

Indonesian economic performance on trade and investment after Asean economic community

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Abstract: Indonesia has been signed to participate on ASEAN Economic Community since 7 October 2003, at the ninth ASEAN Summit in Bali. This included an ASEAN Economic Community 'a single market and production base with free flow of goods, services and skilled labor and freer flow of capital by 2020'. There is much economic progress has been achieved mutually during last decade of this economics community. This economics community seems to be inspired by previous summit about ASEAN free trade area on 1992. This paper examines the Indonesian present trade and investment after joining ASEAN Economics Community and implementing CEPTs, and analyses further the impact of those community/CEPTs on Indonesian trade and investment performance. It was utilized the data on Indonesian exports to and imports from ASEAN countries as well Indonesian invests to and invests from ASEAN countries. The results clearly shown that Indonesian performed well and gained much benefit from this economic community/CEPTs especially in its comparative advantage industry.

Keywords: AFTA, ASEAN, CEPTs, Economic community.

1. Introduction

The Association of Southeast Asian Nations or ASEAN was established on 8 August 1967 in Bangkok by the five original Member Countries, namely, Indonesia, Indonesia, Philippines, Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997, and Cambodia on 30 April 1999. During 43 years ASEAN has achieved a tremendous achievement to accelerate the economic growth of its members. ASEAN has established three broad areas of ASEAN economic co-operation (AFC), namely trade, industrialization, and financial development. Trade has been tiling most visible progress area that ASEAN countries committed on. However, it is not surprising, as all of ASEAN countries are trade oriented. Therefore, one of the major goals of the ASEAN concord was to increase intraregional trade especially through tariff liberalization.

ASEAN countries have signed the agreement on Preferential Trading Agreements (PTA) in 1977. The co-operation in trade, furthermore, will facilitate other aspects of ASEAN co-operation, including industrialization and financial development. The AFC shall ensure that the deepening and broadening of integration of ASEAN shall be accompanied by technical and development cooperation in order to address the development split and accelerate the economic integration of the new ASEAN members; Cambodia, Laos, Myanmar and Vietnam so that the benefits of economic integration are shared. (Naya, 1987). However, according to Takeuchi (1999) there are two factors have made economic integration in ASEAN a more realistic in the 1990s: 1) the reduction of economic gaps among members, 2) increasing complementation through the networks of foreign companies with business operation in the region.

The ASEAN Free Trade Area (AFTA), which was established in January 1992, is a common tool towards a common economic development of ASEAN countries. The AFTA member: will gain from the increasing of regional trade, so that they can import relatively cheaper what the

domestic demand needed and at the same time could export to the other countries by relatively cheaper cost. It is also an instrument utilized to bridge the gaps of old new members of: ASEAN through the economic development of new members. The framework set up to achieve this ultimate goal is through integrating the ASEAN economics into a single production base and creating a regional market of 500 million people. The agreement on the Common Effective Preferential Tariff (CEPT). Scheme for the ASEAN Free Trade Area was setup as a mechanism to achieve the ultimate target of AFTA; elimination of all import duties of ASEAN countries. (ASEAN Secretariat, 2009).

The ASEAN Economic Community (AEC) is a regional economic integration effort of the Association of Southeast Asian Nations (ASEAN). The AEC aims to create a single market and production base with free flow of goods, services, and investments, as well as freer flow of capital and skills. Some of the advantages of the ASEAN Economic Community include:

- Increased market access: The AEC provides businesses with access to a larger market of over 600 million consumers, which can lead to increased sales and profits.
- Improved competitiveness: The AEC promotes competition, which can lead to increased efficiency and productivity, as well as better quality products and services.
- Facilitation of trade and investment: The AEC aims to reduce trade and investment barriers, which can make it easier and cheaper for businesses to trade and invest across borders.
- Harmonization of regulations: The AEC seeks to harmonize regulations and standards across ASEAN member countries, which can make it easier for businesses to comply with regulations and operate across borders.
- Enhanced regional cooperation: The AEC promotes regional cooperation and integration, which can lead to greater stability and prosperity in the region.
- Overall, the AEC has the potential to bring significant economic benefits to ASEAN member countries and the region as a whole.

