Indonesia for Global Justice

Report on Economic Justice Discussion of IGJ
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# TRADE WAR AS vs. China: *"WHAT ABOUT Indonesia?"*[1]

**The drums of trade war sounded by United States (US) are troubling many parties. This is due to the policy of US President, Donald Trump, who is limited trade access to China, specifically for iron and steel commodities.**

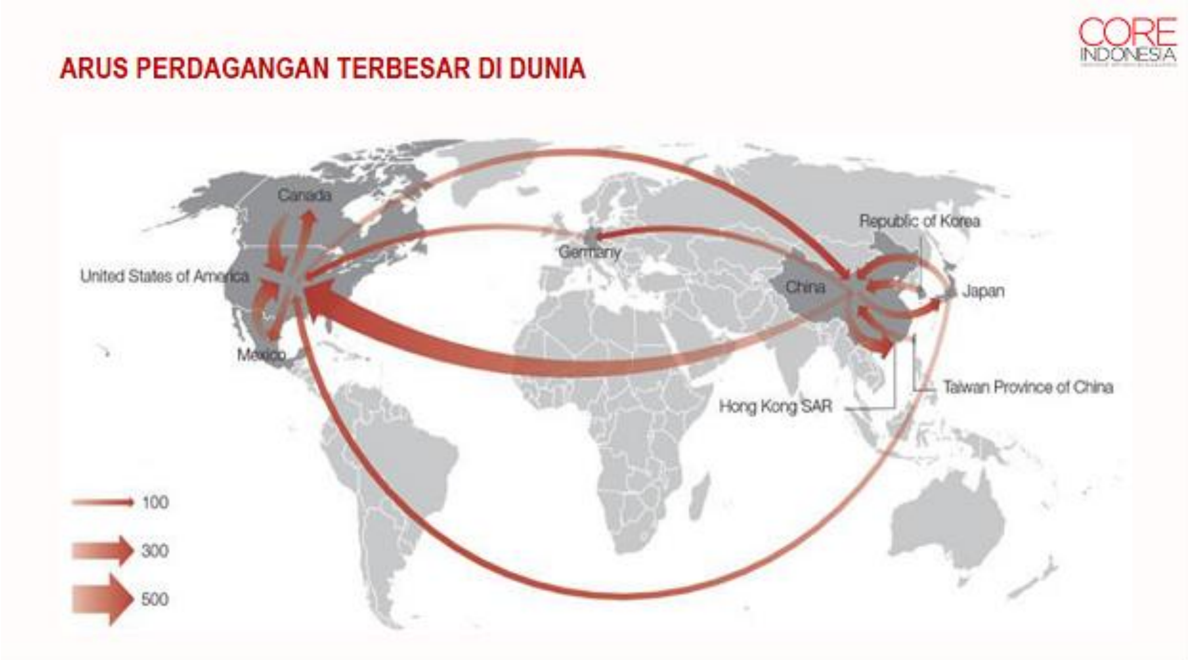
There are many questions about this issue, what is the real background of US VS China's Trade War? Is it purely a flood of Chinese iron and steel commodity products, or it is a kind of US strategy to compete with China to regain the world's economy and trade? And how Indonesia is affected by this war ignited by the US?

This issue is then clearly explained by Director of Core Indonesia, Mohammad Faisal, in the Economic Justice Series of Discussion held by Indonesia for Global Justice (IGJ) on 12 April 2018.

## The Widening of Deficit & Protectionism Policy

Historically, the history is repeating. That liberalization pushed by developed countries is actually has a very strong atmosphere for their unilateral interest. Therefore, when trade liberalization is deemed profitable for developed countries, they will push it as much as possible. Vice versa, when it turns unprofitable, they will become the opponent of liberalization.

