

Hinrich Foundation Sustainable Trade Index

Country overview: **Indonesia**



Indonesia ranks 14th on inaugural Hinrich Foundation Sustainable Trade Index

The country embarks on a development strategy to move higher in the value chain

The Hinrich Foundation, a Hong Kong-based philanthropic institution, has commissioned The Economist Intelligence Unit to build a Sustainable Trade Index to measure the capacity of various countries to participate in the international trading system in a manner that supports the long-term domestic and global goals of economic growth, environmental protection and strengthened social capital.¹

The Index includes a number of indicators, grouped in these three pillars, that together measure whether a country is engaged in sustainable trade; i.e. trade that promotes inclusive growth for all—including future generations—within and beyond a country's borders.²

Indonesia ranks 14th in the inaugural index, underscoring the challenges of a resource-intensive economy.

This middle-income country under-performs relative to its income, sliding two places below its wealth (Figure 1.3).

Recognizing the dangers of being trapped at the lower end of the value chain, the country has undertaken measures to amend its excessive focus on raw materials. Its recent bid to move the local mining industry into higher-value processing by banning unprocessed mineral exports was rooted in this fear.³



In addition, the country is addressing deforestation through the Sistem Verifikasi Legalitas Kayu or SVLK, an Indonesian timber certification standard.⁴

Figure 1.3: Performance vs income

Country	Per-capita GDP 2014 (nominal US\$)	A: GDP rank	B: Index rank	Over/under-performance (A-B)
Singapore	56,287	1	1	0
South Korea	28,166	6	2	4
Japan	36,326	5	3	2
USA	54,412	2	4	-2
Hong Kong	40,240	4	5	-1
Taiwan	22,605	7	6	1
Malaysia	11,307	8	7	1
Thailand	6,020	10	8	2
Brunei	40,724	3	9	-6
Sri Lanka	3,675	11	9	2
Vietnam	2,010	14	11	3
China	7,690	9	12	-3
Philippines	2,873	13	13	0
Indonesia	3,508	12	14	-2
India	1,634	16	15	1
Cambodia	1,084	19	16	3
Laos	1,709	15	17	-2
Bangladesh	1,095	18	18	0
Pakistan	1,320	17	19	-2
Myanmar	811	20	20	0

Source: The Economist Intelligence Unit.

Ranked 14th in the economic pillar, Indonesia has the eighth-highest trade costs in the Index, joining the bottom-eight countries in the corruption indicator and scoring poorly in terms of infrastructure. The country is also among the second-lowest scorers in the technological infrastructure indicator, and is just ahead of the last three finishers in technological innovation.

Indonesia also suffers in comparison in terms of foreign direct investment.⁵ This could be a result of the uncertainty over the investment environment after the government's decision in 2014 to ban the export of unprocessed minerals. Though this may have been a step taken with one eye on the long-term sustainability of the country's higher-value-added processing industry, it came at the expense of investment (and hence trade receipts) in a key sector for the economy.⁶

Figure 2.1: Economic pillar results

Rank	Country	Score/100
1	Singapore	76.5
2	Hong Kong	70.9
3	South Korea	68.3
4	Taiwan	67.2
5	USA	66.1
=6	Malaysia	64.8
=6	Japan	64.8
8	China	64.2
9	Philippines	57.1
10	Vietnam	56.4
11	India	56.0
12	Thailand	55.0
13	Sri Lanka	54.5
14	Indonesia	53.7
15	Bangladesh	50.4
16	Laos	49.7
17	Cambodia	48.2
18	Pakistan	42.4
19	Brunei	38.5
20	Myanmar	35.1

Source: The Economist Intelligence Unit.

Figure 2.2: Trade costs

Rank	Country	Score/100
1	Singapore	86.3
2	USA	79.3
3	Hong Kong	74.0
4	Japan	71.9
5	South Korea	69.0
6	Taiwan	66.7
7	Malaysia	59.9
8	Sri Lanka	44.8
9	Thailand	43.3
10	India	40.1
11	China	34.0
12	Vietnam	33.1
13	Indonesia	33.0
14	Philippines	32.9
15	Pakistan	30.9
16	Bangladesh	29.5
17	Cambodia	20.7
18	Brunei	19.5
19	Laos	15.8
20	Myanmar	13.8

Source: EIU Business Environment Rankings composite score

Indonesia has several areas of strong performance, scoring relatively well in a third of the pillar's indicators, specifically in gross fixed capital formation (third place), growth in labour force (fifth), growth in per capita GDP (seventh) and export market concentration (eighth). Its openness to trade based on tariff and non-tariff barriers is equal to richer economies such as Japan, South Korea, Taiwan and the US.

