

THE ROLE OF ASEAN IN DEVELOPING SMALL AND MEDIUM
ENTERPRISES IN INDONESIA (2009-2013)
UNDERGRADUATE THESIS



UNIVERSITAS
ISLAM
INDONESIA

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UNIVERSITAS ISLAM INDONESIA

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UNDERGRADUATE THESIS

Proposed to the Department of International Relations
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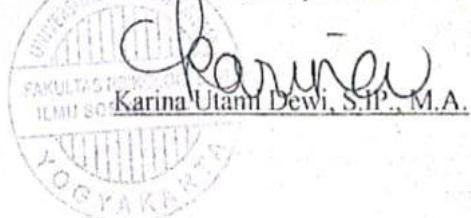
AUTHORIZATION PAGE
THE ROLE OF ASEAN IN DEVELOPING SMALL AND MEDIUM
ENTERPRISES IN INDONESIA (2009-2013)

Defended in front of Board of Examiners
in the Department of International Relations
Faculty of Psychology and Socio-Cultural Sciences
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STATEMENT OF ACADEMIC INTEGRITY

I hereby declare that this undergraduate thesis is the result of my own independent scientific work, and that all material from the work of others (in books, articles, essays, dissertations, and on the internet) has been stated, and quotations and paraphrases are clearly indicated.

No other materials are used other than those contained. I have read and understood the university's rules and procedures regarding plagiarism.

Making false statements is considered a violation of academic integrity.

Yogyakarta, September 14, 2022



Neila Pratiwi

DEDICATION PAGE

I would like to express my gratitude to Allah Swt, for his mercy and blessing so i can complete my undergraduate study. The author would like to dedicate this research to my greatest parents who have raised me, and gave all their love to me. I would like to dedicate this research to my brother also, thank you for your pray, and thank you to my classmates HI IP 2018, i am so glad to know you all.



MOTTO PAGE

“Believe in yourself that you are smart, you are worth, you can do it, don’t let anyone control your life”

(Neila Pratiwi)

“Passion is the energy that keeps you going no matter what the obstacles are”

(Merry Riana)

“Do not let your difficulties fill you with anxiety, after all, it is only in the darkest night that the stars shine more brilliantly”

(Ali Ibn Abi Talib (RA))

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LIST OF ABBREVIATIONS

AEC	: ASEAN Economic Community
AEM	: ASEAN Economic Ministers
AMS	: ASEAN Member States
APSD	: ASEAN Policy Blueprint for SME Development
ASEAN	: Association of Southeast Asian Nations
GDP	: Gross Domestic Product
GVC	: Global Value Chains
IO	: International Organization
IPC	: Institute of Peace and Conflict Studies
OECD	: Organisation for Economic Co-operation and Development
P2P	: Peer to Peer Lending
PE	: Private Equity
PN	: Production Networks
SAARC	: South Asian Association for Regional Cooperation
SMED	: Small and Medium Enterprises Development
SMEs	: Small and Medium Enterprises
TAC	: Treaty of Amity and Cooperation
UNESCO	: The United Nations Educational Scientific and Cultural Organizations
USA	: The United States of America

USD : United States Dollar

VC : Venture Capital



ABSTRACT

ASEAN has committed to develop the small and medium enterprises (SMEs) among its members since this sector brings a huge benefits to the economic sector of the countries, in particular Indonesia. SMEs play a significant role in economic sector such as contribute to GDP, create a lot of jobs, and reduce the poverty, however in fact the SMEs in Indonesia still face a number of obstacles such as financial issue, lack of technology understanding, and lack of management. In dealing with those obstacles, the author decides to analyze the role of ASEAN as the International Organization in Southeast Asia region to assist Indonesia's SME. To analyze the case, the author adopts the Implementation approach by elaborating all of its types namely, managerial, normative, and enforcement. Based on the research, it was found that managerial type focuses on providing the financial assistance, the role of ASEAN in assisting the financial obstacles through the venture capital, peer to peer lending (P2P), and trade finance. The role of ASEAN from normative type, such as established an entrepreneurship curriculum, set up a regional programme to enhance the skill of the community. In enforcement type, there is no coercion has ever conducted by ASEAN.

Keywords: ASEAN, SMEs, Indonesia, Development, Economy, Implementation Approach

CHAPTER I

INTRODUCTION

1.1 Background

The ASEAN leaders believe that small and medium enterprises have a very important role in the economic development of ASEAN member countries. Small and medium sized enterprises (SMEs) have the potential to reduce unemployment, contribute to increasing the GDP of ASEAN member countries' , reduce poverty, and boost the national economy. This enormous potential of SMEs has prompted ASEAN leaders to develop the ASEAN Community as a forum to achieve their political and economic interests. The ASEAN Community consists of 3 pillars, one of which is the ASEAN Economic Community helps ASEAN countries to develop their own SMEs. ASEAN Economic Community itself consists of four main pillars, the first of which is the creation of ASEAN as a single market and international production base through free flow of goods, services, investment, capital and labor. The second pillar is the building of ASEAN as a region with high economic competitiveness. The third is making ASEAN a region with equitable economic development and increasing the number of SMEs. The final pillar is making ASEAN a region that is integrated with the global economy. In the implementation of the ASEAN Economic Community, the ASEAN leaders refer to the ASEAN Policy Blueprint for SME Development (APBSD) 2004 – 2014 that was ratified at the 36th AEM Meeting on 3

September 2004 in Jakarta, Indonesia. The APBSD describes the steps for the development of SMEs, covering strategic programs, policies and indicative outputs. In 2009, after the sixth year of APBSD implementation, the AEM agreed to develop the "ASEAN Strategic Action Plan for SME Development 2010-2015" with the aim of increasing competitiveness and resilience SMEs in the region, and to accelerate the implementation of the blueprint.

There is no doubt about the role of SMEs in the ASEAN economy, as this sector dominates more than 96% of all companies in the ASEAN region and constitutes most of the businesses (ACCA, 2016). In addition, SMEs have strategic role in the development of the private sector, especially after the Asian Financial Crisis in 1997-1998. SMEs were not only able to survive during this crisis, but they also accounted for between 20-40% of total domestic output and absorbed 75-90% of the surrounding workforce (ACCA, 2016). This was also observed in the Indonesian economy which was also affected by the Asian financial crisis: Indonesian SMEs were able to survive during the crisis. Indonesian SMEs accounted for more than 90% of all companies, and they provided jobs for more than 90% the state workforce, especially women and youth (Maulida & Yunani, 2017).

Indonesia is one of the members of ASEAN countries that have the potential to become a large and calculated market in the international realm. The SME sector is the right sector to take advantage of these opportunities. In Indonesia, the definition of SMEs explained in Law No. 20 of 2008 Chapter 1 Article 1, Small Business is defined as an established economic

business that is carried out by individuals or entities and is not a branch of a company that is owned, controlled, or part of, either directly or indirectly, a Medium Business or Large Enterprise. Medium Enterprises are defined as economic enterprises that stand alone and are carried out by individuals or a business entity that is not a subsidiary or branch of a company owned or controlled by Big Business, and the amount of net worth or annual sales results is not part of, either directly or indirectly, a Small Business or Big Business (B. R. Indonesia t.thn.). The contribution of SMEs to the Indonesian economy is very big and they absorb a lot of labor; however, in reality Indonesian SMEs still face various obstacles. These obstacles can be categorized as internal or external obstacles. Internal obstacles faced by the SMEs include low quality of human resources, low understanding of SMEs actors in management and marketing, a lack of knowledge of mastery of technology, a lack of entrepreneurship skills of the SMEsactors, and limited access to capital. External obstacles faced by SMEs include high transaction costs due to the unsupportive business climate and the scarcity of raw materials. Earning problem and Formal legality are two of the factors that hinder the development of SMEs in Indonesia. In addition, sufficient funds for licensing management and a lack of knowledge about cooperatives and how to operate them are further external obstacles.

Globalization is another challenge faced by SMEs which, of course, causes market changes. Therefore, SMEs need to be guided in order to help them integrate the consequences of global changes in their strategies. The market in this discussion is not just trade and finance. In

the context of international political economy, a market is not only a place of economic activity, but also a place of war and diplomacy. It can also be defined as an institution that accommodates shared practices and norms for giving special rights to certain individual and collectives organization. It also demonstrates organizational principles and legitimacy that affect the definition of a country: the way SMEs shape themselves, and their ability to interpret sovereignty and territory.

In addition to the challenges of the global market, SMEs suffer from a double problem namely, asset constraints and critical resources limitations that result in their ability to compete in a global environment not being optimal. Compared to other East Asia countries, the ASEAN countries are lagging behind in terms of export share in the international network. Korea has reached 43 percent, China has reached 40 to 60 percent, and Taiwan has reached 56 percent, while the five ASEAN countries of Indonesia, Malaysia, Thailand, Vietnam, and the Philippines have only produced 23 percent (Sato 2018).

This globalized world can also increase the nature of interdependence between countries. Companies become more susceptible to economic problems, especially smaller companies which find it difficult to compete at the global level due to numerous obstacles. These obstacles include a lack of good understanding of finance and pricing issues; in a small company, unit costs tend to be high. On the other hand, in competition between small and large companies, larger companies have the capacity to diminish the margins of small firms causing them to

lose money and close business. It is a difficult challenge for small companies to attract workforce because multinationals have more financial resources to pay for attractive packages.

Based on the above reasons, the author believes that as an international organization, ASEAN should be a facilitator with an important role in developing SMEs. This is particularly important in the context of the ASEAN Economic Community, which can provide opportunities for SMEs in Southeast Asian countries, in this case specifically Indonesia, to market their products internationally. However, the negative side of AEC is that it can threaten the position of SMEs, which are less competitive than foreign products. To overcome this, the author aims to analyze the role of ASEAN in the development of Indonesia's SMEs. The author argues that there must a joint intervention with countries, also ASEAN institutions to guide, and direct the SMEs.

