

## **CHAPTER IV**

### **ECONOMIC DIPLOMACY OF INDONESIA TO INCREASE TRADE WITH THE PHILIPPINES**

This chapter will examine the strategy used by Indonesia to increase trade with the Philippines. In this chapter will use economic diplomacy to analyze these strategies. It will focus on the strategy through trade promotion and brand image to examine the strategy of Indonesia which lead to the increasing of trade from various commodity through these bilateral partnerships.

#### **A. Trade promotion through cooperation between Indonesia and the Philippine governments**

Trade promotion is the main activity of economic diplomacy and it is important for any countries due to its impact to their economic performances (Romih, 2014). trade promotion remains a high priority that to a search for new markets and the promotion of new export products, the embassy networks are also engaged in policy issues. Hosting small buyer-seller meets at the embassy, and reaching out to the economic entities and individual enterprises in the target country remain vital, simply because home exporters lack the means to sustain such actions on their own (Rana K. S., 2007). Indonesia and the Philippines undertook their effort on increasing their trade through trade promotion. Furthermore, Indonesia and the Philippines have conducted many cooperation and meetings in order to boost both diplomatic and economic relations.

1. Joint Working Group (JWG) of Senior Economic Officials for the Implementation of the Indonesia-Philippines MOU on Trade, Investments, Handicrafts, and Shipping (JWG-TIHS)

Joint Working Group (JWG) of Senior Economic Officials for the Implementation of the Indonesia-Philippines MOU on Trade, Investments, Handicrafts, and Shipping (JWG-TIHS) is a forum formed to enhance trade cooperation between the two countries. The establishment of the joint working group, in order to facilitate the implementation of the Indonesia-Philippines MOU on Trade, Investments, Handicrafts, and Shipping that was signed by the two Ministers of Trade on August 26, 1986 on the occasion of state visit of Corazon C. Aquino, President of the Republic Philippines, to the Republic of Indonesia (Kementrian Luar Negeri republik Indonesia, 2018).

In 2012, the government of Indonesia and the government of Philippines held the 6<sup>th</sup> JWG meeting. Meetings of the JWG, composed of executives from different government agencies of the Philippines and Indonesia, are held to review and speed up the progress made in recent years toward continued partnership (Sunstar, 2014). The 6th meeting was held on December 14-15, 2012 in Mandaluyong City, Philippines after the 5th JWG meeting took place in 2006 in Jakarta (Kementrian Perdagangan Republik indonesia, 2012). The Indonesian delegation was headed by the Director General of Indonesian Trade Negotiation, while the Philippine Delegation was led by the Director of the Bureau of International Trade Relations, the Department of Trade and Industry of the Republic of Philippines. Several agendas that discussed in the meeting were:

- 1) Review of Bilateral Trade and Investment Relations
- 2) Air and Sea Connectivity Improvement
- 3) Trade Promotion Activities
- 4) Business Collaboration for the Sourcing and Supply of Certain Commodities
- 5) Proposed MOU on the Establishment of Institutional Cooperation between the National

- Commission on Muslim Filipinos (NCMF) and Majelis Ulama Indonesia (MUI)
- 6) Study Visit to Nucleus Estate and Small Holders of Palm Oil in Indonesia
  - 7) Strengthening the Smallholder Coconut-Based Industries in the Philippines and Indonesia
  - 8) Cooperation on Fisheries in Border Areas between Indonesia and the Philippines
  - 9) Establishment of Food and Beverage Canning Factories in the Province of North Sulawesi
  - 10) Collaboration in Construction and Furniture
  - 11) Review of Border Trade Agreement 1974
  - 12) Informing Trade Remedies Policies that applied to each country Products
  - 13) Exports of Philippines Pharmaceutical Products to Indonesia
  - 14) Food Safety Control over Import and Export of Fresh Food of Plant Origin (Kementrian Perdagangan Republik Indonesia, 2012).

Afterwards, to continue the progress of Joint Working Group as explained above, Indonesia and the Philippines agreed to further deepen and invigorate the relations between the two countries through 2014–2016 Indonesia – Philippines Plan of Action. Plan of Action is intended to be a living document that will be revised as mutually agreed upon by both Governments, taking into account development in bilateral relations. As explained in the Action Plan on Bilateral Trade Relations, besides fully implement the Indonesia-Philippines MOU on Trade, Investments, Handicrafts, and Shipping and promote bilateral trade cooperation, both countries will also promote and facilitate business to business contacts, as well as to encourage business sectors from the two countries to explore the untapped potentials with a view to further intensifying mutually beneficial trade relations.

