

Evolution of International Trade (Policy and Data) in Indonesia

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- *Basic Theory of International Trade: gains from trade, trade pattern, and trade policy*
- *Some important sources of International Trade & Protection Data*

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- *New Order (Orde Baru): Outward Looking Policy and the Challenge of Protectionism*
- *Reformation Order (Orde Reformasi): Challenges from Asian Financial Crisis and Global Financial Crisis*

C. Selected International Trade & Protection Data of Indonesia

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A.Introduction

- Map of Indonesia: some important facts
- Basic Theory of International Trade: gains from trade, trade pattern, and trade policy
 - Some important sources of International Trade & Protection Data

Indonesia has more than 17.000 islands with population almost 260 million people. Its economic size is around 1 Trillion USD. It was colonialized by the Dutch for around 350 years (?)...



Some important concept of international trade...

- Comparative Advantage
- Economies of scale

Patterns of Trade

- Gains from trade in consumption
- Gains from trade in production

Gains from Trade

- Tariff Policy
- Non Tariff Measures
- Regional Integration: Trade Creation vs Trade Diversion

Trade Policy

Some important sources of online and free data of international trade & protection...



UNCOMTRADE
<https://comtrade.un.org/>
Some other resources are directly linked



WITS
<http://wits.worldbank.org>
Manual http://wits.worldbank.org/data/public/WITS_User_Manual.pdf



TRADEMAP
<http://www.trademap.org>
Guide <http://www.trademap.org/Docs/TradeMap-Userguide-EN.pdf>

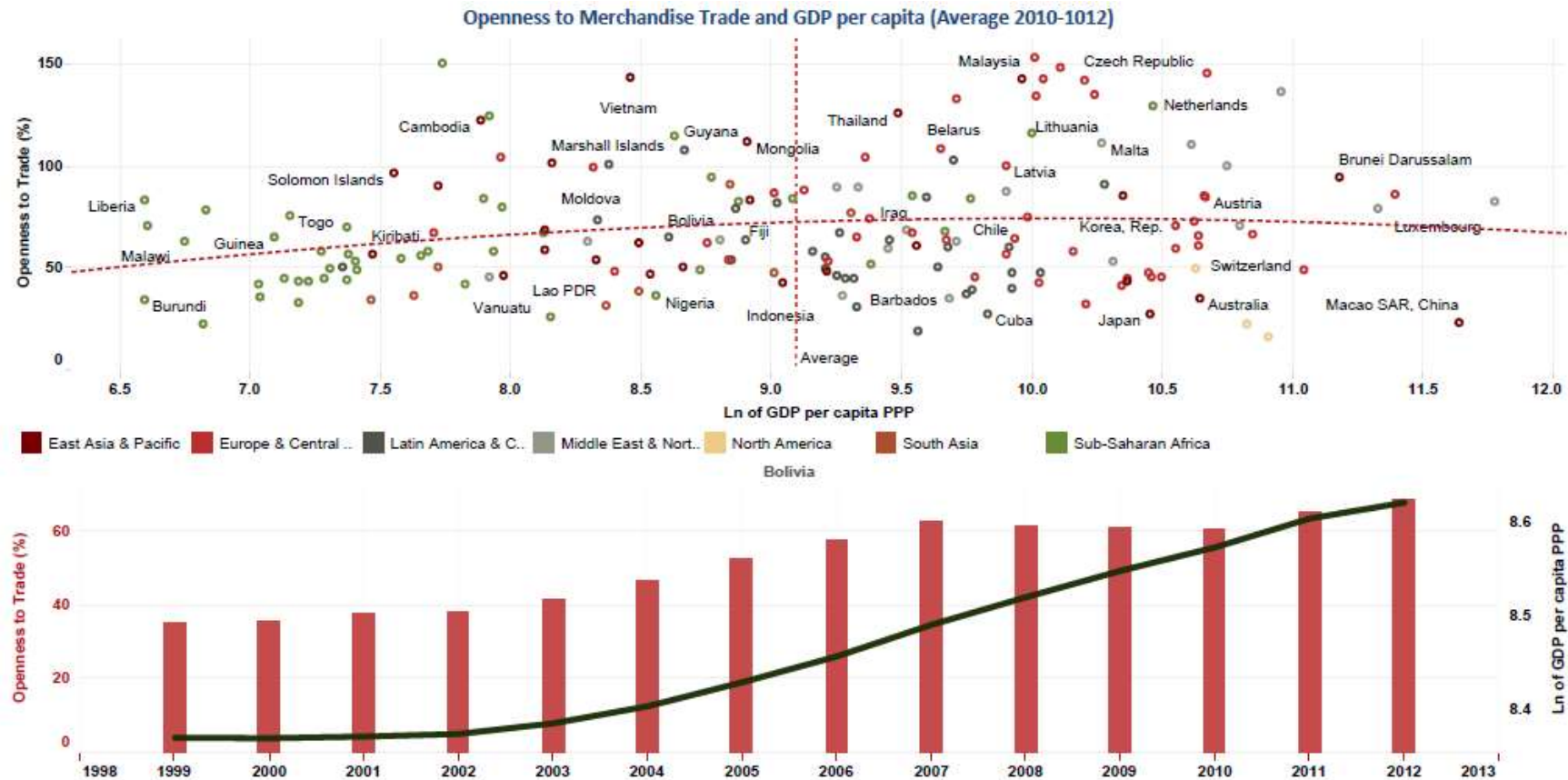


WTO
<http://wto.org>

B. Indonesian Economic Orientation Policy Since Indonesian Independence

- Old Order (Orde Lama): Nationalization and Inward Looking Policy
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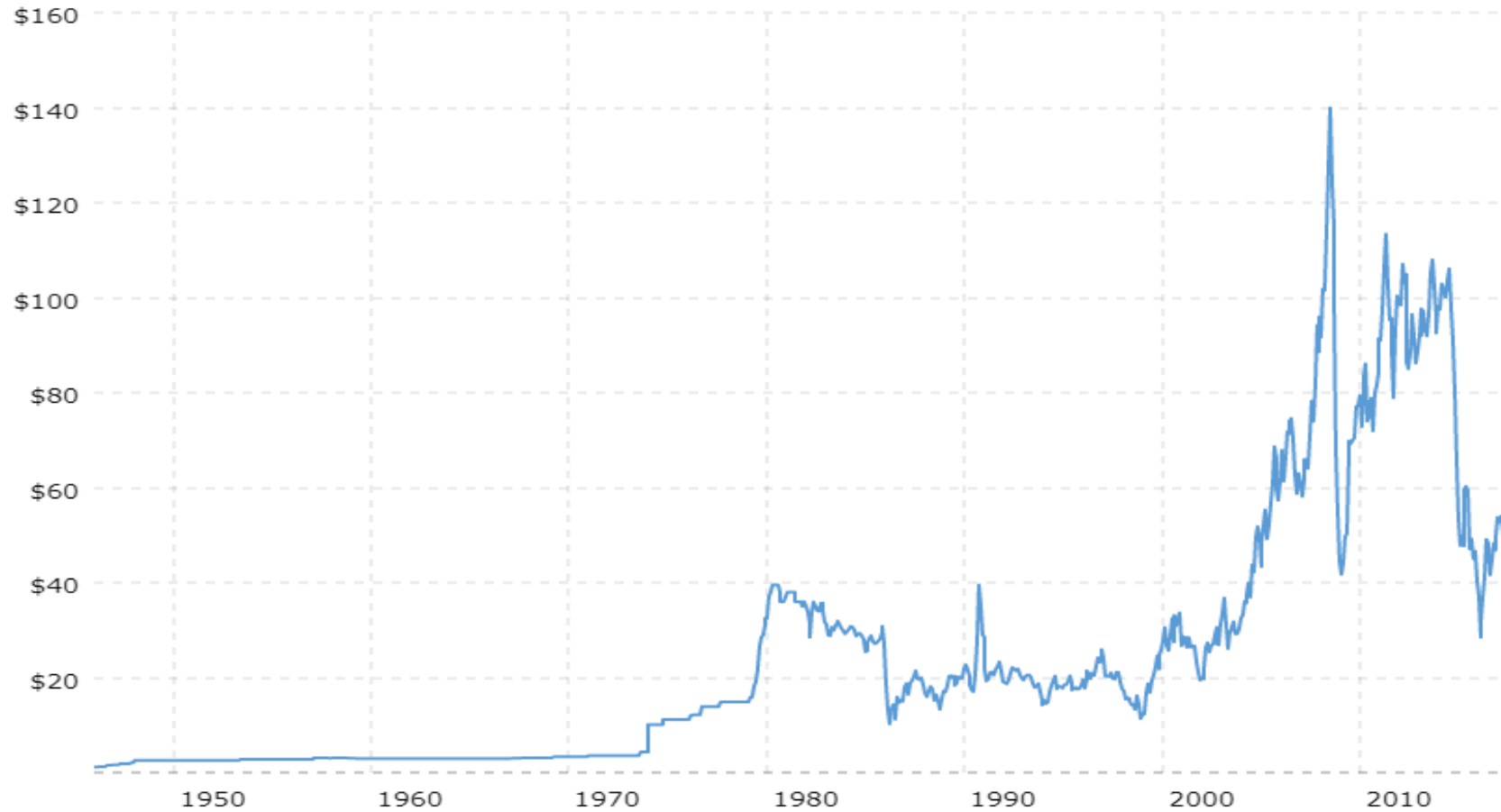
Openness and Income Percapita



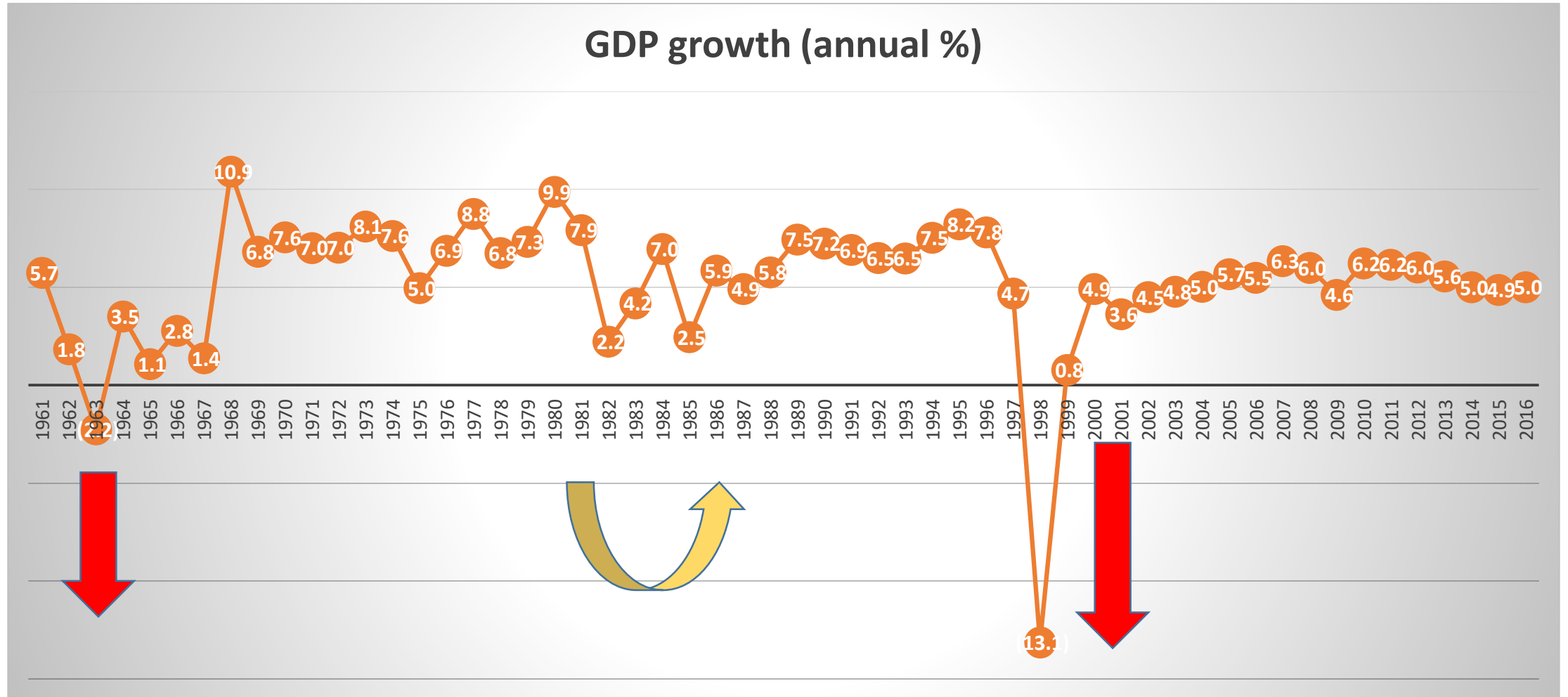
Understanding Evolution of Indonesian macroeconomic management (and especially trade policy) from a simple model

- Keynesian Model provide a useful tool to manage macroeconomy, especially in the short run
- Lets look at the Goods Market, $Y = C + I + G + X - M$
- For example, last year, Indonesian government urged to increase economic growth by increasing effort in attracting FDI (Foreign Direct Investment) and export. This policy has been followed by several important deregulation and liberalization
- What are the reasons why the government choose I (for FDI) and X (for export), not C , G , M ?
- In this policy evolution, especially trade policy, you will learn what are the reasons of the policies

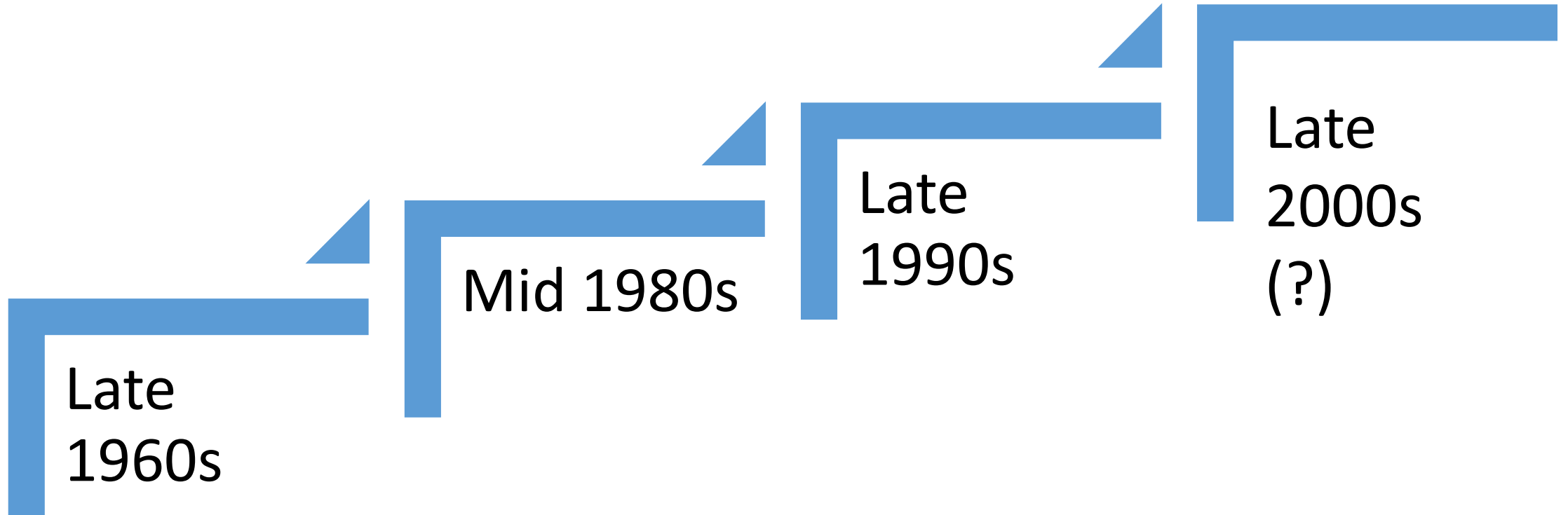
Crude Oil Price and Evolution of Indonesian Economic Policy



Average of Indonesian economic growth in 1961-2016 is 5.3% but there were low average growth in the early 1960s, the mid 1980s, and in the late 1990s...



Bad time is the time for good (trade) policies (?).



