

CHAPTER I

INTRODUCTION

A. Background

After World War II, the international economy has established the new economic order that brought to the new era of trade liberalization. Trade liberalization brought the tremendous economic benefits and costs to nation-states which promote free trade. Free trade is the central part of nation-states' economic growth and job creation to achieve the prosperity of the states. Free trade defined as a policy of unrestricted foreign trade with no tariffs or subsidies, on imports or exports and no quotas or other trade restrictions (Jolanta Drozdz, Algirdas Miskinis, 2011). Free trade allows goods to be traded across borders without regulatory barriers which have been involved in the Free Trade Agreement between its participants.

ASEAN-Australia and New Zealand Free Trade Agreement (AANZFTA) is one of the forms of Free Trade that based on the region of the participant. It is a comprehensive and single free trade agreement that opens up and creates new opportunities to cover more than 660 million peoples throughout ASEAN countries, Australia, and New Zealand, a region with USD 4 trillion GDP in 2016 (AANZFTA 2017). It is also established to build a business environment that enhances certainty, predictability, and transparency. It is open up business opportunities in ASEAN countries, Australia and New Zealand that allows greater market access for exporters and manufacturers in the region. It also promotes economies of scale in production and provides opportunities for networking and enhanced collaboration among economic operators in the area (ASEAN 2015).

In 2010, since AANZFTA come into force, it has become the most comprehensive and highest quality Free Trade Agreement for ASEAN. For Australia and New Zealand, it becomes the most significant regional agreement. AANZFTA has effectively implemented the agenda of approval on its participants. The implementation itself supported by review mechanisms, work programs and institutional arrangements established under the agreement. All participants have valued the quality of their engagement in working collectively to support effective implementation (General Review 2010-2017, 2017).

From the Agreement, the participants have progressively side by side put a policy to liberalize the tariffs of trade barriers time by time. The agreement has included several aspects of trade in goods, services, investment, competition, and intellectual property rights. It includes specific schedules of commitments on tariffs, particular services and movement of natural persons (AANZFTA 2017). Through the implementation of AANZFTA (ASEAN-Australia and New Zealand Free Trade Area), there are some advantages. The participants can reduce the tariff by around 90% of the cost. The shifting of goods will be facilitated by the newest and flexible procedure that more transparent. The barriers trade of services will also liberalize in order to create better access to services suppliers. The investment activities will be well facilitated, and even the protection for economic activities include the dealing with the conflict via investors conflict settlement mechanism.

The implementation of AANZFTA between 2010-2016 has brought significant advantages for 12 parties in sectors trade and investment. ASEAN's total for goods and services trade with Australia increased from AUD 79.9 billion in 2010 to AUD 93.2 billion in 2016, and New Zealand increased from NZD 10.5 billion in 2010 to NZD 14.5 billion in 2016 respectively. ASEAN's two-way investment (FDI stocks) with

Australia and New Zealand also increased from AUD 42.6 billion in 2010 to AUD 81.6 billion in 2016 and NZD 3.4 billion in 2010 to NZD 7.8 billion in 2016 respectively. Moreover, for 2017, the number of advantages that obtained by the 12 parties have not been published by the AANZFTA committee but they have been revealed in 2017 AANZFTA will update, improve, upgrade and unlock more the potential of AANZFTA taking into account the AEC (ASEAN Economic Community) Blueprint 2025 and other relevant developments (General Review 2010-2017, 2017).

Indonesia as one of the members of ASEAN-Australia and New Zealand Free Trade Agreement was effectively joined in 2011. Before joining to AANZFTA, total value of export activities Indonesia in 2008-2010 to Australia and New Zealand is only 3% from general export value of Indonesia to the world, or around US\$4, 7 Billion and it does not change until the implementation of AANZFTA in 2011, the amount was increased become US\$ 5, 9 billion. On the contrary, Indonesia import activities also increased from Australia and New Zealand around 3-4% in 2008-2010 from the total import value of Indonesia from the world or around US\$ 3, 9 – US\$ 4, 7 billion. Moreover, after the implementation of AANZFTA, the import value increased to US\$ 5, 9 billion with the same presentation as before 3-4%. Here the author would like to discuss more whether the implementation of AANZFTA brought more good or poor impact toward the economic growth of Indonesia itself from 2011 to 2017.

