Penetrating the Asian market: a case study of trade barriers for South African exporters into Indonesia

RECOMMENDATIONS

- South Africa should consider increasing its trade relations with other Asian countries and not focus mainly on China, as there are attractive potential export opportunities in other Asian countries. Indonesia is the fourth most populous country in the world and is a growing market;
- The research finds that while Indonesia is importing raw materials from South Africa and exporting manufactured goods to South Africa, there are high-potential market opportunities for South African manufactured products required by Indonesia that are imported from elsewhere;
- South African exporters should be supported to take advantage of export opportunities available in Indonesia despite the absence of a bilateral trade agreement between the two countries;
- A system that provides relevant information to South African exporters about market access and developments, and that links Indonesian buyers to South African suppliers, would be beneficial;
- There is a need for increased trade (export) support to reduce exporting costs and exports prices, thereby increasing the South Africa's manufactured exports competitiveness; and
- South Africa would benefit from a bilateral trade agreement with Indonesia to allow for improved market access for manufactured goods rather than raw materials, and the government should consider exploring such an agreement.

INTRODUCTION

Since 2007, Asia has been the main trading partner for South Africa, in terms of total merchandised trade. Asia has been an important export market for South Africa's trade-induced industrialisation strategy.* Total merchandised trade** between South Africa and Asia accounted for about 39 percent of South Africa's total global merchandised trade in 2014, (a decrease of 0.9 percent compared to 2013) (see Figure 1, page 2) and about 35 percent of South Africa's total global merchandised exports).

However, the merchandise trade pattern between the two is skewed towards imports from Asia (see Figure 2, page 2). South Africa has had a current account deficit with Asia since 1988, with the exception of the period 1989-1990, when South Africa had a current account surplus of US$53.7-million (1989) and US$682.9-million (1990), which was mainly due to exports of minerals, iron and steel products. And Indonesia contributed negatively *(-US$1.2-million)* to South Africa's 1990 current account surplus. This was mainly as a result of South Africa's increased imports of plastics, rubber and textiles from Indonesia.

Raw commodities contribute the largest share of South Africa's merchandised export basket to Asia and this is not conducive to the envisaged level of trade-induced industrialisation and economic growth. To facilitate industrialisation through trade, the country should exploit its comparative advantage in commodity-based industrialisation and add value to its resources (including agricultural and mineral resources) using its abundant and diversified human capital.

South Africa's import basket from Asia is dominated mainly by manufactured and capital goods (high-value commodities) (see Table 1, page 2). Thus the unequal trade relationship , based on the supply of raw

**Industrialising through trade emphasises the role and place of trade in fostering industrial development.*
***China is South Africa's main trading partner in Asia as from 2008, after having overtaken Japan. India being the third main trading partner after overtaking Korea and Taiwan during the same period of 2008.*

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Figure 1: South Africa total trade with Asia region, 1988-2014 *(Source Quantec, 2015)*

