

OPPORTUNITIES AND CHALLENGES FOR MICRO-SMALL AND MEDIUM BUSINESS IN INDONESIA FACING ASEAN ECONOMIC COMMUNITY

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Abstract

This research is a part of a continuous study to analyze the opportunities and challenges for micro-small and medium business in Indonesia when facing ASEAN Economic Community (AEC) in 2016. It has its own uniqueness, as it will combine the point of view between current business owners and current literature study synthesis on business perception towards AEC. Ten business owners have been interviewed. The results suggested AEC provides challenges for the business owners, particularly in terms of capital; competitiveness; sales system; innovation; finance, bureaucracy; and government preparedness. AEC also provides opportunities, in terms of market potential; creativity; export opportunities; business owners' resistances and sustainability; and knowledge of local market. From all of the keywords mentioned by the respondents, there are four main attributes considered as important: human resources; creativities; market share; and capital. Finally, most of the respondents suggested that AEC will bring more positive influences for the development of micro-small and medium business in Indonesia.

Keywords: Asean economic community, micro-small and medium business, globalization, entrepreneurship

Introduction

Based on the facts that have been arranged by the Asian Development Bank (ADB) in 2015 (Asian Development Bank, 2015), the center of global economic gravity has shifted into Asia favors. Within Asia itself, the center of economic gravity has mostly shifted to People's Republic of China and India. Their development to become the center of world economic shows that the "economic size" can produce significant benefits to accelerate and maintain developments (Asian Development Bank, 2014a).

With that in mind, the Association of Southeast Asia Nations (ASEAN) planned the development of ASEAN Economic Community (AEC), to capture the potentials of global economic gravitation shift. With AEC, the exchange of goods, services, investments, capital, and professionally trained workers can be exchanged with ease (Asian Development Bank, 2015).

ASEAN Economic Community (AEC)

When ASEAN is combined as one economic power (as shown in Figure 1), the combination of the countries will represent the seventh largest economic power in the world, with the combination of Gross Domestic Product (GDP) of \$ 2.4 trillion in 2013. If the development trend is proven correct, it is expected that AEC will become the fourth largest economic

power in the world in 2050 (Asian Development Bank, 2014a). The product export exchanges in ASEAN reached up to \$ 1.2 trillion, or equal to 54 percent of ASEAN GDP and seven percent of world's export (Asian Development Bank, 2014b).

With the number of the population reaching out of more than 600 million people, the ASEAN market potential is larger than European Union (EU) or North America (United States of America and Canada).

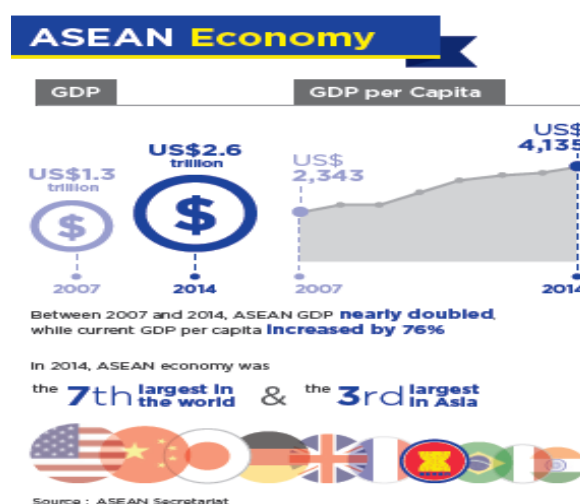


Figure 1. ASEAN economic condition compared with other nations

Source: The Association of Southeast Asian Nations (2015a).

After People's Republic of China and India, ASEAN has the third largest young workforce in the world (Asian Development Bank, 2014b). Based on the agreement between ASEAN countries, AEC will effectively begin on December 31st, 2015. In accordance with the agreement signed by the ten countries of ASEAN in 2007 (The Association of Southeast Asian Nations, 2015b), all of the red tapes and bureaucracy limitation that usually occurred in an international economic relationship can be reduced or effectively removed as shown in Figure 2.

