

# INDONESIA'S COMPETITIVENESS IN AEC: BY PILLAR GOODS MARKET AND MARKET SIZE

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## ABSTRACT

*This study aimed to describe Indonesia's competitiveness is seen from pillar Goods Market Efficiency and Market Size, based on Global Competitiveness Index. The data used is secondary data, sourced from World Economic Forum, ASEAN Secretariat, and the Central Bureau of Statistics Indonesia. Descriptive analysis was used to analyze Indonesia's competitiveness in the AEC. We found that Indonesia's competitiveness ranking is based on Global Competitiveness Index was brought from Singapore, Malaysia, and Thailand. For goods market efficiency pillar, Indonesia's competitiveness ranking is still lower than Singapore, Malaysia, and Thailand. On the other hand, Indonesia's competitiveness compared with other top AEC country, for the market size pillar. In addition, the declining trend of exports of Indonesia in the AEC. The Country Philippines and Vietnam became Indonesian competitors ahead in the share of exports in the AEC.*

*Keywords: Competitiveness, Goods Market Efficiency, and Market Size*

## I. INTRODUCTION

Bangkok Declaration of 1967 is the forerunner to the establishment of ASEAN economic cooperation. The cooperation aims to accelerate economic growth, social progress and cultural development in the ASEAN region. Implementation of the ASEAN Economic Community (AEC) or *Masyarakat Ekonomi ASEAN* (MEA) 2015, as a follow-up of the Summit ASEAN 9<sup>th</sup> in Bali, Indonesia in 2003. In 2006, the results of the meeting in Kuala Lumpur, Malaysia, agreed MEA is directed to the implementation of regional economic integration refers to the blueprint AEC.

Regional integration in the MEA region a strategic issue many countries, including in Indonesia. Regional economic integration lets things happen, such as benefits for countries that do integration (Meir, 1995), reallocation of resources (Bretschger and Steger, 2004), and shifts and labor demand (Longhi and Nijkamp, 2007). For the region MEA, International Labor Organization (ILO) and the Asian Development Bank (ADB) estimates that in 2025 the increase of labor for agriculture, trade, transportation, and construction. At least 1.9 million workers will increase in Indonesia.

Indonesia as the largest country in Southeast Asia, should take advantage of MEA as a driver of economic growth. Potential MEA market potential. Data of the United Nations (UN) noted ASEAN's population is expected to reach 631.9 million by 2015, or about 8.63 percent of the total world population in 2015 (7.3 billion people). Competitiveness is the key factor utilize this potential. Competitiveness can determine the productivity of a country which in turn determine the level of prosperity that can be achieved with the economy

(Schwab, 2014). World Economic Forum (Schwab, 2014) explains that competitiveness is influenced by the 12 main pillars, which belong to the factor-driven economies, efficiency factor economies, innovation driven economies. Goods market efficiency pillar and pillar of market size, of which an important part of the 12 pillars of competitiveness. We just watched a pillar goods market efficiency and market size pillar in describing Indonesia's competitiveness in the MEA.

The purpose of this study was to describe Indonesia's competitiveness in the MEA market from the perspective of Pilar Goods Market Efficiency and Market Size. We also review trade trends Indonesia in starting the implementation of the AEC. This paper is summarized in four (4) sections. The first section outlines the MEA and research purposes. The second section presents a brief pertinent literature. The methodology described in section 3 and section 4 explains the findings. Lastly (section 4), presents the cover and recommendations.

## **II. REVIEW OF THE LITERATURE**

### **ASEAN Economic Community (AEC) Blueprint**

AEC Blueprint was agreed in Kuala Lumpur, Malaysia, in 2006, as a follow up of the meeting in Bali, Indonesia. AEC Blueprint contains four main pillars, namely: (1) ASEAN as a single market and production base that is supported by elements of the free flow of goods, services, investment, educated workforce, and a freer flow of capital; (2) ASEAN as a region with high economic competitiveness, with elements of competition rules, consumer protection, intellectual property rights, infrastructure development, taxation and e-commerce; (3) ASEAN as a region with equitable economic development with elements of the development of small and medium enterprises, and the initiative for ASEAN integration CMLV countries (Cambodia, Myanmar, Laos, and Vietnam); and (4) ASEAN as a region fully integrated into the global economy with elements of a coherent approach in economic relations outside the region, and increase participation in global production networks (ASEAN, and ASEAN 2007, 2013).

