

# Competitive Readiness from Indonesia's Small and Medium Industry (SME) in Dealing with ASEAN Economic Community.

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**Submission date:** 12-Jan-2023 09:55AM (UTC+0700)

**Submission ID:** 1991549825

**File name:** jurnal\_Ke\_04.\_511\_IJAR-8963\_Rifai\_PHB\_2015.pdf (414.84K)

**Word count:** 5557

**Character count:** 31633



ISSN NO. 2320-5407

2  
Journal homepage: <http://www.journalijar.com>  
Journal DOI: [10.21474/IJAR01](https://doi.org/10.21474/IJAR01)

INTERNATIONAL JOURNAL  
OF ADVANCED RESEARCH

## RESEARCH ARTICLE

### Competitive Readiness from Indonesia's Small and Medium Industry (SME) in Dealing with ASEAN Economic Community.

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#### Manuscript Info

##### Manuscript History:

Received: 14 February 2016  
Final Accepted: 19 March 2016  
Published Online: April 2016

##### Key words:

Competitiveness, Small and Medium Industry, ASEAN Economic Community.

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#### Abstract

The establishment of ASEAN Economic Community Pact in the late of 2015 brings opportunity together with challenge for Indonesia economy. With that pact, country members of ASEAN will experience free flow of goods, services, investment and educated or skilled work labor from and to every country. AEC urgently need to reduce gaps between ASEAN members in economic growth aspect by increasing dependency between all ASEAN members. AEC can development national concept and resulting single trade block that able to handle and negotiate with non ASEAN exporter or importer. Small and Medium Industry (SME) around countries including Indonesia was one firm accelerator from many others accelerators in society economy. Apart from it, for Indonesia the role of SME especially since monetary crisis in 1998 can be seen as a savior valve in national economic recovery. Therefore, SME need to problems that block their movement in product development and marketing sectors. Anticipation movement has been arrange by Indonesian to help SME business performers greeting ASEAN free trade a by upgrading the comprehension of SME business performers about AEC, improve mention production efficiency and business management, increasing the market power absorption to local SME products and creation of conducive business climate. The result showed that SME need to improve the product quality and optimizing the recent technology & marketing strategy. The government needed to step up and make policy to smooth the process.

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#### Introduction:-

The ambition of ASEAN to make Asean Economic Community was triggered by external and internal development of many countries inside ASEAN region. From external point of view, Asia is predicted to be new economic power with the support from India, China and other ASEAN countries. According to World Bank report (2014) usage of International Dollar as the Purchase Power Parity (PPP), ASEAN economic level making a contribution of 6 % to global PDB. It makes ASEAN become the fifth biggest economic regional after NAFTA (20%), EU (17%), China (16%) and India (7 %). Whereas from internal point of view, after the financial crisis that hit Asia from 1997-1998, it gives extra motivation to make solid agenda about regional integration in order to build stronger defence to overcome macrofinance instability. ASEAN also has a vast growth of middle young business owner who can be source of new financial growth in that region.

Transition into the year 2016 is coming closer, many nations who join ASEAN must deal with an era of ASEAN Economic Community (AEC). It is a time to put together or unite countries in South East Asia continent inside "one basis of production and market. Where there will be free trade of many products, services, investment, work labour, and capital that ends on one open market principle without boundaries. AEC in 2016 will bring opportunity along with challenge to Indonesia's economic condition. With that pact (AEC) that establish in the end of 2015, country

member of ASEAN will experience free flow of goods, services, investment and skilled work labour from and to every ASEAN countries. Through AEC there will be integration of "free trade area", abolition of trade fees between countries who are member of ASEAN, worklabour market and free capital market that will affected oneconomic growth and development for every country. Unavoidable, implementation of ASEAN Economic Community will give positive and negative impact to these industries. One of the positive impact that we can expect is larger international market that allowing many business performers earn higher profit, whereas one negative impact that certainly emerge is higher competition in small and medium Industry, sectors that grows inside the international market of ASEAN. Apart from it, readiness from stakeholders including government in mapping the national and regional regulations that relates to 2015 ASEAN Economic Community is urgently needed.

