



**THE ECONOMIC IMPACT OF ACFTA ON INDONESIA –PEOPLE
REPUBLIC OF CHINA TRADE RELATION (2010-2014)**

By:

Fajar Iqbal Mirza

ID no. 016201100077

A Thesis presented to the

Faculty of Humanities

President University In partial fulfillment of the requirements for

Bachelor's Degree in International Relations

Concentration in Diplomacy Studies

2015

THESIS ADVISER

RECOMMENDATION LETTER

This thesis is entitled “**The Economic Impact of ACFTA on Indonesia – People Republic of China Trade Relation (2010-2014)**” prepared and submitted by Fajar Iqbal Mirza in partial fulfillment of the requirements for the degree of Bachelor Degree in International Relation the Faculty of International Relations, Communication and Law has been reviewed and found to have satisfied the requirements for a thesis fit to be examined. I therefore recommend this thesis for Oral Defense.

Cikarang, Indonesia, April 14th, 2015

Acknowledged and recommended by,

DR. Endi Haryono, M.Si

DECLARATION OF ORIGINALITY

I declare that this thesis, entitled “**The Economic Impact of ACFTA on Indonesia – People Republic of China Trade Relation (2010-2014)**” is to the best of my knowledge and belief, an original piece of work that has not been submitted, either in whole or in part, to another university to obtain a degree.

Cikarang, Indonesia, April 14th, 2015

Fajar Iqbal Mirza

APPROVAL SHEET
PANEL OF EXAMINER

The panel of examiners declare that the thesis entitled “**The Economic Impact of ACFTA on Indonesia – People Republic of China Trade Relation (2010-2014)**” that was submitted by Fajar Iqbal Mirza majoring in International Relations from Faculty of Humanities was assessed and approved to have passed the Oral Examinations on April 14, 2015.

Prof. Anak Agung Banyu Perwita, Ph.D
Chair – Panel of Examiners

Eric Hendra, S.IP., M.A.
Examiner

DR. Endi Haryono, M.Si
Thesis Adviser

ABSTRACT

Title: The Economic Impact of ACFTA on Indonesia – People Republic Of China Trade Relation (2010-2014).

ACFTA was implemented in 2010. This ACFTA has three main sectors which are: Trade in goods, services, and investment. Framework agreement of each sectors were implemented gradually. Framework agreement on trading in goods was signed in 2004. Framework agreement of trade in service was signed in 2007. Moreover, for the investment agreement it was agreed in 2010.

This research concerns more on trade in goods sector. After ACFTA implementation, total trade between ASEAN and PRC shows significant improve. ASEAN become third largest trade partner for PRC and PRC become the largest partner on trade for ASEAN. Year by year total trade had been increasing. This condition was influenced and contributed by total trade between each of ASEAN member countries and PRC. This research aims to analyze of what is economic impact of ACFTA on Indonesia-PRC bilateral trade.

Historically, Indonesia-PRC has a dynamic relation era by era. In reform era, the trade relation between Indonesia and PRC has been getting closer and stronger. PRC and Indonesia has potential market for both that could benefit each other within their big population. Several MOU on trade before AFCTA has been conducted by both countries. However, after ACFTA the volume trading between those two countries has been increasing year by year. PRC becomes the main trading for Indonesia while Indonesia becomes third largest trading partner for PRC in ASEAN.

In trading volume, the problem that is faced by the countries is about export and import volume. A country that has bigger power in economic usually export more than import. This condition makes the country suffer surplus while the one who import more get economic impact by suffering deficit. Reflecting to ASEAN-PRC trading volume before ACFTA in 2005-2009, ASEAN exported more to PRC. Nevertheless after ACFTA implementation, since PRC had been growing as economic super power, it exported more to ASEAN. What is the impact on Indonesia-PRC trade relation.

Key Words : ACFTA, Economic Impact, Bilateral Trade Relation, Trading Volume, Export-Import.

ABSTRAK

Judul : Dampak Ekonomi ACFTA terhadap Hubungan Perdagangan Indonesia-PRC.

ACFTA sudah diimplementasikan tahun 2010. ACFTA memiliki tiga sector inti yaitu: Perdagangan barang, jasa, dan investasi. Kerangka kerjasama terhadap tiap sektornya dilakukan secara bertahap. Kerangka kerjasama dalam perdagangan barang ditanda tangani tahun 2004. Kerangka kerjasama perdagangan jasa ditanda tangani tahun 2007. Kemudian, untuk investasi di sepakati tahun 2010.

Skripsi ini lebih fokus dalam sector perdagangan barang. Setelah implementasi ACFTA, total keseluruhan perdagangan antara ASEAN dan PRC menunjukkan perubahan yang signifikan. ASEAN menjadi partner ketiga terbesar untuk PRC dan PRC menjadi partner utama untuk ASEAN. Setiap tahunnya total perdagangan barang terus meningkat. Kondisi ini dipengaruhi dan dikontribusikan oleh total perdagangan antara setiap Negara ASEAN dengan PRC. Skripsi ini bertujuan untuk menganalisa tentang apa pengaruh ekonomi dari ACFTA terhadap hubungan perdagangan antara Indonesia-PRC.

Secara sejarah, Indonesia-PRC memiliki hubungan yang dinamis. Di era reformasi, hubungan perdagangan Indonesia dan PRC menjadi semakin dekat dan kuat. PRC dan Indonesia memiliki pasar yang sangat potensial yang bias bermanfaat untuk keduanya dengan populasi yang besar. Beberapa perjanjian dalam perdagangan sebelum ACFTA sudah dilaksanakan. Kemudian, setelah ACFTA volume perdagangan antara kedua Negara meningkat setiap tahunnya. PRC menjadi partner dagang utama untuk Indonesia dan Indonesia menjadi partner dagang terbesar ketiga bagi PRC di ASEAN.

Dalam volume perdagangan, masalah yang dihadapi oleh Negara adalah volume export dan impor. Sebuah Negara yang memiliki kekuatan ekonomi lebih besar biasanya akan mengekspor lebih dibandingkan mengimpor. Kondisi ini membuat Negara tersebut surplus sedangkan Negara yang mengimpor lebih akan merasakan pengaruh ekonomi yaitu deficit. Direfleksikan kepada ASEAN-PRC volume perdagangan sebelum ACFTA tahun 2005-2009, ASEAN mengekspor barang lebih ke PRC. Akan tetapi, setelah implementasi ACFTA, semenjak PRC tumbuh menjadi kekuatan ekonomi yang kuat, PRC mengekspor lebih dibandingkan ASEAN. Apa pengaruh terhadap hubungan perdagangan Indonesia-PRC?

Key Words : ACFTA, Dampak Ekonomi, Bilateral Trade Relation, Trading Volume, Export-import.

ACKNOWLEDGEMENT

First of all I would like to thank ALLAH SWT for all enjoyments and merciful hence I am able to finish this thesis. Second, big thanks deliver to my lovely father, alm. Iskandar Mirza wish you proud of me. Thanks for my greatest mother in the world Elfiarni Oktorina for all supports, affections, advice, and guidance in my whole life. Also to my older brother and sisters, Bang ozan, Kak Nina, and Ade Oliv, thanks for your support.

I would like to express my deepest gratitude to Mr Eric, Mr Banyu, and Mr Endi for their guidance, patience, and assistance in helping me to finalize my thesis. Without them I am not able to finish it on time. Also, thanks for their sacrifice to spend time in correcting my thesis.

I also thanks to all lecturers in International Relations that has taught me patiently and sincerely in order to make me know the world comprehensively. Without all knowledge that have given, I am not able even write this thesis.

I would like to thank my best friends Zharfan, Amalul, Bram, Tias, Jody, Duan, Ican, Chouy, Rolly, Rully, Andy, Razzak, Zizah, Derry, Tasya, Azhar, Milda, Faisal, and Tio who have given me joyful, and cheerful of togetherness. Also, thanks to every organizations that I have involved that teach me many things to be a good man and great leader, especially IPM.

In addition, Special thanks for Farihah Nishfah Lailah that always cheers me for all the good and bad time. You are the best partner, friend, enemy, and sister ever. Last but not least, thanks for everyone that have supported me and contributed everything to help me in finalizing my thesis.

Hopefully this thesis is able to give benefit for all readers.

LIST OF TABLES AND FIGURES

Figure II.1 Diagram of ACFTA

Figure II.2 Diagram of Intra-ASEAN Total Export

Figure IV.1 Indonesia-PRC Total Trade 2009-2014

Figure IV.2 Indonesia-PRC Total Export

Figure IV.3 Indonesia-PRC Total Import

Figure IV.4 Comparison Export-Import Indonesia PRC in 2010-2014.

Figure IV.5 Indonesia-PRC Deficit of Trade Balance

Table II.1 ASEAN-PRC Economic Partnership

Table II.2 ASEAN-PRC Total Export-Import 2005-2009

Table II.3 ASEAN-PRC Total Export-Import 2010-2014

Table II.4 Comparison total trade 2005-2009 and 2010-2014

Table III.1 Indonesia-PRC MOU in Economic during Abdurrahman Wahid and
Megawati Era

Table III.2 Indonesia-PRC Total Trade 2005-2009

Table III.3 Indonesia-PRC Total Trade comparison 2005-2009 and 2010-2014

Table IV.1 Indonesia-PRC Total Trade in 2009-2014

Table IV.2 Economic Impact on Indonesia PRC Trade Relation in 2010-2014.

LIST OF ACRONYMS

ASEAN	Association of Southeast Asian Nations
PRC	People Republic of China
AFTA	ASEAN Free Trade Area
ACFTA	ASEAN-China Free Trade Area
WTO	World Trade Organization
AC-ATA	ASEAN-China Air Transport Agreement
ACFTA-JC	ACFTA Joint Committee
TELMIN+China	Telecommunications and Information Technology of the ASEAN Member States and China
CAEXPO	ASEAN-China EXPO
MoU	Memorandum of Understanding
HaKI	Hak Kekayaan Intelektual
NT	Normal Track
ST	Sensitive Track
HSL	Highly Sensitive List
BPS	Badan Pusat Statistik

Table of Contents

THESIS ADVISER RECOMMENDATION LETTER	i
DECLARATION OF ORIGINALITY	ii
APPROVAL SHEET PANEL OF EXAMINATION.....	iii
ABSTRACT.....	iv
ABSTRAK	v
ACKNOWLEDGEMENT.....	vi
LIST OF TABLES AND FIGURES.....	vii
LIST OF ACRONYMS	viii
CHAPTER I	1
INTRODUCTION	1
I.1 Background of Study	1
I.2 Problem Identification	3
I.3 Statement of Problem	5
I.4 Research Objective	5
I.5 Significance of Study	5
I.6 Theoretical Framework	6
1.6.1 Liberal Institutionalism.....	6
1.6.2 Bilateralism.....	7
I.7 Scope and Limitation of Study	10
I.8 Definition Terms.....	10
I.9 Thesis Outline.....	11
CHAPTER II.....	14
ASEAN-CHINA FREE TRADE AREA (ACFTA)	14
II. 1ASEAN-China Free Trade Area (ACFTA).....	14
II.2 ASEAN Economic Overview.....	18
II.3 PRC Economic Overview	22
II.4 ASEAN-PRC Economic Relations	24
II. 5 ASEAN-PRC Trade Overview Before and After ACFTA	28
CHAPTER III.....	33

INDONESIA-PRC TRADE RELATION	33
III.1 Indonesia Economic Overview	33
III.2 Indonesia-PRC Bilateral Relations History	35
III.3 Indonesia-PRC Bilateral Trade Relation Before and After ACFTA 2005-2009 and 2010-2014	40
CHAPTER IV	49
ANALYZING THE ECONOMIC IMPACT ON INDONESIA DEFICIT OF BILATERAL TRADE RELATION WITH PRC (2010-2014)	49
IV.1 Indonesia-PRC Total Trade (Export-Import) Volume 2010-2014	49
IV.2 Economic Impact of ACFTA on Indonesia Deficit Towards PRC Bilateral Trade	
59	
CHAPTER V	64
CONCLUSION	64
V. Conclusion	64
BIBLIOGRAPHY	68
APPENDIX.....	72

CHAPTER I

INTRODUCTION

I.1 Background of Study

ASEAN-PRC Free Trade Area (ACFTA) was fully implemented in 2010. It has three sectors that agreed by both parties which are trading in goods, services, and investment. Agreements of those three sectors were implemented gradually. Agreement on trading in goods was signed in 2004. The content of agreement was about elimination tariffs on 90% PRC and ASEAN products. It was implemented for ASEAN+6 (Brunei Darussalam, Indonesia, Malaysia, Philippine, Singapore, and Thailand) in 2010. Agreement of trade in service was signed in 2007. It was about services and services suppliers/providers in the region will enjoy improved market access and national treatment in sectors/subsectors where commitments have been made. Moreover, for the investment agreement it was agreed in 2010 that has goals to create a more transparent and facilitative environment, and give companies from ASEAN a competitive edge to tap on thriving opportunities in PRC.¹

At the first of its establishment, ACFTA was noted as the largest Free Trade Area (FTA) in terms of its market population and became third largest area for total gross domestic product (GDP). It shows how very potential this ACFTA. In 2010 of its full implementation, ACFTA showed the data that PRC became largest trading partner for ASEAN surpassed position of Japan and European Union (EU) within the increasing of ASEAN's total import by 44.8% to USD154.56 billion. At the same following year, ASEAN became fourth largest partner for PRC after

¹ Singapore Free Trade Area: Overview of ASEAN-PRC (ACFTA). Retrieved 15/03/2015 at 03:3 am. From : http://www.fta.gov.sg/fta_acfta.asp?hl=2.

EU, U.S, and Japan(Li, 2013). Moreover in 2011, ASEAN position rose as the third largest trading partner for PRC.

This good trading data between ASEAN-PRC is accumulation effect from bilateral trade relation between PRC and ASEAN member countries. In this research, it will focus more on Indonesia-PRC trade relation after the ACFTA full implementation into SBY second administration term.

From full implementation of ACFTA into the end of SBY second administration in 2014, Indonesia - PRC had very solid relation.. In 2013, Indonesia-PRC signed agreement on economic partnership. At that time, SBY delivered speech that said “We agreed to keep increasing trade and investment on both countries. The trading value of Indonesia-PRC reached US\$51 billion and we agreed to keep increasing it”.² At the same following year in 2013, PRC Minister of Foreign Affairs visited Indonesia to discuss about bilateral relation between PRC and Indonesia. He said that “Relation between PRC and Indonesia is the tightest relation between PRC and ASEAN member countries”. In addition, Indonesia Minister of Foreign Affairs, Marty Natalagawa said that “Indonesia-PRC relation is very solid. It is able to be seen from the sectors of trade, investment, maritime, energy, etc”.³ From the official statement above, it shows how solid Indonesia-PRC economic relation, especially in trading during SBY era.

Furthermore,Indonesia and PRC are the large market in terms of accumulation of population. According to U.S census bureau in 2014, Indonesia has 253,60 million people placed as forth populous country. Meanwhile, China has 1,3 billion people placed as the most populous country⁴. Within that fact, both of countries have a very potential market and it could become big chance for both countries to maximizing the potential through maximizing the trading. It is able

²BBC : Era Baru Kerjasama Indonesia dan Cina. Retrieved 16/03/2015 at 19:19 pm. From: http://www.bbc.co.uk/indonesia/berita_indonesia/2013/10/131002_investasi_cina_indonesia

³ Retrieved 16/03/2015 at 14:00 pm. From: <http://m.energitoday.com/2013/05/07/indonesia-dan-china-memperkuat-hubungan-bilateral/>

⁴ Retrieved 16/03/2015 at 22:15 pm. From: <http://finance.detik.com/read/2014/03/06/134053/2517461/4/negara-dengan-penduduk-terbanyak-di-dunia-ri-masuk-4-besar>

to boost economic GDP of both countries. In 2010, Indonesia-PRC total trade reached US\$ 36.116.829,30 billion. Moreover, in 2014 the trade volume reached US\$ 48.230.555,10 billion.⁵ Through ACFTA, PRC became main trading partner for Indonesia and Indonesia became the fourth trading partner for PRC in ASEAN. The trade relation between Indonesia-PRC is getting tighter after ACFTA.

Nevertheless, good trade relation does not mean there is no problem in for both or one of countries in trade. While the FTA exist, it means not merely cooperation but also competition for both countries in trade. Imbalance of import-export is able to become one of problem indicators that shows either surplus or deficit between both two countries.

I.2 Problem Identification

In 2014, International Monetary Fund (IMF) has ranked PRC as the number one economic super power over the world surpassing USA. In 2014 PRC reached 17% of world gross domestic products (GDP) while USA was in 16% of GDP.⁶ PRC economic growth has been gradually increasing for these 30 last year. It started from its economic reformation led by Deng Xiaoping (1978-1987). He reformed PRC from close market into open market. As time goes by, PRC joined WTO member to widen its economic relation internationally. The status as number one of economic super power is reached from many aspects, one of them is through having good economic relation with other countries.

Regionally PRC has conducted Free Trade Area with its neighboring countries which are ASEAN member countries in ACFTA. Historically, ASEAN-China relation was begun in 1991. In 2000, prime minister of PRC, Chu Rongi, delivered idea to create ACFTA that was committed to be conducted between

⁵ BPS, Processed by Trade Data and Information Center, Ministry of Trade. Retrieved 15/03/2015 at 14:33 pm. From : <http://www.kemendag.go.id/id/economic-profile/indonesia-export-import/balance-of-trade-with-trade-partner-country?negara=116>

⁶International Monetary Fund : Data Base, world economic outlook, GDP, 2014. Retrieved 16/03/2015 at 14:16 pm. From: www.imf.org.

ASEAN-China. Through this Free Trade Area, China has strengthened its position toward ASEAN. Moreover, ACFTA is the largest market over the world in terms of its population. This ACFTA is really potential market for ASEAN and China to boost its economic growth. According to Deutsche Bank Research, China has become ASEAN's main trading partner. In 2011, 11% of ASEAN's exports went to China and 13% of ASEAN's imports came from China. For China, ASEAN is also one of main trading partners. It is third greatest partner for China in trade. In 2013, ASEAN value export is US\$152.545,5 billion and import value is \$197.962,8 billion⁷. From the data, we are able to see deficit trade of ASEAN towards PRC, on the other words PRC dominates ACFTA's market through its export value.

