3

Manufactures Trade

Manufactured goods dominate the merchandise trade accounts for both the United States and Indonesia.[1] For the United States, the numbers are huge: In 2005 manufactured exports topped $750 billion and imports reached $1.23 trillion, accounting for 83 percent of US merchandise exports and 74 percent of US merchandise imports. In the same year, Indonesia exported $43 billion of manufactures and imported $32 billion, constituting 50 percent and 56 percent of its total merchandise exports and imports, respectively (table 3.1).

Despite relatively low US tariffs and increasing openness in Indonesia, bilateral trade in manufactures has been sluggish. US exports of manufactures dropped from $3.4 billion in 1997 to $1.6 billion in 2005, only 0.5 percent of total US exports of these commodities (table 3.1). The US supply of manufactures to Indonesia dropped from 14 percent in 1997 to 8 percent in 2005. Meanwhile, Indonesia's exports of manufactures to the United States grew significantly slower than its overall exports did. Between 1997 and 2005 overall Indonesian exports of manufactures increased by 85 percent, though exports to the United States increased by only 33 percent. US imports of manufactures from Indonesia rank below imports from other members of the Association of Southeast Asian Nations (ASEAN) such as Malaysia, Singapore, and Thailand.

Bilateral trade in manufactures has declined in importance largely because of the robust growth of commerce among countries within East

1. Manufactures are defined as products classified under Standard International Trade Classification (SITC) 51 to 89. This definition excludes beverage and tobacco, raw materials, fuels, oils and waxes, and commodities and transactions that are not classified elsewhere in the SITC.

Table 3.1 Bilateral trade in manufactures, 1997, 2000, and 2005 (millions of US dollars)

	US trade						Indonesian trade					
	Indonesia			World			United States			World		
	1997	2000	2005	1997	2000	2005	1997	2000	2005	1997	2000	2005
Exports	3,398	1,576	1,639	564,831	659,915	749,772	6,715	8,249	8,958	23,144	36,221	42,759
Imports	6,715	8,249	8,958	694,148	962,184	1,233,007	3,398	1,576	1,639	31,149	21,001	32,303
Trade balance	–3,316	–6,674	–7,319	–129,317	–302,269	–483,235	3,316	6,674	7,319	–8,005	15,220	10,456
Share of manufactures in												
Total exports	70	70	54	80	85	83	71	80	75	43	58	50
Total imports	71	71	75	80	80	74	70	62	54	75	63	56
Share of destination in												
Exports of manufactures	0.6	0.2	0.2	100	100	100	17	19	17	100	100	100
Import of manufactures	1.0	1.1	0.5	100	100	100	14	11	8	100	100	100

Note: Based on SITC 51 to 89. Excludes food, beverage, and tobacco manufacturing.

Sources: UN Comtrade database, unstats.un.org; USITC Interactive Tariff and Trade Dataweb, dataweb.usitc.gov.

Asia. In 2005 about 59 percent of Indonesian two-way trade in manufactures took place within the region, up from 50 percent in 1997. The surge reflects both the region's rapid economic growth,[2] powered by China, and its openness, which compares favorably with Latin America or South Asia.[3] Fast growth and low tariffs in East Asia have inspired dense production networks that cover all of the major economies in the region (Kawai 2005).

In addition to the "pull" forces within East Asia, "push" forces between the United States and Indonesia hamper bilateral trade and investment. US tariffs are generally low for products other than textiles and clothing (T&C), and though Indonesian openness is increasing, several manufactured goods are still subject to high tariffs. In both the United States and Indonesia, imports are also subject to various nontariff measures (NTMs), such as technical standards in the United States and import licensing in Indonesia. In the past decade US foreign direct investment (FDI) in Indonesia has slowed, particularly FDI connected to trade in manufactures, as an unfavorable investment climate and security concerns fueled the exodus of US firms from Indonesia to other Asian countries such as China and Vietnam. Moreover, other Asian countries, particularly China, are increasingly competitive in selling manufactures to the US market—and Chinese and Indonesian exports of manufactures to the United States are quite similar (Schott 2006).

This chapter first highlights the importance of the manufacturing sector in the United States and Indonesia. It then explores the composition of bilateral trade in manufactures, describing existing tariffs and NTMs as well as preferential treatment for Indonesian products. After commenting on the predictions generated by gravity and computable general equilibrium (CGE) models of a possible US-Indonesia free trade agreement (FTA), the chapter concludes with recommendations for liberalizing bilateral trade in manufactures.

An Industrial Snapshot

Despite their relative decline, manufactures remain an important component of the US economy. According to the 2003 Annual Survey of Manufacturers, some 12 million persons were employed in the manufacturing

2. Kharas Aldaz-Caroll, and Rahardja (2007) suggest that about 64 percent of growth in trade within emerging East Asia (ASEAN, China, Hong Kong, South Korea, and Taiwan) between 1994 and 2004 was driven by growth in regional income as measured by GDP.

3. In 2004 the weighted averages for applied MFN tariffs for chemicals, machinery, and other manufactured goods in East Asia were 6.5, 3.8, and 6.8 percent, respectively. For Latin America, these weighted average tariffs were 9.2, 11.3, and 13.6 percent, respectively (UNCTAD TRAINS database, 2006).

sector (table 3.2), accounting for 8 percent of total employment.[4] In 2001, however, the manufacturing sector employed about 14 million persons, indicating a sharp drop of around 2 million jobs in two years. The manufacturing sector contributed 11 percent of US GDP in 2003, or approximately $1.191 trillion, a 2.6 percent decline in the share of GDP compared with 1998.[5]

The manufacturing sector plays a large part in the Indonesian economy not in terms of employment, but in terms of output. In 2005 the estimated value added of all manufacturing firms, excluding those in the petroleum sector, exceeded 470 trillion rupiah—slightly more than $50 billion, or about 21 percent of Indonesia's GDP. Again excluding firms in the petroleum sector, medium-sized and large Indonesian manufacturing establishments employed 3.5 million people in 2004, accounting for about 4 percent of total employment in Indonesia. Those figures, however, cover only about 14,000 establishments with more than 10 employees. In 2004 another 1.7 million manufacturing establishments were either small firms with less than 5 employees or cottage firms—that is, household enterprises. The small and cottage firms provide an additional 4.1 million jobs.[6] All told, the manufacturing sector may account for 7.7 million jobs, or 8 percent of total employment.[7]

Aside from obvious differences in size, the US and Indonesian manufacturing sectors differ in other respects. Labor productivity measured by value added per worker is significantly higher in the United States than it is for medium-sized and large firms in Indonesia (table 3.2), and on average, US labor productivity is 15 times higher than it is in Indonesia. Employment is also distributed differently: In the United States, more than 25 percent of manufacturing employment is concentrated in the fabricated metal and transport equipment industries, while in Indonesia around 37 percent of employment is concentrated in T&C and footwear.

Bilateral Trade in Manufactured Goods

For manufactured goods, the US market is more significant for Indonesia than the Indonesian market is for the United States. Eighteen percent of Indonesian manufactured exports are destined for the United States, while

4. Calculated from *Statistical Abstract of the United States 2006,* tables 971 and 973. Available at www.census.gov (accessed on December 4, 2006).

5. Calculated from *Statistical Abstract of the United States 2006,* table 970. Available at www.census.gov (accessed on December 4, 2006).

6. Biro Pusat Statistik, Statistik Indonesia, 2005, available at www.bps.go.id.

7. Including the food, beverage, and tobacco industries increases the share of the Indonesian population working in manufacturing to around 13 percent.

Table 3.2 Indonesian and US manufacturing sectors, selected indicators

Sector	United States			Indonesia[a]		
	Employees (thousands)	**Value added** (millions of US dollars)	**Value added per worker** (US dollars)	**Employees** (thousands)	**Value added** (millions of US dollars)	**Value added per worker** (US dollars)
Textiles	417	32,011	76,691	1,054	4,558	4,325
Leather and footwear[b]	296	20,396	68,882	235	952	4,059
Wood	511	36,571	71,512	368	2,431	6,604
Paper and printing	1,140	128,674	112,902	175	2,999	17,149
Chemicals	830	260,288	313,789	203	4,108	20,245
Plastic and rubber	934	91,591	98,074	351	1,515	4,320
Nonmetallic mineral	463	54,768	118,417	167	1,685	10,103
Basic metal	456	54,194	118,977	57	1,636	28,618
Fabricated metal	1,484	137,232	92,468	109	1,068	9,756
Machinery	1,101	126,232	114,642	154	887	5,747
Office, data products, and communication	1,163	203,514	174,991	205	1,400	6,830
Electrical machinery and appliances	453	52,298	115,372	70	643	9,152
Transportation equipment	1,581	258,540	163,540	129	5,866	45,566
Furniture	556	43,531	78,293	252	722	2,868
Total manufactures	11,384	1,499,840	131,745	3,528	29,747	8,431
Small and cottage manufacturing firms[c]				4,148	23,119	623

a. Covers only firms with at least 10 employees. Figures assume average exchange rate of 8,939 rupiah per US dollar.
b. Apparel is part of leather and footwear under North American Industry Classification System.
c. Based on SIC revision 2. Small and cottage firms cover firms with less than 10 employees and household firms, respectively.

Sources: US Census Bureau (2006); Biro Pusat Statistik, *Statistik Indonesia,* 2005.

