



Implementation of the Indonesia–Australia Comprehensive Economic Partnership Agreement (IA-CEPA) within the International Free Trade Framework

Muhammad Akmal Cahya Fuady^{1*}, Megahnanda Alidyan Kresnawati²
Universitas Pembangunan “Veteran” Jawa Timur

Corresponding Author: Muhammad Akmal: 21044010188@student.upnjatim.ac.id

ARTICLE INFO

Keywords: IA-CEPA, Free Trade Agreement, International Trade, Liberalization, Indonesia, Australia

Received : 20, August

Revised : 22, September

Accepted: 21, October

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ABSTRACT

This study examines the implementation of the Indonesia–Australia Comprehensive Economic Partnership Agreement (IA-CEPA) during the 2020–2024 period through the perspective of the Free Trade Agreement (FTA) theory. The research employs a qualitative method with a descriptive-analytical approach, drawing on secondary data from academic literature, official government reports, and bilateral trade statistics. The findings indicate that the implementation of IA-CEPA has produced positive impacts, including increased trade volume, expanded market access, and enhanced cooperation in the fields of investment and services. Nevertheless, challenges persist in the form of uneven benefits between Indonesia and Australia, non-tariff barriers, and Indonesia’s limited institutional capacity. These findings highlight that the effectiveness of an FTA is determined not only by the substance of the agreement itself but also by the domestic readiness of participating countries to manage the transition toward trade liberalization.

INTRODUCTION

International trade serves as one of the main driving forces of global economic growth. Over the past two decades, the phenomenon of globalization has encouraged countries to become more actively involved in the flow of goods, services, and cross-border investments. One of the most widely used instruments is the Free Trade Agreement (FTA)—a free trade arrangement between two or more countries aimed at eliminating trade barriers, both tariff and non-tariff. According to a report from the World Trade Organization (WTO), the number of officially enforced FTAs has increased significantly since 1990 and continues to grow to this day. The surge in FTAs indicates that countries around the world increasingly view these agreements as strategic tools to expand market access, enhance competitiveness, and foster closer economic relations.

However, the rise in the number of FTAs has also created new challenges in the form of fragmentation of international trade rules. Baldwin (2006) refers to this phenomenon as the “spaghetti bowl effect,” a condition in which overlapping FTAs with differing regulations lead to greater complexity in implementation and compliance. In this context, the participation of developing countries such as Indonesia in FTAs is viewed not only as an opportunity but also as a challenge that must be managed carefully.

In the Asia-Pacific region, the dynamics of free trade have evolved rapidly. Various regional agreements such as the ASEAN Free Trade Area (AFTA), ASEAN-Australia-New Zealand Free Trade Area (AANZFTA), and the Regional Comprehensive Economic Partnership (RCEP) demonstrate the high level of economic integration in the region. The Asia-Pacific is regarded as one of the world’s centers of economic growth due to its vast market, high economic growth rate, and increasingly integrated global supply chains. Within this context, Indonesia’s involvement in various FTAs has become increasingly important to enhance domestic competitiveness and strengthen its bargaining position on the international stage.

One form of such involvement is through the Indonesia–Australia Comprehensive Economic Partnership Agreement (IA-CEPA). After a lengthy negotiation process that began in 2010, the agreement was signed in 2019 and officially came into force on July 5, 2020. IA-CEPA carries strategic importance as it bridges the interests of two countries with differing yet complementary economic structures. Indonesia, as a developing country with a large population and a strong manufacturing base supported by an abundant labor force, needs wider export market access and increased foreign investment (Ministry of Trade of the Republic of Indonesia, 2021). Meanwhile, Australia, which excels in the agriculture, livestock, education, and financial services sectors, requires a large and geographically close market to distribute its products and expand its economic network. Therefore, IA-CEPA can be viewed as an instrument designed to align the economic interests of both nations while deepening regional integration.

The main objective of IA-CEPA is to establish a more open, efficient, and mutually beneficial economic relationship. Substantively, the agreement encompasses three key pillars: trade in goods, trade in services, and investment.

In terms of trade in goods, IA-CEPA stipulates the elimination and reduction of tariffs on most tariff lines between the two countries. In the services sector, the agreement provides broader opportunities for Australian service providers while opening pathways for skilled labor mobility from Indonesia. Meanwhile, in the investment domain, IA-CEPA offers legal certainty, non-discriminatory treatment, and a more transparent dispute settlement mechanism (Khairunnissa, 2024).

Furthermore, IA-CEPA also contains broader dimensions of economic cooperation. The agreement includes capacity-building programs, research collaboration, technical support for small and medium enterprises (SMEs), and **educational initiatives** such as the establishment of branch campuses of Australian universities in Indonesia. These elements make IA-CEPA not merely a transactional instrument but also a transformative one, as it aims to support long-term and inclusive economic development (Manurung, 2018).

