

## SUMITRO'S ROLE IN FOREIGN TRADE POLICY

Robert Rice\*

In June 1968, Dr. Sumitro Djojohadikusumo, probably Indonesia's most prominent economist, accepted the position of Minister of Trade for the Republic. Sumitro, in his past writings, has developed a number of ideas on the role of government in economic development in general, and using foreign trade as an instrument of economic policy in particular. Thus it seems particularly relevant at this time to survey his actions over the past fourteen months in the foreign trade sector in relation to his previously-expressed views.<sup>1</sup>

Sumitro's concepts about foreign trade policy and the use of government resources to foster economic development must be understood in the general framework of his criticisms of the comparative cost theory of international trade. He believes the theory is open to serious doubt from the standpoint of the underdeveloped nations because it is static; whereas economic development is a dynamic process.<sup>2</sup> The theory assumes that the international division of labor together with the proportions of the factors of production that now exist are the most efficient and the most beneficial. But experience has shown that, with

---

\* The author wishes to express his thanks to Malcolm Churchill, Gordon Donald and David Penny for their useful comments about an earlier draft of this article. The views expressed in the article and any shortcomings it may have, however, are the responsibility of the author himself.

1. Sumitro's major theoretical work on economic development and foreign trade is contained in his Ekonomi Pembangunan (Jakarta: P. T. Pembangunan, 1959). A collection of various speeches and short articles has been published as Persoalan Ekonomi di Indonesia (Jakarta: Indira, 1953). Sumitro has written numerous articles, among which the more noteworthy are: "Fiscal Policy, Foreign Exchange Control and Economic Development," Ekonomi dan Keuangan Indonesia, VII/4 (April 1954); "Macro-Economics and Public Policy in Economically Underdeveloped Areas," Ekonomi dan Keuangan Indonesia, VI/4 (April 1953); "Stabilization Policies in 1955," Ekonomi dan Keuangan Indonesia, IX/1 (January 1956).
2. The following critique of the classical comparative cost theory is found in Sumitro's Ekonomi Pembangunan, esp. pp. 308-10 and 344-48.

industrialization, the balance of production costs and the factors of production alter markedly over time, and, therefore, the conditions surrounding present comparative costs will not necessarily apply in the future.

Underdeveloped countries should not necessarily specialize in the production of goods and services in which they presently have a comparative advantage in international trade. To do this would tend to maintain the discrepancies now existing between the levels of world income and in the allocation of the factors of production. The theory of comparative costs does not account for the differences which exist between the levels of technology, production, and development from one continent to another. These differences are caused by structural factors, and if they are permitted to continue, they will aggravate the situation that is already ruining the underdeveloped countries. Given the present international allocation of resources and the current state of technology, a free flow of trade may maximize total output and benefit the world as a whole, but Sumitro does ". . . not agree with the implication that it would result in proportionately increased benefits for the underdeveloped countries which have low income and low productivity."

Sumitro cites four additional important weaknesses in the comparative cost theory of international trade. First, international trade is not carried out under conditions of perfect competition, as is assumed by the theory; rather, it is strongly influenced by monopolistic elements in the industrialized countries to the detriment of the underdeveloped countries. Recognizing that the direction of production, investment and economic life in the underdeveloped countries is regulated by such interests, Sumitro was particularly concerned about foreign economic power in Indonesia in the 1950's, before the nationalization of Dutch firms, since foreign enterprises exercised so much control over her economic affairs.

Second, the classical theory does not explain the chronic tendency for the prices of raw materials to decrease relative to the prices for industrial goods; this, along with the severe short-term price fluctuations of raw materials, can not only hinder development efforts of underdeveloped countries but ruin their economies as well. (The argument that the prices of raw materials tend to decrease relative to the prices of industrial goods was more commonly accepted among economists during the 1950's than it is now.)

Third, the classical theory does not take into account the fact that because productivity in primary production is lower and increases more slowly than in industrial production, countries specializing in raw materials are basically in a weaker position than industrial countries when facing problems of foreign trade. Fourth, the benefits from productivity increases in the industrial countries will not necessarily be passed on

to the underdeveloped countries, as is posited by the classical theory, but may rather primarily benefit the industrial countries themselves.

In an effort to counteract these tendencies of international trade which handicap the underdeveloped countries, Sumitro believes the government must thus take an active role through its import and export policies to improve the position of Indonesia's products in the world market and actively promote production at home, including protection for "infant" though not "sub-marginal" industries. Because of structural weaknesses in the economy (such as in the allocation of resources and in factor endowments), the government must sometimes intervene directly in the production and processing of the goods destined for the world market. The government must conserve the nation's valuable foreign exchange for economic development by encouraging home industries to supply the products desired in the domestic market. To assure a continued growth, trade policies should be employed in such a way that inflation at home can be curbed and a more equitable distribution of profits be achieved.

### Export Policy

Though during the past fourteen months, Sumitro has had, as Minister of Trade, some opportunity to try to put into effect his ideas about economic development, it is important to remember that he does not control any agency which can ensure that his regulations are strictly enforced. Moreover, as only one of several ministers concerned with economic affairs and as a new member of a team which has been planning the economic stabilization program over the past two years, his powers, even in the field of trade, have been quite limited. In their own ways, the Ministers of Finance, Industry, Communications and Agriculture, the Chairman of the National Planning Agency and the Director of the Central Bank exert considerable influence in Indonesia's international trade.

In the first place, all Ministers concerned with economic affairs are grouped together under the authority of the Minister of State in Charge of Economic, Financial and Industrial Affairs (*Menteri EKUIN*), the Sultan of Jogjakarta Hamengku Buwono IX. Second, before formulating a particular trade policy, the Minister of Trade must discuss it with the other ministers and high government officials to ensure that their respective policies do not conflict. The Minister of Finance,<sup>3</sup> for example, is

---

3. The Minister of Finance, Dr. Ali Wardhana, is a former student of Sumitro and, like Sumitro, has spent several years as a professor in the Department of Economics of the University of Indonesia.

responsible for setting import duty rates and the exchange rates at which import duties are calculated. The Central Bank determines policies for granting credit to importers in accordance with government priorities.

In the schema for operational control of the Five Year Plan (*Repelita*), the Minister of Trade heads the committees of foreign trade and essential goods. The responsibilities of these committees include expanding exports in order to increase foreign exchange earnings; arranging for the importation of essential consumer goods, raw materials and other inputs for increasing domestic production; and ensuring the availability and overseeing the distribution of essential commodities.

As Minister of Trade, Sumitro has employed various policy tools to regulate import and export trade. He has stipulated the conditions that firms must satisfy in order to participate in trade, e.g., re-registration for renewal of licenses and payment of financial guarantees to the Ministry of Trade and fees for services provided by the Ministry. He has also been able to exercise direct control by granting monopolies to specific enterprises, or groups of enterprises, for the export and import of certain goods. He has restricted the areas in which foreign investment can be made in the trading sector to supermarkets, department stores and motor vehicle sole agencies.

In the export field, the Minister of Trade can directly affect the rupiah prices paid to exporters by determining the export category particular commodities are in, the percentage of foreign exchange paid to the exporters for each category, and by setting the check prices on various export goods.<sup>4</sup> By con-

- 
4. There are two principal types of foreign exchange in Indonesia, Bonus Expor (B.E.) and Devisa Pelengkap (D.P.), or Complementary Foreign Exchange. The principal sources of supply for B.E. are export earnings and credits from donor countries. For D.P., they are export earnings and private transfers from abroad. D.P. can be used to import all but prohibited goods; B.E. can be used only for goods on the B.E. List. The rates are determined by supply and demand, with some intervention by the government; the D.P. exchange rate is always higher than the B.E. rate.

