



Trade for Growth and Economic Transformation in Indonesia

Indonesia Economic Prospects
December 2022

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Australian Government

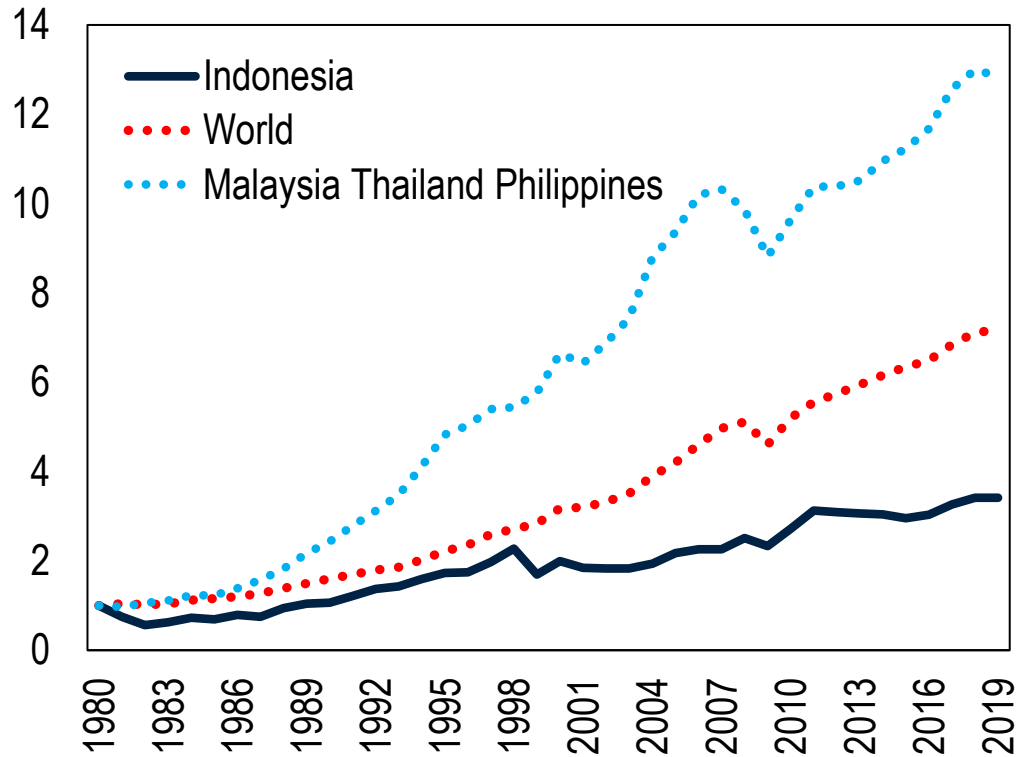


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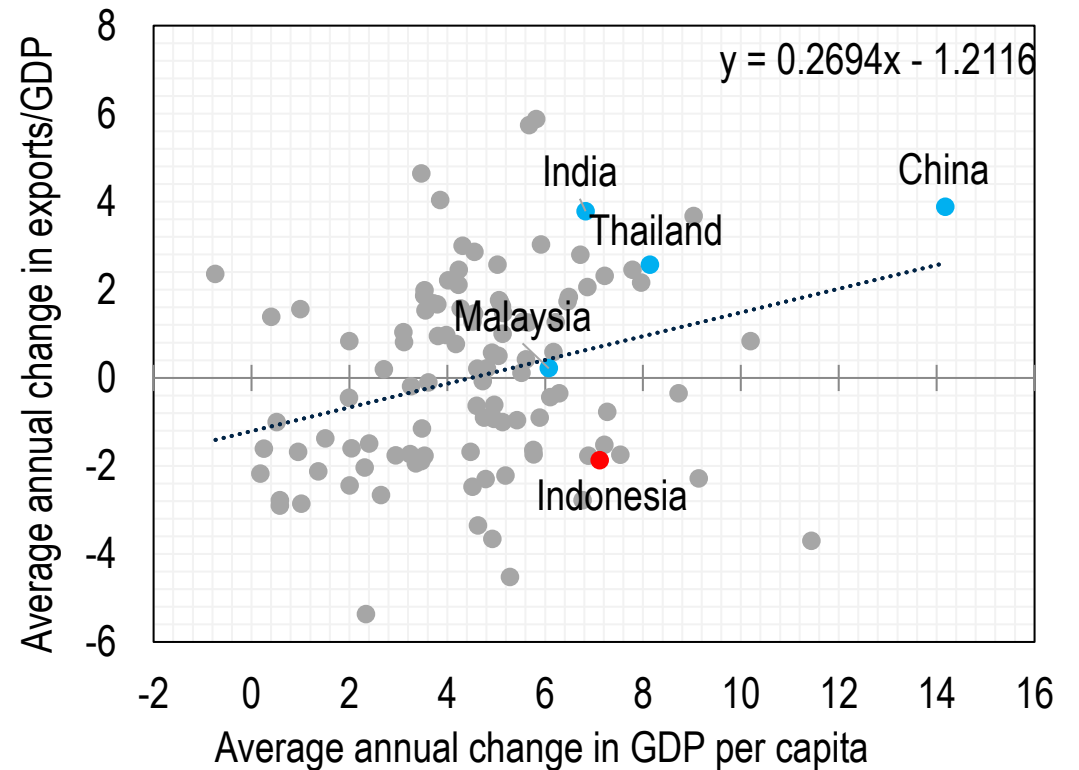
Trade Growth has been Lagging but Structural Shifts in the International Trading System Present Indonesia with Significant Opportunities

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)



Source: World Bank, IMF.