As the country with the largest population in Southeast Asia, Indonesia has a very important role in the development of the ASEAN. Indonesia, as one of the five founding countries of ASEAN in 1967, has played a key role in shaping the vision, direction and goals of ASEAN, as well as in promoting regional integration, security and stability in the Southeast Asian region. One of Indonesia's important roles in ASEAN is as a leader in formulating various policies and strategies to achieve organizational goals. Over the years, Indonesia has played an active role in strengthening coordination and consolidation among ASEAN member countries, including in the matters of foreign policy, trade, investment and defense.

Indonesia has a great influence in increasing economic integration in ASEAN. Indonesia has the fourth largest economy in ASEAN and is one of the largest producers of consumer goods and raw materials in the region. As a member of ASEAN, Indonesia plays an important role in shaping policies that support free trade and investment in the region. This can be seen from Indonesia's role in completing the Regional Comprehensive Economic Partnership (RCEP) negotiation, which is the largest free trade agreement in the world involving ASEAN and several trading partners such as China, Japan and South Korea.

Indonesia, since its first involvement to ASEAN has contributed much for the betterment of regional economy. It participates actively, not only in disseminating ideas in establishing regional economic; cooperation, moreover, it contributes in real economy of the other ASEAN countries, through Investments and trades which are increasing year by year.

2. Objectives of the Study

The macroeconomics and trade sectors are Indonesian's windows to the global economy. Sustained macroeconomics performance in the long-run with some short-run disturbances reflects strong underlying economic fundamentals. Foreign trade is important for Indonesia as a “vent for Surplus” and as a “source of need”. Indeed, in AFTA/ASEAN Economics Community trade seems to be a venue for mutual exchange of goods, a means for structural transformation and improvement of the overall well-being of the region even if trade patterns differ between countries

across time (that is, for some countries, export may exceed imports and vice versa for others).

This paper was tried to see the implication of ASEAN Economics Community on Indonesia trade and investment during a last decade achievement. Some basic examination of the Indonesia economic performance after ASEAN Economic Community declaration and implementing CEPTS is presented.

2.1. Methodology

This study is a desk-based and library-oriented research. To find out the implication of ASEAN Economics Community on Indonesia trade and investment during a last decade achievement, the authors consulted available published literatures, research monographs, journals and magazines in this field. The study has been structured in the light of the research objectives.

3. Indonesia and Asean Economics Community

AFTA was established in January 1992 during the fourth ASEAN summit in Singapore. It is an extension of the ASEAN's earlier efforts to promote economic cooperation through several schemes such as the ASEAN Preferential Trading Agreements (1977), the ASEAN Industrial Complementation Scheme (1981), and the ASEAN Industrial Joint Venture Scheme (1983). AFTA has been called as an ASEAN model of regional economic cooperation, and now widely imitated by other economic regional cooperation. The characteristics of ASEAN model, as noted by Petri (1997), is the intensive-integration strategy based on foreign direct investment, outward processing and partnership with foreign firms. Indonesia together with Singapore was the first practitioner of the ASEAN model, and by the late 1980s, all major ASEAN economies had essentially adopted this strategy. The ASEAN development model calls for a strategic blend of national and international policies. An economy needs to pursue the familiar mix of market-friendly policies at home, and join integrated through regional groupings to create larger, integrated markets, and allow companies to distribute their production processes internationally in order to exploit factor price differences within the regional zone. This trend, however, benefit much for the ASEAN members, AFTA has been accelerating, the mobility of capital, management and technology across country, as an ASEAN regional economic cooperation AFTA has also help to attract foreign investment and strengthens the regions global trading position.

Common Effective Preferential Tariff (CEPT) Scheme is agreed to be the mechanism to realize AFTA, its main target is to reduce tariff barriers; hence, the trades among ASEAN countries could increase². The ultimate objective of the CEPT scheme is to reduce tariff rates among members - Countries to 5% or below. There are 40,773 tariff lines in the Fast and Normal tracks of the CEPT. The simple average of these tariff rates in 1993 was 12.7615. By the year 1999, this average will be down to 2.3%.

The first signatories to the CEPT scheme are Brunei Darussalam, Indonesia, Philippines, Singapore and Thailand. The ASEAN leaders have agreed to eliminate all import duties by 2010 for the six original members of ASEAN and by 2015 for the new members. The new ASEAN members have to realize AFTA, by bring down tariff of products in the Inclusion List to no more than 5 percent duties, in 2006 for Vietnam. Laos and Myanmar in 2008, and Cambodia in 2010.