The check price is the price in foreign exchange of a particular export commodity at which the exporter must surrender the foreign exchange earned to the Central Bank and is paid in rupiah for 85% or 90% of the foreign exchange at the B.E. rate, depending on whether the commodity is in the "A" or "B" group. If he can sell the commodity at a foreign exchange price higher than the check price, as is almost always the case, he can sell 100% of the foreign exchange earned from the difference between the actual selling price and the check price at the higher D.P. rate. The overprice is the difference between the actual selling price and the check price.

tinuing to use the system of separate B.E. and D.P. rates with check prices for the group "A" and some group "B" exports, Sumitro can increase or decrease the incentive to export a particular good as opposed to others by changing their check prices. If the world market price of a commodity remains unchanged, an increase in the check price will decrease the rupiah price paid to the exporter because a higher proportion of the foreign exchange earned must be surrendered to the Central Bank at the lower B.E. rate and he is paid for only 85% or 90% of the B.E. surrendered. On the other hand, if the check price is decreased, the exporter receives more rupiahs because he can sell a higher proportion of the foreign exchange at the higher D.P. rate.

If the world market price of a particular export commodity is increasing, assuming the B.E. and D.P. rates remain constant, but the check price increases at a slower rate than the world market price, then the rupiah price paid to the exporter will increase faster than the world market price because he can sell a higher proportion of foreign exchange at the higher D.P. rate. If the check price is kept constant, an increase in the world market price will result in a more than proportionate increase in the rupiah export price paid; but if the world market price is decreasing, it also will result in a more than proportionate decrease in the rupiah price paid, thus in both cases making the fluctuation in rupiah earnings of the exporter greater than the fluctuation in the world market price.

In line with the goals of the Five Year Plan, Sumitro and the Minister of Trade before him have tried to increase export earnings by increasing the total volume of exports and by increasing the average foreign exchange price paid for them. To increase the volume, Sumitro has worked to increase both the proportion of total production that is exported and the total amount produced. Other objectives include eliminating smuggling, improving the position of those Indonesian export products that are "weak" in world markets, and increasing the proportion of exports going directly to the consuming countries.

In January, Sumitro announced: "The efforts in 1969 will be directed especially towards increasing the value of trade, among others increasing the value added of export materials by upgrading or using new techniques such as manufacturing crumb rubber." But no radical changes in the trade pattern itself were planned.<sup>5</sup>

On June 20, 1968, Sumitro stated that he planned to give a greater incentive to exporters.<sup>6</sup> On September 19, 1968, the percentage of foreign exchange paid to the exporters of Category

---

5. Business News, January 3, 1969.

6. Sinar Harapan, June 21, 1968.

A export commodities (those in which Indonesia is "strong" in world markets and which make up approximately 80% of the volume of non-petroleum exports) was increased from 75% to 85%.<sup>7</sup> In effect, these exporters now give the government somewhat less than 15% of the foreign exchange they earn; before, it had been under 25%, the exact percentage depending on the relation of the check price for the commodity to the price that they could command in the world market. This increased the relative incentive given to export Category A commodities as compared with Category B commodities (those in which Indonesia is "weak" in world markets). This was in effect a decrease in export taxes, but was still consistent with Sumitro's views since the prices of most of these export products were in a slump and he believes that the export taxes will only bring a large yield when there is an export boom. The government also hopes to increase the level of exports by giving credit to exporters and to traders collecting export commodities.

In promoting exports, Sumitro faces different problems for different export products--for example, international marketing in the case of coffee; declining exports in the case of copra; and declining quality in the case of rubber.

### Coffee

Because the total production of coffee in Indonesia in 1968 exceeded the coffee quota allocated to Indonesia by the International Coffee Organization, Sumitro took measures to increase the quantity of exports to non-quota countries. On October 14, 1968, he announced that any exporter selling coffee to a non-quota country would receive a 100% incentive in ICO coffee stamps from the government, permitting him to export the same quantity to a quota country.<sup>8</sup> The relatively low price received from the non-quota country would thus be partly offset by the higher price gained from sales to the quota country. This system would operate from October 1, 1968, to September 30, 1969. Coffee producers and exporters complained, but Sumitro's main concern probably was the difficulty of preventing non-bona-fide exporters from exporting coffee to agents in non-quota countries who would in turn re-export it to the quota countries, a violation of the International Coffee Agreement.<sup>9</sup>

In the event, however, it is clear that an insufficient effort was made to increase exports to the non-quota countries,

---

7. Business News, September 23, 1968.

8. Sinar Harapan, October 15, 1968.

9. Business News, February 24, 1969.

and the quality of coffee exported was low. Accordingly, on January 2, 1969, Sumitro announced that in 1969, a sales combine would be established under the guidance of the Ministry of Trade to market surplus coffee to non-quota countries and to improve the quality of coffee exports.<sup>10</sup> In April 1969, the Ministry of Trade reported that four coffee export syndicates would be set up, one for each of the main producer areas, which together produce about 85% of the coffee in Indonesia.<sup>11</sup> The syndicates, co-ordinated with each other and with related offices by an official from the Ministry of Trade, were to comprise both private and government companies; each would have a chairman appointed by the Ministry of Trade. Sumitro appointed the co-ordinator on June 4, 1969, by which time many firms had already joined.<sup>12</sup>

The avowed goals of the syndicates now include:

External:

- a. Carry out joint policy in determining and developing quality, determining the selling price and the terms of closing sales and export contracts.
- b. Carry out joint policy in the effort to expand markets to both quota and non-quota countries.
- c. Carry out joint policy in allotting the market regions.

Internal:

- a. Make joint policy in determination and development of quality and the purchasing of coffee.
- b. Make joint efforts to solve the problem of capital and transportation costs, and collection in relation to the problem of marketing.
- c. Other joint efforts closely related to the problem of marketing and the improvement of quality.<sup>13</sup>

In order to guarantee an appropriate income for the coffee farmers, the government will set the buying price for each area in

---

10. Ibid., January 3, 1969.

11. Indonesian Economic Information Foundation, Indonesian Economic Bulletin (Amsterdam), June 20, 1969.

12. WARTA C.A.F.I., June 13, 1969.

13. Business News, April 4, 1969.

which a syndicate operates.<sup>14</sup> Those exporters and entrepreneurs who do not join syndicates may not export or engage in inter-insular trade from and within the region in which the coffee syndicates operate.<sup>15</sup>

Formerly, many exporters not specializing in coffee could export it, but, under the new system of syndicates, prospective members must first be screened to determine if they are bonafide coffee exporters. For example, other exporters with investments in coffee processing facilities may not join the syndicates.<sup>16</sup> It is likely that once they are accepted, exporters will be reluctant to break the coffee export regulations because they would risk loss of membership. Every export transaction will be handled through the coffee syndicates and the government will supervise the operations of the individual members.<sup>17</sup>

It is particularly significant that the coordinator for the coffee export syndicates is not a private member of the syndicates but is from the Ministry of Trade and that the chairmen are also appointed by the Ministry. In addition, the Ministry of Trade, by setting the prices paid to the coffee producers and also the export check price, can regulate the level of profits to exporters, wholesalers and producers. By setting different prices for various grades of coffee, the Ministry of Trade can encourage the production and processing of the higher grades. In the past, it has always proven difficult to enforce price regulations, particularly at the local level, and it remains to be seen how Sumitro is going to ensure that the purchase price set by the Ministry of Trade is indeed the price paid. The success of the coffee syndicates will depend largely on the administrative discipline and efficiency in both the syndicates and the Ministry of Trade offices connected with them. It is still too early to see what effect the syndicates will have on the level of Indonesian coffee exports, particularly to the non-quota countries.

