

ACFTA and the Destruction on the Footwear Industry in Wedoro Sidoarjo

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ABSTRACT

The implementation of ACFTA (ASEAN Cina Free Trade Area) raises a variety of support and resistance from Indonesian society. The impact of the implementation of ACFTA is many Chinese goods entering to Indonesia with a cheap price. According to the concept of rational choice, consumers will choose the things that are cheaper and had same quality. Meanwhile, according to the theory of public policy, the government is obliged to make policies that benefit for society and the state. The implementation of ACFTA policies that became a problem because most assume will have a positive impact, and others think it will bring negative impact to the nation. This study also used the theory of public policy, cooperation, industry and the concept of consumer behavior, and political economy which is rational choice. This study aims to describe and analyze (1) the implementation of ACFTA in East Java as well as the factors that pose challenges and impacts associated with the implementation of the ACFTA, especially in the footwear industry Wedoro; and (2) the role of the Indonesian government in support of in the implementation of policies, especially those related to the implementation of ACFTA in the footwear industry Wedoro. This research was used qualitative and interpretative method that used to the deepest understanding of the seven informants: shop owners and employee. The informant election using snowball technique. In addition, researchers also used a literature review of books, journals, and the internet to find the required data. The research location that is in the Wedoro, Sidoarjo. The results of this study is the impact of the implementation of ACFTA by the government of Indonesia to the footwear Wedoro industry is (1) a decline in sales for local producers have to compete with footwear made in Cina that had many variety and cheap; (2) For Wedoro entrepreneurs who unable to compete with product of Cina, their footwear industry was efforts be bankrupt; (3) The number of visitors and consumers Wedoro which came to be deserted; (4) The Wedoro Fair wasn't performance again; (5) Some stores changed to sell footwear made in Cina; (6) The variety of Wedoro footwear became didn't up to date because the price of raw material are getting more expensive

Keywords: ACFTA, public policy, footwear industry, export-import, political economy

INTRODUCTION

The implementation of free trade agreements between ASEAN and China has been enacted since January 1, 2010. This agreement is also known as the ASEAN - China Free Trade Agreement (ACFTA), which is the embodiment of free trade amongst the six ASEAN countries including Indonesia, Thailand, Malaysia, Singapore, the Philippines and Brunei Darussalam with China (Maiwa News, 2010). With this agreement, Indonesia must open the domestic market widely to AEAN countries and China as the consequence of tariffs reduction for goods and

services from the countries involved. This tariff is reduced into zero percent through stages that have been agreed. ASEAN - China free trade will make Indonesia being flooded by products from China. China will have the ease of exporting goods to ASEAN countries, including Indonesia. ACFTA is formed based on two important foundations of international law, namely (1) Framework Agreement on Comprehensive Economic Co-operation between ASEAN and the People's Republic of China (the Framework of Agreement). The framework of agreement was signed on 2 November 2002 in Phnom Penh, Cambodia. The framework of agreement was signed by the head country of ASEAN and the head of the government of People's Republic of China (PRC) which was at the time. (2) Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Cooperation between the Association of Southeast Asian Nations and the People's Republic of China (Trade in Goods Agreement) which was signed on 9 November 2004. This agreement was just signed by the ministers of ASEAN countries and China that are responsible for international trade (Kompas News, 2010)

The implementation of tariff elimination is conducted in three ways, namely: (1) Early Harvest Program (EHP), which was started to be implemented gradually on January 1, 2004 for over a period of 3 years, so that by January 1, 2006, the tariffs of EHP products becomes 0%; (2) Normal Track, which was started to be implemented by the decrease or elimination of tariffs began in 2005, and, in 2010, it becomes 0% for Normal Track I, and, in 2012, it becomes 0% for Normal Track II for 400 tariff lines; and the (3) Sensitive Track / Highly Sensitive was applied to 399 tariff lines, or 16.01% of the total imports that compromises 349 tariff lines of sensitive products and 50 highly sensitive tariff lines. (Directorate General for International Trade Cooperation, The Ministry of Trade of Republic of Indonesia, 2010). Based on the record of KPS during January to June 2010, there has occurred 111 times and 18 times of protest strikes involving approximately 143.700 masses against the implementation of ACFTA (Sitorus, 2010). The action of the labor against the ACFTA is generally carried out by the workers who are members of the coalition such as ABM Surabaya, Semarang Labour Movement, SBSI, and SPN. The intensity of labor action that was most prevalent was on January and May 2010 which was as many as 27 times with the dominant issue around the refusal of ACFTA, the revision of Law 13 and the fulfillment of the normative's rights. Based on data from KPS, the labor action in May 2010 involved approximately 56,000 masses.

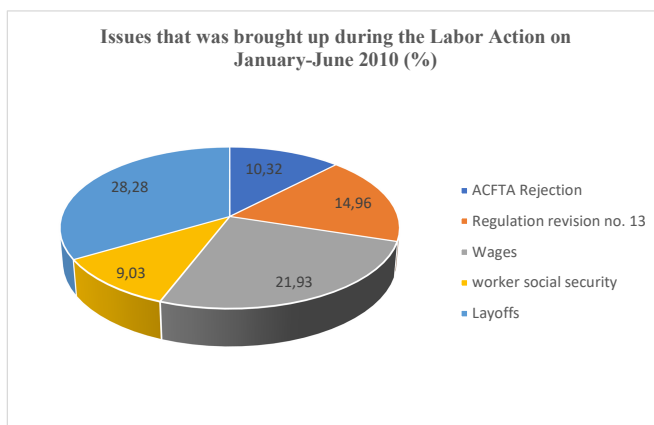


Figure. 1. Issues that was brought up during the Labor Action on January-June 2010 (%)

Source : Sitorus (2010)

Based on the diagram above, it was noted that the rejection against ACFTA was carried out 8 times with the number of mass were approximately 16,000 people. In addition to the problems of Work Termination which was 28.28%, and then the demand of higher wages which was 21.93%, it was followed by the demand of the revision of Law 13 which was 10.32%, there were also the demand of the rejection of ACFTA which was 10.32%.

