



# Job opportunities and challenges in the Indonesian market based on the Asean Economic Community Era

## Oportunidades de trabajo y desafíos en el mercado indonesio basado en la era de la Comunidad Económica ASEAN

THAMRIN S. [1](#)

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#### ABSTRACT:

The ASEAN Economic Community (AEC) is an economic integration of the free trade system between countries in the Association of Southeast Asian Nations (ASEAN). Indonesia and nine other ASEAN member countries are part of the AEC agreement. As one of the members of the AEC in 2015 with a large territory and population, Indonesia understands the entire scope and purpose of an international community. AEC indirectly results in increased employment, which affects the employment opportunities of Indonesian workers, especially in their own country. With the presence of ASEAN labor migrants, AEC can spread in each ASEAN country. Therefore, opportunities for Indonesian workers, especially within the ASEAN regions, must be maintained. This goal is possible because the workforce in Indonesia itself can be competitive in getting employment opportunities in its own country. The economic free market, especially in Indonesia, is very profitable because the country has a population of 249.9 million people. Therefore, the government is needed to support employment to ensure the sustainable economic development of the AEC.

**Keywords:** ASEAN Economic Community, Opportunity and Challenges, Indonesian Worker

#### RESUMEN:

La Comunidad Económica de la ASEAN (Asociación de Naciones del Sureste Asiático) es una integración económica del sistema de libre comercio entre dichas naciones. Indonesia y otros nueve países miembros de la ASEAN son parte del acuerdo AEC. Como uno de los miembros de la AEC en 2015 con un gran territorio y población, Indonesia comprende todo el alcance y el propósito de una comunidad internacional. AEC da como resultado indirectamente un aumento del empleo, lo que afecta las oportunidades de empleo de los trabajadores indonesios, especialmente en su propio país. Con la presencia de migrantes laborales de la ASEAN, la AEC puede propagarse en cada país de la ASEAN. Por lo tanto, deben mantenerse las oportunidades para los trabajadores indonesios, especialmente dentro de las regiones de la ASEAN. Este objetivo es posible porque la fuerza laboral en Indonesia en sí misma puede ser competitiva para obtener oportunidades de empleo en su propio país. El mercado libre económico, especialmente en Indonesia, es muy rentable porque el país tiene una población de 249,9 millones de personas. Por lo tanto, se necesita que el gobierno apoye el empleo para garantizar el desarrollo económico sostenible de la AEC. Palabras clave: comunidad económica de la ASEAN, oportunidades y desafíos, trabajador indonesio

# 1. Introduction

For each country that aims for a better process of economic change, economic growth is crucial to achieve because it is one of the success indicators of a country's economic development. Different methods can be utilized to accelerate economic growth and establish a positive contribution to accelerating economic growth, such as internal improvements on the economic conditions of a country and establishing international cooperation in all fields.

Factors that affect economic growth include the following:

1. Human resources (HR)
2. Natural resources
3. Science and technology
4. Culture
5. Capital power

These factors must be managed optimally, yet some countries in the Southeast Asian region are still underdeveloped in managing these factors, while others can manage these factors well. How Indonesia manages these five factors is a big question, because some factors have yet to be maximized for Indonesia and the nine other countries in the ASEAN Economic Community (AEC) or the 2015 ASEAN Community, including the Philippines, Malaysia, Singapore, Thailand (founding country), Brunei Darussalam (member since January 7, 1984), Vietnam (member since July 28, 1995), and Laos (July 23, 1997) based on (Benny, Yean et al. 2015, Das 2017).

AEC is an economic integration of the free trade system agreed upon by Indonesia and nine other member countries of the Association of Southeast Asian Nations (ASEAN). ASEAN member countries may have their own objectives, but it is not uncommon for several countries to cooperate with one another so their individual goals can be achieved. As one of the members of 2015 AEC with a large territory and population, Indonesia has a comprehensive understanding of the scope and purpose of the 2015 AEC. It has a better view and assessment, as well as an in-depth knowledge, of the things that need to be prepared in the 2015 AEC era (Sultana and Ibrahim 2014).

Indonesia welcomes the AEC because of its aim to create a single market and production base where goods, investment services, and skilled labor are free to move from one country to another within the scope of the ASEAN region. The existence of AEC creates a healthy and efficient competition between Southeast Asian countries, which is an opportunity as well as a challenge for Indonesia. Open employment is an example of opportunity, and the challenge is how to have superior HR in the domestic market and be able to reverse other competitors, both locally and abroad. If the opportunities and challenges cannot be used or faced as well as possible, then these will turn into a threat, namely, the problem of unemployment (Andrista and Widodo 2017).

