THE PRODUCT MAPPING ANALYSIS OF MANUFACTURING INDUSTRY PRODUCTS IN BILATERAL TRADE BETWEEN INDONESIA AND CHINA IN 1995 – 2011

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ABSTRACT

This study aims to: (1) analyze the comparative advantage of Indonesia’s manufacturing industry exports products to China, (2) determine the product of Indonesia’s manufacturing industry become leading exported products to China, (3) analyze the mapping of Indonesia’s manufacturing products in bilateral trade with China, and (4) analyze the development strategy of industry policies, especially on the leading exported products in bilateral trade between Indonesia and China. This research is expected to provide comparative advantage concept implementation which aims at improving the competitiveness of exports and improve the balance of bilateral trade between Indonesia and China, which in turn will boost economic growth in an integrative way.

This research method is product mapping of data from various sources and to be processed by using RSCA index and TBI of 23 categories of leading exported products manufacturing industry in bilateral trade between Indonesia and China in 1995-2011. The results of this study indicate that, from the 23 categories studied, only 3 categories that are in area A. 3 other categories are in area B and the rest (16 categories of manufacturing industrial products) is in area D where RSCA index value and TBI are negative. This indicates that the majority of Indonesian manufacturing products in 1995-2011 have weak competitiveness and poor intra-industry trade balance. This condition becomes threat for the increasing progress of Indonesia and China international trade cooperation.

In maintaining and improving its comparative advantage, manufacturers should innovate through researching and developing their products. Producers need easy and cheap access and connectivity for promoting to the exported products distributor in Indonesian. The requirement of more serious attention from various involved parties is in order to excel manufacturing export products becoming prominent for Indonesia in future international trade.

Keywords: Product Mapping, RSCA, TBI, bilateral trade

Introduction

International trade is an important factor in the nation's economy, in which the presence of trade will be able to increase domestic revenues. National income will increase when the net export of a country is positive. Therefore, it is necessary to attempt to encourage exports volume of a country. So that identifying superior products export is essential to do.

According to Ram (1987), export-oriented economic policy is almost certainly able to increase the pressure of international competition in industrial sector. Outward looking influence on long-term growth has contributions in reducing poverty either directly or indirectly through its effects on trade and growth. According to Krugman, economist cannot discuss the effects of international trade or recommend a government policy in trading field convincingly, unless they know that their theories are quite good to explain international trade carefully observed with the concept of comparative advantage (Krugman, 2000).

Comparative advantage in this study is manifested by index Revealed Symmetric Comparative Advantage (RSCA). Laursen (1998) argues that in order to analyze the comparative advantage in econometric studies, Balassa index of RCA needs to be adjusted in order to be symmetric i.e. Revealed Symmetric Comparative Advantage (RSCA).
1. The Case of Bilateral Trade of Indonesia and China

In international trade with other countries, Indonesia appears showing a trend that Indonesia has intensive bilateral trade with China. China is the main export destinations from Indonesia and also as the main importing country to Indonesia in 2007-2011 with the trend of 34.23%. Therefore, the intensity of international trade between Indonesia and China are definitely high.

Industrialization, mechanization and rapid urbanization in China need energy, and many types of raw materials from Indonesia. However, Indonesia has not been able to cultivate its own natural resources to obtain higher added value (Nasution, 2012). This study focuses on manufacturing sector since the research of Blonigen and Wang (2005) shows that FDI inflow in developing countries is 50%.

After the global financial crisis in 2007-2008, the growth of production network and the distribution of manufacturing industry among the 8 countries included in the ASEAN+6 members of manufacturing industry (Japan, South Korea, China, Thailand, Malaysia, Singapore, Indonesia and the Philippines) were rapidly increasing. Furthermore, the changing of Chiang Mai Initiative (CMI) into multilateral institution which made CMI has the authority to supervise the economic policy program of loan-recipient countries (Nasution, 2012). So that, Indonesia cooperation with China is not intensively only in trade relationship.

