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## **ASEAN Economic Community Impact on SMEs: A Regional Case Study**

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***Abstract:***

*This study aims to investigate the impact of ASEAN Economic Community on Small, and Medium Enterprise (SMEs) in the region of West Java, Indonesia by observing the variable income, total cost, and the number of SMEs.*

*Data collection using primary data based on questionnaires and direct interviews and secondary data came from National Statistical Agency and BAPEDA (District Development Planning Agency). The Analytical method based on comparison of variable before enactment of ASEAN Economic Community in 2015 and after in 2016.*

*The result shows the enactment does not effect to income and total cost of SMEs which may cause the Government and SMEs player have well prepared to anticipate before the enactment. However, the number of SME's has significantly increased due to the enactment.*

***Keywords:*** ASEAN Economic Community; Small, and Medium Enterprise (SMEs).

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## 1. Introduction

The ASEAN Economic Community started at the end of 2015 when began to open a free market for ASEAN countries with several impacts on its members. It is free for all members to go in and out to ASEAN Economic Community freely. Indonesia's government is worried about this condition due to the fact that it is counted as a developing country. However, this development can also provide new opportunities and hopes for the Indonesian economy to grow, especially for SMEs. Therefore, the government encourages SMEs to expand and growth better because it can reduce unemployment, social inequality and alleviate poverty as well as increasing the regional and national economy (Munizu, 2010; Havlicek *et al.*, 2013).

Flashback in 1998, many SMEs were able to survive during monetary crisis, whereas many large companies were going bankrupt and foreign investors leaved Indonesia (Kustanto, 2015). Therefore, the government should be able to optimize the developing of SMEs when many imported product enter Indonesia nowadays. Encouraging SMEs to be improved with innovations, to compete on imported products, to increase marketing sales promotion etc. Currently, many quality products of SMEs are not well known by people due to bad marketing such as the high quality of cassava chips, crackers, rice, and various other bamboo crafts from Karawang District.

It is assumed that the ASEAN Economic Community will create positive impact on income, lowering total cost, and the total number of SMEs is going to increase. If SMEs are able to see ASEAN Economic Community as an opportunity to increase sales and to reduce total cost then the number of SMEs will growth significantly. However, by thinking opposite that ASEAN Economic Community is a threat then SMEs products would not be strong enough to compete with other imported products from other countries, so final impact will be a deteriorating income with higher total cost driving many SMEs out of the market.

Sijabat (2008) showed that SMEs have difficulties in building a good brand name, to have market acces and to be easily recognized because the production chain is controlled by stronger components while SMEs are not able to play a crucial role. They are considered as price taker only and this condition will impact on their income. Based on Wicaksono and Nuvriasari (2002) research, the result showed SMEs players are always trying to create consumer satisfaction, listening the feedback, understanding the needs of consumers, and improving the quality of their products.

The ASEAN Economic Community, that had been implemented recently, need to further analyze the effect on SMEs. Does it provide benefit or not. Only few researchers have focused on this issue and limited reference is known regarding this issue. The main aim of his article is to examine the impact of ASEAN Economic Community on MSMEs especially in the region of West Java, Indonesia.

## 2. ASEAN Economic Community

The ASEAN Economic Community was originally initiated by the Prime Minister of Singapore Goh Chok Tong during the ASEAN Summit held at Phnom Penh in 1998, then agreed upon by all ASEAN leaders at the ASEAN Summit held at Bali in 2003, known as Bali Concord II (Furuoka *et al.*, 2012). ASEAN Economic Community will provide many opportunities for SMEs to expand their products freely within the ASEAN countries such as Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Cambodia, Laos, Myanmar, and Indonesia.

It is expected, that with the enactment of ASEAN Economic Community, SMEs can improve their competitiveness and their economic growth in ASEAN member countries. By starting this regulation it means that the market will be free for goods, services, investment, labor and capital (Wiranta, 2015) like in any other Economic Community (Thalassinos and Dafnos, 2015; Pociovalisteanu *et al.*, 2010; Pociovalisteanu and Thalassinos, 2008; Zaman and Meunier, 2017; Allegret *et al.*, 2016; Boldeanu and Tache, 2016; Breckova, 2016; Duguleanu and Duguleanu, 2016).

