IDENTIFICATION AND THE MEASUREMENT OF COMPETITIVENESS AND EXPORT DETERMINANT OF JAMBI PROVINCE, INDONESIA

Haryadi
Amril

ABSTRACT

The objectives of this study are: (1) to identify products that have a comparative advantage in Jambi Province; (2) to analyze the changes in the export orientation of Jambi Province based on the country of destination; (3) to analyze the changes in the orientation of Jambi Province imports based on country of origin; (3) to determine the superior products of Jambi Province which are competitive and have the opportunity to be exported by Jambi province; (4) to analyze the factors that influence the export of superior products. Revalead Comparative Advantage (RCA), Constant Market Share (CMS), and Regression Models (ECM) have been used as tools in the analysis. Based on the results of calculations, there are 5 (five) commodities that have an RCA value greater than Vegetable Oil, Rubber, Plywood, Paper, and fuel oil. Excellence The results of the study also showed that based on CMS calculations, the growth of the main commodity exports of Jambi Province to the world in the 2011-2015 period was more influenced by the influence of commodity composition. While the effects of growth and competitiveness effects do not have a significant effect on the growth of key commodity exports in Jambi Province. Partially, the two variables, namely the exchange rate and government policy are not significant to Jambi Province's exports. The results showed that there were two independent variables that caused Jambi province exports to rise, namely export prices and imports of raw materials. Based on these results, we conclude that although there are superior commodities, the export of these commodities still depends on the stability of the rupiah exchange rate and the growth of the GDP of Jambi Province.

Keywords: Competitiveness, Revealed Comprative Advantage, Constant Market Share, Effect of Competitiveness, and Regression Model

1. INTRODUCTION

The relationship between exports and economic growth is an interesting topic and is often debated by experts; Vijayasri (2013); Kalaitzi & Emmanuel (2017); Olarreaga and Trachsel (2015), and Olivia and Jang (2015). Although in a macroeconomic perspective, the relationship is actually an identity equation (Athanasia, 2015 and 2018), however, in the perspective of economic development, the relationship between exports and economic growth is an interesting case to be discussed. Based on this view, the relationship between exports and economic growth is not only equality of identity, but also focuses on the problem of its ability to create prosperity for people in both the country and regional contexts (Zahra and Islam, 2019).

In relation to the problems above, Jung and Marshall (1985) and Aji (2016) suggested that there are at least four hypotheses in the context of the relationship between exports and economic growth. First, the export hypothesis as a driving force for economic growth (export-led growth hypothesis). Second, export hypothesis is the cause of economic decline (export-reducing growth hypothesis). Third, the hypothesis which states that exports are not a driving force for domestic economic growth, but on the contrary, domestic economic growth is a driver for exports (Internally generated export hypothesis), and the fourth is a hypothesis that states that economic growth is a factor causing the decline export (growth-reducing export hypothesis). All four hypotheses have good reasons. Aside from differences of opinion, regarding export and economic growth, about all countries, including the regions, are always trying to increase their exports. Through the enhancement of exports, is expected to be an increase in foreign exchange will ultimately be used to finance development. In addition, exports are usually done because the domestic market is not able to accommodate all production or in other words the occurrence of excess supply. This condition can lead the government to always push the exports (Bakari and Mohammed, 2016 and 2017).

Apart from differences of opinion regarding export relations and economic growth, almost all countries including regions always try to increase their exports (Eren and Ayse (2019) and (Emrah and Turhan, 2019). Through the increase in exports, it is expected that an increase in foreign exchange will ultimately be used to finance development. Besides that, exports can be done because the domestic market is not able to accommodate all production results or in other words the occurrence of excess bids. This condition then causes the government to always encourage exports.

The role of exports in a region, including in contexts of provinces, is also quite significant. As a proof, it is shown by the role of exports in the province of Jambi, Indonesia. Jambi Province is one of quite large exports contributor for a number of commodities. The contribution of the Jambi province's exports to the GDP is also quite significant. Until now, Jambi province exports are still aimed at traditional (old) markets such as Singapore, Japan, Europe, and America. However, due to the implementation of free trade between ASEAN and many East Asian countries (China, Japan, and South Korea), the purpose of Jambi province's export is also expected to change. The implementation of free trade on the one side, does open up export opportunities, but at the same time, high competition can potentially become a threat ((Amir et.al, (2014); Munadi (2015); . Therefore, it is necessary to formulate a strategy to increase the export of Jambi province both in existing markets and in new markets. To get a more comprehensive strategy, it needs a thorough study, to identify products that have a comparative advantage. The objectives of this study are as follows: (1) to identify products that have a comparative and competitive advantage in Jambi Province; (2) to analyze the factors that influence the export of leading products.

