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THE STRATEGY FOR SME's IN ASEAN ECONOMIC COMMUNITY 2015: MAKASSAR CITY CASE STUDY

This study uses the phenomenological approach in identifying the strategies employed by SME in Makassar city under the ASEAN Economic Community 2015. The results show that small and medium enterprises face a number of issues of complex and dynamic nature. And their efforts to develop will not be successful unless they do not consider wider development (especially the economic one). Rules for business, including small and medium one, should not be partial, but must be integrated into national economic development and implemented on the on-going basis, as the SWOT analysis shows.

Keywords: ASEAN Economic Community; small and medium enterprises; SWOT-analysis; business development.

Анвар Рамлі

СТРАТЕГІЯ ДЛЯ МАЛОГО ТА СЕРЕДНЬОГО БІЗНЕСУ В КОНТЕКСТІ ЕКОНОМІЧНОЇ СПІЛЬНОТИ АСЕАН 2015: НА ПРИКЛАДІ М. МАКАССАР (ІНДОНЕЗІЯ)

У статті з точки зору феноменології розглянуто стратегії, що використовуються малим та середнім бізнесом м. Макассар (Індонезія) в контексті розвитку Економічної спільноти АСЕАН. Результати дослідження демонструють, що малий та середній бізнес мусить долати низку складних та динамічних проблем, і зусилля з розвитку бізнесу будуть успішні тільки у випадку їх інтеграції у більш широкий економічний контекст загальнонаціонального розвитку, що зокрема демонструє й авторський SWOT-аналіз.

Ключові слова: Економічна спільнота АСЕАН; малий та середній бізнес; SWOT-аналіз; розвиток бізнесу.

Літ. 18.

Анвар Рамлі

СТРАТЕГИЯ ДЛЯ МАЛОГО И СРЕДНЕГО БИЗНЕСА В КОНТЕКСТЕ ЭКОНОМИЧЕСКОГО СООБЩЕСТВА АСЕАН 2015: НА ПРИМЕРЕ Г. МАКАССАР (ИНДОНЕЗИЯ)

В статье с точки зрения феноменологии рассмотрены стратегии, применяемые малым и средним бизнесом г. Макассар (Индонезия) в контексте развития Экономического сообщества АСЕАН. Результаты исследования показывают, что малому и среднему бизнесу приходится преодолевать ряд сложных и динамических проблем, и усилия по развитию бизнеса будут успешны только в случае их интеграции в более широкий экономический контекст общенационального развития, что в частности демонстрирует и проведённый автором SWOT-анализ.

Ключевые слова: Экономическое сообщество АСЕАН; малый и средний бизнес; SWOT-анализ; развитие бизнеса.

Introduction. Since the Summit in Bali in 1967, ASEAN (Association of South East Asian Nations) countries raised a range of economic problems that should be addressed more seriously. Member nations need to strengthen economic cooperation inside ASEAN and determine strategies for intra-ASEAN economic development. Various forms of cooperation were carried out by ASEAN countries to achieve the economic goals.

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The ASEAN Economic Community (AEC) is a form of the ASEAN economic integration planned to be achieved by 2015. ASEAN leaders at the 13th ASEAN Annual Summit (November 2007) in Singapore agreed on the ASEAN Economic Community (AEC) Blueprint, as a reference for all members in implementing their commitments.

Through the AEC Blueprint, ASEAN has taken various significant developments. Among others, the development of technologies and transportation. Implementation of the ASEAN single window in each country, as well as harmonization of standards or policies such as the ASEAN-made product certification with MRA (Mutual Recognition Arrangement) is also part of the ASEAN agenda to achieve MEA 2015.

AEC is manifested from the desire of ASEAN countries to realize the ASEAN as a solid regional economy at the international arena. The problem to be emphasised is to what extent SME's in Indonesia, particularly in Makassar are ready to deal with the AEC 2015. Also, how is SWOT-analysis implemented by small and medium enterprises facing MEA 2015 in Makassar? And lastly, what are the strategies employed by SME dealing with MEA 2015 in Makassar.

Literature review:

1. Economic development. Human capital accumulation has been regarded as an important factor in economic development. The results obtained initially were somewhat disappointing: When someone runs Cobb-Douglas specification implied in (Ben Habib and Spiegel, 1994) standard production functions which include human capital as a factor, human capital accumulation failed to significantly determine economic growth, and even ended up with a negative estimate.

