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# ASEAN-CHINA FREE TRADE AGREEMENT COMMENCEMENT: CHINA'S COMPETITIVE PRODUCTS A TRADING MENACE AND ECONOMIC STRUGGLE OF INDONESIA

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**Abstract:**

*Indonesia is initiating a beginning risky of immense competition trading challenge, ASEAN-China Free Trade Agreement has already taken into effect. China has more opportunity with competitive products flooding Indonesia's market. The frail Indonesia's market and economic condition would exert its efforts to compete with giant competitive china's product. Some economical mist possibility conceals Indonesia's capacity to compete with China. Some obstacles are hampering questionable Indonesia's economical capacity to compete with China. The economic condition of Indonesia is having many weaknesses as in production, monetary and banking, infrastructure, corruptions, and regional safety threat shadowing Indonesia's uncertain trading success. Some economical and trading competitive policy should be executed by Indonesia's Government to win trading competition with regional and worldly competitors.*

**Keywords:** *free trade agreement, competitive products, competition readiness, China, Indonesia*

## 1. Introduction

Nowadays world economic condition is facing heavy economical pressure and uncertainty. Consequently the affected economy of Indonesia shadowed by uncertainty due to huge world's financial crisis, predictably 6, 0- 7, 0% Indonesia's long-middle range economic projection can be achieved simultaneously with lesser inflation tensions up to 4, 0-5, and 0% in the year 2014. The domestic economic tenacity depends on economical condition character as shown by some macro economic indicators development within 5 to 10 year lately. The national economic condition of Indonesia tend to form a domestic demand led growth may strengthen economic endurance capacity facing International economic penetrations. In accordance to such economical characteristics, the Indonesia's economic policy should be directed to consistently holding market size and society's buying capacity consequently. Led growth export strategy may become Asia's region potential

instrument be up against world's economical shock affecting Asia, such action is badly needed challenging Association of South East Asian Nation (ASEAN) - China Free Trade Area (ACFTA). The only focus on domestic demand would not possible creating continuous economic growth should importantly to be vigilanted. The simultaneous domestic demand and supply side would be the most important to achieve high economical growth regardless price instability.

## **2. Pro Contra ACFTA and China's Competition Readiness**

The Free Trade Agreement between ASEAN and China had been signed and should be implemented. All Indonesian national company and producers should be ready to face 2010 economic activities what ever difficult condition would occur. Today is China's economical era, the Japan and America's or other era had already gone. Suddenly in 2008 the China's balance of payment jolt up and USD 3, 6 billion deficit for Indonesia, whereas a year later there is USD 1, 1 billion surplus for Indonesia. Such condition is awful for Indonesia.

The non oil defisit balance of payment of Indonesia to China growing up from USD 1, 3 billion in 2007 to be USD 9, 2 billion in 2008, it is increasing 600 percent. Along Januari reaching USD 3, 9 billion, such increase is because the imports data of less than 2008 was not included data from the bounded areas. This would mean the deficit trading with China had already happened long before year 2008. Hence, the balance of payment of Indonesia to China is more worsen factually.

The trading goods of China have heavy flooding Indonesia's market. Now China has already the main importer of Indonesia, 17,2 percent from non-oil total impor of Indonesia is coming from China, in the contrary China is only consume 8,7 percent Indonesia's total exports. Clearly it means the China's trading goods penetrated heavily to Indonesia's market.

The China's manufacture products are vary difficult to be compete with competitive price uncomparable to Indonesia's trading goods. Some exported goods of Indonesia to China most saleable are agricultural goods, natural and industrial raw materials. Today it seems Indonesia make available opportunity to China to reign the Indonesia domestic market. Can the industry of Indonesia defeat China meanwhile its domestic coloured by electrical facility weaknesses and wrong management, weak transportation infrastructure across the country, difficult road accesing industrial raw material supplier, inefficient sea and air ports full with corruption; these are great problems weakening trading ability of Indonesia to China and international. China's economic activities are very competitive, very optimistic exert increase its trading efforts with ASEAN. China has high readiness facing unavoidable world free trade. Various regulation, incentives, export tax exemption, credits have been given to China's industrial factions strengthening their trading activities. The China's competitive products vary and saleable to many parts of the world. It can be observe clearly in some trading data shows that the trading between China and ASEAN increased from US\$192.5 billion in 2008, and from US\$59, 6 billion in the year 2003.

