

**ASEAN-CHINA FREE TRADE AREA
BILATERAL TRADE RELATION BETWEEN INDONESIA-
CHINA IN IMPLEMENTATION ACFTA (2002-2010)**

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Abstract

This undergraduate thesis is aimed to described and analyze the trading relation between Indonesia China in ACFTA implementation. Over time, the development of the world economy today, especially international trade, has entered a free trade regime where some countries and circles consider free trade as a form of occupation of new models. In international trade, uninterrupted trade in the country has the opportunity to benefit each country through the specialization of commodity products that are favored by each country, but in reality, the opening of an economy does not necessarily create prosperity for all countries involved in inside it.

International agreements such as free trade agreements are often used by countries as political instruments for national interests. International agreements in the field of trade are utilized by countries that have producers to eliminate or minimize the obstacles that exist in countries that have consumers and markets.

One such agreement is ACFTA. ACFTA has positive things if we look carefully. Whereas the form of the ACFTA agreement is to create a free trade area by removing barriers to trade in goods both tariffs and non-tariffs, increasing access to market services, regulations and investment provisions, as well as increasing aspects of economic cooperation to encourage economic relations between the ACFTA parties in improving community welfare ASEAN and China.

We have to make large walls to compete in the market. What must be done is to improve the existing infrastructure. The government will also give intensive to the industry if it is needed. Besides, technological capabilities and human

resources must continue to be improved. The most important thing is how to develop connectivity so that efficiency can occur. It is essential for Indonesia to prepare everything before following the Free Trade Agreement in the future. The government and business actors need to prepare various efforts and steps in the future relating to free trade.

Keyword(s): Free Trade, ACFTA, Indonesia, Export-Import.

Introduction

In the era of globalization, many countries in the world are making International trade. This happens because of two main factors. The first factor is that countries involved in trading activities have different resources with each other. The second factor is that the countries involved in trading activities are equally active in producing certain goods with large quantities and sound quality (Basri & Munandar, 2010).

As we have seen, due to the increase of complex state relations, countries in the world become realize to conduct free trade. The purpose of free trade is to prosper the countries involved in it. Free trade creates a stable and profitable economic order to attract investors to invest in the country and increase trade between countries in the world (Soetrisno, 2002).

In the implementation of free trade, many countries join and establish a Free Trade Area (FTA). One of them is the ASEAN-China Free Trade Area (ACFTA). On July 1996, China became the partner free trade area with ASEAN, and the conference between China and member states of ASEAN which also attended by Japan and South Korea was held in December 1997. China established cooperation based on attitude and trust between both parties (Cheng, December 2001, p. 420).

Indonesia is an ASEAN member country which joins the ASEAN-China Free Trade Area. Since January 1, 2010, Indonesia opens the domestic market freely to the countries of ASEAN and China. The opening of this free

market is a concrete manifestation of the implementation of free trade agreements between ASEAN member countries (Indonesia, Thailand, Malaysia, Singapore, Philippines, and Brunei Darussalam) with China, called the ASEAN-CHINA Free Trade Agreement (Cheng, December 2001).

Indonesia is one of the countries that trade interstate bilaterally, regionally, and multilaterally. ACFTA (ASEAN-China Free Trade Area) is one of the cooperation conducted by Indonesia as a member country of ASEAN and China. The purpose of the Indonesian government is to open more extensive domestic and foreign market opportunities and improve the competitiveness products of Indonesia products in ASEAN,t China, and world market (Salvatore, 1996).

ACFTA will encourage higher levels of trade in Chinese products to the Indonesian market and bring positive and negative impacts on Indonesia's exports and imports. One of the conditions for a country to be able to benefit from free trade is competitiveness, but studies show some elements the form of competitiveness, such as the level of efficiency, productivity, and business environment in China is relatively better than in Indonesia (Nugroho, 2011, pp. 31-37).

In 2010 this Southeast Asian country incorporated in ASEAN (Association of South East Asian Nation) agreed on China ASEAN Free Trade Agreement or CAFTA / AFCFTA with China. Starting in 2004 ASEAN countries have signed the CAFTA, namely an agreement to start free

trade with China with various provisions regarding trade between ASEAN and China such as import duties which are gradually reduced. By the schedule, in 2010 the ACFTA entered the standard track one category on January 1, 2010. ASEAN Connectivity will be held among fellow ASEAN countries, which the Indonesian government anticipates with the operation of the Socah Port in 2020. On the other hand, various parties are concerned that the ACFTA agreement will weaken the national economy, further threatening the termination of employment and leading to an increase in the number of unemployed people in Indonesia due to low competitiveness of Indonesian products, and the unpreparedness of the people to face global competition. In 2010 the Southeast Asian countries incorporated in the ASEAN (Association of South East Asian Nations) agreed on the ASEAN China Free Trade Area or ACFTA with the Chinese state. Various parties worry that this agreement will weaken the national economy, then threaten trade for domestic industrial products and lead to the rise of layoffs (Lestari, 2014).

