

## CHAPTER I

### INTRODUCTION

In this introductory section, written about the general explanation of the content of this thesis entitled "Preparation of Indonesia to face the ASEAN Economic Community (MEA)" explanation of this thesis is divided into several points, namely background, theoretical basis, hypothesis, research methods, and writing methods.

#### **A. Background**

Indonesia has a good development of economy in the last 4 years. The development of the global economy today is quite influential to the global economy. The flow of globalization makes fundamental changes in the international world order, especially on the economic aspect. One characteristic of global economic development is the liberalization of goods, services, capital, and investment. The existence of this liberalization, making the world economy to be open. The process of liberalization makes the global economy more integrated and interdependence stronger.<sup>1</sup> This situation affects the economic situation of the countries in Southeast Asia.

Before the establishment of ASEAN, various conflicts have occurred among Southeast Asian countries. For example, the confrontation between

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<sup>1</sup> J. Soedjati Jiwandono, *Perubahan Global dalam Perkembangan Studi Ilmu Hubungan Internasional*, Kata Pengantar : J. Soedjati Jiwandono, Bandung, 1999

Indonesia and Malaysia, territorial claims between Malaysia and the Philippines concerning Sabah, and the separation of Singapore from the Malaysian federation, and the separation of Singapore from the Malaysian federation. Departing from these problems, Southeast Asian countries recognize the importance of establishing or establishing cooperation among the countries in Southeast Asia.

Starting from the problems that have occurred, five foreign ministers from Indonesia, Malaysia, Singapore, Philippines, and Thailand held a meeting in Bangkok in August 1967 that resulted in the design of the Joint Declaration. The final result of the meeting, on August 8, 1967, was signed by Bangkok's deputy prime minister and concurrent foreign minister of Malaysia and foreign ministers from Indonesia, Philippines, Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Laos PDR and Myanmar on 23 July 1997, and Cambodia on 30 April 1999. With the signing of the Bangkok declaration, it marks the establishment of ASEAN (*Association of South East Asia Nations*).<sup>2</sup>

ASEAN is an organization, as well as a community of countries of many races, languages, religions, and is linked through historical proximity and interconnectedness. ASEAN cities today provide little clue as to their harsh past. Skyscraper buildings now stand in a location that was once destroyed by war and prolonged conflict. Spread over an area of 4,480,000 km<sup>2</sup> with a population of over 540 million indigenous people, immigrants, and descendants of inter-nations marriages. As a region, ASEAN offers a rich diversity of talents, traditions,

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<sup>2</sup> <http://www.asean.org/asean/about-asean/history> accessed on 04 April 2014

resources, and opportunities. ASEAN is an organization, as well as a community of countries of many races, languages, religions, and connected through historical proximity and interconnectedness. ASEAN cities today provide little clue as to their harsh past. Skyscraper buildings now stand in a location that was once destroyed by war and prolonged conflict. Spread over an area of 4,480,000 km<sup>2</sup> with a population of over 540 million indigenous people, immigrants, and descendants of inter-nations marriages. As a region, ASEAN offers a rich diversity of talents, traditions, resources, and opportunities .<sup>3</sup>

The organization aims to promote economic growth, social progress and cultural development of its member states, promote regional peace and stability, and increase the opportunity to discuss the differences among its members peacefully.

Although formally ASEAN is an organization of economic, social and cultural cooperation but the Bangkok Declaration is based on the aspirations and political commitment of member countries to unite and cooperate in the face of the Southeast Asian region which at that time was characterized by turbulence and strife between countries, between Indonesia and Malaysia, as well as between non-state powers outside the region. The political aspirations underlying the Bangkok Declaration are essentially an effort to realize regional stability that can support national development in all fields for ASEAN member countries.

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<sup>3</sup> Philip Kotler, dkk. 2007. Think ASEAN! Rethinking Marketing toward ASEAN Community 2015. Singapore: McGraw Hill. page. 5.

The founders of ASEAN recognize that among member states there is a difference in both historical background and political attitudes as well as the fact that in the economic field most member countries compete as producers of the same commodity. Therefore, the steps taken are pragmatic. While observers assess the growth of ASEAN in the first year is very slow. But it is actually a period of consolidating mutual understanding and eliminating mutual suspicion among its members to solidify the cooperation being developed in a better direction.

