THE TRADE AGREEMENTS PROGRAM OF INDONESIA, 1950-1955

William C. Hollinger

Prior to 1949, Indonesia, being considered by the Dutch as still part of their empire, was included, when appropriate, in trade and payments agreements concluded by the Netherlands. In the provisions for transfer of sovereignty negotiated at the Round Table Conference in late 1949 it was stipulated that Indonesia would assume all of the rights and obligations negotiated for her in the then existing twenty-six joint trade and payments agreements (Cf. Article 21, paragraph 7, Draft Financial and Economic Agreement). In addition, there was a provision for continuation of a joint commercial policy with respect to third European countries pending further review (Cf. Article 21, paragraph 2, Draft Financial and Economic Agreement). 1/

At the second Ministers' Conference in November, 1950, it was agreed that Indonesia could thenceforth conclude separate trade agreements with third European countries.

Recognizing the strategic, almost dominant, role that foreign trade plays in her economy and in the government's fiscal resources, an ever-increasing amount of attention has been devoted by the Indonesian Government to the development of a system of trade and payments agreements with trading partners actual and potential.

The system of agreements produced by this extensive effort is described in Part I of this paper; Part II assesses the "design" of the agreements program and its impact upon trade to date.

1/ In this connection it should be noted that one of the major economic gains derived by the Dutch from the previous colonial position of Indonesia had been the channelling of a large entrepot trade through the home country, and that this trade was largely with the continental countries.

2/ Subsequent to the transfer of sovereignty it was agreed at the Round Table Conference that a "Union" should be established between the two sovereign governments of the Netherlands and Indonesia. One feature of the union was to be the holding of a Conference of Ministers from the two governments semi-annually. Only the first two of these conferences were ever held, the union itself never really materializing.
We start with Indonesia's main trading partners: The Netherlands, Singapore, the United States, and Japan.

The Netherlands: The Netherlands has continued to play an important role in Indonesia's foreign trade and the framework within which this trade has been conducted was laid down in its essentials in the economic clauses attached to the Round Table Agreement. In this sense, that agreement can be considered Indonesia's first trade or payments agreement. The relations deriving from the Round Table Agreement are largely of a payments nature.

Prior to the transfer of sovereignty the Netherlands maintained seven accounts through which payments between Indonesia and the Netherlands were cleared. These were:

1. The Commercial Account, through which most direct current merchandise payments were made. Excluded were Indonesian imports of capital goods and Indonesian goods in transit via the Netherlands. This account provided for a swing credit of 15 million guilders.

2. The Transit Account, covering payments on account of transit trade and, in addition, payments in settlement of trade with third countries covered by joint payments agreements.

3. The Treasury Account, through which were cleared inter-government service payments including bond floatation and redemption, interest, pensions, and material purchases.

4. The Financial Account, for the settlement of all service items for private account.

5. The Reconstruction Account, through which Indonesia purchased capital equipment not settled through the Commercial Account and through which new investments were made in Indonesia.

6. The Bretton Woods Account, through which Indonesian participation in the Dutch membership in the Fund and Bank was effected.

7. The United Kingdom Monetary Agreement Swing Margin Account, through which Indonesia was allocated a 50 percent participation in a swing credit of £10 million granted the Netherlands by the United Kingdom, i.e., a credit of 53 million guilders (16 million), upon which Indonesia could draw.

At the transfer of sovereignty, the Treasury Account debit balance of 927 million guilders, the Financial Account debit balance of...
706.5 million guilders, and as yet unbooked items for these accounts amounting to an Indonesian debit of 336.4 million guilders, were cancelled—a total reduction of 2 billion guilders. The Indonesian government, on the other hand, assumed the $40 million guilders debit balance of the Commercial Account, the $80 million guilders debit on Reconstruction Account, the $95.5 million guilders debit on Bretton Woods Account, and the credit extended to Indonesia under the United Kingdom agreement.

The balance on the Reconstruction Account was converted to a long term loan, part of a $280 million credit by the Netherlands, the remaining $200 million to be used to finance Indonesian deficits on Current Account first until July 1, 1951, later extended to December 31, 1951, by the Second Ministers' Conference in 1950.

