CHAPTER I
INTRODUCTION

"The Impact of Trade War Between the US and China Towards Indonesia economy 2018-2019". The author chose this title because this is a case that needs to be observed from 2018-2019, because this case is expected to have an impact on an unrelated country in a trade war. Countries that are thought to be affected by this trade war are developing countries, such as Indonesia. Indonesia still relies on developed countries like the US and China, because the two countries can provide needs and increase the economy of the Indonesian state, such as technology, oil and gas, investors, and infrastructure. Therefore, this case needs to be analyzed so that the writer and reader know the impact of the Indonesian trade war on the Indonesian economy.

A. Background

The two countries with the largest economies, the US and China, are on the verge of a trade war. The trade war between the two countries began with Donald Trump's presidential campaign which stated that he would use protectionism policies for the US economy. President Donald Trump said he would impose import tariffs of US $ 50-US $ 60 billion for a number of Chinese products that entered the US, it was strived to improve the domestic economy and reduce the trade balance deficit between the two countries.

The imposition of an import tariff increase for Chinese products announced by Donald Trump is aluminum by 10% and steel by 15%. Another effort by Donald Trump is to restrict China from taking action at the

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WTO (*World Trade Organization*) because China is doing unfairly in bilateral trade. As a result of actions by President Donald Trump, China responded by raising import tariffs by 25% and would bring this issue to the WTO as well (BBC NEWS, 2018).

In this case the trade war between the two countries can trigger a weakening of the world economy and many countries will be implicated, one of them is Indonesia. Robert Lighthnixer, Donald Trump's adviser in the field of trade, has been investigating for seven months and concluded that practically Chinese trade is potentially unfair to the US. As for practical Chinese trade which makes losses to the US, China is accused of theft by hacking computer networks so that the US suffers heavy losses, China pressures international companies to transfer technology by requiring them to create local partnerships in order to enter the Chinese market, China encourages its investment in The US to strategic industries, and to carry out and support cyber-attacks. This accusation is not only an adverse act for US trade but can also make the US economy decline. The US has provided strong evidence for the practical trade carried out by China (BBC NEWS, 2018).

The implementation of the increase in import tariffs on Chinese products is the right policy for the future of US industry. Donald Trump raised import tariffs on Chinese products by US $ 50 - US $ 60 billion or around Rp.827.34 trillion. The US financial department has also compiled the imposition of future tariffs for imported Chinese products.

The US government also keep pressuring China to further open its economy to US business people, lowering

the trade deficit to US $ 100 billion, removing rules that require foreign corporations to form joint ventures with Chinese corporations, and stop forcing US businesses to grant intellectual property rights in order to operate in China.

Donald Trump's policies are aging polemic in the country, one of which is a retail company and expresses concern in US agriculture. US agricultural products rely a lot on exports to China, if China boycotts US products, a worse impact will occur and can even experience a decline in the stock market. On the other hand, the US government will also suffer losses in the political field, namely the security issue of the Korean peninsula, which China has helped the US with in many of these issues. If China has condemned the US in the political field, North Korea will be ready to deal with the US. Because of the China aid program North Korea is ready to deal with the US.

One statement that made China angry was that the US wanted to "punish" China for violating copyright in intellectual property, especially products from the US. Responding to this, China conducted reprisals by increasing import tariffs on imported products from US, the tariff amount of US $ 34 billion. US products subject to tariffs by China were US products such as soybeans, aircraft, cars, computer chips, jet engines, and gold. With this retaliation, China has accused US (Malau, 2018).

For more details, the writer includes table of ranking the goods most traded between the U.S. and China in 2017. The table below shows the top 10 exports the US sent to China in 2017, along with the proportion of each item in the total export value of $132 billion. The top 10 items account for 39% of total exports to China.

Table 1 The Top 10 Exports from the US to China (2017)

Items	Value (US$B)	% of Total Exports
Aeroplanes and other aircraft	$13.1	9.9%
Soya beans	$12.5	9.4%
Vehicles with only spark-ignition internal combustion reciprocating piston engine	$7.9	6.0%
Electronic integrated circuits; Processors and controllers	$4.9	3.7%
Oils	$4.0	3.0%
Gold	$2.1	1.6%
Machines and apparatus for the manufacture of semiconductor devices or of electronic integrated circuits	$1.9	1.5%
Vehicles for transport of persons	$1.9	1.4%
Petroleum gases and other gaseous hydrocarbons	$1.7	1.3%
Copper	$1.6	1.2%

Source: (Viens, 2019)

We can see from the table above that many US goods imported by China are airplanes and other aircraft at 9.9% of total exports, valued at US $ 13.1 billion. While the second is soy beans at 9.4% of total exports, valued at US $ 12.5 billion. Below is the list of the top 10 imported products from China, and the percent that each product accounts of the total $444 billion in 2017. These top 10 items make up 30% of all products imported from China.

