



THE CHALLENGES OF MICRO, SMALL AND MEDIUM ENTERPRISES IN INDONESIA IN THE ERA OF THE ASEAN ECONOMIC COMMUNITY

Rina Shahriyani Shahrullah¹, Febri Jaya², Inal Arifin³
^{1,2,3} Faculty of Law, Universitas Internasional Batam

Article Info

Received : 26/01/2021
Approved: 18/04/2021
DOI: 10.24815/sklj.v5i1.19695

Keywords:

Micro;
Small and Medium Enterprises;
ASEAN Economic
Community;
Indonesia.

Abstrak

This study analyzes the challenges of Indonesian MSMEs under Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises in the era of AEC 2015-2020 and the readiness of MSMEs under Law No.11 of 2020 concerning Job Creation (the Omnibus Law) in facing the era of AEC 2025. It adopted a normative legal research and found that MSMEs faced many challenges in the AEC era under the MSMEs Law. However, the amendment of this Law by the Omnibus Law constitutes a better strategy to improve and develop the Indonesian MSMEs to be ready in facing the AEC 2025.

This is an open access article under the [CC BY](#) license.



Corresponding Author:

Febri Jaya
Email: best.1992@yahoo.com

I. INTRODUCTION

Association of South East Asian Nations (ASEAN) was formed on August 8, 1967 by five countries, namely the Philippines, Indonesia, Malaysia, Singapore and Thailand. A more political nuance was marked by the birth of the Declaration of ASEAN Concord or Bali Concord I in the 1st ASEAN Summit in Bali on February 24, 1976. In this Declaration, the ASEAN leaders were determined to make ASEAN as a region of peace, neutrality and free from big state intervention outside the Southeast Asian region.¹ At the beginning of its formation, ASEAN was indeed more aimed at responding to the Cold War and anticipating the threat of communism in the Southeast Asian region. Since the establishment of ASEAN as a regional organization in 1967,² the ASEAN member states have put economic cooperation as one of the main agendas that need to be developed. Initially, economic cooperation was focused on preferential trade, joint ventures, and complementation schemes between the member states and private parties in the ASEAN region, such as the ASEAN Industrial Projects Plan (1976), Preferential Trading Arrangement (1977) and Enhanced Preferential

¹ Ratna ShofiInayati. 2007. Menuju Komunitas ASEAN 2015: Dari State Oriented ke People Oriented. Jakarta: LIPI.

² About ASEAN "Establishment", <https://asean.org/asean/about-asean/>, Accessed on 21 January 2021.

Trading arrangement (1987).³ In the 80s and 90s, when countries in various parts of the world began to make efforts to remove economic barriers, the ASEAN member states recognize that the best way to cooperate is to mutually open their economies, in order to create regional economic integration.

The idea of economic cooperation became more solid when the leaders of the countries in the Southeast Asia region committed themselves to form the ASEAN Economic Community (AEC). The AEC is one of the three pillars of the ASEAN Community which was formally formed at the 9th Summit (Summit) in Bali which gave birth to the ASEAN Concord II Declaration (Bali Concord II). The other two pillars are the ASEAN Political-Security Community and the ASEAN Socio-Cultural Community. At the 13th ASEAN Summit, which was held in Singapore on 20 November 2007, the leaders of ASEAN countries signed the AEC Blueprint. The establishment of the AEC is aimed at forming a single market and production base in ASEAN by 2015. Thus, barriers to the flow of capital, goods, services, investment, and skilled labor will be trimmed. There are several special sectors that experience priority in this liberalization, namely the food sector, the agricultural sector and the forestry sector.⁴

In 2015, ASEAN member states agreed to the ASEAN Economic Community Blueprint 2025. The MEA Blueprint 2025 will be built on the AEC 2015 Blueprint which consists of five interrelated and mutually reinforcing characteristics, namely: (a) a full integrated economy; (b) a competitive, innovative, and dynamic ASEAN; (c) an increase connectivity and sectoral cooperation; (d) a strong, inclusive, and oriented ASEAN community centered; and (e) global ASEAN. The AEC 2015 aims to improve the welfare of ASEAN which has the characteristics of a single market and production base, a more dynamic and competitive ASEAN region, has equal development, and accelerates economic integration in the ASEAN region and with regions outside ASEAN. The AEC 2025 is a continuation of the AEC 2015, and aims to make ASEAN economies more integrated and cohesive; competitive and dynamic; increased connectivity and sectoral cooperation; resilient, inclusive, community-oriented and centered; and global ASEAN. The scope of ASEAN economic cooperation includes ASEAN economic cooperation in the fields of industry, trade, investment, services and transportation, telecommunications, tourism, and finance. In addition, this cooperation covers the fields of agriculture and forestry, energy and minerals, as well as micro, small and medium enterprises (MSMEs).⁵

Micro, Small and Medium Enterprises (MSMEs) are one of the targets and focuses of the ASEAN Economic Community (AEC) in creating economic stability and development in the ASEAN region. In Indonesia, the MSMEs are the most strategic national economic sector and involve the lives of many people so that they become the backbone of the national economy. The

³ Ibid.

