DO REGIONAL TRADE AREAS IMPROVE EXPORT COMPETITIVENESS? - A CASE OF INDONESIA

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Abstract

Indonesia has involved in quite many regional trade agreements, since more than a decade ago. Theoritically, free trade agreements (FTAs) are very beneficial to the countries, as resources are more efficiently allocated due to production specialization. However, presence of asymmetric information, market inefficiency, and economic distortion in the real world have led to a deviation of FTAs benefits from its theoritical framework. This paper studies whether Indonesian export competitiveness is improving after Indonesia involves in ASEAN Free Trade Agreement (AFTA) and ASEAN-China Free Trade Agreement (ACFTA). Export competitiveness are measured by some trade indicators, such as: trade intensity index, market share, export product dynamics, and RCA, for some Indonesian main export products. The indices are compared across ASEAN countries and China to reveal: (i) which products are gaining or losing competitiveness in ASEAN and China markets; and (ii) which countries are becoming Indonesian main competitors in ASEAN and China markets. Additionally, this paper ends up with some policy recommendations that Indonesia should undertake to improve competitiveness of its products in ASEAN and China markets.
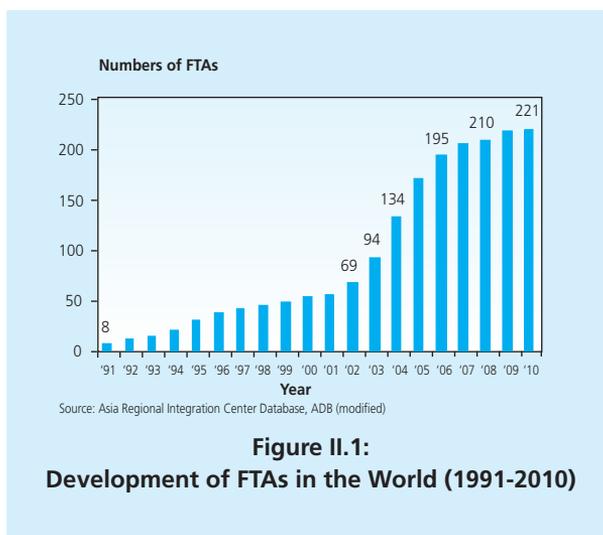
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I. INTRODUCTION

According to the theory of international trade, Free Trade Areas (FTAs) are accepted as their mutual benefits from such trade are very beneficial to the countries due to the concept of comparative advantage. A country will specialize in producing the products that it has a comparative advantage. By this specialization, the world can expand total world output with the same quantity of resources, as the economic efficiency is increased. Therefore, theoritically, an FTA can assure that all countries involved in the agreement will gain from the trade creation and trade diversion.

The recent trends of free trade agreements (FTAs) shows that countries in the world have involved in many trade agreements, either bilateral or regional trade agreements. Data in Figure 1 suggests that the increase of world FTAs has been significant since 2002.

Numbers of FTAs

Source: Asia Regional Integration Center Database, ADB (modified)

Figure II.1:
Development of FTAs in the World (1991-2010)

The data also shows that up until now the number of FTAs in the world is 221 agreements, rising as much as 152 agreements from the year 2002, which was only 69 agreements. Numbers of regional and bilateral agreements are increasing as those agreements are believed to be the second-best option of FTA after the multilateral agreement. Because the implementation of multilateral agreement is not optimally implemented, countries prefer to undertake quite many regional and bilateral agreements in order to expand their trade and to strengthen their economic relations with other countries.

Figure II.2 shows the classifications of FTA into bilateral and plurilateral agreements. Bilateral agreement refers to a preferential trading arrangement where it involves only two parties.

Correspondingly, plurilateral agreement is a preferential trading arrangement that involves more than two parties. Based on the figure, it can be seen that bilateral arrangement dominates plurilateral arrangement, where it accounts for 77 % out of total 221 agreements in 2009. Therefore, only 23% of the agreements are plurilateral.

