

Chapter 8. Foods & Beverage

8.1. Food & Beverage Industry (FAB)

8.1.1. Overview

Indonesia is blessed with various natural resources with geographic advantages such as enormous land area and surrounded ocean. Agricultural and fishery industry plays important role not only for feeding 2 billions population of people but also for earning foreign reserve as a major export products. Agro-promotion policy has been the most important issue in the 5 years economy development plan of the government of Indonesia. Especially in the Sixth 5 years plan started in 1994, policies to improve self-sufficiency by increasing the production of major agricultural products such as rice and corn and to increase land productivity as well as diversity of crop were emphasized. Recently the government pays more attention towards agricultural sector in order to maintain the employment with value added improvements and to improve living standards of farmers. Agricultural sector has played an important role in Indonesian economy as it occupied 17% of Gross Domestic Product (GDP). Also, about 44% of people work for the sector.

Especially, agricultural products have a potential to grow its export volume as raw materials for food industry. Development in agriculture sector will increase income of the farmers, create new employment and acquire foreign reserve. Indonesia has a large land with 5,000 km wide in east and west and 2,000 km long in north and south. It is also blessed with tropical climate that brings sufficient rainfall. The season is divided by two kinds that rainy season starts from December until March whereas dry season does from June until September. Humidity maintains throughout the year between 70% and 90 %. For these reasons, diverse crops including various vegetable species can be produced in Indonesia. Most of these products are indigenous and are mostly produced only for home consumption in a small-scale land with traditional and not yet for commercial purpose.

Market size of food processing industry, including beverages, is growing in these 10 years. The number of large and medium sized company in this sector also increases from 3,875 to 5,713 whereas that of the small companies increases from 38,825 to 79,075. Labor population of food processing industry and related industries such as trading companies, retail shops, restaurants and hotels increases from 3.5million to 15million for the same period.

8.1.2. Current export trend from Indonesia

Indonesia has been well known as one of the major food supplying countries. Currently, their exports are shifting from raw or half processed to processed food such as processed prawn, canned tuna, processed vegetables, canned pineapple, cocoa, biscuit, coffee, tea, seasonings (chili, tomato source, soy source, etc) and snack food. The composition of export values in 1998 is shown as Fig.8.1.1. The details of its destination are shown in Table.8.1.2.

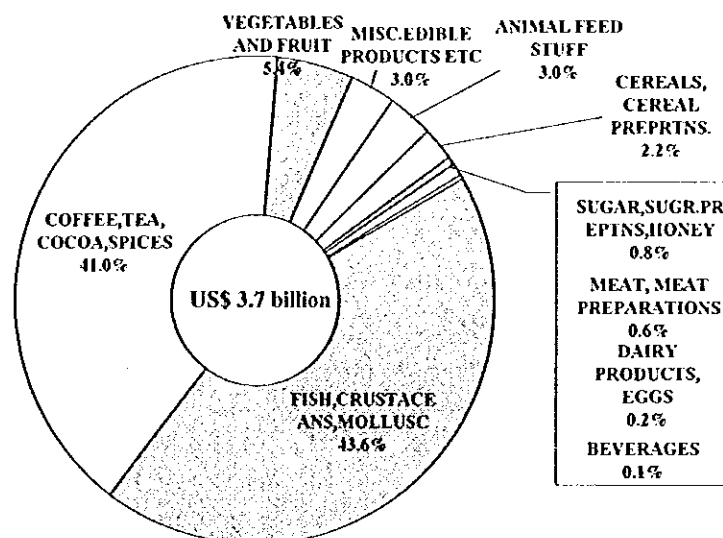
Table 8.1.1. Export values by products

(US\$ 1,000)

	1996	1997	1998		
				Growth	
FISH, CRUSTACEANS, MOLLUSC	1,676,848	1,619,387	-3.4%	1,614,439	-0.3%
COFFEE, TEA, COCOA, SPICES	1,275,801	1,285,253	0.7%	1,516,525	18.0%
VEGETABLES AND FRUIT	369,801	245,238	-33.7%	200,872	-18.1%
ANIMAL FEED STUFF	207,050	141,419	-31.7%	112,010	-20.8%
MISC. EDIBLE PRODUCTS ETC	66,219	100,706	52.1%	111,020	10.2%
CEREALS, CEREAL PREPARATIONS	51,173	37,242	-27.2%	81,624	119.2%
SUGAR, SUGAR PREPARATIONS, HONEY	62,069	58,512	-5.7%	28,379	-51.5%
MEAT, MEAT PREPARATIONS	25,533	17,132	-32.9%	23,520	37.3%
DAIRY PRODUCTS and EGGS	8,664	5,455	-37.0%	9,046	65.8%
BEVERAGES	9,850	6,176	-37.3%	3,841	-37.8%
Total	3,753,008	3,516,520	-6.3%	3,701,276	5.3%

Source: BPS, *Statistik Perdagangan Luar Negeri Ekspor 1998*

Figure 8.1.1. The composition of export values in 1998



Source: BPS, Statistik Perdagangan Luar Negeri Ekspor 1998

Table 8.1.2. Destinations of Indonesia Export in 1996.

(US\$1,000)

Destination	Japan	USA	Germany	Netherland	UK	France	Others	Total
Export Values	1,427,591	780,850	240,239	155,324	106,196	96,226	284,950	3,091,376
Composition	46.2%	25.3%	7.8%	5.0%	3.4%	3.1%	9.2%	100.0%

Source: United Nations, Supplement to the World Trade Annual 1996

However Indonesia has diverse natural food resources, it has a small share in the world market. Agro-products export ratio to total Indonesia export indicates 6.1% in 1997 and 7.5% in 1998. This growing trend in recent years seems to continue.

Table 8.1.3 and Fig.8.1.2. shows top 10 export products in agro-industry. International commodity items (cocoa, spice, tobacco, tea, etc) are successfully exported whereas vegetables and fruits, which are cultivated widely in Indonesia, are still facing difficulties to increase export.

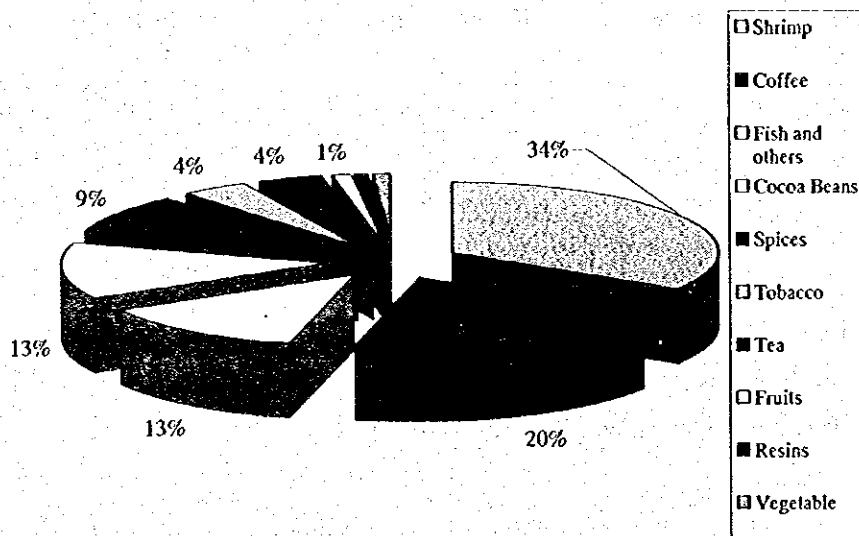
Table 8.1.3. Top 10 Export by Product Group

(Unit:US\$Million)

		1997	1998	Change % 1998/1997
	Total Exports	53,443.60	48,847.60	-8.6
	Total Agriculture	3,274.90	3,658.90	11.7
1	Shrimp	1,008.00	1,007.20	-0.1
2	Coffee	503.5	578.9	15
3	Fish and others	424.2	389.9	-8.1
4	Cocoa Beans	295	382.6	29.7
5	Spices	230.2	277.7	20.6
6	Tobacco	90.9	132.8	46.1
7	Tea	84.4	108.3	28.3
8	Fruits	47.4	41.9	-11.6
9	Resins	33.3	16.4	-50.8
10	Vegetable	23.8	16.2	-31.9

Source: NAFED Annual Report

Figure 8.1.2. Top 10 Export Product Group in 1998



Source: NAFED Annual Report

8.1.3. Problems in Exports

① Point of view of Indonesian exporters

- Finance problems for capital investments and cash flow
- Insufficient guidance to achieve export standards
- Negative impression towards export market
- No appropriate organizations to assist exporters for improving productivities and finance.

② Point of view of importers towards Indonesia

Insufficient processing technology to meet market standards

Hygiene problems for sterilizing and transporting

Insufficient infrastructure for distribution and storage

Insufficient knowledge for international trading practice and procedure

Price fluctuates problems due to the increase in the price of raw materials

Fluctuates problems in shipping schedule

8.1.4. Possible assessment for the export competitiveness

(1) The difference in the climates between Japan and Indonesia can provide an opportunity for Indonesia to export the food items that are not grown in Japan.

(2) Recently genetic treated agro-products have become an issue in world agricultural products market. However, because Indonesia has not introduced such technology yet, it can be an advantage to increase exports.

(3) Fishery products have been successful export items but the market nearly reached its maturity. However, it still has some potentials to increase export values especially in the processed items.

8.2. Selection of Potential Export Products

Food and beverage industry covers not only a wide range of products such as fisheries and agriculture but also variations in its processing levels (fresh, half processed, processed). Therefore, it is important to select the target products that should be focussed in this study. The method to select potential products is the same as textile and textile products in Chapter 7.

Selected potential products

Group I: Products with large market size

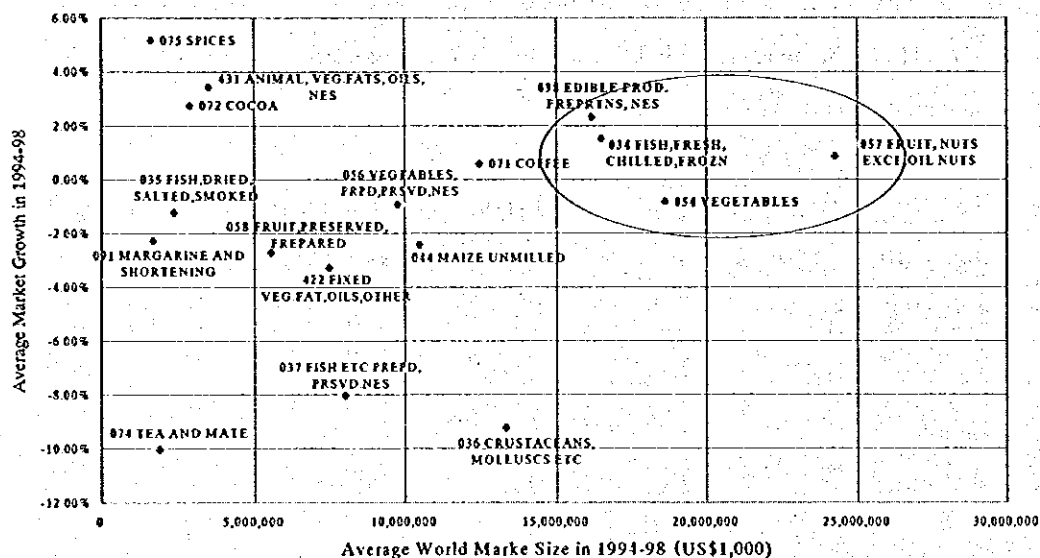
Group II: Products with high market growth rate

Numbers in front of each item indicate 3 digit SITC codes.

