

## **ASEAN ECONOMIC COMMUNITY (AEC) AND ECONOMIC STABILITY : A REVIEW FROM INDONESIA'S SIDE**

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***Abstract:** Nowadays the transformation of the world economic power has shifted from Europe to Asia, especially to Southeast Asia where ASEAN countries are located. As one of the founding members, Indonesia actually has played a significant role in the history of the development and advancement of ASEAN. However, it is undeniable that the various advantages possessed by Indonesia have not been able to mirror its readiness in facing the implementation of the ASEAN Economic Community (AEC). The aspects of readiness of the government and the society in optimizing the various forms of the advantages are still limited, so that there is a need for comprehensive and continuous efforts to optimize the regional and global cooperation in order to benefit fully for the government, and especially for the people of Indonesia.*

*Indonesia's role in ASEAN cooperation turns out to be implicated in the conditions of the stability maintenance of the national economy. Cooperation between countries, both in the scope of bilateral and multilateral inter-state, regional, and global is absolutely necessary for the sustainability of a country's development. Further, the dynamics of globalization in all areas turn out to require all countries, including Indonesia, to really think about the right position so that they will neither be left behind by those dynamics, nor they will become a victim of the direction of the global development that can harm their national interests.*

**Keywords :** ASEAN Economic Community (AEC), Integration, Stability.

**JEL specifications :** A1, P4.

### **1. BACKGROUND**

The origin of ASEAN is actually more likely to be political rather than economic (Pomfret, 2013). ASEAN was formed in 1967 by Indonesia, Malaysia, the Philippines,

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Thailand and Singapore. Brunei joined ASEAN in 1984, and later in the period 1995-1999, Cambodia, Laos, Myanmar and Vietnam joined (Yue, 2006). Hill (2014) even suggests that the 10 member states of ASEAN have joined forces to form a regional group composed of developing countries which are the most successful and enduring despite having a degree of diversity of population, GDP, economic development and industrial capability, resources and technology. Yue (2006) even states that the ASEAN economy once became a part of the East Asian economic miracle, although it ended with the on set of the financial crisis in 1997.

Nowadays the transformation of the world economic power has shifted from Europe to Asia, especially to Southeast Asia where ASEAN countries are located. ASEAN which was founded in Bangkok, on 8 August 1967 by the Bangkok Declaration, originally consists of 5 (five) founding members, namely by Indonesia, Malaysia, Philippines, Singapore, and Thailand. Currently, the ASEAN membership has grown to 10 (ten) members, with the addition of 5 (five) new member countries, namely Brunei Darussalam, Vietnam, Laos, Myanmar, and Cambodia.

As one of the founding members, Indonesia actually has played a significant role in the history of the development and advancement of ASEAN, among others, it several times becomes the Chairman of ASEAN (the last time was in 2011), and it becomes the host of important meetings of ASEAN. One of the important roles of Indonesia in ASEAN is that in 2003, Indonesia was successful in providing a strong foundation for the process of transforming ASEAN into a rules-based and society oriented organization through the Bali agreement Concord-II. Recent developments in ASEAN transformation are signalled by the entry into force of the ASEAN Community or ASEAN Economic Community (AEC) by the year 2015. The launching of the ASEAN Community 2015 is based on three main pillars namely the pillars of the political community safety, economic community and socio-cultural community.

Consciously or unconsciously, actually the AEC embryos arose when the establishment of ASEAN by five Southeast Asian countries in 1967. In the following years, there were several agreements occurred that lead to the removal of trade restrictions such as Preferential Tariff Arrangement in 1977 which was followed by the establishment of the ASEAN Free Trade Area (AFTA) through the Common Effective Preferential Tariff in 1992. Then, it continued to the emergence of the ASEAN Framework Agreement on Services (AFAS) in 1995. The emergence of the economic crisis in many countries in Southeast Asia, especially the ASEAN member countries, encouraged the rise of more concrete ideas regarding the implementation of AEC through the ASEAN Vision 2020. In the subsequent stages after entering the year 2000, the acceleration of the implementation of AEC started to be finalized until it was agreed that the AEC will be implemented by the end of 2015.

Indonesia has the best demographic profile among the other ASEAN member countries, such as:

- (a) As a country with the 4th largest population in the world and it continues to grow from 242 million people (2012) to 300 million people (2050) according to UN's estimation;
- (b) Availability of very large labor with a population of 165 million people of productive age (2012) and it is predicted to increase to 183 million people (2020);
- (c) Has a dynamic domestic market, the number of middle class continues to increase;
- (d) Rich in natural resources that appeal to export markets.

