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Value chains governance in Indonesia's extractive and natural resources export commodities: Policy notes on its upgrading and diversification endeavors

Riza Noer Arfani & Poppy Sulistyaning Winanti

Dominated by natural resources commodities and extractive industries (such as oil and gas, coal, copper and other minerals, palm oil, rubber and other horticulture commodities), export diversification and upgrading have been the concerns of the Indonesian government and related stakeholders in the industries. Considered as one of successful stories of developing countries in escaping the resource-curse, Indonesia has undergone rapid economic growth. In this context, it is interesting to examine the governance of regional and global value chains of top ten Indonesia's export commodities in an effort to annotate its upgrading and diversification endeavors.

Being able to rely on small groups of highly qualified officials with the right expertise, the Indonesian government actively contributed to avoiding possible Dutch disease problems. The government's trade and infrastructure policies are notably regarded to have contributed to diversifying the country's natural resource development into the tradable manufacturing sector. During the 1970s and 1980s, the country also managed to use oil revenues to support improvements in agricultural productivity and diversification into other sectors, notably by investing in natural gas.

Indonesia's next challenge remains how to diversify further its exported commodities. The country's top ten export commodities include both extractive industries (such as petroleum gas, coal, oil, copper) and non-extractive ones (such as palm oil, rubber, coconut and paper). The country's exports tend to be situated at the lower end of the value chain of these commodities. Increased diversification could therefore take the form of entering into export activities with higher value added within the value chains that are already represented in the country.

An analysis of the ten value chains can be conducted by reclassifying the ten categories of the relevant export commodities in three broad groupings, i.e. the mining (HS codes of 2701, 2603, 7403), oil and gas (HS codes of 2711, 2709, 2710) and plantation (HS codes of 1511, 4001, 1513, 4802). The groupings and classification are based on the added-value chains in respective industry, i.e. to cover particular industrial down-streaming efforts by relevant stakeholders.

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In terms of value chains analysis (both in the context of domestic and foreign value added content of its export), certain features of Indonesia's export commodities are interesting. Based on a Trade in Value Added (TiVA) measurement (OECD/WTO, 2013), mining has been reported to contribute one-fifth to the country's value-added exports in 2009. However, Indonesia's domestic value added (DVA) content of its mining exports was 86% (2009) –well above the OECD average and the fifth highest in the G-20. With averagely high DVA, Indonesia's trade in value-added is also marked dominantly by exports of natural resources and raw materials which use little foreign value added (FVA) in their exports.

Given the substantial downstream components within exports, Indonesia's export performance faces challenge to either stay with the existing values or upgrade and diversify them. Recent endeavors by the Government of Indonesia through the Master Plan for Acceleration and Expansion of Indonesian Economic Development (2011-2025) strategy (the so-called MP3EI scheme) reflect the intricate notion of upgrading and diversification in the country's major export commodities thus suggesting that the government intends to target the second option.

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