



Chapter 13

International Trade Policy to Improve Indonesia's Economy in a Sustainable Manner

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A. International Trade Worldwide

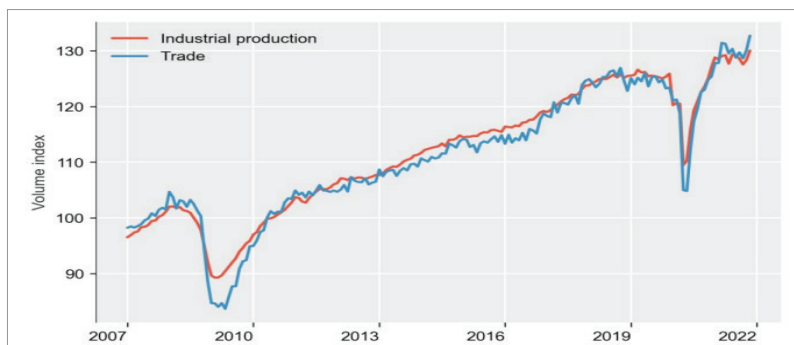
International trade positively impacts the domestic economy and global market competitiveness, such as the availability of consumer products, capital products, and raw materials under a competitive price and a certain level of product quality. Unfortunately, in early 2020 COVID-19 spread worldwide and affected the global economy. It has suppressed the development of the domestic economy of all countries. As a developing country, Indonesia is experiencing significant economic pressures, including fluctuations in international trade. The literature has revealed that the COVID-19 pandemic produced implications for international trade. For example, Hayakawa and Mukunoki (2021) found that the COVID-19 pandemic hurt trade levels in 34 exporting countries and 173 trading partner countries

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from January 2019–August 2020. Importing countries have received an insignificant impact due to COVID-19 since July 2020, while exporting countries are still under pressure until August 2020. Moreover, some industries that have benefited from the COVID-19 pandemic consist of medical/drug product providers, while the industries face risks due to COVID-19 covering labor-based industries in exporting countries. The same study also argues that the footwear and transportation (equipment) industry has been significantly and negatively impacted.

The negative impact of COVID-19 on trade has also been revealed by Li and Lin (2021) that about 26 exporting countries suffer from COVID-19. They argued that the United States is most affected by the COVID-19 pandemic compared to the European Union and China. Specifically, the case of a limited sample was carried out by Lu et al. (2021), who studied the impact of the COVID-19 pandemic at the Xinfadi Market, Beijing, and the strategy of maintaining trade in food products due to the policy of restricting movement. They argue that the COVID-19 pandemic significantly impacts trade in food products, so traders in the market must comply with the policy by limiting the number of buyers who come directly to the market. Adherence to the policy of limiting direct purchases has implications for the continuity of trading transactions in the market, so there is no need for a stricter movement restriction policy. Bontempi and Coccia (2021) added that the spread of COVID-19 cannot be separated from international trade activities because it involves mobility patterns, the potential for economic activity, and social interaction. The higher level of international trade activity will stimulate the higher spread of COVID-19.



Note: Seasonally adjusted (2010=100)

Source: OECD (2022)

Figure 13.1 Volume of World Trade and Industrial Production

Figure 13.1 depicts the global trade and industrial production levels in the global market during 2007–2021. The figure demonstrates that before the COVID-19 pandemic, trade and industrial production levels increased over time. However, during the global financial crisis of 2008–2009, both levels decreased significantly following the V-shaped. The V-shaped also happened during the COVID-19 pandemic towards a sharp decline in international trade and production. Thus, the figure was relevant to the previous studies that the COVID-19 pandemic undermines international trade.

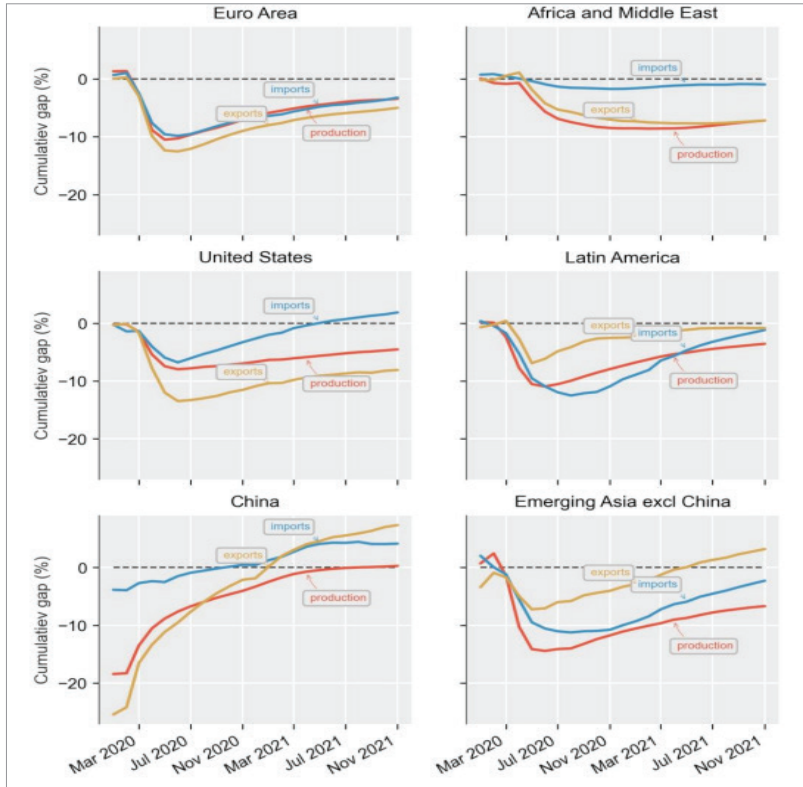
In particular, Indonesia also paid more attention to enhancing trade transactions during the COVID-19 pandemic. An empirical study published by Ing and Vadila (2022) found some interesting evidence of COVID-19 and Indonesia's export and import. They revealed that from January 2017–December 2020, (a) COVID-19 delivered a negative impact on export consists of coming down of 4.6% in volume and 5.6% in value, while COVID-19 created decreasing import volume of 7.3% and import value of 11.6%, (b) Difference-in-Difference (DID) estimation exhibited cutting down of 10.7% in export volume and 13.4% in export value, while the slowdown level of import volume is about 16.4% and import value is about 25.9%.