ACFTA agreement signing resulted an agreement that trade between countries is carried out with the exemption of import duty to 0% in 2010. With the implementation of ACFTA, the product of the 10 industry sectors including electronic and footwear that were imported from China to Indonesia would be free of import duties. The ACFTA policy resulted the far cheaper price of Chinese-imported products below the price of domestic products. This agreement also led to the current flooding Chinese-imported commodities in the local market. Industries that compete decides to terminate the employment of its workers. High wage demands will have an impact on the burden of capital goods prices which are more expensive and certainly will be increasingly unable to compete with Chinese products which are better and cheaper. The phenomenon is what lies behind the authors' reason to further investigate the impact of ACFTA, especially towards the footwear industry in Wedoro.

This study used qualitative methods that will interview several shop owners, artisans of Wedoro footwear, as well as store clerks. Some informants are Mrs. Lina (craftswoman of footwear in Wedoro), Pak Andi (craftsman of footwear in Wedoro), Pak Agus (the shop owner), Mr. Susanto (shopkeepers), Ms Wiwik (employees) and Mas Firman (the son of the shop owners). In addition to using the interview techniques, the researcher also used literature and documentation during the data collection in the field. In this study, researcher formulates the problem into two that are (1) how the impact and constraints of the implementation of ACFTA are toward the footwear industry of Wedoro Sidoarjo in the year of 2010-2012 and (2) how the effectiveness of the implementation of ACFTA on Indonesia's economy is.

Wedoro as a Central of Industry of Footwear and Copyrights

Wedoro is a village in the district of Waru, Sidoarjo regency, in the border area of Surabaya, East Java. The village is in the north has a direct border with the Village of Kutisari, Surabaya and District of Tenggilis Mejoyo, Surabaya. From the east, it borders with the village of Kepuh Kiriman and the village of Tropodo. From the North West, it has border with the village of Janti. While, from the south west, it borders with the village of Ngingas (Wedoro.net78.net, 2012). The footwear industry of Wedoro has existed since the 1960s and developed rapidly into a craft industrial center of slippers, shoes, and bags. Shoes and Slippers Employers Association record the number of the craftsmen are 600 people who are capable of producing around 100 wholesale in a week for each crafter. This industry becomes an industry that is passed down to the generation of the residents of Wedoro. The Average of the native inhabitants work as craftsmen of slippers, vendors and employees. Wedoro consists of one village, one hamlet, and 9 RW (*Rukun Warga* or neighbourhood association). Each RW has a unique name that becomes the characteristic of the region, for example (a) RW 01 called Wedoro

Madrasah, because there is a *Madrasah* (school) of NU; (b) RW 02 called Wedoro *Sukun*, because there are a first lot of *Sukun* (breadfruit tree); (c) RW 03 namely Wedoro *Utara Barat* (north west) since it is located in the north of the river of *bunting*; (d) RW 04 called Wedoro *Candi* (temple) because there is *Petilasan* (the remains of the past) of the pupils of Sunan Giri; (e) RW 05 named Wedoro *Masjid* (mosque), since the mosque of the village is in this RW; (f) RW 06 namely Wedoro *Tempean* because it used to have many craftsmen of *tempeh*; (g) RW 07 called Wedoro *Belahan* (cleavage) because the location is divided by a small river from Wedoro; (h) RW 08: Wedoro *Utara Timur* (north east) because it is located in the north of the river of *bunting*; (i) RW 09: Wedoro *Rewwin*, since it is located in a housings of *Rewwin*. In the early 2000s, several slippers craftsmen opened stores in Wedoro *Candi* and got a good reception from consumers who felt closer bought sandals, and, eventually, it was evolved into about 800 shops of sandals and shoes. At first, the craftsmen in the village of Wedoro made sandals made of from animals' leather. But when the price of leather became very expensive in 1994, the craftsmen shifted to use spongy material or rubber material that absorbs water. When the leather sandals are made using raw materials of nails, now they used glue. In the new order, the craftsmen of slippers in the village of *Widoro*, *Sidoarjo*, East Java successfully exported slippers to the Arabian peninsula. But after the 1997 economic crisis, craftsmen prefer to target the domestic market. This is due to the more limited and rising raw material prices. Sponge price increased up to 271%. As a result, production costs of sandals go up (informasi-budidaya.com, 2012).

According to the data from the Association of Slippers Craftsmen of Wedoro (APSSW), in 2003, it was recorded that there were 571 craftsmen who produced sandals and shoes. Hundreds of craftsmen are mostly have patented their own local brand. So that the sandals and shoes of Wedoro evidently have a uniqueness (radarsby.com, 2010). This is a step in anticipation of the imitation of the product type of sandals or shoes in the very competitive production (dprd-sidoarjo.go.id, 2012). With their patent rights on the models of sandals and shoes of Wedoro, it is very positive thing. This raises the will to continue to create higher product. Besides, the craftsmen who have created a model will not be disadvantaged because their sandal or shoes are not imitated by other craftsmen. The creativity of the model is increasingly diverse because the craftsmen are required to have their own model of creation. Along with the development of the footwear industry of Wedoro that begins to decline, the patent is also not conducted. This is due to a decreased level of creativity of the model or form of footwear due to the difficulty in obtaining raw material, raw material prices that are increasingly expensive, and the decreasing of visitors in stores of Wedoro. Nowadays, the footwear of Wedoro only produce more flip-flip-flops made of sponge. This is in contrast to a few years ago when Wedoro footwear industry was famous with the products of shoes and sandals made of leather with competitive quality and prices that are relatively cheap compared to other leather products.

