

ASEAN Single Market and Challenges for Micro, Small, and Medium Enterprises Product in Indonesia

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Abstract

Association of Southeast Asian Nations (ASEAN) single market is a competition of goods / products and services that compete freely in one market system. In ASEAN single market, Indonesia as one of ASEAN member countries is expected to protect in terms of policy and facilitate / assist domestic products especially those produced by micro, small and medium enterprises (UMKM) in order to compete with other ASEAN member countries products. Therefore, the central and local governments must coordinate each other in making strategic policies and harmonizing all relevant legal rules to help domestic products compete in the ASEAN single market.

Keywords: ASEAN single market, UMKM product, Indonesia.

I. Introduction

Micro, Small and Medium Enterprises (UMKM) is an Indonesian term combining micro enterprises, small enterprises, and medium enterprises. Law Number 20 Year 2008 on UMKM gives understanding and limitation of each of the business concerned. Micro Enterprises based on Law Number 20 Year 2008 are productive businesses owned by individual and/or individual business entities with net worth of Rp.50.000.000 (fifty million rupiah) Excluding land and building of business premises or having annual sales proceeds of at most Rp.300.000000 (three hundred million rupiah), While based on the Decree of the Director of Bank Indonesia Number 31/24/Kep/DER (dated May 5, 1998) provides the understanding that micro enterprises are businesses run by the poor or near poor, owned by families, local resources and simple technology, Easy effort for exit and entry.

Small enterprise based on Law Number 20 Year 2008 and the meaning of Bank Indonesia is a stand-alone productive economic enterprise, carried out by an individual or a business entity that is not a subsidiary or not a branch of a company owned, controlled, or a part of either directly or indirectly from medium enterprise or large business which has net worth of more than Rp.50.000.000 (fifty million rupiah) up to a maximum of Rp.500.000.000 (five hundred million rupiah) excluding land and building of business premises or having annual proceeds of more than Rp.300.000.000 (three hundred million rupiah) up to a maximum of Rp.2.500.000.000 (two billion five hundred million rupiah). While medium enterprises according to Law Number 20 Year 2008 is a stand-alone economic product business conducted by an individual or a business entity which is not a subsidiary or a branch of a company owned, controlled, or becomes part directly or indirectly by small enterprise or large businesses with net worth of more than Rp.500.000000 (five hundred million rupiah) up to a maximum of Rp.10.000.000.000 (ten billion rupiah) excluding land and building of business premises or having annual proceeds of more than Rp.2.500.000.000 (two billion five hundred million rupiah) up to a maximum of Rp.50.000.000.000 (fifty billion rupiah), And based on Decree of the Director of Bank Indonesia Number 30/45/Dir/Uk (dated January 5, 1997) gives the understanding that medium enterprises have annual turnover of < 3 billion Asset = Rp.5.000.000.000 (five billion rupiah) for industrial sector Asset = Rp.600.000.000 (six hundred million rupiah) outside land and buildings for non manufacturing industry.

The meanings and limitations provide an illustration that UMKM are a type of enterprise that needs to be protected by the government in dealing with the ASEAN Economic Community (AEC), especially on the competition of UMKM products in the ASEAN single market place. Not only that, the ASEAN single market provides an opportunity for all products produced by all Association of Southeast Asian Nations (ASEAN) member countries to compete freely at the ASEAN level so that on the one side, the best quality products with the cheapest price will be able to Survive in the competition, and on the other side products that have medium and low quality with high prices will not be able to compete and will die by itself. So that the role of government is needed by the UMKM actors in order to protect and assist UMKM products so as to compete in the ASEAN single market, especially assistance in terms of adjusting the rules that are not too burdensome UMKM actors

and strategic policies and visionary steps in completing the infrastructure for ease production process of goods produced by UMKM.

Indonesia and nine other ASEAN members are entering a very tough competition in the economic field. Basically, MEA is a very important container for the progress of ASEAN countries in realizing prosperity so that its existence must be addressed positively. And it is expected that countries in Southeast Asia can compete and can put ASEAN into the largest market in the world. It is expected that the single market will encourage ASEAN countries to achieve stability and strong economic progress in the face of global competition. Although the existence of the MEA is still a matter of pros and cons, the debate tends to question the readiness of member countries in facing the new economic climate in Southeast Asia. In support of the AEC objectives, there are at least four major focuses that are carried out in the free market era, that is :¹

1. AEC as a single market in Southeast Asia that functioned as a unified market place and production base. The creation of such a unified market and production base will eliminate restrictions on the flow of goods, investment, capital, services, and professional professionals between countries in Southeast Asia.
2. AEC is oriented to establish a highly competitive economic region with policies, consumer protection, and various agreements to create mutual economic conditions.
3. Grow UMKM that have high competitiveness.
4. AEC is integrated with the global economy so that the reach of the markets achieved by countries in Southeast Asia is much more optimal.

