Analysis Of Asean-China Free Trade Area (ACFTA) Cooperation from the Perspective of Competitive Intelligence

Abimanyu Hendi Asyono, Palupi Lindiasari Samputra
Sekolah Kajian Stratejik dan Global, Universitas Indonesia, Indonesia
Email: abimanyu@protonmail.com, palupi.ls@ui.ac.id

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<th>Keywords</th>
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<td>ACFTA, Free Trade Agreement, Competitive Intelligence, Ekonomi</td>
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<td>More than a decade has passed when the ASEAN-China Free Trade Area (ACFTA) first began, but until now many parties see ACFTA has not significantly impacted Indonesia's interests. This paper seeks to examine more deeply the position of the Indonesian economy in the midst of ACFTA's journey. Using a qualitative approach, this paper uses a descriptive method that explores ACFTA problems against Indonesian interests. The theoretical concept used in conducting analysis is from the point of view of competitive intelligence. The results show that ACFTA as a whole poses more threats and challenges than direct positive impacts. Despite the main positive impact that can be obtained by implementing the free trade agreement (FTA), ACFTA over the past decade has not been able to create positive conditions in the Indonesia-China trade balance. Threats and challenges are even obtained by Indonesia, especially industry players and domestic commodity traders who must prepare for the arrival of a &quot;flood&quot; of products from China. However, in terms of geopolitics and geostrategy, ACFTA's sustainability will greatly affect the overall cooperative relationship between Indonesia and China.</td>
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INTRODUCTION

The ASEAN-China Free Trade Area (ACFTA), which began on January 1, 2010, has developed in such a way that it has a significant impact on economic growth in the Southeast Asian Region. This regional trade cooperation agreement ratified by 11 countries (including China) was first signed on November 5, 2002, and has continued to grow to consistently place China as the largest investor in the region over the past decade (Medina, 2021). And even in the first quarter of 2020, ASEAN has even finally become the largest trading partner for China accounting for 15% of the country's total trade volume, replacing the European Union which experienced widespread lockdowns as a result of the COVID-19 pandemic.

Despite its enormous impact on economic progress in the Southeast Asian region over the past decade, ACFTA has long received criticism and debates skeptically doubting its effectiveness as a driving factor for economic activity in each ASEAN member country separately, especially Indonesia.
Marks (2015) said that although the agreement has contributed to a moderate trade surplus for Indonesia as a whole, the trade cooperation has also led to a larger bilateral trade deficit with China. A decisive and smart strategic step must be taken immediately by the Indonesian government to overcome this problem.

Indonesia as one of the countries with the most stable economy during the COVID-19 pandemic has the best momentum to immediately follow up on various criticisms voiced domestically related to ACFTA's fairness. Predicted to be one of the countries with the highest economic growth projection among G20 member countries by the end of 2022, Indonesia is even expected to surpass the economic growth of countries that traditionally have the strongest economic power, namely the United States, European Union, Japan & China. In fact, China, which has been predicted to be a serious challenger to the economic power of the western world, has experienced an economic slowdown as a result of lockdowns following the resurgence of COVID-19 cases, with COVID-19 cases in China reaching the highest level in the past three months since the middle of 2022 (Fiscal Policy Agency of the Ministry of Finance of the Republic of Indonesia, 2022).

![Figure 1. Economic Growth Projections of G20 Countries for 2022 (Antara News, 2022)](image)

In the midst of Indonesia's huge economic potential and many criticisms from various parties to review ACFTA in the interests of Indonesia, a special review of these two conditions is needed. Through this journal, the author reviews the condition of ACFTA cooperation relations to date, along with the opportunities and impacts that occur for Indonesia, especially in the preparation period for the transition of the COVID-19 pandemic status to endemic. So it is hoped that after starting to enter the endemic period later, Indonesia's economic growth can move faster and not be held hostage by various things that have been found tying its "legs" so far.

