

IDENTIFYING INDONESIA-URUGUAY BILATERAL TRADE OPPORTUNITIES: A REVEALED COMPARATIVE ADVANTAGE APPROACH

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Abstract

This paper attempts to identify and analyze the Indonesia-Uruguay bilateral trade opportunities based on their respective export competitiveness. The analysis uses the Revealed Comparative Advantage Index for year 2012 obtained from World Integrated Trade Solution (WITS). The paper reveals that there are still opportunities for both countries to further strengthen bilateral trade relations. Based on the RCA Index analysis, the paper finds that in general both countries have exported their commodities based on their comparative advantage, but however both countries current exports still do not reflect their potentials as most of the top ten commodities with the strongest comparative advantage are still not yet able to penetrate the both sides market. This study suggests both countries should remove trade barriers starting by providing access for the top 10 commodities with the strongest comparative advantage to penetrate in both countries. This step could be a stepping stone towards further intensifying bilateral trade relations.

Keywords: Comparative Advantage, Export Competitiveness, Bilateral Trade

JEL classification numbers: F14, F15, F17

1.0 INTRODUCTION

The diplomatic relations between the Republic of Indonesia and the Oriental Republic of Uruguay started since 1965 with the opening of the Honorary Consulate² for the Republic of Indonesia in Montevideo. But however, on May 1959 the first Indonesian President, Soekarno paid an official visit to Uruguay during his visit to the Latin American region. On April 1966, the diplomatic relationship was further enhanced in which the Indonesian Embassy based in Buenos Aires concurrently accredited Uruguay. Meanwhile Uruguay diplomatic relations with Indonesia is held through the embassy based in Hanoi. Both countries have good diplomatic relations since 1965 and the good bilateral relations was marked by the following important recent visits over the last few years:

1. The official visit of the Indonesian Director General for the American and European Affairs with Foreign Minister of Uruguay and bilateral meetings with the Director General for Political Affairs for the Republic of Uruguay in Montevideo, Uruguay on 9th September 2008.

¹I The author also works at the Directorate of Trade, Industry, and Intellectual Property Rights, Ministry of Foreign Affairs for the Republic of Indonesia (MoFA) and would like to thank to MoFA for their helpful comments and providing me the opportunity to participate as a Liaison Officer for the Vice-Minister of the Foreign Affairs for the Oriental Republic of Uruguay, H.E. Luis Porto during the Forum for East Asia-Latin America Cooperation in Bali from 10-14 June 2013. Finally, my thanks for the kind special appreciation received through diplomatic note no.132/2013 from the Embassy of the Oriental Republic of Uruguay in Hanoi dated 19th June 2013. I hope this paper could provide a small but valuable contribution to strengthen Indonesia-Uruguay bilateral economic relationships.

² The current Honorary Consul of the Republic of Indonesia in Montevideo is Mr. Aviles Volante Jacinto which extended his term as Honorary Consul of the Republic of Indonesia in Montevideo for 5 years for the period 2010 - 2015 based on the Decree No.. 40 /M Year 2010 dated March 29, 2010

2. Indonesian Foreign Minister had a bilateral meeting with Uruguayan Foreign Minister on 24th August 2011 during the sidelines of the 5th FEALAC Ministerial Meetings in Buenos Aires.
3. During the sidelines of the 6th FEALAC Ministerial Meetings in Bali, the Indonesian Director General for the American and European Affairs and the Uruguayan Vice-Minister of the Foreign Affairs had a bilateral meeting.

The recent official visit to Indonesia by the Uruguayan Vice-Minister of the Foreign Affairs to attend the 6th FEALAC Ministerial Meetings and during the sidelines Indonesia and Uruguay had a bilateral meeting and signed *the Agreement Visa Exemption for Holders of Diplomatic Passport or Office between the Government of Indonesia and the Government of the Republic of Uruguay Oriental* and *Memorandum of Understanding Bilateral Consultations between the Ministry of Foreign Affairs and the Ministry of Foreign Affairs of the Republic of Uruguay Oriental* demonstrated a new round of bilateral relations (Pikiran Rakyat Online, 2013). Further, both parties agreed to encourage connectivity of human resources and infrastructures between the two countries.