There are four substances as focus of MEA 2015 which can be used as perfect momentum for Indonesia. First, these Southeast Asia countries are going to put into one massive unit of market and production basis. With the union of market and production basis, it will allow goods, services, investment and capital flow streaming in massive amount, then the movement of many skilled worklabours can be free or having no boundaries from one country to another inside Southeast Asia region. Second, MEA will shape as economic region with high competency level that require policy that consist of competition policy, consumer protection, Intellectual Property Rights (IPR), taxation, and E-Commerce. Therefore, it can create a fair competency climate; able to offer protection mode by making networking system from consumer protection agents, prevent violation of copyright, creating an integrated, safe and efficient transportation network; omitting double taxation system; and increasing many trading activities by electronic media via online. Third, MEA will also play a role as a region which has equal economic growth, by given top priority microbusiness or Small and Medium Enterprises. Competency and dynamic power of SME will be upgrade by facilitating their access to the latest information, market condition, human resources development in a form of skill, finance, and technology improvement. Fourth, MEA will be fully integrated to global economic, by building a system that elevate coordination toward ASEAN members. Also, participation of every country inside Southeast Asia region to global supply networking will be encourage by creating technical aid packages program for under development countries inside ASEAN. This program is held to increase industrial ability and productivity of those countries to elevate their participation in regional scale and also create initiative to be globally integrated with other countries inside ASEAN.

Even SME has a role as backbone of national economy, so far the development of microbusiness (SME) in Indonesia are far from optimum. Quantitatively or in numbers, these giant potencies of SME has not supported by qualified work performance. Sriyana (2010) said SME industries are still facing many basic problems such as product quality, marketing, and business sustainability. Therefore, SME need several breakthrough policies to cut this chain link of problems that block their movement especially for handling some matters that become obstacles in product development and marketing sectors. The problem of work performance from SME performer also influence by internal and external factors. For internal factor, it is related to personality of the business performer itself. This opinion is align with the study held by Setiawan, Budi and Firdaus, Helmi (2002) which explains that there are 11 categories in personality exploration of businessman/business performer as follow: needs of achievement, needs of affiliation, needs of management, risk taking, creativity, trust, needs of power, social interaction, being sceptical, needs of independent, and needs of experience. Nurhadi (2013) also add by explaining the adoption of information technology by SME still low and unable to give significant competence for them. Kusmantini (2012) explained that there is a significant influence from the readiness of technology competence owned by SME to intensity of e-business adoption.

These problems need serious attention concerning that SME sector for all this time become one of the potent source for the economic growth and development in Indonesia, therefore our government must compose precise policy to dealt with ASEAN Economic Community, in particular. The study held by Sholeh (2013) showed the strategy that must be prepared by this country urge Indonesia government to work faster. Other result explained the socialization movement of AEC and its importance to society considered to be very minimum. This problem became a crucial matter for the government. A study conducted by Ratnawati (2013) said to introduce handicraft product require E-commerce model to increasing the sales of SME product. Meanwhile, J.W Saputra et.al said to expand the market segment and improve their competency, SME performer need an application that able to integrate and automate SME business process.

### Research Methods:-

This research is held in clustered industry of bag and trunks in Sidoarjo Regency East Java Province with respondents of business performers from small and medium industry who has membership of Intako cooperation bank. Location selection is determine by purposive approach with several consideration: (1) as the central of leather industry who has good quality and export opportunity, (2) able to absorb abundant worklabour, (3) central of superior industry as the prime product from regional government whether in regency level or East Java province. Population of this research is 306 SME business performers in Intako central, subdistrict Tanggulangin of Sidoarjo regency who register in Intako cooperation bank. Total samples of this research are 98 respondents that determine by Solvin approaching methods. For sample determining method, the writer use purposive sampling with criterias: (1) registered in Trade and Industry Local District (2) get guidance training from related agencies, (3) have or own business at least 10 years and (4) have 5 employees in minimum. Data collection methods are observation, documentation and interview. The collected data will be presented and tested by descriptive statistic method. Discussion of the result presented in detail for data analysis result that conducted earlier then followed by withdraw conclusion from this research.

