Chapter 4

Trade Facilitation in Indonesia and Result of the ASTFI Baseline Study

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Chapter 4
Trade Facilitation in Indonesia
and the Results of the ASTFI Baseline Study¹

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1. Overall Trade Facilitation Environment

Indonesia’s trade performance has not been particularly encouraging in the past several years (2014–2018), as export and import growth rates have fluctuated quite substantially (Figure 4.1). International trade has played an important role in growth performance, at around 40% of gross domestic product (GDP), but with a declining trend (Figure 4.2). All this suggests the importance of trade facilitation as a measure to improve the country’s trade performance in the future.

**Figure 4.1: Indonesia’s GDP and Export/Import Growth**

![Graph showing Indonesia's GDP and export/import growth from 2014 to 2018.](image)

GDP = gross domestic product.


**Figure 4.2: Amount of International Trade (as a share of GDP)**

![Graph showing the amount of international trade as a share of GDP from 2014 to 2018.](image)

GDP = gross domestic product.

¹ This report is based on the 2018 data of the ASTFI baseline study survey.
Indonesia trades mostly with Asian countries, including the Association of Southeast Asian Nations (ASEAN) Member States (AMS), in addition to China, Japan, the Republic of Korea, and the United States. In 2018, although 23% ($41 billion) of Indonesia’s total world exports were to AMS (Figure 4.3), it imported 24% ($46 billion) from other AMS (Figure 4.4). From those numbers, AMS are still amongst the key markets for Indonesia to both sell its products and source its imports.

![Figure 4.3: Indonesia’s Top Export Destination, 2018](image1)

![Figure 4.4: Indonesia’s Top Import Origin, 2018](image2)

Based on product classification, $62 billion (34.6%) of products exported from Indonesia belong to mineral fuels, mineral oils, and animal or vegetable fats and oils (HS codes 27 and 15). Meanwhile, Indonesia imported $48 billion (26%) worth of electrical products, electrical equipment, and machinery (HS codes 84 and 85). In total, Indonesia exported goods worth $180 billion while it imported goods worth $188 billion in 2018.

Considering the importance and potential of trade to its economy, the Government of Indonesia has embarked on various trade facilitation reforms since the early 2000s to support its economic growth sustainability.

Certain indicators improved from 2015 to 2018, based on World Bank data using a methodology adopted in 2015. As reported in the table below, the improvement can be seen in three main indicators:
(i) The time to fulfil the documentary compliance to export was reduced by 15% from 72 hours to 61 hours.

(ii) The time to fulfil the documentary compliance to import was reduced by 17% from 144 hours to 119 hours.

(iii) The cost to fulfil the documentary compliance to export was reduced by 18% from $170 to $139.

These improvements are a positive signal for Indonesia, as they instil confidence in the government to undertake further reforms to facilitate trade.

**Table 4.1. Indonesia’s Trading Across Borders Achievement, 2015–2018**

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Indonesia 2018</th>
<th>Indonesia 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank – Trading across borders</td>
<td>112</td>
<td>2015</td>
</tr>
<tr>
<td>DTF – Trading across borders</td>
<td>67</td>
<td>64</td>
</tr>
<tr>
<td>Time to export: Documentary compliance (hours)</td>
<td>61</td>
<td>72</td>
</tr>
<tr>
<td>Time to import: Documentary compliance (hours)</td>
<td>119</td>
<td>144</td>
</tr>
<tr>
<td>Time to export: Border compliance (hours)</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Time to import: Border compliance (hours)</td>
<td>99</td>
<td>99</td>
</tr>
<tr>
<td>Cost to export: Documentary compliance ($)</td>
<td>139</td>
<td>170</td>
</tr>
<tr>
<td>Cost to import: Documentary compliance ($)</td>
<td>164</td>
<td>164</td>
</tr>
<tr>
<td>Cost to export: Border compliance ($)</td>
<td>254</td>
<td>254</td>
</tr>
<tr>
<td>Cost to import: Border compliance ($)</td>
<td>383</td>
<td>383</td>
</tr>
</tbody>
</table>

DTF = distance to frontier.

