

CHAPTER II

INTERNATIONAL TRADE OF INDONESIA

International trade or also called foreign trade is trade relations between parties in two different countries, the outline is carried out in the form of exports and imports. Governments in many countries are very interested in international trade because it can significantly affect the economic system (Rinaldy, ikhlas, & utama, 2018). Indonesia is involved quite actively in various international conventions on free trade both in the global scope and bilateral trade cooperation (Arifin, Rae, & Joseph, 2007). This chapter seeks to explain trade cooperation between Indonesia and other international trade actors and Indonesia's trade activities.

A. International Trade Cooperation of Indonesia

1. Multilateral Cooperation

Indonesia in multilateral cooperation has the aim of increasing Indonesia's active role in realizing international peace and security, advancing and protecting human rights, carrying out humanitarian cooperation, and increasing economic, socio-cultural, financial, environmental, trade, industrial, investment, commodity, and protection of property rights intellectual. Some of multilateral cooperation undertaken by Indonesia includes the Organization of Islamic Cooperation (OIC), the United Nations (UN), G-20, World Trade Organization (WTO) and Non-Aligned Movement (GNB) (Kementerian Luar Negeri Republik Indonesia, 2017).

One of Multilateral cooperation in trade cooperation of Indonesia is World Trade Organization (WTO). It is undeniable that the WTO as an organization at the international level, is recognized as having played a very significant role in creating

an international trade system. This is reflected in the increase in the number of WTO members that have so far reached more than 150 countries and have also resulted in an agreement to direct world trade liberalization. The WTO, which was established on January 1, 1995, played an important role in regulating the multilateral trading system involving many countries. The system is a development of a multilateral trade agreement under the framework of the General Agreement on Tariffs and Trade (GATT) which was formed in 1947 (Arifin, Rae, & Joseph, 2007). The aim of the establishment of the WTO is to encourage trade flows between countries through reducing tariffs and barriers in trade and limiting discrimination in international trade relations. Furthermore, the objective of establishing the WTO is reflected in the 5 WTO functions, namely:

- 1) The WTO functions as an institution that facilitates the implementation, administration and implementation of the WTO agreement and provides a framework for implementation, administration and implementation of plurilateral agreements
- 2) The WTO as an institution that provides a forum for negotiations among its members related to the issues regulated in the WTO agreement including providing a forum and framework for implementing the results of negotiations that have been achieved.
- 3) The WTO acts as the administrator of Dispute Settlement Understanding.
- 4) The WTO functions as the administrator of the trade policy testing mechanism that regularly reviews the trade conditions of each member country.

- 5) The WTO works with international organizations such as the IMF and World Bank (Bosche, Natakusumah, & Wira, 2010).

As a member of the WTO, Indonesia has an active role in supporting multilateral trade policies and rules that have been mutually agreed upon. For Indonesia, the multilateral forum is the fairest trade forum and gets top priority in addition to regional and bilateral forums because through the principle of non-discrimination in the WTO, all member countries have the same rights and obligations regardless of the conditions or economic strength of each country. The commitment given by a country is basically the opening of market access and national treatment. Indonesia's commitment to support the WTO is emphasized by ratifying the Agreement on Establishing the WTO through law number 7 of 1994. As a consequence of this, Indonesia is obliged to fulfill or implement the commitments in order to carry out these commitments, Indonesia's trade regulations must be harmonized with WTO rules and agreements (Arifin, Rae, & Joseph, 2007).

2. Regional Cooperation

Regional trade cooperation or agreements are agreements from two or more countries which aim to reduce barriers to trade on a reciprocal or perfect basis. Based on data from the WTO, until now almost all countries in the world have at least joined a regional trade cooperation, even some countries have joined in several regional trade agreements or cooperation. Some examples of regional cooperation in Indonesia are the Association of Southeast Asian Nations (ASEAN), ASEAN + 3 (ASEAN + China + Japan + Republic of Korea) and APEC (Asia Pacific Economic Cooperation) (Arifin, Rae, & Joseph, 2007).

1) Association of Southeast Asian Nations (ASEAN).

Trade cooperation in the area closest to Indonesia will not be separated from the discussion of the Association of Southeast Asian Nations (ASEAN). ASEAN was established on 8 August 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration) by the Founding Fathers of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand. Brunei Darussalam then joined on 7 January 1984, Vietnam on 28 July 1995, Lao PDR and Myanmar on 23 July 1997, and Cambodia on 30 April 1999, making up what is today the ten Member States of ASEAN (Association of Southeast Asian Nations, 2012).