From an academic perspective, examining the implementation of IA-CEPA is important as it contributes to the growing body of literature on FTA effectiveness, particularly in developing countries. Many previous studies have highlighted that FTA implementation often results in unbalanced benefits, especially between developed and developing nations. This imbalance generally arises from differences in regulatory capacity, industrial competitiveness, and institutional readiness. Therefore, analyzing IA-CEPA's implementation during its early phase (2020–2024) is highly relevant as it reveals how free trade theories are tested in practice through the dynamics of Indonesia–Australia economic relations.

Practically, this analysis also holds significant policy implications. Evaluating IA-CEPA implementation can provide insights for the Indonesian government in formulating strategies to optimize the benefits of free trade agreements. This includes strengthening domestic industrial competitiveness, harmonizing regulations, and enhancing institutional capacity. Hence, this study not only contributes to academic understanding but also offers concrete input for developing Indonesia's future trade and investment policies (Amani & Salam, 2024).

LITERATURE REVIEW

Free Trade Agreement (FTA)

A Free Trade Agreement (FTA) is a form of bilateral or regional arrangement between countries aimed at eliminating trade barriers – both tariff and non-tariff – to facilitate the flow of goods and services across borders (Hansa, 2024). Unlike the multilateral system under the World Trade Organization (WTO), FTAs are exclusive in nature, as they provide preferential treatment only to partner countries that are signatories. Their key features include trade liberalization schedules, rules of origin, and protection mechanisms for sensitive sectors (Akira, 2006). The main objective of FTAs is to create economic efficiency through the removal of trade barriers, expansion of market access, and promotion of foreign direct investment by offering greater legal certainty

(Anggraini et al., 2023). In addition to being economic instruments, FTAs also serve as diplomatic tools that strengthen bilateral relations and regional integration (Baldwin, 2006).

The fundamental principles of FTAs include non-discrimination, transparency, legal certainty, and the progressive elimination of trade barriers in accordance with the agreed commitments (Sulistyo, 2021). However, their implementation often faces structural and institutional challenges such as weak inter-agency coordination, limited institutional capacity, and resistance from domestic business actors (Rissy, 2021). In the context of developing countries like Indonesia, disparities in capacity with partners such as Australia can lead to unequal benefits—further exacerbated by non-tariff barriers such as complex technical and sanitary standards (Solis & Katada, 2008). Therefore, the success of FTA implementation, including IA-CEPA, largely depends on political commitment, institutional readiness, and the continuity of domestic policies that effectively support trade liberalization (Rissy, 2021).

HYPOTHESES

Hypothesis 1 (H1)

The implementation of Free Trade Agreements (FTAs) as instruments of free trade has a positive effect on improving efficiency and economic integration between partner countries, including Indonesia and Australia.

Sub-Hypothesis 1 (H2)

The elimination of tariff and non-tariff barriers within the framework of FTAs significantly contributes to the increase in trade volume and the flow of goods between partner countries.

Sub-Hypothesis 2 (H3)

The openness of international market access through FTAs encourages export growth, product diversification, and the expansion of Indonesia's participation in global value chains.

Sub-Hypothesis 3 (H4)

The implementation of commitments and liberalization mechanisms stipulated in FTAs strengthens legal certainty and facilitates cross-border investment flows.

Sub-Hypothesis 4 (H5)

Developing countries such as Indonesia face structural, institutional, and competitiveness challenges in implementing FTAs optimally, leading to an incomplete realization of trade liberalization benefits.

Alternative Hypothesis (H6)

The imbalance in readiness between developed and developing countries in implementing FTAs may result in unequal benefit distribution and reduce the effectiveness of trade liberalization.

RESEARCH METHOD

This study employs a qualitative method with a descriptive-analytical approach to comprehensively understand the dynamics of the implementation of the Indonesia–Australia Comprehensive Economic Partnership Agreement (IA-CEPA) during the 2020–2024 period. Research data were obtained from relevant academic literature, official reports from the governments of Indonesia and Australia, publications from international institutions, and bilateral trade statistics issued by related agencies.

All data were analyzed to assess the extent to which liberalization commitments under IA-CEPA have been consistently implemented and their impacts on bilateral trade relations. The analysis examines the alignment between IA-CEPA implementation and the theoretical framework of Free Trade Agreements (FTAs), while evaluating its effects on trade volume growth, market access expansion, and the inflow of foreign direct investment.

The main focus of this study is on the initial implementation phase (2020–2024), considered a critical transition period to assess the early effectiveness of the agreement and to serve as a foundation for understanding IA-CEPA's long-term prospects within the broader framework of international free trade.

