

Legal Aspects of Opportunity and Potential of North Sumatra on International Trade Implementation

Halimatul Maryani^a, Rahmadany^b, Atika Sandra Dewi^c, Adawiyah Nasution^d, ^{a,d}Universitas Muslim Nusantara Al Washliyah, Medan Indonesia, ^bUniversitas Amir Hamzah, Medan - Indonesia, ^cUniversitas Amir Hamzah, Medan - Indonesia, Email: ^ahalimatul.maryani@umnaw.ac.id, ^bDanyrahma993@gmail.com, ^cIkasandradewi1203@gmail.com, ^dadawiyah.nasution@umnaw.ac.id

The basic concept of free trade is the removal of barriers in international trade and its implementation of shaping globalisation universally with a very broad scope. Globalisation, of course, has an impact on the existence of local products (regional potential) in international, regional, and multilateral trade with the "Free Trade Agreement". There is actually a multilateral system, the World Trade Organization (WTO), that is far better than existing systems in a regional framework. However, the multilateral system in the WTO framework is hampered and does not work well, so that countries form regional trade blocs, such as ASEAN, AFTA and ACFTA, to gain direct benefits and advance and develop regional economic growth. On January 1, 2010, China joined the ASEAN China Free Trade Agreement (ACFTA) on the Framework Agreement on Comprehensive Economic Co-operation between the Association of South East Asian Nations and The People's Republic of China (Asean-China). This has been ratified through the Presidential Decree Number 48 of 2004 and Law Number 24 of 2000 on International Agreement. Therefore, the purpose of this study is to know the opportunity and potential of North Sumatra in implementing international free trade. It also aims to know the policies implemented by the government to protect domestic industries against the negative impacts of the implementation of international trade. This study uses a juridical normative type and descriptive analysis as a characteristic by using secondary data, consisting of primary, secondary and tertiary legal materials. Legal materials are collected from literature searches and analysed qualitatively.

Key words: *Opportunity and Potential, North Sumatra, International Trade.*

Introduction

a. Background

Free trade was formed in the World Trade Organization (WTO). Indonesia ratified the GATT/WTO with Law Number 7 of 1994, on the concept of trade liberalisation to the world, especially to member countries, where the basic concept of trade liberalisation is removing barriers in international trade. This concept forms globalisation, universally with a very broad scope. In the economic and trade aspects, globalisation occurred when the spice trade started, forcing cultivation in Java until the growth of plantations in the Dutch East Indies. At that time globalisation was born of violence in colonialism. In contrast to the present, economic and trade globalisation is carried out in a peaceful manner through international negotiations and agreements that produce free trade rules and focus on the development of open and free markets (Erman, 2005).

The acceleration of the globalisation process in the last two decades has fundamentally changed the structure and pattern of international trade and financial relations. This has become an important phenomenon as well as a "new era" marked by the high growth of international trade, in which Indonesia has implemented the free trade regime (globalisation era). In the era of globalisation, free trade is often discussed because it is expected to bring important changes to the world. To achieve free trade though takes time because there are many consequences. Removing barriers to international trade can bring good, for example, free trade which allows the entry of more advanced and diverse imported products that increase the number of choices for consumers. The process of implementing free trade is called trade liberalisation. In this case, Sumatra has a great opportunity to respond to international trade with its opportunity and potential.

Literature Review

a. Definition of Opportunity

One example of an opportunity is the reform movement in all areas of life, creating opportunities for the realisation of good governance and social escalation for the whole community without differentiating between geographical, residential and ethnic environments. Another is as a high investment attraction, giving investors (regional and global) a tendency to invest, for example in Indonesia, especially in North Sumatra Province. Furthermore, the number of successful natives in other regions has led to faster information, commodity and investment flows and the development of regional and sub-regional cooperation that will bring benefits to developments in North Sumatra. Indonesia has considerable opportunities to increase economic growth and investment from China; this is

supported by an increase in the volume and commodities exported to China as a new economic power. North Sumatra is also quite likely to seize the market economy in terms of increasing economic growth. Challenge arouses the ability to seize and achieve something. The toughest challenge facing Indonesia is actually the domestic factor, which involves improving the supporting sectors of industry and agriculture for such things like energy readiness, labour quality, the banking system both in terms of loan interest rates and financing, and other factors. This is in order to encourage industrial growth and improve the national logistics system that enable the movement of goods, capital and labour to be more efficient in various sectors (Bob, 2004). Another important concern is the improvement of market security by implementing the Indonesian National Standard (SNI), which is supported by the readiness of infrastructure, laboratories, and competent Human Resources, as well as assistance or programs to foster and improve product quality, which are expected to be better than foreign products. In North Sumatra Province, there are several challenges and obstacles for the North Sumatra Government related to the implementation of the AFTA-China Regional Trade, for example, products originating from China are abundant in North Sumatra. This is because products from China seem cheaper even though they actually have low quality. This is a threat to Indonesia and North Sumatra.

