

# Chapter 4

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## Trade Facilitation in Indonesia and Results of the ASTFI II Study

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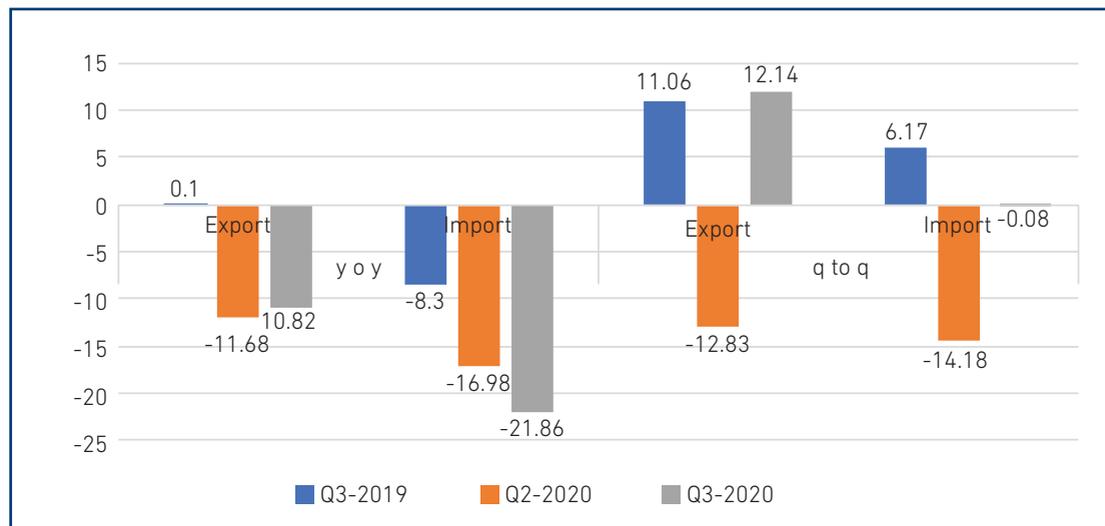
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# 1. Overall Trade Facilitation Environment

2020 has been a challenging period not only for Indonesia but also for most of the global economy, with the coronavirus disease (COVID-19) significantly disrupting trade, as shown in Figure 4.1.

**Figure 4.1. Trade Growth of Indonesia, Q3-2019, Q2-2020, Q3-2020 (y. on y., q. to q.) (%)**



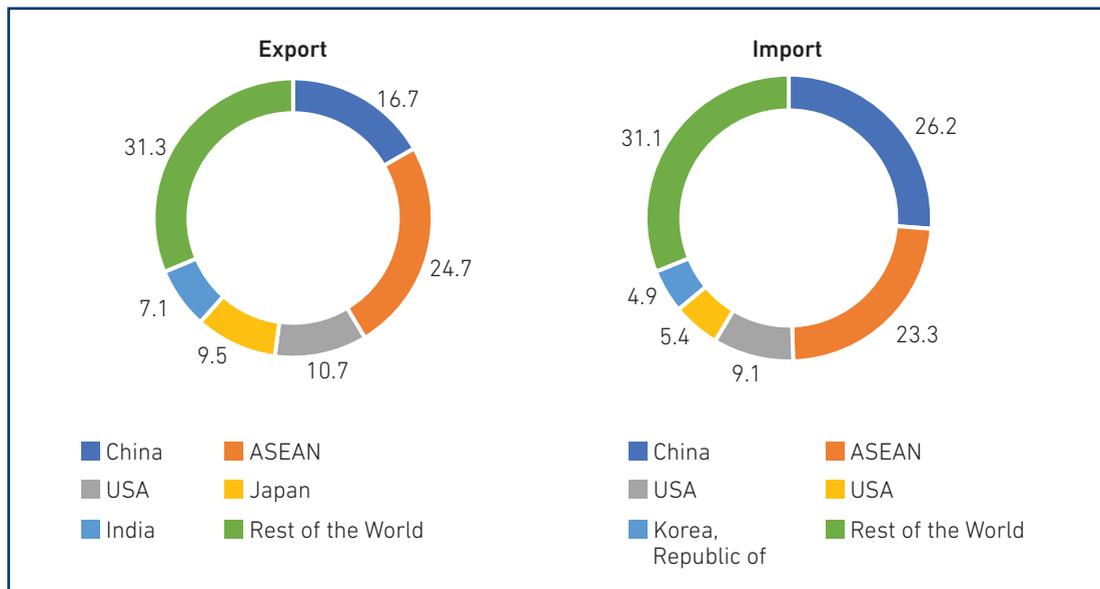
Source: Official Statistic Release (Statistics Indonesia, November 2020), 12 January 2021. [https://www.bps.go.id/website/materi\\_ind/materiBrsInd-20201105120056.pdf](https://www.bps.go.id/website/materi_ind/materiBrsInd-20201105120056.pdf)

Figure 4.1 shows that during the pandemic period, Indonesia's trade contracted in both Q2-2020 and Q3-2020 on a year-on-year basis. However, the quarter-to-quarter data indicate positive developments in the future following various government efforts with regard to economic recovery.

By 2019, Indonesia's trading partners were still predominantly Association of Southeast Asian Nations (ASEAN) countries and several others such as China, Japan, United States, the Republic of Korea (henceforth, 'Korea'), and India (Figure 4.2). ASEAN accounts for 24.7% (\$41.4 billion) of Indonesia's total exports, making it the major export destination and also the source of 23.3% (\$39.9 billion) of its imports.

With regard to the top commodity imports and exports, the main exported products to the global market are still in line with the previous period, such as mineral fuels, mineral oils, and animal or vegetable fats and oils (HS code 27 and 15) with a total value of \$51.7 billion, accounting for 30.8% of the total. Likewise, Indonesia's main imported products are also the same as last year, consisting of electrical products, electrical equipment, and machinery (HS Code 84 and 85), with a total value of \$46.8 billion, or 27.3% of the total. In summary, the values of exported and imported goods are \$167.6 billion and \$171.2 billion, respectively.

**Figure 4.2. Indonesia Top Export and Import Destination in 2019**  
(in %)



ASEAN – Association of Southeast Asian Nations, USA = United States of America.

Source: International Trade Centre (2020).