### Result and Discussions:-

AEC 2015 forum will give several challenges to Indonesia which is not only internal but also challenge to compete with fellow ASEAN countries and other countries outside ASEAN such as China and India. The fierce competition will have impact to competitive price too, not only in product commodities or prime services from major industries but also for SME sector which has similar characteristic of product. Understanding the role of SME as business group which has the largest number of performers and quite dominant in Indonesia economy, then the success of AEC 2015 also influenced by SME readiness. Today SME in Indonesia proven that they able to sustain from economic turbulence and became economic saviour when economic crisis hit Indonesia in 1997 and global crisis in 2008. The amount of microbusiness in Indonesia nowadays are around 55 millions and absorb 97 percent of Indonesia's workforce. The fundamental problem is quality of human resources of Indonesia that still below expectation. Moreover, this quality is tightly related to competency in facing AEC 2015 in particular. For Indonesia, AEC will become a good opportunity because many trade restrictions will be decrease a lot or sometimes gone. This will have impact on increase number of export that eventually led to the rise of Indonesia's GDP. On the other hand, there come another challenge for Indonesia which is commodity homogeneity problems, for example in agriculture commodities such as rubber, timber, textile, also electronic products (Santoso, 2008). Competition risk will emerge because the abundance of imported products will be flooded Indonesia market and threaten local industries who must compete with more qualified product from other countries. Eventually, this will increase the deficit of Indonesia's balance of trade.

Taking from investment point of view, this condition can create economy climate that support the enter of Foreign Direct Investment (FDI) who able to stimulate economic growth through the development of technology, creation of work opportunity, development of human capital, and easier access to world market (Gunawan, 2016). However, these conditions can create exploitation risk. Our regulation level is considered to be loose therefore it can create exploitation in massive scale to the availability of our natural resources by foreign companies who enter Indonesia, a country that has abundant natural resources comparing to other countries in Asia. There is also possibility that the exploitation by those foreign companies can destroy or ruining natural ecosystem in Indonesia, meanwhile the investment regulation that exist in Indonesia is not powerful enough to guard the natural condition including the availability of contents of that natural resources.

From worklabour aspect, there will be many great opportunities for job seekers because of many work place to go with different requirements of various skills. Apart from that, access to go abroad in seeking job will be easier or in some cases will be no trouble at all. AEC also offering positive chance for businessman to find the best employees according to the criteria that they needed. This chance can bring worklabour risks for Indonesia because from education and productivity level Indonesia worklabour are not ready to compete with job seeker from Malaysia, Singapore, and Thailand, plus our own industry foundation that rank Indonesia in the fourth place in ASEAN (Republika Online, 2013).

In the presence of this AEC forum, Indonesia has an opportunity to make use of advantage from internal economy scale as basis to gain competitiveness (Bushwari and Gunawan, 2016). However, Indonesia still has many challenges and risks that will emerge if AEC had been implemented. Thus, many risk professionals are expected to



be more sensitive to fluctuation which about to come then, Indonesia can anticipate many risks that will emerge with accurate handling. Beside, a good collaboration between state authority and business performer also require, infrastructure in social and physical aspects (law and policy) must be fix along with the improvement of skills and competency of work labour and also companies from Indonesia. Do not let Indonesia as bystander in our own country in 2015. Indonesia as the highest economic growth in ASEAN, approximately 40 % of ASEAN PDB and almost half of ASEAN population, Indonesia is important player in AEC which about to held soon. Unfortunately, from the data of BPS per October 2014 before this forum held, Indonesia suffered from trade deficit with Thailand which accumulate until 3,6 billion US dollars. This is not small number, of course. Plus our rank according to Global Competitiveness Index is still at 38 position from 148 countries, far behind Singapore which place in second position, Malaysia in 24 position and Thailand in 37 position.

