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ANALYSIS OF INDONESIA'S CURRENT ACCOUNT BALANCE DURING THE UNITED STATES OF AMERICA-CHINA TRADE WAR

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Abstract

The United States of America and China are heading for a trade war. Both countries made protection policies to prevent the entry of goods produced by the opposing party. The trade war caused by the economic policies of the two countries has an impact on the global economy, including Indonesia. Indonesia's current account balance and trade balance experienced a deficit following the trade war between the United States of America and China. The United States-China trade war has a negative effect on Indonesia's financial sector. Trade tensions between the United States and China have a negative impact on the global economy, especially the Indonesian economy, by reducing commodity exports. For the whole of 2019, the current account deficit was recorded at US$ 30.4 billion (2.72% of GDP), lower than the previous year's deficit of US$ 30.6 billion (2.94% of GDP). The improvement in the current account balance was supported by the goods trade balance which recorded a surplus, improving compared to the previous year's deficit.

Keywords : Current Account Balance, The United States of America-China trade war.

Introduction

The trade war between the United States and China occurred after the President of the United States Donald Trump announced on March 22, 2018 that Donald Trump was imposing import duties of US $ 50 billion on Chinese products in accordance with article 301 of the 1974 United States Act concerning trade with China. a slogan "This Practices Of trading is not Justice" in the sense that trade that has been practiced is unfair.

Hearing this statement, the China did not remain silent so that there was retaliation from China, namely the Chinese government also applied import duties for more than 128 products of the United States, one of which was soybeans, where soybeans are the main export ingredient of the United States of America to China.

The trade war has not only stagnated but has undergone dynamic changes including on July 6, 2018 the President of the United States Donald Trump imposed import duties on Chinese products worth $34 billion, with the aim of these duties being to protect the national security and business wealth of the United States and also to reduce the United States' trade deficit with

China, which then gave a reaction for the Chinese state to respond to the change, namely the Chinese government retaliated with similar tariffs on United States products.

The trade war caused by the economic policies of the two countries, the United States and China, can have implications for the global economy, including Indonesia (Adirini Pujayanti, 2018).

The trade war will indirectly affect the performance of exports and imports and can have a negative impact on the global economy. One of the countries affected by the trade war between the United States and China is Indonesia.

The trade war will also affect the Indonesia's Balance of Payments. The Central Statistics Agency (BPS) noted that Indonesia's trade balance in April 2019 experienced a deficit of USD 2.50 billion, triggered by the oil and gas sector deficit of USD 1.49 billion and non-oil and gas sector of 1.01 billion. The trade balance deficit is the worst in history, surpassing the acquisition in July 2013 which amounted to USD 2.33 billion. The main cause of the widening trade deficit in April 2019 was the trade war between the United States and China.

The trade war will also affect the country's financial sector in several ways, such as the current account deficit (CAD), due to the response to the United States' monetary policy in the form of an aggressive increase in the Fed Fund Rate. Thus, the risk of financial markets is also high.

The balance of payments in Indonesia has a very important role in the management of Indonesia's macro economy. In addition, the balance of payments is also a measure of the ability of the national economy to support international transactions, especially those related to debt payment obligations and export-import transactions, as well as providing information to the government on its financial position, especially those related to the results of economic relations with other countries. Thus the balance of payments can help make decisions in the monetary sector.

The condition of the balance of payments in Indonesia has recently experienced an imbalance, where Indonesia's balance of payments has experienced a deficit. One of the causes of the balance of payments deficit is due to a deficit in Indonesia's trade balance. This shows that the trend of Indonesian imports is still higher than the products exported. Due to the large number of payments for these imported products as well as payments of maturing foreign debts as well as interest payments, it will burden the balance of payments because there are more payments while only relying on income from exports and taking new foreign debt to pay off maturing foreign debts.

The current account balance is very important for a country because the current account describes the situation or state of the economy in a country. The current account balance is one of the components in the balance of payments which records the trade balance, service balance, income on investment and unilateral transactions (Lapian Marviony, 2018).

