IS THE INDONESIAN MANUFACTURING INDUSTRY READY FOR THE ASEAN ECONOMIC COMMUNITY (AEC)?

A thesis submitted to the Faculty of Humanities
for the Master's Degree
in
International Studies

Leiden University
Rapenburg 70
2311 EZ Leiden
The Netherlands

Supervisor:
Prof. Akhmad Rizal Sidiq

Dimas Ariestyo Pradana
S1726889

Table of Contents

1. Introduction

The Indonesian Ministry of Industry admitted that 70 percent of the national manufacturing industries are not ready for AEC[1]. Moreover, according to *Competitiveness Industrial Performance* (CIP) index from the United Nations Industrial Development Organization (UNIDO) reported that in 2013, Indonesia's manufacturing industries competitiveness were ranked 42nd far behind Singapore in 7th place, Malaysia in ranked 24th, and Thailand in 26th place (UNIDO, *Industrial Development Report 2016*: 199 – 200).

Low performance and competitiveness level in Indonesia's manufacturing sector emerged post-1998 Asia's regional economic crisis which made the manufacturing sector fell to "growth recession" (Rahardja, et.al. 2012: 3). Indonesia's manufacturing sector was not able to fully recover compared to other ASEAN member countries, such as Malaysia and Thailand. The manufacturing industries in Indonesia are considered as a 'backbone' of the national economy. This sector contributes around 25 percent to the national gross domestic product (GDP), especially in non-oil industry. The manufacturing sector was on top of other Indonesia's leading sectors, such as agriculture, fisheries, and marine industries which contribute 14 percent, as well as restaurants and hospitality areas that contribute 16 percent to national GDP.

It is interesting to contrast the low performance and competitiveness of Indonesia's manufacturing sector with the plan for the ASEAN Economic Community (AEC). When fully implemented, AEC will create a single market and production base which makes more dynamic and competitive ASEAN with new structures and procedures support the realization of its existing economic programs; fast-tracking regional integration in the priority sectors; facilitating movement of business persons, talented and skilled labor; as well as to intensify the institutional mechanisms of ASEAN (AEC Blueprint, 2008: 5).

The AEC implementation will encourage a competitive atmosphere in a regional economic integration, and it can also stimulate higher intra-regional trade flow. Along with these benefits, economic integration also has its disadvantages such as the limitation of government authority in policies related to fiscal, monetary, and financial that can affect national economic performance. Other than that, the implementation of AEC also opens the possibility to create higher unemployment rate, and it can only turn a country into the market for imported products from other nations due to its lack of national competitiveness (Kementerian Perdagangan RI, 2011: 27).

Many assumed that implementation of the AEC in 2015 as a regional economic integration creates a paradox for market participants. Theoretically, regional economic

---

[1] *Industri Manufaktur RI Tidak Siap Hadapi MEA*. http://www.kemenperin.go.id/artikel/10267/Industri-Manufaktur-RI-Tidak-Siap-Hadapi-MEA (accessed 5 November 2016).

integration would open up and expand market access and services, along with the availability of raw materials, capital, and investment which will influence the industrial structure and encourage more capacity building to improve domestic industries competitiveness as well as national purchasing power.

In this thesis, I review the effects of the ASEAN Economic Community (AEC) as one process of a regional economic integration, with a goal to create a single market and production base with free flow of goods, services, investments, capital, and skilled labor, in particular on the Indonesian manufacturing industry (Hew, 2007: 2). Thus, the main research questions of this thesis would be: ***is the Indonesian manufacturing industry ready for the AEC?***

In the present situation, only several Indonesia's manufacturing sectors are willing to fully-implemented AEC, and their products can compete with manufacture products from other ASEAN member countries (Yogatama and Utami, 2014). However, the Indonesian government believed that the national manufacturing industries would be ready by the time AEC fully implemented because the government has set several measures to improve national manufacturing sector level of performance and competitiveness through enhancing industrial structures.

After a brief introduction to the thesis topic and research question in the first section, the second section describes the institutional settings, namely the AEC and its 'building blocks' and the current performance of the Indonesia's manufacturing industries. The third section is the conceptual framework which describes how a regional economic integration may affect the manufacturing sectors, as being suggested by Peter A. Petri[2]. The fourth section assesses the empirical findings whether Indonesia can meet the conditions for a positive effect of AEC on manufacturing industries, especially to improve its investment climate and the removal of Non-Tariff Barriers (NTBs). The last section serves as a conclusion as well as answering the thesis research question.

2. Institutional Settings

2. 1. The ASEAN Economic Community and Its 'Building Blocks'

Since its establishment, ASEAN leaders constantly emphasized on border issues, and economic integration was not brought up during the first three decades of the Association. On the other hand, the interest then changed from border issues to a deeper integration process (Lloyd, 2007: 30). Throughout the years, ASEAN has achieved significant organizational

[2] Petri, Peter A., et.al. *ASEAN Economic Community: A General Equilibrium Analysis*. Asian Economic Journal. 2012. Vol 26, No. 2: 93 – 118.

accomplishments, and ASEAN's latest achievement was the implementation of ASEAN Economic Community (AEC) in 2015.

In January 2007, ten ASEAN member countries agreed to implement the AEC, with the goal of creating a free movement of goods, services, Foreign Direct Investment (FDI), and skilled labor, as well as 'easier' flows of capital in the Southeast Asian region. Soon afterward, the AEC Blueprint was signed in November 2007. The AEC Blueprint defines the four pillars of AEC that can be achieved through liberalization of trade in goods, services, and investments: (i) a single market and production base; (ii) a highly competitive region; (iii) a region of equitable economic development; and (iv) a region fully integrated into the global economy (IBON International, 2015: 5).

The AEC has become the center of the Southeast Asian regional integration process, which shows the willingness to strengthen as well as widen the economic integration. The AEC is considered as the most progressive compared to the other ASEAN Community pillars[3] (IBON International, 2015: 5). AEC visualizes the development of regional production networks with the aim of improving its capability to function as a global production center for the global supply chain. With AEC implementation, ASEAN is envisaged to become a single market and production base with the ability to accelerate the movement not only of goods, but also of skilled labor, professionals, and tourists in general. According to AEC Blueprint, an ASEAN single market and production base consist of 5 (five) principal aspects: (i) free flow of goods; (ii) free flow of services; (iii) free flow of investment; (iv) free flow of capital; and (v) free flow of skilled labor (IBON International, 2015: 6).

As a single market and production base, the Southeast Asian region will profit by economies of scale and effectiveness in manufacturing system processes. ASEAN could have an influence on economies at various stages of economic improvement to give corresponding settings for production systems. A cohesive market and production base would obviously enhance intra-regional trade and investment flows while a vast ASEAN consumer market would become a magnet for investors (Chia, 2013: 11). To fulfill the implementation of AEC, a High-Level Task Force (HLTF)[4] on ASEAN Economic Integration was later established to give suggestions to bring about the AEC. The task force has submitted several recommendations for the AEC, among others:

[3] ASEAN Community consists of 3 (three) pillars: ASEAN Political and Security Community (APSC); ASEAN Economic Community (AEC); and ASEAN Socio Cultural Community (ASCC).

[4] ASEAN High Level Task Force (HLTF) consists of 10 (ten) Senior Officials from each ASEAN member countries (appointed by the Minister for Foreign Affairs), as well as a resource person from the ASEAN Secretariat. In this regard, the task force responsibility is to provide consideration and recommendation related to the full implementation of ASEAN economic integration. http://asean.org/?static_post=recommendations-of-the-high-level-task-force-on-asean-economic-integration (accessed on 18 November 2016).

