THE ROLE OF SMALL MEDIUM-SIZED ENTERPRISES IN INDONESIA'S EXPORTS FACE DEPRECIATION OF RUPIAH

Indra Muhammad*

*Bogor Agricultural University, INDONESIA, indramuhammadchaniago@gmail.com

Abstract

In the past two months, Indonesia and some other countries are experiencing shock macro economy due to appreciation US currency. Indonesian currency depreciate even the most severe during the last decade, beyond 13,200 rupiahs per USD. This could potentially lead to inflation because the value of IDR weakened against commodities, mainly imported commodities. This is what causes the Indonesian people became restless and asked the government to immediately stabilize the exchange rate. However, in addition to potentially causing inflation, depreciation of the rupiah should also increase export opportunities for the people of Indonesia. This is due to the cost of production in Indonesia has become relatively cheaper to international markets and for business become more attractive than before. Depreciation does not directly lead to the effects of inflation. There is a time lag between the depreciation to inflation. So even with the increase in exports, depreciation also indirectly lead to increased exports. Both of these mechanisms are strongly influenced by the intensity of international trade. Mainly export enhancement mechanism, sensitivity of business actors in utilizing market opportunities will determine the increase in exports. One type of business in question is the micro small and medium enterprises. SMEs have a very big role for the Indonesian economy. The results of the statistical central agency in Indonesia shows that more than 95% of Indonesia's economic activity is informal sector, and most of the informal sector are SMEs. In addition, SMEs also directly impact on the welfare of society. In this paper, we will discuss how the role SMEs on Indonesian exports in the face of depreciation of rupiah currency. To determine it, the authors first analyze the impact of the depreciation of rupiah against the SMEs, both of inflation and international market attractiveness. In addition, the authors also first collect data to determine the factors supporting and inhibiting SMEs to do export.

Keywords: Small medium-sized entreprises, International Trade, Export, Shock Macroeconomy, Depreciation of Rupiah Currency.

1. INTRODUCTION

1.1. Small Medium-sized Entreprises in Indonesia

According to the law of Republic Indonesia No.20 in 2008, Small medium-sized entreprises is divided by three types, micro business, small business, and medium business. And beside that, there is large business. Micro enterprises are businesses that have a net worth less than 50 million rupiahs or having annual sales of less than 300 million rupiahs. Small businesses are businesses that have a net worth less than 500 million rupiahs or having annual sales of less than 2.5 billion rupiahs. Medium business is a business that has a net worth of up to 10 billion rupiahs or having annual sales of up to 50 billion rupiahs.

Small and medium sized entreprises sector also has an important role in the Indonesian economy. In 2010 this sector was able to absorb 97.3 percent of the total labor force. This shows that the SME sector is the main sector in employment in Indonesia, which if developed could potentially reduce unemployment because the number of SME business units reached 52,764,603 units, or 99 percent of total business. In addition, more than half or 56.5 percent of the Gross Domestic Product (GDP) of Indonesia contributed by this sector. As well as non-oil export earnings, the SME sector was able contribute 17.04 percent of total revenue (Statistics Indonesia, 2010).

1.1. Procedure to do Export

There are four steps that must be taken business actors until the product can be exported, namely the preparation of administration, legality as an exporter, preparation for export products, and operational preparation.

1.1.1. Preparation of Administration

As a enterprises that will conduct international business of course must have a permanent office or have long-term contracts, as well as equipment and other ancillary equipment.

In addition, business actors must also have a network of communication and operational staff are able to communicate in English, as well as preparing the company's profile as an information and promotional materials to prospective buyers.

1.1.2. Legality as an Exporter

potential exporters should also prepare for the the legality exporting the products. Some of the requirements that must be prepared in them, Trading Business License (License), Company Registration, Basic Registration Number (Tax ID), as well as other documents required by the legislation in force.

Once the above requirements are met, business actors also have to prepare other documents such as contracts of sale, invoice trade, Letter of Credit (L / C), Export Declaration, Bill of Lading (B / L), an insurance policy, packing list, Certificate the place of origin, a statement of quality, and Wessel of export to exporters.

1.1.3. Preparation of Exported Product

While the above requirements sought equipped, business actors must be able to know the terms before the international requirements or provisions of overseas market demand, such as quantity, quality, packaging, labeling, the funding and delivery time.

Business actors also must calculate the costs required ranging from production to marketing costs, so that it can set the selling price of products.In addition, business actors should also be able to ensure continuous production, so it will not dither when getting orders in large quantities.

1.1.4. Preparation of Operations

On the other hand, business actors also need to consider the other operations, such as the export process, procedures and export documents. And begin to identify policies and import and export regulations, as well as export strategies.