Facilitation is one of the essential strategies of Indonesia to restore declining trade. During 2018–2020, Indonesia implemented two free trade agreements (FTAs), the *ASEAN-Hong Kong Free Trade Agreement* and the *Indonesia-Australia Comprehensive Economic Partnership Agreement*. Not only do these agreements offer preferential tariff arrangements, but they also cover other elements that simplify trade. The elements are basically adopted from the World Trade Organization's (WTO) Trade Facilitation Agreement (WTO-TFA), most of whose indicators Indonesia has been implementing. Bringing the WTO provisions into the regional agreement would strengthen the commitment to accelerate the implementation of overall indicators.

There has been a proliferation of FTAs during 2021–2022 with Indonesia implementing the *Indonesia-European Free Trade Association (EFTA)* and the *Comprehensive Economic Partnership Agreement (IECEPA)*, and it is also on the verge of implementing the *Regional Comprehensive Economic Partnership (RCEP)*, which is expected to be effective by the end of 2022. RCEP would be the biggest free trade agreement of ASEAN and their five largest trading partners as it will cover almost a third of the global population and 30% of global gross domestic product.<sup>1</sup> These agreements strongly encourage cooperation in developing trade facilitation.

<sup>1</sup> <https://www.cnn.com/2021/11/03/worlds-largest-trade-deal-rcep-to-come-into-force-in-january-2022.html>

Even though World Bank data in general present only a slight improvement in facilitating trade, two indicators for Trading Across Borders show that Indonesia has made decent progress throughout 2018–2020 (Table 4.1).

**Table 4.1. Indonesia Trading across Borders Achievement 2018–2020**

Economy	Indonesia	
	2020	2018
Time to export: Documentary compliance (hours)	61	61
Time to import: Documentary compliance (hours)	106	106
Time to export: Border compliance (hours)	56	63
Time to import: Border compliance (hours)	99	99
Cost to export: Documentary compliance (USD)	139	139
Cost to import: Documentary compliance (USD)	164	164
Cost to export: Border compliance (USD)	211	254
Cost to import: Border compliance (USD)	383	383

Note: DB 2019 scores are adjusted. They are based on 10 topics and reflect data corrections.

Source: World Bank Trading Across Borders (2020).

As shown above, 'time to export' and 'cost to export' were reduced by 7 hours (11%) and \$43 (17%), respectively, because Indonesia has simplified customs procedures and integrated information technology (IT). On this account, some projects are considered large-scale works since they require some related stakeholders, as discussed in the next sections.

## 2. Trade Facilitation Environment – Customs Authority

In enhancing its trade facilitator role, Customs has made several reforms, particularly during 2018–2020, as a continuation of the existing programmes. These programmes include simplification procedures, IT-based service development, and expansion of customs incentives/facilitations.

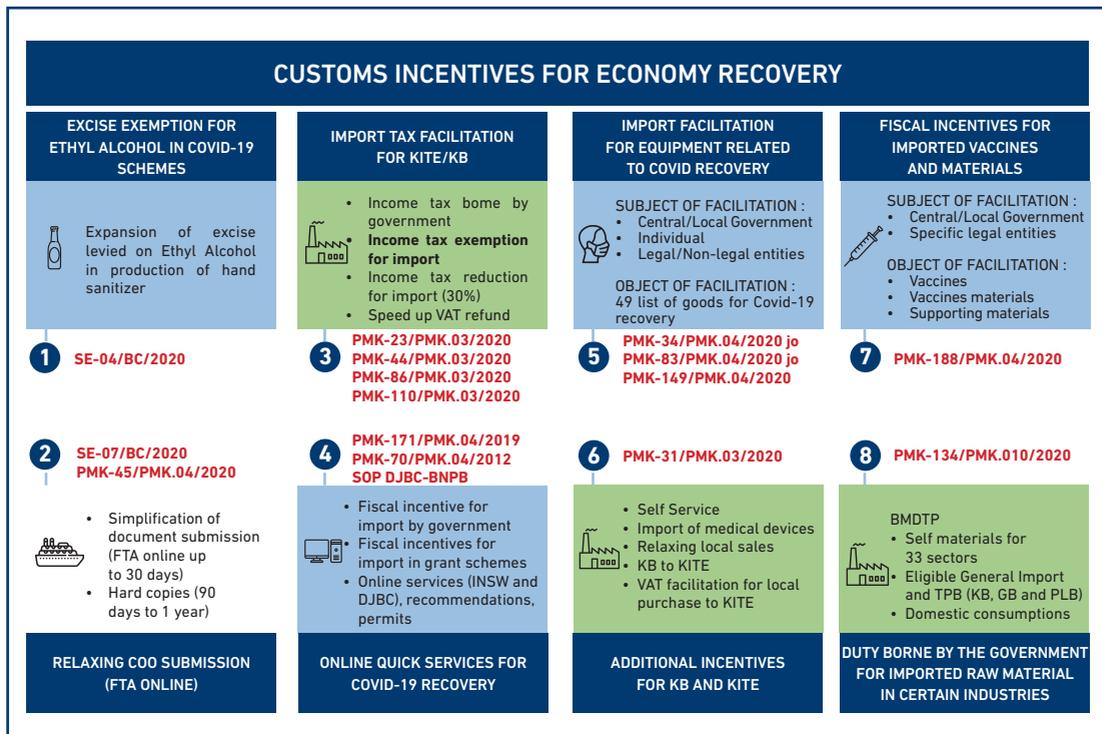
## • Developing Customs Facilitation During Pandemic and Economic Recovery

Some unexpected circumstances during the pandemic prevented economic activities:

- The production of medical equipment for COVID-19 was not sufficient to meet sharply increased domestic needs.
- Domestic industry was disrupted due to social and physical distancing protocols.
- Sluggish global demand affected goods produced by Bonded Area/*Kawasan Berikat* (KB) and *Kemudahan Impor Tujuan Ekspor* (KITE) firms (both are export-oriented manufacturers).<sup>2</sup>
- Public purchasing power decreased, aggregate demand began to fall, and production capacity reduced abruptly.

To overcome these conditions, customs incentives were launched, as described in Figure 4.3.

**Figure 4.3. Customs Incentives for Economic Recovery (Trade Facilitation)**



Source: Directorate General of Customs and Excise.

<sup>2</sup> See the explanatory notes at the end of this paper for the explanation about KITE.

