

## India and Indonesia: Twins of A Kind

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**Abstract:** The bilateral relations between India and Indonesia known as Indian-Indonesian relations, dates back two millenniums to the time of the Ramayana. The two countries have developed impressive bilateral trade and the trade relations are getting better with time. India regards Indonesia as an important member of ASEAN (Association of Southeast Asian Nations). India and Indonesia has well developed financial sector and developed infrastructure which makes them favoured nations for investment in Asia. The current paper studies the export and import trends between India and Indonesia and trade theories with respect to India Indonesian trade.

**Keywords:** India, Indonesia, trade theories, absolute advantage, comparative advantage, factor endowment

### INTRODUCTION

The bilateral relations between India and Indonesia known as Indian-Indonesian relations, dates back two millenniums to the time of the Ramayana. The two countries have developed impressive bilateral trade and the trade relations are getting better with time. Both being member states of the G-20, the E7 (countries), the Non-aligned Movement and the United Nations, the relations between Indonesia and India are increasing. Sharing the maritime border with Indonesia along the Andaman Sea, India looks to establish strategic partnership with Indonesia. India regards Indonesia as an important member of ASEAN (Association of Southeast Asian Nations). Due to a robust financial sector and well developed infrastructure India and Indonesia are most favoured nations for investment in Asia. However if we see the trade ties between the two countries they haven't achieved the feat it could have but with the signing of the CECA India and Indonesia aim to achieve the target of \$25 billion of trade ties by 2015. Earlier, the two nations traded in spices, minerals, cotton, silk etc. and now the major trading commodities are palm oil, mineral fuels, mineral oils, organic chemicals etc. India's through "Look East policy" since 1991 India has engaged with Indonesia by signing several bilateral and multilateral trade agreements. India has stepped forward to invest in India despite the fact that Indonesian investment in India is less.

Indonesian exports to India are about \$15bn and Indian exports to Indonesia are about \$5 bn. At the same time, Indian investments in Indonesia, which began in the early 1970s, at a time when Indian overseas foreign direct investment was not widely known, have expanded rapidly and are currently pegged at over \$15bn. India and Indonesia had launched a negotiation for a Comprehensive Economic Cooperation Agreement (CECA) in 2011 in order to discuss matters covering economic cooperation and trade and investment between the two nations. The bilateral agreement when successful shall help in fostering stronger bonds between the two countries leading to mutually beneficial economic cooperation. The proposed investment framework under CECA should majorly cover three major area of cooperation namely, liberalisation, promotion and facilitation and protection.

### OBJECTIVES

1. To study the export/import trends between India and Indonesia.

2. To analyse the international trade theories with respect to India Indonesian trade.
3. To study the prevalence of Indian companies in Indonesia and recent Economic developments in India and Indonesia

## IMPORTANCE OF STUDY

India and Indonesia are seen as vast emerging economies in ASEAN region. Both these countries have undergone massive economic reforms in current year. According to Indonesia's Central Statistics Agency (BPS), trade between the two countries in 2016 was USD 12.9 billion. It rose 28.7 per cent to USD 18.13 billion in 2017 with Indonesia's exports to India reaching USD 14.08 billion and its imports from India standing at USD 4.05 billion. Prime Minister Modi also welcomed Indonesian companies' participation through the "Make in India" initiative and invited Indonesian business to avail of the opportunities presented, the joint statement. The two countries said they have agreed to work intensively for the early conclusion of the Regional Comprehensive Economic Partnership and reiterated that it needs to be comprehensive, fair and balanced with benefit to all member states. The two leaders also instructed officials to optimize the cooperation between ASEAN and India for establishing a sustainable and mutually beneficial trade relations. This deeper engagement serves to highlight the importance of the Indo-Pacific for both countries. Thus the study on India Indonesia trade provides insights on how further trade and investment can be increased in both countries.