It should be realized that ASEAN is a regional cooperation organization in an association because of the common interest. Equality of positions within membership is one of the principles of this cooperation. This regional cooperation is also not integrative but cooperative. ASEAN member states still fully possess internal and external sovereignty. While the main foundation of this cooperation is deliberation to help each other for the common interest (common interest).

One of the goals of ASEAN is the economic growth, social progress, and cultural development of its member countries. Since the beginning of the establishment, ASEAN has intensively agreed on some cooperation in the economic field. Such as Industrial Project Plan (1976), Preferential Trading Area (1977), ASEAN Industrial Complement Scheme (1981), ASEAN Joint Venture Scheme (1981), and Enhanced Preferential Trading Arrangement (1987).

In the 1980s, ASEAN has become an important and integral regional organization in Southeast Asia. This is because the role of ASEAN in regional issues is so great and significant. In fact, major countries then recognize ASEAN

as the key to understanding Southeast Asian issues. Therefore, ASEAN leaders at the ASEAN Summit in Kuala Lumpur in December 1997 decided to transform ASEAN into a stable, prosperous and highly competitive region with an equitable level of economic development, as well as reduced socio-economic and poverty gaps.

At the ASEAN Summit in Bali, October 2003, ASEAN leaders declared Bali Concord II to jointly establish the ASEAN Community by 2020. The community includes three pillars, namely the Political and Security Community, Economic Community and Socio-Cultural Community intersect and encourage each other in order to support the creation of peace, stability and mutual prosperity in the region.<sup>4</sup>

At the 12th ASEAN Summit in January 2007 in Cebu, the Philippines, the ASEAN leaders affirmed a strong commitment to accelerate the establishment of an ASEAN community by 2015, with the signing of the Cebu Declaration on the Acceleration of the Establishment of ASEAN Community by 2015. In particular, also agreed to accelerate the establishment of ASEAN Economic Community by 2015 and transform ASEAN region into an area where there is a free flow of goods, services, investment and skilled labor, as well as a more free flow of capital.<sup>5</sup>

At the 13th ASEAN Summit in November 2007 in Singapore, the ASEAN leaders agreed to sign the ASEAN Charter, which marks the commitment

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<sup>4</sup> Cetak Biru Komunitas Sosial Budaya ASEAN. 2010. Jakarta: Direktorat Jenderal Kerja Sama ASEAN Kementerian Luar Negeri Republik Indonesia. page. 9.

<sup>5</sup> Cetak Biru Komunitas Ekonomi ASEAN. 2010. Jakarta: Direktorat Jenderal Kerja Sama ASEAN Kementerian Luar Negeri Republik Indonesia. page. 7-8.

of ASEAN Heads of States to build a common community based on regional cooperation and integration. In line with this, the ASEAN Political and Security Community blueprint is adopted as a roadmap for the establishment of APSC 2015. In addition, the establishment of the ASEAN Socio-Cultural Community blueprint is also agreed to ensure concrete follow-up in promoting the establishment of an ASEAN social and cultural community.<sup>6</sup>

The ASEAN Community with its three pillars (APSC, AEC, and ASCC) in the future will be an important part of an increasingly complex international relationship, and in such a pattern of international relations changes will occur. The ASEAN Political and Security Community is designed to encourage the sharing of norms, prevention and resolution of conflicts, and peace-building through positive political developments. APSC is used as a vehicle to combat terrorism and other transnational crimes, such as drugs and trafficking.<sup>7</sup>

ASEAN Socio-Cultural Community was formed to represent the social and cultural interests of the ASEAN community, as the region moves towards economic integration and globalization. Resources will be allocated to areas of education, training, science and technology development, employment creation, and social protection.<sup>8</sup>

ASEAN Economic Community seeks to bring capital, goods, services and human resources to a single market and production base. Such integration

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<sup>6</sup> Cetak Biru Komunitas Sosial Budaya ASEAN. *Op cit.*, page. 9.

<sup>7</sup> Cetak Biru Komunitas Politik dan Keamanan ASEAN. *Op cit.*, page. 18-19.

