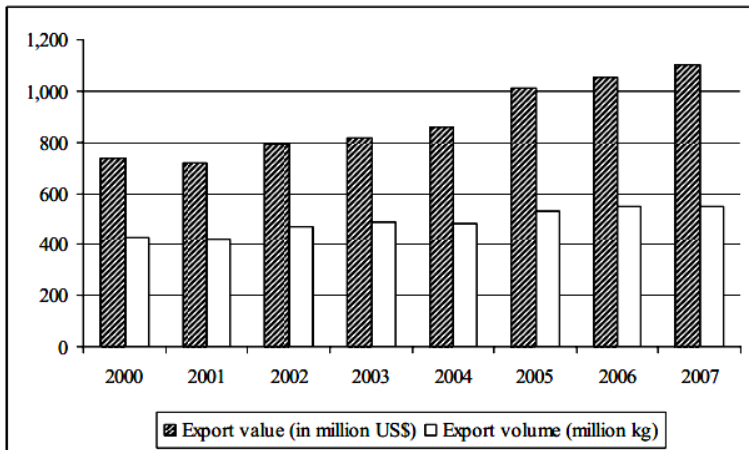


Chapter I. Background

The wood furniture sector plays an important role in Indonesia's economy, as it contributes to the non-oil export revenue and absorbs a large number of employees. In the international market, Indonesia is one of the fifteen top exporting countries, together with many developed countries such as Italy, Germany, Canada, Denmark, France, Spain, and the U.S.A. Wood furniture is a traditional product that utilizes a low level of technology, but it is one among several of the most traded goods in the world. The development of Indonesian wood furniture exports from 2000 to 2007 can be seen in Figure 1.

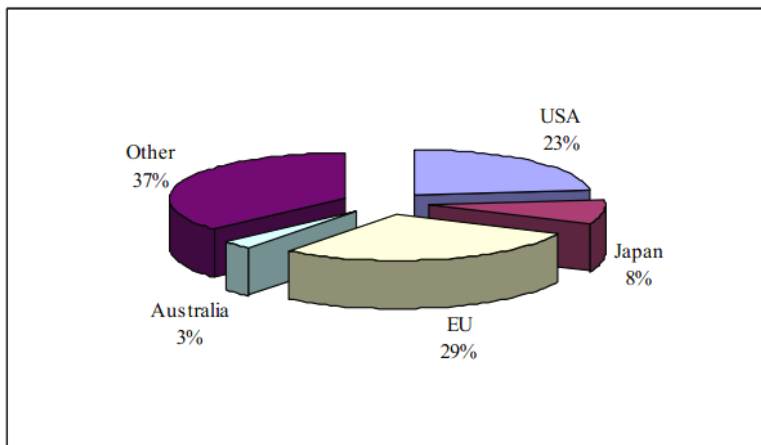
Figure 1: Indonesian export value of wood furniture from 2000-2007 (in Millions of US\$)



Source: The United Nations Statistics Division (2008).

Since 2000, the development of the export value has tended to increase significantly over the years, while the volume has increased slightly. The global financial crisis that started in September 2008 has impacted the Indonesian exports, specifically wood furniture. There is no data available concerning the exports in 2008, but according to the destination of exports, a large number of furniture products which are exported to the USA and Europe (Figure 2) are strongly impacted by the crisis.

Figure 2: Indonesia wood furniture exports by destination country in 2007

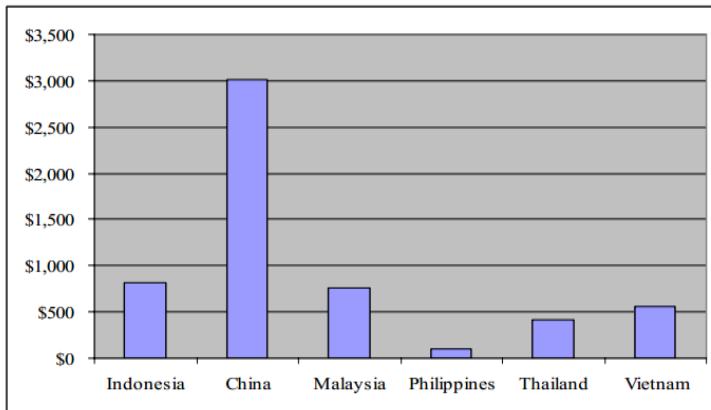


Source: The United Nations Statistics Division (2008).

Most respondents complain about declining orders, as do the people from ASMINDO. Firms which supply the international market suffer from declining orders and even many firms are closed. The decline in orders from existing firms varies from 20% to 50%.

Competition in the world market for wood furniture has increased, as can be seen by the increasing number of countries, especially developing ones, involved in world trade. In 1990, only 59 countries were wood furniture exporters. The number increased to 107 in 1995, and increased further to 151 in 2000, but declined in 2005 to 122 countries. In Asia, China, Malaysia, Indonesia, Thailand, and the Philippines are the leading wood furniture exporters. However, in recent years Vietnam has been emerging as a leading exporter with magnificent growth. Ratnasingam and Ioras (2005) show that competition among Asian countries is very intense due to minimum product differentiation among these countries. Price therefore becomes the weapon for firms to compete, and price tends to decrease over the years. According to Kaplinsky (2003), this trend occurs in most of the products sold by most developing countries. Buyers also change their behavior, as most tend to engage in bargain hunting, especially when they attend wood furniture exhibitions. The export performance of these Asian countries is compared in Figure 2.

