

The impact of AC-Free Trade Area on the performance of industrial sectors in Indonesia

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ARTICLE INFO

Article history:

Received 30 December 2013

Revised 20 February 2014

Accepted 17 March 2014

JEL Classification:

M21

Key words:

ASEAN-China Free Trade,
Industry,
Sector Performance.

DOI:

10.14414/jebav.14.1701001

ABSTRACT

ASEAN-China free trade has an impact on economic performance among sectors in Indonesia. One of the sectors affected by the free trade is the industrial sector that is the largest contributor to national income sector in Indonesia. This study is intended to explain the impact of the ASEAN-China free trade on the performance of the industrial sector in Indonesia. This is a descriptive qualitative research aimed to qualitatively analyze and describe the impact of the ASEAN-China free trade on the industrial sector in Indonesia. It can be concluded that the performance of the industrial sector has decreased during the implementation of the ASEAN-China free trade. This is indicated by (1) the contribution of industrial sector to GDP which decreases and the contribution to employment has no significant change, (2) the industrial sector grew on average per year lower than the average growth of GDP, (3) the contribution of the industrial sector in Indonesia's total exports tend to decrease too. Industrial exports grew on average per year lower than the growth of total exports, (4) the contribution to total imports of industrial products Indonesian non-oil imports increases. Imports of industrial products experienced average growth per year which is higher than the growth in total non-oil imports, (5) the percentage of realization of investment (both domestic and FDI) in the industrial sector to total investment in Indonesia also tends to decrease, (6) the percentage of bank extended credit to the industrial sector tends to decrease.

ABSTRAK

ASEAN-China Free Trade Area (AC-FTA) berdampak pada kinerja ekonomi secara sektoral di Indonesia. Salah satu sektor yang terkena dampak dari perdagangan bebas tersebut adalah sektor penyumbang terbesar pendapatan nasional di Indonesia. Penelitian ini adalah penelitian deskriptif kualitatif yang bertujuan untuk menganalisis secara kualitatif dan memaparkan dampak dari perdagangan bebas ASEAN-China terhadap sektor industri di Indonesia. Hasilnya menunjukkan bahwa kinerja sektor industri di Indonesia mengalami penurunan selama pemberlakuan perdagangan bebas ASEAN-China, yang terindikasi pada (1) kontribusi sektor industri terhadap PDB cenderung menurun, sementara kontribusinya dalam penyerapan tenaga kerja tidak ada perubahan yang signifikan, (2) sektor industri mengalami pertumbuhan rata-rata per tahun lebih rendah daripada pertumbuhan rata-rata PDB, (3) kontribusi sektor industri dalam total ekspor Indonesia cenderung mengalami penurunan. Ekspor hasil industri mengalami pertumbuhan rata-rata per tahun lebih rendah daripada pertumbuhan total ekspor, (4) kontribusi impor hasil industri terhadap total impor non migas Indonesia mengalami kenaikan. Impor hasil industri mengalami pertumbuhan rata-rata per tahun lebih tinggi daripada pertumbuhan total impor non migas, (5) prosentase realisasi investasi (baik PMDN maupun PMA) di sektor industri terhadap total investasi di Indonesia cenderung menurun, dan (6) persentase kredit perbankan yang disalurkan ke sektor industri cenderung mengalami penurunan.

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1. INTRODUCTION

South East Asia countries have entered the era of free-trade within the framework of AFTA (ASEAN Free Trade Area) since 2002. To maintain political stability and security of the ASEAN region, they should increase the overall regional competitiveness in the world market, and boost economic growth, reduce poverty and improve the living standard of the ASEAN member countries, all member countries of ASEAN agreeing to immediately realize the real economic integration and meaningful namely the ASEAN Economic Community (AEC) or the ASEAN Economic Community.

The AEC is an economic integration of ASEAN which should be achieved by 2015. In addition to the scope of ASEAN, there has been expansion of the free trade area with the implementation of ACFTA (ASEAN-China Free Trade Area) since 2010 (Ministry of Trade RI 2009). In addition to it, free trade raises both opportunities and threats. Opportunities will be created through the reduction in trade barriers (both tariff and non-tariff) so the chances of Indonesia to market products to other countries become more open. However, such conditions also posed a threat because at the same time other countries, opportunity to market their products to Indonesia is more open.

Free trade affects the domestic economy of overwriting one industry sector. In the structure of the Indonesian economy, the industrial sector has the largest contribution in the creation of national income. Besides that, the industrial sector has a significant role in international trade: both exports and imports. For that reason, one of its impacts can be seen from the performance of the industrial sector during the implementation of free trade.

The industrial development in Indonesia recently suggests the occurrence of symptoms of de-industrialization, where one measure is the contribution of the industrial sector to the national income which has decreased after 2005 until 2012.

During that period, the industrial sector's contribution to national income continuously decreased from 28.37% in 2005 to 23.8% in 2012. This is highly related to the decline in the performance of the industrial sector in Indonesia. Labor-intensive industries and the resource base of industries that used to be the mainstay of Indonesian exports such as textiles apparel, footwear, pulp & paper, and plywood, decline

due to competition from similar industries, especially those from China, after the implementation of free trade.

The question is whether free trade provides real opportunities or threats. It can depend on the competitiveness of the domestic economy. Competitiveness of the domestic economy can be indicated by the performance of each sector in the economy. This study tries to provide explanation of the impact of the ASEAN-China free trade on the performance of the industrial sector in Indonesia.