Foods and Beverages (see fig. 8.2.1)

- 034 FISH, FRESH, CHILLED, FROZN
- 054 VEGETABLES
- 057 FRUIT, NUTS EXCL.OIL NUTS
- 098 EDIBLE PROD.PREPTNS, NES

Figure 8.2.1. Selection of potential products (Foods and Beverages)



Sources: ITC (International Trade Center)

8.3. Buyers' Survey in Japan

In order to grasp the buyers' evaluation of the Indonesian products, we conducted buyers' survey

8.3.1 Survey for Japanese Buyer

Food exports cover various products such as agricultural products, marine products, processed food, etc. The study team has conducted buyer satisfaction survey in Japan with four from agro-products, two from marine products, four from processed foods, one from restaurant and four from other segments. We have also interviewed with Seed Company as they play important role for agro-import business in Japan.

8.3.2. Main importing products from Indonesia

- Marine Products: Frozen prawn, dried small fish, herring, canned tuna, etc.
- Agricultural Products: Frozen vegetable / Kidney bean, sweet potato, *okura*, *shishitou*, etc, salted / Radish, eggplant, *uri*, etc. and coffee bean, pepper, spice, etc.
- Processed Foods: Canned pineapples, coconuts juice, *nasigoreng* mixes and instant coffee.

8.3.3. Import Experience from Indonesia

■ Marine Products

Most of importers have long term experience, and some have established JV companies in Indonesia. Marine products are the biggest in contributing to the exports among food industry in Indonesia.

■ Agricultural Products

There is no remarkable exporting products except for international commodities such as coffee bean, spices, etc in Indonesia. Even though foreign buyers have recognized high potential of agro-business in Indonesia, it still remains at developing stage. Even successful vegetable importer, who was found in this survey, they spent many years for development together with Seed Company. Suitable crops in Indonesia are limited in its climate and soil conditions, but import of kidney bean, green bean, *okura*, etc are constantly imported. Salted vegetable is

typical half-processed item and it requires final processing (seasoning, dyeing, packing, etc) in Japan. Growing the crops by solely Indonesian side and exporting to Japan through trading company is not recommended for export of food industry. Cooperation with Japanese manufacture is necessary to be success for exporting to Japanese market.

■ Processed Foods

Many companies showed their interests in buying unique items from Indonesia, such as instant spices. (*Nasi goreng* mix (fried rice), Bali curry mix, etc)

8.3.4. Evaluations for Indonesia Products

Japanese buyers indicate that Indonesia does not have superiority as compared to China or Thailand. Indonesia should develop specialties in its products with good quality, competitive price and quick delivery.

8.3.5. Issues of importing Indonesia products

■ Marine Products

Smuggling is still common in Indonesia to escape from high tax and others. This is never described in trade statistics. Most of Japanese JV is suffering from high tax and loyalty fee. This unfair system should be eliminated in order to invite more foreign buyers. Japanese companies have successfully achieved sanitary control following Japanese standard after years of education.

■ Agricultural Products

* Appropriate training institute should be provided and long term purchasing should be guaranteed. Agricultural products are mostly exported by SME and the exporting quantity is much less than marine products. Agricultural products need much longer time to be developed with cooperation of seed companies whereas materials of marine products are directly come from ocean. More organized training system and long term scheme are desirable for the workers in food Industries.

* Lack of export competitiveness

Indonesia has no remarkable competitiveness in qualities, labor costs, quality of workers,

transportation costs, delivery time, etc. This should be seriously considered for competing with neighbor countries such as China, Thailand and Vietnam. Currently Indonesian products seem to be losing their market share and Vietnam products are increasing market share in stead. This tendency can be also observed for Indonesian traditional export products such as coffee and spices.

*** Sanitation control**

Frozen Product / There is no serious problem.

Fresh Products / Fresh products are strictly controlled by the Plant quarantine Law and Food Sanitation Law in Japan. Fresh items for Japan market are not recommended because of its geographical and quarantine problem. Fumigation of fruits' fly is the biggest concerning matter in Japan.

■ Processed Foods

Most of foods processing companies including foreign J.V supply the products to domestic markets only. Processing technology, sufficient capital, world famous brand name should be provided in this industry. More research for foreign market, refined package, tastes and design is most desirable.

8.3.6. Suggestions for increase export from Indonesia

■ Marine Products

For Indonesia side: Maintaining the stable prices, fair tax system, reliable government policy, diminishing under table or royalty fee.

For importer side: Developing more value added products to meet consumer's needs.

■ Agricultural Products

For Indonesia side: Maintaining the stable prices, establishing fumigation system.

For importer side: Providing technical advice and long term business scheme. Supporting finance for purchasing seeds, fertilizer, etc. Providing simpler distribution system.

■ Processed Foods

Common processed food such as chocolates, cookies, candies and other snacks never attract

foreign people as most of them are designed for local market. Infamous Indonesian brand name also makes export difficult. Launching good Indonesian brand name and refining the package designs are required. The brand name must attract foreign people and in this point of view the products name should be related to the words that are well recognized by foreigners as Indonesian origin, such as "Bali" for an example.

8.3.7. Potential Products

■ Marine Products

For Indonesia side: Maintaining the stable prices, fair tax system, reliable government policy, diminishing under table or royalty fee.

For importer side: Developing more value added products to meet consumer's needs.

■ Agricultural Products

- Frozen vegetable / Kidney bean, green soybeans, sweet potato, eggplant, etc.
- Salted / Radish, egg plant, cucumber, etc → Better to follow Japanese manufacture.
- Fresh Products / Prohibited by the Quarantine Law.

But it can be imported as processed product as caned or juice.

■ Processed Foods

Utilizing Indonesian resources products is recommendable because Asian taste (Coconuts taste, hot, spicy, etc) is getting more popular in Japan. Especially young people prefer hot and spicy tastes. In fact, there are many new hot and spicy products in instant noodle and snacks in Japan.

8.4. Competitiveness Analysis of Selected Products

8.1.1. Over view of food import to Japan

Table 8.4.1 and 8.4.2 shows major exporting country to Japanese marine and agricultural market.

■ Marine Products

Total market size is approximately 10,592 k tons (1996) and 3,450 k tons is import. Import ratio

is 32.6% and export ratio is only 2.6%.

(※Total market size = Domestic production + Import – Export)

Due to a lot of Japanese JV operation in Indonesia and rich marine resources, export of marine products has been successfully developed in Indonesia. Indonesia comes to the 3rd ranking in Japanese market. This proves that Indonesia achieved major marine export country.

Table 8.4.1. Major Marine Products Exporters to Japan

Value basis Amount		(Unit:Million Yen)		
Year		1994	1995	1996
World Total		17,091,000	17,212,000	19,138,000
1	China	1,768,000	1,942,000	2,365,000
2	U.S.A	2,594,000	2,300,000	2,323,000
3	Indonesia	1,236,000	1,239,000	1,358,000
4	Thailand	1,383,000	1,468,000	1,353,000
5	Russia	1,054,000	1,262,000	1,347,000
6	Korea	1,286,000	1,218,000	1,335,000
7	Taiwan	1,173,000	1,000,000	1,122,000
8	Canada	795,000	765,000	846,000
9	India	554,000	545,000	677,000
10	Australia	517,000	453,000	516,000

Sources: Ministry of Finance, Japan exports and Imports

Table 8.4.2. Major Vegetable Exporters to Japan

Value basis Amount		(Unit:Million Yen)		
Year		1995	1996	1997
World Total		104,827	107,867	106,947
1	U.S.A	29,262	28,793	29,581
2	China	25,596	33,713	30,576
3	New Zealand	9,445	9,878	10,264
4	Mexico	6,968	7,604	7,341
5	Taiwan	3,745	2,259	1,441
6	Australia	4,005	4,562	3,966
7	Philippines	2,529	3,629	3,813
8	Tonga	892	1,079	1,170
9	Thailand	3,033	3,001	2,453
10	Holland	1,679	2,451	3,127

Sources: Import of "VINAS vegetables", Ministry of Finance and Japan exports and Imports

■ Agricultural Products

Total market size is approximately 10,691 k tons (1997) and 602 k tons is import. Import ratio is

only 5.3%. Onion, pumpkin, and broccoli occupy 60% of total import. Onion, pumpkin, ginger, garlic, and broccoli keep high import ratio against its consumption but import from Indonesia is very small.

■ Processed Foods

Table 8.4.3 shows imported amounts of caned fruits, juice and jam product to Japan. Every fruit have each different exporting country and Indonesia keeps 3rd ranking in canned pineapple.

Table 8.4.3. Processing Food Imports to Japan

Value basis Amount (Unit: Million Yen)

Year		1995	1996	1997
Total		77,003	89,451	82,622
1	Canned Fruits	31,712	33,638	33,078
2	Fruits Juice	43,131	53,421	46,769
3	Jam	2,160	2,392	2,775

Sources: Ministry of Finance, Japan exports and Imports

8.4.2. Distribution channel and key distributor

Japan has been considered conservative country and traditional distribution system still exists. But it is getting easier for foreign products or newcomers to enter the market. If the necessary conditions (price, quality, quantity, delivery, etc) meet the customer's requirements, imported product would be more popular. More than 10,000 wholesalers exist in Japan but it can be represented as two main distributing channel.

- (1) Importer → Wholesaler → Supermarkets, Restaurants, Retail shops, etc
- (2) Direct import by Big Supermarkets, Restaurants

Both trading company and big supermarket mainly distribute imported foods. JA (Japanese agricultural association) is involved in domestic circulation for agricultural products and is an important agent for domestic distribution.

8.4.3. Export competitiveness of Indonesia

Reference (1) describes that main reasons of importing from Indonesia are;

- 1) Cheap labor cost
- 2) Good quality of natural resources
- 3) High motivation for exporting to Japan
- 4) Existence of Japanese Joint Venture

China, Thailand, Vietnam are considered as main competitors for Indonesia. Indonesia has no particular advances in its quality, labor cost, workers, transportation cost or delivery time. Recently, Indonesian products are losing their market share with the replacement of Vietnamese in stead. Indonesian traditional exports products such as coffee and spices are also decreasing. All companies should seriously concern their real position and should take practical action as soon as possible. Researching real market price, competitors price, and strict quality control are possible actions.

8.5. Diagnosis Analysis of Export Companies

8.5.1. Outline of interviewed exporters

This study team has been conducted an interview survey to 7 Indonesian exporters. Table 8.5.1 shows outline of interviewed exporters.

Table 8.5.1.Outlines of Visited Companies

Company	Place	Category	Main export item	Employee	Export ratio	Sales Turnover (US\$/Year)	Export Market
PT. A	Jakarta	Vegetable	Frozen vegetable	300	70%	3,200,000	Japan
CV. B	Jakarta	Vegetable	Fresh vegetable	12	60%	120,000	Singapore
CV. C	Bandung	Vegetable	Fresh vegetable	9	50%	180,000	Singapore
PT. D	Surabaya	Marine product	Frozen fish filet	300	90%	920,000	Europe, China
PT. E	Surabaya	Marine product	Tuna canning	900	100%	14,000,000	World wide
PT. F	Surabaya	Marine product	Frozen shrimp	600	99%	48,000,000	World wide
PT.G	Jakarta	Processed Food	Seasoning mixes	250	50%	1,200,000	Europe, Australia

8.5.2. Summary of the survey

(1) General Management

■ Agricultural Products

More export quantity and more export items are seriously considered by most of exporters. Export is very important and key to obtain a good reputation for quality management. They are very aggressive to learn foreign market as well as plantation know-how and processing know-how. Agricultural business provides long-term job opportunity to provincial farmers. Providing necessary education and good living standard for them is also necessary to establish reliable and intimate relation with them. How to develop foreign buyer and how to keep good relationship are key to success for long-term management in agricultural business. To give them long-term scheme, guarantee of purchasing products is one of the effective ways.

■ Marine Products

Most exporters are successfully exporting their products to many countries in U.S.A, Europe, Asia and South America under the buyer's brand. The study of processing know-how from foreign buyers is more important than establishing their own brand in current period. It seems to have no serious problem for exporting under technical and marketing support by foreign buyers. But however they satisfy with supplying under buyer's brand name, most of them is going to launch their own brand name for foreign market. Paying more attention to local market is recent tendency by leading exporters. They are learning the importance of local market, which covers 200million population, as alternative market for foreign market.

