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Competitive Survivability: A Study of Impact of Global Crisis on Indonesia and India

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Abstract: The purpose of the paper is to find the role of competitiveness parameters in international markets with particular reference to Indonesia. In a world of increasingly global competition, nations have become more, not less, important. As the basis of competition has shifted more and more to the creation and assimilation of knowledge, the role of the nation has grown. The research paper aims to understand the importance of competitive survival ability and the impact of the global crisis on Indonesia and India with special reference to Brexit. The research methodology adopted includes empirical data and case studies in the context of Indonesia. Competitive advantage is created and sustained through a highly localized process. Differences in national values, culture, economic structures, institutions, and histories all contribute to competitive success. The findings suggest that there are striking differences in the patterns of competitiveness in every country. No nation can or will be competitive in every or even most industries. Ultimately, nations succeed in particular industries because their home environment is the most forward-looking, dynamic, and challenging. The research paper has implications for managers and researchers. The paper focuses on the impact of Brexit on India and Indonesia. The geopolitical consequences of Brexit might not appear immediately. The European Union might temporarily pull together, but there would be damage to the sense of mission and Europe's soft power of attraction. The immediate impact may not be visible. However, with globalization coming in, all the markets are interconnected. So there will be an inter-country effect of Brexit on Indonesia and India. Markets which have large domestic markets will be affected less.

Keywords: Competitive market, Global competition, Brexit, Soft power, Indonesia

1. Introduction

On the one hand, economic development is characterized by the "new normal" of higher unemployment, lower productivity growth, and subdued economic growth that could still be derailed by uncertainties such as geopolitical tensions, the future path of emerging markets, energy prices, and currency changes. On the other hand, other recent developments show great promise—the so-called fourth industrial revolution and new ways of consuming such as the sharing economy could lead to another wave of significant innovations that drive growth. At the same time, across countries, we are witnessing that economic policymaking become increasingly people-centered and embedded in overall societal goals. Whether economies get trapped in the new normal or harvest the benefits of the latest innovations for their societies will crucially depend on their levels of competitiveness. Policymakers, businesses, and civil society leaders must work together to ensure continued growth and more inclusive outcomes of economic development. Enhancing competitiveness requires not only well-functioning markets; other keys to success include strong institutions that ensure the ability to adapt, the availability of talent, and a high capacity to innovate. These essential ingredients will become even more important in the future because competitive economies are more resilient to risks and better equipped to adapt to a rapidly changing environment.

Many countries are facing the consequences of widening inequality, which has become particularly acute since the global financial crisis—and evidence is growing that social inclusion and growth in GDP per capita go hand in hand. There has consequently been much discussion about the need to ensure that growth translates into broad-based improvements in living standards that touch all citizens rather than a fortunate few. However, there is little practical guidance about how countries can achieve both growth and equity.

1.1 Competitiveness Improves Resilience

Several risks, including geopolitical tensions and currency and commodity price fluctuations, could derail the still-weak recovery, should they materialize. Trends since 2007 support the hypothesis that competitiveness contributes to an economy's resilience, providing another reason to prioritize productivity growth now. For example, the United States started growing again by 2010, while Greece took until 2014 to return to positive territory, its economy has contracted by 25 percent in the meantime.

2. Aim of the Research Paper

The purpose of the paper is to find the role of competitiveness parameters in international markets with particular reference to Indonesia. In a world of increasingly global competition, nations have become more, not less, important. As the basis of competition has shifted more and more to the creation and assimilation of knowledge, the role of the nation has grown. The aim of the research paper is to understand the importance of competitive survival ability and the impact of the global crisis on Indonesia and India with special reference to Brexit.

3. Research Methodology

The research methodology adopted includes empirical data and case studies in the context of Indonesia. Competitive advantage is created and sustained through a highly localized process. Differences in national values, culture, economic structures, institutions, and histories all contribute to competitive success.

3.1 Competitive Survival Ability

The Unintended Consequences Bold policy changes always seem to produce unintended consequences, both favorable and unfavorable. The British liaison with the European Union has admittedly been complicated. With some reluctance, the United Kingdom joined the European Economic Community in 1973, and the French were reluctant to accept it after French President de Gaulle had vetoed British accession in 1963. In the meantime, the United Kingdom's trade links with the Continent have increased significantly. The British economy has become a reliable and firmly interwoven part of the EU economy, and the City of London has become a hub connecting the EU capital market with the rest of the world. If Britain left the European Union, all this would be put at risk. In particular, the European Union would do what it could to squeeze British financial services out of the Continent to give EU banks a competitive advantage.