Indonesian Economic Policy Since Independence

ORDE LAMA (1945-1966)

- After independence, due to “trauma of foreign power”, Indonesia was focused on the inward looking policy
- Former Dutch firms were nationalized
- Economic development was not the first priority
- Soekarno, the first president, was very well known with his anti-neo colonialist and *anti-foreign aid* speech
- *And trade policy is closer to “autarky”*

ORDE BARU Part 1 (1967-1974)

- The economic crisis from the previous period become burden to the new administration
- Hence, the new administration changes the pendulum of the policy into outward looking policy: seeking foreign capital resource and foreign market for export
- Some policies are: *opening barriers for foreign direct investment and opening barriers to import and export*

Indonesian Economic Policy Since Independence

ORDE BARU Part 2 (1974-1985)

- The oil boom (increased the oil price) increased the government revenue from exported oil and in the same time there were pressure from anti-foreign investment (Malari Demonstration on January 15, 1974)
- *In response, one of them is the government tried to develop its infant industry, especially for basic industry (high capital intensive industry)*
- *In the same time the government protected the new industry form foreign competition (substitution industrialization policy)*
- At the end of this period, the oil price decreased sharply and it reduced the capability of the government to finance some of its projects/investments

ORDE BARU Part 3 (1986-1992)

- To anticipate the decreasing government revenue from oil, *the government launched some policies to encourage foreign investment and boosting export through export promotion policy*
- Market orientation policies such as deregulation, debirocratization, privatization and trade liberalization were taken
- Another important policies were devaluation and financial liberalization

Indonesian Economic Policy Since Independence

ORDE BARU Part 4 (1992-1998)

- The rising of protectionism (i.e mobnas) and rent seeking activities (i.e monopoly certain commodity) were hand in hand with the liberalization policy (for example, Indonesia joined AFTA in 1992, and the WTO in 1994/1995)
- In 1993, the World Bank Report including Indonesia as “East Asia Miracle”;
- however, Asian Financial Crisis in 1997/1998 put Indonesia into economic, social, and political crises

ORDE REFORMASI Part 1 (1998-2004)

- IMF was involved through Letter of Intent that urged the economy to be reformed
- During this period, Indonesia launched big steps beyond economy: democratization, deconsentration, and decentralization
- There are three presidents in six years: Habibie, Megawati, and Gusdur.
- This period was a transition from Suharto (31 years in power) into direct elected president started in 2004 through general election

Indonesian Economic Policy Since Independence

ORDE REFORMASI Part 2 (2004-2019)

- From 2004-2014, Yudhoyono was the elected president in two terms and in 2014-2019, Jokowi has been elected as president and probably he will run for his second terms.
- *The rising of protectionism since the GFC has taken place in non-tariff measures (will be discussed later).* One of the big question in this period is: “does the law ‘bad economic condition (crisis) is time for good trade policies’ has been vanished?”
 - The answer is: the crises in 2008/2009 is very different with the crisis in 1965/1966 or crisis 1997/1998. In 2008/2009, the crisis was not in Indonesia but in the US and other developed countries while the the crisis in 1965/1966 or crisis 1997/1998 were in Indonesia.
 - So, the answer is probably not because it is incomparable.
- There are 16 economic policy packages, the authorities have implemented other reforms to improve the business environment (IMF, 2018).

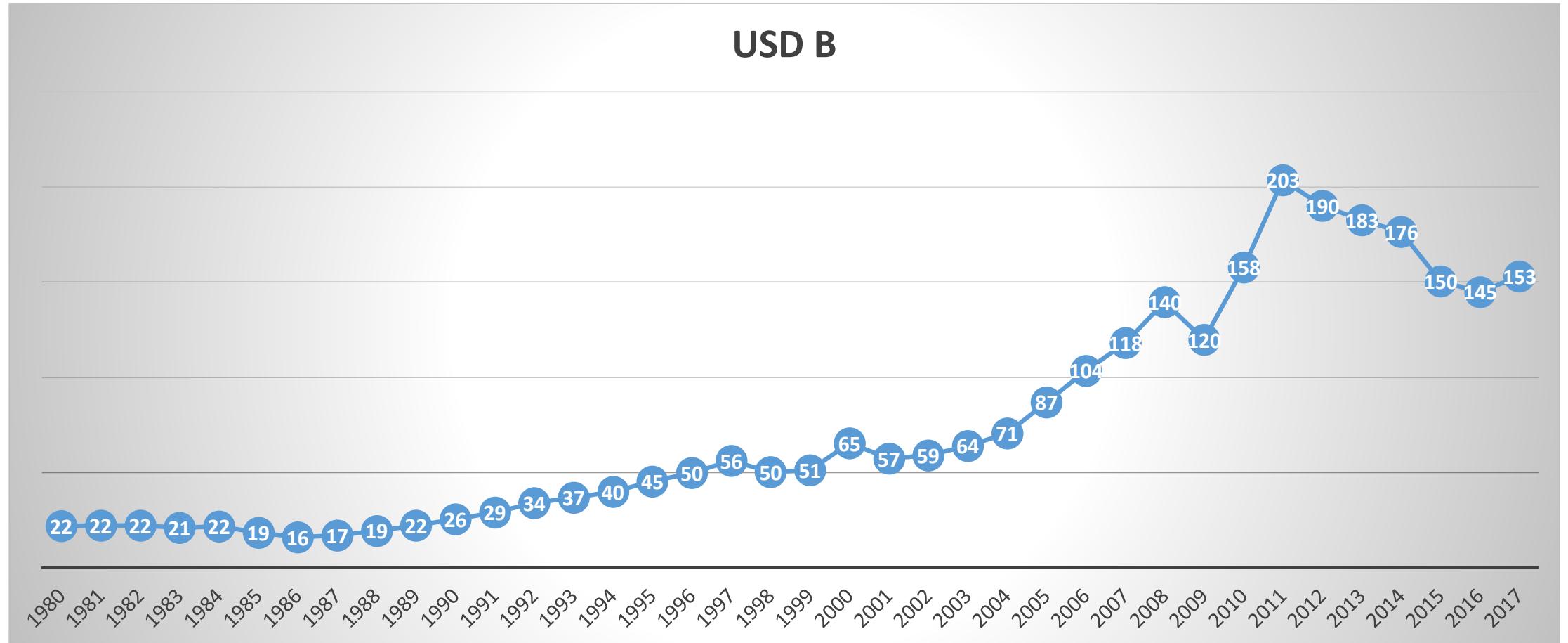
Notes from IMF (2018):

- The FDI regime was partially liberalized, including on logistics, tourism, and agriculture, and the setting of the minimum wage was made more transparent and predictable.
- A national single window system to automate export and import permits has been introduced in more than 21 ports.
- The authorities are also planning to streamline nontariff measures (NTMs), gradually shifting control from border to post border, and open to trade through bilateral and regional trade agreements.
- Compared with BKPM’s one-stop service that deals with 9 types of licenses, the forthcoming single submission system covers about 100 licenses of both central and local governments, thus helping simplify regulations.

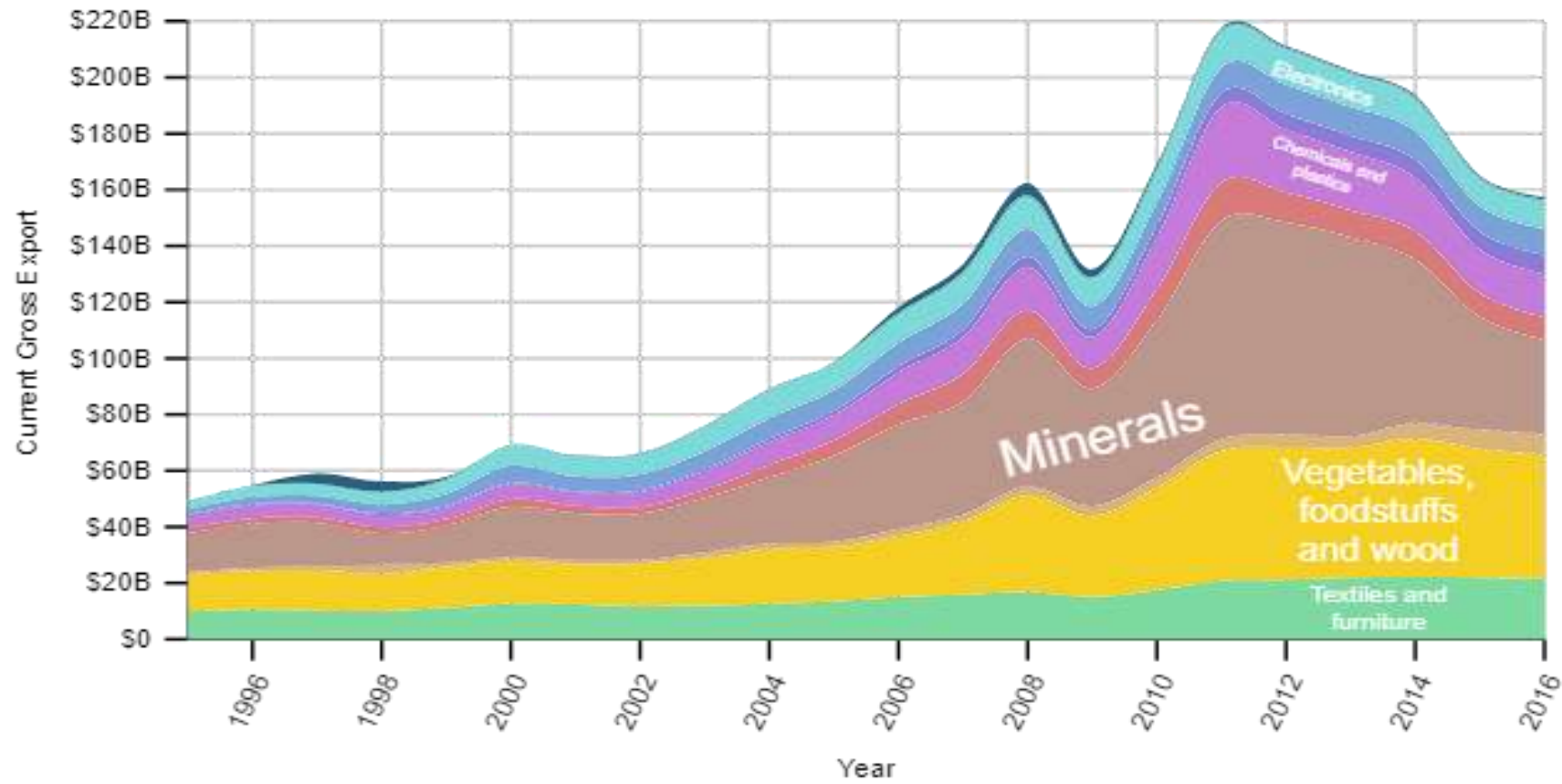
C. Selected International Trade & Protection Data of Indonesia

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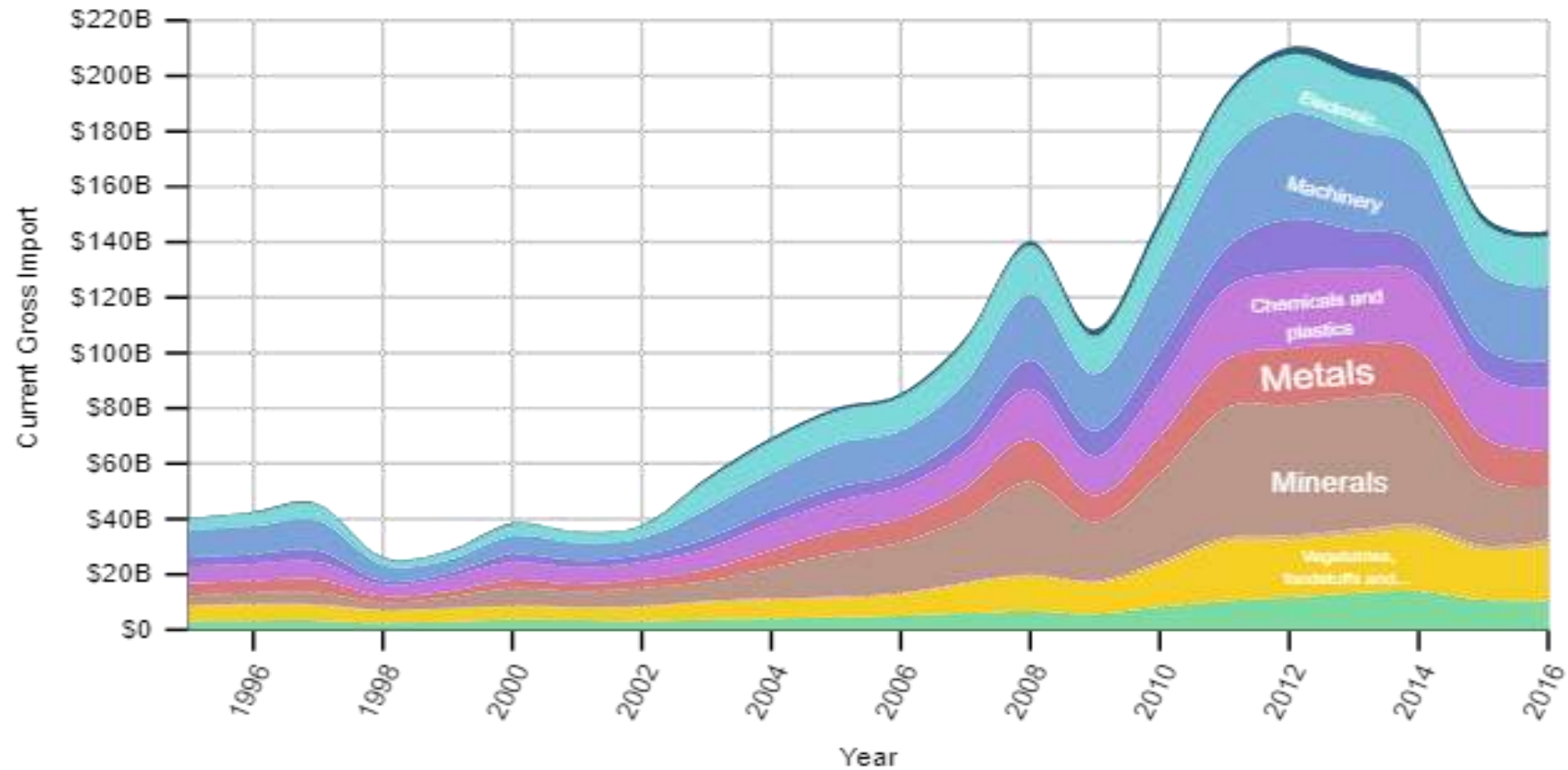
Fluctuation of Indonesian export since 1980...



Export dynamics of Indonesia



Import dynamics of Indonesia



*Trade growth and economic growth:
higher trade growth could help economic growth (?)*

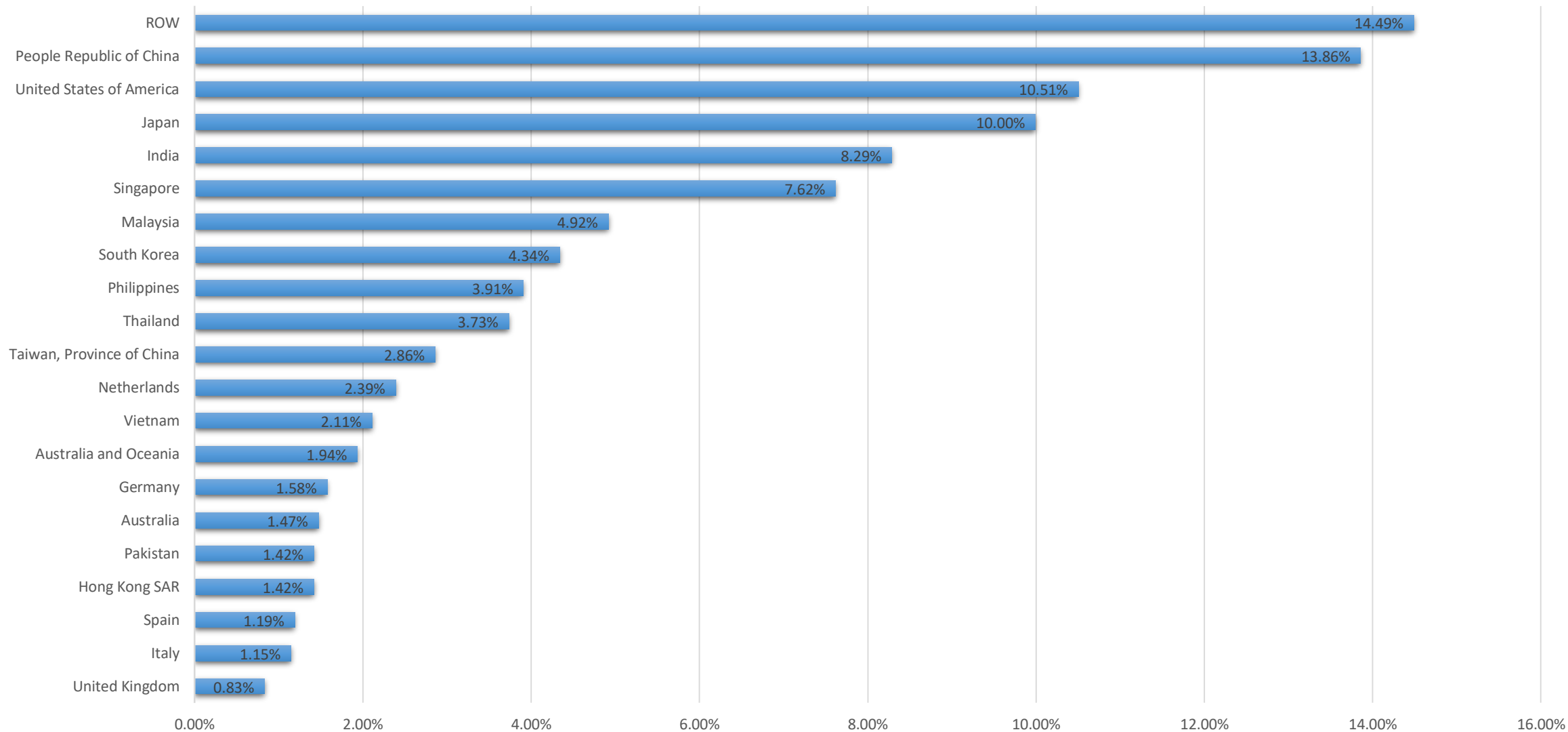
Item (growth in %)	2011	2012	2013	2014	2015	2016	2017
Export of Goods and Services	15%	1%	4%	1%	-2%	-3%	10%
Export of Services	14%	10%	8%	4%	1%	6%	6%
Import of Goods (-/-)	17%	9%	2%	2%	-6%	-2%	9%
Import of Services (-/-)	6%	2%	1%	1%	-7%	-3%	5%
Gross Domestic Bruto	6,17%	6,03%	5,56%	5,01%	4,88%	5,02%	5,09%

