

Response to the World Bank Report : Indonesia Economic Quarterly (IEQ)

" Resilience through Reform "

**Presented by: Kasan
Staff of Ministry of Trade**

Jakarta, June 20, 2016

Outline

1. General Response;
2. Response on Part One : Economic and Fiscal Update;
3. Response on Part Two: Particularly to Trade Policy Issues;
4. Response on Part Three : Import Export Performance.

General Response

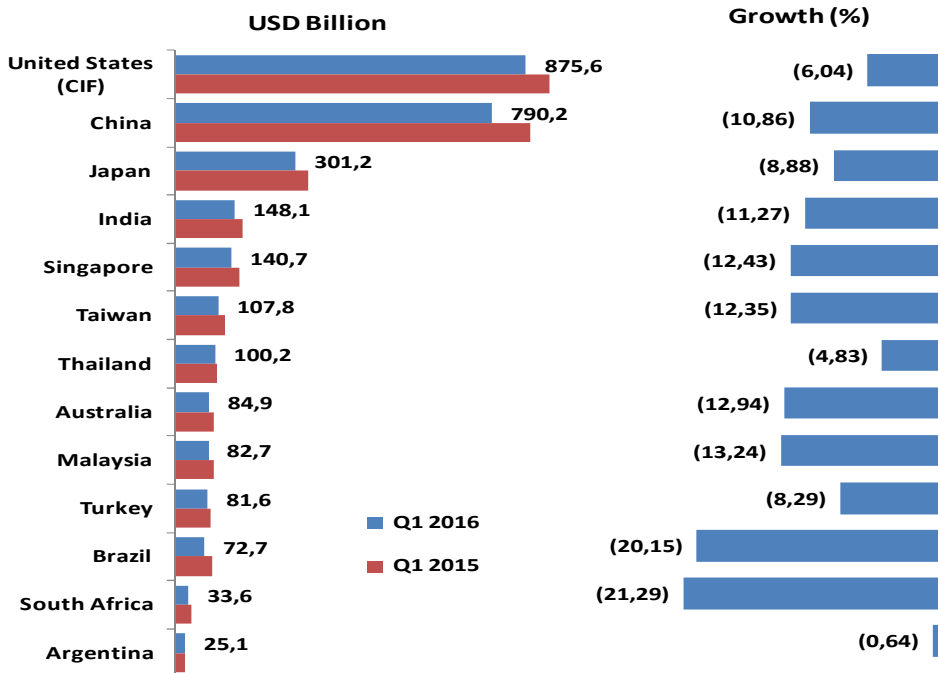
- As written in the executive summary of the report, IEQ has two purposes : **first part**: report on the key development of Indonesia's economy in the first quarter of 2016; and **second part**: provide more in-depth analysis of selected economic and policy issues. It is intended for a wide audience including policy makers, academics, economist, etc.
- As a representative of the Ministry of Trade, I will try to give my point of view on that report particularly focused on the second part of the IEQ report purpose;
- IEQ contains a comprehensive Indonesia's economic portrait that is indicated by several macroeconomic indicators and development indicator including trade policies that have impacts on Indonesia's economy;
- I have the same opinion and understand that economic achievements in Q1 2016 were affected by both internal and external factors, such as global economic and trade that have not been recovered especially in emerging countries and also the falling of world commodity price.
- Concerning the NTM policies and deregulation packages, It can be understood as constructive criticism for the government to be pay attention in the future including to evaluate the effectiveness of policy implementation. From this experience, we know that the deregulation was just an early path and more needs to be done for improving competitiveness.

