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Improving the Quality of Local Apples as Specialty Crops to Build Competitive Advantage in Free Trade (in Batu, East Java-Indonesia)

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Abstract: This article introduces a strategy to confront the challenges of globalization, especially free-trade policy. Globalization has a real impact on free trade for apple growers in Batu, East Java. After conducting research on and an assessment of the conditions of apple farmers in Batu, we identified four main problems for apple growers in Batu; their lack of understanding of free trade, weak local institutions, the lack of coordination and partnership with relevant parties in resolving the problems of apple growers, and the fact that local apples are losing to imported apples.

In response to these problems, a community program was designed and was conducted to improve the quality of local apples in Tulungrejo village, Bumiaji District, Batu, East Java. Program activities included: 1) Introducing free trade to apple growers and owners of small- and medium-sized enterprises; 2) Strengthening local institutions; 3) Developing partnerships; 4) Revitalizing apple crops; and 5) Enhancing apple branding and packaging. The methods used were focus group discussions and participatory development. This program aimed to turn Batu apples into regional specialty crops, giving a competitive advantage to local apple farmers.

Keywords: Competitive advantage; Globalization; Free trade; Apple growers; Specialty crops.

I. INTRODUCTION

I.1. Background

Currently, globalization is taking place in various parts of the world. Globalization is the acceleration and intensification of interactions and integration between people, companies, and governments from different countries. The impact of globalization can be felt in all aspects of life in communities, in terms of social,

cultural, legal, economic, political, and various other sectors. In fact, globalization covers a broader range of issues than international trade and productivity.

The most pre-eminent features of globalization are the dynamics of change and competition that occur in all sectors of life. The phenomenon of change occurs dramatically in various aspects of life, and new relations among countries and nations also emerge in the form of increasingly intense competition in various sectors. Not only countries, but all of organizations, willingly or not, are dragged into global competition. In this present era, the world faces (*turbulence and uncertainty*), more sophisticated technological information, bolder communities with various demands, and growing competition. These result in an increase of various intensive pressures, challenges, and even threats from various directions for countries.

Amidst this era of strong globalization, one of its most noticeable impacts is in the economy sector. Globalization in the economic sector has driven the development of free markets. The development of international trade in recent years has led to the conceptualization of free trade, accompanied by a wide range of bilateral, regional and multilateral partnerships.

An example is the CAFTA, which is a free trade agreement between Indonesia and China, as stated in the Presidential Regulation of the Republic of Indonesia No. 48 of 2004 (dated June 15, 2004) regarding the Legalization of a Framework Agreement on Comprehensive Economic Cooperation between the Association of Southeast Asian Nations and the People's Republic of China (Direktorat Jenderal Perdagangan Internasional, 2010). However, free markets and trade liberalization can be serious threats if domestic commodities (both agricultural and industrial) are unable to compete with international commodities. Countries that have poor economic infrastructure, and where the domestic industry of a country is not yet ready to face such free competition among countries and nations, will face a serious threat from the exposure of foreign products. Globalization opens up opportunities and wider market access to foreign products for domestic consumers, and when unexpected can halt the movement and growth of national agriculture and industries (Muhi, 2011).

Nugroho and Marsudi (2014)'s study, *The Effects of Free Global Trade and Indonesia's Preparedness to Face the ASEAN Community* (A Study on Apple Growers in Batu, East Java), found that, due to free trade policies, local farmers are marginalized because they are unable to compete against imported apples. So far, there has not been any specific program conducted to overcome this problem. This research finding has inspired and encouraged the researcher to form a community services team of Universitas Indonesia to work together with the local farmers in Batu. In the case of these apple growers, globalization has not yet provided them with opportunities – it has instead harmed them financially. The biggest impact of globalization for a society when it is unprepared is the rise of new poverty issues in Indonesia. The research result of the Food and Agriculture Organization on countries that embraced the Uruguay Round negotiations showed that there is a trend of agricultural concentration that clearly leads to the marginalization of local peasants and a rise in unemployment and poverty (Setiawan, 2014).

Looking at this concerning situation, the question is: What strategy can be implemented? In response to this question, the community services team designed and conducted a program for apple farmers in Batu. The program will be explained in the results section. What is interesting about this article is that the data used was mainly drawn from the implementation of strategic programs to answer the problems found in the previous research and needs assessment of the apple growers of Batu, East Java. The program addressing the impact of global free trade is the novel aspect of this paper.

