AN ANALYSIS OF DOMINANT FACTORS RELATED TO THE PREPAREDNESS OF SMALL AND MEDIUM TEXTILE, GARMENT AND FOOTWEAR ENTERPRISES IN BANDUNG TO IMPLEMENT ACFTA

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DECLARATION OF ORIGINALITY

I declare that this thesis, entitled “An Analysis of Dominant Factors Related to The preparedness of Small and Medium Textile, Garment and Footwear Enterprises in Bandung to Implement ACFTA” is, to the best of my knowledge and belief, an original piece of work that has not been submitted, either in whole or in part, to another university to obtain a degree.

Cikarang, Indonesia, 31 August 2010

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ABSTRACT

This research is about the unpreparedness for Bandung small and medium TGF producers to face the ACFTA. The purpose of this research is to find out the dominant factor based on fifteen valid questionnaires in order to find the main factors which really influence TGF producers in the ACFTA.

The research use 41 samples of small and medium TGF (textile, garment and footwear) producers in Bandung area; the researcher used purposive sample to get the sample. Thus, this research was conducted from June 19 to June 27 2010 located in Bandung area.

Based on the computation of analysis, there are 3 dominant factors; 1st factor (regulation of labor factor) with 29.32% of total percentage is most dominant factor, 2nd factor (raw material handicap factor) with percentage of 23.14% is second most dominant factor and 3rd factor (human resources and development factor) with 12.04% is third most dominant factor.

The research concludes that ACFTA success cannot be measured instantly. Specifically, the ACFTA can help bring the improvement in productivity and economic efficiency of ASEAN, the constant pressure from China should be used as a benchmark to reform the resurrection of ASEAN countries. In short term Chinese competition undoubtly will lead to the painful structural in some manufacturing industries.
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LIST OF ACRONYMS

ACFTA = ASEAN-Chinese Free Trade Agreement

AFTA = ASEAN Free Trade Agreement

EHP = Early Harvest Production

FDI = Foreign Direct Investment

MNC = Multi-national Corporation

MNEs Multi-national Enterprise(s)

NIC = Newly Industrializing Countries

ROO = Rules of Origin

SME = Small and Medium Enterprise(s)

SPS = Sanitary and phyto-sanitary standards

SPSS = Statistical Package Social Science

TGF = Textile, Garment and Footwear

UPI = University of Indonesian Education

WTO = World Trade Organization
CHAPTER I
INTRODUCTION

1.1 Background of Study

The revolution in industrialization, technology and information has changed everything; the world is becoming more globalized. No exception in terms of economy, it brought opportunities for developing countries to have an access to developed countries market as well as exchange of technology. Equally, developed countries also see the opportunities to invest their capital in developing countries, it sounds promising for both parties, yet it is not as simple as it seems. Although, the trade between countries occurred a long time ago, the trend of globalization indirectly assists those countries in doing business internationally.

The trade between countries commonly known as international trade, it allows one country to expand its markets for both products and services across international borders. International trade grants consumer to buy products from different country based on its specialization. Ricardo in his comparative advantage theory stated:

“Countries would specialize in the production of commodities which they can produce at a comparatively cheaper rate. Exchange of goods between two countries would be based on this principle of comparative advantage, each exchanging goods that they produce the best. The ratio of labor to capital in a particular country does not enter into the theory of comparative advantage”. (Ricardo, 1817)
Furthermore, a global trading where developed and developing countries shared fairly are what most people expect, but the reality told differently.

“The emergence of capitalism represents a culture that is in many ways the most successful that has ever been deployed in terms of accommodating large numbers of individuals in relative and absolute comfort and luxury. It has not been as successful, however, in integrating all in equal measure, and its failure here remains one of its major problems. It has solved the problems of feeding large numbers of people (although certainly not all), and it has provided unprecedented advances in health and medicine (but, again, not for all). It has promoted the development of amazingly complex technological instruments and fostered a level of global communication without precedent. It has united people in common pursuits as has no other culture. Yet it remains to be seen when the balance sheet is tallied whether capitalism represents the epitome of “progress” that some claim.” (Robbins, 1999)

Based on theory of international trade, there are two opposing views of international trade; free trade and protectionism. First is free trade, it occurs when no trade barriers apply by the government to restrict the flow of goods and services. Second is protectionism, it is a system to protect country’s products and services against other countries, the government put the restriction by tariffs, subsidies and quotas.

Considering the researcher object study is the effect of free trade that will happen in garment industry between Indonesia and China, which belong to ASEAN-China Free Trade Area, so this research limit only to the free trade between those countries.

1.1.1 ACFTA

ASEAN-China Free Trade Area is the free trade area of 10 members of AFTA (Indonesia, Brunei, Singapore, Malaysia, Thailand, Philippine, Vietnam, Laos, Myanmar and Cambodia) and China, the initial framework was signed on 4 November 2002 in Phnom Penh, Cambodia. (source)

Started 1ST January 2010, Indonesia and 6 other countries (Singapore, Brunei, Thailand, Philippine, Malaysia and China) applied ‘normal track’ of ASEAN-China Free Trade Agreement (ACFTA), henceforth the youngest members of AFTA (Vietnam, Laos, Myanmar and Cambodia) will follow suit later in 2015. Under normal track program, those 7 countries committed to reduce custom tax of 90% of total sectors down to 0%. 
D. Park (2007) in his study stated “Exploitation of natural resources abundant (ASEAN countries) by labor abundant (China) will be the main threat, also China is no longer merely a producer of mass-market low-tech goods but is increasingly moving up the value chain into high-tech goods as well, even though these tend to be produced by foreign firms rather than local firms”. ASEAN consumer surely like the idea of doing free trade with China, no tariff barrier means that the products absolutely cheaper compare with local product, on the other hand, this phenomena might hurt local industries; in long term it might causing the bankruptcy and unemployment.

1.1.2 Indonesian Garment Sectors

Garment sector is one of the main concerns regarding free trade agreement with China. Economists predict that export of agricultural products may increase, whereas other such as garment, electronic, food industry, steel and horticultural products are estimated to decrease (Mutakin & Rahmaniar, 2009).

Further, Indonesia’s textile and steel industries are reported panicked about prospect of non tariff barrier; they have asked the government for a delay on some provisions (Alle, 2010). The fact that garment sector is not well prepare in facing ACFTA, it is fair to say that Indonesian producers are worried about their future prospect. In contrast, the Head of Research and Development of the economic and social department from the University of Indonesian Education (UPI), Nana Jiwayana concluded the threat of ACFTA should not be viewed as a frightening specter; it would be more useful if it was seen as a whip for Indonesia to keep pace with the improvement efforts.

1.2 Problem Identified

The following problems can be identified:
Thousands of workers from across West Java staged a rally in Bandung demanding the implementation of the ASEAN-China Free Trade Agreement be postponed in Indonesia. (Jakarta Post, 2010)

The chairman of the Association of Indonesian Shoe Makers (Aprindo), Anton Supit had asked for a postponement of maximally three years for all infrastructure and government policy to be ready to support the sectors. (Antaranews.com)

The issues raised affect small-medium TGF enterprises. Therefore, there are serious issues that need to be addressed in the implementation of ACFTA.

