A roundtable discussion on Indonesia was held at Georgetown University Law Center on March 31, 2000. In attendance were representatives of the World Bank, USAID, and the FTC, as well as representatives of four organizations that have received AID funding to implement Indonesia-related projects. The purpose of the meeting was to provide an opportunity to informally exchange views and information and to discuss areas of overlap and potential collaboration. A brief summary of the discussion follows. This informal summary has been prepared by Columbia University.

The Agenda for the Meeting was as follows:

I. Introductions
II. Briefing on Recent Developments in Indonesia
III. Project Descriptions and Updates
IV. Areas of Overlap and Potential Collaboration
V. Other Business
VI. Next Meeting

Following upon welcoming remarks by Professor Barry Carter of Georgetown University Law Center and a brief introduction by Professor Merit E. Janow of Columbia University, a representative of the World Bank reviewed the situation in Indonesia. This was followed by comments on recent developments by a member of the Columbia-CSIS research team.

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1 This document is not a verbatim transcript of the discussion but simply an informal summary of issues raised during the meeting.
A World Bank representative offered an overview of recent developments as well as some analysis of the underlying causes of the 1997 crisis. The lack of competition in the domestic Indonesian economy was cited as one of the key reasons for the crisis in the banking and corporate sectors. The devaluation of the Rupiah then led to the total collapse of the Indonesian economy. This lack of competition remains a serious problem. There are currently a number of initiatives underway to address this problem within Indonesia. Importantly, there is need to build market institutions in order to revive investment - which has almost completely collapsed. From the World Bank's perspective this is a *conditio sine qua non* to decrease the number of people living in poverty (more than 40 million). Economic conditions in Indonesia were not yet seen as stable and reforms not fully implemented.

With respect to competition policy, it appears that several different agencies are currently devoting resources and manpower to this policy area--e.g., the U.S., German, Japanese, Canadian and Australian governments, along with the Asian Development Bank. The USAID grant is the single most important contribution thus far. Other governmental efforts appear more narrowly focused--for example the GTZ (Germany) is working on competition policy and corporate governance, their efforts focus on small- and medium-sized companies and business development; the CIDA (Canada) is a relatively small effort focused on judicial reform. The ADB (Asian Development Bank) is also very active in the area of competition policy, but has a number of relevant programs in other areas as well.

The World Bank (WB) has a very large team in Indonesia --indeed it has the largest group of WB officials located in any single location outside of DC. Moreover, the Bank has a long tradition of working in and with Indonesia. The WB encourages other donors and governments to become even more active in Indonesia and would be pleased to play some role in coordinating or facilitating the exchange of information among different donor countries and projects.

With regard to competition policy specifically, the World Bank representatives emphasized the importance of support of the highest levels of government. At present, a list of possible candidates for the soon-to-be established Commission has been identified, but a final selection will be needed. Government officials at all relevant levels will need to develop an understanding of the importance of competition policy. So far, however, the commission has not been established and none of the key decisions have been taken. Competition policy needs to be part of a more comprehensive approach to economic policy making.
At this point, unfortunately, it does not appear that the new government has addressed the banking crisis decisively yet, and more generally, private sector development has not been a top priority. It appears that the government has been more centrally focused on political stabilization and democratic reform.

Survey of Recent Economic Developments by CSIS Representative

Two years after the crisis, the economy is beginning to turn around. There is general optimism concerning GDP growth in Indonesia, mainly thanks to expanding consumption and government spending. However, to sustain economic growth, investment activity has to pick up soon and decisively. Competition policy, as well as sound and transparent market institutions are crucial for encouraging investment activity. From this perspective it is important to create regulatory stability and to accelerate the institution-building process.

The President is now under pressure to focus on economic issues and reform. Indeed, the IMF disbursement has been delayed as one external means of trying to apply pressure on policy makers to better address domestic economic and institutional issues. In order to address the institutional weaknesses, the President created two new commissions, the second of which is part of the presidential office. This is comprised of economists and other experts.