b. Definition of Regional Potential

Potential is "power, ability, strength" which translates as skills, ability and strength. While "regional" refers to a region, territory and legal community unit that has certain boundaries. Thus, regional potential is reliable regional quality and excellence and the availability of resources that can be utilised and contribute to regional revenue and community welfare. All of which can be assessed from several aspects such as financial institutions, economic facilities, educational facilities, health facilities, transportation and communication facilities, tourism facilities, employment and so forth (Bismar, 2005).

Method

The location of the study is the Indonesian Government. However, researchers conducted a focus study on the North Sumatra Government (Descriptive Analysis Study).

A. Data Sources

This study uses several data sources, namely primary legal materials and secondary legal materials (Soekanto, 2001).

- a. Primary legal materials such as regulations or statutory provisions as written law in the field of international law including international conventions, international agreements,

international covenants, and also national legislative regulations (Indonesia) namely: Law Number 7 of 1994 on Agreement Establishing The World Trade Organisation; Law Number 24 of 2000 on International Agreement, Law Number 37 of 1999 on Foreign Affairs; Presidential Decree Number 48 of June 15, 2004 on Free Trade ACFTA cooperation or the “*Framework Agreement on Comprehensive Economic Co-operation Between The Association of South East Asian Nations and The People’s Republic of China (Asean-China)*”. Also, the Decree of Minister of Finance of The Republic of Indonesia Number 355/KMK.01/2004 of July 21, 2004 on the stipulation of import duty tariffs on imported goods in Early Harvest Package Asean-China Free Trade Area; Regulation of Minister of Finance of The Republic of Indonesia Number 57/PMK.010/2005 of July 7, 2005, Number 04/PMK.011/2007 of January 25, 2007, Number 53/PMK.011/2007 of May 22, 2007, Number 235/PMK.011/2008 December of 23, 2008 on stipulation of import duty tariffs In Normal Track Asean-China Free Trade Area (Jhonny, 2005).

- b. Secondary legal material provides an explanation of primary law such as textbooks relating to government policies on domestic industrial protection, policy inhibiting factors and the AFTA-China agreement, research reports, scientific journals, magazines, newspapers, internet sites, and documents relating to legal issues (Sunggono, 2001).

Discussion

a. Opportunity and Potential of North Sumatra on International Trade Implementation, History and Profile of North Sumatra

Historically, during the Dutch colonial era, the North Sumatra Government was called the "Gouvernement Van Sumatera", which covered all of Sumatra and was headed by a "Gouverneur" in Medan City. North Sumatra Province consisted of administrative regions called Residencies. At the beginning of the independence of the Republic of Indonesia, North Sumatra Province remained a unity of government, was headed by a Governor, and consisted of a regional residency headed by a Resident. At the first session of the Regional National Committee (KND) of North Sumatra Province, due to difficulties in transportation based on the defence aspect, it was decided to divide North Sumatra Province into three sub-provinces.

These are:

- a) North Sumatra Sub Province, which consisted of Aceh, East Sumatra and Tapanuli.
- b) Central Sub Province
- c) Southern Sub Province.

On December 7, 1956, Law Number 24 of 1956 on the Establishment of Aceh Province and Amendments to the Regulations on the Establishment of North Sumatra, precisely in article

1, was issued. A number of second level regional autonomies in North Sumatra Province, based on the Emergency Law Number 8 of 1956 on Establishment of Big Cities, Emergency Law Number 9 of 1956 on Establishment of Small Cities, and Government Regulation in Lieu of Law in 1964 on Formation of 17 second level regions were formed. These are:

- a. Eleven Regencies; Central Tapanuli, North Tapanuli, Nias, South Tapanuli, Langkat, Karo, Deli Serdang, Simalungun, Asahan, Labuhan Batu, Dairi
- b. Three administrative cities; Padang Sidempuan, Kiasaran, Rantau Parapat.
- c. Six Cities; Medan City, Pematang Siantar, Sibolga City, Tanjung Balai City, Binjai City, Tebing Tainggi City.