ASEAN members countries have made significant progress in the lowering of intra-regional tariffs through AFTA. More than 99 percent of the product in the CEPT inclusion List (IL) of ASEAN-6, comprising Brunei Darussalam, Indonesia, Indonesia, the Philippines, Singapore and Thailand, have been brought down to the 0-5 percent tariff range. By the beginning of- 2002, 43,675 products of ASEAN 6 and 12,005 of the new members are already in the inclusion list. Its mean 98.2 percent of products of ASEAN-6 have tariffs below five percent, and the new member 56.94 percent so. By this time around 98 percent of intra-ASEAN trade will be subjected to no more than 5 percent import tariff. A rapid progress in tariff reduction has been achieved in 2003. The free trade area covers all manufactured and agricultural products. However, 829 tariff lines in the General Exception List, representing about 1,28 percent of all tariff lines in ASEAN, are permanently excluded from the free trade area for reasons of national security,

protection of human, animal or plant life and health, and of artistic, historic and archaeological value.

Despite of several progress has been achieved by all member ASEAN Countries, Indonesian economics are still not yet lead in this region while this country has largest resources than other counties member, as seen in the following table:

Table 1.
ASEAN countries GDP.

ASEAN Member States, 2021					
	GDP at current prices (US\$ million)	GDP per capita (US\$)	GDP growth rate at constant prices (%)	Share of services sector in GDP (%)	Inflation rate (%)
Brunei Darussalam	13,924.7	32,283.1	(1.6)	37.6	2.0
Cambodia	27,164.7	1,603.0	3.0	34.2	4.1
Indonesia	1,185,776.8	4,348.6	3.7	42.8	0.6
Lao PDR	19,635.0	2,693.3	3.5	38.1	5.3
Malaysia	372,770.3	11,399.7	3.1	51.6	3.2
Myanmar	72,862.6	1,314.4	(5.9)	40.2	7.3
Philippines	393,612.2	3,552.5	5.6	61.1	3.6
Singapore	394,578.6	72,399.7	7.6	65.9	4.0
Thailand	505,890.1	7,645.3	1.5	56.7	2.2
Viet Nam	361,962.1	3674.4	2.6	40.9	1.9

Source: ASEAN Sec. 2022.

4. Indonesia Economic Performance

Indonesia has a remarkably record of consistently high economic growth in the past three decade. The growth of GDP in real terms accelerates to 5.3 percent in 2022. As a country slightly shifted toward industrial country, industrial sector and service Contributed a large amount to Indonesian GDP, from 2018 until recently, both sector consistently share 80% percents to the total of GDP, while agricultural sector continuously reduced to 9.1 percent in 2002 where as in 1990 it contribute 15.2 percent. Indonesia with total population 24.53 million in 2002 maintains its Per capita GDP above US\$ 3,000 since 1995.

In term of trade, Indonesia is experiencing surplus since 1990, and reaches a peak in 2009 by 39 percent of total GDP. Indonesia keeps it flexible interest rate to Rp 9.400 per US dollar. The inflation rate relatively low in 2009 and the unemployment rate was relatively steady below 3 percent within ten years. Thus, in general, Indonesia has a strong and stable economic foundation.

Table 2.
ASEAN countries selected key macro-economic.

	2018	2019	2020	2021	2022
Population(million)	264	267	270	272	275
GDP(USD bn)	1,043	1,120	1,062	1,188	1,319
GDP per capita(USD)	3,946	4,195	3,930	4,362	4,798
GDP(IDR tn)	14,839	15,833	15,443	16,977	19,588
Economic Growth(Nominal GDP, ann. var. %)	9.2	6.7	-2.5	9.9	15.4
Economic growth(GDP, ann. var. %)	5.2	5.0	-2.1	3.7	5.3
Domestic demand(ann. var. %)	6.3	3.9	-3.8	2.9	3.8
Private consumption(ann. var. %)	5.1	5.0	-2.6	2.0	4.9
Government consumption(ann. var. %)	4.8	3.3	2.1	4.2	-4.5