The figure demonstrates that the customs incentives can be divided into import duties and import related taxes, simplification of procedures, and online services.

Up until now, many firms have been utilising customs facilitation through industrial assistance programmes – 1,371 KB, 33 duty free shops, 379 KITE, eight exhibition facilities, and 12 special economic zones. The central importance of these facilitations lies in the fact that they grant incentives, as explained in Figure 4.3.

Furthermore, after the KB and KITE firms obtained customs facilities, they showed increased performance compared to the previous year. The facilities reduce costs, allowing firms to meet increasing demand during the pandemic season. For example, the export value of KITE and KB in December 2020 increased by 36.24% year-over-year, and 28.67% month to month. The import value of KITE and KB in the same period still showed a lower performance of -0.86% year-over-year; however, improvement can be seen in the import value from December 2020 compared to November 2020 (m. to m.), which increased 12.21%.<sup>3</sup>

- **The Establishment of the National Logistic Ecosystem<sup>4</sup>**

In 2019, the National Logistic Ecosystem (NLE)<sup>5</sup> was initiated as a trade facilitation effort that was more integrated and holistic. NLE is a logistic ecosystem that synchronises the flow of international goods and documents measured from the arrival of the means of transport (ships, planes, trucks, etc.) to the arrival of the goods at the warehouse. Using a national single window system, NLE incorporated cooperation between government and private agencies through data exchange, simplification processes, elimination of repetition and duplication, and application of an IT system that connects all related logistic processes and existing logistic systems.

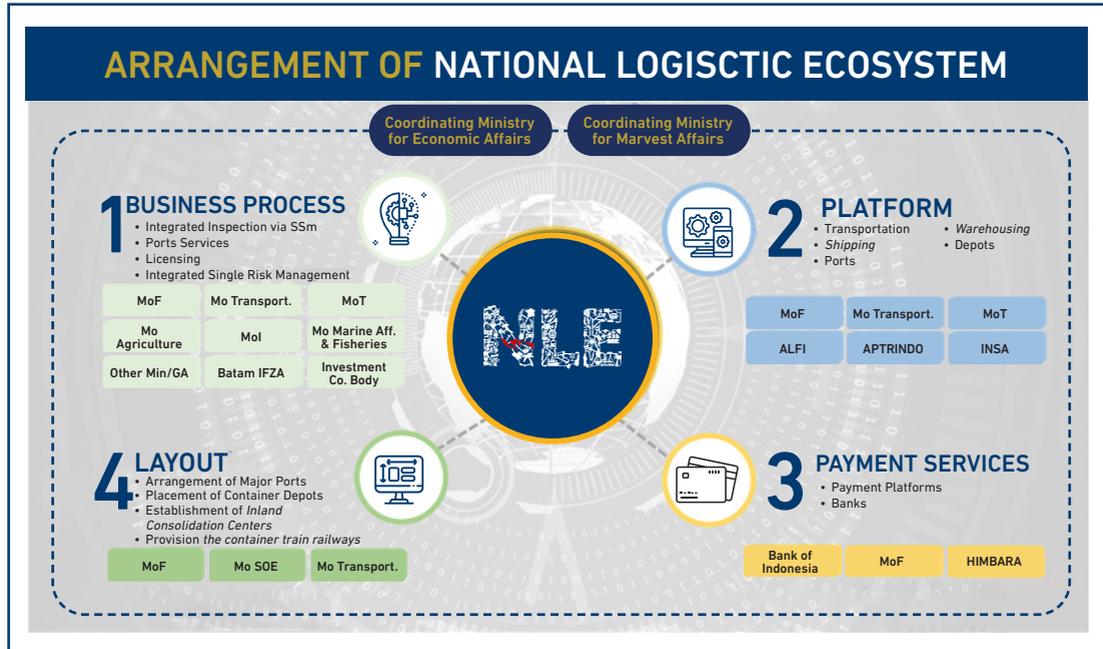
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<sup>3</sup> Source DGCE, subject to revision.

<sup>4</sup> <https://nle.kemenkeu.go.id/portal/#/>, 12th January 2021

<sup>5</sup> Presidential Instruction No. 5/2020.

Figure 4.4. Arrangement of the National Logistic Ecosystem



Source: Directorate General of Customs and Excise.

In the implementation of NLE, Customs has issued regulations that ease doing business, such as simplified unloading of goods, periodic loading/unloading permits, ease of truck loosing and risk management, and unloading permit submissions through the NLE platform.<sup>6</sup>

Subsequently, Customs issued regulations stipulating more technical matters that include expansion of online services, rewards to specific warehouse entrepreneurs, customer service standards, harmonisation of customs areas, facilitation for warehouses under customs control, and free-trade zones.<sup>7</sup>

#### • Expansion of Customs Facilitations

In 2018, Customs launched a programme of rebranding Bonded Area-KB<sup>8</sup> to be easier and more efficient, reducing requirements from 18 to four by eliminating repeated procedures and transactional permits from 45 to three, while allowing self-service for certain categories.

<sup>6</sup> Ministry of Finance Regulation No. PMK108/PMK.04/2020.

<sup>7</sup> Ministry of Finance Regulation No. PMK109/PMK.04/2020.

<sup>8</sup> Ministry of Finance Regulation No. PMK131/PMK.04/2018.

In addition, optimising KB-Horticulture empowered farmers via a subcontract system. Consequently, KB firms can increase exports; at the same time, farmers have additional income and knowledge of fruit and vegetable farming. Currently, KB-Horticulture has been operating in Lampung, Bener Meriah, and Blitar, amongst other places.

Moreover, since there is a limited number of Customs officials, the self-service KB-Mandiri programme has been implemented for 119 firms. Through this programme, KB-Mandiri enjoys time- and cost-efficiency by running independent inventory management. Customs control roles are replaced by installing technologies such as closed-circuit television and IT inventory. The programme was officially inaugurated in 2019 by the Vice Minister of Finance to attract more investment.

In 2019, other incentives were provided in the form of exemptions for duty and import taxes on goods and/or materials, and/or machines imported by small and medium-sized industries. These exemptions are to encourage firms to be more export-oriented.<sup>9</sup> The regulation is basically an expansion of coverage to the above-mentioned recipients in which domestic materials are used.

