

# 23. SURABAYA CITY EXPORT EXPANSION POLICY ANALYSIS

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## SURABAYA CITY EXPORT EXPANSION POLICY ANALYSIS

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### Abstract

**Purpose:** The main objective is to get a comprehensive analysis of the potential for market expansion so that it can boost exports to new markets in addition to the traditional markets that are currently being carried out.

**Methodology:** The analysis includes market analysis, product analysis, trade policy and other analyses related to the Surabaya City Export Expansion Policy Analysis. Quantitative analysis techniques use measurements of the Export Performance Index. Determination of priority commodities is done by calculating indicator index values, performance index values, and composite indices.

**Results:** The export development of Surabaya City in 2014-2016 experienced a fluctuation, i.e., from the US \$ 18.02 million in 2014, to the US \$ 16.45 million in 2015 and the US \$ 17.90 million in 2016.

**Implications:** Economic growth in developed countries is strongly supported by export growth. They control the share of world exports. In line with the spirit to increase exports and support government programs, the Surabaya city government has placed exports as one of its economic growth locomotives. Thus, Export expansion policy is an option considering that Surabaya's export growth has fluctuated in hopes of increasing public welfare.

**Keywords:** Export expansion, new markets, traditional markets, growth locomotive, export development

### INTRODUCTION

Abdurohman and Zuladin (2002) state the important role of exports in economic growth and job creation which is one of the keys to a country's economic growth, in addition to government consumption, investment, and expenditure. Historically, economic growth in developed countries was strongly supported by export growth so that these countries controlled the share of world exports. In 2016, Western Europe, the United States, and Japan as developed countries had an export share of 16.40%, 8.02%, and 5.38% respectively, other countries such as China with an export share of 8.59% (World Trade Organization, 2017).

In line with this, the Surabaya city government also placed exports as one of the driving forces of economic growth in the City. This is indicated by the development of Surabaya's export, in 2014 the export value of Surabaya City was recorded at 18.02 million US dollars and then decreased in 2015 to 16.45 million US \$ then rose to 17.90 Million the US \$ in 2016.

Trade developments that lead to unfair competition have encouraged countries to protect their economy by pushing the economy in an inefficient direction. To reduce the impact of overprotective trade in each country and to improve trade efficiency, a Free Trade Area (FTA) policy was established. The main objective of the FTA is to open the faucet for the interaction of goods, services, production, investment, and capital and the elimination of tariffs for trade between countries that are members of the FTA. The formation of various types of FTAs is a result of trade liberalization which cannot be avoided by all countries as members of the international community/WTO

Therefore, a policy of export expansion is needed considering that Surabaya's export growth has fluctuated considerably. Through the export expansion policy, it is expected that the City of Surabaya will be more stable and the improvement of community welfare can be realized. Based on the above description, it is necessary to conduct "Surabaya City Export Expansion Policy Analysis" which contains an analysis of export-import performance and also an analysis of export market expansion in encouraging an increase in export performance.

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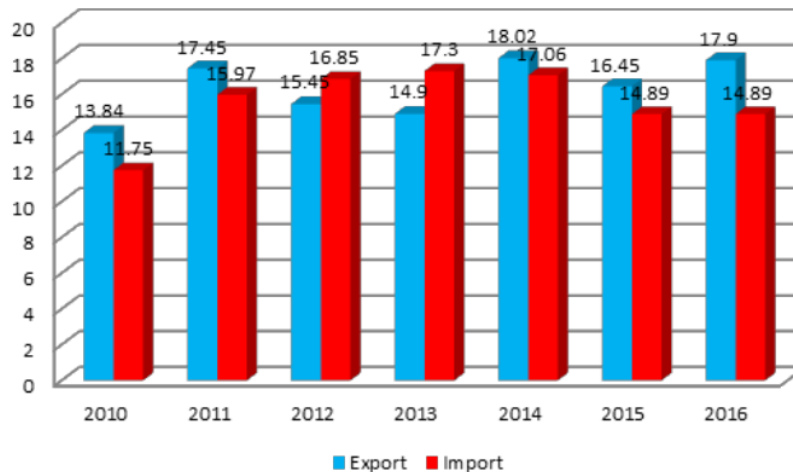


