

Hinrich Foundation Sustainable Trade Index

Indonesia Highlights

Introduction

The Hinrich Foundation commissioned the Economist Intelligence Unit to build the Sustainable Trade Index using 24 indicators to measure 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: **economic growth, social capital and environmental protection.**

The Index measures the readiness of each economy to participate in global trade in a way that creates sustainable growth, encourages foreign direct investment, and attracts funding and support from multilateral development agencies.

The Index was created for the purpose of stimulating meaningful discussion of the full range of considerations for policy makers, business and civil society when engaging in international trade.



The Hinrich Foundation launched the inaugural Sustainable Trade Index in 2016. Visit www.hinrichfoundation.com to download the 2018 and 2016 Index.

Indonesia Overview		
GDP per capita US \$3,570	Population 261 million	Exports % of GDP 19.1% of GDP
GDP growth 5.55% growth <small>(average since 2010)</small>	Labour Force 127 million	FDI net inflow US\$4.47 billion

SOURCE: World Bank, 2016 and Hinrich Foundation Sustainable Trade Index 2018

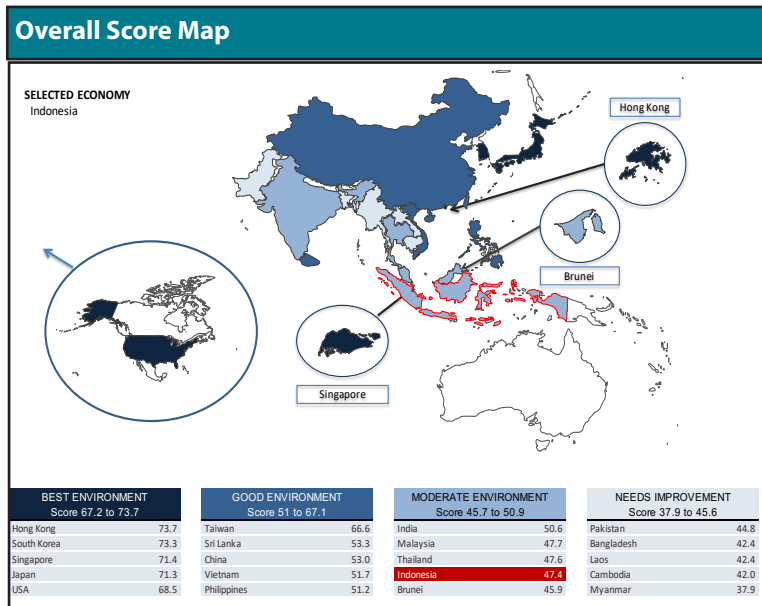
Overall performance

Indonesia maintained its overall ranking (14) in the 2018 Index as compared to 2016. Its growing labor force and general openness to trade are enabling factors for Indonesia's successful participation in global trade. However, slow improvements in physical and technological infrastructure could affect its ability to attract and retain foreign direct investment (FDI) and to expand its trade activity.

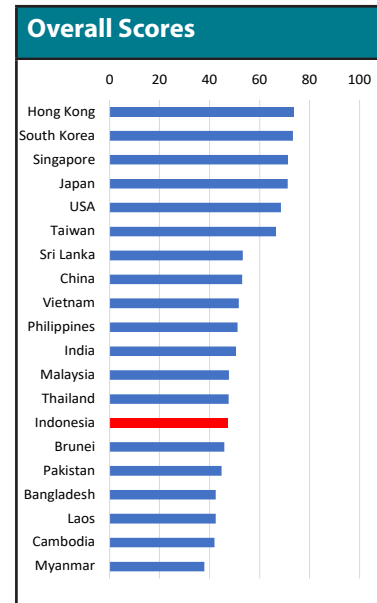
- **Economic:** Indonesia maintained its ranking in the economic pillar as compared to the 2016 Index, thanks to a growing labour force and relative openness to trade. However, Indonesia's infrastructure and slow technological innovation are negatively impacting its ranking on the economic pillar.
- **Social:** Indonesia was one of eight economies in the Index to improve its score in the social pillar, performing well on both political stability and labour standards indicators.
- **Environmental:** Indonesia's low ranking (14) is connected to higher levels of deforestation, water pollution, transfer emissions and share of natural resources in trade than some other economies. Indonesia is making progress at reducing air pollution.