Source : Asia Regional Integration Database, ADB (modified)

Figure II.2:
Classification of Trade Arrangements
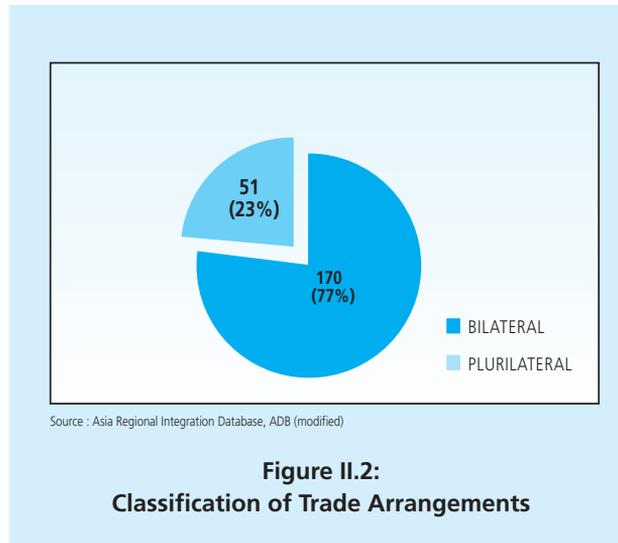
Indonesia has also involved in quite many trade arrangements. Up until now, it has implemented 7 agreements that are already in effect, and 8 arrangements that are still in the process of negotiation or study. Table 1 shows the FTAs that Indonesia has involved.

This paper will focus on analyzing the competitiveness of Indonesian export products after the implementation of ASEAN Free Trade Area (AFTA) and ASEAN-China Free Trade Area (ACFTA). The reason why these FTAs are selected is because: (i) ASEAN and China are Indonesia's main export markets; and ASEAN countries are also Indonesian main competitors in these markets.

No	Name of Arrangement	Status
**Table II.1**		
**Lists of FTAs that Indonesia has involved**		
1	ASEAN Free Trade Area	In effect
2	ASEAN-Australia and New Zealand Free Trade Agreement	In effect
3	ASEAN-India Regional Trade and Investment Area	In effect
4	ASEAN-Japan Comprehensive Economic Partnership	In effect
5	ASEAN-Korea Comprehensive Economic Cooperation Agreement	In effect
6	Japan-Indonesia Economic Partnership Agreement	In effect
7	ASEAN - China Comprehensive Economic Cooperation Agreement	In effect
8	ASEAN-EU Free Trade Agreement	Under negotiation
9	Comprehensive Economic Partnership for East Asia (CEPEA/ASEAN+6)	Proposed/Under consultation and study
10	East Asia Free Trade Area (ASEAN+3)	Proposed/Under consultation and study
11	India-Indonesia Comprehensive Economic Cooperation Arrangement	Proposed/Under consultation and study
12	Indonesia-Australia Free Trade Agreement	Proposed/Under consultation and study
13	Indonesia-European Free Trade Agreement	Proposed/Under consultation and study
14	Pakistan-Indonesia Free Trade Agreement	Under Negotiation
15	United States-Indonesia Free Trade Agreement	Proposed/Under consultation and study

Source: Asia Regional Integration Database, ADB (modified)

II. INDONESIA AMONG AFTA AND ACFTA

The ASEAN Heads of State and Governments decided to establish an ASEAN Free Trade Area or AFTA in January 1992. The objective of AFTA is to eliminate tariff barriers among the Southeast Asian countries with a view to integrating the ASEAN economies into a single production base and creating a regional market; which will be done through elimination of intra-regional tariffs and non-tariff barriers. The ASEAN Free Trade Area or the AFTA is perceived to be the soul of ASEAN economic integration. The implementation of AFTA is started in January 1993. The schedule of tariff reduction for AFTA are scheduled under CEPT (Common Effective Preferential Tariff)-Scheme, and the schedule of tariff reduction for ASEAN-6 more advanced than CMLV countries (Cambodia, Myanmar, Lao, and Vietnam). Under the CEPT-scheme, products are categorized into 5 (five) groups, i.e. Inclusion List (IL), Sensitive List (SL), Highly Sensitive List (HSL), Temporary Exclusion List (TEL), and General Exception List (GEL).

For Indonesia, total numbers of tariff lines that are put under CEPT Scheme is 11.153 lines; where 98.9% or 11.028 tariff lines are included in Inclusion List. The rest of it is belong to General Exclusion List and Sensitive List. Structure of Indonesian tariff under the CEPT scheme can be seen in the Figure below.
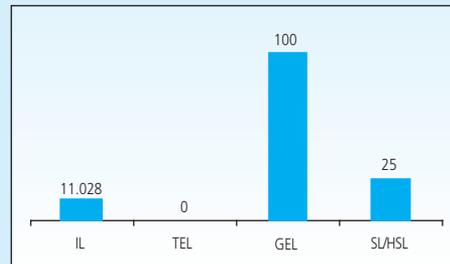
Source: Ministry of Finance

