

THE CREATION OF BARGAINING POSITION REINFORCEMENT MODEL AND SECURITY ON DOMESTIC PRODUCTS MARKET (Study Case in Indonesia)

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ABSTRACT

Since, the active enactment of ASEAN Economic Community (AEC) in January, 2016, Indonesia should overcome various problems that burdening the cost of domestic industrial production and weakening the bargaining position of domestic products in international trade market area of AEC. This research aims to create the reinforcement model of bargaining position and the security of domestic products are applicable. Population in this research is small and medium-sized enterprises located in West Kalimantan Province, which are Singkawang, Sambas and Pontianak, and North Sumatera Province and Tanjung Balai asahan. Sampling is by judgement sampling method and also operational research approach. This study found a market and resource/knowledge-based model of bargaining position reinforcement and domestic products security.

Keywords: ASEAN Economic Community (AEC), free-trade era, bargaining position, domestic products security

INTRODUCTION

Since, on January 2016, The ASEAN Economic Community (AEC) has been actively enforced. AEC was established to create economic integration in ASEAN region in order to increase economic development and reduce the poverty level of its member countries. The realization of these objectives is achieved by the implementation of free trade and liberalization which is adapted to the principles of mutually beneficial cooperation. The cooperation will tightening the global competition that occurred in ASEAN region. While, facing the tight competition in free trade era, Indonesia needs to improve its competitiveness.

According to Boediono (2014), the competitiveness a country is an ability to survive and advance in its historical journey in the midst of real-world dynamic challenges. Increased by competitiveness should be sustainable. Strategic management experts argue that there are two approaches used by a country to achieve high competitiveness, those are market-based approach and innovation (Maulana, 2013). The market-based approach states that a country's competitiveness is determined by the company's ability to read its market main environment, while innovation-based approach states that the competitiveness of a country is determined by the company's ability to innovate sustainability as well. In order to compete, a country needs to master competencies that vital to the country's success (Hamel and Prahalad, 1994).

Based on data from Global Competitiveness Report in 2014-2015 released by World Economic Forum (WEF), Indonesia ranks 34th out of 144 countries surveyed. The ranking is under from other countries ranking in ASEAN region, such as Singapore that ranked 2nd, Malaysia that ranked 20th and Thailand that ranked 31st. The condition also raises concern on Indonesian to take part in free trade era in ASEAN region. Therefore, it is necessary to improve the competitiveness of Indonesia in this free trade era.

Based on the WEF report in 2014-2015, the five main factors are become business barriers in Indonesia such as corruption, financial access, inflation, inefficiency, bureaucracy, and poor infrastructure. Some other crucial issues that affect to the low competitiveness of Indonesia, low of labour productivity, low of machine capacity and equipment, waste in technology, high absenteeism and core labour turnover, inefficient of raw materials, and the lack of design products that produced. Aggressive tax policies, high interest rates, exchange rate fluctuations, and the presence of illegal fees also affect to Indonesia's low competitiveness in terms of external aspect. If these problems are not addressed soon, then Indonesia's bargaining position will continue to weaken and domestic production will be eroded by imported products that continue to innovate in efficiency.

According to Khol and Uhl (1980) in Nurhadi (2011), bargaining power is the relative power of buyers and sellers in influencing the exchange in a transaction. Indonesia is low bargaining position in ASEAN and international markets could weaken Indonesia's competitiveness, which is trigger a decrease in export volume and an increase in import volume that could kill domestic industries. Therefore, Indonesia needs to improve its bargaining position in order to ensure its competitiveness in free market and secure domestic production.

Based on this background, research needs to create a reinforcement model of bargaining position and security of domestic products market.

LITERATURE REVIEW Economic Globalization

Globalization can be defined as changes in economic and social fields that communicate with the formation of linkages between regional and global networks that are more unique, extensive, and intense (Held, 2000). According to Apridar (2012: 261), globalization is linked to increasing linkages and interdependence between nations and people around the world through trade, investment, travel, popular culture, and other forms of interaction, so that the boundaries of a country become biased. The impact that arises in globalization era is very broad because it is able to influence various aspects of human life that covering political aspects, the territorial order of the state, culture, and economic (Sangkala, 2006).

