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Facilitating Economy Recovery Post-Covid 19

6 May 2020



eurochamindonesia

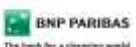


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EuroCham Indonesia

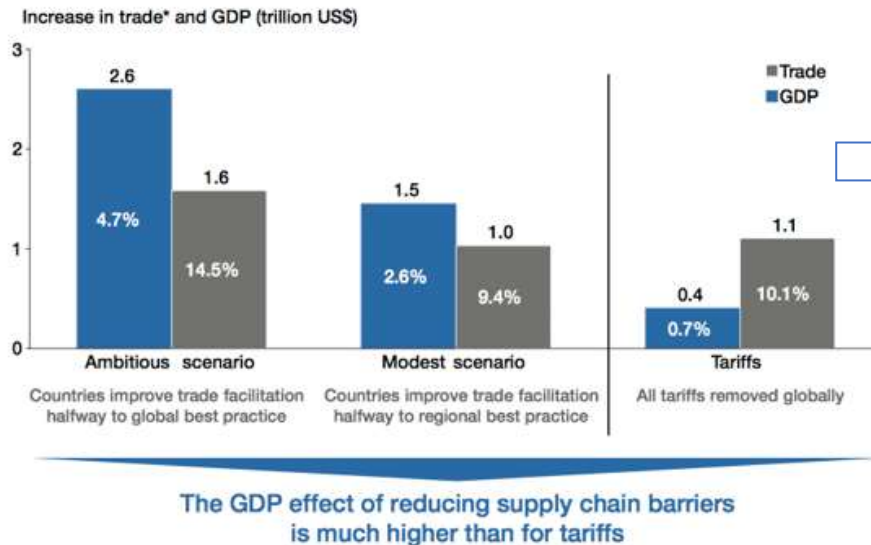
Platinum Members:



Observations - Why simplification is important in normal conditions

Important role of trade facilitation and simplification of import procedures

Figure 1. Estimation of Benefits of Trade Facilitation



Improvement in border administration and transport and communications infrastructure would lead to an **increase** of approximately USD 2.6 trillion (4.7%) in **global GDP** and USD 1.6 trillion (14.5%) in **global exports**. Compare with complete worldwide tariff elimination amount to only USD 400 billion (0.7%) in global GDP and USD 1.1 trillion (10.1%) in global exports.

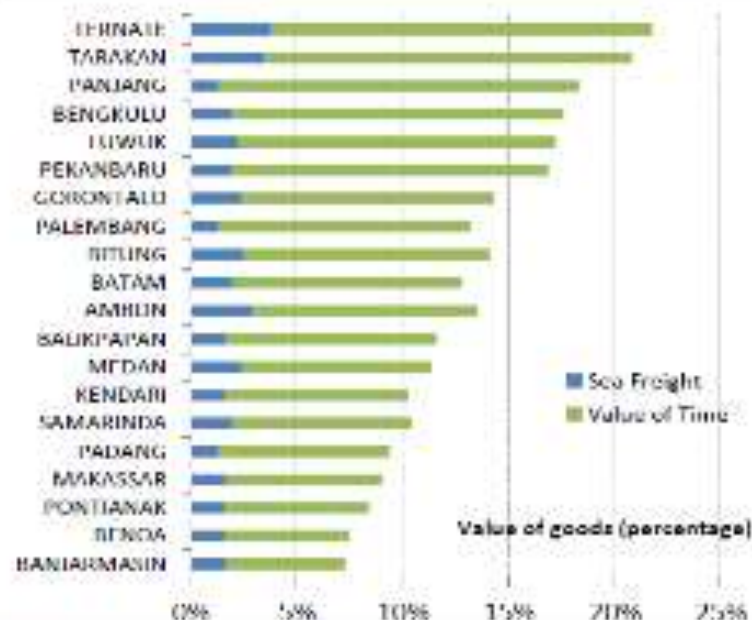


Customs requirements, **lengthy administrative procedures** can **increase costs** by 2 - 24 % of the value of traded goods

Facilitating trade has a huge positive economic impact - Customs play a key role

Source: 1) WEF: Enabling Trade: Valuing Growth Opportunities ; 2) OECD Trade Policy Paper No. 150: "Trade Costs – What have we learned? A Synthesis Report

Figure 10. Sea freight cost vs. value of shipped from the two hubs in Java (Jakarta and Surabaya)