According to economic theory, deficit is the condition imbalance trade when the export value of a country is less than import value. In that condition, a country buys more products from its partner rather than sell its product to its partner. This condition is able to impact to economic sectors.⁸

Reflecting to trade relation between PRC and Indonesia shows the deficit trade as well for Indonesia. It becomes problem for Indonesia. After the implementation of ACFTA in 2010 up to the end of SBY second term administration, Indonesia-PRC total trade on export and import shows deficit for Indonesia. Many of China products dominate Indonesia market. Even though, it is able to boost Indonesia GDP based on market consumption nevertheless, at the same time it means Indonesia local products are hard to compete with PRC's products. The condition is able to make local business collapse. Moreover within the condition, of course rupiah exchange rate will be weakened that is able to impact economic domestic sectors.

⁷Retrieved 16/03/2015 at 16:29 am. From :
http://www.asean.org/images/2015/January/external_trade_statistic/table20_asof04Dec14.pdf

⁸ Retrieved 16/03/2015 at 23:25 pm. From:
http://www.seputarforex.com/artikel/forex/lihat.php?id=146738&title=dampak_neraca_perdagangan_pada_nilai_mata_uang

I.3 Statement of Problem

ACFTA was fully implemented in 2010. Through this ACFTA, PRC has been becoming main trading partner for ASEAN. As one of greatest economic power over the world, PRC dominates the market of ASEAN on total trading volume in ACFTA. It's also impact into trade bilateral relation between PRC and ASEAN member countries. In this research, Indonesia-PRC trade relation is taken as one of the example. Therefore, this research is focused more on answering question as follow:

What is the economic impact of ACFTA on Indonesia PRC bilateral trade in 2010-2014?

I.4 Research Objective

The aim of this research is to find what is the impact of ACFTA full implementation on bilateral trade relation between Indonesia-PRC in 2010-2014.

I.5 Significance of Study

Full implementation of ACFTA becomes the term of real existence of trading corporation and competition for ASEAN and China. It is able to boost the economic GDP and at the same time killing local product those are not ready to compete with other countries products. The total trade value Indonesia-PRC shows that China product dominates Indonesia market cause to deficit for Indonesia. From that fact, this research is hoped to give benefits for readers which are: To know in depth about the impacts of ACFTA on Indonesia-PRC bilateral

trade relation, to understand about Indonesia-PRC bilateral trade relation, and to contribute for further research about Indonesia-PRC economic relations.

I.6 Theoretical Framework

1.6.1 Liberal Institutionalism

Liberal institutionalism stated that a way of explaining International relations is that emphasis should be placed on global governance and international organization (IO). Institutionalism concerns more on the role of international system and ability of international organization to have states to cooperate in achieving common goal.⁹ Nevertheless, Liberal institutionalism still recognizes that states are the key actors in international relations and that states seek to maximize absolute gains through cooperation.

Liberal institutionalism, like realism, still acknowledges that the international system is anarchic and takes consideration on the fact that sovereignty is still highest element of a country.

In addition, Liberal Institutionalism said that in order to achieve peace in International relation, states are obligated to cooperate together and create integrated communities in order to promote economic growth and respond to regional and international security issues.

Furthermore, Liberal Institutionalism theory focuses on the idea of complex interdependence. It was first argued Robert Keohane and Joseph Nye in 1970's. There are three characteristics from the complex interdependence which are: involving (1) the use of multiple channels of action between societies in interstate, trans governmental, and transnational relations, (2) the absence of an hierarchy of issues with changing agendas and linkages between issues prioritized

⁹ Retrieved 17/03/2015 at 2:00 pm. From :
Dunne, T, 'Liberalism' in Baylis, J and Smith, S ed., *The Globalization of World Politics: An introduction to International Relations*, Oxford University Press, Oxford, 2005 pg 185

and the objective of (3) bringing about a decline in the use of military force and coercive power in international relations.¹⁰

Reflecting into ACFTA from argument and characteristic of Liberal Institutionalism, there are several connections. First, ASEAN as one of International Organization has role to have state cooperate each other in achieving common goal to create integrated communities in order to promote economic growth and respond to regional and international security issues. To promote economic growth ASEAN has way by conducting ASEAN Free Trade Area (AFTA). Second, within the characteristic of multiple channels, ASEAN widen its economic cooperation to neighboring countries which is China by creating ACFTA. Third, from the third characteristic, ASEAN declines in the use of military force and concern more about economic cooperation.

Nevertheless, in achieving the goal of ACFTA as economic cooperation, since Liberal Institutionalism still recognize the role of states ASEAN should take into consideration that China as economic super power country is possible to dominate ACFTA. It could be seen from trade bilateral relation between China and ASEAN member countries that in research is Indonesia. It is explained more by bilateralism.

I.6.2 Bilateralism

In the study of international relations, we normally think of bilateralism as referring to relations between two states. The term bilateralism is also used to refer to a strategy of how relations are conducted; it denotes an approach that prioritizes reaching agreement with one other party rather than acting by oneself (unilateralism) or together with two parties. (Ravenhill, 2011).

According to Dent, bilateralism is defined as extension of regionalization where two countries are involved in enhancing cooperative and integrative arrangement.¹¹

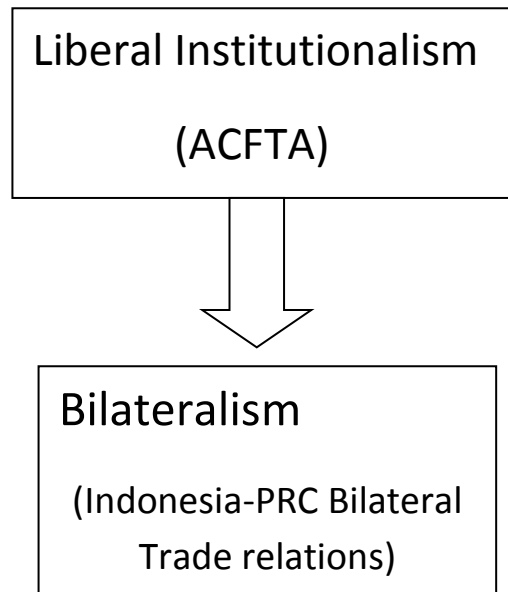
¹⁰ Retrived 17/03/2015 at 1:41. From: Keohane, R and Nye, J, *Power and Interdependence: world politics in Transition*, Little, Brown, Boston, 1977.

Bilateralism itself consists of some aspects which are political, economic, or cultural relations between two countries. However, in this era bilateralism is often to be used for economic sector. For instance, FTA or Foreign Direct Investment (FDI) agreed by two sovereign states. Advantage of bilateralism is that state can result in more tailored agreements and obligations because it is merely apply between two particular countries. Moreover, in bilateralism new contract has to be negotiated when the bilateral condition show negative impact on one party. For instance over surplus/deficit suffered by one of each country. However, there is no free lunch that is given freely. That condition will be effective for a big influential state who wants control small states. Through building a new series of bilateral arrangement can make big power country ability to influence maximized, especially in bargaining situation.¹² Moreover, Steven Weber found that bilateralism is to be generally positive for great power because they can get advantageous term from less power.

Reflecting to Indonesia-PRC trade relation, impact of ACFTA on Indonesia-PRC trade relation is example output of the extension of regionalization where two countries involved to cooperate and to integrate. The condition where one of countries suffer deficit is the normal situation in bilateral relation while big county would gain more benefit because on the one hand bilateralism is cooperation on the other hand it is competition. Since Indonesia suffer deficit, Indonesia has attempted re-negotiate with PRC in 2012 and 2014. However, the renegotiation is not an easy mechanism and there is no such free lunch.

¹¹ Retrieved 17/03/2015 at 7:29 am. From: Christopher Dent "The New Economic Bilateralism in Southeast Asia: Region Convergent or Divergent?" *International Relationsof ASIA Pacific 6* (2006),pp. 81-111

¹² Retrieved 17/03/2015 at 9:41 am, From:
<http://politicalscience.osu.edu/faculty/athompson/Lateralisms.pdf>



In the topic of this research there are two main variables which are : ACFTA as independent variable and Indonesia trade relation as dependent variable. Independent variable is a variable that stands alone and isn't changed by the other variables you are trying to measure. Meanwhile dependent variable is something that depends on other factors.¹³ In international relations, those two variables usually described as action (independent variable) and reaction (dependent variable). Reflecting to the topic, ACFTA is action and trade relation is reaction. Action causes reaction whether it could be good reaction or bad.

Furthermore, in order to explore the topic within two main elements, two theories are suitable to be used. ACFTA as a form of international system between two actors, PRC as a state and ASEAN as International Organization, is suitable to be explained by liberal Institutionalism. For trade relation between Indonesia-PRC is suitable to be explained by bilateralism theory.

¹³ Retrieved 16/03/2015 at 21:45. From : https://nces.ed.gov/nceskids/help/user_guide/graph/variables.asp

I.7 Scope and Limitation of Study

The scope and limitation of this study is as follow:

1. As ACFTA has three main sectors which are; Investment, goods, and services this thesis is concerned more about goods sector
2. This thesis will focus more on bilateral trade relation between Indonesia-PRC specifically on trading balance of its Import-Export volume.
3. The limitation time in this thesis is in SBY Second Administration 2010-2014

I.8 Definition Terms

- a. Economic impact has many definitions. According to investor words dictionaries, It is defined as the effect that an event, policy change, or market trend will have on economic factors such as interest rates, consumer confidence, stock market activity, or unemployment. Events such as regulatory changes, supply shortages or natural disasters can have a significant economic impact due to the way that they affect business activities.¹⁴ Reflecting to the definition it is about negative effect of economic activity. In this research this economic impact comes from the economic cooperation in Asian region which is ASEAN-China Free Trade Area. The specific economic impact that is researched in here is deficit of total trading in ACFTA.
- b. ASEAN-China Free Trade Area (ACFTA) is an agreement between the state-ASEAN member countries with China to provide free trade area by eliminating or reducing trade barriers work both tariff or non-tariff, increasing market access and services, regulation, and based on investment, as well as the increase of economic cooperation aspect to boost economic relations between

¹⁴ Retrieved 15/04/2015 at 20:09. From:
http://www.investorwords.com/16388/economic_impact.html#ixzz3XNo7BSgs

the Parties ACFTA in order to improve better community in ASEAN and China.

b. The Association of Southeast Asian Nations, or ASEAN, is a regional grouping that was established on 8 August 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration) by the Founding Fathers of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand, Brunei Darussalam then joined on 7 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997, and Cambodia on 30 April 1999, making up what is today the ten Member States of ASEAN.¹⁵

I.9 Thesis Outline

This thesis consists of five chapters which are as follow:

Chapter I : Introduction

This chapter is the ground guideline for this thesis. It consists of nine parts which are: Background of Study, Problem Identification, Statement of Problem, Research Objectives, Significance of Study, Theoretical Framework, Scope and Limitation Study, Definition Terms, and the last is Thesis Outline.

Chapter II : ACFTA

This chapter explains about ACFTA, Overview on ASEAN and PRC Economy, Economic Relation between ASEAN and China, and Comparasion of trade volume before (2005-2009), and after (2010-2014) ACFTA implementation.

Chapter III : Indonesia-PRC Trade Relation

This chapter explains about Indonesia –PRC trade bilateral relation within several subparts which are: Indonesia Economic Overview, Indonesia-PRC Bilateral Relation History, and Indonesia-PRC trade relation before (2005-2009), and after (2010-2014) ACFTA.

¹⁵ Retrieved 17/03/2015 at 4:32 am. From : <http://www.asean.org/asean/about-asean>

Chapter IV :Analyzing the EconomicImpact of ACFTA on Indonesia-PRC Bilateral Trade Relation

This chapter is concerned to analyze economic impact of ACFTA on Indonesia-PRC bilateral trade relation in 2010-2014.

Chapter V : Conclusion

CHAPTER II

ASEAN-CHINA FREE TRADE AREA (ACFTA)

II. 1 ASEAN-China Free Trade Area (ACFTA)

Since in 1980 ASEAN has widen its concern into economic liberalization and in 1991 started to have relation with China. Then, ASEAN-China proceed their economic relation into Free Trade Area that called as ACFTA. It was started at ASEAN-China meeting in Singapore on 25 November 2000. At that time prime minister of China, Zhu Rongji, delivered an idea of creating ACFTA. Then, the idea was followed up by establishing ASEAN-China Expert Group at the end of 2001. The result form the expert group was then recommendation of ACFTA formation in ten years. After that, in the 7th ASEAN Summit the formation of ACFTA was agreed in Begawan, Brunei Darussalam Sri.

Furthermore, in 2002 the relation between ASEAN and China showed great improve. ASEAN and China signed a *Framework Agreement On Comprehensive Economic Cooperation* in November 2002 to establish an ASEAN-China Free Trade Area.¹⁶ The objective from the framework are to:

(a) strengthen and enhance economic, trade and investment co-operation between the Parties; (b) progressively liberalise and promote trade in goods and services as well as create a transparent, liberal and facilitative investment regime; (c) explore new areas and develop appropriate measures for closer economic co-operation between the Parties; and (d) facilitate the more effective economic integration of

¹⁶ Djauhari Oratmangun, "Indonesia and ASEAN : toward ASEAN Economic community 2015" . Journal diplomacy Vol. June 2, 2010 op. cit. page 26

the newer ASEAN Member States and bridge the development gap among the Parties.¹⁷

Moreover, In the Framework, there are six key elements included: (1) Trade to facilitate (cover issues such as non-tariff barriers removal, the recognition in the respective standard parties and assessment services sector procedures for); (2) technical assistance and capacity building for the countries in the ASEAN member states that are new; (3) to our trade is consistent with the rules in World Trade Organization; (4) expansion cooperation in financial, tourism, agriculture development of human resources, the right, intellectual property rights (HaKI); (5) formation of ACFTA in the short period of 10 years, with special treatment and different given to countries new member ASEAN; and (6) formation of institutions that are needed to run a commitment framework for cooperation¹⁸

In ACFTA, there are three main sectors that have been agreed as main concern. Those sectors are: Goods, Services and Investments.



Figure II.1

For those three sectors there are agreements for each that signed gradually. Agreement on trading in goods was signed in 2004. The content of agreement

¹⁷ Singapore Free Trade Area: Overview of ASEAN-PRC (ACFTA). Retrieved 15/03/2015 at 03:03 am. From : http://www.fta.gov.sg/fta_acfta.asp?hl=2.

¹⁸ Alexander C. Chandra, "Indonesia FTA agreement in the ASEAN-China: a Critical Studies", in the I. Wibowo and Syamsul Hadi Op. Cit page 238.

was about elimination tariffs on 90% PRC and ASEAN products. It was implemented for ASEAN+6 (Brunei Darussalam, Indonesia, Malaysia, Philippine, Singapore, and Thailand) in 2010. Agreement of trade in service was signed in 2007. It was about services and services suppliers/providers in the region will enjoy improved market access and national treatment in sectors/subsectors where commitments have been made. Moreover, for the investment agreement it was agreed in 2010 that has goals to create a more transparent and facilitative environment, and give companies from ASEAN a competitive edge to tap on thriving opportunities in PRC.

ACFTA itself was agreed to be fully implemented at the end of 2010 for Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand, and China. Meanwhile remaining members of ASEAN which are Cambodia, Laos, Myanmar, and Vietnam agreed to fully implement it in 2015.

ACFTA has been fully implemented since 2010. There are significant improve on China-ASEAN economic relations through ACFTA.

In the trade of goods sector, ASEAN-China have been implemented it maximally. In 2010, data showed that PRC became largest trading partner for ASEAN surpassed position of Japan and European Union (EU) within the increasing of ASEAN's total import by 44.8% to USD154.56 billion. In 2011 ASEAN became the third largest partner for China.¹⁹

In 2013, China still stands as main trading partner for ASEAN. The total trade value between ASEAN and China reached around US\$350,508 billion. China export to ASEAN was around US\$197,962 billion. Meanwhile total value of China import from ASEAN was around US\$152,545.

Furthermore, Elimination tariff in ACFTA implementation has three stages. First, product that categorized as Early Harvest Program apply 0% of tax that effectively started in 2006 by ASEAN-6 include Indonesia. The second stage is

¹⁹Retrieved 26/03/2015 at 00.04 am. From :
http://www.asean.org/images/2015/January/external_trade_statistic/table20_asof04Dec14.pdf

product that categorized as Normal Track Program applied 0% tax in January 1, 2010, except textile product that made from cotton applied tax 5-15%. The third stage is product that categorize as sensitive track. There are two categorizations which are sensitive list and high sensitive list. For sensitive list, it was applied for tariff elimination started from 2012 within 20% tax as maximum tariff. For High Sensitive List, would be started in 2015 within maximum tax 50%

The two kinds of track in trade agreement between ACFTA which are normal and sensitive track defined as: Normal track is for commodities that categorized as general goods that contained of low risk for the countries. In agreement between ASEAN and China there are not more than 150 goods that categorized as normal track includes; polyethylene, polypropylene and polystyrene; rubber tyres and tubes; textiles and fabrics; footwear; ceramic products; articles of iron and steel; and electrical products.²⁰

On the sensitive track it is divided into two which are Sensitive List (SL) and High Sensitive List (HSL). Based on the agreement, SL was reduced to 20% in 2012 and will be reduced to 0-5% in 2018. Meanwhile, for HSL will be reduced to 50% in 2015 and no further tariff commitments. Some goods that include in sensitive track are; unprocessed agriculture products; tobacco products; plywood; ceramics and glass; iron and steel; and automotive products.²¹

In trade of services, the specific sector that agreed by China was referred to its commitment to WTO which are commercial services, telecommunication, construction, distribution, finance, tourism, and transportation. Meanwhile, ASEAN agreed on more sectors than its commitment to WTO. ACFTA trade in

²⁰Retrieved 28/01/2015 at 08.33 am. From :
http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.section.Section_b609671a-c0a81573-aba0aba0-c94c2e0c

²¹ Retrieved 28/01/2015 at 08.33 am. From :
http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.section.Section_b609671a-c0a81573-aba0aba0-c94c2e0c

service has been growing fast. Total value of trade in service reached US\$17.4 billion in the first half year that up 34.9% year on year.²²

In terms of investment after ACFTA full implementation, ASEAN-China shows a good investment data. The total foreign direct investment of China in ASEAN from period 2011-2013 reached around US \$ 21 billion. China became third largest country after Japan and USA. There are 8 infrastructure's sectors which agreed by China-ASEAN, the sectors are toll road, rail, container port, airport, telecom, water, oil and gas pipeline, and social infrastructure.²³

ACFTA shows great implication on total volume of those three sectors. It increases gradually year by year. However, the main sector that was implemented massively is trading in goods. This sector shows significant improve until China become main trading partner for ASEAN. Within the biggest sector and statistic data, do ASEAN member countries take benefit or even take disadvantage from the massive trading because of cannot compete with other countries in ACFTA? It will analyze in chapter four.