The so-called "A" Accounts were established in their respective Central Banks to serve as the accounts of settlement for direct Dutch-Indonesian commercial and financial transactions, transit trade, and payments to third countries covered by payments agreements. The mechanics of operation of these accounts were spelled out in the Dutch-Indonesian Payments Agreement, April 1, 1950. A swing margin of $25,000,000 which in practice means a Dutch "line of credit" to Indonesia, is provided for in the "A" Account. The working balances held by Indonesian banks in the Netherlands are deducted from the balance in favor of the Netherlands, and in addition 80 percent of Indonesian tin ore and sheets in Holland or afloat, which have not been pre-financed by the United States, are also deducted from the balance in the Netherlands' favor. There is, on the other hand, an addition to Indonesia's debits in the "A" Account equivalent to 30 percent of the value of letters of credits opened in Holland by Indonesian principals but for purchases in third countries. These letters of credit are expressed in guilders, but the Dutch bank in turn opens a letter of credit in the currency in which final payment is to be made. This involves the Dutch bank in a forward position in foreign exchange to cover which she would normally buy "spot" the currency involved. The 30 percent debit to Indonesia is to compensate for this cover required by Indonesian use of Dutch banking facilities.

Finally, Indonesia has, within limits, the right to purchase foreign currencies from the Netherlands against payment of Dutch guilders.

At the second Ministers' Conference in late 1950 it was also agreed that while Indonesia could conclude separate trade agreements with European countries she could, if she so chose, continue to use the "A" Account as the mechanism of settlement with such third countries. In general she has so opted in her dealings with the countries of Western Europe. From this arrangement Indonesia derives a relationship with
the European Payments Union usually designated as an "associate membership." Indonesia is not obligated to fulfill the trade liberalization obligations of a member of the EPU, nor is she extended EPU credit facilities, but she can use the mutual transferability of EPU currencies, and her goods are accorded the liberalized treatment extended by one member of the EPU to the goods of another member.

Singapore: Singapore's trade with Indonesia is largely of an entrepot nature and is far more important with respect to Indonesian exports than imports. In addition, remilling and processing of Indonesian rubber has been a major economic activity in Singapore and Malaya. Since the relations between Indonesia and Singapore are largely commercial (in the sense that the latter is not a large final market for Indonesian exports or an original source of Indonesian imports), the explicit arrangements between them are limited to payments arrangements. The nature of the payments relations between the two countries is to a large degree determined by Singapore's membership in the Sterling Area and Indonesia's membership in the Netherlands Monetary Area. The Netherlands is a transferable account country. Thus, Indonesia, in the post-war period has had access to the transfer facilities of transferable sterling. In addition, Indonesia had two arrangements with Singapore pertaining to payments, both embodying revision of a 1948 agreement between the United Kingdom and the Netherlands. First, she is entitled to receive US dollars for transit trade through Singapore to the United States. This arrangement applies only to transit trade in Indonesian rubber, forest products, and spices, other Indonesian exports being excluded. The determination of the total amount of trade to be considered as "Indonesian exports through Singapore to the United States" is based upon the following calculation:

\[
\text{Quantum of Singapore exports to US} \times \frac{\text{Quantum of Singapore imports from Indonesia}}{\text{Quantum of total Singapore exports}}
\]

valued at the average monthly buying price in Singapore (Malaya), the calculation to be made monthly and applied separately to Singapore and to Malayan exports and separately to each quality of rubber, forest product, and spice imported from Indonesia.

The element of transferability provided by the EPU is of especial relevance to Indonesia as she typically has an active balance of trade with member countries taken together; with individual countries she has for some periods run deficits, e.g., Belgium.

We will refer to the double entity, "Singapore and Malaya," as simply Singapore.
This calculation establishes the "conversion rights" of Indonesia and these conversion rights can be accumulated and carried forward from one year to the next. The experience to date under this agreement is summarized in Table I.

Parenthetically, we might note that the appearance of "Registered Sterling" in Table I is an interesting commentary on the structure of Indonesia's payments. Indonesia characteristically does not have a "dollar shortage" in the sense of an adverse balance in her bilateral trade with the United States. She uses dollars earned in that trade to settle deficits with third countries and still maintains a substantial proportion of her monetary reserves in dollars. During 1954, the short-term rate in the London Money Market increasingly rose relative to the rate in New York. Responding to this "price development" Indonesian monetary authorities obtained a revision in their arrangement with Singapore whereby a portion of their conversion rights could be used to acquire "registered sterling," not US dollars, which were then lent short-term in London until needed by Indonesia to make payments.

