Commercial Diplomacy on Export Performance

Case Study of Indonesian Trade Promotion Centre (ITPC)

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List of Acronyms

CDC	Commercial Diplomacy
CGE	Computable Generalized Equilibrium
CSC	Customer Service Centre
DJNED	Directorate General of National Export Development
EPA	Export Promotion Agency
FEM	Fixed Effect Model
FTA	Free Trade Area
IETC	Indonesian Export Training Centre
IPR	Intellectual Property Rights
ITC	International Trade Centre
ITPC	Indonesian Trade promotion Centre
KONKIN	Kontrak Kinerja Instansi Pemerintah (Performance Contract of Government Institution)
LAKIP	Laporan Kinerja Instansi Pemerintah (Performance Report of Government Institution)
MATRADE	Malaysia External Trade Development Corporation
MITI	Ministry of International Trade and Industry
MOT	Ministry of Trade
OLS	Ordinary Least Square
PR	Public Relations
PUSHAKA	Pusat Harmonisasi Kebijakan Perdagangan (Centre for Trade Policy Harmonization)
RCA	Revealed Comparative Advantage
REM	Random Effect Model
SMEs	Small and Medium Enterprises
THAITRADE	Thailand Trade Office
TPO	Trade Promotion Office
TTI	Trade, Tourism and Investment

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Abstract

Promoting export is a central issue to boost country's competitiveness. To attain this purpose, many countries including Indonesia implement commercial diplomacy (CDC). Nevertheless, scholars have been debating about the role and efficacy of CDC instruments. Some empirical evidences are being presented to support pro's and contra's. This paper attempts to investigate the impact of one of Indonesian CDC instruments, Indonesian Trade Promotion Center (ITPC) on export performance, in essence of whether it presence generates higher trade value. In order to reach the impact analysis, I use the gravity model of international trade and employ panel data for 19 years observations over 62 countries of Indonesian export destinations. The empirical estimation yields a positive correlation between the existences of ITPC to Indonesian export performance.

ITPC indeed gives a growing effect on exports, even though the magnitude of its impact is less sound. A further discussion is conducted to explore the challenges of CDC instruments of Indonesia in performing export promotion using qualitative interviews. In the finding, the interferences comes from internal as well as external factors. The internal issue such as limited budget, lack of staff, and coordination problem are hampering their activities. Whereas, in the external aspects, the preparedness of Indonesian industry and the channel of export distribution bring tremendous deterrents in boosting Indonesian exports. Hence, this research serves as a policy recommendation for the government in supporting export strategy by strengthening the commercial diplomacy instruments.

Relevance to Development Studies

Export is considered as an essential factor for economic growth and development. In macroeconomic, it involves with international account and currencies which highly related to exchange rate and sometimes leads to monetary or fiscal policy. Export is a major factor which shows the level of country's competitiveness and productivities. A higher national income as well as employment are the further impact of the growing exports. CDC becomes major concern of many governments, it is considered as a tool to foster export growth. ITPC as trade assistance, support and promote domestic exporters in each of its host country. This paper aim to investigate the impact of this trade representative on export performance. Despite the debates on its efficacy, in this study CDC instrument is proven to reduce market failure which persistently occurred in international market by showing a positive and significant correlation on exports.

Keywords

Export, Export Promotion, Commercial Diplomacy, Export Promotion Agency, Indonesia

Chapter 1
Introduction

1.1. Background

Globalization is inevitable. It leads to interdependence across countries, particularly in foreign trade. Nowadays, companies do not only compete with local firms but do also at international level. There is an urge for business community to trade globally. However, barrier to enter foreign market is found out to be persistence especially for new exporters. In order to support and smoothen the process of international trade, governments of many countries establish commercial diplomacy (CDC) instruments. Government mostly sees that CDC is deliberately major element to conquer global market. The need of CDC becomes a vast consideration since cross border trade increases. Therefore, the posting of CDC instruments keeps increasing from time to time.

Here are some descriptions of CDC at a glance. As underlined by Veenstra et al (2010), CDC instrument is government agent consists of embassies, consulates, export promotion agencies, and state visits. Moreover, Narray (2008) defines CDC as an action of state representatives with diplomatic or non-diplomatic status in enhancing business promotion in their country of accreditation. They represent the trade interest of the home countries in host country. The actors of CDC could be official with high policy level, trade representatives and a "professional commercial diplomats" (Narray 2008: 2). Regarding to this definition, an export promotion agency whether equipped with diplomatic status or not is also included as a CDC instrument.

The objectives of posting CDC instruments are mainly to promote exports and to lessen asymmetric information (Lederman et al. 2010). In firm level, CDC supports home companies by providing promotions and trade assistances such as market information, regulations and products requirements. Basically, the presence of CDC instruments plays important role to help exporters to encounter market failure. It is true that business people nowadays could conduct their own market research abroad. However, the presence of commercial diplomats is still substantial to link to key person in the destination country so that the barrier to trade in entering new market will be lessen (Vanderleest 1996). At a wider role, commercial diplomacy could attract sustainable trade partnerships and reduction of "information barrier, network effect and externalities" (Bergeijk 2009: 79).

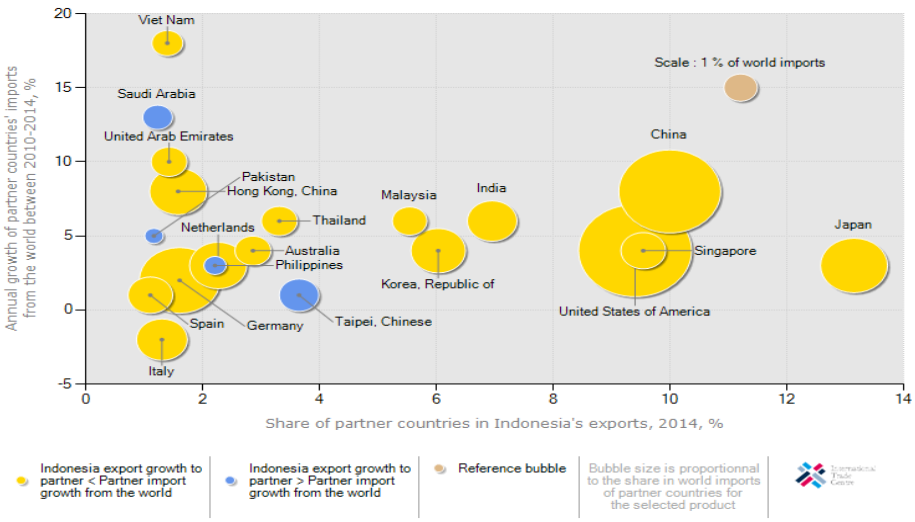
Export is an important indicator of a country's economic performance. Export growth is the representation of economic competitiveness and productivity. Moreover, companies can reduce its cost and gain more revenue by exporting. They can benefit from the differentiation of market since they will not too reliant on domestic market (Krugman 1980). Exporting will generates greater performance for they have to adapt with different cultures, complex standards, many requirements and higher costs. Firms' performance will improve through their economies of scale (ibid). As the output and production scale increases, companies can lower their cost per unit product. Good enactment by engaging to international market will surely bring high return to the company.

Economic growth is the further impact of exporting. Increasing demand from foreign market generates greater production and competitiveness. It could leads to higher national revenue and larger employment. More export revenue means more taxes and more income to be distributed, more jobs and welfare for the people. To raise export performance, there are numerous policies to be implemented by the government and intensifying export activities is one of them. Moreover, building a good image of a country is very essential. Promoting a country as a reliable trading partner which have high quality export products as well as its trustworthy exporters is indeed beneficial. Here, CDC instruments is considered as tool to achieve a good reputation.

Some scholars have examined that CDC is indeed effective and shows evidence that it could enhance foreign trade. For instance, the study of Rose (2007) found that an addition of one CDC instrument can generates 6-10 per cent increase of export value. This study is being repeated by Veenstra et al. (2010) which found that export promotion agency of low income or middle income countries are effective in increasing bilateral export to rich countries. Nevertheless, study of Hogan et al. (1991) argued that export promotion activities were ineffective due to less leadership, insufficient budget, very bureaucratic, less client-oriented, and so on. Several studies also examined the way an economic diplomacy can work and the necessities to accomplish to succeed (Zuiderma and Ruel 2012, Volpe Martincus and Carballo 2010, Lederman et al 2010, Reuver and Ruel 2012).

Indonesia relies its national income on export performance as many other countries do. Although its export share to world market is still underperformed, export play significant role in the economy. According to International Trade Centre (ITC) in the figure 1.1., Indonesian export share to world market in 2014 compare to other exporting countries in the world is still low. For example, in Japan market as the highest Indonesia's share, it yields only 13.14% compare to other exporter countries. In the second place, the share of Indonesian export to China merely 9.99%. Generally in most countries, Indonesia export earns approximately 1 per cent shares only.

Figure 1.1. Prospect for Market Diversification for a Product Exported by Indonesia in 2014



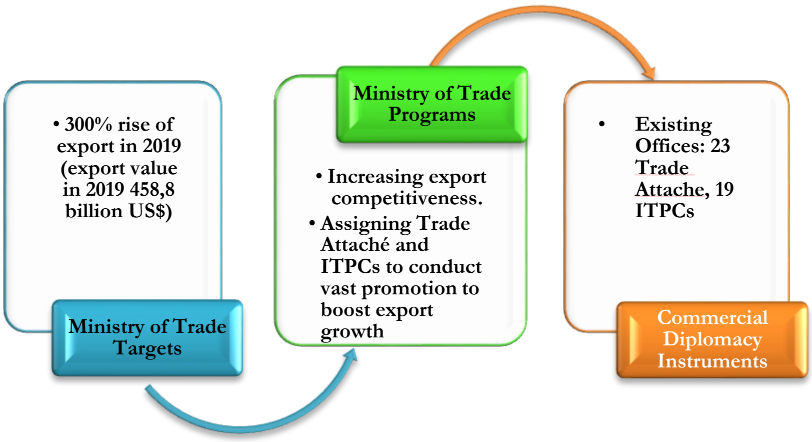
Source: International Trade Centre, www.intracen.org

To boost export performance, Indonesia sent a number of CDC apparatus as trade promotion agencies abroad. Most of them are posted in advanced countries. Under the Ministry of Trade, Indonesia has 23 Trade Attachés and 19 Indonesian Trade Promotion Centers (ITPCs) around the world. As the need to enhance export becomes highly important, the presence of Indonesian export promotion agencies abroad is expected to have positive impact to intensify export value at large. Their role in assisting business people in the new market, providing information on market opportunities and conducting export promotion abroad is expected to encourage larger trade volume.

1.2. Problem Statement

Recently, the government of Indonesia sets a target to triple non-oil export value by 2019 by a program named "Strategy to Triple Non-oil Export Period 2015-2019". According to Ministry of Trade (MOT) foresight regarding this program, per each 20% rise of exports will generates an increase in employment by 3%[1]. The share of non-oil export to GDP is also expected to increase from 20% in 2015 to 30% in 2019. Government puts forward two schemes in achieving this target which are strengthening export products and reinforce its foreign market. In the market strategy, the government depend on the performance of CDC instruments. Trade Attachés and ITPCs posted in foreign countries should buckle down and improve their functioning in promoting exports. They have to conduct a vast facilitation to boost export growth. The CDC literatures are still questioning of the effectiveness of export promotion institution, but it seems that the government of Indonesia is very much relying on them in increasing its national exports.

Figure 1.2. Strategy to Triple Non-oil Export

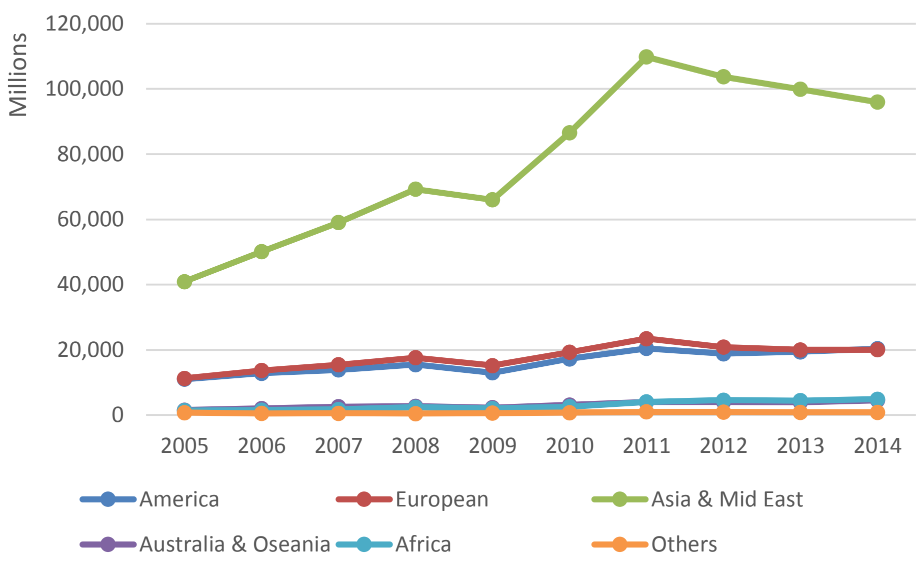


Source: Ministry of Trade, processed by author

[1] Ministry of Trade 'Strategy to Triple Non-oil Export Period 2015-2019' (2015) internal document unpublished.