1.3 Statement of Problem

From the problem identification, researcher state the problem is why Bandung small and medium TGF enterprises are not ready to implement ACFTA despite 8 years of time preparation since the formation of ACFTA

1.4 Research Objective

This research is done to know on how Bandung TGF small-medium enterprises are preparing to face the normal track of ACFTA, which removing tariff barriers in 90% of total sectors including garment and clothing, started 1st January 2010. Further, Bandung’s TGF enterprises are reported to be so worried about the prospect of dismantling tariffs.

Moreover, researcher found this case more interesting to research because after those years of agreement, both of Indonesian government and producers still in the same pace as 8 years ago when the first agreement signed in Phnom Penh, it shows that there is no progress has been done to prepare ‘normal track’ of ACFTA. Researcher hopes that the finding answers in this research will help provide the input for future research.

From explanation above, the purpose of the research objective of this thesis is to analyze the dominant factors that causing small and medium TGF enterprises in Bandung are not ready to implement the ACFTA.
1.5 **Significance of the Study**

Implementation of ACFTA is major challenges for Indonesian government, especially for Bandung textile, garment and footwear small and medium enterprises that will be the research object of this study. This research is using Porter’s diamond theory that analyzing four main factors that causing Indonesian garment producers are not able to compete with Chinese.

The importance of this research is reflected not only in the result of the study by analyzing the factors that causing TGF sectors are worried about the prospect of dismantling tariffs, also this research will be an additional information and guideline for President University students by knowing the main factors why Bandung TGF sectors are not ready in the main track of ASEAN-China Free Trade Agreement.

1.6 **Theoretical Framework**

To achieve the basic understanding about ongoing study, researcher would try to build theoretical framework using Porter’s Cluster framework which contain 4 main points; factor (input) conditions, context for firm strategy and rivalry, related and supporting industries and demand conditions.
1.7 Scope and Limitation of the Study

Due to the limitation of time and other several difficulties in getting necessary information, the object of the research is limited only on Bandung textile, garment and footwear producers. One of the limitations in this research is the difficulty to find textbooks or journals related to the topic in library and internet which could support the research. Therefore, the researcher had to apply strategies to overcome the anticipated limitations on order to proceed in conducting research. This was in the form of unstructured interview with the purposive respondents.
Chapter II

LITERATURE REVIEW

Michael E. Porter has defined “competitiveness” as an alternate for “national productivity,” it is the major sources of national income and it also represents living standard in the long run. Therefore, in order to increase national productivity and living standard, business private sector
can make quite a difference by keeping up innovation speed and produces goods and services which meets the needs of human beings.

### 2.1 Porter’s Diamond Model

The Porter’s Diamond model (1990) stressed the determinants of national advantage and it is based on four country-specific “determinants” and two external variables, chance and government. Porter’s four determinants and two outside forces interact in the “diamond” of competitive advantage, with the nature of a country’s international competitiveness depending upon the type and quality of these interactions. The four determinants for a nation shape the environment in which local firm compete and promote or impede the creation of competitive conditions,” The four determinants of Porter’s Diamond model (1990) are as follows:

a. **Factor Conditions:**

   The nation’s factors of production, including natural resource and created factors, such as the quantity, skills and cost of personnel; the abundance, quality, accessibility, and cost of the nation’s physical resource; the nation’s stock of knowledge resources; the amount and cost of capital resources that are available in the banking and finance sector; and the type, quality, and user cost of the nation’s infrastructure, etc.,

b. **Demand Conditions:**

   The nature of demand for products or service at home and the degree of sophistication of buyers, such as the compositions of demand in the home market; the size and growth rate of demand at home; and the mechanisms through which domestic demand is internationalized and a nation’s products and services sells abroad, etc.,

c. **Related and Supporting Industries**

   The presence or absence of supplier and related industries that basically is international competitive, such as the presence of internationally competitive supplier industries that create
advantages in downstream industries through efficient, early, or rapid access to cost-effective inputs; and internationally competitive related industries which can coordinate and share activities in the value chain when competing or those which involve products that are complementary.

d. Firm Strategy, Structure and Rivalry:
The domestic rivalry of firms and the conditions governing how companies are created, organized and managed, such as the ways in which firms are managed and choose to compete; the goals that companies seek to attain as well as the motivations of their employees and managers; and the amount of domestic rivalry and the creation and persistence of competitive advantage in the respective industry.

Moreover, the two outside force, also affecting the competitiveness of a nation, but not direct determinants, are as follow:

a. The role of chance as caused by developments such as new inventions; political decisions by foreign government; wars; significant shift in world financial markets or exchange rates; discontinuities in input costs such as oil shocks; surges in world or region demand; and major technological breakthroughs.

b. The various roles of government including subsidies; education policies; actions toward capital markets; the establishment of local product standards and regulations; the purchase of goods and service; tax laws; and antitrust regulation (Porter, p.69-130)

2.1.1 Critique and Evaluation of the Porter’s Diamond Model
Rugman and Verbeke (1995) believed that Porter’s (1990) clusters study the impact of inter-organizational networks on the international competitiveness of firms and industries with a single home base. However, D’Cruz and Rugman (1993) have developed the
concept of business network as a tool for obtaining a favorable international competitive advantage, which consists of a group of firms and non-business institutions competing globally and linked together through resource dependencies. There are five partners in the business network: the flagship firm that is typically a large multinational enterprise, key supplier, key customer, competitors, and the non-business infrastructure. Under the flagship firm’s asymmetric strategic control over the network partner is consistent with the idea that the international competitiveness demands. And the form and functioning to inter-organizational network move toward having multiple home bases.


Moon, Rugman, and Verbeke (1995) argued that Porter’s home-based diamond was not appropriated to describe and explain the success of particular industries in relatively small economies, such as Canada Singapore and Korea. Firms from a small country or operations of MNEs located there that are engaged in international competition targeting not resource and market in a domestic context, but in a global context. They are concerned more about global industrial structure than domestic industrial structure. International targeting is indispensable


Clancy, O’Malley, Oconnel and Egeraat (2001) strongly argued that they do not find evidence of well-developed clusters of the type described by Porter. And as a small open economy such as Ireland, domestic demand compared to the influence of relevant foreign demand often has rather little influence on many producers in small countries and this reduces its impact as a major determinant of competitive advantage for industries in small countries. Related to this in the argument that, in many cases, small countries cannot support the number of firms necessary for domestic rivalry and that firm in these countries instead benefit from competition with firms in other countries. That will be inconsistent with the sources of competitive advantage based upon home-based only.
2.1.2 Generalized Double Diamond Model

Based upon the critique provided by the aforementioned studies, a successful multinational corporation has to rely on the home-based determinants to sustain its competitive advantage. The double diamond framework, developed by Rugman and D’Cruz (1993), suggested that managers should build upon both domestic and foreign diamond to become globally competitive in terms of survival, profitability and growth.