*Market Destination of Indonesian export
and its main commodities...*

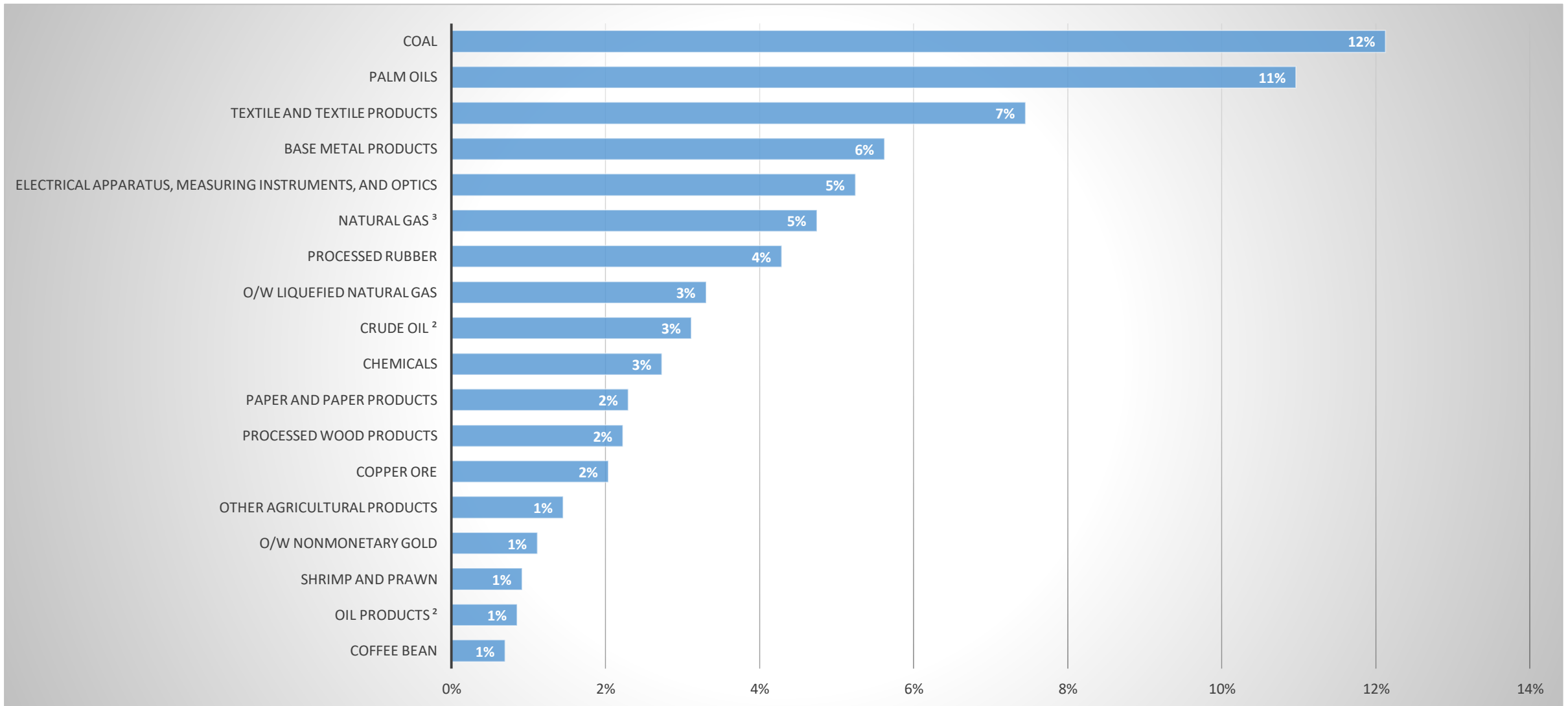


Source: WITS - UNSD COMTRADE <http://wits.worldbank.org> Nomenclature: HS 1988/92

Top 20 of Indonesian Export Destination

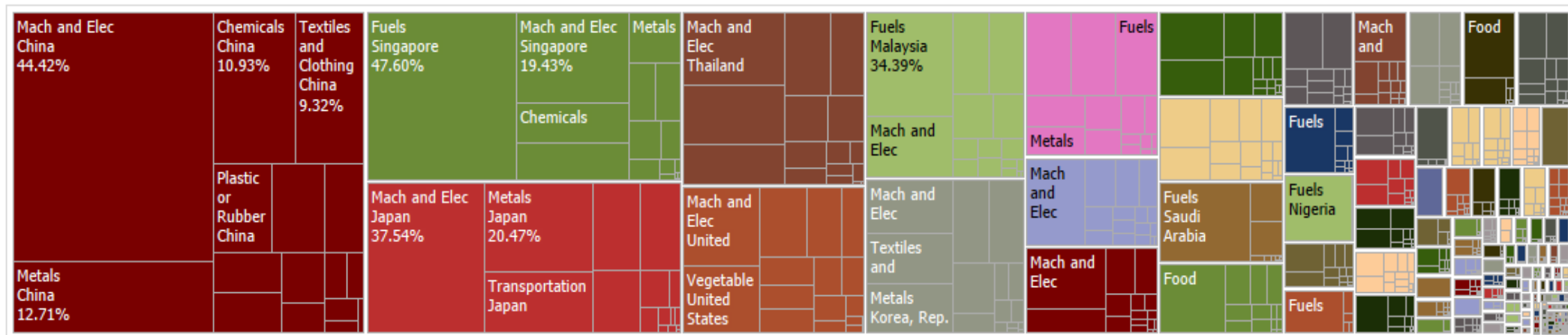
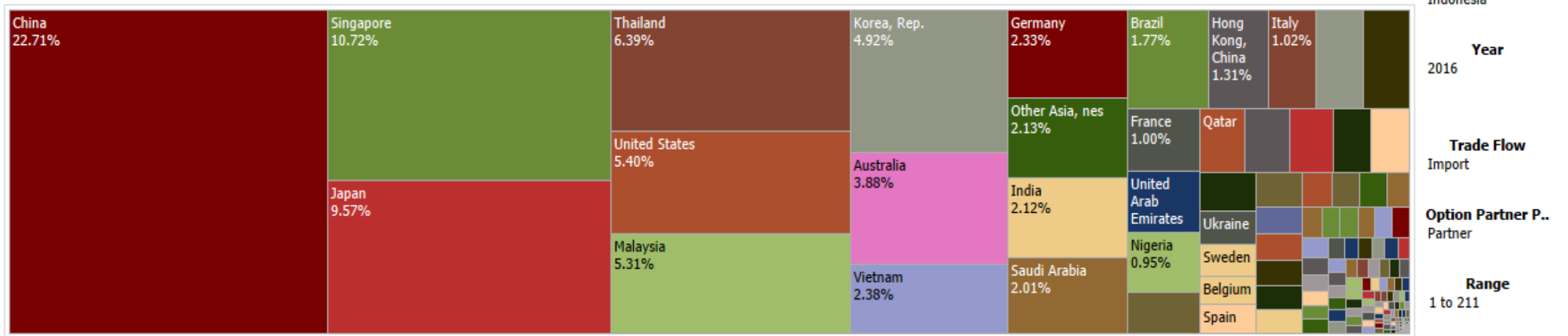


Indonesian export is dominated by primary goods, natural resource intensive manufacturing goods, and unskilled labor manufacturing goods...

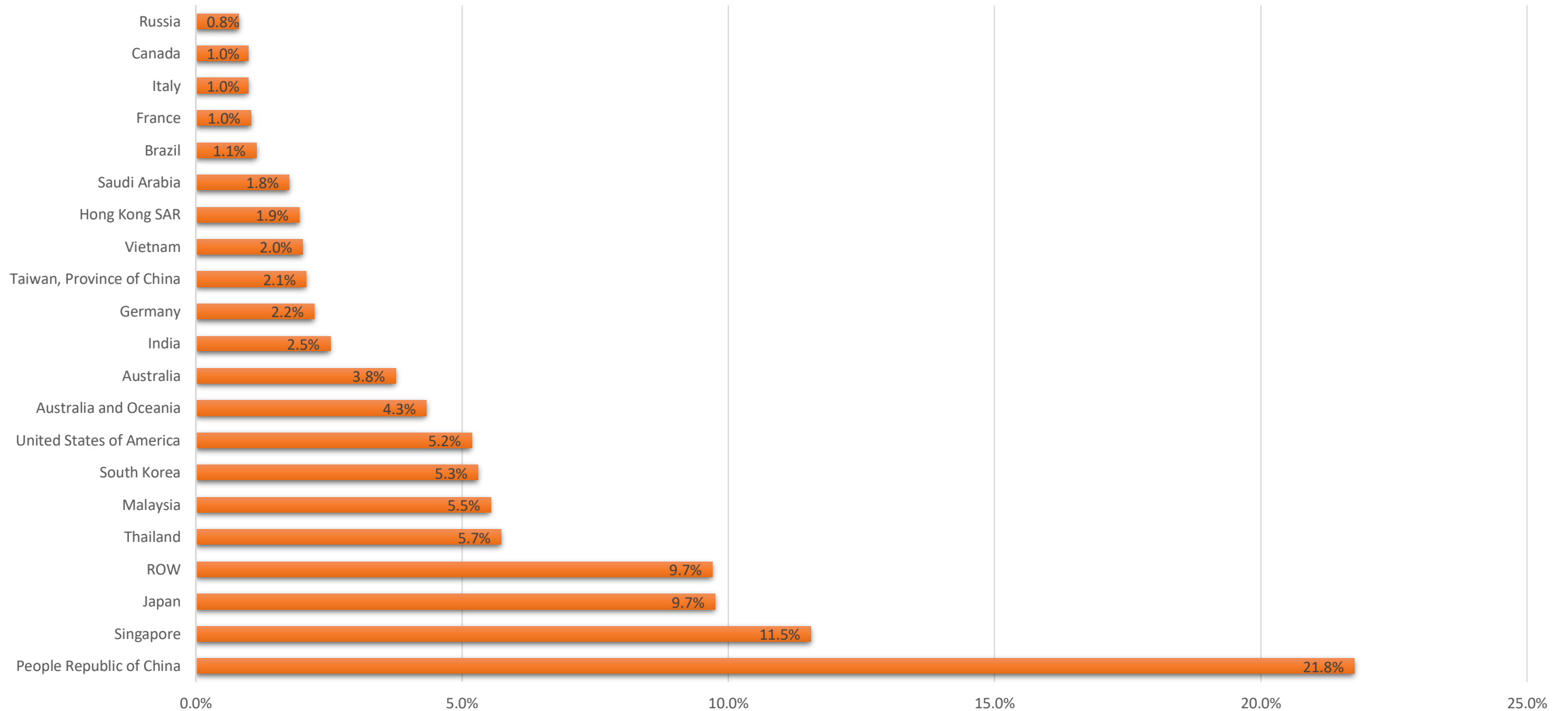


Country Origin of Indonesian import and its main commodities...

Indonesia, Import by Partner



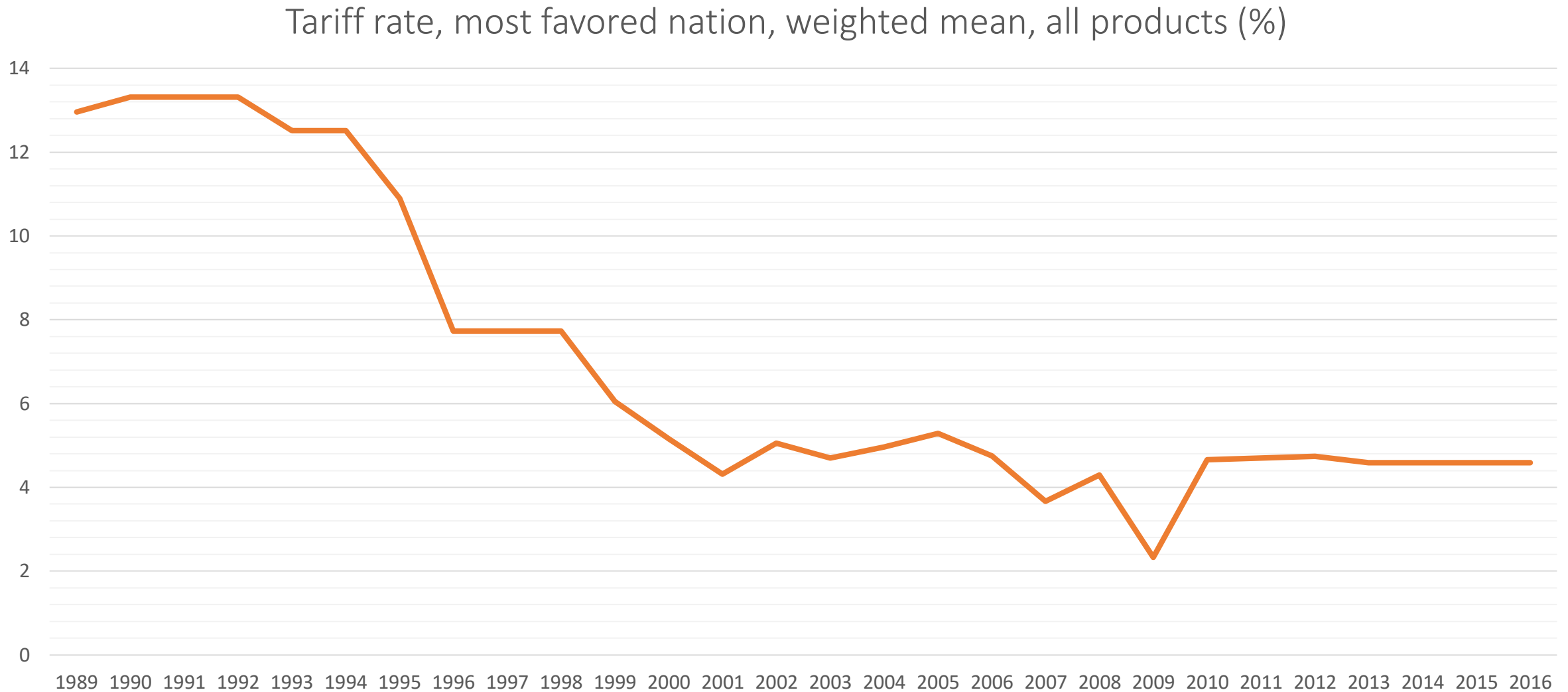
Top 20 of Indonesian Import of Origin



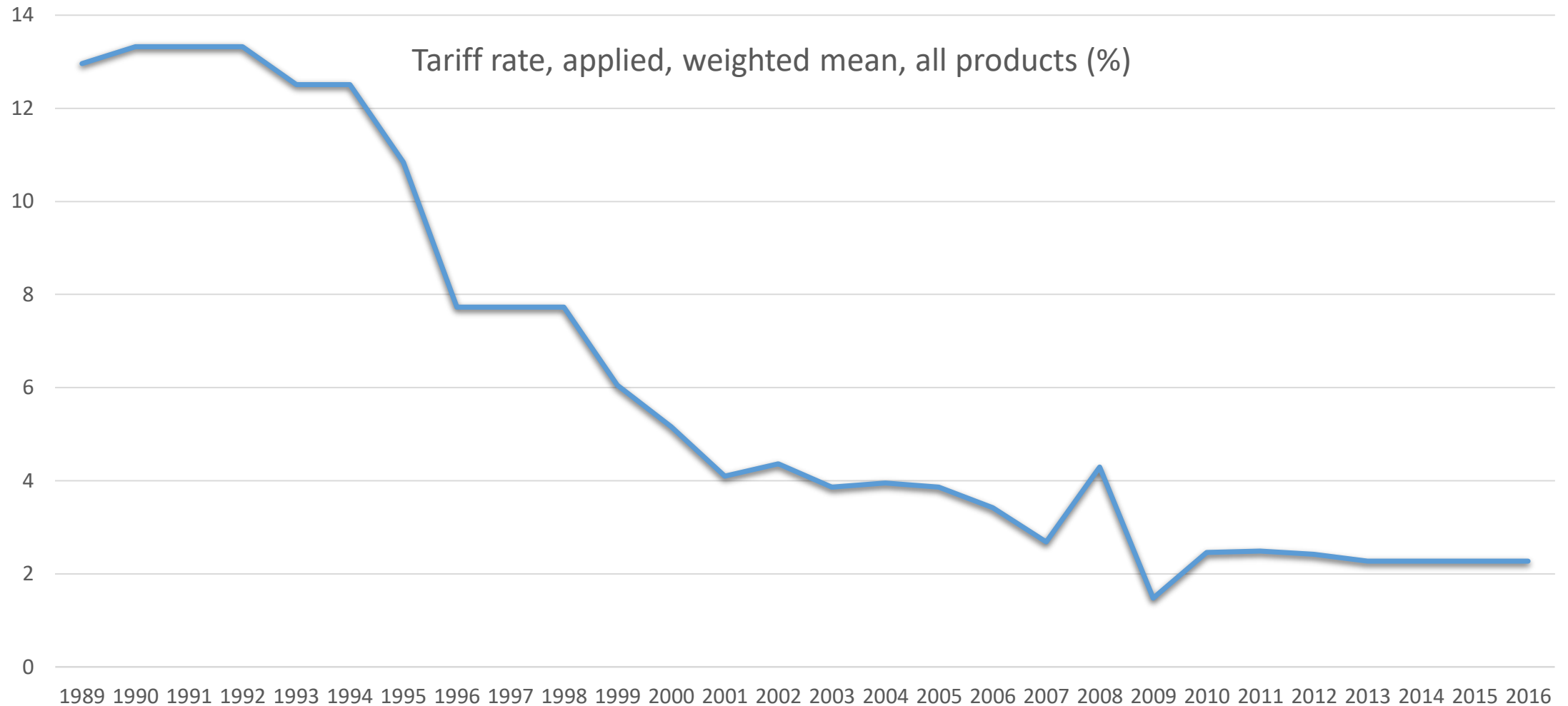
Indonesian import is dominated by raw materials and capital goods....

