

THE GROWTH OF INDONESIAN EXPORT-IMPORT AND ITS INCIDENTAL MATTERS

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The Growth in the Aggregate Level

Table 1 explains data related to the growth of several significant variables of Indonesian macroeconomic during 1999 and estimation of 2006 including the growth of export-import activities (namely foreign trade balance of payments). Following the growth of Indonesia's export value up to 19.5% in 2005, it is estimated that in 2006 the value will decline to the low 3.0%. At the same time, the imports value also steeply fall from 23.7% in 2005 to 6.2% in 2006. Assumptions behind these trend lies in the presumable decline in economic growth since most of domestic economic activities are heavily depended upon the import of processed raw materials, capital and supportive goods, and services as well. However, considering that primary sectors still play an important role in Indonesian economy particularly oil and gas sectors, then a relative high rise in the balance of payments in the future is likely to be achieved.

Table 1: The Realization of Indonesian Macroeconomic Performance in 1999-2005 and 2006

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006* |
|---------------------------------------|-------|------|-------|------|------|-------|-------|-------|
| Real Growth of GDP (%) | 0,8 | 4,9 | 3,8 | 4,3 | 4,8 | 5,1 | 5,6 | 5,4 |
| Growth of household consumption (%) | 4,5 | 1,6 | 3,5 | 3,8 | 3,9 | 5,0 | 4,0 | 4,2 |
| Growth of net investment (%) | -18,2 | 16,7 | 6,5 | 4,7 | 0,6 | 14,6 | 9,9 | 10,3 |
| Nominal GDP (billion US\$) | 140 | 166 | 164 | 196 | 235 | 254 | 281 | 359 |
| GDP per capita (US\$) | 694 | 732 | 686 | 815 | 969 | 1.175 | 1.283 | 1.618 |
| Growth of export value (US\$) (%) | -0,4 | 27,7 | -9,3 | 5,0 | 8,4 | 12,0 | 19,5 | 3,0 |
| Growth of import value (US\$) (%) | -12,2 | 39,6 | -7,6 | 15,1 | 10,9 | 27,8 | 23,7 | 6,2 |
| Balance of trade (billion US\$) | 24,7 | 28,6 | 25,4 | 23,5 | 24,6 | 21,2 | 28,0 | 27,0 |
| On going transactions (% from GDP) | 4,1 | 4,8 | 4,2 | 4,0 | 3,5 | 1,2 | 0,3 | 0,4 |
| Exchange rate, Rp/US\$ (rata-rata) | 7847 | 8389 | 10247 | 9315 | 8573 | 8936 | 9711 | 9072 |
| Inflation growth (average) | 20,8 | 3,8 | 11,5 | 11,8 | 6,8 | 6,1 | 10,5 | 13,9 |
| Fiscal Balance of Payments (% of GDP) | -2,8 | -1,2 | -2,4 | -0,9 | -1,8 | -1,2 | -0,5 | -1,3 |

Note: * = estimation

Source: BPS and Citigroup for the estimation of 2006

Data from BPS (Central Bureau of Statistics) presents that the exports value in January 2006 including oil/gas and non-oil/gas each represents 7.56 billion and 5.73 billion US\$, while import side valued 4.39 and 3.18 billion US\$ respectively. As a result, Indonesia's net foreign trade balance for the period of January 2006 for oil/gas and non-oil/gas enjoyed a surplus of 3.17 billion and 2.55 billion US\$ subsequently.

Compared to the export in January 2005, the value reached by oil/gas and non oil/gas were up to 23.26% and 16.63% respectively. The prominent factors of the increasing export values were the increase of export of mining production sector from 0.44 billion to 0.97 billion US\$. Meanwhile, imports value including oil/gas

and non-oil/gas sectors during January 2006 each improved up to 6.49% and 3.89% compared to the same period of the previous year. Imports in January 2006 were still dominated by imports of raw materials valued 3.23 billion US\$ or increased by 1.41% compared to the same period back in 2005.

Hence, the last data of BPS stated that exports value in May 2006 recorded as the highest number in the history. The exports value in that particular month reached up to 8.34 billion US\$ or improved 9.79% compared to value in April 2006. The cumulative exports during the months of January – May set at 38.39 billion US\$ or an increase of 13.40% from the same period in 2005 (Table 2).

Table 2. Indonesia’s Exports Value, January-May 2006

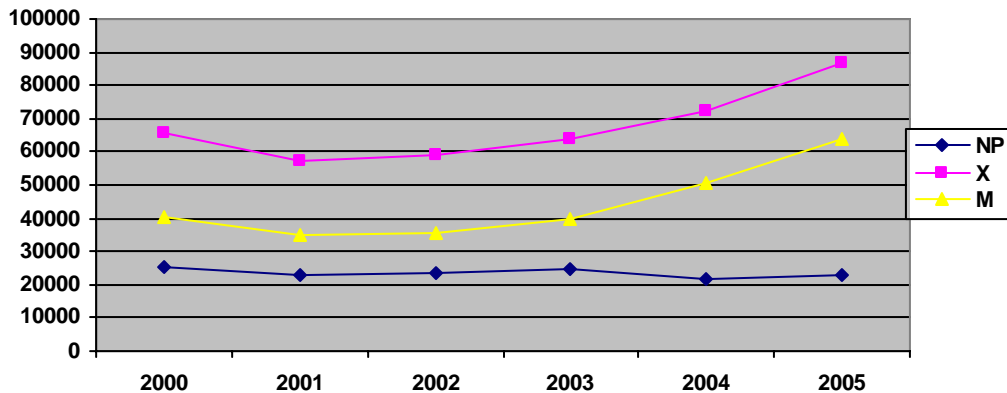
| Items | FOB Value (million US\$) | | | % changes in total Jan-May 2006 | % changes in total of Jan-May 2006 to 2005 |
|----------------|--------------------------|--------------|--------------|---------------------------------|--|
| | May2006 | Jan-May 2005 | Jan-May 2006 | | |
| Total exports | 8.342,0 | 33.854,5 | 38.392,2 | 100,00 | 13,40 |
| Oil | 1.789,1 | 7.313,9 | 8.607,4 | 22,42 | 17,68 |
| - Crude Oil | 628,0 | 3.124,5 | 3.377,7 | 8,80 | 8,10 |
| - Oil Products | 227,2 | 705,9 | 1.008,1 | 2,62 | 42,81 |
| - Gas | 933,9 | 3.483,5 | 4.221,6 | 11,00 | 21,18 |
| Non-Oil/Gas | 6.552,9 | 26.540,6 | 29.784,8 | 77,58 | 12,22 |

In general, high exports value recorded in May 2006 mostly due to the price increase of several commodities such as crude palm oil (CPO), rubber and coal as well as the price of crude oil in the world market. During the last five months, rubber exports amounted to 776 million US\$, CPO to 360 million US\$, and coal reached 800 million US\$. Based on these facts, BPS predicted that the total exports of Indonesia during the year of 2006 could reach up to 100 million US\$ assuming the favorable world economic condition and high world demand toward Indonesian export products (Kompas, Tuesday, July 4, 2006, p.17).

