

## THE EFFECT OF INDONESIAN TRADER'S BARGAINING POSITION ON SHIPPING EFFICIENCY IN INTERNATIONAL TRADE; BETWEEN CIF AND FOB

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**Abstract.** This study aims to analyze the effect of bargaining position and level of trader's understanding within international trade for providing value-added of the goods. The bargaining power in the process of trade negotiation is a key for optimizing the trader's ability to make more efficient goods delivery. The bargaining power could be found in a trader who particularly has a good level of understanding the term of the trade and the world market analysis. This research was conducted using qualitative method with descriptive analysis. Data collection was carried out by conducting in-depth interview with a semi-structured interview of the experienced source in the scope of international trade. The data analysis technique was an approach developed by Miles and Huberman which includes data reduction, data separation and others after finishing data collection. The data were stated in a pattern or theme. The result of this study shows that good trader's understanding level could be a bargaining power to affect the negotiation process in achieving more efficient and profitable level of shipping goods.

**Keywords:** Bargaining Position, CIF and FOB, Shipping Efficiency, Incoterm 2020

### Introduction

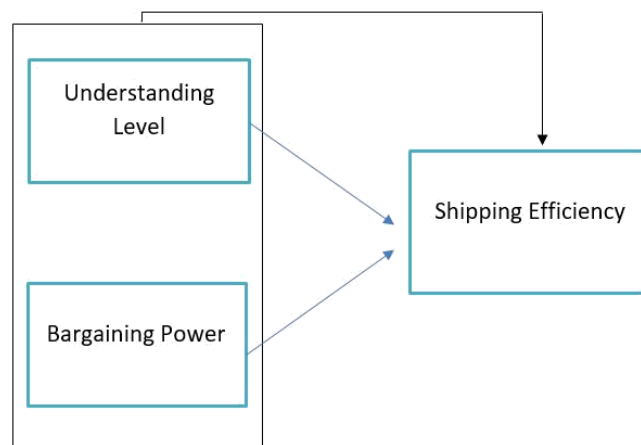
Efficiency in shipping goods becomes vital in the working process. It shows how a trader should act. Until now, import and export activities are increasing that 80% of the world shipments are shipped by sea transport (Lee & Song, 2017). In this situation, a trader has a great opportunity as a player in the world trade (Caprice & Rey, 2015). A trader should be able to understand real situation and condition. Therefore, efficiency is emphasized in all sectors especially in the shipping business sector. The level of efficiency is a test for traders in optimizing their abilities. However, not all traders are able to optimize their abilities so it becomes a loss of potential in shipping cost efficiency (Fredriksson & Rappestad, 2016).

The selection of the right trading term is the main key of the decision-making for the price of goods in order to get more competitive price (Tang & Abosedra, 2019). Traders face the hard situation about how traders should be in a profitable position. In a bargaining position, the traders as the owner of the goods must understand well about the risks, rights, obligations and responsibilities (United Nations, 2017). It possibly happens that traders are not aware of the rules that are practically different from other countries regarding to the risks, rights, duties and responsibilities. The Institute Chamber of Commerce or ICC stated that Incoterm 2020 is the main reference of the international trade (ICC, 2020). Therefore, the import export activity refers to the Incoterm 2020 that was issued by the ICC. At this point, not all traders understand the meaning of Incoterm 2020 so they do not have strong bargaining power if they are compared to the traders who have better understanding about Incoterm 2020 (Feltovich, 2019). Even more, *Baltic and International Maritime Council* or BIMCO recommended that a charter party (C/P) for guidance between ship owners and traders as charterers so they can negotiate well (Cho, Ke & Han, 2019). Therefore, traders keep learning and increasing the experience level in international trade activities. When traders become an exporter, they give the shipping control to the importer or vice versa. Even in certain situations, shipping control is the best opportunity for traders. Though, it could be a boomerang or a loss for traders (Yaakub, Szu, Arbak, & Halim, 2018). Another challenge for traders in increasing cost estimation and prediction in transportation logistics is either benefit or loss which is connected to the term of trade in the bargaining process (Dür, 2015).