II.2 ASEAN Economic Overview

The Association of Southeast Asian Nations, or ASEAN, is a regional grouping that was established on 8 August 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration) by the Founding Fathers of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand, Brunei Darussalam then joined on 7 January 1984, Vietnam on 28 July 1995,

²² Retrieved at 25/03/2015. From: fta.mofcom.gov.cn/enarticle/enasean/chianaseannews/201111/8415_1.html

²³ Retrieved 28/01/2015 at 7:07 am. From : <http://www.china-asean-fund.com/investment.php?slider1=2>

Laos and Myanmar on 23 July 1997, and Cambodia on 30 April 1999, making up what is today the ten Member States of ASEAN.²⁴

On 8 August 1967, five leaders - the Foreign Ministers of Indonesia, Malaysia, the Philippines, Singapore and Thailand - sat down Southeast Asian Nations (ASEAN) was born. The five Foreign Ministers who signed it - Adam Malik of Indonesia, Narciso R. Ramos of the Philippines, Tun Abdul Razak of Malaysia, S. Rajaratnam of Singapore, and Thanat Khoman of Thailand - would subsequently be hailed as the Founding Fathers of probably the most successful inter-governmental organization in the developing world today. And they gathered together in the main hall of the Department of Foreign Affairs building in Bangkok, Thailand and signed a document. By virtue of that document, the Association of Southeast Asian Nations document that they signed would be known as the ASEAN Declaration²⁵

ASEAN is one of the advanced and oldest regional institutions in Asia. At the first time of its establishment, it aimed to promote peace in the regional area and strengthen cooperation among the members in terms of political issues. As time goes by, in the 1980s the new political environment emerged which concerned more about political economic integration and economic liberalization²⁶.

In the beginning, ASEAN economic cooperation programs were focused on giving preferences for trade (preferential trade), business joint ventures, and complementation schemes between the government of country members as well as the private sector in the ASEAN region, like ASEAN Industrial Projects Plan (1976), Preferential Trading Arrangement (1977), ASEAN Industrial Complementation scheme (1981), ASEAN Industrial Joint-Venture scheme (1983), and Enhanced Preferential Trading Arrangement.²⁷

²⁴ Association of Southeast Asian Nations. Retrieved 17/03/2015 at 4:32 am. From : <http://www.asean.org/asean/about-asean>

²⁵ Association of Southeast Asian Nations. Retrieved 18/03/2015 at 13:53 pm. From : <http://www.asean.org/asean/about-asean/history>

²⁶ Hiro Lee and Michael G. Plummer. (2011). *Assessing the Impact of the ASEAN Economic Community*. Page 2.

²⁷ Djauhari Oratmangun, "Indonesia and ASEAN : toward ASEAN Economic community 2015". Journal diplomacy Vol. June 2, 2010 op. cit. page 21

In 1980's up to 1990's the idea arose among ASEAN member countries to create ASEAN economic integration while all nations over the world just started to think about economic cooperation. With the idea, then comes the discourse of making ASEAN Free Trade Area (AFTA). In the 4th ASEAN heads of State summit (ASEAN Summit) in Singapore at the end of 1992, the heads of state announced the formation of a free trade area in the ASEAN (AFTA) in the short term 15 years.²⁸ The purpose of the implementation of AFTA concept has number of objectives, they are: to improve trade volume between member ASEAN. This situation was made possible because through free trade area, where import duty (rates) all commodities trade from all regional states will be brought down to near 0 percent.

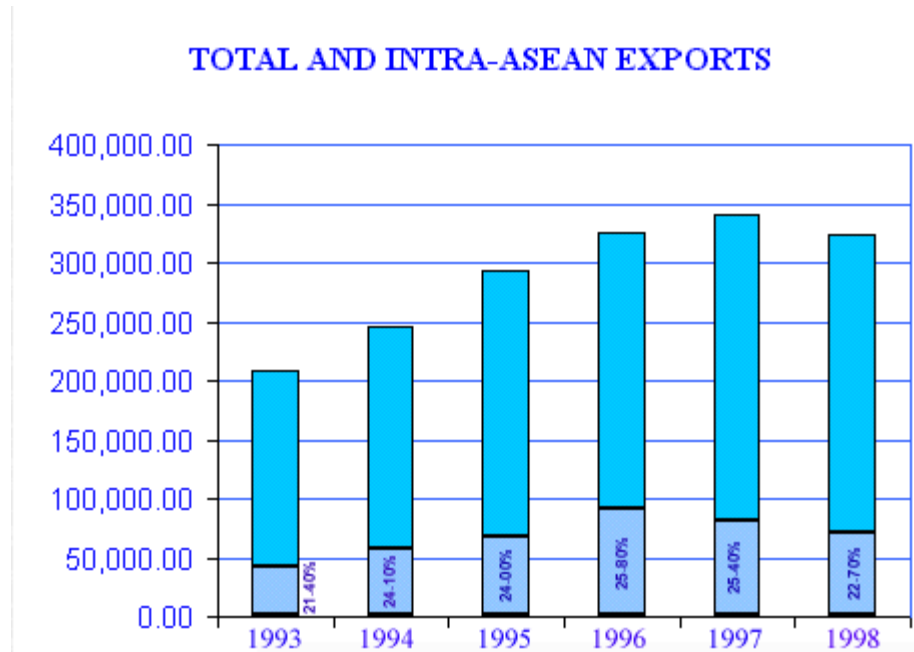
In addition, obstacles that were not caused import duty (Non-tariff Barrier import quotas) such as the application to a certain commodity also must be eliminated and made to 0 percent. With the imposition like this to be one of the main big countries in the Asia east such as China wants to trade cooperation with the members ASEAN.

Finally the ASEAN Free Trade Area determination was agreed at the summit of ASEAN in Singapore in 1992, with the aim is to increase intra-ASEAN trade and that with all of resources and by ASEAN countries.⁴⁸ Since that tariff reduction program started each of the members of ASEAN by transmission of Legal Enactment that issued each on January 1 every year.

After AFTA, total export of intra-ASEAN member countries had been growing. However in economic crisis in 1998 the total export was decreased. Below the figure of ASEAN total export among seven ASEAN members which are

²⁸Badan Kebijakan Fiskal Pusat Kebijakan Pendapatan Negara: ASEAN Free Trade Area, Retrieved 01/04/2015 21:00 from: <http://www.tarif.depkeu.go.id/others/?hi=afta>

Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Viet Nam from 1993-1998 after AFTA. (Figure II.2)²⁹



In 2002, ASEAN was widen the cooperation not merely among its member but also with extra-ASEAN member countries which is PRC in agreement of ACFTA. Within ACFTA, total trade between ASEAN and PRC had been growing. The total trade from 2005-2009 and 2010-2014 was doubled times. In 2005-2009 the total reached US\$ 903,930 and in 2010-2014, it reached US\$1,661,483.

In 2014, ASEAN population was 600 million within GDP reached US\$6.3 trillion. Within the data Economic prospects of the 10 ASEAN member countries is very potential. Within the population ASEAN reached the third largest population under PRC and India. It means that the market is really potential.

²⁹ Retrieved 02/04/2015 at 09:45 am. From: <http://www.asean.org/news/item/asean-free-trade-area-afta-an-update>

Moreover, the GDP that ASEAN possess shows how great ASEAN economic as well.

II.3 PRC Economic Overview

People's Republic of China is located in East Asia. It is the most populous country over the world within 1,355 million people.³⁰ Lately China emerged as new economic superpower country surpassed USA. In 2014, PRC reached 17% of world gross domestic products (GDP) while USA was in 16% of GDP.³¹ This achievement was not easily taken by China. The hope was started from economic reform. China economic reform influenced a lot in boosting its economic development. It was happened in 1978 when Deng Xiaoping became the leader of China after the era of Mao Zedong.³² The economic strategy was shifted from five year planning system that was modeled also in Soviet Union (communism) into market oriented system which is more likely as liberal system. However, at the first time that kind of system was merely focused on the internal side of China, like; Agriculture. As time goes by the other sectors was also applied, China launched open-door policy that give chances for foreign trade and investment entered to China and it was significantly helpful in growing China economic. Within its large territory and most populous country, China is really attracted market for everyone.

Furthermore China's step for economic reform was continued in 2001. At that time China entered WTO as the member. It is strengthened the argument that China progressively implemented the liberalization system in economy. Within the large market that China has, many of investors are willing to invest.

³⁰ Retrieved 16/03/2015 at 22:15 pm. From: <http://finance.detik.com/read/2014/03/06/134053/2517461/4/negara-dengan-penduduk-terbanyak-di-dunia-ri-masuk-4-besar>

³¹ International Monetary Fund : Data Base, world economic outlook, GDP, 2014. Retrieved 16/03/2015 at 14:16 pm. From: www.imf.org.

³² Gregory C Chow, "Economic Reform and Growth in China" in *Annals of Economic and Finance* 5,127-152(2004)

Moreover label as member of WTO is more helpful for China to gain attraction in cooperating with other members.

As time goes by, the economic reform has been giving China result in rising its economic as one of the most influential economic power in the world. China has several strengths and weaknesses in its economic as economic power: it is the largest market over the world within its population, it is really strong on export based on the World Factbook of the CIA China is the largest exporter over the world within the total export volume reached US\$2,210 billion in 2013. Below the top ten export of China in 2014 are as follows³³ :

1. Electronic equipment: US\$571,045,520,000 (24.4% of total exports)
2. Machines, engines, pumps: \$400,910,983,000 (17.1%)
3. Furniture, lighting, signs: \$93,390,874,000 (4.0%)
4. Knit or crochet clothing: \$92,002,609,000 (3.9%)
5. Clothing (not knit or crochet): \$81,453,227,000 (3.5%)
6. Medical, technical equipment: \$74,020,496,000 (3.2%)
7. Plastics: \$66,816,299,000 (2.9%)
8. Vehicles: \$64,243,754,000 (2.7%)
9. Gems, precious metals, coins: \$63,212,400,000 (2.7%)
10. Iron or steel products: \$60,685,405,000 (2.6%)

Moreover, China has very good strategy in keeping its economic rising. For instance, in 2008 economic crisis happened that impacted almost all countries over the world, especially Euro zone. China obviously suffered the impact of Euro zone crisis. As we know that one of China economic development strategy is rely on exports. Most of the partners for export activity are from Europe, it accounts 17% China exports. It impacts to China economic growth that fall into 7,5% in 2012³⁴.

³³ Retrieved 26/03/2015 at 18:54. From : <http://www.worldstopexports.com/chinas-top-10-exports/1952>

³⁴ Retrieved 26/03/2015 at 18:59. From: <http://www.slideshare.net/Ashishmichael/eurozone-crisisimpact-on-chinese-indian-economy>

In order to face that challenge China shifted its export activity into Africa and developing countries . Nowadays China becomes the most influential exporter country in Africa region.

The weaknesses that China possessed are: First is China lack regulation of Intellectual Property Rights (IPR). Within the potential of large territory and populous country, China is able to be one of great destiny country. When China first entered WTO, it was gradually increasing until in 2010 it reached \$ 124.90 billion USD. But nowadays it's decrease because in China there are a lot of piracies of intellectual property rights even in 2009 it costs American business reached \$48 billion.³⁵

In addition, China strength which is largest exporter over the world is able become threat and weakness. China economic model is too depend on export. It means that, on the one hand, China rely on demands of market. It is really gambling. Once, the market shift into other preference China product could be left.

However, the strength and weakness that China has makes China economic dynamic. Furthermore, China economic reform leads China to become the greatest economic power today.

II.4 ASEAN-PRC Economic Relations

China and ASEAN has very good and strong relationship in many fields especially economic sector. Based on the history China-ASEAN relation was begun from July 19, 1991. At that time, Minister of Foreign Affairs China attended the opening session of 24th ASEAN Ministerial Meeting (AMM) in Kuala Lumpur. Then, ASEAN-China proceed to conduct cooperation as consultative partner.

³⁵Retrieved 26/03/2015. From :
<http://www.adbi.org/files/2013.11.22.cpp.sess7.1.lozada.asean.economic.community.pdf>

China's relationship increased more in ASEAN and by following ASEAN Regional Forum that began in 1994. And finally, at the 29th ASEAN Ministerial Meeting (AMM) in Jakarta, July 1996, ASEAN approved China's status as full dialog partner replaced his previous status.

In December 1997, China's President, Jiang Zemin, and all of the leaders of ASEAN countries held an informal meeting in his first ASEAN+1 framework and issued a joint statement to conduct a partnership based on the principle of good neighborhood and mutual trust toward 21st century.³⁶In order to strengthen the foundation of the cooperation, several cooperation has been conducted including Joint Statement on ASEAN-China cooperation toward 21 Century (1997), Joint Declaration of ASEAN-China cooperation in the field of Non-traditional Security issues (2002), Declaration on the Conduct of Parties in the South China sea (2002), Joint Declaration on Strategic Partnership for peace and prosperity (2003), and Joint Statement of ASEAN-China Commemorative Summit, (2006).³⁷

In the economic field, in 2001, to strengthen cooperation between China-ASEAN, China proposed the establishment of a free trade area focused on agriculture, information technology, human resources development, investment, and Mekong river valley cooperation (then added five new cooperation priorities at the 9th ASEAN-China Summit in 2005, namely energy, transport, culture, public health, and tourism).

At the 6th ASEAN-China Summit in Cambodia in 2002, the leaders of ASEAN and the prime minister of China, Zhu Rongji, signed a Framework Agreement on The Comprehensive Economic Cooperation between ASEAN and China. In this agreement, ASEAN –China committed to strengthen economic cooperation between them and at the same time it became the basis for cooperation in trade a free trade area known as the ASEAN-China Free Trade Agreement (ACFTA).

³⁶ Lidya Christin Sinaga: Dua Dasawarsa Hubungan ASEAN-China, Retrieved 05/01/2015 00:08 from: <http://www.politik.lipi.go.id/en/columns/politik-internasional/512-dua-dasawarsa-hubungan-aseanchina.html>

³⁷ Hendra Satya Pramana, " The Rise of China: Challenges and Opportunities for Indonesia and ASEAN", Journal diplomacy Vol. June 2, 2010 Op.Cit page 116

Before ACFTA implementation in 2010, there are several MOU have been conducted in economic sector between ASEAN and PRC. Below the MOU as follow:

- MOU on Agricultural Cooperation for the period 2007–2011 (January 2007)
- MOU on Strengthening Sanitary and Phytosanitary (SPS) Cooperation(November 2007)
- MOU between ASEAN and China on Technical Barriers to Trade (TBT) (October 2009)
- MOU on the establishment of the ASEAN-China Centre (October2009) to expand trade and investment as well as the increaseof SME business, tourism, and people and cultural exchangesbetween ASEAN and China.

Gradually the relation between ASEAN-PRC is getting closer and stronger especially After ACFTA implementation. in 1 January 2010 marked the establishment of ACFTA, the world’s biggest free trade area of 1.9 billion consumers, a combined gross domestic product(GDP) of approximately US\$6 trillion and total international tradeof US\$4.3 trillion. It is ranked as the largest free trade area, in terms of market size, and third—after the European Union (EU) and the North American Free Trade Area (NAFTA)—in terms of economic size.

China as new emerging superpower in economic views ASEAN as it third largest trading partner and ASEAN views China as its main trading partner. Furthermore, after ACFTA implementation during 2009-2014 it has creates several economic partnerships which are some of them as follow: (Table II.1)³⁸

Year	ASEAN-China Economic Partnership 2009-2014
2009	China had established China-ASEAN Fund (CAF) on Investment Cooperation that invest around USD 10

³⁸ Retrieved 02/04/2015 at 09:45 am. From: <http://www.asean.org>

	<p>billion and USD 15 billion credit, including USD 1.7 billion preferential loans, which was subsequently increased to USD 6.7 billion. It supports about 50 infrastructure development projects in ASEAN Member States</p>
2010	<p>ASEAN-China transport cooperation activities, two agreements on maritime and air transport were signed. They were: i) ASEAN-China Maritime Transport Agreement (AC-MTA) signed on 2 November 2007 and ii) ASEAN-China Air Transport Agreement (AC-ATA) on 12 November 2010.</p>
2011	<p>On tourism, China has a significant potential to become a major source of tourists for ASEAN. According to ASEAN Statistics in 2012, ASEAN received around 8.77 million tourists from China, a growth of 19.8% compared with 7.32 million in 2011. At the same time, ASEAN Member States also played an important role as the source market for China. Figures recorded more than 5.6 million tourist arrivals from ASEAN to China in 2011..</p>
2012	<ol style="list-style-type: none"> 1. In order to provide the ACFTA-JC with a legal standing, the Third Protocol to Amend the ASEAN-China Framework Agreement of Comprehensive Economic Cooperation was signed at the sidelines of the 15th ASEAN-China Summit in November 2012 in Phnom Penh. 2. At the 15th ASEAN-China Summit on 19 November 2012, the Leaders reaffirmed that ASEAN Connectivity is considered as priority and fundamental in the development of an enhanced connectivity between ASEAN and the wider region, including ASEAN with China and tasked the ACCC and the Chinese Working Committee on Connectivity to identify key areas for connectivity cooperation and work out a list of prioritised projects, and coordinate technical and financial resource mobilisation

	from both ASEAN and China to better support financing for connectivity cooperation projects.
2013	ASEAN together with the Minister of Agriculture of China, signed the MOU between ASEAN and China on Food and Agriculture Cooperation, in which ASEAN and China agreed to strengthen cooperation in important issues such as food security, food safety, farm mechanization and machinery, agriculture extension and technology transfer training and extension and biotechnology
2014	On September 19-22, China and ASEAN conducted CAEXPO 2014 as the 11th expo. The objectives is to promote the construction of the China-ASEAN FTA and sharing opportunities for cooperation and development. It has been successfully held for 8 consecutive sessions, and yielded remarkable outcomes, thus becoming an important platform for the friendly exchanges, business promotion and cooperation in various fields between China and the ASEAN countries.