On the import side, as it was recorded in May 2005, the value reached 5.96 billion US\$ or up by almost 6.50% compared to the value in April 2006. During the period of January-May 2006, imports value reached a high of 23.14 billion US\$ or dropped by 2.12% from the same period in 2005.

Judging the development from the year 2000, total exports value (oil/gas and non-oil/gas) has slightly declined from 65.4million US\$ in 2000 to 57.4million US\$ in 2001, and yet finally maintain its growth until today. Thus, the surplus in foreign trade balance also experienced a slight declined from 25million US\$ to 22.7million US\$ during the same period (Figure 1). Assuming that the prediction of BPS is achieved and the growth of imports is relatively stable then we may expect an increase value in Indonesia’s trade balance at the end of 2006.

Figure 1: Trend of Indonesia's Foreign Trade Balance (NP), Exports (X) and Imports (M), during 2000-2005 (million US\$).



Source: BPS.

The Development of Export, Import and Trade Balance Structures

Due to its high dependent on oil/gas sectors, although showing a declining trend in its proportion, then the development of Indonesia's trade balance structure in terms of oil/gas and non-oil/gas becomes extremely crucial. As it is shown in Table 3, oil/gas sector is yet hold the most significant sources of surplus for Indonesia's foreign trade balance. Without oil/gas sector, the average/year surplus in foreign trade balance was lower than the surplus in non-oil/gas sector even recorded a deficit balance in certain years.

Table 3. Indonesia's Trade Balance of Oil/Gas and Non-Oil/Gas, in 1994-January 2006 (billion US\$)

| Year | Including Oil/Gas | | Excluding Oil/Gas | |
|----------|-------------------|--------|-------------------|--------|
| | Export | Import | Export | Import |
| 1994 | 40,1 | 31,9 | 30,4 | 29,6 |
| 1995 | 45,4 | 40,6 | 34,95 | 37,7 |
| 1996 | 49,8 | 42,9 | 38,1 | 39,3 |
| 1997 | 53,4 | 41,7 | 41,8 | 37,8 |
| 1998 | 48,9 | 27,3 | 40,98 | 24,7 |
| 1999 | 48,7 | 24,0 | 38,9 | 20,3 |
| 2000 | 62,1 | 33,5 | 47,8 | 27,5 |
| 2001 | 56,3 | 30,96 | 43,7 | 25,5 |
| 2002 | 57,2 | 31,3 | 45,1 | 24,8 |
| 2003 | 61,1 | 32,6 | 47,4 | 24,9 |
| 2004 | 71,6 | 46,5 | 55,94 | 34,8 |
| 2005 | 85,7 | 57,7 | 66,4 | 40,2 |
| Jan.2006 | 7,6 | 4,4 | 5,7 | 3,2 |

Source: BPS

It can then be argued that since the end of oil boom era in the 1980's, Indonesia's government has been tried to reduce its national economic dependant upon oil/gas sector, in terms of its foreign trading particularly exports. Since then, the government shifted its industrialization policy from import substitution to promoting export products such as manufacturing/industrial products. According to the SITC goods, besides fuel (importantly oil/gas) and the like, manufacturing products have been the second crucial exported item for

Indonesia. Especially those export of machinery and transportation utilities have soared sharply from 3.1 billion US\$ in 1994 to almost 14 billion US\$ in 2005. Exported manufacturing products based on its material during the same period have also indicated rapid growth though within a relatively lower growth from 9.5billion US\$ to 14.4 billion US\$ (Table 4).

As it is explained earlier that the exports value in May 2005 enjoyed a significant improvement. From that standpoint, non-oil/gas exports value increased by 10.52% and the exports of oil/gas sector increased by 7.22% from April within the same year. According to the clarification by BPS (Kompas, Tuesday, July 4, 2006 (p.17), the improvement in exports value in May were most contributed to the increase in exports of mining sectors particularly products such as, ore/grains, crusts as well as dust metal. The exports value of those mentioned products improved by 113 million US\$ compared to the value reached in April.

Table 4. The Growth of Export Value Based on SITC Goods, in Indonesia, in 1994-Jan.2006 (billion US\$)

| Year | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | Total export |
|----------|------|------|------|------|-----|------|------|------|------|------|--------------|
| 1994 | 3,6 | 0,14 | 3,2 | 10,5 | 1,4 | 1,0 | 9,5 | 3,1 | 7,6 | 0,2 | 40,1 |
| 1995 | 3,6 | 0,2 | 5,03 | 11,5 | 1,4 | 1,5 | 10,4 | 3,8 | 7,8 | 0,05 | 45,4 |
| 1996 | 3,8 | 0,23 | 5,1 | 12,9 | 1,6 | 1,7 | 10,8 | 5,0 | 8,9 | 0,1 | 49,8 |
| 1997 | 3,6 | 0,3 | 4,4 | 13,4 | 2,3 | 1,9 | 9,7 | 4,6 | 6,98 | 6,6 | 53,4 |
| 1998 | 3,7 | 0,3 | 3,7 | 9,4 | 1,5 | 2,1 | 8,8 | 4,7 | 6,7 | 8,0 | 48,9 |
| 1999 | 3,7 | 0,23 | 3,4 | 11,2 | 1,8 | 2,4 | 11,0 | 5,3 | 8,2 | 1,5 | 48,7 |
| 2000 | 3,5 | 0,23 | 4,3 | 15,7 | 1,8 | 3,2 | 12,3 | 10,8 | 9,95 | 0,4 | 62,1 |
| 2001 | 3,3 | 0,3 | 4,2 | 14,3 | 1,5 | 2,8 | 11,2 | 9,1 | 9,3 | 0,44 | 56,3 |
| 2002 | 3,6 | 0,3 | 4,5 | 13,9 | 2,7 | 2,97 | 10,9 | 9,8 | 8,2 | 0,3 | 57,2 |
| 2003 | 3,7 | 0,2 | 5,3 | 15,7 | 3,0 | 3,4 | 11,2 | 9,8 | 8,5 | 0,3 | 61,1 |
| 2004 | 3,97 | 0,3 | 6,4 | 18,6 | 4,5 | 4,0 | 12,9 | 11,5 | 9,2 | 0,25 | 71,6 |
| 2005 | 4,6 | 0,3 | 9,0 | 23,7 | 5,0 | 4,5 | 14,4 | 13,6 | 10,3 | 0,2 | 85,7 |
| Jan.2006 | 0,4 | 0,02 | 0,9 | 2,4 | 0,4 | 0,4 | 1,2 | 1,01 | 0,88 | 0,07 | 7,6 |