In the world of a passionate shipping business, there is an interesting philosophy “where there is a ship, there is a trade and vice versa (Balci, Cetin, & Tanyeri, 2018). This philosophy is very identical with the term of trade which has become popular between exporters and importers; CIF and FOB (Sundari & Supardi, 2015). Both show a party who has more control over freight, charter negotiation, insurance and directions for shipping documents. CIF and FOB are be very vital for the ship owner because they question who the command or controller of shipment is (Asanwana & Efombruh, 2018). Therefore, this component could be a great opportunity for traders to see the opportunity and threat (Huang, Tu, Chao, & Jin, 2019). Indonesian traders are facing a challenge to choose CIF or FOB in a negotiation. Most Indonesian traders choose CIF for importing and FOB for exporting so that shipping control of foreign trading will be larger. They will be the key to reach an opportunity in creating an efficiency.

The shipping efficiency could be measured with traders’ negotiation of costs, risks and responsibilities. The traders who provide Logistics Service Provider are serving shipping arrangement that is expected to offer reasonable price with excellent quality to customers (De Marco, Cagliano, Mangano & Perfetti, 2014). The basic things for a trader or Logistics Service Provider in offering competitive price with excellent quality are a good understanding level and a precise calculation on the analysis of the international trade because most of the problems happen in the process of shipping goods from one country to another country.

**Figure 1**



Previous researchers studied the quality of trader services as a Freight Forwarder. On the other side, time duration, capacity, reliability, and flexibility are the second indicators after service quality (Hirata, 2019). In business, Freight Forwarder as a Logistics Service Provider who provides capabilities of good shipment handling, lower prices, cargo space and on-time delivery are important factors in finding an efficiency (Msakni, Fagerholt, Meisel, & Lindstad, 2020). Some literatures discussed that the Freight Forwarder as a Logistics Service Provider must provide an explanation and advice regarding to the selection of Incoterms 2020 and Charter Party that make customers or cargo owners understand about scope of risk and responsibility (Plomaritou, 2014). In this case, the Freight Forwarder acts as the owner of the cargo that arranges the shipment based on the deal.

### **Method**

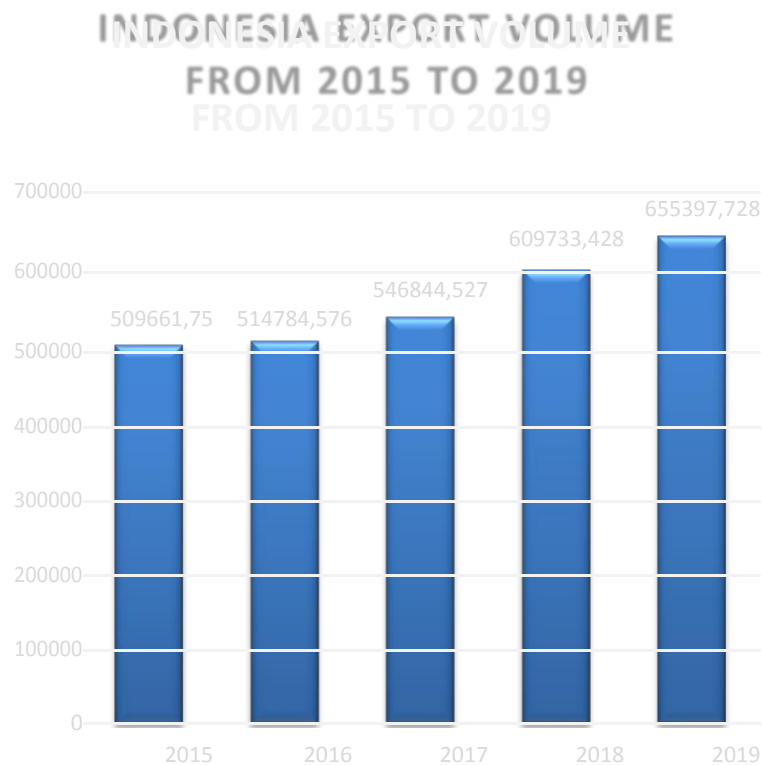
This study used a qualitative method with descriptive analysis in which the primary data was collected by conducting in-depth interview with a semi-structured interview focused on stakeholder views from their business perspective about term of trade between CIF and FOB. The aim is that researcher is able to get more information about how a trader deal in the real situation of

international trade. Therefore, the researcher conducted in-depth interview focused on their business perspective which become actor in international trade such as in the field of business, commercial company, shipping and carrier. Specifically, the most important sources were part of the business in a fourth-party logistics company, Freight Forwarding business, shipping business and major business consultants in Indonesia. Then, the researchers also took secondary data from the current sources for this study. After finishing the data collection, the data was processed using Miles and Hubberman approach as data analysis technique. The data revealed pattern or theme (Rahmat Hidayat, Firdaus, Lesmini, & Purwoko, 2018). The last process was the researchers' conclusion based on the patterns and themes. The conclusion was taken continuously while the data was being reduced and displayed (Miles, Huberman, & Saldaña, 2013).