Before the entry into force of ACFTA (with tariffs), export growth in Indonesia is smaller than import growth. The condition will affect Indonesia's trade balance which tends deficit, especially after ACFTA (no tariff) is enforced. Indonesia's trade balance is predicted to worsen due to import growth from China. (Firman & Aziza, 2009).

The collective agreement between countries in free trade (without tariffs) has two impacts on global trade and the welfare of its people, the first impact will improve the welfare of its people because free trade can replace

high-cost domestic production with low-cost imported goods of the member countries due to the absence of tariffs, the two free trades may also reduce the welfare of the people due to the replacement of low-cost imported goods from non-member countries with similar goods originating from member countries (Kimberly, 2001).

Theoretical Framework

1. Theory of Free Trade.

Free trade is an economic concept that refers to the sale of products between countries without import-export taxes or other trade barriers. With the existence of international cooperation in the field of trade, it can provide an assumption that it is necessary to cooperate with other countries to develop themselves. Free trade cannot be avoided because countries have interests in it. China in cooperation with ASEAN was concluded indirectly to establish cooperation with ASEAN members.

China cooperates with ASEAN because it indirectly means that China also cooperates with Indonesian countries that are members of ASEAN. The collaboration between Indonesia and China within the framework of ACFTA is a collaboration that is carried out to create free trade. (Wijatno & Gunadi, 2014, p. 194) Defined Free trade is a phenomenon that cannot be avoided. Trade or exchange has a special meaning, namely trade is defined as a process of exchange which is held on the voluntary will of each party. Each party must have the freedom to

determine the profit and loss of the exchange from their respective interests and determine whether or not the agreement is made for the exchange.

Trade theory will continue to grow over time. Therefore, the author tries to use endogenous growth theory by Rimer and Lucas (Theory of Endogenous Growth).

The endogenous growth theory states "Decreasing trade barriers in all matters related to anything that inhibits the existence of free trade in the form of tariffs and nontariff, accelerating economic growth and state development in the long run."

Reducing trade barriers will allow developing countries to absorb technology from developed countries. Decreasing these barriers will make relations between countries take place more smoothly. The elimination of barriers will reduce price distortions, another advantage of removing barriers itself is the increase in trade volume which spurs economies of scale in production, thereby increasing profits for entrepreneurs in developing countries.

Free trade is a collaboration between countries or groups of groups of countries that agree to eliminate quotas and regulations. Free trade is the primary foundation of economic development in the ASEAN region and China. The aim of establishing free trade between ASEAN and China will have implications for the growth of trade in ASEAN countries including Indonesia as a member of ASEAN.

2. Mercantilism Theory

In the theoretical framework, the author also uses the theory of mercantilism. Mercantilism is a political, economic system that is very concerned with international trade to increase assets and capital owned by a country. Mercantilism is a state regulation that is protectionist and colonial politics to obtain the right trade balance (Halwani & Tjiptoherijanto, 1993).

Mercantilism considers that the interests of the state are the most important thing so that all economic activities are under the control of political interests, which in the context of the state is the government because the state is responsible for achieving national interests. To keep the interests from being divided between security interests and economic interests, the state as much as possible avoids dependence on other countries (Jackson & Sorensen, p. 235).

Mercantilism emphasizes trade and gives and seeks many benefits to achieve economic prosperity. In the industrial sector, mercantilism cannot be handed over to market forces. There needs to be protection and development of local industries. According to Alexander Hamilton, there is a need for protectionist policy efforts, namely advancing domestic industries.

According to the Fried List, by developing the production theory that the welfare of a country is not based on the country's wealth. However, at the level where the country can show its production strength. A nation can

develop manufacturing as long as the nation itself uses a protection system.

The state government supports intensive exports and reduces tariff imports. However, the government did not block imports with the tariff due to the agreement in free trade. With the agreement that has been agreed upon, the government's support is to eliminate tariffs or implement a non-tariff barrier as an effort to protect domestic trade.

