

The Strategies Competence of Micro Small and Medium Enterprises (MSMEs) in Facing Trade Liberalization Asean Economics Community 2015

Teddy Hikmat Fauzi

Faculty of Social Science and Politics, Pasundan University, Bandung, Indonesia

Abstract Essentially, free trade in the context of economic liberalization has provided opportunities opening the access on products and service and then the availability of raw materials, encourage opening investment both in the regional and international scale. However, the establishment of ASEAN Economic Community (AEC) in regional scale is the strength of ASEAN in international level and integrated in the global economic arena. In addressing the challenge of economic globalization should be emphasized that the importance of establishing entrepreneurship through improving the role of Micro Small and Medium Enterprises (*MSMEs/Usaha Mikro Kecil dan Menengah*) because it is considered as a concept of industrialization that relevant to the community of developing countries that are labor intensive. Now *MSMES* has business unit about 99,1% and able to absorb the labor about 84.4%. This shows that Indonesia has opportunity to improving and encouraging *MSMES*'s growth as part of efforts to improve productivity goods and services to meet local consumption, regional and international. Including in facing of global economic, especially single market AEC. The establishment single market of AEC encourage Indonesia, as a big country with the richest natural resources, should be better prepared than other ASEAN members in building open economic system limitless. By aligning the availability of resources, including for human resource competencies whose capable of forming a productive society as a new economic power by empowering *MSMES* sector more optimal. The role of *MSMES* in the national economy is increasingly important can be seen in terms of job creation and includes the opportunities to increase income. Until now Indonesia is still far behind in income per capita, average per year still amounted to \$4.371, fifth position after Singapore, Brunei, Malaysia and Thailand. This shows that there are still discrepancy between Indonesian's purchasing power compare to some countries above.

Keywords Economic liberalization, Micro Small and Medium Enterprises, Single Market AEC, Income per capita

1. Introduction

Essentially, free trade in the context of economic liberalization has provided opportunities opening the access on products and service and then the availability of raw materials, encourage opening investment both in the regional and international scale. One implementation is the establishment of a single market ASEAN Economic Community (AEC) which began in 2015. There are four pillars of the AEC, namely: (1) The single market and regional production base; (2) Areas of high competitiveness; (3) Regions with equitable economic development; (4) integration with the world economy. The establishment of the AEC can create various impacts on its members, including in Indonesian trading system, for example for *SMEs*: "AEC single market will bring a new paradigm in the

trading system in the ASEAN region, especially Indonesia, which has the biggest market. The reason is that trade liberalization is a new phenomenon in the Indonesian economy, especially for *SMEs* which are generally run by traditional means [1]. Essentially, free trade in the context of economic liberalization has provided opportunities opening the access on products and service and then the availability of raw materials, encourage opening investment both in the regional and international scale.

2. Micro, Small and Medium Enterprises as Indonesian Economic Potency

According to Hadiyati that empowerment of *MSMES* is very strategic, because of its great potential in driving the economic activities and also to be a basis for most the sources of income of the people to improve their welfare [2]. In addressing the challenge of economic globalization should be emphasized that the importance of establishing entrepreneurship through improving the role of Micro Small

* Corresponding author:

teddyhikmatfauzi@gmail.com (Teddy Hikmat Fauzi)

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and Medium Enterprises (MSMEs) because it is considered as a concept of industrialization that is relevant to the community of developing countries that are labor intensive. Now MSMEs has business unit about 99,1% and able to absorb the labor about 84.4%. Basically important to build entrepreneurship through increasing the participation of Micro, Small and Medium Enterprises (MSMEs) as the concept of industrialization that are relevant to the community profiles of developing countries that are labor intensive, as expressed by Gulbiten and Taymaz that Small and Medium Enterprises become an important element in the development and planning of the concept of industrialization in developing countries because of technological characteristics of Small and Medium-sized Enterprises that are labor intensive is an important factor in employment [1]. This shows that Indonesia has opportunity to improving and encouraging MSMEs's growth as part of efforts to improve productivity goods and services to meet local consumption, regional and international. Including in facing of global economic, especially single market AEC.

Definition of Micro, Small and Medium Enterprises (*Usaha Mikro Kecil dan Menengah - UMKM*): "MSMEs categories according to Government of Indonesia: Micro Industry have net assets up to IDR 50,000,000; or have annual revenue from sales up to IDR 300,000,000. Small Industry have net assets over IDR 50,000,000 (50 million rupiah) to IDR 500,000,000 (500 million rupiah); Have annual revenue from sales over IDR 300,000,000 (300 million) to IDR 2,500,000,000 (2.5 billion rupiah); Medium Industry have net assets over IDR 500,000,000 (500 million) to IDR 10,000,000,000 (10 billion rupiah); or have annual revenue from sales more than IDR 2,500,000,000 (2.5 billion rupiah) to IDR 50,000,000,000 (50 billion rupiah)." [3]

MSMEs are one of Indonesia's national economic potential as well as several ASEAN countries. "Based on data from the year 2009 the number 52.76 million units (99.9%) to contribute to the Gross Domestic Bruto (GDP) amounted to 56.92% and the employment of 97.30%. " [4]. While the condition of MSMEs in ASEAN is: "More than 96% of companies in ASEAN classified as MSMEs with Gross contribution Gross Domestic (GDP) amounted to 30-57% and labor absorption as much as 50-98%." Now MSMEs has business unit about 99,1% and able to absorb the labor about 84.4%. [4]

MSMEs competition is quite high because some ASEAN members also put MSMEs as the backbone of their national economy. MSMEs countries Thailand, Singapore and Malaysia is a severe competitor. Therefore, the Indonesian government needs to prepare MSMEs to be more competitive. If not done immediately, then MSMEs Indonesia less competitive, both in the ASEAN regional market as well as domestic market. However, Indonesia is a potential market for ASEAN products.