Note; 0=foods & live animals; 1=beverages & tobacco; 2=raw materials; 3=fuel, lubricating oil & so on; 4=oil/vegetable & animal fat; 5=chemical; 6=manufacturing products based on its materials; 7=machinery & transportation utilities; 8=other manufacturing products ; 9= other certain goods & transactions.

Source: BPS

Now, looking at the import side, the non-oil/gas imports value in May 2006 reached 3.37billion US\$ or increase by a mere 0.81% from previous month, whereas during the period of January to May 2006 it amounted to 16.34 billion US\$ or declined by 3.89% compared to the same period in 2005. Meanwhile, the import of oil/gas sector in May 2006 reached the level of 1.69 billion US\$ or up by 19.94% from April 2006 with cumulative total of 6.80billion US\$ during the first five months of 2006 or an increase by 2.39% during same period in the previous year.

From the point of non-oil/gas import structure, again Indonesia was highly dependant on consumption and industrial goods (that is capital goods) as well as raw materials and supporting goods where the long term

development of those goods may be observed in the following tables. The numbers actually reflect government efforts in implementing its industrialization policy has not successfully reduced its dependence toward those imported goods. Table 5 pointed out the increasing trend of imports value growth from those 3 groups of economic goods where raw materials and supported goods recorded as the highest value each year. Highly dependent towards raw materials and supported goods also reflects that the middle stream industry in Indonesia has not been fully developed. Ironically, Indonesia has actually imported a number of raw materials in the form of processed goods, half-ready & ready to use products applied in domestic industries.

Table 5. The Growth of Import Value Based on Economic Goods, in 1993-Jan. 2006 (billion US\$)

| Year | Consumption | Raw material & supported goods | Capital | Total |
|----------|-------------|--------------------------------|---------|-------|
| 1993 | 1,2 | 20,0 | 7,2 | 28,3 |
| 1994 | 1,4 | 23,1 | 7,4 | 31,98 |
| 1995 | 2,4 | 29,6 | 8,7 | 40,6 |
| 1996 | 2,8 | 30,5 | 9,7 | 42,9 |
| 1997 | 2,2 | 30,2 | 9,3 | 41,7 |
| 1998 | 1,9 | 19,6 | 5,8 | 27,3 |
| 1999 | 2,5 | 18,5 | 3,1 | 24,0 |
| 2000 | 2,7 | 26,0 | 4,8 | 33,5 |
| 2001 | 2,3 | 23,9 | 4,8 | 30,96 |
| 2002 | 2,7 | 24,2 | 4,4 | 31,3 |
| 2003 | 2,9 | 25,5 | 4,2 | 32,6 |
| 2004 | 3,8 | 36,2 | 6,5 | 46,5 |
| 2005 | 4,6 | 44,8 | 8,3 | 57,7 |
| Jan.2006 | 0,4 | 3,2 | 0,8 | 4,4 |

Source: BPS

The following tables, Table 6, Table 7 and Table 8, further indicated in more detail the increasing trend of imports value for each goods; consumption goods, raw materials and supported goods, and capital goods during the same period. It can be seen that the biggest components of consumption goods imports came from food preserved with raw materials processed in Indonesia. On the other hand, the biggest components from raw materials and supported goods are preserved oils and fuels; whereas capital goods constituted from capital goods used for production process except transportation means.

According to goods classified in SITC, Table 9 pointed out that Indonesia's imports has been dominated by machinery and transportation means imports with a significant value though slightly decrease since the crisis in 1998, and bounce back in 2004. Data in January 2006 also concluded that the import of capital goods has been the biggest items amongst the imported goods based on SITC code. This matter, as explained earlier, shows that Indonesia has not yet ahead of competition in the international trade and industry for its machinery as well as transportation means. Particularly in the past few years, China emerged as the new and strong competitor to tap the market in terms of aggressively producing and trading those products. Other reasons attributed to the poor

Table 6. The Growth of Import Value of Consumptions Goods in 1993-Jan.2006 (billion US\$)

| Year | Total | Foods & beverages for households | | Preserved fuels & oils | Non Industrial transportation means | Unclassified Consumption Goods | | | Others |
|----------|-------|----------------------------------|-----------|------------------------|-------------------------------------|--------------------------------|-----------|-----------|--------|
| | | Primary | Preserved | | | Durable | ½ Durable | Endurable | |
| 1993 | 1,2 | 0,1 | 0,2 | 0,06 | 0,01 | 0,1 | 0,2 | 0,2 | 0,2 |
| 1994 | 1,4 | 0,2 | 0,4 | 0,09 | 0,01 | 0,1 | 0,3 | 0,3 | 0,1 |
| 1995 | 2,4 | 0,3 | 0,9 | 0,1 | 0,02 | 0,2 | 0,3 | 0,3 | 0,2 |
| 1996 | 2,8 | 0,3 | 1,3 | 0,2 | 0,01 | 0,2 | 0,3 | 0,4 | 0,2 |
| 1997 | 2,2 | 0,3 | 0,6 | 0,1 | 0,02 | 0,3 | 0,3 | 0,4 | 0,2 |
| 1998 | 1,9 | 0,1 | 1,0 | 0,1 | 0,003 | 0,1 | 0,2 | 0,2 | 0,2 |
| 1999 | 2,5 | 0,2 | 1,4 | 0,3 | 0,01 | 0,08 | 0,2 | 0,2 | 0,1 |
| 2000 | 2,7 | 0,3 | 0,7 | 0,6 | 0,07 | 0,2 | 0,3 | 0,4 | 0,1 |
| 2001 | 2,3 | 0,3 | 0,5 | 0,5 | 0,03 | 0,2 | 0,2 | 0,4 | 0,1 |
| 2002 | 2,7 | 0,4 | 0,7 | 0,5 | 0,08 | 0,2 | 0,3 | 0,5 | 0,04 |
| 2003 | 2,9 | 0,4 | 0,8 | 0,4 | 0,2 | 0,3 | 0,3 | 0,5 | 0,08 |
| 2004 | 3,8 | 0,5 | 0,8 | 0,8 | 0,3 | 0,3 | 0,4 | 0,7 | 0,07 |
| 2005 | 4,6 | 0,4 | 1,1 | 1,3 | 0,3 | 0,3 | 0,4 | 0,7 | 0,02 |
| Jan.2006 | 0,4 | 0,05 | 0,1 | 0,1 | 0,02 | 0,02 | 0,03 | 0,06 | 0,0004 |