■ Processed Foods

Export of Indonesian food can be considered as export of Indonesian culture. Establishing world famous brand name is important strategy for every Indonesian exporter. Indonesian company better use same brand name for better penetrates to the world market. Eye-catching package design and products name is also desirable.

(2) Export Promotion Policies

■ Agricultural Products

Most of exporters are exporting fresh vegetables to neighbor countries trough their network, but they are not satisfied with their small export quantity and their limited marketing channel. Their interest in achieving more export and more countries is very keen but it seems to be rather

difficult for them to establish their own export policy. Because foreign buyer decides item, design, quality and price, most of exporters fully depend on foreign buyers. Getting necessary certificate is also necessary for their export promotion. (GMS, ISO, EEC No., HACCP, etc)

■ Marine Products

Getting foreign standards or certificate, such as ISO9200, HACCP, EEC No., is common policy among exporters. Indonesian government has been successful to provide them appropriate guidance and to classify each exporter based on foreign standard achievement.

※ Keeping alternative raw material supplier is very important.

It is beyond control for fluctuating material (Fresh fish) price and its quality. Expanding raw material sources from neighbor sea area to larger sea area is highly recommended to make more stable shipment. If the company would find and keep alternative supplier, handling of shipment would be safer and less delay shipment. The good reputation of punctual shipment provides them stable purchase order.

■ Processed Foods

Utilizing Indonesian resources is necessary for developing products. If it would be combined with common noodle or pasta, the product seems to be more accepted by export market. Launching good brand name is also desirable.

(3) Marketing

■ Agricultural Products

Most of exporters have weakness in marketing, their market network is limited through their friends and relatives, it seems to be difficult to expand export market. Marketing support is the most desirable.

■ Marine Products

After exporters developed world market, they are paying more attention to keep good customer satisfaction for getting continuous order. Internet is common method for collecting market information and for daily business by e-mail.

■ Processed Foods

Exporters are paying more attention to refine their package design and company brochure for

attracting foreign people and they are also interested in participating exhibitions. Internet is common method for collecting market information and for daily business by e-mail.

■ **Common**

Disclose company information through website or foreign buyers' directly is effective method. But direct communication with foreign buyers is more important. Participating exhibition is effective way to find foreign partners.

(4) Production Control

■ **Agricultural Products**

Most of exporters are doing well in quality and they are successfully managing very detail criteria which given by foreign buyers. They are establishing good relationship with farmers. They are mostly small-scale company; quantity management is desirable for them to reduce their cost and to learn effective production know-how. To study for optimum usage of fertilizer and anti-insects is also important. Adopting necessary machines and tools should be considered in next step as after achieving bigger production.

■ **Marine Products**

Most of exporters have no serious problem in quality; they achieved the buyer's standard and necessary certificate for foreign countries. But they are serious for getting raw material; getting stable raw material is key to the management of fishery business. Fluctuating material price destroys their profit and fluctuating quantity makes them unable to keep punctual shipment.

■ **Processed Foods**

Quality of raw material is very important. Due to unstable quality they are inspecting raw material for separating export quality, domestic quality and rejected quality.

(5) Finance

■ **Agricultural Products**

Most of exporters are small-scale companies and some of them have their own land and can afford to buy the facilities such as green house. But when their production volume increases they usually face the shortage in cash flow. Insufficient working capital is one of the obstacles for increasing their export.

■ Marine Products

Even successful exporter needs sufficient working capital for stable management. Their export contract is very serious to pursuit punctual shipment. The shortage of working capital causes due to the large increase in export quantities. This occurs when they expand their export business. Unstable exchange rate of Rupia to US\$ also makes finance management more difficult.

■ Processed Foods

There is no serious problem and local bank seems to support them very well.

(6) Human Resource Development

■ Agricultural Products

To educate farmer is very important to make them learn the importance of quality. What they see every day in local market does not meet standards of export markets. They are eager to learn new technology and try to develop new item actively. If systematic and market-linked seminar or programs are provided, they would be able to develop more items and their operation would be more successful.

■ Fishery Products

Providing good guidance for getting ISO, HACCP, EEC No., etc is most desirable among export managers. Opportunity of not only academic but also practical training is more desirable for workers. Utilizing visual tool is effective way to educate workers.

■ Common

Studying trading knowledge and procedures is necessary for all of exporters. Sufficient knowledge of trading term and forwarding cost are necessary for sound management.

(CIF, FOB, freight cost, L/C, D/A, D/P, TTB, TTS, etc)

8.5.3. Desirable government support

(1) Simplifying the procedure of getting business visa.

Visiting foreign country is one of the best ways to find foreign buyer. Supporting system of foreign trip by government is desirable. Getting VISA to foreign countries is very difficult for common Indonesian citizens. Both of Government should consider simplifying its

procedure.

(2) Detail trade statistic in target countries, buyer's list and exhibitions are necessary but introducing real partner or buyer is most desirable.

(3) To support working capital not only for new facilities but also for increasing turnover. L/C finance service is desirable for many exporters.

(4) Reserve Rp currency as well as USD is necessary operation to avoid exchange risk. . How to avoid exchange risk is the biggest issue among fishery companies because they are always handling big amount of US\$ L/C. Reserve Rp currency system with reasonable premium is desirable.

(5) Trade promotion center, which provides us good opportunities of meet foreign buyers and join exhibitions.

(6) If the government really wants to stimulate the export agricultural products, providing special rate for export forwarding cost should be seriously considered in promotion period. (Such as air freight, ocean freight, documentation fee, inland transportation fee, etc) In this case minimum quantity should be adopted for giving exporters to high motivation for enlarging their export quantity.

(7) Organizing more specialized associations

More specialized association is also desirable because current associations cover wide range of industry. This doesn't seem to be functioning well.

General association should be divided more specialized group.

For example: Food & Beverage Association → Vegetable association

→ Fresh, Frozen and Processed group.

8.5.4. Diagnostic report for model companies

■ Model Company A.

Export item: Vegetable (Half processed, Frozen)

Number of employee: 300

Selected reason:

When the company was established in 1984, 100% of their products went to local market, but they have successfully developed their products as to export 70% in current years. They want to concentrate more export and to integrate export items as market demands. Main exporting countries are Japan, Singapore & Holland but their target country is Japan. They need more inquiry from Japanese buyers. So far fresh vegetable can't go to Japan market in its quarantine problem. They have enough capacity of cold storage and freezer, these facilities are necessary for frozen items. This study team selected them as appropriate exporter model in above reasons.

* Assessment of the export competitiveness

● Marketing

Developing foreign buyers is key to increase export, all of the export products is buyer's design and criteria. Following buyer's requirement is more important than getting general standard such as GMS, HACCP, ECC No., etc. They are exporting Japan through Japanese trading company and they are successfully developing their products. Visiting foreign country is one of their ways to find foreign buyer. They are doing their marketing very well and supporting by foreign buyers.

● Production

They have all of necessary foreign certificates and get good reputation among foreign buyers. Having enough capacity of cold storage they can ship any quantity as buyers' demand. Production management is very important for both of factory and farm workers. To give them long-term scheme, guarantee of purchasing products is one of the effective ways for establishing reliable relationship with farm workers. Their production management is satisfied level.

● Finance

There is no serious problem in L/C settlement but they need working capital support when their factory is expanded.

● Human Resource Development

To educate farmer is very important. Every body should learn the importance of quality. What they see every day in local market is not exporting quality. Their mind to educate worker is very active. Systematic and market-linked seminar or programs are requested from managers. Internet and e-mail are commonly used as business communication tool as well as for collecting market information.

■ Model Company B.

Export item: Marine Products (Frozen fish filet).

Number of employee: 300

Selected reason:

This Company is managed by young and inexperienced director and they seriously want to export to Japan market. They are exporting through existing buyers in Europe and China and Japanese trading company is also helping their marketing. Even though they work with Japanese trading company, they have not export to Japan yet due to their quality standards. In this point of view, this company is suitable as model company in this study.

* Assessment of the export competitiveness

● Marketing

As long as they are exporting through foreign buyers under buyer's brand, their marketing has no serious problem. To maintain good relationship with existing buyers is more important than establishing JV Company. In general, foreign partner guarantees JV Company certain quantity but on the other hand partner mostly controls their marketing. This is good point for special item, but they better find a way to establish their own brand after learning know-how from foreign buyers.

● Production

They are doing well their handwork processing, but they have to study for more effective way to produce with machine or tool in certain process. Adopting temporary workers for peak season is effective way to reduce their production cost.

● Finance

Since their family owns a local bank, there is no finance problem.

● Human Resource Development

Young director manages the company and he just started fishery business. Training programs should be provided not only for worker but also for the management side.

■ Model Company C

Export item: Processed Foods (Seasoning Mixes, Sauces, Instant Noodles, etc)

Number of employee: 250

Selected reason:

This Company has successfully developed unique products with traditional Indonesian taste. Their excellent brand strategy is worth to learn. They were very aggressive to export to Japanese market and have developed the products as a results of studying Japanese markets.

*** Assessment of the export competitiveness.**

● Marketing

Main export markets are Europe and Australia and they have branch in Australia. They are interested in Japanese market and a few Japanese trading companies are helping them. They started export business under the brand name called "Bali Kitchen" and tried to invite other food manufactures to produce the products under the same brand name. With this brand name, they have joined Asian food exhibition in Tokyo last year.

● Production

They are purchasing lots of spice, tapioca as key raw material. To select the high quality raw materials is necessary to produce good products, therefore bad materials should be rejected. They are also achieving high productivity with high quality workers.

● Finance

There is no serious problem and local bank seems to support them very well.

● Human Resource Development

Human resource is the most important for the management and the development of the company. This company has high motivation for educating their employees. To establish reliable and intimate relation with employees is very important for long-term management. This works effectively especially for SME companies. This company sends employees to educational program and foreign exhibitions for human resource developing purpose.

8.6. Recommendations on Improving Export Competitiveness

■ Marine Products

Indonesia has various kinds of marine resources from surrounding oceans and the marine products become the biggest export item in the food industry. It seems that it has achieved a successful level but the processing level can be further developed to produce more value added products. This will require more handworks and Indonesia has an advantages in this kind of jobs with cheap labor costs.

This study suggests following recommendations to increase export.

(1) More processed, more value added

To find and follow the end-consumers' demand should be seriously considered. Ready made cooking materials are more preferable by the direct consumers' such as franchised restaurants and pubs or sushi bars.

Following end-consumers' demand → More processed, more value added

An example of processed level is shown as below.

Raw prawn → Assorted size → Frozen prawn with head → Frozen prawn without head →
Frozen peeled prawn without head

↓

Peeled & opened frozen prawn

Peeled prawn on skewers

Peeled prawn with flour (wheat) coating (Ready for fried cooking)

Peeled prawn with Tempura coating (Ready for Tempura)

(2) Keep alternative raw material supplier

Fluctuating material (Fresh fish) prices or qualities are beyond the control for the Indonesian exporters. Expanding raw material sources from neighbor sea area to larger sea area is highly recommended to maintain production volume stable. If the company can find and keep alternative suppliers, handling the shipment schedule would be secure and be able to avoid the delay of shipment. The good reputation with punctual delivery can maintain constant order.

(3) Keep watching the international and the domestic market prices for raw materials as well as the products

(4) Obtain international standards

Obtaining the standards of each market for exporting is basic matter.

For EC market → EEC No.

For U.S.A market → HACCP.

For Japan market → Buyer's standard should be first priority.