Rugman and Verbeke (1995), applied double diamond model to examine the international competitiveness of Mexico, New Zealand and Canada, respectively.

![Double Diamond Model Diagram](image)

**Figure 2.1 : The North American Double Diamond**

Source: Rugman and D’Cruz (1993)

Although the Rugman and D’Cruz North American diamond framework fits well for Canada, it may not fit for other small nations. Firms from a small country or operations of MNEs located there that are engaged in international competition targeting not resource and market in a domestic context, but instead in a global context. They are concerned more about global industrial structure than domestic industrial structure. International targeting is indispensable to
achieve efficiency, risk reduction and learning in the spirit of Ghoshal (1987). The linkage with other countries’ diamonds can impact domestic diamond. Thus, the nature of diamond is multinational, Moon, Rugman and Verbeke (1995 and 1998), has made the double diamond generalized to fit for all of the small open economies.

Besides, Dunning (1993) treats multinational activities as an exogenous variable that should be added to Porter’s model. However, in today’s global business environment, multinational activities represent much more than just an exogenous variable (Cho and Moon, 2000). Therefore, Porter’s single diamond model and Dunning’s model have been extended to the generalized diamond model (Moon, Rugman and Verbeke, (1995 and 1998)), including multinational activity as an indigenous variable rather than an exogenous variable.

In generalized double diamond model, Moon, Rugman, Verbeke (1998) defined the national competitiveness as the capability of firms engaged in value added activities in specific industries in a particular country to sustain this value added over long periods of time in spite of international competition. Therefore to sustain value added activities in specific industries in a particular country might result from both domestically owned and foreign owned firms.
2.1.3 Basic Concepts of Diamond Model

2.1.3.1 Quality of Factor: the Quality of Workforce, level of Technology and the Quality of Raw Material Needed by Industries.

Most of the literature recognizes to promote the quality of factor in order to facilitate the competitiveness of industry, therefore suggests that the quality of factor is positive related to competitiveness. Porter (1990) argues that building up enduring and high competitive advantage, needs to develop advanced and professional factor conditions. Liu and Song (1997) argues that to upgrade national diamond the Chinese government needs to encourage various mechanisms for advanced factor creation.

Moreover, there are some literature emphases the importance of education revolution. They believed that the future success in the international market will be determined by its ability to develop, produce and market new products and services of high quality, which satisfy customers at competitive price. This ability is dependent in the long run on the quality of workforce, which to a significant degree is dependent on the education of people. (Gardener, 1990; Cohen & Zysman, 1988)

Other studies emphasized that the cooperation between R& D and scientific research also crucial to the success of increases in production factors such as Sapienza, (1989). In a technology driven...
industry, emergence of a new technology can trigger changes in the associated market structure and in the nature of competitive force. U.S. bio-technology has precipitated such change in the ethical pharmaceutical industry, and one consequence is a proliferation of R&D collaborations. Moon, Rugman, & Verbeke, (1998) in the study of global competitiveness of Korea and Singapore also treated scientists and technicians as a proxy variable for domestic advanced factor conditions and recognized its impact on competitiveness. Hsu (1997) also point out with abundant and good quality of workforce can promote a national competitiveness.

Cost of factor: the wages of workforce and the cost level of technology and material needed by industries. Porter (1990) argues that the quality of factor conditions is more important than those of the cost. However, the gap between LDCs and well-developed countries still wide open and the winning strategy includes not only increases in the quality of labor but also taking advantage of lower wages, Hence production costs are still crucial in any sense (Kurth,1990).

2.1.3.2 Demand

Market size: the current and future market demand. Porter (1990), the composition of demand in the home market; the size and growth rate of the home and the mechanisms through which domestic is internationalized and pull a nation’s product and service abroad. D’Cruz & Rugman, (1993), under the five partners’ model emphasize market size. Scoot, (1989) The U.S. government needs to expand the domestic market in order to raise incomes, and enhances it international competitiveness. Thus, Seh (1993) for the determinants of international competitiveness in U.S., the large size of home market and higher income, are the source of competitive advantage.

Sophistication of demand: Porter, (1990) argues that a nation’s firms gain competitive advantage if domestic buyers are sophisticated and demanding as regards the product or service. D’Cruz & Rugman, (1993), under the five partners model emphasize the flagship firm encourage to keep the inconsistence with key customer. Moreover, Edmondson & Wheelwright (1989) stated that
the need for significant higher levels of interdependence with vendors and customer as well as across function within the firm to satisfy the global competitiveness.

Related and supporting industries: firms coordinate or share activities in the value chain or those that involve products that are complementary to the firms of a given nation (Porter, 1990). It is recognize that modern physical infrastructure could be regarded as an advanced factor, but we did not incorporate it in our earlier section on factor conditions as we believe that it is better to incorporate physical infrastructure as a related and supporting industry. And many literatures emphasize the contribution of infrastructure, such as Liu and Song (1997) point out that investment and innovation in supporting and related industries would bolster China’s competitiveness.

In addition for related and supporting industries, Porterhas mentioned that the success of Japanese’s small-engine machinery industry has contributed to all related supporting business such as Motor and key spare parts. D’Cruz & Rugman (1993), Tyson (1990) and Edmondson & Wheelwright (1989), support that the diffusion of technology between interrelated industries can promote national competitiveness. Fransman & Tanaka (1995) with similar views as Niefer (1990) stated that if we want to survive worldwide competition both today and tomorrow, research work need to be performed in close cooperation with Universities, other companies and government institutions and to integrate and interlink all knowledge within it. All of above literatures believe related and supporting industries will improve the national competitiveness.

Firm strategy, structure and rivalry: a nation’s competitiveness reflects the context in which firm are created, organized, and managed. National advantages may result from a good match among these variables. Porter (1990) finds that no one managerial system is universally appropriate. Instead, he expresses a strong preference in favor of vigorous domestic rivalry for creating and sustaining competitive advantage in an industry. This is difficult to do, therefore in this study, we attempt to measure it by the strategy being taken for short-term cost reduction or long-term innovation and upgrading industrial technology as well as management competencies.
However, as for the cost reduction strategy, emphasizes cost reduction will be one of the sources of international competitiveness, such as, Porter (1980; 1985), and Roth et al. (1991), all with similar views on through specialization to reduce cost is particular appealing to firms with international connections. Niefer (1990) believe a consequence is that the industrialized countries are losing innovation-related advantage to advanced newly industrializing countries (NICs) due to the growing international transfer of technology and know-how.

