

A close-up photograph of a watering can's spout pouring a fine mist of water onto a dense cluster of green leaves. The background is a bright, hazy sky with soft clouds. The overall tone is fresh and natural, with a focus on growth and care.

Taking care of the growth, conserving maturity

Not just in the beginning, to grow a tree is a long preservation process that requires full attention at every stage. Paying attention in all aspects of life is the energy that will foster and preserve the life itself at the end.

CHAPTER V

STRENGTHENING EXPORT
AND INVESTMENT AMID
UNEVEN GLOBAL ECONOMIC
RECOVERY



CHAPTER V

Strengthening Export and Investment Amid Uneven Global Economic Recovery



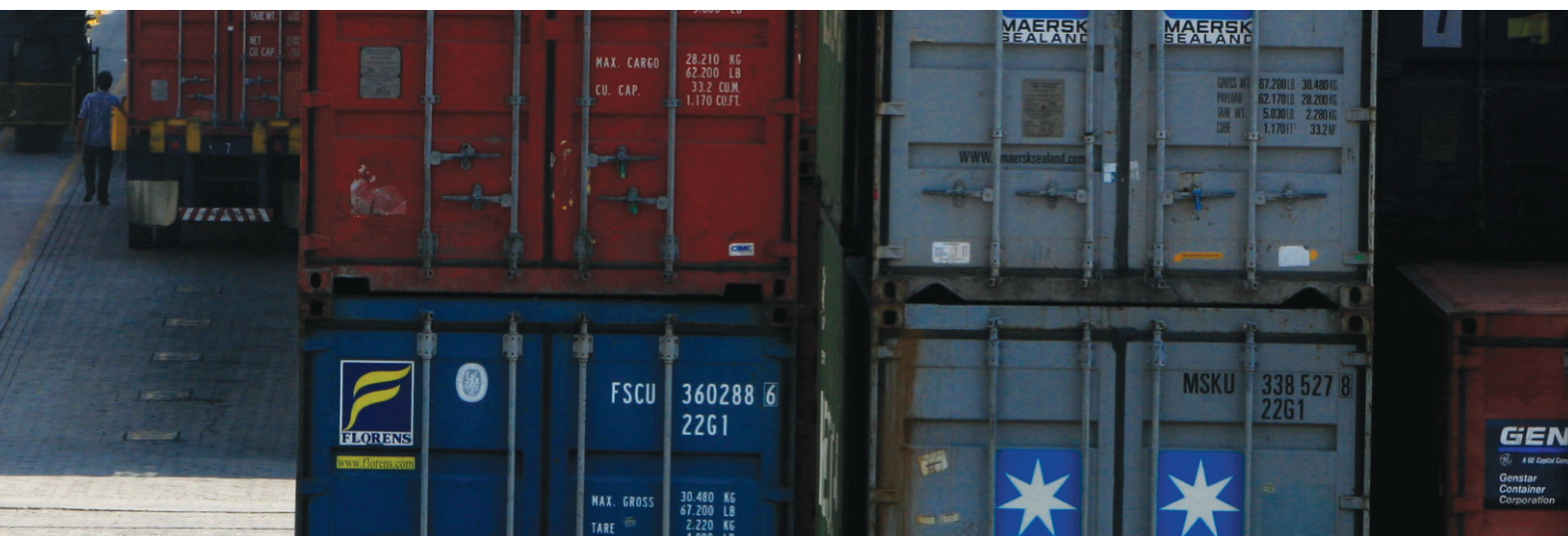
Continuing growth of exports and investment amid uneven global economic recovery has become the major driver of economic growth in 2010. From structural point of view, the role of natural resource-based of exporting commodities was strengthened significantly. These commodities were the major contributor to the 2010 exports growth which was anchored by the rise in demand for and prices of those commodities in international markets. The role of exports to the economy, however, should be improved in many ways, for example by improving the competitiveness, mainly in manufactured export commodities, to support the resilience of Indonesia's balance of payments (IBP). Meanwhile, investment performance in supporting the increasing production capacity is also needed to promote sustainable economic growth without creating inflationary pressures. The role of investment to support the increased competitiveness of manufactured exports is also inevitable, which then requires necessary resolution for some major hindering factors on investment growth.

The improved Indonesia's exports in 2010 was supported mainly by high demand of natural resource-based of exporting commodities and the surge in global commodity prices. Several factors however also supported the increase in exports, such as more diversified of exporting commodities and less dependent to developed countries' markets following the growing role of emerging countries' markets as Indonesia's export destination. Furthermore, the rise in demand for and prices of commodity in 2010 compensated the impact of rupiah appreciation

against exports. However, given that the export structure was more dominated by natural resources based commodities which tend to have a lower value added and also limited in stock to response the increased demand, efforts to support the export will also needed to include the development of high value added yet sustainable products.

The increased of investment in 2010 was in line with the rise of domestic and global economic activities. Buoyant consumption and exports which were dominant during 2010 eventually has encouraged a higher investment growth. The confidence of both domestic and foreign economic players on the Indonesian economy continued to increase and thus encouraged an improvement in investment financing. A robust investment profile was also supported by some improvements in investment-related regulations and international trade. Furthermore, rupiah appreciation also provided some support to investment through increased imports of capital goods. Nonetheless, the increased investment still needs support from investment climate improvement such as infrastructure condition, especially in electricity and roads which are still limited.

The improving Indonesia's economic performance and prospects has encouraged the increased role of foreign direct investment (FDI) in foreign capital inflows into Indonesia in 2010. The increase in FDI and private foreign loans have a direct impact on real sector performance and the increase mainly in nontradable and industrial sectors. Going forward, efforts to attract foreign direct investment should



also be supported by policies which lead to tradable and export oriented sectors. Besides, alternative financing sources other than bank loans and foreign direct investment also need to be developed by exploring financial markets in order to maximize the use of foreign capital inflows.

5.1

Structure of Non Oil and Gas Exports and Its Impact on Non Oil and Gas Export Performance Amid Uneven Global Economic Recovery



Export growth during 2010 was quite high amid the prospective of rupiah appreciation. Real exports growth during 2010 reached 14.9%, second highest in the last decade after 2005's growth which reached 16.6%. The exports increased in 2005 were, among others, supported by the rupiah depreciation (Chart 5.1), while on the contrary, in 2010 rupiah strengthened significantly. The high export growth was mainly supported by stronger global demand, less dependent to certain destination countries, and the rise in global commodity prices.

The increase in exports was underpinned by the rises in global demand, in line with global economic recovery which was mainly stemmed from emerging market countries. Growth in export volume during 2010 was mainly contributed by exports to China, Singapore and India, while the exports volume to traditional major destination countries such as the United States (U.S.) and Japan grew far lower and even exports to Europe has been declined when compared with previous years. This

condition was in line with uneven economic recovery of these countries following the economic crisis in 2008/2009 as indicated by huge difference in terms of economic growth in developing countries which reached around 8% -15%. On the other hand, the economic growth of USA, Europe and Japan only reached around 2% -4% during 2010 (Chart 5.2-5.3).

The increase in exports as steered by the rise in international commodity prices coupled with the rise in demand from trading partners has pushed the exports higher. This condition was supported by some studies indicated that international commodity prices has provided quite an impact on several main exporting commodities, such as primary exporting commodities and some manufacture products with low import content.⁸³

⁸³ Export commodities with high elasticity (> 1) to changes in international prices are aluminium, wood products and metal products. Commodities with medium elasticity (about 0.5) are shrimp, palm oil (CPO), rubber and its products. Changes in



Chart 5.1 Export Growth

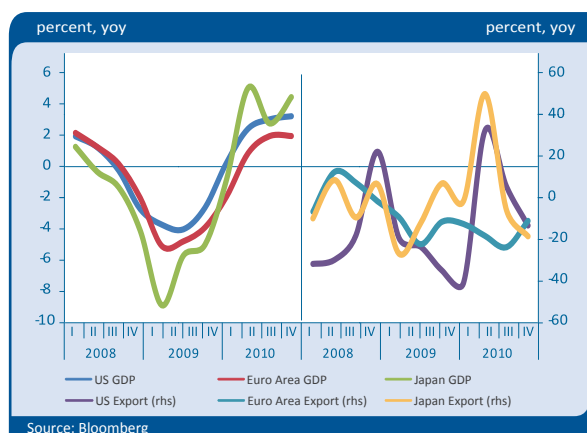


Chart 5.2 GDP and Export Growth to Advanced Countries

During 2010, export commodity prices have increased quite sharply in three groups of non-oil exports, mainly agricultural and industrial commodities.

In line with the demand and price developments, volume of non-oil commodity exports has also increased. The highest non-oil export volume increase was in mining commodities with around 30%, while industrial and agricultural commodities had grown lower with 2% and 13.6% respectively. (Chart 5.4). In exporting commodities, growth mainly occurred in the mining such as nickel, aluminium and coal. Exports in agricultural commodities were tobacco, wood and rubber, and industrial exports in chemical products, electrical equipment, machinery and textiles. With these developments, natural resource-based exports share has increased from 50.3% in 2009 to 52.7% in 2010.⁸⁴

Diversification of export commodities has also contributed to the higher export growth. Based on concentration indicator of Herfindahl-Hirschman Index (HHI), Indonesia's export commodities were quite diversified. Based on this index, Indonesian export products have a low dependence on a particular exporting commodity as indicated by a low of index at 0.16. This condition made exports more resilient to external shock.⁸⁵ Diversification of Indonesian

international prices do not impact significantly on paper, textiles, machinery, coal and copper. Kurniati, et al, 2007, "Main Export and Import Commodities Sensitivity Against International Price and Exchange Rate", Research Note, Bank Indonesia.

⁸⁴ CPO is natural resource based commodities (SITC).

⁸⁵ HHI indicates the level of export concentration at a time. HHI is the sum of the squares of a commodity share of total exports. HHI values within 0 and 1. The higher value indicates a dominant commodity. Kurniati, et al, 2008, "Structure and Productivity Potentials in Promoting Exports and Economic Growth in Indonesia", Research Note, Bank Indonesia.

