

The impact and prospects of trade between South Sumatera and China

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Abstract

Trade relations between South Sumatera and China began as far back as 800 AD, during the period of the Sriwijaya Kingdom, known as South Sumatera's ancient city. To this day, South Sumatera has continued that trade relationship, even during the years when relations between Indonesia and China had been restricted by the Indonesian government for political reasons.

Globalization and the thrust toward decentralization are pushing South Sumatera to improve its international trade performance in a bid to increase provincial revenue. Statistics show an increase of as much as 67 percent in South Sumatera's exports for the period 2002-2004. China's contribution to that increase is 35.8 percent in 2002, rising to 42.9 percent in 2004. The major commodities being exported to China are rubber, plywood, crude kernel palm oil, and refined bleached deodorized (RBD) palm stearin. South Sumatera's imports from China during the same period also show an increase of about 28 percent.

This paper analyses the impact and prospects of South Sumateran trade with China. It is hoped that the increasing export to China would stimulate local economic activities, such as increasing the number of various commodities, labor absorption, and local and foreign investment, to boost the province's economic growth and improve revenue. On the other hand, the increase in importation from China can be a threat to local industries in South Sumatera in terms of the amount of production and labor absorption.

JEL classification: F14, F59

Keywords: Export, import, labor absorption

I. Introduction

South Sumatera, a province in the island of Sumatera, Indonesia, already had well-established trade relationships with other Asian territories, including China, as far back as 800 AD, during the time of the Sriwijaya Kingdom in the ancient city of South Sumatera. Among the commodities then of interest to China were spices such as pepper and cloves, aloe wood, sandalwood, tin, gold, and rubber. In

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exchange, China sold porcelain, cotton textile, and silk to the Sriwijaya Kingdom [South Sumatera Government 1994]. In an attempt to maintain an exclusive trading partnership with China, the Sriwijaya Kingdom resorted to various tactics, such as bribing Chinese traders [Department of Education of South Sumatera 2002]. Unfortunately, no available data offer clearer details on the trading relationship between South Sumatera and China at the time. For some years, political reasons restricted relations between Indonesia and China, which in turn affected the trading relationship between South Sumatera and China, since the province was not allowed to trade directly with China during the time.

The increasing importance of China's role in the world economy has become a challenge to many countries, especially in Asia. According to Yin [2004], China is now one of the largest economies in the world. By opening itself gradually to international trade, the Chinese domestic market has succeeded in becoming one of the most important markets in the world. Many East Asian economies consider China their most important trading partner [Yin 2004]. With its fast-growing gross domestic product (GDP) and highly diverse and labor-intensive products, China must be considered a priority destination for investment, especially for the Association of Southeast Asian Nations (ASEAN) member countries such as Indonesia.

Government Law 32 (2004), which mandates decentralization in Indonesia, is pushing the various provinces to optimize their performance to increase their revenue. Among the strategies available to them is increasing their export and investment performances. However, with the development of potential competitors such as China, these strategies are not as easy to undertake. Every region in Indonesia needs to improve its performance to compete in the world market. These regions must identify their leading sectors or commodities that can compete in the local and international markets.

This paper's main objective is to describe and analyse the impact and prospects of trade between South Sumatera and China. It is hoped that increasing export to China would stimulate local economic activities with a view to spurring economic growth and improving revenue. On the other hand, increased importation from China can threaten local industries in South Sumatera in terms of the amount of production and labor absorption.

2. South Sumatera's economic growth

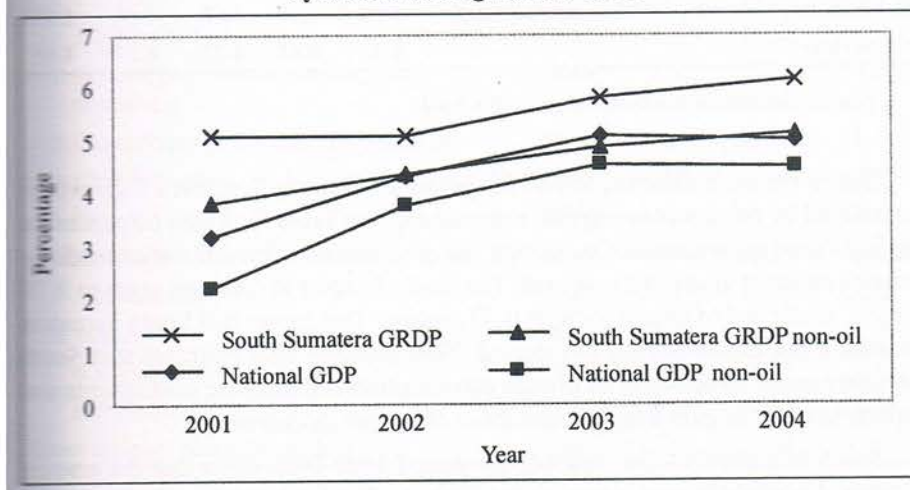
The economic growth of South Sumatera will be described using the gross regional domestic product (GRDP). Based on the GRDP for the period 2000-2004, South Sumatera's economic growth, on average, is 4.4 percent for oil industries and 3.4 percent for non-oil industries. This growth rate is lower than the national economic growth rate, which is 4.6 percent for oil industries and 5.6 percent for non-oil industries (see Table 1 and Figure 1).

