



*Export*

*Import*

# INDONESIA'S TRADE POLICY AN OVERVIEW

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Disclaimer: opinions presented are personal views & should not in any way be construed as representing the views of the Government of Indonesia or the Ministry of Trade of the Republic of Indonesia

# Structure of Presentation

- Economic potentials, lack of vision?
- The role of trade
- Challenges: AEC & Beyond
- The need for new direction
- Indonesia does go international
- Export to Africa: how significant?

# McKinsey Global Institute, 2012

Indonesia in 2012...

- 16<sup>th</sup> largest economy in the world
- 45 million members of the consuming class
- 53% of the population in cities producing 74% of GDP
- 55 million skilled workers in the Indonesian economy
- \$0.5 trillion market opportunity in consumer services, agriculture & fisheries, resources, and education



and Indonesia in 2030...



- 7<sup>th</sup> largest economy in the world
- 135 million members of the consuming class
- 71% of the population in cities producing 86% of GDP
- 113 million skilled workers in the Indonesian economy
- \$1.8 trillion market opportunity in consumer services, agriculture & fisheries, resources, and education

# Momentum not sustained...

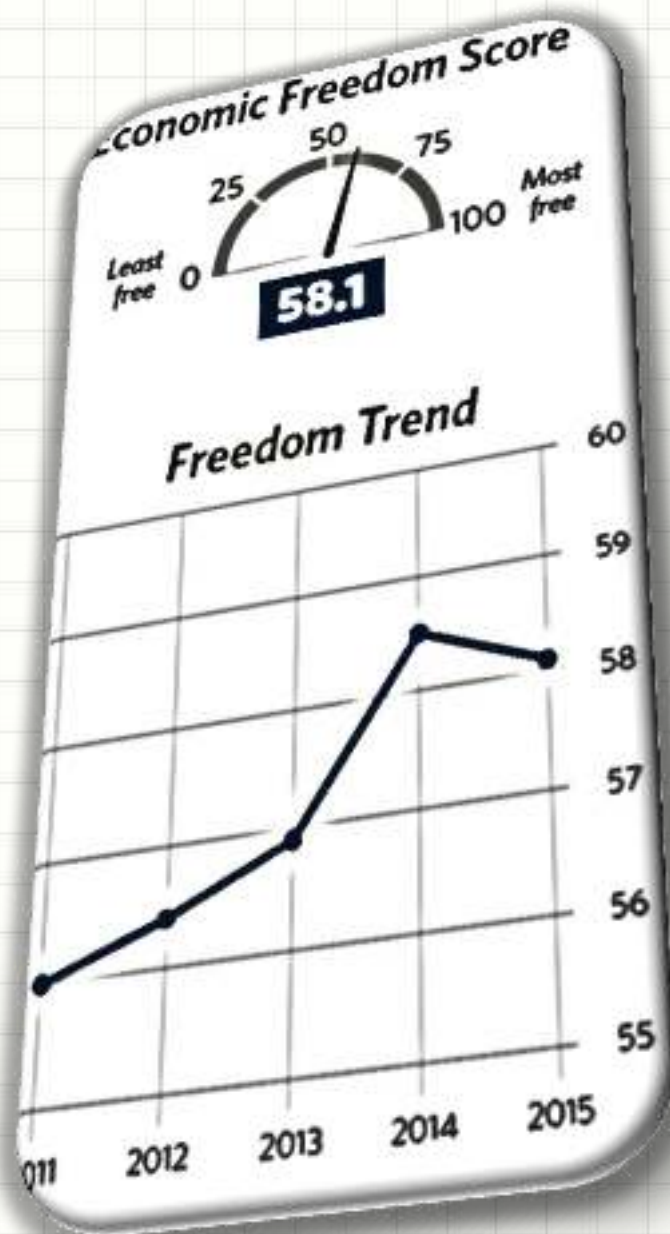
- Long overdue homework: infrastructure, energy, finance, human resources, corruption, rules of law, regulatory coherence etc leaving competitiveness consistently low compared to other countries in region: Malaysia, Thailand even, to some extent, Philippines & Viet Nam
- Politics got into play: national sovereignty, self-reliance, self-sufficiency, *exports are good & imports are bad*, then new parliament, new cabinet, new ministers; dignity, different data/statistics creating conflicts among different sectors

...focusing on protecting sectors rather than managing domestic market & enhancing economic competitiveness; reacting to sentiments, no clear vision

# Opportunity lost...

- GOI became “highly interventionist”: almost everything was regulated...but in the wrong directions. Some viewed Law on Industry & Law on Trade (enacted in early 2014) as protectionist
- In 2015 the Heritage Foundation did a survey on 4 indicators:
  - rule of law (property rights & freedom from corruption)
  - limited government (government spending & fiscal freedom)
  - regulatory efficiency (business freedom & monetary freedom) &
  - open market (trade freedom, investment freedom & financial freedom)

## The Heritage Foundation, 2015 survey on 178 economies:



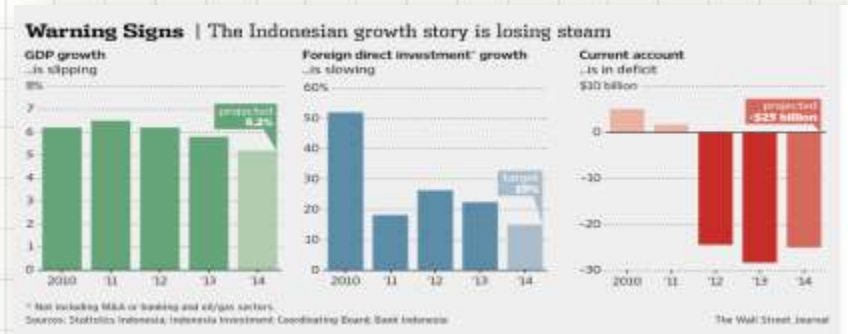
*Indonesia's economic freedom score is 58.1, making its economy the 105<sup>th</sup> freest in the 2015 index. Its score has deteriorated by 0.4 point since 2014, reflecting declines in business freedom, the control of government spending, and monetary freedom that counterbalance improvements in freedom from corruption and labor freedom....*

*Indonesia is ranked 22<sup>nd</sup> out of 41 countries in the Asia-Pacific region, and its overall score is below the world and regional averages...*

<http://www.heritage.org/index/ranking>

# Growth weakened...

- Growth is a resultant of combination of factors:
  - Investment
  - Government spending
  - Export
  - Consumption