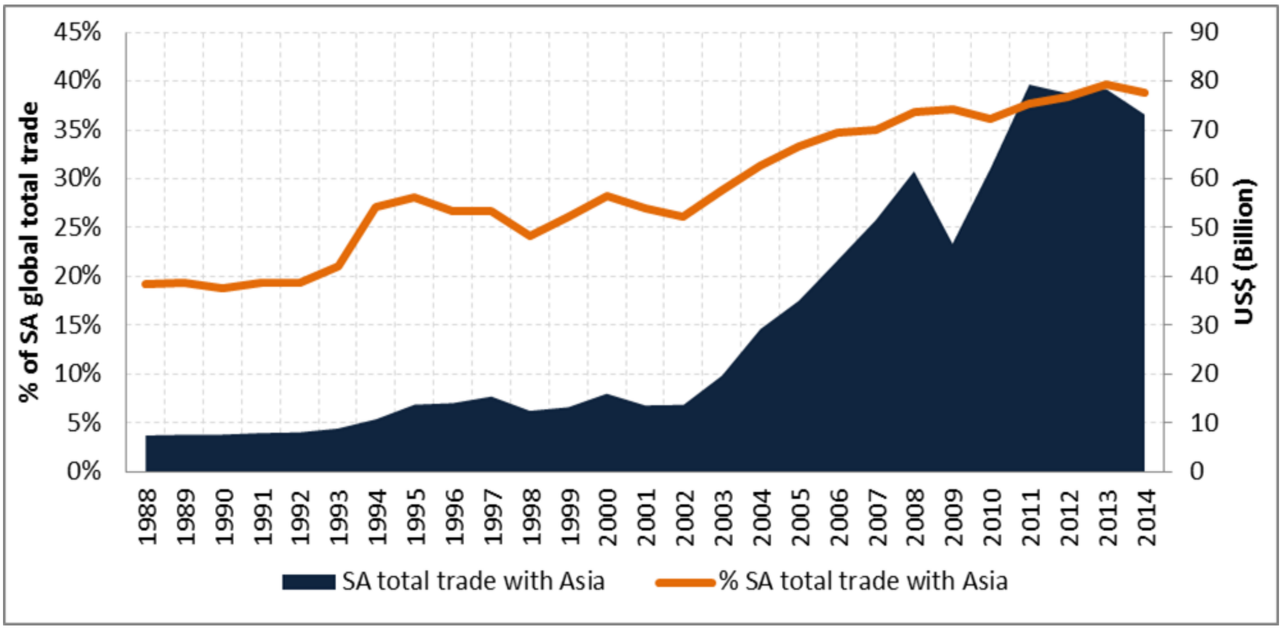

Figure 2: South Africa's trade balance, imports and exports from/to Asia, 1988-2014 *(Source: Quantec, 2015)*

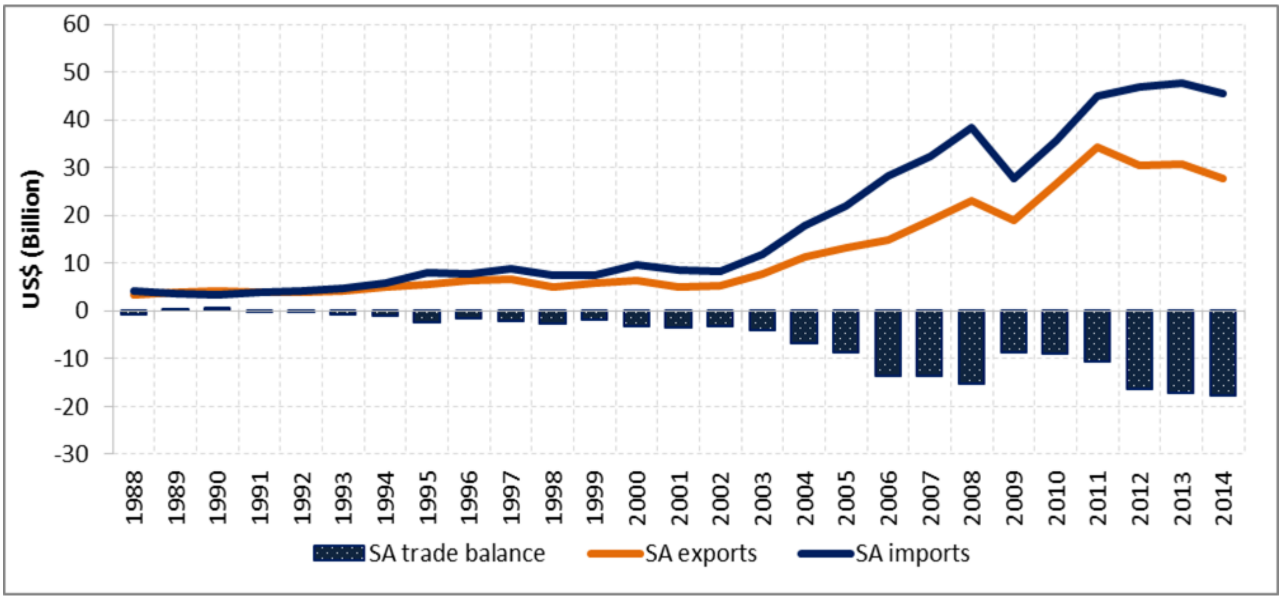

Table 1: South Africa's most imported and exported products from and to Asia, 2009-2014 *(Source Quantec, 2015)*