**Picture 1**

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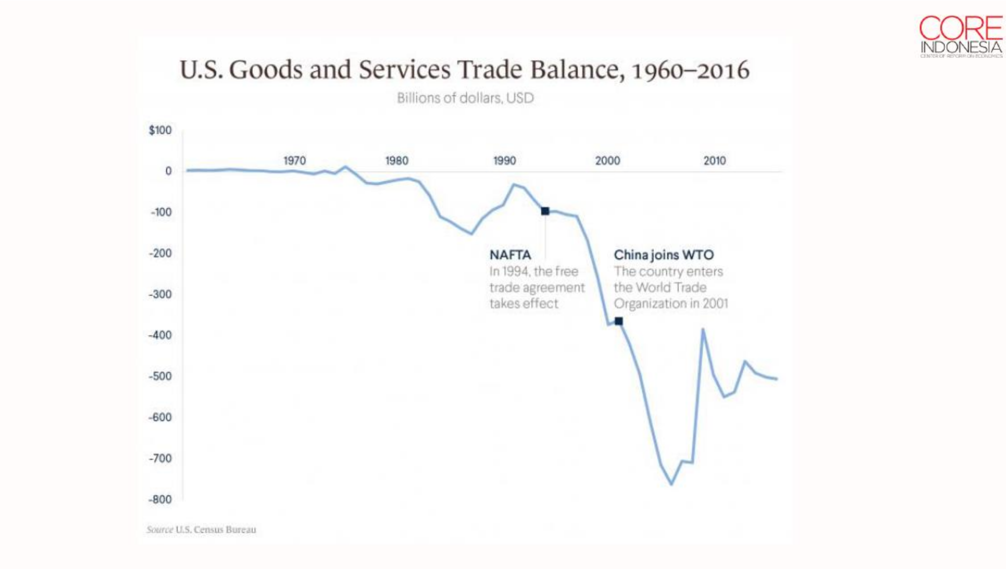
In the world economic map, China nowadays is the country with second biggest economic power, and is predicted will take over US position. Today, China is the country with biggest trade production and the US becomes the biggest absorbent country of goods productions. This contrary situation is due to the strengthening of Chinese industry that benefited from America's investment in that bamboo country. China's product has been able to produce manufactured goods with low to high tech elements, such as electronics, automotive, medical equipment and pharmaceuticals.

As seen from the **Picture 1.** That US absorbs a lot of goods from many countries like Mexico, Canada, Japan, and China. China is the most country US' absorbed. However, while China is the biggest producer in the world, China is also the biggest importer. Indeed, China and US have a different character of consumption. In the recent years, the most consumption absorbed by China is raw material for energy and industry. While the US is more absorbing goods (manufactured goods)

This is what becomes the US concern, global trade development which becomes increasingly impacted to the deficit of America's goods and services trade. Historically, since 1960 the deficit of US goods and services trade is relatively not deep enough. However, after signing NAFTA in 1994, the trade balance chart is declining. Moreover, after China joined WTO in 2000. Thenceforth, China trades steel to all parts of the world, including America, so that, the declined deficit of America is becoming more declines. (**See Picture 2**)

Therefore, as an effort to restore the situation, Trump in his campaign promises encourage the economic policy that is contrary to US habits. One of them is their more protective trade policies, like withdrawing from the multilateral agreements, specifically NAFTA and TPP, and increasing the tariffs of import goods, specifically which creates a wide deficit to the US.

