

The Opportunities and Challenges for Trade Cooperation Lampung-Australia

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Abstract. This study analyzes the opportunities and challenges for trade cooperation in Lampung-Australia. Trade cooperation between Australia is essential because Australia is Lampung's fourth biggest trade partner, and geographically, Australia is near Indonesia. The data shows that the intensity of trade relations between Australia is increasing yearly. This research uses a qualitative approach and implements international trade theory and regional-foreign party cooperation concepts. The data was obtained through the literature reviews from primary and secondary resources and deep interviews with several resource persons, such as Lampung Trade Agency and International Cooperation Section, as well as Regional Autonomy Bureau of Provincial Secretariat (Biro Otonomi Daerah Setdaprov). Through the research, it is being noted that Lampung and Australia trade cooperation has more challenges than opportunities. Therefore, it is very essential for Lampung to develop its trade sector.

Keywords: Lampung-Australia, Opportunity and Challenge, Trade Cooperation

1. Introduction

International cooperation between a national government and other countries was arranged in Ministerial Decree of Minister of Home Affairs No. 25 of 2020 concerning Guidelines Implementation Work of Local Government with Foreign Parties. The government can cooperate with other parties abroad or countries with diplomatic connections with the Indonesian government. The international cooperation between governments and other parties abroad/countries is a consequence of the closer connection between the Indonesian government and the parties outside. Government area becomes long hand Indonesian government in implementation cooperation with parties abroad.

Conducting international cooperation is essential for the Lampung government as it could inspire and enhance socioeconomic development at the local level. Moreover, the government could learn about other countries' advanced knowledge and technology through investment and technology transfer. However, only a few international cooperations were established by the

Lampung government. Croatia and Australia are the two countries that ever staged an audience with the government of Lampung Province. For now, international cooperation between Lampung and Croatia covers only the education sector, but it can be enhanced in other sectors [1]. In comparison, the discussion of cooperation between Lampung and Australia covers larger sectors such as tourism, trade, and culture. In fact, bilateral cooperation between Lampung and Australia is crucial, as Australia is one of the biggest trading partners for Lampung Province. The following is the destination country diagram export of Lampung Province in 2020.

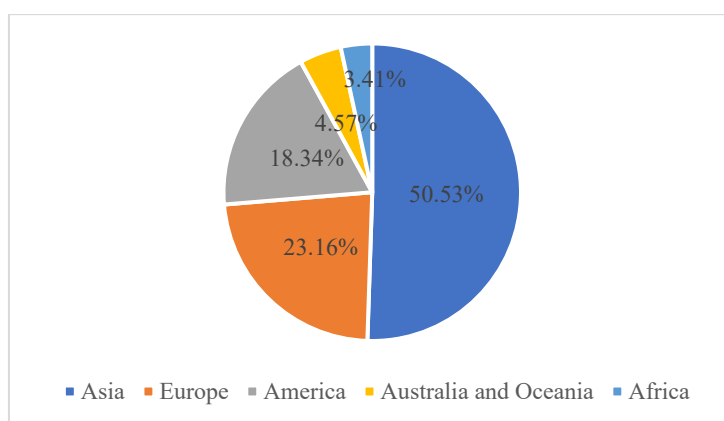


Fig. 1. Main Export Destination Countries of Lampung Province in 2020 (in percent)

Source: BPS Lampung Province [2]

Australia is the fourth biggest export destination country for Lampung Province, with a total export value of around 29.55 million USD in 2020. Compared to 2019, export activity from Lampung to Australia and other Oceania countries increased by 93.37% [3].

Geographically, Australia is within the proximity of Indonesia. The proximity of Indonesia and Australia's geography can be utilized to support export-imports with existing of the reduction/eliminated duty tariffs or cost distribution [4]. Lampung's strategic role as an area producer cultivation cow largest in Indonesia is also interesting for Australia. So far, Australia has become a supplier of meat cows to Indonesia, and Indonesia's dependence on cow imports from Australia is huge [5]. Therefore, studying the bilateral cooperation, particularly in trade sectors, between the Lampung and Australia trade is essential.