Due to some arguments above, this study explains about the condition of the industrial sector in Indonesia recently, especially with regard to some aspects, namely the role of the industrial sector in the creation of output and employment absorption, growth in the industrial sector relative to the national economy growth, the contributions of industrial sector in total national exports and imports, investment (domestic and foreign) in the industrial sector, and bank credit which is channeled to the industrial sectors.

2. THEORETICAL FRAMEWORK

ASEAN - China Free Trade

In regards to ASEAN, Indonesia has joined the ASEAN Free Trade Agreement (AFTA), signed on January 28, 1992 and fully implemented in 2002. During its development, the partnership expanded to involve other countries including China, known as the ASEAN - China Free Trade Agreement (ACFTA). The formation of the ACFTA was conducted in November 2002, in the course of eighth summit ASEAN and Chinese leaders in Phnom Penh, Cambodia (Toloh 2012).

The cooperation above is related to the commitments from ASEAN countries and China to reinforcing economic cooperation between the two parties. Such establishment is intended to (1) strengthen and enhance economic cooperation, trade and investment between the two parties, (2) liberalize trade in goods, services, and investment, (3) seek and develop new areas of economic cooperation are mutually beneficial to both parties and (4) facilitate the more effective economic integration of the new member countries of ASEAN and bridge the gaps that exist in both parties.

Besides the above efforts, the two sides also agreed to strengthen and enhance economic cooperation through (1) the elimination of tariff

and non-tariff barriers to trade in goods, (2) the progressive liberalization of trade in services, (3) build a competitive investment regime and openly within the framework of the ASEAN - China FTA (Mutakin and Salam 2009).

The ACFTA agreement has a commitment and in effect on January 1, 2010, after the agreement was signed in 2002 and implemented in stages. In ACFTA, it was agreed that full liberalization will be implemented in 2010 for the ASEAN and China. By 2015, it will be for Cambodia, Laos, Vietnam, and Myanmar. Tariff reduction within the framework of cooperation ACFTA is implemented in three stages: the Early Harvest Programs (EHP), Normal Track and Sensitive Track (Lisasih 2011).

In decreasing or eliminating the tariffs, it was scheduled by compiling a list of products—the products covered by the EHP nominal Track and Sensitive Track / Highly Sensitive between each of the ASEAN member countries and China do with the bilateral approach in which each state scheduled to decrease or eliminate the tariff and formulate its products. Therefore, there will be differences in implementation rates and coverage of its products.

For example of the above effort, the bilateral EHPs for respective ASEAN countries and China can be different, resulting in the implementation of the reduction in import duty concessions to China for EHP which will differ between Indonesia and other ASEAN countries. The free trade, especially in Southeast Asia as members of AFTA CEPT scheme is arranged in - AFTA (Common Effective Preferential Tariffs Scheme). CEPT is a program of tariff reduction and the elimination stages of non - tariff barriers as agreed with the ASEAN countries so that the trade among members, operating costs could be pressed so it will benefit all member countries (Kolonjono 2011)

On the contrary, ACFTA has several trade agreements in three stages: (Directorate of Regional Cooperation, Directorate General of International Trade Cooperation, (Ministry of Trade RI 2010)) such as the following.

a. Early Harvest Program (EHP)

On January 1, 2006, China's tariffs for all products covered under the Early EHP have become 0%. The scope of the product is Chapter 01 up to 08 (i.e. 01. Live Animals; 02, Meat and Edible Meat offal and; 03. Fish; 04, Daily Products; 05; Other Animal Products; 06. Live Trees; 07; Edible Vegetables and 08;

Edible Fruits and Nuts with the exception of Sweet Corn (HS 07 10 40000).

b. Normal Track

Gradual reduction program and the tariff elimination are covered under the Normal Track effective from July 20, 2005, with a range of products became the mainstay of Indonesian exports to China include Coal products (HS 2701) ; Polycarboxylic acids (HS 2917); Wood (HS 4409); Copper wire (HS 7408).

c. Sensitive Track

Indonesian winner product is listed by the Chinese in the Sensitive and Highly Sensitive which include Palm Oil and its derivatives (HS 1511), Natural Rubber (HS 4001); Plywood, veneered panels (HS 4412). In contrast, Indonesia also incorporate superior products China exports to Indonesia include Finished Goods Leather; handbags, wallets; Footwear: sports shoes, Casual, leather; Glasses; Musical Instruments; Blow, strike, scrubbing; Toys : Dolls; Sports; Stationery; Iron and Steel ; Spare parts ; conveyance; Glokasida and Vegetable alkaloids ; Organic Compounds ; Antibiotics ; glass ; Plastic items ; Agricultural products, such as Rice, Sugar, Corn and Soybeans ; products of Textiles and textile products (ITPT); Automotive Products; Products of Ceramic Tableware.

Countries Trade Relations of ASEAN – China

Trade between ASEAN countries and China continued to increase from year to year. For ASEAN countries, China including important trading partners as export destinations. In the period 2001-2008, the average share of China's exports to ASEAN countries varies, but is generally quite high. Vietnam is as a country that puts China as a major trading partner with the highest share of 9%, while Indonesia has its share of exports to China amounted to 7%.