⁴ Ibid.

⁵ Masyarakat Ekonomi ASEAN (MEA), Kementerian Luar Negeri Republik Indonesia, https://kemlu.go.id/portal/id/read/113/halaman_list_lainnya/masyarakat-ekonomi-asean-mea, Accessed on 21 January 2021.

MSMEs are also the largest group of economic actors in the Indonesian economy and have proven to be the key to safeguarding the national economy. The resilience of MSMEs has been tested when Indonesia was hit by the crisis in 1997-1998. The MSMEs have contributed 57% to national GDP with a labor absorption rate of around 97%⁴. The important role of MSMEs is one of the important milestones for Indonesia in facing competition at the ASEAN level in the era of AEC.⁵

In November 2020, Indonesia enacted a new law, namely Law No.11 of 2020 concerning Job Creation. This Law is an effort to create work through efforts to facilitate, protect, and empower micro, small and medium enterprises to increase the investment ecosystem and facilitate business. In addition, this Law aims to allow more foreign capital to enter Indonesia and to cut the bureaucracy that was previously complicated and inefficient.⁷ Since Indonesia just enacted this Law in the era of AEC, this study aims to analyze the readiness of Indonesian MSMEs and to find out the efficiency of the Law No.11 of 2020 concerning Job Creation in governing the MSMEs in the era of AEC. Based on these explanations, this study specifically posits two questions, namely:

1. What are the challenges of Indonesian MSMEs under Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises in the era of AEC 2015 – 2020?
2. How is the readiness of Indonesian MSMEs under Law No.11 of 2020 concerning Job Creation in facing the era of AEC 2025?

To answer the above questions, this study adopts a normative legal research.⁸ Normative legal research serves to provide juridical arguments when legal vacuum, obscurity, and conflict of norms exists. It plays a role in maintaining the critical aspects of legal scholarship as a *sui generis* normative science.⁹ Consequently, this study uses secondary data which consist of the primary legal materials, namely *Undang-Undang Nomor 20 tahun 2008 tentang Usaha Mikro Kecil dan Menengah (Lembaran Negara Republik Indonesia Tahun 2008 Nomor 93, Tambahan Lembaran Negara Republik Indonesia Nomor 4866)* or Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises and *Undang-Undang Nomor 11 Tahun 2020 tentang Cipta Kerja (Lembaran Negara Republik Indonesia Tahun 2020 Nomor 245, Tambahan Lembaran Negara Republik Indonesia Nomor 6573)* or Law No.11 of 2020 concerning Job Creation (the Omnibus Law). In addition, the study utilizes the secondary legal materials from books, journal articles and other sources

⁶ Ibid.

⁷ Sylke Febrina Laucereno, "Dampak Omnibus Law" <https://finance.detik.com/berita-ekonomi-bisnis/d-5207239/3-dampak-omnibus-law-cipta-kerja-versi-analis-asing>, Accessed on 25 January 2021.

⁸ Soerjono Soekanto, *et al*, *Penelitian Hukum Normatif: Suatu Tinjauan Singkat*, PT. Raja Grafindo Persada, Jakarta, 2007.

⁹ Diantha I Made Pasek, *Metodologi Penelitian Hukum Normatif dalam Justikasi Teori Hukum*, Denpasar: Prenadamedia Group, 2018), hlm. 8.

which are relevant to this study.¹⁰ They were collected through library research and were analyzed by using qualitative approaches.¹¹

II. RESULTS AND DISCUSSION RESULTS

2.1. Results

2.1.1. ASEAN Economic Community 2015

The ASEAN Economic Community (AEC) was officially formed on 31 December 2015. The AEC has integrated the economies of ASEAN member states by forming a free trade system among its members. All ASEAN members have agreed on the agreement, including Indonesia. The policies taken by ASEAN member states in facing the AEC have something in common, such as accelerating infrastructure development, increasing competitiveness of the business world including MSMEs, developing the quality of human resources, increasing effectiveness and coordination between government agencies both at the central and regional levels.¹²

