

Turnitine_Strengthening Domestic Market

by Mg Westri Kekalih Susilowati

Submission date: 11-Apr-2023 11:09AM (UTC+0700)

Submission ID: 2061250001

File name: For_turnitine_China_USA_Strengthening_The_Domestic_Market.pdf (197.41K)

Word count: 7843

Character count: 43790

⁴China-USA Business Review

Volume 10, Number 9, September 2011 (¹Serial Number 99)



David Publishing Company
www.davidpublishing.com

Publication Information:

China-USA Business Review (ISSN 1537-1514) is published monthly in hard copy and online by David Publishing Company located at 1840 Industrial Drive, Suite 160, Libertyville, Illinois 60048, USA.

Aims and Scope:

China-USA Business Review, a monthly professional academic journal, covers all sorts of researches on Economic Research, Management Theory and Practice, Experts Forum, Macro or Micro Analysis, Economical Studies of Theory and Practice, Finance and Finance Management, Strategic Management, and Human Resource Management, and other latest findings and achievements from experts and scholars all over the world.

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Subscription Information:

Print \$450 Online \$300
Print and Online \$560
David Publishing Company
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China-USA Business Review

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2 Strengthening the Domestic Market or Searching Export Opportunities: A Dilemma Resulted From the Impact of ACFTA on Small and Medium Enterprises

Angelina Ika Rahutami, Westri Kekalih
Soegijapranata Catholic University, Semarang, Indonesia

The newest RTA ratified by Indonesia was ASEAN—China Free Trade Agreement (ACFTA). ACFTA is aimed to strengthen and enhance economic cooperation between ASEAN and China. One of ACFTA consequences is having more trades of goods and services flow to Indonesia from ASEAN countries and China. Among other countries, China has been a new “giant” for Indonesian trade. Trading relationship between Indonesia and China tends to increase year after year. Since 2005 until 2009, Indonesia had had a deficit trade balance to China. This condition indicates that China trade can expand and entry Indonesian market easily. Until now, invasion of cheap products from China has threatened many industries in Indonesia, as well as in Central Java. This condition has affected business situations, including Small and Medium Enterprises (SMEs). Based on this phenomenon, this study is aimed to analyze how Central Java deals with ACFTA challenges. The study methods were descriptive and qualitative analysis. Primary data was found through questionnaire and in-depth interview. The study results showed that Central Java had a deficit trade balance to China. This condition was not favorable because the imported commodities were equal to the competitive SMEs’ commodities. This condition threatened SMEs entrepreneurs. Moreover, the results of consumer perception showed that respondents preferred to choose the Chinese products rather than Indonesian because of quality, availability, attractive design and price. Furthermore, many SMEs entrepreneurs were faced to a new threat especially in supply chain, supply continuity, and price. The Chinese products’ penetration has decreased sales volume and profit of SMEs. Thus, this study results the appropriate strategies to cope with the ACFTA, which are strengthening access to domestic market, fixing supportive regional regulation, and not focusing yet on export orientation.

Keywords: ACFTA, SMEs, Central Java, Chinese products

Introduction

Economic globalization has changed the map of the world economy. China was formerly a country whose market is closed. Nowadays, China is one of the large and influential economies in the world. Invasion of Chinese products actually has happened quite a while. Until now, more products from China have entered to Indonesian

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Angelina Ika Rahutami, Ph.D., Faculty of Economics and Business, Soegijapranata Catholic University.
Westri Kekalih, Magister of Economics, Faculty of Economics and Business, Soegijapranata Catholic University.
Correspondence concerning this article should be addressed to Angelina Ika Rahutami, Jl. Pawiyatan Luhur IV/1, Semarang, Indonesia. E-mail: a_rahutami@yahoo.com.

market, especially electronic products, textiles, textile products, footwear, food and so on.

Besides the naturally trade liberalization between Indonesia and China, the newest RTA ratified by Indonesia (ASEAN—China Free Trade Agreement—ACFTA) also contributed many consequences on Indonesian trade condition. ACFTA has been ratified since January 1, 2010. ACFTA is aimed to strengthen and enhance economic cooperation between ASEAN and China. Based on these purposes, ACFTA has three programs which are: (1) Early harvest program (EHP); (2) Normal track I and II; and (3) Sensitive and highly sensitive lists. These programs have been applied gradually since January 1, 2004 until 2018. The EHP is a provision that accelerates the implementation of the ACFTA, wherein all products at the 8/9 digit level in HS Chapters 01-08 (Chapter 01: Live Animals; 02: Meat and Edible Meat Offal; 03: Fish; 04: Daily Products; 05: Other Animal Products; 06: Live Trees; 07: Edible Vegetables and 08: Edible Fruits and Nuts, except Sweet Corn) are subject to tariff elimination.