The reduction in tariff barriers in exports cannot be interpreted as efficiently producing Indonesian goods abroad. It is due to the quality of the goods themselves. Aspects of dealing with ACFTA are needed, namely: strengthening exports with good quality, strengthening the domestic market, and strengthening global competitiveness. With these strategies, the Indonesian government is expected to be able to improve indoor quality so that it can compete with the Chinese market. Another expectation is an increase in foreign exchange through foreign investors, export products originating from China so that it can support economic development in the country.

The trading relation between Indonesia China in ACFTA implementation

(Mas'ud, 1994, p. 42) Defined that liberalism teaches that International economy relation must be harmony a give benefit to the whom states that involved. So, the International trade been freed from boundaries and government rules, every actor that involved could get benefit with good and

service. So, wealth would increase. The developed state feel the widening of trading system coverages very important. Because 1) Competitiveness factor in international Trade depends on service usage that getting bigger and also the advanced technology. 2) The prospect to sell the service and export goods with high technology component to developing the state. 3) The need for investment chance from a developed state to a developing state (Jhamtani, 2005, p. 18).

The form of bilateral cooperation between Indonesia and China is inseparable from the political policies of the two countries. In deciding political policies, there needs to influence the country's political system as we know that a political system is a unit formed from several elements or elements. Many of these elements, components, or parts are in a relaxed and functional relationship. Each of them is cohesive with each other so that the totality of the unit is fully realized. The political system is a system of various systems that exist within society (Fadli, 2017, p. 21).

On 1995, since the forming of the World Trade Organization (WTO). The international trading environment which changes rapidly where the power of globalization trading and the capital flow is extreme, so the policy that been made also has to consider the domestic interest as we know that the development of world trading experienced rapid growth and China rise as a state with strong production and trading.

On June 9, 1950, Indonesia officially established diplomatic relations with China. The opening of diplomatic relations was carried out several

months after the formation of the People's Republic of China. The opening of Indonesia's diplomatic relations with China was the beginning of various agreements and various kinds of cooperation between the two countries. In November 1953, Indonesia's trade agreement with China was first signed in Beijing. Moreover, when the Asian-African Conference (KAA) was first held in Bandung on 18-24 April 1955, China participated in this conference and was immediately attended by the then Chinese Prime Minister, Zhou Enlai. During this visit, Zhou Enlai also signed a two-state agreement between Indonesia and China. This diplomatic relationship continues and is characterized by mutual visits between the government (Rusydati, 2014).

On September 30, 1965, there was a rebellion of the Indonesian Communist Party (PKI) which made relations between Indonesia and China tenuous, culminating on October 30, 1967, when the two countries suspended diplomatic relations. The freezing of diplomatic relations between Indonesia and China at that time was also influenced by Indonesia's domestic political conditions, where after the PKI rebellion there was a change in the president of Indonesia with Suharto as the new Indonesian president. The freezing of diplomatic relations between Indonesia and China lasted for 23 years (Kustia, 2001). The reason for the freezing of diplomatic relations between the two countries was because China supported the coup attempt carried out by the Indonesian communist party in 1965 (Syamsul & I, 2013).

Normalization of Indonesian and Chinese diplomatic relations began in 1989, where on October 4, 1989, discussions related to the normalization of

relations between Indonesia and China were carried out by Foreign Ministers Ali Alatas and Qian Qichen in Tokyo. Moreover, on July 3, 1990, the two foreign ministers signed the text "The Resumption of the Diplomatic Between The Two Countries" in Beijing. The normalization of diplomatic relations is also marked by the text of the agreement on cooperation relations in the economic and trade fields between the two countries.

In the first year after the economic relations agreement between Indonesia and China was opened, the value of Indonesian China's trade in 1999 experienced significant growth compared to 1998, which rose by 33,1% (Koesmawan, 2002). According to BPS data of China's exports to Indonesia in 2000 amounted to 3.06 billion US dollars, up by 60% compared to the previous year amounting to 906 million US dollars. For 2001 to September, 2, 12 billion US dollars fell 6, 19%, compared to the same period in the previous year of 2, 18 billion US dollars. The Indonesia-China trade balance has shown a surplus for Indonesia, which in 2000 reached a value of 1.34 billion US dollars. In 2000, Indonesia was ranked 14th as China's export destination, and 13th as China's import source (Koesmawan, 2002).

With the economic growth that was getting higher, it triggered to continue the trading relationship between both states to create a market which is expected to increase the economic level between both states, as the aim of both states which include in regional free trade agreement, ACFTA. Which is among them has aimed at strengthening and increasing the economy, trading and investment cooperation between member states.