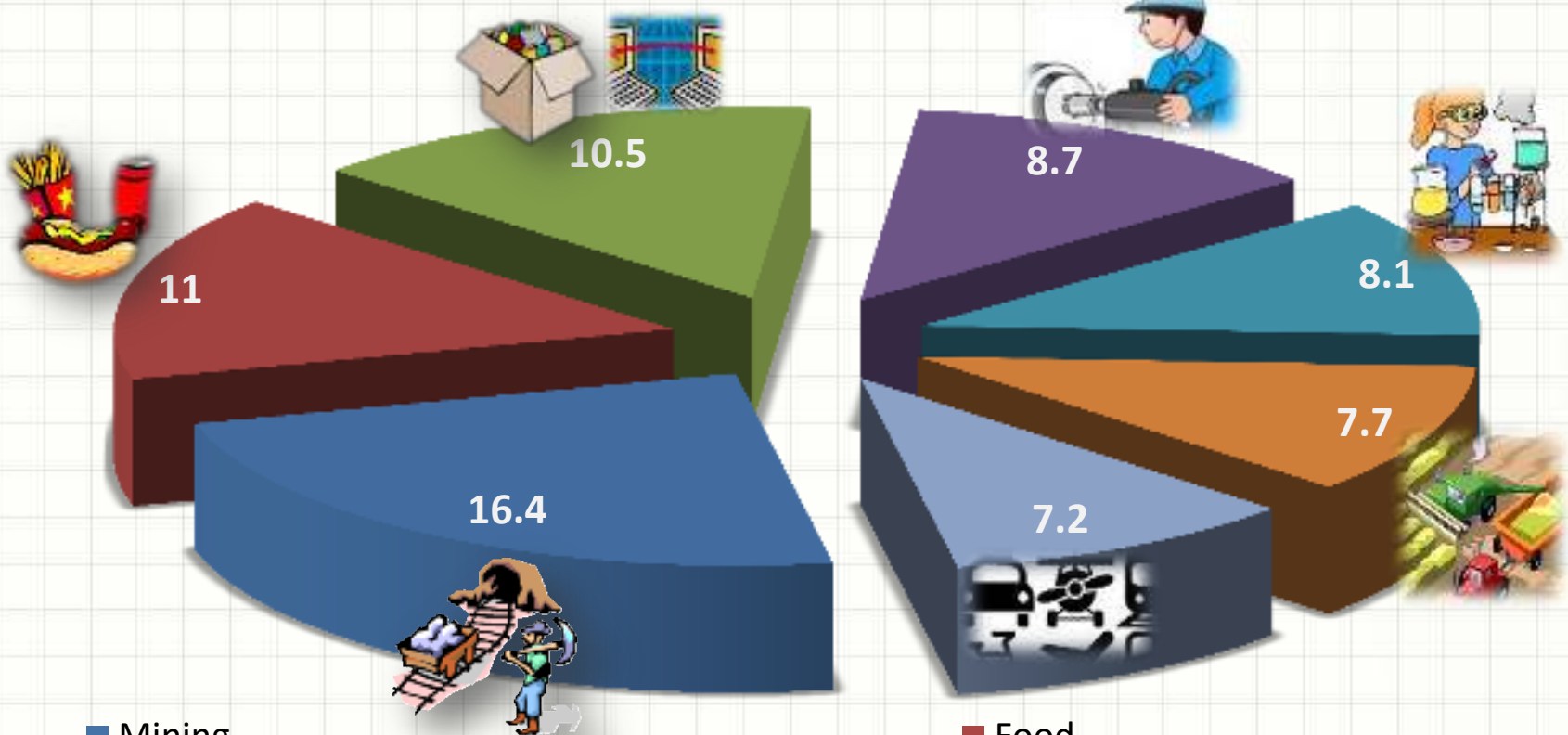


- **Coordinating Board of Investment:** *despite sharp fall on commodity prices, a falling stock market, higher domestic & international bond yields & a depreciating exchange rate, the economy was able to grow moderately. This is due to relatively limited importance of exports ... & sustained robust domestic consumption.*

*Domestic consumption—in particular private consumption—contributes around 55% to Indonesia's economic growth*

# Investment more on extractive sector

Major Invested Sectors, 2014 (%)



- Mining
- Storage & Communication
- Chemical & Pharmacy
- Transportation
- Food
- Metallurgy, Machinery & Electrics
- Food Farming & Plantations

# Industrial growth declines...
















































- Common narrative: because of FTA/CEPA
- Or because of low competitiveness?


- Industries are shifting to green industries
- Other industries are adapting to new paradigms: supply chains & industrial agglomeration



# The most binding constraints in 24 Provinces

Sumatera	Jawa	Kalimantan	KTI
<b>Aceh:</b> 1. Listrik  2. Pungutan liar 3. Kurangnya fasilitas pendukung pasar	<b>DKI Jakarta:</b> 1. Kemacetan lalu lintas  2. Kondisi geografi (banjir)	<b>Kalsel:</b> 1. Listrik  2. Kualitas jalan  3. Human capital	<b>Sulut:</b> 1. Listrik  2. Masalah upah 3. Human capital
<b>Sumut:</b> 1. Kualitas jalan  2. Listrik  3. Korupsi 4. Kriminalitas	<b>Banten:</b> 1. Listrik  2. Human capital 3. Kemudahan berbisnis 4. Pengagguran	<b>Kaltim:</b> 1. Listrik  2. Ketersediaan air bersih 3. Human capital	<b>Sulsel:</b> 1. Human capital 2. Masalah pergudangan 3. Irigasi 4. Listrik 
<b>Sumbar:</b> 1. Kurangnya jalur kereta api  2. Listrik  3. Masalah tanah ulayat 4. Minimnya dukungan Pemda thd investasi	<b>Jabar:</b> 1. Listrik  2. Ketersediaan pelabuhan  3. Human capital 4. Teknologi	<b>Kalteng:</b> 1. Listrik  2. Human capital 3. Keterbatasan sarana angkutan batubara 	<b>Maluku:</b> 1. Listrik  2. Kapasitas pelabuhan  3. Human capital
<b>Sumsel:</b> 1. Human capital 2. Kualitas jalan  3. Listrik  4. Korupsi	<b>Jateng:</b> 1. Bandara  2. Irigasi 3. Kapasitas pelabuhan  4. Kualitas jalan 	<b>Kalbar:</b> 1. Human capital 2. Listrik  3. Kualitas jalan  4. Keterbatasan pelabuhan sungai 	<b>Malut:</b> 1. Kualitas jalan  2. Listrik  3. Kurangnya keragaman industri
<b>Kepri:</b> 1. Kapasitas pelabuhan  2. Listrik  3. Kemudahan berbisnis 4. Birokrasi	<b>Yogyakarta:</b> 1. Bandara  2. Masalah Pembiayaan 3. Masalah lahan		<b>Bali</b> 1. Human capital 2. Listrik  3. Kualitas jalan  4. Kapasitas bandara 
<b>Riau:</b> 1. Listrik  2. Kapasitas pelabuhan  3. Korupsi 4. Birokrasi	<b>Jatim:</b> 1. Kapasitas pelabuhan  2. Kemudahan berbisnis 3. Kualitas jalan  4. Listrik 		<b>NTB</b> 1. Human capital 2. Listrik  3. Kapasitas pelabuhan  4. Irigasi
<b>Bengkulu:</b> 1. Irigasi 2. Kualitas jalan  3. Masalah pembiayaan			
<b>Lampung:</b> 1. Kualitas jalan  2. Listrik  3. Human capital			