Figure 2.3: Technological innovation

Rank	Country	Score/100
1	South Korea	100.0
2	Japan	77.1
3	Taiwan	72.5
4	USA	63.4
5	Singapore	49.7
6	China	45.1
7	Malaysia	24.5
=8	Hong Kong	17.6
=8	India	17.6
10	Bangladesh	8.5
11	Pakistan	6.9
12	Thailand	6.2
=13	Myanmar	3.9
=13	Sri Lanka	3.9
=13	Vietnam	3.9
16	Philippines	1.8
17	Indonesia	1.1
18	Cambodia	0.5
19	Laos	0.2
20	Brunei	0.0

Source: EIU calculation from UNESCO/World Bank data

Figure 3.1: Social pillar results

Rank	Country	Score/100
1	South Korea	88.9
2	USA	88.1
3	Japan	85.7
4	Taiwan	81.6
5	Singapore	74.2
6	Brunei	68.2
7	Hong Kong	56.4
8	Malaysia	52.2
9	Vietnam	48.1
10	Thailand	45.2
11	Sri Lanka	44.9
12	China	41.1
13	Indonesia	40.0
14	India	39.8
15	Laos	38.7
16	Cambodia	35.5
17	Pakistan	35.0
18	Bangladesh	33.5
19	Philippines	28.0
20	Myanmar	27.3

Source: The Economist Intelligence Unit

In the social pillar, Indonesia places 13th among the 20 surveyed countries, but follows Taiwan and rounds out the eight countries in the Index with the lowest Gini coefficients. It takes the 10th spot in the educational attainment indicator, but finishes last with seven others based on labour standards. In political stability, it shares equal rank with the Asian Tigers Hong Kong, South Korea and Taiwan.

Figure 3.2: Educational attainment indicator

Rank	Country	Score/100	Data (%)
1	South Korea	100.0	96.6
2	Singapore	92.4	90.0
3	USA	91.4	89.1
4	Taiwan	85.4	83.9
5	Hong Kong	65.7	66.8
6	Japan	59.5	61.5
7	Thailand	47.7	51.2
8	Malaysia	31.6	37.2
9	Philippines	27.7	33.8
10	Indonesia	25.0	31.5
11	China	22.9	29.7
12	Brunei	17.9	25.4
13	India	17.1	24.7
14	Vietnam	17.0	24.6
15	Sri Lanka	10.3	18.8
16	Laos	9.1	17.7
17	Cambodia	6.9	15.8
18	Myanmar	4.1	13.4
19	Bangladesh	3.9	13.2
20	Pakistan	0.0	9.8

Source: EIU score based on UNESCO/World Bank data

Figure 4.1: Environmental pillar results

Rank	Country	Score/100
1	Hong Kong	93.4
2	Singapore	92.2
3	Japan	85.0
4	South Korea	83.0
5	USA	74.9
6	Philippines	71.0
7	Thailand	66.2
8	Sri Lanka	63.1
9	Malaysia	61.1
10	Taiwan	59.3
11	Vietnam	57.0
12	Cambodia	56.8
13	Brunei	56.1
14	Bangladesh	52.3
15	China	52.0
16	Indonesia	50.0
17	Laos	48.2
18	Pakistan	47.8
19	India	47.2
20	Myanmar	45.9

Source: The Economist Intelligence Unit

In the environmental pillar, Indonesia predictably scores poorly based on its resource-intensive economy, placing it in 16th place due in part to very high levels of water pollution and carbon emissions.

Figure 4.2: Concentration of natural resources in trade

Rank	Country	Score/100
1	China	100.0
2	Japan	99.9
3	Bangladesh	99.0
4	Hong Kong	97.1
5	Taiwan	95.7
6	Cambodia	94.8
7	South Korea	94.7
8	Singapore	87.9
9	Philippines	87.8
10	USA	86.1
11	Pakistan	82.6
12	Thailand	77.4
13	Malaysia	73.3
14	Sri Lanka	72.7
15	India	70.5
16	Vietnam	62.8
17	Indonesia	34.3
18	Laos	18.0
19	Myanmar	6.0
20	Brunei	0.0

Source: EIU score based on UNCTAD Concentration Index

Figure 4.4: Carbon emissions in trade

Rank	Country	Score/100
1	Singapore	100.0
2	Hong Kong	99.3
3	Laos	91.1
4	Cambodia	89.6
5	Brunei	86.7
6	Taiwan	84.7
7	Malaysia	84.3
8	South Korea	84.0
9	Sri Lanka	79.2
10	Thailand	78.3
11	Myanmar	76.9
12	Japan	76.1
13	Philippines	73.1
14	Vietnam	69.2
15	Bangladesh	59.9
16	USA	52.6
17	Indonesia	49.6
18	China	13.3
19	India	11.0
20	Pakistan	0.0

Source: EIU score based on OECD, WTO, and academic research

As for having the sixth cleanest air in the Index, this can be partially explained by the size of Indonesia’s forests. Indonesia’s near-bottom rank in the deforestation indicator, however, suggests that this precious resource could be better managed. Efforts to address the problem are under way. Besides the implementation of the SVLK standard, Indonesia has pledged to abide by the environmental standards in trade and other agreements.

