



# The Impact of Cross Border in the ACFTA Agreement for Toy Trade SMEs

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**Abstract.** The ASEAN-China Free Trade Area (ACFTA) agreement aims to export and import goods with tariffs reduced to 0%. Meanwhile, exports and imports can only be carried out by prominent entrepreneurs. Traders of locally made children's toys classified as micro, small, and medium enterprises have only been affected by the influx of toys from China due to the ACFTA. Government constraints in protecting micro, small, and medium entrepreneurs in the trade of domestically made children's toys against the impact of the ACFTA agreement need special attention. This is due to the government's unpreparedness in responding to ACFTA, including unpreparedness in infrastructure development in the form of markets for MSMEs and fostering procedures for exporting and importing goods for MSMEs. Obstacles also arise from entrepreneurs who need to be more open to the free market world. There needs to be a unified organization among locally made children's toy traders to build joint ventures with prominent entrepreneurs and become producers ready to compete with local Chinese products.

**Keywords:** ACFTA, Law, Micro, Small and Medium Enterprises, Import.

## 1 Introduction

Cross-border is a financial transaction between the payer and recipient in different countries. The ACFTA, which has been running since November 2001, confirmed that the agreement would come into effect in January 2010. Based on the agreement, the ASEAN 5 countries (Indonesia, Thailand, Singapore, the Philippines, and Malaysia) and China agreed to remove 90% of commodity trade barriers in 2010. Within ten years, the countries that are members of the ACFTA agreement have continued to build and improve infrastructure and facilities to welcome the entry into force of the ACFTA in 2010 [1].

However, of the various existing countries, Indonesia needs to pay more attention to infrastructure development and economic development facilities to deal with free trade, which is the main objective of the ACFTA agreement. This agreement makes people who have micro, small, and medium enterprises (MSMEs) worse off. Lack of readiness and soaring prices of goods used as production raw materials making domestic products increasingly difficult to produce goods of good quality but cheap. Starting from a convoluted bureaucracy and various domestic problems, now it's coupled with the flood of

products from China which continues to make the local market lose good seeds as potential entrepreneurs [2].

Indonesia, a vast country with abundant natural resources, cannot be the foundation of its people's life if it continues to be filled with imported products from abroad. Various products ranging from food to clothing made in China flooded the local market. Toys entrenched among Indonesian children since ancient times have been replaced by toy products made in China. Children believed to be the nation's next generation in the future have been provided with various types of products made in China. Naturally, the tendency to import goods from abroad to meet domestic needs continues to grow because, from an early age, our society has been lulled by goods made in foreign countries which have dimmed the creativity of the people themselves. The impact of imports, mainly imported toys given to children in this modern era, poisons Indonesian children [3-6].

The period when humans hone their creativity is childhood, but with this convenience, children increasingly forget their creativity. There are no longer locally made toys that can bring joy to children. The community's efforts in the production and trade of domestically made children's toys are also fading because they need to be higher in price and quality than products from China. Article 5 of Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises states that the government is obliged to foster and develop the capabilities of micro, small and medium enterprises so that they become strong and independent businesses and increase the role of micro, small and medium enterprises, in regional development, job creation, income distribution, and alleviating people from poverty [7,8].

In Indonesia, an area that still adheres to Malay culture, it is currently difficult to find manufacturers of children's toys that are unique and characterized by Malay culture. In Indonesia, typical Malay toys such as tops, congklak, soccer, and kites are also hard to find. Traders in traditional markets only sell toys made in China or outside Indonesia.

Therefore, there is a need for assistance from the government in facing and responding to competition in the era of free market trade, especially for children's toy manufacturers in Indonesia. A government that does not understand will not know how to make decisions and take actions that favor small and medium traders in Indonesia.

Article 3 of Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises states that Micro, Small, and Medium Enterprises aim to grow and develop their business to build a national economy based on a just economic democracy. However, the goals of micro, small, and medium enterprises that are strived for by manufacturers and traders of locally-made children's toys in Indonesia can only be achieved if they receive assistance and special attention from the relevant government.

Facing the challenges after the ACFTA, all stakeholders must be able to make the best of business opportunities because, generally, all companies experience problems. These obstacles include limited capital, technology, and quality human resources. If this challenge is managed correctly, it will protect all types of companies on various production scales. It will be displaced from the market, especially companies with small capital, such as micro, small, and medium enterprises. Based on the above, in this study, the authors focus on the impact and constraints of the ACFTA agreement for micro,

small, and medium enterprises (MSMEs) in the trade of children's toys in Indonesia [9,10].