## LITERATURE REVIEW

No existing literature review exist on India Indonesia trade but we tried to find out most relevant. Most on the literature is on India regional economic integration with ASEAN countries. Both India and Indonesia are members of ASEAN. Nehru, Vikram,(2013) in their study talked that Since the global financial crisis of 2008, the world has been riveted by China's rapid growth and its contribution to the global recovery. But less attention has been paid to **India** and **Indonesia**--Asia's two other giants--which also displayed resilience during the crisis and show promise of sustaining this performance. Also remarkable are their geographical, historical and cultural proximity; notwithstanding their differences, these two countries are alike in many respects and face similar challenges, as reflected in their emerging policy priorities. China's large size and rapid growth may have absorbed the attention of Indian and Indonesian policy makers. Hartono, Djoni, Priyarsono, Dominicus Savio, NguyenTien Dung, Ezaki Mitsuo (2007) talks about impact of REI on Indonesia. **Indonesia** continually tries to open its economy through free **trade** areas (FTAs) on bilateral, regional, and multilateral bases. His paper discusses the impacts of FTAs on the Indonesian economy, particularly for economic growth, poverty, and income distribution. **Indonesia** is found to benefit from joining in FTAs, except for the FTA with **India**. It is also implied that FTAs increase rural household income at higher rates than they increase urban household income. In brief, FTAs provide **Indonesia** with income redistribution effects.

Caroline Wong and Siang Yeung,(2006) in his paper revisits Singapore's flagship projects in **Indonesia**, Vietnam and **India**. Evidence from on-site surveys and interviews are presented. This paper contends that progress in these privileged investment zones remains stymied by particular dependencies and challenges in the host environments. Verico, Kiki,(2015) in his study attempts to observe the ASEAN economic integration progress based on the impact of ASEAN **Free Trade Area** (AFTA) on FDI inflows of both multi-country (**Indonesia**, Malaysia and Thailand) with macro economy-level data and single country (**Indonesia**) with micro firm-level data. Macro economy level data uses macro economy data set with time-dummy variable. Findings prove that the impact of AFTA on FDI inflows in ASEAN is open-ended and varies within member states. Feridhanusetyawan, Tubagus; Pangestu, Mari,(2003) talks that **Indonesia** has undergone comprehensive **trade** liberalisation by participating in multilateral and regional **trade** arrangements and by conducting unilateral liberalisation. This paper evaluates the different paths of liberalisation the country has followed, and measures their effects on the economy. It considers the impact of several liberalisation scenarios: unilateral liberalisation; regional liberalisation through APEC (Asia Pacific Economic Cooperation) and AFTA (the ASEAN **Free Trade Area**);

and multilateral **trade** liberalisation through the Uruguay Round (UR). The results show that the full implementation of UR and APEC liberalisation would greatly benefit **Indonesia**, and that unilateral liberalisation, carried out in conjunction with the UR commitment, would lead to large welfare gains. On the other hand, the creation of AFTA is expected to add little to welfare in **Indonesia** or in the other ASEAN member countries. C Sikdar, (2011) in his paper carry simulation results reveal that post-FTA, India's exports to ASEAN increase substantially, with the largest accesses gained in Thailand, Cambodia, Viet Nam, Malaysia, the Philippines and the Lao People's Democratic Republic . Pal and Dasgupta (2009) studied the tariff schedule of India and made a preliminary evaluation of the India-ASEAN FTA. By analysing India's commitment schedule, and by studying the production structure of the ASEAN members, the present study concluded that sectors such as tea, spices, coffee and rubber will be negatively affected. Sen, Asher and Rajan (2004) studied the then status and future prospects of India-ASEAN economic relations, and suggested that significant potential existed for greater economic cooperation between the two sides. However, their study was not based on any theoretical model building exercise.

Vinay Kaura(2018 ) says though India and Indonesia do have long historical and cultural linkages, strategic partnership has been a recent development. The two share multiple common concerns, one of which pertains to China's rapid rise and its intentions in the maritime theatre. Since 2014, the government of Prime Minister Narendra Modi has been trying to boost India's ties with many Southeast Asian countries as part of its 'Act East Policy' which was recently manifest in his visit to Indonesia in late May just ahead of his first-ever speech at the Shangri-La Dialogue in Singapore.

