

CHAPTER III

ASEAN ECONOMIC COMMUNITY 2015

In this section, the author gives an explanation about all background of ASEAN, which consists of history, the objectives, form of ASEAN Cooperation, and establishment of ASEAN Community. Furthermore, after explaining establishment of ASEAN Community, the explanation continues with the with focus description of ASEAN Economic Community and its stages, benefits and strategy in dealing with ASEAN Economic Community.

A. History and Objectives of ASEAN

Before the existence of Association of South East Asian Nation (ASEAN), Southeast Asian countries had established several organizations such as SEATO (South East Asian Treaty Organization), Association of South East Asia (ASA), ASPAC (Asia Pacific Corporation (ASPAC) and Malphindo. SEATO was established in 1954 in order to build cooperation of defense and security. After SEATO, there is Association of South East Asia (ASA), which has members from Malaysia, Philippines and Thailand, which aims to build cooperation on social and cultural fields. ASPAC (Asia Pacific Corporation (ASPAC) consists of Asia Pacific countries, and Maphilindo is an organization based on the conception of allied countries namely Malaysia, Philippines and Indonesia. But cooperation that has been formed easily ends because of the emergence of internal problems among member countries. Realizing there is correspondence between ASEAN members, this is the background for member countries to form cooperation to eradicate conflict, build mutual trust and encourage regional development cooperation.

Bangkok Declaration was held on August 8, 1967 initiated by 5 ASEAN member countries namely Indonesia, Malaysia, Singapore, the Philippines and Thailand thus declaration resulted a draft Joint Declaration that regulates regional cooperation in the Southeast Asia region. The result of the Bangkok declaration was the birth of the Association of South East Asian Nations (ASEAN). ASEAN consist of ten members and the five members that complete five founding fathers are Myanmar,

Vietnam, Laos, Cambodia, and Brunei Darussalam through the ASEAN meetings after Bangkok Declaration.

There are a lot of reasons ASEAN establishment. Firstly, the geographical equation is the background of ASEAN formation. All ASEAN member countries have a geographical location in one region that bordering Indian Ocean in the north and China in the south. Secondly, beside geographical equation, ethnic and cultural similarity becomes another reason that unites ASEAN. Mostly ASEAN people are Malay-Austronesian culture. Lastly, Europeans colonized all ASEAN countries except Thailand in a long period of time.

The purpose of ASEAN is to unite the countries of Southeast Asia through the establishment of associations within a region. The objectives of ASEAN are contained in the Bangkok declaration:

1. Accelerate economic growth, social progress and cultural development in the region through collaboration program in a spirit of commonality and camaraderie to strengthen the foundation of a community of Southeast Asian nations to be prosperous and peaceful.
2. Improve the regional peace and stability with respect to the stability and orderly regional law in relations between the countries of this region as well as adhere to the principles of the Charter of the United Nations.
3. Increase the active cooperation and help each other for common interests in the economic, social, engineering, science, and administration.
4. Mutual assistance in the form of training and research in the fields of education, professional, technical and administrative.
5. Work more effectively in order to improve the utilization of agriculture and industry, expanding trade and study of international commodity problems, improve the means of transportation and communication, as well as improve the living standards of their people.
6. Advance studies on Southeast Asia; and

7. Maintain cooperation to promote education, training and research in Southeast Asia with a range of international and regional organizations that have similar goals.

The ASEAN emblem shall be the official emblem of ASEAN. ASEAN member states are encouraged to use the ASEAN emblem in official functions relating to ASEAN. The ASEAN emblem also represents a stable, united, dynamic and peaceful ASEAN.



Figure 3. 1 ASEAN Logo

Source: (ASEAN, ASEAN Emblem - ASEAN | ONE VISION
ONE IDENTITY ONE COMMUNITY, 2015)

1. The blue color outline has meaning of peace, security and stability
2. Red as the background color has meaning spirit of courage and dynamism
3. White symbolizes purity
4. The yellow color means prosperity
5. The stalks of padi/ clumps of rice symbolize bond of friendship, and the unity of the 10-members of ASEAN.
6. The circle represents the unity between countries

B. Forms of ASEAN Cooperation

Since founded in 1945 and established until now, ASEAN had been built some cooperation that gives abundant benefits to the community. There are two forms of cooperation; they are economic field and social cultural field.

