

**6<sup>th</sup> Trade Policy Review of Indonesia, April 2013**

**Statement by the Discussant**

**Ambassador Martin Eyjolfsson**

**Permanent Representative of Iceland to the WTO**

**Thank you Joakim, Vice Minister Krisnamurthi, ladies and gentlemen.**

**I want to begin by welcoming the delegation of Indonesia, headed by Vice Minister of Trade Mr. Bayu KristnaMurthi, and thank you for your opening statement. I would also like to thank Indonesia and the Secretariat team for their high-quality reports. They form a good factual basis for our discussions today and on Friday.**

**I am honoured to take part in the Trade Policy Review of Indonesia and after having read about the fascinating country of Indonesia under my preparations I must admit I am looking even more forward to the Ministerial Conference in Bali. Let's hope we will have a successful outcome.**

**The sizable Indonesian delegation – from 9 ministries - reflects the importance that Indonesia attaches to the WTO, this review and the opinions of other WTO Members. It also reflects the complexities of administering a cross-cutting trade agenda, where competencies are shared by many ministries. I wish to thank Indonesia for making so many officials available here today, forty I believe. This should facilitate a detailed exchange of views and ensure that our open and frank discussions are shared throughout the relevant parts of the Indonesian administration.**

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**Mr Chairman, Vice Minister Krisnamurthi.**

**Both of you have already provided overviews of the major recent developments in Indonesia's economic policy and trade. To avoid duplication, and for the sake of brevity, I will limit myself to some general observations that resonated with me as I reviewed the reports.**

- Firstly I will touch upon Indonesia's economic development in a broader context,**
- Secondly I will talk about the interplay between the government's strategy and Indonesia's trade regime.**
- Thirdly, the elements of Indonesia's trade policy.**

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### **The broader context**

**Mr. Chair**

**For starters, I want to put Indonesia's economic development into a broader perspective. What struck me most when researching Indonesia was its vast size and sheer diversity.**

**Charles de Gaulle once famously asked how anyone could govern a nation that has 246 different kinds of cheese. I wonder how he would have felt about**

**a nation of more than 17,000 islands spread out over 2 million square kilometres, with numerous ethnic groups speaking over 700 languages.**

**The complexities seem enormous; but they have proven manageable and provide an important source of strength for Indonesia.**

**Looking back, the economic development of Indonesia in the past half a century has waxed and waned.**

**From near economic ruin and hyper-inflation in the 1960s, to the oil boom of the 70s, to the economic crash of the late nineties 1997-98, and finally to the relative smooth sailing of the present global financial crisis.**

**Yet the long-term trend is unmistakably positive.**

**The previous speakers have already described impressive developments since the last Review. And despite setbacks and challenges, overall, Indonesia has taken meaningful steps to adjust and learn from their experiences.**

**Closer towards the present, I believe the Asian crisis was an important turning point for Indonesia. Since then, the country has shown remarkable resilience.**

**Indonesia has solidified its macroeconomic foundations through a series of important policy reforms and improved governance. The numbers speak for themselves. Eight years of more than 6% growth, increased investment, stable purchasing power and the growth of exports of goods and services. Poverty**

**and unemployment levels have also decreased markedly in the past few years (6.5% in 2012), and the debt to GDP ratio of 23.5% in 2012 is the envy of many in this room, especially in my part of the world. All of this has been facilitated by a strengthened macroeconomic framework and, importantly for us, a more liberal international trade regime.**

**This is important because Indonesia is important. Indonesia matters in a systemic way to the global trading system. It is the largest economy in South East Asia, it has the 4<sup>th</sup> largest population in the world and it is endowed with abundant natural resources in one of the most dynamic and vibrant regions in the world.**

**Reflecting this ... Indonesia has assumed an active (leadership) role in many regional and global forums, including the G20, ASEAN, APEC and not least the WTO - where Indonesia has nominated a highly qualified candidate for the post of Director General, and will host the Ministerial Conference later this year in Bali. I wish you great success in the busy months ahead.**

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### **Interplay between Government Strategy and Trade Policy**