The second arrangement is the result of an effort by the Indonesian Government to obtain access to banking facilities not available in Indonesia for small-holder producers of export crops. An exporter of these "native" products can open a "barter" account with the Indonesian Trade Commissioner in Singapore or Penang. 70% of the proceeds of these transit exports are credited to an Indonesian account with a bank in Singapore or Penang, the Indonesian exporter receiving a check in rupiahs converted at the official rate of exchange. The remaining 30% is made available to the exporter in Straits dollars and may be used to buy certain goods for his own use or resale. The Indonesian Government has obtained the cooperation of the exchange authorities in Singapore for this program.

Import transit trade through Singapore to Indonesia has always been far less important than exports. In addition, because of her exchange difficulties and in pursuit of direct trade, Indonesia has in recent years placed increasingly severe limitations on imports coming through Singapore. Representations made to Indonesia by the Singapore authorities in the hope of softening this curtailment of their trade have to date proved inconclusive.

And it might be added in an effort to come to terms with political reality. The barter arrangements under this agreement are limited to trade originating along the East and North East coast of Sumatra, areas in which the Central Government does not exercise completely effective control. (See the discussion of smuggling below). Thus, this arrangement to allow barter trade with Singapore is a variation on the rule, "If you can't lick 'em, join 'em."
**TABLE I**
Experience Under the Singapore Agreement, 1950-1954

<table>
<thead>
<tr>
<th>Year</th>
<th>Straits $</th>
<th>US $</th>
<th>Registered Sterling</th>
<th>Straits $</th>
<th>US $</th>
<th>Registered Sterling</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>149,720,000</td>
<td>49,172,400</td>
<td></td>
<td>92,915,000</td>
<td>30,463,900</td>
<td></td>
</tr>
<tr>
<td>1951</td>
<td>291,698,000</td>
<td>95,710,000</td>
<td></td>
<td>326,448,000</td>
<td>107,110,400</td>
<td></td>
</tr>
<tr>
<td>1952</td>
<td>110,926,000</td>
<td>36,459,400</td>
<td></td>
<td>75,436,000</td>
<td>24,743,000</td>
<td></td>
</tr>
<tr>
<td>1953</td>
<td>60,777,000</td>
<td>20,025,700</td>
<td></td>
<td>92,074,000</td>
<td>30,305,100</td>
<td></td>
</tr>
<tr>
<td>1954</td>
<td>55,007,000</td>
<td>8,299,600</td>
<td>3,500,422</td>
<td>68,561,000</td>
<td>22,609,400</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>668,128,000</td>
<td>209,667,100</td>
<td>3,500,422</td>
<td>665,016,000</td>
<td>215,231,800</td>
<td>1,122,843</td>
</tr>
</tbody>
</table>

1 Including Straits $ 17,177,000 (US $ 5,564,700) Conversion rights for 1948 and 1949.

2 Of these Conversion Rights an amount of Straits $ 20,289,000 (for the months August-December, 1954) were actually converted in May, 1955, into Registered & Sterling 2,377,579.
In practice, however, Singapore does derive a large measure of "relief" from this curtailment through extensive smuggling with Indonesia, not, of course, officially condoned by the Singapore authorities. Several factors combine to produce this high propensity to smuggle which has been a significant characteristic of Indonesia's post-war international trade. Traditional channels for Sumatran trade have always been principally with Singapore, and these have often been of an informal nature between individual traders on both sides, especially Chinese. Efforts to control or rechannel trade of this type would only be likely to convert it into smuggling. This becomes all the more likely when, as is the case in Indonesia today, a central government has failed to secure for itself effective control of all its territory. If the Government's writ is not readily accepted about matters in general, a business man is not likely to be concerned overmuch about export or import papers, the payment of customs duties or the intricacies of exchange control. The maintenance of an exchange rate that grossly overvalues the rupiah increases the profitability of smuggling. With the present rate it is far more profitable, for example, for a private business man to "add the value" of remilling his Sumatran crude rubber in Singapore rather than in Palembang. Finally, the system of Commonwealth preferences excludes several Indonesian products from such major markets as India unless they are in fact first smuggled into Singapore so that they can be relabeled as "of Commonwealth origin." This is currently the case with copra. The Indian tariff is 5% ad valorem for Commonwealth copra, 15% for non-Commonwealth, and this is a hurdle that Indonesian copra cannot profitably jump.