	(000 USD)	%
A. Consumption goods	20755555	13,8%
Food and beverages, primary,	2256256	1,5%
Food and beverages, processed,	2892394	1,9%
Passenger motor cars	571655,2	0,4%
Transport equipment, nonindustrial	184479,3	0,1%
Durable consumer goods	1558140	1,0%
Semi-durable consumer goods	2841276	1,9%
Non-durable consumer goods	2516427	1,7%
Fuels and lubricants, processed, oil	7156986	4,8%
Goods not elsewhere specified	777941,4	0,5%
B. Raw materials and auxiliary goods	1,1E+08	73,5%
Food and beverages, primary, for industry	5172249	3,4%
Food and beverages, processed, for industry	3561421	2,4%
Industrial supplies, primary	5018999	3,3%
Industrial supplies, processed	53844347	35,9%
Parts and accessories for capital goods	17287586	11,5%
Parts and accessories for transport equipment	7528897	5,0%
Fuels and lubricants, primary	7920735	5,3%
o/w Crude oil ¹	7279080	4,9%
Fuels and lubricants, processed	9901034	6,6%
o/w Oil products ¹	6831889	4,6%
o/w Liquefied Petroleum Gas ²	2754544	1,8%
C. Capital goods	25024072	16,7%
Capital goods (except transport equipment)	21229002	14,2%
Passenger motor cars	571655,2	0,4%
Other transport equipment, industrial	3223416	2,1%
D. Other merchandise ³	567655,9	0,4%

Indonesian mfn tariff tend to decrease; however, there was anomaly since GFC....



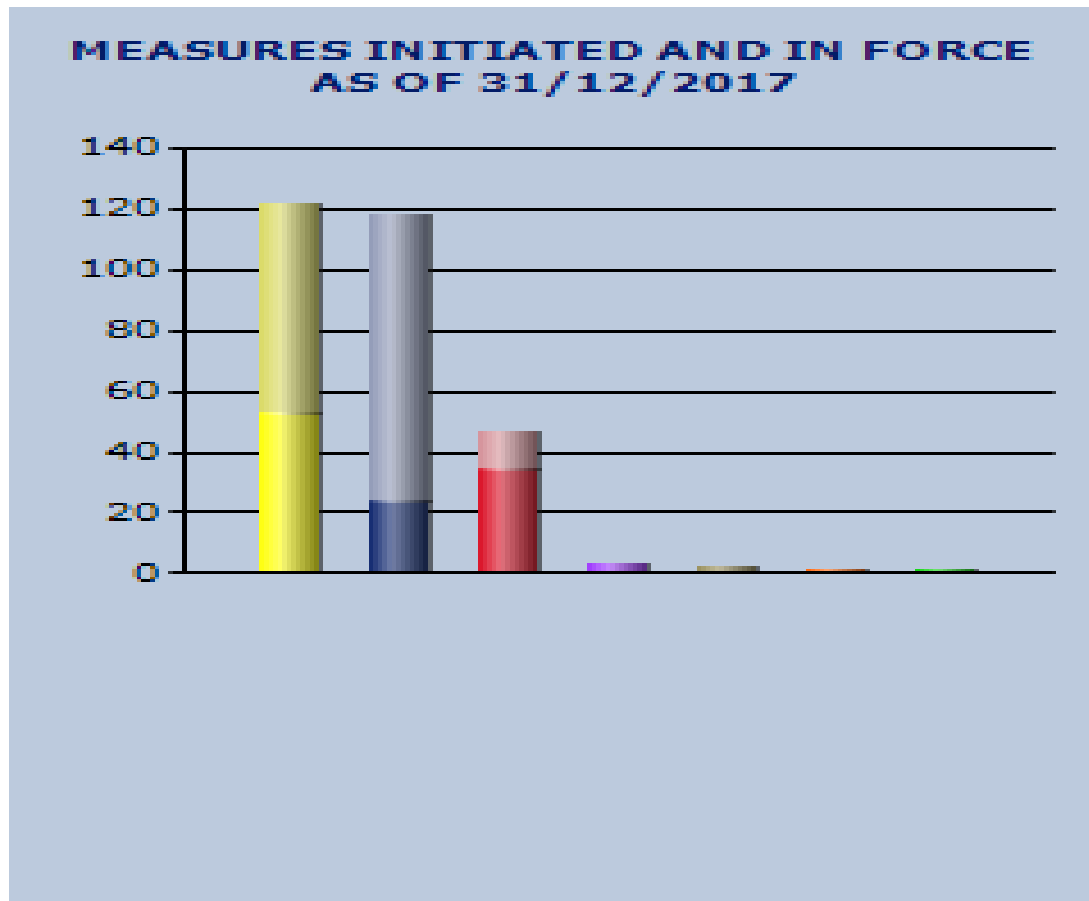
Indonesia applied tariff has the same pattern with the mfn tariff...



Non Tariff Measures in I-TIP Goods (Junie 2016, WTO)

		Indonesia	
	World		
[in force& initiation]	Total	Total	Share
Sanitary and Phytosanitary [SPS]	14.123	102	1%
Technical Barriers to Trade [TBT]	21.181	111	1%
Anti dumping [ADP]	1.844	48	3%
Countervailing [CV]	197	0	0%
Safeguards [SG]	63	6	10%
Special Safeguards [SSG]	633	0	0%

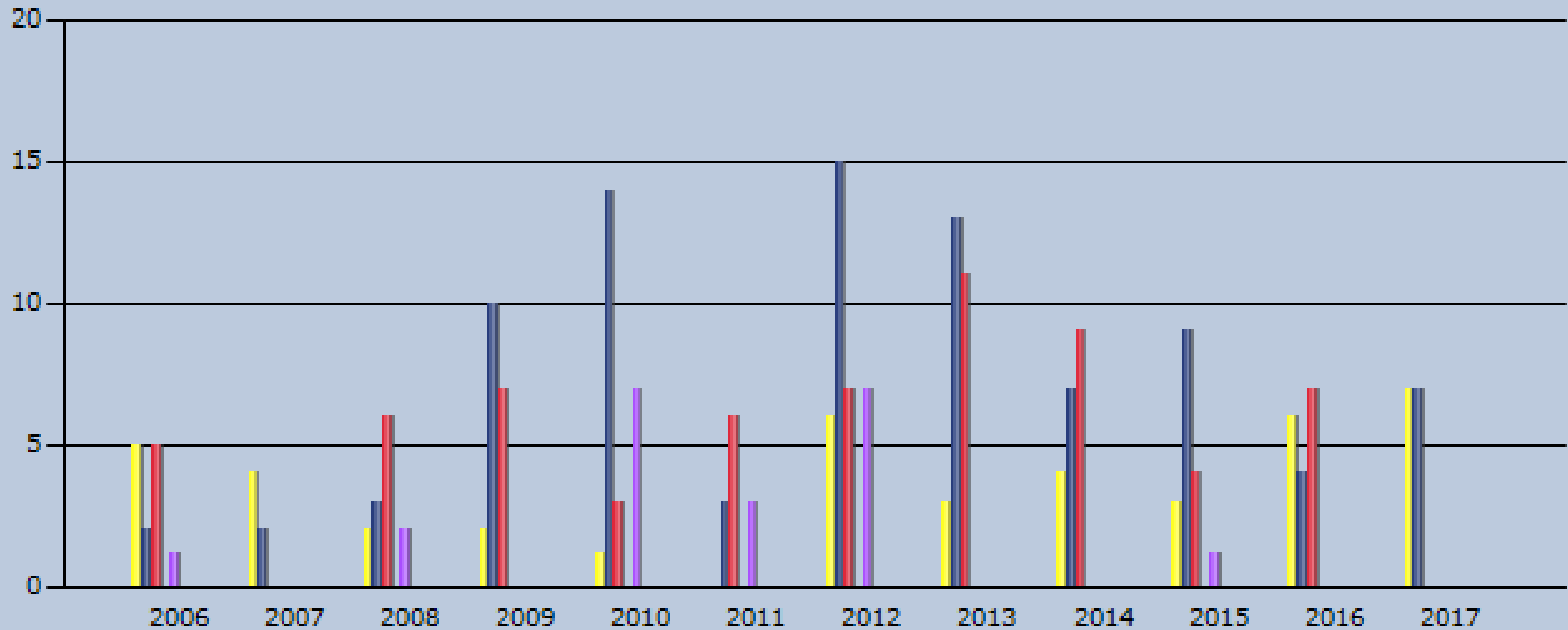
Indonesia Non Tariff Measures



TECHNICAL		TRADE DEFENCE		AGRICULTURAL		OTHER	
IN PREPARATION	IN FORCE	INITIATION	IN FORCE	BOUND IN WTO	APPLIED		IN FORCE
Sanitary and Phytosanitary		Anti dumping		Special Safeguards		Quantitative Restrictions	
Technical Barriers to Trade		Countervailing		Tariff-rate quotas		State Trading Enterprises	
		Safeguards		Export Subsidies			

Indonesia Non Tariff Measures

MEASURES INITIATED AND IN FORCE FROM 2006 TO 2017



Scope of SPS and TBT (FAO&WTO,2017)

Scope of the SPS Agreement

The scope of the SPS Agreement is defined by the objective of the measures.

The measures covered by the SPS Agreement are taken to protect:



- Risks arising from additives, contaminants, toxins or disease-causing organisms in food and feed



- Plant- or animal-carried diseases (zoonoses)



- Pests, diseases or disease-causing organisms



- Other damage caused by the entry, establishment or spread of pests

Scope of the TBT Agreement

The scope of the TBT Agreement is defined by the objective of the measures.



- Technical regulations lay down product characteristics or their related processes and production methods. Compliance is mandatory. They may also deal with terminology, symbols, packaging, marking and labelling requirements

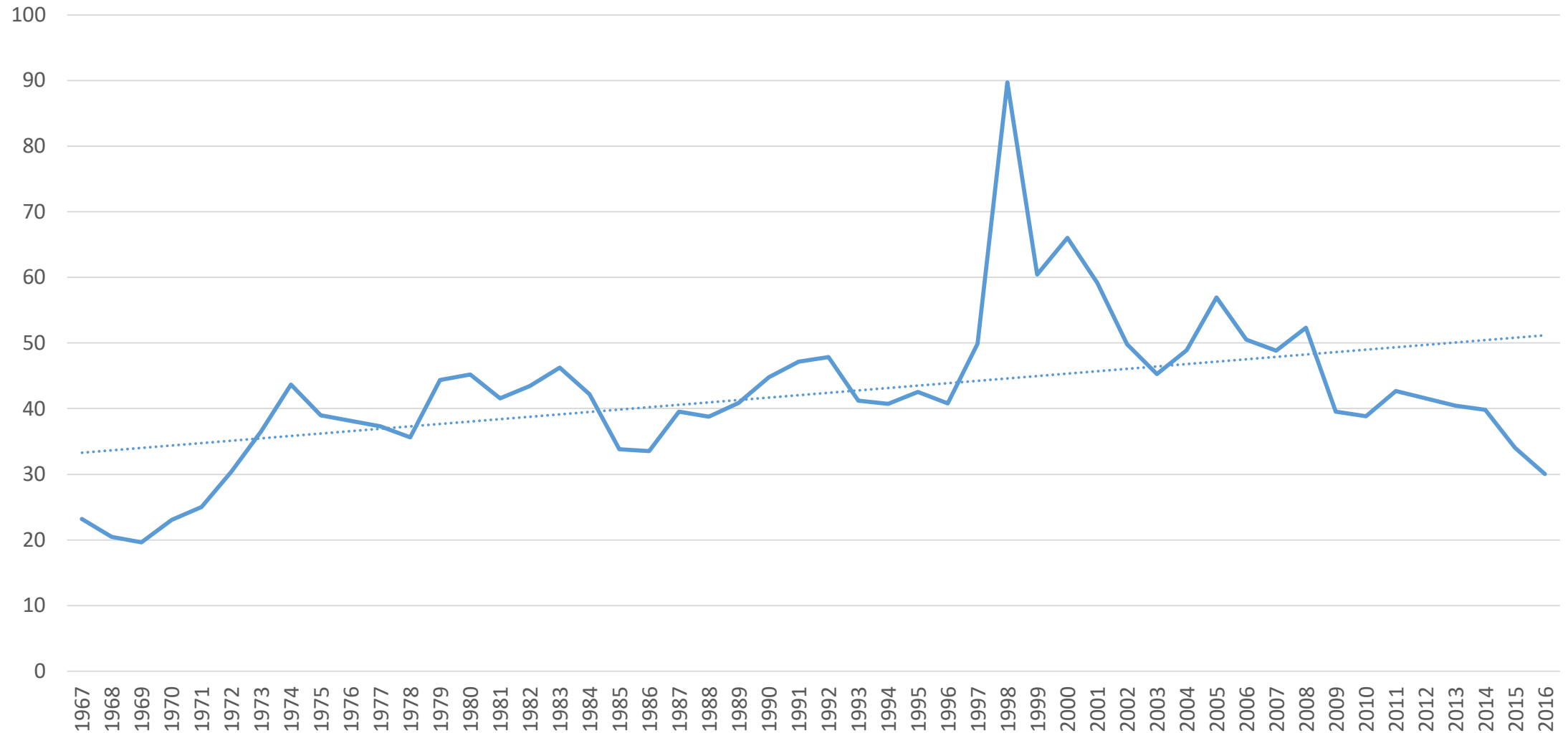


- Standards are approved by a recognized body responsible for establishing rules, guidelines or characteristics for products or related processes and production methods. Compliance is not mandatory. They may also deal with terminology, symbols, packaging, marking and labelling requirements



- Conformity assessment procedures are used to determine that relevant requirements in technical regulations or standards are fulfilled.
- They include procedures for sampling, testing and inspection; evaluation, verification and assurance of conformity; and registration, accreditation and approval

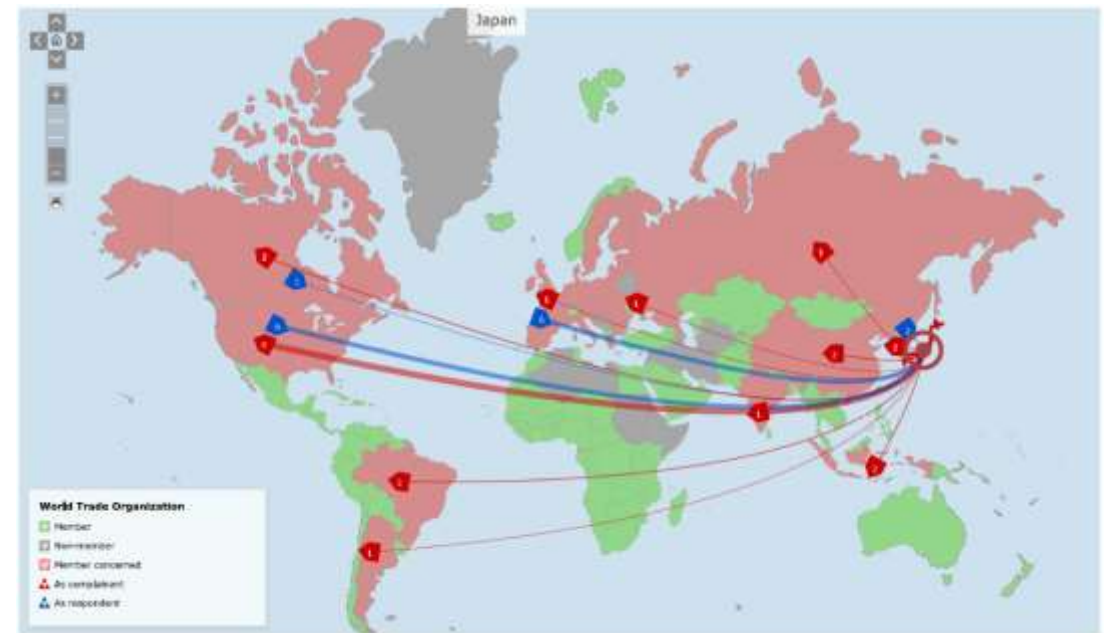
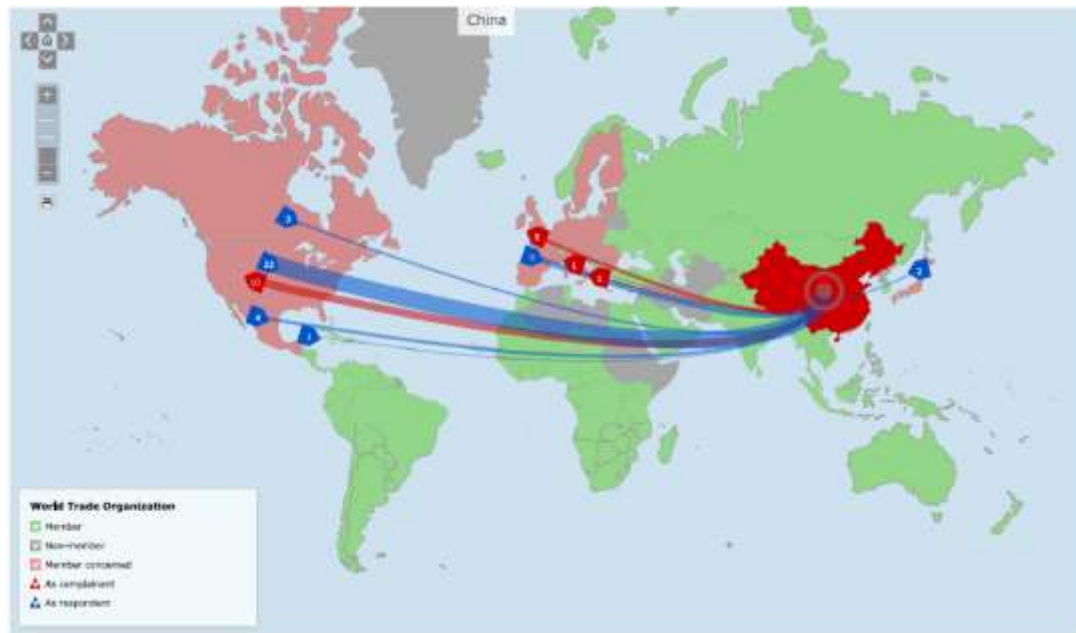
Indonesia openness based on trade per GDP ratio tend to increase; however, there is anomaly since 2008/2009....



