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1.Regional Development 2. Economic Development 3. Monetary and Fiscal Economics 4. Environmental Policies and Assessment 5. Labor Economics 6. Investment 7. Corporate Finance 8. Capital Markets 9. Financial Economics 10. Banking Efficiency 11. Islamic Banking and Finance 12. Consumer Behaviour 13. Branding 14. Internet Marketing 15. Sales Management 16. Human Resource Management 17. Organizational Behaviour 18. Entrepreneurship and Innovation 19. Strategic Management 20. Organizational Knowledge and Learning 21. International Business 22. Auditing 23. Corporate Reporting 24. Management Accounting 25. Law

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TABLE OF CONTENT

MIICEMA 2010-135
AN IMPACT OF ECONOMIC GLOBALIZATION ON THE INDONESIAN INDUSTRIALIZATION PERFORMANCE

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ABSTRACT

In globalization era, a process of long-term economic development can causes a change in a country's economic structure. Indonesia, for example, has transformed from economy dominated by an agricultural sector to economic modern dominated by an industrial sector with dynamic increasing returns to scale as a main drive for economic growth. A manufacturing industrial sector as a characteristic of the Indonesian modern economy is not optimal. A manufacturing industry sector phenomenon in developed countries, included in Indonesia, is relatively underdeveloped. This results from such factors as low-skilled human resources and low technology. Such a condition is greatly influenced by low-structural aspect such as dependence on high import, limited export and market, regional concentration, middle-sized technology industry, and low technology industry development; and low-organizational aspect such as underdeveloped-small-sized industry that consequently produces relatively small added-value, low capacity in technology transfer and development, and low human resource. The Indonesian manufacturing industrial performance makes export development and quality and competitive export low. As a solution to the problem, it is necessary to develop such components as labor force efficiency, labor force's education, organizational performance, financial-organizational performance, government policy evaluation, and accessibility to international trade. These will significantly affect an increase in economic growth and competitive export as a result of empowering a manufacturing industrial performance. Accordingly, for planning the future development, it needs to find an alternative industrialization strategy for developing a manufacturing industrial sector in this country. This strategy must increase an economic added-value, economic efficiency, and fall any dependence on import.

Fields of Research: Manufacturing industry, labor force, competitive export

1. INTRODUCTION

In recent years, many economists and critics think that globalization is a historical certainty; therefore, people throughout the world must face it. The idea is coined as a reaction to a few of economists who concern about developing uncertain global economy and that subject to any instability. It is primarily a consequence of increasingly *wild* global economy whereas all the countries do not have a strongly competitive potency for facing a global finance that can easily penetrate a boundary of county territory, and greatly makes a country difficult to control it.

Globalization era can change a pattern of the businessman's behavior in production process, economic structure and a government's economic policy. A change in production process can cover the use of production factors efficiently and intently and expand a trade and investment in tradable sectors, and nationally competitive industries. A change in economic structure may include a change in economic sector and traditionally-orientated sector to modern sector. This development can make any implication to a change in a policy of firm's micro economy, macro economy, market, etc.

Globalization explains two main points: *first*, it describes a process of integrating global market into borderless market; and *second*, it plays a role in making an economy more efficiently and soundly toward developing people throughout the world. It means that according to the proponents of globalization, there will not be o option for all countries to be in the era if they leave behind or get isolated in increasingly-advanced global economy.

Globalization can cause a new challenge and chance for a development process in Indonesia. In such an era, businessmen will be more increasingly competitive. Consequently, each businessman must apply and implement a properly competitive strategy effectively and efficiently (Kuncoro, 2004). In this context, it must be necessary to employ a modern 'war strategy.' For achieving any successfulness in competition, it needs three points (D'Aveni, 1995): 1) a vision of change and interference; 2) a capability by keeping and developing a flexible and fast capacity for making a response to changes; and 3) a tactic influencing a competitor's strategy and goal (Syamsiah Badruddin: 2009).

2. LITERATURE REVIEW

A process of developing a country's economy is frequently termed as a process of structural transformation. This development process is remarked by change in sector contribution to national output as a consequence of shift in national labor force from industrial to service sectors. The service sector is said to be the highest stage of economic development process (Arief, 1998).