The CSIS expert referenced and discussed six major areas of concern regarding current conditions in Indonesia, both short term and structural in nature:

- Decentralization – this is the number one concern
- Basic security – especially outside Jakarta
- Judicial reform – establishing greater credibility of the judiciary
- Corruption
- Delay of IMF disbursement
- Restructuring of the banking and corporate sectors (including IBRA itself)

With regard to competition policy, in light of these factors, an important question is: who will implement the competition law? How will such person(s) have any authority or legitimacy given the aforementioned concerns. As indicated, a list of potential commissioners has been submitted to parliament; however, many individuals are reluctant to accept such an assignment since the task is not well defined, there is no real working budget allocated to this purpose and the new commission will face many challenges. Another important question is: who is going to prioritize competition policy
given the many institutional and policy problems faced by the government. Competition policy is not the top priority for the government. In light of this, advantage should be taken of the opportunity to educate government officials about competition policy.

On the issue of investment, an important challenge facing Indonesia in the near term is the appropriate disposition of assets under the aegis of IBRA. Another challenge is the further liberalization of the investment regime.

In the area of trade policy, the decentralization of economic policy that appears to now be underway raises the possibility that new trade barriers might be introduced at the provincial level. Further, the substantial reorganization that is required may create renewed interest in the development of new industrial policies. Recently, for example, the Chamber of Commerce has suggested the need to introduce new R&D subsidies. These and other measures may be sought by business or other groups.

With regard to corporate governance, there has been little progress, although in March, the government came out with a wide-ranging list of proposals for a new corporate governance code.

**Project Summaries**

Participants from four organizations that have received USAID funding summarized their ongoing or recently concluded research and advisory activities related to Indonesia. These are referenced only briefly herein.

**Columbia University / CSIS Program**

The *CSIS-Columbia Program in Indonesian Economic Institution Building in a Global Economy* is an economic research and policy-oriented program. It is designed to provide policy-relevant, qualitative and quantitative analysis, and policy recommendations to facilitate the sound development of Indonesia’s economic reform agenda in the wake of the Asian financial crisis, the changes in political regime toward a more democratic one and global changes. The Program focuses on four areas of reform: next steps in liberalization of Indonesia's trade regime; creation of a positive investment environment; competition law and policy and corporate governance. In this sense, the Program differs from the other participants at the meeting, with the one major area of overlapping focus being competition policy. The Program will include a certain number of sectoral analyses. These sectoral studies will examine developments in a cross cutting fashion, bringing together these four different aspects of Indonesia's economy and regulatory framework. The Team is interdisciplinary, comprised of lawyers, economists, and political scientists. A full list of sectors has not been fully determined, as the team is assessing available data. However, it is expected that two
service sectors will be examined (e.g., financial services and telecommunications) because these areas have not been extensively studied in Indonesia, they are important for the future health of the Indonesian economy and it is expected that services will remain an important component of the next round of multilateral negotiations. Emphasis will be put on the linkages between the areas and the importance of properly sequencing policy reform. The Program will advocate a comprehensive approach to reform. For additional details on the CSIS-Columbia program see: http://www.columbia.edu/cu/csis.

IRIS

The IRIS representative explained that IRIS had a long and productive relationship working on AID projects over the years. The current PEG project focuses on decentralization in Indonesia and IRIS is working closely with Indonesian universities in order to build local capacities. IRIS has a local presence in Indonesia and IRIS representatives have undertaken a number of outreach activities including, recently, a ten-day workshop on question of decentralization. Altogether, 22 Indonesian Universities and LPDM were involved and government representatives were observers. A follow-up meeting is scheduled for May. Further steps will occur--e.g., a CD-ROM with various documents is forthcoming; video footage of workshop meeting is being put together and will be available soon.