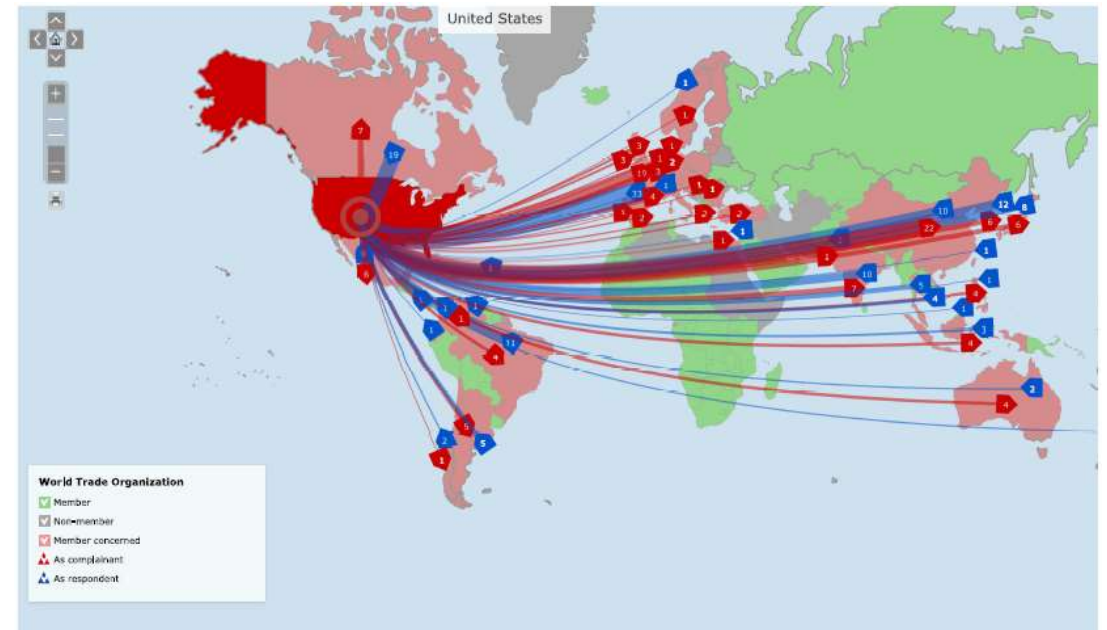
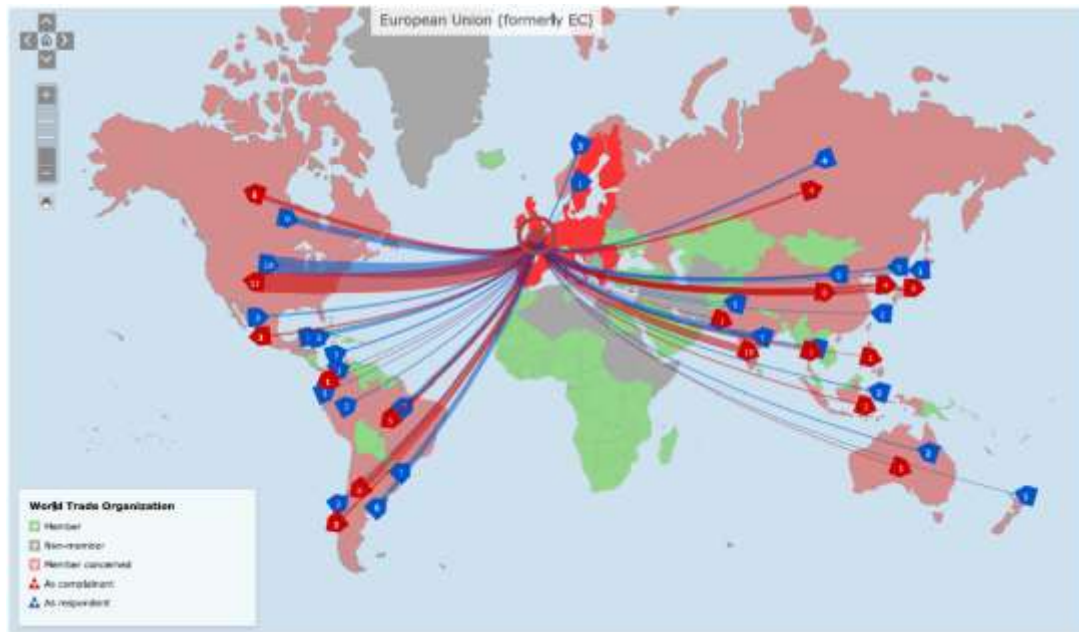
Indonesian Cases in DSB, WTO



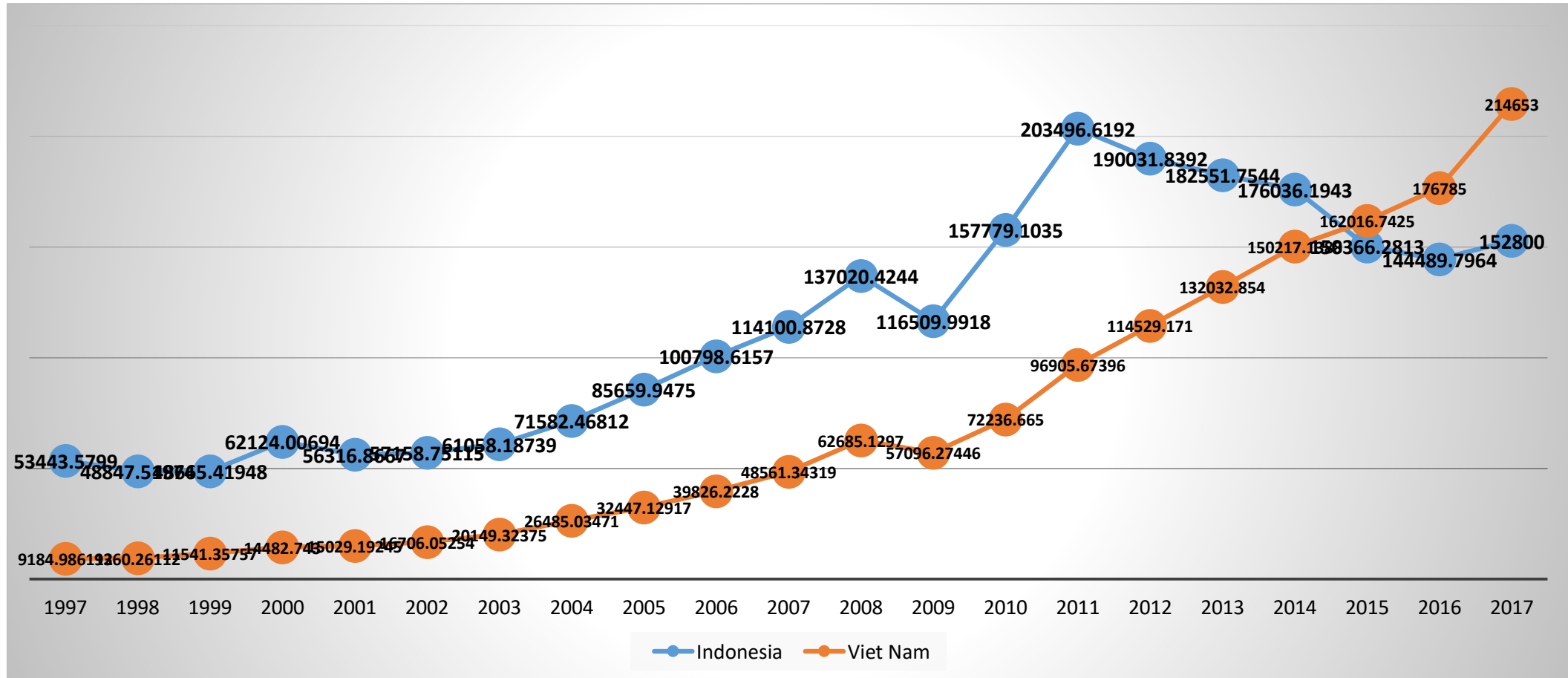
China and Japan Cases in DSB, WTO



US and EU Cases in DSB, WTO



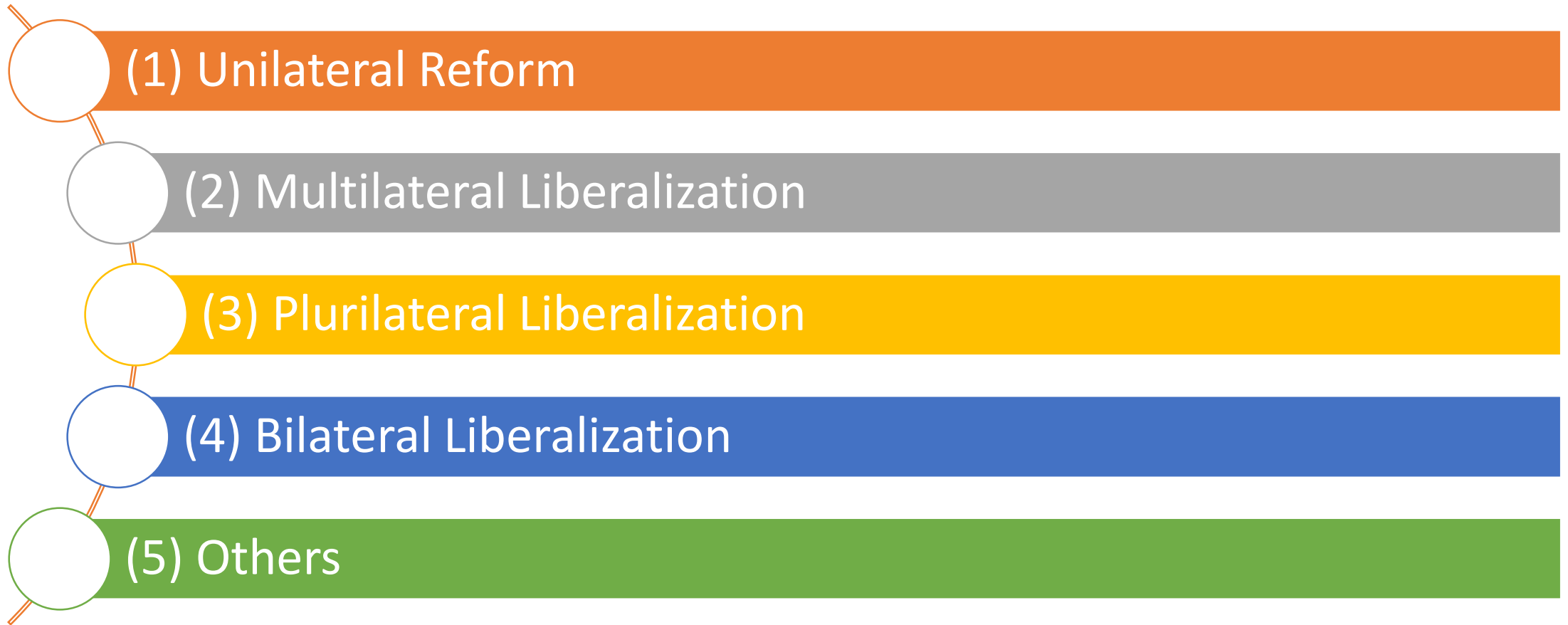
Export of Indonesia vs Vietnam (USD M) 1997-2017



D.Strategy of Trade Policy for Further Integration

Unilateral Reform
Multilateral Liberalization
Plurilateral Liberalization
Bilateral Liberalization
Others

Strategy of Trade Policy for Further Integration

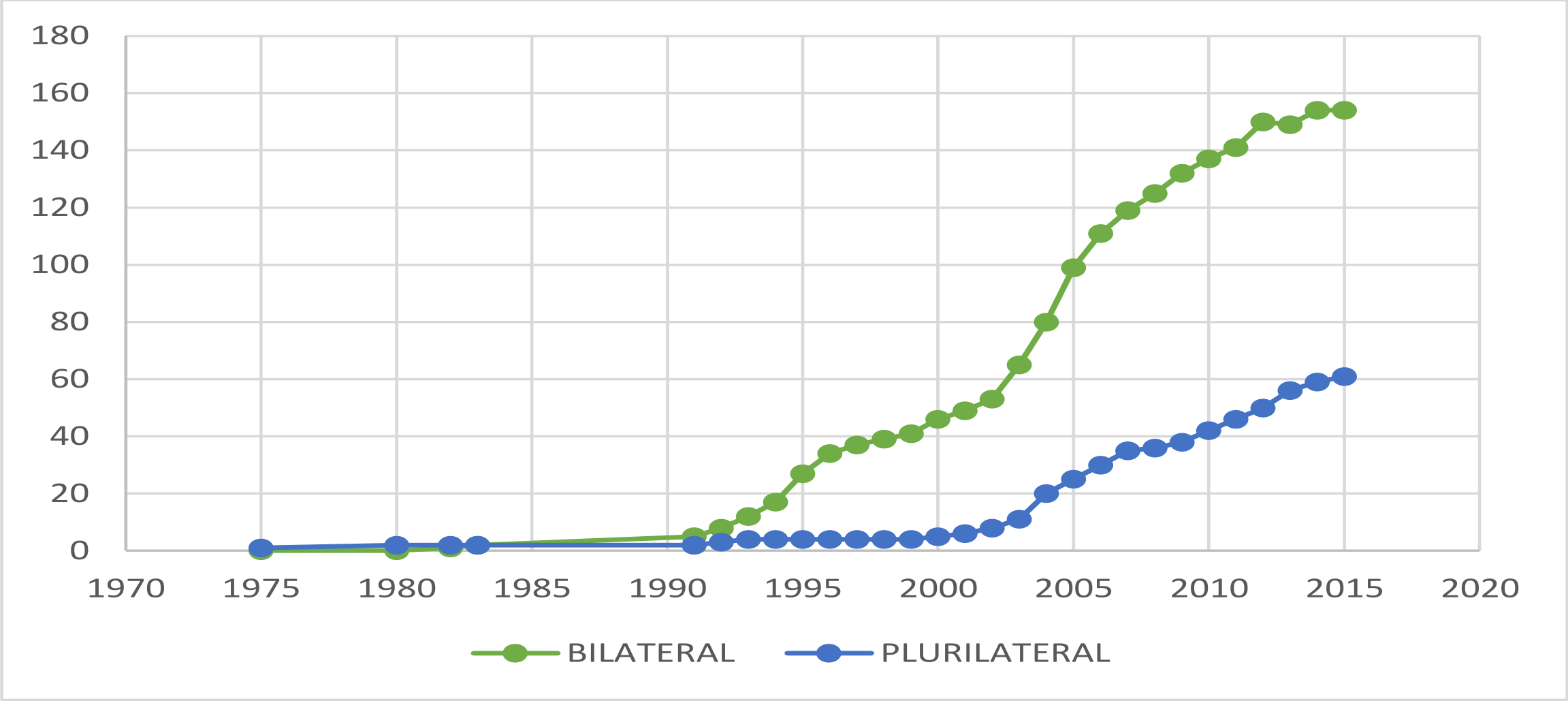


Strategy of Trade Policy for Further Integration:

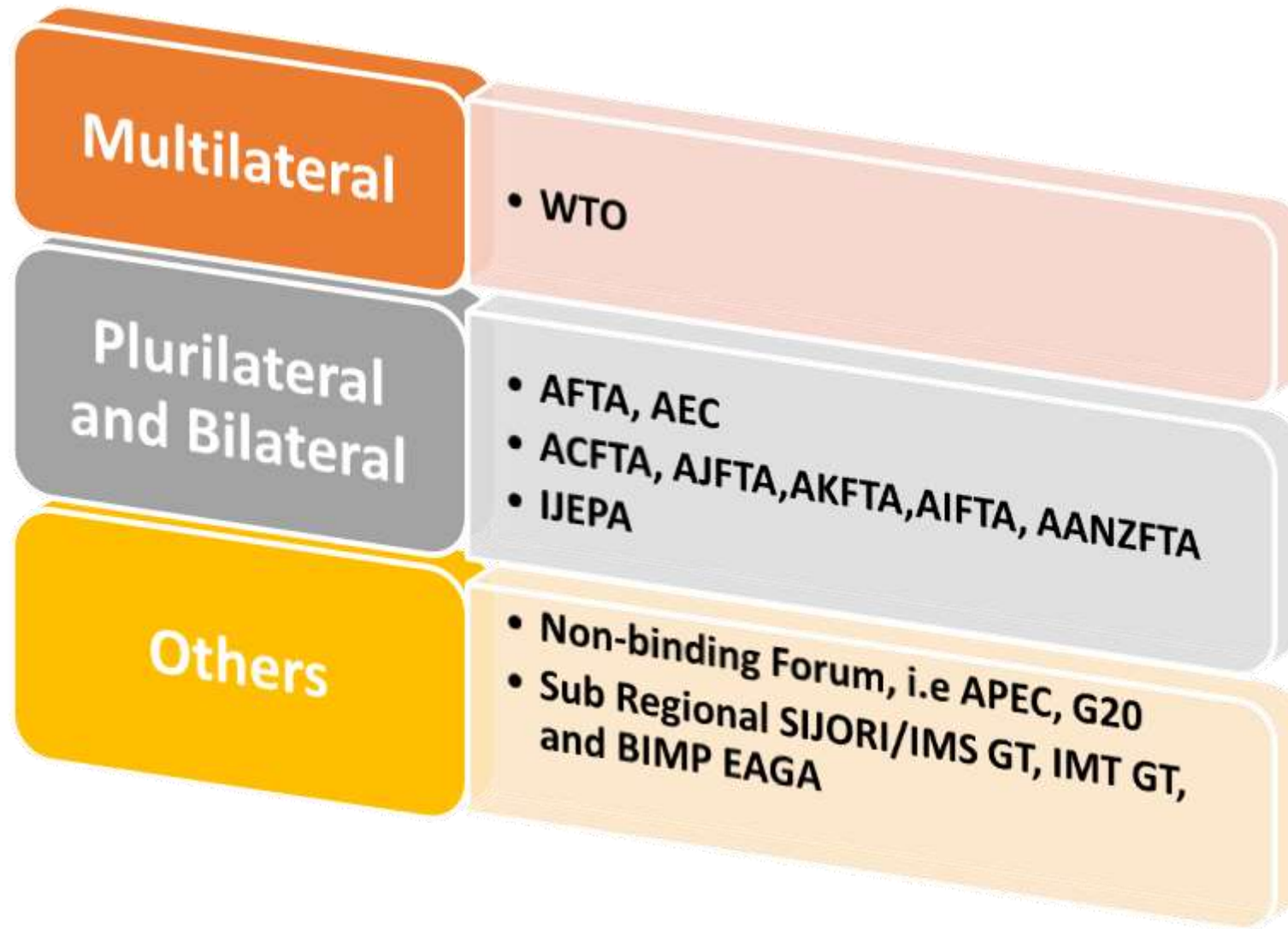
(1) Unilateral Reforms and (2) Multilateral Liberalization

- There are unilateral reforms from Indonesia started in late 1960s, mid 1980s, and some economic packages reforms from our current administration. Some of those reforms have direct and indirect relation with the trade liberalization
- Indonesia has joined Multilateral Liberalization through WTO since 1994/1995 based on Uruguay Round; however, there are no major progress in Doha Round. These condition become one factor that alter the strategy into regional integration, in plurilateral, bilateral, and other policies

Trend of Plurilateral and Bilateral FTA (ADB)



Indonesian International Trade Cooperation



Regional Trade Cooperation

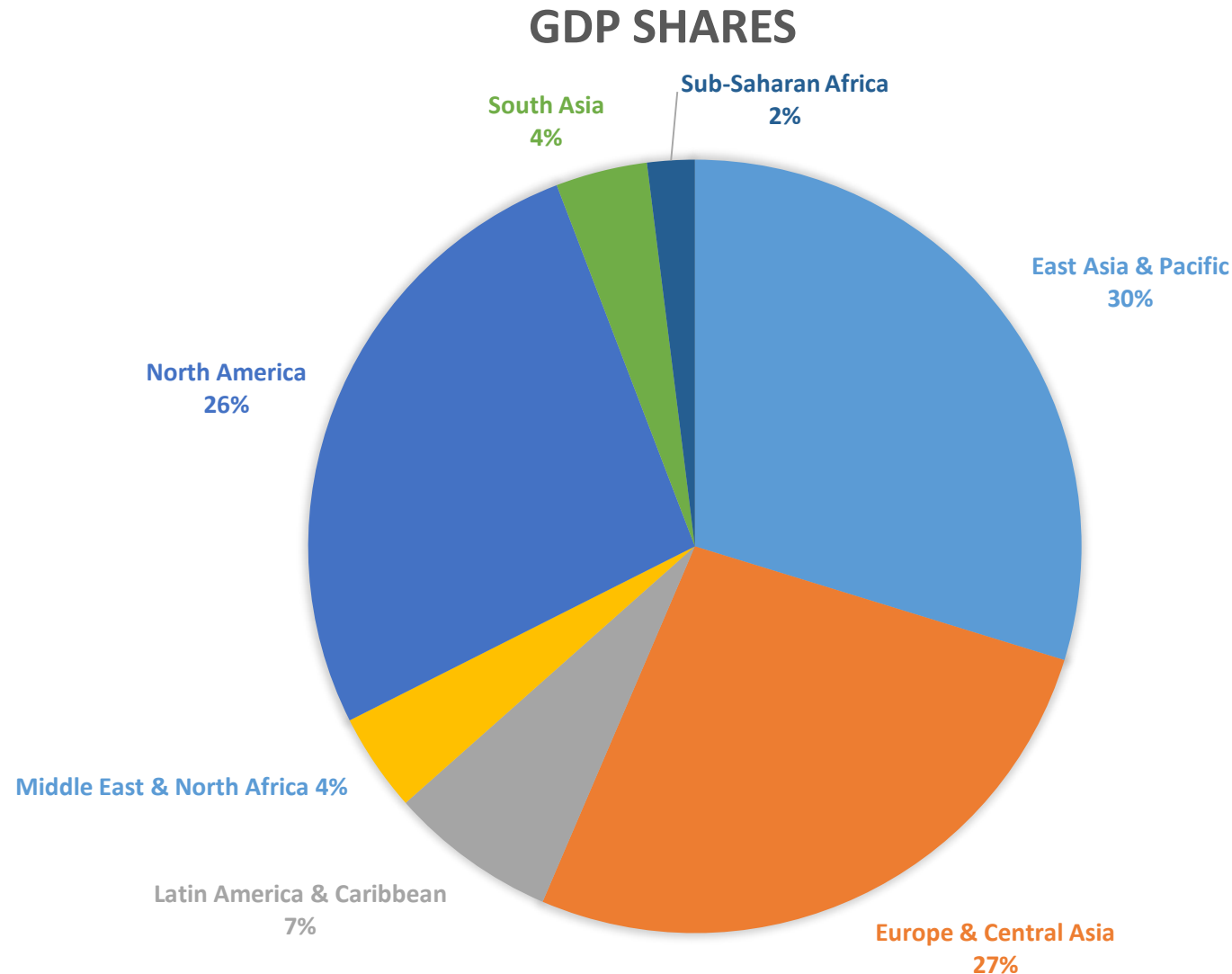
- ✓ [ASEAN Free Trade Area \(AFTA\)](#)-(28-Jan-1992)
- ✓ [ASEAN – China](#)_(01-Jan-2005 (Goods) and 01-Jul-2007 (Services))
- ✓ [ASEAN - Korea](#)_(01-Jan-2007 (Goods) dan 01-May-2009 (Services))
- ✓ [ASEAN – Japan](#)_(31 March 2008)
- ✓ [Japan – Indonesia](#)_(01-Jul-2008)
- ✓ [ASEAN – India](#)_(1 June 2010)
- ✓ [ASEAN - Australia - New Zealand](#)_(January 2012)

Strategy of Trade Policy for Further Integration:

(3) Plurilateral and (4) Bilateral Liberalization


- Plurilateral liberalization are based not only by legally binding but also non-legally binding. These liberalization become the most important strategy for Indonesia in integrating its economy with the world
- Bilateral liberalization, until nowadays, is not the primary strategy for Indonesia. Hence, this presentation will not focus on the bilateral liberalization
- In this presentation, we are focusing in discussing the plurilateral strategy of Indonesia

There are 3 main networks of economics activities: East Asia&Pacific, North America, and Europe&Central Asia



Strategy of Trade Policy for Further Integration:

Indonesia has focused on its surrounding first, then expanded into larger area and all the economic regions...

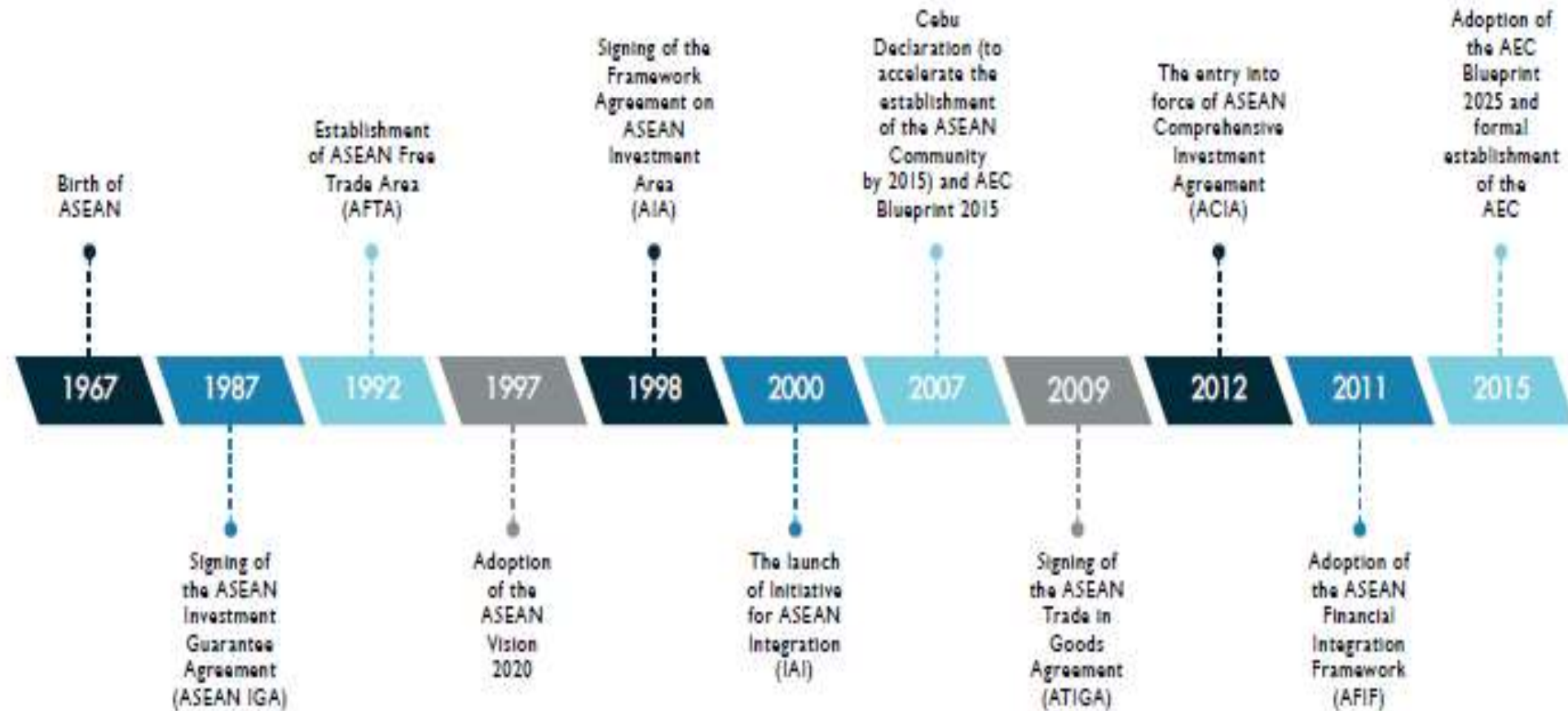


First Step: Integrating with ASEAN countries (there are 10 South East Asian Countries) through **AFTA** (ASEAN Free Trade Area) started in 1992 then expanded into **ASEAN Economic Community (AEC)** that cover more than just integration of goods and services

Second Step: Integrating with the Asian countries, especially ASEAN 10 plus China, Japan, Korea, India, Australia, and New Zealand under so-called “**RCEP or Regional Comprehensive Economic Partnership**”.

Third Step: Integration with the North America and the EU through: (1) **TPP or Trans-Pacific Partnership** (before abandoned by US), (2) **FTAAP (Free Trade of the Asia Pacific, will be discussed later)**, (3) **Indonesia-EU CEPA** (Indonesia-European Union Comprehensive Economic Partnership) or ASEAN-EU CEPA (?)

AEC Progress and Evolution (ASEAN Secretariate, 2017)

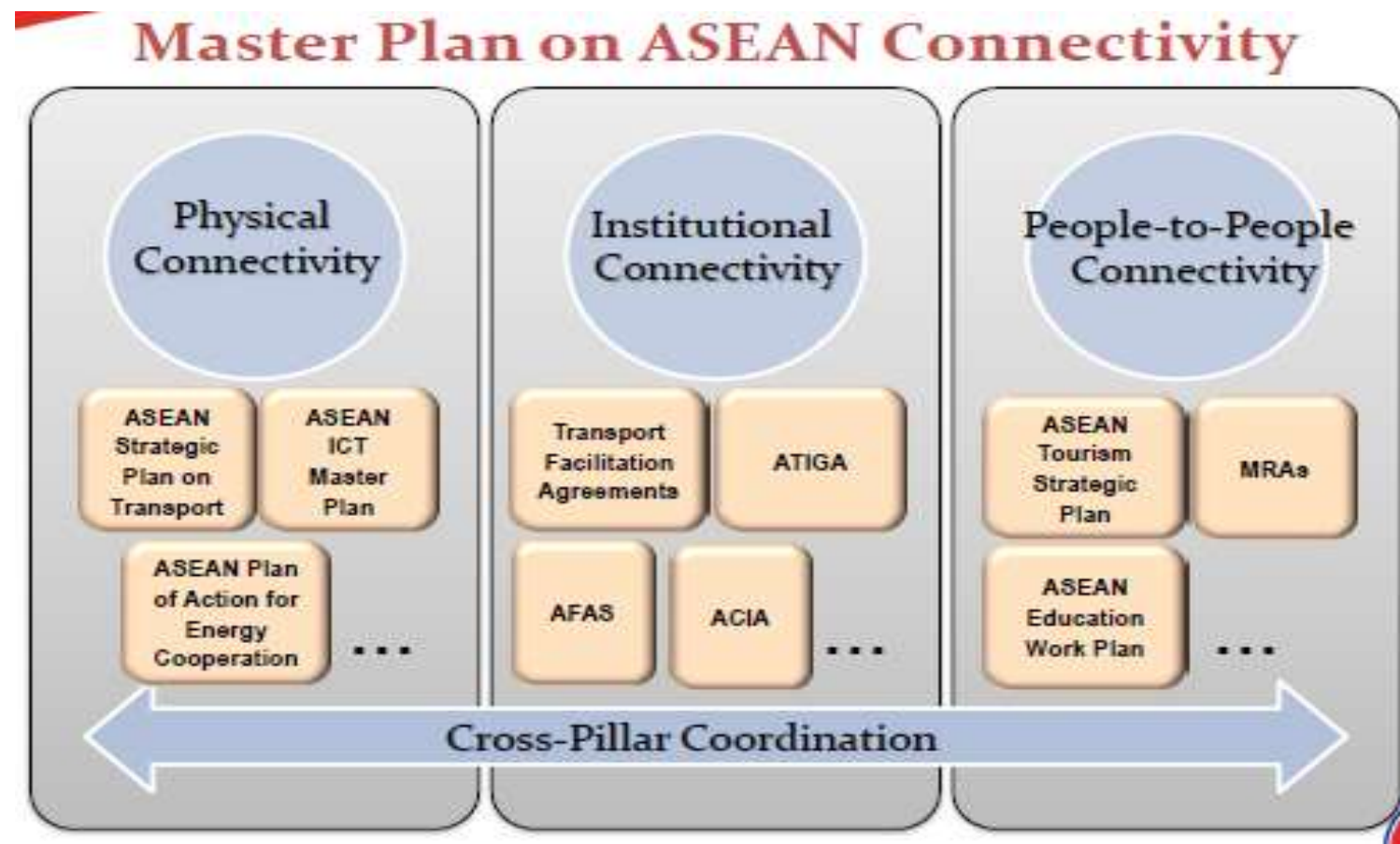


AEC (ASEAN Economic Community)

Blue Print of AEC

- ✓ (1) AEC as a single production base : free flow of goods, free flow of services, free flow of investments, free flow of capital, and free flow of skilled labour.
- ✓ (2) AEC as a competitive economic region : develop a competition policy, strengthen consumer protection, regional cooperation in IPRs, complete network of bilateral agreement to avoid double taxation, and promote electronic commerce
- ✓ (3) AEC towards equitable economic development accelerated the development of SMEs dan Enhance Initiative for ASEAN Integration (IAI) to reduce development gap
- ✓ (4) AEC towards integration to the global economy : a coherence approach in external economic relation (FTA dan CEP) and enhance participation in global supply networks

Master Plan ASEAN Connectivity



Applied Tariff FTA of Indonesia (WTO)

Description	No. of lines	MFN applied (%)	ATIGA ^a (%)	AK FTA ^b (%)	AC FTA ^c (%)	AANZ FTA ^d (%)	AI FTA ^e (%)
01 Live animals and products	571	5.3	0.0	0.3	0.0	1.3	3.7
02 Vegetable products	480	5.5	0.6	0.8	0.7	1.6	4.3
03 Fats and oils	164	4.3	0.0	0.0	0.0	0.0	2.3
04 Prepared food, beverage and tobacco	453	21.1	15.3	15.5	15.8	16.9	18.6
05 Mineral products	206	3.3	0.0	0.1	0.3	0.2	1.9
06 Chemicals and products thereof	1,182	4.8	0.3	0.4	0.8	0.3	3.1
07 Plastics, rubber, and articles thereof	491	8.4	0.0	3.3	4.8	1.9	6.7
08 Raw hides and skins, Leather products	102	6.5	0.0	0.2	1.2	1.9	4.7
09 Wood and articles of wood	160	2.7	0.0	0.0	0.0	0.1	2.2
10 Pulp of wood, paper and paperboard	283	4.4	0.0	0.0	0.0	0.2	2.8
11 Textiles and clothing	1,167	10.8	0.0	0.9	1.0	2.3	9.1
12 Footwear, headgear, etc.	75	13.9	0.0	1.3	2.3	1.7	10.0
13 Articles of stone, plaster, cement	224	7.9	0.0	0.0	2.3	1.0	5.5
14 Precious stones and metals	89	6.9	0.0	2.2	2.0	1.6	5.6
15 Base metals and articles thereof	984	7.6	0.0	3.9	1.5	2.2	6.3
16 Machinery, electrical equipment, etc.	2,123	5.2	0.0	0.3	0.3	0.7	2.8
17 Transport equipment	633	16.9	0.0	5.2	14.9	9.3	13.0
18 Precision equipment	329	5.4	0.0	0.0	0.0	0.0	3.2
19 Arms and ammunition	27	6.1	6.1	0.0	6.1	0.6	1.7
20 Miscellaneous Manufactured articles	225	9.5	0.0	0.3	0.6	1.2	7.5
21 Works of art, etc.	14	4.6	3.2	0.0	0.0	0.0	4.2

Strategy of Trade Policy for Further Integration: FTAAP (Free Trade Area of the Asia-Pacific)

- This presentation will explore further of FTAAP
- FTAAP is still in discussion among APEC (Asia-Pacific Economic Cooperation) economies; however, there are high expectation that the FTAAP will be implemented in the near future (in a decade?)