Thus, participating countries are challenged to compete closely with each other. The free market must be well aware of the conditions in order to continue to develop the ability to follow the competition in any field. UMKM become one of the goals and focus of AEC in creating stability and economic development in ASEAN region. UMKM Indonesia has many challenges to be faced, especially about the quality of goods produced. Most of the quality of Indonesian small and medium enterprises (UKM) products have not met the standard. This is due to several factors. First, the cost of domestic production is so expensive that it is unable to create production efficiency. Second, the lack of knowledge of UKM actors in producing quality goods or services. Both of these are closely related and need to be solved as soon as possible, both by the Government and the business actors themselves.² Darsem Lumban Gaol (Head of Sub Directorate of Economic Community of ASEAN II Directorate General of International Trade Cooperation Ministry of Commerce of the Republic of Indonesia) mentioned several challenges that will be faced by UMKM. Among other things, the increasingly keen competition includes obtaining resources, maintaining and enhancing the competitiveness of UKM as creative and innovative industries, improving standards, design and product quality to comply with ASEAN requirements and diversifying output and stability of micro enterprise revenues. In addition, it should also enhance the ability of UMKM to be able to utilize existing financing facilities, including within the framework of ASEAN, so that entrepreneurs can still compete in the ASEAN market, entrepreneurs need to improve business efficiency and product quality including packaging. Conducting business development and networking with local partners in ASEAN countries. Promoting products and participating in exhibitions in ASEAN countries, developing innovations and networks and being able to adapt and be sensitive to the needs, lifestyle, and trends of export destination countries in ASEAN. Other opinions, Ina Primiana (Chairman of UMKM Focus Group and Cooperative) said that UMKM has not been ready to enter ASEAN single market. Competition will be very difficult if there is no fundamental improvement to reduce the obstacles to running a business in Indonesia. If there is no improvement, UMKM will increasingly lose competitiveness. In order to maintain the competitiveness of the product, every actors of UMKM focus more on the potential of the region and the direction of economic development, capacity building for UMKM and assistance for prospective UMKM in a proper way and the application of supply chain management to eliminate all obstacles, the most important is the synergy or policy Between ministries, between central and regional as well as between regions. Based on Ina Primiana's note, the condition of UMKM in 2013³ has a big role to the national economic growth. Macroeconomic growth has brought positive results, while growth in the real sector which is mostly done by UMKM is still far from expectation, and micro enterprise only serves as a macro-economic safety net so it is not seen as a potential sector. Several notes to prepare for entering the ASEAN single market are mapping to inventory UMKM that have the following potential markets to establish positioning and excellence over other ASEAN countries and identify all weaknesses and obstacles of UMKM by taking into account the low-ranking pillars reported Foreign institutions. In addition, developing a value chain of UMKM among ASEAN countries

¹ MEA Center: Sektor Sektor Kelautan dan Perikanan, 2017, Peluang dan Tantangan dalam Masyarakat Ekonomi ASEAN, [Online]. Available: <https://meacenter.kkp.go.id/id/2017/01/19/peluang-dan-tantangan-dalam-masyarakat-ekonomi-asean-mea/>

² *Ibid.*

³ Search results by authors from various news, current SME condition (2017) not so much different from the results of exposure from Ina Primiana (Chairman of Focus Group of UMKM and Cooperatives)

that can be developed into an ASEAN cluster.¹ The explanation gives a brief description of how less ready the products of Indonesian UMKM in ASEAN single market so that it becomes a challenge for UMKM actors in order to survive and still compete in ASEAN single market. It is also a great job for the government of the Republic of Indonesia as one of the countries that have abundant natural resources in marketing its products on an ASEAN scale.

ASEAN single market Application has four main characteristics: freedom of goods and services flow, freedom of labor flow and freedom of capital flows.² These UMKM entrepreneurs initially thought that the entry of Indonesia into ACFTA members would open up opportunities for them to raise their market share, but with the implementation of this ACFTA many turn off their businesses.³ The problem faced by UMKM is low productivity.⁴ This is related to: (i) the low quality of human resources of micro scale enterprises, and (ii) low entrepreneurship competence of micro business. In addition, UMKM face also the factors that are still a constraint in improving competitiveness and performance of UMKM. These factors are (i) limited access to capital, (ii) limited access to markets, and (iii) limited access to information on resources and technology.⁵ Based on the explanation, the problem to be discussed in this paper is How is the readiness UMKM products of Indonesia in facing ASEAN single market? and What strategic steps does the government undertake to support the competitiveness of UMKM products of Indonesia in ASEAN single market?

II. Research Method

The type of research in this paper is a normative study, using the statute and conceptual approach⁶ with added theoretical analysis. Data collection techniques were through the study of literature. All data collected then analyzed qualitatively later in descriptive⁷ hence the problems in this article can be answered.

