INDONESIA STRATEGIES TO RAISE ITS BILATERAL TRADE WITH AUSTRALIA

THESIS

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UNIVERSITY OF INDONESIA
FACULTY OF ECONOMICS
MASTER OF PLANNING AND PUBLIC POLICY
INTERNATIONAL TRADE POLICY
DEPOK, 2009

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Submitted in partial fulfillment of the requirements for
the Degree of Master of Economics

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Depok, January 2009

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ABSTRACT

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Title : Indonesia Strategies to Raise Its Bilateral Trade with Australia

This research try to answer the question does trade agreement effective to raise Indonesia-Australia bilateral trade. In order to answer the question, the objectives of the thesis are; (1) to explore feasibility of FTA between Indonesia and Australia, it uses Trade Intensity Index and qualitative analysis on trade services as the methodology, and, (2) to formulate request-offer products regard to the agreement, it uses Trade Indicative Potential.

As result, FTA Indonesia-Australia is not feasible to be implemented regard to lack of trade services and the intensity is already high. However, even the intensity is higher means there is no other potency that could be reap, but the trend is decline.

Furthermore, if it is assumed that those problems (lack of trade services) are already better but the trade intensity is being lower; FTA could be the right strategy. Regard to that condition, there are three kinds of product that could be requested by Indonesia, they are: furniture, shrimp, and textile. However, Australia could be requested Indonesia dairy products and agriculture to be open. As recommendation, the improvement of Indonesia trade services (the availability of information, the better financial sector, and the availability of International port) is the best strategy that should be done to raise Indonesia-Australia bilateral trade.

Keyword: Bilateral Trade, Indonesia, Australia

ABSTRAK

Nama   : Bambang Sumarjono

Program   : Magister Perencana Kebijakan Publik

Judul   : Strategi Indonesia untuk meningkatkan Perdagangan Bilateral dengan Australia

Penelitian ini bertujuan untuk mengetahui apakah FTA adalah kebijakan yang efektif untuk meningkatkan perdagangan bilateral Indonesia dengan Australia, untuk itu, penelitian ini menggunakan Trade Intensity Index dan analisis qualitative terhadap jas-jasa perdagangannya sebagai metodenya. Disamping itu, untuk memformulasikan "request-offer" yang terkait dengan agreement tersebut, penelitian ini menggunakan Trade Indicative Potential.

Hasil dari penelitian ini menunjukkan bahwa FTA Indonesia-Australia tidak layak untuk diterapkan berdasarkan pada fakta bahwa; (1) jasa-jasa yang menunjang perdagangan Indonesia masih buruk dan, (2) intensitas perdagangan Indonesia-Australia sudah tinggi. Walaupun Trade Intensity Index menunjukkan tren penurunan.

Selanjutnya, apabila diasumsikan bahwa masalah terkait dengan jasa perdagangan yang buruk telah menjadi lebih baik, tetapi intensitas perdagangan kedua negara (Indonesia- dan Australia) menurun dan menjadi rendah, maka FTA dapat dijadikan kebijakan yang efektif. Terkait dengan hal ini, terdapat tiga produk yang dapat di minta oleh Indonesia agar Australia membuka hambatannya, yaitu; furniture, udang, dan tekstil. Sementara, produk yang diminta oleh Australia agar Indonesia membuka hambatannya adalah produk konsumsi harian dan pertanian. Sebagai rekomendasi, perbaikan sarana jasa perdagangan internasional (ketersedian informasi, sektor keuangan yang terpercaya, dan ketersediaan pelabuhan internasional) adalah strategi terbaik yang harus ditempuh untuk meningkatkan perdagangan bilateral Indonesia dan Australia.

Keyword: Perdagangan Bilateral, Indonesia, Australia

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INTRODUCTION

1.1 Background

For a developing country, economic development is the main instrument to achieve its national vision. There are several indicators that could be used to measure the success of economic development. One of the most popular indicators is Gross Domestic Product (GDP). GDP can describe the level of economic growth. From expenditure approach, economic growth are formed by several components such as; consumption, investment, government expenditure, exports, and imports (Blanchard, 2006)

Currently, export can act as the activator of economic growth. The strategy that put export as the main contributor of economic development is called Export-led Growth (ELG) strategy. It is an economic development strategy in which export plays a central role in a country's economic growth, in general (Sentsho, 2000).

In addition, Sentsho also explain that there are two benefit of export for the economic as a whole. Those are;

1. Export as a medium to expand the market, so it pushes economic of scale, efficiency, competition, and employment.

2. Export as a medium to obtain foreign exchange that is useful to invest, to consume import good and to pay debt or other foreign obligation.

For Indonesia, net export (export-minus import) is the smallest contributor for the economy. During 2001-2005, net export contributes only 4-8 % for total GDP. The most contributed-component is consumption which contributes more than 60 % during the period. It is followed by investment which contributes more than 22 % and government expenditure which contributes less than 9 %.

Figure 1.1 Components of Indonesia GDP (2001-2005)
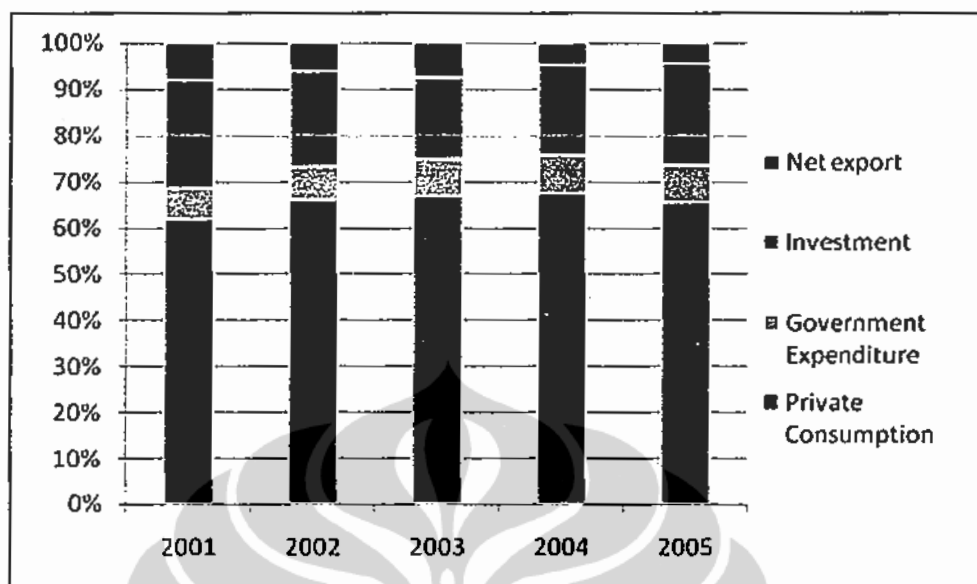
Source: Statistic Central Biro

However, export's contribution is quite small. It is due to their product which is not quite diversifying over the year. Indonesia still depends on natural-resource products (mining, minerals, agriculture, and forestry) (Mageira, 2003). Even this is merely mistake regard to Indonesia's absolute and comparative advantages on those products, but the products have weakness on unpredictable market price.

Besides that factor, Indonesia also has a problem in diversify its market. So far, Indonesia export is focusing on several developed countries (traditional market).

Table 1.1 Indonesia Traditional Export Market (2002-2006)

Country	Share of Total Export (%)				
	2002	2003	2004	2005	2006
Japan	21.07	22.28	15.93	21.07	21.56
USA	13.24	12.10	13.63	11.54	11.17
Singapore	9.36	8.84	9.30	9.15	8.86
China	5.08	6.23	7.14	7.78	8.28
Korea	7.19	7.08	5.30	8.27	7.63
Total Five Countries	55.94	56.53	51.31	57.81	57.50

Source: comtrade, trademap

Japan is the main destination for Indonesia export with market share contributes more than 20 % (except in 2004). It is followed by USA (more than 20% in the average), Singapore, China and Korea. Those big five countries contribute more than 55 % for Indonesia export market as a whole.

This condition creates another problem because of the vulnerability of Indonesia export products regard to the economic condition in destination countries. Therefore, it needs an effort to anticipate this kind of weakness. The effort to find another prospective market is an appropriate strategy for that. According to the Ministry of Trade, Indonesia divides its export market into three kinds; (1) Main Market, a market which has big share and stable relatively, (2) Prospective Market, a market which has good prospect because of high demand, however, lack of promotion and innovation make the products not competitive compared with its competitors-, (3) Potential Market –where Indonesia products are not already enter the market, but it probably has big potency. In general, those three markets are explained as follows;

Table 1.2 Market Classifications for Indonesia Export Product (2007)

Market Classification	Destinations	Strategies
Main Market	United States, Japan, Singapore, China, Germany, Malaysia, Korea, UK, HongKong	➢ Maintain and increase market share ➢ Product diversification
Prospective Market	Middle East, India, Australia, Taiwan, Russia, Nigeria	➢ Increase market access and market share ➢ Promotion product and diversification
Potential Market	Brazil, East Europe, Mexico, Chile	➢ Open market access and market penetration ➢ Promotion and trade mission

Source: Ministry of Trade

Therefore, in order to diversify its export destination countries, Indonesia should expand its export to other prospective market (non-traditional market). Regard to previous table, one of the prospective markets is Australia. In term of prosperity, Australia is more prosperous than Indonesia. It can be seen from the GDP per capita gap between both countries. The ratio of Australia GDP per capita

to Indonesia GDP per capita is about 20 times in 2007 (World Economic Outlook, IMF). In absolute term, Australia GDP per capita is about 43 thousand US $ while Indonesia is about 1,924 US $. This shows that Australia's market is very prospective for Indonesia.

. **Figure 1.2. GDP per Capita Comparison in US $ (2001-2007)**
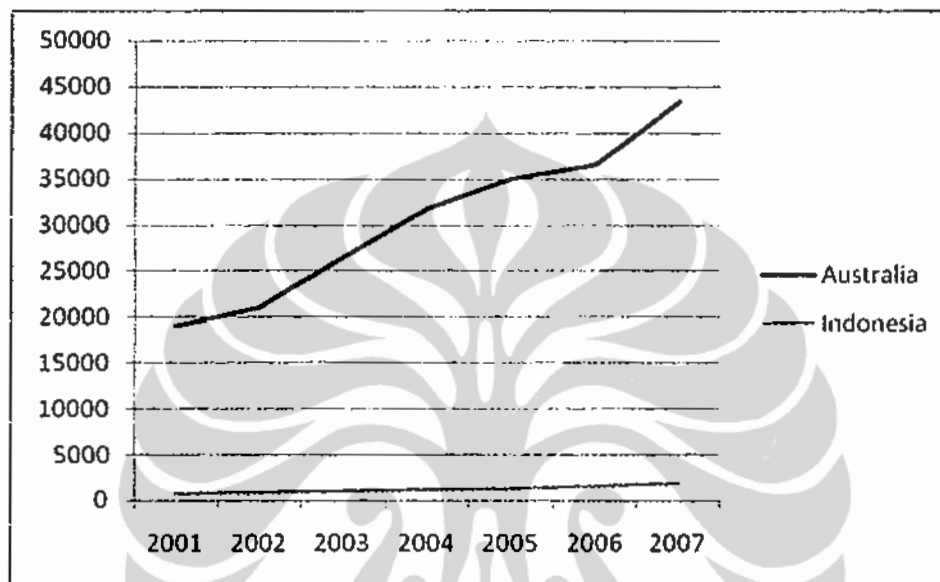
Source: World Economic Outlook, IMF
* GDP per cap in current price

In term of export, Indonesia export to Australia is quote more than 2.7 million US $ in 2006, increasing more than 40 % from 2002. However, it is far away with the Indonesia export value to Japan (more than 21 million US $ in 2006).

Table 1.3 Indonesia Main Export Destinations, 2002-2006 (US $)

Rank	Importers	2002	2003	2004	2005	2006
	World	57,158,716	61,058,152	64,483,516	85,659,952	100,798,616
1	Japan	12,045,085	13,603,469	10,273,756	18,049,140	21,732,124
2	USA	7,570,445	7,386,356	8,787,035	9,889,196	11,259,136
3	Singapore	5,349,051	5,399,630	5,999,022	7,836,585	8,929,849
4	China	2,902,934	3,802,514	4,604,706	6,662,354	8,343,571
5	Korea	4,107,208	4,323,746	3,419,543	7,085,636	7,693,541
6	Malaysia	2,029,921	2,363,818	3,016,012	3,431,300	4,110,757
7	India	1,301,952	1,742,473	2,170,482	2,878,348	3,390,790
8	Australia	1,924,326	1,791,563	1,887,308	2,227,608	2,771,277
9	Taiwan	2,067,554	2,233,228	2,854,427	2,475,014	2,734,807
10	Thailand	1,227,335	1,392,616	1,976,211	2,246,459	2,701,549

Source: Comtrade, Trademap

In term of export share, compared with the big five (Japan, USA, Singapore, China, and Korea) share which is more than 55 %, Australia has a quite small of share (less than 3 %).