**Picture 2**

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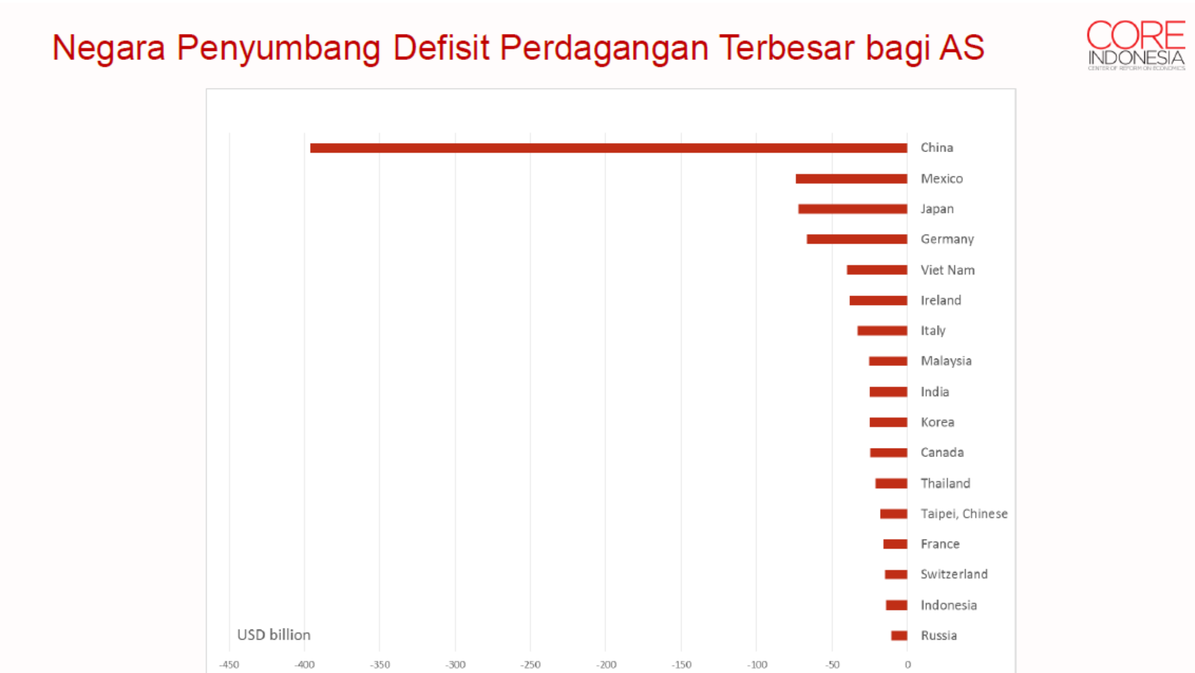
## It's Not about Iron and Steel, but China

China contributes more than a half of America's trade deficit, followed by Mexico, Japan, and Germany (**See Picture 3**). Data from 2017 shows that the value of US exports to China is only US$ 130,4 billion and on the contrary, the value of US import to China jumped into US$ 505,6 billion.

Some of the main US trade commodities which are deficit to China are electronic, furniture, machinery, toys, clothes and footwear. In contrast, US trade commodities which are surplus to China are the component of airplane and agricultural products. However, the interestingly from the data is, iron and steel is not the main commodity that includes the deficit category (**See Picture 4)**. Moreover, according to Faisal, China is only the 9th exporter of iron and steel to the US after Brazil, Canada, and Mexico.

**Picture 3**

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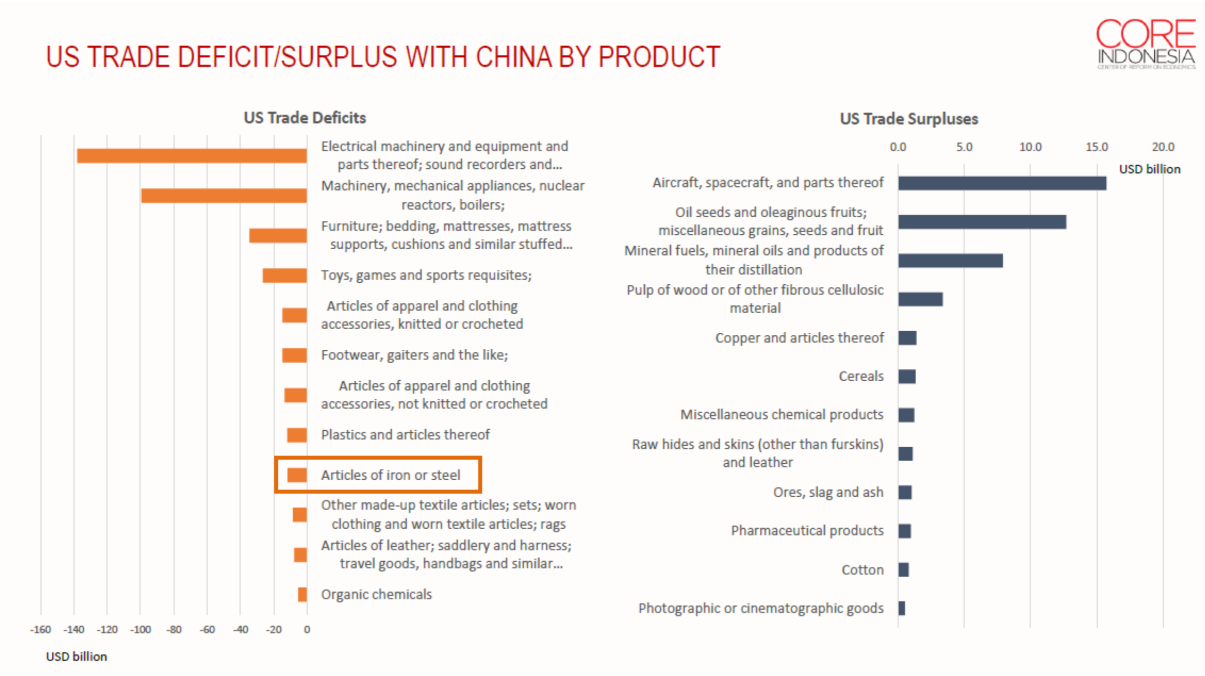
**Picture 4**