For the bilateral socio-cultural relations, one of the important cooperations is the sport cooperation in which since 2007 Indonesia sent the junior football team U-17 for training in Uruguay. Both countries have established cooperation in the field of sports, particularly in football. In 2008, PSSI has formed a partnership with Uruguayan Football Association for in program development and coaching Indonesian soccer players aged 13-14 years. There is a total of 47 players sent for training to Montevideo, as per 16th January 2008 that is expected to last for 4 years (jppn.com, 2013). Further, on 8th October 2010, Indonesia and Uruguay held a friendly football match in Jakarta which Indonesian President, Susilo Bambang Yudhoyono watched the match which ended 1-7 for the Uruguay national team. The last friendly match was held back to April 1974, in which Indonesia defeated Uruguay by 2-1. The friendly football match could be as a football diplomacy to enhance friendship among both countries. Still related with football, another interesting point to note is that there is an Uruguayan football player, Cristian Gonzales, being nationalized as an Indonesian citizen in 2010 and played for the Indonesian national football teams since then.

For the economic cooperations, Indonesia-Uruguay bilateral trade relations over the last few years have increase significantly and there are Indonesian citizens work in Uruguay as the ship crews (*anak buah kapal*). As of June 2011, the number of the Indonesian citizens in Uruguay is estimated around 40 people, mostly are ship crews (Kemlu, 2011, p.38). Meanwhile, there are several Uruguayan football players playing at the Indonesian football clubs in Indonesia. For the bilateral trade relations, in 2012 Indonesian main export commodities to Uruguay among others are *footwear, cocoa, manufactured fertilizers, and vegetable oils*. While Indonesian main imports from Uruguay are *pulp and waste paper, oil seeds and iron, steel pipe, tube*.

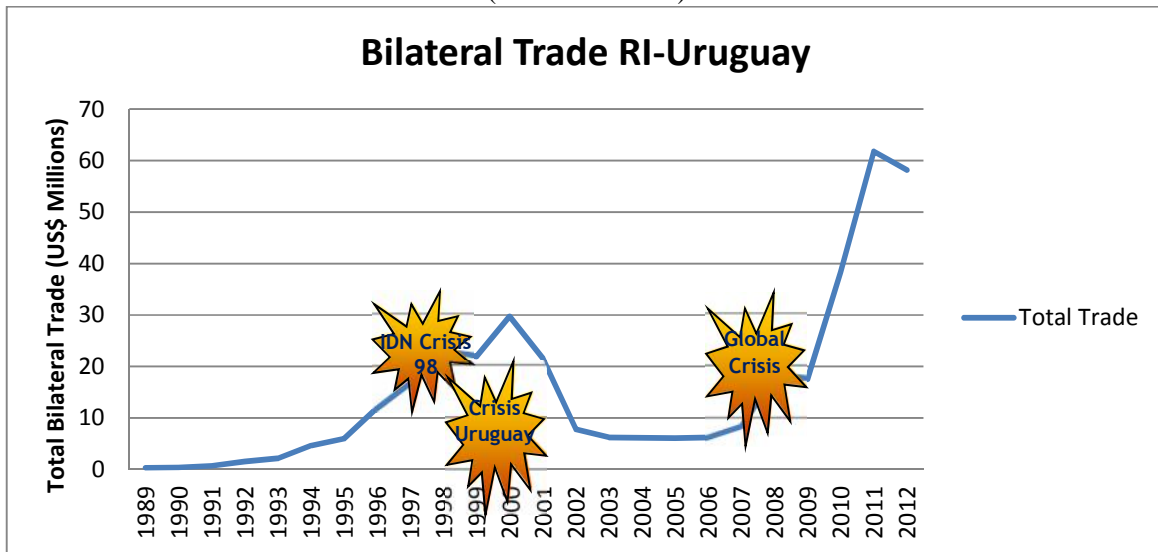
Table 1: Trade Relations between Indonesia and Uruguay for the Period 1989-2012
(In Million USD)