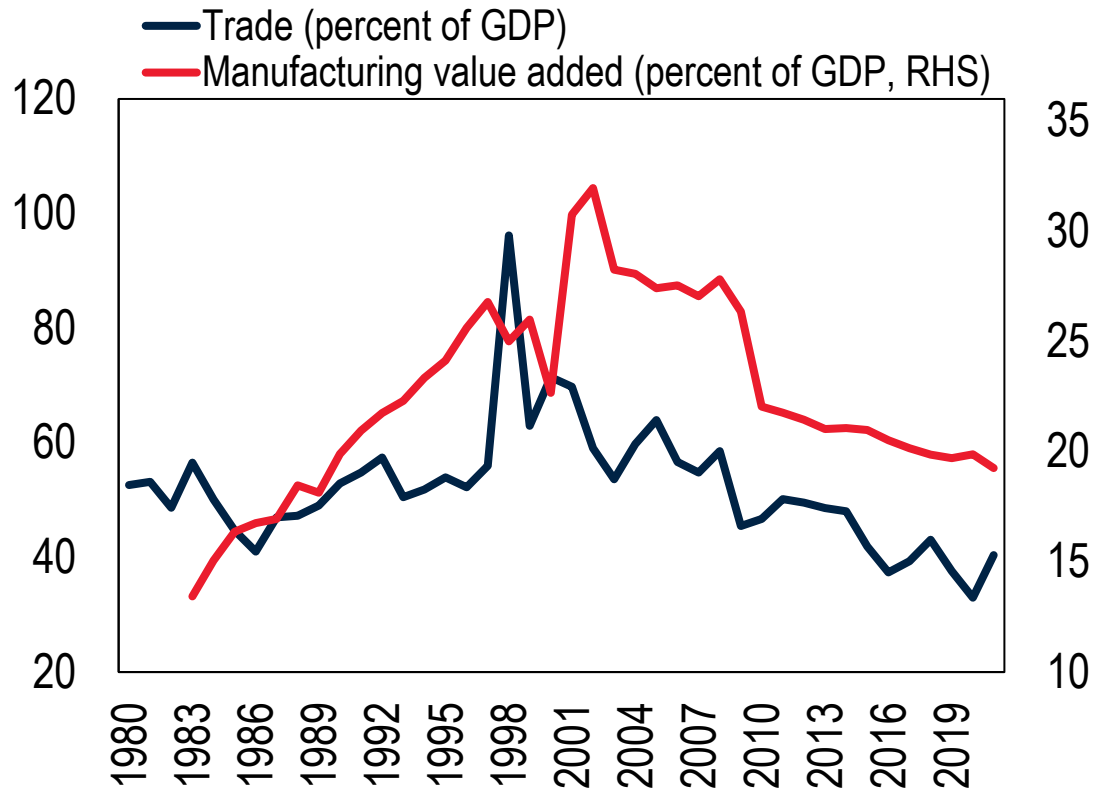
Exports to GDP ratio remains below that of comparators, limiting the contribution of trade to growth and development
(GDP per capita and exports/GDP, 1980-2020)





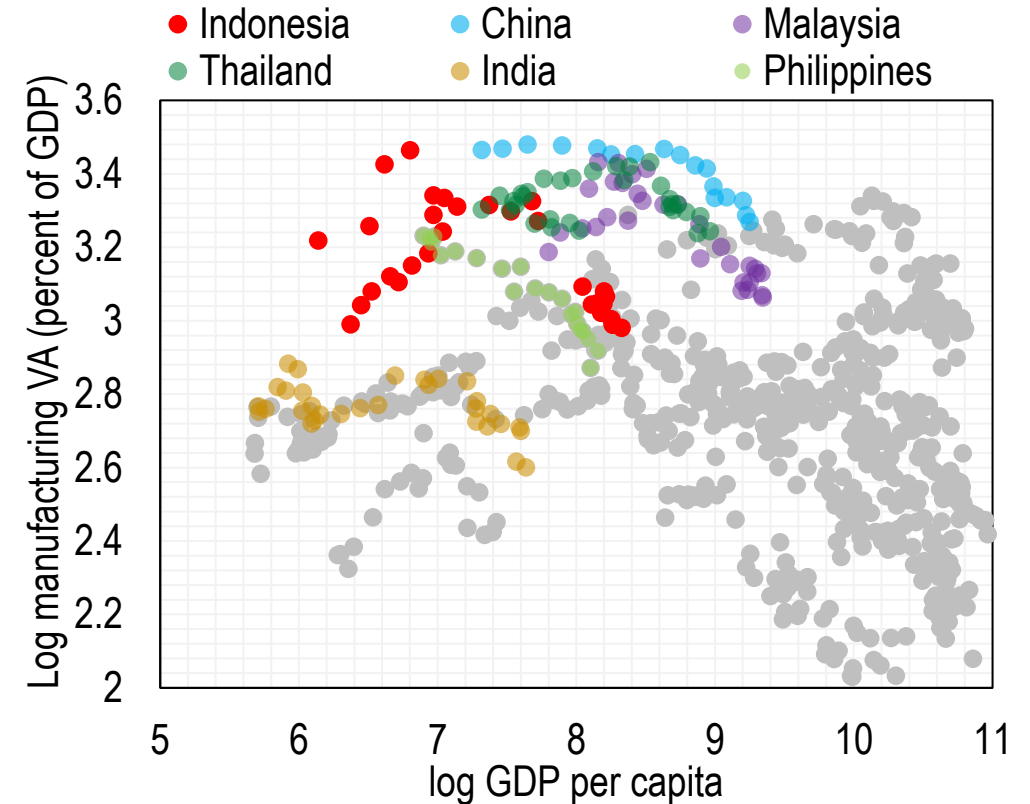
Indonesia Could Build on its Comparative Advantages in Labor-Intensive Higher-Value-Added Manufacturing Industries

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



Source: World Bank. RHS = Right hand side.

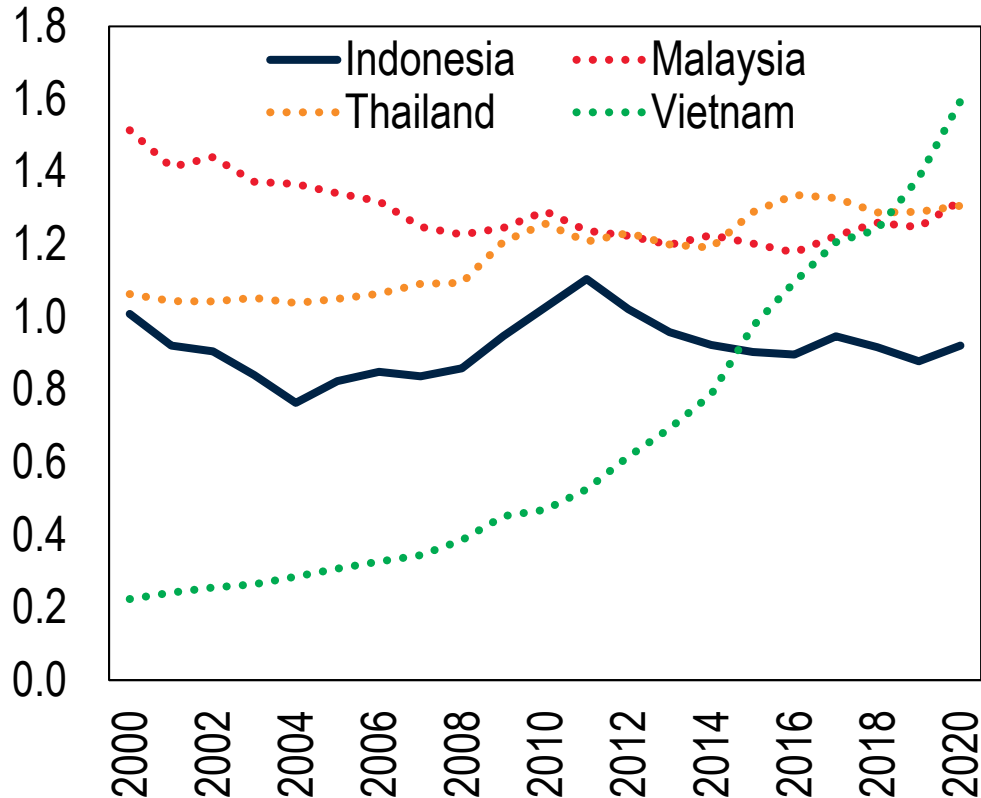
Deindustrialization started at lower levels of GDP per capita than in comparators and other more advanced economies
(GDP per capita and manufacturing value added, 1990-2020)



