



Analysis of implementing regulations related to tariff and non-tariff due to the enforcement of the asean-China free trade area agreement in the textile and textile products industry sector

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Abstract

The implementation of the ASEAN-China Free Trade Area (ACFTA) Agreement, which came into effect in 2010, has not always proceeded in accordance with its original objectives. Regulations related to ACFTA have been amended almost annually, with these regulatory changes causing losses and economic imbalances, particularly for Micro, Small, and Medium Enterprises (MSMEs) in the Textile and Textile Product (TTP) sector in Indonesia. The purpose of this research is to examine the impact of the ACFTA Agreement's implementation resulting from the elimination of both tariff and non-tariff barriers in the textile and textile product industry. The findings indicate that the legal regulations governing free trade, particularly regarding import duties, have led to increased domestic textile production costs and decreased domestic textile sales. This research offers novelty in the form of regulatory reconstruction within the context of the ACFTA Agreement, specifically aimed at supporting the sustainability and competitiveness of MSMEs in the Textile and Textile Product (TPT) sector, using a normative method with a constitutional approach. Additionally, another contributing factor is the inability to compete with other countries due to free trade barriers, demonstrating that the objectives of the law have yet to be fully achieved. In this regard, regulations concerning textile raw materials must be revised so that Indonesia can produce its own raw materials without relying on imports. Therefore, the implementation of the ASEAN-China Free Trade Area (ACFTA) must be accompanied by appropriate legal regulations to protect textile entrepreneurs in Indonesia from the perspective of the Theory of Justice.

Keywords: ACFTA, MSMEs, textile industry

Introduction

ASEAN China Free Trade Area was approved and signed by the countries that members of the ASEAN countries.

One of the contents in ASEAN China is an agreement of free trade. Free trade has a purpose to eliminate tariffs and non-tariffs barriers (Khamila Dewi and Mulatsih 2019) ^[2]. Indonesia approved and agreed to the ACFTA agreement in which Indonesia ultimately also made regulations regarding the implementations of ACFTA. A Country's economy depends on how that country can manage it. As a country, it is required to become an independent country and able to develop the country to achieve the goal of people welfare will be realized. It will not be easy for a country to become independent Nation, the country must strive to into a develop nation, achieving independence and control over the international economy. This can be accomplished by establishing cooperation with other countries, leading to the reorganization, and strengthening of the economy in the country, it will create the global market for a country's regional products. Likewise, in existence of international trade relations with trigger globalization. The establishment of a free trade can refer to conditions where the exchange of goods between countries will takes place without any Export Import barriers, and if there any, the quantity, type, and level must be as minimal as possible. (Kurniastuti, n.d.) ^[3] The applicability of ACFTA has positive and negative impacts in Indonesian side. Basically, Indonesia is not ready to compete with other countries in free trade. Many determining factors are both items of the readiness of the legislations and the readiness of the products themselves.

As a result of the agreement of ACFTA, Indonesia must able to compete with the products that comes from overseas, both to be marketed domestically and marketed in overseas.

The problem is why products from China can be sold at a lower price than products produce from Indonesia. Thus, causing that textile import from China cheaper than textile produce from Indonesia. Is it because of the Indonesian regulations (Tax Reductions) in Textile Industry (TPT), or the result of an agreement that has been agreed between countries (ACFTA Members). If the regulations and the agreement are the factors, government must pay attention about making regulations to protect Textile Industry Sector.

Method

The method used in this research are normative accompanied by a constitutional approach. Legal research is the study of the law, systematic of law, legal history, comparative law, and legal of identification. This method is used to processing qualitative data, which is data collection through library research. This research carries out by library materials or secondary data, including research on legal research, legal comparison, and legal systematic. This research also used a constitutional approach that will provide results from the comparison of applicable laws and regulations that can provide benefits for the implementation of ACFTA.

Material

1. Asean China Free Trade Area

ASEAN China Free Trade Area is followed up to the agreement between ASEAN countries and China regarding of Framework Agreement on Comprehensive Economic Co-operation between the Association of South East Asian Nations and China. (Nurhidayah and Pramono 2010) ^[4]

The benefits of ACFTA Framework Agreement are:

1. Benefits for access agricultural Products;

2. Benefits for export market to China in 2005, which received additional 40%;
3. Benefits to Export market to China in 2007, which received additional 20%;
4. Indonesia will gain export market access to China because of eliminating Tariff and Non-Tariff barrier;
5. Indonesia will eliminate 93,39% of tariff out of total 7.256 tariff.