Notes:
1. The distance to frontier score captures the gap between an economy’s performance and a measure of best practice across the entire sample of all indicators for 10 Doing Business topics. World Bank (2016), Distance to Frontier and Ease of Doing Business Ranking. [https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB17-Chapters/DB17-DTF-and-DBRankings.pdf](https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB17-Chapters/DB17-DTF-and-DBRankings.pdf) (accessed 1 July 2018).
2. The DTF of trading across borders reflects a combination of the costs and time required for exports and imports.


While the World Bank indicators show some improvement, the Logistics Performance Index (LPI) scores reflect mixed results. Based on the respondents’ answers, it now costs less to trade via seaports, airports, and railways. However, the proportion of respondents reporting an increase in the charges for the logistical element of road transport, warehousing, and agents increased in the 2016 LPI.
The logistics environment improved significantly in 2016, compared with previous years, across the indicators: (i) customs clearance procedures, (ii) other official clearance procedures, (iii) trade and transport infrastructure, (iv) telecommunications and information technology infrastructure, (v) private logistics services, and (vi) regulation related to logistics.

2. Trade Facilitation Environment (Customs and Major Agencies)

Comprehensive implementation of customs reform and modernisation began in 2007. The Indonesia Customs Office took new approaches to accelerate the transformation process that can be measured independently by external parties as an effort to increase transparency.

2.1. Catching up with trade growth by establishing Primary Customs Offices (KPU)

KPU offices have different characteristics from other customs offices, as these modern offices serve a broader range of import and export activities. For example, KPU Tanjung Priok, located strategically in North Jakarta, handles around 70% of national imports and exports. The process of customs audit and objection/review can also be exclusively conducted at the KPU offices. The development of KPU Tanjung Priok, KPU Batam, and KPU Soekarno-Hatta stimulated an equal improvement in both customs service and control. The KPUs are available to stakeholders for service 24 hours a day, 7 days a week. Importers may file appeals directly at KPUs instead of undertaking multiple procedures for objections at customs headquarters.

2.2. Avoiding unnecessary trade issues by expanding customs facilitation

Along with the customs reform and modernisation, there has been a significant increase in customs facilitation to support industry and other sectors:

(i) relief of customs duties for machinery and raw material imports;
(ii) customs facilitation for mining sectors; and
(iii) warehousing and export facilitation.

The import duty exemption and/or relief facility aims to support the development of the domestic manufacturing industry, with a focus on power generation projects, the shipping industry, environmental maintenance projects, the automobile parts industry, machinery, electronics, and transportation. In addition, simple and transparent licensing procedures have attracted the private sector to apply for warehouse licenses. In 2008, the warehouse licenses were distributed as follows:

(i) 539 bonded warehouse licences;
(ii) 1,418 bonded area licences;

The improvement can be inferred from the significant increase in the percentage of respondents answering ‘improved’ or ‘much improved’ to the changes in these indicators.

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2 The improvement can be inferred from the significant increase in the percentage of respondents answering ‘improved’ or ‘much improved’ to the changes in these indicators.
(iii) 33 customs duty free shop licences; and
(iv) 15 exhibition permits.

The comprehensive reform in 2007 increased the organisational performance of integrity development, and is reflected in the rise in Indonesia’s Corruption Perceptions Index rating – from 143 in 2007 to 126 in 2008. This improvement is explained as follows: ‘Bold reform in the tax and customs administration and the ability of Corruption Eradication Commission to bring forward high profile cases have recently bolstered the perception that corruption is being addressed more aggressively...’ (Transparency International, 2008:20).

In 2010, customs modernisation was facilitated by establishing 28 modern customs offices across Indonesia. These offices conduct regular evaluations to identify sectors that need improvement. The enhancement of customs performance is not limited to reshaping physical infrastructure, but includes improving personnel capacity using key performance indicators and a balanced scorecard.

Following the change in the organisational structure, documentation fees collected by customs were officially terminated. This was a significant measure in reducing the trade costs of importers and exporters.

The Centralized Service and Supervision System supports the customs reform process. It has made the entire customs system monitorable and available in real time 24 hours a day, 7 days a week, to support an integrated national service. Furthermore, the use of risk management at bonded zones has accelerated the customs service at warehouses.