The AEC 2015 was built on 4 (four) pillars, namely: (i) ASEAN as a single market and production base, (ii) ASEAN as a region with high economic competitiveness, (iii) ASEAN as an equitable and balanced economic development area, and (iv) ASEAN as a region that is fully integrated with the global economy. In realizing Pillar 1, ASEAN has signed the ASEAN Trade in Goods Agreement (ATIGA), the ASEAN Framework Agreement on Services (AFAS), and the ASEAN Comprehensive Investment Agreement (ACIA) to ensure the free flow of goods, services and investment in the ASEAN region. In addition, ASEAN also has an agreement on a Mutual Recognition Arrangement (MRA) that aims to facilitate the movement of skilled workers. To be able to compete in the AEC 2015, an increase of production in quantity must be balanced by the increase of quality and innovation. Therefore, Pillar 2 of the foundation of AEC 2015, "areas with economic competitiveness" was to be achieved through various collaborations in the fields of competition policy, consumer protection, intellectual property rights, infrastructure development, taxation and e-commerce. Furthermore, Pillar 3 was to be achieved by the development of SMEs, and to realize it, the ASEAN Framework on Equitable Economic Development (AFEED) was agreed in 2011.¹³

2.1.2. ASEAN Economic Community

The AEC 2025 is a continuation of the AEC 2015 that aims to make ASEAN economies more integrated and cohesive; competitive and dynamic; increased connectivity and sectoral cooperation;

¹⁰ Peter Mahmud Marzuki, *Penelitian Hukum* (Jakarta: Kencana, 2005), hlm.13.

¹¹ Zainuddin Ali, *Metode Penelitian Hukum*, Jakarta: Sinar Grafika, 2016, page 22.

¹² Direktorat Jenderal Perundingan Perdagangan Internasional, Kementerian Perdagangan Republik Indonesia, Cetak Biru MEA 2025: Masa Implementasi 2016-2025, http://ditjenppi.kemendag.go.id/assets/files/cetak/pub_20180604_cetak-biru-mea-2025.pdf, Accessed on 25 January 2021.

¹³ Ibid.

resilient, inclusive, community-oriented and centered; and global ASEAN. The AEC 2025 Action Plan focuses on empowering MSMEs, developing e-commerce through the digital economy, harmonizing non-tariff policies, and increasing ASEAN interaction with the global economy. There are 3 (three) new areas in the AEC Blueprint 2025, namely E-Commerce, Global Value Chains (GVCs), and Good Regulatory Practices (GRP).¹⁴

As for the E-Commerce area, ASEAN already has an e-ASEAN Framework Agreement which was signed by ASEAN Leaders in November 2000. In Article 5 of the Framework Agreement, ASEAN member states are encouraged to develop the ASEAN Agreement on E-Commerce to facilitate e-commerce transactions across borders in the ASEAN region. Several strategic measures included in the framework agreement are, among others: (1) harmonization of consumer rights and legal protection for consumers; (2) harmonization of the legal framework for online dispute resolution that refers to international standards; (3) schemes related to the suitability of operating systems, mutually recognized recognition systems, security, reliable and easy to understand electronic identification, and electronic signature authorization; (4) a clear and comprehensive framework regarding the protection of personal data.¹⁵

As for the Global Value Chains (GVCs) area or Global Production Network is a revolution in the logistics distribution system in the 21st century, where the production and distribution of goods is held jointly by several countries. In the GVCs, one production stage of a single production process is held in one member state while the next stage is carried out in another member state. The GVCs is possible due to the revolution in communication and logistics technology as well as the decline in trade barriers between states which allow goods and services to move almost without obstacles from one member state to others. The GVCs agenda in ASEAN aims to help the member states to participate in the activities of the GVCs by providing an understanding of the global context of the GVCs new policy challenges, and policy options. The level of a country's participation in the GVC is largely determined by 3 (three) things, namely communication technology, logistics, and economic openness (trade and investment rules). In the EAC Blueprint 2025, the issue of the GVCs is an interrelated issue with other issues which include: (i) trade in goods; (ii) trade in services; (iii) efforts for productivity growth, innovation, research and development, and technology commercialization; (iv) strengthening the role of SMEs; (v) narrowing the development gap.¹⁶

As for the Good Regulatory Practice (GRP) in ASEAN, it refers to processes, systems, tools, and methods to improve regulatory quality. The ASEAN Work Plan for Implementing the GRP aims at mapping and sequencing possible areas for the ASEAN GRP for the next 10 years at the general and sectoral levels and focuses on: (i) the GRP at the political level; (ii) strengthening various

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

strategic efforts to implement the GRP; (iii) carry out the GRP initiatives in strategic sectors at the regional level and (iv) build awareness and capacity building in the GRP sector.¹⁷

2.1.3. Micro, Small and Medium Enterprises (MSMEs)

The Indonesian government promulgated Law No.9 of 1995 concerning Small Enterprises to empower small businesses. This law contains 38 articles and regulates the implementation of the MSMEs empowerment in Indonesia. Due to the development of an increasingly dynamic and global economic environment, this Law was repealed to include micro, small and medium enterprises in Indonesia to obtain guarantees of business certainty and justice. It was repealed by Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs Law).¹⁸

