INSTITUTIONAL CAPACITY BUILDING OF FOOTWEAR INDUSTRIES ON ECONOMIC GROWTH IN THE BORDER AREAS

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ABSTRACT. *A Nation is generally adjacent directly to its neighboring countries, both in land, sea, or air region. Indonesia is an archipelagic country, as well as one nation whose borders are within those three regions. Geographically, Indonesia is adjacent to 10 other nations, namely Malaysia, Papua New Guinea (PNG), Timor Leste, Australia, India, Thailand, Singapore, Vietnam, Palau, and the Philippines. The border regions between Indonesia and other nations, including the smallest outer islands are seen as remote areas and their current conditions are still lagging behind. The problems that do exist in the border areas, especially in the border region between Indonesia and Malaysia can be said to be complicated and require extra attention from the central and local governments or even from the parties of the world of enterprise. Aside from the problems that are related to national security, order and integrity concerns, the root cause of these problems is also closely related to the welfare of the people in the border areas. Manufacturing industries (footwear) become an important subject in an effort to boost economic growth in the border regions. In order to encourage regional economic growth, every region must maintain and improve the investment climate, as the conducive investment climate will further enhance the investors especially in the development of their businesses in Indonesia, which is also capable of creating jobs for the people around the border, so that the expected impact is that the people itself will have a more prosperous life.*

Keywords: *Border Area, Footwear Industries, Institutional Capacity*

INTRODUCTION

In Indonesia, the government had been addressing the phenomenon of globalization and investment that occurs through the formation of industrial zones. However, until now industrial areas that are formed is not entirely directed into a cluster, because the existing policy has not been able to encourage the formation of clusters and because of the minimum level of government interference in the implementation process. In fact, economic growth depends not only on market mechanisms that stimulate the economy, but is also determined by the institution's role in it (North, 1990). Therefore the role of an institution/institutional (Verma, 2007) are most likely to be a very important aspect in driving the market mechanism which is capable to move the wheels of the economy that support economic development. In recent years, there has been a strong support from the central government to curb Indonesia's dependence on commodity exports (raw materials) as well as to enhance the role of the manufacturing industries in every sector of the economy. The Development of infrastructure is also a major goal of the government, which also should lead to a multiplier effect in the economy.

Footwear industry is one of the most promising industries in the future for Indonesia’s economic growth and is currently in the priorities that are being developed in accordance with the National Medium Term Development Plan (the Presidential Decree No.7 / 2005). Currently, Indonesia has around 368 Footwear industries with a total production capacity of 1.18 billion orders per year. The existence of footwear industries play an important role in the acquisition of foreign exchange and strengthen the national industrial structure (Hubeis, 1997), in particular, through the use and the development of the potential values of Natural Resources which is owned by Indonesia.

More recently, the Ministry of Commerce has confirmed that Indonesia is one of the world's top ten manufacturers of shoes between 2007 and 2011. During that period, Indonesia's footwear exports grew an average of 26.05% per year, from US $ 199.22 million in 2007 to US $ 527, 17 million in 2011.Since the second half of 2012, footwear industries, like any other manufacturing industries in Indonesia, had been facing the challenges resulting from the global economic downturn.

Footwear industry is one of the small and medium sectors of industries which is supported by the national government, but the development of enterprises in the industry itself is however still relatively low. Various government policies that have been done such as the regulations of export and import, the foreign labor regulations, electricity tariff regulations, and others seem to not have real benefits for the development of the National Footwear industries. Furthermore, the problems such as the supply of raw materials that are related to the cost of imported raw materials, the equipment that is no longer feasible to use, the lack of competent on human resources, will have a massive impact on the competitiveness, and also on high cost economy.

Goals

As for the purposes of this paper are as follows:

1. To acknowledge institutional capacity building of Footwear industries, in order to improve the economic situation in the border regions.

Conceptual Framework

Capacity Building. Capacity-building is a process whereby individuals, organizations, institutions, and societal capacities are developed in order to perform functions, solve problems, and to be able to achieve goals. Institutional capacity building emphasizes individual and organizational empowerment and requires a systematic approach to be considered in designing capacity building strategies and programs.

Focusing on community capacity building does not mean that community capacity should be fully developed. However, UNDP takes a strategic approach to determine as to where capacity building will be conducted (UNDP 1997). For example, there are some nations that are developing public-private partnerships for institutional capacity building, while on the other hand there are nations that are focusing on providing a conducive environment for the private sector.