The ASEAN Free Trade Agreement (AFTA) which was established in 1992 shows the spirit of economic integration among the members. It also creates other economic power in the East Asia region. AFTA as a single entity has become relatively similar to other major players in East Asia such as Japan, China and Korea. Therefore, as the first de jure economic integration in East Asia, ASEAN played an important role in further economic integration in the future (Andrista & Widodo, Welfare Impact of ASEAN Economic Integration: "ASEAN Way" Versus Theory, 2017).

ASEAN also established Economic Community (AEC). At the end of 2015, the ASEAN Economic Community (AEC) began. AEC is a continuation of the ASEAN Free Trade Agreement (AFTA) which is a free trade collaboration in the Southeast Asia region. ASEAN Economic Community (AEC) is an agenda of international economic integration of the member countries of ASEAN (Indonesia, Malaysia, Singapore, Brunei Darussalam, the Philippines, Thailand, Laos, Myanmar and Vietnam), which aims to reduce obstacles to the Southeast Asian regional trade in goods and services as well as foreign investment. AEC 2015 will form a regional economic integration by reducing trade transaction costs; improve trade

and business facilities, as well as improving the competitiveness of Micro, Small and Medium Enterprises. This will create a free market in Southeast Asia, which would also boost competitiveness among its members. In order to support the establishment of AEC member countries have agreed to establish the ASEAN Free Trade Area (AFTA), which begins with a commitment to lowering tariff in goods between zero to five percent. To achieve the commitment of ASEAN Single Market in 2015, the situation would be improved by efforts to eliminate tariff (up to zero percent) (Gunadi, ASEAN Economic Community Impact, 2016).

2) ASEAN + 3 (ASEAN + China + Japan + Republic of Korea)

The ASEAN Plus Three (APT) cooperation process began in December 1997 with the convening of an Informal Summit among the Leaders of ASEAN and China, Japan and the ROK at the sidelines of the Second ASEAN Informal Summit in Malaysia. The APT Summit was institutionalized in 1999 when the Leaders issued a Joint Statement on East Asia Cooperation at the Third APT Summit in Manila. In the Joint Statement, the APT Leaders resolved to strengthen and deepen East Asia cooperation at various levels and in various areas, particularly in economic and social, political and other fields. ASEAN's trade with the Plus Three Countries retained its momentum despite challenges derived from uncertainties in the global economy. Total trade between ASEAN and the Plus Three countries in 2015 amounted to USD 708.6 billion which accounted for 31.1 per cent of ASEAN's total trade. In the same year, the total foreign direct investment (FDI) flows from the Plus Three countries into ASEAN reached USD 31 billion, accounting for 26 per cent of total FDI inflow to ASEAN.

3) APEC (Asia Pacific Economic Cooperation)

APEC was established in 1989 to further enhance economic growth and prosperity of the people in the Asia Pacific region based on the principle of non-binding

commitments, open dialogue and mutual respect for the views or opinions of member countries. The ultimate goal of establishing APEC is to create a free and open trade and investment area in 2010 for developed countries and by 2020 for developing countries. This vision is contained in the Bogor Goals adopted by leaders of APEC member countries in 1994 (Arifin, Rae, & Joseph, 2007).

3. Bilateral Cooperation

Bilateral and regional agreements are increased due to the second best option for the Free Trade Agreement after the multilateral agreement. Because of its difficult implementation, more bilateral and regional agreements were chosen to expand trade cooperation. Theoretically, the Bilateral Trade Agreement (BTA) is also a form of development from the concept of regionalism. Regionalism at this time can be formed in the form of pluralism or bilateral between two countries, or between one regional group with one country, or with other regional groups (Arifin, Rae, & Joseph, 2007). Indonesia has signed and implemented a number of free trade agreements with countries and regions around the world as an independent market as well as a member state of the Association of South East Asian Nations (ASEAN). Some of the agreements are:

- Indonesia-Japan Economic Partnership Agreement
- ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement
- ASEAN Free Trade Area
- ASEAN-Australia and New Zealand Free Trade Agreement
- ASEAN-India Comprehensive Economic Cooperation Agreement
- ASEAN-Japan Comprehensive Economic Partnership
- ASEAN-Korea Comprehensive Economic Cooperation Agreement
- Pakistan-Indonesia Preferential Trade Agreement

In addition to trade agreements that are already in effect, Indonesia is also carrying out negotiations for the following trade agreements:

- India-Indonesia Comprehensive Economic Cooperation Arrangement (India-Indonesia CECA).
- Indonesia-Australia Comprehensive Economic Partnership Agreement (Indonesia-Australia CEPA).
- Indonesia-Chile Free Trade Agreement (Indonesia-Chile FTA).
- Indonesia-European Free Trade Association Free Trade Agreement (Indonesia-EFTA FTA); with Switzerland, Lichtenstein, Norway and Iceland.
- Regional Comprehensive Economic Partnership (RCEP); with Australia, Cambodia, India, Japan, Laos, Myanmar, Philippines, Thailand, Brunei Darussalam, China, South Korea, Malaysia New Zealand, Singapore and Vietnam.
- Korea-Indonesia Free Trade Agreement; with South Korea (Global Business Guide Indonesia, 2016).

B. Export and Import of Indonesia

1. The Performance of export and Import

International trade activity of a country is an indicator to find out its role in the international world. Indonesia's data shows its activity in world trade, both as suppliers and markets for other countries. The increase in trade value is also an indication of the growth of the Indonesian economy. Each country will compete to increase the trade balance value. This trade balance movement will have an influence on the exchange rate which in turn will affect the industry's performance, and the end will certainly affect economic growth because, beside the consumption, investment and government expenditure, the trade balance is a component that affects Indonesia's Gross

Domestic Product (GDP) in terms of expenditure (Purnamasari, 2017).

Table 2.1 Indonesia Balance of Trade

Description	Value: USD Billion					
	2012	2013	2014	2015	2016	2017
Export	190,0	182,6	176,0	150,4	144,5	168,8
Oil	37,0	32,6	30,0	18,6	13,1	15,7
Non-Oil	153,0	149,9	146,0	131,8	131,4	153,1
Import	191,7	186,6	178,2	142,7	135,7	156,9
Oil	42,6	45,3	43,5	24,6	18,7	24,3
Non-Oil	149,1	141,4	134,7	111,1	116,9	132,6
Total Trade	381,7	369,2	354,2	293,1	280,1	325,8
Oil	79,5	77,9	73,5	43,2	31,8	40,1
Non-Oil	302,2	291,3	280,7	249,9	248,3	285,7
Balance of Trade	-1,7	-4,1	-2,2	7,7	8,8	11,8
Oil	-5,6	-12,6	-13,4	-6,0	5,6	-8,6
Non-Oil	3,9	8,6	11,2	12,7	14,5	20,4

Source: kementerian Perdagangan Republik Indonesia,,2018

From 2005 to 2016, Indonesia's trade balance once showed a negative value or commonly referred to as a trade deficit. This incident occurred for three consecutive years, namely 2012 to 2014. From the table above in 2012, the trade balance deficit reached USD 1.7 billion. This trade deficit increased to USD 2.2 billion in 2014. Indonesia recorded a trade surplus again in 2015 with USD 7,7 billion. The trade balance deficit was caused by a decrease in the export value of several main commodities. In 2012, for example, oil and gas commodity exports were only able to reach USD 37 billion. In addition, the surge in the value of imports, especially for consumer goods and raw materials and capital goods also put pressure on the trade balance (Purnamasari, 2017).

Indonesia's trade balance in 2017 recorded an increase in surplus compared to the previous year. Indonesia's trade balance surplus in 2017 increased to USD 11.8 billion. The increase in the trade balance surplus in 2017 was supported by an increase in the non-oil and gas trade balance surplus which was greater than the increase in the oil and gas trade balance deficit. The non-oil and gas trade balance surplus rose to USD 20.40 billion in 2017. On the other hand, the oil and gas trade balance deficit only rose to 8.57 billion US dollars in the same period (Departemen Komunikasi Bank Indonesia, 2018).

2. The 10 Main Export commodity

Export is the process of transporting commodities or goods from one country to another which are usually carried out by companies with small to medium scale businesses as the main strategy to be able to compete at the international level. Indonesia as a country that has abundant natural resources also plays a role in international trade by becoming an exporter of several important goods or commodities. The value of exports in Indonesia is increasing from year to year. In Indonesia there are many types of commodities that are exported to other countries in the world. Indonesia has some main export commodities. The importance of the Indonesian main export commodity can increase Indonesia's trade surplus because the products can be a source of foreign exchange (Adiningsih, 2008). But, there is still many improvements that needs to be addressed so that all Indonesian commodities are able to compete in the international market and become main export commodities. The ten main export commodities of Indonesia are textiles and textile Products, forest products, electronics, rubber and rubber products, palm oil and palm products, automotive, footwear, shrimp, cocoa and coffee (Simanjuntak, 2016).

