

CHAPTER I

INTRODUCTION

A. BACKGROUND OF STUDY

Every country must have various policies to keep its country stable in all sector, including economics' aspects. International trade is one way to make each country meet its needs and cover their shortcomings. According to the father of the world economy, not Adam Smith, but someone who was born hundred years before him, namely Ibn Khaldun,¹ stated that goods would be more valuable by trading across countries because of community satisfaction, merchant profits and country welfare would all increase (*gains from trade*).² Meanwhile, international trade between countries is formed from 3 facets, there are, first, bilateral, which means trade between two countries, second, regional namely trade between countries in one region and the last one, multilateral namely international trade of a country with another country without any regional restrictions. In other point, Indonesia is a country that applies international trade and establishes relationships with 94 countries,³ making it the 26th largest export country in the world, with Indonesia's competitiveness ranked 41st.⁴

¹ His real name is Abu Zayd 'Abd al-Rahman ibn Muhammad ibn Khaldun al-Hadrami (عبد الرحمن بن محمد بن خلدون الحضرمي) born on May 27, 1332, and died March 19, 1406 at 73 years old. He was a Muslim historian from Tunisia and was often referred to as the founding father of historiography, sociology, and economics. His famous work is the *Muqaddimah* (Introduction).

² Ibn Khaldun. *Mukaddimah*. translated by Masturi Ilham MC, Cet II; (Jakarta: Library Al-Kautsar, 2001), pg. 715.

³ Overall Everyday Control (OEC), *Indonesian Export*, https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/idn/all/show/2016/, accessed on Tuesday, 09:58 30 October 2018

⁴ Kementerian Perdagangan Republik Indonesia, *Macroeconomics Update*, pg. 09, http://bppp.kemendag.go.id/media_content/2017/07/Macroeconomics_Update_as_of_23_Maret_2017.pdf, accessed on Tuesday, 30 Oktober 2018 10:22

Unfortunately, Indonesia's international trade system is still problematic. World Bank publications show a decline in Indonesia's ranking on cross-country trade indicators, from 105th in 2016 and 108th in 2017 to 112th in 2018⁵. This wrecked Indonesia's achievement in *ease to doing business* which only ranked 72nd in 2018, although it has increased from rank 91st in 2017, and still gets the same reality from the previous year, which is still ranked below neighbouring countries such as Malaysia (23 to 24), Brunei (72 to 56) and Thailand (77 to 26).⁶ In other words, there are errors in the application of the system which is caused by the current ideas of the theory of international trade.

Over time, international trade spawned several thoughts by several experts such as Absolute Advantage Theory by Adam Smith, Comparative Advantage Theory by David Ricardo, Reciprocal Demand Theory by John Stuart Mill, Theory of Excellence Heckscher-Ohlin (HO), etc. Unfortunately, each theory has its own defects in its application, such as describing too much assumptions that do not exist in developing countries or even in developed countries, that often cause an injustice in international trade such as monopoly, oligopolies, and other unfair competition. So, actually, Islamic economics with its international trade theory from various figures and scholars is considered capable of providing solutions to international economic problems, especially bilateral economic trade.

In order to prove this statement, the author wants to show a research on the bilateral economic analysis between two developing countries that have an Islamic background, which are the Nation of Brunei Darussalam and the Republic of Indonesia. To make sure it, the basic evidence that Indonesia and Brunei have an Islamic background is the joining of these two

⁵ The World Bank, *Indonesia*, <https://data.worldbank.org/country/indonesia?locale=id> accessed on Selasa, 10:03 30 October 2018

⁶ Bank Internasional untuk Rekonstruksi dan Pembangunan, Bank Dunia. 2017. *Doing Business Report | Measuring Business Regulations, Indonesia*, pg. 4 <http://www.doingbusiness.org/content/dam/doingBusiness/country/i/indonesia/IDN.pdf>

countries into the OIC (Organization of Islamic Conference).⁷ Indonesia as an archipelago that has many islands and neighbours is the most Muslim-majority country in the world. In cooperation, there are at least 94 countries that have bilateral relations with Indonesia, including Brunei Darussalam, which has 9% of Indonesia's imported oil from this country.⁸ Next, Brunei Darussalam is a small but rich Islamic country. The presence of Brunei in the middle of Southeast Asian countries contains its own uniqueness as a monarchy-like royal state like authoritarian Middle Eastern countries but has a close relationship with their own people.⁹ One of Brunei's uniqueness is in terms of its economy, which 60% of GDP of this country is in the oil

⁷ The Organization of Islamic Cooperation (formerly called the Organization of the Islamic Conference; Arabic: منظمة التعاون الإسلامي) is an international organization with 57 member countries which have a permanent representative at the United Nations. The OIC was established in Rabat, Morocco on 12 Rajab 1389 H (September 25, 1969) at the First Meeting of the Islamic World Leaders held in reaction to the burning of the Al Aqsa Mosque on August 21, 1969 by fanatics' followers of Christian and Jewish in Jerusalem. The OIC changed its name from its previous name; Organization of the Islamic Conference on June 28, 2011.