1.2 Research Question

How did ASEAN contribute to the development of Indonesia's Small and Medium Enterprises in 2009-2013?

1.3 Research Objectives

SMEs play a very important role in the economy of ASEAN, especially Indonesia. To show its awareness of the importance of SMEs, ASEAN formed the ASEAN Policy Blueprint for SME Development (APBSD) 2004 – 2014, and "ASEAN Strategic Action Plan for SME Development 2010-2015" as the guidelines to achieve an integrated economic region. Indonesia is one of the

ASEAN members who has great potential to compete in the global market, but it still faces several obstacles in the field. Thus, this study aims to analyze what the role of ASEAN is as a powerful organization among the Southeast Asia countries in the development of Indonesia's SMEs, to the point where they have the capacity to compete in the international market.

1.4 Research Scope

This research is restricted to discussion of ASEAN's role in assisting Small and Medium Enterprises in Indonesia from 2009-2013. There is a huge opportunity for the Small and Medium enterprises of Indonesia to be able to compete in the global market, even with the obstacles being faced by Indonesian SMEs, namely, human resource issues, mastery of technology issues, access to capital, and many more. Therefore, this research analyzes the role of ASEAN in assisting Small and Medium businesses in Indonesia to continue to develop and compete in the international market.

1.5 Literature Review

Ari Anggarani Winadi Prasetyoning Tyas and Vita Intan Safitri (2014) asserted that the AEC provides great opportunities for Indonesia, and so, Indonesia must have good strategies for dealing with the AEC. The SME sector is a potential sector that can be utilized by Indonesia to compete in the AEC. According to data from BPS 2012, SMES absorb 97% of the national workforce, and have also contributed to increasing Indonesia's foreign exchange by as much 27.700 billion Rupiah. Although SMEs have

great potential to improve the Indonesian economy, there are several obstacles faced by their actors, such as a lack of understanding of technology, low quality of human resources, limited capital, and a lack of market information. Therefore, the aim of this research is to analyze effective strategies for strengthening the Small and Medium Enterprises of Indonesia. The author argues that there are several factors that need to be considered first in order to expand, including increasing the understanding of SME actors about the use of technology that produces products large quantities and effective times. A second factor needing consideration is developing the competitiveness and creativity of the individual to be able to compete with other countries. Finally, the proper management of natural resources utilized will also impact positively on the Indonesian economy. This can be a great advantage for Indonesia as it has abundant natural resources.

Purnama Kusumaastuti, Ega Maharani Asih and Carmidah (2015) asserted that the presence of the AEC can increase competitiveness among Southeast Asian countries, and this should be used by Indonesia to strengthen its SMEs. Therefore, an aim of this study is to identify the proper strategies for SMEs to deal with the AEC. This study uses a qualitative method with target SMEs being ones located in Banyumas. The results show that SMEs are one of the economic drivers in Banyumas, but these SMEs still experience the obstacles of human resource problems, place of business licensing problems, capital problems, a lack of technology, and market access.

Raden Aswin Rahadi (2016) stated that the SME sector is a sector that must be strengthened to face the AEC. To contribute to the strengthening of Indonesia's SMES, the author has decided to analyze the challenges and opportunities of SMEs in the AEC. This was done by interviewing the SME owners with two questions. The first question asked for the owner's perspective on the challenges and opportunities faced by SMEs in the AEC. The second question asked for their opinion on whether the AEC will have more positive or negative impacts on the growth of their businesses. The purpose of this study was describe the current position of Indonesian SMEs in the AEC. The results of the analysis show that SMEs in Indonesia still face many challenges consisting of a lack of market access, lack of technological knowledge, and lack of human resources.

The data sources described above have been used as references in this study, because they analyze relevant issues in this research, namely the strategies that must be carried out by the Indonesian government to assist SMEs. Previous studies discuss the strategies of the Indonesian government in improving the SMEs capacity to face the AEC and show that society also cares about the SMEs. This article not only provides a discussion from the perspective of the economic sector like previous articles have, but this article also aims to encourage and motivate readers to see this issue from a political stand point too by analyzing the role of ASEAN in assisting Indonesia's SME.

1.6 Research Framework

In general, implementation can be defined as the effort of a policy that includes achieving common goals, and these policies can lead to new rules in the form of laws, government regulations, government decisions, or policies decided by government institutions or organizations. There are three types of implementation approach, namely: enforcement approach, managerial approach, and normative approach.

Table 1 The Types of Implementation approach

Enforcement	Managerial	Normative
<ul style="list-style-type: none">• Judging on the basis of state reporting, expert committees, inspections or NGO reports.• Sanctions, such as economic or military sanctions, financial penalties, or naming and shaming	<ul style="list-style-type: none">• Monitoring on the basis of state reporting, expert committees, or inspections.• Capacity building and problem solving through expert advice, rule interpretation, or financial or technical assistance	<ul style="list-style-type: none">• Authority• Legitimacy

Source: (Joachim, Reinalda, & Verbeek, 2008)

In the enforcement approach, coercive action is considered to be the right way to achieve successful implementation of, and compliance with, international treaties. This approach enforces the existing rules and gives punishment as the sanction to parties who do not act according to the rules, causing the net profit to not be positive. In this approach, international organizations can influence the implementation of a policy with the coercive measures they have.

The managerial approach believes that actors, such as international organizations, have an important role in implementing a policy. This is because international organizations (IO) contribute directly to assisting countries to develop the capacity to take the necessary steps. IOs can also provide technical and financial assistance to fellow countries.

The third approach is the normative power of IO, which can influence states to comply with international treaties. According to Barnett and Finnemore (1999:708), the authority of international organizations comes from two sides. From one perspective, control of information as well as special technical knowledge skills and training is gained from their experience. This advantage allows organizations and bureaucracies to carry out more efficient agreements. From the other perspective, authority is seen as a product of the fact that international organizations are a forum that is considered rational and impartial.

The author has decided to identify all the types of implementation approaches that ASEAN used to contribute to the development of Indonesia's small and medium enterprises. This decision was made

because these approaches are linked to each other and can be used to implement the policy of the main actor, which is the international organization, in the contribution of help and technical and financial assistance to a certain country. This is in line with ASEAN's actions to develop the small and medium enterprises in Indonesia such as, which have included enabling access to finance, access to support services, and expansion of the international market. In addition, the influence of the normative approach is necessary to provide information and authority.

1.7 Provisional Argument

Based on the background information explained above, it can be concluded that SMEs are a potential sector in South East Asian countries, especially Indonesia. Indonesia has great potential for the promotion of its SMEs at the global level, but the fact remains that there are still several obstacles faced by Indonesian SMEs. The obstacles are both internal and external. The internal obstacles include low quality human resources, low understanding of management and marketing, a lack of knowledge about mastery of technology, low entrepreneurship skills, and access to capital. External obstacles include high transaction costs, earning problems and formal legality. This has prompted the author to analyze the role of ASEAN in the SME sector and how it can assist SMEs to overcome these obstacles and compete in the AEC by applying the implementation approach.

1.8 Research Method

1.8.1 Type of the Research

This research utilizes a qualitative method. According to Moleong, qualitative research aims to understand the phenomena of the research subject, including behavior, perception, motivation, action, and so on, in a descriptive and holistic way in a natural context utilizing various natural methods.

1.8.2 Subject and Object of the Research

The Subject refers to the actor who has the important role in a study. In this research, the subjects are the owners or the actor of the SMEs in Indonesia. The object of a Research study refers to the policy and behavior that is discussed in the research. The object of this research is the role of ASEAN in assisting Indonesia's SMEs in dealing with the obstacles, so they keep developing.

1.8.3 Method of Data Collection

In this study, data was collected using the secondary data method in which the data has been released first, then used by researchers as additional information. According to Sugiyono, secondary data is a method of collecting data by understanding and analyzing existing sources, such as literature, books, and documents.

1.8.4 Process of the Research

The data processing process used in this study was data reduction analysis. According to Miles and Huberman (1992), qualitative data analysis consists of the flow of three activities that occur simultaneously which: data reduction, data presentation and drawing conclusions or verification.

1.9 Thesis Outline

To explain this research, the author will briefly describe the ~~theories~~ of each chapter in this study. Chapter I describes the background, research purpose, research significance, research scope, literature review or previous studies which form the references for this study, conceptual framework, temporary arguments, and research methodology. Chapter II details the data analysis used as a reference for the results of this study. Chapter III describes the results of the research conducted based on the research methodology in Chapter I. Chapter IV describes the final conclusions from all discussions and provides recommendations.

CHAPTER II

Discussion

2.1. SMEs in Indonesia and Its Challenges

Based on Law No. 20 of 2008 Chapter 1 article 1, SMEs are defined as follows (RI, 2008):

1. Micro Enterprises are businesses owned by individuals or individual business entities that meet the criteria of Micro Enterprises as stated in this Law.
2. Small Business is defined as an established economic business and is carried out by individuals or entities that are not a branch of companies that are owned, controlled, or become part either directly or indirectly from the Business Medium or Large Enterprise.
3. Medium Enterprises are defined as economic enterprises that stand alone and are carried out by individuals or business entities that are not a subsidiary or branch of the company owned, controlled, and the amount of net worth or annual sales results is not part either directly or indirectly with the Small Business or Big Business.
4. Big Business is defined as an economic business that carried out by a business entity that has a net worth or the annual sales result is greater than the Business Medium, including state-owned national businesses or private sector, joint ventures, and foreign businesses that carry out economic activity in Indonesia.

2.1.1 The development of SME in Indonesia

History has revealed that SME is an important sector in Indonesia's economic growth, this is proven by the ability of SMES to survive during the economic crisis in 1997 until 1998, even SME is a sector that plays a major role in recovering the economy during a crisis compared to large companies that lost a lot.