For China, the ASEAN countries become an important trading partner, especially for the supply of raw materials. The share of China's imports from Singapore has reached 35% of total imports from ASEAN. Or, it constitutes the highest share among the other ASEAN countries. Yet, the share of China's imports from Indonesia amounted to 13% of total Chinese imports from ASEAN. Trade between ASEAN and China are likely to increase. This shows the growing importance of ASEAN-China trade for both sides.

Awareness of the role of each party can pioneer the economic cooperation agreement. On November 4, 2002, an agreement of cooperation framework was often called the Framework Agreement on Comprehensive Economic Cooperation. On the other hand, the framework of the agreed phasing establishment of free trade for goods in 2004, the service sector in 2007, and investment in 2009. In terms of readiness of each member state, China - ASEAN free trade was also be phased in gradually. Free trade went into effect in 2010 between China and ASEAN - 6 is for Indonesia, Singapore, Thailand, Malaysia, Philippines, and Brunei. And, in 2015 it is in effect for China and ASEAN - 4 are Cambodia, Vietnam, Laos, and Myanmar.

3. RESEARCH METHOD

Research Approach

This research is descriptive qualitative research that examines the effect of a change in the international economic environment on economic conditions in the country. It also aims to analyze the impact of changes in the international trading environment that lead to the practice of free trade, especially in the ASEAN and China on the sectors that have the largest contribution to Gross Domestic Product (GDP) of Indonesia, namely the industrial sector.

The impact of the ASEAN-China free trade on the industrial sector in Indonesia will be analyzed by reviewing some of the variables, namely: the role of the industrial sector in the creation of output and employment absorption, growth in the industrial sector relative to the national economy growth, the contribution of industrial sector in total exports and imports national investment (domestic and foreign) in the industrial sector, and bank credit is channeled to the industrial sector.

Research Data

Data used in this study are secondary data, which were mainly obtained from sources that Indonesian Financial Statistics published by Bank Indonesia and Statistics Indonesia, published by the Central Statistics Agency (BPS). Period used in this study is 2002 to 2012. Determination of the period of this study was based on the consideration that in ASEAN free trade came into effect in 2002 and the ASEAN - China free trade which was fully implemented in 2010. This is expected to describe the development of the industrial sector's performance in Indonesia

since the beginning of the implementation of free trade today.

Analysis Techniques

The analysis technique used is the qualitative analysis that will attempt to reveal the performance of Indonesian industry since the implementation of the ASEAN-China free trade. The steps are as follows:

- a. Collecting data on the contribution of GDP sectors of Indonesia, Indonesia's GDP economic sector growth, and the contribution of the absorption of employment in Indonesia, were derived from the Indonesian Statistics and published by the Central Statistics Agency (BPS). The data will be able to explain the role of the industrial sector in the creation of national income (GDP) and employment and the growth of industrial sector.
- b. Collecting the data about the value of Indonesian exports and imports by commodity, capital investment (domestic and foreign) by sector, by sector and bank credit, were derived from the Indonesian Financial Statistics published by Bank Indonesia. From the data obtained in the nominal value, the data is then performed to obtain the percent of data that describes the role of the industrial sector in the export and import of Indonesian, Indonesian export and import growth, the percentage of domestic and foreign investments engaged in the industrial sector, and the percentage of bank credit is channeled to the industrial sector. After the data collection process, and it performed an analysis of the development of the industrial sector's performance during the implementation of the ASEAN - China free trade. Performance of the industrial sector decreased if as follows:
 1. The role of the industrial sector in the creation of output (GDP) and employment has declined.
 2. The growth of the industrial sector is relatively lower than the national economic growth.
 3. Contribution of the industrial sector in total exports decreased
 4. Contribution of the industrial sector in total imports has increased
 5. Percentage of investment (domestic and foreign) operating in the industrial sector has decreased
 6. Percentage of bank credit channeled to the industrial sector has decreased.

Table 1
Sector Contribution in GDP of Indonesia on Constant Price 2000 (%)

Sector	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Agriculture	15.38	15.24	14.92	14.50	14.21	13.82	13.67	13.58	15.3	14.7	15.4
2. Mining	11.29	10.63	9.66	9.44	9.10	8.72	8.28	8.27	11.2	11.9	11.4
3. Industry	27.36	28.17	28.01	28.37	28.08	27.83	27.39	26.17	24.8	24.3	23.8
4. Electric, gas, and clean water	0.66	0.66	0.66	0.66	0.66	0.69	0.72	0.79	0.8	0.7	0.7
5. Construction	5.61	5.68	5.82	5.92	6.08	6.20	6.29	6.44	10.3	10.2	10.0
6. Trade, hotel & restaurant	16.16	16.26	16.37	16.77	16.92	17.33	17.47	16.91	13.7	13.8	13.8
7. Transportation and communication	5.06	5.42	5.85	6.24	6.76	7.25	7.97	8.82	6.6	6.6	6.6
8. Finance, real estate & Service companies	8.74	8.90	9.12	9.21	9.21	9.35	9.55	9.60	7.2	7.2	7.1
9. Services	9.23	9.20	9.23	9.18	9.24	9.25	9.27	9.43	10.2	10.5	10.4

Source: Statistics of Indonesia, Bureau Statistics, various publications.