Given that the financial sector contributes 7 percent to British GDP which is twice that sector's contribution to German GDP; this would probably be the most significant cost to Britain. For Europe, a Brexit would have similarly problematic consequences as it would lose gains from trade. Even though European banks would be glad to get rid of their competitors, private households and business sectors importing from Britain would suffer significantly as prices of goods and services would go up. From a political perspective, a Brexit would be problematic insofar as the European Union would be subject to French planification and lose sight of the basic principles of a market economy. British liberalism was one of the reasons why Germany had advocated Britain's accession in 1973. Losing the United Kingdom would risk building a Fortress Europe rather than a free trade area and drifting even further in the direction of a digitized economy. Moreover, what is more, how could a United Europe become a respectable power in world politics if Britain with its worldwide cultural network and its armed forces no longer participate? No, by all means, Britain must stay in the European Union for its own sake and the sake of European peace and prosperity. Brexit that weakens Europe and weakens Britain also weakens the United States. If Britain leaves the EU, America's closest ally would be marginalized … and the whole European project at risk of unraveling at precisely the time new economic and security threats confront the West."

The geopolitical consequences of Brexit might not appear immediately. The European Union might temporarily pull together, but there would be damage to the sense of mission and Europe's soft power of attraction. Problems of financial stability and dealing with immigration would be harder to manage. Over the longer run, the effects on the global balance of power and the liberal international order would be negative. Concerns have been raised concerning Brexit serving as a blueprint for further disintegration in other countries where there is already a high degree of skepticism towards further integration. Without the United Kingdom, Europe's voice in the world will be seriously diminished.

Advantages of a Brexit:

- Sovereignty; the United Kingdom will become free to negotiate and engage in international cooperation and trade relations, for example with individual EU member nations or with the world's key economies such as the USA, China and India.
- Immediate cost saving; the United Kingdom will save about 13 billion pound sterling per year (contribution paid to the EU budget). These funds can instead be used to develop the domestic economy. However, the UK also receives about 4.5 billion pound sterling in spending through its EU membership.
- The United Kingdom will become free to organize its health care and employment regulations (many UK companies support this issue).
- The United Kingdom will be able to set its immigration policies. Currently, the UK cannot refuse to welcome people from EU member nations.
  • Britain could re-invent itself as a Singapore-style supercharged economy.

Disadvantages of a Brexit:

- By being a member of the EU, UK businesses can take advantage of non-tariffs when exporting to EU member nations. The majority of UK exports (some 51 percent) goes to EU member nations.
- By being a member of the EU, UK businesses also benefit from (free) trade deals between the EU and other world powers; for example, the USA.
  The pound sterling could depreciate by 20 percent against other major currencies. UK GDP growth is also expected to be curtailed.
- For big financial centers, the UK will no longer be the gateway to the EU. UK-based car-makers may also cease production as exports to the EU become more costly.
- Per year it costs each UK household 340-pound sterling for the UK to be a member of the EU. However, allegedly, gains per UK household are much higher when being a member of the UK.

3.2 Impact of Brexit on India

After the decision of Britain to exit from the European Union there was the immediate reaction from the stock markets and currencies world over. India was no exception from this contagion effect. The Sensex tanked by 450 points (from the opening value) on June 24, 2016, falling below the 26000 marks and the Rupee value crossed 68 for a US Dollar. Nonetheless, both the stock market and the Rupee were quick to recover and find stable ground. Both the Government and Reserve Bank of India have been on a tight vigil. India is positioned reasonably well at present vis-à-vis its peers. The macro-economic fundamentals have improved and the strong orientation displayed towards reforms over the past two years has given us an edge. The persisting ambiguity in the global economic environment reaffirms the need to remain focused on further strengthening the domestic economy and continuing the reform process. As far as Gross Domestic Product is concerned most of the estimates indicate India holding on to its growth path even in the post Brexit scenario.

India's exports to the UK have been around 3% of our total exports and exports to the European Union are around 17% of total exports. Our exports to both UK and Europe have been on a downtrend in the past two years on account of subdued demand led by a frail and scattered recovery in the region. Post-Brexit there is a heightened chance of this trend being amplified over the near term given the possibility of disturbances in currencies and UK facing a further slowdown in growth. However, some safeguards are expected to be put in place to deal with the volatility in the currency in the UK. Also, measures to boost growth might be rolled out. The situation is expected to even out over the medium term. Also, much would depend on the currency movement (extent of appreciation vis-à-vis Pound) for countries that are competing with India to export to the UK.

