

THE GROWTH AND COMPETITIVENESS OF INDONESIA'S WOOD FURNITURE EXPORT

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I. The Growth of Export and Its Incidental Matters

Per definition, the growth of export value is determined by the combination of price growth and the growth of volume. The growth of price and volume, in turn, is determined by number of different factors. Indonesia as the small country in the global market for almost all export products meaning that Indonesia is the price taker, then as the price taker the growth of price is an important factor to Indonesia. Meanwhile, the volume growth is determined by factors of the domestic supply side. The larger the supply bottleneck in a country then the harder it becomes for that country to increase its production and export. The incidental matters often faced by Indonesia in exporting is supply bottleneck where usually the increase in Indonesia's export value mainly due by the increase of price in the world market compare to the increase of export volume.

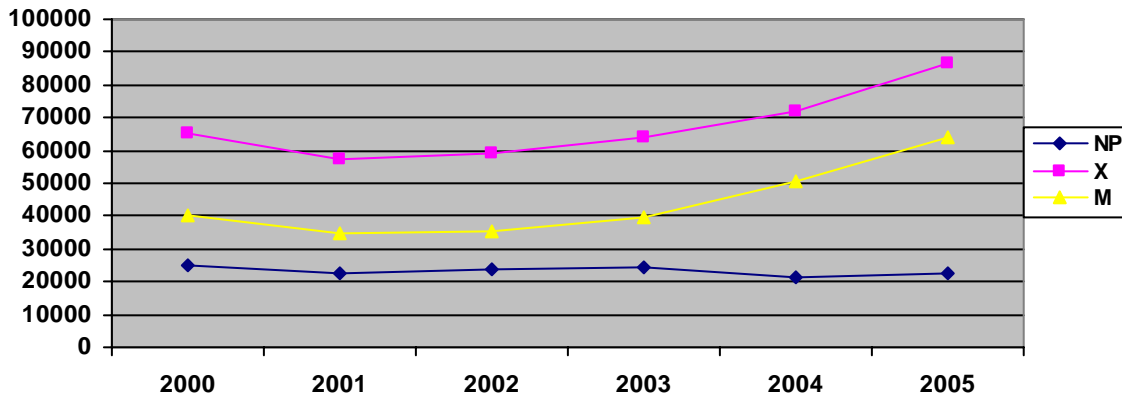
Data of Statistic Central Bureau (BPS) showed that the export value in January 2006 including oil/gas and non-oil/gas totaled each US\$ 7.56 billion and US\$ 5.73 billion respectively, while import value each totaled US\$ 4.39 billion and US\$ 3.18 billion. Hence, Indonesia's Foreign Trade Balance for January 2006 include and exclude oil/gas enjoyed a surplus by US\$ 3.17 billion and US\$ 2.55 billion. Compared to the value in January 2005, then the export value with and without oil/gas improved by 23.26% and 16.83%. The export improvement mainly came from the increase of export of mining products from US\$ 0.44 billion to US\$ 0.97 billion.

While export data of May 2006 recently showed that the export value during that month recorded the highest monthly figure in the history, reached US\$ 8.34 billion or rose by around 9.79% compare to the value in April 2006. The cumulative export value during January –May 2006 amounting to US\$ 38.39 billion or rose by 13.40% from the same period in 2005. From that increased figure, non-oil/gas export value hike by 10.52% and export value of oil/gas rose by 7.22% from April. Based on the BPS statement (Kompas, Tuesday, July 4, 2006, p.17), the increased of export value in May mainly caused by the export increased in mining sectors particularly, grains, crusts and metal dust. The export value of those products improved to US\$ 113 million compare to the value in April.

In general, high export value in May 2006 mostly resulted from the price increased in several commodities such as crude palm oil, rubber and coal as well as oil price in the world market. During the last 5 months, rubber export totaled US\$ 776 million, crude palm oil reached US\$ 360 million, and coal export reached US\$ 800 million. Based on this development, BPS predicted that the total export of Indonesia during the year of 2006 maybe well reached US\$ 100 million if supported by a favorable world economic condition and high demand of Indonesia's product in the global market (Kompas, Tuesday, July 4, 2006, p. 17).

Observing from the year 2000, the total export (oil/gas and non-oil/gas) had once declining from US\$ 65.4 million in 2000 to US\$ 57.4 million in 2001, and continuously expanding since then. And during the same period, our foreign trade balance declined as well from around US\$25 million to US\$ 22 million (Figure 1). If BPS prediction realized, and the growth of import is stable, then the trade balance surplus of Indonesia may progress 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 government has done so many effort to boost the export competitiveness of Indonesia all these times, including recent decision to accelerate the creation of Indonesian Export Import Board, with the embryo of Indonesian Export Bank (BEI). However, the effectiveness of all the steps taken by the government to boost the export performance is heavily dependent on whether those steps were adequate enough to deal with the problems faced by Indonesian exporters in general. Based on the study conducted by World Bank (2004), the slow growth of export was mainly caused by 4 factors. First of all, declining cost competitiveness due to Rupiah’s appreciation and higher inflation rate compare to the inflation in the most important trading partner, such USA and EU.

Further, according to the International Monetary Fund, the labor cost/unit in Indonesia recently is 35% higher than before the crisis in 1997/98. Low cost competitiveness of Indonesia’s manufacture industry was also caused by a large domestic transaction cost in Indonesia. During the period of 2001-2002, general price rate in Indonesia has jumped by 24% due to the increased in electricity tariff (102%), fuel/BBM (52%), diesel oil (159%), water (27%), and transportation (32%) (James, Ray & Minor 2003). Whereas the increased fuel price in the second semester of 2005 has caused sharp increased in inflation rate to around 2 digits (Thee, 2006). All of these resulted in a higher production cost of Indonesia’s export products compared to other countries. Combine with a low productivity rate which did not compensated the rise of production cost, the price competitiveness of Indonesia’s products in global market had relatively dropped against the similar products from other countries.

Second, declining investment trend. 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. The experience showed that during the new governance era, FDI was crucial to boost the export performance of Indonesia particularly for industrial products which surged significantly during the period of 80s the crisis hit. Outstanding export growth achievement came from China as most of its business activities directed to maintain exports from foreign direct investment.¹

Third, 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, including industrial products to China and Vietnam (Pangestu, 2005). If the poor national industrial condition remain the same with unsolved problems, then it is most likely that Indonesia will loose its global market share for industrial products which was the leading export products from Indonesia such as textile and clothes (TPT)² as well as wood products.

News in Kompas, Wednesday, June 28 2006 (p.17) pointed out that wood industry and forest products in Indonesia were getting worst. Cited from BPS, in the last 3 years wood and forest products constantly suffered from negative growth. In the year 2004, the industry recorded a negative growth of 2.1%, again a negative growth of 1.3% in 2005 and then steeply failed in the first quarter 2006 to become a negative growth of 5.8%. Based on The Indonesian Plywood Association (Apkindo), the production of Indonesia's wood panel that was once reached 7 million per meter cubic in 1999-2000 had also dropped to 3.5 million meter cubic in 2005. Whereas Malaysia is estimated to maintain its wood panel production up to 4 million meter cubic (Kompas, Wednesday, June 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).