The first part : Economic and Fiscal Update

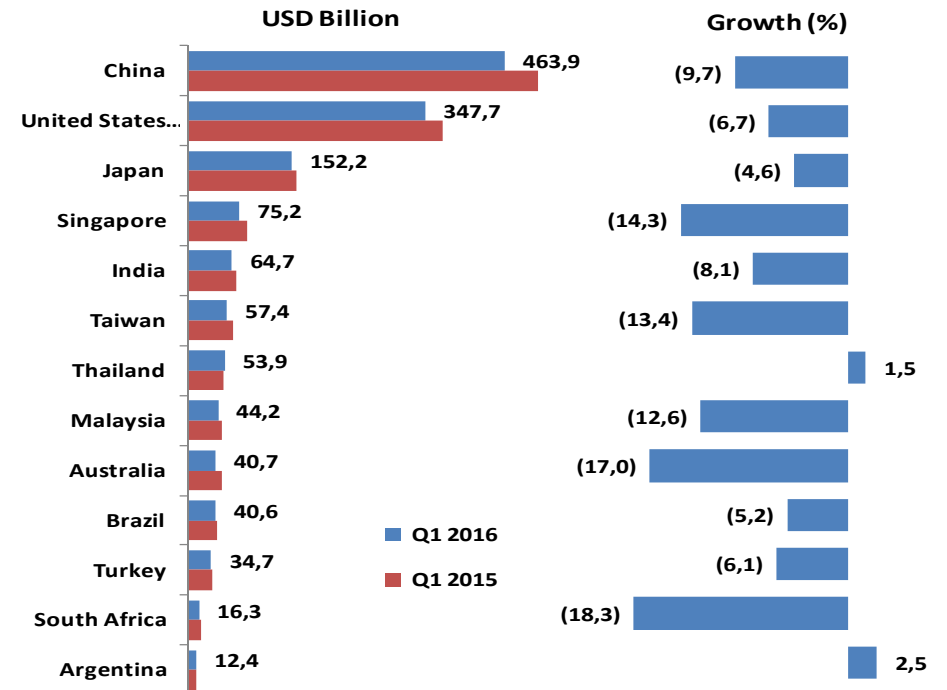
I agreed to the economic achievements of Indonesia during Q1 2016 (including internal and external factors), then all of them should be paid attention by the governments for the next quarter, such as:

- 1.1. The global economic recovery is lower than expectation, especially in emerging markets;
- 1.2. Global trade expected to gain improvement in early 2016 was also not realized.

Countries Total Trade Statistics Q1 2016



Countries Export Statistics Q1 2016



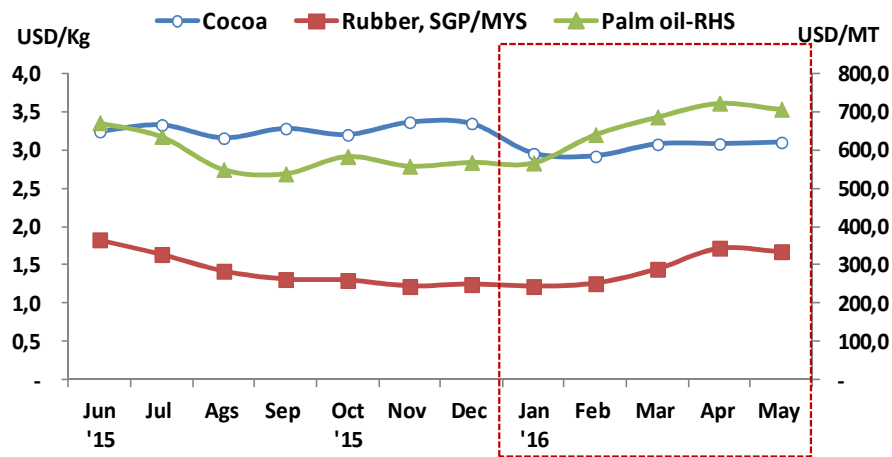
Source: GTIS, 2016

The first part : Economic and Fiscal Update (cont.)

1.3. However, the prices of some Indonesian export products have slightly increased such as CPO, Cocoa and rubber;

1.4. GDP growth Q1 2016 grew only 4.9% also due to the components of GDP (GDP Expenditure) such as household consumption, government spending and investment growth slower than previous year and export growth has not been recovered.

Graph 1. Commodity Market Price 2016



Source: World Bank, 2016

Table 1. Indonesia's GDP Q1 2016

Description	Value (Trillion Rupiah)					Growth (%)		
	Q1	Q2	Q3	Q4	2015	Q1 2016	2015	Q1 2016
1. Household Consumption	1.547,7	1.582,9	1.654,7	1.668,0	6.453,2	1.676,0	5,0	2,7
2. Consumption Expenditures Non-Profit							-0,6	0,1
Institutions serving Households	30,7	31,8	33,6	34,9	130,9	34,1		
3. Consumption Government	180,4	253,9	292,9	398,4	1.125,5	200,3	5,4	0,2
4. Investment	896,2	933,4	970,4	1.030,0	3.830,0	977,3	5,1	1,8
5. Changes in Inventories + Statistical							-	0,0
Discrepancies	58,7	59,7	21,7	(167,4)	(27,3)	59,5		
6. Exports of Goods & Services	599,3	620,6	620,4	593,9	2.434,2	553,6	-2,0	-0,9
7. Imports of Goods & Services	584,6	613,4	595,0	612,7	2.405,8	553,2	-5,8	-0,9
GDP	2.728,3	2.868,9	2.998,6	2.945,0	11.540,8	2.947,6	4,8	4,9

Source: BPS, 2016

5. Other issues that I mentioned is inflation, especially related to the volatile food price during early fasting month such as beef, sugar, onion, chicken meat, etc. But the government policy action is quite clear in this case both market operations by the central government / local, state-owned enterprises and policy adjustment made by the GoI on determination of time/period of importation for beet or live cattle recently.