1.2. Depreciation and its impacts to export

At the beginning of 2015, the strengthening of the US dollar against the currencies of other countries, especially for Indonesia has attracted attention of the Indonesian people and successfully induce public anxiety. In addition, the Federal Reserve District Bank plan to increase the benchmark interest rate by 0.25 percent from the previous 0.75 percent, further aggravate the depreciation of the currencies of countries that have partnered with the United States against the dollar. Depreciation of the rupiah against the dollar this is the highest during the last 10 years that goes beyond 13200 rupiah per dollar.

IDR-USD Currency in last 10 years

ISBN: 978-605-64453-3-0

According to Mundell-Fleming theory, Indonesia, country which has implemented floating exchange rate system are likely to experience change in the balance of payments because there is no policies to hold depreciation such as devaluation. Balance of Payment is an equation of current account and capital account. When that has happened, the effect of depreciation has come to market goods. Changes of capital account was followed by changes in current account, so there is new balance of payments. Current account at least consists of merchandise trade balance, service trade balance, property income, unrequited transfers, labour and other income.

<table>
<tr><td>Merchandise Trade Balance</td><td rowspan="5">Current Account (CA) Balance</td><td rowspan="5">Capital Account (KA) Balance</td><td rowspan="5">Net Foreign Invesment</td><td rowspan="2">Net Portofolio Foreign Invesment (Short term caoital flows)</td></tr>
<tr><td>Service Trade Bal</td></tr>
<tr><td>Property Income</td><td rowspan="3">Net Direct Foreign Invesment (Long term capital flows)</td></tr>
<tr><td>Labour & Other Income</td></tr>
<tr><td>Unrequited Transfers</td></tr>
</table>

1.2.1. Inflation

In simple terms, inflation is understood as a persistent, ongoing rise across a broad spectrum of prices. An increase in prices for one or two goods alone cannot be described as inflation unless that increase spreads to (or leads to escalating prices for) other goods. The reverse of inflation is deflation.
The indicator commonly used to measure the level of inflation is the Consumer Price Index (CPI). Changes in the CPI over time are indicative of price movements for packages of goods and services consumed by the public. Since July 2008, the packages of goods and services in the CPI basket have been based on the 2007 Cost of Living Survey conducted by the Statistics Indonesia (BPS). Following this, BPS monitors price movements for these goods and services in selected cities and towns each month, using information from traditional markets and modern retail outlets on specific categories of goods and services in each location.
Other inflation indicators used in international best practice include:
a. Wholesale Price Index. The wholesale price for a commodity is the price of transactions taking place between the first wholesaler and the next largest trader for large quantities on the first market for a commodity. [More detailed explanations of the Wholesale Price Index can be found at the Statistics Indonesia (BPS) website: http://dds.bps.go.id/eng/]
b. The Gross Domestic Product (GDP) Deflator illustrates the measurement of price levels for the final goods and services produced within an economy. The GDP Deflator is derived by dividing GDP based on nominal prices by GDP based on constant prices.
The inflation measured in the CPI in Indonesia is divided into 7 expenditure categories (based on the Classification of Individual Consumption by Purpose - COICOP). These are:

a. Food Stuffs
b. Processed Foods, Beverages and Tobacco
c. Housing
d. Clothing
e. Health
f. Education and Sports and
g. Transportation and Communications.

1.2.2. Competitiveness

Competitiveness is the result of a comparison between two or more countries, in general, in terms of trade. In the past we know competitive advantage and comparative advantage. Competitive advantages are the advantages of a country being able to outperform other countries in producing goods with the lowest cost, so in case of trade, the country could determine the market price. Besides, there is the concept of comparative

ISBN: 978-605-64453-3-0

advantage. Comparative advantage is the advantage of a country because of the relatively produces a type of goods more efficient than other types of goods so that these countries tend to specialize in order to maximize the competitiveness with other countries.

1.2.3. Real Depreciation

In international trade, each country uses the US dollar currency or currencies of certain countries as a means of payment transactions with that country. This trading activity resulted in the dynamics of the demand for money, particularly the US dollar currency. The dynamics of the demand for money is the one that caused the downward pressure that responded differently by each country, depending on exchange rate system adopted by each country. Currency depreciation pressures were not compensated by the devaluation policy or issuing foreign reserves would weaken the country's currency exchange rate against the currencies of the US dollar or other countries that engage in trade with these countries. This would lead to imports becoming more expensive for importing countries, so it tends to result in inflation. While at the same time, export activity will provide greater profit because the cost of domestic production becomes relatively lower while market prices remained.

