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Empowering SMEs and cooperatives: Export capacity building in the era of AEC trade liberalisation

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ABSTRACT: The era of trade liberalisation for the ASEAN Economic Community (AEC) began in December 2015 and brought about economic liberalisation in the Southeast Asian region. This era is competitive and the ASEAN member states (AMSs) almost do not have full power of sovereignty to govern their own economic national matters. In this globalised dependence era, the majority of states in the world have to adjust and adopt as well as adapt their national laws to internationalise²¹ les of law. This trade liberation era also has forced companies and other business entities, including Small and Medium Enterprises (SMEs) and Cooperatives in Indonesia to compete with each other in order to tap the benefits of international trade liberalisation. In this context, SMEs and Cooperatives in Indonesia need some kind of protection from the government that does not oppose international regulations on trade. While the number of SMEs and Cooperatives is 98 per cent, their contribution to Indonesian export is small, at only 19 per cent. They are weak in terms of capacity building and access to capital, information technology, global markets as well as integration with regional and global market chains. This research paper evaluates SMEs and Cooperatives in Indonesia in terms of facing AEC trade liberalisation, i.e., what has done and should be done by the authority is to give proper protection to the SMEs in Indonesia by focusing on the manufacturing SMEs as this sector has the best chance of boosting SMEs' export capacity and building the competitiveness of Indonesian SMEs in order to be equal with other SMEs in the ASEAN region.

Keywords: AEC, SMEs, global value chain, trade liberalisation

1 INTRODUCTION

¹³ The ASEAN Economic Community (AEC) as one of the three pillars of the ASEAN Community (AC) was officially established in December 2015. The AEC establishment will create deep economic integration in the region characterised by the free flow of goods, services, skilled labour, capital, and investments. With its slogan, as 'one vision, one identity, one community and its vision' ('ASEAN 2025: Forging Ahead Together'), ASEAN has emerged and presented itself as having great potential as well as promising a strong community on the global stage. The establishment of the AEC will encourage all of ASEAN member States (AMS) as well as their citizens and firms to tap benefits from the economic integration of ASEAN. If Indonesia intends to gain economic benefits from the AEC scheme, Indonesia should have engaged in comprehensive management of its economy. In order to get maximum results from trade liberalisation²³ in ASEAN, Indonesia has to have a strategy to enhance all of its resources, including Small and Medium Enterprises (hereinafter SMEs) and Cooperatives.

In Indonesia, SMEs and Cooperatives were found to have been weathering the monetary crisis in 1998 where larger companies collapsed. In short, Indonesian SMEs and Cooperatives have great economic potential and can play an important role in boosting national economic development. Due to the economic growth in rural areas of Indonesia, the SMEs have grown extensively. There were 57.89 million units (99.9%) in 2013, while large enterprises had

around 5.066 units (0.01%). SMEs are able to contribute 97.16% to the job market and to the National GDP amounting to 58.65%. However, in terms of capacity, SMEs are not as strong as large business enterprises, especially in the era of free trade pursued by ASEAN with the establishment of the AEC in 2015.

The development and resilience of SMEs have become an important and integral part in the economic development of a country. Some factors of SMEs' weaknesses that have become important concerns for the government are lack of working capital, marketing difficulties, access to financial resources, lack of technological and managerial skills, human resource capability, productivity, ICT competencies, organisational management, and business performance, as well as business climate. Factors that SMEs should be aware of are access to markets, access to technology, access to financing and access to information, that are critical factors in SME development. In general, the majority of SMEs lack resources and capability compared to their large enterprise counterparts since they are in rural areas. In Indonesia, SMEs lack contribution to exports because the global competitiveness of SMEs is low especially in the global market as well as the domestic market in terms of importing products. SMEs in Indonesia also lack entrepreneurial skill as a result of the absence of training and low-levels of education. SMEs are usually part of a lower tier in the network, but there is a significant threat to their survival.

This article examines the Indonesian SMEs' and Cooperatives' export capacity building in the trade liberalization era of AEC 2015. The amount of capital and assets determines the definition of SMEs in Indonesia. SMEs contribute to generate more employment, promote more balanced growth in the country, and exhibit more innovation and dynamism. Single market and production based as the main objective of AEC can be used to give good momentum to Indonesian SMEs, especially in the manufacturing industry to engage in international business through exports.

