

TRADE AND DEBT INTERLINKAGES

What Are the Real Problems in Indonesia?

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The Issue

The external debt burden resulted from foreign borrowing, ideally driven by developing, especially the low-income countries' desire to develop their economies. The accumulation of foreign debt is a common phenomenon among developing countries at the stage of economic development where domestic savings are low, current account (CA) deficits are high and capital imports are necessary to augment domestic resources.

In the second half of the 1990s, policymakers and citizens around the world have been increasingly concerned that high external indebtedness in many developing countries is limiting their economic growth and development. Accumulated external debt has an impact on their capacity to reap the benefits of their participation in the multilateral trading system. Pattillo, Poirson, and Ricci (2002)¹ found empirical support for a nonlinear impact of foreign debt on economic growth: at low levels, debt has positive effects on economic growth; but above particular thresholds or turning points, additional debt begins to have a negative impact on growth (*the debt Laffer curve*). This type of analysis appears very relevant for current policy debates on assessing, for example, external debt sustainability in developing countries.

Consistent with their previous study mentioned above, in their recent study, Pattillo, Poirson, and Ricci (2004)² show that the impact of external debt on economic growth is very different at low levels and at high levels of debt. At high levels of debt, there is a large negative impact: on average, the results imply that doubling debt from any initial debt level at or above the threshold will reduce per capita growth by about 1 percentage point. At low levels, the effect is generally positive but often not significant.

The external debt situation of developing countries has become of particular concern in the context of financial crisis when the prospects for defaults of external liabilities become apparent. This is in view of the problems with bail outs which create a moral hazard for lenders and leave the debtor country (i.e. taxpayers) shouldering the burden to pay off the official debt. Therefore, there is much discussion on how to solve this problem.

Virtually all developing countries agree that market access for their products is the prime instrument to reduce their huge foreign debts by generating trade surplus. So, various developing countries including Indonesia have

¹ Pattillo, Catherine, Hélène Poirson, and Luca Ricci (2002), "External Debt and Growth," IMF Working Paper 02/69, Washington, D.C: International Monetary Fund.

² Pattillo, Catherine, Hélène Poirson, and Luca Ricci (2004), "What are the Channels Through Which External Debt Affects Growth?", IMF Working Paper/04/15, January; African and Asia and Pacific Departments, Washington, D.C: International Monetary Fund.

highlighted the importance of examining the inter-linkages between trade, debt, and finance in an effort to find sustainable solutions to increase their trade surplus and to resolve their external indebtedness at the same time within the context of the multilateral trading system.

This problem is also recognised by G8 leaders, as well as the Breton-Woods Institutions and the WTO by emphasizing complementarity between initiatives to reduce indebtedness and to improve market access for developing countries. This recognition at last has been followed up by the WTO Ministerial Declaration at the Doha Round in 2001 in par.36 stating their agreement on the examination of the relationship between these three areas, and on any possible recommendations on necessary steps that should be taken to contribute to a durable solution to the developing countries' external indebtedness problem.

For Indonesia (as for other individual developing countries), now there are at least three critical questions. First, how has been the relationship between debt service capacity and external trade? Formulated in a different way, is there any guarantee that if no trade barriers domestically and in the world market or if access to the world market is fully open, will automatically improve the debt service capacity of Indonesia? Second, has the increase in the country's external debt benefited its export activities? In other word, is there a positive correlation between debt increases and export growth in Indonesia? Third, is there a negative correlation between external debt and domestic saving? Or to put it a different way: is there any guarantee that the reduction of external debt will automatically increase domestic saving net (i.e. an excess of saving over investment needed), which is required as a source of investment to finance the development of export?

The first question is purely a question on the country's export capacity and its global competitiveness. It is generally believed that countries can improve their debt service capacity by increasing their external trade surplus, and the latter can be achieved through both adequate liberalization of their trade regime and world trade liberalization. The second question deals mainly with the effectiveness of external debt on the improvement of the country's export capacity and its global competitiveness. It is simply a cost-benefit analysis of an external debt. The third question concerns with the domestic financial capacity which is needed for financing export development without depending on external debt.

External Trade and Foreign Debt Relationship

Developing countries are required by international bodies such as the IMF and the World Bank, as also by individual donor countries to liberalize their external trade, so their external debt problems can be more easily solved. That what they (i.e. the institutions and donor countries) always believe.