Moreover, the government of Indonesia has conducted some trade policies to anticipate a negative impact of COVID-19 in early 2020, such as export deregulation, import deregulation, import acceleration for reputable importers, suppressing logistic costs, and enhancing efficiency in logistic distribution using Indonesia National Single Window and National Logistics Ecosystem (Antara, 2020).

Another empirical study published by Nchanji and Lutomia (2021) argued that Sub-Saharan African countries are experiencing pressures for sustainable production and consumption, especially vegetable, fish, and fruit products, due to the COVID-19 pandemic. They provide several strategic steps for policymakers, including shortening the food supply chain, optimizing local raw food materials, and improving institutional quality. The strategy to improve the supply chain was also put forward by Zhang et al. (2021) related to the trade in fish commodities in China. In addition to supply chains, the government is also advised to look for alternative markets and improve the quality of international trade cooperation. One of the factors supporting trade cooperation is the availability of the shipping industry (sea transportation). Previous studies have explained that the sea transportation industry is also affected by the COVID-19 pandemic, especially in export transactions, while a relatively small impact occurs in import transactions (Xu et al., 2021). Weersink et al. (2021) focused on the condition of the supply chain of agricultural food products, suggesting that sales through online media became one of the opportunities to maintain business in the short term. Meanwhile, in the long-term, COVID-19 impacts global marketing and production levels in developing countries, which tend to be uncertain and can affect poverty reduction.

In more detail, compared to Indonesia's trade published by Ing and Vadila (2022), the level of trade and production for some major traders in the global market during 2020–2021 depict negative gaps. It indicates that the major traders face trade deficit risks following Figure 13.2. Interestingly, China has gotten beneficial impacts of trade surplus since early 2021. Next, Emerging Asia, excluding China, can

also enhance the higher export level in the middle of 2021. Thus, the figure denotes that some countries can stimulate the domestic economy towards a recovery process.



Note: Data include intra-regional trade

Source: OECD (2022)

Figure 13.2 Trade and Production Gaps for Major Traders during COVID-19 Pandemic

This chapter describes Indonesia's strategy of international trade policies to encourage national economic recovery during the COVID-19 pandemic and formulate policy recommendations for

sustainable development. The objectives are broken down into several specific goals: analyze Indonesia's international trade performance during the COVID-19 pandemic, evaluate the strategic policies of Indonesia's international trade to support the national economic recovery, reveal the largest export and import contributor commodities during the COVID-19 pandemic, especially in the case of coffee commodity, and formulate Indonesia's international trade policies.

Furthermore, this chapter contributes to several aspects. The first aspect is Indonesia's international trade policy which emphasizes the efficiency of Indonesia's international trade bureaucracy, both at the regional level of origin of goods, export-import document processing, and international ports/airports. In this case, international trade policies can be driven by two international business strategies: (1) the Global Supply Chain (GSC), which aims to be export-oriented and globally competitive in medium- and large-scale industries, and (2) Import Substitution Industrialization (ISI), which is focused on Small and Medium Enterprises (SMEs) to suppress the dependency level of imports. The second aspect is the institutional strengthening of fiscal and non-fiscal facilitation of export-import transactions to industries in GSC and ISI strategies.

B. Indonesia's International Trade Performance during the COVID-19 Pandemic

International trade is one aspect that is greatly affected by the pandemic of COVID-19. Being Southeast Asia's largest economy, Indonesia also had a dramatic drop in trade. As Ing and Vadila (2022) estimated, in 2020, Indonesia's exports and imports will decrease by 11.3% and 6.6%, respectively. Moreover, since early 2018, Indonesia's exports have declined faster than its imports, even before the outbreak. That means the pandemic has worsened the problems.

Surprisingly, the Ministry of Trade of Indonesia (2021) reported that from January–June 2021, Indonesia benefited from a trade surplus due to export growth of 34.78%, while import growth was 28.36%. The trade surplus comes from trade transactions with the United

States, the Philippines, and India, while the trade deficit occurs with trading partners such as China, Australia, and Singapore. During the same period, the export structure was contributed by four primary sectors, with each growth rate being oil and gas (48.04%), mining (41.21%), industry (33.45%), and agriculture (14.05%). Furthermore, some commodities that contribute significantly to export include vegetable-animal fats and oils, mineral fuels, iron and steel, footwear, and rubber and rubber products.

On December 15, 2021, the Central Bureau of Statistics (BPS) released Indonesia's exports performance through the website that from January–November 2021, the level of exports of processing industry products, agriculture, and mining increased (compared to the same period in 2020) by 35.42%, 4.03%, and 94.28%, respectively. The largest export destinations with a total contribution of 44.61% consist of China, the United States, and Japan.

Moreover, the Indonesian Ministry of Trade (2021) has also noted that during the period January–June 2021, the import transaction was contributed by raw material commodities of 75.88%, while imports of consumer products and imports of capital products increased by 22.55% and 19.68%, respectively. The net imported commodities include mechanical machinery and equipment, electrical machinery and equipment, plastics and plastic goods, organic chemicals, and cereals in more detail.