Indonesia joined when the OIC was established. The reason for Indonesia's entry into this organization is indeed accompanied by a number of considerations, of course regarding solidarity as fellow Muslims in the world, and also other positive impacts that are expected from cooperation between Indonesia and other Islamic countries.

On the other side, Brunei Darussalam joined OIC when its independence on 01 January 1984. As an Islamic country, one of the objectives of Brunei Darussalam's membership in the OIC was to work together with other OIC members in promoting Islamic interests and values for the benefit of Muslims. In addition, Brunei Darussalam can also strengthen political and economic ties with them.

Read: Ekmeleddin İhsanoğlu. *The Islamic World in the New Century: The Organization of the Islamic Conference, 1969-2009*, (New York: Columbia University Press, 2010), pg. 15.

⁸ Agus Syarif Hidayat, "Dinamika Kerjasama Ekonomi Indonesia Dengan Anggota Organisasi Konferensi Islam (OKI)", *Bulletin Ilmiah Litbang Perdagangan*, Vol.10 No.1, 2016, pg. 37

⁹ Lisa Anderson, "Absolutism and the Resilience of the Monarchy in the Middle East", *Political Science Quarterly*, vol.1, no.1, 1991, pg. 4

and gas sector and which is exported abroad. To meet the needs of food, transportation, and clothing, most depend on imports, including Malaysia, Singapore, Indonesia, Japan, South Korea, and the United States.

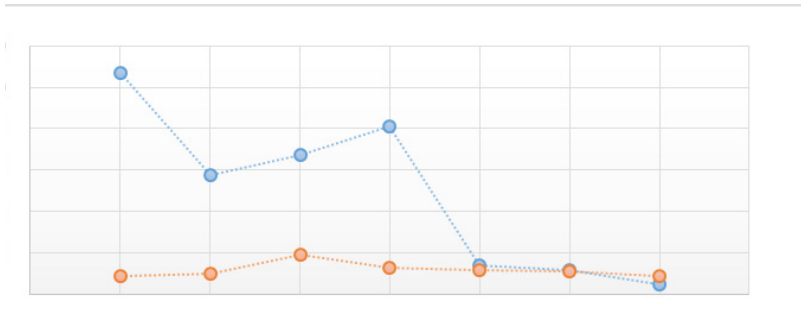


Figure 1. Brunei Darussalam Trade Balance - Indonesia 2011-2017

(In Millions of BND)

Notes: (-) deficit for Indonesia

Source: *Brunei JPKE, data with Brunei Dollar (BND) {processed}*

In the figure above, we can see that Indonesia always gets a deficit because Brunei always gets more profit from its oil and gas exports to Indonesia, but Indonesia gets a surplus that is not much when Brunei suffers purchasing power because world oil prices fell. In addition, as two countries that have an Islamic background and join the OIC, the International Trade Economy should, according to Islam, be a solution in order to have an economic balance between these two countries. Therefore, the author is interested in how the bilateral economic outlook on this matter, and observes it from the standpoint of Islamic Economics, then examines it more deeply in the thesis entitled: “Analysis of Bilateral Economic Trade according to Islam (Case Study of the Nation of Brunei Darussalam and the Republic of

Indonesia)”.

B. PROBLEM FORMULATION

1. What are the correlation in bilateral economic relations between Indonesia and Brunei in 2011 - 2018?
2. What is the theoretical view of the Islamic Economy on Bilateral Trade between Brunei and Indonesia as two developing countries?

C. RESEARCH OBJECTIVES

1. To determine the correlation of bilateral economic relations between Indonesia and Brunei in 2011 - 2018.
2. To find out the theoretical views of the Islamic Economy on Bilateral Trade between Brunei and Indonesia as 2 developing countries.

D. Research scope

For this thesis, the author only limits the analysis of bilateral economics in the form of trade between these two countries in export, import, customs, and transportation trade expenses. In its Islamic perspective, it is based on several scholars such as Al-Ghazali, Ibn Khaldun, Abu Ubaid, and Abu Yusuf.

E. BENEFITS OF RESEARCH

With this thesis writing, the benefits can be felt universally, some of them are:

1. First of all, for readers, the results of this thesis research can provide benefits in becoming a reference for bilateral economic development between the two countries. Secondly, they can know in real terms what happened to international economic relations with the data presented as happened between Brunei and Indonesia. Third, they can know the views of bilateral economic relations according to Islam theoretically and practically.
2. For the author himself, it is expected to be an addition to knowledge

and insight and also really pouring of knowledge on what has been learned in the course of Islamic International Economics and to make new contributions in the world of international economic science.

3. For academics, thesis research is useful for the development of Economics International, so then it can be used as a reference for students and the next campus.
4. In general, this thesis is expected to be able revealing the bilateral economy more clearly from its Islamic point of view by using the example of 2 countries that joined the OIC, which are Brunei Darussalam and Indonesia.