

# LAW REFORM OF SMALL AND MEDIUM ENTREPRISES (SMEs) AND EQUITABLE COOPERATIVE FOR COMPETITIVENESS IMPROVEMENT IN AEC ERA<sup>Ω</sup>

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## Abstract

*Small Medium Enterprises (SMEs) and Cooperative have not received a proper law protection in facing trade liberation of ASEAN Economic Community (AEC) and economic globalized world. In 2015 AEC has been established that would bring a huge change in Southeast Asia regionS and definitely will have a wide impact to business people in Indonesia. SMEs and Cooperative contribute to more than 90 percent of total Indonesian national economy. However, they are weak on investment and information technology and management skill as well as competition law among ASEAN Member States. Economic policies do not give a sufficient protection to SMEs and Cooperative. This article tries to seek solutions for SMEs problems especially their legal structure in order to enhance their competitiveness. This article argues that the government can provide legal protection by reforming SMEs economic sectors similar to the AEC's priority sectors by which the Indonesian' SMEs would become world class corporate.*

*Keywords: cooperative, AEC, legal reform, SMEs*

## Abstrak

Usaha Mikro Kecil dan Menengah dan Koperasi (UMKMK) belum mendapatkan perlindungan hukum yang memadai dalam menghadapi liberalisasi perdagangan bebas Masyarakat Ekonomi ASEAN (MEA) dan globalisasi ekonomi dunia. Pada 2015 MEA sudah terbentuk, dan hal ini membawa perubahan yang sangat besar di kawasan Asia Tenggara dan akan berdampak luas terhadap pelaku ekonomi di Indonesia. Dari keseluruhan ekonomi nasional Indonesia saat ini, 90 persen lebih adalah kontribusi UMKMK. Pada kenyataannya UMKM lemah dalam bidang investasi, teknologi informasi, dan ketrampilan manajemen serta lemah dalam hukum persaingan (competition law) di lingkup ASEAN. Artikel ini bertujuan untuk memberikan solusi permasalahan struktur hukum UMKMK sehingga dapat menaikkan daya saing UMKMK sebagai penopang utama ekonomi nasional yang berdaya saing tinggi. Artikel difokuskan pada regulasi perlindungan UMKMK yang bidang usahanya merupakan sektor prioritas (priority sectors) MEA. Artikel ini berusaha memformulasikan suatu model hukum yang mampu meningkatkan daya saing UMKMK sehingga mendukung UMKM yang berkualitas sebagai world class corporate.

Kata kunci: koperasi, MEA, reformasi hukum, UMKM

## Introduction

2015 is truly crucial for Indonesia related to economic competitions in Southeast Asia because since December 2015 has formed ASEAN Economic Community (AEC). AEC is one of the pillars of the ASEAN Community along with two other pillars which are ASEAN Political and Se-

curity Community and ASEAN Socio-Cultural Community.<sup>1</sup> ASEAN would be the combined market of the ten ASEAN member countries of ASEAN as a single market. If Indonesia wants the maximum benefit from AEC, then Indonesia should manage their economies well. If not, then Indonesia would only be the AEC market

<sup>Ω</sup> This article is a revised article presented at the National Seminar of Pembangunan Hukum Nasional di Era MEA, Law Major, Social Science and Faculty of Law Universitas Negeri Surabaya (UNESA), 14 September 2016.

<sup>1</sup> Koesrianti, "Analisa Kekuatan Mengikat Piagam ASEAN dan Perkembangan Mekanisme Penyelesaian Sengketa di ASEAN", *Yuridika*, Vol. 26 No. 1, January-April 2011, Surabaya: Faculty of Law Universitas Airlangga, page 55.

because almost half the population of the ASEAN (40.60%) or 248.5 million are in Indonesia.