Table 2
Growth of Sector Economy in GDP of Indonesia (%)

Sectors	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Ave rage
1. Agriculture	3.3	3.8	2.8	2.7	3.4	3.5	4.8	4.0	3.8	3.6	4.0	3.6
2. Mining	6.5	-1.4	-4.5	3.2	1.7	1.9	0.7	4.4	3.2	3.6	1.5	1.9
3. Industry	6.0	5.3	6.4	4.6	4.6	4.7	3.7	2.2	4.1	5	5.7	4.7
4. Electric, gas, and clean water	2.7	4.9	5.3	6.4	5.6	10.3	10.9	14.3	6.6	8.2	6.4	7.4
5. Construction	3.3	6.1	7.5	7.5	8.3	8.5	7.5	7.1	7.4	8.5	7.5	7.2
6. Trade, hotel & restaurant	4.9	5.4	5.7	8.3	6.4	8.9	6.9	1.3	8.0	8.5	8.1	6.6
7. Transportation and communication	3.0	12.2	13.4	12.8	14.2	14.0	16.6	15.5	12.2	12.5	10.0	12.4
8. Finance, real estate & service companies	7.0	6.7	7.7	6.7	5.5	8.0	8.2	5.1	6.2	6.4	7.1	6.8
9. Services	3.6	4.4	5.4	5.2	6.2	6.4	6.2	6.4	5.6	5.7	5.2	5.5
GDP	4.3	4.9	5.1	5.7	5.5	6.4	6.0	4.6	6.9	6.5	6.1	5.6

Source: Statistics of Indonesia, Bureau Statistics, various publications.

Data analysis will produce a picture of the performance of the industrial sector during the implementation of the ASEAN - China free trade. The exposure on the performance of the industrial sector has been done and the problems hinder the performance of the industrial sector. It is then prepared for recommendations on measures that should be done to improve the performance of the industrial sector in Indonesia

4. DATA ANALYSIS AND DISCUSSION

Data Analysis

Sector Contributions and Industrial Sector Growth

The implementation of the ASEAN-China free trade has a negative impact on the industrial sector in Indonesia. One measure is the decline in the industrial sector contribution to Gross Domestic Product (GDP). In the period 2002-2012, the contribution of industrial sector to GDP tends to decline from 27.36 Indonesian% to

23.8%, as shown in Table 1. Decreased contribution occurs consistently every year after 2005 until 2012 from 28.37% to 23.8%.

The decline in industrial sector's contribution to GDP in Indonesia is related to the low growth of this sector in the period 2002-2012. During this period, only the industrial sector grew an average of 4.7% per year, lower than the average GDP growth of 5.6%, as shown in Table 2. The reduced contribution of industrial sector to the GDP of Indonesia and the low industry growth in Indonesia is an indication of the occurrence of symptoms of de-industrialization in Indonesia in recent years due to the implementation of the ASEAN-China free trade.

From its contribution to employment in Indonesia, there was no significant change. For example, in 2002, the industrial sector absorbed 13.2% of the workforce in Indonesia and in 2011 amounted to 13.3%. Agriculture is the sector with most labor-intensive although the figure

Table 3
The Role of Each Commodity in Indonesia Exports (%)

Commodity	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Agriculture products	3.5	3.4	3.2	3.3	3.2	3.2	3.3	3.6	3.2	2.6	3.0
2. Industrial products	67.4	67.1	66.3	66.2	66.1	67.3	66.1	63.8	64.4	63.1	62.8
3. Mining and other sectors	28.2	28.6	29.4	29.3	30.0	28.8	29.8	31.5	31.5	33.2	32.8
4. Exports cannot be classified	0.9	0.9	1.1	1.2	0.3	0.8	0.8	1.0	1.0	1.2	1.5
Total	100.0	100.0	100.0	100.0	99.5	100.0	100.0	100.0	100.0	100.0	100.0

Source: Economy Statistics and Finance, Indonesia, Bank Indonesia, various publications.

Table 4
The Role of Each Import for Non-Oil Commodities in Indonesia

Commodity	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Agriculture products	1.2	0.8	0.7	0.8	1.3	5.6	5.6	6.1	5.8	6.9	5.5
2. Industrial products	79.6	79.5	80.8	81.1	80.6	92.1	92.4	92.4	92.1	91.7	93.0
3. Mining and other sectors	18.3	18.9	17.4	16.9	17.2	1.4	1.3	1.0	0.9	0.9	0.8
4. Exports cannot be classified	0.9	0.8	1.1	1.2	1.0	0.9	0.8	0.5	1.2	0.5	0.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Financial Statistics Indonesia, Bank Indonesia, Processed Various publishing.

declined from 44.3% in 2002 to 35.9% in 2011. Trade, hotels, and restaurants sector ranks second in employment in Indonesia, where the figure has increased from 19.4% in 2002 to 21.3% in 2011.

When viewed from each commodity, palm oil has a greater contribution in the total exports of Indonesian industry. For example, in 2005, the contribution in Indonesia's total exports increased by 7.7% to 14.9% in 2012. Palm oil is the largest contributor to the total exports of Indonesia from 2008 until 2012. During the period, exports of palm oil grew on average by 24.8% per year. Textiles and textile products become the second largest contributor to the total industrial exports, totaled to 10.6% in 2012.

The next is that the exports of processed rubber and paper & paper products experienced very high growth in the period 2005-2012. For the second export commodity, each experienced an average growth per year was 200.1% and 146.2%. The rapid growth of exports of both commodities has increased its contribution to total industrial exports. Contribution of exports to total exports of processed rubber industry has increased from 0.7% in 2005 to 8.8% in 2012. While exports of paper & paper products to total exports of the industry have increased from 0.4% in 2005 to 3.3% in 2012.