Figure 1. Export and Import of Surabaya 2010-2016 (million US\$)

Source: Central Bank of Indonesia, 2017

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### LITERATURE REVIEW

Ervani (2013) explained that the performance of exports and imports in the comparative advantage of the agricultural sector in Indonesia, by using the measurement of comparative advantage using the Trade Balance Index (TBI) with the Lafay method that TBI, can be concluded that Indonesian agricultural commodities show a positive value for TBI, both in volume and export value import. This means that Indonesia is referred to as a net-exporter and specializes in the export of agricultural commodities. ITC/UNCTAD WTO (2007) describes and develops the Trade Performance Index (TPI) with the aim of assessing and monitoring the multidimensional dimensions of export performance and competitiveness by sector and by country so as to bring profit and loss in market share the world and highlight the factors that led to this change.

An area can enhance its wealth by selling its goods abroad (Sukirno, 2000). On the contrary, each region will import certain goods if the region has a relatively rare/expensive production factor in producing it (Hamdy (2004).

Export is the sale of goods abroad using the payment system, quality, quantity and other terms of sale that have been approved by the importer. Export demand is the number of goods/services requested to be exported from one country to another (Sukirno, 2010). According to Irham and Yogi (2003) exports are selling goods abroad to obtain foreign exchange which will be used for export operations which must be done with export diversification so that if there is a loss in one kind of goods it can be offset by the advantages of other commodities. There are a number of definitions of exports (Curry; Winardi, 1992; Punan, 1996; Utomo., 2000; Mankiw, 2006) whose intuition is goods and services produced domestically and sold to foreign countries.

According to Sukirno (2008) exports are part of international trade, which allows by several conditions including: 1) There are domestic advantages, so that the excess can be sold abroad through export policy 2) There is a foreign demand for a product even though the product is due to a lack of domestic products 3) There is a greater profit from overseas sales than domestic sales, because prices on the world market are more profitable 4) There is a barter for certain products

with other products that are intended and cannot be produced domestically) 5) The existence of a political export policy. According to Samuelson and Nordhaus (2004) factors that affect the volume and value of a country's exports depend on foreign income and output, the exchange rate (exchange rate) and the relative price between domestic and foreign goods. Based on Leonardo Becchetti and Stefania PS Rossi's (2000), research conducted in Marshallian districts empirically results in the export and exchange services that can directly provide information about export markets so that they can improve export performance from small companies in the area. Abdul Waheed and Syed Tehseen Jawaid (2010) that foreign investment and foreign investment have a direct relationship to imports so that it can have an impact on FDI receipts from a country. So it can be said that the relationship between FDI and imports can also have a positive relationship. According to Kevin Honglin Zhang, states that FDI is a factor of a country's economic growth so that it can say that FDI has a positive influence on exports of a country, it can say that the presence of FDI can promote an export item from that country (<https://www.researchgate.net/publication/228676071>)

## RESEARCH METHODS

The analysis includes market analysis, product analysis, trade policy and other analyses related to the Surabaya City Export Expansion Policy Analysis. Quantitative analysis techniques use measurements of the Export Performance Index used for: a. Determine groups of countries in the export destination countries that have high priority as export destinations b. Determine priority commodities to be developed in accordance with the socioeconomic potential possessed both internally and externally in each commodity.

Determination of priority commodities is done by calculating indicator index values, performance index values, and composite indices. The indicator that has the lowest value is given index 1, the highest is given index 5 and the value is between the lowest and the highest is calculated using the following formula:

$$I_{ij} = I_t - \frac{(N_t - N_j) \times (I_t - I_r)}{N_t - N_r}$$

$I_{ij}$ : J-indicator index,

$I_t$ : The highest index,

$I_r$ : The lowest index,

$N_t$ : The highest indicator value,

$N_r$ : The lowest indicator value,

$N_j$ : indicator value to j

The first performance index value is the average of the indicator index j. The formula used is:

$$IP = \frac{\sum I_{ij}}{j}$$

$IP$ : performance index,

$I_{ij}$ : indicator index to j,

$J$ : number of performance indicators.

