

# Building SME Competitiveness Advantage in ASEAN Economic Community Era

Eko Yuni Prihantono<sup>1</sup> Wahyu Wiyani<sup>2</sup>

1.Lecturer, Faculty of Economic and Business, Merdeka University, Malang, Indonesia

2.Lecturer, Faculty of Social and Political Science, Merdeka University, Malang, Indonesia

## Abstract

Commencement of the ASEAN Economic Community SMEs can conduct a hope in the future, at least it can be seen from several aspects. To realize these expectations, the most important role of government is to create a conducive business climate through policies. This study aimed to understand the conditions of SMEs so that leads to a portrait of regulation that is expected to build a competitive advantage of SMEs in the Era of the ASEAN Economic Community. This study uses a desk study and survey. Desk studies conducted to review the legal product in the form of legislation both at the center (the Act) as well as at the regional level (Perda). Legal products reviewed were the regulations related to SMEs. The research findings show that only large-scale efforts are always prioritized while micro-enterprises and cooperatives no longer get the attention it deserves. In some cases, government measures are often just turn off the micro-enterprises and cooperatives. As a result, the policy line taken for the protection of cooperatives and SMEs are often ambiguous and ultimately less work effectively to help the people's economy that is essential for eradicating poverty.

**Keywords:** SME, regulation, competitiveness

## 1. Introduction

Asean Economic Community (AEC) directed at the establishment of an integrated regional economy by reducing trade transaction costs, improve trading facilities, and business, as well as enhance the competitiveness of SMEs. Enforcement of the ASEAN Economic Community (AEC) aims to create a single market and production base which is stable, prosperous, highly competitive and economically integrated with effective regulations for trade and investment, in which there is free flow of traffic of goods, services, investment, and facilitating the freedom of movement of capital and businesses and labor. Asean Economic Community is certainly a major impact on SMEs in Indonesia. Opportunities will open if the SMEs in Indonesia are able to compete by producing quality products. Indonesia is expected to become the country of export, where the value of Indonesian exports to intra-ASEAN only 18-19% whereas outside ASEAN ranged 80-82% of the total exports, meaning opportunities to increase exports to the intra-ASEAN still have to be improved so that the rate of increase of exports to ASEAN intra-balanced with the rate of increase of intra-ASEAN imports. ASEAN goods trade liberalization would ensure the smooth flow of goods to the supply of raw materials and finished materials in the ASEAN region because of tariffs and non-tariff is not there anymore. Market conditions are already free in the area by itself will encourage the producers and other businesses to produce and distribute quality goods efficiently so as to compete with products from other countries.

To achieve this, there are several challenges that must be resolved as SMEs in Indonesia. Of the eight key rules (golden rules) world competitive rankings released by the International Institute for Management Development (IMD), one of which is support for SMEs. In the time of financial crisis, SMEs can survive and continue to grow, it can provide an opportunity to increase competitiveness. However, SMEs still in the area is less noticed by the government. The absence of assistance from the government to standardize and internationalize the SME local products, making it difficult to compete and defeat SMEs on the local market. Diversity owned SMEs Indonesia is likely to form the ASEAN market, one example is the crafts, furniture, regional food, and other industries.

Malang is a district in East Java province, Indonesia. Malang is the second largest district after Banyuwangi region of 38 district / city in East Java. This is supported by the vast area of 3534.86 km<sup>2</sup> or equal to 353 486 ha and the total population of 2,446,218 inhabitants.

Growth in the industrial sector in the district of Malang each year continues to increase. It is able to reduce the level of unemployment, especially for small and medium enterprises (SMEs) are still labor intensive to utilize human resources in the surrounding areas. SME development is also able to improve the economy of the community. The number of industrial business unit until June of 2014 reached 21 408 units. That amount includes the amount of formal industry as 1,746 units, including the addition of informal (unlicensed) 30 units, 367 medium and small units: 1349 units, and the number of informal (household) of 19.66 units.

An increasing number of industrial units had a positive impact and support local government to reduce unemployment in Malang. Disperindag and market development data record number of employment in the industrial sector amounted to 159 294 people, including formal and informal as many as 104 878 people 54 416 people. As well, there is a growing amount of the total investment of Rp 2,686,885,200, covering formal and

informal Rp 2,670,287,447 Rp 16,597,653.

