

# INDONESIAN FOREIGN TRADE POLICY DEALING WITH THE GLOBAL MARKET IN FRAMEWORK ASEAN ECONOMIC COMMUNITY (AEC)

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# INDONESIAN FOREIGN TRADE POLICY DEALING WITH THE GLOBAL MARKET IN FRAMEWORK ASEAN ECONOMIC COMMUNITY (AEC)

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## ABSTRACT

*This article aims to analyze Indonesian foreign trade policy dealing with the global market, and analyze the role of the Indonesian Government in regional trade in the ASEAN Region post-AEC. This article sources from normative legal research, therefore the approach methods used are the statutory approach, the conceptual approach and the comparative approach. The results show that, Indonesian foreign trade policy in facing the global market is regulated in various regulations, including Law Number 7 of 2014 concerning Trade, which is aimed to increase the competitiveness of export products through expanding market access abroad; increasing the number, types and quality of export products; harmonization of standards and procedures for trading activities with trading partner countries; institutional strengthening in the trade sector; foreign trade infrastructure development; protection of national interests from the negative impacts of foreign trade; control of foreign trade through import trade system, licensing system; standardization of products and prohibition of trade restrictions. As for the role of the Indonesian government in facing regional trade in the ASEAN Region, among others, with a strategy to strengthen the quality of domestic products, take advantage of opportunities, and increase the competitiveness of export products in the ASEAN region; developing the creative economy through the Program of I love Indonesia Product as a Nation Branding Movement; strengthening the Small and Medium Business Sector; and development of the industrial sector by strengthening superior products.*

**Keywords:** Foreign Trade, Policy, Global Market, Asean Economic Community.

## INTRODUCTION

International trade is a part of economic activity which has recently been experiencing a very rapid development. The attention of the business world towards international business activities is also increasing; this can be seen from the growing flow of goods, services, capital and labor between countries. Business activities can occur through export-import relations, investment, trade in services, licenses and franchises, intellectual property rights; or other business activities related to international trade, such as banking, insurance, taxation and so on. To support the implementation of business activities between countries, a legal instrument is needed in the form of regulations, both national and international, such as international trade law (Sood, 2018).

<sup>2</sup> Indonesia is as a member of World Trade Organization (WTO) through ratification of Law Number 7 of 1994 concerning Ratification of the Agreement on Establishing the World Trade Organization/WTO (Agreement to Establish the World Trade Organization) has

consequences both externally and internally. The external consequence is that Indonesia must comply with all the results of the agreement in the WTO forum. The internal consequence of Indonesia is to harmonize laws and regulations while still thinking about the national interest but not violating any signs of WTO provisions.

The application of economic liberalization through international trade for developing countries, has caused many problems, especially regarding the readiness of economic actors to compete. Likewise, the readiness of legal instruments to support the implementation of trade liberalization has yet to show its supremacy. This is the most crucial issue, especially regarding the existence of trade liberalization which is believed to be able to create optimal prosperity for society. Therefore, if the proposed industrial countries are accepted by Third World Countries, which are generally developing countries, then they will lose most of their rights to regulate their economy, environment, health and culture. Thus, that in the face of increasingly fierce competition, both at the global (WTO) and regional levels in the ASEAN region, especially within the framework of the ASEAN Economic Community (AEC), Indonesia needs readiness, especially efforts to improve human resources, efficiency, technology and product quality, as well as improvements to legal systems and Institutions capable of supporting increasingly modern and global business activities.

Based on the description above, the main problem in this research is, how Indonesian foreign trade policy faces the global market, and what is the role of Indonesia in ASEAN regional trade after the implementation of the AEC

## RESEARCH METHOD

This article is sourced from legal research that analyze various legal norms on international trade. The approach method used includes, statutory approach, a conceptual approach, and a comparative approach. Therefore, this research was carried out through searching various legal references in the library in order to obtain legal materials including primary legal materials, secondary legal materials and tertiary legal materials. The collection of legal materials is carried out through documentation techniques (literature study). The collected legal materials are then evaluated and analyzed qualitatively, especially those relating to regulations and references relating to Indonesia's foreign trade policies facing the global market, and the role of the government in facing ASEAN regional trade after implementation of AEC.

## RESULTS AND DISCUSSION

### Indonesian Foreign Trade Policy Dealing with Global Trade

Economic globalization has a major influence on the legal system of a country, because economic globalization causes legal globalization. This legal globalization is not only based on international agreements between nations, but also an understanding of the legal and cultural traditions between the west and the east. This of course will occur in the implementation of development in Indonesia and other countries which are closely related to global commitments in the fields of economy, trade, financial transactions, and others (Rajagukguk, 1997). Changes in the current world order are also marked by technological developments that make communication and information between the international community very easy and

international law is currently characterized by harmonious laws or at least transnational law (Sri Setianingsih Suwardi, 1998).