The trade balance or export-import balance is the difference between the value of a country's exports and imports over a certain period, measured using the prevailing currency. A positive balance means that there is a trade surplus if the value of exports is higher than imports, and vice versa for a negative balance. The trade balance is often divided by the goods sector and the service sector (Haniyah Safitri, 2014).

A positive current account balance (surplus) indicates that the country is lending its excess savings to other countries, while a negative current account (deficit) indicates that the country has a shortage of savings and must borrow from other countries.

According to Lapian, Rationsulu, & Wauran (2018), the current account balance is very important for a country because the current account balance describes the state of a country's economy and has the potential to cause a crisis if there is a deficit in that component. However, the fact is that assessing the current account deficit cannot be as easy as we think. This is because, under certain conditions, the current account deficit is a good thing, but under other conditions it can be a bad sign. If the Current Account deficit is caused by the high value of imports, it indicates a problem with the competitiveness of a commodity. However, if the deficit is caused by high investment, it indicates that the economic condition of a country is growing and productive.

Balance of Payment

International balance of payments is a systematic record of all international economic transactions that occur between residents of a country and residents of other countries within a certain period (1 year) which is usually expressed in money (US dollars) (Sri Endang Rahayu, 2015) .

The Balance of Payment (BOP) consists of 3 important balances/components (Sri Endang Rahayu, et al, 2020), namely:

1. Current account
2. Capital Account
3. Monetary Account

Current Account Balance

The current account balance is a report that contains records of transactions of goods and services of a country with other countries during a certain period (Murni, 2013).

The current account balance will be in a surplus if exports are greater than imports plus net transfers abroad, that is, if the receipts from trade in goods and services and transfers are greater than the payments. On the other hand, the current account balance will experience a deficit if exports are lower than imports and receipts from trade in goods and services and transfers are smaller than payments (Dornbusch, 2004).

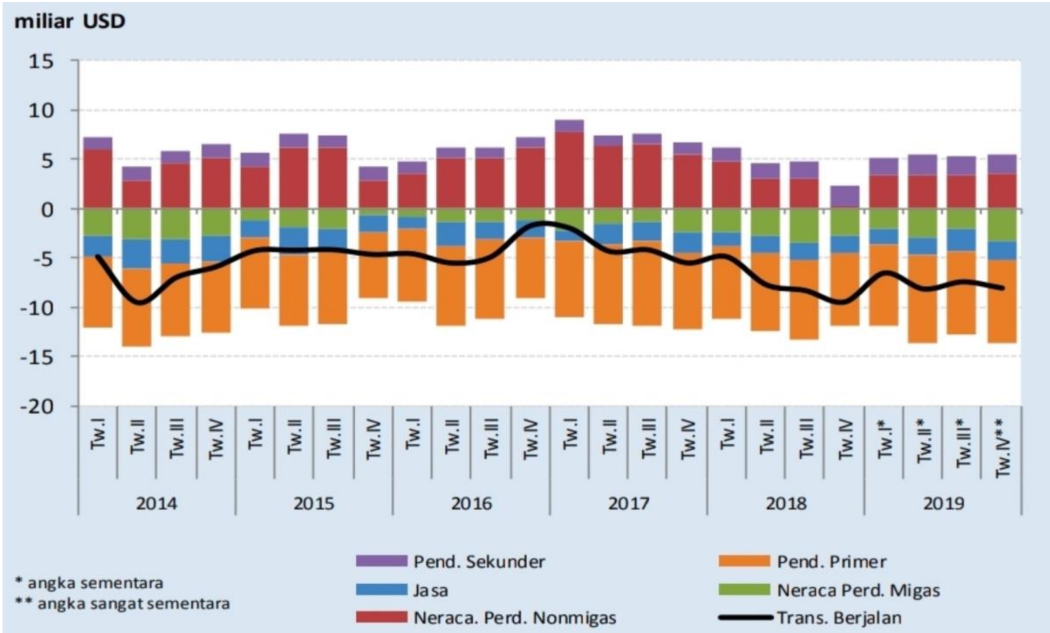
The current account balance which consists of (Sri Endang Rahayu, et al, 2020):

a. The balance of trade, which records exports and imports of goods.

b. Balance of services, which records exports and imports of services including income/payments of royalties and interest on deposits, then transfers of profits to foreign investors, payments of interest on foreign debt installments and incoming remittances from Indonesian workers (TKI) abroad and transactions unilateral, namely those who record international financial transactions unilaterally or without carrying out certain activities as compensation from the beneficiary party. For example, receiving grants or assistance from abroad.