Besides, BPS (2021) has reported Indonesia's imports from January to November 2021. It stated that in November, the increase in imports of non-oil and gas was the largest compared to October 2021, consisting of machinery/electrical equipment and parts by 25.61%, while a significant decrease occurred in cereals, reaching 26.78%. Furthermore, by category of use of products, the value of imports increased in consumption products by 36.73%, raw/auxiliary materials by 41.65%, and capital products by 19.92%. In the same period, Indonesia's imports came from three countries, including China (32.42%), Japan (8.69%), and Thailand (5.37%).

Historically, Indonesia's international trade (net export) fluctuated with a downward trend during the COVID-19 pandemic. During the COVID-19 pandemic, trade pressure was significant, as seen by the negative trend of the growth value of traded commodities. The components of international trade activities consist of export and import transactions. Table 13.1 explains the export transaction by commodity group during 2018–2020.

Table 13.1 illustrates that biofuels, polishing materials, and related materials contribute significantly to the national export structure. However, this contribution level decreased substantially during the COVID-19 pandemic period. For example, in 2018 and 2020, the contribution rates were 23.21% and 15.63%, respectively. It is also confirmed through its growth rate, which decreases significantly by -25.22% in 2020.

Table 13.1 Indonesia's Export by Group of Commodities during 2018–2020 (%)

Group of Commodities	Share			Growth	
	2018	2019	2020	2019	2020
0. Food and live animals	7,28	7,89	8,93	0,92	10,13
1. Drinks and tobacco	0,74	0,79	0,76	-0,43	-6,64
2. Raw material, not for eating	9,79	8,88	8,60	-15,50	-5,78
3. Biofuels, polishing materials, and related materials	23,21	20,34	15,63	-18,37	-25,22
4. Fats, animal, and vegetable oils	10,74	10,01	12,08	-13,19	17,46
5. Chemicals materials	7,91	7,80	7,76	-8,14	-3,21
6. Factory-made product by materials	14,63	15,75	17,52	0,27	8,26
7. Machinery and transport equipment	12,56	13,86	13,12	2,78	-7,86
8. Various factory-made products	11,98	12,51	12,14	-2,68	-5,62
9. Items not specified	1,16	2,17	3,47	74,42	56,07
Total	100,00	100,00	100,00	-6,85	-2,68

Source: Central Bureau of Statistics (processed)

A positive signal comes from the category of factory-made commodities contributing to Indonesia's export structure with an increasing trend before and during the COVID-19 pandemic. For example, in 2018 and 2020, the contribution of this group was 14.63% and 17.52%, respectively. This condition is also supported by a significant increase in export growth of this group of 8.26% in 2020.

Indonesia's imports by commodity group are described in Table 13.2 before and during the COVID-19 pandemic. Table 13.2 shows that the category of machinery and transportation equipment commodities contributes significantly to an increasing trend. For example, in 2018 and 2020, the contribution rates of this group were 31.73% and 33.02%, respectively. However, the growth of this group decreased significantly during the COVID-19 pandemic, which was 16.35%. Other commodities contributing relatively significantly include pelican fuel, polishing materials, and other materials. Besides, the commodity of the manufactured industry has a fluctuating import contribution level. Interestingly, in 2021 the import level demonstrates two conditions: the share of each commodity is similar to that in 2020, and the level of growth is positive and higher than in previous years. It indicates that in 2021 Indonesia will increase import levels to stimulate the domestic economy.

Table 13.2 Indonesia's Imports by Group of Commodities during 2018–2021 (%)

Group of Commodities	Share				Growth		
	2018	2019	2020	2021	2019	2020	2021
0. Food and live animals	8,70	9,05	10,91	10,91	-5,67	-0,33	26,81
1. Drinks and tobacco	0,50	0,48	0,54	0,54	-13,14	-7,30	12,46
2. Raw material, not for eating	5,27	5,29	5,16	5,16	-8,91	-19,44	54,69
3. Biofuels, polishing materials, and related materials	16,73	13,71	11,15	11,15	-25,66	-32,79	82,77
4. Fats, animal, and vegetable oils	0,09	0,13	0,14	0,14	25,66	-11,98	56,62
5. Chemicals materials	14,14	14,10	15,18	15,18	-9,52	-10,99	51,80

Group of Commodities	Share				Growth		
	2018	2019	2020	2021	2019	2020	2021
6. Factory-made product by materials	16,41	17,51	16,08	16,08	-3,14	-24,10	43,51
7. Machinery and transport equipment	31,73	32,63	33,02	33,02	-6,69	-16,35	21,94
8. Various factory-made products	5,28	6,08	6,49	6,49	4,41	-11,71	12,57
9. Items not specified	1,13	1,03	1,34	1,34	-16,95	7,45	40,99
Total	100,00	100,00	100,00	100,00	-9,24	-17,34	38,58

Source: Central Bureau of Statistics (processed)

The Indonesian Ministry of Trade (2021) has reported the structure of Indonesia's exports during the national economic recovery, January–June 2021, depicted in Figure 13.3. During this period, the industrial sector dominated the export structure, reaching 78.80%, while the agricultural sector faced the lowest export contribution, only 1.90%. Meanwhile, the oil and gas sector was the most significant export growth, at 48.04% in the same period; on the contrary, the lowest export growth was the agricultural sector at 14.05%.