### **2.1 Competitiveness, Goods Market Efficiency Pillar, and Market Size**

The competitiveness of a country is considered as one of the sources of resilience of a country facing all odds in building civilization. World Economics Forum (Schwab, 2014), defines competitiveness as "the set of institutions, policies and factors that determine the level of productivity of a country". Since 2004, the World Economic Forum has developed the Global Competitiveness Index (GCI), which is a report on competitiveness ranking of the countries in the world. The ranking report is based on research that consists of more than 110 variables, where two-thirds coming from the primary comes from a survey of executives, and a third comes from secondary data sources from official publications.

Competitiveness of a country are classified as follows: (i) Basic requirements; (ii) Efficiency enhancers; and (iii) Innovation and sophistication factors. Furthermore, competitiveness is described in detail in the 12 main pillars, (Schwab, 2013), includes the factor-driven economies Institutions, Infrastructure, Macroeconomic environment, Health and

primary), factor-efficiency economies (Higher education and Training, Goods Market efficiency, Labor market efficiency, Financial market development, Technological readiness, Market size, and innovation-driven economies (Business sophistication, Innovation). the 12 pillars are put ranking of economic competitiveness of a country. the higher the ranking of competitiveness, the resources state-owned economy has a high level of productivity.

Goods market efficiency and the size of the market, including a significant part of the 12 pillars of competitiveness. In accordance with the framework of the AEC Blueprint (ASEAN, and ASEAN 2007a, 2013), the flow of goods, services, investment, educated workforce, and financial flows more freely in the AEC. It is an important part of the embodiment goods market efficiency. Efficient goods market reflected a healthy market competition and allow the absence of barriers for companies in producing for the market. Efficient goods market is reflected also on the reduction of barriers to FDI and, depending on demand. This is particularly relevant in the framework of the AEC.

Pillar market size can affect productivity because of the market enables companies to achieve economies of scale. In the era of globalization, international markets have become replaced the domestic market, especially for small countries. The empirical evidence shows that trade openness is positively associated with growth. Wagner (2004) found that the evidence of the comprehensive relationship between the size of the export market with productivity in Germany.

## **2.2. Research Methodology**

The data used in this research is secondary data. The data is data Global Competitiveness Index, 2009-2015, World Economic Forum, data export and import of ASEAN as the ASEAN Secretariat, Indonesia and employment data from Statistics Indonesia.

In accordance with the purpose of research, we used the descriptive method in analyzing Indonesia's competitiveness in the MEA region based goods market efficiency pillar and pillar of market size, as reported by the Global Competitiveness Index.

## **2.3. Results and Discussion**

### **2.3.1. Global Competitiveness Index: ASEAN Countries**

Global competition is increasingly fierce competitiveness as a kind of thinking, a new paradigm in economic development. Competitiveness is considered important in responding to the dynamics and achieve economic opportunities in boosting economic growth. Based on data from the Global Competitiveness Index, Indonesia's competitiveness ranking of 114 countries in the world have undergone a change for the better, although it fluctuated throughout 2009-2015. Compared with countries belonging MEA, Indonesia's competitiveness ranking is still far below that of Singapore, Malaysia, and Thailand. However, Indonesia is still better than other MEA countries in the global market level. Until the year 2014-2015, Indonesia's competitiveness out of 144 countries in the world ranked 34th, is far more encouraging than in 2009-2010 in the ranking of 54. Furthermore, the

competitiveness of Singapore ranked second, Malaysia ranked 20 and Thailand ranked 31<sup>st</sup>, year 2014-2015.

Indonesia still has the opportunity to seize the MEA market of 600 million people that is integrated of free goods, capital, and labor. Indonesia GDP growth range from an average of 5-6 per cent a few decades, amid the turmoil in commodity and global financial markets. Therefore, the decisive pillar of global competitiveness needs to be improved so that Indonesia can seize the economic opportunities in the MEA region.

Table 1 Trend Competitiveness of ASEAN Countries Based on Global Competitiveness Index, 2009-2015

Country	2009-2010	2010-2011	2012-2013	2011-2012	2013-2014	2014-2015
Singapore	3	3	2	2	2	2
Malaysia	24	26	25	21	24	20
Thailand	36	38	38	39	37	31
<b>Indonesia</b>	<b>54</b>	<b>44</b>	<b>50</b>	<b>46</b>	<b>38</b>	<b>34</b>
Philippina	87	83	65	75	59	52
Vietnam	75	59	75	65	70	68
Laos	n/a	n/a	n/a	n/a	81	93
Cambodia	n/a	n/a	85	n/a	88	95
Myanmar	n/a	n/a	n/a	n/a	139	134
Brunei	n/a	n/a	28	n/a	26	n/a
Darussalam						

