

East Java and ASEAN Economic Community 2015¹

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Abstract

Indonesia and East Java Province may benefit the ASEAN Economic Community of 2015. Because of the vast territory and population, business units in Indonesia, especially those at national level, have been accustomed to large capacity, wide network, and a large market. Indonesian companies are certainly having a higher competitiveness than firms in other ASEAN countries. Accustomed to serve 230 million people, it would not be difficult for Indonesia to serve 590 million people in the whole ASEAN Economic Community later on 2015. Compared to other provinces, East Java is one of the readiest provinces to benefit the ASEAN Economic Community of 2015, since its annual growth (6.5 percent) is higher than the national growth (5.9 percent).

Key words: East Java, ASEAN Economic Community, economic growth, competitiveness.

To discuss about East Java and the ASEAN Economic Community of 2015, let us begin with considering two illustrations. First, East Java economic growth in 2010 was 6.5 percent, 0.6 percent higher than national growth (5.9 percent). The growth happened in the middle of the trade liberalisation process toward the 2015 ASEAN Economic Community. The year of 2015 is the new target of AEC, replacing the old one, which is 2020. This shows that the process of uplifting the trade barriers is considered as good opportunity to increase the economic growth of ASEAN member countries.

Second, research held by the Perdana Rahardhan et al., "Pengaruh ASEAN Trade Facilitation terhadap Volume Perdagangan Produk Unggulan Jawa Timur," concludes that the export value of East Java to the ASEAN countries from 2000 to 2007 has increased significantly. In 2000, the increase was only USD 790,091,319, while in 2007 it reached USD 2,286,840,765. The increase in export value of East Java to the ASEAN countries also occurred in the middle of the trade liberalization process towards the ASEAN Economic Community.

The two facts above are sufficient enough to stating that ASEAN Economic Community 2015 is more of an opportunity than a barrier that can be used by the East Java in building its economy. The problem is no longer about finding the answer whether the ASEAN Community 2015 is beneficial or detrimental for East Java, because it is still in the process of reducing trade barriers. The East Java's economy could grow above the national average, especially later on when there are no more trade barriers in 2015.

Indeed, there are many people in our society who are sceptical and pessimistic about the Indonesia involvement in the realization of the ASEAN Economic Community 2015. The sceptical and pessimistic nature is based on the fears that Indonesia would suffer by entering

¹Paper for Seminar on the Establishment of ASEAN Community 2015: Opportunities and Challenges for East Java, held in Surabaya, June 8, 2011. Organized by the Permanent Officials of the Republic of Indonesia to the Association of Southeast Asian Nations (ASEAN).

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ASEAN Community, since economically, Indonesia is still not ready with the idea of being part of single market and free competition. The facts that there are some manufacturers in Indonesia that went bankrupt due to the implementation of the ASEAN-China Free Trade Area (ACFTA) also contributes to the perception that the ASEAN Economic Community 2015 is more of a threat than an opportunity. This kind of sceptical and pessimistic attitudes are necessary to remind us about the possibility of threats once we are uncareful in dealing with free trade in ASEAN. However, the scepticism and pessimism need not be exaggerated, because there are more reasons to be optimistic.

The current problem, as well as for the next four years, is how the government of East Java and economic actors prepare and take positions in order to be better able to strategically taking the advantage of the ASEAN Economic Community 2015 for the success of economic development. For sure, the success of economic development in East Java is not merely based on welfare calculations in macro-region (state/province, welfare) alone. The success of the development in East Java is measured by the increase in human welfare. So, the indicator is the human development index, such as reduced unemployment, increased employment, and reduced gap between the rich and the poor.

Both East Java, in general, and Indonesia, in particular, can make the implementation of the ASEAN Economic Community 2015 become strategically important to its economic development, since Indonesia has comparative advantages, such as:

Compared to Indonesia, those who are better prepared are less than those who are poorly prepared. Clearly, Cambodia, Laos, Myanmar, Vietnam, Brunei, the Philippines are still less prepared than Indonesia.

In the other hand, Singapore, Malaysia and Thailand can indeed be perceived more ready than Indonesia. However, when other variables also considered, Indonesia still has at advantages. For example, because of the vast territory and population, business units in Indonesia, especially those at national level, have been accustomed to large capacity, wide network, and a large market. Therefore, Indonesian companies are certainly having a higher competitiveness than firms in other ASEAN countries, whether in Singapore, Malaysia and Thailand. Accustomed to serve 230 million people, it would not be difficult for Indonesia to serve 590 million people in the whole ASEAN Economic Community later on 2015. While the other national-scaled companies in other ASEAN countries whose total population is only one-to-ten millions would face difficulties to take care a market of half billion people.