The UK has been a valued economic partner for India and the decision to leave the European Union has created some amount of ambiguity for the Indian businesses. The same has been reflected in the survey conducted by FICCI as well. Even though over half of the respondents have reported that they do not intend to set up separate operations in any other EU country because of Brexit, they seemed concerned about the impact on company transfers/movement of professionals and Indian migration over the medium term. Also, the participants indicated that they expect investments to the UK to take a beating over the next three to five years. Furthermore, it is anticipated that the companies that have operations in the UK and the EU will have to face significant translation losses with the probability of volatility in currencies remaining high. The exposure on account of un-hedged borrowing abroad will also impact the company balance sheets. Also, post-

Brexit some concerns have been raised by companies about facing an investigation from competition authorities both in the UK and the EU. Until now, a majority of the competition law in the UK was derived from the EU. The companies have also pointed out that in the event of a merger/acquisition, a notification may have to be made both at the UK and EU level leading to an increase in compliance costs.

According to the report of Deloitte, the impact of Brexit on Indian market will be as follows:

- Lower growth and a weaker currency are likely to impact businesses in India. Short-term impact adverse on several Indian businesses across sectors
- For companies with manufacturing in the UK, access to a single market is essential, as their products can get uncompetitive if they had to pay import duties.
- If the UK becomes a member of the European Economic Area (EEA), like Norway, it could be advantageous for India in terms of trade.

  The British government can also cut tariffs and boost trade. If the UK and India finalize a free trade agreement, it will boost trade.

  However, India would not be able to use the UK as a gateway to the European Union as quickly as before, and trade between India and the EU through the UK could be hampered.

4. Sectorial Impact

4.1 Automobiles

The UK and the EU account for 4% and 16% of India's automobiles exports. For companies manufacturing in the UK, access to the single market is important; products will get uncompetitive if they have to pay duties. In the near term, products become cheaper, but profits will fetch lower amounts.

4.2 Travel & Tourism

The travel and tourism sector will be affected by the Brexit developments, as it is directly affected by currency fluctuations. Travel to the UK could get a boost, as the British economy gains competitiveness via a weaker currency. However, it also means fewer British tourists in India and lower spending.

4.3 Garment Exports

Garment exports accounted for a fifth of India's exports to the UK. Indian garment exporters have already witnessed a 5% drop in demand last year and could see lower sales due to a slowdown in growth.

4.4 Pharmaceutical

India's pharmaceutical sector has significant exposure to the UK and the EU, with exports of $0.46 billion to the UK and $1.51 billion to the EU. A drop in demand in the UK and the EU will impact profits and sales.

4.5 Precious Stones

Trade in precious metals and stones between the UK and India amounted to about $2 billion in FY16. A weaker pound will make imports cheaper.

4.6 Impact of Brexit on Indonesia

Central Bank Bank Indonesia (BI) said Indonesia's economy has a good resistance believed to be able to protect Indonesia's economy against the impact of the results of the referendum in the UK that is the decision of the UK to leave the European Union, known as the British Exit (Brexit). "Macroeconomic stability is maintained and this is reflected low inflation, current account deficit under control, and the exchange rate that is relatively stable," said Executive Director of the Department of Communications of Bank Indonesia Tirta Segara. The Brexit impact will have a relatively limited impact on the domestic economy, both in the financial markets as well as trade and investment activities, in the domestic financial market, amid the weakness in the financial markets in Europe and Asia. The exchange rate remains relatively stable, while the Indonesian stock market is experiencing a correction that is relatively limited, especially when compared with peer countries such as India, Thailand, and South Korea. In addition to the financial markets, in the medium term, the impact Brexit through trade is also believed to be relatively limited, he added. For the record, Indonesia's export share to the UK is only about 1 percent of the total exports.

Indonesia's economy continues to prove resilient with forecasted GDP growth of 5.1 percent for 2016. However, weaker than expected global economic expansion may moderate the growth recovery of Southeast Asia's largest economy, according to a new World Bank report. The World Bank recently lowered its growth projections for the world by half a percentage point than previously expected, to 2.4 percent.

Private consumption and public capital spending are projected to support growth in Indonesia in 2016. Continued policy reforms can help counter the impact of slowing demand and financial market volatility globally. “Prudent monetary policy, increased public investment in infrastructure, and policy reforms to improve the investment climate are helping Indonesia maintain growth in the order of 5.1 percent,” said Rodrigo Chaves, World Bank Country Director for Indonesia. “But the anemic global economy is limiting much-needed investment and continued reforms would help Indonesia to buoy investor confidence.” Increased private sector investment is essential for Indonesia, as pressures on public revenue may curtail the government’s plans for much more infrastructure investments, which have supported economic growth. However, even with lower revenue forecast and a more significant fiscal deficit of 2.8 percent of GDP, World Bank calculations show that 90 percent of the original 2016 Budget investment target could be achieved.

While private consumption growth remained resilient at 5 percent year-on-year, slowing growth in fixed investment due to reduced government spending has contributed to Indonesia’s real GDP growing at 4.9 percent year-on-year in the first quarter of 2016. Weak global demand continues to put pressure on exports. Faced with the continued decline of the commodities sector, Indonesia can seize the opportunity to expand the manufacturing and services sector. Indonesia’s global share of manufacturing has stagnated at around 0.6 percent over the last 15 years.