2.3. 2014–2018

In 2014, Indonesia’s customs were restructured to strengthen the customs administration in delivering its services. Several initiatives were established to support the reform, such as Authorised Economic Operators (AEOs), priority importers (MITA), Bonded Logistic Centers (PLBs), stakeholder engagement, online payments, a joint customs–tax programme, e-commerce facilities for bonded warehouses, infrastructure modernisation, and drawback facilities for small and medium-sized enterprises (SMEs).

The number of AEOs increased significantly – from 40 companies in 2016 to 110 companies in 2018. In the same period, the number of MITAs also rose from 113 to 405. These AEO and MITA companies are considered very low-risk entities and receive special treatment from customs for their trade activities. AEO status allows these companies to submit their documents in a paperless manner, without physical examination by customs authorities, suggesting that the trade facilitation environment has improved and that this has been noticed by the private sector. In the future, the customs administration could

3 Government Regulation No. 1/2013 dated 2 January 2013 on Tariff and Classification for Non-Tax Revenue.
4 Director General of Customs and Excise (DGCE) Decree No. PER-20/BC/2013 dated 24 May 2013 on The Use of Risk Profiles in the Bonded Zones. A bonded zone is a place to store imported goods and/or domestic goods to be processed or combined before being exported or imported. Imported goods stored in the bonded zone are subject to duty suspension.
encourage more companies to participate in the AEO and MITA programmes to achieve faster customs clearance.

Another programme to promote trade facilitation is the establishment of Pusat Logistik Berikat Generasi 1 (PLB G1), launched by the President of Indonesia in March 2016, which was followed by the Pusat Logistik Berikat Generasi 2 (PLB G2) in March 2018. The PLB improves cost-efficiency through reductions in storage fees, freight costs, and lead time. The programme has also attracted investors to relocate their warehouses to Indonesia at a lower operating cost.

Based on 2017 performance achievement indicator data, the performance of customs was very satisfactory. Dwell time, as an indicator of clearance performance, showed good results – customs surpassed the target of 1.00 day to 0.87 day. Another indicator that showed the good achievement of customs is its trade facilitation, which reached 2.72 (on a scale of 4.00), higher than the target of 2.00.

In terms of law enforcement, customs also showed remarkable results in 2018. A total of 1,834 operations were targeted for fraud in trade of excise goods (e.g. tobacco) and 2,221 operations were executed, leading to 4,838 cases of illegal excise in 2018. In other words, the enforcement and control of illegal excise goods exceeded the target of 121% in 2018 (DJB, 2018). This reflects the role of customs in generating growth in domestic industry, creating healthy competition, supporting the growth of SMEs, and optimising government revenue.

State revenue, which was in line with the increase in importers' compliance with regulations, showed good results. Customs collected 102% of the targeted revenue in 2017. Furthermore, based on a stakeholder satisfaction survey, the index score of 4.38 (on a scale of 5.00) exceeded the target of 4.06% in the same year. Stakeholder compliance also showed a significant improvement, at 95.24%, which was higher than the target of 80.00%. These are the results of significant efforts such as integrity declarations with other agencies, joint task forces, simplifying permits and restrictions, shifting from border permits to post border permits based on risk management, collaboration with the Directorate General of Tax for joint analysis, and joint audits.

The results of the customs reform programme can be seen through indicators issued by international independent bodies such as the World Bank. By 2018, Indonesia was ranked 72 on the World Bank’s Ease of Doing Business index (World Bank, 2018), an improvement of 19 places from the previous rank of 91 in 2017. One contribution to the improved rank was the improvement in customs performance, especially after the application of a single billing system which facilitates trading transactions across borders. A future focus for customs is ongoing efforts to lower trade costs by decreasing the dwell time and simplifying procedures.

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5 The PLB G1 and PLB G2 are companies with the status of a Bonded Logistic Centre.

3. Results from the ASFTI Survey

A questionnaire survey was conducted with government agencies during the first half of 2018 on five components: (i) transparency and information on laws, regulations, and procedures; (ii) communication with and active engagement of the private sector; (iii) release and clearance formalities; (iv) import/export formalities and coordination; and (v) transport facilitation. The results of the survey are summarised below.

