Market Access Sectoral and Trade Barriers Database

-Indonesia-
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GENERAL FEATURES OF TRADE POLICY

Indonesia had GDP growth rates of 8% in both 1995 and 1996 but there was a subsequent slowdown in 1997, due to the financial crisis. In 1998 the GDP contracted by 13% and 1999 figures show zero growth, but growth rebounded to 4. 2000. Through export-driven initiatives in the 1980s, Indonesia shifted much of its exports from oil to manufactured which now form around 75% of total exports. Inflation was as low as 6.7% in 1996 but soared into double digits wit financial crisis, reaching 77.6% in 1998. By 2000, the rate had dropped back down to about 9%. Indonesia has aroun million inhabitants and a workforce of 99 million people but there is 15 to 20% unemployment.

Indonesia exported $51.2 billion and imported -$30.6 billion in 1999. Its main exports after oil products are ply garments, woven fabric, processed rubber, footwear, electronics and electronic components and the main exports marke Japan , the United States , Singapore and South Korea. Indonesia's main imports are machinery and electrical equi (about one third), chemical products (15%), agricultural products (7%), automotive (7%) and iron and steel (6%). Impor originating mainly in Japan (23%), the United States (12%), Singapore (11%), Australia and Germany (6%).

Production and distribution in many sectors have had political backing leading to the formation of monopolies or oligo The lack of any competition law or policy, corruption, red tape and the weakness of the legal system contribute to a l transparency which is perceived by the foreign business community as a major obstacle to doing business in this country.

Within ASEAN, Indonesia has the strongest trade relations with the European Union (EU). ASEAN countries enga average, 9% to 12% of their trade with the EU. For Indonesia, this figure has been 15% or more throughout the 1990s.

EU-Indonesia trade relations have benefited from Indonesia's export diversification policy that was initiated in the mi Over the period of 1985 to 1999, the EU's share in Indonesian exports has been steadily growing. As a result, the E become the second largest trading partner of Indonesia (after Japan and ahead of the US). Since the mid-90s, the E been the main source of Indonesia's imports.

Despite the deep economic and monetary crisis that started in mid-1997, EU imports from Indonesia continued to throughout 1998. In 1999, they declined slightly though still higher than before the crisis. Considering the depreciat the Indonesian Rupiah against the European currencies, this implies a substantial increase in the volume of Indonesian entering the EU market since 1997.

EU exports to Indonesia experienced quite a different trend. Following the collapse of the Rupiah in January 1998, the of EU exports to Indonesia declined sharply. Over the year 1998, a 53% drop occurred when compared to the 1997 leve fall continued in 1999 with EU exports declining by another 14%. Up to 1997, EU exports to Indonesia had been st growing for years, to a peak of over € 8 billion in 1997. By 1999, EU exports were back to the level of 1991.

As a result, the trade balance made a drastic swing in favour of Indonesia. Whereas bilateral trade was still in bala 1997, the EU registered a € 5.1 billion trade deficit in 1998 and a € 5.3 billion deficit in 1999.

The following table is an overview of the tradeflow between the European Union and Indonesia