According to Yafie (2003: 7), economic globalization is a gradually movement formed a new authority in control of economic activities throughout the country. Some observers say that economic globalization is neo imperialism, though not the overall economic globalization is negative.

According to Abeng in Apridar (2012: 286) and Firmansyah and Hendra (2015), the real embodiment of economic globalization is marked by the existence of globalization in production, the presence of foreign workers, the globalization of financing, labour globalization, the globalization of information networks, and the globalization of trade.

ASEAN Economic Community (AEC)

According to the Ministry of Trade of the Republic of Indonesia (2015), the ASEAN Economic Community (AEC) is a regional economic integration aims to make ASEAN a single market and production base that trigger the flow of goods, services, investments, capital, and skilled labour are free.

AEC was established to integrate the economy in ASEAN region to create high levels of development and economic growth, as well as a small poverty rate. Based on this, AEC has four main characteristics, those are single market and production base, high competitive region, area with equally economic development, and region that integrated with global economy (Krisnamurthi, 2015).

Competitiveness

According to Boediono (2014), the competitiveness of a country is a country's ability to survive and advance in its historical journey in the midst of real-world dynamic challenges. Porter in his presentation in front of the Thailand Competitiveness Institute (TCI) in 2003 cited by Maulana (2013) is defines competitiveness as a thing that related to continuous productivity improvement. The World Economic Forum (WEF) in Maulana (2013) is defined by competitiveness as a country's ability to achieve sustainable growth of GDP per capita. Meanwhile, the Competitiveness Advisory Group (CAG) in Maulana (2013) states that competitiveness should be seen as a basic way of raising living standards, providing employment opportunities for unemployment and lowering poverty level.

Bargaining Position

According to Khol and Uhl (1980) in Nurhadi (2011), bargaining power is the relative power of buyers and sellers in influencing to exchange rate in a transaction. Lilien et al. (1992) in Nurhadi (2011) is defines bargaining/negotiation as a process of communication between two or more parties of mutual interest and conflict of interest in forming an agreement. In this study, the bargaining power of individual farmers is defined as a relative ability of farmers in influencing the process of rice selling transactions to reach an agreement of selling price on the level that exceed the minimum price desired by farmers as far as possible. The research paradigm in overcoming the low bargaining power of farmers is presented schematically.

RESEARCH METHODOLOGY

Data Source and Type

The type of data is primary data that sourced by questionnaire and deep interview toward the related parties. Secondary data also used as a supporting data.

Population and Sample

The population is small and medium-sized enterprises in the border areas of Indonesia - Malaysia. The sample is small and medium-sized enterprises are located in North Sumatera Province, such as Tanjung Balai, Asahan, and West Kalimantan Province, Singkawang, Sambas and Pontianak.

The sample in this research is taken using judgemental sampling method, which is the sampling method based on a certain consideration. Considerations or criteria that used in this research are include:

1. Small and medium scale companies.
2. The company produces a prospective product for the export market has a significant effect on the changing economic conditions.
3. The company based on solid skills.

RESEARCH RESULT

Data Analysis

Research data classified according to research location such as follows:

1. **Tanjung Balai, Asahan, North Sumatera Province**

Tanjung Balai, Asahan is one of an existing city in North Sumatra Province that is facing directly to Kuala Lumpur, Malaysia. The proximity of Tanjung Balai, Asahan with Port Klang, Malaysia open opportunities for Tanjung Balai, Asahan society to conduct business transactions with Malaysian society.

The products offered by the people in Tanjung Balai, Asahan to Malaysia are local products between local wisdom and solid skills-base. In contrast, the products offered by Malaysian society have a tendency toward solid technology. It indicates that some products are processed by the society of Tanjung Balai, Asahan and Malaysia have Cross Elasticity of Demand (CED) ≤ 1 , because they fall into complementary product categories or complementary products. Examples of products made by the people in Tanjung Balai Asahan who are skilled-oriented for shoes.