The trading between China and ASEAN is value about US\$4, 3 trillion equal to 13, 3 percent of global trading volume.

China and ASEAN have tariff reduction gradually. In the contrary there are worries of ASEAN countries of China's trading goods attack. The local product facing difficulties to increase its penetration to local market after tax export has been removed. In fact, China now a third trading partners after Japan and European Union. Singapore, Malaysia, and Thailand have only slight trading deficit to China. Meanwhile Vietnam's deficit becomes bigger continually. In the year 2008, Vietnam have goods exported US\$4, 5 billion approximately to China and in the contrary importing up to US\$15, 7 billion. Malaysia exporting crude palm oil, rubber and natural gaseous to China would experience profit due to tariff removal. Vietnam which is focusing on producing cheaper consumption goods would suffer loss. Malaysia sees FTA as an opportunity to improve its foreign market. Last year China's total import from Malaysia approaching 109, 82 billion ringgit or equal to US\$32, 11 billion, this number is equal to 27, 5 percent Malaysia's total exports. Malaysia's main export to China is integrated electrical circuit (IC), crude oil, and benzene. In the year 2008, Malaysia was number 15 exporting country to China and now it has been increased to number 7 rank.

In this FTA framework, China would import more agricultural product as tropical vegetables from Thailand, Malaysia and Vietnam endanger Guangxi and Yunan vegetable farmer possibly. Singapore has faced FTA calmly; predictably FTA would not affecting Singapore's economy directly. Far before FTA had been activated Singapore had exported greater amount compare to importing from China in the last three to four years. Different demeanor showed by Thailander farmer complaint white onion cheaper price imported from China has caused 40 percent Thailander farmer had gone bankrupt. Philippines are exerting its efforts to reduce tariff deferment of country's some economic sectors up to 2012. Predictably today the Philippine has not been ready to compete in FTA.

China is manifesting a high risk country of social unrest in 2010. Luckily, according past China's social unrest experience considered undisturbing and no stock market price decrease, but maybe such social unrest would affecting political condition or disturbing economic condition as a whole significantly. China's social unrest would obstruct economic condition and high selling of china's assets that would affect global market significantly. Predictably social unrest lead to China's political stability is not really significant next year although such occurrence will be unpredictable. Xinjian and Tibet social unrest were a clear example of China's political unity unworried the investors.

The economic condition of Thailand and North Korea are different, significantly worried to devastating social unrest in Thailand. Many political conflicts are manifesting a large gap between the urban political elite and poor villagers. Such long conflict had been occurred long before global financial crises happen worsening Thailand economic condition. Such condition shows Thailand government weaknesses facing street parliamentary actions, additionally weaknesses of former prime minister reflecting uncertainty of Thailand. Predictably, the King health worsen would lead to

more political unrest increasing more hot political tension worsening investors trust, decreasing foreign investments significantly decreasing economic growth. North Korea has another problems and very limited information could be attain from North Korea. Apparently North Korea is in the middle of economic difficulties. Although North Korea government stating to start nuclear proliferation, predictably such negotiations would be hampered and political disturbance possibly occurs and lead to North Korea international trading instability. Last year North Korea's currency truncation was a reflection of economical instability, more difficulty to North Korean people and a possibility of economic political turmoil endanger its neighbouring country. The instable North Korea possibly attacks South Korea, Political turmoil would lead to high economic cost North Korea and South Korea unification efforts and international trading worsen. North Korea political risks are very difficult to predict. Nevertheless, estimatedly South Korea market would sluggish when Pyongyang government changes to be unforceful.