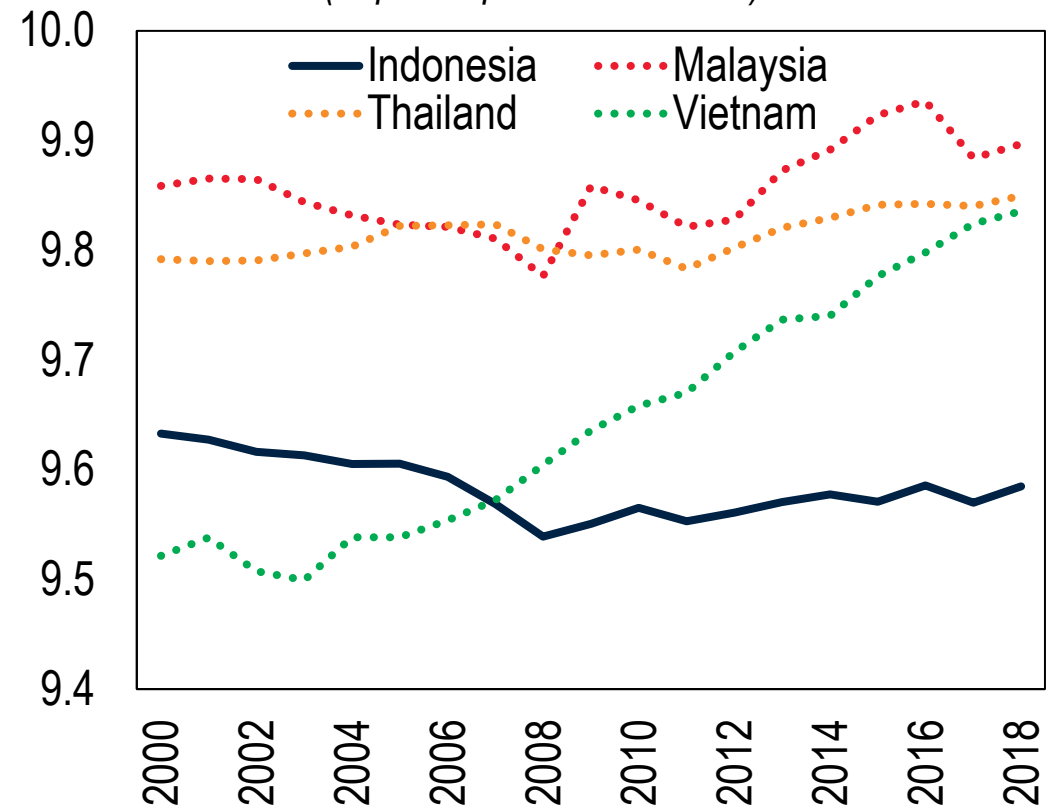


At just 1 percent of Global Manufacturing Exports, Indonesia has Significant Scope to Boost Export Growth, Diversification and Sophistication

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



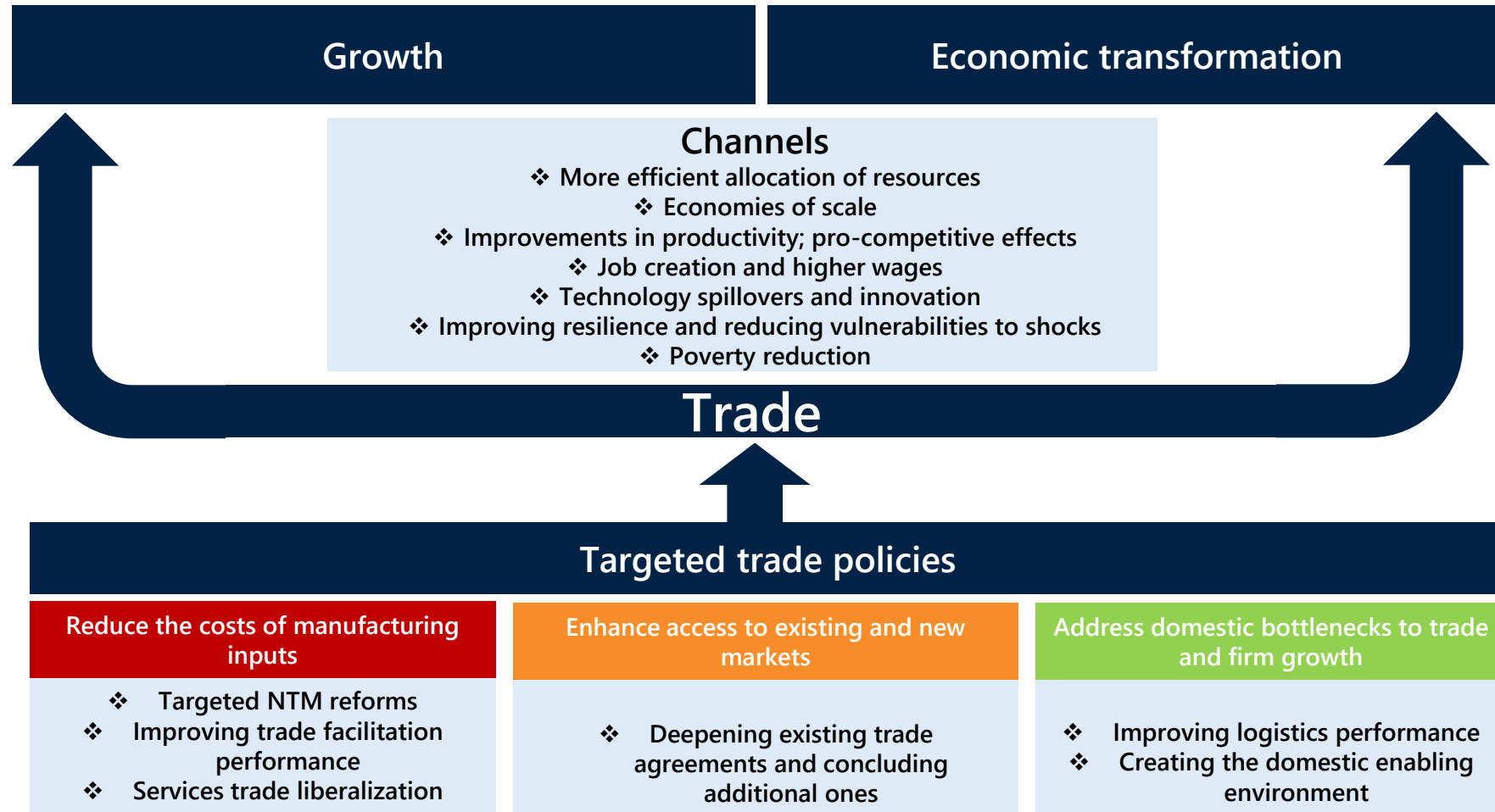
...While export sophistication is low, below that of peers in the region
(Export sophistication index)