**Figure II.3: Structure of
Indonesian Tariff Lines under CEPT Scheme**
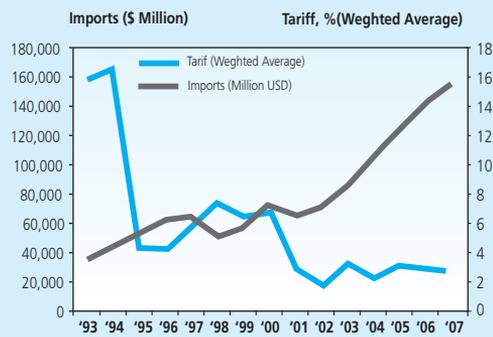
Source: UNCTAD-Train Database (modified)

**Figure II.4: Development of
Imports and Tariff in ASEAN-6**

ASEAN Member Countries have made significant progress in lowering the intra-regional tariffs through the Common Effective Preferential Tariff (CEPT) Scheme for AFTA. More than 99 percent of the products in the CEPT Inclusion List (IL) of ASEAN-6, comprising Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand, have been brought down to the 0-5 percent tariff range. Figure II.4 shows us that imports of ASEAN-6 countries from that regional is increasing along with the decrease of import tariff in ASEAN-6.

In November 2004, at the 10th ASEAN Summit in Vientiane, Lao PDR, the Economic Ministers of ASEAN and China signed the Agreement on Trade in Goods (TIG) of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China. This is well-

known as the ASEAN-China Free Trade Agreement (ACFTA), where its implementation has come into force since July 1, 2005. In this agreement, the tariff lines under the modality of tariff reduction was classified into 3 groups, i.e early harvest program, normal track, and sensitive track. Tariff lines placed in **the Normal Track** have been gradually reduced and eliminated according to the following Schedules (ASEAN-6 and China):

X = Applied MFN Tariff Rate	ACFTA Preferential Tariff Rate (Not Later than 1 January)			
	2005*	**2007***	**2009**	**2010**
X ≥ 20%	20	12	5	0
15% ≤ x < 20%	15	8	5	0
10% ≤ x < 15%	10	8	5	0
5% < x < 10%	5	5	0	0
x ≤ 5%	Standsill		0	0

Table II.2
Modality of Normal-Track Tariff Reduction for ASEAN-6

* The first date of implementation shall be 1 Jully 2005

However, the tariff reduction under Sensitive Tracks is starting to be implemented in 2012 for the Sensitive Lists, and it shall be gradually reduced to 0-5% not later than 1 January 2018. Furthermore, the tariff of products under high sensitive list should not exceed 50% started in 2015.

Source: UNComtrade and UNCTAD-Trade Database
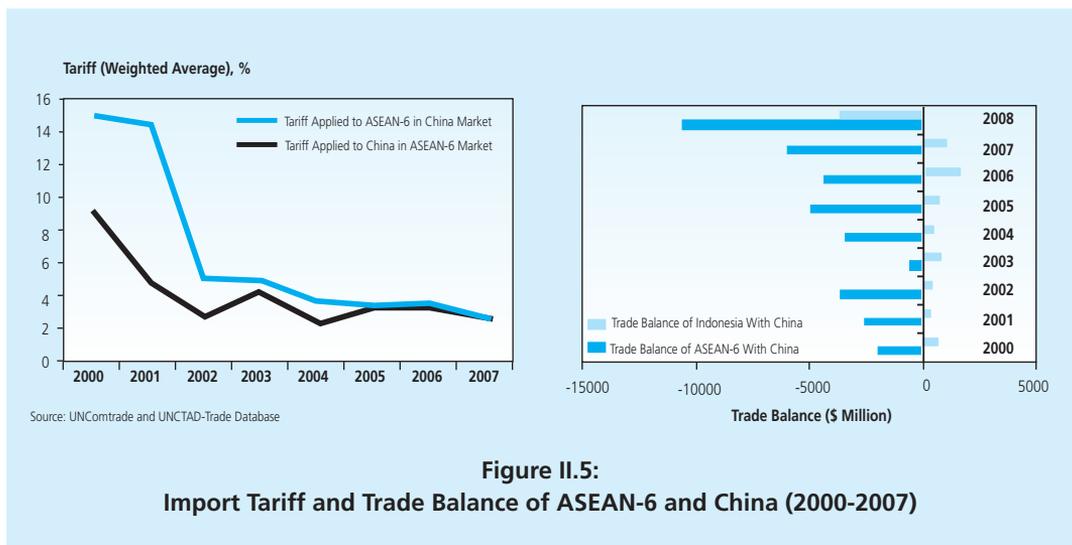
Figure II.5:
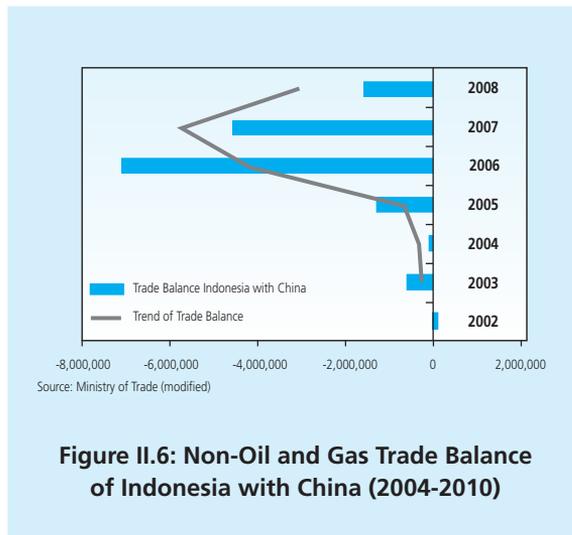**Import Tariff and Trade Balance of ASEAN-6 and China (2000-2007)**