III. Result and Discussion

A. The Readiness UMKM Products of Indonesia in Facing ASEAN Single Market

The ASEAN Economic Community (AEC) envisions ASEAN as a single market and production base characterized by free flow of goods, services, and investments, as well as freer flow of capital and skills. ASEAN, through the establishment of the AEC, is committed to enable businesses to fully tap on the potential of the region as an integrated and single investment destination. Rather than having 10 fragmented economies, ASEAN is creating a single market that will allow investors to increase their market reach to a total of 600 million, compared to only a minimum of half a million people or maximum of 240 million if they are to access only the market of one ASEAN country. AEC is also about the establishment of a single production base which allows businesses to tap on product and services complementation in the region, establish a network of industries across ASEAN, and participate in the global supply chain. ASEAN-based companies can access raw materials, production inputs, services, labor, and capital wherever in ASEAN they choose to set-up their operations. Companies can save on production costs, focus on their specialization, and/or maximize economies of scale without necessarily leaving high potential market areas within the region.⁸ In the economic development in Indonesia UMKM have a strong role, because most of the population is low educated and live in small business activities both in the traditional and modern sectors. The role of UMKM become an important part in every stage of development planning. However, if seen the results, then not satisfactory because in fact the progress of UMKM is very small compared with big business. It is seen from the growing big entrepreneurs covering all sectors, from trade, banking, forestry, agriculture and especially industry sectors. The development of large businesses is supported by a government that is very sided with big business.⁹ Thus, it can be seen that the role

¹ Hukum Online, 2013, Tantangan UMKM dalam Menghadapi Pasar Tunggal Asean, [Online]. Available: <http://www.hukumonline.com/berita/baca/1t5146e4b54ad6e/tantangan-umkm-dalam-menghadapi-pasar-tunggal-asean>

² Dean Y. Affandi, Kesiapan Usaha Kecil Menengah di Indonesia Dalam Menghadapi ACFTA dan Pasar Tunggal ASEAN 2015, Jurnal Demokrasi dan HAM. Volume 9, No.1 (2011) : 106

³ Faisal Effendi and Slamet Subandi, Masalah yang dihadapi UMKM dalam menghadapi ACFTA dari berbagai aspek bisnis, Infokop, Volume 18, No.18 (2010) : 25

⁴ Y. Sri Susilo, Strategi Survival Usaha Mikro Kecil, Studi Empiris Pedagang Warung Angkringan di Yogyakarta, Telaah Bisnis, Volume 6 No.2 (2005) : 163, see also Y. Sri Susilo, Strategi Meningkatkan Daya Saing UMKM dalam Menghadapi Implementasi CAFTA dan MEA, Buletin Ekonomi Volume 8, No.2 (2010) : 70-71

⁵ Y. Sri Susilo, Masalah dan Dinamika Usaha Kecil: Studi Empiris Pedagang "Klithikan" di Alun-alun Selatan, Jurnal Ekonomi, Tahun Volume No.1 (2007) : 65

⁶ Peter Mahmud Marzuki, *Penelitian Hukum*, Jakarta: Kencana Prenada Media Group, 2010, p. 96

⁷ Soerjono Soekanto, *Pengantar Penelitian Hukum*, Jakarta: UI-Press, 2012, p. 9

⁸ Invest in ASEAN, 2017, Single Market and Production Base, [Online]. Available: <http://investasean.asean.org/index.php/page/view/asean-economic-community/view/670/newsid/758/single-market-and-production-base.html>

⁹ Tiktik Sartika Partomo and Abd. Rachman Soejoedono, *Ekonomi Skala Kecil/Menengah dan Koprasi*, Bogor: Ghalia Indonesia, 2004, p. 20 see also Yunita R. Panjaitan, et al., *Perlindungan Hukum Terhadap Usaha Mikro, Kecil, Menengah dalam Pasar Bebas ASEAN-China Free Trade Area*, Transparency Jurnal Hukum Ekonomi Volume 1, No.2 (2013) : 3. So strong UMKM, so that in 1997 the monetary crisis experienced by Indonesia caused nearly 80% (eighty percent) of large businesses went bankrupt, causing mass layoffs against employees. But in UMKM itself, the impact of the monetary crisis is not too large. See Ina Primiana, *Menggerakkan Sektor Rill UMKM dan Industri*,

of government to intervene directly in the economic sector is needed for the sustainability of UMKM products can survive amid the influx of foreign products in the era of ASEAN single market.

