

CHAPTER IV

INDONESIA ECONOMIC GROWTH

Economic growth has become main indicators of the economic development of a developing states besides economic structure, community consumption and savings patterns, level of inflation, overseas balance of payments and state revenues (General Secretariat DPR RI, 2014). Generally, economic growth analysis divided into two which are classical economic and modern economic. This part will be examine by classical economy where the concept is believe on the effectiveness of Free Trade where the theory has been explained in the first chapter of this thesis.

According to Adam Smith, there are two aspects of economic growth; first is total output growth. Total output growth are includes natural resources, human resources, and capital stock that also part of key elements in the production system of the state. And the second aspect is population growth (ERVANI). The growth of population can be controled by rule of the govenrment. but there are special case, if the salary is higher than the salary that has been decided by the government it could be increase the population. the level of salary itself decided by the power of demand and supply of the labor. And deman and supply of labor decided by capital stock and the output growth from the consumen.

Economic growth is an increase in the production of goods and services over a specific period (Amadeo, 2018). In Indonesia, economic growth itself is the main player on achieving the economic sustainable. This chapter will examines the whole economic growth concept from macroeconomics especially based on Indonesia conditions. This chapter will divide into three parts which are the indicators of Indonesia economic growth, Indonesia economic

activities, and the potential of Indonesia economic growth after joined AANZFTA:

A. The Indicators of Indonesia Economic Growth

The economic development is important process to Indonesia where it still on developing stage. Economic development has a broader meaning and includes changes in the overall economic structure of society (radenintan, 2012). While, the economic growth can be defined as the increasing output or production of the state. The economic growth itself has various factors to identify the indicators. Since, the indicators of Indonesia economic growth in 19th century will be different with 20th century, that's why this part will be examine the indicators of Indonesia economic growth especially in 2011-2017. Here, I would like to show the **Indonesia's Economic Growth** graphic since 1961-2017 and some brief explanation below;

Chart 4.1 Indonesia Economic Growth 1961-2018

Source: Badan Pusat Statistik (BPS)



Indonesia has significant changes since 1961 where generally Indonesia always experiencing growth and only contracting twice. Indonesia's highest GDP growth was recorded in 1968 or the beginning of the New Order era, reaching 10.92%. While in the reform era, the highest economic growth was recorded in 2007, which was 6.35%. And for the worst era of the economic Indonesia are old order in 1963 and in 1998 where crisis financial in Asia happened that causing the decreasing of GDP for 13, 6% (Inilah pertumbuhan ekonomi Indonesia, 2018). GDP (Gross domestic product) defined as measures tool for the monetary value of final goods and services which bought by the final user that produced in the state in period time (quarter/year)

(Tim Callen, 2017). In the global economies, GDP has been used as a point references on identify the economic performance of a state. If the performance of GDP is growing, there is no problem in inflation, workers, and businesses that's mean the state has good condition on economy. When the performance of GDP is shrinking, it means the condition of the economy is bad where the unemployment increase, the inflation is big and the business is also has trouble. Shortly, GDP is the indicators on decide the economic health globally. But, of course the indicators of economic growth on each state will be different. Here, I would like to examine the indicators of Indonesia Economic growth which divided into three indicators, they are investment, Sector industry, and Export-import;

1. Investment

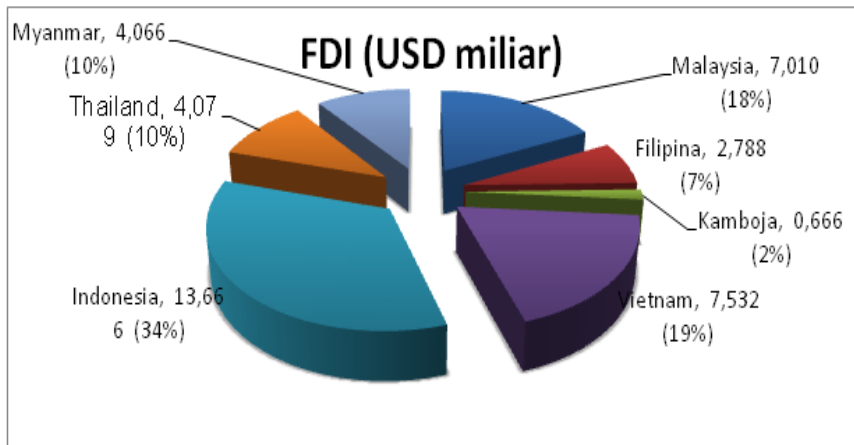
Investment is one of indicators that helping the economic growth in Indonesia. Investment is defined as the commitment of current financial resources in order to achieve higher gains in the future (Capital Market Authority). Investment domains by uncertainty for the result whether it will brought advantages or disadvantages. From this general definition it can be seen that the element of investment are time and future. There will be certain time in the future that affect the prices that brought more profit.

