

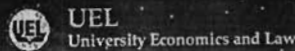
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Proceeding

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Vietnam National
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Competitiveness of Nations and The Welfare of Society on Indonesia's Small Medium Industries Perspective

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Abstract

Small and Medium Industries in Indonesia, since the approval of ACFTA in 1992. The challenges for market opportunities can be seen from the price, export, and investment, but it is quite severe consequences. The consequences of ACFTA for Small and Medium Industry in all cases they must have competitiveness that should be supported by three main components. Three main components include basic requirements for driven economies, efficiency enhancers for efficiency driven economies, and innovations and sophistication for innovation driven economies. Indonesia's position to the third factor is far below than other most countries in Asia and China. Contributing factors are inefficiency of bureaucracy, policy instability, business environment that not conducive and corruption. While China as a major competitor, still doing process of policy reform through bank restructuring and provide high supports to Small and Medium Industries to enter the open market.

Key words: Free Trade Agreement, Small and Medium Industries

1. Introduction

Since 1992 at a summit in Singapore, Indonesia agreed framework for free trading with China and ASEAN Countries. AFTA aims to increase the competitiveness of the regional countries. This has been conducted in many stages in to free tariff between Indonesia, Singapore, Philippines, Malaysia, Thailand and Brunei Darussalaam. November 14 2002, ASEAN countries agreed to back to the agreement with China in the free trade agreement (ACFTA). It provided 0% import duty for the product Early Harvest Package (EHP), include live animal, meat, meat products consumed, fish, dairy products, other animal products, live trees, vegetables consumed, consumed fruits and nuts. The agreement included on trade in service on January 14, 2007 and investment August 15, 2007. In 2004, Indonesia Government has gradually reduced import duties for Chinese products. Period 2004-2009 65%, product of China has been taken zero percentage of duties from the Customs Department of Finance of Indonesia. (Dimas Kahar: 2010) Beginning in 2010, 1598 products China lowered import duties to 5%, and even China's 8738 import products duty-free entry into Indonesia.

The impact of the free trade position Indonesia as the country became the object of the market more than the subject. Judging from the paradigm of principles of Islamic economics, free trade tends to make one of the parties to a transaction to be object, is clearly a matter which is not fair because it tends to be detrimental to the object. However, this can't be avoided because the Indonesian government seems to have no other choice but to follow the flow of the market tend to the principle of free fight liberalism with the consequences of the practice of free market mechanism. Ironically, the proportion of countries with very large Muslim population and a potentially huge market, even Indonesia as a market for foreign products with trade practices that tend to harm. This practice is detrimental to small and medium enterprises are predominantly Muslim, because the actual SMEs are not ready to face the competition with foreign products.

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Chinese products directly attack in the middle and lower society. With very low income levels, buying power of the people must be very low. Community will certainly have a preference for the cheapest goods and services, regardless of the quality, and rationality prioritize product prices adjusted for income. Prevailing at the time of the selection of products is the ability to match the purchasing power of rationality, then the cheap products imported into pragmatic choice. Consequently then what happens is the paralysis of the national industry is slowly but surely to die later, if not immediately rescued.

Textile in Small Medium Industries is part of the overall SME in Indonesia, was originally created by Indonesia export main, not only for domestic needs. But the world keeps moving industry, the emergence of NICS (New Industrial Countries), led by China as a giant country with a population of 1.3 billion, a major contender for the Indonesian textile exports. China is the world's number one exporter since November 2009 over Germany, including for textile exports to the U.S. and European countries. Declining demand for Indonesia textile dropped on the bottom exporters in ASEAN countries and China, Indonesia ranks 31 exporter after China, Singapore, Malaysia, and Thailand, both seen from the number of total exports and total number of visits of net exports. This indicates also that despite Indonesia's total exports still exceed total imports. With natural resources Indonesia is still dependent on other countries. In contrast to the four countries that are ranked above, they have fewer natural resource but the higher level of independence on foreign.

Based on the phenomenon, the problem can be identified as follows: how the competitiveness of industry in Small Medium Scale to face free market mechanism in ACFTA context?

