




ASEAN Charter and Regional Micro, Small and Medium Enterprises Development

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Abstract

Introduction: Micro, Small and Medium Enterprises (MSMEs) are a prominent sector in the Asian region that is proven to support the economy, especially developing countries. Although important, it is not uncommon for countries to ignore these independent economic initiatives.

Purposes of the Research: This paper aims to provide a brief overview of ASEAN's role in the development of MSMEs in the Region which is the mandate of the ASEAN Charter.

Methods of the Research: This research was conducted by conducting a normative juridical approach. Literature review and related secondary data.

Results of the Research: The results showed that MSMEs are one of the efforts to realize the economic goals of the Region as stated in the ASEAN Charter. Behind its strategic role for the national and regional economies, MSMEs still often face various challenges, both internally, such as limited capital and technology, as well as externally, including issues related to licensing, raw materials, marketing to integration efforts into regional and global production chains. For this reason, ASEAN's role is very important, especially to implement the Strategic Action Plan for SME Development (SAPSMED) 2016-2025 with the vision of 'Globally Competitive and Innovative SME'.

A. INTRODUCTION

The Association of South East Asian Nations (hereinafter abbreviated: ASEAN) has undergone many positive and significant changes and developments leading to the maturation of ASEAN. Now the ASEAN partnership has synergized to become the ASEAN Community This is strengthened by the ratification of the ASEAN Charter which is specifically the legal basis and foundation of ASEAN's identity. The purpose of establishing the ASEAN Community is to further strengthen ASEAN integration in the face of the development of international political constellations. ASEAN is fully aware that ASEAN needs to adjust its perspective so that it can be more open in dealing with internal and external problems.

The ASEAN Economic Community (hereinafter abbreviated: AEC) aims to make ASEAN a production base and buffer market area, a competitive region, a region that prioritizes equitable development and an area that is integrated with the global market. The development of Usaha Mikro Kecil and Menengah or Micro, Small and Medium Enterprises (MSMEs) is an integrated part of economic unification among ASEAN

member states. The ASEAN Economic Community (AEC) aims to develop economic potential in all ASEAN member countries. MEA is also expected to create job opportunities for 600 million people in Southeast Asia, as well as provide opportunities for companies in the ASEAN region to expand their operational areas. ASEAN economic cooperation covers various fields.¹ MSMEs are a prominent sector in the Asian region that is proven to support the economy, especially developing countries. Although important, it is not uncommon for countries to ignore these independent economic initiatives.² A number of internal obstacles to the development of MSMEs, including those related to access to banking financing, financial administration management, and the quality of human resources. Meanwhile, external obstacles faced in the form of limited access to raw materials and technology, a less conducive business climate, and weak infrastructure in the transportation and energy sectors.³ Bank Indonesia in its mapping report and strategy to increase the competitiveness of MSMEs in the face of the AEC stated that several previous studies on factors affecting the ability of MSMEs:⁴

- 1) Nicolescu (2009) shows that the ability of MSMEs to survive and grow depends on internal and external factors. Internal factors such as business scale, stakeholders personality, educational background, and company culture (internal training), can affect the level of productivity and innovation of the company. Meanwhile, external factors are factors outside the company such as access to capital and the policy environment, both government policies and the economic conditions of a country.
- 2) Wignaraja (2012) ; and Presisi (2014) shows that in general the participation of MSMEs in the Global Value Chain (GVC) is still low. This low participation is due to limited resources such as finance, information, management and technology capacity as well as access to market information.
- 3) Another study conducted by Harvie, Nardjoko & Oum (2010) stated that several factors that can increase participation in GVC include business scale, business maturity, foreign linkage, productivity, innovation and access to financing.

The development of MSMEs is one of the efforts put forward in the ASEAN framework to realize the development of a stable economy, in addition to reducing development gaps, strengthening the quality of human resources, improving social welfare, and broader participation in the ASEAN integration process. The strategic role of MSMEs in the AEC includes helping to overcome the problem of unemployment, reviving industrial estates, having strong resilience when faced with a crisis, and contributing greatly to GDP and economic growth.⁵ The ASEAN Charter

¹ Risky Wahyudi. *3 Main Pillars of ASEAN Community*. (2022, July 29). Explanation of the 3 pillars of the ASEAN Community, AEC, ASCC, and APSC. <https://tirto.id/guzf> accessed March 27, 2023.

² Dafri Agussalim, in Gloria, *MSME Important Actors in the ASEAN Economic Community*, Gadjah Mada University, 2020, <https://www.ugm.ac.id/id/berita/19821-umkm-aktor-penting-dalam-masyarakat-ekonomi-asean>, accessed March 8, 2023

³ *Ibid.*

⁴ Department of MSME Development of Bank Indonesia, *Mapping and strategies to increase the competitiveness of MSMEs in facing the 2015 MEA and post-MEA 2025*, 2016, p. ix

⁵ Dafri Agussalim, in Gloria, *Op.Cit.*

is a legal instrument that binds all ASEAN member states. The ASEAN Charter is expected to create a stable and prosperous ASEAN economy through the development of regional MSMEs.