Figure 1.3. The Share of Indonesia Export Partner (2006)
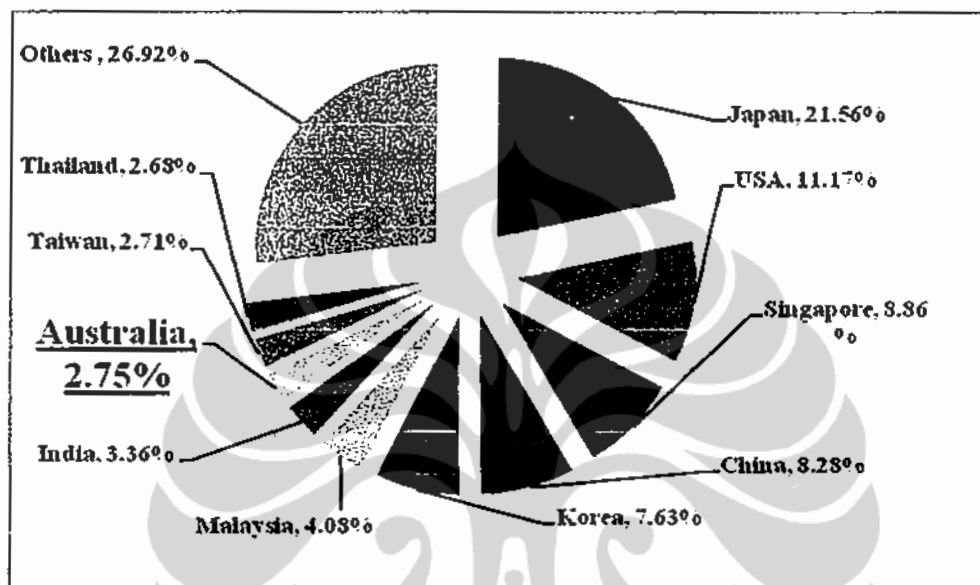
Source: Comtrade, trademap

In order to enhance promote economic cooperation and bilateral trade, both Indonesia and Australia have started negotiations for a FTA. The seventh Australia-Indonesia Trade Ministers Meeting, held in Jakarta on 25 June 2007, focused on progress made under TIF (Trade, Investment Framework). An Experts' Group established under the TIF provided recommendations to ministers to broaden the commercial relationship. On July 2007, Australia and Indonesia agreed to commence a feasibility study to examine the merits of a bilateral Free Trade Agreement between Australia and Indonesia.

1.2 Research Question

Regard to the impact of FTA that could construct trade creation and trade diversion. Therefore, it is important to explore the existing trade pattern of Indonesia and Australia. Trade pattern could be explained through how the trade techniques are applied in the field. Trade techniques are determined by how is the condition of its trade services. Moreover, according to Amir (1986), International trade couldn't be apart from the availability of its trade services.

Next, Regard to FTAs between any two countries, it would provide maximum gains from trade to members involved if the countries exhibit significant potential for trade with each other. Therefore, it is important to examine whether there is any potency to increase the trade between Indonesia and Australia. If the intensity between two countries is low, it is obvious that the countries have much trade potency to reap between them (Kalirajan and Bhattacharya, 2007).

Besides that, one interesting point for FTAs negotiation is market access. According to Laird (2002), market access negotiations in FTA encompass trade in goods and services. Negotiations on goods are essentially concerned with how the potency of the products in particular market related to its tariff and non tariff barriers. Therefore, it is imperative to formulate request-offer mechanism in Indonesia- Australia Free Trade Agreement.

1.3 Research Objectives

Based on the problems above, the objectives of this study are as following;

1. To explore how the existing condition of Indonesia-Australia trade services is,

2. To explore the feasibility of FTA between Indonesia and Australia, and

3. To formulate request-offer products in Indonesia Australia Free Trade Agreement.

1.4 Research Methodology

In order to figure out the pattern of Indonesia-Australia trade, this research uses qualitative analysis based on information that collected from several sources such as; academician, forwarding company, and government.

In order to explore feasibility of FTA between Indonesia and Australia, this research will use Trade Intensity Index. The trade intensity index is developed by Drysdale (1988, see Irhami, 2007) who defines the index as a ratio of the share of one country's trade with another country to the other country's share of world trade. Moreover, the maximum possible trade would occur between any two countries when there are no restrictions to trade at all. Export and Import data are taken from Comtrade database during 2001-2007 periods.

Next, to formulate request-offer products, this research uses trade indicative potential as a tool. The Indicative trade potential is defined as the lower value of the amount a region imports from the world and the amount a partner (or same) region exports to the world. This index will show what products which have potency to the particular market. The formulation of request-offer determines through the combination of the index with the existing trade barriers.

1.5 Framework

The framework of research could be seen as follow;

Figure 1.4 Research Framework
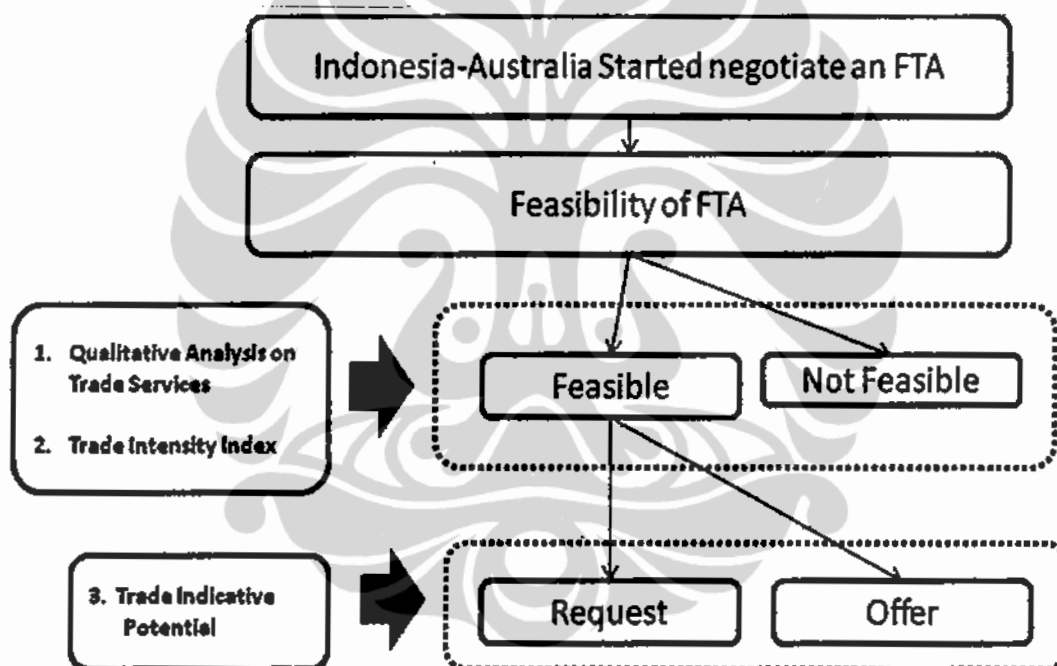
Source; Author Calculation

1.6 Thesis Organization

This thesis is divided into six chapters. In Chapter 2 will be explained literature study that used, the theories are gains from trade, protectionism, instruments of trade policy, economic integration, and role of services on trade. Next, chapter 3 describes about Indonesia- Australia trade, it covers Indonesia-Australia

economic, trade and fiscal policy profile. Furthermore, it also completed with Indonesia-Australia trade relation.

Next, chapter 4 presented information of the empirical method used in this thesis. It will discuss research methodology and approach, the data collection. Chapter 5 describes the result of thesis and completed with the analysis regard to that result. As the last chapter (chapter six) presents the conclusions and recommendations that could be taken from this research.

CHAPTER 2
THEORETICAL BACKGROUND

2.1 The Gains from Trade

According to krugman and obstfel (2006), one of the most important definitions of international economics is the idea about gains from trade. Gains from trade define as the benefit that could be achieved by countries when they sell goods from one to another. When a buyer and a seller engage in a voluntary transaction, they receive something better.

Trade also describes as level efficiency of a country in the world. Two countries do trade for their mutual benefit. For example, when a country can only compete by paying lower wages, it could attract foreign direct investment from foreign country. Thus, the investment could be used to push the production. Furthermore, the products could be sold again to the foreign (export). So, more investment from foreign to home country, it means more export from home to foreign country..

Trade that creates benefit for all parties could be explained into two way; (1) indirect production. Trade provides benefits by allowing countries to export goods whose production makes relatively heavy use of resources that are abundant while importing goods whose production makes heavy use of resources that are scare. Or on the other word, trade allows countries to specialize in producing narrower ranges of goods, giving them greater efficiencies of large scale production. With specialization, countries produce different products. In order to fulfill the needed of other products that not produce, they do trade. Through trade between them, home country could fulfill their needed of good without produce it, vice versa happen in foreign country. (2) Broaden choices. Every country has handicap of production goods deals with scare and different resources. Without trade, a country can only consume what goods that produces. So the choice of consumption is limited to those goods only. Trade makes, a country can consume goods that not produce by their self. So they choices are widening and because of that, trade should the welfare of countries engage increase.

2.2 Protectionism

As a fact, there are few countries who apply free trade with purely. Even developed countries, their trade policies engage in industrial targeting. With efficiency and productivity reason, they promote the products through several policies, such as; export subsidy. This kind of policies is classified classify as export promotion policy. The aim of policy is to create broaden market for their products.

Next, Krugman and obstfel (2006) also explain that countries who engage in trade actually have to formulate the best strategy to examine how much they should trade, if the formulation worse, international trade might hurt some groups within nation. The debate about free trade and protectionism has interested topic in international trade matter. Many governments are trying to protect certain industries from international competition. Protection could be form as import limitation of competitor products or export subsidy to improve competitiveness domestic products in international market.

Developing countries trade policies engage in protection of domestic industry. Through infant industry argument, they help the developing of important industry. According to that argument, industries in the developing countries in the beginning cannot compete with foreign industry which is already established. So to help domestic industry in order has good footing, government decides to support it through several policies, such as; import tariff policy. This kind of policy is classified as import substitution policy

2.3 Instruments of Trade Policy

Those kinds of policies which already explained above, are implemented into some instrument of trade policy. Trade Policy is the set of taxes, subsidies, quantitative measures, and other impediments or stimulants it undertakes with respect to transactions between domestic and foreign residents (Bowen, Hollander, Viaene, 1998). At least there are three instruments that could be categorized as the instrument of trade policy; tariff barriers and non-tariff barriers,

2.3.1 Tariff Barriers

A tariff, the simplest of trade policies, is a tax levied when a good is imported. Tariff is the oldest form of trade policy and has been used as source of

government income. However, the true purpose is to protect particular domestic sector. The importance of tariff has declined in modern times (the emergence of non-tariff barriers). Nonetheless, an understanding of the effects of a tariff remains a vital basis for understanding other trade policies (Soetjipto, 2006).

A tariff rate can be either ad valorem or specific. An ad valorem rate is stated as the import value of the good while a specific rate is stated as fixed currency amount per unit of good. From both form, ad valorem is the most widely used instrument in order to restrict the trade. This preference derives from two reasons. First, ad valorem form is transparent in the sense that their effect on price is readily calculated. Second, this form is directly comparable across goods since they are stated in percentage terms (Bowen, Hollander, Viaene, 1998).

The effect of tariff could be explained through partial equilibrium approach (soetjipto, 2006). The assumption on this analysis is the country levying tariff is so small, the policy does not have any effect to the world market, and therefore world price remains constant.

The conditions before tariff are:

a. Domestic price higher than world price. So, it leads import to the domestic and domestic price equal with world price.

b. Domestic consumption is fulfilled by two sources, domestic production (0-q1) and import (q1-q4).

c. There is no fiscal revenue for government.

Figure 2.1 Tariff Effect Partial Equilibrium Approach
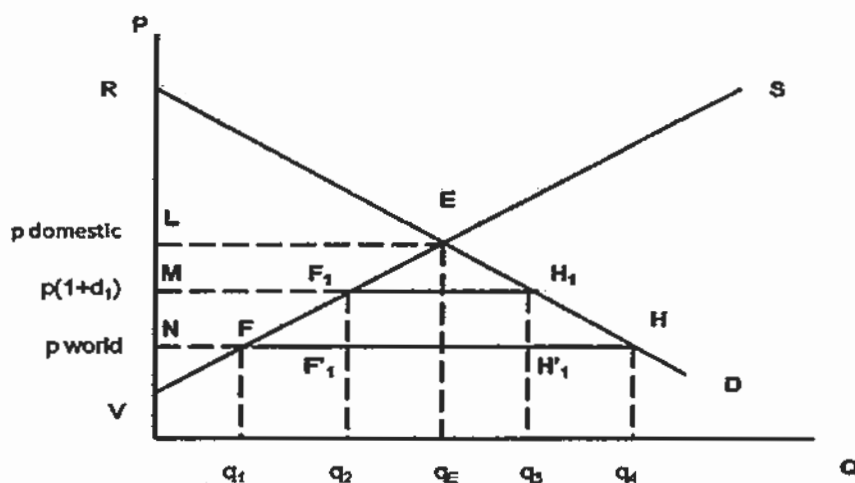
Source: Soetjipto, 2006

The effects of tariff are:

a. Consumption effect: domestic consumption of the commodity decreases (q4q3)

b. Production effect: domestic production increases (q1q2)

c. Import effect: import decreases (q1q4 to q2q3)

d. Fiscal revenue effect: government revenue from imposing the tariff $F_1H_1H'_1F'_1$

e. Redistribution effect. Since the price has increased, there is a redistribution of income from consumer to producer (need to be closely examined further)

In a sense, tariff could be also be analyzed as :

f. Subsidy equivalent of the tariff to the domestic producer $(NMF_1F'_1)$

g. Consumer tax equivalent to the consumer $(NMH_1H'_1)$

2.3.2 Non-Tariff Barriers

Non tariff barriers cover all actions except tariffs that restrict transactions between foreign and domestic residents. These can include both trade-related restrictions as well as government intervention in domestic markets via taxes or subsidies and also bureaucratic regulation According to *Bowen, Hollander and Viaene*, the types of NTBs are mentioned as follows.

Quantitative Restrictions

Quantitative restriction could be form as import and export quotas. An import quota sets a limit on the amount of a good that can be imported over specific period of time. And export quota sets a limit on the volume of a good that can be exported over a given period of time. As instrument to restrict the volume, export and import licensing are established.