The main economic source community in Malang is the agribusiness sector and the industrial sector. The industrial sector in Malang majority engaged in the processing and trading of agricultural produce. Processing industry and trade stretcher includes refined sugar industry, tea industry, food processing industry, milk processing industry, chicken meat processing industry, and cutting and wood processing industry.

Placing improving the welfare of the Indonesian people as a priority in national development during the period of the current government, carried out by developing the economy of the people who supported sustainable national economic growth, creating enough jobs, encourage increased incomes. The role of micro, small and medium enterprises (SMEs) in the Indonesian economy most can not be seen from: (1) its position as a major player in economic activity in various sectors, (2) the largest provider of employment, (3) a significant player in the development of activities local economic and community development, (4) the creator of new markets and sources of innovation, (5) contribution in maintaining the balance of payments through export activities of society so as to reduce poverty and others.

From various sources is often heard and also can be found common things that often happens in most SMEs in Indonesia, namely business management that are more personal and involving families, and close relatives, so the efforts notary berakta reported only 1.7% only, besides the small industries access to formal credit institutions are low, the limitations and difficulties in procurement of raw materials to the export-oriented SMEs, lack of competence in human resources as well as many other things. Data from the SME Center UI, said that strong SMEs in Indonesia is only 10-16% of the 53 million, rose in the informal sector. The government's lack of a comprehensive in addressing SMEs can be felt, especially if the opening of the entrance of foreign MSME institutions or foreign operations on a large scale in Indonesia which can cause a psychological effect for SMEs itself.

The role of micro, small and medium enterprises (SMEs) in the economy of Indonesia should have been implemented in a concrete and serious within the past 10-20 years. A reflection is whether in 2015, the start of the ASEAN Economic Community SMEs can conduct a hope in the future, at least can be seen from several aspects such as the following: (1) Its position as a major player in economic activity in various sectors; (2) the largest provider of employment; (3) an important player in the development of local economic activities and community empowerment; (4) The creator of new markets and sources of innovation; (5) His contributions in maintaining the balance of payments through export activities.

Declaration of the ASEAN Economic Community aims to establish ASEAN as a single market and production base that drives the business, a region with equitable economic development, economic regions with high competitiveness and the region is fully integrated with the global economy. From the baseline this purpose it appears that there will be a variety of investment flow, elimination of tariffs and other factors are progressive, which can be contained in procedures, policies, regulations and other regulations in an effort to reduce the barriers for the future progress, the imposition of certification and standardization on products and services, as a form of consumer protection. In the existing blueprint mentioned their concern to encourage the growth and development of small and medium enterprises. Asean Policy Blueprint for SME Development APBSD outlines a framework for the development of Micro, Small and Medium Enterprises SMEs in the ASEAN region.

This paper seeks to understand the conditions of our SMEs so that direct mapping to a portrait of a strategy that is expected to build competitive advantage Micro, Small and Medium Enterprises in Indonesia in the New Economic Era namely the ASEAN Economic Community.

## **2. Research Design**

This study uses two (2) methods: Desk study and survey. Desk studies conducted to review the legal product in the form of legislation both at the center (the Act) as well as at the local level (Perda), and other regulations such as SK / Regional Head Rule and other regulations issued by the relevant agencies. Products are reviewed law is legislation issued related to SMEs.

Review aims to make an assessment (aseesment) and mapping of legal products (regulation) both at the central and local level related to the development of SMEs. At the end product will be election of the regulations that are able to inhibit or which could encourage the development of SMEs.

Analysis of the impact of the implementation of various regulations related to the development of SMEs. Furthermore, other important findings regarding the impact of the implementation of the regulations for the development of SMEs will be presented descriptively-quantitative.

## **3. Results and Discussion**

Small and medium enterprises (SMEs) have a strategic role in national economic development, because in addition to a role in economic growth and employment also play a role in the distribution of development outcomes. This sector also terbuti more resilient in the face of the crisis. Therefore, the development of SMEs require attention both from government and from society in order to grow more competitive.