Exports	Imports
Iron ores and concentrates, including roasted iron	Petroleum oils and oils obtained from bituminous
Coal; briquettes, ovoids and similar solid fuels manufactured from coal	Petroleum oils and oils obtained from bituminous minerals (excluding crude)
Platinum, unwrought or in semi-manufactured forms, or in powder form	Original equipment components
Ferro-alloys	Telephone sets, including telephones for cellular networks
Manganese ores and concentrates, including	Motor cars and other motor vehicles principally
Chromium ores and concentrates	Automatic data processing machines and units thereof
Unwrought aluminium	Printing machinery used for printing
Motor cars and other motor vehicles principally designed for the transport of persons	Rice
Diamonds, whether or not worked, but not mounted or set	Motor vehicles for the transport of goods
Ferrous waste and scrap; remelting scrap ingots of iron or steel	Parts and accessories of the motor vehicles

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commodities (low-value commodities), which is unsustainable for the economy of South Africa. In this intra-trade, it is the share of (high) value-added commodities exports that contributes to rising of trade induced industrialisation.

This case study suggests there are high-potential market opportunities for a range of South Africa's value-added manufactured products in the Indonesian market that could be exploited. In addition, deepening trade relations and investment cooperation between South Africa and Indonesia should be targeted. However, some issues could adversely impact trade relations between these two countries. These include competition from countries within and outside Asia, tariffs, non-tariff barriers to trade and anti-dumping measures.

WHY INDONESIA?

Indonesia is an attractive potential market for South African products due to its population size, growing middle class, GDP growth rate, trade complementarity and its regional trade associations. Indonesia's population of about 251 million (2014), is also projected to increase to 266 million by 2018 (IMF, 2014). Indonesia* is the fourth largest country in the world in population, after China, India and the US (Elias and Noone 2011; Geiger 2011). And Indonesia is also a net importer of many products (Soeriaatmadja, 2015).

The population demographics of Indonesia are characterised by a skilled and youthful working population. This implies that the workforce will be able to maintain productivity and a low dependency ratio well into the future, thereby establishing a foundation for robust long-term growth (Halimi 2014; Jakarta 2014). The growth of the middle class in Indonesia is increasing consumer spending on more up-market manufactured goods. In addition, looking at Indonesia's main merchandised trading partner countries in Africa, South Africa is Indonesia's second trading partner on the continent in terms of total merchandised trade values and in total exports merchandised values after Nigeria.

If petroleum oils trades are excluded, South Africa is Indonesia's main African trading partner in both imports and exports. And Indonesia might also function as South Africa's catalyst to penetrate the Southeast Asian market, through the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA).

MERCHANDISE TRADE TRENDS

Trade data reflects a significant increase in flows between South Africa and Indonesia over the past 26 years: both imports and exports increased seven-fold over the 1988-2014 period (see Figure 3). Total trade increased significantly (an annual average growth rate of 19.5 percent) over the period 2001 to 2011 (19.6 percent for exports during the same period). Since then, however, trade between the two countries has been on a downward trend, (-13.2 percent for total trade and -30.8 percent for total exports in 2014).