In the development of the history of Indonesia, SMEs and Cooperative have proven to survive during the economic crisis in 1998 when many large companies collapse. In this case, *Small and Medium Enterprises and Cooperative* (SMEs and Cooperative) have great potential to play a role in the Indonesian economy and have grown rapidly in the amount of nearly 58 million due to economic growth in rural areas (Table 1).

**Tabel 1.** Amount of SMEs and Cooperative and Big Companies (2008-2013)

	Year	SMEs	LE
Total	2008	51.409.612	4.650
	2009	52.764.603	4.677
	2010	53.843.732	4.838
	2011	55.229.444	4.952
	2012	56.531.592	4.968
	2013	57.198.000	N/A

Source: Ministry of Cooperative and Small Medium and Enterprises (SMEs), 2012

It should be underlined that the capacity of SMEs and Cooperative are not as strong and big as an established company, especially in the era of free trade, but the role of SMEs in the domestic economy of a country has been recognized around the world. In the APEC countries, more than 97% of enterprises are SMEs, such as in Australia, New Zealand, Singapore, Thailand, Korea, Japan, China, Canada, USA, Mexico, and Peru. The contribution of SMEs in APEC countries are varied, for example, China and Indonesia (59%), Korea (54%), Japan (51%), US (50%), Singapore (47%), Vietnam (40%), Australia (39%), and Thailand (37%).<sup>2</sup> In principle, SMEs are the engine of economic growth and innovation of a country because it will employ almost half of the workforce across APEC countries.<sup>3</sup> Factually, it can prove that SMEs contribute significantly to economic growth, with the contri-

bution to the GDP amounted to 20-50% in APEC countries and the contribution of SMEs 35% in direct export activities.<sup>4</sup>

The purpose of this article is to provide solutions for the problem of SMEs and Cooperative legal structure in order to increase the competitiveness of SMEs and Cooperative as the main pillar of the national economy with high competitiveness. SMEs and Cooperative protection regulations focused on business sectors as priority sectors of AEC schemes. We need a model of the rule of law and legal reforms to improve the competitiveness of SMEs and Cooperative as well as providing legal protection for SMEs that are a world class corporate quality. SMEs business fields that correspond to priority sectors of AEC, so SMEs as suppliers of big companies manufacture these priority areas.

## Discussion

### Potential and Problems of SMEs

Seeing the potential of SMEs and cooperatives are great for the country's economic growth, the development of SMEs will be a very important policy. Some weaknesses of SMEs are lack of working capital, marketing difficulties, and access to financial sources.<sup>5</sup> Furthermore, SMEs are also weak in technology and management, human resource quality, productivity, competence of information communication technology (ICT), organizational management, and performance of the company and the business climate.<sup>6</sup> Many problems of SMEs in Indonesia, for example, SMEs have not contributed to the export activity due to the lack of "global competitiveness" of SMEs to compete in the global market as well as entrepreneurial skills. Besides, education levels are so low that SMEs are at the lowest level of networking becoming a threat to the survival of SMEs.<sup>7</sup>

<sup>2</sup> APEC, SMEs in the APEC Region, Available on [http://www.apec.org/-/media/Images/Infographics/2014/0709\\_SME/0709\\_SME.jpg](http://www.apec.org/-/media/Images/Infographics/2014/0709_SME/0709_SME.jpg), access on August 30<sup>th</sup> 2016.

<sup>3</sup> APEC, Small and Medium Enterprises Working Group, Available on <http://www.apec.org/groups/somsteering-committee-on-economic-and-technical-cooperation/working-groups/small-and-medium-enterprises.aspx>, accessed on September 1<sup>st</sup> 2016.

