



TPSA Project Conducts a Capacity-Building Training Program for Indonesian Government Officials on Global Value Chain Analysis

The TPSA Project organized a three-day training seminar designed to increase Indonesian government officials' knowledge of and familiarity with conducting global value chain (GVC) analysis. The seminar will help Indonesian policy-makers identify competitive barriers that inhibit the export success of three strategically important commodities for the Indonesian economy: coffee, apparel, and footwear.

Given the importance of trade to the Indonesian economy, and against the backdrop of slowing global trade volumes in the post-financial crisis period, it is useful to understand Indonesia's participation in global value chains (GVCs) to help inform macroeconomic policy-making. To better understand the GVCs that connect Indonesian exports of three strategically important export commodities (coffee, footwear, and apparel) to Canada, a three-day training workshop was conducted for 24 officials (12 men and 12 women) from the Indonesian Ministry of Trade. The workshop leaders also provided an overview of the logistical, institutional, and regulatory impediments to Indonesian firms seeking to move up the value chain, and worked with participants to develop a set of recommendations aimed at alleviating these barriers.

Background

Indonesia is the world's fourth-most-populous nation and the largest economy in Southeast Asia, making it a major emerging world market. Real GDP has grown by 5.7 per cent annually since 2011—the fourth-fastest growth among the G20 economies. A significant portion of Indonesia's economic development has been driven by trade-related activi-



Day one of the global value chain workshop.

ties. Exports totaled an estimated US\$173 billion in 2015, 82 per cent higher than in 2005, and the country's trade balance over that 10-year period is estimated at a cumulative US\$129 billion. Moreover, trade-related industrial output is a huge source of current employment and foreign exchange for the country.

Although Indonesia is the 30th-largest world exporter of goods and services, it has a significantly stronger footprint in certain goods. For example, the country is in the top 10 for global textile exports,



Participants analyze global value chain data.

and is the fifth-largest exporter of apparel and textiles to the U.S. market after China, Vietnam, India, and Bangladesh. Similarly, Indonesia is the world's fifth-largest producer of footwear, with an estimated 660 million pairs produced in 2015, most destined for foreign markets. Indonesia accounts for 5 per cent of global footwear product exports. Relatively low wages, readily available land, and high-quality work have offered a comparative advantage for Indonesia over time in consumer-oriented manufactured products like apparel and footwear, and have also resulted in growing integration between Indonesia and major consumer markets like those in North America.

Another area where Indonesia is heavily integrated with global supply chains is in agricultural products. Indonesia has the world's fourth-largest agricultural sector in terms of output, employing 50 million people in the sector's formal and informal economies. Agricultural production takes up roughly 30 per cent of available land in the country. Although a significant share of staple goods produced by Indonesian farmers is consumed domestically, there are notable agricultural exports of strategic importance to the Canadian economy. Indonesia is the world's fourth-largest coffee bean producer, and between 60 and 70 per cent of production is ultimately destined for foreign markets, making it the world's fourth-largest coffee exporter. Indonesia's geography is well-suited to coffee production, and considerable land area in the country is devoted to this purpose. More than 90 per cent of production comes from an estimated two million small-scale growers spread out across the coun-

try, including many women-owned and household businesses that participate informally in the economy.

Workshop Overview

As part of TPSA's work on GVCs, a three-day course was offered to Ministry of Trade officials focusing on how Indonesia can increase its export success for three key commodities. Day one began with an overview of GVCs, with an emphasis on how analysis of Indonesia's GVCs can help identify areas of non-competitiveness in the country's economy. The first session introduced a methodological approach to GVC analysis and the data sources for the three focus commodities. This was followed by an in-depth analysis of the GVC for coffee and how such analysis can lead to more informed policy-making.

"Indonesia is planning to negotiate free-trade agreements with 28 countries. The skills provided in this workshop will be useful to implement the right policies in order to gain more value along the supply chain."

—WORKSHOP PARTICIPANT
(from feedback survey)

A good comprehension of the export value chain requires a solid understanding of input-output (IO) models. As such, participants were provided with a primer on IO models in general, using the Canadian economy as an example. From there, participants moved on to Indonesian IO tables to determine the key inputs, distribution of income, final demand, and intermediate use for the three focus commodities. These results were then compared with appropriate comparator countries, allowing participants to identify areas where Indonesia could improve efficiency. Participants were given the opportunity to present their findings and participate in a group discussion about the results.

The second day of the workshop began with a primer on value-added trade. Analyzing value-added trade data allowed participants to determine the level of higher value-added activities that are embedded within Indonesian exports,



Participants map out the value chain for coffee.

and how these dynamics have changed over time. Participants were also able to compare the results against key competitors and draw conclusions. This analysis revealed how Indonesia could increase the value of its exports by investing in higher value-added activities. In the afternoon, workshop leaders presented the results of in-country interviews and a literature review on barriers to competitiveness. Participants then formed smaller working groups where they reviewed the identified barriers to competitiveness and highlighted possible solutions. Each then presented their results to the larger group.