In terms of external evaluation, Customs conducted a customer satisfaction survey in 2019 to evaluate the following: (1) Goods clearance for priority clients/Mitra Utama (MITA) using electronic declarations; (2) Electronic reservation for excise labels; (3) Import documents services; and (4) Customs declaration for Free Trade Zones. The results indicate that, in 2019, the achievement index was higher than the target index (4.61 vs 4.31), which was even better than the previous achievement (4.20), as seen in Table 4.2.

**Table 4.2. Satisfaction with Customer Service Index, 2015–2019**

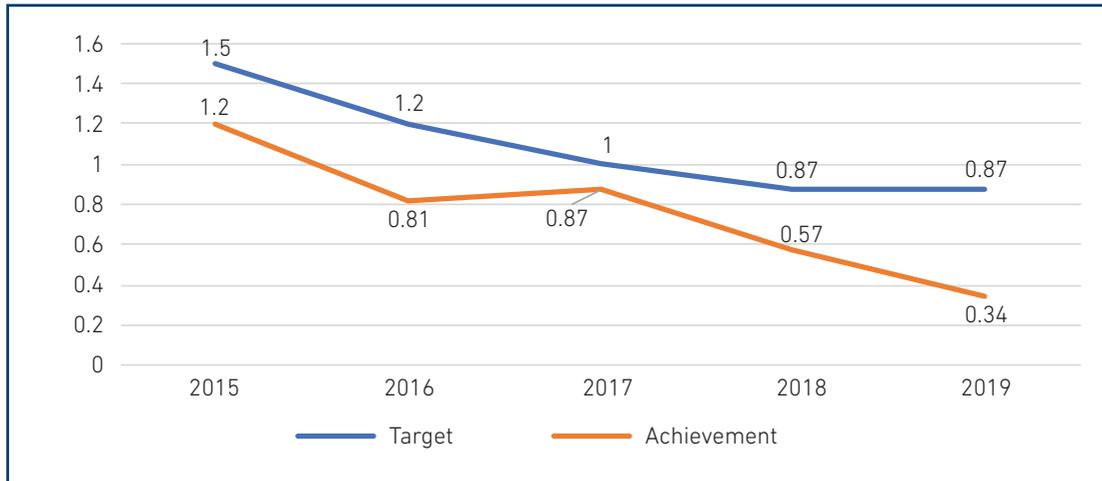
Year	2015	2016	2017	2018	2019
<b>Target</b>	3.94	4.00	4.06	4.34	4.34
<b>Achievement</b>	3.89	4.04	4.38	4.20	4.61

Source: Directorate General of Customs and Excise (2020).

Another achievement from this component is in dwelling time, which is the time taken for imported goods that are unloaded from the ship to exit the port. A higher dwelling time can result in high import costs that become a burden on economic growth. Dwelling time consists of three stages: (1) pre-clearance; (2) custom clearance; (3) post-clearance. Figure 4.5 shows the progress of dwelling time during 2015–2019. In 2019, customs clearance took 0.34 days, exceeding the target of 0.87 days. Overall, during the period, there is a decreasing trend of customs clearance time.

<sup>9</sup> Ministry of Finance Regulation No. PMK110/PMK.04/2020 amending No 177/PMK.04/2016.

**Figure 4.5. Target and Achievement of Customs Clearance Process, 2015–2019**  
(In days)



Source: Directorate General of Customs and Excise.

## 2.1 Results from ASTFI II Survey

The survey was conducted in September 2020, engaging Customs and other government agencies to obtain an overview of the implemented trade facilitations. Customs has five questionnaire components: 1) Transparency and Information on Laws, Regulations and Procedures; 2) National Trade Facilitation Committee (NTFC), and Equivalent Title and Mechanisms; 3) Release and Clearance Formalities; 4) Import/Export Formalities and Coordination; and 5) Cross-Border Coordination and Transit Facilitation.

## 2.2 Transparency and Information on Laws, Regulations, and Procedures

The performance of this component is impressive and mostly resembles the results of the previous survey. However, there are some significant qualitative improvements. There is an extension of available information following an increasing number of Indonesia's FTAs. The website provides information on the AHKFTA, in addition to ATIGA, AANZFTA, ACFTA, AIFTA, AJCEP, and AKFTA, and IECEPA. It also makes available information on bilateral FTAs such as the IJEPA, IPPTA, ICCEPA, Indonesia-Palestine Memorandum of Understanding, and IACEPA, Indonesia-Mozambique PTA (IMPTA), and Indonesia-Korea Comprehensive Economic Partnership Agreement (IKCEPA). More

importantly, clients can submit public complaints, Yacht and Vessel Declarations, consignment tracking, as well as registration and status of International Mobile Equipment Identity for mobile phones purchased from abroad. However, some of the information is still available in Bahasa.

In Q2-2019, Customs provided a new mobile service, the *Noni Bravo* chat bot. It is accessible through the customs website or a specific link<sup>10</sup> using both Bahasa Indonesia and English. The service is a webchat development applying artificial intelligence for its database and information processing, so that it can serve a larger number of inquiries. By the end of 2019, chat bot usage had reached 17.35% of all communication channels, with an increasing trend. Accordingly, customer satisfaction rates with customs communication channels had increased from 80.14% to 85.10%. In 2018 and 2019, the Customs contact centre was granted awards by The Best Contact Centre Indonesia and the Indonesia Contact Centre Association. Apart from the overall performance, there is a remaining space for improvement, as described in the previous survey related to the availability of English-version contents, which is challenging for Indonesia as a non-speaking English nation.

## 2.3. Communication and Active Engagement of the Private Sector

In terms of communication and active engagement of the private sector, Indonesia performed better than in the previous survey with IT development. In 2018, the National Trade Facilitation Committee (NTFC, or KNFP in Bahasa) was established. This committee coordinates government agencies and the private sector to implement the WTO-TFA nationally. Hence, communication with the private sector can be independently conducted by any agency in the NTFC division. For example, Customs has invited businesses for consultations, eight times a year. However, Customs also had consultations with other agencies such as Indonesia's national single window (INSW) and the Ministry of Trade. Currently, the NTFC portal is being incorporated into the INSW website to provide information regarding trade facilitation, regulations, and inquiry mechanisms from external parties.