After the crisis, SME keep providing significant contribution to national

economy, where it is able to absorb labor as much 45 million in 1990 and the number is increasing in 1993 as much 71 million. SME also has a large contribution in the export sector, where the number of SMES products exported abroad increased to Rp 122.2 trillion in 2006. SMEs also play an important role in the national GDP, in 2011 SMEs contributed 61.9 percent (GDP) through tax payments, while the large firms only contributed 38.1 percent of GDP through tax payments.

Table 2. The Development of Indonesia's SME 2009-2013

Indicators	2009	2010	2011	2012	2013
Number of SMEs (unit)	5,764,603	53,823,732	55,206,444	56,534,592	57,895,721
Growth in the number of SMEs (%)	2.64	2.01	2.57	2.41	2.41
Number of workforces (people)	96,211,332	99,401,775	101,722,458	107,657,509	114,144,082
Growth in the number of workforces (%)	2.33	3.32	2.33	5.83	6.03
SME contribution to GDP (Billion RP)	1,212,599.30	1,282,571.80	1,369,326.00	1,451,460.20	1,536,918.80
GDP contribution growth (%)	4.02	5.77	6.76	6.00	5.89
Export value (Billion RP)	162,254.52	175,894.89	187,441.82	166,626.50	182,112.70
Export value growth (%)	-8.85	8.41	6.56	-11,10	9,29

Source: (BPS, Tabel Perkembangan UMKM pada Periode 1997-2013, 2016)

Table 8 provides information about SME development across several aspects. From the table, it can be seen that the existence of SMEs cannot be doubted. This sector is contributing more and more to the national economy as evidenced by the number of SMEs which grew from 5,764,603 in 2009 to as many as 57,895,721 units in 2013. The contribution of SMEs to national GDP also showed significant growth between 2009 and 2013, from 1,212,599,30 RP to 1,536,918,80.

2.1.2 The challenges of Indonesia's SMEs

The development of SME in Indonesia still faces various challenges and, as a result, SME actors still have weak competitiveness against imported products. Some of the challenges faced by SMEs include limited capital, difficulties in accessing markets, limited infrastructure, difficulties in obtaining government permits to open businesses, and lack of technology understanding. From these challenges, the problem of capital can be said to be the main problem for SMEs in Indonesia. As many as 72.47% of SMEs still face various obstacles, while only 27.53% are able to face the problems in the field. More specifically, the problems still being faced by 72.47% of SMEs in the market can be described as follows: (1) capital issues (51.09%); (2) marketing issues (34.72%); (3) raw materials issues (8.59%); (4) employment issues (1.09%); (5) transportation distribution issues (0.22%); and (6) others (3.93%) (Maulida & Yunani, 2017). Problems in the financial sector experienced by SMEs include SME actors lacking sound knowledge of financial administration management and management systems. Preparation of proposals and making feasibility studies for obtaining a loan is also

a challenge for SMEs in Indonesia. Many SMEs have complained of complicated procedures to get credit, too high interest rates, and a lack of understanding of how to make a business plan.

These challenges can hinder Indonesia's SMEs ability to compete in the AEC and global markets; therefore, as a country of the Southeast Asia region, Indonesia's SMEs should get more attention from ASEAN - the main organization to help SMEs face these challenges. This reason is reinforced by ASEAN's concern for the growth of SME in each of its member countries, which can be seen from the establishment of the ASEAN Strategic Action Plan for SME Development 2010-2015.

2.2 ASEAN's Commitment to SMEs

Small and Medium Enterprises (SMEs) are the backbone of the economic development and growth of ASEAN member countries. The presence of this sector has brought some positive impacts to the region, such as there are 70 million SMEs in ASEAN, with the percentage between 97.2% - 99.9% of the total establishments in ASEAN Member States. In addition, SMEs also contributed 85% of employment, 44.8% of GDP and 18% of national exports (ASEAN, 2020). Those numbers reveal that SMEs have a significant role to play in economic and social development, contributing to value-added activities, innovation and inclusive growth through opportunity creation, therefore ASEAN as the International Organization in Southeast Asia must have a decent strategy to optimize those benefits ,moreover with the high competitiveness in international political economy. The existence of International Organization can bring a huge benefits to

economic sector, such as provide policies to enhance economic and social welfare in a country, assist to produce goods and services, as well as import and export activities. It also creates a collaboration with the national government to understand what determines the economic, social, and environmental changes (Gentimir).

As one of the International Organizations, ASEAN has committed to enhance its economic sector, particularly to develop the Small and Medium Enterprises that can be seen by the establishment of ASEAN Economic Community (AEC). The establishment of the AEC is expected to bring benefits to MSMEs, such as its openness to the global economy, thereby attracting investment from multinational corporations (MNCs). This provides opportunities for SMEs including those through value chain integration. On the other hand, things to consider are competitive environment encourages local MSMEs to increase their productivity so that they are able to integrate with regional/global value chains.

ASEAN's commitment towards the establishment of the ASEAN Economic Community (AEC) has been started since early 1992 when ASEAN leaders mandated to create the ASEAN Free Trade Area (AFTA). In 2003, ASEAN leaders agreed to increase cooperation in an effort to expand economic integrity. To realize that aim, through the Bali Concord II, ASEAN leaders took the initiative to establish an AEC to maximize opportunities for mutually beneficial regional integration (ASEAN, about asean, t.thn.). In implementing those aims, AEC has formed the sectoral body namely The ASEAN Small and Medium Enterprises Agencies Working Group (SMEWG) who is focusing on creating policies, programs, and activities to boost the development of SMEs. ASEAN SMEWG was renamed the ASEAN Coordinating Committee for Micro, Small and Medium Enterprises

(ACCMSME) with the aim of better reflecting the need to expand the composition of the committee in accepting the participation of representatives from regions other than SMEs. The ACCMSME holds a meeting twice a year and reports to the Senior Economic Officials Meeting under the mandate of the ASEAN Economic Ministers. The other sectoral body is the ASEAN MSME Advisory Council (AMAB), which consists of private sector representatives nominated by ACCMSME, this party aims to provide strategic policy recommendations for SME development to Ministers and guidance on high priority or urgent policies that are very important for ACCMSME. (ASEAN, ASEAN SECRETARIAT, 2020).

In fact, there is a great diversity of ASEAN SMEs across member states, and the complexity of the problem and the challenges they will face, it becomes a very important responsibility for ASEAN to design a plan to address the issue of SMEs strategically relevant, therefore the establishment of AEC cannot be separated from the ASEAN SME Policy Index. This index has useful functions for ASEAN SMEs and AMS actors, which cover several points, including: (i) as an analytical and dynamic tool used to reviewing policy developments on SME policy and cross country; (ii) review the process by which a group of countries share a common policy objective agreed to develop a common framework for monitoring and comparing SME policies development; and (iii) a framework for exchanging experiences and good practices, and encourage policy dialogue.

CHAPTER III

Analysis

3.1. Managerial approach

The managerial approach describes the activity of actors as a plastic process of interaction that must show a clear transparency and minimize rule interpretation in implementing their decision from a particular issue in order to bring benefits and balance to their interest. When making an international agreement, there are several factors that must be considered by a country, first of which is avoiding the use of inappropriate language. Differences in understanding ultimately lead to ambiguity and uncertainty of the agreement. The second is the obstacles of handling resources and capacities, and the third is social economic changes. Based on these considerations, some scholars believe that implementing an action in a coercive way, such as giving sanctions or monitoring, is not really required, because the important thing is to find the right solutions to overcome the obstacles (Joachim, Reinalda, & Verbeek, 2008).

The managerial perspective also believes that the existence of International organizations has a significant role in helping a country develop its capacities, such as by providing technical and financial assistance. For instance, ASEAN is the international organization that binds the Southeast Asian countries. In particular, ASEAN assists Indonesia develop its SMEs by providing financial assistance in the following forms.

1. Venture Capital

SMEs have a significant role in the economic growth of both developed and developing countries, particularly Indonesia, but financial access is still a main issue in the field. A number of SMEs have not had the opportunity to obtain sufficient loans from banks. Although some financial institutions recognize the development of SMEs, they still assume that SMEs are high risk and have difficulty surviving commercially. The financial barriers of SMEs tend to be higher than that of large enterprises, and difficulties in credit accumulation can further hinder the development of SMEs. Venture capital can be an alternative instrument in dealing with these obstacles, as it provides managerial skills, financial resources, and technical expertise.

Venture capital (VC) funding focusses on assisting early-stage enterprises with limited capital and uncertain cashflow that have not entered the stock exchange. It also focuses on specialised enterprises, such as digital enterprises. VC also provides training for startups, which allows the direct involvement in monitoring the firm's activity and evolution to ensure that the creation of investment value, business management, and governance transformation are running well. This strategic involvement is very beneficial for the SMEs. VC investment is still able to carry out active financing even when it experiences a counter-cyclical effect on the economy, leading to an economic downturn, or in the situation of companies having difficulty securing financing. VC investment is able to contribute to

real economic growth and job creation, provide tax incentives through public policy, establish joint investment schemes between the public and private sectors, and introduce capacity building programs for SMEs and entrepreneurs (OECD, 2020).

VC also often funds enterprises that are slightly more mature with high valuations and amounts of funding. In its mechanism, there are several types of deal structure depending on what the fund is set to achieve. Here are several common types of VC deal structure based on their transactions.