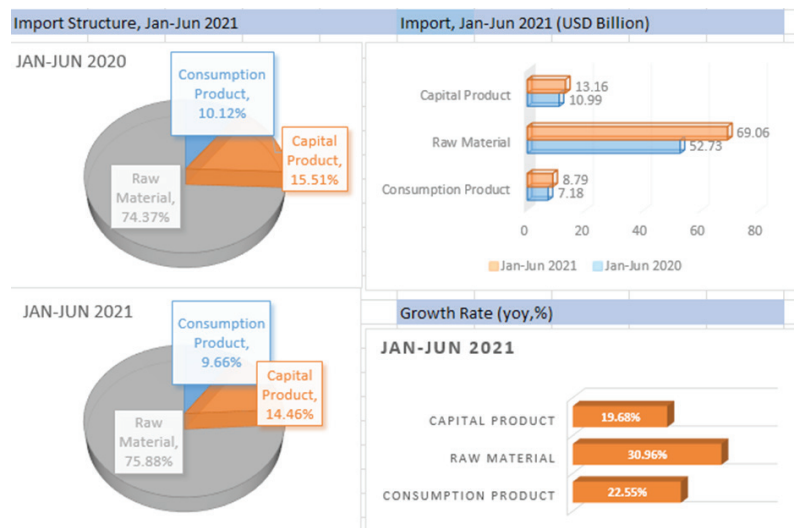


Source: Ministry of Trade (2021)

Figure 13.3 Indonesia' Export Structure during January–June 2021

Furthermore, the Indonesian Ministry of Trade (2021) publishes the structure of Indonesia's imports from January to June 2021, as shown in Figure 13.4. According to Figure 13.4, the import structure is dominated by raw/auxiliary materials at around 75.88% (January–June 2021) or higher than the same period in the previous year, which

was 74.37%. Besides, the raw/auxiliary material commodity has the highest growth rate of 30.96%. In contrast, the lowest contribution was consumer products at 9.66% (January–June 2021) or lower than the previous year’s, 10.12%. However, the consumption products commodities have a relatively high import growth rate at 22.55%.



Source: Ministry of Trade (2021)

Figure 13.4 Indonesia' Import Structure during January–June 2021

To sum up, this chapter noted that COVID-19 had negatively impacted the performance of Indonesia's international trade, such as the slowdown of export and import levels. As a result, Indonesia's international trade faces a risk of a deficit trade balance. It means that the export level is less than the import level. In other words, export experienced more pressure than imports. Surprisingly, during the 2021 economic recovery process, Indonesia's international trade expresses a certain level of surplus trade balance. In particular, some commodities, such as biofuels, and polishing materials, contributed significantly to the export structure during 2018–2020. Conversely, at

the same time, some commodities significantly affect import structure, consisting of machinery and transportation equipment.

C. Indonesia's International Trade Policies

Indonesia's international trade is the bare minimum indicator of how Indonesia intervenes in international markets, as determined by supply and demand in a free market. High tariff rates, voluntary export limitations, production subsidies, trade restrictions, and a variety of non-tariff restrictions, such as standards and conformity assessment processes, are some of those policies. International trade has three different types: unilateral, bilateral, and multilateral.

In early 2020, the government has conducted four trade policies covering export deregulation, import deregulation, import acceleration for reputable importers, suppressing logistic costs, and enhancing efficiency in logistic distribution using Indonesia National Single Window and National Logistics Ecosystem (Antara, 2020). The policy will stimulate the level of export and import following Table 13.1 and 13.2. Moreover, The Ministry of Trade has formulated eight strategic actions to accelerate the level of export: emphasizing specific product and trade partners, deregulating trade policies to stimulate export, stimulating Indonesia National Single Window and National Logistics Ecosystem, and facilitating new exporters, especially small and medium enterprises, stimulating e-commerce, stimulating trade financing under national interest account program, accelerating global market information and promotion, and enhancing product competitiveness under Indonesia Design Development Center (Uly, 2020).

International Trade Administration (2021) recorded that Indonesia, as a member of the Association of Southeast Asian Nations (ASEAN) Free Trade Area, has also expanded its preferential trade agreement with China, India, Japan, Hongkong, Korea, Australia, and New Zealand. Recently, Indonesia and Korea have agreed on a Comprehensive Economic Partnership Agreement. Moreover, Indonesia is now negotiating new free trade agreements (FTAs) with the European

Union (EU), India, Tunisia, and Turkey, as well as updating existing contracts with Japan and Pakistan.

In particular, the Ministry of Trade (2021) has discussed several international trade policies following the dynamics of the COVID-19 pandemic, including (a) virtual trade, (b) increased collaboration between industries, (c) localization of supply and local products, (d) agility (breakthroughs to survive), (e) market diversification, (f) supply chain (using external systems), (g) supply chain risk mitigation, (h) elastic logistics, (i) exporting rebound, and (j) transparent messaging and sustainability.

Indonesia has held a virtual Trade Expo Indonesia – Digital Edition (TEI-DE) 2021 from October 21 to November 4, 2021. The Ministry of Foreign Affairs (2021) stated that TEI-DE is an international Business to Business (B2B) tradeshow to increase export product growth and export market expansion. “Reviving Global Trade” as the theme aims to promote the quality of Indonesian products to the global market through an online exhibition platform, develop business networks, attract investment, and present showcases of Indonesian premium and best products. Along with the exhibition, Trade Expo Indonesia Digital Edition features several parallel activities such as an exhibition, a trade forum, business matching, a business forum, and counseling.

Regarding market diversification, Indonesia has a market-based economy in which the state has a significant role in the economy. President Joko Widodo focused his first term on improving infrastructure, diversifying the economy, and lowering barriers to doing business in Indonesia to propel the country’s economy beyond middle-income status. Enforcing a trade diversification policy refers to diversifying the economy by which a company, government, or other economic entity provides various products or services rather than specializing in just one.

In the supply chain area, the World Trade Organization (2020) reported that despite current global challenges, Indonesia’s macroeconomic policies and solid foundations, such as efforts to mitigate the

adverse effects of the COVID-19 pandemic, including on global supply chains and the free movement of essential goods, have continued to ensure solid growth in the economy. As a result, domestic demand drove economic growth, providing economic resilience, low inflation, and unemployment levels and allowing Indonesia to achieve upper-middle-income status for the first time in 2020.