Table 3.3 Employment, output, and trade balance in manufactures

Sector	United States		Indonesia		2005 US net exports to Indonesia (millions of US dollars)
	Employment (percent)	Value added (percent)	Employment (percent)	Value added (percent)	
Textiles, clothing, and footwear	6	3	37	18	–3,672
Wood and sawmill	4	2	10	8	–339
Paper and printing	10	9	5	10	–113
Chemicals	7	17	6	13	295
Plastic and rubber	8	6	10	5	–150
Nonmetallic mineral	4	4	5	6	–141
Basic metal	4	4	2	5	–78
Fabricated metal	13	9	3	4	–78
Machinery	10	8	4	3	326
Office, data products, and communication	10	14	6	5	–1,716
Electrical machinery	4	3	2	2	–496
Transport equipment	14	17	4	19	53
Furniture	5	3	7	2	–605
Subtotal[a]	100	100	100	100	–6,715

a. Subtotal does not equate totals for manufacturing sector as defined in table 3.1 because it excludes miscellaneous manufactures.

Source: USITC Interactive Tariff and Trade Dataweb, dataweb.usitc.gov.

only 1 percent of US manufactured exports are bound for Indonesia. The effects of bilateral trade vary from industry to industry in Indonesia. As mentioned, the Indonesian T&C and footwear industries provided almost two-fifths of the country's manufacturing employment (table 3.3) and in 2005 accounted for more than two-fifths of manufacturing exports to the United States. The Indonesian wood and sawmill industries comprised almost 10 percent of manufacturing employment and contributed 5 percent of Indonesian manufacturing exports to the United States.[8]

Indonesian exports of manufactures to the United States are concentrated in relatively few commodities (table 3.4). Important products are clothing (SITC 84), furniture (SITC 82), electrical goods (SITC 77), and telecommunications equipment (SITC 76), such as video recorders and televisions. In 2005 these commodities constituted 60 percent of total Indonesian

8. Wood products are also a key input in the furniture industry, which accounts for 8 percent of Indonesian exports to the United States.

Table 3.4 US-Indonesia bilateral trade in manufactures, 2000 and 2005 (millions of US dollars)

2-digit SITC classification		US exports		US imports		Balance	
		2000	2005	2000	2005	2000	2005
51	Organic chemicals	147	86	58	88	89	–3
52	Inorganic chemicals	44	47	13	8	31	39
53	Dyeing/tanning materials	14	7	7	5	6	2
54	Pharmaceuticals	14	20	2	3	12	18
55	Perfume/cosmetics	16	28	20	22	–4	6
56	Manufactured fertilizers	9	4	3	30	6	–26
57	Plastics in primary form	69	69	35	89	34	–20
58	Plastics in nonprimary form	7	15	39	57	–32	–42
59	Other chemicals	154	210	16	14	138	197
61	Leather products	24	7	3	1	21	6
62	Rubber products	5	4	61	91	–56	–87
63	Cork and sawmill products	8	10	387	349	–379	–339
64	Paper	72	43	191	132	–119	–89
65	Textiles	18	28	189	195	–171	–167
66	Mineral manufactures	10	9	125	182	–115	–174
67	Iron and steel	6	14	114	18	–107	–4
68	Nonferrous metal products	10	10	45	102	–35	–92
69	Metal manufactures	15	34	151	94	–135	–60
71	Power-generating equipment	49	84	47	60	2	24
72	Industry machinery	365	174	6	35	359	140
73	Metalworking machinery	9	16	1	1	8	14
74	Industrial equipment	91	126	69	64	23	62
75	Office and data equipment	45	63	730	445	–686	–382
76	Telecom equipment	55	43	983	1,203	–927	–1,160
77	Electrical equipment	158	85	609	581	–450	–496
78	Road vehicles	38	65	46	69	–8	–4
79	Other transport equipment	45	226	3	2	42	224
81	Building fixtures	1	9	22	20	–21	–11
82	Furniture	5	3	493	609	–488	–606
83	Travel goods	1	0	162	37	–161	–36
84	Clothing	3	1	2,190	2,972	–2,187	–2,971
85	Footwear	14	12	731	510	–717	–498
87	Scientific instruments	25	32	7	22	18	10
88	Photographic equipment	7	15	171	182	–164	–167
89	Miscellaneous articles	20	40	519	664	–499	–624
	Total manufactures	1,576	1,639	8,249	8,958	–6,674	–7,319

Source: USITC Interactive Tariff and Trade Dataweb, dataweb.usitc.gov.

manufacturing exports to the United States. Several export items have enjoyed rapid growth. Clothing accounted for more than half of the increase in Indonesian exports to the US market between 2000 and 2005. In the same period, furniture products and telecommunications equipment accounted for more than 16 percent and 30 percent of the gains in Indonesian exports to the US market, respectively. Video cameras, part of SITC 763 and SITC 764, have become Indonesia's leading export of telecommunications equipment to the US market.

However, Indonesian footwear exports (SITC 85), a major product category, have declined sharply: Between 2000 and 2005, exports of footwear to the US market fell by almost one-third. Uncertainty and insecurity following the 1997 Asian financial crisis did not help. Foreign firms—such as Nike, which had sourced many of its products from Indonesia—sharply reduced their operations. US government efforts and NGO campaigns against sweatshops also targeted the Indonesian T&C and footwear industries, pressuring them to establish minimum wages.[9] These efforts increased the real wages paid to unskilled labor employed by multinationals (Harrison and Scorse 2004). In addition, many firms perceive that government corruption and infrastructure bottlenecks have reduced their profitability (World Bank 2005), eroding Indonesia's competitiveness and contributing to the exit of foreign firms.

However, the key story for footwear is production in China, followed by Vietnam—the only two countries that have gained significant shares in the US market since 1998. Today China accounts for 74 percent of US footwear imports, up from 54 percent in 1998. Vietnam's share rose from 1 percent to 4 percent over the same period. Thailand's footwear exports have not lost as much ground in the US market as Indonesia's have, suggesting that labor costs are not the only variable involved (see table 3.5 for 2000 and 2005 figures).[10] Exports of Indonesian footwear to the United States and European Union might increase from tariff-rate quotas imposed by those economies on Chinese and Vietnamese footwear exports. In any event, because certain footwear products from Indonesia face remarkably high tariffs in the US market, lower tariffs would grant Indonesian exporters an important advantage over China and Vietnam.

9. NGOs argued that Indonesia did not meet internationally recognized labor standards and filed several petitions to revoke benefits under the generalized system of preferences (GSP). A formal GSP review was suspended in February 1994 without terminating GSP benefits for Indonesia. Since 1998 Indonesia has ratified all eight International Labor Organization core conventions on protecting internationally recognized worker rights and has allowed trade unions to organize.

10. Suppliers in FTA partners and unilateral preference countries, such as those in Mexico, the Caribbean, Central America, and Africa, can access the US market at zero-tariff rates, yet they too have lost market share to China and Vietnam.

Table 3.5 US imports of selected manufacturing commodities, by country (millions of US dollars)

	Sawmill and wood manufactures (SITC 63)		Paper and paper articles (SITC 64)		Nonferrous metal products (SITC 68)		Office, data, and telecommunication equipment (SITC 75 and 76)		Electrical machinery (SITC 77)		Furniture (SITC 82)		Footwear (SITC 85)	
Country	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**
EU-15	748	1,334	2,445	3,039	3,310	4,028	10,016	8,899	11,922	13,371	2,473	2,371	2,044	1,558
NAFTA														
Canada	4,004	6,609	10,009	10,280	6,669	9,947	13,624	6,070	6,499	6,212	4,859	5,127	76	94
Mexico	255	251	493	746	1,037	1,576	25,131	25,916	17,828	20,671	3,201	4,297	351	247
East Asia														
Japan	13	20	507	578	557	510	27,307	18,644	18,096	10,740	141	211	2	3
South Korea	5	5	318	418	180	170	12,560	11,319	9,327	5,442	85	112	140	45
Taiwan	109	66	45	55	107	95	13,578	9,005	8,492	6,090	1,031	716	92	69
China (mainland)	710	2,006	611	1,548	305	972	20,792	76,310	9,037	17,985	4,476	13,180	9,206	12,654
Hong Kong	14	18	53	62	20	35	607	883	1,782	593	84	83	67	52
Indonesia	**387**	**349**	**191**	**132**	**45**	**102**	**1,713**	**1,648**	**609**	**581**	**493**	**609**	**731**	**510**
Malaysia	194	279	4	17	24	67	13,386	23,115	7,089	4,397	490	752	2	1
Philippines	30	31	19	15	1	2	3,099	1,503	6,431	3,423	287	279	18	5
Singapore	3	3	10	12	15	15	10,870	7,095	3,864	1,990	10	11	2	0
Thailand	170	141	35	41	31	30	4,184	7,081	2,300	1,327	301	456	329	292
Vietnam	1	17	0	14	0	2	0	145	2	33	9	692	125	717

(table continues next page)

Table 3.5 US imports of selected manufacturing commodities, by country (millions of US dollars) *(continued)*

	Sawmill and wood manufactures (SITC 63)		Paper and paper articles (SITC 64)		Nonferrous metal products (SITC 68)		Office, data, and telecommunication equipment (SITC 75 and 76)		Electrical machinery (SITC 77)		Furniture (SITC 82)		Footwear (SITC 85)	
Country	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**
South Asia														
India	23	31	15	34	59	107	50	155	191	547	82	204	112	139
Pakistan	0	0	0	0	0	0	1	0	1	3	15	77	1	1
Sri Lanka	2	4	0	0	0	0	9	5	4	4	2	1	11	2
Central and Latin America														
CAFTA-DR	47	57	15	28	8	11	858	526	871	1,292	66	63	196	151
Brazil	3	3	0	0	780	957	1	1	1	0	9	13	0	1
Chile	108	333	1	13	652	1,824	1	3	2	5	53	58	0	0
Peru	251	907	100	190	340	903	698	823	229	300	115	457	1,149	1,019
Others														
Australia	13	29	15	33	303	478	116	84	111	99	16	16	7	5
Jordan	92	172	18	3	3,989	3,194	5	5	23	18	4	7	1	3
Israel	1	2	14	15	51	77	1,512	1,068	1,405	899	64	44	15	15
Russia	0	0	0	0	0	0	0	1	0	0	0	0	0	0
South Africa	11	28	4	1	1,660	2,193	9	16	44	24	13	17	0	2
Turkey	1	1	3	5	57	68	9	7	17	28	10	30	1	2
Other countries	199	339 0	254	287	1,619	2,121	1,891	1,952 0	2,089	2,351 0	533	701	177	246
Total US imports	7,392	13,034	15,179	17,568	21,819	29,482	162,028	202,278	108,266	98,424	18,923	30,584	14,856	17,834

CAFTA-DR = Central American Free Trade Agreement–Dominican Republic; NAFTA = North American Free Trade Agreement

Source: USITC Interactive Tariff and Trade Dataweb, dataweb.usitc.gov.