EHP was set in first of January 2004 and its tariff was 0% in January 1, 2006. The agreement is also provided for the parties to have an exclusion list, whereby products that are deemed sensitive are to be excluded from the agreement. For balancing Indonesian and Chinese exports, there was a bilateral agreement for 47 tariff commodities, including coconut (copra), animal fats and oils, margarine, cocoa powder, soap, furniture from rattan and stearic acid. Under the normal track provision of the trade in goods, the parties which placed tariff lines under this category shall have their respective applied Most Favored Nations (MFN) rates gradually reduced and eliminated in accordance to the modalities set by the agreement. The last one is a sensitive list. The number of tariff lines which each party can place in the Sensitive Track shall be subject to a maximum ceiling of 400 tariff lines at the HS 6-digit level and 10% of the total import value, based on trade statistics of 2001. Tariff lines that are placed by the parties in the sensitive list shall be divided into sensitive and highly sensitive.

One of ACFTA consequences is having more trades of goods and services flow to Indonesia from China. Based on Danareksa Institute research in Regional Economic Study, Indonesian Central Bank (2009), there were 10 most harmed sectors because the effect of freer flow trade with China. Data in Table 1 show that growth of Indonesian export to China is less than growth of Chinese export to Indonesia (except wearing apparel). The export of leather product from Indonesia to China increased 11.66%, but the export of leather product from China to Indonesia increased 40.86%. Export of other commodities such as metal products, manufacture products, sugar, paddy, processed rice, etc., also increased less than its import. This condition indicated that domestic market of Indonesia was flooded by many commodities from China. The consequence of this condition is that markets for domestic products will become increasingly limited. When this condition appears, the domestic producers will be pressured by more competitive situation.

The consequences of trade liberalization and ACFTA are also experienced by Central Java. Central Java is a province in Indonesia that has a good economic growth, relatively stable inflation and trade. Economy of Central Java in first quarter of 2010 is expected to increase around 4.75%-5.25% year on year (Regional Economic Study, Indonesian Central Bank, 2010). This expected growth is higher than the year on year growth in last quarter of 2009 (4.6%). Three sectors that have the biggest contribution on Gross Domestic Regional Product are industry, trade and agriculture. The export is estimated to increase around 18.7%-19.2% year on year in first quarter of 2010, and also the import is expected to increase around 15.0%-15.5%. This prediction of trade indicates the better condition than that in 2009. Based on commodities, the lead exported commodities are wearing apparel, furniture, wood and wood

products. On the other hand, the biggest imports are cotton, machinery, mechanical and boiler and wheat.

Table 1
Ten Most Harmed Sectors (Change in %)

Sectors	Indonesian export to China	Chinese export to Indonesia
Leather products	11.66	40.86
Metal products (SITC 287,289,523)	16.56	35.55
Manufacture products (SITC 663, 899)	68.45	99.67
Wearing apparel	376.69	109.87
Wheat	-7.72	1.78
Sugar	10.29	118.55
Sugar cane, Sugar bit	28.98	5.65
Paddy	34.34	104.43
Processed rice	5.54	108.74
Crops necessities (SITC 071-0751)	22.67	30.37

Note. Source: Danareksa Research Institute, in regional economic study, Central Bank of Indonesia, 2009.