2. Discussion

The Indonesia Government is optimistic that free trade would give positive impact on Indonesia's exports and investment. Indonesia as a developing country became the object free market mechanism. There are many advantages of free market mechanism. The advantages are many choices of products, cheaper product, opportunities to export and investment. Is it possible to be realized? Strategy should be seen from two sides, not only the opportunities but also looking at threat, should not be forgotten to measure what is the potential strength and our weakness, to fight in the open market. To measure the strength and weakness in world markets, the World Economic Forum has 12 indicators. Main elements of competitiveness factors: first, the basic factor economic driven, in the form of institutions, infrastructure, macroeconomic stability, education and health. Second, the efficiency factor as economic efficiency in the form of education and training, market efficiency products, labor market efficiency, financial market, technological readiness and market size. Third, innovative factor business, is driver to increase competency to create innovation.

Here is Figure 1 which respectively, also showed competitiveness Indonesia compared to Malaysia, Singapore and Thailand and China.

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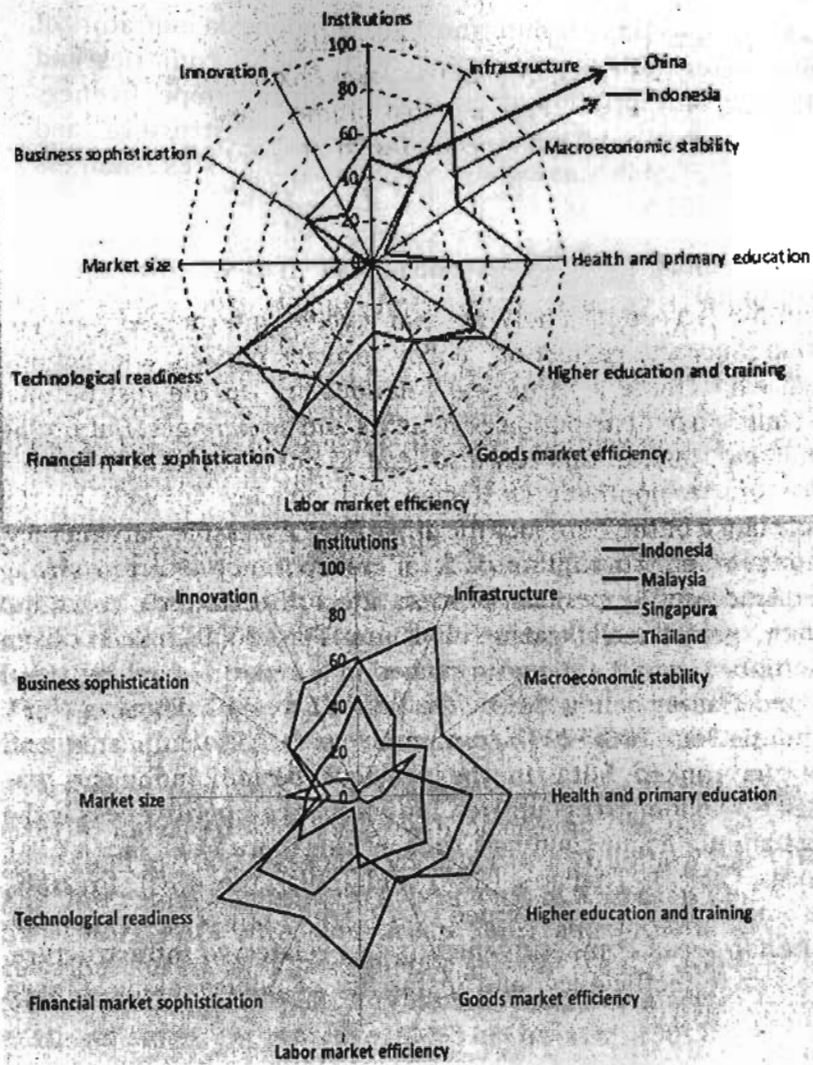


Figure 1 Competitiveness Factors for Indonesia, ASEAN, China. Source: The Global Competitiveness Report 2009-2010 in Avilliani. 2010. Indonesian Economic Development and ACFTA, papers.