Source: World Bank.



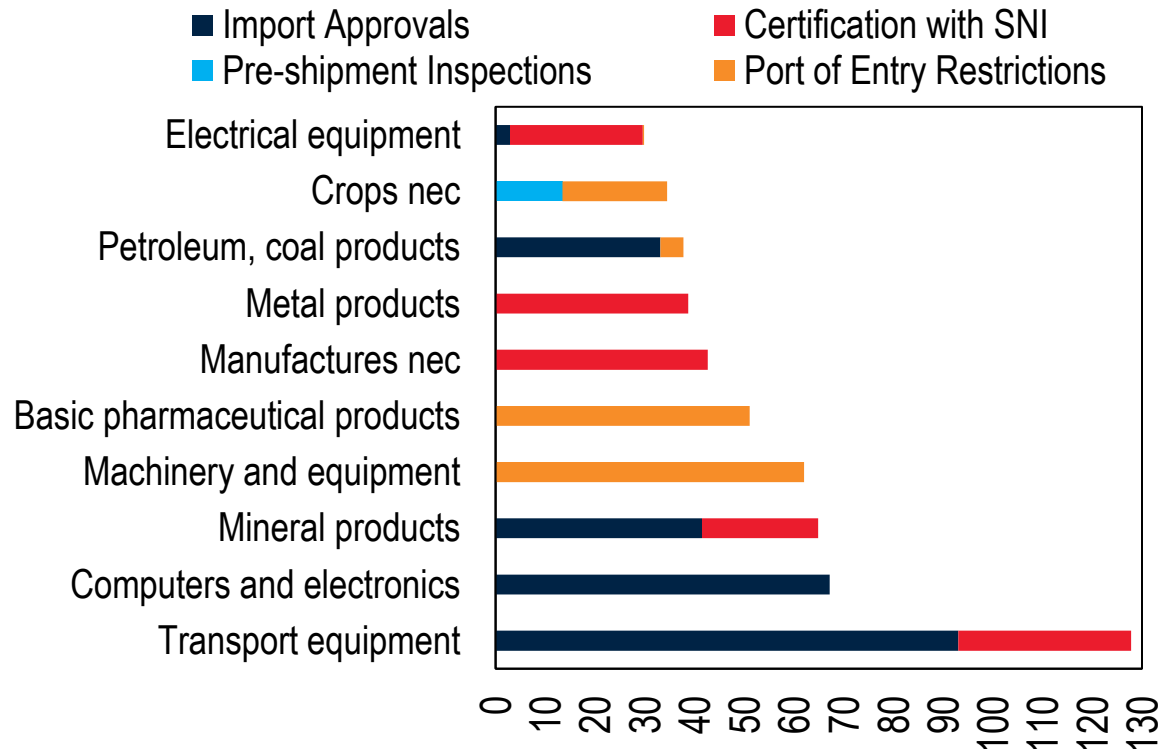
A Three-Pillar Reform Strategy to Create the Enabling Trade Policy Framework





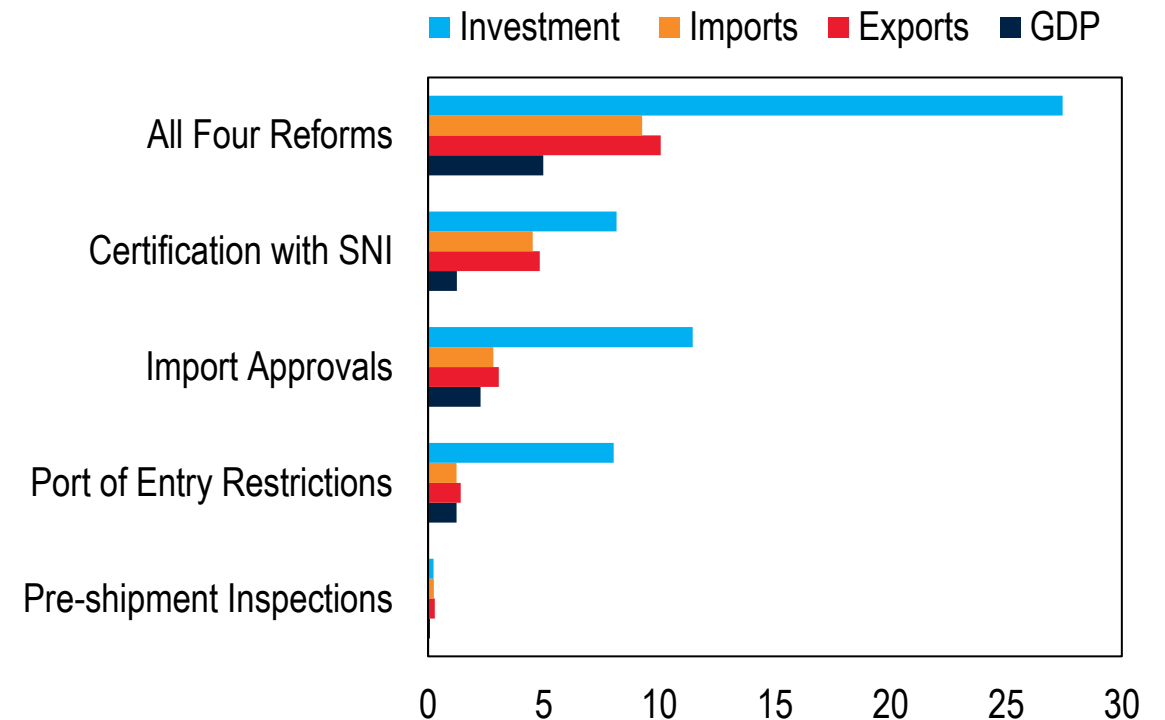
1. Streamline Burdensome and Eliminate Unnecessary Non-Tariff Measures

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



Source: World Bank.

