

THE COMPETITIVENESS OF INDONESIAN PRODUCT IN TRADE RELATIONSHIP WITH CHINA

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Abstract

Hubungan perdagangan Indonesia dan China semakin erat setelah implementasi ASEAN-China Free Trade Agreement (ACFTA) dimulai pada bulan Juli 2005. Krisis keuangan global dan pertumbuhan ekonomi China yang cukup tinggi merupakan fenomena lain yang berkontribusi pada semakin eratnya hubungan kedua negara. Tulisan ini mencoba menganalisis daya saing produk Indonesia dalam hubungan perdagangan dengan China dengan menggunakan analisis statistik Koefisien Daya Saing Internasional (ICC). Hasil analisis menunjukkan bahwa hubungan perdagangan antara Indonesia dan China memberikan daya saing lebih untuk China. Walaupun demikian, ada beberapa produk Indonesia yang memiliki daya saing tinggi dan mengalami peningkatan selama periode tahun 2005-2009. Produk –produk tersebut antara lain; daging, kakao, karet dan produk karet, bahan anyaman (termasuk rotan dan bambu), tekstil dan garmen, alas kaki, serta bahan tambang seperti besi dan batubara.

Keywords: Trade, China, Competitiveness, International Competitiveness Coefficient

JEL Classification : F10,F14, F17

INTRODUCTION

Indonesia and China trade has more relationship especially since after the implementation of ASEAN- China Free Trade Agreement (ACFTA) in July 2005. The global financial crisis and China high economic growth are the other phenomenon contributed to the closer trade relationship. The shrinking demand from USA, European countries and Japan as the impact of global economic crisis has drive Indonesian product to China's market. The Indonesian Ministry of Trade has

released the share of Indonesian non oil and gas export to China which increased from 6.0% in 2005 to 9.1% in 2009. On the other side, the share of imported non oil and gas China increased from 11.3% in 2005 to 17.3% in 2009 (Ministry of Trade, Republic of Indonesia, 2011).

This study attempts to analyze the competitiveness of Indonesia's products in trade relationship with China. The empirical statistic analysis called International Competitiveness coefficient (ICC) is used to examine the

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competitiveness of Indonesia's products in trade relation with China. Please give more details of the order of the article.

International Competitiveness Coefficient (ICC)

International Competitiveness Coefficient (ICC), or sometimes known as Trade Specialization Index (TSI), is used to analyze the position of development of a product and show its competitiveness. ICC can describe whether for any type of product, a country tends to be an exporters or importers (Tambunan & Suparyati, 2009). In mathematical term, ICC can be formulated as follows:

$$ICC = \frac{(X_{ia} - M_{ia})}{(X_{ia} + M_{ia})}$$

X and M are export and import respectively. i and a are goods of type i and country a respectively. Implicitly, ICC index considers as the demand side and supply side. Exports of goods will occur when there is an excess of goods in domestic market. The value of this index has range between -1 to +1. The positive value (between 0 and 1 indicates that respective commodity has a strong competitiveness or a respective country tend to be an exporter of the commodity (domestic supply is greater than domestic demand). Conversely,

the negative value below 0 to -1 means low competitiveness of the respective products and the country tends to be an importer. If the index increases, it means that the competitiveness of the product increases, and vice versa.

The data used for analysis are collected from UNCOMTRADE using the World Integrated Trade Solution (WITS). Harmonization System (HS) Revision 1996 code 2 digit is used in the analysis to simplify the calculation. There are 96 aggregation items, then it is called as product. Product with HS 2 digit are classified into three main sectors: agriculture; manufacture and oil; mining, mineral and metal. The agriculture products consist of HS 01 – HS 24 and HS 40 – 44; The manufacture products, HS 28 – HS 39, HS 45 – HS 70, and HS 82 – HS 97; and oil, mining, mineral and metal products HS 25 – HS 27 and HS 72 – HS 81. The complete classification is shown in the Table 1. (This might be better put as appendix)

The trade data from Indonesia and China are used in the calculation such as export rate (base on Free on Board Price, FOB) and import rate (Cost, Insurance and Freight Price, CIF). The calculation of ICC is based on the data of 2005 and 2009. The aim of the calculation is to find the change of the ICC value within 5 years period. In addition, it will show the change of the trade flow between the two countries.