In macroeconomics, investment is also a component of national income, Gross domestic product (GDP) or Gross Domestic product (GDP) (Cahyono, 2015). Therefore the effect of invetsment to the state can be seen on the national income of those states. If the investment is increase of course the GDP will follow to increase. By the increasing of GDP we can see the quality of life inside the state will also increase, as the result the increasing of economic growth of the state can be achieved. If the individual, government or even other

country doing investment, there will be capital planted and also purchases of goods that not for consumption but will be use to produce that brought new goods in the future.

According to World Investment Repot 2015, foreign direct investment (FDI) to Indonesia has grown significantly around 20%, its higher than the investment that entered in Southest Asia which only increase for 5% (Cahyono, 2015). We can see percentage of Investment in Indonesia in the table below;

Chart 4.2 FDI



Source: *Financial Times*, 14 September 2015

Among the nation in Southeast Asia, Indonesia has high percentage of foreign direct investment. The AANZFTA serves investors in ASEAN states with its protection, transparency and clearness. The protection includes:

- a. Apply fair and secured investments
- b. Serves with the indiscriminate, since the number of investor due to this case is pretty high as well
- c. Allows the transaction of the investment to transferred without any postponement
- d. Make sure that the investors are getting a quick and effective in case of expropriation

2. Sector Industry

Indonesian economic growth has developed from agricultural sector in 1950s and 1960s towards the more industrialized and integrated global economy. This proven by the share of agriculture that declined while the industry's share increased in 1965 to 1997. From the 1980s and so on, the manufacturing sector has accelerated the economic growth as well. (Kniivilä, 2007)

In the middle of the global economic instability, Indonesian economic grow stronger, proven by the Indonesia's Gross Domestic Product (GDP) that increases from 6.2% in 2010 to 6.5% in 2011. The Foreign Direct Investment (FDI) role in the structure of capital inflows in Indonesia enhanced as well thanks to mining and industrial sector. The tradable sector, which consists of the agriculture, mining and industry, increased significantly in 2011 to 4.5%. The growth happened in tradable sector in 2011 was mainly supported by the processing industry sector growth by 6.2%, thanks to the strong domestic demand and the good investment climate. To be clear, the tradable sector was supported by the accelerated growth in the manufacturing sector. The prospect of the manufacturing sector is expected to remain positive with the support of Government policies.

Empirically, the international trade and investment proven able to turn industrialization into an engine for the economic growth, as how it already turned the history of economic growth of some states such as Japan in the 60's, Hong Kong, Taiwan, and etc. (Keuangan, 2018)

3. Export-import

The economic growth also happens because of the rapid export and import activities and high demand in the middle of global economic. As it was explained above, trade relations between Australia and New Zealand with ASEAN countries especially Indonesia considered to be good. Trade Agreement between Indonesia-Australia and Indonesia-New Zealand is realized through export and import activities. Export commodities Indonesia to Australia and New Zealand is paper, coal, raw oil, textile products steel products, and shoes. And for Indonesia itself, they importing wheat products, textile raw materials, dairy product, live animals mainly cow, beef and innards from Australia and New Zealand. (Mukhibatul Hikmah, Suhadak, Ferina Nurlaily, 2018). The total value of export activities Indonesia in 2008-2010 to Australia and New Zealand is only 3% from general export value of Indonesia to the world, or around US\$4, 7 Billion and it does not change until the implementation of AANZFTA in 2011, which hits US\$ 5, 9 billion. The import activities also increased from Australia and New Zealand around 3-4% in 2008-2010 from the total import value of Indonesia from the world or around US\$ 3, 9 – US\$ 4, 7 billion.

The import and export activities Indonesia's export performance increase to 13.6%, which far from the historical average of 7.5% in 2011, however it has a little decline compared to the previous year. The increase is supported by the intra-region trade in ASEAN as the

form of AANZFTA. Along with the growth in export, the import also had a decline compared to the 2010. From 17.3% in 2010 to 13.3% in 2011, it is still considered to be quiet high for Indonesia. (Indonesia, 2011)

During the partnership between ASEAN with Australia and New Zealand, it considers to be pretty good especially with Indonesia. After the agreement signed the export and import values between ASEAN to Australia and New Zealand, as well as Indonesia, from 2011-2017 had gone through a fluctuate graph.

Table 4.1 Indonesia's Export Import Trade with Australia and New Zealand. All Products.

	Indonesia's Exports to Australia	Indonesia's Imports from Australia	Indonesia's Exports to New Zealand	Indonesia's Imports from New Zealand
2017	2.509.185	7.056.510	437.819	734.177
2016	3.199.006	5.260.855	366.543	660.904
2015	3.702.296	4.815.795	436.256	637.010
2014	4.962.452	5.647.502	481.418	836.037
2013	4.370.482	5.038.166	469.513	805.988
2012	4.905.413	5.297.648	441.010	696.254
2011	5.582.530	5.177.069	371.708	729.228

