

# Strengthening Japanese Trade and Investment in Indonesia

**Tauhid Ahmad**

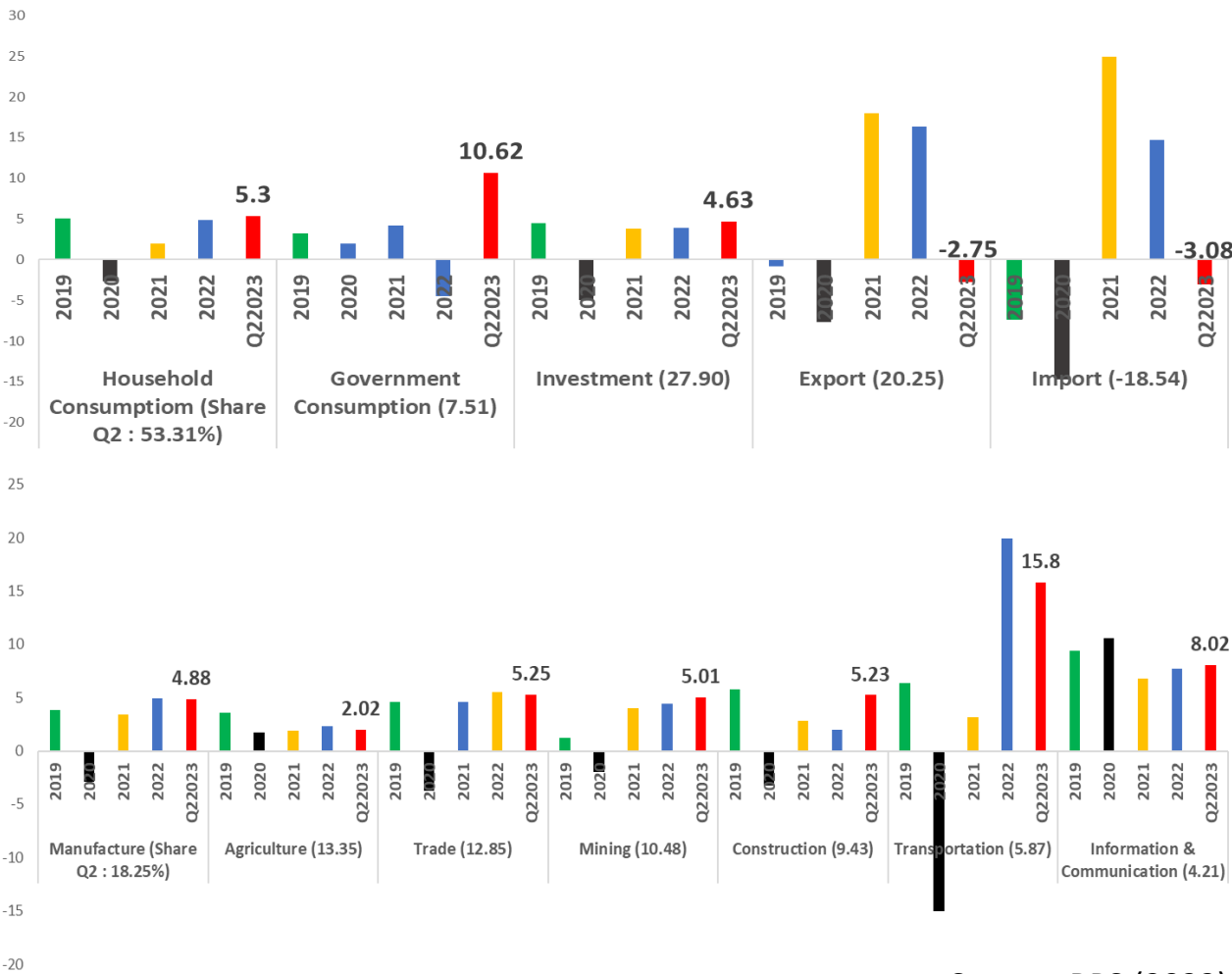
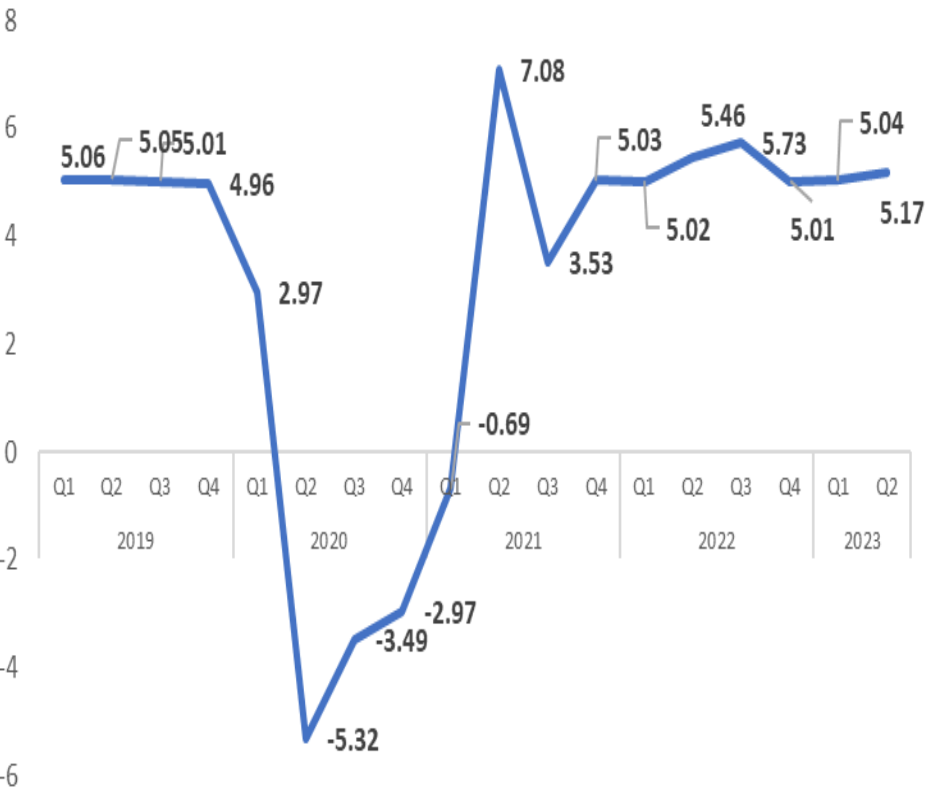
**Institute for Development of Economics and Finance (INDEF)**

Jakarta, 19 September 2023



# Investment

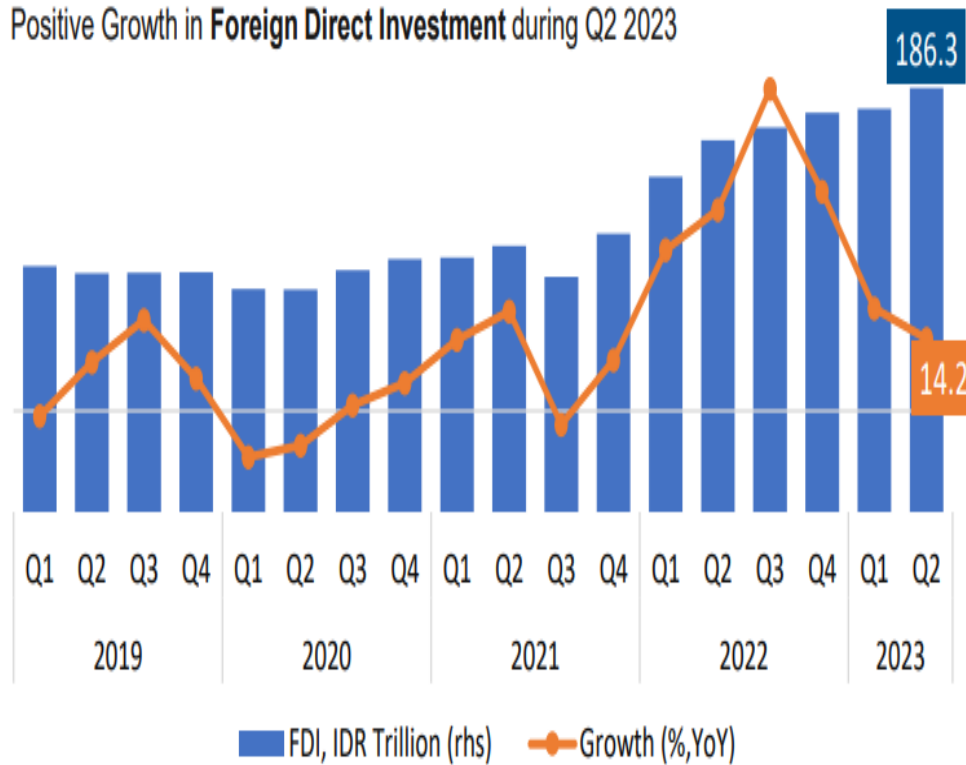
# Economic growth is stable at 5% level...