Source: BPS

Table 7. The Growth of Import Value of Raw Materials & Supporting Goods in 1993-Jan.2006 (billion US\$)

| Year | Total | Foods & beverages for industry | | Raw material for industry | | Fuels & Oils | | Spare parts & other tools | |
|----------|-------|--------------------------------|-----------|---------------------------|-----------|--------------|-----------|---------------------------|-------------------------|
| | | Primary | Preserved | Primary | Preserved | Primary | Preserved | As capital goods | As transportation means |
| | | | | | | | | | |
| 1993 | 20,0 | 0,7 | 0,2 | 1,5 | 10,2 | 0,9 | 1,1 | 3,4 | 1,9 |
| 1994 | 23,1 | 0,99 | 0,2 | 1,8 | 11,6 | 1,1 | 1,2 | 3,3 | 2,99 |
| 1995 | 29,6 | 1,2 | 0,4 | 2,4 | 14,8 | 1,4 | 1,5 | 4,2 | 3,7 |
| 1996 | 30,5 | 1,7 | 0,5 | 2,3 | 14,4 | 1,5 | 1,9 | 4,7 | 3,4 |
| 1997 | 30,2 | 1,4 | 0,5 | 2,0 | 14,1 | 1,5 | 2,3 | 5,2 | 3,2 |
| 1998 | 19,6 | 0,8 | 0,5 | 1,6 | 9,7 | 1,1 | 1,5 | 3,2 | 1,2 |
| 1999 | 18,5 | 1,1 | 0,5 | 1,6 | 8,9 | 1,6 | 1,8 | 1,9 | 1,02 |
| 2000 | 26,0 | 1,01 | 0,5 | 2,0 | 12,4 | 2,5 | 2,96 | 2,2 | 2,3 |
| 2001 | 23,9 | 0,8 | 0,5 | 2,2 | 10,97 | 2,9 | 2,2 | 2,2 | 2,1 |
| 2002 | 24,2 | 1,1 | 0,4 | 1,6 | 10,5 | 3,2 | 2,9 | 2,2 | 2,1 |
| 2003 | 25,5 | 1,1 | 0,5 | 1,7 | 10,6 | 4,0 | 3,3 | 2,1 | 2,2 |
| 2004 | 36,2 | 1,5 | 0,6 | 2,2 | 15,4 | 5,5 | 5,3 | 2,8 | 2,6 |
| 2005 | 44,8 | 1,3 | 0,8 | 2,1 | 17,4 | 6,8 | 9,5 | 3,7 | 3,2 |
| Jan.2006 | 3,2 | 0,09 | 0,06 | 0,2 | 1,3 | 0,5 | 0,7 | 0,2 | 0,2 |

Source: BPS

achievement in machinery industry and transportation means in Indonesia was the weak performance by supporting industries as well as poor technology capability. Not to mention that these product category is highly sensitive to any technological changes.

Table 8. The Growth of Import Value of Capital Goods in 1993-Jan.2006 (billion US\$)

| Year | Total | Capital goods except transportation means | Passenger Car | Industrial transportation means |
|----------|-------|---|---------------|---------------------------------|
| 1993 | 7,2 | 6,6 | 0,1 | 0,5 |
| 1994 | 7,4 | 6,6 | 0,04 | 0,8 |
| 1995 | 8,7 | 7,9 | 0,08 | 0,7 |
| 1996 | 9,7 | 8,9 | 0,1 | 0,6 |
| 1997 | 9,3 | 8,6 | 0,1 | 0,5 |
| 1998 | 5,8 | 5,4 | 0,03 | 0,4 |
| 1999 | 3,1 | 2,7 | 0,01 | 0,3 |
| 2000 | 4,8 | 4,3 | 0,01 | 0,4 |
| 2001 | 4,8 | 4,1 | 0,01 | 0,6 |
| 2002 | 4,4 | 3,8 | 0,05 | 0,6 |
| 2003 | 4,2 | 3,5 | 0,1 | 0,5 |
| 2004 | 6,5 | 5,4 | 0,3 | 0,8 |
| 2005 | 8,3 | 6,5 | 0,3 | 1,5 |
| Jan.2006 | 0,8 | 0,6 | 0,01 | 0,2 |

Source: BPS

Table 9. The Growth of Import Values Based on SITC Classified Goods in 1994-Jan.2 (billion US\$)

| Year | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | Total import |
|----------|------|------|------|------|------|-----|-----|------|------|-------|--------------|
| 1994 | 1,9 | 0,1 | 2,7 | 2,4 | 0,1 | 4,9 | 5,2 | 13,5 | 1,2 | 0,02 | 31,98 |
| 1995 | 3,0 | 0,2 | 3,6 | 3,0 | 0,1 | 6,3 | 6,7 | 16,3 | 1,4 | 0,04 | 40,6 |
| 1996 | 3,9 | 0,2 | 3,5 | 3,7 | 0,1 | 6,0 | 6,6 | 17,5 | 1,4 | 0,003 | 42,9 |
| 1997 | 2,98 | 0,3 | 2,98 | 4,1 | 0,1 | 5,9 | 6,5 | 17,6 | 1,3 | 0,004 | 41,7 |
| 1998 | 2,6 | 0,09 | 2,4 | 2,7 | 0,05 | 4,1 | 4,5 | 9,9 | 0,9 | 0,001 | 27,3 |
| 1999 | 3,2 | 0,2 | 2,5 | 3,7 | 0,03 | 4,5 | 3,5 | 5,7 | 0,7 | 0,002 | 24,0 |
| 2000 | 2,8 | 0,2 | 3,3 | 6,1 | 0,05 | 5,9 | 5,0 | 9,2 | 0,98 | 0,01 | 33,5 |
| 2001 | 2,5 | 0,2 | 3,2 | 5,5 | 0,04 | 5,4 | 4,3 | 9,1 | 0,8 | 0,01 | 30,96 |
| 2002 | 2,9 | 0,2 | 2,7 | 6,6 | 0,05 | 5,3 | 4,2 | 8,6 | 0,8 | 0,01 | 31,3 |
| 2003 | 3,1 | 0,2 | 2,6 | 7,7 | 0,05 | 5,3 | 4,2 | 8,6 | 0,9 | 0,01 | 32,6 |
| 2004 | 3,8 | 0,2 | 3,5 | 11,8 | 0,07 | 7,6 | 6,2 | 12,2 | 1,2 | 0,00 | 46,5 |
| 2005 | 4,0 | 0,2 | 2,4 | 17,5 | 0,07 | 8,1 | 7,8 | 15,3 | 1,3 | 0,004 | 57,7 |
| Jan.2006 | 0,35 | 0,02 | 0,3 | 1,2 | 0,01 | 0,6 | 0,5 | 1,3 | 0,1 | 0,00 | 4,4 |

