FOREIGN TRADE OF INDONESIA FROM 1974/75 – 1992/93

Altaf Hussain Ansari

Foreign trade plays an important role in the economic development of a country. Economic developed of all development countries is mainly due to the foreign trade. Through foreign trade, the reserves of foreign exchange are enlarged. There is no country in the world at present which produces all the commodities. Therefore every country tries to produce those commodities in which the said country has comparative advantage. The producing countries exchange their goods in the international market with those goods not produced by these countries. This researcı article analyzes the foreign trade of Indonesia during the period 1974/75 to 1992/93.

TRADE POLICY

Trade policy before 1973 was characterized by a gradual but nonetheless dismantling of restrictions on international trade significantly. Tariff rates were progressively lowered, and by 1971 quantitative restrictions on both imports and exports had been virtually eliminated enabling to save for certain automobile tires and batik textiles.[1] By 1985, quantitative restrictions on imports were pervasive. Export restrictions, other than export taxes, had been used to a lesser degree, although numerous restrictions still do apply to some exports.[2] Examples include the ban on the export of copra, quotas on fog exports during 1981-84, and a total ban on log exports in 1985.

THE DECLINE AND RISE OF PROTECTIONISM

The pressures to turn towards a protectionist trade policy after 1972 can be attributed to several factors. First, the growing overvaluation of the rupiah from 1973 until late 1978 gave rise to increasingly strident demands for protection of import-substituting industries, particularly in textiles, apparel, footwear, and other consumer goods to the months prior to the devaluation of 1978, for example, the textile industry reported an excess capacity of nearly 60 percent.

Second, the continuing inadequacies (both real and imagined) in the Indonesian customs service offered another reason for increased reliance on quantitative restrictions. Evasion of customs duties, through under invoicing and outright smuggling, was at least as pervasive in the early 1980s as in the early 1970s.[3] Investors in import-substituting industries with high nominal tariff protection regularly claimed, not without justification, that ineffective and corrupt customs administration allowed many consumer goods to enter at rates of duty well below those nominally prescribed. In desperation many firms sought quantitative restrictions as substitutes for the ineffective protection provided by poor administration of tariffs. In March 1985, the government stripped the customs service of all responsibility for assessing and collecting customs duties and assigned the job to a Swiss survey firm for the period 1985-87.

Third, there is a widespread acceptance of the view, within part of the government and much of the private sector, that the 160 million people in the nation furnish a market large enough to allow most import-substituting industries to attain significant economies of scale and therefore low-cost production. This argument, it is held, justifies significant protection of infant industries, notwithstanding the fact the most competitive industries in Indonesia have generally been the least protected.[4] Fourth, autarkic notions have been pervasive among industry officials in several sectors, who take the view that "if it can be produced here, in a technical sense, then it should be produced here."

PROTECTION AND IMPORT SUBSTITUTION

All of these factors weakened the case for continued import liberalization after 1972. The turning point in trade policy came in February 1974, when the government prohibited the import of finished sedan cars to rescue an uncompetitive automobile assembly industry which by 1984 had assembled twenty-seven makes of automobiles with a total production of only 152,000 units. This measure was the first significant breach of heretofore solid policy of liberalization. Over the next five years, import quotas and bans were extended to a few other industrial goods, including newsprint, some textiles, and motorcycles.

The quantitative restrictions were not used extensively, however, until after 1980. Between 1980 and mid-1985, hundreds of products were added to the list of imports subject to some form of restrictions, so that by 1984, 22 percent (1,154 items) of imports were subject to some form of registration, regulation, quota, or license. The period also saw great innovation in the design and application of these restrictions. Importation of certain agricultural implements, for example, was virtually halted by a device that came to be known as a zero quota-a total ban by any other name. Imports of fruits were stopped by first restricting import privileges to firms designated by the government and then lifting these privileges. Imports of many types of steel were severely curtailed not by quotas or bans but by appointing the high-cost state-owned steel mill (the monopoly producer) as sole importer of steel products.

As a result, by 1984 the level and the variability of effective protection had increased significantly over the levels seen in the early and middle 1970s. One study made by Pitt in 1971 indicated that the effective protection for all importable was 66 percent; a range of negative 13 percent (rice milling) to 701 percent (soap) included several examples of effective protection well in excess of 100 percent (sugar refining, spinning industries, apparel, and automobiles).[5] Negative effective protection for virtually all exportable, averaging negative 11 percent, resulted in an average level of effective protection welt below the 66 percent average for importable.