This research aims to revive and preserve the trade in traditional children's toys and increase the production and interest of children's games in Indonesia towards Indonesia's traditional heritage. The results of this research can be used as a basis and reference for the government, the private sector, the community, and children to preserve and maintain the existence of the trade in children's toys as a Malay cultural heritage and make toys the pride of the nation. Indonesian culture in the eyes of the international community [11-13].

## **2 Research Methods**

This research is normative legal research using conceptual and statutory approaches. Primary, secondary, and tertiary legal materials are obtained, used from statutory regulations and articles, processed, and analyzed to answer the studied problems. The legal material analysis technique used is analytical descriptive, based on research problem solving and analysis of written provisions in the form of rules and theories. This is because Indonesia is a city where most of the population consumes imported products. After all, it is close and directly borders other countries and is an area passed by export and import routes in Indonesia [14,15].

## **3 Results and Discussion**

A country's residents carry out international trade with residents of other countries based on an agreement. The population here can be an individual or an individual, an individual with the government, or one country with another.

In the case of this transaction, trade issues are never separated from the contract. This agreement is a liaison between the rules of commercial activity. Because it involves international trade, the contract that must be used is an international trade contract.

The law of the agreement varies and has its differences between one contract and another, depending on the wishes of each party; each country involved in international trade transactions wants the contract made to comply with the law in their country because each country has different rules.

An international contract is an agreement that contains two or more countries, and the contract is made between one country and another. On March 10, 1980, to April 11, 1980, a conference was held by the United Nations. Initiated by UNCITRAL (United Nations Commission on International Trade Law).

This conference succeeded in making an agreement governing international sale and purchase agreements, namely the United Nations Convention on Contracts for the International Sale of Goods (referred to as CISG), often referred to as the 1980 Convention on Sale and Purchase (Vienna Convention 1980), has been ratified by 84 countries out of 196 countries as of January 8, 2016.

Ratification of an international agreement by the country that signed the agreement is called ratification. According to the provisions of the constitution of the country concerned, ratification in each country is different. In Indonesia, the ratification arrangements are in Law Number 24 of 2000 concerning International Agreements.

CISG's goal is to provide modern, uniform, and fair international contracts for the sale and purchase of goods and to introduce legal certainty in international trade. With the status of the CISG as an international trade law that is widely accepted by countries around the world internationally, the Government of Indonesia needs to ratify the CISG.

If there is no ratification, Indonesian companies that carry out their activities are often in a weak position, not strong at all, because other parties use CISG for their international buying and selling contracts, even though they do not recognize CISG at all. After all, CISG is not part of Indonesia's positive law.

Suppose the parties do not explicitly specify which country's law is used in their agreement, according to international private law principles. In that case, their sale and purchase contract may be subject to the CISG if the contract has more points of relevance to the law of that foreign country. Has ratified the CISG.

Compared to Indonesia, the government of the People's Republic of China ratified the CISG on January 16, 2013. The aim is to minimize differences in the legal system so that they do not become a factor hindering free trade growth in the regional and global regions.

The existence of ACFTA has a very pronounced impact on goods entering Indonesia. The incoming goods are now unstoppable because Indonesia has entered the free market of ASEAN and China. In particular, goods from China have increased rapidly since 2010. The Department of Industry and Trade can only impose taxes on these goods as a filter so that these goods do not circulate illegally on the Indonesian market.

The impact of ACFTA itself on Indonesia consists of two, namely, positive and negative impacts.

### **Positive Impact of ACFTA**

- The impact of implementing the ACFTA is that trade transaction costs can be reduced, while economic efficiency will increase, thus making the ASEAN and China regions very attractive as investment destinations;
- For ASEAN, ACFTA helps reduce the threat of China's rapid economic growth. Through the ACFTA, ASEAN has access to China's extensive domestic market, providing opportunities to increase exports at low tariffs, as well as increased cooperation between business actors through the formation of strategic alliances, access to service markets, regional production bases, regional and global markets, investment flows and open technology transfer.