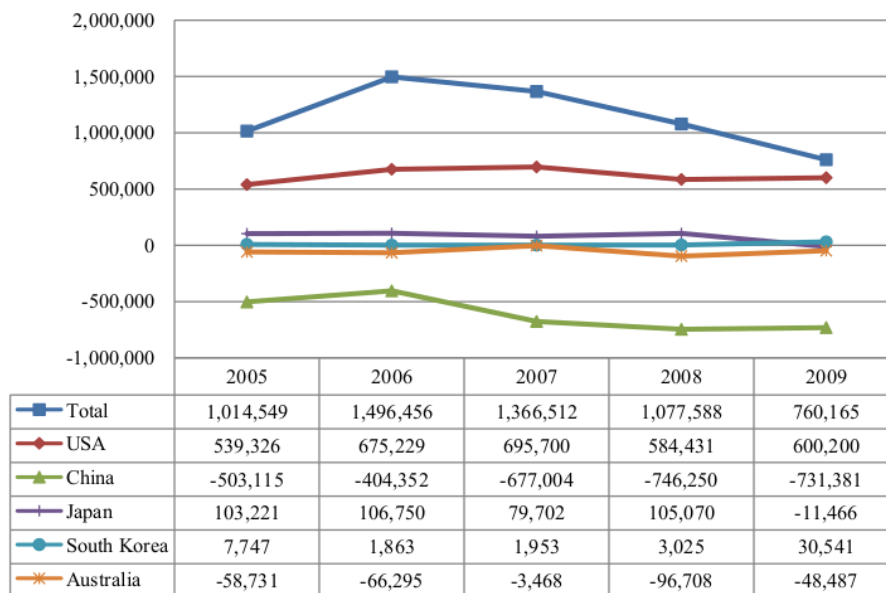


Figure 1. Central Java Trade Balance. Source: Regional Economic Study, Central Bank of Indonesia, 2009, processed data.

The detailed trade balance of Central Java can be seen in Figure 1. Total trade balance of Central Java from 2005 until 2009 was surplus. Although the surplus of trade became less, but the data shows that the export was still bigger than the import. Total surplus of trade balance in 2009 was 760,165 thousand USD. Among the five countries that had biggest contribution on Central Java trade, China and Australia were the trade partners that had the deficit trade condition. Since 2005 until 2009, trade between Central Java and China was deficit. The trend shows that deficit became larger. In 2005, the deficit was -503,115 thousand USD, and became -731,381 thousand

USD in 2009. This condition indicates that Central Java import value is higher than Central Java export value.

Various news and some previous researches showed that the successful story of Chinese products entered Indonesia and Central Java is about the price. Chinese products are cheaper than similar domestic products or similar imported products from other countries. The previous research in Surakarta Indonesia (Adiningsih & Lestari, 2008) showed that consumer bought Chinese products because they were cheap, but awful quality. The producers also used Chinese input because of cheap price and shorter distribution channel than Indonesian inputs. Based on previous researches (Guillaume, Lemoine, & Ünal-Kesenci, 2004; Shafaeddin & Pizarro, 2007; Ilheu, 2008; Bugamelli, Silvia, & Enrico, 2010), the competitive price of Chinese products come from the high productivity and short distribution channels. As an illustration, a Chinese labor can produce shoes approximately 16 pairs per day, but an Indonesian labor can only produce 10 pairs per day in the same condition and with the same wage (Bisnis Indonesia, 2007). Shafaeddin and Pizarro (2007) and Gaulier, Françoise and Deniz (2004) explained that China had a good vertical integration and distribution channel, started from raw materials, intermediate goods until finished goods. This supply chain is related with the loyal family relationship. In addition, China is also implementing a strategy to export finished products rather than raw or primary commodities. This strategy gives more benefit to China's economy. This strategy leads to Chinese products coming into Indonesia becomes more diverse (Adiningsih et al., 2008).

Invasion of Chinese products has been aggravating many industries in Indonesia, as well as Central Java, both in domestic market and export market. These conditions will certainly affect the business situation in Central Java, including small and medium enterprises (SMEs). The SMEs receive a special attention in this article because Central Java has many SMEs. The last data shows that SMEs in 2009 in Central Java are 65,878 units. Most of SMEs are home industry SMEs (20,682 units) and trading SMEs (28,172 units). Characteristics of these SMEs are domestic or local orientation/market, small investment, low advantage, limited market and financial access, and absorbing many labors.

Study on impact of ACFTA including Chinese product penetration on small and medium enterprises in Central Java is important to give a description about the real condition and give a recommendation to SMEs, as well as government to cope the threat and challenge of Chinese product penetration.

Purposes

Based on this phenomenon, this study is aimed to analyze how Central Java deals with penetration of Chinese products and ACFTA challenges. The specific purposes of this study are:

- (1) To analyze export-import condition between Central Java with China;
- (2) To compare consumer preferences of Indonesian and Chinese products;
- (3) To analyze the impact of ACFTA on SMEs.

Review of Literatures

Globalization has changed economic interactions because of production and marketing knowledge improvement and stronger countries competitiveness. Globalization also induces the sustainable liberalization policies, administration regulations and structural transformations. These policies and regulations are important to mobilize and maintain resources (externally and internally) for domestic industry, productivity and external

competition (Asasen, Asasen, & Chuangcam, 2003).