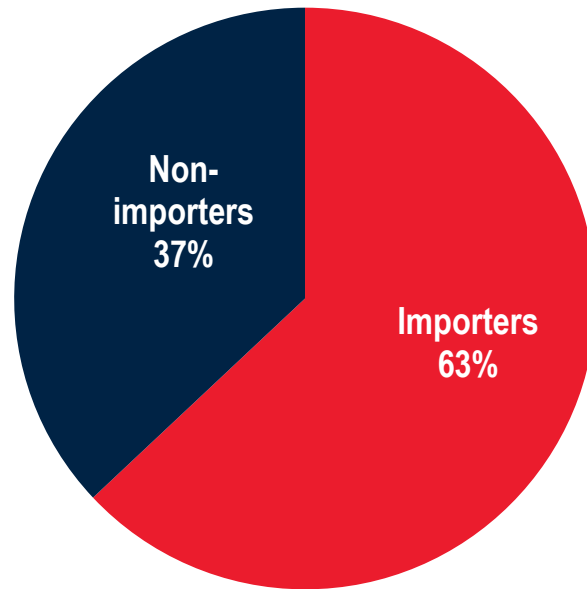
But targeted reforms could boost GDP by 5 percent over the medium- to long run
(Percent change)



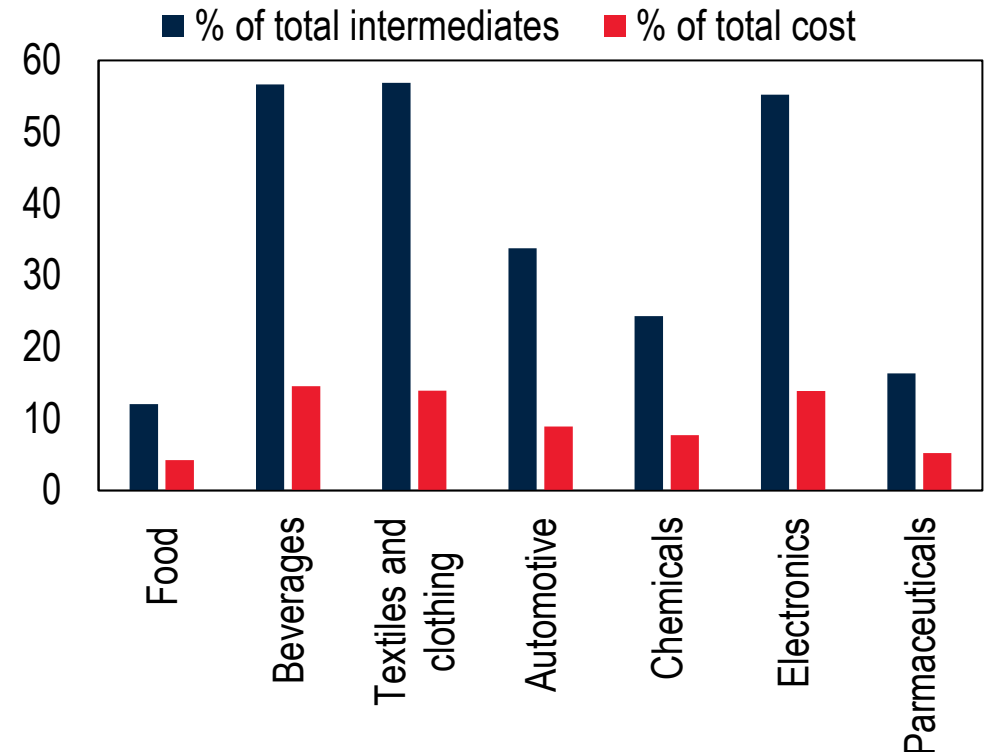


Imports are Essential for the Indonesian Economy, for Domestic Value Addition and Exports

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



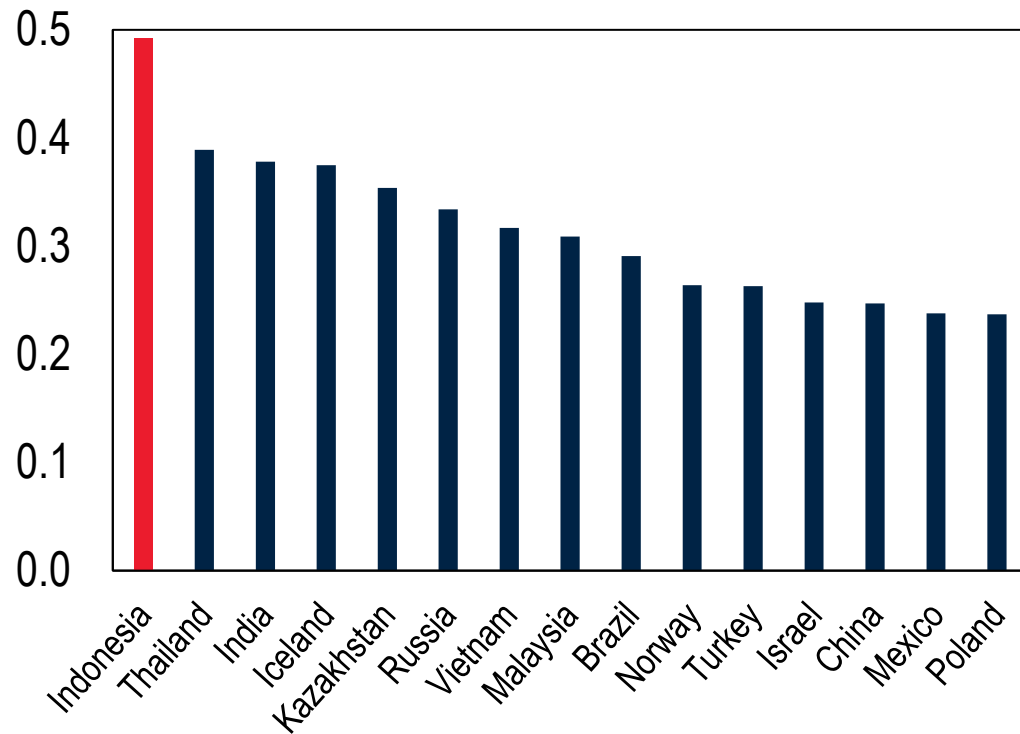
Imported inputs are crucial for higher-value added and priority industries
(Percent of world total)