Table 2 The Top 10 Imports from China to the US (2017)

Items	Value (US$B)	% of Total Imports
Telephones for cellular networks or for other wireless networks	$43.7	9.8%
Automatic data processing machines	$37.2	8.4%
Trycicles, scooters and similar wheeled toys & other toys	$12.3	2.8%
Communication apparatus	$11.3	2.5%
Games; articles for funfair	$5.4	1.2%
Other Monitors	$4.7	1.1%
Units of automatic data processing machines	$4.4	1.0%
Electrical static converters	$4.6	1.0%
Seats	$4.3	1.0%
Reception apparatus for television	$4.2	0.9%

Source: (Viens, 2019)

China imported to the US from the table above are most electronic and machinery. The first rank is telephones for cellular networks or for other wireless networks, around 9.8% of the total imports, or US $ 43.7 billion. The second rank is automatic data processing machines around 8.4% of the total imports, or worth US $ 37.2 billion. A number of countries were cautious and worried about being badly affected, including Indonesia. The list of countries that were easily affected by the trade war: Indonesia, Ireland, Iceland, Malaysia, Singapore, South Korea, Czech Republic, Hungary, Slovak Republic, Taiwan, Luxembourg.

In response to this, Bank Indonesia Governor Perry Warjiyo said that the government had to monitor the trade war between the two countries. "Because of the trade war

tensions between the two countries have reduced exports and imports. Also, the growth of the two countries will also spread to other countries" (VOA, 2018).

What makes developing countries still depend on developed countries, because that many investors come from developed countries, developing country see developed country as a center of technology, adequate infrastructure, military, security, law and order power. Another example is dependence on Foreign Direct Investment (FDI). FDI activities in developing countries are able to accommodate many foreign companies to provide employment, increase capital flow both foreign and local, and generate tax dollars. This can improve the economy of developing countries. incoming foreign investment can flow money in developing countries, get foreign currency income from corporate taxes (FDI), and also provide employment so that the people there prosper and reduce the value of unemployment.

Indonesia is one of the countries that still depends on developed countries like the US, because the two countries are the biggest trade for Indonesia to increase the economy. For more details the author includes data on trade between Indonesia and the US below.

Table 3 Balance of Trade Indonesia – US Period: 2014 - 2019 (US $ Billion)

Uraian	2014	2015	2016	2017	2018	Trend(%) 14-18	Jan-Des	
							2018	2019
TOTAL PERDAGANGAN	24,700,210.7	23,833,999.3	23,439,852.9	25,916,152.4	28,615,987.4	3.85	28,615,987.4	26,975,938.8
MIGAS	740,834.7	975,050.6	548,347.2	1,082,783.8	1,840,275.0	21.22	1,840,275.0	1,198,349.8
NON MIGAS	23,959,376.0	22,858,948.7	22,891,505.7	24,833,368.6	26,775,712.4	3.10	26,775,712.4	25,777,588.9
EKSPOR	16,530,103.0	16,240,798.2	16,141,412.2	17,794,523.1	18,439,760.7	3.15	18,439,760.7	17,720,336.2
MIGAS	673,123.4	932,623.8	456,452.3	660,104.0	772,065.6	-0.71	772,065.6	38,544.1
NON MIGAS	15,856,979.6	15,308,174.4	15,684,959.8	17,134,419.1	17,667,695.1	3.34	17,667,695.1	17,681,792.0
IMPOR	8,170,107.7	7,593,201.2	7,298,440.7	8,121,629.3	10,176,226.7	5.19	10,176,226.7	9,255,602.6
MIGAS	67,711.4	42,426.8	91,894.9	422,679.9	1,068,209.4	118.49	1,068,209.4	1,159,805.7
NON MIGAS	8,102,396.3	7,550,774.3	7,206,545.8	7,698,949.5	9,108,017.3	2.57	9,108,017.3	8,095,796.9
NERACA PERDAGANGAN	8,359,995.3	8,647,597.0	8,842,971.4	9,672,893.7	8,263,534.0	0.89	8,263,534.0	8,464,733.5
MIGAS	605,412.0	890,196.9	364,557.4	237,424.1	-296,143.8	0.00	-296,143.8	-1,121,261.6
NON MIGAS	7,754,583.3	7,757,400.1	8,478,414.0	9,435,469.6	8,559,677.8	4.01	8,559,677.8	9,585,995.1

Source: Ministry of Indonesia Trade

It can be seen from the table above that in 2019 Indonesia's trade with US is US $ 26.97 billion, compared with 2018 Indonesia trade costs with total trade with the US around US $ 28.61 billion, this is the highest compared to the previous year. The high number of trades makes the US in the top five ranks of trade in Indonesia (Kemendag, 2019).