Section	Year	Import(Euro)	Export(Euro)
Animals & animal products	1996	51,128,730	36,082,950
	1997	82,692,790	51,636,180
	1998	137,056,240	14,494,570
	1999	132,161,710	45,728,970
	2000	175,029,610	130,818,670
	2001	186,491,140	83,135,670
	2002	143,901,480	66,528,340
	2003	193,315,830	88,551,480
Vegetable products	1996	286,084,660	23,793,170
	1997	334,342,350	20,250,660
	1998	343,169,340	11,192,260
	1999	324,933,300	58,943,870
	2000	341,095,510	42,340,990
	2001	251,818,630	30,752,440
	2002	229,534,710	37,315,950
	2003	216,054,210	26,278,050
Animal or vegetable fats	1996	562,814,040	2,833,270
	1997	602,785,090	4,343,210
	1998	610,754,350	1,167,270
	1999	495,161,560	2,835,740
	2000	598,990,350	3,973,580
	2001	486,824,350	3,758,400
	2002	659,006,640	4,213,910
	2003	606,642,080	4,505,970
Prepared foodstuffs	1996	233,493,310	67,766,800
	1997	283,418,340	93,609,180
	1998	243,128,650	39,066,870
	1999	267,838,480	88,266,050
	2000	303,086,470	128,831,490
	2001	305,601,280	130,640,420
	2002	367,596,410	108,654,880
	2003	313,165,560	124,387,980
Mineral products	1996	438,541,640	97,501,760
	1997	383,564,060	121,318,860
	1998	389,562,050	32,852,790
	1999	293,303,670	53,073,030
	2000	436,396,890	59,216,990
	2001	1,213,354,670	60,659,160
	2002	1,115,765,290	52,204,440
	2003	1,185,371,970	54,881,850
Chemical products	1996	132,118,930	598,107,210
	1997	173,538,650	660,251,520
	1998	226,784,370	366,750,490
	1999	199,861,510	512,352,980
	2000	254,826,440	625,842,520
	2001	262,560,240	605,336,800
	2002	255,311,470	677,201,920
	2003	273,532,880	649,769,730
Plastics & rubber	1996	335,262,440	151,382,470
	1997	382,868,790	186,673,470
	1998	401,114,690	94,054,920
	1999	308,848,950	142,425,810
	2000	382,839,640	171,670,830
	2001	346,152,480	194,109,020
	2002	345,610,090	173,567,680
	2003	397,070,560	147,759,200
	1996	61,400,870	15,865,510
	1997	74,890,850	26,283,700

Hides & skins	1998	75,127,600	19,843,440
	1999	75,699,660	22,811,220
	2000	104,636,340	38,996,490
	2001	113,268,600	36,667,900
	2002	98,479,530	29,818,220
	2003	73,685,200	28,135,130
Wood & wood products	1996	646,702,790	8,408,710
	1997	819,619,350	9,342,590
	1998	726,081,400	5,709,970
	1999	747,565,560	7,420,830
	2000	929,635,470	10,602,100
	2001	796,250,070	9,749,420
	2002	707,923,000	15,181,860
	2003	659,424,040	17,405,430
Wood pulp products	1996	105,162,660	133,658,150
	1997	99,420,290	184,274,790
	1998	306,434,370	115,808,740
	1999	316,046,560	184,277,820
	2000	373,698,290	248,085,650
	2001	438,540,510	228,770,530
	2002	365,403,310	242,123,070
	2003	328,831,870	257,553,610
Textiles & textile articles	1996	1,507,086,100	118,900,150
	1997	1,888,791,480	108,354,920
	1998	1,939,975,330	70,783,610
	1999	1,860,142,000	77,511,940
	2000	2,302,267,590	125,003,220
	2001	2,261,566,230	129,673,290
	2002	1,935,937,570	115,218,230
	2003	1,693,846,460	117,653,850
Footwear, headgear	1996	677,637,790	9,670,940
	1997	751,023,620	10,703,490
	1998	584,685,480	7,001,370
	1999	582,387,100	9,656,410
	2000	704,080,850	12,464,660
	2001	732,399,270	11,120,820
	2002	643,280,010	14,801,760
	2003	517,600,910	7,729,630
Articles of stone, plaster, cement, asbestos	1996	37,366,020	88,132,040
	1997	52,636,190	104,262,150
	1998	82,558,370	31,524,990
	1999	90,648,710	47,388,340
	2000	105,684,770	67,299,230
	2001	106,987,590	67,970,830
	2002	89,261,680	70,849,800
	2003	91,773,070	57,956,140
Pearls, (semi-)precious stones, metals	1996	20,765,020	5,163,120
	1997	20,433,660	56,999,100
	1998	36,660,740	3,214,240
	1999	12,567,880	8,816,300
	2000	15,550,290	2,513,180
	2001	16,343,980	12,735,210
	2002	15,433,290	2,367,690
	2003	15,524,520	27,838,720
Base metals & articles thereof	1996	123,440,240	391,553,660
	1997	125,755,420	486,933,280
	1998	224,340,340	216,646,110
	1999	185,367,580	209,496,910
	2000	248,099,270	270,279,850
	2001	268,761,550	233,617,950
	2002	220,599,540	262,861,410

