



The Impact of Trade Policy on the Regulation of Export Goods on Indonesia's Economic Growth

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Abstract

Trade policy significantly influences the regulation of export goods and economic growth within a country. This study examines the impact of Indonesia's nickel ore export ban policy on its economic growth. The research highlights the role of trade policy in fostering domestic industry development, increasing added value, and addressing trade imbalances. However, the policy has also led to international trade conflicts, particularly with the European Union. Using a qualitative descriptive approach with time-series data, this study finds that the export ban positively affected Indonesia's economic performance, evidenced by an increase in ferro-nickel and iron-steel export volumes and GDP growth trends from 2021 to 2023. Despite its benefits, the policy poses risks such as rising nickel prices and potential market loss. To mitigate these, the government must enhance domestic production, improve the competitiveness of downstream products, and engage in effective economic diplomacy. This research underscores the dynamic interplay between trade policies and global economic challenges, offering valuable insights for policymakers.

1. Introduction

Indonesia, one of the 10 countries with the largest nickel reserves in the world, has nearly 4 million tons of the world's 80 million tons of nickel reserves. With 5.74% of the world's total nickel reserves, Indonesia ranks as the sixth largest nickel producer in the world. On January 1, 2020, the Indonesian government issued a nickel ore export ban policy. The policy aims to increase the added value of domestic nickel, as well as encourage the development of the downstream nickel industry.

The European Union is stirring up controversy over the Indonesian government's policy of banning nickel ore exports. Currently, the EU has asked the World Trade Organization (WTO) to form a panel to discuss the dispute. The Indonesian government, in response to the lawsuit filed by the EU, said it is ready to face it. The EU said Indonesia's policy banning nickel ore exports makes it difficult for the global steel industry to compete, especially in the production of stainless steel. In this case, Indonesia is the second largest stainless steel producer in the world after China. The trade

dispute between the EU and Indonesia over mining laws is a long-standing issue, starting with the EU's lawsuit at the WTO in early 2020 that banned nickel ore exports from Indonesia. At the time, President Joko Widodo supported the move on the grounds that the raw mineral export ban was part of efforts to advance the domestic oil refining industry, create jobs, and reduce the trade balance deficit.

Originally, the ban on nickel ore exports took effect in 2022, but the government changed it so that it only applies until December 31, 2019. This means that starting January 1, 2020, all nickel ore to be exported must first go through export channels, regulatory agencies, ore smelting facilities and processing facilities. Previously, the Minerba Law allowed mineral exports, including nickel, with certain restrictions for three years, until 2017. However, in 2017, Government Regulation No. 11/2018 was issued requiring mining entrepreneurs to build metallurgical plants within 5 years, until 2020.

Ministry of Energy and Mineral Resources Regulation No. 11/2018 further stipulates that mining license holders must conduct domestic processing and refining in



accordance with laws and regulations before selling domestic mining products to foreign parties.

The decision to accelerate the nickel ore export ban was based on several reasons, including the country's low nickel reserves and the government's smelter development efforts. Concerns over the supply of raw materials were also taken into consideration. Currently, 11 metallurgical plants have been built and 25 metallurgical plants are under construction, with another 18 metallurgical plants expected to be built by the end of this year. The decision to accelerate the ban on nickel ore exports is also based on legal obligations as stipulated in Law No. 4/2009, which requires domestic processing and refining of mining products.

In the context of foreign policy, this policy is an effort by Indonesia to protect and strengthen its national interests. National interest is the fundamental objective that guides a country's decision-makers in formulating its foreign policy. The European Union, with its lawsuit to the WTO, is also trying to protect its national interests related to the steel industry and employment.

This research is important because Indonesia's economic growth cannot be separated from international trade, including exports and imports. Of course, exports and imports are regulated by law and supervised processes to determine the number and classification of goods traded, should pay attention to policies made by the Ministry of Trade of the Republic of Indonesia. Based on this background, it is important for policy makers to pay attention to policy direction because it will have a significant impact on the export process (the researcher's goal), which will also have an impact on Indonesia's economic growth.