Table 1. Classification of HS 2 Digit Products by Sectors

Sector	HS Code	Description	HS Code	Description
Agriculture	01	Live animals	16	Prep of meat, fish or crustaceans,
	02	Meat and edible meat offal	17	Sugars and sugar confectionery.
	03	Fish & crustacean, mollusk & other	18	Cocoa and cocoa preparations.
	04	Dairy prod; birds' eggs; natural honey	19	Preparation of cereal, flour, starch/milk;
	05	Products of animal origin, nes or	20	Prep of vegetable, fruit, nuts
	06	Live tree & other plant; bulb, root	21	Miscellaneous edible preparations.
	07	Edible vegetables and certain roots	22	Beverages, spirits and vinegar.
	08	Edible fruit and nuts; peel of citrus	23	Residues & waste from the food industry
	09	Coffee, tea, mate and spices.	24	Tobacco and manufactured tobacco
	10	Cereals	40	Rubber and articles thereof.
	11	Product of milling industry; malt; starches;	41	Raw hides and skins (other than fu
	12	Oil seed, oleagi fruits; miscellaneous	42	Articles of leather; saddlery/harness
	13	Lac; gums, resins & other vegetable	43	Furskins and artificial fur; manufactured
	14	Vegetable plaiting materials;	44	Wood and articles of wood; wood
	15	Animal/veg fats & oils		
Manufacture	28	Inorganic chemicals; compounds of precursor material,	60	Knitted or crocheted fabrics.
	29	Organic chemicals.	61	Art of apparel & clothing access,
	30	Pharmaceutical products.	62	Art of apparel & clothing access, n
	31	Fertilizers.	63	Other made up textile articles; set
	32	Tanning/dyeing extract; tannins &	64	Footwear, gaiters and the like; par
	33	Essential oils & resinoids;	65	Headgear and parts thereof.
	34	Soap, organic surface-active agents	66	Umbrellas, walking-sticks, seat-sti

Sector	HS Code	Description	HS Code	Description
	35	Albuminoidal subs; modified starches	67	Preparation of feathers & down; artificial flower;
	36	Explosives; pyrotechnic prod; match	68	Art of stone, plaster, cement, asbes
	37	Photographic or cinematographic goo	69	Ceramic products.
	38	Miscellaneous chemical products.	70	Glass and glassware.
	39	Plastics and articles thereof.	82	Tool, implement, cutlery, spoon & f
	45	Cork and articles of cork.	83	Miscellaneous articles of base meta
	46	Manufactures of straw, esparto/other	84	Nuclear reactors, boilers, machinery
	47	Pulp of wood/of other fibrous cellulous	85	Electrical machinery equipment parts thereof
	48	Paper & paperboard; art of paper pulp	86	Railway/train locomotive, rolling-stock
	49	Printed books, newspapers, pictures	87	Vehicles o/t railway/train roll-stock
	50	Silk.	88	Aircraft, spacecraft, and parts the
	51	Wool, fine/coarse animal hair, hors	89	Ships, boats and floating structure
	52	Cotton.	90	Optical, photo, cine, meas, checkin
	53	Other vegetable textile fibers; pap	91	Clocks and watches and parts thereof
	54	Man-made filaments.	92	Musical instruments; parts and accessories
	55	Man-made staple fibers.	93	Arms and ammunition; parts and accessories
	56	Wadding, felt & nonwoven; yarns	94	Furniture; bedding, mattress, matt
	57	Carpets and other textile floor co	95	Toys, games & sports requisites; pa
	58	Special woven fabrics; tufted textile fabrics;	96	Miscellaneous manufactured articles
	59	Impregnated, coated, cover/laminate	97	Works of art, collectors' pieces an

Sector	HS Code	Description	HS Code	Description
Oil, Mining, Mineral and Metal	25	Salt; sulphur; earth & stone;	75	Nickel and articles thereof.
	26	Ores, slag and ash.	76	Aluminium and articles thereof.
	27	Mineral fuels, oils & product of thereof	78	Lead and articles thereof.
	71	Natural/cultured pearls, stone	79	Zinc and articles thereof.
	72	Iron and steel.	80	Tin and articles thereof.
	73	Articles of iron or steel.	81	Other base metals; cermets; article
	74	Copper and articles thereof.		

Product Competitiveness in Indonesia-China Trade Relationship

The overview of the change in the ICC between Indonesia and China

is depicted in the Table 2. The empirical analysis using the ICC method shows that China has more competitiveness than Indonesia in general.