"*(i) accelerate current ASEAN economic integration programs, laying down clear timelines for specific measures in the areas of tariffs, non-tariff measures, customs, standards, services, investments, intellectual property rights, and finance; (ii) designate twelve priority sectors*[5] *for accelerated integration with the coverage of each area broad enough to account for a substantial portion of intra-ASEAN trade and potential to maximize the complementarities among ASEAN economies and serve as a catalyst for expediting the integration process; (iii) adopt an "ASEAN minus X" formula in integrating the priority sectors. That is, two or more ASEAN members may initiate and participate in intra-ASEAN economic arrangements, while other ASEAN members may join when they are ready to do so; (iv) improve the CEPT rules of origin (ROO), including making the ROO more transparent, predictable, and standardized. Ensure transparency on non-tariff measures (NTMs), eliminate NTMs that are barriers to trade, establish an ASEAN database on NTMs, set clear and definitive work program for removal of NTBs, adopt the WTO agreements on Technical Barriers to Trade, Sanitary and Phytosanitary and Import Licensing Procedures, and develop implementation guidelines appropriate for ASEAN; also (v) establish new institutional mechanisms, including a legal unit of trade disputes in the ASEAN Secretariat, a compliance monitoring body for peer adjudication, and an impartial dispute settlement mechanism*" (Chia, 2013: 11).

The process of ASEAN economic integration has not started only by the AEC. It began with ASEAN Free Trade Area (AFTA), soon after the signing of a Common Effective Preferential Tariff (CEPT) Scheme in 1992. CEPT scheme obliges ASEAN members to lower their tariff rates on a variety of commodities exchanged in the Southeast Asian region to 0 – 5 percent. In 2003, the CEPT scheme was already fulfilled by ASEAN original members (ASEAN-5) and Brunei. However, for Cambodia, Laos, Myanmar, and Vietnam (CLMV), they achieved its tariff elimination target not long after the ASEAN-6; For Vietnam was in 2006, Myanmar and Laos in 2008, and Cambodia were the last to reached the tariff elimination target in 2010. So far, ASEAN – 6 has reduced around 99.77 percent of their products in their CEPT Inclusion List to 0 – 5 percent (Hew, 2007: 5 – 6). Various conditions have affected the progressive improvement in ASEAN economic cooperation. Perhaps several comfort level with the process has been achieved over time, led the ASEAN member to be more eager to move faster toward the regional economic integration. The need to increase regional economic

[5] 12 (twelve) priority sectors which identified for integration are: (i) agro-based goods; (ii) air transport; (iii) automotive products; (iv) e-ASEAN (including ICT equipment); (v) electronics; (vi) fisheries; (vii) healthcare products; (viii) rubber-based products; (ix) textiles and apparel; (x) tourism; (xi) wood-based products; and (xii) logistics services.

competitiveness might be an answer to recuperate from the financial crisis as well as to face Chinese economic power that could infiltrate the Southeast Asian market (Hew, 2005: 14).

Over the last decade, Free Trade Areas (FTAs) have been the focus of ASEAN members' trade policy, both for individual countries and for ASEAN. In this regard, ASEAN has pursued a wider Asian and global trend: trade policy has changed from non-discriminatory unilateral liberalization, supported by the General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) commitments, to preferential liberalization through FTAs. On theory, AFTA and its branches are solid agreements – models of strong regional economic cooperation. CEPT preceded to a tariff-free zone as well as removing the quantitative restrictions and other NTBs among ASEAN countries (Basu, et.al. 2013: 321 – 322).

Besides AFTA, there are the ASEAN Framework Agreement on Services (AFAS) and the ASEAN Investment Area (AIA) that served as the 'building blocks' for AEC. AFAS is considered as a GATS-Plus agreement because its scope of liberalization in services set out from those already commenced under WTO's General Agreement on Trade in Services (GATS). Within the scope of services liberalization, AFAS applies a positive list approach from GATS framework, and there are 7 (seven) sectors that AFAS covers: (i) construction; (ii) financial services; (iii) business services; (iv) air transport; (v) tourism; (vi) maritime transport; and (vii) telecommunications. The implementation of Mutual Recognition Agreements (MRAs) set up a significant pace towards regional cooperation in the services sector because the MRAs will enable free movement of professional services providers in the region. There are three factors that ASEAN utilizes to classify relevant sectors for MRAs: (i) the value of intra-regional trade; (ii) the existence of technical barriers; and (iii) an indication of strong interest from other ASEAN members (Hew, 2007: 7).

The AIA intends to create a highly competitive investment area for ASEAN which appeals to Foreign Direct Investments (FDI) which not only from ASEAN members but also from non-ASEAN investors. With AIA agreements, ASEAN members are required to lessen or remove investment barriers and exempt national treatment for investors from ASEAN by and non-ASEAN investors by 2020. AIA agreement will foster ASEAN investors to implement a regional investment policy as well as to encourage regional production systems. On its implementation, AIA projected to offer a wider range of labor classification and industrial activities within the Southeast Asian region, building prospects for better industrial productivity and cost competitiveness. AIA can also benefit investors through larger access for investment in the economic and industrial sectors. It can also benefit from more ambitious and open investment schemes which make a low-cost business transaction within the region (Hew, 2007: 6).

Regarding the regional economic integration and the implementation of an AEC, the Association has eliminated, taxes obligations on the majority of intra-ASEAN trade. It put down the fundamentals of regional economic integration by restating the ASEAN members' promise to eliminate NTBs to intra-ASEAN trade. ASEAN member countries have officially agreed on several agreements, such as (i) the Customs Code of Conduct; (ii) the national and regional "Single Window" mechanisms; (iii) the ASEAN Harmonized Tariff Nomenclatures; and (iv) the WTO's mode of customs valuation. ASEAN have determined several "framework" agreements on the liberalization of trade in the various area (information and communication technology; goods-in-transit; multi-modal and interstate transport; services, and investments). Also, ASEAN has settled on MRAs or its correspondent for three categories of goods and eight types of professions (architecture; accountancy; surveying; engineering; medical practitioners; dental practitioners; tourism; and nurses), as well as completed a "framework" agreement on MRAs protecting traded products would prevent duplication in products analysis at exports and imports completion, whereas those related to services normally give mutual recognition of professional qualifications. Even though nearly all of these agreements based on the ASEAN flexibility, and all member countries have not consented several of the accords, it appears to show the willingness and liability of ASEAN members on regional economic integration (Severino and Menon, 2013: 11).

ASEAN members thought that they need to lower their reliance on developed-country market and on a small number of export products, whose costs in the world market had a tendency to sway uncontrollably while their manufactured imports costs gradually raised. They realized the potentials of the regional market for important industries in critical sectors to speed up economic development (Severino, 2006: 213). ASEAN is willing to create an economic community because of the escalating competitiveness on the current economic situation, and also Southeast Asia's main concerns that China and India would overtake the region as the newly emerging market economies. In dealing with that matter, AEC could help to stimulate and create ASEAN economies more competitive. A unified ASEAN with its large market reaching 500 million people would keep the regional pulling factor as a destination for foreign investment and revitalize regional manufacturer networks (Hew, 2005: 4).