Figure 1 shows there is outermost circle Indonesia indicators of competitiveness, both in comparison with ASEAN countries and China. Here is a description of the form factor of competitiveness factors basic needs, namely institutional, infrastructure and macroeconomic stability associated with the textile SMEs readiness in the face of ACFTA.

(1) Institutional

Institution is a complex network that involves interactions between the bureaucracy, regulation, policy, private parties, and general public who create a reciprocal relationship. On the institutional side could push distribution of benefits and advantages. But on the other hand, institutions can also lead to costs resulting from the choice of development strategies and policies as well as the performance of the bureaucratic apparatus. Excessive bureaucracy, over-regulation, corruption, lack of transparency and too strong dependence on the political process affect the economic costs and slowing growth. (Magazine Forum ITB: 2009). Seen from institutional factors, Indonesia ranked in the world is only equaled Thailand. Survey conducted by the World Economic Forum (WEF), in the period 2006-2007 compared with 125 countries and Indonesia ranked 50th. In the previous period, Indonesia was ranked 69th out of 107 countries. Indonesia's competitiveness is the lowest among Asian countries such as Singapore (5th), Japan (7th), Malaysia (26th), Thailand (35th) and India (the 43rd). In 2009, Indonesia ranked even slumped to 70, while China is on rank 29. Indonesian weak competitiveness issues related to infrastructure, bureaucratic inefficiency, and instability of policymaking. (Tasya Aspiranti, 2010).

Three requirements are considered the most burdensome in the management of business licenses is the maintenance of certificate of incorporation of business (34%), obtaining letters of recommendation from village heads (34%) and permission neighbors (31%). The cost of the most expensive and burdensome

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is the location of the image processing of documents. Perceived complicated procedure in the management of business, long time in the maintenance permission neighbors, recommendation from headmaster village, proof of land ownership, proof many operational permit while the information is not clearly perceived in obtaining recommendation association.

From the studies data showed that approximately 66% - 71% of SMEs need loans in proportion to the scale of its business, approximately 90% Medium Enterprises never applied for a loan, while the credit application of Micro and Small Enterprises relatively lower than Medium Enterprises. This is due to the tougher credit requirements document filled. Research conducted in the textile SMEs in Bandung regency still thick with inefficiency, bureaucracy and corruption. (Tasya Aspiranti: 2010), suggests that the difficulty of licensing issues still occur in some Districts.

How institutional factors in China? China tops the overall reform of the institutional factors to facilitate entrepreneurs to obtain financing, pay taxes, open a business, trade between countries, and registering property (property). China is also taking steps to protect investors, improve bankruptcy procedures, and strengthen the legal rights of creditors and debtors (CDE: 2009).

China is one country in the world with the fastest economic growth, indicated by GDP growth of around 9% per year (Iosc, 2004) and in 2009 it reached 9.5% per year (Gumbira Said (2010). The interesting things, there is economic dynamics in China in the mid-1980s, both rural and urban SMEs and growth companies contribute to sustainable economic growth. (Yeung, 2004). Reform and a more open policy create a more conducive business environment for the growth of SMEs in China (Li, 2004).

Comparing institutional factors between Indonesia and China, it seems Indonesia is still far behind. As a country that has just opened up to outsiders, it turns out China is totally turned the corner into the country really - really want to compete in the open market. China totally reorganized the institutional factors in the Country, because it is well aware that the institutional factor is the

basic requirement factor that must be met first, if you want to compete with external parties. The other thing, of various measures taken by the Government, the Chinese are very concerned SMEs, SMEs as the backbone of the economy so as to have facilitated institutionally strong foundation to survive, SMEs supported by the government in the form of rules and laws, so it is more secure position to conduct business more conducive.