The Georgetown University Law Center

The Georgetown University Law Center, together with the Center for Indonesian law and Policy Studies (Center) and the Partnership for Business Competition (PBC) is undertaking a major program entitled Helping Indonesia’s New Competition law and Highlighting its Links to Trade Law and Market Access. The purpose of the grant is to facilitate the implementation of Indonesia's new competition law and its underlying policies and to assist Indonesia's approach toward compliance with existing WTO commitments and Indonesia's position in new WTO negotiations. There are various activities associated with this collaboration including: a workshop for members of the Indonesian commission and staff; development of a core library; surveying major markets; developing a database; establishing a website; publishing English versions of Indonesia law materials; lectures, internships and a major US conference; among other activities. Several sectoral studies are anticipated, including in the flour milling and cement industries.

USAID

The USAID representative noted that AID is in the process of reviewing its Indonesia strategy. The issues of decentralization and the local capacity to implement policies have been a significant point of interest and attention.

Federal Trade Commission
The FTC has long had technical assistance programs on competition policy. The FTC representative described several dimensions of its international technical assistance to approximately 20 countries. The agency has not, however, been active in Asia. The range of activities undertaken by the FTC include: the dispatch of resident advisors (6 - 12 months on site), short term missions (tailored to client countries' specific needs) and large international conferences. Evaluations and trip reports resulting from these missions are filed with USAID. Availability of these reports is not clear. In principle, FTC is willing to share reports. FTC is also in a position to provide four complex hypothetical competition cases for training purposes; the cases may be adapted and translated into countries' specific circumstances and language. FTC has also organized workshops/seminars as part of their international activities.

Main Points Raised During the Discussion Period

The following identifies some of the major points that surfaced during the discussion period.

- Importance of listening to the recipients of technical assistance regarding their priorities and concerns.

- Framing and considering issues in such a way to ensure that they are not perceived to be approaches to economic liberalization designed to benefit foreign firms or trading partners.

- Importance of developing good working relations between Indonesian policy makers, especially in the area of competition policy, and their sister agencies--e.g., Japan, Germany, Canada, Australia and the United States.

- Sectoral/Case Studies: Several participants commented on the difficulty and expense associated with developing solid sectoral studies. The shortage of local researchers and data often meant that the same basic data was being re-worked. Accordingly, expectation about sectoral studies may need to be modified.

- Identification of early steps in the activities of the new competition agency. There was extensive discussion about what should be the early priorities of a new competition agency. Several different aspects were emphasized: the importance of developing transparent regulations; keeping the agenda simple. One participant stressed that there was no single model for good competition law and policy and hence approaches needed to be mindful of local conditions and choices. There was some discussion of sequencing of priorities in competition policy and its enforcement. In thinking about the range of problems that a new agency will encounter, it was noted that in many countries government entities were engaged in anticompetitive conduct, which was a particularly difficult issue for a new agency to tackle.

- Uncertainty was expressed as to who will finance investigations by the competition agency. It was also recognized that short-term expectations for the agency should be lowered, as it will take some time for the first case to be brought to the commission’s attention.
On the issue of staffing, it was noted that in some jurisdictions competition commissioners or staff were not necessarily lawyers or economists or trained in competition law or policy. For example, competition commissioners were experts in business or marketing. Sometimes this can be an important advantage in "getting the word out" and being an effective communicator about the work of the Commission. With respect to mergers, one expert noted that it was important to set thresholds to a level that would prove manageable to the new agency.

Some participants expressed concern that the competition law, if applied in a discriminatory fashion, could be used to disadvantage certain ethnic groups. And, more generally, such laws always have the risk of abuse or misuse. There was some discussion of alternative ways of responding to such problems. As a general approach, most participants stressed the importance of disclosure and transparency, as well as the importance of applying the new competition law in rational economic terms.

Need to address government policy and institutional arrangements that are root of most competition issues in Indonesia.

Need to deal with mergers carefully in the wake of restructuring as firms will often have to merge as a means to survive.

The participants discussed a variety of steps that could be taken individually and collectively to share information and approaches to avoid duplication, build on synergies and minimize the circumstances where Indonesian policy makers were obtaining inconsistent advice.

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