**METHODS**

The research approach in this article is a qualitative approach with a descriptive method. Descriptive analysis is conducted to conduct specific reviews on Indonesian government policies in maintaining or being part of ACFTA in the short, medium and long term. Data is sourced from scientific review literature such as journals or thesis/dissertation research reports of various studies that examine the effects of the ACFTA agreement on ASEAN countries, especially Indonesia.
Other secondary data that become the main data source is a review of documents of ACFTA-related institutions / agencies such as the Ministry of Trade and other institutions from within the country and abroad. The observation period from the secondary data used is the range from 2001 to 2022 which is expected to provide a big picture of the impact of ACFTA's journey on Indonesia, including when there is a change of leadership.

The analysis carried out is a descriptive analysis by describing a series of facts and events related to the problems observed using SWOT analysis, where researchers describe the strengths, weaknesses, opportunities and threats that Indonesia may get from this long-term ACFTA agreement.

RESULTS AND DISCUSSION

ASEAN-China Free Trade Area (ACFTA) Travel

The idea of a Free Trade Area in the ASEAN & China Region (ACFTA) was pioneered by China in November 2000, to be discussed jointly by ASEAN and Chinese leaders to explore measures aimed at economic integration within the region. The dynamics of the global economy in the late 1990s showed that most ASEAN countries had managed to get through severe crisis conditions and had begun to reconsider the process of integrating their economic conditions in the regional and global arena, while China, which had just been accepted by the WTO, was still growing and developing deeper integration of its economic conditions in the regional and global arena. With China's strong growth, it seems likely that China will need more input imports, and ASEAN can provide as an alternative source of inputs for natural resource-based inputs and intermediate inputs in FTAs. ASEAN and China's hope to prosper will be closely linked to their outward orientation and the role of developed countries to open up more opportunities, thus providing a stronger foundation for growth and stability (Chirathivat, 2002).

For China, ACFTA provides fresh air for the trade and development needs of agricultural commodities that they need from the international community. Some of the benefits include that (i) ACFTA will improve resource allocation efficiency for China and ASEAN and will promote bilateral agricultural trade and, therefore, will have a positive effect on the economic development of both sides. (ii) ACFTA will accelerate China's exports of agricultural commodities that have comparative advantages, such as vegetables, wheat, and horticultural products, but at the same time increase imports of commodities such as vegetable oil and sugar on a large scale; and (iii) ACFTA will have a highly variable impact on China's regional agricultural development due to large differences in the structure of agricultural production in each region. The results showed that agriculture in the northern, northeastern and eastern regions of China would benefit from CAFTA, while agricultural development in southern China would suffer. (Qiu, Yang, Huang, & Chen, 2007). And these things also certainly show how ACFTA has a positive impact on economic growth in the ASEAN region.

However, since the idea of a trade cooperation pact between ASEAN and China began to breathe in 2000, various skeptical opinions have surfaced that basically doubt the big idea of equal relations that "looked" promising after the signing of ACFTA in early November 2002. Some argue that in order for ASEAN to effectively choose a set of bilateral arrangements with individual East Asian countries, it must first set up its home. ASEAN should formulate a comprehensive and coherent AFTA Plus as a basis for developing external, bilateral, and inter-regional relations (Soesastro, 2002). Others say China's international competitive resources are its low labor wages and huge market potential. China has a wage advantage compared to older ASEAN members (ASEAN6), and even if we allow labor productivity effects, China still has the lowest unit labor costs (compared to ASEAN6). But the difference is not too big because of the better productivity performance of some ASEAN countries. These productivity gains, however, are likely to erode if China continues to enjoy increased productivity levels. China's output per worker has grown at a higher rate than that achieved by the Philippines, Indonesia and Malaysia. (Tongzon, 2005).

