant shares of mining products, petroleum products and certain manufactured products (especially textile and clothing) were regulated by the Government and could be exported only through approved and registered exporters. In the case of textiles and clothing products, the arrangement was designed to monitor quota allocation and entitlements under the MFA regime.

On several occasions, the export licensing system was questioned for its lack of transparency and adverse economic effects. As illustrated in the wood, plywood and rattan industries, the governmental restriction on the number of approved exporters and the allocation of export quotas has encouraged the formation of powerful export cartels. In the process of approving license or allocating quotas by taking into account such as prior export performance and reliability, it has been often pointed out, that the Government has a large degree of discretion, which often leads to corruption.

Chapter 3. Review on Export Infrastructure

3.1. Overview

Indonesia has been trying to develop export infrastructure which supports export performance. As a matter of fact, the range of export incentives in Indonesia is generally similar to other exporters in the region. However, the most significant difference is that Indonesia has tended to place less emphasis on tax holidays and related tax incentives. (Indonesian technocrats have noted that tax holidays are not necessary to attract high levels of investment and the experience in Asia has also demonstrated that it is true.) Among the export facilities used, EPZ and bonded manufacturing warehouses (termed "EPTE" in Indonesia) tend to cater to wholly export-oriented producers. Duty exemption and duty drawback schemes assist companies selling to both domestic and export markets. Indonesia has these schemes to some extent, however, the main drawback here is in the ***inefficiency*** with which existing schemes are operated.

3.2. Incentive Schemes

3.2.1. Prior Exemption Scheme

The Prior Exemption scheme, aimed at direct exporters, has the following features:

1) It provides exemptions on duties, surcharges, VAT and luxury taxes on imported inputs used in producing exports. Firms can import materials and machinery without normal import licensing, but subject to pre-shipment inspection conducted by PT. Surveyor;

2) Exporters must apply for duty exemption licenses by submitting a detailed advance 12-moth list of all inputs and machinery (product specifications, quality and value) to be imported as well as all products to be exported. This works well in practice for established mainly large, exporters who have been accustomed to dealing with authorities. It works less well for new entrants, especially SME exporters without prior experience or the human resources to work on these requirements;

3) Prior to import clearance, most exporters have to provide either a bank guarantee or customs bond equivalent to 100 percent of import charges payable on raw materials, and 65 percent

of charges payable on machinery. Again, the system favours large firms;

4) Exporters must also pay in advance income taxes equivalent to 2.5 percent of the import value at the time of importation. Selected exporters, however, can get a 'master list' and so be exempted from placing a security. In order to get on this list, the exporter needs to have a successful record of accomplishment and an audited financial statement that can show it is a well-established and profitable firm;

5) Imported goods must be exported within one year of import, and duties and taxes must be paid on materials not used in export production, based on an annual reconciliation report.

3.2.2. The Duty Drawback Scheme

The scheme is intended for indirect exporters or for firms that cannot forecast the proportion of exportation at the time of importation. These may include smaller firms that subcontract to large exporters or new export entrants that cannot forecast their imports and exports correctly. Under the program, all imports of raw materials, intermediate inputs, and machinery used in manufactured exports are eligible for drawback.

These producers are still subject to import licensing and have to pay the normal import duty, but they can claim a drawback on the duties used for those inputs used in export production. In theory, either the indirect exporter or the final exporter can claim a drawback on VAT, duties and indirect taxes paid, and rebates must be paid within two weeks of being filed by the exporter. According to the interview conducted by JICA study team, however, rebates are usually given after 2 to 6 months with 'extra cost'.

Until December 1, 1997, duty drawbacks were available to indirect exporters going back one stage of production. After that date, the Government of Indonesia restricted the drawback to manufacturing firms only. Although the purpose was to better monitor and control the refund process, the effect is to penalize smaller exporters.

3.2.3. The EPTE Scheme

The Indonesian government set up the EPTE (bonded manufacturing warehouse) scheme in October 1993. EPTE are sites designed for the storage of goods or materials either imported or purchased form companies operating in bonded zones, other EPTE, or the domestic customs area, to be processed for export or for delivery to other EPTE.