Probably, many of the smaller exporters will be unable to fulfill the stiff requirements for full membership and will be forced to become sub-members. As sub-members, they must export with the letter of credit from the foreign importer opened up in favor of the full member with whom they are associated. This system can be detrimental to them--their trade secrets will become known to a full member, and they will probably be charged for the full member's services, thus increasing their export

---

14. Ibid.

15. Sinar Harapan, April 5, 1969.

16. Business News, June 13, 1969, p. 9.

17. Ibid., June 6, 1969, pp. 12-13.



costs. Eventually, the full members might even take away customers from the small exporters by establishing good relations with their customers and underpricing them.<sup>18</sup>

### Copra

Copra differs from coffee. Here the problem is not so much one of marketing internationally what is already being produced, but of raising production, increasing the proportion of coconut production processed into copra and decreasing smuggling. Copra production provides a livelihood for several million people in the Celebes and the Moluccas, but from 1952 to 1967, Indonesian copra exports have decreased from 346,100 to 112,100 metric tons. It has been estimated that, in six to ten years, Indonesia will be forced to import copra.<sup>19</sup>

In an attempt to reverse this trend, the government decided to establish an independent agency called the Sole Agency for Copra Affairs (*Badan Tunggal Urusan Kopra*) responsible to the Ministry of Trade but having its own boards of directors and supervisors and operating according to business norms.<sup>20</sup> The directors in the main office will be appointed and dismissed by the President, upon the suggestion of the Minister of Trade; heads of the provincial offices by the Minister of Trade; and the heads of the regency (*kabupaten*) offices by the provincial office heads. This agency resembles the Copra Foundation of the early 1950's, when sale and export of copra was a government monopoly, and it is an example of the type of government agency advocated by Sumitro for commodities of strategic economic importance.

Scheduled to begin operation on August 1, 1969, the agency will act as the sole buyer and seller of copra in the Celebes and the Moluccas. It will determine allocations and targets for local consumption, interisland shipments and exports for each producing province, purchase and sale prices and other conditions, and which companies and cooperatives will be permitted to trade copra on its behalf.<sup>21</sup> Sumitro hopes the agency also can increase foreign exchange earnings by raising the price at which Indonesia can sell its copra in world markets. By giving the agency a monopoly on exports, he hopes that it will also

---

18. Ibid., June 11, 1969, p. 9A; June 16, 1969, p. 9.

19. Ibid., March 7, 1969.

20. Sinar Harapan, May 9, 1969; Business News, March 5, 1969.

21. Sinar Harapan, May 9, 1969; Business News, May 19, 1969, p. 9.

help combat smuggling which has historically been a serious problem in Indonesia.

Another important objective of the agency is to reduce the difference between the price the copra farmers receive and the rupiah export price. In early March 1969, this difference was reportedly more than 100% and a large portion was used at various levels of the cooperative organizations for social or non-economic ends. Sumitro intends to increase the price paid to the producers from the Rp. 16 per kilo (being paid in the first week of March 1969), to at least Rp. 20 per kilo, although it may vary from region to region depending on the cost of production to the farmer. As well as increasing and stabilizing the price paid to the producers, he hopes to decrease the amount of mark-up going to non-economic elements. This, combined with a more rational system of granting credit, will then encourage more replanting and processing of coconuts into copra and a consequent increase in production. Under the new scheme, all of the export overprice will be allotted to the producing areas; formerly, it went to the exporters. Money needed for developmental efforts will thus be taken from the selling price rather than from the price paid to the producers.<sup>22</sup>

The copra agency represents an attempt to take control of the copra trade away from the powerful political elements which have influenced it in the past.<sup>23</sup> Sumitro will almost certainly meet strong resistance even though he had previously discussed the plan with various groups in the copra regions during a trip there in February 1969. If the Sole Agency is to be successful, Sumitro must either cooperate with them without compromising the interests of the copra producers or prevent them from sabotaging his efforts. He might have had this in mind when he stated that the agency is willing to work together with existing cooperatives and private enterprises as long as the latter participate in a manner beneficial to copra management. If other exporters "are able to offer conditions with respect to price and other conditions that are the same as those obtained by the Sole Agency for Copra Affairs in world markets, they will also be given an opportunity to play a role."<sup>24</sup> He has already begun to make contracts with certain cooperatives and private enterprises to export copra on behalf of the Sole Agency and it appears that the agency will begin its operations on schedule.<sup>25</sup>

---

22. Business News, March 5, 1969, pp. 15-16.

23. Ibid., March 7, 1969, pp. 2, 7.

24. Ibid., March 5, 1969, pp. 16-17.

25. Ibid., July 18, 1969, p. 5.

## Rubber

Even more than in the case of coffee and copra, the Ministry of Trade has made a determined effort to improve the quality of smallholder rubber and to increase the proportion of exports going directly to consuming countries. On November 5, 1968, the Ministry reimposed the ban on exports of low grade rubber used by remilling factories and smokehouses and announced it was offering credit to entrepreneurs "who had been given the task of collecting smallholder rubber and purchasing it in the name of the government." The government has strongly encouraged the setting up of crumb rubber factories and the modernization of rubber remilling factories and smokehouses, it has offered credit, permitted a few foreign enterprises to invest in crumb rubber factories and imported the equipment for twenty crumb rubber plants itself.<sup>26</sup>

The crumb rubber plants already holding permits have a planned capacity of approximately 483,100 metric tons per year,<sup>27</sup> which is almost three times as large as the average rubber exports to Singapore from 1960 to 1962.<sup>28</sup> When the planned and existing plants are operating at full capacity, Indonesia will have almost eliminated its dependence on Singapore for rubber processing and increased the proportion of rubber exports going direct to consuming countries. Because of the large number of applications to set up crumb rubber factories, the government announced on July 15, 1969, that for the time being, it was not accepting new applications, except in certain specific cases.<sup>29</sup>

Soon after coming into office, Sumitro stabilized rubber check prices by making them subject to review monthly instead of weekly and also by tending to leave a price unchanged for several months. He has increased the rupiah export price paid, first decreasing by approximately 7% the check prices of the various types of rubber in July 1968, and then, during the next fourteen months, increasing the check prices of the various types of rubber at a slower rate than the world market prices increased. This caused a decrease in the *de facto* export tax in foreign exchange paid by exporters. As a result, rubber exporters received a windfall profit, something which Sumitro opposed in principle. But, evidently, he hoped to encourage increased rubber exports. The increase in rupiahs paid to

---

26. Ibid., November 6, 1968; Indonesian Economic Bulletin, June 27, 1969.

27. Indonesian Economic Bulletin, August 1, 1969.

28. Statistical Pocketbook of Indonesia, 1964-1967 (Djakarta: Biro Pusat Statistik, 1967), p. 227.

29. Business News, July 16, 1969, p. 11A.

exporters was greater than that caused by the decrease in foreign exchange paid to the government because the percentage of foreign exchange that they could sell at the higher D.P. rate increased, particularly in the period March to September 1969. (See Table 1.)

In July 1968, Sumitro changed the check prices in order to encourage export of rubber blankets, produced by remilling factories, rather than exporting sheets. Yet, in January 1969, he increased their check prices while leaving the check prices of sheets unchanged, thus making the percentage of overprice paid for blankets approximately the same as for sheets. (Table 1) It is likely that the increased incentive to export blankets was given in July 1968 because he wanted to give an additional incentive to remillers to modernize and rehabilitate their remilling factories, but by January 1969, because of the continuing rise in world rubber prices, he felt that this special incentive was no longer necessary.