Table 3. Different Types of Deal Structu in VC

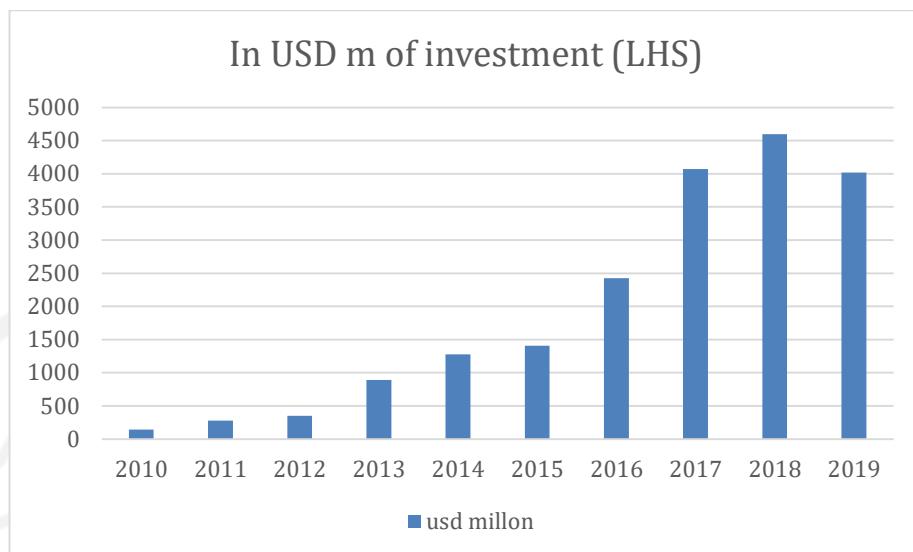
Transaction types	Description
Seed	Very early stage finance that permits a firm concept to be developed
Start-up and early stage	Used to develop the firm's products that are operating but not yet profitable and to fund initial marketing
Expansion	Capital development
Bridge Financing	Short-term venture capital funding for a plan to float within a year
Secondary Purchase	A PEVC firm gains existing shares in a company from another venture capital firm
Rescue/Turnaround	Permits a company to settle its financial issues or be rescued from receivership
Management Buy-out (MBO)	Permits the current performing management to gain a significant sharehold in the business
Management Buy-in (MBI)	Permits a the foreign manager or group outside the company to buy into the company
Institutional Buy-out (IBO)	Permits a PEVC firm to gain the company, following which the incumbent and/or incoming management are given stocks in the business
Leveraged Build-up (LBU)	A PEVC firm plays a role in providing principal to purchase a company with which it makes further relevant reception to develop an enlarged business group

Source: HANDBOOK FOR SME ACCESS TO ALTERNATIVE SOURCES OF FINANCE IN ASEAN, 2012

In each type of transaction, the thing to be considered is that the agreement is only the beginning of a long relationship. In venture capital, the equity agreed in the company is transferred to investors after the deal is completed. When money is exchanged, what matters is that all parties see the transaction being done fairly and the actors's interest are met.

ASEAN is a regional block with great potential to drive the growth of the Asian PE/VC industry, which is supported by favorable demographic trends. The VC market in ASEAN is so diverse, with mature markets in countries such as Singapore, Malaysia and Indonesia, and nascent markets in Vietnam and Myanmar. Among AMS, Singapore was the PE/VC investment champion in the region during the 2010-2018 period, followed by Malaysia and Indonesia. Although it is still categorized as a nascent industry compared to the OECD economy, venture capital activity (VC) in the ASEAN region has shown a rather stable pattern of development over the last decade, with most activities concentrated in jurisdictions with well-developed PE/VC ecosystems, such as Singapore and Indonesia, and/or directed towards the region. 'unicorn' which offers regional alternatives to US competitors like Uber/Amazon. The improvement of VC's activity in ASEAN can be seen by the figure 1.

Figure 1. Venture capital activity in ASEAN, 2010-2019



Source: AVCJ - Asian Venture Capital Journal, OECD calculations

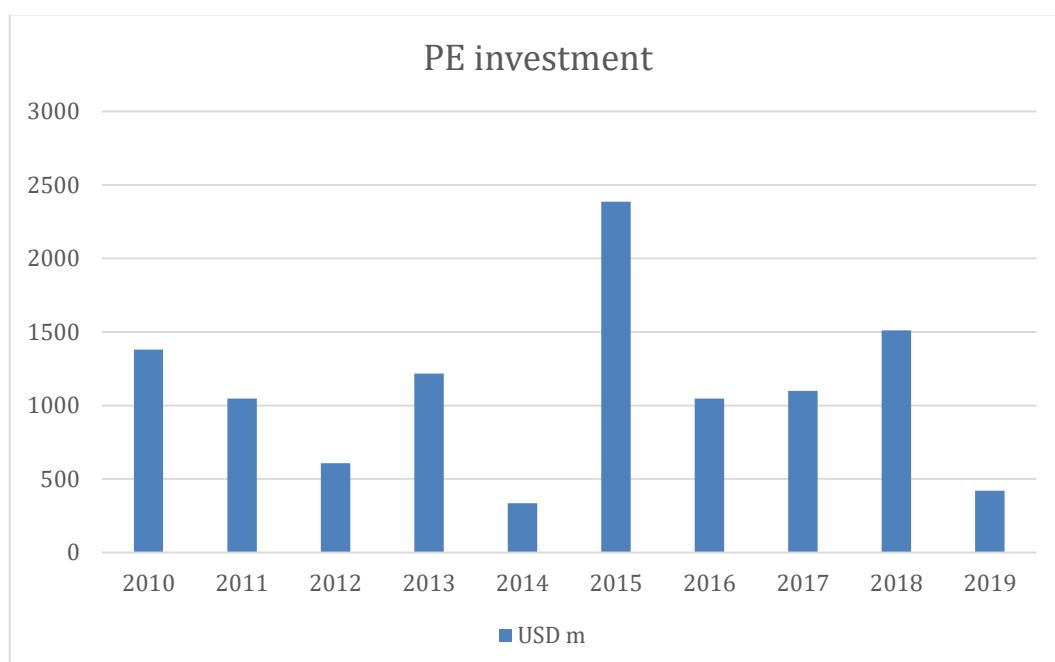
The chart shows that the activity of VC in ASEAN countries increased from year to year, even though the amount invested decreased slightly in 2019. Looking at the chart in more detail, in 2010 investments reached USD 145 million. In 2011, investments reached USD 280 million and, by 2012, 349 million. The amount further increased in 2013 to 893 million, in 2014 to 1,277 million and in 2015 to 1,408 million. In 2016, the amount invested took a considerable jump to 2,424 million and a further significant jump in 2017 to 4,071 million. The amount invested peaked in 2018 with 4,071 million invested before dropping slightly in 2019 to 4,017 million.

The data displayed in Figure 1 indicates that ASEAN is well with VC activity. From all of the ASEAN member states, Singapore and Indonesia are the main receivers of VC investment. Furthermore, the largest buyout funds among the ASEAN countries are from Indonesia. Indonesia

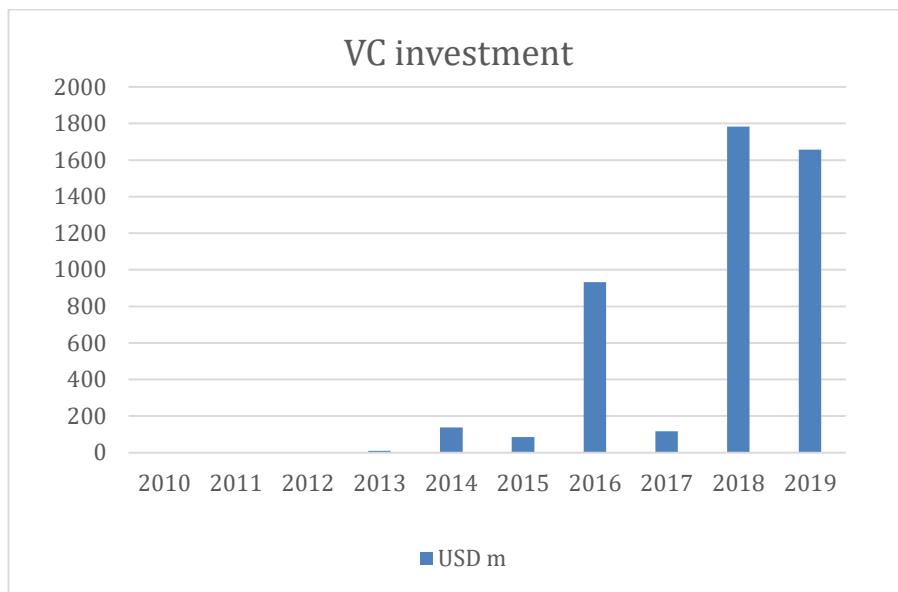
experienced rapid growth in VC in the last decade, and Indonesia also has many potential companies, such as family owned or controlled businesses, in which the majority of deals of those businesses are conducted without a formal sale organized process. Therefore, it is important for PE/VC investors in Indonesia to have strong local roots or contacts in the country.

The activity of Indonesia's PE and VC can be seen in Figure 2

Figure 2. PE investment and VC investment of Indonesia in USD million



Source: AVCJ - Asian Venture Capital Journal, OECD calculations



Source: AVCJ - Asian Venture Capital Journal, OECD calculations

The two figures above reveal that PE market activity in Indonesia experienced irregular development. In 2010, the amount of investment reached USD 1,380 million, but it fell in the following two years to 1,047 million in 2011 and 608 million in 2012. In 2013, the amount increased somewhat to 1,217, but decreased considerably to 335 million in 2014. Then, in 2015 investments jumped to USD 2,386 million which was the highest number over the decade. In the following three years of 2016, 2017 and 2018, the amount decreased to 1,048 million, 1,100 million and 420 million, respectively.

The VC investment chart shows that from 2010 until 2013, the amount of investment was still low: USD 0 million in 2010, 2 million in 2011, 0 million again in 2012, and 10 million in 2013. In 2014, the amount reached 137 million, in 2015 85 million, and in 2016 993 million. In 2017, investments dropped to a low of 116 million, followed by significant growth

in 2018 to 1,783 million, which was the highest amount of the decade.

Lastly, investments decreases to USD 1,685 million in 2019.

