

CHAPTER III

THE IMPLEMENTATION OF AANZFTA POLICY IN INDONESIA.

This chapter is expected to explain the type of AANZFTA policy and the implementation of AANZFTA policy specifically in Indonesia including the positive impact toward the economic development of Indonesia.

A. AANZFTA Policy

The first step of the AANZFTA establishment was the conclusion of the Joint Declaration of ASEAN-Australia Leaders and the New Zealand Memorial Summit on 30 November 2004 in Vientiane, Laos which discussed the Guiding Principles for the ASEAN-Australia and New Zealand Negotiations in the Free Trade Area.

In 2005 the process of negotiating the New Zealand-Australia-Australia Free Trade Area (AANZ-FTA) is began in the early year. After going through 15 rounds of negotiations, it was approved by the delegates the ASEAN-Australia New Zealand Free Trade Area will be established in August 2008.

The First Protocol was enter into force for New Zealand and nine of the 12 AANZFTA Parties on 1 October 2015; and the remaining two Parties (Cambodia and Indonesia) has been targeted the implementation on 1 January 2016. The first protocol merely discuss upon the business-friendly, trade in goods, transposition of schedules of tariff commitments, transparent and improve administrative efficiency.

B. The Implementation of AANZFTA Policy in Indonesia

The agreement of free trade between ASEAN-Australia and New Zealand has been established for eight years. The agreement itself has significantly and effectively reformed the

regulations between parties that make the trade activities become more comprehensive. On the general overview of AANZFTA implementation, the parties have been put concentrated on the effective implementation scheme. It was started from the first stage where the increase of interest between parties on regional cooperation, policy dialogue, and capacity building.

Since 2010 where AANZFTA come into force, the level of trade between the 12 Parties has grown rapidly, and investment has also increased. The AANZFTA provides agendas that parties will continue to work on and prioritize implementation within a specified period following the entry into force of the AANZFTA (the ASEAN Secretariat, t.thn.). The parties has joined into force by different time, but the economics of the parties has grown in proportion and it was accordance with the origin purpose of the establishment of the agreement.

In 2010-2016, trade and investment between the 12 Parties increased. ASEAN's total two-way goods and services trade with Australia and New Zealand increased from USD 57,8 billion in 2010 to USD 67,4 billion in 2016 and USD 68,8 billion in 2010 to USD 95,1 billion 2016 respectively. ASEAN's two-way investment (FDI stocks) with Australia and New Zealand also increased from USD 30,8 billion in 2010 to USD 59 billion in 2016 and USD 22,3 billion in 2010 to USD 51,1 billion 2016 respectively (AANZFTA FTA Joint Committee, 2017). In 2010-2016 is the most effective of the agreement implementation since the new members and also the time where the technology and information grown rapidly.

ASEAN's total merchandise trade with Australia and New Zealand was worth USD 81.1 billion in 2014, compared to USD 62.7 billion in 2010. (Terms of Reference for Conducting General Review of AANZFTA, 2016). Sectors that especially has significant tariff reduction and elimination

schedules for Australia and New Zealand in order to helping ASEAN business identify new opportunities for export to these markets are agriculture such as Fruit & Vegetable Juices, Processed & Preserved Fruit & Vegetables, Cotton , also resources and industrial goods such as minerals & fuel, machinery, electric machinery, plastic & articles of plastics, rubber, textile & textile articles, clothing & footwear, vehicles for passenger, vehicles for transporting goods, and furniture (ASEAN Secretariat, 2017). This fact has shown the first stage of AANZFTA purposes to maximize the affectivity of the agreement contributed in the ASEAN economic development. Meanwhile, table 1 consist of tariff reduction from Australia and New Zealand, it showed the integrations between parties where there are no discriminations toward their trades partner.

Table 3.1 Snapshot of Australia & New Zealand Tariff Elimination Outcomes

Country	2005 base tariffs (%)	2010 (%)	2013 (%)	Final Tariff elimination (%)	Year achieved
Australia	47,6	96,4	96,5	100	2020
New Zealand	58,6	84,7	90,3	100	2020

Source: DFAT Aus, Australian Guide to AANZFTA

The implementation of agreement to date has been relatively delicate but there have been challenges on implement Rules of Origin (ROO) (agreement chapter 3) requirements and transposition of AANZFTA tariff and product-specific rules schedules, as well as delays in progressing the mandated reviews set in the agreement on non-tariff measures (NTMs), ROO, services and investment (AANZFTA FTA Joint Committee, 2017). Transition of rules in states is not easy agenda to the government because it is

involved many parties in the state. That's why for some cases, the progressing on applying the mandate is delayed for uncertain time.