2. 2. Current Condition on Indonesia's Manufacturing Industries

The economic level of ASEAN member countries is significantly varied, not only in population, but also in economic structure, and income per capita. To some extent, they had imbalanced performance level, although strong on average. Over the past two decades, the region's annual growth rate reached 5 percent, even though two major financial crises. In particular, the economic development is significant in Indonesia, as the largest economy in the region, which has initiated extensive reforms in politic and economic (Petri, et.al. 2012: 95).

Indonesia’s manufacturing production has displayed convincing growth under present quarters, although still fall behind compared to the growth rates before Asian crisis. Indonesia’s non-oil and gas manufacturing products increased by on average of 12 per cent per year between 1990 – 1996. Between Post-Asian financial crisis in 1997 – 1998, manufacturing performances that used to be the main driver of Indonesian industrialization plunged into a ‘growth recession’ and contributed little to GDP growth. Thus the global financial crisis in 2008 speeded up this downward trend. On the other hand, Indonesia’s manufacturing index began to improve in the fourth quarter of 2009 and increased at a rate of 4.5 percent per year. Later in the last quarter of 2010, medium and large manufacturing product has raised and achieved 5.6 per cent year-on-year in the third quarter of 2011. The key factors of this current improvement in manufacturing products development were automotive machinery and spare parts (29.8 per cent year-on-year), chemicals (19.8 percent year-on-year), and basic metals (14.2 percent year-on-year) industries (Rahardja, et.al. 2012: 3).

Flexibility in domestic need has become an influential part of the current pick-up in Indonesia’s manufacturing sectors, particularly for basic metals, food, chemicals, and automotive parts. Domestic demand has proved to be an excellent resilience since the global financial crisis started. It raised by 5.4 percent in the first three-quarters of 2011 year-on-year as a result of the constant rise in private consumption, adding 2.7 percentage points to real GDP growth on 2010. Real investment in machinery also improved rapidly even though being more expose to the business cycle, as indicated by an input of only 0.79 of a percentage point to real GDP growth in 2009 compared with 2.67 percentage points in 2008, and grew by on average 17 percent year-on-year during the first three quarters of 2011 (Rahardja, et.al. 2012: 3).

Although the GDP growth from manufacturing sectors is getting bigger, this improvement was not followed by their higher level of competitiveness. Because during the last 20 years Indonesia’s manufacturing industries competitiveness level stagnated as a result of low productivity in consumer-based industries product. This condition reflected in UNIDO 2013 CIP Index which ranked Indonesia in 42nd place. Indonesia’s significant population increase restraints the national competitiveness level. It creates higher demand on domestic industries, which usually small-scale and low-technology, were demanded to meet basic national needs, such as food and beverages, toiletries, clothing, furniture, and shoes. Moreover, the contribution of medium and high-technology industries just reached 35,7 percent from value added manufactured exports and 40,3 per cent shared in total exports just in 2013. On the other hand, the contribution of high-technology industries and value added per capita are low as a result of high population and national industries development that are still focused on the production of consumer-based products (Gosta, Demis Rizky, 2016).

Indonesia could gain profit from the full implementation of AEC because of the economic growth, especially on development in manufacturing sectors, and proper industrial infrastructures must support this development. Such improvement will also maintain the domestic market because the improvement in manufacturing industries in other Indonesian regions will make the market price more competitive. Furthermore, Indonesia expects to become a manufacturing hub for the Southeast Asian region with the support of improved national manufacturing industries as well as having 40 percent of the overall ASEAN market (Puja[6], 2016).

The Indonesian government planned to expand the national manufacturing base by reducing the focus on Java Island as well as spreading out the industrial production. Around 70 percent of the PPnational industrial estates are located in Java, which keeps on drawing potential investment flow. In recent years, there have been concerns about increasing costs in land and labor around West Java Province and particularly around Jakarta area, which made Indonesia lost a few of its competitive advantage as a magnet for investments in manufacturing sectors. The Indonesian government intended to set up 36 additional industrial hubs outside the Java Island in the upcoming 20 years. The government is also planning to revitalize the proportion of manufacturers which in other islands out of Java from 27 percent at new level headed for 40 percent by 2025 (Oxford Business Group, 2014).

In fact, the Indonesian government and business sectors acknowledge that national industries are still not ready for AEC. According to the official statement of Indonesian Ministry of Industry only 31 per cent of the total manufacture industry sectors that could compete in ASEAN market, namely: (i) agro-based industries (CPO, cacao, and rubber); (ii) fishery and dairy products; (iii) textile and textile products; (iv) footwear and leather products; (v) food and beverages; (vi) furniture; (vii) fertilizers and petrochemicals; (viii) machineries; and (ix) metal, iron, and steel. The other industries are still less competitive to compete in this market, such as (i) electronic components industries; (ii) Information Technology (IT) industries; (iii) household electronic appliances industries; and (iv) basic manufacture industries (Lubis, 2016). In addition, around 64 per cent from total raw and auxiliary materials of national manufacture products are still relied on import to support its production, and also this calculation has not included several other factors, such as national economic slowdown, the downfall of commodity prices, and *rupiah* currency depreciation (Yogatama and Utami, 2014).

According to *Rencana Pembangunan Jangka Menengah Nasional (National Medium Term Development Plan – RPJMN) 2015 – 2019* published by *Badan Perencanaan Pembangunan Nasional* (Indonesian National Development Planning Agency - *Bappenas*),

[6] H. E. I Gusti Agung Wesaka Puja is the current Indonesian Ambassador to the Kingdom of Netherlands. He served as Director General for ASEAN Cooperation in the Ministry of Foreign Affairs, as well as Senior Official Meeting (SOM) Leader on several ASEAN meetings for the period of 2012 – 2016.

there are several problems in Indonesian manufacturing industries, namely: (i) corruption, collusion, nepotism, and also poor public services; (ii) relatively high cost of money; (iii) ineffective tax administration; (iv) high import content; (v) lack of expertise and technology application; (vi) low quality of human resources; (vii) unhealthy environment for competition; (viii) inadequate industrial structures; (ix) least contribution of small and medium industries; and (x) most of the national industries located in Java. Comparatively, the condition of manufacture industries in Indonesia makes it difficult for Indonesia to catch up with other ASEAN's main competitors in order to become the major player in the regional market. If this conditions did not progress significantly, Indonesia would not be able to perform well in the regional competition as well as not able to receive benefit from regional economic integration.

3. Conceptual Framework

When fully implemented AEC will have important structural effects. One important driver for this possible outcome is the ability to develop a stronger manufacturing sector in ASEAN, especially for Indonesia. The manufacture products are highly tradable and valuable from scale effects related to larger regional production and trade. The productivity growth in the manufacturing sector will boost the region comparative advantage in some important manufacturing sub-sectors, which lead to further intra-regional exchange along with additional exports to third markets. Petri (2012) suggested that the development of more growing manufacturing sectors will rest on the two elements of AEC: (i) the NTBs removal; and (ii) improvement in the investment climate. In general, emerging manufacturing productivity will change ASEAN's comparative advantage on manufacturing, thus away from primary materials and services (Petri, et.al. 2012: 113).

Although tariff removal is also one of the required action to create a free flow of goods in AEC, Petri (2012) argued that it is not an essential factor to the manufacturing industries because the tariff applied by ASEAN member countries are relatively low, and a comprehensive analysis of ASEAN trade policy settings indicate that:

> "*(i) protection is relatively high in agriculture and beverage products relative to manufactures (with the exceptions of chemicals, transport equipment, and clothing fo some countries); (ii) protection is reasonably symmetric otherwise, in any given country, tariffs are similar across most commodity categories; (iii) protection tends to fall with income. The region's wealthiest economies, like Singapore and Brunei, have essentially free-trade regimes, those with intermediate incomes, like Indonesia, Malaysia, the Philippines, and Thailand, have mostly low tariffs, and its low-income economies, like Cambodia, Laos, and Vietnam, have relatively high tariffs, although Myanmar is an anomaly because of its low tariffs*" (Petri, et.al. 2012: 97).