Voluntary Export Restraints (VERs)

This instrument is restriction through 'voluntary' action by exporting country. In other word, the exporting country agrees to limit its exports because of the request of the importing country. However, the GATT now covers all sectors as subject of prohibition the use of VERs.

Performance Requirements

Some of importing countries require exporting countries to meet objectives that may or may not apply to domestic firms. The examples of this requirements are; domestic content and export performance requirements. A domestic content requirement is used to derive the capacity of domestic factor of production and to induce foreign firms to locate some or all of their production facilities in the importing countries. An export performance deals with requires foreign firm in host country or other domestic firm, to export a certain percentage of their output. However, the GATT now prohibits most types of domestic content and export performance scheme.

Other Issues

Other issues that will be popular in the next several years to restrict the trade are explained by Prof. Tarmidi. Those are: environmental protection, violation of Human Rights and freedom of religion, social clauses (labor rights), Intellectual property-related trade barriers, and investment barriers.

However, for the two last issues above has already been arranged under the Agreement at the WTO. The agreements are Trade-related Intellectual Property Rights (TRIPs) and Trade-related Investment Measures (TRIMs). (Tarmidi, 2007).

2.4 Economic Integration Theory

International trade creates benefit for all of nation because of broaden market. Moreover, it raises investment rate, job field and income. In consumer view, it makes their goods and services choices are also broaden. Because of that, all of trade barriers should be eliminated in order to push the trade increases continuously. Whereas, as a fact all of the countries have characteristic to maximization its export but impede its import. One way to reduce trade barriers is through economic integration agreement. There are two benefits that could be achieved with this agreement. First, trade creation, it means the agreement could push the trade among parties. And Second, trade diversion, it means that the agreement could push the trade from non-members to members (Tarmidi, 2007). There are some steps that explain economic integration

- Preferential Trading Arrangement (PTA). For example: ASEAN-PTA 1975 – 1992

- Free Trade Agreement (FTA)/Economic Partnership Agreement (EPA)
- Customs Union
- Common Market (European Common Market)
- Economic Union (Maastricht Treaty establishing the European Union 1993)
- Monetary Union (Euro 1999, cash currency 2002)

2.5 Services for International Trade

In practice, trade quantity of one country to the others is depending on how they arrange the services for their trade. International trade couldn't be apart from the availability of its trade services. Better condition of that matter directly proportional with the ability of a country to compete in international market. According to Amir M.S (1986), there is several trade services that could support the trade, those are; Information Service, Financial service

2.5.1 Information Service

This aspect deals with the ability to know what consumer need and competitor products in destination market. The information could be obtained from trade representation office or from internet. The number of internet user determines trade contract desire. But, the validity of the information should truthful, because of that the information from trade representation office could validation that. The information that be collected deals with how marketing strategy is. Moreover, the availability of trading office in destination country influence to the marketing pattern directly to buyers.

2.5.2 Financial service

Due to the practicability reason, today, most of export –import transaction is not use cash payment anymore. Trade transaction use bank as the intermediary transaction. The familiar export transaction tool is Letter of Credit (L/C). A letter of credit is a document issued by a financial institution which usually provides an irrevocable payment undertaking (it can also be revocable, confirmed, unconfirmed, transferable or others e.g. back to back: revolving but is most commonly irrevocable/confirmed) to a beneficiary against complying documents as stated in the Letter of Credit. Letters of credit accomplish their purpose by substituting the credit of the bank for that of the customer, for the purpose of

facilitating trade. Because it is deals with banking systems in origin and destination country, the success of L/C as way of payment deals with how those systems cooperate. One of the ways that could determines the cooperation between two banking system is through country rating. Better country rank positively contributes to trade transaction.

2.5.3 Insurance service

Delivery goods in international trade are risky. Goods sends through ocean, air, or land to the buyers who their integrity is imperceptibility. In a way of good delivery, goods might broken because of weighed down, storm, hurricane, collision, and etc. Those risks are heavy on hand for buyers or sellers. Because of that, insurances is needed to minimizing loss.

2.5.4 Transportation service.

This services deals with how the distribution of goods from origin to destination country. Buyers always have desire to accept goods as soon as possible with cheapest cost and secure quality. More efficient distribution that shows through cheap transport cost relatively means cheapest price in destination market. There are two factors that determine the transport cost; (1) fuel price, (2) Cargo capacity, (3) Return Cargo, (4) Port Capacity to loading and unloading.

2.6 Previous Study

There are two previous studies as directive of the methodology of this research, they are;

a. Kalijaran and Bhattacharya (2007)[1]

They analyze the impact of free Trade Arrangement between India and Japan. Using Trade intensity index and gravity model on data set 1995 to 2005. They found that only tariff-based approach won't be effective in improving intraregional trade since tariff level in Japan is already very low and India has been reducing tariffs over the years.

This study shows that the major beneficiary of FTA between Japan and India will be Japan because of its lowest tariffs in the region. In the short run, India's

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[1] "Free Trade Arrangement Between India and Japan: An Exploratory Analysis", ASARC Working Paper 2007/09

gains from free trade are considered to be much less because of its higher tariffs compared to that of Japan. When India gives duty free access to Japan, tariff revenue previously collected on the imports from Japan turns into export revenues for the exporting firms of Japan, which is obviously very high because of higher levels of tariffs in India. In this process, Japanese firms will gain more compared to Indian exporters because of lower tariffs in the former country. Due to less or non-existing tariffs in the Japanese market , exporting firms of India have less to gain, at least in the short run, from the tariff free access to Japan. Conversely, when Japan gives duty free access to the exporters of India, tariff revenue previously collected from the imports from India turns into export revenues for the exporting firms of the latter country, which will be very low because of lower tariffs in Japan.

b. Bhatattacharya and Bhattacharyay (2007)[2]

They analyze gains and losses of India-China Trade cooperation. FTA between India and China certainly goes in favor of China and it is disadvantageous to India at least in the short run. This is because of high tariff regime in India and low tariff regime in China. FTA between India and China may hurt economic efficiency between the countries because they would exclude and therefore discriminatory against the countries accounting for nearly 99 % of the world trade.

This discrimination works particularly to the disadvantage of India because of its high tariff barriers. China will be gainer in this process because of its much less tariffs compared to India. When India gives duty free access to China, tariff revenue previously collected on the imports from China turns into exports revenues for the exporting firms of China, which is obviously very high because of high tariff regime in India

Though governments of both sides have not spelt out their plan as yet either for PTAs or FTA, it is more rational to think that FTA would be implemented in a phased manner rather than in one go. The first step to create a vibrant regional trading bloc between China and India is to move toward a PTA

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[2] "Gains and Losses of India-China Trade Cooperation-A Gravity Model Impact Analysis", CESifo *Working Paper No. 1970*

with reduced tariffs in a phased manner covering commonly agreed, selected, and manufactured services and agricultural products over a long time horizon and then to form FTAs. The ultimate goal should be a FTA with a free flow of goods, services, investment, labor, and capital. While moving towards this objective, one has to face so many complicated problems of other related arrangements. The problem is to define 'rules of origin'. As Panagarya opines that given the already operational regional arrangement in this region, this is bound to result in a "spaghetti bowl" type of phenomenon where for a given product there could be several different tariff rates depending on what origin is assigned to it.

c. Wilson, Mann and Otsuki (2004)[3]

The relationships between trade facilitation, trade flows, and capacity building are complex and challenging to assess, both empirically and in implementation. This paper measures and estimates the relationship between trade facilitation and trade flows in manufactured goods in 2000-2001 in global trade, considering four important categories: port efficiency, customs environment, regulatory environment, and service sector infrastructure. A gravity model is employed to estimate this relationship across 75 countries.

The results suggest that both imports and exports for a country and for the world will increase with improvements in this trade facilitation measures. The gains from trade facilitation are predicted by using a simulation method, and compared across geographical regions, trade facilitation categories and who is undertaking reforms (domestic or partners). The total gain in trade flow in manufacturing goods from trade facilitation improvements in all the four areas is estimated to be $377 billion; all regions gain in imports and exports. Most regions gain more in terms of exports than imports, in large part through increasing exports to the OECD market. The most important ingredient in getting these gains, particularly to the OECD market, is the country's own trade facilitation efforts.

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[3] "Assessing the Potential Benefit of Trade Facilitation: A Global Perspective", World Bank Policy Research Working Paper 3224, February 2004

d. Helmers and Pasteels (2006)[4]

They propose a methodological framework to assess trade potential between trading partners at a product level. While econometric estimation is usually limited to sectoral analysis due to data limitations, the methodology proposed in this paper allows reasonable inferences at a disaggregate level. Their approach can be easily adapted to suit individual's needs, but this depends very much on the availability of information. This paper also highlights the importance of key determinants of trade potentials and of factors which play a role in the short and medium run.

This note should prove to be a useful tool to complement the analysis of trade potentials using market analysis tools such as TradeMap or Market Access Map. They demonstrate their approach 'hands-on' using a real world example. This example was used initially in a study (German Development Cooperation) investigating bilateral trade potential at the commodity level between Mongolia and a selected number of trade partners. All examples are based on the analysis of Mongolian exports to China. Possible extensions to their approach include the combination with Input/Output tables, in which case even cautious general equilibrium inferences are possible.

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[4] "Assessing Bilateral Trade Potential at the Commodity Level: An Operational Approach", ITC Working Paper, November 2006

CHAPTER 3
INDONESIA –AUSTRALIA TRADE POLICY

3.1 Indonesia Economy

As the fourth biggest populous country (UN estimate), and with growth 4–6 % in the last five year, Indonesia market already being international trade attention. Indonesia has so many natural resources. In addition, Indonesia geographical location is strategic, in the middle of international trade traffic. All of shipping from Asia continent to Australia and from East Asia to West Asia or Middle East should via Indonesia.

According to estimates by economists intelligent, Indonesia real GDP growth is expected to average 5.9% a year during 2008-12, it means strong net foreign investment inflows and solid private consumption growth. In 2006, Indonesia GDP was US$ 364 billion. That amount comes from services sector (42 %), manufacturing sector (28%), agriculture sector (14 %), mining and quarrying (9 %), construction and utility sector (7 %). In term of contribution of GDP, private consumption was the biggest contributor (58 %), meanwhile investment contribute was 21 %, and government expenditure contribute was 8 % (country profile, economists intelligent, 2008).

In term of international trade, in 2006, the main Indonesia export commodity are; Crude Petroleum and its derivative products, electrical equipment, animal, vegetable fat oil, rubber, ores-slag, wood, paper and textile. Japan, Singapore, US, and South Korea were main destinations of Indonesia export commodity for that year (as mentioned in previous chapter). Furthermore, export Indonesia records US$ 107 million in aggregate.

Table 3.1 The Main of Indonesia Export Products to The World,
during 2001-2006 (US $)

Product code	Product label	Value					
		Value in 2001	Value in 2002	Value in 2003	Value in 2004	Value in 2005	Value in 2006
'TOTAL	All products	56316832	57158716	61058152	64483516	85659952	100798616
'27	Mineral fuels, oils, distillation products, etc	14273206	13914409	15712977	11462273	23717226	27619520
'85	Electrical, electronic equipment	5914459	6061650	6120598	6572506	7328428	7291409
'15	Animal, vegetable fats and oils, cleavage products, etc	1451684	2653135	3003361	4421203	4950578	6069939
'40	Rubber and articles thereof	1236038	1587673	2126626	2998634	3580477	5529132
'26	Ores, slag and ash	1830254	1887823	1935173	1935682	3499497	4994074
'84	Nuclear reactors, boilers, machinery, etc	2725405	3050385	2785477	3853030	4560042	4362347
'62	Articles of apparel, accessories, not knit or crochet	2783400	2496104	2614320	2814052	3073677	3374674
'44	Wood and articles of wood, wood charcoal	3353568	3278137	3180500	3271421	3111308	3355625
'48	Paper & paperboard, articles of pulp, paper and board	2007238	2076241	1972048	2186569	2282400	2805339
'61	Articles of apparel, accessories, knit or crochet	1561147	1309350	1368139	1475626	1825908	2159239

Source; Trademap, Comtrade

On the other side, the main Indonesia import commodity are; raw material & intermediates, capital goods, and consumer good. Singapore, China, Japan, and Malaysia were the main origin of Indonesia import products in 2006. Import in aggregate quoted US$ 83.9 million.

Indonesia trade policy could be explained by tariff policy that Indonesia applied and trade agreements that Indonesia engage with. Tariff policy deals with the effort of the country to protect its interest or domestic industry (import substitution). Trade agreements deal with the vision of the country to liberalize

Indonesia has observer status in the WTO plurilateral Agreement on Trade in Civil Aircraft. It is a party to the Ministerial Declaration on Trade in Information Technology Products (ITA). Besides that, Indonesia also as a member of the Cairns Group, G-33, and G-20 groups, it is at the front groups in agricultural negotiations. The G33 group, led by Indonesia, has focused on special products and a special safeguard mechanism for a subgroup of agricultural products based on food security, rural livelihood, and employment.

Another multilateral agreement that Indonesia engages with and has regionally characteristics is Asia-Pacific Economic Cooperation (APEC) forum, which has been instrumental in advancing regional and global trade and investment liberalization since it was found in 1989. The 21 APEC economies collectively account for 46% of world trade and 57% of global GDP. In 2005, they undertook a review to assess progress towards achieving the 1994 "Bogor Goals" of free and open trade and investment in the APEC region by 2010 for industrialized economies and 2020 for developing countries. The review concluded that APEC economies still had to achieve the Bogor Goals, including redoubling efforts to advance the DDA negotiations; promoting high-quality FTAs, and improving the regional business environment.