2 DISCUSSION

2.1 SMEs' and cooperatives' export capacity building

The definition of SMEs according to Law No. 20 year 2008 on Micro, Small, and Medium Enterprises, is categorised based on asset and sales revenue. Definitions of SMEs in Indonesia are as follow: 1. Micro Enterprise is a productive enterprise owned by individuals and/or the individual business entities that meet the criteria as defined in the micro enterprise, as provided in this Law. 2. Small Enterprises are productive economic activities that stand alone and get operated by the individual or business entity that is not a subsidiary or their branch companies are not owned, controlled, or group as a part either directly or indirectly of a medium or large business 3. Medium Enterprises are productive economic activities that stand alone and get done by the individual or business entity that is not a subsidiary or their branch companies are not own, controlled, or grouped as a part either directly or indirectly of a medium or large business with total net assets or the annual sales revenue as provided in this Law. Other than based on sales and revenue, there is also a definition based on amount of labour. Thus, the criteria for micro, small and medium enterprises in Indonesia can be summarised as in Table 1 as follows.

Table 1 shows that the total number of SMEs (micro, small and medium) and total employment are very high. However, contribution of SMEs to export is very small as indicated by Yuri Sato who found that the average SME export share of five ASEAN Member Countries (AMCs), namely, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam was only 23 percent on average, which is lower than that of their counterparts in other East Asian economies, where export share of SMEs is 43 percent in Korea, 40 to 60 percent in China, and 56 percent in Taiwan. In Indonesia for example, large enterprises' contributions jump up to 84 percent while micro enterprises seem to have nothing to do with exports. The SMEs' export shares may be improved by taking into account indirect export by subcontracting with particular commodities. Thailand, the Philippines, and Malaysia, which have a high percentage of SME export share, have higher export shares for machinery parts and components in their total exports.

Table 1. SMEs' criteria and total number compared to corporations.

	Assets (excluding land and building)	Sales revenue	Amount of labour	Total number (2013)	Total employment (2013)
Micro	<50 million IDR	<300 million IDR	<5	57.189.393	104.624.466
Small	50–500 million IDR	300 million – 2.5 billion IDR	5–19	654.222	5.570.231
Medium	500–10 billion IDR	2.5 billion – 50 billion IDR	20–99	52.106	3.949.385
Corporates	>10 billion IDR	>50 billion IDR	N/A	5.006	3.537.162

Source: Law No. 20/2008 and Ministry of Cooperatives and SME, 2013.

The big difficulty for SMEs in Indonesia in terms of taking part in regional and/or international markets is the existence of a structural economic gap as a consequence of economic globalisation and trade liberalisation, which in turn creates tight competition. In general, SMEs in Indonesia cannot compete with other enterprises regionally as well as internationally due to missed-strategy in terms of SME development that the government managed long before the establishment of AEC 2015. Indeed, Indonesian SMEs and Cooperatives have not contributed to export activities due to the lack of 'global competitiveness' of SMEs for competing in the global market as well as entrepreneurial skills. SMEs in Indonesia need "globalization of entrepreneurship" as the government policy for SME development. This would come about if the government is able to comprehensively manage SMEs and Cooperatives by providing strategic and structured economic policy for Indonesian SMEs and Cooperatives.

2.2 Indonesian strategy for SMEs

By establishing the Southeast Asian region as a single market for goods and services, ASEAN will facilitate the development of production networks in the region and, at the same time, enhance ASEAN's capacity to serve as a global production centre and as a part of the global supply chain. Manufacturing businesses, especially in high-tech industries, require parts and components that come from within and outside ASEAN. Small and Medium Industries (SMIs) in ASEAN play a part in the supply chain, so the distribution of parts and components becomes less costly and less time-consuming. As a result, this will make ASEAN more conducive for a manufacturing base thereby attracting investments in the manufacturing sector.

Accordingly, SMEs are the backbone of ASEAN economies and their development is essential for integrally achieving long-term and sustainable economic growth. Generally, they account for more than 96% of all enterprises and from 50% to 85% of domestic employment in ASEAN Member Countries (AMCs). In addition, the contribution of SMEs to GDP is between 30% and 53%, and the contribution of SMEs to exports is between 19% and 31%. The AMCs have to encourage SMEs by giving greater involvement to SMEs in the production network. Thus, there are huge opportunities for SMEs in this region.

