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How should Indonesia handle trade wars?

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A trade war between China and the United States would bring added uncertainty to the Indonesian economy. What is certain is that industrial power is very important for a country. On the one hand, during such a trade war, Indonesian industries would have an opportunity to fill gaps in the existing markets and maximize their exports.

On the other hand, however, there would be risks posed by the obstruction to trade between the US and China, especially to exports from China to the US. With high import tariffs imposed by the US, Chinese producers will be pushed to find other markets to sell their products.

Indonesia is obviously an attractive alternative market for Chinese goods, not only because Indonesia has historically been known as an open country, but also because of the Free Trade Agreement (FTA) between ASEAN and China, which gives special duty tariffs for Chinese goods exported to ASEAN members.

Concretely, the trade measures that can be imposed are, first, antidumping measures, which can be carried out if a country exports its products at prices lower than domestic prices, causing material losses to industries of importing countries.

Second, countervailing measures, which can be undertaken if imported products benefit from subsidies, causing material losses to the exporting countries' industries.

Third, safeguard measures, which can be carried out to protect a specific domestic industry from an increase in imports of any product that causes harm to the industry.

These three trade measures are governed by Government Regulation No. 34/2011 (PP 34/2011). The choice of trade measure is probably made because, at present, most of the main destinations for China's exports have imposed additional import duties on Chinese goods.

According to its semiannual report to the World Trade Ogranization (WTO), India has imposed antidumping import duties on 96 products from China. Australia has also imposed antidumping import duties on 15 products.

Taking polyethylene terephthalate (PET), a raw material used to make plastic bottles, as an example, Indonesia still has not imposed antidumping import duties on PET imports from China, while Malaysia, South Korea and Pakistan have imposed them in the past few years. As a result, PET imports into Indonesia have risen sharply, by 131 percent between 2013 and 2016. These PET imports are at dumping prices, causing the domestic PET industry to suffer damages from loss of markets and price suppression.

Similar pressures are also found in the polyester fiber industry. One fiber product, spin drawn yarn, is presently under investigation in an antidumping case launched by the Indonesian Antidumping Committee (KADI) in October 2017.

Various countries with large textile industries have also imposed antidumping import duties. India, for example, has imposed an import duty of US$547 per metric ton since 2015, while Turkey has imposed import duties of between 25 and 30 US cents per kilogram since 2014 and Pakistan has imposed import duties of between 3.25 and 11.35 percent per ton since 2017. Imports of China's SDY increased by 37 percent between 2014 and 2016.

Indonesia is still known as one of the most open markets for steel products, while other countries such as India, Malaysia, the European Union and Australia have imposed antidumping duties on hot rolled plate and hot rolled coil imported from China.

In Indonesia, the period in which antidumping duties were imposed on these products has expired and has not been extended.

Despite such trade measures serving as tools to safeguard the competitiveness of domestic industries, it should be remembered that imposing such measures is not an easy process.

Under PP 34/2011, antidumping, countervailing and safeguard measures can be imposed in the form of additional import duties on top of regular tariffs. The imposition of such measures often takes a long time, as they must be backed by a comprehensive investigation to prove that the violations have occurred. Antidumping investigations and countervailing measures are undertaken by KADI, while safeguard measure investigations are undertaken by the Indonesian Trade Protection Committee (KPPI).

The Trade Ministry, meanwhile, decides the imposition of import duties, after considering recommendations from each ministry that is relevant to the product under investigation. The Trade Ministry then sends a request to the Finance Ministry to impose an import duty. A regulation for the import duty is issued within 30 business days.

The investigations carried out by KADI and the KPPI can take up to 18 months with four additional months needed for ministerial level processes. Interagency coordination can also add further problems. If the coordination is not smooth and efficient, business actors will come under increasing pressure from the effects of the trade war, and, as a result, domestic industries will suffer more damages.

Obviously, this situation needs to be improved by the government as soon as possible, especially in the face of a trade war between the US and China. The government must show greater seriousness about imposing trade measures, lest Indonesia's domestic industries fall victim to the trade war.

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