

# Chapter 5

## Survey on the Utilisation of Free Trade Agreements in Indonesia

Cita Wigjoseptina

Lili Yunita

Yusuf Sofiyandi

*Institute for Economic and Social Research, Faculty of Economics and Business  
University of Indonesia*

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## CHAPTER 5

### Survey on the Utilisation of Free Trade Agreements in Indonesia

Cita Wigjoseptina, Lili Yunita, and Yusuf Sofiyandi<sup>1</sup>

*Institute for Economic and Social Research, Faculty of Economics and  
Business, University of Indonesia*

The Government of Indonesia has actively involved itself in several free trade agreement (FTA) negotiations and prepared for them at the regulatory level. These efforts will not be effective, however, if the private sector, as the actor in real trade, does not take advantage of the benefits provided by the FTAs. This study is aimed at determining how far the private sector in Indonesia can optimise the use of FTAs to improve overall welfare. It takes the form of a survey of manufacturing sector and services sector firms in Greater Jakarta and Greater Surabaya in Indonesia. The survey reveals that firms' knowledge of the implementation of FTAs is limited. Despite lack of information, the use of FTAs, as indicated by the number of Certificates of Origin (COOs) obtained, is more frequent amongst medium-sized and large firms. Smaller firms face more difficulties in accessing the benefits of FTAs as indicated by the higher costs and longer time required to obtain COOs.

Keywords: trade agreement, ASEAN, Certificate of Origin, Indonesia, investment, manufacturing, services

JEL Classification: F140, F150, F21, L6, L8

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## **1. Context**

### **1.1. Background**

Indonesia's participation in free trade agreements (FTAs) and implementation of some significant reductions in tariff rates indicate that its economy has become open (Soesastro and Basri, 2005). As a member of the Association of Southeast Asian Nations (ASEAN) from its outset, Indonesia has been involved in all FTAs developed in Southeast Asia. According to the tariff regulations enacted by the Ministry of Finance, Indonesia implemented the ASEAN Free Trade Agreement (AFTA) in 2003, the ASEAN-China FTA in 2006, the ASEAN-Korea FTA (AKFTA) in 2007, the ASEAN-India FTA (AIFTA) in 2010, and the ASEAN-Australia and New Zealand FTA (AANZFTA) in 2012 (LPEM, 2013).<sup>2</sup>To date, however, Indonesia has yet to implement the ASEAN-Japan FTA (AJFTA) and has used instead the Indonesia-Japan Economic Partnership Agreement/IJEPA, signed in August 2007.

The involvement of Indonesia in the FTAs mentioned above is reflected in its national trade policy direction in 2010–2014. The policy focuses on facilitating exports, which is subdivided into eight main activities of coordination and development. Exports are facilitated in Asia and ASEAN through development and implementation of the Indonesia National Single Window and the ASEAN Single Window, and development of economic cooperation and financing in Asia.

Trade-related policies, such as an investment policy to support export facilitation, have also been implemented. The revision of the Investment Law to define all capital investments as investment, by Investment Law No.5/2007, was an important step. The Indonesia Investment Coordinating Board has also launched a one-stop integrated service to streamline business licensing.

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<sup>2</sup>Indonesia started to implement tariff reduction for several products of Chapter 01 to 08 in the framework of ASEAN-China FTA by Early Harvest Program by January 1, 2004 (International Agreement Cooperation Directorate, Ministry of Trade)

## 1.2. Questions

The Government of Indonesia has actively involved itself in several FTA negotiations and prepared for them at the regulatory level. This work will not be effective, however, if the private sector, as the main actor in real trade, does not take advantage of the benefits provided by FTAs. This survey is aimed at determining how far the private sector in Indonesia can optimise the use of FTAs to improve overall welfare.

## 1.3. Objectives

The survey on the use of FTAs in Indonesia was performed as part of an international parallel study conducted by the Economic Research Institute for ASEAN and East Asia (ERIA) in 10 ASEAN countries. In the Indonesian context, the survey sought to gather data and information on the implementation of ASEAN+n FTAs in Indonesia, including the use of Certificates of Origin (COOs), through a field survey of manufacturing and services firms, as well of the government institutions.

## 1.4. Methodology and Sample Distribution

This report is based on primary data collected in a firm survey. The firm survey covered manufacturing and services firms in Greater Jakarta and Greater Surabaya, where businesses are considered to be more highly agglomerated than other areas. To estimate FTA utilisation by manufacturing firms, the target was to find respondents in exporter manufacturing firms that might be expected to use FTAs or COOs. For the services sector, the target was to find respondents in construction (construction of commercial buildings, civil engineering, installation works, rental of construction equipment, etc.); telecommunications (public telephone services, mobile phone services, business network services, data and message transmission, IT services, etc.); and tourism (hotel and lodging services, restaurant and food service, tour operators, travel agencies, retail, etc.).

The firm survey used questionnaires<sup>3</sup> developed by ERIA and used in the other nine ASEAN countries. The manufacturing firms were selected from *Indonesia's Industrial Statistics 2010*. For services firms, the targets were obtained from related trade association websites, company directories published on the Internet, and other publications. The survey was conducted from May to July 2013. Before the survey, enumerators were briefed

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<sup>3</sup> The questionnaires were pre-tested to some firms in Indonesia.

in Jakarta and Surabaya. To encourage responses from the target firms and related institutions, the Ministry of Trade, through its Directorate of Regional Cooperation, supported the survey by providing an endorsement letter.

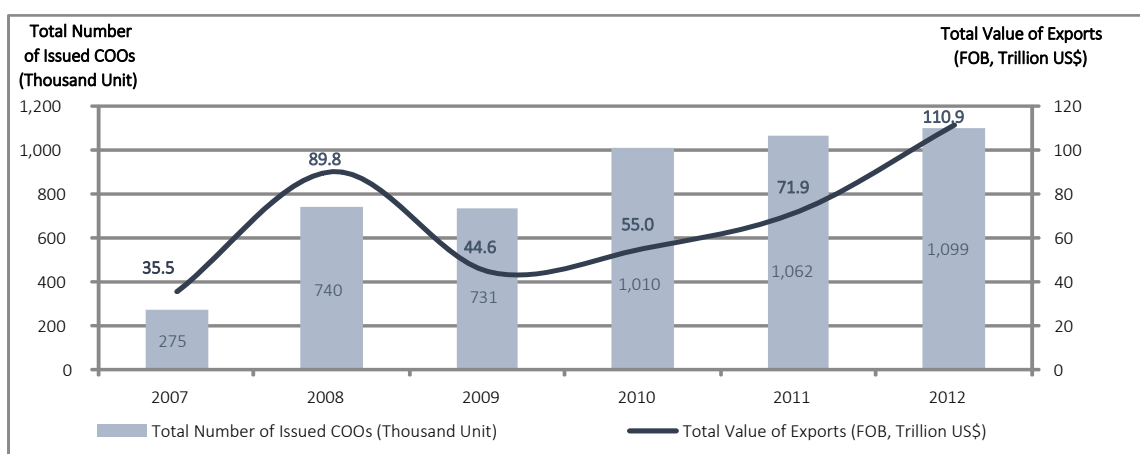
To complement the survey findings, several in-depth interviews and a focus group discussion were held.<sup>4</sup> The subjects for in-depth interviews were representatives of government institutions involved in implementing FTAs in Indonesia, and the target participants of the focus group discussion were from business associations that may derive benefits from FTAs. Secondary data on the use of COOs for exports were also collected from the Ministry of Trade.

## 2. Key Findings

### 2.1 Official Data on the Use of FTAs, Analysed by Agreement, Over the Years

The number of COOs issued by Indonesia's authorised institution (*Instansi Penerbit Surat Keterangan Asal*) rose consistently, from 274,759 in 2007 to 1,099,475 in 2012 (Figure 5.1). The largest increase occurred from 2007 to 2008 just prior to the impact of the global financial crisis. The value of exports rose in line with the increase in the number of COOs after 2009.