However, it is undeniable that the various advantages possessed by Indonesia have not been able to mirror its readiness in facing the implementation of the ASEAN Economic Community (AEC). The aspects of readiness of the government and the society in optimizing the various forms of the advantages are still limited, so that there is a need for comprehensive and continuous efforts to optimize the regional and global cooperation in order to benefit fully for the government, and especially for the people of Indonesia. Moreover, in general the various differences, such as the competitiveness of human resources (HR), the infrastructure and the level of prosperity among member countries of ASEAN become obstacles that must be resolved so that the benefits of ASEAN Economic Community (AEC) can be felt by all its members.

## **2. LITERATURE REVIEW**

The concept of the ASEAN community is to make ASEAN as a regional entity that is more effective and efficient in building a shared sense of belonging to ASEAN. Severino (2008) states that regional economic integration in ASEAN scheme can help ASEAN industry in global competition, attract investment regional / global, and make ASEAN as a significant actor in the world economy. It means that on the one hand the existence of ASEAN Community is a pillar for the member countries of ASEAN to strengthen their economy in a regional level, and it can also be a pillar of strength of the world economy on the other hand. Severino (2008) also discusses the coherence between ASEAN and Regional Security, and ASEAN and Regional Economy, which both have important aspect and support each other for the progress and success of the cooperation between ASEAN and the realization of the ASEAN Community.

Severino (2006) also suggests that the dynamic development of the Chinese economy in the leadership of Deng Xiaoping and also the development of bureaucratic reform of India that led to the increase of its economy are closely linked with the acceleration of ASEAN economic integration process aimed at improving the effectiveness and efficiency of the process of trade among ASEAN members as well as the integration of regional markets. It indicates that the regional development of the area has very big influence on the existence and stability of the countries in the region. For that the strengthening of ASEAN cooperation through the pillars of the ASEAN

Political-Security Community, the ASEAN Socio-Cultural Community and the ASEAN Economy Community are accelerated from a plan that was supposed to start in 2020 to 2015 with some leeway, especially for CLMV countries (Cambodia, Laos, Myanmar, and Vietnam).

Specifically related to embodiment efforts of the ASEAN Economic Community, there are several principal substances in the road map of ASEAN that include:

- (a) a single market and production base;
- (b) a highly competitive economic region (regional competition policy, intellectual property rights action plan; infrastructure development; information and communication technology; energy cooperation, taxation, small-medium enterprises development and e-commerce);
- (c) a region of equitable economic development;
- (d) a region fully integrated into the global economy (synchronized external economic policy in multilateral forums).

It can be described that the concept of AEC is “a stable, prosperous, and highly competitive ASEAN Economic Region” with the hope that it can achieve free flow of trade in goods and services, investment, capital flows freely, the same pace in economic development, poverty reduction and socio-economic gap. The final target of the AEC, namely the creation of a common market that conceptually there is a setting that supports free trade flow of goods, services and human resources as well as the flow of capital.

Indonesia’s participation in the ASEAN Economic Community (AEC) will bring a very broad implication on the economy of Indonesia. Woetzel, Tonby, Thompson, Burt, and Lee (2014) state that there are three main things that can potentially have a positive impact on the enforcement of the AEC, i.e. the AEC will open up the global flow that allows the AEC countries to capture growth opportunities through international trade relations; the AEC also potentially encourage urbanization that will open up new markets and new challenges; and the technology that is currently growing rapidly will be a driving force for economic growth and social change. The existence of various resources both financial and non-financial that flow freely without barriers or restrictions and obstacles, such as labor and even products, in the countries that participate in the AEC can give great benefits for national development provided that they are addressed carefully and wisely.

The free flow of the resources, which comes into and goes out the countries in the ASEAN region should be strictly controlled, otherwise it will cause great detriment instead of great benefits gained for ASEAN member countries including Indonesia. To overcome the negative impact, we need a caution so as not to threaten the stability of the national economy, the national unity, as well as the character and identity of the nation through the implementation of national vigilance which are steps conceptually related to early warning, early detection, cease-and-desist early on threats that endanger national life.

### 3. DISCUSSION

#### 3.1. The ASEAN's Problems

Indonesian competitiveness in ASEAN are as shown in the table below:

**Table 1**  
**The Competitiveness Rank of ASEAN Countries (2012-2013)**

No.	Country	Rank	Basic	Efficiency Enhancers	Innovation and Sophistication
1	Brunei	28	21	68	62
2	Cambodia	85	97	85	72
3	Indonesia	50	58	58	40
4	Laos	n/a	n/a	n/a	n/a
5	Malaysia	25	27	23	23
6	Myanmar	n/a	n/a	n/a	n/a
7	Philippines	65	80	65	64
8	Singapore	2	1	1	11
9	Thailand	38	45	47	55
10	Vietnam	75	91	71	90

Source: WEF (2013).