ASEAN has evolved to ensure a better enabling environment for investors in the region. It has evolved to become rules-based, codifying economic-related measures that would govern the conduct of trade and investment and drive the vision for a free flow of goods, services, investment, capital, and skills region-wide. In pursuit of a single market and production base, ASEAN has transformed its economic agreements (which were penned two to three decades ago) into agreements that are at par or better than international best practices and more responsive to global and regional realities. ASEAN's agreement on trade in goods has evolved from the Common Effective Preferential Tariff (CEPT) to a more comprehensive ASEAN Trade in Goods Agreement (ATIGA). Today, tariff rates for over 96 percent of traded products among the ASEAN-6 countries (Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand) are virtually zero. By 2015, this tariff rate will be realised for the rest of the region. For investments, ASEAN replaced the ASEAN Investment Area (AIA) Agreement and ASEAN Investment Guarantee Agreement (IGA) with the ASEAN Comprehensive Investment Agreement (ACIA) which came into force in 2012. ACIA provides for liberalisation, protection, promotion, and facilitation of investments in the region. In 2012, the ASEAN issued the ASEAN Agreement on Movement of Natural Persons (AAMNP) as a complementary agreement to facilitate the movement of people engaged in trade in goods and services, and investment. The ASEAN is also looking at enhancing the provisions of the ASEAN Framework Agreement on Services (which was signed in 1995) to better facilitate trade in services.¹ In Indonesia, the empowerment of small businesses as the strengthening of the people's economy can be done through improving the aspects of capital, market freedom and technology mastery. This economic policy should side with the people's economy in order to catch up in business competition and free market. Empowerment conducted on UMKM can not be separated from the protection of the law, because the implementation of free markets will certainly lead to unfair business competition.² Therefore, the harmonization in the field of law must be immediately carried out by the government, so that the presence of the state can be felt by the UMKM actors.

Indonesia's economic growth throughout 2016 is expected to be in the range of 5 percent. This growth is lower than other developing countries, India at 7.6 percent. Heriyanto Irawan (Chief Equity Strategist Deutsche Bank) explained that although Indonesia's economic growth is lower, but the Indonesian economy is more qualified compared to India. According to Heriyanto, Indonesia has improved Current Account Deficit (CAD). Similarly, fiscal deficits are expected to improve as the reform of taxation. If India, it has CAD problems, fiscal deficits, and trade deficits. Triple deficit. Plus the banking is weak. India's economic growth is high as its economic movement is sustained by the services sector. Thus, India does not feel the impact of weakening commodity prices that occur today. Indonesia is still relying on the commodity sector, but the government's efforts to continue reforming this sector by increasing the role of hilirisasi into its own added value. On the other side, Indonesia's banking sector is also guaranteed, in this case liquidity is sufficient to face various sentiments from abroad. Even according to Heriyanto Irawan arguably the macro economy of Indonesia, its fundamental was the strongest since the economic crisis. The challenge of Indonesia's economy in 2017 is the control of inflation. If this inflation is maintained, coupled with a continuing deregulation policy, it will increase investor appeal to Indonesia.³ This economic growth can be used as a benchmark for the government in improving the potential economic sectors including UMKM in the face of ASEAN single market. This is not only the responsibility of the State to be implemented by the government, but also as a reflection of the State of Indonesia for other ASEAN member countries in terms of economic and natural resources owned.

The government should take part in the ASEAN single market era, one way that can be done by the government is to provide training, socialization on how to improve the quality of products produced by UMKM entrepreneurs. In theory, in addition to product quality that must be improved, there are 3 other supporting components that must also be considered together, namely component price, component of place, and component of the promotion that all are one-unit that can not be separated from one to another.

A marketing expert named E. Jerome McCarthy created the Marketing 4Ps in the 1960s. This classification has been used throughout the world. Business schools teach this concept in basic marketing classes. The marketing 4Ps are also the foundation of the idea of marketing mix. description as follows :⁴

1. Product

A product is an item that is built or produced to satisfy the needs of a certain group of people. The product can

Bandung: Alfabeta, 2009, p. 9

¹ Invest in ASEAN, 2017, Single Market and Production Base, [Online]. *loc.cit.*

² Teguh Sulistia, *Perlindungan Hukum dan Pemberdayaan Pengusaha Kecil dalam Ekonomi Pasar Bebas*, *Transparency Jurnal Hukum Ekonomi* Volume 1, No.1 (2012) : 22

³ Ilyas Istiyatur Praditya, 2017, *Pertumbuhan Ekonomi RI Jauh Lebih Berkualitas dibanding India*, [Online]. Available: <http://bisnis.liputan6.com/read/2820659/pertumbuhan-ekonomi-ri-jauh-lebih-berkualitas-dibanding-india>

⁴ Anonim, 2016, *The Marketing Mix*. [Online]. Available: <http://marketingmix.co.uk/> see also Husni Thamrin and Kadarudin, 2017, *ASEAN Economic Community and a Challenge for Indonesia at the Local Level*, Papers have been Presented in 11th ADRI International Conference Nganjuk, Indonesia, March 18, 2017, p. 2-3

be intangible or tangible as it can be in the form of services or goods. You must ensure to have the right type of product that is in demand for your market. So during the product development phase, the marketer must do an extensive research on the life cycle of the product that they are creating. A product has a certain life cycle that includes the growth phase, the maturity phase, and the sales decline phase. It is important for marketers to reinvent their products to stimulate more demand once it reaches the sales decline phase. Marketers must also create the right product mix. It may be wise to expand your current product mix by diversifying and increasing the depth of your product line.

