

Indonesia Comparative Advantage in Responding to ASEAN Economic Community's Challenge (Marine Sector Analysis Study)

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Abstract:

A country can maximize their profit with selling the product with relatively expensive cost. Indonesia itself as a maritime-based country seeks to manage and maintain the maritime sector and in particular on the issue of fisheries. Various impacts also affect the existence of Indonesian marine, global warming, illegal fishing to the still lack of law enforcement over marine cases affect the increase of the Indonesian marine. This paper seeks to assess the importance of marine management by making comparisons with the practice of other countries and also to support the rate of Indonesian involvement on ASEAN Economic Community (AEC).

Keywords: comparative advantage, ASEAN Economic Community, marine.

Introduction

International trade and investment flows are the primary drivers of globalization on the Organisation for Economic Co-operation and Development (OECD) result finding urges its sectors on bringing all of income in international movement. Thomas Friedman stated that untrammelled competition between states for global mobile investment would entail a growing convergence of economic policy designs.¹ These position of trade and investment in it would referring to actions of "...monetary stability, low taxes for companies and owners of capital, flexible labor legislation, deregulation, privatisation, lean government, i.e. that politics will soon only be in a position to act out the constraints imposed by the world market."²

This, too, is felt by countries that then form the trade route both bilateral, regional blocs up to multilateral agreements. Ruggie, in 1993 said, "the process of globalization is often associated with the 'unbundling' of the previous relationship between sovereignty, territoriality, and state power and, as a consequence, with steadily weakening nation-states".³

Since 2016 ASEAN countries have agreed to implement the MEA, has become the main objective of ASEAN countries in procuring binding collective agreements. In the AEC agreement mentioned:

The AEC is the realisation of the end goal of economic integration as espoused in the Vision 2020, which is based on a convergence of interests of ASEAN Member Countries to deepen and broaden economic integration through existing and new initiatives with clear timelines. In establishing the AEC, ASEAN shall act in accordance to the principles of an open, outward-looking, inclusive, and market-driven economy consistent with multilateral rules as well as adherence to rules-based systems for effective compliance and implementation of economic commitments.⁴

With the standards from AEC, countries must to open their economic gate policy in emerge with integration of ASEAN.

The interesting part of this growing economic movement is to see how countries of ASEAN contribute in the dynamic economic moves. What strategies of countries in leveling their economic flow and line it with their domestic potentiality? Whether states unite over the economic agreement on AEC hoping a bright condition on their own contribution or it would be a “scary scenario”, in which, they can be loss. Such concerns are also facing such as: the relatively low competitiveness of domestic supply, a market for cheap labor, as well as concerns of inequality between traditional versus transnational corporations are questions that linger on the momentum of the AEC birth. Indonesia itself as one of the participating countries in AEC also has upheaval experienced over the strength of the economic integration of AEC. The problem faced by Indonesia is how to improve the competitiveness especially domestic market in supporting its national economy. Various preparations are expected take by the government, which certainly involve various parties in it. A strategic and planning approach is required in preparing Indonesia in the MEA as well as a foothold in implement it into Indonesia's strategic economic development plan.

Indonesia Ministry of Trade mentioned data from Central Statistics Agency (BPS) period January-October 2015, seen that Indonesia's non-oil trade balance to the ASEAN region surplus of US \$ 1.6 billion. The increase reached up to 257.13 percent a year earlier deficit of up to 1.02 billion.⁵ This was followed by the Ministry of Trade of Indonesia to note that Indonesia's optimistic that its export sector will increase in welcoming AEC.

Although there are opportunities for Indonesia's economic conditions, but still necessary to consider some of the constraints that may affect the position of the AEC. The following are some possible constraints on Indonesia's access to the AEC: inter-regional connectivity is still low in favor of goods and services traffic, lack of skilled human resources competence, inadequate infrastructure, industrial concentration and economic activity are still concentrated in Java, relatively low domestic supply competitiveness, inaccessible access to capital, un-synchronized central and regional regulation and the national economy is still dependent on primary commodities and oriented only to the domestic market.⁶