**Figure II.6: Non-Oil and Gas Trade Balance
of Indonesia with China (2004-2010)**

The Figure above shows us that the weighted-average tariff has been decreasing both in ASEAN-6 and China market. Whereas, deficit in trade balance of ASEAN-6 with China tends to increase, meaning that ASEAN-6 imports is increasing more rapidly than its exports to China. On the other hand, the total trade balance of Indonesia with China tends to be surplus. But, this is not the case for non oil-and-gas trade balance of Indonesia with China, where its trade balance has started to be deficit since 2005. Therefore, Indonesian trade surplus with China was due to a big surplus in Indonesian trade of oil and gas to China.

III. COMPETITIVENESS INDICATORS

Some literatures (Ng, 2002; Mikic, 2005; ITC Market Analysis Section, 2000; World Bank Institute, 2010) have provided indicators and indices that are commonly used for international trade analysis. However, this paper chooses some of the competitiveness indicators that are considerably practical to analyze whether Indonesian export products are loosing or gaining their competitiveness after AFTA and ACFTA come into effect. The indicators are export intensity index, market share, and dynamic RCA.

Export intensity index is a measure of whether or not a country exports more to a given destination than the world does on average. The expression is defined by the following equation:

$$EII_{ij} = \frac{x_{ij}}{X_{iw}} \bigg/ \frac{x_{wj}}{X_{ww}}$$

(II.1)

where x_{ij} is the dollar value of exports of country/region i to country/region j, X_{im} is the dollar value of the exports of country/region i to the world, x_{mj} is the dollar value of the world exports to country/region j, and X_{mm} is the dollar value of market exports. An index of more than one indicates that trade flow between countries/regions is larger than expected given their importance in the trade.

Market share is measured by the following equation:

$$MS_{ij} = \frac{X_{ij}}{M_j} \times 100\%$$

(II.2)

Where:

MS_{ij} = Market Share of country i in market j.

X_{ij} = Exports of country i to market j.

M_j = Imports of market j.

Dynamic RCA is a modification of static RCA, and it is not yet common in use as the static RCA has been. Dynamic RCA has been used by Edwards and Schoer (2001) to analyze the structure and competitiveness of South African Trade.

The advantages of using the dynamic RCA are: (i) it describes RCA over some period of time; and (ii) it provides product positioning in the export destination countries, as it offers some criteria to cluster products according to their positions in the market. Therefore, dynamic RCA is more useful than traditional RCA, particularly if the study is going to identify which products are gaining or loosing the markets and to provide policy recommendation based on market positions of the export products. In addition, dynamic RCA is more informative than static RCA in explaining how competitive is the export products.

In this paper, the formula of dynamic RCA, which were referring to Edwards and Schoer (2001) is calculated using the formula below and was slightly modified to fit in with the ASEAN or China Market as follows:

$$DRCA_j = \frac{\Delta RCA_j}{RCA_j} = \frac{\Delta\left(\dfrac{X_{i,j}}{\sum_j X_{i,j}}\right)}{\dfrac{X_{i,j}}{\sum_j X_{i,j}}} - \frac{\Delta\left(\dfrac{X_{m,j}}{\sum_j X_{m,j}}\right)}{\dfrac{X_{m,j}}{\sum_j X_{m,j}}}$$

(II.3)

Where:

$DRCA_j$ = dynamic RCA indicator

$X_{i,j}$ = exports of commodity j of country i to destination market (ASEAN or China)

$X_{m,j}$ = exports of commodity j of ASEAN countries to destination market (ASEAN or China)

The first term of the right hand side refers to the export share of commodity j in the reporting country's total export to the destination market. The second term refers to the export share of ASEAN countries of commodity j to the total ASEAN exports directed to the destination market.