Due to the highest total population, Indonesia has the most available labors compared to other ASEAN countries. Our workforce alone is 110 millions, more than the entire population of Singapore, Malaysia and Thailand. Although having a higher percentage, yet, the productivity in Indonesia is smaller than in some other ASEAN countries. However, in nominal terms, it is certainly still much higher. By having more labors, wages will be lower than other countries who have less labours. Investors will certainly take account the large number of population as potential markets for their commodities, so that, they will relatively choose Indonesia as their business location. East Java has a larger scale and capacity than some other ASEAN countries. The combination between the labour force and the population of East Java (38 million) is greater than the other five ASEAN members: Brunei (0.4), Cambodia (14.9), Laos (6.1), Malaysia (28), and Singapore (4, 9).

The lack of infrastructure and the high business cost in Indonesia are not preventing the Indonesian businessmen to operate and develop further. Indonesian businessmen would certainly be more competitive whenever they are entering the other ASEAN members which have a better infrastructure, legal certainty and low cost business. This means that the ASEAN Community will surely facilitate Indonesian businessman to expand their networks and markets in other ASEAN countries.

We all know that comparative and competitive advantages are complementary. A country can enjoy its competitive advantages when its industry explores a specialization on specific products that have comparative advantages (Porter 1990; Gupta 2009:5). Finda (2008:34) states that the use of comparative advantages and the creation of competitive advantages at the same time boast the competitiveness of a commodity. The relations between comparative

and competitive advantages is dynamic. According to Redding (1997) one of some factors that shape the dynamic of comparative and competitive advantages is free trade.

In order to be able to take the advantages of an open trade in ASEAN, it is necessary to consider few things: (a) having a highly productive and competitive human resources, (b) entrepreneurship and tough business, (c) an adequate infrastructures, (d) having sufficient energy, (e) strong and efficient government, and (f) the availability of natural resources and raw materials.

In addition, to take a further advantages of the ASEAN Economic Community 2015 for the development and advancement of East Java's economy, the Government of Indonesia and Provincial Government of East Java need to do some strategic things.

First, doing a massive socialisation on ASEAN Economic Community. After all, anything that relates to ASEAN, so far, is still elitist and less involving the wider community. Most of the ASEAN affairs are still state-centric. Its connectivity is still about the government officials. If we want to succeed, it must involve the community (people-to-people connectivity).

Second, to be able to expose the opportunities that could be exploited further by the businessman in East Java while entering ASEAN Economic Community 2015. To socialize the optimism about East Java's opportunities in harnessing MEA by developing competitiveness. Also, to encourage the entrepreneurs to efficiently maximize their performance so that they will be more competitive in the future.

Third, to encourage the National Government to better utilize their position as the Chairman of ASEAN in 2011 to prioritize cooperations which aim to improve infrastructures and the energy availability in ASEAN in general, and in particular, Indonesia. There are at least five infrastructure projects in East Java that must be maintained and constructed: (1) the Port of Tanjung Perak and Port of Soekarno, (2) Juanda International Airport, (3) the access road of Puspa Agro, (4) Southern Cross Road, and (5) highway constructions throughout East Java. Once the five projects are completed, the East Java economy can certainly grow by eight percent without generating inflation.

Fourth, to prioritize the improvement of the quality of human resources in East Java. The basic education, from primary to higher education, must be supported by policies and adequate fundings, so that, it can optimally prepare the young learners to be better prepared and dare to compete at international level. The strategy of East Java to develop its human resources can be considered appropriate, because it put an importance to education as the first priority of development. The problem is, how to increase the budget, and to efficiently and effectively use its programs so that the human resources of East Java in the future are more productive and able to compete at national, regional, and international levels.

Fifth, to encourage an increase in security and socio-political stability in East Java in particular, and in Indonesia in general, making it more conducive to the development and the functioning economic cooperation. In this case, the economic resilience of the East-Javanese needs to be paid more attention. It is also necessary to improve the number of activities related to Program Jalin Kesa (An Alternative Way towards Social Welfare Program) in order to accelerate the reduction of poverty and unemployment by placing the least poor stratum as the priority target groups, as well as prioritizing the agro-industries.

Sixth, encouraging the National Government to improve the quality of expertise and the skills of labours by formalizing standard/qualification/certification of expertise/skills/expertise of the workforce. With this certification, East Java's manpower will have certainty and stronger legality in entering the labour market in the ASEAN region.

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