$I_k$  composite index is calculated using the formula:

$$I_k = \frac{p_1IP_1 + \dots + p_iIP_i}{(p_1 + \dots + p_i)}$$

$I_k$ : composite index,

$IP_i$ : Performance I index,

$P_i$ : The index weight performance I,

$I$ : The amount of performance considered

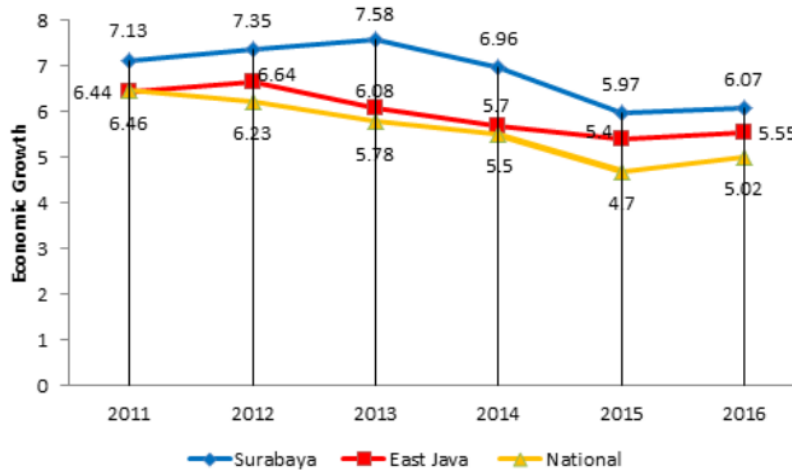
The highest priority is the commodity that has the highest composite index and vice versa (ITC/UNCTAD WTO, 2007).

## GENERAL CONDITIONS OF SURABAYA CITY

Economic development in the city of Surabaya in 2011-2016 experienced a dynamic phase, shown in Figure 2. In 2011 growth was 7.13%, and then increased to 7.35% in 2012 and 7.58% in 2013. however in 2014, economic growth decreased to 6.96%, in 2015 it experienced a decline to 5.97% and in 2016 experienced an increase of 1.0% to 6.07%.

The decline that occurred from 2013 to 2015 was caused by the global economic slowdown, which was not only experienced by Indonesia but also almost all countries in the world.

Figure 2. Comparison of Surabaya's Economic Development with National



Source: Statistics Board of Surabaya, 2016 (\* temporary figures)

Figure 2 also informs that the economic growth of Surabaya City is always above the economic growth of East Java and National Provinces. The realization in 2016 shows that the economic growth of Surabaya City is 0.52 percent above the economic growth of East Java and 1.05 percent above the national economic growth. Based on its constituent components, the 17 categories of business sectors forming the Surabaya City GRDP in 2016 had a majority of positive growth except in the category of electricity, gas and ice cube production.

The category that experienced the highest economic growth in 2016 was the field of business category for the provision of accommodation and food beverages, the category of financial services business fields and the category of information and communication business fields. The field category of the business of providing accommodation and beverage food in 2016 experienced economic growth of 8.71%. Similarly, in previous years, the category of providing accommodation and beverage food is a business field that is classified as a major category that plays a role in driving the economy of Surabaya City. This is marked by the rampant construction of hotels and restaurants spread throughout the city of Surabaya. As a business city with the characteristics of modern society, increasingly practical lifestyles encourage the growth of fast food hotels and restaurants/restaurants that are easily and quickly reached by the public. This indicates that the business prospects in the category of providing accommodation and food and beverages will still grow very rapidly in the future.