Table 1. GRDP growth rate of South Sumatera at constant 1993 prices, by industrial region, 2000-2004

<i>Industrial origin</i>	2001	2002	2003	2004
1. Agriculture, livestock, forestry and fishery	2.39	4.49	4.69	4.45
2. Mining and quarrying	(1.73)	0.64	1.95	1.95
3. Manufacturing industry	1.74	3.70	4.64	5.41
4. Electricity, gas and water supply	(1.31)	2.13	1.80	3.49
5. Construction	5.00	5.82	6.69	7.95
6. Trade, hotel and restaurant	4.50	4.90	5.24	6.94
7. Transport and communication	4.84	5.86	7.65	8.55
8. Financial, ownership and business services	2.81	4.05	5.25	7.13
9. Services	2.43	2.74	3.18	4.06
Gross regional domestic product	3.20	4.33	5.10	5.00
Gross regional domestic product non-oil gas	2.21	3.76	4.52	4.50
Gross regional domestic product of Indonesia	3.83	4.38	4.88	5.13
Gross regional domestic product non-oil gas of Indonesia	5.11	5.09	5.80	6.17

Source: Statistics of South Sumatera, 2000-2003.
Gross domestic product of Indonesia 2000-2003, Centre of Statistics Bureau.

Figure 1. Economic growth of South Sumatera and Indonesia by industrial origin, 2000-2004



Sectors that have growth rates higher than the total average rate are construction, trade, hotel and restaurant, transportation and communications, finance, and manufacturing. The growth of these sectors is connected with the recovery effort after the economic crisis that hit Indonesia, especially South Sumatera. Nevertheless, except for manufacturing and trade, these sectors have not yet contributed much to the GRDP. During the period being observed, the three sectors that contributed much to the GRDP are the industrial, agriculture, and trade sectors, averaging 25 percent, 24 percent, and 23 percent, respectively (see Table 2). The contribution of the industrial sector is also relatively higher than that of the agriculture sector, which is quite ironic for South Sumatera, given its abundant agricultural and natural resources. One reason for this is related to productivity. In some cases, productivity in the agriculture sector tends to be lower because of the quantity and quality of production factors, the quality of human resources, and the channels of distribution.

**Table 2. Contribution of South Sumatera's GRDP
at constant 1993 prices, by industrial origin 2000-2004**

<i>Industrial origin</i>	2000	2001	2002	2003	2004
1. Agriculture, livestock, forestry and fishery	25.04	24.84	24.88	24.78	24.66
2. Mining and quarrying	17.12	16.46	15.96	15.57	13.21
3. Manufacturing industry	25.75	25.39	25.23	25.12	26.75
4. Electricity, gas and water supply	1.10	1.08	1.11	1.13	0.95
5. Construction	6.93	7.05	7.15	7.26	7.09
6. Trade, hotel and restaurant	23.05	23.34	23.46	23.50	21.33
7. Transport and communication	6.33	6.43	6.52	6.68	7.41
8. Financial, ownership and business services	4.69	4.67	4.65	4.66	5.03
9. Services	8.52	8.45	8.32	8.17	8.05