2. Literature Review

International trade is the buying and selling of goods and services between countries. Trade policy is one of the tools that the government can use to influence a country's economic performance, including

economic growth. Trade policy can also be understood as a policy that regulates international trade, both exports and imports. Trade policy is a policy that regulates the flow of goods, services and capital between one country and another. Trade policy can be divided into two types: price policy and non-tariff policy. Tariff policy is a policy that regulates the amount of tax on the import and export of a good. Meanwhile, non-tariff policy is a policy that regulates the movement of goods, services, and capital by means other than import and export taxes.

According to Nopirin (1999), international trade policy refers to government economic actions or policies that directly or indirectly affect the composition, direction and form of international trade. The instruments of international trade policy are:

1. International trade policy
International trade policy includes government actions related to current transactions in the international balance of payments, especially those related to the export and import of goods or services. For example, import tariffs, bilateral trade agreements, etc.
2. International payments policy.
Includes government actions on the capital account of the international balance of payments. Examples include monitoring foreign exchange flows (exchange rate controls) or regulating long-term flows.
3. Foreign aid policy
Government actions or policies relating to grants, loans, recovery and development assistance, and military aid to other countries.

Exports are the movement of products and services from a country to foreign markets. Exports occur when the demand for a particular good or service is met domestically or when the production of that good or service can compete in price and quality with similar goods sold abroad. The country concerned will earn foreign exchange from its exports, which will be used to pay for imports and other development-related needs. According to Amir



(2000), the definition of export is removing goods from circulation in the community and sending them abroad according to Government regulations and the desire to be paid in foreign currency.

Export goods are goods that are removed from the customs territory of a country and sold to other countries. This export activity can be carried out by producers, exporters or other parties involved in the process of removing their goods from the customs area. Exported goods can be in the form of finished products, raw materials, or services. Exports can increase national income, create jobs and reduce poverty. Export goods management policies are policies that restrict or prohibit the export of goods. This policy can be implemented for various purposes, including protecting domestic industries, maintaining the availability of domestic goods, or increasing the added value of a good.

Economic growth is the long-term increase in the capacity of various economic goods in a country. It increases the production of goods and services in the economy and improves people's welfare. Economic growth is an indicator that a country can use to evaluate the state of its economic development. Economic growth is important to calculate every year because it can be used as an indicator of the success of a society's economic development.

According to Sukirno, economic growth means the development of economic activities that result in increased goods and services produced by the community and improve people's welfare. The problem of economic growth can be considered as a macroeconomic problem that is long-term from one period to the next. Meanwhile, according to Lincoln Arsyad, economic growth is defined as an increase in gross domestic product (GDP) / gross national product (GNP), whether the increase is greater or less than the growth rate, population growth, or changes in the structure of the economy.

According to Endang Haryati et al (2021), nickel ore is a natural material that is

widely used in industry and has anti-rust properties. In its pure state, nickel is soft but when combined with iron, chromium, and other metals it can form hard stainless steel. The combination of nickel, chromium and iron produces stainless steel that is widely used in kitchen utensils, home decoration and construction as well as industrial components (Sukandarrumidi, 2007). In addition, many other alloys are made from nickel-based materials because they are resistant to creep, fatigue, and surface stability (oxidation and corrosion) at high temperatures, for example in aircraft engines and gas turbines in power plants.

3. Research Methods

Descriptive qualitative is research that uses a case study method or approach. The method used in this research is the case study method. Case study research is a form of qualitative research that relies on understanding and human behavior based on human perspectives (Polit and Beck, 2004). In this study, researchers used a case study that is currently popular in Indonesia, specifically related to government policies regarding nickel ore export regulations. The data used is time series data from trusted organizations to show the impact or influence of government policies on the Indonesian economy.