Dependence on the Availability of Raw Materials, Markets, Venture Capital and Creativity of Human Resources

One of major problems of Wedoro craftsmen is the dependence on the price and the availability of raw materials of shoes and sandals. If in the past Wedoro was famous for the production of footwear made of leather, this time the craftsmen are no longer using the raw materials of leather due to the price of leather is more expensive. The craftsmen of Wedoro

began to switch to use sponge raw material for the production of shoes and sandals. But, the craftsmen of Wedoro must face again the rising of sponge raw material's prices as well as the glues to 271% (www.peluangusaha.kontan.co.id, 2012). According to Soliqah, one of the craftsmen slippers of Wedoro, she states that the price of sponge in 2010 for the measurement of 2.10 meters (m) x 1.5 m was only Rp 3.500, - per share. But, in 2011, the price of a sponge for that measure has climbed up to Rp 13,000, - per share. Similarly, the glue price in 2010 was only Rp 60,000 - Rp 70,000 per package. But in 2011, the price of raw materials of glue was increased to Rp 225,000, - per package. Almost the same with Indah Tri Wahyu, one of the craftsmen of slippers of Wedoro, who stated that apart from the increase in raw material prices, it was also more difficult to get the price of the raw material. The availability of raw materials was very limited though she had booked a month in advance (peluangusaha.kontan.co.id, 2012). By enforcing the policies regarding ACFTA, the Indonesian government should conduct a policy evaluation before and after applying a policy. Policy evaluation is useful to know the effectiveness, efficiency, adequacy, equal responsiveness, and accuracy. ACFTA policy enforcement that is not supported by the availability of raw materials for the production of footwear in Wedoro, it will give more disadvantage to the craftsmen and entrepreneurs. The increase of raw material prices will also lead to the selling price of these goods becomes higher. If the need of the main raw material is still difficult and the price is also expensive, then an industry will also have difficulty to develop its creativity. Sooner or later, if it is not addressed, then the consumer will switch to choose the products with good quality, up to date models, as well as the appropriate price.

One of the important things in the footwear industry is the scope of the market or marketing. According to Muhammad Haris, one of the slipper craftsmen of Wedoro, before the Chinese products freely were sold in the domestic market, every week he was able to sell 200-300 score of slippers every week. But after the Chinese products began to circulate widely in the domestic market, this craftsman-made slippers were sold only 20 scores (peluangusaha.kontan.co.id, 2012). Based on the theory of industry, August Losch stated in his book entitled *Economic Location* (1954) that there are two principles as a limitation to make the decision to choose a location of industry, namely (1) the ratio between the weight of raw materials with the final product, both freight and production costs; (2) the size of the sale of the company in a place depending on the number of buyers and economic capabilities. The number of population and the income level of each region are determinant to choose the location of industries. Wedoro Village is a collection of footwear craftsmen that mutually produce slippers or shoes. Its workforce is residents of the village such as housewife who helped the production process of Wedoro footwear home industry. For the marketing, Wedoro's location can be accessed by residents of Surabaya or the people outside Surabaya. Although it can not be said that the location is very convenient for shopping, but the stores in Wedoro are crowded enough with consumers' visit. It happened around the 2000s in which the state of the market in Wedoro started to decline when the products of Wedoro began to lose the competition with products on the market such as Chinese products that started to have free entry into Indonesia since the enactment of ACFTA. The growing state of the mall, the goods made in China is increasingly circulated in the Indonesian market. Not only in the stores of Wedoro but also in the mall. It is different with the Wedoro products that are still very rare to find in the mall. The products of

Wedoro are still commercially available in Wedoro stores. This is not in accordance with the lifestyle of today which are inclined to the mall as a convenient shopping place. Chinese goods are ready to compete anywhere, from the market, shopping center, or in the mall. This is what makes the behavior of consumers decide to buy goods that are made in China which are easy to find anywhere with prices and models that are quite competitive. It is also likely to make the shops in Wedoro more deserted from the visitors from year to year

In the late 1980s, the level of education of Wedoro citizens was very low. Children of Wedoro village only went to school until grade 4-6 of elementary school. Rarely do the children attend school on above elementary education. Development of Wedoro village as the center of the shoe industry began in the 2000s. Sentra footwear industry is able to attract customers from domestic and abroad. The number of visitors at that time also increased rapidly. The footwear industry is also becoming a dominant driving force of economic growth in the population around. The craftsmen of Wedoro have worked entirely from the model selection, provision of capital, materials and all the way to the marketing. This causes the craftsmen have difficulty in terms of capital so the goods that are produce produced are limited. With limited capital, the craftsmen, in addition to having difficulty in advancing their business, they also have difficulty to repair the infrastructure and facilities. Besides, the craftsmen can not produce sandals with good quality. Based on that data, creative footwear models and the selling price are one of the main considerations of consumers to buy a product. This is also explained in the theory of consumer behavior that is rational consumer behavior where consumers who are in action or consume goods based on reason and the principle of economic considerations: (1) The goods can provide maximum usability; (2) the goods are really needed; (3) the quality of goods is assured; (4) affordable or reasonable. One of the factors of the competition between footwear made in China and Wedoro is lied in the quality of goods and an affordable price. With almost the same quality, so consumers will tend to choose products with lower prices. Likewise, the quality is much better, consumers will choose the product because the price is relatively inexpensive compared to the price of the product that has lower quality. In the theory of consumer behavior, when deciding on product and brand to buy, consumers will choose products and brands in the most favorable evaluation. As for the strategy of footwear craftsmen in Wedoro to face the implementation of ACFTA, namely: (a) Changing the leather raw material into a sponge; (B) Focus on one model of footwear, namely flip-flops which are made of sponge; (C) For the shop owner, one last strategy is not only to sell products Wedoro but also products made in China; (D) Maintaining footwear price less than the price at the mall shopping center; (E) Expanding the market to the outer islands; and (f) Organise events Wedoro Fair every year when the day of Eid.