AANZFTA has led Indonesia to the sizeable international trade activities with developed countries such as Australia and New Zealand. Even starting from the negotiation in 2008 before Indonesia joining the force, Australia has claimed to open the automotive market in Indonesia besides other products that already exist. Indonesia and Australia also have joined forces by bilateral trade agreement which is the Indonesia-Australia Comprehensive Economic Partnership

Agreement (IA-CEPA). While New Zealand was also targeting Indonesia's market on beef and dairy products, and for Indonesia, itself has put their commitments on these sectors as their strategic planning to maximize the value of the agreement (detikFinance, 2008).

Trade relations between Australia and New Zealand with ASEAN countries especially Indonesia is good. Trade Agreement between Indonesia-Australia and Indonesia-New Zealand is realized through export and import activities. Export commodities Indonesia to Australia and New Zealand is paper, coal, raw oil, textile products steel products, and shoes. Moreover, for Indonesia itself, they were importing wheat products, textile raw materials, dairy product, live animals mainly cow, beef and innards from Australia and New Zealand. (Mukhibatul Hikmah, Suhadak, Ferina Nurlaily, 2018).

Economic growth as a process of increasing output over time becomes an essential indicator for measuring the success of a country's development. Therefore, the identification of various factors that affect it includes the role of government that becomes interesting to study. Economic growth is only influenced by the stock of capital, labor, and technology that are exogenous. Governments can affect population growth that will affect labor availability but not give impact on its economic growth. In economy activities, economic growth is the development of goods and services produced in a country, such as the increase and the amount of industrial goods production, the development of infrastructure, the increasing number of schools, the increase in output of the services sector and the increase of capital goods production (Fitri 2016). Indonesian economic growth itself has changed; historically the Indonesian economy has been developing more towards the agricultural sector, reflecting both its stage of economic development and government policies in the 1950s and 1960s to promote agricultural self-sufficiency (Stephen Elias, Clare

Noone 2011). However, recently, Indonesia had to become industrialized and integrated to the global economy, over the years it will expectedly to grow more in next decade because raising new policy challenges or try over the other bilateral, and multilateral relations will be succeeding the Country's economic growth plan. Moreover, the bilateral and multilateral relations will lead the government to sign other Free Trade Agreements, that is why here the writer will discuss the impacts of the implementation of AANZFTA to Indonesia and do researching to find the implementation of the policy that comes from AANZFTA affect Indonesia's economic growth especially in 2011-2017. This research will show what kind of process that will be shown in the time where its implementation of the agreement, so well be discussing it for further in other sections of this thesis.

B. Research Question

Based on the facts, Indonesia signed to AANZFTA brought impact toward it economic growth especially in 2011-2017, and then the most appropriate research question is *“How does the free trade agreement between ASEAN-Australia and New Zealand affect the growth of Indonesia Economy in 2011-2017?”*

C. Research Purpose

1. To understand the International Free Trade Agreement between ASEAN-Australia and New Zealand
2. The purpose of the research is to describe the impact of ASEAN- Australia and New Zealand Free Trade Agreement toward Economic Growth of Indonesia

particularly since the effects of its implementation in 2011 until 2017,

3. To explain the impact of ASEAN- Australia and New Zealand Free Trade Agreements toward Indonesia's Economic Growth in 2011-2017

D. Theoretical Framework

The writer will use concept and theory as follow:

1. The concept of "Free Trade".

The concept of Free Trade, a relative concept in macroeconomics. Free trade is defined as a policy of unrestricted foreign trade with no tariffs or subsidies on imports, exports and no quotas or other trade restrictions. Free trade policy can be adopted unilaterally on a bilateral basis by joining a free trade area which is a group of countries without any tariffs or other trade restrictions between them, but remaining free to control their trade with non-members of the area (Jolanta Drozd, Algirdas Miskinis, 2011). According to Adam Smith where he promotes the implementation of Free Trade, he said that "by giving everyone freedom to produce and exchange goods as they want and open the markets up to the domestic and foreign competition, people's self-interest would promote greater prosperity than with strict government regulations" (Blenman 2016). According to those two definitions, free trade is cutting the tariffs trade to achieve prosperity under government regulation.