There are several obstacles and limitations that are expected to be reduced or removed after the implementation of AEC. The obstacles are including: eliminating tariffs and facilitating trade; advancing the services trade liberalization agenda; liberalizing and facilitating investment; streamlining and harmonizing capital market regulatory frameworks and platforms; facilitating skilled labor mobility; promoting the development of regional frameworks in competition policy, consumer protection and intellectual property rights; promoting connectivity; narrowing the development gap; and strengthening ASEAN's relationship with its external parties (The Association of Southeast Asian Nations, 2015c).

In accordance to the AEC 2025 blueprint, published by ASEAN (The Association of Southeast Asian Nations, 2015c), there are five interrelated and mutually reinforcing characteristics, namely: (i) A Highly Integrated and Cohesive Economy; (ii) A Competitive, Innovative, and Dynamic ASEAN; (iii) Enhanced Connectivity and Sectorial Cooperation; (iv) A Resilient, Inclusive, People-Oriented, and People-Centered ASEAN; and (v) A Global ASEAN. All of this is summarized into a common vision called as ASEAN Community Vision 2025.

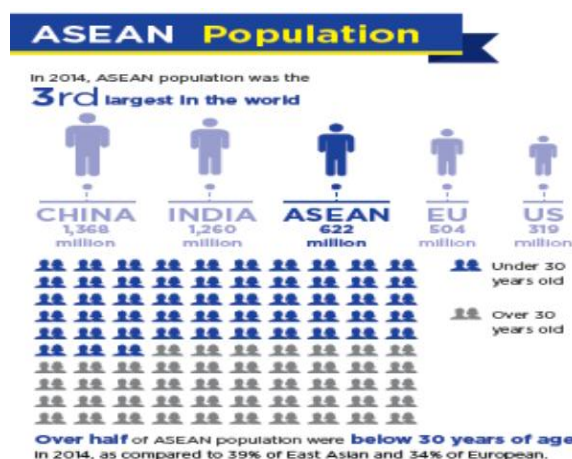


Figure 2. ASEAN Population Compared with Other Nations

Source: The Association of Southeast Asian Nations (2015b)



Figure 3. AEC Development Timeline

Source: The Association of Southeast Asian Nations (2015c)

The question arise is whether Indonesia, particularly their respective micro-small and medium business owners, prepared to face the AEC? The question is important to be elaborated, because, in 2014 only, the number of micro-small and medium business owners has reached the number of 57.9 million businesses, and it is contributing to the Regional Gross Income up to 58.92 percent, with workforce absorbed up to 97.30 percent (Sari, 2014). This data is also supported by the study performed by Sato in 2015, which suggested that micro-small and medium business will become the backbone of AEC successfulness, where 97 percent of the industry in Indonesia is a micro-small and medium business, which contributes to 58 percent of the total GDP of Indonesia (Sato, 2015).

In 2014, the Economic Research Institute for ASEAN and East Asia (ERIA) published the ASEAN Small-Medium Enterprise (SME) Policy Index, where the index rated the performance and business practices of SME in ASEAN territory. Indonesia ranked in the third from the whole ten ASEAN countries for performance and business practices of SME in ASEAN territory.

With the information above, a continuous study is required to understand the challenges and opportunities faced by the micro-small and medium business owners in Indonesia. The study will be important for all stakeholders involved in the industry, particularly the government and business owners. Government can help to produce better regulation and cutting red tapes to ensure the best interests for the growth of the industry, while business owners can identify the challenges and opportunities of AEC implementation.