Furthermore, transparency is essential for maximizing a consumer market that is more concerned with sustainability than ever before, which includes disseminating information and data about the impact of products, services, and businesses. Indeed, the authors argue that transparency is crucial to successful corporate governance. Every organization and country engaging in trade must thoroughly understand the market conditions to enhance trust relationships with any business's key partners and monitor corporate efforts to achieve long-term economic, social, and environmental development. This objective can be accomplished in two ways: governments must notify the World Trade Organization (WTO) and other members regarding particular actions, policies, or laws through frequent notifications, and the WTO performs regular trade policy evaluations on individual countries.

Apart from all trade policies mentioned above following the COVID-19 pandemic, Indonesia also applies other international trade policies. These policies cover both tariff and non-tariff policies. Regarding tariffs policy, International Trade Administration (2021) published that in 2019, Indonesia's average Most Favourable Nations (MFN) applicable tariff rate was 8.7% for agricultural and 8.0% for non-agricultural items. With an average WTO-bound tariff rate of 37.1%, Indonesia has bound 96.3% of its tariff lines in the World Trade Organization (WTO). Furthermore, electronics, milling machines, chemicals, cosmetics, medications, wine and spirits, iron wire and wire nails, and various agricultural items have raised tariff rates in Indonesia. However, most non-agricultural tariffs in Indonesia are capped at 35.5%.

In addition to tariffs, taxes have become one of the regulations that Indonesia has imposed on import-export activity, serving as a tariff barrier in international trade. MOF Regulation 110/2018 issued in 2018 increased “withholding tax” rates on 1,147 imported products, including consumer and luxury goods. This policy’s declared goal was to reduce Indonesia’s current account deficit by lowering imports of certain products. No luxury products are subject to the 200% rate as of March 2021, and the applied luxury tax rates typically vary from 10% to 75%. On the other hand, imported passenger vehicles with engines more than three liters or motorbikes with engines larger than 500 ccs are now subject to a 125% luxury tax. The combined effect of this luxury tax includes a 50% tariff, a 10% VAT, and the restriction of motorcycle traffic on Indonesia’s roadways.

Non-tariff trade policy, including restrictions, requirements, and procedures, is a regulation that aims to protect and support domestic industry. Tariff policy leads to higher government income; conversely, the imposition of non-tariff barriers does not result in higher government income. However, non-tariff policies, which include quantity limits, can influence both the volume and the price of imported commodities.

For the non-tariffs policy, Indonesia has several policies as follows:

1. Import licensing

Under Minister of Trade (MOT) Regulation 70/2015, all importers must obtain an import license between an importer of products for further distribution (API-U) and an importer for their production (API-P). Additionally, importers must receive a business identification number and register a business license from the online single window system. Furthermore, with the declared purpose of decreasing the number of consumer products entering Indonesia, MOT published Regulation 68/2020 in August 2020, mandating import permissions for footwear, electrical gadgets, and bicycles.

2. Import Licensing for Agricultural Products

The Minister of Agriculture (MOA) has released Regulation 2/2020, which exempts imports of horticulture goods from the necessity to present specific quality and safety certificates from countries having a food safety system recognized by MOA. This legislation also extended the validity of horticulture product import licenses for 60 days into the following calendar year. In addition, Indonesia's "Job Creation Omnibus" (Law 11/2020) was adopted on November 2, 2020, amending import license rules in the Food Law, Animal Husbandry Law, Farmer Protection and Empowerment Law, and Horticulture Law. Under the new regulations, importing horticulture, feed, meat, and dairy goods requires a general business license.

3. Import Bans and Restrictions

Indonesia restricts feed corn imports, granted only by the Bureau of Logistics, a state-owned procurement agency. However, certain corn imports for starch production are permitted. Sugar imports are strictly regulated in Indonesia, with seasonal prohibitions and yearly amount limitations based on domestic production and consumption estimates. Additionally, Indonesia forbids importing 152 live aquatic species, including Pacific oysters, per Minister of Marine Affairs and Fisheries Regulation 41/2014. The prohibition is justified by worries about the long-term viability of fisheries and the environment. Indonesia also imposes quantitative restrictions on the importation of wines and alcoholic drinks.

4. Product Testing

In its Regulation 17/2014, the BPOM establishes criteria for heavy metal testing in food, medicines, and cosmetics. The BPOM Regulation 12/2015 gives additional advice on these standards, which are met by a one-year certificate of analysis.

As per the 2019 edition of the World Economic Forum's Global Competitiveness Report, Indonesia is the 50th most competitive country out of 140 countries. Competitiveness is an economy's capacity

to compete effectively and successfully in marketplaces for globally traded products and services, allowing for a growing standard of living over time. Indonesia has a market-based economy in which the state plays an important role, such as setting prices for essential items, including oil, rice, and power. Being the 50th most competitive country means Indonesia has higher international trade productivity. It resulted in more incredible wealth, a higher standard of living, a higher sense of well-being, the ability to offer greater investment returns and potential for economic growth, as well as enhanced economic stability and endurance (Martin, 2016).