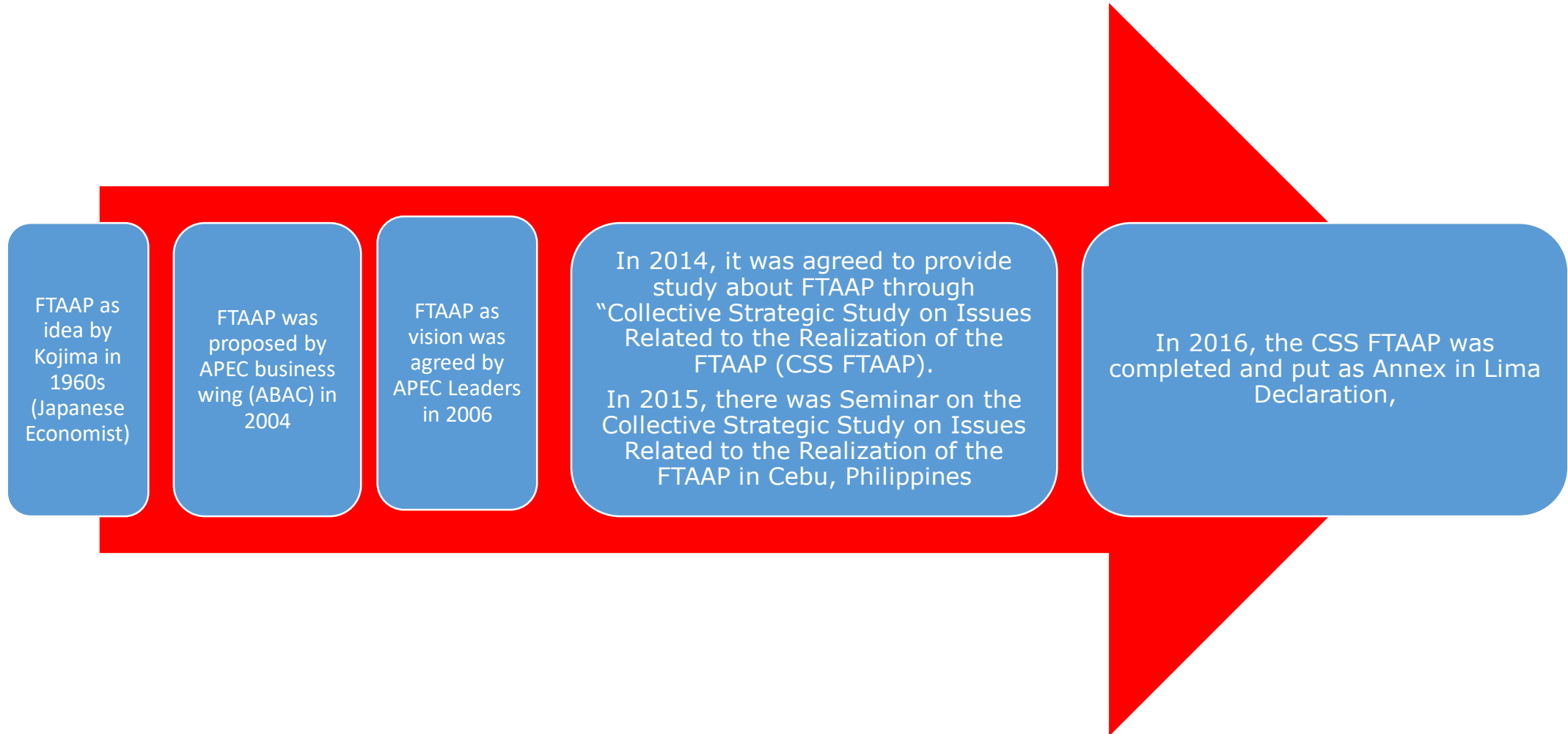
APEC economies has a significant contribution to the world (both in population and GDP); however, its trade share over GDP is lower than the world (both merchandise and services trade)

Indicator	APEC	WORLD	APEC/WORLD
Total Population (in thousands)	2,847,500	7,346,706	0.39
GDP, Current USD (in millions)	44,047,067	74,292,304	0.59
GDP per capita, Current USD	15,510.18	10,112.33	1.53
International Tourism Arrivals (in thousands)	398,509.8	1,200,058	0.33
Market Capitalization of Listed Companies (% of GDP)	111.84	96.83	
Value Added, Industry (% of GDP)	29.67	27.61	
Merchandise Goods Trade (% of GDP)	37.75	44.73	
Commercial Services Trade (% of GDP)	8.65	12.70	
FDI Stocks, Inward (% of GDP)	29.35	34.62	

In average, world export share of each APEC member into APEC is around 73%. Russia has the lowest (27%) while Mexico has the highest (90%)

EXPORT TO	APEC (USD M)	WORLD (USD M)	APEC/WORLD (%)
Australia	149773.98	189629.97	78.98
Brunei D	5602.70	6352.66	88.19
Canada	340100.41	388911.11	87.45
Chile	41471.94	59884.41	69.25
China	1354709.26	2118980.58	63.93
Hong Kong, China	404880.09	516588.13	78.38
Indonesia	101494.91	144489.80	70.24
Japan	501685.22	644932.44	77.79
Korea	367057.07	495417.72	74.09
Malaysia	144532.78	189414.07	76.31
Mexico	333791.19	373882.95	89.28
New Zealand	25018.66	33833.38	73.95
Papua New Guinea	
Peru	21850.20	36039.97	60.63
The Philippines	47521.51	56312.75	84.39
Russia	67374.29	285491.05	23.60
Singapore	250076.75	329871.04	75.81
Chinese Taipei	216491.63	256873.52	84.28
Thailand	144295.25	210883.38	68.42
United States	908692.72	1453167.15	62.53
Vietnam	107069.22	162016.74	66.09
Average			72.68

FTAAP has shown a big progress during last decade...



Collective Strategic Studies (CSS) FTAAP has shown challenges and possibilities of FTAAP implementation...

Consist of 9 Chapters:

- Overview (Ch 1),
- APEC Economic Review (Ch 2),
- NGeTI (Next Generation Trade and Investment, Ch 3),
- Measures Affecting Trade and Investment (Ch 4),
- Stocktake Existing FTA in the Asia-Pacific (Ch 5),
- Stocktake of APEC Initiatives and Outcome Relevant to an FTAAP-sekitar 150 FTAs di APEC (Ch 6),
- **Update of Other Analytical Work (Ch 7),**
- Ongoing Regional Undertakings (Ch 8),
- Opportunities and Challenges (Ch 9)

Quantification of Benefit from FTAAP Based on CSS FTAP Report (Ch 7)

- Use GTAP Model with data base in version 8 (study in 2009) and version 9 (study in 2015)
- Scenarios
 - Scenario I: Trade liberalization through tariff elimination (full elimination of tariffs in agricultural and manufactured goods)
 - Scenario II: (I) + enhanced trade facilitation (reduction of trade costs by 5 percent through enhanced trade facilitation)
 - Scenario III: (II) + liberalization of trade in services (reduction of tariff equivalent barriers in services by 10 percent)
- Each scenario is calculated in static and dynamic model

Full of trade liberalization and enhance of trade facilitation provide bigger potential economic impacts on APEC Economies in both economic growth and trade (CSS FTAP Report, Study 2015). Some other barriers, such as reducing NTMs, have potential to be reduced that could increase bigger positive impact on APEC economies.....

Scenario 1

- Economic Growth **0,40%**
- Export Growth **2.45%**
- Import Growth **2.49%**

Scenario 2

- Economic Growth **3,45%**
- Export Growth **9.31%**
- Import Growth **9.24%**

Scenario 3

- Economic Growth **3,54%**
- Export Growth **9.55%**
- Import Growth **9.48%**

Economic Impact of FTAAP on APEC Economies is more than just quantitative impacts....

- There are evidences that there are qualitative impact of APEC and FTAAP on the APEC Economies
 - APEC Activities each year could support APEC economies to adopt world best practice in their development (Panennungi et.al, 2014). As we know that APEC activities in line with the FTAAP activities
 - There are evidences that trade activities in APEC economies tend to lower cultural distances between APEC economies (Wilandari and Panennungi, 2017 (Forthcoming)
 - Lowering cultural distance has potential to reduce trade cost and increase trade between APEC economies further in the future
 - Another bigger role: FTAAP could contribute to peace on the Asia-Pacific (benefit of having trade is better than having war...)

Important Issues (1): there are still discussion left behind about the relation between The Bogor Goals (TBG) and the FTAAP...

- The Bogor Goals (TBG) is the landmark of APEC results that was decided in the Leaders Meeting in 1994: APEC Region as “free and open trade and investment” in 2020
 - However, there are many interpretation of TBG, especially when we want to measure the progress of TBG
- There are two ways to achieve TBG: through WTO and Action Plans (both Individual Action Plans and Collective Action Plans)
- Will FTAAP inline with TBG or will FTAAP “beyond” TBG ? This questions will have a long discussion...
 - In the beginning, the APEC Leaders reluctant to pursue FTAAP. However, there have been changes in both external and internal APEC that support the possibility of FTAAP

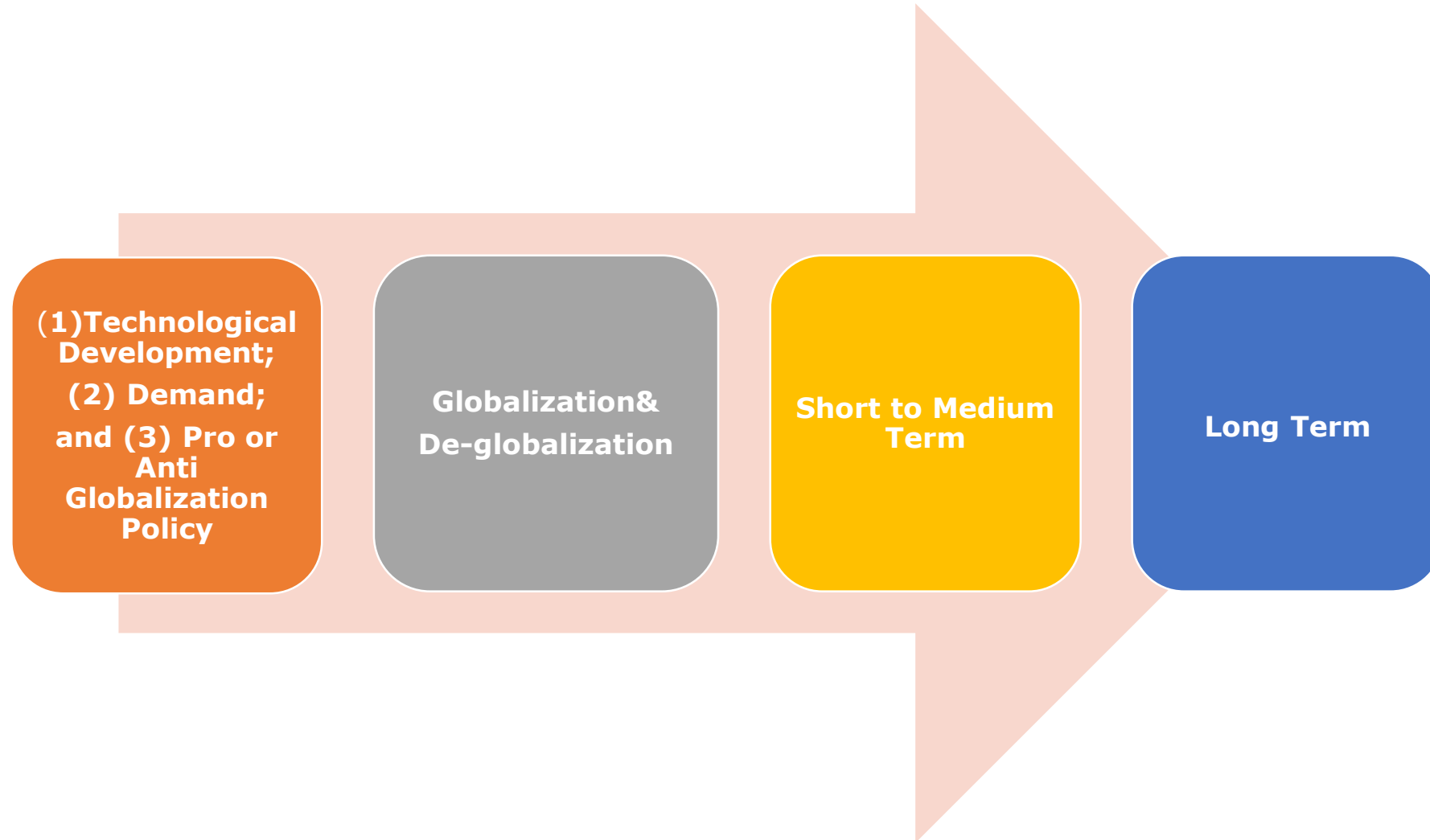
Important Issues (2): Pathways to the FTAAP are still in progress....

- There are two competing FTAs as the pathway to FTAAP: TPP, RCEP, or Otherways?
 - TPP has been concluded in October 5, 2015; however, it could not be implemented due to the USA exit under Trump Administration
 - RCEP are in progress to be concluded
 - Otherways?
- Some issues included in both TPP and RCEP are shown in the next two page presentations
 - It seems that TPP issues is more complicated than the RCEP issues; however, RCEP is not concluded yet and TPP tend to be left by members after US abandon the agreement

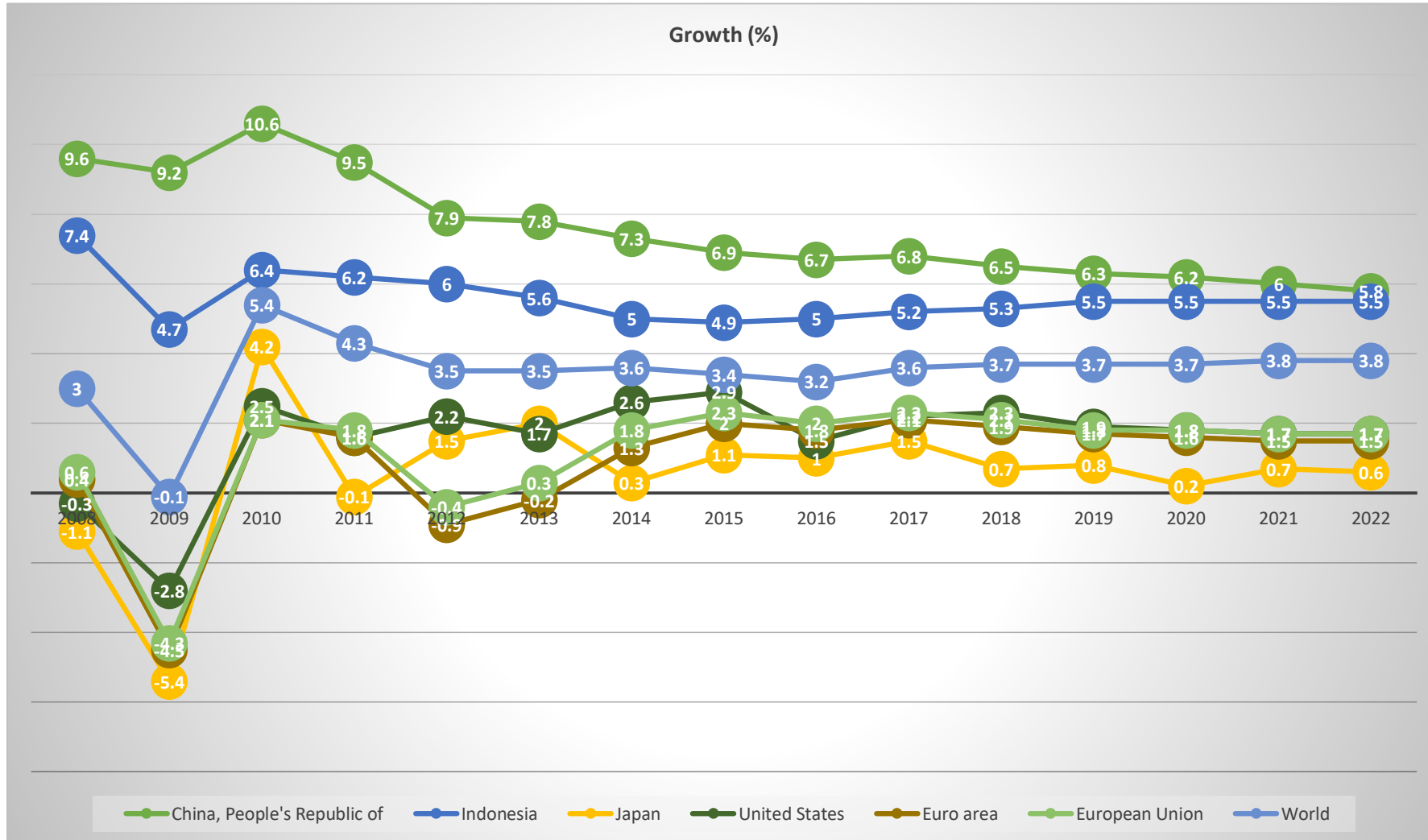
E. Challenges of Globalization

- Current Global Economy and Trade
- ICT Development and Global Production Networks
 - Protectionism as world-wide phenomenon
 - Trump Trade War (?)