2) Infrastructure

In addition to the institutional (which led to high economic costs), infrastructure issues become crucial factors that determine the competitiveness of nations. According to the WEF, extensive and efficient infrastructure is an essential factor to encourage good competitive. Infrastructure power will reduce the effects caused by the distance among business owner so can fully integrated with the national market, before then integrated with the State and regional market. Good infrastructure and extensive critical to the movement of machines, trade goods and services. Employers can send the goods to market safely and on time. The workers can move easily from one area to others. Highways, airports, or ports, infrastructure also includes electricity and telecommunications also the important infrastructures. (Magazine Forum ITB: 2009).

In 2009, Indonesia was ranked 84 for infrastructure and China ranked 46th. In West Java, in 2006, the quality of infrastructure was ranked 75 out of 118 "countries", highway ranking 64th, the quality of port infrastructure 95th, the quality of air transport infrastructure ranking of 112, 101 electric, and telephone lines rank 93rd. Chairman of the Indonesian Textile Association (API), West Java, Ade Sudrajat said the business climate in West Java is far behind other provinces in Indonesia. West Java has no airport or seaport that is quite representative. (SBM ITB: 2006). Physical infrastructure supporting regional trade, especially for international trade has not quite representative that can directly support business operations in the face of ACFTA.

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(3) Macroeconomic Stability

In 2009, Indonesia ranked 52, while China ranked 8th, Malaysia, Thailand and Singapore are ranked in the top 40, still far below China. Belongs to the macroeconomic stability indicator is the interest rate. The interest rate for the industry ranging from 11.97% to 13.78%. Research conducted in the textile SMEs in Bandung regency, (Tasya Aspiranti: 2010), showed that the rate of interest earned by the Small Medium Industry of such Bank BRI is still around 16%, only a small group of textile SMEs to obtain credit low interest rate (below 10%). This clearly indicates that the prevailing interest rate is very high making it less conducive for the perpetrators of textile SMEs. Compare with China which 4% only inflation rate. High interest rates, is one factor that makes the small industry did not dare to take external funding from banks. Sustain the market demand is not high and tends to fluctuate, a lot textile small industry reason not dare to take the risk of taking loans from banks. The interest rate applicable to domestic business is very tight, whereas for foreign businessmen are negotiable. This is of course very burdensome, especially small industry. With a very low profit margin (average - average less than 10%), 16% interest rates to very severe constraints.

On the other hand, belong to the macro-economic indicator is the high rate of inflation. The depletion of textile SMEs profit margins due to rising raw material due to inflation. Although Indonesia recorded high economic growth that is above the average in the Asia Pacific region, but still far behind China which reached 9.4%, the highest in a fantastic figure world. And, Indonesia has recorded a very high inflation rate of around 6%, far less than international inflation of 3%. Compared with ASEAN, Indonesia's inflation rate highest, even in 2008 almost reached the level of 12%. While inflation rates respectively - contributed to Thailand, Malaysia and Philippines is 3%. 4.3% and 4.5%.

In Indonesia, the high rate of inflation is a very heavy burden to be borne by SMEs, as soaring raw material prices, while on the other hand the price to compete with imported products strictly.

While that can be done by most Textiles in Small Medium Industry still in production with a very thin margin, they can survive the turnover. Although turnover was declining in relative terms, and it is definitely followed by the relative profit margin decreased. The decline in turnover, profit margin makes most SMEs are reluctant to speculate with borrowed funds bank loan because the interest rate is very high. The impact is already being felt not only decrease the value of exports in foreign markets relative or absolute, but also reduced the domestic market/domestic from 57% in 2005 to 23% in 2008. Well with ASEAN countries and China since 2006 until now we trade deficit (except with China in 2006).

3. Conclusion

Judging from the 3 elements of international competitiveness, industry in Small Medium Industry still far behind compared to ASEAN countries and China. Nonetheless, ACFTA commitment has been effective since 2010, it causes there was no word to backward. It is really challenges for Small Medium Industry to compete with other country in ACFTA context. Noteworthy is the effort that needs to be done. It must be supported to make business licensing more simple, so any textile industry in Small Medium Industry have better access to markets and banking institutions. Improving infrastructure services to support the business activities conducive includes minimizing the interest rates and inflation to increase Small Medium Industry.