Based on the Table 1 above on the one hand it appears that in ASEAN there are some countries which are very good in terms of competitiveness, such as Singapore which is ranked second in the world. On the other hand, however, there are still some ASEAN member countries which have a rating of more than 50. Indonesia's own rating is currently in an intermediate position that is in the 50th in terms of competitiveness. The competitiveness is divided into three major parts, namely basic component, efficiency enhancers, and innovation and sophistication. In the basic component, Singapore is the ASEAN member country which has the best rating in the world, but one of other member countries, i.e. Cambodia is ranked 97. This shows that how very high the gap is in ASEAN even though in the basic component.

**Table 2**  
**Human Development Index ASEAN (2010-2012)**

No.	Country	2010	2011	2012
1	Brunei	0.854	0.854	0.855
2	Cambodia	0.532	0.538	0.543
3	Indonesia	0.620	0.624	0.629
4	Laos	0.534	0.538	0.543
5	Malaysia	0.763	0.766	0.769
6	Myanmar	0.490	0.494	0.498
7	Philippines	0.649	0.651	0.654
8	Singapore	0.892	0.894	0.895
9	Thailand	0.686	0.686	0.690
10	Vietnam	0.611	0.614	0.617

Source: UNDP (2015)

Being seen from the perspective of human development in ASEAN, it appears that there is a fairly large range. On the one hand, Singapore as ASEAN member occupies the highest rank in the Human Development Index with an HDI score close to 0.9. On the other hand, there are other ASEAN member countries that their HDI scores are still below 0.5. Indonesia's HDI score is in the middle position. It is under the Philippines, Thailand, Malaysia, and Singapore. The quality of human resources which tends to be low becomes one of the causes of the low competitiveness of Indonesia. Yet, the human resource quality is an efficiency's trigger factor in shaping the competitiveness. The free inflow of skilled foreign workers to the territory of Indonesia due to the AEC will cause a negative impact on the local employment of Indonesian workers because they are less competitive and less skillful than foreign workers.

Concerning gap problems, the other thing to watch out is the gap in wages. The lowest wages are in the State of Cambodia and Vietnam. The third lowest wages is in Indonesia. It is also a challenge for Indonesia. Low wages have two sides, the positive and negative sides. The positive side of low wages is the goal of multinational investors to gain competitiveness in the era of globalization. The negative side of low wages shows the low welfare of the workers. In Indonesia the minimum wage issue also causes social unrest and it hampers the activities of the community because of massive demonstrations. Protracted disagreement between employers, workers, and the government will lead to decreased productivity and potentially disrupt the security and National Endurance.

This wage gap issues need full attention, it also includes income gap in the border area. There are still large gaps in income in immediately adjacent border areas with neighboring countries. This is very striking and it potentially raises social unrest. In the future, we will need to improve our programs to increase the social welfare of people living in the border areas.

Up to March 2013 (the period 1 January 2008 - March 2013), the level of policy implementation (measures) under the AEC Blueprint of all member countries of ASEAN reached 77.54%, rose from 74.20% in October 2012 (ASEAN, 2012). Related to the AEC Scorecard, the total implementation of Indonesia (period 2008-2013) reached 83.2%, or the second lowest after the Laos. Several obstacles towards AEC 2015 underlined and needed the attention of the Leaders in the effort towards AEC 2015 include: delays in the implementation of several measures (trade facilitation, liberalization of the service sector, and the ratification of the joint treaty), world economic conditions which are still stagnant and tendency of the states which are more protectionist so the inclusion of trade and investment flows would be hampered, and ensure that AEC is in line with market needs.

As the largest country in ASEAN and as the initiator of the establishment of ASEAN, Indonesia actually has great potential in taking advantage of the wide range of economic cooperation within ASEAN. However, it must be recognized that to achieve this required a strong competitive power in the various lines. The implications

of the role of Indonesia in ASEAN in order to maintain the stability of the national economy among others, can be traced from the various roles of Indonesia to ASEAN through initiating strategic concepts in economics that have been adopted by ASEAN to promote economic equality of the member countries of ASEAN. The conception is among others the ASEAN Community which includes ASEAN Economy Community, initiated by Indonesia in 2004. Then, in 2011 Indonesia also proposed embodiment of progress and economic equality of ASEAN through the ASEAN Framework on Equitable Economic Development (EED).