II. METHODS

This article is based on a community development program to support apples farming in Batu, East Java, Indonesia, even though the reasons for developing the program are constituted by the previous research. An initial step, a needs assessment was conducted through a Focus Group Discussion (FGD) consisting of two groups: The farmers and small- and medium-sized businesses, with each group comprising 8 people. The aim of the FGD was to conduct an assessment of the problems, potential and needs of the local people. It was expected that an accurate needs assessment would create an action program which would meet the community's problems and needs, and therefore, would be strategic and effective in answering the community's problems. This program applied the community participatory development method, and was conducted in Bumiaji District, Batu, East Java.

Having used the method of community development, the community was involved from beginning of the program. After conducting the assessment, the community services team together with the community discussing about the program planning and implementation. Community cadre plays an important role during the process. Thus, there is partnership relations between the community and community services team.

III. RESULTS

Free-trade policy has brought about significant implications for Indonesian apple growers. First, the implementation of tariff-free imports led to imported apples dominating the national market. Local apples have to directly compete with imported apples with their various strengths. Second, it has also meant the abolishment of subsidies for products such as manure, seeds, insecticides and others. This has created an increase in production costs for farmers so that the price of local apples is higher than before, influencing their competitive advantage.

The impact of globalization can be seen clearly in the decrease of apple production, in Batu. Apples are a featured product of Batu, especially in Tulung Rejo Village, Bumiaji District, Bumiaji Farmer Cooperative. However, since the financial crisis in 1997, and more so in recent times, apple agribusiness has weakened drastically. Currently, as stated by an apple farmer of Batu, the policy of fruit imports carried out by the government has resulted in many imported fruits, including apples, breaking into domestic markets, in almost all parts of Indonesia, including Batu. A relevant official from the Farming Office of Batu explained, "Our apples are not really able to compete against imported apples that come in attractive packaging, are shinier, are cheaper and are promoted better, so our farmers' sales figures are decreasing because some markets sell imported apples" (Nugroho, Marsudi, 2014). Co-op conditions are also concerning due to issues related to management, weak institutions, and many inactive co-ops in 2017. As of today, there are only five active co-ops (interview with the leader of the Bumiaji farmers Co-op, 2017). Furthermore, there is a great need among the local small- and medium-sized enterprises (SME) to strengthen SME associations.

In summary, based on the previous research and assessment results, the identified problems are the farmers' lack of understanding of free trade; weak local institutions; the lack of coordination and partnership between relevant parties in resolving the concerns of apple growers; inadequate quality of apples, and the fact that local apples require better packaging. It is hoped that through the community services program

conducted as part of this study, the existing problems will be solved and the farmers' lives can be enhanced. Based on the above identifications, the objectives of the program are formulated as follows.

III. 1. The Implementation of the Program

The program implemented was “needs-oriented”, that is, the needs and problems of the community where the program was implemented were taken into consideration. Community Service Activities were held for a period of 1 year, in 2017. It is expected that through these activities there will be an increase in the potential of the region to have apples as a featured product. However, to achieve this, one of the external constraints faced is free trade, which needs to be anticipated properly. The program that we conducted was a program to increase capacity and the quality of apple products in Tulungrejo, Bumiaji, Batu, with the ultimate aim of apple farmers being competitive in free trade and becoming independent.

Before the program was conducted there was a step called engagement, which established relationships with the community. Community assistants (cadres) were involved from the beginning, because when the community service provider leaves the program, it is the community facilitators as cadres who can continue to assist the community to ensure the sustainability of the program. The community facilitators/assistant are well-known and respected figures in the community.

Some of the activities carried out were:

(a) Re-assessment through Focus Group Discussions (FGD)

FGDs consisted of 2 groups: farmer groups and SME agents. Each group consisted of 8-10 people. The purpose of these FGDs was to conduct a re-assessment of the problems, potential and needs of the farmers. Through the FGDs, the researchers collected a lot of useful data. An example was the decision to use farmers' land as a pilot so that the farmers can immediately see the concrete results and be more motivated to participate. Another example was the suggestion by SMEs that government assistance be more socialized so that it can be more beneficial. The related program of the government is PLUT.

(b) Introducing Free Trade into the Farming Sector (Socialization)

A seminar for free-trade socialization was held with the aim to increase farmers' awareness and knowledge of the impacts of free trade. This was considered important because it was based on the findings of previous research – it was found that farmers and the local government are not fully aware of free trade policies. This activity involved apple farmers, SMEs and various related institutions and this was hoped to raise understanding regarding the potentials and challenges of free trade currently being faced, so that a strategy to anticipate that could be put in place.