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It could be seen clearly that actually, the iron and steel's tariff war between US and China is not the real problem. The most basic problem from the trade war is on the lower US trade tariff rather that China which further impacted to the wide of US trade deficit to China (**See Picture 5**). This is actually what US goal becomes, encourages renegotiating with China on the tariff of China's product that will enter the US. And it could be applied also for other countries such as Japan, Germany, etc.

**Picture 5**


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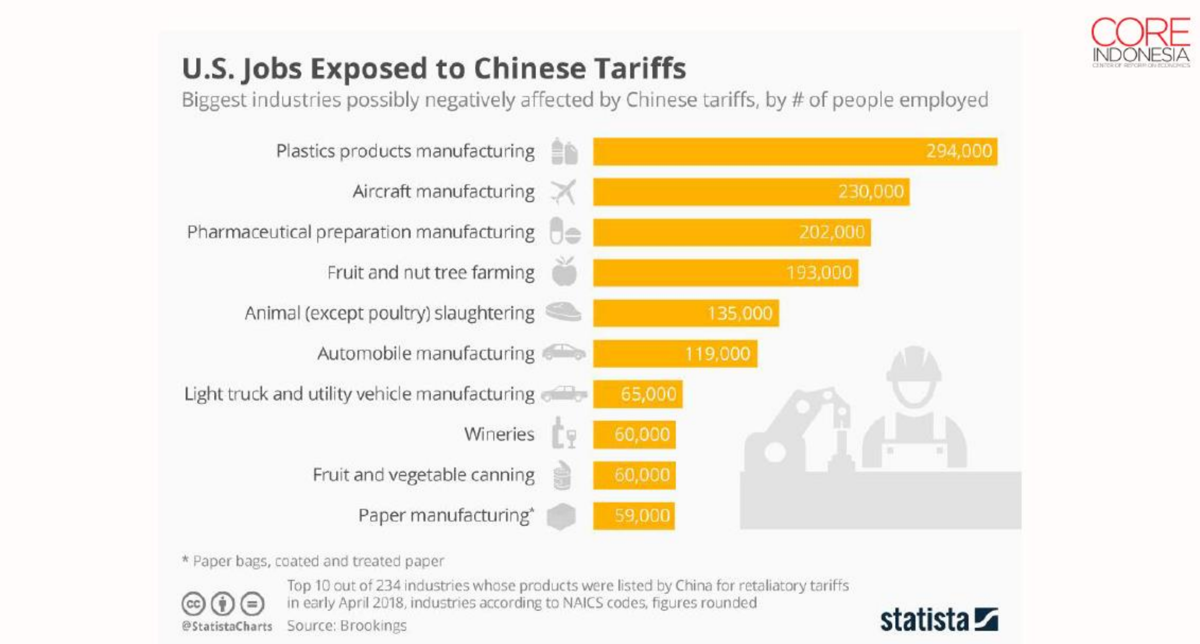
## Flip Effect towards the US

However, US will in difficultness in avoiding the negative impacts of policy on increasing tariff to China or even other countries that have a deficit on their trade with the US. This is due to US products have become an important part of the world trade supply chain. Or also known as Global Value Chain (GVC). Thus, the trade war with China will potentially harm industry and US companies operated in China, including will impact on the availability of raw material for manufacture industry which is needed by America to build its industry. The price of raw materials for domestic needed is going up. One of the industry will be impacted is Smartphone industry who relies on China as the supplier or major market.