Source: BPS (2023)

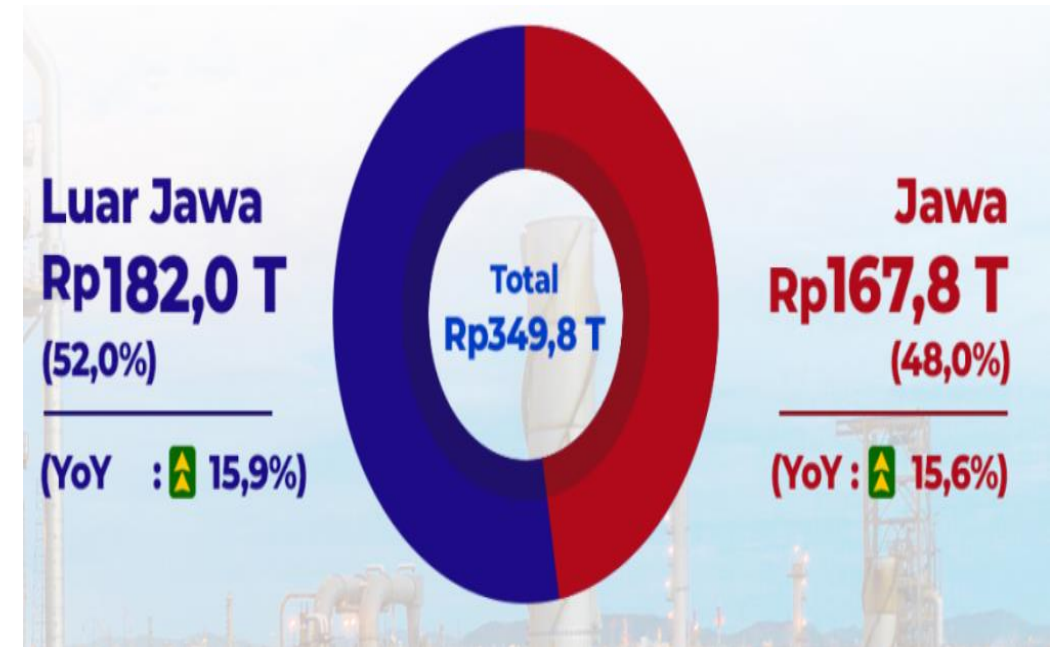
# Support of foreign direct investment

Positive Growth in Foreign Direct Investment during Q2 2023



Source : BKPM, MoF (2023)

Investment distribution in Java and outside Java



Source : BKPM (2023)

# Investment Realization Trend Based on Countries











## 2019

No.	Country	Value (USD-Mil)
1	 Singapura	6.509,6
2	 Tiongkok	4.744,5
3	 Jepang	4.310,9
4	 Hongkong	2.891,0
5	 Belanda	2.596,8
6	 Malaysia	1.357,5
7	 Korea Selatan	1.070,2
8	 Amerika Serikat	989,3
9	 Britis Virgin Islands	743,8
10	 Australia	348,3











## 2020

No.	Country	Value (USD-Mil)
1	 Singapura	9.779,1
2	 Tiongkok	4.842,4
3	 Hongkong	3.535,9
4	 Jepang	2.588,0
5	 Korea Selatan	1.841,9
6	 Belanda	1.422,4
7	 Malaysia	1.045,3
8	 Amerika Serikat	749,7
9	 Taiwan	454,3
10	 Australia	348,6

## 2021

No.	Country	Value (USD-Mil)
1	 Singapura	9.390,1
2	 Hongkong, RRT	4.609,3
3	 R.R. Tiongkok	3.160,4
4	 Amerika Serikat	2.537,2
5	 Jepang	2.263,2
6	 Belanda	1.761,6
7	 Korea Selatan	1.640,2
8	 Malaysia	1.364,3
9	 Bermuda	674,4
10	 Swiss	599,8

## 2022

No.	Country	Value (USD-Mil)
1	 Singapura	13.281,1
2	 R.R. Tiongkok	8.226,0
3	 Hongkong, RRT	5.514,2
4	 Jepang	3.564,8
5	 Malaysia	3.343,3
6	 Amerika Serikat	3.026,2
7	 Korea Selatan	2.297,8
8	 Belanda	1.220,2
9	 Bermuda	964,7
10	 Inggris	628,3

Source : BKPM, BI (2023)

# Investment Realization Trend Based on Sector

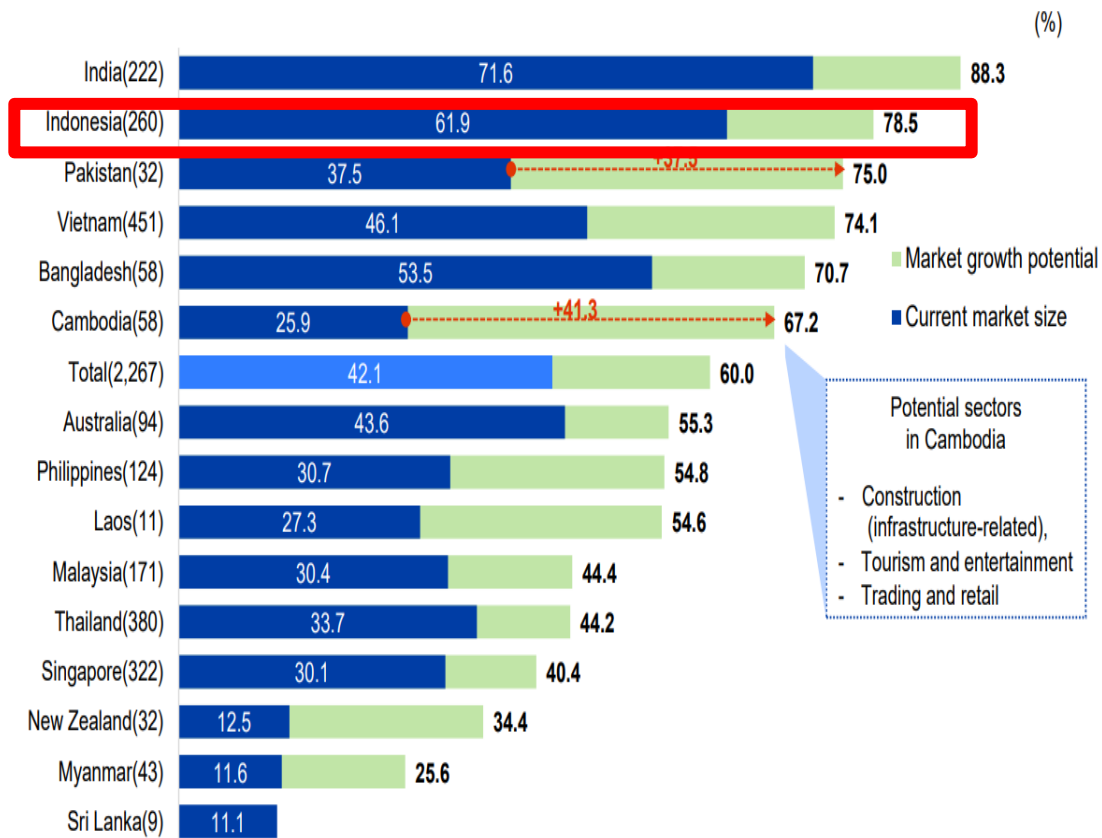
2019				2020				2021				2022			
No	Sector	Rp (T)	%	No	Sector	Rp (T)	%	No	Sector	Rp (T)	%	No	Sector	Rp (T)	%
1.	Transportation, Warehouse, and Telecommunication	139,0	17,2%	1.	Transportation, Warehouse, and Telecommunication	144,8	17,5%	1.	Metal, Metal Goods, Except Machinery, and Equipment Industry	117,5	13,0%	1.	Metal, Metal Goods, Except Machinery, and Equipment Industry	171,2	14,2%
2.	Electricity, Gas and Water Supply	126,0	15,6%	2.	Electricity, Gas and Water Supply	102,0	12,3%	2.	Housing, Industrial Estate, and Office Building	117,4	13,0%	2.	Mining	136,4	11,3%
3.	Housing, Industrial Estate, and Office Building	71,1	8,8%	3.	Metal, Metal Goods, Except Machinery, and Equipment Industry	94,8	11,5%	3.	Transportation, Warehouse, and Telecommunication	107,4	11,9%	3.	Transportation, Warehouse, and Telecommunication	134,3	11,1%
4.	Metal, Metal Goods, Except Machinery, and Equipment Industry	61,6	7,6%	4.	Housing, Industrial Estate, and Office Building	76,4	9,2%	4.	Electricity, Gas and Water Supply	81,6	9,1%	4.	Housing, Industrial Estate, and Office Building	109,4	9,1%
5.	Mining	59,5	7,4%	5.	Construction	71,0	8,6%	5.	Mining	81,2	9,0%	5.	Chemical and Pharmaceutical Industry	93,6	7,8%