Organizational capacity will ultimately affect the organization's performance itself. Institutional capacity includes resources, knowledge, and processes that will be used by the organization to achieve its objectives. It consists of physical condition, infrastructure, technology, financial resources, strategic leadership, programs and management as well as networking and relationships with other organizations.

Institutionality. The general concept of the institution includes what it is at the site or at the community level, the project management unit, the agencies, the status, the government departments or the private sectors. Institutionality is viewed as a management and interconnection between human resources, finance and the relationships or work system between one institution with another institutions. As a concrete example, the work of institutions can be in the form of infrastructure, the provision of goods and services such as irrigation development and various treatments for the sick. The results that can be obtained from institutional development are regular and coordinated mechanisms of action that ultimately provide a conducive situation and condition as a service to fulfill community needs, such as railway stations. The development of railway stations is not measured by how many people can board a train as a means of transport but by whether all passengers can depart and arrive on time, whether the train accident rate is relatively small and may lead to decrease each year, whether passengers feel comfortable traveling by train and other positive outcomes that may not be assessable in a short and abstract time (not in the form of a palpable or noticeable items).

Based on the form (written/unwritten) North (1990) divided institutional into two: informal and formal. Informal institutions are institutions whose existence in the community is generally unwritten. Customs, traditions, interdictions, agreements, and conventions etc with various names and titles are grouped into informal institutions. While formal institutions are written regulations such as legislation, agreements, contractual agreements, economical, business, political and other regulations. Meanwhile, agreements that apply at international, national, regional and local levels are included as formal institutions.

Industry. According to Article 1 of the Republic of Indonesia Government Regulation no. 142 Year 2015 explained that the industry is all forms of economic activities that process raw materials and/or utilize industrial resources to produce goods that have value added or higher benefits, including industrial services.

Industry is a broad economic activity, the number and range of industries vary for each country or region. In general, the more advanced the level of industrial development in a country or region, the greater the number and variety of industries, and the more complex the nature of the activity and the business. How to classify or classify the industry is different. But basically, the classification of industry, based on criteria that is based on raw materials, labor, market share, capital, or type of technology used. In addition to these factors, the development and economic growth of a State also determine the diversity of the country's industry, the greater the complexity and the needs of society to be met, the more diverse the types of industries.

Economy & The Border Region. According to Arsyad (1999), economic development can be defined as a set of activities undertaken by a State to develop economic activities and community's quality of life. A successful economic development is indicated by three basic values: 1) the growing and expanding community's ability to fulfill its basic needs, 2) the increasing level of self esteem of the society as human beings, and 3) the increasing ability of the community to choose (freedom from servitude) which is one of the basic forms of human rights (Todaro in Arsyad, 1999).

According to Anwar (2001b), the regional development paradigm is directed to the equity that supports economic growth (efficiency) and sustainability in economic development. Therefore, based on this regional development paradigm, it can refer to as what is commonly called the second proposition in The Fundamental of Welfare Economics, where this proposition states the fact that the government can choose the targets of economic equity through transfer, taxation, and subsidies, whereas for the rest of the economy can be devolved to a more spatial development in order to seek a balance of development progress that is more equal on a regional basis (regional balance) by exploiting the potential and the type of excellences in each region. In general, a region is a geographical area, territory, or space/place that can be seen as a nation, state, area, block or village, moreover, a region does not always apply to a particular space or area because it can also be seen as a single unit of economy, politic, social, administrative, climatic or geographic according to the purpose of the study (Shukla, 2000). At the regional boundaries determination, there are some groupings which are based on homogeneity, capital, and administrative criteria. The concept of homogeneity establishes a region based on some similarities, whether by their physical, social, or their economic status. The concept of capital sets the region on the basis of differences in spatial structure because of the functional dependency, as an example, between the central area (core) which functions as the center of labor concentration, the location of industries and services, such as the raw material market, and the rear part of an urban area (hinterland) which is usually rural areas and serves as a suppliers of labor, raw material, and markets from industries and services.