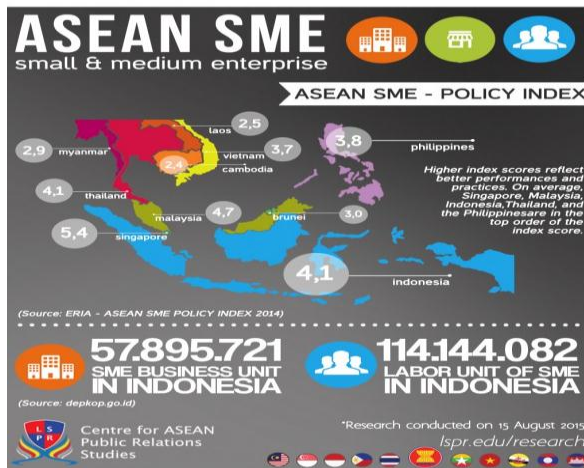


Figure 4. ASEAN small-medium enterprise (sme) policy index 2015

Source: Center for ASEAN Public Relations Studies (2015)

The purpose of this challenges and opportunities analysis is to map the current position of Indonesian micro-small and medium business in AEC. The methodology for this preliminary study is by conducting a short interview with several micro-small and medium business owners in Indonesia. The result from this preliminary study will be used as a basis for research hypotheses creation, which later on will be tested via qualitative research methodology approaches such as in-depth interviews and Focus Group Discussion (FGD). Later, the results will be tested again via quantitative research methodology by addressing questionnaires in Likert form. The final result of this research series is to understand the current micro-small and medium business position in AEC, based on inputs from the business owners.

Definition of Micro-Small and Medium Business

For every ASEAN nation, they have different definition about micro-small and medium business (Sato, 2015), as stated in Table 1.

For micro-small and medium business in Indonesia, the official definition can be cited from the National Law/*Undang-Undang* No. 9, year 1995 about Small Enterprise (Pemerintah Republik Indonesia, 1995), which states that an enterprise can be categorized as micro-small and medium business if it qualifies the following requirements:

- Owned a net wealth of IDR 200.000.000,- (two hundred million Indonesian rupiah) at most, excluding the land and building used for business; or
- Have yearly sales income of IDR 1.000.000.000,- (one billion Indonesian rupiah) at most;

- Owned by Indonesian citizen;
- Standing alone, not a subsidiary or branch that is owned, controlled, or affiliated directly or indirectly with Medium or Large Enterprises;
- Is an individual business entity; or unincorporated business; or corporate business entity, including co-operation.

For micro-small and medium business that is focused on providing services as its main product, AEC implements a special regulation in terms of five main service sectors: medics, health; banking; accounting; and insurance.

Micro-Small and Medium Business in Indonesia

Several previous studies suggested that a micro-small and medium business can grow at the current moment if it is supported with good infrastructure and human resources. The application of state of the art Information Technology (IT) can exponentially increase business performance through speed, precision, and efficiency of information exchanges in large number. Investment in IT can increase the company productivities up to 50 percent. The application of IT technology can also improve the competitiveness of a micro-small and medium business (Rahmana, 2009).

The common issues that are often faced by micro-small and medium business owners in Indonesia can be categorized into two main categories: internal and external issues. For internal issues, includes lack of capital; limited human resources; and weak business network and the ability to penetrate the market. For the external issues include bad business climate; limited facilities for business; implications of regional autonomy regulations; the short-life span of the business products; and limited market access (Hafsah, 2004).

Focusing their study on the limited human resource quality, a study in Surabaya, Indonesia showed that the quality of human resources for micro-small and medium business owners include knowledge; skill; and ability to run the business itself. From all three attributes, the ability attribute is the most important one for business owners to be able to perform their business well (Ardiana, Brahmayanti, & Subaedi, 2010). The knowledge of accounting and bookkeeping are some of the main basic requirements for a micro-small and medium business to be able to grow. The results of good accounting practice can become a good foundation for the business owner when making a business decision (Ediraras, 2010).