**Figure 5.1. Total Number of Issued COOs and Total Value of Exports, 2007–2012**



COO = Certificate of Origin, FOB = free on board.

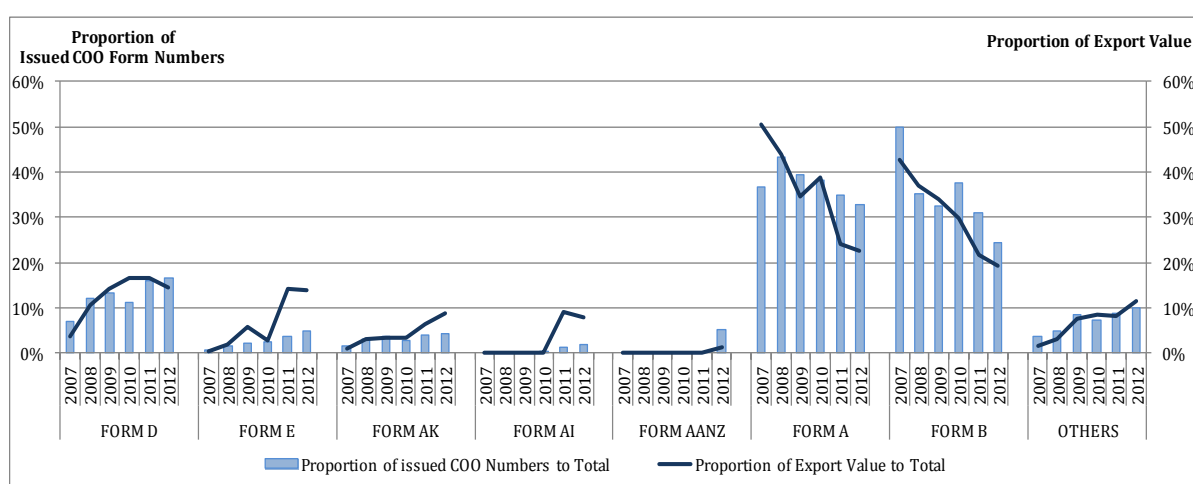
Note: Total value of exports relates only to goods using COOs for export.

Source: Directorate of Export and Import Facilitation, Ministry of Trade, recalculated.

<sup>5</sup>Notes from the focus group discussion and the in-depth interviews are reported separately from this survey report. Some related information from the focus group discussion and the in-depth interviews is included in this report. The conclusion and recommendation section also considers some findings from the focus group discussion and the in-depth interviews.

Form A (Generalized System of Preferences or GSP) and Form B (most-favoured nation or MFN) dominate the total number of issued COOs, but with a decreasing trend. Figure 5.2 shows that Form A accounted for 37 percent and Form B for 50 percent in 2007. By 2012, the numbers had fallen to four percent and 26 percent, respectively, possibly because of an increase in the use of other COO forms, either FTA or non-FTA forms. For example, the total number of forms classified as 'others' (IJEPA, ICC, COA, ICO, TP, GSTP, Handicraft Goods, Handicraft Product, and ANEXO III) rose, largely due to more IJEPA forms being issued. This trend is replicated in the export value profile. The share of exports using Forms A and B decreased from 2007 to 2012, whereas the share using other forms increased.<sup>5</sup>

**Figure 5.2. Distribution of Number of COO Forms, 2007–2012**



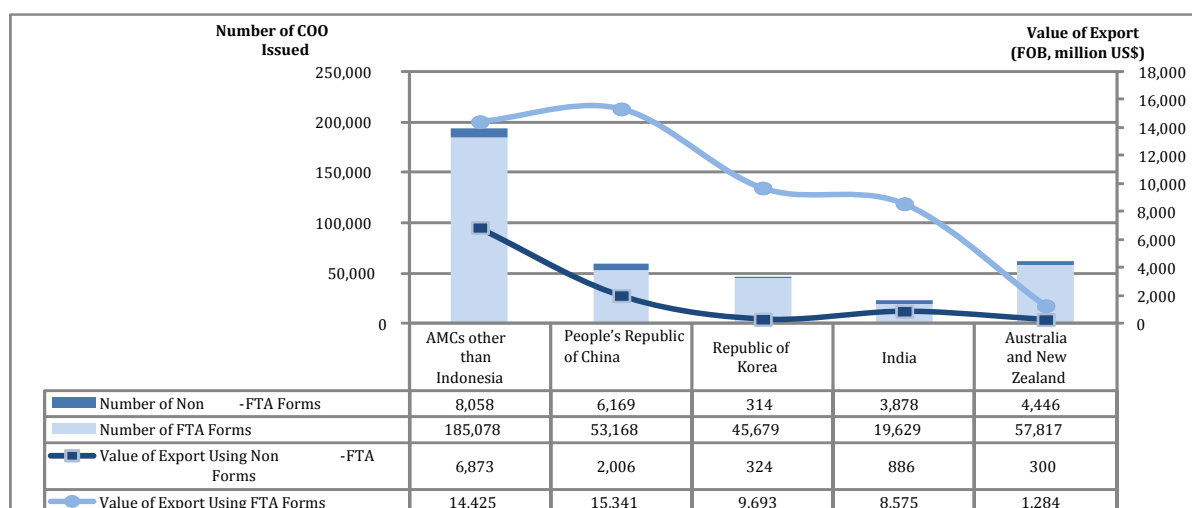
AANZ = ASEAN-Australia and New Zealand, AI = ASEAN-India, AK = ASEAN-Korea, COO = Certificate of Origin.  
 Note: Total value of export is for goods using COOs for export.

Source: Directorate of Export and Import Facilitation, Ministry of Trade, recalculated.

The trend of export value using FTA forms is always higher than that of non-FTA forms (Figure 5.3). Similarly, more FTA COO forms are used than non-FTA COO forms, implying that FTAs are used more frequently for exporting to destinations where an FTA exists.

<sup>5</sup> An exporter needs to fill a kind of form to obtain COO. The forms are different according to the export destination countries and export facilitation (FTA or non-FTA). The FTA forms are Form D for ASEAN FTA, Form E for ASEAN-China FTA, Form AI for ASEAN-India FTA, Form AK for ASEAN-Korea FTA and Form AANZ for ASEAN-Australia and New Zealand FTA. The non-FTA forms are Form A for Generalized System of Preferences (GSP), Form B for Most-Favoured Nations (MFN), and other specific forms e.g., IJEPA, Industrial Craft Certification (ICC), Certificate of Authenticity Tobacco (COA), International Coffee Organization (ICO), Textile Products (TP), Global System of Trade Preference (GSTP), Handicraft Goods, Handicraft Products, ANEXO III (Certificado De Pais De Origen).

**Figure 5.3. Number of COOs Issued and Export Value by FTA ASEAN+1 Destination Countries, Indonesia, 2007–2012**



AMCs = ASEAN member countries, COO = Certificate of Origin, FOB = free on board, FTA = free trade agreement.

Note: Total value of export is for goods using COOs for export.

Source: Directorate of Export and Import Facilitation, Ministry of Trade, recalculated.

## 2.2 Use of FTAs by Manufacturing Firms

This section describes the key findings of FTA utilisation by manufacturing firms. The characteristics of the firms are shown in Table 5.1.

Given the focus of this survey on exporting and importing, it is not surprising that most firms (38 percent of 104 firms) are in bonded zones. Table 5.1 also shows that importing and exporting firms dominate the profile (73 percent of 104 firms). About seven percent of firms directly imported inputs and raw materials.

FTA utilisation is characterised by medium-sized and large firms, and by the role of foreign investors in ownership. Medium-sized and large firms constituted 39 percent and 57 percent of the sample, respectively, and the role of foreign participation is shown by the ownership block in Table 5.1, where domestic firms with foreign participation make up 35 percent and pure foreign firms comprise 39 percent of the total.<sup>6</sup>

<sup>6</sup> The International Finance Corporation (IFC) criteria for firm size according to the number of workers are: fewer than 50 workers is a small firm; 51–300 workers is a medium firm; above 300 workers is a large firm.