The SMEs have an important role as a key engine of growth for Indonesia's economic development, in areas such as the basis of production, export, and the workforce which also becomes the case for developed countries. As the fourth most populated country in the world, Indonesia is facing numerous challenges, and one of these challenges is a high level of unemployment.

The structure of SMEs in Indonesia is complex since they cover various types of business, such as culinary, garment, etc. The number of unemployed people in Indonesia is 7.0 million (or 20.39%) out of a 127.70 million strong workforce in 2016.

The Ministry of Cooperatives Small and Medium Enterprises (MSME) is the institution that has an authority over the development of and policy on SMEs in Indonesia. SMEs in Indonesia include a very large number of micro enterprises, which are essentially self-employed individuals (or family businesses) that are spread out throughout the rural hinterland. The SMEs are defined as enterprises with less than 100 employees. The majority of them are

poorly run with minimal capital, low productivity, and poor products. Compared to the large enterprises, the total number of SMEs is increasing over the years as shown in Table 2 below.

Table 2 shows that the number of SMEs increased from 51.409.612 to 57.198.000 (2008–2013) while the number of LEs only increased slightly, from 4.650 to 4.968 units (2008–2012). SMEs' primary industries are agriculture, forestry, and fisheries. Other sectors are trade, service, transportation, manufacturing and others. It should be borne in mind that the SMEs consist of Micro enterprises and small enterprises. From Table 3, it can be seen that the number of micro enterprises is much higher than small enterprises.

In terms of the total number of employees, SMEs can absorb a much higher number of employees than LEs, and the total number of employees of SMEs increased from 2008 to 2012 (see Table 4).

SMEs can absorb 107.657.509 employees or 97,2% of the nation's workforce. This contributes to 5,8 employee growth. The total number of Small Medium Industries (SMIs) in Indonesia is estimated at 641,143 companies (or 16,1%) of the total number of SMEs, but the contribution to national economic growth is 33% or IDR 489,81 trillion compared to the large industries which contributed IDR 973,53 trillion. The majority of SMEs in Indonesia have only 3–5 workers. However, Law 20/2008 does not state the minimum number of workers in a company, whereas, according to the Law on Workforce, a company should have at least 10 workers and should have company regulations. This issue has been solved by customs that are generally accepted in the community. This may represent obstacles for the development and quality of SMEs in Indonesia in the context of globalisation and trade liberalisation. Therefore, a good strategy to increase competitiveness becomes an important agenda for SMEs in Indonesia, such as by providing some regulations that enhance the role of SMEs in the economic framework of AEC 2015. Indeed, no one denies the significant role of SMEs in providing jobs, reducing poverty, triggering economic growth, ensuring equitable development and ensuring sustainable development.

Table 2. The total number of SMEs and large enterprises in Indonesia (2008–2013).

	Total					
Year	2008	2009	2010	2011	2012	2013
SMEs	51.409.612	52.764.603	53.843.732	55.229.444	56.531.592	57.198.393
LEs	4.650	4.677	4.838	4.952	4.968	N/A

Source: Ministry of Cooperatives and SMEs, 2012.

Table 3. The total number of micro enterprises and small enterprises (2010–2013).

No	Year	Micro	Small
1	2010	53, 210 million	573,060 unit
2	2011	54,650 million	592,087 unit
3	2012	55,860 million	629,042 unit
4	2013	56,510 million	632,056 unit

Source: Ministry of Cooperatives and SMEs 2014.

Table 4. The total number of employees of SMEs and large enterprises in million (2008–2012).

Year	2008	2009	2010	2011	2012
SME	94.024.278	96.211.332	99.401.775	101.772.458	107.657.509
LE	2.756.205	2.674.671	2.839.711	2.891.224	3.150.645

Source: Ministry of Cooperatives and SMEs, 2012.

The basic economic policy for the development of SMEs and Cooperatives is Presidents' Nawa Cita No. 6 and 7, namely, promoting productivity and competitiveness in an international market and promoting economic independence by developing domestic strategic sectors. Furthermore, as the implementation of these policies, the government has a national priority program for year 2018 in which the government has put some important programs for the development of Indonesia's SMEs. National priority programs related to the Ministry of Cooperatives and SMEs are comprised of four main programs: Education, Poverty Alleviation, Development of Business and Tourism, and Area Development. The poverty alleviation programs related to improving access for SMEs and Cooperatives for some programs are as follow:

1. improvement of product quality and access to market;
2. business skill and services development;
3. entrepreneurship development;
4. ease of doing business assurance and protection;
5. increasing access to finance;
6. cooperatives and business partnership.

