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WTO Chairs Programme  
Universitas Gadjah Mada  
Indonesia

## Locally Rooted, Globally Respected

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# Background

- Void in the methodology of inclusive trade
- Lack of attention to the social aspects of market that links local producers to international trade practice





# Focus of the study



- Experiences of export-oriented SMEs in the handicraft sector for trade integration project
- Exploration of social contexts that exclude commodity producers from international market
- Introducing structural analysis on trade integration

# Location of the Study: Yogyakarta, Indonesia



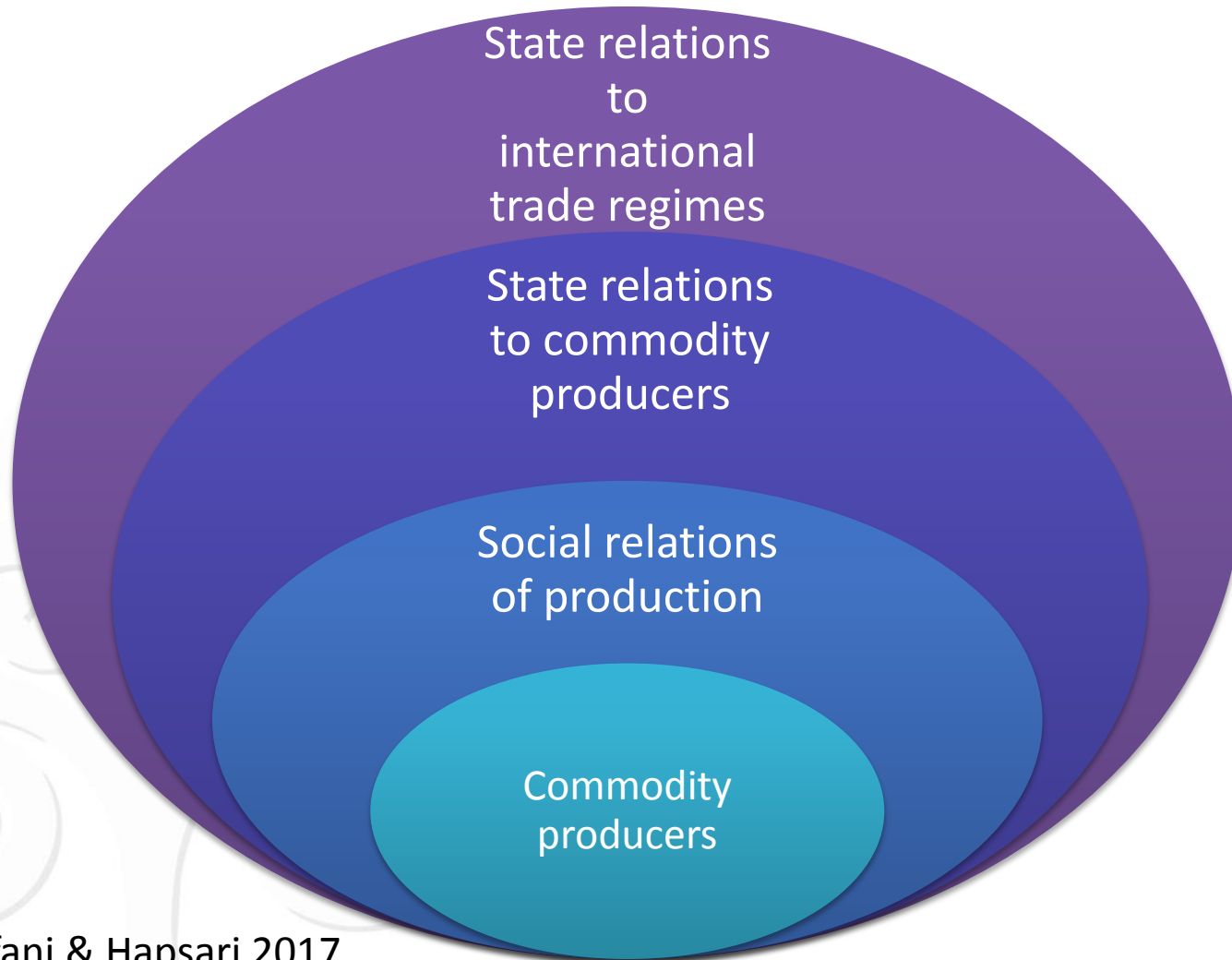


# Locus of analysis: 3 clusters of SMEs



Features	Cluster 1 Bobung	Cluster 2 Krebet	Cluster 3 Kasongan
Number of SMEs	19	57	800
Main products	Wooden Handicrafts (dance masks, souvenir)	Wooden Handicrafts (souvenirs, small-scale furniture)	Ceramics (Souvenirs, Home Appliances, Arts, Etc.), Wood-based Furniture, Wooden and Other Materials- based Handicrafts
Export Activities	Non-direct (suppliers of local commercial chains)	Non-direct (suppliers of local commercial chains and large scale exporters)	Non-direct (local commercial chains and large scale exporters) Direct (about 200 <i>sanggar</i> involve in direct exportation, in line with 5 large scale exporters)