Table 2. Indonesia – China Total Trade ICC Change, 2005 – 2009

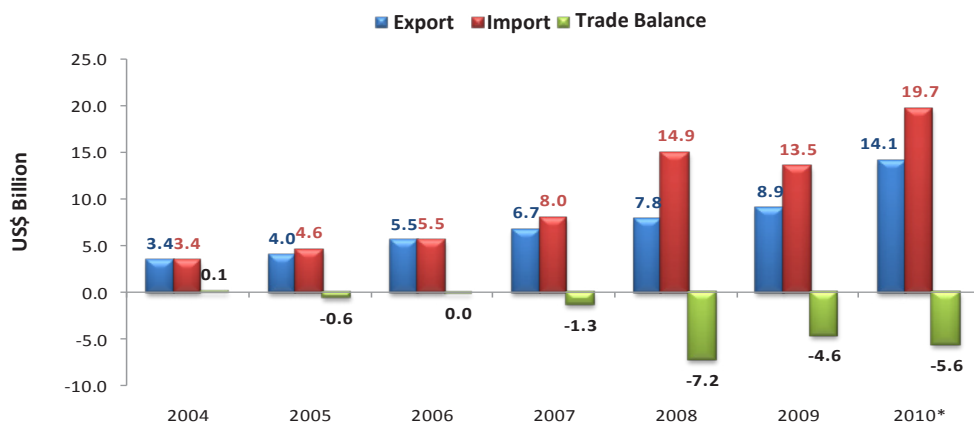
Description	Indonesia's ICC with China		Change 05/09	China's ICC with Indonesia		Change 05/09
	2005	2009		2005	2009	
Total Trade	0.07	-0.10	-	-0.01	0.04	+

Source: UNCOMTRADE via WITS, 2010 (own calculation)

The ICC shows that Indonesian trade competitiveness declined because of the declining trade flow since 2007 and became minus in 2008. It actually started in 2005 where the Indonesian

trades balance in non oil and gas sector began to be minus (Figure 1). Indonesia's total trade with China before 2008 enjoyed a trade surplus due to the large surplus in oil and gas.

Figure 1. Indonesian Non Oil and Gas Trade with China, 2004 -2010*



Source: Indonesian Statistics, 2010 (Calculated by Ministry of Trade)

*) Estimation

The ICC calculation explains that the change of the competitiveness of a country is caused not only by the change of its export activities but also import activities. It means that some product share may shrink but the others may expand. In other words each country has their special competitive product.

Agricultural Product Competitiveness

Table 3 describes the competitiveness of agricultural products between Indonesia and China. In over all, China's agriculture products have more competitiveness than that of Indonesia. Fourteen products from China have positive changes during 2005 -2009, while Indonesian only has 11 products.

China is a net exporter for Cereals (HS 10) to Indonesia. The competitiveness of other products such as Products of animal origin (HS 05); Edible vegetables and certain roots (HS 07); Products of milling industry (malt, starches, etc) (HS 11); Lac, gums,

resins & other vegetable (HS 13) e; Prep of vegetable, fruit, nuts (HS 20); Beverages, spirits and vinegar (HS 22); Residues & waste from the food industry (HS 23); Articles of leather; saddlery/harrest (HS 42); and Fur skins and artificial fur (HS 43) have increased. The export values of the nine items have expanded.

China has good improvement in competitiveness for products such as Fish & crustacean, mollusc & other (HS 03); Live tree & other plant; bulb, root (HS 06); and Coffee, tea, mate and spices (HS 09). The performances of three products have shifted China from an importing to an exporting country. On the other hand, the values of imported products from Indonesia such as Oil seed, oleagi fruits; miscellaneous (HS 12) and Wood and articles of wood (HS 44) decreased. Their supplier countries could be shifted from Indonesia to others countries, especially ASEAN member. In agriculture sector, China is a net

importer for Vegetable plaiting materials (HS 14) and Animal/vegetable fats & oils & their derivatives (HS 15). The HS 15 covers Crude Palm Oil (CPO), which

is the main product of Indonesian. Those products are used by China for producing food and cosmetics. The HS 14 includes bamboo and rattan.

