

## **INTERNATIONAL AGREEMENT ON FREE TRADE IN ASEAN**

**Andini Nurlisa Putri Sawaki**

Faculty of Law and Social Sciences, Ganesha University of Education

*Email: [ansawaki@gmail.com](mailto:ansawaki@gmail.com)*

### **ABSTRAK**

Kawasan Perdagangan Bebas Asean merupakan kesepakatan ASEAN mengenai sektor produksi lokal di seluruh negara ASEAN. Saat perjanjian AFTA resmi ditandatangani, ASEAN memiliki enam anggota, yaitu Brunei, Indonesia, Malaysia, Filipina, Singapura, dan Thailand. Vietnam bergabung pada tahun 1995, Laos dan Myanmar pada tahun 1997 dan Kamboja pada tahun 1999. AFTA sekarang terdiri dari sepuluh negara ASEAN. Keempat pendatang baru tersebut diwajibkan untuk menandatangani perjanjian AFTA untuk bergabung dengan ASEAN, namun diberikan kelonggaran waktu untuk memenuhi kewajiban penurunan tarif AFTA. Sudah menjadi keputusan dan keputusan yang harus dihadapi oleh seluruh negara Asean. Dengan bea masuk 0% atas barang, harga produk menjadi kompetitif di tingkat konsumen di antara negara-negara anggota ASEAN. Perlu adanya sosialisasi yang berkesinambungan dan berkelanjutan, sinergi seluruh elemen bangsa terutama pemerintah dan pelaku usaha harus selalu terjalin. Pada akhirnya, tidak hanya para pelaku usaha, baik besar, menengah, maupun kecil yang merasakan langsung suasana persaingan usaha, termasuk masyarakat umum sebagai konsumen. Para pelaku usaha Indonesia dapat memenangkan persaingan agar Indonesia tidak menjadi “surga” bagi barang-barang impor. Indonesia dengan potensi sumber daya alam yang melimpah dengan jumlah penduduk terbesar di Asean menjadi modal awal untuk memenangkan persaingan.

**Kata Kunci :** Negara, ASEAN, perdagangan bebas, AFTA

### **ABSTRACT**

*The Asean Free Trade Area is an agreement by ASEAN regarding the local production sector in all ASEAN countries. When the AFTA agreement was officially signed, ASEAN had six members, namely, Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. Vietnam joined in 1995, Laos and Myanmar in 1997 and Cambodia in 1999. AFTA now comprises the ten ASEAN countries. The four newcomers are required to sign the AFTA agreement to join ASEAN, but are given time slack to fulfill AFTA's tariff reduction obligations. It has become a decision and a decision that must be faced by all Asean countries. With the 0% import duty on goods, the price of the product becomes competitive at the consumer level among ASEAN member countries. There is a need for continuous and sustainable*

*socialization, the synergy of all elements of the nation, especially the government and business actors, must always be established. In the end, it is not only business actors, both large, medium and small, who directly feel the atmosphere of business competition, including the general public as consumers. Indonesian business actors can win the competition so that Indonesia does not become a "paradise" for imported goods. Indonesia with the potential of abundant natural resources with the largest population in Asean is the initial capital to win the competition.*

**Keywords:** *Countries, ASEAN, free trade, AFTA*

## **INTRODUCTION**

The acceleration of the globalization process in the past two decades has changed the structure and patterns of international trade and financial relations. This is an important phenomenon as well as a "new era" which, characterized by the high growth of international trade, where Indonesia itself has implemented and implemented a free trade regime (era of globalization). In an era of globalization, free trade is often discussed because it is expected to bring important changes to the world trade order.

One of the current regional trade agreements is the ASEAN Free Trade Area (AFTA) initiated by the Association of Southeast Asian Nations (ASEAN), a regional organization of countries in Southeast Asia. AFTA was born in 1995 with the aim of providing trade benefits for countries originating from ASEAN.

In this regard, liberalism is the foundation of ASEAN's regional economic activity in building regional cooperation continuously and striving to improve welfare based on agreements with gradual implementation. In line with afta implementation activities in the 1990s, it turns out that ASEAN members are faced with various challenges of international political economy, including the development of regionalism as prevailing in Europe. Therefore, ASEAN countries feel the need for a strong economic cooperation program (Rujhan Mustafa, 2009).