United States: With the United States Indonesia has no general payments or trade agreements. The only formal agreement is that for tin whereby the United States undertakes to purchase stipulated amounts (22,000 tons per year, or approximately 2/3 of Indonesia's production) at prices agreed upon in advance by the two parties. This tin is used with lower grade ore from Bolivia to feed the Texas City smelter. The United States further undertakes to use this tin for additions to strategic stockpiles, agreeing not to put any of it on the New York market, thus not only purchasing a substantial amount of Indonesia's tin, but doing it in such a way as to protect any other sales Indonesia may make on the New York market from adverse price effects by "sterilizing" this portion of world ore supply.

Japan: Indonesia's economic relations with Japan have always been important, and in recent years have become increasingly important, especially as a source of imports for Indonesia. In June, 1950, Indo-
nesia concluded a payments agreement with Japan, but the operation of this agreement soon broke down under the mounting pressure of Indonesian adverse balances. Negotiations initiated in November, 1951, and finally concluded in August, 1952, provided, in addition to arrangements for current trade and payments, a program for liquidation of this outstanding Indonesian debt.

The arrangements then established are so complicated and have been so little publicized that it is perhaps useful to describe them in some detail as a clinical example in bilateral economic arrangements.

By the time these negotiations took place, Indonesia had accumulated an adverse balance with Japan of $64,087,312.81. In addition, the trade agreement concluded during these mid-1952 negotiations scheduled an adverse balance of $15,000,000 for the year commencing July 1, 1952. (Scheduled Japanese exports $55,000,000; imports $40,000,000). The initial conditions of the new payments agreement were the past deficit and the new trade agreement. That agreement provided for a system of six accounts. Current trade is recorded in open accounts maintained by the respective central banks and settled on the thirtieth of June each year. If during the year Japan imports from Indonesia less than the $40,000,000 scheduled in the trade agreement, the difference between $40,000,000 and actual Japanese imports is deducted from the net balance in Japan's favor and this difference is transferred to "Special Account #2." The balance in "Special Account #2" is to be offset by "additional" Japanese imports from Indonesia within three months after the annual settlement of the open accounts. If Japan fails to make these additional imports, that portion of Indonesia's obligation is written off. From the revised net balance arrived at after the above deduction, an additional $20,000,000 is deducted at the time of the annual settlement. This amount is in the first instance payable on demand in US dollars within forty-five days after the annual settlement. However, an amount not less than $15,000,000 is to be settled in the form of multilateral transactions. In covering letters exchanged at the time of the agreement the principle was established that it is Japan (the creditor) who is responsible for organizing these triangular trade transactions! The mechanics are as follows: Indonesia owes Japan money for past trade and Indonesia possesses dollars over and above her requirements for direct trade with the United States. Instead of using these dollars to directly discharge her obligation to Japan, Japan arranges for the

---

1/ All monetary units in this description of Indonesian-Japanese payments arrangements are United States Dollars.

2/ What constitutes an "additional" import in the continuous flow of trade between the two countries posed an interesting definitional problem; it was decided that any imports from Indonesia in excess of $10,000,000 within the three month period would be considered to be "additional."
purchase of imports in a third country, payable in dollars. Indonesia makes the payment on behalf of Japan for these Japanese purchases, but charges to Japan a commission of not less than 8% for services rendered. If Japan does not materialize $15,000,000 of such transactions, this portion of Indonesia's obligations are also cancelled. The transactions under this provision are recorded in the "Japan Special Trade Account" opened in the books of the Bank Indonesia in the name of Japan. The final net balance remaining in the open accounts after the above two deductions is then transferred to "Special Account #1" which is to be settled in mutually acceptable currencies in annual installments on the last day of every six months within two years after the date of the annual settlement.