Indonesian CDC under MOT mostly placed in European countries. From the total 42 offices, 15 offices of Trade Attaché and ITPCs concentrated in European. From Bank of Indonesia statistic in figure 1.3., it shows that Indonesia's main trading partner are Asian and Middle East countries. This occurrence raises a question whether the presence of CDC instruments significantly affect Indonesia's export performance. It seems that regions which have many trade representative offices like European does not showing a notable impact on Indonesia's trade value, as Asian region does. Therefore, the impact of Indonesian CDC instruments is interesting to be discussed further in this study.

Figure 1.3. Indonesian Non-Oil Exports by Destination Region 2005-2014 (in US$)



Source: Economic & Financial Statistic of Bank Indonesia, processed by author

1.3. Objectives

The objective of this study is to analyze the impact of ITPCs as one of the Indonesian CDC instruments under MOT on Indonesia's export performance. This paper attempts to investigate whether there is a positive association between the presence of ITPCs to Indonesian exports and to what extend its impact on aggregate non-oil exports of Indonesia. I focus on the ITPC because this institution is the main export promotion actor in the national export promotion policy.

The motivation behind this research is that the outcome obtained will bring an input for the government in evaluating the CDC performance, particularly for MOT as the operator of ITPCs. This research hopefully can give a recommendation to support the "Strategy to Triple Non-oil Exports Period 2015-2019" and strengthening export promotion strategy. Further, this study aims to contribute to the literatures on CDC, particularly from Indonesia which is very limited.

1.4. Research Question

The key question this study seeks to answer is:

1. To what extent do the Indonesian CDC instrument (ITPCs) have impact on export performance?
2. What are the challenges faced by the Indonesian CDC instruments?

1.5. Scope and Limitations

In this research I used mixed methodology, estimates regression of quantitative data using Gravity Model of International Trade and also conduct interviews to get the description on reasoning of the outcome from the first method. I investigate the contribution of ITPC posting on export performance along with other variables of Gravity Model. The presence of ITPCs is considered as an explanatory variable of interest. I employ panel data over Indonesian non-oil exports to 62 countries from 1996 to 2014 in the estimation. In this paper, standard variables of gravity model of international trade such as GDP per capita and population of home and trading partner are also included.

Acquiring the CDC data is rather time consuming and difficult, hence this study emphasis only on ITPC due to time restraint. A complete picture of the impact and dynamics of CDC instruments may not be presented by this study since the analysis only based on the availability of the secondary data and only observe a few respondent regarding inadequate time of study. In addition, at present the theories and literatures on CDC are very limited, it is also considered as a constraint.

1.6. Structure and Argumentation of the Paper

In summary, this research tries to see the impact of the presence of CDC instruments on Indonesia's export performance. The structure of this paper is arranged as follow: introductory chapter contains of overview of the issue, research questions, and the scope and limitation of the research; the second section elaborates the theoretical foundation and literature review; the third chapter presents the overview of CDC instruments and Indonesian export performance; in chapter four, the discussion on the research method, empirical specification, and data collection are introduced; chapter five analyses the result of the quantitative estimation; chapter 6 will explore the challenges of CDC instruments from the interviews; and the last section chapter 7 will summarizes the findings.

Chapter 2
Theoretical Framework

This section will present literatures concerning the effects of CDC instruments on export performance. In the first part I will discuss the definition and practices of CDC as well as its importance and hesitation. I will also present theories related to this study particularly in the Gravity analysis. Empirical evidences from previous literatures will be presented in the third part of this chapter.

2.1. Commercial Diplomacy

2.1.1. The Definitions and Practices

At present, studies on commercial diplomacy are still limited and only a few have been published. In the literatures, the term often mixed up between economic and commercial diplomacy. According to Yakop & Bergeijk (2009), economic diplomacy is the use of diplomatic tools which put more focus on economic policies and trade agreements. Whereas, Narray (2008) categorize commercial diplomacy as an action of state representatives (with diplomatic or non-diplomatic status) in promoting business in country of accreditation. He underlined that diplomats could be one from trade representatives and a "professional commercial diplomats" (Narray 2008: 2). Hence, an export promotion agency also be considered as a commercial diplomacy instrument. Commercial diplomacy is defined as diplomatic mission in the service to back up business community in all aspect of business assistance and promotion.

Lee (2004) classified the practices of commercial diplomacy into three, collecting and distributing market information, establishing business accesses, and promoting goods as well as endorsing new products in the foreign market. While Kostecki and Naray (2007) mentioned that commercial diplomacy activities including market intelligent, networking, national branding campaign, business negotiations support, contract implementation and problem-solving. A matchmaking process of finding the right partner for national business community also included in here. A commercial diplomats also functioning as consultant to home and host country business in smoothing the business process.

The scope of CDC actions including trade and tourism campaign, advocacy of intellectual property rights, promotion of inflow or outflow foreign direct investments and supporting countries and exports products' good reputations (Narray 2008). He also underlined the CDC activities into 6 classifications. The first one is 'intelligent', commercial diplomats conduct gather and analyze business information and facts related to trade and investment to fulfill the need of home companies in order to increase country's competitiveness. The second one is 'communication' which comprise of conducting and participating in commercial briefings, presentations, conference, press releases, and marketing events. The third is 'referral', provide recommendation of potential partner for business people. The fourth one is 'advocacy', assisting and safeguarding home companies and its business in foreign country particularly related with legal or regulatory case. For instance when an export product being banned by certain market, CDC could provide 'diplomatic' clarification apart of conflicting in the legal procedures. The next one is 'coordination' to promote positive contact between stakeholders through organizational arrangement and networking. The last one is 'logistic'. In this case, many CDC instrument facilitate companies by providing facility and practical support such as providing venue and translator for business negotiation.

Thus, commercial diplomacy definition in this paper use the description under Narray (2008), which define CDC as the practice by government as diplomatic means and non-diplomatic officers to assist commercial interest especially in boosting export performance.

2.1.2. The Importance and Hesitation

Rapid development of communication system and technology have reduced transportation cost and made a vast improvement in international trade. However, impediments of trade across border are still remain. Besides formal trade barrier such as tariffs and quotas imposed, there also exist informal trade barriers like cultural and institutional arrangement which challenge the exporters (Head and Ries 2010). The reason why governments take part in export promotion activity are in accordance with the asymmetric information theory and market failures (Yakop and Bergeijk 2011) Externalities may occur from export market in many forms, for instance related with market preferences and quality requirements.

From internal side, private companies are likely unwilling to provide information to other competitor even within the country. They have to invest huge budget for research, developing contacts, creating distribution chains, promotional campaign, and other costly activities abroad, thus they hesitate to have their competitor benefiting from their investment (Hausmann and Rodrik 2003). In addition, companies are faltered to spend high cost on foreign market research if not certain that their revenue will exceed the budget spent. Due to these circumstances, CDC instruments presence in foreign country. As a public sector apparatus, they provide information, budget and human resources for exporters for free. Many private companies from home could benefit by utilizing this kind of facilitation. Hence, the positive externalities from commercial diplomacy instruments is the expanding exports across firm.

Moreover, every export products requires a particular market information since every country is unique in term of market and taste (Rauch, 1999). Further, networks is central to cross border trading process. Matching buyers and sellers could make products differentiated (ibid). This could happen due to sufficient information regarding market, competitions, consumer behaviour, and trading system. Government through CDC instrument could deliver beneficial network from the non-business channel which have been established for long in foreign country. CDC instruments could lessen the trade cost and creates new access.

Rose (2007) and Narray (2008) underlined that market size is also a major contributing factor to conduct commercial diplomatic relation between two countries. Especially when a country is an important export destination for certain export sector, hence it is very strategic to maintain relationship through CDC. Moreover, the credibility and image in foreign market is also central especially to maintain long term trade relation. Government endorse CDC instrument in order to give business community access to reliable information and network (Narray 2008). CDC instruments also act as a trustworthy agencies, this strategy is substantial particularly in the activities of business match matching, problem solving as well as handling a dispute (ibid).

In greater perspective, governments aims to increase exports in order to boost economic growth. Governments found that engaging in trading activities is important since its representative considered as a natural business partner in host countries (Kostecki and Narray 2007). Moreover, international companies from home need of collaboration with the government in order to smoothing their operation abroad. The uncertainty in the foreign field should be eased or lessen. In this matter, the CDC abroad should give indication whether any transaction could bring intense in host country or not (ibid).

In addition, Justinek and Sedej (2012) found that SMEs are likely more depend on the presence of CDC. For SMEs exporters, the lowest sunk cost is highly needed to get to engage to foreign market. Investing on information, identify the consumer behaviour, getting the reliable business partner and handling the requirements of the foreign regulations mostly burdened the company's finance. They could not mend when their export is unsuccessful. Although information technology are broadly use to get relevant market information, getting reliable trade partner is not that easy. Hence, the presence of CDC can reduce their entering cost to new market. This is in line with the study of Lederman et al (2010), export promotion agencies (EPA) can reduce sunk costs by serving reliable information as well as assisting firms to adapt their commodities to the market. Furthermore, Melitz (2003) argue that a mixture between productivity and sunk cost is one of the determinants for export decisions. Therefore, if CDC can decrease sunk cost, firms will be enthusiast engage with export market. More and more exporting companies will join cross border trade and increase national trade in aggregate.

Nevertheless, many scholar have been doubting on the effectiveness of CDC. Particularly when it related with export assistances and subsidies. To those who belong to neoclassical views, CDC could become a troublesome subsidies. This perspectives supported by Seringhaus and Botschen (1991), they stated that export promotion only give an adequate impact. Export promotion program brought by EPA mostly not in the favours of export business and does not well-suited with what their want. In addition, Gencturk and Kotabe (2001) examined that income transfer through export promotion activities indeed bring positive effect by making companies lessen their cost, however this kind of subsidies does not give impact to their revenue at large.

Keesing and Singer (1990) as well as Hogan et al. (1991) argue that presence of CDC instruments is unlikely reduce the barrier of trade. CDC are mostly hamper by lacking of strong leadership, inadequately funded, its staff which was bureaucratic and not client oriented, and also suffering from government bureaucratic involvement (Hogan et al. 1991). Regardless of those disapprovals, CDC keep play a major task. Rose (2007), Lederman et al. (2010), and several other scholars underlined that CDC still relevant and has substantial role.

2.2. The Gravity Model of International Trade

The economic model which is frequently being used to analyse international trade is the gravity model. This model basically based on the idea of Newton's Law of universal gravitation, where the interaction between two substances is relative to its mass and distance as contrast (Bergeijk and Brakman 2010). Gravity Model of international trade is considered as an alternative approach beside Computable Generalized Equilibrium (CGE). CGE model is criticized due to reasons such as the use of extensive data sets, the results which are sensitive to the assumption as well as lacking of time dimension (Plummer et al. 2010). According to Bargeijk and Brackman (2010), the gravity model is a successful econometric approach particularly for robustness and its consistency with respect to economic theories.

The Gravity Model of international trade firstly introduced by Tinbergen (1962). This economic model can measure trade flows between countries and it can be used as a tool to investigate determinants of trade of particular country. According to the gravity model, the export of a country i to country j can be explained by economic size, population, geographic distance and a particular set of dummies. The standard form which can be used in gravity models are as follows:

$$Fij = G * (Mi * Mj \ / \ Dij); \ i \neq j$$

where Fij is the export or import value between the two countries (State i and State j), G is a constant, Mi and Mj are strength of two economies and Dij is distance between the two countries (Bergeijk and Brackman, 2010).

The dependent variable which likely being used in gravity model are exports and bilateral trade flows. Whereas the explanatory variables are vary, representing demand and supply or supporting or inhibiting factor on trade. GDP per capita and population size being used as proxy of market size because it represents income level. While the distance as the proxy of transportation cost is consider as a constraint to trade flow. Lately the model being modified by several variables that has positive or negative impact. Some also use independent variable such as colonial link, common language, area size and participation to a trade arrangement such as free trade are (FTA), FDI impact etc.

Gravity models can be applied to assess CDC effectiveness by including a binary variable which indicates whether in a country have CDC instrument or not. Using this variable it can be estimated whether CDC yields statistically significant effect on export performance. If the sign of coefficient is positive and significant, it can be deduced that it is indeed has positive impact on trade flows, with a magnitude depends on the size of its coefficients (Plummer et al. 2010). In this research the gravity analysis applied particularly to assess ITPCs presence and its impact to export performance.

2.3. Empirical Evidences

Many scholars use gravity analysis in their investigation on the correlation between CDC instruments on trade flows. Generally, they yield a positive and significant effect on CDC in the outcome. The object of the analysis mostly embassies and consulate and also Export Promotion Agency (EPA) using cross section or panel data in the observations.

The popular one is the study of Rose (2007). Rose argue that first posting of Foreign Service in a particular country is associated with its trade performance. He employ 22 exporting countries and 220 importer countries using gravity model. He concluded that exports seem to rise between 6 and 10 percent for opening an embassy. Consulate also have the same effect on aggregate trade but in smaller size. To control the reserve causality problem, Rose used instrumental variable. He use the number attractive tourists and proven oil reserves variables to control number of embassies. After being controlled, the outcome of Rose's study is still robust. This study later being replicated by Veenstra et al. (2010) by using the similar method. Their result also support the Rose's findings. Study of Veenstra found that the number of embassies has positive effects on the bilateral export. Moreover, they further suggest that CDC is more beneficial for developing countries, rather than developed countries. Furthermore, they recommend that commercial diplomats should equipped with high leadership and relevant knowledge. Other study which also use gravity model, Gil et al. (2007) investigated the relation between Spanish export promotion agencies on the regional export performance. The outcome of his research is more or less the same with the study of Rose (2007). They concluded that the export promotion agencies are significantly related to greater trade. The result is still robust as the reverse causality treated by the same instruments as used by Rose (2007).

