WTO General Council: Indonesia

Ferdinand Baune

* E-mail: content@ethmun.org

1 Introduction and Executive Summary

Views of the Indonesian economy oscillate between optimism that it is set to become the world's next economic giant and fear of renewed instability. As a member of the G20 and economic leader of South East Asia, it is safe to say, that can be considered a newly industrialized country. Although the emerging market experiences growth rates of solid 5% p.a., it is inadequate with respect to Indonesia's development needs and ambitions. The problems are structural. Indonesia is hemmed in by the need to protect stability while its growth model has struggled to deliver the productivity gains necessary to grow faster within this constraint. Left unaddressed, even the 'new normal' of slower growth will not last. [5]

The main focal points for Indonesia are

- reducing dependency on traditional markets by
- diversifying trade partners,
- avoiding involvement in trade disputes through
- commitments to fair trade.

This brief dossier should provide an overview of the topic and is a good place to start with the research for the upcoming debates and negotiations in the WTO General Council.

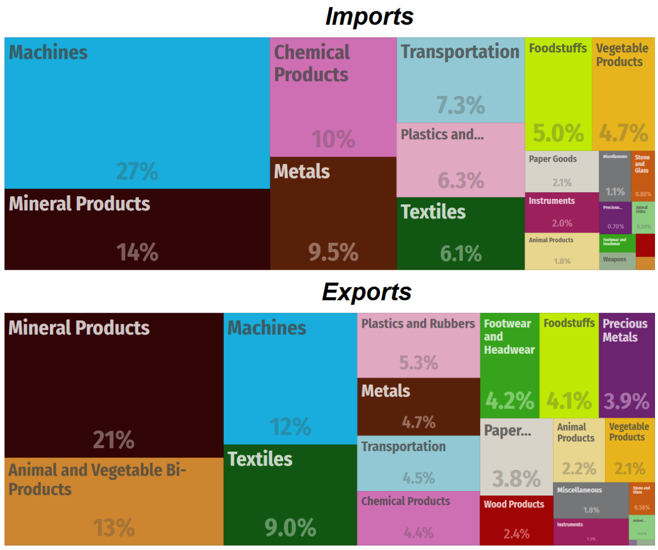

Fig. 1: Products of Indonesian foreign trade. The exports make up $ 165 bln, imports are $ 136 bln, resulting in a trade surplus of $ 29 bln for 2016. [6]

2 Economic Structure

With a GDP of roughly $ 1 tln, Indonesia represents the largest economy of South East Asia. Indonesia is a market economy in which the state-owned enterprises (SOEs) and large private business groups (conglomerates) play a significant role. There are hundreds of diversified privately-held business groups in Indonesia (a tiny fraction of the total amount of companies active in Indonesia) that - together with the SOEs - dominate the domestic economy. As such, wealth is concentrated at the top of society (and not unoften there are close links between the corporate and political top of the country). [11]

IndonesiaâĂŹs micro, small and medium sized enterprises, which together account for 99 percent of the total amount of enterprises that are active in Indonesia, are important too. They account for about 60 percent of IndonesiaâĂŹs gross domestic product (GDP) and create employment to nearly 108 million Indonesians. This implies that these micro, small and medium sized companies are the backbone of the Indonesian economy. [11]

Indonesia changed from being an economy that was highly dependent on agriculture into a more balanced economy in which the percentage share of manufacturing in the country's GDP quickly exceeded that of the agriculture sector. This also indicates that Indonesia lessened its traditional dependency on primary exports, although it still remains relatively high today. It should also be underlined that all of these sectors underwent rapid expansion, despite the fact that its contribution to Indonesia's GDP fell (agriculture) or remained at a similar level throughout the indicated period (the services sector). For a more detailed account please click on one of the sectors in the table below. [12]

3 Trade Partners

Indonesia is well connected in the region, as 65% of exports and 73% of imports are with another Asian country. China is Indonesia's main trade partner, accounting for 23% of imports and 11% of exports. Japan accounts for 12% of exports, making it Indonesia's main export partner. The economic partnership between the two Asian nations is strengthened through the Indonesia-Japan Economic Partnership Agreement (IJEPA), which had come into effect on 1 July 2008. The agreement was Indonesia's first bilateral free-trade agreement to ease the cross-border flow of goods and people as well as investment between both countries.

As a nation rich in natural resources, Indonesia's main exports are mineral products, as well as agricultural bi-products, such as palm oil, coconut oil and stearic acid. [6]

4 Trade Balance [10]

According to the latest data from Statistics Indonesia (BPS), Indonesia's total exports rose 12.5% year-on-year (y/y) to USD $ 16.1 bln in May 2018. Non-oil and gas exports grew 11.6% (y/y) to USD $ 14.5 bln. Meanwhile, oil and gas exports, which contributes much less to Indonesia's total exports, climbed 21.5% (y/y) to USD $ 1.6 bln (also supported by rising crude oil prices).

What is interesting to note is that Indonesia's export performance (+12.5% y/y in May) was actually quite good considering the ongoing trade tensions between the US-China and US-European Union. China and the USA are Indonesia's biggest trading partners. As such, it would make sense that escalating trade tensions between the USA and China impact on Indonesia's trade performance.

Indonesia's non-oil and gas exports to China amounted to USD $ 2.09 bln in May 2018, up 15.4% from exports in the preceding month. Meanwhile, non-oil and gas exports to the USA rose 10.0% (m/m) to USD $ 1.57 bln in May 2018. Thus, the trade tensions seem not to impact on Indonesia's export performance (yet).

Imports into Indonesia rose 28.1% (y/y) to USD $ 17.6 bln in May 2018. This larger-than-estimated increase was attributed to the rising amount of imports of crude oil and its derivative products as well as rising demand for consumables in the context of the Ramadan and Eid al-Fitr festivities. Global crude oil prices have risen in recent months on the back of supply concerns in several major oil-producing nations.

Indonesia's oil and gas imports rose 57.2% (y/y) to USD $ 2.8 bln in May 2018. Meanwhile, non-oil and gas imports grew 23.8% (y/y) to USD $ 14.8 bln.

The ongoing 2018 trade deficit puts additional pressure on Indonesia's current account balance as well as on the Indonesian rupiah exchange rate.

5 Trade Interests

Indonesia plans to not get involved in the ongoing trade war by introducing policies that are committed to fair trade to avoid disputes with other countries. Through such an approach, Indonesia is expected to boost its exports and slow down imports by improving the competitiveness of Indonesian products and commodities.

Key to the approach is market diversification to reduce the dependency on the traditional market. Potential new markets include Africa and South American countries. This should reduce dependency on traditional markets, such as Japan or China. [8]

6 Recent Developments

The Indonesian rupiah plunged to a record low of 15,090 rupiah per US dollar yesterday, the lowest rate since the 1998 financial crisis, as a result of a combination of pressures, such as the escalating US-China trade war and rising oil prices that may increase the country's trade deficit.

The drop came as a blow to Bank Indonesia (BI), which has increased its benchmark interest rate five times since May to defend the rupiah. The latest hike was made last Thursday, when BI increased its policy rate - the seven-day reverse repo rate - to 5.75%. [7]

On 28 September Indonesia was severely hit by the magnitude-7.5 quake and the tsunami it spawned. The natural disaster destroyed or damaged more than 66,000 homes and accounts for a death toll of at least 1,407 with thousands injured and tens of thousands - possibly hundreds of thousands - displaced from their homes. [9]

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