2.2 Overview of the ACFTA

In evaluating the potential impact of the ACFTA, which will come into effect from 2010, using the computable general equilibrium analysis approach, Doughyun and others (2008) reached the conclusion that there was some “guarded optimism” for its role in strengthening economic cooperation among the countries concerned. Zhao and others (2008) quantified the economic implications of the ACFTA on merchandise trade flows among member countries and other trading partners, which imply that tariff reductions alone among regional and bilateral trade arrangements have very little impact on trade flows. They concluded that only under a multilateral liberalization would all member countries of a regional trade arrangement and the rest of the world experience any benefit.

2.2.1 Historical development of the ACFTA

Relations between ASEAN and the People’s Republic of China have undergone profound changes over the past 15 years. The relationship has evolved from one in which China was viewed as a potential threat to ASEAN, to the current relationship in which China is seen as a dynamic economic partner. China established official contact with ASEAN in 1991 and became a dialogue partner in 1996. ASEAN-China relations quickened pace with the establishment of the ASEAN-China Joint Cooperation Committee (in 1997), the ASEAN-China Cooperation Fund (also in 1997) and a series of ASEAN-China summits that followed. Since then, cooperation
between ASEAN and China (especially in trade and investment) has been growing rapidly. Bilateral trade, for example, grew from $11.06 billion in 1994 to $39.5 billion in 2000. ASEAN’s investment in China was only $90 million in 1991, but it reached $4.8 billion in 1998 and $26.2 billion in 2001. China’s investment in ASEAN reached $1.1 billion in 2001 (ASEAN Secretariat).

After China joined the WTO in 2001, the volume of total trade grew at the fast pace of more than 20 per cent per annum during the period of 2001–06. Trade volume grew to $145.2 billion in 2006 and is anticipated to reach $200 billion by 2010 (Lim and Lai, 2007). Given such rapid developments in trade, a free trade area between ASEAN and China was proposed in the ASEAN+3 summit in November 2000 (involving ASEAN countries, China, Japan and Korea).

This was followed by the establishment of the ASEAN-China expert group, which was tasked to conduct a feasibility study on ACFTA. The report by the expert group, which suggested that China and ASEAN create a free trade area within ten years, received applause from leaders at the ASEAN-China Summit in 2001.

On 4 November 2002, at the Eighth ASEAN-China Summit in Phnom Penh, ASEAN member states and China signed the Framework Agreement on Comprehensive Economic Cooperation between ASEAN countries and China. The Framework Agreement aimed to: 1) strengthen and enhance economic, trade and investment cooperation; 2) progressively liberalize and promote trade in goods and services, and create a transparent, liberal and facilitative investment regime; 3) explore new areas and develop appropriate measures for closer economic cooperation; and 4) facilitate more effective economic integration of the newer ASEAN members and bridge the development gap among the parties. The agreement covered trade in goods and services, with provision for an Early Harvest Program (EHP) to accelerate tariff reduction as well as elimination on certain agricultural goods. The EHP covered eight groups of agricultural produce—live animals, meat and edible meat offal, fish, dairy products, other animal products, live trees, vegetables and fruits and nuts— and set a three-year time frame for implementation beginning in January 2004. Along with the implementation of the EHP, ASEAN countries and China also negotiated trade agreements in goods and services as part of the ACFTA. The Trade
in Goods Agreement was concluded in November 2004 and entered into force in July 2005, while the Trade in Services Agreement was signed in January 2007 and entered into force in July 2007.

2.2.2. Trade in Goods Agreement

The Trade in Goods Agreement between ASEAN and China was signed in November 2004 after several rounds of negotiations, which began in 2003. The agreement set new modalities for tariff reduction and elimination, rule of origin and other trade-related measures such as quantitative restrictions, non-tariff barriers and safeguard measures and institutional arrangements to oversee, coordinate and review the implementation of this agreement.

2.2.3 Tariff reduction schedules

The Agreement requires all parties to gradually reduce and eliminate applied MFN tariff rates on tariff lines not covered by the EHP of the Framework Agreement in accordance with the agreed timeframe. The tariff reduction or elimination programs under this agreement categorise traded goods for tariff reduction into two groups—normal track and sensitive track.

2.2.4 Normal track

Products listed in the normal track are to have their applied MFN tariff rates gradually reduced or eliminated over the period of 1 January 2005 to 2010 for the ASEAN6 and China, and 1 January 2005 to 2015 for newer ASEAN members, in accordance with the specified schedules in Tables 2-4:

The tariff reduction program under the normal track requires each party to undertake further tariff reductions of 0-5 per cent on additional products over a period of time. The ASEAN6 countries and China, for example, are required to reduce tariff rates to 0-5 per cent for at least 40 per cent of the tariff lines placed on the normal track no later than 1 July 2005, and at least 60 per cent of tariff lines on the normal track no later than 1 January 2007. Tariff elimination on all tariff lines shall be made no later than 1 January 2010, with the flexibility to retain tariffs on some tariff lines, not exceeding 150 lines, eliminated no later than 1 January 2012. For newer
ASEAN member states, tariff rates shall be reduced to 0-5 per cent for at least 50 per cent of tariff lines placed on the normal track no later than 1 January 2009 for Vietnam, 1 January 2010 for Lao PDR and Myanmar and 1 January 2012 for Cambodia. Full tariff elimination of all tariff lines placed on the normal track shall be undertaken no later than 1 January 2015, with the flexibility to retain tariffs on some tariff lines, not exceeding 250 tariff lines, eliminated no later than 1 January 2018.

2.2.5 Sensitive track

Products listed on the sensitive track need to have their applied MFN rates reduced to end rates by dates to be mutually agreed. The number of products in this track is subject to a ceiling of 400 tariff lines at the Harmonized System (HS) 6-digit level and 10 per cent of total import value based on 2001 trade statistics for the ASEAN6 and China, and of 500 tariff lines for the newer ASEAN countries. Tariff lines in the sensitive track are further classified into the Sensitive List and the Highly Sensitive List. The applied MFN tariff rate for tariff lines placed on the Sensitive List shall be reduced to 20 per cent no later than 1 January 2012 for ASEAN6 and China and no later than 1 January 2015 for newer ASEAN members.

The further tariff rate reduction to 0-5 per cent shall be done no later than 1 January 2018 for ASEAN6 and China and no later than 1 January 2020 for newer ASEAN members. For products placed on the Highly Sensitive List, which should not exceed 100 tariff lines at the HS 6-digit level for ASEAN6 and China, and 150 tariff lines for newer ASEAN members, the tariff rates shall be reduced to not more than 50 per cent no later than 1 January 2015 for ASEAN6 and China, and 2018 for newer ASEAN member states. Tables 5 and 6 provide a summary of the tariff reduction schedules for the sensitive track:
CHAPTER III
METHODOLOGY

This chapter will highlight the path taken through the research in order to collect the data to answer the research questions. (Welman and Kruger, 2001) state that a research involves the application of various objective methods and techniques to create scientifically obtained knowledge. The methodology used was a quantitative method. The object of study was a Bandung garment, textile and footwear producers.