Trade liberalization is only one facet of the opening up of developing countries to the global economy. After a couple of decades of financial deregulation, liberalization of private capital movement and accumulation of debt

at the international level, developing countries are raising issues of at least sequencing and timing of the process of liberalization of capital movements and the process of liberalization of trade in goods and services. The consequences of the liberalization of both financial and real sectors is of increasing concern, particularly in countries such as Indonesia after the 1997/98 financial crisis with severe spill-over effects on growth and trade. Also, many developing countries, in particular the poor and very indebted countries face difficulties to integrate into world trade due to a lack of access to private capital markets, debt overhang, and deterioration in the terms of trade. The relationship between trade and debt (and finance) is equally important for these countries, and is part of the holistic policy environment which leads to development (Auboin, 2004).³

Theoretically, this issue of external trade and foreign debt relationship can simply be analysed with the classical dual-gap model, i.e. the investment-saving (*I-S*) gap and the import-export (*M-X*) gap.⁴ The combination of these two gaps in the context of the national income accounting shows that an excess of domestic saving over domestic investment needed for domestic capital formation is equivalent to a surplus of exports over imports. The national income equation can be written from the expenditure side simply as:

$$Y = C + I + X - M. \tag{1}$$

where *Y* = national income; *C* = domestic household consumption; *I* = domestic investment; *X* = exports of goods and services; and *M* = imports of goods and services. Since saving is equal to income minus domestic consumption, thus domestic saving (*S*) equation can be written as:

$$S = I + X - M \tag{2}$$

or

$$S - I = X - M = CA \tag{3}$$

If saving falls short of investment, the difference equals the CA deficit. Because of poverty and poor financial institutions, national saving often is low in developing countries. Because these countries are relatively poor in capital, however, the opportunities for profitably making new or expanding existing plant and equipment can be abundant. Such opportunities justify a high level of investment. By running a CA deficit, a country can obtain

³ Auboin, Marc (2004), "The Trade, Debt and Finance Nexus: at the Cross-roads of Micro-and Macroeconomics", Discussion Paper No.6, Geneva: World Trade Organization.

⁴ See for instance, A.P. Thirlwall (1994), *Growth and Development With Special Reference to Developing Economies*, Fifth Edition, ELBS with Macmillan.

resources from abroad to invest domestically even if its domestic saving level is low.⁵ Thus, in other words, a surplus of imports over exports (i.e. CA deficit) financed by external debt allows a country to spend more than it produces or to invest more than it saves.

In accounting terms the amount of foreign debt required to supplement national savings is the same whether the need is for domestic capital formation (I) or for import (M). The identity between the two gaps follows from the nature of the accounting procedures. It is a matter of arithmetic that if a country invests more than it saves this will show up in the accounts as a balance-of-payments (BoP) deficit. Or, an excess of exports over import necessarily implies an excess of domestic resource supplied over resources used by an economy, or an excess of saving over investment, domestically.

The basic underlying assumption of dual gap model is a lack of substitutability between foreign and domestic resources. This assumption may be valid particularly in the short period.⁶ If foreign exchange is scarce, it is not easy in the short period to use domestic resources to earn more foreign exchange, or to save foreign exchange by dispensing with imports. This may be the main reason that many developing countries suffer chronic BoP deficits over long periods despite vast reserves of unused domestic resources. If domestic saving is scarce, it is probably easier to find ways of using foreign exchange to substitute, raising the domestic saving ratio and the output-capital ratio.

The Investment-Saving Gap

As Indonesia always depends on foreign borrowings, it can be assumed that the *I-S* gap is larger than the *M-X* gap, so that foreign borrowings are always huge to meet the shortfall of saving below the level necessary to achieve the target rate of domestic economic growth. If Indonesia wants to narrow the gap, and foreign debt is to be reduced or terminated, economy must continue to increase sufficiently and additional increments to domestic saving out of the increases in national income generated must be greater than the increments of domestic investment. In a simple mathematic form, for any target rate of economic growth (*r*) the required foreign borrowings in the base year (*F*₀) can be formulated as:

$$F_0 = I_0 - S_0 = Y_0(c r - s_a) \tag{4}$$

where *I*₀ is investment in the base period; *S*₀ is saving in the base period; *Y*₀ is income in the base period, *c* is the incremental capital-output ration (ICOR), *s*_a is the average saving coefficient.

