



**FAKULTAS EKONOMI
UNIVERSITAS ANDALAS**

Thesis:

***Analysis of Factors Affecting Intra-Industry Trade Index in the
Electronic Sector Intra-ASEAN 3***

By: -

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***Thesis is Submitted in Partial to Fulfillment of Requirements for the
Bachelor Degree from Andalas University***

**PADANG
2011**

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Analysis of Factors Affecting Intra Industry Trade in The Electronic Sector Intra-ASEAN3

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ABSTRACT

This research is a study about Analysis of Factors Affecting Intra Industry Trade in the Electronic Sector Intra ASEAN-3. The thesis analyzes the affect by using GLS (Generalized Least Square) of cross-regional data and regress it each year from 2001-2009. In this thesis the writer uses some variables; they are Intra Industry Trade (IIT) as a dependent variable, Gross Domestic Product (GDP), Gross Domestic Product per Capita (PIN), Gross Domestic Product Difference (GDPD), Gross Domestic Product per Capita Difference (PIND) as independent variables. Based on empirical result, the writer suggests that Intra International Trade is significant and has positive relationship in order to increase Gross Domestic Product (GDP), Gross Domestic Product per Capita (PIN), and Gross Domestic Product Difference (GDPD) meanwhile PIN has negative relationship in order to decrease IIT. Furthermore, Gross Domestic Product per Capita Difference (PIND) is not significant but PIND has positive relationship. That means, only PIN gives effect to reduce Intra Industry Trade in the Electronic Sector Intra ASEAN-3.

Keywords: Intra Industry Trade, generalized least square, affect

This thesis has been presented before the examiners in the Thesis Examination and successfully passed the Thesis Examination on January 27th 2011.
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CHAPTER I

INTRODUCTION

1.1 Background

Economic globalization can be interpreted as a process, where more countries are involved in global economic activity (Tambunan, 2004). Thus, the relationship between countries can be more open. This has increased the interdependence of economic relations as well as competition between countries, trade, investment, and finance. There are several sectors driving economic globalization, are the progress of science & technology, increase in average income of the world community, and increasing world population density. In addition, which is the main driving factor is trade liberalization and world finance (Tambunan, 2004).

Liberalization of world trade is characterized by increasing rapidly flow of goods and services between countries. In this framework, some areas have been declared free trade by eliminating trade barriers, even in tariff barriers and non tariff barriers (NTBs). Thus, each country is expected to rely on commodity, that have comparative advantage and competitive to increase trade in the region, that eventually turn to promote economic growth and welfare population.

Therefore, as an open country, Indonesia is committed to participate in free trade in various. In ASEAN region, since 1992, Indonesia incorporated into ASEAN Free Trade Area (AFTA). AFTA is a form of agreement from ASEAN countries to establish a free trade in order to enhance regional economic competitiveness of ASEAN, by creating

regional market for its population and make ASEAN as a production base of the world, so can to attract investment and increase trade between countries of ASEAN members, through the Common Effective Preferential Tariff (CEPT) (Deperindag, 2002).

CEPT is gradual tariff reduction program to be 0-5 percent and elimination of NTBs. However, not all commodities were circulating in ASEAN region to obtain CEPT concessions. Commodities than can obtain CEPT concessions must have a local content of ASEAN at least 40 percent. In additional, in the CEPT scheme, there is division of tariff reduction program into fast track and normal track. Fast track applied on 15 groups of commodities, including textiles, rubber, fertilizers, electronics, and furniture. For previously commodity had rates equal to or below 20%, will reduced tariff to 0-5 percent start January 1, 1998. Meanwhile, for rates above 20 percent will reduce to 0-5 percent start January 1, 2000 (Anggraeni, 2004). In KTT ASEAN in Hanoi 1998, has agreed to full implementation of AFTA on January 1, 2002, with flexibility. Flexibility means that for some commodity that is still felt not ready, it can be postponed until January 1, 2003 for ASEAN-6, while for Vietnam, Laos, Myanmar, and Cambodia respectively in 2006, 2007, 2008, 2009, and 2010 (Deperindag, 2002).

Furthermore, in order to improve economic integration within the ASEAN region, ASEAN Bali Concord II in November 2003, ratified the *ASEAN Economic Community* (AEC) in 2020, as the realization of the ultimate objective of economic integration process within the ASEAN region. The goal is to create stability, prosperity, and economic competitiveness of ASEAN regional, where there is freedom in the flow of

CHAPTER VI

CONCLUSIONS AND SUGGESTIONS

6.1 Conclusion

This research measures the degree of integration of two-way trade in the electronic sector in ASEAN-3 during the period 2001-2009, the period which there is a significant trade liberalization and trade expansion in the region. Measuring the degree of integration is done by calculating the *Intra-Industry Trade Index* (IIT) during the period studied.

1. The results of IIT in the most of observations show the value of more than 50. The integration in the electronic sector of ASEAN intra-3 during the period 2001-2009 is quite strong. So, the electronics sector is one sector of the main drivers in the ASEAN-3 economies that should be prioritized in the context of economic integration in the ASEAN region in general and the ASEAN-3 in particular.
2. The most powerful integrations in the electronic sector in ASEAN-3 are between Indonesia (*reporter*) with Thailand (*partners*) and between Indonesia (*reporter*) with Malaysia (*partners*). Meanwhile, the weakest integration is between Malaysia (*reporter*) and Indonesia (*partners*).
3. The average variable GDP of both countries (GDP_{ijt}), the average GDP per capita of both countries (PIN_{ijt}), and the difference in GDP fluctuations in both countries ($GDPD_{ijt}$) significantly affect the two countries towards IIT (IIT_{ijt}).
4. The different fluctuations in GDP per capita of both countries ($PIND_{ijt}$) has no effect on IIT_{ijt} .

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