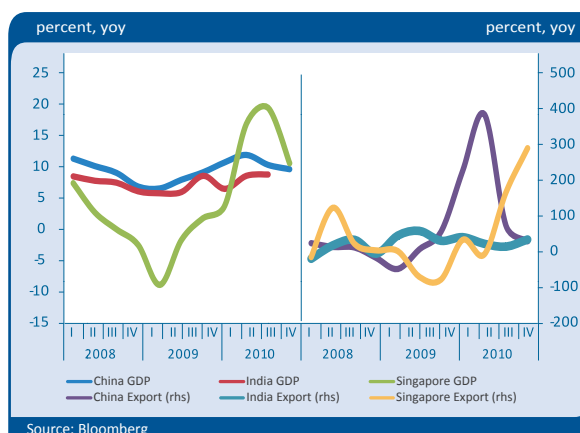


Chart 5.3 GDP and Export Growth to Emerging Markets

export products was also reflected in relatively new export products such as pepper, cassava, copra and other commodities which posted a remarkable value in the last five years. The performance of non-major exporting commodities increased considerably in 2010 which then helped supporting the rises in exports.

Over-reliance to particular export destination countries has also decreased. In the past ten years, market share of main export markets namely USA, Japan and Europe continued to decrease, while the market share of emerging market countries continued to increase. Thus, a moderate economic recovery in developed countries posed less significant impact on Indonesia's export performance. Improved exports to emerging market countries mainly China, India and ASEAN subsequently compensate the decelerating exports to developed countries thus contributing a higher grow in the overall export performance in 2010 (Table 5.1). A more balanced

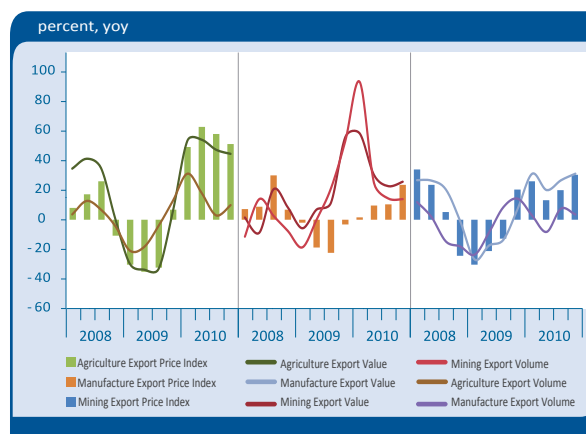


Chart 5.4 Export Growth by Sectors

Table 5.1 The Share of Non-Oil and Gas Export by Country Destinations

Country	2000		2005		2010	
	Millions of USD	Share (%)	Millions of USD	Share (%)	Millions of USD	Share (%)
Total	50,341	100.0	66,752	100.0	129,797	100.0
G3 (US, Japan, Europe)	25,834	51.3	30,032	45.0	47,912	36.9
Africa	1,156	2.3	1,669	2.5	3,432	2.6
ASEAN	10,206	20.3	14,610	21.9	27,619	21.3
India	1,088	2.2	2,898	4.3	9,618	7.4
China	1,828	3.6	4,015	6.0	14,045	10.8
Australia and Oceania	1,080	2.1	1,525	2.3	3,088	2.4
Others	9,149	18.2	12,005	18.0	24,084	18.6

export destination was also supported by a broad-based export destination as indicated by broadening of export destination countries such as to Luxembourg, Estonia, Latvia, Lithuania, Slovakia, Slovenia, Bulgaria and Romania. Exports to these countries grew high enough to support the export increase during 2010.

The increased of exports also came from natural resource-based commodities with quite substantial contribution as indicated by the Revealed Comparative Advantage (RCA) indicator. Based on this indicator, the main export commodities include crude palm oil, tin, rubber and coal (Table 5.2). Increase in demand and better prices in the

international market have pushed the performance of exporting coal, rubber and copper. In addition, the export of manufactured commodities with medium contribution like textiles and related products and paper products have also increased. However, natural resource-based commodities such as palm oil and tin have decreased albeit a favorable international market prices. This is due to a slow down production following some adverse weather conditions. Meanwhile, manufactured-based export commodities like electrical appliances, chemicals and machinery, while provided a small contribution, grew a quite high following the strong demand from China and Singapore, those with economic growth of over 10%.

Table 5.2 Competitiveness of Non-Oil and Gas Export Main Commodities

Commodities	percent, yoy (volume)		Share of Non-Oil & Gas Export (%)	
	2009	2010	2009	2010
Coal	15.3	27.3	13.9	13.8
CPO	20.5	-2.9	10.4	10.5
Electrical Appliances	1.5	17.9	10.5	10.0
Textile and Textile Products	0.5	12.0	9.6	8.9
Copper	102.5	4.7	7.9	7.6
Chemical Products	-23.8	20.0	6.4	6.9
Rubber	-14.2	20.6	3.2	5.7
Machinery and Mechanics	-39.4	16.7	6.5	5.6
Papers	-2.6	8.7	4.3	4.3
Tin	51.4	-63.6	1.3	1.4

■ RCA > 1, strong competitiveness

■ RCA < 1 or close to, weak competitiveness

Source : UN Comtrade (processed)

Some manufactured commodities with small contributions like electrical appliances, however, had a quite significant spillover impact on the economy (Table 5.3) hence the growth of those commodities promoted the increase of GDP per capita.⁸⁶

The presence of import content in export commodities has compensated the negative impact of rupiah appreciation. The appreciating trend of exchange rate tends to generate a higher commodity prices in overseas which eventually lead to weakening demand. Research conducted by Bank Indonesia indicated that rupiah appreciation can lower agricultural, food industry and metal industry exports by around 0.4% -0.5% with two month delay effect, but did not have a significant impact on the lower exports of textiles, processed wood, rubber and paper with high import content (around 20%). This showed that import content of export commodities was an important factor which determines the exchange rates effect on exports. Based on data from manufactured products exports in 2010, the share of industrial export commodity groups with high import content reached 42.6%. Meanwhile, commodity groups' share with medium import content has reached 29.3%, while the share of the same group with low import content reached 28,1%.⁸⁷ The high import content in manufactured commodities exports

86 ibid

87 Input-Output Table of Central Bureau of Statistic 2005, manufactured export commodity groups fall into 3 categories based on import content. High import content if the import input is more than 30%, medium import content if the import input is between 10% to 30%, and low import content if the import input is less than 10%.

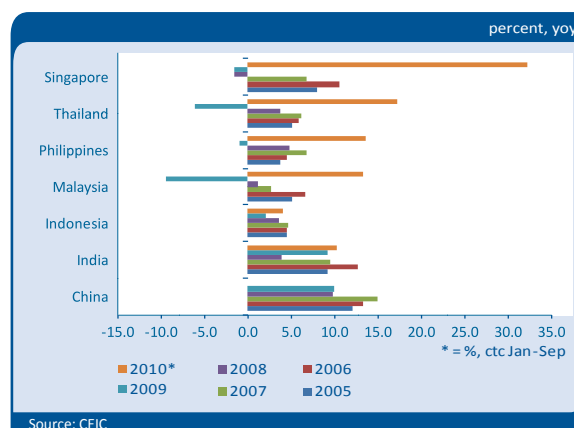


Chart 5.5 Industrial Growth in Asian Countries

has made the prices higher in some commodities. This was caused by exchange rate appreciation which could be compensated by a decline in input prices.

The role of Indonesian manufactured commodities export considered to be the lowest if compared with some countries in the region. Indonesia's export growth during 2010 was quite high, but the growth and export share of manufacture products' export in Indonesia was the lowest among other countries in the region (Table 5.4). Besides the technical factor namely a more contractive decline of exports in some countries in 2009, other factors to be considered were the development of industrial sector and Indonesian manufacture products export which not as advanced as those from other countries in the region (Chart 5.5).

Table 5.3 Productivity and Share of Indonesia's Main Export Commodities

Commodities	Productivity (2000, PPP, thousands of USD)*	Share to Total Export (%)		percent, yoy (volume)	
		2009	2010	2009	2010
Organic Chemicals	24.1	2.02	2.38	29.36	14.21
Electrical Machinery, Apparatus	20.35	3.44	3.78	-12.46	23.32
Paper, Paperboard And Manufactured Thereof	19.66	2.94	2.68	5.64	5.48
Coal, Coke, And Briquettes	14.99	11.97	11.69	18.35	23.29
Woods And Cork Manufactures	14.7	1.55	1.47	-15.67	19.49
Textile Yarns, Fabrics And Its Products	12.91	2.77	2.72	-0.78	10.59
Crude Rubber, Synthetic	8.56	2.75	4.80	-13.80	19.99
Fixed Vegetables Oil And Fat	6.98	10.19	10.36	20.14	-3.62
The Average Of 50 Export Commodities	15.35				

High Productivity Moderate Productivity Low Productivity

Source: UN Comtrade (processed)

*) calculated in 2008

Table 5.4 Comparison of Export in Asian Countries

Country	Real Export (percent, yoy)		Share of manufacturing export to Total Export (%)	
	2009	2010	2009	2010
China *	-15.40	n.a	94.7	94.8
India **	-7.42	14.61	63.9	65.5
Indonesia	-9.69	14.92	60.7	58.9
Malaysia	-10.42	9.80	75.5	74.3
Philippines	-11.14	27.42	86.0	86.9
Thailand	-12.50	14.69	88.9	88.7
Singapore	-8.09	19.20	77.3	75.9

*) Net Export, data was available until 2009

**) up to third quarter of 2010

Source: CEIC

The Government, however, continued to strengthen export competitiveness by strengthening the national industry.⁸⁸ In order to improve the competitiveness of national industries, as per Presidential Decree No. 1/ 2010 on the Acceleration of the Implementation of National Development Priorities in 2010, the government will revitalize fertilizer and sugar industries, develop oleochemical and agricultural industrial clusters and develop oil and gas condensate-based industrial cluster. The government will also revitalize textile and cement industries. This policy is expected to have a positive impact on the development of manufactured product exports. Of significance achievement in 2010 was the establishment of National Business Plan for CPO Downstream Industry and Environmental Impact Analysis, Feasibility Study and Business for CPO Downstream Industry in Sei Mangke (North Sumatra), Kuala Enok and Dumai (Riau), and

Maloy (East Kalimantan). In addition, the government also implemented several policies for supporting the development of national industries, including the issuance of raw materials import permit via a One Stop Service System, Implementation of National Single Window (NSW), and the improvement of investment supporting regulations. The improvement includes proposed changes on income tax exemption facility criteria (company income tax) for some industries, discussion on tax holiday incentives for certain companies investing in certain areas and regions, and the implementation of import tax for raw materials in certain industries to increase domestic raw materials for boosting local industrial capacity. Besides, the proposed restructuring export tax for CPO and its derivatives are also being formulated to support CPO downstream industries (oleo chemicals, biodiesel, and specialty fat).