The role of ASEAN in enhancing the venture capital to develop the SMEs, as follows:

Table 4. ASEAN's Role and Action in VC

Indicators	Role	Policy action
Market conditions	Boost market access and create new markets	Increase access to public procurement and international markets through information, logistical support and export finance
Access to finance	Disclose funding gaps; de-risking the market for private players	Loans, guarantees, co-investment funds
Infrastructure	De-risking investment, ensuring competition, helping to identify social priorities	Public-private partnership schemes, risk mitigation instruments, sector liberalisation reforms, identification of priorities
Regulatory framewrok	Establishing legal and regulatory frameworks	Equal tax treatment for firms, updating licensing

		requirements, reducing compliance costs
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Source: ASEAN GUIDELINES ON FOSTERING A VIBRANT ECOSYSTEM FOR START UP ACROSS SOUTHEAST ASIA

2. Peer to Peer (P2P) lending

The increasingly rapid development of information technology also brings changes to financial access because many financial activities are now carried out online. One of the transformations of financial access in this modern era is Fintech, especially the Peer to Peer (P2P) lending platform. The existence of this platform provides easier financial services, including loans and financing to those who want to build a business, or fulfill other needs (Maulana & Wiharno, 2022). P2P lending can serve the community without the funding problems that often occur in conventional institutions, such as complicated requirements, and the need for loan guarantees and time efficiency.

These factors are the challenges faced by the ASEAN member states because of the limited banking credit available for SMEs compared to other G20 economies who are in a better position than the ASEAN members (OECD, 2020). A comparison of ASEAN to other G20 economies can be seen in Figure 3.

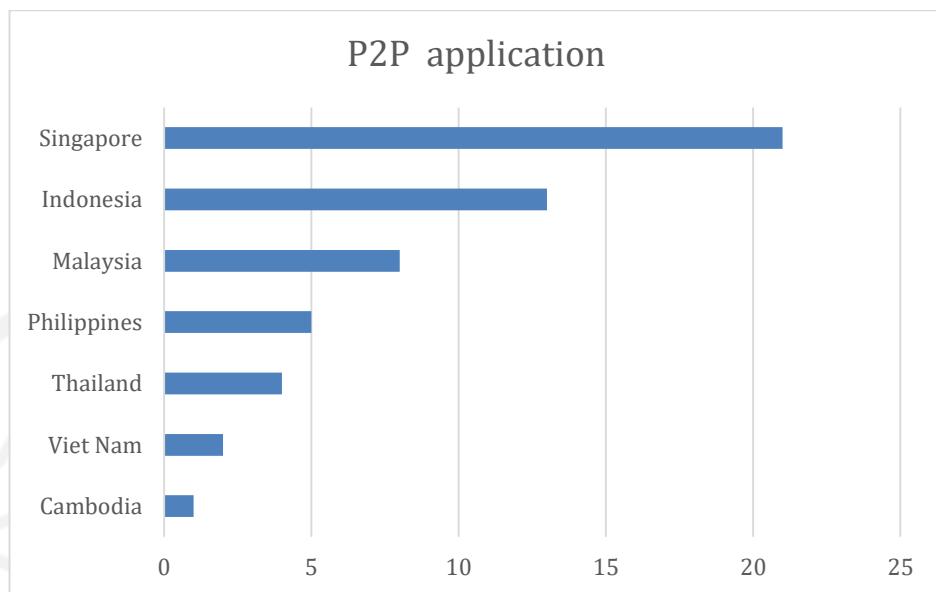
Figure 3. Banked population in ASEAN vs major G20 economies



Source: world bank

The chart shows that the non-ASEAN countries - China, India, US, Korea, UK, and Japan - have better percentages of formal banking credit for their SMEs, with the exception of Singapore which is the only AMS who got almost 100 percent. In fact, Singapore has the highest percentage, along with Japan. The rest of the AMS's, however, are under 50 percent. Therefore, the existence of P2P provides an alternative that could reduce the gap of the unbanked population, particularly Indonesia. However, it must be noted that this platform is a challenge for Indonesians, in particular SME owners, due to a lack of understanding of information technology. Indonesia's Minister of Communication and Information has made the positive statement though that even though the community still have lack skills and knowledge about Fintech, they are already aware of the significance of this platform and the benefits that it can bring. The enthusiasm of Indonesians for P2P can be seen in Figure 4.

Figure 4. Number of active P2P lending platforms in SMEs



Source: AVCJ - Asian Venture Capital Journal, OECD calculations

The figure shows that Indonesia ranks second on the list of most active ASEAN countries in using P2P, with 13 active platforms. Singapore is ranked first with 21. This indicates that Indonesia's SME owners have awareness and high competitive spirit that must be guided well. Malaysia is in the third position with 8 active platforms, the Philippines in fourth with 5, Thailand in fifth with 4, and the last positions being held by Viet Nam and Cambodia with 2 and 1 platform, respectively.

To overcome those challenges, there are several actions by ASEAN to boost the p2p lending among its member states, as follows:

Table 5. ASEAN's action to foster P2P lending in ASEAN

Indicators	Actions
Supportive regulation	<ul style="list-style-type: none"> • Set up clear digital payment regulations • Harmonize digital regulations in ASEAN economies • Provide tax incentives to proper digital led urbanization
Boost innovation	<ul style="list-style-type: none"> • Boost scaling up of payment solutions • Establish connected smart cities in ASEAN region

Source: Fintech in Emerging ASEAN, 2017

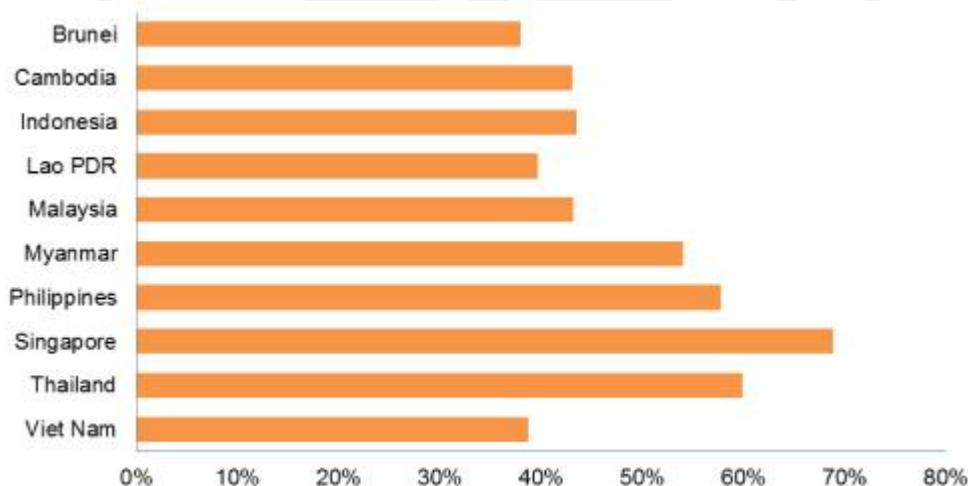
3. Trade Finance

One of the ways to develop Indonesia's SME sector is through trade finance. Trade finance is defined as the activity of providing loans and guarantees by financial and non-financial institutions to companies, so that their goods and services can engage in the international market through exporting and contribution in global value chains (GVC). Pushing SMEs into global markets can improve managerial skills, increase productivity, and introduce local products to other countries. ASEAN's role as the main

organization in the Southeast Asian region is very necessary for the facilitation of this.

The ASEAN Framework Agreement on Services emphasizes that there are three aims in the integration of ASEAN trade. The first is to increase the cooperation among the AMS for the creation of better production networks, supply, distribution of services, and increased competitiveness. The second is to substantially remove limitations on trade services among AMS, and the third is to realize a free trade area in services by expanding the scope of liberalization. The contribution of trade services in the ASEAN countries is displayed in Figure 5.

Figure 5. Trade in service



(Source: ASEANStats, November 2019)

The chart shows a 70% contribution in Singapore, followed by 60% in Thailand and 50 % in the Philippines. Indonesia is in fifth position, along with Cambodia, with a contribution of approximately 50%.

ASEAN, as the International region binding developing countries, has established the ASEAN Economic Community as a forum to strengthen the SMEs of the AMS. ASEAN, with its sophisticated international networks region, offers a huge opportunity for SMEs to internationalize. The potential to internationalize is great in Indonesia, but it must be guided wisely. The potential of SMEs in the ASEAN member countries is displayed in Table 6 and 7.

Table 6. SMEs, Employment, ASEAN

Country	Number of	SME	SME
	SMEs	Employment (number of workers)	Employment to Total Employment (%)
Brunei	5,615	654441	56.30
Darussalam			
Cambodia	512,780	1,345,100	71.75
Indonesia	60,410,156	115,211,574	96.95
Lao PDR	124,539	472,380	82.63
Malaysia	907,065	-	63.86
Myanmar	54,990	-	-
Philippines	934,646	4,993,807	62.90
Singapore	254,217	2,483,333	72.34
Thailand	2,899,336	11,908,623	81.31
Viet Nam	470,900	5,592,662	42.33

Source: Asian Development Bank (2020)

Table 7. SMEs, GDP, ASEAN

Country	SME GDP	SME share of GDP
Brunei Darussalam	3,500	26.68
Cambodia	-	-
Indonesia	496,547	60.43
Lao PDR	-	-
Malaysia	112,971	36.87
Myanmar	-	-
Philippines	-	-
Singapore	141,280	46.91
Thailand	176,068	41.19
Viet Nam	-	-

Source: Asian Development Bank (2020)

Table 10 and 11 show the contribution of SMEs of each ASEAN member state to employment rate and GDP. In the table describing employment, Indonesia has the highest total rate of 97%, followed by Lao PDR with 83%. The lowest employment rate is Viet Nam with 42.33%. In the table describing GDP, Indonesia ranks first again with a contribution of as much as 496,547, followed by Singapore with 141,280, Malaysia with 112,971, and finally Brunei with 3,500.

The trade sector cannot be separated from export activities that contribute to the national economy, but unfortunately SME exports in the ASEAN member countries, especially Indonesia, remain low compared to other asian countries. A comparison of Indonesia's exports to other Asian countries can be seen in Table 8.