Furthermore, Lederman et al. (2010) argue that 10% rise of export promotion budget in average will generates 0.6 to 1% export grows. This study employ data of 103 countries consist of advanced and developing countries. The result shows that EPA on average is significantly give positive impact to export performance. However they underlined that EPA expenses does not give rationale on increasing profit since it required quantification of externalities related to export. Further, they argued that EPA mostly beneficial when it is posted in a country in which high trade barriers is imposed or various differentiated products being exported in this country. Lederman underlined that CDC instruments will be effective if financed by public funding, additionally the head of the agencies should come from private sector. Similar with what Lederman observed, Kang (2010) found a much higher magnitude on CDC instruments' impact. He use the value of South Korean exports as the dependent variable to measure the export performance using gravity model. This research found that Korean export promotion agencies is central to its exports, a 10% raise of the CDC budget will generate an increase export by 2.45%–6.34%.

Bergeijk et al. (2011) examined the influence of various forms of foreign-service on trade of 63 countries. The data set consist of 10,524 diplomatic representations for 3,730 trade flows. Using gravity model of international trade, they apply diplomatic representation as one of the independent variable. The scholars also differentiate the form of foreign-service in CDC field and found a highly significant effect of embassies presence on bilateral trade flows. However, for other forms of representatives, they found some mixed outcomes. Another study which investigate foreign-service is the study of Segura-Cayela and Vilarubia (2008). They examined bilateral trade flows of 21 exporting countries in relation with 163 importing countries in 1999. They found that foreign-service generates the trading possibility by 11 and 18 per cent. However they conclude that there is no clear effect on increasing the volume of trade.

However, the study of Head and Ries (2010) and Gencturk and Kotabe (2001) found the other way around. Head and Ries (2010) use data of Canadian trade mission to see if there is any relations between official businesses mission with trade. This mission involving high level of government official and many business people participation. They found that the trade mission does not associated with increasing trade in the country of destination. While, Gencturk and Kotabe (2001) from the observations of 162 firms, find that export programs rise firm's profit but not sales. He underline that there were no externalities across firms. He also criticized that in term of profitability, CDC benefits experienced exporter more than new exporter. In Canada and Austria, the export promotion service use was also low it were not addressing the needs of business people (Seringhaus and Botschen 1991).

Research by Volpe Martincus and Carballo (2010) found the combination of many facilitations such as advising exporter, trade fair as well as trade missions are more beneficial in encouraging export, whereas providing linkage between exporters and importers in host country are more effective than solely conducting trade mission or exhibitions. This study employed a rich data set on firm-level exports and their involvement in the promotion assistances held by PROEXPORT, Colombian TPO (Trade Promotion Office) in 2003 to 2006 using difference in difference approach.

2.4. Conclusion

Preceding scholars have examined CDC and export promotion by various viewpoints. Some studies focusing on the organisational characteristic and the impact of CDC on new trade relationship and creation of network to boost exports. Many studies using gravity model of international trade and employ panel or cross section data in the analysis to see correlation between CDC and trade. A number of interesting outcome describe the relationship between variables and shows the relations between CDC instruments and its impact on trade performance. Despite the critics, many empirical evidences show positive result and prove that CDC is effective in promoting trade.

Chapter 3
Overview of Indonesian Commercial Diplomacy instruments

This chapter will covers an overview of the CDC Instruments which are Trade Attaché and ITPC, and in the last section it will discuss the Indonesian export performance in brief.

3.1. CDC Instruments under Ministry of Trade

Indonesia has two institutions which are responsible as CDC instruments under MOT, Indonesian Trade Attaché and ITPC. As stated in the Strategic Planning of Ministry of Trade of Republic Indonesia (2010)[2], Trade Attaché is liable for all regulatory and formal trade issues and ITPC more focuses on export promotion strategies. Yet, they also share the same role in supporting business community through firm level assistance. These two bureaux provide various export promotion activities to support Indonesia's exporters. Both Trade Attaché and ITPCs conduct promotional supports and provide market information which are beneficial for home businesses.

These two institutions have the same objective to stimulate business links and boost exports as they perform as an export promotion agencies. However, trade attaché is attached with the embassies posted in the capital city and is very much involved in diplomatic activities. It is quiet complex since Trade Attaché acts as the representation of Minister of Trade abroad and in the same time as the staff of the Ambassador. In the MOT organization structure, Trade Attaché is under the Secretariat General of MOT, while ITPC is under the supervision of other unit named the Directorate General of National Export Development (DGNED). Trade Attaché is trade representative with diplomatic status, while ITPC's head officer does not hold any diplomatic position. ITPCs are more independent with less diplomatic role. They only concentrate on export facilitation and are mostly posted in trading cities apart from the embassies or consulate. Both Trade Attaché and ITPCs heads are government officer from MOT. In their duties, Trade Attaché put emphasizes on legal and regulatory while ITPC more focus on business promotion activities.

MOT now has 42 CDC instruments consist of 23 Trade Attachés and 19 ITPCs posted in 30 countries around the world. In one host country, at least one Trade Attachés or ITPC being posted. Generally there are only 1 ITPC and 1 Trade Attaché posted in one country, but in countries which have large region like USA, there could be presence a Trade Attaché accompany with more than one ITPCs. However, in some states such as Belgium or Nigeria only one Trade Attaché or ITPC stand as single trade representatives in that country. The 23 Trade Attachés are located in Beijing, Tokyo, Seoul, Bangkok, Kuala Lumpur, Singapore, Manila, Ottawa, Washington, London, Den Haag, Brussel, Berlin, Copenhagen, Geneva, Paris, Madrid, Rome, Cairo, Riyadh, Moscow, New Delhi,

[2] based on Rencana Strategis Kementerian Perdagangan (RENSTRA) 2010, the Strategic Planning of Ministry of Trade Report (2010)

Canberra, Taipei, and Hong Kong. Whereas, the 19 ITPC offices are placed in Vancouver, Chicago, Los Angeles, Mexico city, Sao Paolo, Santiago, Barcelona, Hamburg, Milan, Lyon, Budapest, Jeddah, Dubai, Lagos, Johannesburg, Chennai, Busan, Osaka, and Sidney.

Map 3.1. Indonesian Commercial Diplomacy Instruments Posting (42 offices in 30 countries)

Source: Ministry of Trade, processed by author

Indonesian CDC instruments posting mostly in advanced countries. According to MOT, the reason is that Indonesian exports are susceptible to formal and non-formal trade barrier in those countries[3]. The presence of Trade Attaché and ITPCs can help business communities to face the formal and informal barriers to trade. This is relevant to the study of Veenstra et al. (2010) which argued that the posting export promotion agencies in advanced countries is advantageous for developing countries. Trade Attachés and ITPCs may provide market as well as other relevant information for their exporters regarding the trade barriers. In addition, information on products requirements and regulations are easier to acquire in the developed economy since their services are more standardized compared to developing countries which is considered more bureaucratic.

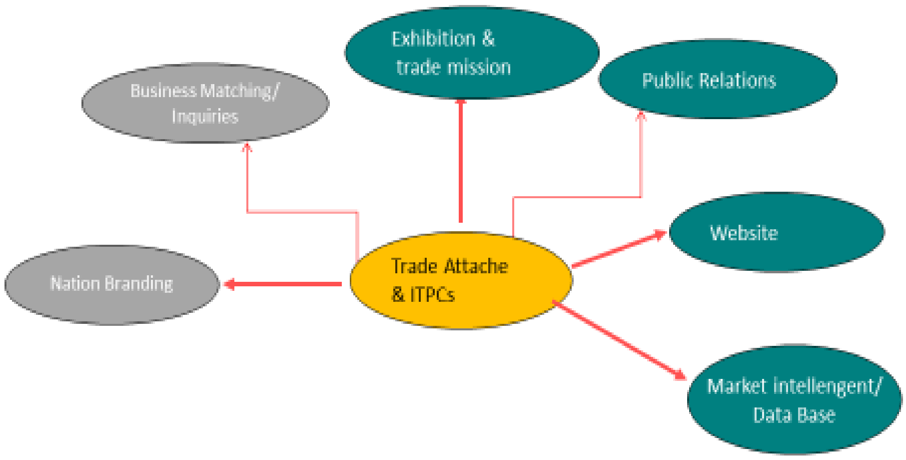
According to the Ministry of Trade (RENSTRA 2010), this two institution duties are improving bilateral cooperation with state of accreditation in the field of industry and commerce. They develop and strengthen the networks both with government and private agencies. The ways they boost trade relations are by establishing business contacts and providing assistance and advocacy for home companies. They also conduct business intelligence on importance issues such

[3] based on interview with Head of Foreign Trade Division of Central Harmonization of Trade Policy Board, MOT, Jakarta, May 5 2015

as on policy and technology development in their accreditation which is beneficial for domestic business at large.

Further, Trade Attaché as well as ITPC also produce market analysis to deliver market opportunities for Indonesian products. Then they disseminate the information on imports, tariffs, standard in their accreditation to exporters. In the market brief reports for example, it provide a brief assessment of the potential export market such as the segmentation, tastes as well as consumer behavior; import and export regulations; and obstacles on both tariff and non-tariff measures. In the LAKIP (2014) stated that throughout 2014, Trade Attachés and ITPCs prepared as much as 174 market briefs and market intelligences. Information on market intelligent and market opportunities brief report are sent to the MOT through DJNED. Then the DJNED proceeds the information to the exporters by dissemination program in several Indonesia's regions.

Figure 3.1. Commercial Diplomats Duties on Export Promotion



Source: Ministry of Trade, processed by author

These trade representatives responsible for sending trade inquiries to MOT regularly. MOT through the DJNED continues the trade opportunity to the relevant exporters through Customer Service Center (CSC), a unit under the Directorate of Market Development and Export Information of the DJNED. CSC is a division which perform as buyer reception desk which can provide potential buyers to get commodities match their preference. Information services provided by the CSC include direct trade inquiries from individual buyers, inquiries through overseas trade representatives (Trade Attaché as well as ITPC) and also from the foreign embassies. An excellent coordination between trade representatives and CSC here is highly substantial in order to bring up to date and beneficial information for exporters. Moreover, the database of importer listed by Trade Attaché and ITPC is a decent source of finding reliable business partners. By this kind of assistances, exporter companies could lessen their investment on market information and cost on establishing business contact abroad.

In their duties, Trade Attaché and ITPC also have to perform public relation and promote nation branding. For instance the promotion of "made in Indonesia" campaign and also "Remarkable Indonesia" tagline. Trade Attaché or ITPC promote national image through its publications, advertisements, in every booth of their exhibitions abroad and also in the website. The purpose is to gain good reputation in the global market. In addition, CDC instruments maintain good relationship with host country importers through networking and lobbying. In a business gathering, potential exporters are being introduced to prospect the importers. They also continuously maintain good relationship with agent or direct importers of Indonesian products in their accreditations.

In subsidizing exporters especially in trade fair participation, small and medium enterprises (SMEs) exporters are the main target of these two institutions. Trade Attaché and ITPCs allow SMEs exporters to bring their products in the trade fairs for free. The DGNED usually choose the SMEs exporters who can participate in the promotional events conducted by Trade Attachés or ITPCs based on potentials or qualities of their products. Sometimes the DJNED facilitates potentials SMEs by training in one of their unit named Indonesian Export Training Centre (ITC) before sending them to an exhibition abroad.

Once a year, MOT conducted biggest Indonesian export product exhibitions in Jakarta named the "Trade Expo Indonesia". This expo is a showcase of main and potential export commodities. Trade Expo Indonesia is well known for international buyers. Primary product and also high value added product are exhibited in this trade fair. The "Trade Expo Indonesia" is important occasion for Trade Attaché and ITPCs because they have to bring buying mission to this event. The number of buyers in their delegation is targeted by Ministry of Trade every year. Long before this event starts, they have to promote this exhibition by advertisement and also in some business meetings. In addition, during this exhibition, Trade Attaché and ITPCs conduct a TTI (Trade, Tourism and Investment) forum in coordination with other institution such as from the Ministry of Tourism as well as Indonesia Investment Coordinating Board. The participants of this meeting are mostly business people from all over Indonesia. After the forum, the trade representatives handle business consultation for exporters who needs specific market information in their accreditation in a business clinics. The main user of this facilitation are SMEs exporters who are eager to engage in the new export market and want to be facilitated in trade fairs abroad.

Lastly, ITPCs and Trade Attaché can guide new exporters by serving information needed on particular export requirements and help exporters on legal and regulatory difficulties. In many cases, Trade Attachés for instance, may organize settlement of trade disputes such as in the case of dumping, subsidies, safeguards et cetera. Both institution perform a significant role in the case of protection of Intellectual Property Rights (IPR). They may help to find good lawyer for exporters when there is problem regarding property rights, as well as provide an awareness campaign for home business to avoid disputes on IPR.