2. LITERATURE REVIEW

In the development of a globalized world economy, the current flow of goods and services trade are more freely between countries. Each country will strive to obtain the benefits of these developments (Salvatore, 2000). The countries that are unable to compete will be eliminated from the tight trade arena.

The theory of international trade begins with the mercantilist concept that considers the economic growth of a country as a result of spending from other countries. Mercantilism emphasizes maintaining higher export access than imports so that the trade balance is always in a surplus. An increase in surplus reflects the wealth and power of a country. Adam Smith criticized this concept and put forward the theory of absolute advantage. According to Smith, a country would enjoy a trade if the State that specialize in products that has an absolute advantage. Adam Smith's theory marks the emergence of the classical theory in international trade (Haryadi, 2013).

This theory was later developed by J.S Mill. The theory of international trade that stated earlier still has limitations because the basis of international exchange is one on one. According to Mill, international trade can still take place if the basis of international exchange is located between the exchange rates of each country. The three theories mentioned earlier are known as classical theories which assume the only factor of production is the labor.

2.1.1. Export Supply Theory

International trade can be interpreted as a relationship of economic cooperation carried out by a country that is stu with other countries relating to goods and services needed to bring prosperity to a country. International trade is the relationship between economic activities between countries which is realized by the process of moving goods and services on a voluntary and profitable basis. Haryadi (2013) explained that the principle of supply in international trade still applies where the exporter will always offer a country's product whose price is relatively higher than the domestic price (ElAlaoui, 2015).

In reality, it can happen that exporters do not follow the law of supply, this is due to:
1. On a horizontal supply curve, exporters will increase / decrease exports even though prices are fixed
2. The export offer does not change even though the price of the offer changes (the case of a vertical supply curve)
3. Exporters / producers will reduce exports even though the price of exports rises, this happens if the products sold are highly needed domestically (the case of a demand curve with a negative slope).

Export is one source of foreign exchange. To be able to export the country must be able to produce goods and services that are able to compete in the international market. Export is one component or part of aggregate expenditure (Chokri, 2018). The more quantities of goods that can be exported, the greater the aggregate expenditure and the higher the national income of the country concerned.

If a country will trade with other countries (exports and imports) then there are several factors that must be considered. One that is valued is the price of the goods to be offered. Supply theory explains the attribute of the relationship between the price of goods and the amount of goods offered. "The higher the price of a product, the more offers will be for the goods, conversely the lower the price of an item, the lower the supply will be (cateris peribus)".

2.1.2. Revalead Comparative Advantage Theory (RCA)

Revalead Comparative Advantage (RCA) is a method for measuring comparative advantage in an area (country, province, etc.). The RCA method is based on the concept that trade between regions / countries actually shows the comparative advantage possessed by a region. The measured variable is the export performance of a product to the total exports of an area which is then compared to the share of product value at the above level.

2.1.3. Constant Market Share Theory (CMS)

Building export competitiveness is a long, expensive, and risky process, because it requires large investments in research and development, sophisticated technology, high-quality infrastructure and close interaction between companies and research institutions (Zhang, 2015). The Constant Market Share (CMS) approach is used to measure the dynamics of the industry's competitiveness. The use of this approach is based on the understanding that a region's export growth rate can be smaller, equal, or higher than the world average export growth rate. So in the CMS analysis, a country's export growth rate that is slow or high compared to the standard growth rate (world average) is broken down into three factors, namely the composition of export commodities, import growth and competitiveness.

Import growth effect :

$$mX_{ijk}^{1} \quad \text{..} \quad (2.1)$$

where;
m = The percentage of general enhancement imports in country k
X_{ijk}^{1} = The export of commodity i from country j to country k year (t-1)

The effects of the composition of export commodities:

$$\{(m_i - m)X_{ijk}^{1}\} \quad \text{...} \quad (2.2)$$

Where;
m = The percentage of general enhancement imports in country j
mi = The percentage of enhancement in imports comodity i in country k
X_{ijk}^{1} = The export of commodity i from country j to country k year (t-1)

The Effect of Competitiveness:

$$\{X_{ij}^2 - X_{ij}^1 - m_i\, X_{ijk}^1\} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad (2.3)$$

where;

m_i = The percentage of enhancement in imports comodity i in country j

X_{ijk}^1 = The export of commodity i exports from country j to country k year (t-1)

X_{ijk}^2 = The Commodity i exports from country j to country k year (t)

2.1.4. Theoretical Concepts of Correction Mechanism (ECM)

Multiple Linier Regression Analysis

Multiple linear regression analysis is a linear relationship between two or more independent variables (X1, X2, ... Xn) with the dependent variable (Y). This analysis is to determine the direction of the relationship between the independent variable with the dependent variable whether each independent variable is positively or negatively related and to predict the value of the dependent variable if the value of the independent variable has increased or decreased. The data used is usually interval or ratio scale.