International Free Trade has a negative and positive impact on its nation-states. From the benefits itself, Free Trade will quickly open the market access between its participants, inviting new investors, exchange raw materials, foreign exchange rate gains, monopoly

prevention domestically, job creation, production efficiencies since the rise of competitors, higher collaborations of its participants, and also lower price goods which will be good for the customers. Although free trade has benefits, there also threats that fight over the benefits which are, aggressive market entry policy, trade diversion, trade imbalance, economic stability because of the high dependency on international markets, difficulty on establish developing and new industries domestically, higher competition between domestic and global markets, cultural identity, and so on. However, here the writer will be focusing on the benefits of free trade itself. Because the benefits of Free trade will cause the increasing the economic growth of the nation-states. (Jolanta Drozd, Algirdas Miskinis, 2011). These facts have been led the writer to examine more the issue toward the concept itself. This concept has led the nation-states to take actions to assist their economic growth.

In this case, we will address the states have to show off more about their interest since the 20th century also the digital book where everything can be spoiled off publicly. The states should put more efforts into built regional integrations for economy-politic global. Especially on the emergence of economic regionalism relations such ASEAN (*Association of South East Asian Nations*), APEC (*Asia Pacific Economic Cooperation*), CER (*Australia-New Zealand Closer Economic Relations Trade Agreement*) and so on. hAnd this signifies the stronger of economic links between its participants either in bilateral or multilateral relations of its participants. From these facts, we can conclude that the establishment of AANZFTA is the effort of each nation-state to maximize their economy global.

The variant of products that available in the market was the result of trade between regional either domestically or internationally. The regulations that can inhibit or complicate the trading activity was reduced time by time with other new policy that as the result of other agreements. The market of each state especially that involved in some Free Trade Agreement increasingly more open to the activity of trade. Because of its market has more activities especially in import-export with other states, the percentage of its economic growth will also increase. However, since the economic crisis that happened in Asia states in 1997-1997, we can see how fragile the national economy of states facing the dynamic changing of economy global. Besides that, ASEAN states which generally developing states want to be free from its dependency on the western, since the international organization such as IMF and World Bank cannot resolve its crisis. That is why, the other options are needed, and as a result, there is Free Trade which helping states on dependency with the westers. Free Trade is a policy that brought interdependency effect that more reciprocal and brought more advantages for states. It is the right concept that effectively resolves the conflict that affects economic stability. It will be helping most of ASEAN country which still in developing state by built integration with developed countries such as Australia and New Zealand.

The other stages of regionalism concept itself there was integration. By integration, the states expect to achieve their national interest on economic to face the global economic crisis which we do not know when it will come and also decreasing the interdependence toward other states. It will be discussed more with neo-functionalism theory below.

2. Theory Neo-Functionalism

Neofunctionalism Theory is the reborn theory of functionalism that developed by David Mitrany that taken over by the functional approach which aims "to achieve social peace and prosperity." David Mitrany gets to propose a new international order, based on the transnational cooperation. The issue is approaching states to treat matters that cross the territorial borders (Adrian-Claudia POPOVICIU 2010).

According to Ernst B. Haas on his book "*Beyond the Nations State: Functionalism and International Organization*," he formulated global theory integrations which called neo-functionalism, Haas allowed politics to push the process forward, backward, and around as actors redefined their interests in specific but interrelated issue areas. Aspects of this theory have been carried over into contemporary neoliberal institutionalism and studies of international integration in sociology and psychology (Hart, 2002). Based on Haas statement, the writer thinks that neo-functionalism is more focusing on strengthening the integration among states. That is why the case will be suitable with this theory since the agreement that made between ASEAN-Australia and New Zealand has a purpose on strengthening their relationship and also their every interest on strengthening their economies by the implementations of AANZFTA itself.