Customs saw a structural transformation in 2021 through a new enlarged division of public relations separate from the former Division of International Relations and Public Affairs.<sup>11</sup> The new division which is called the Directorate of Communication and Customer Service and it has greater authority than its predecessor so is able to respond more effectively.

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<sup>10</sup> Telegram:@nonibravo\_bot.

<sup>11</sup> Ministry of Finance Regulation No. 118/PMK.01/2021.

## 2.4. Release and Clearance Formalities

Indonesia's performance in this component is quite good, and it has not changed much from the previous survey. Despite this, an improvement was made in 2020 via a self-certification mechanism and formulating a draft regulation regarding advance rulings on origins to meet the WTO-TFA agreement. Indonesia is expected to implement the regulation by 2022 according to the agreement.

Finally, in February 2022 the advance ruling on origins came into force<sup>12</sup> which is expected to greatly help both the business sector and Customs. Under this new regulation, an importer can now seek a decision from Customs on the origin of imported goods prior to submission of the import declaration. As a result, the number of disputes over origin determination that lead to complicated clearance processes is expected to be much reduced.

In terms of formalities for pre-arrival (import) or pre-departure (export), Indonesia has a moderately high performance, as in the previous survey. These formalities currently apply to all ports without specific location restrictions. Importers can submit declarations prior to arrival of cargoes or goods (inward manifest). An Authorized Economic Operator (AEO)/MITA can even submit the inward manifest up to 7 days after the clearance approval. In 2019, Customs stipulated<sup>13</sup> submission of export declarations no later than 7 days before the goods enter customs areas. The regulation allows exporters to prepare formalities in advance, so that the clearance will be completed more rapidly. As Indonesia has little trade occurring at land borders, the pre-arrival and pre-departure formalities are not available there; nonetheless, the clearance process is also quick since it is not so busy. This is the reason that the score has been stagnant since the earlier survey.

Additionally, to support the acceleration of release and clearance formalities, Customs has implemented risk management in accordance with best practices recommended by the World Customs Organization (WCO). Likewise, as indicated in the previous survey, the inspection of imported goods is carried out with high selectivity, with the proportion of red channels not exceeding 10%. The inspection typically takes place at traders' warehouses, and currently it can even be conducted jointly by Customs and Quarantine using an online application.<sup>14</sup>

Despite this, Customs has implemented a post-clearance audit mechanism. If necessary, Customs can collaborate with the Tax administration for joint audit programmes. These measures are very efficient for traders. Moreover, KB can file single submission of tax and customs documents for purchasing local raw materials.<sup>15</sup>

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<sup>12</sup> Ministry of Finance Regulation No. 7/PMK.04/2022

<sup>13</sup> Ministry of Finance Regulation No. 21/PMK.04/2019.

<sup>14</sup> DGCE Decree No KEP – 216/BC/2020.

<sup>15</sup> Pilot project in August 2019, Mandatory in January 2020.

Customs has performed very well facilitating the movement of goods, particularly those required as production inputs. As illustrated in the previous results, this is made possible by executing guarantees. However, for reputable firms such as MITA/AEO, the duties can be paid using periodic customs obligation settlements in the following month.<sup>16</sup>

Apart from that, the use of electronic payments for customs obligations for both import and export has been standard, as described in the previous survey. Customs has expanded this system by collaborating with several e-commerce marketplaces<sup>17</sup> to provide payment after receiving the billing code from the customs computer system. Customs also applies objections and appeals to the tax court, as practiced globally. During the pandemic, objections could be filed through electronic application<sup>18</sup> and via postal services.

Regarding the clearance measurement, there are two indicators used by Customs: dwell time and TRS. Under these elements, Indonesia has performed remarkably well. Dwell time<sup>19</sup> and TRS Information are available to public and evaluated to improve client services. In 2020, TRS was extended to more Customs offices, including Tanjung Priok, Belawan, Tanjung Perak, Tanjung Emas, Makassar, Balikpapan, and Palembang.<sup>20</sup>

AEO/MITA was meant to provide a very low risk importer/exporter status to firms that have met certain criteria. AEO has lower risk level than MITA because it must fulfil WCO standards and supply chain security criteria. In the beginning of the programme, there were only five firms granted AEO status. By 2020, 137 companies were registered as AEO, 75 more than there were in 2017. In 2021 the number of AEO firms has just increased slightly to 141. Meanwhile, the number of MITA firms has increased from 301 in 2017 to 636 in 2020. In terms of MRA, Indonesia performs better than in the previous survey. An MRA has been implemented with Korea to optimise the benefits of AEO. Currently, Indonesia is not only exploring the possibility of future MRAs, but is also having discussions with Hong Kong, Australia, China, and the United Arab Emirates.

Regarding self-certification, Indonesia performed better under this indicator compared to the previous survey. The self-certification is now fully operational and available not only for ATIGA but also for IECEPA<sup>21</sup> and the Indonesia-Australia Comprehensive Economic Partnership Agreement.<sup>22</sup> In the future, the use of self-certification will potentially increase and become a common practice, provided that such mechanism has been established in both agreements.

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<sup>16</sup> DGCE Decree No PER-11/BC/2017 and No. PER-4/BC/2015.

<sup>17</sup> Tokopedia: <https://www.tokopedia.com/mpn/>, 12th January 2021

<sup>18</sup> Customs office of Tanjung Priok, possible to extend at other offices.

<sup>19</sup> <http://bictonline.pelindo1.co.id/DT/>

<sup>20</sup> <http://dwellling.pelindo.co.id/>

<sup>21</sup> Dashboard INSW, 12 January 2021

<sup>22</sup> TRS 2020 result analysis had been submitted to ERIA.

Indonesia has also implemented expedited shipment/clearance procedures, especially for postal goods and air cargo in connection with the characteristics of goods that must be immediately removed from customs areas. For example, there are several time-sensitive goods such as perishable goods, body organs, live stocks, international postal items, and medical devices (COVID-19 vaccines, gloves). Expedited shipment/clearance has not been applied to land cargo due to the geographic conditions. Since Indonesia is an archipelago, international trade through land borders is still very small and still feasible using normal procedures.

International trade in practice is not limited to conventional means such as import and export per se, but also other related activities such as import for temporary purposes. Some construction projects in host countries may use heavy equipment only until the end of contracts. These goods then must be returned to home countries. Therefore, importers are relieved from paying normal duties; in some cases, importers are exempted from the duties altogether. In facilitating this, Indonesia has a procedure known as temporary admission,<sup>23</sup> which pertains not only to commercial projects, but also to other purposes such as tourism and recreational and sporting events, as well as exhibitions.