 Masalah suplai energi: 20 provinces

 Masalah konektivitas domestik: 19 provinces

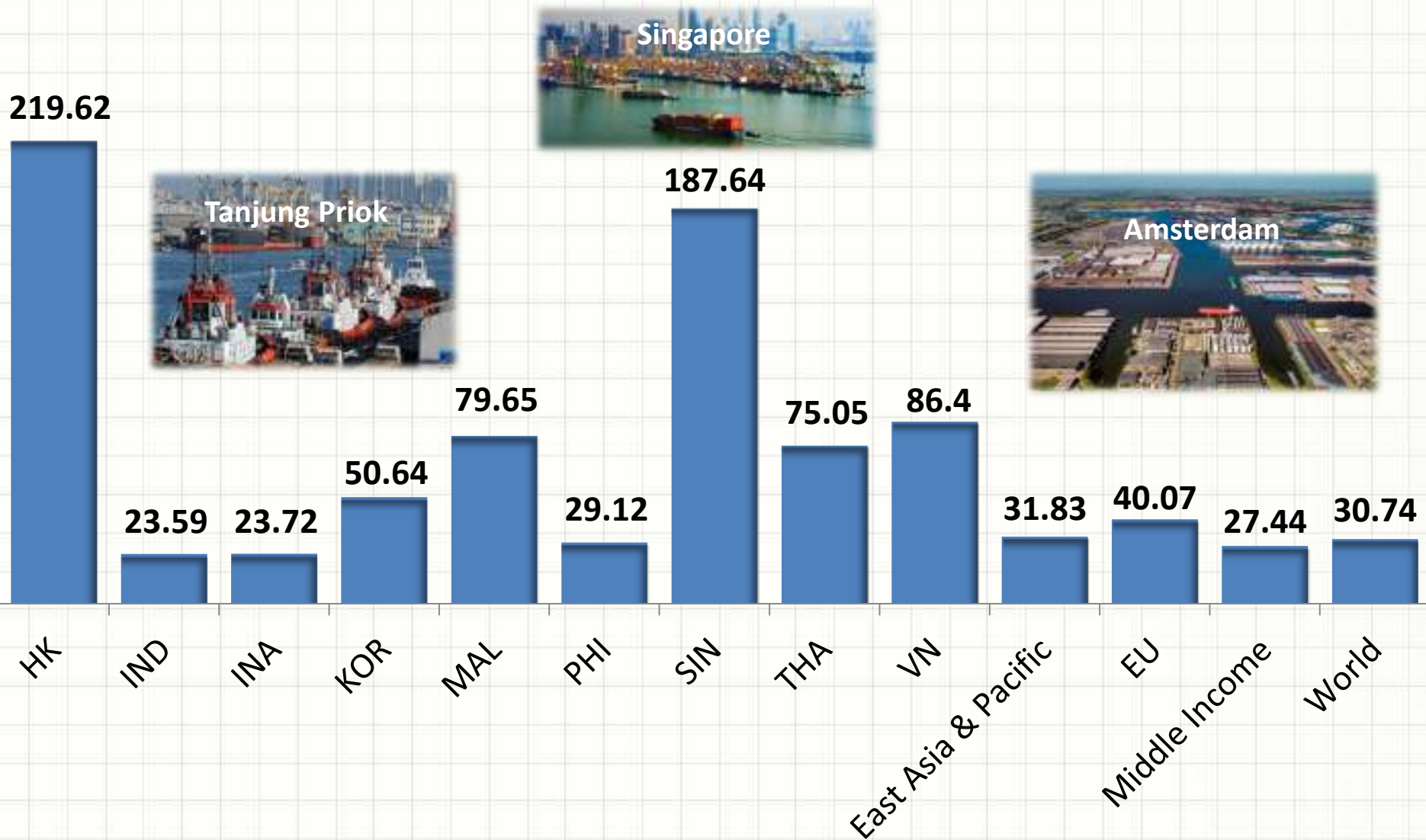
# Difficult to significantly boost exports...

...so long as growth of manufacturing sectors is low, some declining

	2011	2012	2013	2014	Average 2011-14	2015*
GDP Total	6.2	6.0	5.6	5.0	5.7	4.7
Manufacturing, Total	6.3	5.6	4.5	4.6	5.3	3.9
Manufacturing, Non-oil	7.5	7.0	5.5	5.6	6.4	5.2
1 Coal and Refined Petroleum Products	-0.3	-2.4	-1.7	-2.1	-1.6	-5.7
2 Food Products and Beverages	11.0	10.3	4.1	9.5	8.7	8.2
3 Tobacco Products	-0.2	8.8	-0.3	8.9	4.3	2.2
4 Textiles and Wearing Apparel	6.5	6.0	6.6	1.5	5.2	-1.0
5 Leather & Related Products & Footwear	10.9	-5.4	5.2	5.5	4.1	3.4
6 Wood & of its products (except furniture)	-2.7	-0.8	6.2	6.1	2.2	0.9
7 Paper & Paper Products;Repro of Recorded	3.9	-2.9	-0.5	3.4	1.0	-1.2
8 Chem & Pharma & Botanical Products	8.7	12.8	5.1	3.9	7.6	9.1
9 Rubber & Plastics Products	2.1	7.6	-1.9	1.2	2.2	-3.5
10 Other Non-Metallic Mineral	7.8	7.9	3.3	2.4	5.4	4.9
11 Manufacture of Basic Metals	13.6	-1.6	11.6	5.9	7.4	8.7
12 Computer, Optical Products & Elec.Equip	8.8	11.6	9.2	2.9	8.1	8.1
13 Machinery and Equipment	8.5	-1.4	-5.0	8.8	2.7	-2.4
14 Transport Equipment	6.4	4.3	14.9	3.9	7.4	4.8
15 Furniture	9.9	-2.1	3.6	3.6	3.8	5.1
16 Other Manuf, Repair & Instr of Machinery	-1.1	-0.4	-0.7	7.3	1.3	1.8

