



# The Asian Century, Indonesia and Competitive Advantage

**T**he 21st century has been nicknamed the Asian Century, while the 19th century was the European Century and the 20th century was the American Century. Both Europe and the U.S. were economically, politically and culturally dominant in their respective centuries, yet we have just started the second decade of the 21st century. While some Asian countries such as China and India have climbed up the economic totem pole, their ability in maintaining economic leadership hasn't been tested. Meanwhile, other emerging Asian countries have some homework to boost their competitiveness. Indonesia is no exception.

Indonesia's economy has been self-sustaining and relatively unshaken by the global crisis, due to the large population that serves as a rich labor resource and domestic market and the availability of raw materials in islands surrounding Java. Such uniqueness explains why Indonesia has a strong comparative advantage over other countries in terms of labor-intensive production and raw materials sourcing. However, increasing competitive advantage in high-priced goods is still challenging. While some Indonesia-made goods have better quality nowadays, certain fine products require better skilled labor and technology.

Comparative advantage theory was introduced in 1817 by economist David Ricardo in *On the Principles of Political Economy and Taxation*, which provided an argument for a country to focus on producing goods and services that can be produced efficiently. Fast forward to 1985, when Harvard professor Michael Porter argued that states could create a competitive advantage in high-priced products of high-quality. The Korean automobile industry is a good example of how to implement Porter's idea.

Porter identified four crucial elements in national competitiveness and economic development. First, the country should have both basic and advanced factors ready and available. Indonesia has multiple levels of available resources, both natural and man-made, thus identifying, preparing, and developing them require utmost commitment. Second, the country should cultivate an environment

that encourages improvements. Benchmarking activities should be made popular at various strategic levels.

Third, the country should create business and legal environments that would encourage suppliers to work closely with the industry. Upstream and downstream activities should be channeled with advanced optimization. Fourth, the country should encourage healthy competitiveness that would foster innovations. In the U.S., for instance, affirmative action in business encourages angel investment groups to continuously search for minority-owned innovative new ventures to counterbalance the fact that more than 90% of businesses in Silicon Valley are owned by whites and Asians.

According to Zahir A. Quraeshi and Mushtaq Luqmani of Haworth College of Business at Western Michigan University, these four elements of competitiveness require ongoing advancement in labor resources, technological resources and infrastructure support. For instance, in this era of media convergence, hardcore

infrastructure would provide a backbone for innovations to occur. However, bigger and more opportunities lie in the software developments, which require softer technical skills based on higher-level creativity. And such innovation and creativity-based competitiveness is expected to be fluid and transferable with minimized nontariff barriers, such as protectionism and other political barriers.

Australia is an example of a well-prepared country in this so-called Asian Century. The Australian Academy of Sciences has recommended that the Australian government refocus on science and innovation investments, which the Indonesian government can learn from. Within ten years, a total of A\$250 million are expected to be spent in four focus areas: improved competitiveness, improved awareness, improved governance, and improved diplomacy.

While the political, legal and business environments determine whether Asia and Pacific can truly become the center of world's geopolitics, innovative businesses and creative individuals are at the forefront of war of competitiveness required to win over the century. Let's welcome the dragon in the room. <sup>15</sup>

**Other emerging Asian countries have some homework to boost their competitiveness. Indonesia is no exception.**