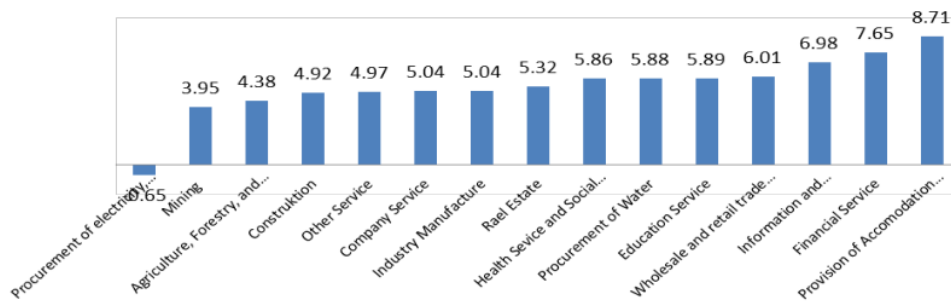


Figure 3. Economic Growth 2016 Surabaya City by Business Field Category 2016\*

Source: Statistics Board of Surabaya, 2017 (\* temporary figures)

The business field category that experienced the second high growth in 2016 is the category of financial services. The more developed economy of Surabaya City will automatically stimulate other business categories such as the financial services business category. This category experienced high growth every year due to its role in boosting economic activity in the city of Surabaya, especially in access to capital. Of course, the faster the economic activity, the greater the need for capital realized through credit loans so that in 2016 the category of financial services business sector experienced the second high economic growth of 7.65%.

Other business categories that experienced high growth were the information and communication business field category which experienced economic growth in the year of 6.98%. As a developing city, the need for automatic technology is increasingly high, including information and communication technology. This is reflected in the increasing number of users of telecommunications services (cellphones) every year. The use of mobile phones is now an item of necessity to support daily activities so as to have a positive impact on economic growth in the category of information and communication business fields.

The city of Surabaya as one of the provincial capitals that have strategic functions in the Indonesian economy has a variety of infrastructure to support economic activities including trade activities, both inter-island trade, and inter-country trade. Various infrastructures are available in Surabaya City such as accessibility, transportation, energy availability and availability of industrial zones. In addition, the presence of Tanjung Perak Port and Teluk Lamong Port has contributed to the driving factor of Surabaya City as a city hub for trading activities, both for other regions and the area around Surabaya City.

Based on the Central Bank of Indonesia data records, trading activities in the city of Surabaya which are reflected in the value of non-oil and gas import exports are quite good. As shown in Figure 4.5, the trading performance of Surabaya City during 2016 showed a positive performance, which means that the export value of Surabaya City was higher than its import performance. During 2016 the performance of Surabaya's non-oil and gas exports amounted to the US \$ 17.9 million while the import performance of Surabaya City produced a smaller value of US \$ 14.8 million so that in 2016 the trade balance of Surabaya City had a surplus of US \$ 3.1 million.

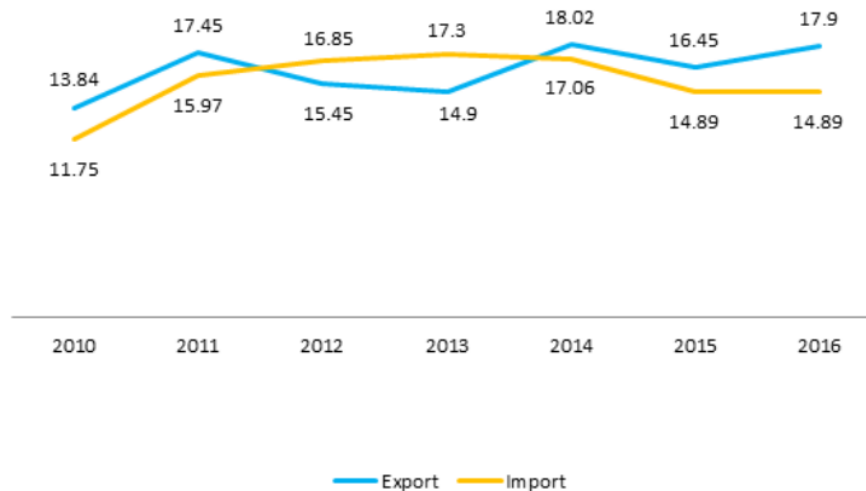


Figure 4. Surabaya City Export-Import Commodities 2016 \*

Source: Central Bank of Indonesia, 2017

Based on the commodity, the commodity composition exported by Surabaya City is almost the same as the previous year, where jewelry and gems are still the most attractive attraction in the international market as indicated by the high demand in 2016 which reached the US \$ 4.2 million. The biggest commodities that dominate the export of Surabaya City are vegetable fats and oils, wood and goods from wood, fish, and shrimp that reach more than 1 billion dollars. On the contrary, commodities that are mostly imported by Surabaya City are heavy equipment along with chemical products such as mechanical machinery/equipment as well as iron and steel, plastics and articles of plastics, and organic chemicals.