3. 1. Removal of NTBs

To increase trade, countries have cut down tariffs over the World Trade Organization (WTO) rounds and within regional trade agreements, for instance, ASEAN Free Trade Area (AFTA). On the other hand, many national rules, regulations, and procedures still become a limitation to imports. Various “non-tariff” procedures are legally contributing to help the people as well as safeguarding the health, welfare, and the environment. Another measures are very obstructive and demanding which contradicts the international standards on trade (USAID, 2013: 1).

USAID (2013) proposed that the NTBs cover various government acts which influencing trade. NTBs could be clearly protectionist, on the cost of foreign merchants. NTBs will possibly aid national industries, by no means to impair global competition; otherwise, it could be a non-protectionist policy yet intentionally restraining particular trade. However, if the NTBs are mainly inflicted to protect the national industry, it becomes issues to argued in the WTO which unfavorable for the imposing country (USAID, 2013: 1).

The effect of tariffs (duties or levies put on specific categories of exports or imports) is instantly visible. On the contrary, the effect of NTBs is usually hard to determine and calculate. For instance, estimates of the effect of the additional permit, additional health licenses, or allotted controls can be unclear and debatable. Thus, NTBs are commonly recognized to increase the cost of doing business, which also difficult to eliminate compare than tariff barriers. Removing tariffs can easily be done by a country, although distinctive rules and procedures, along with permitting regulations as a principal of national NTBs might concern various ministries and institutions (USAID, 2013: 1 – 2).

The United Nations Conference on Trade and Development (UNCTAD) describes NTBs as:

> “*policy measures, other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods changing quantities traded, or prices or both*” (USAID, 2013: 2).

UNCTAD also point out that NTBs can be categorized into technical measures[7] and non-technical measures[8]. The two categories of measurements could possess legal principles, particularly from the government’s point of view. On the other hand, it also can be

[7] Technical measures can comprise of standards on Sanitary Phytosanitary (SPS); regulations on product dimension, packaging, or mass; component or specification; compulsory labelling; import testing; and documentation processes (USAID, 2013: 2).

[8] Non-technical measures can consist of administrative controls; subsidies or additional authorized procedures that hampering trade, for instance: neglecting a proper and applicable measure in securing intellectual property (USAID, 2013: 2).

utilized to furtively obstructing trade. Even though the descriptions of NTBs have a tendency on goods, NTBs also influenced trade in services. The trade in services, involving agriculture-related services, is an increasing percentage of ASEAN's GDP. Restrictions on movements of services, which involve limitations on professional accreditations and complicated visa regulations, assumed to impede the increase of ASEAN's GDP (USAID, 2013: 2).

Based on the AEC Blueprint, a free flow of goods is one of the principal means that the aims of a single market and production base can achieve. A single market for goods (and services) will support the regional development of production networks and improve ASEAN's capacity to operate as a global production center or as a part of the global supply chain. ASEAN has made remarkable progress with the tariff removal through the implementation of AFTA, but the free flow of goods would need not only zero tariffs but also the removal of non-tariff barriers (AEC Blueprint, 2008: 6).

In its effort to implement AEC, ASEAN has achieved tariff reduction, although NTBs seems to hamper it. As an essential part of the liberalization agenda of ASEAN member states, the progress in the removal of NTBs is not significant enough. NTBs could weaken the economic integration process throughout the AEC because of unclear effects of NTBs on the economy. NTBs can limit or might promote the trade. Moreover, NTBs may influence various products and different countries in numerous aspects (Austria, 2013: 32).

Austria (2013) suggested that the phrase "NTBs" is also known as "on-tariff measure." Non-tariff measures (NTMs) related to any measure, other than the tariff, which interferes the trade and it assigned by any means to decrease potential world profit. NTMs consist of border and behind-the-border measures that come from government policies, procedures, and administrative conditions which enforced for a specific reason. In domestic policy, NTMs could become NTBs because it purposely separates imports or foreign businesses, as well as being used to protect domestic industry (2013: 33). Therefore, Petri argued that NTBs include import quotas and less well-defined barriers, namely licensing requirements, restrictive product standards, and protection from anti-dumping. Other findings analyzed the NTBs by 'scoring' recognized barriers, while other ascribe barriers by calculating the shortage in a trade to an estimated levels (Petri, et.al. 2012: 97).

3. 2. Improving the Investment Climate

AEC aims to fulfill a more comprehensive investment agreement which should be innovative, with developed aspects, necessities, and requirements that would give assurance to the investor in ASEAN, which in turn could improve regional integration and maintaining a competitive investment area (AEC Blueprint, 2008: 12). Asian Development Bank (ADB) describe investment climate as:

> "*the policy, institutional and behavioral settings, both present and expected, that influences the returns and risks associated with investments. There are 3 (three) broad sets of factors that make up the investment climate: (i) macro-fundamentals, which include macroeconomic stability, economic openness, competitive markets, as well as social and political stability; (ii) governance and institutions, comprises of transparency and efficiency in regulation, taxation and legal system, a robust and well-functioning financial sector, labor market flexibility, and a skill labor force; (iii) infrastructure, consists of transportation (roads and ports), telecommunications, also power and water supply*" (2005: 8).

The implementation of AEC will give remarkable consequences for the flow of investment in ASEAN by enlarging the scale and scope of economies in the region. Based on the AEC Blueprint, the free flow of investment, especially FDI, was built upon the AIA-initiated process. Later on, AEC will incorporate different agreement related to FDI, such as investment protection and accentuate the foundations of the AIA, namely national treatment, investment facilitation and cooperation, and promotion, arranged in the ASEAN Comprehensive Agreement on Investment (ACIA) (Bhaskaran, 2013: 154).

AEC Blueprint specifies a comprehensive framework that covers mutually reinforcing procedures that will improve the investment climate of the member countries. One single market and production base will allocate the most efficient distribution of resources through the excluding of uncompetitive businesses and improve the flow of information, as well as enhancing the potential scale of economies over a greater market (Bhaskaran, 2013: 155).

Regarding AEC implementation to improve the investment climate, Aldaba and Yap (2009) suggested that four factors show substantial effects on investment flows:

> *"(i) the ACIA is more comprehensive than previous agreements and provides a wide range of investment provisions on investment liberalization, most-favored-nation (MFN) and national treatment, and investment protection, promotion, and facilitation. The lifting of foreign ownership restrictions, sector restrictions and performance requirements is expected to increase FDI. Similarly, deeper integration features, such as the legislation and harmonization of standards; competition and custom laws, intellectual property rights and dispute settlement mechanisms, will improve the region's investment climate particularly in services; (ii) the improvement of trade flows will significantly raise the level of vertical FDI in the region, as the development of complex networks – comprising the fragmentation of production and trade in parts and components – dominates intra-regional trade and investment; (iii) a larger market will prove more attractive for foreign MNCs; and (iv) studies have shown that regional*

integration may affect FDI by generating growth, although the causation for the positive relationship between FDI and economic growth is uncertain" (Bhaskaran, 2013: 156).

The AEC Blueprint has a better prospect to create a constructive outcome than the previous schemes because it includes extensive regulations that encourage ASEAN members to perform well in critical economic areas (Bhaskaran, 2013: 156).