Overall Index Performance			
Pillar	2018 Rank	2016 Rank	Change
Economic	14	14	=
Social	10	13	+3
Environmental	14	16	+2
Overall	14	14	=

Indonesia's score on each pillar compared with 2016 Sustainable Trade Index results.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Areas of top performance and improvement

- **Top performance:** Growth in labour force. Indonesia's top-ranking indicator in the 2018 Index was growth in labour force, where the country scored second overall behind only Pakistan. This indicator measures year-on-year change in a country's labour force. A growing labour force and the demographic dividend of a youthful population supports economic growth and a country's ability to continue trading.
- **Worst performance:** Technological innovation. This indicator measures a country's investment in research and development (R&D) as a percentage of total GDP. It reflects the country's ability to innovate and participate in the trading system as it moves towards more sophisticated goods.
- **Most improved:** Environmental standards in trade. This indicator reflects the number of international environmental agreements signed. In the 2018 Index, Indonesia significantly improved its ranking, gaining four positions to third place, where it tied with Japan, Malaysia, the Philippines and South Korea. Indonesia has signed six of the seven international environmental agreements reviewed in this indicator.

Top & Bottom Indicators		
Indicator	Index Avg.	2018 Score
Growth in labour force	64.0	93.2
Environmental standards in trade	66.7	83.3
Gross fixed capital formation	42.2	60.5
Tariffs & non-tariff barrier to trade	59.4	75.0
Share of natural resources in trade	85.3	73.0
Financial sector depth	43.5	12.2
Export product concentration	84.6	83.1
Technological innovation	26.2	1.1

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Economic pillar

Indonesia placed 14th on the economic sustainability pillar of the 2018 Index. Indonesia's high rank on the tariffs and non-tariff barrier to trade indicator of the economic pillar – the same as Japan, South Korea, Taiwan and the United States – indicates Indonesia's relative openness to trade. On this indicator, Indonesia performed better than all other countries with a comparable level of income.

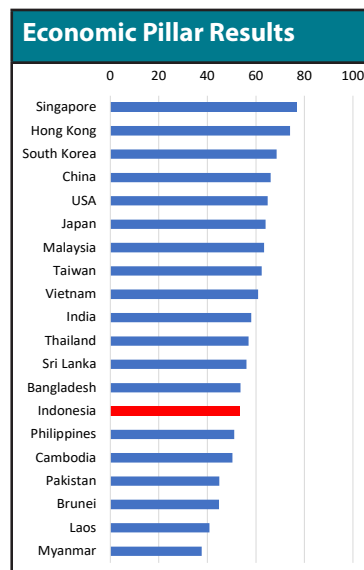
KEY TAKEAWAYS:

- Indonesia ranked 14th overall in the economic pillar, maintaining its score from the 2016 Index.
- Indonesia's growing labour force and lower tariffs and non-tariff barriers to trade indicate it has the manpower and willingness needed to trade.
- Indonesia has the seventh-highest trade costs in the Index.
- Indonesia scored particularly poorly on technological indicators, including infrastructure and innovation.

Indonesia's labour force growth creates a "demographic dividend" or opportunity for economic and trade growth. This dividend is an advantage as compared to countries like Japan, Singapore or South Korea that have already gone through a demographic transition.

The trade costs indicator is a composite of four important factors: infrastructure, logistics, corruption and legal system. Of these, Indonesia scored the worst in the infrastructure category, at 15th overall. This indicator includes a variety of measures such as telecommunications, transport, energy and office space. Poor infrastructure can inhibit economic and trade growth.

On the technological infrastructure indicator, Indonesia's score was the second lowest, together with Pakistan, Laos and Cambodia. Indonesia also had a low score on the technological innovation indicator, which captures a country's ability to innovate and participate in the trading system as it moves towards more sophisticated goods. These results could potentially affect Indonesia's ability to trade more and attract FDI, in a context of growing digitized trade and operations.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Growth in labour force	64.0	93.2
Tariffs & non- tariff barrier to trade	59.4	75.0
Gross fixed capital formation	42.2	60.5
Export market concentration	68.3	90.1
Foreign direct investment	13.0	4.2
Growth in per capita GDP	66.7	68.5
Exchange rate volatility	66.7	65.0
Foreign trade and payments risk	65.3	56.6
Trade costs	51.2	38.8
Current account liberalization	90.7	75.0
Technological infrastructure	62.5	25.0
Financial sector depth	43.5	12.2
Export product concentration	84.6	83.1
Technological innovation	26.2	1.1

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Social pillar

Indonesia was one of the few countries to improve its overall score on the social pillar, gaining three spots from 13th place in 2016 to 10th place on the 2018 Index. This is a positive achievement in the context of overall stagnation across all economies in the social pillar for the 2018 Index. Inequality and political instability are on the rise across the Asian region, a trend that transcends wealth and development status. Indonesia is performing better than other economies at tackling these inequalities.

