

# CHAPTER I

## INTRODUCTION

### **A. Research Background**

In general, the development of the international market has a major impact on the national economy across the country. Globalization and liberalization of the main causes, because it brings the impact of a very large and rapid change for the economy in every country. Many countries seek partners in bilateral cooperation to form an economic integration zone. This globalization of the economy has triggered many countries around the world to become an integrated market power with no territorial borders. An example of globalization is the free trade system between countries. Free trade affects the economic, social and political conditions of a country (Mugiono, 2017: 72).

International trade differs from domestic trade or inter-regional trade. Trade between countries is more complicated because the political policies taken by each country are different so that trade restrictions will vary. Policies that support international trade such as tariff reductions can stimulate other countries to trade internationally with the country. Conversely, if the state impedes international trade such as raising tariffs or giving quotas it will reduce the interest of other countries to trade with the country.

International trade policy in addition can be done by one country, can also be done by a group of countries. As in the European Union (EU) where has 28 member countries that make policies for international trade. Similarly to the countries of Southeast Asia region or which we now know ASEAN, is a region of Southeast Asian regime that organizes its organization in the Bangkok Declaration on August 08<sup>th</sup> , 1967 with five founding countries are Indonesia, Malaysia, Philippines, Singapore and Thailand.

**Table 1.1**  
ASEAN Trade by Partner Countries/Regions, 2015.

Trade partner country	Value of trade (US\$ million)			% Share to total		
	Exports from ASEAN	Imports by ASEAN	Total trade	Exports from ASEAN	Imports from ASEAN	Total trade
China	134,249.40	211,514.80	345,764.20	11.4	19.4	15.2
Japan	113,694.00	124,350.40	238,044.40	9.6	11.4	10.5
EU 28	127,583.80	100,056.40	227,640.20	10.8	9.2	10
United states	129,170.50	83,172.43	212,343.00	10.9	7.6	9.4
Korea, Republic	45,808.80	76,675.69	122,484.50	3.9	7	5.4
Taiwan	33,076.83	61,261.29	94,338.12	2.8	5.6	4.2
Hong Kong	77,302.92	14,113.30	91,416.22	6.5	1.3	4
India	39,100.75	19,452.77	58,553.52	3.3	1.8	2.6
Australia	32,958.95	18,783.57	51,742.52	2.8	1.7	2.3
New Zealand	4,945.33	3,402.88	8,348.21	0.4	0.3	0.4
Others country	444,139.80	375,495.30	819,635.10	37.6	34.7	36
Total	1,182,031.00	1,088,279.00	2,270,310.00	100%	100%	100%

Source: ASEAN Secretariat, 2017

ASEAN countries that also take the initiative to create a joint policy on free trade area or better known as the ASEAN Free Trade Area (AFTA) is free trade among ASEAN countries. Based on the table 1.1 ASEAN developed a new free trade policy with developed countries with based on geo-economic and geopolitical have advantages and good relations with all other ASEAN countries such as ASEAN-China Free Trade Agreement (ACFTA), ASEAN-India Free Trade Agreement (AIFTA), the ASEAN-South Korea Free Trade Agreement (AKFTA), and the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA).

The ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) entered into force for 8 (eight) signatories on January, 1<sup>st</sup> 2010 by Australia, Brunei Darussalam, Myanmar, Malaysia, New Zealand, Philippines, Singapore and Viet Nam. While Thailand joined in 2010, Laos and Cambodia joined in 2011, and the last of Indonesia on January, 10<sup>th</sup> 2012. So 12 (twelve) countries are Indonesia, Malaysia, Singapore, Thailand, Philippines, Myanmar, Cambodia, Lao, Vietnam, Brunei Darussalam, Australia, and New Zealand have approved the AANZFTA as free trade area agreement and are officially involved in the market competition. AANZFTA aims to sustainable economic growth in the region by providing a more liberal, facilitative and transparent market and investment regime among the twelve signatories to this Agreement.

This AANZFTA Agreement was born from a long period of state and corporate interests in the countries involved. The region wants the economic growth of each of its members by applying market integration (single market). ASEAN itself on the agreement through a long stage to arrive at the agenda of the agreement AANZFTA.