B. METHODS

This article was done by conducting a normative juridical approach. Literature studies and secondary data related to the research objects were examined, such as books, journals, publications, regulations, and another material to be further analyzed

C. RESULTS AND DISCUSSION

One of the characteristics of public international organizations is that they must be formed by an international treaty. Therefore, international organizations are known as *treaty-based organizations*. Such international agreements become rules that will apply to the formed international organizations and become the principal instruments for the activities of that international organization, serta in relation to other subjects of international law. International treaties that make up an international organization provide a legal personality that results in rights and obligations for the international organization. The legal personality of an international organization is essentially related to the completeness of the organization in its capacity to carry out legal acts, both in relation to with other countries as well as with its member states. In addition to legal personality issues, legal issues also arise regarding the power to take a legal action to enter into an agreement or agreement for and on behalf of the international organization. This is called *treaty making power* and needs attention because it is related to the external relations of an international organization.

Microeconomics is a science that studies the behavior of consumers and firms, as well as the determination of market prices, services, products, and quantities and input factors traded in the market. Microeconomics also directly influences decision making in terms of supply and demand for goods or services. Microeconomics also has a relationship with MSMEs because business actors are expected to see opportunities, challenges, and can see profits, and buyers in this case are individual buyers.⁶ *The Association of Southeast Asian Nations* (ASEAN) is an international organization that has regional membership, namely the countries located in the Southeast Asian region, namely Brunei Darussalam, the Kingdom of Cambodia, the Republic of Indonesia, the Democratic People's Republic of Lao, Malaysia, the Union of Myanmar, the Republic of the Philippines, the Republic of Singapore, the Kingdom of Thailand, and the Socialist Republic of Viet Nam. ASEAN has become one of the important regional organizations for the development of developing countries located in the Southeast Asian region.

Like other international organizations, ASEAN also has a *constituent instrument*, namely the *ASEAN Charter*. The ASEAN Charter was established at the 13th ASEAN summit, in November 2007 in Singapore. The ASEAN Charter came into force on December 15, 2008 after all ASEAN members submitted ratification to the ASEAN Secretary General. Especially in Indonesia, the implementation of the ASEAN

⁶ Dominick Salvatore, *International Economics*, 1995, Erlangga, Jakarta.

Charter was ratified through The Law of the Republic of Indonesia Number 38 of 2008 concerning ratification of the Charter of *the Association of Southeast Asia Nations*. The ASEAN Charter contains the objectives of ASEAN as stipulated in Article 1 of the ASEAN Charter. In Article 1 Paragraph (5) it is outlined that the objectives of the ASEAN in the economic field are: *“To create a single market and production base which is stable, prosperous, highly competitive and economically integrated with effective facilitation for trade and investment in which there is free flow of goods, services and investment; facilitated movement of business persons, professionals, talents and labour; and freer flow of capital;”*

The Asean Economic Community or abbreviated as AEC is a concept or idea that has begun to be used during the *Declaration of ASEAN Concord II* event known as *Bali Concord II*. The declaration was implemented in Bali in October 2003. The presence of the AEC is one of the manifestations of the *ASEAN Vision*, along with the *ASEAN Security Community (ASC)* and *the ASEAN Socio-Cultural Community (ASCC)*. The establishment of the AEC is an effort by ASEAN to be able to bersaing in the global economy, especially with the countries of China and India. The establishment of the AEC has four strategic plans, namely the achievement of a single market and the unity of the production base, a highly competitive economic zone, equitable economic growth, and integrated with the global economy. All those strategic plans begin with the achievement of a single market and the unity of the production base. ASEAN will plan to create a single market containing ASEAN member states. In this case, the ASEAN single market is in the form of services, investment, the flow of goods, experts, and a freer flow of capital to be carried out.

Currently, the MEA is in its *second blue print*. When the blueprint period in the first AEC ended in 2015, it turned out that Southeast Asia and ASEAN were able to record quite good economic development or progress. The ASEAN region is able to achieve a combined gross domestic product of up to US\$ 2.4 trillion, a fantastic figure. In addition, the total value of trade that occurred in the ASEAN region experienced a growth of US\$ 700 billion, this figure was obtained between 2007 and 2014. In this figure, trade between ASEAN countries takes the most role. After seeing the economic progress taking place in the Southeast Asian region, the leaders of ASEAN countries made a new agreement, resulting in a new or second AEC blueprint. This second blueprint is named *AEC Blueprint 2025*. Basically, the 2025 blueprint is not much different from the 2015 blueprint, it's just that the 2025 blueprint consists of five pillars. Here are the five pillars in the MEA 2025 blueprint:

- 1) A unified and fully integrated economy: The first MEA 2025 pillar covers a wide range of things, from trade in goods, trade in services, investment environment, financial integration, increasing participation in the GVC, and others. The purpose of the first AEC 2025 pillar is to be able to provide facilities to launch a movement in the form of goods, services, investment, capital, skilled labor in the ASEAN region. This goal is to expand ASEAN's trade and production reach. Not only that, the goal in this pillar is to be able to create a more organized market for companies and consumers.
- 2) Competitive, Innovative, and Dynamic ASEAN: Things that include this pillar, such as consumer protection, providing Intellectual Property Rights (IPR) cooperation, sustainable economic development, and others. Similar to the

previous AEC 2025 pillar, this pillar also has a goal, which is to focus policies on elements in order to increase competitiveness and productivity in the ASEAN region.