88 Ministry of Industry Press Release, 22nd December 2010

5.2

Investment Acceleration Amid Uneven Global Economy Recovery

In general, increased investment in machineries will increase economic capacity. Investment activities in 2010 showed a growth in machineries investment which continued to increase (Chart 5.6). In line with the increased, capital stock data also continued to show some improvements. Based on the Survey of Business Activity (SKDU), investment activities in 2010 was mainly for new investments, and thus increasing production capacity. This condition was quite different from that of in 2007⁸⁹ in which the increased in imports of capital goods was dominated by machineries and equipments and thus provide less improvement for the production capacity. This was because of new investments in some industrial sectors mainly intended to replace the old machineries with low production capacity due to depreciation. Besides investment in machineries, other investment which grew quite high in 2010 was transportation equipment. Increased investment in this field was supported by favorable economic prospect of Indonesia which encouraged more activities in the transportation sector, both for goods and passengers.

In terms of imported goods, increased investment during 2010 was concentrated on several sectors notably in telecommunication, transportation and manufacturing. However, in terms of disbursement of private foreign borrowing, electricity and industrial sectors had become the main investment sectors financed by foreign borrowing. This was due to multiplier effects of investment in these sectors in economic growth which was relatively higher than other sectors. Based on research conducted by Bank Indonesia using Cobb Douglas models and Panel Data method, it was found that the growth of

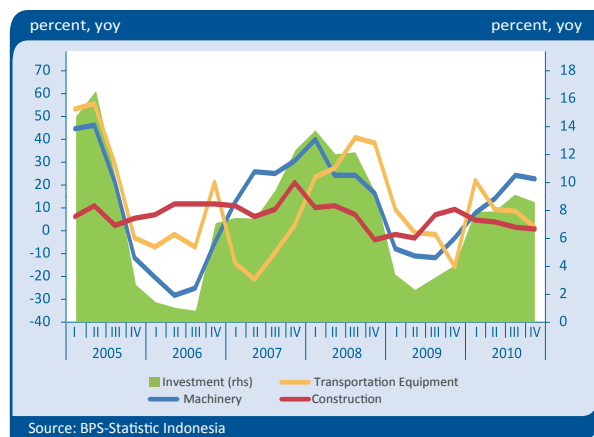


Chart 5.6 Investment Growth of Construction and Non-Construction

Gross Domestic Fixed Capital Formation (GFCF) of 1% in the industrial sector and electricity sector has an impact on increasing the economic growth of each sector with around 0.7% . A study using Input-Output analysis 2005 also indicated a consistent finding as it is indicated that in general, electricity, construction and industry sectors have the largest multiplier effect on the economic growth. The high multiplier effect in the three sectors was in line with the linkage of these sectors with other sectors (backward and forward linkage). In industrial sector, subsectors with the largest multiplier effect on the economic growth are basic metal industry, food and textiles subsectors.⁹⁰

Surveys and researches had shown that infrastructure is an important factor in determining investment besides macroeconomic conditions. Survey by Bappenas (2008) showed that companies consider the easiness of import-export procedures, macroeconomic conditions and

⁸⁹ Kurniati, et al, 2007, "Does Increased Import Improve Production Capacity?", Research Notes, Bank Indonesia

⁹⁰ Kurniati, et al, 2008, "Role of Investment in Enhancing Economic Development", Working Paper, Bank Indonesia.

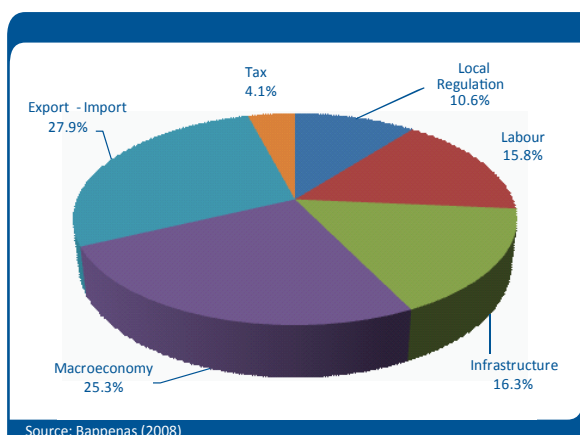


Chart 5.7 The Main Factors Affecting the Investment

infrastructure development as the important factors that affect investment (Chart 5.7).⁹¹ One of infrastructure components currently considered to be quite important for development of future investment is electricity. A research conducted by Bank Indonesia showed that an investment increased in the electricity sector by 1% would increase total economic growth of 0.02%.⁹² The development of electricity sector is deemed critical to the economy since it relates closely with the production activities of other sectors in the economy, especially mining and industrial sectors. Electricity sector is also deemed as a major sector for investment because investment in this sector will generate additional output in the economy. Development in electricity plays important role for the development of investment for non-residential group which utilizes a lot of machineries and hence are heavily dependent on the availability of electricity.

In general, investment growth is also influenced by the development of export and domestic consumption.⁹³ In 2010 exports reached a remarkable growth of 14.9%, which was the highest achievement in the last five years. The robust export growth, coupled with strong domestic consumption, were factors underlying the increase of utilization capacity of industrial sector. As capacity utilization rise, accompanied by steady improvement of economic conditions, investment activities will also grow. In other words, the notable growth of investment

91 Investment and Trade Competitiveness Survey (Bappenas, 2008) with Analytic Hierarchy Process (AHP) method to determine the most important factors affecting investment climate in Indonesia. The factors are based on business perception.

92 Kurniati, et al, 2008, "Problems and Impact of Electricity on Indonesia's Economy", Research Notes, Bank Indonesia.

93 Macro Economy Team, 2010, Investment Growth and Prospect, Bank Indonesia.

was underpinned by the significance rise of utilization capacity following the robust exports and strong domestic consumption. Increased investment in the industrial sector has reduced utilization capacity in industrial sector to an average of 71% in 2010, slightly lower than it was 2009 which was around 72% (Chart. 5.8).

Substantial rupiah appreciation in 2010 made the price of imported goods cheaper and led to the declining of imports of capital goods price index which hence prompting the increasing number of imported capital goods. During 2010, capital goods imports posted a substantial rise than that of in 2009, which then increase production capacity.

Increased investment was also supported by accommodative financing conditions. This was indicated by an increased of domestic financing in terms of realization of Initial Public Offering (IPO), corporate bonds issuance, investment loans, leasing and internal financing. Realization of IPO in 2010 reached Rp 78 trillion, much higher than it was in 2009 at Rp 12.4 trillion which were mostly channeled into investment. As for corporate bond issuance, the realization in 2010 reached around Rp 34.7 trillion, also higher than realization in 2009 at Rp 25.8 trillion which some of the fund was allocated for investment as well.⁹⁴ On the banking front, investment loans and leasing also showed some improvements. In 2010, growth in investment loans and leasing reached 17% and 14% respectively. This is also consistent with the declining trend in real interest rates. The overall picture, however, indicated that the source of internal funds expected to still dominate the structure of corporate

94 Bapepam, KSEI, processed.

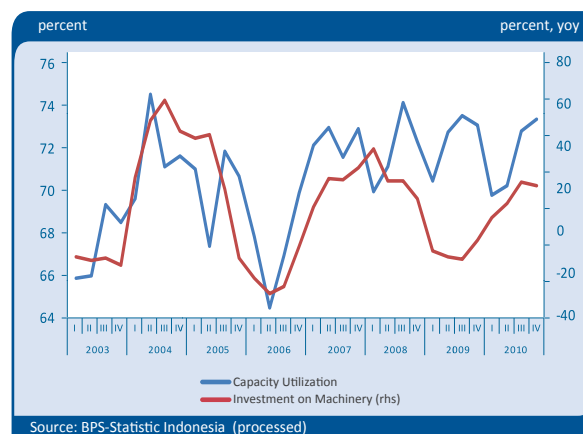


Chart 5.8 Industrial Capacity Utilization and Investment on Machinery

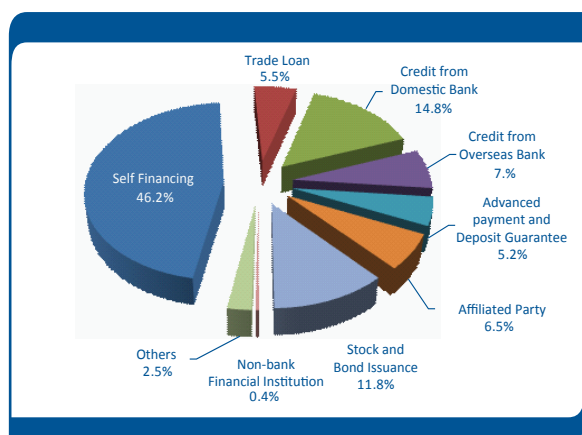


Chart 5.9 Investment Financing Structure

investment financing. Based on a survey by Bank Indonesia on 413 companies representing 26 provinces in 2009, sources of financing investment using internal funds reached 46.2% of the total financing requirement (Chart 5.9).⁹⁵

Domestically, increased investment was driven by improved business confidence for investment. This can be seen from the improved business sentiment during 2010 based on various surveys taken. Business Tendency Survey conducted by National Bureau of Statistics showed that Business Tendency Index indicated the upward trend since early 2010. Improved business conditions are driven mainly by increased demand from domestic and overseas, escalating selling price and demand for input goods. Meanwhile, according to the Survey of Business Activity of Bank Indonesia, the company's investment plan has shown the same trend. Increased investment is also in line with positive perceptions of Indonesia's economic prospects as indicated by positive perceptions on Indonesia's macroeconomic conditions reflected in positive trend of government debt ratings. This positive development is also in line with consumer confidence in future economic expectations and business community optimism to invest in Indonesia. Economic Expectations Index for all income groups taken from the Consumer Survey by Bank Indonesia also showed some improved expectations.