The position of China in the World Trade and the Comparison of Workers Wages in Indonesia, China, and ASEAN Countries

Indonesia and China in 1945 were two countries that together became the victims of World War II. China even had a more severe situation for scorched-earth strategy that was executed by the Japanese. But entering the 21st century, China has become a great power. China is now one of the largest trading partner of Indonesia. Based on data from the Central Statistics Agency (BPS), between 2003 and 2004, or the period before implementation of Bilateral Free Trade Agreement of ASEAN-China, Indonesia's exports to China increased by 232.20 per cent,

whereas the increase in Chinese imports only reached 38.67 percent (.bps.go.id, ???). The role of China is also strong enough not only in Indonesia but also in world trade. Provision of labor is one of the important factors in the industry of a country. The size of remuneration of labor determines the level of the selling price of a product. The higher wages for the workers, the production cost of an industry will be more expensive. Conversely, if the level of wages was lower for the workers, the production cost will be reduced so that the cost of selling will be more reasonable. Here is the comparison of labor costs in the country of Indonesia, China, Thailand, Malaysia, the Philippines, Cambodia, Laos, and Myanmar.

The Philippines is a country that gives the highest labor wages to around Rp 3.000.000, - up to Rp 7,000,000, - per month. Then, in a position to give the second-highest wages is Thailand which give the wages around Rp 2.100.000, - up to Rp 2,850,000, - per month. The third highest state rewards for its workers is Malaysia which give Rp 2,400,000, - to \$ 2.6976 million, - per month. While the lowest country that gives the wage labor is Myanmar with a nominal of Rp 169 509, - per month. Nominal wage of workers in Indonesia and China is almost the same, Indonesia gives Rp 1.200.000, - up to Rp 1.5 million, while China is still under Indonesia in giving their workers the wages which is around Rp 1.351.500,- to Rp 1.411.000, - per month (www.merdeka.com). However, the current workers' wages in Indonesia have risen along with demonstrations that have been carried out by workers in Indonesia in 2012. The local government has raised the wages of workers in Indonesia with an average above 40% in 2013. The high wage Indonesian labor wages compared to the wage in China causes more burden for the production of an industry. If the production cost is higher, the selling price would be higher. It is profitable for the goods produced in China that can compete with the low prices in the market. Prices of goods that are produced in Indonesia are getting expensive but the quality is still lagging behind, of course, it will make the goods less competitive.

Central and Local Government's Support to the Footwear Industry of Wedoro

In April 2012, the Central Government stated that it would bring the designer of footwear from Italy as a support to increase the quality of products of Wedoro shoes. Minister of Industry M.S. Hidayat said that the Indonesian government would collaborate with Italy so that the Indonesian products have strong competitiveness. The government will provide subsidies to the industry of footwear in Wedoro so that the cost to use the services of Italian designers will not be a burden to the producers of slippers and shoes. . In 2009: (a) on December 31, 2009 the Ministry of Commerce (Mari Elka Pangestu) gave a notice to the Secretary-General of ASEAN on the concerns of industry in Indonesia over the implementation of ACFTA and CEPT-AFTA in full, and asked to reevaluate the implementation of the agreement; (B) the government established a Coordinating Team that has responsibility to resolve the barriers of industry and trade in order to strengthen the competitiveness of national industries in facing the global trade. In 2010: (a) improving the effectiveness of the security of the domestic market from smuggling and control the circulation of goods in the country through the increase of enforcement of a number of instruments in accordance with the discipline of international agreements, such as quality standards, copyrights and consumer protection, and to prevent dumping and others; (B) improving the effectiveness of supervision over the utilization of the document issuance and certificate of origin (SKA) for exports and imports; (C) strengthening export markets, such as the

Trade Promotion Center; (D) increasing the promotion of the use of domestic products; (E) handling of other domestic issues, such as the improvement of spatial and land use, infrastructure and energy, the expansion of access to financing, improvement of public services, and others; (F) Office of Cooperative Prov. East Java build the display room to accommodate the superior products for export that are produced by SMEs, without paying throughout the year. In other areas, there are a lot of showrooms, but the SMEs are required to pay. In 2011: The Indonesian government has proposed to renegotiate for 228 tariff lines of products that have the potential of injuries so that the non-imposition of customs duties may be postponed, but it does not run and Indonesia has to keep going with the mechanism of ACFTA. In 2012: Minister of Trading M.S. Hidayat plans to bring the designers from Italy to build the footwear industry to be more advanced. But until 2013, there was no realization and socialization from the Central Government to the craftsmen of shoes of Wedoro.