International trade has gained significance and has been growing rapidly in the region with the establishment of ASEAN Free Trade Area (AFTA), which has also resulted in increase in both amount and volume of intraregional trade flows. The importance of international trade as a growth facilitator has been recognized by India and Indonesia and is evident from their growth performance in recent years. Thus in the overall analysis, it can be said that economic and trade complementarities between India and Indonesia are immense.

## **INDIA INDONESIA KEY ECONOMIC INDICATORS**

A comparison of the major economic indicators of India and Indonesia are enlisted in Table 1. With an area of 3287260 sq. km India is the 7<sup>th</sup> largest country in the world while Indonesia stands at 15<sup>th</sup> position in the list with an area of 1910930 sq km. GDP per capita for Indonesia stands at an impressive US\$ 3475 considerably above that of the India GDP per capita of US\$ 1964.

**Table 1 Comparison of Key Economic Indicators, Dec, 2017**

<b>Economic Indicators</b>	<b>Units</b>	<b>India</b>	<b>Indonesia</b>
<b>Surface area</b>	Sq. Km	3287260	1910930
<b>Total population</b>	in Million	1252.14	249.87
<b>GDP current US \$</b>	US\$ Billion	2066.9	888.54
<b>GDP per capita</b>	USD	1964	4131
<b>GDP from Agriculture</b>	INR and IDR billion	3461(sep, 18)	46173(Dec 18)
<b>GDP from Industry</b>	INR and IDR billion	5842	553234
<b>GDP from Services</b>	INR and IDR billion		48493
<b>GDP per capita</b>	US\$		4131(Dec, 17)
<b>Competitiveness</b>	Rank	58(Dec, 18)	45(Dec, 18)
<b>Exports of goods,</b>	US\$ Billion	26360(jan,19)	13869,jan 19
<b>Imports of goods</b>	US\$ Million	41090(jan, 19)	15038(jan, 19)
<b>Total unemployment</b>	%of labour force	6.1(dec, 18)	5.34(dec, 18)

Source: CMIE database and trading economics database

The economic structure of India is spearheaded by the services industry with a GDP share of 53.66 percent. In case of Indonesia also the services sector has the maximum share of GDP with 43.66 percent in 2016 followed by industry sector comprising of 42.95% of GDP. In terms of competitiveness, Indonesia ranks a notch higher than India with 45 rank in 2019 compared to 58 rank for India in 2019. The unemployment rate in India is considerably low at 6.1% of labour force in comparison to 5.34 % for Indonesia. Both the nations have managed to control the inflation rates and are trying to make the ease of doing business better and seamless. The bilateral CECA hopes to encourage market access to service providers across both nations in a wide range of services and supply of services in general.

### TRADE BETWEEN INDIA AND INDONESIA

An interesting feature of this bilateral trade is the dependence of Indonesia on commodities and the dependence of India on manufactured goods. The existing commerce is marked by consistent trade promotion by India in the growing Indonesian market. Indonesia is India's second largest trading partner amongst all the ASEAN nations. Table 2 below brings to light the trade between India and Indonesia for the last 15 years. With a trade of mere US\$ 1310 Million in 2000-01 the trade has reached an impressive number of US\$ 20402 Million.

**Table 2: India's Trade with Indonesia (US\$ Million), 2000-2018**

Year	Exports	%Change in Export	Imports	% Change in Import	Total	% Change in Total Trade	Trade Balance
2000-2001	399.8	-	910.2	-	1310	-	-510.4
2001-2002	533.7	33.49	1036.8	13.91	1570.5	19.89	-503.1
2002-2003	826.1	54.79	1380.9	33.19	2207	40.53	-554.8
2003-2004	1127.2	36.45	2122.1	53.68	3249.3	47.23	-994.9
2004-2005	1332.6	18.22	2617.7	23.35	3950.3	21.57	-1285.1
2005-2006	1380.2	3.57	3008.1	14.91	4388.3	11.09	-1627.9
2006-2007	2028.1	46.94	4169.1	38.6	6197.2	41.22	-2141
2007-2008	2159.1	6.46	4823.7	15.7	6982.8	12.68	-2664.6
2008-2009	2517.3	16.59	6686	38.61	9203.3	31.8	-4168.7
2009-2010	3078.3	22.29	8643.8	29.28	11722.1	27.37	-5565.5
2010-2011	5689.9	84.84	9906.4	14.61	15596.3	33.05	-4216.5
2011-2012	6698.4	17.72	14556.5	46.94	21254.9	36.28	-7858.1
2012-2013	5329.2	-20.44	14880.7	2.23	20209.9	-4.92	-9551.5
2013-2014	4849.4	-9	14716.1	-1.11	19565.5	-3.19	-9866.7
2014-2015	4035.5	-16.78	15021.3	2.07	19056.8	-2.6	-10985.8
2015-16	2819	-30.13	13131.9	-14.39	15950	-19.47	-10312.9
2016-17	3488.1	23.73	13428	2.21	16916.1	6.05	-9939.9
2017-18	3963.8	12.61	16438.8	22.41	20402.6	20.61	-12475