The high intensity of trade between Indonesia and China are also driven by the implementation of CAFTA (China ASEAN Free Trade Area) on January 1st, 2010. Nevertheless, Indonesia-China trade balance had been deficit continuously, so that in 2011 it reached U.S. $ 3,861.2 million. Thus, it is necessary to reveal the competitiveness of Indonesia exports to stable the trade balance in international trade activity with China.

Product mapping analysis is needed to find superior products in Indonesia-China bilateral trade, because of the result of mapping will reveal which Indonesian products become the leading exported products. Leading exported products are products that have a high proportion of exports on the total world exports and total domestic exports. The analysis of product mapping combines RCA index and TBI (Trade Balance Index).

This study aims to: (1) Analyze the comparative advantage of Indonesia’s manufacturing industry exported products to China; (2) Know Indonesia’s leading exported products of manufacturing industry to China; (3) Analyze the mapping of Indonesia’s manufacturing industry products in bilateral trade with China; (4) Analyze policy strategy primarily on the development of industrialization export products that has high competitive advantages in bilateral trade between Indonesia and China.

This research is expected to have contribution for Science Development (1) The concept implementation of comparative advantage which is expected to improve export competitiveness and improve the balance of bilateral trade between Indonesia and China; (2) The role of product mapping with RSCA index and TBI to determine the position of Indonesian export superior products in domestic and international sphere; (3) The concept implementation of comparative advantage in improving economic growth in an integrative way.

2. Theoretical Overview

2.1. Trade theory

A trade will occur when both parties doing the trade get benefit or advantage. A trade between countries is called as international trade. If there is no international trade, then each country should consume its own produces (Salvatore, 1997). There are two reasons why a
A country does international trade. It is because each country has distinct comparative advantage and for economic of scale purposes in order to increase foreign exchange earnings for development activities.

**Figure 1. The Occurrence of International Trade**

Graphic A  
Market in Country A  
Relationship

Graphic B  
International Trade  
Relationship

Graphic C  
Market in Country B  
Relationship

Theoretically, a country (e.g. country A) will export a commodity to other country (e.g., country B) since domestic price in country A is lower than domestic price in country B. The low price structure in country A is relatively because of the existence of excess supply which is domestic production exceeding domestic consumption. In this case, the production factor in country A is relatively abundant. Thus, country A has the opportunity to sell its excess production to other countries. On the other hand, country B faces lack of supply because its domestic consumption is higher than domestic production (excess demand) so the price becomes high. In this case, country B desires to buy a commodity from other country whose price is relatively cheaper. If then the communication takes place between country A and country B, a trade between the two countries may happen in which country A will export its commodity to country B (Salvatore, 1997).

Prior to the international trade, the equilibrium in country A occurs at point $E_a$ with production amount at $Q_{A1}$ and price occurs at $P_1$. In country B, the equilibrium occurs at point $E_b$ with production amount at $Q_{B1}$ and price occurs at $P_3$. Price in country A ($P_1$) is lower than price in country B ($P_3$). Producers in country A will produce more than the level of domestic consumption for the price above $P_1$. This will lead to excess supply in country A. Whilst for prices below $P_3$, country B will ask for more than the level of domestic production. This will lead to excess demand in country B. Then the trade between country A and country B occurs. Export supply in international market is described by curve $S_w$ which is as an excess supply from country A. Import demand is described by curve $D_w$ which is the excess demand of country B. The equilibrium in world market is at point $E_w$ which produces $E_w$ at $P_2$ where country A exports...
amounted at \( Q_{a2} - Q_{a3} \). This is equal to the amount to imported country B \( (Q_{B2} - Q_{B3}) \), the sum of these exports and imports is shown by trade volume at \( Q_W \) at the world market.

2.2. Classical Trade Theory of Comparative Advantage

The theory of comparative advantage is preceded by David Ricardo and as a solution to the theory of absolute advantage. According to David Ricardo (in Prapti, 2003), the trade basic is comparative advantage, not absolute advantage. This theory is the extension of absolute advantage theory, so it is still included in Classic Trade Theory.