In the ACFTA, agreed to reduced or eliminate import duty rates which were divided into 3 (Three) stages, namely:

1. Stage I: Early harvest program (EHP)

Reduction or eliminating of import duties on agricultural products, marine fisheries, food, and beverages and other, which was carried out in stages from January 1th, 2004 to 0% on January 1th, 2006;

2. Stages II: Reductions of normal tariff (Normal Trade Program) Which are carried out 4 stages and sensitive track which consist of 2 types;

3. Stages III: Arrangement of Certificate of Origin (SKA) Rule of Origin (RoO) which requires exporters to uses form E SKA to obtain ACFTA Tariffs concessions.

In this research used Theories from experts and in accordance with the problem discussed to make it easier to carries out this research. The theory of Public International Law is the whole rule and principle of law that regulates relationships or issue that cross nation borders, which are not civil, and international agreement are agreement held between countries/nations, the aim of being able to create certain legal consequences.

ASEAN China Free Trade Area is one of the cooperation that uses the free trade system among ASEAN member and China. Free Trade policy generally following:

1. Trade in goods without taxes;
2. There is no Trade distorting policy that benefit for companies, household, or productions;
3. Access irregular market transaction.

Arrangement of the ASEAN China Free zone was established through the Ministries related to the ASEAN China cooperation agreement through the ministries and the apparatus. Decision is made by Ministries and cannot be made alone to ensure that they do not overlap with other regulations. Based of the regulations of Minister of Finance No. 26/PMK.010.2017 Concerning Determination of Import Tariffs in the Framework of ACFTA, Indonesian Government set the import duty rates on comprehensive Economic Cooperation between Association of Southeast Asian Nation and China. (Eva Mayasari and Ervani, n.d.)^[1] In connection of the implementation of provisions regarding the goods classification system based on the 2017 harmonized system and the 2017 Asian harmonized tariff nomenclature, Indonesia needs to adjust Indonesian's commitment in the system. Based on the modalities contained in the goods trade agreement as part of the Framework Agreement on cooperation between ASEAN Countries and China, (Pendidikan *et al.* 2015)^[5] the import tariff reduction scheme in the agreement, the Minister of Trade No. 108/MDAG/SD/02/2017 regarding Determination of the Tariffs Adjustment submitted a proposal about the determination of the classification of goods.

The policies have been set do not always have a positive impact on business entrepreneurs and the workers. Therefore, this research is carried out to find out the impact that occurs due to the agreement of the implementations of the ASEAN China Free Trade Area in the textile industry sector. The issue of free trade is being discussed by Indonesian business actors. Free trade can be defined as an economic area between countries that agree to remove tariffs and non-tariffs barriers in trade transactions. However, the country itself can maintain applicable tariffs on goods for goods that come from overseas. The establishment of a free trade area basically carried out a context in economic cooperation for the member, which aim to encourage increased productions efficiency and productivity. ASEAN China Free Trade area which is one of the forms of free trade carried out by Indonesia. Free trade is a transaction mechanism between countries that eliminate tariff and non-tariffs barriers. The black's law dictionary defines that free trade is to open and under stitched import export of the goods with no barriers, such a quota, tariffs to protect domestic business.

2. Textile Industry and Textile Product

With the existence of regulations eliminating tariffs and non-tariffs barriers, Indonesia has implemented the content of international agreement, especially for ASEAN countries and China. Some sector immediately influenced by free trade agreement.

Textile Industry and Textile Product (TPT) is the biggest sector influenced by free trade agreement. (Rahman *et al.* 2022)^[6] Textile Industry and Textile Product (TPT) commodities is listed as a superior product from China. On the other hand, the local textile industry also listed as Indonesian superior product. The most impactful issue is the price war in the Indonesian market for textile product. As a result of the inability of textile industry sector to follow import duty regulations, many textile industries had to close factories and layoff the workers. This is due to the inability domestic textile industry to compete with textile products originating from overseas especially China. From the descriptions above, the problem arises as to whether Indonesia is ready to face the ASEAN China Free Trade Area in term of legal instrument to protect Indonesian workers.