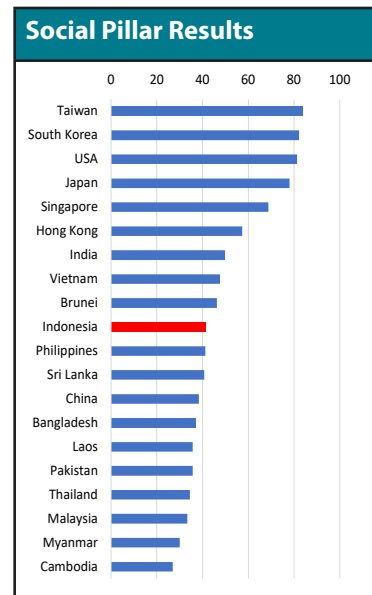
KEY TAKEAWAYS:

- Despite overall stagnation in the social pillar for most economies in the 2018 Index, Indonesia was one of the few countries to improve. The country placed 10th overall, up from 13th in 2016.
- Indonesia scored well in the political stability and labour standards indicators but fell short in terms of inequality and educational attainment.

Indonesia's performance on labour standards – measured by looking at forced labour, child labour and labour rights – was one the best amongst countries of similar income levels. Indonesia outperformed some middle-income countries, including Thailand and Malaysia, on the labour standards indicator.

For inequality, Indonesia had one of the higher levels of inequality for lower-income countries based on its Gini coefficient, ranking 12th overall. This indicator captures the inequality level in a country between the upper and lower income brackets. Countries should be wary that trade can impact inequality, and similarly, high levels of inequality can result in societal obstacles to further trade growth.

Indonesia ranked 14th overall in educational attainment for the 2018 Index – a drop from its 10th place ranking in the 2016 Index. This indicator measures the percentage of individuals receiving tertiary education and serves as a proxy for the level of educational attainment in a population. Educational attainment and skill acquisition are key indicators for trade and economic competitiveness.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Political stability	57.6	60.0
Labour standards	39.7	26.2
Inequality (Gini coefficient)	62.3	61.7
Educational attainment	38.4	17.2

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

CASE STUDY: DHL HELPS TO ADVANCE EDUCATIONAL ATTAINMENT IN INDONESIA

Asia's actual GDP may be some US\$34bn below its potential because of children dropping out of school, according to DHL-commissioned research. DHL has been working with two NGOs in Asia, Teach For All and SOS Children's Villages, to help children access formal education. DHL supplements their work with "an emphasis on employability and life skills," says Christof Ehrhart, executive vice president of Corporate Communications and Responsibility at DHL. "Our partnerships have always been about coaching employability as an add-on to formal education." This includes workshops in interview skills and resume writing in remote regions of Indonesia, Thailand and Vietnam, as well as internship programmes where youths are exposed to innovation, IT and soft skills. In 2017, close to 700 DHL volunteers lent support through these programmes to over 11,000 children in Bangladesh, India, Indonesia, Malaysia, the Philippines, Thailand and Vietnam. With concerted government and NGO efforts to boost access alongside private-sector initiatives by firms like DHL—countries like Indonesia can bridge the crucial gap between school and work.¹

Environmental pillar

Indonesia is a largely resource-intensive economy and this is reflected in its low overall score on the environmental pillar.

KEY TAKEAWAYS:

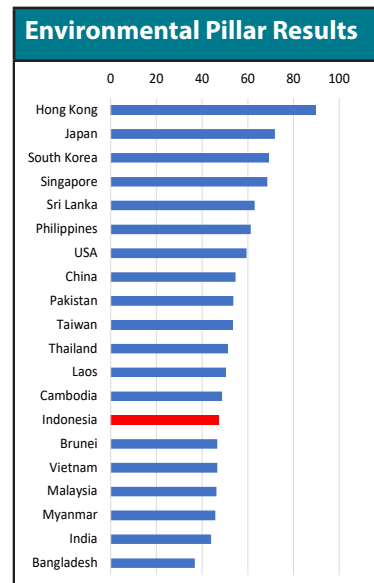
- Indonesia placed 14th overall in the environmental pillar due to higher levels of deforestation, water pollution, transfer emissions and share of natural resources in trade than some other economies.
- Despite an overall low performance in the environmental pillar, Indonesia scored well in the environmental standards in trade indicator, demonstrating a commitment at the national level to environmental sustainability. However, enforcement of international environmental agreements remains an issue.