Table 8. Indonesia's export, ASIAN exports

Countries	SME Share of Exports (%)	Data Year
People's Republic of China	41.5	2011
India	42.4	2013
Indonesia	15.7	2013
Republic of Korea	18.8	2012

Source: Asian Development Bank (2019)

In fact, even though Indonesia has the highest amount of SME GDP in Southeast Asian region, from the table it is clear that India has the highest amount of export activity with as much as 42.4 %. Meanwhile, Indonesia has the lowest amount with 15.7%. There are several factors causing Indonesia's export activities to remain low, one of which is a low level of competitiveness, which can be seen in Table 9.

Table 9. The index of global competitiveness

Countries	Score	Position
Switzerland	5.81	1
Singapore	5.72	2
Korea	5.03	26
Malaysia	5.16	18
China	4.95	28
Thailand	4.64	32
Indonesia	4.52	37
The Philippines	4.36	47
India	4.52	55
Vietnam	4.31	56

Source: Bappenas

The table shows that Indonesia is ranked 37th on the list of global competitiveness. This is caused by the lack of mastery of technology of Indonesia's community as a result of limited opportunities to keep up with technological developments and insufficient training, which decreases the productivity of human resources. This factor can affect the price level of Indonesia's SME products, which can be seen in greater detail in Table 10.

Table 10. Comparative price level

Countries	2009	2010	2011	2012	2013
Indonesia	28	37	39	39	37
USA	98	98	95	99	102
Japan	121	1241	128	129	105
Korea	63	71	73	75	81
China	45	48	52	55	58
EU28	104	99	100	96	99
OECD	100	100	100	1001	100

Source: UKM center FEB UI, 2018

The data reveals that Indonesia's price level was the lowest among the countries presented in the table between 2009 and 2013. The OECD is a collection of countries that are the main export destinations for Indonesian SMEs and, in these countries, the prices of goods and services that are much higher than Indonesia.

Access to trade finance is one of the main keys to boost SMEs in contributing to international trade activities through direct exports and participation in global value chains. Contributing to the international market can encourage

innovation, improve managerial skills and increase the productivity of SMEs. In order to realize those aim, ASEAN has implemented several mechanism to enhance ASEAN's trade activities include export and import, so they are able to compete with other foreign countries, such as establishing the ASEAN Trade Facilitation Framework (ATFF), with several aims to be achieved, as follows:

1. Create ASEAN as the competitive region in order to increases ASEAN's trade and production networks, so they can have higher contribution into global value chains, as well as to establish a highly integrated and cohesive economy.
2. Promote the active engagement of the private sector, particularly focus on the development and promotion of Small and Medium Enterprises (SME) in the process of regional economic integration, through greater participation of the various ASEAN business associations in the appropriate fora
3. Enhance the implementation of trade facilitation measures that are accepted by international institutions namely the WTO and/or the WCO, and in light of other relevant best practices

In order to realize those aims, several actions have been done by ASEAN, such as:

1. Design, review and update the ASEAN Work Program on Trade on a regular basis Facilitation (AWPTF), which will set clear targets and timeframes for implementation, taking into account all initiatives undertaken by relevant agencies.

2. Directing and coordinating trade facilitation activities of all relevant ASEAN agencies that play a role vis--vis trade facilitation through
- a) The ASEAN Directors-General of Customs (for customs) and the ASEAN Senior Transport Officers (for transit), promoted by ASEAN Transit Transport Coordinating Board (TTCB) and the other respective working bodies (e.g., the ASW Steering Committee) for customs and transport facilitation initiatives such as the ASEAN Single Window (ASW) and the ASEAN Customs and Transit System.
 - b) The Coordinating Committee on the Implementation of the ATIGA (CCA) for transparency of trade regulations and procedures initiatives, such as the ASEAN Trade Repository (ATR) and the National Trade Repositories (NTRs).
 - c) The ASEAN Consultative Committee for Standards and Quality (ACCSQ) and the ASEAN Committee on Sanitary and Phytosanitary Measures (AC-SPS) for trade facilitation in the areas of standards and conformance.

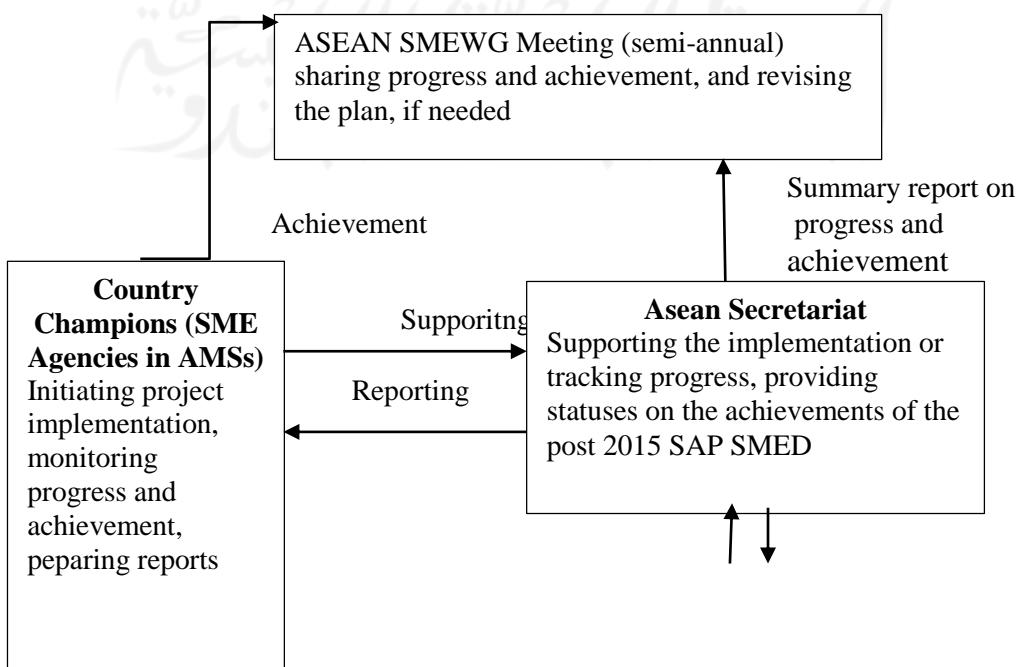
3.1.1 Monitoring and Evaluation

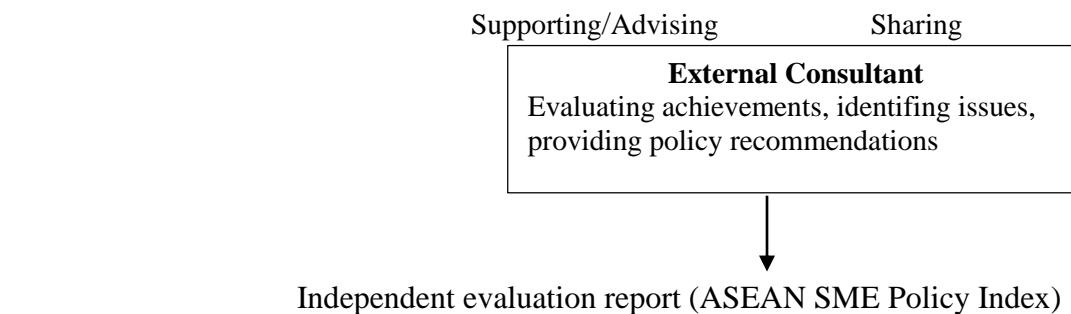
The role of ASEAN is not only in the finance sector, but also in performance

- ASEAN encourages SMEs to perform better by increasing the information available on innovation support services, promoting technology usage, and increasing insight into relevant productivity measures. The International Organization also argues that monitoring and evaluation are required to ensure the actor's behaviour in running the policies.

The monitoring process of ASEAN is divided into two types. The first is progress monitoring. This monitoring is responsible for the observation of several activities, such as target timelines, output quality, budget adherence, and also individual resources. This monitoring is also responsible for the prevention of anything that can increase the potential for failure, including schedule delays, excess costs, and a lack of decision making. The second type of monitoring is achievement monitoring, which is responsible for the observation of developments in achieving strategic goals, as measured by Kpis. The mechanism of monitoring and evaluation can be seen in Figure 6.

Figure 6. Monitoring and Evaluation





Source: Source: ASEAN economic community blueprint, 2008

The above diagram describes the ASEAN Secretariat's responsibility to enhance achievements, commence project implementation, track progress, and prepare reports on all SME activities. The summary report is discussed at the ASEAN SMEWG Meeting (semi annual) and there are revisions if progress is not in line with the goals. Revisions come with policy recommendations provided by the external consultant identifying the problems.

3.2 The normative approach's view on the ASEAN role

The normative approach stresses that authority of International Organizations in implementing an action. The normative approach also states that rather than coercing or managing the implementation, the important thing is to deal with issues such as providing knowledge and giving training to develop skills. The power of normative is in its legitimacy and authority.

The concept of normative is in line with the role of ASEAN in assisting Indonesia's SMEs. Normative believes that in addition to providing financial assistance, providing information and training to develop the skills of the community is necessary. ASEAN has shown its power by establishing the ASEAN

Economic Community which binds the Southeast Asia countries with the aim of achieving economic integration through the development of SMEs. These goals are regulated in the ASEAN Policy Blueprint for SME Development (APBSD) 2004-2014 which describes the strategies of the programmes, policy, and outputs as follows:

- a. Accelerate the implementation of SME development, and strengthen solidarity among the diverse ASEAN member states.
- b. Enhance the competitiveness level of the SME in the southeast region by providing assistance, such as access to market information, access to finance, human resources skills, and technology understanding.
- c. Enhance the resilience of ASEAN SMEs such that they are able to deal with the liberalised trading environment, and other financial difficulties
- d. Enhance SME's participation in the economic growth and development of the region.