One of globalization influences is international trade. International trade is needed by all countries. Nowadays, many countries have many multilateral and bilateral trade co-operations and agreements to accelerate international trade. Trade agreement brings external changing on market behavior. Market behavior will be changed to be a game theory from a non-game behavior. Shapiro (1989) showed that players' behavior on trade is the function of the rivals' behavior. When game theory occurs in market, players need to adjust and change their strategies for surviving or entering market. Strategies for surviving and entering market make behavior of competition. Competition, in some extent, will develop quality of products. Product quality is not only determined by location and natural resources, but also by other factors like knowledge, global information, market standard, market information and challenges and also new technology (Wattanpruttipaisan, 2002). Efficiencies and flexibilities from networking and cooperation of suppliers and consumers also create product quality.

Nowadays, many countries make a bilateral or multilateral cooperation on trade. The main idea of it is make a good condition to manage the trade liberalization. One of the trade cooperation is called as Regional Trade Agreement (RTA). RTA has both good and bad sides. RTA will be beneficial for economic growth, but on the other side, it can weaken it. Previous researches showed that trade agreement among close countries and large-scale trade partner tends to be beneficial (Pravin Krishna, 2003), and also induced welfare greater than reduced welfare (Rosson, Runge, & Moulton, 2000).

34 ASEAN-China Free Trade Agreement

The newest RTA (ASEAN, 2002, 2004) ratified by Indonesia is 15 ASEAN-China Free Trade Agreement (ACFTA). ACFTA is a free trade agreement among ASEAN countries and China. ACFTA has been implemented since January 1, 2010. In the agreement between ASEAN and China, it has been approved that the establishment of ACFTA is explained in two stages. The second phase of the time, namely: (1) year by year in 2010, involving six Southeast Asian countries which includes Thailand, Malaysia, Singapore, Indonesia, Philippines and Brunei Darussalam; and (2) in 2012 involving four other countries in ASEAN, including Vietnam, Cambodia, Laos and Myanmar. Particularly related to Indonesia, most goods traded between Indonesia and China's implementation of the reduction/elimination of tariffs is treated to 5,250 product categories.

The ACFTA chronicles are (ASEAN, 2002, 2004):

- (1) Framework Agreement on Comprehensive Economic Cooperation between the ASEAN and People's Republic of China is ratified by Leader of ASEAN and China in November 4, 2002 in Phnom Penh, Cambodia;
- (2) Changing Protocol is ratified by Economic Ministers on October 6, 2003 in Bali;
- (3) Framework Agreement ASEAN-China FTA ratification through a Decree number 48/2004 in June 15, 2004;
- (4) Agreement Trade in Goods and Agreement Dispute Settlement Mechanism is ratified in Vientiane, Laos by ASEAN and China Economic Ministers in November 29, 2004;
- (5) In 2010, the AC-FTA is applied by ASEAN 6 (Indonesia, Malaysia, Singapore, Philippine Thailand, Brunei Darussalam) and China;
- (6) In 2015, the AC-FTA will be applied by other ASEAN members (Cambodia, Laos, Myanmar, and Vietnam—CLMV).

AC-FTA has some purposes that are (ASEAN, 2002, 2004):

- (1) Strengthening and improving economic, trade and investment cooperation among members;
- (2) Liberalizing progressively and enhancing goods and services trade, creating transparent system and lessening investment;
- (3) Searching new collaborations and developing proper economic policies among members;
- (4) Facilitating economic integration among new ASEAN countries (CLMV) and bridging economic development gap among members.

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The first component of ACFTA is the agreement on trade in goods that was put in force by ASEAN on July 1, 2005, and it also was put in force by China on July 20, 2005. As specified in the agreement, all parties are committed to reduce or eliminate tariffs based on the following schedules: (1) Early Harvest Program (EHP); (2) Normal Track; and (3) Sensitive Track.

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The second component of the FTA with China is the trade in services, which entered into force in the last July 1, 2007. The main objective of the agreement is to expand trade in services in the region through improved market access and national treatment for those specific sectors and subsectors where the parties made specific commitments. In addition, the Free Trade Agreement with China also contains a provision for an agreement in investment to be put in place.

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The establishment of an FTA between ASEAN and China created a bigger market and a higher purchasing power. The lowering of trade and investment barriers will result in an enlarged integrated market. This condition will promote specialization and competitive advantage, contribute to lower costs and increase economic efficiency. These benefits will be obtained when Indonesia has a readiness to deal with it.