Edwards and Schoer (2001) provided a positioning matrix that is very useful to analyze the competitiveness of the products under evaluation. The matrix is given in Table II.3.

Table II.3 Positioning Matrix of Export Competitiveness				
	Share of j in a country's export		**Share of j in a market's export**	**Position**
Increasing RCA	↑	>	↑	Rising stars
	↑	>	↓	Falling stars
	↓	>	↓	Lagging retreat
Decreasing RCA	↓	<	↑	Lost opportunity
	↓	<	↓	Leading retreat
	↑	<	↑	Lagging opportunity

Adapted from Edwards and Shoer (2001)

IV. DATA AND METHODOLOGY

The Data used in this paper is mainly obtained from UNCOMTRADE Database, which was retrieved using World Integrated Trade Solution (WITS) application. The export data is taken from 1996-2008 for ASEAN countries and China. Data for ASEAN countries consists of Indonesia, Malaysia, Singapore, Thailand, Philipines, and Brunei, because the rest of ASEAN countries do not have a complete data set available in WITS. The product analysis refers to classification of 2-digit HS 1996.

Calculation of Export Intensity Index is specifically obtained from Asia Regional Integration Center Database in Integration Indicator Database, which is available to be downloaded from http://aric.adb.org/indicator.php.

A further classification of HS-1996 is also used in this paper for simplifying the analysis. The classification in Table II.4 is referred HS-1996 Classification by sections with some modifications in it to shorten the category.

No	Product Classification	HS Codes
	**Table II.4** **Product Classification under HS-1996 Codes**	
1	Live animals and animal products	01-05
2	Vegetable Products	06-14
3	Animal or Vegetable Fats and Oil	15
4	Foodstuffs	16-24
5	Mineral Products	25-27
6	Chemicals	28-38
7	Plastics and Rubbers	39-40
8	Skin and leather	41-43
9	Wood & Wood Products	44-49
10	Textiles	50-63
11	Footwear	64-67
12	Stone and Glass	69-71
13	Metals	72-83
14	Machinery / Electrical	84-85
15	Transportation	86-89
16	Miscellaneous	90-97

Source: UNComtrade, http://comtrade.un.org/kb/article.aspx?id=10253 (modified by author)

V. RESULTS AND ANALYSIS

V.1. AFTA

Before the implementation of AFTA, which is in 1992, the contribution of Indonesia in ASEAN-6 exports to ASEAN-6 is about 12.7%. Then this share is decreasing in 1995, but started to gradually increase up until now. Most of the export commodities/products of Indonesia are either increasing or stable in market share. This means that Indonesian products are quite competitive in ASEAN market.

However, there are some products that are loosing the market. Those are chemicals, textiles, skin and leather products, and machinery/electricals.   The main competitors of these products are Malaysia for Chemicals, Singapore for Machinery/Electricals, Thailand for textiles, and Vietnam for textiles and Skin/leather products.

Table II.5 Market Share of Indonesian Export Products in ASEAN							
	Product	**Market Share**					
		1992	**1995**	**2005**	**2006**	**2007**	**2008**
	Total	12.7%	8.8%	10.1%	10.1%	10.8%	11.6%
Increasing Market Share	Animal/Veg Oils	30.5%	24.2%	48.9%	51.1%	53.7%	57.5%
	Foodstuffs	15.0%	13.2%	16.8%	18.4%	18.2%	20.2%
	Footwears	15.9%	11.5%	28.0%	28.3%	24.6%	21.5%
	Metals	2.8%	3.3%	24.3%	23.6%	23.4%	25.3%
	Transportation	7.0%	14.4%	12.4%	15.6%	14.0%	17.1%
	Plastics&Rubber	6.5%	8.1%	9.2%	9.6%	10.3%	10.8%
	Wood Products	20.1%	19.1%	23.6%	24.3%	23.1%	22.7%
Stable Market Share	Vegetable	17.3%	15.0%	13.4%	12.1%	10.4%	8.1%
	Mineral Products	19.5%	13.4%	9.8%	10.5%	12.1%	12.1%
	Miscellanous	6.9%	21.0%	6.7%	9.0%	9.8%	8.4%
	Animal Products	18.4%	18.7%	18.3%	17.5%	19.0%	22.3%
	Stone/Glass	20.1%	20.1%	16.4%	22.6%	20.9%	19.1%
Decreasing Market Share	Chemicals	13.2%	9.7%	9.5%	9.3%	13.8%	9.9%
	Machinery/Electricals	14.2%	8.8%	6.8%	5.7%	5.5%	6.0%
	Skin/Leather products	20.2%	9.2%	10.7%	16.0%	13.3%	8.7%
	Textiles	55.7%	21.3%	25.2%	22.7%	22.1%	19.9%