In order to realize these goals, several actions have been undertaken by ASEAN. These are outlined in Table 11.

Table 11. Implementation of the ASEAN Blueprint for SME Development

a. Promote Entrepreneurship and Human Capital Development

Indicators	Actions
Instituted the entrepreneurship program and learning	Promote entrepreneurship curriculum

Boost human capital development for SME, particularly to women and youth	Develop technical skills for women and youth
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SOURCE: ASEAN STRATEGIC ACTION PLAN FOR SME DEVELOPMENT, 2015

b. Promote Productivity and Technology

Indicators	Actions
Boost the productivity	<ul style="list-style-type: none"> • Increase the insight of relevant productivity measures • Promote capital investment • Enhance production management skills
Boost the industry clusters	<ul style="list-style-type: none"> • Increase industrial connection among SMEs, also between SMEs and large enterprises including MNCs • Promote technology and build capabilities
Promote the Innovation as a key competitive advantage	<ul style="list-style-type: none"> • Promote key technology and its application for the new innovation in business • Develop information on innovation support services • Boost the collaboration of business-academia

SOURCE: ASEAN STRATEGIC ACTION PLAN FOR SME DEVELOPMENT, 2015

c. Strengthen The Policy and Regulatory Environment

Indicators	Actions
Increase the policy and regulation of intra governmental cooperation	<ul style="list-style-type: none"> • Enhance the coordination mechanism between public agencies responsible for SMEs • Enhance strategies to align national development strategies of SMEs with the regional strategies
Enhance the promotion of SMEs' interests and involvement in the decision making processes	<ul style="list-style-type: none"> • Advocate and promote SMEs participation in policy formulation
Obtaining of permits and business registration will be streamlined	<ul style="list-style-type: none"> • Set up a sound system and streamline permit and registration to enable less costly and faster business formation

SOURCE: ASEAN STRATEGIC ACTION PLAN FOR SME DEVELOPMENT, 2015

3.3 The enforcement approach

The enforcement approach argues that implementation must be done in a coercive way. In this approach, the International Organization will lead and spread its influence only through the implementation of coercive measures at its settlement. The point of enforcement is the complete opposite of the norms and values of ASEAN. ASEAN is an international organization that was established on August 8, 1967 in Bangkok, Thailand. Since its establishment, ASEAN has carried out the norms of non interference and respect for sovereignty to maintain peace among the member states. These norms are written in the Bangkok Declaration and are as follows:

1. To strengthen the relation among the member states for a prosperous and peaceful community by accelerating economic growth, social progress, and cultural development through joint endeavours in the name of equality.
2. To promote regional peace and stability by upholding the norms of respect for sovereignty, justice, the rule of law in the relationship among member countries, and adherence to the United Nations Charter's principles.
3. To promote active cooperation and mutual assistance in the sectors of economics, social, cultural, technical, scientific, and administrative.
4. To provide assistance among the member states by training and research in the educational, professional, technical, and administrative fields.
5. To cooperate more effectively to achieve greater utilization of agriculture and industries, expansion of their trade markets by identifying the international commodity trade's issues, development of their transportation and communication facilities, and an increase in the living standards of the community
6. To promote the studies of Southeast Asia.
7. To maintain close and beneficial collaborations with the existing international and regional organizations with similar goals, and to explore all avenues for even closer collaborations among them.

As time goes by, ASEAN continues to carry out reforms to improve itself which is marked by the establishment of the ASEAN Charter that was ratified on November 20, 2007 at the 13th ASEAN Summit, and enforced on December 15, 2008. The purpose of the ASEAN Charter is to strengthen ASEAN's transformation from a loose political organization to an international organization with a clear and strong legal basis, as well as an effective organizational structure (INDONESIA, 2009). The aims of this charter have been explained in Chapter 1, article 1, and are: 1) to maintain peace, security, and stability in the region; 2) to create a single market and production base, implementing the free flow of goods, services, and investment; and 3) to strengthen the member state's resilience by promoting political, security, economic, and socio-cultural collaborations. This charter also explains the process of decision making and the settlement of disputes that must be implemented by the member states, which will be outlined in the following sections.

CHAPTER VII

Decision-Making

Article 20

Consultation and Consensus

1. The decision making mechanism must be done through consultation and consensus
2. If concensus cannot be achieved, the ASEAN Summit will determine an alternative decision to be conducted
3. Paragraphs 1 and 2 cannot affect the way decisions are made in the relevant ASEAN legal instruments

4. If a member state commits a serious violation of the charter, then the matter will be submitted to the ASEAN Summit to be decided.

CHAPTER VII

Settlement of disputes

Article 23

Good offices, Conciliation, and Mediation

1. If there is a dispute between member countries, the disputing countries must conduct conciliation or mediation to resolve the dispute within the agreed time limit.
2. Disputing parties have the privilege of being able to ask the ASEAN Chair or the ASEAN Secretary General to act in an ex-officio capacity in conducting the conciliation or mediation.

The other supporting document that asserts ASEAN's norms of non interference and respect for sovereignty has been explained in the 1976 TAC, as follows:

1. Mutual respect for the independence, sovereignty, equality and diversity, territorial integrity, and national identity among the member states.
2. The obligation of each member state to pursue its national interest without influence, interference, and coercion from external parties.
3. Non interference in the domestic affairs of other member states.
4. Settlement of disputes in a peaceful way.

5. Rejection of threat or force.
6. Effective collaboration among the member states.

The norm of mutual respect for sovereignty has come to be called the “ASEAN Way”, and is a decision making mechanism that stresses discussion and consensus. This dispute mechanism has allowed ASEAN to become one of the successful examples of global multilateral organizations for maintaining regional security and peace. Some scholars even argue that the success of ASEAN regionalism must be a role model for other regionalism organizations, particularly the South Asian Association for Regional Cooperation (SAARC) which has the same principle of non-interference as ASEAN. SAARC is a regional organization that was established in 1985 and consists of Bangladesh, Bhutan, India, Maldives, Nepal, Sri Lanka, and Pakistan. SAARC also has the same goals as ASEAN which are to promote peace, stability, amity, and progress; however, in comparison to ASEAN, SAARC is failing to implement these values.

According to the Institute of Peace and Conflict Studies (IPCS), South Asia is one of the most terrific regions in the world. For instance, the Kashmir dispute between India and Pakistan that has been unresolved for a decade. In 2019, this dispute became more chaotic when India’s Prime Minister, Narendra Modi revoked India’s Institution in verse 370, providing a privilege to the Kashmir region. This decision would cost Kashmir its autonomy rights and would let the Indians buy unlimited land in the region, which is absolutely a form of violation (Khairunnisa, 2021). SAARC, as the regional organization in South Asia, has tried to reconcile these two countries at the high level conference that has been conducted every year

since 1985. This has been to no avail and at the fourteenth meeting in 2007, this dispute heated up again because India assumed that Pakistan was responsible for the attack on Mumbai, India. Furthermore, the balance of military power and nuclear capacity of these two countries is feared of creating a huge war, with both conducting several nuclear tests, the last of which was in January 2020.

If we compare this situation to ASEAN, which had also experienced similar territorial disputes, it can be said that ASEAN was able to deal with such a dispute more peacefully, through successful carrying out of the norms of non interference and respect for sovereignty. An example of this is the territorial dispute of Preah Vihear Temple between Cambodia and Thailand in 2008. This temple is located in the Preah Vihear Province of Cambodia, near Kantharalak District, Thailand. The issue arose in 1962 when the International Court of Justice stated that the Preah Vihear Temple belongs to Cambodia; however, the area surrounding it had not been defined yet, so it created a mutual claim from these two countries for the Preah Vihear area. This issue heated up when UNESCO declared Preah Vihear Temple as a world heritage site that belonged to Cambodia in July, 8 2008. This resulted in protests from the nationalist group of Thailand, triggering them to sent their military troops to guard their own borders (Farida, 2012). ASEAN, as the main organization in the region, resolved this dispute through the dialogue, consultation, negotiation, and mediation that were agreed by the disputing countries and conducted according to several documents. One of these documents is in TAC, Chapter IV article 13 to 17, and outlines the pacific settlement of disputes. In addition, ASEAN held an Informal ASEAN Foreign Minister's Meeting to discuss solutions to the dispute. These mechanisms from ASEAN brought positive results and in 2012, both

countries pulled back their military troops and agreed to involve ASEAN in the conflict. Peaceful dialogue was conducted through the TAC mechanism.

Based on the author's research, there is no coercion has ever done by ASEAN in implementing its policies on an issue. Even though Europe and the United States urged ASEAN to give sanctions and pressure on Myanmar in the 1990s due to its military regime, ASEAN refused and insisted that calm dialogue must continue. Thailand and the Phillipines also attempted to intervene Myanmar's internal affairs as a result of the detention of Myanmar's democratic activists and protesting students who were also forcibly dammed in 1996 (Yukawa). Thailand suggested replacing the principle of non interference with "flexible engagement" where member countries have the authority to discuss the domestic affairs of another country openly. This was rejected by other member countries, with the exception of the Philipines which was concerned about the effect of cross-border conflict on regional stability. As a solution, ASEAN replaced flexible engagement with enhanced integration which allows member countries to only discuss the affairs of other countries individually, which is a principle that still enforces the norm of non-intervention. There are several reasons why ASEAN has been adopting the principle of non interference. Firstly, historical backgrounds, such as the cold war and colonial rule that threaten internal security, make Southeast Asia view sovereignty as a main element in ensuring regional and domestic stability. Secondly, the country's political and social order are also considered very important to internal security issues.

3.4 Overview of Findings

Table 12. The differences of managerial, normative, and enforcement

No	Approach	Instruments/Policies
1	Managerial	Providing financial assistance to the states, such as venture capital, p2p lending, and trade finance.
2	Normative	Providing training, knowledge, and information. In this approach, implementation refers to the ASEAN blueprint for SME development for creating regional programmes to promote the internship scheme and skill training.
3	Enforcement	Implementing coercive ways, sanctioning and monitoring. However, there is no coercion from ASEAN as the IO on the state members.

