INDONESIA

TRADE SUMMARY

The U.S. trade deficit with Indonesia was $7.1 billion in 2002, a decrease of $520 million from $7.6 billion in 2001. U.S. goods exports in 2002 were $2.6 billion, up 2.4 percent from the previous year. Corresponding U.S. imports from Indonesia were $9.6 billion, down 4.6 percent. Indonesia is currently the 35th largest export market for U.S. goods.

U.S. exports of private commercial services (i.e., excluding military and government) to Indonesia were $1.0 billion in 2001 (latest data available), and U.S. imports were $302 million.

The stock of U.S. foreign direct investment (FDI) in Indonesia in 2001 was $8.8 billion, up from $8.5 billion in 2000. U.S. FDI in Indonesia is concentrated largely in petroleum, banking and manufacturing sectors.

OVERVIEW

Although Indonesia's economy weathered the 2002 global economic slowdown relatively well, the country still has not fully recovered from the effects of the 1997-98 financial crisis. President Megawati Soekarnoputri's government has restored a measure of political stability during its tenure, most recently by concluding a ceasefire agreement with separatists in the gas-rich province of Aceh. However, the nation's most serious problems -- building effective, democratic institutions; establishing the rule of law; restoring private capital inflows; and addressing the chronic problems of corruption, debt, and a crippled banking system -- have proven much more difficult to tackle. In addition, the October 12, 2002 terrorist bombings in Bali seriously hurt Indonesia's tourist sector and dealt a serious blow to investor confidence. Despite these setbacks, Indonesia's non-oil and gas exports remained strong in 2002, growing almost 2 percent over 2001 levels during the first 10 months of the year.

Indonesia's relationship with the International Monetary Fund (IMF) has provided the framework for the country's economic policies since November 1997. IMF-supported economic reforms have promoted internal restructuring and reinforced existing policies of trade and investment liberalization. Indonesia's current $5 billion IMF Extended Fund Facility continues through the end of 2003.

The Indonesian Government generally has adhered to its long-term trade liberalization program, although evidence of backsliding mounted in 2002. Indonesia fully implemented the final stage of its commitments under the ASEAN Free Trade Agreement (AFTA) on schedule on January 1, 2002. However, the Indonesian Government has expressed reservations about the pace of liberalization within AFTA, and noted an interest in pursuing emergency exit clauses from AFTA commitments in general.

U.S. industry's main concerns relate to Indonesia's investment and business climate. These include the lack of contract enforceability; discriminatory taxation; the absence of a transparent and predictable regulatory environment; arbitrary and inconsistent interpretation and enforcement of laws; irregularities in government procurement tenders; and ineffective enforcement of intellectual property rights. Commercial dealings in Indonesia are impaired by a host of uncertainties, including widespread corruption, an ineffective judicial system, non-existent credit reporting, and underdeveloped capital markets.

IMPORT POLICIES

Tariffs

As of January 2003, about 70 percent of Indonesia's tariff lines were assessed import duties ranging between zero percent and five percent. Indonesia's average unweighted tariff is 7.3 percent, compared to 20 percent in 1994.

In the late 1980's the Indonesian Government began long-term trade reform to wean the economy away from its dependence on oil and gas and increase Indonesia's industrial competitiveness. In the early 1990's, it began a series of annual deregulation packages designed to gradually lower applied tariff rates, convert non-tariff barriers into tariffs, and remove restrictions on foreign investment. This process is projected to conclude in 2003. At that time, there will be a three-tier tariff rate structure (0 percent, 5 percent, and 10 percent), except on sensitive items such as automotive goods and alcohol. The most recent tariff package, issued January 11, 2001, reduced tariffs by five percentage points on 1,279 tariff lines. The majority, 769 lines, had tariff rates reduced to 10 percent or below.