Industrial cluster development model adopted the concept of a diamond (diamond) submitted by Michael Porter (1990,1998). This model provides an understanding of what goes on in the cluster as well as about the competition going on in it. According to Porter, the factors that trigger innovation and cluster growth are: (1) The condition factor; (2) Request the domestic sector or local customers; (3) Industry and related support; (4) Strategy, structure and rivalry, the level of competition among local industry more motivating than competition with foreign parties, and "culture" that affects local behavior of each industry in the conduct of competition and innovation.

In addition to these four factors, Porter also added the need for the role of government as well as the openness of opportunities. The role of government is very important, because the government can influence and be influenced by four factors above, either positively or negatively. The most important role of government is to create a conducive business climate through the development of policies that support business development associated with the development of clusters (Porter, 1990)

With the enactment of Law No. 22 of 1999 on Regional Autonomy, the regional authority has the autonomy to organize and take care of the local community. This system changes will have implications for small and medium-sized businesses in the form of new levies imposed on Small and Medium Enterprises (SMEs). If this condition is not immediately addressed it will reduce the competitiveness of Small and Medium Enterprises (SMEs).

Under the terms of Regulation No.38 / 2007 on the division of authority between the central government, provincial, and district / city, has affirmed that cooperatives and small and medium enterprises is one of 26 matters required to be conducted properly by the local government. Likewise, the provisions of Regulation No.41 / 2007 on the organizational structure and the workings of local government has set up cooperatives and SMEs that affairs should be managed by a unit of the directive in the form of services. But many areas are yet to put the empowerment of cooperatives and SMEs into Auth (Main Duties and Functions) in the form of a strong department. Some are still used as one in the business section, the Agency or a particular UPT. Most regions puts this matter in Perindagkop (Industry, Trade and Cooperatives) with priority affairs of cooperatives and SMEs are lower than other affairs.

As we know that the ASEAN Economic Community which came into force in 2015 has important implications for small and medium enterprises to compete in free trade. In this case, inevitably Small and Medium Enterprises (SMEs) are required to carry out production processes with productive and efficient, and can produce the products according to the frequency of the global market with quality standards such as the issue of quality (ISO 9000), environmental issues (ISO 14000 ) and the issue of Human Rights (HAM) as well as employment issues. This issue is often used unfairly by developed countries as bottleneck (Non Tariff Barrier for Trade). Therefore it is expected that SMEs need to prepare in order to compete both comparative advantage and sustainable competitive advantage.

Therefore, the Indonesian government's medium-term strategy should not just focus on all international trade agreements without regard to small businesses and cooperatives. In a research report for the World Bank (1996), Joseph Stiglitz said that the phenomenon of the economic miracle before the onset of the crisis in Southeast Asia is supported by "the environment-oriented market mechanism, but still recognizes the government intervened actively so as to allow the transfer of technology with good". Thus, in the midst of globalization and trade liberalization, however, the role of government is very important to protect cooperatives and SMEs.

The success of the business facilitation and empowerment of cooperatives and SMEs are very dependent upon the responsiveness of local government in allocating budgets and to enable activities related to this community economy. But the effort to realize these expectations are often still encountered problems due to conflicts of interest among the stake-holders in the area and because of the determination of development priorities in the wrong area.

The low productivity of cooperatives and SMEs has been more due to the weakness of human resources in the field of management, lack of professional organization, mastery of technology and marketing is weak, and the low quality of the managers of cooperative entrepreneurship and SMEs business operators. Development problems also became more complicated because most cooperatives and SMEs lack facilitated by access to capital, information, market, technology and the factors supporting other businesses.

Therefore, commitment to the facilitation and empowerment must also be realized with a special institutional devices intended for cooperatives and SMEs. Currently the ranks of local government often assume that the guidance and empowerment of cooperatives and SMEs would only suck money and do not generate additional revenue as well as major industrial sectors that pay taxes and levies are relatively higher. This thought pattern should be changed so that there should be a special technical unit handles cooperatives and SMEs as well as adequate budgetary allocations for development programs.