**Discussion and Result**

The discussion about shipping is not only about ships from port to port. It discusses global trade because of the shipping role for 80% of the goods movement in the world including Indonesia (Rahmatdin, Rahman, & Othman, 2017). Indonesia is ranked 43<sup>rd</sup> in the logistics service index (LPI, 2018). This rating is based on the amount of logistics costs in a country for the internal and external shipment. Therefore, Indonesian traders must optimize their ability to reduce the cost of shipping goods.

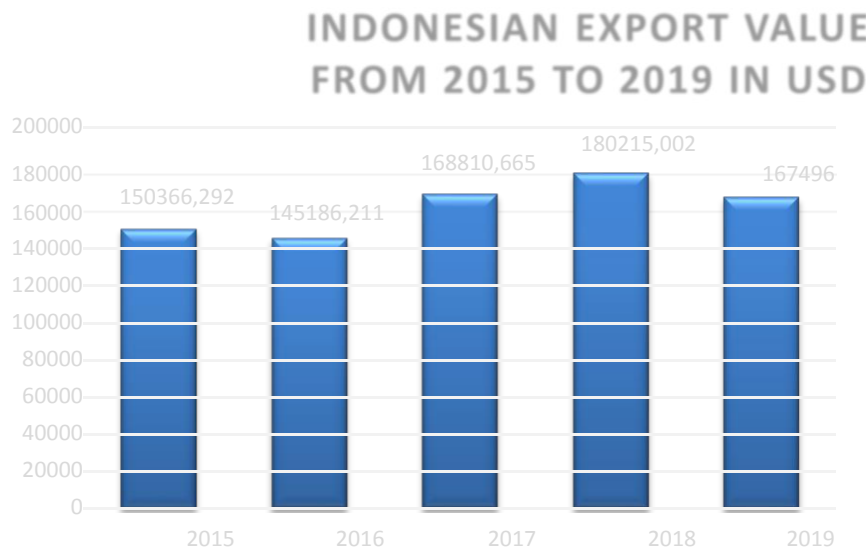
**Table 1**



*Source: Indonesian Supply Chain*

Indonesia's export volume has increased from year to year. In table 1, there are non-oil, oil and gas commodities. It is about 7% of oil and gas. It is also about 93% of non-oil that are exported to several countries in the world. It would be a good news if the export volume were high.

**Table 2**



*Source: Indonesian Supply Chain*

Next, this Indonesian export value is calculated based on FOB value in which Indonesian exporters just sell based on the goods value. Based on table 1 which significantly increases, there is a gap on table 2 where there is a decline in the value of exports both 2016 and 2019. This is different from table 1 where the graph trend always increases. Looking at the transportation side, the commodity is transported by ship which is controlled by the foreign importers so that the Indonesian exporters only sell the value of goods. Freight, insurance and other shipping costs are handled by the foreign importers in which the Indonesian exporters should be able to take advantage of those transportation costs.

**A. Understanding Level of the Term of Trade**

In international trade, the important things that should be understood by exporters and importers are how to understand the shipping method and payment after negotiating with a seller and buyer sales contract . The two most popular methods are CIF (Cost, Insurance and Freight) and FOB (Free on Board) which are regulated in the International Commercial Terminology 2020 or Incoterm 2020. Both concepts refer to the term of trade or trading terms that have different responsibilities and risks. These responsibilities and risks are written in an agreement clause. The differences in scope between CIF and FOB are vital for traders in conducting bargaining processes.