There are many efforts taking by Indonesia as preparation steps. Indonesia government had implemented many strategic activities where one of them is forming National Committee for Preparation of MEA 2015 to formulate anticipation steps and making socialization movement to society and SME about establishment of AEC at the end of the year 2015. The anticipation steps that has been arranged by Ministry of Cooperation and Small and Medium Industry to help SME business performer greeting ASEAN free trade era was:

1. Upgrading the comprehension of SME performer about AEC
2. Upgrading production efficiency and business management
3. Expanding market absorption for product of local SME, creation a conducive business climate.

However, one of the main barrier for SME sector to compete in free trade era is human resource quality of the SME. To improving the quality Indonesia government conducted many training and workshops in technical and managerial skills. They also made several training and utilization that directed to quality improvement and product standardization to improve the work performance of SME to generate high competency products. Today, the most important SME sector that must be expanded for facing AEC 2015 is sector that link to creative and innovative industry, handicraft, home industry and information technology. Ability to use technology information and communication is crucial for SME performer to deal with more difficult business rivalry, particularly for AEC. For this reason, SME performer must utilize technology as much as they can to expand their businesses to compete in global era.

Better utilization of technology information and communication which supported by cooperation between government and private sector can make SME competency grow better. This is proven by the latest data from World Economic Forum that said the rank of Indonesia SME was rising from 52 to 38. Our competency index (among ASEAN countries) is 4,1 the same index as Thailand has. SME strengthening also take important role in eliminating poverty effort by expanding working opportunity and creating goods or services as export commodity. Many strategic efforts in facing AEC 2015 will continue to create. Lots of coordination and consolidation inter-organizations and ministries also enhance to eliminate many barrier factors. There are some possible efforts that can be carry out by Indonesia to upgrade SME capacity for the reason facing Asean Economic Community in particular, which are: (1) creation of superior product from local region, (2) quality improvement of SME product, (3) a synergy between government and stakeholders; and (4) creation of conducive business climate or environment.

#### **Creation for superior product from local region:-**

Dealing with the rivalry in ASEAN free trade era, the capability of the performer to penetrate international market (export) or overcome the flooded imported goods that entered local market determined by the combination of several supporting factors that create some competitive advantages belongs to one country that can be use to deal with other rivalries. In discussion context of international economic problems, a comprehension about competitive advantage of a country can be understood through its comparative and competitive advantages. Theory of absolute superiority or comparative superiority tell that certain country will do effort to create specialization and export certain products as their prime product because the country already have absolute superiority or comparative superiority and will not produce or doing other stuff where the country has no absolute superiority to other country who making similar goods or items.

The superiority level of a country can be measured from the value of its work labour which assume as homogenous. This theory emphasize on efficiency in input usage, such as raw material, work labour, and other production factor usage to do activity under one production process of certain good can be very important for finding the competitive advantage or rivalry power of a country. Therefore to find strategic effort to foster many activities in upgrading

potential advantage of a region, Indonesia government should make better ways that focused on development of business activities sector that will be created as superior potency from that region. Some regulations already exist as an attempt of developing superior potency which created by Indonesia government such as establishing a roadmap of development of prime competence for every region, also government policies like *one village one product* which had been done. Roadmap of attempt to develop the superior product in each region had been conducted in 2007. This roadmap contain of strategies of policies in develop industries that manufacture superior product in entire provinces of Indonesia. The superior product from a region play as advantage or superiority map of every region which can be the mainstay potency to generate economic activities in that region. To be a superior product or core competency for certain region must fulfill several criterias: (1) able to give potential access to enter various market segments, (2) able to give high profit value or high benefit for end customer, and (3) have certain unique value as typical mark so the outcome product is hard to imitate by other rivals (Ministry of Industrial Affair, 2007).