2. Singkawang, Sambas and Pontianak, West Kalimantan Province

Singkawang, Sambas, and Pontianak are three regions in the province of West Kalimantan that face directly with Kucing, Malaysia. The strategic location open opportunities for the society of Singkawang, Sambas, and Pontianak to conduct business transactions with Malaysian society.

The products offered by the community in the three areas are tauco, sambal, chilli, pottery, noodles, snacks, et cetera. These products are processed by an industry based on solid skills. In contrast, the products offered by Malaysian society have a tendency toward solid technology. It shows that processed products by the society of Singkawang, Sambas, Pontianak, and Malaysia communities have Cross Elasticity of Demand (CED) ≤ 1 , because it belongs to complementary product category or complementary product.

The following is data obtained from this research.

1. Malaysia opens the export ports/terminals in the border region more broadly, so it is a great opportunity to take advantage of trade creation.
2. The saturated local market forces the production to follow the local customer's taste that drain the profit and marked by Liner's (L) ≤ 0.278 .
3. Given paradox applied in the market due to weakening purchasing power. This can make Indonesian producers act as price takers, which is the manufacturers follow some conditions of customer demand even though the products offered are unique.
4. Indonesian product enthusiasts are quite high. This proved by the organization of trade exhibition of Indonesian products in Malaysia.
5. There is waste of domestic production process that indicated by the presence of defective products (reject) $\geq 10\%$. The amount exceeds the tolerance limit in TQC, which is 2%.
6. Production cost structure is less ideal, which is dominated by raw material cost with amount of 70% from total production cost, followed by overhead cost with amount of 20%, and labour cost with amount of 10%, which is equivalent to regional minimum wage. The low stimulus to motivate the labour has an impact on the decline in working quality and an increase in the number of defective and damaged products/services or product/services with the quality below the standards allowed in the total quality control.

Fishbone Diagram

According to Tannady (2015: 36), fishbone diagram as a cause effect diagram is a line drawing that displays data about the causal factors of failure or nonconformity, to analyze into the deepest sub-factor of the cause of problem.

The Fishbone diagram is one of the methods developed in quality management to identify the problems is exist in the company because of the performance, satisfaction, capacity, and productivity are not achieved.

The following is a fishbone diagram of the problems analyzed in this study.

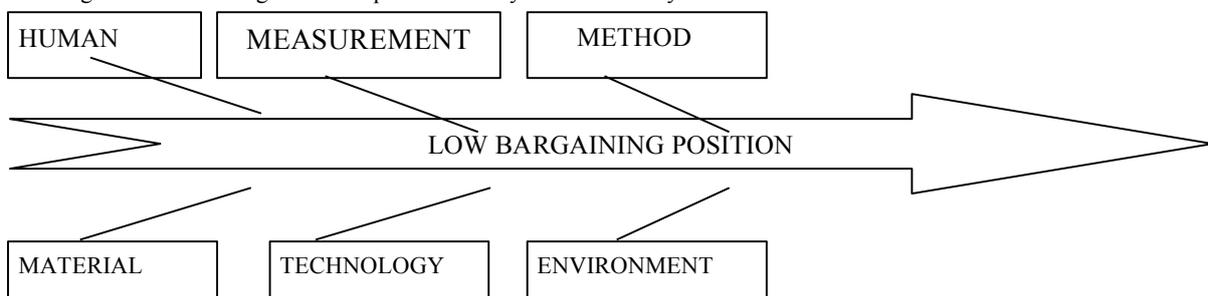


Figure 1. Fishbone Diagram of Low Bargaining Position

Based on the diagram, the following is factors cause the low bargaining position.

Table 1. Factors that Cause the Low Bargaining Position of Indonesia

No	Problems	Indicators	Achievements
1	Labour productivity	Output/day	Below average of ASEAN and China productivity
2	The use of machine capacity and technology	Rate capacity	Low
3	Bank and non-bank financing	Duration/ bureaucracy	Complex bureaucracy
4	Trade between AEC countries	Creative/harmonious	Tight rivalry/competition

Blue Print of Bargaining Position

Based on the real issues in research location, supported by theory and model developed in research, obtained blue print of bargaining position as follows.