	2003	234,679,420	286,018,310
Machinery & mechanical applicances	1996	525,133,510	3,379,891,990
	1997	692,728,150	4,045,883,240
	1998	936,240,010	1,960,140,470
	1999	1,087,784,930	986,838,130
	2000	1,599,182,940	1,428,636,400
	2001	1,550,444,810	1,719,770,050
	2002	1,663,880,510	1,705,562,270
	2003	1,612,141,860	1,527,802,000
Transportation equipment	1996	64,783,720	359,284,660
	1997	54,416,950	618,634,720
	1998	55,655,980	382,624,280
	1999	70,728,580	372,703,640
	2000	79,741,680	306,640,400
	2001	93,278,760	282,766,490
	2002	63,393,140	247,468,990
	2003	63,935,300	156,475,080
Instruments - measuring, musical	1996	84,063,240	120,021,000
	1997	93,392,600	159,255,370
	1998	100,773,400	78,997,800
	1999	116,437,940	84,448,050
	2000	151,140,410	120,868,460
	2001	192,259,250	125,490,780
	2002	202,950,230	65,662,740
	2003	182,594,780	80,812,750
Arms & ammunition	1996	600	3,010,060
	1997	2,450	4,371,810
	1998	554,300	1,847,140
	1999	51,380	1,552,300
	2000	11,880	1,698,680
	2001	374,380	1,702,780
	2002	30,730	953,860
	2003	16,020	991,050
Miscellaneous	1996	547,001,850	35,019,230
	1997	611,580,470	42,371,850
	1998	698,229,860	16,182,500
	1999	866,572,020	23,312,150
	2000	1,049,816,330	68,921,600
	2001	916,577,040	37,667,860
	2002	890,282,920	29,796,260
	2003	885,385,320	28,643,070
Works of art	1996	759,000	2,626,990
	1997	471,020	1,283,330
	1998	1,502,590	403,510
	1999	892,600	381,480
	2000	1,013,610	1,403,220
	2001	848,240	776,320
	2002	680,460	1,097,010
	2003	968,500	2,138,760
Other	1996	12,209,460	30,650,830
	1997	24,868,210	38,098,630
	1998	18,649,280	73,152,130
	1999	10,760,950	28,768,060
	2000	9,575,490	10,839,040
	2001	14,608,070	15,831,620
	2002	22,240,100	24,139,250
	2003	18,229,500	23,072,320

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TARIFFS AND DUTIES

Since 1986, the government has been replacing its licensing system and other non-tariff barriers with tariffs - which i
have been reduced. However, non-tariff barriers continue to protect a share of both agricultural and manufactured prod

Tariffs are applied on an m.f.n. basis to most imports. Since 1993, Indonesia has begun to implement the ASEAN Free-
Agreement (AFTA), under which a Common Effective Preferential Tariff (CEPT) is to be introduced by 2003. Indones
offered to apply CEPT tariff reductions to some 80% of its tariff items, affecting about half its imports from other A
countries. Like other members, Indonesia has excluded several important manufacture products from the tariff reduc
among these are electrical products, petroleum products, transport equipment and iron and steel.

The average tariff rate on final goods is double that for unprocessed products, and substantial tariff escalation exi
industries such as transport equipment, textiles and paper products.

Although applied rates are in many cases below bindings, tariffs remain high on items of interest to EU exporters. Mor
tarification of non-tariff measures had introduced high tariffs in certain areas, such as motor vehicles. Tariff rate disp
would be narrowed as Indonesia reduced rates on finished products.

In May 1995, the government cut import tariffs on 6,030 types of goods and announced a timetable for further tarif
through to 2003. In January 1996, a further liberalisation package was introduced, concerning mainly capital and interm
goods (1497 tariff lines).

In most cases, all items under one heading (i.e., complete products, parts and components of one category of capital good
subject to the same duty rates. In some cases raw materials are subject to considerably higher duties than the final pro
for which they are required. This is the case for many products where chemicals or plastics are needed, and also for s
categories of steel sheets and bars.

This hits domestic producers more than foreign suppliers, as it prevents them from entering certain potentially luc
markets . However, the high protection of raw materials does not apply to whole sectors or product groups, but o
particular items.