Termination of Employment (PHK) is something that greatly feared by employees. Due to the chaotic economic conditions, has resulted Termination of Employment (PHK) carried out unilaterally by the company, this condition caused people who worked at that time always be overshadowed by worry and anxiety about when is their turn to be laid off from the job that supported their family's life. In its development, the issue of Labor is a very critical issues because it concerns the viability of workers who protected by Human Rights. The general workforce, regardless of level, including director level, is obligated to receive welfare from the company in accordance with applicable statutory provisions.

Result of Implementations Acfta Agreement

Since the implementation of the ACFTA, there has been a decline of 15–20% in the number of textile and textile product (TPT) business units in Indonesia, particularly among small and medium-scale industries. The impact of the ACFTA is also evident in terms of employment, with a

15% reduction in the TPT sector workforce during the 2010–2022 period. In addition, investment in the TPT sector has also slowed down, as investors perceive the industry to be increasingly less attractive due to intensifying competition from imported products.

The elimination of tariffs has also led to a decline in the production capacity of the domestic textile and textile product (TPT) industry, ultimately resulting in workforce reductions and decreased investment in the sector. Several textile factories have been forced to scale back production, and some have even shut down due to their inability to compete with cheaper imported products. This has created a domino effect on supporting industries and related sectors within the national textile value chain. (Rong and Yingli 2022) [8]

In January 2024, the import value of knitted clothing and accessories (HS 61) into Indonesia was recorded at US\$12.26 million. This figure increased to US\$20.87 million in February 2024, and rose again to US\$23.98 million in March 2024. Cumulatively, from January to March 2024, most of the knitted clothing and accessories imports into Indonesia came from China, accounting for 38.76%. Imports from Vietnam accounted for 13.99%, Bangladesh 10.36%, Turkey 5.02%, and the remaining 31.86% was contributed by a combination of other countries. The implementation of a 0%–5% import duty under the ACFTA agreement has had significant impacts on Indonesia's domestic industry. (Vadila and Resosudarmo 2020) [10] This tariff elimination policy has led to an influx

of textile products from China into the Indonesian market at highly competitive prices, putting immense pressure on local producers who must compete with these imported goods.

In major textile trade centre such as Tanah Abang in Jakarta, Pasar Turi in Surabaya, and Pasar Klewer in Solo, Chinese products dominate the market, accounting for 50–70% of total offerings. Many local vendors have shifted to selling Chinese products due to the more promising profit margins compared to selling local goods. This has created a domino effect, where local producers are losing their traditional distribution channels. Local textile MSMEs face a pricing dilemma: they are unable to lower prices due to high production costs, especially because of their reliance on imported raw materials. On the other hand, if they maintain their prices, they risk losing customers who turn to cheaper Chinese products. As a result, many MSMEs have been forced to reduce production or even shut down their businesses. (Rimapradesi, Fajar Hidayat, and Afif, n.d.) [7]

Textile industry is the second (2nd) largest industrial sector in Central Java after Food and Beverages Sector. Total number of the companies registered in 2015 was 628 companies with total of 147.179 employees. In 2016, there were 542 companies with a total of 150.294 employees, in 2018 there were 48.701 companies with a total of 98.366 employees, and in 2019 there were 166.150 companies with a total of 813.864 employees.

Number of Companies and Workers According to Industrial Classification in Central Java Province 2015-2019

Industrial Classification	Establishment					Employee				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Textile	626	542	458	48.701	166.150	147.179	157.236	150.294	98.366	813.864

Source: Statistic of Central Java Province, Indonesia

Based on data from BPS regarding the number of companies and workers according to industrial classification in Central Java Province for 2015-2019, there are additional textile industry companies every year but the workforce tends to be unstable. The growth rate in the number of worker absorbed in the textile industry in Central Java cannot be separated from the factor that influence it, including the number of textile industries, province minimum wages, and investment as well as the Minister of Finance regulations No. 26/PMK.010/2017 Concerning Exemption from Import Duties.

Results of Export data for 2017-2019 after the new regulations of ASEAN China Free Trade Area in Textile Industry and Textile Products as follow as:

1. Export in 2017 amounted to 187.883.716 USD;
2. Export in 2018 amounted to 203.594.703 USD;
3. Export in 2019 amounted to 194.181.576 USD.

Results of Import data for 2017-2019 after the new regulations of ASEAN China Free Trade Area in Textile Industry and Textile Products as follow as:

1. Import in 2017 amounted to 700.260.878 USD;
2. Import in 2018 amounted to 985.685.898 USD;
3. Import in 2019 amounted to 859.334.164 USD.