A similar story applies to clothing import trends in the United States after the elimination of Multi-Fiber Arrangement (MFA) quotas.[11] Indonesian exports may benefit in the short term from the US invocation of umbrella safeguards on imports of Chinese clothing,[12] but those safeguards are scheduled to end in 2008. In 2005 Indonesia was the world's sixth-largest T&C supplier for the US market: US imports of clothing from Indonesia increased to $2.9 billion from $2.1 billion in 2000 (table 3.6), a gain of 38 percent compared with a 25 percent increase in total US imports of clothing over the same period. A US-Indonesia FTA could provide a better footing for Indonesian clothing exports to the US market in the long term.

US exports of manufactures to Indonesia cover a wide range of products. The United States maintains positive trade balances with Indonesia in knowledge-intensive exports, such as chemicals, industrial machinery, and aircraft, but table 3.4 shows that almost half of US exports of manufactured goods to the Indonesian market have declined in recent years overall. Product groups that remain buoyant are US exports of chemical compounds (SITC 59), textiles (SITC 65), power-generating machinery (SITC 71), industrial machinery (SITC 72 to 74), office-data machinery (SITC 76), and transport equipment (SITC 78 and 79). (See table 3.7 for pattern of Indonesian imports from selected partners.)

Market Access

Trade barriers come in many flavors: tariffs, quotas, and various NTMs. Market access reflects the absence of these barriers, or expressed positively, the openness of a national market to foreign products, accounting for not only barriers applied on a most favored nation (MFN) basis but also unilateral, bilateral, and regional preferences. Some preferences are unilateral, notably the GSP, but most are negotiated on a reciprocal basis within the context of a bilateral or regional FTA.

The GSP for Indonesian Exports

Since 1976 the United States has granted preferential treatment for several export items from Indonesia and other developing countries under the GSP. The US mandate for extending GSP treatment was reauthorized by

11. US T&C imports from FTA partners are significant and still growing for some minor partners. However, competitive Asian suppliers—China, Vietnam, Cambodia, India, and Pakistan—have seized most of the new US import opportunities created by the demise of the MFA quota system, even though they still face high tariffs.

12. For more information, see Hufbauer, Wong, and Sheth (2006).

Table 3.6 US imports of textiles and clothing from selected countries (millions of US dollars)

Rank in 2005	Country	Textiles and clothing (HS 50 to 63) 2000	2005	Change (percent)	Textiles (HS 50 to 60) 2000	2005	Change (percent)	Clothing (HS 61 to 63) 2000	2005	Change (percent)
	NAFTA									
2	Mexico	10,236	7,971	–22	935	1,018	9	9,301	6,953	–25
5	Canada	3,635	3,305	–9	1,749	1,842	5	1,886	1,463	–22
	East Asia									
1	China (mainland)	8,006	22,395	180	716	1,654	131	7,290	20,740	184
4	Hong Kong	4,706	3,580	–24	194	42	–78	4,512	3,538	–22
6	Indonesia	2,255	3,077	36	154	168	9	2,101	2,909	38
8	Vietnam	48	2,723	5,580	0	18	4,385	48	2,704	5,591
12	Korea	3,251	2,261	–30	911	1,001	10	2,341	1,260	–46
13	Thailand	2,181	2,175	0	224	192	–14	1,957	1,983	1
15	Philippines	2,009	1,881	–6	86	29	–66	1,923	1,851	–4
17	Taiwan	2,771	1,769	–36	593	573	–3	2,177	1,196	–45
18	Cambodia	805	1,717	113	2	2	–5	803	1,715	114
22	Macao	1,123	1,196	6	15	0	–98	1,109	1,196	8
25	Malaysia	884	752	–15	81	47	–42	803	706	–12

	South Asia									
3	India	2,959	4,993	69	644	912	42	2,315	4,081	76
7	Pakistan	1,843	2,891	57	438	542	24	1,406	2,349	67
10	Bangladesh	2,034	2,380	17	20	15	–25	2,015	2,365	17
19	Sri Lanka	1,574	1,691	7	54	14	–74	1,520	1,677	10
	Central and Latin America									
9	Honduras	2,422	2,700	11	2	2	–9	2,420	2,698	12
14	Dominican Republic	2,418	1,922	–21	22	7	–69	2,396	1,915	–20
16	Guatemala	1,497	1,834	22	5	7	34	1,492	1,826	22
20	El Salvador	1,632	1,646	1	9	6	–33	1,623	1,640	1
24	Peru	405	821	103	20	19	–7	385	802	108
	Others									
11	Italy	2,258	2,284	1	659	676	3	1,599	1,608	1
21	Turkey	1,473	1,643	12	228	345	51	1,244	1,298	4
23	Jordan	43	1,083	2,412	1	0	–66	43	1,083	2,442
	Total imports	74,617	92,555	24	10,953	12,734	16	63,665	79,821	25

NAFTA = North American Free Trade Agreement.

Source: USITC Interactive Tariff and Trade Dataweb, dataweb.usitc.gov.

Table 3.7 Indonesian imports of selected manufacturing commodities, 2000 and 2005 (millions of US dollars)

	Chemicals (SITC 51, 52, 59)		Plastics (SITC 57, 58)		Textiles & yarns (SITC 65)		Iron and steel (SITC 67)		Metal and industrial machinery (SITC 72, 73, 74)		Office, data, and telecom-munication equipment (SITC 75, 76)		Electrical machinery (SITC 77)		Road transport equipment (SITC 78)	
Country	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**	**2000**	**2005**
EU-15	496	612	144	188	73	48	113	272	883	1,229	162	885	206	268	141	222
NAFTA																
United States	**453**	**506**	**118**	**107**	**52**	**54**	**40**	**60**	**594**	**674**	**77**	**99**	**104**	**87**	**156**	**214**
Canada	33	15	7	4	5	6	6	9	25	49	1	15	7	8	24	22
Mexico	2	11	0	0	0	0	3	12	3	3	1	2	0	1	1	0
East Asia																
Japan	486	418	221	245	128	56	500	931	1,085	1,822	79	103	237	366	1,093	1,259
South Korea	355	190	191	252	279	82	172	333	156	169	48	95	50	76	72	47
Taiwan	125	149	76	105	315	119	84	179	255	299	24	15	35	43	55	39
China (mainland)	180	498	17	65	111	199	136	721	117	584	60	339	65	281	88	115
Hong Kong	37	12	6	9	105	29	5	21	28	22	9	49	11	29	3	9

Malaysia	222	305	35	106	12	14	16	104	87	163	23	85	30	72	21	36
Philippines	10	18	1	4	6	1	0	9	15	44	0	12	2	10	20	52
Singapore	478	738	140	266	26	22	198	168	309	405	51	132	59	99	70	130
Thailand	247	385	62	132	27	20	27	105	47	303	10	22	41	195	41	794
Vietnam	1	8	0	1	1	2	0	1	2	4	0	6	3	6	0	3
South Asia																
India	133	351	10	21	30	16	48	195	16	37	1	1	7	25	5	11
Pakistan	1	0	0	0	13	22	0	0	0	0	0	0	0	0	0	0
Sri Lanka	0	0	n.a.	0	3	0	n.a.	0	2	0	0	n.a.	1	0	0	0
Others																
Australia	63	83	11	15	19	8	31	76	95	192	7	5	15	22	33	38
Russia	20	46	0	0	0	1	67	207	0	1	n.a.	0	n.a.	0	0	1
South Africa	9	16	1	0	5	1	20	52	5	9	0	0	0	3	1	1
Turkey	1	8	0	0	3	4	0	0	2	6	n.a.	0	0	4	0	0
Other countries	317	430	66	79	37	53	151	428	88	127	62	51 0	51	46 0	25	41
Total Indonesia import	3,669	4,800	1,107	1,598	1,251	756	1,618	3,884	3,814	6,142	618	1,916	926	1,640	1,852	3,034

n.a. = not available

Source: UN Comtrade database, unstats.un.org.

the Trade Act of 2002.[13] Under its current GSP system, the United States provides preferential duty-free entry to approximately 4,650 products (defined under 8-digit HS tariff lines) from some 144 designated beneficiary countries and territories. The GSP benefit is capped by "competitive need" restrictions and may be withdrawn entirely for "sensitive" items.