<sup>4</sup> *Loc.cit*

<sup>5</sup> Faustinus Andrea, "Indonesia dan Komunitas ASEAN" *Jurnal Hukum Internasional*, Vol.3, No.3, April 2006, Depok: Faculty of Law Universitas Indonesia, page 397

<sup>6</sup> Meliadi Sembiring, "SMEs Growth and Development in Indonesia", *ADBI Joint Regional Workshop on SME Development and Regional Economic Integration*, 22-26 September 2008, Tokyo, page 3-4

<sup>7</sup> Dionisius Narjoko, "Turning Dream into Reality?: Achieving the Goal of SME Development in AEC",

SMEs potentially and significantly contribute to regional economic development by participating in networking for the production of international or commonly known as global value chains (GVC).<sup>8</sup> The participation of SMEs in production networks through closer relationships with multinational companies (MNC) is a great way to enhance the capabilities and competence of SMEs in terms of productivity, technology and managerial knowledge, relations of cooperation, including permission to use the brand together.<sup>9</sup> ASEAN SMEs export activities are still relatively small only at 23% compared to East Asian countries SMEs in the amount of 43% in Korea, 40%-60% in China and 56% in Taiwan.

The biggest problem of SMEs and Cooperative in Indonesia is due to their structural economic gap as a consequence of economic globalization and economic liberalization, which makes high competition among businesses. SMEs cannot compete because of an error strategy (missed-strategy) on the development of SMEs in the past before AEC agreement.<sup>10</sup> Indonesian SMEs need to implement some sort of "globalization of entrepreneurship" as a government policy for the development and improvement of SMEs.<sup>11</sup>

Currently, there are 23 types of industrial SMEs in Indonesia, namely foods, beverages, tobacco processing, textiles, garments, leather

products, wood products (excluding furniture) rattan products, paper products, printed goods, chemical products, pharmacy, rubber and plastic, non-metal mining goods, metals, metal goods instead of machinery and equipment, computers and electronic and optical, electrical equipment, machinery, motorcycle (motor cycles, trailers and semi-trailers), other carriers, furnitures, other manufacturing and repair services and installation of machinery and equipment. On the basis of variety types of SMEs industries, the government requires to create a good business environment and accommodate SMEs and Cooperative to grow and develop into an export business. Essentially in current era of globalization, the government must increase "the welfare of a human community"<sup>12</sup> including SMEs modernizing by focusing issues on; *first*, developing innovation and connectivity of SMEs; *second*, towards integration and development through productive infrastructure; *third*, the integration of green SMEs into the GVC; and *fourth*, the internationalization of SMEs and their integration in the GVC. As for the cooperative, if separated from SMEs, the cooperative was placed as a subject (people-based) as well as centers of economic activity (economic-centered), by adopting a system of economic conglomeration namely cooperative model of a large and diverse business that are expected to improve the welfare of its members.<sup>13</sup>

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*International Conference on ASEAN Vision 2015: Moving toward One Community*, CIER, Taipei, 24-25 May 2011, ERIA

<sup>8</sup> Yuri Sato, 2013, "Development of Small and Medium Enterprises in the ASEAN Economies", in Rizal Sukma and Yoshihide Soeya (Eds), *Beyond 2015: ASEAN-Japan Strategic Partnership for Democracy, Peace, and Prosperity in Southeast Asia*, Tokyo - Japan, Japan Center for International Exchange (JCIE), page 156 .

<sup>9</sup> M Dyah Hapsari, "Memotret Model Kerjasama pada Usaha Kecil (Studi Kasus pada Penjual Susu Segar SHI Jack di Surakarta)", *Jurnal Ilmu Hukum REFLEKSI HUKUM*, October 2009, Surakarta: Faculty of Law Universitas Kristen Satya Wacana, page 125.

<sup>10</sup> Teguh Sulistia, "Perlindungan Hukum dan Pemberdayaan Pengusaha Kecil dalam Ekonomi Pasar Bebas", *Jurnal Hukum Bisnis*, Vol. 27 No. 1, 2008, Yogyakarta: Faculty of Law Universitas Gadjah Mada, page 20.