In the case of the establishment of AANZFTA, it creates the relationship between states happened because there were efforts from the state to increase its economic growth to balance the prosperity and fulfilled the society needs. The relations itself will build global integration between states in which create other new knowledge and also control over the sovereignty of the states towards others. Since International Relations is an interdisciplinary science there will be interconnections

with other studies, the writer would like to discuss the case with other studies but still in the scope of international relations which will be explaining in this section.

Historically, Neofunctionalism is one of macro-level of International relations, that elaborated by Haas to match it on integration project in Europe. Haas managed to improve Mitrany's functionalism and adapt it to the necessities with which the EC(European Community) had been confronting. For Haas "political integration is the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new center, whose institutions possess or demand jurisdiction over the pre-existing national states." By tackling issues such as the importance of supranational institutions and by presenting a comprehensive account of how parts fit together, neofunctionalism tried to provide a theory of politics which focused mainly on regional integration(Moga, 2009). Therefore, the EU case can be other examples historically. Where there are 78 members of the European Coal and Steel Community Treaty, in modernly we have many treaties in many sectors especially in economics for example from our case above, where the agreement was established after the regional territories of its participants just like the theory that describes by Haas.

Haas underlined that cooperation between a member of one group would be influenced other states of the member to join the club, Just like Indonesia that signed several years after the establishment of AANZFTA even Indonesia is one member of ASEAN. This theory has been used in relating the crisis issues in Europe; even the AANZFTA does not result of the crisis,

its established to prevent any kind economic crisis of its participant by the implementation of its policy. By joining the Free Trade Agreement, the states have shown their interest across borders because there will always be diversity between state itself.

E. Hypothesis

Based on the correlation of issues that occurred above and the theoretical framework pictured, this final paper examines the impact of ASEAN-Australia and New Zealand toward Indonesia Economic Growth in 2011-2017. The hypothesis Indonesia has been affected positively in the term of economic growth during the period 2011-2017 through the collaboration and partnership of the joining country in the many form of economic activities, first open access of market to its members, second is the low prices of goods and services, and also open trade and investment activities on its members.

F. Research Methods

The methodology used by the writer for this thesis is a qualitative descriptive method. That is a method that illustrates the facts with utilizing the data which obtained from books, journals, news, website, and writings related to the problem that will be discussed in this thesis. In this method, the writer analyzes where the problem is described based on the facts that exist later in the relationship between facts with another fact, and then drawn to a conclusion.

Data collection technique in this is obtained through library research. This techniques utilize the data or materials in the library to support research obtained from books, magazines, newspapers, websites, document analysis, and other materials following the topic to be thorough and can be tested the truth.

G. The Scope Of Research

The scope of research is needed to put the limitation of the discussion of this research. In this research, the writer provides limits to focus on researching the phenomenon used as the object of research to limit the problem to be explained. This research limits on the impact on AANZFTA on Indonesia Economic Growth since 2011-2017. It is because the effect of the implementation of AANZFTA in Indonesia started in 2011, and why its end on 2017 because the writer needs a report of the economic growth in recently since 2018 will have No. the date, the writer decided not to include the recent year.

During the effective of AANZFTA in Indonesia, Indonesia signed 60 days after Thailand on March 12, 2010, after finishing the ratification product to reduce 90% tariffs on trade. A year before, but the effect of its implementation was started in 2011.

H. Outline

This thesis consists of 5 chapters, and the explanation of each chapter will be elaborated in detail in sub-chapter. The case is elaborated thoroughly in chapter I like the case of attempting to write a coherent and systematic paper. The outline of the research is as follows:

CHAPTER I contain an outline of the study covering the background of the issues, the theoretical framework that used to analyze the case, the research question, hypothesis, methodology of research, as well as systematic writing of the next chapters.

CHAPTER II describe the history of the Free Trade Agreement between ASEAN-Australia and New Zealand.

CHAPTER III describe and explain the implementation of AANZTA policy in Indonesia.

CHAPTER IV the thesis will describe the impact of AANZFTA toward Indonesia Economic Growth in 2011-2017.

CHAPTER V close to the conclusion that contains the result of the discussion of the previous four chapter.