The further impact will be felt by the US in regard to the labor in the US. Thus, Trump's goal to open jobs and build manufacture industry in the US seems to be declining, even the impact will complicate US industry to absorb labors. Some of US industries that potentially impacted by trade war between US and China could be seen at **picture 6**.

**Picture 6**

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## The Impact of Trade War for Indonesia

The biggest concern of Indonesia regarding the US-China trade war is Indonesian market will flood with Chinese or American products. This is due to Chinese products that could not enter America's market will automatically go to the other country, and Indonesia is one of the countries that potentially being market targeted. However, on the other hand, it gives positive impact. Logically, after China's market share in the US is closed, then it could be a chance for other countries to take a part in US open market. Such as Indonesia.

Basically, the trade value of Indonesia to the US is not really significant. However, there is some Indonesian potency to make the best opportunity in US market resulted from this trade war. Indonesia has some superior export commodities to the US (**see Picture 7)**. Some commodities that have an opportunity in US market in this trade war situation is like mineral, furniture, clothes, iron, and steel, including fish and shrimp products.

How big the take-able chance is surely relative. This due to, there is also a possibility for US to apply a high tariff on Indonesia's export commodities to the US, such as: the products with 0% tariff like rubber, shrimp, and furniture; and other products having its substitution by the US like palm oil (bio-fuel).

**Picture 7**

**Produk Ekspor Terbesar Indonesia ke AS:**
Berbasis Padat karya dan Komoditas

CORE INDONESIA

**Tahun 2015**

| No | Commodities | Value US$ (Mil.) | Share (%) | Tariff (%) |
|---|---|---|---|---|
| 1 | Articles of apparel and clothing accessories | 3702.3 | 22.8 | 11 |
| 2 | Rubber and articles thereof | 1653.6 | 10.2 | 1 |
| 3 | Footwear | 1267.3 | 7.8 | 12 |
| 4 | Electrical machinery and equipment | 1231.2 | 7.6 | 0 |
| 5 | Fish and crustaceans, molluscs | 994.8 | 6.1 | 0 |
| 6 | Mineral fuels, mineral oils and products of their distillation | 977.6 | 6.0 | 1 |
| 7 | Furniture | 675.7 | 4.2 | 0 |
| 8 | Animal or vegetable fats and oils | 641.7 | 3.9 | 3 |
| 9 | Machinery | 636.4 | 3.9 | 0 |
| 10 | Coffee, tea, maté and spices | 467.1 | 2.9 | 0 |
| 11 | Preparations of meat, of fish or of crustaceans | 457.6 | 2.8 | 2 |
| 12 | Wood and articles of wood | 378.1 | 2.3 | 0 |
| | Total 12 | 13,083 | 80.4 | |
| | All products | 16,267 | 100.0 | |

Dampak kebijakan Trump → Potensi ekspor manufaktur dan komoditas:

- Restriksi import terhadap China dan Meksiko akan menjadi peluang terhadap produk manufaktur negara pesaing termasuk Indonesia
- Peningkatan konsumsi akibat penciptaan lapangan kerja manufaktur → permintaan barang konsumsi
- Pembangunan infrastruktur meningkatkan kebutuhan bahan baku
- Pembangunan industri manufaktur meningkatkan kebutuhan bahan baku dan energi

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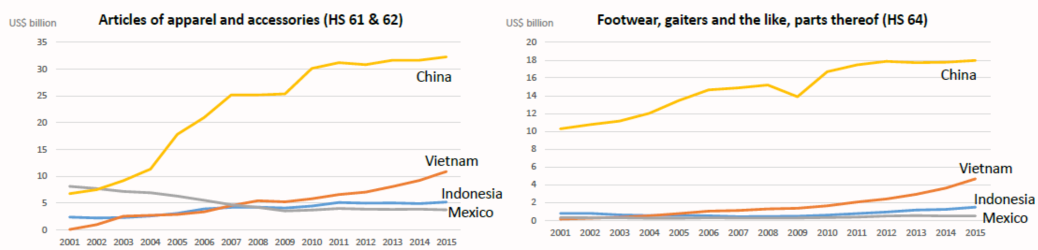
**Picture 8**