Indonesian Economy

According to data from the OECD mentioned that in terms of the economy of Indonesia is a country that has the ability to pass the crisis in Asia. Reform and reform of Indonesian policy can be seen with various efforts. One example is with the pinned Master Plan Acceleration and Expansion of Indonesian Economic Development Year 2011-25 (MP3EI). This program contains the government's economic program on the industry side.⁷ This program is a government effort to improve coordination between central and local government.⁸ With this program is expected to grow infrastructure investment. In addition to the evaluation of inter-governmental policy, it also tracks the existing regulations.⁹

Another issue that still concerns Indonesia is the high number of economic imbalances. If we look at the data from the OECD it is shown that the condition of inequality over Indonesia's population is quite high (being in the 3rd highest position) compared to other countries. In addition, income inequality is also a challenge of economic growth conditions.¹⁰ Inequality on this income is also provided by the International Labor Organization. Annual per capita income is approximately USD 9,300 as measured by purchasing power parity, and some workforce still works in agriculture with low productivity.¹¹

Based on the above two considerations it is clear that there is a big gap that becomes the challenge of the Indonesian economy. To be able to achieve the economic position in management is implemented by improving the investment climate to be more conducive (downsizing of policies and licensing) as well as the promotion of resource management. Bank Indonesia states that the direction of national development policy, based on the four pillars of priority to be addressed. The four pillars of the development priorities include (i) food security, energy and water, (ii) maritime, industrial and tourism competitiveness, (iii) sustainable development financing, and (iv) inclusive economies.¹² With such of following strengthen formula; Indonesia's economic structure will be more diversified to make it more robust and able to sustain sustainable economic growth.

Comparative Advantage Theory

According to Adam Smith, international trade is advantageous for nations because:

... it gives a value to their superfluities, by exchanging them for something else, which may satisfy a part of their wants, and increase their enjoyments. By means of it the narrowness of the home market does not hinder the division of labour in any particular branch of art or manufacture from being carried to the highest perfection. By opening a more extensive market for whatever part of the produce of their labour may exceed the home consumption, it encourages them to improve its productive powers, and to augment its annual produce to the utmost, and thereby to increase the real revenue and wealth of the society.

Auke R. Leen cited Adam Smith work on the book: *An Inquiry into the causes and nature of the wealth of nations*, of 1776. Where, Adam Smith seeing the benefit of free trade and the international market. The era of Smith were the mercantilisms thrive, mercantilism also as of the international trade protagonist. Mercantilism stated:¹³ "... to diminish as much as possible the importation of foreign goods for home consumption, and to increase as much as possible the exportation of the produce of domestic industry."

James C. W. Ahiajpor cited Smith opinion:¹⁴

The value of any commodity to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of all commodities.¹⁵

Smith looks at different angles, which can be used to control imports number and to grow export products.¹⁶ Moreover, Smith stated free trade addressed for making an open trade and competition between countries.

The continuation of the theory of Adam Smith was developed by David Ricardo, who stated that international trade is not only happening if every country has an absolute advantage. Comparative advantage can be advantageous if every country specializes in production, provided that it has the greatest advantage or has the least disadvantage. The trade theory that first indicated importance of specialization in production and division of labor is based on the idea of theory of absolute advantage were written by Adam Smith in book "*The Wealth of Nations*" published in 1776.

Arnaud Costinot and Dave Donaldson assert that Ricardo's theory of comparative advantage is one of the oldest and most distinguished theories in economics. Moreover, their stated that Ricardo's Theory of Comparative Advantage: Old Idea, New Evidence.¹⁷ These assumptions came from Smith opinion that:

...if the English workers are relatively better at producing cloth than wine compared to Portuguese workers, England will produce cloth, Portugal will produce wine, and at least one of these two countries will be completely specialized in one of these two sectors.¹⁸

In the 1819 David Ricardo with his book "*the Principles of Political Economy*" incorporate theory of comparative advantage and showed the basis¹⁹ why nations need to trade and why trade is mutually beneficial to countries. His explanation showed us the specialization between countries that could be different among of their resources²⁰ and as result would bear countries on their ability of compete. On the contribution of the economic theory, Ricardo emphasized that country economic flow would be running with mobility and specialization. The trade dynamic cannot be achieved by doing exile production.²¹

Robert L. Formaini urges that twenty-three years after his death, the laws were repealed and Ricardo's international free trade agenda became one with British public policy.²² In addition, practice showed that:²³ "Twenty-three years after his death, the laws were repealed and Ricardo's international free trade agenda became one with British public policy".

