

Export Import Performance Related to Economic Openness of Surabaya

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Submission date: 21-Jun-2020 08:20PM (UTC-0700)

Submission ID: 1347768897

File name: ICABE_2018_CONF_PROCEEDINGS_-_Copy.pdf (15.7M)

Word count: 3662

Character count: 19216



Conference Proceedings
Jakarta Indonesia, ICABE 2018

International Conference on
Applied Business and
Economics

Volume of Proceeding
14th ICABE 2018

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Export Import Performance Related to Economic Openness of Surabaya

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Abstract:

Trade (export and import) is one of the keys to a country's economic growth. History proves that the openness of the economy can be a stimulator to further drive the wheels of the economy.

However, in the period 2009-2014, Surabaya displayed a contradictory pattern based on the ratio of economic openness measured by the ratio of total trade (export and import) to Gross Domestic Product (GDP) showing that the city of Surabaya has a very high economic openness.

While it has a very high level of economic openness, its economic growth is still positive recorded. This fact indicates that Surabaya still faces some challenges and barriers of export performance linked to economic openness.

Keywords: Import export, economic openness, Surabaya city.

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1. Introduction

Based on economic theory, trade (exports and imports) represent one of the keys to a country's economic growth, in addition to consumption, investment, and government spending. Historically, economic growth in developing countries is strongly supported by the export growth that these countries control, and the share of world exports. In 2013, China was the largest exporter with a market share of 11.7% in the world, followed by the United States at 8.4% in the world and Germany at 7.7% in the world (WTO.2015). The results of a research conducted by Tambunan (2001), Febryani, Anita and Zulfadin, Rahadian (2003) also indicates the important role of exports in economic growth and job creation.

Table 1: Countries with World's Highest Export Rank

(Billion dollars and percentage)				
Rank	Exporters	Value	Share	Rank

1	China	2209	11,7	1
2	United States	1580	8,4	2
3	Germany	1453	7,7	3
4	Japan	715	3,8	4
5	Netherlands	672	3,6	5
6	France	580	3,1	6
7	Korea, Republic of	560	3,0	7
8	United Kingdom	542	2,9	
9	Hong Kong, China	536	2,8	8
	domestic exports	20	0,1	9
	re-exports	516	2,7	
10	Russian Federation	523	2,8	10
a Imports are valued F.O.B.				
b Secretariat estimates.				
c Includes significant re-exports or imports for re-export.				
Note: For annual data 2003-2013, see Appendix A6 and A7				

Source: WTO.2015.

¹ In line with this, the Indonesian government also considers exports as one of the locomotives of Indonesia's economic growth. Data taken from Indonesian Statistics shows that exports of goods and services contribute as the second largest for economic growth after private consumption with donations between 23% -24% in the period of 2010-2014 as shown in table 1. Each year the government sets export growth targets in support of economic growth and employment creation. Following the pattern of world and national trade, the pattern of trade in Surabaya also shows a similar trend, with as quite large contribution of the export sector because it is a city of commerce.

¹ In 2013 the export value of Surabaya City was 17,545,307,329 (\$ US) which decreased to 15,448,541,332 (\$ US) in 2012 and then decreased again to 14,898,848,075 (\$ US). This development is inversely proportional to the increasing value of imports. In 2011, the import value of Surabaya was recorded at 15,972,249,647 (\$ US), rising in 2012 to US \$ 16,852,596,453 and increasing again in 2013 to 17,303,578,574 (\$ US).

Table 2. Export and Import of Non-Oil and Gas Surabaya City Year 2010 - 2014

YEAR	EXPORT		IMPORT		NET EXPORT
	VALUE (\$US)	VOLUME (Kg)	VALUE (\$US)	VOLUME (Kg)	
2010	13.836.717.677	8.211.419.466	11.752.804.631	16.609.465.882	2.083.913.046
2011	17.545.307.329	8.887.677.109	15.972.249.647	20.104.905.597	1.573.057.682
2012	15.448.541.322	8.152.459.649	16.852.596.453	21.081.663.995	(1.404.055.131)
2013	14.898.848.075	9.189.492.175	17.303.578.574	20.401.896.881	(2.404.730.499)
2014*	18.022.413.011	10.069.522.465	17.056.615.375	21.870.011.067	965.797.636

Source: Indonesia Bank, 2015.