**Pertumbuhan ekspor beberapa produk unggulan ke AS**

CORE INDONESIA




**Apparel dan Tekstil**

| Rank | Country | Share impor 2017 | Pertumbuhan Impor 2017/2016 | Pertumbuhan Impor Jan 2018/2017 |
|---|---|---|---|---|
| | **World** | **100.00%** | **1.27%** | **4.24%** |
| 1 | China | 36.55% | 0.58% | 0.68% |
| 2 | Vietnam | 11.50% | 7.70% | 4.16% |
| 3 | India | 6.97% | 2.38% | 2.69% |
| 4 | Bangladesh | 4.97% | -3.98% | 1.95% |
| **5** | **Indonesia** | **4.49%** | **-2.93%** | **-1.73%** |

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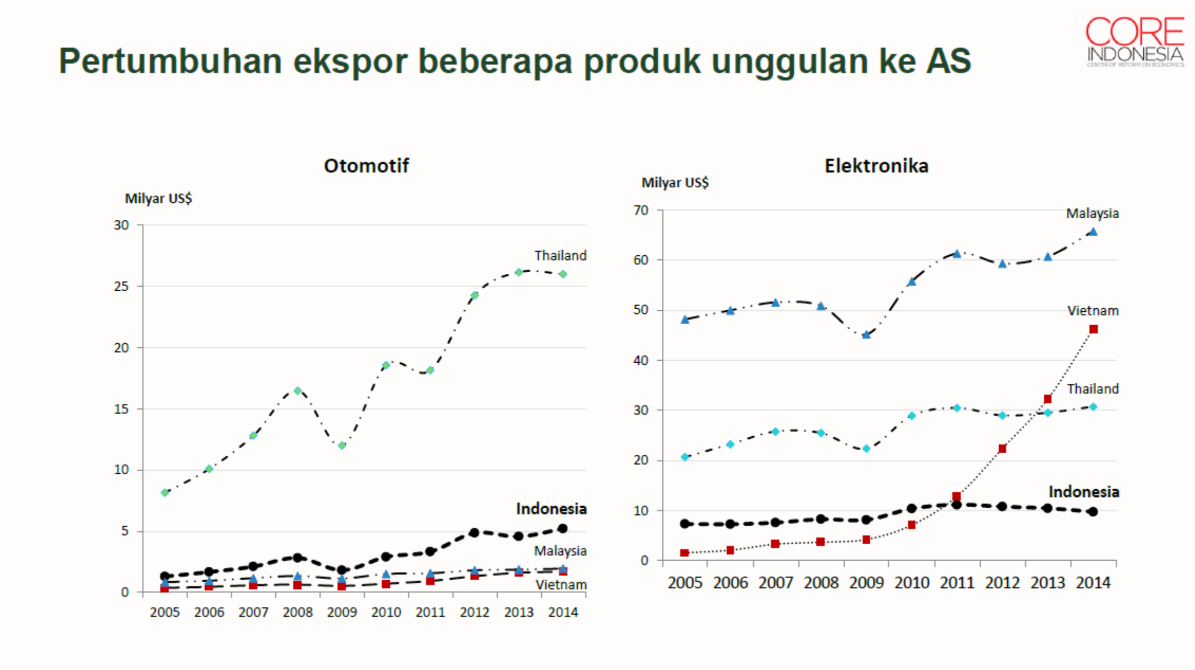
The other factors are due to the Indonesian trade competitiveness is going down especially in facing competitiveness from other countries with similar products. For example, clothe and footwear products. For years, the main strongest competitor in Vietnam who has growth in export to the US up to 4,6% in 2017. While Indonesia is continuously declining (**See Picture 8**). The other products are automotive and electronic. In automotive itself, the biggest competitor is Thailand while electronic is Malaysia and Vietnam (**See Picture 9**).