Article 1 of the Law states that:

1. "Micro Enterprises shall be productive businesses owned by individual persons and/or individual business entities that meet the criteria of Micro Enterprises as provided for herein".
2. "Small Enterprises shall be productive economic businesses standing alone, done by individual persons or business entities not constituting subsidiaries or not constituting company branches owned, controlled, or becoming direct or indirect portions of Medium or Large Enterprises that meet the criteria of Small Enterprises as intended herein".
3. "Medium Enterprises shall be productive economic businesses standing alone, done by individual persons or business entities not constituting subsidiaries or not constituting company branches owned, controlled, or becoming direct or indirect portions of Small or Large Enterprises with the amount of net assets or annual sales proceeds as provided for herein".

The criteria to define the MSMEs is stated in Article 6 of the MSMEs, namely:

- a. A micro enterprise is a business unit that has a maximum net assets of Rp.50,000,000.00 (fifty million Rupiah), exclusive of land and building of their place of business or maximum annual sales proceeds of Rp.300,000,000.00 (three hundred million Rupiah).
- b. Small enterprise is a business unit that has net assets of more than Rp.50,000,000.00 (fifty million Rupiah) up to a maximum amount of Rp.500,000,000.00 (five hundred million Rupiah), exclusive of land and building of their place of business or annual sales proceeds of more than Rp.300,000,000.00 (three hundred million Rupiah) up to a maximum amount of Rp.2,500,000,000.00 (two billion and five hundred million

¹⁷ Ibid.

¹⁸ Tulus T.H. Tambunan, *UMKM di Indonesia*.Bogor : Ghalia Indonesia.2009).hlm.16-18

Rupiah).

- c. Medium enterprise is a business unit that has net assets of more than Rp.500,000,000.00 (five hundred million Rupiah) up to a maximum amount of Rp.10,000,000,000.00 (ten billion Rupiah), exclusive of land and building of their place of business or maximum annual sales proceeds of more than Rp.2,500,000,000.00 (two billion and five hundred million Rupiah) up to a maximum amount of Rp.50,000,000,000.00 (fifty billion Rupiah).

2.1.4. ASEAN Approaches to Micro, Small and Medium Enterprises

Since 2016, the Indonesian Ministry of Cooperatives and SMEs has acted as a focal point in the cooperation of the ASEAN Coordinating Committee on Micro, Small, and Medium Enterprises (ACCMSME). The cooperation forum bridges the synergy and integration of work programs at the ASEAN level with national work programs, especially in the development of MSMEs. The participation of the Ministry of Cooperatives and SMEs in ACCMSME is realized through involvement in activities and MSME development programs implemented in ASEAN member countries, which refer to the ASEAN Strategic Action Plan on SMEs Development.¹⁹

In 2016 ASEAN launched the ASEAN SME Academy (www.asean-sme-ademy.org), a website that contains online training for SMEs, especially in the ASEAN region. The purpose of establishing this website is as a platform to improve the ability of SMEs to gain access to finance, market access, and information about technology and innovation, with the hope that SMEs can directly use them. The ASEAN SME Academy provides 50 types of training offered from 500 companies and members of the US-ASEAN Business Alliance for Competitive SMEs. There are also 350 links containing business information relevant to the needs of SMEs, such as financial access information, company programs and networks that can be accessed directly by SMEs.²⁰

As an effort to promote and disseminate information about the ASEAN SME Academy, ASEAN has held the Training of Facilitators (ToF) in 2016 in a number of ASEAN countries, including Indonesia. The training was held on 26-27 October 2016 in Jakarta, and was attended by 30 facilitators, including those of the Integrated Business Service Center / IBSC (*Pusat Layanan Usaha Terpadu / PLUT*). The training participants are selected and coordinated by the Ministry of Cooperatives and SMEs, as the focal point for the ASEAN Coordinating Committee on Micro, Small, and Medium Enterprises (ACCMSME) in Indonesia. The involvement of IBSC facilitators in the Training of Facilitators (ToF) is intended so that IBSC facilitators can disseminate information about the ASEAN SME Academy to SMEs players who are under their guidance in their respective

¹⁹ Supra note 5. This information is translated from the Indonesian original text without any alteration from the researchers.

