

Small and Medium Enterprises towards Indonesia's Significant Role in G20 and Economic Sustainable Development

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Abstract

This study is a qualitative desk research. The research's goal is to enhance the understanding of important influence of Indonesia Small and Medium Enterprises (SMEs) among G20 member countries. Using ten design principles for industrial policy by Rodrik (2004), this research identified how SMEs could be a big influence for Indonesia's economic sustainable development. A survey by OECD informed that Indonesia is in the fourth position for its Growth Domestic Product (GDP) and economic development among G20 member countries. The SMEs' development contains with Rodrik's model, one of ten designs is to give incentive programs to subsidize SMEs, so they can improve their productivity and opportunities. Government of Indonesia has given incentives since 2007 to help Indonesia's SMEs activities. The contribution SMEs to GDP has increased from 57.84% to 60.34% in the last five years per 2016. Those facts lead to the conclusion that in achieving sustainable economic development, Indonesia should constantly determine to push the growth of SMEs. Some lacks are still happened. But, by giving more innovative programs and implement supportive policies, the role of Indonesia in G20 will be stronger and the long-term effect will strengthen Indonesia's SMEs.

Keywords: SMEs, Indonesia, G20, Rodrik's Model, Economic Sustainable Development

Introduction

Small and medium enterprises (SMEs) have an important role for developing a country. SMEs are categorized as one of the backbone for a national economy and are urgently needed to be significant contributors to employment growth, adding job field, and innovation (Paul, Parthasarathy, & Gupta, 2017). For their sustainable development, Small and Medium Enterprises let themselves to deeply affected by changes in the global economy, which offers new opportunities for growth (Dominguez & Mayrhofer, 2017).

According to Indonesia Central Bureau of Statistics (Badan Pusat Statistik Indonesia), Small and Medium Enterprises are still the most dominant business in the Indonesian economy. The percentage of small micro enterprises reached 98.33 percent with a total business of about 26.3 million businesses. Workforce absorbed in SMEs is very large, reaching 53.6 million (BPS, 2016). In the last five years, the contribution of micro, small and large enterprises to Indonesia's gross domestic product (GDP) increased from 57.84% to 60.34%. With a total of 99.99% of the total number of business actors in Indonesia or as much as 56.54 million units, SMEs opportunities as economic strength of Indonesia still need to be improved (Majalah Masyarakat ASEAN, 2017).

Sustainable economic development becomes central topic for policy agendas around the world. It demands the attention of policy makers to acknowledge the drivers of economic development in this contemporary knowledge-based economy (Doh & Kim, 2014). Lee & Baek (2012) explain that to sustainable economic development needs the upgrading of the

industrial structure to produce more value-added products with the support of technological capability so it can absorb, utilize, and resulting greater technologies.

Small and Medium Enterprises have made Indonesia being one of the permanent member of the G-20 because they are a particularly important pillar of the Indonesian economy (OECD, 2017a). G-20 is a community where Indonesia as the only ASEAN member can achieve their national interests. Among many developing economics' countries, Indonesia is one of the important emerging ones and therefore holds a special right to be included in the community. Indonesia can also inspire others to promote their democracy country while showing their strong economic growth (Hermawan et al., 2011).

Another beneficial community that Indonesia joined is ASEAN. Since the end of year 2015, ASEAN has entering the era of implicating ASEAN Economic Community. As stated in the Blueprint of ASEAN Economic Community that published by asean.org, it is said that one of objectives to develop SME is enhancing national economic as well. ASEAN has a very potential area with high economic competitiveness and elements of competition rules. It becomes an important point for the global economy as part of a multichannel strategy for SME actors. Indonesia as one of ASEAN member is automatically forced to improve their economic conditions (The ASEAN Secretariat, 2015).

This paper aims to enhance the understanding of important influence of Indonesia Small and Medium Enterprises (SMEs) among G20 member countries. Using ten design principles for industrial policy by Rodrik (2004), this research identified how SMEs could be a big influence for Indonesia's economic sustainable development. Some previous studies (Jalil, 2016; Lee & Baek, 2012) have explain the role of industrial policy in East Asia and Korea. This study will use the ten design principles for industrial policy as perspective for SMEs' role for Indonesia. It is because the economic development in Indonesia contains with Rodrik's model that used to improve their productivity and opportunities.