(More important than getting JIS and JAS)

■ Agricultural Products

The Plant quarantine Law and Food Sanitation Law in Japan strictly control fresh agricultural products. Fresh vegetables or fruits for Japan market are not recommended as its geographical and quarantine problem. The company should concentrate in Singapore market for the current period. To increase competitiveness in fresh items for Singapore market, geographical strategy should be first concern to avoid high airfreight cost. In this point of view, the middle of Sumatra can be a good candidate for exporting base to Singapore. Current import market trend in Singapore is shown in Table.8-6-1. The difference of C&F price between Indonesia and Malaysia mostly comes from difference in their freight costs. High C&F price from China is not due to long freight distance, but it is because Chinese products are higher added

Table 8.6.1. Singapore market

(Market size: Approximately 400 tons/day)

	Market share	C&F price in
Malaysia	44.5%	0.36/kg
China	13.4%	1.02/kg
Indonesia	13.2%	0.61/kg
Others	28.9%	
Total	100%	---

Source: data from SFI 1998

(1) Targeting Singapore market is the most practical strategy in fresh items

(2) Shifting major production area to middle of Sumatra

To compete with Malaysian products, it is necessary to avoid high airfreight cost.

(3) Establishing fumigation system and facilities

The quarantine inspection strictly controls contamination of insect and others. Perfect fumigation of fruits' fly is the biggest concern in Asian countries. Introducing fumigation system is desirable although it requires a big investment. This cannot be done by a single company therefore government support should be introduced. Collecting fumigation charge from the companies shall cover the initial investment.

B) Half processed & frozen vegetable

Table 8.6.2. shows the major export items from Indonesia. Table 8.6.3. shows the major import items in Japan.

Table 8.6.2. Main Market by Product

Classification	Main market	Main Competitor	Export items
Fresh	Singapore	Malaysia	Water crest, French bean, Baby cabbage, Baby corn, Paprika, Tomato, etc. Sliced radish, Sliced sweet potato, Sliced & baked egg plant,
Half Processed	Japan	China	Sliced & fried egg plant, Salted baby egg plant, Salted cabbage (Asazuke), etc.
Frozen	Japan	China	Egg plant, Sweet potato, Kidney bean, Paprika, Pumpkin, Okura, Shishito, Melon (Uri), etc.

Source: Interview survey by JICA study team

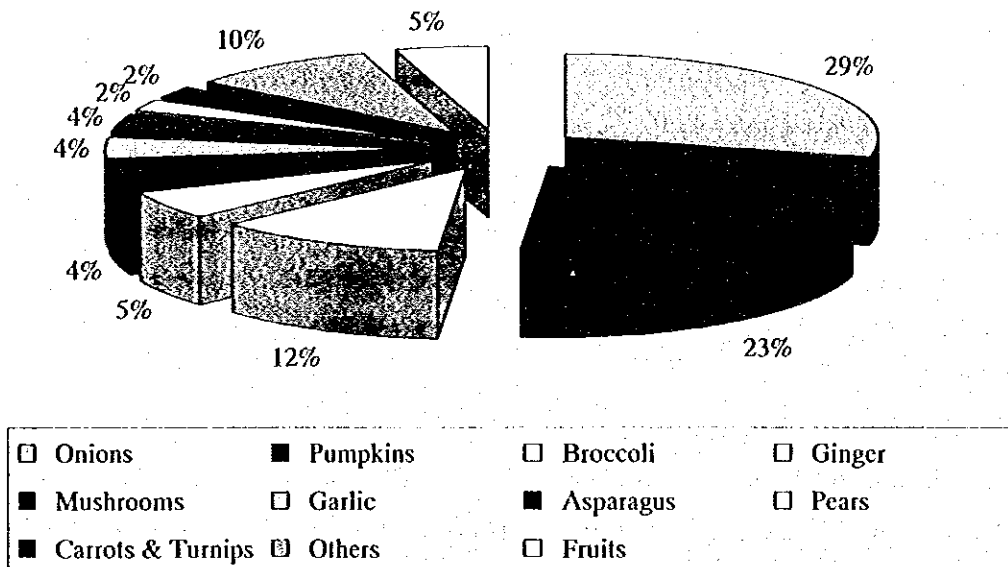
Table 8.6.3. Major Imported Vegetable in Japan

(Unit: 1,000 tons)

Item	1997	Availability in Indonesia
Vegetables	573,216	
Onions	174,611	
Pumpkins	135,665	○
Broccoli	71,811	○
Ginger	33,101	○
Mushrooms	26,028	○
Garlic	25,373	○
Asparagus	21,078	○
Pears	14,703	
Carrots & Turnips	13,305	○
Others	57,541	
Fruits	29,000	
Total	602,216	

Sources: Import of "VINAS vegetables", Ministry of Finance and Japan exports and Imports

Figure 8.6.1. Major Imported Vegetable in Japan



Sources: *Import of "VINAS vegetables", Ministry of Finance and Japan exports and Imports*

Half-processed and frozen vegetables are successfully developing with following the demands from world markets. Getting foreign partner is key to success in this category because foreign buyers design almost 100% of these products' criteria.

By analyzing the past history and current market trend and demand, following action shall be recommended.

(1) More attention to market demand

(2) "Ready made & easy cooking"

"Ready made & easy cooking" is current trend in developed countries' food market. Ready made cooking material is more preferable among end consumers'. There are two kinds of processes to produce ready-made cooking materials. One is handwork process (cut, sliced and peeled) and the other is cooking process (baked, boiled and steamed). The new product can be created by combination of these two processes. For an example: Egg plant → Sliced egg plant → Baked & sliced egg plant. Baked & sliced egg plant is new export products and it is for pizza topping.

(3) Direct contact with salted manufacture

For a Japanese case, the final stage of processing the salted vegetables is done by processed manufactures as well as to sell the products. Therefore, Indonesian exporters should communication with as direct to these manufactures as possible in order to learn technical know how and market demands from them.

Further more, there are two suggestions for agro products.

(1) Intensive production in same area same product

Same area same products is necessary strategy for creating regional products.

Example: Tulip in Toyama prefecture, mushroom in Dien Highland)

(2) Good communication with farmers

In the most of production area, it is likely that telephone line is not available thus the dairy communication seems to be very difficult. However, to communicate with farmers is very important as well as with foreign buyer. To give the true information in advance is the most important. As long as the Indonesian exporters keep informing to their buyers, serious problem will never occur. The worst case is a sudden notification of delay in shipment on the day of shipping.

■ Processed Foods

Table 8.6.4. Imports of Canned Fruits in Japan
(Unit: Million Yen)

Item	1997
Import Total (※)	33,078
Canned Peaches	7,164
China	2,596
Republic of S. Africa	1,762
Greece	1,679
U.S.A	400
Chile	357
Canned Pineapples	5,875
Thailand	2,200
Philippines	1,557
Indonesia	1,146
Malaysia	823
Vietnam	60
Canned Citrus Fruits	5,225
China	3,518
Israel	509
Mexico	453
Spain	387
Canned Mixed Fruits	2,006
Republic of S. Africa	784
U.S.A	574
Thailand	261
Greece	118

Note: ※: Only the top supply countries are shown

Sources: Ministry of Finance and Kanzume Jiho

Exporting fresh fruits cannot be recommended under current situation but canned fruits or canned juice has a high potential in export market.

Most of foods processing companies including foreign J.V in Indonesia produce for domestic market only. Common processed foods such as chocolates, cookies, candies and other snacks never attract foreign people because most of them are designed for local market. Infamous Indonesian brand name also makes export difficult. Launching good Indonesian brand name and refining package design are required to increase exports.

Following suggestions are recommended to increase export in processing foods.

(1) Canned fruits and juice should be more developed

Canned pineapples are successfully exported as table 8.6.4 shows. Mix juice with pineapples may have possibility to be exported. The taste of canned juice should be adjusted to meet

consumers' preference. Mango juice is also potential item to be exported though Malaysian products have already covered a big share in the market.

(2) Brand strategy

Establishing world famous brand name is important strategy for all Indonesian exporters. It is more effective to use the same one brand name rather than each different company's for better penetrates in the world market. As the brand name must attract foreign people effectively, it should be related to the words that are well recognized by foreigners with Indonesian image such as "Bali" for an example.

Utilizing Indonesian resources products. For example, Indonesian traditional flavor such as coconuts or spices are recommended to export to world market after modifying their taste or package to meet the favors of the country to export. For a case of Japan, Asian flavor such as coconuts, hot and spicy are getting more popular especially young people. In fact, recently there are many new hot and spicy products in instant noodle and snacks are newly developed and sold in Japan.

(3) Be familiar with foreign culture and regulations

It is necessary to know the foreign culture and regulations to develop package and taste of the products. Some of the food additives used in Indonesian products are not approved by the regulations of other countries.

(4) Attracts foreign tourists

Displaying the products at the places where the foreigners will see as much as possible.
(Duty Free Shops at the airports, shopping centers, famous sightseeing places, etc)

(5) Open Indonesia restaurants in the foreign countries

Export of Indonesian food can be considered export of Indonesian culture. Opening Indonesian food restaurants is one of the effective ways to advertise Indonesian food and other products. The function of these shops can be various such that restaurants or antenna shops. These shops can be used not only for the food products but also for the textile and textile products or wooden products.

(6) Develop "Healthy & Dietary" Food

Lots of people are paying more attention to health and dietary foods. Indonesia has various plants, spices, teas, medicinal herbs or plant oil and these traditional natural resources can be developed for exporting with a key word "Healthy & Dietary". The prices of "Healthy & Dietary" foods are surprisingly very high in markets of developed countries, thus these products may generate high values in export market.

(7) Package size strategy (Something Unique)

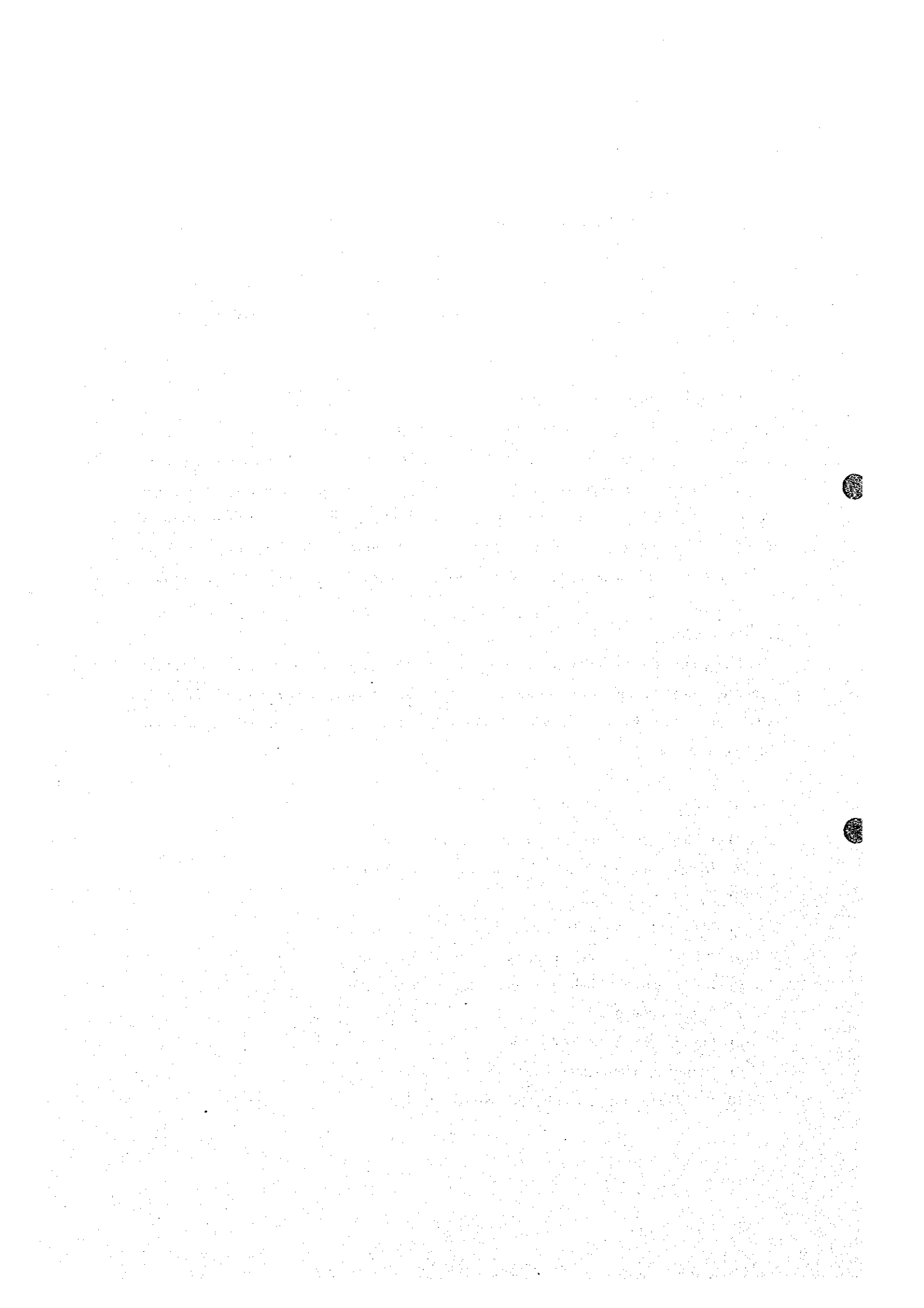
This idea can be used commonly for all kinds of food. Unique size products sometimes attract certain consumers. Although the size assortment is strictly controlled under regulations or national standards, it is important to remember that unusual size (too big or too small) products can create new market. The consumers quickly accepted baby cabbages, baby eggplants, baby corns and baby tomatoes when they are first introduced. Enjoying free idea is useful to create unique products such as baby pumpkins, baby watermelons, jumbo pears or jumbo cucumbers.

