Trade Growth has been Lagging but Structural Shifts in the International Trading System Present Indonesia with Significant Opportunities

Indonesia’s exports have lagged the unprecedented expansion of global trade during the last four decades

(Volume of exports of goods and services, 1980=1)

Exports to GDP ratio remains below that of comparators, limiting the contribution of trade to growth and development

(GDP per capita and exports/GDP, 1980-2020)

Source: World Bank, IMF.
Indonesia Could Build on its Comparative Advantages in Labor-Intensive Higher-Value-Added Manufacturing Industries

The decline in trade openness was closely followed by a fall in the share of manufacturing in GDP (percent of GDP)

Deindustrialization started at lower levels of GDP per capita than in comparators and other more advanced economies (GDP per capita and manufacturing value added, 1990-2020)

At just 1 percent of Global Manufacturing Exports, Indonesia has Significant Scope to Boost Export Growth, Diversification and Sophistication

Manufacturing export competitiveness has been stagnating…
(Percent of world total)

...While export sophistication is low, below that of peers in the region
(Export sophistication index)

A Three-Pillar Reform Strategy to Create the Enabling Trade Policy Framework

Growth

Channels
❖ More efficient allocation of resources
❖ Economies of scale
❖ Improvements in productivity; pro-competitive effects
❖ Job creation and higher wages
❖ Technology spillovers and innovation
❖ Improving resilience and reducing vulnerabilities to shocks
❖ Poverty reduction

Trade

Targeted trade policies
Reduce the costs of manufacturing inputs
❖ Targeted NTM reforms
❖ Improving trade facilitation performance
❖ Services trade liberalization

Enhance access to existing and new markets
❖ Deepening existing trade agreements and concluding additional ones

Address domestic bottlenecks to trade and firm growth
❖ Improving logistics performance
❖ Creating the domestic enabling environment

Economic transformation

Targeted trade policies

Growth

Targeted trade policies

Economic transformation
1. Streamline Burdensome and Eliminate Unnecessary Non-Tariff Measures

Select NTMs impose significant costs for Indonesian businesses
(Percent tariff equivalent)

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Import Approvals</th>
<th>Pre-shipment Inspections</th>
<th>Certification with SNI</th>
<th>Port of Entry Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical equipment</td>
<td>60</td>
<td>20</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Crops nec</td>
<td>50</td>
<td>20</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Petroleum, coal products</td>
<td>50</td>
<td>20</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Metal products</td>
<td>60</td>
<td>20</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Manufactures nec</td>
<td>50</td>
<td>20</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Basic pharmaceutical products</td>
<td>40</td>
<td>20</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>60</td>
<td>20</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Mineral products</td>
<td>50</td>
<td>20</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Computers and electronics</td>
<td>40</td>
<td>20</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>70</td>
<td>20</td>
<td>30</td>
<td>20</td>
</tr>
</tbody>
</table>


But targeted reforms could boost GDP by 5 percent over the medium- to long run
(Percent change)
Imports are Essential for the Indonesian Economy, for Domestic Value Addition and Exports

Exporters that also import account for two-thirds of exports in Indonesia
(Percent of total exporters)

- Importers: 63%
- Non-importers: 37%

2. Remove Binding Constraints to Services Trade

Restrictions on services trade remain among the highest…
(Index, 2021)

...Accounted for by restrictions on foreign entry and movement of professionals
(Index, 2021)

Source: OECD.
3. Deepen Existing Trade Agreements and Pursue Additional Comprehensive Ones

There is scope to deepen existing and future FTAs (percent of FTAs)

- Services
- Investment
- Customs
- AD&CV
- TBT
- SPS
- IPR
- Competition Policy
- Environmental Laws
- Export Taxes
- Movement of Capital
- Visa and Asylum
- State Aid
- Public Procurement
- STE
- Labor Market Regulations

Deeper trade agreements are associated with higher levels of GVC-related trade (percent)

- Preferential trade agreement partners (left axis)
- Preferential trade agreement provisions (right axis)

4. Improve Logistics and Trade Facilitation Performance

Trade facilitation performance has improved with the implementation of WTO TFA commitments
(Index, 2021)

Logistics performance also improved, but still constrained by insufficient logistics infrastructure/services
(Days/Index)

Source: OECD.
5. Strengthen the Mutual Complementarity Between Trade and Climate Policies

**Significant Potential to Expand Green Goods Exports**
*(Percent of total exports)*

**NTMs on Renewable Energy are Costly and Burdensome**
*(Percent tariff equivalent)*

Key Takeaways

01. International trade can be an important driver of economic transformation and growth for Indonesia.

02. The role of international trade in the Indonesian economy has however declined over the years and competitiveness has been lagging.

03. Untapped trade potential can be partly explained by inward-looking policies that restrict trade.

04. To reverse course, Indonesia could: improve its NTM regime, deepen trade agreements, reduce barriers to services trade and improve trade facilitation and logistics.
Thank you!

Indonesia Economic Prospects
December 2022

Download the Report at
www.worldbank.org/iep

Twitter #IEPBankDunia