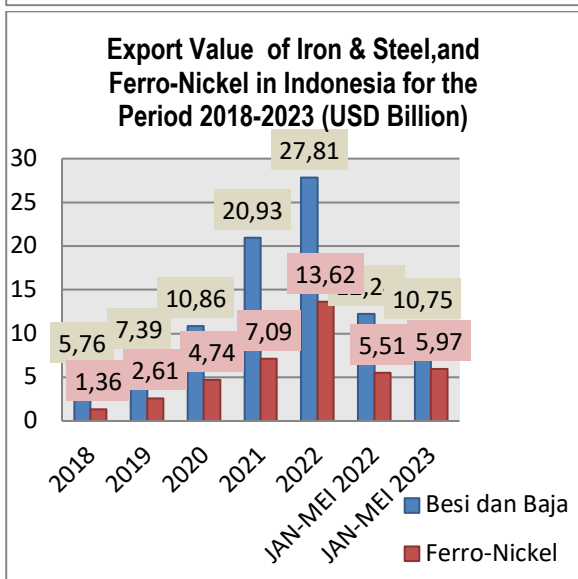
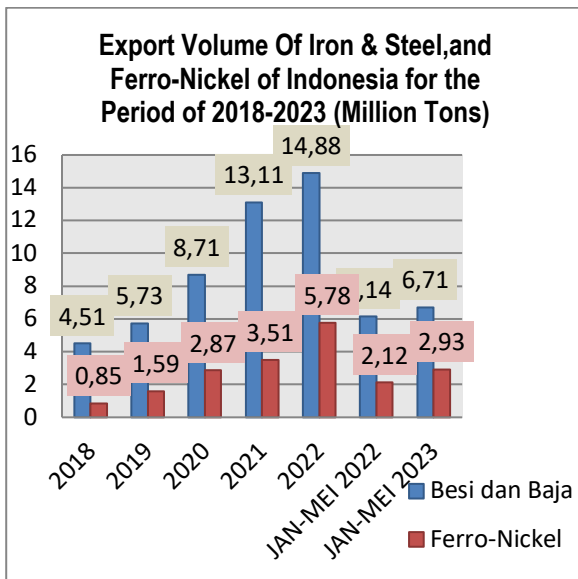
4. Results and Discussion

4.1 Research Results

President Joko Widodo's policy aims to stop nickel ore exports to the European Union starting in 2020. This policy considers that the export value will be more profitable if nickel ore is converted into more valuable goods. The policy of banning nickel ore exports triggered a huge protest from the European Union and Indonesia was sued to the World Trade Organization (WTO) in early 2021. By October 2022, Indonesia had lost in court. In response, the Indonesian government did not accept the entire decision and appealed to the WTO.

This policy was taken because it considers several factors that are considered as

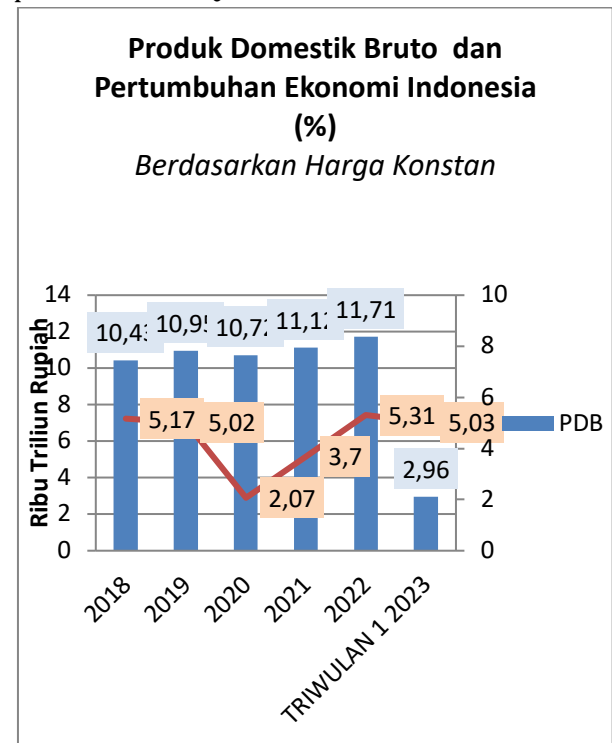
an effort to protect the environment by limiting excessive exploitation activities. In addition, there are two factors that form the basis of the Indonesian Government's policy in the mineral and coal sector, namely internal and external factors. Internal factors include downstream exploitation, strengthening national development, increasing investment and opening up jobs. Meanwhile, external factors that influence the policy are countries that use mineral raw materials in Indonesia and companies that generally oppose mining and coal policies because they are considered difficult and time-consuming to increase the production costs of the business world. The impact of this policy can be seen in the figure below:



(Source: BPS.go.id & Ministry of Trade, processed)

From the data above, it can be seen that since the implementation of the nickel ore export ban policy in 2020, ferro-nickel exports have increased quite sharply. Judging from the trend of ferro-nickel export value (2020-2022), it increased by 69.54%, while the trend of iron and steel exports (2020-2022) increased by 59.98%. However, in the January-May 2023 period, the export value of iron and steel decreased by 12.22% but the volume increased by 9.01%. At the same time, the trend of ferro-nickel increased both in value and volume. The growth in the value of iron-steel and iron-nickel exports was not due to an increase in world prices, but rather due to an increase in export volumes. This is shown by the weakening value of iron and steel exports in the period January to May 2023 along with the increase in export volume.

The following is a graph of Indonesia's GDP and economic growth, based on cost prices in 2018-Quarter 1 2023:



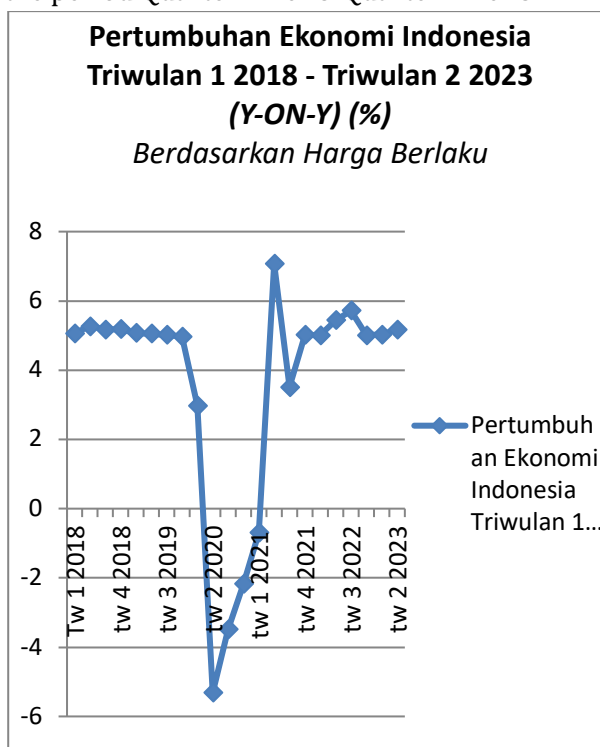
(Source: BPS.go.id & Ministry of Trade)

Indonesia's GDP from 2018 to quarter 2023 always grew except for 2020, with an average annual growth (trend) of 2.51%. In 2020, when the nickel ore export ban was imposed, Indonesia's GDP decreased by - 2.07%, but this was mainly due to Covid-19.

However, from 200 to 2022, the average annual GDP growth rate increased to 4.50%. This growth continued until the first quarter of 2023, where it increased by 5.03% compared to the first quarter of 2022.

The data above proves that government policies have a major influence on economic growth in Indonesia. Despite experiencing rapid growth, the Indonesian economy has experienced a significant decline in 2020 since the implementation of this policy, although it cannot be denied that the decline was not entirely caused by the policy.

The following is a graph of Indonesia's economic growth, based on current prices for the period Quarter 1 2018-Quarter 2 2023:



(Source : BPS,processed)

The data above shows Indonesia's economic growth rate from 2018 to 2022. In 2020, the Indonesian economy contracted by almost -5.32 in the second quarter. Then it reached the highest figure of 7.07 in the second quarter of 2021 and declined again in the third quarter of 2021. However, Indonesia's economic growth in 2021 increased by a total of 3.69%. The improvement in Indonesia's economy was mainly due to an increase in exports, household consumption, investment and public consumption. This economic

improvement shows that Indonesia is trying to recover after experiencing pressure in the last few quarters due to Covid-19.