2. Research Methods

This study used qualitative methods supported by library research and deep interviews with several resource persons who are experts in international trade, particularly in the Lampung

region. The approach used in the form of studies case cooperation trading Among government area Lampung Province with the Australian government. Furthermore, this research will review the opportunities and challenges of the trade cooperation between Lampung and Australia. The research location is located in Lampung Province.

3. Results and Discussion

3.1 Trade Cooperation between Indonesia and Australia

Cooperation between Indonesia and Australia has been established since the 1940s in the trade, investment, and education sectors [6]. Since establishing bilateral cooperation, the trade cooperation between the two countries has been very dynamic. Several incidents like the Timor Leste conflict, wiretapping issues, the withdrawal of the Australian Ambassador caused by the death punishment which entangled Australians in an Indonesia drugs case, asylum political for Organisasi Papua Merdeka (OPM) members, and other incidents. However, the two countries attempted to resolve the problem and maintain good relations and cooperation.

In 2019, Indonesia-Australia bilateral cooperation was strengthened by the IA-CEPA (Indonesia-Australia Comprehensive Economic Partnership Agreement), enacted on July 5, 2020. The initial cooperation discussion between the two countries, on April 4, 2005, was mostly about free trade cooperation, particularly on decreasing and eliminating export duties and facilitating foreign direct investment. Scope cooperation covers trading goods, trade services, investment, e-commerce, policy competition, cooperation economics, institutions, and regulations framework cooperation.

The IA-CEPA agreement is being beneficial for the expansion of the Indonesian market. It could also boost Indonesian products and commodities' entry into the Australian market with the preferential treatment of 0 (zero) percent tariff duty [7]. Therefore, Indonesian products could be more competitive in the Australian market. Besides, Indonesian producers can enjoy ingredients imported raw from Australia at a cheaper price. In addition to bilateral cooperation, Indonesia and Australia are also involved in multilateral cooperation, such as AANZFTA (ASEAN-Australia-New Zealand Free Trade Agreement). The cooperation between ASEAN and Australia has been established since 1974 through the formation of the ASEAN Consultative Meeting (ACM). Impact cooperation IA-CEPA can be seen from the chart balance sheet the following below:



Fig. 2. Indonesia-Australia Trade Balance in 2005 – 2021 (in million USD)

Source: BPS Lampung Province [2]

However, it can be seen that the trade balance of Indonesia-Australia during initiation cooperation IA-CEPA tends to deficit. Based on Graphic 1, it can be seen that the most significant deficit happened in 2007, which is around 24,241 million USD, which means the trade cooperation was still dominated by the imports of Australian products. It is being noted that the comparative advantage of Indonesia in this trade cooperation is on several commodities only, such as coal, cocoa, coffee, fish, automotive, and other semi-finished goods - including the automotive industry [8]. It could become the potency for enhancing the exports of those commodities to the Australian market. In addition, according to the Ministry of Trade's data, Australia does not have a national automotive industry, so there is no domestic competitor for product automotive from Indonesia [7]. Product automotive is given a 0% rate export duty, so it also has the potential to enhance Indonesian exports to Australia.

In fact, the connection between Indonesia and Australia's trade can be seen from the needs of each country in trade. Here is the export table of the leading Indonesians to Australia and the import table of the central Indonesians from Australia.

Table 1. Indonesia Main Export to Australia in 2018

No	Products Description	Value (in million USD)
1	Crude Oil	636,76
2	Woods, Furniture	214,94
3	LCD, LED Panel	100,71
4	Footwear	96,95
5	Rubber-based new air tires	61,70

Source: Ministry of Industrial and Trade of Republic of Indonesia [7]

Based on the Table 1, the main Australia's needs from Indonesian commodities is its crude oil. Even, based on Statista's data, Indonesia became the tenth biggest crude oil importir in Australia.

Table 2. Indonesia Main Import from Australia in 2018

No	Products Description	Value (in million USD)
1	Wheat	639,61
2	Iron Concentrates and Hematite	209,26

3	Live animals	573,92
4	New Rock	632,02
5	Sugar cane and others	314,70

Source: Ministry of Industrial and Trade of Republic of Indonesia [7]

The table above shows that Indonesian main needs from Australian commodities is wheat. Wheat is an ingredient for many food industries in Indonesia, like noodles, instant, biscuits, food snacks, bread, cakes, and other products. From 2010 to 2020, the biggest wheat importir was Australia which then followed by Canada and Ukraine [9].