China Market Expansion for Domestic Industries

The full implementation of the ACFTA took effect on January 1, 2010, before the ACFTA was implemented and many Chinese products had flooded the domestic market. As we have seen, the prices of Chinese products are lower compared to domestic products.

If viewed from the existence of domestic businesses, with the flood of products from China, it is feared that it will threaten domestic businesses. This is because entrepreneurs Indonesia lose in competition. In addition to the standard price factor, Chinese products have properties that are easily obtained such as short supply chains. This is an important issue for the Indonesian government to rebalance trade relations with China.

ACFTA has the potential to influence the national economy which is very clear when we look at the trade balance pattern between Indonesia and China. Regarding trade patterns between the two countries, Indonesia's products after ACFTA ratification are lower than Chinese products. This can be seen in the development of exports and trade balance imports between Indonesia and China.

In implementing the ACFTA, it is feared that it will encourage more Chinese products to enter the Indonesian market. Because through the ACFTA, trade barriers between the two countries are diminishing and indicating the key to competition is determined by the ability of competitiveness between products.

The number of Chinese products flood in the Indonesian market, because, Chinese entrepreneurs, who can read the Indonesian market situation, are not developing their small industries, which are considered to be one of the developments of a new hegemony, to produce sufficient commodities for overseas export markets. This has become a separate problem that has been exploited by China, to target the Indonesian market, which is judged by China, Indonesia is still experiencing the economic income of its people. So that an image of the consumption of new markets, created by China, to seek its advantages from the effects of the state of Indonesia whose average population has a small per capita income, in its economic statistics.

So by looking at the structure and pattern of Indonesia's trade with China above, a strategy that is serious in facing competition is needed and balancing trade relations with China so that the national industry and economy increases

Indonesia Government Steps Face to ACFTA

China economy development seems cant be stopped to be one of the most significant economic power in the next two or three decades. Affordable product and a lot number of variables and the full support from China government make another state hard to compete. According to International trade theory, the economy between state rapidly and quickly spread to other states. In this current situation, the business and economic advantage are no more based on the strategy of comparative advantage but lied on competitive advantage. Economic interdependency of state strongly related; this strongly

related interdependency is not only happened between developed states but also between developing states and developed states. Its call globalization changes the world economic structure fundamentally.

Export is one of foreign exchange source which is very required by state or region which has an open economy characteristic such as indonesia because widely export to all states possible the increasing amount of production amount which triggers the economy, so it expected could give a significant role toward the economic stability and development. Indonesia for the economic crisis and make Indonesia always try to develop its export and hold economic recovery through increasing economic development by entering of investment.

Indonesia and China agreed to conduct more intensive cooperation in several fields such as Agriculture; Information Technology; HR Development; Investigation; Development of the Mekong River; Banking; Finance; Transportation; Industry; Telecommunication; Mining; Energy; Fishery; Forestry; Forest Products, etc.

There is a need for socialization that the inclusion of Chinese products in addition to threats is also an opportunity for Indonesia to increase the competitiveness of its products. Indonesian entrepreneurs are required to continue to improve their competitiveness. They are not grumbling because of the large number of Chinese goods entering. The main problem in the case of a flood of Chinese products is the need to improve the quality of national

products and the need to improve the quality of Indonesian human resources. There needs to be a real role from the government to solve the problems mentioned earlier, such as the issuance of clear regulations regarding these matters. The best solution to the dominance of Chinese products is that the government protects the domestic market and empowers domestic traders to compete locally.

Also, China's dominance in Indonesia's economy is due to the rise of the Chinese economy in all world markets. The rise of China as an essential player in the global market promises new benefits to world consumers and new opportunities for established companies that can provide the right response and do it well. So that China feels it has power over countries that depend on China, one of which is Indonesia. Indonesia cannot deny that China is a strategic partner in the bilateral relations of the two countries. However, Indonesia must also be smart in conducting cooperative relations with China, especially in economic cooperation, because China's dominance in Indonesia's economic cooperation can turn off the national market. For this reason, efforts are needed so that Indonesia does not always depend on China. Indonesia is expected to be able to pay attention to its domestic economy, especially in the small economy so as not to compete with Chinese product products, and to improve living standards for Indonesian citizens so as not to get worse by the dominance of Chinese products spread in the Indonesian market.

The challenges that must be faced are: Indonesia must be able to increase efficiency and effectiveness of production so that it can compete with Chinese products, Create a conducive business climate in order to increase competitiveness, Implement investment rules and regulations that are transparent, efficient and friendly to the business world, and Increase ability in mastering information and communication technology including marketing promotion and lobbying.