(8) Color impact

Breaking common sense is effective for creating new products. To produce different color of the products is one of the good strategies to take. For an example, paprika is very successful in the world market with its beautiful color variations. There is a lot of ways to enjoy food items besides the tastes.

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Chapter 9. Wooden Products

9.1 Analysis of Export Statistics

9.1.1. Trends of Export Values

The size of Indonesian forest area is about 144 million hectares, which is equivalent to 75% of the size of the country. It makes Indonesian forest the largest in Asia and ranks the third in the world as a tropical wood possessing country after Brazil and Zaire. Indonesia has forest resources such as ebony, a red sandalwood, teak and pine. These forests are almost 100% owned by the government and only the companies with 20-years license from Ministry of Forestry and Estate Crops Organization are allowed to cut the trees. Since the Government affected a ban on log exports in 1985, conversion to plywood and lumber in export developed drastically, and now they became strong export industries besides textile.

After the Asian monetary crisis in 1997, price control and export quota system applied by APKINDO has been abolished especially after the agreement between International Monetary Fund (IMF) and the Indonesian government. Consequently, Indonesian plywood industry is now able to be competitive in the world market. High value added products, particularly wooden furniture is expected to increase its export volume.

Furniture companies have various target markets and products. Medium and large-scale manufacturers are usually producing first or second grades products in a knocked-down condition combined with electromotive machines assembling furniture parts such as window frame and legs of chairs and tables. They usually export their products and the target consumers in domestic market are medium-upper income segments including hotels, restaurants, offices etc.

On the other hand, small-scale wooden furniture producers concentrate in handicraft products of third and fourth quality grades. The target in domestic market is the middle-lower income segments. It is interesting to note that the producers of traditional hand-carved wooden furniture in Jepara and Bali target export market and upper-income segment of the domestic market.

Based on a statistics of 1999 (between January to August), Plywood has 80% shares in the export values of wooden products whereas wooden furniture products still has a small share. However, the value increased from 89.5 million US dollars in 1991 to 566.4 million US dollars in 1997. In 1998, it halved to 285.6 million US dollars; however, it has recovered up to 536.9 million US dollars as of August 1999. Although number of wooden furniture companies is estimated about 3,500 in Indonesia, there are very few medium and large-scale companies, which are export-oriented. The members of ASMINDO (Indonesian Furniture Industry & Handicraft Association) are about 700 (Including the member of non-furniture producers).

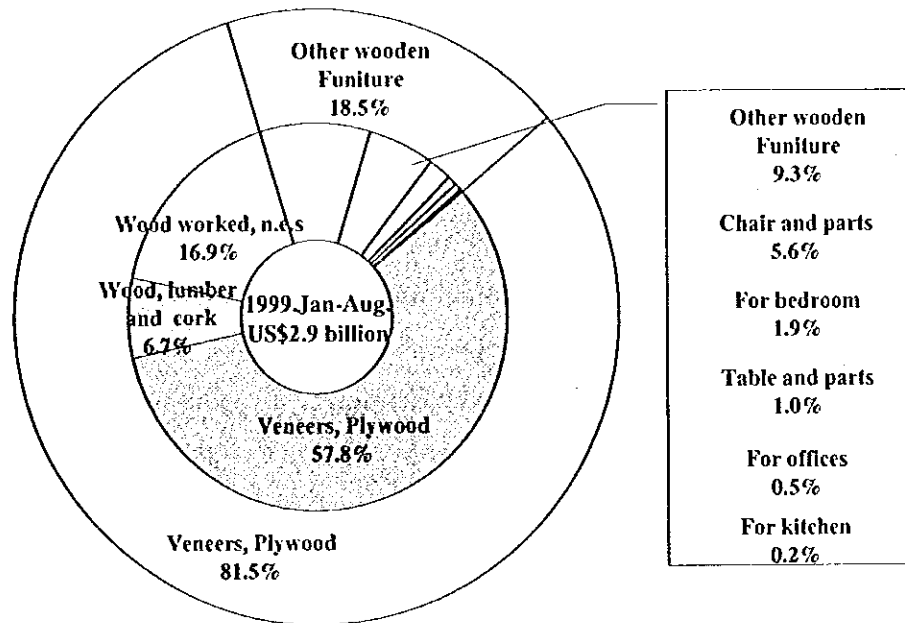
Table 9.1.1. Trends of export values

(Unit: US\$.1,000)

		1997	1998	Growth Rate	99.1-8
Wooden Products	Wood, lumber and cork	279,106	196,792	-29.5%	194,613
	Cork Manufactures	173	29	-83.3%	387
	Veneers, Plywood	3,742,789	2,232,050	-40.4%	1,678,023
	Wood worked, n.e.s	711,821	504,124	-29.2%	491,675
	Sub Total	4,733,889	2,932,995	-38.0%	2,364,698
Wooden Fanatures	Wooden fanatures	199,075	85,278	-57.2%	163,556
	For offices	7,237	9,976	37.9%	15,034
	For kitchen	2,909	1,669	-42.6%	5,484
	For bedroom	65,574	42,548	-35.1%	55,062
	Table and parts	40,344	35,139	-12.9%	28,777
	Other wooden Furniture	250,586	111,000	-55.7%	269,056
	Sub Total	565,726	285,610	-49.5%	536,969
Total	5,299,615	3,218,605	-39.3%	2,901,666	

Source: BPS, *Buletin Statistik Perdagangan Luar Negeri Ekspor*

Figure 9.1.1. Composition of exports values by products (Jan.-Aug. 1999)



Source: BPS, *Buletin Statistik Perdagangan Luar Negeri Ekspor*, August 1999

9.1.2. Export Values by the Destinations

Japan is the largest market for wooden products with 24.3% (1998) share. For wooden furniture, Japan and USA occupied nearly a half of the export market. In 1998, Japan's import values of wooden furniture decreased by 10% and decreased by 20% that of Indonesia, consequently Indonesia's export values of wooden products decreased as a result. However, a share of Indonesian products in Japan still remained around 10%.

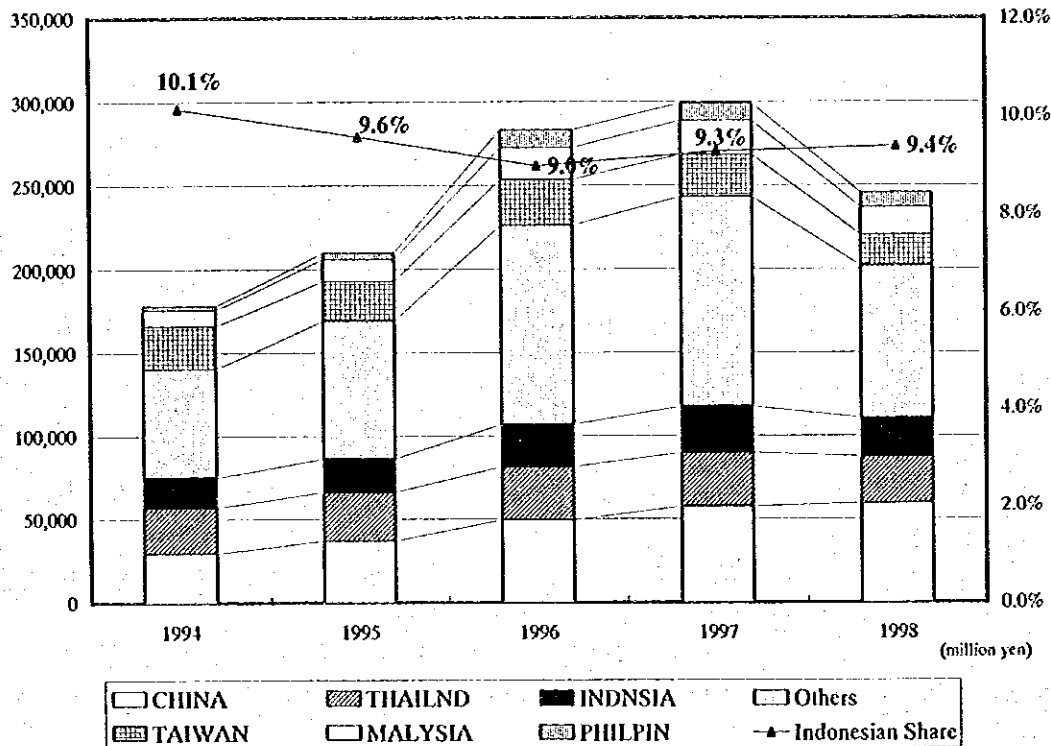
Table 9.1.2. Export Values by the products

(Unit: US\$.1,000)

	Japan	USA	Taiwan	Others	Total
Wooden Products	776,623	456,617	230,919	1,737,807	3,201,966
	24.3%	14.3%	7.2%	54.3%	100.0%
Wooden furniture and parts	52,212	75,721	11,175	129,862	268,971
	19.4%	28.2%	4.2%	48.3%	100.0%

Source: BPS, *Buletin Statistik Perdagangan Luar Negeri Ekspor* 1998

Table 9.1.2. Trends of Japanese Import Values (Wooden Products)



Source: Jtrade, Japan Tariff Association

9.1.3. Obstacles in Exporting

- (1) Political situation and economic instability in Indonesia has caused the investor to hold back their investment plan to Indonesia.
- (2) The purchasing power in buyer countries has also decreased due to the deterioration of economic situation
- (3) The fluctuation of Rupiah value has affected the confidence of buyers.

9.1.4. Possibility of Export Increase

- (1) The managers of the exporters are thinking to get a new investment and the movement to make new contract positively because the political situation of Indonesia is improving recently.
- (2) Demand shows the tendency to increase by improving economic situation in buyer countries.

9.2. Selection of Target Export Items

Products and parts from the target industries in this study are varied and each has different problems or target markets. In order to propose effective measures, the high potential items to export were selected from the six industries with certain criteria.

Selected potential products

Group I: Products with large market size

Group II: Products with high market growth rate

Numbers in front of each item indicate 3 digit SITC codes.