<sup>8</sup> Cetak Biru Komunitas Sosial Budaya ASEAN. *Op cit.*, page. 13-14.

requires acceleration of free trade and facilitation of business (business), increasing SMEs, and attracting investors into ASEAN.<sup>9</sup>

On the way to ASEAN Economy Community in 2015, there are still many people who doubt Indonesia will be ready and able to compete with other countries in ASEAN. Therefore, the competitiveness of both products and human resources are still less competitive with other imported products, and it is feared will turn off domestic products.

Indeed, many sanctions that Indonesia will be able to face the plan to integrate the ASEAN region into a single community (ASEAN Community). The abandonment of infrastructure provision, lack of competitiveness, and dependence on imported goods are the main reasons.

The Secretary-General of the Indonesian Businessman Association (Apindo) Franky Sibarani said the implementation of the ASEAN Economic Community (AEC) in December 2015 could be the beginning of the death knell for the national industry. In fact, the impact is worse than the implementation of the ASEAN- China (ASEAN-China Free Trade Agreement / ACFTA) which began January 1, 2010. "It will happen if there is no preparation that is mature since now," said Franky in his statement. According to him, in the implementation of ACFTA, Indonesia could at least benefit from the opening of potential market access to China which has 1.4 billion populations. In the AEC plan, Indonesia has the potential to become a big market for other ASEAN countries because it has

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<sup>9</sup> Cetak Biru Komunitas Ekonomi ASEAN. *Op cit.*, page. 9 and 21-22.

40% of the total ASEAN population. Moreover, the AEC makes ASEAN a single market.<sup>10</sup>

But behind all that, with a sweet record of Indonesia's economic growth at this time even in the last four years Indonesia's economic growth is never below 6 percent should not worry Indonesia in the face of the AEC 2015, because of previous experience when the enactment of AFTA (ASEAN Free Trade Area) since 2002 increasingly lifted the economic growth of Indonesia.

Nevertheless, it does not have to make Indonesia complacent because there are still many obstacles and weaknesses owned such as competitiveness and infrastructure that is considered still considered weak. For the Asia Pacific region, even the competitiveness of Indonesia far behind from neighboring countries such as Thailand and Malaysia are ranked 17 and 18. While Indonesia in position 129. Indonesia is also a favorite place to invest but has an unstable climate due to cost or factor high cost and complicated bureaucracy. Therefore, a proper strategic plan is needed so that Indonesia is ready to face the upcoming AEC.

## **B. Scope of research**

This thesis focuses on strategic steps that Indonesia take to face the AEC in 2015. Some data will be about the preparation of Indonesia before 2015 and and there is some of data that consist about Indonesia plan after 2015.

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<sup>10</sup> <http://www.kemenperin.go.id/artikel/5959/AEC-2015-Bisa-Jadi-Lonceng-Kematian-Industri-Nasional>



### **C. Research Question**

Based on the background that has been described above, so to find a solution and also as a guide for further discussion, the question to be discussed is:

*"How is Indonesia's strategic steps in dealing with the ASEAN Economic Community (AEC)?"*

### **D. Theoretical Framework**

To answer the above problems, in this thesis, the author uses the concept of national interest as the main theory.

#### **1. National Interest**

In formulating a policy, in this case, foreign policy there are factors that must be considered. The main factor in the consideration is the factor of national interest, which in general is defined as the achievement of a national interest or the purpose of a State. National interest is often used as the main benchmark or criteria for decision makers, each country before formulating and defining attitudes or actions of course including a benchmark in formulating foreign policy. Even every foreign policy move needs to be grounded in the national interest and applied to achieve and protect what is designated as "national interest".

National interest is the goal to be achieved in relation to the needs of a State or in respect of the aspired aspect. In this case, the national interest is relatively fixed and the same among the fellow country. Security

includes the life of the people and the needs of the region, and the welfare. The two main things, namely security, and welfare, there must be a role that is the basis for formulating and defining the national interest. Therefore, the similarity of national interests is often identified with the national objectives, but for other things that may change over a period of time, it is clearly necessary to be expressed as a national interest rather than a national goal. The main thing that underlies the existence of international relations is, the purpose of which is associated with the national interest of a nation. According to Jack C, Plano, and Roy Olton, the national interest is: "The ultimate fundamental determinant that guides the decision maker on state-making foreign policy."<sup>11</sup>

Indonesia's foreign policy reflected through foreign policy also reflects the above. Through the politics of his country, Indonesia fought for its national interests, both in economic and political and security terms. Indonesia since its first announcement through the siding of the House of Representative's cooperation, in April 1969, has a foreign policy base that fights for national interests by prioritizing on national development.

