The Readiness of SMEs in Bulungan to Face ASEAN Economic Community (AEC)

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Received: June 25, 2017; Accepted: August 19, 2017; Published: November 3, 2017
Permalink/DOI: http://dx.doi.org/10.17977/um002v9i22017p146

Abstract

ASEAN Economic Community (AEC) is formed on the basis of an agreement in order to create a relationship of closer cooperation among ASEAN countries. The agreement covers four strategic, namely: (1) the achievement of a single market and a unified production base, (2) a competitive economic region, (3) equitable economic growth, and (4) integrated with the global economy. This research aimed to identify the readiness of SMEs Facing the ASEAN Economic Community (AEC), which will begin to be realized in December 2015. This research is a qualitative descriptive research. The researcher took a case study on SMEs in Bulungan Regency by selecting informants by using Purposive Sampling. 36 SMEs domiciled in Bulungan Regency were taken as the research subject. The data used in this research was a combination of primary data obtained in the field through interviews and secondary data adapted from various sources as a reference for research writing. Data analysis techniques used was data reduction and validity techniques using triangulation. The result of the research shows that the problem of SMEs in Bulungan Regency is the problem of the production process, capital, marketing, and permit. Further research results indicate that Bulungan Regency Government has been trying to encourage the development of the SMEs, but the implementation of government policy is not maximized. Based on the conditions and problems faced by SMEs in Bulungan Regency, it is not ready to face the AEC.

Keywords: Readiness, SMEs, MSEs, ASEAN Economic Community (AEC)
JEL Classification: G10, G20

INTRODUCTION

ASEAN Economic Community (AEC) began in 2015 and becomes an opportunity as well as a challenge for the Indonesian economy. One of the economic actors who are currently prone to the flow of liberalization of goods and services are Micro, Small and Medium Enterprises (SMEs) (Berry et al., 2001). With the implementation of the AEC by the end of 2015, ASEAN member countries experiencing a free flow of goods, services, investment, and educated labor from and to each country. Through the AEC, there will be an integration in the form of "free trade area", removal off tariff trade among ASEAN countries, as well as the labor market and capital market, which will greatly affect the growth and economic development of each country. Like a two-edged blade, the benefits of the implementation of the AEC for the economic growth depended on how to respond the era of the free market.
Tambunan (2013: 3) states that the implementation of AEC 2015 raises an anxiety among Indonesian entrepreneurs, especially entrepreneurs whose business scale is Micro, Small and Medium Enterprises (SMEs) that foreign products will enter the domestic market and potentially grasp the market of products nation.

The AEC is a big challenge for SMEs throughout Indonesia as well as SMEs in the region, including North Kalimantan Province. North Kalimantan is the youngest province in Indonesia and also one of Indonesia's outer gateways having a lot of potentials to compete in the AEC. Bulungan is one of the Regencies located in the Province with one of the sub Regencies becoming the central government of North Kalimantan Province, namely: Tanjung Selor (Rahadi, 2016).

Based on the results, the number of the SMEs in Bulungan Regency is 3,333 business units, divided into Micro Enterprises are 2,872 businesses, Small Businesses are 396 businesses and Medium Enterprises are 32 businesses. Viewed from the business development, there is a significant increase business in 2015, especially micro business units. There are many of those business units in Bulungan Regency does not make excellent products. This research focuses on the constraints faced by SMEs in Bulungan Regency, how the role of government in SMEs development efforts in Bulungan Regency is and how the readiness of MSMEs in Bulungan Regency in facing the AEC is. In addition, this research is just limited to small and micro enterprises producing their product, not a reseller.

LITERATURE REVIEW

According to Law Number 20 of 2008 on Micro, Small and Medium Enterprises, it has meanings: (1) businesses established for the purpose of economic activities and not for non-profit activities; (2) a productive enterprise or have a business profit; (3) independent business is not a part, branch or affiliate of another's business; and (4) businesses owned by individuals or business entities. Principally, the distinction between Micro Enterprises, Small Business, Medium Enterprises, and Large Enterprises is generally based on the initial asset value (excluding land and buildings).

Based on this understanding, it also can be understood that: (1) micro business is economic activity conducted by individual or household or business unit having a net worth at most IDR. 50,000,000,- excluding land and building of business premises or having annual sales of at most IDR. 300,000,000.-; (2) small business is an economic activity carried out by an individual or household and a body with a net worth of more than IDR. 50,000,000.- up to a maximum of IDR. 500,000,000.- excluding land and buildings, place of business or have annual sales proceeds from IDR 300,000,000.- up to a maximum of IDR. 2,500,000,000.; and (3) medium enterprises are economic activities undertaken by individuals or households or a business entity having a net worth of more than IDR 500,000,000,- up to a maximum of IDR. 10,000,000,000. - excluding land and buildings and place of business or having annual sales proceeds from IDR. 10,000,000,000.- up to a maximum of IDR. 50,000,000,000.