(c) Establishing Partnerships with Relevant Institutions

Resolving the problems for apple growers in Batu needed to be done in a serious and comprehensive manner, and needed to involve the Batu Government, the Farming Office and inter-sectoral actors such as co-ops, the Land Office, the Farming Office, the Office for Small and Medium Enterprises and the Department of Trade. It also involved a university, who provided the curriculum and studies relating to farming issues in Batu. In this program, we collaborated with lecturers at the University of Muhammadiyah,

Malang. The development of partnerships was very important since community service programs need support from various institutions. In addition, by holding on to the basic principles of community development – involvement and participation - these partners were involved from the beginning of program.

(d) Strengthening Local Institutions

Local institutions are strengthened by conducting training programs that focus on group dynamics, institutional processes, cooperative work, strategic management, entrepreneurship and marketing strategies. During the program, the trainers employed some training techniques used in “adult education”. Materials, interactive discussions and games were delivered in an enjoyable way.

(e) Enhancing Product Quality and Revitalizing Apple Crops

This program aimed to optimize apples as organic crops, other than just producing attractive-looking apples. Healthy apples have a higher selling price and are better than imported apples that contain a high chemical content. Through this program, farmers obtained knowledge on how to grow healthy, organic apples. In addition, it was observed that there were many neglected apple trees so effort was needed to increase the motivation of farmers and revitalize apple crops. The apple growers suggested that a pilot project conducted on a piece land would be good so that people can see and learn directly the techniques of growing healthy apples and readily see the results.

(f) Improving Product Quality and Rebranding Apples

Processed apple products (for example, apple chips, drinks, and so on) have a higher selling price. There is a need for quality control of products to retain customers and increase sales. To attract a larger market, Batu apples needed to be rebranding through new packaging, social media promotions and others. Also, strengthening innovation for quality control was implemented. To give added value, the packaging was redesigned to be more attractive. The SME actors were trained about the related strategies and techniques, and given the opportunity to practice the new techniques.

III.2. Constraints of the Program

During the implementation of the program, there were some obstacles faced by the team, both internally and externally:

1. Internal Constraints

The internal constraints faced by the team were:

- The location of the program made it impossible to conduct visits every day, therefore, communication could only be done through community facilitators who had been appointed by the team.
- Given the limited time of the team, the community of apple farmers and SMEs determined the suitable times for the socialization activities.

2. External Constraints

The external constraints faced by the team were:

- There was a need for integration between the Government of Batu and the farming community and apple SMEs to work out a vision and mission to implement the program of partnership involvement.
- During the socialization stage and the FGDs, there was still a gap between some groups of the community. Therefore, the team needed to ensure that they were coordinated appropriately.
- The coordination team with a target of socialization reached 150 people, but this was hampered by constraints of time and other activities aside from socialization.
- The determination of the location of the socialization activities faced some issues several times, as the Government kept switching the location, and this caused some misunderstanding during the socialization activities.

The program activities included assessments, developing partnerships, increasing the capacity of local institutions, enhancing the quality of local apples, and the packaging of processed apple products (through technology and innovation). It is hoped that through these activities the apples will become specialty crops, and to achieve this goal, the external hurdle to overcome - free trade - needs to be anticipated so that local apple growers have a competitive advantage and can become independent. The community service program was designed to resolve the existing problems and increase community capacity to positively affect the quality of life for apple growers.

IV. CRITICAL REVIEW AND DISCUSSION

Social development is an approach to achieve society's welfare proposed by Midgley (2014). He maintains that the social development and economic development must go in a parallel way. Both are inter-dependent; a program adopting social development approach should cover social and economic aspects. One of its strategies is community strategy.

Community development has close relation to empowerment. Empowerment itself refers to the ability of people, especially vulnerable and weak group that have the power or ability to: (a) meet the basic needs so that they have the freedom (freedom), meaning not only freely express opinions, but freedom from hunger, freedom from ignorance, free from pain; (b) reach the productive resources that enable them to increase their income and obtain goods and services they need; and (c) participate in the development process and the decisions that affect them (Suharto, 2005: 58). Ife in Adi (2013: 206) argues that the empowerment is an effort to increase the power of disadvantaged groups.