¹ Textile industry and its products (TPT) as an actual case. According to Aswicahyono and Hill (2004), TPT industry from FDI in Indonesian was discontinued since the last couple of years, and resulted poor export performance of Indonesia's TPT industry compared to the new era governance. Japanese investment in TPT industry which was dominant during the new governance era had declined as well after the economic crisis. For instance, Japanese TPT industries had invested an average of US\$ 119 million into those of Indonesian for around 4 years before the crisis. However, during 2003 and 2004, Japanese investment in this industry was only an average of US\$ 7 million per year.

² In the case of TPT, 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 industries in terms of reserved condition, particularly rapid growth in production costs of both industries compared to other countries (Thee, 2006).

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 US\$1.79 billion or improved in an average US\$0.088 billion /year in the last 8 years. At the same period, furniture exports from China rose in an average US\$1.1billion. 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).

Fourth, 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).

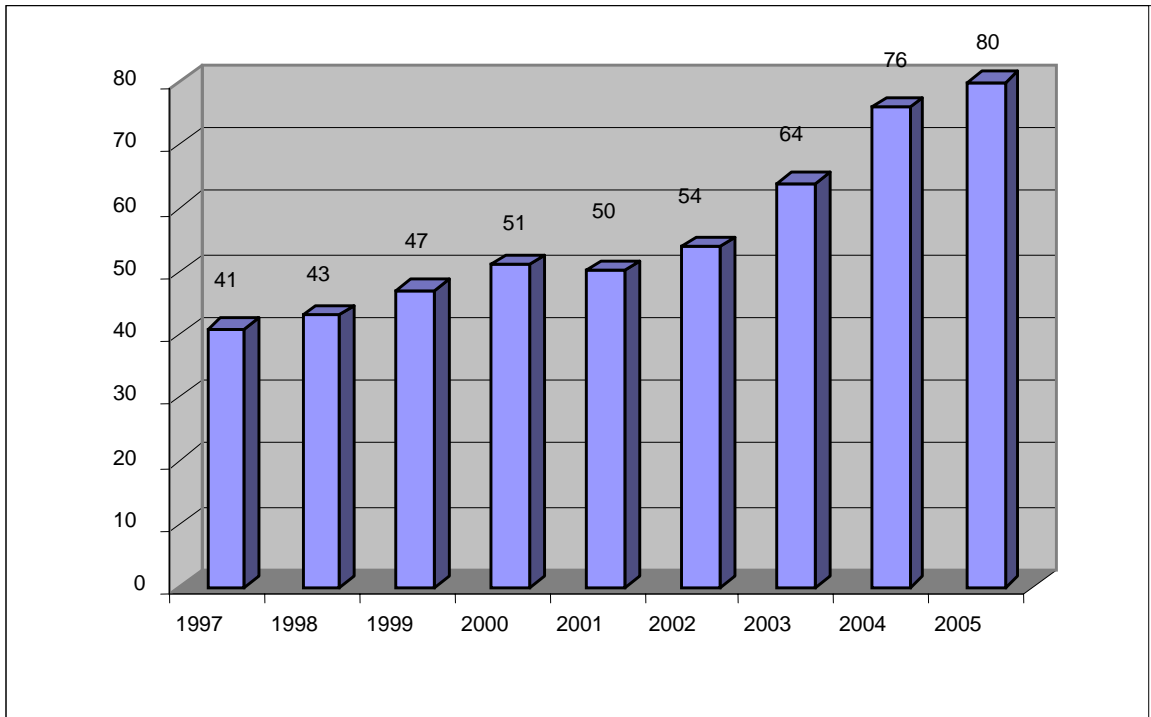
II. The Growth of Wood Furniture Export

II.1 World Trading of Furniture

Furniture trading has become the significant component in the world trading for manufacturing products, and the export volume per year has rapidly expanded in line with the growth of total world population and the increase of world's income per capita. These two factors is the primary contribution to the growth of world demand toward furniture. If the world furniture trading in 1997 recorded at around US\$ 41 billion, then in 2005 the value reached US\$ 80 billion (Figure 2).

Many countries actually engaged in the furniture export with a varied world market shares; there are some countries with the least furniture export value, and some hold the strongest positions. Based on the export value during the period of 1996-2004, 12 largest furniture exporters' countries in the world can be seen in Table 1. It turned out that Indonesia was at the lowest position whereas China was in the second after Italy. In the year 2004, Italian world market share reached 14.18%, while China almost 13.70%, and followed by Germany, Poland and Canada with each world market share of 8.43%, 8.38% and 5.77% respectively (Figure 3). Within those 8 years period, China's furniture export enjoyed a sharp increased that recorded at US\$8.8 billion, or an average of US\$ 1.1 billion/year, while Indonesia was relatively small which was merely around US\$ 0.088 billion/year.

Figure 2: The Value of World's Furniture Trading (in billion US\$)



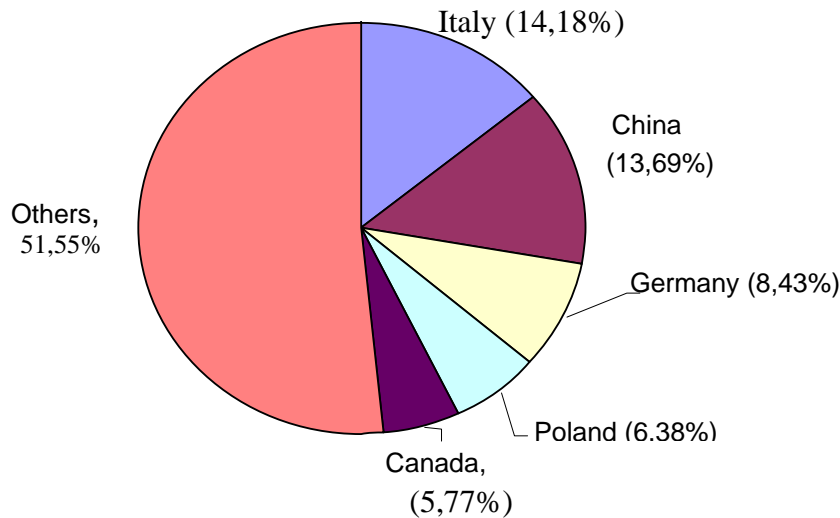
Source: ASMINDO (2006) (data UN, Eurostat and CSIL)

Table 1: 12 Largest Furniture Export Countries in the World during 1996 – 2004 (in million US\$)

Country	Period								
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Italy	8.521	8.316	8.125	7.967	8.318	8.078	8.324	9.272	10.496
China	1.294	1.818	2.189	2.705	3.560	3.953	5.350	7.278	10.133
Germany	3.855	3.622	3.917	4.051	4.235	4.217	4.522	5.324	6.239
Poland	1.542	1.707	1.847	1.883	2.103	2.383	2.752	3.691	4.722
Canada	2.188	2.703	3.279	3.796	4.465	4.068	4.027	4.091	4.268
USA	1.993	2.306	2.426	2.380	2.826	2.403	2.138	2.351	2.648
Denmark	1.831	1.861	1.872	1.797	1.727	1.653	1.819	2.216	2.568
French	1.823	1.753	2.026	2.030	2.055	1.865	1.882	2.127	2.362
Austria	854	872	911	1.019	1.032	1.229	1.380	1.782	1.936
Malaysia	1.095	1.180	1.088	1.361	1.552	1.344	1.452	1.577	1.851
Belgium	1.295	1.278	1.278	1.400	1.395	1.361	1.361	1.579	1.716
Indonesia	946	755	354	1.231	1.508	1.414	1.502	1.558	1.651

Source: ASMINDO (2006) (data UN, Eurostat and CSIL)