2.3. Neo Classical Trade Theory (Heckscher - Ohlin)

This theory seeks to improve the Trade Theory conveyed by classic theory with the purpose to be closer to the reality. According to Hechscher - Ohlin (in Prapti, 2003), none of the output produced with one input merely and any country which trades can have import substitution industries (not full-specialized). For Hechscher - Ohlin, this condition is much more closer to the reality.

An important point as the subject of Hecksher - Ohlin (HO) Theory is that the pattern of international trade is determined by the difference in relative factor endowment of each country. In this case, it is assumed that the endowment factor of each country differs. Thus, the country stated will have comparative advantages on labor intensive goods. Conversely, countries with abundant capital-labor characteristic poor will have comparative advantages in capital intensive goods because the capital price is relatively cheaper. According to this, each country will export goods intensively on the use of abundant inputs and import goods intensively on the use of rare inputs (Prapti, 2003).

2.4. Revealed Symmetric Comparative Advantage (RSCA)

Balassa (1965) introduces the concept of Revealed Comparative Advantage (RCA), comparing the relative export performance, RCA is expressed as follows:

\[
RCA_{ij} = \frac{x_{ij}/\sum x_{ij}}{x_{it}/\sum x_{it}} \quad \text{............... (1)}
\]

Where is \( RCA_{ij} \) is RCA index for manufacturing commodity i from Indonesia to China. Thus, \( x_{ij} \) is export manufacturing commodity i from Indonesia to China. \( \sum x_{ij} \) is Indonesia's total exports to China. \( x_{it} \) is exported manufacturing commodity i from the world to China. \( \sum x_{it} \) is total exports from the world to China.

If RCA value is greater than 1 until infinity then good export performance is illustrated with a strong share in international market. And conversely, if RCA value is smaller than 1 until zero then poor export performance is illustrated with a weak share in international market (Balassa, 1965). When processing RCA index values in econometric model, RCA index value is usually made into Revealed Symmetric Comparative Advantage, when it is used in econometric analysis (Laursen, 1998). Therefore, the use of RSCA index is obtained from the following formula:

\[
RSCA = \frac{(RCA-1)}{(RCA+1)} \quad \text{............... (2)}
\]

Value obtained from this RSCA index ranges from -1 to 1. In Laursen research, RSCA index is also compared with the size of comparative advantage for other international trade specialization such as Michaely Index and Chi Square size. In conclusion, RSCA index is the
best measure for comparative advantage. Therefore, the interpretation of RCA index value is similar to RSCA index (Laursen, 1998).

2.5. Trade Balance Index (TBI)

The concept of Trade Balance Index (TBI) is proposed by Lafay (1992) to analyze a country’s specialization in export (as net-exporter) or in import (as net-importer) for specific product groups which are usually classified according to SITC. TBI is formulated as follows

\[ TBI_{ij} = \frac{x_{ij} - m_{ij}}{x_{ij} + m_{ij}} \] ............ (3)

Where:
- TBI: trade balance index of country i for product group j
- \( x_{ij} \): export of product group j from country i
- \( m_{ij} \): import of product group j from country i

TBI values range from -1 to +1. If TBI value is equal to -1 then a country only imports (net-importer). And conversely, if TBI value is equal to +1 then a country only exports (net-exporter).

2.6. Product Mapping

Figure 2. Product Mapping

<table>
<thead>
<tr>
<th>RSCA &gt; 0</th>
<th>Group B: Comparative Advantage</th>
<th>Group A: Comparative Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net-importer (RSCA &gt; 0 and TBI &lt; 0)</td>
<td>Net-exporter (RSCA &gt; 0 and TBI &gt; 0)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>RSCA &lt; 0</th>
<th>Group D: Comparative Disadvantage</th>
<th>Group C: Comparative Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net-importer (RSCA &lt; 0 and TBI &lt; 0)</td>
<td>Net-exporter (RSCA &lt; 0 and TBI &gt; 0)</td>
</tr>
</tbody>
</table>

TBI < 0  TBI < 0  Trade Balance Index (TBI)

Source: Widodo, 2011

Product mapping will determine leading exported product. Leading exported product is a product that has high export proportion on total world export and total domestic export. The product mapping uses two analysis tools with comparative advantage and the balance of trade. By using RSCA index and TBI simultaneously, mapping product can be formed.