Source : BKPM, BI (2023)

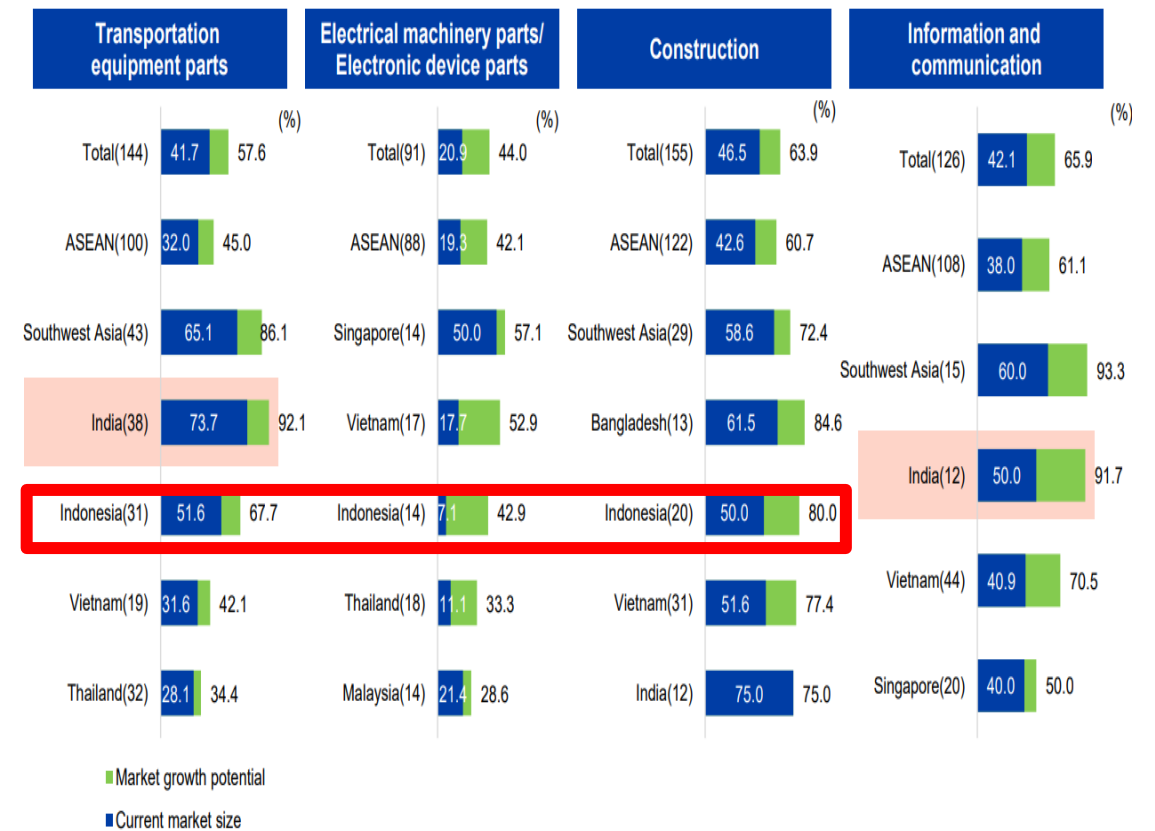


# Promising Market Size

Current market size and market growth potential (benefits, by country)



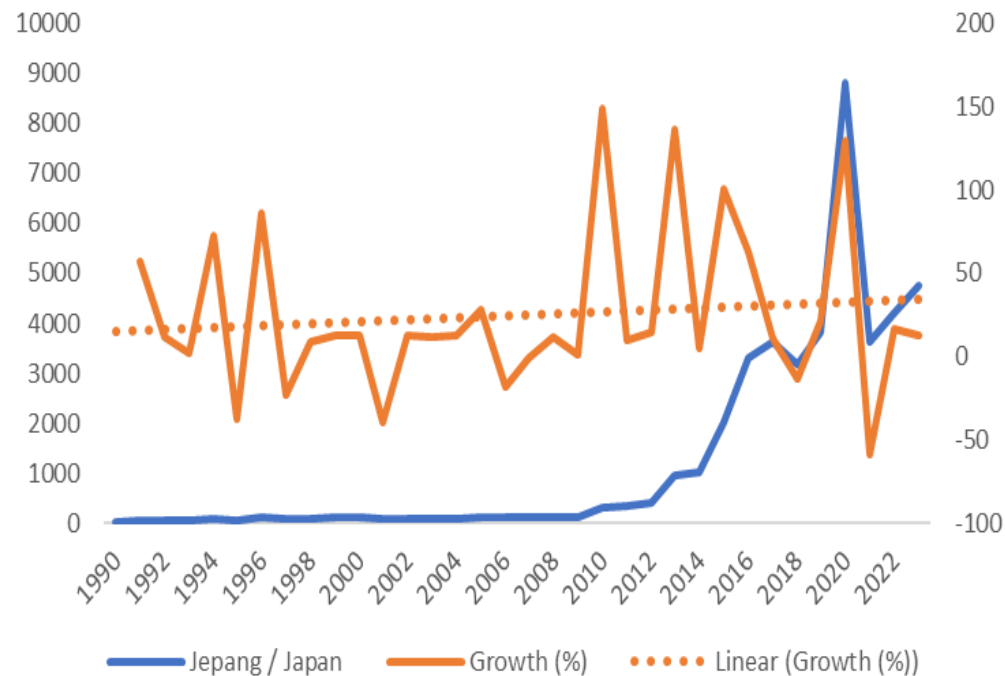
Benefits from current market size and market growth potential (selected industries)



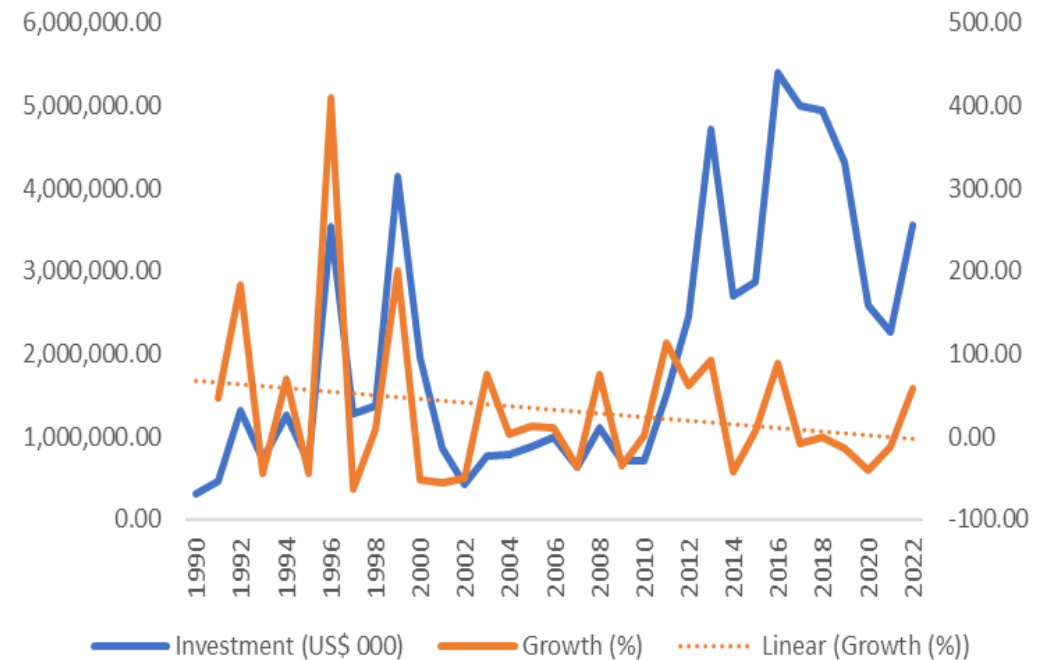
Source : Jetro (202)

# Japan Investment Realization (1)

Japan Investment Realization 1990-2023  
(Number of Project)



Japan Investment Realization 1990-2023  
(US\$ 0000)