The area of North Sumatra Province is 71,680 square kilometres, or 3.5% of Indonesia, which consists of the East Coast and the West Coast, with highlands and lowlands. East Coast regions include Labuhan Batu, Asahan, Tanjung Balai, Tebing Tinggi, Deli Serdang, Medan, Langkat, and Binjai. West Coast regions include Nias, North Tapanuli, Dairi, Karo, Simalungun, and Pematang Siantar, where the temperatures average between 15⁰C - 32⁰C and the average humidity is usually 83% - 89%. In accordance with natural conditions, North Sumatra Province makes the agricultural sector the backbone of the economic structure, in addition to the increasingly dominant industrial sector. Some of the agricultural products in North Sumatra Province are rice, corn, fruits and vegetables, while the plantation sector produces oil palms, rubber, cocoa, coffee, tea, tobacco, penile, and the forestry sector wood, rattan and incense. Demographically, North Sumatra Province with Medan as the capital city has eleven regencies, six cities, and three administrative cities, with 209 districts, 390 sub-districts and 5038 villages. The North Sumatra Province region was divided to identify regional problems and conditions. In order to expedite implementation and processing based on the spatial approach, North Sumatra Province was divided into four regions (see table).

Table 1: Regional division of North Sumatra Province

Development Region	Area(Km)
WP I : Sibolga, Tapteng, Tapsel dan Nias	26,414
WP II : Pematang Siantar, Simalungun, Karo, Dairi dan North Tapanuli	20,317
WP III : Medan, Langkat, Deli Serdang, Binjai dan Tebing Tinggi	10,987
WP IV : Tanjung Balai, Labuhan batu, Asahan	13,967
North Sumatra:	71,690 (km)

Source: Central Statistics Agency of North Sumatra

The development of the North Sumatra region with the existence of several expanded regencies shows that the area of North Sumatra Province reaches 71,680.68 sq.km or 3.72% of the Indonesian area, with 162 islands consisting of six East Coast islands and 156 West Coast islands. The boundaries of the North Sumatra region include Nanggroe Aceh

Darussalam Province in the north, Riau Province and West Sumatra Province in the south, the Indian Ocean in the west, and the Malacca Strait in the east. The geographical position of North Sumatra is strategically placed on the international shipping route, the Malacca Strait, close to Singapore, Malaysia and Thailand. The 27 regencies, 383 districts and 5736 villages within the administrative division of North Sumatra can be seen in the following table:

Table 2: Regional division of North Sumatra

No.	Regency/City	Number	
		District	Sub-District/Village
1.	Nias	32	443
2.	Mandailing Natal	22	376
3.	South Tapanuli	11	511
4.	Central Tapanuli	19	172
5.	North Tapanuli	15	243
6.	Taba Samosir	14	192
7.	Labuhan Batu	22	242
8.	Asahan	13	17
9.	Simalungun	31	351
10.	Dairi	15	169
11.	Karo	17	267
12.	Deli Serdang	22	394
13.	Langkat	20	260
14.	Nias Selatan	8	260
15.	Kumbanghasundutan	10	144
16.	Pak-pak Bharat	8	52
17.	Samosir	9	117
18.	Serdang Bedagai	11	243
19.	Batu Bara	7	100
20.	Padang Lawas Utara	8	379
21.	Padang Lawas	9	303
22.	Sibolga	4	17
23.	Tanjung Balai	6	31
24.	Pematang Siantar	7	43
25.	Tebing Tinggi	5	35
26.	Medan	21	151
27.	Binjai	5	37
28.	Padang Sidempuan	6	37
North Sumatra		383	5736

Source: Central Statistics Agency of North Sumatra

The population of North Sumatra consists of various tribes, such as Malay, Batak, Nias, Aceh, Minangkabau and Javanese. Although they have different religions and customs, life still goes on in harmony and peace with Pancasila as a way of life.

In 2003, the population of North Sumatra had increased by 11,890,399 people and consisted of 5,942,682 men and 5,947,717 women with a population density of 166 km². Around 56.75% of the population lived in villages and 43.25% lived in the city. Then in 2007, the population of North Sumatra increased to 12,834,371 people, consisting of 6,405,076 men or 49.91% and 6,429,925 women or 50.09%, with a population density of 179 km².