On May 1, 1969, the Minister of Trade increased the check prices of the lower grades of rubber produced by remilling factories while the check prices of the higher grades remained unchanged, resulting in a decrease in the overprices of lower grades relative to the higher grades. This is an effort to increase the incentive, directly to the remilling factories and indirectly to the small holders, to produce a higher proportion of the higher grades.<sup>30</sup>

Considering the importance of Singapore as a processing and collection center for smallholder rubber from several Indonesian provinces, banning exports of low-quality rubber was a drastic measure and, at least in the short run, it resulted in large losses to these regions. The Governor of Djambi, for example, was so concerned about the adverse effect that he lifted the ban, only reversing his decision after meeting with Sumitro in Djakarta.<sup>31</sup> In April 1969, Sumitro did permit Bengkulu to export as much as 5,000 metric tons of slabs at one time, provided 100% of the profits were used in the rehabilitation of the province.<sup>32</sup>

By banning all exports of low-quality rubber used by remilling factories and smokehouses, Sumitro hoped to alleviate the fears of potential investors in crumb rubber and remilling factories that Singapore and Penang buyers would create shortages of the low quality rubber they need. He has tried to convince them that the ban will not be lifted.

---

30. Ibid., May 2, 1969, p. 13; April 2, 1969, p. 3A.

31. Kompas, November 15, 1968, p. 2.

32. Ibid., May 1, 1969, p. 3.

Table 1

## Rupiahs Received by Exporters per Pound of Rubber Exported

	January, 1968	June, 1968	July, 1968	December, 1968	January, 1969	March, 1969	May, 1969	July, 1969	September, 1969
<u>R.S.S.I.</u>									
New York price (U.S. ¢)	17.0	21.1	20.8	22.4	22.3	26.2	26.1	27.5	27.6
Price paid to exporters <sup>a</sup>	15.3	19.4	19.1	20.7	20.6	24.5	24.4	25.8	25.9
Check price	14.1	14.1	13.1	13.3	13.3	14.3	14.3	14.3	16.4
Overprice	1.2	5.3	6.0	7.4	7.3	10.2	10.1	11.5	9.5
Percent of foreign exchange sold as D.P.	7.8	27.3	31.4	35.7	35.4	41.6	41.4	44.6	36.7
Rps. rec'd from B.E. sold <sup>b</sup>	34.4	34.4	32.0	32.5	32.5	35.0	35.0	35.0	40.1
Rps. rec'd from B.E. sold <sup>c</sup>	34.4	34.4	32.0	36.9	36.9	39.6	39.6	39.6	45.4
Rps. rec'd from selling the overprice for D.P. <sup>d</sup>	4.6	20.1	22.8	28.1	27.7	38.8	38.4	43.7	36.1
Total rupiahs received <sup>b</sup>	39.0	54.5	54.8	60.6	60.2	73.8	73.4	78.7	76.2
Total rupiahs received <sup>c</sup>	39.0	54.5	54.8	65.0	64.6	78.4	78.0	83.3	81.5
<u>No. 3 Thick Blanket Crepe<sup>e</sup></u>									
New York price (U.S. ¢)	16.0	19.1	19.3	22.3	22.1	24.3	23.8		
Price paid to exporters <sup>a</sup>	14.3	17.4	17.6	20.6	20.4	22.6	22.1		
Check price	11.4	12.5	10.4	10.4	13.0	13.5	13.5		
Overprice	2.9	4.9	7.2	10.2	7.4	9.1	8.6		
Percent of foreign exchange sold as D.P.	20.3	28.2	40.9	49.5	36.3	40.3	38.9		
Rps. rec'd from B.E. sold <sup>b</sup>	27.9	30.6	25.4	25.4	31.8	33.0	33.0		
Rps. rec'd from B.E. sold <sup>c</sup>	27.9	30.6	25.4	28.8	36.0	37.4	37.4		
Rps. rec'd from selling the overprice for D.P. <sup>d</sup>	11.0	18.6	27.4	38.8	28.1	34.6	32.7		
Total rupiahs received <sup>b</sup>	38.9	49.2	52.8	64.2	59.9	67.6	65.7		
Total rupiahs received <sup>c</sup>	38.9	49.2	52.8	67.6	64.1	72.0	70.1		

a. Obtained by subtracting freight charges from the New York price.

b. Assuming that 25% of the B.E. is given to the government for all months.

c. Assuming that 25% of the B.E. is given to the government for January, June and July, 1968, and 15% for the other months.

d. For all months the B.E. and D.P. rates that have been used are Rp. 326/U.S.\$ and Rp. 380/U.S.\$ respectively, the average rates for April, May and June, 1969.

e. In Indonesia known as Blanket C.

Sources: New York price January 1968 through May 1969: Monthly Bulletin of Statistics, August 1969, U.N., p. 164, Table 59 (the prices are monthly averages); New York price July and September 1969, an approximate figure based on prices from the Wall Street Journal; check prices: taken from various issues of Business News, for the beginning of each month.

Probably for a variety of reasons, Sumitro has not made the same institutional changes in the marketing of smallholder rubber as for coffee and copra, also principally smallholder products. Rubber is not marketed under the terms of a world agreement as is coffee, and, therefore, no problem of surplus production exists. There is no cooperative organization having a monopoly to market rubber as there was for copra; it has traditionally been handled by the private sector and the mark-up going to the middlemen is probably generally lower in the case of rubber because of greater competition among the rubber buyers. Establishing a monopoly organization to market rubber would have been more difficult because there are more principal producing regions spread over a larger geographic area and more variation in producing and marketing the various grades of rubber than copra. After gaining some experience with the Sole Agency for Copra Affairs and the various syndicates for marketing coffee, sugar and flour, however, the Ministry of Trade may still decide to set up a similar body for rubber, despite Sumitro's November 5, 1968 statement denying such a plan.<sup>33</sup>

There are four basic methods that the Ministry of Trade has used to increase the average foreign exchange selling price of Indonesian export products: improve the quality of Indonesian products exported; encourage export directly to the consuming country rather than through a third country such as Singapore or Malaysia; restrict the number of companies that can export the product and encourage them to cooperate in marketing the product to obtain the highest price or grant a monopoly on export to a single agency; co-operate in marketing the product with other major producing countries. All of these methods have also been part of official export policy in the past.<sup>34</sup> What is new about Sumitro's approach is his zealous effort to set up new institutions to improve organization and supervision in the export sector and to attract investment to it.

The Ministry of Trade will undoubtedly take further steps designed to improve the quality of export products, but it is restricted because, in some cases, other Ministries have more authority. For example, the quality of plantation products is determined principally by the state and foreign plantation companies who are under the Ministry of Agriculture; the quality of mineral products is controlled by the state mining companies under the Ministry of Mining. Sumitro's power to promote Indonesian non-mineral exports, however, has been increased with Presidential Instruction No. 7 of March 25, 1969.<sup>35</sup> Although

---

33. Business News, November 6, 1968, p. 12.

34. For an official statement of government export policy in 1967, see the Decree of the Minister of Trade No. 102/SK/VIII/1967 as reprinted in: Business News, August 25, 1967.

35. Business News, July 7, 1969, p. 9A.

current efforts to encourage exporting directly to the consuming countries have principally concerned smallholder rubber, Sumitro hopes that the Sole Agency for Copra Affairs will also be able to bypass Singapore and Hong Kong.<sup>36</sup> In keeping with Sumitro's November 5, 1968 announcement that the government still seeks to change Indonesia's export pattern and sell directly to the consumer,<sup>37</sup> measures will probably be taken to encourage the direct export of products such as pepper, cassia, nutmeg and wood products, a large proportion of which is now exported to Singapore and Penang.