Textiles and textile products and wood-based products used to be the economic crisis in 1997/1998 and it became the mainstay of Indonesian exports, in the period 2005-2012 only

experienced an average growth per year respectively 12.8% and 4.0%. Exports of textiles & textile products to the total industrial exports are relatively stagnant over the period 2005-2012, from 10.4% in 2005 to 10.6% in 2012. Meanwhile, exports of processed wood products to total exports of industrial products decreased from 4.8% in 2005 to 2.8% in 2012.

However, imports of industrial contribution to total non-oil imports from Indonesia increased 79.6% in 2002 to 93.0% in 2012. See Table 4. Increased contribution also occurs in agricultural imports from 1.2% in 2002 to 5.5% in 2012. While the import of mining results and the results of other sectors decreased from 18.3% in 2002 to 0.8% in 2012.

During this period, imports of industrial products grew on average of 18.5% per year, higher than the growth in total non-oil imports by 16.2%. On the contrary, imports of agricultural products experienced average growth per year higher than the import of industrial products in the amount of 80.0% in the period 2002-2012.

When viewed from each of the commodities industry, electrical equipment, optical measuring instruments and have the largest contribution in the total imports of industrial products in Indonesia in 2005.

However, the contribution of these commodities has decreased from 18.2% in 2005 to 14.4% in 2012. During the period 2005-2012, imports of these commodities experienced an av-

Table 5
Realization of Domestic Investment according to Sectors (%)

Sector	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Agriculture	5.7	3.4	5.0	13.6	13.0	10.6	6.1	6.9	14.9	12.2	10.7
2. Mining	3.2	1.6	1.8	4.6	0.1	2.0	2.5	4.7	5.1	9.3	11.4
3. Industry	62.6	83.9	55.6	68.3	66.5	75.4	78.2	51.4	42.2	51.3	54.1
4. Electric, gas, and clean water	0.0	1.0	23.7	0.0	0.4	2.1	2.6	9.1	8.1	12.0	4.1
5. Construction	6.4	3.7	4.0	7.8	2.7	6.1	4.3	7.3	0.1	0.8	5.0
6. Trade, hotel & restaurant	4.7	2.0	2.1	1.2	2.7	0.8	4.1	4.8	0.8	1.0	2.2
7. Transportation and communication	12.4	4.2	5.1	2.1	6.2	0.8	2.1	2.1	22.7	10.4	9.3
8. Finance, real estate & service companies	0.0	0.0	0.0	0.2	0.2	0.0	0.0	0.3	0.4	1.0	0.1
9. Services	4.9	0.3	2.9	2.4	8.1	2.3	0.1	13.3	5.5	2.0	3.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics Indonesia, BPS, processed Various Publishing.

Table 6
Realization of Foreign Investment According to Sector (%)

Sector	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Agriculture	4.6	0.4	1.9	3.9	7.3	2.8	1.0	1.5	5.0	6.5	6.8
2. Mining	0.5	0.1	0.7	0.6	1.6	3.0	1.2	2.8	13.7	18.5	17.3
3. Industry	33.3	49.3	62.4	39.3	60.3	45.4	30.4	35.4	20.7	34.8	47.9
4. Electric, gas, and clean water	0.9	2.8	2.7	0.8	1.8	1.2	0.2	3.2	8.8	9.6	6.2
5. Construction	2.9	6.0	9.4	10.3	2.4	4.3	2.9	4.8	3.8	1.5	1.0
6. Trade, hotel & restaurant	11.6	7.3	11.6	6.3	9.1	6.0	5.0	9.4	6.8	5.5	5.1
7. Transportation and communication	38.0	31.8	5.8	33.1	10.8	32.0	57.4	38.5	31.1	19.8	11.4
8. Finance, real estate & service companies	0.1	0.1	3.3	2.3	4.2	0.6	1.2	2.9	6.5	1.4	1.6
9. Services	8.2	2.1	2.1	3.3	2.4	4.7	0.8	1.6	3.5	2.5	2.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics Indonesia, BPS, processed Various Publishing.

erage growth of 14.3% per year; lower than the growth in total imports of industrial products was 18.5%. Basic metal products ranks second in the total import of industrial products in 2005. Contribution of the commodity imports in total imports of industrial products remained stagnant at 15.3% rate over the period 2005-2012.

During the period 2005-2012, imports of these commodities experienced an average growth of 20.2% per year; higher than the growth in total imports of industrial products was 18.5%. Textile and textile products declined in its contribution to the total Indonesian imports of industrial products, from 7.8% in 2005 to 5.0% in 2012. During the period 2005-2012, imports of these commodities experienced an average growth of 12.6% per year that is lower than the growth in total imports of industrial products was 18.5%.

From the data analysis, it appears that the performance of the foreign trade sector in Indo-

nesia is declining over the period 2002-2012. It can be seen from the two indications, first, the contribution of the industrial sector in Indonesia's total exports tend to decrease from 67.4% in 2002 to 62.8% in 2012. Meanwhile, imports of industrial contribution to total non-oil imports from Indonesia increased 79.6% in 2002 to 93.0% in 2012. Secondly, during the period 2005-2012, industrial exports grew on average by 12.1% per year lower than the import growth of 18.5% industrial outputs.