Chinese's Products and Source of Competitive Advantage

Most of the previous researches showed that the sources of competitive advantage of Chinese products are caused by several factors. Adams, Byron and Yochanan (2006) stated that China's export competitiveness was caused by several factors: the positive exchange rate, low wages, labor, the flow of foreign direct investment, and government commitment. Other previous research, Guan and Ma (2003) and Shiu and Heshmati (2006) showed that export growth of China and Total Factor Productivity (TFP) growth were closely related to improvement of innovation capability, interaction and harmonization of innovation and productivity growth, FDI, human capital and communication technology investment. On the contrary, Wei and Hao (2011) using Total Factor Productivity (TFP) showed that the main source of Chinese economic growth was labors, not technology, as well as other developing countries. This Wei and Hao result in lined with S. M. Li, S. H. Li and Zhang (2000) and Rasiah (2002) who explained that competitive pressure in the government's companies has induced Chinese labors to work harder, more efficient and more productive.

Chinese government also stimulates labor productivity by the regulation. One of the important regulations is regulation on labor education. Labor education leads to attitude development such as discipline, commitment, loyalty and so on. Child and Warner (2003) found that Chinese labor productivity also affected by relationship culture between labor and companies. Chinese labors have a good loyalty to company and always focus on their job. This culture develops their job specialization and ultimately improves their competitive advantage. Labor transformation in China via state level institutional changes that led by reform-minded leaders, a right-based labor regime, fluid labor markets, and rule of law society were also the important factor to economic growth and

competitiveness (Guthrie, 2002).

Beside labor competitiveness, efficiency of Chinese products is also influenced by the investment policy. Investment policy in China strongly supports and protects foreign direct investment. These FDI policies such as openness, corporate tax rates and the level of corruption have been promoting growth in China (Chantasawat, Fung, & Siu, 2004). The government's commitment always want to improve the Chinese competitiveness will ensure that the developments achieved will continue.

Research Methods

31 The research was conducted by using qualitative and quantitative methods to assess the impacts of Chinese products on SMEs in Semarang, Pekalongan and Solo. Descriptive and qualitative analysis was used (such as proportion, share, and growth) to interpret and analyze data systematically and comprehensively.

Primary and secondary data were used in this research. Primary data was collected through questionnaire and in-depth interview. Primary data was focused on SMEs managements/owners and consumers. The sample was collected by random sampling in three cities that were Semarang, Pekalongan and Solo. These three cities were used as samples because they have a suitable economy characteristic with this study. Trading sector and SMEs are dominant sectors in Semarang, Pekalongan and Solo. Their governments also have good and appropriate policy to develop SMEs. Research respondents were five traders, five producers, and 20 consumers in each town. Total respondents were 30 SMEs (they were divided into 15 traders and 15 producers) and 60 consumers. Secondary data was generated from Central Bureau of Statistical and Central Bank of Indonesia.

Research Results

Based on the secondary data from Indonesian Central Bank (2010), there are ten top imported commodities from China to Central Java. Table 2 shows the detailed condition. Most of the import commodities are machinery, vehicles, iron and steel, and cotton.

Table 2

Ten Top Imported Commodities From China to Central Java (USD)

Import commodities (HS 2 digit)	2007	2008	2009 (until October)
84-Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	103,990,910	130,189,348	9,284,020
85-Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	69,021,042	99,398,973	8,253,629
52-Cotton	65,865,435	77,775,481	4,984,930
87-Vehicles other than railway	42,375,932	51,184,232	2,564,767
72-Iron and steel	28,995,241	35,322,703	4,494,324
55-Man-made staple fibers	20,122,190	33,500,892	2,522,823
10-Cereals	47,410,513	25,753,106	-
73-Articles of iron and steel	20,404,227	23,918,069	2,447,780
39-Plastics and articles thereof	14,744,238	17,615,423	1,267,107
28-Inorganic chemicals	5,636,867	17,205,512	208,205

Note. Source: Central Bank of Indonesia, Solo City Bureau, 2010.

The interesting commodity is cotton. Cotton is the third top imported commodity in Central Java. On the other hand, the data shows that wearing apparel and textile are the exported commodities with the highest value (Indonesian Central Bank, Solo, 2010). The fact also shows that the main input of wearing apparel and textile came from China. It means that the main exported products in Central Java also use imported content. Other interesting thing is three of imported and exported commodities from and to China are the same products, which are weaving yarns, fabrics, and textile, electrical machinery, apparatus and tools and tobacco and processed tobacco. On the contrary, SMEs in Central Java have ten competitive products (divided into five products from industry, and five products from trade activities). The leading products from industry are wearing apparel, furniture, batik, palm sugar, and bricks. Furthermore, the leading products from trade activities are textiles, furniture, food, agriculture products and daily needs products. Other potential products (but they are not leading products) are weaving affairs, furniture, textiles products, bamboo crafts, sugar, and building material. Some of the leading and potential products from SMEs are the exported product. This condition gives a threat for domestic and foreign market and tighter competition between Indonesia and China.