After ACFTA began in 2010, the treaty had a dynamic impact on the countries that ratified it. For Indonesia itself, ACFTA looks promising at first, but it is quite dangerous if examined further.
The shift to surplus for Indonesia unfortunately mostly occurred in the resource-based sector, while the shift to deficit actually occurred in many manufacturing sectors that the government actually wants to see growth. The fact shows that the rejection of various parties to the agreement has contributed to the revival of non-tariff trade barriers in Indonesia, although other political economic forces have also been at work. The agreement ultimately provides a cautionary tale for all of us that cutting regional import tariffs could lead to pressure for more complex and less transparent trade policies (Marks, 2015).

However, there are positive things that need to be utilized by Indonesia and industry players, one of which is the reduction or elimination of trade route tariffs. Based on the ACFTA Document, it is stated that several years starting from 2005-2010 there was a very significant reduction in the cost of Chinese import duty tariffs on six ASEAN countries (Most-Favoured-Nation / MFN) namely Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand (Ministry of Trade, 2020). Even in 2010 the tariffs or entry fees imposed were abolished altogether in 2010. More details can be seen in the following table:

Table 1. Reduction and Elimination of Chinese Import Duty Tariffs on 6 ASEAN countries
(ACFTA Document in the Ministry of Trade, 2020).

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<th>X=Applied MFN Tariff Rate</th>
<th>ACFTA Prefential Tariff Rate (Not Later than 1 January)</th>
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<tr>
<td></td>
<td>2005*</td>
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<tr>
<td>X ≥ 20%</td>
<td>20</td>
</tr>
<tr>
<td>15% ≤ X &lt; 20%</td>
<td>15</td>
</tr>
<tr>
<td>10% ≤ X &lt; 15%</td>
<td>10</td>
</tr>
<tr>
<td>5% ≤ X &lt; 10%</td>
<td>5</td>
</tr>
<tr>
<td>X ≤ 5%</td>
<td>Standstill</td>
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Noted: - Items under Normal Track - *The forst date of implementation shall be 1 July 2005 - Brunei, Indonesia, Malaysia, Phillipina, Singapore dan Thailand

More rigid research has signaled that although trade liberalization among ASEAN countries has historically not provoked any major problems, things have gone differently regarding ACFTA, and complaints have been raised that the treaty gives China too many trade advantages (Paladini & Cheng, 2015). Although the model has yet to produce conclusive results on the negative impact of ACFTA for Indonesia, given the relevance of this agreement for ongoing regional integration in Asia, the researcher said that the coming years will be crucial in determining its shape among the options and the outcome now appears more uncertain than ever.

ACFTA Review Based on Indonesia-China Trade Balance Travel

The development of the trade balance cannot be separated from how the form of trade cooperation applied by Indonesia with other countries. Including Indonesia-China trade activities, ACFTA is seen as one of the bases for how Indonesia’s trade position with China. When viewed from this side, over the past decade, the trade balance between Indonesia and China has always recorded a deficit. Until 2021, Indonesia had a deficit or loss of up to USD 2.45 billion. But in the record of the trade balance this can be said to be the best year compared to the past 10 years. Where Indonesia according to the records of the Central Statistics Agency (BPS Indonesia) the worst Indonesia-China trade balance deficit was recorded in 2018 where Indonesia experienced a deficit of up to touch the value of US $ 18.45 billion.

This record in 2021 is slightly better than Indonesia’s gain in 2011 which recorded a deficit of US$ 3.271 billion. Here is the complete data from the record of Indonesia-China trade balance over the past decade:
Figure 2. Trade Balance of Indonesia and China 2011-2021 (BPS, 2021 in dataindonesia.id, 2022)

In more detail, this trade balance when viewed from the positive side, the value of Indonesia's exports in the 2014-2020 period was in an uptrend, although it declined again during the second year of the pandemic. Even Indonesia's export value had reached the highest value in 2020 which reached US $ 31.78 billion.