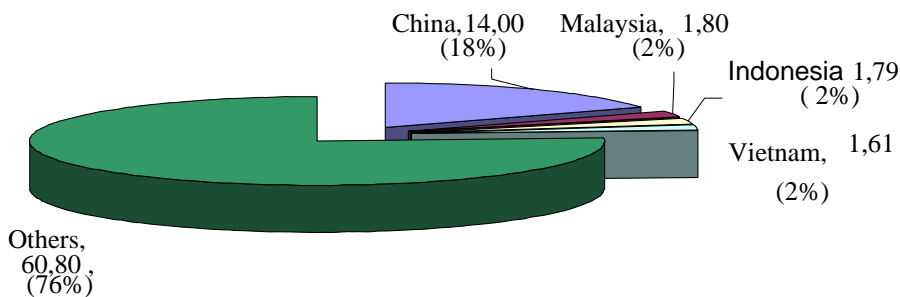
Figure 3: The Largest Furniture Export Countries in the World in 2004 (%)



Source : ASMINDO (data UN, Eurostat and CSIL)

Recent data from WTO showed that in the year of 2005, China has become the largest furniture export country in the world surpassed Italy with an export value of US\$ 14 billion or accounted of 18% from total furniture export. While Indonesia's furniture export value during the same period was recorded at US\$ 1.79 billion or covered only 2 % of world furniture market (Figure 4). There is a great possibility that China's export value of furniture will continue to progress rapidly in the following years, judging from the country's aggressive effort to boost its export performance both furniture and other products as well. And Indonesia has to be very cautious since the expansion of China's furniture in the world market may be a great disadvantage for Indonesia's furniture, even losing its external market.

Figure 4: The Export Value of Indonesia's Furniture and Competitor Countries in Asia, 2005 (in billion US\$)



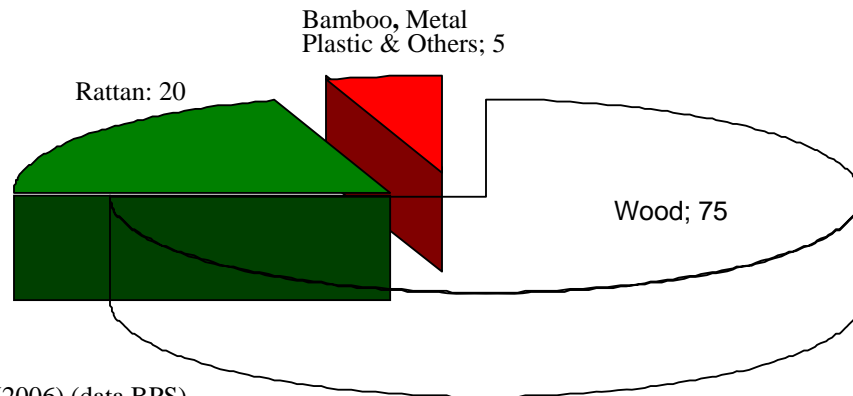
Source: ASMINDO (2006) (data UN, Eurostat and CSIL).

II.2 Export of Wood Furniture

The furniture business has long known to be the hereditary business in Indonesia. Though the furniture is produced from variety of ram materials such wood, rattan, iron and plastic, yet wood furniture production and

export has been the largest component to reach 75% (Figure 5)³. It is the fact that Indonesian people is known for their wood-carving skills such as in Jepara. Industrial center for wood furniture has rapidly growing particularly in Java Island, that is Semarang, Jepara, Solo and Surabaya for wood furniture, and Cirebon as the largest producer of rattan furniture.

Figure 5: Indonesia's Furniture Exports based on Raw Materials (%)



Source: ASMINDO (2006) (data BPS)

Particularly in Jepara, furniture has been the most noticeable product to many people as well as foreign researchers due to its advance export performance. For example, studies from Sandee & friends (2000), Berry and Lewis (1994) and Schiller Martin-Schiller (1997) stated that with the support from foreign tourists, furniture producers in Jepara was able to improve their product quality and boosting the growth of export significantly, particularly in the period of 1980's until the crisis hit in 1997/1998.

Furniture industry in Indonesia is dominated by small and middle scale businesses but most of all from micro or home-industry. Many of them created a joint venture with large industry or trading houses. Labor absorbed directly and indirectly reaches 5 million lives meaning that the industry has provided living to around 20 million lives.

Yet, judging from the export performance, wood furniture has not been the most important component than other wood products such as ply wood, in the export of wood products of Indonesia. As a percentage of the total wood products export, export of plywood remains the highest position. Following the crisis, the proportion of wood furniture export in the total wood export tends to pick up with an average per year of over US\$ 1 billion (Table 2).

However, that growth was more attributable to value increased rather than increasing export volume. On the contrary, export volume of Indonesia's wood furniture in average/year tends to be lower than 600 tonnages per year (Figure 6). Available data revealed that international price of wood furniture is higher than other wood

³ Official information from the government stated that the need for raw materials for wood furniture industry in Indonesia has recently reached 4.5-5 million cbm. Raw materials often used including teak wood, mahogany, shade-tree, hibiscus tree from people's plantation, pines from forests product, acacia, fruit plantation such as durian, and mango, rubber wood from gardening, as well as from natural forest such as shorea tree etc. Yet, Indonesia becomes more dependent toward wood import due to the forest bare in the country.

products and recorded higher growth rate/year compared to prices from other wood products (Figure 7). These could be attributable among other things to the rapid growth of world demand compare to the growth of world furniture production, and obviously the development of US\$ exchange rate.

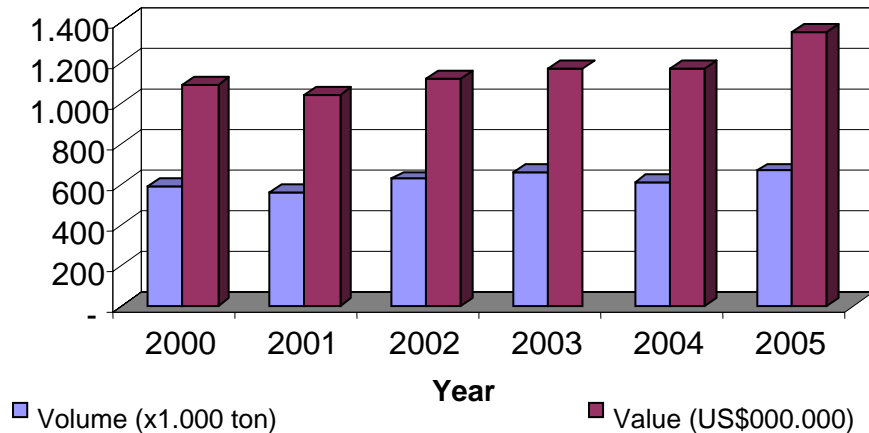
**Table 2: Contribution of Forestry Sector toward Indonesia’s Foreign Exchange Income in 1995-2004
(In million US\$)**