	2018	2019	2020	2021	2022
Fixed investment(ann. var. %)	6.7	4.5	-5.0	3.8	3.9
Exports(G&S, ann. var. %)	6.5	-0.5	-8.4	18.0	16.3
Imports(G&S, ann. var. %)	12.1	-7.1	-17.6	24.9	14.7
Manufacturing production(ann. var. %)	4.3	3.8	-2.9	3.4	4.9
Retail sales(ann. var. %)	3.7	3.8	-11.9	0.0	6.0
Unemployment(% of active population, eop)	5.3	5.2	7.1	6.5	5.9
Fiscal balance(% of GDP)	-1.8	-2.2	-6.1	-4.6	-2.4
Public debt(% of GDP)	30.4	30.6	39.7	41.1	39.9
Money(ann. var. of M2 %)	6.3	6.5	12.5	14.0	8.4
Inflation(CPI, ann. var. %, eop)	3.1	2.6	1.7	1.9	5.5
Inflation(CPI, ann. var. %, aop)	3.2	2.8	2.0	1.6	4.2
Inflation(Core, ann. var. %, aop)	2.8	3.0	2.3	1.4	2.8
Inflation(WPI, ann. var. %, aop)	5.5	1.1	2.4	2.6	4.7
BI 7-day Reverse Repo Rate(% eop)	6.00	5.00	3.75	3.50	5.50
3-Month JIBOR(% eop)	7.70	5.51	4.06	3.75	6.62
10-year bond yield(% eop)	8.11	7.28	6.17	6.55	7.01
Stock market(ann. var. of IDX %)	-2.5	1.7	-5.1	10.1	4.1
Exchange rate(IDR per USD, eop)	14,380	13,883	14,050	14,253	15,568
Exchange rate(IDR per USD, aop)	14,234	14,141	14,543	14,295	14,853
Current account balance(USD bn)	-30.6	-30.3	-4.4	3.5	12.7
Current account balance(% of GDP)	-2.9	-2.7	-0.4	0.3	1.0
Merchandise trade balance(USD bn)	-0.2	3.5	28.3	43.8	62.7
Merchandise exports(USD bn)	181	168	163	233	293
Merchandise imports(USD bn)	181	165	135	189	230
Merchandise exports(ann. var. %)	7.0	-6.8	-3.0	42.5	25.6
Merchandise imports(ann. var. %)	20.6	-8.8	-18.1	39.9	21.6
Foreign direct investment(USD bn)	20.6	23.9	18.6	21.1	22.0
International reserves(USD bn)	121	129	136	145	137
International reserves(months of imports)	8.0	9.4	12.1	9.2	7.2
External debt(USD bn)	375	404	417	414	397
External debt(% of GDP)	36.0	36.0	39.3	34.9	30.1

Source: <https://www.focus-economics.com/countries/indonesia/>.

5. Discussion

5.1. Asean Economic Community: Benefits and Challenges for Indonesia

The year 1992 became an historic event in the Southeast Asia region, namely because of the signing of the ASEAN Free Trade Agreement (AFTA) in the ASEAN Summit in Singapore by 6 (six) founding members: Indonesia, Malaysia, Singapore, Philippines, Brunei Darussalam and Thailand.

The aim of AFTA was to create a single market and a world production base through the elimination of tariff and non-tariff constraints with the underlying goal of enhancing competitiveness with ASEAN countries (ASEAN 2002). For example, ASEAN is the production base of many electronics and automotive industries that export finished goods around the world. Under ASEAN, the trade impact is an upward moving trend

There are three pillars of the AFTA as agreed by the ASEAN leaders and they are interlinked with each other: ASEAN Economic Community (AEC), ASEAN Political-Security Community and ASEAN Socio-Cultural Community.

In 2003 in Bali, ASEAN leaders agreed to establish the ASEAN Economic Community (AEC) in 2020. Four years later, the aim was reaffirmed at a meeting in 2007 with an accelerated timeframe of 2015.

The ASEAN Economic Community will be implemented on December 31, 2015 with an underlying agenda of economic integration of ASEAN countries to eliminate or minimize the obstacles in economic activity across the region, in trade, goods and services, and investment.