“This is a critical opportunity for Indonesia to implement further reforms that will enhance the competitiveness of its manufacturing and services sectors, especially tourism. In addition to ongoing reforms, a sound industrial strategy will be key, focused on technology transfer or capacity development in terms of product design, engineering and development in promising industries. To upgrade industries and climb the technological ladder, a strong partnership with the private sector will be crucial,” said Ndiame Diop, World Bank Lead Economist for Indonesia.

Table 1: Comparative Analysis of India and Indonesia

Key Indicators:	**INDIA**	**INDONESIA**
Population(millions)	1,259.7	251.5
Gdp (us$billions)	2,049.5	888.6
Gdp per capita(us$)	1,627	3,534
Gdp (ppp)as share(%) of world total	6.84	2.48
Gci 2015-2016(rank, score)	55/140, 4.3	37 /140, 4.5
Institutions	60 /140	55/140
Infrastructure	81/140	60/140
Macroeconomic environment	91/140	33/140
Health and primary education	84/140	80/140
Higher education and training	90/140	65/140
Goods market efficiency	91/140	55/140
Labor market efficiency	103/140	115/140
Financial market development	53/140	49/140
Technological readiness	120/140	85/140
Market size	3/140	10/140
Business sophistication	52/140	36/140
Innovation	42/140	30/140
Stage of development	STAGE 1	STAGE 2

Currently, Indonesia’s manufacturing exports are dominated by ‘low-tech’ products and operations are focused mainly on blending and assembly, making the country vulnerable to changes in a multinational corporation’s location strategy. In addition to providing an overview of the challenges of Indonesia's manufacturing sector, this edition of the IEQ also analyzes the increase in trade deregulation and how to further trade liberalization can impact living costs, including food prices. The report also explains how bank income and expenditure, shallow financial markets, and competition from the

Government for funds, have contributed to higher interest rates in Indonesia.

After leapfrogging 16 places in the past two years, Indonesia posts a performance most changed from last year (37th, down three) and remaining uneven across the different categories of the Index. Under new leadership, Southeast Asia's largest economy still faces significant challenges in the major areas of competitiveness, including infrastructure (62th, down six) and institutions (53rd, down two). Our data suggest that efforts to tackle corruption—a priority for the previous as well as the current administration is paying off, with Indonesia improving on almost all measures related to bribery and ethics. Another area of concern is public health (96th, up to three), with the incidence of communicable diseases and the infant mortality rate among the highest outside sub-Saharan Africa. Lack of labor market efficiency remains the weakest aspect of the country's performance (115th, down five), the result of persisting rigidities in wage setting and hiring and firing procedures. The macroeconomic situation remains satisfactory (33rd, up to one), thanks to a moderate government budget deficit of around 2 percent of GDP, low debt levels, and a high savings rate. The fiscal situation could worsen, though, because depressed energy prices lead to lower proceeds from oil exports.

After five years of decline, India jumps 16 ranks to 55th place. This dramatic reversal is mainly attributable to the momentum initiated by the election of Narendra Modi, whose pro-business, pro-growth, and anti-corruption stance has improved the business community's sentiment toward the government. The quality of India's institutions is judged more favorably (60th, up to 10), although business leaders still consider corruption to be the biggest obstacle to doing business in the country. India's performance in the macroeconomic stability pillar has improved, although the situation remains worrisome (91st, up to 10). The fact that the most notable improvements are in the basic drivers of competitiveness bodes well for the future, especially the development of the manufacturing sector. However, other areas also deserve attention, including technological readiness: India remains one of the least digitally connected countries in the world (120th, up to one). Fewer than one in five Indians access the Internet on a regular basis, and fewer than two in five are estimated to own even primary cell phone.

5. Brexit: Likely Scenarios

There are four possible scenarios or terms on which the UK could engage with the EU; each of these will differently impact Indian businesses.

Scenario 1: EEA, formed in 1994, serves as a block that gives non-members of the EU access to the single market.
Implications for India: Indian businesses are expected to remain mostly unaffected.
Scenario 2: Does not come under EU but has a sequence of bilateral treaties governing their relationship
Implications for India: Access to single market remains but with some restrictions.
Scenario 3: The UK's relations with the EU and the rest of the world to be governed by WTO rules
Implications for India: India-EU trade through the UK could be hampered.
Scenario 4: Similar to what Canada is negotiating with the UK - preferential access, with the elimination of most trade tariffs
Implications for India: India could still be able to use it as a gateway to the EU and India would be able to negotiate a separate trade deal with the UK.

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