A development conception does not really need to be related to spatial aspects. In most cases, however, a development that is frequently formulated based on economic consideration is really favorable. This is reflected by such advanced countries as Singapore, Hong Kong, and Australia. The economic policy of the countries is generally formulated conceptually in consideration with accountably socio-politic and environmental aspects. Therefore, an economic policy can be described transparently and fairly and it meets planning requirements. In the social aspect, people aspiration and social capital must be considered and kept, and their function must be developed. In terms of the environmental aspect, an aspect of natural capital must be preserved for human beings' welfare. The most important thing, but, is a decision taking must be running well and free from a variety of moral hazard highly subject to vested interest and rent seeking. Thus, the outcomes of development can fairly be helpful for people across inter-region and inter-generation. Empirically, the implication of spatial analysis aspect as stated above is less relevant (Nugroho and Rochmin Dahuri, 2004).

As stated by Tambunan (2001) in reference to a research by Chenery's and Syrquin's (1975) on a economic-structural transformation, in line with the raise of income per capita, a country's economy will shift from agricultural sector to industrial sector. This transformation can be seen from a value of aggregate output or added value for each sector in establishing gross domestic products (PDB). In a long term, the change shows a pattern of economic structure.

3. DATA AND METHODOLOGY

This article is an empiric study where the data used were secondary, including literatures and journals. The data were descriptively analyzed.

Finding and Discussion

A decision taking of industrial strategy needs a deep analysis internally and externally. There are two points in consideration: 1) industrial condition and its competitor; and 2) a firm's capability to compete, resources, internal strength and weakness, and market positioning.

Tambunan (2001: 67-70) states that a manufacturing industrial sector in Indonesia also has a lot of problems, including technology and human resources. In comparison with other developed countries, primarily low-income countries or lower-industrial development countries, for example, Africa, South Asia (except India), and few of Central America, Indonesia has a potency or development of technology and qualified human resources.

In the study of a manufacturing industrial sector, UNIDO (2000) tries to classify the problems of sectors into two categories: 1) structural weakness and 2) organizational weakness.

a. Structural Weakness

The structural weaknesses are as follows:

1) export basis and limited market
2) dependence on high import
3) no middle-sized technological industry

4) regional concentration

b. Organizational Weakness

The organizational weaknesses are as follows:

1) underdeveloped small- and middle-sized Industry
2) market concentration
3) low capacity in transferring and developing teechology
4) low human resources

In their study, Setyawan and Patkhurrohman (2004) stated that nowadays Indonesia faces a serious-economic problem in relation to a low-growth export. It is due to ambiguity of industrialization policy. It is suggested that the policy be establishing an industry in relevant to the Indonesian economic potency. Establishing an industry, however, needs to consider several things: *first*, can its products be sold internationally? It will not be useful to develop an industry if its products are not sold. *Second*, is a newly-established industry needs a protection? Providing any protection to an industry is contrary with a free trade principle. In their research, Zhu and Trefler (2004) stated that any protection for an infant industry in a developed country is due to a very low-technological advance in comparison with advanced countries. *Third*, an industrialization policy is related to a country's investment policy. This policy is essential to build a strategic partner with an investor. In their study, Ellis and Fausten (2004) found that the classification of foreign investment industry is dependent on what the strategic partner is.

In a view of a majority of countries, industrialization is greatly needed to ensure an economic growth. A lot of countries, in fact, state that there is no economy that merely relies on primary sectors to be able to reach a high income per capita, including Indonesia. Since a five-year development 1 (1969), Indonesia has done any industrialization. From 1969 to 1997 economic crisis, an income per capita in Indonesian people had highly raised annually. If the country merely had relied on agricultural and oil and gas sectors, Indonesian with 200 million people would have never achieved a 7% economic growth and an income per capita above US$1,000 in the mid of 1997. Industrialization is a logical stage in a process of change in an economic structure. This step is historically actualized by an increase in contribution to a manufacturing industrial sector in consumer demand, production, export, and work opportunity (Tambunan, 2001).

A result of annual survey by WFF (2007), published in *The Global Competitiveness Report in 2007-2008* showed that from 131 countries in the research samples, Indonesia is in the ninety-third rank in terms of the following question: could the entrepreneurs (respondents) relied on police services for protecting their businesses from criminality (see Table below). The instability of a country may be a serious problem for an entrepreneur (if it does not cause a civil war), but a problem of criminality and unclear Act that protects a businessman's rights in transactions of land trade and business dispute strongly disturbs or makes investors anxious to invest their capital in the country.