Research related to readiness SMEs to face AEC has been conducted by Anis & Widiasary (2015) discussed the readiness creative industry to face AEC. They used to determine the readiness of SMEs by using 4 indicators, namely; skilled labor, industrial sustainability, free flow of goods, and local government support. The analysis concludes that “blangkon” handicraft is not yet prepared to face AEC,
this is visible from the indicator of skilled labor and the free flow of goods is approaching readiness, but industry sustainability and support from local government is not yet fully prepared. In the SWOT analysis stated that maintaining quality, market expansion, increasing production quantity, product innovation, and increased support from local government is needed.

Andriyoso, Sufa & Djunaidi (2015) did research in Surakarta, this analysis stated that labor has a significant effect on the readiness of the creative industry in Surakarta to face AEC, and capital has no significant effect to face AEC. Another research regarding the readiness SMEs to face AEC was conducted by Setiawan (2015) explained that SMEs in the industrial center of “Keripik Pagar Alam” in Bandar Lampung have made variables efforts in order to face the AEC and declared ready to face AEC.

METHOD

This research is a descriptive research with a qualitative approach. Research subject of this research was small and medium enterprises (SMEs) in Bulungan and the authority of the Bulungan government handling in order to develop SMEs. Snowball sampling was used to find out the information for this research. The reason researchers use the technique is that in certain situations, the number of the involved research subjects becomes increase due to the subjects or research informants have been determined previously give less depth information or in certain situations does not allow the researcher in order to gain access to the source, location or subject which is studied. The informants’ criteria for this research, namely:

1. Micro, small enterprises (SMEs) domiciled in Bulungan
2. Bulungan Government;
3. Age between 25-70 years old and not senile, so they are able to provide information of data representative;
4. No defects or speech impairments and may be invited to communicate;

The validity of data is a renewed important concept of the validity and reliability. The degree of trust or truth of an assessment will be determined on the standards used. According to Moleong (2007: 324), there are several criteria used to check the validity of data, namely: (a) Degree of Trust with data triangulation techniques and reversibility adequacy, (b) transferability, (c) dependability, (d) conformability.

In order to ensure the objectivity of this research, the researcher and the supervising team conduct an examination carefully about the certainty of the origin data, the logic of drawing conclusions and the degree of accuracy and reviewing of the researcher's activities on the validity of the data.

RESULT AND DISCUSSION

Collecting data in this research was conducted on 36 business units spreading in 5 sub-districts in Bulungan, namely: 28 business units in Tanjung Selor, 1 business unit in Tanjung Palas Utara, 2 business units in Tanjung Palas, 4 business units in Tanjung Palas Timur, 1 Tanjung Palas Tengah business unit.

The result of the interview to those business units found that the biggest problem faced by SMEs is production problems (40.23%), capital and marketing (20.83%), and the licensing problem (18.05%).
Production problem is the most problem faced by SMEs in Bulungan. The first problem is the availability of raw materials, 75% of the SMEs are easy to obtain and 25% are hard to obtain. Moreover, packaging problems, 80.6% of the SMEs conduct manually packaging and 19.4% using a more modern way. With 72.3% daily production frequency, 22.2% of the SMEs produce by order and 5.5% produce less than 3 times a week (weekly).

The results of this interview also show that there are 75% of the SMEs have initial capital of business sourced from personal funds, and 22.3% from loans and only 2.7% from government assistance with primary capital range IDR. 500,000 to IDR. 400,000,000 and monthly income average IDR. 1,500,000 to IDR. 100,000,000 as well as net income IDR. 800,000 to 15,000,000 per month. The next question is about the systematic financial report problem, 52.8% of the SMEs make a daily recording of expenses and income and 47.2% do not have any record. The next question concerns on the separation of venture capital and personal wealth, 80.6% of the SMEs do not separate business capital and personal wealth and 19.4% have already done the separation.

Furthermore, marketing problems, interview results showed that 94.4% of the SMEs still use conventional marketing model and only 5.6% have a modern marketing model. In addition, 22.2% of the SMEs are already able to market their products out of town and 77.8% market their products around Bulungan Regency. Moreover, 8.3% of the SMEs are able to market their products to overseas and 91.7% have not been able to market their products abroad.

From the 36 SMEs, it is only 25% have specific strategies to market their products and 75% do not have specific marketing strategies. In addition, 30.6% of the SMEs utilizing e-marketing and 69.4% do not utilize the facility.

