Indonesia Steel Producers Against Import Liberalisation

Indonesia Domestic Steel Producers Raise Concerns

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Domestic basic steel producers have raised concerns over the government's plan to further liberalize steel imports as part of a concerted program to improve Indonesia's position in the World Bank's annual The Ease of Doing Business In- dex which now ranks Indonesia 91st out of about 185 countries.

"Even now with import restrictions still in place, imports already control about 55 to 60 percent of our annual steel consumption of around 12 million tons, while our own steel industry operates only at 40 percent of its capacity," says Hidayat Triseputro, the executive director of the Indonesian Iron and Steel Industry Association.

Data at the trade ministry show Indonesia is now the world's third biggest net importer of steel and steel trade deficit last year exceeded US$6 billion, the sec- ond largest after the oil and gas trade deficits.
Hidayat expressed fear that further import liberalization would damage the national steel industry, which is still at an infant stage of development, because a good portion of the foreign steel entering the country did not meet the national quality standard (SNI).

But an inter-ministerial team at the office of the chief economics minister in charge of preparing technical details for the 16th deregulatory package still in- cludes basic steel among the commodities in the upcoming import liberalization measures.

The main factor that prompted the import liberalization initiative seems to be President Joko "Jokowi" Widodo's high ambition to upgrade Indonesia's ranking in the World Bank Ease of Doing Business Index to 40th in 2019.

One of the 10 parameters assessed in the World Bank survey is the efficiency of trading across borders and one of the key yardsticks to measure this efficiency is the length of dwelling time (the speed, simplicity and predictability of clear- ance) of containers at the seaport. Non-tariff measures (NTM) on imports and their administration have been found to slow down the clearance process of goods.

Trade Law No. 7/2014 allows NTMs to control imports with the objective of protecting national security, the public interest, the health of the people and the sustainability of fauna and flora and the environment.
The law specifically stipulates that the government can impose NTMs to con- trol imports of certain goods to protect domestic manufacturing industries from unfair foreign competition in order to enhance their growth and to safeguard the balance of payments at a healthy level and to protect

farmers from unfair compe- tition from foreign producers.

NTMs on imports are also deemed necessary because tariff barriers are no longer effective to control imports because more than 65 percent of Indonesian imports have been derived from its free trade agreement partners.
Yet more important is that Indonesia is the world's largest archipelago and its coastline is quite porous making it easy to smuggle contraband into the country or circumvent Indonesia's trade laws.

While most businesspeople assume that Indonesia will eventually have to li- belarize its market, they think this process should be gradual and selective, taking into account the development and competitiveness of domestic industries.

Moreover, according to trade ministry data, Indonesia's position is not so bad with regards to trade protectionism: NTMs in Indonesia cover only 272 of 5,229 harmonized sysem tariffs, as against 601 in the Philippines, 313 in Malaysia, 558 in India and 1,507 in South Korea.

But uncontrolled import flows could threaten the growth of domestic indus- tries, erode the market competitiveness of local industrial goods and adversely af- fect the business climate, making investors doubt the longterm certainty and sus- tainability of their businesses.

Domestic steel producers suspect that because a lot of foreign steel are often sold here at incredibly low prices, they might have entered the country illegally or circumvented import laws.

Steel executives also argue that in so far as the dwelling time at ports is con- cerned, the impact of NTMs on steel imports is rather negligible on the eficiency of goods flow because steel procurement or import is inherently a long process, ranging from two to four months from the time orders are made. Because pro- duction is mostly based on firm orders with specific technical and quality specifi- cations.

Hidayat argued that steel impor restrictions are still necessary because the national steel industry — with a total capacity of about 13 million tons, compared to 1.1 billion tons in China — is still in the infancy stage of development. More- over, steel is seen as the mother of most downstream manufacturing industries and is strategic to the economy.

No wonder most countries in Asia — which have suceeded in developing competitive manufacturing sectors like Japan, Souh Korea, Taiwan and China — started with the building of competitive basic steel industries.
Another reason why trade restructive measures are needed is that basic steel materials or products vary widely in quality, technical specifications and usage.

"Without restrictive measures that require thorough inspection, steel imports could easily circumvent our trading laws and quality specifications and inundate our market," Hidayat said.

Instead of liberalizing imports, the government should help support the de- velopment of the basic steel industry through compulsory local content require- ment, higher quality standards and tougher terms for new steel investment to en- sure efficient and non-polluting industries.

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