Based on the above conditions, a thorough evaluation of export and import performance in Surabaya City is required. It is expected that after the export performance, the pattern of intervention will be formulated by the Government especially related to the increase of the trade rate through import-export. Therefore, in the future, it can encourage the economic growth of the region, which is considered high enough in order to increase the people's prosperity.

2. Literature review

Several researchers have conducted the analysis of export-import performance evaluation related to economic openness. A study conducted by Mohamed Fenira (2015) entitled "*Trade Openness and Growth in Developing Countries: An Analysis of the Relationship After Comparing Trade Indicators*" asserts that liberalization of trade policies has weakly contributed to boosting economic growth in 82 developing countries. The assertion made by the comparative analysis of trade index order to prove that the ratio of trade ($X + M / GDP$), which is used as the main variable in the model, have a weak correlation to the three indices of trade openness either applied by Sachs and Warner (1995), Dollar and Kraay (2002) and Wacziarg and Welch (2003). Ultimately, this study found the fact that economic growth in developing countries could be driven from a positive relationship between government aid and economic openness itself.

In the regional framework, Surabaya City is the second largest city in Indonesia with an impressive economic development. The economic growth of Surabaya City has a higher value compared to East Java Province and in national scale for the last five years (2010-2015 *). In 2014 the economic growth of Surabaya City is of 7.02%, higher than East Java with 5.86% economic growth and 5.02% in Indonesia. In general, good economic development in Surabaya City is more supported by Household consumption. Thus, the focus of government policy should also consider the factor of public consumption. In addition, Gross Fixed Capital Formation as well as Export of Goods and Services also support the formation of GRDP. In 2013 the amount of household expenditure based on constant price in 2010 is Rp. 73,406.24 billion rupiah, while for Formation of Gross Fixed Capital is Rp. 22,151.69 billion.

Based on the ratio of economic openness as measured by the ratio of total trade (export and import) to Gross Domestic Product (GDP), Surabaya has a very high economic openness. An economy is very open when the openness ratio is 30% or more, since it shows that the exports and imports of goods/services account for 30% or more of the aggregate production (Martha, 2012). Based on Table 6 below, the ratio of Surabaya's economic openness is even above 100% in the period of 2009 to 2014. In 2014 the city openness ratio is 138.797 percent indicating that the share of exports and imports is 138.797% of total aggregate production.

3. Methodology

The analytical technique used to measure the Index of degrees of openness (economic openness) is the ratio of total trade (export and import) to Gross Domestic Product (GDP) (Sjamsul Arifin, Winantyo, R., Yati Kurniati, 2007). In theory, from economic openness benefit all countries involved. The advantages of trade openness include the opening of wider market access, achieving higher levels of efficiency and economic competitiveness, and greater employment opportunities (Purwanto, 2011). Here is the measurement formula index for the degree of economic openness. Embracing an open economic system, import-export activities in Surabaya become one of the important factors to support growth. The current performance of Surabaya's trade balance continues to show improvement despite the negative performance 2 years ago in trade balance. This is in line with declining demand of export destination countries as the impact of slowing economic growth.

Table 3. Degree of Surabaya Openness

YEARS	EKSPORT	IMPORT	GRDP	Degree of Openness
	VALUE (\$US)	VALUE (\$US)	At Current Market Prices (billion)	(Export and Import)/GRDP*
2009	10.595.003.087	8.791.237.324	178.558,97	144,453
2010	13.836.717.677	11.752.804.631	205.161,47	165,952
2011	17.545.307.329	15.972.249.647	235.034,30	189,739
2012	15.448.541.322	16.852.596.453	264.335,62	162,584
2013	14.898.848.075	17.303.578.574	302.756,07	141,518
2014	18.022.413.011	17.056.615.375	336.266,12	138,797

Source: * Exchange Rate Assumption 1 USD = Rp. 13305.00 (June 2015). Bank Indonesia and Central of Statistical Board are processed 2015.

Furthermore, the ratio of economic openness based on inter-provincial import export shows that Surabaya also shows an open economy with ratio above 30 percent. The openness of Surabaya city from 2010 to 2012 shows the steady trend in 2010 by 35.76585972 percent, then it has increased to 36.73022433 percent in 2011 and to 42.03850398 percent.

Table 4. Degree of Openness Among Provinces of Surabaya

Year	EKSPORT	IMPORT	GRDP	Degree of Openness
	Value (Million Rp)	Value (Million Rp)	At Current Market Prices (Million Rp)	(Export and Import)/GRDP*
2010	37.114.707	36.263.056	205.161.469,71	35,76585972
2011	47.332.249	38.996.376	235.034.299,43	36,73022433
2012	66.245.040	44.877.700	264.335.620,00	42,03850398

Source: Central of Statistical Board of Surabaya City, 2014.