1. In the economic field, ASEAN removes economic barriers by creating regional economic unity and increasing free trade by reducing export and import trade duties between ASEAN members.
2. In the field of Social and Culture field include culture, education, environment, science and technology. ASEAN holds a mission to exchange culture and arts through student exchange and teacher exchange within ASEAN. In addition, holding ASEAN competitions such as SEA Games competition held every two years. Beside that, ASEAN also focuses on some social aspects, such as women empowerment, youth empowerment, and drug control.

C. Establishment of ASEAN Community

ASEAN has developed from time to time in accordance with the main idea of ASEAN, namely as an organization that aims to foster cooperation between member countries in order to accelerate economic growth, encourage regional security and stability, and establish cooperation in various fields. There are many ASEAN activities, which ultimately give birth to ASEAN programs, such as ASEAN Summit in Kuala Lumpur that was held on December 15, 1997 and the 9th ASEAN Summit in Bali in 2003, which agreed to ratify the establishment of the ASEAN Economic Community, with motto, “One vision, One Identity, One Community”.

1. ASEAN Political-Security Community

This community is collaboration between politics and security aspect. The establishment of the ASEAN community security will strengthen regional resilience and support the resolution of conflict and peace in the regional and global regions. The creation of peace and stability in the region is a capital for the process of economic and social cultural development of the ASEAN community. The

coordination of ASEAN cooperation in politics and security was carried out through the ASEAN Political-Security Community Council. The ASEAN Political-Security Community implements some program such as the resolution of conflict management, protection of human rights, eradication of transnational crime, and eradication of terrorism.

2. ASEAN Socio-Cultural Community

The ASEAN Socio-Cultural Community is a form of integration in terms of social and culture. This community focuses on the scope of social issues such as poverty, environment, health, youth, women, children and social welfare and providing training to the community. ASSC aims to contribute to achieving an ASEAN community that is oriented towards the responsibility of the ASEAN civil society on a social basis as a form of solidarity and unity between the community and ASEAN member countries. Some programs of ASSC are the mitigation of the effects of natural disasters, drug handling and solutions, protections of disable people, cooperation to increase tourism, holding ASEAN youth congresses, and cultural inter-ASEAN festivals.

3. ASEAN Economic Community

The reason behind the formation of the ASEAN Economic Community was the economic crisis that was brought between ASEAN countries. In addition, ASEAN countries assume that ASEAN must be advanced and not just create a discussion or talks show. The ASEAN Economic Community was previously planned to begin in 2020 but hopefully this community began in 2015. This event happened because the global competition between countries was getting stronger and it is hoped that ASEAN could quickly compete with other free trade partners such as China, Japan and India. ASEAN Economic Community (AEC) begins with the first Summit held in Malaysia. The summit focused on economic issues between ASEAN such as Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) program that had been formed in 1993, which discussed

economic development in underdeveloped provinces of each member country. The summit resulted in a shared vision, namely the ASEAN Vision 2020. ASEAN Vision 2020 is a long-term vision to realize a stable ASEAN region in terms of economy, politics and culture as well as increasing the prosperity of ASEAN countries with equitable economic development. The priority in ASEAN Vision 2020 is the ASEAN economic community with the aim of regional economic integration in 2020.

D. ASEAN stages towards ASEAN Economic Community 2015

There are a lot of ASEAN stages towards realization of ASEAN Economic Community 2015. It is started with ASEAN Vision 2020, which adopted by ASEAN Leaders on the 30th Anniversary of ASEAN until final implementation on Blue Print of ASEAN Economic Community.

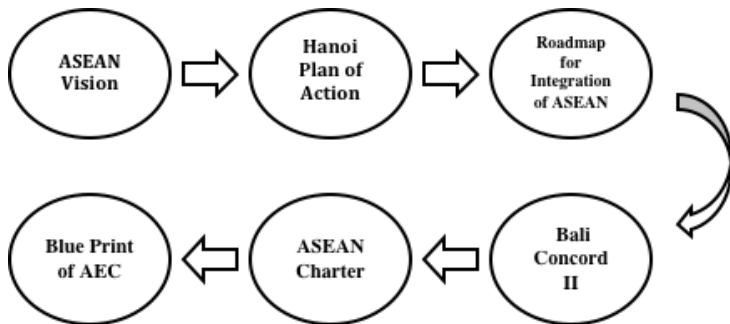


Figure 3. 2 AEC Stage
Source: (asean.org, 2017)

1. ASEAN Community Vision 2025

ASEAN Vision is the 2nd ASEAN high-level conference held in Kuala Lumpur, Malaysia in 1997. ASEAN Vision focuses on economic and social growth. The results of ASEAN Vision are:

- a. Realizing a stable and highly competitive region with equitable economic development, which is characterized

by a reduction in the level of poverty and socio-economic differences.