A subsequent study by Pitt indicates that effective protection was even more highly variable in 1975 than in 1971. Even though the average level of effective protection across all industry was 30 percent, there was flow range from a negative 35 percent (batik apparel) to a positive 4,000 percent (liters). One average according to preliminary estimates of the government, import-competing industries in 1981 received an implicit subsidy on production of slightly more than 200 percent (the automotive industry received more than 700 percent), whereas industries that did some exporting were effectively taxed at an average rate of 1 percent.

By, 1985, import substitution had moved beyond consumer goods and into "upstream" intermediate goods, such as steel, polystyrene, and industrial chemicals. High and uneven protection discriminated sharply in favor of import-competing industries and against exportable. Employment generation in manufacturing proved to be below expectation. Although value added in manufacturing grew by 11 percent a year in 1975-82, employment increased by only 4.9 percent.[6] Much of the employment gain was in the cottage and small-scale segment, which produces only one-fifth of manufacturing output. The employment cost of import substitution in manufacturing was high. For 1971, Pitt found that $1 million increased value added from manufactured and exports would have generated 57 percent more employment than an equivalent reduction in competing imports. For 1975, Pitt found that an investment in the less protected exporting industries would have produced four times as many jobs and saved for times the foreign-exchange as the same investment in the highly protected import-substituting industries.[7]

High protection discriminated against exportable and employment in export industries in other ways: by worsening exchange rate overvaluation and by raising the costs of downstream industries (such as garments and plastic products). The downstream industries tended to be wore labor-intensive than highly protected upstream industries.[8] Furthermore, protection imposed a cost on consumers, particularly low-income consumers. Protection of the textile and footwear industries, for instance, cost consumers a total of $435 million, or 44 percent of their outlays on these items, in 1978.[9] By 1980, trade policies were estimated to have raised costs to consumers by more than Rp5 -trillion (in 1985 prices), or about $150 per household a year, in a country with per capita income of less than $600.[10]

The negative impact of aggressive import substitution on employment, export growth, and living standards began to draw growing criticism from export-oriented industries, market-oriented economists, and other public figures not generally identified with liberal trade policies. Such criticism in the past have often presaged in economic policy.

EXPORT POLICIES

Natural resources and agricultural commodity exports had, until recently, accounted for more than 95 percent of Indonesia's exports. Not until 1982 did manufactured exports reach 10 percent of total exports.

Recurring episodes of overvaluation were not the only causes of sluggish growth of many non-oil exports in Indonesia. Other economic, foreign, and environmental policies also placed a variety of restrictions on the export of raw materials and manufactured products. As late as 1983, thirteen items, ranging from tropical logs to raw rattan, were subject to export prohibitions; exports to South Africa have been banned for years. The export of eighteen items, ranging from fertilizer to salt, sugar, rice and automobile tires, was at times restricted to increase the supply to the domestic market. The export of eight commodities, including tin, coffee, rubber, plywood, and crude oil, is restricted under international marketing arrangements. Five items, including tobacco, hides, and cinnamon, can be exported only by government-approved exporters. Seventeen raw materials, ranging from palm kernel products to iron ore, copper, tin, bauxite, and cork, are subject to export taxes. Seven wood and other agricultural products are subject to a sliding-scale export tax that varies directly with international prices.[11]

At the same time, a number of other policies have been initiated to promote exports, particularly of manufactures. An export certificate scheme created in 1978 provides drawbacks of import duties and rebates of internal indirect taxes for a variety of exports, primarily manufactures. The combined drawback and rebate has been as high as 44 percent for some textiles (and attracted sharp criticism from the United States) and as low as 5 percent for some intermediate goods. Export-processing zones have been created to encourage labor-intensive, low value processing for the export market. Export finance arrangements have been streamlined, and exporters are eligible for a variety of special credit facilities. These include cheaper credit, export credit guarantees, and export insurance.

Until 1982, the net effect of this mix of export policies was probably to retard export activity in virtually all sectors. Substantial deregulation of export procedures has been achieved since ten, however, except for those products that are prohibited or restricted by international marketing arrangements. Still, some restrictive measures taken earlier are virtually irreversible, particularly for forest-based industry. Between 1978 and 1985, an export tax of 20 percent was applied to logs; the tax rate was zero for plywood and for most sawn timber. In 1983, this structure of export taxes provided high effective protection to value added in the processing of lots; the rate of effective protection was 120 percent for plywood, whereas domestic value added in sawmilling (measured at world prices) was negative. Very high rates of effective protection to plymills and sawmills became infinitely high in 1985, when all log exports were banned. One result of the lack of competitive pressure furnished by these incentives is that Indonesia, the world's second leading producer of tropical hardwood, had one of the least competitive wood-processing industries in the world in 1985.[12]