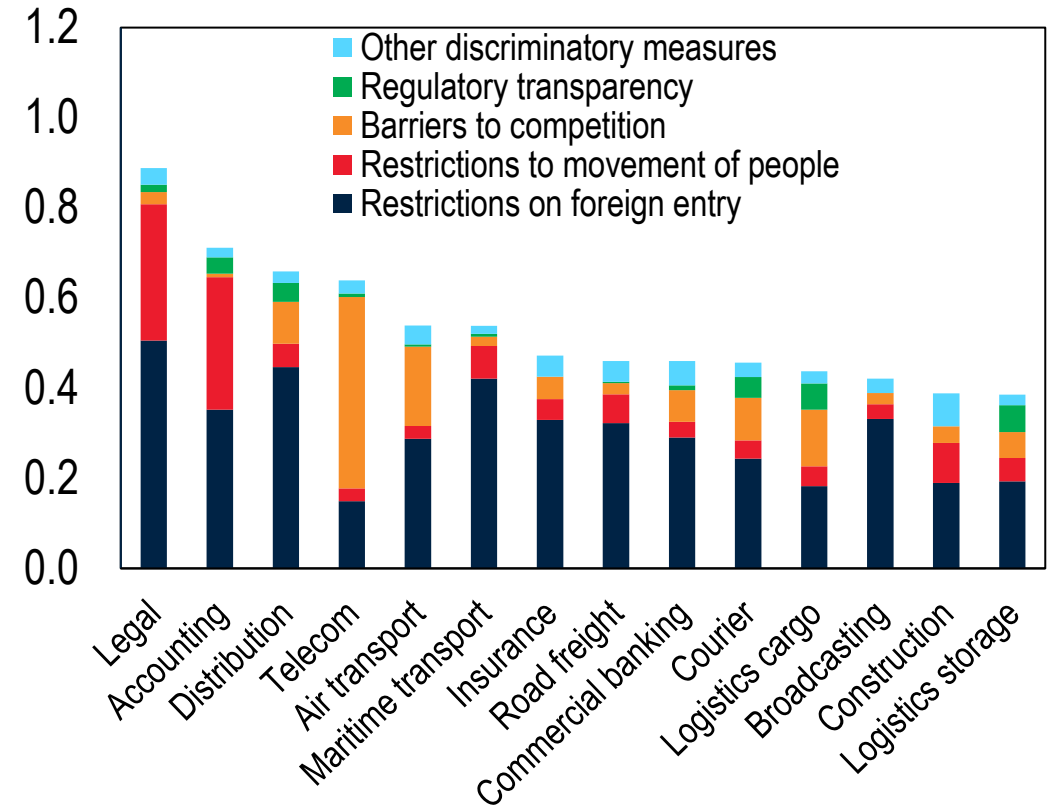


2. Remove Binding Constraints to Services Trade

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



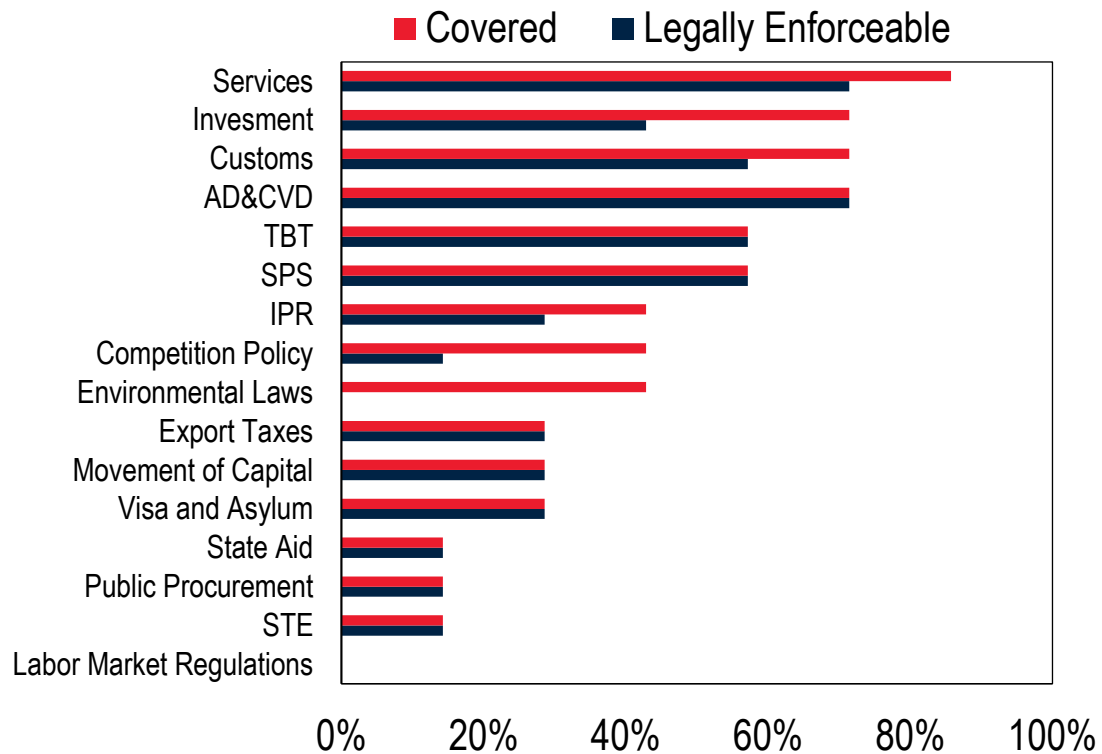
...Accounted for by restrictions on foreign entry and movement of professionals
(Index, 2021)