RESULTS AND DISCUSSION

1. Liberalization of Tariffs and Non-Tariff Barriers

One of the most tangible outcomes of IA-CEPA implementation is the liberalization of trade tariffs between Indonesia and Australia. Since the agreement officially came into force in July 2020, Australia has eliminated nearly all import tariffs on Indonesian products – covering more than 99% of tariff lines (Hansa, 2024). This policy has provided significant advantages for Indonesian exports, particularly in textiles and textile products (TPT), footwear, fisheries, wooden furniture, and light manufacturing goods. The removal of tariff barriers has made these products more competitive in the Australian market compared to those from competitors such as Vietnam, Thailand, and even China in certain segments. This finding aligns with the theoretical premise of FTAs, which emphasizes that tariff elimination enhances economic efficiency and broadens market access.

On the other hand, Indonesia has implemented tariff liberalization gradually for Australian products. Strategic commodities such as beef, dairy products, wheat, cotton, and fruits are subject to phased tariff reductions (Wijaya, 2019). This gradual approach reflects Indonesia's consideration of domestic conditions, particularly in protecting vulnerable sectors from import competition. Such caution demonstrates a pragmatic adaptation of FTA theory to the context of a developing economy.

However, despite the success in reducing tariff barriers, non-tariff barriers (NTBs) remain a major challenge. For instance, Indonesia's fishery exports still face strict requirements such as sanitary certifications, technical standards, and animal quarantine regulations. Certain manufactured goods also encounter

administrative hurdles related to labeling rules and consumer safety standards in Australia. These obstacles increase operational costs for Indonesian exporters and hinder trade flow efficiency. This situation underscores that the idealistic principles of FTAs emphasizing full openness are often constrained by domestic regulatory and structural factors.

2. Market Access Liberalization

Beyond tariff elimination, IA-CEPA has expanded market access for both countries' products. For Indonesia, the agreement opens wider export opportunities for agricultural, fishery, manufacturing, and textile products. Commodities such as coffee, frozen shrimp, tuna, rubber, and furniture have experienced export growth since IA-CEPA's implementation. Even Indonesia's automotive products, though still limited, now enjoy preferential access to the Australian market. This trend indicates that IA-CEPA facilitates Indonesia's export diversification, reducing dependence on traditional primary commodities (Hamdani, 2025).

For Australia, market access to Indonesia is highly strategic, as Indonesia represents one of Southeast Asia's largest consumer markets with over 270 million people. Australian exports of beef, dairy, wheat, cotton, and fruits have increased significantly since IA-CEPA took effect (Gayati, 2020). Moreover, Australia's education services sector has benefited directly from the agreement, as IA-CEPA allows Australian universities to establish branch campuses in Indonesia and enhances student mobility between the two countries.

Nevertheless, this market openness has also led to unequal benefit distribution. Australia, with its more efficient production systems and well-established regulatory standards, has been able to capitalize on opportunities faster than Indonesia. Conversely, many Indonesian domestic industries, particularly small and medium enterprises (SMEs), have not fully leveraged export opportunities due to limitations in capital, information access, and compliance with international quality standards. This finding supports Solis & Katada (2008), who argue that countries with stronger regulatory capacities tend to benefit more quickly from FTA implementation.

3. Implementation of Commitments and Liberalization Mechanisms

The success of an FTA is not solely determined by its content but also by the consistency of its implementation. Therefore, each FTA typically includes monitoring and dispute settlement mechanisms to ensure that partner countries adhere to the agreed liberalization schedules. Effective implementation requires cross-sector coordination and institutional preparedness to enforce policies consistent with the agreement's provisions. Without adequate oversight, the potential benefits of an FTA often remain unrealized (FTA Support Center, 2023). A transparent dispute settlement mechanism serves as a key instrument for maintaining the agreement's credibility. Unresolved disputes may erode mutual trust and impede trade flows. In addition, successful implementation requires intensive socialization among business actors to ensure their understanding of the new rules. Thus, monitoring and enforcement are not solely the government's responsibility but a collective process involving the private sector and broader society.

4. Implementation Challenges in Developing Countries

For developing countries, implementing FTAs often presents serious challenges. These include limited institutional capacity, low industrial competitiveness, and resistance from economic actors negatively affected by liberalization. Furthermore, disparities in regulatory strength and readiness between developed and developing countries frequently lead to unequal benefit distribution. This demonstrates that although FTAs theoretically promise mutual gains, their real-world outcomes depend heavily on each country's internal conditions (Tsygankova et al., 2022).

Constraints such as limited human resources and weak trade infrastructure also hinder the optimal realization of FTA benefits. Without adequate logistical support, export costs remain high even when tariffs are removed. Additionally, vulnerable sectors—such as agriculture and small-scale industries—often experience pressure from the influx of higher-quality and lower-priced imported goods.