More and better education is a must for rapid economic development throughout the world. Education stimulates economic growth and improves people's lives through many channels: by increasing the efficiency of labor, improving democracy (Barro, 1997) cited in (Gylfason, 2001) and thus creating better conditions for good governance, through the improvement of health and improved equality (Aghionetal, 1999, cited in Gylfason, 2001). A model successful theory here is the theory of economic growth with Robert Solow and Edward Denison (Lucas, 1988) developed and applied to the twentieth century US experience. This theory serves as a basis for further discussion in three ways: as an example or a form of a useful aggregative theory, as an opportunity to explain what form the theory can tell us that another theory cannot, and as a theoretical possibility for economic development.

Adam Smith (cited in Nasution, 2004) as well as a legal theorist, "the father of modern economics", gave rise to the doctrine of fairness (justice) saying that "purpose of justice is to protect from any damages".

2. Strengthening the economy. The logic is quite simple: If financial markets are underdeveloped, then people will choose less productive, but flexible technologies. Considering this, manufacturers do not experience a lot of risks, and therefore there is very little incentive to develop financial markets. Conversely, if financial markets are developed, the technology will be more specialized and risky, thus creating the need for financial markets. In the terminology of Cooper and John (Saint-Paul, 1992), there is a strategic complementarity between financial markets and technologies, as both are instruments that can be used to diversify.

The steps that undertaken by Bank of Indonesia (BI) lowering its benchmark interest rate had been right. Expected reduction in the BI rate from 8.25% to 7.75% to encourage the development of UMKM so as to absorb casualties reported layoffs had reached 37,905 people due to the crisis. At the same time, the central bank needs to continually encourage banks to give credit to UMKM. The support of banks is needed in developing UMKM, among others, by creating UMKM financing scheme that is easily accessible.

3. Entrepreneurship. From the global perspective, entrepreneurship is the backbone of any economy, it's wealth at the core. Its existence is the source of economic stability and also a spring of innovations. A unique feature many authors found so appealing is its ability to provide economic stability, at the same time encouraging innovation.

Schumpeter (as cited in Carland and Carland, 2004) estimates the managed economy that emerged after the World War II with the emphasis on giant corporations practicing economies of scale.

Entrepreneurship is generally accepted as a necessary condition for long-term economic development (Carree and Thurik, 2003). It introduces new products and new production processes. In this process, companies are forced to be more innovative and use competitive advantages to withstand the pressure generated by new firms. As a result, entrepreneurship has a rejuvenating effect on the economy.

This theoretical relationship has inspired a large body of empirical work, largely on the expected positive effect between entrepreneurship and economic growth (Van Praag and Versloot, 2007). These empirical studies are, however, limited to developed countries mostly. It is still very much an open question whether entrepreneurship has the same positive role in developing countries as it has in developed ones.

Small and medium enterprises are often viewed as the engine for growth, but market imperfections and institutional weaknesses inhibit this growth. Sceptics question the effectiveness of this policy and pointed to good empirical evidence to support large enterprises or policy approaches. Many state-level and microeconomic studies have assessed the importance of small and medium enterprises in the process of economic development and industrialization (Snodgrass and Biggs, 1996), providing cross-country evidence on the relationship between SMEs, economic growth, and poverty reduction, by using a new database compiled by Ayyagari et al. (2007).

Cross-country regression on per capita growth and the share of small and medium enterprises in manufacturing employment showed a strong positive correlation during the 1990s, even after controlling for an array of other state characteristics that may explain the differences in growth across countries. Instrumental variable regression that explicitly control the reverse causation and simultaneity bias, however, erode the importance of the relationship between SME and economic growth. Regression does not necessarily lead to the conclusion that small and medium enterprises do not encourage economic growth. Instead, they fail to reject the hypothesis that small and medium enterprises do not have a causal impact on GDP per capita growth. These findings are consistent with the view that a large SME sector is a characteristic of fast-growing economy, but not the cause of rapid growth. Beck and Demirguc-Kunt (2006) also found no evidence for any association with a large SME sector revenue growth faster than the lowest income quintile and a faster rate of poverty reduction.