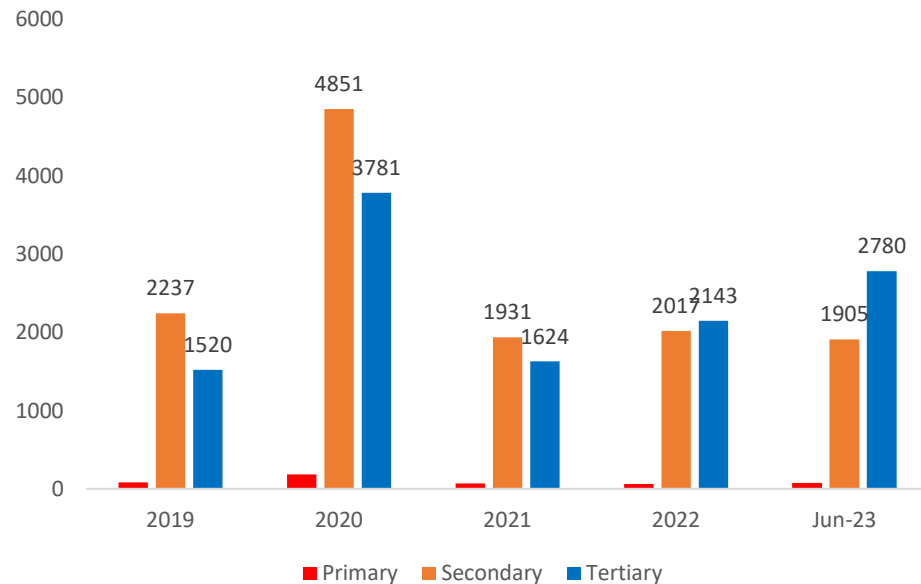


Source : BKPM (2023)

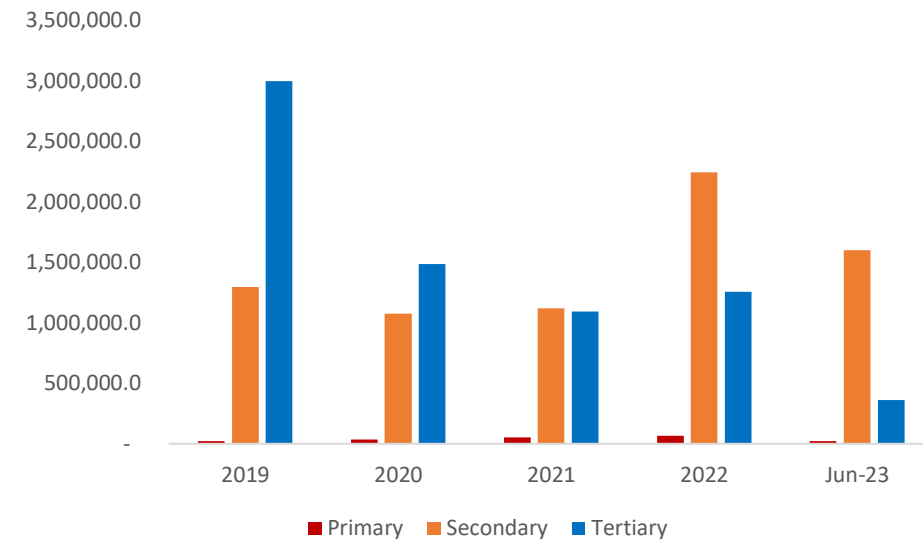


# Japan Investment Realization (2)

Japan Investment Realization Based On Sector  
(Number of Project)



Japan Investment Realization Based On Sector  
(US\$ thousand)



Source : BKPM (2023)

# Japan Investment Realization (3)

Competitiveness of Japanese FDI in Indonesia in sector (1) vehicle industry motorized and other means of transportation, (2) timber industry, (3) forestry, (4) industry others, (5) rubber and plastic industry, (6) electricity, gas and water, (7) trade and repair, (8) machinery, electronics, medical instruments, electrical equipment, precision, optics and watches, (9) mineral industry nonmetal, (10), housing, area industry and offices, (11) chemical industry and pharmaceuticals and (12) paper industry and printing

## Competitiveness of Japanese FDI in Indonesia

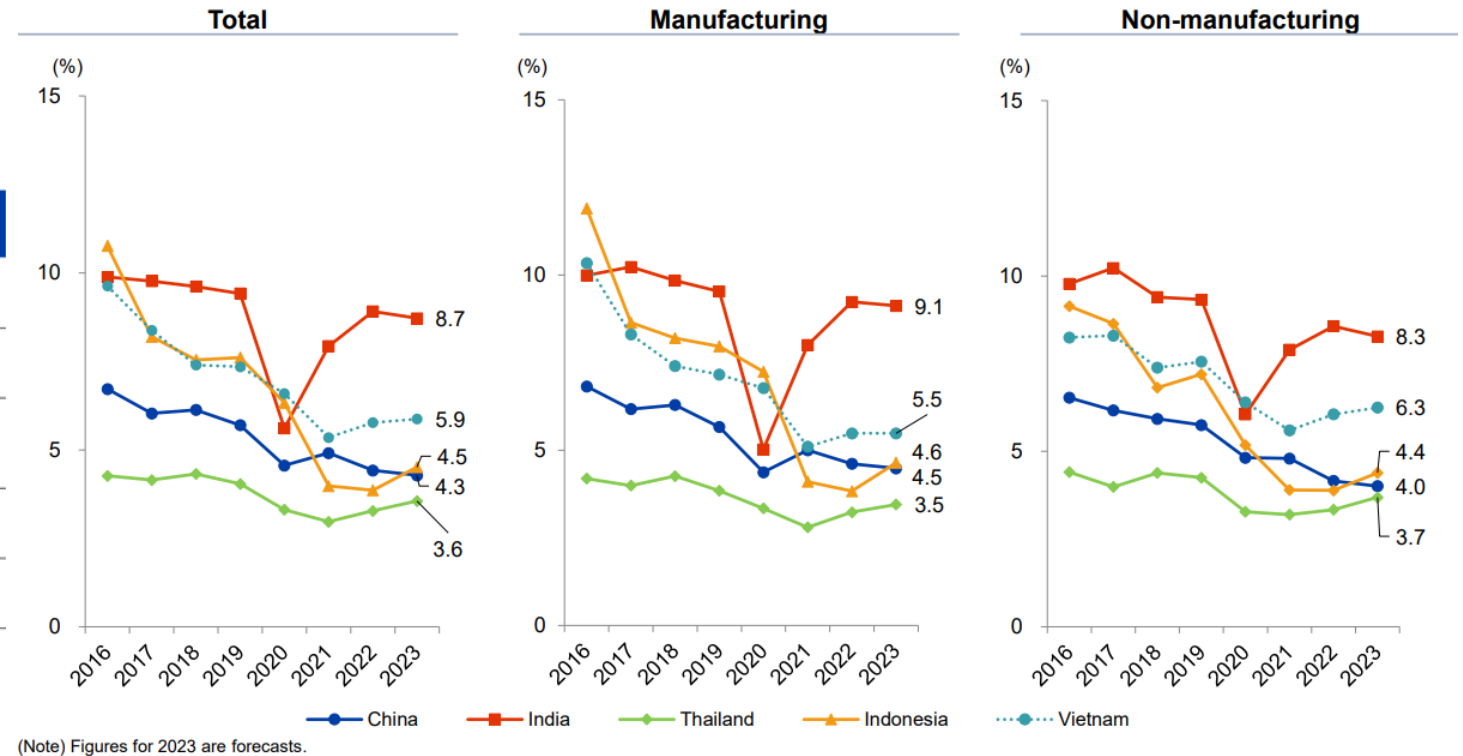
No	Sektor	2017	2018	2019	2020	2021	Rata-rata
1	Industri Kendaraan Bermotor dan Alat Transportasi Lain	5.113	4.947	5.692	2.783	3.667	4.440
2	Industri Kayu	0.178	4.324	0.174	7.373	6.609	3.732
3	Kehutanan	0.002	0.003	3.272	7.040	7.284	3.520
4	Industri Lainnya	0.337	1.134	2.594	8.790	4.265	3.424
5	Industri Karet dan Plastik	1.199	1.013	2.625	6.402	2.731	2.794
6	Listrik, Gas dan Air	1.788	2.518	2.610	2.312	2.798	2.405
7	Perdagangan dan Reparasi	0.868	0.464	0.521	2.102	4.469	1.685
8	Industri Mesin, Elektronik, Instrumen Kedokteran, Peralatan Listrik, Presisi, Optik dan Jam	2.420	1.081	0.705	2.994	1.060	1.652
9	Industri Mineral Non Logam	2.019	2.265	1.199	0.555	1.516	1.511
10	Perumahan, Kawasan Industri dan Perkantoran	0.937	0.835	1.287	2.038	1.921	1.404
11	Industri Kimia Dan Farmasi	0.324	0.609	0.593	0.694	3.111	1.066
12	Industri Kertas dan Percetakan	3.074	0.434	0.946	0.268	0.306	1.006
13	Perikanan	0.568	0.525	0.462	1.308	1.686	0.910
14	Konstruksi	0.069	0.163	0.350	0.311	1.120	0.402
15	Industri Logam Dasar, Barang Logam, Bukan Mesin dan Peralatannya	1.102	0.751	0.051	0.042	0.053	0.400
16	Industri Tekstil	0.400	0.594	0.423	0.147	0.348	0.382
17	Jasa Lainnya	0.308	0.438	0.159	0.364	0.210	0.296
18	Industri Makanan	0.221	0.397	0.182	0.261	0.221	0.256
19	Hotel dan Restoran	0.327	0.276	0.075	0.095	0.126	0.180
20	Transportasi, Gudang dan Telekomunikasi	0.417	0.148	0.002	0.001	0.023	0.118
21	Pertambangan	0.360	0.122	0.000	0.000	0.076	0.112
22	Industri Barang dari Kulit dan Alas Kaki	0.055	0.024	0.028	0.393	0.000	0.100
23	Tanaman Pangan, Perkebunan, dan Peternakan	0.002	0.000	0.005	0.000	0.119	0.025