**Table 5.1. Firm Characteristics — Manufacturing**

<b>a. By Size</b>				
	<b>Small</b>	<b>Medium</b>	<b>Large</b>	<b>Total</b>
<b>Number</b>	4	41	59	104
<b>Percentage</b>	4	39	57	100
<b>b. By Ownership</b>				
	<b>Domestic firm</b>	<b>Domestic firm with foreign participation</b>	<b>Foreign firm</b>	<b>Total</b>
<b>Number</b>	27	36	41	104
<b>Percentage</b>	26	35	39	100
<b>c. By Activity</b>				
	<b>Exporting only</b>	<b>Importing only</b>	<b>Exporting and importing</b>	<b>Total</b>
<b>Number</b>	21	7	76	104
<b>Percentage</b>	20	7	73	100
<b>d. By Location</b>				
	<b>Not in any particular zone</b>	<b>Industrial zone</b>	<b>Bonded zone</b>	<b>Total</b>
<b>Number</b>	34	31	39	104
<b>Percentage</b>	33	30	38	100

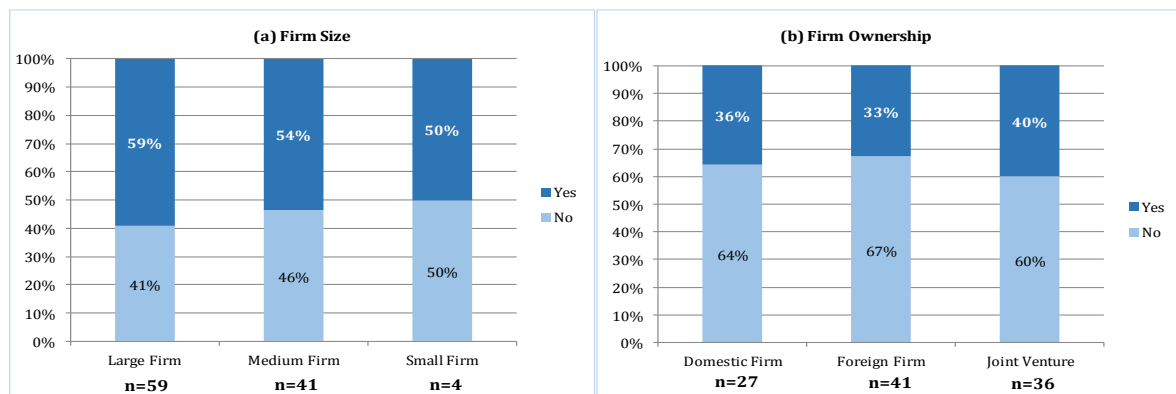
Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

### 2.2.1. Use of FTAs, Analysed by Firms' Characteristics

FTAs are used by firms of all sizes and by at least 50 percent of the firms in each category. The largest FTA users as shown by panel (a) in Figure 5.4 are the large firms, and the lowest users are the small firms. It is notable that a (small) number of the small firms are in fact FTA users. Another feature of FTA users in panel (b) is that the users are either domestic, foreign, or joint-venture firms. The joint-venture firms are the largest FTA users compared with the other two categories.



**Figure 5.4. Use of FTAs, Analysed by Firm Size and Ownership — Manufacturing**

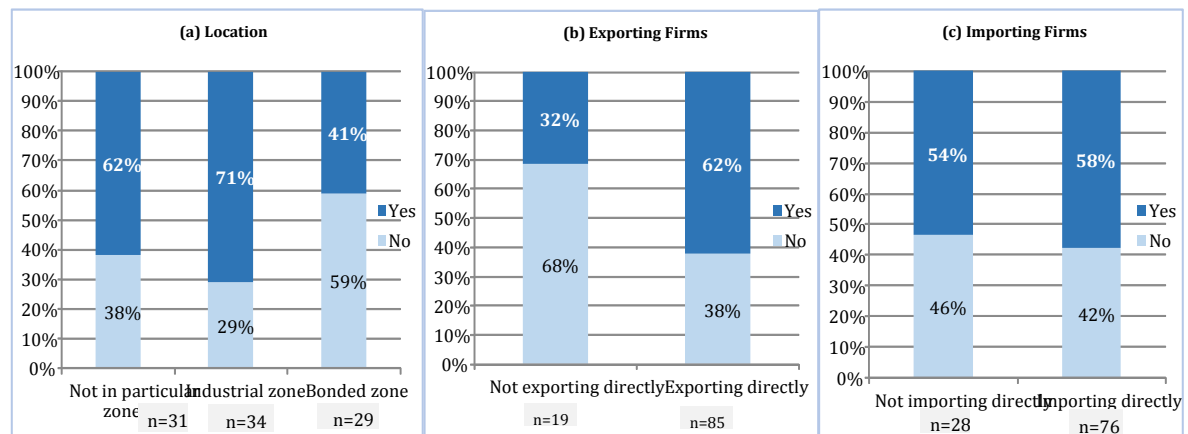


FTA = free trade agreement.

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

The FTA users are mostly firms in industrial zones, as shown by panel (a) of Figure 5.5. The firms in bonded zones are possibly not using FTAs frequently, since this particular kind of zone provides special treatment for the industry, e.g. free excise duty for export or re-export of goods and one-stop services for integrated business administration. The FTA users were mostly firms exporting or importing directly as shown by panels (b) and (c).

**Figure 5.5. Use of FTAs, by Firms' Location and Activities — Manufacturing**



FTA = free trade agreement.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

### 2.2.2 Survey Results of the Use of FTAs, by Agreement

The use of trade schemes by the survey respondents is common, and GSP or an FTA are the usual schemes. Table 5.2 shows that at least 57 percent of the 104 firms surveyed state that they use FTAs. Some new FTA users are firms shifting from GSP to FTAs. The survey reveals a significant increase in the number of FTA users in 2010. Manufacturing firms are generally familiar with FTAs, as indicated by the fact that the proportion of firms that have some knowledge of FTAs is larger than the proportion of COO users, compared with the total sample.

**Table 5.2. Firms' Experience with GSP and FTA — Manufacturing**

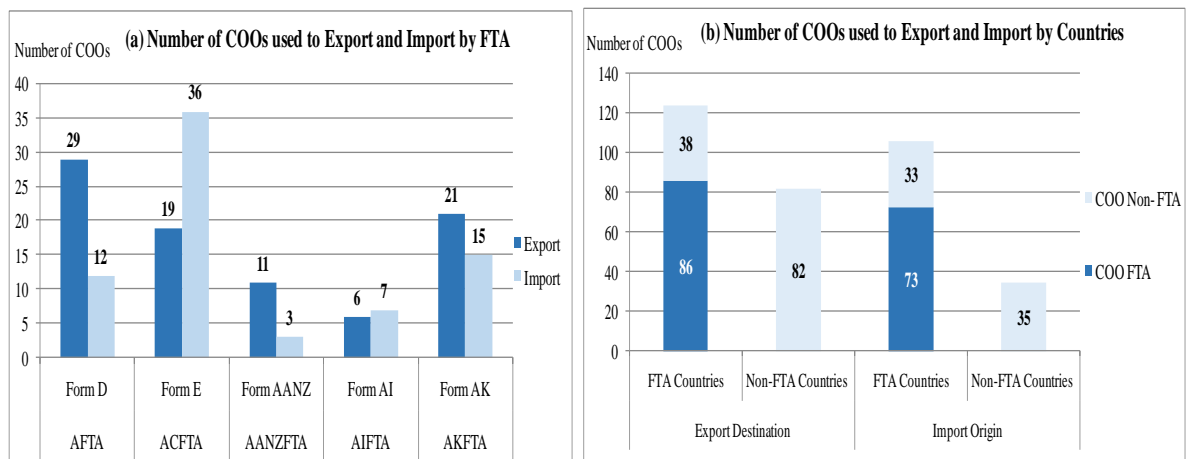
Company has used a GSP	Company has used an FTA		Total
	No	Yes	
<b>No</b>	31	33	64
<b>Yes, and currently using GSP</b>	12	17	29
<b>Yes, but currently using FTA (shifted from GSP to FTA)</b>	1	5	6
<b>Yes, but currently not using GSP</b>	1	4	5
<b>Total</b>	45	59	<b>104</b>

FTA = free trade agreement, GSP = Generalized System of Preferences.