The adverse balance accumulated from trade prior to the conclusion of the August, 1952, agreement was to be retired in a three-fold program. $54,000,000 was to be placed in an "Indonesia-Japan Special Account A" to be retired in four installments: $10,000,000 on July 1, 1954; $15,000,000 on July 1, 1955; $15,000,000 on July 1, 1956; and $14,000,000 on July 1, 1957. $6,000,000 was placed in an "Indonesia-Japan Special Account B" for a purpose to be agreed upon after July, 1957. The balance above $60,000,000 was transferred to the new open accounts established by the agreement. Indonesia has, however, defaulted on the payments due on July 1, 1954 and July 1, 1955, and in addition had defaulted on the annual settlements of "Special Account #1." After the first defaults under this agreement Japan instituted fairly rigorous controls over exports to Indonesia with the result that current Indonesian-Japanese trade has recently been more or less in balance.

Trade and payments relations with Japan continue to be confused by the unresolved reparations question. It now seems beyond question that Indonesia has consciously cultivated the deficit as a "deposit" against an ultimate reparations settlement. That this has been a well-advised tactic is open to question. It has changed the tonality of the reparations discussion from one concerning a wronged Indonesia justly claiming fair compensation to one of what to do about Indonesia's failure to meet her legitimate current commercial obligations.

East Europe: With the state trading countries of Eastern Europe--Czechoslovakia, Poland, Hungary, Rumania, and Jugoslavia--Indonesia has concluded bilateral payments agreements usually providing for offsetting

---

2/Indonesia has still not ratified the peace treaty with Japan because of this question.
accounts in the two central banks, settlement in Sterling, and a "swing" margin. In addition, the Bank Indonesia has an inter-bank arrangement for clearing with the Deutsche Notenbank of the East Zone. Indonesia has, until now, shied away from entering into formal inter-governmental commercial relations with the East German Government because of possible complications this might cause in the extremely satisfactory and growing trade relations with West Germany. Recently a trade delegation from East Germany arrived in Indonesia uninvited and were referred by the Ministry of Economic Affairs to the private-Indonesian Chamber of Commerce, the Ministry declining to deal with them officially.

In addition to her trade and payments arrangements with the Netherlands, Japan, Singapore, the United States, and the East European Countries, Indonesia has concluded a series of more than twenty trade agreements with other countries. These agreements in general follow a fairly fixed format. The agreement proper usually consists of between five and seven articles stating:

a) the general desire of the two countries to promote trade, especially in those goods listed in appended lists of specified export products of the two countries;

b) that trade is subject to the general export regulations in force in the two countries;

c) that each country will receive most favored nation treatment;

d) that further consultations shall be held when necessary and in some cases establishing standing committees of consultation;

e) the effective dates of the agreements and method of extension.

Because of limitations placed by British authorities upon transfers of sterling on account of transactions with Hungary, the currency of account with that country was the Dutch guilder, the currency of settlement Swiss francs. With Jugoslavia settlement was in US dollars.

One recent measure to conserve Indonesia's foreign exchange must surely run afoul of this clause in the agreements. In order to economize on the stocking of spare parts (all purchased with foreign exchange), the Ministry of Communications has announced that henceforth it will be possible to import only certain makes of automobiles and motorcycles—the list of permissible brands released by the Ministry represents a severe reduction in the variety of cars and, necessarily, of the countries producing them.
f) that when applicable, the usual bunkering and harbor facilities will be made available to the shipping of both countries, but that in no case will the two countries be allowed to participate in the coastal shipping of the other country. 12/

In addition several of the agreements contain an article stating that both countries subscribe to the principle of multilateralism, and other miscellaneous articles. 13/

A protocol attached to each of the agreements sets forth the operative details and contains the schedules of commodities to be exported by the two countries. A "quota" is set for many, but not all, of the scheduled commodities. Most of the quotas are in terms of volume, occasionally in value terms. These quotas are in the nature of targets (or perhaps ceilings) and not firm trade programs, let alone purchase commitments.

12/ This restriction is necessary because of arrangements entered into by Indonesia in the General Shipping Agreement with the Netherlands.