In the Uruguay Round market access negotiations, Indonesia committed to bind 94.6 percent of its tariff schedule; most tariffs are bound at 40 percent. Products for which tariff bindings exceed 40 percent or which remain unbound include automobiles, iron, steel, and some chemical products. Indonesia committed to remove import surcharges on items bound in the Uruguay Round by the year 2005 and had done so by the end of 1996. In accordance with the WTO Agreement on Agriculture, Indonesia agreed to eliminate non-tariff barriers on agricultural products, and replace them with tariffs. In the agricultural sector, 1,341 tariff lines have bindings at or above 40 percent, including the most sensitive and heavily protected sectors. Local content regulations on dairy products were eliminated on February 1, 1998.

Effective January 1, 2002, Indonesia, along with the other five original ASEAN members, implemented the final phase of the ASEAN Free Trade Agreement (AFTA). Indonesia has reduced tariffs for all products included in its original commitment (7,206 tariff lines) to five percent or less for products of at least 65 percent ASEAN origin. Indonesia will reduce rates on 66 remaining tariff lines, mostly in the chemicals and plastics sectors, to the five percent AFTA ceiling by 2003.

Non-Tariff Barriers

Since 1997, Indonesia has dismantled many formal non-tariff barriers. In September 1998, the Indonesian Government sharply curtailed the role of the National Logistics Agency (Bulog), which had been the sole importer and distributor of major bulk food commodities, such as wheat, rice, sugar, and soybeans. Bulog is now an independent body (under the coordination of the Ministry of Agriculture) with responsibility for maintaining stocks for distribution to military and low-income families and managing the country's rice stabilization program. The agency has floated the idea of again becoming a state trading enterprise with monopoly import rights for some products, but the Indonesian Government has not yet taken action on this proposal. Bulog is no longer entitled to draw on Bank Indonesia credit lines, a privilege it long enjoyed under the Soeharto regime, and must use commercial credit and pay import duties like other importers. In conjunction with the minimization of Bulog's authority and role, private companies are now permitted to import rice, wheat, wheat flour, soybeans, garlic, and sugar.

During 2002, domestic agricultural interests put increasing pressure on the Indonesian Government for protection from international competition. However, with some notable exceptions, the Indonesian Government has resisted such pressure. Since late 1999, rice imports have been subject to a specific tariff of 430 rupiah per kilogram (4.8 cents per kilogram or approximately 30 percent on an *ad valorem* basis). In late 2002, the Ministry of Agriculture proposed increasing the tariff to 735 rupiah (8.3 cents) per kilogram in order to protect local farmers, but has not yet implemented this measure. Nevertheless, U.S. rice exports have declined from $20 million in 2000 to $5 million in 2001 to $2.7 million through the first nine months of 2002.

The Indonesian Government continues to maintain a ban on imports of chicken parts originally imposed in September 2000 by the Directorate General of Livestock Services in the Ministry of Agriculture. The U.S. Government has raised concerns about this issue, but the Ministry of Agriculture continues to insist that is necessary to assure consumers that imports are *halal* (produced in accordance with Islamic practices). U.S. imports comply with Indonesia's established requirements for *halal* certification, and several ministries have sought to repeal the ban, so far without success. The estimated value of trade lost from this ban is $10 million to $25 million, according to U.S. industry.

The Indonesian Government also imposes *de facto* quantitative restrictions on imports of meat and poultry products by requiring an Importer Letter of Recommendation ("Surat Rekomendasi Importir") before importers can import these products. In approving such a request the Indonesian Government can arbitrarily alter the quantity allowed to enter, raising concerns that these Letters of Recommendation are being used to limit imports. U.S. industry has estimated the trade impact of this restriction to be between $10 million and $25 million.

The U.S. government has received reports that the Indonesian Customs Service uses a schedule of arbitrary “check prices” rather than actual transaction prices on importation documents for assessing duties on food product imports. As a result, although most food product import tariffs remain at five percent, the effective level of duties can be much higher.

Other quantitative limits apply to wines and distilled spirits. In addition to the regular import duty of 170 percent, a 10 percent VAT and 35 percent luxury tax, the Indonesian Government restricts imports of alcoholic beverages to three registered importers, including one state-owned enterprise.

