

## **Socio-economic and Political Structure of Risk in Trade: Cases from Yogyakarta/Indonesia Export-Oriented SME (Small and Medium Enterprise) Clusters in Tourism and Handicraft/Furniture Industries**

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### Comprehensive Abstract

Despite resiliency in meeting challenges of past and recent economic crises as well as major natural disasters (Arfani and Hapsari 2013), Indonesia's export-oriented small and medium enterprises (SMEs) —such as the ones forming the three clusters in Yogyakarta-based tourism & handicraft industries— encounter major deficit in capacity to integrate fully in international trade activities. The deficit dues predominantly to lingering structural constraints that prevents them to capture significant portion in export share, hence hinders them in connecting to the commodity and related services (in tourism and handicraft) value chains. The study aims to identify those structural constraints by outlining the clusters' socio-economic and political structure of risk as they participate in international trade and face major challenges in capturing value-added created in the chains. By doing so, it expects to further assess current/existing practices and policies of trade facilitation and other aid for trade mechanisms that are conveyed both in the framework of community-based and government-supported development programs. Linkages –which are mainly based on the commodity value chains— among relevant stakeholders have been developed under such a framework in light of the clusters development project.

### **Methodology: Commodity-Based Structural Analysis on Trade Integration**

This study develops a methodology and conceptual framework that is based on structural analysis on the political economy of trade integration. The analytical tool unpacks socio-economic and political contexts shaping the relational aspect of commodity value chain in terms of a single commodity or a cluster of commodities with relatively similar characteristics. Analysis maps out three political economic layers of trade integration process that links local commodity producers to the international market, i.e., social relations of production, authority and autonomy to produce, and commodity-based protectionist regime in destination market (Hapsari 2012).

<b>Layers of analysis</b>	<b>Indicators</b>	<b>Analytical questions</b>
<b>Layer I</b> Social relations of production	Social proximity of commodity producers to the local	How familiar is commodity producers to its social community?

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	Market inclusion and exclusion based on socio-economic identities	Who are legitimate commodity producers at the local?
<b>Layer II</b> Authority and autonomy to produce	Entitlements to means of production	Do commodity producers have sufficient and secure access and control to means of production through formal and legal means?
	Market intervention by local political elites (village level elites, bureaucracy, state apparatus)	Do commodity producers take part in resource capture politics?
<b>Layer III</b> Commodity-based protectionist regimes in destination market	Protectionist policies in destination market	Anti-trust policies Tariff, quota
	Commodity specific product and production standardization	What forms of non-tariff barriers are applied to imported commodities in destination market?

By mapping out those three layers in the commodity value chains, the study is to identify the following socio-economic and political aspects (which apply for Layer of Analysis #1 and #2), i.e. in an endeavor to outline major empirical structural constraints that are encountered by the local SME players in the chains (World Bank 2006)<sup>3</sup>:

1. Social diversity, assets and livelihoods (SDAL)
  - a. Distribution of assets, public goods, and services across the clusters;
  - b. Social, economic, institutional, or other barriers that result in unequal access to assets, public goods, markets, and services in the clusters;
  - c. Existing distribution that results in different livelihoods strategies, states of welfare, and opportunities for socio-economic mobility;
  - d. Existing distribution of assets and existing divisions shape inter-group relationships in the clusters;
  - e. Main drivers of socio-economic change (migration, education, industrialization, ecological change, etc.);
  - f. Opportunities and constraints to social mobility among different social groups in the clusters.
  
2. Power, Institutions and Governance (PIG)

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<sup>3</sup> The aspects are adapted from the World Bank's Country Social Analysis (CSA) approach or framework that is based on major donor agencies model of social risk assessment (World Bank 2006)

- a. Specific (formal and informal) institutions that mediate the access of different groups to assets, public goods, markets, and services;
- b. Power relationships and institutional structures that affect the ability of social groups to exercise voice and agency on their own behalf;
- c. Systems and institutional capacity within the clusters to manage these distributional consequences in a manner that improves equality of opportunity and safeguards the interests of local SMEs;
- d. Existing institutions, especially in the areas likely to be affected by policy or program interventions, that are able to function with an acceptable degree of autonomy from political economy interests or protection from elite (big economic players) capture.

**Policy Framework: Structure of Risk in Trade**

Having identified socio-economic and political aspects within the clusters three layers, the study is outlined under a policy framework that follows value chains analysis. In such an analysis, risks that are encountered by local SMEs in the clusters are structured as an embedded part of the cluster value chains network structure/governance (Humphrey & Schmitz, 2000, 2002). The following matrix offers a guideline of the study’s presentation that is based on hypothetical case analysis on the three clusters under study:

	<b>Cluster 1</b> Kasongan: sub-district level tourism industry and handicraft center	<b>Cluster 2</b> Bobung: sub-village level handicraft center	<b>Cluster 3</b> Krebet: village-level tourism industry and handicraft center
Major Type of Value Chains Governance	Network modular and relational to quasi-hierarchy	Arm-length market relations to network modular	Arm-length market relations
Structure of Risks	Layer 1-SDAL Distribution (-) Barriers (+) Mobility (Strong) Inter-group Divisions (Apparent) Drivers of Change (Industrialization, Commercialization, Education) Opportunities to	Layer 1-SDAL Distribution (+) Barriers (-) Mobility (Weak) Inter-group Divisions (Hidden) Drivers of Change (Migration, External Supports) Opportunities to Mobility (Moderate)	Layer 1-SDAL Distribution (+/-) Barriers (-) Mobility (Moderate) Inter-group Divisions (Hidden) Drivers of Change (Ecological, Education) Opportunities to Mobility (Strong)

Mobility (Strong)		
Layer 2-PIG	Layer 2-PIG	Layer 2-PIG
Mediating Institutions (+++)	Mediating Institutions (+)	Mediating Institutions (++)
Independency (+)	Independency (-)	Independency (+/-)
Safeguarding (-)	Safeguarding (+)	Safeguarding (+)
Elite Capture (Very Strong)	Elite Capture (Moderate)	Elite Capture (Weak)
Layer 3	Layer 3	Layer 3
Non-tariff Barriers (NTB): N/a	NTB: Quality Control and Standards	NTB: Service – oriented
Domestic Market: Cartels, Arts Dealers, Galleries and Collectors	Domestic Market: Intermediary, Subsidiary (demand driven by large business networks)	Domestic Market: Intermediary, Licensing (Hotel and Restaurant Associations, Travel Agents)

Keywords: socio-economic and political structure of risk in trade, SME (small & medium enterprise) clusters, commodity value chains

JEL Classifications: D63 (Equity, Justice and Inequality), F14 (Empirical Studies of Trade), F63 (Economic Development), L52 (Industrial Policy), Z32 (Tourism and Development)

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