

CHAPTER I

INTRODUCTION

A. Background

International trade in each country's economy is crucial in improving world welfare. Since every nation in the globe engages in international business, each nation tries to achieve a surplus in its global trade balance due to the economy. Because the amount of incoming foreign currency increases in proportion to the excess generated, it has the potential to generate cash for the public treasury, which in turn may be used to fund growth. If net exports, imports, exchange rate, and economic growth have a simultaneous and partial impact on Indonesia's economic growth is how the problem is formulated in this study. Every nation needs to engage in international trade to ensure the prosperity of its citizens. Since a nation cannot supply all of its demands, international trade is crucial. A nation has a distinct advantage if it can create more goods and services per unit of resource used than other nations. A country's ability to export all its products is sometimes an absolute benefit (Anwar, 2018).

Trade is an activity of buying and selling an item. In shariah, trade is a process of exchanging assets on the basis of mutual consent or exchanging property rights to others justified by *syara'*. In the Qur'an it is stated that trading is a way of seeking sustenance that is commanded by Allah in a good way. As Allah says in Surah An-Nisa:29:

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ إِلَّا أَنْ تَكُونَ تِجَارَةً عَنْ تَرَاضٍ مِّنْكُمْ وَلَا تَقْتُلُوا أَنْفُسَكُمْ إِنَّ اللَّهَ كَانَ بِكُمْ رَحِيمًا .

“O you who have believed! do not consume one another’s wealth unjustly but only [in lawful] business by mutual consent. And do not kill yourselves [or one another]. Indeed, Allah is to you ever Merciful.”

This shows the consistency of Al-Qur’ān in guiding its people in building business ethics, ethics without violating or usurping the rights and wealth of others in various forms of business activities including ways of consuming. And strongly condemn business behaviour that contains elements of tyranny (*zhulum*) and evil. This view implies that the meaning of life in Islam is not limited only to a materialistic life that ends in death someone in the world (Taufiq, 2017).

International commerce has a significant impact on a nation's economic development. Without international trade, there is no capital transfer from developed to underdeveloped countries (Machmud, 2016). International trade is advantageous for a nation since it can improve employment possibilities, foreign exchange reserves, capital transfer flows, and state income for national growth. However, import quotas and regulations, high import taxes, and currency exchange rates between nations can impose barriers to commerce. ASEAN countries are now actively engaging in international trade activities to address their domestic development needs. The trade balance is one of the factors impacted by global commerce. In economics, a nation's trade balance

plays a significant role in establishing policy benchmarks. The difference between exports and imports is the trade balance.

A surplus is declared when the value of exports is higher; a deficit is declared when the value of imports is higher. This circumstance has a great impact on a nation's GDP (Yuni, 2016). After conducting trade among its members, ASEAN has occasionally expanded its reach to include nations outside the group, such as China, Europe, the European Union, and Japan, where it has since established free trade. Trade with China, which implements a free trade area, is the main emphasis of these nations. Thus, on November 4, 2002, the ASEAN nations created a Framework Agreement on Comprehensive Economic Corporation. This was renamed the ASEAN-China Free Trade Area afterward (ACFTA). The ASEAN-China Free Trade Area (ACFTA) will be established on January 1, 2010, following further agreements being negotiated between ASEAN and China.

ASEAN countries are actively engaging in trade activities with other nations to satiate internal development needs. The trade balance is one of the factors impacted by global commerce. A nation's trade balance is crucial in defining policy benchmarks in the economy. The difference between exports and imports is the trade balance. A surplus is recorded when the export value exceeds the import value; a deficit is stated when the import value exceeds the export value. Below is a table of the total export of ACFTA countries from 2017 to 2021.

TABLE 1.1

Total Balance of Trade, Member of ASEAN-6

| Country | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------------|------------|------------|------------|------------|------------|
| Indonesia | 0.9991118 | -44.143125 | -0.4447219 | 1.56724711 | 2.69885429 |
| Malaysia | 6.8682732 | 6.70732718 | 7.52694783 | 6.36988717 | 7.1079973 |
| Thailand | 12.4542375 | 8.83432907 | 9.34647517 | 5.32097461 | -0.2396729 |
| Philippines | -9.063788 | -11.736188 | -12.076002 | -7.7638817 | -12.017003 |
| Singapore | 26.4082832 | 28.863877 | 28.7408201 | 31.7056839 | 31.361227 |
| Brunei Darusallam | 13.9697344 | 9.96823288 | 7.38242272 | 4.42121917 | 13.2147091 |

Sources: World Bank, 2017-2021

Table 1.1 describes the total trade balance of the countries involved in the ACFTA agreement in 2017-2021 or the last five years of the research year. There have been several movements in the balance sheet values that fluctuated or were surplus in each country. Singapore experienced a surplus in 2020. And also by several other countries such as Brunei Darussalam, Malaysia, and Thailand. But several countries have experienced deficits, such as Indonesia in 2018 and 2019 and the Philippines, which has experienced deficits for the last five years in a row. The balance shows that countries that experience a surplus are countries with a positive trade balance or countries that optimize their exports compared to imports. In reverse, a country that experiences a deficit can be said to have a negative trade balance, namely optimizing imports compared to exports.