Source: <https://www.trademap.org/>

As it can be seen from table 2 above, the export and import between Indonesia with Australia and New Zealand had gone through a fluctuating graph. Instead of escalation, the number of Indonesia's exports to Australia had decrease in each years, different with the exports to New Zealand which has a fluctuate movement,

and consider to be escalated. The imports, in the other hand, were doing pretty well instead. This happened because, from the import terms, there are only few commodities that can enjoy the 0% limited average tariffs, while the other commodities are still subject to 3.53% for the product to enter Indonesia. This is actually affected on the rapid escalation of Indonesia's import rather than the exports. Exports could also be affected by the GDP and the exchange rate that could drive into either positive or negative. If the domestic exchange rate has an escalation then there will be a depreciation which leads into a cheaper domestic commodity. Later, the exports will be increased and the demand for superior Indonesian commodities in the importing countries will increase as well. (Sari, 2018)

B. Indonesia Economic Activities in AANZFTA

In economic, we often hear the word production, distribution and consumption. In definition, economic activities are all kinds of activities done by people in order to fulfill their life necessity. There are various kinds of economic activities that could be done. In case of AANZFTA, or the free trade, the economic activities such as export and import goods, investment, trading and etc. are included as the economic activities. The free trade could apply the tariffs and could be not, AANZFTA precisely of course eliminating the tariffs on some sectors.

C. Potential of Indonesia's Economic Growth in AANZFTA

The AANZFTA believe to be an economic developer for most of the states including Indonesia. Since the agreement started, AANZFTA seen as a potential field for the state, since it considers to be a competitive state with high trade values, while AANZFTA seen as a comprehensive cooperation yet the implementation is still depend on product and services. The

agreement, however, could turn into somehow beneficial or even harmful for Indonesia's economic growth itself.

The free trade agreement between ASEAN with Australia and New Zealand means to make an integration for a developing state such as Indonesia with the more developed states such as Australia and New Zealand. It provides a non-tariffs trade, which could effect on the export and import of the states involves. Letting a liberalization in terms of trading means letting the possible future products and services coming to Indonesia's market, therefore it will filled by the Australia and New Zealand products. However, it is also a vice versa. Australia and New Zealand's market could also filled with Indonesia's products and services. However Indonesia needs to fix the performance of the export products, while keeping a good bilateral and multilateral relations with other states. The foreign exchange earned from the export and import will strengthen the national's economic, thus are the exchange rate stability and fastening the economic growth. (Keuangan, 2018)

An expert in economic predicted that
'...the presence of AANZFTA will increase the business relations intensity among nations. Notably, the elements of AANZFTA possess a clear and futuristic vision, one that deliver ASEAN to a new phase in external relationship and internal integration as a regional organization powerful and stable enough in the South East Asian region. Investors will also reap the advantage of AANZFTA agreement regarding trade liberalization and protection in form of a definite investment rules, less investment barriers and a just dispute resolution mechanism that may apply regionally.' (Gunadi, 2018)

The president of Indonesia, Joko Widodo (Jokowi) stated that the ASEAN Free Trade Agreement, especially with Australia has a strategic values. The AANZFTA said to be the most advanced for the Association of Southeast Asian Nations.

He also stated that the ASEAN-Australia needs to be a free and a fair locomotive system for a wider free trade and act as the anchor in the future. (Arys Aditya, 2018)

D. Free Trade Agreement Between Asean-Australia, And New Zealand Affect The Growth Of Indonesia Economy In 2011-2017

The free trade agreement between ASEAN-Australia and New Zealand is a kind of free trade agreement which considers to be a higher integration to eliminate tariffs and non-tariff barrier in a trade, however the member states are still capable to apply it or not. The agreement of course will come to both positive and negative effect towards the member states, such as Indonesia. In the positive side, the agreement is able to make the member states' productivity increase, the quality of domestic product, high chance in exporting and fulfil the needs of the states by importing, also provides wider options and higher economy growth. In the other hand, it could also be harmful as well, the domestic product could be loss with the import goods, and the state will be too much consumption and dependant. Overall, it all affects the economic growth.

During the AANZFTA in 2011-2017, Indonesia had through a lot. The agreement had make a push on the criteria needed for economic growth, such as export, import and investment, which becomes a form of international trade. Sometimes there are a quiet high demand over main commodities such as paper, coal, raw oil, textile, steel products, and so on and so forth to destination states such as Australia and New Zealand. However in another time, the import could be higher than the export itself. Economic growth is measure by the total output of real Gross Domestic Product (GDP) or Gross National Product (GNP).

As we can see that the curve of export and import Indonesia towards the two countries might be downwards instead of going upwards, however, the export and import of

Indonesia actually went pretty good compare to the past years before joined the agreement. Because of the escalation happened in investments and export import sector, the unemployment rate as well as the poverty rate went down slowly as well. This proven by the poverty rate succeed in going down 1.18 billion since September 2016 to September 2017. Yearly, the average poverty rate went down about 500.000 people.

Chart 4.3 Poverty Rate of Indonesia 2007-2018



Source: BPS on

<http://www.skornews.com/skor-bappenas-bedah-angka-kemiskinan-dan-kesenjangan.html>

If we can conduct, the AANZFTA does effect on the economic growth of Indonesia through the free trade which includes the export, import, and also the investment, which then later effect on the GDP or GNP of the states, and the welfare as well. Among the other ASEAN member states which joined the AANZFTA, Indonesia has the highest investment and export import rate to both partnership countries.