Target Export Items (see fig. 9.2.1)

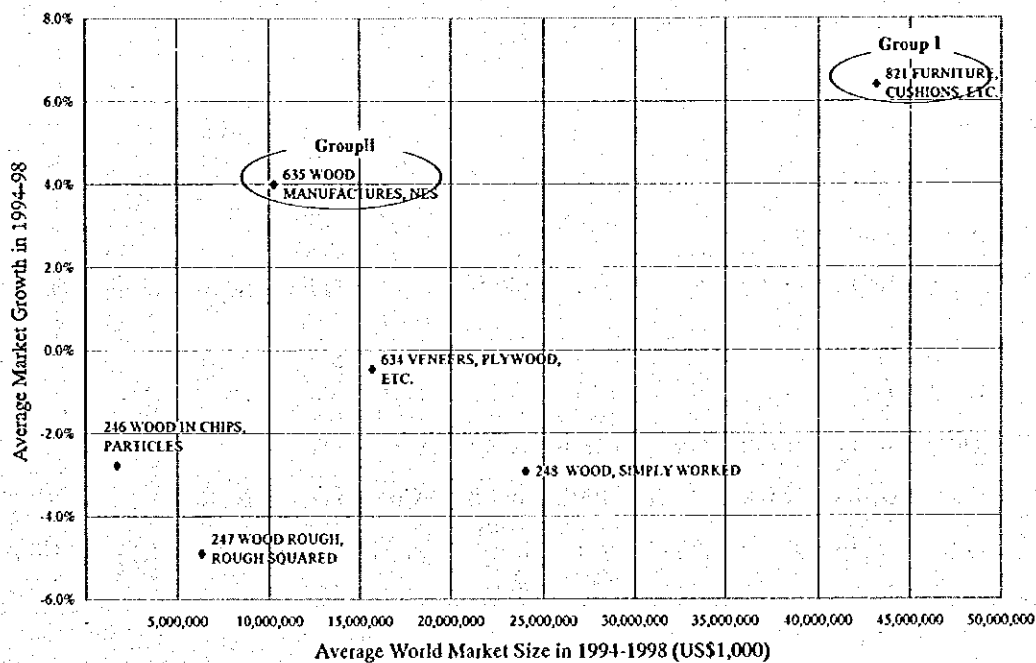
Group I

- 821 FURNITURE, CUSHIONS, ETC. (including non wooden)

Group II

- 635 WOOD MANUFACTURES, NES.

Figure 9.2.1. Selection of potential products (Wooden products)



Source: International Trade Center (ITC)

9.3. Buyer's Satisfaction Survey in Japan

In order to grasp the buyers' evaluation of the Indonesian products, we conducted buyers' survey.

9.3.1. Outline of the Target Companies

(1) Target companies for interview

The target companies for interview in Japan include trading company, wood importer, Japan-Indonesia joint venture company, such as: Nissho-Iwai Corporation House Construction Material Section, Earth Trading Co., Ltd. Ichiken Co., Ltd., Kasho Co., Ltd., Nissho-Iwai Milano and MCA Co., Ltd., Oyama Plywood Co., Ltd.,

(2) Target products

The target products for export promotion include: flooring (solid and painting finished goods), laminate board, house material parts, doors, garden furniture, wooden furniture, rattan products, wooden pallets, handicraft and plywood

9.3.2. Import Procedure of Wood Products

Wood processing products

(1) Trading Company - Wholesale Store- (Retailer) -Construction Industry Company or Processing Factory

(2) Special Wood Trading Company- (Wholesale Store and Retailer) -Processing Factory

Furniture Goods

(1) Trading Company - Furniture Wholesale Store (Maker)-Consumer

(2) Direct Importer of Maker - Special Furniture Shop -Consumer

(3) Trading Company - Wholesale Store - Store of "do it yourself" or Mail Order House - Consumer

9.3.3. Evaluation of Indonesian Products

Based on buyer survey carried out in Japan in November, there are some comments that are important to note for Indonesian manufacturers:

- (1) Buyers in Japan think that the quality of Indonesian products are becoming better than before though there was a lot of claims before, even from a Japanese joint ventured company.
- (2) Most products should be under technological guidance from buyers in Japan and Europe in order to be marketable in these regions.
- (3) When the contracted goods are arrived in Japan, the goods is not same as the sample that supplier showed before, specially quality and finishing.
- (4) The most important problem is delivery time. Japanese customers are strict to keep delivery time as same as contract.
- (5) The quality of rattan products and furniture are improving.
- (6) The wood products from Malaysia, Thailand, China, and a Vietnam are getting more market share due to improving quality and competitive price.

9.3.4. Suggestion for Indonesian Products to Promote Exports

- (1) To increase the quality of the products.
- (2) To lower the price to compete with Thailand, China, and Vietnam
Japanese buyers are trying to find good quality goods with cheaper price due to deteriorated market condition.
- (3) To keep the delivery time.
- (4) To strengthen the marketing activities so that buyers in Japan pay attention to the products of Indonesian exporters. Indonesian exporters have to make efforts to establish relationship and trust with Japanese buyers.

9.4. Analysis of Competitiveness of Selected Products

We have analyzed the competitiveness of selected products in Japanese market as an example.

9.4.1. Overview of the World Market

Import lumber (S4S, 4407) of Japan is shown in the table (table 9.4.1). Amount of the import from the whole world from January to October 1999 is 1,480 million US dollars. Share of the total Asia is 32.8% in the whole world, and share of China is 32.3%, Malaysia is 31.0%, and Indonesia is 28.4% in the whole Asia.

In the import wood processing product table of the same time (table 9.4.2), the amount of the import from all over the world is 174 million dollars. The share of the total Asia is 66.6% in the whole world, and share of Indonesia is 36.5%, China is 29.6%, and Thailand is 16.0% in the whole Asia.

It is as shown in the furniture import results to Japan on the period of between 1985 and 1997 (table 9.4.3). As for Wooden Furniture, increases by a factor of 6.7 times to compare with the results in 1985, and the rattan furniture are decreasing to 50 percent because of the decrease in demand to compare with the result of 1985.

The amount of import to Japan from the whole world is 99,610 million yen from January to September, 1999 wooden furniture as shown in the material of the attached paper (table 9.4.4). The amount of the import from the whole Asia is 74,926 million-yen and the share is 75.2% in whole world. The amount of import from Indonesia is 10,608 million-yen and then the share of Indonesia is 14.2 % in whole Asia. And Thailand is 25.9%, China is 21.1% and Malaysia is 14.2% in the whole Asia. Indonesia share is 4th in the amount of import in whole Asia.

For rattan furniture, the total amounts of money of import from January until September 1999 from the whole world is 5,494 million-yen (table 9.4.4). Asia is 5,465 million-yen from the whole world, and Indonesia occupied 4,910 million yen from the whole world, the ratio is 89.4%, and it is biggest share.

Table 9.4.1. Japan's Lumber Import (Jan.-Oct. 1999)

COUNTRY	Volume m3	Volume JPY.1000	Value US\$.	% in Asia	% in World
R. KOREA	5,003	319,148	2,758,940	0.6	0.2
CHINA	251,149	18,282,460	157,758,480	32.3	10.7
TAIWAN	10,601	194,160	16,833,484	3.4	1.1
VIETNAM	2,516	192,292	1,700,004	0.3	0.1
THAILAND	13,807	1,070,688	9,229,628	1.9	0.6
MALAYSIA	290,491	17,453,484	151,599,306	31.0	10.2
PHILIPPINE	7,532	319,864	2,766,830	0.6	0.2
INDONESIA	284,241	16,066,905	139,017,229	28.4	9.4
COMBO	6,381	298,515	2,556,343	0.5	0.2
LAOS	2,337	216,820	1,873,689	0.4	0.1
MYANMAR	1,447	20,048	1,725,687	0.4	0.1
OTHERS	3,580	2,085,115	1,343,772	0.3	0.1
ASIA TOTAL	879,085	56,519,499	489,163,392	100.0	33.0
SWEDEN	459,547	14,698,093	126,421,013		8.5
GERMANY	41,199	1,707,676	14,688,951		1.0
ITALY	17,830	1,354,874	11,695,640		0.8
FINLAND	537,396	16,184,652	139,442,239		9.4
RUSSIAN	379,975	9,308,114	80,066,001		5.4
AUSTRIA	394,634	13,766,254	118,409,323		8.0
CZECH	35,914	1,277,046	11,026,761		0.7
OTHERS	44,202	1,687,124	14,559,902		1.0
EUROPE TOTAL	1,910,697	59,983,833	516,309,830		34.9
CNADA	3,795,137	124,720,425	78,291,121		5.3
USA	685,461	31,341,972	270,231,640		18.3
OTHERS	2,721	116,584	992,331		0.1
NORTH AMERICA TTL.	4,483,319	156,178,981	349,515,092		23.6
CHILE	340,176	6,953,621	60,122,516		4.1
OTHERS	19,068	1,267,773	11,043,314		0.7
SOUTH AMERICA TTL.	359,244	8,221,394	71,165,830		4.8
AFRICA TOTAL	2,647	171,557	1,494,543		0.1
AUSTRALIA	11,259	670,993	5,793,645		0.4
NEWZEELAND	224,147	5,202,946	45,018,624		3.0
OTHERS	2,548	208,382	1,813,221		0.1
ORIENTAL TOTAL	237,954	6,082,321	52,625,490		3.6
GRAND TOTAL	7,872,946	287,157,585	1,480,276,177		100.0

Source: Japan's Ministry of Finance

Table 9.4.2. Japan's Import of Wood Processed Products (Jan.-Oct. 1999)

COUNTRY	Volume m3	Volume JPY.1000	Value US\$.	% from Asia	% from World
CHINA	28,750	3,968,065	34,385,028	29.6	19.7
THAILAND	13,821	2,146,882	18,582,106	16.0	10.7
MALAYSIA	9,199	714,139	6,181,226	5.3	3.5
PHILIPPINE	2,425	636,030	5,545,716	4.8	3.2
INDONESIA	47,749	4,903,839	42,337,088	36.5	24.3
LAOS	20,412	525,845	4,588,147	4.0	2.6
OTHERS	4,254	508,161	4,390,926	3.8	2.5
ASIA TOTAL	126,610	13,402,961	116,010,237	100.0	66.6
SWEDEN	18,115	1,083,758	9,337,561		5.4
GERMANY	1,625	170,569	1,480,604		0.9
FINLAND	8,255	527,010	4,516,666		2.6
OTHERS	4,793	437,793	3,812,081		2.2
EUROOPE TOTAL	32,788	2,219,130	19,146,912		11.0
CNADA	22,190	1,598,214	13,759,862		7.9
USA	14,158	2,174,413	18,805,847		10.8
OTHERES	3	420	3,961		0.0
NORTH AMERICA TTL.	36,351	3,773,047	32,569,670		18.7
CHILE	1,577	172,151	1,478,412		0.8
OTHERS	573	20,484	177,803		0.1
SOUTH AMERICA TTL.	2,150	192,635	1,656,215		1.0
AFRICA TOTAL	0	0	0		0.0
AUSTRALIA	2,365	285,046	2,482,832		1.4
NEWZEELAND	2,563	255,645	2,218,263		1.3
OTHERS	108	6,000	49,884		0.0
ORIENTAL TOTAL	5,036	546,691	4,750,979		2.7
GRAND TORTAL	202,935	20,134,464	174,134,013		100.0

Source: Japan's Ministry of Finance

Table 9.4.3. Trends of Japan's Imported Furniture

(Unit: thousand million Yen)

	Furniture					Parts	G. Total
	Wooden	Rattan	Metal	Others			
1985	497	259	216	11	11	90	587
1986	497	272	194	19	12	88	585
1987	690	412	222	39	17	103	793
1988	834	480	185	127	42	210	1,044
1989	1,056	650	179	186	41	337	1,393
1990	1,278	803	174	246	55	502	1,780
1991	1,283	791	161	270	61	603	1,886
1992	1,275	779	159	277	60	537	1,812
1993	1,241	759	142	289	51	440	1,681
1994	1,625	1,058	148	359	60	453	2,078
1995	1,846	1,225	135	422	64	457	2,303
1996	2,394	1,599	126	589	80	582	2,976
1997	2,543	1,682	109	670	82	750	3,293