ASEAN has periodically developed. After commerce among ASEAN nations, it has spread outside the group, leading to free trade with countries

outside the region, including China, Europe, the European Union, and Japan. Trade with China, which implements the free trade area, is the main priority of these nations. Then the following ASEAN countries, on November 4, 2002, created an agreement Framework Agreement on Comprehensive Economic Cooperation. Which later became known as the ASEAN-China Free Trade Area (ACFTA). ASEAN and China will negotiate a further agreement, establishing the ASEAN-China Free Trade Area (ACFTA) on 1 January 2010. The ACFTA is the first Free Trade Area with an external party to be signed by ASEAN. In August 2014, ASEAN and China decided to upgrade the ACFTA.

The first Free Trade Area that ASEAN has signed with third parties is ACFTA. In August 2014, China and ASEAN resolved to expand ACFTA. The Trade in Goods Agreement was ratified twice, in 2006 and 2010, after being signed in November 2004. The methods for lowering and removing tariffs are divided into "Normal Track" and "Sensitive Track" categories. The ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, and Thailand) eliminated all tariff lines for the Normal Line, followed by CLMV countries' entry. Implementing the ACFTA is a milestone for ASEAN and China to carry out more intensive trade relations on a massive basis. Over the last few years, ASEAN has been buying many goods from China. China is currently a country with the highest level of economic activity in the world. ASEAN also has trade relations with other countries in conducting exports; both ASEAN countries and partner countries carry out export activities. The Free Trade Area agreement does not bind all nations collaborating with

ASEAN to conduct international trade. The ACFTA agreement will create a free trade area by reducing and eliminating trade barriers, tariffs, and non-tariff barriers to 0%. Apart from that, it is also to open access to market services and investment to improve the economy and the welfare of the countries that have joined the ACFTA (Fitra, 2020).

TABLE 1.2
ASEAN-6 Trade Flow to China by Countries 2019

| Trade Partner Country | Value of trade (USD) | | |
|--------------------------|----------------------|-----------------|-----------------|
| | Export to China | Import to China | Total Trade |
| Indonesia | 27961887116 | 44,930,598,575 | 72892485691 |
| Malaysia | 34,021,113,307 | 42,399,003,125 | 76420116432 |
| Thailand | 28,068,462,812 | 45,792,891,688 | 73861354500 |
| Philippines | 9,814,427,518 | 26,756,381,043 | 36570808561 |
| Singapore | 51,619,173,349 | 49,032,834,994 | 100652008343 |
| Brunei Darussalam | 429,095,783 | 672,030,003 | 1101125786 |
| Total | 151,914,159,885 | 209,583,739,428 | 361,497,899,313 |

Source: Comtrade UN, 2019

The Association of Southeast Asian Nations (ASEAN) was formed in 1967 by Indonesia, Malaysia, Philippines, Thailand, and Singapore, joined by Brunei in the 1980s (known as ASEAN-6), and by Cambodia, Laos, Myanmar, and Vietnam (known as CLMV) in the 1990s. The ASEAN-10 members are diverse in size, level of economic development, resource endowment, and industrial and technological capabilities. In 1992 ASEAN agreed to form the ASEAN Free Trade Area (AFTA) with tariffs reduced to the 0-5% level by 2002 (brought forward from 2008) for ASEAN-6 and to the zero level by 2010 for ASEAN-6 and by 2015 for CLMV. In addition, ASEAN has services and

investment liberalization agreements. ASEAN is also forging FTAs with China, Japan, South Korea, and India, while individual ASEAN countries are forming bilateral FTAs with a growing number of countries in the Asia Pacific and beyond (Firdaus, 2020).

According to the ASEAN-China Economic Cooperation Expert Group, expected economic benefits from the ASEAN-China Free Trade Area include increased bilateral trade, expanded GDP, greater economic efficiency, lower costs, and increased investment leading to research and development. At the same time, the free trade area may have its negative aspects, escalating rivalry on the domestic market and possible cost increases due to shifts in supply and production from lower-cost non-member countries to higher-cost member countries. Loss of revenue from tariffs and the problem of temporary unemployment (ASEAN-China Expert Group on Economic Cooperation 2001, p. 31). In addition, ASEAN-China is also active in export activities to China. Increased export activity can affect the national economy's performance, reflected by the Gross Domestic Product (GDP) size. Export activities of goods and services produced flow not only into the country but are channeled to international markets. An item also has an essential standardization as a condition for being traded (Mulyati, 2012).