3.1. Transparency and Information on Laws, Regulations, and Procedures

Indonesia’s performance under this component is impressive. Access to information on customs-related matters is generally high in Indonesia. However, some information is available only in Bahasa. Information relevant for trade (e.g. HS codes and free trade agreement (FTA) tariffs) and all export–import regulations may be accessed via the customs website as well as the Indonesia National Single Window (INSW). HS codes are available not only for the current system (i.e. HS 2017) but also for the previous system (i.e. HS 2012) and older iterations (i.e. those that applied before HS 2012) – making it easier for traders to classify their traded goods. Tariffs are available for the most favoured nation/World Trade Organization rates and FTAs that Indonesia has signed (e.g. ASEAN Free Trade Area, ASEAN–Australia–New Zealand Free Trade Area, ASEAN–China Free Trade Area, ASEAN–India Free Trade Area, ASEAN–Japan Comprehensive Economic Partnership, ASEAN–Korea Free Trade Area, and Indonesia–Pakistan Preferential Trade Agreement). Services for enquiries from the public are also rated very high for customs, through a single-point contact centre called ‘Bravo Customs’ and a number of social media contact points. The call which can be accessed through the INSW portal (INSW, n.d.). The NTR includes information on all tariff and non-tariff measures by all nine elements\(^7\) required/agreed at the ASEAN level. Information at the micro level could be improved by aligning the non-tariff measures according to the latest classification of the United Nations Conference on Trade and Development (UNCTAD, n.d.). The public has increasingly used the NTR to acquire information from all agencies involved in international trade. All the information is centralised for public information in the NTR. However, more detailed explanations or English translations are not yet available in the repository system. This is another area of improvement for the future.

3.2. Communication with and Active Engagement of the Private Sector

No official mechanism is in place for communication with the private sector for the consultation process and information dissemination, as in the usual practice in other countries (i.e. a national trade facilitation committee). Consultations are done on ad hoc basis – upon request or on a needs basis – and tend to be less structured and less organised, although customs conducts such meetings up to eight times a year. A committee is being developed, and should be headed by the Coordinating Ministry for

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\(^7\) The nine elements are (i) tariff nomenclature; (ii) most favoured nation and preferential tariffs; (iii) rules of origin; (iv) non-tariff measures; (v) national trade and customs laws; (vi) rules, procedures, and documentary requirements; (vii) administrative rulings; (viii) best practices in trade facilitation; (ix) a list of authorised AMS traders.
Economic Affairs. In its absence, the consultation process is carried out through the ad hoc meetings, which cover not only the major or large traders but also SMEs.

3.3. Release and Clearance Formalities

Indonesia performs quite well under this component, despite some variations amongst its indicators. Decisions on advance rulings are restricted to applicants and are not published. The exclusivity of advance ruling decisions – while arguably sensible because the export–import transaction can be unique (transaction-specific) – is not yet in accordance with best practice, where advance ruling decisions are made public, as in the WCO guidelines on advance rulings (WCO, 2018).

Pre-arrival (import) and pre-departure (export) formalities are moderately high for Indonesia. Pre-arrival document processing for imports is available, and Trusted Traders (i.e. MITAs) and AEOs have a facility to expedite processing. However, it covers only the major ports (i.e. Tanjung Priok Port, Belawan Port, Tanjung Perak Port, Tanjung Emas Port, and Soekarno-Hatta Airport) and is restricted to air and sea cargo.

Customs uses risk management practices applied by customs administrations in other countries, i.e. assessing import goods by applying random inspections or based on risk factors. In line with the processing of pre-arrival documents, MITAs and AEOs receive preferential treatment – allowing inspections to be done at traders' warehouses rather than the customs facility.

Consistent with the application of a risk-based approach for the arrival of imports – instead of a transaction-based approach – customs implements a post-clearance audit system. This consists of the audit of financial records and the audit of the trade documentation.

For the separation the release of goods from customs and the clearance of importation documents, the mechanism of releasing goods early (without payment of duties or taxes, with minimum documentation) has been established, allowing the seamless movement of goods, especially if the goods are intermediate inputs for production use. Further improvement could be made by removing the guarantee that allows the early release, although the impact of this should be minimal.