<sup>11</sup> Balbir B. Bhasin and Sivakumar Venkataramany, "Globalization of Entrepreneurship: Policy Considerations for SME Development in Indonesia", *International Business and Economics Research Journal*, Vol 9 No.4, April 2010, page 95.

### ASEAN Economic Community (AEC): Opportunities and Challenges to SMEs

AEC was established in 1997 when ASEAN agreed to ASEAN Vision 2020 stating that ASEAN vision for the next 20 years is to establish the ASEAN Community.<sup>14</sup> ASEAN Vision 2020 contains

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<sup>12</sup> Koesrianti, "International Cooperation among State in Globalized Era: the Decline of State Sovereignty", *Indonesia Law Review*, Vol. 3 No. 3, 2013, Depok: Faculty of Law Universitas Indonesia, page 267.

<sup>13</sup> Man S. Sastrawidjaya, dan Richard C. Adam, "Langkah Menuju Konglomerasi Koperasi di Indonesia", *Padjadjaran Jurnal Ilmu Hukum, Journal of Law*, Vol.2, No.2, 2015, Bandung: Faculty of Law Universitas Padjadjaran, page 209.

<sup>14</sup> Melda Kamil Ariadno, Yusuf Ausiandra, Lila Pratiwi, Aditya Sholikhah, "Pembangunan Bertahap Sistem Hukum Komunitas ASEAN", *Jurnal Hukum & Pembangunan*,

a determination to transform ASEAN into a stable organization, fair and prosperous and highly competitive regions with increasing economic growth, as well as reducing poverty and socioeconomic disparities of member countries. In 2003 the leaders and heads of ASEAN countries approved the Bali Concord II, which is a great plan to transform ASEAN into the Community<sup>15</sup> to realize Southeast Asia as "a durable, peaceful, stable and prosperous" region. The 13<sup>th</sup> ASEAN Summit in Singapore, the leaders and heads of ASEAN countries approved the ASEAN Economic Blueprint which serves as a coherent master plan that provides guidance for the formation of the ASEAN Economic Community 2015.

Under the third characteristic of AEC that is equitable economic development, the agenda of ASEAN is the development of SMEs to narrow the gap of the development of intra-country ASEAN countries. It is based on the fact that SMEs are the backbone of the ASEAN economies that contribute to the economy of about 50% up to 85% on domestic employment and 30% - 53% of GDP in ASEAN. SMEs play an significant role in the sustainable economy in ASEAN with the challenges: limited access to finance and technology, intense competition with big companies (MNCs and SMEs from the countries of China, Japan and Korea), the lack of entrepreneurship and management skills, lack of understanding of the AEC program and benefits, and difficulties adapting to the MEA preferences and market standards.<sup>16</sup>

By establishing AEC, the ASEAN region becomes a free market for ASEAN trade liberalization in order to establish the ASEAN single market and production base. Basically, AEC transforms ASEAN into a region that allows for "free movement of goods, services, investment,

skilled labor, and freer flow of capital". Compared to the group of countries economies, such as the Shanghai Cooperation Organisation (SCO) or the South Asian Association for Regional Cooperation (SAARC), ASEAN has positioned itself as 'the center of Asian regionalism' as a link and channel negotiations with countries in Asia such as China, India, Korea and Japan, and it is undeniable that ASEAN is an international organization of Asia's most important in the history of Asia.<sup>17</sup>

The areas of AEC cooperation covers 12 priority sectors, namely agro-based products, air travel (air transport), automotive, e-ASEAN, electronics, fisheries, healthcare, rubber-based products, textiles and apparel, tourism, wood-based products and logistics, foods, agriculture and forestry sectors. The areas of cooperation in 12 sectors are an integrated industrial sector and the ASEAN region into a "gateway" of Asiato attract foreign investors to invest in ASEAN to establish a manufacturing production base for export to other countries outside the ASEAN region. AEC will turn into a potential area for investment because ASEAN is a strategic location, around 612 million population, abundant natural resources and big labor force. ASEAN member countries are committed to create an more liberal and transparent area with the hope of increasing investment of foreign investors so as to increase economic growth of the region as well as increasing the entire economy of the ASEAN member countries.