In Russia,²⁴ as another example, wheat has become the basic item of agri-food export than fish, sea products and alcoholic beverages. These examples contribute to what Ricardo's thinks about his theory.

Absolute Advantage:	Comparative Advantage
If a country or individual absolutely more efficient at production of a good than another country or individual, then we say that she has absolute advantage in the production of that good.	If a country or individual is relatively more efficient in the production of a good than another country or individual then we say that she has comparative advantage in production of that good.

Based on the above two theories, which if we examine as a refinement between one and the other then every trade will achieve improvement by maximizing the efficiency process and not only depend on "uniqueness" solely that is not owned by other countries. The process of intensifying the product and especially the superiority of a country will lead to the economic progress of the country.

Capacity of Indonesia: Marine Sector

One of the interesting and potential sectors of Indonesia is its maritime sector. The choice of the maritime sector as one of the main sectors of Indonesian revenues is an option on not to prioritize the use and exploitation of non-renewable natural resources (coal and various uses of natural resources deemed to be detrimental to the environment).²⁵

This maritime potential can be seen in some aspects of the sectoral derivatives of the Indonesian marine sector. As one part of the marine potential, Indonesia has great marine fisheries potential and plays an important role in the national economy. Growth of GDP Fisheries in 2014 reached 6.9% higher than national GDP growth (5.8%) and agricultural GDP growth in general (3.5%).²⁶

In addition, in the dimensions of tourism is also interesting to study. The marine tourism map in Indonesia covers 21 development points: covering many islands and beaches in some areas including in the outer ring of Indonesia, inner ring road, middle west ring road. There are two strategies²⁷ that can be used to develop tourism potentials:²⁸

1. Creating a Unique tourist attraction. Where the tourist object must have a unique concept position, which will differentiate from its competitors.

2. Using a new tourist area that exists can pursue the development of new tourist destinations.

The growth of tourism industry in Indonesia in 2014 reached 9.39 percent higher than the previous year, which is above the national economic growth, which reached about 5.8 percent.²⁹ The tourism sector contributes IDR 347 trillion of gross domestic product. When compared, the figure reached 23 percent of the total state revenues listed in the Revised State Revenue and Expenditure Budget 2013, which is IDR 1.502 trillion. The tourism sector also ranks fourth as the country's foreign exchange reserve in 2013.

Income from the Indonesian marine sector is still in average number compared to some other countries' practices. There is data shown that other countries have occupied the management of the marine sector at a minimum of 30% and above. This is certainly encouraging the Indonesian government to be able to pass policy expansion and strengthen the marine sector which actually has more advantages compared to other sectors. By looking at the advantages possessed and the advantages that have not been well managed it is necessary to be affirmed in the programming of sustainable economic strengthening.

Indonesia itself since 2014 launched a policy on marine. President Joko Widodo reinforced his commitment when first inaugurated as President of the Republic of Indonesia, that he will promote the marine sector. President Joko Widodo argues that the future of Indonesia is in the sea, so the potential of marine should be utilized for the welfare of the community.³⁰ Furthermore, President Joko Widodo said "Indonesia with its marine area reaches 70%, the contribution in the field of ocean to our national GDP is still below 30%. From the information I get, the economic potential of the marine sector in Indonesia is USD 1.2 trillion per year and is expected to absorb the workforce of 40 million people".³¹ The President of Indonesia stating that: "... 70 percent two-thirds of Indonesia is an ocean. The potential is enormous to be the driving force of the national economy. The problem is, until now the potential cannot be fully utilized by the community."³²

Based on data submitted by the President, Japan is able to contribute 48.5% of its Gross Domestic Product (GDP) or equivalent to USD 17,500 billion only from the marine economic sector. While Thailand, whose coastline is only 2,800 km, its marine economy can contribute USD 212 billion of foreign exchange.³³ By looking at this potential then in the early buzz of the government of President Jokowi directed to "maritime axis (Poros Kemaritiman)"³⁴ the concept of Indonesian maritime development is built by seven sectors, namely:

1. Sea Transportation,
2. Fisheries,
3. Marine Tourism,
4. Maritime Industry,
5. Energy and Mineral Resources,
6. Sea Building, and
7. Marine Services.