Year	Export Value of Processed Wood							% to Total Foreign Exchange
	Plywood	Processed Wood	Pulp & Paper	Wood Furniture	Rattan Furniture	Sawdust	Total	
1995	3.886,9	1.086,5	1.258,0	458,6	368,2	1,3	7.059,5	15,86%
1996	4.029,5	1.067,1	1.309,8	545,6	337,1	0,2	7.289,3	14,64%
1997	3.887,9	1.002,1	1.427,8	527,2	194,9	0,4	7.040,3	13,19%
1998	2.486,2	696,8	2.115,4	252,1	64,4	62,2	5.677,0	11,62%
1999	2.704,7	719,8	2.440,6	854,0	294,0	78,7	7.091,8	14,58%
2000	2.419,1	597,9	3.001,9	1.091,1	313,5	97,2	7.520,8	12,13%
2001	2.004,2	478,8	2.598,4	1.036,8	290,3	162,7	6.571,3	11,67%
2002	2.145,0	897,3	2.848,0	1.116,5	302,1	...*	7.308,9	12,79%
2003	1.985,9	1.280,0	3.164,0	1.167,7	313,5	...	7.911,0	12,96%
2004	1.852,8	1.436,5	2.817,6	1.172,2	336,9	...	7.616,1	10,64%

Note: No data available

Source: Ministry of Trade, Ministry of Industry

Figure 6: The Growth of Wood Furniture Export Value of Indonesia in 2000-2005

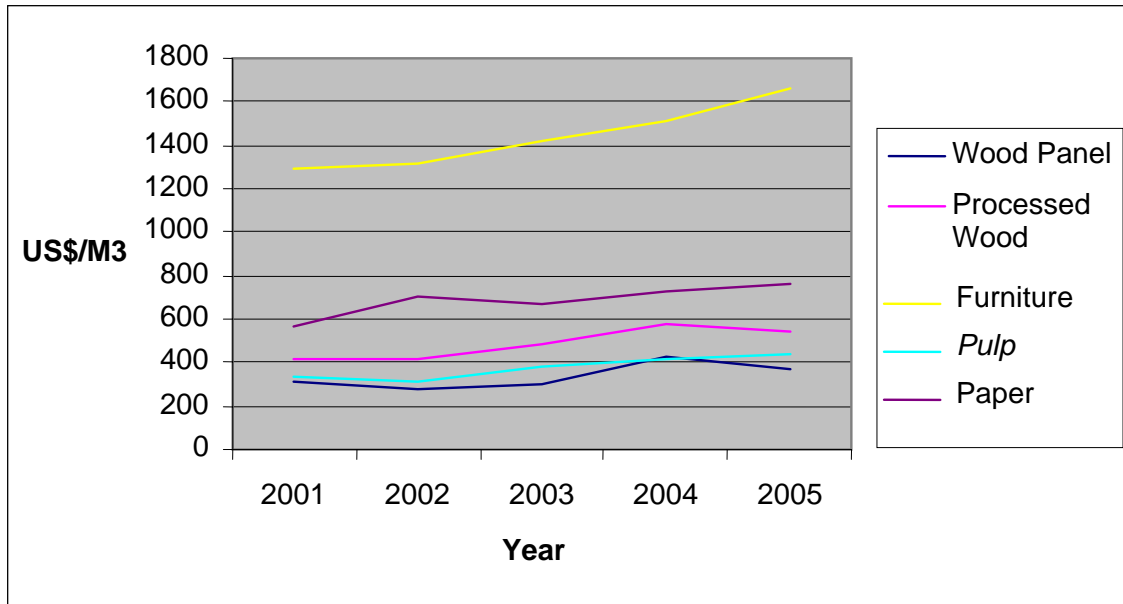


Source: ASMINDO (2006) (data BPS)

The most probable reason of how significant the role of wood furniture compare to plywood, for example, in the total export of Indonesia’s wood could be the least investment value to be injected in this particular sub sector. As an illustration, data from Industrial Department in 2000 revealed that the investment value to wood furniture recorded at around 3% compare to 12% in plywood from the total investment to the forestry sector (Table 3). It is clear that the need for investment to expand the production capacity, product diversification or product upgrading and technology expansion which lead to the recovery of production quality is extremely crucial. If people used to buy furniture more because of the price and urgent necessity, today with a total consumer income per capita way

above the income in 20 years ago, the demand over furniture is not solely determined by prices but also other factors such as prestige, style and social status of the buyer. Meaning that design, color, or performance of the furniture would be the significant factors in making buying decision.

Figure 7: Price Trend of Wood Products (US\$/M3)



Source: ISWA (2006).

Table 3: Investment Value in Forestry Sector based of Wood Industry in Indonesia in 2000 (billion US\$)

Industry	Investment Value	%
HPH	3,28	12
HTI	3,00	11
Plywood	3,30	12
Glue	0,19	1
Sawdust & Processed Wood	1,03	4
<i>Pulp</i> & Paper	16,00	58
Furniture	0,80	3
Carpentry/Craftsman	0,17	1
Total	27,77	100

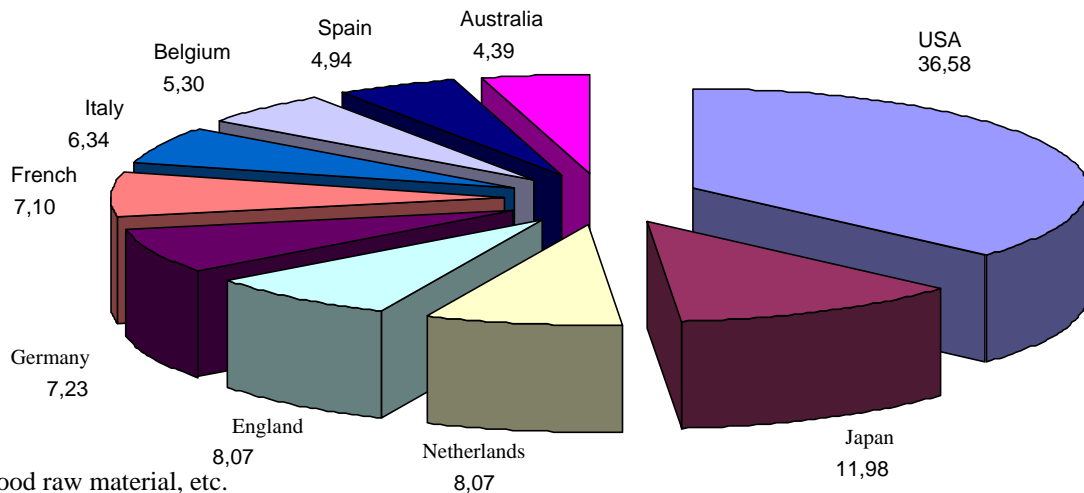
Source: Ministry of Industry, Ministry of Forestry, 2000.

BPS data in 2005, further compiled by ASMINDO, stated that USA and EU are the primary market for wood furniture export from Indonesia with wood and rattan made materials. During that year, US market covered around 36.6% from the total export of Indonesia's furniture, while largest export destination countries in EU market include Dutch, England, Germany, France and Italy. In Asia, Japan is most important market which covered 12% shares from total export of Indonesia's wood furniture (Figure 8)

Though, until today, Indonesia's position is relatively weak compare to China in terms of furniture export, Indonesia remain to have a prospective long term growth at least in two aspects. First, main importers countries of Indonesia's furniture export currently is USA, Canada and EU (Table 4), and these countries have been the significant business partner of Indonesia (not limited to furniture's but too many other products). It means that

there are no culture or taste barriers toward Indonesia's products, except probably technical restriction for certain products such as non-tariff barriers or NTB.