\* First quarter

# Contribution of Export to GDP, 2014



# Commodity remains the backbone...



## Characteristics of ASEAN's exports (% of total export)

### Myanmar

Commodities : 29.1%  
Manufacture : 62.3%  
Services : 8.7%



### Thailand

Commodities : 18.5%  
Manufacture : 62%  
Services : 19.5%



### Malaysia

Commodities : 30.2%  
Manufacture : 55.4%  
Services : 14.4%



### Singapore

Commodities : 17.9%  
Manufacture : 56.6%  
Services : 25.5%



### Brunei

Commodities : 91.4%  
Manufacture : 3.5%  
Services : 5%



### Vietnam

Commodities : 16.7%  
Manufacture : 76.9%  
Services : 6.4%



### Philippines

Commodities : 14.5%  
Manufacture : 56.8%  
Services : 28.7%



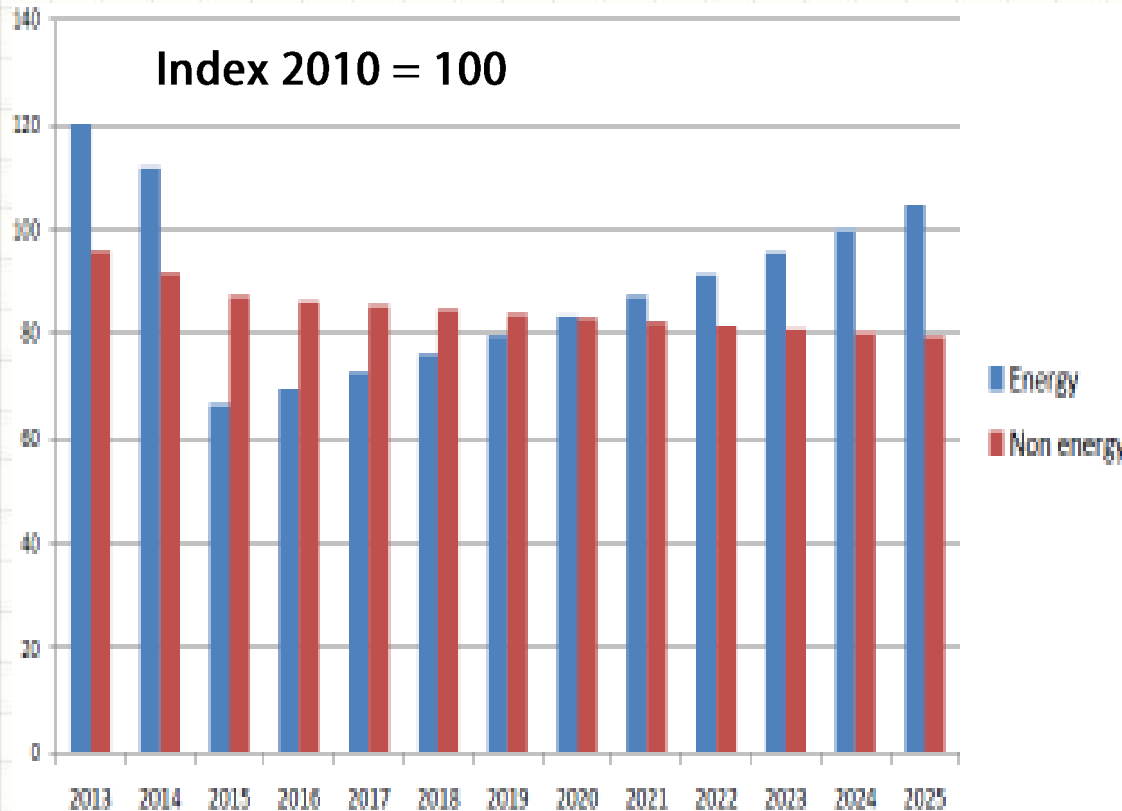
### Indonesia

Commodities : 79.6%  
Manufacture : 8.6%  
Services : 11.8%



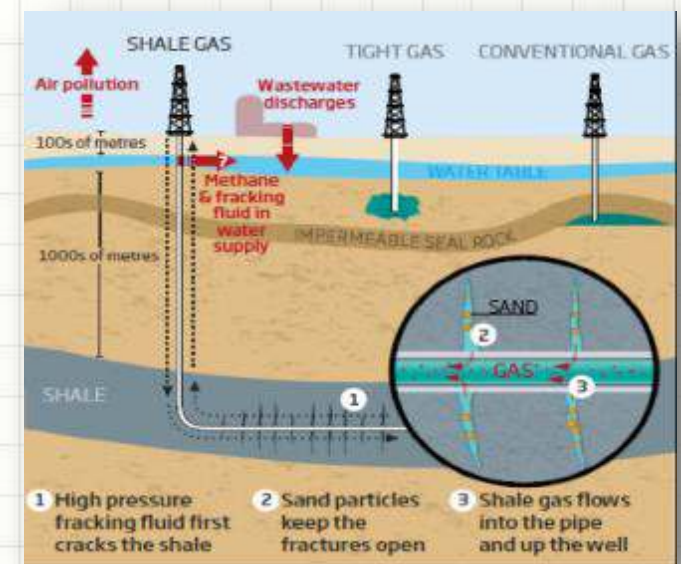
Source: Intracen, 2014

# while commodity prices go down



Energy includes oils, gas, coal, biofuel etc  
Non-energy includes palm oil, rubber, thin, cocoa beans, copper, coffee beans, iron ores etc

How about shale gas?  
INA has great potential but extractive operation is expensive & need to buy the technology



# Role of Trade...



- ❑ Trade alone cannot fix all the issues
- ❑ But trade plays a critical role: connecting between production & markets (domestic & international) in the most efficient way, helping navigate the economy
- ❑ Need to be aware of some facts:
  - market is not perfect, competition is tough, disputes arise
  - there are developmental issues to address
  - the world has become so integrated, trade policies cannot be defined a vacuum or operationalized in silo

