

## **Pancasila Economic System for Asean Economic Community (AEC)**

Nurhuda<sup>1</sup>Tity Hastuti<sup>2</sup>

*Economics Accounting Education, Faculty of Teacher Training and Education*

*Universitas Islam Riau, Indonesia*

*Corresponding Author: Nurhuda*

**Abstract:** ASEAN Economic Community (AEC) is the cooperation of ASEAN (Association of Southeast Asian Nations) countries. AEC makes ASEAN as a single market and production base. The AEC has four key characteristics: (1) It is a single market and production base, (2) It is a highly competitive economic region, (3) It is a region of fair economic development and (4) It is a region fully integrated into the global economy. This study criticizes how ASEAN Economic Community (AEC) cooperation should be based on the Pancasila Economic system according to the 1945 Constitution of the Republic of Indonesia, the Pancasila noble values such as the principle of togetherness, kinship, divinity, humanity, nationality, people, justice and expediency. The study employs a qualitative approach and case study method. The data collection includes observation, interview, and documentation. The data analysis employed is inductive qualitative descriptive analysis. The validation of the finding is performed through discussion, data source triangulation, and member check. The resulting study indicates that the AEC Blueprint application, which contains a highly competitive economic value for giving the maximum possible freedom by eliminating tariffs, has characterized Economic Liberalism. Therefore, the highly competitive economic values are felt to be incompatible with Pancasila noble values.

**Keywords:** Asean Economic Community (AEC), Pancasila Economic System, the 1945 Constitution of the Republic of Indonesia.

Date of Submission: 04-09-2019

Date of Acceptance: 19-09-2019

### **I. Introduction**

Masyarakat Ekonomi ASEAN (MEA) or ASEAN Economic Community (AEC) agreed by the government of Indonesia at the 12th ASEAN Summit, in Cebu, Philippines, January 13, 2007. The AEC is the realization of the region's end goal of economic integration. It envisions ASEAN as a single market and production base, a highly competitive region, with equitable economic development, and fully integrated into the global economy. The AEC recognizes the free movement of skilled labor, goods, freer flow of capital, services, and investment within the grouping's member countries.

The single market and production base include two essential components, namely Priority Integration Sectors (PIS) and cooperation in the fields of food, agriculture, and forestry. Perbawa (2012) states there are three indicators to see Indonesia's position in the AEC. First, Indonesia's export share to the leading ASEAN countries (Malaysia, Singapore, Thailand, Philippines) is quite large, namely 13.9% of total exports. The other two indicators are obstacles. Namely, Indonesia's economic competitiveness is much lower compared to Singapore, Malaysia, and Thailand, while the acceleration of investment in Indonesia lags compared to other ASEAN countries. Indonesia's natural resource wealth is a local-advantage that remains a strong attraction. Also, the largest population can provide cheap labor.

According to AEC which contains a highly competitive economic among its members to make ASEAN a region of high international competitiveness, its application will ultimately be detrimental to countries that are not yet ready to compete in a highly competitive economy and without government interference. Injustice arises because it happened. Whereas, individualism will flourish in winning competition among fellow ASEAN members.

Indonesia, as a nation that embraces the Pancasila Economic system, is contrary to the ideology of the nation, namely Pancasila. Considering the noble values contained in Pancasila, there is the principle of togetherness, kinship, divinity, humanity, nationality, people, justice, and expediency. Therefore, this article criticizes how the ASEAN Economic Community (AEC) cooperation should be based on the Pancasila Economic system according to the 1945 Constitution of the Republic of Indonesia, the Pancasila noble values.

As one form of cooperation in the ASEAN Free Trade Area (AFTA) member countries, the MEA has several discrepancies with the Pancasila Economic system, including the following:

1. There are highly competitive economic among members.
2. Although the AEC Blueprint is a collaboration, the government of Indonesia is required to provide free space as freely as possible including the elimination of tariffs which will ultimately be detrimental to countries that are not yet ready to compete in a highly competitive economy.
3. The highest negative impact is that emerges injustice and erodes the spirit of togetherness and kinship.