13/ The agreement with China contains both an article stating that both parties subscribe to bilateralism and another article stating that both parties subscribe to multilateralism.
II

In developing a system of trade and payments arrangements a country, especially one anxious to husband its resources for economic development, has two distinguishable objectives. One is to increase the total availability of foreign exchange resources, and the second is to remove any blocks to the most efficient use of these resources that arise because of the inconvertibility of one or more of the currencies being earned. -- trade promotion on the one hand, and increased multilateralism on the other.

Taking the two objectives in reverse order, Indonesia is in a relatively favorable position with respect to convertibility of currencies earned. She has an active balance in US dollars, and the EPU currencies, taken as a group. With dollars there is no problem of convertibility. Indonesia's dollar position has been further improved by her success in obtaining dollars for dollar transit trade through Singapore, and for tin shipped via Holland. Throughout the entire postwar period, sterling earned by Indonesia has been transferable account sterling. Any "softness" of the European currencies has been largely eliminated by the Associate Membership in the EPU and the willingness of the Netherlands to buy and sell foreign currencies to and from Indonesia against guilders at the prevailing middle rate. The bilateral payments agreements with the East European countries have been quantitatively insignificant. In a recent study of the problem of convertibility for ECAFE countries Indonesia shows up as the "most convertible" (in the sense of currencies earned) ECAFE country—71% of her trade in 1953 being multilaterally compensated.

In the trade agreements proper, as distinct from the payments agreements, the major objective has been to increase the volume of

---


16/ Op. Cit; Table 2, Page 10.
Indonesian trade. In evaluating these efforts to build foreign trade through a system of trade agreements it is useful to distinguish between the interim use of tripartite agreements inherited from the pre-sovereignty period which were still the characteristic form of agreement in 1950, and the subsequent use of straightforward bilateral agreements. The tripartite agreements were in force when sovereignty was acquired and in the first few months after transfer the demands upon the available Indonesian administrative resources were such that the country was well advised to continue any existing arrangements not actually intolerable. These agreements had their origin in the late forties before an international economic system had been rebuilt and in general bilateral trade agreements were the order of the day. The Java Bank Report, 1949-1950 (at that time still reflecting the Dutch point of view) cited three advantages Indonesia derived from the tripartite agreements:

1) They strengthened Indonesia's bargaining position vis-a-vis the third country because the Netherlands and Indonesia together could offer a wider range of goods complementary to each other, to induce the concessions they wanted; and because competition between Indonesia and the Netherlands would be eliminated in the markets of the third country (this is relevant to Dutch reexports of Indonesian products which might undercut direct Indonesian offers).

2) Indonesia could continue to avail herself of Dutch commercial expertise and experience in transit trade (an expertise of which the Indonesians had strong psychological and political--and economic--motivations not to avail themselves).

3) Indonesia and the Netherlands did not separately have to achieve balance in their trade with the third country, which made for a slight increase in multilateralism.

In the period in which they originated, these agreements were undoubtedly mutually beneficial to both countries and probably tended towards increased international trade, but it is also true that the advantage lay more with the Netherlands whose weak exports of consumers goods were being combined with Indonesia's strong exports of industrial raw materials. In any event, the arrangement was rendered obsolete by the transfer of sovereignty, on the one hand, and the establishment of the EPU on the other, Indonesia participating in the benefits of the latter under the terms of the former.
The commercial objectives of Indonesia's efforts in building the system of bilateral trade agreements since 1950 seem to have been threefold: to expand Indonesian exports; to obtain the best terms for these exports; and to obtain the imports desired with the proceeds of the exports. On some occasions the trade missions seem to have devoted as much time to exploring possible new markets for Indonesian exports and possible new sources of imports as to the specific terms of negotiated agreements. The Indonesian negotiators have attempted to use their strong export items, when they had them, to bargain for desired imports. In pursuing these objectives, however, it is not clear that the Indonesian negotiators have always been successful in seeking out the best market in which to sell her products and the least expensive market in which to buy her imports. Nor does a proper concern with the import needs of the development plans seem to have been evidenced in drawing up the quotas of goods Indonesia will be willing to receive. While it is true that Indonesian negotiators have on occasion explicitly stated principles and objectives of negotiation which indicate an understanding of what is involved in the maximizing of commercial advantage, one nevertheless gets the impression that the conclusion of an agreement—any agreement—is considered a virtuous end in itself. The situation is further confused by the failure to date to define clearly the role and authority of the various government agencies concerned. Basic responsibility rests with the Ministry of Economic Affairs, but the Bank Indonesia, the Finance Ministry, and the economic section within the Ministry of Foreign Affairs, all play a role in the negotiations and furnish members of the missions. Even within the Ministry of Economic Affairs cooperation and coordination between the unit negotiating the agreement and those issuing export and import licenses has been slight.