D. Export and Import Structure during COVID-19 Pandemic: A Case Study of Coffee

The Indonesian Ministry of Trade (2021) explained that during the period January–June 2021, Indonesia’s export transactions increased to several destination countries such as China (21.94%), the United States (34.22%), and Japan (21.31%). In the same period, Indonesia’s non-oil and gas exports to Pakistan increased significantly, reaching 68.03% for CPO and its derivatives. In addition, several export commodities also experienced a significant increase, including Metal Ore, Slag, and Ash around 160.89%, Steel, around 92.74%, various Chemical Products, around 71.85%, and Animal/Vegetable Fats and Oils, around 57.55%. Meanwhile, destination countries for export transactions experienced a decrease, such as Singapore (15.66%), due to decreasing gold bullion exports. Furthermore, this section explores Indonesia’s international trade in the coffee commodity. Interestingly, Indonesia is one of the major exporters of coffee in the global market.

Coffee is a major agricultural commodity for most countries in the world. Over the past five years, the world’s coffee production has increased by 21 million sacks. Over the past five years, there has been an increase in consumption of about 10 million sacks, thought to be linked to the increasing trend of drinking coffee in lieu of alcoholic or fizzy drinks. In all the world’s largest coffee consumers, there has been an increase in imports of coffee beans, except in Japan. Over

the past five years, there has been a decline in the world's coffee bean stock by about 10 million sacks. Over the past five years, there has been a decrease in the prices of all types of coffee. Policies related to supply and demand require certification, including sanitary, phytosanitary, and fumigation certification; those must be shown at the port of the destination country. Policies related to price are usually associated with the quality of seeds and the existence of sustainability certificates. Indonesia's coffee bean production is about 600 thousand tons annually, contributing around 7% of global production. Exports of beans, especially green beans or roast, decreased, while exports in powder, instant coffee, and coffee drinks continued to increase, except for instant coffee in 2019, which suddenly declined. Coffee bean stocks in Indonesia have decreased in the last five years. However, coffee imports by Indonesia continue to increase, except in the form of roasted beans which decreased slightly. Over the past five years, coffee bean stocks in Indonesia have continued to decline. The price of Indonesian coffee has reduced, while the price of Indonesian Robusta is constant. The COVID-19 pandemic affects all aspects of food and agriculture, including coffee. Therefore, policies stimulating farmers and coffee growers to increase production and quality are indispensable (Abdoellah, S. & Hartatri, 2021). Thus, the authors argue that coffee will stimulate the level of Indonesia's export, primarily to support the export transaction and the local economy of the Nusa Tenggara Islands.

Data published by the Ministry of Agriculture (2020) on Indonesian coffee exports and imports from 1980–2019 showed a fluctuating pattern. However, export volume tends to be higher than import volume, so the export value of Indonesian coffee is always higher than the import value. Thus, Indonesia's coffee trade balance has always been in surplus. Coffee trade conditions that are surplus make coffee in Indonesia contribute to the country's foreign exchange. Indonesia's coffee trade balance from 1980 to 2019 increased by an average of 6.65% per year. Indonesia's largest coffee trade surplus occurred in 2015 at USD1,166.24 million, or an increase of 17.50%

against the previous year's trade balance, while the lowest coffee trade surplus occurred in 2001 at USD 183.41 million, or decreased growth of 41.78% against the coffee trade in 2000.

Furthermore, Kustiari (2017) revealed that the coffee bean supply chain is controlled by domestic roasters, with roaster branches abroad and exporters with foreign direct investment (FDI) facilities. The study also adds that eight coffee marketing channels consist of (a) farmer – collector – wholesale traders – intermediary trader – exporter – domestic roaster, (b) farmer-farmer group – intermediary trader – exporter – domestic roaster, (c) farmers – farmer groups – domestic roasters, (d) farmers – farmer groups – domestic roasters (with a partnership pattern), (e) farmers – traders – collectors – ground coffee processors, (f) farmers – ground coffee processors, (g) farmers – wholesalers – ground coffee processors, and (h) farmers – wholesalers – exporters. The pattern of trade that delivers beneficial impacts for farmers is a marketing pattern from farmers directly to ground coffee producers. This marketing pattern is the most profitable for farmers because even though farmers have to pay for transportation, the contribution reaches IDR3,250/kg, the largest compared to other trading systems. More serious attention needs to be directed to the context of revitalizing coffee farming, trade liberalization, and globalization. It is crucial to develop production and post-harvest technology, such as applying appropriate technology and harvesting red picks to produce high-quality, wet-processed coffee beans. It will stimulate a relatively high price in the coffee bean market.

Specifically, this section will elaborate on a case study of export transactions in Robusta coffee in Lombok, West Nusa Tenggara. Patoni (2019) revealed the study results using the Policy Analysis Matrix. Despite a decrease in competitiveness, it is well known that Robusta coffee farming with dry and wet processing still has major competitiveness among other coffee types and remains efficient. This competitiveness is indicated by the value of private profits (D) in four policy scenarios. Scenario 1: Current policy conditions. Current policy has been somewhat liberal because there are only two

forms of intervention, which are not too great against Robusta coffee output HS code 0901111000, which is a 5% import tariff and 10% tax value increase. Scenario 2: eliminate import tariff of robusta coffee output HS code 0901111000 by 5%. Scenario 3: elimination of value-added tax and fixed import tariffs. Scenario 4: With the continued liberalization, it is allegedly no more tariffs imported against Robusta coffee output HS code 0901111000, eliminating tax value increase. These scenarios were consecutively amounting to Rp34,913,834/ha, Rp29,958,408/ha, Rp25,002,983/ha, and Rp20,047,558/ha. It is also indicated by the Private Cost Ratio (PCR) values of 0.62 (scenario 1), 0.66 (scenario 2), 0.70 (scenario 3), and 0.74 (scenario 4). However, the result is still efficient, indicated by social benefits (H) and Private Cost Ratio (PCR); it is constant in a row of Rp41,543,439 and PCR 0.58. The gradual reduction in rates and value-added taxes decreased the competitiveness of Robusta coffee farming businesses with wet processing. This reduction is indicated by private profits (D) value in four policy scenarios, consecutively amounting to Rp76,489,936/ha, Rp71,534,510/ha, Rp66,579,086/ha, and Rp61,623,661/ha. This is also shown by the private cost ratio (PCR) values of 0.44 (scenario 1), 0.46 (scenario 2), 0.47 (scenario 3), and 0.49 (scenario 4). Again, the output is still efficient, indicated by social benefits (H) and Private Cost Ratio (PCR); it is constant in a row of IDR39,026,228 and PCR 0.60.