The Harmonized Commodity Description and Coding System (HS) is an internationally harmonized nomenclature to classify goods for the purposes of levying tariffs and is updated every five years by the World Customs Organization, the last updates being in 2012 and 2017. The process for transposition of these updates into AANZFTA's tariff and product-specific rules schedules was identified as an area for improvement because delays in transposition were resulting in unnecessary difficulties for business and customs officials. Parties have this year adopted Guidelines for transposing AANZFTA tariff and product-specific rules schedules, aimed at streamlining the transposition process and improving transparency (AANZFTA FTA Joint Committee, 2017).

Implementation under AANZFTA has primarily focused on government-to-government engagement, as governments are Parties to the Agreement. This has primarily been through the Agreement's institutional structures whereby the FTA Joint Committee and its subsidiary bodies typically meet on an annual basis to set and progress a work program to implement AANZFTA, including in relation to its built-in agenda (agreement chapter 5). There has been some limited engagement with the private sector, particularly in the context of addressing implementation issues relating to the First Protocol to Amend the AANZFTA Agreement (AANZFTA FTA Joint Committee, 2017).

C. The AANZFTA Economic Co-Operation Support Program (AECSP)

In order to implement the AANZFTA, in 2009, the state parties created the support program for it which called: AANZFTA Economic Co-operation Support Program (AECSP). There are two pillars inside the AECSP, those are:

1. Economic Co-Operation Work Program (ECWP)

This program was concept by the AANZFTA's state parties as well and submitted by the Working Group on Economic Cooperation (WGEC) and information. ECWP itself will be implement through annual programs for over five years since the establishment of AANZFTA. For the implementation funds, ECWP estimated spend up to USD 14 million until 18 million. This program will assist the parties on implementation of AANZFTA in eight components linked to different aspects of the AANZFTA. It provides a synopsis for each component which identifies objectives and relevance to the AANZFTA, gives a broad description of activities that will be implemented and outlines arrangements for their implementation. The ECWP provides flexibility for emerging and changing priorities to be addressed through economic co-operation, as such priorities are identified during the implementation of the AANZFTA (dfat gov). AANZFTA has establish many programs in order to achieve the great success from the agreement. Also create sustain economic conditions to all the parties. (ASEAN, Overview Of The AANZFTA Economic Cooperation Support Program (AECSP), 2018)

2. The AANZFTA Support Unit (ASU)

The ASU office is located in ASEAN Secretariat (ASEC) in the capital city of Indonesia, which is Jakarta. ASU is created to implement and support the ECWP, FTA Join Committee, and of course, AANZFTA. (ASEAN, 2018)

Just like every decision and policy, the project and activities which happened in AANZFTA is also determine by AECSP, as it functions as a support system in. Here lies the picture of how the bureaucracy of project making in AANZFTA:

Figure 3.1 AECSP's Structure Program

Source: <https://dfat.gov.au/about-us/publications/Documents/aanzfta-ecsp-ipr-2013.pdf>