Table 1

Official Definition for Micro-Small and Medium Business and their Contribution to the National Income in ASEAN Nations and Japan

	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar
Official Definition						
No. Of Workers	100	200	100	100	150	100
Other Criteria			Assets Sales	Assets Sales	Sales	Horsepower Investment Sales
Small & Medium						
Establishment	3,898	45,541	646,475	-	148,678	3,620
(% of Total)	44.0%	12.0%	1.0%	-	23.0%	3.0%
Employment	-	31.0%	7.0%	27.0%	34.0%	-
Value Added	-	-	23.0%	-	23.0%	-
Plus Micro						
Establishment	8,632	376,069	55,206,444	190,002	645,136	108,491
(% of Total)	98.0%	99.8%	99.0%	91.0%	97.0%	99.0%
Employment	-	75.0%	97.0%	35.0%	53.0%	-
Value Added	-	-	58.0%	-	30.0%	-
Sector	All	All	All	All	All	Manufacturing
Year	2010	2009	2011	2006/2004	2010	2007
Source of Information/ Government Office in Charge	Brunei Darussalam Statistical Yearbook	Nation-wide Establishment Listing of Cambodia. National Institute of Statistics	Ministry of Cooperative and SMEs	Economic Census 2006/ Business Establishment Survey 2004	Economic Cencus 2011: Profile of SMEs	Ministry of National Planning and Economic Develop- ment/ Ministry of Industry
	www.depd.gov.bn	www.nis.gov.kh	www.depkop. go.id	www.nsc.gov.la	www.statistics. gov. my	www.dica.gov.mm
	Philippines	Singapore	Thailand	Vietnam	Japan	
Official Definition						
No. Of Workers	200	200	200	300	300	
Other Criteria	Assets	Assets Local Ownership	Assets	Capital	Capital	
Small & Medium						
Establishment	73,509	-	-	5,770	1,465,001	
(% of Total)	9.0%	-	-	2.0%	25.0%	
Employment	33.0%	-	-	25.0%	52.0%	
Value Added	n.a.	-	-	55.0%	54.0%	
Plus Micro						
Establishment	816,759	161,000	2,274,525	2,718,139	57,195,161	
(% of Total)	99.6%	99.0%	99.0%	99.9%	99.0%	
Employment	61.0%	70.0%	77.0%	77.0%	76.0%	
Value Added	36.0%	50.0%	38.0%	56.0%	-	
Sector	All	All	All	All	All	
Year	2011	2007	2006	2002	2009/2010	
Source of Information/ Government Office in Charge	Department of Trade and Industry	Performance Indicators, SPRING Singapore	Office of SME Promotion	Ministry of Planning and Investment, Entreprise Develop- ment Agency	White Paper on SMEs in Japan, SME Agency	
	www.dti.gov.ph	www.spring. gov.sg	www.sme.go.th	www.business.gov. vn	www.chusho. meti. go.jp	

Note: For Vietnam, the percentage of value added is in terms of invested capital. For Japan, the percentage of value added is only in the manufacturing sector.

Other sources: Kudo (2010) for Myanmar, Uchikawa and Keola (2009) for Lao PDR and Cambodia, Organization for SME and Regional Innovation (2007, 2008), and Ayyagari et al. (2007) for multiple countries

References: T. Kudo, "Industrial Policy, Structure, and Locations during the Transition Toward a Market-oriented Economy in Myanmar," in Spatial Statistics and Industrial Location in CLMV, ed. I. Kuroiwa (Chiba: IDE-JETRO, 2010); S. Uchikawa and S. Keola, "Small and Medium Enterprises in Cambodia, Laos and Vietnam" in Research on Development Strategies for CLMV Countries, ERIA Research Project Report 2008-5, ed. A. Kuchiki and S. Uchikawa (Jakarta:ERIA, 2009): 237–73; Organization for SME and Regional Innovation (SMRJ), SME Policies in the ASEAN Countries and Japan (Tokyo: SMRJ, 2007) and SME Policies in the Six ASEAN Countries (Tokyo: SMRJ, 2008).

Source: Sato (2015)

In general, micro-small and medium business has positive effect on the economic development in Indonesia, because the business has several significant values, including the ability to absorb large number of workforces (Winarni, 2006); as the source of nation economical development (Tambunan, 2005); higher resistance compared with larger enterprises (Berry, Rodriguez, & Sandee, 2001); entrepreneurial spirit that being performed by the business owners to cope with global financial crisis (Afiah, 2009); its ability to support larger enterprises as subcontractors (Berry, Rodriguez, & Sandee, 2002); and its supports to the non-oil and gas businesses (Sulistiyastuti, 2004).