Economic relations between ASEAN-Australia-New Zealand have the same goal in improving the growth of each country region. The impact of AANZFTA has opened and created new opportunities for approximately 663 million people and an area with a combined Gross Domestic Product (GDP) of approximately USD 4 trillion by 2016 ([www.aanzfta.asean.org](http://www.aanzfta.asean.org), 2017). Some countries must, of course, directly attempt to exploit this free market to increase the income or stability of one country's trade to another and increase multilateral efforts to liberalize further international trade (Prathama, 2015).

This Agreement has eighteen chapters and four appendices covering various aspects of trade in goods, services and investments as well as competition and intellectual property rights. It also includes a schedule of specific commitments on tariffs, specific services and the movement of natural persons. The countries involved in AANZFTA will receive the proceeds, as tariffs will decrease from the entry into force of this Agreement,

and eliminate at least 90% of all tariff lines within the prescribed time limit; The movement of goods will be facilitated through a more modern and flexible regulatory framework, simplified customs procedures, and more transparent mechanisms; barriers to trade in services will be further liberalized thus allowing greater market access to service suppliers in the region; The movement of business people, those engaged in trade and investment, will be facilitated; and Investments covered will be provided with various protections, including the possibility of handling disputes through state-investor dispute resolution mechanisms.

## **B. Limitations of Research Problems**

In the study there are scope of problems to be studied, as well as the assumptions used by researchers, so that some limitations of research problems, among others:

1. The countries under study are limited to Indonesia, Malaysia, Singapore, Thailand, Philippines, Australia, and New Zealand
2. In this study only use annual data. Limited annual data are used for export and import data in Indonesia, Malaysia, Singapore, Thailand, Philippines, Australia, and New Zealand in 2004-2016.
3. Analyzer used is limited that is analysis of Trade Intensity Index (TII) and Constant Market Share (CMS).

### **C. Research Problem**

International trade has had many implications for the countries involved. Impacts could be a positive impact of increased domestic production resulting in increased employment and rising incomes. International trade can also have a negative impact, namely the domination of the domestic market by foreign companies so that many domestic companies are closed so that the country depends on foreign products.

ASEAN-Australia-New Zealand has been trading for a long time, even in 2009 has been proposed trade cooperation of ASEAN-Australia-New Zealand countries. This policy called AANZFTA was implemented in 2010 aimed at creating a free trade area between ASEAN countries and Australia - New Zealand.

Trade between ASEAN-Australia-New Zealand which has a considerable trade value should be analyzed in the trade to be able to find out trade performance between ASEAN-Australia-New Zealand and analyze the factors that affect trade performance between the two cooperation so that the trade is expected to be effective and efficient.

#### **D. Research Questions**

Based on the research problems, the questions of this research are:

1. How much the trade intensity between ASEAN-5 (Indonesia, Malaysia, Singapore, Thailand, Philippines), Australia, and New Zealand before and after AANZFTA?
2. How much each effect variable in CMS analysis affects export performance between ASEAN-5 (Indonesia, Malaysia, Singapore, Thailand, Philippines), Australia, and New Zealand before and after AANZFTA?

#### **E. Research Objectives**

Based on the research question, the objectives of this research are:

1. To know the intensity of trade between ASEAN-5 (Indonesia, Malaysia, Singapore, Thailand, Philippines), Australia, and New Zealand from 2004 to 2016
2. To determine how much each of the effects variables in the constant market share analysis affects export performance ASEAN-5 (Indonesia, Malaysia, Singapore, Thailand, Philippines), Australia, and New Zealand from 2004 to 2016

## **F. Research Benefits**

The benefits of this study can provide information and empirical evidence of export performance and trade intensity of all countries involved in the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA). The benefits of this study are more specifically the following:

1. For the government as policy maker, this research is expected to give a clearer picture of export performance and trade intensity of Indonesia in one of export destination market that is AANZFTA, so the government gets information and materials input in formulating various policies that are competitive in the future
2. For market participants, the results of this study are expected to be additional information on the condition of certain commodities today and can find out the steps to improve export performance and trade intensity
3. For the writer, this research as a means of learning in understanding AANZFTA in more depth. In addition, this study is also a learning process to be more critical in analyzing export performance and trade intensity of countries involved in AANZFTA, and can open insights and understanding to find answers to the formulation of the problem.