Source : IPB (2023)

# Challenges by Japanese Perspective (1)

## Problems by country

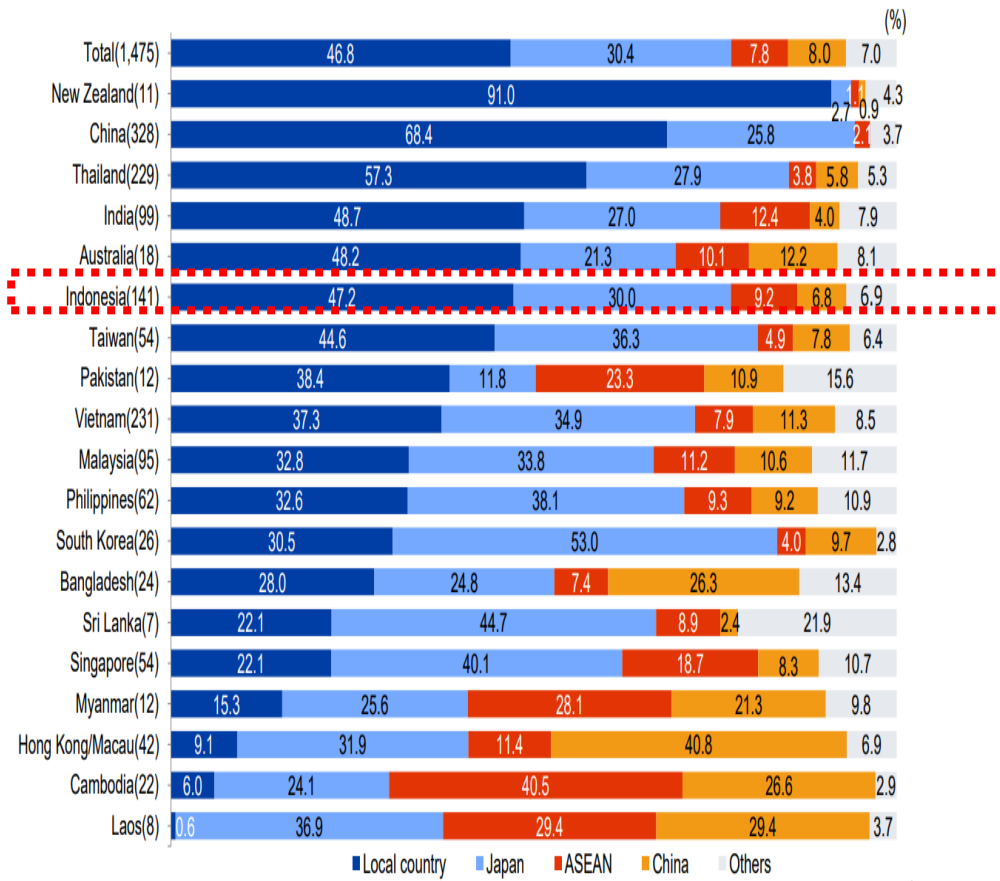
Indonesia		(%)
1	Increased wages	82.8
2	Increased procurement costs	80.9
3	Tax burdens (e.g. corporate taxes, transfer pricing taxes)	73.9
4	Exchange rate fluctuation	64.2
5	Complicated customs clearance procedures	57.9



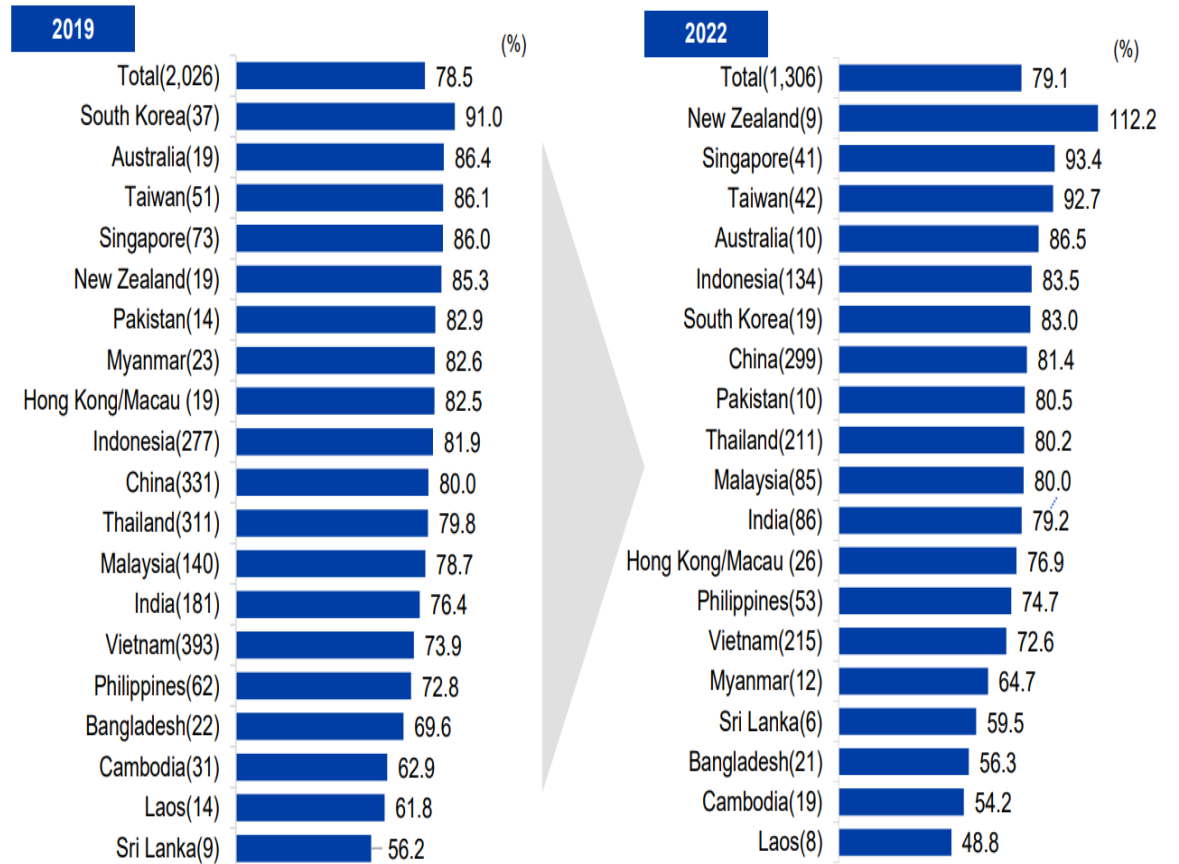
Source : Jetro (202)

# Challenges by Japanese Perspective (2)

Procurement sources for raw materials and parts (by country/region, responses total 100%)



Local manufacturing costs (by country/region) with Japanese manufacturing costs as 100



*“Local procurement rate did not increase, while its rate from Japanese imports increased”*

Source : Jetro (2023)

Source : Jetro (2023)

## Conclusion

- Japan's role in investment in Indonesia is very strategic even though there are fluctuations that reflect the conditions of the two countries
- There are main obstacles to investment in Indonesia ranging from labor wages, procurement costs, taxation, exchange rate fluctuations and customs procedures
- New breakthroughs are needed regarding the formulation of competitive wages, efficiency in procurement of raw materials and processes, strengthening incentives and tax certainty as well as strengthening de-dollarization policies