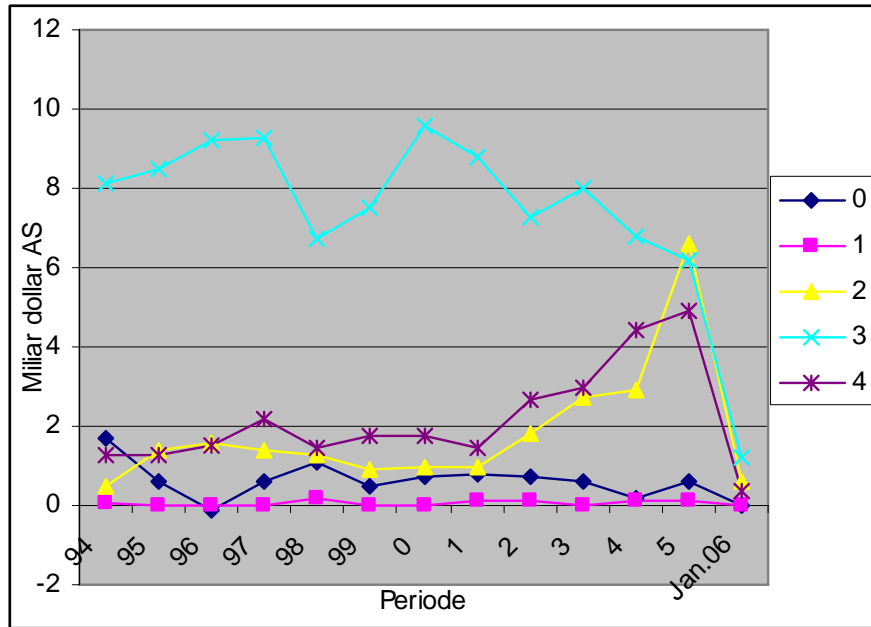
Note: see Table 4.

Source: BPS

Combined data in Table 4 and Table 9 revealed the growth of balance account in Indonesia's foreign trade balance for each category. Not surprisingly, trade balance surplus for fuel category and so on (SITC 3) was the highest although it's long term growth indicating a declining trend (Figure 2). Other product categories with high surplus in the trade balance was industrial products based on its materials (SITC 6) particularly from the abundant raw materials in Indonesia such as woods and leathers, and other industrial products (SITC 8); whereas net balance of foreign trade balance from machinery and transportation means experienced a huge deficit though

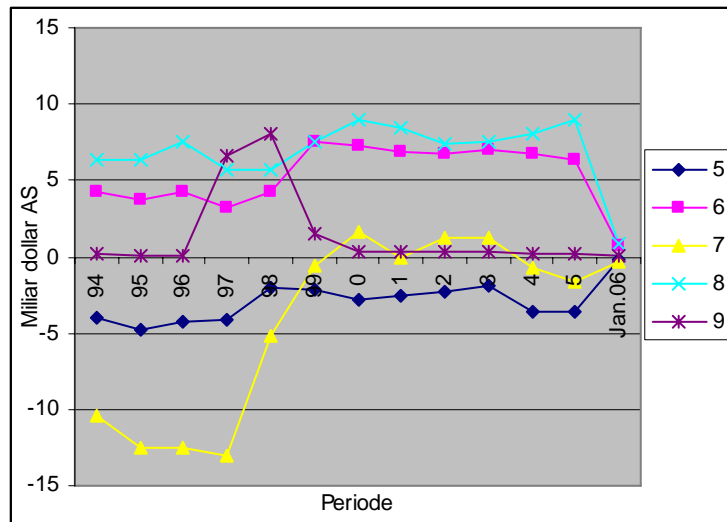
gradually lessening after 1990's. Net balance from foreign trade balance of chemical products suffer deficit as well yet its long term growth moving in a positive direction (Figure 3)

Figure 2: The Growth of Indonesia's Foreign Trade Balance for Goods under SITC 0-4 in 1994-Jan.2006



Source: BPS.

Figure 3: The Growth of Indonesia's Foreign Trade Balance for Goods under SITC in 1994-Jan.2006



Source: BPS

The Growth of Industrial Goods Trade Balance

All these years, some of the top Indonesia's industries to export manufacturing products have been the leather industry (including leather footwear), clothing, and other textile products (TPT). These industries considered as labor intensive industry which becomes the comparative advantage of Indonesia. The export value as well as its trade balances of these particular industries shows a pretty strong level. Major contribution came from industry

such as textiles, clothing and footwear which have been rapidly grow since 1980's to 1999 as a result of a big jump of their export activities. Further, this industry might benefited from rupiah's depreciation against US\$ during and after the economic crisis in 1998/99. However, following the year of 2000, the export growth of these industries has been fairly stagnating whereas leather products suffered a deficit in the past few years. The main reason behind these facts were on one side the slower trend on its average export per year, and on the other side due to its dependant on imported raw materials such raw leather (Table 10).

The stagnancy of Indonesia's TPT export following the crisis in 1998 was mainly derived from the inability of this labor intensive industry to compete with TPT from China as well as other countries which were well operated with low production costs (Aswicahyono & Hill, 2004). During the last five years, Chinese products including clothing are flooding the domestic market, not only here in Indonesia but also in European Union (EU) and United States of America (USA).