Part Two : Particularly to Trade Policy issues

2.1. The economic policy package (12) issued by the government, including in the trade sector. I consider that the IEQ report shows the government's efforts towards dismantled some non-tariff barriers. Moreover, the policy aims to simplify, rationalize and make efficient of licenses as part of the competitiveness improvement, especially ease of doing business (EoDB).

MoT has revised 29 regulations,
trimming down 49 licenses...

- Implement Digital Signature and Paperless System
- Promote online license system in INSW (Indonesia National Single Window)
- Delete several licenses such as registered importers, producer importers, and registered exporters
- Accelerate licensing process in the State Licensing Agency from 5 days to 3 days
- Eliminate double verification process

But MoT still needs to do more, hence MoT will further identify
any overlapping on existing licenses

- Speed up licensing service and provide certainty for business operators
- Improve licensing services in regards to export and import processes
- Evaluation of implemented deregulation impact on business climate regularly
- Integrate exports and imports licensing which are still separated from the line ministries electronically
- Develop the whole export & import licensing system both at central and regional levels electronically.

Part Two : Particularly to Trade Policy issues (cont.)

2.2. The Tariff policy as reported in IEQ, I have the same opinion that Indonesia made progress in the tariff liberalization as indicated by the ranking of Ratio of liberalizing relative to restrictive measures that has steadily improved over the last 5 years.

Indonesia's Weighted Tariff Average 2016

Summary		Total	Ag	Non-Ag
Simple average final bound (%)		37.1	47.1	35.6
Simple average MFN applied (%)	2014	6.9	7.5	6.7
Trade weighted average (%)	2013	4.4	4.2	4.4

Source: <http://stat.wto.org/>

Indonesia's Tariff Structure 2016

MFN Tariff	Number of HS Code	
	Before Ministry of Finance Decree No 97 and 132 in 2015	After Ministry of Finance Decree No 97 and 132 in 2015
0,00%	1255	1256
2,50%	3	3
5,00%	5435	5186
7,50%	110	83
10,00%	1826	1626
12,50%	204	165
15,00%	845	638
17,50%	n.a.	40
20,00%	54	289
22,50%	n.a.	89
25,00%	18	333
30,00%	21	54
35,00%	n.a.	1
40,00%	180	38
50,00%	n.a.	150
90,00%	n.a.	23
150,00%	9	25
Rp. 14.000,-/Liter	2	2
Rp. 21.450,-/Minute	6	6
Rp. 450,-/kg	11	11
Rp. 550,-/kg	2	2
Rp. 790,-/kg	5	5
Simple Average	7,25%	8,78%