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## 2. Objective of Forming AEC

AEC is the realization of the ultimate goal of economic integration adopted in Vision 2020, which is based on the convergence of the interests of ASEAN member countries to deepen and expand economic integration through existing and new initiatives with clear deadlines. In establishing the AEC, the ASEAN must act in accordance with the principles of open, outward-oriented, inclusive, and market-oriented economics that are consistent with multilateral rules and compliance with systems for compliance, as well as the implementation of effective rule-based economic commitments. The AEC will form the ASEAN as a single market and production base, making the association more dynamic and competitive through mechanisms. It will strengthen the implementation of new economic initiatives, accelerate regional integration in priority sectors, facilitate business movements, skilled labor, and talent, and strengthen the institutional mechanism of ASEAN as a first step

to realizing the AEC.

At the same time, the AEC will overcome the development gap and accelerate the integration of Cambodia, Myanmar, Laos, and Vietnam (CMLV) through the Initiative for ASEAN Integration and other regional programs.

The forms of cooperation are as follows:

- Development of HR and capacity building
- Recognition of professional qualifications
- Closer consultation on macroeconomic and financial policies
- Trade financing assured by the AEC
- Improved infrastructure
- Development of electronic transactions through e-ASEAN
- Integration of industries throughout the region to promote regional resources
- Increased involvement of the private sector to develop the AEC

The external trade to ASEAN and the need for the ASEAN community as a whole are important to continue looking forward.

The main characteristics of the AEC are as follows:

- Single market and production base
- Competitive economic area
- Equitable area of economic development
- Fully integrated area in the global economy

These characteristics are strongly interrelated. When the elements needed from each characteristic are incorporated, the consistency and integration of the elements and their proper implementation and coordination among relevant stakeholders can be assured (Lee and Plummer 2011).

The main objective of the AEC is to significantly eliminate the obstacles of economic activity across the region through implementation of the four main pillars:

- Single market and production base. ASEAN is a single market and international production base with elements of free flow of goods, services, investment, educated labor, and freer capital flows.
- Competitive economic region. ASEAN is an area with high economic competitiveness, with elements of competition regulation, consumer protection, intellectual property rights, infrastructure development, taxation, and e-commerce.
- Equitable economic development. ASEAN is an area with equitable economic development, with elements of small and medium business development and ASEAN integration initiatives for CMLV countries.
- Integration into the global economy. ASEAN is a region that is fully integrated into the global economy, with elements of a coherent approach to economic relations outside the region and enhanced participation in global production networks.

The agreement that creates a free market for goods, services, and capital in the Southeast Asian region is believed to increase the economic capacity of ASEAN countries. The gross domestic product (GDP) of ASEAN, which has begun to run the free market in 2018, is predicted to double to USD 4.7 trillion in 2020. One of the agreements that have been finalized includes opening up the market access for goods and employment for workers (Menon and Melendez 2015).

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### **3. Current Status of Indonesian Workers**

Work can be interpreted as a source of livelihood and income for a person to meet the needs of life for himself/herself and his/her family. Therefore, the right to work is a human right that cannot be separated from a person and must be honored and respected in accordance with the mandate of the Constitution of the Republic of Indonesia. Article 27, paragraph 2 of the fourth amendment states, "Every citizen has the right to work and livelihoods that are suitable for humanity." Article 28, paragraph 2 of the 1945 Constitution mentions, "Every person has the right to work and receive fair and proper compensation and treatment in an employment relationship".

In reality, poverty remains a serious problem of the country, one that is very difficult to

overcome because of the wide social gap. The large population (overpopulation) becomes a separate problem for the provision of employment in Indonesia and leads to various potential conflicts. Results of the 2015 census estimated that the population of Indonesia has reached 25,164,800. The large population is a problem that cannot be avoided by the government of the Republic of Indonesia. In 2014, the poverty figure reached 28,000,000 and the unemployment rate in February 2015 was estimated to reach 7.4 million.