Therefore, developing countries must adopt a dual strategy: pursuing trade liberalization while simultaneously implementing domestic support policies such as industrial strengthening programs, targeted subsidies, and regulatory capacity-building initiatives. Such an approach ensures that the benefits of FTAs are distributed more equitably across the national economy.

CONCLUSION

The findings of this study indicate that the implementation of the Indonesia–Australia Comprehensive Economic Partnership Agreement (IA-CEPA) during the 2020–2024 period reflects the practical dynamics of applying Free Trade Agreement (FTA) principles in the economic relations between a developed and a developing country. IA-CEPA has positively contributed to the increase in bilateral trade volume, primarily through tariff elimination and reduction across most trade lines between Indonesia and Australia. Australia has consistently applied full liberalization since the agreement's inception, while Indonesia has implemented gradual tariff reductions to protect vulnerable domestic sectors.

This policy framework has generated significant economic benefits for both countries, particularly in enhancing market access and trade efficiency. Indonesian products—such as textiles, fisheries, furniture, and light manufacturing—have become more competitive in the Australian market. Conversely, Australian commodities—such as beef, dairy, wheat, and agricultural products—have increased their exports to Indonesia. However, the study also identifies short-term benefit imbalances, with Australia reaping advantages more rapidly due to its stronger industrial capacity and regulatory framework.

In addition to tariff-related challenges, non-tariff barriers remain significant, including technical standards, sanitary and phytosanitary

certifications, and product labeling requirements—all of which impose additional costs on Indonesian businesses. These challenges reveal a gap between the idealized principles of liberalization in FTA theory and the implementation realities shaped by institutional, technical, and structural factors.

From an institutional perspective, IA-CEPA's success largely depends on cross-sectoral coordination among government agencies such as the Ministry of Trade, Ministry of Finance, and Investment Coordinating Board (BKPM). Although monitoring and dispute settlement mechanisms exist, their effectiveness remains limited without adequate institutional capacity and socialization efforts among business actors. In a developing country context like Indonesia, implementation challenges are further compounded by industrial competitiveness gaps, weak logistics infrastructure, and information asymmetry among economic participants.

Overall, the implementation of IA-CEPA demonstrates that the effectiveness of an FTA is not solely determined by its formal provisions but also by a country's domestic readiness to manage the impacts of economic liberalization. The agreement holds great potential to deepen bilateral economic integration and expand Indonesia's participation in global value chains; however, its long-term success will depend on the government's ability to strengthen institutions, develop strategic industries, and ensure a more equitable distribution of benefits within the national economy.

RECOMMENDATIONS

Based on the analysis and research findings, several strategic recommendations can be implemented to optimize the future implementation of the IA-CEPA.

First, the Indonesian government needs to strengthen inter-agency coordination to ensure that the implementation of trade liberalization commitments runs effectively and in a well-directed manner. Policy synchronization among the Ministry of Trade, Ministry of Finance, Ministry of Foreign Affairs, and other relevant technical institutions must be carried out systematically, including in monitoring the flow of goods and in the mechanisms for resolving trade disputes.

Second, enhancing the competitiveness of domestic industries should become a top priority. The government can develop programs to strengthen production capacity, technological innovation, and product quality certification to enable businesses—particularly MSMEs—to compete effectively in the Australian market. Providing fiscal incentives and export training programs can also help expand the base of competitive Indonesian exporters in the free market.

Third, trade liberalization policies must be balanced with adaptive protection measures for strategic sectors that are vulnerable to liberalization, such as agriculture and labor-intensive industries. This approach may include targeted subsidies, productivity improvement programs, and partnerships with the private sector to strengthen national supply chains.

Fourth, a comprehensive socialization strategy is needed to increase business actors' understanding of IA-CEPA provisions. The government, in

collaboration with industry associations, should organize educational forums, technical guidance sessions, and integrated information services that facilitate access to market opportunities, export-import regulations, and investment facilitation mechanisms.

Fifth, strengthening trade and logistics infrastructure is a key factor in ensuring smooth cross-border goods flow. Investments in ports, digital distribution systems, and efficient transportation facilities will reduce export costs and improve trade transaction efficiency.

Finally, regular evaluations of IA-CEPA implementation are necessary to identify implementation challenges, assess policy effectiveness, and adjust strategies in response to global economic dynamics. Such evaluations are also essential to ensure that the benefits of trade liberalization are not confined to certain economic groups but contribute inclusively to national economic growth. Through these measures, the implementation of IA-CEPA is expected to not only serve as a symbol of bilateral economic cooperation but also as a tangible instrument for realizing a competitive and sustainable Indonesian economy.

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