This problem occurs through an agreement to implement a cooperative relationship based on the basic principles of member states that have made ASEAN the most successful regional international organization among developing countries. Furthermore, the implementation of liberalization of the free flow of goods is one of the main elements in realizing ASEAN as a common market based on production. The realization of the impact of the open economic nature of goods certainly involves the political system. However, on the contrary, the nature of politics that provides opportunities to the economy is a pattern of strengthening humanitarian relations so that at some level it can involve the pattern of government.

The strengthening of ASEAN international cooperation further strengthens the position of economic and political organizations on an international scale, strengthens the behavior of international organizations to strengthen mutually beneficial relations and gives the impression of strengthening national power. ASEAN economic activity requires harmonious changes in organizational interaction for the benefit of international cooperation relations.

In this context, the ASEAN region can form a production network as part of the world's network of providers or suppliers. This is in line with what Ahya Ikhsan stated that, after the enactment of cooperation, although the occurrence of ups and downs varies, however, the stage of ASEAN economic growth experiences a generally increased trend. This is in accordance with the prevailing economic development, because ASEAN, in international economic activity is also part of the world economic community.

The implementation of free trade in the ASEAN region with the implementation of AFTA through the gradual reduction of tariffs on goods based on understanding, is an effort to create stronger regional integration with various interests that follow economic interests so that they become economic, political and sociocultural pillars. In accordance with the prevailing developments, based on the implementation of economic liberalization policies are economic interests that then develop in political interests and so on, this is a policy to strengthen regional integration. This reality is like a shared desire to create security and harmonization and strengthen integration in the Southeast Asian region.

## **DISCUSSION**

### **History of AFTA (ASEAN Free Trade Area)**

AFTA or ASEAN Free Trade Area was established in Singapore in 1992 during the FOURTH ASEAN Summit. AFTA is an agreement established to create a free trade zone by ASEAN countries. The need to establish AFTA is based on efforts to achieve the objective of increasing economic competitiveness in the ASEAN regional region and also attracting foreign investment to ASEAN, also making ASEAN a world market production center, with the strategic aim of increasing the comparative advantage of ASEAN countries as one region or single unit of production and also as a single market. A number of six ASEAN member countries, namely Thailand, Indonesia, Malaysia, Brunei Darussalam, the Philippines and Singapore were present to declare and sign the agreement officially at that time. AFTA members then increased along with the increase of other members in ASEAN such as Vietnam which entered in 1995, Laos and Myanmar which entered in 1997, and Cambodia which entered in 1999.

AFTA member states now consist of ten ASEAN members. The background in the history of the formation of AFTA occurs due to external changes, namely when there is a transition period in the formation of a new world order, internal changes in the form of economic progress of member states over the past 10 years and the lack of joy in the results of ASEAN cooperation. In addition, it is necessary to rally regional unity in improving its position and competitiveness. The program in the history of the formation of AFTA is targeted to be achieved within 15 years from 1993 to 2008, then accelerated to 2003 and the last to accelerate again until 2002. For this reason, a scheme was created to make it happen through the Common Effective Preferential Tariffs for AFTA (CEPT-AFTA) scheme, in the form of the following programs, namely lowering tariffs to 0-5% and removing quantitative restrictions and other non-tariff barriers. The existence of the duty removal program stipulated in the CEPT then decreased the import duty on goods carried out by the six ASEAN members to 1.51 percent from 12.76 percent. The tariff cut has been carried out since 1993 followed by other ASEAN countries.

Since then AFTA has been in full force since January 1, 2004, after passing the process of socializing the deduction of import duties that were eliminated in

2008. This method is different from the European Union where in AFTA there are no general external tariffs on imported goods, which means that ASEAN members are free to impose tariffs on goods originating from outside ASEAN based on the provisions made by each ASEAN country. Exclusions of ASEAN member products from CEPT include temporary exemptions in the form of products whose tariffs will eventually be lowered to 0-5% but temporarily postponed, sensitive agricultural exemptions including rice that will only be imposed a reduction of 0-5% in 2010 and general exemptions referring to products deemed necessary to be protected by ASEAN member states. Included in the common exception is the protection of the labor movement.