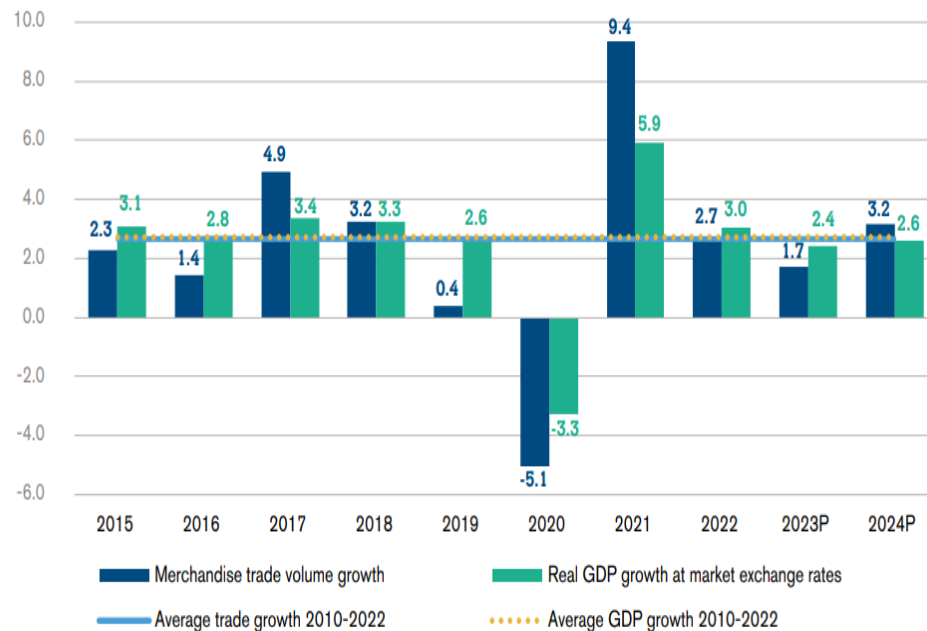
Trade



# World trade has changed

## World merchandise trade volume and GDP growth, 2015-2024

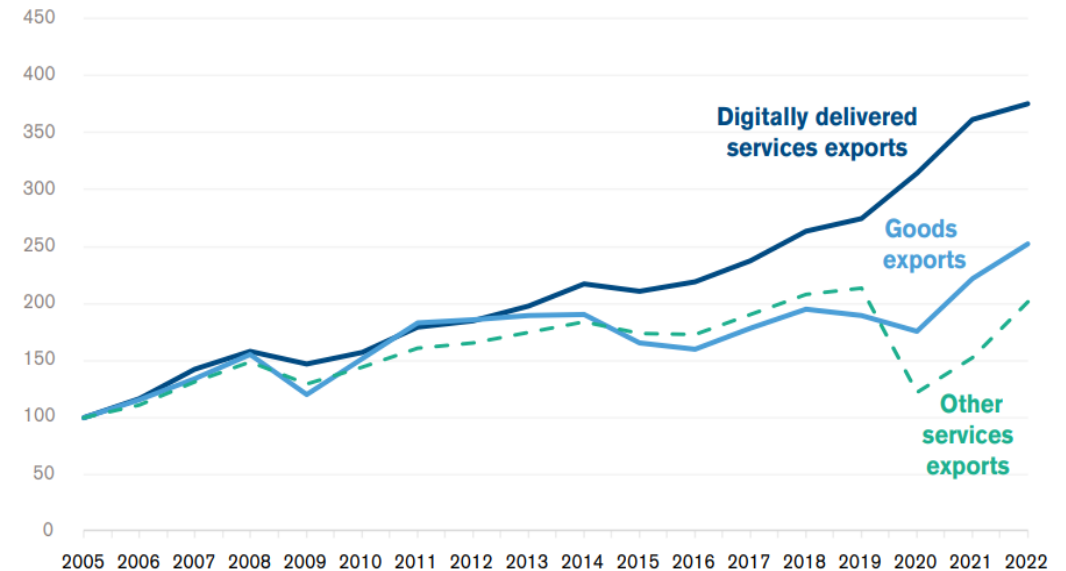
Annual % change



Note: 2023 and 2024 are projections.

Source: WTO for merchandise trade volume and consensus estimates for GDP.

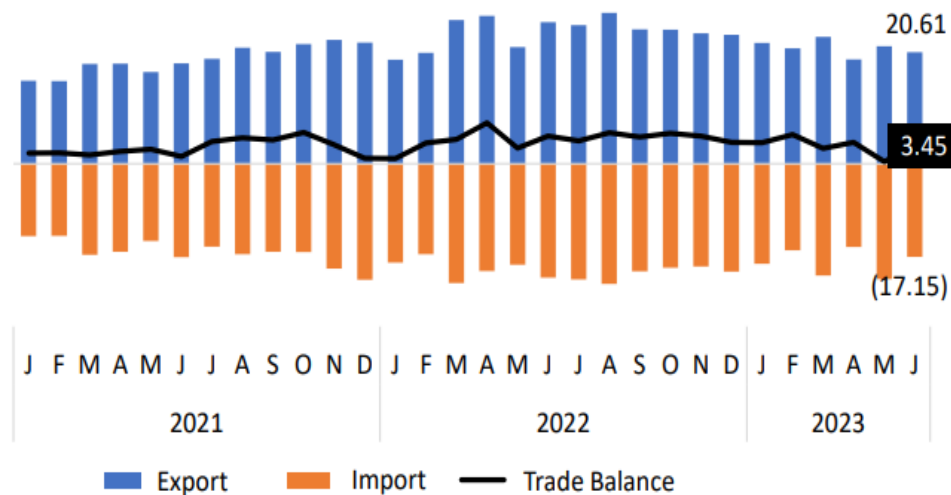
## Global exports of digitally delivered services



Source : WTO (2023)

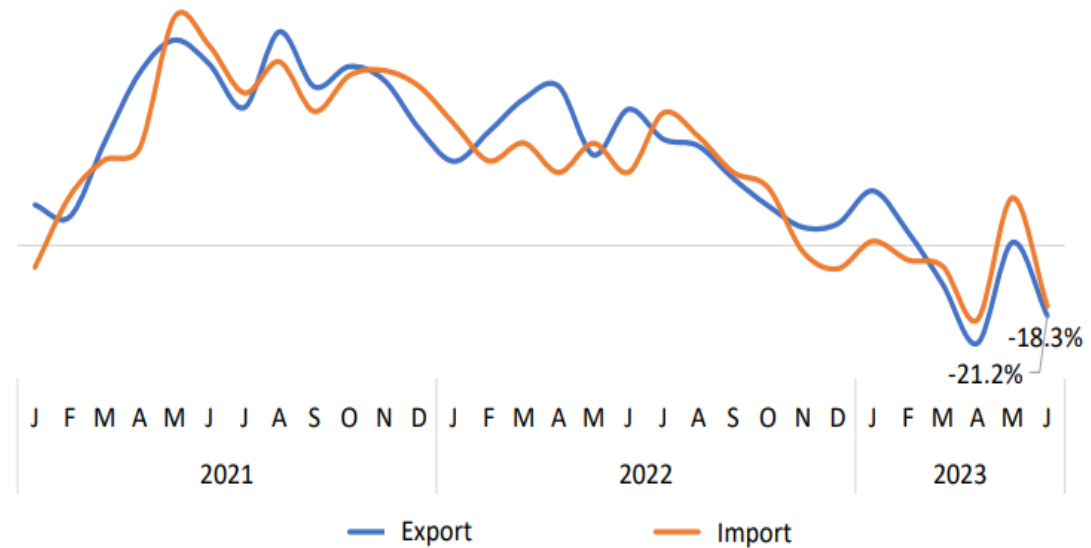
# The trade balance surplus decreased

Progress of Indonesia's Trade Balance (Billion USD)



