JakartaGlobe
Great stories. Global news.

Tackling the Fallacy of 'Exports Are Good and Imports Are Bad'

By Michelle Limenta

December 19, 2014

Soon after taking over the post, Trade Minister Rachmat Gobel highlighted his two job priorities: boosting exports (at least threefold in five years) and limiting imports. These priorities were motivated by the fast growth of imports and the trade deficit in the first semester of 2014. Governments do often make clear that export growth, export diversification and a trade surplus are their main priorities. But it is ironic that many seem to have such a negative attitude about imports. Imports are often considered as a determinant of trade deficits and an obstacle to the economic growth of a country.

A trade deficit is defined as an economic measure in which a country's imports exceed its exports. It is also referred to as a negative balance of trade. Many perceive trade deficits as "bad news" to the economy. It is not the purpose of this article, however, to elaborate on that fallacy, because a number of economists have addressed this issue.

Daniel Griswold of the Cato Institute, for example, has written an insightful article about the misconceptions of trade deficits. He states that there is no connection between trade deficits and industrial decline or unemployment. Trade deficits may even be good news because they signal global investor confidence and rising purchasing power among domestic consumers. Importantly, he adds that trade policy is an incompatible instrument to reduce trade deficits. Trade deficits are determined by macroeconomics factors such as investment flows and national rates of savings and investment. In contrast, when we talk about trade policy we look at a microeconomics area.

I want to explain — from an international trade perspective — why we should stop being so negative about imports.

Policy makers often focus on exports as a means to gain profits and see imports as a threat to domestic industry. But what they may not realize is that exports are not the reason we trade. Paul Krugman, professor of economics at Princeton University, has clearly explained that the purpose of trade is imports, not exports. What a country gains from trade is the ability to import things that it wants. Griswold put it like this: "exports are the means by which we acquire imports."

Indonesia should engage in smart imports, in which it has the ability to import components at world market prices, add value to them through designing, branding, manufacturing, and subsequently export the final products to other countries. If Indonesia wants to utilize international trade as the driving force behind growth and development, it should not overlook the role of imports.

Imports aren't that bad at all. Consumers will benefit from a wider selection of goods at lower prices, as import promotes competition in price and quality. It boosts productivity, innovation and eliminates inefficiency. Without imports, consumers may be disadvantaged by a limited choice, a higher price and a lower quality of goods and services.

For producers, imports of intermediary goods or inputs will keep the prices of final products down. Producers will also benefit from access to better, cheaper and domestically unavailable items. These will boost productivity and efficiency, and will reduce the production costs which in the end will bring down the price of the products. Import also means access to foreign technology embedded in new equipment and machinery. By resisting imports, Indonesian people could lose the opportunity to enjoy the benefits of better technology and know-how.

Economies are more interconnected nowadays due to global value chains. Today, most goods and a fair share of services are "made in the world." According to the OECD report titled "Interconnected Economies: Benefiting from Global Value Chains," the structure of each country's value-added exported and imported products demonstrates how countries participate in global value chains.

Advanced economies such as the United States and Japan generally engage in upstream activities (producing the raw materials or the knowledge, like in design and research), while emerging economies (e.g. China, Mexico) tend to be mainly involved in downstream activities (assembling processed products or concentrating on customer services).

Economies such as Taiwan appear to be right in the middle of global value chains — since they export most of their value-added intermediate products. These positions may change over time. China, for example, is shifting away from assembly work to producing and exporting more intermediates.

What matters to Indonesia's economy is not the old way of thinking that exports should be higher than imports, but the degree to which Indonesia would generate a more efficient, higher quality and higher value of trade and investment. This would optimize its integration in the global value chains. And this integration cannot be achieved without imports. So to gain the benefits of international trade, Indonesia should not ignore the important role of imports.