

## **Indonesia's Challenges and Strategies for the ASEAN Economic Community (AEC)**

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### **ABSTRACT**

The challenges Indonesia faces in the ASEAN economic integration process are not only internal, but also competition between ASEAN countries and other countries outside ASEAN. Another challenge is that Indonesia's inflation rate is still higher than other countries in the ASEAN region. There are some fundamental issues that Indonesia needs to face in its response to MEA (AEC) 2015. First, the hidden unemployment rate is high; second, low-level entrepreneurs are accelerating the expansion of job opportunities; third, Indonesian workers are mainly uneducated workers, and their productivity is low; fourth, the number of educated unemployed is increasing; Differences in productivity; 6. The informal sector dominates occupations; 7. The unemployment rate in Indonesia is the highest among the 10 ASEAN countries; 8. Issues such as minimum wage, contract labor, employment and social insurance faced by workers; 9. Indonesian workers abroad The problem. From the aforementioned explanation, government should immediately prepare strategic steps to deal with challenge and threat from AEC by devising and reforming national policies aiming to stimulate and increase competitive of human resources and industry

**Keywords:** Indonesian Challenge, Competitiveness, Economic, Strategy

### **Introduction**

ASEAN economic community (AEC) is an agreement between ASEAN countries in increasing cooperation the economic sector to be put into effect on 32 December 2015 (Hanantijo, 2013). MEA (AEC) is a form of ASEAN economic integration aiming to stimulate economic growth, decrease poverty, and increase ASEAN people standard of life. One of cooperative forms is in order to materialize flow of free goods (product), and trained workers, and flow of freer investment.

ASEAN with MEA (AEC) will become a concept of new federation states, promising new economic power, to be projected as balanced global economic power (Anabarja, 2010). Through MEA, ASEAN becomes a new order of

community where member states are free to do their economic activities in product or service.

With this achievement, ASEAN will become single market and basis of production where there are free flows of product, service, investment and trained workers and free flow of capital (Wibowo, 2015). It is expected from those flows of commodity and factor of production will bring ASEAN become a prosperous and competitive area with even economic development, and decreasing level of poverty and social-economic difference in the area of ASEAN.

In the application at the end of 2015, MEA (AEC) will apply 12 priority sectors, called free flow of skilled labor for medical treatment, tourism, logistic service, e-ASEAN, air transportation service, agro-based product, electronic product, advertisement, rubber-based product, textile, automotive, and wooden based product (Arief, 2009).

For Indonesia, MEA can become opportunity and challenge as well. Decreasing trade barrier will have an effect on export increase. In turn, Indonesian GDP will increase (Aspan, 2011). On the other hand, Indonesia has to accept many flows of import product. This can threaten existence of local industry. Local industry will have to deal with competition with foreign industries which have better quality product (Sihombing, 2013).

In viewpoint of investment, MEA will support foreign investors to come; they can stimulate economic growth. However, this condition can result in risk of exploitation, if Indonesia does not have strong binding regulation.

This essay, therefore, will describe some challenges and strategy which should be carried out by Indonesia in order to deal with ASEAN Economic Community that will be applied soon to all ASEAN countries

## **Discussion**

### **Indonesia and The competitiveness of ASEAN Economic Community (AEC).**

Globalization influences global economy. One of globalization effects is an agreement between ASEAN countries. The agreement is in the form MoU of Asean Economic Community (AEC) to create an area of free trade in order to increase economic competitiveness in the ASEAN regional area by making ASEAN as basis of global production and creating regional market.

Concept of AEC is started from Declaration of ASEAN Concord II in Bali, in October 2003. AEC is a realization of ASEAN Vision and ASEAN Security Community (ASC) and ASEAN socio-Cultural Community (ASCC) with final goal is economic integration.

AEC is realization of final goal of economic integration followed in the Vision 2020, based on interest convergence of ASEAN countries for deepening and expanding economic integration via existing and new imitative with clear time limit. In establishing ASEAN Economic Community (AEC), ASEAN should

act in accordance with open principles, outward oriented, inclusive, and economic market oriented. AEC will make ASEAN as single market and basis of production that makes ASEAN is more dynamic and competitive with mechanism and steps to strengthen implementation of economic initiative; to accelerate regional integration in priority sectors; to facilitate business movement, skilled and talented labor; and to strengthen mechanism institution of ASEAN.

Many Indonesian people still doubt about whether Indonesia is well-prepared in dealing with AEC 2015 (Wr Rosidawati, 2015). Domestic business sector will be crushed; it is understandable if we remember how bilateral relation between Indonesia and China. These days China can seize Indonesian domestic and traditional market, this can disturb stability of Indonesian country'

The idea of establishing AEC 2015 can become media of developing concord between ASEAN countries and trade center, can become ASEAN position more strategically in the international area, so that there will be a inter-sector dialogue that eventually will raise interdependent and complementary sense among stakeholders of economic sector in ASEAN countries.

Although many positive effects offered by AEC for integrated countries, such as decrease of poverty, increase of investment growth, increase of product domestic bruto, decreasing unemployment, and increasing trade, such as. Indonesian opportunity to expand to other Asean countries is abundant resources, saturation against import product from China, low worker wage.