²⁰ Ibid.

regions. In addition, it is hoped that IBSC facilitators will be able to assist and guide SMEs in using and accessing the ASEAN SME Academy, so that SMEs can gain insight and skills in efforts to increase the capacity of SMEs through the ASEAN SME Academy.²¹

2.1.5. Indonesia Policy Review on SME and Entrepreneurship

Indonesia Policy Review on SME and Entrepreneurship, a policy review program for the development of MSMEs and entrepreneurship in Indonesia which is part of the ASEAN-OECD cooperation framework. The review is carried out on all aspects of policy starting from the characteristics of the definition, data availability, national programs, strategic framework and coordination between institutions, and between central and local governments, business environment conditions (business licensing, financial policies, financing, taxation, etc.), Business Development Services, as well as local dimensions of MSMEs and entrepreneurship development in Indonesia.²²

The review aims to get a complete picture of how the Indonesian government manages the existing potential of MSMEs and entrepreneurship, which have so far proven to be resilient in supporting the nation's economy. In addition, the review also aims to produce recommendations for improving the direction of national policies for the development of MSMEs and entrepreneurship, so that government policies can have a more impact on increasing the competitiveness of Indonesian MSMEs and entrepreneurs. In the process, the Indonesia Policy Review on SME and Entrepreneurship has involved 24 K / L, local governments, representatives of business actors, the private sector, and academics.²³

2.1.6. Law No.11 of 2020 concerning Job Creation (the Omnibus Law)

The Indonesian Parliament passed the Bill on the Omnibus Law concerning Job Creation Bill to become Law at the plenary session on October 7, 2020. The Bill has drawn a lot of polemics, especially from among workers. The Job Creation Bill had triggered a series of demonstrations in front of the Parliament Building, Central Jakarta. President Joko Widodo for the first time submitted the draft of the Omnibus Law on Job Creation through the Presidential Letter Number: R-06 / Pres / 02/2020 dated 7 February 2020. In addition, it was also issued the Coordinating Minister for the Economy No. 121/2020 concerning the Coordination Team for Discussion and Public Consultation on the Substance of Manpower of the Draft Law on Job Creation. On 20 April 2020, the Omnibus Law Bill began to be discussed by the Parliament Legislation Body through the Working Committee on the Job Creation Bill. The discussion took up to seven months and it was completed on 3 October 2020. It was asked to be postponed by President Joko Widodo due to the pressure from the

²¹ Ibid.

²² Ibid.

²³ Ibid.

community in the midst of the Covid-19 pandemic, the Employment cluster discussion was finally discussed in three days from 25 – 28 September 2020. The finalization of the Bill discussion was carried out on 28 September 2020 at a hotel on the ground that there was an improvement in electrical installations at the Parliament Building.

The Omnibus Law is well known after the President of the Republic of Indonesia delivered it in his state speech at his inauguration as President before the MPR session on 20 October 019. The Omnibus law has become the focus of the President with the aim of resolving the overlapping problem of regulations and bureaucracy. It was expected that the Omnibus Law can provide good services to the community and attract foreign investors to invest in Indonesia. The Omnibus Law has captured the attention of the public because of the purpose of the Law is to replace the existing laws with a new law to create a legal umbrella for all related legal provisions and can cross-sector in nature. The concept of Omnibus Law has become a solution taken by the Indonesian government in increasing the progress of the nation through the field of law. It is a form of government efforts to make innovations or policies.²⁴ On 2 November 2020 the President of the Republic of Indonesia, Joko Widodo, signed the Omnibus Law and it is officially named as Law No.11 of 2020 concerning Job Creation.²⁵

2.2. Discussions

2.2.1. The challenges of Indonesian MSMEs under Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises in the era of AEC 2015 - 2020

The Government of Indonesia has determined 12 (twelve) priority sectors to face the ASEAN Economic Community (AEC). These priority sectors are tourism, health, logistics, aviation, communication and information technology, agriculture, wood, rubber, automotive, textile or garment, electronics and fisheries.²⁶ Of these priority sectors, most of them can be realized by empowering MSMEs. MSMEs is regulated by Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs Law).

The MSMEs Law has mandated the government to develop MSMEs. The Law states that the roles of the government which includes:

- 1) together with the Regional Government to carry out supervision and control of business opportunities (Article 13);

²⁴ Sodikin, *Paradigma Undang-Undang dengan Konsep Omnibus Law Berkaitan dengan Norma Hukum yang Berlaku di Indonesia*. *Jurnal Rechtsvinding Media Pembinaan Hukum Nasional*, 143-160. 2020, hlm. 148.

²⁵ Danu Damarjati, Diteken Jokowi, UU 11/2020 Cipta Kerja Setebal 1.187 Halaman, <https://news.detik.com/berita/d-5238925/diteken-jokowi-uu-112020-cipta-kerja-setebal-1187-halaman> Accessed on 25 January 2021.