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

The survey finds that utilisation of the more recently established ASEAN+1 FTAs is generally lower than for the older FTAs (ASEAN-China and ASEAN-Korea) as shown by panel (a) of Figure 5.6. The implementation of these two FTAs was effective in Indonesia in 2006 and 2007, respectively. The ASEAN-India FTA was implemented in 2010, and the Australia and New Zealand FTAs in 2012. Comparing the number of COOs to exports and imports by each ASEAN+1 FTA with the ASEAN FTA indicates that Indonesia's main export destination is still ASEAN, but that imports have spread out to ASEAN+1 countries in addition to the ASEAN member countries, especially imports from the People's Republic of China. This is confirmed by panel (b), which shows that the use of FTA-COOs to export to or import from the FTA countries is higher than that of non-FTA COOs.

**Figure 5.6. Number of ASEAN+1 FTA COOs Used for Export and Import —Manufacturing**

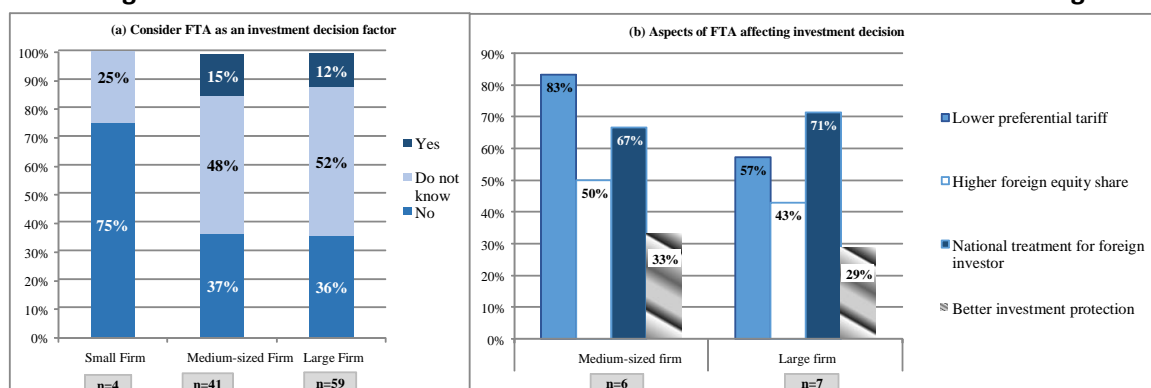


AANZFTA = ASEAN-Australia and New Zealand Free Trade Agreement, ACFTA = ASEAN-China Free Trade Agreement, AFTA = ASEAN Free Trade Agreement, AIFTA = ASEAN-India Free Trade Agreement, AKFTA = ASEAN-Korea Free Trade Agreement, COO = Certificate of Origin, FTA = free trade agreement.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

### 2.2.3 Perceptions of How FTAs Affect Decisions to Invest, by Firm Size

The survey finds that FTAs have only affected past investment location decisions for a small proportion of firms. Figure 5.7 shows that most firms of all sizes do not know whether an FTA was a factor in investment location. This finding is even more apparent for small firms, 75 percent of which say that there is no FTA effect. For medium-sized and large firms, however, FTAs affected their investment decisions because an FTA benefited the business in some aspects, e.g. lower preferential tariff, better treatment for foreign investors, and opportunity to have a higher foreign ownership share.

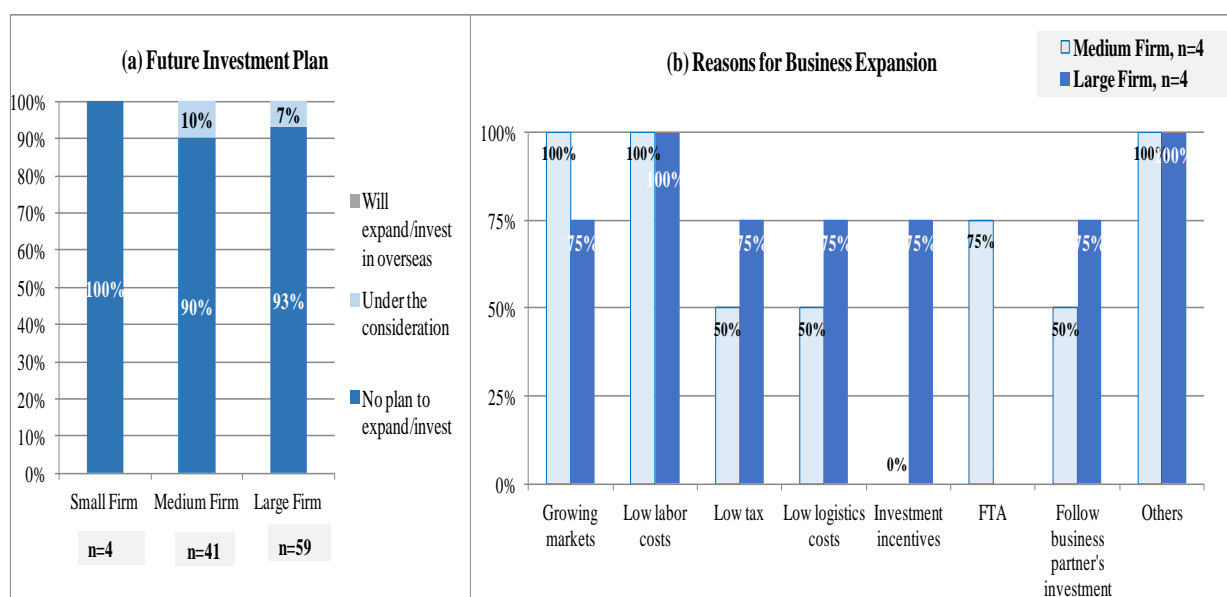
**Figure 5.7. Effects of FTA on Past Investment Location Decision — Manufacturing**

FTA = free trade agreement.

Note: Multiple answers were allowed for questions on aspects of FTAs affecting investment decisions.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

The survey also captures manufacturing firms' unwillingness to expand their existing businesses or open new establishments overseas in the next five years. Figure 5.8 in panel (a) shows this condition applies for all small firms and for almost all other firms. Overseas expansion is in general motivated by low labour costs in the potential investment destination countries, e.g. Viet Nam, Malaysia, and the People's Republic of China. More specifically, an FTA is a motivating factor only for medium-sized firms.

**Figure 5.8. Future Investment Decisions — Manufacturing**

FTA = free trade agreement.