4. Empirical Findings

4. 1. Can Indonesia Significantly Improve Its Investment Climate in the Manufacturing Industry in the Next Three Years?

Nowadays, Indonesia has attained macroeconomic stability although the investment sector is at a low level, and national consumption is the main factor that caused the ongoing improvement. Present economic development of 4-5 per cent each year is not sufficient to extensively raise per capita income, provide the growing number of new applicants to the labor market, and reduce poverty. Improving the level of investment is crucial, but this is a challenging process regarding increasing investment and gaining high growth to improve the investment climate (Asian Development Bank, 2005: 45).

Indonesian policymakers and the business community agree that uncertain business settings are two crucial factors that hinder investment in the country. The corporate sector also revealed that difficulties in entrepreneurship are caused by several issues, such as insecurity in macroeconomic; regulatory uncertainty, such as licensing and taxes; weak law enforcement; and inadequate infrastructures (Moccero, 2008: 6).

Research done by the Investment Climate Study (ICS) indicates that numerous aspects of the investment climate in Indonesia require major consideration. The research findings from firm-level evaluation and cross-country assessments underline the serious need for development in the whole investment climate. Findings on firm-level evaluation revealed that:

"*(i) macroeconomic stability, economic and regulatory policy uncertainty and corruption are the most severe business obstacles; (ii) access to formal financing is a major problem, particularly for medium firms; (iii) labor regulations are a serious concern, more so than labor skills; (iv) the constraints are felt more by big business, foreign firms, and exporters; (v) across provinces, fundamental problems leading to low investment and productivity persist but vary in scope and degree; and (vi) decentralization which implemented since January 2001 has led to greater economic and regulatory uncertainty and increased corruption*" (Asian Development Bank, 2005: 1).

Furthermore, results from the cross-country assessments suggest that:

> "*(i) more firms in Indonesia are concerned over key investment climate than in other countries in the region, and the most severe constraints felt have to do with overall uncertainty; (ii) key governance indicators are also weak and starting up and closing a business take longer and are costlier in Indonesia; (iii) the tax rate in Indonesia is similar to those in other countries in the region, but tax administration has become a source of concern; (iv) financing costs and access have become more problematic, making bank financing less popular; and (v) Indonesia appears to have more restrictive labor regulations, in particular with respect to hiring and firing procedures and wage setting*" (Asian Development Bank, 2005: 2).

In relations to AEC, its full implementation could encourage Indonesia's economic growth, particularly in the manufacturing industries. To do that, Indonesia must improve the national investment climate. There are two important aspects which related to the improvement of the investment climate that Indonesia needs to resolve which in line with the country's commitment under the AEC Blueprint, namely: (i) investment protection; and (ii) investment facilitation and cooperation.

4. 1. A. Investment Protection

Two factors become the main concern which relates to the investment protection in Indonesia: (i) governance and uncertainty; and (ii) corruption. The most severe limitations influencing Indonesian business is related to uncertainty because uncertainty in government policies and regulations complicates the business and investments. In Indonesia, the business regulatory environment as one of the main restrictions to exporters and businesses. Indonesia is regarded to be one of the unhealthiest countries for investment in the Southeast Asian region. Investors emphasize specifically on the lack of transparency in the regulatory system as their largest restraint. The condition seems to worsen in current years. Moreover, it is related to the decentralization process in Indonesia that led to the difficulties of overlapping and ambiguous procedures between national and local level. Investors have indicated that the majority of local level regulations gave them much trouble, such as exclusive fees for foreign employers, street light taxes for companies using generators, and parking fees within the companies own area. The major effect on firms is predictable which might discourage firms to invest for development, especially in SME sector (Winkler and Farole, 2012: 9).

Indonesia's performance in policy sector associated with the state-controlled economy, gave a contribution to the volume of the public enterprise sector, along with the exploitation of command-and-control regulations. Limitation on foreign ownership in domestic companies remains and excessive business regulations by local government, due to decentralization process, also burdens the business environment (Moccero, 2008: 7).

In Indonesia, there are huge distinctions in how rules are written and applied. National interest repeatedly takes benefits from the non-transparent judicial and legal systems to impose regulations which become disadvantages for foreign companies. The provincial and sub-provincial governments were given a substantial amount of authorities under the new laws on regional autonomy and fiscal decentralization, which being use by the local government to require non-tax barriers on inter-regional trade as a mean to obtain new income sources (US Commercial Services, 2015: 40). Indonesia's decentralization process which happened in 2001 has made an unpleasant effect on the investment climate because of the escalating barriers caused by excessive regulations issued by local government. This condition inflicts unnecessary regulations that increase the business transaction costs and restraining investments, which also leads to corruption.

Corruption is also the main issue which raises the cost of doing business in Indonesia, specifically for foreign investors. As stated by World Bank's Enterprise Survey in Indonesia, some companies see corruption as the biggest problem in doing business. This condition also supported by the Monitoring the Investment Climate in Indonesia (MICI) survey of manufacturers, which indicated "corruption in local government" as the third largest problem of doing business (Winkler and Farole, 2012: 10). Many companies suggest that the procedures required in complying with state rules, whether through licensing or customs, where corruption appeared, and within this point, is still counted as a common "cost of doing business" (Winkler and Farole, 2012: 10).

For example, starting up and closing a business in Indonesia are time and cost consuming because companies have to pass 12 procedures in order to start a business in Indonesia. This condition is not in line with the Investment Coordination Board (*Badan Koordinasi Penanaman Modal* - BKPM) which claims that only 10 days is needed to approve initial investments after all the administrative documents are completed, and the total number of days starting a business in Indonesia is approximately 151 days which is less 60 days compared to the neighbouring countries. Furthermore, about six years needed to complete business closing procedures, which based on the average duration of the insolvency lawyers (Asian Development Bank, 2005: 36).

Based on these conditions, several important policy implications can be drawn for the purpose of forming investment protection. In this kind of situation, the government must start institutional reform in relevant fields. Institutional matters can generate uncertainty, excessive regulations, and administrative problems, adverse investment and business climate in Indonesia. These issues also give warning to the potential investors, further underlining the demand for institutional reforms (Asian Development Bank, 2005: 46).

The business atmosphere should be enhancing to assist the private-sector improvement and progress. There is an extensive concurrence, also backed by business reviews, that there are several circumstances which hinder the entrepreneurship and business prospects: (i) weak regulatory framework; (ii) limitations in capacity; and (iii) poor governance. Moreover, other excessive rules and regulations issued by the local government are also burdening the business environment (Moccero, 2008: 19).

The government has to guarantee the contract implementation and property right, also maintaining the policy of reliability. The present efforts to create a “one-stop” investment service and to enhance the current investment law are a progressive move that should be supported by comprehensive policies, such as restructuring the role of local and central governments in investment procedures. Thus, there is also demand for capacity building for local governments. Well-organized measures for burden sharing between the local and central government in investment-related liabilities can be established through the implementation of investment regulations and license. Well-improved budget distribution between central and local governments is also essential to guarantee enough resources for local government to accept their new tasks and prevent them from corruption and extortion of retribution (Asian Development Bank, 2005: 46). To make the measures effective, the government must have a comprehensive policy action that builds concerted effort within various policy areas. More initiatives must be formed to intensify the regulatory structure, especially by eliminating excessive bureaucracy at local government, developing good governance system, as well as decreasing restraints on foreign investment (Moccero, 2008: 19).