Together with SMEs as the backbone of the economy, cooperation in developing SMEs obtain milestone obvious reasons involving the production network at regional and global levels. ASEAN will be an attractive region to foreign investors since the number of foreign direct investment (FDI) that is US \$ 20.95 billion in 2000 and increased to 87.3 billion in 2011, while the ASEAN internal FDI also increased from US \$ 853 million in 2000 to 26, 27 billion in 2011. 2015 World Investment Report released by the United Nations Conference on Trade and

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Tahun ke 42 No.3, July-September 2012, Depok: Faculty of Law Universitas Indonesia, page 551.

<sup>15</sup> Denis Hew dan Hadi Soesastro, "Realizing the ASEAN Economic Community by 2020: ISEAS and ISIS Approaches", *ASEAN Economic Bulletin*, Vol. 20 No. 3, December 2003, Singapore: ISEAS Publishing, page 294.

<sup>16</sup> Zainuddin Djafar, "ASEAN Competitiveness, Is Indonesia Ready Yet?" *Jurnal Hukum Internasional*, Vol. 9 No. 4, July 2012, Depok: Faculty of Law Universitas Indonesia, page 599.

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<sup>17</sup> Simon Chesterman, 2015, *From Community to Compliance?: the Evolution of Monitoring Obligation in ASEAN*, Cambridge: Cambridge University Press, page 3.

Development (UNCTAD) said the growth of direct investment (foreign direct investment/FDI) to Indonesia in 2014 which is the highest in ASEAN. FDI inflows to Indonesia increased by 20% i.e. FDI inflows to Indonesia achieved USD23 billion due to the increase in equity investments significantly. This fact is the starting point to repair or overhaul the legal structure of SMEs.

### Regulation Form of SMEs and Cooperative

Normatively, UMKM is stipulated in Law 20 of 2008 and Regulation 17 of 2013, which differentiates a business as a micro business, small business, or a medium-sized business based on the circulation or the number of operations and assets held, such as:

“Micro business criteria is a business that has a net worth of Rp.50.000.000,00- (fifty million rupiahs) at most, excluding land and business buildings; or has most annual sales of Rp.300.000.000,00- (three hundred million rupiah); or has annual sales revenue more than Rp.300.000.000,00- (three hundred million rupiah) up to Rp.2.500.000.000,00- (two and a half billion rupiah) at maximum. Medium Business Criteria is a business that has a net worth more than Rp.500.000.000,00 (five hundred million rupiah) up to Rp. 10.000.000.000,00 (ten billion rupiahs), excluding land and business buildings; or has annual sales revenue more than Rp. 2.500.000.000,00 (two billion and five hundred million rupiah) up to Rp.50.000.000.000,00 (fifty billion rupiah) at most.”

Based on statement above, SMEs need a favorable regulatory environment which should be in the forefront of the government's economic policy agendas, pro-poor policies.<sup>18</sup> SMEs require alignments of government's economic policies by reducing 'red tape', simplifying administrative procedures, simplifying regulations, and improving the quality of regulations. In order SMEs can compete, there should be coordin-

ation and intensive participation of all key stakeholders, both public and private sectors, and systematic information dissemination system in dealing with the problem of SMEs ignorance about AEC.

In 2016, government issued an Economic Policy Package (EPP) for easing of doing businesses and simplification of administrative procedures. EPP related to SMEs, for example, EPP XI: People Business Credit (KUR) exports set interest rate of 9% for SMEs and helping SMEs which directly export their goods financially, or for UMKM that cooperate with big business. Package XII, 28 April 2016, deregulation policies package related to ease of doing business for SMEs. It is expected that the policies can improve Indonesia's rating, from rank 109 to rank 40 of 189 countries. Regarding to start-up costs, deregulation of Regulation No. 7 of 2016 on Change the Authorized Capital of Limited Liability Companies (PT). In these rules, limit of the minimum basic capital for PT is about 50 million, but for SMEs is determined by agreement of the founders, depending on the owners of SMEs capital, regardless of the agreement, the establishment will be processed. At least, there are 16 new regulations that were issued to improve the ranking of ease of doing business. Furthermore, government added 19 reserved business field for SMEs and Cooperative.