Besides APEC, the most famous regional integration that Indonesia engages is ASEAN. As a founding member of ASEAN, Indonesia has long been a leader in the South-east Asia. Within ASEAN, Indonesia has the largest economy, population and territory by significant margins. The Framework Agreement on enhancing economic cooperation, signed in 1992, established the Common Effective Preferential Tariff (CEPT) Scheme, which aimed to achieve an ASEAN Free Trade Area (AFTA). Under the CEPT it was agreed that tariffs on goods subject would be reduced to 0-5% by 2002 for the founding members plus Brunei (ASEAN-6), by 2006 for Viet Nam, by 2008 for Laos and Myanmar, and by 2010 for Cambodia. Tariff reduction/elimination under the AFTA is granted on a reciprocal basis and local-content requirements apply. The process of reducing tariffs, which was begin in 1993, is almost complete: ASEAN-6 members have fully complied, by including 98.9% of the products into the CEPT, of which 99.6% at a rate between 0-5%. Indonesia has reduced tariffs on 11,034

tariff lines to 5% or less for products of ASEAN origin. Under the terms of AFTA, Indonesia applies three lower tiers, of 0%, 2.5% and 5%, for all goods imports from ASEAN members that meet the AFTA rules of origin requirements. According to the authorities, Indonesia does not have any products in the temporary exclusion list.

ASEAN is also working to remove non-tariff barriers to intra-ASEAN trade; harmonize customs nomenclature, valuation and procedures; harmonize product standards and regulatory requirements; and improve rules of origin under the CEPT. With regard to the work programme on the elimination of non-tariff barriers by 1 January 2008 (First Package), 1 January 2009 (Second Package) and 1 January 2010 (Third Package), the authorities state that Indonesia has submitted updates on its NTM list together with the relevant supporting legislation. Indonesia will harmonize its customs nomenclature under the HS 2007 by 1 January 2007. As to the rules of origin under the CEPT, ASEAN is focusing on finalizing the Product Specific Rules (PSRs) for products under the Priority Integration Sectors (PIS) and the text of CEPT-ROO and its Operational Certificate Procedures (OCP).

The ASEAN Investment Area Agreement, signed in 1998, is aimed at facilitating the free flow of direct investment, technology, and skilled professionals. The agreement covers manufacturing, agriculture, fisheries, forestry, and mining as well as services activities related to these sectors. The agreement is also aimed at increasing intra-ASEAN investment and FDI, promoting the economic integration of ASEAN, and jointly promoting ASEAN as an attractive region for FDI.

For bilateral trade agreements, the Government have also engages with bilateral agreements. In particular, Indonesia and Japan, its largest trading partner, held several rounds of Economic Partnership Agreement talks in 2005 and 2006 to establish a comprehensive bilateral economic agreement, comprising the liberalization of trade in goods and services, and cooperation in investment, competition policy, and the movement of people. And finally the Indonesia-Japan Economic Partnership was already signed in 2007. It seeks to forge closer economic relations through cooperation for capacity building, liberalization,

promotion, and facilitation of trade and investment between the two countries. It covers a wide range of economic activities including energy and mineral resources, movement of natural persons, government procurement, intellectual property, competition policy, improvement of the business environment and promotion of business confidence. The IJEPA also cover a comprehensive capacity building cooperation project focusing on activities to enhance the competitiveness of Indonesia's industrial, agricultural, fishery, and forestry products, including joint initiatives to further promote the competitiveness of Indonesia's manufacturing industry.

3.2 Australia Economy

Australia has one of the strongest economies in the world, with almost two decades of growth and the unemployment rate falling to generational lows. As a result of nearly three decades of structural and policy reforms the economy is flexible, resilient and increasingly integrated with global markets. The strength of Australia's economy has been highlighted in recent years by its ability to survive from a number of internal and external events, including a major drought, a housing boom and the Asian financial and economic crises. (Australia TPR)

Since 1991, Australia's real economy has grown by an average of 3.3 per cent a year. Australia's gross domestic product (GDP) in 2007 (in value terms) was around $1 trillion. Unemployment has also fallen, from a peak of almost 11 per cent 15 years ago to below 5 per cent in 2008—the lowest level since the 1970s. Growth has been led by mineral products, of which Australia is a major exporter.

Corresponding to the global boom in demand for mineral products, the share of mining in total merchandise exports increased from 40% in 2002, to 48.4% in 2005. On the other hand, manufacturing accounted for around 80% of total merchandise imports. Australia's trade with Asia continues to grow. The proportion of trade with Singapore and Thailand has increased, possibly due to the trade creating effects of regional trade agreements. By contrast, the proportion of trade with the United States fell

During 2006-2007, Australia total export value was A$ 215.8 billion. The main export good are dominated by primary products such as; coal, gold meat,

alumina, iron, and wheat. Beside primary products, they also produce machinery and transport equipment for export (Australian Bureau of Statistics, 2007). Basically, Australia main export partners are quite similar with Indonesia, they are; Japan (20,3 %), China (11,5 %), Korea (7,9 %), and USA (6,7 %).

Figure 3.1 Australia Principal Export
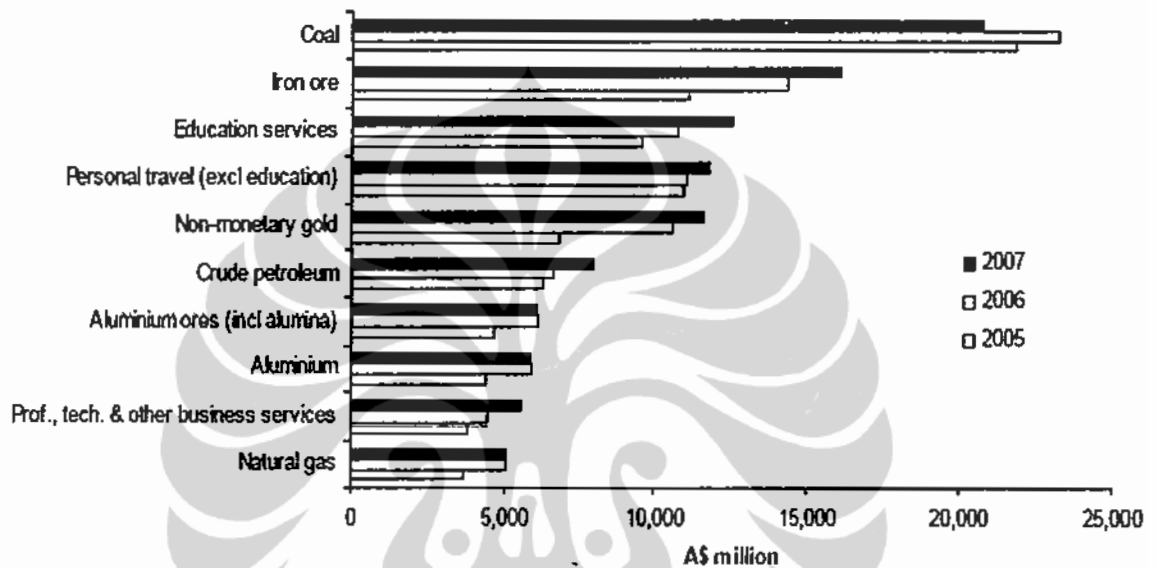
Source: ABS data on DFAT STARS database and ABS catalogue 5368.0.

Figure 3.2 Australia Major Export Market
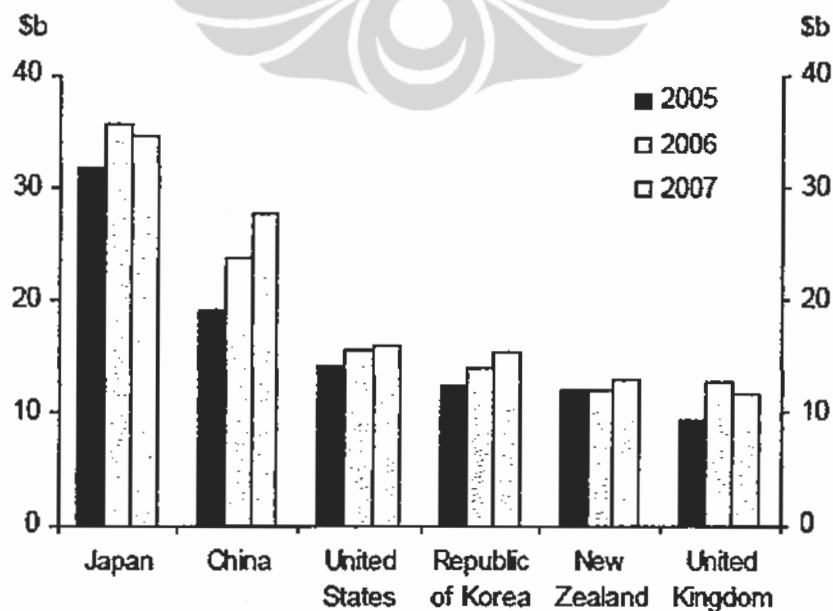
Source: ABS data on the DFAT STARS database and ABS Cat 5368.0.

In term of Import, Australia import value was A $ 227,8 % in 2006 with the main import products are; machinery and transport equipment, computers, telecommunication equipment and parts, crude oil and petroleum products. While the main import partners are; US (13,9 %), China (13,9 %), Japan (11 %) and Singapore (5,6 %).

Figure 3.3 Australia Principal Import
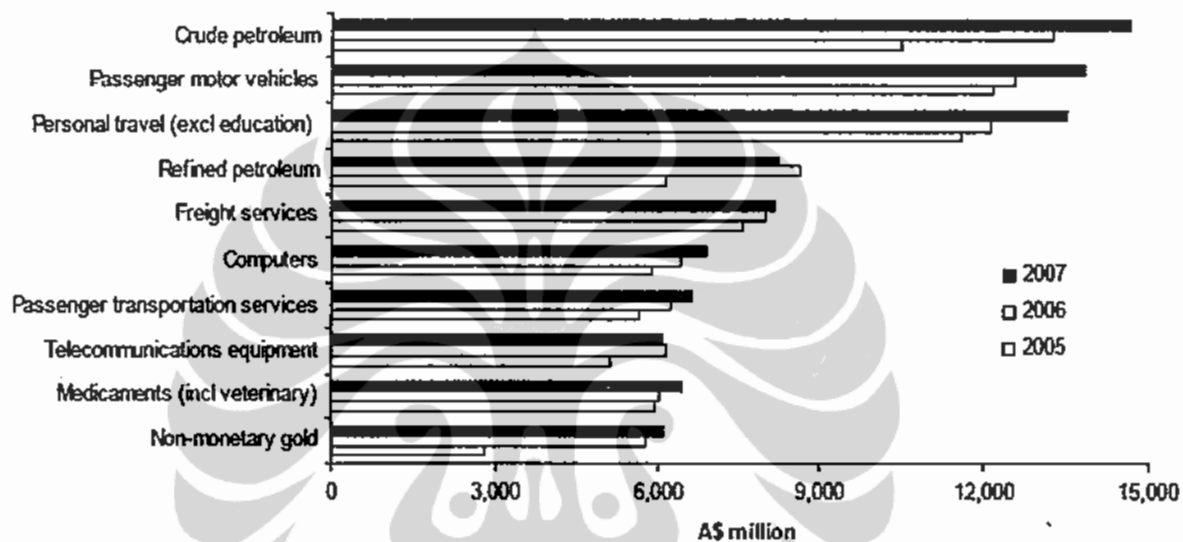
Source: ABS data on DFAT STARS database and ABS catalogue 5368.0.

Figure 3.4 Australia Major Import Origin

Source: ABS data on the DFAT STARS database and ABS Cat. 5368.0.

3.2.1 Fiscal Policy

According to its Trade Policy Reviews in 2007, tariff remains as one of the main instruments of Australia's trade policy. As a result of unilateral reductions (on 1 January 2005) in tariffs applied to textiles, clothing, and footwear (TCF) as well as to passenger motor vehicles (PMVs), the overall simple average applied MFN tariff rate fell from 4.5% in 2002 to 3.8% in 2006. Despite the cuts in tariffs applied to TCF and PMV product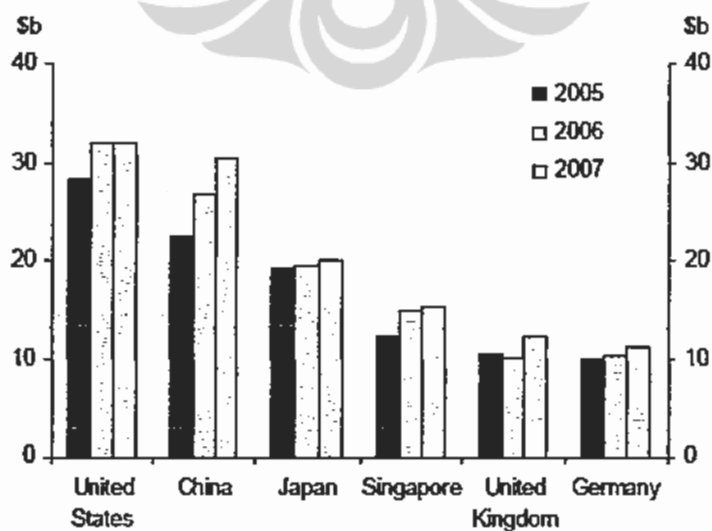s, their rates are still considerably higher than the average applied MFN rate. While less than 97% of Australia's tariffs are bound, more than 40% of its bound rates currently exceed applied MFN rates by at least five percentage points, largely as a consequence of the reductions in tariffs on TCF and PMV products. While this potentially imparts a degree of unpredictability to the tariff, there has not been any increase in applied tariff rates during the period under review. A few tariff lines are subject to non-*ad valorem* rates, which tend to conceal relatively high tariff rates. In particular, judging from its high average *ad valorem* equivalent (AVE), the compound duty on used or second-hand vehicles is potentially prohibitive.