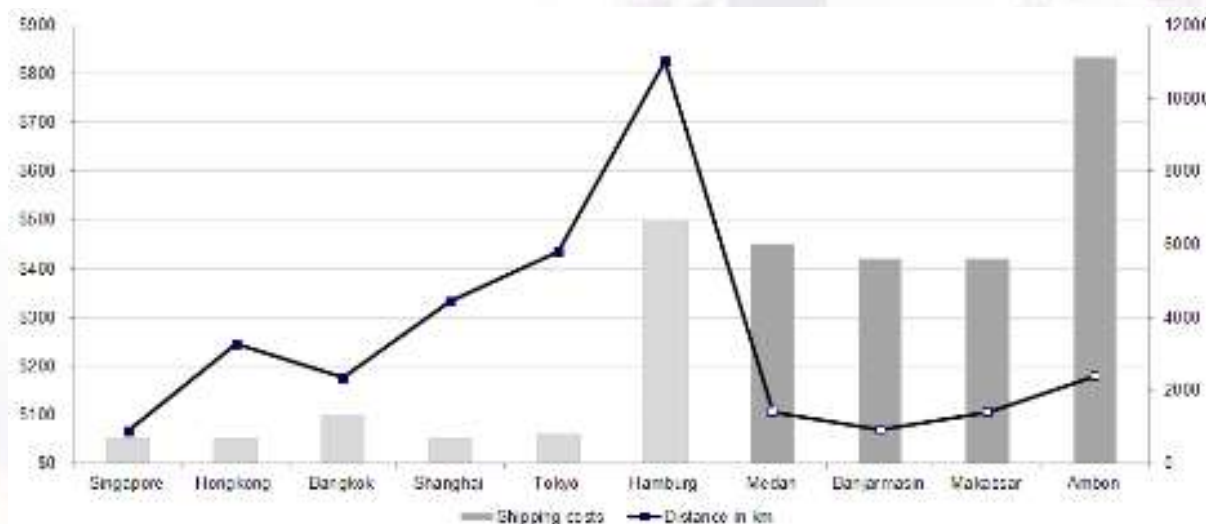


Source: World Bank staff estimates, 2014.

Especially Important in Indonesia's Context:

World Bank: Domestic Transportation cost is 7% to 23% of the total Sales Value!

“It is cheaper to ship goods from Jakarta to Hamburg than to Ambon” – World Bank



Note: the distances are displaying the direct distance and not the shipping routes. Therefore they only serve as a general orientation.

Indonesia's Context: Import Procedures

Basic licenses and requirements to import:

- Register with Indonesia's trade ministry (TDP)
- Obtain a customs identification number (NIK)
- Importers must obtain an Importer Identification Number (API) or NIB in case of OSS. These serves as a record in the database of importers and their import activities. All import activities are prohibited without the API or NIB.

Type of licenses:

- API-U (General Import License) for traders;
- API-P (Producer Import License) for producers; and
- **A Limited Import License, also known as API Terbatas (API-T). These licenses** are limited to a particular industry and do not permit the importation of goods not related to that sector of business

Required Supporting Documents:

- Commercial invoice, signed by the manufacturer or supplier as true and correct;
- Bill of lading, in three endorsed originals and four non-negotiable copies;
- Certificate of insurance;
- Packing list;
- **Import approval**; and
- Customs import declaration.

Notes: These licenses, recommendations, and supporting documents should be arranged in sequential manners to import products that are restricted or prohibited

Complexity of Import Supervision Policy



Different regulations & requirements apply for each products to get an Import Approval

Source: Ministry of Trade (note the list of products under restrictions or bans are regularly changed from times to times)

Notes:

- The Complexity is burdensome for companies & could prevent essential procurements
- Appreciation to Government for relaxing requirements to import essential goods such as Mask and PPE to fight Covid-19 Pandemic

STUDY ON THE EU – INDONESIA ECONOMIC RELATIONS

INDONESIA - EUROPEAN UNION TRADE

IMPORT AS BACKBONE OF EXPORT

Imports from the European Union are needed to support exports. A study by Eurocham and INDEF states that most businesspeople import production supporting goods that are not available in Indonesia. Despite this, several aspects of applying for permits remain an obstacle.