Figure 8: Ten (10) Primary Export Destination Countries of Indonesia's Wood Furniture* in 2005 (%)



Note: * wood raw material, etc.
Source: ASMINDO (2006) (data BPS)

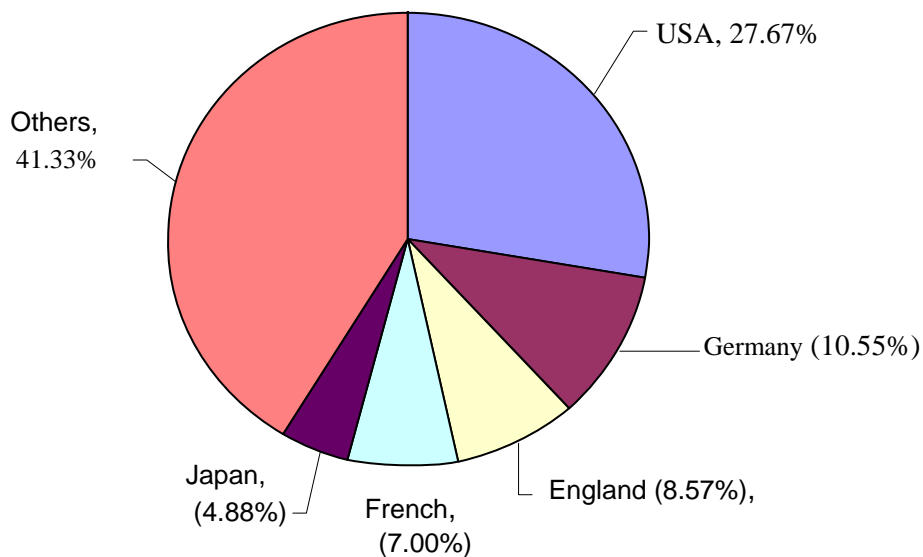
Table 4: World's Largest Furniture Importer Countries during the period of 1996 – 2004 (million US\$)

Country	Period									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	
USA	7.309	8.551	10.275	12.604	14.970	14.624	16.781	18.718	21.404	
Germany	6.134	5.679	6.198	6.080	5.862	5.813	6.048	7.569	8.161	
England	1.891	2.117	2.571	2.865	3.140	3.377	4.225	5.278	6.633	
French	2.751	2.696	3.018	3.196	3.254	3.297	3.566	4.369	5.415	
Japan	2.592	2.529	2.021	2.252	2.801	2.817	2.760	3.145	3.773	
Canada	1.191	1.439	1.603	1.739	2.061	2.068	2.258	2.549	3.043	
Belgium	1.679	1.692	1.931	1.903	1.868	1.791	1.851	2.233	2.591	
Austria	1.279	1.245	1.262	1.341	1.376	1.466	1.389	1.770	1.984	
Netherlands	1.571	1.389	1.369	1.743	1.604	1.471	1.460	1.813	1.971	
Swiss	1.619	1.393	1.523	1.585	1.490	1.431	1.502	1.749	1.970	
Spain	455	501	558	685	747	767	825	1.385	1.861	
Italy	543	585	680	801	842	840	898	1.131	1.474	

Note: * wood raw material, etc.
Source: ASMINDO (2006) (data UN, Eurostat and CSIL)

Second, USA is not merely the largest importer country in the world with the market share recorded in 2004 reached 26.67% (Figure 9), it also the largest export destination country of Indonesia's furniture all this time (look at Figure 8) along with German and Italy (which is also the important market for Indonesia's furniture exports), as well as Canada which currently applied anti-dumping policy toward some of furniture products from China. This could be a great opportunity for Indonesia to fill-in China's market in those countries. And that could be realized if the competitiveness of Indonesia's furniture products relatively better than other countries since they are also competing to tap in China's position.

Figure 9: World's Largest Furniture* Importer in 2004 (%)

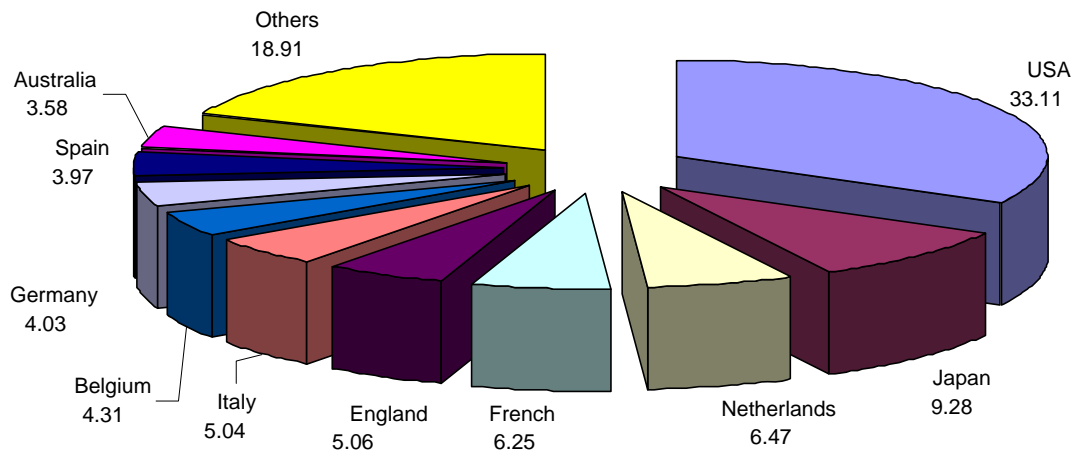


Note: * wood raw material, etc.

Source: Data UN, Eurostat and CSIL, tabulated by ASMINDO

Figure 10 pointed out that, particularly wood furniture's, USA is the largest buyer with 33% shares followed by several countries in EU. This confirmed the correlation between population and income per capita level (or its growth) and large demand of furniture (applied to import as well).

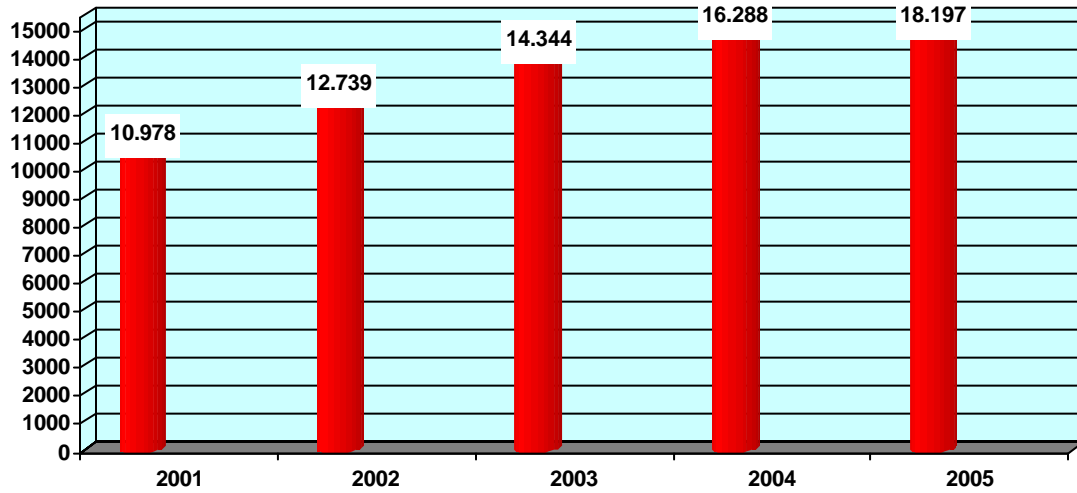
Figure 10: Primary Destination Countries of Indonesia's Wood Furniture Exports in 2005 (%)



Source: ASMINDO (data BPS)