### **Wisdom and Efforts to Confront AFTA Policies**

In the face of the implementation of AFTA, it is necessary to establish the main policy that must be taken by Indonesia in increasing international trade activities among ASEAN countries and at the same time optimizing the benefits of AFTA for national development. In general, the main policy according to Syaikat (2001), is as follows.

#### **1. Stabilization of AFTA Implementation Organization**

AFTA as a new activity in ASEAN cooperation must be supported by a strong organizational structure so that its implementation can run as it should. A strong organizational structure is needed because AFTA must be implemented properly, fairly and purposefully so that it can be utilized optimally and evenly. Also, strict supervision is needed to keep fraud in the implementation of trade that will harm certain countries.

#### **2. Market Promotion and Penetration**

Reality shows that Indonesia's trade volume compared to other ASEAN countries, is the second smallest after the Philippines, while Indonesia's trade volume with Singapore is only 5.1 percent of all intra-ASEAN trade. This situation is mainly caused by Indonesian export commodities are not widely known by ASEAN countries. Therefore, participation in international trade fairs needs to be increased. The increase in trade visits is very large also means in promoting and penetrating the market of Indonesian production products.

#### **3. Improving Domestic Production Efficiency**

To improve the efficiency of domestic production, it is necessary to create healthy competitive conditions among fellow entrepreneurs so that there is no "price distortion" of raw materials. In addition, overall non-production costs can be reduced. In this regard, the deregulation policy that has been implemented by the government since several years ago needs to continue and be extended to real sectors that directly affect production activities and then need to be pursued so that the provision of facilities that tend to create monopoly conditions in business management needs to be eliminated.

#### **4. Improving the Quality of Human Resources**

The quality of Indonesia's human resources is still much lower than the quality of human resources of other ASEAN countries. Therefore, in order to deal with AFTA, efforts to improve the quality of human resources need to be further improved by developing vocational schools and polytechnics in the future.

5. Protection of Small Industries

The implementation of AFTA will result in a high level of competition, so that only large companies can continue to grow. Large companies are expected to continue to suppress small industries that are generally less able to compete with conglomerates. To protect these small industries, it is necessary to realize an antitrust law or establish a unifying organization of small-scale companies.

6. Efforts to Increase the Competitiveness of the Agricultural Sector

In an effort to increase the export role of the agricultural sector, it is necessary to develop superior products that are able to compete in the market, both the domestic market and the international market. The development of superior products is carried out through a series of interrelated processes and forms an agribusiness system consisting of pre-production, production, processing and marketing systems (Kartasmita, 1996).

Schuckel (1994) in Risman (2001) stated that in line with efforts to improve the agricultural sector, the wisdom of agricultural development can be directed to three groups: first, programs aimed at improving resource allocation so that land productivity increases, including the provision of land conservation production credits, forest management, irrigation development, rural assessment and agricultural land use planning programs. Second, the price policy of agricultural products, among others, in the form of pricing the purchase of products by the government (supor price) production control program, purchasing surplus products, providing export subsidies, payment of price deficiencies, setting tariffs and import quotas, planning consumption and using surplus products produced. Third, programs are prepared to improve income distribution, such as free land giving to farmers, cooperative development to farmers, consulting and credit supervision services, land treatment improvement programs and providing funds for the ownership and expansion of agricultural land rehabilitation.

Meanwhile, in order to increase the competitiveness of agricultural products according to Wibowo (1996) in Risman (2001), there are seven important things that need to be considered. First, the quality of the product. It is necessary to continue to develop quality standards for agricultural products both regarding raw materials and processed products. Although the level of protection in the form of non-tariffs, especially those formed quantitative retriCTION measures will be reduced, but protection in the form of technical requirements seems to still color trade in agricultural products in the future. This situation is formed by the demands of consumers for quality that increases with the increasing standard of living of the world's population, even in developed countries people will demand quality assurance from the beginning of the production process to the hands of consumers.

Second, continuity. The guarantee of continuity of supply is one of the absolute requirements for the continuity of trade. The continuity of this supply will further affect the maintenance of existing market share. Third, the delivery time. The determination of delivery time (on time delivery) of export goods is a challenge for increasing agricultural exports. This issue of timeliness is important for products in fresh form, such as vegetables, fruits, fishery products (whose value is higher in fresh form) which are products that will be exported in the future. Fourth, technology. In agribusiness systems, the role of technology is almost always needed in every subsystem, ranging from the

procurement of production facilities, agricultural processes, agro-industry and in marketing the results. The provision of information on various new compatible technology alternatives is a necessity in the overall development of agribusiness.