EUROPEAN UNION BUSINESSPEOPLE IN INDONESIA NEED IMPORTS

Machine for production

Better quality goods

Raw materials for production

Products that are not available in Indonesia

EXPECTATIONS TOWARD THE GOVERNMENT



Law enforcement



Consistency of policies



Availability of information



Simplification of bureaucracy



Transparency of process and costs



Implementation of regulations

Source: Eurocham, INDEF

EUROPEAN UNION

INDONESIA

RAW MATERIALS

WORK IN PROGRESS

EXPORT - IMPORT ARE INTERRELATED

PRODUCTION EQUIPMENT

APPLYING FOR PERMITS MAIN OBSTACLE TO IMPORT

Import tax 3%

Infrastructure 6%

Non-tariff barriers 21%



Permits for import and customs 70%

STUDY ON THE EU – INDONESIA ECONOMIC RELATIONS

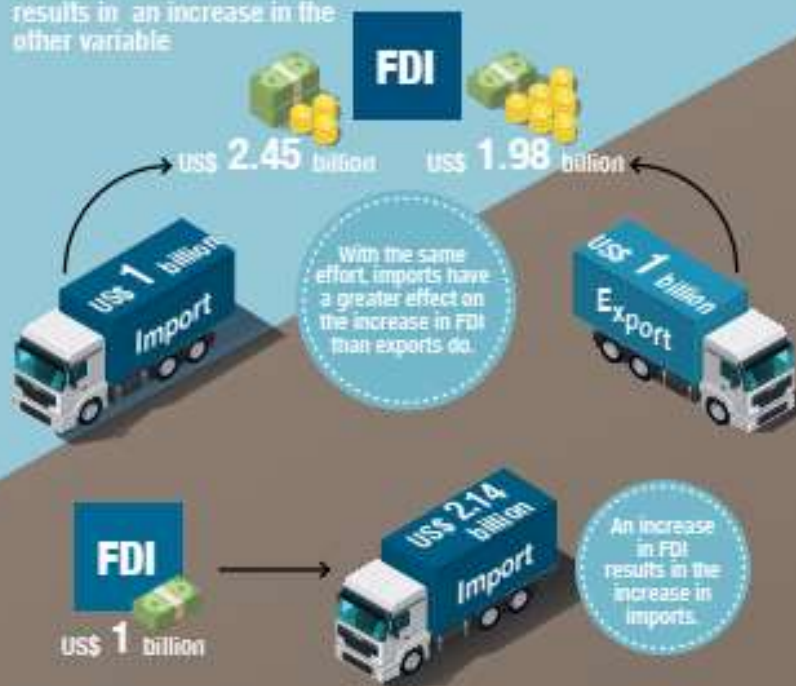
EXPORT-IMPORT

CATALYST OF THE EU'S INVESTMENT IN INDONESIA

Export and import affect the European Union's foreign direct investment (FDI) in Indonesia. The study by Eurocham and INDEF states that increases in exports and imports will drive increases in FDI.

CAUSALITY OF EXPORT, IMPORT, AND INVESTMENT

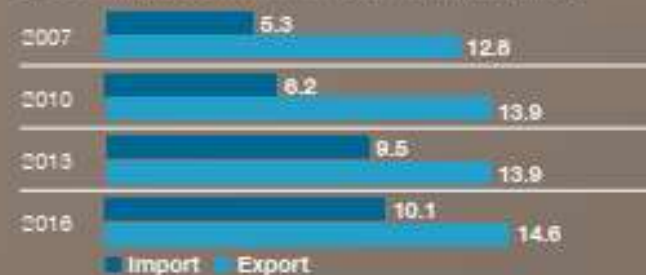
An increase in one variable results in an increase in the other variable



TRADE INCREASES

Indonesia has been experiencing trade surplus from EU

Export & Import of Indonesia-European Union (€ billion)



INVESTMENT COMMITMENT INCREASES

The European Union's Investment Commitment in Indonesia (US\$ billion)



Source: Eurocham, INDEF

Covid-19 Measures

Covid-19 Controls

- Implementation of Large-Scale Social Restrictions in impacted regions (shutting down offices, factories and limit movement of people. Essential industries and cargo movement are generally exempted).
- Temporary ban of domestic air travels for passengers to and from affected regions (cargo are still allowed but this has squeezed cargo space even further since passenger flights are not available)
- Exempted industries can still operate during the pandemic, and the Ministry of Industry is also granting dispensation license for manufacturers to operate.
- Local government might further regulates the implementation of Large-Scale Social Restrictions – requirements for each region might varied.
- Both local and central government have the authority to conduct inspections on implementation of health protocols in offices and factories

Fiscal and Non-Fiscal Stimulus

- Temporary income tax facilities of art. 21, 22, 25 (from April to Sept 2020),
- Reduction of CIT to 22%, and
- Simplification of import-export requirements (for example to import mask, PPE, and medical equipment)

Impacts and Projections

- Impacted local and global supply chain
- Global and national economy are expected to slowdown
- Increase of unemployment (up to now 2 million workers according to Ministry of Manpower, but KADIN estimate could reach 15 million in reality) - Uncertainty on when companies can resume operations
- IMF lowered Indonesia's GDP growth projection to 0.5 percent from 5.1 percent, Minister of Finance also project significant drop
- EU-Indonesia CEPA round of negotiation is under postponement (initially planned in March 2020)
- How fast of the recovery? – depend on how fast the Covid-19 can be controlled

THANK YOU



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