But to feel the advantage of export opportunities due to depreciation, countries need to consider inflation as other effects of the depreciation first. Because inflation is also able to influence the activities of production thereby increasing the prices of processed products. The real depreciation is a depreciation which has been considering the prevailing inflation rate. If the depreciation greater than inflation, real depreciation will be positive and can benefit export opportunities. Otherwise, if inflation is greater than the depreciation of the real depreciation is negative, so that it does not give the advantage of export opportunities because there is an increase in competitiveness, even declining.

Real Depreciation = Nominal Depreciation – Inflation
Real Depreciation > 0 , Export competitiveness increase
Real Depreciation > 0 , Export competitiveness decrease

2. Results

2.1. The changes of export

No	Event	January	February	March
1	Depreciation	2,29%	2,95%	0,76%
2	Inflation	-2,40%	-3,60%	1,70%
3	Real Depreciation	4,69%	6,55%	-0,94%
4	Export (Billion USD)	13,3	12,29	13,71
5	Non - gas and oil Export (Billion USD)	11,2	10,4	11,72
6	Increase of Export	-9,03%	-7,99%	12,63%
7	Increase of Non - gas and oil Export	-8,51%	-7,83%	12,50%
8	Increase of Agriculture Commodity Export	8,88%	2,37%	3,99%

Source : Statistics Indonesia, 2015

In February 2015, Indonesia depreciate once deflation. It is mathematically will increase the value of real depreciation. In the same month the value of exports in Indonesia decreased by nearly eight percent. It is still better than the previous month, the value of exports also decreased by more than nine percent. But the opposite happened in March 2015. The value of exports increased by 12.63 percent thus exceeding the value of exports in January, so did the value of non-oil commodity exports, an increase of 12.50 per cent exceeds the value of exports in January. In fact, in March there was an inflation of 1.70 percent. The real depreciation also decreased by 0.94 percent, due to the depreciation that occurred in March was not as great as that occurred in February which is almost 3 percent.

2.2. Contribution of SMEs to export

No.	Level	Contribution		
		Labour	GDP	Export non-gas and oil commodities
1	Micro	91,03%	33,09%	1,52%
2	Small	3,56%	9,96%	3,87%
3	Medium	2,71%	13,48%	11,65%
4	Big	2,70%	43,47%	82,96%

Source : Statistics Indonesia, 2010

ISBN: 978-605-64453-3-0

Small medium-sized entreprises have absorbed the work force amounted to 97.30 percent. However, the contribution of exports is very small by 17.04 percent, while 2.70 percent of the labor that goes into a big business venture exports contributed 82.96 percent, almost five times greater than the total exports of SMEs. This shows there is imbalance between the contribution of SMEs with large enterprises. SMEs tend to be labor intensive, but a bit capital, while large businesses quite the contrary.

3. CONCLUSION

SMEs are the most economic means of influence on the lives of the people of Indonesia, as they absorb 97.30 percent of the workforce in Indonesia. But unfortunately, the strength is still weak SMEs from various aspects, such as: legality, financing, and production systems have low efficiency. That is why, SMEs require longer periods of time or more than one month to increase the amount of exports as a result of increased profit opportunities of export.

To strengthen the role of SMEs and the ability of SMEs to increase exports, SMEs need to build networks among SMEs. In addition, the government needs to provide knowledge to the community, especially the management of SMEs so that people can fulfill to export mechanism. Thus, the quality of the products of SMEs would also be standardized internationally. Economic benefits received by the people becomes larger. If the situation is really implemented, then also balanced with appropriate community development activities, the SMEs, can be a mainstay solutions to improve human welfare.

4. ACKNOWLEDGEMENT

This research was financially and morally supported by Bogor Agriculture University and Leadership Home, PPSDMS Nurul Fikri.

REFERENCE LIST

Bank of Indonesia. (n.d.). Introduction of Inflation. Retrieved from http://www.bi.go.id/id/moneter/inflasi/pengenalan/Contents/Default.aspx

Cooperation and Small Medium-sized Entreprises Ministry. (n.d.). The mechanism for Small Medium-sized Entreprises to do Export. Retrieved from http://www.depkop.go.id/index.php?option=com_content&view=article&id=1537:ini-mekanisme-umkm-untuk-tembus-ekspor&catid=54:bind-berita-kementerian&Itemid=98

Hossain, A., & Chowdhury, A. (1998). *Open-economy macroeconomics for developing countries*. Cheltenham: Edward Elgar.

Indonesia, U. U. R. (2008). No. 20 Tahun 2008. *Tentang Usaha Mikro, Kecil dan Menengah*.

Statistik, B. P. (2015). Berita resmi statistik. *Apr*, *15*, 01.

Statistik, B. P. (2015). Berita resmi statistik. *Feb*, *16*, 01.

Statistik, B. P. (2015). Berita resmi statistik. *Mar*, *16*, 01.

ISBN: 978-605-64453-3-0