The following explanations are the consumers' and producers' perception on Chinese product, including the impact on their buying behavior, producing behavior and profit condition.

Knowledge and Image of Chinese Products

Chinese product consists of two words that really show the origin of the product, or where product produced. Thus, products from China are products originating from China or "Made in China". However, searches made in this study, associated with China rather than product knowledge, indicate that there are only a few respondents, both consumers and SMEs that define the product from China are made in Chinese products. This study shows the existence of several kinds of associations that emerged when respondents are faced with the question of what is known about Chinese products. Some associations are most often appeared between the other cheaper products, artificial products, electronic, accessible, attractive design, clothing, toys, goods that are similar with famous products. In particular, if the respondent is faced with a choice of answers that describe the relationship between price and quality, powerful image comes from the consumer and SME manufacturers that is products from China are cheap but they are poor in the quality of product. However, those who said that Chinese products have good quality and cheap price are more than 33% and 45% of consumers for respondents. Medium respondents tended to argue that SMEs selling products from China are products with cheap price and good quality. From this, description reflects the competitiveness of Chinese high products.

Association of Chinese products seems to be influenced by the introduction of the goods or products from China itself. Here are the best known types of product produced by the consumer electronics, toys and vehicles. Meanwhile, the most widely consumed product is an electronic audio/video, and electronic non audio/videos and toys.

Chinese Products From Consumers' Perspective

Consumers already recognize the wide range of products from China. From a variety of consumer products known, the most widely known consumer electronics are explained as follows audio/video (85.00%), toys (81.67%), transportation (46.67%), a non-electronic audio/video (38.33%) and household equipment (36.67%). The introduction of various products from China appears to be related to the products used. This condition is reflected in the search for more about the use of products from China where the rank of China's use of products is similar to the

rank of China's introductory products. Items most commonly used are an electronic audio/video (75.00%), toys (50.00%), non-electronic audio/video (35.00%), home appliances (21.67%) and vehicles (16.67%).

Table 3

Used Products

Product types	Percent (%)	Product types	Percent (%)
Vehicles	16.67	Textiles/fabrics	1.67
Electronic of audio/video	75.00	Clothes	8.33
Non-Electronic audio/video	35.00	Groceries	1.67
Toys	50.00	Household equipments	21.67
Handicrafts	1.67	Furniture	0.00
Food	13.33		

Note. Source: Primary data processed.

In connection with the decision to consume products from China, most respondents did not deliberately choose ones. However, those who deliberately chose ones were quite big, reaching 40% of all consumer respondents. Meanwhile, the decisions to deliberately choose products from China, among others, based on the low price (38.33%), the easy availability on the market (31.67%), and the attractive design and the good quality (respectively 20.00%) and the recommendations from the people closest factor (18.33%).

Comparative perceptions of product attributes and the reality experienced by China over the use of the products can be used to identify levels of customer satisfaction. Overall, consumers tend to be satisfied with products from China. This condition is reflected in a positive relationship between perceptions with actual experiences. From some of the attributes, it can be observed that low price, brand, durability, product warranty, design and ease to get the product can support the consumers to buy Chinese products. Only on the attributes of convenience that consumers tended to be unsatisfied.

Table 4

Satisfaction in Consuming Chinese Products

Attributes	Perception	Experience	Gap	Satisfaction
Cheap price	3.02	3.13	0.12	Satisfied
Popular brand	2.45	2.52	0.07	Satisfied
Durability	2.28	2.32	0.03	Satisfied
Guarantee	2.33	2.38	0.05	Satisfied
Design	2.53	2.73	0.20	Satisfied
Easy to obtain	3.15	3.13	-0.02	Unsatisfied
Total	2.63	2.70	0.07	Satisfied

Note. Source: Primary data processed.

A comparison of consumer perceptions of products with domestic products of China shows that as many as 60.00% of respondents said that Chinese products were cheaper, and they put on the ranking advantage of Chinese products over products made in Indonesia, and the other 30.00% of respondents, placing second in the ranks. Meanwhile, the attributes that are easily obtained, as much as 48.33% of the respondents placed it in the ratings 1 and 50.00% of respondents put this attribute on the second rank. It is stated that the quality products from China is higher

than the domestic products, it was about 11.67% of consumer respondents ranked number one and put it in 48.33% of the respondents. They placed it in the second rank. Thus, it can be concluded that consumers tend to believe that Chinese products are relatively cheaper, more accessible and more easily obtained than domestic products.