The endeavor to enhance investment climate also continued during the course of 2010 by relaxing regulations and simplifying investment procedures. Of significance was the implementation of National Single

Window which served as a single point services for customs and ports services. NSW has been implemented at Tanjung Priok, Tanjung Perak, Tanjung Emas and Belawan harbors and Soekarno Hatta Airport. The Implementation of NSW aimed at speeding up the process of import and export and thus encourages greater international trade. Furthermore, an adjustment on Negative Investment List⁹⁶ has been undertaken to enhance simplicity, certainty, investment attraction, and investment climate of the country. Revision of policies on procurement of government goods/services⁹⁷ also been published. A coordination between the Ministry of Finance, Bappenas and Investment Coordinating Board has also been done to secure a smooth implementation of infrastructure projects as well as to provide an income tax exemption as stipulated under Article 22 for goods imported for upstream oil and gas activities under Joint Operating Contract.⁹⁸

Realization of electrical infrastructure projects showed a positive development with the completion of several new power plants. Following Indonesia's target to achieve 10,000 MW of power plant project in Phase I, several projects on Java were completed in 2010, i.e. Suralaya and Labuan Indramayu power plants. Apart from those government projects, a positive development also manifested in the completion of verification process by State Financial and Development Auditor (BPKP) on several privately-owned power plants (Independent Power Producer/IPP) which previously experienced a temporary suspension. All of those IPP, which located outside Java, are expected to operate commercially within the next two to three years. Albeit those positive developments, electricity infrastructure project still have some obstacles which lead to the slow completion of electrical projects. Those hindering factors include difficulties in handling land acquisition, overlapping with the use of other sectors, relocation due to unfavorable soil conditions and weather factors which not supportive for the construction of physical buildings.

Toll road projects in 2010 have also shown some progress in line with the operation of several new road segments. Up to now, from a number of road projects of trans Java and non-trans Java, three toll roads which already in operation in 2010 are Pejagan Kanci toll road, Jakarta

⁹⁵ Prastowo, et al, 2010. "Finance Sources in Indonesian Economy: Survey Approach". Working Paper. Bank Indonesia.

⁹⁶ Presidential Decree 36/2010 replaces PD 77/2007 and PD 111/2007

⁹⁷ Covers Revised Govt Reg. 29 / 2000 on Construction Service, PD 54/2010 (revised PD No. 80/2003 on Good and Service Procurement) and revised PD no. 42/ 2002 on State Budget Management.

⁹⁸ MOF Reg. No.154/PMK.03/2010 effective on 31st August 2010.

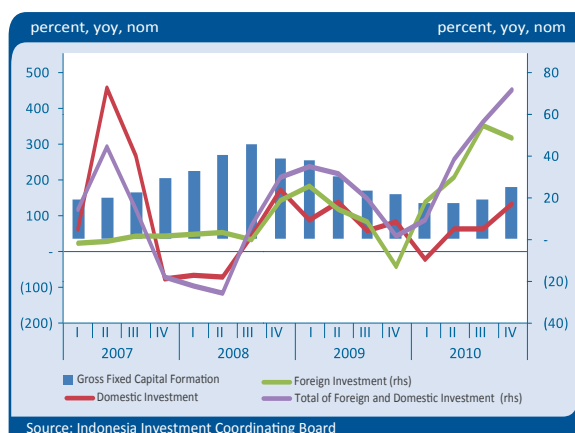


Chart 5.10 Foreign and Domestic Investment

Outer Ring Road W21 and Bogor Ring Road. Meanwhile, other projects who are still in the process of acquiring concession yet have shown positive developments. Some projects can continue the construction because already get business partner and provide a commitment to raise working capital. To accelerate completion of highway projects, the government also has provided funds through the General Services Agency, Toll Road Regulatory Body (BLU-BPJT) for land acquisition. Moreover, the draft of Land Acquisition Act is expected to be completed by 2011 so as to support on-time completion of road and electricity projects.

Foreign investment continued to play a crucial role in supporting the firm performance of investment following the improved perception of investment climate in Indonesia. Based on data from the Investment Coordinating Board (BKPM), the increasing realization of new investment and investment company that has

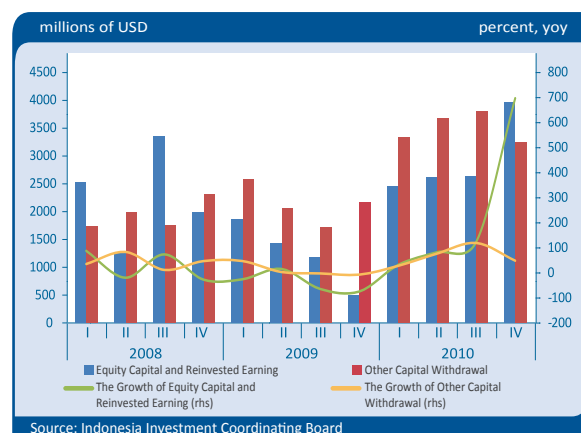


Chart 5.11 Realization of FDI

obtained a business license in 2010 mainly from the realization of investment Foreign Direct Investment/ FDI (Chart 5.10). Investment realization, both for FDI and Domestic Investment (PMDN), during 2010 reached Rp 208.5 trillion or soared by 42.6% compared to 2009, far exceeding the target for 2010 set at Rp 160 trillion. Investment data from other foreign investors particularly in Equity Capital, Reinvested Earning, and other capital grew at the same direction during the course 2010 (Chart 5.11). Besides in FDI, the increase in investment financing from overseas also reflected by the increase of Private Overseas Loans. Actual Private Overseas Loans in 2010 has shown an increase compared to 2009, especially for non tradable sectors. Other important sectors, such as industry and gas, electricity and water, also experienced some improvements in financing (Table 5.5). Meanwhile, the realization of the issuance corporate bonds abroad from January to October 2010 has reached about USD 2.7 billion,

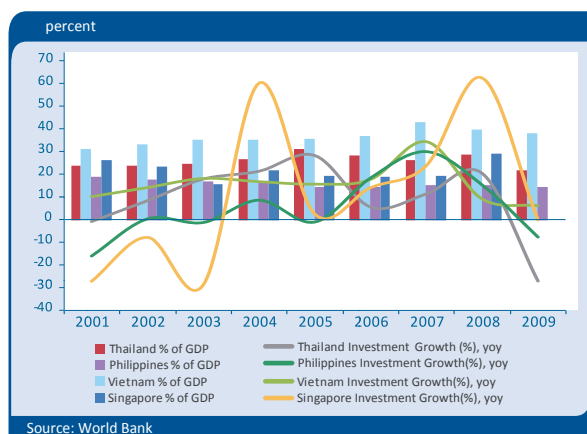


Chart 5.12 Investment in Asia Countries

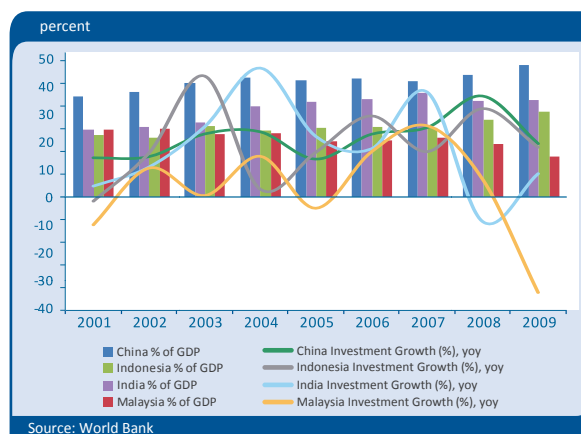


Table 5.5 The Growth of Private External Debt by Sectors

Millions of USD	2009	2010	percent, yoy
Agriculture, Livestock, Forestry, Fisheries	1,222.8	793.4	-35.1
Mining and Quarrying	6,155.9	1,879.0	-69.5
Manufacturing	7,266.9	8,009.3	10.2
Electricity, Gas and Water Supply	3,457.5	3,569.1	3.2
Construction	28.5	76.2	167.6
Trade, Hotel & Restaurant	3,567.1	8,259.0	131.5
Transportation and Communication	1,637.7	2,746.2	67.7
Finance, Rental and Financial Services	12,409.3	20,131.5	62.2
Services	133.6	318.2	138.2
Others	35.4	145.8	311.9
Total	35,914.6	45,927.5	27.9

around 87% of the plan during 2010.⁹⁹ Some of corporate bonds issuance was aimed for financing the investment, while others were for refinancing. The increase in foreign investment realization is in line with many positive reports about Indonesia as an investment destination. OECD, for instance, in its report on Investment Rules G-20 (July 2010) stated that Indonesia along with seven others in G20 countries (Australia, Brazil, Canada, China, India, Saudi Arabia and South Africa) have implemented investment regulation with the trend toward liberalization of overseas capital flows or a better regulatory practices. Other positive perception is the increase in Indonesia's competitiveness ranking from 54th position (2009) to 44th (2010) according to the Global Competitiveness Index (September 2010) and increase Indonesia's ranking as an investment destination country other than the BRIC countries from 6th to 2nd, according to UK Trade and Investment (2010).