3.2. Indonesian Trade Promotion Centre (ITPC)

ITPC was established on 29 July 1982 by an agreements between the Minister of Foreign Affairs and Trade Minister by the decree number SKB 1016/ OR/ VII /82/01 on "Organization and Management of Promotion Trade Center Indonesia at the Indonesian representatives abroad"[4]. According to the decree above, ITPC has a duty to conduct market development and trade promotion abroad as well as establish and enhance business contacts and cooperation between the stakeholders.

At the beginning of the formation, 6 ITPCs are posted in major cities of New York (USA), Los Angeles (USA), Hamburg (Germany), Sydney (Australia), London (England), and Rotterdam (Netherlands). After that the number of offices, location and country changed several times. In 1998, when the economic crisis hit, the government called off all ITPC posting due to insufficient budget for operational expenses. All operations and activities of foreign trade representatives were terminated. After the economic condition recovered, in 2000 the government reopened 6 ITPC offices which are located in Osaka (Japan), Los Angeles (USA), Budapest (Hungary), Dubai (United Arab Emirates), Sao Paulo (Brazil), and Johannesburg (South Africa). Then in 2006, three ITPC offices opened in Sidney (Australia), Hamburg (Germany) and Milan (Italy). Later in 1999, Indonesia opened 8 more ITPCs in Busan (South Korea), Chennai (India), Chicago (USA), Barcelona (Spain), Lagos (Nigeria), Vancouver (Canada), Jeddah (Saudi Arabia), and Lyon (France). Present day the number of ITPCs worldwide is 19 offices. There are 6 ITPCs for Canada, US and Latin America, 5 ITPC for Europe, 4 ITPC for Africa and Middle East, 4 ITPC for Asia Pacific.

Map 3.2. Indonesian Trade Promotion Centre Location Worldwide

Source: Ministry of Trade, processed by author

[4] Legal document of the Ministry of Trade of Indonesia, unpublished.

ITPC is supervised by the head of DJNED of MOT and relies on the budget under this directorate general. The organization of ITPC abroad is consist of ITPC head and Deputy Head of ITPC with several local staffs. Some offices only have The Head of ITPC or only Deputy Head of ITPC. This condition is due to the time gap on end of duty period of the former officers with the new recruitment of commercial diplomats. Moreover, ITPC offices in general have 2 local staff, one staff is focusing in the administrative substances and the other one supporting the main duties and functions. Some ITPCs have staff from relevant background such as economic and business but in some others their staff does not hold related degree.

ITPC's performance as well as Trade Attaché's are assessed by the PUSHAKA, Pusat Harmonisasi Kebijakan Perdagangan (Centre for Trade Policy Harmonization) of MOT. The assessment based on the efforts being made to improve the realization of the Indonesian exports in their accreditation. The initiatives and targets of ITPC is evaluated every 3 months and being reported to the Minister of Trade. They also have to send many reports including ad hoc, monthly, annual and special reports. In addition, every year, ITPC shall prepare 1 piece of market intelligence and 12 market brief reports in a predetermined schedule. These reports are submitted to the Secretariat of ITPC in the DGNED.

Following up and evaluating the demand for Indonesian products is what ITPC responsible for. From this figure 3.2., we can see that ITPCs have to coordinate with DGNED in assisting exporters. CSC is its counterpart in following up trade inquiries both from host country as well as domestic exporters. In 2014, the number of trade inquiries received by the MOT through the DJNED as much as 8997 consisting of 6,461 inquiries coming from trade promotion activities and 2,536 inquiries from the CSC services (LAKIP 2014). CSC forwards these opportunities to the exporters through online and offline media.

Figure 3.2. The flow of Business Level Assistances by ITPC

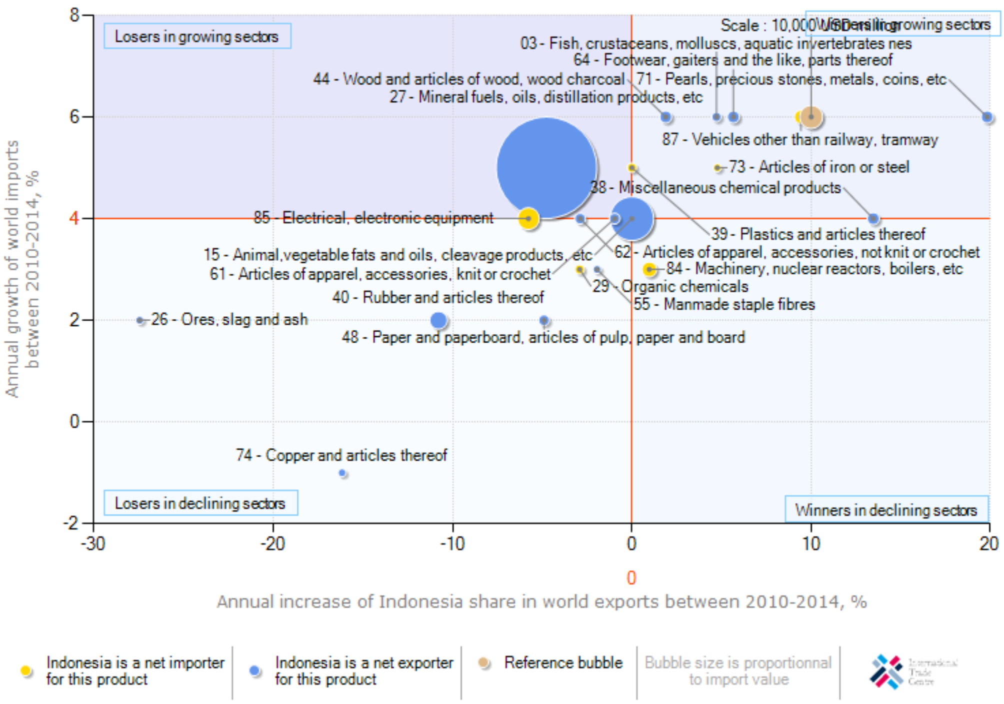
Source: Ministry of Trade, processed by author

According to the figure 3.2. above, ITPCs conduct activities such as producing market brief, market intelligent; following up trade inquiries both from exporters and importers; making export product profiles; finding buyer for SMEs exporters and conducting or participating in relevant trade fair to facilitate them; conducting business meeting to establish network and cooperation with chambers of commerce in host country, trade associations of other countries or similar organizations from other countries. In addition, ITPC perform public relation activities through catalog, brochures, and advertisements in business directories and newspapers or other electronic media to promote Indonesia branding and also Indonesian product. ITPC also provides space for Indonesian export product as trade display in each of their offices.

3.3. Export Performance of Indonesia

Export is one of the main sources of national economic growth of Indonesia. The biggest share of Indonesian exports mainly come from mineral fuels, and oils distillation products then followed by non-oil exports (International Trade Centre, 2015). The growth of international demand on Indonesian export we can see in the figure 3.3 below.

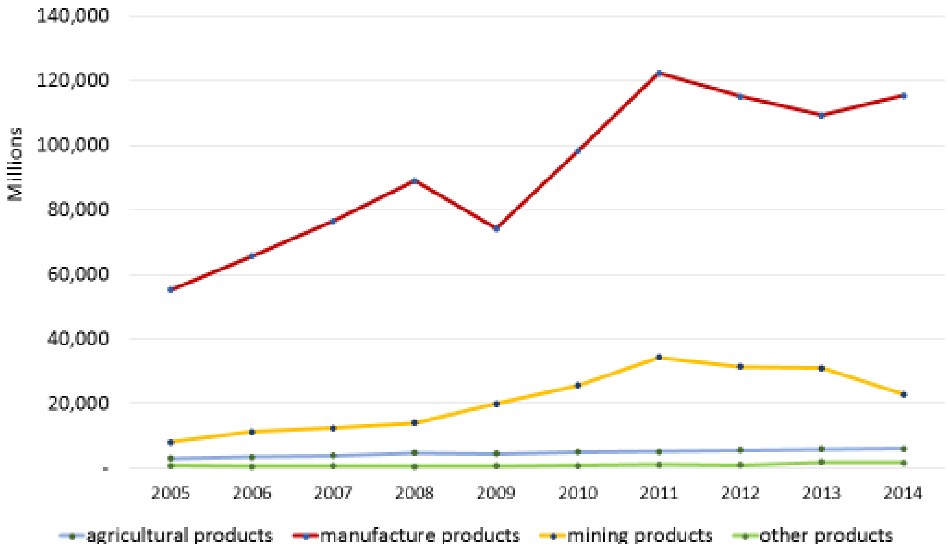
Figure 3.3. Growth of National Supply and International Demand for Indonesian Exports Products in 2014



Source: International Trade Centre, www.intracen.org

Based on export performance report of MOT (LAKIP 2014), total exports of Indonesia in 2013 is US$ 190 billion. In this report MOT stated that the diversification of Indonesia's export markets have been increasing lately, therefore economic growth become more sustained since dependency on exports to a particular country is being reduced. Further, MOT mentioned that the share of five major export destinations (US, China, Japan, India and Singapore) is approximately 43-47% while the total exports to non-traditional countries increased by 25% in 2013 (ibid). The diversification of export product also increase and the comparative advantage of Indonesia's export products in the global market is getting better. MOT noted that the image of Indonesian export products in global markets according Export Dimension in Simon Anholt Nation Brand Index in ranges 44-49[5] which reflects a pleasant reputation of Indonesian products in the global market. The MOT has set up 10 kinds of products referred to as the 10 main products, which are textile products, electronics, rubber products, palm oil, forest products, footwear, automotive, shrimp, cocoa, and coffee. Beside the 10 main products, the MOT also promote 10 potential export products consist of leather products, medical equipment, medicines, processed foods, essential oils, fish and fishery products, handicrafts, jewelleries, spices, and office equipment. Trade Representatives concentrate on promoting these main and potentials products in the countries of their accreditation.

Figure 3.4. Profile of Indonesian Non-oil Export 2005 -2014
(in million US$)



Source: Statistic Indonesia 2015, processed by author

In addition, according to Statistic Indonesia in the figure 3.4, non-oil export of Indonesia in 2002 and 2014 is mainly dominated by manufactured products such as palm oil, textile and textiles products, electrical apparatus, base metal products, processed rubber, paper and paper produts, processed food, et cetera. In the second place is the mining commodities, while the agricultural sector has

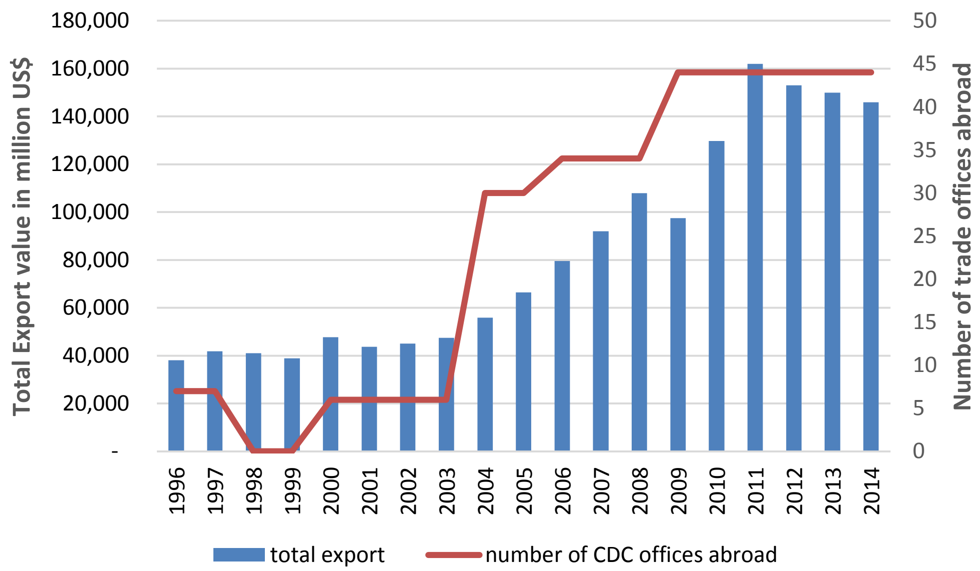
[5] Simon Anholt Nation Brand Index is index measuring nation branding. The MOT often use this index to assesed their export performance particularly in its export products reputation in the MOT report performance (LAKIP).

the smallest share in Indonesian exports. Indonesia agricultural export includes cocoa bean, shrimp, coffee bean, fish, spices, tea, vegetable, fruits, tobacco, resin and resin gums, natural rubber and so on. Whereas, five major destination of Indonesian exports are China (14%), Japan (11%), United State (10%), India (8%), and Singapore (7%).

2.5. Presence CDC Instruments over Indonesian Export Performance

Indonesian export value experienced an increasing trend. From the figure 3.5 below, it seem that Indonesian non-oil export from 1996 until 2014 is well performed. Exports undergo a significant downturn when the financial crisis occurred in the world economy in 2008, but then steadily increase until 2011. Due to the recent global crisis, from 2012 the Indonesian export performance have experienced a slightly downturn until 2014. The slowdown in world economy affects the demand of Indonesian exports.