There are several challenges or obstacles for most MSMEs Indonesia, among others: "(a) the increasingly sharp competition, including in obtaining resources; (b) Maintain and improve the competitiveness of SMEs as a creative and

innovative industries; (c) Improving the standard of design and product quality to match the provisions of ASEAN (eg ISO-26000); (d) Diversification of output and stability of income micro enterprises in order not to fall to the poor; (e) Improving the ability of MSMEs be able to utilize financing facility which exist, including within the framework of ASEAN cooperation." [4].

The vital role of MSMEs as stated by Hadiyati that the empowerment of MSMEs has a direct relation and improvement to the life as well as the welfare of the majority of Indonesian (pro-poor); in addition, the potential and the strategic role of MSMEs has proved to be a pillar of strength of the national economic growth (pro-growth). MSMEs as the dominant national economic actors is also a vital subject in development, especially in the context of the expansion of opportunities for new entrepreneurs, provide employment to reduce unemployment (pro job), as well as pro-environment (Ministry of Cooperatives and Micro Small & Medium Enterprises, 2012). This shows that Indonesia has opportunity to improving and encouraging MSMEs's growth as part of efforts to improve productivity goods and services to meet local consumption, regional and international. [2]

3. Implementation of AEC Single Market and Its Impact on MSMEs in Indonesia

According to Prasodjo in Fauzi [1] The objective of the establishment of AEC is to create a single market and productive basis as indicated by free flows of goods, services, investments, labors, skills, and capital transfers in some more free ways. It is estimated that the implementation of the AEC single market will face various obstacles in some ASEAN member countries, as stated: "However, the implementation of such single market is not easy in the field because the economy of each of its members is unequal and they also differ in natural resource needed to keep the regional economy stable, e.g., Indonesia, Malaysia, Thailand, and Singapore" [1].

In addition, there are some sectors such as agriculture, fishery, wood-based products, small-medium enterprises, and plantation proceedings as the comparative advantage of some ASEAN members. Therefore, each member is required to develop its strategy in enhancing the value-added of its export products so as to possess distinct characteristics.

However, the AEC single market is considered positive because the total population in ASEAN more than 400 million people with a total Gross Domestic Product (GDP) is greater than US GDP. Indonesia has a huge market potential for products and other ASEAN countries. Indonesia is one of the new economic powers of Asia, one of the countries are classified as The Bigs Emerging Markets (BEM's). Other countries are China, Korea Selatan, India, Turki, Meksiko, Brazil, Argentina, Polandia and South of Africa. With the formation of the AEC is expected that Indonesia is not used by their market. However, the establishment of ASEAN

Economic Community (AEC) in regional scale is the strength of ASEAN in international level and integrated in the global economic arena.

The establishment single market of AEC encourage Indonesia, as a big country with the richest natural resources, should be better prepared than other ASEAN members in building open economic system limitless. By aligning the availability of resources, including for human resource competencies whose capable of forming a productive society as a new economic power by empowering MSMEs sector more optimal. Porter in his book "*The Competitive Advantage of Nations*" stated that the theory of a country's competitiveness is based on the correlation human resource development. He stated that the competitive advantages of the country did not just rely on the availability of natural resources, but can be sustained will be the availability of human resources that is creative and innovative and responsive to respond to technological advances and applicable.

In general, Indonesian MSMEs' human resources are of low educational background, have no specialized skills, are limited in economic outlook and in global business, etc. Below is a comparison structure of Indonesian workers compared to some ASEAN countries labor: "Of every 1,000 workers 95.7% of Indonesian workers are unskilled and only 4.3% of expert and skilled labor. While Singapore has expert and skilled labor 36.2% and 63.8% unskilled labor. Malaysia with 32.6% of expert and skilled labor and unskilled labor 67.4%" [1]. The factors above in particularly of MSMEs' human resource make Indonesian MSMEs' products uncompetitive in global markets. It is a challenge that needs to be anticipated by various parties, especially by the government with concrete programs.

Fundamental problems among Indonesian export products are still exporting raw materials; high capital costs; productivity of human resources need to be improved, minimal infrastructure and logistics costs is highest among ASEAN members and so on. These factors are a major obstacle for the export of Indonesian products to compete in the global market, including the AEC single market. In the interest of solving the above problems, the role of government through various policies is needed. Especially the economic policies that can support the development of

SMEs export as currently some government policies have not been able to increase exports Indonesian SMEs.

Besides that, Indonesia is still far behind the income per capita, the average per year still amounted to 4,371 US dollars occupying fifth position after Singapore, Brunei, Malaysia and Thailand so that there still exists a gap between the purchasing power of the population in Indonesia compared to other countries in ASEAN.

4. Conclusions

MSMEs in Indonesia contributed significantly in national economic growth and informal sector employment absorption. It plays a very important role in the overall growth of Indonesian economy.

In facing AEC single market a new breakthrough is needed by government to develop entrepreneurial people who are able to compete MSMEs for global market, particularly in AEC. Mostly MSMEs have basic obstacles such as unskilled worker and production cost to produce competitive products in global market so that MSMEs actor or businessman and government have to develop and improve it soon.

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