### 3. Trade Facilitation Environment – Major Agencies (including Quarantine)

#### 3.1. Import/Export Formalities Coordination

Indonesia performs quite well regarding import/export formalities coordination. All supporting documents can be submitted electronically except for specific circumstances, such as 'red channelling' for physical inspection by Customs and document verification by other agencies. In the pandemic, the submission of certificates of origin could be done through email, with the hard copy delivered to Customs between 90 and 360 days later.<sup>24</sup>

Some progressive improvements have been made by allowing electronic certificates of origin (E-COOs) since 2018. Following the implementation of electronic Form D, Indonesia has concluded memoranda of understanding with trading partners such as Korea and China to implement electronic Form AK<sup>25</sup> and Form E.<sup>26</sup> Accordingly, Indonesia can exchange COO data electronically with all ASEAN member countries at all ports of entry. Considering that 12 non-electronic COOs

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<sup>23</sup> Ministry of Finance Regulation No. 122/PMK.04/2021

<sup>24</sup> Ministry of Finance Regulation No. 82/PMK.04/2020.

<sup>25</sup> Effectively implemented by 1st February 2020

<sup>26</sup> Effectively implemented by 15th October 2020

under FTAs have been implemented earlier by Indonesia, it is encouraging that the initiative is extended to the nine remaining ones. Furthermore, Indonesia also has started a new initiative in 2020 to exchange electronic export data with Singapore in order to accelerate clearance processes.

INSW, as a system that enables a single submission of data and information, a single and synchronous processing of data and information, a single decision for customs release and clearance, and an environment that connects Indonesia with other countries, is fully implemented. INSW was initiated at the end of 2007; as of 2020, it covers Customs and 15 major agencies. In the beginning of 2018, INSW was implemented in 22 Customs and Excise service offices; to date, 88 Customs and Excise service offices have integrated with the INSW system.<sup>27</sup>

INSW covers export and import activities (not transit and transshipment) and allows major documents needed to clear trade. Currently, submission of some permits/licences has not yet been included in the system. Traders are still obliged to apply for permits through each ministry/agency system and transmitted to INSW for goods clearance processes. Nonetheless, INSW can facilitate IACEPA by providing a feature to execute validation and calculation of the tariff rate quota arrangement.

Since NLE has become a national strategic project that integrates ever more private agencies, INSW is developing a transit and transshipment regime as part of its coverage. Moreover, to support the implementation of NLE, INSW provides several single submission programmes, such as: Single Submission (SSm) of Customs and Quarantine, which allows a joint inspection process by both Customs and Quarantine; SSm of Licensing, which allows a one-door system for all import-export-related permits; SSm of Means of Transport, which allows a one-door system for carriers to perform all clearance processes in ports; DO Online, which allows online payment for DO redemption process and other payments of fees; and lastly SP2 Online, which allows online submission to unload/load goods from and to temporary storage facilities at ports. The mandatory implementation of single submission and joint inspection by Customs and Quarantine will significantly reduce clearance time by 35% to 56% (0.6 to 2.1 days) and clearance costs by 50% to 68%.<sup>28</sup>

Moreover, as mandated in article 45 of the ASEAN Trade in Goods Agreement, Member States shall develop and implement a comprehensive ASEAN Trade Facilitation Work Programme, which sets out actions and measures with specific targets and timelines of implementation. To comply with this commitment, Indonesia has already established the Indonesia National Trade Repository, which contains trade rules and regulations through the existing INSW portal.

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<sup>27</sup> Ministry of Finance Regulation No. 220/PMK.01/2019.

<sup>28</sup> Based on internal Customs survey at major ports.

This repository is used for traders as the single, more convenient reference to find information on import and export procedures, resulting in better compliance with rules and regulations. The Indonesia National Trade Repository delivers information that includes: (1) tariff nomenclatures; (2) most-favoured-nation, preferential tariffs; (3) Rules of Origin; (4) non-tariff measures; (5) national trade and customs laws and rules; (6) procedures and documentary requirements; (7) administrative rulings; (8) best practices in trade facilitation applied by each Member State; and (9) list of authorised traders of Member States. This repository is also connected with the ASEAN Trade Repository.

## 4. Trade Facilitation Environment – Transit, Transport, and E-Commerce

### 4.1. Cross-Border Coordination and Transit Facilitation

Indonesia still performs well regarding cross-border coordination. Customs has agreements with neighbouring countries (i.e. Malaysia, Timor-Leste, the Philippines, and Papua New Guinea) and collaborates officially with other relevant agencies (i.e. Ministry of Home Affairs, Ministry of Trade, and Immigration) for the implementation of these agreements. Border agency coordination with Malaysia is conducted by the local government as part of the General Border Committee of Indonesia-Malaysia in which Customs becomes part of 'Sosek Malindo' forum. In terms of operation, it aligns working hours and joint controls. However, the issuance of cross-border permits for vehicles transporting goods is still in the pilot stage.

### 4.2. Transport Facilitation

For transport facilitation, Indonesia needs to accelerate the implementation of the related agreements. All three protocols under the AFAFGIT agreement have been ratified and the regulations are already in place, despite not yet being operationalised.<sup>29</sup> Since the schedule for operationalisation from ASEAN has yet to come, Indonesia is still engaged in the AFAFGIT implementation process. The ASEAN Framework Agreement on Multimodal Transport has been ratified, while the AFAMT agreement has yet to be operationalised.<sup>30</sup> When it comes to unifying

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<sup>29</sup> Protocol 1: Presidential Regulation No. 70/2011.

Protocol 2: Presidential Regulation No. 105/2020.

Protocol 4: Presidential Regulation No. 86/2000.

<sup>30</sup> AFAMT: Presidential Regulation No. 14/2016.

land transport amongst member countries with different environment and regional characteristics, there may be technical problems arising from the implementation of these agreements. However, full implementation is expected to generate economic growth at cross-border regions. Nevertheless, Indonesia has made efforts in accelerating the distribution of goods/logistics for both national and international transactions through two strategic programmes under the NLE framework, which are the SSm of Means of Transport (Domestic Manifest, International Departures and International Arrivals applications) and the Platform Warehouse and Platform Trucking. These programmes stimulate trade by improving logistics and transportation aspects of trade, not only in Indonesia but also in ASEAN.