⁵ Krugman, Paul R. and Maurice Obstfeld (2000), *International Economics. Theory and Policy*, Fifth edition, International Edition, Addison-Wesley Publishing Company.

⁶ For a more discussion of the assumptions and the limitations of the model, see, among others, Joshi V (1970), "Saving and Foreign Exchange Constraints", in P. Streeten (ed.), *Unfashionable Economics*, London: Weidenfeld & Nicolson.

The Import-Export Gap

If the $M-X$ gap is larger than the $I-S$ gap, then in the base period the foreign borrowings required to cover the foreign exchange gap is:

$$F_0 = M_0 - X_0 = Y_0(m_a - x_a) \quad (5)$$

where M_0 is import in the base period; X_0 is export in the base period; m_a is the average import coefficient; and x_a is the average export ratio.

With respect to policy, the analysis of this gap highlights the importance of a greater proportion of resources devoted to exports. The gap will only disappear, and trade-limited growth come to an end, when exports rise to a level sufficient to meet the import requirements ($X=M$) of the target rate of economic growth set. One of the preconditions of an end to depend on foreign borrowings is that a BoP deficit must be turned into a continuing surplus through many measures including structural change or price and income adjustment mechanisms internally.

More about the Link

From an analytical perspective, such as in the dual gap model discussed above, the link between external trade and foreign debt appears less straightforward than that between external trade and finance, or at least less direct. External debt is only one of several instruments of external financing, along with foreign direct investment (FDI) and portfolio equity investment. Economic theory suggests that reasonable levels of foreign borrowing are likely to enhance economic growth, particularly in countries at an early stage of development which have low savings rates and small stocks of capital, and that in these countries investment returns are likely to be higher than in more developed countries. Clearly, it is important that borrowed funds should be used for productive investment that generates a return or growth in export or economic growth that is sufficient to cover foreign debt repayment. Even where that is that case, however, a number of factors may still constrain developing countries' ability to repay their external debt or to attract FDI or other foreign capital for development.

These factors include overseas market access restrictions which can impede the ability of indebted countries to earn the foreign exchange they need to service their external debt, and to avoid resorting to further unsustainable borrowing. Time series data from WTO show that while most other developing countries had shared in the growth of world trade in the past thirty years, the poorest countries saw their share of world trade

divided by four; the less developed countries' (LDCs') share of world trade fell from 1.9 per cent in 1970 per cent to some 0.4 per cent today.⁷

While lack of access to markets can be a major reason why developing countries may not be able to exploit their comparative advantage and hence to increase their export, lack of trade liberalization by these countries can also play an important role. Inward-looking, restrictive external trade policies raise the cost of imports, and hence exports, and tend to divert labour and capital from their most efficient uses, thereby leading to a suboptimal mix of production, investment and consumption.⁸

Liberalizing trade restrictions can therefore have a positive impact on external debt and debt servicing, as it tends to boost domestic economic growth, productivity and exports. A study found that the level of openness to trade had positive effects on the external debt structure of developing countries, by attracting FDI (a cheaper source of foreign capital than foreign borrowing) and hence foreign exchange reserves, which in turn enabled developing countries to finance technology transfer and hence improve productivity, and to shift towards production with higher income-elasticity and better terms-of-trade.⁹

The economic literature identifies other (direct or less direct) links through which external debt, fiscal policy, the BoP and external trade are intertwined. First, the impact of declining terms of trade (ToT). The problem of the structural decline in the ToT and its impact on commodity dependent exporting countries, in particular their greater vulnerability to international trade and CA imbalances and indebtedness, is recognized internationally. A paper by Birdsall and Hamoudi (2002) provides evidence that declining export prices affect fiscal and external accounts negatively, contribute to reduced public consumption and investment, and force private companies, due to lack of export receipts, to reduce imports of productive inputs, thereby preventing the diversification of local production.¹⁰ UNCTAD (2001 and 2003),¹¹ suggests that declining ToT in Sub-Saharan Africa have led in the past thirty years to a drying up of domestic investment resources. In addition, poor market access prospects or deterioration of the terms-of-trade are factors undermining a country's ability to access international markets on attractive terms. In practice, countries with a low level of development and of integration in world trade lack

⁷ The poorest countries comprise virtually all LDCs and highly-indebted countries eligible for relief under the IMF-World Bank Enhanced HIPC Initiative.

⁸ See Hertel, T. (2000) 'Potential Gains from Reducing Trade Barriers', *Federal Reserve Bank of Saint-Louis Economic Review*, July/August 2000.

