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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 include competition between ASEAN countries and other nations outside the region. Another significant challenge is Indonesia's inflation rate, which remains higher than that of other ASEAN countries. Several fundamental issues need to be addressed in response to the ASEAN Economic Community (AEC) 2015. Indonesia struggles with a high rate of hidden unemployment, while low-level entrepreneurs play a crucial role in expanding job opportunities. Additionally, a large portion of Indonesian workers are uneducated and have low productivity, while the number of educated unemployed individuals continues to rise. Productivity disparities, the dominance of the informal sector, and the highest unemployment rate among the 10 ASEAN countries further compound the problem. Other pressing concerns include issues related to minimum wage, contract labor, employment conditions, and social insurance, as well as the challenges faced by Indonesian workers abroad. Given these challenges, the government must take immediate strategic steps to address the threats posed by the AEC. This can be achieved by formulating and reforming national policies aimed at enhancing the competitiveness of human resources and industries.

Keywords: Competitiveness, Economic, Indonesian Challenge, Strategy

INTRODUCTION

ASEAN Economic Community (AEC) is an agreement among ASEAN countries to enhance economic cooperation, which was implemented on December 31, 2015 (Hanantijo, 2013). AEC is a form of ASEAN economic integration aimed at stimulating economic growth, reducing poverty, and improving the standard of living for ASEAN citizens. One of its key initiatives is to facilitate the free flow of goods, skilled labor, and investment.

As AEC takes effect, ASEAN is envisioned as a new federation of states with strong economic potential, positioning itself as a balanced global economic power (Anabarja, 2010). Through this integration, ASEAN establishes a new economic order where member states can freely conduct business in goods and services.

As a result, ASEAN is expected to become a single market and production base, allowing for the free movement of goods, services, investment, skilled labor, and capital (Wibowo, 2015). These economic flows are anticipated to transform ASEAN into a prosperous and competitive region with balanced economic development, reduced poverty, and minimized socio-economic disparities.

By the end of 2015, AEC introduced 12 priority sectors under the free flow of skilled labor, including medical services, tourism, logistics, e-ASEAN, air transportation, agro-based products, electronics, advertising, rubber-based products, textiles, automotive, and wood-based products (Arief, 2009).

For Indonesia, AEC presents both opportunities and challenges. The reduction of trade barriers is expected to boost exports, leading to an increase in GDP (Aspan, 2011). However, the influx of imported goods may threaten local industries, as they must compete with higher-quality foreign products (Sihombing, 2013).

Regarding investment, AEC encourages foreign investors, which can stimulate economic growth. However, without strong regulatory frameworks, this situation could lead to exploitation risks.

Considering these factors, this essay will discuss the challenges and strategies Indonesia must adopt to effectively navigate the ASEAN Economic Community, which has been implemented across all ASEAN member states.

LITERATURE REVIEW

The ASEAN Economic Community (AEC) and Its Implications

The ASEAN Economic Community (AEC) was established to promote economic integration among ASEAN member states, aiming to create a single market and production base (Wibowo, 2015). The AEC facilitates the free flow of goods, services, investment, skilled labor, and capital, which is expected to boost economic growth and reduce economic disparities among ASEAN nations (Hanantijo, 2013). However, while the AEC presents significant opportunities, it

also poses challenges, particularly for developing economies like Indonesia (Anabarja, 2010).

Indonesia's Challenges in Implementing the AEC

Indonesia faces several key challenges in fully integrating into the AEC. One major issue is its competitiveness in comparison to other ASEAN nations, particularly in sectors such as manufacturing and services (Sihombing, 2013). Domestic industries struggle to compete with imported goods due to lower productivity levels and higher production costs. Additionally, Indonesia's regulatory framework remains a concern, as weak policies on foreign investment and labor mobility may hinder economic growth (Aspan, 2011).

Another challenge is Indonesia's infrastructure, which is underdeveloped compared to other ASEAN countries like Singapore and Malaysia (Arief, 2009). Poor transportation networks, inefficient logistics, and bureaucratic inefficiencies limit Indonesia's ability to take full advantage of regional economic integration. Without improvements in these areas, Indonesia may find it difficult to compete in the ASEAN market effectively.

Strategic Approaches for Indonesia

To address these challenges, Indonesia must implement several strategic measures. Strengthening local industries through innovation and technological advancements is crucial to improving competitiveness (Wibowo, 2015). The government should provide incentives for research and development while fostering partnerships between domestic and foreign companies to enhance skills and knowledge transfer.