Source: The Global Competitiveness Report, various editions

The twelve (12) pillars of global competitiveness, market size pillar of Indonesia's best compared to other ASEAN countries, including in comparison with Singapore, Malaysia, and Thailand. However, one of the pillars, namely the efficiency of labor markets, Indonesia is very concerned about, or rather need comprehensive improvement effort. Indonesia is ranked 110<sup>th</sup>, with a score of 3.8 pillars of competitiveness. The rating is very underdeveloped compared to other ASEAN countries. In fact, the State of Cambodia which is rated 95 global competitiveness, labor market efficiency pillar is rated 29. The labor market situation remains by far the weakest aspect Indonesia, because of rigidity in terms of setting wages and hiring and dismissal procedures. For example, the World Bank estimates that the average cost associated with making workers redundant is the equivalent of 58 weeks of salary (Schwab, 2014).

The low score of the labor market efficiency pillar Indonesia indicates Indonesia's labor market situation is worse in AEC community. Indonesia also supply shortage of college graduates as well as gaps in skills or management experience (Burkner, 2015). The findings of the International Institute for Management Development (IMD) in 2012, showing the competitiveness of Indonesian workers is low. Labor productivity Indonesia ranked 58 out of 59 countries and the quality of skilled labor in the ranking of 45 out of 59 countries.

Meanwhile, the Central Bureau of Statistics Indonesia (August, 2015), notes that the labor structure Indonesia dominated primary education level down. Of the total workforce of 114.82 million people, at least 44.27 percent of the workforce had elementary education. Indonesian labor junior high school education at least 18.03 percent, 17.25 percent SMA, SMK 9.44 percent, and Diploma I / II / III 2.68 percent. As for university graduates labor

8.32 percent. On this basis, the Government of Indonesia needs to improve the labor market, including the improvement of labor skills and broaden access to tertiary education in order to compete in the MEA markets.

Table 2. Competitiveness Ranking Asean Countries Base on Pilar Global Competitiveness Index, 2014-2015

Country	Institutional	Infrastructure	Macroeconomic Stability	Health and Primary Education	Higher Education and Training	Efficient Goods Market	Efficient Labor Market	Development of Financial Markets	Utilization Technology	Market Size	Production Process Sophistication	Innovation
Singapore	3	2	15	3	2	1	2	2	7	31	19	9
Malaysia	20	25	44	33	46	7	19	4	60	26	15	21
Thailand	84	48	19	66	59	30	66	34	65	22	41	67
<b>Indonesia</b>	<b>53</b>	<b>56</b>	<b>34</b>	<b>74</b>	<b>61</b>	<b>48</b>	<b>110</b>	<b>42</b>	<b>42</b>	<b>15</b>	<b>34</b>	<b>31</b>
Philippina	67	91	26	92	64	70	91	49	69	35	46	52
Vietnam	92	81	75	61	96	78	49	90	99	34	106	87
Laos	63	94	124	90	110	59	34	101	115	121	79	84
Kamboja	119	107	80	91	123	90	29	84	102	87	111	116
Myanmar	136	137	116	117	135	130	72	139	144	70	140	138

Source: The Global Competitiveness Report 2014–2015

## 2.4. Pilar Goods Market Efficiency

There are 11 (eleven) indicator of goods market efficiency pillar for the measurement of the Global Competitiveness Index. Between countries in the ASEAN region shows a varied score. Scores goods market efficiency pillar Indonesia of 4.5 in 2014-2015. That means Indonesia is still ranked lower than Singapore (5.6), Malaysia (5.4), and Thailand (4.7). However, Indonesia's score adrift slightly higher than other ASEAN countries.

Indicators of competitiveness in goods market efficiency pillar is still weak (less), should be of particular concern the Government of Indonesia. Indicators procedures in the management of the business and day old concrete steps to start a business need improvement. Value score indicators are still poor compared to the State of Vietnam and the Philippines. Report of The Global Competitiveness Report 2014-2015, mentioned among the main problems of business in Indonesia is corruption, access to finance, inflation, and the government bureaucracy in-efficient. Four such problems can cause delays in business activity, which in turn impact the market goods that are not efficient in Indonesia.