Thus, can be said that because of Regulations in Export

Import Duty concerning in ACFTA agreement causes losses in domestic textile industry sector, as well as to the workers, due to decreased production and the inability to compete, as to maintain in existence from the business, companies decided to terminate the employment relations (PHK). Based on Data sources obtained from Central Java Province Manpower and Transmigration Service.

This can be seen from Labor data for layoff (PHK) in the textile industry sector, which has increased every year since 2015. Based on the data on layoff in the textile industry sector, it can be concluded as follow as:

1. That the recapitulations number of layoffs in 2015 was 1905 Men and 500 Women, a total number of laid of employees was 2405 people;
2. That the recapitulations number of layoffs in 2016 was 1435 Men and 557 Women, a total number of laid of employees was 1993 people;
3. That the recapitulations number of layoffs in 2017 was 862 Men and 520 Women, a total number of laid of employees was 1282 people;
4. That the recapitulations number of layoffs in 2018 was 3556 Men and 1417 Women, a total number of laid of employees was 4973 people;
5. That the recapitulations number of layoffs in 2010 was 4053 Men and 1475 Women, a total number of laid of employees was 5528 people;

Termination of Employment Relations (PHK) that occurred in Central Java after the Minister of Finance No. 26/PMK.010/2017, 17/PMK-04/2020, 46/PMK-010/2022 resulted in the number of layoffs are increased in 2018 and 2019. The regulation concerning Import duty in ACFTA causes many of textile products from China which are sold in Indonesia with much cheaper prices makes consumers prefer to buy China's Textile. In this situation, create a business competition between Local's Textile and China's Textile. Textile that come from China has better quality compared to Local Textile.

Apart from that, the factor causing layoffs because of the inability to compete is due to obstacles international trade. Trade barriers also can be called a government regulation, or can be call a limit in transaction of free trade. Trade barriers as follow as:

1. Custom Duties (Taxes on Imported products);
2. Quota is the limit of the quantity units can be imported);
3. Subsidy
4. Government assists a local product. Usually generated from taxes;
5. Local Content;
6. Administrative Regulation;
7. Anti-Dumping Regulation.

In 2022, Indonesia is the only ASEAN country with the highest export value to China, with an export value of USD 65.9 Billions. Indonesia's position is followed by Singapore, with an export value of USD 64.0 Billions, Malaysia with an export value of USD 47.9 Billions, Thailand with an export value of USD 34.0 Billions. In 2022, only Indonesia, Malaysia, and Cambodia experienced increase in the value of export to China (YoY), where Indonesia growth of 22.6% (YoY), Compared to 2021.

The impact of the implementations of the ASEAN China Agreement, especially after the ratification of the PMK Regulation in 2017 to 2022 causing an increase in Terminations of Employment in the textile industry in Central Java. It can be concluded that the increased in the rate of Terminations of Employment are increasing every year. Since the ratification of PMK Regulations, the increase rate increased drastically from previous year. Labor Law is only able to protect the rights and obligations of the workers, but unable to protect workers from Termination of Employment, this due to the condition in the fields which required business actors to reduce the number of the workers to maintain the existence textile industry that they managed.

The Minister of Finance No. 26/PMK.010/2017, 17/PMK-04/2020, 46/PMK-010/2022 Concerning in ACFTA agreement causes losses domestic textile industry sector, as well as to the workers due to decreased productions and inability to compete.

Another factor that found in this research is the inability to produce textile raw material. Textile raw materials are the basic substances uses in the production of textile. Textile raw materials are the crucial role determining in the final textile product. Textile raw materials include:

1. Natural Fibers (Cotton, Wool, Silk);
2. Synthetic Fibers (Polyester, Nylon, Acrylic);
3. Cellulosic Fibers (Bamboo, Hemp).

The textile raw material has different characteristic, the various of aspect including texture, appearance, functionality. Unfortunately, even thought Indonesia is an agricultural country, but Indonesia can not produce raw material by itself. (Sinaga *et al.*, n.d.)^[9]

Many factors that Indonesia cannot produce raw textile materials are:

1. Climate and Agricultural;
2. Economic Focus;
3. Technological and infrastructural Challenges;
4. Global Supply Chain Dynamic;
5. Market Demand.