Research Method

For this preliminary study, we tried to analyze the challenges and opportunities for micro-small and medium business in Indonesia when facing AEC. For this purpose, we have conducted short interviews with ten business owners in Indonesia. The interviews were performed in two weeks time, starting from January 28th to February 14th, 2016. The personal data of the respondents will not be published to the public, and as incentives, the results of this study when published will be shared to all of the respondents.

The demographic of the respondents consisted of micro-small and medium business owners from Bandung, Jakarta, Serpong, and Bogor, Indonesia. The background of the respondents include property developers; drilling service providers; construction service providers; architects; pudding vendors; home stay owners; merchandise vendors; Bandung Digital Valley mentor; and financial consultant. The result of the study is obtained by analyzing the interview results. The analysis results will be presented in cloud analysis form with descriptive approach. The opening questions for the interviews are these two simple questions:

- According to you, what are the challenges and opportunities faced by micro-small and medium business owners in AEC time?
- From all of the points and inputs provided by you about the challenges and opportunities in AEC time, do you think AEC provides you with more positive or negative implications towards your business growth?

The first questions provided first to all of the respondents. After the respondents provide their answers and comments, the second question was asked to wrap the interview process. During the interview process, the author only writes all of the inputs, answers, and comments from the respondents. There

are context briefings that are being performed by the author during the interview process.

The interviews were performed using the entire current available communication mode. Most of the interview processes were performed via *WhatsApp* Messenger short message communication mode, and the rest is being performed via direct face-to-face interview, email, and telephone communications.

All of these qualitative interview methods have their own strengths and weaknesses. The strengths of interview via written communication mode is that all of the interview history is well-documented, cheap, easier, and can be followed up directly in other time. The weaknesses of this interview method is the low number of interview success, lack of expressions and ambiances from the respondents, and the rigid form of the interview process, producing minimum inputs and answers.

The strengths of an interview via telephone mode are better number of interview success, and it's easy to perform. The weaknesses of the mode are interview history is less-documented, the cost of interview is more expensive, and lack of expressions and ambiances from the respondents. Lastly, the strengths of face-to-face interview is the presence of expressions and ambiances from the respondents, which can produce a better answers and more optimum responses, and ease of documentation of interview history via video recording. The weaknesses of this interview mode is the highest cost of interview process, and the least number of success of interview process as it relates to the willingness of the respondents to provide adequate time for the interview process, all in one time.

Interview Results

The first respondent suggested that the challenges faced by the micro-small and medium business owners are the low quality of human resources; minimum connection to capital for business growth; and unskilled labor from Indonesia that cannot compete directly with unskilled labor from other ASEAN nations. The opportunities from AEC is larger market segmentation; the creativity of business owners from Indonesia; ease of export sales process; more options to select labor, including labor from other ASEAN nations; local market knowledge by business owners in Indonesia; and the ease of access to foreign capital.

According to the second respondent, the challenges faced by micro-small and medium business owners in Indonesia are the lack of ability by the business owners in Indonesia to compete with their counterparts from other ASEAN nations; the lack of

knowledge and application of science and technology by most of the business owners in Indonesia; un-supportive workforce; and unsupportive government regulations. The opportunities from AEC are the large consumer numbers and increasing purchasing ability by the consumers.

The third respondent suggested that the challenges include: minimum access to funding; unsupportive government regulations; and lack of product innovations by the business owners. The opportunities include knowledge about the local market and their potentials; and the large number of market potential in ASEAN.

Information provided by the fourth respondents suggested that the challenges faced by business owners include lack of product quality; lack of support and regulations by the government; lack of training for local workforce; and unfair practices in the bureaucracy process in the government. The opportunities include ease of product exports and large market share.

The fifth respondent suggested that the challenges for business owners in Indonesia include high cost of logistic fee; weak bureaucracy performance; corruption; and higher demand compared with production which led to import practices. The opportunity includes abundant amount of resources for production and creativity by business owners in Indonesia.