The main purpose of the establishment of the AEC is to create:

1. ASEAN as a single market and international production base with elements of a freer flow of goods, services, investment, educated labor and freer capital flows.
 - EXAMPLE: People/corporations in ASEAN are free to bring capital to own or establish a new company within the ASEAN countries.
2. ASEAN as a region with a high level of economic competitiveness including competition rules in the areas of consumer protection and intellectual property rights, components of infrastructure development, taxation, and e-commerce.
 - EXAMPLE: The idea is to support the infrastructure with new modern air or sea ports, toll roads and highways, IT & communication infrastructures, etc. There will be clear regulations on tax (tax relief) and an encouragement to develop more e-commerce business, e-procurement for government needs, and on line trade.
3. ASEAN as a region with equitable economic development for small and medium enterprises, and the initiative for ASEAN integration CMLV countries (Cambodia, Myanmar, Laos, and Vietnam)
 - EXAMPLE: CMLV countries will be new members of the ASEAN. Currently, the economic powers of these CMLV countries are lower among the participants.
4. ASEAN as a region fully integrated into the global economy with elements of an organized and integrated approach in economic relations outside the region, and increased participation in global production networks

The below table represents the progress of economic and living conditions under ASEAN from 2000 -2011:

The AEC creates greater economic opportunities for Indonesia, specifically with the marketing of goods and services from Indonesia by expanding its reach to other ASEAN countries. Currently, market share in Indonesia is represented by 250 million people. In the AEC, the ASEAN market share of some 625 million people could be targeted by Indonesia providing the country with a greater opportunity to tap into a wider market.

Under the AEC, exports and imports will be processed cheaper with an additional benefit tied to labor from other countries in ASEAN, as these countries will be free to work in Indonesia and in contrast, Indonesian workers (TKI) will be free to work in other countries in the ASEAN.

The new government, under President Joko Widodo, has opened the door for foreign investors to invest mainly in infrastructure up to 5 years. Infrastructure development is a top priority of the current

administration specifically in the areas of the construction of highways, ports, railways, irrigation and power generation.

As noted in the President's speech on August 14, 2015, the government allocated toward an infrastructure development budget IDR 313.5 trillion for 2016; significantly higher than the budget allocation for infrastructure in the 2015 budget. In addition to the obvious opportunities, there are also barriers that Indonesia faces in entering the AEC, including:

1. Quality of education remains low for labor, where until February 2014; there were 76.4 million people/ about 64 percent of the total 118 million workers in Indonesia, with junior high school or lower education.
2. Availability and quality of infrastructure is still lacking thus affecting the smooth flow of goods and services. According to the Global Competitiveness Index (GCI) in 2014, the quality of Indonesia's infrastructure is still lagging compared to Singapore, Malaysia, and Thailand.
3. The industrial sector is fragile due to its dependence on imported raw materials and semi-finished products.
4. Limited supply of energy to be supplied to industry.
5. Import surges have weakened Indonesia with an influx of Chinese products. If the barriers are not addressed in the AEC, there is a fear these types of problems would be a threat to Indonesia.

Indonesia potentially reaps the benefits of foreign investment as well as increased exports noted as an important driver of growth for the economy. Meanwhile, the World Bank estimates that the enforcement of AEC will Attract Foreign Direct Investment (FDI) in the range of 28 to 63 percent. Increased FDI is important for Indonesia to maintain economic growth especially when export performance declines. The potential for Indonesia is great as long as Indonesia is prepared to take advantage of the momentum.

AEC 2015 poses to bring a very significant impact for the development of Indonesian businesses because it not only creates a free market for trade in goods and services, but also touches all the joints of other economies in the areas of employment, competition, and policies relevant to the development of Indonesia. AEC should not be viewed as a threat to the Indonesian business world because of increasing competition from ASEAN countries, but also as a golden opportunity because the removal of barriers and encouragement of investment from the ASEAN region.

5.2. Indonesia Trade Policy

Indonesia pursued policies favouring import substitution during the 1960s and gradually shifting to a more outward oriented strategy in the 1970; as a way to move toward industrialization. In line with that, the new Economic Policy (NEP) was launched in 1970 to achieve twin ultimate goals, namely alleviating poverty, restructuring of employment and the ownership of assets. Export-oriented industrialization is set to be the vehicle to achieve these twin objectives. The success of this policy shift has dramatically changed the commodity composition of Indonesian exports during the last two decades. Natural rubber and tin have become relatively less significant over time. The sources of exports mainly come from manufactures, palm oil and petroleum products.