From the table above, we are able to see that within the economic partnership ASEAN-China has a good and strong relation. They have conducted economic partnership on many sectors that make the relation strong. Furthermore, through these economic partnership China position in ACFTA is supposedly stronger.

II. 5 ASEAN-PRC Trade Overview Before and After ACFTA

ACFTA implementation was agreed to be run in 2010 by both ASEAN and PRC. It has three sectors that agreed by both parties which are trading in goods, services, and investment. Agreements of those three sectors were implemented gradually. Agreement on trading in goods was signed in 2004. The content of agreement was about elimination tariffs on 90% PRC and ASEAN products. It

was implemented for ASEAN+6 (Brunei Darussalam, Indonesia, Malaysia, Philippine, Singapore, and Thailand) in 2010. Agreement of trade in service was signed in 2007. It was about services and services suppliers/providers in the region will enjoy improved market access and national treatment in sectors/subsectors where commitments have been made. Moreover, for the investment agreement it was agreed in 2010 that has goals to create a more transparent and facilitative environment, and give companies from ASEAN a competitive edge to tap on thriving opportunities in PRC.

In trading that concerned on Elimination tariff implementation has three stages. First, product that categorized as Early Harvest Program applies 0% of tax that effectively started in 2006 by ASEAN-6 include Indonesia. The second stage is product that categorized as Normal Track Program applied 0% tax in January 1, 2010, except textile product that made from cotton applied tax 5-15%. The third stage is product that categorize as sensitive track. There are two categorizations which are sensitive list and high sensitive list. For sensitive list, it was applied for tariff elimination started from 2012 within 20% tax as maximum tariff. For High Sensitive List, would be started in 2015 within maximum tax 50%. All products that existed in those three categorizations would be decided through agreement of bilateral trade relation between ASEAN member countries, Indonesia, and PRC.

In order to see the effectiveness of ACFTA especially in trading sectors. We are able to see from total trading between ASEAN and PRC before and after the implementation. Below table of ASEAN-PRC trade before ACFTA as follow: (Table II.2)³⁹

³⁹ Retrieved 02/04/2015 at 11:01am From : <http://www.adb.org/sites/default/files/publication/29908/wp99-impact-acfta-prc-asean-trade.pdf>

*Amount in Thousand US dollar

Year	Export ASEAN to PRC	Import ASEAN from PRC	Total Trade Volume
2005	74,994	55,367	130,361
2006	89,527	71,311	160,838
2007	108,509	94,717	203,226
2008	117,003	114,317	231,320
2009	96,594	81,591	178,185

In 2005, total trading between ASEAN and PRC was around US\$130 billion. At that time ASEAN was export more to PRC and gained more within total export around US\$74 billion. Meanwhile PRC was merely export around US\$55 billion. It means that ASEAN trade toward PRC was in surplus.

In 2006, total trading between ASEAN and PRC reached around US\$160 billion. In this year ASEAN exported around US\$89 billion to PRC while total imported products from PRC reached US\$71 billion. ASEAN still surplus around US\$18 billion.

In 2007, total trading between ASEAN and PRC reached around US\$203 billion. In this year ASEAN exported around US\$108 billion to PRC while total imported products from PRC reached around US\$95 billion. ASEAN surplus reached around US\$13 billion in this year.

In 2008, total trading between ASEAN and PRC reached around US\$231 billion. In this year ASEAN exported around US\$117 billion to PRC while total imported products from PRC reached around US\$114 billion. ASEAN surplus reached around US\$3 billion in this year.

In 2009, the impact of economic crisis suffered by over the world. Total trading between ASEAN and PRC was decreased and reached around US\$178 billion. It was decreased around US\$53 billion. In this year ASEAN exported around US\$96 billion to PRC while total imported products from PRC reached around US\$81 billion. ASEAN surplus reached around US\$15 billion in this year.

Reflecting to the data we are able to see that, year by year to get closer with ACFTA implementation the total trade between ASEAN-PRC was increased gradually except in 2009 because of economic crisis that influenced to all over the world. However in the year of ACFTA implementation the total trade had grown fast. Below the table of trade activities after ACFTA implementation from 2010-2014 : (Table II.3)⁴⁰

Year	Export ASEAN to PRC	Import ASEAN From PRC	Total Trade Volume
2010	112,999.8	119,013.4	232,013
2011	127,908.5	152,497.1	280,405
2012	141,554.3	177,002.7	318,557
2013	152.545,5	197.962,8	350,508
2014	208.000,0	272.000.	480,000

In 2010, the total trade recovered from crisis within the increase of total trade. It reached US\$ 232 the peak total trade comparing with 5 years before. ASEAN exported around US\$ 113 billion and imported around 119 billion. Nevertheless on the trade balance ASEAN at the first time suffered deficit toward PRC around US\$6 billion.

⁴⁰ Retrieved 02/04/2015 at 11:01am From : <http://www.adb.org/sites/default/files/publication/29908/wp99-impact-acfta-prc-asean-trade.pdf>

In 2011 the total trade kept increasing and reached total trade around US\$280 billion. ASEAN exported to PRC around US\$127 while ASEAN imported from PRC reached US\$ 152 billion. ASEAN deficit gap widen into US\$25 billion.

In 2012, ASEAN-PRC total trade reached US\$318 billion. ASEAN exported to PRC reached around US\$141 billion while the import reached US\$177. Again, ASEAN suffer deficit toward PRC even larger became US\$36 billion.

In 2013, ASEAN-PRC total trade reached US\$350 billion. ASEAN exported to PRC reached around US\$152 billion while the import reached US\$197 billion.in this year ASEAN suffer deficit toward PRC even larger became US\$ 45 billion.

In 2014, ASEAN-PRC total trade kept increasing and reached US\$480 billion. ASEAN exported to PRC reached around US\$208 billion while the import reached US\$272 billion. In this year ASEAN suffer deficit toward PRC even larger became US\$ 64billion.

Reflecting to the data, after ACFTA implementation total trading data kept increasing. Moreover trade balance between ASEAN PRC showed PRC gained more from ASEAN. ASEAN deficit toward PRC larger year by year.

Below table of total trade comparasion between ASEAN PRC from 2005-2009 before ACFTA and 2010-2014 after ACFTA implementation, as follow: (Table II.4)

Year	Total Trade	Year	Total Trade
2005	130,361		232,013
2006	160,838		280,405
2007	203,226		318,557
2008	231,320		350,508
2009	178,185		480,000
Total Trade 2005-2009	903,930	Total Trade 2010 - 2014	1,661,483

From the table above, we could see that after AFCTA implementation, it times doubled for total trading by comparing5 year before and after.

CHAPTER III

INDONESIA-PRC TRADE RELATION

III.1 Indonesia Economic Overview

Indonesia is a country that located in South East Asia. The approximate geographic center is at 5ES and 120EE. It is placed between the Indian and Pacific oceans and between the continents of Asia and Australia, south of Malaysia and the Philippines, and northwest of Australia.⁴¹ Indonesia is the largest islands country. It possesses around 13.466 Islands.⁴² However, within the geographical that separate into many Islands, it creates friction for Indonesia in terms of gap in economic development.. The gap creates Indonesia hard to actively compete with global competition and tend to rely on consumption to help the economic growth of its country. Moreover, the population of Indonesia is the fourth largest population within the population around 252 million people it is quite big market for other countries.

However, Indonesia currently is counted as new emerging economic country. In fact, Indonesia entered G-20 as global economic forum that involved by 20 developed and developing countries around the world. Moreover, Indonesia became the 17th largest GDP based on current price and become the 9th based on

⁴¹ Retrieved 25/03/2015 at 18:00 pm. From : <http://lcweb2.loc.gov/frd/cs/profiles/Indonesia.pdf>

⁴² Retrieved 25/03/2015 at 18:10 pm From : <http://news.metrotvnews.com/index/>

PPP valuation in 2014. Indonesia GDP based on current price reached US\$856 billion and for GDP based on PPP valuation reached US\$ 2,554 billion.⁴³

In ASEAN region Indonesia has important role. It is one of ASEAN founding fathers. It becomes the largest market in ASEAN within its total population. In ACFTA, that does not merely free flow goods, services and investment between ASEAN and China but also intra-ASEAN member, Indonesia placed in top 5 of ASEAN. For trade in goods in 2012-2013, Indonesia placed as the fourth largest trader under Thailand, Malaysia and Singapore. In 2012, its total trade around ASEAN region reached approximately US\$381 million and in 2013 reached around US\$369 million.⁴⁴

In services Indonesia is also placed as top five intra ASEAN member countries. During 2012-2013 for trade in services, Indonesia place as the fourth largest country in ASEAN under Thailand, Malaysia and Singapore. In 2012, Indonesia export in services reached US\$23.263 million while the import was US\$ 34.224 million. In 2013, Indonesia export reached around US\$22.514million while the import was US\$35.015 million.⁴⁵

From the trade services in 2012, the main sector for Indonesia in export area was travel within the total value reached US\$8,323 million while in import area the main sector was transport within total value around US\$12,500 million. In 2013, the main sector for export and import showed similar sector with the last year

⁴³ Retrieved 25/03/2015 at 18:10 pm From <http://knoema.com/nwnfkne/world-gdp-ranking-2015-data-and-charts>

⁴⁴ Retrieved 25/03/2015 at 21:04 pm. From: http://www.asean.org/images/2015/January/external_trade_statistic/table17_asof04Dec14.pdf

⁴⁵ Retrieved 25/03/2015 at 21:25 pm. From : http://www.asean.org/images/2015/January/asean_statistic/Table%2031%20-%20ASEAN%20TIS%20by%20AMS.pdf

which were transport for import within the total value around US\$12,539 million and travel for export within the total value around US\$9,119 million⁴⁶.

In terms of investment specifically in inflow of foreign direct investment intra-ASEAN during 2012-2013, Indonesia became the top three of largest FDI inside ASEAN. In 2012, Indonesia reach second place under Singapore. Indonesia reached inflow of FDI around US\$7,587 million. In 2013, Indonesia even defeated Singapore and reached the first place of largest total FDI inflow value around US\$8,721 million.⁴⁷ As the largest country in ASEAN and development gap that suffered makes Indonesia become one of great attracted country to be invested.

From the data of those three sectors, we could see that Indonesia has big influence in ASEAN in economic sector. In ACFTA, Indonesia entered to top 5 intra-ASEAN member countries which are most active in three sectors through the total volume for each sectors even in Investment Indonesia was placed as the first largest inflow of foreign direct investment. Moreover, Indonesia economic is not merely great in regional, in global also Indonesia today has counted as one of influential country in economic. Nevertheless, Indonesia economy still relies on consumption and investment.

III.2 Indonesia-PRC Bilateral Relations History

Indonesia and PRC have conducted bilateral relations more than 60 years. It was started when Indonesia had officially acknowledged China as sovereignty country on January 15, 1950.⁴⁸ At that time Moh Hatta was a Prime Minister of Indonesia

⁴⁶ Retrieved 25/03/2015 at 21:57 pm, From :
http://www.asean.org/images/2015/January/asean_statistic/Table%2035%20-%20Indonesia%20TIS%20by%20headings.pdf

⁴⁷ Retrieved 25/03/2015 at 22:20 pm. From:
http://www.asean.org/images/2015/January/foreign_direct_investment_statistic/Table%2025.pdf

⁴⁸ Hendra Satya Pramana, " The Rise of China: Challenges and Opportunities for Indonesia and ASEAN", Journal diplomacy Vol. June 2, 2010 page 109

Republic State. Indonesia was the first country that recognized China under the communist government. In preceding the relation, at the end of 1953, Indonesia appointed its first Ambassador to be sent to Beijing, China. The first Indonesia Ambassador in China was Arnold Mononutu. After that the relation got closer by signing cooperation between Indonesia-China and China sent its Ambassador to Indonesia. In 1960s Indonesia-PRC created Jakarta-Peking axis which was developed later on into Jakarta-Peking-Pyongyang.⁴⁹

Nevertheless after Soekarno fall in 1967, the relation between Indonesia-PRC seemed far away. Soeharto replaced Soekarno and created New Orded. He decided to break diplomatic relations between Indonesia and China. The reason behind the breach of diplomatic relation between two countries was rebellion of G-30 S Indonesia Communist Party and China was one of communist country in the world, moreover the population of Chinese was minority.

Soeharto tended to chose the West, especially USA to be closer friend. After China was led by Deng Xioping replaced in 1978 and he brought economic reform for China, Indonesia-China bilateral relation was intended to be normal again.

Finally, bilateral relation between Indonesia and China renormalize and returned into normal in July 1990. At that time, Foreign Minister of Indonesia Ali Alatas visited China and issued a mutual communiqué related to the restoration of diplomatic relations between Indonesia and China after being freeze for 23 years. In August 1990, the diplomatic relation between two of the countries restarted and in the same time Prime Minister of China, Li Peng Visited Indonesia.⁵⁰

In reform era, Chinese ethnic in Indonesia get better life and treated well reduced discrimination that have been suffered in New Order era. Reform era brought

⁴⁹Justus M. van der Kroef, *The Sino-American Rupture*, New York: American-Asian EducationalExchange, 1968. p.2

⁵⁰China Radio International: Catatan Peristiwa Penting Dalam Hubungan Bilateral Tiongkok-Indonesia, Retrieved 26/03/2015 14:00.From:<http://indonesian.cri.cn/481/2009/09/30/1s102390.htm>

hope for Chinese in Indonesia within its several output which are: issued government regulation of removing categorization of indigenous and non indigenous people (1998), Elimination of banning to use Chinese language in public activity (1999), eliminating restrictions on public activity related to religion, beliefs and traditions of Chinese (2000) and the determination of the Chinese New Year as one of Indonesia national's feast.⁵¹ Furthermore, after reform Indonesia-China more focused on economic area.

Under Abdurrahman Wahid government, It was the time when China placed as the special partner in Indonesia foreign policy and the diplomatic relation between two countries getting closer⁵² Abdurrahman Wahid visited several countries to attract investor to invest in Indonesia and China was the first country to be visited by Abdurrahman Wahid. At that time, Indonesia-China agreed to cooperate in the area of technology, fisheries, promotions and tourism, and cooperation in the field of energycounter trade by purchasing Liquid Natural Gas (LNG). Moreover, China would provide assistance around US\$5billion and provide facilitation of credit for purchasing food ingredients around US\$200million.⁵³

In Megawati era, the relation between Indonesia and PRC was stronger and better. Megawati delivered speech in meeting to celebrate Chinese New Year in 2002 that "Indonesian government decided to set Chinese New Year as national holiday." In trading aspect in 2003, total trade volume between Indonesia and China reached US\$6.8billion and it increased 17% from 1999 which reached total volume trade US\$3.2billion. Moreover in Megawati era, Indonesia signed Framework agreement of ACFTA in 2002.

⁵¹I. Wibowo and SyamsulHadi, Embrace China, the relationship between Indonesia-China post-Suharto, Jakarta:.-GramediaPustaka Page. this. 56.

⁵²Christin Sinaga, Lidya. 2010. "Memaknai Tahun Persahabatan Indonesia-China" Retrieved 26/03/2015. From: www.politik.lipi.go.id/index.php/in/kolom/politikinternasional/324-memaknai-tahun-persahabatanindonesia-cina

⁵³I. Wibowo and SyamsulHadi, Embrace China, the relationship between Indonesia-China post-Suharto, Jakarta:.-GramediaPustaka Page. 57-58.

During Abdurrahman Wahid and Megawati era, Indonesia-PRC have signed several Memorandum of Understandings (MOU). The MOU as follow below: (Table III.1)⁵⁴

No	Form of Agreement	Date and Place of Meeting
1.	MOU on Fund assistance about economic partnership and technique	Jakarta, 28/12/1999
2.	MOU about partnership on Medical and agreement on medical sectors.	Beijing, 23/02/2000
3.	Meeting and signing agreement on agriculture sector.	Beijing, 18/09/2000
4.	MOU on Fishing Partnership	Beijing, 23/04/2001
5.	MOU regarding to strengthen relation and exchange information between Indonesian Bank and People's Bank of China	Jakarta, 7/11/2001
6.	Preparation on Tourism sector plans.	Jakarta, 7/11/2001
7.	Agreement on Fishing in ZEE	Beijing, 19/12/2001

Furthermore, in Susilo Bambang Yudhoyono of first administration, on April 25, 2005 China President Hu Jin Tao traveled to Indonesia. Within his visit, Indonesia-China signed a Strategic Partnership Agreement. This Strategic Partnership focuses to strengthen cooperation in political and security, deepen

⁵⁴ I, Wibowo (Ahli Tentang China). 2003. "China Melihat Indonesia" – kerja sama dengan Harian Kompas, dalam http://www.unisosdem.org/ekopol_detail.php?aid=3721&coid=3&caid=31&p=3, diakses pada 20 Januari 2013

economic and development cooperation, to increase cooperation in socio-culture, and to expand their non-government relations.⁵⁵

Furthermore in economic relation, China-Indonesia showed positive trend for both countries year by year. The total trading volume was increased. One of main concern of economic relation between Indonesia and China during SBY administration is ACFTA. In 2004, the agreement of trading in goods of ACFTA was signed from that time the trading volume boosted fast. It showed surplus data of total trading from 2004 that reached US\$8,7 billion into US\$26,8 billion.⁵⁶

In terms of export and import before ACFTA implementation during SBY first administration, Indonesia ranked as the third largest exporter among ASEAN member countries for China after Vietnam as 1st rank and Thailand, Philippine and Singapore in the 2nd place. Meanwhile for PRC Indonesia was the fourth after Singapore, Malaysia and Thailand.

The trade relation between Indonesia-PRC is getting tighter after ACFTA. PRC became main trading partner for Indonesia and Indonesia became the forth trading partner for PRC in ASEAN. For Indonesia China is not merely a friend but also strategic partner that not only benefit for certain time and short time but also for long time. Within ACFTA, Indonesia has big opportunity in several sectors which are: Increasing access to export into China market, increasing of cooperation among businessmen of both countries and create strategic alliance, increasing of China services market, increasing of the foreign direct investment inflow, and open of technology transfer for both countries.⁵⁷

⁵⁵Hendra Satya Pramana, " The Rise of China: Challenges and Opportunities for Indonesia and ASEAN", Journal diplomacy Vol. June 2, 2010 page 111

⁵⁶Chandra, Alexander C. 2010. "Dilema Indonesiadalam ACFTA" Retrieved 26/03/2015 at 16:47. From: <http://kesehatan.kompas.com/read/2010/01/18/02352497/Dilema.Indonesia.dalam.ACFTA>

⁵⁷Direktorat Kerjasama Regional, DitjenKerjasama Perdagangan Internasional.