The development of superior potency from one region can be done through training and guidance for increasing the competitive power of their products to make their economic value higher by adding focus and typical mark as stated by Gunawan (2016). Therefore these superior product can be produce more efficient and have competitive price according to the potency that they owned. Strategy to upgrade these superior potency also held by making a policy of *One Village One Product* in which is a government policy in attempt to develop micro and medium businesses by preparing one region to manufacture one superior product at minimum that can be use as their own typical mark. These marks also can be use to differentiate one region to another. This policy is one of the leading step to industry clusterization which aimed to introduce superior products coming from different regions to have maximum growth and able to enter larger market especially international market that promising higher profits because of its larger market potencies.

According to the PP No.28 Tahun 2008 about National Industry Policy, Indonesia government since 2008 has been established policies that expected can become fundamental ground in developing national industry to create better competency power in market and to have more healthy structure for solidify our national resistance. The policy is consist of Building The Future National Industry and Developing Strategy for National Industry. It is expected to be the main accelerator machine of Indonesia economy and that superior product will have a role as national economic defence in future. There are many aspects of national resources and its availability which taking into consideration into a draft so the policy will be expected to have strong and depth interconnection along with continuous competency power and firm grip in dealing with rivalries in international market that proven to be very competitive. Unfortunately those formulated policies failed to be a guidance for regional government in expanding microbusinesses, and there already some local government who trying to develop microbusinesses in their areas without any solid direction from Indonesia government. Then, there is a discrepancy between superior product from regional areas with the development of national industry which is not align. These situations make many superior product that expected play as competitive advantage failed to achieve its target. Therefore, to make these existed superior products can grow into accelerator of those regions development then these superior products development must be related to the development of clustered industry.

Weijland opinion in Arsyad (2008) explained that for Indonesia, these microbusinesses which clustered geographically were estimated become nursery or pioneer to grow and expand these industries. In some areas these clustered policy had shown its success in reducing poverty, and expand to be a bigger industry like Tanggulangin Industry around Sidoarjo regency in East Java region. Through networking development of trade activities and making clusters, these microbusinesses are able to overcome problems especially in the marketing area and technology, able to reduce transaction cost from the purchasing of many production factors, together with allowing information access to be easier, delegate or divide product manufacture when the demand rising up, job division and also sub contract. Through this clustered approaching the existed superior potency is expected to grow bigger and having firm competency power then it can be use as a tool to attract and convince private sectors as the benefactor for many investment activities that conduct in areas who has superior potency. Therefore, it needs research study about the suitable technology for the needs and fit with characteristics from each areas or regions.

Aside from that, there is a need to create one suitable design of organization model and local government policy that support the program. Local government is expected to play a role in three things: (1) support the growth of productive business to utilize superior potency from that area such as in a form of credit facilitation that can be easily accessed, skill and business management improvement of those performers; (2) developing some program that support those business industries such as building facilitation for production, transportation, distribution, and

marketing activities; (3) set up regulation that able to give conducive climate for industry growth and networking linking that have mutual benefit for business sectors and interrelates parties. Upgrading many potencies to be competitive advantage from Indonesian products can be done by maximising the microbusiness potencies. Culture and local wisdom of Indonesia need some attractive touch to give unique and interesting look, then it can be used as our distinctive competitive advantage for Indonesia's product in the eye of international market in dealing with Asean Economic Community.