## **II. Literature Review**

*Masyarakat Ekonomi ASEAN (MEA)* or ASEAN Economic Community (AEC) agreed by the government of Indonesia at the 12th ASEAN Summit, in Cebu, Philippines, January 13, 2007. The AEC is the realization of the region's end goal of economic integration. It envisions ASEAN as a single market and production base, a highly competitive region, with equitable economic development, and fully integrated into the global economy. The AEC recognizes the free movement of skilled labor, goods, freer flow of capital, services, and investment within the grouping's member countries.

Based on *Pancasila* Economic system, the 1945 Constitution of the Republic of Indonesia Article 33, it contains:

1. *The economy shall be organized as a common endeavor based upon the principles of the family system;*
2. *Sectors of production which are important for the country and affect the life of the people shall be controlled by the state;*
3. *The land, the waters and the natural riches contained therein shall be controlled by the State and exploited to the greatest benefit of the people;*

In Article 1, Sri-Edi Swasono interprets the word 'organized' as an imperative form, which means it must be compiled and must not be allowed to be organized by itself. It means that the economy must be structured and must not be allowed to form itself through the free trade area mechanism. Because if the economy is left alone as in the flow of competitive economics, it will have an impact on unfair competition.

In Article 2 and 3, Ismail, Munawar, et.al (2014) implies that the state must (1) control the important branches of production for the country and involve the lives of many people, (2) control of the earth, water, and natural and space riches, and (3) grant a mandate of power to a conditional state, which must be used as much as possible for the prosperity of the people.

4. *The organization of the national economy shall be conducted based on economic democracy upholding the principles of togetherness, the efficiency with justice, continuity, environmental perspective, self-sufficiency, and keeping a balance in the progress and unity of the national economy;*
5. *Further provisions relating to the implementation of this article shall be regulated by law.*

According to Ismail, Munawar, et.al (2014), the AEC Governance in which there is free trade value, provides the broadest possible opportunities for its members even the abolition of tariffs is included, and the state provides facilities for the running of trade which has characterized the capitalist economic system which in turn will emerge competition and individualism, so that ultimately the principle of justice will be smeared. In a capitalist scholarly system, community values recognize (1) private ownership, (2) business initiatives, (3) free competition, (4) entrepreneurial power, (5) freedom of business and politics.

Since competition has both positive and negative impacts, regulations are needed so that:

1. Avoid the emergence of social inequality, environmental disasters, and the destruction of local wisdom values;
2. Give a large opportunity to the community to optimally access knowledge and skills. In this case, the government must ensure that basic knowledge and innovation for the poor become public wealth;
3. Fair competition is created. Business practices that seek to avoid competition such as monopolies and cartels must be prohibited;
4. Provide the broadest possible benefits to the community, especially consumers through increased efficiency and innovation that leads to increased diversity of product and service choices.

Regarding strategic sector regulation, the things that need to be emphasized are pricing or tariffs should not be based on international prices but rather determined based on the purchasing power of the people and fulfilling all the needs of the community, both in quantity and quality.

Based on the National Medium Term Development Plan 2015-2019. The challenge of the AEC is that there are doubts about the integration of the regional economy of ASEAN that will provide benefits and positive impacts on the economic and financial sectors of ASEAN member countries. ASEAN member countries fear the emergence of injustice that occurs when the intended economic integration is applied. The issue of injustice is undoubtedly contradictory to implement the ASEAN Economic Community, which should be dedicated to developing and advancing the Southeast Asia region that is integrated inequitable economic development and reducing socio-economic inequality. Another challenge is ASEAN's shared economic resilience, which will be affected by the crisis experienced by ASEAN member countries. The hope is that the economic crisis experienced by ASEAN member countries is not spread and does not have a significant impact on other countries in the region. For Indonesia, with its large population and resource potential, ASEAN economic and

financial integration should be able to make the Indonesian economy improve. In the socio-cultural aspect, the big challenge faced is the effort to build an ASEAN identity and togetherness as a community. ASEAN will still face the issue of internal cohesiveness and challenges to the implementation of ASEAN centrality in dealing with its dialogue partners.