2. Price

The price of the product is basically the amount that a customer pays for to enjoy it. Price is a very important component of the marketing mix definition. It is also a very important component of a marketing plan as it determines your firm's profit and survival. Adjusting the price of the product has a big impact on the entire marketing strategy as well as greatly affecting the sales and demand of the product. This is inherently a touchy area though. If a company is new to the market and has not made a name for themselves yet, it is unlikely that your target market will be willing to pay a high price. Although they may be willing in the future to hand over large sums of money, it is inevitably harder to get them to do so during the birth of a business. Pricing always help shape the perception of your product in consumers eyes. Always remember that a low price usually means an inferior good in the consumers eyes as they compare your good to a competitor.

3. Place

Placement or distribution is a very important part of the product mix definition. You have to position and distribute the product in a place that is accessible to potential buyers. This comes with a deep understanding of your target market. Understand them inside out and you will discover the most efficient positioning and distribution channels that directly speak with your market.

4. Promotion

Promotion is a very important component of marketing as it can boost brand recognition and sales. Promotion is comprised of various elements like:

- Sales Organization
- Public Relations
- Advertising
- Sales Promotion

Advertising typically covers communication methods that are paid for like television advertisements, radio commercials, print media, and internet advertisements. In contemporary times, there seems to be a shift in focus offline to the online world. Public relations, on the other hand, are communications that are typically not paid for. This includes press releases, exhibitions, sponsorship deals, seminars, conferences, and events. Word of mouth is also a type of product promotion. Word of mouth is an informal communication about the benefits of the product by satisfied customers and ordinary individuals. The sales staff plays a very important role in public relations and word of mouth. It is important to not take this literally. Word of mouth can also circulate on the internet. Harnessed effectively and it has the potential to be one of the most valuable assets you have in boosting your profits online. An extremely good example of this is online social media and managing a firm's online social media presence.

If the above four conditions can be maximized by UMKM entrepreneurs, then UKM business also has a great opportunity to gain advantage in this free market, if the government has provided many facilities and facilities aimed at business owners of UMKM. Like the following 4 opportunities that can be exploited by business owners of UKM that have the potential to grow in the era of free markets today :¹

1. Opportunities Obtaining business capital from PT. Palapa Nusantara Berdikari.

PT. Palapa Nusantara Berdikari is an institution under the Field of Banking and Finance - the Chamber of Commerce of Industry (Kadin), The results of the initiative of Rosan P. Roeslani who also served as Vice Chairman of Kadin Indonesia Banking and Finance. This institute aims to provide business capital assistance to SME businesses that have the potential for export. PT. Palapa Nusantara Berdikari also held a business clinic in various regions in Indonesia starting from 2013. Through this business clinic, PT. Palapa Nusantara Berdikari seek and solve business scale UKM that have to grow and export-oriented. This is of course an opportunity that UKM can use to get business capital aid to develop their business in the ASEAN free trade era.

2. Obtain export opportunities without tariffs between ASEAN regions.

The current ASEAN free market has many advantages for domestic UKM. In addition to expanding market coverage, the liberation of inter-state trade tariffs is also considered to help UKM businesses to market their products to the fullest.

¹ Omegasoft, 2017, Peluang yang Bisa Diambil Bisnis UKM di Pasar Bebas ASEAN. [Online]. Available: <http://omegasoft.co.id/4-peluang-yang-bisa-diambil-bisnis-ukm-di-pasar-bebas-asean/>

3. Growing opportunities for creative industry sector business with youth market.

It can not be denied, the target market of modern business is currently targeting the segment of young people or those under 30 years of age. UKM businesses in creative industry sectors such as handicrafts, screen printing, culinary and digital-based such as game developers, graphic design services as well as business software providers such as accounting software and mobile application developers, are likely to grow globally through this ASEAN free trade. Recent flourishing business startups also include the UKM sector that has the opportunity to compete in the era of this AEC by providing products that can be accepted by international consumers and able to answer the needs of the existing market.

4. Opportunity to enter investment from private sector to invest in UKM business sector.

Along with the economic growth that occurred in ASEAN free trade, so will many private investors, domestic and abroad to invest in UKM business that is considered capable of growing and has a high competitiveness.

