

# THE US-CHINA TRADE WAR: Costs or Benefits to Indonesian Economy?

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# Introduction

## President Trump Policy “Make America First”

There are 4 main components of the US strategy that are considered profitable, but make the world entity change,

1. Trump's policy to cut taxes, called *Trump's Tax Reform* will attract many investors to invest in the US.
2. Trump forbids the entry of immigrants to the USA
3. Restrictions on exports of advanced technologies  
This step is taken, so that the US becomes superior and no other country duplicates their technology.
4. Trade Tariff Policy

# Reduce the trade balance deficit

- ✦ The controversial policy stems from the US desire under the leadership of
- ✦ Donald Trump who wants *to reduce the trade balance deficit* from various world countries, especially China. The US government claims a trade balance deficit of up to 375 billion US dollars with China
- ✦ Trade war: The US imposes import duties on Chinese products worth almost Rp3,000 trillion

# Balance of Trade

## Indonesia Balance of Trade with 8 Trade Partners

No	Partner	2012	2017
	World	-\$1,659,068,845)	\$11,421,874,458
1	China	-\$7,727,564,190)	-\$11,471,429,401)
2	USA	\$3,295,946,579	\$9,594,163,254
3	Japan	\$7,367,275,812	\$3,657,203,864
4	India	\$8,190,671,129	\$10,118,223,010
5	Singapore	-\$8,952,233,081)	-\$4,224,940,304)
6	Malaysia	(\$963,288,159)	(\$591,077,314)
7	Korea	\$3,079,489,365	\$312,765,144
8	Thailand	-\$4,802,097,697)	-\$2,573,421,926)

Source : United Nations Commodity Trade Statistics Database

# Impact on Indonesia

Indonesia has not been threatened because

- The contribution of exports to the Indonesian economy reached 43.5 %
- For Indonesia, China & US are No. 1 & 2 export destination countries.
- For China, Indonesia is the 16th largest exporter and for the US Indonesia is ranked 19th.
- "Indonesia's position in the US as an exporter in the **order of 19** with a value of 1.12 billion US dollars, and in China (Indonesia) the **16th exporter** with a value of 28.5 billion US dollars

# Impact on Indonesia

- In 2018 (January-April) the total trade of RI-US was recorded at 9.36 billion US dollars with the trade balance *surplus for Indonesia* amounting to 2.84 billion US dollars.
- During this period, Indonesia's exports amounted to 6.10 billion US dollars and imports were 3.26 billion US dollars.
- With China, RI experiences deficit
- RI's export to China 14% of total Export
- RI's export to US 11% of its total

## *Generalized system of preferences (GSP),*

- GSP: Is a US platform to provide clearance for exporters from developing or poor countries.
- One of policies to reduce US deficit BOT
- The US is reviewing several countries including Indonesia included in the list of beneficiary countries preferential tariff system for exporters from developing or poor countries.
- If Indonesia is dropped from the GSP list, every year entrepreneurs must at least pay around US \$ 1.8 billion (IDR 25 trillion)

# GSP

There are more than 100 products from Indonesia as commodity exports to the United States threatened by US President Donald Trump's warning about trade war.

# US Tariff Policy

- One of Trump's most controversial policies is the application of trade rates.
- China, the European Union, Mexico, and Canada, are some countries that have become targets and have even become victims of this US tariff policy.

## Further Impact

The derivation of Donald Trump's slogan is protectionism and even tends to be fascist and racist, such as the policy of making border walls with Mexico or prohibiting the arrival of citizens from seven Islamic countries.

# RI's DEBTS

- At the end of 2014, government debt reached Rp 2,609 trillion with a ratio of 24.7 percent to GDP.
- Whereas until the end of 2017, government debt reached Rp. 3,942 trillion with a ratio of 29.4 percent.
- Indonesia's foreign debt at the end of January 2018 increased 10.3 percent (yoy) to 357.5 billion USD or around Rp. 4,915 trillion (exchange rate of Rp. 13,750 per USD).
- The details are 183.4 billion USD [Rp. 2.521 trillion in government deb & 174.2 billion USD = Rp. 2.394 trillion in private debt.

# WTO

- The WTO decided the United States (US) and New Zealand won in a trade restriction lawsuit in November 2017.
- The two countries reported Indonesia related to the policy of restricting imports by Indonesia which included food, plants, and animal products for US and New Zealand products.
- For example; apples, grapes, potatoes, onions, flowers, juices, dried fruit, beef cattle, beef, and chicken meat

# WTO

- US demand that Indonesia pay US \$ 350 million in sanctions equal to Rp. 5 trillion is a new round of old stories about the United States and New Zealand that do not want their imported products to be barred from entering Indonesia.
- Amid the desire to be self-sufficient, the policy of restricting imports is often a powerful weapon for developed countries to report Indonesia to the WTO

# Considerations

- RI's products should compete not in terms of price but quality. That is more important than begging for import duty relief.
- The government must focus on up-stream industries.
- Exported is finished goods, not raw materials. If a large contraction due to GSP occurs, it can lead to termination of employment.
- Improve the quality of potential products for export

# Considerations

- Increase export that is highly competitive
- Develop import substitution industry
- Strengthen domestic consumption
- Creative industry and tourism must be developed
- Safeguard domestic demand.
- Control the current account deficit, and
- Encourage foreign capital inflows.
- Re-examine the idea of “Merchantilism”

# Remarks

- In the short-run the trade war between the US and China is not very influential to Indonesian economy, but in the long-run it will have an effect.
- Actually foreign trade is not so dominant in supporting the Indonesian economy, thus the turmoil of US and Chinese trade wars, has less influence on the Indonesian economy.
- Indonesia should take advantage the depreciation of the rupiah, because Indonesian export products are cheaper, and more able to export.
- However, Indonesia's export products depend a lot on foreign raw materials, so the price of imported goods becomes expensive

# Remarks

Infact, Indonesia does not require other countries to develop its self, but other countries require Indonesia. Since Indonesia has everythings, but world scenarios have been forced this rich country to depend upon others.