Import Licensing

The Indonesian Government has continued to reduce the number of products subject to import restrictions and special licensing requirements. Currently, 141 tariff lines are subject to import licensing restrictions, down from 1,112 tariff lines in 1990. Among other items, alcoholic beverages, lubrications, explosives, and certain dangerous chemicals compounds are subject to special import licensing regulations.

In March 2002, the Minister of Industry and Trade issued a decree on Special Importer Identification Code Numbers (NPIK). This decree requires importers of certain product categories to apply for a special importer identity card, without which products can be detained at port. These goods include: corn, rice, soybeans, sugar, textile and related products, shoes, electronics and toys.

On October 23, 2002, the Minister of Industry and Trade issued a decree concerning Textile Import Arrangements. The United States has raised concerns that the decree severely restricts the importation of 18 categories of textile fabrics by effectively banning the importation of these products by textile producers and wholesalers. Only companies that have production facilities to further process imported fabrics into value-added products, such as garments or furniture, may obtain an import license. The U.S. Government is closely monitoring this issue.

STANDARDS, TESTING, LABELING AND CERTIFICATION

In July 2000, the Indonesian Government began to implement the Consumer Protection Law of 1998 by requiring registration of imported food products. Importers must apply for a registration number from the Agency of Drug and Food Control (BPOM). After complaints from Indonesian importers and retailers that the requirements were overly complex, time consuming, and costly, BPOM submitted revised procedures that simplify the process to obtain registration numbers. These draft regulations currently are awaiting presidential approval.

All imported food products must be tested by BPOM. Fees for such testing range from Rp 50,000 ($5.60) to Rp 2.5 million ($250) per item, and between Rp 1 million ($100) to Rp 10 million ($1000) per product. Some U.S. producers have expressed concerns that the extremely detailed information on product ingredients and processing they are required to provide may infringe upon proprietary business information. This has led some U.S. exporters to discontinue sales. The level of trade affected by this requirement is estimated by U.S. industry at between $10 million and $25 million.

The Indonesian Government has also begun implementation of a strict food labeling law that requires labels written only in Bahasa Indonesian on all consumer products. Labels may not include any other languages. U.S. companies, who generally design labels to accommodate several export markets (often in several languages), have concerns about this requirement, which makes it cost ineffective to export smaller volume products.

Beginning in January 2001, Indonesian regulations required labels identifying food containing "Genetically Engineered" ingredients and "Irradiated" ingredients. However, as of December 2002, implementation is still pending until the Indonesia Government determines a threshold-presence level. According to U.S. industry the new regulation could affect sales of approximately $411 million in soybeans and soybean meal from the United States.

GOVERNMENT PROCUREMENT

Indonesia is not a party to the WTO Government Procurement Agreement. Indonesia's government procurement regime is governed by a number of overlapping laws, regulations, and presidential decrees. Most important is a presidential decree issued in February 2000, which updated the Law on Government Procurement of 1994. The decree simplified procurement procedures and enhanced transparency, but also granted special preferences to domestic sourcing. In addition, Construction Law 14/1999 governs procurement of civil engineering services and related consulting services. Regional decentralization may introduce additional barriers as local and provincial governments adopt their own procurement rules.

Bilateral or multilateral donors finance many large government contracts and often impose special procurement requirements. For large, government-funded projects, international competitive bidding practices must be followed. The Indonesian Government seeks concessional financing for most procurement projects. Since late 1999, the Indonesian Government has conducted audits of the state-owned electricity company (PLN), the state oil and gas company (Pertamina), and the State Logistics Agency (Bulog), which identified serious irregularities in procurement. No legal action has been been taken, however. The Indonesian Government has committed to expand gradually the audit process to encompass other major state enterprises.

Foreign firms bidding on high value government-sponsored construction or procurement projects have been asked to purchase and export the equivalent value in selected Indonesian products. Government departments, institutes, and corporations are expected to utilize domestic goods and services to the maximum extent feasible, with the exception of foreign aid-financed goods and services procurement projects. State-owned enterprises that publicly offer shares through the stock exchange are exempted from government procurement regulations. Pertamina regulates the import of all materials used by the oil and gas sector.