The implementation of the China-ASEAN Free Trade Area (CAFTA) in 2010, has significantly affected SMEs in Indonesia (Hamdani and Syukriah, 2013) where local products have faced difficulties to compete with Chinese products. Several SMEs took advantage from this development finding new resources and raw materials at affordable prices, while others eventually were not able to compete running out of business. Having the experience from CAFTA, SMEs can prepare better to face the ASEAN Economic Community as an opportunity not as a threat.

## 3. SMEs Development

The development of SMEs has affected by the Regional and Central Government. By starting the ASEAN Economic Community, the government either Regional or Central, should evaluate and assist SMEs which can be effected by its enactment. The impact of enactment of the ASEAN Economic Community can be either positive or negative to sales, total cost, and growth of SMEs. If a negative impact occurred the government should immediately take actions to save SMEs. West Java, as one of the economical areas that includes the Jabodetabek area, can be represented as a sample of SMEs to evaluate the impact of the ASEAN Economic Community regulation before the total exposure of SMEs in the whole country.

Indonesia is considered as a good potential market for free trade. In 2013, Indonesia's exports to the ASEAN market is only 23% of total exports (Valentia, Putera, & Java, 2016), which indicates the opportunities of SMEs to increase their exports to the ASEAN market. Moreover, SMEs in West Java are located close to the capital city which has a strategic place within the ASEAN market.

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#### 4. Hypothesis Development

ASEAN Economic Community can be an opportunity for SMEs to increase their income. Before enactment, SMEs were facing difficulties to export their products to ASEAN countries. However, by the end of 2015 when the ASEAN Economic Community has been started, the exporting problem of SMEs has been solved in the trade within the ASEAN countries. Therefore, the research hypothesis can be stated as follows:

*H1: There is a significant impact of the ASEAN Economic Community on SMEs income especially in West Java area.*

One of the impacts from the enactment of the ASEAN Economic Community is the abolition of any obstacle in trade, a free movement of all products within the ASEAN member countries from and to Indonesia. This condition can be an opportunity for SMEs to get at affordable prices good quality raw material making them able to reduce their total cost. Therefore, the second research hypothesis can be stated as follows:

*H2: There is a positive impact of ASEAN Economic Community on total cost of SMEs.*

The enactment of the ASEAN Economic Community can encourage people to build new SMEs especially when the ASEAN Economic Community can be seen as an opportunity not as a threat for investors willing to invest in Indonesian SMEs. Therefore, the third research hypothesis can be stated as follows:

*H3: There is a positive impact of the ASEAN Economic Community on the development rate of SMEs.*

#### 5. Methodology

Selected variables in this research are the following: income, total cost of operation and production, and growth of SMEs. The research sample used represents SMEs in West Java Province, Indonesia. The sampling area were covered the regency of Bogor, Sukabumi, Cianjur, Bandung, Garut, Tasikmalaya, Ciamis, Kuningan, Cirebon, Majalengka, Sumedang, Indramayu, Subang, Purwakarta, Karawang, Bekasi, West Bandung, and Pangandaran, and the city of Bogor, Sukabumi, Bandung, Cirebon, Bekasi, Depok, Cimahi, Tasikmalaya, and Banjar. From each region we have considered five SMEs as a representative sub-sample of each region.

We have used primary and secondary data, while the questionnaires were formalized according to the research hypotheses stated above with direct interviews as primary data and data coming from the National Statistical Agency and BAPEDA (District Development Planing Agency) of West Java as secondary data. As for comparison

reasons we have analyzed the research variables before and after the enactment in 2015 for each one of the variables. The income variable can be evaluated from the turnover obtained before and after the enactment as well as the variable of total cost. By evaluating the number of SMEs, we are able to make conclusions regarding the development of SMEs not only in terms of annual growth but also in terms of the total number of SMEs operating in the regions.