Traders must understand Incoterm 2020 and shipping term so they know the risks, obligations and responsibilities in order to be able to calculate the basics for business costs soon. Triggering in understanding is a must. Even though all traders in Indonesia cannot be generalized, the misunderstanding spot of Indonesian trader is that profits taken from the goods value. For example, Indonesian traders sell a commodity using FOB, which is

considered a simple thing because they do not need to worry about extra costs in shipping. Actually, it does not challenge the traders because traders can actually take more advantageous way than only the goods value if traders understand shipping fully. Freight and insurance could be an opportunity for traders to maximize their ability to gain profit. Based on this point, traders should be able to calculate the quantity and quality of goods as the basic calculation for freight and insurance. Later, they should continue to improve skills in logistics handling and good market analysis which hopefully will trigger smart human resources in the scope of shipping (Scarlet, 2017). If the traders as an exporter and Logistics Service Provider were able to estimate business calculation and ready for handling shipment, CIF or CNF would be a good option because there are parts of freight and insurance that can be done in CIF. Moreover, some companies should push their shipping staff's skills. The aim is that they can optimally monitor the company's advantage of goods value or trading value and freight which not all traders understand to analyze them well.

## B. Bargaining Power

The definition of CIF and FOB is not only related to ship but also the art of negotiation which will produce strong negotiation with good understanding. A skilled trader is able to calculate the profitable situation between CIF and FOB. The concept of bargaining power in international trade is started from the controller in shipping goods. In the import case, FOB is recommended for Indonesian importers when they want to control their shipment. However, not all business calculation or analysis will mention that FOB is the best solution for importing goods. There is a time when CIF terminology is better because of the lack of traders' capability. Therefore, they prefer to choose CIF. The case of export is the same. For exporting, it is recommended to use CIF so that Indonesian traders can handle ship, freight, insurance and other costs. Nevertheless, this is not a guarantee. It all goes back to traders' business analysis which is more profitable. Therefore, traders must have good understanding and skills to have a strength in bargaining.

A strong bargaining concept appear when one person does not have other choices but the other has many options. An interesting option is an option that emphasizes profit on traders but it does not make a loss to the other party. Definitely, it can be done as long as Indonesian traders are well-dedicated to learn all the time. The thing that continues to be learnt is skill in understanding the philosophy of shipping so that it becomes a composition in designing negotiation (UNCTAD, 2015).

## C. The efficiency level of goods delivery

To reach the target or shipping efficiency requires a long process. Efficiency were real if it would get more profitable result. On the other hand, efficiency could lead to a cheaper cost usage, low energy and low resources. In the shipping segment, efficiency is a dream for traders in order to increase their profit (IMF, 2019).

The main issue is that most Indonesian traders as importers who choose the shipping control are held by foreign traders (such as CIF) so that they only pay a certain price and receive their goods at the port of discharge in Indonesia. It usually happens because it is simpler and easier.

Indonesian traders does need to worry about shipping and others. Nevertheless, the price paid by the importer is not suitable in accordance with the services received. There are a probability of efficiency if Indonesian traders would have control over the delivery of goods (for example FOB) in managing freight costs, insurance and other costs to a minimum with the condition in which the trader correctly understands and knows what to do. Basically, when CIF is agreed in import way, the importer does not know the real costs. Moreover, when ship takes transshipment, there may be an extra fee charged. However, all of these things certainly

based on the agreement between the seller and the buyer. FOB term in import choose by Indonesian traders as importer to optimize their responsibilities and abilities. The last is how an Indonesian trader or the Logistics Service Provider could design shipments as efficiently as possible without disappointing other parties.

### Conclusion

From the discussion above it can be concluded that Indonesian traders are required to improve their skills in shipping business especially the commercial understanding of Incoterm 2020, Charter Party and Bill of Lading which are the basis before heading to the bargaining stage in trading. All business calculations regarding responsibilities, risks and costs must be carried out and paid for freight, insurance and other costs. It becomes very vital things that will affect the sale value of goods. The basic understanding that has been mentioned is a strength in bargaining process to reach the level of efficiency in scope of shipping costs. Therefore, Indonesian traders could make a more profitable decision. It is not always about an understanding level of Indonesian traders choosing CIF as export and FOB as import which are the point of concern but also Indonesian traders need a highly support from the government especially for Indonesian ships to go international. The choice of trade terms between CIF and FOB will be a big opportunity for skilled traders but it will be a loss of potential or threat for traders who do not understand about commercial business. This understanding is certainly supported by a very good analysis of world market knowledge.

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