As a follow-up to the government support in facing economic globalization, especially in the international trade sector in the context of national economic development, in 2007 the Government of Indonesia determined a *"policy direction in the legal field"* in supporting economic activities as part of the National Long-Term Development Plan. This is regulated in Law Number 17 of 2007 concerning the Long-Term National Development Plan for 2005–2025. In the Appendix to Chapter IV. 1.2 Letter A, concerning Law and Bureaucratic Reform particularly in point 1 it states that: *"Legal development is directed at supporting the realization of sustainable economic growth, regulating issues related to the economy, especially the business world and the industrial world; as well as creating investment certainty, especially law enforcement and protection "....*

Thus, in facing the globalization era in the economic sector, especially international trade, the role of business law, especially international trade law, is very necessary in carrying out legal relations between nations. This relationship concerns commercial activities or the exchange of goods, services, capital and labor, which includes two main activities, namely export activities, which are removing goods from the customs area, and import activities, which are entering goods into the customs area. Legal relations in trade activities have been embodied in Indonesian foreign trade policy at both the regional and global levels.

Indonesian foreign trade policies, both at the global (GATT-WTO) and regional (AFTA) have influenced the traffic of relations between producers and consumers, therefore interference between countries and international cooperation is very important. It is necessary to regulate the pattern of relations between producers and consumers, so that both producers and consumers are equally protected not only nationally but internationally. Therefore, the system of relations does not only utilize national legal instruments but also requires international legal instruments.

Various regulations have been issued by the Indonesian government in order to support Indonesian foreign trade policy in facing global and regional markets, among others, Law Number 7 of 1994 concerning Ratification of the Agreement on Establishing The World Trade Organization (WTO); Law Number 10 of 1995 concerning Customs, which was later amended by Law Number 17 of 2006 concerning Amendment to Law Number 10 of 1995 concerning Customs; Law Number 7 of 2014 concerning Trade; and various implementing regulations.

With the issuance of Law Number 7 of 2014 concerning Trade, Indonesian foreign trade policy specifically related to the trade in goods, is emphasized in Article 38 paragraph (1-2) which states that, the Government regulates Foreign Trade activities through policies and controls in the Export and Import sector. This policy is aimed at increasing the competitiveness of Indonesian export products; Increasing and expanding market access abroad; and increasing the ability of Indonesian Exporters to become reliable Business Actors. The foreign trade policy is expected to be able to increase the number, types and added value of export products; harmonization of standards and procedures for Trade activities with trading partner countries; institutional strengthening in the foreign trade sector; development of supporting facilities and infrastructure for foreign trade; protection and safeguarding of the national interest from the negative impacts of foreign trade. Foreign Trade Control includes: a. licensing; b. Standard; and c. prohibitions and restrictions.

In particular with regard to export policies in an effort to increase foreign exchange, the various efforts made by the Government in facing the global market (Danang, 2014), namely:



Export diversification is done by increasing the types of goods exported, such as initially only exporting food, textile and rubber products, then adding export commodities such as plywood, seaweed, LNG gas, and so on. Likewise with a variety of exported goods such as food into various kinds of processed food (packaged food and beverage); rubber is first processed into various kinds of car and motorbike tires or cotton is first processed into cloth and then processed into clothing.

Export subsidies are provided by providing assistance to exporters to encourage export growth in the form of capital, tax breaks, cheap transportation rates, ease of processing exports, and ease of obtaining credit with low interest, so that these products can be exported at competitive prices. With similar products from importing countries from third countries.

The export premium in the form of export incentives is intended to further activate and encourage producers and exporters to improve the quality of exported goods, especially for SMEs (Small and Medium Enterprises) that are ready for export.

Maintaining the stability of the Rupiah Exchange Rate against Foreign Currency is needed by exporters for business continuity and business certainty, so that entrepreneurs whose raw materials for production are from abroad have no difficulty in providing more funds to finance the purchase of goods.

Increasing trade promotion abroad, through international cooperation both bilaterally, regionally and multilaterally is one of nature's efforts to open and expand market access for Indonesian products abroad, as well as to produce contracts for the purchase and marketing of Indonesian products in other countries.

In connection with the description above that the establishment of a free trade area will have an impact on the development of Indonesian industry, this cannot be avoided, therefore Indonesia must strengthen its competitiveness in order to increase the bargaining position of domestic products, maintain the stability of the rupiah exchange rate against foreign currencies, increasing trade promotion abroad through bilateral, regional and multilateral cooperation in order to expand market access for Indonesian products abroad.