Therefore, since the establishment of the new order, Indonesia enriched foreign policy by developing regional dimensions. By giving top priority to the "close" and "harmonious" relationships through the establishment of solid cooperation with the surrounding countries, for this

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<sup>11</sup> Jack C. Plano and Roy Olton, *International Relations Dictionary*. (Hold, Rinehart and Winston, New York.,1996) page, 128.

is the vital importance of Indonesia's national interest. This concrete form of thinking is a key priority that Indonesia has incorporated in its foreign policy towards ASEAN's position.

## **2. International Cooperation**

The focus of international relations theory is to learn about the causes and conditions that create cooperation. Cooperation can be created as a result of behavioral adjustments of actors in responding to or anticipating the choices taken by actors in responding to or anticipating the choices taken by other actors. Cooperation can be executed in a real negotiation process or because each party knows each other so there is no need for a negotiation.<sup>12</sup>

In this study, the author also uses the theory of international cooperation. Remember that every country in the world cannot stand alone and the need for cooperation with other countries because of the interdependence in accordance with the needs of each country. Cooperation in economics, politics, education, and culture can be forged by the state with one or more other countries. International co-operation between nations is not only done in an individual way but also made between sheltering countries in organizations and international agencies. Koesnadi Kartasamita said that "international cooperation is a necessity of

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<sup>12</sup> James E. Dougherty dan Robert L. Pfaltzgraff. *Pengantar Studi Hubungan Internasional*. Yogyakarta:Pustaka Pelajar, 2005. page 418.

interdependence and the increasing complexity of human life in the international community."<sup>13</sup>

The discussion of international cooperation, in theory, involves the relationship between two countries or the relationship between the larger units also called multilateralism. Although cooperation often begins between the two countries, the main focus of international cooperation is multilateral cooperation. Multilateralism is defined by John Ruggie as an intolerance form governing relations between three or more countries based on generally accepted principles of behavior expressed in various forms of institutions including international organizations, international regimes, and unrealistic phenomena of international order.<sup>14</sup>

The purpose of international cooperation is to achieve mutual benefits from many aspects that can be felt by all members of the community. One of the benefits of international cooperation is promoting tolerance and enhancing understanding and promoting strong community partnerships.

There are several reasons why the state cooperates with the state to cooperate with other countries:

- a. With reasons to improve the economic welfare of many countries that cooperate with other countries to reduce the costs to be borne by the

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<sup>13</sup> Koesnadi Katarsasmita, *Administrasi Internasional, Lembaga Penerbitan Sekolah Tinggi Ilmu Administrasi Bandung, 1977*, page. 19

<sup>14</sup> James E. Dougherty dan Robert L. Pfaltzgraff. *Op.Cit.*, page 420.

country in producing a product of necessity for its people because of the limitations of the country.

- b. To improve efficiency related to cost reduction.
- c. Due to the problems that threaten the common security.
- d. In order to reduce negative losses caused by individual actions of the state that impact on other countries.<sup>15</sup>

Cooperative behavior can take place in formal institutional settings, with approved rules, approved norms, accepted norms, or common decision-making procedures. The theory of international cooperation as the main basis of the need for political understanding and agreement on the basis of the international order as the main basis of the need for understanding and agreement of political development on the basis of the international order in which behavior emerges and develops. Through multilateralism from international organizations, international regimes, and international actors lay the concept of political society and the process of integration in which unity is created.<sup>16</sup>

An international cooperation is driven by several factors, namely:

- a. Progress in the field of technology that causes the easier relationships that can be done by the state so as to increase dependence with each other.

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<sup>15</sup> Holsti, KJ. 1995. *International Politik: A Framework for Analysis*. Englewood Cliffs: Prentice Hall International, Inc. 1995. pages. 362 – 363.