The final day of the workshop began with in-depth presentations on the important gender and environmental aspects of GVC analysis, with a focus on how paying attention to these factors can improve Indonesian export success. This was followed by a presentation on the Canadian import market and existing linkages between Canada and Indonesia. This presentation also highlighted the potential barriers for Indonesian producers in the Canadian market and provided recommendations for overcoming them. The training session concluded with a final working group where participants presented achievable solutions for improving Indonesia's participation in the global value chain.

Participant Feedback

Overall satisfaction with the training activity was extremely high: 17 per cent of respondents indicated the training was "excellent," 71 per cent reported "very good," and the remaining 13 per cent called it "good." As well, all participants reported that their knowledge had increased as a result

of their participation in the training, including 63 per cent who reported it had "increased significantly," with the remaining 37 per cent reporting it had "increased to some extent."

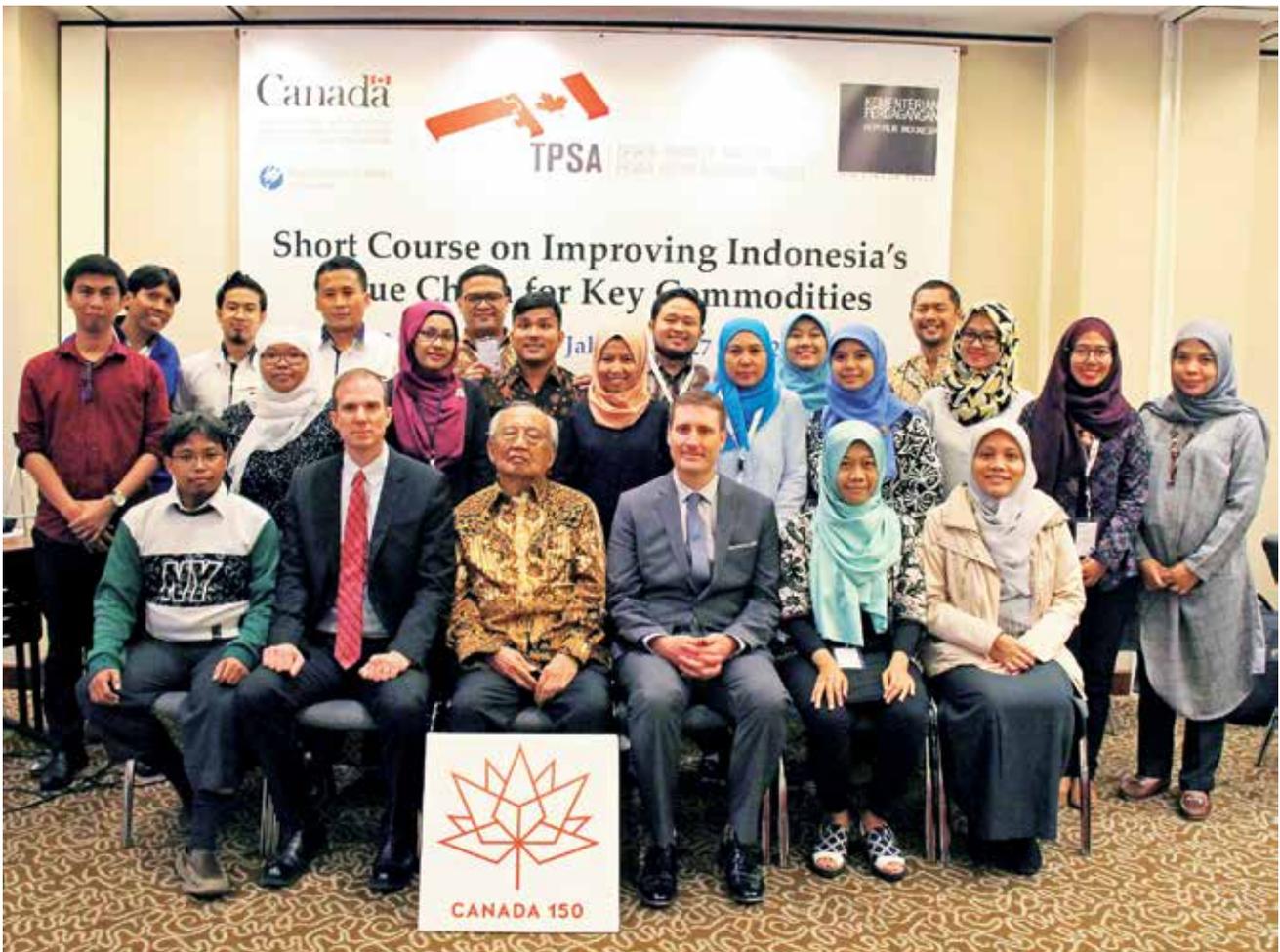
Participant feedback also indicated that the skills learned during the seminar were directly applicable to their day-to-day duties as policy-makers and researchers. Fifty-eight per cent reported that they expect to use their new knowledge and skills "very frequently" or "frequently," with a further 38 per cent suggesting they would use them "occasionally." Furthermore, 96 per cent of seminar participants indicated that their new level of confidence in applying the skills learned was at least "good," with 58 per cent indicating "very good" or "excellent."