3.1 Research Method

In this chapter, researcher will explain about methodology that is applied in this research. The methodology will be used in determining the sampling design, selecting respondent, research instrumentation and also measuring the validity and reliability of the data that had been collected.

Quantitative analysis method will be applied in this study. Burns and Grove (1993) define quantitative as a formal, objective, systematic process to describe and test relationships and examine cause and effect interactions among variables.

3.1.1 Time Frame

This research was conducted from June 19 to June 27, 2010 located in Bandung
3.2 Research Design

This section will explain the steps undertaken in this research. Starting with the problem statement, the researcher adapted Porter’s theory, quantitative method was employed to conduct this research and a questionnaire was designed to measure dominant factor related to main topic. Therefore, the researcher implemented the factor analysis method to find dominant factors.

Figure 3.1 Research Design

*Source: created by researcher*
3.3 Research Instruments

A questionnaire and interview were chosen by the researcher as data collection instrument. Questionnaire is a research instrument consisting of statements designed to obtain information from respondents. The information obtained through a questionnaire is similar to that obtained through interview, but the questions tend to have less depth (Burns & Grove 1993:368)

3.3.1 Questionnaire

According to Leary (1995), there are distinct advantages in using a questionnaire vs. an interview methodology: questionnaires are less expensive and easier to administer than personal interviews; they lend themselves to group administration; and, they allow confidentiality to be assured.

A Likert scale was chosen in this research since it is easier to process the data and relatively simple compared with another attitude scales. Although no previous research could be found on the specific use of the Likert scale in the textile garment and footwear studies, Likert scale has being used in several studies related with competitiveness, for example: Brummer H. et al (2005). In his study, each response was given numerical score from 5 (totally agree) to 1 (totally disagree) in order to measuring positive or negative response to a statements.

<table>
<thead>
<tr>
<th>Value</th>
<th>Likert Information</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Strongly Disagree</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Disagree</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Average</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Agree</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Strongly Agree</td>
<td></td>
</tr>
</tbody>
</table>

Adapted from Malhotra and Peterson (2002)

3.3.1.1 Pre-Test
Pre-test was conducted before the formal survey for preliminary item analyses. Fifteen chosen producers from TGF background were chosen to conduct the pre-test. A questionnaire was developed and pretested in the pilot survey.

a. Validity Testing

Validity testing in this study using correlation techniques that make the relationship between the statements and figures the total score. Pearson's correlation coefficient is used to check the validity of which is formed with significant value.

Correlation is calculated as follows:

\[
\text{Correlation} = \frac{n \sum XY - (\sum X)(\sum Y)}{\sqrt{n(\sum X^2)} - (\sum X)^2} \sqrt{n(\sum Y^2)} - (\sum Y)^2
\]

Figure 3.2 Correlation Formula


Where:

\( n \) = the number of paired observations

\( \sum X \) = the X variable summed

\( (\sum X^2) \) = the X variable squared and the squared summed

\( (\sum X)^2 \) = the X variable summed and the sum squared

\( \sum Y \) = the Y variable summed

\( (\sum Y^2) \) = the Y variable squared and the squared summed

\( (\sum Y)^2 \) = the Y variable summed and the sum squared

\( \sum XY \) = the sum of the products of X and Y
Table 3.2 r Table

<table>
<thead>
<tr>
<th>VAR</th>
<th>Corrected Item Total Correlation</th>
<th>Item- r Table</th>
<th>Remark</th>
<th>Components</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAR00001</td>
<td>0.345</td>
<td>0.514</td>
<td>Invalid</td>
<td>HR</td>
</tr>
<tr>
<td>VAR00002</td>
<td>0.431</td>
<td>0.514</td>
<td>Invalid</td>
<td>HR</td>
</tr>
<tr>
<td>VAR00003</td>
<td>0.635</td>
<td>0.514</td>
<td>Valid</td>
<td>HR</td>
</tr>
<tr>
<td>VAR00004</td>
<td>0.536</td>
<td>0.514</td>
<td>Valid</td>
<td>HR</td>
</tr>
<tr>
<td>VAR00005</td>
<td>0.495</td>
<td>0.514</td>
<td>Invalid</td>
<td>HR</td>
</tr>
<tr>
<td>VAR00006</td>
<td>0.127</td>
<td>0.514</td>
<td>Invalid</td>
<td>HR</td>
</tr>
<tr>
<td>VAR00007</td>
<td>0.693</td>
<td>0.514</td>
<td>Valid</td>
<td>HR</td>
</tr>
<tr>
<td>VAR00008</td>
<td>0.306</td>
<td>0.514</td>
<td>Invalid</td>
<td>HR</td>
</tr>
<tr>
<td>VAR00009</td>
<td>0.752</td>
<td>0.514</td>
<td>Valid</td>
<td>NR</td>
</tr>
<tr>
<td>VAR00010</td>
<td>0.597</td>
<td>0.514</td>
<td>Valid</td>
<td>NR</td>
</tr>
<tr>
<td>VAR00011</td>
<td>0.699</td>
<td>0.514</td>
<td>Valid</td>
<td>NR</td>
</tr>
<tr>
<td>VAR00012</td>
<td>0.735</td>
<td>0.514</td>
<td>Valid</td>
<td>NR</td>
</tr>
<tr>
<td>VAR00013</td>
<td>0.689</td>
<td>0.514</td>
<td>Valid</td>
<td>NR</td>
</tr>
<tr>
<td>VAR00014</td>
<td>0.666</td>
<td>0.514</td>
<td>Valid</td>
<td>NR</td>
</tr>
<tr>
<td>VAR00015</td>
<td>0.677</td>
<td>0.514</td>
<td>Valid</td>
<td>CR</td>
</tr>
<tr>
<td>VAR00016</td>
<td>0.721</td>
<td>0.514</td>
<td>Valid</td>
<td>CR</td>
</tr>
<tr>
<td>VAR00017</td>
<td>0.443</td>
<td>0.514</td>
<td>Invalid</td>
<td>CR</td>
</tr>
<tr>
<td>VAR00018</td>
<td>0.406</td>
<td>0.514</td>
<td>Invalid</td>
<td>CR</td>
</tr>
<tr>
<td>VAR00019</td>
<td>0.237</td>
<td>0.514</td>
<td>Invalid</td>
<td>CR</td>
</tr>
<tr>
<td>VAR00020</td>
<td>-0.218</td>
<td>0.514</td>
<td>Invalid</td>
<td>CR</td>
</tr>
<tr>
<td>VAR00021</td>
<td>0.596</td>
<td>0.514</td>
<td>Valid</td>
<td>CR</td>
</tr>
<tr>
<td>VAR00022</td>
<td>0.531</td>
<td>0.514</td>
<td>Valid</td>
<td>PI</td>
</tr>
<tr>
<td>VAR00023</td>
<td>0.426</td>
<td>0.514</td>
<td>Invalid</td>
<td>PI</td>
</tr>
<tr>
<td>VAR00024</td>
<td>0.720</td>
<td>0.514</td>
<td>Valid</td>
<td>PI</td>
</tr>
<tr>
<td>VAR00025</td>
<td>0.588</td>
<td>0.514</td>
<td>Valid</td>
<td>PI</td>
</tr>
<tr>
<td>VAR00026</td>
<td>0.250</td>
<td>0.514</td>
<td>Invalid</td>
<td>PI</td>
</tr>
<tr>
<td>VAR00027</td>
<td>0.299</td>
<td>0.514</td>
<td>Invalid</td>
<td>PI</td>
</tr>
</tbody>
</table>

Source: SPSS 17.0 created by researcher

Where:

HR = Human Resources

NR = Natural Resources

CR = Capital Resources
Reliability testing was done in order to find out the accuracy of the research instrument whether it was reliable or not. The researcher was using Cronbach’s Alpha method. The coefficient of Cronbach was based on consistency of the research instrument. The result generates a value between 0 and 1.