The results of subsequent interviews related to licensing problems, the first question is about the ownership of Trade Business License (SIUP), 52.8% of the SMEs have SIUP and 47.2% have not had it. On the ownership of Business Place License (SITU), 52.8% of the SMEs have SITU and 47.2% do not have it. On the ownership of Small Micro Business License (IUMK), 47.2% of the SMEs have IUMK and 52.8% do not have it. On the ownership of BPOM license, based on the all of SMEs food production interviewed by the researcher, 41.7% of the SMEs have BPOM license and 58.3% do not have it. On the ownership of halal certificate from Indonesia Ulema Council, 35.8% of the SMEs have the certificate and 63.9% do not have it.

Furthermore, interviews related to the role of government in the efforts to develop SMEs in Bulungan Regency. The first question is about SMEs receiving assistance from the government for the development of SMEs sector, 27.8% of the SMEs ever get assistance in the field of production, 5.6% have received capital assistance from the government, and 66.7% never get assistance from the government. The second question concerning the involvement of SMEs in training held by the government of Bulungan Regency, 38.9% of the SMEs have attended training held by the local government, and 61.1% never participate in training conducted by the local government. The next question about the expectation of SMEs in order to get support/assistance from the government to develop their business, 59.5% of the SMEs expects that capital assistance (access to finance), 16.2% want to production support, 10.8% of marketing, 5.4% want to get direct
assistance from the local government, 2.7% want to support the ease of licensing and 5.4% UMKM do not expect any support from the local government.

**Constraints Faced by SMEs In Bulungan Regency**

Based on observations in the field, most of the SMEs have management system constraints, as follows: (1) the limitations in the production process can be seen from the frequency of production that has not been consistent and marked by the existence of the SMEs who cannot produce every day (daily production). It is caused by the availability of raw materials, 25% of the SMEs whose raw materials have to be shipped from other regions. In addition, there are still many SMEs depending on the natural products or farmers harvest to produce. When the harvest season, the raw material production is abundant, but if it is not the harvest season, MSMEs have difficulty in producing due to the scarcity of raw materials or raw material prices are relatively expensive. It causes SMEs cannot produce continuously.

In addition to raw materials production, packaging also became one of the obstacles experienced by SMEs in Bulungan Regency. Some of them have to order packaging in Java Island, such as Malang, Surabaya, and Yogyakarta. It makes them tend to choose not to pay attention to the packaging or can be said to use a simple packaging because it requires capital large enough to be able to get a good package because it must be ordered on a large scale. The difficulty of obtaining attractive and good quality packaging materials in Bulungan will indirectly affect the attractiveness of the product.

Another thing that becomes an obstacle in production is the labor problems. The educational background of the labor is graduated from Junior High School and Senior High School. In addition, less labor empowerment. There are still many SMEs do not want to spend their time to pay more attention and train their employees’ skill. They only pay attention to the salary of those employees without any skill development. Besides that, the ability to use technology is still less. If the technology is developed by the SMEs, it certainly helps them in operation the production effectively and minimizes the number of the human error.

Secondly, the limited capital becomes one of the obstacles faced by 20.8% of the SMEs. They do not have much access to the formal financial. In addition, there is a sense of fear appears from the SMEs if they apply for loans to banks. In addition, the financial institutions also seem to pay less attention to this sector. Despite its promising presence, many financial institutions, especially banks, are still eyeing SMEs. Capital is a fundamental issue when SMEs are faced with a system of capitalism that relies on the strength of capital. This is a classic problem that demands an effective solution in today's economic globalization (Iqbal, 2015; Looser & Wehrmeyer, 2015).

The limited access of the SMEs in the financial sector is caused by their financial report is less systematic. Many of the SMEs do not use a financial report based on the accounting system. Whereas, a systematic financial report is very helpful in order to evaluate the performance and also required for the terms of bank lending. In addition, 80% of the SMEs cannot separate their personal income and business income.

Third, marketing problems. 20.8% of the SMEs have problems in terms of marketing. 94.4% market their products in the traditional way, rely on mouth-to-
mouth marketing system and only display their products in stores. The SMEs do not dare to improve marketing. Courage in business improvisation is needed, so they are not always in stagnant position. Most of the SMEs entrepreneur’s states "this is enough," which will kill creativity and innovation.

In addition, in the era of globalization, SMEs should also be able to take advantage of technological sophistication, one of which is by utilizing the internet. It will make them easier to promote without space, area, and time limit. Thus, SMEs can create a website about their products, in order to facilitate consumers in recognizing the product because of the availability of catalog products and services offered. Website creation is certainly not all SMEs of the villagers are able to do so because of burdening their cash flow. It is where the role of government, especially the local government to provide website facilities specifically designed for SMEs products and services.