Investment in Industrial Sector

Activities of Domestic Investment (DCI) in the industrial sector of the measured percentage of domestic investment in the industrial sector to total domestic investment in Indonesia tend to decline during the period 2002-2012. During this period, domestic investment in the industrial sector decreased from 62.6% in 2002 to 54.1% in 2012 (See Table 5).

Table 7
Bank Credit by Sector (%)

Sector	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Agriculture	8.2	7.5	8.3	7.8	8.2	8.0	7.3	7.8	7.5	7.6	7.8
2. Mining	1.4	1.6	1.9	1.6	2.5	3.6	3.3	4.2	4.9	5.6	5.3
3. Industry	44.5	38.2	36.0	35.1	32.5	28.7	28.9	24.7	22.3	22.3	23.2
4. Electric, gas, and clean water	1.6	1.4	1.5	1.1	1.3	1.1	1.9	2.4	2.7	3.0	3.1
5. Construction	3.4	3.8	5.0	5.5	5.8	6.1	6.2	6.4	5.1	4.9	5.0
6. Trade, hotel & restaurant	23.3	25.6	27.0	28.0	29.1	30.2	27.8	30.3	28.1	26.9	28.9
7. Transportation and communication	4.6	5.0	4.4	4.1	4.7	5.1	6.7	7.3	6.1	6.2	6.3
8. Finance, real estate & Service companies	11.4	13.7	14.0	15.0	13.9	15.4	16.3	15.3	11.1	11.7	11.6
9. Services	1.6	3.2	1.9	1.9	2.1	1.9	1.6	1.7	12.2	11.8	8.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics Indonesia, BPS, processed various publishing.

However, domestic investment in agriculture and mining sectors tend to have increased in the same period. Domestic investment in the agricultural sector increased from 5.7% in 2002 to 10.7% in 2012. And, the domestic investment in the mining sector increased from 3.2% in 2002 to 11.4% in 2012. Realized Foreign Direct Investment (FDI) in the industrial sector has increased in the period 2002-2004, from 33.3% in 2002 to 62.4% in 2004. See Table 6. But, after 2004, the realization of FDI tends to decrease to 47.9% in 2012. Realized FDI in the mining sector has increased rapidly from 0.5% in 2002 to 17.3% in 2012. The realized FDI in agriculture sector also tend to have increased from 4.6% in 2002 to 6.8% in 2012.

Lending Distribution to Banking Industries

The percentage of bank credit extended to the industrial sector tends to decrease during the period 2002-2012. During this period, credit channeled to the industrial sector decreased from 44.5% in 2002 to 23.2% in 2012 (See Table 7). Yet, bank credit channeled to the trade, hotels & restaurants; transport and communications, and mining tends to increase. Bank credit is channeled to the trade, hotels and restaurants increased from 23.3% in 2002 to 28.9% in 2012. Bank credit is channeled to the transport and communications sector increased from 4.6% in 2002 to 6.3% in 2012. Bank credit is channeled to the mining sector increased from 1.4% in 2002 to 5.3% in 2012.

During the 2002-2012 period, bank credit is channeled to the industrial sector only grew an average of 14.5% per year lower than the average growth in total bank credit reached 21.7%. Bank credit growth was greatest in the services sector that is equal to 102.4%.

Discussion

It appears that the performance of the industrial sector in Indonesia has decreased during the implementation of the ASEAN - China free trade. This can be seen from several indications, first, the declining industrial sector's contribution to Gross Domestic Product (GDP). In the period 2002-2012, the contribution of industrial sector to GDP tends to decline from 27.36 Indonesian% to 23.8%. However, its contribution to employment in Indonesia, there was no significant change. In 2002, the industrial sector absorbed 13.2% of the workforce in Indonesia and in 2011 reached to 13.3%.

Secondly, during the period 2002-2012, only industrial sector grew an average of 4.7% per year, lower than the average GDP growth of 5.6%. This shows the development of the industrial sector in the creation of economic output is lower than the national

Third, the contributions of the industrial sector in Indonesia's total exports tend to decrease during the period 2002-2012. In 2002, industrial exports amounted to 67.4% of Indonesia's total exports, decreased to 62.8% in 2012. During this period, industrial exports grew on average by 12.1% per year, lower than the growth of total exports of 12.9%.

Fourth, the contribution to total imports of industrial products Indonesian non-oil imports increased from 79.6% in 2002 to 93.0% in 2012. In this period, imports of industrial products grew an average of 18.5% per year, higher than the growth in total non-oil imports by 16.2%.

Fifth, domestic investment in the industrial sector is measured by the percentage of domestic investment in the industrial sector to total domestic investment in Indonesia tend to de-

cline during the period 2002-2012. During this period, domestic investment in the industrial sector decreased from 62.6% in 2002 to 54.1% in 2012. Yet, the realization of FDI in the industrial sector tends to decline from 62.4% in 2004 to 47.9% in 2012.

Sixth, the percentage of bank credit extended to the industrial sector tends to decrease during the period 2002-2012. During this period, credit channeled to the industrial sector decreased from 44.5% in 2002 to 23.2% in 2012.