Year	RI Export	RI Import	Total	Trade Balance
1989	0.35	0.008	0.358	0.342
1990	0.22	0.15	0.37	0.07
1991	0.35	0.36	0.71	(0.01)
1992	0.91	0.62	1.53	0.29
1993	1.87	0.26	2.13	1.61
1994	3.73	0.88	4.61	2.85
1995	4.39	1.60	5.99	2.79
1996	10.16	1.77	11.93	8.39
1997	13.07	3.87	16.94	9.2
1998	20.54	2.32	22.86	18.22
1999	19.90	2.07	21.97	17.83
2000	28.07	1.70	29.77	26.37
2001	20.20	1.47	21.67	18.73
2002	3.98	3.80	7.78	0.18
2003	3.86	2.35	6.21	1.51
2004	4.00	2.17	6.17	1.83
2005	4.79	1.27	6.06	3.52
2006	4.73	1.47	6.20	3.26
2007	7.26	1.14	8.40	6.12
2008	11.64	6.73	18.37	4.91
2009	12.45	5.08	17.53	7.37
2010	30.39	7.93	38.32	22.46
2011	44.65	17.12	61.77	27.53
2012	38.16	20.00	58.16	18.16

Source: World Integrated Trade Solution (2013)

Although diplomatic bilateral relations have began since 1965, however it was since the mid-1990s, Indonesia-Uruguay bilateral trade relations showed a significant improvement. In 1989, the total value of bilateral trade only amounted US\$0.358 million and rose sharply to US\$11.93 million in 1996 and in 2000 reached US\$29.77 million. Unlike the Indonesian bilateral trade relations with the other South American counterparts such as Chile and Argentina in which the 1997/98 Asian economic crisis and the world economic crisis have caused the bilateral trade relations to decrease in the late 1990s and early 2000s. During the period 1997-2001, the bilateral trade relations between Indonesia and Uruguay were still strong and in fact in 2000 reached to US\$29.77 million. But however, in 2001-2002 the massive withdrawal of dollars deposited in Uruguayan banks by the Argentine citizens after bank deposits in Argentina were frozen have caused a banking crisis and a significant Uruguayan peso depreciation which led to a huge economic downturn in Uruguay. This tremendously hurted Indonesia-Uruguay bilateral trade relations and the total bilateral trade declined from US\$21.67 million (2001) to only US\$7.78 million (2002). Since then, the period 2002-2007 could be considered as one of the lowest points of the Indonesia-Uruguay bilateral trade relations.

Graph 1: Trade Relations between Indonesia and Uruguay for the Period 1989-2012
(In Million USD)



Source: World Integrated Trade Solution (2013)

The bilateral trade relations started to reinvigorate since 2008 from a total bilateral trade value of US\$18.37 million and in 2011 reached to an unprecedented level of US\$61.77 million but however the following year declined to US\$58.16 million. The total trade between Indonesia and Uruguay during the last 5 years (2008-2012) showed a positive trend rising with an average of 42.82 percent. Further, the trade balance between Indonesia and Uruguay during the last 5 years (2008-2012), continued showed a trade surplus on the Indonesian side, in which in 2011 reached its peak to US\$27.53 million. During the period 1989-2012, Indonesia only once experienced a trade deficit back in 1991 and the rest always posted a trade surplus position.

To enhance bilateral economic relations, Indonesia has conducted the Indonesian Tourism and Culture Promotion and actively participate in the International Trade Expo Prado in Montevideo. There were at least more than 15 Indonesian Small Medium Enterprises (SMEs) participated the trade expo in Uruguay. Further to enhance trade, every year the Indonesian government attempts to bring business representatives from Uruguay to participate the Trade Expo Indonesia (TEI) in Jakarta. To strengthen bilateral economic relations, both countries are still negotiating in several draft agreements such as economic, scientific and technical cooperation agreement and agreement for the promotion and protection of investment (P4M). On 28th May 1998, Uruguay's Ambassador to Indonesia, Mr. Nicolas Moreno based in Kuala Lumpur visited to the Indonesian Ministry of Foreign Affairs (MoFA) and was received by the Director of the American Affairs. During the meeting, Ambassador Moreno submitted six agreements to the Director of the American Affairs and to date there are six such agreements on the relevant institutions in Indonesia. These six agreements are: *Agreement on Cultural, Scientific and Education; Agreement for the Promotion and Protection of Investments; Agreement on Phytosanitary Protection; Agreement for the Prevention of the Undue Use of an Repression on the Illegal Traffic on Narcotics and Psychotropic Substance and their Forerunners and Essential Chemical Products; Trade Agreement; and Agreement on Cooperation in the Field of Veterinary Medicine.*