A sustainable economic growth is a necessary requirement for the process of economic development and as a picture of an economy that is being developed (Novianingsih, 2011). Economic growth is also closely related to the process of increasing the production of goods and services (Silvia et al, 2013). If the export value of a nation tends to increase, it will surely affect the increasing number of working population and the increasing GDP. High employment opportunities will lead to an expenditures that exceeded the economic ability to issue goods and services (Ashraf, 2013). With the Gross Domestic Product (GDP), it can be seen how big the role of domestic industries is. Industrial sector is a sector that can affect the development of revenues of the State at this time (Keane, 2008).

METHODOLOGY

The methods used in writing this paper are descriptive and explorative. The focuses of the discussion in this paper are as follows:

1. The development of institutional capacity of footwear industry in improving the border region economy.
2. Factors that support and hinder the institutional capacity building of footwear industries in improving the economy in the border region.

DISCUSSION

National Production of Footwear Industries in Indonesia

National Footwear Industry is one sector that contributes significantly to national economic growth through an increasing level of exports and the absorption of mass labor. The Ministry of Industry establishes National Footwear industry as a priority industry which the development of its business will continue to be supported. The Ministry of Industry also appreciates the perpetrators of Footwear industries which continue to expand their businesses, creating new jobs and contributing to the spread of industries in the region.

Footwear Industry is one strategic and priority industry because of its role as a foreign exchange earner of the State with export value of USD 12.28 billion or 8.17% of total national exports in 2015, absorbing the labor of 1.1 million people or 7.7% of the total workforce in manufacturing industries and the investment value which has reached Rp 22.8 trillion. Footwear industry is also able to absorb direct labor for over 750,000 people. Through the expansion of several footwear companies to some regions by 2017, the industry is expected to absorb a new workforce for more than 30,000 people. Footwear Industry in Indonesia has entered the top 10 of the world, in 4th place to be exact. Footwear Industry is currently one of the concerns for the government because it's prioritizing the development of small and medium industries. The government has provided several programs to develop the industry, such as the trainings for both industry workers and owners, the access to design and equipments, as well as business development through the people's business credit. By 2017, it is expected that this industry can grow more rapidly so that the government is capable of monitoring people's economy. Regarding to the problems in high dependency on imported raw materials, Indonesia's effort is to accelerate the downstream of raw material program in order to reduce the industry's dependence on imported raw materials, if the program is being carried out, the cost of transportation of raw materials can be minimized, all of which require the strengthening of footwear industry's structure, starting from the top, and also there should be a new investment in raw materials of footwear industry to strengthen competitiveness. The problem of weak competitiveness and high cost economy through government efforts will help in making domestic products to choose it's own branding and in improving the quality of their finished products. Furthermore, regarding to physical facilities in the form of equipment which is outdated, the government will be restructuring footwear industries in the hope to accelerate the improvement of industry's performance and employment.

National Production of Footwear Industries in Malaysia

The footwear industry began to develop in Malaysia since the early 1990s and was considered as one of Malaysia's oldest manufacturing activities. At that time, and even to this day, a significant number of industrial players consist of small and medium-sized of entrepreneurs operating in their respective homes and they were very labor-intensive. According to data from the Malaysia Industrial Development Authority (MIDA), in the early 2000 there were around 1,030 Footwear companies, employing over 30,000 people. However, according to the Malaysian Footer Manufacturers Association (MFMA), the number of footwear companies was decreasing until in the early 2008. The main problem facing local companies is the lack of manpower and supporting industries for footwear components. Most of the Malaysian Footwear industries produce only the bottom part/outer soles, either made by plastic or rubber, and insoles part of shoes. There are very few who produce the top part of shoes. Therefore they should import around 70% of leather raw materials and components from abroad, increasing production costs by up to 70%. In order to overcome the competition from Thailand, Malaysian footwear industries are currently focusing on value-added products, medium-scale products with better quality, design and workmanship. They also began to improve R & D and branding efforts to make "Made-in-Malaysia" Footwear as an upscale product and thus distinguish it from other mass footwear products from other countries.

Malaysian footwear industry is currently no longer categorized as an industry, but has been turned into a tourism industry and creative economy. Developments in terms of product design and packaging are also considered because it is widely believed that they will bring in more investment, especially professional foreign workers who are competent from various countries. Currently Malaysia is seen as the center of Asian Fashion.