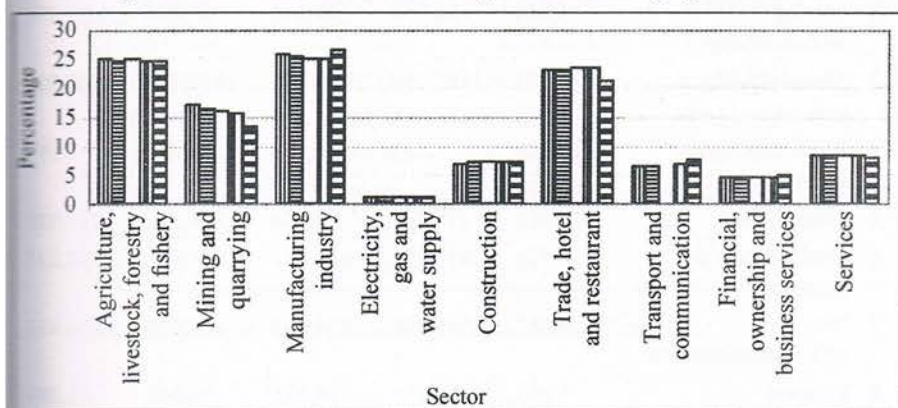
Source: Statistic of South Sumatera, 2000-2004.

Based on expenditures, about 65 percent of South Sumatera's growth is determined by private consumption expenditure (see Table 3). About 60 percent of this is for food expenditures. On average, the contribution of investment expenditure remains constant at about 21 percent. The ratio of export to GRDP on average is 29 percent, while that of import to GRDP is 27 percent. This means that South Sumatera retained a net export during this period. This situation also indicates that South Sumatera needs to decrease its private consumption and increase investments and exports in order to gain a higher multiplier effect for its economy.

South Sumatera's labor statistics for period 1999-2003 show that the amount of labor absorbed tends to increase (see Table 4). The highest labor absorption (as much as 65 percent of the total) is in the agriculture sector. The labor absorption in

the industrial sector, which contributes a higher added value than the agriculture sector, is only 5 percent. The trade sector has a higher rate of labor absorption than the industrial sector. This indicates that the industrial sector tends to be capital intensive.

Figure 2. Distribution of GRDP by industrial origin, 2000-2004



Source: Statistics of South Sumatera, 2000-2004.

Table 3. Distribution of gross domestic regional product of South Sumatera at constant 1993 market prices 2000-2003 (percent)

Type of expenditure	2000	2001	2002	2003
1. Private consumption expenditure	65.14	65.48	65.66	65.40
1.1. Food	39.73	38.95	39.34	38.89
1.2. Nonfood	25.41	26.53	26.32	26.51
2. General government consumption expenditure	8.45	8.72	9.28	9.31
3. Gross domestic fixed capital formation	21.00	21.14	21.36	21.48
4. Change in stock	(2.81)	(0.70)	0.66	0.37
5. Export	30.64	30.64	29.49	28.88
5.1. International	10.38	10.38	10.29	10.35
5.2. National	20.25	20.25	19.20	18.53
6. Import	26.71	26.71	27.87	26.80
6.1. International	4.86	4.86	5.07	5.42
6.2. National	21.85	21.85	22.79	21.38
Gross regional domestic product	100.00	100.00	100.00	100.00

Source: Statistics of South Sumatera, 2000-2003.

Table 4. South Sumatera's working population aged ten years and above classified by main industry, 1999-2003

No	Main industry	Years				
		1999	2000	2001	2002	2003
1	Agriculture	1,850,583	1,995,550	1,954,526	2,067,550	1,877,049
2	Mining and quarrying	75,854	56,968	97,518	16,888	22,274
3	Manufacturing industry	185,175	180,969	176,859	132,392	130,708
4	Electricity, gas and water	10,436	5,591	3,460	4,278	2,695
5	Construction	116,981	117,809	89,264	104,536	115,824
6	Trade, hotels and restaurants	520,570	455,231	414,037	417,932	358,237
7	Transport and communication	126,657	151,826	104,462	104,439	104,416
8	Finance, insurance, realestate	16,043	23,935	16,735	25,041	12,274
9	Public service	330,330	278,845	262,122	229,469	207,292
10	Other	2,176	1,703	1,229	828	1,164
	TOTAL	3,234,805	3,268,427	3,120,212	3,103,353	2,831,933

Source: Statistic of South Sumatera, 1999-2003.

3. South Sumatera's trade performance

South Sumatera's trade performance can be seen in its export and import performances. Table 5 shows the value of South Sumateran exports to seven destination countries during the period 2002-2004. In total, there has been an increasing export trend at a rate of as much as 67 percent in the last three years. The biggest contribution comes from China—as much as 35.8 percent in 2002 and 42.9 percent in 2004. On average, 39 percent of South Sumatera's total exports go to China. The major commodities sold to China are plywood, crude palm kernel oil, and rubber (see Table 6).