⁹ See Lane, P.R. and Milesi-Ferretti, G.M. (2000), "External Capital Structure: Theory and Evidence", IMF Working Paper No. 152, Washington D.C.: International Monetary Fund.

¹⁰ Birdsall, N. and Hamoudi, A. (2002), "Commodity Dependence, Trade and Growth: When "openness" is not Enough", Working Paper No.7, Washington D.C.: Center for Global Development.

¹¹ UNCTAD (2001), "Economic Development in Africa: Performance, Prospects and Policy Issues", UNCTAD/GDS/AFRICA/1; and UNCTAD (2003), "Report of the Meeting of Eminent Persons on Commodity Issues", TD/B/50/11, September, United Nations, New York and Geneva. (available online <www.unctad.org/en/pub/pogdsafricad1.en.htm>)

credibility in international capital markets, thereby failing to attract FDI (or other private capital flows) and becoming reliant on external debt. At such a level of development, the low level of both domestic savings and investment (respectively 15 per cent and 18 per cent in Sub-Saharan Africa) and continued mis-match between the two, calls for external public financing for an extended period of time.

Second, trade, efficiency of the financial system and foreign debt. In this vein, it has been argued that the expansion of external trade of a country depends on efficient sources of financing, which in turn requires an efficient, sound and well-managed domestic banking system. An important issue in this respect is balancing the advantages that can accrue from liberalizing trade in financial services with the need to ensure that liberalization is properly timed, sequenced and prudentially managed so that it does not become a source of financial instability in its own right. Another issue is the need to modernize domestic banking systems and government budget financing in low-income countries, in order to avoid resorting to foreign financing.¹²

Third, the "fiscal channel". It is key to the link between external trade and external debt. One aspect is the impact of trade liberalization on fiscal revenues, that many developing countries regard as being negative. A study¹³ indicates that well sequenced tariff reforms can be revenue-neutral (or in some successful cases, revenue-enhancing) if part of an overall fiscal reform, which would include, on the one hand, the offsetting of the negative effect on public finances of the lowering of average tariffs by the elimination of tariff peaks and of tariff exemptions, and on the other hand, the introduction of internal taxes (such as the value-added tax). Another aspect is the fiscal impact of deteriorating ToT. The lowering of export prices (generally expressed in dollars) does not necessarily lead to reduced incomes of local producers, whose prices are expressed in local currency.¹⁴

¹² See Beaugrand P., Loko B. and Mlachila, M. (2002), "The Choice Between External and Domestic Debt in Financing Budget Deficits: The Case of Central and West African Countries", IMF Working Paper No. 79, Washington D.C.: International Monetary Fund. It has been argued that the absence of efforts in some low-income countries to create liquid markets for long-term, fixed interest government debt and the unavailability of adequate instruments to hedge against exchange rate risk led also to risky external borrowing; see Mello, L. and Hussein, K. (2001), "Is Foreign Debt Portfolio Management Efficient in Emerging Economies?", IMF Working Paper No. 121, Washington D.C.: International Monetary Fund.

¹³ See Ebrill, S. and Gropp (1999), "Revenue Implications of Trade Liberalization", IMF Occasional Paper 180, Washington D.C.: International Monetary Fund.

¹⁴ However, it may affect public finances, for example, in case of taxes levied on exports. On the other hand, the deterioration in the ToT may have a positive effect on public revenues if taxes drawn from the increase in import values outweigh fiscal effects of the reduction in export prices. Nonetheless, some authors make the case that during the Asian financial crisis in 1997/98 the loss in the terms of trade due to the devaluation and its related domestic income effects had a negative impact on government revenues. See e.g. Hussain M.N., Mlambo, K. and Oshikoya, T. (2001), "Global Financial Crises: An African Perspective", African Development Bank Research Paper, Côte d'Ivoire.

The Debt Service Problem

The main cost associated with foreign borrowing and the accumulation of a large external debt is the *debt service*; the liquidation of principal and accumulated interest, which represents a contractual fixed charge on a country's income, savings and foreign exchange reserves. As borrowing increases or as interest rates on accumulated borrowings rise, debt service, which must be paid in foreign exchange, also rises. This implies that debt service can only be met with export earnings; thus should exports decline or prices of exports fall, or interest rates rise significantly, and exceed the country's export capacity, the country starts to experience debt difficulties. This was the experience of the highly indebted poor countries as they graduated from aid to the external debt crisis.