Source: UNCOMTRADE Database (computed by author)

In Table II.6, it can be seen that export intensity index of ASEAN countries is increasing particularly in 2000s, with a slight decrease in 1995. Indonesia's export intensity index has been increasing, which means that AFTA has helped Indonesia to export more to other ASEAN countries, causing export intensity of Indonesia to continously increase. Other ASEAN countries, such as Malaysia, Singapore, and Thailand has also been experiencing an increase of export intensity index. Therefore, AFTA has improved trade flows among countries in this region.

Table II.6 Export Intensity Index of ASEAN Countries in ASEAN Market						
Reporter	**1992**	**1995**	**2005**	**2006**	**2007**	**2008**
ASEAN	4.05	3.67	4.66	4.63	4.67	4.56
Indonesia	2.71	2.14	3.40	3.40	3.62	3.54
Malaysia	6.02	4.14	4.80	4.84	4.76	4.61
Singapore	4.53	4.55	5.77	5.72	5.87	5.71
Thailand	2.73	2.97	4.05	3.87	3.95	4.04
Viet Nam	3.98	2.97	3.26	3.09	3.09	2.91

Another interesting result in this paper is presented in Figure II.7 concerning positioning of Indonesian Export Competitiveness in ASEAN Market by product groups. It seem to be satisfying that there is only 1 product group (out of 16 product groups) which has been loosing its competitiveness in ASEAN market, as it has lost its opportunity. The product is vegetable. There are quite many products include in the rising star groups, which are very promising to the future of Indonesia's trade with ASEAN. However, Indonesia has to put its attention to some products which have lagging-opportunities. Those are metals and mineral products. According to the results, growth of Indonesian market share for these products in ASEAN is still lower than growth of ASEAN demand for these products. Meaning that Indonesia still have more opportunities to increase its share of these products in ASEAN Market. In general, Indonesia has entered to the right market in ASEAN.
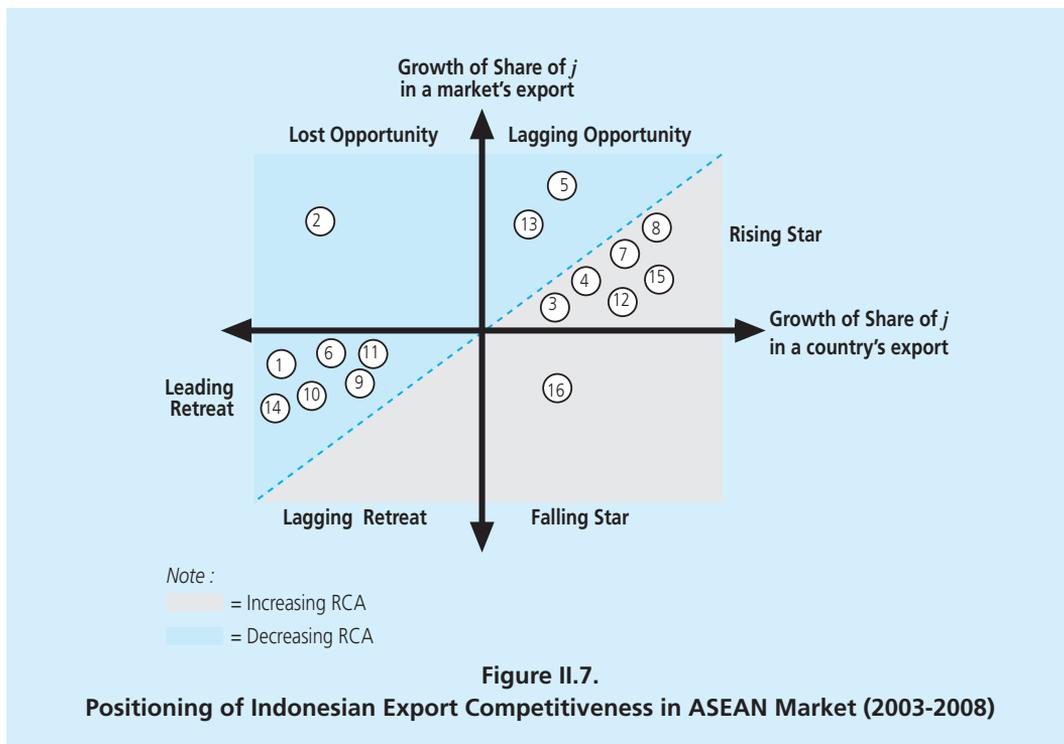
Figure II.7.
Positioning of Indonesian Export Competitiveness in ASEAN Market (2003-2008)