<sup>16</sup> James E. Dougherty dan Robert L. Pfaltzgraff. log. Cit.

- b. Economic progress and development affect the welfare of the nation and state. The well-being of a nation can affect the welfare of nations.
- c. Changes in the nature of war where there is a mutual desire to protect each other and defend themselves in the form of international cooperation.
- d. The existence of awareness and the desire to negotiate, one of the methods of international cooperation based on the basis that by negotiating will facilitate in solving problems encountered.<sup>17</sup>

In addition, Jack C. Plano and Roy Olton define the national interest as the fundamental goal and the most decisive factor that guides the decision makers in formulating foreign policy. Although the national interest of a country in its implementation is different, it generally revolves around the five general categories mentioned by Jack C. Plano and Roy Olton as:<sup>18</sup>

- a. *Self Preservation* is the right to defend the existence of self, the purpose is to defend themselves so that the state that has a great power does not commit or seize the hegemony of power which later can cause division, to defend itself the country concerned to conduct bilateral cooperation or in the container of international organizations. The

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<sup>17</sup> Kartasasmita, Koesnadi. *Administrasi Internasional* Lembaga Penerbitan Sekolah Tinggi Ilmu Administrasi, Bandung, 1997. page 19.

<sup>18</sup> Jack C. Plano and Ray Olton, *op cit.* page 27.

concept of self-defense (Self Preservation) is developing because self-defense is not only based on the foundation of defense against the geographical state but related to the hegemonic power of a country to other countries that use domestic forces to maintain the hegemony of power.

- b. *Independence* which means independent, the sovereignty of a state to regulate the country's households both in and out, the military and the economy without interference and subject to other countries the aim to gain power by cooperating with other countries so that the country is not colonized or subject to other countries.
- c. *Military Security*, the security of a state is assessed by military force to maintain or maintain territorial security from the military forces of other countries as well as separatist groups, its purpose is to safeguard its country from the military power of other countries or in anticipation of military interference of other countries.
- d. *Territory Integrity*, namely the national interest to secure its territory and the resources within the territory of a country, its purpose to obtain the need for a region that is considered strategic and profitable.
- e. *Economic Well Being* the purpose to create national economic welfare and improve the quality of life of the community, the goal is to obtain foreign exchange reserves of other countries, such as oil and gas for the welfare of the domestic economy.

### **3. The theory of international cooperation**

In this regard is the effort used to reveal how far the AEC can improve multilateral relations between Indonesia and other ASEAN members. This is driven by economic goals to create national prosperity and improve the quality of life of a country's society (*Economic Well Being*).

### **4. International Trade**

International trade is an important part of international cooperation, especially for economic purposes. AEC itself is a business of international cooperation, especially in the trade of products and services internationally. International trade is a tangible manifestation of international cooperation in the economic field.

International trade is a trade made by a resident of a country with a resident of another country on the basis of mutual consent. The intended population may be either an individual (individual with an individual), between an individual with a government of a country or a government of a country with another government.<sup>19</sup>

The theory of international trade analyzes the fundamentals of international trade as well as the benefits gained. International trade policy addresses the reasons and effects of trade restrictions, as well as issues of

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<sup>19</sup>, Heri Setiawan dan Sari Lestari Zainal Ridho. *Perdagangan Internasional*. Pustaka Nusantara. Yogyakarta, 2011. page 1.



new protectionism. International trade theory and policy is a microeconomic aspect of international economic science because it deals with each country as an individual treated as a single unit, and is associated with the relative price of a commodity.<sup>20</sup>

Trade between two or more countries is done on the grounds that by trading the country can make a profit. The advantage of this trade is a fundamental issue studied in the science of international trade. According to some experts, a country can raise its level of prosperity by trading. Therefore, international trade is the goal of many countries to pursue economic prosperity, including in certain regions such as ASEAN.