3. Previous Research study

A research by Dahi (2006) focuses on the trade among the developing countries, namely South-South trade, investigates the impact of trade direction on developing country performance in skilled-intensive manufacturing. The empirical test results indicate that South-South trade has a positive impact on developing countries performance in skilled-intensive manufacturing sector as measured by RCA time series.
A research by Lee (2011) uses Balassa index (RCA) to capture the comparative advantage of a country, acquired for industries classified by their technological intensity. Regression results based on samples of 71 countries from 1970 mentions that the economy tends to grow faster when it is specialized in high technology export.

Dalum et al. (1998) show that in the context of intra-country, there is specialization pattern of exported products nationally that is sticky, although there is a tendency of a country to de-specialize products in the medium until long term. There is a tendency of OECD countries (which dominated by European Union countries) de-specialized at national level. But at the level of the OECD countries level, these countries lead to the same sector.

Laursen (1998) argues that in order to analyze the comparative advantage in econometric studies, RCA index of Balassa needs to be adjusted to be symmetric i.e. Revealed Symmetric Comparative Advantage (RSCA). In a research from Laursen, RSCA index is also compared with the size of comparative advantage for international trade specialization such as Michaely index and Chi Square size. In conclusion, RSCA index is the best measure of comparative advantage.

This study is different from previous studies that only discuss about exports, because this study deepens the analysis of mapping product concept. This study includes 255 types of manufacturing industry products (which is classified in 23 categories) traded between Indonesia and China. Each of these product categories is analyzed with the index of Revealed Symmetric Comparative Advantage (RSCA) and Trade Balance Index (TBI). Further analysis can be carried out the product mapping from each of these categories. So that the results of this study are expected to provide policy implications for manufacturing industries which have high competitiveness and the implications of international trade policy are profound.

4. Research Methodology

Figure 3. The Conceptual Framework of Product Mapping

SPECIFIC POLICY

Group A
RSCA+, TBI+

Group B
RSCA+, TBI-

Group C
RSCA-, TBI+

Group D
RSCA-, TBI-

ECONOMIC GROWTH
The Analysis Results of Product Mapping

Product mapping in this study uses RSCA index and TBI to determine leading exported products in bilateral trade between Indonesia and China in 1995-2011. If it is ranked according to RSCA value average and TBI, so that the ranking is as follows:

Table 1. Average Value of RSCA and TBI 1995-2011

<table>
<thead>
<tr>
<th>No.</th>
<th>Rank</th>
<th>Sector</th>
<th>Dominant Subsector</th>
<th>RSCA</th>
<th>TBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10</td>
<td>Textiles</td>
<td>Textile Yarn</td>
<td>-0.0767</td>
<td>-0.5489</td>
</tr>
<tr>
<td>2</td>
<td>14</td>
<td>Wearing Apparel</td>
<td>Men’s Clothing of Textile Fabrics, not Knitted</td>
<td>-0.6304</td>
<td>-0.3011</td>
</tr>
<tr>
<td>3</td>
<td>12</td>
<td>Leather Products</td>
<td>Leather</td>
<td>-0.5437</td>
<td>-0.3758</td>
</tr>
<tr>
<td>4</td>
<td>9</td>
<td>Footwear</td>
<td>Footwear</td>
<td>-0.2115</td>
<td>-0.3358</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>Wood Products</td>
<td>Veneers, Plywood, and Other Wood, Worked, n.e.s.</td>
<td>0.88556</td>
<td>0.83117</td>
</tr>
<tr>
<td>6</td>
<td>3</td>
<td>Furniture</td>
<td>Furniture</td>
<td>0.22515</td>
<td>0.12937</td>
</tr>
<tr>
<td>7</td>
<td>2</td>
<td>Paper and Products</td>
<td>Paper and paperboard</td>
<td>0.6494</td>
<td>0.66993</td>
</tr>
<tr>
<td>8</td>
<td>23</td>
<td>Printing and Publishing</td>
<td>Printed Matter</td>
<td>-0.8142</td>
<td>-0.8354</td>
</tr>
<tr>
<td>9</td>
<td>4</td>
<td>Industrial Chemical</td>
<td>Hydrocarbons, n.e.s., and Halogenated, Nitr. Derivative</td>
<td>0.09892</td>
<td>-0.0794</td>
</tr>
<tr>
<td>10</td>
<td>11</td>
<td>Other Chemical</td>
<td>Miscellaneous Chemical Products, n.e.s.</td>
<td>-0.427</td>
<td>-0.4847</td>
</tr>
<tr>
<td>11</td>
<td>5</td>
<td>Rubber Products</td>
<td>Rubber Materials (pastes, Plates, Sheets, etc.)</td>
<td>0.07018</td>
<td>-0.0822</td>
</tr>
<tr>
<td>12</td>
<td>8</td>
<td>Plastic Products</td>
<td>Waste, Parings and Scrap of Plastics</td>
<td>-0.3621</td>
<td>-0.176</td>
</tr>
<tr>
<td>13</td>
<td>13</td>
<td>Pottery, China, Earthenware</td>
<td>Pottery</td>
<td>-0.1277</td>
<td>-0.6079</td>
</tr>
<tr>
<td>14</td>
<td>7</td>
<td>Glass Products</td>
<td>Glass</td>
<td>-0.2305</td>
<td>-0.1539</td>
</tr>
<tr>
<td>15</td>
<td>6</td>
<td>Industrial Cement</td>
<td>Lime, Cement, Fabrica. Constr. Mat. (excluding glass, Clay)</td>
<td>0.04513</td>
<td>-0.2178</td>
</tr>
<tr>
<td>16</td>
<td>15</td>
<td>Clay Products</td>
<td>Clay Products</td>
<td>-0.0301</td>
<td>-0.6749</td>
</tr>
<tr>
<td>17</td>
<td>17</td>
<td>Iron and Steel</td>
<td>Base Metal Manufactures, n.e.s.</td>
<td>-0.6048</td>
<td>-0.7139</td>
</tr>
<tr>
<td>18</td>
<td>21</td>
<td>Fabricated Metal Products</td>
<td>Tubes, Pipes and Hollow Profiles, Fittings, Iron, Steel</td>
<td>-0.5613</td>
<td>-0.7738</td>
</tr>
<tr>
<td>19</td>
<td>20</td>
<td>Machinery and Parts</td>
<td>Office Machines</td>
<td>-0.7375</td>
<td>-0.7339</td>
</tr>
<tr>
<td>20</td>
<td>19</td>
<td>Machinery, Electric</td>
<td>Telecommunication Equipment, n.e.s.; &amp; Parts, n.e.s.</td>
<td>-0.7265</td>
<td>-0.5575</td>
</tr>
<tr>
<td>21</td>
<td>18</td>
<td>Transport Equipment</td>
<td>Vehicles Parts &amp; Accessories</td>
<td>-0.6701</td>
<td>-0.7163</td>
</tr>
</tbody>
</table>
Based on the data obtained by researchers, the overall product involved in trade between Indonesia-China in 1995 to 2011 is amounted to 255 types. While the products included in manufacturing industry products are 136 types. From the total number of 136 items is categorized into 23 categories of manufacturing industry goods. From the results of the average value above, 5 top ranking categories are selected, they are Wood Products, Furniture, Paper and Products, Industrial Chemicals, and Rubber Products category.