Based on the area of origin and destination of non-oil export and import of Surabaya City, during 2016 the non-oil and gas exports of Surabaya City were mostly to Asian countries which amounted to US \$ 11.6 or 64.98% of the total exports of Surabaya in 2016. Share of the largest export of Surabaya City in the Region Asia's majority of export destinations to its main countries is Singapore (the US \$ 3.2 million), Japan (the US \$ 2.6 million), and China (the US \$ 1.9 million). The purpose of the majority of Surabaya's non-oil and gas exports hereinafter is the countries in the European region with an export value of US \$ 3.6 million and the United States of US \$ 1.9 million.

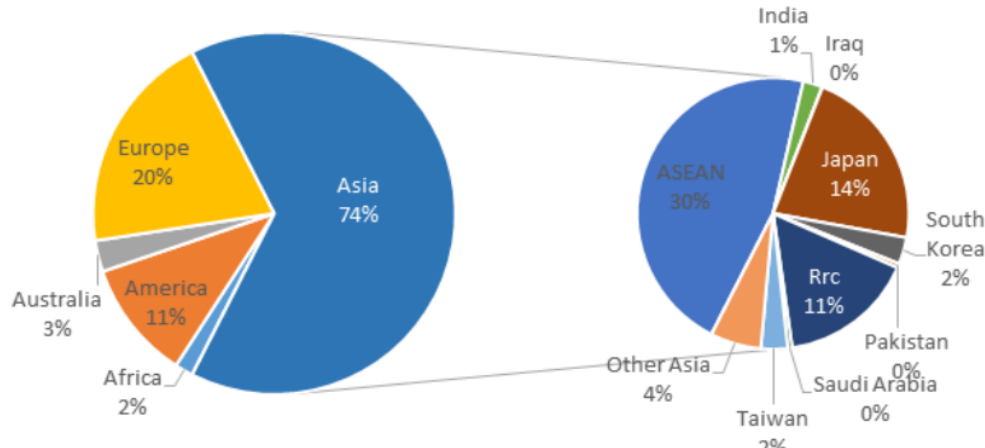


Figure 5 Area of Surabaya City Export Destination Country in 2016

Source: Central Bank of Indonesia, 2017

The same pattern also occurs on the import side, where the origin of the country that is importing the needs of Surabaya City and Eastern Indonesia is the majority of the countries in the Asian region amounting to the US \$ 9.2 million, mainly from China of US \$ 4.3 million. The country that becomes the next largest importer of Surabaya City needs is the countries in the US region of US \$ 2.7 million and the European countries of US \$ 2.1 million.

#### EXPORT AND IMPORT CONDITION OF SURABAYA CITY

The city of Surabaya, which adheres to an open economic system, has made import-export activities an important factor to support positive economic growth. The current performance of the Surabaya City trade balance continues to show improvement despite two years ago in 2012 and 2013 the trade balance performance showed a negative performance. This happened along with the decline in demand for export destination countries as a result of the slowdown in economic growth.