The EPTE scheme offers an attractive package of incentives as in the followings:

1) Ability to import capital goods and materials free of import duties, import surcharges, income tax, and suspended from VAT and luxury sales tax;

2) Exemption from pre-shipment import and export inspections;

3) Exemption from VAT and luxury sales tax on delivery of taxable goods among EPTE companies, and between EPTE and Bonded Zone companies, and those in the custom area and an EPTE;

4) Permission to sell up to 25% of their exported product as well as scrap materials used in the production process to the local market, following payment of all requisite duties and taxes;

5) Single customs inspection policy conducted at the factory premises;

6) No need for a financial security of any sort;
7) Ability to sub-contract work and lend equipment to companies in the domestic customs areas free of VAT and luxury sales taxes, and repair equipment in the customs area.

The EPTE scheme has become very popular with export oriented producers, and generally regarded as effective and efficient. However, there are physical security standards that must be followed, which include enclosure by a fence, one gate, and a 24 hour on-site customs presence. In addition to that, some drawbacks are pointed out by Asian Development Bank as in the followings:

1) The calculation of the proportion of production sold locally is on a *volume* rather than value basis. While volume-based approaches are acceptable for manufacturers of uniform standard final goods, they are highly distortionary when applied to factories producing a wide range of components with widely ranging values, such as electronics goods;

2) EPTE firms complain that the 25% local sales limit is restrictive. Further access to the domestic market could add to the competitiveness of firms by encouraging scale economics;

3) Local sales require *physically separate facilities* for export and domestic production, not just the separation of component storage areas. Costs are also raised by the physical security requirements of Customs (design of buildings, need for enclosure, limited access) as well as the need for a 24 hour customs presence on factory premises, borne by the firm;

4) The scheme does not encourage indirect or smaller exporters. Unlike exporters operating under the BAPEKSTA (Badan Pelayanan Kemudahan Ekspor dan Penfolahan Data Keuangan) duty exemption scheme, EPTE firms can subcontract production to firms in the domestic customs area without paying duties or taxes. However, indirect manufacturers' sales to EPTE firms are not naturally exempt from VAT or sales taxes, and not "zero rated" as in most other countries.

3.2.4. The Bonded Zone Scheme

Bonded zones are designated areas for export processing activities. Under Indonesian regulations, a bonded zone is a prescribed area within the Indonesian customs area subject to special customs regulations. The determination of a bonded zone is stipulated by presidential decree. Bonded zones may be used for warehousing, storage, packaging, or processing of goods for export or for domestic sales.

There are two types of bonded zones in the country: until the early 1990s, Bonded Zones were developed and managed by the state owned company, PT Kawasan Berikat Nusantara(KBN), and projects were located in Cakung and Tanjung Priok. At the end of 1993, private bonded zones areas within industrial estates were permitted under the management of PT Pengelola Kawasan Berikat Indonesia (PKBI). This was under the control of the Ministry of Finance. At present, there are 8 private and 3 government Bonded Zones in operation.
In terms of the policy package for bonded zone enterprises, the incentives are identical to those under EPTE scheme. Like EPTE, bonded zone enterprises are restricted to a maximum of 25 percent local sales calculated on a volume basis.

The bonded zone regime has some advantages to EPTE in three respects.

1) PKBI can receive and process PMA (foreign company's status) applications and forward them to the BKPM for approval, which is essentially a formality. It also assists investors by securing all local permits and licenses, including business establishment and Building Right

and Hindrance Ordinance Land within a zone is rented from PKBI. Warehouses are issued by PKBI and these receipts can be transferred, traded, and used as warranties by zone companies;

2) The physical security requirements imposed by Customs on individual EPTE enterprises are not required for bonded zone enterprises, as they are physically located within industrial estates;

3) All imports entering Bonded Zone Warehouses are exempted from pre-shipment inspection requirements, under 1995 deregulation package.

3.2.5. Problems and Issues by Comparison with Regional Standards

How do Indonesian export incentive schemes compare with neighboring countries? Main incentive schemes can be categorized as corporate income taxes, exemption from or reduction of taxes on imported capital goods and raw materials. Compared with ASEAN 4, Indonesian scheme does not offer corporate tax incentive, however, since corporate tax incentive directly related to export is regarded as export subsidy and not conforming with WTO Agreement, the latter will be the subject of future incentive scheme.