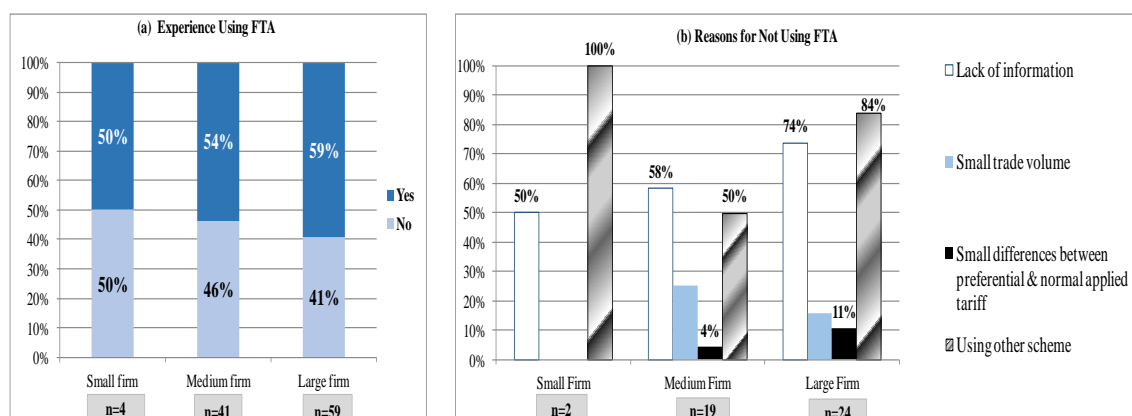
Note: Multiple answers for aspects of FTA affecting investment decision were allowed.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

## 2.2.4 Constraints on Using FTAs, by Firm Size

The survey reveals that experience in using FTAs is considerable across all firm sizes. Figure 5.9 shows that at least 50 percent of firms use at least one of the five existing FTAs. For the non-FTA users, the common reasons are that they are either using another scheme or they lack information. The ‘other scheme’ reply is an obvious reason for not using FTA because most of the firms are located in special economic zones.

**Figure 5.9. Experience in Using FTAs and Reasons for Not Using FTAs — Manufacturing**



FTA = free trade agreement.

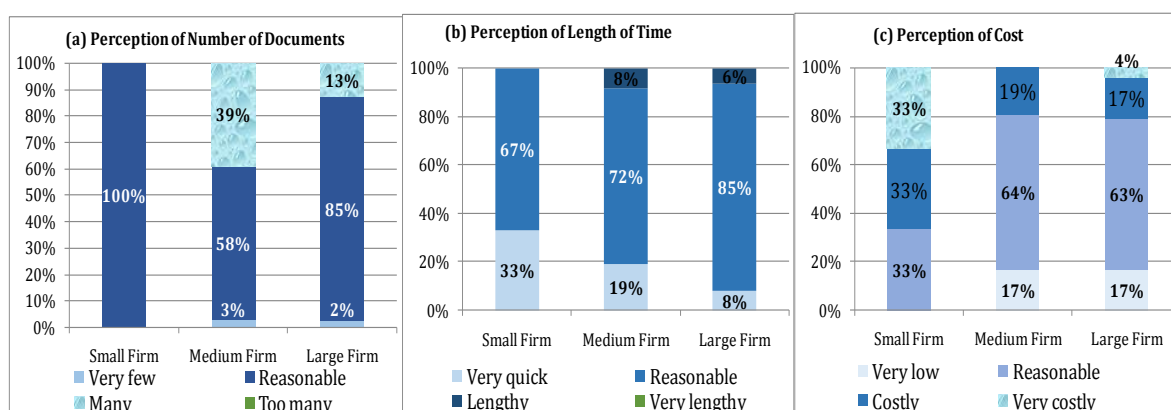
Note: Multiple answers for reasons for not using FTA were allowed.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia..

## 2.2.5 Perceptions of the Costs and Procedures Associated with FTAs, Analysed by Firm Size

The survey shows that respondents from all firm sizes agree that COOs in general can be obtained with a reasonable number of documents within a reasonable length of time and at a reasonable cost. Panel (a) in Figure 5.10 shows that the variation of opinion across firms about the administrative process, as measured by the number of documents, is less than the variation of opinions of time taken and cost. In panel (b) it can be seen that a small portion of medium-sized and large firms think the time is very short, or too long, whilst panel (c) shows that considerable portion of the firms think the cost is very low or too expensive. However, none of the small firms states that the cost is very low.

Figure 5.10. Aspects of Process of Obtaining COOs — Manufacturing



COO = Certificate of Origin.

Note: In total, three small, 36 medium-sized, and 48 large firms responded to this part of the survey.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia

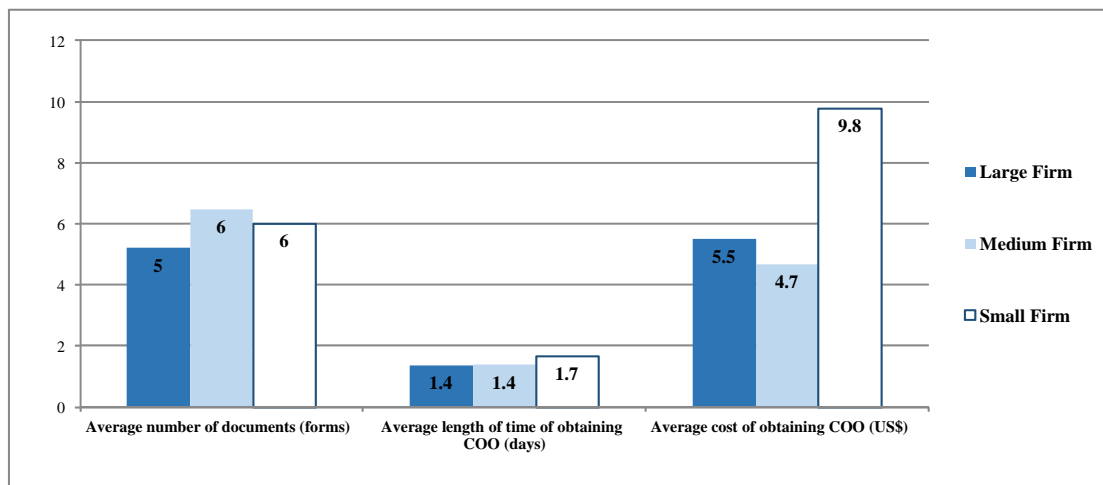
The main variation in aspects of obtaining COOs across firm types is cost. Figure 5.11 shows that small firms pay more than medium-sized and large firms, at US\$9.8 for a COO on average or at least 40 percent more than the fee paid by medium-sized and large firms.<sup>7</sup> Small firms also need, on average, 0.3 extra days to obtain a COO.<sup>8</sup> These difficulties in obtaining COOs create obstacles for small firms wishing to take advantage of FTAs<sup>9</sup>

<sup>7</sup>According to the Ministry of Trade Regulation No.31/2009, the cost per issuance of COO is IDR 5,000 [USD 1=IDR 10,400 at Indonesia Central Bank average exchange rate in 2013). The fee is collected as an earmark and a source of non-tax revenue for the national budget.

<sup>8</sup>According to the Ministry of Trade Regulation No.12/2010, the required documents are the customs declaration for export, bill of lading, taxpayer number, invoice, packing list, and specific documents in accordance with types of COO.

<sup>9</sup>The design of the questionnaire did not ask for details of cost and length of time for each document needed for a COO. However, the focus group discussion confirms that the cost for issuance and types of documents are the same for all sizes of firms.

**Figure 5.11. Number of Documents, Length of Time, and Average Cost of Obtaining COO — Manufacturing**



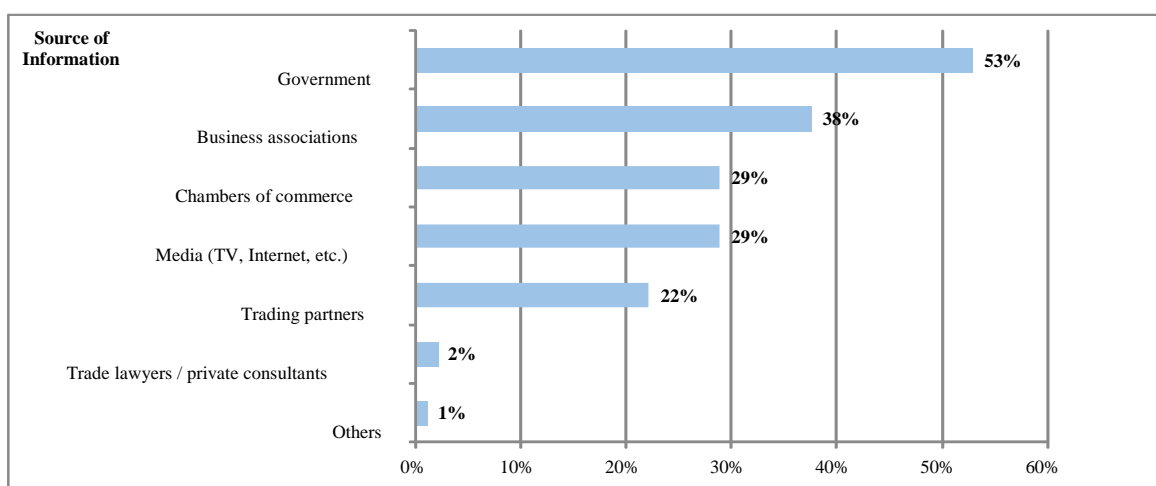
COO= Certificate of Origin.