Opportunity and Potential of North Sumatra on International Trade Implementation; Opportunity and Potential of Regional Potential in Economic Aspects

The potential resources of North Sumatra are quite abundant in food crops, horticulture crops, fisheries and tourism. The agricultural potential of North Sumatra consists of vegetables, oranges and fruits, most of which have been marketed well and exported abroad and to other provinces. The total agricultural area of North Sumatra is 1,634,772 ha or 22.73% of the North Sumatra area, with a production of 3,738,516 tons for 23 commodities, including oil palm, rubber, coffee, cocoa, tobacco and coconut. The average increase in plantation area is 0.72% per year with a production of 2.74% per year. The potential of the marine fisheries of the Malacca Strait (East Coast) is 276,030 tons per year and has been used to around 90.75%, while the potential of the Indian Ocean on the West Coast is 1,076,960 tons per year and only 8.79% is utilised. North Sumatra is also a tourist destination, with 399 attractions spread across the region. Of these, 120 are natural attractions such as Lake Toba and marine attractions such as Nias, and including agrotourism, arts and culture and ethnicity that have special values. The highland agro-politan area in Bukit Barisan North Sumatra has corn, potatoes, coffee, carp, beef, shallots, and so on, which has the potential to be developed. There is also potential for agro-politan area development on small and outermost islands, with the sea area of North Sumatra around 110,000 km². The coastline covers 1,300 kilometres (East Coast 545 kilometres, West Coast 375 kilometres and Nias Islands 380 kilometres). There are 419 islands, with 237 named islands and 182 unnamed islands that have the potential to be developed. The potential of fish resources in the West Coast region reaches 1,076,960 tons per year, with the potential of fish species in the coastal sea, such as tuna, skipjack, grouper, snapper, rastrelliger, mackerel, anchovies and ornamental fish (utilisation rate is 8.79%). Potential fish resources in coastal areas consist of tuna, barondong, skipjack, grouper, snapper, rastrelliger, mackerel and anchovies (utilisation rate is 90.75%). The potential of marine tourism can be seen by the existence of several beaches such as, Langundri, Saroke, Pandan Islands, which are in great demand by foreign tourism for surfing, diving, and so forth. The potential of mining, energy and quarrying materials is quite large, with potential for geothermal energy, white tin, quartz sand, kaolinite

and bauxite. In addition, North Sumatra is in the International Trade Line because it is close to the Malacca Strait (Malaysia) and Singapore.

Table 3: Export of North Sumatra Province to China in 2005 - 2010 (January - July)

Description	Value (US\$)							Volume (KG)						
	2005	2006	2007	2008	2009	Jan-Jul		2005	2006	2007	2008	2009	Jan-Jul	
						2009	2010						2009	2010
Oil and Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NonOil and Gas	377,795,124	545,974,857	620,430,199	718,974,971	527,512,454	314,931,509	413,202,012	635,810,994	819,057,410	672,538,158	656,230,201	794,064,831	474,791,077	384,095,909

Source: Central Statistics Agency (processed by Data and Information Centre of the Ministry of Trade)

Table 4: Imports of North Sumatra Province from China in 2005 - 2010 (January - July)

Description	Value (US\$)							Volume (KG)						
	2005	2006	2007	2008	2009	Jan-Jul		2005	2006	2007	2008	2009	Jan-Jul	
						2009	2010						2009	2010
Oil and Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non Oil and Gas	7,738,232	10,791,666	14,265,036	20,740,801	8,042,719	4,975,150	924,204	27,350,989	36,908,879	45,848,936	454,271,421	14,502,075	6,618,338	899,336

Source: Central Statistics Agency (Data and Information Center of the Ministry of Trade)

Opportunity and Potential in Law Aspects

Law is a rule and guideline that must be obeyed by anyone, including business people in trading activities, especially those in AFTA-China international trade, so legal certainty and harmonisation of laws are very much needed. This shows that with the law, there is something that controls and regulates the trading system that has been implemented, so that in the future it will not cause conflict, and if there is a conflict, the solution is the law (John, 2006). Law will play a very important role in the economy, trade, and business transactions in the era of globalisation, one of which is that of AFTA-China International Trade, especially in the development and business prospects in the Asia Pacific. The law can provide the things needed in the business world to estimate the desired benefits and avoid losses. The application of this law is not intended to reduce or limit individual interests, but rather to provide legal certainty with full effort to realise essential justice so that if the law is properly implemented, the law will greatly assist the business world including economic and

trade activities, and even determine the direction of business according to what is expected. Therefore the guarantees and provisions applying to a legal system in Indonesia, especially North Sumatra, need to be studied, understood, applied and implemented, so that every individual, community or anyone remains aware of the law, and avoids punishment (Raharjo, 2009).