Before the global crisis of 2008, investment activities in Indonesia was quite comparable with neighboring countries in Asia although still lower than China, India and Vietnam. The share of investment activities in Indonesia to GDP is relatively similar to the conditions in ASEAN countries, between 20% -30% of GDP (Chart 5.12). Likewise, investment growth is relatively equivalent with other countries in Asia. But when global crisis struck in 2008, investment growth in Indonesia was among the highest in Asia, although in 2009 was lower than India, China, and Vietnam. In 2010, investment in Indonesia grew by 14.9% with a share to GDP by 32%.

The investment performance in Indonesia is affected by some factors such as interest rates, exchange rates, inflation, macroeconomic conditions and government capital expenditure. In 2010, Indonesia interest rates was relatively high if compared to other countries, resulting in interest rate differential which is notably high and eventually serves as the main attraction for foreign capital inflows (Chart 5.13). Massive foreign capital inflows pushed rupiah to become significantly appreciated which causes the import price becomes cheaper and provide ample opportunity for economic actors to increase its investment in imported capital goods needed in the production process. In addition, recent developments and good prospects of the Indonesian economy also attract foreign investment in the form of FDI to come to Indonesia. However, with inflation rate

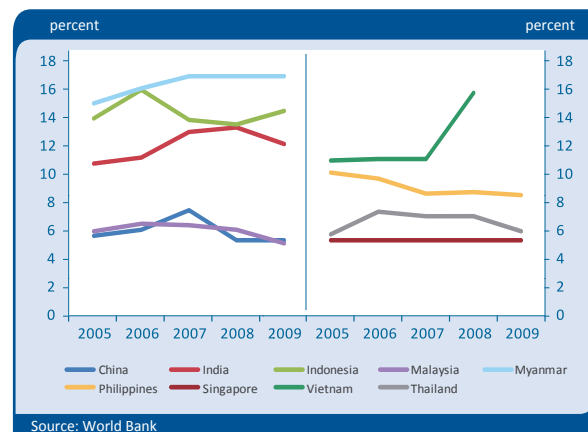


Chart 5.13 Lending Rate in Asia Countries

⁹⁹ Source: Bank Indonesia.

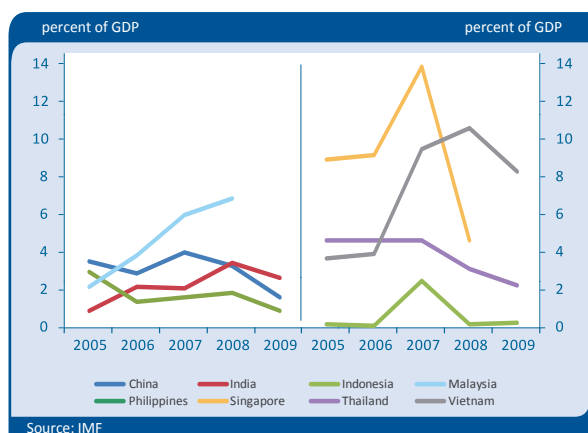


Chart 5.14 FDI in Asia

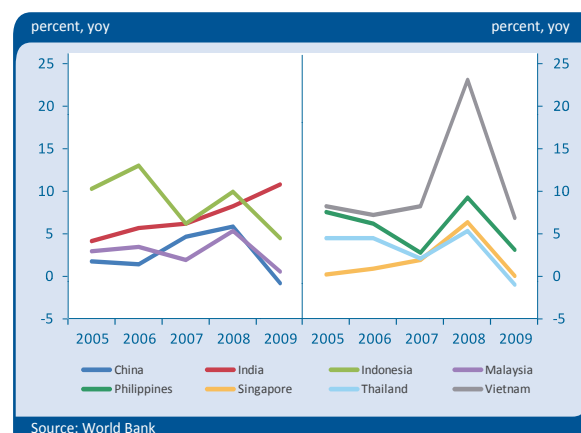


Chart 5.15 Inflation Rate in Asia Countries

relatively higher than other countries in the region, FDI into Indonesia was relatively lower than it was in other countries of the region (Chart 5.14 and 5.15). Meanwhile, the government's role as an accelerator in the economy reflected in government investment expenditure by capital expenditure. In 2010 the Indonesian Government capital expenditure was only about 1.2% of total GDP, lower than in other regional countries, especially Vietnam and Malaysia (Chart 5.16). In line with the development of these investments, since 2008 Indonesia's GDP growth was quite high if compared with countries in the region, although still lower than China, India and Vietnam (Chart 5.17).

Some obstacles to economic growth and investment remain to be observed. Country Diagnostics Studies by ADB (2010) revealed some problems which could hamper Indonesia's economy to grow higher. Some key issues including inefficiency in financial intermediation,

especially for small and medium enterprises, inadequate human resources in certain industries, infrastructure problems like roads and electricity, macro-and micro-economy risks, low quality technology and low export growth, especially industrial export. In line with ADB's diagnosis, some indicators related to the above problems remained at low level in the Global Competitiveness Index 2010. Based on their assessment, infrastructure's quality is slightly improved from 2009 but still below the neighboring countries like Malaysia, Thailand, China and Singapore. Some types of infrastructure even have received a considerably low ranking such as for Ports, roads and electricity which ranked respectively 96, 84 and 97 out of 139 countries surveyed. Indonesia's institutional quality was also posed challenging problems and has declined from 58 in 2009 to 61 in 2010. The above conditions certainly present profound quandaries for the Government to further increase the rate of investment and economic growth.

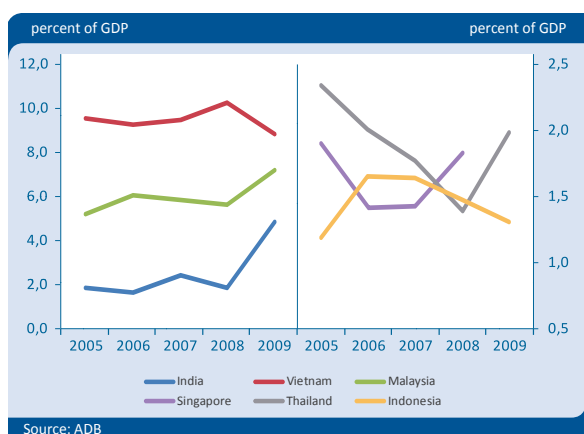


Chart 5.16 Government Capital Expenditure in Asia

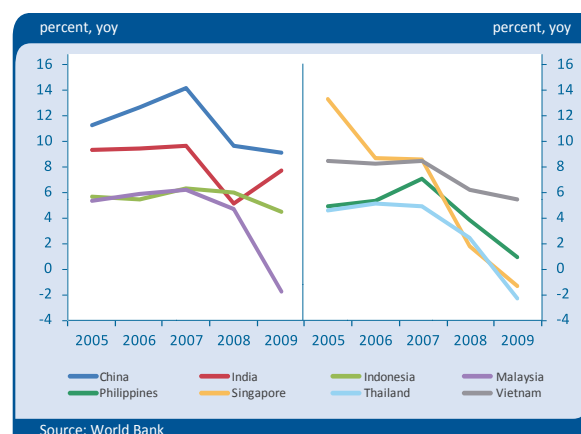


Chart 5.17 GDP Growth in Asia

5.3

Optimizing the Use of Foreign Capital Flows for Long Term Real Sector Financing

In 2010, Indonesia experienced the largest capital inflows since the last two decades with portfolio investment as the largest component. Besides, FDI value in 2010 is the largest since the last 20 years (Chart 5.18). The surge of capital inflows was driven mostly by improvement of domestic economic conditions and foreign investors perceptions to Indonesia's economy, supporting further with the high return on investment in Indonesia in the midst of excess global liquidity.

Based on research by Broto et al (2008) in 48 emerging market countries, the main factor affecting capital inflows volatility, particularly FDI is a dynamic global economy. FDI volatility is also more sensitive to domestic macroeconomic conditions compared to other capital inflows components. Meanwhile, the most influencing factor on portfolio investment is the development of the domestic financial system.¹⁰⁰

100 Committee on the Global Financial System Papers No. 33, Capital Flows and Emerging Market Economies, January 2009

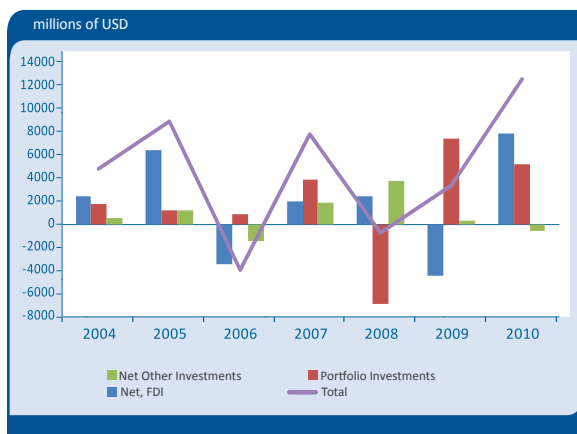


Chart 5.18 Annual Changes of Capital Inflow

Enhancing FDI Role in Promoting Investment

Net FDI flows to Indonesia reached about USD 12.7 billion. The increase mainly supported by foreign investment in non-oil sector, while in oil and gas sector has not experienced significant improvements. In terms of components, the FDI inflows was mainly in new capital (equity capital) and retained earnings / reinvested earning, while in loans (other capital) was quite minimum.