Ranks	Countries
1	Finland
2	Denmark
3	German
4	Singapore
5	Swiss
6	Irish
7	Hong Kong SAR
8	Norway
9	Austria
10	Arabic Emirate Union
93	Indonesia
131	Venezuela

A result of survey by World Bank reported a number of interferences in a process of beginning an investment business in Indonesia, including a procedure, time and cost for a business. In general, the rank of ease for running a business was increasingly better, from the 133rd in 1996 to 123rd in 1997. In comparison with the ASEAN other countries, however, it was much worse. The country would be better in rank than Lesotho, Algeria, and Egypt. The most serious problem for running a business is a process of beginning a business that averagely take 105 days. It takes longer time than such countries as Singapore (5 days), Malaysia (24 days), Thailand (33 days), Vietnam (50 days), and Philippine (58 days). In this group, Indonesia is in the 168th of 178 countries.

Several issues in license in Indonesia can be classified into the following. *First*, an overlapping policy and less consistent makes an uncertainty for running a business. A lot of rules and regulations and inconsistency frequently reflect an unclearness of Act and cost; therefore, it is very difficult to rationally predict a profit in running a business.

Second, many organizations without coordination ultimately makes an inefficient bureaucracy. A bad coordination among departments has been one of the classical problems in Indonesia.

Third, corruption directly results in an economy with a high cost. Ironically, Rustiani (2008) stated that the corruption always takes place in every public service, particularly license. Furthermore, she stated that a license structure of business in Indonesia has been a regime. This structure makes the Indonesian license take more time and be the most expensive in the world. Her arguments refer to a study by Asian Foundation in 5 municipalities/regencies in Indonesia, indicating that the length of time for HO, TDP, and SIUP takes 107 days with a cost of Rp. 931,000.

Actually, the Indonesian government has improved an investment climate at home. One of the real actions is issuing a new Act of investments, or generally termed as UU PMA No. 25, 2007. This Act has covered all essential aspects (including a service, coordination, facility, investors' rights and obligation, labor force, and sectors that can be reached by investors) closely related to rise an investment by the government and an certainty for making an investment by investors or entrepreneurs.

In addition to a bad infrastructure, an inefficient government bureaucracy can also result in a serious problem in s business. The Indonesian institution is low in quality. Referring to a finding of survey on corruption perception by International Transparency, Indonesia positioned the 134th rank as the most corrupted of 163 countries in the world (BI, 2008). It is due to an increasingly bad coordination between central government and regional government for running a regional autonomy. Many government rule and regulations and Presidential decree can not work effectively because between central government and regional government has an interest in investing a capital in the region.

Whether this problem comes into being or there is no coordination central government and regional government is technically due to further statements, including in Article 11 of Act No 22 about Regional Government, and regional capital investment that can impact on an inefficiency in business license. Because of an unclear guide, the central government and regional government will be different from understanding an authority in regional capital investment. The bad coordination between the two governments has been a disincentive factor in growing an investment in the region. In addition, the bad coordination among the regional governments has resulted in a high economic cost. It is clearly due to the lack in vision and same understanding between central government and regional government or among the regional governments in relation to development or importance of investment. According to Astuti and Astono (2007), the bad coordination between the two governments is due to the following: *in particular, the regional government frequently makes a policy that deviates from a fixed rule. Accordingly, it understands every policy differently when this is realized by an entrepreneur*.

4. CONCLUSION AND IMPLICATION

A manufacturing-industrial performance in Indonesia shows a low export development and low competition. As a solution to the problem, it is necessary to develop such components as labor force efficiency, labor force’s education, organizational performance, financial-organizational performance, government policy evaluation, and accessibility to international trade. These will significantly affect an increase in economic growth and competitive export as a result of empowering a manufacturing industrial performance. Accordingly, for planning the future development, it needs to find an alternative industrialization strategy for developing a manufacturing industrial sector in this country. This strategy must increase an economic added-value, economic efficiency, and fall any dependence on import.

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TJIPTO SUBADI

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