However, possible adverse effects of poorly designed trade agreements have in practice probably been unimportant as the agreements themselves have been more in the nature of loose statements of intention and actual trade with many of the countries bears little relationship with the quotas set forth in the agreements. The main pragmatic effect of the agreements is that Indonesia, with both quantitative and qualitative controls over her foreign trade, undertakes to commit herself—but how firmly is not clear—to issue import licenses and make foreign exchange available "up to" the amounts specified in the quota for the other country's export commodity. The nature of the commitment when there is no quota specified is very unclear. Furthermore, Indonesia has had little scope for improving her terms of trade through bilateral bargaining. Most of her exports are homogeneous primary commodities traded on world markets, the prices of which Indonesia does not significantly influence. This is certainly true of tin and rubber. Petroleum is excluded from both the trade and payments agreements because of the foreign exchange arrangements between the Government and the oil companies. Indonesia's bar-
gaining position with respect to copra is greatly weakened by the preferential tariff treatment granted by the United States to Philippine copra, and by the Imperial Preference advantage granted Malayan copra by the United Kingdom and India. And tin, rubber, petroleum, and copra are the big four of Indonesia's exports.

One of the major motivations in the trade agreements program has been to multiply and diversify Indonesia's commercial contacts. As a newly independent state Indonesia has been sensitive about the degree to which her trade in the past has been handled on an entrepot basis by the former mother country and by Singapore, a second symbol of the former colonial status of Southeast Asia. The pure economics of eliminating the entrepot middleman is somewhat unclear. To the extent that he merely adds a middleman's profit it would appear that his elimination implies higher net prices for Indonesian exports and lower delivered prices for Indonesian imports. If, however, the entrepot mark-up represents payments for real services rendered, it then becomes a question of weighting the price advantage against the cost of furnishing comparable services. The entrepot trade is high-risk, and requires heavy working capital commitments in inventories. In imports, for example, this means that a Djakarta firm pays a higher price for an article from a Singapore supplier than if bought direct from the manufacturer in England or Germany. However, purchasing direct requires purchasing expertise within the Djakarta firm which might not exist. In addition, delivery is slower than from Singapore, requiring larger working capital committed to goods in transit, and working capital is scarce in Djakarta.

Perhaps more important, there has been a political motivation in the drive for diversification of trading partners. Indonesia has felt it inappropriate for a nation pursuing "an actively independent" foreign policy to have all of its commercial contacts with one "bloc". This desire to have some kind of "agreements" with countries from all blocs is most apparent in the agreement with China. This is the vaguest of the agreements with not even the usual schedule of commodities appended—these were added several months later. As a result of this combination of economic and political motives, most of the agreements have been with countries whose significance in Indonesia's trade has been slight, but this is as it should be when diversification is the object.

Whether attributable to her trade agreements or not, there has been a noticeable diversification of Indonesia's trade. As indicated in TABLE II, the share of the four leading trade partners in Indonesian trade declined.
### TABLE II

<table>
<thead>
<tr>
<th>Year</th>
<th>Indonesian Exports</th>
<th>Indonesian Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1949:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>519,673</td>
<td>361,287</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>234,393</td>
<td>441,981</td>
</tr>
<tr>
<td>Japan</td>
<td>33,534</td>
<td>112,228</td>
</tr>
<tr>
<td>Singapore</td>
<td>359,166</td>
<td>34,833</td>
</tr>
<tr>
<td>Total 4 countries</td>
<td>1,146,766</td>
<td>950,329</td>
</tr>
<tr>
<td>Total all countries</td>
<td>1,503,000</td>
<td>1,699,000</td>
</tr>
<tr>
<td>% 4 of Total</td>
<td>76.3%</td>
<td>55.9%</td>
</tr>
<tr>
<td>1954:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,882,491</td>
<td>750,335</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>1,635,634</td>
<td>1,034,873</td>
</tr>
<tr>
<td>Japan</td>
<td>571,132</td>
<td>1,559,027</td>
</tr>
<tr>
<td>Singapore</td>
<td>2,498,803</td>
<td>68,537</td>
</tr>
<tr>
<td>Total 4 countries</td>
<td>6,589,060</td>
<td>3,412,772</td>
</tr>
<tr>
<td>Total all countries</td>
<td>9,759,000</td>
<td>7,172,000</td>
</tr>
<tr>
<td>% 4 of Total</td>
<td>67.5%</td>
<td>47.5%</td>
</tr>
</tbody>
</table>