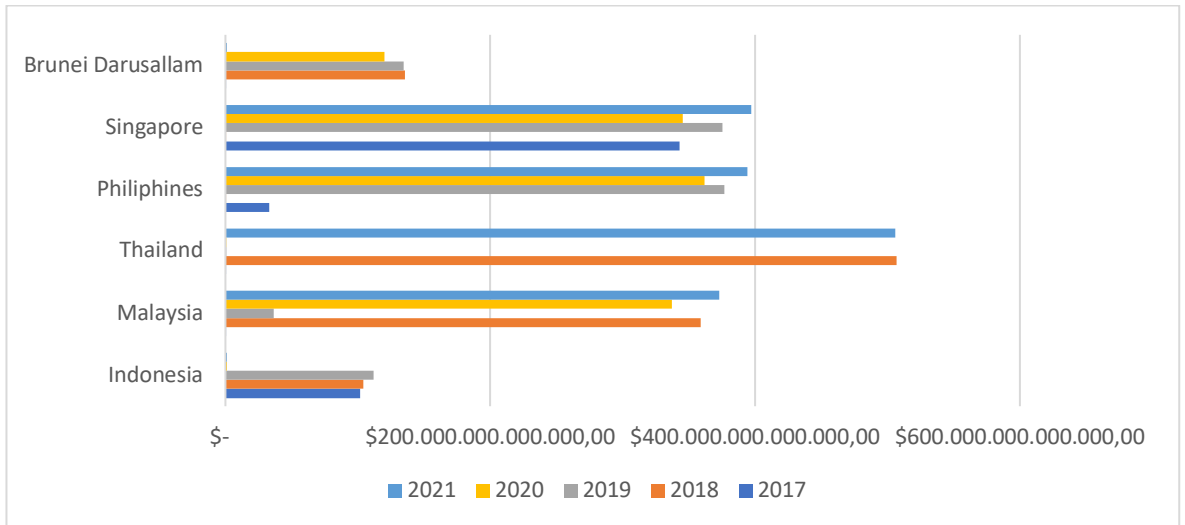


FIGURE 1.1

GDP of ASEAN-6 Countries on 2017-2021

The high GDP of destination countries positively impacts exports in ASEAN. An increased production surplus marked by increased GDP will encourage exports to increase because excess domestic output will then be a channel through exports. The country's ability to produce goods and services through GDP influences the export amount. The more the government cannot produce, the higher the level of imports. Tall. Seeing these conditions, ASEAN countries, especially Indonesia, Malaysia, Singapore, and Thailand, have been able to increase their productivity and distribute it through exports to China

B. Limitation of Problems

There are several research constraints, including the study's scope of problems to be investigated and the researchers' underlying assumptions.

1. Only annual data were used in this Study. Limited annual data are used for GDP, Exchange Rate, and Dummy variable data in Indonesia, Malaysia, Singapore, Philippines, Thailand, Brunei Darussalam, and China from 2001-2021.
2. Limited analyzer used that is an analysis of Trade Intensity Index (TII) and Regression Data Panel.

C. Research Questions

There are several research constraints, The study's scope of problems to be analyzed and the researcher's underlying assumptions, among others:

1. How the effect of GDP on Indonesia's Trade Intensity Index after the implementation of ASEAN-China Free Trade Agreement?
2. How the effect of exchange rate on Indonesia's Trade Intensity Index after the implementation of ASEAN-China Free Trade Agreement?
3. How Trade Intensity Index of Indonesia and Malaysia toward other countries in ASEAN-6 (Singapore, Philippines, Thailand and Brunei Darussalam) China after the implementation of ASEAN-China Free Trade Agreement?

D. Research Objectives

This research aims to:

1. Analyse the effect of GDP on Indonesia's Trade Intensity Index after the implementation of ASEAN-China Free Trade Agreement

2. Analyse the effect of exchange rate on Indonesia's Trade Intensity Index after the implementation of ASEAN-China Free Trade Agreement
3. Examine the Trade Intensity Index of Indonesia and Malaysia toward other countries in ASEAN-6 (Singapore, Philippines, Thailand, Brunei Darussalam) China after the implementation of ASEAN-China Free Trade Agreement.

E. Research Benefits

The benefits of this study include information about and empirical proof of the trade flow and export performance of ASEAN-China Free Trade Area participants (ACFTA). More specifically, the following are some of the advantages of this study:

1. This study is initially expected to provide a clearer understanding of Indonesia's export performance and trade intensity in one of its export destination markets, ACFTA, so the government may use the information and resources to help formulate future competitive policies.
2. For market participants, the study's findings are expected to provide more details on the state of several commodities right now and point to improvements that can be made to export performance and trade intensity.
3. For the researcher through this study the researcher is able to gain a deeper understanding of the ASEAN-China Free Trade Area. Also, this study can provide new perspectives and ideas for formulating solutions

to the problem by studying the export performance and trade intensity of ACFTA-participating nations.