B. Strategic Steps to Support the Competitiveness of UMKM products in ASEAN Single Market

The Government of Indonesia has a huge responsibility for the growth of UMKM in Indonesia, because UMKM are a reflection of the economy of the framework as proposed by the government itself, so that UMKM should be fully supported by the government as an effort to consistency of government policies that support any potential of economic growth populist. The current ASEAN single market event has become a benchmark for the Jokowi government's realization of its political promises to Indonesian society. The existence of UMKM products both domestically and in other countries becomes a matter of pride for the government and the state, so its existence needs to be supported by the government by issuing strategic policies in the sector of economic development.

AFTA is inseparable from the establishment of ASEAN. Likewise, the establishment of the AEC can not be separated from the formation of ASEAN and AFTA agreement. ASEAN, formed in 1967, is one of the most dynamic and fastest growing areas, at least before the financial crisis of 1997/1998. Initially ASEAN was established by six members who are also the initiators of the establishment of AFTA namely Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Then Vietnam joined in 1995 and was followed by Laos, Myanmar and Cambodia. However, as practically all ASEAN member countries make the same products, there is intense competition between them so that the existence of ASEAN is not too significant for the increase of trade volume within ASEAN.¹ The establishment of the AEC will provide an opportunity for ASEAN member countries to expand the scope of economies, reduce poverty and socio-economic disparities, increase attractiveness as a destination for investors and tourists, reduce trade transaction costs, and improve trade and business facilities. In addition, the establishment of AEC will also facilitate and increase intra-ASEAN market access and improve transparency and accelerate the adjustment of domestic regulations and standardization.

Some of Indonesia's potential to seize the AEC 2015 competition is as follows :²

1. Indonesia is a potential market with the largest area and population in the region (40% of ASEAN's total population). This can make Indonesia a productive and dynamic economic country that can lead the ASEAN market in the future with the opportunity to dominate the market and investment.
2. Indonesia is an ASEAN investor destination country. The proportion of ASEAN countries 'investment in Indonesia reaches 43% or almost three times higher than the average proportion of ASEAN countries' investment in ASEAN which is only 15%.
3. Indonesia has the opportunity to become an exporting country, where the value of Indonesia's exports to intra-ASEAN is only 18-19% while out of ASEAN ranges from 80-82% of its total exports, it means that opportunities to increase exports to intra-ASEAN still need to be improved so that The increase in exports to intra-ASEAN is comparable with the increasing rate of imports from intra-ASEAN.
4. The liberalization of ASEAN goods trade shall ensure the smooth flow of goods for the supply of raw materials and finished materials in the ASEAN region as tariff and non-tariff barriers are no longer available. Market conditions that are already free in the region by itself will encourage the producers and other business actors to produce and distribute quality goods efficiently so as to compete with products from other countries. On the other side, consumers also have a choice of diverse options that can be selected according to their needs and abilities, from the cheapest to the most expensive. Indonesia as one of the major countries that also has a high degree of integration in the electronics sector and comparative advantage in the natural resource-based sector, has a great opportunity to develop industries in these sectors in the country.
5. Indonesia as a country with the largest population number will gain its own advantages, called

¹ T.T.H. Tambunan, *Globalisasi dan Perdagangan Internasional*, Jakarta: Ghalia Indonesia, 2004, See also Y. Sri Susilo, Strategi Meningkatkan Daya Saing UMKM dalam Menghadapi Implementasi CAFTA dan MEA, Buletin Ekonomi Volume 8, No.2 (2010) : 73

² Kementerian Sekretariat Negara Republik Indonesia 2017, Peluang dan Tantangan Indonesia Pada ASEAN Economic Community 2015. [Online]. Available: http://www.setneg.go.id/index.php?option=com_content&task=view&id=7911

demographic bonus. The proportion of Indonesia's productive population to other ASEAN countries is 38:100, which means that every 100 Asean residents, 38 are Indonesian citizens. This bonus is expected to still be enjoyed at least up to 2035, which is expected by the number of productive people will be able to sustain economic growth and increased income per capita of Indonesia's population.

Today almost all local governments have developed a regional superior product or commodity. Main product criteria are: (1) using local raw materials, (2) according to local potentials and conditions, (3) having a large market, (4) being able to absorb a considerable workforce, (5) (6) the production volume is large enough and continuous, (7) is a regional characteristic, (8) has a relatively high competitiveness, and (9) can spur the development of other commodities. The designation of a superior product must also be based on the competitive advantage of the product compared to similar products outside the region or even similar products in the international market. If efforts to develop the excellent commodities are done in earnest then it is not impossible later will emerge regional commodities that have competitiveness in the international market.¹ To be able to capture the benefits of AEC 2015 the challenge facing Indonesia is to improve competitiveness. Factors to improve competitiveness, which remains a challenge for Indonesia, are as follows :²

- Infrastructure

Based on The Global Competitiveness Report 2013/2014 created by World Economic Forum (WEF), Indonesia's competitiveness is ranked 38th. Meanwhile, Indonesia's infrastructure quality is ranked 82nd out of 148 countries or ranked fifth among ASEAN core countries. This shows that Indonesia's infrastructure is still far behind.