²⁶ Dyah Ratna Meta Novia and Ilham, Pemerintah Tetapkan 12 Sektor Prioritas Hadapi MEA, <https://www.republika.co.id/berita/ekonomi/makro/15/10/12/nw3398361-pemerintah-tetapkan-12-sektor-prioritas-hadapi-mea>, accessed on 25 January 2021.

- 2) together with the Regional Government carry out trade promotion activities (Article 14 (2));
- 3) together with the Regional Government to facilitate business development in the fields of production and processing, marketing, human resources, and design and technology (Article 16 (1));
- 4) compile a Government Regulation concerning the development procedure, priority, intensity and period of business development in question (Article 16 (3));
- 5) together with the Local Government to provide financing for Micro and Small Enterprises (Article 21). In this case the Government, Regional Government, and the business world can provide grants, seek foreign assistance, and seek other legal and non-binding sources of financing for Micro and Small Enterprises (Article 21 (4));
- 6) provide incentives in the form of ease of licensing requirements, reduced tariffs for facilities and infrastructure, and other forms of incentives in accordance with the provisions of laws and regulations to businesses that provide financing for Micro and Small Enterprises (Article 21(5));
- 7) increase sources of financing for Micro and Small Enterprises (Article 22);
- 8) together with the Regional Government, increase access of Micro and Small Enterprises to sources of financing (Article 23 (1));
- 9) together with the Regional Government to empower Medium Enterprises in the field of financing and guarantee (Article 24);
- 10) together with the Regional Government, the business world and the community facilitate, support and stimulate partnership activities, which need, trust, strengthen and benefit each other (Article 25 (1)). Partnerships between Micro, Small and Medium Enterprises and Large Enterprises include the process of transferring skills in the fields of production and processing, marketing, capital, human resources, and technology (Article 25 (2));
- 11) the Minister of Cooperatives and SMEs and other technical ministers regulate the provision of incentives to large enterprises that make partnerships with micro, small and medium enterprises through innovation and development of export-oriented products, absorption of labor, use of appropriate and environmentally friendly technology, and organizing education and training. (Article 25 (3));
- 12) the Minister of Cooperatives and SMEs can establish a national and regional business partnership coordination agency to monitor the implementation of partnerships (Article 34);
- 13) prohibit Large Enterprises from owning and / or controlling Micro, Small, and / or Medium Enterprises as business partners in implementing a partnership relationship (Article 35);
- 14) prohibit Medium Enterprises from owning and / or controlling Micro and / or Small Business partners of their business (Article 35);
- 15) the Minister of Cooperatives and SMEs carry out coordination and control of empowerment of

Micro, Small and Medium Enterprises (Article 38 (1));

- 16) regulate and stipulate Government Regulations concerning procedures for administering administrative sanctions for violating Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (Article 39 (3));
- 17) in connection with the mandate of the Law, the government implements various programs aimed at empowering MSMEs. These programs include the National Entrepreneurship Movement (NEM) and the provision of People's Business Credit (PBC).

MSMEs are the main players in the domestic economy, contributing 60.3 percent of Indonesia's total Gross Domestic Product in 2017, and absorbing 97 percent of the total workforce and 99 percent of total employment. The ASEAN Economic Community Blueprint 2025 approved by ASEAN member countries in 2015 includes the creation of a single market and production base with free flow of goods, services, investment, and skilled labor, a highly competitive region, sustainable and equitable economic development, and integrate ASEAN into the global economy. The development of MSMEs is also one of the efforts put forward in the ASEAN Framework on Equitable Economic Development, in addition to reducing development gaps, strengthening the quality of human resources, increasing social welfare, and wider participation in the ASEAN integration process. The strategic role of MSMEs in the AEC includes helping to overcome the problem of unemployment, reviving industrial estates, having strong resilience when faced with crises, and contributes greatly to GDP and economic growth.²⁷

MSMEs have several potential strengths for the development in the future, namely:

- 1) source of employment. The role of small industries in the absorption of labor should be taken into account. It is estimated that it can absorb up to 50% of the available workforce.
- 2) sources of new entrepreneurship. The existence of small and medium enterprises has been proven to support the growth and development of new entrepreneurs.
- 3) a unique market business segment that carries out simple and flexible management against market changes.
- 4) Utilizing the surrounding natural resources. Most of the small industries use waste or products from large industries or other industries. It has the potential to develop.²⁸

²⁷Gloria, UMKM Aktor Penting dalam Masyarakat Ekonomi ASEAN, <https://www.ugm.ac.id/id/berita/19821-umkm-aktor-penting-dalam-masyarakat-ekonomi-asean>, accessed on 25 January 2021.

²⁸ Pandji Anoraga, *Ekonomi Islam Kajian Makro dan Mikro*, (Yogyakarta : PT. Dwi Chandra Wacana 2010) h .67.