Fifth, human resources. In the agricultural sector as a whole, it is carried out by farmers as the main actors covering all subsector activities. The relatively low quality of agricultural human resources is one of the causes of the low productivity of the agricultural sector. Sixth, Indonesia's competitor country. As an agricultural exporting country, Indonesia has many competitors who traditionally produce the same products as Indonesian products which are generally tropical agricultural products. Seventh, investment incentives. Government investment in the agricultural sector can be in the form of direct investments, such as rice field printing, construction of fishery ports, procurement of production facilities, manufacturing workshop tools and agricultural machinery; or those that are not related to direct productive activities, such as expenditures on human resource development (counseling, education, training), research and investment of goods and marketing of agricultural products.

Concrete examples of the government's form and efforts in supporting the agricultural sector are as they have been done in China and Vietnam. Through the concept of agricultural-based industry, China moves the agricultural sector balanced with the development of the industrial sector. According to data from the People's Bank of China, the Chinese state government has disbursed credit for a type of SME (Small and Medium Enterprises) to cooperatives in the countryside. The credit aims to support agriculture in the countryside so that it is completely populist-based. For 2000 alone, the agricultural sector obtained credit through agricultural cooperatives amounting to 1.2 trillion yuan. Then in 2001, the credit for spurring agricultural production increased to 1.73 trillion yuan. For 2002, there was an additional credit fund of 441.7 billion yuan.

From the data, it can be seen that the Chinese government is indeed very serious in dealing with this global market. Meanwhile, Vietnam with its *doi moi* policy in the last three years (1997-2000) has been able to maintain its economic growth at 5.9 percent. In addition, the Country of Vietnam, which relies on the agricultural sector to spur per capita income and foreign exchange for its country, has paid attention to the processing of its plantation products using all-new equipment and machinery, so that it will gradually become the largest producing country from its plantation agribusiness industry sector (Riskomar, 2002). In relation to efforts to increase the competitiveness of agricultural commodities in the Regional Market Yudohusodo (2002) in Riskomar (2002), states that other countries have long enjoyed privilege from the government, both to face the free market and to protect their agricultural production so that welfare can be enjoyed. In China, for example, the government imposes a quota of rice imports to protect the price of rice farmers, even imposing an import tax rate of 180 percent for each type of rice entered.

Meanwhile, Thailand subsidizes export credits for its rice commodities. Likewise, India has imposed import duty tariffs of 150 percent since thirty years ago for sugar commodities. Protections for agricultural commodities have so far been needed for the protection of Indonesia's agricultural production. In anticipation of this, Yudohusodo

(2002) and Saragih (2002) in Riskomar (2002) suggested that a reasonable tariff on import duties (import taxes) be set for a number of outside commodities that are needed but cannot be met from Indonesia's agricultural production.

Conversely, if Indonesian farmers are able to supply domestic needs, tariffs on entering commodities from outside must be elevated by the Enactment of the Regional Autonomy Law and the Financial Balance Law between the Central and Regional Governments starting January 1, 2001 and the existence of ASEAN free trade (AFTA), demanding various adjustments and coordination between the Regional Government and the Central Government to respond to these developments. Some important things that need to be considered for local governments according to Adiningsih (2002), among others are: awareness of increasing competitiveness, the existence of political will, human resource development, revamping institutions, among others through the revocation of perda / rules that reduce competitiveness, implementing policies conducive to the business world, if necessary coordination with other regions, and good public and corporate governance. The ability of the Central and Regional Governments to accelerate their economic policies as demanded by free market mechanisms, will be one of the keys to the success of increasing income for development.