A market analysis conducted by Aswicahyono & friends (2005) revealed that Indonesia has started to loose its competitiveness in the TPT industry, particularly garment, even though the labor cost/unit that is the cost of wages in conformity with work productivity remains competitive. Added by the fact that for the past few years, there were none foreign investment (FI) involvement in this industry. Japan's investment in TPT industry which was somewhat dominant during the New Governance Era has been sharply declined following the crisis in 1997/1998. For example, 4 years prior to the crisis, Japan's textile industries invested an average of 119 million US\$/year into those of Indonesians. However, during 2003 and 2004 the value invested by Japan in this industry was only amounted to 7 million US\$/year (Aswicahyono & Hill,2004).

Several studies predicted that after the diminishing of Multi-Fiber Agreement (MFA) at the end of 2004, China's TPT imports share will surge and hence dominating domestic markets of USA and EU while Indonesia's TPT import share will move downward or being the least in the world market. It also means that Indonesia faced a stiff competition from China's TPT both in domestic and global market. However, the anxiety over potential loss toward elimination of MFA related to the share of Indonesia's TPT industry in USA and EU markets caused by stiff competition with China, is not yet realized. This was due to the introduction of quota limitation over China's TPT by USA and EU following the elimination of MFA. Hence, it provides breakthrough for Indonesia's TPT to maintain its market share in USA and EU. Yet, there is still some degree of alarmed position of Indonesia's TPT that the opportunity might not be fully implemented due to the existing problems and obstacles faced by both

Table 10. The Growth of Exports Value of Industrial Products in 1996-Jan.2006 (billion US\$)

| Products | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Jan.2006 |
|------------------------|------|-------|------|------|------|-------|-------|------|------|------|----------|
| Woods | | | | | | | | | | | |
| -Plywood | 3,6 | 3,4 | 2,1 | 2,3 | 1,99 | 1,8 | 1,8 | 1,7 | 1,6 | 1,4 | 0,09 |
| -Cropped-woods | 0,5 | 0,4 | 0,2 | 0,3 | 0,3 | 0,3 | 0,4 | 0,3 | 0,3 | 0,3 | 0,02 |
| -Others | 1,1 | 1,5 | 2,2 | 1,2 | 1,2 | 1,1 | 1,1 | 1,2 | 1,4 | 1,4 | 0,1 |
| Metal goods | | | | | | | | | | | |
| -Tin | 0,3 | 0,3 | 0,3 | 0,3 | 0,2 | 0,2 | 0,2 | 0,3 | 0,6 | 0,9 | 0,08 |
| -Aluminum | 0,4 | 0,4 | 0,4 | 0,3 | 0,5 | 0,4 | 0,4 | 0,4 | 0,5 | 0,6 | 0,06 |
| -Others | 0,2 | 0,2 | 0,1 | 0,2 | 0,3 | 0,2 | 0,003 | 0,2 | 0,7 | 0,9 | 0,06 |
| Clothes | 3,6 | 2,9 | 2,6 | 3,8 | 4,7 | 4,5 | 3,9 | 4,04 | 4,4 | 4,97 | 0,4 |
| Other textiles | 2,98 | 3,7 | 4,7 | 3,4 | 3,6 | 3,2 | 3,1 | 3,1 | 3,4 | 3,7 | 0,3 |
| Rubbers preserved | 2,2 | 1,99 | 1,6 | 1,2 | 1,3 | 1,2 | 1,6 | 2,1 | 2,95 | 3,6 | 0,4 |
| Animals meals | 0,2 | 0,1 | 0,1 | 0,09 | 0,09 | 0,08 | 0,1 | 0,1 | 0,2 | 0,2 | 0,01 |
| Olive Oil | 0,08 | 0,09 | 0,1 | 0,1 | 0,1 | 0,1 | 0,2 | 0,2 | 0,2 | 0,2 | 0,01 |
| Palm oil | 0,8 | 1,5 | 0,8 | 1,1 | 1,1 | 1,1 | 2,1 | 2,5 | 3,4 | 3,8 | 0,3 |
| Fattening Acid | 0,2 | 0,09 | 0,4 | 0,2 | 0,2 | 0,1 | 0,2 | 0,2 | 0,3 | 0,3 | 0,03 |
| Electrical tools | 1,4 | 1,4 | 1,5 | 1,7 | 3,2 | 2,6 | 2,7 | 3,1 | 3,5 | 4,4 | 0,4 |
| Food preserved | 0,96 | 0,8 | 0,8 | 0,96 | 0,96 | 1,0 | 1,2 | 1,2 | 1,5 | 1,8 | 0,1 |
| Cement | 0,02 | 0,04 | 0,08 | 0,1 | 0,1 | 0,2 | 0,1 | 0,09 | 0,1 | 0,1 | 0,01 |
| Plaited goods | 0,06 | 0,04 | 0,01 | 0,06 | 0,07 | 0,08 | 0,08 | 0,07 | 0,07 | 0,06 | 0,01 |
| Chemical products | 0,6 | 0,7 | 1,01 | 0,99 | 1,3 | 1,2 | 1,3 | 1,5 | 1,95 | 2,1 | 0,2 |
| Manure | 0,3 | 0,3 | 0,2 | 0,2 | 0,2 | 0,1 | 0,1 | 0,2 | 0,09 | 0,2 | 0,01 |
| Leather & its products | 0,07 | 0,1 | 0,2 | 0,1 | 0,1 | 0,1 | 0,08 | 0,09 | 0,1 | 0,1 | 0,01 |
| Paper & its products | 0,96 | 0,9 | 1,4 | 1,97 | 2,3 | 2,0 | 2,1 | 2,0 | 2,2 | 2,3 | 0,2 |
| Others | 11,6 | 14,2 | 14,0 | 12,8 | 18,2 | 15,96 | 16,2 | 16,4 | 19,3 | 22,4 | 1,8 |
| Total | 32,1 | 34,99 | 34,6 | 33,3 | 42,0 | 37,7 | 38,7 | 40,9 | 48,7 | 55,6 | 4,5 |

Source: BPS

industries in terms of reserved condition, particularly rapid growth in production costs of both industries compared to other countries (Thee, 2006).