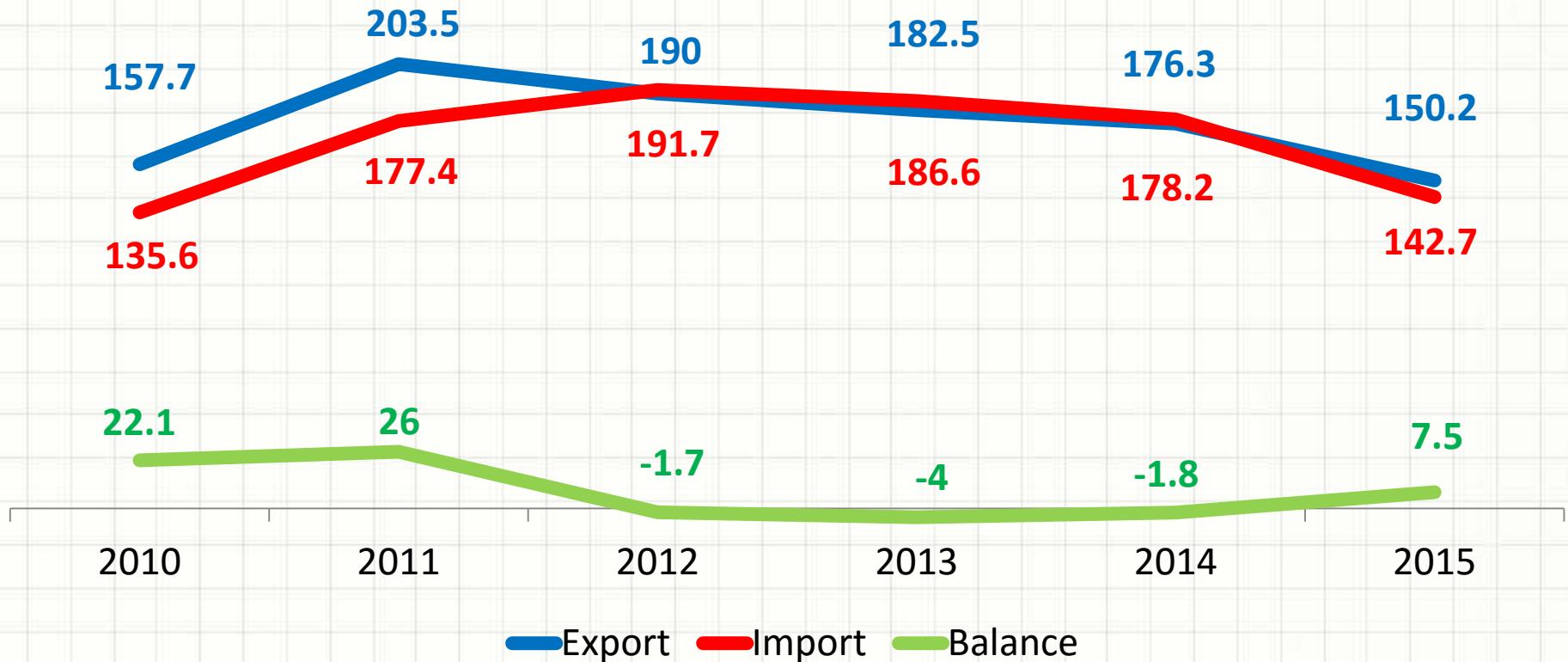
**Trade  
Diplomacy**

**Trade  
Negotiation**

**Trade  
Promotion**

**Trade  
Defense**

# Trade with the world, 2010-2015



10 main non-oil export markets: China, US, Japan, India, Singapore, Malaysia, Korea, Thailand, Netherlands, Philippines

10 main sources of non-oil import: China, Japan, Singapore, Thailand, US, Korea, Malaysia, Australia, Germany, Taiwan

# Total import & composition

Total import (Billion)

\$135.7      \$177.4      \$191.7      \$186.6      \$178.2      \$142.7

72.8%

73.7%

73%

76%

76.4%

75.3%

19.8%

18.6%

19.9%

16.8%

16.4%

17.2%

7.3%

7.5%

6.9%

7%

7.1%

7.5%

2010

2011

2012

2013

2014

2015

Consumption      Raw/Intermediate      Capital

# Challenge: AEC

## ENLARGEMENT

## DEEPENING

1967: INA, MAL  
PHI, SIN, THA

1984: BRU

1995: VN

2004: ASN-China

EAFTA Study

1977: Preferential Trade Arrangement

1997: LAO, MYM

2006: ASN-KOR

CEPEA Study

1992: CEPT AFTA

1999: CAM

2008: ASN-JAP

1995: ASEAN Framework Agreement on Services

2009: ASN-ANZ; ASN-India; ASN-China  
Investment; ASN Korea Investment

1997: ASEAN Vision 2020

1998: ASEAN Investment Area

2010: ASEAN Plus Working Groups on  
ROO, Tariff Nomenclature, Customs, Ec  
Cooperation

2003: 3 Pillars of ASEAN Community 2020;  
11 Priority Integration Sectors (PIS)

2011: ASEAN ASEAN Framework for  
Regional Comprehensive Economic  
Partnership (AF-RCEP)

2005: Logistics as PIS

2007: AEC 2015; ASEAN Charter; AEC Blueprint

2012: Launching of RCEP  
Negotiations

2008: first year of AEC Blueprint;  
ASEAN Charter entered into force

2013: First Round of RCEP  
Negotiations

2009: ATIGA, ACIA, AEC Scorecard; Roadmap for an  
ASEAN Community 2009-2015

2010: Connectivity Master Plan

2011: ASEAN Framework for Equitable  
Economic Development

2012: ASEAN Financial Inclusion Forum

2015: AEC Blueprint 2025

**ASEAN Economic  
Community 2025**





# Typical Value Chain in Basic Agriculture

Origin

- Farming

Transport

- Overland to Ports/Overland to Island by Barge (services)

Logistics

- Shipping/Storage/Inventory Management (services)

Processing

- Crushing/Refining/Formulating

Marketing

- Packaging/Sales/Market Intelligence (services)

Delivery

- Transport/Storage/Inbound Logistic (services)



# Challenge: Globalization











Boundaries have faded away, international trade has advanced with increased role of services, innovation internet, technology, etc

Countries need to identify what their competitive advantages are & how to capitalize on them. Specialization becomes key to climb up the value chains but needs more investment on productive sectors