Some of the infrastructure that should be prepared by Indonesia ahead of the AEC 2015, among others: land, in the form of ASEAN road network and railway line Kunming-Singapore; Sea, in the form of marine communications network; Air, in the form of air delivery lines; Information technology, in the form of communication networks; And energy, in the form of energy security.

Some of the infrastructure that has been built, including: the arrangement of Tanjung Priok port; The construction of the international airport of Lombok Praya with international routes of Malaysia, Singapore, Australia, and Hongkong (following); The southern belt of the archipelago connects 16 islands from Sabang to Merauke (5,330 km of roads and 1,600 km of sea lanes) and the 3,800 km of Central Sulawesi Archipelago that links 12 provinces from South Sumatra to West Papua.

Some of the infrastructures that have not been built or are still in the process of completion are: Indonesia proposed extension of Kunming-Singapore railway line to Surabaya; The planned construction of the Sunda Strait Bridge (projected to be completed by 2025); And North Belt Archipelago is projected to be completed by 2015.

- Low infrastructure development in Indonesia, influenced by several inhibiting factors, such as :

1. Infrastructure budget is low, only 2.5% of GDP, where this amount can not accommodate land acquisition costs and feasibility study costs and AMDAL that often arise in infrastructure development.
2. Conflict of interest, such as politics, business, or orders of certain parties in infrastructure development.
3. Coordination is difficult, if referring to the area of infrastructure development associated with protected forests or agriculture where the coordination between cross-ministry and cross-authority difficult.

- Logistics costs

The impact of low infrastructure impacts on the increasingly expensive logistics costs in Indonesia. Trade became less efficient given the expensive cost of logistics compared to other ASEAN member countries, which was charged at 14.08%, compared to the reasonable logistics cost of 7%. Based on Logistic Performance Index (LPI, 2012), Indonesia ranks 59th out of 155 countries, below the ratings of Thailand, Philippines and Vietnam. With the reduction of logistics costs, then the problems in the field of trade are expected to be overcome so as to increase the competitiveness of Indonesia.

- Human Resources

Indonesia's demographic bonus, will not provide any benefits without improving the quality of human resources. Data from the ASEAN Productivity Organization (APO) show that from 1000 Indonesian workers there are only 4.3% of the skilled, while the Philippines is 8.3%, Malaysia 32.6% and Singapore 34.7%. Based on the market structure, the workforce is dominated by graduates of primary school (80%) while only 7% of university graduates, whereas most of the

¹ T.T.H. Tambunan, *Development of Small Medium Enterprises in Indonesia from the Asia Pacific Perspective*, Jakarta: LPFE Usakti, 2006, See also Y. Sri Susilo, *Op.cit.* p. 72

² Kementerian Sekretariat Negara Republik Indonesia 2017, *Peluang dan Tantangan Indonesia Pada ASEAN Economic Community 2015*. [Online]. Available: http://www.setneg.go.id/index.php?option=com_content&task=view&id=7911

workforce now requires university graduates. This is very inversely proportional to Malaysia which most of the population graduated from S1. The opportunity to obtain education equally throughout Indonesia is difficult to do so the awareness to pursue higher education is very low. This condition resulted in Indonesian workers only ogled as laborers or rough labor in the international labor market.

- UMKM (Micro, small, and Medium Enterprises)

Of the eight key rules (golden rules) of the world competitive rankings issued by the International Institute for Management Development (IMD), one of which is the support of UMKM. In times of monetary crisis, UMKM can survive and continue to grow, it can provide opportunities for increased competitiveness. However, UMKM are still in the areas of less attention by the government. The absence of government assistance to standardize local products and internationalize UMKM makes UMKM difficult to compete and lose to local markets. Often times the phrase for UMKM "Superior in Product, Lost in Promotion". The diversity of UMKM Indonesia has a chance to form ASEAN market, one of which is handicraft, furniture, regional food, and other industries.

- Agriculture

One of the economic centers of Indonesia is agriculture. Increased comparative advantage in the priority sector of integration, among others is the agricultural development needs to continue to be done, given that the land area owned by Indonesia is greater and the level of high consumption of agricultural products. Government action to sustain Indonesia's commitment in realizing AEC 2015 through the issuance of Presidential Regulation No. 39 Year 2014 on List of Closed Businesses and Open Business Fields with Requirements in the Field of Investment, is seen to only benefit certain parties, not Indonesian farmers. The Presidential Regulation regulates the following matters :

1. Foreign investment is permitted up to 49% for cultivation of over 25 hectares of food crops.
2. Foreign investment is permitted up to 95% for plantation business in the case of seeds for businesses covering more than 25 hectares.
3. Foreign investment is allowed up to 30% for seed business and horticulture cultivation.