The maritime development in the seven sectors certainly also opens up wide opportunities for parties also private sector actors in this sector. In order to support the success of maritime development, the government has developed action plans that are implemented through various development programs. Business opportunities and investment in marine sector will encourage and accelerate the realization of Indonesia Maritime State that is independent, strong and based on national interests.³⁵

Development of Marine Economy is described in the development objectives of each of the existing ministries:

1. The Sea Transportation Sector has a vision "The realization of the provision of reliable, competitive and value-added transportation services". The vision of the development of the marine transportation sector is further elaborated into several missions, namely (1) Improving the safety and security of transportation in an effort to improve the service of transportation; (2) Improving public accessibility to transportation services to support the development of inter-regional connectivity; (3) Improve the performance of transportation services; (4) Continuing the process of restructuring and reform in regulatory and institutional fields as an effort to increase the role of regions, state-owned enterprises and the private sector in the provision of infrastructure of the transportation sector; (5) Continuing the process of restructuring and reform in the field of Human Resources (HRD) and consistent implementation of law enforcement; and (6) Achieve development of transportation and environmentally friendly transportation technology to anticipate climate change. Through the mission, the marine transportation sector must be able to meet the needs of integrated infrastructure to all regions in order to realize the connectivity of Indonesian territory.
2. The marine and fisheries sector has a vision of "Sustainable and Sustainable Marine and Fisheries Development for the Welfare of the Community." Through this vision, it is expected to realize the management of marine and fishery resources that can provide added value to marine and fishery products so as to have high competitiveness, keeping in mind the sustainability of marine and fishery resources, which in turn can improve the welfare of marine and fishery communities. The vision of marine and fisheries development is then translated into three missions, namely: (1) Optimizing the Utilization of Marine Resources and Fisheries; (2) Increasing Added Value and Competitiveness of Marine and Fishery Products; and (3) Maintaining the Capacity and Quality of Marine and Fishery Resource Environment. In the maritime and fisheries sector, development objectives are focused on increasing production and productivity of marine and fishery business, diversification and market share of marine and fishery products, sustainable management of marine and fishery resources. Meanwhile, marine development strategy is divided into four perspectives namely; stakeholder perspective, customer perspective, internal process perspective, Learning & growth perspective. There are 9 strategies for the utilization of marine economic potential, namely the development of marine

insight and culture; strengthening of human resources and science and technology; marine governance; development of marine economy through marine industry and services; improvement of resource utilization monitoring capability; disaster mitigation and marine pollution; conservation; improvement of welfare, and regional development.

3. The vision of marine tourism sector development is "The Realization of Indonesia Nation Able to Strengthen the Self and Character of the Nation as well as Increase People's Welfare". To realize the vision of marine tourism sector development then described later mission to achieve the realization of the vision of marine tourism sector development. The mission of marine tourism sector development is (1) To preserve the value, diversity and cultural richness in order to strengthen national identity and character; (2) Developing a competitive tourism industry, a sustainable destination and implementing responsible marketing; (3) Developing cultural and tourism resources; and (4) Creating responsive, transparent and accountable governance. Maritime tourism sectors have the objective of developing tourism that is able to contribute significantly to the national economy and the welfare of the people, which are targeted as follows, increased expenditure and length of stay, international tourism competitiveness, the realization of tourism destination management capacity, the realization of the diversion of tourism destinations, the increasing number of foreign tourist arrivals to Indonesia and the movement of domestic tourists, support the increasing contribution of tourism to the national economy to GDP, employment and investment.
4. Vision of maritime industry development and maritime services one of them is "Availability of Infrastructure of Public Works and Residential Reliable to Support Prosperous Indonesia 2025". The vision of the development is then translated into a mission, namely: (1) Realizing spatial arrangement as a reference of the spatial dimension of national and regional development and integration of public works infrastructure development and spatial-based settlement in the framework of sustainable development; (2) To manage the natural resources effectively and optimally to improve the function and sustainability of natural resources utilization and reduce the risk of water damage; (3) Improving accessibility and regional mobility in supporting economic growth and improving people's welfare by providing reliable, integrated and sustainable road networks; (4) Improving the quality of habitable and productive settlement environment through the fostering and facilitation of integrated, reliable and sustainable housing infrastructure development; (5) Conducting a competitive construction industry by ensuring the integrity of the construction sector management, the process of good construction and making the construction sector players grow and develop; (6) Conducting Research and Development and Implementation: IPTEK, norms, standards, guidance, manual and / or criterion of PU and settlement infrastructure support; (7) Organizing functional and competent, integrated and innovative management and