All importation and exportation payments may be made electronically (e-payments). This follows the global practice of putting all payments into a single bill issued by customs. Indonesia also follows the global practice of a customs review and a judicial appeal to the

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8 This is reflected in Article 6 of the DGCE Decree No. 16/2016 dated 29th April 2016 on Release of Import for Home Use.
9 The following regulations govern risk management: Article 3 of Customs Act No. 17/2006 dated 15th November 2006, Article 24 of the DGCE Decree No. 16/2016, and DGCE Decree No. 16/2016 (for physical inspection).
10 The mechanism is reflected in the Minister of Finance Decree No. 167/2015 dated 3rd September 2015 on The suspension of Customs Duties for Home Use.
11 This is governed by the Minister of Finance Decree No. 40/2016 dated 22nd March 2016 on The Electronic Payment for Customs Duties; c.q. DGCE Decree No. 33/2016 dated 1st August 2016 on The Electronic Payment for Customs Duties.
courts (i.e. Tax Court for Indonesia).\textsuperscript{12} Traders may submit objections regarding the valuation of the tariff duty and other non-tariff payments, imposition of fines, and imposition of export duty.

Customs has implemented two globally used indicators – dwell time and the Time Release Study (TRS) – to measure its performance in releasing goods. Customs conducts these measurements regularly and, more importantly, makes them publicly available, providing a self-discipline mechanism to improve clearance procedures. Dwell time is recorded on a monthly basis for all major ports (i.e. Belawan Port, Tanjung Priok Port, Tanjung Perak, and Tanjung Emas). The TRS is conducted biennially or annually, but only for the main ports at present (i.e. Bitung Port, Entikong Port, Tanjung Emas Port, Dwikora Port, and Soekarno-Hatta Port). Customs plans to expand the implementation of the TRS to other major ports, supplementing the dwell time statistics already available for these ports.

Customs has established the Trusted Traders (MITA) and AEO programmes, and signed a mutual recognition agreement for the Trusted Traders and AEOs with Korea.\textsuperscript{13} Currently, Indonesia is exploring the possibility of future mutual recognition agreements with Hong Kong, the United Arab Emirates, China, Japan, and Malaysia.

Self-certification is available, but only to certified manufacturers or certified exporters (not both), while the simplified procedure currently applies only to sea and air cargo. Improvement could be achieved by extending the self-certification mechanism to cover both certified manufacturers and exporters, and extending the simplified procedure to land cargo.

\textbf{3.4. Import/Export Formalities and Coordination}

Indonesia performs quite well under this component. The system for international trade in Indonesia accepts digital copies for all document requirements. Paper documentation is also accepted, providing some flexibility for traders. Currently, Indonesia has also implemented electronic certificate of origin data exchange for Form D of the ASEAN Trade in Goods Agreement, Form AK of the ASEAN–Korea Free Trade Area (bilateral scheme with Korea), and Form E of the ASEAN–China Free Trade Area (bilateral scheme with China). An improvement could be made in the future by allowing the certificate of origin rather than Form D, Form AK, and Form E to be exchanged in its electronic form.

The INSW is fully implemented. It was initiated at the end of 2007, and by 2018 covered customs and 15 major agencies. The INSW covers more than 90% of Indonesia’s international trade, and the government aims to increase the coverage to 100% by September 2018 by mandating the implementation of trade through the INSW in 92 customs and excise service offices (at the beginning of 2018, the INSW was implemented

\textsuperscript{12} The mechanism is established by the following regulations, including the procedure to submit the objection: Chapter XII of Customs Act No. 17/2006, the Minister of Finance Decree No. 51/2017 dated 11\textsuperscript{th} April 2017 on Customs Objection, and Law No. 14/2002 dated 12\textsuperscript{th} April 2002 on Tax Court.

\textsuperscript{13} The Minister of Finance Decree No. 211/2016 dated 29\textsuperscript{th} December 2016 on the Trusted Traders (MITA), while the Minister of Finance Decree No. 227/2014 dated 17\textsuperscript{th} December 2017 on the Authorized Economic Operators (AEOs).
in 22 customs and excise service offices and is expected to expand to another 70 customs and excise service offices). The INSW covers exports and imports (not transit and transshipment); and allows the major documents needed to clear trade (i.e. export permits, import permits, certificates of origin (Form D), licences, import declarations, and other documents (e.g. quota reduction)). The submission of manifest is not yet included in the system. Traders still have to apply for permits through each ministry/agency system, and they submit all the permits to the INSW for the goods clearance process.