Table 3. The Agriculture ICC: Indonesia – China, 2005 - 2009

HS Code	Description	Indonesia's ICC with China		Change 05/09	China's ICC with Indonesia		Change 05/09
		2005	2009		2005	2009	
Total	Total Trade	0.07	-0.10	-	-0.01	0.04	+
01	Live animals	0.99	0.57	-	0.00	-0.99	-
02	Meat and edible meat offal	-1.00	1.00	+	1.00	0.00	-
03	Fish & crustacean, mollusk & other	0.88	-0.07	-	-0.58	0.22	+
04	Dairy prod; birds' eggs; natural honey	-0.89	-0.79	+	0.59	0.50	-
05	Products of animal origin, nes or	-0.28	-0.62	-	0.01	0.52	+
06	Live tree & other plant; bulb, root	0.31	0.92	+	-0.51	0.37	+
07	Edible vegetables and certain roots	-0.57	-0.82	-	0.64	0.84	+
08	Edible fruit and nuts; peel of citrus	-0.94	-0.97	-	0.88	0.87	-
09	Coffee, tea, mate and spices.	0.15	-0.22	-	-0.03	0.43	+
10	Cereals	-1.00	-1.00	0.00	1.00	1.00	0.00
11	Product of milling industry; malt; starches;	-0.83	-0.92	-	0.80	0.90	+
12	Oil seed, oleagi fruits; miscellaneous	0.24	0.08	-	-0.68	-0.45	+
13	Lac; gums, resins & other vegetable	-0.66	-0.66	-	0.50	0.69	+
14	Vegetable plaiting materials;	0.94	0.99	+	-0.98	-1.00	-
15	Animal/veg fats & oils	1.00	0.99	-	-0.99	-1.00	-
16	Prep of meat, fish or crustaceans,	-0.91	-0.92	-	0.96	0.37	-
17	Sugars and sugar confectionery.	-0.95	-0.81	+	0.97	0.90	-
18	Cocoa and cocoa preparations.	0.95	0.98	+	-0.70	-0.96	-
19	Preparation of cereal, flour, starch/milk;	-0.03	-0.17	-	0.45	-0.26	-
20	Prep of vegetable, fruit, nuts	-0.89	-0.83	+	0.85	0.86	+

HS Code	Description	Indonesia's ICC with China		Change 05/09	China's ICC with Indonesia		Change 05/09
		2005	2009		2005	2009	
		21	Miscellaneous edible preparations.	-0.94	-0.85	+	0.93
22	Beverages, spirits and vinegar.	0.08	-0.98	-	0.95	0.99	+
23	Residues & waste from the food industry	-0.94	-0.51	+	0.21	0.47	+
24	Tobacco and manufactured tobacco	-1.00	-0.96	+	1.00	0.94	-
40	Rubber and articles thereof.	0.80	0.80	+	-0.78	-0.79	-
41	Raw hides and skins (other than fu	0.40	0.40	-	-0.40	-0.81	-
42	Articles of leather; saddlery/harness	-0.93	-0.93	-	0.74	0.83	+
43	Furskins and artificial fur; manufactured	-0.20	-0.95	-	0.97	0.99	+
44	Wood and articles of wood; wood	0.88	0.55	-	-0.92	-0.57	+
Number of Agricultural Products increasing the Competitiveness		11		14			
Number of Agricultural Products decreasing the Competitiveness		17		14			
No Change On Agriculture Products Competitiveness		1		1			

Source: UNCOMTRADE via WITS, 2010 (own calculation)

Meanwhile, Indonesia is a net exporter for product of Meat and edible meat offals (HS 02); Vegetable plaiting materials (HS 14); and Cocoa and cocoa preparations (HS 18). The HS 14 and HS 18 are other Indonesian main export products in Agriculture besides CPO. The export rate of Rubber and articles thereof (HS 40), especially natural rubber is significantly high in 2009, but in the same time import of rubber products from China is also high. The impact has no differences on the ICC from 2005 to 2009.

The reason that Indonesia's Competitiveness in Agriculture product

is less than that of China because of the implementation of Early Harvest Program for ACFTA. This program is conducted for the Agriculture products for HS 01 – HS 08. The analysis showed the increasing import on Edible vegetables and certain roots (HS 07) and Edible fruit and nuts; peel of citrus (HS 08). This is why there are so many vegetables and fruits imported from China in the Indonesia.

Manufactured Product Competitiveness

The analysis of ICC on Manufacture Product showed that Indonesia has lost the Competitiveness

since 2005. The Manufacture competitiveness condition forced the Indonesian government to rearrange the implementation of full ACFTA in 2010. The objective is to give opportunity to Indonesian industry to maintain their competitiveness and preparing after the market where opened. Indonesia asked for the postponement for 228 product items in the HS 10 digit level not to be included yet in the reduction of post tariff in ACFTA framework. These 228 products are considered as the industry which employs many workers and strategic industry for the country. Considering the cost to renegotiate for the 228 products that will be about US\$ 1.2 billion and the obligation on ACFTA treaty that Indonesia should make notification to all "parties with supplying interest" (ASEAN member countries and China), Indonesia took a step to make another agreement (Yanuarti, Manuputty & Djafar, 2010; Pangestu, 2010).

