

# **REDESIGN THE COMPETENCE BUSINESS STRATEGY OF SME'S IN DEALING WITH ASEAN ECONOMIC COMMUNITY (AEC) TRADE LIBERALIZATION 2015**

## **Case Studies: SME'S Creative Industry Sector in Bandung**

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### **Abstract**

The establishment of ASEAN Economic Community (AEC) aims to form a single market as an implementation of trade liberalization. The existence of the AEC will impact directly to SME's development in Indonesia in the future. There are approximately 8 million SME's in West Java which one of them is creative industry sector. It plays very important part in overall growth of economy for years.

Over twenty year's period, between 1990-2010, creative industry sector of SME's in Bandung is more focused on domestic market but by establishment of AEC, absolutely necessary redesign their competence business strategy in order to be able to take advantage new AEC market.

To develop this creative industry it is believed that SME's should solve their problems. There are 5 (five) major problems that are identified by the Department of Commerce for achievement in 2015. The five main issues are: (1) The quantity and quality of human resources; (2) Climate conducive to starting and running business; (3) Awards/appreciation for Indonesia's creative personality; (4) Accelerating the growth of information and communication technology; (5) Financing institution that supports the creative industry' (Natawiria: 3). In general, export most of our products still faced various problems such as capital cost and logistic are still high.

In conclusion, the existence of the AEC will creates new paradigm and global challenges so that our SME's products, including creative industry products created by SME's in Bandung will compete with other products produced by other AEC members. Therefore, redesign competence business strategy of SME's absolutely required.

*Keywords:* SME's, liberalization, creative industries

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## **1. BACKGROUND**

The existence of AEC (ASEAN Economic Community) in 2015 as a single market with production base that characterized by free movement of goods, services, investment, skilled labour and capital. Actually the main goal of AEC is: "The establishment of ASEAN Community aims to improve the welfare of all members of ASEAN through economic cooperation and trade flows within and between member states in order to be able to face economic competition on a regional and global scope. If this happen, the strategic role of the ASEAN free trade has broad opportunities for regional economic cooperation more powerful and mutually beneficial"(Sagir: 614)

The consequences of the AEC single market establishment is that Indonesia should be ready to compete with the onslaught of imported goods (with a zero percent important duty) of the ASEAN countries. In contrary, ASEAN market will provide opportunities for Indonesian commodities to enter the ASEAN market. Indonesian companies must have 4 important things to be able to compete, namely: (1) high level of competitiveness, (2) high productive levels, (3) high power innovation (4) high flexibility"(Sagir: 216)

The establishment of AEC single market is also implementation of the trade liberalization that will have a direct impact on the development of SME's in Indonesia in the future. AEC 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 SME's which are generally run by traditional means.

Therefore, anticipation needs to be done immediately to look towards its presence by various parties, especially the export-oriented businesses, including SME's entrepreneurs and holders of economic policy, namely government.

As it is known that during this time the of SME's role, such as the creative industries in the Indonesia national economy sector, has a very important and strategic position in national development. Particularly, its contribution to job creation is that able to absorb large quantities of informal workforce. Regarding the role of the SME sub-sector creative industry are as follow: "Creative industries are not always labour intensive, although there are sub sectors of this industry that can also absorb a large workforces "(Natawiria: 16).

## **2. AEC SINGLE MARKET IMPACT OF INDONESIAN CREATIVE INDUSTRY SECTOR**

The existence of AEC single market in ASEAN region will give its members an opportunity and freedom to exchange products in the markets of AEC members, then this can impact directly on many aspects, such as the need/demand of product quality, competitive price professional human resources, and productive human resources. It seems that the impact of trade liberalization with the AEC new market establishment for Indonesia is actually quite significant because Indonesia has the greatest market potential among members of the AEC which is consist of 250 million people who has a lot of natural resources and so. This globalization era has a competitive advantage such as the availability of labours and natural resources which is a must in order to survive. The problem is that many developing countries, including Indonesia, cannot exploit its comparative advantage. It means that availability of resources as said above is not enough in globalization context.