EXPORT SUBSIDIES

The Indonesian Government, through Bank Export Indonesia, maintains several credit programs that provide subsidized loans, primarily to agriculture and small and medium businesses. The subsidized credit structure is undergoing significant change as economic reforms proceed.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Indonesia was placed on the "Priority Watch List" in 2001 and 2002 during the Special 301 Annual Reviews. The United States noted the lack of effective IPR enforcement in Indonesia and the need for prompt legislative action to bring the country into full compliance with its TRIPS obligations. The U.S. industry has reported a range of IPR concerns, including rampant software, audio, video disk and book piracy; pharmaceutical patent infringement, counterfeiting, trade secret protection, and data protection; apparel trademark counterfeiting; an inconsistent and corrupt law enforcement regime; and an ineffective judicial system. The lack of effective IPR protections and enforcement serves as a considerable disincentive to foreign investment in Indonesia, particularly in high technology projects.

The Indonesian Government has periodically responded to U.S. companies bringing specific complaints about pirated goods or trademark abuse. However, U.S. companies often find the Indonesian court system frustrating and unpredictable, and lacking effective punishment of piracy. Beginning in late 2001, however, the Indonesian Government allowed certain IPR cases to be heard at the Commercial Court. In a landmark decision in late 2001, a U.S. software company won a civil suit against five computer retailers for bundling pirated software with the hardware they sell. During 2002, the Commercial Court handled nearly 80 cases, mostly trademark disputes, within a 90-day time frame. Nonetheless, many cases filed before 2001 remain stalled in various courts.

Indonesia enacted new laws in December 2000 to provide protection for trade secrets, industrial designs, integrated circuits, and plant varieties. In August 2001, Parliament passed amendments to existing laws on patents and trademarks, and in July 2002 it passed amendments to the existing copyright law. While the new laws represent a major advance in Indonesia's IPR legal regime, inadequate enforcement and weaknesses in the judicial system continue to pose daunting problems for U.S. companies seeking enforcement of their intellectual property rights in Indonesia.

Indonesia is a member of the World Intellectual Property Organization (WIPO) and has acceded to numerous international conventions on IPR. These include the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works (with a reservation on Article 33), the WIPO Copyright Treaty, the Patent Cooperation Treaty, the Trademark Law Treaty, the Nice Agreement for the International Classification of Unclassified Goods and Services, and the Strasbourg Agreement Concerning the International Patent Classification. Indonesia is not a party to the WIPO Performers and Phonograms Treaty.

Copyrights

Indonesia passed amendments to the Copyright Law in July 2002. The amendments contain a number of important provisions long sought by U.S. and Indonesian copyright holders, including authorization for the Indonesian Government to issue optical disk (OD) regulations, criminal penalties for end-user piracy and the ability of right holders to seek civil injunctions against pirates. The Indonesian Government expects to finalize new optical disk regulations by June 2003.

The Copyright Law establishes rights to license, produce, rent or broadcast audiovisual, cinematographic, and computer software. It also provides protections for neighboring rights in sound recordings and for the producers of phonograms. It contains terms of protection for many copyrighted works of 50 years, as required by the TRIPS Agreement. A 1989 copyright agreement between the United States and Indonesia extends national treatment for copyright protection to works created by citizens of each country.

The Indonesian Government enforcement of copyrights is uneven. It periodically intensifies enforcement efforts against copyright piracy and consults with copyright holders and associations in order to prioritize its efforts. However, piracy of video compact disks in Indonesia is widespread and has hurt film viewership and the sale and rental of legitimate products. Periodic raids result in the seizure of sizable caches of pirated OD products. However, none of these cases has resulted in meaningful penalties or permanent impoundment of equipment used to manufacture pirated products. In recent years, high-quality pirated digital video disks have become increasingly available. According to U.S. industry estimates, total losses from copyright piracy in Indonesia during 2002 were over $200 million.

