TRADE AID AND DEVELOPMENT IN INDONESIA

Comments on: A Role for Development Assistance

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I agree that Development Assistance and AFT in particular have an important role to play in assisting with the development of Indonesia.

- Table 4 presents the funding for AusAid’s AFT for Indonesia this reaches a total of A$ 109.8 million. This is a very interesting figure. Not sure what definition is being used but under the OECD CRS database only official assistance that is at least 25% concessional qualifies as ODA. Therefore only AFT that meets those criteria gets counted, but what we are seeing is that usually non-concessional assistance usually doubles the figures reported for ODA. So what we are seeing reported in the total AFT numbers is usually the tip of the iceberg. It may be worth looking into this issue to see what other types of Other Official Financing are provided by the Australian Government that may be helping Indonesia build trade capacity.

- It is not surprising that commodities account for most of the growth in Indonesia’s exports, high prices in commodities would explain such growth. This may also be explained by the fact that TNCs in extractive industries are more used to working in different countries that have investment climate problems. In some cases these TNCs may even be part of the problem. It would therefore be a good idea to support the Indonesian Governments in their efforts to implement the Extractive Industries Transparency Initiative.

- Out of the 6 general constraints identified in the paper Aid for Trade could help alleviate the problems in 4 of them. For example, infrastructure development is currently the AFT category that receives the most funding. AFT can also help with the issues of institutional and legal aspects, fragmented supply chains and lack of access to financing. Logistics deserves specific mention since this is an issue that can be improved through AFT and the implementation of trade facilitation measures.

- 3 out of the five constraints on international trade that are identified in the paper can be the target for AFT interventions. Export/import clearance times is like logistics an issue that can be tackled through AFT in trade facilitation measures. I will come back to this issue later.

- The second issue, quality control, is also a frequent target for AFT. Given Australia’s significant experience in this area their cooperation would be very valuable. The WTO together with other agencies like the FAO, OIE, World Bank, and WHO have set the Standards and Trade Development Facility or (STDF) to coordinate capacity building efforts to assist developing countries in meeting SPS standards. Now the STDF is strictly demand driven process this is why Australia should assist Indonesia in identifying needs and preparing project proposals. Australia is itself one of the donor countries for the STDF so assisting Indonesia in the preparation of projects would ensure that the money that it gives to the STDF is put to good use.

- As the paper indicates, the availability of trade financing was considerably affected by the global financial crisis. This is an area where the WTO has concentrated in its efforts to alleviate the problems caused by the crisis and provide a smooth transition to recovery. This is also an area where AFT may have a significant role to play as is the case for marketing and promotion of Indonesia’s exports.

- The AFT opportunities that have been listed are all very good since they are based primarily in sharing Australia’s experience. In the resource trade area it may also be worth considering the establishment of commodity stabilization funds to avoid the effects of Dutch Disease.
As I mentioned AFT in quality control will be of crucial importance particularly if an EPA comes into force. Australia has quite a strict quarantine regime and not providing such assistance will impair any of the benefits Indonesia could gain from the market access opportunities that are opened up by the EPA. This should also be seen as something that is in the interest of Australia, as will help in ensuring that diseases and pests are kept out of the country.

I think the idea to use Australia’s productivity commission as a model for trade policy capacity building is quite good. But there is more room for human resource capacity building in trade. If and when negotiations are initiated on an EPA it will be important that Indonesia’s negotiators be well prepared to take on such task. It may, therefore, be worth considering running a trade policy course for Indonesian officials from the various ministries involved in trade and economic policy that would provide a sound knowledge base on what trade reform can and cannot do to achieve economic growth and development. It will also help to dispel some of the myths that surround trade liberalization which may pose difficulties for the implementation of FTAs as shown by the Indonesian experience with the China-ASEAN FTA. This would be similar to the TPC that the WTO has in Geneva or the course that the institute has designed for the PACER plus negotiators.

On the issue of logistics, trade facilitation measures will play a key role in improving the situation in this area. In its 2009 partner-country questionnaire on Aid for Trade Indonesia identified trade facilitation as its number 1 AFT priority. Indonesia also carried out a Trade facilitation needs assessment exercise in 2009, with the assistance of the OECD, UNESCAP and the Japanese Government. This exercise identified Internet publication, establishment of average release and clearance times, elimination of PSI, provision of advance rulings, and risk management and analysis as the top five areas where trade facilitation related technical assistance was needed in Indonesia.

Finally, the paper identifies information systems for monitoring commodity prices as one of the areas where AusAid may be able to help. In my opinion one crucial aspect of assistance in this area will be the use of mobile phones and the internet to disseminate information on prices to the Indonesian farmers. Indonesia also identified network infrastructure as one of its AFT priorities in its partner-country questionnaire. Mobile phone penetration in Indonesia is very low when compared with other countries in East Asia and other lower-middle income countries. Mobile-phone delivered services have already proved in East-Africa that they can be a transformative tool for development, Indonesia as an archipelago nation also stands to gain much from the use of mobile phones to disseminate information and provide some basic financial services. Therefore, this is an area that may require AFT interventions, with a focus on infrastructure development, regulatory capacity building and in assisting telecoms firms to develop those services to be provided at cost that is accessible to the Indonesian consumer even in remote rural areas.