Discussion

Indonesia's current account deficit in the 2016 quarter fell to US$ 1.8 billion (0.8% of GDP) from a deficit of US$ 4.7 billion (1.9% of GDP) in the previous quarter. The decrease in the current account deficit was driven by an increase in the non-oil and gas trade balance surplus as non-oil and gas exports grew 16.0% (qtq), in line with improving global demand and rising commodity prices, higher than the growth in non-oil and gas imports (15.5% qtq) in line with increasing demand. domestic. In addition, the primary income account deficit also decreased following the lower interest payment schedule for government bonds in the quarter under review. The current account deficit IV 2016 was also lower than the deficit in the same period the previous year, mainly due to improvements in the non-oil and gas trade balance. The non-oil and gas trade balance surplus increased significantly on the back of higher non-oil and gas exports (18.1% yoy) which outpaced the increase in non-oil and gas imports (8.3% yoy). In addition, the increase in current account performance was also supported by a decrease in the services account deficit and primary income balance.



Source : Bank Indonesia, 2020.

Picture 1. Current Account Year 2014 – 2019

In the fourth quarter of 2017, Indonesia's current account deficit increased amidst improving prospects for domestic economic growth. The current account deficit was recorded at US$ 5.8 billion (2.2% of GDP), higher than the deficit in the third quarter of 2017 of US$ 4.6 billion (1.7% of GDP) and the deficit in the fourth quarter of 2016 of US$ 1.8 billion (0.7% of GDP). On a quarterly basis, the increase in the deficit was influenced by a shrinking surplus in the non-oil and gas trade balance and an increasing deficit in the oil and gas trade balance and services balance.

For the whole year, the current account deficit in 2017 was controlled within safe limits, supported by a significant increase in the non-oil and gas trade balance surplus. The 2017 current account deficit was recorded at US$ 17.3 billion or 1.7% of GDP, lower than the 2016 deficit of 1.8% of GDP. The controlled current account deficit was supported by a large increase in the non-oil and gas trade balance surplus due to improved export performance in line with increasing demand and global commodity prices, although on the other hand, import performance also improved in line with increasing domestic economic growth. Meanwhile, further improvement in the current account deficit was restrained by rising imports of oil and gas, a deficit in the services account related to the deficit in transportation services, and the primary income account, especially for repatriated payments for foreign investment.

In the fourth quarter of 2018, Indonesia's current account deficit increased in line with strong domestic demand and unfavorable global economic conditions. The current account deficit in the fourth quarter of 2018 was recorded at US$ 9.1 billion (3.57% of GDP), higher than the deficit in the previous quarter of US$ 8.6 billion (3.28% of GDP). In the quarter under review, the goods trade balance deficit increased as a result of the narrowing of the non-oil and gas trade balance surplus, while the oil and gas trade balance deficit decreased.

Indonesia's Current Account Balance in the fourth quarter of 2019 recorded a deficit of US$ 8.1 billion (2.84% of GDP), higher than the third quarter 2019 deficit of US$ 7.5 billion (2.60% of GDP). The increase in the deficit was influenced by the increase in the oil and gas trade balance deficit, amid improvements in the performance of the non-oil and gas trade balance, services balance, primary income balance, and secondary income balance.

For the whole of 2019, the current account deficit was recorded at US$ 30.4 billion (2.72% of GDP), lower than the previous year's deficit of US$ 30.6 billion (2.94% of GDP). The improvement in the current account balance was supported by the goods trade balance which recorded a surplus, improving compared to the previous year's deficit.