The consensus, as initially stated by Williamson (2015) included ten broad sets of relatively specific policy recommendations:

1. Fiscal policy discipline, with avoidance of large fiscal deficits relative to GDP;
2. Redirection of public spending from subsidies ("especially indiscriminate subsidies") toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care, and infrastructure investment;
3. Tax reform, broadening the tax base and adopting moderate marginal tax rates;
4. Interest rates that are market determined and positive (but moderate) in real terms;
5. Competitive exchange rates;
6. Trade liberalization: liberalization of imports, with particular emphasis on the elimination of quantitative restrictions (licensing); any trade protection to be provided by low and relatively uniform tariffs;
7. Liberalization of inward foreign direct investment;
8. Privatization of state enterprises;
9. Deregulation: abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions;
10. Legal security for property rights.

Stiglitz (2015) summarized ten broad sets into three broad sets, including the following:

1. Fiscal policy discipline and conservative;
2. Privatization of state enterprises;
3. Trade liberalization or trade fundamentalism.

Sulistyo and Soediyono (1987) stated about the outline of the purpose of the Foreign Economic Relations Sector, including the following:

1. The foreign relations sector must be directed to be able to support and support the efforts of the *Pancasila* Economic system in the pursuit of achieving a just and prosperous society. For this purpose the foreign economic relations sector must be endeavored to function as:
  - a. Throwing market surplus of commodities produced in the country;
  - b. Complementary capital and technology resources;
  - c. Supporting efforts to maintain domestic economic and political stability;
  - d. Sources of financing and the supply of imported goods, services and resources needed by producer communities and consumer societies that cannot or are highly uneconomical are produced alone in the country;
  - e. Sectors that concern income and employment opportunities. For this purpose to be achieved, arrangements in the field of trade and the foreign exchange system must endeavor so that the foreign economic relations sector can create employment opportunities that are harmonious and in line with the goals of economic and social efficiency and justice.
2. By not ignoring the interests of the domestic economy as well as other national interests, the *Pancasila* Economic system actively participates in helping fellow nations in the world, especially nations whose economies are not yet advanced;
3. By not ignoring national interests, actively participating with other countries and world organizations and regional organizations, striving for the development and stability of the world economy and participating in solving the problems of other world economies. For this reason, ASEAN cooperation needs to be continually developed for the sake of harmony and progress together as well as striving to achieve the balance of the effects of the economic powers of significant powers, so as not to harm Indonesia's economic development in the future.

In the *Pancasila* Economic system, Sulistyo and Soediyono (1987) said that the field of foreign trade needs to strive for:

1. **Increased exports.** Exports of goods and services need to be increased at the lowest as high as the need for imports of goods, services, capital equipment, necessary materials and essential commodities that cannot be avoided as a result of the increasing standard of living of the Indonesian people. Besides that, it is necessary to continue to strive for the stability of the prices of exported goods at a favorable level through closer cooperation between exporting countries and a better understanding of importing countries regarding the

position of our country. Increased exports must be done by taking into account their own needs for these goods, especially for industrial development. Both the export goods industry and imported substitute industrial goods, as well as their influence on economic and political stability in the country, are vital for sustainable development;