The Definition of Industrial Policy

Rodrik (2004) defines industrial policy as a discovery process where government and companies concern about how to manage costs and opportunities that are needed for strategic planning. The standard argument for industrial policy is technological externalities, either static or dynamic in the form of learning-by-doing that is external to the companies. The Donor Committee for Enterprise Development (2014) also defines industrial policy as the strategic effort by the state to encourage the development and growth of a sector of the economy. Jalil (2016) explained the function of industrial policy is to improve the business environment using technologies or tasks that are expected to offer better prospects for economic growth or societal welfare than would occur in the absence of such intervention.

Rodrik (2004) then proposed the concepts for industrial policy. There are ten designs and he named it as "10 design principles for industrial policy". The concepts are as follows:

- 1) Incentives should be provided only to 'new' activities.
- 2) There should be clear benchmarks/criteria for success and failure.
- 3) There must be a built-in sunset clause.
- 4) Public support must target activities, not sectors.
- 5) Activities that are subsidized must have the clear potential to provide spill-overs and demonstration effects.
- 6) The authority for carrying out industrial policies must be vested in agencies with demonstrated competence.
- 7) The implementing agencies must be monitored closely by a principal with a clear stake in the outcomes and who has political authority at the highest level.
- 8) The agencies carrying out the promotion must maintain channels of communication with the private sector.

9) Optimally, mistakes that result in ‘picking the losers’ will occur.

10) Promotion activities need to have the capacity to renew themselves so that the cycle of discovery becomes an ongoing one.

G-20 and the Role of Indonesia

According to its official website (www.g20.org), G-20 is a world community that concerns to major economies which has effort to develop global policies to address today’s most pressing challenges. The G20 is made up of 19 countries and the European Union. This forum was set up by developed and developing countries to try to solve and seeks to the solutions for the global financial crisis and have discussions on general and specific regulations to prevent the countries from future possibility of crises (Salim, 2011).

After join G20, Indonesia was able to broaden the sources of growth and diversifying domestic resources to new sectors of the economy (Papadavid, 2015). Indonesia have a potential as a big global buyer. The stable economic growth of Indonesia will have a systemic impact on developments in the Southeast Asian region and give an impact to the stability of the Asian and the economy of the world. Succeed to maintain its stability, Indonesia’s economy could become an interesting model for strengthening the liberal-democratic system in the world that will inspire democratization processes which are supported by stable economic growth (Hermawan et al., 2011).

As per 2017, real Gross Domestic Product (GDP) among G20 member countries grew by 1.0% in the third quarter of 2017. It reached the same rate as in the previous quarter but with wide variation across countries, according to provisional estimates. Indonesia has reached stable growth acceleration (1.2%) and became in the fourth position among G20 member countries. Despite its fourth position, the ability to make GDP in such a stable position illustrates the hard work of both the government and the parties involved in maintaining the Indonesia's economic stability. The table from OECD Q3 Report in 2017 presented all of member countries’ GDP percentages as follows:

Table 1 GDP Growth Percentages 2017

G20 Countries	2017		
	Q1	Q2	Q3
China	1.4	1.8	1.7
India	1.4	1.4	1.6
Korea	1.1	0.6	1.5
Indonesia	1.2	1.2	1.2
Turkey	1.6	2.2	1.2
Germany	0.9	0.6	0.8
United States	0.3	0.8	0.8
Australia	0.4	0.9	0.6
Japan	0.4	0.7	0.6
France	0.5	0.6	0.5
South Africa	-0.1	0.7	0.5
Canada	0.9	1.0	0.4
United Kingdom	0.3	0.3	0.4
Italy	0.5	0.3	0.4
Brazil	1.3	0.7	0.1
Russian Federation	0.8	1.0	0.1
Mexico	0.6	0.3	-0.3
Argentina	1.2	0.7	...

Table 1 (Con.)