The largest export value in 2014 was the US \$ 18.0 million, this value increased compared to the previous year which was the only US \$ 14.9 million. In 2014 the largest export value in Region IV-East Java (Surabaya City) was in the Pearls, precious and semi prec. Stone commodities, which amounted to the US \$ 2.9 million. Next is the Animal or vegetable commodity, fats, and oils that have a value of US \$ 1.7 million. In Organic chemicals, the export value is the US \$ 1.4 million. Whereas commodities other base metals had the smallest export value of only US \$ 557 in 2014 when compared to 2013 this value decreased from the US \$ 1,144. For the value of non-oil imports according to the HS -2 digit group in the IV region of East Java (Kota Surabaya) in 2014 amounting to the US \$ 17.1 million, this value decreased very little when compared to 2013 which amounted to the US \$ 17.3 million. The biggest import commodities in Surabaya are found in Nuclear reacts, boilers, mech. Appli which is the US \$ 2.4 million. Furthermore, the second largest import was found in Iron and steel for the US \$ 1.6 million. While the value of non-oil imports according to the HS group – the smallest 2 digits are found in Manufacture commodities of straw; basket-ware which is the only US \$ 60, this value has dropped dramatically when compared to 2013 which had a value of US \$ 115,037. This shows that the Surabaya City government managed to limit the number of imports of these commodities from the country of origin. The largest export volume was in 2014 at 10.1 million tons, this value increased compared to the previous year which was only 9.2 million kg. In 2014 the largest export volume in Region IV-East Java (Kota Surabaya) was in Animal or vegetable commodities. Fats and oils that is 1.9 million tons. Furthermore, there are organic chemicals, which have a



volume of one million tons. While other commodities base metals have the smallest export volume of the only 756kg in 2014, when compared to 2013 this value decreased from 1,450 kg.

For the volume of non-oil and gas imports according to the HS – 2 digit group of IV East Java (Kota Surabaya) in 2014 amounted to 21.8 million tons, this volume increased compared to 2013 which amounted to 20.4 million tons. The biggest import commodity in Surabaya is found in Salt; sulfur, and stone that is 3.1 million tons. Furthermore, the second largest import was in the cereals commodity of 3.0 million tons. While the volume of non-oil and gas imports according to the HS group - the smallest 2 digits are found in manufacturing commodities of straw, basket-ware which is only 110 kg, this value has dropped dramatically when compared to 2013 which had a volume of 52 tons.

This shows that the Surabaya City government managed to limit the number of imports of these commodities from the country of origin. Based on the data obtained by the total value of non-oil imports according to the country of origin of region IV East Java (Surabaya) in 2014 amounted to the US \$ 17.1 million. In 2014 the largest imports came from Asian countries with a value of US \$ 10.1 million, then the total value of non-oil imports amounting to the US \$ 2.6 million from European countries. The volume of non-oil and gas imports according to the country of origin of region IV East Java (Surabaya) in 2014 amounted to 21.8 million tons. In 2014 the largest imports came from Asian countries with a volume of 10.9 million tons, then the volume of non-oil imports amounted to 1.9 million tons from European countries, while the smallest volume of non-oil imports came from Brunei Darussalam which was 256 tons, this amount decreased compared to the previous year which was 3.2 million tons in 2013. Based on the data obtained by the total value of non-oil exports according to the destination country IV region of East Java (Surabaya) in 2014 amounted to the US \$ 18.0 million. In 2014 the largest export was to Asian countries with a value of US \$ 11.4 million, then the total value of non-oil export amounting to the US \$ 2.8 million, which was directed to the European country.

Based on data obtained by the volume of non-oil and gas exports according to the destination country IV region of East Java (Surabaya) in 2014 amounted to 10.1 million tons. In 2014 the largest exports to Asian countries with a volume of 7.1 million tons, then the total volume of non-oil exports amounted to 1.9 million tons to China, while the smallest volume of non-oil exports to Laos was 381 kg, this number decreased compared to in the previous year amounting to 242 tons in 2013.