One of the key dimensions of development is the distinction between top-down development and bottom-up development (Ife, 2002). The former is development that is directed by the 'experts': those with superior wisdom, knowledge and expertise, who have clear ideas about how development ought to proceed and who seek to implement development programs accordingly. Where the 'expert' comes from a cultural or national tradition that is different from that of the community, this top-down development is essentially colonialist in that the external expert knows best and seeks to impose their world view on others. However, top-down development can also operate from within a nation or culture; here the 'expert' may be a

government agency or an NGO, which again assumes superior wisdom to that of those who are to be 'developed'. Such top-down development is in contrast to the bottom-up tradition, which recognises wisdom and expertise located in the community itself and seeks to valid at that wisdom and to provide resources so that the pace and direction of development can be directed by those most affected.

The study about empowerment and community development itself has been undertaken by Amry Hari Besar, Moch Yuhdi Batubara and Margono entitled "Community Empowerment of Lapindo mudflow victims in ensuring the Sustainability of Life (*Survival of Live*) in Mindi Village, Porong district Sidoarjo regency". This study discusses the Sidoarjo Government's attempt to empower the community who are the victims of Lapindo mudflow through skills program. The programs of the government were in the form of skills training programs organized by the government of Sidoarjo which aims to ensure the sustainability of the community life of Lapindo mudflow victims who have lost their jobs as a result of the Lapindo mudflow disaster. This study shows that government attempts to empower citizens through skills programs are often less fruitful because there are only few people survive and apply the knowledge after being trained. This is due to the characteristic of empowerment through skill enhancement and self-employment which is a *top-down*, so it comprehends less the *real* needs of the community in the field of socio-economic.

The implementation of this community empowerment program is mainly based on theories and concepts proposed by Ife (2006). This program aimed "to empower disadvantaged people over their personal choices and lives; opportunities; definition of needs; resources; economic activities and reproduction through interventions...". The local community was involved in all program activities, including in the assessment, planning and implementation of the program. Full participation of the community was the most important aspect to ensure program sustainability. In order to encourage the participation and engagement of the community, a needs-assessment was conducted as the first stage of the community program.

However, as indicated previously, this program was also a reflection of social development approach. Therefore, in its design the program's features included inter-disciplinary, be progressive and be interventive (Midgley, 2014). The program also consisted of several activities of both social and economic elements. Raising awareness of the potential, problems and challenges related to free trade could be done through the socialization of farmers and related parties. This program involved the development of organic apples to increase the competitiveness of local apples in relation to imported apples. The project also involved strengthening innovation for quality control. In order to give *added value*, the packaging of the product was re-designed to appear more attractive. Through these activities, the community 's capacity is enhanced for a better lives. It can be seen that the program is based on social development approach.

The planned institutional design was the establishment of communication as a medium of co-creation (Takeuchi, 2008) in working with the apple growers and small- and medium-sized enterprises that still have low bargaining positions. This weakness leads to a lack of knowledge about standard production processes, product quality, quality management and the correct marketing strategies. They have only ever worked based on experience, and therefore there has been no innovation and value creation in the production process, management and marketing of apples. Based on FGDs and observations, the most concerning aspect was the non-existent trust between farmers and small enterprises, who see collaboration as a threat rather than an opportunity. The first step to eradicate this mindset is to hold seminars about the threats and

challenges that come with free trade. By introducing the idea that “free trade is a challenge that needs to be overcome together”, it will become easier for co-creation activities to occur, producing a synergy of knowledge which can be used to fix lacking business aspects. Basically, co-creation refers to business strategy activities that emphasize the creation of sustainable organizational values. In the context of Batu’s apple growers, co-creation activities consist of the following combinations: collaboration between apple growers; collaboration between apple growers and small enterprises, collaboration between small businesses of processed apples and other small businesses, collaboration between small businesses and the Association of Batu City Entrepreneurs, collaboration between the Association of Batu City Entrepreneurs with the local government, collaboration between the local government and private businesses, and collaboration between the Association of Batu City Entrepreneurs and private businesses.

Apple growers are included in agribusiness value chains because they are involved in the early stages, producing the raw materials for the next steps. The production process needs to be reviewed due to the many issues still being faced by farmers. The most common issue for Batu apple growers is damaged soil, leading to non-optimal, or even failed, crops. Apple crop cultivation requires knowledge of manure, insecticides, soil and seeds. The combination of these factors constitutes the main variable of quality apple production.