Furthermore, the agreement took a point for both countries to rebalance the trade if there are any unbalances. The rebalance mechanism is conducted by maintenance the export and import volume. Indonesia get the commitment from China's government to help the revitalization of the out date industry such as textile industry.

In the other hands, in some products as shows in Table 4 below Indonesia still have opportunities to expand the market. The export of The products such as Footwear, gaiters and the like; part (HS 64) have significantly increased for 158.5% for 2005/2009. The positive export performance of footwear products is impacted by the back relocation of many footwear industries, which in few years

has left, to Indonesia. The situation of footwear industries is predicted will be the same like Textiles and apparel industries as well. The China's economic growth has increased the high wage rate. Many China's industries have informed to relocate their manufacture to Indonesia.

The analysis in Manufactured Products found the suspicious trade activity. The trade of Arms and ammunition; parts and accessories (HS 93) might be done by illegal import to Indonesian market if there is no miss management of Indonesian Custom. The suspicious trade activity found because during 2005 and 2009 there are no export from china to Indonesia. But, Indonesian trade data noted that the import of HS 93 is US\$ 2.6 million in 2005.

Oil, Mining and Mineral Products Competitiveness

The performance of Indonesian Oil, Mining, Mineral and Metal Product Competitiveness has no difference with the other sectors. Eventhough, the export of Oil mainly stabilize the trade in surplus until the end of 2008, but in general its competitiveness has declined in 2005/2009 period. In aggregate HS 2 digit, all products of the Oil, mining, mineral and metal show higher rate in import than export with China (Table 5).

Most of Indonesian products which have positive value on ICC are products based on the natural resources such as Ores, slag, ash, coal, Copper, and tin. The export performance corresponds to the China's Policy import at natural resources. The Policy has impacted on the increased of world natural resource price in 2008 and 2009.

Table 4. The Manufacture ICC: Indonesia – China, 2005 - 2009

HS Code	Description	Indonesia's ICC with China		Change 05/09	China's ICC with Indonesia		Change 05/09
		2005	2009		2005	2009	
28	Inorganic chemicals; compounds of precursor material,	-0.78	-0.86	-	0.76	0.83	+
29	Organic chemicals.	0.45	-0.04	-	-0.53	-0.07	+
30	Pharmaceutical products.	-0.91	-0.91	+	0.79	0.88	+
31	Fertilizers.	-1.00	-0.93	+	1.00	1.00	-
32	Tanning/dyeing extract; tannins &	-0.70	-0.81	-	0.57	0.70	+
33	Essential oils & resinoids;	-0.73	-0.82	-	0.67	0.81	+
34	Soap, organic surface-active agents	0.53	0.15	-	-0.51	-0.03	+
35	Albuminoidal subs; modified starches	-0.31	-0.97	-	0.27	0.95	+
36	Explosives; pyrotechnic prod; match	-0.70	-1.00	-	0.95	1.00	+
37	Photographic or cinematographic goo	-0.96	-1.00	-	0.98	1.00	+
38	Miscellaneous chemical products.	-0.07	-0.15	-	0.08	0.03	-
39	Plastics and articles thereof.	0.01	-0.31	-	0.12	0.20	+
45	Cork and articles of cork.	-1.00	-0.96	+	1.00	1.00	-
46	Manufactures of straw, esparto/other	-0.08	-0.77	-	0.08	0.87	+
47	Pulp of wood/of other fibrous cellulous	0.97	0.97	-	-0.99	-0.94	+
48	Paper & paperboard; art of paper pulp	0.63	0.26	-	-0.67	-0.38	+
49	Printed books, newspapers, pictures	-0.91	-0.90	+	0.90	0.98	+
50	Silk.	-0.93	-1.00	-	1.00	1.00	-
51	Wool, fine/coarse animal hair, hors	-0.98	-0.99	-	0.91	0.99	+
52	Cotton.	-0.37	-0.71	-	0.39	0.71	+
53	Other vegetable textile fibers; pap	-0.78	-0.42	+	0.76	0.58	-