Table 2.2 Country Destination 10 Main Export Commodities

No	Commodity	Destination Country
1	Textile and textile product	The United States, Japan, China, South Korea, Turkey, Germany, United Arab Emirates, Brazil, England, Belgium
2	Electronic	Singapore, The United States, Japan, Hong Kong, Germany, Netherlands, China, Thailand, Malaysia, South Korea,
3	Rubber and Rubber Product	The United States, China, Japan, India, South Korea, Germany, Brazil, Canada, Turkey, Malaysia
4	Palm oil	India, China, Pakistan, Spain, Bangladesh, Egypt, Netherlands, Italy, United States, Malaysia
5	Forest Product	China, Japan, United States, South Korea, India, Australia, Malaysia, Taiwan, England, Netherlands
6	Footwear	The United States, China, India, Japan, Germany, England, Netherlands, South Korea, Italy, Mexico
7	Automotive	The Philippines, Thailand, Japan, Saudi Arabia, Vietnam, Malaysia, Mexico, Singapore, Pakistan, Brazil
8	Shrimp	The United States, Japan, China, Vietnam, Hong Kong, Malaysia, England, Taiwan, Singapore, Canada
9	Cacao	United States, Malaysia, Netherlands, China, Canada, Estonia, Australia, Germany, India, Japan
10	Coffee	The United States, Germany, Malaysia, Japan, Italy, Russia, Egypt, England, China, Algeria

Source: Kementerian Perdagangan Republik Indonesia, 2018

1) Textile and textile product

Textile and textile product is an important trading commodity for Indonesia. The textile and textile products industry is one of the priority industries to be developed because it has a strategic role in the national economy, namely as a contributor to foreign exchange, absorbs large numbers of workers, and is an industry that is relied on to meet national clothing needs (Kementerian Perindustrian Republik Indonesia, 2010).

2) Electronic

Some Indonesian electronic commodities are signal receivers for television and electronic panels.

3) Rubber and Rubber Product

As the second largest rubber producer in the world, Indonesia's rubber supply is important for the global market. Since the 1980s, the Indonesian rubber industry has experienced stable production growth. Most of the country's rubber production is produced by small farmers. Therefore, government and private plantations have a small role in the domestic rubber industry.

4) Palm oil

World palm oil production is dominated by Indonesia and Malaysia. These two countries produce a total of around 85-90% of the world's total palm oil production (Arifin, Rae, & Joseph, 2007). In the long term, the world demand for palm oil shows an increasing trend in line with the growing population of the world and hence increases the consumption of products with palm oil raw materials.

5) Forest Product

Indonesia's forestry industry is one of the contributors to government revenues, gross domestic product and foreign exchange earnings. The diversity of Indonesian furniture and craft products has a comparative advantage both in terms of their unique design and legality because they are equipped with environmental-friendly certification and trade sustainability.

6) Footwear

Indonesia is in the six largest countries, exporters of footwear in the world and therefore this sector is an important asset for Indonesia's manufacturing industry (generating foreign exchange and providing employment for many people).

7) Automotive

The automotive industry in Indonesia, in addition to producing cars and automobile parts to meet the needs of the domestic market, is also marketed to the international market.

8) Shrimp

Exports of shrimp products from Indonesia are still the largest in ASEAN, competing with Thailand and Vietnam. While the largest shrimp export destination countries are Japan and the United States. These achievements cannot be separated from the government's efforts to boost production and increase the competitiveness of national fisheries production. The increase in exports also interferes with the role of entrepreneurs, the fishing industry, stakeholders to be able to jump in and see the investment opportunities that exist.

9) Cocoa

Cacao is one of the most important agricultural export products in Indonesia. In the past 25 years, the Indonesian cocoa sector has experienced large growth, driven by rapid expansion of the participation of small farmers. So far, small farmers have contributed a large part of national production, defeating large state plantations and large private plantations. Most of Indonesia's cocoa exports are raw seeds instead of processed cocoa which means that Indonesia loses this income. The most targeted destination countries for cocoa exports are Malaysia, the United States and Singapore.