A majority of the apple producers in Batu are still in the category of household industries (PIRT), therefore, they use a rather simple production method. Interestingly, the PIRT have yet to join the Centre for Integrated Services (PLUT), initiated by the Batu government. PLUT aims to provide support to and assist the integrated services for co-ops, microbusinesses and small- to medium-sized enterprises to enhance their competitive advantage, productivity and added value. The apple growers and the businesses non-participation in PLUT causes them to fall behind in acquiring the basic knowledge and skillset needed in such a small industry. Their access to government programs is still limited. So, it is hoped that this community program implemented by the University can form a bridge between the government, the farmers and small-scale enterprises.

The establishment of communication media is a means of *co-creation* developed for apple farmers and SMEs. The weaknesses of these parties have resulted in a lack of understanding of the processes of standard production, the quality of the goods produced, quality management, and even a proper marketing strategy. All the things that have been done are only based on experience without innovation and value creation in the production, management and marketing process. This has resulted in discrepancies between those with access to apple farmer groups and the marginalized small micro-enterprises.

The most dangerous issue is undeveloped *trust* among farmers and SMEs to the extent that they do not consider collaboration and cooperation as an opportunity, but rather as a threat.. To eliminate this issue, the first stage is socialization related to the threats and challenges faced in the era of free trade. The similarity of perceptions and values that are formed through this process will facilitate *co-creation* activities which can generate the synergies of knowledge that are then used to improve certain aspects of a business.

Following FGD assessments, the most noticeable marketing aspect of apple growers and SME actors was apple packaging, which is yet to fulfill ISO standards, is not attractive enough, and is unable to maintain the quality of the products. By participating in the association and PLUT, there is opportunity for farmers to gain training and knowledge on how to improve their packaging, and the quality of the apples.

Furthermore, through observations and interviews, it was revealed that their capacity for strategic entrepreneurship (SE) needs to be strengthened. Entrepreneurship is a very big change for most of them because previously they were “purely” farmers, yet now they have shifted to be “entrepreneurs”. To be an entrepreneur, one must have “an entrepreneurial mindset, entrepreneurial culture, entrepreneurial leadership, as well as strategic management of resources and apply creativity and develop innovation” (Ireland, 2001: 475-491). This is a long process that requires great effort, such as specific training.

The previous explanations can be summarized in diagram 1 below. The assessments, socialization, partnerships and empowerment of farmers and businesses lead to a condition that helps improve the capacity of apple growers in Batu. The following diagram summarizes and concludes the intervention pattern used to enhance the production capability of apple growers in Batu.

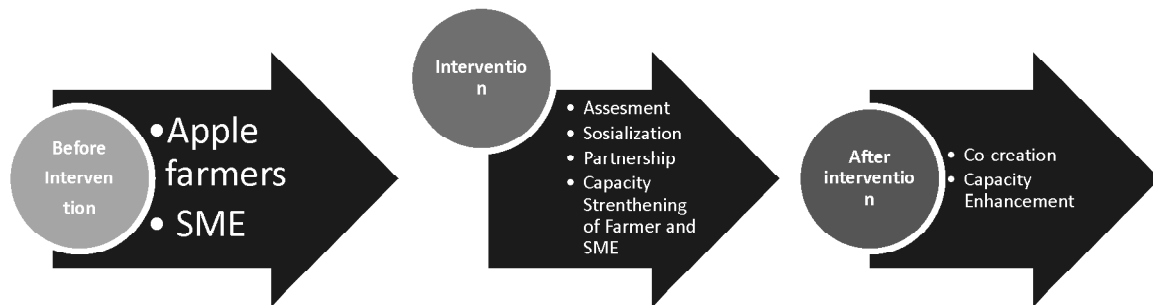


Diagram 1: Stages of Intervention

V. CONCLUSIONS AND RECOMMENDATIONS

The impact of globalization, more specifically free-trade, can be seen clearly in the decrease of apple production in Batu. Apples are a featured product of Batu. The policy of fruit imports implemented by the government has resulted in many imported fruits, including apples, breaking into domestic markets. The imported apples have attractive packaging, shinier, cheaper and are promoted better, so local apples are significantly decreasing in sale. Without subsidies of fertilizer, seed, pesticide from government, the production cost becomes higher, consequently selling price is increased. This causes the local apples to be more difficult to compete imported apples. The community services team from Universitas Indonesia, together with the community conduct a program to enhance the capacity of apple farmers and SMEs. Through this intervention program, it is expected Batu apples have capability to be competitive in this era of free-trade.

Based on the program conducted, it can be recommended that programs of government should be introduced to community more massively and systematically. Also the community should have a better access to the program. For the apple farmers: the should maintain quality of healthy apple, while for SME, product branding should be improved. For all these, the enhancement of capacity is crucially important.

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