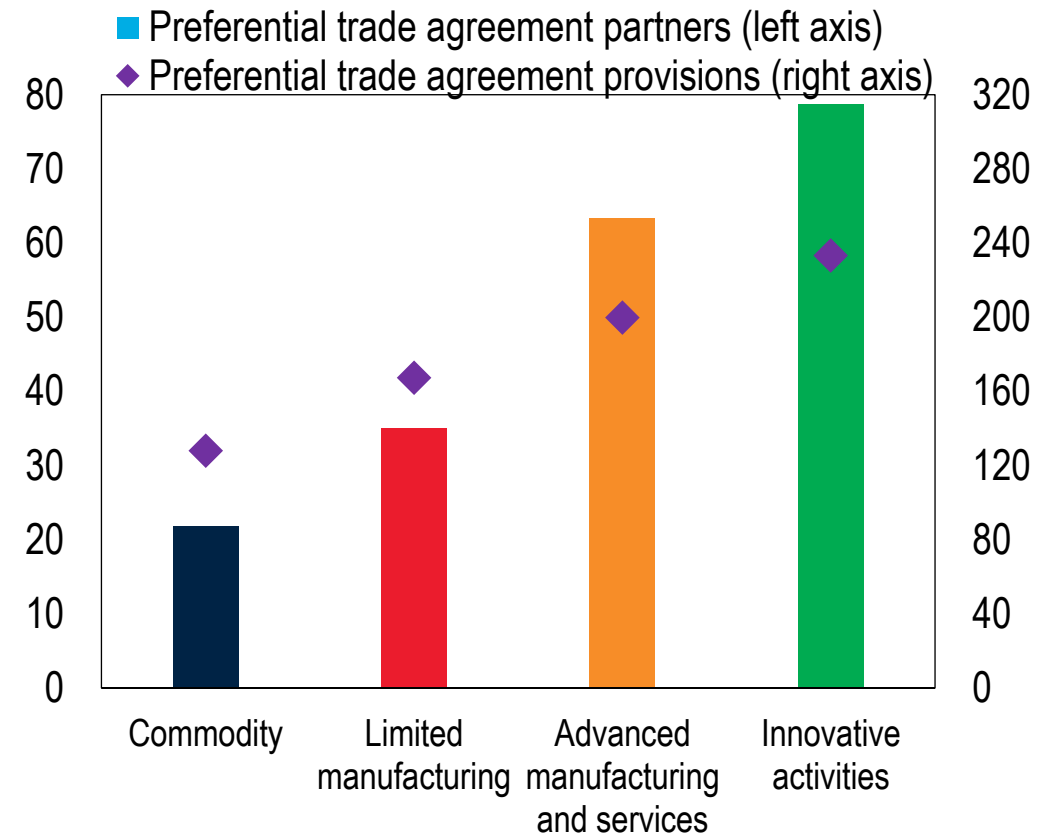


3. Deepen Existing Trade Agreements and Pursue Additional Comprehensive Ones

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



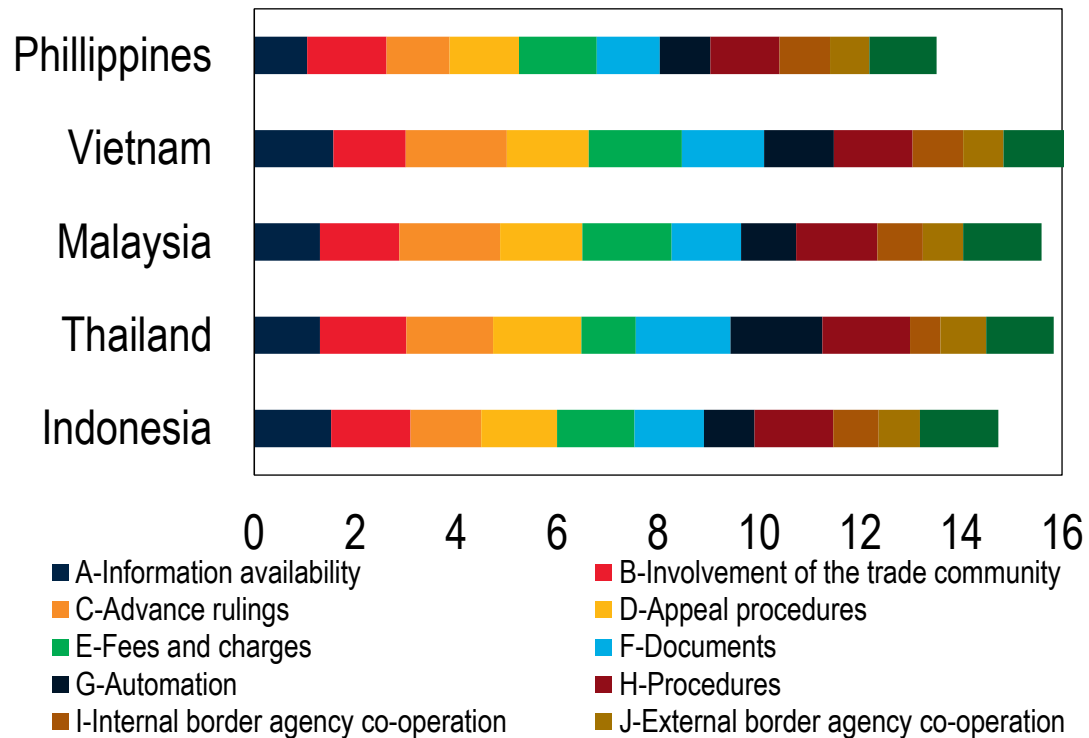
Deeper trade agreements are associated with higher levels of GVC-related trade
(percent)