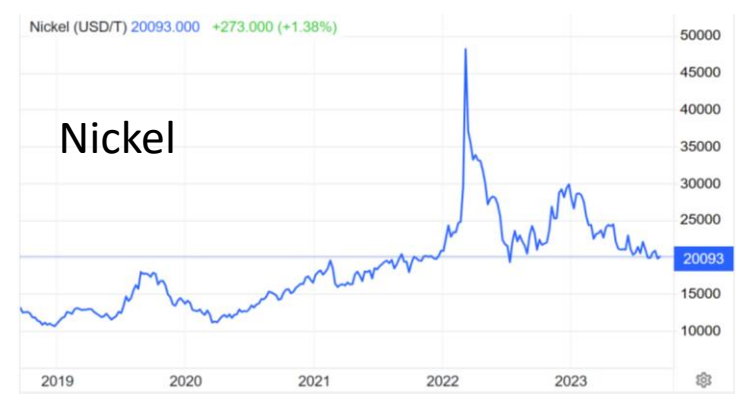
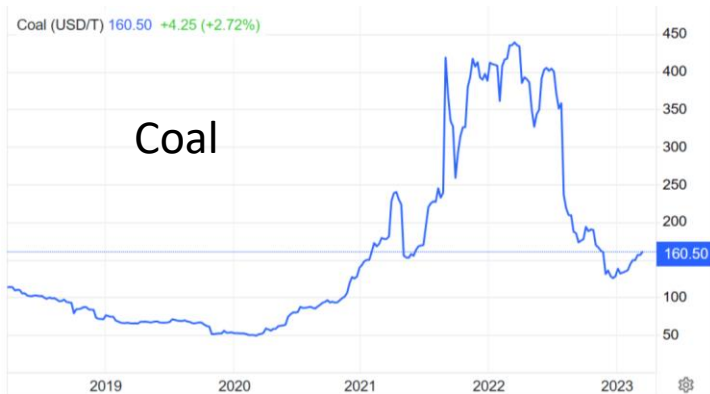
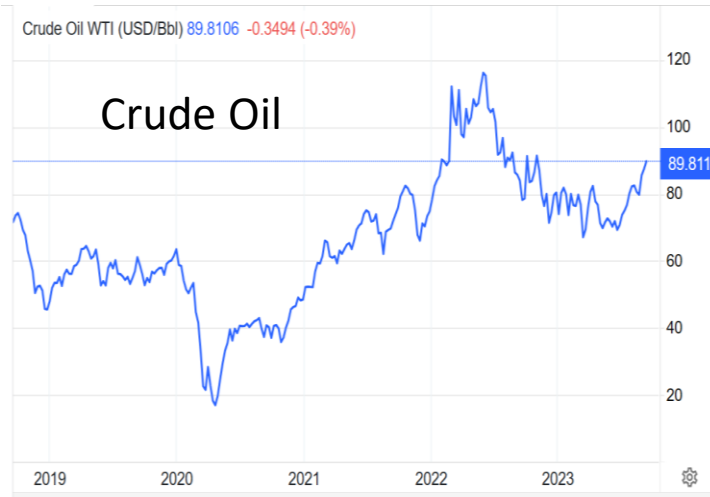
Source: BPS & MoF (2023)

Indonesia's Exports and Imports Growth (yoy)



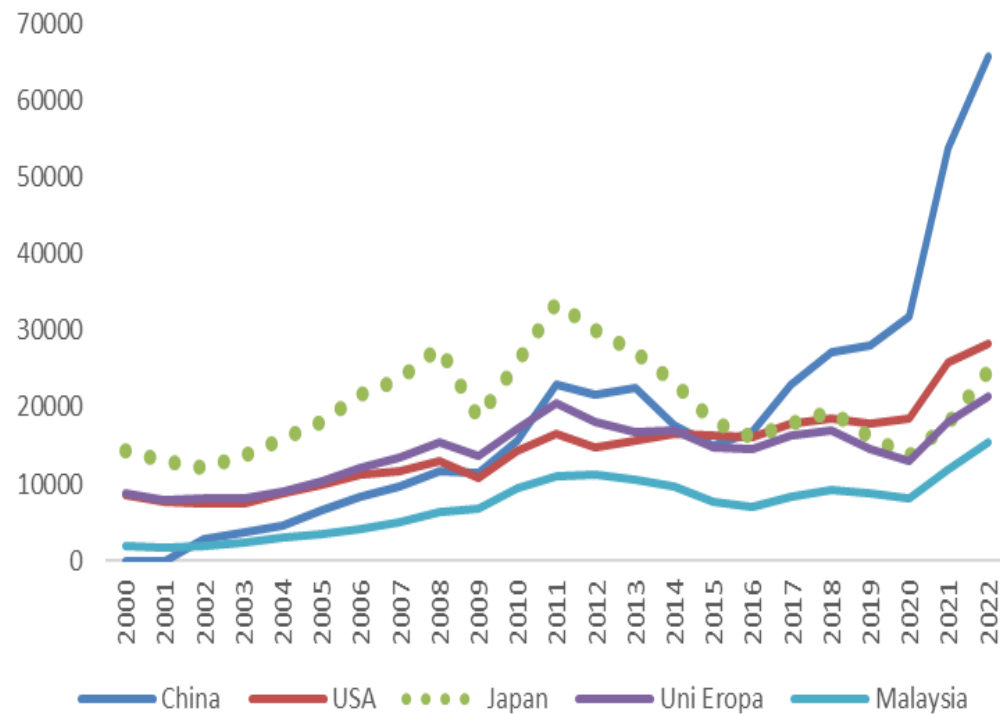
Source: BPS & MoF (2023)

# Commodity prices decreased except oil prices..

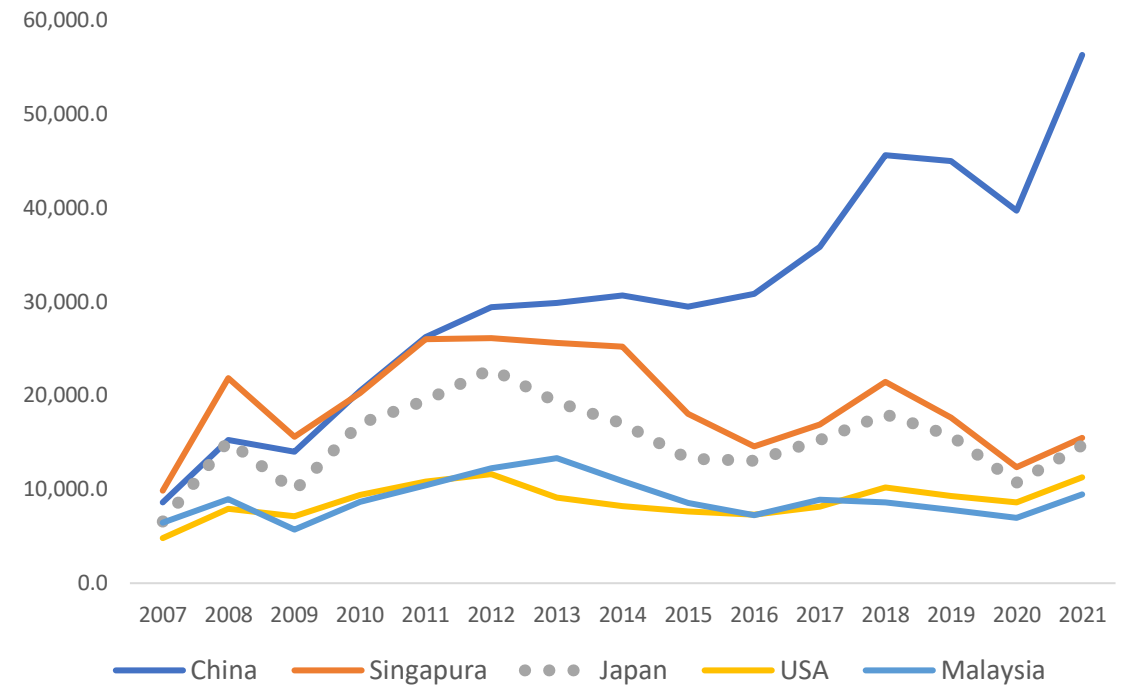


# Change in major trading partners

Export to main trading partners (million US\$)



Import from main trading partners (million US\$)

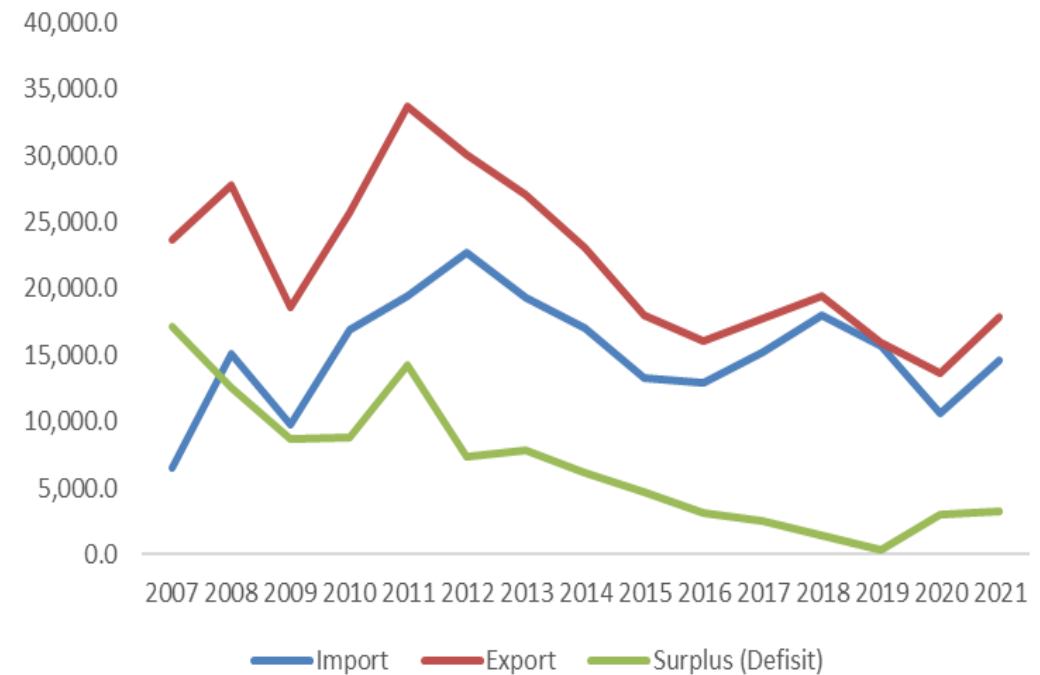


Source : BPS (2023)

# The trade balance surplus decreased

The decline in trade is mostly caused by low economic growth rates and often below 1%. On the other hand, Japan's biggest partner, the United States, has also reduced demand for Japanese products. The implication is that demand for various export goods to Japan has decreased.