2. **Lowering the export ratio to national income.** Although the absolute value of exports is expected to continue to increase, relative, compared to national income, is expected to be reduced to a level low enough to prevent economic life from the shocks that occur in the world economy. Increasing GDP rather than increasing exports will achieve it;
3. **Diversification of exports.** Restructuring of the composition of exports needs to be continually improved, so that export pressures shift from raw materials to finished goods which have a positive effect on employment, technology transfer, skills upgrading, and value-added enhancement;
4. **Expansion of the export trade.** In the *Pancasila* economic system, exports must be distributed to more importing countries relatively more evenly than now. Thus it can be expected that dependence on certain countries will decrease. Besides that, the role of other ASEAN countries as an export market needs to be developed more quickly by the aim of increasing shared prosperity.
5. **Better Import Composition.** The *Pancasila* economic system is more inclined to seek and maintain the composition of imports in terms of military strategy, which can be accounted for. Except that the composition of imports must continue to be endeavored to reflect and be in line with the development of changes in the economic structure in the country in order to support the development of the growth of the processing industries. Imports of raw materials, auxiliary materials, and capital equipment must continue to receive top priority, while imports of non-basic consumer goods must be given final priority.
6. **Tariff policy = custom duties and subsidies.** It needs to be used with caution, especially for fair distribution of national income and to avoid unfavorable competition, as a result of the foreign exchange system used, in addition to protecting selected young domestic industries.
7. **Policies towards foreign capital income.** Under normal circumstances, the *Pancasila* economic system does not want government intervention in foreign capital income transactions, as long as it does not interfere with political and economic stability in the country.
8. **Policies on foreign capital.** The interests of development still drive foreign capital investment and advanced technology. However, the government still needs to determine the rules of the game in line with the stages of development being achieved and the needs of the future. Domestic capital participation, technology transfer and personal replacement in MNC management, as well as other foreign companies must be carried out in stages over some time in line with the growth of the domestic industry and future needs. The role of government, cooperatives, and national companies in their relations with foreign companies, including MNCs, need to be emphasized for the sake of smooth development in order to achieve the desired goals. Also, to avoid MNC practices that can be detrimental in the short and long term such as transfer pricing, patent restriction, and other cooperation with other developing countries, especially ASEAN in foreign investment policy, it needs more serious attention.
9. **Distribution Channels.** Channels of goods and services can be carried out through the private sector and cooperatives as long as they are in line with the direction of government policies that lead to fair market domination by Indonesian citizens in proportions that create monopolies, oligopolies, and damage to market mechanisms that cause oppression by the strong to the weak.
10. **Price policy.**
11. **Policies regarding membership of international economic institutions.** The *Pancasila* economic system actively participates in international economic institutions, as long as:
  - a. Estimated to be beneficial for the Indonesian economy.
  - b. It is estimated that the impact on the world economy in general and on the economies of developing countries in particular.

### **III. Method**

The study employs a qualitative approach and case study method. The researcher itself performs as the instrument as well as data collector, which requires the activeness of the researcher. The data source of the study is the current issue of MEA. The study was conducted from January to December. The data source is both primary and secondary data. The data were collected through observation, interview, and documentation. The analysis of the study is inductive descriptive qualitative analysis. Meanwhile, the validation of the findings is performed through discussion, data source triangulation, and member check.

#### IV. Finding and Discussion

According to Mubyarto (1988), national development strategies and policies derived from the values in the precepts of the *Pancasila*, in the mandate of Article 33 of the 1945 Constitution of the Republic of Indonesia are as follows:

1. The cycle national economy is driven by economic, social, and moral stimuli. In an economic cycle of the capitalist country is driven only in terms of economic stimulation, namely prices. Moreover, the socialist state is only from social stimulation. In the *Pancasila* community, the economic cycle is driven by the market system; there are occasional social controls or supervision by the community and moral guidelines by all nations who are devoted to God Almighty.
2. In society, there is always a strong will to realize social-economic equality, namely balance, harmony, and harmony in the distribution of national income and wealth.

Along with the domestic economy of countries in the world which are generally open to global markets. Liberalization has an impact on the swelling costs of substantial short-term and medium-term adjustments that can be seen from the increasingly tight transparency of the business world, increasing unemployment and poverty, and decreasing income. Therefore an appropriate trade policy is needed to reduce it while developing the trade sector as a means to stimulate domestic demand capacity through strategies based on increasing participation in global markets.

However, it must be remembered carefully; the constitution prohibits the national economy from being trapped in a market economy, including in international trade. So that liberalization should not be used as a basis for developing international trade policies. Indonesia's participation in various trade liberalization agreements, both globally and regionally, has philosophically damaged the constitution. Therefore revisions to the agreement must continue in the future (Ismail, Munawar, et al. 2014). The Indonesian Economic System Building based on *Pancasila*, is found in table 1 below.