#### **Quality Improvement of SME products:-**

High quality products with interesting package will have interesting values to increase competitiveness against imported goods, particularly those who has similar products. Branding creation for SME products must be carried by business performers with related parties. Strategy to increase the quality of the product can be implemented in many ways, for example the usage of sufficient technology, skill improvement for the production workers, innovation to model or the design of the product and selected only qualified raw materials. The effort to upgrade product quality must be together with the upgrade of its human resources, in this matter are business performers. Many attentions must be focused on them by giving technical help and co-assistance business activity in technology areas that really needed to make absorption and technology usage skills of these performers work in accordance and at maximum level. The existence of central of technology innovation or SME Innovation Center should be use in optimum to create more creative products with better quality. Government can create or establish independent innovation center or collaborate with universities as central of technology information development. By making collaboration with others, central of innovative design surely can help the development process of the product from many SME performers at certain region. On the other hand, establishment of Indonesia's Creative Year 2009 can be use as a momentum to upgrade the quality of many products by SME performers so it can compete in global market especially in Asean Free Trade Market. Inside of the creative industry design there are 14 industry sectors that establish as creative economy sector in Indonesia which are: fashion, handicraft, interactive games, performance art, printing and publishing, computer and software services, radio and television, research and development must be support to grow bigger to make SME performers have more power in dealing with free market rivalries.

#### **A Synergy Between Government and Stakeholders:-**

To support many steps explained above, government must be collaborate with other stakeholders such as reputable financial institution and private companies. The synergy can be applied by pushing many private or public companies to direct their corporate social responsibility (CSR) activity program for strengthening the SME sector. Up till now there are many private companies that already develop their CSR program to maintain the SME sector. Unfortunately this orientation is just in the surface and dominantly appear to be slightly unimportant. Co-assistance activity as a very important aspect in SME development tends to be ignored. This condition showing the government incapability to answer many problems that SME have. Therefore government must support those programmes to be working well to strengthen business capacity of SME sector. CSR program can be apply in optimum force to boot the development of SME. Apart from it, banking and financial institution need to be encourage to make capital schemes that more suitable for the characteristic of SME performers, not only from requirement side but also from interest rate, a scheme that easy to access by microbusiness performers.

#### **Creation of Conducive Business Climate or Environment:-**

One of the main concern of incapability from Indonesia product to compete with other product from abroad is the price was more expensive than import products. Expensive price of Indonesian products caused by high production cost because of unconducive business climate such as insufficient infrastructure condition, high interest rate loan of banking institution, also various illegal fees, etc. Result study that conducted by Heufers, et al (2008) found several problems that obstructed the development of SME. These obstruction seen in the institution aspect (business permit, local regulation, and retribution), work labour, economy regional, social politics, public participation, security, and physical infrastructures). Many overlapping fees and policies make the economy cost remain. The government needs to create a more conducive business climate or environment. Government also must provides secure activities by create regulation for protect local products to reduce the flood of imported goods to help domestic products. Requirement of fulfilling the National Standard of Indonesia (*Standar Nasional Indonesia/SNI*), environment standard, and halal certification on imported products also apply as one of the way to reduce the stream of imported goods in Indonesia.

#### **Conclusions:-**



Pact of Asean Economic Community 2015 is an agreement of the creation of single market ASEAN with integrated production basis. There will be rapid flow of goods, services, investment, capital and skilled worklabor in free movement. With 241 millions citizen, Indonesia is a country that potentially can be the biggest economic basis or consumption basis in ASEAN territory. Through AEC forum 2015 will encourage flooding of products from many ASEAN countries to Indonesian market and takeover the remain market segment that during this time is owned by SME. However, on the other side, for SME performer who is ready to compete, this trade liberalization can be a good opportunity to marketing their products or services until reaching other countries. Thus all SME business should continue to upgrade their competitive power, their productivity, quality and services of their products to be able to compete with products from other countries. It is also suggested to every SME business performer to improve their skill and understand more about technology development nowadays so the marketing concept and their promotion products widely spread and attract many potential buyers in domestic, regional, and also international scopes. Government also need to prepare many strategic steps to encourage industrial growth in national scope especially SME to be able dealing with rivalry that more competitive among ASEAN countries whether inside domestic market or international market.

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