On average, Australia's applied MFN tariffs are low; 47.6% of all tariff lines are duty free, a further 38.7% low tariff of between zero and 5%. In 2006, the simple average applied MFN tariffs for agricultural products and non-agricultural products are 1.5% and 4.1%. In addition, the overall simple average applied MFN tariff rate has fallen from 4.5% in 2002 to 3.8% in 2006, as a result of unilateral tariff reductions in 2005. On 1 January 2005, tariffs were reduced from 15% to 10%, for passenger motor vehicles (PMV), components, and replacement parts, and are scheduled to be reduced to 5% in 2010. The applied tariffs for textiles, clothing, and footwear (TCF) were reduced on 1 January 2005: from 25% to 17.5% on apparel and certain finished textile articles; from 15% to 10% on cotton sheeting, woven fabrics, footwear, and carpets; and from 10% to 7.5% on sleeping bags, table linen, and footwear parts. No further unilateral tariff reduction on TCF imports are envisaged until 2010 and 2015. Notwithstanding these unilateral reductions in tariffs applied to TCF and PMV products, their rates remain considerably higher than the average applied MFN rate of 3.8%.

these unilateral reductions in tariffs applied to TCF and PMV products, their rates remain considerably higher than the average applied MFN rate of 3.8%.

3.2.2 Trade Agreements

As an original member, Australia supports the WTO as the forum for global trade liberalization, and grants at least most-favoured-nation (MFN) treatment to all its trading partners. Australia is not a member of any of the WTO particular agreements (Australia, TPR). Currently, Australia's highest trade priority is to secure an ambitious outcome from the Doha Round of trade negotiations. Its key objectives in the Round are to secure improved market access in agriculture, industrial goods, and services, and to diminish domestic support in agriculture. As the chair of the Cairns Group of Fair Agricultural Traders, Australia participated actively in the agriculture negotiations that produced the July 2004 Framework Agreement. It is estimated that a relatively ambitious, market-oriented outcome to the Doha Round could increase the value of Australia's major agricultural exports by 15% in 2011 (compared to the value if the existing trade barriers were maintained).

- Australia is pursuing further reduction in tariff and non-tariff barriers to non-agricultural products and services. In addition to pushing for an ambitious result in the NAMA negotiations, Australia has made market access requests in financial, telecommunications, and professional services, as well as in mining, education, and freight logistics. Following consultations with state and territory governments as well as industry and community groups, Australia revised its offer in the services negotiations with a view to expanding the scope of its initial offer, while retaining the right to regulate public services, such as water supply, public health, and education.

Australia provides unilateral preferences for goods originating in: least developed countries (LDCs) and developing countries under the Australian System of Tariff Preferences (ASTP); Forum Island countries under the South Pacific Region Trade and Economic Cooperation Agreement (SPARTECA); Papua New Guinea under the Papua New Guinea and Australia Trade and Commercial Relations Agreement (PATCRA). In addition to Papua New Guinea,

as of 1 July 2003, Australia has provided duty-free and quota-free access for all goods originating in the 50 countries designated as LDCs

Next, in term of regional agreements, Australia continues to pursue regional trade and investment liberalization through the Asia Pacific Economic Cooperation (APEC) forum, and is to host the APEC Leaders' meeting in 2007 in Sydney. APEC members accounted for 73.6% of Australia's merchandise exports in 2005 (72.5% in 2002). Like other members, Australia submits an annual Individual Action Plan (IAP), which sets out the measures it has taken or intends to take to achieve the Bogor goals. Australia was reviewed most recently under APEC's peer review process in 2003. The review found that in tariffs, non-tariff measures, services, and investment, Australia had liberalized unilaterally beyond its Uruguay Round commitments, and was far ahead of many APEC economies in developing competition policy and deregulation.

Australia has already engaged with several free trade agreements. The most famous trade agreement that Australia engage with is ANZCERTA (Australia-New Zealand Closer Economic Relation Trade Agreement). The agreement is supported by a network of bilateral arrangements on various issues, including the movement of people, mutual recognition of standards, government procurement, and aviation. In addition, imports from New Zealand are not subject to anti-dumping actions (such actions are handled by competition laws) or safeguard measures; however, countervailing actions may be applied. It is estimated that between 1983 and 2005, two-way trade in goods increased at an annual average rate of around 9%, and New Zealand is currently Australia's fifth largest market for goods and services.

Besides with New Zealand, Australia also engages trade agreements with Singapore, Thailand and United States. With Singapore, when the SAFTA entered into force on 28 July 2003, tariffs on all goods imported from the other party were eliminated. The two countries also agreed not to use export subsidies or apply safeguard measures against each other.

The SAFTA commits both countries to applying national treatment and to removing quantitative and other market access restrictions on services and investment. SAFTA uses a negative list containing exemptions to these

commitments, and no changes are required under the SAFTA to Australia's foreign investment screening processes, nor the current restrictions on foreign equity restrictions including on companies such as Telstra and Qantas. Since SAFTA's entry into force in 2003, Australia's merchandise exports to Singapore have increased by 27.3% (in 2005), and its services exports by 11% (in 2004/05). Both governments agreed to regularly explore the possibility for further integration of the two economies.

The Thailand–Australia Free Trade Agreement (TAFTA) entered into force on 1 January 2005, Australia bound its current zero tariffs on 3,080 tariff items for goods of Thai origin, and eliminated tariffs on 2,003 tariff items. Tariffs on a further 786 tariff items are to be eliminated by 2010; tariffs on the remaining 239 tariff items of apparel and certain finished textiles, currently at 17.5%, are to be eliminated in 2015. Following the entry into force of the TAFTA, two-way merchandise trade grew by 33.7% (in 2005), with Australia's exports to Thailand growing by 39.6% and Thailand's exports to Australia by 28.4%. Thailand now ranks as Australia's tenth largest merchandise trading partner.

The Australia–United States Free Trade Agreement (AUSFTA) came into force on 1 January 2005, as a result of which all agricultural imports, and more than 99% of all non-TCF tariff lines for imports from the United States enter duty free into Australia. The agreement requires both parties to provide national treatment and MFN treatment to investors from the other party, and eliminated local commercial presence requirements for services suppliers. However, it contains a negative list, under which Australia took out limited sectoral restrictions and could continue to screen investment from the United States above certain thresholds, which are higher than for investment from other countries (section (7)). In particular, AUSFTA establishes a Professional Services Working Group to investigate ways to promote mutual recognition and other issues related to professional services. AUSFTA also contains comprehensive provisions on government procurement. In addition, some of Australia's intellectual property legislation had to be changed owing to the signing of the AUSFTA, and some further amendments to the Copyright Act 1968 are to be made (Chapter III(4)(v)). Under the AUSFTA, Australia and the United States have also agreed to

Competition and Consumer Commission (ACCC) and the U.S. Federal Trade Commission.

3.3 Indonesia-Australia Trade Relation

According to data 2003-2007 released by ministry of trade, total trade between Indonesia-Australia have positive trend (17.12%). But, the trade balance trend is zero. It means Indonesia export and import values to Australia are quite equal in that period.

In term of export, Indonesia oil and gas export trend is higher than non oil and gas. It means that in the future we can predict that Indonesia export commodity to Australia will be dominated by natural product (oil and gas). In addition, we can see the latest data (January-march, 2007-2008), which is indicate the decline of non oil and gas export (appendix 3).

Conversely condition in term of import, Indonesia non oil and gas import trend is lower than oil and gas. It indicates that in the future, Indonesia will import more non oil and gas commodity than oil and gas. In term of trade balance, Indonesia-Australia trade balances have zero value, as mentioned before. But in the latest data, Indonesia export is decrease and import is increase.

The main of Indonesia export commodities to Australia are dominated by natural (raw) product. From total export value in 2006, HS 27 (mineral fuels, oils, distillation products) contributed more than 40 %. But, as a whole the share in that product (HS 27) compared with other exporter is less than 5 %. Product that show amaze performance during 2002-2006 was HS 89 (ships, boats, and other floating structure), with growth more than 350 %, this product success to acquire 33 % of Australia domestic market.

As a whole, Indonesia commodity share is relative low. Except HS 89 and 71, other commodities are less than 10 % share. It means, Indonesia have potency to penetrate Australia market. Data was show that Indonesia most import commodity from Australia is dominated by natural commodity. The most import value was HS 27, with annual growth during 2002-2006 was 88%, but the share only less than 2 % from all of Australia export products. The second highest growth during 2002-2006 was HS 74 (Copper and articles thereof) which was more than 30 %. In term of market share, the highest share Indonesia domestic

market is HS 01 (live animal) and HS 52 (cotton) with more than 20 % share of Australia export in 2006. As a whole, Australia export products are dominated by natural resources products, mining and agriculture. No wonder because of Australia endowment in those sectors.

CHAPTER 4
RESEARCH METHODOLOGY

4.1 Data Sources

This research is used two kinds of data. Primary data is taken from several sources; DPP Gafeksi (Indonesian Expedition and Forwarding Association), The Director of Australia Trade Cooperation, Ministry of Trade, and PT. Meratus (one of Indonesia Shipping Companies).

Whereas the secondary data is taken from several sources as follows; World Economic Forum (Global Competitiveness Report 2008-2009), comtrade database (export-import data), and Trains (tariff data)

There are three kind of methodology that used in this research. First, qualitative analysis in trade services to answer the first objective, second, in order to analyze trade intensity between Indonesia and Australia, it needs a set of export import data whether to each of them or to the world. And third, Indicative Trade Potential, the data are taken from trademap which is a site to obtain comtrade database.

4.2 Qualitative Analysis

There are two reasons, why countries do trading with the others. First, every country has different resources in term of natural and the ability to produce efficiently. Second, economics of scale when produce a product. The different of those give opportunity to create trading between them and they could get benefit together (krugman and obsfelt, 2006)

Trade concept above indicates comparative advantages as main export determinant. A country will export their products if they have compaative advantages in produce that products relatively. Comparative advantage is not only come from natural resource, but also could be created (Anggarwal dan Agmon, 1990).

Besides comparative advantages, competitiveness also could explain international trade concept. A country with has competitiveness will export their products to the other. Competitiveness of a country defines as their effort level to make their products compete with its competitors in particular market. The effort

form could be in a way how they can make a good quality product with cheapest price relatively or how they can distribute the products through most efficient way. The competitiveness could create from the condition trade services that determine particular trade techniques. The existing condition of trade services is explored through qualitative research.

Qualitative research is a field of inquiry that crosscuts disciplines and subject matter (Denzin, Norman K. & Lincoln, 2005, in wikipedia). Qualitative research objective is to gather an in-depth understanding of human behavior and the reasons that govern human behavior. In term of International trade, qualitative research could be used to explain how the behavior of a country in international trade relationship.

Qualitative research deals on reasons behind various aspects of behavior. Simply put, it investigates the why and how of decision making, not just what, where, and when. Hence, the need is for smaller but focused samples rather than large random samples, which qualitative research categorizes data into patterns as the primary basis for organizing and reporting results. Qualitative researchers, typically rely on four methods for gathering information: (1) participation in the setting, (2) direct observation, (3) in depth interviews, and (4) analysis of documents and materials (Marshall, Catherine & Rossman, Gretchen B., 1998 in wikipedia). Some distinctive methods are the use of focus groups and key informant interviews.

In this research, the method for gathering information is through key information interviews. The key parties that engage with this research are already explained above. Through this methodology, this research try to explain the quality of the data based on the real situation.

4.3 Trade Intensity Index

Bilateral trade relationships between Indonesia and Australia, which is described in term of import and export intensity index, helps to identify how intensively the countries trading between them. Trade intensity index define as a ratio of the share of one country's trade with another country's share of world trade (drysdale and Garnaut, on Kalirajan, 2007).

In simple way, the indication of trade intensity index explained as follows;

Table 4.1 Indication of Trade Intensity Between Country i and j

	Index value	Indicates
Import	0 or near to 0	Country i is importing less from country j than might be expected from that's country's share in total world
	near to 1 or 1	Country i is importing more from country j than might be expected from that's country's share in total world
Export	0 or near to 0	Country i is exporting less from country j than might be expected from that's country's share in total world
	near to 1 or 1	Country i is exporting more from country j than might be expected from that's country's share in total world

Source : Kalirajan, 2007

The Import intensity Index between Indonesia and Australia (MII_{ji}) is shown as follows:

$$MII_{jit} = [M_{ji} / M_j] / [X_i / (X_w - X_j)]$$

Where:

MII_{ji} = Import intensity index of Indonesia with Australia

M_{ji} = Import of Indonesia from Australia

M_j = Total import of Indonesia

X_i = Total export of Australia

X_w = Total world export

X_j = Total export of Indonesia

t = 2001,..., 2007

j, i = Indonesia, Australia

Export Intensity Index (XII) can also be measured in the similar way as follows;

$$XII_{jit} = [X_{ji} / X_j] / [M_i / (M_w - M_j)]$$

Where:

XII_{ji}	=	Export intensity index of Indonesia with Australia
X_{ji}	=	Export of Indonesia from Australia
X_j	=	Total export of Indonesia
M_i	=	Total import of Australia
M_w	=	Total world import
M_j	$\approx$	Total import of Indonesia
t	=	2001,..., 2007
j , i	=	Indonesia, Australia

How intense bilateral trade between two countries could the elasticity of its products (Kalirajan and Bhattacharya, 2007). When the intensity is declined sharply, it means that products are inelastic because the demand doesn't influence the number of trade quickly. It indicates that the products composition is dominated by primary and intermediary goods.