But however, the potential of the two countries has not been used optimally. There are opportunities to enhance bilateral economic relations. Indonesia should see Uruguay as one of the important counterparts in the Latin American and Caribbean regions. Uruguay's domestic consumption is high and many of the its needs still strongly relies on imports. Uruguay is a small open economy with a population of 3.37 million habitants (2011), an economic growth of 5.7 percent (2011), a total GDP of US\$46.71 billion (2011) and a GDP per Capita US\$13866 (2011). The country successfully manage to keep high economic growth rates, particularly through higher public expenditure and investment. This opportunity should be reaped by the Indonesian sides. But however, there are classical obstacles such as geographical distance, language difficulties and the lack of information which discouraged both sides to strengthen bilateral trade relations.

Here both sides should need to reinvigorate the private sectors to interact with each other in order to determine the trade potentials in both countries. The recent bilateral meeting and the signature of two MoUs on the 13th June 2013 during the sidelines of the 6th FEALAC Ministerial Meetings may demonstrate a new round of bilateral relations. This momentum must be used to further strengthen bilateral economic relations. Both countries have showed some interests to strengthen bilateral economic relations, on one side Indonesian economic diplomacy towards Latin American and Caribbean regions is considered as an alternative market, meanwhile, the recent vice-minister of foreign affairs, Mr. Luis Porto stated that as a small open economy and with its current productive structure, the current foreign policy would be a diversification strategy with Mercosur as a base and sees the Asia-Pacific region as a dynamic region with a strong economic growth (Americaeconomia.com, 2013). But however this may imply that the efforts made by both sides may not be as intense compared with their respective counterparts within the traditional markets.

Few researches have been done so far particularly on issues concerning Indonesian economic diplomacy with the Latin American and Caribbean countries particularly an academic paper analyzing the Indonesian economic diplomacy towards Uruguay. Thus, this paper attempts to identify and analyze the bilateral trade opportunities based on their respective export competitiveness (or comparative advantage). Therefore, this research paper propose a study with a title of: *Identifying Indonesia-Uruguay Bilateral Trade Opportunities: A Revealed Comparative Advantage Approach*. This study is expected to contribute in enriching scientific international trade literatures, particularly in the field of Indonesian economic diplomacy towards Latin American and Caribbean regions. For the policymakers, the research could be used as a reference for both Indonesian and Uruguayan governments to undertake the appropriate economic diplomacy measures in order to further enhance trade relations of both countries.

2.0 RESEARCH METHODOLOGY

The paper seeks to identify and analyze each country's export competitiveness. To analyze the export competitiveness, the Revealed Comparative Advantage (RCA) index is used in this study. Based on the classical theory of comparative advantage stated that a country with a comparative advantage (comparative disadvantage) in the production of a good should export (import) in order to boost world output (Sodersten, 1994). Higher world output reflects higher world welfare. RCA index is one of the "export cum indices" category and first introduced by Balassa in 1965. RCA Index shows how competitive is a product in countries' export compared to the products share in world trade meaning a comparative advantage is "revealed" by observed trade patterns. A product with high RCA is competitive and can be exported to countries with low RCA. Countries with similar RCA profiles are unlikely to have strong bilateral trade intensities unless intra-industry trade is involved (Chandran, 2010, p. 3). The computation of the RCA index is based on the publication released by Mikic and Gilbert (2009) titled: *Trade Statistics in Policymaking: A Handbook of Commonly Used Trade Indices and Indicators* and World Integrated Trade Solutions (WITS). The RCA index of country 'i' for product 'j' is often measured by the product's share in the country's exports in relation to its share in world trade:

$$RCA_{ij} = \frac{X_{ij}/X_{it}}{X_{wj}/X_{wt}}$$

Where x_{ij} and x_{wj} are the values of country i's exports of product j and world exports of product j and where X_{it} and X_{wt} refer to the country's total exports and world total exports. A value of less than unity implies that the country has a revealed comparative disadvantage in the product and viceversa. The present study will use the SITC Rev.3 3 Digits Code (commodity-level) based on the trade data in year 2012 to analyze the Revealed Comparative Advantage Index (RCA Index) of both countries and only the top ten commodities with the highest RCA index in both countries will be discussed in this paper.

3.0 ANALYSIS AND FINDINGS

To analyze the export competitiveness of both countries, a Revealed Comparative Advantage (RCA) Index has been used to support this study. Using the SITC Rev.33 Digits and trade data 2012 (commodity-level), the current top ten Indonesian exports to Uruguay among others are *footwear, cocoa, and manufactured fertilizers*. The top ten Indonesian export commodities to Uruguay represented 70 percent of the bilateral trade and in general these commodities have a relatively strong comparative advantage. But however, there is

only one commodity, *fixed vegetable oils not soft*, within the top ten Indonesian strongest export competitiveness and only represents 5 percent of the total Indonesian exports to Uruguay.

Within the top ten Indonesian commodities exported to Uruguay, there are six Indonesian export commodities with the RCA index greater than one indicating that Indonesia holds a comparative advantage in these commodities in the world market, namely are: *footwear, cocoa, fixed vegetable oils not soft, rubber tyres/treads, paper/paperboard, and tobacco manufactured*. But however the current exports still do not strongly reflected its potential as most of the top ten Indonesian commodities with the strongest comparative advantage still do not able to penetrate the Uruguayan market. There is still a wide space to strengthen bilateral trade relations based on its export competitiveness.

Table 2: Top-Ten Indonesian Export to Uruguay for the Year 2012

SITC 3 Digits Product Code	Product Name	IDN-URU Trade Value in Millions USD	RCA Index (IDN)	RCA Index (URU)
851	Footwear	7.37	3.02	0.01
072	Cocoa	7.15	7.40	2.24
562	Manufactured Fertilizers	4.09	0.73	0.82
422	Fixed Vegetable Oils not Soft	1.97	37.24	n/a
893	Articles nes of Plastics	1.35	0.34	2.78
057	Fruit/nuts, fresh/dried	1.25	0.46	2.02
625	Rubber tyres/treads	1.10	1.63	0.02
641	Paper/paperboard	1.08	2.60	0.75
122	Tobacco, manufactured	0.76	2.00	2.48
574	Polyacetals/polyesters	0.74	0.67	0.20

Source: World Integrated Trade Solution (2013)

Table 3: Top-Ten Indonesian Strongest Export Competitiveness for the Year 2012 (Commodity-Based)

SITC 3 Digits Product Code	Product Name	IDN-URU Trade Value in Millions USD	RCA Index
322	Briquettes/lignite/peat	0	40.32
422	Fixed Vegetable Oils not Soft	1.97	37.24
231	Natural rubber/latex/etc	0	29.08
687	Tin	0	25.27
284	Nickel ores/concs/etc	0	23.30
321	Coal non-agglomerated	0	16.89
431	Animal/veg oils procesd	0.11	11.54
091	Margarine/shortening	0.30	11.19
075	Spices	0.14	9.21
245	Fuel wood/wood charcoal	0.00	8.01

Source: World Integrated Trade Solution (2013)