Trade Balance

The goods trade balance in 2019 recorded a surplus of US$ 0.3 billion, lower than the surplus in the previous quarter of US$ 1.4 billion. The decline in the goods trade balance surplus was influenced by an increasing oil and gas trade balance deficit.

However, for the whole of 2019, the goods trade balance performance increased and recorded a surplus of US$ 3.5 billion, after experiencing a deficit of US$ 0.2 billion in the previous year. The increase in the performance of the goods trade balance was influenced by an increase in the non-oil and gas trade surplus and an improvement in the oil and gas trade balance deficit.

The non-oil and gas trade balance in 2019 recorded a surplus of US$ 3.5 billion, better than the surplus of US$ 3.4 billion in the previous quarter. This development was influenced by the decline in non-oil and gas imports which were deeper than the decline in non-oil and gas exports. The decline in exports occurred in the raw materials and capital goods category.

The surplus in the non-oil and gas trade balance increased significantly compared to the surplus in the same period the previous year of US$ 0.3 billion, mainly due to a decline in non-oil and gas imports in line with slowing demand.

Service Balance

The travel services balance surplus in the 2019 reporting quarter was recorded at US$ 1.6 billion, an increase compared to the surplus in the previous quarter of US$ 1.3 billion. The increase in the surplus in the travel services balance was influenced by the decline in payments (imports) on travel (-14.4% qtq) which was deeper than the decline in revenues (exports) for travel services (-5.1% qtq) with an increasing seasonal pattern.

Overall in 2019, the trade balance deficit in services increased by 20.0% (yoy) to US$ 7.8 billion from US$ 6.5 billion in 2018. The increase in the deficit was mainly due to a narrowing surplus in travel services, driven by an increase in payments travel services in line with the number of visits and the pattern of travel expenses which increased compared to the previous year. On the other hand, the deeper services account deficit was restrained by increased receipts from travel services in line with the number of foreign tourists visiting Indonesia which increased from 15.89 million in 2018 to 16.16 million in 2019.

Unilateral Transfer Balance

Overall 2019, the secondary income balance reached US$7.6 billion, higher than 2018's US$6.9 billion. This increase was mainly influenced by the increase in personal transfer receipts in the form of labor remittances in line with the increase in the stock of the number of PMIs. There is cooperation between the Indonesian government and the Chinese government and the Taiwan government in increasing the protection and welfare of Indonesian PMIs (especially social security and salary increases), increasing remittances and the number of PMIs working in the two countries. This condition was one of the drivers of the increase in PMI remittances in 2019.

The capital and financial account surplus in 2019 increased significantly as a reflection of high investor confidence in the prospects for the domestic economy. The capital and financial account surplus was recorded at US$ 12.4 billion, a significant increase compared to the surplus in the previous year of US$ 7.4 billion. This increase was mainly supported by improving portfolio investment performance, in line with increasing inflows of foreign funds into domestic financial assets. The increase in the surplus was also supported by the issuance of global bonds by governments and corporations during the quarter under review. In addition, optimism about Indonesia's economic prospects has encouraged domestic business actors to withdraw deposits and loans from abroad to meet their business needs so that other investments are surplus.

Conclusion

Based on the results of the research and discussion that have been stated previously, conclusions can be drawn from the research regarding the Analysis of the Development of the Current Account During the United States-China Trade War as follows:

The United States has officially implemented a trade war and has caused turmoil in the world economy. In addition, China is a major country that is an opponent for the United States. The trade war was caused by imports by the United States being too large and greatly benefiting China. Furthermore, retaliation for import tariffs was carried out by both of them with the aim of protecting the economy of their respective countries. This trade war is a protective measure taken by the United States, so it will have implications for other countries including Indonesia. The impact of the United States-China trade war has an impact on the Indonesian economy, especially Indonesia's current account balance. For the whole of 2019, the current account deficit was recorded at US$ 30.4 billion (2.72% of GDP), lower than the previous year's deficit of US$ 30.6 billion (2.94% of GDP). The improvement in the current account balance was supported by the goods trade balance which recorded a surplus, improving compared to the previous year's deficit.

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