International trade theory helps explain the direction and composition of trade between several countries and how its effects on the economic structure of a country. International trade was first born in the era of mercantilism and in its development experienced changes in trade patterns. The development of international trade by Basri and Munandar is described as follows:<sup>21</sup>

#### **a. Mercantilism**

The idea of mercantilism was first written by Antonio Serra in 1613. Mercantilism was not yet familiar with the concept of comparative advantage as a pattern of trade and affect the structure of

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<sup>20</sup> Dominick Salvatore. *Ekonomi Internasional*. Penerbit Erlangga, Jakarta, 1997. page. 6.

<sup>21</sup> Faisal Basri dan Haris Munandar. *Dasar-dasar Ekonomi Internasional: Pengenalan & Aplikasi Metode Kuantitatif*. Kencana, Jakarta, 2010. page35.

production and income distribution. The concept of mercantilism is based on the amount of gold stock of a country as its asset of wealth. In this concept, the state seeks to increase exports as high as possible and suppress imports as low as possible. This makes the state's role in promoting prosperity and dominant growth. Because it is considered unproductive, this school becomes contradictory as the times progress. One of the economists who opposed this school was Adam Smith who gave birth to a new school of absolute profit theory.

**b. The theory of absolute advantage**

The absolute advantage theory was born by Adam Smith as a form of protest against mercantilism. This theory states that the absolute advantage is the basis of an international trade of a country. Adam Smith's theory opens the way for other modern theories, such as David Ricardo's comparative advantage theory and Heckscher-Ohlin theory.

**c. Ricardian Theory**

This theory is formulated by David Ricardo where he states that international trade is the theory of value or value, where the value or value of a good depends on the amount of labor devoted to producing the goods (labor cost value theory). Trade between countries will arise if each country has the smallest comparative cost. Comparative costs arise because of the differences in technology between countries.

**d. Teori Heckscher-Ohlin**

Heckscher-Ohlin in factor proportion theory states that the difference in the opportunity cost of a country with other countries because of the difference in the number of factors of production it has. A country has a workforce than any other country while another country has more capital than it can cause exchange.<sup>22</sup>

Theoretically, the export volume of a certain commodity from one country to another is the difference between domestic supply and the so-called active appeal called excess supply. The surplus offer from that country is an import demand for another country or an excess demand (excess demand). World market factors such as commodity prices and substitute commodities in international markets as well as matters affecting prices either directly or indirectly affect exports.<sup>23</sup>

Any country that trades with other countries will benefit the country. The benefits of international trade include:<sup>24</sup>

1. Improving friendly relations between countries. Trade between countries can create friendly relations. If this relationship is well established, it can enhance friendly relations among these countries. They can be more familiar and help each other to experience difficulty in meeting their needs.
2. The needs of each country can be fulfilled. With international trade, a country that lacks in producing a good can be met by importing goods

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<sup>22</sup> Nopirin. *Ekonomi Internasional Edisi 3*. BPFE, Yogyakarta, 2009. page 2

<sup>23</sup>, Peter H Lindert & Charles P. Kindleberger. *Ekonomi Internasional Edisi 8*. Penerbit Erlangga, Jakarta, 1990. Page. 48.

<sup>24</sup> Heri Setiawan dan Sari Lestari Zainal Ridho, op.,cit. page 12.

from a country with excess production. On the contrary, a country with a surplus of the production of goods can export the goods to a deficient country. With the demands of each country's needs can be fulfilled.

3. Encourage the production activities of goods maximally. One of the goals of an international trading country is to expand overseas markets. If the overseas market gets wider, then the production within the state is pushed up. Thus, entrepreneurs are encouraged to produce more goods in mass production.
4. Encourage the advancement of science and technology. Trade between countries allows a country to learn more efficient production techniques. Foreign trade allows the country to import modern machinery or equipment to carry out better production techniques and production methods. Thus, more modern technology can increase productivity and can specialize in production.
5. Each country can specialize in production. International trade can encourage every country's natural resources, capital-labor, and expertise to the fullest. A country that has excellent products, can compete with products from abroad.
6. Expanding employment. If the overseas market is widening, the goods or services produced will also increase. Production increase increases labor demand for the company so it opens new job opportunities and reduces unemployment.

In addition to the great benefits of international trade for a country, there are drivers and causes of international trade. The factors causing international trade include the following:<sup>25</sup>

1. Information and transport revolution

Characterized by the development of the era of information technology, the use of computer-based system and progress in the field of information, the use of satellites and digitization of data processing the development of communication equipment and much more.