In the medium-term plan, the local government should be able to renew commitment to the cooperatives and SMEs by placing it into a specialized agency, along with the funding priorities of the budget is

sufficient. This should be done considering the importance of the position of cooperatives and SMEs in improving the welfare of the people in the area and there are many structural constraints and managerial constraints for the group's businesses. However, commitments must be realized in the form of affirmative action or affirmative action. What is meant in this case is that the government must protect cooperatives and SMEs which mostly is a business group that is still weak and face many obstacles to compete with large-scale efforts. Of course, the Department of Cooperatives and SMEs in the regions also have to understand when to do the exit strategy when cooperatives and SMEs have been able to develop independently and do not depend on the facilitation of the local government. The basic assumption underlying the paradigm shift in the government's role in empowering is that government policies should be aligned. This is the true meaning of affirmative action for cooperatives and SMEs. In the case of cooperatives and SMEs which attempted democratic economy, the government is unlikely to rely on market mechanisms or the importance of a formal approach as the basis for policy formulation. For example, the government may not simply encourage the formal banking sector to assist cooperatives and SMEs in the form of soft loans or other financing facilities. This is because the commercial banking sector is definitely going to use formal measures in the assessment of credit proposals, business plans, product development, and so on, which is definitely less owned by cooperatives and SMEs.

Therefore, government policy should be directed to help SMEs systematically with a clear commitment to the people's economy, establish various forms of business cooperation synergy, as well as a variety of clear and measurable policies to support every stage of the business cycle, ranging from the preparation of a business plan, product development, financing, product promotion, to the development of cooperation in the form of applied research. Policies are formulated certainly not only rely on formulas macro by improving the business climate, but also should give priority to micro approach to explore and address the various forms of barriers experienced by businesses with assets and a small turnover. The government must be able to create optimal incentives such that businesses in cooperatives and SMEs are able to utilize the factors favorable for him to compete in an increasingly competitive business environment. In this case keep in mind that government policy may not be optimal if only by relying on the macro-economic approach. In contrast, micro-economic approach that can improve business networking and support every point of the business cycle, product innovation, and the support of public institutions at central and local levels will largely determine the success of the empowerment of cooperatives and SMEs.

Product innovation is very important for cooperatives and SMEs in order to compete with large companies that have strong capital, extensive network and volume mass production. Therefore, the government should provide incentives and broad support for product innovation and marketing system for small businesses is very specific. For example, the support can be either patent protection or standardization. From the experience in many countries, product innovation patent protection would give a tremendous advantage for small businesses and stimulate innovations in a sustainable manner. What is needed from the government for the development of innovative products such patents is a clear protection and a good competitive atmosphere so that there is a definite appreciation for the efforts of cooperatives and SMEs to perform a variety of breakthrough ideas for the business world.

Act No. 20 of 2014 on Standardization and Conformity Assessment mandates the importance of synergy between the central government and local governments in providing guidance to the businesses and people in the implementation of SNI. A tangible manifestation of the cooperation agreements one of which is the implementation of an incentive in the form of guidance application-based quality management system standard ISO 9001: 2008 in a public service organization under the auspices of local authorities such as the Agency Services and Integrated Licensing and District General Hospital. In addition, guidance is also given to SMEs for the implementation of quality management system standards, food safety and the application of SNI for superior product.

Of course, government policy support in the form of ease of access to capital also remains necessary. Such support should still be realized in the medium term commitments. Moreover, government support is also crucial in special cases in specific areas that are not to be resolved by the local government concerned.

Business development incentives in the form of soft loans proved to be very effective in helping cooperatives and SMEs. Of the approximately 48.8 million units of small and medium-sized enterprises 106.7 thousand units and 141.7 thousand cooperative in 2006, for example, the role of government assistance in the form of soft loans turned out to be very significant. If the capital incentives given by the government in an appropriate manner, changes in the productivity of cooperatives and SMEs also increased significantly.

For SMEs, the government intervention as the manifestation of affirmative action is also needed to remember that there are many factors which are very dependent on government action. A study in the area shows that the factors that influence the development of enterprises that can actually be controlled through the role of government. At the local level, the coordination becomes very important to demonstrate the government's commitment to the development of cooperatives and SMEs. It is common knowledge that many of the governor, regent or mayor who just put short-term interests to prioritize the improvement of PAD (Local Revenue).