Coefficient which closed by 1 showing the research instrument is reliable and on the other hand, coefficient which closed by 0 indicated that the reliability of research is unlikely reliable. The researcher’s result of Cronbach’s Alpha test was .900 means that the coefficient showed a strong reliability of the research instrument used in this research.

To measure the reliability, the researcher used Cronbach Alpha formula, the formula is shown below:

$$\alpha = \frac{N \cdot \bar{r}}{1 + (N - 1) \cdot \bar{r}}$$

**Figure 3.3 Reliability Testing Formula**

*Source: jmbc.asm.org*

Where:

- $\alpha$ = instrument reliability’s coefficient
- $r$ = mean correlation coefficient
- $n$ = number of questions

**Table 3.3 Reliability Statistics**

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.900</td>
<td>27</td>
</tr>
</tbody>
</table>

*Source: SPSS 17.0 created by researcher*
Sarwono in his book “Bagaimana Menggunakan SPSS” stated that the minimum Cronbach alpha is 0.8, so that can be regarded as a reliable questionnaire. (Sarwono, 2006. P.219)

3.3.1.2 The Formal Survey

Fifty copies of the questionnaire were distributed to the garment, textile and footwear producers, the questionnaires were delivered either in person or by Email to those industries that spread in Bandung area. The completed responses were collected over the course of 15 days (2 weeks) in the same manner after the contact persons notified the researcher that the completed questionnaires were ready to be collected.

The questionnaire was having major revision after pre-test, from 27 variables; only 15 variables were valid and reliable. After about two weeks, with the assistance of aunt Erni and uncle Ambar, 44 questionnaires were collected around late June 2010. 3 questionnaires of the returned questionnaires were invalid due to missing background information. Therefore, the number of valid questionnaires was 41.

3.3.2 Data Analysis

Factor Analysis was used in processing the data in order to find out the dominant factors in preparedness of Indonesian garment, textile and footwear producers to compete against China in the ACFTA,

a. Organizing data
b. Transforming data
c. Factor Analysis implementation
d. Factor Analysis

The Statistical Package for Social Science (SPSS version 17) was used to analyze the data. First the ordinal data in Microsoft Excel was transformed into interval data by using Metode Successive Interval (MSI) created by Azuar, after that, the processed data was transferred to SPSS to record the scores in numerical form ready for analysis. SPSS was chosen due to the fact
that it is the most widely used statistical analysis package in the social science world (Pallant, 2001).

The data analysis in questionnaire has many different analyses due to the objectives of the research. They were as follow:

a. Section 1: Human Resource  
b. Section 2: Natural Resource  
c. Section 3: Capital Resource  
d. Section 4: Physical Infrastructure

3.4 Sampling Design

3.4.1 Sample Size

The study involved collecting data from a total sample of 50 GTF producers in Bandung. A sample size of 50 producers was regarded as representative of small and medium enterprises in Bandung considering the time available and the cost involved in the research. Thus, 50 sample sizes were chosen purposively by list that provided by Kementrian Usaha Kecil dan Menengah, from 50 samples, the researcher only gathered 41 valid data.

3.4.2 Sampling Method

Purposive sampling method is used in this study; the researcher chose this method because the objects of the study are the small and medium TGF enterprises in Bandung. Therefore, purposive sampling can bring more accurate results than by using other probability sampling techniques.

3.5 Source of Data

There are two types of data sources used by the researcher in this study, primary and secondary data. Primary data originally collected by the researcher using questionnaire and interview to address the main problem in this study, while the secondary data originally collected upon request to API (Asosiasi Pertekstilan Indonesia) and BPS (Badan Pusat Statistic).
The main consideration of using primary data in this study is because the researcher needs to specifically address the main problem in this study directly to Indonesian garment producers, whereas the secondary data is to address other purpose such supporting the study.

3.6 **Data Processing**

Factor Analysis is used in processing the data in order to find out the dominant factors in preparedness of Indonesian garment, textile and footwear producers to compete against China in the ACFTA.

Discovering simple pattern in the pattern of relationship among variables is the purpose of factor analysis method. Factor analysis method consists of latent and manifest variables, where:

a. **Latent variable**

   Latent Variable is a variable that are not directly observed but rather inferred from other variables that are observed and directly measured

b. **Manifest variable**

   Variable that is directly observed or measurable

3.6.1 **Processing steps**

The Statistical Package for Social Science (SPSS version 17) was used to analyze the data. First the ordinal data in Microsoft Excel was transformed into interval data by using Metode Successive Interval (MSI) created by Azuar, after that, the processed data was transferred to SPSS to record the scores in numerical form ready for analysis. SPSS was chosen due to the fact that it is the most widely used statistical analysis package in the social science world (Pallant, 2001).

a. **Organizing data**

   Organizing data that was collected through respondents was done within a table where the row lists are the variables and the column lists are the respondents

b. **Transforming data**

   The data that has been organizing in the first step was ordinal data that cannot be used directly into SPSS, because it only showed the data tendency, not the absolute value of
the variable. Metode Successive Interval (MSI) “Microsoft Office Excel programmed tool” created by Azuar Juliandi was used by the researcher to transform ordinal data to interval data.

c. Factor analysis implementation

1. Correlation Matrix

Correlation matrix was used to find the relationship degree between variables. Based on the computation, determinant value of correlation matrix was small; this value showed the strong correlation between manifest variables, it also means that the requirement of using analysis factor was fulfilled.

The researcher’s Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequancy (MSA) was .695, means that the sampling technique in this study can be applied in factor analysis.

Barlett’s Test of Sphericity is another method of determining the appropriateness of factor analysis and examines the entire correlation matrix. The researcher’s value of Barlett’s Test of Sphericity was 234.286, with significant level of .000, it showed that this correlation matrix was not identity matrix; identity matrix cannot be computed by factor analysis.