Government policies on economic should not be liberalized but in form of modernization of SMEs for stronger competitiveness and more attractive investment climate. These regulations rationalized regulation by removing duplication, harmonizing regulations, and conducting regulatory consistency.<sup>19</sup> Some laws will be revised covering 17 government regulation drafts, 11 Presidential decree drafts, 2 Presidential instruction drafts, 63 ministerial regulations, and five other rules. The rules comprise investment facilities, simplification of raw materials import permits (sugar, salt, horticultural

<sup>18</sup> Yohanes Suhardin, “Peranan Negara dan Hukum dalam Memberantas Kemiskinan dengan Mewujudkan Kesejahteraan Umum”, *Jurnal Hukum dan Pembangunan*, Year 42 No. 3, July-September 2012, Depok: Faculty of Law Universitas Indonesia, page 311.

<sup>19</sup> Afifah Kusumadara, “The Role of Law in Indonesian Economic Development: A Study from Three Eras of Governments”, *Kertha Wicaksana*, Vol. 17 No. 2, 2 July 2011, Denpasar: Faculty of Law Universitas Warmadewa, page 104.

products, and paper packaging), reduction of physical examination of imported raw materials and export products, reducing barriers to inter-island distribution.

In order to support the national economy facing the AEC, government issued Presidential Decree Number 44 Year 2016 on Closed Business Lists and Open Business Field with the Terms in the Field of Investment. This Presidential decree provides an opportunity for SMEs to invest and be partner with foreign investors whose business areas allocated to SMEs. Foreign investors interest on foreign direct investment (FDI) in the mining, industrial, and agricultural sectors, which are the heart of the national economy, is estimated at 28%-63% of the total amount of foreign investment that will go in ASEAN. This potency is an opportunity for SMEs due to increased production of export goods that would encourage employment in various industries and businesses. It is estimated that AEC will create approximately 14 million (high-skilled employments), 38 million (middle-skilled employments), and 12 million (low-skilled employments). This can be an opportunity or a challenge to SMEs. It is a good chance if Indonesian workers can fill 14 million high-skilled employments, so Indonesia will be able to get maximum benefits from AEC. It is a challenge as well considering most Indonesia's workforce graduated from elementary/ junior high school. AEC strengthens the supply chains of production goods to ASEAN countries and countries outside ASEAN. ASEAN becomes a center of the production of "manufacture" goods such as made in ASEAN to increase the capacity of ASEAN as "a global production center" which is part of "the global supply chain". AEC schemes make ASEAN areas become a single market and production based, and attract foreign investors to invest in ASEAN as a production base to rely on ASEAN products and using labor from ASEAN countries. AEC is the most significant collaboration because its success will directly impact the ASEAN member countries in the field of investment.<sup>20</sup>

<sup>20</sup> Koesrianti, "Pembentukan AEC 2015: Integrasi Ekonomi berdasarkan Komitmen tanpa Sanksi", *Law Review*, Vol.

SMEs can harness the opportunities by producing manufactured products as components of finished products from the investors to raise the competitiveness of SMEs. Characteristics of SMEs participating in international production network are SMEs modeled the characteristics of the exporter company. Competitiveness of SMEs do not only rely on government policies and the environment but also the characteristics and the performance of SMEs concerned. The definition of SMEs varies based on several characteristics, such as: the number of employees, the company's earnings per year (annual sales or revenue), assets, and capitals/ investments. Therefore, it cannot be applied with the same policy on SMEs but it can be with a favourable regulatory environment in both national and regional.