### **3.2. Implications**

Firstly, the role of Indonesia in ASEAN in order to maintain the stability of the national economy of the initiation of ASEAN Economy Community has been implicated in the emergence of various programs conducted within ASEAN, including the program of the ASEAN Free Trade. The program is expected to trigger the economic development of the region and the country concerned. In Indonesia, however, its implementation of this cooperation turns out to be marginalized because of unpreparedness of the government and the society. The real situation shows the empirical facts as shown in the ASEAN cooperation within the scope of the ASEAN-China Free Trade Agreement. This partnership has started since China's entry into ASEAN cooperation, in which there are opportunities for the growth of China's idea of implementing cooperation with the member countries of ASEAN packed in the free trade program.

The existence of ACFTA has no doubt made Indonesia limp, there are many small and medium enterprise sectors affected and they are collapsed/bankrupt, although the market share that can be taken from China is very large, as it is well known that China has grown into the second largest economy in the world, with foreign exchange reserves reached US \$ 3.5 trillion. China's trade share in intra-regional East Asia continues to grow substantially. Although Japan and the United States still become two trading partners which are equally important for East Asia, but China has increased significantly in regional trade, particularly with ASEAN which is fully implemented in the Asean-China Free Trade Agreement (ACFTA) in 2010.

On the one hand, ACFTA entails a readiness of Indonesia's competitiveness expected to take the opportunity of the increasing projection in outbound direct investment of China, which reaches US \$ 500 billion, the import volume of US \$ 10 trillion, and outbound travelers as many as 400 million people. On the other hand, however, Indonesia comes under pressure due to such trade. It is indicated that the Asean-China Free Trade Agreement is very lucrative for China, but it kills the domestic products. This causes the balance of trade between Indonesia and China continuously has a deficit, meaning that the value of imports from China is still higher than the value of Indonesia's exports to China.

The fundamental problem faced by Indonesia is indeed caused by the overlapping regulation aspects between central and local governments, the weak infrastructure

and superstructure of support, the lack of dissemination of ACFTA and AEC to local governments, business persons and community, and the weak synergy of institutions, as well as the absence of comprehensive and continuous policy master plan in order to face ACFTA and AEC. Accordingly, the government needs to formulate a strategic economic partnership that contains the substance: (1) protecting the domestic industry from the blows of ACFTA and AEC, (2) improving the competitiveness of the industry by strengthening the national industrial structure, (3) increasing the certification of Indonesian National Standard (SNI) which is then notified by the WTO, and (4) building the society's love for domestic products initiated by the political elites and state officials.

Secondly, the implication of the role of Indonesia in ASEAN in order to maintain the stability of the national economy from the side of the initiation of the ASEAN Framework on Equitable Economic Development (EED). This framework confirms how the commitments must be realized by ASEAN in achieving the equality in the economic development, by promoting such efforts to bridge the development gap, strengthening the quality of human resources, improving the social welfare, and opening wider spaces for participation in the process of ASEAN integration. Empirically, the outcome priority set by Indonesia completes the results of the earlier ASEAN summit which in general set the agenda of the embodiment of the pillars of the ASEAN Community, the strengthening of economic growth in the region, the role taking in managing the architecture of regional cooperation more efficiently and effectively, the maintenance of the stability and security of the Southeast Asia and the East Asia, and the strengthening of ASEAN role globally.

Referring to the implication of the role of Indonesia in ASEAN towards the increasing of the resilience of the regional economies as it is described above, it appears that the Indonesia's readiness in all sectors is badly needed to take advantage of the existence of ASEAN cooperation. Those various conceptions must be translated into the concepts of readiness of Indonesia through programs in the related ministry/agency.

#### **4. CONCLUSIONS**

The ASEAN Community 2015 will have positive and negative effects for national development in Indonesia. The deletions of all entry barriers for goods, services, investments, capital and skilled labor will be a new problem for national development that must be addressed and anticipated immediately. Yet, these things also create opportunities that can be utilized as the global flows of international trade, urbanization which can provide positive benefits if it is managed properly and technological developments to support economic growth.

Indonesia's role in ASEAN cooperation turns out to be implicated in the conditions of the stability maintenance of the national economy. Cooperation between countries, both in the scope of bilateral and multilateral inter-state, regional, and global is absolutely necessary for the sustainability of a country's development. Further, the



dynamics of globalization in all areas turn out to require all countries, including Indonesia, to really think about the right position so that they will neither be left behind by those dynamics, nor they will become a victim of the direction of the global development that can harm their national interests.

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