#### POTENTIAL EXPORT MARKET OF SURABAYA CITY

There are several ways to measure the potential of foreign markets for products and services. One of the most important ways is to assess successful products in the domestic market. If a product is successfully sold in the domestic market, there is a good chance that it will also be successful in foreign markets, where the same needs and conditions are the same. In markets that differ significantly from the domestic market, some products may have potential limitations. These differences may be climatic and environmental factors, social and cultural factors, availability of local raw materials or alternative products, lower wage costs, lower purchasing power, availability of foreign exchange (currencies such as dollars, pounds, and Japanese yen), import controls government, and various other factors. If a product is successful in the domestic market, one of the strategies for export success might be a careful analysis of why it sells here, followed by similar market choices abroad. In this way, little or no product modification is needed. If a product is not new or unique, cheap market research may already be available to help assess the potential of foreign markets. In addition, international trade statistics (available in many local libraries) can provide an initial indication of foreign markets for certain products by showing where similar or related products have been sold in significant quantities. If a product is unique or has important features that are difficult to duplicate overseas, it is likely to be good for looking for export markets. For unique products, competition may be there or very little, while demand may be quite high. Finally, even if domestic product sales are now declining, a sizeable export market might exist, especially if the product once did well in the United States but now loses the market share to more technically advanced products. Less developed countries than the United States may not need state-of-the-art technology and may not be able to pay for the most sophisticated and expensive products. Certain markets may have surprising demands on products that are old or considered obsolete by market standards. The analysis phase is used to determine which countries have the potential to become export destinations for Surabaya City. Some of the indicators used in analyzing this study are (1) the value of the world from import in 2015; (2) the export value of Surabaya in 2015; (3) the average growth of import value in 2010-2015 from the world; (4) the average growth of import value in 2010-2015 from Surabaya. The data used to analyze the Export Performance Index comes from the Industry and Trade Office of the City of Surabaya and the World Trade Organization.

Based on the calculation of the composite index value, several countries that are potential countries to become the market for export priority products for Surabaya are as follows.



**Table 1.** Potential Countries become the Surabaya Export Products Market, 2017

No.	Negara	Score Indeks
1	LAO PEOPLE'S DEMOC REP	2,54
2	UNITED STATES OF AMERICA	2,43
3	MYANMAR	2,06
4	VIETNAM	1,67
5	JAPAN	1,65
6	GERMANY	1,63
7	CAMBODIA	1,62
8	HONGKONG	1,59
9	SAUDI ARABIA	1,52
10	UNITED KINGDOM	1,48

Source: Surabaya City Trade Office are processed, 2017

15

Based on the results of the analysis, the export potential products of Surabaya are Industrial products. Industry products alone if according to the HS 02 naming it is described in Table 2.

**Table 2.** Naming HS02 based on Industry

Sports, Music, Education, and Toys	Processing of Gold, Silver, Precious Metals, Jewelry
Electrical tools	Aluminum Processing
Other craft items	Rubber Processing
Other Chemical Goods	Wood Processing
Steel, Machinery, and Automotive	Coconut Processing
Cameras and Optical Devices	Copper, Tin, etc.
Ceramic, Marble, and Glass	Plastic
Basic chemistry	Pharmaceutical Products
Other Commodities	Pulp and Paper
Leather, Leather Goods, and Shoes / Footwear	Fertilizer
Food and Drink	Cigarettes
Cattle fodder	Cement and Products from Cement
Essential oi	Textile

Source: Surabaya City Trade Office, 2017

### EXPORT MARKET DIVERSIFICATION POLICY STRATEGY

The development of non-oil and gas exports, both goods and services, is basically a short-term mainstay for economic recovery and is a medium to long-term priority to continuously spur national economic growth, especially for the city of Surabaya itself, through increasing foreign exchange earnings, expanding employment, and utilization of domestic resources. In this regard, to increase the export of Surabaya, the policies and steps taken are prioritized to expand the export market to market proposals by intensifying promotional activities, increasing access to information to the business world, product development, empowering export institutions, strengthening export cooperation and increasing the capacity of exporters to enter the global market. As the National Export Development (PENS) policy direction in the next five years (2015-2020) the target of this policy strategy is 1) increasing diversification of export markets; 2) increased diversification of export products; 3) increasing image of exporters and products. In detail, the three targets are explained below. More clearly the diversification development scheme is illustrated in Figure 6 below.

Explicitly, the strategy of increasing the export of Surabaya can be done with 3 things, namely Increasing export competitiveness; Development of non-traditional export markets and market penetration. More clearly, these three strategies can be translated into several programs in order to support export diversification, including export human resource development, export information development, export product development, export market development, and export promotion As previously known, the traditional export markets of Surabaya are the United States, China, Japan and Singapore. So to diversify the market, the expansion of the export market of Surabaya is carried out in Laos, Myanmar, Vietnam, Germany, Cambodia, Saudi Arabia, and the United Kingdom.