- b. Accelerating liberalization in the service sector.
- c. Improving the movement of professionals and other services freely in the region.

ASEAN Community Vision 2025 consists of five documents, namely:

- a. Kuala Lumpur Declaration on "ASEAN 2025: Forging Ahead Together". This declaration endorsed by the leaders at their 27th summit. It is consist of ASEAN Community roadmap over the next ten years.
- b. The vision of an ASEAN Community in 2025, In ASEAN 2025 document mention that ASEAN works towards community that is “politically cohesive, socially responsible and economically integrated” (ASEAN, ASEAN 2025: Forging Ahead Together, 2015)
- c. Blueprint for Political-security community of ASEAN in 2025. It is consist of blueprint’s implementation since its adoption in 2015. Blueprint of the ASEAN Political-Security Community (APSC) 2009-2015 has consolidated the politico-security cooperation ASEAN for more than four decades in a concrete and very comprehensive, with the aim of ensuring that the public and the ASEAN Member Countries live peacefully with each other and with the world at large in an environment that is fair, democratic and harmonious.
- d. Blueprint for ASEAN Economic Community of ASEAN in 2025. The implementation of the 2015 ASEAN Economic Community (MEA) Blueprint has been achieved substantially, among others in the elimination of tariffs and trade facilitation; promoting the liberalization of trade in services; liberalization and investment facilitation; simplification and harmonization of capital market regulatory frameworks and platforms; facilitation of the movement of skilled labor, development of regional frameworks in competition policy, consumer protection and intellectual property rights; advancing connectivity; efforts to narrow the gap

of development; and strengthening ASEAN relations with (outside parties / stakeholders). (ASEAN, ASEAN 2025: Forging Ahead Together, 2015)

- e. Blueprint for Social-cultural community of ASEAN in 2025. This Blueprint contains the core of the ASEAN Socio-Cultural Society, which is a commitment to improve the quality of life of the people through cooperation that is people-oriented, people-centered, friendly environment, and directed towards advancing sustainable development.

2. Hanoi Plan of Action (HPA)

In order to implement “ASEAN Vision 2020”, the association held the Sixth ASEAN Summit in Hanoi in December 1998. Hanoi Plan has frame from 1999-2004. This summit is the first series to realize the goals of the vision. There are some aspects of the Hanoi Plan of Action such as financial cooperation, economic cooperation, functional cooperation, and structural and mechanisms. (ASEAN, Hanoi Plan of Action, 2012)

Economic cooperation becomes main aspect of this plan. Some important key terms of economic cooperation are policy, which made by The ASEAN Free Trade Area (AFTA) to eliminate import duties by 2010 for six members of ASEAN and 2015 for new members, In terms of investment, Under the ASEAN Investment Area (AIA) agreement, seven members have agreed to remove their temporary exclusion list for ASEAN investors in manufacturing by 2003 and some policies on services sector, transport and telecommunications.

3. Roadmap for Integration of ASEAN (RIA)

The objectives of Roadmap for Integration of ASEAN are reducing digital among individuals of ASEAN Member States, promote cooperation between public and private sectors in realizing EASEAN, liberalization of trade in ICT products, services and IC, also strengthen and enhance the competitiveness of the ICT sector in ASEAN (ASEAN, Roadmap to an ASEAN Economic Community, 2015)

4. Declaration of ASEAN Concord (Bali Concord II)

The Bali Concord II or ninth ASEAN Summit was held in Bali on 7-8 October 2003. There are three important points in Bali Concord II namely a.) Establishment of the ASEAN Economy Community (AEC) as an ASEAN economic entity b.) ASEAN Community Security (ASC) as a common security forum, and c.) Sociocultural ASEAN community as a social and cultural ASEAN community. In Bali Concord meeting, it formulated a forum that will build opportunities for regional integration that expected to give benefit each other and create stability and security from other interference.