The South Sumateran import performance can be seen in its imported commodities and import-countries. Based on 1999-2002 data (see Table 7), we see that the major imported commodities are nuclear reactors, boilers, and mechanical appliances; iron and steel; and organic chemicals. These commodities are imported mostly from Asia. The five countries/regions that contributed highly to the non-oil imports of South Sumatera are the United States, Asia, China, Australia and Oceania, and Europe (see Table 8).

Table 5. South Sumatera non-oil export based on seven destination countries 2002-2004 (in US\$)

<i>Country</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
Vietnam	2,905,627	31,225,344	7,893,220
Thailand	2,678,222	2,258,913	8,878,629
Singapore	72,885,053	110,861,049	96,675,823
Philippines	3,024,953	7,897,197	4,553,932
Malaysia	25,550,725	22,506,668	52,890,823
India	46,534,264	54,637,325	57,252,644
China	85,542,059	135,140,674	171,268,121
Total	239,120,903	364,527,170	399,413,192

Source: Statistics of South Sumatera Export and Import, 2002-2004.

Table 6. Five major South Sumatera export commodities to China (value in US\$ and % to its total export)

<i>Commodity</i>	<i>2002</i>	<i>%</i>	<i>2003</i>	<i>%</i>	<i>2004</i>	<i>%</i>
Plywood	18,298,986	0.21	18,654,443	0.14	18,768,736	0.11
RBD palm stearin	10,740,900	0.13	29,849,655	0.22	35,994,019	0.21
Rubber SIR 20	4,879,449	0.06	19,083,001	0.14	37,810,234	0.22
Crude palm kernel oil	3,474,623	0.04	5,691,668	0.04	7,695,750	0.04
Rubber RSS1	565,500	0.01	25,101,870	0.19	45,831,814	0.27

Source: Statistics of South Sumatera Export and Import, 2002-2004.

Table 7. Five major import commodities of South Sumatera 1999-2002

<i>Year</i>	<i>Commodity</i>	<i>Value(US\$)</i>	<i>Percentage</i>
1999	Nuclear reactors, boilers, mech. appliances	340,259,102	48.92
	Articles of iron and steel	80,803,924	11.62
	Cereals	64,602,242	9.29
	Sugar and sugars confectionery	14,646,877	2.11
	Plastics and articles thereof	11,279,227	1.62
	Total	695,477,910	

Table 7. Five major import commodities of South Sumatera 1999-2002
(continued)

<i>Year</i>	<i>Commodities</i>	<i>Value (US\$)</i>	<i>Percentage</i>
2000	Nuclear reactors, boilers, mech. appliances	69,392,546	28.26
	Inorganic chemicals	20,243,227	8.24
	Cereals	20,184,370	8.22
	Organic chemicals	19,398,163	7.90
	Mineral fuels, mineral oil product	15,592,269	6.35
Total		245,530,409	
2001	Nuclear reactors, boilers, mech. appliances	32,737,967	29.17
	Articles of iron and steel	19,349,026	17.24
	Articles photographic, medical instruments	6,706,377	5.98
	Salt, sulphur, earths and stones	6,116,777	5.45
	Fertilizer	5,579,210	4.97
Total		112,215,717	
2002	Nuclear reactors, boilers, mech. appliances	52,364,803	38.75
	Articles of iron and steel	19,986,188	14.79
	Organic chemicals	13,403,695	9.92
	Sugar and sugars confectionery	8,734,947	6.46
	Fertilizer	6,645,874	4.92
	Miscellaneous chemical products	6,119,817	4.53
Total		135,149,477	

Source: South Sumatera in Figures, 1999-2002.

Table 8. Non-oil import by countries of South Sumatera
2000-2004 (thousand US\$)

<i>Countries</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
America	31,843	1,004	25,305	5,498	13,077
Asia	124,813	76,749	103,530	4,655	87,274
RRC	4,455	2,654	1,798	2,377	60,418
Australia and Oceania	3,540	1,937	6,717	5,791	5,120
Europe	19,185	10,299	15,047	3,654	13,367

Source: Statistics of Export and Import of South Sumatera.