III.3 Indonesia-PRC Bilateral Trade Relation Before and After ACFTA 2005-2009 and 2010-2014

Historically, Indonesia-PRC bilateral relation has been through up and down condition and run dynamically. In Old Order Era, Indonesia was the first country that acknowledges PRC as a sovereign country under communist leader. Indonesia-PRC relation at that time was more about politics. After that in New Order Era, the relation was freeze due to G-30s Indonesia Communist Party.

Moreover, it was renormalized again in 1990s. Entering into reform era Indonesia-PRC relation has been getting stronger. PRC has become strategic partner for Indonesia, vice versa Indonesia has become important partner for PRC especially in ASEAN as the statement of PRC Minister of Foreign Affair that visited Indonesia in 2013. He said that “Relation between PRC and Indonesia is the tightest relation between PRC and ASEAN member countries”.⁵⁸

At the first term of reform era, motif behind relation between Indonesia-PRC is not merely about politics, even it is more about economic. After suffer economic crisis in 1998, Indonesia under President Abdurrahman Wahid visited China as the first destiny to be visited. That visit showed how important PRC for Indonesia in reform era. After that in Megawati era the relation was even getting stronger especially in economic aspect. The trade volume increased rapidly. Moreover, the Framework of ACFTA has signed in Megawati era. ACFTA becomes one of main focuses for Indonesia and PRC bilateral relation, especially in trade area.

Furthermore, SBY was the sixth President of Indonesia and became the first President that was directly elected by people through Presidential Election. He was a TNI General. The first time he entered to politic when he became Ministry

⁵⁸ Retrieved 26/03/2015 at 23:02 pm. From: <http://m.energitoday.com/2013/05/07/indonesia-dan-china-memperkuat-hubungan-bilateral/>

of Mining and Energy in Abdurrahman Wahid Presidential era. Finally He was chosen with Jusuf Kalla as his Vice President in second round election defeated Megawati Soekarno-Puteri in September 20, 2004 within 60% voters.⁵⁹ Moreover, in 2009 He was also chosen became Indonesian President with Boediono as his Vice President. SBY has led Indonesia as President approximately 10 years. During those enough time, Indonesia-PRC relations had very great progress.

The important moment for Indonesia-PRC bilateral relation in SBY era was when PRC President, Hu Jin Tao, visited Indonesia in April 25, 2005 and signed agreement of Strategic Partnership Agreement between Indonesia and PRC. In that agreement, it is involved partnership in economic development, politic, security, and social culture. Indonesia and PRC has big potential become great partner in economic since Indonesia and PRC have very large market and several MoU in economic area have been signed in Megawati and Abdurrahman Wahid Era. Within the strategic partnership the economic relation between Indonesia and PRC was tighten.

In addition, the signed on ACFTA framework of trade in goods in 2004 also gave influence on Indonesia-PRC economic relation in SBY administration term. The content of agreement was about elimination tariffs on 90% PRC and ASEAN products. It was implemented for ASEAN+6 (Brunei Darussalam, Indonesia, Malaysia, Philippine, Singapore, and Thailand) in 2010.

Elimination tariff in ACFTA implementation has three stages. First, product that categorized as Early Harvest Program apply 0% of tax that effectively started in 2006 by ASEAN-6 include Indonesia. The second stage is product that categorized as Normal Track Program applied 0% tax in January 1, 2010, except textile product that made from cotton applied tax 5-15%. The third stage is product that categorize as sensitive track. There are two categorizations which are sensitive list and high sensitive list. For sensitive list, it was applied for tariff elimination started from 2012 within 20% tax as maximum tariff. For High

⁵⁹ Biografi Lengkap Seluruh Presiden Indonesia” Retrieved 27/03/2015. From: <http://www.beritaunik.net/unik-aneh/biografilengkap-seluruh-presiden-indonesia.html>

Sensitive List, would be started in 2015 within maximum tax 50%. All products that existed in those three categorizations would be decided through agreement of bilateral trade relation between ASEAN member countries, Indonesia, and PRC.

According to the data, 2004-2014, trading data between Indonesia-PRC increase gradually. SBY views China as one of important partner for Indonesia even He did official visit to China more than five times during his era. In 2013, SBY delivered speech that said “We agreed to keep increasing trade and investment on both countries. The trading value of Indonesia-PRC reached US\$51 million and we agreed to keep increasing it”.⁶⁰ For Indonesia China is not merely a friend but also strategic partner that not only benefit for certain time and short time but also for long time. Within ACFTA, Indonesia has big opportunity in several sectors which are: Increasing access to export into China market, increasing of cooperation among businessmen of both countries and create strategic alliance, increasing of China services market, increasing of the foreign direct investment inflow, and open of technology transfer for both countries.

During SBY first administration term, in 2004 the total trade between Indonesia and PRC reached US\$8,7billion. Moreover, in 2008 the total trade increased into US\$26,8billion. It increased approximately US\$18,1billion. The trade activity of Indonesia to China was dominated by oil and gas if comparing to non-oil and gas commodity that the output was still lower. However, year by year the trading data between Indonesia-PRC shows good trend. In addition, before ACFTA implementation in 2010, Indonesia-PRC gave surplus for Indonesia. The data as follow below:

⁶⁰ BBC : Era Baru Kerjasama Indonesia dan Cina. Retrieved 27/03/2015 at 02:06am. From: http://www.bbc.co.uk/indonesia/berita_indonesia/2013/10/131002_investasi_cina_indonesia

(Table III.2)⁶¹.

Amount of money is in thousand US\$.

Categories	2005	2006	2007	2008	2009
Total	12,506,206.3	14,980,466.4	18,233,389.3	26,883,672.6	25,501,497.8
Oil and Gas	3,994,183.4	4,011,873.8	3,612,035.6 4	4,148,600.9	3,090,052.2
Non-Oil and Gas	8,511,082.9	10,968,592.6	14,621,354.3	22,735,071.7	22,411,445.5
Export	6,662,353.8	8,343,571.3	9,675,512.7	11,636,503.7	11,499,327.3
Oil and Gas	2,702,591.2	2,876,961.3	3,011,412.8	3,849,335.3	2,579,242.8
Non-Oil and Gas	3,959,762.6	5,466,610.0	6,664,099.9	7,787,168.4	8,920,084.4
Import	5,842,862.5	6,636,895.1	8,557,877.1	15,247,168.9	14,002,170.5
Oil and Gas	1,291,592.2	1,134,912.5	600,622.7	299,265.6	510,809.4
Non-Oil and Gas	4,551,270.3	5,501,982.6	7,957,254.4	14,947,903.3	13,491,361.1
Trade Balance	819,491.3	1,706,676.2	1,117,635.6	-3,610,665.2	-2,502,843.2

In 2005, Indonesia-PRC total trade reached approximately US\$12,5 billion. The trade was dominated by non-oil and gas products. It was reached around US\$8,5 meanwhile for oil and gas products reached US\$ 4 billion. Moreover, Indonesia export reached US\$ 8 billion within oil and gas products reached US\$ 3 billion and non-oil and gas reached 5 billion. On the other side, for import Indonesia from PRC reached US\$5,8 billion within oil and gas products reached around 1,2 billion and non-oil and gas products reached US\$5,6 billion. In 2005, Indonesia surplus US\$819 million.

In 2006, Indonesia-PRC total trade reached approximately US\$14 billion. The total trade was increased from 2005. It was dominated by non-oil and gas

⁶¹ Asian Development Bank, 2009.

products within total reached around US\$ 10 billion meanwhile for oil and gas products reached US\$4 billion . Moreover, Indonesia export reached US\$ 8,3 billion within oil and gas products reached US\$2,8 billion and non-oil and gas reached 5,5 billion. On the other side, for import Indonesia from PRC reached US\$6,6 billion within oil and gas products reached around 1,1 billion and non-oil and gas products reached US\$5,5 billion. In 2006, Indonesia surplus US\$1,7 billion.

In 2007, Indonesia-PRC total trade reached approximaetly US\$18.2 billion. The total trade was increased from 2006. It was dominated by non-oil and gas products within total reached around US\$ 14,6 billion meanwhile for oil and gas products reached US\$3.6 billion . Moreover, Indonesia export reached US\$ 9,6 billion within oil and gas products reached US\$3 billion and non-oil and gas reached 6,6 billion. On the other side, for import Indonesia from PRC reached US\$8,5 billion within oil and gas products reached around 600 million and non-oil and gas products reached US\$7,9 billion. In 2007, Indonesia surplus US\$1,1 billion.

In 2008, Indonesia-PRC total trade reached approximaetly US\$26,8 billion. The total trade was increased from 2007. It was dominated by non-oil and gas products within total reached around US\$ 22,7 billion meanwhile for oil and gas products reached US\$4,1 billion . Moreover, Indonesia export reached US\$ 11,4 billion within oil and gas products reached US\$2,5 billion and non-oil and gas reached 8,9 billion. On the other side, for import Indonesia from PRC reached US\$15,2 billion within oil and gas products reached around 299 million and non-oil and gas products reached US\$14,9 billion. In 2008, Indonesia deficit US\$ -3,6 billion. This was the first time Indonesia suffer deficit from PRC.

In 2009, Indonesia-PRC total trade reached approximaetly US\$25,5 billion. The total trade was decreased from 2008 due to influence of euro zone crisis at that time. It was dominated by non-oil and gas products within total reached around US\$ 22,5 billion meanwhile for oil and gas products reached US\$3 billion . Moreover, Indonesia export reached US\$ 11,6 billion within oil and gas products

reached US\$3,8 billion and non-oil and gas reached 7,8 billion. On the other side, for import Indonesia from PRC reached US\$14 billion within oil and gas products reached around 510 million and non-oil and gas products reached US\$13,5 billion. In 2008, Indonesia deficit US\$ --2,5 billion.

Reflecting to Indonesia-PRC bilateral trade relation from 2005-2009, there are several outputs which are : Indonesia from 2005-2007 was still surplus in trading balance comparing with PRC. Meanwhile in 2008-2009, PRC rose to dominate the indonesia market and made Indonesia suffer deficit at that time US\$-3,6billion in 2008 and US\$ -2,5billion.

In SBY second administration term, the total trade between Indonesia-PRC has been significantly increased. Moreover, ACFTA was implemented in 2010. In trading, it entered into second stage which Normal Track Program was agreed to be implemented. In 2009, Indonesia exported to PRC reached total export US\$11,4 billion. Meanwhile, PRC total export to Indonesia reached US\$14 billion. Total trade in 2009 approximately reached US\$25,4 billion. The condition of this total trade before ACFTA full implementation was worried by many Indonesian people from many classes, for instances criticize from labor.

In 2010, labor union delivered their point of view regarding ACFTA negative impact to People House of Representative (DPR). Bambang Wirayoso as Chairman of National Labor Union said "Within the existence of ACFTA labour treated as a maid. Labor produce shoes but they have to buy the shoes from China. As if a maid that cook meet but she just could eat when there were remaining foods from the boss".

Agree with Bambang, Iqbal from representative of Indonesia Metal Labor Federation delivered supporting argument that said "Mexico and Argentina were brave enough to revise their Free Trade while our Minister of Trade, Mari Elka Pangestu supported us to become example of ACFTA, does she

understand?!” He added that labor does not need Free Trade while they need fair trade. Therefore labor asked DPR to force government to cancel ACFTA.⁶²

On the other hand, Mari Elka Pangestu said that government would not review agreement of ACFTA. She viewed that ACFTA is benefit for national competitiveness. Mari viewed that deficit occurred because of capital goods like machine, mechanic component, and import of raw material goods. Mari also said that even though trade between Indonesia-PRC makes Indonesia suffer deficit but generally Indonesia total trade is still surplus. For instance, Indonesia trade surplus to Japan and other countries.⁶³

In SBY second administration, there was a meeting of renegotiation of ACFTA between Mari Elka Pangestu as the Trade Minister of Indonesia and Chen Deming as the Trade Minister of PRC. The meeting was conducted on April 3rd, 2010. It was considered fail by many people who contra on ACFTA because Mari could not be able to renegotiate 228 tariff from 11 sectors that assessed unready yet in ACFTA.

In the meeting there are seven important elements which were agreed. Those elements are : First, both of government agreed that declaration of strategic partnership in 2005 was the basic principle in strengthening Indonesia-PRC on trade and economic relation for better relation of those two countries. Therefore, both countries agreed to develop strategic plans for long term interest of both countries

Second, to achieve the strategic partnership both of countries agreed to implement ACFTA comprehensively and benefit each other. Third, both of countries aim to achieve high trading growth and sustainable, therefore if imbalance of trade is happened the partner who get surplus must do steps in increasing import and giving support that the partner needs.

⁶²Retrieved 28/03/2015. 10:00 am. From <http://www.solopos.com/2010/01/28/mari-e-pangestu-ceroboh-tandatangani-acfta-13294>

⁶³Retrieved 28/03/2015. 10:42 am. From: <http://www.republika.co.id/berita/breaking-news/ekonomi/11/01/06/156623-mendag-meski-defisit-acfta-tetap-menguntungkan>

Fourth, to implement it, there would be team that have duty on analyzing data and trade information for two sides, Indonesia and PRC, and recommend necessary steps within priority on later deciding sectors that would concern more on iron and steel, textile and textile product included shoes that covered 80% from 228 tariff lines.

Fifth, both of countries also agreed on other sectors instead of trading which are credit fund loan for revitalization, investment for development. Sixth, both countries agreed to support development of infrastructure in Indonesia within several schemes that would be on other agreement. PRC also support Indonesia program to increase connectivity of its regions and islands inside the nation. Seventh, both of countries agreed on dialog and partnership between business associations in priority sectors⁶⁴

Regarding this meeting output, Indonesia Vice Minister of Trade, MahendraSiregar said that the output of renegotiation meeting might be far from the expectation, however from those seven elements, both Indonesia and PRC agreed to overcome negative side of AFCTA. If we force PRC to follow we want there must be something given to PRC. The worse thing is our export market is closed by them while PRC has potential market for us.

It could be seen that in the era of SBY, Indonesia-PRC relation is very good, it was started from strategic partnership that were agreed by both of countries in 2005 until the implementation of ACFTA, Even though there are several pro and contra regarding the relation between those two countries that seem benefit only for PRC because of their surplus and many people worried about ACFTA. However there was renegotiation meeting that agreed by both countries on working together to overcome negative sides that may face by ACFTA.

In following years after, the data shows rapid increase on Indonesia-PRC total trade volume. In 2010, the total trade reached US\$36 billion. It rose

⁶⁴Retrieved 28/03/2015. 11:20 am :
<http://www.hukumonline.com/berita/baca/lt4bbb61ac6dbee/hasil-renegosiasi-acfta-dinilai-kurang-memuaskan>

approximately US\$9.5 billion from 2009. At the end of SBY era in 2014, total trade between Indonesia-PRC reached US\$48 billion. Below is comparison table between Indonesia-PRC before and after ACFTA within five years for each (2005-2009) and (2010-2014): (Table III.3)⁶⁵

Year 2005-2009	Total Trade Volume per year	Year 2010-2014	Total Trade Volume per Year
2005	12,506,206.3	2010	36.116.829,3
2006	14,980,466.4	2011	49.153.192,3
2007	18,233,389.3	2012	51.045.297,1
2008	26,883,672.6	2013	52.450.952,0
2009	25,501,497.8	2014	48.230.555,1
Total Trade 2005-2009	98,105,232,4	Total Trade 2010-2014	236.996.825,80

Reflecting to comparison table of 5 year before and after ACFTA, we could see that year by year Indonesia-PRC total trade volume had been increasing gradually year by year. Furthermore, after ACFTA implementation in 2010 the total trading was significantly increased. Moreover, comparing total trade between before and after ACFTA, it could be seen significant improved. Before ACFTA total trade was merely reached US\$98 billion while after ACFTA it reached US\$236 billion, it was almost two and half times from before ACFTA.

⁶⁵BPS, Processed by Trade Data and Information Center, Ministry of Trade Retrieved 23/03/2014 at 18:40pm. From :<http://www.kemendag.go.id/id/economic-profile/indonesia-export-import/balance-of-trade-with-trade-partner-country?negara=456>

CHAPTER IV

ANALYZING THE ECONOMIC IMPACT ON INDONESIA DEFICIT OF BILATERAL TRADE RELATION WITH PRC (2010-2014)

IV.1 Indonesia-PRC Total Trade (Export-Import) Volume 2010-2014

Export and Import are economic activities for one country with others. Export is defined as a function of international trade that good produce in one country are shipped to another country for future trade or sale. The goods sale are added to produce nation's gross output. Moreover, in trade, exports are exchanged for other products or services. Export are one of the oldest forms of economic transfer, and occur on a large scale between nations that have fewer restrictions on trade, such as tariffs or subsidies.⁶⁶

Meanwhile import is defined as good or service brought into one country from another. Along with exports, imports form the backbone of international trade. The higher the value of imports entering a country, compared to the value of exports, the more negative that country's balance of trade becomes or it is usually called as deficit. Vice versa the lower of imports value entering a country, compared with export value, the more positive of trade balance of the country, or it usually called as surplus. The word Import comes from port. It describe the activity of trade of goods are often used ship to foreign country. Countries are most likely to import goods that domestic industries cannot produce as efficiently

⁶⁶Retrieved 29/03/2015 at 10:58am. From: <http://www.investopedia.com/terms/e/export.asp>

or cheaply. Moreover, it may also import raw materials or commodities that are not available within its borders. For example, many countries have to import oil because they either cannot produce it domestically or cannot produce enough of it to meet demand.⁶⁷

Within the Free Trade Area, the trade activity like import and export is even greater. In ACFTA, it could be seen that on Indonesia-PRC bilateral trade relation. It has significant improve for total trade volume before and after ACFTA. Even the goods are not only something that not exist in the country. It seems like competition between import and local goods.