The Five Year Plan calls for an active search to broaden the market for export products so that Indonesia is not dependent on one region. Presently, exports are biased towards Western Europe; in the future, they should be directed toward as many countries as possible, especially those of the Pacific basin such as Australia and Japan, and including Eastern Europe and the Soviet Union. Exports, however, must be based on comparative profits and should not be organized through marketing, trade or barter agreements, as was often the case during the Sukarno era.<sup>38</sup>

In connection with this desire for a broader marketing policy, on June 5, 1969, the Ministry of Trade changed its August 1967 regulation concerning tobacco exports in order to allow greater freedom in marketing.<sup>39</sup> All Deli, Vorstenland and Besuki Naoogst types of leaf tobacco for cigars must still be exported to one of three Indonesian firms in Bremen, West Germany --Perrin GmbH, Deutsch-Indonesisch Tabak Handels Gesellschaft, and Timindo GmbH--except with the special permission of the Ministry of Trade. Other types of tobacco, as before, can still be exported either to one of these three firms or to buyers in other countries, with the f.o.b. price<sup>40</sup> determined by the Ministry of Trade. But under the new regulation, if these three firms want to sell these types of tobacco outside the Bremen auction, they no longer need prior approval from the Supervisory Agency of Tobacco Sales (*Badan Pengawas Pendjualan Tembakau*), an apparatus of the Ministry of Trade. Their operations are still over-

---

36. Already in 1952, Sumitro had advocated a policy of direct trade rather than going through transit ports; see, Persoalan Ekonomi, p. 248; Kompas, March 5, 1969.

37. Business News, November 11, 1968, p. 1.

38. Sinar Harapan, January 22, 1969, p. 5.

39. Business News, August 28, 1967, pp. 5A-7A; Sinar Harapan, June 12, 1969, p. 2.

40. The initials f.o.b. refer to "free on board" and represent the foreign exchange price on board ship in the harbor from which the good is being exported.

seen by the agency, but the three firms are supposed to sell the tobacco wherever is the best price. Probably most of the leaf tobacco will still be sold in the Bremen auction, but an effort will be made to sell leaf tobacco that is not representative outside of the auction.<sup>41</sup> By continuing to restrict the number of tobacco sellers, Sumitro is limiting the number of Indonesian suppliers and thereby hopes to achieve a better price.

It is uncertain what steps the Ministry of Trade will take toward cooperation in production and price policy with other exporting countries, although such action is called for in the Five Year Plan. As early as 1951, Sumitro urged cooperation among producing countries through joint discussions before settling contracts with consumer nations and by exchanging information.<sup>42</sup> In June 1969, Indonesia joined the Asian Coconut Community whose objective is to encourage the cooperation of member countries in research, marketing, improving production and dealing with import restrictions such as the European Common Market. It does not appear to be aimed at restricting supply.<sup>43</sup> Recently it was reported that Indonesia and India, presently the two main pepper producers, are planning to form a pact, but its exact provisions are still unclear.<sup>44</sup>

Copra, coffee, pepper and tea are mainly smallholder commodities and a substantial proportion of the total production is consumed domestically. By changing trade policy, the percentage exported can be increased. On the other hand, it is more difficult for Sumitro to regulate exports of items produced by a relatively small number of firms, such as petroleum, plantation rubber, palm oil, tin, and bauxite. Except in the cases of petroleum and palm oil, a very high proportion of total production is exported and, therefore, the quantity of exports is directly related to production. It is the Ministries of Mining and Agriculture together with the state enterprises under their jurisdiction and a few foreign firms which determine directly the amounts of these latter products to be produced and exported.

Steps are being taken to diversify Indonesian exports, although mainly to increase exports of additional primary products rather than manufactured products. The government has successfully attracted foreign investment in the petroleum, mining, fishing and forestry industries, which will probably result in a rapid increase in their respective exports during the next few

---

41. Kompas, June 7, 1969, pp. 1, 3.

42. Sumitro, Persoalan Ekonomi, pp. 194-95.

43. Business News, June 4, 1969, pp. 2A, 3A.

44. Ibid., July 16, 1969, p. 5.



years and enlarge their importance relative to agricultural products. It will also expand the number of products exported in large quantities.

The Five Year Plan calls for both diversification in the composition of exports and a doubling in the value of Group B exports--the so-called weak commodities.<sup>45</sup> The "B" sectors in which there is to be a large increase in exports are forestry, fishing, small and handicraft industries.<sup>46</sup> So far, it seems that Sumitro has concentrated mainly on Group A commodities--coffee, copra, rubber, tobacco and pepper--rather than on Group B. For example, he raised the percentage of foreign exchange received by exporters of "A" commodities while the percentage received for "B" commodities has remained unchanged.<sup>47</sup>

In accordance with authority granted by President Suharto,<sup>48</sup> on June 1, 1969, a check price was set on five kinds of wood, notably teak, in an effort to increase exports, decrease speculation and ensure continuity of production. But it is doubtful whether such action will cause the expected increase, although it may result in an increased amount of Bonus Export being paid to the government and less foreign exchange to the exporters.

It appears that Sumitro has done nothing so far to increase exports from small and cottage industry, although an important objective of his import policy is designed to increase the capacity of the industrial sector. It is likely that, in time, Sumitro will take measures to promote the export of both small and cottage industry products as well as those of other types of industries after existing industries are rehabilitated and new ones developed. He is personally committed to changing the composition of exports with an increasing emphasis on light industry products.

### Import Policy

After taking office, Sumitro said that import policy should be designed to increase government revenues by raising import duties, to expand production by protecting domestic industries and assuring them a steady supply of needed materials, and to maintain the smooth supply of essential commodities. He also strongly advocated decreasing imports of consumer goods and

---

45. Sinar Harapan, January 22, 1969, p. 5.

46. Business News, January 20, 1969, p. 3.

47. Ibid., September 23, 1968.

48. Presidential Decision No. 408, 1969.

increasing imports of raw materials and capital goods.<sup>49</sup>

In order to maintain a balance between needs of consumption and production, the government must closely watch developments in these two areas and check changing prices which reflect the changes in supply and demand. If unevenness in the flow of goods develops, the government has two "lines of defense" that it can use: first, indirect measures using monetary, fiscal and commercial policy, for example, changing surcharge or import duty rates accompanied by a loosening up of credit policy; and second, if these prove ineffective, direct steps, such as importing the needed goods to keep supply and demand in balance.<sup>50</sup> In fact, Sumitro applied this second step in several instances in 1968 and 1969.

As Minister of Trade, Sumitro has regulated imports by banning imports of certain goods, changing the list of permitted imports using Bonus Export foreign exchange, banning imports using regular (non-credit) B.E. from July 10 to July 31, 1968, changing the goods included in various import categories and making arrangements for importers to import certain goods on behalf of the Ministry of Trade. He has also specified certain conditions that importers must fulfill in the cases of motor vehicles and newsprint. So far, Sumitro has not set quantitative quotas on imported goods, probably because it would be difficult to implement efficiently; also it would not yield the government the same revenue as an import duty, but would result in windfall profits to the importers. He favors having a certain amount of direction from market forces.<sup>51</sup>

The Ministers of Trade and Finance have taken joint action to require prepayment of import duties when a letter of credit is opened and also that importers using Devisa Pelengkap have an import license (not required formerly).<sup>52</sup> On June 15, 1968, the two Ministers decided that prepayment of customs and excise duties would be required on commodities from Groups B and C before opening letters of credit, with the rupiahs paid to be transferred to the Central Bank daily in order to prevent credit expansion.<sup>53</sup> This measure was intended both to decrease the

---

49. Sinar Harapan, May 29, 1968, p. 1; May 30, 1968, pp. 1, 2; Business News, July 17, 1968, p. 3; January 20, 1969, pp. 3, 4.