2. interdependence needs

Each country has advantages and disadvantages in each aspect, can be viewed from natural resources, human, and technology. All that will affect the dependence between countries with each other.

3. Economy liberation

Freedom of transactions and cooperation have implications that each country will seek opportunities by interacting through inter-state trade.

4. The principle of comparative advantage

The uniqueness of a country is reflected in what is owned by that country that is not owned by another country. This will make the country have a reliable advantage as a source of income for the country.

5. Foreign exchange needs

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<sup>25</sup> Ibid., page. 11.

International trade is also influenced by the need factor of foreign exchange of a country. In fulfilling all the needs of each country must have foreign exchange reserves used in development, one source of foreign exchange is income from international trade.

Factors driving international trade have eight factors, among others:<sup>26</sup>

1. To meet the needs of goods and services in the country
2. The desire to earn profits and increase state revenues
3. Differences in the ability of mastery of science and technology in managing economic resources
4. The existence of excess domestic product so that need a new market
5. The existence of different conditions such as natural resources, climate, labor, culture and the number of people who cause differences in production and the existence of production limitations.
6. The similarity of taste to a good
7. The desire to open cooperation, political relations and support from other countries
8. The era of globalization so that no country in the world can live alone.

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<sup>26</sup>, Sadono Sukirno. *Pengantar Teori Makro Ekonomi*. PT Raja Grafindo Persada, Jakarta, 2006. page:18

## **E. Hypothesis**

1. Increased Economic Competitiveness
2. Improved Bureaucratic Reform and Regulation
3. Improvement of MSMEs Empowerment

## **F. Purpose of Writing**

As for some of the purpose of this writing thesis are:

1. Fulfill the academic obligation that should be taken by the author as a requirement to obtain the degree of college (S-1) in the Department of International Relation, Faculty of Social and Political Sciences, Muhammadiyah University of Yogyakarta.
2. Recognize the benefits Indonesia gains in AEC
3. Knowing the challenges and opportunities that Indonesia will face in facing the AEC
4. Know the strategic steps of Indonesian policy in facing AEC
5. To apply the theories that have been obtained while in the lecture (college period)
6. To answer the hypothesis about the preparation of Indonesia facing the AEC

## **G. Methods of research**

Research methodology in this thesis is divided into several parts, namely:

### **1. Data retrieval**

Some issues that will be discussed in this thesis is the preparation of Indonesia to face the AEC 2015. Therefore, the data needed as research materials, among others, about the benefits and opportunities of Indonesia in the AEC.

### **2. Mechanical of data collection**

To obtain the required data as described above using mechanical data collection, as follows:

- a. Documentation which is the means of collecting data by searching related data through internet, books, and documents related to AEC

### **3. Types of research**

Type of research used in writing this thesis is:

Library research, which is a research by reading, studying the relevant literature to obtain the basic theory which is applied to the problem under study.

### **4. Research Method**

The research method used by the authors in preparing this thesis is a descriptive and analytical qualitative research method. This model seeks to illustrate facts and circumstances that are based on reality,



supported by the theories and concepts used to accurately describe his research, his nature, certain circumstances and symptoms.

## **H. The Writing Systematic**

The writing system of this thesis are:

Chapter I contains the reasons for the title of selection, the background of the matter, the subject matter, the purpose of the writing, to the basic framework of thought, hypothesis, research methods, research outreach and systematic writing.

Chapter II is about AEC. AEC is expected to be a single and production-based market, where goods, services can move freely. This chapter discusses the core elements of the AEC, starting with the idea of establishing an economic community and viewing previous similar organizational experiences and focusing on the concepts, stages, and forms of economic community that AEC will ultimately achieve.

Chapter III explains all the contents of the discussion on the opportunities that Indonesia can exploit for the national interest in terms of promoting trade growth and improving and the challenges facing Indonesia in facing the implementation of the AEC.

Chapter IV discuss about the strategic steps taken by Indonesia's policy in dealing with the AEC.

Chapter V contains the authors' conclusions in the study of Indonesia's economic policy strategy in facing the AEC.