The government steps to face ACFTA is recovering the industrial sector supporting services especially in infrastructure recovery, and supporting policy in the industrial sector. That step could be in the form of decreasing the electricity tariff for the industry to push the production cost and also the enable of income tax for a foreign product which has the potency to kill the industry, and the government aid for small industry, etc.

The other struggle that could be done by the government is cutting the tax for domestic industry, and give aid subsidy toward the business people, especially the small to the middle industry in order to keep developing company. The government has to encourage people Indonesia to love with the local product. It could help the national industry and economy in general to rebalancing trade relation. This thing can be support with innovation, creation, and local product quality.

From this condition, we know that threaten Indonesia economy and Industry sector. The emergence of new competitors in investment and

international trade such as China, Vietnam, and India provide lessons and strategies to attract investors to Indonesia. There are several facilities and infrastructure that are very necessary to attract investors to invest in Indonesia. Revitalizing these facilities and infrastructure include:

a. Infrastructure

Infrastructure development is a crucial factor in the success of national economic and trade development, as well as being able to create and encourage the availability of extensive employment opportunities for the community and creating a multiplier effect. The impact on the economy is comprehensive.

Indonesia needs to increase the allocation of funds for infrastructure development. As a comparison, China spends 6.9% of its GDP to build infrastructure, compared to other developing countries, which on average spend around 6.3% (low income) and 3.6% (middle income, while the current condition of Indonesia has fallen to a figure of around 2% of GDP. We hope that through the infrastructure development launched by the government.

b. Investment Climate

Investment is believed to be an economic stimulant. Meanwhile, to increase investment from China to Indonesia, a conducive investment climate is needed. According to (Stern, 2002), defining the investment climate as all policies, institutions, and the environment, both ongoing and expected to

occur in the future, which can affect the rate of return and risk of an investment.

A healthy business environment is needed not only to attract domestic and foreign investors but also for existing companies to still choose locations in Indonesia. The main factors affecting the business environment are labor and productivity, regional economy, physical infrastructure, socio-political conditions and institutions (Kuncoro, 2006).

Therefore, mobilizing and mobilizing economic instruments in the form of fiscal and monetary regulations to create a healthy business climate. One important thing is to change the business paradigm that is more aggressive and competitive by continuing to increase efficiency, including continuing the development of infrastructure that supports the development of the business world. Likewise gradually reducing the cost of production for the Indonesian business community.

c. The Effectiveness of the Implementation of Investment Relations Program

Investor Relations Program is one program that plays a vital role in creating better communication between creditors and debtors. Investor relations is the management of the flow of financial, marketing and strategy information between the state/company and investors. In order to build trust between the parties involved, especially in the capital market, the effectiveness of investor relations will be reflected in the success of building

a positive image of a country/company and the validity of market assessments made so that it can reduce the cost of capital in a company/country.

The long-term anticipation that is profitable to increase investment and face the impact of China's rapid economic growth is that Indonesia and other Asian countries form regional economic strengths. This can be done by continuing joint agreements in the world of trade to stabilize the region. Besides that, the possibility of using a single currency in the Asian region continues.

Conclusion

Free markets are indeed crucial for expanding market access but still have to pay attention to domestic interests, especially seeing the competitiveness of local industries. The state, in this case, the government has a stake in safeguarding the interests of its people. Whether it is a free market, WTO, FTA, ACFTA or whatever, we should not let the domestic industry be destroyed and unemployed people by unbalanced competition.

To anticipate China's consumer goods that enter massively, The government must increase competitiveness and protection of domestic products. These efforts are carried out to improve product safety, transparency and market efficiency,

protect product safety for consumer safety, public health, preservation of environmental and security functions.

Efforts and actions in addressing opportunities and challenges related to facing global competition are the obligations of all stakeholders both by the government, business people, academics, and the general public. All of them are expected to support and prioritize mutual interests and try to see from a broader perception so that it has a good impact in handling the problem of unavoidable free trade competition from national interests.

The ACFTA arrangement agreed to reduce barriers, especially tariffs, to provide flexibility and standardize policies for the benefit of each country. However, returning to the different macroeconomic conditions of each country can have a positive and negative influence on each of the member countries that implement regional cooperation depending on how a country regulates and utilizes the internal potential and cooperation strategies that are put in place.

Some things that need to be improved to grow investment are infrastructure improvements, creating a conducive business climate, increasing production efficiency and business competitiveness and encouraging Indonesian entrepreneurs to be more creative and aggressive. Including the effectiveness of institutions, communication forums, and the Investor Relation Program in order to increase interest in investing in Indonesia.



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