The Indonesia Central Statistics of Agency (BPS) announced that the working population in February 2015 reached 120.8 million people, an increase of 6.2 million compared to the August 2014 situation. Meanwhile, when compared to the situation in February 2014, the number of people working in February 2015 increased by 2.7 million. Overall, in February 2015, the number of Indonesian labor force was recorded at 128.3 million people, an increase of 6.4 million people compared to August 2014. This number means an additional 3.0 million people compared to the position of the Indonesian workforce in February 2014. The Level Open Unemployment (TPT) in February 2014 was recorded at 5.70%, increased to 5.94% in August 2014, but decreased to 5.81% in February 2015 (SHIMIZU 2002, Sato 2015).

The problem of unemployment also has various social, political, and security impacts. One social impact of unemployment is poverty, which is a difficult task that must be solved by the Indonesian people. Poverty has resulted in millions of children being unable to obtain a good education, poor financial health, lack of savings, lack of investments, lack of access to public services, poor social security, lack of protection for families, and increasing urbanization of cities. As poverty worsens, millions of people are unable to properly fulfill basic needs such as clothing, food, and shelter. People become willing to sacrifice anything for their survival and that of their families, risking their energy by receiving rewards/wages that are not commensurate with their energy spent. Rural farm laborers work all day, but they receive very small wages. Given the high poverty rates in Indonesia, the government needs to find various solutions and establish policies and programs to realize the fulfillment of basic rights and social welfare for every citizen, in accordance with the mandate of the 1945 Constitution (Wattanakul 2010).

One of the solutions to overcome the unemployment rate in the country is to give the workforce the opportunity to work abroad. The choice of becoming an Indonesian worker working abroad is still major option because of the limited employment opportunities in the country. Higher wage rates abroad compared to wages received domestically are also another reason. As long as employment opportunities are limited and the level of wages is low at home, the choice to work abroad as an Indonesian worker remains an option.

The manpower policy of the government still considers the employment of workers outside as relevant, arguing that the Indonesian people are continuing to face many employment problems because of the high growth of the labor force but few available employment opportunities, thus resulting in high unemployment rates.

With the high interest of Indonesian workers to work abroad, the government should also improve services and exert all efforts to protect the interests of Indonesian workers. By doing so, it can realize the fulfillment of the basic rights of Indonesian workers, as well as the protection of Human Rights as mandated by the -Dr. No. 39 of 1999, concerning the National Commission on Human Rights, as well as other laws and regulations (Edith 2015).

On the one hand, the large number of Indonesian workers working abroad has a positive side for it can increase foreign exchange and overcome unemployment in the country. On the other hand, the Indonesian workers face the risk of possible inhumane treatment. Delegates from each ASEAN country, especially Indonesia, hope that AEC can help improve and develop the living conditions of the people in their country. In addition to the social (population) and economic (trade) aspects, which are manifestations of the implementation of the AEC, this thinking is also based on the aspect of employment, which is no less important in the country itself.

Employment has an important role in developing the welfare of the Indonesian population. According to Law No. 13 of the 2003 Chapter I, Article 1, paragraph 2, labor is every person who is able to do work to produce goods or services both to fulfill their own needs and for

## **4. Challenges and Opportunity for Indonesia in the AEC Era**

The workforce quality in Indonesia must have certain performance standards to face the AEC, such as labor certification for every workforce in the country, so as to improve the international competitiveness of the Indonesian workforce. The increasing number of jobs in Indonesian territories is attracting the interest of more foreigners to work in Indonesia. With this competition, the acquisition of labor can also enable Indonesian workers to benefit from the AEC, especially in their own country

### **4.1. Challenges for Indonesian Workers**

AEC indirectly causes increased employment, which affects the employment opportunities of migrant workers, especially in their respective countries. With the presence of ASEAN labor migrants, AEC can spread to each ASEAN country, and so opportunities such as Indonesian Workers (TKI), especially in the ASEAN region, must be maintained. However, it is possible that the workforce in Indonesia itself can be a source of competition in getting employment opportunities within the country. Thus, the economic free market, especially in Indonesia, will be very profitable because of its population of 249.9 million people. Therefore, the role of the current government under President Joko Widodo is to support employment while considering the AEC as a form of sustainable economic development.

Foreign workers must have certain requirements in order to work in Indonesia, which ensure that the workforce in Indonesia remains administratively unrivaled by its employment opportunities. Examples of the requirements for foreign workers to be able to work in Indonesia are to reactivate the Indonesian Language Test held by *Balai Bahasa Indonesia*; this test was abolished by President Joko Widodo on August 21, 2015. This policy is intended to protect domestic workers or the local labor in Indonesia facing the AEC (Lalu, 2010).