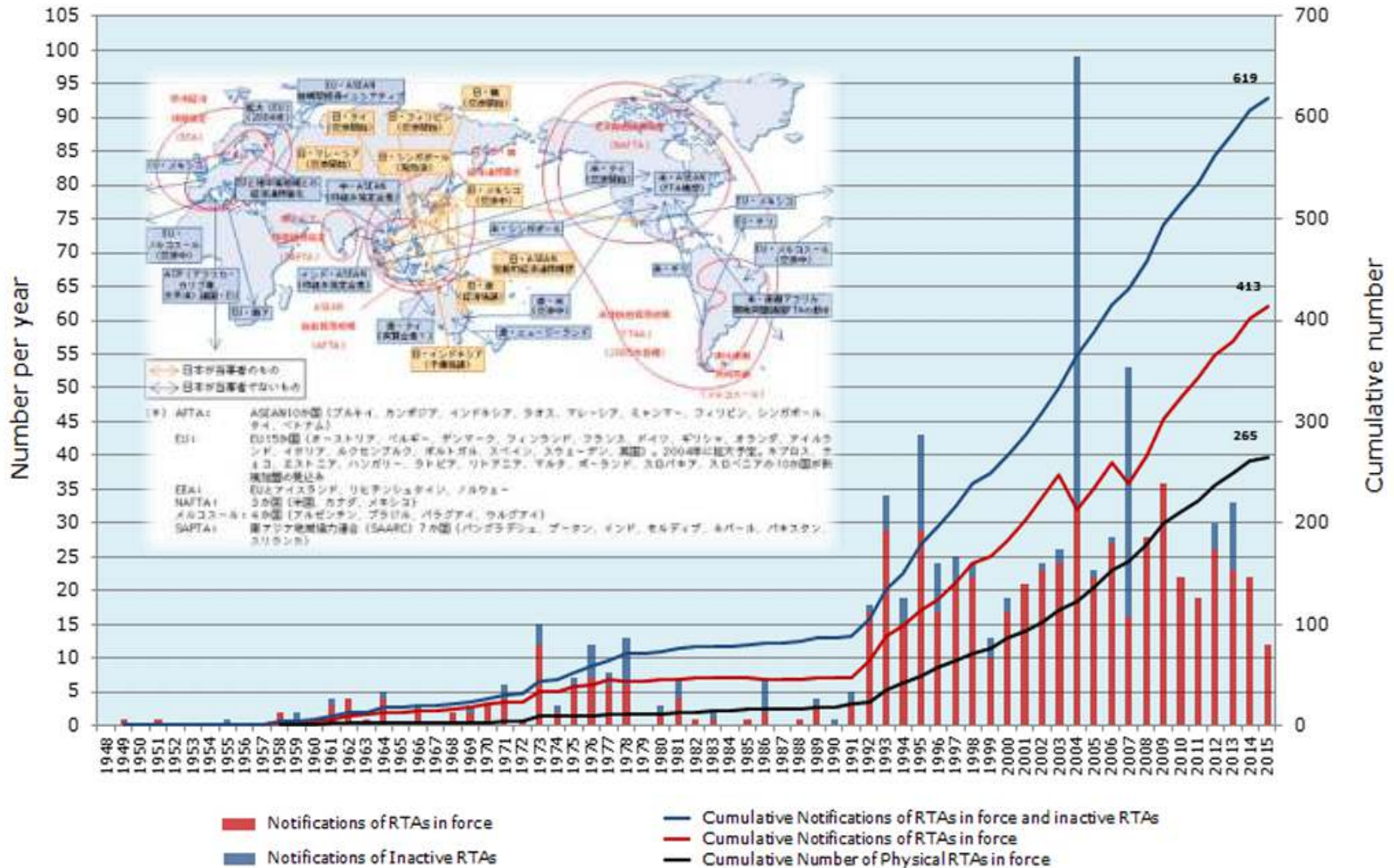


# Challenge: GDP sensitivity

GDP Sensitivity of ASEAN Countries to Major economies (%)			
Country Elasticity			
	1.72	1.45	2.15
	1.10	0.81	0.90
	0.88	0.77	0.85
	0.60	0.49	0.27
	0.05	0.06	0.11

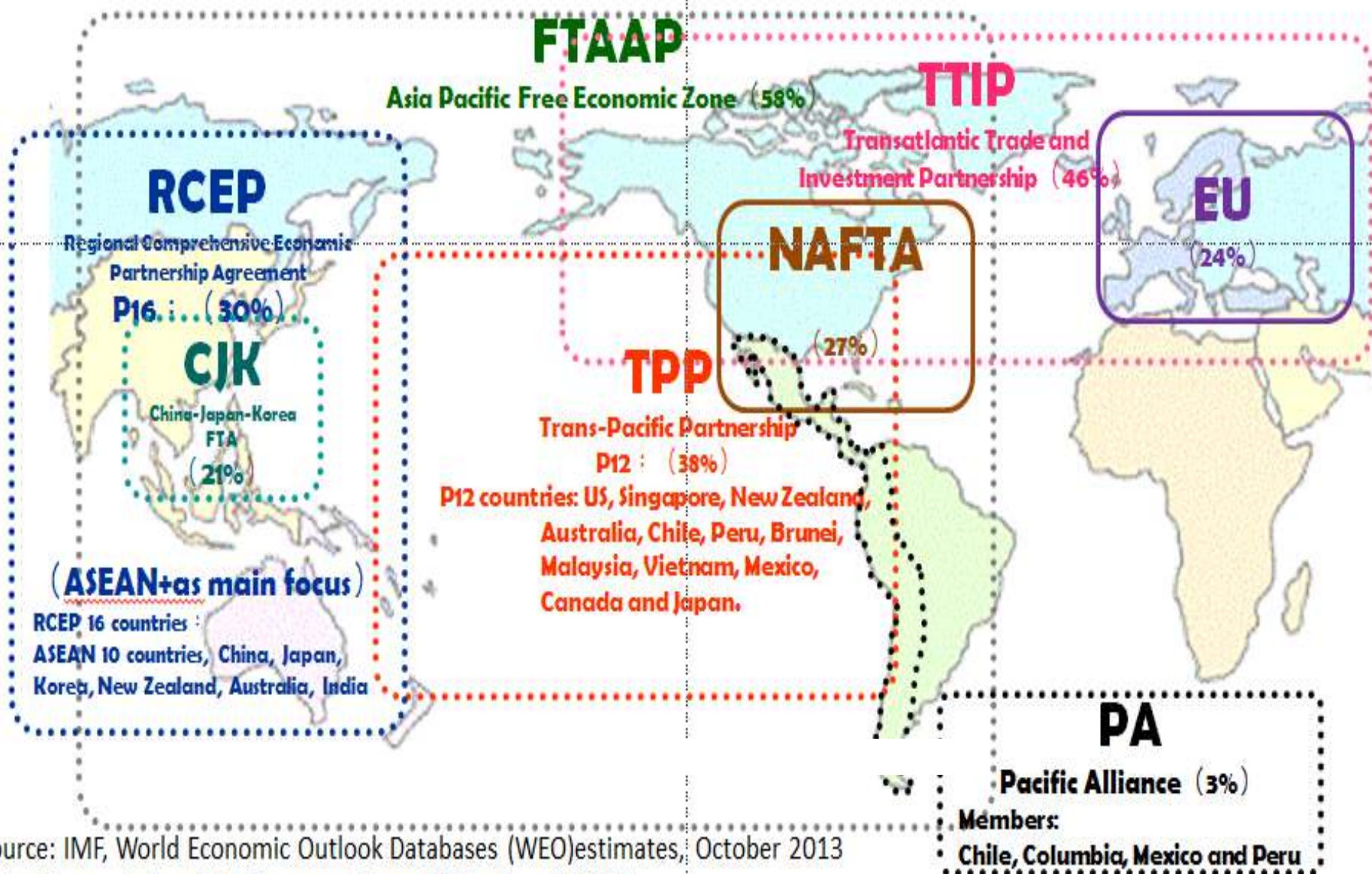
**1% decrease in China's GDP will cause a decrease of 0.11% in INA's GDP**  
**1% decrease in US GDP will cause a decrease of only 0.05% in INA's GDP**

# Challenge: Proliferation of FTAs



Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together.  
 Source: WTO Secretariat.

# Challenge: Mega-Regional FTAs



Source: IMF, World Economic Outlook Databases (WEO) estimates, October 2013

Note: figures in brackets for proportion of FTA of world GDP

Figure 1: State of Global Economic Integration

# WTO remains relevant?

Yes...apart from the fact that the imbalances in the existing WTO agreements—especially the Agreement on Agriculture—need to be rectified, those agreements serve as the norm & reference point for countries to develop their national trade policies & in pursuing deeper engagements with another country or group of countries...