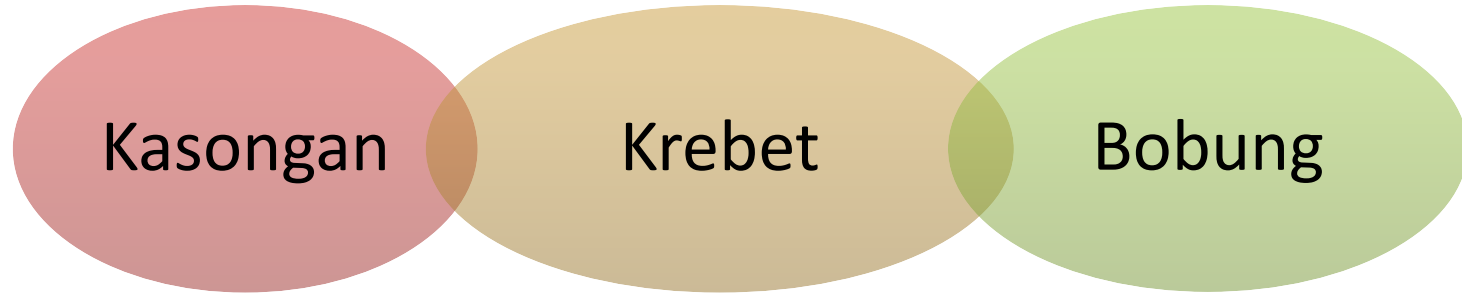
# Structural analysis of trade integration



Source: Arfani & Hapsari 2017

Layers of analysis	Analytical questions
<b>Layer I</b> Social relations of production	Are producers aware of participants along the commodity chain? How?
	What makes a producer legitimate to their community? Who decide such legitimacy?
<b>Layer II</b> State-commodity producers relations	Do commodity producers have secure access and control to means of production? (i.e., formal and informal means?) How does it become accepted rules by community of producers?
	What social tension emerge in commodity market? Does community of producers develop dispute settlement mechanism by their own efforts?
	Is there any forms of state intervention that lead to elite capture?
<b>Layer III</b> State-international trade regime relations	What specific barriers are applied to commodity from exporting country? Can community of producers trespass these barriers by their own means? Why?
	What specific policies are introduced to protect domestic producers from unintended social consequence of international protectionist policies?

# Degrees of trade integration

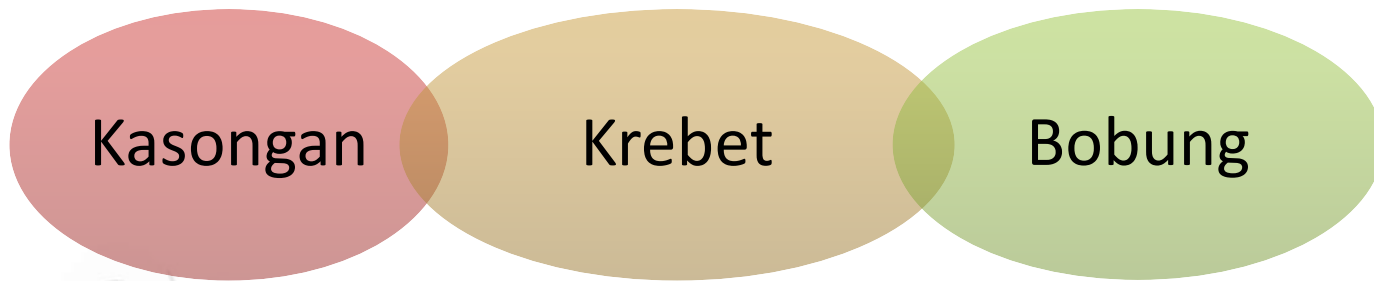


Layers	High integration	Moderate integration	Less integration
I	Organic production	Kinship-based production to organic production	Kinship-based production
II	Captive market mediating institutions (dominant role of large enterprise)	Modular market mediating institutions (e.g. the role of joint secretariat)	Arms-length market mediating institutions (the absence of intervention to pricing and competition)
III	Full integration	Pseudo integration	Pseudo integration





# Sources of exclusion



## Layer I

- Distributional impacts of information asymmetry along commodity chain
- Regeneration of labor due to generation divide