Raw textile materials to produce textile products due to the lack of supply of raw material, textile raw materials are still not widely produced domestically. Indonesia not suitable to produce raw textile materials of those factors. To produce the raw textile material, must have the capabilities over time based on the technological advancement and changing market conditions. Due to the inability to produce textile products caused by limited raw textile materials, imports of textile and textile product have increased due to meeting domestic textile needs.

1. Reconstructions of Regulations

The reconstruction of regulations in the MSME (Micro, Small, and Medium Enterprises) industry in the Textile and Textile Products (TPT) sector has become important, especially in the context of the ASEAN-China Free Trade Area (ACFTA) agreement, because this sector faces major challenges from the influx of cheap imported products from China. Without adaptive and protective policies and regulations, domestic TPT MSMEs will struggle to compete and risk losing their markets, both domestically and globally. Regulatory reconstruction needs to be carried out by reviewing tariffs and non-tariff protection instruments. Although within the ACFTA framework import duties are reduced or even eliminated, the government can still implement non-tariff protection instruments such as technical standards, quality certification, and product origin labelling. Regulatory reconstruction is necessary to optimize protection for TPT MSMEs through technical regulations that comply with national standards and to strengthen the competitiveness of local products. Many sectoral regulations still overlap or are not synchronized between the ministries of trade, industry, and cooperatives/MSMEs. Therefore, revising, and harmonizing trade and industry regulations is urgently needed to ensure that MSME development policies, fiscal incentives, and market access are integrated and aligned with international agreements such as the ACFTA. Regulatory reconstruction is necessary to ensure that laws and regulations become more synchronized and supportive of MSMEs, particularly in the Textile and Textile Products (TPT) industry sector. Moreover, through regulatory reconstruction, it is expected that the state will be able to protect and empower the local TPT sector without violating the principles of free trade. This would enable the creation of a regulatory system that is both adaptive to international trade and supportive of national economic development based on MSMEs.

Regulatory reconstruction in the TPT MSME sector is not only about protection from external threats but also about preparing this sector to compete fairly in the global market.

The government must take an active role by implementing legal policies that are progressive, adaptive, and aligned with national interests, while still honouring international commitments.

These regulations need to be reconstructed to establish a more flexible mechanism for imposing import duties, which can be adjusted according to the conditions of the domestic TPT industry, and to strengthen the customs valuation verification system to prevent under-invoicing practices that harm the domestic industry. The Minister of Finance Regulation (PMK) governing the implementation of ACFTA in Indonesia also needs to be reconstructed, particularly in the context of protecting and empowering MSMEs in the Textile and Textile Products (TPT) sector. Although the ACFTA aims to open markets and strengthen economic cooperation, its implementation through fiscal regulations, especially PMKs related to tariffs and import duties often fails to consider the resilience of domestic industries, particularly MSMEs.

Reasons why the Minister of Finance Regulations (PMK) related to the ACFTA agreement need to be reconstructed include:

- a. Dominance of Imported Products from China in the Domestic Market PMKs that adjust import tariffs in accordance with ACFTA provisions have allowed imported textile products, particularly from China, to enter at very low prices. This disrupts the domestic market, while TPT MSMEs do not receive adequate incentives or protection.
- b. Lack of Sectoral Protection Provisions in the PMK PMKs tend to focus on fiscal aspects (such as the elimination or reduction of tariffs) without considering mitigation strategies for affected sectors, even though the TPT sector is one of the nation's strategic labor-intensive industries.
- c. Lack of Integration with Industrial and MSME Policies As part of fiscal policy, PMKs should be aligned with industrial and MSME sector policies. Without reconstruction, these policies stand alone and fail to connect tariff reductions with incentive schemes, capacity-building initiatives, or domestic TPT machinery restructuring programs.
- d. Lack of Responsiveness to Non-Tariff Measures PMKs rarely accommodate non-tariff instruments that could legally protect the domestic market within the WTO and ACFTA frameworks, such as technical restrictions, certification requirements, and labelling conditions.

The ideal reconstruction of the Minister of Finance Regulation (PMK) should reflect a more holistic and responsive approach to the needs of priority industrial sectors, particularly the textile and textile products (TPT) industry. One crucial step to be taken is the inclusion of comprehensive sectoral impact analysis prior to determining tariff rates, to ensure that the resulting fiscal policies do not create distortions or place excessive pressure on the domestic industrial structure. In addition, the PMK should contain safeguard clauses that explicitly protect micro, small, and medium enterprises (MSMEs) from potential import surges that could threaten the stability and sustainability of their businesses.