The multiple linear regression equation is as follows:

Y '= a + b1X1 + b2X2 + ... + bnXn

Information:

Y '= dependent variable (predicted value)

X1 and X2 = Independent variables

a = Constant (value Y 'if X1, X2 ... Xn = 0)

b = Regression coefficient (increase or decrease value)

3. RESEARCH METHOD

3.1 Data Analysis Methods

Data analysis methods that used are descriptive and quantitative methods. Descriptive method is used to analyze the development of the data used in this study. The quantitative method with the Revealed Comparative Advantage (RCA) approach is used to analyze the leading export level of Jambi province. Then the Constant Market Share (CMS) approach is used to estimate the determinants that affect the growth of the leading exports. While the quantitative method that used to analyze the factors affecting the export of leading products in Jambi province is the ECM approach.

3.2 Model Specifications

3.2.1 Revalead Comparative Advantage (RCA)

Indonesia's position in US trade can be determined by the RCA method. This method is based on the concept that trade between regions shows the comparative advantage of a country (Laursen , 2015). The measured variable is the performance of exports to abroad by calculating the share of export value to the total exports of Jambi to abroad which is compared with the share of the value of Indonesia's exports to abroad.

The RCA formula is as follows:

$$RCA = \frac{X_{ij}/X_{it}}{W_j/W_t} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad (3.1)$$

where :

Xij = export value of commodity i from Jambi province

Xit = total export value (commodity i and others) from Jambi province

Wj = Value of Indonesian exports of commodities i

Wt = Value of total Indonesian exports

The RCA index ranges from zero to infinity. RCA index value equal to one means that there is no increase in RCA or the export performance of Jambi province in the world market is now the same as last year (Laursen, 2015).

3.2.2 Constant Market Share (CMS)

This study also uses the constant market share method (Constant Market Share) to determine the determinants that affect Jambi export growth in the world market. The measured variable is the expansion effect (demand side) which is divided into two, namely the macro share effect (import growth) and micro share effect (commodity composition effect) then the competition effect or competitiveness effect (supply side). The formula is as follows:

$$X_{ij}^2 - X_{ij}^1 = mX_{ij}^1 + \{(m_i - m)X_{ij}^1\} + \{X_{ij}^2 - X_{ij}^1 - m_i X_{ij}^1\} \ldots\ldots \quad (3.2)$$

$$(1) \quad (2) \quad (3)$$

where:

X_{ij}^1	= Jambi's Exports to the World in year (t-1)
X_{ij}^2	= Indonesian exports to the world year (t)
m	= The percentage of enhancement world general imports
mi	= The percentage of enhancement leading product imports of Jambi's export in the world
(1)	= The effect of import growth;
(2)	= Composition effect;
(3)	= Competitiveness effect

$$Xs = f(Px, DP, M_{raw}, EP) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3.3)$$

3.2.3 Regression Model

To find out the determinant of export of Jambi province's to the world market, a regression model is used. The data will first be formulated in the form of natural logarithms (Ln). The goal is that the variant of the data is not too wide so the decision to form data in Ln aims to get better regression results. It can be systematically formulated as follows:

$$Xs = f(Px, RER, DP, Mraw, GP) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3.4)$$

where :

Xs	= Export Volume
Px	= export Prince
RER	= Real Exchange Rate
DP	= The number of Jambi production
Mraw	= Import of raw materials
GP	= Government policies related to Sports

4. RESULTS AND DISCUSSION

4.1 Determination of Competitive Products

4.1.1 Revalead Comparative Advantages (RCA)

Overall, there are more than twenty export commodities in Jambi province. However, based on the ranking, there are eight export commodities that are relatively prominent. These eight commodities are calculated their RCA value. Based on the calculation results, there are 5 (five) commodities that have an RCA value of more than 1, namely Plywood Paper, Fuel- Oil and Vegetable Oil, Paper, and Fuel Oil, meaning that apart from the 5 (five) commodities, there are no commodities that have competitiveness.