### **3. Worry to ACFTA**

It is predictable worried that ACFTA would hamper industrial growth of Indonesia, because the subsisten Indonesia's Industry has not yet ready to face China and other Asia or world open competition. Businessmen of Indonesia propose unwillingness engage with ACFTA, nevertheless the Government of Indonesia put into effect such advancely signed FTA agreement. The objection to activate such agreement have logical reasons due to the facts that most industry of Indonesia has not competitive yet, it has low quality, more expensive price, the product formed as downstream produc type. Indonesia for the mean time can only sells high cost and uncompetitive raw material product type; meanwhile other countries as China or Asian countries had already produced efficiently.

The FTA would still in effect wether they like it or not. Indonesia should have complete international production and trading information and trading capacity of its own country long before agree to involve in such trading agreement. Meanwhile according to the data, predictably the economic condition of Indonesia would not improve yet within the year 2010. The ACFTA have already started and Indonesia would face a hard time to compete with high competitive China or other Asian countries trader prognosisly.

Predictably the economic serious weak condition of Indonesia would not free from global economic crisis, nevertheless become heavier hampered compare to 2009 economic condition. Additionally, financial resource difficulties and job massive lay off would severely faster Indonesia's economic slowdown uncompetitive to face ACFTA. The Government of Indonesia should concentrate to determine the proper interest rate, credit expansion and lesser unemployment to challenge economic growth of Indonesia 2010. It is useful to face the increasing US economic depression 20-30% approximately with -5 to -7% economic growth possibly affecting the economic condition of Indonesia, concequently there will be some job lay off in the US including

in Indonesia. If economic growth of Indonesia reaching only 1 to 2% in 2010, consequently hence there will be massive lay off in Indonesia.

In the end of 2009 Indonesia optimistic because its economic growth could reach 4 to 4, 5% such assumption if there will be no more economic global crisis. Recession followed with deflation is apprehensively vigilanted, because it will affect asset and commodity prices in 2010, decreasing economic condition should be vigilanted by Indonesia in 2010. The 11% rate obligation issuance done by the Government of Indonesia in 2009 is too high weakening business activity because Indonesia if facing economic uncertainty now and then, this may become a blunder worse rate policy. The banking industry of Indonesia would be careful to accept and loan disbursement in the future due to economic uncertainty. When the economic condition worsens bankers of Indonesia would reluctantly accepting loans due to default repayment wary. The Central Bank of Indonesia rate of interest decrease would not automatically followed by decreasing interest rate nationally done by the bankers. Additionally the economic condition worsen would affect to worsen the Rupiah as an official currency of Indonesia value. Although Central Bank of Indonesia optimistic to upper correction of Indonesia' currency to US\$, nevertheless the businessmen and economist of Indonesia have expected that Indonesia's currency would possibly dropped to Rp13.500 per US\$ 1 in the first semester of 2010 due to money flows out to the US instead of Indonesia. Furthermore the stock owners of Indonesia would transfer to Singapore with their richness neglected Indonesia' economic condition, hence the economic pressure to Indonesia bigger pressing down Indonesia's financial assets. Consequently these all conditions would not improving its currency and competitiveness facing ACFTA.

The trading process among Indonesia, EU and other Asia countries unbenefiting Indonesia, hence, what will be the economic and trading future? It should be realized that Indonesia is posed close to the business activities epicentrum; nevertheless can Indonesia exploit such opportunities? The existence of China and India in Asia can be an opportunity of Indonesia and other world economy. Nevertheless Indonesia was unable to use such benefits uproared by lazy and corrupt beaureaucrats unable providing best services to investors instead.

Actually Indonesia relatively has a low noise of political conflicts disturb its economy. Meanwhile the US and EU stand and grow economical sturdily with the Lisabon tractat would not acquiesce entrapped in economic commotions. The one clearly seen is the Al Qaeda activities guaranted unsurely to peace although the US is fighting against them in Pakistan and Afghanistan or other part of the world if any. With the world economic epicentrum existence and social politic stability globally Indonesia may get some opportunity if they now what to do. Recently reveal a sophisticated Al-Qaeda terrorist network killed three policemen of Indonesia during a raid on its main base camp located in Aceh, Indonesia. This Aceh new found terrorist network is the main base of terrorist military training center entire Indonesia. Al-Qaeda would form Aceh as training camp and armament similar to Mindanao rebels in the Philippines. The main purpose of Al-Qaeda organization in Aceh is forming Indonesia as

fundamental Islamic country. This terrorism movement is exactly the same with such occurrence in Somalia and yaman. This terrorist movement is a serious problem and even bigger compare to the Noodin M. top group killed by Indonesia's police in the year 2009. The terrorist network in Aceh is a part of international terrorism movement, hence Indonesia may become unsafe area for International business may reduce foreign investment proclivity in Indonesia hampering economic growth of Indonesia.