AEC has four pillars which will be prevailed in all countries that join in ASEAN, those are;

- 1) Single market and basis of production,
- 2) Building an economic area with high competitiveness.,
- 3) Building an area with even economy,
- 4) Building an area with full integration towards global economy.

In carrying out the four pillars through five main elements, those are:

- 1) free flow of goods (product),
- 2) free flow of service,
- 3) free flow of investment,
- 4) free flow of capital,
- 5) free flow of skilled labor.

Those four pillars and five supporting elements should be able to save Indonesian economy and create prosperity for Indonesian people and decrease poverty. If Indonesia cannot carry out those four pillars and five elements, it will face economic colonization and cause bad impact for national economy. This can destroy sector of national production (industry and agriculture), unemployment increase, and expanding low wage practice, and so forth, which should become

foundation for people in order to be prosperous, instead of threat of poverty increase.

Therefore, universities should increase quality of their graduates, so that they can produce graduates who have highly competitive competence in labor market, because scheme of AEC 2015 about labor put into effect liberalization of professional labor in the strategic field, such as doctor, engineer, accountant and so forth. But manual (informal) labor which is Indonesian “power” does not belong to program of liberalization AEC (Hew, 2005). Worse, informal labor who becomes source of exchange, its movement tends to be limited in the era of AEC.

In the sector of labor, Indonesia should increase worker qualification, increase quality of education and open equal opportunity. Moreover, socialization is necessary to the public concerning ASEAN Economic Community 2015, so that it will raise confidence and capability of dealing with various challenges. If we have strong competitiveness, well-preparedness, domestic products will become host in their own country. Indonesian economic stability is an opportunity to make Indonesia to become a power, not to mention with abundant natural resources, so it doesn't make sense if we cannot do anything about it (Das, 2005).

In dealing with ASEAN Economic Community 2015, Indonesian government has to take strategic steps in order not to be marketing country for foreign products. Among other things:

1. Strengthening economic competitiveness

Increasing the economic competitiveness should be done in all sectors. Technology of production is one of main condition to increase productivity and added value. But, to attract foreign investors to invest their money in Indonesia is not an easy job. Many external and internal factors have to put in their right places or corrected; Political stability, illegal collecting, law enforcement. Infrastructure, and etc.

To invite foreign investors should have to be done continually to dig untouched economic potency and open vocation. They can change economic condition of a region instantly. Strengthening populace economy must to be done as well. Although it cannot cause change drastically, but strengthening bottom economy can increase endurance and independence of Indonesian economy.

2. Program of ACI (I love Indonesia)

Asean Economic Community will create inter-cultural acculturation and association in Indonesia (Soesastro, 2004). Cultures will create cultural competition. Indonesia must internalize sense of loving the country and proud of using domestic product of industry. The goal is Indonesia can stand for intercultural competition in ASEAN. Moreover, this will increase economic income and decrease effect of foreign product.

This program is one of movements ‘Nation Branding’, part of creative economic development stated in the Presidential Decree Number 6/2009.

3. Empowerment of micro, small, and medium business

UMKM empowerment is greatly needed to increase economic competitiveness; Quality and quantity competition that is not only for local and national market, but export as well. More and more UMKM that can export will increase Indonesian economic competitiveness. Training how to use website in order to widen consumer segmentation is also needed in digital era today.

Increasing the competitiveness by using technology of information and communication is needed by the UMKM actors in Indonesia to deal with tighter business competition, especially in dealing with the AEC. These actors have to use the technology to develop their business so that they can move fast and they are ready to compete globally.

#### 4. Amelioration of infrastructure

Government should ameliorate or fix infrastructure that inhibit distribution of agricultural produce, such as inter-rural road access that will increase cost of product distribution. Indonesian fruit is more expensive than Chinese product because road access of fruit distribution needs more expensive cost and it takes time day in, day out, so that it causes the fruit costs more expensive.

#### 5. Increase of human resources quality

Indonesian worker hard skill and soft skill have to be increased to meet agreed standard regulation. Therefore, Indonesia should be able to increase worker quality so that they can be used domestically and intra-ASEAN, to stem foreign skilled labor so that Indonesian people not to be slaves in their own country.

#### 6. Reform of Bureaucracy and Institution

Reformation of bureaucracy and institution should become priority at all levels of bureaucracy because tighter economic competition in the future. The competition will make bureaucracy as center of activity that guarantees acceleration of various policy implementation and program designed to win in competition towards AEC 2015.

Bureaucracy has to be able to give contribution in empowering people, to become catalyst and innovator and establish positive competition.

## **Conclusion**

From the aforementioned explanation, government should immediately prepare strategic steps to deal with challenge and threat from AEC by devising and reforming national policies aiming to stimulate and increase competitiveness of human resources and industry. Government should supply institution and capital that can be accessed easily by businessmen from various scales, create conducive business climate and decrease high cost economy. There are at least four important things related to implementation of AEC 2015. First, ASEAN as single market and production. Second, common economic development. Third,

economic equalization. And, fourth, strengthening of competitiveness, including importance of competent workers.

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