Figure 3.5. Non-oil Export over the increasing number of CDC Instruments Posting 1996-2014

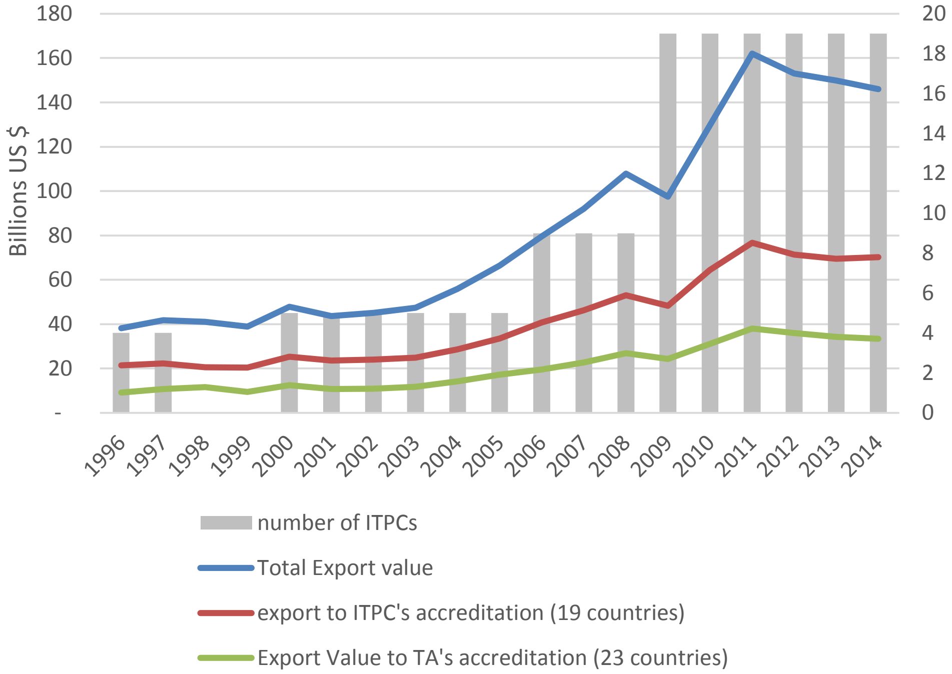


Source: Ministry of Trade, processed by the author

Despite the pattern of non-oil export performance, from the figure 3.5 we can also see the increasing number of CDC offices (Trade Attachés as well as ITPCs) abroad from time to time. From 2003 the number of CDC instruments is growing rapidly. Nowadays Indonesian has 42 Trade representatives all over the world. While in 1998 to 1999, due to the severe economic crisis that time, all trade representative's activities were terminated.

From 18 countries of ITPC's accreditation, the enactment of Indonesian exports is approximately similar with the pattern of the total non-oil export performance. It also experienced a downturn in the 2011-2012 due to global crisis, but the decreasing of exports is not as steeper as in the total exports (figure 3.6). After the recent economic downturn in 2012, the export value in these 18 countries seems to rise again. This pattern is different with the countries where Trade Attaché present. In the 23 countries of Trade Attaché accreditations, the export value is not as promising as in the ITPCs' in total.

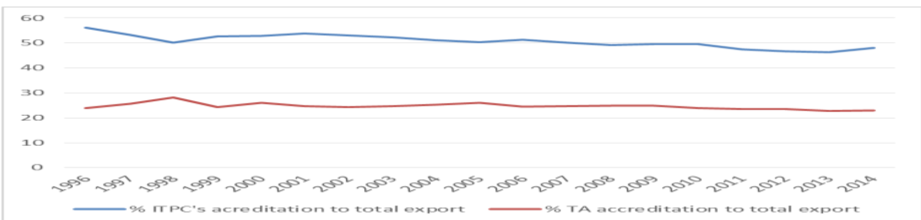
Figure 3.6. ITPC's Posting and Indonesian Export Performance 1996-2014



Source: Ministry of Trade, processed by the author

The share of the CDC posting in total export can be seen from the figure 3.7 below. ITPCs' accreditations plays significant part because roughly half of total export value comes from these countries. Meanwhile in 23 countries of Trade Attaché's accreditations, it supports approximately 20% of the Indonesian non-oil export. It is shows that the countries of CDC's accreditation is important as Indonesian export target.

Figure 3.7. Share of Exports from CDC Instruments Accreditation to Total Non-oil Export from 1996-2014



Source: Ministry of Trade, processed by the author

2.5. Conclusion

Indonesian Trade Attaché and ITPC are the Indonesian CDC apparatus under Ministry of Trade (MOT). Trade Attaché pledge for all regulatory and formal trade issues, whereas ITPCs put more emphasis on export promotion activities. Nonetheless their role in the firm level assistance are the same, they both assist business people and conduct export promotion activities. In addition, Indonesian export performance in 18 countries of ITPC accreditation is approximately half of the annual total export value and greater than the contribution of Trade Attaché's in 23 countries. It indicates that the ITPC accreditation is substantial in supporting Indonesian exports performance.

Chapter 4
Data Source and Methodology

This chapter contains description of data source being used, methodology employed in this study, the variables included in the empirical analysis, and a presentation of the econometric specification.

4.1. Data Source

Secondary data obtained from the government of Indonesia as well as the international institution database are used in this paper. Data of non-oil export value are taken from the Ministry of Trade Republic of Indonesia, while data on GDP per capita and population of Indonesia and its 62 export destinations tare taken from IMF statistics. Data on distance are collected manually from www.geodatasources.com by measuring the distance between Indonesia to the capital city of each partner countries. Whereas, the presence of ITPC, Trade Attaché as well as embassy and consulate are obtained from Ministry of Trade and Ministry of Foreign Affair. Primary data on further discussion are collected by face to face interviews and skype. Additionally, supplementary information from the database of Ministry of Trade are also being used to support the evidences.

4.2. Methodology

This study is a mixed study, quantitative and qualitative analysis. In the quantitative analysis I use Gravity Model of International Trade to examine the determinants of Indonesian exports. I also conduct some interviews to key persons in the MOT as well as its trade representatives abroad to get the qualitative feelings of what challenges might hamper their performances in promoting exports.

In investigating the impact of ITPC on exports, basic model of international trade developed by Timbergen (1962) applied in this study. The main explanatory variable this study is the presence of ITPC but standard variables in gravity model are included in the estimation as control variable. These variables such as income level and population of partner country and also GDP of exporter, in this case Indonesia's GDP. The gravity analysis illustrates the ways in which ITPC is likely to impact exports performance along with other variables in the model. For this purpose, this paper examines several export determinants to Indonesian non-oil export value as response variable. The sample in this study consist of 62 countries of export destination (either it has trade representative or not) in 19 years from 1996 to 2014 with total 1175 observations.

I also conduct a regression on partial sample of ITPCs' host countries. Other determinants of export will be GDP of importing country, GDP of Indonesia, distance between Indonesia to trade partners, number of embassies and consulates, and most importantly the presence of ITPC. However, this study does not employ variables which are often included in the Gravity analysis such as colonial link, common language, area size and participation to a trade arrangement because I only focus on relevant variable needed to analyse impact of CDC. In particular, this paper will explore how exports will be affected, and whether ITPCs will change the impact of export pattern. The relevant of ITPCs is that it lowers entry costs into a new market which enable exporters and buyers to trade at a low cost. If the value of coefficient is positive and significant, it can be inferred that the ITPC has positive impact on export performance, with the magnitude depends on the size of its coefficients in the outcome.

I applied panel data in this study to describe the correlation over variables and then estimate the observation using OLS (Ordinary Least Square), Fixed Effect Model (FEM) and Random Effect Model (REM). Panel data is a combination of time series and cross section data which could improve the data quality (Gujarati 2003). In this paper, panel data is useful to study the behavioral effect and dynamic change of several determinants in certain period of time. According to Egger (2000), REM is suitable in predicting trade flows from a larger population of randomly drawn samples, whereas the FEM is more useful in an arranged selection of sample countries. This study only investigates exports of Indonesia to its trading partners. Nonetheless, Hausman test is also taken to check whether the REM or the FEM estimation is more appropriate.

4.3. Determinants of Trade in the Gravity Model

4.3.1. The Variables

Dependent Variable:

Exports Value

Non-oil export value from 1996 to 2014 (19 years) represents as the dependent variable the export performance of Indonesia. Data on value of non-oil and gas export in U.S. dollars are collected from the Ministry of Trade. The dependent variable in the research is export value of Indonesia to 62 importer countries.

Explanatory Variables consist of:

GDP of Partner Country

Real per capita GDP of partner countries as a proxy of income of importer country. Country with higher level of income tend to demand higher import of goods. An increase in income of a country is expected to increase consumption at large.

Distance

This variable is proximity distances between Indonesia and partner country. Distance represents transportation cost. As the distance become more further, the transaction costs across distance becomes higher. The further the distance, the higher the transaction cost across distance. Therefore, distance is plays important role in international trade. Therefore, the hypothesis is the further the distance are the lower the export value.

Population

Population of the partner country represents the demand for export goods. Country with higher population potentially demands higher import goods. An increase in population of a country is expected to increase import.

GDP of Indonesia

The real per capita GDP of Indonesia to identify supply side. The higher per capita GDP is, the higher the technical level and the average income are. Meanwhile, the higher technical level and the average income may mean that the country can export more. This variable also shows competitiveness of a country.

CDC instruments (including ITPC)

I use three commercial diplomacy instruments in the sample. They are the existence of ITPC, the presence of Trade Attaché and the number of embassy and consulate in the country of ITPC accreditation.

The number of ITPC offices in a host country is used to observe whether the presence of trade promotion office has an impact on the demand for Indonesia export in partner country. The presence of ITPC is expected to have a positive impact. The number of embassies and consulate posting applied in this research to observe whether the presence of embassies and consulate also has a significant role to boost export in partner country.

4.3.2. The Econometric Specification

This research will use gravity model as follow:

$$\begin{aligned} lnxijt = \ & \beta o + \beta 1 ln\ gdpjt + \beta 2 ln\ gdpit + \beta 3\ lndistij + \beta 4\ lnpopjt + \\ & \beta 5\ itpcit + \beta 6\ tait + B7embcon + \varepsilon it \end{aligned}$$

In this econometric specification, xi denotes the exporter (Indonesia), j is the importing country, and t the year. Here in the table the variables are defined.

Table 4.1. Variables in the Gravity Model

Variables	Represent
xit	exports Indonesia to host country i in year t negative
gdpjt	real GDP per capita of country j (importer country) in year t
gdpit	real GDP per capita of country i (Indonesia) in year t
distij	distance between Indonesia and country i
popjt	average population of country i in year t
itpcit	number of ITPC in country i in time t
tait	number of Trade Attaché in country i in time t
embcon	number of embassy and consulate of Indonesia in country i in time t

The measurement will use panel data analysis. Panel data analysis can describe the demand for Indonesian export for a certain period and the potential destination of Indonesia's export. In selecting the best and most efficient model, this research use Hausmann test to choose between Fixed Effect Model or Random Effect Model.

4.4.3. Hypothesis

Distance (distij) is expected to have a negative sign. It means that the farther the distance between Indonesia and the trading partners, the lower Indonesia's trade flows. The positive correlation is expected from the GDP of partner countries (gdpjt) which means that the greater the GDP per capita of trading partner, the greater Indonesia's export to the country. GDP of Indonesia as proxy of country's competitiveness also projected to affect greater trade performance. The correlation between export value and the population of trade partner (popjt) is also projected to be positive and significant. It means that the greater the number of a population in trading partners, the greater Indonesia's trade flows.

The most importantly, the variable of interest, ITPC presence (ITPCit), and other CDC instruments which are Trade Attache (TAit) and Presence of Embassy and consulate (embcon) also expected yield positive sign and significant correlation. It inferred that Indonesia's export value expands through the presence of ITPCs, Trade Attaché existence and also that embassy and consulate has significant impact to export performance. The expected relationships as follows:

4.2. The Expected Sign of the Explanatory Variables

Variables	Direction Effect
Distance	negative
GDP of Indonesia	positive
GDP of trade partner	positive
Population of trade partner	positive
ITPC	positive
Trade Attaché	positive
Embassy and Consulate	positive

4.4.4. Issues of Zero Trade Flows

Gravity model often have to deal with problematic zero trade flows in the observations. This problem occurs mostly in the trade flows between small countries or due to higher trade barrier such as the distance of export destinations. According to Burger et al (2009), zero trade flows could generates a biased outcome and implies a methodical error since the logarithm of zero is not defined in the linear gravity estimation. To manage this difficulties, Yakob and Bergeijk (2011) suggested to replace the zero trade with a very small constant before bringing it into log level. This study does not have to contend with the zero trade flows problems, since the sample of the 62 countries are the established export destination of Indonesia and the zero trade flows is absent in the 1175 observations.

Chapter 5
Result and Analysis

This chapter presents the empirical results which examines the correlation between the presences of CDC instruments particularly ITPC on Indonesian aggregate non-oil export performance using gravity model of international trade. ITPC posting is the main explanatory variable, whereas various exports determinants are also included as control variables in this study.

5.1. ITPC on Export Growth

In the estimation I use panel data analysis as it can describe the demand of Indonesian export for certain period. I examine 1175 observations in the data set from sample consist of 62 countries of Indonesian export destination for 19 years from period 1996 to 2014. I investigate the impacts of variables such as the distance from Indonesia to partner countries (lndistij), GDP of partner countries (lngdpjt), population of export destination country (lnpopjt), number of embassy and consulate in host countries (embcon), presence of Trade Attaché (tait) and presence of ITPC (itpcit), on Indonesia's non-oil export performance.