Comparing 1954 with 1949, their share in exports has decreased from 76.3% to 67.5% and the share in imports declined from 55.9% to 47.5%.

On the other hand, the share of West Germany, a country whose trade with Indonesia had undoubtedly been influenced by the trade agreement between the countries and by subsequent efforts to increase commercial contacts, has increased steadily since 1949.

### TABLE III

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports to Germany</th>
<th>Imports from Germany</th>
<th>Total Exports</th>
<th>Total Imports</th>
<th>% Exp.</th>
<th>% Imp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>32,581</td>
<td>28,515</td>
<td>1,503,000</td>
<td>1,699,000</td>
<td>2.2</td>
<td>1.8</td>
</tr>
<tr>
<td>1950</td>
<td>86,080</td>
<td>48,558</td>
<td>3,038,000</td>
<td>1,673,000</td>
<td>2.8</td>
<td>2.9</td>
</tr>
<tr>
<td>1951</td>
<td>148,970</td>
<td>183,388</td>
<td>4,908,000</td>
<td>3,318,000</td>
<td>3</td>
<td>5.5</td>
</tr>
<tr>
<td>1952</td>
<td>386,756</td>
<td>709,952</td>
<td>10,652,000</td>
<td>10,806,000</td>
<td>3.6</td>
<td>6.6</td>
</tr>
<tr>
<td>1953</td>
<td>445,534</td>
<td>568,690</td>
<td>9,343,000</td>
<td>8,584,000</td>
<td>4.8</td>
<td>6.6</td>
</tr>
<tr>
<td>1954</td>
<td>451,236</td>
<td>490,982</td>
<td>9,759,000</td>
<td>7,172,000</td>
<td>4.6</td>
<td>6.8</td>
</tr>
</tbody>
</table>


A trade promotion program is an investment with a long period of gestation, so final judgement must of necessity await the future development of Indonesian trade.

A word of caution is necessary about these statistics which illustrate the pitfalls involved in the use of customs figures in analysing the structure of international trade. The German statistics indicate the following figures for trade with Indonesia, recorded in Deutschmarks.
in millions (1 DM = Rp. 2.72):

<table>
<thead>
<tr>
<th></th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
<th>1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports to Germany</td>
<td>279</td>
<td>292</td>
<td>323</td>
<td>354</td>
</tr>
<tr>
<td>Imports to Germany</td>
<td>190</td>
<td>200</td>
<td>181</td>
<td>173</td>
</tr>
<tr>
<td>Indonesian export surplus</td>
<td>89</td>
<td>92</td>
<td>139</td>
<td>171</td>
</tr>
</tbody>
</table>

Note that the Indonesian figures indicate an import surplus for Indonesia while the German figures indicate an export surplus for Indonesia. Discussions with the foreign trade statistician in the Indonesian Central Bureau of Statistics suggest the following explanation for this discrepancy: It is almost always possible to ascertain with a high degree of certainty the country of origin of an import, through trade marks, shipping labels on the crates, etc. On the other hand, it is very difficult to be sure in what country a product being exported will finally end up. A good deal of Indonesian trade with Germany is trans-shipped through such non-German ports as Rotterdam. Thus the Indonesian Statistics probably record some exports to Germany as exports to the Netherlands, while the German statistics perhaps record some exports to Indonesia also as exports to the Netherlands. Perhaps the most accurate picture would be to use the import statistics from the two countries' figures. Be that as it may, both sets of figures substantiate the point made in the text that trade with Germany is becoming relatively more important to Indonesia.