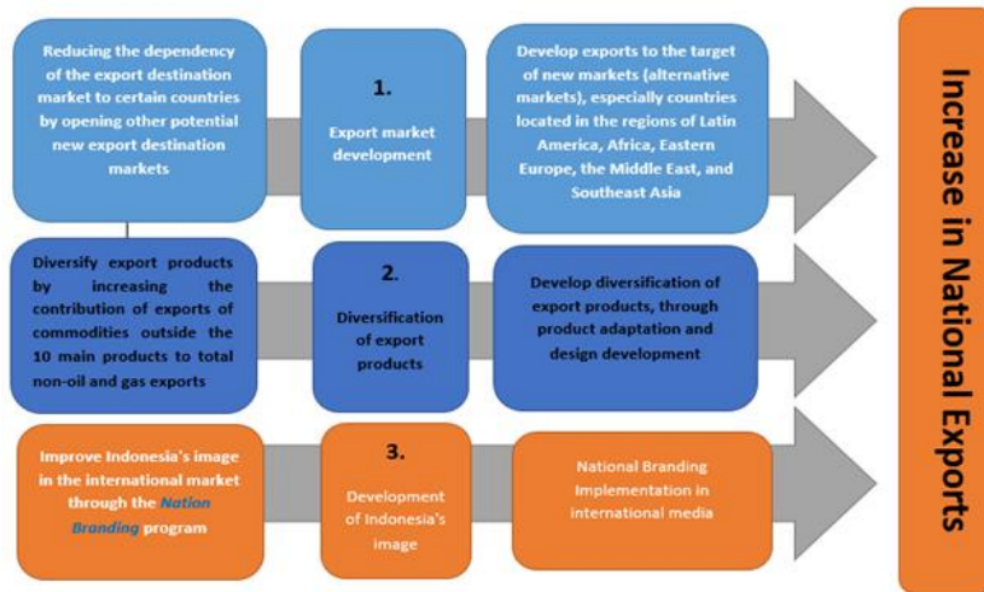


Figure 6. Indonesian Export Development Strategy

Source: Ministry of Trade Republik of Indonesia, PENS, 2015

17

## CONCLUSION

Based on the results of the analysis and discussion described earlier, some conclusions in this activity are as follows: 1. Based on Bank Indonesia data records, trading activities in the city of Surabaya are reflected in the value of non-oil and gas exports, which are quite good. The trade performance of Surabaya City during 2016 showed a Positive performance, which means that the export value of Surabaya City was higher than the performance of its imports, namely a surplus of the US \$ 3.1 million. 2. Based on the region of origin and destination of Surabaya's non-oil and gas import and export, during 2016 the non-oil and gas exports of Surabaya City were mostly to the counties of the Asian region of 64.98% of the total exports of Surabaya City in 2016. The purpose of the majority of Surabaya's non-oil and gas exports subsequently was counties in Europe and the United States. 3. Based on the results of the analysis, the traditional export markets of Surabaya are the United States, China, Japan, and Singapore. So to diversify the market, the expansion of the export market of Surabaya is carried out in Laos, Myanmar, Vietnam, Germany, Cambodia, Saudi Arabia, and Britain. 4. Surabaya City has a number of industry-based export potential products.

## CONCLUSION AND RECOMMENDATIONS

The development of non-oil and gas exports, both goods and services, is basically a short-term mainstay for economic recovery and is a medium to long-term priority to continuously spur national economic growth, especially for the city of Surabaya itself, through increasing foreign exchange earnings, expanding employment, and utilization of domestic resources. In this regard, to increase the export of Surabaya, the policies and steps taken are prioritized to expand the export market to market proposals by intensifying promotional activities, increasing access to information to the business world, product development, empowering export institutions, strengthening export cooperation and increasing the capacity of exporters to enter the global market. Explicitly, the strategy of increasing the export of Surabaya can be done with 3 things, namely increased export competitiveness, Development of Non-traditional export markets and Market penetration. More clearly, the three strategies can be translated into several programs in order to support export diversification, including the development of export resources, development of export information, development of export products; development of export markets and export promotion.

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