## 2. Business Matching

Indonesia and the Philippines also conducted business matching. Business matching are activities to facilitate foreign buyers or buyers with exhibitors or domestic businesses who have products that are desired by buyers to conduct business meetings directly. Business matching can be held and facilitated by the Ministry of Trade and Indonesian representatives abroad and can be followed by every business actor. Business matching provides an opportunity to expand market access for various products. Business Matching is expected to help exporters find the right partners to sell their products, answering the needs of foreign markets for Indonesian products (Permatasari, 2017). The example of business matching that have done by Indonesia are business matching in agenda “Indonesian Coffee Festival: Merienda ala Indonesia” that held by Embassy of The Republic of Indonesia in Manila in 2016 and Business Matching Session Indonesia-Filipina in 2017 as the cooperation of the Directorate General of National Export Development, ministry of trade with the Indonesian Consul General in Davao City.

On May 4, 2016, the Indonesian Embassy in Manila held a promotional event for Indonesian specialty coffee products in Manila, Philippines. The event, entitled "Indonesian Coffee Festival: Merienda ala Indonesia" was attended by two Indonesian specialty coffee companies, namely House of Coffee and Hen's Co. In addition, the products of PT. Mayora with several product variants that have entered and mastered the Philippine market. This series of coffee promotion events consisted of a brief presentation on specialty coffee products offered by both companies, coffee tasting, and business matching. The event was closed with the entertainment of several Indonesian traditional dances. The event was attended by around 60 invited guests, the majority of which consisted of coffee importers and cafe owners or managers in Metro Manila. As a guest of honor, attended the Chair of the Philippine

Chamber of Commerce and Industry (PCCI). In addition, there were also representatives of local mass media.

Coffee importers and cafe owners who attended the event generally expressed satisfaction in knowing various Indonesian specialty coffee variants. They hope that the Indonesian Embassy in Manila can hold similar events more often to familiarize the Philippine public with the diversity of Indonesian specialty coffee. With the promotion of Indonesian specialty coffee products, it is hoped that specialty coffee will enable Indonesia to take advantage of the momentum and dominate the Philippine market. Furthermore, The business matching was marked by the interest of local Filipino entrepreneurs to discuss further business cooperation opportunities with House of Coffee and Hen's Co (Kedutaan Besar Republik Indonesia Manila, 2016).

The Ministry of Trade targets non-oil and gas product exports to the Philippines to increase in 2017. One of the strategies is through the cooperation of the Directorate General of National Export Development with the Indonesian Consul General in Davao City, Philippines through the Indonesia-Philippines Business Matching Session, which was held at the Ministry of Trade Office on September 5, 2017. This business matching is part of a series of visits by Mindanao businessmen, the Philippines to further explore the business opportunities of the two countries. This activity was also a follow up to a forum that discussed the use of sea lanes between Indonesia and the Philippines. Business matching activities were attended by 33 Indonesian business people and 14 Filipino business people. The event was also attended by the Indonesian Consul General in Davao City and representatives of the Government of Davao City. At the event Directorate General of National Export Development, Arlinda said that:

*"Indonesia-Philippines Business Matching Session is an attempt to improve trade relations between Indonesia and the Philippines, especially East Indonesia with the Southern Philippines. The government is optimistic because there are many commodities that have potential prospects to increase bilateral trade. Both countries can explore potential business opportunities that can strengthen trade, enhance business cooperation, and support the economies of the two countries, "*

Arlinda said that Indonesian products that were in demand by the Philippine business delegation included food, corn flour, agricultural products, fertilizers, cement, coconut products and steel. In this business matching, there was a business agreement between PT. Semen Indonesia with Certuro Structural Specialist Inc. The collaboration will begin in October 2017 (Kementrian Perdagangan Republik Indonesia, 2017).

### 3. Border Connectivity

As mentioned in the MOU on Trade, Investments, Handicrafts, and Shipping article 5, stated,

*"Both Governments shall actively pursue the establishment of a direct shipping route between Bitung/Manado and Davao".* (Kementrian Luar Negeri republik Indonesia, 2018)

This article was implemented with the establishment of Davao-General Santos-Bitung route for roll-on/roll-off (ro-ro). The opening of the Davao-General Santos-Bitung route for roll-on/roll-off (ro-ro) vessels is expected to boost trade between Indonesia and the Philippines in the long run. It was one of the priorities within the ASEAN RO-RO Network initiative, which is projected to improve connectivity in sea channels among Southeast Asian countries as it will reduce shipping time by

over 50 percent. Previously, it took three to five weeks to ship goods from Bitung to Davao, while the new ro-ro route is expected to expedite shipment to around 36 hours (Singgih, 2017).