"This knowledge will enhance my role at work, especially when we conduct research and formulate policy recommendations for higher-level leaders or the Minister of Trade."

—WORKSHOP PARTICIPANT
(from feedback survey)

Key Outcomes

The Indonesian economy has a successful history of economic development over the past 15 years, and the positive performance of its merchandise goods exports has been a key driver of this trend. However, its current level of integration into global value chains has primarily been the result of relatively low wages in the country, making it an attractive source of low-cost manufactured goods and agricultural products for Canadian and other high-income markets. However, if the country is to maintain its current growth trajectory and avoid the middle-income trap that many emerging markets face along the path to high-income status, a number of key barriers will have to be successfully navigated by policy-makers and other stakeholders in the near term. If these challenges are not addressed, as wages continue to increase, domestic firms will soon find that they are uncompetitive in global markets relative to other countries where productivity is higher or wages are lower, such as Vietnam, Cambodia, or Ethiopia.



Participants celebrate a successful and productive workshop.

The main goal of this training session was to help Indonesian policy-makers and other interested stakeholders identify the barriers to competitiveness for three strategically important export commodities within the Indonesian economy. Specifically, participants were provided with the necessary skills and data sources that policy-makers will need to identify and overcome the main barriers to export success faced by their domestic coffee, apparel, and footwear manufacturing industries.

Many participants in the training sessions insisted that policy-making in Indonesia is too often based on perceptions, political expedience, and anecdotal information. They expressed a strong desire to shift towards a fact- and data-based process, but felt that the capability to do so is currently lacking within the government organizations charged with developing relevant policies on labour laws,

trade regulations, and institutional arrangements that impact Indonesia's export success.

The participants' existing capabilities were augmented with training on best practices for analyzing global value chains by using Indonesian input-output information about production processes across the three commodities, and by comparing these to international benchmarks of other countries further up the economic development ladder. Through this process, participants were able to identify specific areas and activities where Indonesian firms are less efficient than their peers and then develop "made in Indonesia" solutions. Furthermore, participants gained experience in dealing with the relatively new global development concept of trade in value added, which allows policy-makers to precisely determine the share of income the country captures across the entire export chain (including international sourcing of



key material inputs) for the three target commodities. The analysis conducted by participants also revealed the relatively low level of high-value services embedded within their exports as compared to international standards, and helped uncover solutions to the key impediments to moving up the value chain in international trade.

The training provided to participants during this session will go a long way toward helping overcome these deficiencies, particularly if they are instituted on a wide scale in both federal and sub-national governments.

About the TPSA Project

TPSA is a five-year C\$12-million project funded by the Government of Canada through Global Affairs Canada. The project is executed by The Conference Board of Canada, and the primary implementation partner is the Directorate General for National Export Development, Ministry of Trade.

TPSA is designed to provide training, research, and technical assistance to Indonesian government agencies, the private sector—particularly small and medium-sized enterprises (SMEs)—academics, and civil society organizations on trade-related information, trade policy analysis, regulatory reforms, and trade and investment promotion by Canadian, Indonesian, and other experts from public and private organizations.

The overall objective of TPSA is to support higher sustainable economic growth and reduce poverty in Indonesia through increased trade and

trade-enabling investment between Indonesia and Canada. TPSA is intended to increase sustainable and gender-responsive trade and investment opportunities, particularly for Indonesian SMEs, and to increase the use of trade and investment analysis by Indonesian stakeholders for expanded trade and investment partnerships between Indonesia and Canada.

The expected immediate outcomes of TPSA are:

- improved trade and investment information flows between Indonesia and Canada, particularly for the private sector, SMEs, and women entrepreneurs, including trade-related environmental risks and opportunities;
- enhanced private sector business links between Indonesia and Canada, particularly for SMEs;
- strengthened analytical skills and knowledge of Indonesian stakeholders on how to increase trade and investment between Indonesia and Canada;
- improved understanding of regulatory rules and best practices for trade and investment.

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