Usmara (2002: 109) suggests that competence is a part of personality predicting behavior in a variety of circumstances and work tasks. According Zimmerer and Norman (2002: 3), entrepreneur is someone who creates new business by taking risks and uncertainties to achieve profitability and growth by identifying opportunities and resources necessary to build it.

Suryana (2006: 88) revealed that competence or capability that must be owned by an entrepreneur in real terms is reflected in the ability and willingness to start a business (start-up), the ability to do something new (creative), willingness and ability to seek opportunities, the ability and courage to bear risks and the ability to develop ideas and gather resources.

Discussion.

1. SWOT-analysis of small and medium enterprises with AEC 2015 in Makassar.

1.1. Weakness. Availability of capital seems to be the major obstacle. Although relief efforts have been applied their realization was rather far from the target. Government measures were widely used by certain people for their personal benefits but not as intended. Hopes of micro, small and medium businesses to obtain capital through banks remain only a promise. This is because the number of banking procedures often cannot be met by SME.

Furthermore, obstacles in the development of SME concern the quality of production, human resources, information access, business development services, business networks and availability of technologies and information is needed for SMEs so that later they can compete with foreign small and medium enterprises. In ASEAN economic community where the circulation of goods and services which no longer recognizes national borders will certainly bring both positive and negative impacts on SME.

1.2. Access. Department of Cooperatives and UMKM provide training for small and medium enterprises in South Sulawesi. This activity is aimed to improve competitiveness of SME facing the ASEAN Economic Community.

Deputy on Development and Restructuring of the Ministry of Cooperatives and Small and Medium Enterprises of Indonesia, Braman Setyo says that SMEs in the face of AEC 2015 ASEAN should require development assistance, such as the Cooperative Development under Law 17/2012, in the face of the SMEs competitiveness in ASEAN: "SMEs should be provided with institutional strengthening of cooperation ... for IT application, and establishing partnerships with other businesses".

He also said that the government continues in its efforts to encourage SME in Indonesia that to move forward, such as providing facilities for national and cross-licensing of ASEAN, as well as through training to access the Internet and how to do business online.

1.3. Challenges. Business growth is fairly rapid apparently due to low business competition. Following this course will have negative impact on economic growth. With the opening of opportunities this great business opportunity would be widely used by those who have large capital. As a result, the rich continue to be richer and the poor remain poor. In other words, small and medium enterprises remain small and medium.

In addition, the urge to create new business opportunities for small and medium enterprises is not coupled with the availability of markets. As a result, all the produc-

tion of SME is very much disoriented. This consequently yielded many complaints because facilities for after-market products are not available, as producers do not know where to market their products. This is certainly a new area for government jobs. The government must be able to provide a clearer market access. One possible thing that could be done by the current government is to provide central marketing of products of small and medium businesses.

1.4. Opportunities. We still remember the financial crisis which hit Indonesia in 1997–1998. As a result, many banks were closed, some large companies went out of business not being able to survive. The interesting thing at that time was that when large companies decided to go out of business, many small and medium enterprises remain as the monetary crisis that occurred did not have a significant effect on their business activities.

That event provided a great lesson. As it turned out small and medium enterprises are often underestimated as not contributing meaningfully to turnover and economic growth, while they are much more durable and resilient than large companies.

Small and medium enterprises in addition are known to have quite high labor absorption and are capable to fight poverty and social inequality. The last few years the government (via Ministry of Cooperatives and Small and Medium Enterprises) is trying to open space and provide opportunities to develop and build SME with the creation of 20 mln of small and medium enterprises until 2020.

One thing we need to realize is that small and medium enterprises are growing ahead of big business because almost all major effort are always starting from small and medium enterprises.

South Sulawesi (Makassar) as the gate of the eastern part of Indonesia, under the leadership of Governor Syahrul Yasin Limpo launched a program to bring up approximately 1,000 young entrepreneurs by the year 2019. This is certainly in line with what is trying to be done by the central government in order to improve the entrepreneurial climate leading to the acceleration of economic growth.

2. Strategies of small and medium enterprises facing AEC 2015 in Makassar. The opportunity for Indonesia to be able to compete with AEC 2015 is actually quite large. Indonesia is currently ranked 16th in the world among the economies of scale. Economies of scale are always supported by the share of productive age population and the growth of a large middle class.