50. Business News, December 13, 1968, p. 19.

51. O. G. Roeder, "Try, Try Again," Far Eastern Economic Review, No. 31 (July 28-August 3, 1968), p. 224.

52. Kompas, October 23, 1968, p. 1.

53. Business News, June 19, 1968, p. 6A.

total demand for Bonus Expor foreign exchange and to make it less profitable to import "B" and "C" goods as opposed to "A" (very essential) goods.

On August 28, 1968, another joint decision exempted from the prepayment regulation those imports eligible for financing by credit B.E. from countries which grant credit to Indonesia, in order to encourage such imports.<sup>54</sup> On January 17, 1969, in order to guarantee the flow of goods and also in preparation for the Five Year Plan, the Minister of Finance decided to postpone prepayment regulations on a long list of other items. Finally, approximately ten and one-half months after the original decision, on April 30, 1969, the Ministers of Trade and Finance nullified the entire prepayment regulation for Groups B and C goods.<sup>55</sup> They apparently considered it more important to encourage the import of raw materials and capital goods than to reduce the demand for Bonus Expor, as, by April 1969, the Bonus Expor rate had become stabilized. The frequent changes in customs duty prepayment regulations also suggests that they were intended to attain a temporary policy objective.

#### Promoting Local Industry

Sumitro has increased the rate of protection for many products and decreased the demand for Bonus Expor relative to Devisa Pelengkap by requiring the use of the latter for import purposes. For example, on June 17, 1968, Sumitro removed all fine textiles, except velveteen, from the list of goods that could be imported using Bonus Expor, i.e., the B.E. list, but still permitted their import using Devisa Pelengkap.<sup>56</sup> On April 3, 1969, he did the same for galvanized iron sheets and, on June 23, for virginia leaf tobacco, except for PL-480 shipments, and also moved paint raw materials from the less essential group C to Group B.<sup>57</sup> On March 17, 1969, Sumitro decided that newsprint could only be imported using B.E. credit or grant foreign exchange, and only by importers designated by the Ministry of Trade.<sup>58</sup>

---

54. Ibid., September 2, 1968, p. 9A.

55. Ibid., May 2, 1969, p. 1A.

56. Ibid., June 19, 1968, p. 7A.

57. Indonesian Economic Bulletin, July 18, 1969; Business News, April 7, 1969, p. 2A.

58. Kompas, April 17, 1969, p. 2. It appears that this regulation is not being enforced; see, Business News, June 11, 1969, p. 9.

During the first four months that he was Minister of Trade, Sumitro banned the importation of several categories of goods, although he later lifted the ban on two of them. On July 11, 1968, he strengthened an earlier regulation banning the importation of cars with a f.o.b. value of over \$2,000, requiring that those cars which had already arrived in Indonesian waters must be sent out of the country within thirty days.<sup>59</sup> Sumitro's predecessor had already banned imports of luxury cars, 21" or larger TV's, console radio-record players and cloth with batik motifs.<sup>60</sup> On February 17, 1969, Sumitro lifted the ban on the first three items but placed a surtax of 100% on them.<sup>61</sup>

On August 3, 1968, Sumitro banned the importation of most books, magazines and other printed matter in Indonesian or regional languages in order to protect the Indonesian publishing industry.<sup>62</sup> On September 6, 1968, he temporarily banned the imports of certain sizes of bicycle and automobile tires because he thought sufficient amounts were being produced within the country.<sup>63</sup> Because prices began increasing and domestic production was insufficient to meet the local demand, on December 12 imports were again permitted, but only using Devisa Pelengkap.<sup>64</sup>

It appears that Sumitro will not ban imports of luxury articles in the future just to prevent them from being imported but will use this method to protect and encourage new industries in certain areas. A high duty rate on luxury goods is, in his view, a more efficient means of restricting imports and it provides revenue for the government at the same time. Sumitro has stated that government policy will protect domestic production by changing the customs duty rates on competing goods but it will also keep in mind the interests of consumers. He cautioned that protection is not identical with high import duties or import bans because these, if excessive, may encourage smuggling which would further harm domestic industries.

#### Motor Vehicle Assembly

The Ministers of Trade, Industry and Communications together desire to encourage domestic assembly of motor vehicles through

---

59. Business News, January 17, 1969, p. 3.

60. Ibid., July 15, 1968, p. 4A; February 2, 1968, p. 10A.

61. Ibid., February 21, 1969, p. 9.

62. Ibid., August 5, 1968, p. 6A.

63. Ibid., September 11, 1968, p. 3.

64. Kompas, December 14, 1968, p. 2; Business News, December 16, 1968, p. 14A.

joint ventures with foreign manufacturers. Beginning on July 1, 1969, commercial vehicles could only be imported into Java, and on August 1 into Sumatra, in a "completely knocked down" condition, except in certain isolated local areas where a special permit might be obtained.<sup>65</sup> "Commercial vehicles" included jeeps, buses and trucks but excluded sedans, station wagons, specialized vehicles, forklifts and forklift trucks.<sup>66</sup> On January 31, 1969, the Ministers of Trade and Industry had set the definition of a "completely-knocked-down" condition for each kind of motor vehicle, effective July 9, to ensure that a great deal of actual assembly takes place in Indonesia.<sup>67</sup> To be able to assemble the "C-K-D" vehicles, an assembly enterprise would have to make a good deal of capital investment. Also on January 31, the Ministers decided that one of the assembling firms would be located in Medan, one in Makassar, three in Djakarta and two in Surabaya.<sup>68</sup>

The Ministers of Trade and Industry had already specified that every motor vehicle company abroad that wishes to export vehicles to Indonesia must appoint, with the consent of the Ministry of Trade, one national enterprise as its sole agent; priority would be given to assembly enterprises that already had a permit from the Minister of Industry. On July 11, 1969, the Minister of Trade decided that under the terms of the Foreign Capital Investment Law, a foreign enterprise might become a sole agent if it was a joint venture with domestic capital, but the majority of shares must be owned by and the majority of board members must be Indonesian nationals.<sup>69</sup> Assembly must be carried out in one of seven companies designated by the Ministry of Industry.

On February 15, 1969, the Minister of Trade stipulated that to be considered as a sole agent of motor vehicles, a firm must have skilled technical personnel, must be appointed by or have a contract with a foreign motor vehicle producer as its sole agent, and must assemble vehicles at one of the enterprises designated by the Ministry of Industry.<sup>70</sup> On April 1, 1969, the

---

65. Sinar Harapan, May 21, 1969, p. 5; Business News, April 11, 1969, p. 12A; April 4, 1969, pp. 10A, 11A; Kompas, June 10, 1969, p. 1.