Other than wheat, other raw ingridients and materials for the national industries dominate Indonesia's imports from Australia. Therefore, Indonesia's manufacturing industry is also expected to be facilitated and benefit from cooperation. It could increase production domestically.

3.2 Trade Cooperation between Lampung and Australia

Lampung is one of Indonesia's provinces close to the Capital City, Jakarta. International cooperation between provinces in Indonesia with foreign parties/countries is arranged by the Minister of Home Affairs, which is based on Ministerial Decree No. 25 of 2020 concerning Guidelines for International Cooperation by the Provincial Government. Indonesian foreign policy and political authority are still under the central government. Therefore, one of the conditions for a Local or Provincial Government to sign a cooperation agreement with foreign parties is the Power of Attorney (full power) letter given by the Minister of Foreign Affairs to the local government concerned. The cooperation between the Lampung government and the Australian government has yet to reach a cooperation agreement. The cooperation being established and carried out is limited to business-to-business cooperation between the private sector. In this case, the government plays a role in supporting existing cooperation potentials. Besides, if the Lampung Government wants a cooperation agreement, the foreign party involved must be the Australian state government. It is the rule for local government in making international cooperation, which is based on Minister of Foreign Affairs regulation no. 3 of 2019 concerning General Guidelines for Foreign Relations by Local Governments.

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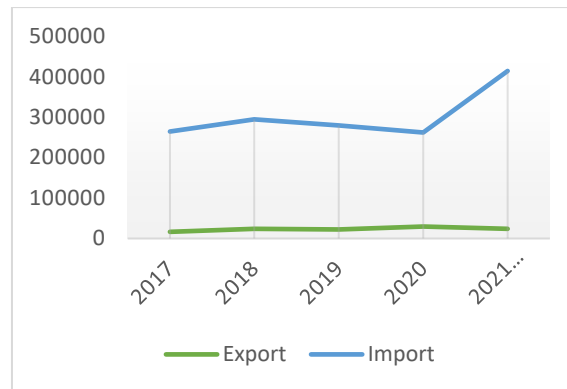


Fig. 3. Export Value of Lampung to Australia in 2017-2021 (in thousand USD)

Source: Lampung dalam Angka 2022, BPS

Ironically, based on Graphic 2, the trade relationship between Lampung and Australia is still dominated by imports rather than Lampung export activity.

3.3 The Opportunity of Trade Cooperation between Lampung and Australia

The opportunity for Lampung trade cooperation with Australia can be seen through the Australian need for imported commodities. The following table shows the imported products by Australia in 2021.

Tabel 3. Imported Products by Australia in 2021

NO	PRODUCTS	VALUE (MILLION DOLLAR)
1	Machinery, mechanical equipment, nuclear reactors, boilers, and its other parts	36.833.900
2	Vehicle other than railway carriage or trams and its other parts and accessories	33.241.486
3	Electrical machinery and equipments – and its parts; sound recorder and reproducer, television	28.194.978
4	Mineral fuels, mineral oils, and their refining products, bituminous substances; mineral	25.824.036
5	Pharmaceutical Products	10.758.190

6	Optics, photography, cinematography, measurement, examination, precision, medical or surgical	9.264.097
7	Natural or cultured pearls, gemstone or semi-gemstones, precious metals, metal plated products	7.638.126
8	Plastic and others	7.300.602
9	Iron or steel based products	5.658.414
10	Furniture; beds, mattresses, mattress supports, pillows and other similar furnishings	5.571.307

Source: Trade Map

Based on the table above, it is known that Australia was importing a lot of machinery, mechanics equipment, nuclear reactors, boilers, and other parts, with a total value of import reaching 36,833,900 thousand USD. However, most of the products mentioned in Table 4 come from elsewhere besides Lampung Province. Therefore, the Lampung government needs to do some mapping on the export opportunity to the Australian market. The following table shows Lampung's potential for a massive export opportunity to the Australian market.