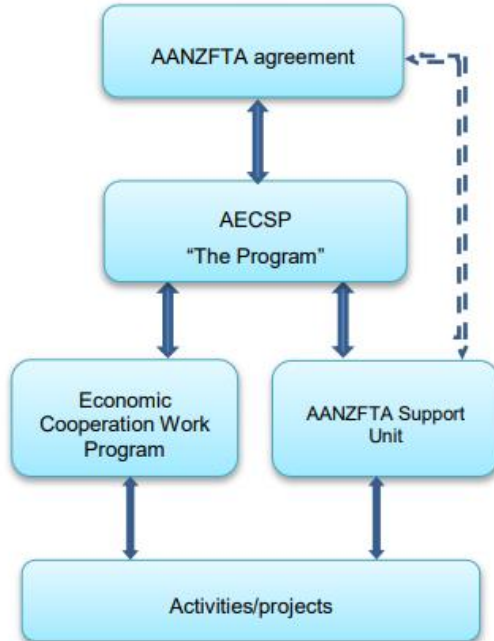
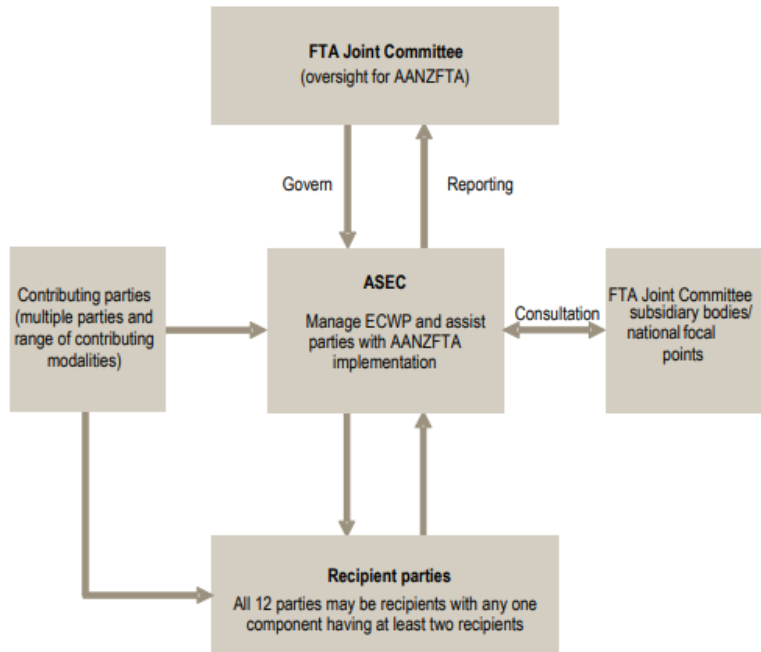


Figure 3.2 Management Structure of AANZFTA



Source: http://aanzfta.asean.org/wp-content/uploads/2016/05/Implementing_Arrangement.pdf

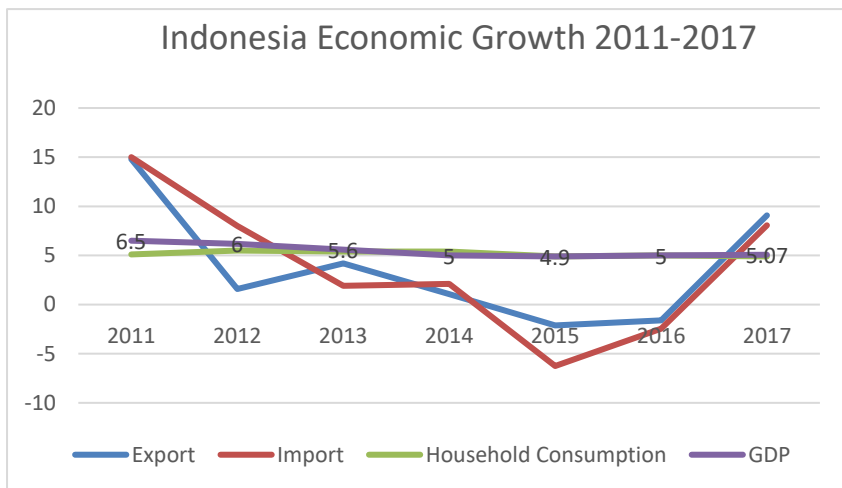
D. Impacts and Advantages of AANZFTA

As we know that opening a trade with other states will give some benefits and also impacts for the actors in it and for the economic growth. There are some impacts and advantages coming from AANZFTA towards ASEAN. Writer believes that what advantages the ASEAN means that it could also advantages for Indonesia as well. The AANZFTA impacts are: (AANZFTA, 2018)

- a. The tariffs will be eliminate for at least 90% in certain conditions. For more details, 96.5% and 84.7% of Australia and New Zealand tariffs line.
- b. The more flexible, simplified procedures and more transparent
- c. Probably able and allow to make a greater access
- d. All the movement in trade will be facilitated
- e. Security on the closed investment increase