The improvement in the development of FDI into Indonesia was in line with the improvement of macro indicators. Based on research that uses panel data and Dunning models,¹⁰¹ FDI flow to Indonesia are affected by several factors, particularly economic growth, infrastructure, political stability and import tariffs, with the largest elasticity in the factor of political stability. In addition, according to another analysis by using panel data and Gravity models,¹⁰² the flow of FDI into Indonesia is also influenced by the growth of FDI to China because of the production relationship between Indonesia and China as well as Indonesia's economic growth. The difference in interest rates and wage levels in Indonesia and China did not show any significant correlation with the entry of FDI into Indonesia. The model is still in line with the latest developments. The recovery of growth in FDI to China and Indonesia's economic growth after the crisis in 2008-2009 helped encourage increased FDI into Indonesia in 2010. From the regulatory side, the government has sought the improvement of investment climate, among others, through the Investment Law No.25/2007 and

101 Kurniati, et al, 2007, "FDI Determinants", Working Paper, Bank Indonesia.

102 Ibid

reform in public services. In addition, improvements in infrastructure and institutional instability was also reflected in the report of the World Economic Forum in 2010 which revealed the improvement in terms of the quality of Indonesia's competitiveness as reflected by the increase in ratings Global Competitiveness Index (GCI) from the position 54th years ago to 44th in 2010 out of 139 countries surveyed. Improvement in Indonesia's ranking was primarily driven by improved macroeconomic conditions and the improvement of education indicators (Chart 5.19). During the crisis of 2008-2009, the fiscal deficit was under control, the public debt maintained at a low level (approximately 30% of GDP), the saving rate increased, inflation slowed down and all education indicators improved. However, some indicators remain a concern for investors, such as the quality of infrastructure and availability of technology, which although have been improved, but still ranked considerably low (No. 90 No. 91 respectively).

The increase in FDI during 2010 mainly occurred in non-tradable sector. GDP growth and sectoral FDI between 2005-2010 (on average) has shown that the growth of FDI in non-tradable sector is in line with GDP growth in those sector, namely Trade, Hotels and Restaurants, Transport and Communication and Financial sectors (Chart 5.20). Positive development also observed in the electricity sector, especially since 2009. On tradable sector, FDI was also posted a quite high growth, although GDP growth in tradable sector was quite sluggish. In 2010, the rise in FDI was mainly experienced in electricity, gas and water, trade, hotel and restaurant and manufactured sectors. With such developments, the share of FDI in the tradable sector was still dominant, especially in the manufactured, mining and quarry sectors (Chart 5.21). Meanwhile the share of



Chart 5.19 Competitiveness Scores, Indonesia and Its Peers

FDI in electricity, gas and water were still very low. With high multiplier effect of investment in these sectors, the increase in FDI provided a positive impact on economic growth.

Despite continued increase of FDI into Indonesia, this feature was quite lower compared to FDI in different countries in the region. FDI inflows to various countries in Asia, including China and India, on average were below 4% of GDP, except for Singapore which was around 10% -20% of GDP. FDI to Indonesia, however, posted the lowest level with only around 1% -2% of GDP although it continued to increase since 2006 (Chart 5.13). Based on a survey by the Japan Bank for International Cooperation,¹⁰³ investment in the 4 ASEAN countries namely Thailand, Malaysia, Philippines, Indonesia and China, mainly was intended for production activities, while investment to Singapore and

103 JBIC Review, July 2004

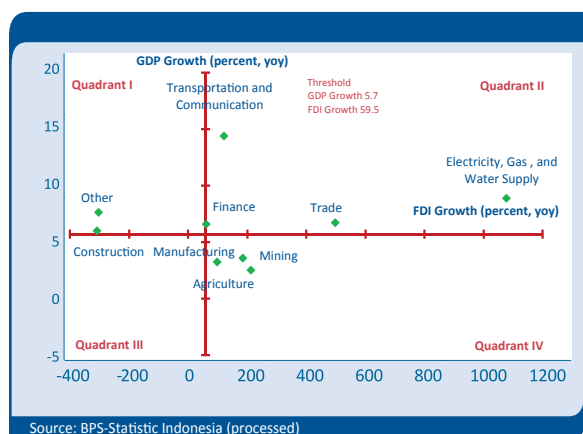


Chart 5.20 FDI Growth by Sectors and GDP by Sectors

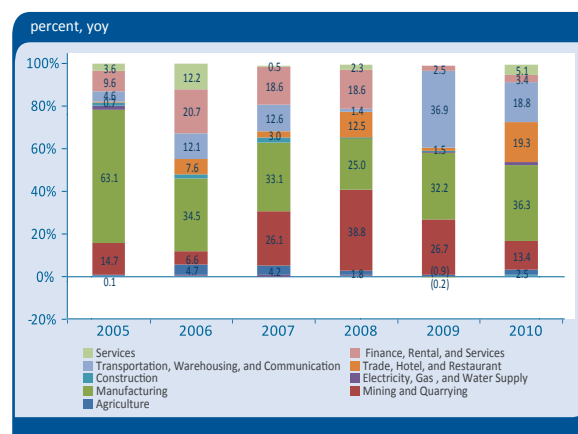


Chart 5.21 The Share of FDI by Sectors

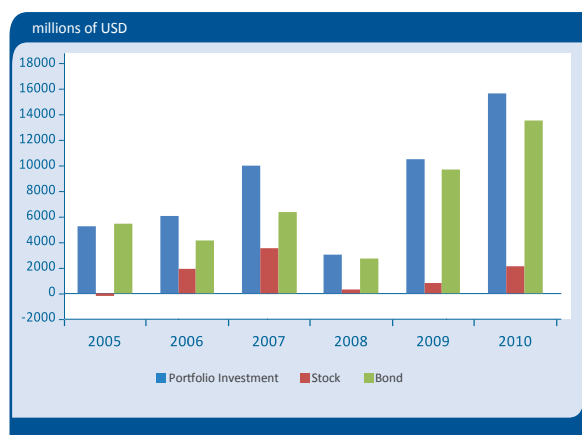


Chart 5.22 Portfolio Investment

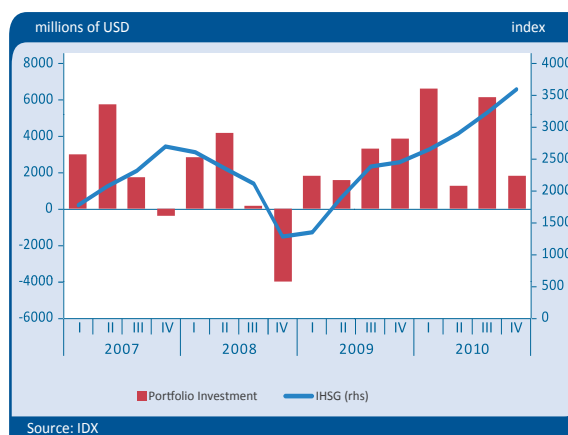


Chart 5.23 IHSI and Portfolio Investment

other Asian countries like Korea, Taiwan and Hong Kong was intended for trading activities. For 2010-2012, based on the UNCTAD survey (2010), China, India, Vietnam and Indonesia are projected as the top 10 major destinations of FDI, with China and Indonesia ranked 1st and 9th respectively, same as the survey in 2009. Vietnam ranked 8th (2010) from 11th in 2009 survey, while India ranked 3rd (2009) and became 2nd in 2010. The survey indicated that the destination preferences for FDI into emerging markets were underpinned by the resilience of these countries during the crisis of 2008.

■ Utilization of Portfolio Investment in Supporting the Real Sector Financing

Portfolio investment flows into Indonesia reached USD 15.7 billion, the highest over the last two decades. The inflows were channeled primarily into bonds, while inflows into the stock market are relatively stable, around USD 2 billion (Chart 5.22). The amount of foreign capital into bonds continued to improve since the last 10 years, except in 2008 crisis, with government bonds as the main destination.

Increase in portfolio investment was followed by the rise in stock trading and composite index. During 2010, IHSI continued to increase and reached 3,786, the best performing index in Asia (Chart 5.23). IHSI strengthening was also supported by macroeconomic conditions and micro conditions of issuers which demonstrated a relatively good financial prospects among countries in the region. On the bond market, rising portfolio investment also followed by the increase in volume of government bonds trading and its yields (Chart 5.24). Decline in the yields also supported by sustained economic fundamental,

relatively attractive yields compared with countries in the region, and continued improvement in sovereign credit rating.

Developments in the financial markets generated a positive impact on the issuance of shares and corporate bonds. During 2010, shares and corporate bonds issued in Indonesia reached Rp 78 trillion and Rp 34.7 trillion respectively (Chart 5.25). The number of shares issued far exceeded the issuance in 2009, but still lower than it was in 2008. Meanwhile, the total issuance of corporate bonds continued to increase, a trend experienced in various countries. The rise of foreign investors' share in stocks and bond markets has increased the capitalization of domestic shares and bonds as well as the number of shares issued during 2001 - 2007 in various emerging markets, particularly in Asia and Latin America.¹⁰⁴ Of particular, in

104 Committee on the Global Financial System Papers No. 33, Capital Flows and Emerging Market Economies, January 2009.

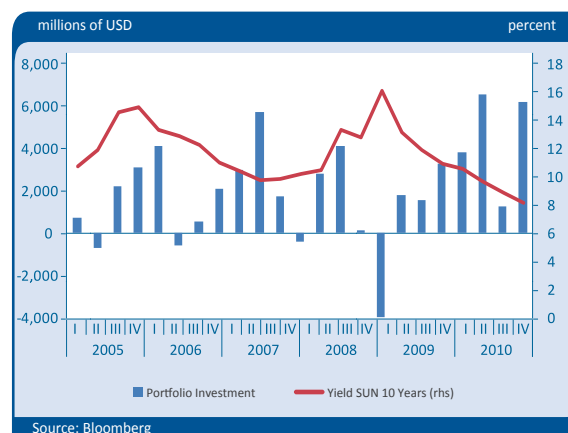


Chart 5.24 Yield SUN and Investment Portfolio

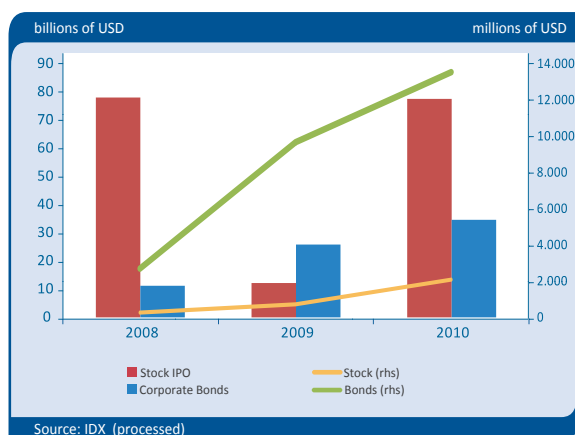


Chart 5.25 Non-Bank Economic Financing

2010, the issuance of IPO by Indonesian issuers was the second highest in ASEAN after Malaysia. However, the issuance of corporate bonds posted the lowest number (Chart 5.26 and 5.27). Besides issued corporate bonds in the domestic market, some companies also issued corporate bonds abroad. Up to October 2010, the number of corporate bonds issued abroad posted around USD 2.7 billion, reached 87% of the target, which some of them were used for refinancing, while others were for investment.