South Africa's exports and imports to/from Indonesia totalled US$365-million and US$850-million respectively in 2014, a five-fold increase since the turn of the millennium. However, South Africa's exports fell by 31 percent compared to 2013. The fall in exports could be explained by Indonesia's move to help/protect domestic producers by increasing its import tax. Between January 2014 and June 2015, Indonesia increased import tariffs on more than a thousand products, including consumer goods such as food and beverages, clothes, cars, carpets and air conditioners (GTA, 2015; Suroyo and Setiaji, 2015). The new tariff on cars was fixed at 50 percent, from a range of 10 percent to to 40 percent previously.**

**Indonesia has the largest population in Association of Southeast Asian Nations (ASEAN).*

***Duty on imported tea and coffee was raised to 20 percent from five percent, and the tariff on meat was raised to 30 percent from five percent. Imports of whiskey, brandy and other liquors are now subject to duty of 150 percent (Suroyo and Setiaji, 2015).*

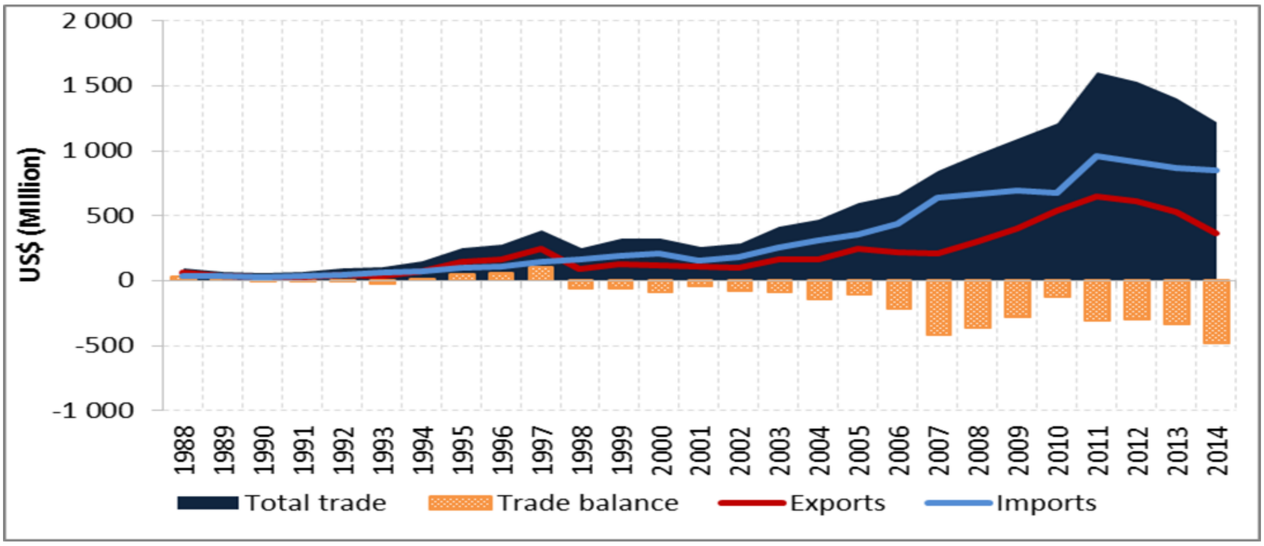
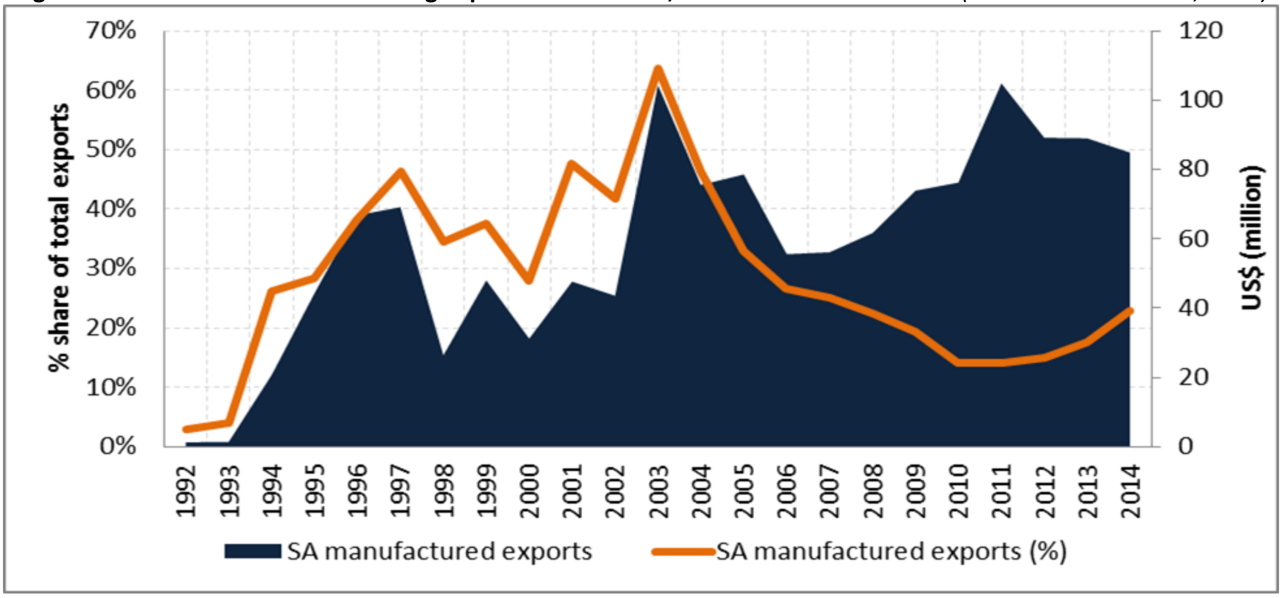


