

BSD Bulletin

Indonesia Trade & Investment News 01/10

Indonesia and the Region

ASEAN Six – 99.11% of tariff lines to zero

Starting on January 1, 2010, the ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand) can import and export almost all goods across their borders at no tariff.

An additional 7,881 tariff lines will come down to zero tariffs, bringing the total tariff lines traded under the Common Effective Preferential Tariffs for ASEAN Free Trade Area (CEPT-AFTA) to 54,457 or 99.11%.

Additionally, with the reduction, the average tariff rate for these countries is expected to further decrease from 0.79% in 2009 to just 0.05% in 2010. In 2008, intra-ASEAN import value of commodities for these 7,881 tariff lines amounted to US\$ 22.66 billion, or 11.84% of ASEAN-6 import value within ASEAN.

The tariff lines include final consumer products as well as intermediate materials. The elimination of tariffs by ASEAN-6 underscores ASEAN's commitment to dismantle tariffs and keep intra-ASEAN trade open. It will also serve as a catalyst for the development of the single market and production base projected by the ASEAN Economic Community (AEC) Blueprint.

The actual impact and how much this final installment will be translated into savings for consumers will depend on the market dynamics of the respective ASEAN-6 countries. The Secretary-General of ASEAN, Dr Surin Pitsuwan, said that "we sincerely hope that all parties will act to ensure that the man on the street will benefit from these reductions in tariffs."

As for the business community, especially the downstream producers, Dr Surin said that they also stand to gain. "Lower cost of inputs will allow the business community a wider choice of goods, and in the process, they will move towards becoming more competitive globally, as envisaged in the AEC Blueprint," he added.

The CEPT-AFTA covers the whole range of products traded by the ASEAN Member States and provides for the gradual reduction in tariffs of these products, which has been ongoing since 1993. Under the CEPT-AFTA schedule for tariff reduction, each ASEAN Member State is allowed to place their products in the normal track, where the commitment is for the tariffs to be reduced to zero by 2010 for ASEAN-6 and 2015 for the remaining four countries, namely Cambodia, Lao PDR, Myanmar and Viet Nam. In 2010, these countries will also see tariff reductions under the CEPT-AFTA commitments to 5%, where the average tariff rate will decrease from 3% in 2009 to 2.61%.

Under the CEPT-AFTA, agricultural products such as tobacco, coffee, live animals and animal products, which come under the Sensitive List (SL), will have their tariffs reduced to 5% on 2010 and to zero tariff by 2015. The Highly Sensitive List (HSL), comprising rice, will have their tariffs capped on a specified date. As for the General Exclusion List (GEL), the tariffs will remain based on factors such as national security and morals/health/aesthetic/archaeological grounds (e.g.: weapons and opium). As of today, 487 tariff lines or 0.89% of tariff lines for ASEAN-6 still remain in the SL, HSL and GEL categories.

Besides tariff liberalisation, ASEAN is also embarking on parallel initiatives in trade facilitation to complement tariff reduction. ASEAN is also actively working on formulating streamlined and simplified customs procedures for clearance of goods, eliminating non-tariff measures, developing the ASEAN Single Window and the ASEAN Trade Repository, improving investment protection, providing for dispute settlement and better Intellectual Property Rights regime and removing the obstacles hindering the movement of professional and skilled workers.

(ASEAN Secretariat)



KADIN Business Support Desk

Indonesian Chamber of Commerce and Industry

News from the Provinces

MRT's land acquisition set to finish in 2010

The administration of Jakarta DKI plans to accomplish land procurement for the Mass Rapid Transit (MRT) program this year. So far, 14 plots of land worth Rp 5.8 billion (US\$610,526) in Lebak Bulus, South Jakarta, have been purchased.

The total budget for land procurement is set to reach Rp 90 billion for 2 hectares of land.

The new public transportation network will have a 14.3 kilometer route linking Lebak Bulus in South Jakarta to Dukuh Atas. It is expected to have a capacity of 340,000 passengers a day and take 28 minutes to travel from Lebak Bulus to Dukuh Atas, with an estimated headway of 4.5 minutes at each stop.

The MRT is one mode of transportation stated in the Macro Transportation Plan, which is the blueprint of the city's transportation system.

The blueprint also integrates bus rapid transit (also known as the busway) and a monorail sub-system to complement the MRT.

(The Jakarta Post, 2nd of January 2010)

Industry News

Indonesia's first private railway project ready for construction

A group of investors will soon begin building the first ever private railway in Indonesia, worth US\$1 billion, as a key part of the planned development of a massive \$5 billion integrated industrial facility in East Kalimantan.

MEC Coal and MEC Infra, two joint ventures of MEC Holdings and Ras Al Khaimah Investment Authority, will develop a 130-kilometer railway line to facilitate the transport of raw materials and finished products in and out of East Kutai regency in East Kalimantan.

Under the project agreement, MEC Infra will invest up to \$1 billion in constructing the railway line linking the mine site at Muara Wahau to Bengalon on the coast.