**6. Results**

**6.1 Analysis of ASEAN Economic Community impact on income variable**

Table 1 shows the paired sample statistics of average income before and after the enactment of the ASEAN Economic Community on income being Rp. 1,573,683,160 before and Rp. 1,818,158,300 after the enactment of the ASEAN Economic Community respectively. The correlation coefficient is 0.962 between the two variables with the significance level at 0.000, indicating that the income before and after the enactment has strong correlation. However, the value of t-statistic is only 1.533 while the corresponding value at 5% significance level is 0.132 (> 0.05). Therefore, the research hypothesis H1 is rejected indicating that the ASEAN Economic Community has not a significant impact on the income variable of SMEs.

**Table 1. Hypothesis testing (H1).**

**Tabel 1**

	Mean	N	Std. Deviation	Std. Error Mean	Correlation	Sig	T	df	Sig. (2-tailed)
Before_AEC	1573683160	50	3284294530	464469386.8	0.962	0.00	-1.533	49	0.132
After_AEC	1818158300	50	3847787697	544159354.6					

**6.2 Analysis of ASEAN Economic Community impact on total cost variable**

Table 2 shows the paired sample statistics of average cost before and after the enactment of the ASEAN Economic Community on total cost being Rp. 882,268,120 before and Rp. 1.016.236.345 after the enactment of the ASEAN Economic Community respectively. The correlation coefficient is 0.958 between two variables with the significance level at 0.000, indicating that the total cost before and after the enactment has strong correlation. However, the value of t-statistic is only -1.533 while the corresponding value at 5% significance level is 0.122 (> 0.05). Therefore, the research hypothesis H2 is rejected indicating that the ASEAN Economic Community has not a significant impact on the total cost variable of SMEs.

**Table 2. Hypothesis Testing (H2).**

**Tabel 2**

	Mean	N	Std. Deviation	Std. Error Mean	Correlation	Sig	T	df	Sig. (2-tailed)
Before_AEC	882268120	50	2040892188	288625741.1	0.962	0.00	-1.575	49	0.122
After_AEC	1016236345	50	2104664710	297644537.7					

### 6.3 Analysis of ASEAN Economic Community impact on number of MSMEs

Table 3 shows the paired sample statistics of average growth before and after the enactment of the ASEAN Economic Community on total cost being 40.48 before and 99.11 after the enactment of the ASEAN Economic Community respectively. The correlation coefficient is 0.811 between two variables with the significance level at 0.000 indicating that the growth variable before and after the enactment has strong correlation. However, the value of t-statistic is -2.932 while the corresponding value at 5% significance level is 0.007 ( $< 0.05$ ). Therefore, the research hypothesis H3 is accepted indicating that the ASEAN Economic Community has a positive significant impact on the growth number of SMEs operating in the sample regions.

**Table 3.** Hypothesis Testing (H3).

**Tabel 3**

	Mean	N	Std. Deviation	Std. Error Mean	Correlation	Sig.	T	df	Sig. (2-tailed)
Before_AEC	40.48	50	50.651	9.748	0.811	0.00	-2.932	49	0.007
After_AEC	99.11	50	140.675	27.073					

## 7. Conclusion

The results of this study show that the ASEAN Economic Community have not significantly impacted on the income of SMEs. It seems that SMEs earn the same income before and after the ASEAN Economic Community. The same result is valid in the case of total cost with no significant impact on this variable before and after the enactment of the ASEAN Economic Community.

On the contrary there is a significant positive impact on the third variable (H3) where the research has shown that ASEAN Economic Community has affected the growth of SMEs (in terms of total number of SMEs operating in the sample regions). This is a favorable result for the state of Indonesia because the economy is based on SMEs operating on a non-effective way. As soon as the Indonesian SMEs adopted a comparative business structure they will enjoyed higher incomes and lower total costs as a result of the ASEAN Economic Community. For this reason, the authors are willing to contact a further study for the impact on all the variables again later.

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