Figure 4. The Product Mapping Average of 23 Manufacturing Industry Products Category between Indonesia-China in 1995 to 2011

![Product Mapping Average](image)

Figure 4. is the result of analysis of product mapping average for 23 categories of manufacturing industries products involved in trade between Indonesia and China which are based on RSCA index and TBI. In product mapping, it can be appeared the position from of each of these categories in the 4 graphics quadrants.
From the results of the product mapping shows that the Wood Products category, Paper and Products and Furniture are in Group A where RSCA average value and TBI are always positive in the period of 1995-2011. While in Group B, there is Chemicals Industrial, Rubber Products and Cement category. But in Group C, there is no category. Most categories (16 categories) are classified in Group D, where RSCA average and TBI value are negative.

The 3 categories in the highest ranking in Group A are Wood Products, Paper and Products and Furniture, And in Group B, there are Industrial Chemicals and Rubber Products. This indicates that the 5 products in the highest category of manufacturing industry are able to compete in China. Because RSCA index shows how strong Indonesia’s exports to China on the world, and TBI index shows strong intra-industry exports from Indonesia to China.

Discussion

From the analysis of product mapping shows that only 3 categories that are in area A. 3 other categories are in area B and 16 (from 23) categories of manufacturing industry products are in area D where RSCA index value and negative TBI. This indicates that the majority of Indonesian manufacturing products of 1995-2011 have weak competitiveness and poor intra-industry trade balance. This condition has become uneasiness in the progress of international trade between Indonesia and China that is improving.

There are three prominent regional developments in ASEAN since the Global Financial Crisis (GFC) in 2007-2008. Those developments are:

i. The development of Free Trade Area/ FTA. Nowadays, Indonesia is a member of the 7 FTA: AFTA, ACFTA (ASEAN-China FTA), AKFTA (ASEAN-Korea FTA), IJEPA (Indonesia-Japan Economic Partnership), ASEAN-Japan FTA, ASEAN-India FTA, and AANZFTA (ASEAN-Australia-New Zealand FTA).

ii. The rapid growth of production and distribution network of manufacturing industries across the countries within 8 ASEAN+6 members (Japan, South Korea, China, Thailand, Malaysia, Singapore, Indonesia, and the Philippines).

iii. The Chiang Mai Initiative (CMI) changes to multilateral institutions. This is the beginning the handover of part of country’s sovereignty in ASEAN+3 to regional institutions. These multilateral agreements will change the way of decision-making in ASEAN from the consensus now is to rule based system. It also will replace the system of non-intervention in the internal affairs member states with CMI interference that oversees the implementation of the economic policy program of loan-recipient country(Nasution, 2012).

The signing of ACFTA has an effect on the declining on the average of tariff policy in Indonesia. However, international trade agreements are expected to open up market access for Indonesian products so that revenue from import tariffs of raw materials can be increased and it is expected foreign export exchange from Indonesia’s products will also increase.

Government continues the reduction of tariffs as agreed under international agreements such as ACFTA. From international trade side, there are various challenges that are potential to give negative effects on the revenues. In answering to the challenge of free trade, Indonesia is increasingly signing international trade agreements with other countries such as ACFTA.
Table 2. Development Strategy Target for the Increasing of Competitiveness in 2011-2013