Since the implementation of ACFTA, the flow of imported goods from China to Indonesia has increased drastically, including textile and textile products (TPT). The implementation of ACFTA in the trade sector is regulated through various Minister of Trade Regulations (Permendag). However, the current policy structure tends to facilitate imports and has not fully supported the protection of domestic industries—especially TPT MSMEs, which are the backbone of the people's economy and the largest providers of employment. Therefore, Permendag regulations related to ACFTA urgently need to be reconstructed, particularly in the context of protecting and strengthening MSMEs in the TPT sector.

Reasons why the Minister of Trade Regulations (Permendag) related to ACFTA need to be reconstructed include:

- a. Most Permendag regulations related to ACFTA tend to focus on trade liberalization and facilitating imports, but they lack adequate mechanisms to protect domestic products, especially TPT MSMEs that are vulnerable to price competition from China;
- b. The current Permendag regulations have not effectively enforced the rules of origin under Form E. The Rules of Origin are neither strict nor clearly defined, allowing products from third countries to enter Indonesia through China using ACFTA labels to avoid import duties. This opens significant potential for misuse and an influx of non-ACFTA goods benefiting from preferential tariffs;
- c. Lack of anti-dumping provisions and local market safeguards. Trade instruments such as safeguards, anti-dumping, and countervailing duties are not yet integrated into Permendag as part of a rapid response system to surges in textile imports, making Indonesia's market protection system vulnerable to the entry of illegal products;
- d. Limited protection for MSMEs and local products in distribution systems. The absence of restrictions and import quotas for foreign products in major retail centers results in TPT MSME products being less competitive in terms of shelf placement, pricing, and market access.

The reconstruction of the Minister of Trade Regulations (Permendag) has become crucial in responding to the increasingly complex dynamics of international trade and its impact on the domestic sector, particularly the textile and textile products (TPT) industry. First, it is necessary to revise the provisions on rules of origin by emphasizing stricter inspections of Form E documents, including the implementation of random audits on importers and verification of the authenticity of the country of origin, to prevent transshipment practices and mislabeling of origin that could harm domestic industry.

The PMK (Minister of Finance Regulations) and Permendag mentioned above are key legal instruments in the implementation of ACFTA. However, the substance of several of these regulations tends to be liberal and has not yet provided sufficient protection for vulnerable sectors such as TPT MSMEs. Therefore, a comprehensive reconstruction is needed to ensure fair trade and the sustainability of national industry.

Urgency of Reconstructing PMK and Permendag

Type of Regulation	Type of Regulation	Type of Regulation	Type of Regulation
PMK	PMK No. 155/PMK.010/2011	Determination of 0% import tariff under ACFTA	Requires safeguard measures and periodic evaluations based on local strategic sectors
PMK	PMK No. 34/PMK.04/2021	Importation of goods from free trade zones	Requires strict monitoring of origin of goods and Form E
Permendag	Permendag No. 46/M-DAG/PER/8/2009	Rules of Origin under ACFTA	Needs strengthened verification and auditing of Form E
Permendag	Permendag No. 82 of 2017	Use of local products in modern retail	Requires special affirmative action for TPT MSMEs
Permendag	Permendag No. 20 of 2021	Import policy and regulations	Requires import restrictions based on national production capacity
Permendag	Permendag No. 8 of 2024	Technical Consideration Policy (Pertek)	Requires import restrictions for Textile and Textile Products

Policies That Can Be Reconstructed

Aspect	Reconstruction
Import Tariffs	Application of limited preferential tariffs for TPT products from China based on the evaluation of local industry capacity.
Non-Tariff Regulations	Strengthening technical standards and product certification requirements for imported goods to avoid harming the quality of the local market.
Domestic Incentives	Tax relief, credit easing, and energy subsidies for local TPT industries.
Monitoring and Evaluation	Establishment of a periodic and participatory ACFTA impact evaluation commission for the TPT sector.

Conclusion

The results of this research carried out at the Department of Industry and Trade and the Department of Manpower and Transmigrations a problem was discovered.