However, the fact that the rate of return on investment in the borrowing countries exceeds the rate of interest paid for their external debts is no indication of whether the foreign debt can be serviced since the loan must be repaid with interest in foreign currency. Thus, the profitability of having foreign borrowing and the capacity to service debt are two different concepts. The ability of Indonesia to service its foreign debts depends on whether Indonesia can earn additional foreign exchange through surplus in its external trade ($X > M$) or saved by the borrowing. This depends on the domestic economic policy pursued by Indonesia and on the ability of the country to export which depends to a large extent on world economic conditions. As an empirical illustration, a major part of the debt-servicing difficulties that have arisen in the first half of 1980s in many developing countries has more to do with changes in world economic conditions which depressed their foreign exchange earnings than with the miscalculation of rates of return on investment, the misuse of investment funds, or the use of capital inflows to raise consumption in these countries.¹⁵

The debt-servicing implications of borrowing can be integrated with the dual gap model discussed above, for instance with the investment-saving gap. The net resource flow required to bridge this gap to maintain a target rate of economic growth declines steadily, becoming a net resource outflow after certain years. But, net borrowing goes on a little longer in order to cover interest charges on accumulated external indebtedness. External debt repayments, in theory, take place by converting the excess of saving over investment into a BoP surplus until all external debts are repaid.

Thus, a debt-service ratio is not necessarily a good indicator of a country's ability to repay debts, nor is the debt-service ratio in practice the only good predictor of default. The ability of Indonesia to repay its external debt depends also on its ability to attract new capital and on the relation between foreign exchange earnings and necessary import requirements. Proneness to default depends on a complex of factors, of which the debt-service ratio is just one. Feder and Just (1977), for instance, have identified six variables significantly affecting the probability of default: the debt-service ratio (+); per capita income (-); the ratio of net foreign capital inflows to

¹⁵ See among others, World Bank (1990), *Adjustment Lending: Ten Years of Experience*, Washington, D.C.

debt-service payments (-); the GDP growth per capita (-); export growth (-); and the ratio of imports to international reserve holdings (+).¹⁶

The Current Indonesian Problems

Based on their empirical studies in a large number of developing and developed countries, Pattillo, Poirson, and Ricci (2004) suggest that for the average country in the sample, reducing debt levels would contribute to growth by boosting both capital accumulation and productivity growth. But reducing debt may not have the desired effect on capital or productivity growth (and therefore output growth) if other macroeconomic and structural distortions or political constraints bind. These mentioned factors are current facing Indonesia; although the government has been trying to eliminate such distortions.

The dual gap model discussed before shows that for a country to have a surplus in its CA, the country must have a surplus in its saving-investment balance. It means obviously that external trade policies should be supported by policies aimed at raising/mobilizing domestic private savings and foreign investment, in particularly FDI. Unfortunately, the mobilization of private savings and the increase of FDI inflows in Indonesia are currently problematic in many ways, because of poor macroeconomic management, unsound banking sector, and lack of perceived investment opportunities in the country. Moreover, as poverty is still a big current issue in the country, the generation of private saving is not an easy task.

Another serious problem is the capacity of Indonesia to take advantage of any global market access which is currently hampered by a plethora of supply side bottlenecks and costs, administrative constraints, and poor institutions, including financial institution.¹⁷ All these years, the government has done numerous efforts to boost export competitiveness of Indonesia, including recent decision to accelerate the process to establish Indonesian Export Import Association, as the derivative of Indonesian Export Bank (BEI). However, the effectiveness of every step implemented by the government in an attempt to boost export will depend heavily on whether those steps is working hand in hand with the matters dealt by Indonesian exporters today.

There are at least four factors that basically have been caused the slow export growth of Indonesia:

1. Declining cost competitiveness due to higher appreciation of rupiah's and inflation rate in comparison with inflation rate in the counter trade partner. IMF suggested that labor cost/unit in Indonesia nowadays is 35% higher than prior to the crisis. Low cost competitiveness of Indonesia's manufacturing industry also a result of a high domestic transaction costs in Indonesia.

¹⁶ Feder and R. Just (1977), "A Study of Debt-Service Capacity Applying Logit Analysis", *Journal of Development Economics*, Vol.4.