<table>
<thead>
<tr>
<th>No.</th>
<th>Strategic Issues</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Increasing of Investment and Business Climate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Investment Improvement (5)</td>
<td>8,8</td>
<td>10,9</td>
<td>11,1</td>
</tr>
<tr>
<td></td>
<td>b. Business Easiness Level</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Timing to start business (days)</td>
<td>45</td>
<td>36</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>- Building Permission (days)</td>
<td>158</td>
<td>145</td>
<td>137</td>
</tr>
<tr>
<td>2</td>
<td>Infrastructure building acceleration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. National Road Condition (%)</td>
<td>88,5</td>
<td>90,5</td>
<td>92,5</td>
</tr>
<tr>
<td></td>
<td>b. District Capital City Served by Broadband (%)</td>
<td>66</td>
<td>76</td>
<td>83</td>
</tr>
<tr>
<td>3</td>
<td>Industrial Development Improvement in Various Economic Corridor</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Manufacturing Industry Improvement (%)</td>
<td>6,2</td>
<td>6,1</td>
<td>6,7</td>
</tr>
<tr>
<td></td>
<td>b. Non-Gas-and-Oil Manufacturing Industry Improvement (%)</td>
<td>6,8</td>
<td>6,6</td>
<td>7,5</td>
</tr>
<tr>
<td>4</td>
<td>Job Vacancies Creation specially for Young Labors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Opened-unemployment Rate (%)</td>
<td>6,6</td>
<td>6,4-6,6</td>
<td>5,8-6,1</td>
</tr>
</tbody>
</table>

Source: Financial Memorandum and Proposed 2013

In terms of export, the imposition of export tariffs on Indonesia’s export commodities that are upstream or raw materials have the potential to inhibit the export and at the end it will impact negatively on export tariff revenues. However, foreign exchange from exports is enhancing when Indonesia’s products can be exported as finished goods or processed goods, not raw materials. Based on current conditions, it can be seen that the success happens for downstream industries in the country.

The government plans to remain committed to the international goods trade cooperation agreements by continuing the reduction of tariffs in 2013 as agreed in an international agreement.

Another challenge is the decline of export tariffs. This happens because the purpose of the export tariff is as an instrument to support country’s revenues, but rather to aim to:
(a) meet the needs of domestic raw materials;
(b) preserve natural resources;
(c) keep certain commodity price stability in the country, and
(d) anticipate the increase of high prices rise for certain export commodities in international market.

By setting development targets to improve the competitiveness, the competitiveness of Indonesia’s products, especially to China, can be increased. Before the flood of China’s products come to Indonesia, generally because of the low price set by China. With the import tariffs, the price of Chinese goods is still relatively low when compared to domestic products price (Indonesia), in additional, without import tariffs, along with the scheme of ACFTA agreement. This condition results the low price of goods from. Indonesia’s consumption patterns which are very sensitive on the price; prefer cheap goods without paying attention to quality; and a low sense of nationalism can cause domestic product (Indonesia) make Indonesia cannot compete with China’s products.

Conclusion

From the analysis of product mapping, it appears that 5 categories on highest ranking in Group A are Wood Products, Paper and Products and Furniture. And is in Group B, there are Industrial Chemicals and Rubber Products. This indicates that the 5 products in the highest category in manufacturing industry are able to compete in China. Because RSCA index shows strong Indonesian exports to China on the world, and TBI index shows strong intra-industry exports from Indonesia to China.

However, in general, from the 23 categories studied, only 3 categories that are in area A. 3 other categories are in area B and the rest (16 categories of manufacturing industrial products) is in area D where RSCA index value and TBI are negative. This indicates that the majority of Indonesian manufacturing products in 1995-2011 have weak competitiveness and poor intra-industry trade balance. This condition becomes threat for the increasing progress of Indonesia and China international trade cooperation.

In maintaining and improving its comparative advantage, manufacturers should innovate through researching and developing their products. Therefore, the government should provide adequate infrastructure, training and development for manufacturers, as well as easy and cheap access for promoting to the exported products distributor in Indonesian. The requirement of more serious attention from various involved parties is in order to excel manufacturing export products becoming prominent for Indonesia in future international trade.

It requires a comprehensive effort of various stakeholders to maintain and improve the comparative advantage of manufacturing products. Because of the reality occurring in the field indicate that (i) the access and promotion difficulties to international markets, (ii) differences in product standardization in each of export destinations; (iii) convoluted procedures exporter permission, and (iv) export bureaucratic inefficiency resulting additional costs thereby reducing the competitiveness of export products.

References