In the first estimation, I use conventional OLS. From outcome presented in table 5.1., we can see that all variables have the right sign and highly significant effect. For instance, variable lndistij shows a negative sign, which means that distance negatively affect export performance. This is in line with the theory that the farther the distance is, the lower the exports to that destination. Theoretically, the trade flow between two countries is determined by the economics mass and the distance between those countries. It should be positively related to the economic mass and negatively related to their distance. Other variables such as GDP and population of partner country and GDP of Indonesia also yield outcome as expected. They significantly correlate with Indonesian exports and the direction also as projected. GDP and population of export destination represents the demand and the Indonesia's GDP represents country's competitiveness. This outcome indeed support the theory that both variables generate higher exports demand.

Table 5.1. Determinants of Export Performance (1)

Variables	Pooled	Fixed Effect	Random Effect
lndistij	-1.153018(***)	Omitted	-1.134931(***)
lngdpjt	.5026867 (***)	.4131555(***)	.4386202 (***)
lngdpit	.1964627(**)	.4339687(***)	.410025 (***)
lnpopjt	.5854131(***)	.6247525 (**)	.6247947(**)
embcon	.1011389(***)	.0446372	.3189647(**)
tait	1.0828(***)	-.0880235	-.0178036
itpcit	.6621965(***)	.1722441	.179754
constant	7.425028(***)	-3.429238 (***)	6.244305(**)

Notes: Standard errors are in parentheses, * p<0.1, ** p<0.05, *** p<0.01

The R^2 of the OLS model is 0.7075 which means that Indonesian non-oil exports performances can be explained by all explanatory variables in the model as much as 70% while the remain 30 % can be explain by other determinants. From the OLS outcome in table 5.1., CDC instruments variables which are embassy and consulate, presence of Trade Attaché as well as the variable of interest ITPC yield positive and significant correlation on Indonesian exports. It shows that their presence is indeed important although the magnitude of their effect is small. Here we can see that ITPC generates higher impact compares with the presence of Trade Attaché as well as Embassy and consulate (table 5.1).

Afterwards, I measure the correlation using FEM and REM and each yields R^2 of 0.4495 and 0.6420. From FEM and REM models in table 5.1., we find that ITPC is not significant although it yield a positive effect. Whereas, the presence of Trade Attaché shows a negative effect. GDP of partner country, GDP of Indonesia and population of trade partner constantly shows a positive and significant sign. However, the number of embassy and consulate has a mix up outcomes. I find these models do not satisfactory, then I try to concentrate on the demand side only. Hence I omit the Indonesian GDP (lngdpit) as proxy Indonesia's competitiveness to see the further impact if I only focus on the trade partner's characteristic. Population as well as level of income of trading partner being observed in complement with the presence of CDC instruments (Embassy and consulate, Trade Attaché, and ITPC) variables. The result from the observation of determinants of trade (demand and presence CDC) is presented in table 5.2.

Table 5.2. Determinants of Export Performance (2)

Variables	Pooled	Fixed Effect	Random Effect
lndistij	-1.179586(***)	Omitted	-1.284993(***)
lngdpjt	.5264493(***)	.6486191(**)	.6683139 (***)
lnpopjt	.5974939(***)	.9101885 (**)	.7941505 (***)
embcon	.0812057(**)	.0988431	.3459813
tait	1.07752 (***)	.1221159(*)	.1602645(**)
itpcit	.732926(***)	.3411875(**)	.3459813(**)
constant	8.878803(***)	-3.44792(***)	8.150229 (***)

Notes: Standard errors are in parentheses, * p<0.1, ** p<0.05, *** p<0.01

I conduct regression on OLS, FEM and REM models. The highest R^2 performs in the OLS estimation (0.7046) followed by REM (0.6697) and FEM (0.4854). From the outcome we can see that in both model FEM and REM, variables standard in gravity model particularly GDP and population of partner country and GDP of home country yield positive correlation. While under FEM, distance is omitted due to time invariant problem. Further, the result describes that the presence of ITPC (itpcit) as well as Trade Attaché also show positive and significant effect under FEM and REM. However the number of embassy and consulate in trade partner does not imply a significant association to exports under both models.

Next, I conduct Hausman test to find out either FEM or REM performs more accurate estimation. If the null hypothesis hold, REM will be more efficient, otherwise FEM will be more preferred. According to Hausman test (appendix 9) FEM are found out to be more efficient in this analysis. Since distance between trading partner to Indonesia (lndistij) under FEM is omitted, then I run again several regressions without distance variable as presented in the table 5.3.

Table 5.3. The Overall Result of Gravity Analysis under FEM

Variable	(1)	(2)	(3)	(4)
lngdpjt	.6486191(***)	.6942516(***)	-	-
lnpopjt	.9101885(**)	.7064346(**)	.3081455	.3055067
embcon	.0988431	.4780662	.2742959	.2696175
itpcit	.3411875(**)	-	.2173533(**)	-
tait	.1221159(*)	-	-.1030774	-
lngdpleveljt	-	-	.6345402(***)	.6546219(***)
constant	-3.44792(**)	-3.824702(**)	-2.49388	-2.690054
Fixed Effect	**Yes**	**Yes**	**Yes**	**Yes**

Notes: Standard errors are in parentheses, * $p<0.1$, ** $p<0.05$, *** $p<0.01$

In the first regression under FEM (regression 1), I estimate the impact of income level and population of export destinations as well as the CDC instruments (Trade Attaché, ITPC, embassy and consulate). This estimation yields R^2 of 0.4854 means that the explanatory variable in this model explain approximately half of Indonesian export performance holding all variables constant. From the 1175 observations here, GDP and population of partner country show a positive and significant impact. In addition, ITPC and Trade Attaché also yield a noteworthy correlation to Indonesian export under the 5% and 10% significant level. Moreover, the presence of ITPCs take greater impact compare to presence of Trade Attaché in boosting exports. Further, when the variable of Trade Attaché and ITPC dropped out (in regression 2), income level and population of partner country still bring significant impacts. The model in regression 2 explains Indonesian export performance by 45% ($R^2 = 0.4569$). The result is also confirmed that even if the two other CDC variables being omitted, embassy and consulate still remain insignificant.

In regression 3 and 4, I try to include GDP level of partner country (lngdpleveljt) as substitute to GDP of partner country variable. The R^2 in regression 3 and 4 are 0.3357 and 0.3399, which mean that both models could explain the response variable by 33% approximately. In regression 3, it is still confirmed that GDP level of trade partners and the presence of ITPC is significant affecting Indonesian exports. Nevertheless, the Trade Attaché as well as the embassy and consulate variables are found inconsequential in this estimation. Whereas in regression 4, I once again conduct regression without ITPC and Trade Attaché in the estimation. The result are more or less the same, level of GDP still confirmed to have significant impact. However, after the fourth estimation under FEM, the presence of embassy and consulate is still insignificant in correlation with Indonesian non-oil export performance.

To sum up, from all the regression conducted in table 5.3., the GDP level of partner country is indeed important factor that generates Indonesia's export performance. Real per capita GDP of partner countries (lngdpjt) positively influences Indonesian exports. It means that the higher the GDP of trading partners, the greater the Indonesian export to those destinations. As the GDP of trading partner is increase by 10 percent, it will generates as much as 6 to 7 per cent of Indonesia's export value (*ceteris paribus).* Theoretically, per capita GDP represents average income level of the country in general. The increase of real income of a country means an increasing welfare. When the destination country is economically better off, demand of goods is growing. People demand more goods, either domestically produced or imported goods. Thus, raising of GDP per capita of trading partner represents higher consumption and demand for foreign products.

Population of importer country also implies a significant impact on generating a higher export demand. From table 5.3., holding all variables constant, per 10% population of trade partner (lnpopjt) increase, will rise Indonesian export to that country by 7 to 9 per cent. It implies that market size is really important for Indonesian export. The bigger the population of trade partner represents the larger the market. Population of trade partner considered as opportunities in which Indonesia can intensify its export products.

Further, the presence of ITPC clarify a significant and positive correlation on Indonesian exports. In all regression presented in table 5.3., I constantly compute the effect of ITPC is positive and significant. In particular, each additional ITPC office posted abroad is associated with a rise of exports by 0.2 to 0.3 per cent. While the result on Trade Attaché is mixed up, only in the first regression it carry a significant impact on exports but the magnitude under the presence of ITPC's. However, embassy and consulate does not show a significant correlation with export performance in all estimation although it yields a positive sign. It implies that the presence of embassy and consulates does not correlate with export growth.

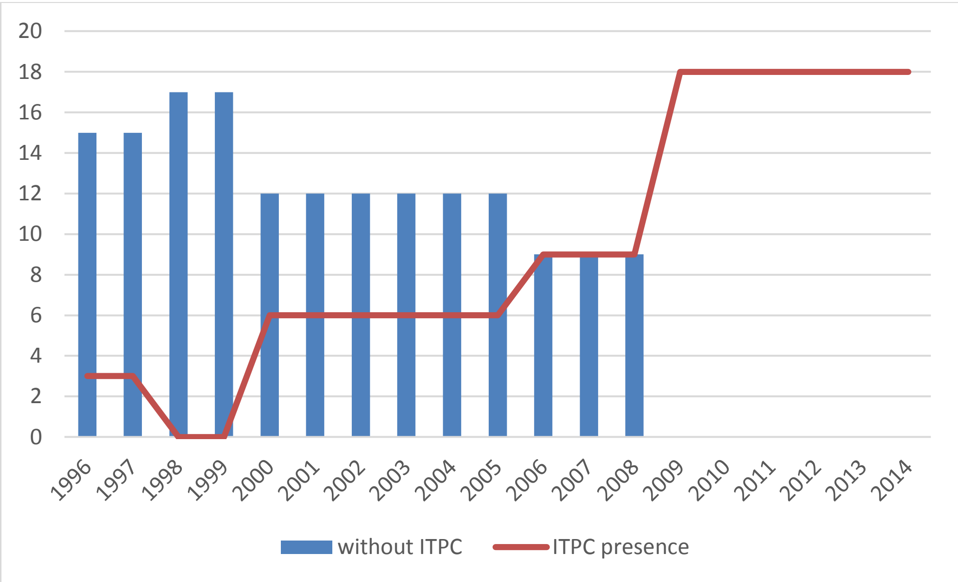
Moreover, ITPC yields greater influence than Trade Attaché in boosting export performance. This might be related to ITPCs role which is more independent in budget and promotion activities apart of the embassies if compared to Trade Attaché. Moreover, the responsibilities between the two institutions could be the other reason. ITPC's responsibility is focus more on export promotion while Trade Attaché more on regulation and policy. Besides that, Trade Attaché is involved in the embassies activities so it might be less dynamics compare to ITPC on conducting export promotion programs. To sum up, ITPC is indeed substantial for generating trade performance and it is also considered more effective in promoting exports than Trade Attaché based on the estimation on full sample.

5.2. The Impact of the Presence of ITPC in 18 Host Countries

After employing the full data set, I try to examine a before and after analysis of ITPC presence using partial sample of 18 countries of ITPC accreditation. In each country in the sample, there were times when ITPC did not presence. I divided the observation into a dummy (1 if ITPC presence in the country and 0 otherwise).

From the figure 5.1. below, we can see the trend of ITPC establishment in 18 countries. From early 2000, approximately 6 ITPCs start to operate and then in 2009 the 19 ITPCs all presence in 18 countries. The countries investigated in this section are Australia, Brazil, Canada, Chile, France, Germany, Hungary, India, Italy, Japan, Korea, Mexico, Nigeria, Saudi Arabia, South Africa, Spain, United Arab Emirate, and United States. In those countries of ITPCs posting, the highest export performance is to United Stated while the lowest is the export to Nigeria.

Figure 5.1. The Presence of ITPC in 18 countries



Source: Ministry of Trade, processed by author

I attempt to study the impact of all determinant variables in gravity analysis using this partial sample. Again, I estimate distance from Indonesia to partner country (lndistij), GDP of partner country (lngdpjt), population of export destination country (lnpopjt), number of embassy and consulate in host country (embcon), presence of Trade Attaché (tait) and presence of ITPC (itpcit), on Indonesia's non-oil export performance in 18 countries. There are 342 observations in total in this estimation. The result of the gravity analysis on partial sample is present in table 5.4.

Table 5.4. The Overall Result from Partial Sample

Variables	Pooled	Fixed Effect	Random Effect
lngdpjt	.7736575(***)	.2210205(**)	.2941629(***)
lndistij	-1.498969(***)	Omitted	-1.281876(***)
lnpopjt	.7909168	.5920793	.583104(**)
lngdpit	.0397971	.3842062(***)	.3436661(***)
tait	.0817734	-.0143346	.0342951
itpcit	.3114473(***)	.3117145(**)	.2996609 (***)
embcon	.0172725	.0476366	.2461533(*)
constant	9.441845(***)	-.8140344	10.12556(**)

Notes: Standard errors are in parentheses, * p<0.1, ** p<0.05, *** p<0.01

From the empirical result presented in table 5.4., GDP of trading partner and the presence of ITPC always bring positive and significant outcome under the three models, OLS, FEM, and REM. Whereas, the variable of embassy and consulate (embcon) remain yields insignificant result. Each of the model represents R^2 0.8363 (OLS), 0.5220 (FEM) and 0.7463 (REM). In selecting the best and most efficient model, Hausman test specify that Prob>chi2 = 0.0365 which means that it is significant at 5% and imply that the best model is the FEM. However the REM seem to have meaningful description and higher R square. Hence, I conduct further analysis on before and after ITPC presence on export performance under REM on 168 observations in table 5.5.