### 4.3. E-Commerce

In terms of e-commerce, Indonesia's performance is significantly improved. Currently, there is an operational legal framework to govern e-identification and authorisation,<sup>31</sup> and a revenue collection framework is being operationalised for e-commerce, particularly for low-value imports subject to waivers of duties and taxes. An online dispute resolution mechanism system has also been implemented.<sup>32</sup>

On average, 90% of Indonesia's e-commerce transactions were executed through consignment in 2020. This implies an increasing trend by 1,000% compared to 2017. In anticipating the vast possibilities of e-commerce particularly of the low-value goods, Indonesia has released regulations on relevant taxes.<sup>33</sup> The development of e-commerce bonded logistics centres<sup>34</sup> is an initiative of Customs for circulation in specific areas.

The other e-commerce initiative is the Delivery Duty Paid (DDP) scheme to expedite clearance, increase transparency, create data integrity, and apply legal certainty based on risk management principles. Data from the Customs system show that DDP will cut clearance time by at least 50% (DDP: 1.01 hours vs non-DDP: 2.18–14.59 hours). Currently, five big marketplace platforms have taken part in this collaboration.

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<sup>31</sup> The Government Regulation No.71/2019.

Minister of Communication and Informatics Regulation No. 11/2018.

<sup>32</sup> Government Regulation No. 80/2019.

<sup>33</sup> Ministry of Finance Regulation No. 199/PMK.010/2019.

<sup>34</sup> Ministry of Finance Regulation No. 28/PMK.04/2018.

## 5. Recommendations

The discussion in earlier sections has presented the following suggestions for improving trade facilitation.

First, since accessible information is an essential element for trade facilitation, an important factor for its improvement is information in English on all communication channels. Though this demands extra effort and resources, producing information in an international language would heighten Indonesia's profile in the global economy.

Second, advance ruling is an important part of trade facilitation that requires improvement in Indonesia. By reason of legal certainty and uniformity in its implementation amongst Customs offices, the decision of advance ruling (with redacted information) should be available and open to the public as reference for traders and stakeholders, taking into account the level of awareness of traders and stakeholders of the purpose of such publication. Determining classification, valuation, and origin has been more complicated as reflected in increasing trade values, diverse characteristic of goods, and different procedures of each country of origin. The results would contribute to reducing possible inaccuracy of duties and import taxes. During the pandemic, it was suggested to create online systems for submission of advance ruling requests and receiving decision results. This service would reduce trading costs and time significantly for businesses. Customs has included advance ruling as a strategic project in 2021 that has been implemented in 2022 according to the WTO-TFA agreement. It is expected that advance ruling on origin will not produce complex administrative requirements, as the trend of trade under FTA schemes is increasing over time.

Third, the Pre-Arrival Processing regime (PAP) has been fully operational at all Indonesian ports to speed up customs clearance process, except at land borders. Although the movement of goods through land borders is still very small compared to those by sea and air, Indonesia can consider implementing PAP at remote land borders. The facility could generate trade and develop economic growth in the regions.

Fourth, the creation of a special unit to manage advance ruling on origin is still relevant as the utilisation of COOs, E-COOs, and self-certification has been growing significantly following increased participation in FTAs. In the short term, improving advance ruling on origin can be achieved by enhancing human resources capacity. Intensive high-quality training for customs officers is essential to have expert qualifications, recognised by both national level and WCO standards. By the time advance ruling on origin is implemented in 2022, committed to WTO-TFA, Customs will have anticipated with qualified resources. Currently, the number of inquiries regarding advance ruling on origin and COO through communication channels is large.

Fifth, Indonesia has a striking progress on the development of registered AEO for the last five years, and the trend keep going upward. Expanding the scope of AEO by concluding MRA with other ASEAN Member States (AMS) is very important. ASEAN is Indonesia's main trading partner supplying inputs for production, as well as a major international market. The existence of the MRA will accelerate ASEAN as a regional production base. Promoting MRA with non-AMS is also encouraged to broaden supply chain connectivity across the regions.

Sixth, the self-certification is fully operational in the ASEAN scheme, as well as in IACEPA. The main implementation issue is validity of information in the certificate. This is the reason that some countries are reluctant to adopt self-certification. In the future, it is strongly recommended to push other firms to become registered exporters eligible for utilising self-certification. The more companies apply for export registration, the lower the risks in the clearance process, and the less restrictive customs control can be.

Seventh, coordination amongst agencies should be improved. The establishment of National Single Risk Management is essential to generate efficiency and effectiveness of trade facilitation. Integrating risk management systems of related ministries/agencies is feasible via INSW. Hence, the different definition of firm risk status amongst agencies can be reduced. Currently, the Ministry of Health has adopted a single risk management which follows the same criteria used in Customs for business actors and goods. The joint inspection programme by Customs and Quarantine can be an early strategic stage toward achieving national single risk management, considering that the programme uses an electronic application of submissions, inspections, and single profiles between Customs and Fish and Agriculture Quarantine.

Eighth, transport facilitation performance needs improvement, since it has only moved up slightly from the previous period. In more detail, the ratification of the AFAFIST agreement and designation of frontier posts should be a priority. If Indonesia can promote transport facilitation along with PAP for land borders, it would make trade more attractive at borders.

Ninth, so far, one other e-commerce indicator that needs to be improved is the operationalisation of a legal framework harmonised with other AMS. This is not only Indonesia's homework but also the job of every AMS. Finally, extensive coordination and consultation amongst AMS experts is urgent to encourage commitment.

## Explanatory Notes

### AANZFTA

ASEAN-Australia-New Zealand Free Trade Agreement, a comprehensive regional trade agreement between ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Viet Nam), Australia, and New Zealand.

### ACFTA

ASEAN-China Free Trade Agreement, a comprehensive regional trade agreement between ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Viet Nam) and China.

### AEO

Authorized Economic Operator, a programme that create customs-to-business partnerships aimed at securing the supply chain and facilitating legitimate low-risk trade.

### AFAFGIT

ASEAN Framework Agreement on The Facilitation of Goods in Transit, the generic standards aimed for the implementation of an international transit system amongst ASEAN Member States.