Based on research conducted by Bank Indonesia, the nickel export ban policy is expected to increase Indonesia's economic growth by 0.1 to 0.2 percent in 2020. The study also found that the policy could increase investment in the downstream nickel industry by 10%. 20%. Although the nickel export ban policy has a positive impact on Indonesia's economic growth, it also has several potential risks, namely:

- 1) Risk of rising nickel prices.
This policy has the potential to cause nickel prices on the world market to increase. This is because nickel supply from Indonesia will be reduced.
- 2) Risk of market loss.
This policy could cause Indonesia to lose the raw nickel market. This is because other countries can get nickel from other countries.
- 3) To overcome these risks, the Indonesian government needs to make several efforts, namely:
Increase domestic nickel production. The Indonesian government should encourage an increase in domestic nickel production to maintain domestic nickel supply.
- 4) Increase the competitiveness of downstream nickel products. The Indonesian government should encourage an increase in the competitiveness of nickel downstream products so that Indonesian nickel downstream products are able to compete in the global market.
- 5) Implement economic diplomacy: The Indonesian government should conduct economic diplomacy with trading partner countries to maintain good relations and prevent protectionism.

Turning to the case filed by the European Union against Indonesia, policies and provisions related to export goods are contained in the Regulation of the Minister of Trade of the Republic of Indonesia Number 12 of 2022 concerning the Third Amendment to

the Regulation of the Minister of Trade Number 12 of 2022 19 of 2021 concerning export policies and regulations that further burden Indonesian exporters in the export process. Exporters must fulfill many requirements to be able to export goods. Not only that, the amount of goods you also need to export.

Another policy is related to the need to arrange 30 export performance visas (DHE). It is known that this DHE regulation will take effect on August 1, 2023. This is stated in Government Regulation Number 36 of 2023 concerning DHE derived from the exploitation, management, and / or processing of alternative natural resources in addition to PP Number 1 of 2019. The existence of this regulation is opposed by coal mining companies because exporters must deposit a minimum of 30% ri for at least 3 months since the enactment of the regulation. The limit on the export value of PPE applied to DHE SDA is at least USD 250,000 or equivalent.

New policies are starting to emerge with the hope that the Indonesian economy will be stronger towards a golden Indonesia in 2045. In addition, these policies can also be influenced by Indonesian politics because recently Indonesian politics is heating up ahead of the 2024 presidential election. Hopefully, every decision maker can consider various ways to improve the Indonesian economy.

4.2 Research Discussion

a. The Role of Trade Policy in Export Regulation and Economic Growth

This study illustrates the important role of trade policy in the regulation of export goods and economic growth of a country. Along with globalization and economic interdependence between countries, trade policy has become one of the main instruments used by governments to influence the direction of economic growth and regulate the flow of goods and services across borders.

Trade policy covers various aspects, such as import tariffs, export quotas, bilateral trade agreements, and non-tariff policies. In the

context of this study, focus is given to the nickel ore export ban policy implemented by the Indonesian government. The nickel ore export ban is intended to reduce the export of raw goods and encourage the development of a domestic nickel processing industry. An in-depth understanding of the impact of this policy on Indonesia's economic growth requires a comprehensive analysis.

b. EU Conflict and Nickel Ore Export Ban Policy

The implementation of the nickel ore export ban policy by the Indonesian government not only created domestic impacts but also led to international trade conflicts. The European Union was disturbed by the policy and sued Indonesia to the World Trade Organization (WTO). This conflict is important because it reflects the tension between a country's trade policy and the interests of other countries in global trade.

The Indonesian government defended the nickel ore export ban policy as part of a strategy to advance the domestic mineral processing industry, create jobs, and reduce the trade balance deficit. On the other hand, the European Union considers that the policy harms the global steel industry, especially in the production of stainless steel, of which Indonesia is the second largest producer after China. This dispute illustrates the complexity of international trade dynamics and the impact of national policies on international relations.

c. Evolution of the Nickel Ore Export Ban Policy

It is important to understand the evolution of the Indonesian government's nickel ore export ban policy. Initially, the ban was scheduled to take effect in 2022, but it was later changed to apply only until December 31, 2019. This means that from January 1, 2020, all nickel ore to be exported must go through domestic smelting and processing facilities. This policy is a response to the provisions in Law No. 4/2009, which requires the processing



and refining of mining products in the country before being sold to foreign parties.