**Table 1.** Indonesian Economic System Building based on *Pancasila*

INDONESIAN ECONOMIC SYSTEM BUILDING	EXPLANATION
Foundation: <i>Pancasila</i> and the 1945 Constitution	<ol style="list-style-type: none"> <li>1. The economy is driven by economic, social, moral stimuli</li> <li>2. A strong will towards a state of social equality (egalitarianism) by the principles of humanity.</li> <li>3. The creation of a robust national economy, which means nationalism animates every economic policy</li> <li>4. Cooperatives are the cornerstone of the economy and are the most concrete form of a joint effort</li> <li>5. The existence of a clear and decisive balance between planning at the national level with decentralization in the implementation of economic activities to ensure economic and social justice</li> </ol>
Principles: Togetherness and kinship	<p>Togetherness is reflected in nature and willingness to be unselfish, prioritizing the common interests.</p> <p>Kinship contains the nature of doing something by all, for all under the leadership of a leader under the surveillance of the members. The member relationship is a hub. Affection like family is not a hub. contract</p>
<i>Pancasila</i> joints: Divinity, humanity, nationality, and populist	<p><b>Divinity:</b> Economical by religious teachings. Assets and resources are obtained in the right way and do not harm other parties. Moreover, be used in the right way and not harm others. Practices of economic life based on religion and local wisdom need to get protection in the <i>Pancasila</i> economy.</p> <p><b>Humanity:</b> Indonesia's economic system is oriented toward human welfare. Economic activities are carried out in a spirit of mutually beneficial cooperation. It should not lead to exploitation and discrimination because it will cause injustice.</p> <p><b>Nationality:</b> substantial unity can be realized if based on togetherness. Togetherness arises because of feelings of the same fate and continuity. Economic activity must be based on a spirit of togetherness, reflected in the high participation of all levels of society, spreading economic resources throughout the country and the high sense of nationalism and national economic independence.</p> <p><b>Populist:</b> the establishment of economic democracy. The economic system is based on popular sovereignty. Economic activities are sourced from the people, by the people, and for the people.</p>
Principles of operation: Justice and expediency	Economic activity must benefit everyone, not a handful of people. Moreover, it provides benefits physically and mentally in the hereafter.
Resource Ownership Order	An economy based on togetherness and kinship, private ownership has social responsibility.

Source: Ismail, Munawar, et al. (2014)

In the face of populist economic globalization (the *Pancasila* economic system) is an open economic system. However, what the populist economy does not want is the placement of the Indonesian economy as a subordination of the foreign economy. It means that in establishing economic relations between nations, people's economy requires the establishment of equal and mutually beneficial economic relations (Baswir and Revrison, 2016).

Thus to face globalization, it is essential that the government intervene in protecting Small and Medium-Sized Enterprises (SMEs) because of two reasons as follows:

1. Considering the lack of capital and also the skills possessed by entrepreneurs in this sector, the product market in this sector must obtain protection from competition from large entrepreneurs, because if not, then what happens is oppressive competition or exploitation. It means that harmony in society has the potential to interfere.
2. The number of entrepreneurs in this sector is vast, and generally, they are entrepreneurs who are in the low-income group (or maybe slightly above the poverty line). Therefore the role of government is needed to improve the ability of SMEs in accessing capital and technology.

If viewed from the side of the *Pancasila* economic system, the MEA regulations are as follows:

1. See from the standpoint of principle: Togetherness and Kinship. AEC consists of ASEAN countries with a variety of religions, ethnicities, nationalities, languages, cultures. AEC countries merge into one in the container of the Asean Economic Community. Therefore the principle of togetherness and kinship should be the basis in economic activities to achieve the common goal of becoming a highly competitive region on the international scene. Therefore there should be no competition but all work for all under one leader. Not On Compensation (Free Trade) Free Among Its Members.
2. The concept of free trade should not be applied between member countries, but the members work together by utilizing the advantages of each other in synergy to create a substantial trade area in the world. It means that there is no competition between members but working together, for the welfare of members, not competing with members, which in the end there is a stronger, stronger weak state will be oppressed.
3. Then to help each other in meeting the needs of members of the AEC, the theory of reciprocity can be applied (Polanyi 1968). Reciprocity is often valued as a human form of exchange compared to market exchange. The principle of kinship and solidarity is proof that reciprocity is more human than market exchange. For example, when Indonesia needs rice, Thailand is ready to export rice, and when Thailand needs palm or coffee, Indonesia is also ready to prioritize exports to Thailand. It means that priority in demand for exported and imported goods takes precedence over AEC members compared to other countries.
4. Cooperation in terms of improving the quality of products, both goods, and services, through collaborative research and development activities between members of the AEC.
5. Form an agreement that import and export activities are limited by specific quotas and certain types of goods, meaning that it does not force the export of goods that have been produced in the destination country, this is done so that MSMEs in the destination country does not go bankrupt due to the entry of export goods at lower prices.