If we compare with regional norms, however, some problems can be pointed out as in the followings:

1) *The amount of the security to be posted for the duty exemption scheme*, at 100 percent of duties payable, is quite high (the regional norm is about 50-75%). This raises interest costs and ties up working capital, particularly undesirable in present circumstance;

2) The duty drawback scheme is *inflexible* in a sense that it does not allow "substitution drawback," in that local materials cannot be sub-contracted to indirect exporters. The recent change to restrict drawbacks to producers increases this inflexibility;

3) The need to specify and forecast import requirements and export plans over a 12 month period for the duty exemption scheme is fairly restrictive by regional standards. In other countries, Thailand and Malaysia for example, so called "one-stop" approval and clearance system is used which combines the need for prior licensing with the import declaration

procedure;

4) The requirement for *advance payment* of income tax equivalent to 2.5% of import value is uncompetitive and a redundant control feature;

5) It does not have specialized schemes for *indirect exporters*. (See Table 3.2.2.) Other ASEAN countries have developed ways for indirect exporters to access imported materials on duty and tax free basis through extension of the regular duty exemption scheme, application of public and private common bonded warehouses or rebate mechanisms. Indonesia has certain drawback in this regard.

Table 3.2.1. Comparison of Export Incentive Schemes in ASEAN 4

	Indonesia	Thailand	Malaysia	The Philippines
TAX INCENTIVE	BAPEKSTA - drawback system for import duty, sales tax and value added tax.	① Tax drawbacks from the Custom Dept. for custom duties and excise taxes paid ② Rebate from the Fiscal Policy Office based on the estimated tax payments on ③ The Board of Investment offers a special service to facilitate import duty exemptions for re-export production.	① Pioneer status with full tax exemption at statutory income level for a period of ② Investment tax allowance of 100% on qualifying capital expenditure incured ③ Double deduction for promotion exports, for promoting Malaysian brand names, approved training. ④ Double deduction on Freight Charge - for rattan and wood-based product ⑤ Tax exemption on the value of increased exports (10-15%)	① Tax credit for increase in export revenue (2.5 - 10% credit) ② Income Tax Holiday for export producers, export traders and sevice exporters ③ Tax credits for taxes and duties on raw material used in the manufacture, processing and production of 3exports ④ Exemption from wharfage dues and any tax for non-traditional export ⑤ Tax and duty exemption of imported spare parts and supplies if 70% of production is exported
BONDED ZONE	PT Kawasan Berikat Nusantara: gives facility of export processing zone, bonded warehousing, and freight forwarding. There are 8 bonded zones in Indonesia.	① Bonded warehouse facilities - import duty free for export products ② Export Processing Zones - exemption from import duties, and other taxes on factory construction materials, machinery, equipment, and inputs needed for the manufacture of exports.	Industrial Building Allowance (IBA) - a company is eligible for IBA of 10% of qualifying capital expenditure in respect of building used as warehouses for export and re-export products	Philippine Economic Zone Authority (PEZA) coordinates 4 special economic zones: Bataan, Bagulo City, Mactan and Cavite.

Source: Interview and Various Data Collection by JICA Study Team

Table 3.2.2. Indirect and Smaller Exporters in ASEAN 4

	Indonesia	Thailand	Malaysia	The Philippines
Exemption on duties, VAT and other taxes on indirect exports	Yes, throgh sub-contracting with direct exporters in Bonded Zone and FPTE	No	Yes, throgh sub-contracting with direct exporters	Yes, throgh sub-contracting with direct exporters
Rebate of VAT and other taxes on indirect exports	No	Yes	Yes	No
Zero-rating of VAT on sales to EPZ,	No	Yes	Yes	Yes
Income tax credit on local materials used in exports	No	No	No	Yes
Income tax deduction on export value added	No	Yes	Yes	No

Source: Program for Recovery in Trade and Industry: A Strategy for Short Term Reform, Asian Development Bank 1998

3.3. Export and Trade Finance

3.3.1. Background

Since the early 1980s, Bank Indonesia (BI) has been providing a re-discount post-shipment facility for exporters. Since 1993, however, interest rates charged on these facilities have not been concessionary and are based on the Singapore interbank rate (SIBOR). Exporters may sell their export proceeds to BI through a foreign exchange bank. BI then rediscounts the export bill, irrespective of whether it is denominated in US$ or in other foreign currency. However, BI provides a small advantage to companies designated as "special exporters" by re-discounting their export at SIBOR plus 3%, while general exporters' credits are re-discounted at SIBOR plus 4%.[5] In the period between 1994 and 1998, the Government gradually increased the scope of sectors eligible for the special exporter status, from 5 initially to 18 in 1997 and 27 in 1998 (including textiles and clothing, leather, electronics, shoes, rattan, rubber, pulp and paper, and crude palm oil).[6] In addition to the post-shipment facility, BI introduced in 1997 a pre-shipment re-discount facility for exporters.