Indonesia has undertaken, as part of the Uruguay Round commitments, to increase its tariff bindings from below 10%
approximately 95% of its tariff lines (8,877 items, of which 7,536 are on industrial products) at ceiling rates of 40%. I
agreed to remove surcharges and non-tariff measures on bound items by 2005. Exceptions to the 40% binding i
automotive equipment, iron and steel, chemical, plastic and rubber products, and agricultural equipment. As of March
bound tariff rates for industrial products were 38%.

There are express import quotas on a number of sensitive products. Export controls; including bans, quotas, taxes, lic
and compulsory quality standards; currently affect more than half of Indonesia's non-oil exports. By depressing input
below international levels, such controls penalise upstream producers while assisting downstream processing industries a
import competition.

72 products are covered by export bans; 1827 products can only be exported by companies approved by the Minis
Trade; the export of 105 products is subject to approval by the Ministry of Trade; 80 products are subject to export
Most of the export restrictions apply to agricultural products.

Nine products are subject to a complete import prohibition: the import of books, magazines, leaflets, newspapers writ
Chinese letters/characters and in the Chinese language, cassettes, video cassettes and films, as well as of colour phot
machines is prohibited.

Individual tariffs can be subject to sudden changes, usually motivated by internal industrial policy considerations, some
related to major individual business deals. As much as one half of all imports enter at concessional rates, mai
intermediate inputs for approved investment projects, and under drawback and exemption schemes for exporters. Add
exemptions are also periodically authorised to specific users, such as those extended to certain cable-makers on impo
polyethylene.

Agriculture and Fisheries

Tariff Levels

970265- *non-respect bound tariffs* [2002-11-27]

The Community spirits industry has complained that Indonesia is not taking any steps to implement its UR t
commitments on spirituous beverages. Spirits (tariff heading 2208) are bound at 150%, to be reached by 20
while the base rate is 170%. In accordance with the staging, Indonesia should apply a maximum duty of 15
2002. Instead, the applied duty remains at 170%, which means that Indonesia has not implemented one si
the yearly reductions as required by Indonesia's tariff commitments.

Automotive

Internal Taxation

020076-*Luxury Tax on Motor Vehicles* [2003-01-07]

The Community automotive industry has complained about a recent increase of the Indonesian tax on moto
vehicles which entered into force on 1 September 2001. Before that date the tax level ranged between 20 a
50% whereas currently tax rates between 30 and 75% are applicable. This luxury tax is charged in addition
import duties of 25 to 50% for CKD (Completely Knocked Down) vehicles and of 45 to 80% for CBU (Compl
Built Units) vehicles. However, the tax is charged on a non-discriminatory basis.

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TRADE DEFENCE INSTRUMENTS

Indonesia is taking antidumping actions against:

Australia, wheat flour,
China, P.R., steel pipe,
European Communities, sorbitol 153%
European Communities, wheat flour,
India, carbon black, 52.46%,
India, Ferro mangan and silicon mangan,
Japan, steel pipes, 5-81%
Korea, Rep of, steel pipes,
Korea, Rep of, carbon black, 21.38-53.72%,
Singapore, steel pipes, 78%,
Thailand, carbon black, 24.33%, and
United Arab Emirates, wheat flour.

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NON TARIFF BARRIERS

As of 1999, the government was reducing the number of items subject to import restrictions and special lic
requirements. Approximately 160 tariff lines still remain subject to restrictive import licenses, down from 261 in 199
1,112 lines in 1990. While the share of imports subject to licensing was equal to 10% of total imports, 30% o
manufacturing production and 35% of the agricultural production was protected by the licensing scheme. The main
affected by import licensing are agricultural commodities, processed food and beverages, paper products, engin
products, transport equipment, basic metals and chemicals.

Although the government has taken steps since 1990 to reduce the scope and restrictions of the licences, the compli
nature of the licensing system is a significant non-tariff barrier to imports.

Indonesian companies control imports and exports as well as the wholesale and retail distribution of goods in the do
market. Despite an agreement with the IMF, an Indonesian agent or distributor must be employed for wholesale distri
in Indonesia if the foreign firm does not produce locally. Until the full implementation of the opening of the distri
sector, all retail distribution and sales must be handled by Indonesian firms or individuals. Moreover, the major isla
Indonesia are distinct marketing areas with ethnic differences and varying degrees of economic development.