Footwear Industries Institutionalization

In order to support the development and enhancement of national footwear industry competitiveness, the government has and will provide strategic programs and policies by proposing to ban the export of raw leather, facilitating the establishment of Footwear Raw Material Center, providing export financing facilities through the Indonesian Export Financing Institution (LPEI), and by proposing incentive policies on energy for export-oriented industries. The development of footwear industry is also carried out with an increasing promotion of footwear industries exclusively at national and international official forums to create world class industries. Moreover, the harmonization of the output and input taxation system which is associated with the restitution period, as well as the development of national branding shoes. Furthermore, there are efforts to control the import and to secure the domestic market through non-tariff policies such as the compulsory implementation of SNI (Indonesian National Standard), P3DN (Enhancing The Use of Domestic Products), and trade arrangements for the import of certain products.

In order to implement such strategic programs and policies, well-organized activities, especially in the footwear industry, can still contribute to national foreign exchange earnings, which can be demonstrated by the industry's performance in the generated production capacity. Furthermore, there has to be a mutual supportive coordination among parties in National Footwear industry such as: Ministry of Industry, Ministry of Trade, Ministry of Manpower and Transmigration, National Development Planning Agency, Private-Owned Financial Institution, Academician, Association of Indonesian Footwear (Aprisindo), Development of Indonesian Footwear Industries Office (BPIPI), Capital Investment Coordinating Board (BKPM), Industry Workers, Business Owners of Footwear Industries, and Communities around the Footwear Industries area.

There are several issues related to footwear industries institutionalization, such as limited infrastructure and government access on licensing and bureaucracy, and high rates of levies. Furthermore, domestic issues that have not yet been resolved include: the issue of wage labor, employment, illegal levies, and corruption. Other issues include trade liberalization, lack of accessibility especially on market information.

Indonesia's Strategies on Malaysia

One of the main indicators of the success of a country's economic development is economic growth. Therefore, a country's macroeconomic policy will definitely be directed to optimize economic growth. One thing that is capable to be the driving force of economic growth in terms of an open economy is international trade, in this case is the exports and imports as well as foreign capital inflows. Thus the national income of the open economy and the role of imports-exports become important aspects for the improvement of economic growth. The comparative advantage factor becomes one of the keys that can be relied on by a State in conducting trading activities. International trade is also an important aspect in the economy of every nation in the world. With international trade, the economy will be intertwined thus create an economic relationship that affects one nation with another and the traffic of goods and services will form the trade among nations. International trade is an activity that aims to improve the welfare of the people in one nation. In addition, the globalization process has also penetrated the production sector which is supported by the freedom of capital traffic, the expanding market, and the searching for cheap production sites. As the Globalization and the ASEAN Economic Community (MEA) have been progressing quickly, Indonesia's readiness to overcome a unified and production-based market is the same as the Ministry of Industry has taken steps to increase industrial competitiveness and encourage investment in the industrial sector. The enhancement of industrial competitiveness is done through the strengthening of the industrial structure by completing an empty industrial structure and by preparing offensive and defensive strategies in market access. One of many industries that is ready to face competition from Malaysia is the footwear industry sector. The protection of the local industries from the wave of foreign industrial is done through a defensive strategy that is by implementing Indonesian National Standard (SNI) for manufacturing products. Malaysia and Thailand are two nations that are likely to dominate the Indonesian market. Aside from trade in goods through the enhancement of industrial competitiveness of and the encouragement of investment in the industrial sector, there is also an increasing level of industrial human resources. There are currently 50 SNI industrial decrees, as well as 25 Professional Certification Institution (LSP) and Competency Test Venue (TUK). The government is progressively strived to add 15 more SNI decrees and 10 more LSP of industrial sector every year, prioritizing the primary industry area. If all the strategies truly worked well, it would not be impossible for Indonesia to dominate international market especially for Malaysia and Thailand.

CONCLUSION

The existence of the border area, as part of the autonomous region is influenced by the attention of the local government itself, although the central government contribution is still needed. In this regard, institutional capacity building of local governments in the development of border areas should be encouraged. It becomes more and more important when a region becomes an autonomous region, where the purpose of regional autonomy itself is to improve the welfare of society, public services, and regional competitiveness. Within that framework, the principle of autonomy should be enforced in a broader range so that the region is authorized to administer and regulate all government affairs based on the stipulated provisions. Therefore, it is time for local governments that have border areas to develop and to build their institutional capacity as an integral part of improving the performance of regional autonomy.

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