1 = Live animals and animal products, 2 = Vegetable Products, 3 = Animal or Vegetable Fats and Oils, 4 = Foodstuffs, 5 = Mineral products, 6 = Chemicals, 7 = Plastics and Rubbers, 8 = Skin and Leather, 9 = Wood and Wood Products, 10 = Textiles, 11 = Footwear, 12 = Stone and Glass, 13 = Metals, 14 = Machinery/Electricals, 15 = Transportation, 16 = Miscellaneous

V.2. ASEAN-China FTA

After the implementation of ASEAN-China FTA, the structure of Indonesian exports to China has slightly changed. Before ACFTA, wood and articles of wood (HS-44) was among the top 10 Indonesian export commodities to China, where its share in the total exports to China is 7.2%. However, after ACFTA, this commodity was replaced by Ores, slag, and ash (HS-26). In addition, the share of mineral fuels, oils and product (HS-27) and animal/vegetable fats and oil (HS-15) are increasing from 26.1% and 12.8% in 2004 to 39.2% and 18.2% in 2008. The main reason for this is because in recent years China imported more industrial raw materials due to the increase of its industrial activities and production. This reason is also supported by the fact that China has increased its imports of Ores, slag, and ash and articles of iron or steel. As Indonesia is one of the main world suppliers for mining products due to its natural resources, therefore exports of Indonesia to China for this product is also increasing.

Table II.7 Top 10 Commodities of Indonesian Exports to China (2004 and 2008)					
2004		**Share**		**2008**	**Share**
27	Mineral fuels, oils & product of th	26.1%	27	Mineral fuels, oils & product of th	39.2%
15	Animal/veg fats & oils & their clea	12.8%	15	Animal/veg fats & oils & their clea	18.2%
29	Organic chemicals.	12.3%	40	Rubber and articles thereof.	7.7%
44	Wood and articles of wood; wood ch	7.2%	46	Manufactures of straw	6.4%
46	Manufactures of straw	5.7%	26	Ores, slag and ash.	5.6%
40	Rubber and articles thereof.	5.5%	29	Organic chemicals.	2.9%
47	Pulp of wood/of other fibrous cellu	4.3%	73	Articles of iron or steel.	2.7%
84	Nuclear reactors, boilers, mchy & m	4.2%	84	Nuclear reactors, boilers, mchy & m	2.4%
83	Miscellaneous articles of base metal	2.7%	83	Miscellaneous articles of base metal	2.2%
73	Articles of iron or steel.	2.6%	47	Pulp of wood/of other fibrous cellu	1.7%
Share to Total Exports to China		83.4%		Share to Total Exports to China	89.01%

Source: UNCOMTRADE (computed by Author)

Table II.8 shows Indonesian market share in China market by product category. The denominator of the share is total exports of ASEAN-6 + Vietnam to China Market. From the data it can be seen that share of Indonesian export in China market tends to be stable with a little increase in 2008. Some Indonesian products are gaining market in China after the implementation of ACFTA in 2005. Those products are Animal/Vegetable Oils and fats, Foodstuffs, Footwears, Metals, Mineral Products, Plastics and Rubber, as well as Skin/Leather products. It can be seen that products that generallly gain increasing market share in China are natural-resource based; classifying as agricultural and mining products; except footwear. Manufacturing

products, such as: woods, textiles, chemicals, and machinery/electrical products, are experiencing a decrease in market share. This is because these products cannot compete with local China products or with other ASEAN countries' products.

	Table II.8 **Market Share of Indonesian Exports in China (2005-2008)**						
	Product	**Market Share**					
		2003	**2004**	**2005**	**2006**	**2007**	**2008**
	Total	22.2%	20.4%	20.8%	19.8%	19.6%	22.4%
Increasing Market Share	Animal/Veg Oils	24.7%	29.6%	36.4%	39.6%	34.1%	34.7%
	Foodstuffs	5.4%	5.2%	7.7%	5.5%	7.1%	6.9%
	Footwears	20.5%	21.7%	24.3%	21.0%	29.4%	31.4%
	Metals	16.9%	14.3%	21.4%	22.4%	14.7%	16.4%
	Mineral Products	22.9%	21.1%	38.5%	39.7%	40.9%	38.1%
	Plastics&Rubber	6.3%	8.1%	8.1%	9.9%	10.0%	10.1%
	Skin/Leather products	4.1%	6.5%	14.3%	20.7%	17.3%	17.9%
	Miscellanous	1.5%	2.2%	2.3%	2.8%	3.3%	3.0%
Stable Market Share	Vegetable	4.4%	4.9%	4.5%	3.5%	4.5%	6.7%
	Transportation	4.3%	6.6%	8.2%	8.8%	7.2%	2.5%
Decreasing Market Share	Animal Products	25.5%	26.8%	21.5%	17.5%	9.0%	18.1%
	Chemicals	18.2%	19.3%	19.1%	16.5%	16.1%	14.3%
	Machinery/Electricals	1.6%	1.7%	1.2%	1.2%	1.3%	1.5%
	Stone/Glass	15.2%	20.7%	14.8%	10.7%	8.3%	4.9%
	Wood Products	59.1%	53.2%	49.6%	50.4%	46.4%	53.0%
	Textiles	31.7%	25.2%	20.9%	22.6%	22.7%	22.6%