The control (import reference) number assigned to the importer when opening a letter of credit must be shown on all r
financial, shipping, and customs documents. The commercial invoice must show the name and the address of the shippe

place and the date of the shipment, the name and the address of the consignee, the number and the type of the package contents and the weight of each package, and the tariff number.

The prices and quality on the invoice should be the same as that originally quoted. Invoices covering shipments under a of credit should show the date and number of the letter of credit and the import control number. For regular shipm three copies of a commercial invoice are required, with two copies of the invoice required on air cargo shipments.

A certificate of origin is required for only a few types of imports involving drugs and narcotics. Special sanitation, fumig and other similar certificates are necessary for the import of restricted goods.

Historically, all Indonesian government imports and exports have been required to be transported on Indonesian vessels.

In 1995, the Association of Indonesian Importers complained about bribery and extortion committed by port and cu officials. The Association has been vocal in claiming that the pre-shipment inspection system operated by SGS systematically verified by customs officials. The practice by the latter to issue "intelligence notes", which suggest wrong in a particular shipment and require physical examination by customs authorities, result in bribes being paid in order to unnecessary delays.

Local customs authorities are solely responsible for the customs clearance of all imports into Indonesia. This has r concern that there would be a slow-down in imports, and a return to the corruption of the pre-1985 era.

The average time taken for the clearance of a container increased from a previous level of about seven days to 12 to 14 In addition, importers are facing increased paperwork, a high incidence of physical inspection and a perceptible demar unofficial fees.

Industry also reported that the proportion of underground imports (which essentially use the same channels, but avoid through the normal customs process altogether) has increased sharply, with fixed rates (on a weight-basis) evolvir different kinds of imports. Machinery, spare parts, consumer goods and urgent shipments are increasingly pushed int channel, as it reportedly works out both cheaper and faster than the official import route.

The new system has also seriously aggravated port congestion and delays in most Indonesian ports, as the increased st space requirements (resulting from a doubling of transit times) cannot be provided by the already strained facilities charges have gone up, as storage has to be paid for and the additional handling and general congestion exert addi pressure on the port authorities.

European exporters reported that they had encountered harassment and complications when importing spare parts, espe in the case of machinery. According to these reports, delays and difficulties with customs procedures are indirectly det customers from buying foreign equipment.

All six IT (approved importers) licence holders, covering inter alia agricultural commodities, alcoholic beverages, fertil hand tools, some engines, certain propylene and copolymers, are state-trading entities. AT licences (exclusive agents extended to national distributors appointed by the Government, and currently apply, in combination with IT licenc imports of motor vehicles not produced in Indonesia. Moreover, exclusive importation rights are given to several other S trading entities over major agricultural commodities, oil and petroleum products and explosives.

Indonesia is not a party to the plurilateral Government Procurement Agreement in the WTO.

If government procurement contracts are awarded to foreign bidders they are encouraged to use domestic pro Contracts for more than 500 million rupiahs (about ECU 170,000) must be offered for public tender, but foreign supplie considered only if they agree to compensation-trading (offset) arrangements requiring them to a purchase non-petr products from Indonesia to an amount equal to the value of the contract. Much Indonesian government procurem financed through foreign donor assistance, and donors impose their own procurement requirements.

The Government enacted a new procurement law in 1994, but so-called "economically weaker" local firms and domestic continue to be given preference. Contracts of up to 50 million rupiahs are reserved exclusively for "weaker" local firms, on contracts of between 50 and 100 million rupiahs, a 10% preferential price margin is granted.

Since 1990, the Government has taken steps to streamline and rationalise its procurement procedures in an attem

shorten the delays associated with government contracts. Efforts have been directed at developing written guidelines or
things as the minimum number of bidders needed and the evaluation criteria. However, implementation of these guideline
procedures may be somewhat uneven. Major delays in procurement on large projects, often exceeding two years
apparently still common. Delays are longer when international bidding is allowed.

Procurement by government agencies and public enterprises (PEs) remains largely non-transparent. The bidding proce
remain weak, and many contracts appear to be awarded other than on an "arm's length" basis, and for non-commercial rea

General export support is available to Indonesian exporters in the form of concessional financing and of refunds of VA
for inputs (and customs duty paid for imported inputs) upon exporting of goods produced in Indonesia. Also, exemption of
on capital goods and inputs for export production can be granted both for new projects and for existing companies.