Figure 3: South Africa's trade statistics with Indonesia, 1988-2014 *(Source: Quantec,*

Figure 4: South Africa's manufacturing exports in Indonesia, 1992-2014 *(Source UN Comtrade, 2015)*



Note: Manufacture is defined as SITC (5+6+7+8-667-68) in Revision 3.

Table 2: South Africa's and Indonesia's most traded goods between 2009 and 2014 *(Source: UN Comtrade, 2015)*

Exports	Imports
Chemical wood pulp, dissolving grades	Palm oil and its fractions, not chemically modified
Unwrought aluminium	Natural rubber and gums, in primary form, plates, etc
Iron ores and concentrates, roasted iron pyrites	Oils petroleum, bituminous, distillates, except crude
Ferrous waste or scrap, ingots or iron or steel	Motor vehicles for transport of persons except buses
Solid cane or beet sugar and chemically pure sucrose	Industrial monocarboxylic fatty acid, alcohol, acid oi
Soya beans	Coconut, palm kernel, babassu oil, fractions, refined
Chemical wood pulp, soda or sulphate, not dissolving	Footwear with uppers of leather
Diphosphorus pentaoxide, phosphoric acids	Radio, radio-telephony receivers
Semi-finished products of iron or non-alloy steel	New pneumatic tyres, of rubber
Maize (corn)	Footwear with uppers of textile materials

Table 3: Some of South Africa's manufactured products with high trade potential in the Indonesian market

HS	Commodity Label	Relative ITP
842920	Graders and levellers, self-propelled	99.19%
850152	AC motors, multi-phase, of an output 0.75-75 kW	98.84%
847439	Mixing, kneading machines for minerals except bitumen	98.77%
842890	Lifting, handling, loading or unloading machinery nes	98.73%
841410	Vacuum pumps	98.72%
846190	Metal cuttting, shaping, filing, engrave machines, ne	98.44%
320990	Polymer based paints & varnishes nes, aqueous medium	98.24%
843049	Boring or sinking machinery nes, not self-propelled	98.23%
380992	Finishing agents & dye carriers - paper industry	98.10%
841360	Rotary positive displacement pumps nes	98.05%
842699	Cranes or derricks nes	97.50%
321100	Prepared driers	97.39%
847420	Machines to crush or grind stone, ores and minerals	97.11%
847989	Machines and mechanical appliances nes	95.93%
845180	Machinery to impregnate textiles, make linoleum, etc	93.94%

(Source: Own calculation using data from UN Comtrade, 2015

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The tariff increases coupled with a lack of competitiveness of South Africa's manufacturing are illustrated by the dominance of raw commodities in the country's trade statistics. For example, while South Africa exports to Indonesia accounted for about 1.4 percent of its total exports to Asia in 2014, only 0.3 percent of these exports, or about US$85-million (see Figure 4, page 4), comprised manufactured exports. During the same period, South Africa imported US$850-million worth of goods in total from Indonesia and about US$354-million or 42 percent worth of those goods were manufactured goods.