However, this requirement is only addressed to the workers and not the investors. Foreign investors may fear that their limited movement to improve the economy in Indonesia may cause all foreign investors to leave, many workers eventually losing their livelihood. Thus, as the policy executor, the government should strengthen the workforce from both the inside and outside aspects so that the self-esteem of the workforce reflects the economics of the country is being developing.

### **4.2. Opportunity for Indonesian Workers**

The potential generated when the government puts forward the problem of labor in Indonesia should be able to produce positive trends in the nation's economic progress. How is this possible? The number of labor force in August 2017 was 128.06 million people, a decrease of 3.49 million people compared to the number in February 2017. While the number of people who entered the workforce and gained employment amounted to 121.02 million people, it was down by 3.52 million people compared to before. As a result, the amount of workforce that was absorbed or remained unemployed in August 2017 increased by 30,000, resulting in an increase to 7.04 million people with the open unemployment rate (TPT) of 5.5% of the total workforce. Thus, a training program is needed to support the competitiveness of the workforce and improve its work skills by including independence from the workforce.

AEC aims to create a single market and production base where goods, investment services, and skilled labor are free to move from one country to another within the scope of the ASEAN region. The existence of AEC will create healthy and efficient competition among Southeast Asian countries. This is an opportunity as well as a challenge for Indonesia. The opportunities include the opening of employment opportunities as widely as possible. The challenge is how to have superior HR in the domestic market and be able to defeat other competitors, both locally and abroad. If the opportunities and challenges cannot be used or

faced, then these will turn into a problem of unemployment.

Regarding the potential for demographic bonuses, the high number and proportion of Indonesia's working-age population in addition to the increasing domestic workforce also open up opportunities to fill the energy needs of countries where the proportion of the working age population is decreasing, such as Singapore. However, the Indonesian workforce has not been able to meet the demands of the labor market and global market competition, which requires professional work based on knowledge, skills, attitude, and social skills. The low level of education and skills of the workforce have resulted in their low competitiveness and bargaining power in the job market. In 2012, the Indonesian Human Development Index (HDI) was 0.629 and ranked 121st in the world. This level of HDI shows that Indonesian workers have not been competitive in the overseas job market.

Therefore, AEC can be used as a tool once the absorption of the labor force is achieved through the opportunities for employment, especially in the eight professions agreed upon in the MRA. "The implementation of the AEC is an opportunity for Indonesia to be able to develop the quality of the economy,".

The eight professions can target the job market not only within the country but also in the Southeast Asian market, considering that Indonesia's unemployment rate is still high compared to other Southeast Asian countries. The AEC is indeed an opportunity and a threat to Indonesian workers if they are unable to compete with other workers within the scope of the AEC.

Data from the Ministry of Manpower and Central data of information indicated that the unemployment rate in Indonesia in February 2015 reached 7.45 million (i.e., approximately 5.81% of the total workforce). This figure is very high compared to other countries in Southeast Asia, such as Thailand (0.8%), Singapore (2%), and Malaysia (2.9%). Indonesia even lost to Cambodia, which had an unemployment rate of only 0.3%.

For this reason, the AEC is considered a great opportunity for Indonesian employment when it increases the competence of its workforce. The Ministry of Manpower has prepared several steps together with the technical ministries in the fields agreed in the AEC.

The government must prepare at least two things to compete in the AEC era:

Accelerating the improvement of the competence of Indonesian workers. Competency improvement is carried out by running a competency improvement program. This is achieved by strengthening educational institutions and increasing professional training standards.

Acceleration of the competency certification adapted in the MRA for Indonesian workers to compete with personnel from other ASEAN member countries. At present, the results are already showing.

One of the indicators is the achievement of certification targets. To illustrate, there are 340,000 workers who are certified by the National Professional Certification Agency. The former Director General of Training and Productivity Development believes that Indonesian workers will not lose their competitiveness, especially expert and technical personnel. Indonesia is one of the countries known for producing the largest number of top-caliber engineers, and many of its technical personnel work abroad.

The Ministry of Public Works and Public Housing has reported that there are 478 Indonesian certified engineers, while Malaysia and Singapore only have 207 and 229 certified engineers, respectively. In reality, the Ministry of Research Technology and Higher Education compared the number of engineers in other countries with that of Indonesia and found that Indonesia is still lagging far behind its neighboring countries. For instance, Indonesia only has around 2,671 engineers per 1 million populations, while Malaysia has 3,337 engineers per 1 million populations.

Not only is the number of engineers still disproportionate, but the competence of Indonesian workers as a whole is also quite alarming. This situation is a threat to Indonesia because it can weaken its competitiveness in the AEC.