Source: Japan's Ministry of Finance

Table 9.4.4. Japan's Import of Wooden and Rattan Furniture

(Unit: 1,000 yen)

	WOODEN						RATTAN FURNITURE					
	Seats		Other Furniture		From Jan to Sep.		FURNITURE					
	Jan.-Sep. (1998)	Jan.-Sep. (1999)	Jan.-Sep. (1998)	Jan.-Sep. (1999)	Total		Jan.-Sep. (1998)	Jan.-Sep. (1999)				
(ASIA)	23,721,126	24,693,295	49,739,171	50,233,005	73,450,297	100.0%	74,926,300	100.0%	7,032,970	100.0%	5,465,356	100.0%
KOREA	92,689	132,506	3,129,752	2,845,597	3,222,441	4.4%	2,979,097	4.0%	0	0.0%	0	0.0%
CHINA	4,883,777	4,390,176	10,564,929	11,437,812	15,448,706	21.0%	15,827,982	21.1%	396,158	5.6%	220,234	4.0%
TAIWAN	2,008,965	1,934,625	8,112,896	6,668,743	10,121,861	13.8%	8,603,368	11.5%	59,870	0.9%	55,031	1.0%
HONGKONG	284,527	257,709	233,385	217,712	517,917	0.7%	475,421	0.6%	552	0.0%	0	0.0%
VIET NAM	471,736	490,051	3,282,345	3,709,544	3,754,075	5.1%	4,199,595	5.6%	34,854	0.5%	34,578	0.6%
THAILAND	9,545,074	10,637,433	8,158,659	8,790,252	17,703,733	24.1%	19,427,685	25.9%	8,159	0.1%	6,648	0.1%
SINGAPORE	142,814	34,904	156,075	85,778	298,889	0.4%	120,682	0.2%	0	0.0%	774	0.0%
MALAYSIA	4,577,256	5,005,732	5,895,221	6,356,753	10,472,477	14.3%	11,362,483	15.2%	18,096	0.3%	21,403	0.4%
PHILIPPINES	231,306	284,288	863,784	898,956	1,093,090	1.5%	1,183,244	1.6%	316,206	4.5%	211,412	3.9%
INDONESIA	1,461,165	1,509,027	9,218,121	9,999,044	10,680,286	14.5%	10,668,071	14.2%	6,194,754	88.1%	4,910,917	89.9%
OTHERS	21,823	16,856	123,004	121,814	144,827	0.2%	138,670	0.2%	4,321	0.1%	4,389	0.1%
(EUROPE)	11,129,820	8,635,894	13,359,941	9,724,315	24,489,761		18,360,209		58,117		12,485	
(AMERICA)	3,684,221	2,443,168	5,410,446	3,478,253	9,094,667		5,921,421		10,360		16,252	
(OSANIA)	131,769	105,749	261,948	256,056	393,717		361,805		0		20	
(OTHERS)	35,984	13,368	93,157	27,692	129,141		41,060		0		0	
TOTAL	38,702,920	35,891,474	68,864,663	63,719,321	107,567,583		99,610,795		7,101,447		5,494,143	

Source: Japan's Ministry of Finance

9.4.2. The Main Players

The import share of the lumber (S4S) from Indonesia is 9.4% in the total imported amount to Japan and then China is 10.7% and Malaysia is 10.2%. The share of imported amount from the total of Asian countries is third after the United States and Europe. The amount of imported wood processing products from the whole Asian countries to Japan is 66.6% in the whole world. It is the biggest share and Indonesia is 24.3% of the amounts of money of the import from the whole world after the United States.

China is 19.7%, and Thailand is 10.7% in the whole world.

The import amount of the imported wooden furniture from the whole world is 99,610 million Yen from January until September 1999. And the share of Thailand is 19.5%, China is 15.9, Malaysia is 15.2% and Indonesia is 10.6%, fourth rank in the whole world. However in rattan furniture is 89.3% in whole country positively strong and China is 4.0% in the second rank.

Though the amount of money of the import results from Asia to Japan for wooden furniture, Indonesia rank are between the sixth rank from the third rank as shown in the data (table 9.4.5) between 1994 and 1997 but Indonesia have been deprived of the high rank by Thailand, China, and Malaysia. But Indonesia has kept the first rank in the results of import of the rattan furniture to Japan.

Table 9.4.5. Japan's Import of Wooden Furniture

(Units: 1,000 yen)

No.	Country	1994 Amount	Country	1995 Amount	Country	1996 Amount	Country	1997 Amount	Country	1998 Amount
1	Thailand	23,955	Thailand	25,154	Thailand	28,145	Thailand	28,705	Thailand	24,722
2	Taiwan	13,509	Taiwan	13,309	China	16,909	China	20,337	China	20,042
3	Indonesia	10,264	China	11,959	Taiwan	16,849	Malaysia	17,393	Malaysia	14,828
4	Italy	9,737	Malaysia	11,694	Malaysia	16,626	Taiwan	17,271	Indonesia	14,090
5	China	8,590	Indonesia	11,624	Italy	15,821	Italy	16,727	Taiwan	13,169
6	Malaysia	8,319	Italy	11,408	Indonesia	14,882	Indonesia	16,378	Italy	12,764
7	U.S.A.	6,527	U.S.A.	7,972	U.S.A.	12,365	U.S.A.	11,887	U.S.A.	9,185
8	Sigapore	3,985	S. Korea	4,662	S. Korea	5,394	Vietnam	5,527	Vietnam	5,054
9	S. Korea	3,971	Sigapore	2,777	Denmark	3,526	S. Korea	5,156	S. Korea	4,296
10	United Kingdom	2,245	Denmark	2,699	Spain	3,309	Denmark	3,993	Denmark	3,148
	Others	14,664	Others	19,298	Others	26,028	Others	24,804	Others	20,282
	Total	105,766		122,556		159,854		168,178		141,580

Source: Japan's Ministry of Finance

9.4.3. Analysis of Competitors

American Hemlock is used to build houses in Japan, and therefore the wood imported volume from the USA is the biggest in Japan.

Indonesian products of lumber should be processed to S4S recently. The export tax of lumber in Indonesia used to be high because of the export restriction imposed by the Government. This policy raised the wood price in Indonesia and it became less competitive in Japanese market. The situation, however, is getting better now, as the price become adjustable with international market price.

Europe and America have different species of wood and its usage is also different compared to Japan. Indonesian wood is used mostly for construction. There will be a problem in the supply of raw material in the future because Indonesia still has not adopted long-term plantation plan. The raw material of rattan is very abundant in Indonesia compared with other countries. But the design and the technology are needed to improve in the future.

With regard to furniture, Indonesian suppliers have many rivals such as Malaysia, China, Vietnam and Thailand in producing the bunk beds, *Kotatsu* (Japanese foot warmer) sets, and the parts of furniture. Indonesia can still be competitive by rationalizing costs through improvement of production efficiency and more effective use of raw materials that are relatively abundant.

The Indonesia has competitiveness in making antique and garden furniture that uses teak and mahogany. Since European and USA houses have larger space compared with Japanese houses, they are more attractive for these products. (Now garden furniture has become more popular in Japanese market though.) Indonesian exporters should consider making marketable furniture for Japan, especially targeting for younger generation. Other potential products for the Japanese market include simple furniture such as low-priced chests and bookcases that can be sold in the do-it-yourself stores and the home centers recently.

9.4.4. How to become competitive

- (1) To focus on product suited in the market to export and try to obtain the trust of foreign buyers by provide high quality and on time to delivery.
- (2) To assure that production plans are accurately fulfilled and quality control is completely done.
- (3) To use high quality material such as teak, mahogany and pine for raw materials.
- (4) To reduce costs by introducing new technology in sawing and explore the possibilities of using unutilized species.
- (5) To stabilize the quality by adopting or improving kiln dry technology.

9.5. Interview Survey of Indonesian Exporters (Management Diagnosis)

9.5.1. Outline of Interviewed Exporters

(1) Object Exporters of Wooden Products

The breakdown of the wooden products can be classified into four: wood processing product; furniture; handcraft and rattan products. However, some companies are producing not only wooden furniture but also rattan furniture and handcraft.

The wood-processing products have also many types of the processing products using the solid material, the finger jointed laminating board, and the house material, etc. The furniture manufacturers have a lot of factories that produce antique furniture and garden furniture. Some firms are producing the bunk bed and the component of furniture etc. Because there are varieties of production items, raw materials, manufacturing process, and the type of buyers, it is rather difficult to overview the total impression.

The one of the interviewed exporters is producing wooden processing products. Two companies are producing the rattan products and the handcraft. Three companies are producing the bunk bed and the component of furniture. Five companies are producing the antique and garden furniture as is shown in Table 9.5.1. The total numbers of interviewed exporters are 11.

(2) Region, Sales, and Employees

Breakdowns of 11 exporters to be investigated, the head office of 3 is in Jakarta, 4 in Surabaya, and 4 in Semarang as is shown in Table 9.5.1. The number of employees of them is about from 110 to 400. Their turn over per month is 100,000 US dollars to 500,000 US dollars. Most of them are the small and medium exporters (SMEs) but one company belongs to large exporters.

Table 9.5.1. List of Interviewed Indonesian Exporters

Cord	Products	Material	Turn Over	Export %	Employee
JKT-1	Rattan Wicker Basketry, Handy Craft	Meranti, Rattan, Iron	US\$.200,000/M	100	150
JKT-2	Rattan, Antique Furniture, Hand Craft	Rattan, Teak, Mahogany	US\$.600,000/M	100	200
JKT-3	FJLB of Perpok, Pinus	Perpuk, Pinus	US\$.400,000/M	100	300人/3shift
SUB-1	Antique Furniture	Mahogany, Teak, Pinus	US\$.2,000,000/M	100	2000
SUB-2	Bunk Bed, Student Chair etc.	Ramin, Rubber Wood	US\$.500,000/M	100	400
SUB-3	Bunk Bed, Intelia	Ramin, Nyato, Cempaka	US\$.100,000/M	100	180
SUB-4	Kotatsu Table etc.	Ramin, MDF,	US\$.160,000/M	100	110
SMR-1	Garden Furniture, Antique Furniture	Mahogany, Teak	US\$.300,000/M	85	400
SMR-2	Garden Furniture, Antique Furniture	Mahogany, Teak	US\$.150,000/M	100	130
SMR-3	Garden Furniture, Antique Furniture	Mahogany, Teak, Nyatoh	US\$.400,000/M	100	200
SMR-4	Garden Furniture, Antique Furniture	Mahogany, Teak	US\$.400,000/M	100	200

Source: JICA Study Team

9.5.2. Export Competitiveness

(1) Management

Among the interviewed exporters, three companies have regular buyers in the US and Europe. They have enough orders and the profit also is high by the advantageous conditions of business to which the TT remittance can be received after making contracts.

Many other companies are making efforts to improve marketing and production technology.

Moreover, they have not been aware of the situation of marketing and technology of competitors of other country that should compete in the international market.

(2) Marketing

Many exporters are making an effort to pioneer in the market due to weak. And they are providing an opportunity and making the show room in Europe and US and participate the exhibition in foreign countries.

The main producing country of teakwood is Myanmar but their production has been decreased by several conditions. On the other hand, there are abundant in Indonesia at present time including plantation trees. Therefore Indonesian furniture exporters have opportunities to explore markets in Europe and the United States where the demand of antique and garden furniture is high.

(3) Production Technology

Some exporters work seriously on production management, and are making good quality. Most exporters have not reached the technology of international level, and the managers lack knowledge of the new technology even though they are excellent in respect of management skill.

(4) Financial Management

They have been forced passive management due to the instability of political, economical and currency condition of Indonesia is facing now. However, political situation has been stabilized more or less and the exporters began to restart positive activities after the new government was established.