Table 4 Balance of Trade Indonesia – China Period: 2014 – 2019 (US $ Billion)

Uraian	2014	2015	2016	2017	2018	Trend(%) 14-18	2018	2019
TOTAL PERDAGANGAN	48,230,279.9	44,457,320.9	47,591,263.5	58,849,923.5	72,670,066.4	11.63	72,670,066.4	72,826,650.2
MIGAS	1,309,636.8	1,971,828.0	1,783,674.9	1,988,304.4	3,010,801.2	18.21	3,010,801.2	2,396,243.8
NON MIGAS	46,920,643.2	42,485,492.9	45,807,588.7	56,861,619.2	69,659,265.2	11.42	69,659,265.2	70,430,406.5
EKSPOR	17,605,944.5	15,046,433.8	16,790,801.3	23,083,091.2	27,132,234.1	13.80	27,132,234.1	27,918,714.0
MIGAS	1,146,855.3	1,785,748.8	1,672,752.5	1,733,417.2	2,724,143.7	18.54	2,724,143.7	2,066,621.3
NON MIGAS	16,459,089.2	13,260,684.9	15,118,048.8	21,349,674.0	24,408,090.4	13.48	24,408,090.4	25,852,092.8
IMPOR	30,624,335.5	29,410,887.1	30,800,462.3	35,766,832.3	45,537,832.3	10.40	45,537,832.3	44,907,936.2
MIGAS	162,781.5	186,079.2	110,922.3	254,887.2	286,657.5	15.56	286,657.5	329,622.5
NON MIGAS	30,461,554.0	29,224,807.9	30,689,539.9	35,511,945.2	45,251,174.8	10.37	45,251,174.8	44,578,313.7
NERACA PERDAGANGAN	-13,018,391.0	-14,364,453.4	-14,009,661.0	-12,683,741.1	-18,405,598.2	-5.85	-18,405,598.2	-16,989,222.2
MIGAS	984,073.8	1,599,669.6	1,561,830.2	1,478,530.0	2,437,486.2	18.95	2,437,486.2	1,736,998.8
NON MIGAS	-14,002,464.9	-15,964,123.0	-15,571,491.2	-14,162,271.2	-20,843,084.3	-6.99	-20,843,084.3	-18,726,221.0

Source: Ministry of Indonesia Trade

Indonesia also cooperates with China, we know that China has built a lot of cooperation with Indonesia, especially in the field of trade and infrastructure. we can see from the table above that trade in 2015 - 2019 always increases. in 2014 amounted to US $ 48.23 billion; in 2015 the total was US $ 44.45 billion; in 2016 amounted to US $ 47.6 billion; in 2017, US $ 58.84 billion; In 2018 trade increased rapidly from 2017 at US $ 72.67 billion and in 2019 at US $ 72.82 billion. We can see that trade in 2015 - 2019 has increased (kemendag, 2019).

The value of trade cooperation between the two countries is very large, it is suspected, could cause the Indonesian economy to rise or fall. The writer will analyze the impact of the trade war between Us and China on the

Indonesian economy and considering Indonesian trade partners. The author will focus on examining the effects of the trade war between US and China on the Indonesian economy, the author hopes this thesis can help readers who need this paper and provide knowledge.

According to literatur review, there is study related that discuss about the impact trade war between US and China towards Indonesia. The most recent one written by Andrini Pujayanti as a member of Indonesia House of Representative (2018) in which she argues that the trade war between the US and China has an impact on the world economy including Indonesia, Indonesia needs to take steps to anticipate the impact of the trade war. Economic diplomacy to expand Indonesia's export market to non-traditional export countries needs to be done immediately. The House of Representatives has the role of reminding the government to pay attention to the fate of local production in order to remain competitive in facing the conditions of this trade war. This research is very different because it discusses the impact of Indonesia's economy from 2018 - 2019 and provides Indonesian products that have greater potential to replace Chinese products in the US market and increase exports in the US market.

B. Research Question

Based on the background which already elaborated above, the author can formulate a research question, which is:

What are the impacts of trade war between the US and China for Indonesian economy?

C. Theoretical Frameworks

Theory can be the main tool for carrying out an analysis or prediction that will actually occur from a case.