5. ASEAN Charter

The ASEAN Charter was adopted from the 13th ASEAN Summit in November 2007. The ASEAN Charter was signed at the 13th ASEAN Summit on 11 December 2007 in Singapore. With the ASEAN Charter, it is hoped that countries can promote ASEAN identity and awareness of its members to achieve ASEAN goals and aspirations.

ASEAN Charter aims to transform ASEAN from a political association of organizations that have clear rules, legal personality, and have an effective and efficient organizational structure in dealing with problems that occur in the world especially in Southeast Asia. The core of the goal of the ASEAN Charter is to improve and maintain peace, security and stability and create a single market and production base that is stable, prosperous, highly competitive, and economically integrated which includes free traffic of goods, services and investments and free capital flows. (Baviera & Maramis, 2008)

6. Blue Print of ASEAN Economic Community (AEC)

ASEAN Economic Ministers Meeting (AEM) held in Kuala Lumpur in 2006 agreed to create a blueprint. The function of this blueprint is to follow up the formation of the AEC by identifying the characteristics and elements of AEC in 2015 in accordance with Bali Concord II. The ASEAN Economic Community Blue Print contains a program of cooperation that will be carried out at the time of the

enactment of the ASEAN Economic Community by ASEAN members, which issued and ratified by the ASEAN Secretary General in 2007.

The AEC 2025 blueprint is a continuation of the 2015 AEC blueprint which consists of five interrelated and mutually reinforcing characteristics, namely (i) an integrated and fully integrated economy (ii) ASEAN that is competitive, innovative, dynamic (iii) Increased connectivity and sectorial cooperation (iv) ASEAN that is resilient, inclusive, and oriented towards the people and centered on the people; and (v) worldwide (ASEAN, ASEAN Economic Community Blueprint, 2009)

The first pillar has aims to make ASEAN as a single free market and production base. ASEAN is a market entity for ASEAN member countries. There are five elements such as free flow of goods, free flow of services, free flow of investment, freer flow of capital, and free flow of skilled labor. The next one is facilitating free trade, which includes processes, procedures and information about ASEAN countries. Free flow policy includes four main priorities, namely Air transportation, e-ASEAN, health, and tourism sector.

The free goods flow policy mechanism is implemented in several agreements. ASEAN Free Trade (ADTA) as an example of a policy agreed in 1992. In 2015, all ASEAN countries must substantially reduce all trade and service barriers such as eliminating tariff barriers such as customs and non-tariff barriers such as restricting import quotas types of goods. Each country has a different readiness, so the liberalization of trade services is negotiated every two years since 2008 and in 2015 the implementation of all the substance of ASEAN members.

The second pillar is ASEAN as a single region of high competitiveness that focus on business competition, consumer protection, intellectual property rights (IPR), infrastructure development, taxation and E-commerce. All ASEAN members require highly competitive area. Regional

collaboration forces to boost competitive advantage and become a magnet for the global world.

There is no doubt that the collaboration between the states would be a good means to boost the quality of the product. It is important for every country to produce a highly competitive product and outcome before it is marketed to all people within region. In addition, industry players must improve their abilities and skills to compete with ASEAN citizens in the ASEAN single market.

In this case, ASEAN should support the Intellectual Property Rights (IPR) of each product produced by the community. IPR is expected to protect creativity and innovation and foster cultural creativity, intellectual and artworks. It is expected that the government in each country also provide guidance and protection for existing creativity and innovation. In addition, double taxation must be carried out with bilateral agreements between countries. In order for no consumers to be harmed, ASEAN Coordinating Committee on Consumer Protection (ACCCP) was formed as consumer protection.

The Third pillar is ASEAN as an equitable economic development area. The background of this pillar is the existence of inequality among ASEAN countries, equitable development areas need to be done so that all ASEAN people can feel the benefits of AEC. The development area focused on the development of small and medium enterprises and the ASEAN Integration initiative (IAI) and conducts programs that reduce economic disparities and large gaps in the ASEAN region, especially the CMLV countries (Cambodia, Myanmar, Laos and Vietnam)

The fourth pillar is ASEAN as integration into the global economy. ASEAN as a strong, inclusive, focused organization to society and globally. ASEAN is expected to become a region with a strong economy so it can face global trade easily. ASEAN is expected not to isolate itself to international world by realizing ASEAN as a fully integrated region. This can be applied through a coherent economic approach in the relations of ASEAN and its partners outside

the region in order to increase higher value and increase participation in global production networks. All countries can build platforms that increase inclusiveness with active contribution and open cooperation in context of the global economy.