Patents

Indonesia's enacted a new patent law on August 1, 2001. The law consolidated into one text the three previous patent laws, and established an independent patent commission to rule on disputes and appeals. The law transferred jurisdiction over IPR civil cases from the District Court to the Commercial Court and raised the maximum fine for patent violations to Rp 500 million ($50,000). The term of protection remains 20 years with a possible two-year extension. A patent is subject to cancellation only in the event the patent holder fails to pay annual fees within specified periods. Unauthorized use of a product or process invention that is the subject of a pending application constitutes patent infringement. Despite this measure, the lack of effective enforcement remains problematic, both for enforcement of pending patents and after they have been issued.

Moreover, the new patent law does not correct some of the weaknesses in the previous law that concern foreign rights holders. Chief among these is the requirement that an inventor must produce a product or utilize a process in Indonesia in order to obtain a patent for the product or process. The standard for excluding inventions contrary to the public interest from patentability appears broader than the standards enumerated in the TRIPS Agreement.

Trademarks

Indonesia enacted its new trademark law on August 1, 2001. Like the new patent law, the latest version consolidated into one text a series of trademark legislation enacted over the past 20 years. The new law raised the maximum fine for trademark violations to Rp 1 billion ($95,000) and slightly reduced the maximum possible prison term. The Indonesian Government justified this move by claiming that financial penalties were a greater deterrent to IPR violators than imprisonment. Foreign rights holders, arguing that most IPR cases never result in the maximum sentence, had pushed for minimum sentencing guidelines rather than higher fines.

The trademark law provides for the determination of trademark rights by priority of registration, rather than by priority of commercial use. The law also provides for the protection of well-known marks, but offers no administrative procedures or legal grounds under which legitimate owners of well-known marks can cancel pre-existing registrations. Currently, the only avenue for challenging existing trademark registrations in Indonesia is through the courts, an often burdensome undertaking that must be initiated within five years from the date of the disputed registration. Faster processing of trademark cases by the Commercial Courts has provided some relief to mark holders since late 2001. Indonesian courts also do not provide injunctive relief, even when a lower court invalidates a false trademark registration.

SERVICES BARRIERS

Despite relaxation of some restrictions, particularly in the financial sector, services trade barriers continue to exist in many sectors.

Legal Services

A few powerful local law firms currently dominate the legal market, and foreign law firms are not permitted to operate directly in Indonesia. In order to legally practice, lawyers must hold Indonesian citizenship and have graduated from an Indonesian legal facility or other recognized institution. Foreign lawyers can only work in Indonesia as "legal consultants" and must obtain the approval of the Ministry of Justice and Human Rights. A foreign law firm seeking to enter the market must establish a relationship with local firm.

Distribution

In 1998-99, Indonesia liberalized portions of the distribution services sector under terms of its agreements with the IMF. The Indonesian Government eliminated restrictive marketing arrangements for cement, paper, cloves and other spices, and plywood. Indonesia has begun opening the wholesale and retail trade sectors to foreign investment. Since 1998, it has allowed up to 100 percent foreign equity in the distribution and retail sectors, with the condition that the investor enter into a "partnership agreement" with a small-scale Indonesian enterprise. This partnership agreement need not involve an equity stake in the project. The film sector is not covered by this regulation. The entire film sector, including film distribution and exhibition, remains closed under provisions of the 1992 Film Law (see Audio-Visual section below).

The state oil and gas company, Pertamina, controls all refining, distribution and marketing of final products to consumers. Indonesia passed a new Oil and Gas Law in October 2001 to deregulate downstream activities. Pertamina's regulatory functions have already been transferred to the Ministry of Energy and Mineral Resources.

Financial, Accounting and Banking Services

Under the WTO Financial Services Agreement, Indonesia committed to allow 100 percent foreign ownership for non-bank financial services companies that are publicly listed, including insurance and securities firms. Indonesia also guarantees the access of existing financial services firms in its market. It lifted restrictions on branching and sub-branching for joint venture banks and foreign branches in 1998.