EXPORT AND IMPORT

The detailed information of foreign trade of Indonesia is given in Table:

Table: 1

Year	Export	Import	Balance
1975/76	144	5,090	-4946
1976/77	196	6,167	- 5971
1977/78	245	7,241	-6996
1978/79	360	7,543	-7183
1979/80	447	9,028	-8581
1980/81	540	11,837	-11,297
1981/82	865	14,561	-13,696
1982/83	853	15,824	-14,971
1983/84	1484	14,246	-.12,762
1984/85	1649	12,565	-10,916
1988/89	22,160	16,444	+ 5716
1989/90	25,674	21,837	± 3837
1990/91	24,543	25,869	+ 3674
1991/92	33,861	27,311	+6550
1992/93	33,612	28,086	+ 5526

Sources: (i) World Bank Data
(ii) The Asia & Pacific Review 1996, P52

Table: 1 examines the exports and imports of Indonesia during the 1974/75 to 1992/93. In this regard, the World Bank has provided a series of fiscal year estimates in current prices for the years after 1974 as shown in Table 1. The exports in table 1 are somewhat more inclusive, in part because many new products began to be exported in more recent years. (The fiscal year begins on April 1 and ends on March 31 of the following calendar year).

Not all changes in manufacture & exports can be attributed to changes in real exchange rates. The general world economic climate, the passing in of new industries, and export taxes or bans on log exports all influence the ultimate level. It is noteworthy; however, that in each case where there has been devaluation there has also been a sharp jump in manufactured exports. This trend was especially noticeable from 1982-83 to 1983-84, when even non-plywood exports jumped from $530 million to $905 million and total real exports rose 82 percent. Similar results come from analyzing the 1977-78 period with that of 1979-81, the two fiscal years before and after the 1978 devaluation. Real exports jumped 55 percent in the period, even without any significant contribution from plywood. And in 1970-74, the increase from $12 million in 1970 to more than $30 million in 1972 must also reflect the considerable value gains, not simply higher prices. The subsequent sharp gain in 1973 and fallback in 1974 probably reflect world price fluctuations to a large extent, although they are consistent with investment and production decisions following cost changes with a modest lag.

As far as the imports are concerned as shown in table I that there his been increasing trends up to the year 1984/85 and exceeds exports of the country In this case, it is apparent that the 1978 and 1983 devaluations had a powerful impact on import demand. From 1977/78 to 1980/8 1, the real volume of non-oil imports actually dropped by 5 percent inspite of rapid growth in the economy. This situation represented a sharp reversal from previous gains and occurred inspite of some loosening of import controls in 1978 and 1979 after the devaluation. Similarly, in 1982-83 imports peaked in real terms at; $16.5 billion and then fell by 14 percent during the next two years inspite of continuing growth in real output. It is evident that the change in relative prices caused by the devaluation discouraged the use of imports and encouraged manufacturing output, both for domestic use and for export.

It is further pointed out the balance of trade was unfavourably for Indonesia up to 1985. The devaluation brought favourable results after 1985 and the balance of trade remained favourable continuous as described in the table: 1. This trend improved the economy of the country.

CONCLUSION

This research article analyzes the exports and imports of Indonesia from 1974/75 to 1992/93. The balance of trade remained unfavourable which brought adverse effects on the economy of the country. In this regard, two times, devaluation were made for the improvement of foreign trade, Looking at table I, it is pointed out that after devaluations, effective results were not achieved, but the balance of trade remained in deficit up to 1985, After the year 1985, favourable results were achieved which improved the economy of the country.

REFERENCES

1. In the early 1970s the only prohibited imports other than tires and certain batik fabrics were so classified for social and foreign policy reasons. Imports of mosquito-repellent coals were banned on health grounds. Imports from Israel and South Africa were prohibited on political grounds.

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6. Compiled by Richard Porter from Biro Pusat Stutistik, various issues, 1975-82.

7. Pitt, Mark, Ibid. P.225 and World Bank data.

8. Gills, Malcolm, Ibid, P.260.

9. These figures are based on estimates by Richard Porter for thirty two industries in 1980.

10. Diojohadikusmo, Sumitro Added value, Productive Employment and the balance of payments, Jakarta a Post, August 22, 1985.

11. This compendium of export restrictions was drawn from material prepared by Stephen Paker in 1984 and updated by the authors.

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