E. Benefits of ASEAN Economic Community

1. Cheaper goods: removing tax barrier is very useful for both sellers and consumers. For exporters, it will be easier for them to reduce cost production and this will create cheap imported goods that can be consumed by all ASEAN people and the welfare of society will be created. Exports and imports will increase and the range will be wider because without shipping costs.
2. Skilled Labor: more open jobs for community the more benefits that will get, not only that, workers will certainly get the international-scale training and knowledge of technology until become skilled people to face free trade between states.
3. Competitive workforce: there are 8 professions recognized by MRA (Mutual Recognition Arrangement) i.e. architect, workers in tourism, accountants, dentists, engineers, survey workers, medical practitioners, and nurses. With the existence of the MRA, Indonesian workers can look for opportunities to find work abroad (ASEAN, Handbook ASEAN Mutual Recognition Arrangement on Tourism Professionals 2018 2nd Edition, 2018)
4. Competitive Economic Region: with the implementation of the competitive pillar of the economic region, countries will compete to advance their countries in infrastructures such as highways, international scale airports, ports, railways, and international meetinghouses (MICE)
5. Increased business interest in AEC: ASEAN will get benefits from Foreign Direct Investment (FDI) because FDI always increase year by year, ASEAN hopes business interests will always increase and develop strategies centered in ASEAN in their company policies
6. Easier Investment: with the free flow and removing barrier will make it easier for investors to grow their interest. For

free capital flows, stock exchanges from several member countries are collaborating to promote the ASEAN capital market so that there are more investors in the region.

F. Indonesia preparation in dealing with AEC

Indonesia should create maximum preparations to face AEC in many aspects. Indonesia as the giant of ASEAN has a favorable position. Indonesia's position is greatly beneficial because of its strategic geographical location among other ASEAN countries. Indonesia has become a reliable manufacturer of a wide range of sectors such as industry, fisheries, and agriculture. As a producer, Indonesia is expected to improve the quality of the industry in order to increase the value of selling goods. This is to increase export production and anticipate that the domestic trade market is not eroded by foreign invasions.

Industry players are expected to be supported by professional human resources. Professional resources will create a competitive business environment to produce high quality products. In addition, through the Ministry of Trade, government support in the readiness and development of SMEs is very much needed by organizing Expo and workshops of regional industry potential so that people can introduce and market their products and get feedback from buyers to improve the product quality. In addition, the government should facilitate SMEs with adequate infrastructure, advanced technology and a supportive atmosphere.

At the annual meeting of the IMF and the World Bank in 2018 in Nusa Dua, Indonesia government had the opportunity to introduce 10 new Bali, which includes Wakatobi, Labuan Bajo, Morotai, Danau Toba, Tanjung Kelayang, Tanjung Lesung, Kepulauan Seribu, and Borobudur Temple. The presence of 10 New Bali is expected to bring foreign tourists and increase the country's foreign exchange. Marketing and promotion of Indonesian tourism through "Visit Indonesia" must be intensified again, so not only Bali that get attention from outside Indonesia. In this era of globalization, The Ministry of Tourism must better utilize the digital world platform to introduce and promote Indonesian tourism. In addition, promotion can also be done

through international forums where those attending the forum are state officials.

In order to compete with another ASEAN countries in term of skilled labor it is important to have specification of job qualified foreign language skills. Specification will lead to specialization. Specialization will allow every individual to get a job in accordance with the interests and talents. Beside that, people will be more interested in people who have specialties rather than general knowledge. In addition, foreign languages must be mastered in order to compete with other ASEAN communities. A foreign language skill that must be mastered well is English. It is expected that each individual preparing themselves with English language skills and raise awareness of foreign languages to communicate. Furthermore, the role of the Indonesian government is needed in foreign language training.

In Creative industry, Indonesia also tries to gain benefit by expanding market worldwide because creative industry is a driving force of the Indonesian economy. Furthermore, in the past 10 years Indonesia is expected to succeed AEC and become the number one country in developing creative industry among ASEAN members. In order to achieve ASEAN Economic Community, Government's participation is really needed by doing some actions such as establishing Badan Ekonomi Kreatif (BEKRAF), collaborating with other state's government, and reducing tax income.