As explained that Indonesia-PRC relation has been through dynamic condition of up and down. In the reform era especially during SBY administration the relation has been getting better until reached the terms of strategic partnership in 2015 that agreed by both countries. Some of officially visit by both leaders shows how important this two country relation..Moreover, the ACFTA that involved by both countries give more chance for both countries to benefit each other as strategic partner. After ACFTA full implementation in 2010, the relation especially in total trading volume generally has been rising but there was still fluctuative condition which was happened in 2014 that the trading volume was decreased little bit. Below the table of Indonesia-PRC total trade from 2010-2014 : (Figure IV.1)⁶⁸

⁶⁷Retrieved 29/03/2015 at 10:58am. From <http://www.investopedia.com/terms/i/import.asp>

⁶⁸BPS, Processed by Trade Data and Information Center, Ministry of Trade Retrieved 23/03/2014 at 18:40pm. From :<http://www.kemendag.go.id/id/economic-profile/indonesia-export-import/balance-of-trade-with-trade-partner-country?negara=456>



In 2010, total trade volume between Indonesia-PRC reached approximately US\$36billion. It rose from 2009 around US\$4 billion. The goods that become main trading at that time was non-oil and gas that reached total trade around US\$32,7billion, while the trade of oil and gas reached US\$2,3 billion.

In 2011, the trade volume between the two countries massively increased. It reached US\$49,1billion that means rising from 2010 approximately \$US14 billion. It was really significant rose. The trading was still dominated by non-oil gas products. The total volume of non-oil and gas product reached US\$47 Billion while the oil and gas products reached US\$2,1 billion.

In 2012, the total trade volume of Indonesia-PRC kept increasing. It maintained increasing trend data of trading of both countries. In that year, the total trading volume rose into US\$51billion. It was increase approximately US\$2 billion from 2011. The data shows the domination of non-oil and gas kept rising. Meanwhile

the oil and gas product kept decreasing. Non-oil and gas reached US\$49.8billion while oil and gas decreased into US\$1,2billion. It was decreased around US\$900million from 2011. In contrast, Non-oil and gas product raise the total trade volume around US\$ 2 billion.

In 2013, the total trade between the two countries kept rising. It reached the total trade volume approximately US\$52,4billion. It increased around US\$1 billion from 2012. In this year oil and gas product increased from the last year. The oil and gas product reached US\$1,5 billion increased around US\$300million from 2012. Meanwhile the non-oil and gas product still dominated the total trading volume. It increased around US\$1billion from 2012. The total volume reached US\$50,8 billion.

In 2014, the trend of kept increasing total trading volume was failed in this year. The total trading was decrease little bit into US\$48,2 billion. It decreased around US\$4 billion. Both of non-oil and gas, and oil and gas products decreased in this year. The total of non-oil and gas product reached US\$46.9billion, decreased around US\$4 billion. The total of oil and gas product reached US\$1,3billion. It decreased around US\$200 million from 2013.

The total trading volume that kept increasing from 2010-2013 was influenced from export-import activities. Indonesia export activities which is Indonesia local product send and sell to PRC in 2010 reached the total export around US\$15,6 billion. The export domination product in that year was non-oil and gas that reached US\$14billion while the oil and gas export product approximately reached US\$1.6 billion. The total export between Indonesia-PRC explained by table as below : (Figure IV.2)⁶⁹

⁶⁹BPS, Processed by Trade Data and Information Center, Ministry of Trade Retrieved 23/03/2014 at 18:40pm. From :<http://www.kemendag.go.id/id/economic-profile/indonesia-export-import/balance-of-trade-with-trade-partner-country?negara=456>



In 2011 the total export volume reached around US\$22,9billion. It was significantly increased from 2010 around US\$7,3 billion. The export products were dominated by non-oil and gas products as well. It reached around US\$21.5billion meanwhile the oil and gas products reached US\$1,3billion. The non-oil and gas products were significantly increased around US\$7.5billion from 2010. In contrast, for oil and gas product the total export products were decreased comparing with the year of 2010.

In 2012 the total export volume reached around US\$21.6 billion. It was little bit decreased from 2011 around US\$ 1.3billion. The domination of export products still went to non-oil and gas products. It reached total export around US\$20,8 billion, it was decreased little bit from 2011 around US\$700million. For oil and gas product it was decreased as well into US\$795 million comparing with 2011 the total export for oil and gas products.

In 2013 the total export volume reached around US\$22.6 billion. It was increased from 2011 around US\$ 1 billion. The domination of export products still went to non-oil and gas products. It reached total export around US\$21,2 billion, it was

increased from 2011 around US\$400million. For oil and gas product it was increased as well into US\$1,4billion comparing with 2011 the total export for oil and gas products.

In 2014 the total export volume reached around US\$17,6billion. It was significantly decreased from 2013 around US\$5 billion. The export products were dominated by non-oil and gas products as well. It reached around US\$21.5billion meanwhile the oil and gas products reached US\$1,3billion. The non-oil and gas products were significantly increased around US\$7.5billion from 2010. In contrast, for oil and gas product the total export products were decreased comparing with the year of 2010.

For import, total import in 2010 from PRC products in Indonesia reached US\$20billion. The dominated products in this year was non-oil and gas that reached almost all total of import products which was US\$19,6billion. Meanwhile for oil and gas products reached US\$736 million, It shows that PRC is more concerned to export non-oil and gas products than oil and gas products.

In 2011, the total import of PRC products to Indonesia reached approximately US\$26,2 billion. It was significantly increased from 2010 within the difference of total amount around US\$6,2billion. In this year, import of PRC oil and gas products reached US\$589million, decreased from 2010 within differences decreased around US\$147million. For non-oil and gas products reached US\$25,4billion. It increased from 2010 within the differences total amount approximately reached US5,8billion.

In 2012, the total import of PRC products to Indonesia reached approximately US\$29,3 billion. It was increased from 2011 within the difference of total amount around US\$2,9billion. In this year, import of PRC oil and gas products reached US\$423million, decreased from 2011 within differences decreased around

US\$166million. For non-oil and gas products reached US\$28,9billion. It increased from 2011 within the differences total amount approximately reached US3,5billion.

In 2013, the total import of PRC products to Indonesia reached approximately US\$29,8 billion. It was increased from 2012 within the difference of total amount around US\$500million. In this year, import of PRC oil and gas products reached US\$279million, decreased from 2012 within differences decreased around US\$144million. For non-oil and gas products reached US\$29,5billion. It increased from 2012 within the differences total amount approximately reached US\$600 million.

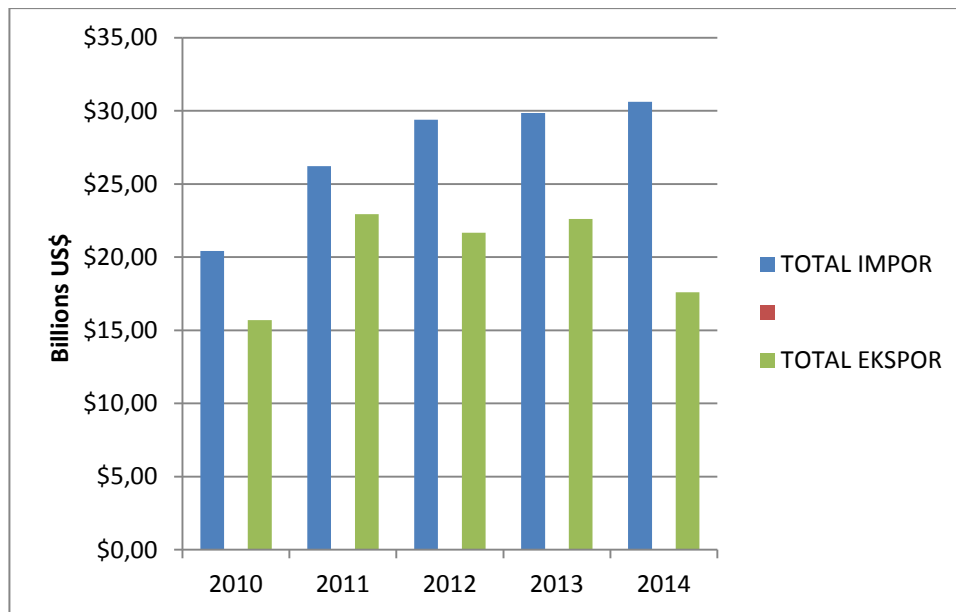
In 2014, the total import of PRC products to Indonesia reached approximately US\$30,6 billion. It was increased from 2013 within the difference of total amount around US\$800 million. In this year, import of PRC oil and gas products reached US\$162 million, decreased from 2013 within differences decreased around US\$117million. For non-oil and gas products reached US\$30,4,billion. It increased from 2013 within the differences total amount approximately reached US\$900 million. The total import between Indonesia-PRC from 2010-2014 explained by table as below: (Figure IV.3)⁷⁰

⁷⁰BPS, Processed by Trade Data and Information Center, Ministry of Trade Retrieved 23/03/2014 at 18:40pm. From :<http://www.kemendag.go.id/id/economic-profile/indonesia-export-import/balance-of-trade-with-trade-partner-country?negara=456>



Furthermore, export and import is united data to see the accumulation of total trade. Economically, export and import volume is able to influence total GDP of a country. Those all were the trading volume data between Indonesia and PRC during SBY second administration and after ACFTA full implementation. Balance of trade on Indonesia-PRC regarding total trade of export import shows Indonesia suffer deficit over those five years. Moreover, PRC rely on non-oil and gas for its export to Indonesia while for oil and gas products were very limited transaction. It could be seen from the data that PRC non-oil and gas products kept increasing. Indonesia was also concerned more on non-oil and gas products for its export. However, for its oil and gas products export trade volume was bigger than import from PRC.

In order to see clearly the comparison of Indonesia import-export towards PRC, below is comparison table between Indonesia import-export toward PRC. (Figure IV.4)⁷¹



It is clearly seen that Indonesia imported more than exported to PRC. PRC total import has been gradually increased, while Indonesia total export shows fluctuative trend. In 2012, Indonesia exports were decreased compare with 2011 and in 2014 the total export of Indonesia also decreased.

In 2012, Indonesia exports were decreased especially in oil and gas categories. According to Bayu Krisnamurthi vice minister of trade said that the export decreased toward PRC because of decreasing demand of oil and gas categories. It was decreased because the price of oil and gas products which were coal and

⁷¹BPS, Processed by Trade Data and Information Center, Ministry of Trade Retrieved 23/03/2014 at 18:40pm. From :<http://www.kemendag.go.id/id/economic-profile/indonesia-export-import/balance-of-trade-with-trade-partner-country?negara=456>

crude palm oil was increased at that time.⁷² In 2012, Indonesia exported only US\$795 million that was decreased comparing with 2011 that reached US\$ 1,3 billion. Meanwhile in 2013 the price was back to normal that gave implication of Indonesia export was increased again. In 2014, Indonesia export suffered decreasing trend again. According to BPS, It is happened because of export contraction that means Indonesia export was weakened.⁷³ According to Chairul Tanjung, Indonesia was suffered deficit in 2014 because of two main reasons. First is because PRC slow growth that reached 7,7%, it was the slowest growth for PRC since 1990. This slow growth impact into Indonesia import because the market demand in PRC slower. Second is because Indonesia market need that have been relied on export product.⁷⁴ Below the detailed data from BPS about Indonesia-PRC trade in 2010-2014. (Table IV.1)

Catagorize	2010	2011	2012	2013	2014
Total Trade					
Volume	36.116.829,30	49.153.192,30	51.045.297,10	52.450.952,00	48.230.555,10
Oil and Gas	2.347.861,20	2.101.182,80	1.219.267,70	1.598.916,50	1.310.137,80
Non- Oil and Gas	33.768.968,10	47.052.009,50	49.826.029,50	50.852.035,50	46.920.417,30
Export	15.692.611,10	22.941.004,90	21.659.502,70	22.601.487,20	17.606.219,60
Oil and Gas	1.611.661,30	1.345.420,40	795.429,90	1.319.904,40	1.147.356,30
Non-Oil and Gas	14.080.949,90	21.595.584,50	20.864.072,70	21.281.582,80	16.458.863,30
IMPORT	20.424.218,20	26.212.187,40	29.385.794,50	29.849.464,80	30.624.335,50
Oil and Gas	736.200,00	755.762,30	423.837,70	279.012,10	162.781,50
Non-Oil and Gas	19.688.018,30	25.456.425,00	28.961.956,80	29.570.452,70	30.461.554,00
Trade Balance	-4.731.607,10	-3.271.182,40	-7.726.291,80	-7.247.977,50	13.018.115,90
Oil and Gas	875.461,30	589.658,10	371.592,20	1.040.892,30	984.574,90
Non-Oil and Gas	-5.607.068,40	-3.860.840,50	-8.097.884,10	-8.288.869,80	14.002.690,80

⁷²Retrieved 07/04/2015 at 10:35 am from:

<http://jaringnews.com/ekonomi/umum/33604/ekspor-melambat-inilah-penyebabnya>

⁷³Retrieved 07/04/2015 at 10:45 am from:

<http://industri.bisnis.com/read/20150206/12/399679/neraca-perdagangan-2014-defisit-ri-ke-china-membengkak-330>

⁷⁴Retrieved 07/04/2015 at 10:35 am from: www.Jenakarya.com

IV.2 Economic Impact of ACFTA on Indonesia Deficit Towards PRC Bilateral Trade

ASEAN-PRC Free Trade Area (ACFTA) was fully implemented in 2010. It has three sectors that agreed by both parties which are trading in goods, services, and investment. Agreements of those three sectors were implemented gradually. Agreement on trading in goods was signed in 2004. The content of agreement was about elimination tariffs on 90% PRC and ASEAN products. It was implemented for ASEAN+6 (Brunei Darussalam, Indonesia, Malaysia, Philippine, Singapore, and Thailand) in 2010. Agreement of trade in service was signed in 2007. It was about services and services suppliers/providers in the region will enjoy improved market access and national treatment in sectors/subsectors where commitments have been made. Moreover, for the investment agreement it was agreed in 2010 that has goals to create a more transparent and facilitative environment, and give companies from ASEAN a competitive edge to tap on thriving opportunities in PRC.⁷⁵

ACFTA shows great implication on total volume of those three sectors. It has been increasing gradually year by year. However, the main sector that was implemented massively was trading in goods. This sector shows significant improve until China become main trading partner for ASEAN.

In the trade of goods sector, ASEAN-China have been implemented it maximally. In 2010, data showed that PRC became largest trading partner for ASEAN surpassed position of Japan and European Union (EU) within the increasing of ASEAN's total import by 44.8% to USD154.56 billion. In 2011 ASEAN became the third largest partner for China.

In 2013, China still stands as main trading partner for ASEAN. The total trade value between ASEAN and China reached around US\$350,508 billion. China

⁷⁵ Singapore Free Trade Area: Overview of ASEAN-PRC (ACFTA). Retrieved 15/03/2015 at 03:3 am. From : http://www.fta.gov.sg/fta_acfta.asp?hl=2.

export to ASEAN was around US\$197,962 billion. Meanwhile total value of China import from ASEAN was around US\$152,545billion.

Those large amounts of transaction money came from bilateral trade relation of each ASEAN member countries with PRC. If in 2013, ASEAN-PRC total trade reached US\$350,508 billion, Indonesia-PRC total trade reached US\$52,4billion. If the export of PRC to ASEAN reached US\$197,962 billion., Indonesia, as the fourth largest country destination for PRC export in ASEAN, imported US\$29,8 billion at the same following time. For the PRC import from ASEAN was around US\$152,545 billion. Indonesia was contributed around US\$22.6 billion for its export to PRC in 2013.

PRC that rise as super power countries in economic, has very big influence in trade around the world. Moreover, within its economic power it has big influence as well in ASEAN regional economic through ACFTA. Comparing with Indonesia that is also counted as new emerging power in economic moreover when it could stand in facing economic crisis in 2008, PRC is much stronger in trading area. On the one hand, PRC-Indonesia bilateral relation help to boost Indonesia economic growth that based on consumption. On the other hand, according the data that show Indonesia export less than its import from PRC, it could create deficit condition for Indonesia economic.

Deficit itself is defined as An economic measure of a negative balance of trade in which a country's imports exceeds its exports. A trade deficit represents an outflow of domestic currency to foreign markets.⁷⁶ In this reseached deficit is catagorized as economic impact.

In 2010, Indonesia suffered deficit toward PRC on trading around US\$4,7 billion. The detail of deficit products as follow: On non-oil and gas products of Indonesia deficit reached US\$5,6 billion, meanwhile in oil and gas products Indonesia surplus towards PRC around US\$ 875 million.

⁷⁶Retrieved 30/03/2015 at 00:12am. From : http://www.investopedia.com/terms/t/trade_deficit.asp

Below table shows deficit trend that Indonesia suffer from 2010-2014 on Indonesia-PRC bilateral trade relation: (Figure IV.5)⁷⁷



In 2011, Indonesia trade deficit toward bilateral trade with PRC reached around US\$3,2billion. It was decreased from 2010 within difference amount around US\$1,5 billion. On non-oil and gas products, Indonesia deficit around US\$3,8 billion. It was decreased from 2010 around US\$1,8 billion. In oil and gas, Indonesia remains surplus around US\$ 589 million. According to RusmanHeriawan, Head of BadanPusatStatistik(BPS), the condition was because generally Indonesia export more products and velocity of Indonesia export more than PRC in this year.⁷⁸

⁷⁷BPS, Processed by Trade Data and Information Center, Ministry of Trade Retrieved 23/03/2014 at 18:40pm. From :<http://www.kemendag.go.id/id/economic-profile/indonesia-export-import/balance-of-trade-with-trade-partner-country?negara=456>

⁷⁸Retrieved 30/03/2015 at 00:12am. From : <http://m.news.viva.co.id/news/read/237423-ekspor-melonjak--defisit-ri-china-mengecil->

In 2012, Indonesia trade deficit toward bilateral trade with PRC reached around US\$ 7,7 billion. It was increased from 2011 within difference amount around US\$ 4,5 billion. On non-oil and gas products, Indonesia deficit around US\$ 8 billion. It was increased from 2011 around US\$4,2 billion. In oil and gas, Indonesia remains surplus around US\$ 371 million. In 2012, Indonesia exports were decreased especially in oil and gas categories. According to BayuKrisnamurthi vice minister of trade said that the export decreased toward PRC because of decreasing demand of oil and gas categories. It was decreased because the price of oil and gas products which were coal and crude palm oil was increased at that time.