Source: RBI and calculated.

As it is seen from table 2 the trade balance has always been negative implying that the exports from India are less than the imports to India. The total trade has increase manifolds from a mere US\$ 1310 Million in 2000-01 to an impressive US\$ 20,402.6 Million in 2017-18.

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## **Commodity wise exports and imports**

India exports to Indonesia is very low as compared to its imports from Indonesia. Organic chemicals, ships & boats, machinery, vehicles and oil seeds are the top commodities of India which are exported to Indonesia. Indian exports to Indonesia have been decreased by 18% between 2012 and 2016. According to India Indonesia trade statistics, India exports of organic chemicals and boats have been declined by 20% and 45% respectively during the same period. The export value of these two products recorded USD 318 million and USD 315 million during the year 2016.

As per the India Indonesia bilateral trade statistics, India imports worth four times its exports. India imports from Indonesia worth USD 16438.8 million during the year 2017-18. The import is declined by 4% between 2012 and 2016. India majorly imports mineral fuels and animal or vegetable fats & oils from Indonesia and recorded value of USD 4730 million and USD 3696 million during 2016. While it is noted a decline of 5% and 10% in import of these two products.

## **TRADE THEORIES WHICH EXPLAIN INDIA-INDONESIA TRADE**

Traditional trade theories explain that comparative advantage depends on how productively a nation utilizes its resources. Also, differences in labour productivity underlies the difference in the production quantities of products. While the factor endowment theory is governed by the availability of vast swathes of land available, labour force available and the capital at a nation's disposal.

Indonesia enjoys a comparative advantage in non-oil production sectors, hence once policies were revised and tariff and non-tariff barriers were removed resources were soon being allocated for non-oil production sectors resulting in a surge of trade with various nations. Indonesia has an absolute advantage in the production of palm oil, coffee and cocoa beans and hence these form the most exported agricultural products to India. Being endowed with sufficient labour capital and availability of land fertile for groundnut, maize corn, cotton, meslin, soyabean cakes India assumes an absolute advantage over Indonesia in the production of these agricultural goods. Indonesia has a share of 28.22% in India's total global agricultural products in 2013-14 while India has only 6.38% of the share in Indonesia's import in the same year.

Indonesia succeeded in acquiring expertise in technology development owing to which, if we look at the commodities exported by Indonesia it is observed that manufactured products comprise of a huge chunk. As a matter of fact the share of export of manufactured products surged to past 50 per cent in the 1990s. This follows the factor endowment theory as Indonesia is a labour-intensive nation hence manufacturing is feasible. But Indonesia mostly assembles imported electronic products and does not show too much of high-technological advancement. For a country rich in its resources and possessing enormous labour resources it is reasonable enough to export products which make use of these factors. Indonesia has emerged as the largest trading partner of India in the ASEAN region. Bilateral trade has increased from US\$ 4.3 billion in 2005-06 to US\$ 17 billion in 2016-17. India is the second largest buyer of coal and crude palm oil from Indonesia and imports minerals, rubber, pulp and paper and hydrocarbons reserves. India exports refined petroleum products, commercial vehicles, telecommunication equipment, agriculture commodities, bovine meat, steel products and plastics to Indonesia. Thus we find theory of absolute advantage and factor endowment explains the export of Indonesia to India.