4.4 Trade Indicative Potential

The trade flow analysis identifies products with a potential for intra-regional trade expansion. This approach reveals complementary products in a group of countries or between regions. In the case of identifying inter-regional trade potential, complementary products are those that are exported by one region (say region X) towards the rest of the world, and for which there is a significant import demand in another region (say region Y). In the case of identifying intra-regional trade potential, complementary products are those that are both exported to the world and imported from the world by the same region.

The *Indicative trade potential* is defined as the lower value of the amount a region imports from the world and the amount a partner (or same) region exports to the world. Formally:

Indicative trade potential = **MIN (*Supply capacity, Market absorption*)**

The idea behind this indicator is to identify the products for which there is the highest trade complementarily between the exports of a country and the

imports of the target country. The trade potential indicator assumes that the importing country could in principle absorb perfectly all imports from the exporter. With such a strong underlying substitution assumption, the resulting figures are only indicative but can nevertheless be used in order to rank the products.

CHAPTER 5
RESULT AND ANALYSIS

As mentioned in previous chapter, there are three methodologies that are used to answer the research question. First, qualitative analysis on trade services and Trade Intensity Index are used to explore the feasibility of Indonesia-Australia FTA. And then, Trade Indicative Potential is used to formulate request-offer mechanism. The result and analysis of those methodologies are explained as follow.

5.1 Trade Services Analysis

There are three aspects that uses to analyzing the condition of Indonesia trade services, they are; information aspect, financial aspect, and infrastructure aspect. Actually, the aspects determine Indonesia foreign trade behavior to whole countries, not only trade with Australia. Australia could see as case study of Indonesia trade services condition influence. The improvement on the aspects will have an impact for Indonesia foreign trade as a whole. As a fact, Indonesia has problem in those aspects, regard to several information as follows;

5.1.1 The Lack of Information

This aspect deals with the ability of a country to know what consumer needed is and what competitor products in destination market are. The information could be taken from trade representation office. Even, the information can be obtained through internet. But, the information should correct. Because of that, additional information from trade representation office is useful. Furthermore, the information that is collected deal with how the marketing strategy is.

According to the report of Indonesia trade attaché, Indonesia trade representative is not already effective. There are several reasons why it doesn't effective, they are;

1. The lack of resources, in term of employee. In most countries, trade attaché works alone, sometimes they have an apprentice staff or a staff from the embassy, but some of them works alone. However, it is different

with other country which has marketing groups in particular partner country. For example; China already has Dragon Mart in several countries.

2. Indonesia trade attaché is a bureaucrat which is engage with strict rules. Meanwhile other countries trade attaché is a professional in marketing which has different way of thinking.

Furthermore, the inquiry system in NAFED is not already working properly. In ideal condition, when the buyer requests some products, NAFED should respond concisely. However, the buyer will not only request to Indonesia, but also to other country. As a fact, most of NAFED response is late, because of the database information which is not updated.

5.1.2 The lack of Financial Sector

Financial service due to how the payment method of export-import activities is. The most common method is through Letter of Credit (L/C). It is a letter that issued by banks for foreign exporter. With use that letter, exporter could draw amounts of money as quoted in that L/C, which is payment of trade transaction.

Because L/C deals with two banks in two different countries, or in other word, it deals with two different banking systems. The transaction has high risk due to fraud practices. Because of that, when importer decides to make a transaction, investment rating of pertinent country is being a consideration. Trader usually chooses to transact with a qualify countries which has which has better investment rating. One of popular rating classification is released by Moody's. .

According to Moody's, Indonesia credit rating is Ba in 2007 (see. Lloyds corporate market, Indonesia Profile, 2007). It means that Indonesia demonstrate below-average creditworthiness relative to other issuers. However, Singapore for example, records excellent rating with Aaa in 2007, it means that Singapore is the strongest creditworthiness relative to other issuers. So, Indonesia is less competitiveness than Singapore in term of banking system confidence. Regard to that fact, trader who wants to buy Indonesia products tends to use Singapore banking service as the intermediaries. Indonesia producer in this case has relatively lower bargaining position in trade negotiation.

Investment rating also determines the uses of insurance company in particular country. Previous facts also explain how the trustworthy of Insurance Company in Indonesia is less than in Singapore.

5.1.3 The Unavailability of International Port

Furthermore, Indonesia doesn't have any international port that being part of International trade route. Most of Indonesia export-import activities use Singapore as the international port. Shipping from domestic port is only feeder to Singapore. In Singapore, export products from Indonesia are compiled with the products from other country, and then send it to particular destination. With more products that could be carried away, International shipping doesn't need to think again about return cargo and it reduces the cost. Thus, they can compete to give the cheapest transport price.

According to DPP Gafeksi (Indonesian Forwarder and Expedition Association), the domestic importers complains the high cost on importing raw material for industry which status is LCL (Less than Container Load) on Tanjung Priok Port. For instance; the charge for machine component import which weight only 25 Kg is 3 million rupiah, and the charge for chemical material for textile industry which is only one drum is 9.2 million rupiah. If the input material has already expensive relatively because of high cost charge, how the producer can compete with the others through relatively low price of the product. So as a whole, the unavailability of international port determines the competitiveness in International market.

The competitiveness of Singapore as port services provider in ASEAN region could be seen from the latest report released by World Economic Forum. The report as follows;

Figure 5.1 Port Infrastructure Quality Index (2007)
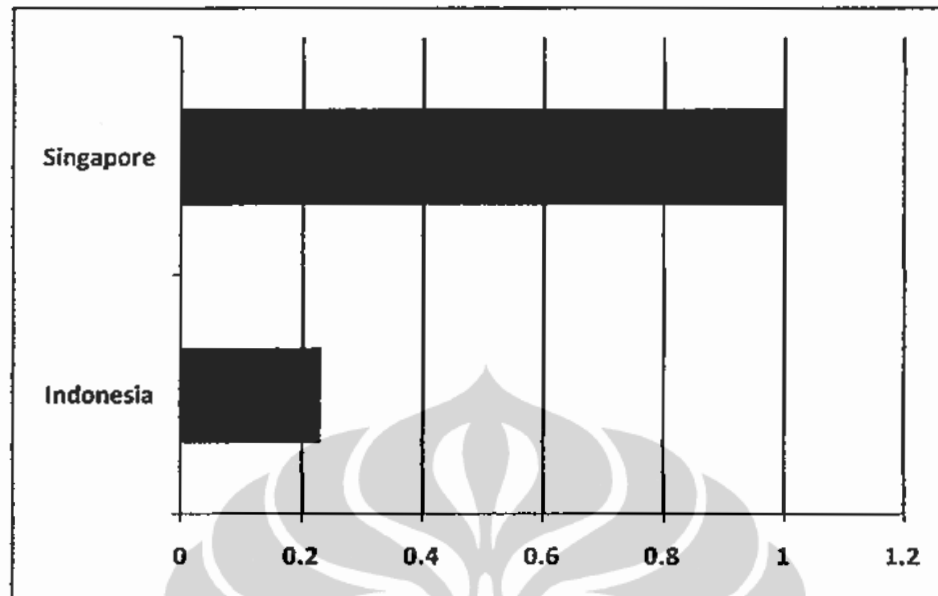
Source: GCR 08, World Economic Forum

With the highest score standard is 7, Singapore quality of port infrastructure score was 6.7, while Indonesia score was 2.8. It shows that Singapore port quality appropriates with the international standard. However, Indonesia port quality is under the international standard.

5.2 The Intensity of Indonesia-Australia Trade Relation

The result of Trade Intensity Index between Indonesia and Australia are shown in table below. Where j is for Indonesia and i represent Australia.

Table 5.1 Import Export Intensities of Indonesia and Australia, 2001-2007

Year	X ji	M ji	X ij	M ij
2001	3.36	5.57	5.75	3.57
2002	3.17	4.93	5.06	3.67
2003	2.64	5.33	5.44	3.8
2004	2.63	5.38	5.53	3.65
2005	2.31	4.33	4.42	2.81
2006	2.52	4.71	4.79	3.04
2007	2.17	3.7	4.2	3.24

Source: Author calculation
j , i = Indonesia, Australia

Table 5.1 indicates that trends of export and import intensities of both Indonesia and Australia have declined over the years. Indonesia's export intensity index was 3.36 in 2001, which declines to 2.17 in 2007. It shows that Indonesia has not diversified its export to Australia, during the period, Indonesia exports similar items, whose demands have been declining. On the other hand, its import intensity to Australia was 5.57 in 2001 declines to 3.7 in 2007.

The average index of import is higher than export means that its commodity concentration in import is more than its export. The slope shows that Indonesia exports to Australia have declined quite similar with its import. This is because that Indonesia export-import product is basically composed of primary and resource based manufactures products whose demands are inelastic.

Table 5.2 Indonesia-Australia Main Export Products (2007)

HS	Main Australia Export Products to Indonesia	HS	Main Indonesia Export Products to Australia
10	Cereals	27	Mineral fuels, oils & product of th
28	Inorgn chem; compds of prec mtl, r	48	Paper & paperboard; art of paper pu
04	Dairy prod; birds' eggs; natural ho	71	Natural/cultured pearls, prec stone
01	Live animals	44	Wood and articles of wood; wood ch
52	Cotton.	39	Plastics and articles thereof.
27	Mineral fuels, oils & product of th	84	Nuclear reactors, boilers, mchy & m
29	Organic chemicals.	85	Electrical mchy equip parts thereof
84	Nuclear reactors, boilers, mchy & m	70	Glass and glassware.
76	Aluminium and articles thereof.	83	Miscellaneous articles of base meta
85	Electrical mchy equip parts thereof	40	Rubber and articles thereof.

Source: comtrade

Australia's export intensity with Indonesia has also decline over the years, from 5.75 in 2001 to 4.2 in 2007. It means that Australia is also not diversified its products whose demands have been declining. During 2001, import intensity index was 3.57 declined to 3.24 during 2005. The downward trends of import and export means that Australia export-import to and from Indonesia are dominated by primary and resource based manufactures products.

The overall conclusion from the measures of this index shows that Indonesia and Australia trade intensity index is more than unity, it means that trading among them is higher than might be expected share in world trade, and there is no potency to make an FTA. However the intensity is higher (more than unity), but the trend is declining. FTA could conduct in the future if the intensity already less than unity.

5.3 Trade Indicative Potential

5.3.1 Indonesia Requests

The following table is defining Indonesia main products which have trade potential in Australia market, based on 2006 data. This potency is compared with Indonesia most export products to the world.

Table below shows that Indonesia still has huge potency in oil and gas products. The potency is more than 7 million US $, it is more than six times the potency of computer input storages. Besides those products, Indonesia trade potency products are dominated by automotive, where as Thailand is the main competitors. Thailand already has privilege because they already signed trade agreement with Australia. Thailand is also being Indonesia competitor in electronics and Shrimps. Whereas China in Indonesia competitor in furniture textile products, and footwear.

Due to the most Indonesia export products is oil and gas, which has a different way of export, because mostly it is owned by international company. And regard to that automotive and electronics also engage with Multi National Company as the principal which is already centralize its production in Thailand.

Table 5.3 Indonesia Indicative Trade Potential Products in Australia Market

(US $)

Product code	Product label	Potential in 2006
'TOTAL	All products	98027339
'270900	Petroleum oils and oils obtained from bituminous minerals, crude	7006761
'852812	Colour television receivers	304647
'940360	Furniture, wooden, nes	270751
'870840	Tansmissions for motor vehicles	233653
'870899	Motor vehicle parts nes	225215
'870323	Automobiles w reciprocatg piston engine displacg > 1500 cc to 3000 cc	216941
'710812	Gold in unwrought forms non-monetary	204095
'030613	Shrimps and prawns, frozen, in shell or not, including boiled in shell	178088
'610910	T-shirts, singlets and other vests, of cotton, knitted	174060
'620462	Womens/girls trousers and shorts, of cotton, not knitted	173923
'620342	Mens/boys trousers and shorts, of cotton, not knitted	170586
'480100	Newsprint, in rolls or sheets	143014
'940350	Bedroom furniture, wooden, nes	140764
'611030	Pullovers, cardigans and similar articles of man-made fibres, knitted	111778
'620520	Mens/boys shirts, of cotton, not knitted	110086
'160414	Tunas,skipjack&Atl bonito,prepard/preservd,whole/in pieces,ex mincd	101540
640399	Footwear, outer soles of rubber/plastics uppers of leather, nes	100360

Source: Trademap, Comtrade

Based on that fact, the products that could be requested by Indonesia, they are: furniture, shrimp, and textile. According to Trains data, Furniture is blocked by Australia standard due to environment and public safety, shrimp is blocked by sanitary and phytosanitary standard, and textile is blocked by high import tariff.

➤ Indonesia Shrimp Potency in Australia Market

According to the following table, Indonesia shrimp export to Australia is less than 50 thousand US $ in average during 2005-2007. It is very little if compared with the export to the world (more than 1.5 million US $ in average). However, Australia shrimp market have positive trend during the period, from less

than 500 thousand US $ in 2005 to more than 590 thousand US $ in 2007. So, Indonesia shrimp still has big potency in the market.