Table 4. Lampung Export Products in 2021

NO	PRODUCTS	VALUE (MILLION DOLLAR)
1	Animal or vegetable fats and oils	1.723.778,79
2	Coal	790.530,08
3	Coffee, tea, spices	495.581,73
4	Waste or food industry waste	362.808,98
5	Processed foods from Fruits/vegetables	331.590,74
6	Wood pulp/ pulp	206.531,22
7	Fish and Shrimp	165.552,82
8	Rubber and Rubber Goods	154.981,42
9	Processed Meat and Fish	131.112,32
10	Various Chemical Products	129.030,28

Source: Trade Map

If we compare the data from Tables 3 and 4, it can be seen that there are no commodities compatible between Australian imported product needs and Lampung's specialty. According to

staff from the export section of the Lampung Provincial Trade Agency, Lampung export activity to Australia has only been carried out if there is a request from Australia (temporary). Therefore, exploring opportunities for trade cooperation in new fields is necessary. However, according to the export staff of the Lampung Province Trade Service, this is also not easy to do.

However, based on the data from Lampung's Department of Commerce, the biggest and largest commodities exported to Australia is coffee. From these data, the government of Lampung province can increase coffee exports to Australia with promotions. Promotion could be conducted through cooperation with the Indonesia Trade Promotion Center in Australia and the Indonesian diaspora in Australia.

3.4 The Challenges of Trade Cooperation between Lampung and Australia

Lampung Province is one of the provinces in Indonesia with various types of commodities for export to other countries, such as raw materials, semi-finished goods, biological and non-living animals, and other commodities. There are several superior commodities from Lampung Province: Robusta Coffee, Tapioca, Coconut Milk, Pineapple, and Bananas [10]. In 2020, when the world economy and trade activities declined due to the global COVID-19 pandemic, the trade balance of Lampung Province experienced a significant increase in surplus compared to previous years, namely USD 1821.15 million [2]. Similar to Indonesia's main export destination countries, several of Lampung Province's main export destinations are still old-player countries, such as the United States, the People's Republic of China, and India. Meanwhile, the main countries of origin related to Lampung Province's import activities, when viewed from the Free on Board (FOB) value, are Australia, the United States, and Thailand [2].

A document issued by the Central Statistics Agency (BPS) of Lampung Province shows the unequal balance sheet trade (export-import) between Lampung Province and Australia. Australia ranked 22nd in the export country destination for Lampung Province. Meanwhile, for import activity, Lampung Province, Australia, occupies first as the country of origin with a total import volume of 303,988.62 tons or around USD 262.14 million. Some products or commodity exports featured in Lampung Province to Australia are canned pineapple products, pineapple juice, and Robusta coffee [11]. At the same time, the largest commodity imported from Australia is commodity meat cow cattle (Disperindag, 2022). Not only at the provincial level but on a national scale, Australian meat commodities are the main imported products between Indonesia and Australia. In 2020, Australia was listed as exporting about 105.1 million kilograms of meat to Indonesia, with a value of USD 296.07 million [12].

The gap in the trade balance sheet between Lampung Province and Australia significantly impacts Lampung Province, particularly in the trade sector. If we speak of the comparative advantage in international trade, the two involved actors should get the same advantage. In analyzing the inequality of acquiring and utilizing the benefit of cooperation, several obstacles and challenges affect the enhancement score export of Lampung Province to Australia, such as the standardization of quality products. For the products to enter the Australian market, there are several necessary criteria followed, which are [11]:

- a. Using an English-language-based packaging
- b. Standardization and food product quality refers to the Food Standards Australia-New Zealand Code

c. Other national regulations related to each commodity.

Besides, there are also several obstacles in the local context for Lampung's Department of Industry and Trade in pushing the development and growth of the local industries in Lampung Province, namely [13]:

- 1) Limited capabilities of small and medium industries (SMEs) in Lampung Province, especially in terms of implementing quality standards, use of technology, developing creativity, innovation and product diversification;
- 2) Low awareness of local industries in Lampung Province to carry out environmentally oriented and sustainable production processes based on the green industry principles;
- 3) The unavailability of a roadmap for human resource development for local industries in Lampung Province, which failed to achieve synergy between interested actors;
- 4) Downstream processing of natural resources in Lampung Province, which is not yet optimal, such as the delivery of products or natural resources in the form of raw materials;
- 5) The government has not adequately facilitated the cooperation between small and medium industries (SMEs) with larger companies and BUMN;
- 6) Information related to trade, investment, and licensing potential in Lampung Province has not been adequately disseminated to the potential investors both on a national and international level;
- 7) Low competence of Lampung's Industry Agency apparatus, especially in terms of supervision and quality control of industrial compliance;
- 8) The mandatory to apply Indonesia National Standardization (SNI) has not been well socialized to all industry players, especially small and medium enterprises in Lampung Province;
- 9) Industrial development in Lampung Province is still hampered by industrial regional development (WPPI, KPI, KI, SIKIM), especially in terms of limited industrial support infrastructure;
- 10) The up-to-date data regarding industrial business units and industrial areas in Lampung Province are not yet available;
- 11) The uneven application of information technology in the trade sector in each region of Lampung Province;
- 12) Management and supervision of e-commerce in Lampung Province is still unclear;
- 13) Low performance of BPSK;
- 14) Consumers in Lampung are mainly lack of knowledge regarding their rights;
- 15) Low knowledge of small and medium-scale industries in Lampung Province regarding standardization of traded products;
- 16) Low scope of supervision of circulating goods by applicable rules and regulations;

- 17) High dependence on superior commodities;
- 18) Still relying and depending on the central export destination countries;
- 19) Fluctuations in prices of staple foodstuffs in Lampung Province, which affect industrial production in Lampung Province

Through the obstacles faced by the Department of Industry and Trade in Lampung Province, we could map several challenges for SMEs in the Lampung Province in several categories, which are:

a. Competitiveness of Lampung Province

Based on the interview with the Department of Industry and Trade of Lampung Province, the competitiveness (competence) and bargaining power of Lampung industries still need to improve, especially in diversification products. Currently, the industries in Lampung Province still refer to the primary commodities of Lampung Province (raw materials) without giving any added value to products. Hence, it impacts the selling price of the products or commodities.

In fact, at the national level, the competitiveness of Lampung industries, particularly SMEs, is lower than that of other provinces. Therefore, the Lampung government must increase the competitiveness of local industries in order to compete with other industries at the national and international levels. Various efforts could be conducted by the Lampung government - particularly the Industrial and Trade Agency of Lampung Province, such as enhancing capacity, building networks/connections, giving some capital to SMEs, and ensuring the standard quality of each primary product industry in Lampung Province.

b. Technology transfer on SMEs in Lampung Province

In the globalization and Industry 4.0 era, the advances in technology and information have developed rapidly. It impacts the digitization and mastery of technology for every society. However, the problem is that the technology information development and capacity building for the people are unevenly distributed, particularly in rural areas. To compete with national and international level products, human resources and SME capabilities are needed in terms of mastering technology. Therefore, many industries at the national and international levels are trying to transfer technology to develop production and create innovations that benefit the industry, both in terms of innovation in production efficiency, increased production, and product diversification.

c. Industrial and trade governance in Lampung Province

Based on the interviews with the Department of Industrial and Trade in Lampung Province, the governance between ministerial agencies - particularly in the industrial and trade sector of Lampung Province, is not good. Coordination between one ministry service and another is quite difficult, especially regarding data collection. Good, professional, transparent governance is needed to encourage a positive economic and trade environment. It indeed becomes a challenge for the Indonesian government to improve the flow of coordination and governance between its ministries and agencies.

As mentioned in Table 2, Australia's leading export product to Lampung Province is raw beef meat. Over the last few years, the Lampung Government has attempted to increase the local cattle population through the Australian cattle development program to reduce beef imports from Australia. Despite the cow cattle development program, the Lampung Government still collaborates with - depends on - Australia for importing broodstock cow cattle. However, it cannot be ruled out that the cattle development program carried out by the Lampung Provincial Government will also impact the value of Australian exports to Lampung Province in the future.

4. Conclusion

Based on the results, the study shows that Lampung imports from Australia still dominate trade cooperation between Lampung-Australia. The Lampung-Australia trade chart shows a significant difference between the value of Lampung's exports and imports. The Lampung-Australia trade cooperation has more challenges than opportunities. Therefore, the Lampung government has to increase its capacity and competitiveness in its primary products, semi-finished goods, and other added-value products.

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