The sixth respondent suggested that the challenges for micro-small and medium business owners in Indonesia are that although innovation in Indonesia is quick to be performed, however, lack of knowledge on copyrights and patents make the products to be easily copied by business owners from other nations; Indonesian business owners are considered slow to response to opportunities arising; and cheaper unskilled labor from neighboring ASEAN nations such as Cambodia, Laos, and Vietnam. The opportunity presented to the business owners includes the large market prospect in Indonesia.

The seventh respondent proposed that the challenges faced by business owners in Indonesia include lack of micro-small and medium business owner in number in Indonesia, compared with their ASEAN nations counterparts; plenty of business owners conduct their business without proper planing and market research; unscheduled production process; bad product design; limited distribution network; high rate of material cost; lack of knowledge about the importance of accounting; lack of access to producers; lack of capital; many business owners are still unable to fully grasps the importance of digital marketing; and the lack of access to coaching and mentoring from successful business owners. The opportunity arises from

AEC is the position of Indonesia as the largest market share.

The eighth respondent suggested that the challenges faced by business owners include limited capital; plenty of similar businesses being performed by different business owners; lack of creativity to grow the business; and bad marketing strategies. The opportunities of AEC include product variations and potential for collaboration with more established enterprises.

The ninth respondent proposed that the challenges faced by micro-small and medium business owners in Indonesia is the lack of competitiveness by local workers in Indonesia, due to the lack of certifications. The opportunity of AEC that can be used is the large portion of consumers in Indonesia; the plan for a uniformed certification process for workforce all around Indonesia; protection by the government for local workforce; priorities for local business owners; and some of the businesses that are already AEC ready will get a head start.

The last respondent suggested that the challenges faced by micro-small and medium business owners in Indonesia include the preparedness by the government to provide law protection for conducting business in Indonesia; the slow response by the government to cope with AEC; red tapes and slow bureaucracy; no incentives for micro-small and medium business in Indonesia; ambiguous tax regulations; lack of variations for financial products that support business owners in Indonesia. The opportunities include the resistance of business owners in Indonesia; chance to expand business network; improved custom regulations; business owner creativity; and innovation from business owners in Indonesia.

For the follow-up questions on whether AEC provides more positive or negative impacts of their respective business growth, seven respondents stated their optimism in facing AEC, and only three respondents professed their pessimism when facing AEC in 2016.

Analysis

This study will be conducted using descriptive and cloud analysis approaches, to provide answers for the study results. To calculate the research results via cloud analysis, we will use the *Wordle* word cloud web application. The display from the *Wordle* application results will be based on the number of words mentioned analysis. The larger the displayed words by the application, it will show the significance of this study findings. Vice versa, the smaller the displayed words by the application, it will show the insignificant of this study finding. For the descriptive analysis ap-

proach, we will show the attribute significance from challenges and opportunities faced by micro-small and medium business owners in Indonesian, facing AEC.

For the question about the challenges of AEC, faced by the micro-small and medium business owners in Indonesia, the keywords data analysis results suggested several interesting facts. The keywords of regulation and manpower become the main important factors for business owners in Indonesia, followed by the keywords of capital, competitiveness, sales system, innovation, finance, bureaucracy, and government as shown in Figure 5.

As seen in Figure 6, for the question about opportunities of AEC, faced by the micro-small and medium business owners in Indonesia, the keywords of market potential and creativity become the main important factors for business owners in Indonesia, followed by the keywords of export, resistance, and local knowledge.

If all of the keywords are combined and analyzed simultaneously, we can see that the keywords of manpower, creativity, market potential, and capital are the most mentioned keywords by the respondents as shown in Figure 7.