Table 5.5. Before and After ITPC Presence

Variables	Before ITPC presence	After ITPC presence
lngdpjt	.3784039(*)	.2652183(***)
lndistij	-1.186886(**)	-1.420555(***)
lnpopjt	.6016718(***)	.6542535(**)
lngdpit	.2410523(**)	.3952363(*)
tait	.0797336(*)	.3445341(***)
embcon	.3143414(**)	.1529149
constant	9.002199(*)	11.01286(*)
Rsquare	0.7724	0.7644

Notes: Standard errors are in parentheses, * p<0.1, ** p<0.05, *** p<0.01

When ITPC instruments did not presence in the country, Trade Attaché brought a significant and positive impact to export performance by the coefficient 0.797336. However when ITPC presence in those countries, the role of Trade Attaché increase from 0.07% to 0.34 % on export performance. This result implies that the presence and cooperation by both institutions in one country could boost more export performance. Whereas the role of embassy in exports is likely falling when the ITPC exist.

Next, from the partial sample I try to analyze the impact of determinants variable of export performance when ITPC solely presence and when both ITPC and Trade Attaché posted in the same country. I split the observation into dummy (1 if the Trade Attaché presence in the sample and 0 otherwise).

Table 5.6. Comparison of CDC Performance

Variables	In country where only ITPC presence	In country have both Trade Attaché and ITPC
lngdpjt	.3353602(**)	.2412302(**)
lndist	-6.6257964 (*)	-3.268505(*)
lnpopjt	.8165214(***)	.3637901(*)
embcon	.0607053	-1.446062
lngdpit	.343694(***)	.3543293(***)
itpcit	.2939028(**)	.3718073 (**)
constant	3.5028	31.97132
R square	0.6748	0.6176

Notes: Standard errors are in parentheses, * p<0.1, ** p<0.05, *** p<0.01

There are 209 observations of the countries where ITPC presence and 133 observations of countries which have both institutions. From the two regression in table 5.6 I find out that when Trade Attaché presence along with ITPCs, the impact of ITPC become greater by approximately 7%. It confirms the previous estimation of the full sample in table 5.2 that ITPC's impact is larger than Trade Attaché's. However, this outcome refers that both ITPC and Trade Attaché will be useful if they both be posted in the same country. This is relevant because by the function, these two institutions will complete each other. One focusing on export promotion and the other one will be focusing in trade policy and dispute settlement which could benefit more to the exporters. They both can generate a whole package of facilitation to exporters.

Again, the impact of the embassy and consulate does not yield a significant outcome in these two estimations. This finding is in contrast with the evidence present by Veenstra et al. (2010) and Bergeijk et al. (2011) who argue that the number of embassies has positive effects on the bilateral export. In this study, embassy and consulate does not prove a considerable effect on Indonesia's exports. Indonesian embassy and consulate has economic function in their organization structure, nevertheless this institution does not bring expansion on export performance. Yet, the export promotion agency which does not hold diplomatic status, the ITPC, is found to be more performed than diplomatic institution on exports.

5.2. Conclusion

I draw a conclusion that ITPC give a positive and significant impact on export performance. From the magnitude it shows that ITPC has greater impact than Trade Attaché in boosting exports. Nonetheless, the magnitude of both institutions' effect are relatively low. I also suggest that both ITPC and Trade Attaché will become more useful if both of them be posted together in the same host country. On the other hand, this study finds out that the embassy and consulate does not give significant impact on export performance, in contrast with the study of Veenstra et al. (2010) and Bergeijk et al. (2011). Regarding the econometric outcome in this chapter, the impact of the two CDC instruments under MOT (Trade attaché and ITPC) on exports is not too satisfactory. Hence, in the next chapter, I will discuss the circumstances occurred in these agencies to explore the reasoning.

Chapter 6
Challenges of Commercial Diplomacy, a Further Discussion

The outcome of the econometric analysis shows that CDC is likely give a positive and significant impact to Indonesian trade performance. But the magnitude of its impact is quite small. Based on the regression result, I will try to explore a further explanation on what is affecting CDC performance. In this section, I attempt to discover the circumstances faced by the trade representatives abroad by exploiting secondary data from the MOT and interviews with several respondents consist of Trade Attaché, ITPC and MOT officers (see Appendix 5)[6].

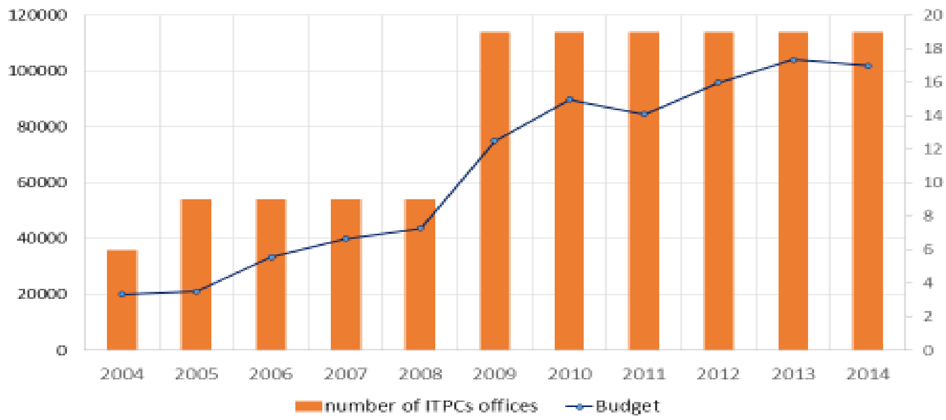
6.1. The Challenges

At first I was using the question lists to find out what is happening in internal organization of trade representatives, but as my discussion with the respondents flows, I find out many interesting part to be included in this chapter. I categorized the main challenges that affect CDC instruments performance found in the interviews into two classifications; from internal and external circumstances.

6.1.1. Internal Challenges
Insufficient Budget

The first challenge is the limited budget of the trade representatives abroad. This is relevant with the study of the problem mention by Hogan et al. (1991) which stated that export promotion agency of developing countries are facing insufficient budget problem.

Figure 6.1. Budget of ITPCs from 2004-2014 (in million rupiah)



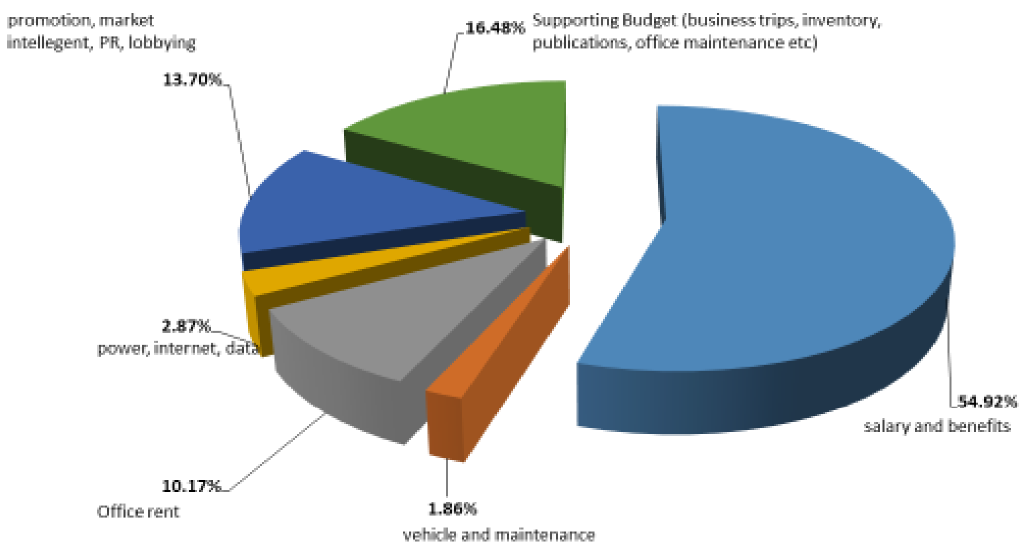
Source: Ministry of Trade, processed by author

[6] Interviews conducted with MOT officers in Jakarta, Trade Attaché in Netherland and also by skype with ITPC Sidney officer by skype during May until August 2015 as presence in appendix 5, whereas the list of questions is in appendix 6.

From the data of the growing budget of ITPC from 2004-2014 as we can see in the figure 6.1., it indicates that Indonesia investment on establishment of CDC instruments have been expanding from time to time. In 2004 the budget for 6 ITPC offices are approximately 20 million rupiah and in 2014 when the number of ITPC abroad become 19 offices the budget rise for approximately 120 million rupiah. The trend on ITPC budget is increasing in aggregate.

However as we can see in the figure below, the financial plan is mostly spend on the salary and benefits of CDC's staffs. It takes more than half the overall budget.

Figure 6.2. Allocation of ITPC's budged



Source: Ministry of Trade, processed by author

The allocation from total budget of ITPC are as follow: salary and benefits (54.92%); supporting budget such as expenses needed for business trips, inventory, publications, office maintenance, et cetera (16.48%); promotion, market intelligent, public relation (PR), lobbying (13.70%); power, internet, data (2.87%); office rent (10.17%); and vehicle maintenance (1.86%). As mentioned by ITPC officer, despite the target set by MOT, the budget provided for trade offices abroad are insufficient to finance all the activities needed[7]. This situation is also being underlined by the Head of Finance Department in the DGNED. He also added that administration and procedure to liquefy budget for trade representatives from the Ministry of Finance sometimes takes time while the activities of the CDC abroad should run as usual[8]. This also bring difficulties since the budget needed are sometimes is being postponed. This circumstances hinder CDC's effectiveness. It impedes their activities in producing market intelligence and market brief report, in organized business meeting, subsidizing trade fair participation for SMEs exporters and et cetera. However, according to Head of Finance Department, trade representatives may submit a revised budget in anticipation of the changing conditions or priority and to optimize the use of a limited budget.

[7] Interview with Deputy Head of ITPC Sidney, August 4, 2015
[8] Interview with Head of Finance Department of the DGNED, Jakarta May 4, 2015

Human Resources

As mention by Reuvers and Ruel (2012), CDC is driven by all the staff involved as well as their knowledge and skill to create an innovative way in promoting export. The presence of local staffs is important in building network in host countries. Local staffs are familiar with culture and requirements in business relation in host country. They will easily help promote export because of their knowledge on specific characteristic of business community in host country and also by communicating in local language.

Indonesian trade representatives face human resources hindrance particularly in the most case they lack of staff. ITPC offices or Trade Attaché' commonly have 2 local staffs, for instance ITPC Sidney and Trade Attaché office in Netherland. The responsibilities are divided to those two staffs. One staff is focusing in the administrative matters and the other one helping the CDC head conduct their main duties and function such as networking, reports writing, creating promotion events, and producing market information materials.

Many Trade representatives do have staff with relevant knowledge which is beneficial to perform their service better. For example ITPC Sidney and Trade Attaché in Netherland they have staff with business study background. But according to MOT officer in Jakarta office, some CDC instruments may not as lucky as this two trade representatives abroad[9]. Moreover, the workload of CDC is so high because they have to conduct many networking activities as well as promotion and reports with limited staffs and insufficient time. Basically, this problem is also related to the budget limitations of trade representatives. Sometimes their budget does not come on time and effecting regular salary for the staffs and it may lead to staff turn-over which negatively affect their performance. According to Head of Foreign Trade Section of Central Harmonization of Trade Policy Board of MOT, lacking of staffs have been experienced by most all of the trade representatives.

Coordination

Major weakness of the many CDC programs experienced by Indonesia is the lack of coordination between the private sector and the government as well as among levels of government. Trade Attaché and ITPC officer underlined the difficulties in the flow of information and coordination[10]. Problem in handling reports and market information is a doubtful intra organizational problem.

According to the MOT officer in Jakarta[11], the reports including market information materials from trade representatives abroad are less frequently sent to MOT, therefore the up to date information needed by home exporters cannot be provided. However, the CDC officers argue that lack of human resources and workload make them hardly meet the target. According to the trade representatives, promotion materials, market access, potential for the development of cooperation has been reported to the MOT, Minister of Foreign Affair (MFA) and

[9] Interview with Head of Foreign Trade Division of Central Harmonization of Trade Policy Board, MOT, Jakarta, May 5 2015

[10] Interview with Trade Attaché in Netherland July 29, 2015 combined with interview of Deputy Head of ITPC Sidney, August 4, 2015 by skype.

[11] Interview with Head of Foreign Trade Division of Central Harmonization of Trade Policy Board, MOT, Jakarta, May 5 2015

Chamber of Commerce but less followed up by other institution. They are also wondering whether their reports are being utilized effectively.

Another example is the problem with trade inquiries. Trade Attaché and ITPC have to deliver trade inquiries on monthly basis which is obligatory for trade representatives abroad. The number of inquiries they have to deliver is based on their performance contract called Kontrak Kinerja (KONKIN) set by the MOT. According to Organization Section Head of DGNED every ITPC have different KONKIN to accomplish and she found that trade representatives rarely meet the targets[12]. Trade Representatives argue that sometimes the home office and related institutions cannot provide the products asked by the buyer because they cannot provide immediate respond while the potential buyers cannot wait and the opportunity might disappears. In addition, the gap that come from the length of the bureaucratic procedures also hamper CDC performance said one of the CDC officer. This is in line with what Hogan et al. (1991) claimed that bureaucratic institution considered as problematic in developing country's CDC.