Impact of ACFTA Policy Enforcement for Footwear Industry of Wedoro

The impact of the implementation of ACFTA on the footwear industry of Wedoro is a decline in sales for local producers that have to compete with Chinese-made footwears that are diverse and inexpensive. Another effect is the Wedoro producers who can not compete with the Chinese products, the industry should face bankruptcy and out of business. In Wedoro itself, it appears that the visitors who come becomes lesser. When compared with the years prior to the enforcement of ACFTA, Wedoro is a very congested area that are visited by consumers. The small number of visitors also causes the cancellation of Wedoro Fair which is an annual event to enliven the atmosphere in Wedoro especially before the day of Eid. In addition, another effect of the implementation of ACFTA, many stores switch to sell products of China's footwears because they are considered to be more attractive to consumers. Furthermore, the creativity of footwear models in Wedoro becomes limited and somewhat behind because the raw materials are expensive and limited as well as the level of sales that is decreased due to the small number of visitors. According to one of the administrators of APSSW, Muslich Tamam, beginning in 2010, it was a challenge for the craftsmen of sandals in Wedoro. This is due to the average income of trader of shoes and sandals in Wedoro that tend to decline in the first quarter. According to the records of APSSW, 571 craftsmen of sandals earn low incomes. ACFTA enforcement led to various perceptions of society, such as that delivered by the Minister of Workers and Transmigration (Menakertrans), Drs, HA Muhaimin Iskandar, M.Si who stated that a number of employers and trade unions are worry about a systemic impact of the implementation of the agreement of ASEAN-China (ACFTA). This is due to the inability of the domestic industry to compete with Chinese products, followed by the Employment Termination (PHK) or rationalizing employees. Some of them just made ACFTA as a challenge to improve the quality and performance of the company in order to compete with foreign products. While the data about imported footwear in the Ministry of Commerce stated that imports of footwear from China rose 96.76% from US \$ 3,4 millions in January 2010 to US \$ 6.69 million in January 2011. This led many traders of sandals prefer to sell imported Chinese sandals than to sell sandals made by the craftsmen of Wedoro (peluangusaha.kontan.co.id, 2012). Another opinion from the Treasurer of Regional Forum of Small and Medium Enterprises (SME forums) of East Java, M. Sochieh who stated that the small-scale industrial centers in East Java is not functioning optimally because the businesses in that sector is difficult to have transaction collectively. The manufacturers of

footwear in small industrial centers of Wedoro, Sidoarjo regency, East Java, are not able to fulfill the order from Sumatra after being facilitated by SME forums of East Java in the promotion through online media. Manufacturers of Wedoro miss the market opportunities from the order of Sumatra because the footwears' producers are not willing to transact collectively, even though in a small industrial centers, there are a lot that produce similar products (bisnis-jatim.com, 2012). After facing the rise of raw material which is very high, now, the manufactureres of Wedoro footwear have to face the onslaught of products made in China that are competitive. China-made footwear products also offer a much cheaper price. The cheapness of Chinese footwear products because it is supported by the implementation of ACFTA which mentions that the goods of China can enter the Indonesian market, including East Java, with rates up to 0% (dprd-sidoarjo.go.id, 2012). With the enactment of ACFTA, products from China can enter the Indonesian market with ease. Even, ACFTA policy make products of China free from tariffs. This is very profitable for the Chinese goods because the prices are getting cheaper. The entry of the Chinese products, one of which is the footwear that was varied and at a reasonable price, becomes the hard competitors of the footwear industry of Wedoro. After the rise of raw material prices of shoes and sandals that caused by the 1997 crisis, Wedoro producers have to face the Chinese rival products where China is famous as large and powerful industry in the world. Chinese products which are famous for the cheapness and variety make some manufacturers of Wedoro bankrupt. Especially, when the Chinese products enter into the Indonesian market, manufacturers of Wedoro still are not ready to rise. One of the reason is due to the lack of fashion shoes and sandals. Slowly but surely, the footwear industry of Wedoro which had always full of visitors, then started to be deserted by consumers.

In 2009 and 2010, the reduction of income began to be felt by the manufacturers of footwear of Wedoro. Besides, the fashion of Wedoro footwear has not followed the latest trends, on January 1, 2010, the Indonesian government also began enacting ACFTA. Not surprisingly, many consumers are turning to Chinese products because they have the latest fashion with cheaper price. Similarly, most traders prefer to sell products the Chinese products than footwear products made in Wedoro. This has led to the bankruptcy of more stores in Wedoro. The small number of visitors also causes the Wedoro Fair event that is usually held since the year 2011 has not been held back. In 2012, the small number of visitors also felt by manufacturers of the footwear in Wedoro. When Lebaran, Wedor used to be always visited by consumers, but it was so different on August 2012, the shops in Wedoro looks very empty. As for some of the reasons which led to the slump of Wedoro footwear industry in terms of Indonesian Government Policy of ACFTA are as follows: (a) Raw materials are increasingly difficult to obtain; (b) Increase in raw material prices; (c) Slow Dissemination of the implementation of the free market in China; (d) competition with products that is made in strong industrial countries; (e) The free market which is not matched by the increase of the quality of human resources as well as technology enhancements; (f) small industry rescue policy by the Government of Indonesia is running slow; (g) the socialization of the Indonesian government to the people to love domestic products is not success; (h) The increase of the products made in China that enter Indonesia; (i) Most craftsmen of Wedoro choose to change from footwear makers of Wedoro become entrepreneurs to sell Chinese products that are preferred by consumers; (j) The people of Indonesia who prefer the mall as a place to shop while products of Wedoro are not marketed to the mall. It is in contrast

with the Chinese-made products that have been marketed to shopping malls; (k) The craftsmen and entrepreneurs of footwear in Wedoro surrendered and did not transfer the business of shoes and sandals to the offspring. Wedoro communities began to choose to work in a factory or in the office because it is considered that the footwear industry of Wedoro is already unprofitable; (l) The location of shops in Wedoro is still less strategic due to the view from one store to another store, the costumers have to walk on the edge of sidewalk that are busy with bikes and cars. In contrast to the shopping center mall which is more convenient for shopping because when the costumer walk from one store to another, they will not be worried about the passing bike or a car and hot weather and rain; (m) the convenience shopping at the mall, such as the supporting facility like AC and comfortable toilet which cannot be found in the stores of Wedoro. On the one hand, in terms of price, relatively, it is almost the same; (n) Parking space for cars that is still limited with the access roads which is narrow in Wedoro becomes one of the reasons for the consumers to prefer malls for shopping; and (o) promotional strategy is still lacking.