Figure 5.2 Indonesia Shrimp in Australia Market
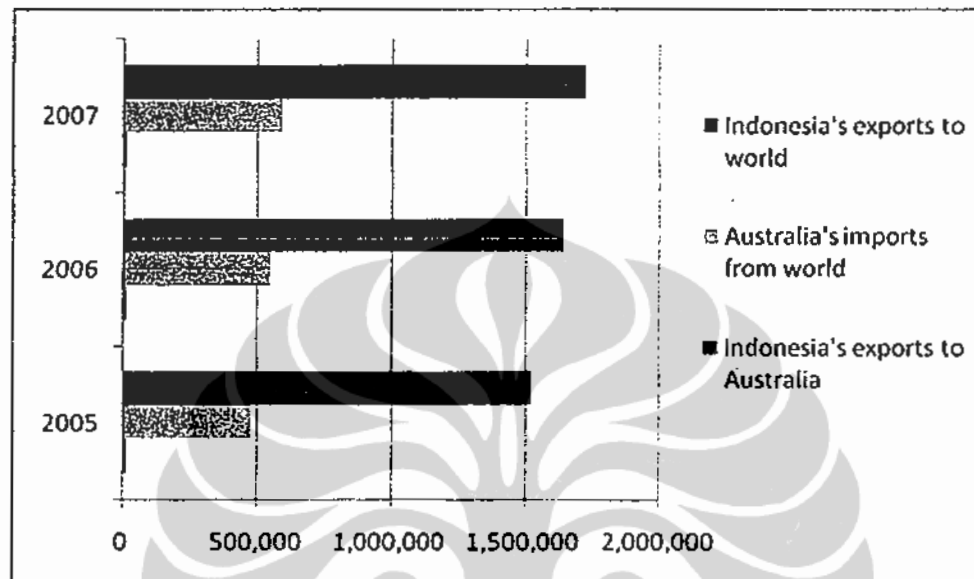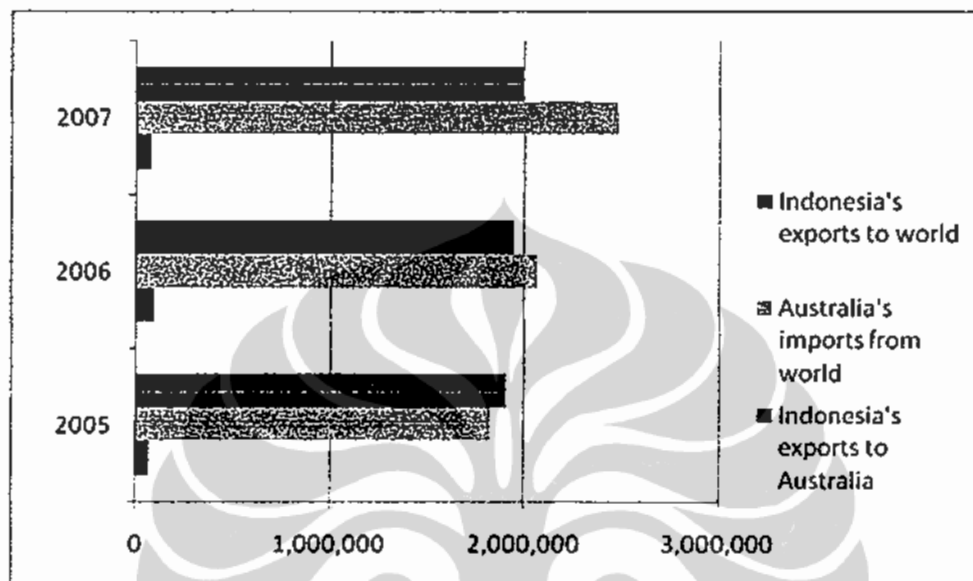

Source: Trademap

Small value of the export is due to high standard which is applied by Australia. According to its Trade Policy Review, Australia applies a strict sanitary and phytosanitary regime. The authority justify that they should keep a unique and diverse its flora-fauna to free from serious pests and diseases. Under quarantine policy, shrimp products may not be imported unless the quarantine risks are reduced to a level consistent with Australia's appropriate level of protection (ALOP), which is described as " providing a high level of sanitary and phytosanitary protection aimed at reducing risk to a very low level, but not zero".

> Indonesia Furniture Potency in Australia Market

Next, Indonesia has big furniture potency in Australia market also. During 2005-2007, the value of Indonesia furniture exports to Australia less than 100 thousand US $. It is less than 4 % of Indonesia furniture export to the world. In the other hand, Australia market is more than 1.8 million US $ in average during the period.

In addition, one interesting point from the statistic is that Australia domestic demand for furniture is growing higher than the growth of Indonesia furniture export to the world.

Figure 5.3 Indonesia Furniture Potency in Australia market

Source: Trademap

Australia is applying a standard on furniture products due to environment issue. Based on environmental conservation act (Ozone Protection and Synthetic Greenhouse Gas Management Act in 1989), every furniture products should fulfill eco labeling requirements. One of the requirements is that the product should not come from illegal woods.

➤ **Indonesia Textile Potency in Australia market**

Indonesia textile export to Australia is less than 50 thousand US $ in average during 2005-2007. In the other hand, Indonesia's textile export to the world is more than 3.2 million US $. However, Australia demand for textile is more than 1.5 million US $. In addition, the growth of the market is higher than the growth of Indonesia textile export to the world.

Figure 5.4 Indonesia Textile Potency in Australia market
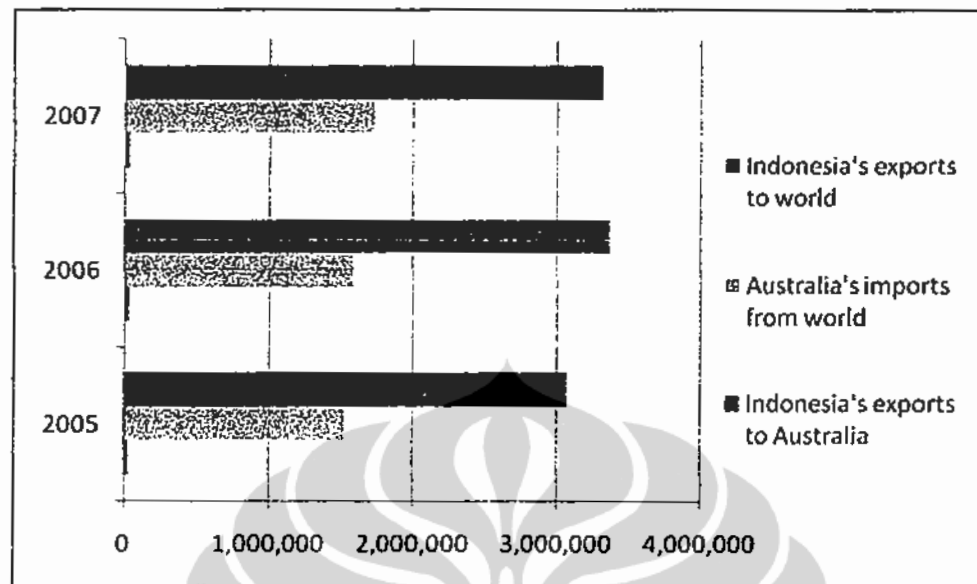
Source: Trademap

The little value of Indonesia textile export to Australia is because of high tariff that is applied by Australia, more than 15 % in the period. Besides that, they requires mandatory product information standard, including care labeling for clothing and textile products.

5.3. 2 Australia Requests

Australia potential products also dominated by oil and gas, but the potency are lower than Indonesia potency. The competitors for Australia products are diverse. Australia agriculture products are competing with Brazil such as; wheat and refined sugar, except rice with Thailand. Meanwhile Australia dairy products such as milk powder and food preparation are competing with New Zealand. And Australia mineral products and cotton are competing with China.

Due to oil and gas are owned by Multi National Company, and Indonesia also has rich mineral resources. So, Australia will not request those kinds of products. Because of that, Australia probable requests Indonesia dairy products and agriculture (rice and sugar) to be open.

Table 5.4 Australia Indicative Trade Potential Products in Indonesia Market (in 2006)

HS	Product	Indicative Trade Potential (US $)
'270900	Petroleum oils and oils obtained from bituminous minerals, crude	4,796,853
'520100	Cotton, not carded or combed	485,967
'260111	Iron ores&concentrates,oth than roasted iron pyrites,non-agglomerated	181,372
'040210	Milk powder not exceeding 1.5% fat	156,098
'210690	Food preparations nes	140,084
'790111	Zinc not alloyed unwrought containing by weight 99.99% or more of zinc	116,718
'843149	Parts of cranes,work-trucks,shovels,and other construction machinery	104,484
'720839	Hot roll iron/steel nes, coil >600mm x <3mm	100,505
'100630	Rice, semi-milled or wholly milled, whether or not polished or glazed	98,209
'760110	Aluminium unwrought, not alloyed	78,661
'170199	Refined sugar, in solid form, nes	78,650
'720429	Waste and scrap, of alloy steel, other than stainless	70,816

Source: Uncomtrade, Trademap, Trains,

➢ Australia Cereal Potency in Indonesia Market

Regard to Australia cereal export to the world have negative trend during 2005-2007 (from 2.9 million US $ to 2.2 million US $). The trend is similar with Indonesia wheat import from Australia. But in the other side, Indonesia cereal demand is growth (from 800 thousand US $ in 2005 to 1.8 million US $ in 2007). Indonesia cereal import from the world increases in the period. However, Indonesia cereal import from Australia is decreases. It shows that Indonesia deflects the import to other (Thailand and Vietnam). In the other hand, Australia cereal export to the world decrease. With the assumption that the production is stable, It shows that Australia focus to fulfill its domestic cereal market.

Figure. 5.5 Australia Cereal Potency in Indonesia Market
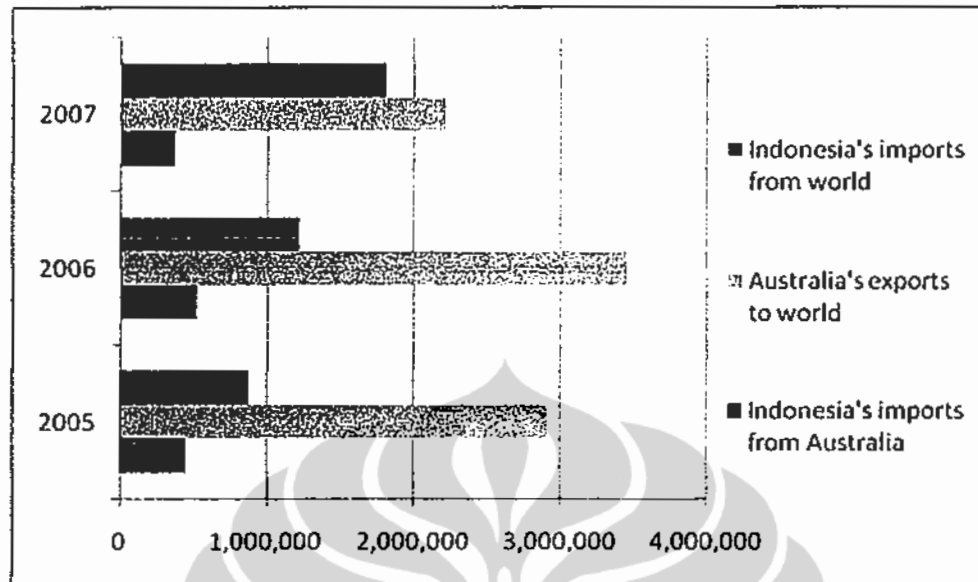
Source: Trademap

Cereal (rice) is primary food for most of Indonesian. Besides that most of Indonesian hanged their life in the commodities. No wonder, it is highly regulated commodities in Indonesia. Rice imports are prohibited during the peak harvest season (January to June) and may be imported only by importer-producers and registered importers of rice; they can be unloaded only in approved ports in non-rice-producing areas. Rice imports are approved for a specified tonnage, type of rice, port of destination, and shipping schedule. It can be used only as a raw material in industrial processing and may not be sold or transferred to other parties. The policy applies to a wide range of rice categories with the exception of paddy for sowing and glutinous rice.

> ➤ **Australia Sugar Potency in Indonesia Market**

Table below shows that Australia sugar has potency in Indonesia market. During 2005-2007, Indonesia imports less than 250 thousand US $ from Australia. It is very little if compared with Indonesia import from the world (more than 700 thousand US $ in 2007. However, that value is more than half Australia total export to the world in average (2.2 million US $ in average).

Figure 5.6 Australia Sugar Potency in Indonesia Market
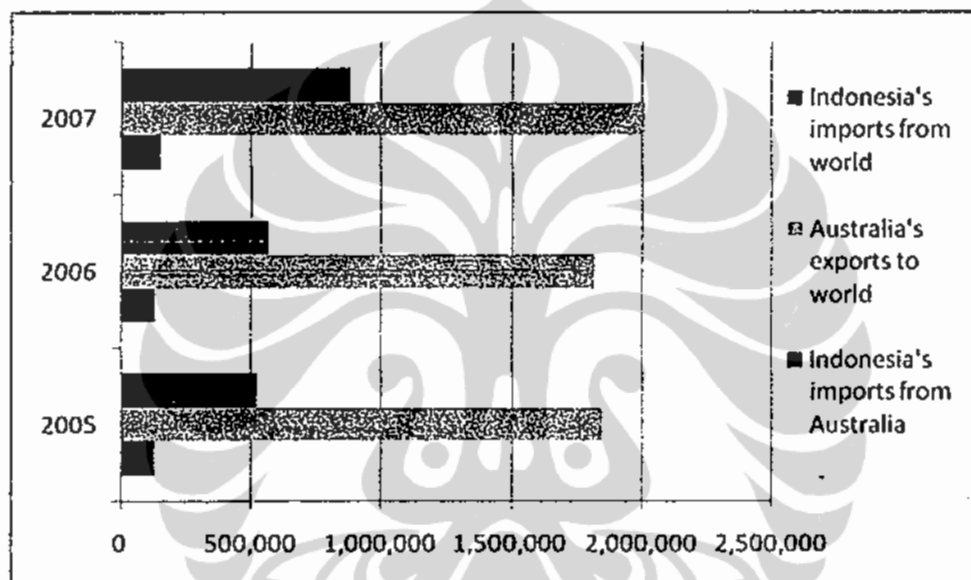
Source: Trademap

Similar with cereal (rice), sugar also highly regulated product. Since September 2004 Ministry of Trade decree has been allowing five companies (importer-producers) to import sugar. It also states that the Ministry of Trade decides which companies can import sugar and how much. According to the Government, sugar imports are regulated to protect domestic farmers from low prices. Registered importers are obliged to absorb three-quarter of the sugarcane produced by small farmers.