3.5. **Trade Facilitation**

Indonesia performs well under this component. Cross-border coordination (i.e. the institutional and operation arrangement) is another important aspect of trade facilitation. Customs has agreements with neighbouring countries (i.e. Malaysia, Timor Leste, and Papua New Guinea) for cross-border coordination and collaborates officially with other relevant agencies in the country (i.e. Ministry of Home Affairs, Ministry of Trade, and Directorate General of Immigration) for the implementation of these agreements. In terms of operations, it covers the alignment of working hours and joint controls between the customs administrations of Indonesia and the neighbouring countries. However, for the issuance of cross-border permits for vehicles transporting goods, it is still in the pilot stage.

As for the implementation of the ASEAN Framework Agreement on the Facilitation of Goods in Transit, two out of three protocols under the agreement have been operationalised while the other two agreements (the ASEAN Agreement on Facilitation of Inter-State Transport and the ASEAN Framework Agreement on Multimodal Transport) have yet to be operationalised by Indonesia.

3.6. **E-Commerce**

Indonesia’s performance under this component is moderate and needs improvement. At the time of the study, a legal framework governs some aspects of e-commerce transactions but not all of them. For the revenue framework indicator for e-commerce international transactions, Indonesia still follows the *de minimis* rule, which is not part of an e-commerce legal framework.

4. **Recommendations**

The discussion in this chapter suggests the following way forward.

First, continue or further reform elements of trade facilitation to close the gap with best practice. This includes making decisions on advance rulings public, providing more detail regarding the regulation on the NTR, simplifying documents and ensuring their digitalisation, and expanding the TRS to cover the major ports. These actions would complete the reforms conducted earlier and make trade facilitation more robust.

The deepening or extension of institutional reforms is included here. Agencies’ organisational business processes should be transformed to optimise customs audits and
intelligence/risk management and to create a special unit on rules of origin for increasing patterns of FTA utilisation. All this needs to be supported by an improvement in the human capital of officials in the agencies.

It is important to note here that the special unit on rules of origin could be developed to decentralise the issuance of certificates of origin, which is likely to increase the efficiency of trade facilitation significantly considering the archipelagic nature of Indonesia.

Second, improve and ensure smooth coordination between agencies. This is important to strengthen the implementation of the INSW toward the ideal situation, i.e. the INSW runs as a portal for traders to obtain permits and licences from agencies. Political willingness is clearly needed to ensure smooth coordination, not only because strong commitment is needed but also because of the complexity of the bureaucracy and the geographically challenging nature of the country.

Related to this is improving the quality of regulations, which could be done by synchronising the policy approach (at agency level) between agencies. An example is the variation in the categorisation of a firm’s risk status amongst agencies; without adjustment (synchronisation), a firm could be defined as a low-risk firm in one agency but a high-risk firm in another agency.

Third, review and improve administrative procedures in some initiatives to improve efficiency – both in these initiatives and for overall trade facilitation performance. Potential inefficiencies in PLBs is one initiative to be reviewed and reformed.

The study also recommends agencies to simplify the procedures applied in PLBs, bonded zones, and free trade zones. The simplification would attract more participation from SMEs in international trade, which could be done by simplifying information technology inventory requirements, relaxing regulations on the restricted goods list, reducing verification costs by surveyors, and simplifying the registration process.

Fourth, increase efforts for more intensive socialisation and consultation with the private sector/businesses. An official platform could be created for a national trade facilitation committee. Consultation increases firms’ awareness of the importance of aligning regulations governing PLBs, bonded zones, and free trade zones with their business models.

Fifth, continue investing in technology to reach global standards used in developed countries. This is important as Indonesia is expanding its FTA agreements with developed countries, and in the context of the Regional Comprehensive Economic Partnership.

Information technology could be developed to support a paperless environment, using electronic processing and data sharing/information exchange amongst AMS or other countries to speed up the facilitation process and to manage it, without disrupting the clearance process. Indonesia could approach its trading partners to sign mutual recognition agreements or memoranda of understanding for information sharing.
References