The Obstacles of Manufacturer of Wedoro in Facing ACFTA Implementation Policy

Every consumer basically wants to buy products with good quality and low prices. Previously, when the raw material of shoes and sandals is cheap, the producers almost have no constraints in producing the shoes and slippers. But since the 1997 crisis, the price of raw materials such as leather, sponge, etc. increases rapidly that makes Wedoro producers experience difficulties. The price of shoes and sandals that are sold can not be increased while the cost of production has increased very high. Shoe manufacturers can not raise prices because the shoes fit the character of Wedoro footwear which is shoes and sandals with good quality at low prices. It is not impossible if the shoe manufacturers raise the prices, then the consumers will switch to buy the shoes products that are cheaper. Judging from the Chinese products, there are some reasons of the manufacturers of Wedoro have difficulty in competing with Chinese products, namely: (a) products of China are made in more diverse model; (B) Products made in China have an affordable selling price; (C) shoes and sandals made in China have wider circulation in the market compared to Wedoro footwear products; (D) The products made in China have attractive colors and models what are up to date; (E) Some of the shoes and sandals made in China have long-lasting quality with a cheaper price; (F) The wages of labor in China is cheaper than labor in Indonesia so that the selling price of products made in China can be cheaper; (G) The political dynamics in China are more stable compared to Indonesia with the bureaucratic process which is more convoluted; (H) Some consumer behaviors in Indonesia that prioritize quality with price consideration than appreciate the products made in the country; (I) Promotional products Wedoro are not optimal; (J) marketing products of Wedoro are still limited in the outlets of Wedoro region; (K) Based on observations and interviews, some manufacturers Wedoro are still passive in facing the global competition with Chinese products. This is due to the lack of government attention in promoting the spirit of competing to the manufacturers in Wedoro. Most manufacturers are just trying to survive with the onslaught of Chinese products without having a specific strategy to compete with Chinese products; (L) knowledge of fashion footwear owned manufacturer Wedoro is still not maximum; (M) technology to manufacture sandals and shoes Wedoro is still modest; (N) the Government of Indonesia is late in socializing about the implementation of ACFTA so that when the goods from China fill the Indonesian market, the

new Government just thinks about how to overcome the negative impact of the implementation of the free market; (O) Some manufacturers of Wedoro do not transfer the Wedoro shoe-making enterprises to their descendants. Some want their children to work in a factory or office because it is considered that the shoe industry of Wedoro is not giving a big profit like in the past.

The Effectiveness of Policy Implementation of ACFTA for Footwear Industry of Wedoro

Based on the field observations that have been conducted by researcher at the village of Wedoro, footwear entrepreneurs feel the impacts by the decline in sales since 2010. This can be seen at the time of Eid. The footwear industry of Wedoro started to be quiet and not as crowded as a few years earlier. Especially, when before Eid, there is no longer Wedoro Fair which previously has taken place. It is Disclosed by a store clerk of Wedoro who states that “...*the development of selling in Wedoro is a little bit decreasing. It used to be crowded which was around 2003 until 2007. Now, there are a lot of competitors...*”



Figure 2. The Daily Condition of Wedoro Shops that is relatively quiet
Source: Alia, 2012

Moreover, in the case of the socialization of government policy towards the existence of Wedoro industry, it has not been fully delivered to the entrepreneurs there. As government policy which is about to bring in the designers from Italy to help the entrepreneurs of Wedoro to make the footwear that follows the latest fashion. The government is already trying to socialize through the newspapers, but some entrepreneurs are unlikely to read or hear. Because, when researchers conducted interview, the entrepreneurs said they did not know about the policy of the Government of East Java which is planning to help the footwear industry of Wedoro by bringing designers from Italy and provide subsidies. One reveals that “*we have yet to find a strategy to face the ACFTA. Maybe, we just survive alone. We do not know the policy of the Government. Just knowing that there is a free trade of ACFTA*”.

In addition, the information regarding the implementation of ACFTA was just heard by the employers of Wedoro around 2010. It shows that the Government has not aggressively

socialize on the implementation of ACFTA since years earlier, even they have just set up the rescue policy of industry when ACFTA has been imposed. When the impact is not profitable, the new government tries to socialize in a large scale in the media but does not go directly to any industries to review the industry and provide assistance as soon as possible before the industries are out of business. On the other hand, the Chinese products are growing in number and found in the stores of sandals in Wedoro. Sandals that are made in China have a variety of color and shape which are quite competitive. Even the price is also quite cheap. According to one shopkeeper, she states that *“Chinese-made shoes and sandals are sold well and more convenient to use than shoes or sandals made in Wedoro”*

Researchers also found a shoe labeled "made in China" in almost all stores in Wedoro. Disagreement on the implementation of ACFTA is also revealed by Firman who is a businessman of shoes and sandals in Wedoro, he said that:

"... If it is approved, it could possibly shut down the home industry and if the foreigner come in here, of course, the home industry may die. Dozens of shops here have gone bankrupt. If in the past there were about 70 to 100 stores. Currently, there are only about 30."

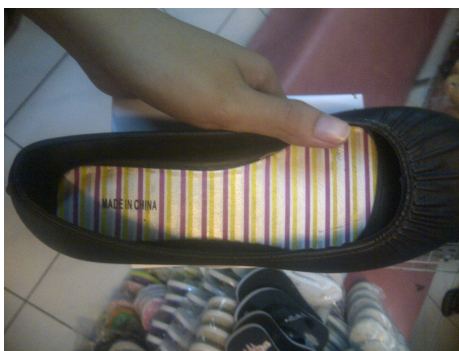


Figure 3. One of the China-labelled shoes which is only sold for Rp. 20.000,-
Source : Alia, 2012

Based on the observations in the field, the impact of the implementation of ACFTA by the government of Indonesia to the footwear industry of Wedoro is the decline in the number of buyers as well as the income from the sale. In addition, stores in Wedoro started selling footwear products made in China to stay afloat. It is because the footwear made in China is being sold in demand by consumers. But only a few shops that can survive due to the decline in sales. Nearly 70% of shops shoes and sandals in Wedoro face bankruptcy. Moreover, the impact of ACFTA also affects the activities that are usually performed by entrepreneurs in Wedoro such as the cancelation of Wedoro Fair, resulting in the small number of visitors there. The remaining stores were mostly belong to one person who has two or three branches next to it.