The exporters that produce the wood processing products have a lot of orders because Indonesia has abundant raw materials and labor cost is about half of competitors like Thailand. The exporters in Indonesia have enough competitiveness.

The rupiah income from L/C has decreased because of its recent appreciation against US dollars (Exporters have contracted with buyers in US dollars.) Therefore, it is a time for the exporters to

think about the stability of smooth purchase of the raw material and the reduction of production cost again seriously. They have to improve international competitiveness.

(5) Human Resource Management

The top management cannot improve their management because they are too busy for daily operation and the numbers of capable managers are not sufficient though there are some excellent managers. In addition, it is difficult to conduct good quality control by each worker like Japanese factory because the workers' level of education is still low. However, it is difficult to educate and train by one exporters. Government support will be needed for this field.

(6) Use of Information Technology

A lot of exporters are using computer for calculation and accounting. But it is not so many exporters that fully utilize E-mail and Internet (especially home page) to collect marketing and technology information.

9.5.3. Strategy to be taken

(1) Improvement of International Competitiveness

The managers have to research seriously the competitors' strategies like Malaysia, China, Thailand, and Vietnam to identify their strength and weakness and they have to make the medium and long-term plan to fight with these competitors.

(2) Improvement of Technology

The sawing technology should be reexamined so that profit can be improved. The technical problem for the blue stain of Paine and Ramin etc. can be improved by the prevention of the mold, and exporters have to make a plan for cost down. They should aim at reducing the costs by improving kiln dry technology that can keep stability of wood of the products. Though most of them utilize only well established tree kind as raw materials they have to research and develop the utilization of new tree by breeding and useful unutilized tree kind in Indonesia for further cost down

(3) Information collection by Internet

The exporters have to use Internet for collection of the information of market, product, and public relation for them.

(4) Research of Buyers' Distribution Structure

The distribution structure of buyers should be researched and recover the trust of the buyers by improving delivery time and quality.

(5) Raising the Added Value

The exporters should develop their original design so that they can sell the products with higher added value.

(6) Acquisition of International Standard.

The exporters should make the approval of international standards such as ISO and they have to make stable and good products so that can get the trust from buyers.

(7) Human Resource Management

The improvement of the capabilities of managers and employees at factory level should be aimed.

9.5.4. Requests to Government

(1) Stability of Public Peace and Exchange Rate

The Government should make the environment to enable Indonesian business sectors to activate investments by achieving the stability of politics, economy, and the public peace as soon as possible. The exchange rate should also be stabilized so that exchange risk is reduced.

(2) Facilitation of Export Finance

The pre-shipment and post-shipment finance should be facilitated from governmental financial institutions like BEI in order to compete with rival countries. Early drawing of L/C should be done from the dealing bank. Moreover, the interest rate of the loan should be lowered from 25-27 % level to 10- 15 % level.

(3) Improvement of Technological Level

The organization that can acquire the technology of an international level like technology of sawing, the kiln dry, and the painting of furniture should be established. The Government should support for Indonesian exporters to get visa when they hope to visit to foreign countries for the market research purpose.

(4) Marketing Support in Abroad

The government should support marketing activities of exporters by establishing export promotion office in abroad to facilitate the marketing related information to them.

(5) Assistance to Acquire International Quality Standard

The organization from which Indonesia can acquire an international standard such as ISO should be established.

(6) Promotion of Information Technology (IT)

The Government should develop infrastructure to promote IT(especially Internet) for exporters to develop business network.

9.5.5. Outline of Management Diagnosis of Model Exporters

■ Company A

(1) Outline of management

They have factories such as the rattan furniture, the garden furniture and the antique furniture, and the handcraft in three places, and the manager is doing a serious effort for the market that corresponds to the production of their each factory.

(2) Export strategy

Now the rattan factory is exporting mainly 60 % to the Europe and 40 % to the United States. The market in Japan has been explored, and they hope to export 40 containers per month in 1999 but now they only exported 20 containers.

They are developing market through participating in exhibition in Europe and Japan. There is not so good reaction at the exhibition in Japan. They think about PR of the rattan and antique furniture by using the chance because participates in the exhibition that February 2000 contains the handcraft in Tokyo. The visit to Japan by president director and two others managers are decided and have already got visa. And they hope to meet the buyer and study the situation of market, technology and the design in Japan.

At the exhibition, they will exhibit explanatory leaflets, some pictures of furniture, a paper to prove their experience in Europe and the handcraft product samples that are made to meet the demand of Japanese buyer. It is scheduled that their homepage will be established shortly.

There were some responses after participating exhibition in Japan.

Especially, they have learnt great deal in terms of the quality and design of the furniture sold in Japan by visiting show room of the largest Japanese furniture sales company. For antique furniture, they are all from UK or Italy, however their origins are from Indonesia. Indonesian furniture are sold with high price once they go through Europe. Therefore, it is a big question that why it is not possible for Indonesia to sell to Japan directly.

(3) Production

Their rattan factory puts out the subcontract of home industry and they are doing the last finishing and the quality inspection as a lot of other exporters in Jepara are doing. The method of putting out to these subcontracts has the problem in keeping the good quality of the products and hopes to make mass-production though the cost of the product attaches cheaply, the personal management is also easy but they are planning to produce at its own factory now.

Because the rattan factory also has put out to the subcontract, it is necessary to improve management. The raw material to the production factory of the antique furniture factory is bought the local sawn timber, and there is a problem in the quality. Especially, kiln dry system uses the simple system of the smoke chimney type that is not enough to obtain the calorific value and to get the wind power for being dry. It is impossible to get uniform moisture contents of wooden material. If this is not improved, the present export products of wooden furniture will be happen the problem on the quality to Japanese market. Therefore, it is the best way that they produce their own factory because the problem of the raw material, the quality control, and the technology and the cost down can be realized.

(4) Financial affairs

Now they have not got loan but they have some difficulty of the purchasing of raw material etc. because of the drawing of L/C takes a time for 3-4 weeks. However, when real export is done, the capital is needed in equipment and the production method, etc.

(5) Human Resource Development

Now manager works seriously with the person in charge of the sales and the production, but the capacity level of general employee is low. When they participate in the exhibition in Japan, our study team suggested that not only the top manager but also other managers should visit there to study and see the foreign market and goods from the competitors with their own eyes. They hope to visit to Japan with three managers.

■ Company B

(1) Outline of management

The management is an AOTS alumni member and their production facilities are comparatively good and markets have been well explored, and they used to have relations with Japanese big department store and furniture retailer. Top management has strong ambition to grow the exports. A new factory is being built in Jepara, and they work seriously to increase sales by developing marketing and building new factory in Semarang.

(2) Export strategy

Because sales for domestic market have problems such as difficulties of collecting money, their main target is export except the remainder of parts of export for domestic market. A new factory is under construction now.

The produced products are mainly exported to Europe and Singapore. Since only about 10% is exported to Japan, the penetration to Japanese market is being seriously explored. They are going to open the showroom in Jakarta in this year. We advised them to make showroom in the place where many foreign tourists visit like Bali. Recently, because of the competition with China, Malaysia, the Philippines, and Rumania, they try to improve quality and reduce production cost.

(3) Production

This factory has large space. Although some efforts are made to keep quality control by themselves, the quality has not reached the level of Japanese market. The buyers come their factory to conduct their quality control and inspection.

The equipment of kiln dry factory is still good in the hot water system of Indonesian made but the technological control is not enough and should improve technical problems. We checked moisture contents of sawn timber of 20 mm in thickness after kiln dry. They are about MC 12 % but sawn timber of 50 mm are about 20-25 % and they are not enough to make stable furniture

as the material of furniture.

The most of factory of Indonesia has not sufficient technology of kiln dry factory and basic knowledge of it, therefore quite frequently final products cause a clam due to crack by shrinkage and stress when products arrived the country of buyers.

Basic points to be considered in drying are as follows:

- a) Necessary energy for the kiln dry has to be calculated according to the type and the thickness of wood when the kiln dry system is designed. The kiln dry room that obtains the calorie only of it has to be made. Especially, the system that obtains a temperature and humidity uniform as for any indoor place is made.
- b) The species, thickness and initial moisture contents that put in kiln dry should be made as similar as possible. The material should be made natural air dry before putting in kiln dry to avoid the difference with initial moisture contents.
- c) To make a same size of sticker due to dry the material homogeneously, to put the interval of sticker every 30 cm intervals, and the sticker is put in both ends of the direction of length to minimize the crack.
- d) A kiln dry schedule should be set the dry and wet bulb to meet the equivalent moisture contents (EMC) of the material. And the dry and wet bulb is changed according to present EMC. We follow the basic standard table for wood from the USA or Japan that is the world standard to each tree type, and improve the schedule to adjust their own kiln dry factory.
- e) The material is done equalizing to reduce irregular moisture contents between the surface and the center of the material after kiln dried. In addition, the kiln dried material should be processed the seasoning due to even moisture contents.
- f) When the products are exported, supplier is better think to match the moisture contents with the condition to climate condition (EMC) of each destination of country.

Now, many sawmill factories that cut by fee are using Taiwan machines for cuts the log. It is not

accurate size for cutting. It means that the sawn sizes are irregular. If we order for sawing, the difference of cutting size should be ± 3 mm, total 6 mm for thickness. And then some products are rejected and cause the stress during processing furniture because cutting way is flat sawn. There is a big influence in the yield and the cost. Indonesian manufacturers don't think it seriously and that it is unable to improve. If it is possible, consistent production from sawn timber to export is preferable by using its own factory.

(4) Financial affairs

There is no problem on the financial affairs of the capital etc. in the current state. However, the improvement of lumbering and other equipment is needed when exporting to Japan.

(5) Human Resource Development

The top management is encouraging managers to participate in seminar if there is a chance. However, it is the most important that the manager should understand the market and the circumstances of rival countries and advanced technology by himself.

9.6. Proposal to Improve Export Competitiveness

- (1) Managers should be more internationalized by collecting information of foreign market and especially making competing strategies with rival countries.**
- (2) To buyers confidence by getting international quality standard such as ISO.**
- (3) Information should be collected by effectively using the Internet etc. so that the company is also can be advertised. The internationalization advanced all at once and the border disappeared by using the Internet. Especially, the standard of the superiority or inferiority between the big exporters and the small and medium sized exporters is changing, and there is the chance to grow up rapidly even in the small and medium-sized exporters in any place in the world. Moreover, the settlement method is changing by using electric cash, too.**

Therefore, the small and medium-size exporters should study in making actions for the new age to fight with the big exporters.

(4) Although Indonesian antique furniture is good quality in its design and has been already exported to foreign countries, it is difficult to expect a huge increase in its export volume. Therefore, it is necessary to consider the development of new products that will meet the needs of consumers in export markets.

(5) Reexamining the technology of sawing way and kiln dry to win international competition.

(6) The manufacturers should not make the copy of others' design, but should develop their original design to make the products with high added value.

(7) Exporters should strengthen quality control and keep the delivery time strictly, and gain the trust of the buyer as international exporters. The Indonesian products should wipe out the image that they are bad and cheap.

(8) The government should also support the following points for promoting exports.

a) A long-term forestry plan by recycling of afforestation should be made like a natural forest protection, Teak, Mahogany and Pine, etc. to protect the natural environment which is the internationally supported opinion.

b) The material of wood, rattan, log and square logs is smuggled from Indonesia to Malaysia, Singapore and Taiwan now. Therefore, products of rival country are sold by cheaper price than the products from Indonesia. Indonesian government should crack down on those smuggling to protect the exporters in Indonesia.

c) The Government should improve the export infrastructure so that the raw material from the outer islands as such as Kalimantan, Sumatra, and Sulawesi can arrive at the Java Island easily, and the wooden products can export directly from those islands.

d) The Government has to make environments so that exporter of foreign countries such as Japan and Taiwan can easily make joint ventures in Indonesia like the case in Malaysia. Moreover, the safety operation of those joint venture companies should be secured, and the technological improvement of the entire industry should be supported.