Despite such schemes, since the economic and financial crisis Indonesian firms have

[5] As part of its policy to favour exports, the Government introduced in mid-1996 the "special exporter" status, allowing for certain firms, selected by the Ministry of Industry and Trade in designated sectors, to benefit from trade facilitation measures ranging from faster customs and other administrative procedures to preferential post-shipment rediscount rates. According to the Government, the criteria for the "special exporter status" do not discriminate between local and foreign-owned firms. Instead, the Government takes into account the firms's good record and behavior in respecting national laws and regulations, in particular tax and customs laws, as well as in maintaining creditworthiness.

[6] See Trade Policy Review: Indonesia 1998, World Trade Organization, Geneva, January 1999

encountered increasing difficulties in obtaining trade finance, both for exports and imports. As a result of lack of confidence in the soundness of Indonesian banks, their letters of credit are no longer accepted in international markets, thereby seriously damaging Indonesia's trade flows. Given the high import content of exports (over 40%), the growth of exports is also seriously impeded by the difficulty of obtaining import credits for raw materials and other inputs that are vital for export-oriented industries.

In order to cope with the problem, the Indonesian Government and BI have been working in the following directions:

1) BI deposited US$ 1 billion in ten foreign banks as a guarantee for the letter of credit issued by Indonesian banks. BI also extended a new similar scheme in cooperation with Japan's Exim Bank;

2) Indonesian Government has been working with several countries or institutions to finance/guarantee the importation of certain essential commodities and raw material;

3) Although not directly involved in the negotiations, the Government and BI have encouraged and sponsored the recent agreement of the Steering Committee of Indonesia's private lenders and borrowers;

4) To create more efficient and specialized trade financial institution, the Government and BI decided to transfer its pre-shipment and post-shipment refinancing scheme to PT Bank Expor Indonesia.

3.3.2. Bank Export Indonesia's Scheme

PT Bank Expor Indonesia (BEI) was established by the virtue of the Regulation of the Government of the Republic of Indonesia Number 37 of 1999 dated May 25, 1999 regarding State Limited Liability Companies (*persero*) operating in Banking. The government's paid-up capital (equity) is Rp. 3 trillions. BEI earns its operation permit by virtue of the Decision of the Governor of Bank Indonesia no. 1/12/KEP.GBI/1999 dated August 18, 1999.
The aim and objective of BEI shall be financing export and import for export purposes; providing consultancy services related to trade finance and providing other products to support those activities.

BEI is an alternative financial institution to finance export and import for export executed through the commercial banks in the scheme or refinancing and cofinancing. These financing facilities have to have the underlying transactions, which generated the foreign exchange income.

The selected products to support financing for export-oriented industry are:

- Import L/C underwriting
- Import L/C refinancing
- Discounted export bills refinancing
- Export working capital loan refinancing
- Consultancy services in relation to trade financing

Ownership and Funding Source

The Government of Indonesia wholly owns BEI. The operation of PT. BEI is funded by the Government of Indonesia's equity amounted Rp. 3 trillions and USD 1 billions in the form of Sub Loan under Two Step Loan (TSL-JEXIM) facility to the Government .
BEI shall not accumulate the third parties' fund in the form of checking account, savings, and deposit (non third parties' fund) as commercial banks do.

Lending Conditions

Financing facility for exporters is provided through the commercial banks (Non-direct lending) in terms of refinancing and co-financing. In refinancing scheme, the risk of exporters' financing shall be borne by the commercial banks and/or covered by the Government's Underwriting Program. Co-financing scheme, the financing risk exposed to the exporter is handled together by the commercial banks and BEI to the agreed proportion.

Risk Management

The financing for export and import for export as one of BEI core business is not free from risks if not managed properly. Therefore, BEI risk management is made in such a way that the loss potential can be eliminated entirely or at least minimized.