- 3) Improved Connectivity of Sectoral Cooperation: The third pillar in the MEA 2025 blueprint covers several things, namely energy, e-commerce, tourism transportation, health, and so on. The objective of this pillar is to improve various sectors and integrate with other sectors in order to complement and maximize the economy in the ASEAN region.
- 4) Asean that is Resilient, Inclusive, People-Oriented, and People-Centered: The fourth pillar in the MEA 2025 blueprint, some of the things in this pillar, such as strengthening the private sector, reducing gaps in economic growth, and others. This pillar has a goal, which is to build a just economy.
- 5) Global ASEAN: Things that include the fifth pillar of the MEA 2025 blueprint, namely involving regional and global partners, approaching through external economic cooperation, and so on. The goal of this fifth pillar is to create economic progress and integrate the ASEAN region with the global economy.

MSMEs contribute greatly to the ASEAN economy. To date, around 96 percent of business forms in ASEAN are Micro, Small and Medium Enterprises (MSMEs) with a contribution to gross domestic product (GDP) of around 30% to 57%; and absorbs about 50% to 95% of the workforce. Strengthening MSMEs is one of the important elements in the first AEC Blueprint of 2015, especially related to the pillar of equitable economic development, which is essentially ASEAN's commitment to reducing development gaps in the region.

The second AEC Blueprint for 2025 reaffirms the role of MSMEs as the backbone of the ASEAN economy. Through the MEA Blueprint 2025, ASEAN places a new emphasis on the development and promotion of MSMEs and prepares various more structured programs to further increase the competitiveness and resilience of MSMEs to be able to benefit from ASEAN economic integration. At the 27th ASEAN Summit in Kuala Lumpur, ASEAN has adopted the *Strategic Action Plan for SME Development (SAPSMED) 2016-2025* with the vision of 'Globally Competitive and Innovative SME' to build MSMEs that are increasingly innovative and globally competitive. Behind its strategic role for the national and regional economies, MSMEs still often face various challenges, both internally, such as limited capital and technology, as well as externally, including issues related to licensing, raw materials, marketing to integration efforts into regional and global production chains. Technological developments are an important aspect that must be utilized to improve the stability of MSMEs. For this reason, the role of ASEAN is very important, especially to implement *Strategic Action Plan for SME Development (SAPSMED) 2016-2025* with vision 'Globally Competitive and Innovative SME'.

MSMEs contribute greatly to the economy of Indonesia and ASEAN. Until now, around 96% of business forms in ASEAN are Micro, Small and Medium Enterprises (MSMEs) with a contribution to Gross Domestic Product (GDP) of around 30% to 57%; and absorb labor about 50% to 95%.⁷ One form of ASEAN support to strengthen

⁷ Ministry Of Foreign Affairs Of The Republic Of Indonesia. Asean Community, Edition 12, Directorate General of ASEAN Cooperation Ministry of Foreign Affairs, Jl. Taman Pejambon No. 6,

MSMEs is the ratification of the ASEAN *Strategic Action Plan for Small Medium Enterprises Development 2016-2025* by the Economic Ministers of ASEAN member countries.⁸ The legal basis for ASEAN to provide support for the strengthening of MSMEs is in Article 1 point 5 of the ASEAN Charter, namely: "To create a single market and production base which is stable, prosperous, highly competitive and economically integrated with effective facilitation for trade and investment in which there is free flow of goods, services and investment; facilitated movement of business persons, professionals, talents and labour; and freer flow of capital"; "To create a stable, prosperous, highly competitive and economically integrated single market and production base through effective facilitation of trade and investment, in which there is a free flow of goods, services and investment; facilitating the movement of business actors, professional workers, talented workers and laborers; and freer flows of capital.

D. CONCLUSION

Based on the descriptions above, it can be concluded that MSMEs contribute greatly to the ASEAN economy. MSMEs are one of the efforts to realize the economic goals of the Region as stated in the ASEAN Charter. Behind its strategic role for the national and regional economies, MSMEs still often face various challenges, both internally, such as limited capital and technology, as well as externally, including issues related to licensing, raw materials, marketing to integration efforts into regional and global production chains. For this reason, ASEAN's role is very important, especially to implement the *Strategic Action Plan for SME Development (SAPSMED) 2016-2025* with the vision of 'Globally Competitive and Innovative SME'

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Central Jakarta, June 2016, p. 4.

⁸ Yuliana R. Prasetyawati. *51 Tahun ASEAN dan Penguatan UMKM Indonesia*, Head of Centre of Public Relations Studies, LSPR Jakarta. April 26, 2021.