By observing Indonesia’s current condition and also the policy that national government tries to implement, within three years the country would not be able to increase its investment protection as well as improve the national investment climate, as provided in AEC, because of the level of corruption is still high in almost every business sector. The government is lacking coordination within the central and local government. There is also an uncertain regulatory system resulted in excessive bureaucracy which increases the cost of doing business in Indonesia.

4. 1. B. Investment Facilitation and Cooperation

Access to financial resources and the availability of adequate infrastructures are the most crucial factors related to the development of investment facilitation and cooperation, especially in manufacturing sectors. These factors are needed to become a pulling factor for foreign and domestic investments. Similar to many countries, access to finance has become a limitation for Indonesian manufacturers. The result from international surveys shows that, compared to the neighboring countries in the region, Indonesian manufacturers did not use a formal, bank-intermediated financing, with only 18 per cent of businesses having loan or credit from banks (Winkler and Farole, 2012: 10).

In the current condition, efforts in this matter are leaning towards providing additional sources of finance for investment by granting SMEs and informal based business more access to credit due to their limited recoverable capital that can be used as a bank loan warranty. The lack of warranty is one of the principal cause which makes small business becoming incapable of borrowing money from formal financial institutions. The need for a strong government commitment to the financial sector aimed to assess market failures and to feed directed credit to targeted economic sectors and activities (Moccero, 2008: 23).

Recent research also points out that transportation and trade facilitation is also one of the biggest problems for exporters in Indonesia. Logistics costs are high in Indonesia due to Indonesia's geographical position as an archipelagic country. As stated by the World Bank's Logistics Performance Index, Indonesia's infrastructure, customs, and competence level of logistic industries, is at the lowest level compared to its neighboring countries. For exporters, this data indicated a higher cost, extensive notification and more uncertainty for business in Indonesia (Winkler and Farole, 2012: 11).

There is competitiveness gap in Indonesia's national industries which related to high cost of transportation, caused by Indonesia's inadequate infrastructure facilities. Less investment in roads and ports infrastructure sectors caused the major obstruction problems. On the coastal areas of Indonesia, this condition is related to a monopoly in port operations since the old state era. The introduction of Indonesia National Single Window (INSW) which recognized by the exporters has improved the situation in many ways. Conversely, many exporters reveal that, regardless of the INSW, the exporters are regularly obliged to work with a paper-based system in parallel (Winkler and Farole, 2012: 12).

With the aim of improving the investment climate in Indonesia, several problems in investment facility and cooperation also need to be resolved by the Indonesian government. The government must increase the accessibility of infrastructure for business on a daily basis which is crucial to gather new investment and to guarantee the stability of investment projects. Transportation breakdowns, power interruptions, and insufficient water supply have resulted in losses among the companies in Indonesia and delaying their business processes. The government also needs to solve present infrastructure hold-ups to prevent a potential problem in the future and to observe areas that are lacking start-up connection in which the infrastructure is located. Furthermore, Indonesia needs to create new incentive packages which can stimulate a better investment climate to attract foreign and domestic investors. The incentive must present on an equal basis for both foreign and national investors. For that reason, the incentive packages must be relevant to the comprehensive framework which effectively benefits the national comparative advantage and increases its competitiveness (Asian Development Bank, 2005: 47).

4. 2. Can Indonesia Significantly Remove the Manufacturing NTBs in the Next Three Years?

The average tariff rate of less than 5 percent is a significant development on tariff liberalization which highlighted the ASEAN economic integration. The development in tariff-reduction is not in line with the removal of NTBs or NTMs. Although the commitment to remove NTBs has continuously become a vital part of ASEAN liberalization program, the improvement is not significant (Austria, 2013: 31). The progress of the NTBs removal in the ASEAN not in line with the commitments made under the 2009 AEC Roadmap. NTBs, at the border[9] and beyond the border[10], are still inadequately tackled. There is a large percentage of the regional total costs consist in those NTBs. Although there has been a decrease in non-tariff trade costs throughout the previous years, the regional performance is still overshadowed by the East Asian countries (China, Japan, South Korea) (Austria, 2013: 79).

For Indonesia, unfortunate economic situations that happened in the past have made the Indonesian leaders to enact economic reforms. However, as the economic performance has reduced in the early year, the government started to intensify protective actions through various type of NTBs. These actions are expected to raise prices for Indonesian customer in a period when their purchasing ability is decreasing, and weaken the level of competitiveness and productivity of Indonesian businesses. Several reasons, such as a resilient *rupiah* currency, anti-foreign outlook, more intense rivalry with China in the global market, as well as a mainstream approach by President Joko Widodo (Jokowi) have all merged to drive Indonesia into the policy of protectionism. Even though it might give negative outcomes for Indonesian customers and businesses, such approaches are expected to endure (Patunru and Rahardja, 2015: 1).

According to research conducted by Economic Research Institute for ASEAN and East Asia (ERIA) on Indonesia's NTMs, there are 199 NTM-related regulations issued by 14 Indonesian ministries/agencies. This condition shows that the decentralization process had an impact on Indonesian legal structure (Munadi, 2016: 67). In relation to this subject, the Indonesian Ministry of Trade plays an important role of most NTM issued in the country. Because, consumer protection, as well as national trade safeguards, are the Ministry of Trade's main concern in guarding the national interests (Munadi, 2016: 69). Some NTMs

[9] NTBs at the border includes: new import procedures; additional requirements for importation; technical barriers to trade; non-automatic licensing; import bans; and import subsidies (Austria, 2013: 79).
[10] NTBs beyond the border includes: investment measures and trade facilitation-related measures; public procurement requirements; and state-aid measures (Austria, 2013: 79).

imposed by Indonesia since 2009, comprise several procedures such as requirements for a permit and licensing, pre-shipment examination, and a new labeling obligation. Although several new procedures support preceding ones, with intensified austerity. Some procedures involve overlapping bureaucracy between government institutions. Other measures also being used to stimulate local industries, such as local content obligations and export limitations, which meant to guarantee enough domestic stock. Sometimes, these procedures applied collectively, which resulted in an unwieldy and complex business setting (Patunru and Rahardja, 2015: 7).

There are several problems, such as adjournments, uncommonly soaring costs, and disproportionate administrations, that business in Indonesia must deal with to trade with the global markets. Some surveys on business also realized that NTBs to trade affected around 37 percent of business in Indonesia, which compared to other developing countries, this statistic is below than the average of 55 percent. However, business still has an obstacle in penetrating the global markets, problems which costing them in time and money. NTMs consist of various procedures on exports and imports, for instance, Rules of Origin (RoO) or quotas, and technical requirements (Gonzalez, 2013).

Global Trade Alert (GTA) database stated that since 2009 Indonesia has applied 25 NTMs, as compared to India with only 12 NTMs and Thailand 1 NTMs. Indonesia implemented more on export taxes and limitations, compared to other neighboring countries such as Malaysia, Thailand, India, and China. The GTA categorizes trade measures using color-coded indicators (‘green,' ‘amber,' and ‘red’) to specify their level of ‘harmfulness,' and the most harmful indicated by red color. GTA also put Indonesia on the list of the worst “offenders” due to escalating protection since the global financial crisis. Based on GTA record, since 2009 Indonesia has initiated 37 amber measures and 158 red measures. Also, the red measures affected 746 tariff lines, 45 sectors, and 181 trading partners (Patunru and Rahardja, 2015: 7).