G20 Countries	2017		
	Q1	Q2	Q3
Saudi Arabia	-2.0	-0.2	...
OECD-Total	0.5	0.8	0.7

Source: OECD (2017b)

The Role of SMEs for G20 and Economic Sustainable Development

Small and medium enterprises (SMEs) are the objects that are important for the economic growth of a country (Ueasangkomsate & Jangkot, 2017). When economic crisis happened in Indonesia at 1997, SMEs is the only business field sector that has ability to survive. SMEs is also able to exist in the precarious economic conditions and stable during market fluctuations. This is because SMEs is a sector that has neutral and independent from government interferences (Anggadwita & Mustafid, 2014).

The countries with innovative SMEs can contribute more to economic growth and sustainable development. To increase economic growth through innovative entrepreneurship, there should be the promotion of entrepreneurship in general and policies are to be framed focusing on increasing innovative activities among old growing firms. Therefore, the economies like Indonesia need long-term policies that will increase the effectiveness of innovative entrepreneurship of the SMEs (Bashir & Akhtar, 2017). G20 has some programs for increasing the development of SMEs for the countries. At the annual report of G20 Germany 2017, G20 has already in consultation with the Global Partnership on Financial Inclusion. The consultation discussed about a section on the financial inclusion of small and medium-sized enterprises (SMEs) as an example of economic sustainability and it has been prepared. There will be a New Economic Order that will emerge by 2020. By then, The Rise of Asia will continue with continued rapid growth in Indonesia, South Korea, and other leading Asian economies (Jorgenson & Vu, 2013). To reach that stage, developing SMEs become an important step to improve Indonesian economic and social condition. The initiatives for stimulating economic development at the local, regional, and even national levels could be done by encouraging innovation in SMEs as a central to make policies (Hamdani & Wirawan, 2012). G20 has provided broad guidelines for the development of cross-cutting policy strategies, efforts to benchmark policies and the assessment of current initiatives on SME financing at the local, national and international levels (G20-OECD Progress Report, 2016).

“10 Design Principles for Industrial Policy” in Indonesia’s SMEs

1) Incentives should be provided only to ‘new’ activities

Government of Indonesia has given incentives since 2007 to help Indonesia’s SMEs activities. The contribution SMEs to GDP has increased from 57.84% to 60.34% in the last five years per 2016 (Majalah Masyarakat ASEAN, 2017).

2) There should be clear benchmarks/criteria for success and failure

SMEs in Indonesia is regulated based on an act (Undang-undang) Number 20 Year 2008. The act regulates about the enterprises categories (micro, small, medium, and big enterprises), the criteria for every kind of enterprises, the management of SMEs, and the government effort to develop SMEs in Indonesia. But, the benchmark for success and failure for SMEs in Indonesia have not created yet.

3) There must be a built-in sunset clause

Indonesia’s government has been in discussion about build-in the credit guarantee institution. It is because economy is dominated by micro, small and medium enterprises where their

ability to access credit is still low and credit repayment is still quite high obstacles faced. But, in Vienna, 73% of CGS have no specific provision (sunset clause) for crisis anticipation so safety net function is not available (Kementerian Koordinator Bidang Perekonomian Republik Indonesia, 2015). In practice, the sunset clause method is often used as a symbol of good government policy. However, the Head of Indonesia National Legal Development Agency their website in 2014 stated that it is not yet time for a sunset clause in Indonesia because it is feared that there is a potential legal vacuum in Indonesia (Kurnia, 2017).

4) Public support must target activities, not sectors

The Ministry of Cooperation and Small and Medium Enterprises of Indonesia has made good commitment for the development of Indonesia's SMEs. The latest program is the Start-Up Enterprises Program through E-Proposal Pattern. The SMEs could propose funding proposal through website, so it will be processed faster and more efficient.

5) Activities that are subsidized must have the clear potential to provide spill-overs and demonstration effects

The support and role of the Indonesian government in encouraging the channelling of credit to MSMEs has made the success of Micro, Small and Medium Enterprises (MSMEs). Various schemes Credit/SMEs financing launched by the government is linked to the tasks and programs of economic development in certain business sectors. The credit schemes for SMEs is on the side of fund provision for credit interest subsidy with the help from state-appointed banks as implementing banks in Indonesia.