Note: In total, three small firms, 36 medium-sized firms, and 48 large firms responded to this part of the survey.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

## 2.2.6 Main Sources of Information About FTAs

The government is the main source of information about FTAs for the surveyed firms. Figure 5.12 shows that other important sources of information are business associations, chambers of commerce, and media (television, Internet, etc.). Information also comes from FTA seminars or field visits to firms by trade ministry officials.

**Figure 5.12. Main Sources of Information about FTA — Manufacturing**

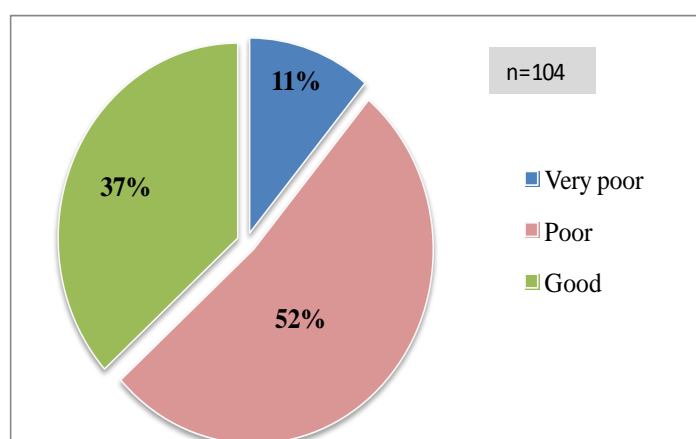
FTA = free trade agreement.

Note: Multiple answers were allowed.

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

### 2.2.7 Other Interesting Issues that Need to be Highlighted

The survey shows that FTA-related information is scarce. Figure 5.13 shows that 88.4 percent of total respondents agree on the poor availability of information but a considerable 36.5 percent of total respondents still think that the information availability is good.

**Figure 5.13: Availability of FTA-Related Information — Manufacturing**

FTA = free trade agreement.

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.



### 2.3. Use of FTAs by Services Firms

This section provides key findings on the services sector, including hotels, restaurants, construction, and telecommunications. The survey of a total of 43 services firms shows that in general only a limited number of services firms know about FTAs. This can be seen from their experience with FTAs, and from the fact that their main reason for not using FTAs is lack of information.

Services firms are mostly large and small firms and only some of the firms are importers (Table 5.3). The non-importers mainly purchase inputs and materials through vendors of imports or use local products. The firms are mainly domestically owned and have their main office or headquarters in Indonesia.

**Table 5.3: Firm Characteristics — Services Firms**

<b>a. By Size</b>				
	<b>Small</b>	<b>Medium</b>	<b>Large</b>	<b>Total</b>
Number	17	8	18	<b>43</b>
Percentage	40	19	42	100
<b>b. By Ownership</b>				
	<b>Domestic firm</b>	<b>Domestic firm with foreign participation</b>	<b>Foreign firm</b>	<b>Total</b>
Number	28	12	3	43
Percentage	65	28	7	100
<b>c. By Activity</b>				
	<b>Direct importer</b>	<b>Not direct importer</b>		<b>Total</b>
Number	4	39		43
Percentage	9	91		100
<b>d. By Status</b>				
	<b>Headquarters/ Main office</b>	<b>Regional/Country headquarters</b>	<b>Branch office</b>	<b>Total</b>
Number	38	3	2	43
Percentage	88	7	5	100

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

#### 2.3.1. Use of FTAs, Analysed by Firm Characteristic

FTAs are used by only a small number of firms. Table 5.4 shows only four of 43 surveyed firms use FTAs. The FTA users are those firms importing directly and either

domestic or joint-venture firms. By services sub-sector, these are construction, hotel, and restaurant firms.

**Table 5.4: Use of FTAs, Analysed by Firm Characteristic**

Firms Characteristic	No	Don't Know	Yes	Total Number of Firms
<b>Firm Size</b>	<b>32</b>	<b>8</b>	<b>4</b>	<b>44</b>
• Large	12	5	1	18
• Medium	6	2	0	8
• Small Firm	14	1	3	17
<b>Ownership</b>	<b>32</b>	<b>8</b>	<b>3</b>	<b>43</b>
• Domestic	22	4	2	28
• Foreign	3	0	0	3
• Joint venture	7	4	1	12
<b>Import activities</b>	<b>32</b>	<b>8</b>	<b>4</b>	<b>44</b>
• Not importing directly	31	8	0	39
• Importing directly	1	0	3	4
<b>Sub-sectors</b>	<b>32</b>	<b>8</b>	<b>4</b>	<b>44</b>
• Construction	5	4	1	10
• Hotel	6	1	1	8
• Restaurant	7	3	1	11
• Telecommunications	14	0	0	14

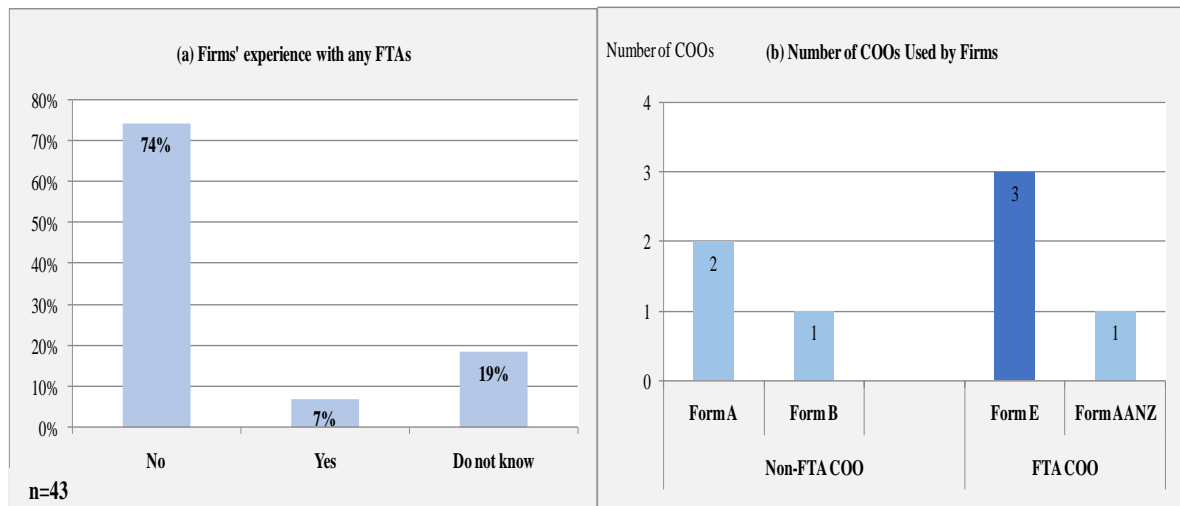
FTA = free trade agreement.

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

## 2.2.8 Survey Results on the Use of FTAs

The use of FTAs and COOs is not frequent amongst services firms. This can be seen in Figure 5.14, where only four firms (seven percent of 43 firms) state that they have used any FTA in importing inputs and materials, and only two existing FTAs had ever been used—Form E (ASEAN-China FTA) and Form AANZ. The use of non-FTA COOs is also low.