**Figure 3: Some Asian countries wood furniture exports
(in Millions of US\$)**



Source: The United Nations Statistics Division (2008).

In Indonesia, 14 out of 33 provinces produce wood furniture products. Central Java and Yogyakarta Provinces are among the prominent regions. The average export value of furniture products in these 2 provinces is more than 500 million US\$ per year. The furniture industry is essential for both provinces. In Central Java, there are more than 9,000 firms provides more than 90,000 workers, where as in Yogyakarta more than 3,700 firms provides about 23,700 workers. It consists of business entities; approximately 90% of them are identified as small and micro enterprises. The distribution of the wood furniture industry is concentrated in Central Java and Yogyakarta as is show in Figure 4.

Figure 4: Distribution of wood furniture firms in Indonesia



The value of wood furniture exports in Central Java is 10 times higher than in Yogyakarta. In both provinces, wood furniture is considered as one of the main contributors to exporting, as can be seen from Table 1. In Central Java, wood furniture is the largest contributor to Central Java exports from 2003 - 2006, whereas in Yogyakarta this commodity is the largest or second largest contributor to exports from 2004 – 2006.

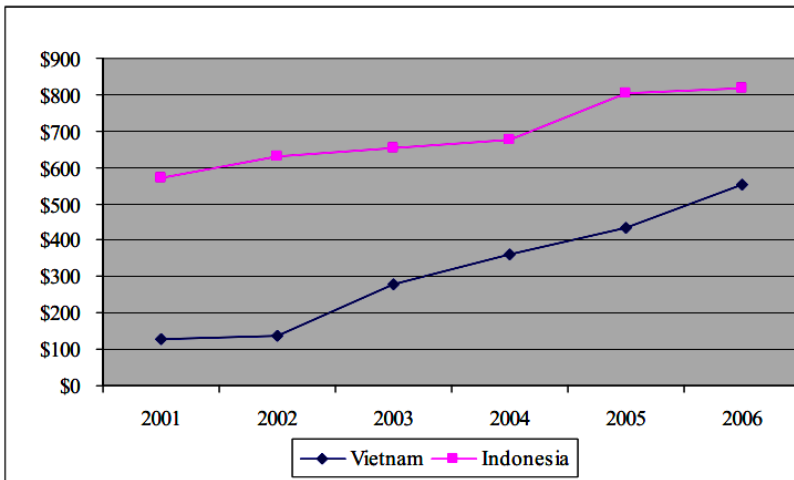
**Table 1: Central Java and Yogyakarta's Main Exports
(in Millions of US\$)**

Subsector	Central Java				Sub sector	Yogyakarta		
	2003	2004	2005	2006		2004	2005	2006
Wood furniture	544.0 (31.9%)	466.8 (25.4%)	664.8 (27.7%)	476.0 (16.4%)	Wood Furniture	37.6 (30.7%)	42.6 (29.7%)	32.3 (23.3%)
Garments	249.5	225.1	(n.a)	(n.a)	Garment & textile	34.6	51.1	47.8
Thread	67.0	187.0	(n.a)	(n.a)	Handicrafts	15.9	19.69	18.8
Textiles	93.3	137.4	(n.a)	(n.a)	Tannery leather	9.7	6.0	4.9
Processed wood	120.4	92.0	(n.a)	(n.a)	Leather	9.2	8.5	13.4
Total Exports	1,708.1	1,840.0	2,398.1	2,900.0	Total Exports	122.3	143.5	138.5

Source: The Central Java and Yogyakarta Industrial and Trade Office, 2007

The pessimistic view of the future of the Indonesian wood furniture products was illustrated clearly in the ILO research (Posthuma, 2003). It finds that, compared to some other Asian countries (China, Malaysia, the Philippines, Thailand, and Vietnam), Indonesian products are less competitive in quality, delivery, price, promotions, and relationships. In design, Indonesian products are a little higher than China, Malaysia, Thailand, and Vietnam but lower than the Philippines. In the global market, competition among developing countries' products generally exploits each country's comparative advantage, an advantage that relies on abundant resources of raw materials and unskilled labor. Meanwhile, in Indonesia, the costs have increased, and the industry is facing a shortage in raw materials.

Figure 5: The development of wood furniture exports in Indonesia and Vietnam (in Millions of US\$)



Source: The United Nations Statistics Division (2008).

The wood furniture products from Indonesia are uncompetitive in the international market. The challenge is how to enhance the competitiveness of furniture products in the international market. In order to be competitive, it is necessary to make a plan for upgrading or intervention for the actors involved in the value chain. To be able to provide the optimal intervention, a gap analysis is needed. A gap analysis consists of defining the present state, the desired or 'target' state, and hence the gap between them. In the later stages of problem solving the aim is to look at ways to bridge the gap defined. This may often be accomplished by backward-chaining logical sequences of actions or intermediate states from the desired state to the present state.