### **The Role of the Indonesian Government in Facing ASEAN Regional Trade after the enactment of the ASEAN Economic Community (AEC)**

Indonesia as one of the initiating countries for the establishment of the ASEAN Free Trade Organization (AFTA) which certainly has an important role in the advancement of cooperation between member countries. Likewise, in the context of welcoming the implementation of the Asean Economic Community (AEC), Indonesia faces opportunities and challenges to determine the direction of policies and strategies in facing the era of regional economic liberalization in the ASEAN Region.

According to the Center for Risk Management Studies (CRMS) of Indonesia, there are four things that become opportunities and challenges for Indonesian economic development in the ASEAN region after AEC (Arya, 2014), namely.

Countries in the Southeast Asian region constitute a unitary area of markets and production bases, so that the movement of the flow of goods, services, investment, capital and labor in large quantities becomes unhindered between countries in the Southeast Asian region.

MEA is formed as an economic area with a high level of competition, requiring policies including competition policy, consumer protection, Intellectual Property Rights (IPR), taxation,

and E-Commerce. This is expected to create a fair competition climate, network system protection, consumer protection; prevent copyright infringement; creating an efficient, safe, and integrated transportation network; eliminating the Double Taxation system; and increase commerce through online-based electronic media.

MEA is also an area that has equitable economic development, with a priority on Small and Medium Enterprises (SMEs). The competitiveness and development capabilities of SMEs will be enhanced by facilitating access to the latest information, market conditions, human resource development, financial capacity building, and technology.

AEC will be fully integrated into the global economy through the development of a system to increase the coordination and participation of member countries in the global network by developing a package of technical assistance to less developed member countries.

With the enactment of AEC 2015, the Government of Indonesia has issued Presidential Instruction Number 11 of 2011 concerning the Implementation of the AEC Blueprint Commitment in an effort to prepare for the ASEAN free market. In the AEC blueprint, there are 12 priority sectors that are integrated by the government. The sector includes seven goods sectors, namely the agro, automotive, electronics, fisheries, rubber-based industries, wood-based industries, and textiles. Then, the rest comes from five service sectors, namely air transportation, health, tourism, logistics, and information technology. In the MEA era, these sectors will be implemented in the form of free flow of goods, services, investment and labor.

The strategy carried out by Indonesia, especially the Ministry of Trade, in the context of dealing with regional trade, especially after the AEC is to strengthen domestic products. Therefore, Indonesia must be able to compete in ASEAN markets with highly competitive export products, this effort has been carried out by the Ministry of Trade since 2014. Meanwhile, to secure the domestic market from attacks by imported products, especially consumer products will be optimized throughout. Existing instruments, such as anti-dumping policies, anti-subsidies, trade security, import trade systems, as well as other instruments including import duties (Ministry of Trade of the Republic of Indonesia, 2015).

The steps that have been taken by Indonesia based on the government's strategic plan within the framework of the AEC (Ministry of Trade of the Republic of Indonesia, 2014), include:

Strengthening economic competitiveness. For this reason, on 27 May 2011, the Government launched the "*Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3IE)*".

1. Program of Aku Cinta Indonesi/ACI (I Love Indonesia), which is one of the "Nation Branding" movements part of the development of the creative economy.
2. Strengthening the SME (Small and Medium Enterprises) Sector must be increased.
3. Infrastructure improvements in order to support increased competitiveness of the real sector, such as the construction of road facilities and infrastructure, railways, land/sea/air transportation, communication and informatics and electricity.
4. Increasing the quality of human resources (HR).
5. Institutional and government reforms in order to accelerate the prevention and eradication of corruption in the trade sector.

Furthermore, the international trade strategy that Indonesia must implement is to increase exports and increase domestic consumption of Indonesia's own products. For this reason, in

accordance with Law Number 7 of 2014 concerning Trade, in Article 74 paragraph (1), it is stated that, "in the framework of developing exports, the government carries out export development for business actors to expand market access for domestically produced goods and services". Then in Article 22 paragraph (1) states, "in the framework of developing, empowering and strengthening domestic trade, the government, local governments, and/or other stakeholders individually or jointly strive to increase the use of domestic products".

This regulation is very important when considering Indonesian trade conditions so far that have not optimally exploited the potential of the ASEAN market. With the promulgation of Law Number 7 of 2014 concerning Trade, it is one of Indonesian strategies to stem the flood of imported products entering Indonesia. This law, among other things, regulates general provisions regarding licensing for business actors involved in trading activities to use Indonesian in labeling, and increase the use of domestic products. Through this law, the Government is also obliged to control the availability of basic necessities for all parts of Indonesia. Then determine the prohibition or restriction of goods and services in the national interest to protect the safety of national products.