6) The authority for carrying out industrial policies must be vested in agencies with demonstrated competence

The official agency that has full authority to SMEs in Indonesia is the Ministry of Cooperation and Small and Medium Enterprises of Indonesia. The potentials of SMEs in Indonesia have been explored and developed so that their readiness to face global competencies increased. The potential for future SMEs development is also greater with the economic transformation that originally depends on natural resources (resource-based economy) and then moves into a knowledge-based economy (Kementerian Koperasi dan Usaha Kecil dan Menengah Republik Indonesia, 2017).

7) The implementing agencies must be monitored closely by a principal with a clear stake in the outcomes and who has political authority at the highest level

SMEs in Indonesia are fully supported by the legal protection of the president as written in the Presidential Regulation of Republic of Indonesia number 98 year 2014. It contains of the permission of SMEs establishment and delegating full authority to local governments to regulate and monitor SMEs in their respective regencies.

8) The agencies carrying out the promotion must maintain channels of communication with the private sector

One of the ideas to develop SMEs in Indonesia is implementing Policy Network Strategy. Policy Network is meant to synergize between private parties who have special authority over the management of branding with the government and the people who have the SME business field. Implementation of Policy Network Strategy ideas can help people who have business in the SMEs to be more able to introduce their products to the public (Rahmi, Ula, & Puspita, 2014).

9) Optimally, mistakes that result in 'picking the losers' will occur

The program of Kredit Usaha Rakyat (People's Business Credit) for SMEs in Indonesia is motivated by the vision of the government to improve the prosperity of Indonesian society. Local governments have some programs in supporting the implementation of KUR: (1). The Communication Forum and Monitoring of KUR Absorption Acceleration; (2) The socialization of KUR which involves the Implementing Bank and the Guarantor as a resource and SME as the participants as well as the target of KUR customers; and, (3) The

Development of KUR Companion. However, the programs have not been realized because there are obstacles in guarding coaching and mentoring in the management of KUR. This issue is caused by the limitations of Human Resources (HR) owned by Local Government (Rifai, 2013). The lack of HRs could make the program running slower or even no innovations, therefore, the local governments should make very careful recruitment process to prevent ‘picking the losers’ incident.

10) Promotion activities need to have the capacity to renew themselves so that the cycle of discovery becomes an ongoing one

In this digital era, most of activities are supported by internet and advanced technologies. ASEAN Economic Community that aims to give fully support ASEAN countries concerns about Small and Medium Enterprises and make SMEs being one of prioritizes that must be developed and strengthen. As stated in the Blueprint of ASEAN Economic Community that published by asean.org (ASEAN, 2008), it is said that one of objectives to develop SME is enhancing finance as well as technology. The government of Indonesia is challenged to build digital SMEs to make sustainable promotion for them. Some websites are built, such as go.ukm.id, tettotumkm.com, bisnisukm.com, ukmindonesia.web.id, and so on. The websites are built with the help of private parties to develop SMEs together with government.

Conclusion

Small and Medium Enterprises in Indonesia are indeed giving contributively support to the development of Indonesia’s economics. Being in the 4th position amongst G20 members’ countries is both an achievement and homework for the government of Indonesia to make Indonesia’s economics in a better condition year by year so it could give more prosperities to their citizens.

Achieving sustainable economic development by the help of SMEs and other supportive aspects is a joint effort by all parties, not only the government but also the private sector and the citizens of Indonesia. The willingness to make the economic sustained in a good level is achieved by creating good programs and strategies. The identification using “10 Design Principles for Industrial Policy” in Indonesia’s SMEs has given us a new viewpoint about some real conditions in SMEs development in Indonesia. Two out of ten design principles have not been done in Indonesia and this might be a homework for the upcoming supportive programs for Indonesia’s SMEs.

This research can be used as a consideration for the government of Indonesia in processing new policies and as an evaluation of the programs that have been done. Indonesia should constantly determine to push the growth of SMEs. Some lacks are still happened. But, by giving more innovative programs and implement supportive policies, the role of Indonesia in G20 will be stronger and the long-term effect will strengthen Indonesia’s SMEs.

This study is inseparable from some limitations, the literature review used as the method of this study limits generalization of the results, it might not be generalized to all of aspect that influenced the development of Indonesia’s SMEs. The future research may use quantitative method such as survey to expand the generalization of the results in this area and give another good viewpoint for these SMEs areas.

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