The lower manufacture performance and worse infrastructure are cronical problem for Indonesia; concequently economic condition of Indonesia is not competitive nationally and yet internationally. Such condition would threaten the Industry of Indonesia facing ASEAN China free trade. The efforts to improve manufacture and infrastructure of Indonesia, surely would increase economic growth lead to more competitive economy, and creating more employments for society possibly alleviate Indonesia's poverty. The economic competitive highly needed nowadays in Indonesia, meanwhile the electrical, roads, bridges, airport, goods and services transportation all vital production process and marketing repairs have all late to be executed to build economic competitiveness of Indonesia. The manufacture industrial growth was slow and the 2004-2009 industrial growth was lower than the average economic growth hampered the GNP formations. The role of service industry is exceeding industrial goods growth; infact goods manufacture more creating job formation rather than service industry. Concequently such condition would not significantly able to create job formations reducing unemployment or poverty, hence, the economic condition of Indonesia would be uncompetitive yet. The condition become more complicated due to Indonesia's economic development fully depending on slower global economic activities worsen than predicted. This condition forcing the economic progress of Indonesia slower, and growth prediction become uncertain. To restrain economic slowdown could be done by interest 50% truncate to be 7, 75%.

The unstable export value of Indonesia shows its weakness in trading capacity, hence, is Indonesia competitive enough to face ACFTA? Meanwhile the macro indicators shows December inflation 0, 33 %, Export value of Indonesia in November 2009 down 12, 12% and export value decrease 6,03% compare to Oktober 2009. Huge trading price index slightly increase 0, 73% only compare to a month before. Deflation 0, 03 was happen in November 2009, export value of Indonesia increase 20, 72 in Oktober 2009, nevertheless the value of import increase 11, 16% compare to November 2009.

The data from Central Bank of Indonesia shows global economic slowdown reflected from advance countries economic declining more than expected. Many global financial market funders financial report shows brittle fundamentally; it is a symptom of uncertain financial market condition. These conditions would directly affecting deeper slowdown of Indonesia's domestic economy, such condition can be observe from Indonesia's export value decrease and a negative sentiment of domestic financial market influencing a total economic performance of Indonesia. Additionally, the statistical data shows deep plummet 17, 7% compare to December 2008 data. The export value down shift concequently to weaken generating employment business

sector increasing export oriented industrial job lay off affecting a decrease of buying capacity and consumption of society in Indonesia. Whereas export and house hold consumption a form of Indonesia's economic driver. The society's low buying capacity can be notice clearly from motorized vehicle, cement and electrical devices.

The other down economic condition seriousness shows the Government investment ungrowth and consumption expenditure unoptimum. Investment stagnant and business realsector slowdown could be seen from the 2, 1% downward credit position n from Rp1, 300 trillion in the end of December 2008 to be Rp1, 273 trillion per Januari 2009. The credits disbursement slowdown due to banking sector worry of credit return problem, hence the total economic condition of Indonesia has not grown yet. Other economic slowdown of Indonesia clearly can be notice from the decrease of internal tax return in Januari 2009. The non oil tax income Rp34, 288 trillion mean its only increase 5% compare to Januari 2008, since the normal tax income is 18-20% monthly. This slow internal tax return and balance of payment continually pressed down shows that Indonesia is really uncompetitive compare to its global trading partners, aside from export downward continuously furthermore there are massive rupiah assets sales have done by the investors in money and capital market. The double deficit also happened in trading and finance and capital transaction. The US\$ higher demand compare to its supply pressing down the Rupiah value to a level of Rp12.033 per US\$ in trading closing at Central Bank of Indonesia. This is the worse condition since December 2008. The worsen of balance of payment and weaken of exchange lead to devisa reserve shortened now its left only US\$50,56 billion compare to Juli 2008 US\$60,56 billion.