## V. Conclusion

With the implementation of the *Pancasila* economic system which is based on togetherness and kinship, based on God, humanity, nationality and people and principled on the fairness of the implementation of the MEA seen from its Blueprint containing elements of free competition by giving maximum freedom with the abolition of tariffs, it has characterized the economic system as having a basis liberalism. Therefore, from the perspective of the *Pancasila* economic system, it is already irrelevant. Therefore, if adjusting to the *Pancasila* economic system, it is necessary to make changes to the existing regulations. The attitude of the Indonesian people must be firm to reject the AEC when it is no longer relevant to the ideology of the nation. Alternatively, it can provide enlightenment when the values hold a regulation revision in the *Pancasila* economic system.

## References

- [1]. Baswir, Refrison. 2016. *Manifesto Ekonomi Kerakyatan*. Pustaka Pelajar: Yogyakarta
- [2]. Boediono. 2009. *Ekonomi Indonesia Mau Kemana? (Kumpulan Essay Ekonomi)*. Gramedia: Jakarta
- [3]. Wibawa, Dewa Putu Adi. 2015. *Pancasila Menolak MEA 2015* dalam <http://www.berdikarionline.com/pancasila-menolak-mea-2015/>
- [4]. Ismail, Munawar and Santosa, Dwi, B and Yustika, Ahmad Erani. 2014. *Sistem Ekonomi Indonesia (Tafsiran Pancasila dan UUD 1945)*. Erlangga: Jakarta
- [5]. Mubyarto. 1988. *Sistem dan Moral Ekonomi Indonesia*. Jakarta: LP3ES
- [6]. Mubyarto. 1990. *Ekonomi Pancasila Gagasan dan Kemungkinan*. Jakarta: LP3ES
- [7]. Mubyarto and Boediono. 1987. *Ekonomi Pancasila*. BPFE: Yogyakarta
- [8]. Perbawa, Arip. (2012). Kesiapan Masyarakat Indonesia Menuju Masyarakat Ekonomi Asean 2015. *Artikel*. Manajemen FEB Unpad.
- [9]. Polanyi, Karl. 1968. *Societies and Economics System* dalam George Dalton. Primitive, Archaic, Modern Economies. Essay of Carl Polanyi, Boston: Beacon Press. Hlm 3-25
- [10]. Sri-Edi Swasono, 2013, *Menjadi Tuan di Negeri Sendiri: Pendekatan Teoritis-Akademis dan Ideologi*, UST Press, Yogyakarta

- [11]. Joseph Stiglitz. "The Post Washington Consensus Consensus"(PDF). Policydialogue.org. the Initiative for Policy Dialogue. Retrieved April 24, 2015.
- [12]. Williamson, John. "A Guide To John Williamson's Writing". *Www.pii.com*. Peterson Institute for International Economics. Archived from the original on July 5, 2015. Retrieved April 24, 2015.

Nurhuda. "Pancasila Economic System for Asean Economic Community (AEC)." *IOSR Journal of Economics and Finance (IOSR-JEF)* , vol. 10, no. 5, 2019, pp. 35-41.



## Certificate

Office Code :	M1867	Date :	2019-09-19
MIC No. :	2854	Status :	Published

## Article Details

This is to certify that following paper has been published in IOSR Journals.

Article Title	:	Pancasila Economic System for Asean Economic Community (AEC)
Author's Name	:	Nurhuda, Tity Hastuti
Journal Name	:	IOSR Journal of Economics and Finance
ISSN	:	2321-5933
Publisher Name	:	International Organization of Scientific Research
Journal Url	:	www.iosrjournals.org
Publishing Model	:	Open Access Publishing
Review Type	:	Blind Peer Review Process
Journal Type	:	Indexed Refereed Journal
Volume No.	:	10
Issue No.	:	5
Article DOI	:	10.9790/5933-1005013541



Signature  
Editorial Manager  
IOSR Journals  
support@iosrmail.org