However, weaknesses are often also an inhibiting factor and problems for Micro Enterprises. In this regard, there are 2 factors, namely:

- 1) Internal factors, which are classic problems of MSMEs, include: a) Limited human resource capabilities, b) The constraints in marketing products. Most of the small industry entrepreneurs prioritize the production aspect, while the marketing functions are less able to access it, especially in market information and market networks, c) The tendency of consumers who do not trust the quality of small industry products. d) Constraints on business capital. Most of the small industries utilize their own capital in a relatively small amount.
- 2) External factors are problems that arise from the developer and supervisor of MSMEs. For example, the solutions given are not right on target. There is no monitoring and overlapping programs.

Out of the two factors, there is a gap between internal and external factors, namely financial supports from banks. State-owned enterprises and other supporting financial institutions are ready to provide credit, but they find difficulties to select the MSMEs to be given such credits. This is because of various conditions that must be met by the MSMEs. On the other hand, the MSMEs also have difficulty finding and determine which institutions can help with their limitations. This circumstance is still ongoing even though various efforts have been made to facilitate the MSMEs to get financial supports (credits).²⁹

It can be deduced that even though the MSMEs Law has mandated various supports for the MSMEs, they remain face many difficulties in improving their business. Similarly, although MSMEs are one of the targets and focuses of the AEC in creating economic stability and development in the ASEAN region, most of the Indonesian MSMEs remain to face many challenges, especially regarding the quality of their goods or productions. This is because most of the quality of Indonesian MSMEs products has not met the standards because of several factors which have been explained previously. In short, the Indonesian MSMEs products below standards because of domestic production costs are very expensive so that the MSMEs are unable to create production efficiency. In addition, the lack of knowledge of MSMEs owners in producing quality goods or services.

2.2.2. The readiness of Indonesian MSMEs under Law No.11 of 2020 concerning Job Creation in facing the era of AEC 2025

Provisions regarding MSMEs under Law Number 11 of 2020 concerning Job Creation are stipulated by Chapter V entitled Facilitation, Protection, and Empowerment of Cooperatives, Micro, Small, and Medium Enterprises. This new Law amends Law Number 25 of 1992 concerning

²⁹ Ibid.

Cooperatives, Law Number 20 of 2008 concerning MSMEs, and Law Number 38 of 2004 concerning Roads. There are several facilities for MSMEs that are provided by the new Law, especially the Cooperatives and MSMEs cluster. For example, the new Law facilitate the MSMEs to start and managing businesses as well as to develop them.

To facilitate MSMEs to start business, the new Law prescribes that micro businesses are still exempted from business licensing fees and small businesses are given a business permit fee relief. These facilities are regulated by article 12 (1) (b) of the new Law. In addition, a single permit and the licensing procedure is simplified through Online Single Submission (OSS). Furthermore, the role of the Central Government, Regional Government, State-owned Enterprises, large national and foreign businesses in providing financing for micro and small businesses will not be changed. Last but not least, access to data is more varied, larger, and easier.³⁰

To facilitate the management of MSMEs, the new Law simplifies tax administration and as well as tax and customs incentives for micro and small enterprises. The new Law also provides legal and service assistance for micro and small enterprises. In addition, trainings and assistances relating to the use of financial accounting systems / applications are provided for micro and small businesses. Furthermore, employment wage for micro and small enterprises are based on an agreement between the entrepreneurs and their workers. Moreover, protection for MSMEs is guaranteed so that they are not controlled or owned by large businesses. Last but not least, an increase of business opportunity for MSME products in the supply chain partnerships.³¹

To facilitate the development of MSMEs, the new Law regulates that the MSMEs business activities can use as a guarantee in accessing business financing credits. In addition, the registration process for Intellectual Property Rights (IPR) of MSMEs is easier and simplified. MSMEs are facilitated when importing raw and industrial auxiliary materials as well as exporting their products. An allocation special allocation funds to support empowerment and development activities of MSMEs is also provided. To expand the MSMEs market and promote their products, they are given opportunities to use the rest areas of highways and public infrastructures such as terminals, airports, ports, train stations and others. In addition, the new Law also contains provisions regarding the incubation of the creation and growth of new businesses, as well as to strengthen the capacity of start-ups. Last but not least, an assistance to increase the capacity of micro, small and medium enterprises is provided, so that they are able to access sources of financing supports.³²

³⁰ Ratih Waseso and Yudho Winarto, Sederet kemudahan UMKM dalam UU Cipta Kerja dari perizinan hingga perluas pasar, <https://nasional.kontan.co.id/news/sederet-kemudahan-umkm-dalam-uu-cipta-kerja-dari-perizinan-hingga-perluas-pasar>, Accessed on 25 January 2021.