In 2005 the United States granted Indonesia GSP benefits for around 950 manufactured items in the 8-digit HS tariff line level, covering approximately 17 percent of the value of Indonesian exports in these commodities, or roughly $1.5 billion. Manufactured exports such as digital video cameras (HS 85251 or SITC 76431 and HS 8524 or SITC 76381), furniture (HS 94035 or SITC 82155 and HS 94036 or SITC 82159), and plastics (HS 39076 or SITC 57433) have increased notably in recent years under the GSP.

The total value of Indonesian manufactured exports under the GSP system amounted to 8 percent of US imports in 2005.[14] This is larger than US imports from Indonesia as a share of total US imports from developing countries in the same year (less than 2 percent).[15] Indonesian exports of plastics, wood, precious stones, and electrical machinery are among the top beneficiaries of the US GSP system. However, Indonesia has not taken full advantage of GSP benefits. Analyzed at the 8-digit HS level, Indonesia utilized only 45 percent of eligible exports in manufactures in 2005 (table 3.8). Strict rules of origin may explain part of the shortfall for products such as chemicals, footwear, and machinery.[16]

In recent years, changes in GSP benefits have mirrored US diplomacy toward Indonesia. Since 2001 the United States has twice added to the list of products covered by the GSP. Following President Megawati's visit to the United States shortly after September 11, 2001, the Bush administration announced extended coverage of the GSP for Indonesia to support economic reforms and democracy in the largest Muslim country.[17] On that occasion, the United States waived the criterion of a competitive needs limit (CNL) for 11 products, 6 of which were manufactured goods. In July 2005, as part of a tsunami relief package, 4 additional products from Indonesia received GSP benefits, 2 of which, plywood products and contact lenses, are manufactured goods.

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13. The GSP was launched on January 1, 1976 under the Trade Act of 1974 for a 10-year period. The Trade and Tariff Act of 1984 renewed the GSP through July 4, 1993. Since then, the GSP has been renewed periodically.

14. This figure is drawn from USITC Interactive Tariff and Trade Dataweb, 2006, using the SITC classification.

15. For this calculation, developing countries are defined as countries eligible for GSP benefits in 2005, excluding Argentina, Jordan, Russia, and Turkey.

16. An imported article is GSP-eligible only if the sum of the cost of materials produced in the developing country plus the direct cost of processing equals at least 35 percent of the appraised value of the article at the time of entry into the United States (USTR 2006d).

17. See USTR press release, September 19, 2001.

Table 3.8 Generalized system of preferences for Indonesia: Eligibility and utilization rates of selected manufacturing commodities

HS 2-digit	Product description	Eligible tariff lines (percent of total lines)	Tariff lines utilized (percent of total eligible)	Import value in 2005 (millions of US dollars)		
				Total	Due to GSP	Percentage of import due to GSP
29	Organic chemicals	41	33	64	35	55
38	Miscellaneous chemical products	39	35	37	9	23
39	Plastics and articles thereof	77	48	224	202	90
40	Rubber and articles thereof	61	39	1,134	91	8
42	Articles of leather; travel goods, handbags	36	63	91	43	48
44	Wood and articles of wood	33	74	396	197	50
46	Manufactures of plaiting materials	54	92	16	9	56
66	Umbrellas	60	100	13	11	85
68	Articles of stone, plaster, cement, asbestos	43	78	12	9	75
69	Ceramic products	46	81	82	30	36
70	Glass and glassware	42	56	29	22	75
71	Natural or cultured pearls, stones, precious metals	60	64	180	138	77
73	Articles of iron or steel	21	41	56	40	72
76	Aluminum and articles thereof	83	53	79	78	99
84	Reactors, boilers, machinery appliances	34	39	573	63	11
85	Electrical machinery and equipment, sound recorders and TV imaging	47	43	1,828	305	17
87	Vehicles other than railway or tramway	28	63	69	63	91
90	Optical, photographic, cinematographic	51	27	206	28	13
92	Musical instruments, parts and accessories	60	70	147	90	61
96	Miscellaneous manufactured articles	65	45	42	36	86
	Total manufactures	26	45	8,958	1,538	17

Note: Based on 8-digit HS level and include only products classified between SITC 51 and 89 (see Appendix).

Source: USITC Interactive Tariff and Trade Dataweb, dataweb.usitc.gov.

The Bush administration is currently considering shifting the benefits of the GSP toward less-developed countries, which might affect some of Indonesia's GSP benefits. The US Trade Representative (USTR) has argued that the roster of GSP beneficiaries should be reviewed because the economies of some countries have advanced beyond certain threshold criteria. The USTR further suggested that a country should no longer benefit from the GSP if the country's exports covered by the GSP in 2005 exceeded $100 million, and either the country was classified by the World Bank as a middle–upper income economy in 2005 or the country's total merchandise exports exceeded 0.25 percent of total world merchandise exports in 2005. By these criteria, Indonesia should be excluded from GSP benefits.[18]

Tariff Barriers

On average, US import tariffs on manufactured goods are lower than Indonesian tariffs. Tables 3.9 and 3.10 provide information on the tariff structures of both countries, showing average tariffs, standard deviations, the importance of tariff peaks,[19] and the share in bilateral imports. Analyzed at the 8-digit HS level, the unweighted average and the median tariff for US imports of manufactures from all countries in 2005 were 4.7 percent and 3.2 percent, respectively (table 3.9). These figures drop dramatically once GSP facilities, which grant zero tariffs on eligible commodities from developing countries, are taken into account. Including the GSP, the average US tariff for manufactures is only 3.3 percent, and the median tariff is zero;[20] around half of Indonesian manufactured commodities face a zero tariff (table 3.9). Indonesian tariffs on manufactured imports are considerably higher than US levels. In 2005 the average MFN tariff analyzed at the 8-digit HS level for US exports of manufactured goods to Indonesia was 10 percent and the median was 5 percent (table 3.10). About 90 percent of US manufactured goods face Indonesian tariffs of up to 10 percent. Only 10 percent of US exports to Indonesia face higher tariffs.

18. See "Schwab Says GSP Review Will Consider Limits on India, Brazil," *Inside US Trade,* August 11, 2006. Indonesia is classified as a lower–middle income economy, but its merchandise exports in 2005 exceeded 0.25 percent of the total world figure.

19. A tariff peak is commonly defined as a tariff that exceeds three times the average MFN applied tariff on manufactured goods. In the US tariff structure the threshold tariff under this definition is 10 percent. In the Indonesian tariff structure it is 30 percent (see tables 3.9 and 3.10).

20. However, the share of actual duties that the United States collects on Indonesian manufactured exports indicates a higher burden of tariffs, around 6 percent. This suggests that sectors facing higher-than-average US tariffs are not the main beneficiaries of the GSP.

Table 3.9 US tariffs on Indonesian manufactured exports

HS section/product category		Average applied MFN tariff rate[a]	Average applied MFN and GSP tariff rate[a, b]	Standard deviation of applied tariffs[a, b]	Percent of tariff peaks[b, c]	Share in Indonesian exports
VI	Products of chemicals and allied industries	3.5	1.4	2.6	0.1	1.9
VII	Plastics and rubber and articles thereof	3.9	0.5	1.6	0.3	3.9
VIII	Raw hides and skins, leather, fur skins and articles thereof; travel goods, handbags, and similar containers	5.0	3.0	5.3	9.0	0.6
IX	Wood and cork and articles thereof	2.8	0.9	2.5	0.5	1.7
X	Pulp of wood; paper and paperboard and articles thereof	0.0	0.0	0.0	0.0	1.4
XI	Textiles and textile articles	9.3	9.1	6.8	38.4	45.1
XII	Footwear, headgear, feathers, umbrellas, walking sticks, human hair, and parts	13.2	12.1	15.5	35.7	8.8
XIII	Articles of stone, plaster, cement, asbestos; ceramic products; glass and glassware	5.0	2.6	6.0	10.1	0.7
XIV	Pearls, precious or semiprecious stones and metals, and articles thereof; imitation jewelry; coins	3.5	0.1	0.5	0.0	2.4
XV	Base metals and articles of base metal	1.9	0.4	1.8	0.9	1.6

(table continues next page)

Table 3.9 US tariffs on Indonesian manufactured exports *(continued)*

HS section/product category		Average applied MFN tariff rate[a]	Average applied MFN and GSP tariff rate[a, b]	Standard deviation of applied tariffs[a, b]	Percent of tariff peaks[b, c]	Share in Indonesian exports
XVI	Machinery and mechanical appliances; electrical equipment; parts thereof	1.6	0.3	1.4	0.3	15.1
XVII	Vehicles, aircraft, vessels and other transport equipment	2.6	1.3	4.4	5.3	0.1
XVIII	Optical, photo and cinematographic, measuring, precision, medical, musical instruments and apparatus; parts thereof	2.4	0.8	2.4	1.4	4.9
XIX	Arms and ammunition; parts and accessories thereof	1.5	0.0	0.0	0.0	0.0
XX	Miscellaneous manufactured articles	3.2	0.7	3.5	1.4	11.3
XXI	Works of art, collectors' pieces and antiques	0.0	0.0	0.0	0.0	0.0
XXII	Special classification provisions; temporary legislation or modifications	10.2	10.2	33.7	2.8	0.5
	Total manufactures	4.7	3.3	11.8	7.1	100.0

a. Calculated at 8-digit Harmonized Tariff Schedule of the United States (HTUS) level, taking into account ad valorem equivalent of specific tariffs.
b. Accounts for GSP benefits received by Indonesia.
c. Tariff peak is defined as any eight-digit tariff rate above 10 percent, or three times the average applied MFN tariff rate.