Indonesia's positive economic outlook is also supported by the improvement of Indonesia's investment rating by rating agencies as well as the inclusion of Indonesia as the world # 4 prospective destination in the UNCTAD "World Investment Report". Strong fundamentals of the Indonesian economy can be seen while many countries are "fallen" buffeted by the global economic slowdown, Indonesian economy still maintains positive growth. The role of government, especially government of Makassar would be especially important while competing with other businesses within AEC 2015. Some of the efforts that need to be made by the government to empower UMKM include:

2.1. Improve product's quality and standards. In order to be able to take advantage of opportunities and potential markets in the ASEAN region and globally, the products produced by SMEs must meet the quality standards in accordance with the ASEAN agreements and in destination countries. In this framework, small and medi-

um enterprises should start facilitating on product quality standards required by ASEAN markets and those outside ASEAN. The role of technological support in improving quality and productivity is also very important here.

2.2. Improved financial access. Financial issues in the development of SME are rather frequent. So far, not many SMEs can take advantage of financing schemes provided by banks. According to Deakins et al. (2008), there are three gaps in access to finance for SME: 1) formality, because many small and medium enterprises do not have legal status as such; 2) business scale – often banking credit scheme is not in line with the scale of small and medium enterprises; 3) information: banks do not know which SME should be funded, while small and medium enterprises also do not know the available financing schemes in banking. The third of these gaps must be particularly addressed. Information about financing schemes by banks should be promoted better.

2.3. Improving the human resources quality at SME and cooperatives. In general, the quality of human resources of SMEs in Indonesia is still low, especially what concerns the entrepreneurial spirit. When referring to the number of small and medium enterprises in 2008, the level of entrepreneurship in Indonesia is only 0.25%, and in 2011 it was estimated at 0.273%. Indeed, it is very far behind other countries in the world, including Asia and ASEAN. In Singapore, the level of entrepreneurship is more than 7%, and in the USA the level of entrepreneurship has reached 11.9%.

Therefore, to strengthen the quality and entrepreneurial spirit small and medium enterprises in Indonesia, it is necessary to provide education and skills training, managerial and other appropriate technical training, in accordance with key necessities.

2.4. Strengthening and improving access to technology transfer for innovative SME development. Access to and transfer of technologies for SME is still a challenge for Indonesia. The role of incubators, research institutions, and cooperation between research institutes universities and business world in the field of technology transfer should be encouraged more. Cooperation or partnership between large companies, both inside and outside the country with SME should be encouraged to transfer technologies from large corporations to SMEs.

2.5. Access to information and promotion abroad for SME. The most important part of any production process is market. No matter how good the quality of a product, is if the public or the market does not know it, it will be difficult to sell it. Therefore, information provision and promotion of products of SME, in particular at ASEAN markets should be improved. Promotion can be performed through cyberspace or at exhibitions abroad. In the promotion of these products to foreign countries the readiness of SMEs to supply products should be noted. Even though some SMEs are not yet ready to export their products and thus should be excluded from external promotion.

Innovation synergy facing AEC 2015. Strengthening community innovative synergy is the key to the ASEAN Economic Community by 2015, as revealed by the Focus Group Discussion (FGD) "Entrepreneurship Indonesia Welcoming AEC 2015" (South Sulawesi) and also by Entrepreneurship Indonesia FGD series of Makassar Entrepreneurial Forum 2015 held by Makassarpreneur and Integrated Business Service Centre (PLUT) KUMKM province.

Conclusion. In order to improve durability and competitiveness while facing global markets, efforts should be concentrated on the empowerment of small and medium enterprises and cooperatives applying management principles and rules of today's economy. One of the driving factors in SME empowerment is market development. Market opportunities for products of SME and cooperatives to get to shopping centres and markets in general should be encouraged as much as possible.

To be able to take advantage of opportunities at potential markets of the ASEAN region and globally, products of small and medium enterprises must meet the quality standards in accordance with the ASEAN agreements. Small and medium enterprises should start facilitating on quality necessity and product standards as required by ASEAN markets and outside. The role of technology support in improving quality and productivity is also vital in this context.

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