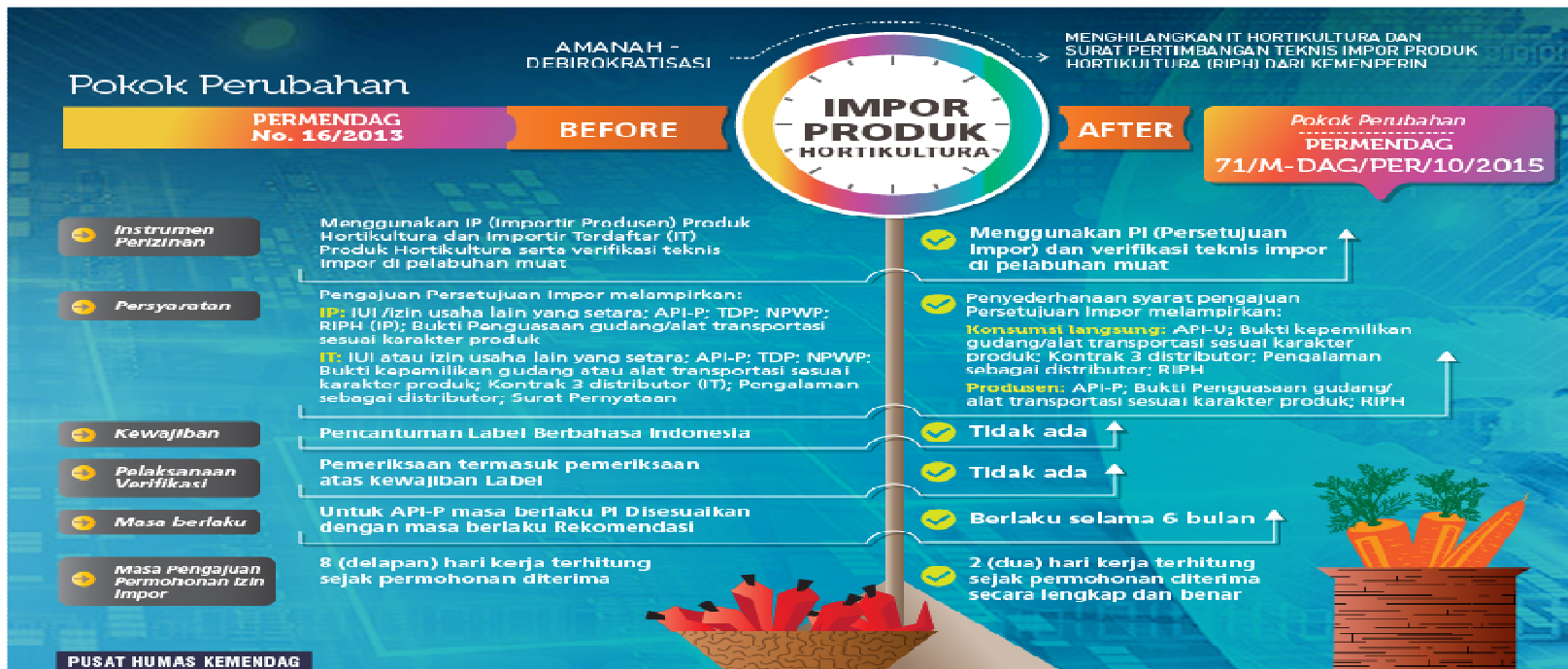
Source: Ministry of Finance, 2016

Part Two : Particularly to Trade Policy issues (cont.)

2.3. Concerning the past performance of NTM policy impact on prices of imported goods and cost economy as reported, I think, it can be understood as constructive criticism for the government to be attentive in the future that the deregulation was just an early path and there are still many things to do to improve the national economy competitiveness;

2.4. However, I'd like to clarify and give some corrections on several issues related to the NTM policy since that regulation is no longer implemented. Therefore, the impact of NTM policy as presented in the report is no longer valid, for instance:

a. First, horticulture import policy concerning prohibition of using Tanjung Priok as an entry port. That regulation is no longer valid and has been revised as replaced by MRA between Indonesia and horticulture exporting countries.



Part Two : Particularly to Trade Policy issues (cont.)

- b. Second, NTM in the form of quotas on imports of wheat flour. I think that part needs to be corrected, that policy is the implementation of the Trade remedy (Safeguards) after previously being investigated as a dumping allegation and imposed the provisional safeguards measures (BMTPS) by 20% tariff duty. After the period of BMTPS ends, Indonesian government decided to continue imposing safeguards against wheat flour supplier in the form of quota which does not violate WTO rules.
- Safeguard measures are defined as “**emergency**” actions with respect to **increased imports of particular products**, where such imports have **caused or threaten to cause serious injury** to the importing Member's domestic industry (Article XIX of GATT 1994)
 - An importing country can only apply a safeguard measure to a product from a developing country if the developing country is supplying more than 3% of the imports of that product, or if developing country members with less than 3% import share collectively account for more than 9% of total imports of the product concerned
 - Safeguards measure: tariff and/or quota
 - Regulation of the Minister of Finance No. 193/PMK.011/2012 concerning the Imposition of Provisional Safeguard Measure Import Duty on the Import of Wheat Flour
 - Rate of Temporary Safeguard Measure Import Duty is 20% of import value
 - Effective for 200 days since effective date (5 December 2012)
 - Regulation of the Minister of Trade No. 23/M-DAG/PER/4/2014 concerning the Imposition of Safeguard Measure Import Quota on the Import of Wheat Flour
 - quota of 441,141 tons on wheat flour (Turkey, Sri Lanka, Ukraine, and other)
 - effective 4 May 2014 – 4 December 2014