Research by ERIA also observed that Indonesia’s NTMs are import-related NTMs with the total of 88.4 per cent, compared to export NTMs with only 11.6 per cent of the total of 638 identified NTMs. Primarily, Indonesia uses import NTMs on technical measures, which relates to technical measurements, regulations and procedures, especially *Sanitary and Phytosanitary* (SPS) measures, *technical barriers to trade* (TBT), also pre-shipment inspections. Almost 89 per cent contribution to Indonesia’s import NTMs are technological measures, consist of 79 per cent of total NTMs, and 11 percent of non-technical measures (Munadi, 2016: 71).

The increasing level of international economy and trade caused the advancement of standardization and regulations within industrial sectors, especially in products and services. Exported goods and services to international market must be compatible with the standard condition. A country like Indonesia uses standards commonly as NTBs to protect their national economy and domestic market from foreign products that enter the domestic market, as well as from foreign competition. Indonesia uses standards in most of its industries. These standards mostly formulated and issued by the ministries/government agencies and related industrial players (US Commercial Service, 2015: 50).

Several issues are causing the slow process in the realization of the plan to deal with NTBs removal. Those issues also relate to problems in distinguishing the NTBs and NTMs due to evolving government policies to reach an agreement among ASEAN members to determining and removing the NTBs which can be a lengthy process; and supply-side ability limitations (Austria, 2013: 79). Multiple NTMs are a common case in Indonesia, where three or more NTMs subject to almost 92 percent of products, which resulted in overlapping regulations/measures, not only from a single government agency/institutions but various agency/institutions. In order to take a further step in NTBs/NTMs removal to support the development of national manufacturing sectors and to be ready for AEC, Indonesia must harmonize and should be more transparent in implementing the NTMs (Munadi, 2016: 76).

For Indonesia, this condition is less likely to improve within three years because it is clear that the government lean towards protectionism policy by implementing NTBs which resulted in limiting the competitiveness level in the domestic market, as well as producing more regulations that become barriers to trade. In consequence, Indonesia will not be able to eliminate the NTBs, especially in manufacturing sectors. Moreover, these circumstances are not consistent with what has been arranged on the AEC Blueprint.

5. Conclusion

This thesis tries to answer one main question: ***is the Indonesian manufacturing industry ready for the AEC?*** The analyzed sources and findings from the literature show that Indonesia's manufacturing sector are still not ready for the full implementation of AEC. The regional economic integration is to be expected to have a significant influence on manufacturing, where trade barriers reduction and investments should produce more interdependence, stronger production networks, larger economies of scale, and wider access to product varieties. Deeper integration would support ASEAN to merge and utilize more fully the production advantages by its members, which leads to major productivity improvements; capitals are likely to lean on to manufacturing, steering to bigger imports of essentials resources and services from the rest of the world (Petri, et.al. 2012: 115).

Manufacturing industries play an important role for Indonesia's economic "engine" because of its significant contribution to the national income. Although the national manufacturing sectors are growing rapidly, its level of competitiveness is still low. This condition displayed in the Indonesia ranking by UNIDO 2013 CIP Index, which placed

Indonesia on the rank 42nd. It is indeed, far to its neighboring countries and other ASEAN members. The Indonesian government and business sectors also admit that Indonesian manufacturing industries still not fully prepared for AEC implementation, due to the internal issues that need to resolve quickly so that it can align well with the AEC Blueprint. Indonesia must improve its manufacturing sector competitiveness to (or "intending to") gain benefit from regional economic integration.

By applying the conceptual framework from Petri, et.al. this thesis can provide an explanation that, for Indonesia to obtain profit from the full implementation of AEC, there are two main factors to increase manufacturing sectors: (i) removal of NTBs; and (ii) improving the investment climate. The biggest problems in those factors are government regulation uncertainty and corruption which relates to investment protection, as well as the lack of sufficient infrastructures and access to financial support for industries to develop their business. Another problem that Indonesia need to resolve is related to the removal of NTBs. Especially the overlapping regulations and policies which issued by several ministries or government institutions. However, by looking at Indonesia's current situation, it is difficult to achieve this in three years if Indonesian government is not able to address this issues.

References

ASEAN Secretariat. 2008. *ASEAN Economic Community Blueprint*. Jakarta: ASEAN Secretariat.

ASEAN Secretariat. 2012. *Recommendations of The High-Level Task Force on ASEAN Economic Integration*. Web. 18 November 2016. <http://asean.org/?static_post=recommendations-of-the-high-level-task-force-on-asean-economic-integration>

ASEAN Secretariat. 2015. *A Blueprint for Growth ASEAN Economic Community 2015: Progress and Key Achievements*. Jakarta: ASEAN Secretariat.

Asian Development Bank. 2005. *Improving the Investment Climate in Indonesia*. Joint Asian Development Bank – World Bank Report. Web. 15 October 2016. <https://www.adb.org/sites/default/files/publication/29709/improving-investment-climate-ino.pdf>

Austria, Myrna S. 2013. Non-Tariff Barriers: A Challenge to Achieving ASEAN Economic Community. *In The ASEAN Economic Community: A Work in Progress*, ed. Sanchita Basu Das, et.al., 32 – 94. Singapore: ISEAS Publishing.

Bappenas RI. *Peningkatan Daya Saing Industri Manufaktur*. Web. 15 August 2016. <http://www.bappenas.go.id/files/1813/5763/0712/bab-18-peningkatan-daya-saing-industri-manufaktur.pdf>

Bhaskaran, Manu. 2013. The ASEAN Economic Community: The Investment Climate. In *The ASEAN Economic Community: A Work in Progress*, ed. Sanchita Basu Das, et.al., 141 – 206. Singapore: Institute of Southeast Asian Studies (ISEAS) Publishing.

Budiyanti, Eka. 2016. *Penguatan Kembali Industri Manufaktur Indonesia*. Majalah Info Singkat Ekonomi dan Kebijakan Publik. Vol. VIII (12): 13 – 16.

Chia, Siow Yue. 2013. *The ASEAN Economic Community: Progress, Challenges, and Prospects*. ADBI Working Paper 440. Tokyo: Asian Development Bank Institute. Web. 18 November 2016. <http://www.adbi.org/working-paper/2013/10/25/5916.asean.economic.community.progress.challenges/>

Diela, Tabita. 2016. *Indonesia's Manufacturing Industries Remains Low in 2016*. Web. 18 November 2016. <http://jakartaglobe.id/business/indonesias-manufacturing-industry-remains-low-2016/>

Diela, Tabita, 2016. *Indonesian Manufacturing Falls Back in October: Survey*. Web. 18 November 2016. <http://jakartaglobe.id/business/indonesian-manufacturing-falls-back-october-survey/>

Gonzalez, Arancha. 2013. *Tackling Trade Barriers in Indonesia*. Web. 22 October 2016. <http://www.thejakartapost.com/news/2013/12/05/tackling-trade-barriers-indonesia.html>

Gosta, Demis Rizky. 2016. *Peringkat Daya Saing Manufaktur Indonesia Stagnan*. Web. 1 August 2016. <http://industri.bisnis.com/read/20160421/257/540505/peringkat-daya-saing-manufaktur-indonesia-stagnan>

Hanya 31% Industri Manufaktur Siap Hadapi MEA. September 2015. Web. 5 August 2016. <http://duniaindustri.com/hanya-31-industri-manufaktur-siap-hadapi-mea/>

Hew, Denis. 2005. Introduction: Roadmap to an ASEAN Economic Community. In *Roadmap to an ASEAN Economic Community*, ed. Denis Hew, 1 – 12. Singapore. ISEAS Publishing.