accountable management support by applying the principles of good governance; and (8) Minimizing KKN deviations and practices within the Ministry of PU by improving the quality of professional inspection and supervision.

5. The energy sector and mineral resources have a vision of "Realization of Energy Sustainability and Independence and Enhancement of Value Added Energy and Minerals with Environmental Insight to Provide the Greatest Benefits for People's Prosperity". The vision of energy development and mineral resources is then translated into several missions, namely (1) Improving the security of domestic energy and mineral resources; (2) Improving public accessibility to energy, minerals and geological information; (3) Encouraging the economy of energy and mineral prices by considering the economic capacity of the community; (4) Encouraging the improvement of domestic capability in the management of energy, mineral and geological; (5) Increase the added value of energy and minerals; (6) Improving the fostering, management and control of energy and mineral business activities in an efficient, effective, competitive, sustainable and environmentally sound manner; (7) Improving the ability of ESDM's development and sustainability; (8) Improving the quality of human resources of ESDM sector; and (9) Implement good governance.
6. Sea building. On sea building especially the port is very necessary and make the central point of the marine economic activity. In 2014 there are 2400 ports of commercial ports. Among them there are 4 main ports, namely Belawan in Medan, Tanjung Priuk in Jakarta, Tanjung Perak in Surabaya, and Makassar. The four main ports will be developed integrated port network with an estimated cost of IDR 206 trillion. To support marine economic activities, Indonesia has a potential demand for marine services which includes port services, sea transport support services, trade services, and government services including services from research and development institutions, and maritime education.
7. Marine services, Marine Services Sector covers various sub-sectors such as agricultural services (production services, facilities and post-panan), trade services, transportation support services, general government services, and education services. The general purpose of development in the maritime services sector is to support the continuous increase of marine fishery production, enhancement of export performance of fishery marine commodities and strengthen domestic fishery marine market.

The initiation of the seven "maritime axis" actually has an impact on the bottom up (in this case at the local level). Tridoyo Kusumastanto mentions that the idea of economic development (local economic development) based on local resources or in the language Dawam Rahardjo as "local economic development".

Conclusion

The idea of the world's maritime axis by Indonesia is a blend of the embodiment of improvements to prosperity and security. As a maritime country Indonesia has the potential of marine and fishery is very large and can be used as the basic capital of development. The main objective of the realization of Indonesia as the World Maritime Axis is the people's welfare through the development of maritime infrastructure such as ports, easy access to the distribution of goods to humans through sea traffic that can reach up to the corners at a balanced price, as well as obtain other benefits over the sea for the whole of Indonesia.

To achieve these objectives, the development of local infrastructure and technology that can maximize the potential of existing resources must be continuously developed. It cannot be denied that development in the maritime sector creates business opportunities for business actors and requires investment support to finance infrastructure development (facilities and infrastructure) and the development of business activities and marine services. Specialization of investors is also developed with transparent and accountable arrangements and regulations. To support the success of maritime development, the government has developed action plans that are implemented through various development programs. Business opportunities and investment in marine sector will encourage and accelerate the realization of Indonesia Maritime State that is independent, strong and based on national interests. ***

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- ²⁷ This uniqueness will give new brand awareness on tourism. With the charm and focus on the uniqueness of the tourist attractions will become an existing tourist attraction.
- ²⁸ Iwan Setiawan, Potensi Destinasi Wisata Di Indonesia Menuju Kemandirian Ekonomi, <https://media.neliti.com/media/publications/173034-ID-potensi-destinasi-wisata-di-indonesia-me.pdf>, accessed on September 2017.
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