Figure 4.3: Air pollution

Rank	Country	Score/100
1	Singapore	100.0
2	Philippines	96.5
3	USA	94.6
=4	Sri Lanka	90.6
=4	Brunei	90.6
6	Indonesia	90.5
7	Cambodia	89.7
8	Malaysia	87.2
9	Japan	84.8
10	Myanmar	79.1
=11	Taiwan	78.0
=11	Thailand	78.0
13	Hong Kong	76.2
14	Vietnam	70.3
15	South Korea	65.6
16	Laos	62.7
17	Pakistan	43.5
18	Bangladesh	42.9
19	India	37.4
20	China	0.0

Source: EIU score based on Yale EPI

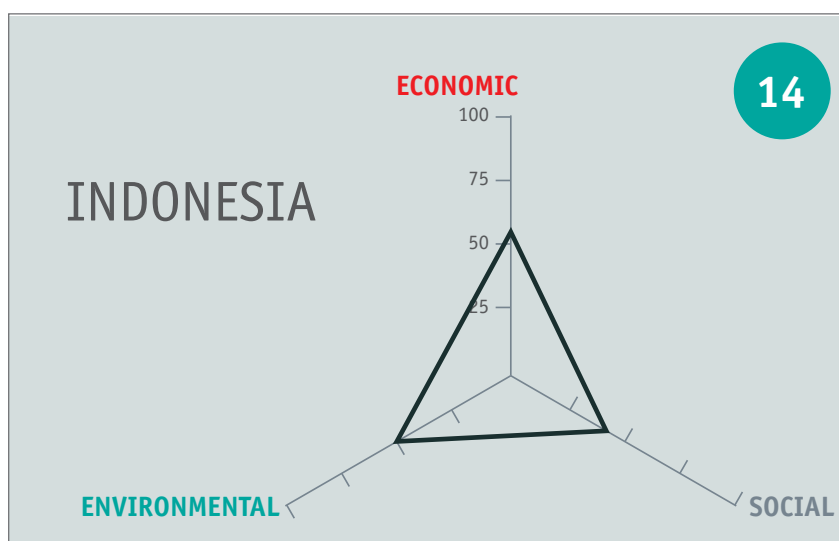
Figure 4.5: Environmental standards in trade

Rank	Country	Score/100	Data
=1	China	100.0	7
=1	Hong Kong	100.0	7
=3	Japan	83.3	6
=3	Philippines	83.3	6
=3	South Korea	83.3	6
=3	USA	83.3	6
=7	Cambodia	66.7	5
=7	India	66.7	5
=7	Indonesia	66.7	5
=7	Malaysia	66.7	5
=7	Pakistan	66.7	5
=7	Singapore	66.7	5
=7	Thailand	66.7	5
=7	Vietnam	66.7	5
=15	Laos	50.0	4
=15	Sri Lanka	50.0	4
=17	Bangladesh	33.3	3
=17	Brunei	33.3	3
=17	Myanmar	33.3	3
20	Taiwan	0.0	1

* NB: This includes: 1) Membership of the WTO’s Green Goods group; 2) The Convention on the Prevention of Marine Pollution by dumping of wastes or other matter 3) The Convention on the Protection of the Ozone Layer 4) The Kyoto Protocol to the United Nations Framework Convention on Climate Change 5) The International Timber Agreement; 6) The Convention on International Trade in Endangered Species of Wild Flora and Fauna; 7) The Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade.

Source: EIU score based on membership or ratification of international environmental compacts*

The Hinrich Foundation Sustainable Trade Index was created for the purpose of stimulating meaningful discussion of the full range of considerations that policy makers, business executives, and civil society leaders must take into account when managing and advancing international trade. The index measures nineteen countries in Asia and the US across the three recognized pillars of sustainability: economic (“profit”), social (“people”), and environmental (“planet”). In this year’s index, Singapore, South Korea, and Japan placed in the top three slots, with Bangladesh, Pakistan, and Myanmar rounding out the bottom three.



Indonesia takes the step toward sustainability in trade to benefit its economy and population while protecting its natural resources.

The index workbook and white paper are available for download at the www.hinrichfoundation.com/trade-research/sustainable-trade-index.

Questions and comments can be sent to index@hinrichfoundation.com.

¹ The Hinrich Foundation Sustainable Trade Index. Page 7

² Ibid, 7

³ Ibid, 35

⁴ Ibid, 38

⁵ Ibid, 21

⁶ Ibid