In 2002, the Indonesian Bank Restructuring Agency re-privatized Bank Niaga and Bank Central Asia, formerly the largest private sector bank in Indonesia. Prior to the 1997 financial crisis, the Indonesian Government privatized these banks but took ownership during the crisis, selling off its shares again in 2002. Foreign investors or foreign-led consortia purchased majority stakes in both banks.

Paid-in capital requirements are twice as high for multi-finance companies with foreign partners than for domestic multi-finance companies. However, in November 1998, Parliament passed amendments to the 1992 banking law that allow 100 percent foreign ownership of Indonesian banks. All insurance policies in Indonesia must be purchased from either domestic or joint venture companies unless specific coverage is unavailable in Indonesia or if the insured is a wholly foreign-owned entity.

Accounting Services

Foreign firms are unable to practice under international firms' names, although terms such as "in association with" are permissible. Foreign accounting firms must operate through technical assistance arrangements with local firms. Foreign agents and auditors may act only as consultants and cannot sign audit reports. Licensed accountants must hold Indonesian citizenship.

Securities

In 1998, the Indonesian Government removed restrictions on foreign ownership of securities firms, pursuant to Indonesia's commitments under the WTO Financial Services Agreement.

Audio-Visual

Indonesia prohibits foreign film and videotape distributors from establishing branches or subsidiaries. Under the Film Law, provision of importation and distribution services is limited to wholly-owned Indonesian companies. Importation and in-country distribution of U.S. films must be handled through a single organization, the European and American Film Importers' Association (AIFEA). Duties, taxes, licensing, and other required payments also act as barriers to the importation of films.

Construction, Architecture and Engineering

Foreign consultants working under government contract are subject to government billing rates. Foreign construction firms are only permitted to be subcontractors or advisors to local firms in areas where the government believes that a local firm is unable to do the work. In addition, for government-financed projects, foreign companies must form joint ventures with local firms.

Telecommunications Services

Indonesia's commitments under the WTO Basic Telecommunications Agreement were modest. While it adopted the WTO Reference Paper on pro-competitive regulatory principles, it committed only to a maximum foreign investment limit of 35 percent for telecommunications services companies.

Indonesia's new Telecommunications Law took effect in 2000 and the Indonesian Government issued implementing regulations in 2002. The law phases out the exclusive rights of PT Indosat and Satelindo for international calling service and PT Telkom for domestic long distance service and local fixed-line service. Under the law, PT Telkom lost its monopoly over local fixed-line service in August 2002, eight years ahead of schedule, and the long distance providers will lose their exclusive rights in 2003. The new law removes the previous requirement that prospective foreign investors partner or enter into a revenue-sharing arrangement with a state-owned enterprise.

The Indonesian Government also divested portions of its stakes in PT Telkom and PT Indosat in 2002. In January 2002, the Indonesian Government raised telephone tariffs closer to market levels as part of an effort to make the company more attractive to investors. In July 2002, it sold a 3.1 percent stake in PT Telkom, raising the total stake held by private investors to 48.8 percent. In December 2002, it sold a 41.9 percent stake in PT Indosat to Singapore Technologies Telemedia, reducing its stake in the company to 15 percent.

INVESTMENT BARRIERS

Indonesia’s investment climate is poor. The World Economic Forum’s 2002 competitiveness rankings scored Indonesia better than only Argentina and Venezuela. Foreign direct investment (FDI) has declined steeply since the 1997-98 financial crisis. Approved investment fell to $9 billion in 2001 from $15 billion in 2000. For the first nine months of 2002, approvals amounted to $5.4 billion, an 11 percent decline from the same period of the previous year.

The Indonesian Government is seeking to improve Indonesia’s investment climate by reducing burdensome bureaucratic procedures and other requirements on foreign investors. Indonesian law provides for both 100 percent FDI projects and joint ventures with a minimum Indonesian equity of five percent. In 1998, the Indonesian Government opened several previously restricted sectors to foreign investment, including harbors, electricity generation, telecommunications, shipping, airlines, railways, roads, and water supply. It also has been preparing a new investment law, which may be enacted in 2003, that would overhaul existing regulations dating back to the late 1960's.