¹⁷ With respect to the latter, it has been documented that the differences in financial development between developed and developing countries are substantial, and that these differences are an important determinant of trade patterns. See e.g. Quy-Toan Do and Levchenko, Andrei A. (2004), "Trade and Financial Development", WPS 3347, April, Washington, DC: the World Bank.

2. Declining trend of investment. Poor business condition in Indonesia is also considered to be another main problem in preventing export growth due to the inability to attract foreign investments which was the prominent player in boosting non-oil/gas exports, including industrial products. The absent of foreign investment also means that new investment required to product upgrading is poorly performed. Foreign investment may also contributed to the increase of non oil/gas exports, industrial products in particular, as can be observed through the rapid growth of industrial products exports at the end of 1980's up until 1996. Outstanding export growth achievement came from China as most of its business activities directed to maintain exports from foreign investment.
3. Fierce International Competition. China and Vietnam has been the biggest competitors for Indonesia since they are competing in the exports of product from labor intensive industry similar to those in Indonesia, such as textile, garment and footwear, and rapidly growing compared to Indonesia's exports. As a result, Indonesia lost its market share in 30 non-oil/gas export to China and Vietnam, including industrial products such as textile, footwear and other labor intensive products.¹⁸
4. Poor Trade Facility. Numerous restrictions in harbor and physical facility have been one of the main factors to enlarge the costs of exported products. Although the tariff of using Indonesian harbor/port is relatively low but almost all exports from Indonesia transshipped through Singapore or Malaysia due to lack of efficiency in Indonesia's harbor/port. According to the analysis related to the efficiency of Indonesia's harbor, namely Jakarta International Container Terminal, JICT), as the main terminal in Tanjung Priok which is the biggest terminal throughout Indonesia is in fact the most inefficient Terminal in the South East Asia. Judging from the productivity side (as in total container to be loaded in one hour) and the cost/unit side (cost to lift a container measuring 40 foot high in an hour) then JICT in Tanjung Priok is again the most inefficient terminal comparing to other harbor in South East Asian, such as Singapore and Port Klang in Malaysia.¹⁹.

As a case study, Indonesian crude palm oil (CPO) which is the most important Indonesian non-oil and gas export is currently facing many constraints and facing increasingly heavy competition from Malaysian CPO (and some other producing countries). According to Janurianto (2006),²⁰ currently, the main constraints in the Indonesian CPO industry are the followings:

1. scarcity in new land for palm plantation;
2. lack of skilled human resources

¹⁸ Pangestu, Mari, 2005, "Developing the Trade Sector: Challenges and Strategy Towards Strengthening Industrial Competitiveness", Ceramah di Symposium "Reinventing Indonesia's Industrial Competitiveness", Jakarta, 1 Maret.

¹⁹ Ray, David J. (2003), "Survey of Recent Developments", *Bulletin of Indonesian Economic Studies*, 39(3).

²⁰ Janurianto, Ambono (2006), "Industri Pengolahan Kelapa Sawit Indonesia Sebagai Bahan Diskusi *Roadmap Industri 2010*", Juli, Jakarta: Kadin Indonesia.

3. low productivity. For instance, Indonesia produced 2-3 ton/ha compared to 4-6 ton/ha in Malaysia. This less production per ha in Indonesia is mainly caused by low productivity in the people plantation (*perkebunan rakyat*) subsector. According to Hassibuan (2006),²¹ the low productivity in this subsector is attributed to a number of factors, including: (i) about 75 per cent of the plantation is already old; it needs renovation; (ii) lack of maintenance; (iii) the implementation of harvest is not according to a good plants technique culture; and (iv) the use of wrong seed, not according to determined technique.
4. lack of security and illegal retributions, especially at kabupaten level;
5. lack of supporting logistic industries such as fertilizer and agro-chemical industries, vehicle and heavy equipment industries, factory tools and industrial machinery industries, and supporting services such as transportation, bulking installation/port, consulting/constructing, and R&D.
6. lack of infrastructure and low quality of existing infrastructure; and

All of these mentioned problems hamper the Indonesian export capability. Unless these constraints are recognised and properly addressed, Indonesia is unlikely to gain benefit from the WTO Ministerial Declaration at the Doha Round in 2001 on the agreement on the examination of the relationship between trade, debt and finance.

²¹ Hasibuan, Akmaluddin (2006), "Industri Kelapa Sawit sebagai Motor Penggerak Pembangunan Ekonomi Nasional" , Juli, Jakarta: Kadin Indonesia