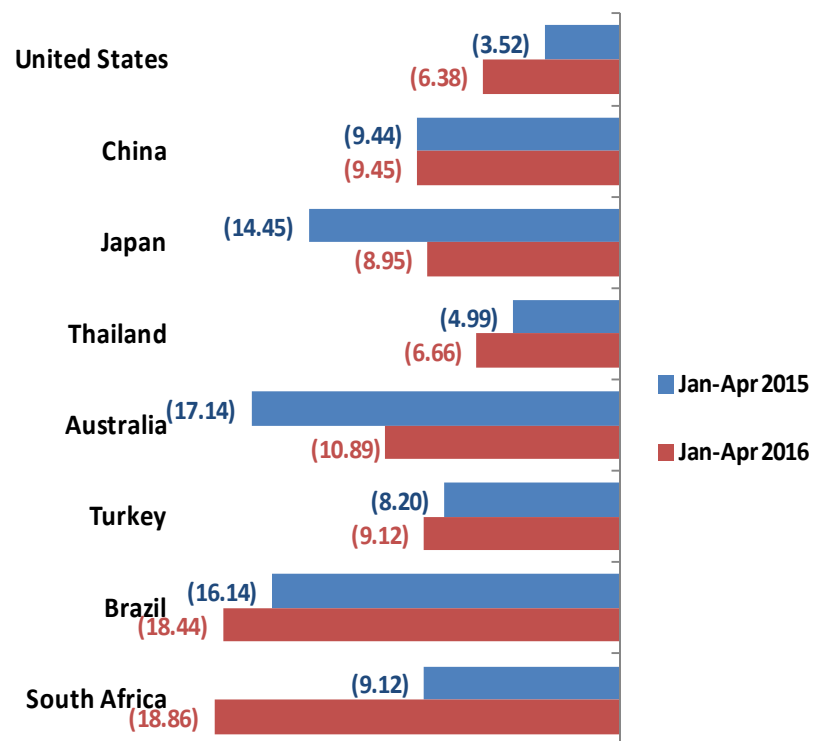
Part Three : Import Export Performance

3.1. The Indonesia's export performance in 2016 is the impact of the global trade and economic slowdown. That is due to the fact that Indonesia's exports are mainly driven by demand side.

	2015	2016P	2017P
Volume of world merchandise trade	2.8	2.8	3.6
Exports			
Developed economies	2.6	2.9	3.8
Developing and emerging economies	3.3	2.8	3.3
North America	0.8	3.1	4.0
South and Central America	1.3	1.9	1.9
Europe	3.7	3.1	4.1
Asia	3.1	3.4	4.0
Other regions ^b	3.9	0.4	0.4
Imports			
Developed economies	4.5	3.3	4.1
Developing and emerging economies	0.2	1.8	3.1
North America	6.5	4.1	5.3
South and Central America	-5.8	-4.5	5.1
Europe	4.3	3.2	3.7
Asia	1.8	3.2	3.3
Other regions ^b	-3.7	-1.0	1.0
Real GDP at market exchange rates (2005)	2.4	2.4	2.7
Developed economies	1.9	1.8	2.0
Developing and emerging economies	3.4	3.5	4.2
North America	2.3	2.3	2.5
South and Central America	-1.0	-1.7	1.1
Europe	1.9	1.8	2.0
Asia	4.0	4.0	3.9
Other regions ^b	0.9	1.7	2.9

Sumber: WTO April 2016

Growth of Total Trade (% yoy)