All economic policies treatment applied to SMEs can also be applied to the cooperative. Characteristics of cooperative is slightly different to SMEs, cooperative is more prominent on family mutual cooperation. International Cooperative Alliance (ICA) defines cooperative as a collection of individuals or legal entities that aim to improve the social economic members to meet the economic needs of its members with the common effort to help each other by limiting profits; the business should be based on the principles of cooperative.<sup>21</sup> Further, ICA elaborated identity of cooperative; Cooperative Identity consists of autonomous association with open and voluntary membership to increase economic, social, and culture necessity through the joint efforts of mutual help and democratic control of their businesses.<sup>22</sup> In the face of AEC, modern cooperatives can be included in various areas or AEC priority sectors as suppliers of goods or services at a large company or a conglomerate engaged in the manufacturing industry.

At the regional level, ASEAN has set a vision of SMEs as a "globally competitive and innov-

XIII, No. 2, Nov 2013, Tangerang: Faculty of Law Universitas Pelita Harapan, page 2.

<sup>21</sup> Sastrawidjaja and Adam, *Op.Cit*, page 218.

<sup>22</sup> Hendar Kusnadi, 2005, *Ekonomi Koperasi*, Depok: Publishing Agency of Faculty of Economics Universitas Indonesia, page 17.

ative MSMEs" with its mission of "By 2025, ASEAN shall create globally competitive, resilient and innovative MSMEs, seamlessly integrated to the ASEAN Community and inclusive development in the region".<sup>23</sup> ASEAN mechanism is outlined in Actions for Strategic Goals (2016-2025). This Actions for Strategic Plan is divided into two phases which is *the First* phase Post Integration Period (2016-2020) that essentially creates a "seamlessly integration to the AEC and the regional value chain" which focuses on three things: Industry Cluster, Global Supply Chain and Productivity. *Second* Phase of Global Expansion Period (2016-2025) emphasizes on "Inclusive and Innovative Competitive Globally Resilient" which focuses on "Innovation, Entrepreneurship and Export".<sup>24</sup> At the national level, ASEAN SMEs are integrated with the production network of East Asian countries such as Japan, China and Korea. SMEs are part of the lowest layer in the production network. SMEs have high resistance related to price and capacity. In the fourth and third layer in the supply of goods (fourth and third suppliers), are carried out by SMEs, while the second layer of network production is filled by SMEs and Large Enterprises (large firm). Everything aimed to supply goods to the production of large enterprises which is equivalent to a multinational company (MNC) as manufacturers (Original Equipment Manufacturer).<sup>25</sup>

## Conclusion

SMEs and Cooperative still do not have sufficient competitiveness to face the competition in the AEC era. The government's policies to increase SMEs becoming equal to other business entities are still not optimal because it is merely a partial policies which haven't been thorough and comprehensive. SMEs and Cooperative are still unable to adjust with a variety of modern business progress and liberalization of regional or global trade. Moreover, SMEs and

Cooperative Problems are not raveled and resolved properly referring to the capacity of SMEs related to the weakness of regulation. SMEs need a favorable regulatory environment which should be in the forefront of the government's economic policy agenda. In principle, SMEs need government's economic policy alignments to simplify regulations and to improve the quality of regulation. Government needs to issue regulations that strengthen SMEs and Cooperative institutions and provide convenience for SMEs and Cooperative to develop products export destination, especially 12 (twelve) priority sectors of AEC.

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<sup>23</sup> ASEAN Strategic Action Plan for SME Development 2016 - 2015, Available on <http://asean.org/storage/2015/12/SAP-SMED-Final.pdf>, accessed on September 20<sup>th</sup> 2016

<sup>24</sup> *Ibid.*

<sup>25</sup> Dionisius Narjoko, *Loc.Cit.*

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