Constraints and Obstacles of North Sumatra in International Trade Implementation

Every business and the economic actor must, of course, have a good strategy in conducting business activities. The strategy is the main thing that must be implemented by every competitor, such as how to deal with competition appropriately and efficiently to win a free competition. In reality, however, Indonesia is still lacking in strategy compared to China. In other words, Indonesia, in dealing with AFTA-China, still has some constraints or obstacles such as lack of strategy, which can be seen in the following four aspects (Siregar, 2005):

- a. As an industrial centre in the world, the Chinese government chooses to prioritise the provision of cheap electricity. Electricity is the most important factor for creating competitiveness and will attract investment. Therefore, in the supply of electricity, China chooses to utilise abundant coal. Whereas in Indonesia, the low attractiveness of the manufacturing industry is partly due to the failure of PLN to maintain electricity standards and price levels. The high cost of production occurs because PLN does not have the support of cheap energy supplies from both coal and gas from the government. In fact, Indonesia has a natural energy that is not inferior to China. However, Indonesia prefers to use coal and gas as export commodities rather than capital to develop industries.
- b. In tin processing, China does not make tin as an export commodity based on the vision and strategy of China to build a competitive electronic industry structure. Whereas in Indonesia, tin is processed by other countries.
- c. In terms of energy resources, China built an integrated electronics industry starting from supporting industrial development by processing raw materials. This is different from Indonesia. Indonesia only has an assembly industry (upstream) for electronic products and production.
- d. In terms of financial policy, the persistence of China to maintain exchange rates is carried out in accordance with the strategy to maintain the competitiveness of industrial products. Even in a crisis, China is helping other countries through a special credit facility to provide payment facilities for importers to maintain demand for Chinese products. This is different from Indonesia.

Along with this, North Sumatra Province also has obstacles in the competition relating to international trade. According to the researchers, one obstacle is inadequate infrastructure to



support and encourage economic growth and investment growth, as well as other factors caused by high levels of corruption in Indonesia, including in North Sumatra, which is a consideration for foreign investors to invest in Indonesia (Ade, 2008).

Conclusion

Based on the above explanation, this discussion concludes that based on the opportunity and potential of North Sumatra, it is feasible to enter the international market with aspects of regional economic potential, natural resources (including agriculture and plantations, tourism, fisheries) with a plantation area of 1,999. Human Resources (HR) reached 12,834,371 people in 2007, 13.96 million people in 2015, and 14.8 million people in 2020, with a total productive age of 66.7%. From the total population and labour (Human Resources), as well as aspects of applicable legal regulations, particularly in North Sumatra, it is already feasible for North Sumatra to enter the international market.



REFERENCES

- Ade, M. S. (2008). Perdagangan bebas Dalam Perspektif Keadilan Internasional. *Jurnal Hukum*, Vol. 5, No. 2, pp. 166-175.
- Bambang, S. (2001). *Metode penelitian hokum (Suatu Pengantar)*. Jakarta: PT. Raja Grafindo Persada.
- Bismar, N. (2005). Peranan Hukum Dalam Pembangunan Ekonomi. Sekolah Pasca Sarjana, Universitas Sumatera Utara.
- Bob, S.H., & Aknolt, K. P. (2004). *Fair Trade Gerakan Perdagangan Alternatif*. Bandung: Pustaka Belajar Oxfam.
- Erman, R. (2005). Globalisasi Hukum dan Kemajuan Teknologi: Implikasinya Bagi Pendidikan Hukum dan Pembangunan Hukum Indonesia. *Jurnal hukum*, Vol. 1, No. 1, pp. 10-18.
- John, R. (2006). *A Theory of Justice. Teori Keadilan Dasar-Dasar Filsafat Politik Untuk Mewujudkan Kesejahteraan Sosial Dalam Negara*. Yogyakarta: Pustaka Pelajar.
- Johnny, I. (2005). *Teori dan Metode Penelitian Hukum Normatif*, Malang: Bayumedia.
- Mahmul, S. (2005). *Perdagangan Internasional dan Penanaman Modal: Studi Kesiapan Indonesia Dalam Perjanjian Multilateral*. USU: Sekolah Pasca Sarjana.
- Soerjono, S. & Sri, M. (2001). *Penelitian Hukum Normatif Suatu Tinjauan Singkat*. Jakarta: Raja Grafindo Persada.