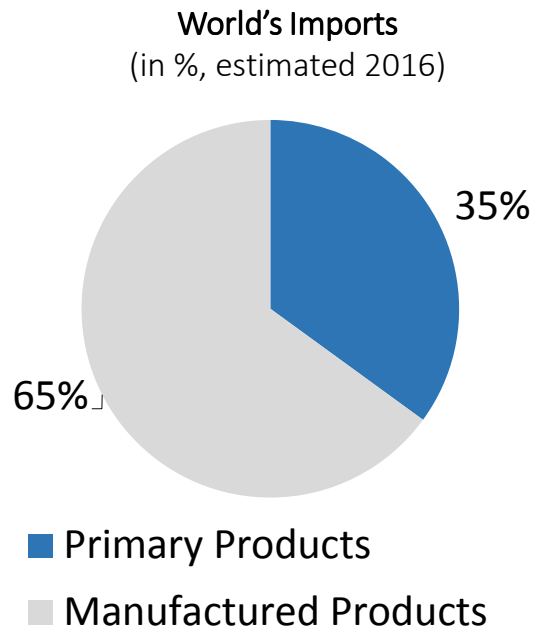


Sumber: GTIS June 2016

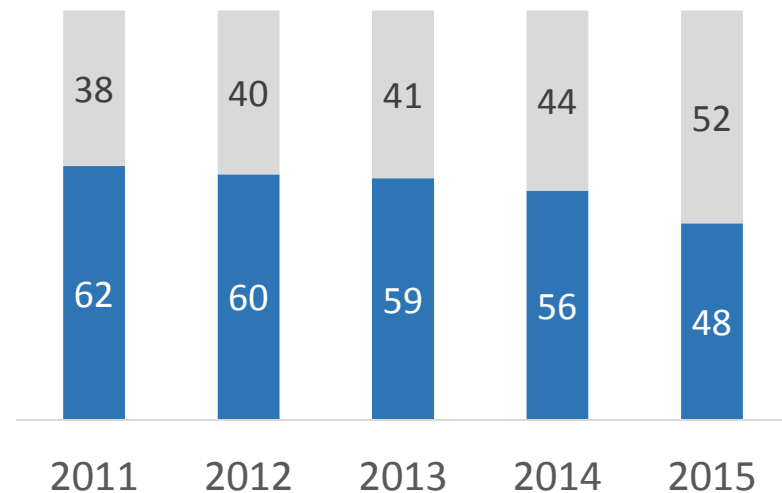
Part Three : Import Export Performance (cont.)

3.2. Indonesia's exports Structure are dominated by primary products, that condition may also lead to continued decline in the exports value in Q1 2016. However, the composition of exports products slightly changed in term of export value due to the falling of world commodity price.

To cater Global demand, which is measured by world's imports...



...We strengthened our exports on manufactured products



Source: Trademap, BPS (2016)

Part Three : Import Export Performance (cont.)

3.3. Related to the external and internal situation, the efforts to increase exports including product diversification into manufacturing has become one of the policy priorities of the Ministry of Trade through an outward looking orientation as seen in both bilateral and regional trade cooperation target.

Indonesia's exports experienced a slowdown and ranked 27th in the world...

Rank	Exporters	USD Billion		Trend (%)	Share(%)
		2011	2015	2011-15	2015
	World	18,223.8	16,329.1	(1.90)	100.00
1	China	1,898.4	2,281.9	5.15	13.97
2	United States of America	1,481.7	1,503.9	0.77	9.21
3	Germany	1,482.2	1,331.2	(1.53)	8.15
4	Japan	823.2	625.0	(6.73)	3.83
5	Netherlands	667.5	567.7	(2.94)	3.48
6	Korea, Republic of	555.2	526.9	(0.59)	3.23
7	France	596.8	506.1	(3.05)	3.10
8	Hong Kong, China	455.6	498.6	2.45	3.05
9	United Kingdom	517.3	465.9	(1.48)	2.85
10	Italy	523.3	458.8	(2.07)	2.81
14	Singapore	409.5	346.8	(3.24)	2.12
21	Thailand	228.8	210.9	(1.70)	1.29
22	Malaysia	227.0	200.2	(2.20)	1.23
26	Viet Nam	96.9	179.1	16.19	1.10
27	Indonesia	203.5	162.8	(5.10)	1.00
44	Philippines	48.0	58.6	5.89	0.36
73	Cambodia	6.7	13.4	18.50	0.08
77	Myanmar	8.5	12.9	20.70	0.08
98	Brunei Darussalam	12.6	6.3	(14.70)	0.04
114	Lao PDR	3.0	3.4	6.50	0.02

Source: Trademap (2016)

...therefore, collaborative International Trade through FTA is enhanced

Achievement (2015 – now)

Indonesia-EU CEPA

- Agreed on Scoping Paper (21 April 2016)

Indonesia-AUS CEPA

- 3rd Round negotiations be held on 2-4 May 2016 in Yogyakarta. Agenda: the Early Outcome and discussion on Negotiating Groups issues

Indonesia-EFTA CEPA

- 10th Negotiation be held on 23-26 May 2016 in Interlaken, Switzerland

Target (now – 2019)

Trans Pacific Partnership

- Further assessment regarding our involvement is required

Regional Comprehensive Economic Partnership

- Aspiration of modalities of integration for trade in goods for initial offers by 80%, with the elimination of tariffs by 65% at the time of entry into force of the agreement and 15% within 10 years has been agreed

Indonesia – Turkey CTEP

- Terms of reference have been completed

ASEAN – Japan CEP

- Tariff transposition needs to be resolved

THANK YOU