Export and import Indonesia to Japan (million US\$)



# Major products of export and import

## Japan Import form Indonesia 2022

Product Code	Value in 2022, USD thousand	Value in 2022, USD thousand	Annual growth in value between 2018-2022, p.a.	Share Japan's imports, %	Equivalent ad valorem tariff applied by Japan
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	10,897,832	8	4	0
26	Ores, slag and ash	2,298,028	31	7	0
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	1,771,312	2	1	0
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	1,356,705	2	7	0
75	Nickel and articles thereof	1,221,502	11	28	0
44	Wood and articles of wood; wood charcoal	1,212,352	4	9	1
40	Rubber and articles thereof	1,131,267	5	22	0
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	845,183	4	1	0
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	649,019	5	3	0
39	Plastics and articles thereof	613,287	4	3	0

## Indonesia Import form Japan 2022

Product Code	Value in 2022, USD thousand	Value in 2022, USD thousand	Annual growth in value between 2018-2022, p.a.	Share Japan's imports, %	Equivalent ad valorem tariff applied by Japan
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	3,496,014	-10	11	0
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	2,792,599	-2	29	1
72	Iron and steel	2,583,029	8	19	8
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	1,405,347	-5	5	0
99	Commodities not elsewhere specified	847,151	-71	78	
39	Plastics and articles thereof	716,807	-1	6	1
40	Rubber and articles thereof	691,881	3	24	0
73	Articles of iron or steel	609,054	-8	15	8
38	Miscellaneous chemical products	476,241	25	12	0
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	404,509	-1	11	0

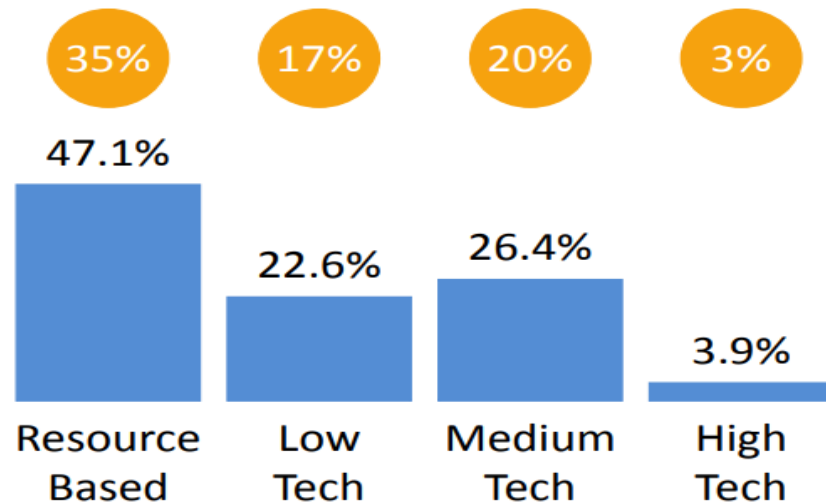
Source : trademap (2023)



# Challenge 1 : Competitive Industrial Performance

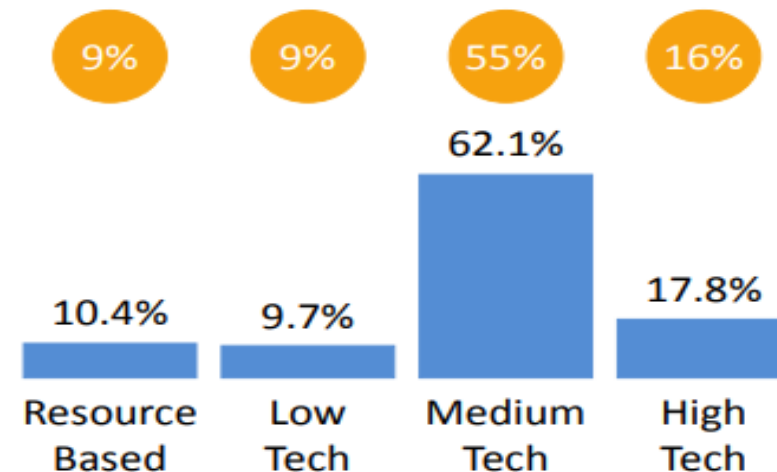
Indonesia Competitive Industrial Performance Index 2021

Rank 38 → Rank 39 (153 countries)



Japan Competitive Industrial Performance Index 2021

Rank 6 → Rank 8 (153 countries)



Source: UNIDO (2023)

## Challenge (2) : Import component in Japanese FDI

Potential and Impact of Increased Japanese Investment on Imports

Jepang			
Sektor	SIM 01	SIM 02	SIM 03
Construction	1.82	2.34	5.02
Metal products	1.77	2.27	4.88
Mineral products nec	1.77	2.27	4.87
Trade	1.66	2.13	4.62
Manufactures nec	1.67	2.14	4.60
Accommodation, Food and servic	1.64	2.11	4.59
Public Administration and defe	1.59	2.04	4.44
Machinery and equipment nec	1.59	2.04	4.40
Financial services nec	1.53	1.97	4.28
Basic pharmaceutical products	1.54	1.98	4.28
Motor vehicles and parts	1.53	1.96	4.24
Minerals nec	1.51	1.93	4.17

Source : IPB (2023)

In general, it can be identified that the majority of sectors that show an increase in output due to FDI tend to increase imports by a higher magnitude, such as construction, metal products etc...

## Challenge (3) : The trade barrier

Japan, together with China and Korea, implements quite a lot of non-tariff barriers, especially from the Sanitary and Phytosanitary [SPS] and Technical Barriers to Trade [TBT] aspects. This barrier gave rise to high standardization in entering the Japanese market.

Non Tariff Measures of Trade Barrier

	SPS	TBT	ADP	CV	SG	SSG	QR	TRQ	Total
China	1384	1652	123	11	1		42	10	3223
Hongkong, China	45	81					142		268
Japan	956	960	9			173	85	18	2201
Korea	746	1158	43			75	92	67	2181
Macau, China	25	23					20		68
Mongolia	2	14							16
Chinese Taipei	583	485	21	5		105	44	22	1265

Anti dumping [ADP], Countervailing [CV], Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary [SPS] [Ordinarias, Urgentes], Special Safeguards [SSG], Technical Barriers to Trade [TBT] [Medidas regulares], Tariff-rate quotas [TRQ],

Source : WTO (2023)

## Challenge (4) : non-tariff barriers

### USA Perspective on Japan Trade Policies

- Standards unique to Japan (formal, informal, de facto, or otherwise);
- A requirement in some sectors or projects for companies to demonstrate prior experience in Japan, effectively shutting out new entrants;
- Official regulations that favor domestically produced products and discriminate against foreign products;
- Licensing powers in the hands of industry associations with limited membership, strong market influence, and the ability to control information and operate without oversight;
- Cross stock holding and interconnection of business interests among Japanese companies that disadvantage suppliers outside the traditional business group (though not as widespread as in decades past); and
- The cultural importance of personal relationships in Japan and the reluctance to break or modify business relationships.

Source : trade.gov (2023)

## Conclusion

- Trade between Indonesia and Japan shows a tendency to decline amidst Japan's low economic growth
- There are obstacles in strengthening trade between the two countries, starting from the suboptimal Indonesian manufacturing industry, non-tariff barriers between the two countries, to the sophisticated characteristics of business in Japan.
- It is important to strengthen Indonesia's industry by partnering more broadly with Japanese investors and accompanied by increasing competitiveness in order to meet the non-tariff barriers imposed by Japan.

**Thank You**

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