## **INDIAN COMPANIES IN INDONESIA**

Foreign investment from India in Indonesia dates back to the 1970s. In recent years there has been a new wave of investment focusing on the mining, the automotive and banking sectors.

India is increasingly investing in Indonesia. Based on data from Indonesia's Investment Coordinating Board (BKPM), India invested USD \$285.4 million in Indonesia in full-year 2017. It is a relatively small amount but it does imply a 418 percent growth rate from USD \$55.0 million worth of Indian investment in Indonesia in the preceding year. Thus, India jumped from 23rd to 16th in the ranking of biggest foreign investors in Indonesia.

A breakdown of the BKPM data show that most Indian investment in Indonesia in full-year 2017 went into the wood processing industry (USD \$243.1 million), followed by the food and beverage industry (USD \$7.12 million), the textile industry (USD \$5.43 million), and transportation (USD \$2.39). The biggest Indian investors in Indonesia are the Tata Group, Essar Group, Coal India Limited, Bharat Heavy Electricals, and Steel Authority of India Limited.

A number of Indian companies have their due presence in Indonesia ranging across different business sectors, namely banking and financial institutions, textile manufacturing, power, coal mining etc. J K Corp ventured into Indonesian soil in 2006 to purchase plywood locally in Indonesia and has been functioning there ever since. The Essar group entered Indonesia by signing a definitive agreement to purchase Aries coal mines which would eventually give them access to 100 million tonnes of thermal coal and mineral reserves of 64 million tonnes. Indian power major Bharat Heavy Electricals Ltd. (BHEL) has extensive presence in Indonesia. It has already commissioned two coal-fired plants and has signed MoUs to establish a 25-30 MW Solar photovoltaic based power plant in Java and a 200 MW coal fired plant in Sulawesi region in Indonesia. Tata power has a 30% stake in Indonesian energy major PT Bumi Resources. Moreover, finance majors are also present in Indonesia. SBI acquired 76% shares of PT Bank Indomonek in 2006 to venture into Indonesian soil and presently it has acquired another 23% stakes to reach the 99% mark. Presently, SBI is operating through 6 branches and 8 sub-branches. SBI is also entitled to conduct business in Foreign exchange transactions. Also, Bank of India Tbk PT is another bank of Indian origin functioning in Indonesia with headquarters in Jakarta. Incorporated in the year 1975 the bank operates with 269 employees at present and it deals primarily in commercial banking. A plethora of other Indian companies are actively operating out of Indonesia like Birla Power Solutions Ltd., Forbes Gokak Limited, Lanco Group, Grasim Industries Ltd (Aditya Birla Group), Bombay Dyeing, Reliance Coal Resources Pvt. Ltd. to name a few.

## **CONCLUSION**

India and Indonesia share a historical relationship and the bilateral ties have always been progressive. The ties have never seen any deterioration under any situation. An important aspect that both the nations need to understand is that the economic and trade complementarities between the two are many hence any problem coming in the way of disposing their business should be tackled and nipped in the bud for seamless execution of trade. The tariff and non-tariff barriers should be resolved so that the trade between the two nations is not harmed.

The flight connectivity between India and Jakarta needs to be restored at the earliest. Looking at the scope of bilateral engagements and the increase in trade facilitation thereof immense effort should be channelled towards increasing trade engagements in the fields of pharma, agricultural products, education and science. If FTA in goods under the proposed CECA is put in place then there will be ample opportunities available for India and Indonesia to trade in mutually beneficiary products. A lot of untapped business opportunities needs to be tapped into for example telecommunication, IT services, construction, transportation etc.

Indonesian economy's strength lies in the abundance of natural resources like oil and gas, coal, copper, gold, forestry, plantation products and manufacturing for markets pertaining to sectors such as textile, pulp, paper, automobiles etc. hence it is necessary to facilitate dialogues between the regulatory bodies of the two nations for possible Mutual Recognition Agreement (MRAs). Energies should be directed towards building on the CECA such that it goes beyond the ASEAN-India Free Trade Agreement so that the immense potential for welfare and gains for the two nations can be realised.

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