During the period of 2001 – 2002, general price level in Indonesia has risen by 24% due to increase of electricity tariff (102%), fuel (BBM in Indonesian) (52%), diesel oil (159%), water (27%) and transportation (32%) (James, Ray & Minor, 2003:99). Sharp increase in BBM price at the second semester of 2005 had driven even rapid increase in inflation rate up to 2 digits (Thee, 2006). Besides the increase in BBM price, the rise in minimum wages established by provincial government has strongly burdened TPT industries in Indonesia. Furthermore, several government constitutions regarding labor including separation pay for labor who voluntarily quit or being fired due to criminal acts as well as government constitutions related to regional taxes and other collections has also burdened garment and textile industries (James & friends, 2003).

Other than high production costs to further diminished the competitive edge of Indonesia's TPT industries, both industries have to deal with low quality level. Consequently, it became more and more difficult for these industries to enter such high quality TPT market caused by low rate of designing and finishing capability. Generally, most of Indonesia's TPT producers failed to conduct thorough research and development as well as designing activities (Thee, 2006). Any production act was only based on purchasing order received from foreign buyers with all the design specifications and other information required for TPT production. Thus, the weaknesses of both industries in terms of innovation and technology skill are worsened by the obsolete tools used in their production process (James & friends, 2003).

Furniture and wood industries has long becomes the leader of Indonesian manufacturing sector supported by natural and human resources as the comparative advantages of Indonesia as well. During the past few years, these industries proceeds surplus and high exports value in its trade balance. However, wood and plywood sectors shows declining trend as a result of the scarcity of raw materials and encouraged wood price to increase due to degraded potential of Indonesia's forests as well as bulky woods smuggling to foreign country.

Latest news in Kompas (Wednesday, June 28, 2006, p.17) stated that wood industry and forest products in Indonesia has been poorly performed. The uncertainty of business and regulation perceived by many wood businessmen (and its products) has become worst. According to BPS data, wood and forest products within the last 3 years continued to experience a negative growth. As recorded in 2004, this industry grew in a negative 2.1%, further negative 1.3% in 2005 and even worst in the first quarter of 2006 to negative 5.8%. Based on data of Indonesian Wood Panel Association (Apkindo), the production of wood panel which was able to reach as high as 7 million meter cubic during the period of 1999-2000 has rapidly fall to 3.5million meter cubic in the year 0f 2005. And yet, Malaysia is estimated to maintain its wood panel production up to 4 million meter cubic (Kompas,

Wednesday, June 28, 2006, p.17). From the total of 120 plywood factories in Indonesia, the factory which is currently running in production and exporting their products are merely 52 factories. However, their average production used is less than 50% of normal capacity (Kompas, Wednesday, June 28, p.17).

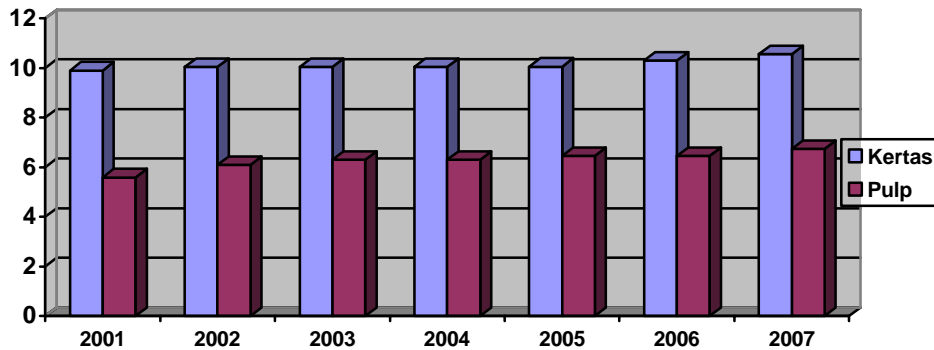
In contrast, wood industry and forest products have been grow steeply in competitor countries such as China, Malaysia and Vietnam even without their own wood's raw materials. Indonesia's furniture exports recorded at 1.79 million US\$ or improved in an average 0.088 billion US\$/year in the last 8 years. At the same period, furniture exports from China grow in an average 1.1billion US\$. China who prohibited wood-cutter in their country did in fact exported furniture amounted to 14 billion US\$ in the year of 2005.

However, many believes that Indonesia's wood industry may survived the competition due to the ability to fit in the market condition by improving quality control, superior design, ability to meet the international environment standard, and enhancing marketing effort in international market (Aswicahyono & Hill, 2004).

Other industry groups to be the leader in Indonesia's manufacturing exports are paper, pulp and printing industries. Nonetheless, in the past few years, exports value of this industry tends to decline and the same occurred in imports value. Major contributions of this industry mostly originated by pulp and paper trading, and the export potential in the long run is estimated to be flourish. The growth of paper demand in world market is 2% -3% per year and as a result Indonesian paper and pulp have been much sought for in the international market. Supported by endless raw materials from Industrial Plantation Forest (HTI in Indonesian) has motivated the industry to maintain high competitive edge assuming that Indonesia might also improved its ability to uphold the quality of its paper and pulp products. Latest data revealed that Indonesia's share in the world market for these particular products has increase from 2.4% to 3% and it is going strong given the demand growth from China. The combination of robust economic growth per year with massive total population in China has driven high demand of pulp and paper from Indonesia (Kompas, June 29, 2006, p.18).

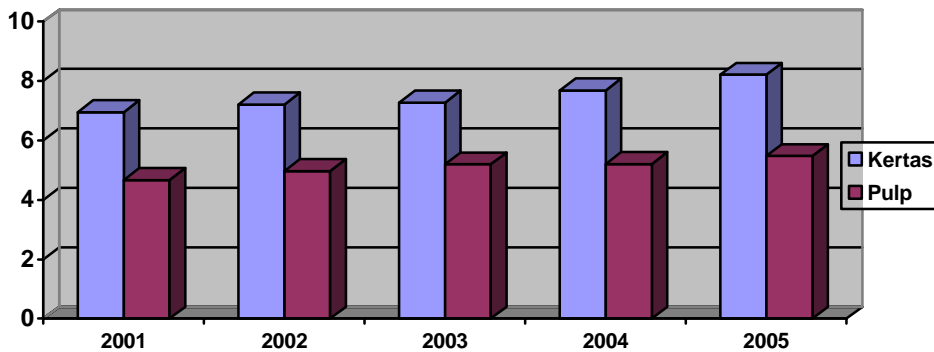
Latest record pointed out that total installed production capacity of 80 pulp and paper industries in Indonesia amounted to 6.45 million barrels and 10.05 million barrels respectively (Figure 4). In the year 2005, pulp productions reached 5.47 million barrels combine with exports volume of around 2.56 million barrels, while paper productions reached 8.21 million barrels with total exports volume of 2.99million barrels (Figure 5 & 6). With that number, this industry alone is able to produce foreign exchange income totaling 3.5 billion US\$ in the year 2005 (Kompas, June 29, p.18).

