

Customs Reform In Indonesia

Study Questions

INTRODUCTION: Recognizing that the customs service was notoriously inefficient and corrupt, Indonesia was the first country to outsource this critically important government service to a foreign private firm. Although the initial decision was highly controversial, it was strongly supported by the Indonesian business community and was viewed by many in government as critically important for private sector development. After a few years, even though the customs reform initiative was viewed as a success, opponents of the original decision began to lobby for an abrogation of the contract with the foreign firm and return the responsibilities to the government customs authority. Now, the Minister overseeing customs services must recommend to the President what changes, if any, should be made to the original reform.

STUDY QUESTIONS:

1. Based on the Indonesia case and your own experience, how would you make the case that customs service performance is critically important for private sector development?
2. Compared to Indonesia, how are the circumstances in your country similar and different for policy makers attempting to undertake a similar reform?
3. From a government perspective, how would you characterize the advantages and disadvantages of outsourcing “pre-shipment inspection” (PSI) to a private company? What key risks would you highlight, and how might they be mitigated?
4. Why were private businesses in Indonesia major advocates of outsourcing PSI? Would the private business community in your country be supportive of customs service reform? Why/why not?
5. In Indonesia, “nationalists felt that customs was a function of the state, not a matter for private firms, especially foreign ones.” Critics also claimed, “government functions that relate to ‘the peoples’ dignity’ should not be outsourced” Do you agree/disagree?
6. What should the Minister recommend to President Suharto in 1995, and why?
7. What lessons from Indonesia’s experience in reforming the customs service are relevant to your country? What would you do differently (for example, see alternative strategies presented in the supplementary World Bank reading, “Integrity in Customs”)?