To anticipate these problems, the Indonesian Government then issued Presidential Instruction Number 11 of 2011 concerning the Implementation of the AEC Blueprint Commitment in an effort to prepare for the ASEAN free market. In the AEC blueprint, there are 12 priority sectors that the government will integrate. This sector consists of seven goods sectors which are superior industrial products, such as agro, automotive, electronics, fisheries, rubber-based industries, wood-based industries, and textiles. Then the rest of the five service sectors, namely air transportation, health, tourism, logistics, and information technology. These sectors in the MEA era will be implemented in the form of free flow of goods, services, investment, and labor (Ministry of Trade of the Republic of Indonesia, 2013).

Economic development efforts in the trade sector within the framework of the ASEAN Economic Community. One of the programs launched is the Ministry of Trade's Nawa Cita (nine priorities) by setting export targets threefold over the next five years. This method can be done by building 5,000 markets, developing Micro, Small and Medium Enterprises (MSMEs) and increasing the use of domestic products. The export target in 2015 is targeted at US \$ .192.5 billion. Furthermore, the government also prepared an import substitution strategy to increase exports and add value to domestic products. Currently, 65% of Indonesia's product exports still rely on raw commodities. The government is trying to reverse this export structure, from primary commodities to manufacturing, with a composition of 35% commodities and 65% manufactures. Therefore, the manufacturing industry is expected to grow and focus on increasing production capacity, to increase exports until 2019 (Suroso, 2015).

In developing the industrial sector within the framework of the AEC, the Ministry of Industry has carried out an offensive and defensive strategy. The offensive strategy is to strengthen superior products such as the agro industry including cocoa, rubber, palm oil; textile industry and textile products; leather footwear industry, furniture industry products; food industry and minimums; fertilizer and petrochemical industry; automotive industry, machinery and equipment; and metal, iron and steel products. The defensive strategy is carried out through the preparation of Indonesian National Standards (SNI), especially for manufactured products (Ministry of Trade of the Republic of Indonesia, 2015).

As for efforts to support the production sector, the government must also develop Micro, Small and Medium Enterprises (MSMEs) products through coaching and training, for example



through efforts to register trademarks, product packaging, halal certification, and product standardization. This activity is carried out in order to improve product competitiveness, both domestically and in the ASEAN countries; provide financial assistance, facilitate product promotion through national and international exhibitions. In addition, what Indonesia as part of the ASEAN community needs to do is strive to prepare for the quality of MSMEs products in taking advantage of opportunities for cooperation in the ASEAN Economic Community, as well as being able to improve product capabilities and quality, so that they can compete both in the ASEAN region and outside ASEAN (Ministry of Trade of the Republic of Indonesia, 2015).

Furthermore, to support the increase in non-oil and gas exports, the Indonesian Government is trying to change the policy paradigm that is more towards entrepreneurship programs by prioritizing national interests. Therefore, in order for Indonesia to be able to face economic competition in the AEC era, not only the private sector (business actors) is required to be ready to face the MEA, but also support from the government in the form of pro-entrepreneurial and product-oriented policies. For this reason, the government should think entrepreneurially by prioritizing industrial development in real sectors which are the basic necessities of human life, such as agriculture, livestock and fisheries, so that to meet domestic needs these products do not need to be imported. Likewise, development in the production sector must also be a major priority so that domestic needs can be met. In fact, Indonesia is expected to have a surplus so that exports can increase both in the ASEAN region and outside ASEAN (Ministry of Trade of the Republic of Indonesia, 2015).

## CONCLUSION

According to the description above, it can be concluded that Indonesian foreign trade policy in facing the global market is directed at increasing the competitiveness of export products through increasing and expanding market access abroad; increasing the number and types and quality of export products; harmonization of standards and procedures for trading activities; institutional strengthening in the trade sector; development of trade support facilities and infrastructure; protection and safeguarding of the national interest from the negative impacts of foreign trade; control of foreign trade through import trade system, licensing system; product standardization and trade prohibitions and restrictions.

The role of the Government in Facing ASEAN regional trade after the enactment of the AEC, among others, is through a strategy to strengthen the quality of domestic products, take advantage of opportunities, and increase the competitiveness of export products in the ASEAN region; developing the creative economy through the ACI Program (I Love Indonesia) as one of the Nation Branding movements; strengthening the MSMEs Sector (Small and Medium Small and Medium Enterprises; Improving Infrastructure in order to support increased competitiveness of the real sector; and developing the industrial sector through strengthening superior products such as agro, automotive, electronics, fisheries, rubber-based industries, wood-based industries, and textiles.

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