Eradication of corruption in Indonesia should be continued. Economic package II and VII Indonesia (2015) of 8 package of measures, including in the form of faster service in the form of an investment license within three hours for eight licenses, is an important policy in starting a business. However, an efficient bureaucracy improvement efforts are still needed, including strengthening the capacity of the apparatus. Thus, investment attractiveness and start a business in Indonesia can compete with other ASEAN countries, particularly Singapore, Malaysia, and Thailand.

Table 3 Goods Market Efficiency Pillar Score According to ASEAN Countries, 2014-2015

Country	No. procedures to start a business*	No. days to start a business	Agricultural policy costs	Prevalence of trade barriers	Trade tariffs, % duty*	Prevalence of foreign ownership	Business impact of rules on FDI	Burden of customs procedures	Imports as a percentage of GDP*	Degree of customer orientation	Buyer sophistication	Score	Global Rankings	Ranked ASEAN*
Singapore	3	2,5	4,8	5,5	0.3	6.1	6.3	6.1	167.5	5.5	4.5	5.6	1	1
Malaysia	3	6.0	5.2	5.1	6.2	5.3	5.5	5.2	80.0	5.5	4.9	5.4	7	2
Thailand	4	27.5	3.1	4.5	6.8	4.5	5.1	3.9	78.9	5.4	4.1	4.7	30	3
<b>Indonesia</b>	<b>10</b>	<b>48.0</b>	<b>4.1</b>	<b>4.1</b>	<b>4.6</b>	<b>4.6</b>	<b>4.6</b>	<b>4.0</b>	<b>25.4</b>	<b>5.0</b>	<b>3.9</b>	<b>4.5</b>	<b>48</b>	<b>4</b>
Philippina	15	35	3.7	4.5	3.6	4.9	4.5	3.5	29.7	5.2	3.7	4.3	70	6
Vietnam	10	34	3.9	4.3	6.8	4.1	4.7	3.6	85.1	4.1	3.3	4.2	78	7
Laos	0	92.0	4.3	4.3	8.5	4.3	4.8	4.1	30.6	4.6	3.7	4.4	59	5
Kamboja	11	104.0	3.8	4.3	13.0	4.7	4.8	3.1	93.7	4.4	3.5	4.2	90	8
Myanmar	11	72.0	4.0	4.0	3.9	3.1	3.6	3.2	18.0	4.3	2.7	3.7	130	9

Source: The Global Competitiveness Report 2014–2015

Note: Brunei Darussalam is not included in the GCI Survey

\*) The author's view

## 2.5. Pilar Market Size

There are four (4) indicators of the pillars of Market Size for measuring the Global Competitiveness Index. The pillar score between countries in the ASEAN region shows a varied score. Indonesia showed a score better than other ASEAN countries on indicators of domestic market size index and Gross Domestic Product (GDP). For foreign market size index indicator, the value of Indonesia's competitiveness score is lower than Singapore, Thailand, and Malaysia. The indicator exports as a percentage of GDP, the value of Indonesia's score is just better than Myanmar. Overall, the value of Indonesian market size pillar score of 5.3, ranked 15th out of 144 countries in the world.

Table 4. Score Pillar Market Size by ASEAN Countries, 2014-2015

Country	Domestic Market Size Index, 1–7 (best)	Foreign market size index, 1–7 (best)	GDP (PPP\$ billions)	Exports as a percentage of GDP	Score	Global Rankings	Ranked ASEAN*
Singapore	4.3	6.0	348.7	178.1	4.7	31	4
Malaysia	4.6	5.8	525.7	85.6	4.9	26	3
Thailand	4.8	5.9	673,7	74.2	5.1	22	2
<b>Indonesia</b>	<b>5.3</b>	<b>5.6</b>	<b>1,292.8</b>	<b>23,6</b>	<b>5.3</b>	<b>15</b>	<b>1</b>
Philippina	4.5	5.1	456.4	28.0	4.7	35	6
Vietnam	4.4	5.6	359.8	83.6	4.7	34	5
Laos	2.4	3.4	20.8	30.8	4.7	121	9
Kamboja	3.0	4.3	39.7	74,2	3.3	87	7
Myanmar	3.6	4.0	113	17.5	3.7	70	8

Source: The Global Competitiveness Report 2014–2015

Note: Brunei Darussalam is not included in the GCI Survey

\*) The author's view

## 2.6. Indonesian Trade Trends in ASEAN

The trade value between Indonesia in the ASEAN region seen to decrease in 2014 compared to 2013. The decline in the value of trading reached 4 percent in 2014. In fact, the trade value of imports greater than exports. It shows the dependence of Indonesia in the ASEAN market is still quite high. Of total ASEAN trade value reaching USD 2,528,615.9 million, Indonesia contributed only 14.41 percent (conditions 2014). The trade value is much lower than other ASEAN countries, such as Singapore amounted to 29.62 per cent, 18.43 per cent of Thailand, and Malaysia 16.89 percent.