Meanwhile for the Indonesian top ten imports from Uruguay in 2012 among others are *pulp and waste paper; oil seeds etc - soft oil; iron/steel pipe/tube/etc; wood simply worked; and Cereal grains nes*. The Indonesian top ten imports commodities from Uruguay reached US\$18.95 million and accounted for 94.75 percent of the total Indonesian import from Uruguay. Five out of the top ten Indonesian imports from Uruguay are commodities with comparative advantages and only two out of the top ten Indonesian imports from Uruguay namely *oil seeds etc - soft oil* and *wood in rough/squared* are within the top ten Uruguayan strongest export competitiveness. The current top ten Uruguayan strongest export competitiveness among

others are *Wool/animal hair; Beef, fresh/chilled/frozen; Rice; Wood in rough/squared; and Oil seeds etc - soft oil* amounted US\$5.77 million and represented 28.85 percent of the total Uruguay's export to Indonesia. Uruguay's current export to Indonesia to a certain degree already based on its comparative advantage but however it does not yet reflect its strongest potential commodities. Thus, the same case as with Indonesia, there is still plenty room to further enhance Uruguay exports to Indonesia based on its strongest comparative advantage.

Table 4: Top-Ten Indonesian Imports from Uruguay for the Year 2012

SITC 3 Digits Product Code	Product Name	IDN-URU Trade Value in Millions USD	RCA Index (IDN)	RCA Index (URU)
251	<i>Pulp and waste paper</i>	6.54	2.89	0.13
222	<i>Oil seeds etc - soft oil</i>	5.20	0.01	33.49
679	<i>Iron/steel pipe/tube/etc</i>	3.02	0.85	1.50
248	<i>Wood simply worked</i>	2.01	1.36	2.60
045	<i>Cereal grains nes</i>	0.57	0.001	3.99
057	<i>Fruit/nuts, fresh/dried</i>	0.45	0.46	2.02
598	<i>Misc chemical prods nes</i>	0.31	1.30	0.08
531	<i>Synth org colour agents</i>	0.30	1.00	1.94
247	<i>Wood in rough/squared</i>	0.28	n/a	46.20
288	<i>Non base metal waste nes</i>	0.27	0.55	0.54

Source: World Integrated Trade Solution (2013)

Table 5: Top-Ten Uruguayan Strongest Export Competitiveness for the Year 2012

SITC 3 Digits Product Code	Product Name	IDN-URU Trade Value in Millions USD	RCA Index
268	<i>Wool/animal hair</i>	0	67.08
011	<i>Beef, fresh/chilled/frozen</i>	0	66.14
042	<i>Rice</i>	0	52.60
247	<i>Wood in rough/squared</i>	0.28	46.19
222	<i>Oil seeds etc - soft oil</i>	5.20	33.49
023	<i>Butter and cheese</i>	0	29.47
411	<i>Animal Oil/fat</i>	0.01	29.37
246	<i>Wood chips/waste</i>	0.03	26.78
611	<i>Leather</i>	0.25	25.92
024	<i>Cheese and curd</i>	0	19.77

Source: World Integrated Trade Solution (2013)

5.0 CONCLUSION AND RECOMMENDATIONS

The present study reveals that there are still opportunities for both countries to further strengthen bilateral trade relations. Based on the RCA Index analysis, the study finds that the current top-ten Indonesian strongest export competitiveness only represents 5 percent of the total Indonesian exports to Uruguay and represented 70 percent of the total Indonesian export to Uruguay. Meanwhile on the other hand, the current top ten Uruguayan strongest export competitiveness represented 28.85 percent of the total Uruguay's export to Indonesia. The analysis found that the current exports still do not strongly reflected their potentials as many of the top ten commodities with the strongest comparative advantage still do not able to penetrate both countries. Thus, here there is still a wide space to strengthen bilateral trade relations based on its export competitiveness in order to achieve both sides objectives to boost bilateral trade relations. In order to enhance

bilateral trade relations, the paper suggests both countries should remove trade barriers starting from providing access for the top 10 commodities with the strongest comparative advantage. This step could be a stepping stone towards further intensifying bilateral trade relations. By eliminating trade barriers, both countries are expected to gain benefits and at the same time fulfilling the objectives of both countries to further intensify bilateral trade relations. The recent official visit to Indonesia by the Uruguayan Vice-Minister of the Foreign Affairs to attend the 6th FEALAC Ministerial Meetings and the sign of the two important MoUs during the sidelines of the 6th FEALAC Ministerial Meetings may show a new round of bilateral relations. This reinvigorated momentum should be used to further intensify not only bilateral trade relations but also bilateral economic cooperations as a whole.

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