World Bank-Ministry of Trade Strategic Issues Forum on

Trading Towards Sustainability: The Role of Trade Policies in Indonesia’s Green Transformation

January 18th, 2024
Outline

1. The Case for the Role of Trade and Environmental Goods (green goods) in Climate Action and Mitigation
2. How Much Does Indonesia Trade in Environmental Goods and Plastic Substitutes?
3. Trade Policies for Indonesia’s Green Transformation
The Case for the Role of Trade and Environmental Goods (green goods) in Climate Action and Mitigation
Worldwide climate actions have been increasing with implications on growth and trade for Indonesia.

**Trends in Environmental Policy Stringency (EPS)**

Index values of selected countries (2003 and 2020, EPS value)

- CHN
- EMDE
- USA
- HIC
- FRA
- DNK

Source: Türkcan et al. (forthcoming) - calculations from OECD Stat database.

**EPS index values for the sample**

(2003-20, EPS value)

Source: Türkcan et al. (forthcoming) - calculations from OECD Stat database.

**Impact of NDCs and CBAM on aggregate macro indicators**

(percentage change in 2030 relative to baseline)

- NDC = Nationally Determined Contributions
- CBAM = Carbon Broder Adjustment Mechanism

Source: World Bank staff calculations.

NDC = Nationally Determined Contributions
CBAM = Carbon Broder Adjustment Mechanism
Although trade flows facilitate emissions, they are also a critical part of the solution, including through trade in environmental goods (green goods) and plastic substitutes—with important economic spillovers due to their high-tech intensity.

- **Trade**
  - Shifts to cleaner production and climate resilience

- **Trade in environmental products**
  - Reduces ecological footprint and increases environmental quality

- **Lower tariffs on environmental goods**
  - Increased exports and reduced emissions

- **Trade in Plastic Substitutes**
  - Cut global plastic waste, foster growth, increase exports
<table>
<thead>
<tr>
<th>Energy Transition (Mitigation)</th>
<th>Agriculture And Land Use Transition/NRM (Mitigation)</th>
<th>Waste Management (Mitigation)</th>
<th>Adaptation</th>
<th>Broader Environmental Protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Air Pollution Control</td>
<td>• Clean Up or Remediation of Soil and Water</td>
<td>• Management of Solid and Hazardous Waste and Recycling Systems</td>
<td>• Clean Up or Remediation of Soil and Water</td>
<td>• Environmental Monitoring, Analysis, and Assessment Equipment</td>
</tr>
<tr>
<td>• Cleaner or More Resource Efficient Technologies and Products</td>
<td>• Natural Resource Protection</td>
<td>• Resources and Pollution Management</td>
<td>• Natural Risk Management</td>
<td>• Environmentally Preferable Products based on End-Use or Disposal Characteristics</td>
</tr>
<tr>
<td>• Efficient Consumption of Energy Technologies and Carbon Capture and Storage</td>
<td>• Resources and Pollution Management</td>
<td>• Waste Management, Recycling and Remediation</td>
<td></td>
<td>• Noise and Vibration Abatement</td>
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<tr>
<td>• Energy Efficiency</td>
<td>• Water Supply</td>
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<td></td>
<td>• Others</td>
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<tr>
<td>• Gas Flaring Emission Reduction</td>
<td></td>
<td></td>
<td></td>
<td>• Wastewater Management and Potable Water Treatment</td>
</tr>
<tr>
<td>• Heat and Energy Management</td>
<td></td>
<td></td>
<td></td>
<td>• Water Supply</td>
</tr>
<tr>
<td>• Renewable Energy</td>
<td></td>
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</tbody>
</table>

Source: World Bank staff calibrations
How Much Does Indonesia Trade in Environmental Goods and Plastic Substitutes?
Indonesia has untapped potential in exports of green goods, while imports represent an important source of access and transmission of new green technologies.

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

- EGs Export Share Global
- EGs Export Share Indonesia
- EGs Export Share EAP

**While Indonesia’s Environmental Goods Imports are Aligned with the Global Average**
(Percent of total imports)

- EGs Import Share Global
- EGs Import Share Indonesia
- EGs Import Share EAP

Source: World Bank staff calculations from BPS and WITS data.
Indonesia is a net exporter of plastic substitutes, but still lags behind the world's top performers in this field and is decreasing.

**Share of Global Trade of Plastics Substitutes by Top 20 Countries (2021)**

**Source:** World Bank staff calculations from WITS data.
The private sector, especially firms involved in global value chains, will be key to realizing Indonesia’s potential in trade in green goods given most green goods are intermediate and capital goods.
Trade Policies for Indonesia’s Green Transformation
Reduce remaining tariffs on imports of green goods and plastic substitutes—including through multilateral participation.
Streamlining NTMs on green goods and plastic substitutes & conduct a systematic and periodic review of trade regulations

Tariff Equivalent of NTMs on green goods Relative to EAP (AVE difference with ASEAN)

NTMs Negatively Affect Import of Plastic Substitutes

Source: World Bank staff calculations from World Bank NTM Database.
Working towards the harmonization and mutual recognition of product standards across markets & coordination on climate policies that are likely to affect trade to better enable the private sector.

Firms exporting green goods from Indonesia face challenges in meeting product standards in destination markets.

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>EG Exporter Only</td>
<td>86%</td>
</tr>
<tr>
<td>EG Importer Only</td>
<td>81%</td>
</tr>
<tr>
<td>EG Exporter and Importer</td>
<td>82%</td>
</tr>
<tr>
<td>Other</td>
<td>14%</td>
</tr>
<tr>
<td>SNI isn’t Harmonized with Importing Countries Standard</td>
<td>19%</td>
</tr>
<tr>
<td>SNI isn’t Recognized by Importing Countries</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: World Bank staff calculations from World Bank NTM Database.
Increased Imports and Exports of EVs

Increased Imports and Exports of SPP

Reviewing and relaxing local content requirements (LCRs) to accelerate renewable energy (RE) sector growth through strengthening domestic supply chain and establishing demand for RE and RE enabling projects.

Source: World Bank staff calculations from BPS data.
Including enforceable environmental provisions in trade agreements and participating in plurilateral and multilateral policy initiatives on green goods

6 out of 14 Indonesia's trade agreements contain environmental provisions

Only One is strongly legally enforceable

Source: World Bank Deep Trade Agreements Dataset
Strengthen the **complementarity** between trade and climate policies
Thank you!

Terima kasih semuanya!

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