### **Negative Impact of ACFTA**

- Invasion of foreign products, especially from China, can destroy the invaded economic sector. Even before 2009, Indonesia experienced a process of industrialization

(industrial decline). Foreign products invade the domestic market with very competitive quality, and prices will encourage domestic entrepreneurs to switch their business from producers in various economic sectors to becoming importers or traders only;

- The character of the domestic economy will become less independent and weaken. Everything depends on foreigners. Even products such as syringes must be imported. If many economic sectors depend on imports, while vital sectors of the domestic economy are also encroached on and controlled by foreigners, then what else can be expected from Indonesia's economic strength;
- The role of production in the national market will be trimmed and replaced by imports, especially the manufacturing sector and MSME. As a result, the availability of jobs is decreasing. Even though every year the new workforce increases by more than 2 million people, in August 2009 alone, the number of open unemployed people in Indonesia reached 8.96 million.

Local production, which used to be the prima donna of the country, has now been forcibly shifted by the invasion of foreign products, especially from China, such as toy products that the author examined in Indonesia. In Indonesia, it is almost impossible to find toys made in Indonesia that are sold freely on the market, even though only a few people are still thorough and tenacious in working on them as a livelihood. Most of the traders complained that the flood of toy products made in China circulating in the community had resulted in the trade in their toys being no longer attractive to children, even though their toys were good quality toys.

Indeed, the status of locally made children's toy traders in Indonesia still needs to improve. MSMEs with small capital are greatly affected by ACFTA. Traders who generally complain about the influx of toy products from China and other countries can only surrender to the current situation. Many think the government could have better intentions and seem indifferent to the impact of the flood of toys from China.

Ignorance and lack of understanding about ACFTA are caused by a lack of outreach from related parties, which makes local toy traders blind to knowledge about ACFTA. Traders of domestically made children's toys stated that the government had never informed them through outreach or direct counseling about ACFTA and that the government had ignored the flood of Chinese toy products that were increasingly flooding and controlling the domestic market.

The form of protection carried out by the government is recognized by the community but only limited to counseling. The community views the counseling carried out only as a formality so that the government is seen to play an active role in protecting MSMEs from the threat of foreign products.

The government is experiencing difficulties in protecting micro, small, and medium enterprises in Indonesia, primarily manufacturers and traders of children's toys, against the adverse effects of the ACFTA agreement that took effect in 2010. Government constraints in protecting micro, small, and medium enterprises in Indonesia, especially producers and children's toy traders, against the adverse effects of the free market arising after the ACFTA agreement, among others:

- There needs to be a unified organization among children's toy manufacturers.

- Lack of active participation from producers and traders of domestically made children's toys in Indonesia to register with relevant agencies.
- Large entrepreneurs and small and medium entrepreneurs are separate.
- Encouraging micro, small, and medium entrepreneurs to enter a broader market.
- Limited human resources.
- Lack of capital for MSMEs

The government, through related agencies, has made efforts so that the impact of ACFTA on MSMEs, especially in the production and trade of locally made children's toys in Indonesia, can be minimized. However, many of these efforts and efforts will not work correctly if there is no cooperation and support from other parties, both from the producers themselves and the government related to national economic development.

Limited capital also hinders the progress of MSMEs engaged in producing and trading domestically made children's toys. The Office of Cooperatives and SMEs of the Republic of Indonesia understands that limited capital is also a significant factor in the bankruptcy of many SMEs. It is not only MSMEs that produce and trade domestically-made children's toys that have gone bankrupt due to a lack of capital. But other businesses are also experiencing the same thing. Therefore, the government promotes business capital loans for business actors throughout Indonesia through People's Business Credit (KUR). However, not a few entrepreneurs take advantage of this program to develop their businesses.

## 4 Conclusion

The impact of legal protection for MSMEs in the production or sale of toys in the ACFTA Agreement in Indonesia has a negative impact. The entry of cheap products will threaten local industries/artisans to close down because their products cannot compete. The closure of local industries will impact massive layoffs and increase the poverty rate of the craftsmen themselves. Massive layoffs will result in unemployment everywhere. This will cause the poverty rate to increase and the country's economy to decline. When the country's economy declines, the country's stability decreases.

Obstacles to the Government of Indonesia in protecting Micro, Small, and Medium Enterprises entrepreneurs in the production and sale of toys against the impact of the ACFTA agreement must receive the country's full attention. Factors that hinder the protection of businesses producing or selling local toys also arise from the condition of the entrepreneurs themselves, who need to be open to the world of free markets in the modern era. There needs to be unity between traders to build a joint business and become one of the producers ready to export their products to China to compete with foreign products. In addition, the government itself needs to play an active role, and there is no assistance from the Government in MSME activities in Indonesia.

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