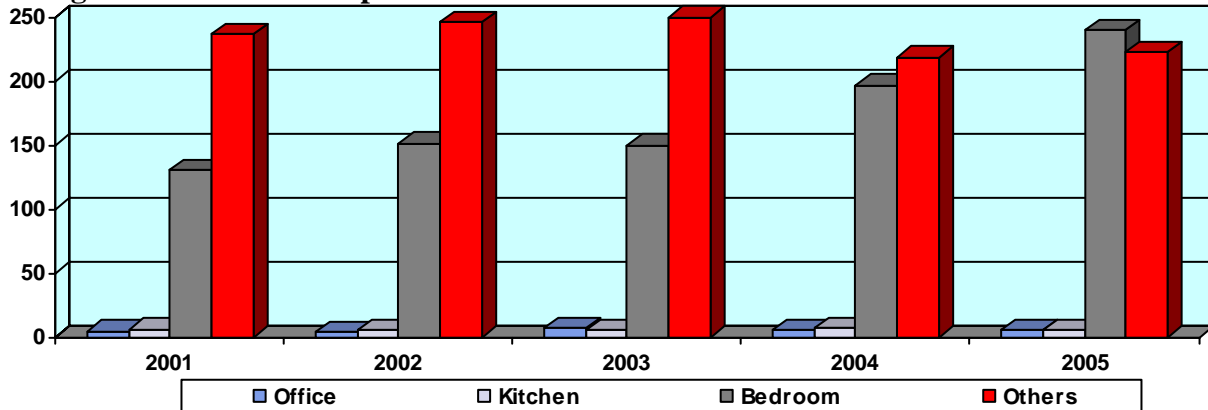
Next, Figure 11 to 17 explained in detail regarding the growth of USA and EU wood furniture import from 3 important exporter countries that is Indonesia, China and Vietnam.

Figure 11: Wood Furniture Imports (HS 9403) USA in 2001-2005 (CIF million dollar)



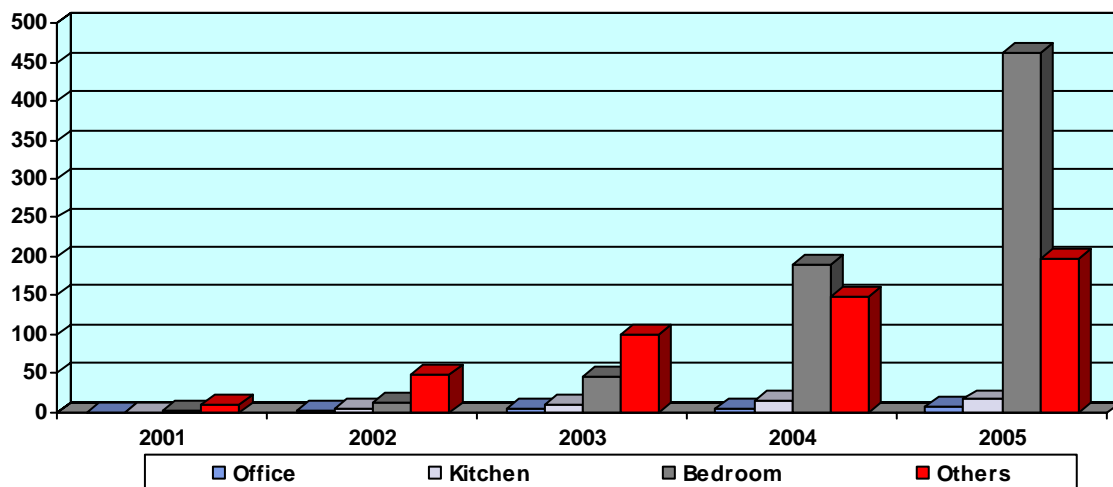
Source: IFC PENSA

Figure 12: The USA import of 4th classification wood furniture from Indonesia in 2001-2005



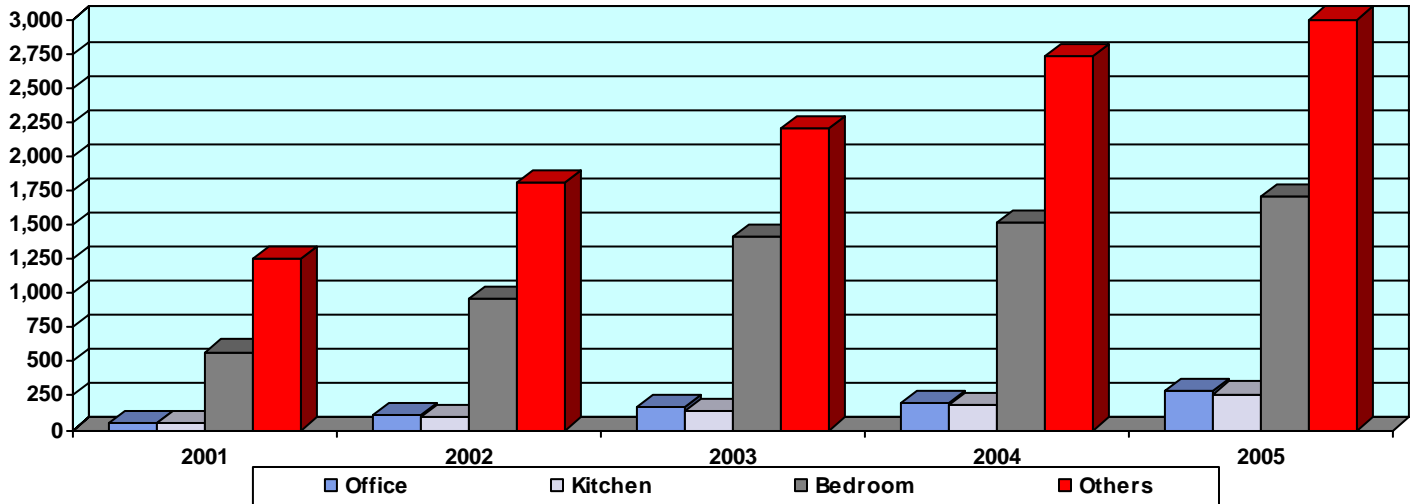
Source: see Figure 11

Figure 13: The USA import of 4th classification wood furniture from Vietnam in 2001-2005 (CIF million dollar)



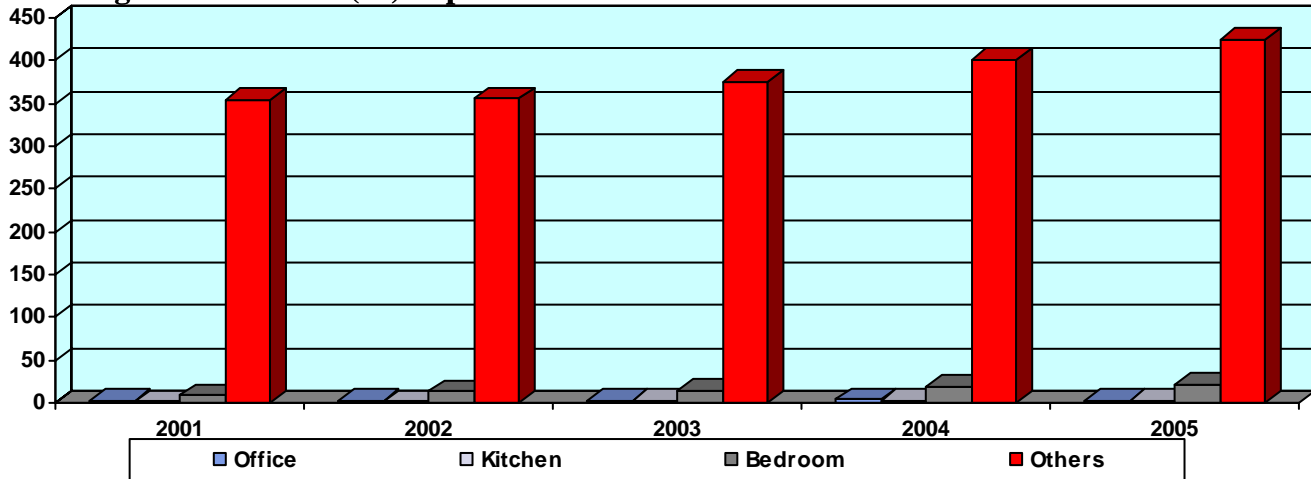
Source: see Figure 11

Figure 14: The USA import of 4th classification wood furniture from China in 2001-2005