In practice, it is widely reported that net tax refunds (as opposed to tax exemptions) are difficult to obtain from Indon
tax authorities and take some time to process (which exerts a burden on exporters, as interest levels for working c
ranged from 25 % to 35 % in recent years).

More focussed export support (such as subsidies for fair participation, marketing expenditure, etc.) is extended to c
priority sectors, which include some engineering goods such as automotive components and plastics processing. However,
activities are generally viewed as not very efficient and benefiting only a few selected companies with good connections
involved GoI agencies and not the whole target sectors. Moreover, as few Indonesian companies are effectively ab
compete on world markets in the areas of machinery and capital goods, the threat to EU businesses from these e
support measures is very limited, if at all perceptible.

Direct subsidies to businesses or products are only applicable to the "strategic industries" under the umbrella o
Technology Ministry. The forced build-up of these enterprises (in many cases against all commercial logic and at conside
cost to the Indonesian public) has provided EU businesses with direct supplies and co-operation projects.

However, market distortions have emerged from these subsidies which in the medium- or long-term could damage the bus
prospects of foreign suppliers both in Indonesia and within the ASEAN region. In particular, this applies to the are
aircraft, telecommunication equipment and shipbuilding.

The GoI has - with the assistance of several foreign collaborators - built up a large manufacturing capacity in this are
has begun to export equipment such as telecom switchgear and installation material. The export thrust for these produ
clearly undertaken on the basis of a protected domestic market and by PSUs which are not operating under the constrai
private sector business principles.

These financing schemes will almost certainly be tantamount to tax financing and/or public subsidy, as it cannot be exp
that subscribers to the scheme will ever receive profits for or even repayment of their "loans", and will certai
prevented from the exercising of their shareholders' rights.

Aircraft

Indonesia operates a full-fledged aircraft production facility in Bandung (known under its acronym IPTN) and has al
developed a turboprop aircraft of the Fokker-50 class. The development of a 125 seat regional jetliner has been
consideration for some time. These ventures are the projects of both the former President and Technology Minister,
Habibie, and are widely regarded as commercially unviable and over-ambitious on the technical level. IPTN does not p
financial information nor are details about the financing of the ongoing projects disclosed. Estimates of the total expend
so far incurred range from one to several billion US$, but these figures are informed rumours at best and cannot be ve
to any degree. However, it is widely known, and was not denied by the GoI, that several hundred million US$ of govern
funds have been used for the project, without legal basis and with no information available as to the repayment of
funds.

The IMF rescue package stipulates in detail that all subsidies to IPTN are to be discontinued immediately and that no b
or extra-budgetary funds must be made available in the future. This has been complied with so far, but the GoI has m
known that it is reviewing the financing of the project. A senior cabinet minister has been assigned the task of as
alternative financing for IPTN in order to continue with the jetliner project.

Shipbuilding

A government-owned shipyard, PT Pal, undertakes the construction of small and medium-sized freighters and pass vessels. For decades, PT Pal has received large subsidies in a protected domestic market and is slowly becoming competit the international market. However, restrictions on the import of vessels into Indonesia have been lifted recently pressure from the IMF, which may affect this venture.

The IMF agreement of April 1998 calls for the privatisation of all those PSUs which operate in competitive markets minimum" for the mid-term divestiture of public assets, and requires the privatisation of 15 enterprises within the nex years.

Agriculture and Fisheries

Sanitary and phytosanitary measures

040074-*Indonesia- Live ruminants, their products and derivates* [2004-09-21]

Import ban on Live ruminants, their products and derivates (including bovine semen and embryos and exclu milk) due to BSE;

- General statement on BSE to all Third Countries at the SPS Committee on 17/03/2004 in reaction or statement of the USA.
  Bilateral meeting with EU (DG TRADE-DG SANCO) with the Indonesian authorities during the XXXth Committee in Geneva (June 2004). The Commission is offensive specially with bovine semen and embryos. According to information provided during this meeting, it is unlikely that Indonesia will open market to USA or Canadian beef.
  Letter sent to the Indonesian authorities by DG TRADE (G.2) via the EU Delegation in Jakarta (July 2 to reconsider the EU ban.
  In reply, dated August 2004, Indonesia confirms its present iport restrictions for the import of ruminar ruminant products. Concerning embryos and semen it is reviewing the exhisting legislation and amer decree of Minister of Agriculture to comply with the OIE Standard.