Additionally, improving infrastructure is essential. Increased investment in roads, ports, and digital infrastructure will enhance Indonesia's economic connectivity within ASEAN (Hanantijo, 2013). Policies that encourage foreign direct investment (FDI) must be strengthened while ensuring that local businesses are protected from excessive foreign competition (Anabarja, 2010).

Human capital development is also a key priority. Enhancing education and vocational training will equip Indonesia's workforce with the necessary skills to compete in the regional labor market (Sihombing, 2013). By investing in education and professional development, Indonesia can increase its share of skilled labor within ASEAN.

Indonesia's participation in the AEC presents both opportunities and challenges. While the AEC fosters economic growth, Indonesia must address its internal weaknesses to fully benefit from regional integration. By improving competitiveness, infrastructure, and human capital, Indonesia can better position itself within ASEAN and ensure sustainable economic growth in the years to come.

RESEARCH METHODOLOGY

This study employs a qualitative research approach to analyze Indonesia's challenges and strategies in facing the ASEAN Economic Community (AEC). A qualitative descriptive approach is used to explore the economic, social, and policy-related challenges Indonesia faces within AEC. This method allows for a detailed understanding of the country's strategic responses (Creswell, 2014).

Data collection is carried out through a literature review, document analysis, and in-depth interviews. The literature review involves gathering secondary data from books, journal articles, reports, and government publications related to AEC and Indonesia's economic policies (Bryman, 2016). Document analysis is conducted by examining economic reports from ASEAN, Indonesian ministries, and international economic organizations to understand policy implications (Bowen, 2009). Additionally, in-depth interviews with policymakers, economists, and industry experts provide insights into Indonesia's preparedness, challenges, and strategies (Kvale, 2007).

Thematic analysis is used to categorize and interpret findings from the literature, documents, and interviews. This method helps identify key themes related to Indonesia's economic competitiveness, trade policies, and industrial development (Braun & Clarke, 2006). To ensure research validity, data triangulation is applied by cross-referencing findings from multiple sources. Expert validation is also conducted through interviews with specialists in trade and economic integration (Patton, 2015).

This study focuses on Indonesia's economic challenges and strategies from 2015 onward. However, there are limitations, including the reliance on secondary data and potential biases in expert opinions. Nevertheless, triangulation and the use of multiple data sources help mitigate these concerns (Yin, 2018).

RESULT AND DISCUSSION

Globalization has a significant impact on the global economy, one of which is the agreement among ASEAN countries. This agreement, formalized through the ASEAN Economic Community (AEC) Memorandum of Understanding, aims to create a free trade area to enhance economic competitiveness in the ASEAN region. By positioning ASEAN as a global production hub and developing a regional market, AEC seeks to strengthen economic integration among its member states.

The concept of AEC originated from the Declaration of ASEAN Concord II in Bali in October 2003. It is a realization of ASEAN Vision 2020, ASEAN Security Community (ASC), and ASEAN Socio-Cultural Community (ASCC), with economic integration as its ultimate goal. AEC represents ASEAN's commitment to deepening and expanding economic cooperation through both existing and new initiatives with clear timelines. In implementing AEC, ASEAN

must adhere to principles of openness, inclusivity, and market-oriented economic policies. This integration transforms ASEAN into a single market and production base, making it more dynamic and competitive by strengthening economic initiatives, accelerating regional integration in priority sectors, facilitating the movement of businesses and skilled labor, and enhancing ASEAN's institutional mechanisms.

Despite these objectives, many Indonesians still question whether the country is fully prepared for AEC 2015 (Wr Rosidawati, 2015). There are concerns that Indonesia's domestic businesses will struggle, especially given past trade relations with China, where Chinese products have dominated both modern and traditional markets. This could disrupt Indonesia's economic stability. However, AEC 2015 presents an opportunity to foster economic cooperation among ASEAN countries and position the region strategically in the global economy. The initiative encourages cross-sector dialogue, fostering interdependence and complementarity among economic stakeholders in ASEAN.