First cruising Ro-Ro Ship cruise Davao -General Santos Philippines - Bitung Indonesia route is a manifestation of the Signing of the Joint Declaration on Indonesian-Philippine Sea Connectivity which was held on April 28, 2017 and officially launched on April 30, 2017 in Manila Philippines with witnessing by President Joko Widodo and Philippine President Rodrigo Duterte. The Bitung-Davao shipping conditions are considered very competitive, both in terms of distance and shorter travel times, which can reduce transportation and logistics costs (Yonavilbia, 2017). Futhermore the launch is seen to open up more market oppportunities for both countries.

Various Indonesian companies have been present in the Philippines and engaged in various business sectors, ranging from snacks, beverages, pharmaceuticals, plantations, personal care, ceramics, paper to toll road management. In addition a number of Indonesian franchises have also entered the Philippine market, including J.CO Donuts and Alfamart. According to the Trade Attache of the Indonesian Embassy in Manila, there are 18 Indonesian companies operating in the Philippines (Sekretaris Ditjen Kerja Sama ASEAN, 2017). The name Indonesian companies operating in the Philippines are:

1. Kalbe Farma
2. Kino
3. Mayora
4. Indofood Sukses Makmur,
5. Garudafood

6. Sosro
7. Monde Nissin
8. Sinar Mas Agro Resources & Technology
9. Ecosential Foods Corporation
10. Asia Pulp and Paper (APP)
11. Wahana Interfood Nusantara
12. Citra Metro Manila Tollways Corporation
13. Sea Horse Mas
14. Tri Sinar Purnama
15. Gentle Supreme
16. Knauf Gypsum Indonesia
17. Wow Krupuk
18. Mulia Ceramics.

In fact, Indonesia trade promotion towards the Philippines show its positivity in recent years. Most of Indonesia's top commodity have a place in the Philippines market, it shown in the table provided below. Mining and vehicles is one of the top commodity that show its progressivity by always increased its export number even more after the JWG-TIHS conducted in 2012. The number of export in most of commodity increased due to expansion of market in the Philippines.



**Table 4.1 Indonesia's Export Product to Philippines  
2006-2011**

HS Code	Product	Value : US Dollar thousand					
		2006	2007	2008	2009	2010	2011
87	Vehicles other than railway or tramway rolling stock and parts and accessories	109,863	145,312	222,469	188,718	382.328	554.043
27	Mineral fuels, mineral oil and production of their distillation	230,814	250,842	384,513	559,673	862,642	976,234
26	Ores, Slag and Ash	190,788	426,624	305,232	363,201	208,847	349,860
15	Animal or vegetable fats and oil and their cleavage products	35,372	54,033	44,506	34,287	37,474	70,710
21	Miscellaneous edible preparations	19,927	33,469	41,822	47,600	117,149	193,453

Source: Trade Map, 2018

**Table 4.2 Indonesia Export Product to Philippines  
2012-2017**

HS co de	Product	Value: US Dollar thousand					
		2012	2013	2014	2015	2016	2017
87	Vehicles other than railway or tramway rolling stock and parts and accessories	554,043	547,900	763,456	744	1,468,226	1,754,486
27	Mineral fuels, mineral oil and production of their distillation	990,288	1,025,652	922,841	806,476	810,885	1,224,978
26	Ores, Slag and Ash	190,085	223,137	24,509	422,625	657,410	870,854
15	Animal or vegetable fats and oil and their cleavage products	83,162	85,250	208,660	125,953	274,442	414,838
21	Miscellaneous edible preparations	238,459	217,123	262,268	302,060	347,891	393,614

*Source: Trade Map, 2018*

JWG-TIHS as a platform and strategic partnership has showed its significant result through five main commodity, that included vehicle and mining. Data listed on the table showed comparison in the range 2006 until 2011 before JWG-TIHS happened and 2012 until 2017 after the JWG-TIHS in 2012. Its show that there is increased of export trade between Indonesia and Philippines in these five commodities. Diplomacy economic through trade promotion consist by three main aspects, they are Joint Working Group (JWG)., Business Matching and Border connectivity. Through this strategy, Indonesia could expand its business market by successfully operating Indonesia 18 companies in the Philippines and also increase export to the Philippines.

### **B. Brand Image as strategy to promote Indonesia's product to the Philippines**

Branding image is important to show to international society to gain attention in order to expand its market in other countries. It is important in a diplomatic activities to have such a country's image. As Wally Olins said, "a changing reality is leaving perceptions far behind". Country branding is about 'presenting a nation or region in a powerful, attractive and differentiated way'. The key is to use a central idea that is powerful and simple, capturing the country's unique qualities. Foreign ministries, embassies, and diplomats are considered responsible for the projection of a 'correct' image of their country (Rana K. S., 2007). In order to boost the national image in a more broaden level, branding image came into highlight. Branding image is a mix of associations based on every interaction the actor have with a certain business (Thimothy, 2016). Making a good impression will improve the value of the brand image itself. Therefore, brand image have a big role in enhancing a country's national image. It is expected that brand image will be able to enhance the image of Indonesia as a reliable producer country as well as a reliable trading partner. Indonesia have conducted many branding image with the

Philippines in the form of exhibition. Exhibition will enhance the impression the potential buyer gets from the product and the brand identity will in this way become stronger and more lasting that create great opportunities in term of means for the exhibitor to reach potential customers (Alm & Anderson, 2007). Indonesia itself tried to create good impression by strategy of brand image towards Philippines. Several exhibition and Expo conducted both in Philippine and in Indonesia by inviting companies and other actors from Philippines. Through this strategy, Indonesia can strengthen its partnership in order to increase trade with Philippines.