Figure 4. Industry Capacity of Pulp and Paper in Indonesia in 2001-2007 (million barrels)



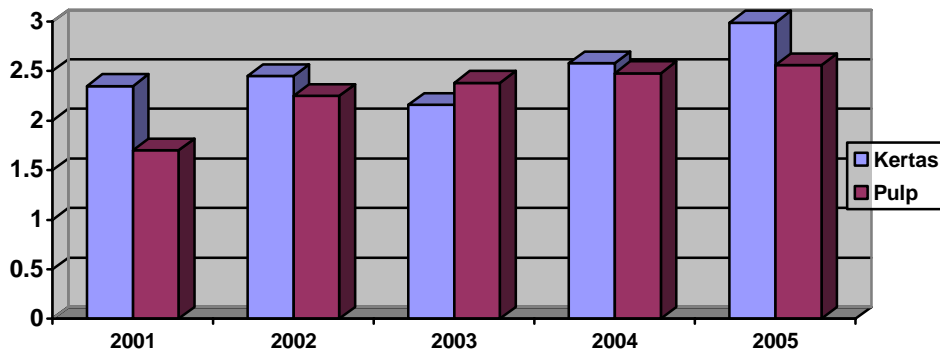
Source: Kompas (June 29,2006, p.18).

Figure 5. Pulp and Paper Production in Indonesia in 2001-2005 (million barrels)



Source: Kompas (June 29,2006, p.18).

Figure 6. Pulp and Paper Exports in Indonesia in 2001-2005 (million barrels)



Source: Kompas (June 29,2006, p.18).

As for chemical industry, Indonesia's trade balance has always been negative due to large number of imports, thus the trade balance continuously in deficit position. Large imports indicated larger public demand toward chemical materials without any support from domestic chemical industries as a result of internal problems (such as PT Chandra Asri and PT Texmaco) (Silvia, 2006).

The development of rubber, rubber products and plastic industries in the trade balance shows surplus value with a tendency to move upward. The positive growth mainly attributed to larger exports of rubber as well as rubber products whereas the imports value experienced insignificant growth or tend to stay stagnate. (Silvia, 2006).

Other industry plays an important role in Indonesia's manufacturing exports is non-metal excavation industry goods and non-oil/gas industries. This specific group of industry consisting of glass, drinking-glass, cement as well as gypsum. Generally, these products are mainly directed to domestic market, especially cement since it is bulky in nature and cheaper in terms of value compare to its volume. Consequently, the export value of this sector rarely supported and influenced its trade balance which is tend to be stagnate even further declining in conjunction with the increase of domestic needs (Silvia, 2006).

Metal goods industry as well as machinery and transportation means, photography and advance tools has also regarded as the leader in Indonesian manufacturing exports. In the period of 1990's prior to the economic crisis in 1997/1998, this industry shows a huge deficit in its trade balance mainly for machinery and transportation means. However, the post crisis period indicated the otherwise where the deficit value tends to decline, even reached a surplus in trade balance since the period of 2002-2003. Meanwhile, year 2004 brought back the deficit value in its balance. Trade balance surplus during 2000-2003 mainly attributed to major decline in import value deriving from machinery, since the crisis up to 2003. On the contrary, machinery export value booked a high time increase since 2000 thus the value exceeding its import value. This was indicated by the relocation of foreign investment abroad and resulting in the export of machinery used by those foreign investment to its designated location, and obviously the import value tend to decrease as well (Silvia, 2006)

Main Factors Influential to Hamper the Growth of Indonesia's Manufacturing Exports in Recent Years

All these years, the government has done numerous efforts to boost export competitiveness of Indonesia, including recent decision to accelerate the process to establish Indonesian Export Import Association, as the derivative of Indonesian Export Bank (BEI). However, the effectiveness of every step implemented by the government in an attempt to boost export value is heavily depend on whether those steps is working hand in hand with the matters dealt by Indonesian exporters today. Based on the research conducted by World Bank (2004), slow export growth basically caused by the following four factors;

1. Declining cost competitiveness due to higher appreciation of rupiah's and inflation rate in comparison with inflation rate in the counter trade partner. IMF suggested that labor cost/unit in Indonesia nowadays is 35% higher than prior to the crisis. Low cost competitiveness of Indonesia's manufacturing industry also a result of a high domestic transaction costs in Indonesia.
2. Declining trend of investment. Poor business condition in Indonesia is also considered to be another main problem in preventing export growth due to the inability to attract foreign investments which was the prominent player in boosting non-oil/gas exports, including industrial products. The absent of foreign investment also means that new investment required to product upgrading is poorly performed. Foreign investment may also contributed to the increase of non oil/gas exports, industrial products in particular, as can be observed through the rapid growth of industrial products exports at the end of 1980's up until 1996. Outstanding export growth achievement came from China as most of its business activities directed to maintain exports from foreign investment.
3. Fierce International Competition. China and Vietnam has been the biggest competitors for Indonesia since they are competing in the exports of product from labor intensive industry similar to those in Indonesia, such as textile, garment and footwear, and rapidly growing compared to Indonesia's exports. As a result, Indonesia lost its market share in 30 non-oil/gas export to China and Vietnam, including industrial products such as textile, footwear and other labor intensive products (Pangestu, 2005).
4. Poor Trade Facility. Numerous restrictions in harbor and physical facility have been one of the main factors to enlarge the costs of exported products. Although the tariff of using Indonesian harbor/port is relatively low but almost all exports from Indonesia transshipped through Singapore or Malaysia due to lack of efficiency in Indonesia's harbor/port. According to the analysis related to the efficiency of Indonesia's harbor, namely Jakarta International Container Terminal, JICT), as the main terminal in Tanjung Priok which is the biggest terminal throughout Indonesia is in fact the most inefficient Terminal in the South East Asia. Judging from the productivity side (as in total container to be loaded in one hour) and the cost/unit side (cost to lift a container measuring 40 foot high in an hour) then JICT in Tanjung Priok is again the most inefficient terminal comparing to other harbor in South East Asian, such as Singapore and Port Klang in Malaysia (Ray, 2003).

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