6.1.2. External Challenges

Exporter Preparedness

Based on the Trade Attaché and ITPC officer statement, CDC instruments may provide trade inquiries from buyer in their accreditation, but it rarely can be smoothly greeted by the exporters in home country because of their unpreparedness. For example as mentioned by Deputy Head of ITPC Sidney, the demand of Arabica coffee in Australia is very high, however the coffee industry in Indonesia which meet the buyer requirements remain low in supply[13]. In addition, as stated by the Trade Attaché in Netherland, the improvement of the certification system, labelling, packaging, and good manufacturing practices is important for exporters to meet the demand[14]. Hence, government should support the enhancement of these factors. He also underlined that the inquiries were huge but the industry are not ready and the production capacity is insufficient. This situation confirms with what Zuiderma and Ruel (2012:7) argued, to enter export market the "client preparedness" is essential especially for SMEs exporter from developing economies. In order to increase Indonesia's market share in the world, the government should encourage exports of manufactured products and high value added goods and also improvements of standards to meet the international market requirements. Further, the CDC instruments may perform their best efforts on exports promotions.

12 Interview with Sub Division Head of Organization of Secretariat of the DGNED, May 4, 2015
13 Interview with Deputy Head of ITPC Sidney, August 4, 2015
14 Interview with Trade Attaché in Netherland July 29, 2015

Distribution Channel

ITPC Sidney and Trade Attaché in Netherland both underline the distribution channel in Indonesia which hampers the export performance[15]. Many exporters and buyers complain about the logistic infrastructures. Export products competitiveness compare to competitor from other country is reduced by the distribution problem. They emphasise that improving the logistics system, including storage, road and transport fleet, terminal handling, and shipping is crucial. Not to forget reduction of the informal distribution cost and simplify licensing procedures in the local and central authority to increase competitiveness. Both trade representatives also argue that Indonesia should cut the paths of intermediary's countries such as Singapore, Hong Kong and Taiwan and have its own distribution channel to increase the export value.

6.2. Benchmarking with CDC Instruments of Neighbouring Countries

According to Ministry of Trade[16], in a benchmarking with similar organization of neighbouring countries, the number and facilitation of ITPC offices abroad is less compare to Malaysian and Thailand's. Malaysia External Trade Development Corporation (MATRADE) has 38 offices abroad and Thailand's Department of Export Promotion (DEP) has 56 offices around the world. Meanwhile ITPC only has 19 offices worldwide.

MATRADE which is under the Ministry of International Trade and Industry (MITI) has 38 overseas offices located in the major commercial cities around the world. The agency conducts overseas trade fairs, trade and investment missions, specialised marketing missions, in-store promotion, information booths, exhibitions centre and promotion services. MATRADE functions as a focal point for Malaysian exporters and foreign importers to source for trade-related information. By providing market intelligence and relevant advice, MATRADE assists Malaysian exporters to better position their products and services in the highly competitive global markets. MATRADE organizes trade missions and the participation of Malaysian exporters in international trade fairs and exhibitions, conducts seminars and workshops on trade opportunities, regulations and procedures and international marketing issues, provides and disseminates current trade information and market intelligence, and manages a permanent display of 'Made in Malaysia' products.

Thailand Trade Promotion offices, THAITRADE is under Department of International Trade Promotion (DITP) which established in 1993 as a state own company. It focuses in helping international trade promotion through trade fair and in-store promotion. Approximately 3157 companies are being assisted by this institution annually. DITP has 56 offices around the world and conducts more or less 50 exhibitions annually with 957 staffs of task force of this agency.

[15] Based on the interview with Trade Attaché in Netherland July 29, 2015 and with Deputy Head of ITPC Sidney, August 4, 2015

[16] Data of benchmarking are taken from internal report of DGNED Ministry of Trade, 2014 (unpublished).

From the interviews, the Trade Attaché and ITPC officers underlined this situation, compared to the similar institution in their accreditation, Indonesian CDC seems less perform especially in promotion. As stated by ITPC Sidney officer[17], MATRADE and THAITRADE in Australia mostly can provide dozens of free booths in the trade fair while Indonesia maximum can provide 3 booths for Indonesian SMEs exporter due to the lack of funding provided for promotion purposes.

6.3. Conclusion

The major challenges that affect CDC instruments performance come from external as well as internal factor. In the external aspects, the preparedness of Indonesian industry and the channel of export distribution bring great obstacles. CDC instruments may encourage demand for export products by their activities, however the industry within the country are not ready to meet the foreign request. Moreover, the logistic infrastructure in Indonesia is also considered an impediment for Indonesian exports. From the interviews and secondary data from MOT, internal factors such as limited budget, lack of staff, and coordination problem also take significant part in hampering the CDC performance.

[17] Based on interview with Deputy Head of ITPC Sidney, August 4, 2015.

Chapter 7
Conclusion and Policy Implication

This study seeks to answer to what extent the CDC instruments particularly ITPC have impact on export performance and what challenges do they face in boosting export promotion. By observing determinants of trade using gravity model of international trade, CDC instruments which are the ITPC and Trade Attaché yield positive and significant effect. It is confirmed that the presence of ITPC indeed beneficial to support the growing of non-oil exports of Indonesia. However, the magnitude of ITPC's impact is less sound, it is only bring a small impact on trade performance. In contrary, the presence of embassy and consulate does not imply a significant correlation to exports, although it yields a positive sign. In addition, in the before and after analysis conducted in this study, it is underlined that Trade Attaché and ITPC in cooperation could generates greater exports performance in host country.

Furthermore, the challenges of CDC instruments may come from internal and external environment. In the external aspects, foreign inquiries brought by CDC instruments in many cases cannot meet the offering due to the industry unpreparedness and the logistic channel impediments. Whereas from internal factor, limited budget, lack of staff, as well as coordination problem, take significant part in hampering the CDC's performance in boosting exports. This is also supported by the evidence in the benchmarking with neighbour country's export promotion agencies. Indonesian trade representative seems to underperform particularly in promotion due to lack of funding.

Hence, the outcome in this study may encourage some policy initiatives. The first one regards the internal problem of CDC, Indonesian CDC instruments will be more effective when they equipped with sufficient budget and a number of competent staffs. Moreover, government should reduce its bureaucratic manner and become more active in supporting exporters. Exporters need a more practical support and easy access, hence CDC institution should become more client-oriented in their assistances. Success in export promotion demands strong commitment from all the stakeholders. Improving the coordination to all institution is a major issue. Government should promote Indonesia incorporated, where all institution are hand in hand enhancing export performance.

In addition, strengthening distribution channel and reducing various domestic cost hampering exports competitiveness is a major homework for the government. This strategy may help exporter firms to improve their productivity and overcome barriers to exporting. Further, it may encourage more businesses to engage to exports. A whole-package of assistance for SMEs exporters and a more sound export promotion program should be promoted by the CDC instruments to boost more trade flows. Hence, making the export target as a national commitment and complementing it with a consistent policy are highly needed to enhance national exports.

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Appendix 1. Location of Trade Attaché and ITPC Worldwide

No	Country	Cities	
		Trade Attaché	ITPCs
Europe			
1	Den Mark	Copenhagen	-
2	United Kingdom	London	-
3	Netherland	Den Haag	-
4	Belgium	Brussel	-
5	Germany	Berlin	Hamburg
6	Switzerland	Geneva	-
7	France	Paris	Lyon
8	Spain	Madrid	Barcelona
9	Italy	Rome	Milan
10	Hungary	-	Budapest
11	Russia	Moscow	-
Middle East and Africa			
12	Egypt	Cairo	-
13	Saudi Arabia	Riyadh	Jeddah
14	Nigeria	-	Lagos
15	South Africa	-	Johannesburg
16	Uni Emirate Arab	-	Dubai
Asia Pacific			
17	India	New Delhi	Chennai
18	**Thailand**	Bangkok	-
19	**Malaysia**	Kuala Lumpur	-
20	**Singapore**	Singapore	-
21	**Philippine**	Manila	-
22	China	Beijing; Hong Kong; Taipei	-
23	Korea	Taipei	Busan
24	Japan	Tokyo	Osaka
25	Australia	Canberra	Sidney
Canada, USA, Latin America			
26	Canada	Ottawa	Vancouver
27	USA	Washington	Los Angeles; Chicago
28	Mexico	-	Mexico City
29	Brazil	-	Sao Paolo
30	Chile	-	Santiago

Source: Ministry of Trade

Appendix 2.

Destination Countries of Indonesian Exports in the Observation

No.	Countries	No	Countries	No	Countries
1	Angola	22	Hongkong	43	Panama
2	Argentina	23	Hungary	44	Papua New Guinea
3	Australia	24	India	45	Philippines
4	Austria	25	Iran	46	Poland
5	Bahrain	26	Ireland	47	Saudi Arabia
6	Bangladesh	27	Italy	48	Singapore
7	Belgium	28	Japan	49	South Africa
8	Brazil	29	Jordan	50	Spain
9	Brunei	30	Kenya	51	Sri Lanka
10	Canada	31	Korea	52	Sweden
11	Chile	32	Kuwait	53	Switzerland
12	China	33	Libya	54	Taiwan
13	Cyprus	34	Malaysia	55	Thailand
14	Czech Republic	35	Mexico	56	Tunisia
15	Denmark	36	Myanmar	57	Turkey
16	Ecuador	37	Netherland	58	United Arab Emirates
17	Egypt	38	New Zealand	59	United Kingdom
18	Finland	39	Nigeria	60	United States
19	France	40	Norway	61	Uruguay
20	Germany	41	Oman	62	Vietnam
21	Guatemala	42	Pakistan		

Appendix 3. The Partial Sample (18 ITPC's accreditation)

No	Country	Number of ITPCs	Presence of Trade Attaché
1	Australia	1	1
2	Brazil	1	-
3	Canada	1	1
4	Chile	1	-
5	France	1	1
6	Germany	1	1
7	Hungary	1	-
8	India	1	1
9	Italy	1	1
10	Japan	1	1
11	Korea	1	1
12	Mexico	1	1
13	Nigeria	1	1
14	Saudi Arabia	1	1
15	South Africa	1	-
16	Spain	1	1
17	United Arab Emirate	1	-
18	United States	2	1

Appendix 4. Descriptive Statistic

- **Full Sample of 62 countries**

Variable	Obs	Mean	Std. Dev.	Min	Max
year	1178	2005	5.479552	1996	2014
lnxit	1177	5.550881	1.985709	-1.22	9.98
lngdpjt	1176	9.110544	1.506759	5	12
lndist	1178	8.970484	.6374808	6.88	9.85
lnpopjt	1176	3.12466	1.639903	-.5	8.6
embcon	1178	1.548387	1.10215	0	6
lngdpit	1178	7.368421	.5815817	6	8
tait	1178	.3293718	.4701847	0	1
itpcit	1178	.1519525	.3591273	0	1
lngdplevelit	1176	10.49371	1.766288	5.6	16.6
countries	1178	31.5	17.90313	1	62

- **Partial Sample of 18 countries of ITPC's Accreditation**

Variable	Obs	Mean	Std. Dev.	Min	Max
year	342	2005	5.485251	1996	2014
lnxit	342	6.76886	1.446305	3.24	9.82
lngdpjt	342	9.491228	1.287742	6	11
lndist	342	9.173333	.4323216	8.22	9.73
lnpopjt	342	4.040058	1.254319	.9	7.1
lngdpit	342	7.368421	.5821866	6	8
tait	342	.5350877	.4994981	0	1
itpcit	342	.5263158	.5340685	0	2
embcon	342	2.219298	1.315989	1	6
countries	342	9.5	5.195729	1	18

Appendix 5. List of Respondents

No	Interviewee	Position	Location	Technique	Date
1	Rinaldi Agung Adyana	Trade Attaché in Netherland	The Hague, Netherland	Face to face	29/7/2015
2	Yasman	Head of Finance Department of DGNED, MOT	Jakarta	Face to face	4 /5/2015
3	Dhonny Yudhokusuma	Deputy Head of ITPC Sidney	Sidney, Australia	skype	4/8/2015
4	Narita Nurindah	Head of Organization Sub Division of Secretariat of DGNED	Jakarta	Face to face	4/5/2015
6	Deniar Alpha Sagita	Head of Foreign Trade Division of Central Harmonization of Trade Policy Board, MOT	Jakarta	Face to face	5/5/ 2015

Appendix 6. List of Questions

Questions for Trade Representatives Officer:

1. Human Resources
   - How many staffs do you have?
   - What is the educational background of your staff?
2. Organization
   - The structure of the organization?
   - How is the distribution of job description (promotion, market analysis, lobby-ing)
3. Export Promotion
   - How much time does Trade Attaché conduct trade fair per year?
   - How many promotional items are produced per year?
   - How many companies are facilitate in trade fair?
4. Market Penetration
   - Number of exporter being contacted regarding trade inquiries per year?
   - Number of business contract assist by Trade Attaché?
5. Market Information
   - How many market information do you conduct per year?
   - What kind of market information are they?
6. Business Assistance
   - How many trade inquiries per year?
   - How many trade dispute being handled in 5 year?
7. What are the main challenges of Indonesian export performance according to trade representatives?

Questions for MOT officers:

1. How does the flow of market information from trade representatives abroad?
2. How many inquiries per year sent by trade representatives abroad?
3. Do the trade representatives deliver their reports on time?
4. What do you think about the budget for trade representatives?
5. What do you think about the organization of trade representatives and the staff?