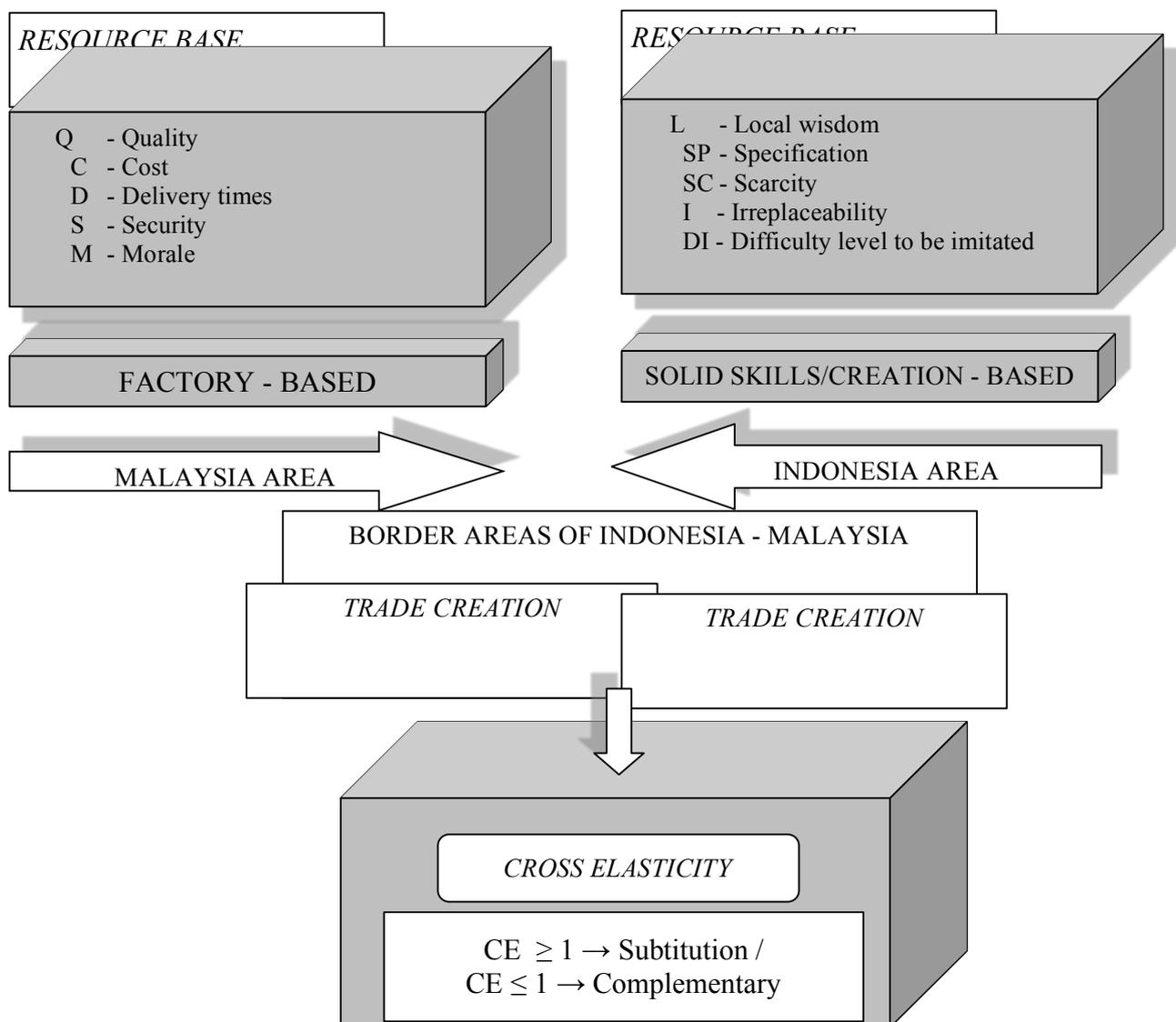


Figure 2. Blue Print of Bargaining Position

Equation Model of Bargaining Position

Based on the results of this research, the price of Indonesian products is determined by the producer (producer as price setter) because it has characteristics are not owned by products from Malaysia. Meanwhile, Malaysia's product price is determined by the market (producer as price taker) because it does not have certain characteristics. Therefore, a parameters are determine to the bargaining position for factory product that consist for the amount, quality, cost, delivery time, security, and morale/ethics. This model is referred as a market-based model. Market-based models emphasize that the bargaining position of a product tends to be influenced by market factors.