### AFAFIST

ASEAN Framework Agreement on The Facilitation of Goods of Inter-State Transport, the standards aimed for simplification and harmonization of transport and customs procedures for goods in transit and inter-state transport of goods amongst ASEAN Member States.

### AHKFTA

ASEAN-Hongkong Free Trade Agreement, a comprehensive regional trade agreement between ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Viet Nam) and Hongkong.

### AIFTA

ASEAN-India Free Trade Agreement, a comprehensive regional trade agreement between ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Viet Nam) and India.

### AJCEP

ASEAN-Japan Free Trade Agreement, a comprehensive regional trade agreement between ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Viet Nam) and Japan.

**AKFTA**

ASEAN-Korea Free Trade Agreement, a comprehensive regional trade agreement between ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Viet Nam) and Korea.

**ASEAN**

Association of South East Asian Nations, a political and economic union of ten member states in South East Asia.

**ATIGA**

ASEAN Trade in Goods Agreements, an upgraded trade agreements amongst ASEAN Member States from the previous ASEAN Free Trade Agreement-Common Effective Preferential Tariff (AFTA-CEPT).

**BMDTP**

Bea Masuk Ditanggung Pemerintah in Bahasa, an import facilitation scheme by which duty levied on imported goods in certain industries is borne by the Government.

**COO**

Certificate of Origin, an international trade document which attests that the product listed therein has met certain criteria to be considered as originating in a particular country.

**DDP**

Delivered Duty Paid, a delivery agreement whereby the seller assumes all of the responsibility, risks, and costs associated with transporting goods until the buyer receives or transfers them at the destination port.

**DGCE**

Directorate General of Customs and Excise, a government agency under the Ministry of Finance of Republic of Indonesia responsible for collecting duty, import taxes, excise, and trade facilitation.

**DO**

Delivery Order, a document that can be issued by the owner of freight, consignee, shipper or a carrier to deliver the goods to another party.

**FTA**

Free Trade Agreement, an agreement between two or more countries where the countries agree on certain obligations that affect trade in goods and possibly other topics.

**GB**

Gudang Berikat in Bahasa, a Bonded storage places to temporarily store imported goods might be complemented with 1 (one) or more production activities such as packaging/repackaging, sorting, knitting, packing, adjustment, cutting, of certain goods within a certain period of time.

**HS**

The Harmonized System also known as The Harmonized Commodity Description and Coding System is a standardised numerical method of classifying traded products.

**IACEPA**

Indonesia-Australia Comprehensive Economic Partnership Agreement, a comprehensive regional trade agreement between Indonesia and Australia.

**ICCEPA**

Indonesia-Chile Comprehensive Economic Partnership Agreement, a comprehensive regional trade agreement between Indonesia and Chile.

**IECEPA**

Indonesia-European Free Trade Association (EFTA) Comprehensive Economic Partnership Agreement, a comprehensive regional trade agreement between Indonesia and EFTA member states which are Iceland, Liechtenstein, Norway, and Switzerland.

**IJEPA**

Indonesia-Japan Economic Partnership Agreement, a comprehensive regional trade agreement between Indonesia and Japan.

**INSW**

Indonesia National Single Window, an integrated system that allows for a single submission of data and information, single synchronous processing of data and information, and single decision making for customs release and clearance of cargoes.

**IPPTA**

Indonesia-Pakistan Preferential Trade Agreement, a regional trade agreement between Indonesia and Pakistan only for trade in goods.

**KB**

Kawasan Berikat in Bahasa, bonded zones or commercial areas in Indonesia granted favourable taxation policies which are managed by the Customs administration.

**KB Mandiri**

Kawasan Berikat Mandiri in Bahasa, self-served bonded zones in Indonesia authorised by the Customs administration for independently delivering service and control.

**KITE**

Kemudahan Impor Tujuan Ekspor in Bahasa, duty drawback facility granted by the Customs administration for firms with export orientation.

**KNFP**

Komite Nasional Fasilitas Perdagangan in Bahasa, a special committee responsible for coordinating the implementation of the WTO Trade Facilitation Agreement in Indonesia.

**MITA**

Mitra Utama in Bahasa, priority clients or economic operators with special treatment by the Indonesian Customs for conducting import and export without physical and document inspection.

**MRA**

Mutual Recognition Arrangement, a broad concept where signatory countries close an agreement or arrangement to mutually recognise their AEO.

**NLE**

National Logistic Ecosystem, a logistic ecosystem that synchronises the flow of international goods and documents measured from the arrival of the means of transport (ships, planes, trucks, etc.) to the arrival of the goods at the warehouse.

**NTFC**

National Trade Facilitation Committee, mandated under the WTO Trade Facilitation Agreement to be implemented by all members.

**PLB**

Pusat Logistik Berikat in Bahasa, a place for storing goods from outside the Customs territory and/or goods originating from other places within the Customs territory within a certain period of time, and might be complemented by one or more simple activities.

**RCEP**

Regional Comprehensive Economic Partnership, a comprehensive regional trade agreement between ASEAN and its five biggest trading partners which are Australia, China, Japan, New Zealand, and Republic of Korea.

### SSm

Single Submission, an integrated permit system for business streamlining multi-agency permit procedures into one single submission in Indonesia.

### TPB

Tempat Penimbunan Berikat in Bahasa, a building, place, or area that meets certain requirements used to store goods for a specific purpose by obtaining a suspension of Import Duty. In broader scope, TPB include KB, KB Mandiri, GB, and PLB, but these do not apply the other way around.

### TRS

Time Release Study, a unique tool and method to measure the actual performance of border procedures including Customs activities in a systematic and standardised way by measuring the time taken to release and/or clear goods.

### VAT

Value Added Tax, a tax imposed on every value added of goods or services in circulation from producers to consumers in Indonesia. In other countries is also known as Goods and Services Tax (GST).

### WCO

World Customs Organization, an independent intergovernmental body whose mission is to enhance the effectiveness and efficiency of Customs administrations.

### WTO

World Trade Organization, an intergovernmental organisation that regulates and facilitates international trade between nations. Governments use the organisation to establish, revise, and enforce the rules that govern international trade.

### WTO-TFA

World Trade Organization-Trade Facilitation Agreement, a specific set of measures under the WTO that streamline and simplify the technical and legal procedures for international trade.