In 2013, Indonesia trade deficit toward bilateral trade with PRC reached around US\$ 7,2 billion. It was decreased from 2012 within difference amount around US\$ 5 million. On non-oil and gas products, Indonesia suffers deficit around US\$ 8,2 billion. It was increased from 2012 around US\$200 million. In oil and gas, Indonesia remains surplus around US\$ 1 billion.

In 2014, Indonesia trade deficit toward bilateral trade with PRC reached around US\$ 13 billion. It was increased from 2013 within difference amount around US\$ 5,8 billion. On non-oil and gas products, Indonesia suffers deficit around US\$ 14 billion. It was increased from 2013 around US\$5,8 billion. In oil and gas, Indonesia remains surplus around US\$ 984 million. According to ChairulTanjung, Indonesia was suffered deficit in 2014 because of two main reasons. First is because PRC slow growth that reached 7,7%, it was the slowest growth for PRC since 1990. This slow growth impact into Indonesia import because the market demand in PRC slower. Second is because Indonesia market need that have been relied on export product.⁷⁹

Total deficit from 2010-2014 on Indonesia towards bilateral trade relation with PRC reached around US\$ 35,8 billion. For non-oil and gas products, Indonesia suffer deficit reached around US\$ 39,6 billion. Meanwhile for oil and gas

⁷⁹Retrieved 07/04/2015 at 10:35 am from: www.Jenakarya.com

products, Indonesia is surplus reached 3,8 billion. It shows deficit impact that Indonesia suffers toward PRC on Indonesia-PRC bilateral trade relation.

In order to have an easy look of Economic impact on Indonesia-PRC trade relation specifically on total trade volume, below the matrix of it: (Table IV.2)

Year	Economic Impact of ACFTA on Indonesia -PRC trade from 2010-2014	
	Total Trade (export-Import)	Reason of Deficit
2010	Indonesia suffer deficit around US\$ - 4,7 billion. It was the peak of deficit comparing before ACFTA implementation.	The First year of ACFTA implementation. PRC exported more than Indonesia
2011	The deficit was decreased from 2010. It reached US\$-3,2billion.	According to Rusman Heriawan, Head of Badan Pusat Statistik(BPS), the condition was because generally Indonesia export more products and velocity of Indonesia export more than PRC in this year.
2012	The deficit was increased and reached US\$-7,7billion.	According to Bayu Krisnamurthi vice minister of trade said that the export decreased toward PRC because of decreasing demand of oil and gas categories. It was decreased because the price of oil and gas products which were coal and crude palm oil was increased at that time.
2013	The deficit was decreased little bit into US\$-7,2 billion	The deficit was decreased little bit because the oil and gas product price was back to normal and Indonesia oil and gas products were reach the highest surplus on oil and gas between Indonesia and PRC
2014	The deficit was reached the peak around US\$-13 billion	According to Chairul Tanjung, Indonesia was suffered deficit in 2014 because of two main reasons. First is because PRC slow growth that reached 7,7%, it was the slowest growth for PRC since 1990. This slow growth impact into Indonesia import because the market demand in PRC slower. Second is because Indonesia market needs that have been relied on PRC export product.

CHAPTER V

CONCLUSION

V. Conclusion

ACFTA was agreed to be fully implemented in 2010. This ACFTA has been influencing much to ASEAN-PRC trade relation. After ACFTA implementation, ASEAN become third largest trade partner for PRC and PRC become the largest partner on trade for ASEAN. Through ACFTA, total trade between ASEAN member countries with PRC has been massively growing year by year.

Before ACFTA in 2005-2009, total trade between ASEAN-PRC reached US\$903 billion. The most total trade was happened in 2008 that reached US\$ 231 billion. Nevertheless, in 2009 the total trade were decreased and merely reached US\$178 billion due to the impact of eurozone crisis even it was lower than 2007 that reached US\$ 203 billion. Before ACFTA, reflecting to export-import volume, ASEAN year by year export more to PRC rather than import.

After ACFTA, the total trade between ASEAN-PRC shows significant improve. It has been rapidly growing. In 2010-2014 reached the total trade around US\$ 1,661 billion, it almost counted double comparing with five years before. In 2010, the total trade recovered from crisis by showing increase of total trade. It reached US\$ 232 the peak total trade comparing with 5 years before. In 2010, the total trade recovered from crisis within the increase of total trade. It reached US\$ 232 the peak total trade comparing with 5 years before. ASEAN exported around US\$ 113 billion and imported around 119 billion. Nevertheless on the trade balance ASEAN at the first time suffered deficit toward PRC around US\$6 billion.

In 2011 the total trade kept increasing and reached total trade around US\$280 billion. ASEAN exported to PRC around US\$127 while ASEAN imported from PRC reached US\$ 152 billion. ASEAN deficit gap widen into US\$25 billion. In 2012, ASEAN-PRC total trade reached US\$318 billion. ASEAN exported to PRC reached around US\$141 billion while the import reached US\$177. Again, ASEAN suffer deficit toward PRC even larger became US\$36 billion.

Furthermore in 2013, ASEAN-PRC total trade reached US\$350 billion. ASEAN exported to PRC reached around US\$152 billion while the import reached US\$197 billion.in this year ASEAN suffer deficit toward PRC even larger became US\$ 45 billion. In 2014, ASEAN-PRC total trade kept increasing and reached US\$480 billion. ASEAN exported to PRC reached around US\$208 billion while the import reached US\$272 billion. In this year ASEAN suffer deficit toward PRC even larger became US\$ 64billion.

This large total trade of ACFTA and deficit that suffered by ASEAN after ACFTA implementation was derived from accumulation of bilateral trade between PRC and each ASEAN. On the other hand, the implementation of ACFTA supposedly gave impact into bilateral trade between PRC and ASEAN countries.

Indonesia-PRC historically has a very dynamic relation. In reform era, the economic relation between those two countries has been getting closer even in Abdurrahman wahid and Megawati era there were several MoU on economic sector. Moreover, in 2005-2009 before ACFTA Indonesia-PRC total trade reached US\$ 98 billion. It was approximetly 10% from ASEAN-PRC total trade in the same following years. The most total trade volume was happened in 2008 that reached US\$26billion.

After ACFTA implementation in 2010, Indonesia-PRC total trade trade has been increasing rapidly. In 2010, total trade was US\$36 billion. It rose from 2009

around US\$4 billion. In 2011, the trade volume between the two countries massively increased. It reached US\$49,1billion that means rising from 2010 approximately \$US14 billion. It was really significant rose.

In 2012, the total trade volume of Indonesia-PRC kept increasing. It maintained increasing trend data of trading of both countries. In that year, the total trading volume rose into US\$51billion. It was increase approximately US\$2 billion from 2011. In 2013, the total trade between the two countries kept rising. It reached the total trade volume approximately US\$52,4billion. It increased around US\$1 billion from 2012. In 2014, the trend of kept increasing total trading volume was failed in this year. The total trading was decrease little bit into US\$48,2 billion. It decreased around US\$4 billion.

Total trade between Indonesia and PRC after ACFTA from 2010-2014 was reached 236 billion. It is counted almost two and half times from 5 years before ACFTA 2005-2009. Moreover, comparing to the total trade volume of PRC-ASEAN it was reached almost 15% from the PRC-ASEAN total trade in 2010-2014.

The total trade between those two countries might be able to grow year by year. However, in trading the one who have more power would gain more. Reflecting to ASEAN-PRC, before ACFTA implementation ASEAN exported more to PRC. Meanwhile after ACFTA the condition was changed PRC exported more to ASEAN.

This economic condition impacted as well to Indonesia-PRC export-import total volume. From 2010-2014, Indonesia suffer deficit for bilateral trade with PRC reached US\$ 35,8 billion. The worse deficit was happened in 2014 reached around US\$ 13 billion. This deficit condition is the economic impact of ACFTA implementation on Indonesia-PRC bilateral trade.

In conclusion, the growth of total trade volume between ASEAN-PRC was contributed from bilateral trade relation of PRC and each of ASEAN member

countries. The deficit that suffered by ASEAN-PRC after ACFTA implementation was one of economic impact of ACFTA. This impact suffered as well to Indonesia-PRC bilateral trade relation that shows Indonesia deficit toward PRC.

BIBLIOGRAPHY

Books and journals

- Chandra, Alexander C. 2009. "Indonesia FTA agreement in the ASEAN-China: a Critical Studies", in the I. Wibowo and Syamsul Hadi Op. Cit page 238
- Chow, Gregory C. 2004. "Economic Reform and Growth in China" in *Annals of Economic and Finance*. p 127-152
- Dent, Christopher. 2006. "The New Economic Bilateralism in Southeast Asia: Region Convergent or Divergent?" *International Relations of ASIA Pacific* 6 .pp. 81-111
- Dunne, T, 'Liberalism' in Baylis, J and Smith, S ed., 2005. "The Globalization of World Politics: An introduction to International Relations." England : Oxford University Press, p 185
- Keohane, R and Nye, J. 1977. "Power and Interdependence: world politics in Transition". Boston : Little Brown.
- Kroef, Justus M. van der. 1968. "The Sino-American Rupture". New York: American-Asian Educational Exchange p.2
- Lee, Hiro and G. Plummer, Michael. 2011. *Assessing the Impact of the ASEAN Economic Community*. Page 2.
- Oratmangun, Djauhari. 2010. "Indonesia and ASEAN : toward ASEAN Economic Community 2015". *Journal diplomacy* Vol. 2 page 21.
- Oratmangun, Djauhari. 2010 "Indonesia and ASEAN : toward ASEAN Economic community 2015" . *Journal diplomacy* Vol. page 26
- Pramana, Hendra Satya. 2010. " The Rise of China: Challenges and Opportunities for Indonesia and ASEAN", *Journal diplomacy* Vol. page 109
- Pramana, Hendra Satya. 2010. " The Rise of China: Challenges and Opportunities for Indonesia and ASEAN". *Journal diplomacy* Vol. page 111
- Pramana, Hendra Satya. 2010. " The Rise of China: Challenges and Opportunities for Indonesia and ASEAN", *Journal diplomacy* Vol. page 11

Wibowo and SyamsulHadi.2009."Embrace China, the relationship between Indonesia-China post-Suharto". Jakarta:GramediaPustaka p 56.

Website :

Association South East Asian Nations: External Trade Statistic.Retrieved 16/03/2015 at 16:29 am. From :
http://www.asean.org/images/2015/January/external_trade_statistic/table20_asof04Dec14.pdf

Association of Southeast Asian Nations: ASEAN Profile. Retrieved 17/03/2015 at 4:32 am. From : <http://www.asean.org/asean/about-asean>

Association of Southeast Asian Nations: ASEAN History. Rerieved 18/03/2015 at 13:53 pm. From : <http://www.asean.org/asean/about-asean/history>

Association of Southeast Asian Nations: Free Trade Area. Retrieved 02/04/2015 at 09:45 am. From: <http://www.asean.org/news/item/asean-free-trade-area-afta-an-update>

Association of Southeast Asian Nations: External Trade Statistic. Retrieved 25/03/2015 at 21:04 pm. From:
http://www.asean.org/images/2015/January/external_trade_statistic/table17_asof04Dec14.pdf

Association of Southeast Asian Nations: ASEAN Statistic Table. Retrieved 25/03/2015 at 21:25 pm. From :
http://www.asean.org/images/2015/January/asean_statistic/Table%2031%20-%20ASEAN%20TIS%20by%20AMS.pdf

Association of Southeast Asian Nations: ASEAN Foreign Direct Investment. Retrieved 25/03/2015 at 22:20 pm. From:
http://www.asean.org/images/2015/January/foreign_direct_investment_statistic/Table%2025.pdf

Asian Development Bank Annual Report 2009.Retrieved 26/03/2015. From :
<http://www.adbi.org/files/2013.11.22.cpp.sess7.1.lozada.asean.economic.community.pdf>

Badan Kebijakan Fiskal Pusat Kebijakan Pendapatan Negara: ASEAN Free Trade Area, Retrieved 01/04/2015 21:00 from:
<http://www.tarif.depkeu.go.id/others/?hi=afta>

Biografi Lengkap Seluruh Presiden Indonesia” Retrieved 27/03/2015. From: <http://www.beritaunik.net/unik-aneh/biografilengkap-seluruh-presiden-indonesia.html>

BBC : Era Baru Kerjasama Indonesia dan Cina. Retrieved 16/03/2015 at 19:19 pm. From: http://www.bbc.co.uk/indonesia/berita_indonesia/2013/10/131002_investasi_cina_indonesia

BPS, Processed by Trade Data and Information Center, Ministry of Trade. Retrieved 15/03/2015 at 14:33 pm. From: <http://www.kemendag.go.id/id/economic-profile/indonesia-export-import/balance-of-trade-with-trade-partner-country?negara=116>

BPS, Processed by Trade Data and Information Center, Ministry of Trade Retrieved 23/03/2014 at 18:40pm. From: <http://www.kemendag.go.id/id/economic-profile/indonesia-export-import/balance-of-trade-with-trade-partner-country?negara=456>

Chandra, Alexander C. 2010. “*Dilema Indonesiadalam ACFTA*” Retrieved 26/03/2015 at 16:47. From: <http://kesehatan.kompas.com/read/2010/01/18/02352497/Dilema.Indonesia.dalam.ACFTA>

China Asean Fund : Investment. Retrieved 28/01/2015 at 7:07 am. From : <http://www.china-asean-fund.com/investment.php?slider1=2>

China Radio International: Catatan Peristiwa Penting Dalam Hubungan Bilateral Tiongkok-Indonesia, Retrieved 26/03/2015 14:00. From: <http://indonesian.cri.cn/481/2009/09/30/1s102390.htm>

Christin Sinaga, Lidya. 2010. “Memaknai Tahun Persahabatan Indonesia-China” Retrieved 26/03/2015. From: www.politik.lipi.go.id/index.php/in/kolom/politikinternasional/324-memaknai-tahun-persahabatanindonesia-cina

Direktorat Kerjasama Regional, Ditjen Kerjasama Perdagangan Internasional.: Hubungan Bilateral Indonesia China. Retrieved 16/03/2015 at 14:00 pm. From: <http://m.energitoday.com/03/17/2015indonesia-dan-china-memperkuat-hubungan-bilateral/>

Direktorat Kerjasama Regional, Ditjen Kerjasama Perdagangan Internasional. Retrieved 26/03/2015 at 23:02 pm. From: <http://m.energitoday.com/2013/05/07/indonesia-dan-china-memperkuat-hubungan-bilateral/>

I, Wibowo (Ahli Tentang China). 2003. "China Melihat Indonesia" – kerja sama dengan Harian

Kompas, Retrieved From:

http://www.unisosdem.org/ekopol_detail.php?aid=3721&coid=3&caid=31&p=3,

International Monetary Fund : Data Base, world economic outlook, GDP, 2014.

Retrieved 16/03/2015 at 14:16 pm. From: www.imf.org.

Investopedia : Export. Retrieved 29/03/2015 at 10:58am. From:

<http://www.investopedia.com/terms/e/export.asp>

Investopedia: Import. Retrieved 29/03/2015 at 10:58am. From

<http://www.investopedia.com/terms/i/import.asp>

Investopedia: Deficit. Retrieved 30/03/2015 at 00:12am. From :

http://www.investopedia.com/terms/t/trade_deficit.asp

Lidya Christin Sinaga: Dua Dasawarsa Hubungan ASEAN-China, Retrieved

05/01/2015 00:08 from: [http://www.politik.lipi.go.id/en/columns/politik-](http://www.politik.lipi.go.id/en/columns/politik-internasional/512-dua-dasawarsa-hubungan-aseanchina.html)

[internasional/512-dua-dasawarsa-hubungan-aseanchina.html](http://www.politik.lipi.go.id/en/columns/politik-internasional/512-dua-dasawarsa-hubungan-aseanchina.html)

MITI Government. Retrieved 28/01/2015 at 08.33 am. From :

http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.section.Section_b609671a-c0a81573-aba0aba0-c94c2e0c

PT Jenakakarya: Tantangan Ekonomi Indonesia 2014. Retrieved 07/04/2015 at

10:35 am from: www.Jenakarya.com

Rony Soerakoesomah : ASEAN China Free Trade Area. Retrieved 02/04/2015 at

11:01am From : [http://www.adb.org/sites/default/files/publication/29908/wp99-](http://www.adb.org/sites/default/files/publication/29908/wp99-impact-acfta-prc-asean-trade.pdf)

[impact-acfta-prc-asean-trade.pdf](http://www.adb.org/sites/default/files/publication/29908/wp99-impact-acfta-prc-asean-trade.pdf)

Singapore Free Trade Area: Overview of ASEAN-PRC (ACFTA). Retrieved

15/03/2015 at 03:3 am. From : http://www.fta.gov.sg/fta_acfta.asp?hl=2.