Therefore, large-scale efforts that have the potential to contribute to PAD always take precedence, while micro-enterprises and cooperatives no longer get the attention it deserves. In many areas, steps from the local government it is often deadly micro enterprises and cooperative. New licenses for the modern supermarket and large trading businesses continue to be provided through the device while justisi Civil Service Police Unit and the Department of Revenue deployed to do much against the eviction of street vendors (PKL). Entry permit apparel imports from China are given at random in many areas, while the garment entrepreneurs and small-scale convection and medium did not obtain adequate protection. As a result, the policy line taken for the protection of cooperatives and SMEs are often ambiguous and ultimately less work effectively to help the people's economy is very important for the eradication of poverty.

MSME effort should be directed to support the creation of employment opportunities and increased exports. This kind of policy direction must be accompanied by an increase certainty and legal security, the development of an incentive system to foster new entrepreneurs based technology and export-oriented, as well as increased access to and expanding export markets for the products of cooperatives and SMEs.

For that reason, SMEs need to be supported with the ease in forming formal institutions, for example by facilitating business license, develop one-stop pattern in the area, as well as processes and cut costs to manage licensing. Local government has its own authority to regulate household these regulations contained in the Law of the Republic of Indonesia Number 32 of 2004 on Regional Government which is then refined again into Law - Law of the Republic of Indonesia Number 12 of 2008 concerning Second Amendment Act - Act No. 32 of 2004 on Local Government. Law - Law strengthened the duties and responsibilities of local governments to devise strategies - the best strategy of strategic measures for economic development in the regions (Local Economic Development). Government has an important role in developing and optimizing the potential of the local superior product areas in Indonesia through the regulation-making along with the implementation of the technical guidelines to be implicated in each area so as to develop the regional economy. Regulations that have been rolled out at the central level, must have derived guidelines for the region so that the region can effectively implement OVOP (Ulum, 2011).

#### 4. Conclusion

The persistence of SMEs it becomes its own proof that they are businesses that really should be taken into account and considered by the government, especially local government. When you view some of the programs initiated to assist SMEs, it is arguably the numbers are enough. But the majority of the program comes from the central government. Meanwhile, local governments rarely heard success in developing SMEs in the region. Whereas areas with peculiar to each have a strategic position to participate can encourage my growth SMEs in accordance with the potential of the area. Ironically, many argue SMEs grow by itself without interference from the government.

Realizing that SMEs are in a complex and dynamic environment. Thus, efforts to develop SMEs will not mean much if they do not consider the construction (especially economic) wider. The concept of the construction carried out will establish rules for businesses (including SMEs) so that the development of SMEs not only be implemented partially, but must be integrated with national economic development and implemented on an ongoing basis. Economic policy (especially development of business) are taken has not made a strong bond for the creation of linkages between large enterprises and SMEs.

Government's policy to develop SMEs, although from year to year continue to be refined, but have not been fully conducive. This can be seen, among others, still the occurrence of unfair competition between small entrepreneurs and medium large entrepreneurs. With the enactment of Law No. 22 of 1999 on Regional Government as amended by Law No. 32 of 2004, local authorities have the autonomy to organize and take care of the local community. This system changes will have implications for small and medium-sized businesses in the form of new levies imposed on SMEs. If this condition is not immediately addressed it will reduce the competitiveness of SMEs.

With the entry into force of the ASEAN Economic Community, the circulation of products, goods and services are no longer restricted borders. This situation brings a positive side and negative for SMEs. Be positive if the products and services of SMEs to compete with products and services from other ASEAN countries, but it will be negative if otherwise. To that end, it is important when designing government programs that clearly and precisely targeted.

In this case, inevitably SMEs are required to carry out production processes with productive and efficient, and can produce the products according to the frequency of the global market with quality standards such as the issue of quality (ISO 9000), environmental issues (ISO 14000), and the issue of Rights Human (HAM) as well as employment issues. This issue is often used unfairly by developed countries as bottleneck (Non Tariff Barrier for Trade). For that reason, SMEs need to prepare themselves to be able to compete both comparative advantage and competitive advantage. In the context of improving the competitiveness of products, the standards play an important role. The standard, known, has been used extensively by all countries in an effort

to improve the competitiveness of domestic products, improve service quality, and has value when applied by all relevant stakeholders.

Given the small business is an integral of the national economy which has a strategic role, in sustaining economic growth in the region realize the job creation, income generation, broad-based economic growth and poverty reduction, it is necessary to the existence of a political will of local governments to make efforts protection, development, coaching and empowering small businesses.

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