Trade liberalization policy led to a decrease in private acceptance of Robusta coffee farming with dry processing. This decrease is indicated by a negative transfer output (OT) value in four consecutive policy scenarios of Rp6,629,605, negative Rp11,585,031, negative Rp16,540,456, negative Rp21,495,881, and disprotective as indicated by nominal protection coefficient on output (NPCO) consecutively of 0.93 (scenario 1), 0.88 (scenario 2), 0.83 (scenario 3), and 0.78 (scenario 4). Trade liberalization policy led to a decrease in private acceptance of Robusta coffee farming with wet processing, which is indicated by the value of transfer output (OT), which decreased in four policy scenarios in a row of Rp37,463,709 (scenario 1), Rp32,508,282 (scenario 2), Rp27,552,858 (scenario 3), and Rp22,597,433 (scenario

4). Moreover, it is protective, as indicated by the nominal value of Protection Coefficient on Output (NPCO) consecutively of 1.38 (scenario 1), 1.33 (scenario 2), 1.28 (scenario 3), and 1.23 (scenario 4).

Based on the results of the analysis and conclusions obtained to ensure the sustainability of coffee commodities, some suggestions of policy implications can be formulated: (1) The central government is expected not to lower import tariffs by 5% and not remove a 10% VAT on HS 0901111000 code coffee to be effective in protecting coffee farmers with dry processing, and investigating cartel indications at the farmer level; (2) The government needs to provide supporting facilities and infrastructure such as subsidies/assistance of wet processing equipment to farmers before full trade liberalization in the ASEAN region, and improvement of road infrastructure to forest areas in accordance with forest management principles; (3) Local governments need to accelerate organic certification of Robusta coffee produced by farmers on Lombok Island and provide selling on wet processing, as at least farmers use wet processing; (4) Coffee farmers should do wet processing because it provides higher private benefits compared to dry processing; (5) It needs further studies to prove indications of cartels at the level of farmers who use dry processing, and price monopolies by farmers who use wet processing.

E. Indonesia's Trade Policy Strategy

Indonesia's international trade has begun to show its contribution to the national economic recovery process after being depressed during the initial period of the COVID-19 pandemic. Consequently, the government can emphasize several strategic policies to encourage more progressive trade performance, especially export transactions, such as a roadmap of the global supply chain (GSC) and globally competitive industries, a roadmap of import substitution industrialization (ISI) for local resource-based SMEs, reform of the bureaucracy in the international trade sector, and the availability of adequate infrastructure with reasonable and competitive logistics costs.

F. Roadmap of Global Supply Chain

The global supply chain (GSC) is one of the outward-looking strategies for the government to facilitate export-oriented and globally competitive national industries. National industries will be able to take benefit from mastering the international trade chain and global market share. The first step is determining a roadmap of priority industries and commodities that meet the GSC strategy. The roadmap can be proposed by the Ministry of Trade and the Ministry of Industry. In the second stage, the government can facilitate the implementation of the GSC strategy, both the easy international trade bureaucracy, fiscal incentives, and trade diplomacy in the global market. At this stage, the Ministry of Industry, Ministry of Trade, and Ministry of Finance play a significant role.

One issue in GSC's empirical study is a product label following Zhou et al. (2019). They argued that the product label "Made in China" negatively impacts the European Union (EU) economy. Consequently, these countries should negotiate the trade agreement toward free trade agreement (FTA) in the long run. The GSC of China, EU, United States (US), and India was also found by Fan and Liu (2020). They revealed that China faced a low level of manufacturing relocation; the EU, US, and India have become the world's major production relocation; and the US and the EU have benefited from the extractive industry. In particular, China conducts a massive, ambitious, and long-term project of international trade well-known as the Belt and Road Initiative (BRI) (Lee & Shen, 2020). BRI will produce a potential GSC for China and some partners (developed or developing countries) in the global market. Moreover, Chu et al. (2020) noted that GSC's advantages include enhancing competitive advantages, increasing manufacturing flexibility, and reducing costs through a broader selection of suppliers. The literature delivers insights for Indonesia's policymakers to design a strategic international business policy to employ GSC for selected industries to compete with other countries in the global market.

G. Roadmap of Import Substituting Industrialization

Import substituting industrialization (ISI) is an inward-looking strategy for the government to facilitate small and medium enterprises (SMEs) to take advantage of all the potential of local resources and provide products for the domestic market. ISI is also intended to reduce the level of dependence of the national economy on global markets. The more robust, more efficient, and more productive SMEs become the pillars of the national economy and are expected to withstand various shocks to the global economy. SMEs under the ISI strategy are the enterprises directly able to compete in the national market. The government can produce a roadmap for SMEs under the ISI strategy in the first stage. This stage requires synergy between the Ministry of Cooperatives & SMEs, the Ministry of Industry, and the Ministry of Trade. The next stage is the policy of the ISI, which emphasizes the business cluster scheme using several fiscal and non-fiscal incentives. At this stage, several ministries can synergize, including the Ministry of Cooperatives & SMEs, the Ministry of Industry, the Ministry of Trade, and the Ministry of Finance.