The theory does not only serve to explain what happened, but can also explain the results of an analysis or prediction. The theory used by the writer is System Theory Approach.

1. Systems Theory Approach

To answer the research question above, the writer uses a systems theory approach, to analyze the impact of the trade war for Indonesia. We know that trade wars are only conducted by two countries the US and China, Indonesia can be affected. The view of organizations as open social systems must interact with their environment to survive, it is known as the system theory approach. A systems theory approach is an organization that relies on its environment for several important resources: suppliers who provide materials, customers who buy products or services, employees who provide labor, shareholders who invest and the government.

The first systems theory approach introduced by Katz and Kahn, is an application or adaptation of General Systems Theory for organizational behavior. The system theory approach uses a repetitive cycle of input, throughput, output and feedback between the organization and its external environment. The system accepts Input from the environment either as a resource or as information. The system then processes inputs internally, the intended internal is throughput, and releases output to the environment in an effort to restore balance to the environment. The system then seeks feedback to determine whether the output is effective in restoring balance. As we can see the system emphasizes the long-term goals rather than the short-term approach to achieve the goals (Saylor Academy, 2012).

Explanation of the theory is interpreted as an Indonesian country that is dependent and must interact with the surrounding environment to survive. The environment is the Trade War between the US and China which mutually increases import tariffs for each country. Indonesia must interact in trade war to prevent losses or take advantage of some important resources of the two countries, one of which is customers who buy products or services.

A trade war between the US and China can have a positive effect. The high tariffs on exports of Chinese goods to the US have led to US exports turning to other countries that are cheaper to replace goods from China. So the Indonesian Embassy in Washington reviewed the impact of the trade war for Indonesia. The impact is opening up opportunities for Indonesian non-oil and gas export products to compete in the US market.

The trade war between the US and China has an impact on Indonesia, the trade war conducted by the US against Indonesia is to evaluate exported goods from Indonesia that will not get the General System of Preferences (GSP). GSP is a trade policy that provides a reduction in import tariffs on incoming goods to recipient country export products. This system exists to help developing countries raise the economy from developed country assistance. Currently Indonesia has obtained GSP from several countries such as the US, countries in the European Union and Australia. Indonesia has received a GSP from the US, so that it has received a reduction in the entry tariff for 3,500 Indonesian products. In 2016 Indonesia received a tariff reduction of US $ 1.8 billion or around Rp.25.8 trillion. If Indonesia does not get a GSP from the US, Indonesian export goods will charge a

normal entry fee. GSP really helps the competitiveness of Indonesian export products, Indonesia's trade may experience economic decline due to the tariffs that are carried out normally and there is no reduction. This impact will also damage trade relations between Indonesia and the US, because the GSP is a system that is needed to establish good relations because it is mutually beneficial (Natalia, 2018).

The author will use this theory to explain that Indonesia still depends on the environment because the biggest export and import trading partners for Indonesia are the US and China. So, when the two countries experience economic inflation, it will have an impact on Indonesia. Whether it be a good or bad impact. Indonesia must interact in order to anticipate losses and take advantage of the trade war.

D. Hypothesis

In this case, the author formulates a hypothesis taken from the framework of thought that the impacts of the trade war between the US and China on Indonesia is;

1. Indonesia can open opportunities for export products to compete in the US.

2. Indonesia will lose special treatment from US (GSP).

E. Research Methods

The research methodology that used for conducting this research is qualitative methodology. One of the techniques is by doing library research and interview with political economy actors. The data of analysis can be gained from interview, books, journals, articles, and news. Then, the collected data will be used to analyze the issue.

Then, this research will also use content analysis as a second method of research for analyzing secondary data. It is used by analyzing the content of a political leader statement, text, and speech. It also uses the comparative case studies to analyze the impact of trade war between the US and China on Indonesia economy.

F. Scope of Research

The scope of this paper explains the beginning of the trade war between US and China in 2018-2019, which began with the statement of US leaders. This research will also discuss trade relations between the two countries with Indonesia and every statement issued by the leaders of each country, so that trade war can occur and will have an impact on Asian countries including Indonesia. The author will also use interviews with economic observers or economic actors in Indonesia.

G. Outline

This research has five chapters that will be arranged as follow:

Chapter I: This chapter contains Background, Research Question, Theoretical Framework, Hypothesis, Research Methodology, and Scope of Research that guides the writer to the next chapter.

Chapter II: This chapter explains the beginning of a trade war between US and China

Chapter III: This chapter explains trade relations between Indonesia and the US and China economy

Chapter IV: This chapter explains about Impact of trade war towards Indonesia economics

Chapter V: This chapter concludes all the materials that are written above