MEC's mine and railway are central to the development of a complex of integrated industrial facilities. These will include a power plant fuelled by coal from MEC Coal, an aluminum smelter, a fertilizer plant and a high-capacity port terminal

The statement coincides with the plans of MEC and Nalco — an Indian government entity — to invest \$2 billion for an aluminum smelter capable of producing 500,000 tons of aluminum a year, with another \$2 billion for the construction of a 1,250-megawatt captive power plant and other facilities. Both are scheduled for completion by 2013.

Over the next five years, the project is expected to create 5,000 new jobs in the province.

MEC's Koneru said the project would help "transform East Kalimantan into a model for the future of Indonesia by providing a strong platform for growth, helping Indonesia to attract further investments".

(The Jakarta Post, 16th of December 2009)

Government to tap retail investors with Rp 3t Islamic Bond issue

Indonesia plans to sell Rp 3 trillion (\$315 million) of Islamic bonds to retail investors in January and February, said Rahmat Waluyanto, director general of the Ministry of Finance's debt management office. The notes will be on offer from Jan. 25 to Feb. 5 and will mature on Feb. 10, 2013, Waluyanto said.

Southeast Asia's largest economy is selling bonds next year to help finance the 2010 budget deficit that (following government forecasts) will reach Rp 98 trillion, equivalent to 1.6 percent of gross domestic product.

Indonesia is tapping individuals to reduce its dependence on overseas debt sales. Retail bonds are usually offered in small amounts to make them affordable to the public.

(Bloomberg/The Jakarta Globe, 22nd of December 2009)

Reform and Policy Update**Indonesia seeks to modify some tariff lines in ASEAN China FTA**

Indonesia is seeking to modify the implementation of the ASEAN-China Free Trade Agreement by renegotiating 228 tariff categories in eight industrial sectors, according to the Coordinating Minister for the Economy, Mr Hatta Rajasa.

"We have sent notification for a renegotiation with ASEAN and China regarding the agreement because it has a potential to weaken local industries," the Minister said.

The government is seeking to delay the implementation of tariff cuts on 228 categories of products to give local industries a chance to become more competitive to withstand the onslaught of cheap Chinese imports. In return, it is offering to accelerate the implementation of tariff cuts on 153 tariff categories. The trade deal took effect on 1st of January 2010.

Hatta said the government was also planning to form a team made up of representatives from relevant ministries and the private sector to monitor and accelerate the competitiveness of local industries. The team's role would be to protect the domestic market from illegal goods, promote local products, and prevent unfair trade practices, he said.

Industry Minister MS Hidayat said it was important to compensate the other parties to the agreement, which was why the government was offering to accelerate tariff reductions in some categories. He said he was optimistic that the renegotiation efforts would result in a win-win solution for all parties.

Under the free-trade agreement, tariff reductions on categories included in track I were to be implemented from January 1. Track II categories were to see tariffs reduced from 2012, while categories on the sensitive list would not face tariff cuts until 2018. Categories on the highly sensitive list would not see cuts until 2020.

Hatta said the government was proposing to shift certain tariff categories from track I to track II, and to shift some more categories from track I to the sensitive list. In return, the government is offering certain categories to enter the FTA sooner than planned.

The ASEAN-China Free Trade Agreement expands a limited agreement that came into force in 2005. Since 2000, ASEAN's trade deficit with China has increased by more than five times, to \$21.6 billion, stoking fears that many local industries will be badly hurt by the agreement. (Jakarta Globe, 4th of January 2010)

Denmark gives \$10m grant for good governance in RI

Royal Danish Ambassador to Indonesia Borge Petersen announced in December a US\$10 million Danish government grant for good governance programs in Indonesia.

During a ceremony held Tuesday at his residence in Jakarta, ambassador Petersen signed separate agreements with representatives from Transparency International Indonesia (TII), the Asia Foundation and the Kemitraan (Partnership for Governance Reform).

Money from this grant will also go to Semarang-based Jakarta Center for Law Enforcement Cooperation, an agency devoted to improving professional standards of law enforcement agencies in combating transnational crimes.

With the Danish government's assistance, the TII will implement a project to improve good governance and reduce corruption.

The Asia Foundation country representative Robin Bush signed the agreement on behalf of her organization. Bush's organization will launch a new project, which will work with religious and other community leaders, the police, civil servants and religious courts to promote human rights and civic values. Meanwhile, Kemitraan will focus on a five-year program on leveraging and educating on accountable democracy.

These programs, Petersen said, would be implemented from 2010 to 2013.

This \$10 million grant is part of the Danish development assistance program. According to Petersen, Denmark every year allocates 0.82 percent of its GDP, above the UN target of 0.7 percent. (The Jakarta Post, 16th of December 2009)

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Ports ready to operate 24/7 by January 2010: Officials

The government plans to start running Indonesia's ports around-the-clock by early January to speed up customs clearance and reduce logistics costs, officials said in late December 2009.

"All ports will operate 24 hours, starting from Tanjung Priok Port [in Jakarta]," said Edy Putra Irawadi, deputy in charge of industry and trade to the coordinating economic minister, and chairman of the preparation team for the National Single Window (NSW).