The results of this study indicate that domestic industry sector still faces problems that hinder performance and competitiveness, both in quality and price. This is partly due to inadequate infrastructure, among others, the availability and guarantee continuity of energy supply, as well as the condition of the road infrastructure leading to high cost of production and distribution (The National Defense Agency 2012). Lack of effect of toll roads too congested roads and traffic congestion traffic flow. This ultimately results in higher transportation costs and weakens the competitiveness of Indonesian products.

Domestic fuel pricing policy is more expensive for industry groups than for groups of people helped hit the industry since quite significantly raise the cost of industrial production in Indonesia. In addition, the bank interest rate is not competitive compared to ASEAN member countries and China. Many entrepreneurs are complaining because bank interest rates in Indonesia are relatively high compared to other countries in ASEAN and China. This makes the interest costs incurred by employers who have loans from banks in Indonesia are becoming increasingly large, so that it raised costs and selling prices. In the end this will weaken the competitiveness of Indonesian products.

Weak competitiveness of Indonesian products is also associated with low quality of human resources, which leads to low productivity of labor. This resulted in a decline in the competitiveness of Indonesia for solid products that before the economic crisis in 1997/1998 is the mainstay of Indonesian exports, such as textiles, garments, footwear and furniture. A businessman furniture industry in East Java, said that there was a study that showed that the furniture industry wage comparisons Indonesian and Chinese furniture industry is equal to 1: 1.5. This means that wages in China is 1.5 times more expensive than labor costs in Indonesia.

However, comparison of labor productivity in Indonesia with Chinese furniture industry is equal to 1: 2. This means that the labor productivity of China's furniture industry labor productivity doubled furniture industry in Indonesia. This ultimately makes the furniture industry entrepreneurs in Indonesia bear the cost of labor is more expensive than the furniture industry entrepreneur in China. Therefore, it is not surprising that Indonesian furniture is currently unable to compete with the Chinese furniture market in the United States and Europe.

Weak competitiveness of Indonesian export products industry is also caused by an inefficient bureaucracy and corruption that led to the high cost economy. Even though there is an attempt to simplify the licensing procedures of investment, but the results are still not as expected. Still need more intensive efforts for the creation of a mental transformation bureaucrat of view of entrepreneurs as those who become the objects being used as the financial source that they should be served and satisfied in business.

Import content is still high on Indonesian industry, which on average is still high as 70%, resulting in Indonesian industry is highly dependent on the raw materials that still need to be imported. Deterioration of the rupiah against the U.S. dollar resulted in increasingly high prices of raw materials and increases the imported production and selling price. There should be an attempt of the government to grow the industries that supply the raw materials for other industries that exist in the country to reduce dependence on imported raw materials.

Indonesian industry performance is also low due to the limited natural resource processing industries.

There are some cases where natural products are raw (no further production process) exported overseas so that they enjoy value added businesses in Indonesia that is relatively small. This problem has been addressed by the government to issue regulations prohibiting the export of raw minerals. In industry, there is still a need to foster industrial processing of natural resources.

Another issue up to recently is still the regulations that are not mutually synergistic with each other. Coordination and synchronization of each department and the regulations created a keyword for improving the competitiveness of Indonesia. Therefore, all ministries un-

der the coordination of economic coordinating minister for the economy should jointly formulate strategies and policies to improve the competitiveness of Indonesian industry that the era of free trade now takes place in the scope of ASEAN and China.

The low performance of the industrial sector is also due to the structure and competitiveness is still weak and the absorption rate of the product in the domestic market is still low. If Indonesia is to increase exports and reduce imports, then there should be a systematic effort to love and to increase domestic consumption of domestic products. Marketing of domestic products in the domestic market will be a success if the defense of the government and society towards domestic products.

It is also the cause of the poor performance of the industrial sector in Indonesia is a synergy between big industry, medium, and small is still not firmly established. Large industries rely more on raw materials from abroad and not many have partnership with medium and small scale industries. As a result of industrial development, there are a few positive effects for the development of medium and small scale industries.

Industry development in Indonesia is not proportional between Java and outside Java. This relates to the quality of human resources and infrastructure better in Java than outside Java. This condition results in centralized industrial locations in Java, the longer the condition of its infrastructure is increasingly inadequate to support the development of the industry. On the contrary, the potential of the industry outside of Java cannot be developed to the fully. All the ultimately degrades the performance of the industrial sector impact nationally.

Another problem being faced by the industrial sector in Indonesia is synergy and linkage between upstream and downstream industry. This is still weak and not optimal functioning of ministries or agencies in coordinating services and to encourage the development of national industry. For example, the performance of the industrial sector in Indonesia is also associated with the poor 'Low Performance Culture' which is still dominant in Indonesian society, both public and bureaucratic apparatus businesses and policy makers. Though competitive advantage (competitive advantage) can only be built if supported by people who have a High Performance Culture. (National Defense Agency 2012)

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

In general, it can be concluded that the performance of the industrial sector in Indonesia has decreased during the implementation of the ASEAN - China free trade. This can be seen from several indications: first, the contribution of industrial sector to GDP tends to decrease from 27.36% to 23.8%. However, the contribution to employment is no significant change. For example, in 2002, the industrial sector absorbed 13.2% of the workforce in Indonesia and in 2011 amounted to 13.3%. Secondly, during the period 2002-2012, only industrial sector grew on average of 4.7% per year that is lower than the average GDP growth of 5.6%. This shows the development of the industrial sector in the creation of the output is lower than the national economy.