2. Factor Extraction

The next step was the extraction of manifest variables in order to form the latent variables. In this step, principle components were used to generate the final factor extraction statistic. By relying on the final statistic, are three components can be identified such: communality, eigen value and cumulated percentage of extracted factors. In determining how many latent variables that will be generated, criteria latent root (eigen value) was used, which means only factor that had eigen value more than 1 is considered as significant.
Furthermore, the communality of variable showed the variance proportion of the variable which can be explained by generated factors. Communality value’s range between 0 to 1, the bigger the communality value, the better it is because the variable became easier to explained by generated factors.

However, at this factor extraction step, some factors that are still difficult to be interpreted because there were too many manifest variables that had exceeding values in more than one factor. Therefore, rotated component matrix was needed to go on the next process.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Eigen Value</th>
<th>% of Variance</th>
<th>Cumulative (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Factor</td>
<td>3.812</td>
<td>29.324</td>
<td>29.324</td>
</tr>
<tr>
<td>2nd Factor</td>
<td>2.687</td>
<td>23.135</td>
<td>52.459</td>
</tr>
<tr>
<td>3rd Factor</td>
<td>1.413</td>
<td>12.041</td>
<td>64.500</td>
</tr>
</tbody>
</table>

Source: SPSS 17.0 created by researcher

3. Rotated Component Matrix

Rotated component matrix is used to get the simpler factor structure which will make the variables interpretation become easier. Interpretation of matrix factor stated from the extreme left side (factor 1), to the extreme right side (factor 3).

Moreover, in this research, orthogonal varimax was used in rotated component methodology. Orthogonal varimax used to rotate the beginning factor from extraction result, so that, at the end, it will create the rotated result where one column closer to zero. The rotated component matrix can be seen in table below:

<p>| Factor | Variable | Factor |</p>
<table>
<thead>
<tr>
<th>Rank</th>
<th>Value</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>V03</td>
<td>0.848</td>
</tr>
<tr>
<td>2nd</td>
<td>V08</td>
<td>0.900</td>
</tr>
<tr>
<td></td>
<td>V09</td>
<td>0.841</td>
</tr>
<tr>
<td></td>
<td>V07</td>
<td>0.815</td>
</tr>
<tr>
<td>3rd</td>
<td>V01</td>
<td>0.848</td>
</tr>
</tbody>
</table>

*Source: SPSS 17.0 created by researcher*

### 3.7 Research Limitation

There are some limitations in this research that must be addressed.

1. Sample size plays a significant role in this research, increasing the sample size will increase the probability of obtaining more accurate results.

2. Due to limitation of time, this research only limit to the factor (input) conditions. thus, complete research of Porter’s Cluster Framework might be more interesting

3. Lastly, since there is no similar study (ACFTA – garment industry), the researcher has found difficulties finding a source of reference and theories of similar study.
CHAPTER IV

ANALYSIS OF DATA AND INTERPRETATION OF RESULTS

4.1 Data Collection

The total amounts of respondents in this research are calculated as follows:

![Bar chart showing industry category distribution](image)

**Figure 4.1. Industry Category**

*Source Microsoft Excel, created by researcher*

50 Copies of questionnaire were spread to the small and medium textile, garment and footwear enterprises in Bandung area. From 50 questionnaires, the researcher only gathered 41 valid questionnaires from possible 44 questionnaires.

Moreover, from 41 respondents that respond researcher’s questionnaire, 13 of them were coming from textile industries, 19 from footwear and the rest of 9 respondents were coming from garment industries.
4.2 Research Variable

As mentioned in table 3.2, result of valid questions in chapter 3, the amount of valid variables after pre-test was fifteen. Each variable represent four main elements based on Porter’s theory in factor input condition.

Here the brief explanation of each variable in the questionnaire:

Table 4.1 Research Variables

<table>
<thead>
<tr>
<th>Factor</th>
<th>Variable</th>
<th>Explanation</th>
<th>Factor Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>V03</td>
<td>I believe regulations and wages are the main issues in implementation of ACFTA on Bandung TGF</td>
<td>.848</td>
</tr>
<tr>
<td>2nd</td>
<td>V08</td>
<td>I feel that the supplier of raw materials TGF production in Bandung is still limited because of the regulations</td>
<td>.900</td>
</tr>
<tr>
<td></td>
<td>V09</td>
<td>I feel that the supplier of raw materials TGF production in Bandung is still limited because of the infrastructure</td>
<td>.841</td>
</tr>
<tr>
<td></td>
<td>V07</td>
<td>I feel that the supplier of raw materials for TGF production in Bandung is still limited because of the logistical barriers</td>
<td>.815</td>
</tr>
<tr>
<td>3rd</td>
<td>V01</td>
<td>I believe that job-related training is the best way to improve productivity for TGF in Bandung</td>
<td>.848</td>
</tr>
</tbody>
</table>

Source Microsoft Excel, created by researcher
4.4 Interpretation of Result

Based on the calculation of the factor analysis, 15 variables that were analyzed can be extracted into 3 latent variables that affect the respondents. These 3 latent variables showed 64.5% of the total cumulative value, thus, there was 35.5% of variance that cannot be explained by 3 latent variables considered as an error.

![Factors Distribution](image)

**Figure 4.2 Contribution of Percentage of Variance**

*Source: Microsoft Excel, created by researcher*

**1st Factor**

The first factor with contribution of 29.32% of total variance; is the most influential factor in the implementation of ACFTA on small and medium TGF enterprises in Bandung. Variables are constructed as follows:

**Table 4.2 1st Factor**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Variable</th>
<th>Explanation</th>
<th>Factor Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Factor</td>
<td>V03</td>
<td>I believe regulations and wages are the main issues in implementation of</td>
<td>.848</td>
</tr>
</tbody>
</table>
ACFTA on Bandung TGF

Source: SPSS 17.0 created by researcher

The first factor consists only one variable which is V03 as the manifest variable. Variable that formed in the first factor came from human resource(s) under factor (input) conditions. The manifest variable is considered because the factor value of these variables is more than 0.6. Thus, it can be categorized as **Regulation of Labor Factor**.

Djankov (2008) in his study mentioned Botero et al (2004) as the first cross-country study on labor regulation that covers developing countries. It investigates the regulation of labor markets through employment, collective relations, and social security laws in 85 countries. The main finding is that heavier regulation of labor is associated with lower labor force participation and higher unemployment.

2nd Factor

The second factor with contribution of 23.14% of total variance; is the second most influential factor in the implementation of ACFTA on small and medium TGF enterprises in Bandung. Variables are constructed as follows:

**Table 4.3 2nd Factor**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Variable</th>
<th>Explanation</th>
<th>Factor Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2nd Factor</td>
<td>V08</td>
<td>I feel that the supplier of raw materials TGF production in Bandung is still limited because of the regulations</td>
<td>.900</td>
</tr>
<tr>
<td></td>
<td>V09</td>
<td>I feel that the supplier of raw materials TGF production in Bandung is still limited because of the infrastructure</td>
<td>.841</td>
</tr>
<tr>
<td></td>
<td>V07</td>
<td>I feel that the supplier of raw materials for TGF production in Bandung is still limited because of the logistical barriers</td>
<td>.815</td>
</tr>
</tbody>
</table>
The second factor consists of V08, V09 and V07 as the manifest variables. Variables that formed in the second factor came from same dimension in the factor (input) conditions, which is natural resource(s). The manifest variables are considered because the factor value of these variables is more than 0.6. Thus, it can be categorized as **Raw Material Handicap Factor**.