Figure 3. Export Import Indonesia and China 2014-2021 (Ministry of Trade 2021, in lokadata, 2021)

Other data also show that the ACFTA agreement enacted in 2000 on ASEAN countries, did not show a direct impact on the performance of the trade balance of ASEAN countries, especially Indonesia. Here is the journey of the trade balance of four ASEAN countries with China after the entry into force of the ACFTA agreement:
From 2001 to 2007, Indonesia's trade balance tended to be positive even though there was no significant improvement after the enactment of ACFTA. If you look at the positive things of ACFTA on the trade balance, only Singapore managed to record a positive balance sheet where from 2010 to 2022 Singapore always recorded a positive trade balance with China. Meanwhile, Indonesia since 2008 has always recorded a negative trade balance and worsened until 2018 and 2019. Although it has not recorded a positive performance, Indonesia has begun to improve its trade balance performance with China in 2020-2022. Government policy factors in an era / period of leadership are still determining the performance of the trade balance, especially with China.

Based on these data, it can be concluded that ACFTA for Indonesia has not been able to have a significant impact on the trade balance. ACFTA for a decade of enactment, has not been able to make Indonesia out of the trade balance deficit. The only hope obtained from ACFTA is only on the potential positive trend of increasing the value of Indonesia's exports to China. But this potential is also in line with the increase in Indonesian imports from China. So from this point of view, ACFTA is more likely to produce threats and challenges to Indonesian trade.

This data is also supported by the results of research research Muslikhati &; Kaluge, (2010) for the country of Indonesia the increase in net exports can spur economic growth with an increase in GDP. This increase in exports indicates that world market conditions greatly affect domestic demand for goods, an increase in world market demand for domestic products can increase state income by increasing GDP. The upward trend from this is unfortunately not balanced with the ability of the government and industry players to provide competitive product capacity, while in China it has been able to manage its economic growth so that its output has competitiveness in the international market. The impact is that the value of Indonesia's imports also increases along with the increasing trend of exports to China.

So it can be said that in the position of the two countries in the ACFTA agreement, China is still far superior to Indonesia. So that maximum benefits tend to be felt more by China than Indonesia. This is also confirmed by the results of research by Dewi &; Sahara, (2019) The results of the study show that as a result of economic integration with the implementation of ACFTA, the value of Indonesia's imports with ACFTA + 3 countries increased. The value of Indonesia's import trade is significantly positively influenced by Indonesia's GDP per capita, GDP per capita trading partners (ACFTA+3), economic distance, and ACFTA policies.
ACFTA Review Based on Indonesia's Domestic Industry Development

(Ministry of Industry, 2012) *trade creation* and *trade diversion*. *Trade creation* allows trade transactions between related countries where previously there had not been trade cooperation. Meanwhile, *trade diversion* generally occurs in the transfer of trade cooperation with other countries that are considered to have better efficiency and economic values. However, in addition to the absence of a positive impact on the Indonesia-China trade balance, many parties also see ACFTA as a threat as well as a challenge to the development of domestic industries. In 2012, the Ministry of Industry cited and believed the ACFTA trade agreement as the cause of the flood of imported products, especially from China, due to a lack of understanding of the free trade agreement. According to the Ministry of Industry at that time, Indonesia's weak competitiveness in the face of the ACFTA free trade agreement would increase the risk towards deindustrialization. This is exacerbated by the absence of a comprehensive industrial design and maximum efforts to suppress production. (Kemenperin, 2012)

Indonesia's competitiveness is also exacerbated by the ability of industry players to "war" prices with Chinese products. It can be said that the industry in the country is still inefficient. The large population is not balanced by low productivity so that the ability to produce products with competitive quality at competitive prices has not been realized by Indonesian industry players. This is inversely proportional to what is happening in China, so that the threat of product flooding and pinching of domestic industrial products is getting higher.