The impact of AANZFTA, willing or not, had pushed the export and import rate, investment rate and other responsible criteria for economic growth in a country so it moves with fluctuate. The increasing economic growth could be seen by the enhancement in productivity, the welfare of the societies and many things else. It could also be calculated by the Gross National Product (GNP) and the Gross Domestic Product (GDP). Ever since Indonesia joined into force with AANZFTA, the economic growth of Indonesia had an ups and downs during its journey in 2011-2017. As we can see in the table, the economic growth in the year of 2011 was escalated up to 6.5% and able to become the highest for the past one decade. This happened because of the high demand and activities in export in the middle of the dynamic social changes. The economic also had some escalation in investment and also the economic welfare in where it was all reflected by the poverty and unemployment rate.

Chart 3.1 Indonesia Economic Growth 2011-2017



Source: Bank Indonesia, Indonesia's economic report, processed 2018

Indonesia economic shows a strong endurance from time to time in the middle of global economy obscurity, proven by the better growth and stable macroeconomic. The dynamic changes of global economic growth also affected to the domestic economic growth and gave an unfortunate impact in 2013. The weakening of global economic marked by the decreasing growth, commodity prices and the reversal of the capital flows—which all had given pressures to Indonesia's economic through the trade and financially. In the first to the third quarter of the year, the economic growth was having a decline. Later after the policies made by the Indonesian Bank was implemented, then it started to get better in the fourth

quarter. Noted, in 2013 the economic growth was 5.6%, slower than in 2012 which reached 6.2%. However, the economic growth of Indonesia was still higher than the peer countries. The weakening of the economic growth was because of the export that was not clear enough and not strong yet, slowed down investment. The investment in 2013 was hit 4.7%, decreased from last year which was hit 9.7%. Besides that, it also triggered by the decrease of Indonesia competitiveness in trade and the low government's expenditure. This had caused the unemployment rate slowed down and the poverty rate increased since March 2013. Meanwhile export was still grow limited along with the weak economic growth, in the other hand, the consumption is still stable and less affected by the global economic condition.

In 2014, the domestic economic grew stronger. The deficit of transaction went down slowly to 3.0% from Gross Domestic Product (GDP) compared to 3.2% in 2013, because of the increasing grow of developed countries such as the United States, Rupiah's exchange rate was according to the fundamental, and the stagnant growth rate. It also noted that the foreign exchange reserves of Indonesia in the end of 2014 increases into 111.9 billion USD or equal with 6.4 months import and payment of government foreign debt above the international standard for about 3 months of imports. However the exchange rate of Rupiah to USD were weakening 1.7% to Rp12.385 lower than last year with 20.8%. The increase of inflation in 2014 was because of the increasing fuel prices as well. Until the end of 2014, it was 8.36% for inflation. Indonesian economy in 2014 grew by 5.0%, slower compared to 5.6% in 2013 and the estimation at the beginning of the year with 5.5-5.9%. This was mainly influenced by the decline in demand of the export growth especially from emerging markets (EM) and global commodity prices. The performance of the economic growth still quiet high and supported by the household's consumption.

The economic growth in 2016 increased from 4.9% in 2015, and 4.74% in the middle of the year made it as the lowest growth rate for the past years, to 5.03%. In the middle of challenges faced by Indonesia's economic growth in 2015, the macroeconomic was getting better by reaching the inflation target for 4+1%, the decreased in transaction deficit and the controllable rupiah by the fourth quarter of the year, and also maintained the financial system and the momentum of Indonesia's economic growth that keeps on rolling. In the second semester of 2015, it started to show an enhancement.

The positive enhancement in 2016 was not far from the dominant and strong domestic demand, especially the household consumption. The export goods and services were still weak until the third quarter in 2016 because of the global demand and the commodity low price. The private investment role and export were starting to enhance on the fourth quarter in 2016.

The development had shown that the economic growth always getting better slowly until the GDP in 2017 was able to grow and reached 5.07%. This was happen because of the export movement and investment that also getting better in 2017 along with all of the global condition. The global condition keeps getting better until it was able to push the export rate to 9.09%, the highest in the past 5 years. The export was enhance also because of the export commodity's price increased, such as latex, coals, raw palm oil, and etc. due to high demand.