Indonesia relies heavily on natural resources as a large percentage of the country's total trade, which is reflected in the country's low score on the share of natural resources in trade indicator. Indonesia scored 17 out of 20 economies for this indicator, ahead of Myanmar, Laos and Brunei. Reliance on a high concentration of natural resources-related exports is a key indicator of vulnerability in trade.

Indonesia was one of the bottom five countries alongside Cambodia, Malaysia, Vietnam and Laos in the deforestation indicator, which measures the rate of deforestation in a country by looking at changes in the country's forest cover. Indonesia has, however, improved its ranking by two spots on this indicator from 2016 in 2018, which shows an improvement in recent years.

An area where Indonesia scored well in the environmental pillar was in the air pollution indicator, where the country recorded lower air pollution levels than more than half of the countries in the Index. The Indonesian government is committed to a Trans-Boundary Haze-Free ASEAN by 2020 and the government is making efforts to address the cross-border haze that affects Southeast Asia. Indonesia's air pollution indicator score can also be partially explained by the size of its forests.²

Indonesia has pledged to abide by environmental standards in trade and other agreements, which is reflected in its high score for the environmental standards in trade indicator. Indonesia is a signatory to six of the seven important international environmental agreements used for this indicator, demonstrating a commitment to environmental sustainability. Although international agreements are a vital first step to address environmental issues, enforcement remains a thorny issue for most countries, including Indonesia.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Index Avg.	2018 Score
Environmental standards in trade	66.7	83.3
Air pollution	67.2	81.3
Water pollution	24.3	0
Deforestation	66.8	40
Transfer emissions	22.6	7.3
Share of natural resources in trade	85.3	73.0

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

¹ Hinrich Foundation Sustainable Trade Index 2018

² Hinrich Foundation Sustainable Trade Index 2016

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Additional resources

The Hinrich Foundation commissioned The Economist Intelligence Unit (EIU) to build the Sustainable Trade Index. The Index uses 24 indicators to measure the trade impacts of 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: economic growth, social capital, and environmental protection.

Visit our website at: www.hinrichfoundation.com/trade-research/sustainable-trade-index to download additional Sustainable Trade Index resources including:

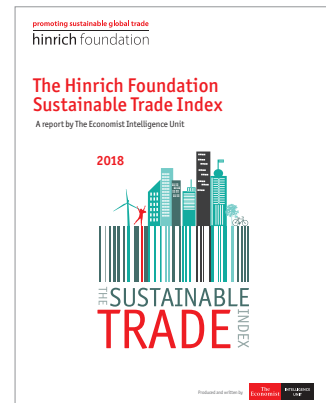
- **2018 Sustainable Trade Index white paper**- Prepared by the EIU, it presents and analyzes the 2018 Index findings for all 20 economies.
- **Index interactive data set and KPIs**- The comprehensive Index database allows users to directly interact with the Sustainable Trade Index data. For each economy, compare indicators, adjust score weights and visualize data in custom charts and graphs. It's a useful tool for regional comparisons or reviewing the performance of a particular economy.
- **Additional highlight reports for other economies**- Looking for information on other economies in the Sustainable Trade Index? Visit our website to download special reports on all 20 economies featured in the 2018 Index.
- **Index infographics, fact sheets and more!**

About the Hinrich Foundation

The Hinrich Foundation is a nonprofit organization that undertakes trade-related policy research and development work in Asia. It focuses on creating opportunities, choice and engagement through sustainable and mutually beneficial global trade. The Sustainable Trade Index aims to stimulate positive thinking about global trade and promote behaviors that will lead to better developmental outcomes, engagement and stability.

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Economic Pillar		Social Pillar		Environmental Pillar	
Australia	82.4	Australia	82.4	Australia	82.4
China	78.1	China	78.1	China	78.1
India	75.3	India	75.3	India	75.3
Indonesia	72.5	Indonesia	72.5	Indonesia	72.5
Japan	70.2	Japan	70.2	Japan	70.2
South Korea	68.9	South Korea	68.9	South Korea	68.9
USA	65.1	USA	65.1	USA	65.1
Average (all economies)	72.5	Average (all economies)	72.5	Average (all economies)	72.5