³¹ Ibid.

³² Ibid.

It is obvious that the new Law aims to improve the development of MSMEs by providing lots of facilities for the MSMEs. It is one of the strategy of the Indonesian government to strengthen the position of MSMEs in the era of AEC since the previous laws relating to MSMEs are not ready to position the MSMEs as the economic backbones of Indonesia in the AEC era. Since this Law is very new, it is highly expected that it is efficient in providing umbrella legislation in governing MSMEs in Indonesia to boost the economy of this state in the AEC era and to face the AEC 2025.

III. CONCLUSION

Based on the discussions, it is concluded that MSMEs in Indonesia faced many challenges in the era of the AEC under Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises. The challenges are low quality of goods or productions, limited human resource capabilities, the constraints in marketing products, constraints on business capital, no monitoring and overlapping programs. However, the amendment of the MSMEs Law by Law No.11 of 2020 concerning Job Creation which provides many facilities for MSMEs can be regarded as a better strategy to improve and develop MSMEs to be ready in facing the AEC 2025.

BIBLIOGRAPHY

- About ASEAN “Establishment”, <https://asean.org/asean/about-asean/>, Accessed on 21 January 2021.
- Danu Damarjati, Diteken Jokowi, UU 11/2020 Cipta Kerja Setebal 1.187 Halaman, <https://news.detik.com/berita/d-5238925/diteken-jokowi-uu-112020-cipta-kerja-setebal-1187-halaman> Accessed on 25 January 2021.
- Dyah Ratna Meta Novia and Ilham, Pemerintah Tetapkan 12 Sektor Prioritas Hadapi MEA, <https://www.republika.co.id/berita/ekonomi/makro/15/10/12/nw3398361-pemerintah-tetapkan-12-sektor-prioritas-hadapi-mea>, accessed on 25 January 2021.
- Diantha I Made Pasek, Metodologi Penelitian Hukum Normatif dalam Justikasi Teori Hukum, Denpasar : Prenadamedia Group, 2018).
- Direktorat Jenderal Perundingan Perdagangan Internasional, Kementerian Perdagangan Republik Indonesia, Cetak Biru MEA 2025: Masa Implementasi 2016-2025, http://ditjenppi.kemendag.go.id/assets/files/cetak/pub_20180604_cetak-biru-mea-2025.pdf, Accessed on 25 January 2021.
- Gloria, UMKM Aktor Penting dalam Masyarakat Ekonomi ASEAN, <https://www.ugm.ac.id/id/berita/19821-umkm-aktor-penting-dalam-masyarakat-ekonomi-asean>, accessed on 25 January 2021.
- Masyarakat Ekonomi ASEAN (MEA), Kementerian Luar Negeri Republik Indonesia, https://kemlu.go.id/portal/id/read/113/halaman_list_lainnya/masyarakat-ekonomi-asean-mea, Accessed on 21 January 2021.

Pandji Anoraga, *Ekonomi Islam Kajian Makro dan Mikro*, (Yogyakarta : PT. Dwi Chandra Wacana 2010).

Peter Mahmud Marzuki, *Penelitian Hukum* (Jakarta: Kencana, 2005).

Ratih Waseso and Yudho Winarto, Sederet kemudahan UMKM dalam UU Cipta Kerja dari perizinan hingga perluas pasar, <https://nasional.kontan.co.id/news/sederet-kemudahan-umkm-dalam-uu-cipta-kerja-dari-perizinan-hingga-perluas-pasar>, Accessed on 25 January 2021.

Ratna ShofiInayati. 2007. *Menuju Komunitas ASEAN 2015: Dari State Oriented ke People Oriented*. Jakarta: LIPI.

Soerjono Soekanto, et al, *Penelitian Hukum Normatif: Suatu Tinjauan Singkat*, PT. Raja Grafindo Persada, Jakarta, 2007.

Sodikin, Paradigma Undang-Undang dengan Konsep Omnibus Law Berkaitan dengan Norma Hukum yang Berlaku di Indonesia. *Jurnal Rechtsvinding Media Pembinaan Hukum Nasional*, 143-160. 2020.

Supra note 5. This information is translated from the Indonesian original text without any alteration from the researchers.

Sylke Febrina Laucereno, “Dampak Omnibus Law“ <https://finance.detik.com/berita-ekonomi-bisnis/d-5207239/3-dampak-omnibus-law-cipta-kerja-versi-analis-asing>, Accessed on 25 January 2021.

Tulus T.H. Tambunan, *UMKM di Indonesia*.Bogor : Ghalia Indonesia.2009).

Zainuddin Ali, *Metode Penelitian Hukum*, Jakarta: Sinar Grafika, 2016.