Instead of reforming the Credit Policy Committee, Credit Committee and ALCO Committee, BEI feels a necessity to also reform Risk Management Committee. The committee is expected to be able to improve BEI performance to the stakeholders' satisfaction.

3.4. Customs Administration

The volume of sea cargo at Tanjung Priok Port in Jakarta increased 1.32 times in export and 2.98 times in import during 9 years from 1988 to 1996.[7]

According to JETRO survey[8], most Japanese affiliated companies in Indonesia has pointed out that "tax and custom clearance procedure" is the serious problem for their daily management. This is something-peculiar complaint in Indonesia, which is not seriously taken up in other ASEAN countries. In detail, most of them have pointed out "custom clearance procedure is too complicated and takes long time" and "reimbursement of draw back duty delays and not fully paid back".

The comparison of custom clearance time is shown in the following chart.

Table 3.4.1. Comparison of Custom Administration in ASEAN 5

	Indonesia	Singapore	Malaysia	Thailand	Philippines
① Export Clearance (Customs Formalities)	4~8 hours	0	4~8 hours	4~8 hours	2~3 hours
② Import Clearance (Customs Formalities)	2~3 days	10~15 minutes	0.5~2 days	2~7 days	3~5 days
③ EDI Situation	Import only	All	Im+Ex Application No.	Export only	Export only

Source: Interview by JICA Study Team

According to the Table 3.4.1., although export clearance time is quite reasonable, import clearance indicates excessive dwell time by international standard.

An efficient import process relies on the contribution of a number of interests. Shipping lines must provide timely and comprehensive cargo information; the port authorities must handle cargo effectively and quickly; importers must process declarations as quickly as possible, minimize intervention for verification purposes, and release the goods for delivery. Among them,

[7] See Feasibility Study of Customs Intelligent Database System in the Republic of Indonesia, JICA March 1999
[8] See Survey on Management Condition of Japanese Affiliated Companies in Asia, , JETRO December 1997

customs control portion of the total import process is said to be approximately 40%.[9] According to the JETRO Report mentioned above, one of the most contributing factors for customs inefficiency is the discretionary intervention to extract unofficial payments.

Since 1997, customs clearance, the payment of duties, and random verification are facilitated by the operation of a new computerized system, the Electronic Data Interchange (EDI) system for custom clearance. As required by Law, importers have to fill in import declaration forms through the system, which is on-line with the customs services and the main banks.

[9] See ADB Report(1998)

Chapter 4. Review on Export Promotion Organization

4.1. Overview

In Indonesia, National Agency for Export Development (NAFED) takes in charge of non-oil gas export promotion. It is a governmental agency that sits within the Ministry of Industry and Trade and is supposed to act as a prime motivator of Indonesian export businesses in their effort to be successful in the world markets.

In 1998, facing severe public finance constraint entailed by the economic crisis, NAFED was obliged to close 13 Indonesian Trade Promotion Centers (ITPC), overseas marketing and information office. At the same time, NAFED was restructured into more market-oriented organization. In addition to that, considering the importance of human resource development in export business, Indonesian Export Training Center (IETC), which had been separate organization, was incorporated into NAFED structure.

Although NAFED has similar function to its counterpart in other ASEAN countries, the main deficiency is *the lack of strategic marketing approach* for promoting Indonesian export products.