10) Coffee

Indonesia is one of the largest coffee producing and exporting countries in the world. Most of the products are lower quality robusta varieties. Indonesia is also famous for having a number of specialty coffees such as 'civet coffee' and 'Mandailing coffee'. Higher quality arabica seeds are mostly produced by South American countries such as Brazil,

Colombia, El Salvador and Costa Rica. Therefore, most Indonesian coffee exports (approximately 80%) consist of robusta seeds. Exports of processed coffee are only a small part of Indonesia's total coffee exports (Emporia Digital, 2017).

3. Law and Regulation of International Trade of Indonesia

Laws and regulations relating to international trade established by the Indonesian government are:

a. Law

Laws related to international trade are:

- 1) Law Number 17 of 2006 Regarding Amendment to Law Number 10 of 1995 on Customs.
- 2) Law Number 39 of 2007 Regarding Amendment to Law Number 11 of 1995 on Excise.
- 3) Law Number 24 of 1999 Concerning Foreign Exchange Flows and the Exchange Rate System.
- 4) Law Number 7 of 1994 On ratification of Agreement Establishing The World Trade Organization.

b. Government Regulation

Government regulations are guidelines for implementing the law. The law stipulates general provisions, so that the provisions outlined are explained in government regulations. Government regulations related to international trade are:

- 1) Government regulation No. 16 of 1970, is an implementation guideline of law No. 32 of 1964 which stipulates that Indonesia adheres to a semi-free foreign exchange system. This provision stipulates that the export proceeds from commodity goods must be sold to the government through Indonesian banks, while the export proceeds from service transactions are free or not obliged to be sold to the government. Every resident is

free to obtain and own foreign exchange. Export activities (X) and import (M) must use letter of credit.

- 2) Government Regulation No. 1 of 1982, is a government policy in the field of foreign trade that perfects government regulations number 16 of 1970. Government regulation No. 1 of 1982 stipulates that every citizen is free to obtain and use foreign exchange, and foreign exchange proceeds from exports must not be sold to government. Government regulation No. 1 of 1982 was perfected by government regulation No. 24 of 1985, specifically relating to the management of exports, imports and foreign exchange traffic.
- 3) Government Regulation No. 34 of 2011 concerning anti-dumping actions, reward actions and trade security measures.

c. Ministerial regulation

Ministerial regulations are technical from law and government regulation. Some of the Republic of Indonesia's ministerial regulations relating to international trade are

- 1) Minister of finance regulation number 139 / PMK.04 / 2007 concerning customs inspection or imported goods
- 2) Minister of Finance Regulation number 232 / PMK.04 / 2009 concerning integrated customs area
- 3) Minister of finance regulation number 213 / PMK.04 / 2009 concerning export pricing for calculation of export duty.

d. Bank Indonesia law products

Bank Indonesia as an authority in the field of monetary, payment system, and authorized banking issues provisions that are public. The regulation on the implementation of Indonesian bank law since the enactment of law number 23 of 1999 has been stipulated in the form of Indonesian bank regulations and governor council regulations that are equivalent to government regulations.

Bank Indonesia legal products related to international trade are as follows.

- 1) Indonesian bank regulations are guidelines for implementing the law on Indonesian banks. The example is Indonesia bank regulation number 2/13 / PBI / 2000 concerning guarantee of payment for international trade.
- 2) Bank Indonesia circular letter is a technical guide from the decision letter of the directors of Indonesian banks. The example is Circular number 26/34 / ULN dated December 17, 1993 which stipulates that every issuance and receipt of letters of credit by foreign exchange bank banks in Indonesia must apply Uniform Customs and Practice for Documentary Credit version 500 or UPC 500.

- e. Regulation of the directorate general of customs and excise

The directorate general of customs and excise regulations is a technical guide from the finance ministry about everything related to the regulation of goods traffic, calculation of state levies on goods or commodities for export and import. Example of regulation of the directorate general of customs and excise is Regulation of the director of customs and excise number No. 1 / BC / 2011 concerning procedures for filing objections and settlements in the customs sector (Rinaldy, ikhlas, & utama, 2018)

Indonesia using both international and regional cooperation as a platform to expand its market. Indonesia itself is a member towards many international and regional economic cooperation to show its existence in international trading relation. Even since independent, Indonesia has joint and initiate international organization such as WTO, ASEAN, APEC, OPEC and etc in order to expand its market to sell Indonesia's products. Indonesia itself has various commodity to

export and most of its product were able to found in any countries in the world. Indonesia main commodity such as electronics, mining, palm oil and agricultural sector has contributed towards Indonesia's economic growth.