The purpose of ACFTA is firstly to increase the export of Indonesian industry, however, it goes the opposite. The Indonesian market is invaded by a wide variety of products made in China. Besides the industry of shoes and sandals in Wedoro is fading because of the shape and

the model of footwear that does not follow the latest fashion. The out to date model is also one of the reasons for visitors have less interest to buy there. In addition, the shoe manufacturers are also increasingly being burdened by the raw material prices that soar highly and limited. The obstacle of the success of the implementation of ACFTA is because the late socialization from the Indonesian government to the industry actors in Indonesia. This causes the business actors that are mostly not quite ready to compete with Chinese products which are very competitive on the model and price. When there is a decrease or businesses that go bankrupt, the new Indonesian government attempts to socialize and issue rescue policies. Even based on the observation of researcher, one local government policy to help employers of footwear in Wedoro by bringing the Italian designer is not know by the entrepreneurs in Wedoro though it has been published in newspapers.

Based on the above data, it can be concluded several reasons of ACFTA policy has not been effective, namely: (a) Manufacturers of shoes and sandal in Wedoro are not yet ready to compete with goods produced in China; (B) The intensity of promotional products of Wedoro is still lacking; (C) The Government has not been able to provide the raw material for making shoes and sandals with large quantities and low prices; (D) Many entrepreneurs of Wedoro goes bankrupt because they are unable to compete with Chinese products; (E) The cancellation of the implementation of an annual event which is Wedoro Fair because the small number of visitors in Wedoro; (F) Almost all shopkeepers sell goods made in China because consumers demand more; (G) The number of visitors is getting smaler in Wedoro even when the day of Eid; (H) The value of Indonesian imports is greater than the value of exports. Judging from the political dynamics of the two-countries, the barriers of Indonesian government in achieving the effectiveness of ACFTA are caused by: (a) Indonesia is a member of ASEAN which requires to participate in the enactment of the free market with ASEAN countries and China; (B) To maintain good relations with other ASEAN countries and China so that the Government of Indonesia participate and support the joint decision of the ASEAN countries; (C) Indonesia needs help and investment from neighboring countries as well as the country of China; (D) domestic political issues such as corruption, demonstrations, natural disasters, affect the maximum performance of the government; (E) performance of government's departments is marred by the cases of misappropriation of development funding; (F) competition between political parties that participate in the next election which involves several parties to take down and spread the issues that make people flare up; (G) Since the ACFTA is a joint decision, the negotiation process to postpone ACFTA must also be approved by all ASEAN countries; (H) Almost all the industrial sectors in Indonesia are affected by the implementation of ACFTA, so that there are more tasks for the Government of Indonesia in implementing the rescue policy; (I) Technology owned by the Government of Indonesia is still less, so, although Indonesia is rich in natural resources and raw materials. Indonesia still has not been able to cultivate their own, so Indonesia must import some raw materials that led to the selling price of Indonesian production still expensive compared to Chinese products; (J) Some Indonesian people loved branded products compared to love domestic products. The love of the country of Indonesia has not been fully owned by all the people of Indonesia; and (k) Unstable labor where there is frequent demonstration to demand the rise of wage and other demands. This resulted in instability that the continuity of the production disturbed.

Indonesian Trade Balance after the Enactment of ACFTA

Based on the Indonesian economic data, the trade balance of Indonesia – China had a deficit since 2008. Data from January to September 2009, the trade deficit of Indonesia – China reached US \$ 1.7 billion because Indonesia's exports are lower than imports from China (www.kpsmedan.org , 2010).

Table. 1 Trade Balance of Indonesia – China Period of 2003-2009 (Million USD) *Source* : Ech-wan (2009)

TRADE BALANCE OF INDONESIA-CHINA				
PERIOD 2003-2009 (Million USD)				
Year	Export to China	Import from China	Balance	Ratio E/I
2003	2.926	2.392	535	1.2
2004	3.145	3.407	-261	0.9
2005	3.960	4.551	-592	0.9
2006	5.450	5.504	-54	1.0
2007	6.664	7.957	-1.293	0.8
2008	7.760	14.959	-7.199	0.5
2009	6.829	10.756	-3.928	0.6

Based on Table.1, in 2003, Indonesia was only experienced a trade surplus with China that was amounted to 535 million US dollars. Whereas, in 2004 until November 2009, Indonesia continues to experience a trade deficit with China. The trade deficit occurred in 2008 in the amount of USD -7.2 billion, or about 70 trillion rupiah. Similarly, according to BPS data, Chinese imports increased by 40.45% from US \$ 198.01 million in February 2011 to US \$ 278.11 million in March 2011. Cumulatively from January to March 2011, imports from China reached US \$ 10.236 million, and grew 37.4% compared with January-March 2010 which was amounted to US \$ 516,897 million. Imports from China reached 20.1% of the total imports of East Java (bisnis.com, 2011). Indonesian exports to China was 49.2 billion dollars, while imports from China were amounted to 52 billion dollars (Maulani, 2011). Meanwhile, based on the data from the Ministry of Industry (Kemenperin), Indonesia's export growth to China in 2007-2011 was only amounted to 19.6 percent, while import was amounted to 35.2 percent. The Central Statistics Agency (BPS) reported that Indonesia's trade balance at the end of June 2012 had a deficit of US \$ 1.32 billion. Import trade reached US \$ 16.69 billion, while exports only reached US \$ 15.36 billion. The trade deficit occurred with China which was amounted to US \$ 4.045 billion (beritasatu.com, 2012). Based on that data, import-export trade of Indonesia and China in 2003 was still profitable. But in the following years, Indonesia's imports tend to be higher than the value of exports. Even up to the year of 2008 and 2009, there was an increase of imports and experienced deficit. It is certainly a threat to the industries in Indonesia because it shows that actually the industry of Indonesia is still not ready to compete freely with the products of other countries, especially China. The existence of ACFTA will increasingly shift the domestic industry with products made in China which continue to meet the Indonesian market. Based on the data obtained, it is known that Indonesian trade in 2011 experienced a loss of (-3,271), then in 2012 it experienced a loss of (-7,728), in 2013 it was (-7,248), and further losses in 2014 were