As China's perception of product attribute compared to domestic products, the ratio of China's perception of product attributes with other imported products also showed the benefits of products from China. Consumers tend to believe that Chinese products are comparatively cheap and easily obtained.

Comparative perceptions of product attributes of China's domestic products and imported products from China for other products showed superiority of Chinese products, especially at the price and convenience to get the attributes. However, it does not cause consumers to select products from China. A total of 73.33% of respondents said consumers preferred not to choose domestic products. Similarly, preferences for Chinese products compared to other imported products, as much as 70.00% of respondents claimed that consumers preferred other imported products.

Figure linking perceptions of the most important product attribute in China show that advantages of Chinese product compared to other products, especially with the price of consumer preferences, are essentially more like the other products (domestic products and other imported ones). It reflects that the public still has the sensitivity of price. It can be associated with people's purchasing power. Most people in middle to lower economic classes or marginalized communities tend to be sensitive to price changes. In addition, the condition can also be associated with the characters of Indonesian consumers. Consumers tend to remember the short-term benefits of the product as well as the impulse of buying decision-making. Those still dominate much of Indonesian people so that they are more easily available to be purchased.

Chinese Products From Producers' and Sellers' Perspective

To obtain a comprehensive picture of the product associated with the position of the Chinese community, consumers and producers are not only used as respondents. In this study, the respondents also use products from Chinese vendors. All respondents studied, 33.33% of the vehicles they sell, selling 40.00% of electronic audio/video and non-audio/video, selling food 33.33%, 40.00% sell home appliance and so forth.

Unlike the consumer perception of Chinese product attributes compared to other products, the main advantage of Chinese products lies in the convenience factors and product prices. In terms of quality and durability, the manufacturer assumes that the quality of Chinese products tend to be much worse and can be easily damaged. Meanwhile, distribution services are relatively considered to other products. The similar perceptions came from sellers. A description of that product from China compared with other products has the advantage on price and convenience factor was obtained. For dimensions of quality and durability, sellers tend to judge that China's product quality, and durability is worse. Meanwhile, distribution services are considered relative to other products. This perception is in line with consumers' and producers' perceptions of respondents.

Advantaged factor over other products from China also seems to be a motivating factor for producers to buy products made in China. This is reflected in the distribution of respondents' answers that are from users and product manufacturers from China, that was about 86.67% and the majority of manufacturers (84.62%) that use products from China, said that China is a superior input. As for some of the most important source of China's input price advantages, such as a fairly prominent with the difference in price between 5%-10% cheaper, quality

and comfortable to get it. Input is a relatively cheap price of Chinese products will ultimately increase profits for producers in the same proportion, i.e., 5%-10%.

Table 5

Usage, Superiority, and Difference of Input Prices in China

Variable	Answer	Percent (%)
Using Chinese input	Yes	86.67
	No	13.33
Superiority of Chinese input	More superior	84.62
	Same	7.69
	Less superior	7.69
Difference of Chinese input price to others	< 5%	30.77
	5%-10%	61.54
	> 10%	7.69

Note. Source: Primary data processed.

Similar products from China, Chinese input is also relatively easier to obtain. Chinese distribution channel inputs from other inputs valued tend to be shorter. Although there is no direct import of plants and directly bought from importers, but the majority (93.33%) was investigated to get input of Chinese manufacturer to buy from wholesalers. There are only 6.67% of the respondents who purchase inputs from Chinese retailers.

Attribute of perceptions of China compared with other products is generally known. Most respondents believe that product manufacturers of China SMEs tend to be cheaper but they are in poor quality and easily damaged. If you specifically ask respondents to compare products with products from China for the same product category types, all respondents stated that the product is higher than the products made in China. The source of product advantage with product from China, especially in the factors of quality, price and comfortability are obtained.

As mentioned earlier, this study identified that consumers tend to be sensitive to price changes. On the other hand, China has the image of the character of the products that are cheaper even with low-quality and easy to obtain. That is, there is compatibility between products from China with characters of Indonesian consumers in general. Therefore, in the end, products from China are considered into our competitor's products. Along with China's increasing number of products in the market, there is a higher level of competition.

Most sellers of products from China have been selling products in China since 2008. China sells these products performed as one strategy to maintain its advantage. According to respondents, apart from being cheap with a relatively good quality or the same with other products, products from China at present is one of the products that are sought after by consumers because of the price factor so that the product experience high turnover.

Table 6

Profit Level

Profit level	Percent of local product sale (%)	Percent of Chinese product sale (%)
< 5%	0.00	20.00
5%-10%	80.00	13.33
> 10%	20.00	66.67

Note. Source: Primary data processed.