Of course, with the availability of catalog products or services which can be updated, the availability of information on market trends, and business transactions and payments. It is expected that the facility can be an innovation for SMEs in Indonesia, especially in Bulungan. At least, the business that has been hit by marketing problems in the local market can take advantage of the Internet in reaching a larger market, even the world market though.

In addition to websites and e-catalogs, social media now has an important role in marketing strategy not only for micro, small and medium enterprises but also for larger-scale businesses. Many SMEs around the world have found a way how social media can contribute to success and development in all aspects. Types of social media also ranging from social media that is personal, blog e-commerce also supports the business world.

Social media with global reach should be able to help SMEs in finding new customers and can expand the market target. It will be very beneficial for creative small businesses. Unfortunately, this facility is not maximally utilized by SMEs in Bulungan, so their market range is very narrow and weak.

Next problem is the weakness in marketing, especially the limitations of SMEs knowledge in creating the brand. The brand is very important to create a good perception of the product, but it is still less noticed by SMEs in Bulungan because with the brand consumers will be easy to recognize and remember our products. The brand is one of the most important parts of a product. It can be an added value for the product either in the form of goods or services. Products that have brands will be rated better and more qualified than products that do not have a brand. However, SMEs in Bulungan have not paid much attention to this side.

Fourth, licensing problems. Many people are interested to establish a business entity that cannot spare from the business license as a legal aspect that must be completed. For the sake of security and smooth running of a business, it is required some conditions that must be completed because Indonesia is a country based on the legal principles and divided into articles.

The complexity of business licensing is often a scourge for traders to cancel their intention to legalize their business. 36.1% of the SMEs have constraints in managing business licensing. 36 SMEs becomes correspondents of the research, it is only 47.2% of them have a Trade Business License (SIUP), 52.8% have Business Place Permit (SITU), 47.2 % have Micro Business License (IUMK). In the food
production units, it is only 41.7% of them have a BPOM certificate and 27.8% has MUI Halal certificate.

The Indonesian government often urges SMEs to legalize their business. The legitimacy of business is a protection to their business. With the business license, the level of trust to the community will also increase. Automatically, Tanjung Selor as the central government of North Kalimantan Province may open the opportunity for SMEs to cooperate with the province government (Stigler, 1971; Harefa, 2008) Regulation is a set of rules intended to provide protection and benefit to society in general or to a group of people.

The benefits of the regulation can be seen from two sides, namely: (1) from the side of the government as a regulator and (2) from the employer side as the object of licensing. For the government, licensing is necessary in order to maintain public order and provide protection to the public at large. For business actors, licensing should provide social and economic benefits.

The Role of Government in SMEs Development Efforts in Bulungan Regency

Bulungan Government through PLUT-KUMKM is an institution that provides comprehensive and integrated non-financial services for cooperatives and micro, small and medium enterprises (C-SMEs) to improve (1) production performance, (2) marketing performance, (3) finance access, (4) human resource development through enhancing entrepreneurial, technical and managerial capacity, and (5) institutional performance for the competitiveness of C-SMEs.

The program of PLUT-KUMKM is English class as foreign language proficiency, accounting class as the provision of SMEs’s systematic financial report, IT class as the provision of e-marketing, entrepreneurship training and perform routine assistance to the assisted SMEs by PLUT-KUMKM on Tuesdays, Wednesdays, and Thursdays. In addition, PLUT-KUMKM also assists the assisted SMEs for the problem of accessing marketing, accessing capital, and business licensing arrangements. Currently, the PLUT-KUMKM has 30 tenants spread in Bulungan.

Not all PLUT-KUMKM programs work well, many obstacles in the implementation. One of those problems is the limitation of budget, so the process of mentoring SMEs is limited. In addition, the smallness of the SMEs interest to follow the available class, because many SMEs prefer to "produce" than follow the class which has been scheduled by PLUT-KUMKM.

In the field of marketing, PLUT-KUMKM has a work program "Kampung UKM Digital" which has been inaugurated by the Bupati Bulungan on August 2016 ago. “Kampung UMK Digital” was launched in two places, namely on Sabanar Lama street and on Jelarai KM 2 street. It is expected to be able to develop SMEs in Bulungan Regency in the future. Unfortunately, there is an obstacle to the implementation of this program, namely: the limited skills of business actors in utilizing this facility.