# New policy direction...

- ✓ **De-bureaucratization: removing excessive power of bureaucracy**
- ✓ **Deregulation: easing government regulatory controls**
- ✓ **Capitalizing on digital economy: single window, on-line processing, one-roof services while promoting e-commerce, innovation, creative industry**
- ✓ **Enhancing the role of services sector as lubricants for other sectors**
- ✓ **“Export is good but import is good, too” to support productive sectors**
- ✓ **Shifting from commodities to value-add goods & services to boost export**
- ✓ **Joining trade preferential arrangements/economic partnership (priority: Australia, EFTA, EU, RCEP): market access, investment, positioning in regional & global value chains, but also external pressures to reform ourselves**

# Clear about our vision?

PENJELASAN  
**PAKET**  
KEBIJAKAN EK

MENGEMBANGKAN EKONOMI  
MAKRO YANG KONDUSIF

a. Stabilitas  
**NAWACITA**  
JOKOWI - JK

## MENGERAK

- a. Mendorong daya (deregulasi, dan untuk menggerakkan)
- b. Mempercepat proses
- c. Meningkatkan investasi

**Tol Laut Jokowi**  
**Poros Maritim Dunia**

573 juta

39,5 juta

Jilid  
**JILID VI**  
Kebijakan Investasi daerah KEK

Visa kunjungan selama 30 hari dapat diperpanjang 5 kali

30 30



Administrator KEK dapat memberikan izin pertanahan



Administrator KEK dapat mengeluarkan izin prinsip dan usaha

batas perizinan maksimal 3 ja



MENUJU  
**Ekonomi Berdikari**

MEMERIKAKAN LAMBU DENGAN KORBAN  
**OPOP - OVOP - OVOC**



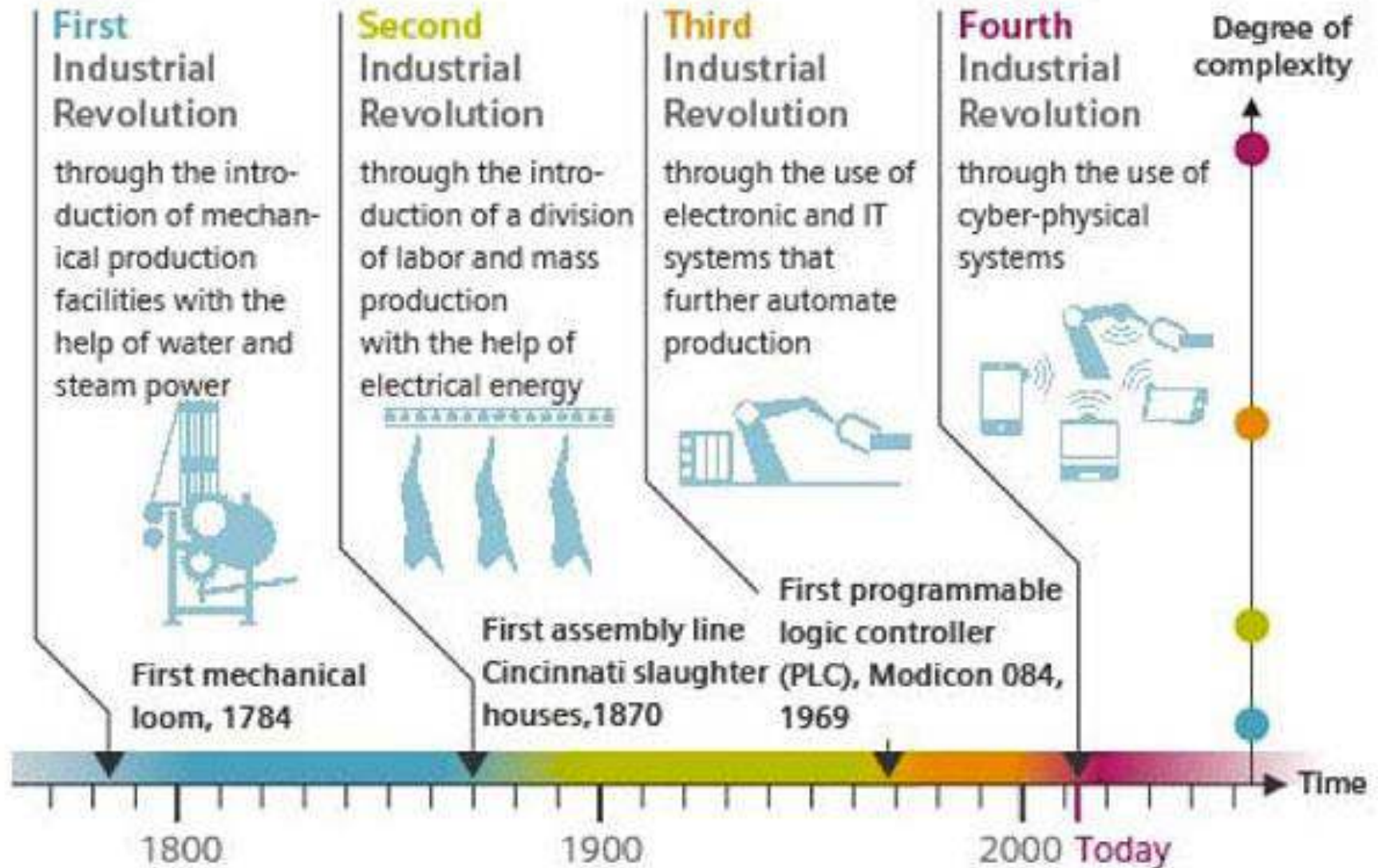
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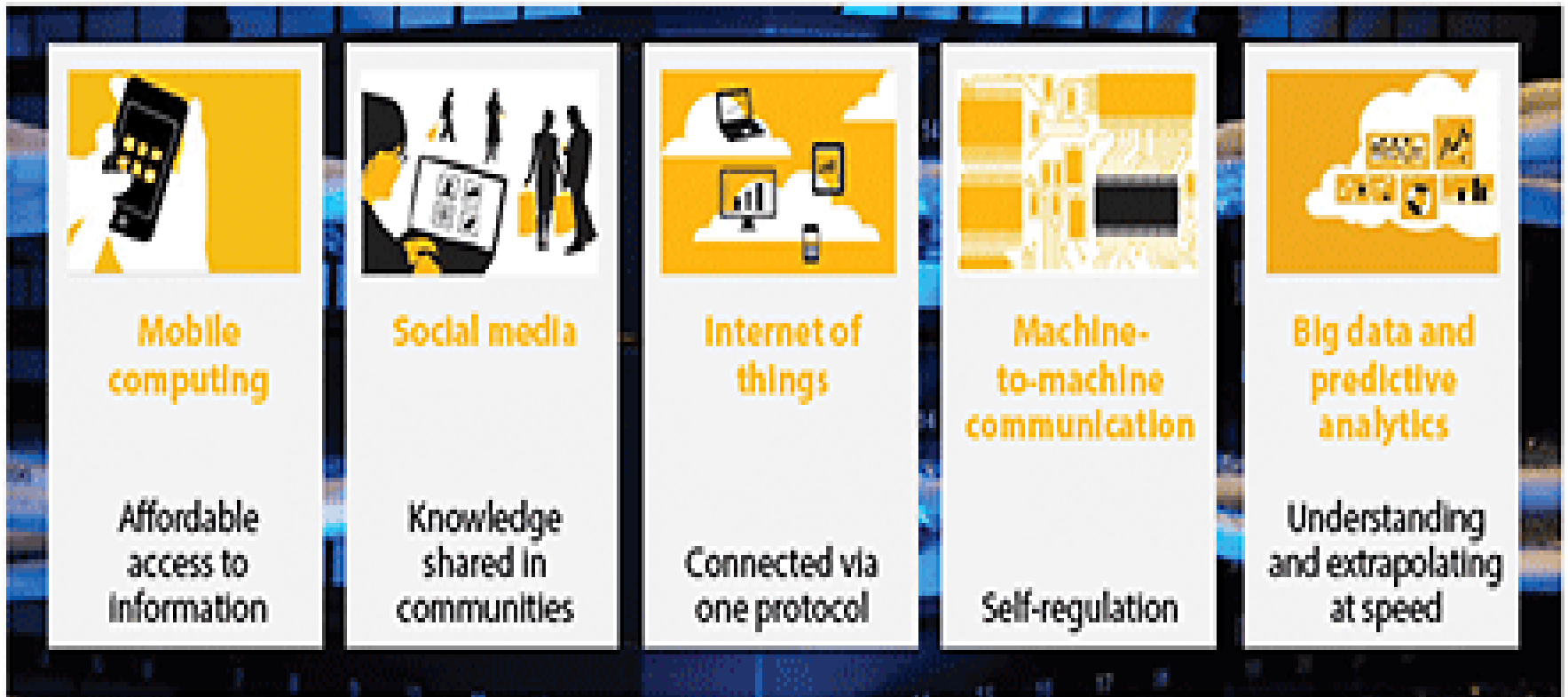
# But, again...