Managerial approach is a political system in which the outside actors of the IO have a strong role in implementation, such as through providing assistance to develop the country's capacity. The difference of this approach from normative and enforcement is that it believes that the power of the IO lies in the political system or bureaucracy of the IO. Furthermore, it asserts that sanctioning and monitoring are not required in implementation. The approach is based on the reasoning that the IO can simplify an issue by providing financial assistance. In its mechanism to resolve an issue, the managerial approach believes in conducting consultations, mediation, and analysis rather than giving harsh punishments.

The normative approach believes that the influence of the IO lies in the international agreements made by the actors of the International Organizations. If managerial's power is adherence to the political system of the IO, normative's power is adherence to the authority and legitimacy of the IO. This approach is also of the opposite opinion to enforcement and managerial which believe implementation through coercive ways, giving sanctions, and providing financial aid is a must. This approach asserts that the authority or power of IO can be divided into two aspects, namely: 1) the power to control information, provide technical knowledge, and provide training to the states based on needs, and 2) the authority is a term that shows IO exists as a rational and impartial actor.

According to Downs et al, enforcement shows that coercive measures are the best way for an IO to implement an action or policy (Joachim, Reinalda, & Verbeek, 2008). This approach also states that the IO can assure the implementation by coercive settlement, which is categorized by monitoring and sanctioning. The important point that needs to be considered is monitoring has different forms. First, monitoring can be providing a report on the state's activity at the regional level. The second is evaluation of the state's behaviour and provision of the best alternative policy which the state should then implement. Third, the state's behaviour is directly evaluated in terms of running its international commitments. The form of sanctioning in this approach is effectively "naming and shaming". Most of the enforcement measures by the IO towards the non compliant states are in the form of naming and shaming their reputation in the

international community. The other characteristic of this approach is an emphasis on incentives and rational calculation.



CHAPTER IV

Conclusion and Recommendation

4.1 Conclusion

SMEs play a vital role in boosting the economic sector in both developed and developing countries. The role of SMEs in contributing to the ASEAN economy can be seen in the Asian financial crisis in 1997-1998. The SME sector was able to survive, providing 20-40% of total domestic output and absorbing 75-90% of the surrounding workforce. Indonesia was one of the ASEAN countries affected by this crisis and the existence of SMEs became the savior of the Indonesia's economy. It created job opportunities for more than 90%, and contributed for more than 90% of the big companies. The data shows that Indonesia's SMEs have great potential but this potential is in fact hindered by obstacles in the field that can be categorized as internal and external obstacles. The internal obstacles are low quality of human resources, low understanding of SME actors of management and marketing, a lack of technology understanding, a lack of entrepreneurship skills, and limited access to capital. The external obstacles are high transactions, earning problems, formal legality, limited funds for licensing management and a lack of knowledge about cooperatives and the operation. Furthermore, in this globalized world, markets are not only a place in conducting economic activity, but also places of war and diplomacy; therefore, a number of actors need to be involved in interdependence with other nations to survive. These are huge obstacles to Indonesia's SME development, so the author believes that in dealing with this issue the presence of ASEAN as the IO is really required to facilitate Indonesia's SMEs capabilities to overcome those threats.

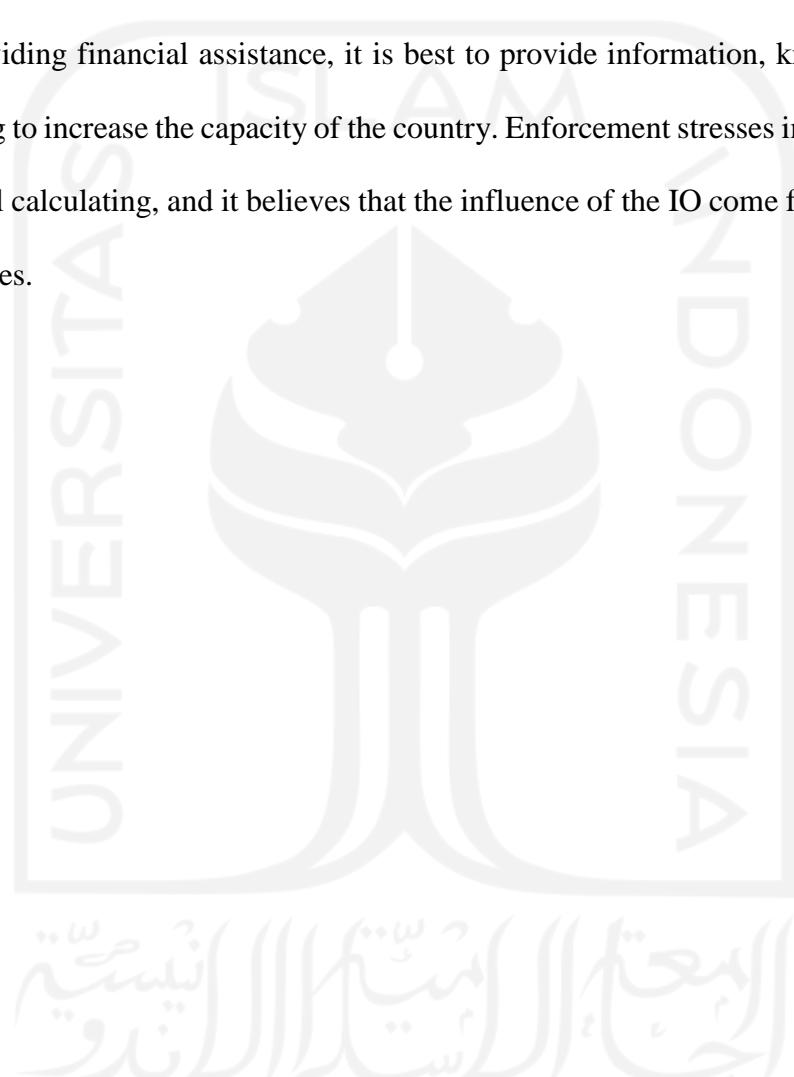
In this research, the author adopted the Implementation approach to analyze the role of ASEAN in boosting the development of Indonesia's SMEs. This approach consists of three different types, namely: 1) Managerial, which believes that providing financial assistance and transparency is more important than monitoring and sanctioning; 2) Normative, which believes that providing financial assistance is not enough to ease a state, but what should be done by IOs is providing information, knowledge, and training through utilization of its authority; and 3) Enforcement, which believes that the IO will be successful in the implementation of a policy if it is carried out through coercion, and the IO also has the responsibility to monitor and give sanctions to those states who do not obey the international agreement or regulation. In this research, the author decided to use all three types for the analysis as the types are linked to one another.

In Indonesia, the existence of SMEs show a significant development, particularly between 2009 and 2013, such as 5,764,603 units in 2009, to 53,823,603 units in 2010, to 55,206,444 units in 2011, to 56,534,592 units in 2012, and finally to 57,895,721 units in 2013. The growth in the number of Indonesia's SMEs, however, did not make it easier for this sector to compete globally. Therefore, the author believes that the role of ASEAN is necessary for the provision of assistance to Indonesia's SMEs to overcome obstacles, moreover ASEAN has committed to enhance the SME among its member states, in particular Indonesia. ASEAN's commitment can be seen by the establishment of AEC that consist of main sectoral body named SMEWG who is focusing on making policies, programs, and activities to increase the development of SMEs, SMEWG then was renamed as ACCMSME with the same responsibility.

Based on author's research, it was found that there are several roles of ASEAN in assisting Indonesia's SMEs that can be described according to the three types of Implementation approach. In the Managerial approach, ASEAN provides three kinds of financial assistance. The first is Venture Capital which focuses on helping the early-stage enterprises with limited capital that have not yet entered the stock exchange. This provides an alternative mechanism to overcome the obstacles of Indonesia's SMEs, such as financial barriers, including insufficient loans from banks. The second is P2P lending which assists the community in dealing with the financial problems that often faced in conventional institutions, such as complicated requirements, and the need for loan guarantees and time efficiency. The third is trade finance which provides loans and guarantees offered by financial and non-financial institutions to companies to allow the goods and services of SMEs to engage in the international market through exporting and participating in GVC.

The normative approach describes ASEAN as the IO in Southeast Asia that has the authority to create the ASEAN Economic Community which guides the achievement of economic integration through the development of SMEs. This has been written in the Policy Blueprint for SME Development (APBSD) 2004-2014 which describes the strategies of the programmes, policies, and outputs. One of the said programmes is the creation of a curriculum for entrepreneurship in ASEAN. The last approach is enforcement. This approach believes that coercion is the best instrument for the IO in terms of implementation. This approach encourages naming and shaming non-compliant countries. This research did not reveal any coercive measures or shaming utilized by ASEAN. All the mechanisms that ASEAN have employed for issue resolution have been through consultation,

mediation, and negotiation. The significant differences of the managerial, normative, and enforcement approaches lie in their power and mechanism of implementation. Managerial's power lies in the bureaucracy of the IO and it believes that providing financial assistance is required in implementation. Normative's power lies in the authority of the IO, and it sees that, rather than giving sanctions or providing financial assistance, it is best to provide information, knowledge, and training to increase the capacity of the country. Enforcement stresses incentives and rational calculating, and it believes that the influence of the IO come from coercive measures.



4.2 Recommendation

This research discusses the role of ASEAN, as the International Organization in Southeast Asia, in assisting Indonesia's SMEs from 2009 to 2013. The analysis of this research provides three examples of financial assistance provided by ASEAN to Indonesia's SMEs, namely Venture Capital, P2P lending, and trade finance. Given the fact that this research still has shortcomings, the author suggests future researchers to analyze financial instruments relevant to the study as the author experienced difficulties finding data on Venture Capital in 2009.

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