**Mr. Chairman**

**I will now turn to my second point ... the interplay between the Government Strategy and Trade Policy.**

**What I found perhaps most interesting when going through the reports was the interplay between trade policy, on the one hand, and the overarching economic strategy called the Master Plan for the Acceleration and Expansion of Indonesia's Economic Growth, on the other hand. The Plan is quite ambitious – to transform Indonesia into one of the top ten economies in the world by 2025 – and the scope is nearly all-encompassing. To achieve this, real economic growth must be sustained at between 7-9% per year!**

**The trade agenda pillar of the broader strategy appears to be predicated on three medium term trade policy objectives.**

- a) To increase the export of non-oil products,**
- b) To strengthen the domestic market and manage the availability of basic products ... and**
- c) To strengthen national distribution channels.**

**The Secretariat report goes into quite some detail on the measures being applied to achieve Indonesia's objectives, including systemic efforts to reduce constraints on trade, investment and production and to streamline procedures at the border. These are welcome developments.**

**But the report also looks at measures needed to improve overall competitiveness and sustain growth, and identifies the main challenges facing the export of non-oil products, in particular the manufacturing sector. Indonesia also recognises that in order to achieve its aims, the role of the private sector must be strengthened. But there seems to be an underlying contradiction between this clearly defined objective and the significant government involvement in the economy.**

*I think I speak for many members here today when I say there is widespread interest in seeing how the gradual implementation of the ‘Plan’ will impact on Indonesia’s trade regime. More precisely, what is the role of the private sector within the government led architecture of the Plan? It would also be useful to hear Indonesia’s view on how the long term plans for the future, with the focus on domestic industrial policy considerations, will be balanced with international – and increasingly regional and bilateral – trade commitments.*

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### **Elements of Trade Regime**

**Mr. Chairman**

**The third issue I want to raise today concerns some elements of Indonesia’s trade regime. Let’s start with the good news.**

**Indonesia should be acknowledged for taking decisive measures to improve trade and investment policies since the last review. It has enacted important laws and reform measures to investments, the SPS regime, export financing, customs procedures, as well as in sectors such as agriculture, fisheries, shipping, mining and tourism. The Government has also taken important steps in the fight against illegal logging practices and IUU fisheries. Further afield, Indonesia continues to strengthen regional ties through ASEAN and is becoming ever more active on the bilateral front.**

**Within the WTO, Indonesia continues to play a constructive role in the DDA negotiations. As coordinator of the G-33, it has submitted a proposal on special safeguard measures and speaks with clarity on behalf of like-minded countries. I would also mention that its decision to become an observer to the WTO Government Procurement Agreement in 2012 was welcomed and hopefully a harbinger of things to come.**

**But there are also weaknesses in the trade regime that deserve scrutiny. Some of these have been raised directly by members in their advance questions. These include the complexity, lack of transparency and trade-impairing effects of Indonesia's import licensing requirements, which have increased since the last review. Other measures - including export restrictions and taxes on raw resources and ownership limitations on banks - have recently raised concerns about the direction of trade and investment policy-making.**

**A number of macroeconomic challenges have also led to a decline in the rate of growth in Indonesia's manufacturing sector. The real appreciation of the rupiah, rising unit labour costs, strong international competition, especially from China, and a tightening of profit margins have all made Indonesia's manufacturing sector less competitive relative to its regional neighbours.**

*All in all, therefore, it would be interesting for all of us to hear the authorities' views about the challenges raised above. How are they being addressed in the broader 'Master Plan'? And I would also be curious to hear how Indonesia plans to distinguish itself and its economic and trade strategy from regional competitors on the global scale?*

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**Mr Chair, Vice Minister Krisnamurthi.**

**Fellow Ambassadors and colleagues,**

**As a Discussant, I chose to look at Indonesia's trade policy from a bird's eye view; to explore the interplay between the comprehensive economic strategy and trade; and to raise some of the strengths and weaknesses of the current regime. There are certainly many other important issues in the trade policy of Indonesia that I did not touch upon in detail but that will certainly be raised by the Members.**

**Indonesia is a success story by all accounts. We welcome its growing role in the multilateral trading system and its positive contribution to regional and global development. On the other hand, Indonesia faces some structural and geographic challenges ... having to balance legitimate domestic interests with international obligations.**

**It has been a great pleasure to act as a Discussant in the first day of this trade policy review. I thank you for this opportunity. I wish Indonesia a very successful Trade Policy Review.**