It should be noted that the government also has a national policy to increase the export of high value-added products and services which include 1). Development of business partnership and networking; 2). Improvement of quality and standard of export products; 3). Improvement of promotion effectiveness and market access.

One of policy frameworks in the SMEs' and Cooperatives' development programs is improving rules and regulations or deregulation in order to promote conducive-business environment for SMEs and Cooperatives. While renewal of Law 20/2008 and Law 25/1992 for the development of SMEs and Cooperatives respectively and their operating regulations will need times, the government has enacted the Negative List under Presidential Regulation No. 44 of 2016 which revoked the previous Negative List 2014. The 2016 Negative List has simplified the categories for the business lines that are open for investment (foreign and domestic) with requirements. Under this Negative List, one category is dedicated to the development of SMEs in Indonesia, business lines that are reserved for or subject to partnership with micro, small and medium enterprises (local SMEs) as well as Cooperatives. Business lines that are reserved for or subject to partnership with domestic SMEs are: 1). industrial sector, such as cane sugar, which is reserved for partnership with SMEs on the basis of a 'core-plasma' scheme; 2). Public work sector including construction consultancy services and construction implementation services; and 3). Trade sector including areas such as retail trading via mail or internet orders, in particular, for goods under the categories of food, beverages, tobacco, pharmacy, cosmetics, laboratory devices, textiles, apparel and footwear, household and kitchen goods.

In the context of implementation of this regulation, the partnership schemes vary. These include sub-contracting, franchising, trading, distributorship and agency, profit sharing, cooperation, joint venture, outsourcing and other schemes of partnership, but they require further clarification from the Capital Investment Coordinating Board (BKPM). These will be required on a case-by-case basis in terms of the permitted level of foreign ownership in such partnership arrangements. The 2016 Negative List is regarded as a key economic policy for the economic incentive packages introduced by the government to increase foreign direct investment and Indonesia's competitiveness in the ASEAN region by encouraging SMEs to take part in business lines provided by the Negative List.

Other implemented suggestions to boost SME development are by learning best practices from Japan and Singapore's experiences. In Japan, the main driver of SME development is not external assistance, but internal learning and entrepreneurial activities in a competitive environment such as "small but highly competitive" enterprises or "from micro to the world class" enterprises, which could be used as an inspiration for SMEs in Indonesia. SMEs can also have an inclusive pathway, by collective action of small firms in rural and urban communities, clusters, and cooperatives which can help SMEs overcome disadvantages with schemes, such as the one village one product (OVOP) movement, as already implemented in Thailand, in the form of the One Tambon One Product (OTOP). In Singapore, a vast number of SMEs utilise business

support programs organised by the governmental enterprise development agency and centres. Later, SMEs, for the competitive and dynamic pathway, are trained mainly through business transactions with customers or foreign suppliers by which their capability is upgraded more than through direct support by the government. In this digitised era, it is also encouraged that SMEs have an on-line presence. If digitally engaged, SMEs are more competitive internationally based on the report which stated that SMEs with basic online capabilities derived 6 percent more of their revenue from international customers than offline SMEs. According to this report, greater use of digital technologies, such as social media, broadband and e-commerce can provide significant benefits for SMEs including higher growth in revenue (up to eighty percent), more likelihood of increasing employment (one and a half times), and more innovation (seventeen times). In this context, the government provides facilities in order to improve the productivity of SMEs and Cooperatives by choosing appropriate technology for SMEs and Cooperatives with guidance and technical know-how to utilise the supportive technology.

3 CONCLUSION

SMEs are the backbone of economic growth in all ASEAN member countries because they account for the majority percentage of national economic growth. While the total number of SMEs in Indonesia is very high, the contribution of SMEs to export is very small. Compared to large enterprises, the SMEs can absorb more employees in the Indonesian workforce. Thus, SMEs are seen to have significant potential to contribute to national as well as regional economic development through participation in the international production network or global value chain. This can be achieved by empowering SMEs' export capacity building which currently is still low. In order to alleviate SMEs' weaknesses, the government provides some policies and programs. While these policies and programs need time to show results, it is better to focus on human capacity building and entrepreneurship as well as giving a grant for start-up businesses and support for R&D to SMEs and Cooperatives.

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