Indonesia has been actively involved in exhibiting and promoting Indonesia products in the Philippines. The trade exhibition and promotion activities consist of a mixed or joint exhibition and solo exhibition. Joint exhibition is the expo held by the government or business of the Philippines and Indonesia participating in it by sending representative of the companies or product that come from Indonesia to being introduced while in solo exhibition, all products that being displayed come from Indonesia. One of Indonesia's participation in the joint exhibition is Indonesia's participation in the International Food Exhibition (IFEX) which took place on May 16-19, 2013 at the SMX Convention Center, Manila. IFEX is one of the largest international food exhibitions in the Philippines that held by CITEM, a body under the Philippine Ministry of Trade and Industry. Ten Indonesian companies participated in the 2013 IFEX. The companies were a mix of large companies and small and medium enterprises companies, including Sinarmas, Kalbe International, Gentle Supreme Phils Inc., Kopi Kamu, Wow Food Industry, PT. Mayora Indah Tbk, CV. 1001, PT Agri Bahari Indonesia, Garudafood International, and PT. Indofood. Indonesia's participation in this exhibition is a very valuable opportunity to promote Indonesian food industry products to the Philippines' community.

For the solo exhibition, Indonesia established Wonderful Indonesia festival that held in 2016 and 2017. The Indonesian Embassy in Manila held an promotion titled Wonderful Indonesia Festival on July 25-26 2016 at Glorietta Mall, one of the most popular shopping centers in the Makati central business district, Metro Manila, Philippines. This promotion includes exhibitions on trade, investment, tourism and education products to the Manila community. The exhibitors consisted of representatives of 23 companies and seven travel agencies. There are a number of companies that send display products including food and beverage products, handicrafts, pharmaceutical and herbal products and body care products (Kedutaan Besar RI Manila, 2016).

While the Wonderful Indonesia Festival 2017 was held by Tourism Ministry together with the Indonesian Embassy in Manila. The event was also held to celebrate the 72nd anniversary of Indonesian Independence day. Wonderful Indonesia Festival 2017 has been held for two days from July 27 to 28 at Gioretta Activity Center-Palm Drive Makati Philippines. Thirty-seven entrepreneurs who work in trade, medium-sized businesses, and tourism are taken part in the event. Besides event held in Philippines, Indonesia also invite the Philippine companies and buyers to attend Trade Expo Indonesia in Jakarta as a strategy to strengthen bilateral relations between two countries. In this event, Embassy of Philippines for Indonesia being coordinator to present buyers from the Philippines to Indonesia. There are 13 buyers comes to Indonesia to do their transaction during the exhibition. As Embassy of Republic of Indonesia in Manila recorded, the result from this event was dealt transaction from buyers and companies from both countries. Medical equipment in the amount of USD 50,782 by Goldseal Medical Training Corporaton, Confectionary and Diapers both were in amount of USD 20,000 by Eon Philippines Industries Corporations, Fruit drinks in amount of USD 100,000 and Cooking Oil in amount of USD 18,400 by Avivar International Corp. Besides that,

there also a transaction that not yet be released. The implementation of the 2016 Trade Expo Indonesia which was held on 12-16 October 2016 with the theme "Indonesia source of Natural and creative Products" shows that Indonesia has many diverse potentials with extraordinary appeal. this potential also respects the preservation of the environment which presents an environmentally friendly business but still has high creative value. through the Trade Expo Indonesia, buyers around the world can make Indonesia a major trading partner. organizing the Trade Expo Indonesia, it is also expected to be able to become a medium in synergizing the creative industry with the achievement of Indonesian national branding which has a selling value in the eyes of the international community (Kementerian perdagangan Republik Indonesia, 2016)

Brand image is a strategy not only to promote, but also as a place to create network for local companies in order to expand its market. Through expo and exhibition, this platform successfully creates trade partnership from government to company as well as company to company. Through Indonesia's participation in the many exhibitions, it is expected that the Philippine citizen will become more familiar with the variety of Indonesian products and attaced a strong brand image of the superior quality of Indonesian products.