The Indonesian main competitor of Chemicals, Machinery/Electricals, Wood products, and Textiles in China market is Thailand; as its shares is increasing after ACFTA was implemented. In addition, Vietnam is also a good supplier of wood products and textiles to China market, its share is increasing under ACFTA framework. But, products of machinery/electricals and chemicals of Vietnam do not seem to be competitive in China market.

Export Intensity Index of ASEAN countries in China Market tends to increase (Table II.9), as China's export intensity index in ASEAN has also increased. Export Intensity Index for all countries in any year is always greater than 1, showing that trade flows between ASEAN countries to China, or the other way around, is larger than expected given their importance in such regional trade. This means that the implementation of ACFTA does increase trade intensity among the participating countries and in general improve trade flows among the countries in the region.

Table II.9 Export Intensity Index of ASEAN countries and China							
Reporter	**Partner**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
ASEAN	China	1.31	1.35	1.42	1.46	1.49	1.45
Indonesia	China	1.24	1.20	1.38	1.39	1.38	1.37
Malaysia	China	1.30	1.24	1.17	1.22	1.42	1.54
Singapore	China	1.26	1.44	1.52	1.64	1.57	1.48
Thailand	China	1.42	1.37	1.46	1.52	1.58	1.48
Viet Nam	China	1.87	2.04	1.76	1.37	1.22	1.16
Reporter	**Partner**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
China	ASEAN	1.31	1.34	1.34	1.37	1.43	1.43

The results of dynamic RCA calculation are summarized in the chart below (Figure II.8) to portray the competitiveness positioning of Indonesian export products in China market. The products were classified into the category mentioned in Table II.4.

From the result, it can be seen that there are only 3 product groups which are in "rising star". Those products are mineral products, plastics and rubbers, and footwear. The products which are in "lagging opportunity" are Animals/vegetable oils and fats and foodstuffs. Lagging opportunity means that demands on these products in China are quite high, but the rate of export growth of these products are still lower than that of the demands. Most of Indonesian export products in China market is categorized as leading retreat and lagging retreat. On the other hand, Indonesia in the future should not focus on exporting skins and leather as demands in China Market for this product is decreasing.

Figure II.8.
Positioning of Indonesian Product Competitiveness in China Market Using Dynamic RCA

1 = Live animals and animal products, 2 = Vegetable Products, 3 = Animal or Vegetable Fats and Oils, 4 = Foodstuffs, 5 = Mineral products, 6 = Chemicals, 7 = Plastics and Rubbers, 8 = Skin and Leather, 9 = Wood and Wood Products, 10 = Textiles, 11 = Footwear, 12 = Stone and Glass, 13 = Metals, 14 = Machinery / Electricals, 15 = Transportation, 16 = Miscellaneous

VI. CONCLUSIONS

This paper provides some analysis about competitiveness of Indonesian export products in ASEAN and China, after the implementation of ASEAN FTA and ASEAN-China FTA. The competitiveness indicators used in this paper is market share, export intensity index, and dynamic RCA. The results show that Indonesia is doing well in ASEAN Market by gaining some market for some products. However, some policy strategy is needed for the products, particularly for vegetable products which has lost the opportunity in ASEAN markets. Some policies needed would be product diversification, improvement in quality control, and health-related concerns.

In China market, Indonesia gained the market only for the products of plastics and rubber, mineral products, and footwear. The products which are in "lagging opportunity" are Animals/vegetable oils and fats and foodstuffs; meaning that Indonesia can still do some improvement to optimize the opportunity, as the rate of export growth of these products are currently still lower than that of the demands. Most of Indonesian export products in China market is categorized as leading retreat and lagging retreat. In the case of ACFTA, Indonesia can still do more to improve its export performance in China market.

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