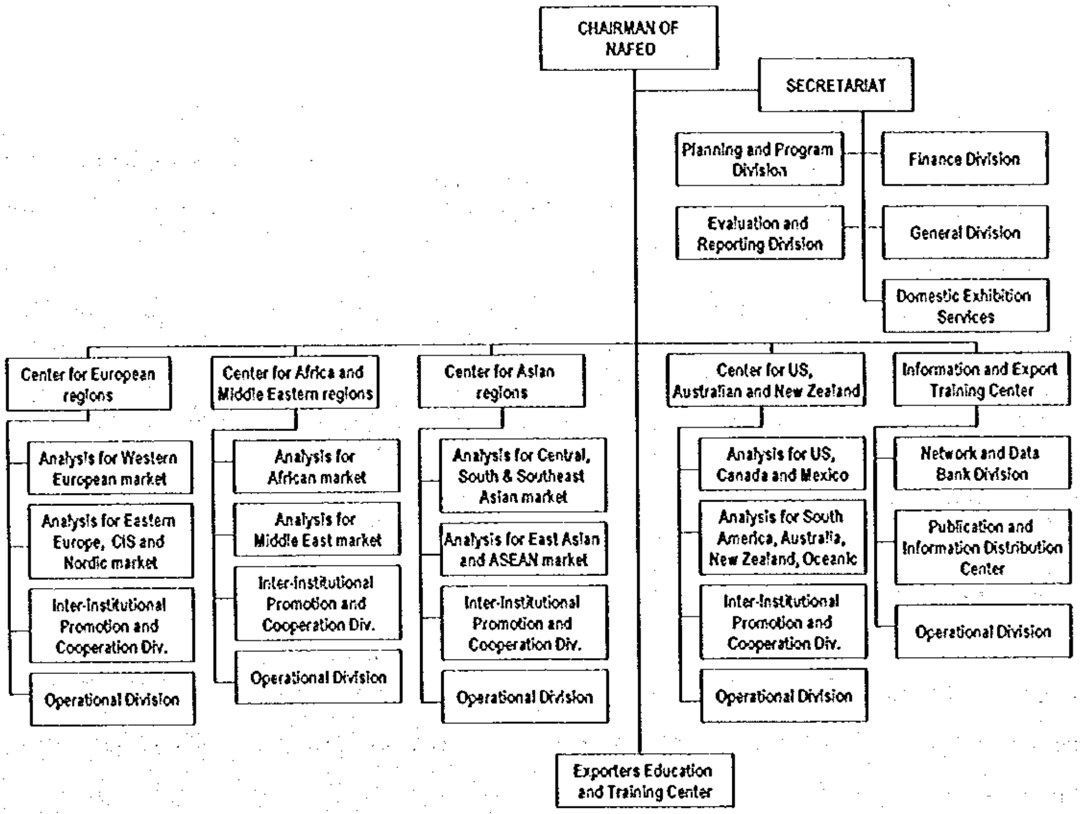
4.2. Organization and Function

4.2.1. Organization

There are 5 centers and one secretariat. (See Figure 4.2.1.) The Center for Export Information and Training is responsible for preparing and planning the dissemination of information on market and commodity for Indonesian exporters, and coordinating training and export techniques. Other 4 centers are responsible for promoting Indonesian exports to each region. As has been mentioned above, although NAFED has closed ITPC, it is requesting the government of Indonesia to reopen oversea office in 5 countries: Japan, US, Germany, UAE and Australia.

At the present organization, NAFED does not have any product-oriented approach. Although each center has similar export products such as textile, garments, furniture, and processed food, there is very little systematic approach to develop target products for exportation.

Figure 4.2.1. Organizational Chart of NAFED



Source: NAFED Annual Report (1998)

4.2.2. Main Function

1) Export Information Services

①General Information Services
②Market Intelligence Analysis
③Annual Export Consultation Forum
④Workshops and Seminars
⑤SMEs Project

2) Export Promotion Services

①International Trade Fairs
②Sales Mission

③Resource Indonesia Exhibition

④Indonesia Emporium

⑤Regional Export Products Trade Fairs

⑥Buyers Reception Desk and Trade Inquiries

3) Indonesian Export Training Center (IETC)

Recently having been incorporated into NAFED, IETC is a quite successful and potential organization that is implementing the education, training and consultation for mainly SMEs exporters. Established in 1990, it started from offering only short-term training programs, but it has continuously expanded its program every year. The key for IETC's successful expansion mainly rests on the appropriate grasp of SMEs exporters' needs.

①Education

IETC has been offering international trade educational course to new professional exporters, by arranging the 6 months export-import management skill course, presenting theoretical and practical integrated knowledge, such as follows:

- Payment systems
- Cost calculations
- Market penetration strategies
- Negotiation techniques
- Foreign language communication
- Computer and internet skills
- Product testing in laboratories

②Training

IETC has been offering 3-day, 7-day and 6-week course in export manpower training for exporters such as follows:

- Export marketing
- Trade exhibition
- Quality control
- Foreign language (Japanese, Chinese)

IETC also provides a Distance Learning Program facilities.

③Consultation

In order to assist exporters to penetrate into global market, IETC has been organizing product quality consultation in cooperation with American laboratory testing company.

In addition to that, IETC has started market consultation service for its alumnus to assist them to penetrate into particularly Japanese and Australian market by fee basis.