The NSW is an integrated public service system to give importers and exporters simpler access to services. Launched in December 2007, the NSW is designed to shorten the time needed to verify the identity of importers to a maximum of seven-and-a-half hours, or one working day.

The NSW has now been implemented at Tanjung Priok Port, Tanjung Perak Port in East Java, Tanjung Emas Port in West Java, Belawan Port in North Sumatra and Soekarno-Hatta International Airport in Banten.

Coordinating Economic Minister Hatta Radjasa said in mid-December that the fifth phase of the NSW would be launched in January 2010 to ensure the management of all imports and exports was integrated in one portal.

(The Jakarta Post, 16th of December 2009)

Fight Over Bank Century Worrying Indonesia's Investors

Stock markets could tumble and foreign investors look elsewhere if the Bank Century bailout saga ends with the removal of the nation's two key economic policy makers, Finance Minister Sri Mulyani Indrawati and Vice President Boediono, analysts said mid-December. "Investors have been extra careful about investing in stocks recently," so Budi Ruseno, an analyst at PT HD Capital. "Some investors have adopted a wait-and-see stance until questions about the bailout are resolved," Budi said. In recent weeks analysts have predicted the imminent demise of Boediono, who was central bank governor at the time of the Bank Century bailout in November 2008, and Sri Mulyani, who backed the decision to save the troubled lender.

News from BSD



Recent Activities

Two 'BSD Business Briefings' at one day: On December 7 BKPM (Investment Coordinating Board) and Indonesia Eximbank presented its agendas to Kadin members and the foreign business community. The institutions were represented by Gita Wirjawan (BKPM) and Mahendra Siregar (Eximbank) who just recently has been appointed as Deputy Minister for Trade. The remarkable attendance at both events indicates the importance of both institutions for future dialogue activities.

New Investment Board Chairman wants close cooperation with Kadin

The Chairman of the Indonesian Investment Coordinating Board (BKPM), Pak Gita Wirjawan, has committed to working closely with Kadin Indonesia to improve the investment climate in Indonesia over the next five years. He has asked Kadin for a position paper to lay out some of the priorities of local and foreign investors and has suggested regular consultation with Kadin.

Mr Wirjawan was speaking in December on his first visit to Kadin as the new Chairman of BKPM at a Kadin BSD Business Briefing attended by more than 100 Kadin members and representatives Industry Association and foreign chambers.

Mr Wirjawan said that he was seeking very practical measures that would make a difference for investors early in the Government's term.

He identified implementation of the new One Door Service (PTSP) for investors, established under a Presidential Decree in September 2009, as the one of his first priorities. He said that he was already in discussion with the various departments and agencies to bring requirements for investors into the PTSP system and he was confident that to PTSP would soon be operational.

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1000 Indonesian Reliable Exporters

The Indonesia Eximbank has issued a list of 1,000 Indonesian Reliable Exporters who are leading the country's export drive. This is one of the products presented by Pak Mahendra Siregar, then CEO of Eximbank during his presentation made in front of more than 60 representatives of the Indonesian and international business community in Kadin premises.

The top five exporters on the list are Lontar Papyrus Pulp and Paper Industry (pulp mills), Harma Presis Meka Indonesia (crushing, pulverizing, and screening equipment), Indra Eramulti Logam Industri (lead and lead alloy bars, pipe, plates, shapes), Intan Pertiwi Industri (welding electrodes), Indo Cafco (coffee, cotton and chocolate).

Most of the firms are from the manufacturing sector and nearly 90 percent are located in Java. However, more than 80 are located in Sumatra.

Two hundred of the firms in the list smaller and medium sized firms employing up to 100 people, while one third of the firms employ between 1,000 and 65,000 people.

These top 1,000 exporters form part of the Kadin BSD contact database which is used by the BSD to assist foreign firms wishing to source their imports from Indonesia.

Socialisation activities

KADIN BSD presented itself in December among others at the Banten Investment Forum (Jakarta) and the nation-wide gathering of the German Development Cooperation Agencies (right side).

The socialization program will be continued as central part of the agenda for 2010. One major project is a Roadshow on trade and investment issues through selected Kadin regions, starting in February.



Events

| Date | Event | More information |
|-----------------------------------|---|------------------------------|
| January 14, 2010 | "Growth and Efficiency in the Indonesian Services Sector", Hosted by the World Bank, Centre for Strategic and International Studies, and KADIN Indonesia | Fitri fitri@bsd-kadin.org |
| January 28 to January 31, 2010 | Exhibition "Feed the World" | www.debindo.com |

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About KADIN BSD

KADIN Business Support Desk is the service unit of the national Indonesian Chamber of Commerce and Industry (KADIN). It is headed and led by KADIN's Standing Committee on Investment. Its major goal is to help foreign parties to settle in Indonesia and to support Indonesian companies on their way to international markets.

BSD also works as research partner on emerging issues in investment and trade. It is part of a network of Indonesian and international institutions.