In the contrast, many of the SMEs do not gain the facilities that have been provided by PLUT-KUMKM with a reason not knowing about the information. In addition, many of the SMEs do not have the willingness to develop their business quickly. The attitude of abandonment and "just like this" is a scourge that should be eliminated from SMEs.
Based on several opinions and steps taken by the government in the effort of developing SMEs, it can be concluded that in order to empower SMEs namely:

(1) The determination of the policy of empowering SMEs in the growth of business climate for small-scale enterprises include: Funding/access to sources of funds, procedures and requirements for the fulfillment of funding needs; Competition; Infrastructure; Information; Partnership; Licensing; Protection; (2) Guidance and development of small businesses include: Production; Marketing; Human Resources; Technology; (3) Facilitation of guarantee access in the provision of financing for SMEs includes: banking credit; Guarantee of non-bank institutions; Venture capital; Loans from the grant funds as SOE earnings; grant; Other types of financing.

Readiness of SMEs Bulungan in AEC

The basic principle of the establishment of the 2015 AEC is to build cooperation and create a stable economy in the ASEAN region (Robiyanto et al. (2016). With the aim of creating an economic stability region in ASEAN, prosperous and highly competitive which is characterized by free traffic flow of goods, services, and investment, greater capital traffic flow, equitable economic development and reducing poverty and socio-economic disparities.

One of the 2015 AEC policies is a single market form and a regional production base, this is certainly a chance and challenge for SMEs in Indonesia. Area of marketing area is proven to affect the profit of a company is no exception for SMEs, but the number of SMEs which are able to penetrate the international market is still in the low category. Many of them are only to meet the local or Regency and regional markets.

North Kalimantan is one of the outermost areas of Indonesia that borders directly with neighboring countries. It should be a challenge and opportunity for SMEs in North Kalimantan, especially Bulungan. However, the next question is the readiness of SMEs in Bulungan in facing the AEC. AEC can be an opportunity for SMEs, especially in terms of wider market utilization targeted by people between countries, being an exporting country, becoming an investor destination country, increasing state revenues, improving people’s welfare and increasing labor absorption.

In order to analyze readiness SMEs faced AEC, we use SWOT (Strength, Weakness, Opportunity, and Threat), as follows:

Table 1: SMEs SWOT analysis results

<table>
<thead>
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<td>5. Have not been excellent products</td>
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### OPPORTUNITY (O)

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<th>S-O STRATEGY</th>
<th>W-O STRATEGY</th>
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<tbody>
<tr>
<td>1.</td>
<td>Improving product quality</td>
<td>1. Increasing the amount of production by utilizing production technology</td>
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<tr>
<td>2.</td>
<td>Expanding sales by leveraging government support and e-marketing</td>
<td>2. Increasing employee’s skills</td>
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<tr>
<td>3.</td>
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<td>3. Attempting to become a bankable SMEs</td>
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### THREATS (T)

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<th>W-T Strategy</th>
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<tr>
<td>1.</td>
<td>Improving product quality</td>
<td>1. The Government provides more comprehensive assistance</td>
</tr>
<tr>
<td>2.</td>
<td>Expanding sales by leveraging government support and e-marketing</td>
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Source: developed for this study, 2017

The problem of preparedness in facing the AEC is non-negotiable. Other countries are also facing the same thing. A survey conducted by the Asian Development Bank and the Southeast Asian Studies Institute in 2015 found that less than a fifth of ASEAN regional businesses is ready to face the AEC. AEC provides many opportunities and challenges for SMEs.

The number of obstacles faced by SMEs Bulungan Regency and the irregularity of SMEs management system in Bulungan Regency indicates that SMEs in Bulungan are not ready to face the AEC. However, efforts to develop SMEs sector will always be implemented by both local government and society in general.

### CONCLUSION

Obstacles faced by SMEs in Bulungan Regency are limited in production, small access of SMEs to finance causing the problem of capital, the range of marketing is less extensive due to less use of e-marketing, and licensing issues. Local Government through the Department of Industry, Trade and Cooperation with PLUT-KUMKM has launched various programs as a provision of SMEs in order to improve its competitiveness, but its implementation has not been maximized due to budget constraints and small interest of SMEs to follow these activities. SMEs in Bulungan Regency are not ready to face the AEC so it needs to keep trying in improving management system and its development. This research needs to be continued to know in depth the obstacles experienced by SMEs in Bulungan Regency from the external side because this research still focuses on its internal side only. There is a need for an additional number of informants and an addition for business type. After knowing the condition of SMEs in Bulungan Regency, it needs to be assisted to SMEs, especially in the field of marketing and systematic financial report to create SMEs that bankable and SMEs can grow rapidly.
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