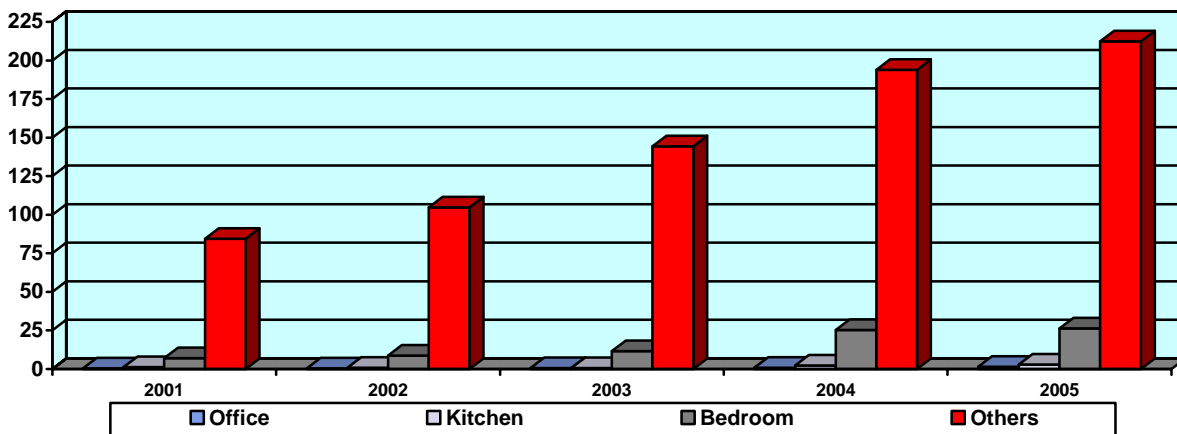
Source: see Figure 11

Figure 15: The EU (25) import of 4th classification wood furniture from Indonesia in 2001-2005



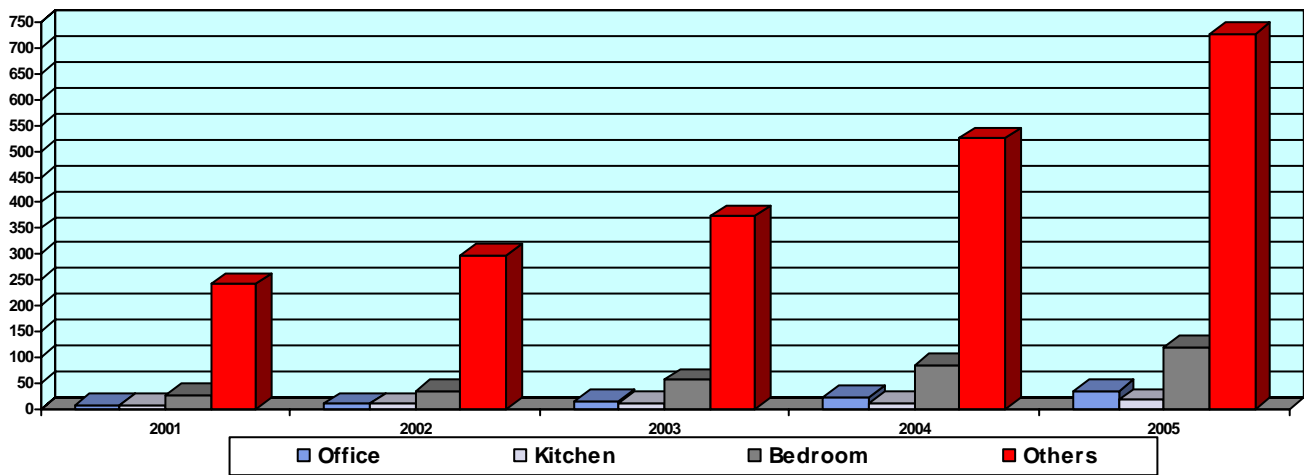
Source: see Figure 11

Figure 16: The EU (25) import of 4th classification wood furniture from Vietnam in 2001-2005 (Million Euro)



Source: see Figure 11

Figure 17: The EU (25) import of 4th classification of wood furniture from China in 2001-2005 (Million Euro)

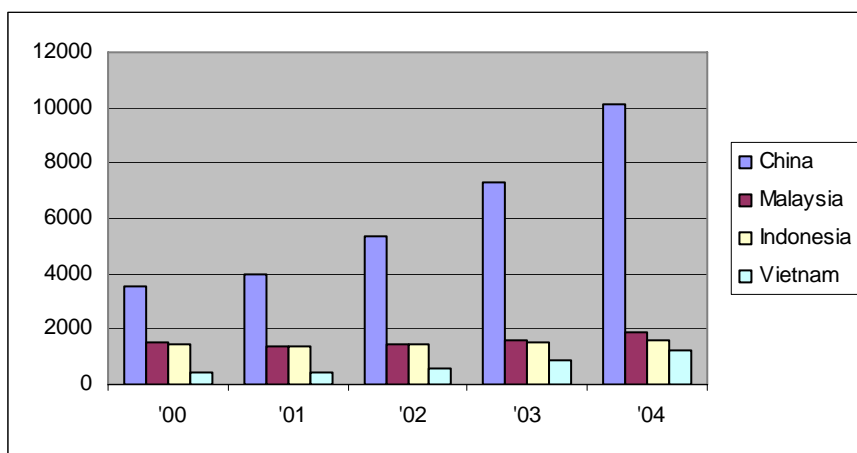


Source: see Figure 11

III Global Competitiveness of Wood Furniture

There are numbers of indicators to be applied in analyze the relative competitiveness of Indonesia compare to other countries over one product. The commonly used parameter in the literature is called Revealed Comparative Advantage (RCA). Yet, the one simple way to observe the competitiveness of Indonesia's wood furniture export value in the global market is to analyze the long term changes of the export value of Indonesia's wood furniture compared to other competitor countries. As illustrated in Figure 18, it is clear that Indonesia's position is gradually shifted by China, and it simply showed deteriorated competitiveness of Indonesia's wood furniture products compare to China.