Long years ago, import-substituting industrialization (ISI) was estimated by Felix (1989) for Latin America and selected Asia countries. The study reported that some Asia and Latin American countries try to benefit from ISI for craft industries. Furthermore, Mazumdar (1991) revealed that India emphasizes the ISI policy to protect SMEs from the competition of large industries, both domestic and foreign. Interestingly, Waterbury (1999) reported that ISI became an effective economic strategy after World War II and emphasized the protection strategy of domestic industry. The implementation of ISI was also followed by the contribution of the financial system to offer a credit scheme under a competitive interest rate (Brando, 2016). In some developing countries (such as BRIS: Brazil, Russia, India, China, and South Africa) during 1960–2016, ISI contributes significantly to the domestic economy (e.g., to catalyze the industrialization process) and produces more convergent in the short-run (Adewale, 2017). The current literature reported that in the 1950s, ISI was the best trade

strategy to enhance domestic industrialization and economic growth in developing countries (Irwin, 2021). Thus, Indonesia's policymakers should pay more attention to designing and adopting ISI for SMEs.

H. Bureaucratic Reform in International Trade Sector

Indonesia's international trade can be stimulated by the quality of government institutions such as the bureaucracy and law enforcement. For example, in 2013, Indonesia and European Union signed a Voluntary Partnership Agreement on controlling and suppressing illegal logging. Therefore, bureaucratic reform for efficient and transparent one-stop service is the strategic program that urgently needs to be implemented. The program can be synergized by several ministries: the Ministry of Industry, Ministry of Trade, Ministry of Finance, and Ministry of Cooperatives & SMEs.

Previous empirical studies have demonstrated bureaucratic reform will stimulate a higher level of international trade. For example, Mandal and Marjit (2013) argued that corruption under bureaucratic reform may not be correlated with trade liberalization because each country can determine the bureaucratic reform following the condition of the domestic economy and institutional aspects. Moreover, the labor intensity and exportable commodities lead to a significant issue in the corruption condition (bureaucratic reform). The significant contribution of institutions to the bureaucratic reform of dry ports in Brazil has also been expressed by Ng et al. (2013). The current literature emphasizes bureaucratic integration's substantial and positive impact on the local economy (including trade activity) (He et al., 2019). Indeed, the bureaucratic reform can stimulate international trade in Indonesia toward a higher level of global competitive condition.

I. Infrastructure and Logistic Cost

International trade activities can also run smoothly and efficiently if supported by the availability of infrastructure as a tool for inter-

regional and inter-island connectivity in Indonesia. This argument is supported by Indonesia's policies and strategic actions to enhance the level of export and import during the COVID-19 pandemic (Antara, 2020; Uly, 2020). Simply put, the logistics cost can be managed at a reasonable rate under the availability of infrastructure. Furthermore, the quality and equitable infrastructure in the country can trigger a more reasonable and competitive level of logistics costs. Thus, the Ministry of Public Works and Public Housing (PUPR), Ministry of Finance, Ministry of National Development Planning Agency (PPN/Bappenas), and Business Associations can synergize to accelerate infrastructure and reduce logistics costs.

Francois and Manchin (2013) argued that international trade could be determined by well-developed transport and communications infrastructure. Thus, developing countries should pay more attention to the availability and development of infrastructure. The findings have been supported by a large number of countries, which consists of 189 countries (Shepherd, 2017). At local government levels, the significant contribution of infrastructure to international trade has also occurred in 27 Brazilian states and 30 of Brazil's trading partners during 2009–2012 (Bottasso et al., 2018). Furthermore, the current literature links infrastructure, trade openness, and economic growth in Eastern and Southern African countries (Jiya et al., 2020). To sum up, literatures deliver insight that can be referred to by policymakers in many countries, including Indonesia, to determine the suitable infrastructure and logistic cost to perform properly in international trade. Indeed, Indonesia's policymakers can stimulate the quantity and quality of infrastructure to stimulate Indonesia's trade in the global market.

J. Conclusion

This chapter elaborates on Indonesia's trade transactions before and during the COVID-19 pandemic and formulates some policy recommendations. Specifically, this chapter demonstrates Indonesia's coffee commodity produced by farmers (producers) in Eastern Indonesia

Region. In general, data published by BPS show that Indonesia's trade slowed down during the COVID-19 pandemic. It indicates that the level of imports is higher than the level of export. By the end of 2021, the export level of processing industry products, agriculture, and mining increased (compared to the same period in 2020) by 35.42%, 4.03%, and 94.28%, respectively.

Conversely, at the same time, there was a significant increase in imports for non-oil and gas consisting of machinery/electrical equipment and parts by 25.61%. In comparison, a significant decrease occurred in cereals, about 26.78%. The government of Indonesia has anticipated the negative impacts of the COVID-19 pandemic on trade using four policies: export deregulation, import deregulation, import acceleration for reputable importers, suppress logistic costs, and enhancing efficiency in logistic distribution using Indonesia National Single Window and National Logistics Ecosystem (Antara, 2020). Specifically, Indonesia's coffee bean production is about 600 thousand tons annually and contributes around 7% of global production. However, in recent years, coffee bean production has been decreasing. Therefore, the government of Indonesia should pay more attention to increasing coffee bean production. It will increase the production and contribution of Indonesia's coffee to the global market.

This chapter formulates some trade policies to enhance trade performance in the global market. Firstly, Indonesia should employ a global supply chain strategy for big (multi-national) enterprises to increase domestic products' market share and competitiveness worldwide. Secondly, Indonesia can utilize import substitution and industrialization for small and medium enterprises (SMEs). It is expected that SMEs can achieve quality consumption levels in the domestic market. Thirdly, bureaucratic reform provides excellent service that can encourage an efficient international trade transaction. Finally, Indonesia should pay more attention to enhancing inter-island connectivity using infrastructure and a low level of logistic cost.

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