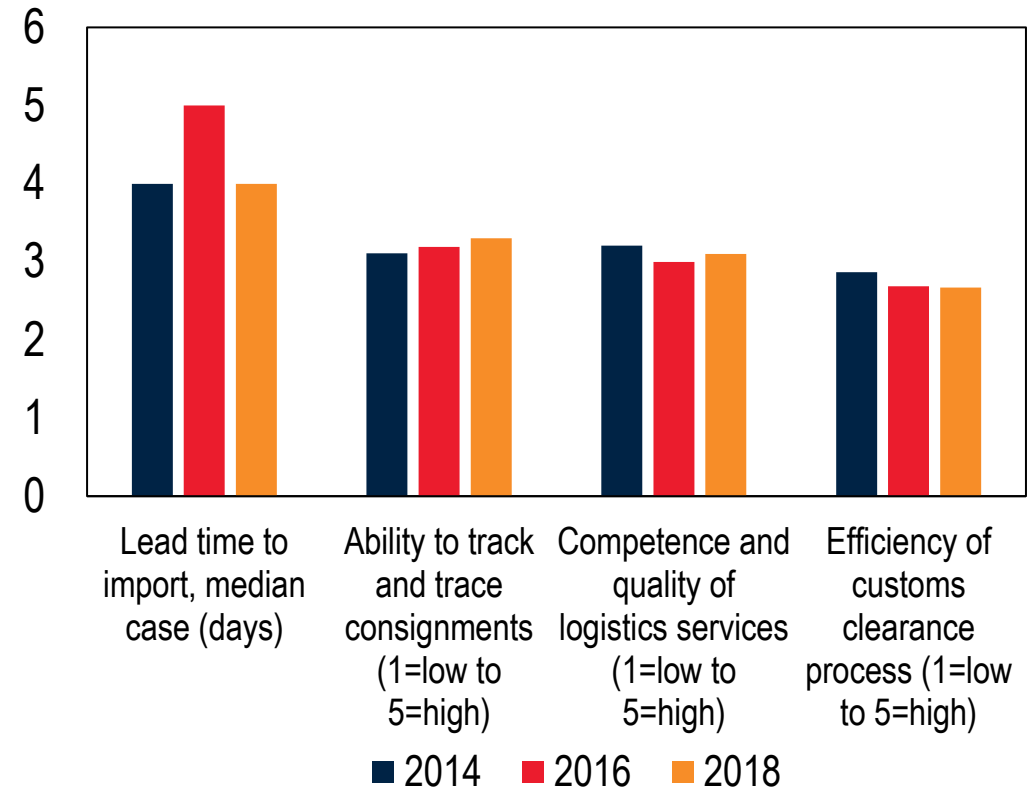


4. Improve Logistics and Trade Facilitation Performance

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



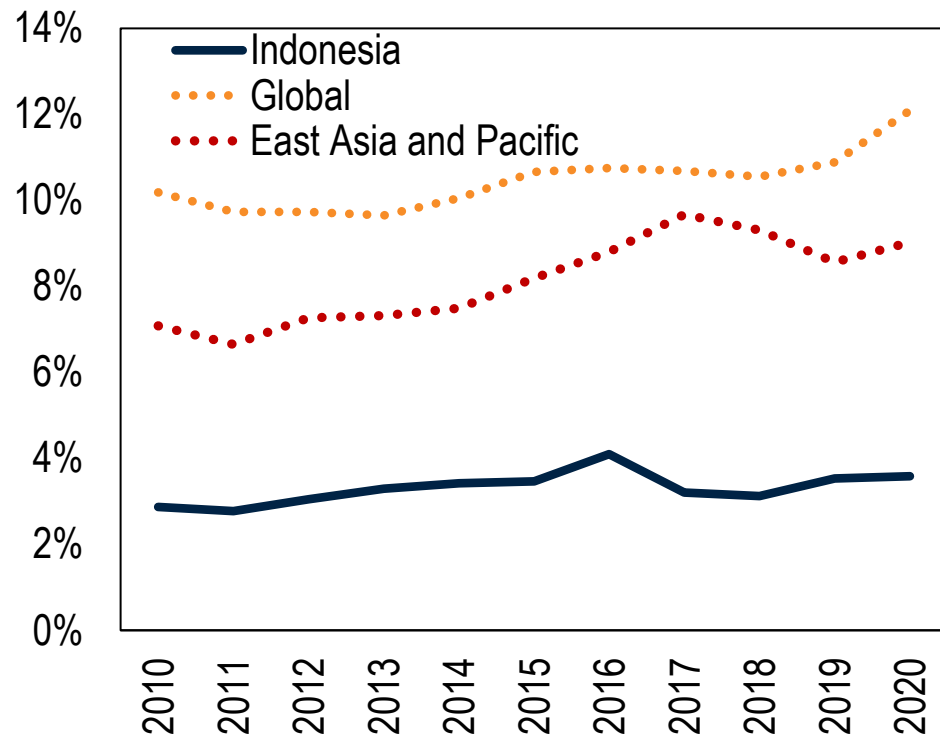
Logistics performance also improved, but still constrained by insufficient logistics infrastructure/services
(Days/Index)



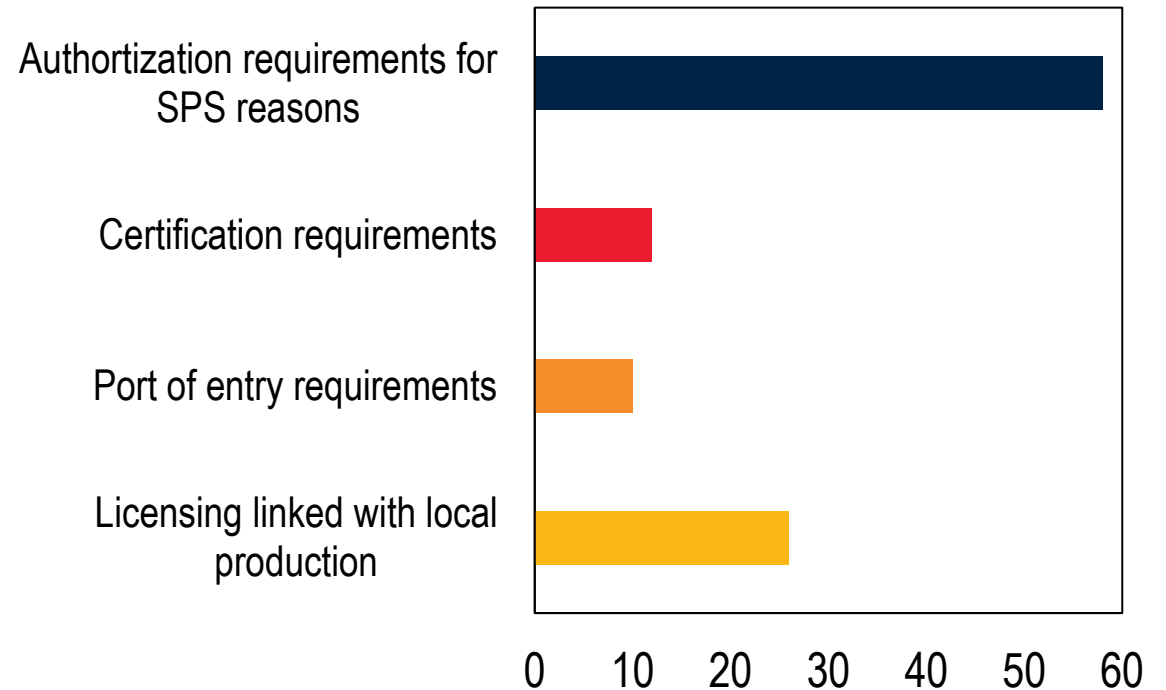


5. Strengthen the Mutual Complementarity Between Trade and Climate Policies

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



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



Source: World Bank.



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!

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