As a result of increased exports of raw commodities (rather than higher value manufactured goods) and a steady increase in expenditure on processed and manufactured imports, South Africa's trade balance with Indonesia declined from its healthy positive levels of 1994-1997 and a deficit has been recorded since then, (see Figure 3, page 3).

This skewed trade pattern between the two countries has resulted in a situation where whatever revenue South Africa generates from exporting raw commodities to Indonesia is more than offset by imports of manufactured goods. In 2014, South Africa's manufacturing sector accounted for about 57 percent of the country's total trade deficit. This was mainly as a result of increased imports of machinery and transport equipment. South Africa's manufactured exports to Indonesia constituted only about 23 percent of its total exports to that country in 2014. In the same year, South Africa's manufactured imports from Indonesia constituted about 42 percent *(down from about 49 percent in 2013)* of its total imports from Indonesia.

Table 2 (page 4) shows South Africa's most imported and exported products from and to Indonesia *(at HS six digit level)*. South Africa's exports to Indonesia are of low value-added goods compared to its imports which are a mix of low value-added goods (rubber, coconuts, oil), medium value added products (footwear, tyres, radios) and high value added products (vehicles). Thus South Africa's total trade with Indonesia is skewed towards imports, and exports values are more than offset by imports values.

South Africa's most dominant exported products (chemical, wood wood and pulp products), accounted for over 40 percent of South Africa's total exports to Indonesia during period 2009-2014. Generally South Africa's export pattern to Indonesia reflects it is exporting primary products, rather than semi-finished and finished manufactured products, which are of higher value in monetary terms.

CASE STUDY FINDING

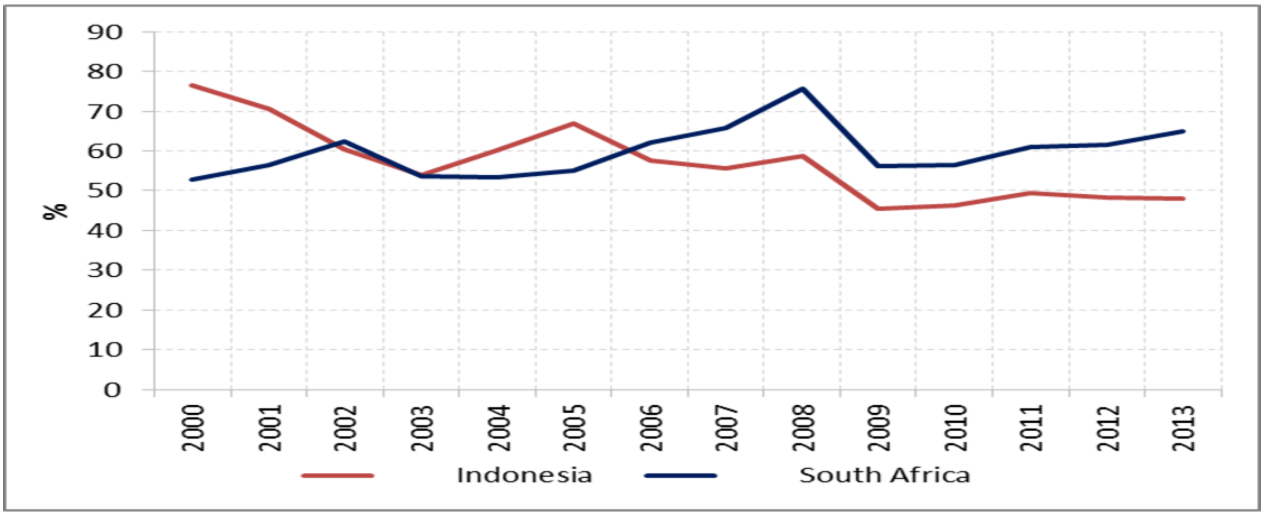
Using the growth-share matrix and the Indicative Trade Potential (ITP) analysis, 78 manufactured (and agro-processed) products at HS six digit level exhibit high trade potential in the Indonesian market (>50%). Many of the products identified have established domestic (South African) production structures and have shown some degree of export performance. A recurring pattern observed is that these products are currently being exported to Indonesia, but at low levels. A great deal of the manufacturing exports face severe competition by economies that benefit from low unit costs because of economies of scale and low wages (e.g. China) and by industrialised countries that have a protracted history in technological capabilities and continuous technological upgrading (e.g. Germany). Table 3 (page 5) show some of South Africa's products that exhibit high trade potential (high export opportunities) in the Indonesian market.