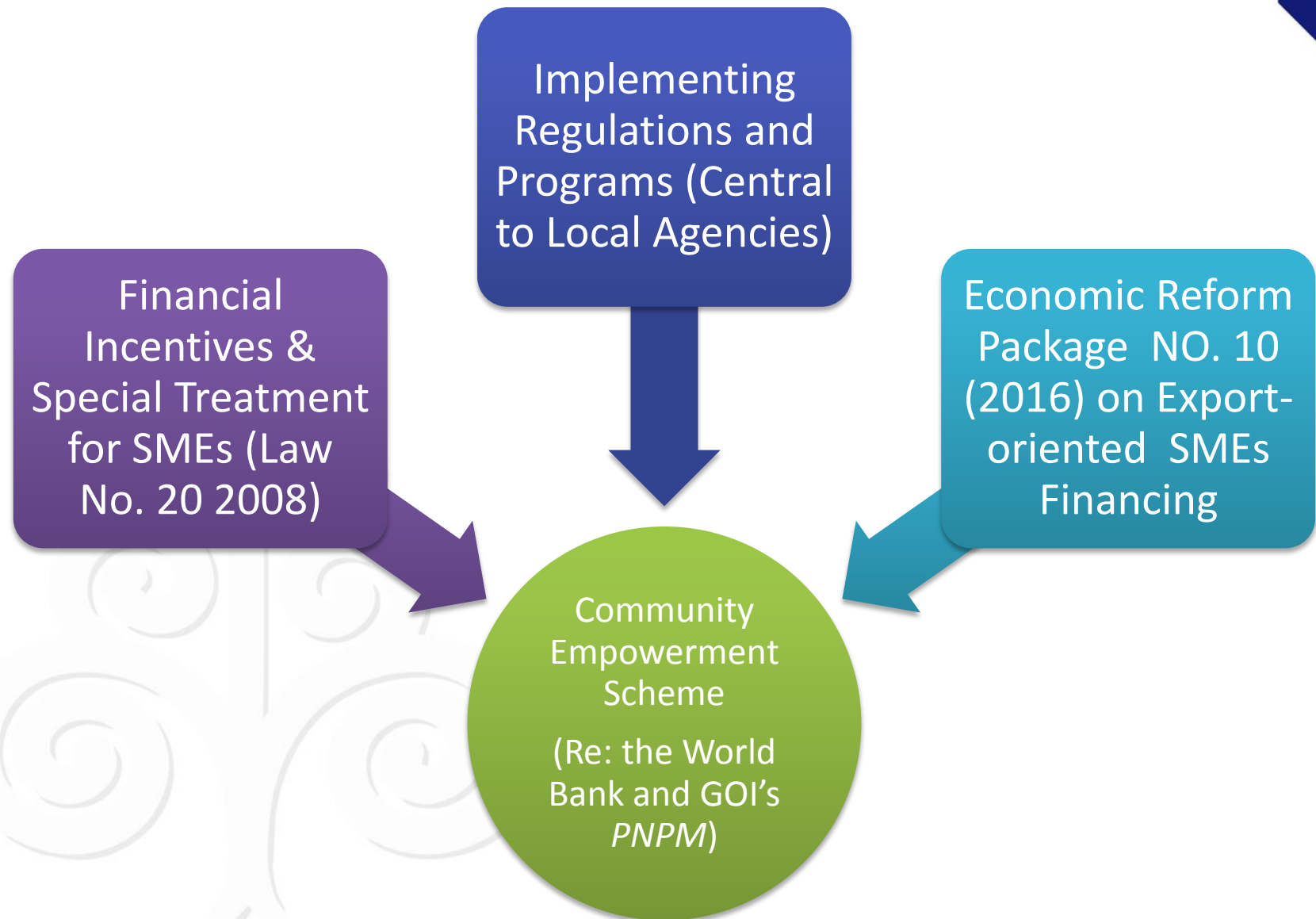
## Layer II

Limited outreach of state policy

## Layer III

Lack of adequate knowledge on international participants in the commodity chain

# Government Policy Framework





# Key Concluding Remarks

- Trade integration works best under the condition where community producers are aware of their position in the commodity chain
- The need of consensus building processes that allows producers to address any social consequences market discipline



# Implications to government policy

- Government needs to design policies that allow SMEs to identify each other along commodity chain
- The need to invest in facilitating community-based trade dispute mechanism that provides collective strategies to counter unfair practices in commodity market
- The need for local government to develop policy tools to identify disciplining institutions in various forms that may discriminate commodities from home country in the international destination market



# Implications to WTO

- Full enforcement of WTO TFA (re: ratification) for stronger policy framework
- Facilitating roles of the WTO: focus on building capacity for local government officials as well as local trade practitioners on measures relating to upgrading for export-oriented SMEs
- Structural analysis helps to identify structural constraints and stakeholders at local production and exporting sites to be key collaborators in the building capacity activities initiated through the WTO