**Figure 5.14. Firms' Experience with FTAs and COOs — Services Firms**

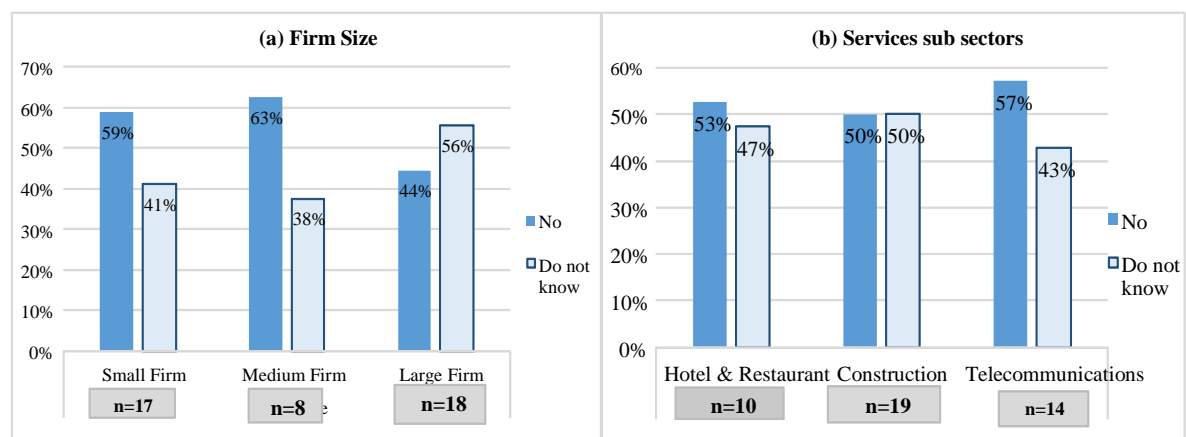


AANZ = ASEAN-Australia and New Zealand, COO = Certificate of Origin, FTA = free trade agreement.  
 Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

## 2.2.9 Perceptions of How FTAs Affect Decision to Invest

The survey shows that an FTA is obviously not a factor in deciding investment location for the services sector. Figure 5.15 in panel (a) shows that firms of all sizes do not consider or do not know whether an FTA was a factor in deciding their past investment location. The answer is similar for each sub-sector.

**Figure 5.15. Effect of FTA on Investment Decision — Services Firms**

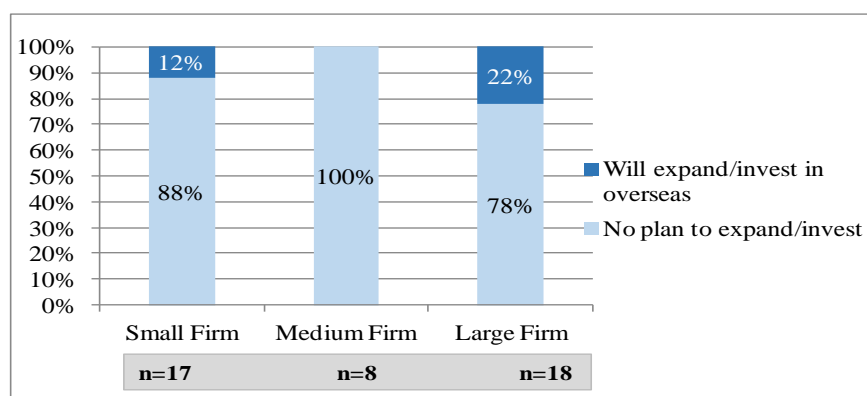


FTA = free trade agreement.  
 Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

Services firms also do not consider FTAs in their investment planning. Figure 16 shows the percentage of small and large firms that plan to expand their existing businesses overseas, or to open new establishments overseas in the next five years, with Malaysia,

Singapore, East Timor, and Australia at the top of the destination list. However, none of the firms mention an FTA as the reason for business expansion. The two small and four large firms that were thinking about expanding gave as reasons growing markets, following a business partner's investment, and investment incentives.

**Figure 5.16. Business Future Investment Plans — Services Firms**



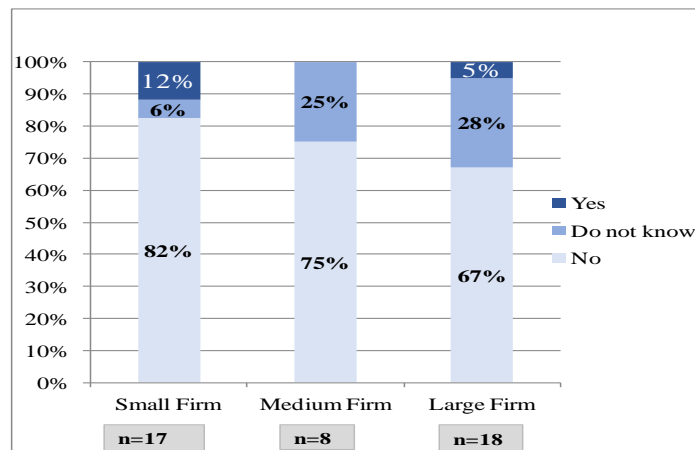
Note: None of the firms chose 'under consideration' for business investment plan.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

### 2.2.10 Constraints on Using FTAs, by Firm Size

The main reason given by services firms of all sizes for not using FTAs is a lack of information. Panel (a) in Figure 5.17 shows that a large share of firms have never used or do not know whether they have ever used an FTA in importing inputs or raw materials. The next panel detailing the reasons behind this behaviour shows that lack of information is listed first amongst other reasons across firm sizes. The second and third reasons differ according to firm size. Some reasons are only stated by the small and large firms, e.g. too expensive and complicated procedures to obtain COOs, and the small difference between the preferential tariff and the normal tariff.

**Figure 5.17 a. Experience of Using FTAs— Services Firms**



FTA= free trade agreement.

Source: Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

**Figure 5.17 b. Reasons for Not Using FTAs — Services Firms**

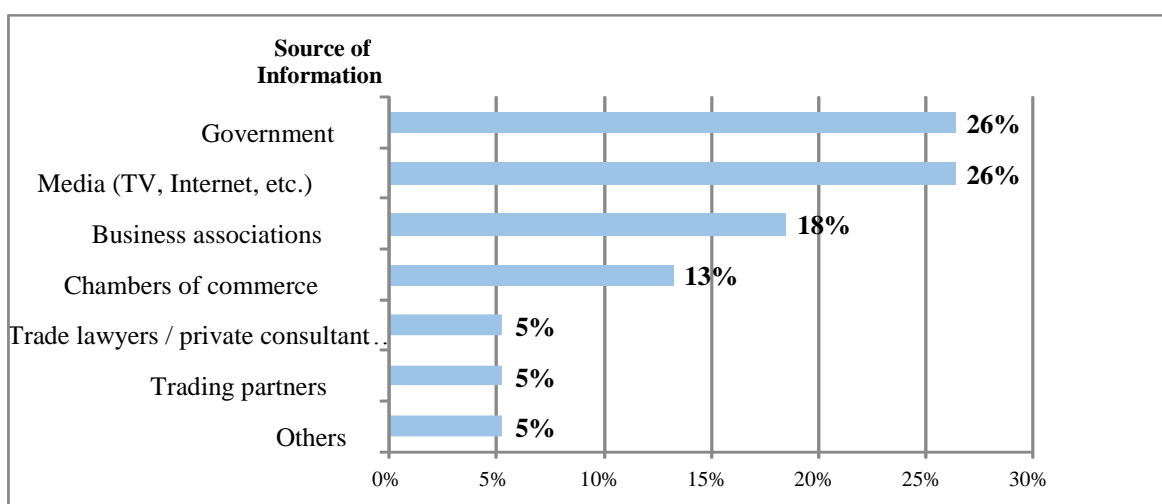
Reason	Small	Medium-Sized	Large
Lack of information	12	5	8
Small trade volume	7	1	0
Small differences between preferential FTA and normal applied tariff	0	0	2
Cost of obtaining COOs too high	0	0	1
Procedures for obtaining COOs too complicated	1	0	1
Cannot meet the ROOs requirement for using FTAs	1	0	0
Others	3	3	8
<b>Total number of firms</b>	<b>14</b>	<b>6</b>	<b>12</b>

COO = Certificate of Origin, FTA = free trade agreement, ROO = rules of origin.