Tirta N. Mursitama : *ACFTA impact to Indoensia*. Retrieved 02/04/2015 at

11:01am From : [http://www.adb.org/sites/default/files/publication/29908/wp99-](http://www.adb.org/sites/default/files/publication/29908/wp99-impact-acfta-prc-asean-trade.pdf)

[impact-acfta-prc-asean-trade.pdf](http://www.adb.org/sites/default/files/publication/29908/wp99-impact-acfta-prc-asean-trade.pdf)

APPENDIX

ASEAN - China Free Trade Area

Joint Press Statements

- Joint Press Statement - The Sixth Consultations between the ASEAN Economic Ministers and the Minister of Commerce of the People's Republic of China, Makati City, Philippines, 25 August 2007
- Media Statement on ASEAN-China Agreement on Trade in Services

Agreements

- Second Protocol to Amend the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People's Republic of China
- Second Protocol to Amend the Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-Operation between the Association of Southeast Asian Nations and the People's Republic of China, Kuala Lumpur, 29 October 2010
- Appendix 1
- Appendix 2
- Appendix 2a
- Memorandum of Understanding between ASEAN and China on Strengthening Cooperation in the Field of Standards, Technical Regulations and Conformity Assessment, Cha-Am Hua Hin, Thailand, 25 October 2009
- Memorandum of Understanding between ASEAN and China on Cooperation in the Field of Intellectual Property (English version)
- Memorandum of Understanding between ASEAN and China on Cooperation in the Field of Intellectual Property (Chinese version)
- Agreement on Investment of the Framework Agreement on Comprehensive

Economic Co-operation between the Association of Southeast Asian Nations and the People's Republic of China, Bangkok, 15 August 2009

- Agreement on Trade in Services of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People's Republic of China, Cebu, Philippines, 14 January 2007
- 1st Package of ASEAN-China Services Commitments
- Protocol to Implement the Second Package of Specific Commitments under the Agreement on Trade in services of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People's Republic of China
- 2nd Package of ASEAN-China Services Commitments (CONSOLIDATED)
- Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People's Republic of China, Vientiane, 29 November 2004
- ANNEX I. Modality for Tariff Reduction and Elimination for Tariff Lines Placed in the Normal Track
- ANNEX II. Modality for Tariff Reduction/ Elimination for Tariff Lines Placed in the Sensitive Track
- ANNEX III. Rules of Origin for the ASEAN-China Free Trade Area
- Agreement on Dispute Settlement Mechanism of the Framework Agreement on Comprehensive Economic Co-Operation Between the Association of Southeast Asian Nations and the People's Republic of China, Vientiane, 29 November 2004
- Protocol to Amend the Framework Agreement on Comprehensive Economic Co-Operation Between the Association of South East Asian Nations and the People's Republic of China, Bali, 6 October 2003

- Framework Agreement on Comprehensive Economic Co-Operation Between ASEAN and the People's Republic of China, Phnom Penh, 4 November 2002
- Annexes to the Framework Agreement on Comprehensive Economic Co-Operation Between ASEAN and the People's Republic of China, Phnom Penh, 4 November 2002

**AGREEMENT ON TRADE IN GOODS OF THE
FRAMEWORK AGREEMENT ON COMPREHENSIVE
ECONOMIC CO-OPERATION BETWEEN THE
ASSOCIATION OF SOUTHEAST ASIAN NATIONS AND
THE PEOPLE'S REPUBLIC OF CHINA**

Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People's Republic of China The Governments of Brunei Darussalam, the Kingdom of Cambodia, the Republic of Indonesia, the Lao People's Democratic Republic ("Lao PDR"), Malaysia, the Union of Myanmar, the Republic of the Philippines, the Republic of Singapore, the Kingdom of Thailand and the Socialist Republic of Viet Nam, Member States of the Association of Southeast Asian Nations (collectively, "ASEAN" or "ASEAN Member States", or individually, "ASEAN Member State"), and the People's Republic of China ("China");

RECALLING the Framework Agreement on Comprehensive Economic Cooperation ("the Framework Agreement") between ASEAN and China (collectively,"the Parties", or individually referring to an ASEAN Member State or to China as a "Party") signed by the Heads of Government/State of ASEAN Member States and China in Phnom Penh, Cambodia on the 4th day of November 2002 and the Protocol to Amend the Framework Agreement on Comprehensive Economic Co-operation on the Early Harvest Programmed signed by the Economic Ministers of the Parties in Bali, Indonesia on the 6th day of October 2003;

RECALLING further Articles 2(a), 3(1) and 8(1) of the Framework Agreement, which reflect the Parties' commitment to establish the ASEAN-China Free Trade Area (ACFTA) covering trade in goods by 2010 for ASEAN 6 and China and by 2015 for the newer ASEAN Member States;

REAFFIRMING the Parties' commitment to establish the ASEAN-China Free Trade Area within the specified timeframes, while allowing flexibility to the Parties to address their sensitive areas as provided in the Framework Agreement, Have agreed as follows

ARTICLE 1

Definitions

For the purposes of this Agreement, the following definitions shall apply unless the context otherwise requires:

- (a) "WTO" means the World Trade Organization;
- (b) "the GATT 1994" means the General Agreement on Tariffs and Trade 1994, including Annex I (Notes and Supplementary Provisions);
- (c) "ASEAN 6" refers to Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand;
- (d) "newer ASEAN Member States" refers to Cambodia, Lao PDR, Myanmar and Viet Nam;
- (e) "applied MFN tariff rates" shall include in-quota rates, and shall:
 - (i) in the case of ASEAN Member States (which are WTO members as of 1 July 2003) and China, refer to their respective applied rates as of 1 July 2003; and
 - (ii) in the case of ASEAN Member States (which are non-WTO members as of 1 July 2003), refer to the rates as applied to China as of 1 July 2003;
- (f) "non-tariff measures" shall include non-tariff barriers;
- (g) "AEM" means ASEAN Economic Ministers;
- (h) "MOFCOM" means Ministry of Commerce of China;
- (i) "SEOM" means ASEAN Senior Economic Officials Meeting.

ARTICLE 2

National Treatment on Internal Taxation and Regulation

Each Party shall accord national treatment to the products of all the other Parties covered by this Agreement and the Framework Agreement in accordance with Article III of the GATT 1994. To this end, the provisions of Article III of the GATT 1994 shall, mutatis mutandis, be incorporated into and form an integral part of this Agreement.

ARTICLE 3

Tariff Reduction and Elimination

1. The tariff reduction or elimination programmed of the Parties shall require the applied MFN tariff rates on listed tariff lines to be gradually reduced and where applicable, eliminated, in accordance with this Article.
2. The tariff lines which are subject to the tariff reduction or elimination programmed under this Agreement shall include all tariff lines not covered by the Early Harvest Programmed under Article 6 of the Framework Agreement, and such tariff lines shall be categorized for tariff reduction and elimination as follows:
 - (a) Normal Track: Tariff lines placed in the Normal Track by each Party on its own accord shall have their respective applied MFN tariff rates gradually reduced and eliminated in accordance with the modalities set out in Annex 1 of this Agreement with the objective of achieving the targets prescribed in the thresholds therein.
 - (b) Sensitive Track: Tariff lines placed in the Sensitive Track by each Party on its own accord shall have their respective applied MFN tariff rates reduced or eliminated in accordance with the modalities set out in Annex 2 of this Agreement.
3. Subject to Annex 1 and Annex 2 of this Agreement, all commitments undertaken by each Party under this Article shall be applied to all the other Parties.

ARTICLE 4

Transparency

Article X of the GATT 1994 shall, mutatis mutandis, be incorporated into and form an integral part of this Agreement.

ARTICLE 5

Rules of Origin

The Rules of Origin and the Operational Certification Procedures applicable to the products covered under this Agreement and the Early Harvest Programmed of the Framework Agreement are set out in Annex 3 of this Agreement.

ARTICLE 6

Modification of Concessions

1. Any Party to this Agreement may, by negotiation and agreement with any Party to which it has made a concession under this Agreement, modify or withdraw such concession made under this Agreement.
2. In such negotiations and agreement, which may include provision for compensatory adjustment with respect to other products, the Parties concerned shall maintain a general level of reciprocal and mutually advantageous concessions not less favorable to trade than that provided for in this Agreement prior to such negotiations and agreement.

ARTICLE 7

WTO Disciplines

1. Subject to the provisions of this Agreement and any future agreements as may be agreed pursuant to reviews of this Agreement by the Parties under Article 17 of this Agreement, the Parties [1] hereby agree and reaffirm their commitments to abide by the provisions of the WTO disciplines on, among others, non-tariff measures, technical barriers to trade, sanitary and phytosanitary measures, subsidies and countervailing measures, anti-dumping measures and intellectual property rights.
2. The provisions of the WTO Multilateral Agreements on Trade in Goods, which are not specifically mentioned in or modified by this Agreement, shall apply, mutatis mutandis, to this Agreement unless the context otherwise requires.

ARTICLE 8

Quantitative Restrictions and Non-Tariff Barriers

1. Each Party undertakes not to maintain any quantitative restrictions at any time unless otherwise permitted under the WTO disciplines.[2]
2. The Parties shall identify non-tariff barriers (other than quantitative restrictions) for elimination as soon as possible after the entry into force of this Agreement. All Parties shall mutually agree upon the time frame for elimination of these non-tariff barriers.
3. The Parties shall make information on their respective quantitative restrictions available and accessible upon implementation of this Agreement.

ARTICLE 9

Safeguard Measures

1. Each Party, which is a WTO member, retains its rights and obligations under Article XIX of the GATT 1994 and the WTO Agreement on Safeguards.
2. With regard to ACFTA safeguard measures, a Party shall have the right to initiate such a measure on a product within the transition period for that product. The transition period for a product shall begin from the date of entry into force of this Agreement and end five years from the date of completion of tariff elimination/reduction for that product.
3. A Party shall be free to take ACFTA safeguard measures if as an effect of the obligations incurred by that Party, including tariff concessions under the Early Harvest Programmed of the Framework Agreement or this Agreement, or, if as a result of unforeseen developments and of the effects of the obligations incurred by that Party, including tariff concessions under the Early Harvest Programmed of the Framework Agreement or this Agreement, imports of any particular product from the other Parties increase in such quantities, absolute or relative to domestic production, and under such conditions so as to cause or threaten to cause serious injury to the domestic industry of the importing Party that produces like or directly competitive products.
4. If an ACFTA safeguard measure is taken, a Party taking such a measure may increase the tariff rate applicable to the product concerned to the

WTO MFN tariff rate applied to such product at the time when the measure is taken.

5. Any ACFTA safeguard measure may be maintained for an initial period of up to 3 years and may be extended for a period not exceeding 1 year. Notwithstanding the duration of an ACFTA safeguard measure on a product, such measure shall terminate at the end of the transition period for that product.
6. In applying ACFTA safeguard measures, the Parties shall adopt the rules for the application of safeguard measures as provided under the WTO Agreement on Safeguards, with the exception of the quantitative restriction measures set out in Article 5, and Articles 9, 13 and 14 of the WTO Agreement on Safeguards. As such, all other provisions of the WTO Agreement on Safeguards shall, *mutatis mutandis*, be incorporated into and form an integral part of this Agreement.
7. An ACFTA safeguard measure shall not be applied against a product originating in a Party, so long as its share of imports of the product concerned in the importing Party does not exceed 3% of the total imports from the Parties.
8. In seeking compensation under Article 8 of the WTO Agreement on Safeguards for an ACFTA safeguard measure, the Parties shall seek the good offices of the body referred to in paragraph 12 to determine the substantially equivalent level of concessions prior to any suspension of equivalent concessions. Any proceedings arising from such good offices shall be completed within 90 days from the date on which the ACFTA safeguard measure was applied.
9. On a Party's termination of an ACFTA safeguard measure on a product, the tariff rate for that product shall be the rate that, according to that Party's tariff reduction and elimination schedule, as provided in Annex 1 and Annex 2 of this Agreement, would have been in effect commencing on 1 January of the year in which the safeguard measure is terminated.
10. All official communications and documentations exchanged among the Parties and to the body referred to in paragraph 12 relating to any ACFTA safeguard measures shall be in writing and shall be in the English language.

11. When applying ACFTA safeguard measures, a Party shall not have simultaneous recourse to the WTO safeguard measures referred to in paragraph 1.
12. For the purpose of this Article, any reference to "Council for Trade in Goods" or the "Committee on Safeguards" in the incorporated provisions of the WTO Agreement on Safeguards shall, pending the establishment of a permanent body under paragraph 1 of Article 16, refer to the AEM-MOFCOM, or the SEOMMOFCOM, as appropriate, which shall be replaced by the permanent body once it is established.

ARTICLE 10

Acceleration of Commitments

Nothing in this Agreement shall preclude the Parties from negotiating and entering into arrangements to accelerate the implementation of commitments made under this Agreement, provided that such arrangements are mutually agreed to and implemented by all the Parties.

ARTICLE 11

Measures to Safeguard the Balance of Payments

Where a Party is in serious balance of payments and external financial difficulties or threat thereof, it may, in accordance with the GATT 1994 and the Understanding on Balance-of-Payments Provisions of the GATT 1994, adopt restrictive import measures.

ARTICLE 12

General Exceptions

Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between the Parties where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by a Party of measures:

- (a) Necessary to protect public morals;
- (b) Necessary to protect human, animal or plant life or health;
- (c) Relating to the importations or exportations of gold or silver;
- (d) Necessary to secure compliance with laws or regulations which are not

inconsistent with the provisions of this Agreement, including those relating to customs enforcement, the enforcement of monopolies operated under paragraph 4 of Article II and Article XVII of the GATT 1994, the protection of patents, trade marks and copyrights, and the prevention of deceptive practices;

- (e) Relating to the products of prison labor;
- (f) Imposed for the protection of national treasures of artistic, historic or archaeological value;
- (g) Relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption;
- (h) Undertaken in pursuance of obligations under any intergovernmental commodity agreement that conforms to criteria submitted to the WTO and not disapproved by it or which is itself so submitted and not so disapproved;
- (i) Involving restrictions on exports of domestic materials necessary to ensure essential quantities of such materials to a domestic processing industry during periods when the domestic price of such materials is held below the world price as part of a governmental stabilization plan; Provided that such restrictions shall not operate to increase the exports of or the protection afforded to such domestic industry, and shall not depart from the provisions of this Agreement relating to non-discrimination;
- (j) Essential to the acquisition or distribution of products in general or local short supply; Provided that any such measures shall be consistent with the principle that all Parties are entitled to an equitable share of the international supply of such products, and that any such measures, which are inconsistent with the other provisions of this Agreement shall be discontinued as soon as the conditions giving rise to them have ceased to exist.

ARTICLE 13

Security Exceptions

Nothing in this Agreement shall be construed:

- (a) to require any Party to furnish any information the disclosure of which it

considers contrary to its essential security interests;

- (b) to prevent any Party from taking any action which it considers necessary for the protection of its essential security interests, including but not limited to:
 - (i) action relating to fissionable materials or the materials from which they are derived;
 - (ii) action relating to the traffic in arms, ammunition and implements of war and to such traffic in other goods and materials as is carried on directly or indirectly for the purpose of supplying a military establishment;
 - (iii) action taken so as to protect critical communications infrastructure from deliberate attempts intended to disable or degrade such infrastructure;
 - (iv) action taken in time of war or other emergency in domestic or international relations; or
- (c) to prevent any Party from taking any action in pursuance of its obligations under the United Nations Charter for the maintenance of international peace and security.

ARTICLE 14

Recognition of China's Market Economy Status

Each of the ten ASEAN Member States agrees to recognize China as a full market economy and shall not apply, from the date of the signature of this Agreement, Sections 15 and 16 of the Protocol of Accession of the People's Republic of China to the WTO and Paragraph 242 of the Report of the Working Party on the Accession of China to WTO in relation to the trade between China and each of the ten ASEAN Member States.

ARTICLE 15

State, Regional and Local Government

In fulfilling its obligations and commitments under this Agreement, each Party shall ensure their observance by regional and local governments and authorities in its territory as well as their observance by non-governmental bodies (in the exercise of powers delegated by central, state, regional or local governments or authorities) within its territory.

ARTICLE 16

Institutional Arrangements

1. Pending the establishment of a permanent body, the AEM-MOFCOM, supported and assisted by the SEOM-MOFCOM, shall oversee, supervise, coordinate and review the implementation of this Agreement.
2. The ASEAN Secretariat shall monitor and report to the SEOM-MOFCOM on the implementation of this Agreement. All Parties shall cooperate with the ASEAN Secretariat in the performance of its duties.
3. Each Party shall designate a contact point to facilitate communications between the Parties on any matter covered by this Agreement. On the request of a Party, the contact point of the requested Party shall identify the office or official responsible for the matter and assist in facilitating communication with the requesting Party.

ARTICLE 17

Review

1. The AEM-MOFCOM or their designated representatives shall meet within a year of the date of entry into force of this Agreement and then biennially or otherwise as appropriate to review this Agreement for the purpose of considering further measures to liberalize trade in goods as well as develop disciplines and negotiate agreements on matters referred to in Article 7 of this Agreement or any other relevant matters as may be agreed.
2. The Parties shall, taking into account their respective experience in the implementation of this Agreement, review the Sensitive Track in 2008 with a view to improving the market access condition of sensitive products, including the further possible reduction of the number of products in the Sensitive Track and the conditions governing the reciprocal tariff rate treatment of products placed by a Party in the Sensitive Track.

ARTICLE 18

Annexes and Future Instruments

This Agreement shall include:

(a) the Annexes and the contents therein which shall form an integral part of this Agreement: and

(b) all future legal instruments agreed pursuant to this Agreement.

ARTICLE 19

Amendments

This Agreement may be amended by the mutual written consent of the Parties.

ARTICLE 20

Miscellaneous Provisions

Except as otherwise provided in this Agreement, this Agreement or any action taken under it shall not affect or nullify the rights and obligations of a Party under existing agreements to which it is a party.

ARTICLE 21

Dispute Settlement

The Agreement on Dispute Settlement Mechanism between ASEAN and China shall apply to this Agreement.

ARTICLE 22

Depositary

For the ASEAN Member States, this Agreement shall be deposited with the Secretary-General of ASEAN, who shall promptly furnish a certified copy thereof, to each ASEAN Member State.

ARTICLE 23

Entry Into Force

1. This Agreement shall enter into force on 1 January 2005.
2. The Parties undertake to complete their internal procedures for the entry into force of this Agreement prior to 1 January 2005.
3. Where a Party is unable to complete its internal procedures for the entry into force of this Agreement by 1 January 2005, the rights and obligations of that Party under this Agreement shall commence on the date of the completion of such internal procedures.
4. A Party shall upon the completion of its internal procedures for the entry into force of this Agreement notify all the other Parties in writing.

IN WITNESS WHEREOF, the undersigned being duly authorized by their respective Governments, have signed this Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People's Republic of China. DONE at, Vientiane, Lao PDR this Twenty Ninth Day of November in the Year Two Thousand and Four, in duplicate copies in the English Language.

For Brunei Darussalam

RAHMAN TAIB

Minister of Industry and
Primary Resources

**For the People's
Republic of China
BO XILAI**

Minister of Commerce

For the Kingdom of

Cambodia

CHAM PRASIDH

Senior Minister and
Minister of Commerce

For the Republic of

Indonesia

MARI ELKA

PANGESTU

Minister of Trade

For the Lao People's

Democratic Republic

SOULIVONG

DARAVONG

Minister of Commerce

For Malaysia

RAFIDAH AZIZ

Minister of International

Trade and Industry

For the Union of

Myanmar

SOE THA

Minister of National

Planning and Economic

Development

For the Republic of the

Philippines

CESAR V. PURISIMA

Secretary of Trade and

Industry

For the Republic

of Singapore

LIM HNG KIANG

Minister for Trade and

Industry

For the Kingdom of

Thailand

WATANA

MUANGSOOK

Minister of Commerce

For the Socialist Republic

of Viet Nam

TRUONG DINH TUYEN

Minister of Trade