Competitiveness issue is crucial to be noticed. Because no matter how big the market chance is, as long as Indonesia still has low competitiveness, it would be very difficult for Indonesia to take the benefit from the trade war. According to the analysis via Revealed Comparative Advantage (RCA) quoted by Core Indonesia from UNCTAD report in 2016, stated that Indonesia is only competitive with countries like Mexico, Chile, and Peru. While the competitiveness of Indonesia like Philippine, Vietnam, Thailand, Australia, and Malaysia is very low. (For Completely, Please See Picture 10)

**Picture 9**

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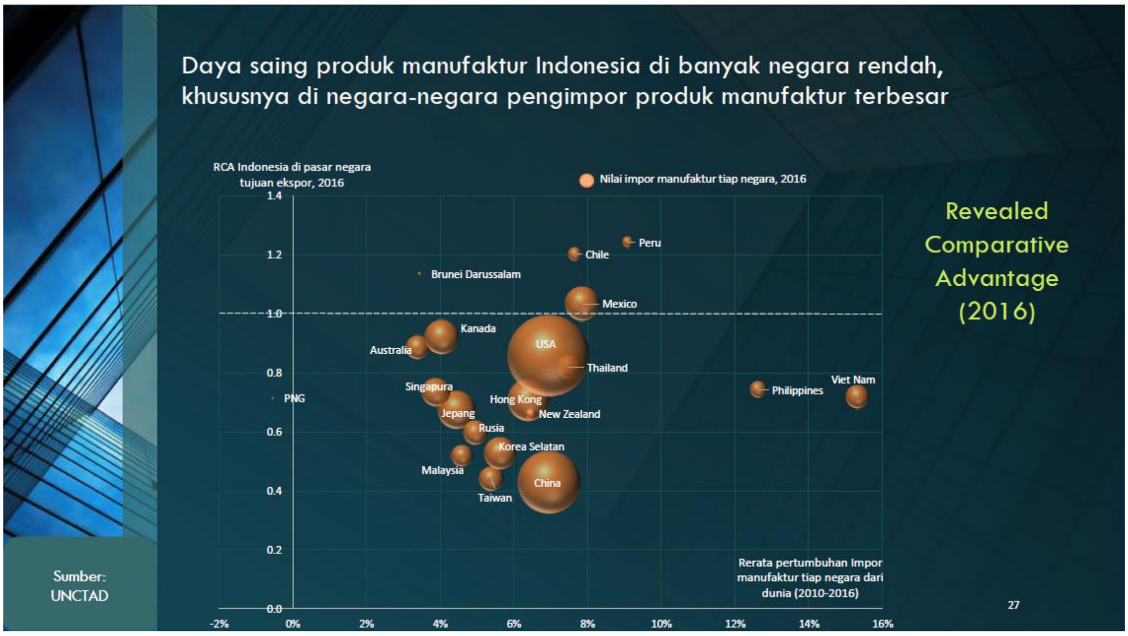
**Picture 10**

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## Competitiveness is the Biggest Work

**Why is competitiveness low?** We sometimes hear that the problem of investors do not want to enter Indonesia is due to the high Indonesian labors wage. But, is the high Indonesian labors wage caused the weakening of competitiveness? The answer is "no". In contrary, the labors wage in Indonesia is in the lowest position, about US$ 185/month, compared with Vietnam (US$ 239), Philippine (US$ 285), and Thailand (US$ 366). Moreover, manufacture industry in Indonesia nowadays is still centered in the area with the highest wage such as West Java, Banten and East Java (**See Picture 11 and 12**).

**Picture 11**


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In fact, the biggest problem of Indonesian weak competitiveness is: **First**, the problem of energy cost that is relatively more expensive. For example is the price of gas, Singapore and Malaysia have cheaper price compared with Indonesia. **Second**, high cost on logistic, also its relation with infrastructure. **Third,** the innovation which is still very low, that caused Indonesia difficult to go upstairs from low tech industry to the high tech industry.

The other problems obstructed Indonesia increases the competitiveness is due to the tariff of Indonesian import duties which is very low. This issue is further made our industry difficult to grow. In the recent GVC scheme, if Indonesia does not immediately do its homework to improve its competitiveness, Indonesia is then will never become a big player in the global market, as long as our trade products still raw materials and have no value added.

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## ENDNOTES

[1] Seri Diskusi Keadilan Ekonomi IGJ, 12 April 2018, di Kantor IGJ, dengan narasumber Direktur Core Indonesia, Mohammad Faisal.