The facts above indicate that the Indonesian market opportunity is large enough but can't be used yet, considering Indonesia now is just a destination market of some countries. This relates to Indonesia's competitiveness ranking to the global competitiveness decrease. "The low level of Indonesia's competitiveness and productivity within the last 10 years is because the average labour activity is relatively low. It is because the structure of majority labour force is classified as informal workers who generally have low levels of education. The implication is that the average hit rate national productivity"(Sagir: 206)

It seems that the attention and marketing penetration of AEC products will be focused on Indonesian market. It means, the businessmen of Indonesian SME needs to anticipate the expansions products of AEC's member production, especially creative industry products that will be the competitor of Indonesian's SME creative industry products. All this time the sector of creative industries is being the major project of the government as the economic commodities in domestic or export market. Therefore, the development of creative industries sector which is really creative and innovative is absolute.

Although the export value of the sector above is relatively slight but the contribution to the development of creative economic and the informal job provision are important. Creative industry sectors are inseparable part or a union of creative economy, as stated bellow: "Creative industries are an integral part of the creative economy Republic of Indonesia recognizes that the creative economy which focuses on the creation of goods and services by relying on skill, talent and creativity as intellectual property, is the hope for Indonesia's economy to rise, compete and achieved excellence in global economy"(Natawiria:2)

Meanwhile there is also the understanding and the creative industry role which is related to labour sector, as the following bellow: "One of the real sector, the absorber of large labour and do not utilize modern technology to fight the poverty and stupidity (pro poor and pro job) is the creative industry sector"(Sagir:265)

Although the export of creative industry is slight but there are some increase indications in the last few years:"...the export value in 2012 are nearly 700 million American dollar." (Kompas, 22nd of May 2013, page. 34). It shows that SME, especially creative industry sector, has some strategic position in Indonesian economy today. So that, since this last few years, the government sees that the creative industry role is so important:"Lately, one of activity that notice by many people is the role of "creative industry" which are now much undertaken by young creative workers. By seeing the (latent) potential that owned by creative industry, the government in this last three years have tried to develop creative economy which was started in 2007 by constructing a roadmap for the development of creative industry and in 2008 they created the blueprint" (Sagir:199)

Other interesting fact that SME's has many advantages or durability in facing economic turbulences or recession, for example, the weakening of Rupiah against U.S. dollar as it happened on 97-98's and now. The crisis above has no big impact for some SME's entrepreneurs. On the contrary, for some SME's entrepreneurs that manufactured the export products basically by local material of weakening change of rupiah created some profit. The SME's endurance in facing economic crisis is shown during 1997-98's financial crisis.

### **3. THE IMPORTANCE OF RE-DESIGN COMPETENCE BANDUNG SME BUSINESS STRATEGIES IN DEALING WITH AEC SINGLE MARKET IN 2015**

Based on the data, there are 8 million SME businesses in West Java including them who are moving in creative industry sector. This sector plays an important role in the growth (overall growth) in economy of Bandung for years. Even this sector became the eminent of Bandung, especially the fashion sub-sector that made Bandung known as the City of Factory Outlet. Bandung city even called one of creative cities in East Asia which received award and selected as pilot project as a creative city in international meeting city-based creative economy in Yokohama. That award is based on assessment that Bandung city has developed creative industries sector as one of the economic activities. The presence of AEC single market will be a challenge for the creative industries in the city in developing its market in global business.

Estimated that there are about 400-500 factory outlet with thousands of informal workers is a major potential economic in Bandung. Besides that, there are other sub-sectors of the creative industry which is the mainstay in the city for this. Besides that, there are also other sub-sectors of the creative industry which is being the mainstay in Bandung all this time. These potentials could be more increased- especially in utilizing AEC's new markets – to be some products or export commodities. But there are factors or criteria that need to be increased, that are aspect of product quality and production that meets the criteria as an export product or global.

If quality of the products from fashion sub-sector and other are not improved, then it was possible to be rivalled by similar products from SME the member of AEC instead. Until now there are 10 countries that will be involved in the next AEC single market. It means that the establishment of this market is an opportunity and open competition.

In fact, during  $\pm 20$  years, between 1990 until 2010, most of creative industry sectors of SME in Bandung are focusing more in domestic market because it is potential enough. However, by the establishment of this AEC single market, it needs to do a re-design about the business strategy comprehension in order to compete in the global market as well as able to take advantage from the new AEC market. As the consequence, they need a lot of repairs, improvements, and the adjusted target of the market by diversification process.

That new market AEC may give a high chance but the competition level is rather high, because of considering that every AEC member has either competitiveness or main product. Therefore, entrepreneurs at creative industry sector in Bandung need to anticipate immediately, including re-design their business competence strategy in order to expand and bring their business into global market orientation. According to Sagir, there are some prerequisites in order to enter Globalization era in 21st century, which are: "Owning comparative advantage in primary product, human resource with ability in knowledge and technology (IPTEK) (human, capital, competent, competitive) either in software or hardware, our nation can be equal with other nations." (Sagir: 662). It is not easy to show that prerequisites to a global market aspect but it is interrelated and complex.