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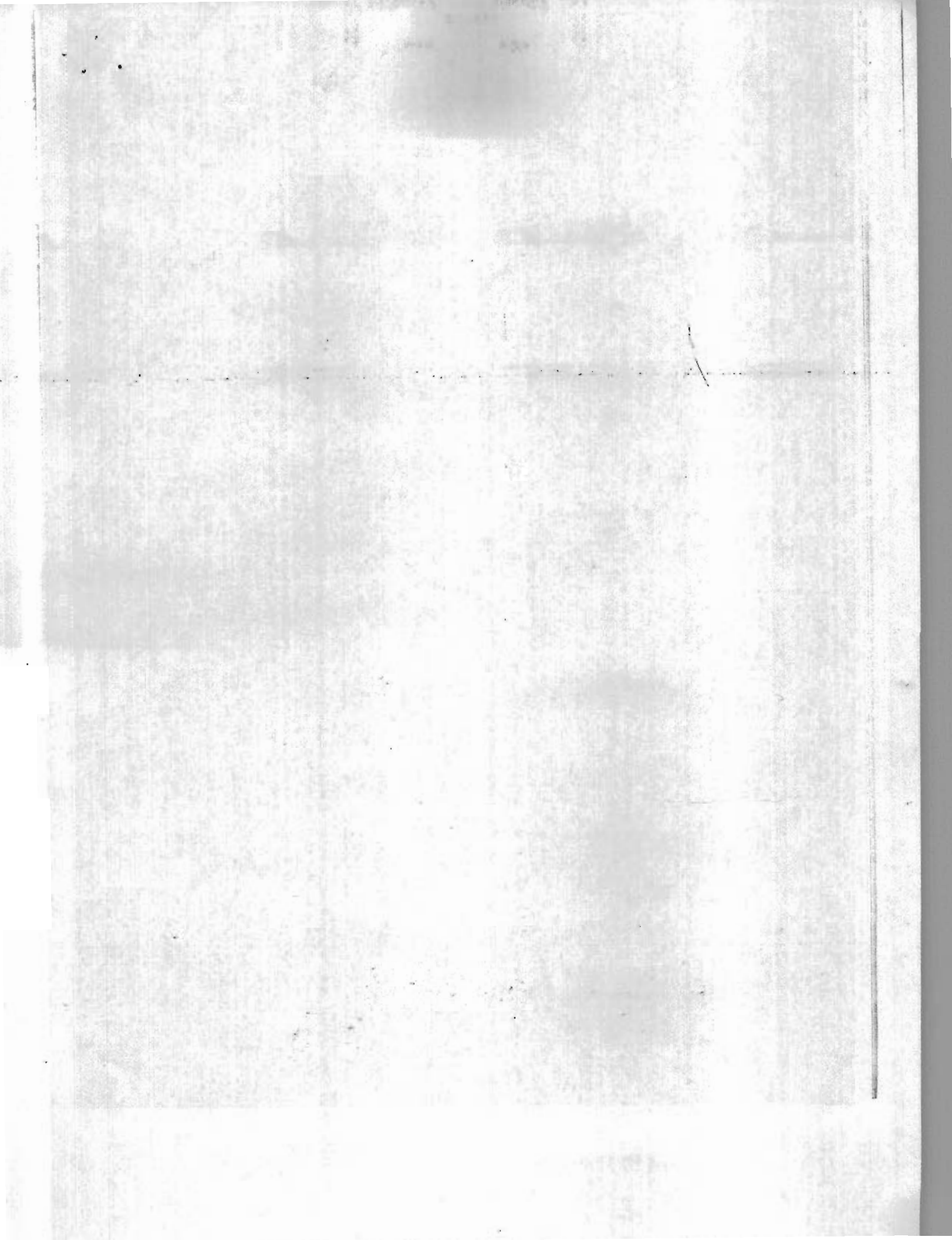
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