### 3rd Factor

The third factor has 12.04% of variance value, the third most influencing factor in the implementation of ACFTA on small and medium TGF enterprises in Bandung. Variables are constructed as follows:

#### Table 4.4 3rd Factor

<table>
<thead>
<tr>
<th>Factor</th>
<th>Variable</th>
<th>Explanation</th>
<th>Factor Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>3rd Factor</td>
<td>V01</td>
<td>I believe that job-related training is the best way to improve productivity for TGF in Bandung</td>
<td>.848</td>
</tr>
</tbody>
</table>

The third factor consist only one variable which is V01 as the manifest variable. Variable that formed in the third factor came from human resource(s) under factor (input) conditions. The manifest variable is considered because the factor value of these variables is more than 0.6. Thus, it can be categorized as **Human Resources and Development Factor**.

Sakamoto and Marchese (2005) in their study stated that workforce skills are a necessary precondition for the emergence of cluster. Further, the study highlighted the role of the state in skills upgrading for cluster development in providing basic skills and demand-driven vocational training.
CHAPTER V
CONCLUSION AND RECOMMENDATION

5.1 Conclusions

This research used cluster framework by Porter, specifically factor (input) conditions to solve the main problem; and it has yielded 3 new dominant factors that represent what are the main issues in the implementation of ACFTA on small and medium TGF enterprises in Bandung. Summary results of each factor will be explained as follow:

1st Factor (Regulation of Labor Factor)

The regulation of labor factor named as deputy of 1st factor because the variable in this factor derived from the human resource section in factor (input) conditions. As most dominant factor in the computation, law and regulation factor is the most underlined factor by 41 respondents. Those respondents thought that regulation set which including wages is the most important issue that should be considering by government.

2nd Factor (Raw Materials Handicap Factor)

Raw material handicap factor named as representative of 2nd factor because the three variables in this factor derived from the raw material section in factor (input) conditions. As second most dominant factor, it has been proved by the computation that those producers thought that government regulation regarding raw materials, raw materials infrastructure and distribution are the second main problem to be solved by government.
**3rd Factor (Human Resources and Development Factor)**

HRD Factor has been declared as the third most dominant factors which are considered as element of the garment manufacturers inhibiting the growth of garment industry in Bandung. Job training is needed to survive in the modern world of rapid change.

**5.2 Recommendation**

**5.2.2 Recommendation for Small and Medium TGF Enterprises in Bandung**

ACFTA success cannot be measured instantly; the ACFTA can help to bring the improvement in productivity and economic efficiency of ASEAN. Therefore, to survive the pressure from China, researcher recommends small and medium GTF enterprises in Bandung to look out 3 major dominant factors in this study.

a. 1st factor (Regulation of labor), this is the most dominant factor regarding the unpreparedness to implement ACFTA in Bandung. A labor dispute is one example that needs to address for, the researcher suggestion to the enterprises is to handle this problem seriously, socialize the regulation and make an attention to the wages especially do pay the salary on time.

b. 2nd factor (Raw materials handicap), the lack of raw materials caused by distribution and infrastructure should be taken care easily by Association of Bandung Leather and Textile. The association can address these problems to the government. Thus, the cooperation between local association and government should be fostered.

c. 3rd factor (Human Resources and Development), in order to compete in the ACFTA, Indonesian labor should have leverage over China-ASEAN countries in terms of quality of labor. Researcher suggestion is to conduct training effectively and efficiently.

**5.2.2 Recommendation for Researcher and Further Researcher**

Researcher gets many benefits through this research. Researcher gets deeper knowledge, experience and understanding about the competitiveness especially Indonesian garment industry
Regarding the future areas of research, after this study was performed several areas were identified as possible topics of future research:

1. Context for Firm strategy and Rivalry
2. Demand Conditions
3. Related and Supporting Industries
4. Other industries such as agriculture, mining or handicrafts

REFERENCES

Books

Anita, W. 2008, “Dominant Factors of Service Quality Satisfaction in PU according to foreign Students”


Ricardo, D. 1817, The Principles of Political Economy and Taxation, Rod Hay's Archive for the History of Economic Thought, McMaster University, Canada


**Journal**


Website


APPENDICES
Appendix 1: Questionnaire

Dear Sirs/Madame

This questionnaire is made as an instrument to figure out the 'dominant factor' in my thesis entitled “An Analysis of Dominant Factors of Small and Medium TGF (Textile, Garment and Footwear) Enterprises in Bandung in Relation to ACTFA (ASEAN-Chinese Free Trade Agreement) Implementation”. Please put a checkmark (√) in the column that best suited your choice.

Thank You for your cooperation

Salman Fathy S
PU Student
International Business Program

1 = Strongly Disagree
2 = Disagree
3 = Average
4 = Agree
5 = Strongly Agree
<table>
<thead>
<tr>
<th>No</th>
<th>STATEMENTS</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>1</td>
<td>I believe that job-related training is the best way to improve productivity for TGF in Bandung</td>
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<td>2</td>
<td>I feel that Indonesian labor in TGF Bandung is sufficiently skillful, creative and knowledgeable in what they do</td>
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<td>3</td>
<td>I believe regulations and wages are the main issues in implementation of ACFTA on Bandung TGF</td>
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<td>4</td>
<td>I believe raw materials for TGF production in Bandung are easy to procure</td>
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<tr>
<td>5</td>
<td>I believe TGF supporting materials for TGF production in Bandung are easy to procure</td>
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<td>6</td>
<td>I contend that the raw material for producing TGF products can be replaced with alternative material with similar qualities</td>
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<td>7</td>
<td>I feel that the supplier of raw materials for TGF production in Bandung is still limited because of the logistical barriers</td>
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<td>8</td>
<td>I feel that the supplier of raw materials TGF production in Bandung is still limited because of the regulations</td>
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<td>9</td>
<td>I feel that the supplier of raw materials TGF production in Bandung is still limited because of the infrastructure</td>
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<td>10</td>
<td>I feel that capital is the most important issues in development of TGF industry in Bandung</td>
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<td>11</td>
<td>I feel that a loan from Bank in Bandung is always the most reliable source of capital although it is considerably more expensive in pricing</td>
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<td>12</td>
<td>I contend that the regulations set by the government has provided security for foreign investors to invest in Bandung TGF Industry</td>
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<td>13</td>
<td>I feel that the logistics infrastructure from manufacturers</td>
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<td>14</td>
<td>I feel the TGF industry in Bandung has adequate production facilities</td>
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<td>15</td>
<td>I contend that the machines garment industry in Bandung are still feasible to produce</td>
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**ATTACHMENT**