Foreign capital investment is primarily governed by the Foreign Capital Investment Law of 1967, as well as by subsequent presidential and ministerial decrees. The Capital Investment Coordinating Board (BKPM) and other relevant agencies must approve most proposed foreign investments in Indonesia. Obtaining the required permits, however, can be burdensome and time-consuming, because BKPM lacks centralized authority to issue such permits.

Indonesia blocks or restricts foreign investment in some sectors. These restrictions are implemented through a "negative list," the most recent version of which was released in August 2000. Although this list opened some sectors, particularly certain medical services, to foreign investment, it continues to prohibit investment in the print and broadcast media and film industry.

On January 1, 2001, Indonesia began to implement a large-scale decentralization of authority and finances from the central government to the provincial and district-level governments. Differences of opinion between the central and local governments about which has authority on certain issues has added to the level of uncertainty facing foreign investors. In many areas, local governments have instituted revenue-raising measures ("*retribusi*"), which are trade distorting.

Trade-Related Investment Measures

In 1995, Indonesia notified local content requirements to the WTO under the Agreement on Trade Related Investment Measures (TRIMS). The measures were designed to promote investment in several sectors, including the fresh milk and cream, utility boiler equipment, and soybean cake industries. Indonesia eliminated measures applicable to soybean cake in 1996 and to dairy products and utility boilers in 1998.

ELECTRONIC COMMERCE

Despite the proliferation of Internet service providers in recent years, several factors hinder the growth of electronic commerce in Indonesia. These include the lack of a clear policy in support of an open telecommunications infrastructure, monopoly provision of fixed land-line service by PT Telkom, a low level of computer ownership by both businesses and individuals, and weak IPR protection. U.S. industry has identified the lack of a legal framework for ensuring security of on-line transactions as a particularly significant impediment.

Parliament has been debating a cyber law to address issues related to electronic commerce for more than a year. Lack of a cyber law was cited by an Indonesian court in the October 2001 acquittal of a "cyber squatter" who had improperly registered a domain in the name of a competitor. Indonesia has also experienced an explosion of credit card fraud in recent years that may hinder development of electronic commerce. Express delivery companies complain of increasing difficulties and higher costs as a result of fraudulent on-line transactions originating in Indonesia.

OTHER BARRIERS

Transparency

A lack of transparency and widespread corruption are significant problems for companies doing business in Indonesia. Corruption was endemic under the former Soeharto regime, and still remains an enormous problem for foreign companies. Demands for irregular fees to obtain required permits or licenses, government awards of contracts and concessions based on personal relations, and an often arbitrary legal system are frequently cited problems.

Many laws passed since late 1997 have established new institutions and agencies to respond to popular demands to address corruption, collusion, and nepotism, but the effects of these laws are not yet apparent. The Indonesian Government established stiffer penalties for corruption as well as an independent commission to investigate and audit the wealth of senior government officials. It also established an Anti-Corruption Commission. Neither of these laws has been fully implemented, however, and few cases have been prosecuted.

Automotive Policies

On June 24, 1999, the Indonesian Government announced a major revision of its national automotive policies designed to rely on market forces to foster a more efficient and globally competitive automotive industry. The new policy eliminated extensive tariff and tax incentives for local content. The Indonesian Government reduced the maximum tariff on automobiles from 200 percent to 80 percent. Tariffs on passenger car kits imported for assembly, which had ranged from zero percent to 65 percent, were reduced to 35 percent, 40 percent, or 50 percent depending on engine size. Tariffs on non-passenger car kits were reduced to a uniform 25 percent. Tariffs on auto components and parts imported for local assembly of passenger cars and minivans were changed to a uniform rate of 15 percent. Imports of motor vehicles are no longer restricted to registered importers or sole agents of foreign automakers but are open to any licensed general importer.

Despite the steps taken to improve access to the automotive sector, U.S. motorcycle manufacturers complain of the high tariff of 60 percent (25 percent on knockdown kits), the luxury tax of 75 percent, and the prohibition on motorcycle traffic on tollways as barriers to the Indonesian market.