#### 7. Revamping the Agribusiness System

To encourage production activities and export capabilities of some Indonesian agricultural commodities, the agribusiness system is one of the many efforts that can be taken by the government and farmers in the management of agricultural activities that are more commercially oriented, considering that during the monetary crisis, the agribusiness sector was able to survive in the structure of the national economy (Saragih, 1998). Similarly, Pranadji (1998) and Sanim (1998) suggest that to face the 21st century, a reliable agribusiness system is a system that can produce highly competitive agricultural products in the market. Efforts in that direction can be taken by modernizing in the field of supporting institutions, such as financial and capital institutions, insurance, market information, science and technology and human resources, especially those related to technology mastery and entrepreneurship. With this transformation, it is expected to increase productivity, quality, effectiveness, efficiency and quality assurance recognized by foreign parties so that it is useful to increase competitiveness, in addition to other components such as promotional activities at home and abroad as well as the establishment of flagship commodity production centers and agribusiness market centers.

#### **Conclusion**

The ASEAN Free Trade Area (AFTA) is an agreement that has been established by ASEAN in improving ASEAN's competitiveness as a world market center through the elimination of ASEAN tariff and non-tariff barriers. Based on the implementation of its economic liberalization policy, this has an influence on other political and social interests. Because as far as ASEAN's journey in the implementation of its pillars also benefits from political conditions that tend to be stable compared to other countries. This statement brings about regime change that can increase ASEAN's competitiveness in a more free and open direction. As well as providing space to integrate with methods of strengthening

and enhancing industrial network activities among interrelated ASEAN countries. Thus, with the statement of regime change in a more free and open direction can bring the results of the progress of the ASEAN regime towards ASEAN free trade on an international basis.

Various implementations have been implemented by ASEAN to achieve a goal from ASEAN and for ASEAN itself. In an economic context, carrying out an economic integration does refer to a manifestation of cooperation in the form of a common market, free trade area, and norms of economic integration. With the implementation of a number of applications of economic integration, it is clearly seen to be related to the various types of economic integration and the character that accompanies it. This is because with the progress of the development of economic integration can accompany the realization of security, peace, and stability stages to pursue harmonious integration in a common blend of ASEAN regional cooperation.

Similarly, it seems that in quality driving not only done by AFTA itself but AFTA also needs full support by the drivers of its country members who can process the quality of global and international market needs with competitiveness that is not inferior to other developed region countries. Because back again to the implementation that has been done to the extent to which AFTA has implemented efficient results so as to make the area superior in the economic field of regional activities. Moreover, in the excavation of considerable investment potential in ASEAN which is an opportunity that must be managed properly by ASEAN itself. At least such a thing can be used as a benchmark for the successful implementation of AFTA in realizing its ideals.

## **BIBLIOGRAPHY**

- (2011, Maret 18). Kerjasama ke Arah Integrasi:AFTA dan Implikasi terhadap ASEAN. (R. Suksma, Interviewer)
- Anugerah, I. S. (2003). ASEAN FREE TRADE AREA (AFTA), OTONOMI DAERAH DAN DAYASAING PERDAGANGAN KOMODITAS
- DEWANTI, E. Y. (2020, Agustus 12). *Center For Area Studies Indonesian Institute of Sciences (P2W-LIPI)*. Retrieved Juli 1, 2021, from psdr.lipi.go.id: <http://psdr.lipi.go.id/news-and-events/opinions/peluang-integrasi-perdagangan-bebas-asean-melalui-afta.html>
- Febiany, T. A. (n.d.). PERDAGANGAN BEBAS ASEAN-CHINA FREE TRADE AREAL (ACFTA) TERKAIT INDUSTRI DAN IKLIM INVESTASI DI INDONESIA. 15-20.
- Hamid, E. (2001). *Kesiapan Memasuki AFTA dan Otonomi Daerah*. Bandung: Harian Umum Pikiran Rakyat.
- Retno, D. (n.d.). *Sejarah Terbentuknya AFTA dan Tujuannya*. Retrieved Juli 1, 2021, from sejarahlengkap.com: [sejarahlengkap.com/organisasi/sejarah-terbentuknya-afta](http://sejarahlengkap.com/organisasi/sejarah-terbentuknya-afta)
- Syakuat, A. (2001). *ASEAN Free Trade Area (AFTA)*. Bogor: Lokakarya Nasional di Bogor.
- Yean, T. S. (2012). *Perdagangan Pemacu Pertumbuhan (Ke Arah Ekonomi Berpendapatan Tinggi)*. Bangi: Universiti Kebangsaan Malaysia.