Increased portfolio investment was also followed by the rise of credit though in limited quantities. During 2010, credit growth reached 22.8%, much higher than it was in 2009 which posted 10%. The increase was mainly due to the rise of foreign currency loans. The increasing credit was in line with the increase in portfolio investment though in limited amounts (Chart 5.28). The limited credit channeling from portfolio investment manifested in the

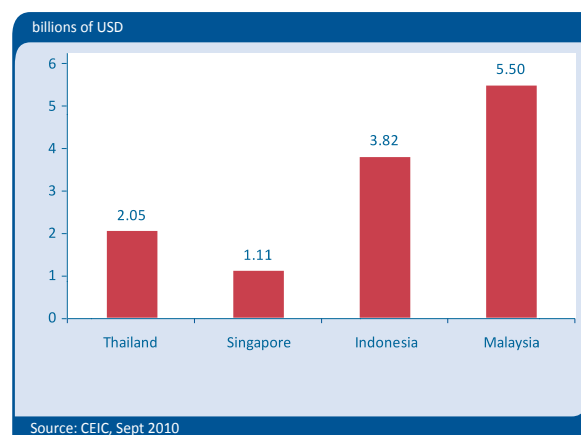


Chart 5.26 Stock IPO in 2010

proportion of credit in foreign currency which posted a lower ratio than the proportion of deposits in foreign currency.

During 2010, increasing funds inflows from abroad had an impact on the increase in domestic liquidity (M2) through increased Net Foreign Assets (NFA). In order to maintain the sustainability of macroeconomic growth, Bank Indonesia has made some interventions (buying) foreign currency which on one hand escalating NFA of Bank Indonesia but on the other hand increasing rupiah liquidity of banks. Meanwhile, funds from abroad which not sterilized may increase NFA of commercial banks which eventually prompt to increase foreign currency liquidity of banks. Excess rupiah liquidity due to sterilization is mainly placed in instruments of Open Market Operations (OMO). During 2010, foreign currency loans grew to 30.7% compared with 2009 of -17.4%. However, when compared with the increase in bank's foreign assets and foreign

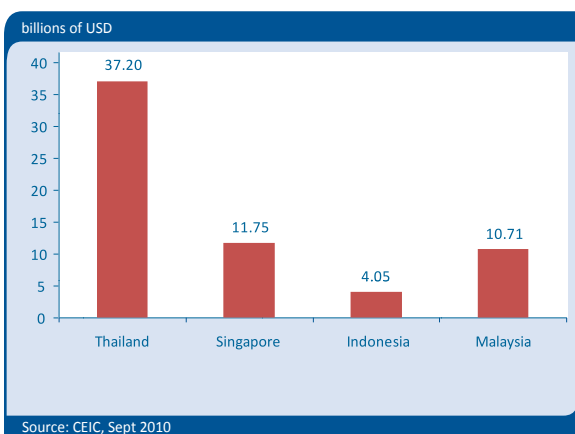


Chart 5.27 Corporate Bonds 2010

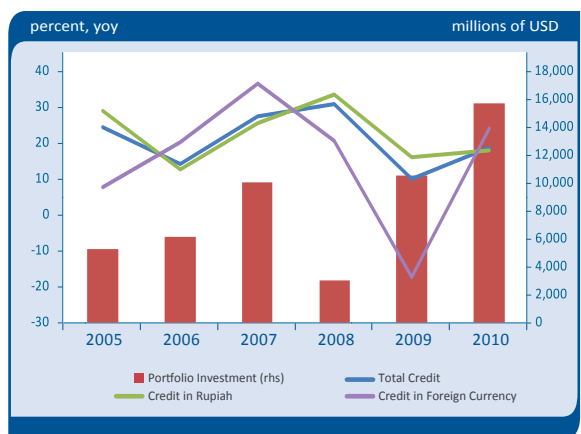


Chart 5.28 Annual Changes of Credit and Portfolio Investment

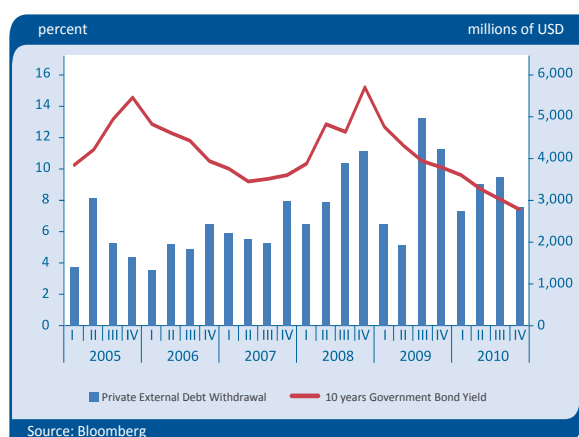


Chart 5.29 Withdrawal of Private External Debt and Government Bond Yield

currency third party deposits which increased during 2010, the accelerated growth of foreign currency loans still relatively limited. Increased bank NFA mainly used to raise placements in foreign banks in the form of current accounts and interbank call money.

To optimize the use of foreign capital inflows, efforts are needed to deepening domestic financial markets. Huge interest of foreign investors in domestic financial markets basically provide an opportunity to finance business sector. The amount of foreign investment in domestic capital markets certainly can increase liquidity, the depth of financial markets, and investor diversification. However, to optimize the role of capital inflows in financing the business sector required many efforts notably on how to encourage issuance of stock and bonds as well as how to strengthen infrastructure, including institutional aspects, regulatory and market efficiency to give assurance to foreign investors. Compared with some countries in Asia, foreign capital inflows in Indonesia was quite large in

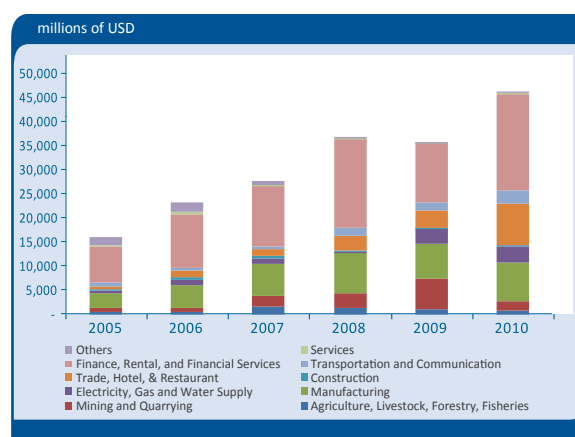


Chart 5.30 Withdrawal of Private External Debt by Sectors

2007, and even higher than China and Thailand, although the market capitalization of stocks and corporate debt in Indonesia ranked lowest among those countries followed by the lowest credit channeling. Meanwhile, portfolio investment in Malaysia and Singapore in 2007 reached the highest number among those countries followed by the high market capitalization stocks, bonds, and credit. This condition was still continued in 2009 (Table 5.6).

■ Utilization of Private Foreign Loans to Support Real Sector Financing

In line with the surge of foreign capital inflows into Indonesia, the share of capital flows in the form of private foreign loans also increased since 2008. Besides being a source of foreign exchange supply in the domestic market, increasing foreign capital inflows also served as a source of financing for private sector in terms of loans. The increased of foreign loans was in line with the declining yield of government bonds (Chart 5.29).

Table 5.6 Some Indicators in Financial Sector

percent of GDP

	Claim on Private Sector			Stock Market Capitalization			Domestic Debt Securities Capitalization			Portfolio Investment		
	1997	2007	2009	1997	2007	2009	1997	2007	2009	2000	2007	2009
India	24	45	49	31	132	91	18	38	47	0.53	2.91	n.a
China	94	116	134	22	135	83	8	50	52	0.68	0.60	0.59
Indonesia	61	25	25	12	50	36	2	20	18	-1.15	2.31	1.94
Malaysia	158	105	107	92	173	135	53	85	90	-2.29	5.00	n.a
Singapore	101	90	106	231	296	260	25	57	65	-1.32	10.84	n.a
Thailand	166	92	96	15	78	65	7	53	68	-0.45	1.09	n.a
Philippines	56	30	30	37	79	48	20	37	34	0.34	2.72	n.a

Source: IFS, CEIC, BIS

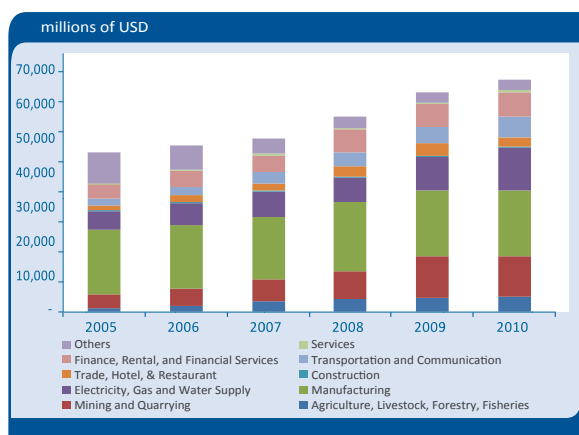


Chart 5.31 Outstanding of Private External Debt Withdrawal by Sectors

Private foreign loans in 2010 was dominated by loans for non-tradable sector. The continued growth in non was also supported by the disbursement of private foreign loans which was also dominated by nontradable loans. The majority of private foreign loans of non-tradable sectors mainly used by financial, trade, hotels and restaurants sectors. Meanwhile, private foreign loans for tradable sector notably in agriculture, mining and industry decreased in 2010. Yet the share of foreign loans in tradable sectors still dominated private foreign loans position (Chart 5.30 and 5.31).