④Market Opportunity Information

In order to improve market-analyzing capability by updating information, IETC is providing a Resource Center, with the internet access.

4.3. Problems and Issues by Comparison with Regional Standards

4.3.1. Introduction

As it has been illustrated in table 4.3.1., although Indonesian export promotion organization has the similar export services with its ASEAN counterparts, it lacks the services like product and country branding, domestic exhibition centers, one stop service for selected products, product design assistance, and membership subscription, etc. In implementing a country's export marketing strategies, product brand and design strategies are particularly important. Since Indonesia's country as well as product image has been severely deteriorated by the economic and political crisis since 1997, building a good brand image is indeed critical for the country more than before. Among ASEAN neighbors, Thailand as well as Malaysia, after the economic crisis, is quite strategically promoting brand and product design by the Government initiative. Therefore, we shall mainly examine the Thai case as one of the best practices in ASEAN countries.

Table 4.3.1. Comparison of export services in ASEAN

Service	Indonesia	Malaysia	Thailand	Singapore
Trade fairs overseas	O	fees	fees	O
General Market research	O	O	fees	O
Market and/or industry sector research	O	fees	fees	fees
Company-specific research	O	O		fees
Inward and outward mission	O	fees	fees	O
In-market assistance	O	fees	fees	fees
Visit programs	O	O	fees	fees
Escorting company visitors	O	O	fees	O
Translation services	O	fees	fees	
Follow-up services	O	O	O	O
Visit programs for foreign companies	O	O	fees	O
Office space and equipment rental	O	fees		
Trade opportunity service			O	O
Export awards	O	O	fees	O
Product or country branding			fees	O
Regional export programs	O		fees	O
Domestic exhibition centers		fees	fees	fees
Hotline services	O		O	O
One stop service for selected products		O	fees	O
Product design assistance			fees	O
Education and training center	fees	fees	O	fees
Business network programs	O		O	
Exporter education programs	O	fees	fees	fees
Domestic trade fair participation	fees		fees	O
Publications	O	fees	fees	O
Membership subscription		fees	fees	

Source: Core Characteristics Survey II of APEC Trade Promotion Organization, APEC Working Group on Trade Promotion, 1999 and Interview by the Study Team

4.3.2. Brand Promotion Service

Building a good brand image is very crucial for manufacturers in making their marketing strategy. In addition, the existence of brand recognition permanently helps the country to add value to its products and strengthen competitiveness. Since Indonesia has been deeply damaged by the economic and political crisis, the country and her products image has also been severely damaged. According to the buyer survey conducted by this study team in Japan, Indonesian products image in general is such as follows:

-Quality is inconsistent and bad.
-Delivery is always delay.
-Response for inquiry is always late.

■ *Thai Case*

Indonesia's neighbor and competitor, Thailand, for example, has been strengthening its brand strategy recently. Thailand has been caught up with China, Vietnam and Indonesia for labor intensive products such as apparel or furniture and OEM production for these products has been shifting to these countries. Therefore, the country's export promotion agency, the Department of Export Promotion (DEP), is deeply involved in building the country's image through worldwide recognition of products made in Thailand. It aims at adding value by improving Thai products image and finally exporting under Thai own brand name so that it will not be affected by competitors' cheep labor cost. This long-term program is aimed specifically at manufacturers, exporters and consumers, making them aware of significance and implication of brand names and customer recognition in domestic and overseas markets.

The program is named "Thailand- Land of Diversity and Refinement" and it is to appeal foreign buyers that with this logo are guaranteed to be consistently good quality. The brand is classified into three categories: "Thailand Brand", "Thai Product Brand" and "Private Brand". Since 1998, a number of activities have been planned to promote Thailand image, including publicity campaigns abroad and at home; arranging trade exhibitions overseas; carrying out direct marketing through various media and meeting with importers abroad.

The new logo was first applied to food products and later will be other product groups such as gems and jewelry, decorative items for the home, textiles and leather goods. In addition, the label will be applied to Thai restaurants overseas to stress the authenticity of Thai food. Applications for this official mark have been open since April, 1999.