Here is a formula of bargaining position of a product according to market-based model.

$$\sum MB = a\sum A + b\sum Q + c\sum C + d\sum D + e\sum S + f\sum M$$

Information:

A	= Amount
Q	= Quality
C	= Cost
D	= Delivery times
S	= Security
M	= Morale

The above model is based on market perspective (market-based view) by referring to Porter's Five Force model. According to Porter (2008), there are five things that determine the level of competition and market appeal in an industry. These are competitive rivalry within the industry, threat of new entrants, threat of substitution products, bargaining power of suppliers, and bargaining power of buyers/consumers.

The parameters are determine the bargaining position for local products that consist for amount, local wisdom, specification, scarcity, difficulty to be replaced (irreplaceability), and difficulty level to be imitated or engineered. This model is called a resource/knowledge-based model. Resource/knowledge-based models emphasize that a product's bargaining position tends to be influenced by unique factors related to the producer's skills are differentiates one product from another.

Here is a formula for a product's bargaining position according to resource/knowledge-based model.

$$\sum RB = a\sum A + b\sum L + c\sum SP + d\sum SC + e\sum I + f\sum DI$$

Information:

A	= Amount
L	= Local wisdom
SP	= Specification
SC	= Scarcity
I	= Irreplaceability
DI	= Difficulty level to be imitated

The above model is based on a resource/knowledge perspective (resource/knowledge-based view). The resource-based model suggests that a company can achieve above-normal earnings on an ongoing basis, if it has a superior source because of its value, its uniqueness, its difficulty to be imitated, and its difficulty to be replaced (Grant, 1991). According to Fahy and Smithee (1999), the resource-based view is started by the assumption of some results desired with the management company are competitive advantages that will give benefit to the company economically. Then, the focus grows on how the company achieves and maintains its competitive advantage.

Trade Creation Constraint

According to Viner (1950) in Arifin, et al. (2004), trade creation is the transfer of trade from less efficient suppliers to more efficient suppliers. The low bargaining power of Indonesian products can lead to trade creation, which is the shift of Indonesian society from domestic products to imported products that have higher bargaining power. Therefore, the government plays an important role in making policies that limit to the occurrence of trade creation. It needs to secure on market of domestic products, so it will not be eroded by products from other countries in free market. The control or restriction of trade creation is called trade creation constraint.

Based on the results of the study, the following is a trade creation constraint that should be applied by Indonesia government.

1. Limiting export ports/terminals in border area of Indonesia - Malaysia (east side of Kalimantan).
2. Establish export ports/terminals in Pontianak, Palangkaraya and Balikpapan can create barriers to entry of products and services located in cities directly adjacent to Malaysia border such as Singkawang and Sambas.

CONCLUSION AND RECOMMENDATION

Conclusion

Based on the results of the analysis, it can be concluded that the parameters are determine the bargaining position for factory products based on market perspective consist of amount, quality, cost, delivery time, security, and morale. Meanwhile, the parameters are determine the bargaining position for local products based on a resource/knowledge perspective consist of

amount, local wisdom, specification, scarcity, difficulty level to be replaced (irreplaceability), and difficulty level to be imitated or engineered.

Recommendation

Based on the results of the research has been described previously, companies and small and medium-sized enterprises in Indonesia need to consider the factors of market and resources/knowledge perspective in producing goods/services to improve the bargaining position of its products in ASEAN and international markets.

The government of Indonesia needs to socialize and coach the companies and small and medium-sized enterprises to produce goods/services by considering market and resource/knowledge perspective factors to create competitive advantage and improve bargaining position of its products in ASEAN and international markets. In addition, the government also needs to create policies that limit trade creation to secure the domestic market in the midst of free trade flows and to secure domestic industrial output amid the rapid flow of imports.

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