Globalization: The Impact for “Small Country”

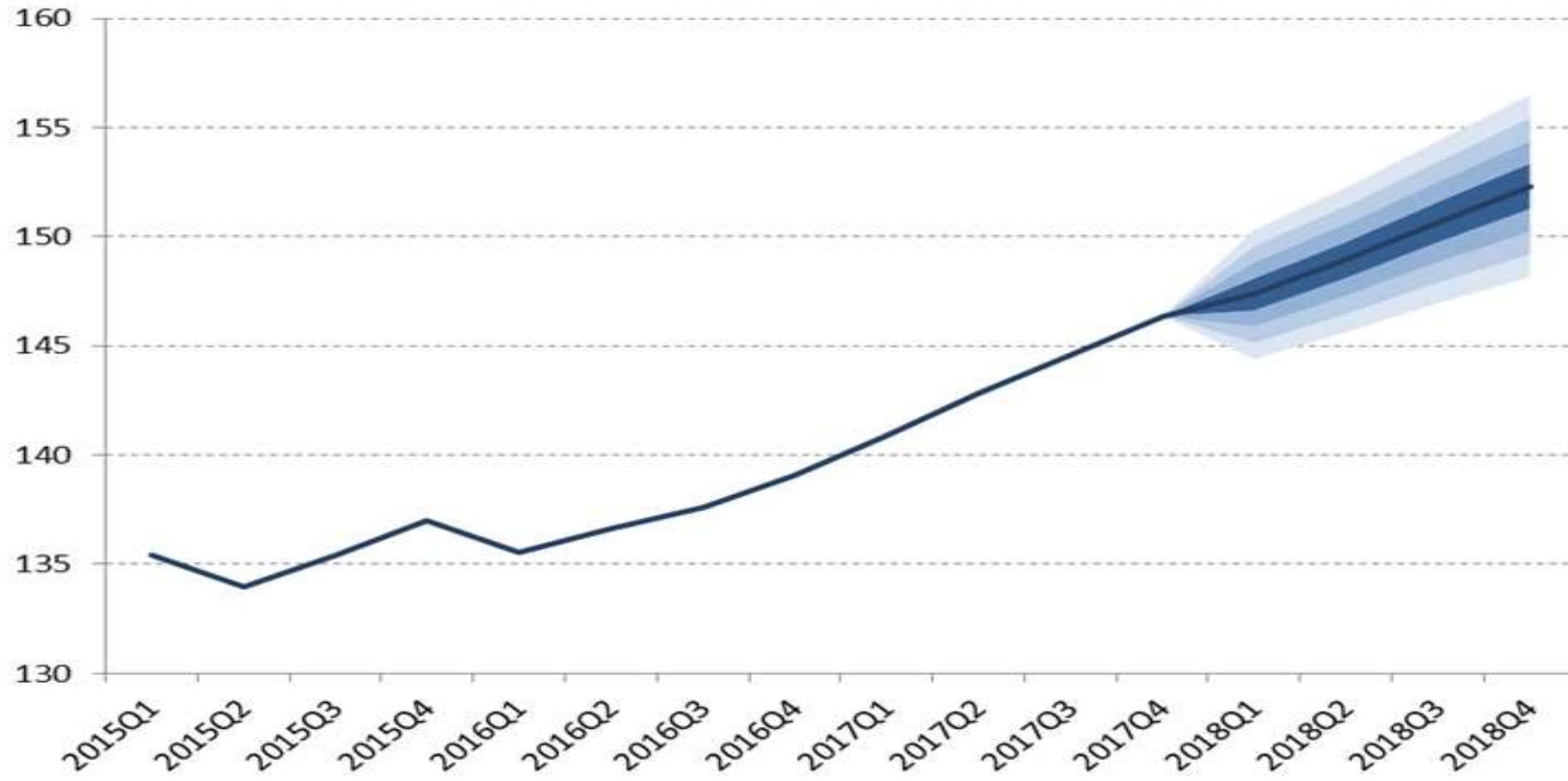


*Indonesia has maintained a stable growth under the pressure of Global Financial Crisis (GFC)
(based on IMF data and projection, 2017)*



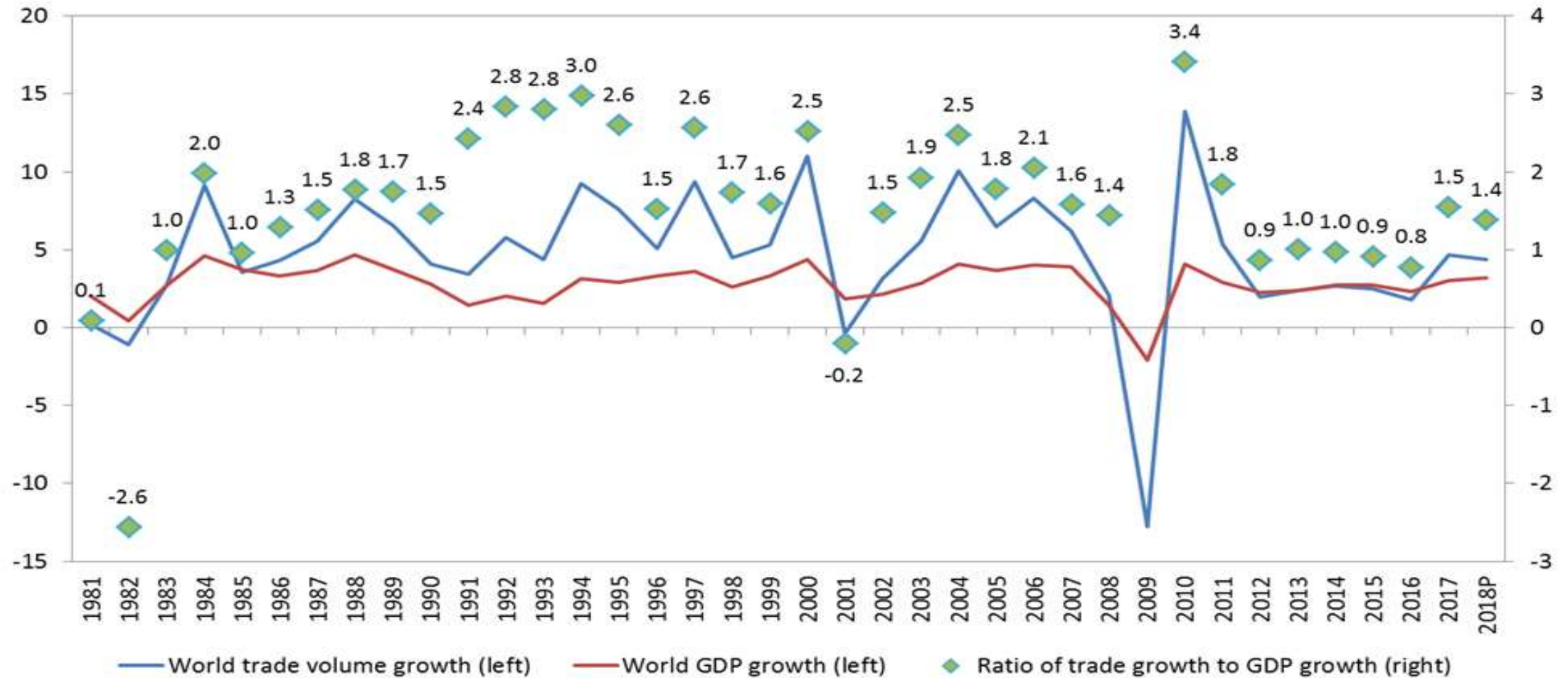
Volume of world merchandise trade, 2015Q1-2018Q4

Seasonally adjusted volume index, 2005=100 (WTO, 2018)



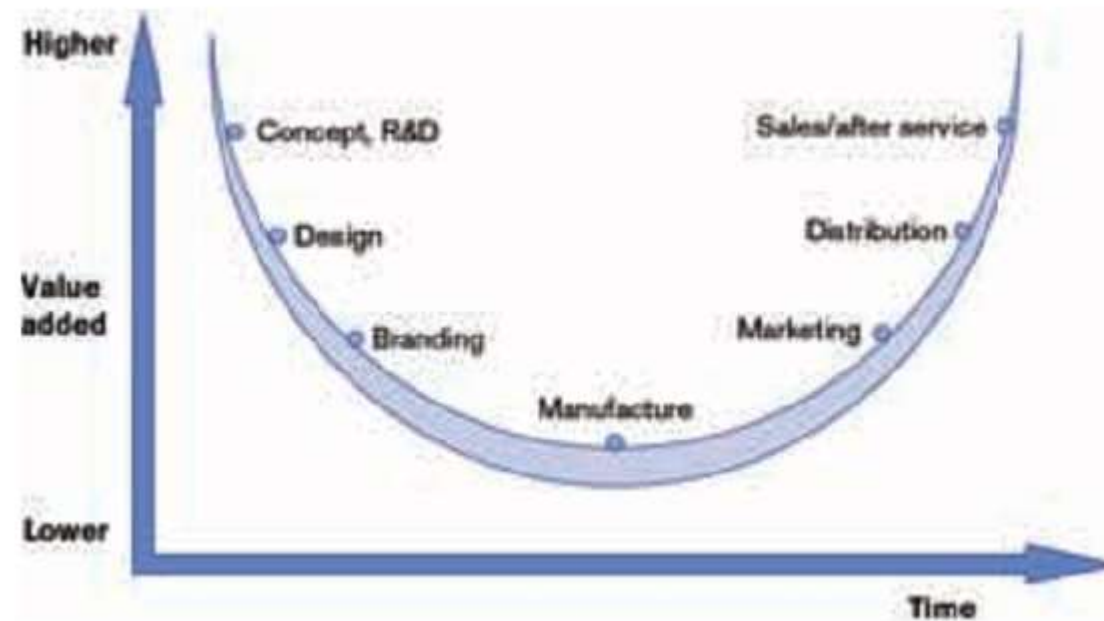
Ratio of world merchandise trade volume growth to world real GDP growth, 1981-2018

% change and ratio (WTO, 2018)



Global supply chains: value added and the smile curve...

FIGURE 2.3: Stan Shih's Smile Curve



Source: Adapted from Business Week Online Extra, May16, 2005.

ICT has changed the transaction of firms and household

ICT and Economic Agents

Firms can produce goods and services by using factor of production from many sources from national, regional, global (cheaper and faster)

Households can consume goods and services from many resources from national, regional, and global (cheaper and faster)

Government can monitor economic activities in national, regional, and global (cheaper and faster)

Trade in Value Added and Global Value Chains of Indonesia (WTO, 2017)

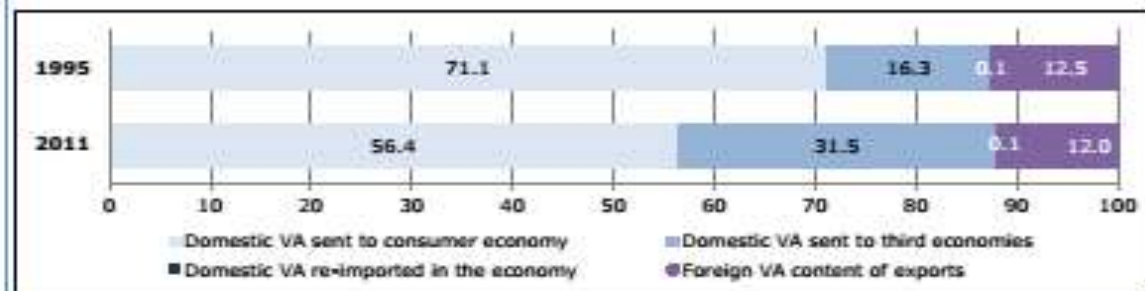
Indonesia

Trade in Value Added and Global Value Chains

VALUE ADDED CONTENT OF GROSS EXPORTS

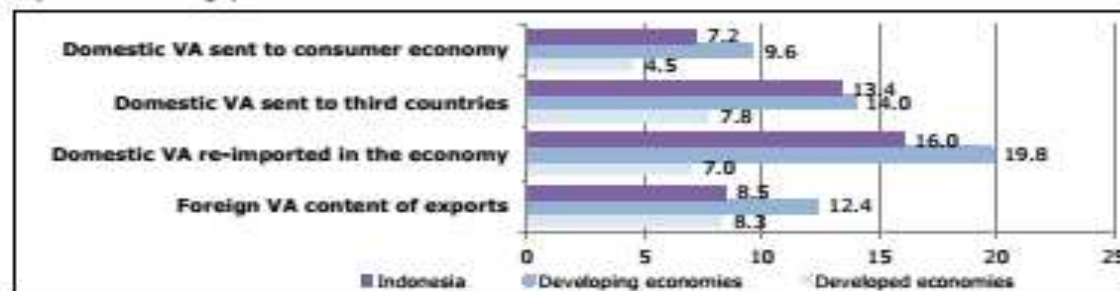
The value added (VA) components of gross exports, 1995 and 2011

(% share in total gross exports)



Evolution of the VA components of gross exports, 1995-2011

(annual % change)



Top export industries - Domestic and foreign VA content of exports, 2011

(% share in industry total gross exports)

1. Mining
2. Wholesale and retail trade
3. Food and beverages

	Domestic VA	Foreign VA	Total
1. Mining	95.1	4.9	100.0
2. Wholesale and retail trade	93.2	6.8	100.0
3. Food and beverages	91.3	8.7	100.0

(% share in economy total gross exports)

	Domestic VA	Foreign VA
1. Mining	26.5	1.4
2. Wholesale and retail trade	12.5	0.9
3. Food and beverages	9.3	0.9

Top export destinations - Domestic and foreign VA content of exports, 2011

(% share in total gross exports to partner)

1. Japan
2. China
3. United States

	Domestic VA	Foreign VA	Total
1. Japan	88.9	11.1	100.0
2. China	89.3	10.7	100.0
3. United States	85.7	14.3	100.0

(% share in economy total gross exports)

	Domestic VA	Foreign VA
1. Japan	13.5	1.7
2. China	13.0	1.6
3. United States	7.2	1.2

Domestic and foreign sectoral VA contribution to gross exports, 2011

(% share in industry total gross exports)

Export industry

- Total**
- Primary products
 - Manufactures
 - Services

	Domestic			Foreign			Total
	Primary products	Manufactures	Services	Primary products	Manufactures	Services	
Total	40.2	23.5	24.3	4.0	3.3	4.7	100.0
Primary products	89.7	1.6	3.7	2.5	0.9	1.5	100.0
Manufactures	20.0	47.9	13.5	5.8	5.6	7.2	100.0
Services	4.5	7.4	78.9	2.4	2.4	4.4	100.0

Value added origin

However, the symptom of deglobalization has been seen clearly...

Global Financial Crisis (GFC)

- GFC, trade and investment
- GFC and world demand

Protectionism

- Protectionism has increased since GFC as world-wide phenomenon, especially Non Tariff Measures
- Two big economies, UK and US, have shown a tendency of raising protectionism

Trump Trade War: 2017 & 2018

First Year: 2017

- (1) .First Trump Memo on Trade In January 20th , 2017: Five Principles
- (2) August 14th, 2017: USTR initiates “an investigation into China supposed intellectual property and technological transfer scheme” under Section 301, Trade Act 1974

Second Year: 2018

- (1) 22 January 2018: 30% tariff on solar equipment and 20% of first 1.2 m of washing machine (and 50% washing machine above 1.2m)
- (2) 8 March 2018, US announced import tariff 25% on steel and 10% for aluminium, excluding Canada and Mexico
- (3) 22 March 2018, Trump signed tariff for about US\$ 60 billion import based on “Section 301 Investigation”
- (4) 2 April 2018, China imposes up to 25% tariff on 128 US Product to respond US Steel and Aluminium tariffs, excluding Brazil, Australia, EU, South Korea, and Argentina

Conclusion

- Indonesia has shown tendency in reintegrating its economy to the world
- Under current circumstances, due to the lack progress of the WTO, Indonesia has taken plurilateral liberalization as the strategy for further integration
- The pattern of the plurilateral integration is started from its closest regions (ASEAN countries), then to the Asian countries, and then to the rest of the World (especially America and Europe)
- Value chains (global, regional, and local) are very important for the future of International trade and it should be anticipated by Indonesian policies
- The threat of deglobalization should be seen as a serious challenge for Indonesia in the future