The problems were found, beside problem from regulations, also some problem discovered because of raw textile materials. Indonesia can not produce raw textile material. Domestic producers were unable to obtain raw textile materials from within the country, textile producers had to import raw materials, this resulted in textile products being sold in the market becomes more expensive. Apart from that, due to the inability to produce raw textile materials, textile products made in Indonesia are very expensive compared to the textile products come from China. In China, many supporting factors that enable China to produce its own raw textile material, both in term of technology and in terms of Climate. Local textile products are still unable to compete in the market because people prefer to buy textile products at cheaper prices, which mean China textile product can be sold with cheaper price in the market. Textile business actors unable to compete with textile products originating from overseas especially China. From those factors, causing layoffs to the workers that work in textile industry sector. Layoffs as a result or the inability to compete due to obstacle in international trade. Trade Barriers are arranged by government regulations, its contents are about restrictions of free trade. Termination of Employment in Central Java after ratifications of PMK 26/PMK.010/2017 resulted in the rate of increased the number of layoffs in 2018-2019. Do to PMK No/ 17/pmk.04/2020, PMK 46/PMK.010/2022 Concerning Import Duty Exemption within the Framework of ACFTA, causes many of textile products from China which are sold in Indonesia at much cheaper prices, causing business competition between local textile product and textile product from import from overseas. The impact of the Implementation of the ASEAN China Free Trade Area agreement, especially after the ratifications of ACFTA regulations causing an increase in job layoffs in Textile Industry Sector, especially in Central Java Indonesia. The implementation of regulations related to import duties following the enforcement of the ASEAN-China Free Trade

Area (ACFTA) agreement in the textile and textile products (TPT) industry has shown significant dynamics in its development. The number of textile factories in Indonesia has fluctuated year by year. The impact of ACFTA on the TPT industry has been substantial, with Chinese products dominating 50-70% of the market in major textile trade centre. This has led many local traders to switch to selling Chinese products due to more promising profit margins. As a result, numerous textile factories have been forced to shut down, and textile manufacturers across Indonesia ranging from micro, small, and medium enterprises (MSMEs) to large scale factories have gone bankrupt and had to close their operations. Many factories have also filed for bankruptcy due to their inability to pay off large debts.

The implementation of the ASEAN-China Free Trade Area agreement, whether in Central Java, East Java, West Java, Tangerang, or regions outside Java, has had a complex and multidimensional impact on the TPT MSME sector. Since the free trade agreement came into effect, TPT MSMEs have faced increasing competitive pressure due to the influx of Chinese textile products offered at much more competitive prices. The significant disparity in production costs between local and Chinese producers particularly in terms of energy costs, labour wages, and technological efficiency has created a competitiveness gap that local MSMEs struggle to overcome.

This is evidenced by the number of textile factories that have been forced to cease operations during the period of ACFTA implementation. A comprehensive analysis of the ACFTA agreement's implementation in the TPT sector yields multidimensional conclusions that reflect the complexity of the interaction between trade liberalization and the sustainability of local economic entities. Empirical evidence indicates that the implementation of ACFTA has caused significant structural disruptions to the textile MSME ecosystem, as reflected in the widespread bankruptcy of 30-40% of business units in traditional production centre.

In addition, textile MSMEs located outside of Java face unique challenges in implementing ACFTA provisions due to inadequate trade infrastructure compared to what is available on the island of Java. They also have more limited

access to up-to-date information regarding ACFTA regulations and their amendments. Higher logistics and distribution costs outside Java further increase the operational burden for textile MSMEs in these areas. Moreover, limited capacity to adopt modern technology and production standards presents an additional barrier for textile MSMEs outside Java to compete effectively with imported products from China. These enterprises also often struggle to meet product certification requirements necessary for exporting to other ACFTA member countries. As a result, Legal reconstruction related to ACFTA needs to be carried out to strengthen safeguard mechanisms, tighten rules of origin, and improve the import monitoring system. The customs valuation verification system must also be reinforced to prevent under-invoicing practices and other legal smuggling activities that harm the domestic TPT industry. Inter-agency coordination in import supervision needs to be enhanced, accompanied by the development of an integrated information and database system, as well as capacity building for officers to detect legal smuggling practices. Firm sanctions must also be imposed on perpetrators of legal smuggling to protect the interests of the domestic TPT industry. The regulations being reconstructed are those deemed detrimental to domestic TPT MSME actors, so that in the future, these businesses can better compete in both local and global markets. Regulations should be reconstructed carefully to ensure that the changes do not end up further harming Indonesian business actors.

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