66. Direktorat Djenderal Bea dan Tjukai, Tarip Bea Masuk, August, 1965, Seno n.v., pp. 252-53.

67. Indonesia Raya, July 19, 1969, p. 3; Business News, April 4, 1969, p. 7A.

68. Business News, April 11, 1969, p. 13A.

69. Antara Daily News Bulletin (Bonn, West Germany), July 15, 1969, p. 1.

70. Business News, April 4, 1969, pp. 10A, 11A.

Minister of Industry designated five assembly enterprises, four private and one government--P.N. Gaja Motor, Indonesian Service Company, P.T. Indonesia Merdeka Motors, P.T. Inmermotors and P.T. Indatim--and, in July 1969, the Medan assembler, N.V. Nasional Motor Corp., a private company.<sup>71</sup>

It is not clear what advantages derive from having the Minister of Industry appoint the seven assembly enterprises rather than permitting the Indonesian and foreign companies to work out their own agreements, as has been the case in most other foreign investment projects. Perhaps the Ministers expect that by designating the enterprises and restricting their number, the bargaining power of Indonesian enterprises with respect to the foreign auto companies is strengthened. Questions have already been raised, however, whether correct procedure was followed in selecting the first four firms and whether the right firms were selected.<sup>72</sup>

The strategy for developing a motor vehicle assembly industry has been planned with an eye to the large potential market in Indonesia and the interest already shown by foreign auto-makers, particularly Japanese, English and German.<sup>73</sup> By the end of July, sole agency agreements with roughly half of the major car and truck producers had been or were about to be concluded and approved by the Ministry of Trade.<sup>74</sup> The government assumes it will be possible to attract foreign investment in the assembly industry despite the conditions that shares for joint ventures and board members must be more than 50% Indonesian and that the assembling enterprises must be willing to assemble different makes of vehicles.<sup>75</sup> This strategy represents the first use of import bans to attract foreign investment to assemble a product domestically and one of the few cases where the majority of the shares must be owned by Indonesian citizens. If Sumitro is successful, then it can be expected that similar measures will be taken in other areas, such as assembling irrigation pumps, hullers and tractors. While banning imports of "non-C-K-D" commercial vehicles may cause an increased foreign exchange cost for the vehicles as well as a higher domestic rupiah

---

71. Ibid., April 11, 1969, p. 11A; Indonesian Economic Bulletin, July 4, 1969.

72. Sinar Harapan, April 9, 1969, p. 2.

73. Two Japanese automobile companies, Toyota and Nissan, are planning to export truck component parts for assembly in Djakarta and Surabaya. Sinar Harapan, June 23, 1969, p. 2.

74. Business News, July 28, 1969, p. 12.

75. Ibid., January 17, 1969, p. 3; Sinar Harapan, April 9, 1969, p. 2.

price and a loss of revenue to the government, both in the past and recently Sumitro has advocated paying this price.<sup>76</sup>

Sumitro has stated explicitly that earlier regulations prohibiting foreign enterprises from commercial import and export in Indonesia are still in effect. On July 15, 1968, he decided that foreign enterprises which have invested in Indonesia under the terms of the Foreign Capital Investment Law may import only the capital equipment, spare parts and raw materials needed for the production process, may buy domestically only the raw materials they use and may export only the finished product.<sup>77</sup>

The government, in 1967, had permitted imports using Bonus Expor credit with as little as 25% down payment at the time the letter of credit was opened.<sup>78</sup> Later this policy was discontinued, partly because of recurring abuses. A similar system was reintroduced when it was difficult to sell Bonus Expor from the U.S. because demand for the specific commodities which could be imported using U.S. credit was weak. On September 10, 1968, the Bank Negara Indonesia, Unit I, announced that for imports from the U.S. using credit Bonus Expor, the payment for the credit B.E. could be postponed.<sup>79</sup> On November 5, 1968, the Bank announced that for credit B.E. imports from donor countries other than the U.S., 60% for "A" and 50% for "B" goods of the rupiah cost of the foreign exchange for opening up the letter of credit might be financed by the bank, and that importers might also obtain an extension of credit after the goods had arrived.<sup>80</sup>

#### Government Imports

Since Sumitro became Minister of Trade, the government has continued to rely on state trading companies to import essential commodities, because it desires to use enterprises which already have regular communications channels both inside and outside of

---

76. Sumitro, "Stabilization Policies," pp. 69-70; Sumitro Djojohadikusumo, Trade and Aid in Southeast Asia (Melbourne: F. W. Cheshire, 1967), p. 110.

77. Business News, July 15, 1968, p. 6; Sinar Harapan, July 16, 1968, p. 1.

78. Credit policy is officially formulated by the Central Bank, but certainly Sumitro plays an influential advisory role.

79. Sinar Harapan, September 21, 1968, p. 1; Business News, October 7, 1968, p. 13.

80. Sinar Harapan, November 5, 1968.

the country and have been active in the field concerned for a long time.<sup>81</sup> Sumitro evidently thinks that the state trading companies can usually meet these standards better than private enterprises since in the vast majority of the cases the consortium leaders have been state trading companies,<sup>82</sup> although in the case of PL-480 food imports most of the consortium members have been private firms.<sup>83</sup>

The Ministry of Trade under Sumitro has arranged for the importation of goods for two purposes: first, to increase the regular supply of essential goods through the importation of PL-480 and other foreign aid financed commodities; and second, to import quickly an essential commodity if its price is rising, or expected to rise, in order to stabilize its price. This follows Sumitro's "second line of defense" argument mentioned above. Foreign aid imports may also be timed to prevent predicted price increases. During the second half of 1968, PL-480 financed imports of wheat flour, cotton yarn and raw cotton were carried out.<sup>84</sup> Sumitro contracted for 35,000 metric tons of sugar to be imported to the outer islands and 25 million yards of coarse textiles to Indonesia as a whole, if possible before the end of 1968, to prevent rapid price increases which fiscal and monetary measures would be unable to counteract before the Christmas, Idulfitri, New Year and Chinese New Year holidays. In the case of salted fish, on the other hand, he felt that the "first line of defense," fiscal and monetary policy, was enough to stabilize prices.<sup>85</sup>

In April 1969, when the price of sugar began to rise, Sumitro used his "second line of defense" again by temporarily prohibiting shipments of sugar from Central Java to other provinces; while this kept down prices in Central Java, he arranged to import sugar into the other regions of Indonesia, and succeeded in bringing the Djakarta sugar price down to Rp. 65 per kilogram in June from a high of Rp. 85 per kilogram in April, although the June price was still about 12% higher than the March 1969 price.<sup>86</sup> As he had advocated before taking office, Sumitro still favors using fiscal and monetary policy and direct

---

81. Business News, December 13, 1968, p. 22.

82. Ibid., September 6, 1968, p. 15A; September 11, 1968, p. 14A; September 13, 1968, p. 3.

83. Indonesian Economic Bulletin, August 8, 1969.

84. Business News, September 6, 1968, p. 15A; September 11, 1968, p. 14A; September 13, 1968, p. 3.

85. Ibid., December 13, 1968, pp. 20, 22.

86. Ibid., July 7, 1969, p. 9.



controls to assure that supplies of a product are available if needed to control inflationary pressures, but he has not so far used retail price controls, which are anyway difficult to enforce in Indonesia.

### Entrepot Zones

One of the most important factors hindering direct importation from Western Europe and from the United States, as opposed to using the entrepots of Hong Kong and Singapore, is the significantly longer delivery time. Because of the very high domestic interest rates in Indonesia, a longer delivery time means a significantly higher real rupiah cost per dollar of C. & F. imported value.<sup>87</sup> Therefore, even though the C. & F. dollar price of importing from Singapore or Hong Kong may be higher, the importer often prefers to import from these areas because his rupiah interest costs are less and he can get a faster turnover of his limited capital.

The Indonesian government has taken steps to increase imports from producer countries rather than re-export areas, such as Hong Kong and Singapore, by establishing entrepot zones, first in Djakarta and later in Medan, Makassar and Tjilatjap.<sup>88</sup> Entrepot zones allow foreign exporters to promote their goods without permitting them to become importers themselves. Products eligible for B.E. credit financing and that have been certified by an international surveying company or the Indonesian government representative in the area from which they are exported may be sent into the entrepot zone duty free and stored there.<sup>89</sup> In this manner, the financing expenses from the time of manufacturing until the time of arrival in Indonesia are borne by the foreign exporters or manufacturers, who can generally obtain financing at lower interest rates than Indonesian importers. The foreign exporter need no longer entrust his goods to someone else, as he did under the former B.E. without a cover system, although he must have confidence that the security of his goods will be maintained and that government regulations with respect to the zone will be enforced and not changed adversely without adequate notice. The matter of security in the entrepot zones under present conditions is indeed a crucial question. The frequent theft of articles in the regular harbor

---

87. The C. & F. price is the foreign exchange price of the good in the port of destination; it includes the f.o.b. price plus freight charges.