Figure 5. Data analysis results using Wordle application for the category of challenges of AEC faced by micro-small and medium business owners



Figure 6. Data analysis results using Wordle application for the category of opportunities of AEC faced by micro-small and medium business owners



Figure 7. Data analysis results using Wordle application for all categories

Discussion

From this preliminary study result, we can see that the keywords of manpower, capital, competitiveness, sales system, innovation, finance, bureaucracy, and government are the important keywords for the challenge category for micro-small and medium business owners in Indonesia when facing AEC. Trained manpower in Indonesia are still not yet uniformed and certified, and compared with manpower from neighboring ASEAN countries, Indonesian manpower is still limited in terms of skills. The limited access to investors and capital for micro-small and medium business in Indonesia is considered as one of the main setbacks for the business development in Indonesia. Compared with other similar business in neighboring ASEAN nations, such as Singapore and Malaysia, the number of capital owned by Indonesian micro-small and medium business is very limited. Next challenge is the poor strategy and sales system for the business product itself, the lack of innovation to create a competitive continuous product, and the lack of financial planning and accountancy knowledge from the business, which caused a plethora of bankrupt business due to the poor financial management application. Lastly, are the red tapes, bureaucracy, and poor governance preparedness when facing AEC.

For opportunities, the keywords which mostly being stated by the respondents include market potential, creativity, export opportunity, resistance and endurance from local business owners, and local knowledge of the market. Most of the respondents stated that Indonesia has abundance market potential to be explored, that even when AEC is being implemented, there is a great number of market potential for all ASEAN AEC business owners. Most of the respondents also stated that the main strength of Indonesian micro-small and medium business owners is their creativity, considering that most of the products being launched by Indonesian business owners are unique

and new, where there are options to sell those products to neighboring ASEAN nations. The most factual examples are the introduction of Indonesian culinary products such as J-Co doughnuts, Bumbu Desa restaurant franchise, Ayam Penyet Ria restaurant franchise, Maima fashion product, Bread Talk bakery, and Layla fashion product to Singapore and Malaysia. The last attributes are the endurance and local knowledge by Indonesian business owners. These two attributes go hand in hand with the first point, discussing the market potential in Indonesia. As Indonesia market has the largest market share in ASEAN, the process of market captivation in ASEAN will be mostly focused in Indonesia. For that, Indonesian business owners have their own advantages in form of competitiveness and local market positioning. If the business owners can seize this advantage, their growth should be faster and stronger compared with business owners from neighboring ASEAN nations.

From all of the keyword analysis for challenges and opportunities attributes for micro-small and medium business owners in Indonesia, facing AEC, we can see that the keywords of manpower, creativity, market potential, and capital are the most common keywords used by the respondents. With the findings, we can conclude that Indonesian business owners have the largest potential in AEC community, only if all of the potential of high level of creativity and large market share can be optimized, and the challenges of improving manpower quality and easier access to capital can be accessed, so Indonesia can become the leader in AEC community. Lastly, for the follow-up questions on the optimism of Indonesian micro-small and medium business owners facing AEC, we can see that most of the respondents stated their optimism for the AEC community. It shows that AEC should be viewed as an opportunity for growth to improve the micro-small and medium business in Indonesia and ASEAN.

Conclusion

From the preliminary study, we have performed literature studies and short interviews to respondents consisted of Indonesian micro-small and medium business owners, to understand the challenges and opportunities of AEC in Indonesia. From the study, we can see that there are several challenges and opportunities that should be taken care of by the stakeholders in Indonesia, including the government, business owners, and consumers, in facing AEC in 2016. Most of the results in this study indicates that there are issues for government involving red tapes and bureaucracy which are hindering the access to capital, and progress of the business in AEC community. The

business owners should pay more attention about improving their own manpower quality and how to harness their own potentials to improve their businesses.

Advocating and counseling about the importance of AEC and how it affects your business in Indonesia, should be performed continuously, so that micro-small and medium business owners in Indonesia are not left behind when competing with their counterparts from neighboring ASEAN nations.

Further Studies

The results of this preliminary study should be useful for the continuation of studies on challenges and opportunities of AEC, faced by Indonesian micro-small and medium business owners. The results of this study can be used as a base to perform follow-up qualitative and quantitative studies, to improve the current conclusions of this preliminary study. It is expected that at the end of the research series, we can formulate a model which can explain the opportunities and challenges for micro-small and medium business owners in Indonesia when facing AEC.

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