Figure 18: The Position of Furniture Export from Indonesia toward Competitor Countries in Asia in 2000–2004(million US\$)

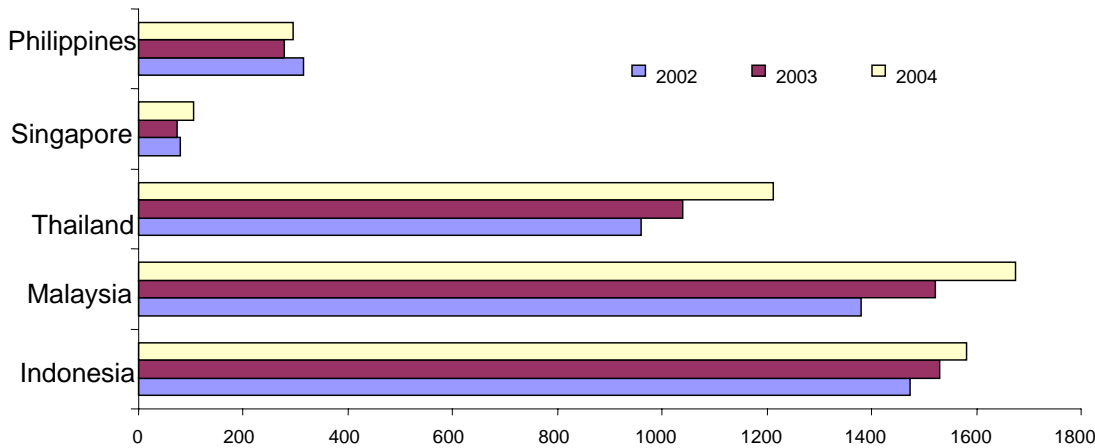


Source: ASMINDO (2006) (data UN, Eurostat and CSIL).

Compare to other ASEAN countries, Indonesian furniture faced serious threats, especially from Malaysia. This country, as it is with Thailand, prefers rubber made furniture than other raw materials. Figure 19 described that judging from the export value in 2002; Malaysia was actually poorer than Indonesia where the export value

reached by Indonesia was over US\$ 1.4 billion, while Malaysia was lower than that number. The next year, though, Malaysia succeeding equalizes position of Indonesia reaching over US\$ 1.5 billion, and in 2004, Malaysia exceeded Indonesia and reached US\$ 1.7 billion. This clearly portrayed that the export growth of Malaysian furniture during that period was rapidly increased than Indonesia and proved that Malaysian furniture industry is not suffering from supply bottleneck such as in Indonesia. This became serious threat to the future prospect of furniture export from Indonesia, particularly for US market. If the differences in performance widened or more favorable to Malaysia, then Malaysian furniture could substitute China's position in US and EU market.

Figure 19: The Position of Furniture Export from Indonesia Compare to Other ASEAN Countries in 2002-2004 (million US\$)



Note: For Thailand and Malaysia, more than 70% is furniture with rubber wood raw material
 Source: Asean Furniture Industries Council (AFIC)

Competitiveness may come in different forms such as quality, design, price, marketing, or after sale service which all of them contribute to the whole competitiveness of a product. For example, if price competitiveness of a product is low (made from country A), meaning that the price is relatively higher than similar product made from country B, but supported with higher quality that contribute to over 100% compensation against its low price competitiveness, then in the end A product is more salable than B product in the world market.

From analysis approach, measuring price competitiveness is easier than measuring the quality or other forms of competitiveness since the price development data of a product is available and easy to access. In addition, it is easier as well to identify main factors attributable to higher price (low price competitiveness) of a product. In the case of Indonesia's furniture industry, Table 5 pointed out 6 main factors or main costs, and some of them are more expensive in Indonesia compare to other ASEAN countries. For example, terminal handling charge (THC) in Indonesia either for category per 40 or per 20 containers (CNTR) is higher than in Malaysia and Thailand. The same with electricity cost per kwh/kvh in Indonesia is also higher than Malaysia. Not to mention high capital cost reflected from much higher bank interest rate in Indonesia compared to those in Malaysia as well as Thailand.

Table 5: Main Costs of Furniture Industry in ASEAN Countries (US\$)

NO	Factors	Indonesia	Malaysia	Philippines	Singapore	Thailand	Myanmar
1	THC (<i>Terminal Handling Charge</i>)	145 / 40 CNTR 90 / 20 CNTR	68-87 / 40 CNTR 47-58 / 20 CNTR	200 / 40 CNTR	160/ 40 CNTR 107/20 CNTR	75/40 CNTR 67/20 CNTR	50/? CNTR
2	Minimum Wages/month	65	129-124	140	590-880	4,55/day	30-50
3	Electricity tariff per Kwh/Kva	0,08	0,03 – 0,07	0,20/Kwh/per month	0,08 – 0,1	0,08	0,8/unit
4	Bank Interest Rates (%)	16	7,25	15,5-16,5/annually	Different for each bank	5,75%/annually(MLR)	17% /annually
5	Fuel/liter	0,20	0,41 – 0,42	0,5	0,40 – 0,56	0,49	0,50
6	Transportation to the Port	160	0,02 – 0,10 /ton/km <i>laden</i>	80-120 / CNTR	100/20 CNTR 150/40 CNTR	213 / 20 CNTR 226 / 40 CNTR	20

Note: For THC data, before US\$ 150 for 20 CNTR and US\$ 230 for 40 CNTR plus BL *fee* US\$ 30

Source: Asean Furniture Industries Council (AFIC)

According to Gunawan (2006), the strong point of China's furniture industry versus Indonesia is mainly due to several aspects as follows;

1. Cheaper wood (probably related with illegal logging from Indonesia)
2. More productive labor
3. Cheaper bank interest rate
4. Lower taxation
5. Lower overhead costs (small/simple organization)
6. Ease on permit process
7. Less illegal collection than Indonesia
8. Dumping policy

Price competitiveness is also determined by productivity level. Basic theory is that the higher the productivity then the lower costs to be spent and means lower price per output as well. As previously explained, most of the wood furniture industry in Indonesia considered as micro or home-industry. Data from Ministry of Industry (Table 6) as well as BPS (Table 7) showed that the ratio of value added –labor (as an indicator of labor productivity) in manufacturing industry said that the smaller the business scale then the lower of labor productivity level. In addition, labor productivity in home-industry is considered to be the lowest of all.

Table 6: The Difference of Labor Productivity in Manufacture based on Business Scale and Industry Category in Indonesia in 2000 (average value added per labor; Rp. 000).

ISIC		IRT	IK	IM	IB
31	Food, Beverages & Tobacco	2.339	2.539	25.806	67.309
32	Textile and its products (TPT), Leather & Foot Wear	1.746	4.855	24.271	27.237
33	Wood and wood products	2.103	6.743	12.403	30.236
34	Paper, printing & publication	3.981	5.723	18.953	103.938
35	Chemical products (including fertilizer) & rubber products	1.782	7.812	50.849	68.968
36	Cement and mineral non metal products	3.346	3.071	8.849	63.327
37	Iron and Steel products	3.374	7.011	395.344	142.243
38	Transportation equipments, machines and tools	5.492	5.402	45.127	130.589

39	Others	4.973	6.097	12.701	22.946
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Description: IRT=House hold industry with 1-4 workers; IK=small industry with 5-19workers; IM = medium scale industry with 20-50 workers; IB = large scale industry with more than 50 workers

Source: Ministry of Industry (*database*).

Table 7: Ratio of value added – labor (Q1; Rp 000) and total output contribution of manufacture (Q2; %) based on business scale in 1999-2003

Business Scale	1999		2000		2001		2002		2003	
	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
IM & IB	115,28	90,52	143,99	91,65	167,70	91,50	166,31	89,94	196,26	90,68
IRT & IK	8,35	9,48	9,11	8,35	10,98	8,50	12,36	10,06	13,55	9,32

Source: BPS

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