This is increasingly a challenge for Indonesia, because one of the drivers of Indonesia's economy from the industrial sector is the growth of small and medium enterprises (SMEs). With so many products from China that have very cheap prices, it will certainly make it difficult for domestic SMEs, especially in selling price competition, where products from China are famous for being much cheaper. The competition of SME products with Chinese products will certainly be very burdensome for most SMEs because currently, Chinese products are not the only products that are competitors of domestic production, in addition to competing with local products, Indonesia also has to compete with other foreign products.

Indonesian SMEs will be very threatened considering China’s ability as a country that has great potential, especially their prowess in creating cheap and quality products, mass-produced ready to compete in the ASEAN region. This is one of the points of rejection of domestic industry players when ACFTA was first enacted. On the contrary, from the point of view of those who welcome this agreement, the implementation of ACFTA is seen as a hard stimulus for the government to strengthen the basics of developing long-term domestic industrial competitiveness. For those who are optimistic, ACFTA is the government’s momentum to resolve weak competitiveness and lack of support for energy, transportation and logistics infrastructure as the main factors in the lack of competitiveness of Indonesian industry with Chinese industry.

Furthermore, from the industrial side, the things that are of concern are basically the stability of domestic industrial progress and the development of SME growth. Here are some of ACFTA's threats and challenges to Indonesian industries and SMEs:

1. The increasingly cornered industrial products and Indonesian SMEs in the midst of efforts to build strong competitiveness capabilities in terms of quality. This can be a major threat, because the price factor is still the main determinant of purchases in the Indonesian market, where low prices are the strength of products from China.

2. The challenge of building the competitiveness of SMEs in the midst of production and capital capability problems. The entry of Chinese products in a very large number will create an oversupply of products in Indonesia so that SME products will be increasingly marginalized in their own domestic market.

1. A further effect of the marginalization of Indonesian SMEs due to the entry of Chinese products that can dominate the market is the loss of jobs in Indonesia. This can happen because SMEs and MSMEs are said to have a very large role for Indonesia's economic growth, with the number reaching 99% of all business units, contributing to GDP reaching 60.5%,
and to labor absorption reaching 96.9% of the total national employment (KemenkoEkonomi, 2022).

However, all these threats do not close the opportunity for Indonesian industry players, because ACFTA also opens the door to the Chinese market which is also quite large with the elimination of tariffs. The challenge is how the government and industry players can strengthen product competitiveness in order to become market rulers both domestically and in China. This is in accordance with the results of research from Puspitasari & Prabawati, (2015) which saw the opportunities that Indonesia took advantage of due to the existence of ACFTA, especially in the horticulture industry. Puspitasari & Prabawati, (2015) said that with the enactment of ACFTA, there are three positive opportunities that Indonesia will get, namely the first reduction and elimination of tariffs and non-tariff barriers in China which can increase the volume and value of trade to countries with the largest population and have the highest economic growth rate in the world. Second, the creation of a competitive and open investment regime opens opportunities for Indonesia to attract more investment from China, third, ACFTA can have an impact on increasing economic cooperation in a wider scope, especially in terms of increasing capacity building, technology transfer, and managerial capability.

**ACFTA Review Based on Indonesia's Top Commodity Exports**

As mentioned earlier, although the trade balance between Indonesia and China in a decade is still in a deficit position, in recent years there has been a positive trend in Indonesia's export activities. Citing several sources, it is stated that there are at least 10 main products mainstay of Indonesia's exports to China based on product type. Some of these main commodities are supporting Indonesia's exports to China. The total export value of this main product reached US $ 22.42 billion.

The 10 main products of Indonesia's exports to China are 1) the category of mineral fuel, mineral oil and products from their distillation; bituminous substances; mineral. 2) iron and steel. 3) vegetable fats and oils or oils and their cleavage products; edible fat; Animals. 4) wood pulp or other fibrous cellulose material; recovered paper (waste and scrap). 5) ore, slag and ash. 6) paper and paper paper; pulp paper articles, paper or paperboard. 7) copper and its articles, 8) Fish and crustaceans, mollusks and other aquatic invertebrates. 9) Footwear, foot protectors and the like; part of such an article. 10) dairy products; bird eggs; natural honey; Edible products from animals of origin, not elsewhere (katadata, 2022).