Meanwhile, the important factor which is capable of the creative industry sector is the low-quality entrepreneurs or craftsman. The critical role of human resources – in terms of the creative industries sector- a very important role of human capital is characterized by professional, qualified, disciplined, productive, high work ethic, motivated, creative, innovative, competent to competitive" (Sagir: 103). This will apparently be the most difficult thing for SME's in facing AEC's whole market next time, in the short future.

Up until now, creative industry products which are made by entrepreneurs/craftsmen in Bandung are mostly focused and penetrate to domestic market which offers big potential and still wide-opened. Therefore, it can be predicted that export value of SME's in Bandung is still ranked as insignificant. Another issue is the export products are mostly made by large-group of SME's. Whereas, the quantity of small-group SME's entrepreneur that is dominant can't compete in quality and productivity yet. According to the statement rationale above, the negative impacts of AEC's free market's existence toward creative industry sector UKM in Bandung, apparently, need to be anticipated immediately. Ironically, that

creative industry sector is one of Indonesia's hopes, as to be stated: "Creative industries for Indonesia raises great hope for the growth of a new economy based on creativity" (Natawiria:16)

#### **4. AEC'S SINGLE MARKET AS A NEW PARADIGM OF TRADE LIBERALIZATION IN ASEAN**

The change of paradigm is not easy, for sure. Especially, if it is related to export quality products. There are some sliding scales of parameter, for example, competitive price because of some countries of AEC have high-level of competitiveness or have some superiorities, like cheaper/more competitive production cost and also lower fee.

According to Gita Wirjawan, the commercial minister, he states that Indonesian export products still have some constraints, for example cost of capital, high inflation and logistic infrastructure when it is compared with other AEC countries. That is the main constrain factors for Indonesian export product in global market competition. Furthermore, Gita Wirjawan states that competitive spirit is needed in order to welcome, and to face AEC.

And else, there are some constrain factors in AEC's whole market competition, which are: "There are 5 (five) major problems that are identified by the Department of Commerce for achievement in 2015. The five main issues are : (1) The quantity and quality of human resources; (2) Climate conducive to starting and running business; (3) Awards/appreciation for Indonesia's creative personality; (4) Accelerating the growth of information and communication technology; (5) Financing institution that supports the creative industry" (Natawiria:3). In reference to the first issue, the relative low-quality human resources are related to the traditional concept and technique of running business. According to Sagir (206), there are factors which become obstacles in improving the competitiveness of Indonesia, namely: infrastructure, labour market efficiency and technological readiness.

Several main issues of SME's above, are constrain factors in welcoming AEC's single market which are needed to be anticipated immediately by every party that are the entrepreneurs and the government. Government roles and policies are needed in order to developing and stiffening the SME's position, as the government of Korea and China have done up until now. There are some backings from both of two governments in developing SME to global standard. Based on the experience from the both countries, government roles are very important for SME's in facing AEC's whole market in immediate future: "...it is believed that the collaboration between the various sectors that play a role in the creation industries of Intellectuals, Business and the Government (IBG) to be absolute and is a fundamental prerequisite." (Natawiria: 2)

#### **5. CONCLUSION**

In conclusion, the existence of the AEC will creates new paradigm and global challenges so SME's in Indonesia, including creative industry products created by SME's in Bandung will compete with other products produced by AEC members. In general, export most of our products still faced various problems such as capital cost and logistics are still high.

Therefore, redesigning competence business strategy of SME's in Bandung is absolutely required. This development includes upgrading the quality of export-oriented products that require high quality, creative, competitive price and so on. This is done to face AEC's competitive single market.

In short, opportunities of creative industry in domestic and AEC market are enormous. Therefore, SME's entrepreneurs in Bandung need to take advantage of these opportunities by increasing the global competence. Improvement requires synergy among all SME's, including financial support and favourable policies for SME's to deal with global competition which is competitive and complex.

The most serious challenge is actually the competitiveness of human resources as the main perpetrators of the creative industries sector in Bandung who need to make a new paradigm of creative and innovative thinking that has only triggered by local or domestic challenges. In global market, the demand of both aspects, such as creativity and innovative, is absolute.

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