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INVESTMENT RELATED BARRIERS

The government's new policy, initiated in the automotive industry in 1993, is to replace deletion programmes with content plans which make tariff preferences on importation of parts and components dependent on local content. This sy continues to offer a high degree of protection to domestic suppliers of parts and components, because it gives Indo producers an incentive to procure supplies in the country. Under the IMF package, Indonesia had to abolish local co regulations on dairy products in February 1998.

Capital and profit repatriation has been permitted, since the semi-liberalisation of capital transactions made effective in in the wake of investment deregulation.

Since the mid-1960s, Indonesia has gradually liberalised its rules on direct foreign investment. The number of industr the negative list (in which foreign investment is either restricted or prohibited) has fallen since it was first adopted in Furthermore, many of the listed industries are now deregulated. Permits to invest in those industries, however, are subj burdensome requirements.

For example, private-sector investment, including foreign investment, is not allowed in the manufacture of light and m trucks, pick-ups, minibuses, jeeps, saloon cars and station wagons, unless the new manufacturers apply the same local-co schemes as established enterprises.

Restrictions on companies to build up their own distribution network severely impairs effective marketing efforts in areas.

Direct foreign investment projects, with the exception of those intended for the supply of public-utility equipment under Regulation No 20 of 19 May 1994, be carried out on a joint-venture basis. The 1994 deregulation package o several sectors to foreign investment, such as harbours, power generation, telecommunications, shipping, airlines, rai roads and water supply. Joint ventures with at least 5% Indonesian investment are still required in these sectors. All foreign direct investment projects may now be made either through joint ventures (subject to a minimum Indo participation of 5%) or as entirely foreign-owned businesses. Presidential Decree No 31 of 23 May 1995 reintroduced so

the controls which had been eased in the May 1994 package.

Despite reforms, however, national treatment is still generally not granted to majority foreign-held enterprises, an government imposes performance requirements on some foreign producers.

In general, foreign capital investment is primarily governed by the foreign capital investment law, as well as by decrees Capital Investment Co-ordinating Board (BKPM) and other relevant agencies must approve all proposed foreign manufac investments in Indonesia. The Indonesian President must personally approve every individual foreign investment proje practice, this means that investment applications, even in meeting all legal requirements, can be delayed or not approved little or no explanation.

Investment in power and infrastructure projects (together with air transport, shipping and some other areas) is permitted with a minimum of 5 % local participation.

Due to the impact of the Asian crisis, Indonesia has revised its investment regime considerably. The 49% limit on fo investment in listed companies has been removed in September 1997, except for banks. Restrictions on foreign investm retail and wholesale trade have been lifted in March and April 1998, but they are not yet fully applied.

Foreign investment by sector between 1967 and 1994 (as a percentage of total foreign investment, US$85.3 billion):

chemical industry US$19.4 billion (22.7%);
metal goods industry US$7.7 billion (9%);
metal industry US$4.8 billion (5.6%);
transportation US$1.5 billion (1.8%);
construction US$0.8 billion (0.9%); and
pharmaceutical industry US$.03 billion (0.3%).

In 1999, the biggest investors were Saudi Arabia ($3 billion), Australia ($2.5 billion), Taiwan and Singapore ($1.5 billio $700 million), and Japan with $600 million. Realised foreign investment rose from $5.77 billion in 1998 up to $7.64 bil 1999.

Indonesia agreed with the IMF to implement legislation on fair competition and monopolies and in February 1999 parliament passed a new law aimed at breaking up monopolies, cartels and other restrictive competition practices. Indon first anti-monopoly law, which must be ratified by the President before it comes into force, will regulate merger acquisitions and limit the amount of market share one company can maintain. The new law prohibits one company from h more than 50% of national market share and two or three companies from holding 75% of the market between Moreover, a majority shareholder in a company is prohibited from holding shares in other companies active in the business if that would result in a combined market share of 50%. State-owned companies are exempt from this law. The forced Indonesia to dismantle cartels in the paper, cement, plywood industries and the import of basic foods. The govern will set up an independent anti-monopoly commission to supervise the law.

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