

Maintaining robust export growth

INTERVIEW WITH DR MARI ELKA PANGESTU

MINISTER OF TRADE, THE REPUBLIC OF INDONESIA



MARI ELKA PANGESTU was born in Jakarta in 1956. She obtained her doctorate at the University of California in international trade, finance and monetary affairs. Prior to becoming the Minister of Trade, she was program coordinator for the Pacific Economic Cooperation Council (PECC), a grouping of 23 member economies within the region. Currently she is a director of the Centre for Strategic and International Studies (CSIS) and also the co-coordinator of the Task Force on Poverty and Development for the United Nations Millennium Project.

Could you tell us what your ministry's main objectives are in the context of the current climate for global trade?

Our principal objective is to maintain robust export growth, given the challenges that the world economy is facing. On the one hand, because we are a commodity producer we have benefited from high commodity prices. But with the slow down in the US, European, and Japanese markets we are also trying to diversify our export markets. And at the same time we are involved in a number of negotiations to improve our market access. The biggest one is the WTO Doha development round which is still ongoing.

Last year we signed a trade deal with Japan that eliminates tariffs on approximately 92 per cent of trade between us. In the first phase of the agreement, Tokyo will remove 80 per cent of its tariffs, while Jakarta will remove 58 per cent. Over the next 10 years the two countries will make further reductions of 10 per cent and 35 per cent, respectively. Abolishing tariffs should boost Japanese exports of steel, cars, automotive components, and electronic goods to Indonesia. Meanwhile, Tokyo is reducing tariffs on many Indonesian agricultural products and removing all duties on most clothing, footwear, and timber products. The deal also allows Indonesian health care specialists to work in Japan on a full-time basis. Under the terms of the accord, Jakarta will provide workers over the next two years to help ease a staff shortage in Japan.

Perhaps the most prominent feature of the economic accord is a provision that ensures the stable supply of energy – crude oil and natural gas – from Indonesia to Japan. Indonesia is the chief supplier of natural gas to Japan, accounting for about one-third of its natural gas supply, and its sixth-largest exporter of crude oil. Altogether, natural gas, crude oil and coal account for about half of Japanese imports from Indonesia. The trade pact will build on an already substantial economic relationship between us. Japan comprises around 22 per cent of Indonesia's export revenue and is our largest trading partner.

And what about Indonesia's role in ASEAN?

ASEAN has also signed a free trade deal with Australia and New Zealand that comes into effect in 2010, and has announced plans to accelerate progress toward an EU-style trading bloc.

The free trade deal with Australia and New Zealand

will be one of Asia's largest trade agreements. The pact is projected to increase the flow of goods and services by US\$48 billion over the next decade. The deal will reduce or do away with tariffs on cars, coffee, vegetables, dairy and minerals over a period of 12 years. The agreement also covers investment, competition policy, electronic commerce, and trade in the services sector, including financial services and telecommunications.

In addition to the New Zealand/Australia deal, ASEAN has also negotiated trade pacts with China, Japan, India, and South Korea. We still maintain that if there's going to be an ASEAN-EU FTA then it has to be region to region, that's to say multilateral, not bilateral by individual member states. ASEAN has not changed on that position.

Have you been able to attract investors to develop the commodities sector by adding value to raw materials?

We have a large domestic market, and despite the slow down in the economy it's growing at around 5 per cent a year. Given the increased costs of operating in China and even Vietnam, growing numbers of companies are beginning to look at Indonesia in a much more favourable light. Politically we are stable, and we are improving the investment climate through revision of the tax law, the new investment law, the special economic zones that will be launched, customs packs regime, improving service, cutting red tape, etc. That's on the positive side.

On the less positive side the main problem that investors and exporters are identifying are infrastructure bottlenecks, mainly electricity and transportation. But we have a programme in place to alleviate these bottlenecks. So if investors or exporters take a medium term view, the opportunities are there.

What challenges still face foreign investors working to help develop infrastructure?

We are looking for public-private partnerships in infrastructure. But some projects have been a little bit slow to take off because of land issues. As a government we have done our maximum to help by purchasing the land and then getting the investor pay the government for the land. Even the government has to respect local regulations. But as a government we are very committed to ensuring that we overcome any problems. **F**