Table 4.1 RCA Value of Main Commodities in Jambi Province

	2011	2012	2013	2014	2015	
RCA Ikan dan Udang	0	0	0,100087642	0	0,000094586	Uncompetitive
RCA Kopi	0,013892717	0,014381127	0,01299279	0	0	Uncompetitive
RCA Vegeetabel Oil	1,293,006,962	0,938359653	0,452671962	0,978751287	1,608,241,193	Competitive
RCA Rubber	9,202,944,427	1,758,270,628	487,551,421	7,826,679,379	8,435,566,888	Competitive
RCA Plywoods	0,64583074	0,845315381	0,553998664	0,836508905	1,419,507,695	Competitive
RCA Paper	2,693,961,736	3,611,208,784	3,774,308,407	5,118,558,812	7,687,643,703	Competitive
RCA Fuel Oil	3,144,611,162	6,127,394,124	326,899,069	9,819,454,346	1,863,463,213	Competitive

Coal RCA 0.477322995 0.587436059 0.252148964 0.39603698 0.382726701 Not Competitive

In 2011, the RCA value of more than 1 was Vegetable Oil (1.29); Rubber (9,20); Paper (2.69); and Oil Raw Materials (3.13) so that these commodities have competitiveness, while the rest have no competitiveness or low competitiveness. This is because the RCA value is below 1, namely Fish and Shrimp, and Coffee.

4.1.2 Constant Market Share (CMS)

The results of the CMS calculation can be seen in Table 4.2. Based on this table, it can be noted that in the 2011-2012 period the export performance of Jambi Province's Commodity has increased, this is reflected of enhancement the value of the leading commodity exports in Jambi Province worth US $ 818,319 thousand (44.35 percent). It turned out that the increase in the value of exports of these leading commodities was more due to an increase in the effect of the export composition valued at US $ 319,624,445.6 thousand. However, the effect of competitiveness and the effect of the growth of leading commodities in Jambi Province declined by US $ 299,366,087.1 thousand and US $ 22,328,286.24 thousand.

Table 4.2 Import Growth Effects, Commodity Composition Effects, and Export Commodity Competitiveness Effects of Jambi Province

Year	Import Growth Effects (in Thousand US$)	Commodity Composition Effects (in Thousand US$)	Competitiveness Effects (in Thousand US$)	The Export Growth (%)	
				(Thousand US$)	(%)
2011-2012	-22328286,24	319624445,6	-299366087,1	818319,31	44 , 35
2012-2013	-18230921,8	260971586,1	-244403347,5	-955070	-35,86
2013-2014	-14198982,72	203255275,9	-190317457,2	-632224	-37
2014-2015	-18113794,4	259294933,4	-242864152,7	-102315	-9 , 51
Rata-rata	**-18217996,29**	**260786560,3**	**-244237761,1**	**-217822,42**	**-9,51**

Source: Central Bureau of Statistics

Then in the 2012-2013 period, the performance of leading commodities in Jambi Province declined. It can be seen from the value of exports that decreased by US $ 955,070 thousand (35.86 percent). Although the commodity composition effect increased by US $ 260,971,586.1 thousand, the effect of import growth and competitiveness also decreased by US $ 1,230,921.8 thousand and US $ 244,403,347.5 thousand.

5. Analysis of Factors Affecting the Export of Jambi Provnce

To answer the question regarding the factors affecting the determinant of exports of Jambi province, Regression model has been used as the tool of analysis. Simulation results show that overall the independent variables significantly influence the dependent variable. This indication is shown by the probability value (F statistic) is 0.000002. This means that statistically, overall the independent variables have a significant effect on the dependent variable at significant level 100 percent.

Partially, the two variables, the exchange rate and government policy did not significantly influence the Jambi province's export supply. Two independent variables that affect Jambi province exports are the price of exports and imports of raw materials. This fact is shown by the probability value of the exchange rate of 0.96 and the probability value of government policy of 0.56. This means that Jambi exporters do not make the exchange rate and government policies as factors causing the increase or decrease of Jambi province's exports.

Result Regression
Dependent Variable: LOGXS
Method: Least Squares
Date: 10/01/20   Time: 19:24
Sample: 2002 2019
Included observations: 18

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13.03767	1.340613	9.725159	0.0000
PX	1.49E-09	4.38E-10	3.399850	0.0068
MRAW	2.11E-07	3.29E-08	6.397006	0.0001
RER	6.33E-06	0.000158	0.040125	0.9688
EP	-0.214699	0.362483	-0.592301	0.5668

R-squared	0.951471	Mean dependent var		15.57851
Adjusted R-squared	0.932059	S.D. dependent var		2.332135
S.E. of regression	0.607882	Akaike info criterion		2.103529
Sum squared resid	3.695202	Schwarz criterion		2.339545
Log likelihood	-10.77647	Hannan-Quinn criter.		2.101015
F-statistic	49.01542	Durbin-Watson stat		1.723250
Prob(F-statistic)	0.000002			

Based on the simulation results, the two variables that affect the total exports of Jambi province are imports of raw materials and export prices. Two other variables included in the model, namely foreign exchange rates and government policies, have no effect on exports. The simulation results show that the coefficient value for the import of raw materials is 0.000007. This means that if imports of raw materials are increased by 1 percent, exports will increase by 0.000007 percent. This figure shows that although the effect of imports of raw materials is significant on exports, the percentage impact is very small. The effect of importing raw materials is included as an independent variable with the consideration that there are allegations that most export commodities also contain imported components. The simulation results prove that the effect of raw material imports on the Jambi province's exports is relatively small.