Source: USITC Interactive Tariff and Trade Dataweb, dataweb.usitc.gov.

Table 3.10 Indonesian tariffs on US manufactured exports

HS section/product category		Average applied MFN tariff rate[a]	Standard deviation of applied tariffs[a]	Percent of tariff peaks[a, b]	Share in US exports
VI	Products of chemicals and allied industries	5.2	7.3	0.2	19.0
VII	Plastics and rubber and articles thereof	11.0	6.4	0.0	5.8
VIII	Raw hides and skins, leather, fur skins and articles thereof; travel goods, handbags and similar containers	6.3	5.7	0.0	0.5
IX	Wood and cork and articles thereof	7.9	2.6	0.0	0.6
X	Pulp of wood; paper and paperboard and articles thereof	4.5	2.6	0.0	3.0
XI	Textiles and textile articles	11.0	4.0	0.0	1.8
XII	Footwear, headgear, feathers, umbrellas, walking sticks, human hair, and parts	11.5	4.0	0.0	0.8
XIII	Articles of stone, plaster, cement, asbestos; ceramic products; glass and glassware	6.0	3.3	0.0	0.5
XIV	Pearls, precious or semiprecious stones and metals, and articles thereof; imitation jewelry; coins	10.1	5.6	0.0	0.1
XV	Base metals and articles of base metal	10.1	6.5	0.0	3.7
XVI	Machinery and mechanical appliances; electrical equipment; parts thereof	4.1	5.0	0.0	35.0
XVII	Vehicles, aircraft, vessels and other transport equipment	28.7	20.9	36.7	19.6

(table continues next page)

Table 3.10 Indonesian tariffs on US manufactured exports *(continued)*

HS section/product category		Average applied MFN tariff rate[a]	Standard deviation of applied tariffs[a]	Percent of tariff peaks[a, b]	Share in US exports
XVIII	Optical, photo and cinematographic, measuring, precision, medical, musical instruments and apparatus; parts thereof	4.8	3.1	0.0	3.3
XIX	Arms and ammunition; parts and accessories thereof	3.3	7.8	0.0	0.0
XX	Miscellaneous manufactured articles	10.7	4.0	0.0	0.8
XXI	Works of art, collectors' pieces and antiques	5.8	4.7	0.0	0.5
XXII	Special classification provisions; temporary legislation or modifications	9.6	4.5	0.0	5.0
	Total manufactures	10.1	12.1	5.0	100.0

a. Calculated at 8-digit HS level.

b. Tariff peak is defined as any eight-digit tariff rate above 30 percent, or three times the average applied MFN tariff rate.

Sources: Ministry of Finance, Indonesia; USITC Interactive Tariff and Trade Dataweb, dataweb.usitc.gov.

A handful of manufactured goods, including items of mutual interest, are subject to stiff tariff barriers in both markets. About one-fifth of Indonesian exports face US tariffs of more than 15 percent. As seen in table 3.9, the United States imposes a high average tariff on textiles and clothing (HS section XI) and on footwear products (HS section XII) imported from Indonesia. The tariff profile is more daunting because of its large standard deviation and the high percentage of tariff peaks.

Both countries have even more formidable tariff barriers. Analyzed at the 8-digit HS level, in 2005 there were at least 190 Indonesian export items, mainly clothing and footwear products, that were subject to US tariff peaks, defined as tariffs ranging from 10 to 48 percent. A handful of US exports face Indonesian tariffs of higher than 15 percent. While not strictly tariff peaks, about one-sixth of the manufacturing tariff lines in the Indone-

sian tariff schedule are subject to tariffs of higher than 15 percent.[21] Among these, 60 percent are clothing items (HS 61 and 62). Generally, certain clothing items are eligible for a zero duty through the GSP system, but almost 30 percent of Indonesian T&C exports face US tariffs greater than 15 percent at the 8-digit HS tariff level. The T&C industries are important in Indonesia's manufacturing profile, and they face strong competition from China and other trade-preferred countries in the US market; meanwhile, the T&C industry is perhaps the most sensitive manufacturing activity in the United States. Thus the phaseout schedule of T&C tariffs is likely to be an important issue in FTA talks.

Certain travel goods, particularly handbags and suitcases (HS 4202) as well as footwear (HS 6401 to 6405), still face US tariffs of higher than 15 percent. In 2005 more than 38 percent of the footwear products under HS 64 imported from Indonesia were subjected to such high tariffs. In 2005 Indonesia earned nearly $2 million from global exports of "footwear incorporating a metal toe cap" (classified under HS 6401.10), but none of those exports were to the US market, which imposed a 37.5 percent tariff.[22] The industries that make these commodities are important sources of employment in Indonesia.[23]

Indonesia imposes very high tariffs on certain imports of road transport vehicles (SITC 78 or HS 87). At 32 percent and 25 percent, respectively, the average and the median tariff for road transport vehicles (HS 87) were the highest among manufactured goods. Road transport vehicles also have the highest frequency of tariff peaks, covering some 40 percent of tariff lines, which suggests that the Indonesian automotive sector enjoys a considerable degree of protection. (See table 3.11 for statistics on Indonesia's import of selected manufactures.) Certain other US exports face Indonesian tariffs of higher than 15 percent. Examples are mixtures of essential oils (HS 3302), plastic tubes and plates (HS 3917, 3918, and 3919), iron and steel (HS 7209, 7301, 7312, and 7318), basic metal (HS 7323 and 7326), and metal tools and cutlery (HS 8201). However, US negotiators will pay attention to Indonesia's large number of 15 percent tariff lines, which affect rubber, T&C, footwear, jewelry, iron and steel products, certain machinery, certain electrical equipment, including transmission apparatus, and toys and sporting goods.

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21. As mentioned above, the common definition of a tariff peak is a tariff that exceeds three times the national average. For Indonesia, this threshold is 30 percent.

22. The figure on export revenues is based on UN Comtrade data, available at unstats.un.org, and the World Integrated Trade Solution database at www.worldbank.org. The tariff figure is based on the United States International Trade Commission (USITC) tariff database.

23. Employment generation reaches beyond manufacturing to supplier industries. Lower US tariffs on Indonesian footwear and other rubber-based exports may benefit Indonesian rural producers of natural rubber.

Table 3.11 Distribution of tariffs on manufactures in the US and Indonesian schedules

	United States			Indonesia		
Average 8-digit HS level tariff range	Percent of 8-digit HS lines	Share of imports from Indonesia[b]	Average applied MFN	Percent of 8-digit HS lines	Share of imports from the United States[b]	Average applied MFN
Duty free	72.0	50.4	0.0	20.5	43.1	0.0
0 < tariff ≤ 5 percent	10.6	8.4	3.3	33.0	29.4	5.0
5 percent < tariff ≤ 10 percent	9.3	13.5	7.2	17.9	16.2	10.0
10 percent < tariff ≤ 15 percent	5.6	14.4	13.0	16.6	3.8	15.0
15 percent < tariff ≤ 30 percent	2.3	12.8	20.5	7.0	4.1	22.7
Tariff > 30 percent	0.2	0.2	85.6	5.0	0.7	51.7
Total	100.0	100.0	3.2	100.0	100.0	10.1

a. Taking into account GSP facilities.
b. Calculated at 6-digit HS level.

Note: Include only products classified between SITC 51 and 89 (see Appendix), excluding specific tariffs.

Sources: USITC Interactive Tariff and Trade Dataweb, dataweb.usitc.org; UNCTAD Trade Analysis and Information System (TRAINS), www.unctad.org.

Nontariff Measures

As tariffs decline worldwide, NTMs that were given little notice in the 1970s and 1980s are now getting more attention.[24] The most frequently used NTMs are antidumping (AD) duties and countervailing duties (CVDs), quantitative restrictions, and technical standards (UNCTAD 2005a). AD duties and CVDs are often seen as variants of safeguard policies, invoked when imports are thought to injure domestic producers. Quantitative restrictions are mainly used on agricultural imports and exports, often inconsistently with World Trade Organization (WTO) obligations. Many developing countries enforce import-licensing systems to curb imports. More sophisticated NTMs take the form of technical standards with latent protectionist overtones, amounting to technical barriers to trade (TBTs). Technical standards are typically in the form of certification, labeling, and testing. One report suggested that testing and certification by industrial countries had doubled in the last decade (UNCTAD 2005b). Whatever the increase, many developing countries complain about these practices.[25]

Both the United States and Indonesia subject manufactured imports to NTMs, but the measures are different in the two countries. Most NTMs in the United States are technical measures and, to a lesser extent, AD measures (table 3.12). Indonesia extensively uses import licenses and import bans for sensitive products as quantity controls. Indonesia still grants monopoly rights to certain state trading enterprises for import-sensitive manufactured commodities, such as arms, munitions, and dangerous chemical substances. Alarmed by the upsurge in imports of used products in the years after the economic crisis, Indonesia has also prohibited imports of certain secondhand manufactured goods.

Antidumping and Countervailing Duties

Both the United States and Indonesia use antidumping and countervailing duties to protect domestic producers. Among WTO members, the United States has initiated the highest number of AD and CVD cases against foreign

24. UNCTAD (2005a) classifies NTMs into core and noncore measures. Included in core NTMs are the following measures: (i) price controls, including antidumping measures and countervailing duties; (ii) financial measures, such as payment regulation and multiple exchange rates; (iii) quantity restrictions, such as quotas, prohibitions, and export restraints; and (iv) monopolistic practices, such as sole importation by state trading enterprises. Noncore NTMs are relatively more sophisticated: (vi) licensing; (vii) control of sensitive or prohibitive products; and (viii) technical standards, also known as TBTs. See Annex I of UNCTAD (2005a) for a detailed list of NTMs.