Indonesia promotes manufactured exports through to distinct lines. *First*, various incentive measures were introduced to stimulate domestic Manufacturers to export part of their production. Indonesia provides export incentive to domestic manufacturer through four categories; 1), an export allowances which is given to companies that provides a deduction from taxable Income. 2), an accelerate depreciation allowances which is aviable to modernizing industries that export at least 20% of their production. 3), promotional expenses for export are deductible from taxable income. 4), various export-financing facilities such as credit facilities at preferential rate of interest.

Second, Export processing free zones (EPFZs) where established in 1972 to speed up export more directly. EPFZ is an area setup for industries producing exclusively for the export market and most notably, to attract foreign investment. EPFZ provide low-cost infrastructure facilities. Industries located within EPFZ enjoy the previously mentioned export incentive, minimum Customs formalities and a complete free-trade regime.

(Khalafalla and Webb 2001)

5.3. *How Trade in Indonesia Benefits the Economy*

Global trade is a dynamic stage where countries play to their strengths and address their weaknesses, which holds for trade in Indonesia. Thanks to its valuable resources and strategic location, the government has achieved trade surpluses.

However, these successes come with their own set of challenges that require careful consideration. This article will explore the obstacles facing Indonesia's trade surplus challenges. We'll examine how domestic policies, global trends, and ongoing economic growth interact in this context.

Indonesia's trade balance showcased a surplus of USD 3.45 billion in June 2023. The achievement extends a trend that has remained unbroken for 38 consecutive months since April 2020.

According to Statistics Indonesia (BPS), Indonesia's exports from January to June 2023 reached USD 128.66 billion. However, it represents a decrease of 8.86% compared to the same period in 2022.

Meanwhile, non-oil and gas exports amounted to USD 120.82 billion, showing a decline of 9.32%. Economic experts argue that this surplus is not due to a surge in business transactions. The decline in export and import performance is expected to align with the global trade slowdown resulting from weakened global demand.

5.4. *Indonesia's Exports Showed a Declining Trend*

In June 2023, Indonesia's exports reached USD 20.61 billion, marking a decline of 5.08% compared to May 2023 (month on month/MoM) and a decrease of 21.18% from June 2022 (year on year/YoY).

Both oil and non-oil exports experienced reductions, each by 3.64% (MoM) and 5.17% (MoM), respectively. Export performance weakened across all sectors in June 2023.

The mining sector encountered the most significant decline at 15.30% (MoM), followed by the agricultural sector at 7.89% (MoM) and the processing industry sector at 2.24% (MoM).

The decline in exports can be linked to the reduced prices of several crucial Indonesian commodities on the international market. These include a 6.78% decrease in coal prices, a 3.90% decrease in crude palm oil (CPO) costs, a 1.52% decrease in rubber prices, a 1.58% decrease in aluminum prices, and a 1.19% decrease in nickel prices.

Despite the export slowdown in June 2023, some non-oil export products still experienced significant increases on a MoM basis. These include the following:

- Inorganic chemicals (HS 28), which rose by 61.58%
- Animal/vegetable fats and oils (HS 15), up by 43.68%
- Food industry residues/waste (HS 23), up by 41.90%
- Clothing and accessories (knitted) (HS 61), up 11.65%
- Iron and steel (HS 72), up 7.36%.

5.5. *Indonesia's Imports Show a Decreasing Trend*

The value of Indonesia's imports in June 2023 was recorded at USD 17.15 billion, marking a 19.40% decline compared to May 2023 (MoM). This decrease in import value is attributed to a weakening in oil and gas imports by 29.12% MoM and non-oil and gas imports by 17.73% MoM.

The reduction in imports in June 2023 spans across all categories of goods. Consumer goods contributed the most to this decline, which decreased by 23.33% MoM, followed by raw materials/auxiliaries, down by 19.24% MoM, and capital goods, down by 17.97% MoM.

The Minister of Trade, Zulkifli Hasan, stated that the decrease in imports of consumer goods is in line with the weakening Consumer Confidence Index (CCI) of June 2023, which decreased to 127.1 from the previous 128.3 in May 2023.