Can Indonesia have a competitive trading while in economic slowdown as today? The economic slowdown is worsen than predicted, 3% growth is really a miracle for Indonesia since its neighbouring countries have already had minus growth. Rp73, 3 trillion fiscal stimulus and cutting interest rate Central Bank stimulus would be ineffective. The monetary policy has also hampered by many problem as example Central Bank had cut interest rate 175 point, nevertheless credit interest rate slightly down approximately 50 point only. The high financial cost, bank inefficiency as in Century Bank and Indonesia's Vice President and Minister of Finance money political corruption case, unreturnable credits and bank owner's high demand for profit has made the bank's management strictly determine the rigid high credit interest rate 16% yearly. In this kind of situation the Central Bank should expand micro business credit disbursement hardly due to its economic fluctuation endurance.

#### **4. Economic Shift of Indonesia Prediction**

The Government of Indonesia continually determine income and expenditure estimation at the end of the year functioned as manual to organize and activating financial sector and economic of Indonesia for the next future year. With some certain macro assumption as in international economic instability and uncertainty triggered by the US financial market affecting global financial market including the economy of

Indonesia. In accordance to such condition the economic of Indonesia would have predicted 4-5% growth futurely with optimized investment growth assumption.

The global financial crises have lessened financial absorpsion for investment growth in Indonesia. As a result the business would significantly worse due to society demand lessened, in this condition the fiscal incentive is badly needed to drive up economic activity. Clearly predicted that the Government of Indonesia would pressing down inflation up to 6, 5%, control up to determine Rp9.100 per US\$, to regulate interest rate 8, 5% and oil price US\$100 per barrel, lessening poverty 12-14% and pressing down unemployment 7-8%. Such macro economic target would be achieved with strive to raise condusive situation for economical activity possibly efficiently attained, providing soft infrastructure as in sets of bylaws regarding property rights, safety warrant and act regulation because undeniably the global recession wold severely affecting investment climate of Indonesia; nevertheless wide spread corruptions habit and frail law enforcement would hampered economic activity. This is because the foreign investors needed badly certain strong law warranty executing business in Indonesia. Indonesia's corruption rampancy and weak law enforcement are reflection unsafe international investment to Indonesia. The stronger law enforcement would build international investors high investment trust in Indonesia lead to competitive economic progress. Indonesia would not be competitive to ACFTA without executing such move.

The Indonesia's 2009 unemployment rate is high due to global crisis, worse affected economic growth and increasing job lay off, more than 300,000 workers had been laid off with regard to global crisis and it could possibly worsen. Additionally the ravel world financial crisis possibly increases job lay off number in 2010 and future.

2009 Export decline to 2, 5% of targeted 5% from 9% in 2008, this condition determined by foreign goods declining demand caused of global economic crisis. Such decrease triggered by export value shoddy 13, 69% from 1, 44 billion to be 1, 24%.

The economic condition of Indonesia has predicted poor unable unbound of global economical crisis and even problematical compare to 2009. This all happen because of global crisis. Financial credit obtainment even difficult, job lay off glowing and the US depression prediction increase 20-30% lead to US economic growth would be minus 5-7% would really influence economic growth of Indonesia poorer flourish with massive job lay off. Suppose Indonesia's economic growth reaches only 1-2% consequently the Indonesia's job lay off would certainly increase. If the global crisis keeps continuously followed by deflations, the asset and commodity prices would certainly worsen in 2010.

Beside internal economical factors influencing Indonesia's economic growth, Asia regional security reasons would be other primary resources of economic Indonesia up and down progress; it means the economic condition of Indonesia would really affected by Asia region peacefulness in 2010. Asia is the economic generator during global crisis nevertheless there are social unrest and high unemployment economical threat due to high job lay off. Political unstability with regard to economical factor weaknesses would still exist. Certain risks would disturb Indonesia's economical

stability among other are bubbling assets, deflation pressure, dangerous social political unrest, high unemployment and disorganized economy.

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