In relation to the turnover of goods, the respondent stated that the current turnover of goods is more important than high profit margins. In other words, the seller is more important than the size of income profit. If the high turnover of merchandise happens, it automatically results in high profits too. Preferences are consistent with the perception of comparative benefits gained by selling local products, products from China and other imported products. Level of profits earned from sales of local products is lower than sales of products from China. There are only 20% of respondents said that the level of profits from sales of local products more than 10%, while those who claim that the level of profits from the selling of products from China was more than 10% from 66.67%. Therefore, sales of Chinese products tend to be more profitable (otherwise by as much as 73.33% of respondents) in accordance with the reasons for selling products from China that lower prices.

Basically, China’s products have been regarded as competitors for our products since a long time. However, most respondents said that products from China are considered to be competitors, especially since the agreement contained in ACFTA. In addition to the reasons for lower prices also were underpinned by increasingly easy to get products from China. As discussed earlier, China has turned into “gigantic” new in the trade in Indonesia. China’s products have been flooding into the Indonesian market. Trade relation between Indonesia and China has increased from year to year. During 2005 to 2009, Indonesia has experienced balance of trade deficit against China. These conditions can create a threat for many industries in Indonesia in general, including the provinces of Central Java, especially with industrial scale of small and middle—SMEs.

Impacts of Chinese Products Entry Toward SMEs Producers

Impact of China’s products in Indonesia, especially in Central Java, is that profits and sales are relatively small, but there is a tendency of lower profits and sales volume. This is reflected in most (respectively 86.67%) of respondents who answered that SMEs benefit producers as well as the volume do not change with the selling of products from China. Relatively little impact is caused by several things, like the manufacturers have had customers who tend to be very loyal and tend to reserve directly. In addition, in the opinion of SME producers, distribution channels are still relatively shorter than the products from China. However, it should be noted that from the perspective of consumer products from China, it is more easily obtained from local products.

Table 7
Consumers’ Loyalty, Product of Distribution Channel of SMEs and Chinese Product Distribution (% of Respondents)

	Consumers’ loyalty		Chinese product distribution channel		
	Very loyal	Quite loyal	Long	Quite short	Short
Percent (%)	66.67	33.33	40.00	46.67	13.33

Note. Source: Primary data processed.

The tendency of Chinese products reduces earnings and sales volume reflected in the ratio of the percentage of positive impact (increase) with the percentage of negative impact (decrease). It can be seen that the negative impact is greater. Percentage of respondents who said that the profits rose by the flooding of products from China is 0.00%, while the profits had decreased by 13.33%. It happens similarly to the impact on the selling volume.

Conclusions

The study results show that Central Java had a deficit trade balance to China. The imported domination was in textile, footwear, and food products. This condition was not favorable because these imported commodities were equal to the competitive SMEs' commodities. This condition threatened SMEs entrepreneurs. Moreover, the results of consumer perception showed that respondents preferred to choose the Chinese products than Indonesian ones because of quality, availability, attractive design and price. Furthermore, many SMEs entrepreneurs were faced to a new threat especially in supply chain, supply continuity, and price. The China's products penetration has decreased sales volume and profit of SMEs. The study results also found that there were many weaknesses of competitiveness factors of SMEs. Those factors could be divided into internal and external factors. Internal factors were high cost of production, low product quality, lack of capital, low level worker education, and awful business management. On the other hand, the external factors were high cost economic, unsupportive regional regulation, lack of access for market networking, and incomplete information about regional trade arrangement.

This study also shows that Indonesian consumers are loyal consumer. Chinese product purchasing is due to low prices and weak purchasing power. While consumers recognize that the quality of Chinese products are worse than the quality of domestic products. If the purchasing power of consumers increases, consumers will tend to buy the domestic product than Chinese products. From the producer side, the use of Chinese inputs due to better quality and lower prices. The awful quality of input also induces the bad quality of products. This condition indicates that in some products, Central Java has no advantage competitive condition due to competition into international market. When the domestic product has not been able to compete in export markets, the strengthening of domestic market is a better choice. By increasing awareness of consumers, sellers and producers to love domestic products, the penetration of Chinese products can be overcome. This condition also creates effort for improving product quality, reducing cost, and shortening the distribution channels. The appropriate policies, society awareness and effort to improve product quality will not only be able to overcome the penetration of Chinese products, but also will lead to fair competition. Thus, this study results in the appropriate strategies to cope with the ACFTA, which are strengthening access to domestic market, fixing supportive regional regulation, and not focusing yet on export orientation.

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