(-13,018). In 2015 the loss increased to (-14,366) and in 2016 the loss was up to (-14,015). In 2017 the loss began to decline to (-12,718). However in 2018, the loss actually increased to (-18,450) (Asyono & Samputra, 2023).

Conclusion

ACFTA (ASEAN Free Trade Area) is a form of cooperation to support the improvement of the economy in the countries of Southeast Asia with China. Indonesia, which is one of the ASEAN member countries, shall participate in such cooperation. The enactment of ACFTA policy in Indonesia, which was in 2010, had the aim to open the domestic market and to eliminate the tariff barriers. The opposite was also carried out by the nations of Southeast Asia and China which open their market for products made in Indonesia. But, the problem is that the goods made in Indonesia mostly have not been able to compete with the quality and price of goods made in China which is famous for being cheap. The Indonesian government is faced with the problems of society that support and against the implementation of the policy. On the one hand, the government can not unilaterally cancel the cooperation of agreement, because as the member countries of ASEAN, Indonesia is obliged to participate in the decision together with the ASEAN countries. The Indonesian government should prepare a strategy and specific policies in order to maintain the existence of domestic industries in order to survive and compete with other countries.

Based on the interviews and literature studies that have been done, the researchers obtain the results of the impacts of the implementation of ACFTA towards the footwear of Wedoro Sidoarjo, they are: (1) There is a decline in sales because the local producers have to compete with Chinese-made footwear which is diverse and inexpensive; (2) for Wedoro producers who can not compete with the Chinese products, the business face bankruptcy even should be closed; (3) the number of visitors and customers who come to Wedoro decreased. When compared to the years prior to the enforcement of ACFTA, Wedoro a very congested area visited by consumers; (4) non-performance of the annual event ahead of Eid, which Wedoro Fair for lonely visitors; (5) Several stores in Wedoro start switching selling footwear products made in China that are considered to be more attractive to consumers; (6) creativity of footwear models in Wedoro is a bit behind because the raw materials are limited and expensive. As some constraints of Wedoro manufacturers in facing the ACFTA implementation, namely: (1) the government is late in socializing ACFTA; (2) Wedoro entrepreneurs are not ready to compete directly with a strong industrial country; (3) public awareness is still lacking to love the products made in the country; (4) the raw materials required are still limited; (5) The technology used is still out to date; and (6) the level of product promotion of Wedoro is still lacking.

The effectiveness of the implementation of ACFTA on Indonesia's economy is not yet effective. Judging from the trade balance, the level of Indonesian imports is much greater than the level of its exports. The number of entrepreneurs and craftsmen of Wedoro that face bankruptcy after the enactment of ACFTA is high. It indicates the ineffectiveness of free-market policies of ASEAN-China. The purpose of ACFTA is originally to open up the market access so that domestic industries can easily get into the international market and create a healthy competition among ASEAN countries and China, however, in fact it has a negative impact on the

footwear industry in Wedoro. Given the impacts of the implementation of ACFTA above, hence, there is a need for cooperation among business players in maintaining Wedoro footwear products of shoes and sandals so they can compete with the products of footwear from China. This needs to be done besides to maintain the footwear industry Wedoro, it also should be done so the employment opportunities are not lost due to the defeat of the footwear market of Wedoro. If the footwear of Wedoro industry lose in the competition with China's footwear products, it will mean that the employment opportunities in Indonesia will also be reduced since the number of workers in Wedoro is quite a lot because of its industrial process that involves many workers, including housewives. If the issue is not immediately taken seriously by the Government of Indonesia, someday footwear industries even other industries can experience something similar to that experience that Wedoro footwear industries have. The Indonesian government should immediately issue a policy that supports and helps to develop industries in Indonesia which will freely compete with foreign industries. With the existence of ACFTA, it is expected that Indonesian market is not only filled with the goods from the foreign country, but also be able to export goods to the markets of other ASEAN countries as well as to the Chinese market.

Acknowledgement

I pray praise to God upon the completion of this research. Gratitude and my infinite thanks are extended to the Almighty God, who has provided a valuable life experience for me. Besides, my gratitudes are due to my parents, husband, brother, sister and the rest of my extended family. I also deliver the respect and gratitude profusely to (RIP) Mr. Dr. Heni Sukrisno., M.Pd who always provides assistance and guidance and also Prof. Myrtati Dyah Artaria, Dra., M.A., Ph.D., who gives me a lot of knowledge in the writing and publication of the journal, as well as to Prof. Dr. Bagong Suyanto., M.Si., who has been guiding me during the study for the doctoral program of Social Sciences at Universitas Airlangga as well as to Prof. Dr. H. Widodo Ario Kentjono, dr. Sp. THT-KL (K), FICS as the Rector of University of Wijaya Kusuma Surabaya which is the place where I am teaching

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