Hew, Denis. 2007. Introduction: Brick by Brick – The Building of an ASEAN Economic Community. In *Brick by Brick: The Building of an ASEAN Economic Community*, ed. Denis Hew, 1 - 12. Singapore: ISEAS Publishing.

Hidayat, Syarif. 2016. *Manufacturing Industry Indonesia in Need of Development*. Web. 18 November 2016. <http://www.indonesia-investments.com/news/todays-headlines/manufacturing-industry-indonesia-in-need-of-development/item7070?>

IBON International. 2015. *ASEAN Community 2015: Integration for Whom?* IBON International Policy Brief. April 2015. Quezon City: IBON Foundation.

Kementerian Luar Negeri Republik Indonesia, 2015. *Rencana Strategis Kementerian Luar Negeri (Renstra Kemlu) 2015 – 2019*. Jakarta: Kementerian Luar Negeri.

Kementerian Perdagangan Republik Indonesia. 2011. *Dampak Kesepakatan Perdagangan Bebas terhadap Daya Saing Sektor Ekspor Manufaktur Indonesia*, Jakarta: Pusat Kebijakan Perdagangan Luar Negeri.

Lloyd, Peter J. 2007. What Is a Single Market? An Application to the Case of ASEAN. In *Brick by Brick: The Building of an ASEAN Economic Community*, ed. Denis Hew, 13 – 35. Singapore: ISEAS Publishing.

Lubis, Uni. 2016. *Strategi Indonesia Hadapi MEA 2015: Defensif*. Web. 8 August 2016. <http://www.rappler.com/indonesia/117624-strategi-indonesia-hadapi-mea-2015-defensif>

Oxford Business Group. August 2014. *Manufacturing Growth Spread Across Indonesia's Regions*. Web. 18 November 2016. <http://www.oxfordbusinessgroup.com/news/manufacturing-growth-spread-across-indonesia%E2%80%99s-regions>

Menon, Jayant and Anna Cassandra Melendez. 2015. *Realizing an ASEAN Economic Community: Progress and Remaining Challenges*. Asian Development Bank (ADB) Economics Working Paper Series No. 432. Manila: Asian Development Bank. Web. 19 November 2016. <https://www.adb.org/sites/default/files/publication/160067/ewp-432.pdf>

Moccero, D. 2008. *Improving the Business and Investment Climate in Indonesia*. OECD Economics Department Working Papers No. 638. OECD Publishing. Web. 19 October 2016. <http://dx.doi.org/10.1787/236810400872>

Munadi, Ernawati. 2016. Indonesia's Non-Tariff Measures: An Overview. In *Non-Tariff Measures in ASEAN*, ed. Lili Yan Ing, Santiago Fernandez de Cordoba, and Olivier Cadot, 65 – 76. ERIA Research Project FY2015 No. 01. Web. 20 October 2016. <http://www.eria.org/RPR-FY2015-01.pdf>

Patunru, Arianto A. and Sjamsu Rahardja. 2015. *Trade Protectionism in Indonesia: Bad Times and Bad Policy*. The Lowy Institute for International Policy. Web. 8 November 2016. <https://www.lowyinstitute.org/publications/trade-protectionism-indonesia-bad-times-and-bad-policy>

Pangestu, Mari Elka. 2009. *Competitiveness Towards ASEAN Economic Community*. Journal of Indonesian Economic and Business. Vol. 24 (1): 22 – 32.

Petri, Peter A., Michael G. Plummer, and Fan Zhai. 2012. *ASEAN Economic Community: A General Equilibrium Analysis*. Asian Economic Journal. Vol 26 (2): 93 – 118.

Puja, H. E. Ambassador I Gusti Agung Wesaka. 26 July 2016. *Personal Interview*. Leiden.

Rahardja, Sjamsu, Deborah Winkler, G. Varela, and Lili Yang Ing. 2012. *Why The Manufacturing Sector Still Matters for Growth and Development in Indonesia*. Policy Note No. 1. Jakarta: World Bank. Web. 1 October 2016. <http://documents.worldbank.org/curated/en/968621468044333596/Why-the-manufacturing-sector-still-matters-for-growth-and-development-in-Indonesia>

Rakhmat, Muhammad Zulfikar. 2016. *Indonesia is in No Need of ASEAN Economic Community 2015*. Web. 10 August 2016. <http://www.huffingtonpost.co.uk/muhammad-zulfikar-rakhmat/indonesia-is-in-no-need-o_b_8954038.html>

Ridhwan, Masagus M., Gunawan Wicaksono, Linda Nurliana, Pakasa Bary, Fenty Tri Suryani, and Redianto Satyanugroho. 2015. *Analisa Daya Saing dan Strategi Industri Nasional di Era Masyarakat Ekonomi ASEAN dan Perdagangan Bebas*. Jakarta: Bank Indonesia.

Severino, Rodolfo C. 2006. *Southeast Asia in Search of an ASEAN Community: Insights from the former ASEAN Secretary-General*. Singapore: ISEAS Publishing.

Severino, Rodolfo C. 2008. *ASEAN*. Southeast Asia Background Series No. 10. Singapore: ISEAS Publishing.

Severino, Rodolfo C., and Jayant Menon, 2013. Overview. *In The ASEAN Economic Community: A Work in Progress*, ed. Sanchita Basu Das, et.al., 1 – 30. Singapore: ISEAS Publishing.

Soesastro, Hadi. 2005. ASEAN Economic Community: Concept, Costs, and Benefits. In *Roadmap to an ASEAN Economic Community*, ed. Denis Hew, 13 – 29. Singapore: ISEAS Publishing.

Tonby, Oliver, Jonathan Ng, and Matteo Mancini. 2014. *Understanding ASEAN: The Manufacturing Opportunity*. Singapore: McKinsey Productivity Sciences Center.

Tongzon, Jose L. 2005. The Role of AFTA in an ASEAN Economic Community. In *Roadmap to an ASEAN Economic Community*, ed. Denis Hew, 127 – 147. Singapore: ISEAS Publishing.

United Nations Industrial Development Organization (UNIDO). 2002. *Industrial Development Report 2002/2003: Competing through Innovation and Learning*. Vienna.

United States Commercial Service. 2015. *Doing Business in Indonesia: 2015 Country Commercial Guide for US Companies*. Web. 20 October 2016. <http://www.iberglobal.com/files/2015/indonesia_ccg(1).pdf>

United Nations Industrial Development Organization (UNIDO). 2015. *Industrial Development Report 2016: The Role of Technology and Innovation in Inclusive and Sustainable Industrial Development*. Vienna.

United States Agency for International Development (USAID). 2013. *Non-Tariff Barriers to Trade: Regional Agricultural Trade Environment (RATE) Summary*. Web. 20 October 2016. <https://www.usaid.gov/sites/default/files/documents/1861/Nontariff_barriers.pdf>

Winkler, Deborah and Thomas Farole. 2012. *Export Competitiveness in Indonesia's Manufacturing Sector*. Policy Note No. 2. Jakarta: World Bank. Web. 1 October 2016. <http://siteresources.worldbank.org/EASTASIAPACIFICEXT/Resources/226300-1349835451376/Full-PN2-Manufacturing.pdf>

Yogatama, Benediktus Krisna and Sinar Putri S. Utami. 2014. *Industri RI Belum Siap Hadapi MEA*, ed. Barratut Taqiyyah. Web. 10 August 2016. <http://industri.kontan.co.id/news/industri-ri-belum-siap-hadapi-mea>