However, the openness ratio of Surabaya City compare to other districts/cities is below 30 percent. The openness ratio of Surabaya is 8.644458204 percent in 2010, 9.236527946 percent in 2011 and 10.63792263 percent in 2012. This shows that the portion of exports and imports of Surabaya City with other regencies/cities has small value to total aggregate production.

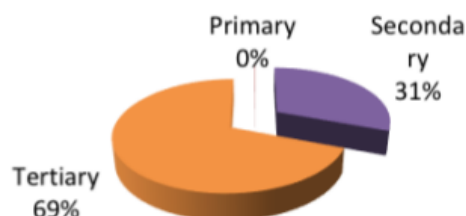
Table 5. Degree of Openness Among Cities of Surabaya

YEAR	EKSPORT	IMPORT	GRDP	Degree of Openness
	Value (Million Rp)	Value (Million Rp)	At Current Market Prices (Million Rp)	(Export+ Import)/ GRDP*
2010	6.477.286	11.257.812	205.161.469,71	8,644458204
2011	8.736.213	12.972.796	235.034.299,43	9,236527946
2012	12.973.571	15.146.248	264.335.620,00	10,63792263

Source: Central of Statistical Board of Surabaya City, 2014.

In general, economic openness of Surabaya City both with foreign and inter-provincial is very open. This level of economic openness of Surabaya City is supposed to be a factor that stimulates economic growth consistently. The positive impact of this economic openness is evident from the rapidly growing role of tertiary sector (services) especially large trade, transportation of communication and social services. Even in 2014, the role of tertiary sector (trade, hotel and restaurant, transportation and communications, finance, leasing & financial services and services) reached 69.32% of total Surabaya PDRB.

Figure 1. Contribution to sectoral Surabaya GRDP at current market prices 2014.



Source: Central of Statistical Board, 2015.

Thus, the government's policy to implement various international trade policies aimed at increasing the value of trade openness by opening the widest space for inter-state trade traffic is the right step to be carried out by Surabaya. This is important because the trade openness has a huge impact on the efforts to increase better and faster economic growth. Export and import policies with a productive system is considered possible to spur economic growth and catch up from developing countries. Socialization of government regulations in the field of inter-state trade is necessary, in which the community/international trade actors to fully

understand the government issued regulations. These conditions allow business actors to determine the appropriate business field to be done that long-term trade openness can continue to drive economic growth.

4. Result and Discussion

Surabaya has a strategic geographical position in which the economic structure is dominated by industry, trade and services activities. Surabaya city has an international airport that can be reached in approximately 45 minutes from the city center and seaport that connects inter-island in Indonesia, including foreign countries. The condition of infrastructure of existing road network in Surabaya city is sufficient, especially in supporting the movement of goods and people, hence, it is able to support economic activities of society and region either in framework of Gerbangkertosusila Plus, Surabaya Metropolitan Area and EJIIZ (East Java Integrated Industrial Zone).

Fluctuating Export and Import growth in Surabaya. The data in Table xx below indicates that export and import growth are much more volatile than economic growth. During the period of 2001- 2011, the range between the highest and lowest growth rates was very big. The highest growth rate of exports was reached in 2010 at 30.60% per year, while the lowest growth rate was in 2012, i.e., -11.95%. Thus, the range (average) between export growth rates is 12.57% per year.

The same pattern is also visible on the import side. The highest growth rate of imports was achieved in 2011 which was 35.90% per year, while the lowest growth rate was in 2014, i.e. -1.43%. Thus, the range between import growth rate (Average) is 15.27% per year. The fluctuations in export and import growth are feared to have an impact on the stability of economic growth. In contrast, economic growth in Surabaya City was relatively stable at 7 percent in the same year period (2010-2014).

The Low Value of Net Exports

During the period 2011-2014 the average value of Surabaya net exports was very small compared to the total GDP inflation. This shows that the average quantity of exports was almost as big as the quantity of imports. The highest net exports reached in 2011 were 6.01% of real GDP, while the lowest was in 2014 with 1.88% of the real GDP. This low portion of exports is feared to have reduced the ability of trade as a stimulating factor for Surabaya's economic growth.