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

### 2.2.11 Main Sources of Information About FTAs

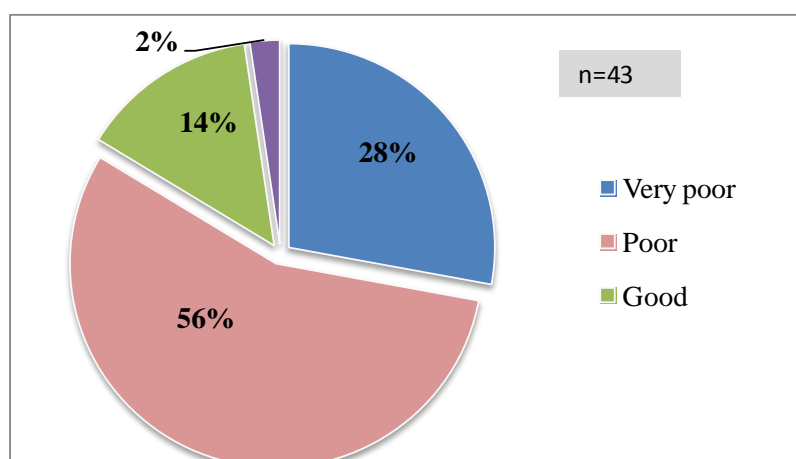
The two main sources of information about FTAs for services firms are government and media (television, Internet, etc.). Figure 5.18 also shows that business associations play a more important role for FTA information than the chambers of commerce. These firms also mention trade lawyers and/or private consultants and trading partners as important sources of information. These last two reasons probably stem from the fact that FTAs in services are tightly regulated.

**Figure 5.18. Source of Information — Services Firms**

Source: Survey on the Utilisation of FTAs, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

### 2.2.12 Other Interesting Issues that Need to be Highlighted

The survey shows that FTA-related information is scarce. Figure 5.19 shows that 56 percent of firms state that information availability is poor. Even so, a significant portion of services sector firms still think that the information availability is good.

**Figure 5.19. Availability of FTA-Related Information — Services Firms**

FTA = free trade agreement.

Source: Survey on the Utilisation of FTA, Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia.

### 3. Conclusions and Recommendations

- The survey reveals that firms' knowledge of FTA implementation is limited. It indicates mostly poor availability and quality of information provided by the main sources of information, i.e. government, business associations, chambers of commerce, and media. These parties should therefore work together to provide better and more detailed information about FTAs (e.g. benefits and business opportunities, relationship between FTAs, ROOs, and COOs).

- Small firms face more barriers in using FTAs than medium-sized and large firms in terms of the cost of, and length of time taken in, obtaining COOs. Given that the majority of firms in Indonesia are small, they play an important national role. The government should seek to increase the involvement of small firms in FTAs.<sup>10</sup> Action should be specifically designed to provide information about FTAs and the process for obtaining COOs.

- The government needs to develop an integrated strategy across sectors to motivate and support firms to take full advantage of FTAs. The survey finds that only a small portion of firms consider FTAs in their business plans, e.g. in investment location and business expansion, i.e. new establishment overseas and introduction of new products and entry into new potential markets.

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<sup>10</sup> International Finance Corporation (IFC,2012) states that the global financial crisis has intensified policy focusing on small and medium-sized enterprises as the engine of employment and growth. It acknowledges that the role of micro, small, and medium-sized businesses is around 60 percent of Indonesia's gross domestic product, and the provider of livelihoods for more than 90 percent of the country's workforce.

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## Appendix

**Table 5.A.1. Summary of ASEAN+1 FTA Implementation by Indonesia**

Involving Parties	Title of Agreement	Date Signed	Start Date of Implementation in Indonesia	
			Legalisation of Agreement By Presidential Decree	Implementation by Ministry Regulations
<b>ASEAN</b>	ASEAN Free Trade Area	1992	1995	2003 for CEPT
	ASEAN Framework Agreement on Services	1995	1995, with an amendment in 2004	**
<b>ASEAN-China</b>	ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement	2004	2004	2006
<b>ASEAN-Korea</b>	ASEAN-Korea Comprehensive Economic Cooperation Agreement	2006	2007	2007
<b>ASEAN-Japan</b>	ASEAN-Japan Comprehensive Economic Partnership	2008	2009	not yet in effect and implemented
<b>ASEAN-India</b>	ASEAN-India Comprehensive Economic Cooperation Agreement	2009	2010	2010
<b>ASEAN-Australia and New Zealand</b>	ASEAN-Australia and New Zealand Free Trade Agreement	2009	2011	2012

Common Effective Preferential Tariff (CEPT), FTA = free trade agreement.

Note: \*\* Not regulated yet

Source: Summarised from [www.asean.org](http://www.asean.org) and regulations.

**Table 5.A.2. Total Number of Issued COOs and Total Value of Export, Indonesia, 2007-2012**

Year	Total Number of Issued COOs (thousand)	Total Value of Export (FOB, US\$ trillion)
<b>2007</b>	274,759	35.5
<b>2008</b>	739,924	89.8
<b>2009</b>	730,787	44.6
<b>2010</b>	1,010,092	55.0
<b>2011</b>	1,062,443	71.9
<b>2012</b>	1,099,475	110.9

COO = Certificate of Origin, FOB = free on board.

Source: Directorate of Export and Import Facilitation, Ministry of Trade, recalculated.

Table 5.A.3. Distribution of Number of COO Forms, Indonesia, 2007-2012

Year	Form D		Form AI		Form AANZ		Form E	
	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)
2007	7	4	0	0	0	0	1	1
2008	12	10	0	0	0	0	2	2
2009	13	14	0	0	0	0	2	6
2010	11	16	0	0	0	0	3	3
2011	16	17	1	9	0	0	4	14
2012	17	15	2	8	5	1	5	14
Year	Form AK		Form A		Form B		Others	
	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)	Proportion of Issued COO Numbers to Total (%)	Proportion of Export Value to Total (%)
2007	2	1	37	50	50	43	4	2
2008	3	3	43	44	35	37	5	3
2009	4	4	39	35	33	34	9	8
2010	3	3	38	39	38	30	7	9
2011	4	6	35	24	31	22	9	8
2012	4	9	33	23	24	19	10	12

AANZ = ASEAN-Australia and New Zealand, AI = ASEAN-India, COO =Certificate of Origin.

Source: Directorate of Export and Import Facilitation, Ministry of Trade, recalculated.

**Table 5.A.4. Number of Issued COOs and Export Value by FTA ASEAN+1 Destination Countries, Indonesia, 2007-2012**

Export Destination Countries	Number of Export COO		Value of Export		Form FTA		Other than FTA Form	
	Number of FTA Forms	Number of Non-FTA Forms	Value of Export Using FTA Forms	Value of Export Using Non-FTA Forms	Number of Producer Importer	Number of General Importer	Number of Producer Importer	Number of General Importer
<b>AMCs other than Indonesia</b>	185,078	8,058	14,425	6,873	10,023	3,910	3,074	776
<b>People's Republic of China</b>	53,168	6,169	15,341	2,006	3,418	1,378	557	144
<b>South Korea</b>	45,679	314	9,693	324	3,603	1,206	69	20
<b>India</b>	19,629	3,878	8,575	886	1,533	790	482	139
<b>Australia and New Zealand</b>	57,817	4,446	1,284	300	5,118	3,673	997	226

AMCs = ASEAN member countries, COO = Certificate of Origin, FTA = free trade agreement.

Source: Directorate of Export and Import Facilitation, Ministry of Trade recalculated.