Third, the contribution of the industrial sector in Indonesia's total exports tends to decrease from 67.4% in 2002 to 62.8% in 2012. During the 2002-2012 periods, industrial exports grew on average by 12.1% per year, lower than the growth of total exports of 12.9%

Fourth, the contribution to total imports of industrial products Indonesian non-oil imports increased from 79.6% in 2002 to 93.0% in 2012. During this period, imports of industrial products grew an average of 18.5% per year, higher than the growth in total non-oil imports by 16.2%.

Fifth, the percentage of domestic investment in the industrial sector to total domestic investment in Indonesia is likely to decline from 62.6% in 2002 to 54.1% in 2012. On the contrary, the realization of FDI in the industrial sector tends to decline from 62.4% in 2004 to 47.9% in 2012. Sixth, the percentage of bank credit extended to the industrial sector tends to decrease from 44.5% in 2002 to 23.2% in 2012.

The decrease of the performance of the industrial sector in Indonesia is due to the number of problems among others : (1) the condition of inadequate infrastructure, (2) high bank interest rates, (3) the quality of human resources is still relatively low, (4) bureaucracy inefficient and corrupt, (5) is still high import content and limited natural resource processing industries, (6) legislation is not synergistic with each other, (7) the structure and competitiveness is still weak and the absorption rate of the product market the country is still low, (8) synergy between industrial large, medium, small and still not firmly established, 9) disproportionate indus-

trial development between Java and outside Java, (10). synergy and linkages between upstream and downstream industry is still weak, (11) is not optimal functioning of ministries or agencies in coordinating services and to encourage the development of national industry, (12) Low Performance Culture is still dominant in Indonesian society, both public officials and business people bureaucracy and policy makers.

This study reveals a critical decrease in Indonesia's industrial competitiveness for the imposition of the ASEAN-China free trade. Therefore, the government should take steps to improve the competitiveness of Indonesian industries. The need for the formulation of strategies and policies to improve the competitiveness of Indonesian industry is a top priority that should be drafted jointly by the ministry of economy and coordinated by the coordinating minister for the economy.

It is advisable for further improving the performance of the industrial sectors in Indonesia: first, the policy is necessary to protect the domestic industries, especially for an industry that has not had a competitive advantage to Chinese products. As tariff barriers could no longer be used as a weapon to protect domestic industry, then the options are on non-tariff barriers, such as regulatory health standards for food products, administrative regulations, and the Indonesian national standards.

Second, increasing industrial competitiveness through the strengthening of national industrial structure and tightening export raw materials needed to support domestic industries such as rattan, wood and mine raw materials. If this is done then it can create new industries that process raw materials into finished goods that have a higher added value.

Third, supporting the use of domestic products through the implementation of Presidential Instruction No. 2 of 2009, primarily related to the procurement of goods and services, supervision of illegal exports, to build a national industrial structure, employment opportunities, and strengthening the mental readiness of workers become entrepreneurs. (National Defense Agency 2012)

Fourth, the government should accelerate the process of certification on various goods and services for obtaining the Indonesian National Standard (SNI), and subsequently notified to the WTO. It will be able to protect domestic industries and protect the domestic market from the flood of imported products.

Fifth, the synergy between the ministries related to the interests of industry performance, both in terms of authority, structure and function, so that the entire program can be implemented in a systematic, measurable and comprehensive. This effort will provide a positive impact on the progress in the field of industry both in terms of mastery of technology, value added created and competitiveness in terms of quality and price.

Sixth, there must be consistent enforcement of various products into the country through illegal imports. Success in law enforcement will be able to reduce or even eliminate the practice is still rampant smuggling up to the present. In addition, these efforts as well as to protect consumers from the possibility of consuming products and the quality is not bad for health, especially for food products, beverages and cosmetics.

Seventh, the economy ministry coordinator needs to form a coordination team handling industry and trade barriers, which serves as an adviser in solving various problems associated with industrial development programs, as well as the acceptance of Indonesian products in the domestic and international markets.

Eighth, the Indonesian government can do 'renegotiation', as a step towards the consolidation and stabilization of a wide range of industry sectors that have not been competitive (especially in terms of price). Renegotiation is necessary so that Indonesia has the opportunity to improve the performance of the industry is still not ready to compete in the arena of free trade.

Ninth, improving the competitiveness of national industry aimed at tackling domestic strategic issues, including landscaping and industrial areas, improvement of infrastructure and labor issues, the provision of incentives (tax and non-tax), synergy between industrial engineering and industrial services, Special Economic are development, public service improvement, simplification and synergy of various regulations, improving the quality of human resources, and the reduction in bank interest rates.

Tenth, re-mapping the local superior products and empowerment of small and medium industries, particularly the creative industries based on national culture. These efforts need to be supported with optimum utilization of market opportunities through the promotion of tourism, trade and investment.

Eleventh, the formulation of government policies should address the dependence of the

domestic industry to supply raw materials and technologies from abroad. This policy should be directed to the creation of increasingly low import content and higher local content. In addition, there should be a strategy and policies for technology transfer so that the technology used in the national industry could also increase.

This study proves the performance deterioration of Indonesian industries during the implementation of the ASEAN-China free trade and this generates recommendations on improving the performance of industry- sector in Indonesia. However, further research is needed on this topic by using a quantitative approach, in order to strengthen or become a benchmark for this qualitative study.

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