During the first semester of 2023, Indonesia's total imports reached USD 108.73 billion, experiencing a 6.42% decrease compared to the first semester of 2022, which was USD 116.18 billion YoY.

Indonesia's top export destinations and commodities

Indonesia's exports mainly contribute to non-oil and gas shipments to China, the United States, and Japan. China has been Indonesia's largest export destination for the last seven years. Indonesia predominantly exports significant commodities like mineral resources, metal ores, and steel to China.

Trade between Indonesia and China reached USD 133.6 billion in 2022. The Ministry of Trade reported that Indonesian exports to China were valued at USD 65.9 billion during the same year.

Luhut Binsar Pandjaitan, the coordinating minister for Maritime and Investment Affairs, highlighted that technology transfer is a significant factor in Indonesia's collaboration with China.

According to Minister Luhut, China is keen to share its technologies, specifically for the downstream nickel industry, contributing to USD 34 billion in export value in 2022.

Moreover, from 2014 to 2022, Chinese investments in Indonesia amounted to USD 30.8 billion, encompassing 15,906 projects. This cumulative figure positioned China as the third-largest foreign investor in Indonesia during that period.

What is Indonesia's top exporting commodities?

According to BPS data, the commodities with the most significant contribution to Indonesian non-oil and gas exports in June 2023 are as follows:

- Mineral fuels with a value of USD 3.4 billion
- Animal/vegetable fats and oils with a value of USD 2.7 billion
- Iron and steel with a value of USD 2.2 billion
- Precious metals and jewelry/gems with a value of USD 337.1 million
- Metal ores, slag, and ash totaling USD 423.5 million
- Nickel and its products with a value of USD 405.8 million
- Clothing and accessories (knitted) with a value of USD 346.6 million
- Food industry residues and waste with a value of USD 216.8 million
- Inorganic chemicals with a value of USD 162.4 million
- Ships, boats, and floating structures are valued at USD 8 million.

5.6. Future Projections of Indonesia's Trade Balance

Despite some economic pressures, Indonesia's exports are projected to remain robust, and therefore, Indonesia's trade balance will still potentially achieve surpluses in the future.

Economic experts estimate that the trade balance will continue to achieve an average monthly surplus ranging from USD 2 billion to USD 3 billion shortly. However, this surplus is narrower than the previous year's average of USD 4 billion to USD 6 billion.

The forthcoming export and import performance will be driven by various commodity types, including mineral commodities that are beginning to show signs of recovery.

Indonesia's export performance will also be influenced by government efforts to promote the downstream of natural resources (SDA) and bare minerals, which are expected to yield positive outcomes for enhancing export value-added.

6. Conclusion

Despite the challenges, economic experts project that Indonesia's export remains strong, influenced by government efforts to promote downstream natural resources (SDA) that can potentially result in positive outcomes for enhancing export value-added.

Businesses considering maximizing the potential of Indonesia's export performance can engage to ensure regulatory compliance before exporting their products to the Southeast Asian region and beyond.

Similarly, businesses that aim to penetrate their products into the Indonesian market can seek help from outside NGO Indonesia for services related to product registration to obtain permission granted by specific governing bodies before entering the local market.

Indonesian has shown a high-quality performance of trade and investment during a decade joining a member of AFTA. The structure of Indonesia's trade has changed significantly over the last one-decade. Indonesia imported capitals goods for the production and exported manufactured good. Indonesia gained much benefit from the liberalization and integration of ASEAN economic benefits of AFTA can be achieved by Indonesia are as follows. First, Indonesia enjoys the increasing of trade expansion within the region because of trade creation effect. As intra-regional trade increases, Indonesia will also be an attractive investment location for regional and international investors. Second, increased intra-regional trade in goods or merchandise, as an effect of AFTA, will transport shipping, storage and warehousing, telecommunications, packaging, finance, and insurance will expend accordingly. *Third*, import sources outside of the region are replaced by regional sources that are less expensive. *Fourth*, the economic co-operation also triggers the Indonesian companies to expand their investment to other members of ASEAN. *Fifth*, Indonesia, together with other members could encourage the competitiveness of regional companies through economies of scale resulting from the expansion of markets and from efficiency improvements driven by competition with other companies in the region.

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