The decision to accelerate the ban on nickel ore exports is based on several considerations, including the low nickel reserves in Indonesia, efforts to build domestic refining facilities, and legal obligations governing domestic mineral processing. In addition, considerations to secure the supply of raw materials also influenced this policy. A number of nickel ore refineries were built to increase domestic added value.

d. Impact of the Nickel Ore Export Ban Policy on Indonesia's Economic Growth

Analysis of export data shows that since the implementation of the nickel ore export ban policy in 2020, ferro-nickel exports have increased significantly. The growth of ferro-nickel export value in the period 2020-2022 reached 69.54%, while iron and steel exports also grew by 59.98% in the same period. Although in the January-May 2023 period there was a decrease in the value of iron and steel exports by 12.22%, the volume increased by 9.01%. At the same time, the trend of ferro-nickel continued to increase in both value and volume of exports.

In addition to export data, Indonesia's economic growth is also related to the nickel ore export ban policy. GDP data shows that this policy has an impact on Indonesia's economic performance. Although there was a decline in GDP in 2020, it was mostly due to the impact of the COVID-19 pandemic. However, in 2021 and 2022, Indonesia's economic growth picked up, reaching 3.69% in 2021. The Indonesian government also estimates that the nickel ore export ban could boost economic growth by 0.1 to 0.2 percent in 2020.

e. Risks and Management Efforts of the Nickel Ore Export Ban Policy

While the nickel ore export ban policy has positive impacts, as described, it also has potential risks. One of the main risks is the increase in nickel prices on the world market, which may affect the production costs of

sectors that use nickel as a raw material. Therefore, it is important for the Indonesian government to mitigate risks, such as developing a backup strategy and monitoring global nickel prices.

Economic diplomacy efforts are also important in managing the impact of trade policies. The Indonesian government needs to establish strong relationships with its trading partners, especially the European Union, to facilitate dialogue and negotiations that can benefit both parties.

In this study, trade policy, particularly the nickel ore export ban, has a complex impact on Indonesia's economic growth. The policy aims to increase product value-added and create jobs in the domestic nickel processing industry, but it also gives rise to international trade conflicts. With a deeper understanding of the evolution of the policy, its impact on exports and economic growth, and wise risk mitigation and economic diplomacy efforts, the Indonesian government can optimize the benefits of the nickel ore export ban policy while maintaining positive trade relations.

5. Closing

5.1 Conclusion

The Indonesian government's trade policy banning nickel ore exports has had a significant positive impact on the country's economic growth. One of the positive impacts is the increase in nickel added value. Through this policy, the government hopes that Indonesia's nickel industry will develop rapidly and produce products with higher added value. This not only increases state revenue from the mining sector, but also opens up opportunities to develop a more advanced nickel processing industry.

In addition, this policy also creates new jobs. As the nickel industry grows, more labor is needed to meet production and processing needs. Therefore, this policy will help reduce unemployment and improve community welfare, especially in areas with nickel mining potential. Furthermore, the nickel ore export ban can also improve Indonesia's

competitiveness in the global market. By developing a competitive nickel industry, Indonesia can become a major player in the nickel industry globally. This not only increases the country's revenue but also helps Indonesia have a stronger position in international trade negotiations and actively participate in the global supply chain.

Overall, the Indonesian government's policy of banning nickel ore exports has had a significant positive impact on the country's economic growth. This is reflected in the increase in nickel value-added, job creation, and the improvement of Indonesia's competitiveness in the global market, all of which contribute to stronger and more sustainable economic development.

5.2 Suggestion

Further research is crucial to analyze the long-term impact of the nickel ore export ban policy on Indonesia's economic growth, beyond 2023. This will provide greater insight into how the policy will affect economic growth over a longer period. Such research could include an exploration of external factors, such as the response of trading partner countries to the policy, as well as its impact on Indonesia's diplomatic and trade relations with certain countries.

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