"Thai Product Brand" aims to improve quality image by offering unified logo for the products which have satisfied the certain requirement as in the followings:

- Prize winners for Prime Minister's Export Award

- ISO or TISI (Thai Industrial Standard) approved companies
- Special Exporters certified by custom and tax office
- Member companies of private quality research institutions approved by Thai Government

Although "Private Brand" is supposed to be implemented by private sector's self-efforts, DEP is also supporting their efforts by holding seminars or offering consultation service.

4.3.3. Product and Design Promotion Service

Today, one of the strongest Indonesia's competitive advantages, low labor costs alone cannot withstand the global intensity of trade competition, therefore, top quality and design is a critical factor in the race for recognition. In this regard, Indonesia has been behind its competitors. NAFED has little organizational efforts to advice on product quality and design compared with its Thai counterpart like the DEP.

■ *Thai Case*

The DEP offers a variety of services such as Catalogue Library, seminars and consultations on product design. Members receive information updates on overseas design trends relating to their products of interest and details of activities, which includes design training courses and seminars; consultation in product design and development with cooperation from the private sector; "Design Vision". An in-house publication which provides information and news on designs and trends as well as the Office's various activities; and the "Thai Designers Directory", a publication that allows producers/exporters who with to design their own products to locate and contact designers. In addition, the DEP has organized design contests with the objective of adding value to Thai products targeted at foreign textile, gems and jewelry, toy and furniture markets. Such competition activities are illustrated as follows:

-Arranging Thailand Fashion Designers Contest
-Setting up the Thai Fashion Club
-Promoting Thailand Silver Jewelry Design Contest
-Hosting the BIG Toys Design Award
-Arranging the Furniture Design Award
-Promoting THAIFEX & THAIMEX '99 Contest (packaging design)
-Organizing the Thailand Shoe Design Contest

-Launching Good Design Program (building on the Prime Minister's Export Award)

In addition, in terms of export development, the DEP employed a French designer for textile development and an Italian designer for leather bags and shoes in order to penetrate the high-end markets in these areas. A US specialist in fashion garments was also employed to set up marketing strategy to cope with US quota termination in 2005.

4.3.4. One Stop Service for Selected Products

The needs for fast-track service, product development strategy and coordination among the concerned Ministries for problem solving have been often pointed out during the Study period by a number of people. In this regard, some neighbors in ASEAN countries have adopted so called "one-stop service" for selected target products. Again, we will benchmark the Thai case.

■ *Thai Case*

With the aim of creating star exporters for each product category, Thai government is promoting the concept of a "Product Champion Center" and assigned the DEP, the Ministry of Agriculture and Cooperatives and the Ministry of Industry to put the project into operation. The idea is to assign one ministry to be responsible for promoting selected export products and it aims to provide a fast-track, one-stop business service.

The DEP has been entrusted with the responsibilities for gems and jewelry, fabrics, garments and accessories, as well as leather products. The Ministry of Agriculture and Cooperatives will help boost exports of rubber, fruits and fresh-cut flowers, while the Ministry of Industry will oversee exports of sugar, electrical appliances and electronics.

The Product Champion Center therefore came into being with the following objectives:

- To create greater cooperation between the governmental and private agencies concerned;
- To coordinate export process from the initial business concept to the final stage of export;
- To expedite governmental working systems;
- To assist and liaise in dealing with problems;
- To increase product competitiveness;
- To be the center of product information through the use of information technology

As part of their mission to reduce obstacles to export, the DEP arranged for an exemption of import duties on essential raw materials for both textile and garment industries and the leathergoods sector. They also established the Gem and Jewelry Institute of Thailand and organized VAT exemption on precious stones imported as raw material to produce jewelry for export.

4.3.5. Membership Service

In order to supplement the governmental funding and to contribute to the sustainability of the organization itself, some export promotion organizations charge fees from certain members. In Malaysia, for example, the Malaysia External Trade Development Corporation (MATRADE) has 2,800 member firms and charge M$100～M$250 in proportion to the company size. According to them, as having regular member firms, they can facilitate exporters' information and introduce appropriate companies to the foreign potential buyers.

4.3.6. Overseas network

As having been mentioned above, NAFED has temporary closed its 13 overseas offices and at the moment, there is no concrete plan to reopen them. In order to get vivid overseas market information, the network in target export market is badly needed. NEFED's counterparts in ASEAN have the following overseas network:

- DEP (Thailand) : 52
- Trade Development Board (Singapore): 34
- MATRADE (Malaysia) : 22