Seeing that agricultural sector is still lagging behind and burdened with import volume of food commodities and horticulture; Harvest failure due to drought and pest disturbance; As well as Indonesian farmers on average 55-60 years old and not having adequate knowledge and education will make it difficult to enter ASEAN free market. Indonesia, with the largest population and economic area in ASEAN, can move the government to be more responsive to national interests, especially agriculture. The government needs to take step :¹

1. Calculate national preparedness and carrying capacity in facing ASEAN free market. Therefore, Presidential Decree No. 39 Year 2014 needs to be evaluated considering it is very detrimental to Indonesian farmers.
2. Increase production capacity, quality of knowledge and capital so that Indonesia does not depend on imports.
3. Preparing the protection for farmers by setting maximum tariff for imported products.
4. Provide subsidies and procurement of soft credits for farmers in order to improve their ability to supply seeding needs such as seeds and fertilizers.

Darmin Nasution (Coordinating Minister for Economic Affairs of the Republic of Indonesia) states, in the last 2 years the global economy is in a difficult situation. But luckily Indonesia is not dragged too deeply in the situation. According to Darmin Nasution, in such a situation, it is difficult for many countries' economies to grow as high as in previous years. In addition, investment also dimmed with the slowing global economic growth. 2 years all know the world economy is really problematic, slow down, sick, until now has not healed. So the government has a big theme do not go dragged into the vortex of this slowdown, which is invited investment, but in this situation is also not easy because people (investors) think where to go sold (product). In this situation, the government's focus is to address two areas, namely infrastructure and human resources. Indonesia is considered to have lagged very far in these two things so it is necessary to immediately reform. So what we do is build the infrastructure, therefore we are the most missed. Why infrastructure? Because in the science of economics named *dinamika non-tradeable good* it does not need to be confused to sell. Because it is the foundation for supporting the birth of economic activity, Darmin Nasution added. In addition to infrastructure, areas that will also be addressed by the government of human resources are also far behind. As an illustration, most workers in Indonesia only graduate elementary school (SD). 42 percent of people who work the highest education primary school. So we can not expect a big change in this situation.² Strategic Steps in Facing the AEC 2015. Indonesia will be able to play a role in the AEC if it can improve competitiveness and catch up with

¹ *Ibid.*

² Septian Deny, 2017, Hadapi Pelemahan Ekonomi Global, Pemerintah Fokus 2 Hal, [Online]. Available: <http://bisnis.liputan6.com/read/2795041/hadapi-pelemahan-ekonomi-global-pemerintah-fokus-2-hal>

other ASEAN member countries. For that, needed a strategic steps, among which are as follows :¹

1. Collective, individualized adjustment, preparation and improvement of regulation (regulatory reform);
2. Increasing the quality of human resources in bureaucracy and business or professional sectors;
3. Strengthening the position of small-scale business, small, and business in general;
4. Strengthening partnerships between the public and private sectors;
5. Creating a conducive business and reducing the high cost economy, which is also the government's primary goal in a comprehensive reform program in areas such as taxation, customs and bureaucracy;
6. Development of priority sectors with broad impact and leading commodities;
7. Increasing the participation of government and private institutions to implement AEC Blueprint;
8. Institutional and governance reform. Essentially the AEC Blueprint is also a joint reform program that can be used as a reference for reform in ASEAN Member Countries including Indonesia;
9. Provision of institutional and capital that is easily accessible by business actors of any scale; and
10. Improvement of physical infrastructure through the construction or improvement of infrastructure such as transportation, telecommunications, toll roads, ports, revitalization, and industrial restructuring.

IV. Conclusion

In closing, the key point in this paper is that ASEAN single market is a challenge for Indonesian UMKM products. Indonesia's economic growth can serve as a benchmark for governments in improving potential economic sectors including UMKM in the face of ASEAN single market. This is not only the responsibility of the State to be implemented by the government, but also as a reflection of the State of Indonesia for other ASEAN member countries in terms of economic and natural resources owned. The government should take part in the ASEAN single market era, one way that can be done by the government is to provide training, socialization on how to improve the quality of products produced by UMKM entrepreneurs. In addition to the quality of products to be improved, price components, components of place, and promotional components of UMKM products need to be maximized because all these components are one-unit that can not be separated from one to another.

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¹ Kementerian Sekretariat Negara Republik Indonesia 2017, Peluang dan Tantangan Indonesia Pada ASEAN Economic Community 2015. [Online]. Available: http://www.setneg.go.id/index.php?option=com_content&task=view&id=7911

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