The simulation results show that the two factors that influence rubber exports are the exchange rate of the rupiah and and the GRDP. Based on the simulation results, the coefficient value for the exchange rate variable is minus 0.000239. This figure shows that if the rupiah exchange rate strengthens by 1 percent, the Jambi province's rubber exports will decrease by 0,000239 percent. This figure, although relatively small in percentage, is significant enough to affect Jambi Province's rubber exports. Meanwhile, GRDP has a positive effect on rubber exports. This means that if the GRDP rises, there will be encouragement from exporters to increase exports. The coefficient value for GRDP variable is 0.000229. This means that if the GRDP increases by 1 percent, rubber exports will increase by 0.0002 percent.

The results of the regression simulation conducted to see the determinants of vegetable oil exports showed that there was only one variable that had a significant effect, namely the GRDP, while the other variables, namely the foreign exchange rate and government policy, had no significant effect, based on the simulation results, the coefficient value of the GRDP variable was 0,000301. This means that an increase in GDP of 0.03 percent means that an increase of 1 percent will encourage an increase in vegetable oil exports by 0.03 percent. The results of this simulation indicate that the GRDP is a determining factor for an increase in palm oil production which in turn increases vegetable oil production so that the volume of exports increases.

The simulation results also show that all the variables both the foreign exchange rates of the GRDP and the government policy have a significant effect on plywood exports, the value of the foreign exchange coefficient is 0.000267. This means that an increase in the foreign exchange rate will increase plywood exports by 0.02%. Of the three variables included in the plywood determinant simulation, government policy is one of the most decisive factors.

This fact is shown by the government policy variable which has a negative sign, this means that in line with the government policy which tightens export permit for plywood so that both the value and volume of plywood decrease. Simulation results for paper exports also have a relatively similar typical of plywood exports except for foreign exchange rates (in paper exports are not significant). Regression results for fuel oil show that there is no significant effect of the GRDP variable on the export of fuel oil, a factor which is considered quite influential in addition to foreign exchange is government policy.

V.CONCLUSION AND POLICY IMPLICATION

5.1. Conclusion
1. Based on the results of the calculation, there are 5 (five) commodities that have an RCA value greater than that of Vegetable Oil, Rubber, Plywood, Paper, and BBM.
2. Based on the results of CMS calculations, the growth of exports of Jambi Province's leading commodity to the world in the 2011-2015 period is more influenced by the effect of commodity composition. While the effect of import growth and the effect of competitiveness lacked a significant influence on the growth of leading commodity exports in Jambi Province.
3. Partially, the two variables namely the exchange rate and government policy do not significantly influence the Jambi province's export supply. Two free variables that affect Jambi province exports are the price of exports and imports of raw materials
4. The simulation results show that the two factors that influence rubber exports are the rupiah exchange rate and and the GRDP. For vegetable oil exports, there is only one variable that has a significant effect, namely GRDP, while other variables, namely foreign exchange rates and government policies, do not have significant effect. plywood. Simulation results for paper exports also have a relatively similar typical of plywood exports except for foreign exchange rates (in paper exports are not significant). Regression results for BBM show that there is no significant effect of the GRDP variable on fuel exports. A factor considered to be quite influential in addition to foreign exchange is government policy.

5.2. Policy Implications
1. Vegetable Oil, Plywood, Paper, BBM and coal are competing commodities, this is not surprising because these commodities are the mainstay commodities of the Jambi province, and for the next year other commodities which have competitiveness must be developed.
2. Increasing the Value Added from FFB into vegetable oil should be a concern of the local government, considering that Jambi Province still relies on the FFB commodity as the most dominant commodity in Jambi Province

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Haryadi
Professor in International Economics.
Department of Economics,
Faculty of Economics and Business University of Jambi, Indonesia.
E-mail:haryadi_kamal@yahoo.com

Amril
Lecturer,
The Faculty of Economics and Business Department of Economics,
Faculty of Economics and Business
University of Jambi, Indonesia