HS Code	Description	Indonesia's ICC with China		Change 05/09	China's ICC with Indonesia		Change 05/09
		2005	2009		2005	2009	
54	Man-made filaments.	-0.24	-0.68	-	0.59	0.64	+
55	Man-made staple fibers.	0.48	-0.38	-	0.15	0.34	+
56	Wadding, felt & nonwoven; yarns	-0.80	-0.81	-	0.78	0.82	+
57	Carpets and other textile floor co	-0.52	-0.96	-	0.98	0.98	-
58	Special woven fabrics; tufted textile fabrics;	-0.95	-0.98	-	0.97	0.98	+
59	Impregnated, coated, cover/laminate	-0.24	-0.75	-	0.74	0.90	+
60	Knitted or crocheted fabrics.	-0.83	-0.91	-	0.94	0.90	-
61	Art of apparel & clothing access,	-0.34	-0.75	-	0.84	0.89	+
62	Art of apparel & clothing access, n	-0.64	-0.61	+	0.89	0.50	-
63	Other made up textile articles; set	-0.64	-0.87	-	0.88	0.64	-
64	Footwear, gaiters and the like; par	-0.38	-0.28	+	0.39	0.37	-
65	Headgear and parts thereof.	-0.88	-0.96	-	0.89	0.93	+
66	Umbrellas, walking-sticks, seat-sti	-0.98	-1.00	-	1.00	1.00	+
67	Preparation of feathers & down; artificial flower;	-0.68	-0.71	-	0.81	0.65	-
68	Art of stone, plaster, cement, asbes	-0.53	-0.73	-	0.78	0.90	+
69	Ceramic products.	-0.93	-0.96	-	0.92	0.96	+
70	Glass and glassware.	-0.03	-0.67	-	0.08	0.72	+
82	Tool, implement, cutlery, spoon & f	-0.98	-0.99	-	0.98	0.99	+
83	Miscellaneous articles of base meta	-0.93	-0.98	-	0.98	0.98	-
84	Nuclear reactors, boilers, machinery	-0.70	-0.89	-	0.13	0.66	+
85	Electrical machinery equipment parts thereof	-0.57	-0.84	-	0.26	0.41	+
86	Railway/train locomotive, rolling-stock	-0.98	-1.00	-	1.00	1.00	+
87	Vehicles o/t railway/train roll-stock	-0.48	-0.96	-	0.81	0.97	+

HS Code	Description	Indonesia's ICC with China		Change 05/09	China's ICC with Indonesia		Change 05/09
		2005	2009		2005	2009	
88	Aircraft, spacecraft, and parts the	-0.19	-0.87	-	0.79	0.92	+
89	Ships, boats and floating structure	-0.95	-0.21	+	1.00	1.00	+
90	Optical, photo, cine, meas, checkin	-0.89	-0.93	-	0.57	0.82	+
91	Clocks and watches and parts thereof	-0.96	-0.94	+	1.00	0.80	-
92	Musical instruments; parts and accessories	-0.34	-0.60	-	0.30	0.34	+
93	Arms and ammunition; parts and accessories	-1.00	-1.00	-	No trade	No Trade	0.00
94	Furniture; bedding, mattress, matt	-0.65	-0.79	-	0.80	0.85	+
95	Toys, games & sports requisites; pa	-0.87	-0.87	-	0.57	0.66	+
96	Miscellaneous manufactured articles	-0.87	-0.90	-	0.92	0.90	-
97	Works of art, collectors' pieces an	-0.99	-0.80	+	0.04	0.40	+
Number of Manufacture Products increasing the Competitiveness		10		39			
Number of Manufacture Products decreasing the Competitiveness		44		14			
No Change On Manufacture Products Competitiveness		0		1			

Source: UNCOMTRADE via WITS, 2010 (own calculation)

Concluding remarks

The trade relation between Indonesia and China is giving more competitiveness for China. China's products which have higher competitiveness than Indonesia such as Fish & crustacean, mollusc & other (HS 03); Live tree & other plant; bulb,

root (HS 06); and Coffee, tea, mate and spices (HS 09). Those products have performed China as importir toward exporter.

Even though, some Indonesian products have good competitiveness and develop the competitiveness during the period of 2005 to 2009. Other

than CPO which is one the Indonesia main export product, Vegetable plaiting materials (including rattan and bamboo), the footwear, textiles and apparel products have increased the competitiveness. These products have expanded in China's market during last five years.

The Indonesian government should launch the policy which could utilize "the Agreed Minutes of the Meeting for Further Strengthening Economic and Trade Cooperation". The objective of the policy is not only to rebalance the trade performance but also to keep the competitiveness of the products in the other economics term. The activities would be useless if the policy don't have effect on real work.

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