> ➢ **Australia Dairy Products Potency in Indonesia Market**

Australia is not the main Indonesia source for its dairy products need. It can be seen from the value of Indonesia dairy products import which is only less than 200 thousand US $ during 2005-2007, while Indonesia import from the world is more than 500 thousand US $ during the period. In the other hand, Australia dairy products export to the world is huge, more than 1.5 million US $ in average. So these fact shows that Australia dairy products still have big potency to penetrate Indonesia market.

Figure 5.7 Australia Dairy Products Potency in Indonesia Market
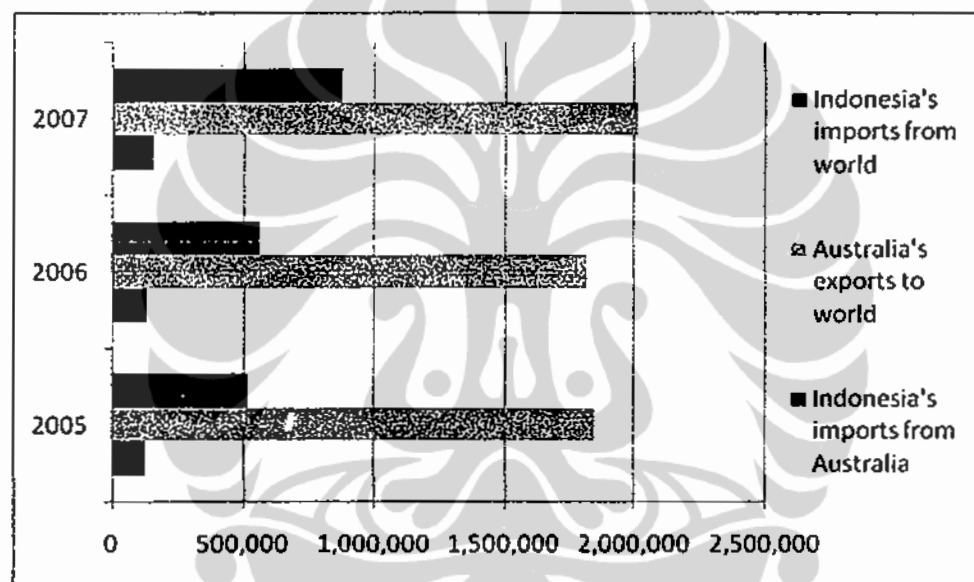
Source: Trademap

The barrier that is faced by Australia to penetrate Indonesia market is due to Import Letter Recommendation. Such as for chicken parts, Indonesia continues to ban on imports of chicken parts imposed originally in September 2000 by the Directorate General of Livestock Services in the Ministry of Agriculture (MOA). The MOA maintains that it is necessary to assure consumers that imports are *halal* (produced in accordance with Islamic practices). Indonesia also imposes *de facto* quantitative restrictions on imports of meat and poultry products, requiring an Importer Letter of Recommendation (*Surat Rekomendasi Importir*), which may affect the quantity allowed to enter (Indonesia Trade Policy Review).

CHAPTER 6
CONCLUSION AND RECOMMENDATION

6.1 Conclusion

Indonesia has problems when trading with Australia due to lack of trade services. The lack of Services could be seen from; lack of Information, lack of financial services, and the unavailability of international port. It reduces Indonesia competitiveness products in Australia market. If FTA is forced, Australia will gain more than Indonesia. Next, trade intensity index shows that Indonesia and Australia trade is higher than might be expected share in world trade. As conclusion, according to the methodology, FTA Indonesia- Australia not feasible to implemented. However, even the intensity is higher means there is no other potency that could be reap, but the trend is decline.

Furthermore, if it regard to assumption that those problem are already better but the trade is still lower, FTA could be the right strategy. Regarding to the FTA negotiation, there are three kinds of products that could be requested by Indonesia, they are: furniture, shrimp, and textile. According to Trains data, Furniture is blocked by Australia standard due to environment and public safety, shrimp is blocked by sanitary and phytosanitary standard, and textile is blocked by high import tariff. And Australia could request Indonesia dairy products and agriculture (sugar and cereal) to be open.

6.2 Recommendation

Due to the problem that Indonesia faced in International trade, there are several recommendation from this research;

1. The improvement of Indonesia trade services (the availability of information, the better financial sector, and the availability of International port) is a must, if Indonesia wants to raise its export-import activity. This improvement is not only having an impact for Indonesia- Australia bilateral trade, but also for the whole partner.

2. FTA is second best strategy in order to penetrate to the particular market. If the trade services already better, FTA probably could not be needed in the future. In the short run as priority, Indonesia policy should focus to support the specific products which are Indonesia strength in International market.
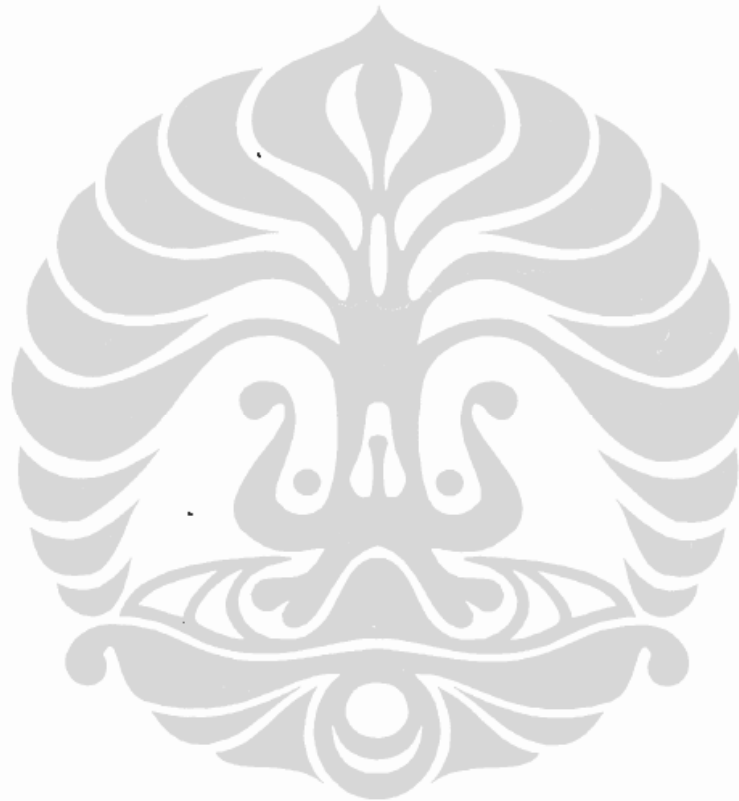
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APPENDICES

Appendix 1. The Component of Indonesia GDP (2001-2005)

A. Pengeluaran	2001	2002	2003	2004	2005
Harga Berlaku					
Pendapatan Domestik Bruto	1,684,280.50	1,863,274.70	2,052,423.00	2,273,141.50	2,729,708.20
Konsumsi Swasta	1,039,655.00	1,231,964.50	1,372,078.00	1,532,888.30	1,785,596.40
Konsumsi Pemerintah	113,416.10	132,218.80	163,701.40	191,055.60	224,980.50
Investasi Total	323,875.30	353,967.00	392,788.60	492,849.90	599,795.20
Perubahan Stok	71,165.80	30,425.80	-32,212.10	-49,448.10	1,001.60
Ekspor Barang dan Jasa	642,594.60	595,514.00	627,064.90	729,320.60	915,610.20
Import Barang dan Jasa	506,426.30	480,815.40	470,997.80	623,524.80	797,275.70
Perbedaan Statistik PBD*	0	0	0	0	0

Source; BPS

Appendix 2. The Share of Indonesia GDP Components (2001-2005)

	2001	2002	2003	2004	2005
Pendapatan Domestik Bruto	100%	100%	100%	100%	100%
Private Consumption	61.73%	66.12%	66.85%	67.43%	65.41%
Government Expenditure	6.73%	7.10%	7.98%	8.40%	8.24%
Investment	19.23%	19.00%	19.14%	21.68%	21.97%
Perubahan Stok	4.23%	1.63%	-1.67%	-2.18%	0.04%
Net export	8.08%	6.16%	7.60%	4.65%	4.34%

Source; BPS

Appendix 3. Indonesia-Australia Trade Balance 2003-2007

Value: million US$

DESCRIPTION	2003	2004	2005	2006	2007	TREND(%) 2003-2007	Jan-march 2007	Jan-march 2008	change(%) 2008/2007
TOTAL TRADE	3.440.019,5	4.102.276,2	4.794.748,7	5.757.541,9	6.398.569,3	17,12	1.494.324,8	1.775.722,0	18,83
OIL AND GAS	895.042,1	974.961,4	1.422.362,0	1.473.673,5	1.713.593,9	18,67	373.308,8	473.779,95	26,91
NON OIL AND GAS	2.544.977,5	3.127.314,9	3.372.386,8	4.283.868,4	4.684.975,3	16,59	1.121.016,0	1.301.942,0	16,14
EXPORT	1.791.602,7	1.887.359,2	2.227.608,3	2.771.277,0	3.394.557,3	18,08	912.271,1	891.939,8	-2,23
OIL AND GAS	701.160,2	731.357,9	1.101.600,4	1.167.700,9	1.526.683,0	22,44	367.614,4	467.030,4	27,04
NON OIL AND GAS	1.090.442,5	1.156.001,3	1.126.007,8	1.603.576,0	1.867.874,3	15,07	544.656,7	424.909,5	-21,99
IMPORT	1.648.416,8	2.214.917,0	2.567.140,5	2.986.264,9	3.004.012,0	16,17	582.053,8	883.782,2	51,84
OIL AND GAS	193.881,8	243.603,5	320.761,5	305.972,6	186.910,9	1,56	5.694,4	6.749,6	18,53
NON OIL AND GAS	1.454.535,0	1.971.313,5	2.246.378,9	2.680.292,3	2.817.101,0	17,70	576.359,3	877.032,6	52,17
TRADE BALANCE	143.185,9	-327.557,8	-339.532,2	-214.987,9	390.545,3	0,00	330.217,3	8.157,6	-97,53
OIL AND GAS	507.278,4	487.754,4	780.838,9	861.728,4	1.339.772,1	28,55	361.919,9	460.280,8	27,18
NON OIL AND GAS	-364.092,6	-815.312,2	-1.120.371,1	-1.076.716,3	-949.226,7	24,54	-31.702,6	-452.123,1	1.326,14

Source: Statistic Central Beuraeu (processed by MOT)

Appendix 4. The Comparisons of Indonesia-Australia GDP per Capita

GDP per capita, current prices in U.S. dollars (2001-2007)

	2001	2002	2003	2004	2005	2006	2007
Australia	18935.69	20973.02	26485.52	31758.08	34887.75	36442.39	43312.32
Indonesia	772.66	928.14	1099.67	1187.74	1304.06	1640.97	1924.73

Source: Econstat, IMF

Appendix 5. Indonesia Export to Australia, US $ (2001-2006)

Product label	Value					
	Value in 2001	Value in 2002	Value in 2003	Value in 2004	Value in 2005	Value in 2006
All products	56316832	57158716	61058152	64483516	85659952	100798616
Mineral fuels, oils, distillation products, etc	14273206	13914409	15712977	11462273	23717226	27619520
Electrical, electronic equipment	5914459	6061650	6120598	6572506	7328428	7291409
Animal,vegetable fats and oils, cleavage products, etc	1451684	2653135	3003361	4421203	4950578	6069939
Rubber and articles thereof	1236038	1587673	2126626	2998634	3580477	5529132
Ores, slag and ash	1830254	1887823	1935173	1935682	3499497	4994074
Nuclear reactors, boilers, machinery, etc	2725405	3050385	2785477	3853030	4560042	4362347
Articles of apparel, accessories, not knit or crochet	2783400	2496104	2614320	2814052	3073677	3374674
Wood and articles of wood, wood charcoal	3353568	3278137	3180500	3271421	3111308	3355625
Paper & paperboard, articles of pulp, paper and board	2007238	2076241	1972048	2186569	2282400	2805339
Articles of apparel, accessories, knit or crochet	1561147	1309350	1368139	1475626	1825908	2159239

Source: Trademap

Appendix 6. Indonesia Import From Australia, in US $ (2001-2007)

Product label	Indonesia's imports from Australia						
	Value in 2001	Value in 2002	Value in 2003	Value in 2004	Value in 2005	Value in 2006	Value in 2007
All products	1,814,034	1,587,180	1,648,417	2,214,847	2,567,140	2,986,265	3,004,012
Cereals	189,877	333,734	234,575	546,384	447,708	525,569	370,705
Sugars and sugar confectionery	18,637	20,062	32,228	30,049	74,311	178,117	240,154
Aluminium and articles thereof	96,788	82,729	90,302	122,481	180,929	221,094	223,633
Live animals	60,892	47,649	70,794	91,313	109,686	111,144	216,875
Nuclear reactors, boilers, machinery, etc	138,474	111,945	112,765	119,031	209,125	239,453	212,381
Inorganic chemicals, precious metal compound, isotopes	118,732	69,060	89,874	117,324	152,957	210,604	208,606
Iron and steel	39,266	32,265	53,109	112,374	110,110	132,689	192,310
Mineral fuels, oils, distillation products, etc	47,395	43,129	194,094	244,877	321,471	306,473	186,951
Dairy products, eggs, honey, edible animal product nes	66,953	73,137	55,341	98,109	127,601	134,920	156,586

Source: Trademap