25. Although testing and certification are usually intended to protect household consumers and industrial users from poor-quality goods, the NTMs have been used to restrain imports and favor domestic suppliers. High value-added products may be especially prone to protectionist testing and certification.

Table 3.12 Distribution of nontariff measures in manufactured commodities (percent)

HS section	Product description	United States					Indonesia				
		Price control[a]	Quantity control[b]	Monopolistic measures	Technical measures	Total	Price control[a]	Quantity control[b]	Monopolistic measures[c]	Technical measures	Total
VI	Products of chemicals and allied industries	9	24	0	67	100	3	48	6	42	100
VII	Plastics and rubber and articles thereof	100	0	0	0	100	n.r.	n.r.	n.r.	n.r.	n.r.
VIII	Raw hides and skins, leather, fur skins and articles thereof, travel goods, handbags and similar container	0	49	0	51	100	0	100	0	0	100
IX	Wood and cork and articles thereof	0	100	0	0	100	0	100	0	0	100
X	Pulp of wood; paper and paperboard and articles thereof	n.r.	n.r.	n.r.	n.r.	n.r.	0	50	0	50	100
XI	Textiles and textile articles	2	13	0	85	100	0	80	0	20	100
XII	Footwear, headgear, feathers, umbrellas, walking sticks, human hair, and parts thereof	0	69	0	31	100	n.r.	n.r.	n.r.	n.r.	n.r.
XIII	Articles of stone, cement, asbestos; ceramic products; glass and glassware	33	0	0	67	100	n.r.	n.r.	n.r.	n.r.	n.r.
XIV	Pearls, precious or semiprecious stones and metals, and articles thereof	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.

XV	Base metals and articles of base metal	98	0	0	1	100	36	59	0	6	100
XVI	Machinery and mechanical appliances; electrical equipment; parts thereof	44	1	0	55	100	0	68	10	23	100
XVII	Vehicles, aircraft, vessels and other transport equipment	8	0	0	92	100	0	97	3	0	100
XVIII	Optical, photo and cinematographic, measuring, precision, medical, musical instruments and apparatus and parts thereof	29	18	0	54	100	0	13	13	74	100
XIX	Arms and ammunition; parts and accessories	0	100	0	0	100	n.r.	n.r.	n.r.	n.r.	n.r.
XX	Miscellaneous manufactured articles	2	13	0	84	100	n.r.	n.r.	n.r.	n.r.	n.r.
XXI	Works of art and antiques	0	100	0	0	100	n.r.	n.r.	n.r.	n.r.	n.r.
XXII	Special classification provisions, temporary legislation or modifications	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
	Total manufactures	20	16	0	64	100	12	57	5	26	100

n.r. = no nontariff measure reported

a. Mostly antidumping measures.
b. Mostly regulation on sensitive products (license requirement, import quotas, and prohibition).
c. Import only through state trading administration or agencies.

Note: Calculated from UNCTAD Trade Analysis and Information System (TRAINS).

Table 3.13 US-Indonesia antidumping and countervailing duties

Product affected	Type of measure	Month and year imposed
US measures against Indonesian manufacturers		
Plates, cups, and kitchen wares of plastics	Antidumping	February 1997
Carbon and certain alloy steel wire rod	Antidumping	October 2002
Certain hot-rolled carbon steel flat products	Antidumping	December 2001
Cut-to-length carbon quality steel plate	Antidumping	February 2000
Steel concrete reinforcing bars	Antidumping	September 2001
Certain cut-to-length carbon quality steel	Countervailing	February 2000
Certain hot-rolled carbon steel flat products	Countervailing	December 2001
Indonesian measures against US manufacturers		
Paracetamol (acetaminophen)	Antidumping	October 2005

Source: World Trade Organization, www.wto.org.

exporters. Between 1995 and 2005, the United States launched 366 AD petitions and 72 CVD petitions.[26] The administrative procedures for US manufacturers to file petitions, and for US authorities to investigate the allegations, are well established and based on multiple AD and CVD laws and regulations stretching back to the early years of the 20th century.[27] Indonesian procedures for filing AD petitions were only established in 1996, simultaneous with the creation of Indonesia's AD committee, Komite Antidumping Indonesia (KADI). Hence, Indonesia's experience with AD issues is rather recent, and only 60 AD petitions were filed between 1995 and 2005.

Trade remedy petitions are concentrated in particular industries. In recent years, between 60 and 70 percent of US AD and CVD cases and half of the AD measures filed by Indonesian firms involved base metal products (HS section XV).[28] Table 3.13 lists the manufactured imports that face AD and CVD measures in both countries. Among US imports from Indonesia,

26. For WTO statistics on AD cases, see "AD Initiations: by Reporting Member from 01/01/95 to 30/06/06," www.wto.org (accessed on December 5, 2006). For WTO statistics on countervailing duties, see "CV Initiations: by Reporting Member from 01/01/95 to 30/06/06," www.wto.org (accessed on December 5, 2006).

27. Stripped to its essence, the United States imposes AD or CVD duties—sometimes as high as 100 percent—on imported goods when the US Department of Commerce finds that the goods are being sold in the United States at dumped or subsidized prices and the USITC determines that the imports are injuring domestic producers of similar products.

28. See the WTO, "AD Sectoral: Distribution of Measures by Reporting Member from 01/01/95 to 30/06/06," www.wto.org (accessed on December 5, 2006).

almost all AD measures are imposed against basic steel products. US firms also initiated AD investigations against imports of paper and chemicals from Indonesia. Meanwhile, the only import from the United States that faces Indonesia dumping duties is paracetamol (acetaminophen), a pharmaceutical product that reduces fever and pain, well known in the United States as Tylenol.

It is no accident that US base-metal firms, most notably steel producers, have sought AD and CVD relief against imports. US steel firms have long struggled to compete against cheaper products from East Asia and more recently Eastern Europe.[29] Since 2004, strong world demand for steel and other base metals coupled with substantial restructuring of the US industry has curtailed the demand for AD and CVD relief. The potential adverse review of US AD and CVD measures by the WTO has also reduced somewhat the frequency of their use.[30]

Indonesia has initiated AD and CVD actions much less frequently than has the United States, but such measures could become more common in the future. After years of uncertainty following the 1997 Asian financial crisis, most Indonesian manufacturers are still struggling to improve their performance (World Bank 2004).[31] The sharp rise in domestic fuel prices, a possible increase in the industrial electricity tariff, and high interest rates all burden Indonesian manufacturers who must compete with Chinese and Vietnamese firms. These difficulties might induce Indonesian firms to use AD and CVD measures more frequently in the future. Even so, US products are not likely to become a significant target.

Thus far, the United States has not applied AD measures against T&C imports. However, the end of the MFA and the consequent upsurge of imports of inexpensive clothing—from China and Vietnam in particular—might prompt US firms to seek protection through AD measures. Pressure in this direction is already apparent, as some US senators backed a proposal to review T&C imports from certain countries every six months to collect evidence that could lead to AD cases.[32]

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29. US advocates for AD and CVD measures often rally behind the "home sanctuary" argument. They claim that protection of the home steel market by foreign governments enables foreign producers to earn high profits on domestic sales while sustaining losses on foreign sales (see, e.g., Mastel and Szamosszegi 1999).

30. A study by Bruce Bloningen and Chad Bown (2001) found that the WTO dispute settlement mechanism, in which foreign countries can challenge AD cases, tends to deter the imposition of AD measures.

31. One study has suggested that supply-side constraints—access to finance, infrastructure bottlenecks, labor laws, and regulatory uncertainty—significantly erode the performance of Indonesian manufacturers (World Bank 2004).

32. In particular, Senators Elizabeth Dole (R-NC) and Lindsey Graham (R-SC) supported a six-month review on T&C imports from Vietnam.

Import Licensing

Indonesia controls the importation of certain commodities by requiring imports only as industrial inputs. Moreover, importers must obtain a special identification number, known as the Angka Pengenal Importir Umum (API-U).[33]

In addition to requiring the API-U, in March 2002, the ministry of industry and trade issued a decree requiring importers of certain product categories to apply for a special importer identification code number (Nomor Pengenal Importir Khusus [NPIK]). The ministry explained that the NPIK can help reduce smuggling and maintain better control over dangerous substances, such as chlorofluorocarbons (CFCs), nitrocellulose, and other chemical compounds that can be used to manufacture explosives. However, the NPIK is also required for imports of some machinery and equipment, such as pumps for liquids (HS 8413), vacuum pumps (HS 8414), air conditioning units (HS 8415), electrical household appliances (HS 8509), and telecommunications equipment (HS 8515). Indonesia also uses the NPIK system to control imports of counterfeited commodities, such as pharmaceuticals, and equipment used to make counterfeits, such as optical discs.[34]

Wider application of the API and NPIK systems remains risky, as the licenses could become vehicles for protection. The lack of transparency in processing NPIK applications is also concerning. Industrial lobbyists might urge the government to require API or NPIK licenses to limit fast-growing imports and the API system could be misused to curtail competition between Indonesian firms.[35] Currently, only firms with production facilities that use imported inputs, such as garments or furniture, may obtain import licenses. Such practices obviously hinder access for foreign products and are potential barriers for fledgling firms

Technical Barriers to Trade

The United States has an extensive range of systems for establishing standards, both voluntary and mandatory (see table 3.14 for information on the number of US and Indonesian technical barriers on trade in manu-

33. Licenses are designated as API-U for established importers and as API-P for producers that were first introduced as importers by the Ministry of Trade and Industry in 1999 (Ministerial Decree No. 555/MPP/Kep/10/1999).