Most of the Indonesian workforce still lack certified competence. Even from the education

level alone, Indonesian workers only experience education up to the elementary level.

The Central Statistics Agency reported the percentage of education level of the total existing Indonesian workforce in August 2015 as follows: never attended school (3.63%), elementary school (57.11%), secondary school (28.19%), and 11.07% (high school).

The low competency and disproportionate Indonesian workforce have become a separate problem if not immediately resolved. Indonesia is a large and potential economic market with a large area, abundant resources, and high population. In terms of employment, Indonesia is also a tempting opportunity for foreign workers.

Indonesia's minimum wage regulated by the government is the second lowest among ASEAN countries. However, Indonesia's average national opinion per capita is the fifth largest ranking despite its 250 million population.

If the workforce outside is willing to enter Indonesia, then the value added here is the question of how. One example is the wage count. If the wages are more expensive, then foreigners will certainly prefer to enter Indonesia.

According to the World Bank, the per capita national income (in USD) of ASEAN countries in 2014 are as follows: the highest was Singapore with USD 55,150; followed by Brunei with USD 41,344, Malaysia with USD 10,760, Thailand with USD 5,370, Indonesia with USD 3,630, and the Philippines with USD 3,470; and the lowest being Vietnam with USD 1,890, Laos with USD 1,650, Myanmar with 1,270, and Cambodia with 1,020.

The Ministry of Manpower recognizes the need for a more mature readiness in preparing the quality of Indonesian labor, especially if they are able to have competitiveness in accordance with MRA qualification standards. "Given the low productivity and competence of workers in the eight professions in question," To ensure Indonesian workers are ready to face competition in the AEC, the Ministry of Manpower has jointly drafted several Indonesian National Work Competency Standards (SKKNI). In addition, the implementation of the Indonesian National Qualification Framework (KKNI) has been carried out.

Director General of Training and Productivity Development of the Ministry of Manpower Khairul Anwar has mentioned that the government of several ministries have prepared SKNNI and KKNI. Most, but not all, ministries have prepared these two things, and the SKKNI for all sectors is currently under development.

The government also involves relevant professional associations to prepare the technical and procedures of SKKNI and KKNI. After the entire process is carried out, the Ministry of Labour will be implemented by the sector ministry.

There are already some who prepare well. The best preparations have been carried out by the tourism sector, followed by the industry. The Ministry of Communication and Information and the construction sector have just started moving. Agriculture has just begun, while the Ministry of Manpower has tightened its regulations related to the use of foreign workers (TKA). Within a year of being left behind, Ministry of Labour has started to implement some strict regulations on foreign workers entering Indonesia. Foreign workers are those who work in a certain working relationship and time.

Although there are conveniences for foreigners to come to Indonesia during the AEC, a TKA must have a sponsor who is an Indonesian legal entity if he/she wants to work permanently.

Through the Indonesian National Work Competency Standard instrument (SKKNI), all relevant stakeholders are challenged to develop and adapt to international standards "so that later the Indonesian workforce can be recognized for their competence and gain access to job opportunities that exist abroad" (Thamrin 2016).

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## **5. Conclusion**

The establishment of the AEC creates healthy and efficient competitions among Southeast Asian countries, where the AEC is both an opportunity and a challenge in Indonesia. Opportunities come in the form of wide open employment opportunities. The challenge is how to have superior HR in the domestic market and be able to defeat other competitors, both locally and from abroad. If the opportunities and challenges cannot be used or faced as



well as possible, then these will turn into a threat, namely, the problem of unemployment. The low competency and disproportionate Indonesian workforce are separate issues. Indonesia is a large and potential economic market with a large area, abundant resources, and high population. In terms of employment, Indonesia is also a tempting opportunity for foreign workers.

For Indonesia to compete in the AEC era, two main things need to be prepared:

1. Accelerating the improvement of the competence of Indonesian workers by running a competency improvement program. Improvement can be achieved by strengthening educational institutions and increasing professional training standards.
2. Accelerating the competency certification that has been adapted in the MRA, thus enabling Indonesian workers to compete with personnel from other ASEAN member countries.

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1. Department of Law, Faculty of Law, Universitas Islam Riau Jl. Kaharuddin Nasution No.113, Pekanbaru, Riau 28284 INDONESIA. Email: [thamrin@law.uir.ac.id](mailto:thamrin@law.uir.ac.id)