The development of GDP growth and the growth of private sector foreign loans during 2005-2010, on average, indicated that a high GDP growth on non-tradable sectors followed also by high private foreign loans in non-tradable sector, particularly transport and communications sectors (Quadrant I). While low GDP growth in tradable sector, followed by a quite high growth in private foreign loans, except industry sector which experienced a decrease of foreign loans (Quadrant II-III) (Chart 5.32).

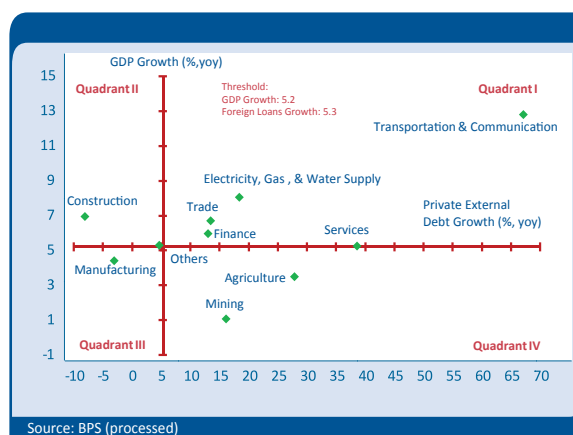


Chart 5.32 Growth of Private External Debt and GDP by Sectors

Despite of the increase, foreign loans position was perceived sound as indicated from vulnerability indicator which still below the World Bank's threshold. The ability to finance the export of foreign loans is still quite good as reflected in the declining Debt to Export indicator to a ratio of 112.4% (on average). A solid economic growth can also support Indonesia's foreign debt position, as reflected in Debt to GDP indicator which was on downward trend and reached 28.2% of GDP in 2010. Outstanding short-term foreign loans to foreign exchange reserves likely to decrease and reached 41.5% in 2010. Meanwhile, Debt Service Ratio indicator is relatively stable at an average of 21.5% during 2010.¹⁰⁵

¹⁰⁵ Debt to Export threshold of 150%. Debt Service Ratio threshold of 20%

5.4

Conclusion

The role of manufactured exports, supported by a higher competitiveness, should be enhanced to ensure the sustainability of export performance and balance of payments. A very positive export performance in 2010 mainly affected by the improving global economic conditions coupled with the rises in international commodity prices. These factors have a positive impact on exports amid rupiah appreciation. In addition, less dependency on particular commodities and export destinations also strengthened Indonesia's export performance. Structurally, the role of natural resource-based export commodities increasing, supported by high competitiveness. On the other hand, the role of manufactured export commodities decelerates as it still facing low competitiveness problems. This export structure caused the balance of payments still vulnerable to global demand turmoil and international commodity prices. To strengthen the export performance, increasing the role of manufactured exports is necessary, in tandem with increasing its competitiveness. These efforts, among others, has been carried out through Presidential Decree No. 1/10 on Accelerating Implementation of National Development Priorities in 2010, which aimed to increase export and industrial competitiveness. Nonetheless, necessary follow-up of the said Decree is required to maintain the sustainable national industrial development.

Efforts to enhance the role of highly competitive manufactured exports are indispensable from efforts

to increase investments in order to boost production capacity. The increase in domestic and export activities during 2010 were responded positively by supply side through increased production capacity. Confidence of economic actors, both domestically and overseas, to Indonesia's economic prospects also improved which then encourage increased financing in capital markets and banking. Massive foreign capital inflows during 2010 generated a positive impact for real sector financing, especially in terms of foreign direct investment. The high portfolio investment also gave an upbeat effect on real sector financing, especially for capital market financing. Rupiah appreciation and the development of infrastructure projects also strengthened the acceleration of investment activities during 2010. A firm performance in investments which ultimately improving production capacities was supported by various policy measures in investment and international trade. In the future, however, measures to improve investment climate should be maintained to ensure continuity of investment, especially in terms of production capacity, which eventually support the sustainability of Indonesia's balance of payments. In this context, there is also a necessity to manage foreign direct investment to export-based industries. From a financial perspective, the government's role in economic development should be increased primarily to support the development of infrastructure projects. Financial market deepening also needs to be improved to optimize capital inflows.

BOX 5.1: Impact on Non-Tariff Trade Rules Against Indonesia Export Performance

In recent years, natural resource-based export plays an important role in the Indonesian economy. This is reflected in the share which continues to rise up to 50 percent of total non-oil exports of Indonesia in 2010. However, in the midst of various free trade cooperation, Indonesia's export performance still constrained by a variety of trading rules that lead to protection, discrimination and trade war.

Some common forms of non-tariff trade rules which, in some extent, are rendered as non-tariff barriers are quality standards, certification, requirements for the size of the goods, dumping issue, labeling standards, including an assessment of the impacts of export commodity production processes on the environment. Although these policies are non-tariff, the impact of implementing these policies can have effects similar to tariff policy. Furthermore, more trade rules in place since the implementation of many agreements in World Trade Organization (WTO), which implies a very significant reduction in the use of tariffs. Some types of trading rules allowed to apply in very limited circumstances, i.e. health, safety, sanitation factors or to protect the natural resources. These trade rules, however, can be used as a way to protect domestic industry from imported goods invasion following the implementation of free trade rules as defined by WTO, European Union (EU), or North American Free Trade Agreement (NAFTA).

Indonesia's export performance is indispensable from the influence of trading rules applied by trading partners. One of the main Indonesian export products which frequently pose this kind of non-tariff barriers is Crude Palm Oil (CPO). A number of European importers have disqualified Indonesia's CPO because of the perception that Indonesian palm oil has caused severe damage on environment and animal habitats. Pressure from several environmental activist organizations had made some multinational companies, mainly from Europe, terminated contract for importing Indonesia's CPO.¹

In responding to these unfavorable issues, some domestic palm oil producers have joined the Roundtable on Sustainable Palm Oil (RSPO)² to obtain required necessary certification in attempt to enter into the European market. RSPO members are includes palm oil plantation company, palm oil processing industry, and users of palm oil products (cosmetics and food industries), banks, investors, and NGOs. One of RSPO outcome is Certificate of Sustainable Palm Oil (CSPO) which is only issued to members who have been able to implement sustainable plantation practices. Producers who acquired CSPO will have a privilege to sell CPO at a premium price, USD 30 per ton above the market price. CPO buyers, however, are only willing to pay for certified palm oil with USD 8-10 per ton above the market price. This is quite burdensome for the producers since the cost to obtain certificate, including audit costs, is quite high at around USD 800 to USD 1,000 per hectare. In response to the complexity to enter European markets, CPO producers and exporters also diverting the market to developing countries, like China and India.

CPO also experienced discriminatory treatment from the implementation of European Union (EU) Directive which set a minimum target for using biodiesel as an energy source. EU Directive does not include CPO as biofuel raw material since CPO is generated from deforestation process. In response to such discrimination, Indonesia and Malaysia are planning to sue European Union in the WTO forum.

There is an argument that environmental issue applied for CPO is a form of a trade war. This is because if compared with other vegetable oil (soybean, rapeseed, and sunflower), CPO requires less area to produce the same amount of vegetable oil³. This opinion was also supported by the fact that the main competitors of palm oil, such as vegetable oil from soybeans, does not require any certification to enter the market in some countries, hence this is perceived as a discriminatory treatment.

1 Total Indonesian CPO export value up to November 2010 is USD 11.7 billion with European export destination countries of 20%. India dan China, the main export destination countries share the value of 46%.

2 RSPO is a non profit organization aiming to optimize the use of CPO with environmental sustainability concern.

3 Area used for CPO only 7% of all area used for vegetable oil plantation.

Besides CPO, other products facing non-tariff barriers is paper product exported to South Korea and the United States. In 2002, South Korean paper industries filed anti-dumping petition to the Korean Trade Commission (KTC) against Indonesian paper products. Besides Indonesia, another country which hit by dumping allegations is China. Based on the petition, Indonesian paper products exported to Korea has been imposed anti-dumping duty from September 2003 to May 2010. Indonesia therefore extended objection on the anti-dumping policies in South Korea through dispute settlement mechanism in the WTO. South Korean domestic industry, however, has filed a petition for continued imposition of anti dumping import duty for the next 5 years by considering the continuing loss of the domestic industry in February 2010. Nevertheless, the KTC did not find any indication of loss of domestic producers from importing paper products from Indonesia so KTC officially revoked the imposition of anti dumping duty in November 2010 in accordance with the decision of WTO forum.

Not all the trade rules inhibiting Indonesia's export performance set in protectionism, trade wars and discriminations. Indeed, there are international trade

standard rules that can not be met by domestic producers. For example, in November 2010 ramin wood fiber was found in Indonesian paper products marketed in the United States which violates the Act "The Lacey Act" that prohibits the use or sale of animals and plants protected under the Convention on International Trade and Endangered Species of Wild Fauna and Flora (CITES). As a result, not only the United States who refused to use Indonesian pulp and paper products, but also European countries, Australia and Japan will potentially reject the product.

In spite of that, the impact of non-tariff rules mentioned above against CPO and paper export from Indonesia is not so significant. This can be seen from the development of CPO export in 2010 only slightly decreased (-2.9%), compared to 2009. The development of paper exports turned out to increase the volume by 8.7% in 2010.