34. Indonesia has been listed on the US Section 301 Priority Watch List since 2003. The United States considers the current Indonesian protections of intellectual property rights (IPRs) to be inadequate and continues to press Indonesian authorities to modernize the IPR enforcement regime.

35. In the past, certain API-P licenses were issued only to state trading firms. That is no longer the case.

Table 3.14 Technical measures of manufactures

	United States		Indonesia	
Type	**Number**	**Share**	**Number**	**Share**
Technical regulations			4	5
Product characteristics	1,288	56	26	35
Marking			5	7
Labelling	792	34	7	9
Packaging			5	7
Testing	233	10	16	21
Information requirements			8	11
Preshipment inspections			4	5
Total	2,313	100	75	100

Note: Calculated from UNCTAD Trade Analysis and Information System (TRAINS), www.unctad.org.

factures).[36] The systems deal with the technical performance of products, their health and safety attributes, and means of testing, and they otherwise ensure compliance with advertised characteristics, product labeling, and packaging. Industry associations develop voluntary standards, sometimes drawing input from academic experts.[37] The federal government or state agencies develop mandatory standards, typically devised to protect human safety or the environment, or to ensure performance characteristics in products acquired by the Department of Defense and related national-security agencies.[38] Foreign products that deviate from voluntary standards may be penalized in the market, and foreign products that deviate from mandatory standards are prohibited from distribution. Industry bodies that have developed voluntary standards include the American Society of Mechanical Engineers (ASME) for pressure valves, among other mechanical items; the Society of Automobile Engineers (SAE) for automotive and transport equipment; and the Institute of Electrical and Electronic Engineers (IEEE) for a wide variety of components. Certain federal agencies not only establish mandatory standards but also

36. The WTO acknowledges the right of countries to establish measures that protect the environment and human health. General rules regarding such measures are set forth in the WTO Agreement on Technical Barriers to Trade.

37. A classic example is the dimensions of "letter" paper used in the United States, which differs from the A-4 standard used elsewhere in the world.

38. The National Institute of Standards and Technology (NIST), a nonregulatory body under the US Department of Commerce, aims to promote the use of standards, but it does not devise mandatory standards.

investigate whether products meet their claimed standards and characteristics. The Federal Communication Commission (FCC) certifies private testing labs, which in turn ensure that electromagnetic emissions from radio communication equipment fall within an acceptable range. The Environmental Protection Agency (EPA) establishes maximum emission levels for various pollutants, such as mercury and sulfur dioxide.

Indonesia is quickly adapting to the standards game. Product standards have long been used in Indonesia, but only in 1997 did the government establish an agency for national standards, the Badan Standardisasi Nasional (BSN) and mandate it to harmonize and promote national standards. A supplementary law giving a legal framework to the BSN was enacted in 2000. Since its inception, the BSN has been pragmatic in aligning Indonesian product standards with international norms: The general approach is to adopt widely accepted international product standards, if they exist, before creating a unique national standard. To date, the BSN has developed 72 mandatory standards for manufactured goods.[39]

Indonesia is also establishing mutual recognition agreements (MRAs) on conformity assessment. The Indonesian national accreditation agency, Komite Akreditasi Nasional (KAN), has been accepted as a member of the International Laboratory Accreditation Cooperation (ILAC), an organization that promotes the mutual acceptance of tests and calibration results from accredited laboratories among the 48 ILAC members.[40] In addition, KAN signed the Pacific Accreditation Cooperation MRA in August 2000, the Asia Pacific Laboratory Accreditation Cooperation MRA in May 2001, and the International Accreditation Forum MRA in November 2001. Membership in these various groups means that Indonesian laboratory results are accepted in several countries. The MRA between Indonesia and Singapore enables Indonesian exports of telecommunications equipment to be tested and certified by an Indonesian laboratory and certification agency. However, Indonesia has accepted test reports but not certification documents from the conformity assessment bodies in other Asia Pacific Economic Cooperation (APEC) members.[41]

The MRAs related to products within the ASEAN Free Trade Area (AFTA) cover a wide range of items, such as cosmetics, electronics, pharmaceuticals, and telecommunication equipment. Except for the MRA under AFTA, however, other Indonesian MRAs only cover narrowly defined items, such as telecommunications equipment (e.g., the APEC MRA).

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39. See Badan Standardisasi Nasional, "SNI Wajib," www.bsn.go.id (accessed on December 5, 2006).

40. Several US associations of laboratories and chemists are also ILAC members. For more information, see www.ilac.org (accessed on July 1, 2006).

41. Acceptance of test results is a level of mutual recognition characterized as phase 1 in the APEC MRA.

The labeling of both contents and production methods is a matter of growing concern. Some consumers in developed countries want to know the details of production process methods (PPMs), particularly when human and animal rights or environmental issues are perceived to be at stake. Sweatshop conditions, animal testing, fair trade, and labels for environmental standards are all matters of concern. Similarly, Indonesian Muslims, who constitute of 85 percent of the Indonesian population, demand halal certification, ensuring that cosmetics and other chemicals do not contain pork products. If the US-Indonesia FTA addresses labeling and kindred certification beyond a few specific barriers that are perceived to be discriminatory and trade distorting, it would break new ground. Many advocates believe that such issues should be addressed in a regional or multilateral context such as APEC or the WTO rather than a bilateral FTA.

Rules of Origin

Rules of origin (ROOs) determine which goods are eligible for preferential tariff rates in a FTA.[42] In general, they dictate the minimum processing that must be done domestically for a product to qualify for preferential access to the market of an FTA partner. Because many manufactured products, from chemicals and footwear to electronics and machinery, extensively rely on imported intermediate inputs, defining the applicable ROOs is a crucial part of any FTA negotiation.

Several possible criteria can be used to determine eligibility under ROOs; one of the oldest is known as commodity transformation, or tariff shift. This criterion requires that material from a nonparty country must be processed to a sufficient degree that the final commodity is substantially different from the originating material, usually indicated by a change in tariff heading between the input and the output. Another common criterion is a threshold of domestic value added as a percentage of the selling price. Refining the value added criterion may exclude profits and overhead from eligible components of value added. Regional trade agreements (RTAs) and FTAs may permit a certain degree of cumulation, allowing imported materials from another country or group of countries—usually different FTA partners—to be used and still qualify for a preferential tariff.

Restrictive ROOs in an FTA can erode the FTA's potential benefits. First, the cost associated with certification processes and inspection times can negate the margin of preference that an FTA offers. Importers might opt to pay an MFN tariff instead of spending time on paperwork. Second,

42. Rules of origin also apply in the GSP system. In order for a GSP-eligible commodity to obtain a zero tariff, the origin rule dictates that: (i) the commodity is wholly the growth, product, or manufacture of a beneficiary country; and (ii) sum of cost of materials produced plus the direct costs of processing equal at least 35 percent of the appraised value of the article at the time of entry into the United States.

restrictive ROOs can increase the cost of supplying finished goods to the FTA partner by requiring the use of FTA inputs rather than the cheapest inputs from worldwide sources.[43]

The ROOs in US FTAs vary according to the partner country (see table 3.15). The US-Jordan and US-Israel FTAs have less complicated ROOs than does the US-Singapore FTA, but in practice, the US-Singapore rules are more liberal. The US-Singapore FTA requires either a tariff shift or regional value content greater than 45 percent.[44] It also introduces a high de minimis provision and, more important, an integrated source initiative (ISI) for some manufactured products. The de minimis provision allows Singaporean manufactures to enter the United States free of tariffs, provided that the value of the imported material does not exceed 10 percent of the product's value.[45] The ISI simplifies customs procedures for imports of some manufactured items to obtain duty-free entry, eliminating requirements to meet ROOs shipped between Singapore and the United States for information technology products and medical equipment.

Negotiating ROOs in a US-Indonesia FTA will be challenging. Questions about Indonesian authorities' abilities to prevent transshipments might prompt the United States to insist on tough ROOs, similar to those proposed for Thailand. The United States could also be concerned about a potential surge of clothing imports from Indonesia, transshipped from China or produced using a large quantity of imported yarns or fabrics. The fabric or yarn-forward rule adopted in other US FTAs can cause problems for Indonesian clothing producers that rely on imported materials.

For both clothing and other manufactured goods, Indonesia might prefer more flexible ROOs because it depends on inputs from East Asia. Table 3.16 provides tentative evidence on how much Indonesia uses intermediate goods produced in the region. In 2004 Indonesia imported almost 33 percent of its cotton (HS 5201 to 5203) from the United States, but most of its cotton yarns from East Asia. For machinery, the share of parts and components imported from East Asian countries increased from 68 percent in 1994 to 74 percent in 2004.[46] With this pattern of production, Indonesia would prefer ROOs that permit a degree of regional cumulation. The chances are very small of negotiating a diagonal cumulation rule like that used by European countries to link their FTAs with third countries because the

43. For a survey on the effects of ROOs, see Krishna (2005).

44. The 45-percent rule is contained in an accounting framework known as the build-down calculation. The US-Singapore FTA also requires a build-up calculation, in which the value of goods originating from the FTA country must exceed 35 percent of the regional value content.