- ✓ Trade policy alone cannot fix the problems
- ✓ Need investment on infrastructure (energy, ports, roads, telecom, irrigation etc); improvement on investment environment (Negative List of Investment, investment protection, competitive workforce, rules of law, etc)
- ✓ Need to shift industry paradigm: from “**focusing on what we want to sell**” to “**focusing on what the market want to buy.**” Learn from Japan: Sony, Toshiba, Sanyo, Sharp, Panasonic (harmony culture, seniority & old nation errors)
- ✓ Need more facilitative services sectors: banking/finance, logistics, telecom, education, etc
- ✓ Need a coherence & predictable regulatory regime: policy coordination, integration, synchronization & consistency
- ✓ Need secure & stable environments (social, political)

# Another challenge: the 4<sup>th</sup> Industrial Revolution



# Pillars of the 4<sup>th</sup> Industrial Revolution



Key words: access, shared knowledge, connectivity, self-regulation, mega data & analysis

# The Looming Opportunity: Internet of Things

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-  **Consumer**
  - Smart home control (lighting, security, comfort)
  - Optimized energy use
  - Maintenance

-  **Retail**
  - Product tracking
  - Inventory control
  - Focused marketing

-  **Medical**
  - Wearable devices
  - Implanted devices
  - Telehealth services

-  **Military**
  - Resource allocation
  - Threat analysis
  - Troop monitoring



-  **Industrial**
  - Smart Meters
  - Wear-out sensing
  - Manufacturing control
  - Climate control

-  **Automotive**
  - Parking
  - Traffic flow
  - Anti-theft location

-  **Environmental**
  - Species tracking
  - Weather prediction
  - Resource management

-  **Agriculture**
  - Crop management
  - Soil analysis

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## Fashion



Bagteria, Sabbatha, Mimsy (lady handbags), Bin House, [x]S.M.L, Mama & Leon (lady garment) , Partners in Crime (lady shoes), Ouval Research (sportswear), Suicide Blam (bistro), Lucas Croco, Bellasima, Mitra Jaya, Benua (lady bags & pouches), Irco, King's, Seho (safety/protective shoes), Jasu, Occe, Ovick, Motekar, Baguda, Geeres (men's shoes & bags), wigs & eye-lashes, celebrity designers, models

## Baby Products & Food



Le Monde, Equil (mineral water), Kopi Kapal Api, ExtraJoss, Kopiko, Hatten Bali Wines, Indomie, Mariza Food (cakes, jams), Es Teler 77, Silver Queen, J.C. Donuts

## Homes

Essenza (ceramic tiles), cements



## Sports & Music

Polygon (bicycles), Radix (guitars), rock bands (Burgerkill, Superman is Dead, the S.I.G.I.T, Noxa, Shaggydog, Vantasma)



## Automotive

Achilles, Costra, Strada (tire), Innova, Avanza (family car), VW Up!, VW New Beetle (design by Chris Lesmana), performance exhaust system



**Electronics & IT** Polytron (various products), ABC (battery), 4G

**Furniture** Medulla (teakwood), Olympic (knock-down), Warisan



**Application & Animation** Zahir (accounting), Transformers, Ironman, Star Trek, the Terminator, Terminator Salvation, Indiana Jones the Kingdom of the Crystal Skull, the Adventure of Tintin, Ironman 3, the Hobbit, the Avenger, Upin & Ipin, various games (Icon Pop Quiz, Picmix, Catfiz, Scoop, etc), Circularly Polarized Synthetic Aperture Radar (Prof. Josaphat Tetuko Ph.D), Go-Jek



**Military** Strategic Sealift Vessel, military uniforms, CN 212-400 & 235-220, protective gears, fast patrol boats, armor vehicles, bullets, assault rifle, anti-material guns



**Ship** Star-50 (one of the world's best Box-Shaped Bulk Carrier 50,000DWT, used by Germany, Singapore, Hong Kong, Malta etc), various types & sizes of container carriers, tankers



**And many more....**

# Export to Africa

- 10 negara tujuan ekspor utama di Afrika:  
Afrika Selatan, Mesir, Nigeria, Djibouti, Benin, Ghana, Tanzania, Kenya, Angola, Algeria
- 10 produk utama ekspor ke Afrika:  
Minyak kelapa sawit & turunannya, perhiasan & logam mulia, sabun & bahan organik sabun, margarin, kertas & karton, lemari pendingin, benang serat sintetik non-eceran, asam lemak mono-karboksilat, karet & produk karet, minyak kelapa (kopra) & kernel kepala sawit

	2011	2012	2013	2014	2015
Total Ekspor ke Afrika (\$ milyar)	5,455	5,623	5,571	6,212	4,682
Pangsa Ekspor ke Afrika terhadap Total Ekspor (%)	3,37	3,67	3,72	4,26	3,55