88. Kompas, November 6, 1968, p. 1.

89. Business News, December 2, 1968, pp. 15A-16A; Kompas, November 6, 1968, p. 1.

area in Tandjung Priok and the general lack of security are certainly important factors making foreign exporters reluctant to use the entrepot zones except to send articles that have already been sold.<sup>90</sup>

President Suharto, on October 28, 1968, instructed the Ministers of Trade, Finance, and Communications, the Governor of the Central Bank and the Chief of Staff of Defense and Security (HANKAM) to take immediate steps to open the entrepot zones project.<sup>91</sup> By June 1969, the entrepot zone in Djakarta was in operation although several months later than originally planned. The volume of business will undoubtedly increase rapidly once it becomes clear that security can be maintained.

In addition, on August 28, 1968, the government stipulated that exporters in Singapore and Hong Kong cannot draw their letters of credit until after their goods have been inspected in Indonesia by a surveying company approved by the Indonesian government. This measure also tends to cause an increase in imports direct from the producing countries, although the main purpose of the regulation was probably to prevent large-scale B.E. manipulations, as had happened previously.

The government has rejected other methods which would increase the proportion of imports coming direct from the producing countries, such as setting import quotas and using discriminatory tariff and credit policy. Such measures, by encouraging imports from the producing nations even if their C. & F. prices were higher, would result in Indonesia paying more for its imports rather than less. By using the entrepot zones, the government expects to increase the competitiveness of the producing countries by making their selling terms more attractive, rather than by reducing those of the re-export areas.

### Summary

Most of Sumitro's policies since June 1968 have been consistent with his earlier ideas. He still believes the government must take a role in developing areas important from the social viewpoint but where there is insufficient private interest. Although the government today devotes somewhat less attention to this than during the Sukarno period, its interest continues as shown in the active promotion of crumb rubber factories. The Ministry of Trade has not only taken measures to attract

---

90. Business News, November 8, 1968, p. 2; June 25, 1969, p. 6; July 4, 1969, p. 5.

91. Kompas, October 31, 1968, p. 1.

private investment but has also imported the equipment for some crumb rubber factories itself. The government has endeavored to attract foreign investment in motor vehicle assembly and also made direct investment in this industry by appointing a government enterprise as one of the assembling companies. Under the jurisdiction of other Ministries, government enterprises are investing government funds either on their own or in cooperation with foreign private firms. Sumitro has continued to support the state trading companies by giving them a large amount of Ministry of Trade business, though he has avoided giving them import and export monopolies, as had occurred during the Sukarno era.

The establishment of the Sole Agency for Copra Affairs and also the coffee syndicates, all supervised by the Ministry of Trade, demonstrate the government's indirect participation in these sectors and one way in which it tries to guarantee justice in the distribution of products and assure that the producers receive a sufficient income. These agencies are examples of the type of institutional change, long advocated by Sumitro, which enable the government to restrict the trade channels through which products can flow. The Sole Agency for Copra Affairs, for example, has a monopoly on exports; it can also determine which enterprises are permitted to buy from the producers, how much copra will be exported and how much will be sent to copra deficit regions within Indonesia. Through the respective agency or syndicate, the Ministry of Trade can set the price paid to the producers, but Sumitro has not attempted to control retail prices directly nor has he rationed any products to consumers or producers. The agency involved can, however, control the supply of sugar, coffee and copra to the main consuming areas. In theory, if syndicates and agencies holding monopolies on the distribution of products operate effectively, they can contribute to economic development. But when an agency controls such things as membership, sub-contracts to distribute products, prices, etc., an opportunity for corruption is created. Frequently in Indonesia, when such an agency has existed, individuals and political interests have tried to gain control of the agency for their own profit, thereby preventing it from achieving its original objectives. In such a case it would have been better if the agency had not been set up at all. The future success of the syndicates and the Sole Agency for Copra Affairs will depend on their being free from corruption and the control of vested interests.

In power, Sumitro has acted consistently with his earlier writings, and supports the present government's policy of using the import sector as a source of revenue for the government. He has favored increased use of foreign exchange to import needed raw materials and other inputs, spare parts and capital equipment, a policy incorporated in the Five Year Plan, and in general to ensure that foreign exchange resources are channeled into uses which contribute to development. The use of foreign

exchange has principally been determined by the forces of supply and demand, but the government affects these forces through various policy measures, such as setting import duties, import credit policy, determining which goods are on the B.E. list, and the banning of imports of certain goods; in addition, about 20% of total imports are carried out by the government itself.

Sumitro's foreign trade policy during the past fourteen months has been very similar to his proposals of the 1950's. His export policy has been aimed principally at increasing foreign exchange earnings in order to finance the importation of goods required for economic development. He has acknowledged the importance of international trade in the development process, in sharp contrast with the *berdikari* or "stand-on-your-own-feet" policy of the later Sukarno years. He has favored more government control over imports and exports than his predecessor did, but less than that in operation at the end of the Sukarno era. During his first fourteen months in office, he has also made significant institutional changes to secure effective implementation of his overall policies.

In the early 1950's, Sumitro wrote that, with economic development, export earnings of the underdeveloped countries would depend less and less on primary commodities. So far, however, he has done little to promote exports of cottage industry and other industrial goods. In the short term, the difficulties of exporting industrial products are much greater than exporting primary commodities because it is more difficult to attract foreign investment in this sector. There is a serious shortage of domestic industrial skills and capital, and it is more difficult to expand markets abroad.

There has been a drive to increase exports of Indonesia's traditional products--copra, coffee, tobacco and rubber--representing not only a short-term rehabilitation program, but also including long-term investments in replanting trees and the construction of processing factories. Evidently, Sumitro expects exports of these products to be important foreign exchange earners for many years to come. During the next five years, the emphasis will shift to broadening the export base by increasing exports of Group B relative to Group A primary commodities, rather than increasing exports of non-primary commodities. In his import policies, however, Sumitro has stressed the rehabilitation of the industrial sector and still expects that industrial products will become an important component of Indonesian exports in the future.

Sumitro wrote that one of the weaknesses of the classical comparative cost theory of international trade is the strong element of monopoly on the side of the industrialized countries which works to the detriment of the underdeveloped countries. By continuing to prevent foreign companies from importing and exporting except under certain conditions, by restricting greatly

the areas in internal trade where they can operate, and by requiring that foreign investment projects in trade must be joint ventures with Indonesian nationals, Sumitro is trying to limit the power of foreign enterprises to control Indonesia's economic life. At the same time, he is working to improve Indonesia's own bargaining position in world markets through the formation of the commodity syndicates and the Sole Agency for Copra Affairs.

Sumitro still favors strict government control over foreign exchange. When the head of the Indonesian Exporters' Association (*Gabungan Pengusaha Exportir Indonesia*) requested, in December 1968, that exporters receive 100% of the value of their exports in foreign exchange, Sumitro rejected this proposal because he feared it would allow outside forces to affect the utilization of foreign exchange in a way harmful to the general welfare.<sup>92</sup> As in his earlier writings, Sumitro continues to support having either one or two exchange rates.

Sumitro's policies have continued to be aimed at protecting "infant" industries, without favoring the development of "sub-marginal" industries, or placing quantitative restrictions on the importation of goods for which domestic industries can supply local demand. Although the Indonesian industrial sector must be protected, he insists that the interests of the consumers must also be taken into consideration, particularly where essential goods are concerned. He demonstrated this in the fall of 1968, when he imported textiles despite opposition from textile producers.

---

92. Business News, December 13, 1968, p. 1.