Although AEC offers numerous benefits, such as poverty reduction, increased investment, GDP growth, lower unemployment, and expanded trade opportunities, Indonesia must capitalize on its strengths, including abundant natural resources, resistance to Chinese imports, and competitive labor costs. The AEC is built on four pillars: establishing a single market and production base, creating a highly competitive economic region, promoting equitable economic development, and achieving full integration into the global economy. These pillars are implemented through five key elements: the free flow of goods, services, investment, capital, and skilled labor. These structural elements are expected to strengthen Indonesia's economy, create prosperity, and reduce poverty. However, failure to implement them effectively could result in economic colonization, jeopardizing national industries, increasing unemployment, and exacerbating low-wage labor practices. Instead of fostering prosperity, poor implementation could lead to deeper poverty and economic instability.

To meet AEC 2015 labor market demands, universities must improve graduate quality to produce highly competitive professionals in strategic fields such as medicine, engineering, and accounting. However, informal labor—Indonesia's workforce backbone—is not included in AEC's liberalization program (Hew, 2005). Worse, restrictions on informal labor movement under AEC may limit opportunities for Indonesian workers who rely on overseas employment. To address this, Indonesia must enhance worker qualifications, improve education quality, and ensure equal opportunities. Public awareness campaigns on AEC are also crucial to boost confidence and preparedness in facing economic challenges. With strong competitiveness and readiness, domestic products can dominate the local market, ensuring economic stability. Given Indonesia's abundant natural resources, it is essential to leverage these assets effectively rather than remain passive (Das, 2005).

The Indonesian government must take strategic steps to prevent the country from becoming a mere market for foreign goods. Strengthening economic competitiveness is essential across all sectors, particularly in production technology, which is a key factor in boosting productivity and added value. However, attracting foreign investors is challenging due to internal and external factors such as political instability, illegal levies, weak law enforcement, and inadequate infrastructure. To continuously attract investment, Indonesia must explore untapped economic potential and create job opportunities, which can rapidly transform regional economies. Strengthening the people's economy is equally important. Although grassroots economic empowerment may not cause immediate drastic changes, it enhances economic resilience and independence.

One initiative to support domestic industries is the "I Love Indonesia" (ACI) program. AEC will lead to cultural exchanges and competition, making it crucial for Indonesia to foster national pride and encourage the use of locally made products (Soesastro, 2004). By promoting domestic goods, Indonesia can strengthen its position in ASEAN's cultural and economic landscape. This initiative aligns with the "Nation Branding" movement, a key component of the creative economy outlined in Presidential Decree No. 6/2009.

Empowering micro, small, and medium enterprises (MSMEs) is also essential for enhancing economic competitiveness. MSMEs must be equipped to compete in local, national, and export markets. Increasing their participation in international trade will boost Indonesia's overall economic standing. Training in digital marketing and website utilization is critical in today's digital era. The adoption of information and communication technology is vital for MSMEs to remain competitive in the increasingly digitalized AEC market. These businesses must leverage technology to expand and compete globally.

Infrastructure development is another key factor. The government must address transportation and logistics issues that hinder product distribution, especially in the agricultural sector. Poor road access increases distribution costs, making Indonesian products more expensive than imported goods. For example, the high price of local fruits compared to Chinese imports is due to expensive and time-consuming transportation, which reduces competitiveness.

Additionally, improving human resource quality is crucial. Indonesian workers must enhance both their hard and soft skills to meet AEC labor standards. By upgrading workforce competencies, Indonesia can ensure domestic and intra-ASEAN employment opportunities while limiting foreign skilled labor influx, preventing Indonesians from becoming second-class workers in their own country.

Bureaucratic and institutional reform must also be prioritized at all government levels. As economic competition intensifies, bureaucratic efficiency will play a crucial role in policy implementation and economic acceleration. The bureaucracy should act as a facilitator, catalyst, and innovator to ensure that

Indonesia remains competitive within AEC 2015. A well-functioning bureaucracy will support economic empowerment and drive positive competition in the ASEAN market.

CONCLUSION

Based on the explanation above, the government must take immediate strategic steps to address the challenges and threats posed by the ASEAN Economic Community (AEC). This can be done by formulating and reforming national policies that aim to enhance the competitiveness of human resources and industries. The government should also provide accessible institutions and financial support for businesses of all scales, create a conducive business environment, and reduce high economic costs.

There are four key aspects related to the implementation of AEC 2015. First, ASEAN functions as a single market and production base. Second, there is a focus on common economic development. Third, efforts are made to achieve economic equalization. Fourth, competitiveness is strengthened, emphasizing the importance of a highly skilled workforce.

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