Negative impact may arise if Surabaya not being able to increase its net exports. This is the weakening of the industry in Surabaya, along with the era of free trade that has been widely applied now, which will have impact on changing potential into consumption. The reason is that people's need for goods will always be present, and the levels will always increase-and must be improved-over time. Therefore, if these

needs cannot be met by the nation itself, it leads the country becomes a country is the that buys from other nations.

Table 6. Net Surabaya export (Billion Rp)

	2011	2012	2013	2014
Export of Goods and Services (Billion Rp)	60.810,83	63.230,12	66.765,69	71.323,56
Import of Goods and Services (Billion Rp)	56.133,74	58.305,49	63.944,93	69.124,50
Net Export (Billion Rp)	5.677,09	4.924,63	2.820,76	2.199,06
% Net Export/ GRDP				

Source: Central of Statistical Board and Development Panning Board of Surabaya City, 2015.

Increased Dependence on Exporting Countries for Manufacturing Goods:

Being a consumptive country, which is also an importing country, will bring to another more dangerous impact, it is the dependence on other nations. Logically, the weakening of the manufacturing industry will align parallel with the increase in imports of production goods, if indeed the needs of society will not be sacrificed. This is evident in Surabaya's trade balance (Figure xx) where import values consistently continue to increase during the period of 2011-2014.

Decreased Employment Absorption Rate:

The last impact, and the most populist in the society is related to the absorption of labor. Logically, the decline in the number of industries, both small and large, has an impact on the decrease in employment opportunities for the community. The manufacturing industry is the largest formal absorber of labor, and the declining role of the manufacturing sector has resulted in more formal sector workers.

In recent years, the percentage of workers in the manufacturing industry has decreased, from 26.69 percent in 2010 to 14.90 percent in 2014. This is the cause of the decline in the absorption of formal sector employment. In fact, the decline in the labor force also occurs in almost all sectors. The total absorption of manpower in 2010 was 1,245,542, increased to 12.5% in the following year by 1,401,193, and subsequently decreased to 1,347,680 in 2012. Furthermore, the number of working-class workers in 2013 was 1,395,604 or increased by 3, 56% while in 2014 was 1,380,156

5. Conclusion

Based on the previous description, four major challenges related to economic openness and analysis of the challenge that have been analyzed are presented. Basically, there are some factors that become the main barriers related to

export performance, they are: (1). Decrease of production level in manufacturing industry; (2). Declining competitiveness that causes the drop of strategic industries; (3). Low Diversified Export Products; (4). High adequacy on imported input materials; (5). Infrastructure Problems; (6). Limitations of Tanjung Perak port capacity; (7). Difficulties faced by Micro Small Medium Enterprises (MSMEs) in obtaining credit.

It has been described that processing industry's trend in the city of Surabaya continues to decline. This of course will have an impact on the decline in the production levels. There are many factors that cause the decline. In addition to its declining competitiveness due to the rising wages, it is also due to the growing tertiary sector in this city. Growth of trade, hotel and restaurant sector; transport and Communications; finance; leasing & financial services and services continue to soar that the more dominant role in the formation of PDRB Surabaya.

Based on the ratio of economic openness as measured by the ratio of total trade (export and import) to Gross Domestic Product (GDP), Surabaya has a very high economic openness. This economic imbalance benefits all countries involved. The advantages of trade openness include the opening of wider market access, achieving higher levels of efficiency and economic competitiveness, as well as greater employment opportunities.

However, what happened in Surabaya during the period of 2009-2014 shows contradictory pattern where the degree of economic openness of Surabaya City tends to decrease every year, but its economic growth although depressed still recorded growth condition. This indicates that Surabaya still faces challenges and barriers to export performance that must deal with its economic openness. Specifically, the policies that can be taken by the Surabaya City Government to increase the value of trade openness are as follows:

1. Promote trading sector as a stimulant for other economic activities;
2. Develop creative industries;
3. Recover investment in manufacturing sector;
4. Give protection on intellectual rights on local products;
5. Perform infrastructure development to encourage smoothness of goods distribution;
6. Perform Cooperation with stakeholders in field of Export – Import;
7. Perform studies and coordination to central policy which inhibit development of export import by giving formulation of policy solution to be applied, both in local and national level.

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PAGE 1

PAGE 2

PAGE 3

PAGE 4

PAGE 5

PAGE 6

PAGE 7

PAGE 8

PAGE 9

PAGE 10