The increase in exports of several commodities has a positive impact on the Indonesian economy. This has a significant impact because of the elimination of import tariffs in China, resulting in more significant value. But the challenge is, these export commodities are basically the results of natural resources in the form of basic or semi-finished materials. Only a few of the export commodities are finished processed materials that become commodities for direct consumption in the end user which certainly have better economic value. In addition, industrial products such as handicrafts and final products from SMEs have not been able to become an important part of Indonesia's exposure to China.

**ACFTA Review Based on Geopolitical and Geostrategic Factors of Indonesia towards China**

ACFTA in bilateral relations between Indonesia and China can be seen as a political effort to strengthen relations between countries. This can happen because, as is known, Indonesia-China have had a long journey of cooperation for more than 60 years, which is a milestone in history and illustrates how close relations between the two countries are. The basis of the strategic partnership between Indonesia and China was held because it was motivated by the similarity of cultures and interests between the two countries. China is an Asian country that has great influence globally both in terms of politics and economy, moreover Indonesia for China is a strategic partner to be reckoned with considering being one of the Asian countries that is able to grow positively in the midst of the global economic crisis (Darmanto, Handoyo, & Wibowo, 2021).
So it can be said that positive synergy in the economic sector between Indonesia and China for Indonesia can be seen as a form of benefit or interest that can be expected from positive trade relations between Indonesia and China. Furthermore, Indonesia's hope to continue to foster good relations with China due to geostrategic factors that ensure considerable influence from China as one of the strongest economies in the world. This condition causes the Indonesian government to continue to try to improve its trade relations with China. Therefore, trade relations with China that increase within the framework of ASEAN and China free trade cooperation are the reasons for Indonesia to continue implementing the agreement to date.

CONCLUSION

Overall, ACFTA still has many challenges in its implementation on Indonesia's economic impact. From the available data, the trade balance between Indonesia and China, which is the main sector expected to be directly affected by ACFTA, has not shown the expected results. In fact, in the past decade ACFTA has not been able to have a positive impact on Indonesia's trade interests where the Indonesia-China trade balance has always been recorded negative or deficit. One indicator that can be a great hope for Indonesia is the data on Indonesia's export activities to China, in the 2014-2020 period busy in an uptrend, although it declined again during the second year of the pandemic.

Based on the point of view of domestic industrial development, ACFTA can be seen as a major threat, especially in price competition for various industrial products. The threat of ACFTA is also inseparable from the high possibility of Chinese industrial products flooding the Indonesian market. The flood of Chinese industrial products in the Indonesian market will greatly threaten the existence of Indonesian SMEs that have the potential to lose competitiveness due to price wars. Moreover, this threat can also be even greater, if industry players, especially SMEs in Indonesia, still cannot improve their competitiveness against international competition.

Likewise with the great potential of Indonesia's commodity products, ACFTA has two equally strong sides, namely weaknesses and advantages. In terms of advantages, trade in commodities, especially natural products, can produce a positive impact on the economic value added of Indonesia's exports due to the elimination of tariffs. While at the same time, ACFTA also makes Indonesia have direct competitors from other ASEAN countries in commodity trading to the Chinese market. This may happen because the elimination or tariffs applied are no longer influenced by diplomatic factors between countries, thus making competition stronger.

In terms of geopolitics and geostrategic, Indonesia in recent years is known to have quite close bilateral relations with many cooperations applied in many fields. So it can be said that Indonesia's involvement in ACFTA can be seen as a special strategy to strengthen direct relations between Indonesia and China. So, on the contrary, if Indonesia decides not to be involved in the sustainability of this ACFTA, Indonesia's geopolitical and geostrategic position with China will be greatly disrupted.

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