On average, import from Asia has the highest value, although it exhibited a decreasing trend during the observed period. Until 2003, China's import value was only 2-5 percent of the total import value; however, there was an amazing increase of 33 percent in 2004. The major non-oil commodities imported from China are classified as support materials/goods and consumption goods, such as articles of iron and steel, textile, ceramic products, footwear, and glass and glassware. Indonesia, on the other hand, has five major import commodities from China: crude petroleum oil, refined petroleum products, telecommunication equipment, ingot and other iron steel goods, and metallic salts and peroxy salts.

Based on the above explanation, it can be concluded that China is an important trading country for South Sumatera. The export-import ratio (see Table 9) shows that South Sumatera still gains from its trade with China. This can encourage South Sumatera to increase its production of commodities that are in demand in the Chinese and world markets. However, caution must be exercised since the import rate shows a rising trend.

Table 9. Balance of trade of South Sumatera and China
(thousand US\$)

<i>Year</i>	<i>Export</i>	<i>Import</i>	<i>Export/Import</i>
1999	26,676	1,256	21.24
2000	35,679	4,455	8.01
2001	40,914	2,654	15.42
2002	85,542	1,798	47.58
2003	135,094	2,377	56.83
2004	171,268	60,418	2.83

Source: Department of Industry and Trade of South Sumatera.

4. The impact and prospects of trade between South Sumatera and China

As previously explained, some of South Sumatera's export commodities are classified as agro-industrial products. They are exported as raw and semifinished products. This poses a disadvantage for South Sumatera since the exported commodities generate less value than finished products. Basically, the greater demand for these commodities will affect the performance of the agriculture sector, especially the estate corps and forestry sector of South Sumatera. On average, for the period 2000-2004, the contribution of estate corps to the GRDP is 10 percent and the agriculture sector 50 percent, showing an increasing trend. This means that a greater demand for these commodities will increase agriculture's added value and will most probably generate new investments and allow the absorption of more labor in this sector.

South Sumatera has been known as the largest producer of rubber in Indonesia for centuries since the time of the Sriwijaya Kingdom. There are many rubber plantations in South Sumatera, which are owned by individuals, local or domestic firms, and foreign firms. Palm production has recently become a leading activity in South Sumatera's agriculture sector. Palm plantations are owned either by domestic firms and foreign firms (no individual owners). The increasing demand for rubber and palm oil in the Chinese market will increase South Sumatera's export and, ultimately, GRDP. Plywood, on the other hand, has vague prospects, given the scarcity of wood and the government law against logging. These factors will affect the production and export quantity of plywood.

Most of the workers/laborers in the plantations are people who live around the area. Some have been working there for generations. Basically, plantation activities do not require a high level of education, and the need for plantation workers helps reduce unemployment. The presence of these plantations also promotes infrastructure development, specifically roads and public utilities such as local government clinics and other facilities. This means that the increasing demand for rubber and crude palm oil in China will benefit South Sumatera not only by increasing its export revenue, absorbed labor, and income per capita, but also by indirectly stimulating the improvement of public utilities, as well as other multiplier effects.

As mentioned earlier, imported goods from China are classified as support and consumer goods. Some of these commodities, such as iron, cannot yet be produced by South Sumatera. This means that China has good prospects for these. However, there are two things South Sumatera must consider: first, many of the commodities produced by China, such as food and beverages, are not directly imported from China but through Singapore. Tambunan [2004] found that in 2002, Singapore contributed as much as 60.6 percent of Indonesian imports from ASEAN. The development of the industrial sector in South Sumatera is so far dominated by the food and beverage industry. An increasing supply of imported food and beverages (with highly differentiated products) will affect the performance of South Sumatera's food and beverages industry. It may also influence consumption expenditure in South Sumatera. Second, one commodity Indonesia imports from China is crude palm oil, while China buys RBD palm stearin and crude palm kernel oil from South Sumatera. This is an opportunity for South Sumatera to produce more crude palm oil instead of import it.

5. Conclusion

The findings of this paper are as follows: first, South Sumatera's export to and import from China increased during the period 2000-2004, with South Sumatera maintaining a net export. Second, South Sumatera's export commodities to China are dominated by agricultural products, which are classified as raw products. Import commodities from China are classified as consumer goods and supporting goods.

Third, some effects of this trade are the improvement of the agriculture sector's performance, higher labor absorption, improvement of public utilities/infrastructure, and the generation of new investments. Fourth, based on the potency of the agriculture sector, South Sumatera has prospects in exporting some agricultural commodities to China as long as it maintains and improves its competitiveness. On the other hand, China also has a good prospect of selling its products as long as South Sumatera cannot produce these.

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