45. This provision applies, provided that the value of imported (nonoriginating) materials is included in the total value of nonoriginating materials for any applicable regional-value content requirement.

46. See Ando and Kimura (2003) for the classification of parts and components in machinery.

Table 3.15 General overview on rules of origin in selected US free trade agreements

Provision	GSP	NAFTA	US-Singapore	US-Australia
General rules of origin	Regional value content (RVC)	Wholly originating, wholly originating of materials, tariff shift, and/or regional value content	Wholly originating, wholly originating of materials, tariff shift, and/or regional value content, and integrated sourcing initiative (ISI)	Wholly originating, wholly originating of materials, tariff shift, and/or regional value content, and other qualifying method
Primary responsibility of compliance	Importer	Exporter	Importer	Importer
RVC calculation method	35 percent of direct processing cost	50 percent transaction value 60 percent net cost = (NC–VNM)/NC	35 percent built up =VOM/V 45 percent built down = (V–VNM)/V	35 percent built up = VOM/V 45 percent built down = (V–VNM)/V 50 percent net cost = (NC–VNM)/NC
Special rules for automotive goods	n.a.	Tracing requirement and net cost	No; RVC is 30 percent built up and 50 percent built down	Net cost for certain tariff items
Exception for certain manufactured goods	n.a.	No	Certain items included in integrated sourcing initiatives	No
Fiber, yarn, and fabric forward rule	No	Yes	Yes	Yes
De minimis (nontextile)	n.a.	7 percent by value	10 percent by value	10 percent by value
De minimis (textile)	n.a.	7 percent by weight	7 percent by weight	7 percent by weight

GSP = generalized system of preferences
n.a. = not available
NAFTA = North American Free Trade Agreement
NC = net cost of the good (total cost excluding costs of shipping, marketing, and promotion)
V = value of the good
VNM = value of nonoriginating materials
VOM = value of originating materials

Source: US Customs and Border Protection, Trade Agreement/Program Comparison, www.cbp.gov.

Table 3.16 Indonesia's source for selected intermediate goods, 1994 and 2004 (percent)

	Cotton[a]		Cotton yarn[b]		Cotton fabric[c]		Parts and components of machinery[d]	
Source	**1994**	**2004**	**1994**	**2004**	**1994**	**2004**	**1994**	**2004**
East Asia	12.5	1.4	41.1	45.3	95.3	86.6	64.6	74.1
ASEAN	0.6	0.1	5.1	0.2	6.2	3.2	6.6	17.5
China	10.8	0.8	3.9	18.6	9.5	55.8	1.8	8.2
Hong Kong	0.6	0.3	15.9	10.4	27.1	11.0	0.6	0.9
Japan	0.2	0.0	6.1	1.0	14.0	2.2	48.7	40.8
Korea	0.3	0.0	2.9	1.1	21.3	10.7	3.6	4.1
Taiwan	0.1	0.2	7.1	14.0	17.2	4.0	3.3	2.6
United States	35.1	32.5	0.0	0.1	1.0	0.5	11.0	8.0
European Union	4.4	1.0	0.6	1.3	1.8	1.3	19.4	12.5
Rest of world	48.1	65.0	58.3	53.4	1.9	11.7	5.0	5.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

a. HS 5201 to 5203.
b. HS 5205 to HS 5207.
c. HS 5208 to HS 5212.
d. Using a classification suggested by Ando and Kimura (2003).

Source: UN Comtrade database, unstats.un.org.

United States has not yet implemented a cumulation approach outside of North America. Nevertheless, in the FTA text, Indonesia should try to include a permissive level of automotive parts produced in other AFTA countries, a high de minimis rule for T&C, footwear, and other assembled goods, and an ISI akin to provisions in the US-Singapore FTA. Such ROOs would enable Indonesia to take advantage of its integration with economies in Southeast Asia.[47]

Comments on the CGE Results

Both the gravity model and the CGE simulation suggest that bilateral trade in manufactured goods can expand under a US-Indonesia FTA. As discussed in more detail in chapter 8, on average, US FTAs have increased

47. The rules of origin in AFTA require materials from ASEAN countries to comprise at least 40 percent of the product value. The AFTA rules of origin also recognize full cumulation, so that imported materials from other ASEAN members are counted as domestic materials.

bilateral trade in manufactured goods by 43 percent. The CGE model indicates that a US-Indonesia FTA could increase US exports of chemicals, textiles, machinery, and transport equipment, while Indonesian exports of T&C and footwear stand to gain the most.

The prediction that a US-Indonesia FTA will mostly benefit Indonesian T&C and footwear exports is not surprising. Due to its large pool of semiskilled workers, Indonesia has a comparative advantage in labor-intensive manufactured products, and a US-Indonesia FTA would likely provide the largest tariff cuts in T&C and footwear. The simulations also predict that commodities with capital-intensive production technology—including those that have already performed well, such as electronics—will gain less from a US-Indonesia FTA. A handful of electronics exporters from Indonesia already enjoy zero-rate tariffs under the US GSP system, and other electronics exporters pay only low tariffs under the MFN schedule, so the margin of preference in an FTA would be significantly less than it is for T&C or footwear. That said, the prediction that Indonesia's labor-intensive sectors can gain the most from a US-Indonesia FTA should be interpreted with some caution. Restrictive ROOs and technical barriers could erode the potential gains of an FTA, and problems on the Indonesian supply side, such as inflexible labor laws, bottlenecks in infrastructure, limited access to finance, and corruption in the customs service might constrain Indonesian manufacturers.

Recommendations

The pattern of bilateral trade in manufactures suggests that both countries can increase the flow of trade by dismantling trade barriers. Indonesia's exports of manufactures to the US market have so far been concentrated in a handful of commodities, mainly labor-intensive products and a few high technology items, such as video cameras. For Indonesia, a US-Indonesia FTA could increase exports from labor-intensive manufacturing industries, revive exports from the troubled footwear sector, and possibly provide an avenue for additional technology products with higher values added. The United States can benefit from increased access for US skill-intensive products, such as chemicals and capital goods, as well as better IPR protection for software and pharmaceutical products. Overall, the simulation results for a US-Indonesia FTA using the models presented in chapter 8 suggest a significant increase in bilateral trade, once an FTA is fully implemented.

After Japan and Singapore, the United States is the most important trade partner for Indonesia, and a US-Indonesia FTA can benefit both countries. However, negotiating the market access chapter of an FTA will be difficult for Indonesia. US producers of T&C, footwear, base metals, and automotive parts might question the outcome of a US-Indonesia FTA.

Mindful of these realities, we offer several recommendations for trade in manufactures.

- A US-Indonesia FTA will have to respect domestic sensitivities in both the United States and Indonesia but pledge to eliminate manufacturing tariffs within 10 years at the latest and immediately liberalize much of existing trade. All tariffs below 10 percent should be eliminated immediately, which would liberalize just above 70 percent of current trade by value.
- US negotiators should not aim for reciprocity in manufacturing tariff phaseouts but rather grant Indonesia a transition period of 8 to 10 years for truly sensitive items identified as tariff peaks and tariffs higher than 15 percent, such as motor vehicles, some plastics, and certain items of base metal. The CGE model suggests that the largest US export gains in dollar terms will not be concentrated in these sectors.[48]
- By contrast, Indonesian negotiators should work decisively to liberalize early areas of stronger US interest, chiefly chemicals and machinery as well as equipment and "other manufactures" (HS 90–94).
- Negotiations on textiles and clothing should be based on reciprocity. US market access should be conditioned on similar efforts by Indonesia, which also applies high tariffs and several NTMs. Ideally, Indonesia should be able to overcome domestic protective interests by advertising the large gains the FTA offers. Indonesian T&C producers should swallow the pill presented by the established US approach of promoting vertical integration between US textile firms and clothing producers in partner countries.[49] However, ROOs in the FTA should contain a high de minimis exception on par with that of the US-Singapore FTA. As Indonesian producers rely on imported man-made yarns and fabrics, the US-Indonesia FTA should provide wider room for maneuver through tariff preference levels (TPLs) than the US-Singapore FTA allows.[50]
- In all previous negotiations, including the Central American Free Trade Agreement–Dominican Republic (CAFTA-DR), the United States granted

48. The CGE model predicts significant percentage growth in US exports of base metals and motor vehicles. But because the gains start from a small base, they will be dominated in dollar terms by sectors such as chemicals, machinery, and equipment.

49. Integration is accomplished through restrictive ROOs that stimulate trade diversion and thus are regrettable from the perspective of free trade; however, the rules are necessary from the perspective of political economy.

50. TPLs allow a set quantity of products to qualify for preferential duty rates under the agreement, even if the goods are nonoriginating. TPLs were permitted in recent US FTAs for a transition period. However, neither the Australia FTA nor CAFTA-DR members other than Nicaragua had TPLs. NAFTA TPLs were granted on a permanent basis.

immediate tariff elimination for footwear imports and reserved 10-year phaseout periods for a short list of sensitive items. The same approach should be followed in US-Indonesia negotiations, and Indonesia should correspondingly eliminate its own tariffs on nearly all items.

- The countries should form a joint working group on standards and related matters. The working group should identify product labeling standards and certification requirements that hinder commerce and can be resolved through MRAs and harmonization. Finally, it should agree on steps to establish MRAs for conformity assessment.
- The United States and Indonesia should negotiate flexible ROOs for manufactured goods that are not sensitive. Allowing a certain level of regional cumulation for ASEAN members, a high de minimis exception, and an integrated outsourcing initiative reminiscent of the US-Singapore FTA could benefit both partners and the region as a whole.