Enforcement of the Common Effective Preferential Tariff Scheme ASEAN Free Trade Area (CEPT-AFTA) which reduces trade barriers between countries of ASEAN rated affecting the structure of export-import Indonesia. Although imports continued to decline, but exports are also likely to decline, by 3.4 percent in 2014. This indicates that the competitiveness of Indonesian exports is lower than Malaysia. On the other hand, the Philippines and Vietnam will also seek to exploit the potential of AEC export market, reflected in the increase in exports from 2013-2014.

Table 5 ASEAN trade, 2013-2014 (Million USD)

Country	2013			2014 <sup>p</sup>			Change (%)		
	Export	Import	Total	Export	Import	Total	Export	Import	Total Trading
Brunei Darussalam	11.445,4	3.611,8	15.057,2	10.584,1	3.596,6	14.180,7	(7,5)	(0,4)	(5,8)
Cambodia	9.148,2	9.176,0	18.324,2	10.681,4	18.973,2	29.654,6	16,8	106,8	61,8
Indonesia	182.551,8	186.628,7	369.180,5	176.292,7	178.178,8	354.471,5	(3,4)	(4,5)	(4,0)
Lao PDR	2.592,8	3.292,0	5.884,9	2.639,9	2.748,9	5.388,8	1,8	(16,5)	(8,4)
Malaysia	228.331,3	205.897,4	434.228,7	233.927,3	208.850,5	442.777,8	2,5	1,4	2,0
Myanmar	11.436,3	12.009,1	23.445,4	11.030,6	16.226,1	27.256,7	(3,5)	35,1	16,3
Philippines	53.978,3	65.130,6	119.108,9	61.809,9	67.756,9	129.566,9	14,5	4,0	8,8
Singapore	410.249,7	373.015,8	783.265,5	409.768,7	366.247,3	776.016,0	(0,1)	(1,8)	(0,9)
Thailand	228.730,2	249.517,1	478.247,3	227.573,6	227.952,3	455.525,9	(0,5)	(8,6)	(4,8)
Vietnam	132.664,1	132.109,9	264.774,0	148.091,5	145.685,6	293.777,1	11,6	10,3	11,0
<b>Asean</b>	<b>1.271.128,1</b>	<b>1.240.388,4</b>	<b>2.511.516,5</b>	<b>1.292.399,8</b>	<b>1.236.216,2</b>	<b>2.528.615,9</b>	<b>1,7</b>	<b>(0,3)</b>	<b>0,7</b>

Source: ASEAN Secretariat, 2015

## V. CLOSING

Indonesia still faced major challenges in mastering the market potential in the AEC. Indonesia's competitiveness out of 144 countries in the world ranked 34th, the period from 2014 to 2015, based on the Global Competitiveness Index. Compared with other AEC countries, Indonesia's competitiveness ranking is still far below that of Singapore, Malaysia, and Thailand. Goods market efficiency pillar Indonesia section of the measurement of the Global Competitiveness Index, is ranked lower than Singapore, Malaysia, and Thailand. However, Indonesia competitiveness in the market size pillar of fellow AEC countries, particularly the domestic market size indicators index and Gross Domestic Product (GDP).

As the largest country in Southeast Asia, the Indonesian government should be able to exploit the potential of the AEC market. Momentum average GDP growth of 5-6 percent in recent decades, should be a positive signal to improve the competitiveness and high productivity in the region. In order to create competitiveness efficiency of goods markets and increase investment, can be reached through the service quickly and simplification of procedures to start a business / investment, optimization of the package of policies and economic incentives, reducing regulatory barriers on an ongoing basis PMA in Indonesia, eliminating illegal fees / corruption in business, as well as strengthening the efficiency of government bureaucracy. Downstream and diversification of export products has also become important for the share of exports in the AEC. Furthermore, improving the quality of human resources and workforce training should run a continuous and integral with the higher education institutions so competitive in the AEC.

This research is still common in analyzing the competitiveness of Indonesia in the AEC from the perspective based on the Global Competitiveness Index, for the pillars of market size and efficiency of the goods market. Other authors suggest that more focus and detail in analyzing the competitiveness of commodities and export products as well as the quality of Indonesian workers in the AEC.

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