The case study illustrates that South Africa's exports to Indonesia are limited as other economies can offer manufacturing goods with lower unit costs or embed technologies that South Africa may simply not be able to supply. South Africa has, however, the opportunity to specialise within particular manufacturing sectors (some of those are illustrated in Table 3) and direct exports into product groups that face less competition. With the demand problem, South Africa suffers from limited information input on market ccess (development) and export opportunities, and these could be exploited if tailored correctly to the Indonesian market. An information system can help to inform South African exporters better about market access and developments, and link Indonesian buyers to South African suppliers.

HOW OPEN ARE SOUTH AFRICA AND INDONESIA TO THE WORLD

Both South Africa and Indonesia are relatively open economies. On average, the indicator of openness shows that trade openness in South Africa has increased over the period 2003-2013 and for Indonesia it has decreased over the same period (see Figure 4, page 6). Indonesia has 7 157 bound tariff lines, of which 773 are bound at over 40 percent; 4 846 are at 40 percent; and 2 038 are bound below 40 percent. Indonesia has 7 157 bound tariff lines, of which 773 are are bound at over 40 percent; 4 846 are at 40 percent; and 2 038 are bound below 40 percent. Unbound products include some chemical products; plastic articles; platinum; iron and steel; transport equipment; and arms and ammunitions (Basri and Patunru 2012; WTO 2013). Overall between 2006 and 2012, Indonesia's tariffs have increased, with average applied tariff on fully processed products being at

Figure 5 Goods and services trade openness indicator 2000-2013 *(Source UNCTAD, 2015)*



nine percent compared to 6.2 percent for semi-processed products and five percent for products at first stage of processing. “The number of tariff lines subject to specific rates increased over the period, from 27 percent in 2006 to 65 percent in 2012” (WTO, 2013). This might also explain why South Africa is not getting more of its finished manufactured products into the Indonesian market. If this is the case, South Africa would benefit from any form of bilateral trade agreement with Indonesia; either a Free Trade Agreement; a Preferential Trade Agreement or a Trade, Development and Co-operation Agreement would offer improved access through export price competitiveness, export high value added products and close the current trade deficit.

Indonesia’s non-tariff barriers have florished over time. In the agriculture sector, sensitive products are subject to special imports licensing and quantitative restrictions. With products such as rice, cloves and salt, only domestic producers can apply for a licence. Indonesia has an import ban on chicken parts and restrictions on the amount of meat and poultry products, and also in the mining sector (WTO, 2013).

CONCLUSION

The study shows there are other potential market opportunities for a range of South Africa’s manufactured products within the Indonesia market, and the country can further exploit and deepen trade relations and investment cooperation. However, due to export competitiveness, tariffs, non-tariff barriers and anti-dumping measures, trade relations between South Africa and Asian countries are being affected.

The case study reflected that South Africa’s export basket to Indonesia is mainly dominated by resource based (intermediate) and manufactured products, which are of low value add and subject to zero or lower tariff rates. South Africa’s imports from Indonesia are a mix of low value added products, medium value added products and high value added products, which has resulted in a trade imbalance between the two countries. However, there are high potential market opportunities in Indonesia for the country’s finished manufactured goods, although a key limiting factor is the tariff barriers for South African high end manufactured goods, which among other factors sees Indonesia trading elsewhere.

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